



ERIC GARCETTI

COUNCILMEMBER

PRESIDENT, LOS ANGELES CITY COUNCIL

Date: 3/20/12
 Submitted in: JB Committee
 Council File No: 09-1914-58
 Item No.: 1
 Deputy: CP13

November 17, 2011

City Administrative Office
200 N. Main Street, Suite 150
Los Angeles, CA 90012

Dear Mr. Santana:

In order to create jobs, the City of Los Angeles must take swift and drastic action to attract new businesses to the city and keep businesses already located in the city. As part of that effort, over the past decade, I have worked to reform the City's gross receipts tax.

On November 7, 2011, I requested for an analysis by the Office of Economic Analysis (OEA) on how best to eliminate the gross receipts tax. At the November 9 Jobs and Business Development Committee meeting, I requested the OEA to specifically analyze the following:

1. CAO/CLA Alternative Recommendations #1 and 2 (CAO and CLA Report dated 11/07/11, C.F. 09-1914-58) which includes permanently extending the business tax holiday and freezing the tax base for all existing businesses in the city to their current gross receipts level.
2. The Business Tax Advisory Committee (BTAC)'s four-year phase-out plan and specific recommendations on alternatives to this timeline.

Because business tax bills are sent annually on February 1, we need this OEA analysis completed soon if the City Council wants to act on these proposals prior to this time. I request that the OEA perform the analysis of the CAO/CLA Alternative Recommendations #1 and 2 first and within 30 days. This analysis must be finished by the end of January 2012. The phase-out plan can be completed after the first part is finished.

Currently, the City's gross receipts tax rate is approximately 9.5 times higher than the average for the rest of L.A. County, which is driving businesses out of the city. The City's gross receipts tax generates approximately \$420 million annually, making it the fourth largest revenue stream for the City's General Fund. Given the significance of this revenue to the City's budget and the services the city provides, it is important to carefully analyze the economic impact of its elimination.

The City of Los Angeles is facing an unemployment rate of 14.8% and is in one of the worst economic downturns in its history. I have been working with my colleagues on the City Council to adopt policies that attract new businesses to Los Angeles and create jobs. To do that, the City Council must have access to information and analyses necessary to make informed decisions. I created the Office of Economic Analysis for this purpose, and look forward to its thorough review.

Sincerely,

ERIC GARCETTI
President, Los Angeles City Council
Councilmember, 13th District

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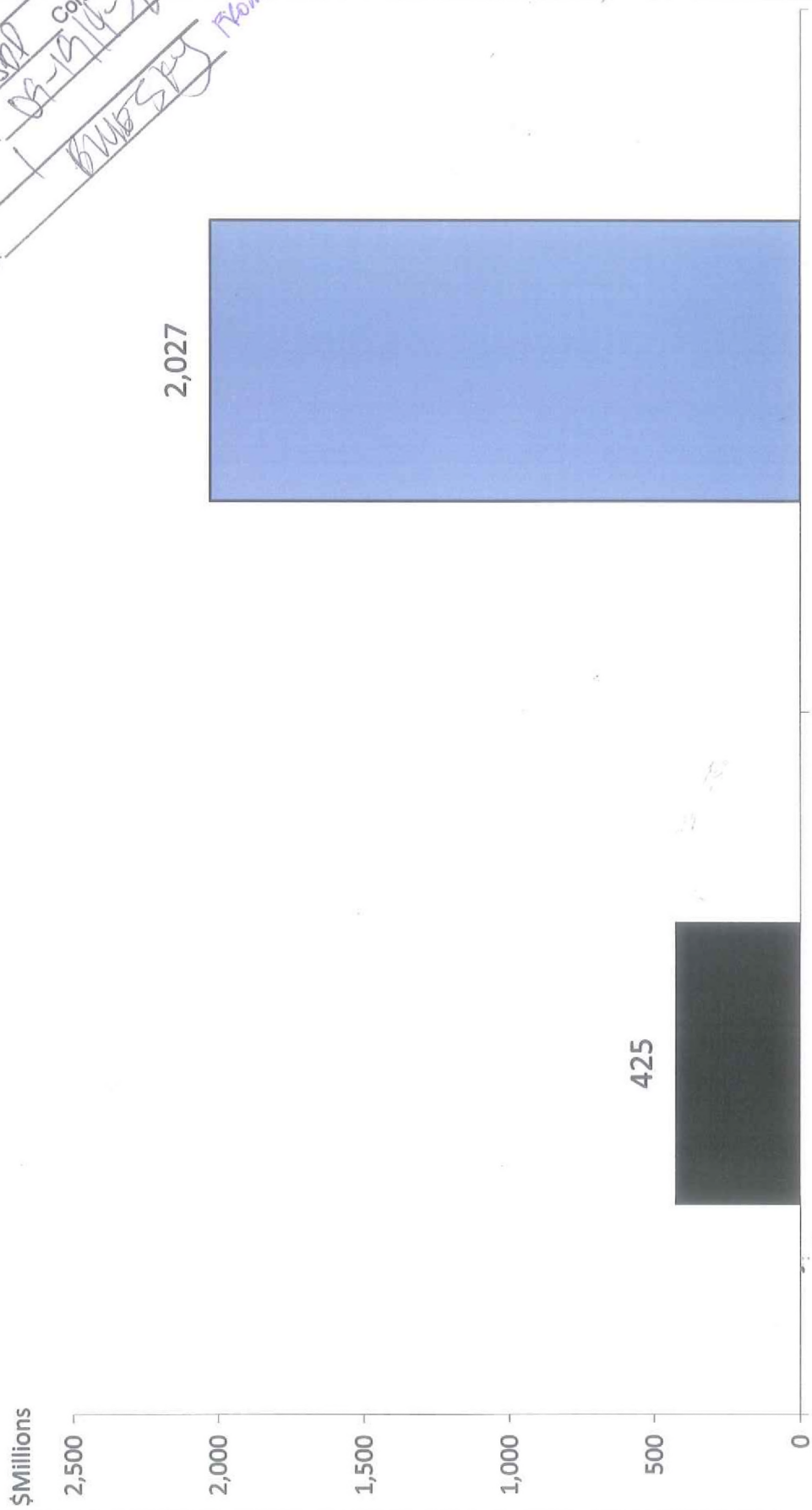
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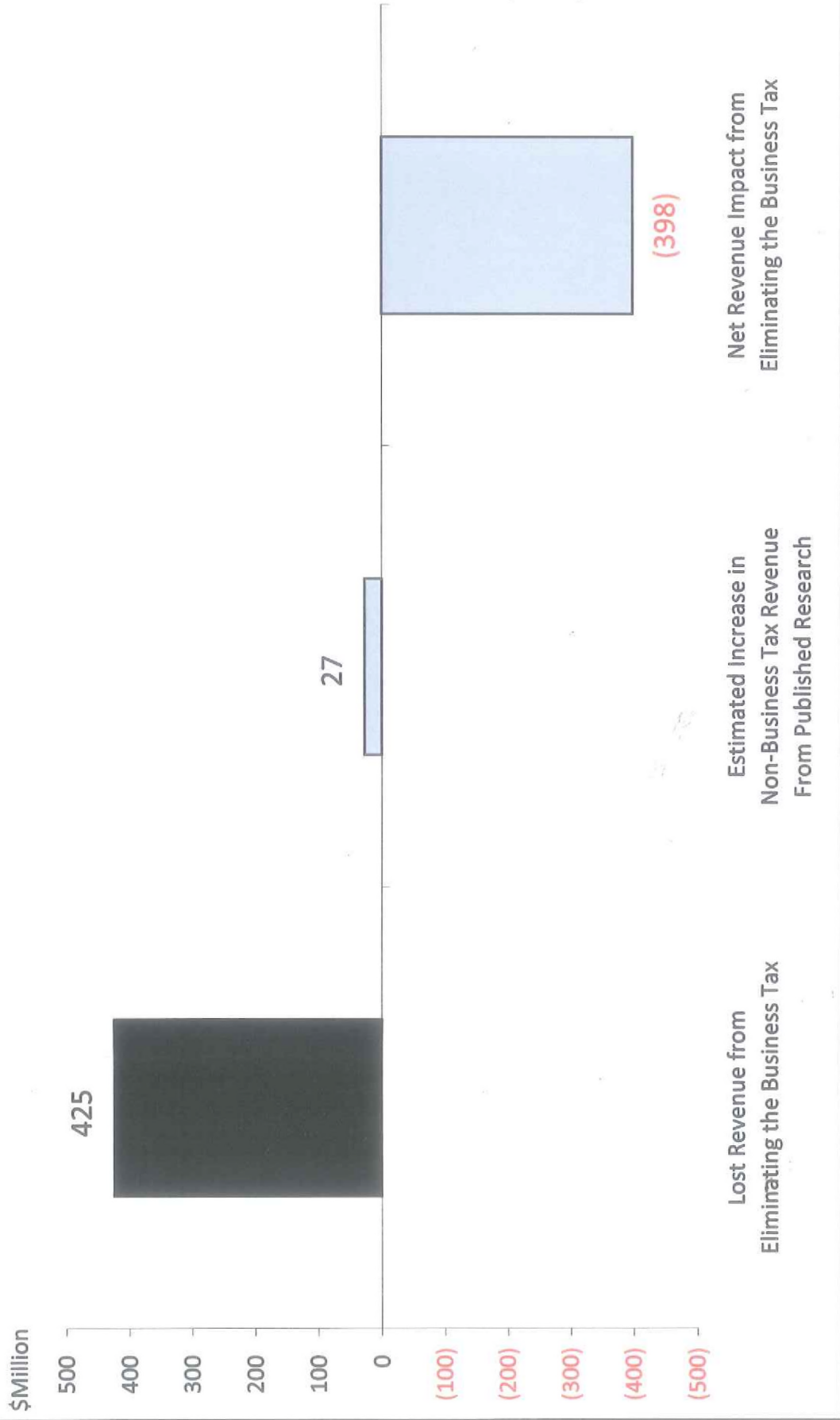
CC: Madeleine Rackley, Office of the Chief Administrative Officer

Increase in LA Output from Eliminating \$425M Business Tax: Published Research Indicates \$2 Billion

Date: 3/20/12
 Submitted in: JRP
 Council File No: 08-13/4-28
 Item No.:
 Deputy: BWSK From BLUE SKY Committee



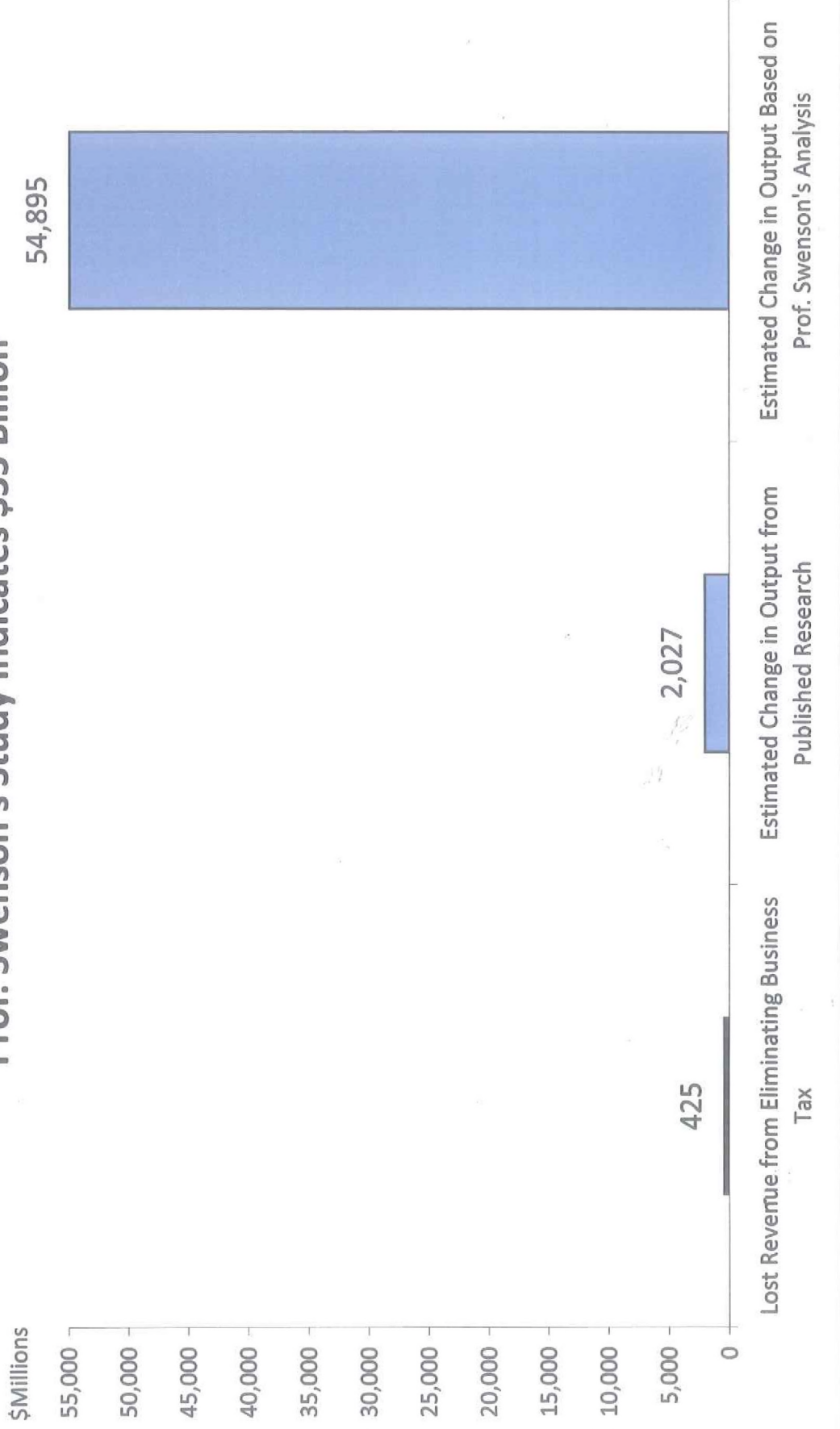
**Based on Estimates Using Published Research Eliminating the Business Tax
Will Result in an Annual Net Revenue Loss of Almost \$400M**



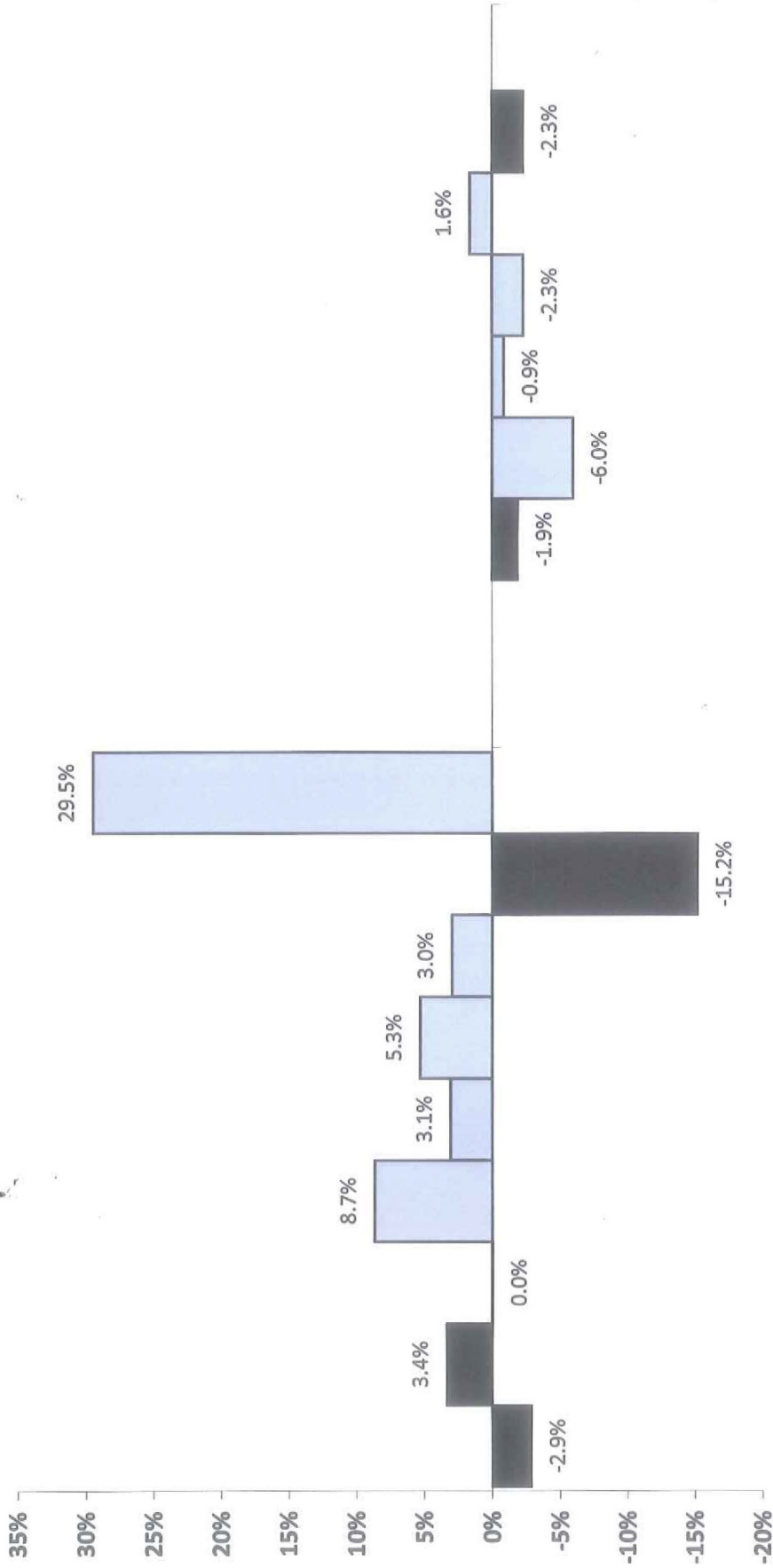
Increase in LA Output from Eliminating \$425M Business Tax:

Published Research Indicates \$2 Billion

Prof. Swenson's Study Indicates \$55 Billion



Prof. Swenson's Difference-in-Difference Measures are Highly Variable



2007 Tax Change

2001 Tax Change

Gray columns are from NETS data, and black columns are from LATA data. The Difference-in-Difference measures above were estimated from figures reported in Prof. Swenson's 2011 report, Tables 8-15. Professor Swenson used both LATA and NETS data and measured employment, number of firms, and gross receipts (output), comparing the change in growth for LA firms vs. comparable non-LA firms in CA, as well as LA firms potentially affected by the tax change vs. LA firms not affected.

WHAT IF?

a proposal by
Daniel Wiseman
March 10, 2012

Date: 3/28/12
Submitted in JBD Committee
Council File No: 09-1914-58
Item No.: 1
Deputy: Public

What if a proposal from the NC Stakeholders could save the City enough money to more that pay for the cost of 100 NCs at \$ 50,000 a year, each? Would the City make the deal?

This week, we heard of a proposal to decrease the NC's annual allocation from \$ 40,500 to \$ 25,000 a year ... presumably, as a cost cutting or cost cutting-across-the-board measure. Such a cut would save \$ 15,500 for 95 NCs; **saving a total of \$ 1,427,500 in a \$ 6.8 billion budget is small potatoes, indeed.**

But **the work done by the thousands of NC Stakeholders** (ranging from Community Clean-ups, to Green Space creation, to Community Events, to analysis and advice on the City's Budget, etc., etc., etc....) **is FREE and is the BEST BARGAIN IN THE CITY.** It is worth far more than the original \$50,000 per NC for 95 NCs = \$ 4,950,000 ... and we want that \$ 50,000 back.

What's more ... the allocation for the NCs was originally and is still placed into a Special Fund. According to the City Charter, Sec. 911. Appropriation: "The Mayor and (City) Council shall appropriate funds for the Department of Neighborhood Empowerment and for the startup and functioning of neighborhood councils for the first two years after the effective date of this Article. The Mayor and **(City) Council shall thereafter appropriate funds for the department and neighborhood councils at least one year in advance** of each subsequent fiscal year." Accordingly, Ordinance No. 173184 (Chapter 117, Department of Neighborhood Empowerment Fund, Sec. 5.517) was created and approved on April 14, 2000. It states, "There is hereby created and established within the Treasury of the City of Los Angeles **a special fund** to be known as the Department of Neighborhood Empowerment Fund (the "Fund") for the deposit and disbursement of funds appropriated to the Department of Neighborhood Empowerment (the "Department") for the operations of the Department and for the startup and functioning of neighborhood councils."

Originally, the Mayor intended that funds taken from the General Fund and put into the Special Fund for the NCs would be protected from manipulation during the fiscal year and, more important, negotiated and set aside a year in advance so as **to be (at least partially) protected from short-term budget considerations.**

This document outlines a rationale and a proposal to save the City much more that is necessary to fund the NC's operations.

If the deal were accepted, the City budget would be much easier to balance and the NCs would be much happier and much more able to fulfill their goals.

The City's GENERAL FUND REVENUE, the basics

The annual budget of the City of Los Angeles is over \$ 7 billion. It is proposed, each Spring, and starts to operate on July 1st, each year. Even so, the **BUDGET PROPOSAL is just a "guess" of the full year's experience.** Each year, the Mayor and City Council work during the entire Budget Year to make the Proposed Budget into a zero-sum reality ... that is to make sure that we don't overspend our revenues (income).

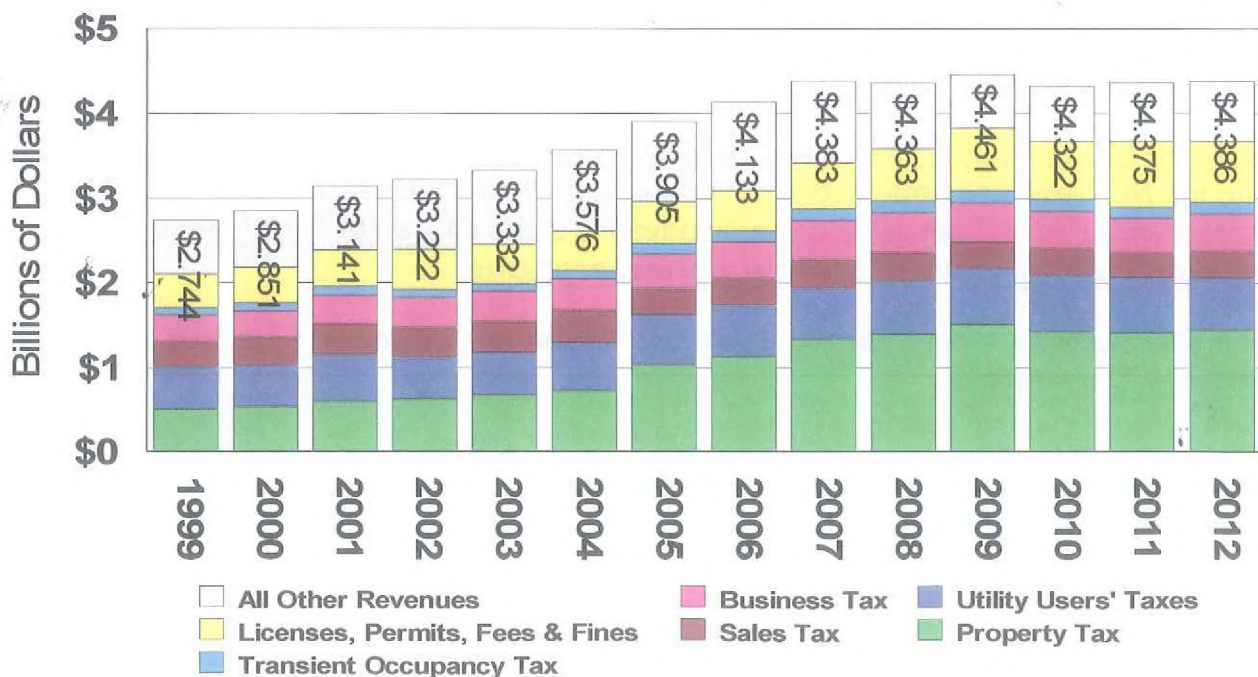
For the last six years, it has been necessary to decrease "actual" costs, by

1. decreasing services,
2. decreasing employees,
3. decreasing and deferring salaries (renegotiated salaries, furloughs, etc.),
4. increasing efficiencies,
5. cutting out "waste, fraud & abuse,"
6. deferring maintenance and
7. employing a series of financial devices
(applying "end-of-year roll-overs", etc.)

in order to balance the budget. **Reality sets in when we look at the actual Cash Flow** (real dollars moving into the City's hands and being spent for its expenses) and that will form another section of this document.

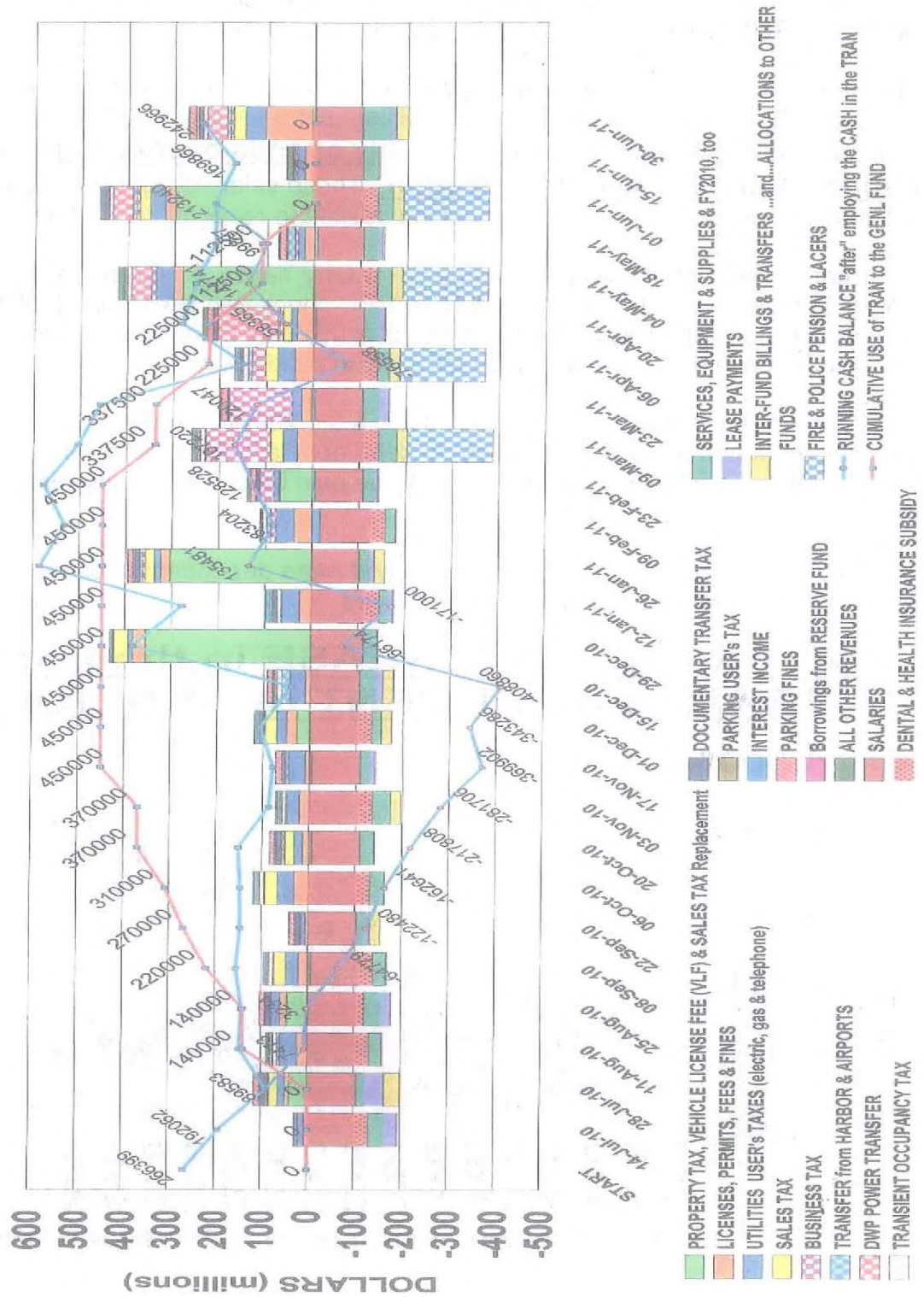
This section focuses on the **General Fund; an amount which has remained "constant" at approximately \$ 4.3 billion, each year, for the last 5 years.**

**General Fund REVENUES have REMAINED UNCHANGED over the past 5 years
(This means that ALL DEFICITS are due to EXCESSIVE PROPOSED EXPENSES.)**



REALITY CHECK – CASH FLOW & TAX REVENUE ANTICIPATION NOTES

FY2010-2011 CASH FLOW data from the CONTROLLER who pays our City's Expenses every 2 weeks.
 REVENUES (bars above the ZERO line) are inadequate until December when we start receiving Property Taxes.
 BLUE LINES are CASH BALANCES without (dark blue) & with (light blue) use of the "TRAN." (loan funds, red line)



This very complex graph takes some time and effort to understand. It shows the CASH BALANCE (BLUE LINE), our City's "Check Book Balance," which started at \$ 266,399,000 on July 1, 2010 and wandered all over until it ended at \$ 242,966,000 on June 30, 2011.

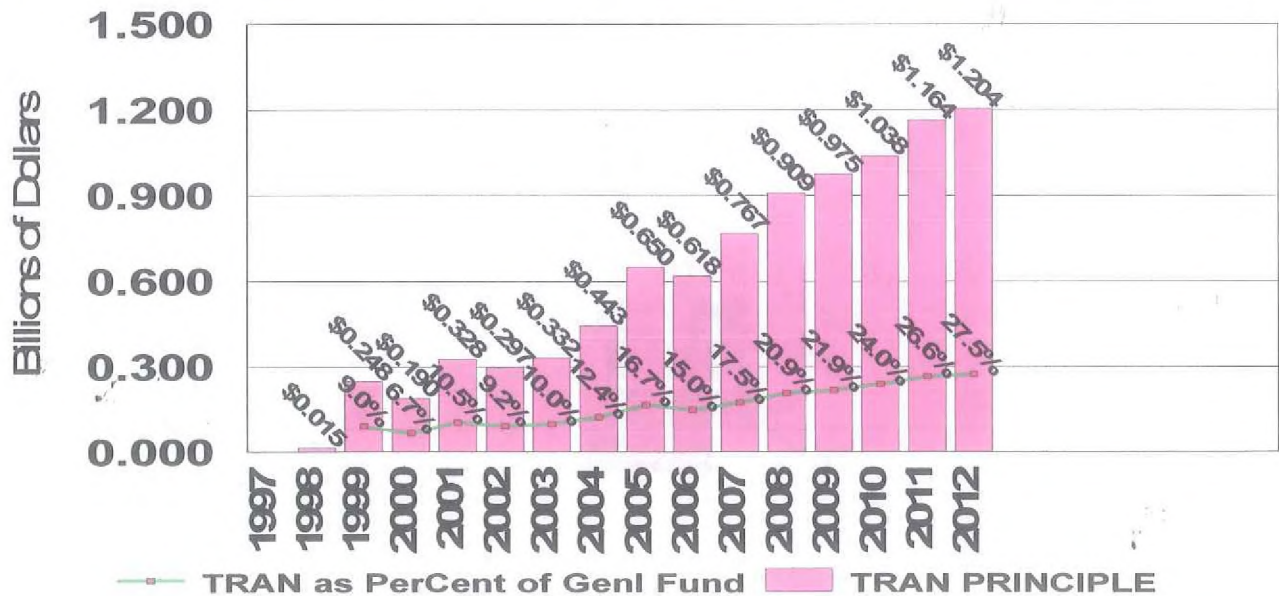
The chart shows how the City must pay about \$ 105 million in salaries, every two weeks (RED BARS) to its employees; about \$ 3 billion of the \$ 4.3 billion General Fund, annually. When Employee Benefits are added, **the City spends over 85% of its General Funds on Employee Compensation.** Those salary obligations are contracted, with progressive increases which are almost impossible to renegotiate or change.

The chart shows that the largest incomes (Property Taxes, Business Taxes and the DWP Power Transfer Revenue) (GREEN BARS, RED checkered BARS and PURPLE checkered BARS) which pay the City's expenses do not arrive until December or later and that creates a \$ 409 million in deficit (dark BLUE LINE) which builds from July 1 to December 31.

The chart shows how the TRAN (RED LINE), a \$ 1.20 billion "line-of-credit," this year, supplies the funds (up to \$ 450 million) to keep our Cash Balance (LIGHT BLUE LINE) positive (above zero). But the TRAN has to be paid back (BLUE squares BARS) with interest, before the end of the year.

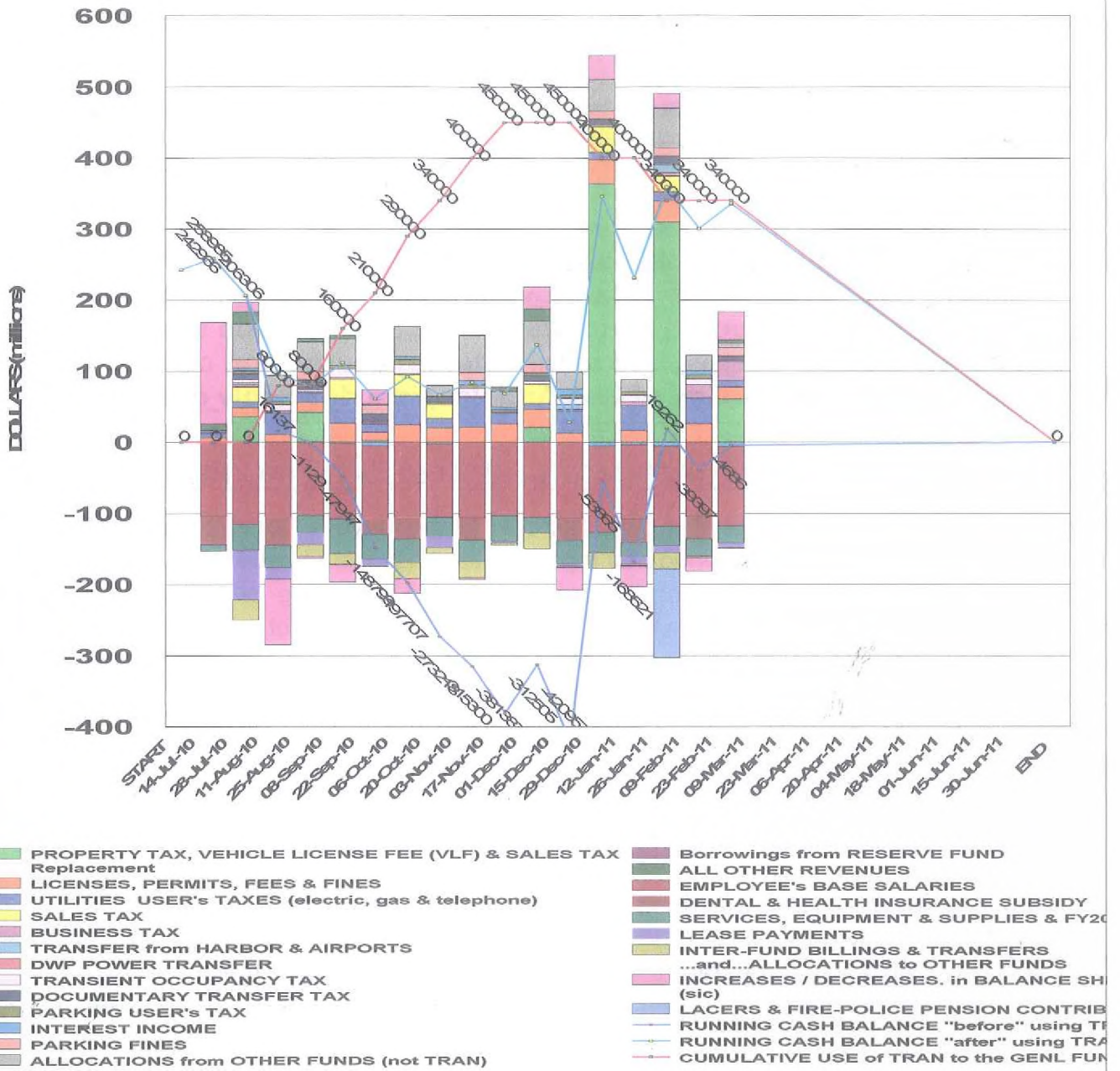
The City of Los Angeles has become more and more dependent upon the TRAN to pay its Employee Salaries and Pension Plan Expenses.

RELENTLESS INCREASE in the total TRAN & TRAN as a PERCENT of GENERAL FUND



The pattern of dependency on the TRAN is being repeated, again, this year. This pattern needs to be changed.

FY2011-2012 CASH FLOW data from the CONTROLLER who pays our City REVENUES (bars above the ZERO line) are inadequate until December when we start receive BLUE LINES are CASH BALANCES without (dark blue) & with (light blue) use of the "TR



The City used a total of \$ 450 million of TRAN funds to provide enough money to pay its bills before the Property Taxes arrived and allowed the City to make the first of 4-5 repayments of the LACERS & FIRE-POLICE PENSION PLAN contributions. **The last of these payments will NOT BE PAID UNTIL JULY-AUGUST 2012 (next fiscal year).** For several years, the NCBA's have been proposing that...

1. The DWP pay at least 90% of its expected DWP Power Transfer obligation (at least \$ 250 million in July ...and...
2. Business Taxes be advanced to the previous fall or even to July (\$ 420 million) to prevent these deficits from occurring and to eliminate the need for the City to borrow the \$ 1.2 billion TRAN loan.

We wonder why the City has not yet taken measures to assure an adequate income, every month of the year, to meet its expenses. We question the wisdom of charging our two Pension Plans more than they earn for "early payments" from the TRAN, each year.

If employed, these two measures could decrease the TRAN from \$ 1.204 billion to less than \$ 700,000 and save the City between \$ 5 and \$10 million. The TRAN would then provide the City with an adequate "line of credit" but the City would no longer be dependent upon the TRAN. But, the devil is in the details, and administering a large and complex "institution," like the City of Los Angeles, is a devilishly difficult task.

CONVERSION to a PERFORMANCE-BASED BUDGETING PROCESS

On October 4, 2011, The Controller published and, at the Mayor's Community Budget Day (October 29, 2011), the Mayor endorsed replacing the past-Input-based or line-item-based Budgeting process with the following Performance-Based Budgeting principles. A Council File (#11-1702-S1, Englander et al) has been proposed to "phase-in" (not prioritize) the Planning and Street Lighting Departments, first. Implementing these concepts would be a major, positive change in the City's Budgeting Process and would be a tremendous stimulus to create and reinforce attitudes of Public Service, at all levels, in our City.

The matter was discussed (intensely), at the March 5, 2012 Budget & Finance Meeting. Council Member Mitchell Englander (CD12) suggested a 5-point method to amplify and simplify the implement Performance-Based Budgeting which considered:

1. **Personnel & Administration** (Staffing, MOU adherence and Employee Morale)
2. **Technology** (measuring Internal & External Technological Goals, Hardware & Software specifications and Interoperability of data formats between Departments)
3. **Customer Service** (measuring effectiveness of Employee Training, Oversight and Public participation)
4. **Financial Management** (comparing Risk Management, Revenue Collection and Capital Planning to the defined and expected Workloads)
5. **City Services Provided** (measuring the well-defined Workloads, Programs and Projects with allowances for unexpected variances)

The MOTION calls for the CAO to start making specific progress reports within 30-45 days and for full implementation throughout all of the City's Departments and Bureaus within two years.

CITY OF LOS ANGELES
PROJECTED CASH FLOW FY 2011-12
GENERAL FUND (IN THOUSANDS)

L.A. City Cash Flow Data for Nov 2011 - FEB 2012

	11/2/11	11/16/11	11/30/11	12/14/11	12/28/11	1/11/12	1/25/12	2/8/12	2/22/12	Actual YTD Total 2/22/12
1 Cash Balance Beginning, General Fund	298,463									298,463
2 Prior Year Enc - Salaries	90,993									(90,993)
3 Prior Year Enc - Services, Equip	198,830	(2,892)	(1,929)	(5,041)	(1,078)	(936)	(4,254)	(1,231)	(1,217)	(132,158)
4 Total Prior Year Encumbrances	289,823	(2,892)	(1,929)	(5,041)	(1,078)	(936)	(4,254)	(1,231)	(1,217)	(223,111)
5 Inc/Dec In Balance Sheet Accts		1,923	31,134	(32,447)	34,041	(29,503)	20,454	(19,306)	39,535	25,518
5 Available Cash Balance	58,106	83,731	97,818	100,007	62,006	315,696	247,679	338,725	338,921	100,870
6 Receipts:										
7 Licenses, Permits, Fees (Regular)	638,599	25,871	26,134	13,257	33,604	16,386	29,275	26,128	16,925	336,524
8 Transfer from Harbor	26,997	24	6	7,059			103	70	79	7,573
9 Transfer from Airport	59,496				50		10,386		188	14,244
10 Business Tax	439,219	1,569	985	2,195	966	5,109	4,958	18,385	26,635	80,832
11 Sales Tax	306,239	(42)	26,714		36,115	(38)	21,952			182,674
12 Electric Users Tax	308,832	13,986	17,139	11,253	7,324	14,039	9,488	12,634	7,976	208,501
13 Gas Users Tax	78,000	4,275	4	4,252		5,430	25	7,923		36,509
14 Telephone Users tax	243,000	1,622	4,184	15,582	3,113	16,145	3,650	16,051	1,281	144,620
15 Transient Occupancy Tax	136,200	1,099	3,791	8,796	1,552	9,200	2,149	8,294	1,373	90,727
16 Documentary Transfer Tax	107,000				7,906		9,428		5,986	67,207
17 Parking Users' Tax	88,200	4,845	1,786	4,037	1,158	5,178	1,646	5,863	611	53,120
18 Residential Development Tax	1,905	39	183	166	195	11	19	78	17	1,195
19 Interest Receipts	141,180	3,961	1,287	8,850	2,743	5,008	2,180	5,916	3,779	67,680
20 Interest Allocations	(126,900)				(7,919)	(8,505)	(7,468)		(9,950)	(53,435)
21 Power Revenue Transfer	254,000									
22 Parking Fines	11,475		11,447		10,730		10,797		11,509	90,024
23 Franchise Income	48,100	301	4,783	324	196	334	732	452	4,502	26,334
24 Grant Receipts	240	12	287	200	230	76	59	270	195	2,814
25 Property Taxes	1,019,377		20,570		363,901		101,503		60,826	625,236
26 Property Tax-Sales Tax Replacement	101,611						50,269		50,269	
27 Property Tax-VLF Replacement	315,375						158,428			158,428
28 Alloc from Other Funds (Regular)	816,926	45,583	19,791	20,769	41,880	14,111	50,995	19,407	4,673	438,643
29 Add'l Alloc From Other Funds		6,173	1,765	2,760	1,754	2,507	4,358	1,428	1,547	78,905
30 Transfer From Reserve Fund	8,939									
31 Vehicle License Fees	14,700									10,578
32 Transfer from Telecom Dev Acct	4,915									
33 Special Parking Revenue Transfer	16,509									
34 Tobacco Settlement	9,500									
35 General Fund Receipts per Budget	5,202,618	76,717	187,627	99,500	505,498	84,991	464,932	122,899	138,152	2,719,202
Disbursements:										
36 Salaries	2,628,152	103,416	105,544	107,068	121,429	104,610	113,069	104,367	111,599	1,732,720
37 Inter-fund billings and transfers	72,077	1,447	2,008	1,752	1,557	1,911	1,836	1,647	1,439	25,820
38 Services, Supplies, Equipment	756,174	24,318	33,082	27,790	27,056	19,663	22,779	23,018	22,688	354,673
39 Dental & Health Insurance Subsidy	377,849	30,444		30,430		32,332		31,300		255,858
40 Lease Payments	202,097	26	1,906	3,424	95	9,915	9,464	289	6,033	157,368
41 Allocations to other funds	270,794	21,439	1,423		21,232	777	21,403	400		173,521
43 Fire & Police Pension TRAN	895,475						124,798			124,798
44 Total General Fund Disbursements	5,202,618	184,266	141,835	170,464	171,369	169,208	293,349	161,021	141,759	2,824,758
45 Excess of Receipts Over Disbursements		(33,406)	(65,118)	(70,964)	334,129	(84,217)	(171,583)	(38,122)	(3,607)	(105,556)
46 Cash Balance End, G/F, Bef. Borrowing		24,700	18,613	137,495	29,043	231,479	419,262	300,603	335,314	(4,686)
47 Borrowing from TRAN Proceeds		60,000	50,000		(50,000)		(60,000)			340,000
49 Reserve Fund Borrowing										
48 Borrowings from Other Funds										
49 Cash Balance End, General Fund		84,700	68,613	137,495	29,043	231,479	359,262	300,603	335,314	335,314

A DEPARTMENTAL BUDGETS - EXPENSES or ALLOCATIONS - FY2011-2012 - Updated 03/15/2012

L P H A	SUGGESTED LINE ITEM# TO THE MAYOR'S AND/OR PROPRIETARY CITY DEPARTMENTS AND/OR SPECIAL FUNDS	MAYOR'S LAST YEAR PROPOSED & LAST YEAR'S BUDGET ESTIMATE FY2010-2011	YEAR-TO-YEAR Difference FY2011-12 - (05/25/2011)	MAYOR'S PROPOSED & CITY COUNCIL APPROVED TOTAL BUDGET FY2011-12 - (05/25/2011)	MAYOR'S PROPOSED & CITY COUNCIL APPROVED basic SALARIES FY11-12 - (05/25/2011)	BUDGETED OVERTIME SALARIES FY2011-12 - (05/25/2011)	SALARIES as a PER CENT of ALLOCATED BUDGET	OPERATING EXPENSES FY2011-12 - (05/25/2011)	Early Retirement Incentive Plan (ERIP) PAYOUTS FY2011-12 - (05/25/2011)	POSITIONS as of July 1, 2011	AVERAGE BASE SALARY
1	AGING	\$3,579,000	6.0%	\$3,792,602	\$3,590,367	\$3,900	94.8%	\$133,229	\$65,106	38	\$94,483
2	ANIMAL SERVICES	\$20,364,000	-2.2%	\$19,919,848	\$17,780,478	\$81,000	89.7%	\$1,822,082	\$236,288	337	\$52,761
3	BUILDING & SAFETY	\$69,210,000	-0.4%	\$68,943,603	\$62,352,393	\$2,134,703	90.4%	\$2,068,862	\$2,387,645	725	\$86,003
4	CITY ADMINISTRATION OFFICE (C.A.O.)	\$11,173,000	3.6%	\$11,580,492	\$10,029,564	\$0	86.6%	\$1,323,784	\$227,144	110	\$91,178
5	CITY ATTORNEY	\$112,167,000	-15.3%	\$94,950,894	\$85,971,185	\$5,408	90.5%	\$7,165,712	\$1,808,589	776	\$110,788
6	CITY CLERK	\$24,296,000	-64.6%	\$8,603,838	\$7,546,034	\$92,437	87.7%	\$436,790	\$528,577	99	\$76,223
7	COMMUNITY DEVELOPMENT	\$29,004,000	-8.2%	\$26,619,893	\$24,063,117	\$98,983	90.4%	\$1,877,136	\$680,457	197	\$122,148
8	CONTROLLER	\$16,481,000	-16.3%	\$13,781,344	\$11,976,372	\$87,071	86.9%	\$1,171,582	\$654,319	188	\$63,715
9	CONVENTION CENTER	\$22,597,000	7.4%	\$24,264,518	\$13,460,002	\$1,215,367	55.5%	\$9,201,277	\$387,872	133	\$101,203
10	COUNCIL (16 MEMBERS)	\$20,871,000	-9.5%	\$18,881,782	\$17,645,260	\$900	93.5%	\$1,095,890	\$139,732	108	\$163,382
11	CULTURAL AFFAIRS	\$8,834,000	-16.0%	\$7,421,341	\$3,616,286	\$0	48.7%	\$3,619,429	\$185,626	40	\$90,407
12	DISABILITY	\$1,525,000	5.5%	\$1,608,668	\$1,177,962	\$0	73.2%	\$392,637	\$38,069	10	\$117,796
13	El Pueblo de Los Angeles	\$1,610,000	-5.8%	\$1,517,194	\$1,085,737	\$24,500	71.6%	\$406,957	\$425,168	10	\$108,574
14	EMERGENCY MANAGEMENT	\$2,348,000	-31.8%	\$1,600,596	\$1,499,238	\$18,000	93.7%	\$71,036	\$12,324	14	\$107,088
15	EMPLOYEE RELATIONS BOARD	\$373,000	13.0%	\$421,616	\$278,025	\$0	65.9%	\$90,628	\$52,963	3	\$92,675
16	ETHICS COMMISSION	\$2,092,000	-2.9%	\$2,031,383	\$1,684,686	\$0	82.9%	\$337,046	\$9,651	19	\$88,668
17	FINANCE & TREASURER	\$25,601,000	47.0%	\$37,644,214	\$25,559,600	\$45,813	67.9%	\$11,613,633	\$425,168	367	\$69,645
18	FIRE	\$508,915,000	-7.1%	\$472,597,193	\$367,348,587	\$80,715,318	77.7%	\$23,702,975	\$830,313	3,537	\$103,859
19	GENERAL SERVICES*	\$270,524,000	-15.7%	\$228,012,024	\$106,703,770	\$5,687,896	46.8%	\$111,811,177	\$3,809,181	1,506	\$70,852
20	HOUSING	\$63,094,000	-1.8%	\$62,146,171	\$45,009,013	\$106,845	86.3%	\$6,130,131	\$900,182	196	\$229,638
21	INFORMATION TECH. AGENCY*	\$67,981,000	-10.9%	\$78,379,548	\$42,104,020	\$936,287	53.7%	\$33,803,465	\$1,535,776	480	\$87,717
22	MAYOR	\$31,160,000	-27.0%	\$22,752,477	\$6,879,723	\$0	30.2%	\$15,853,156	\$19,598	94	\$73,189
23	D.O.N.E.	\$1,610,000	13.8%	\$1,832,164	\$1,513,415	\$0	82.6%	\$255,747	\$63,002	17	\$89,024

DEPARTMENTAL BUDGETS - EXPENSES or ALLOCATIONS - FY2011-2012

Updated 03/15/2012

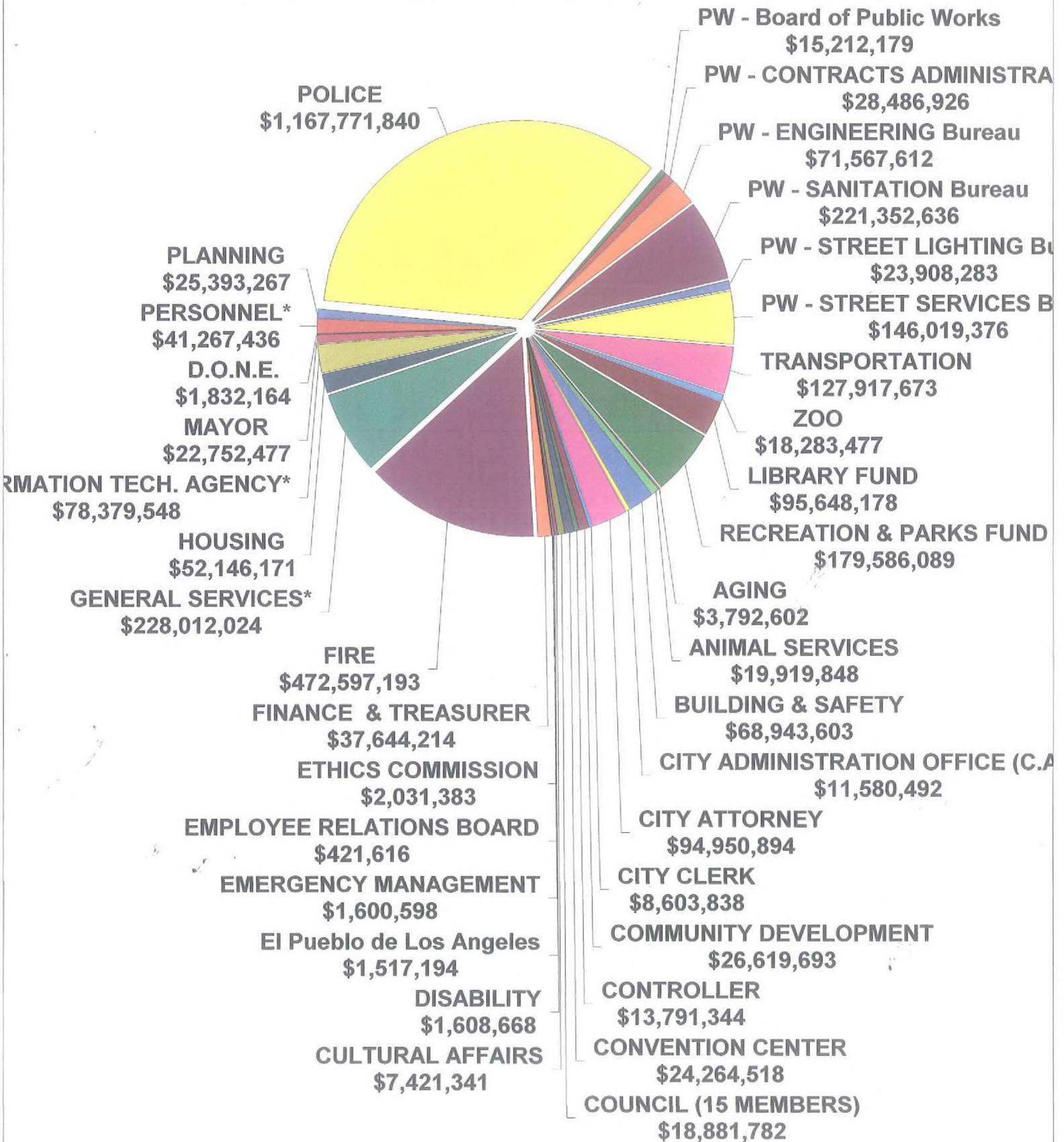
L	MAYOR'S PROPOSED & CITY COUNCIL APPROVED	MAYOR'S PROPOSED & CITY COUNCIL APPROVED	MAYOR'S PROPOSED & CITY COUNCIL APPROVED	MAYOR'S PROPOSED & CITY COUNCIL APPROVED	BUDGETED OVERTIME SALARIES	SALARIES AS A PER CENT of ALLOCATED BUDGET	OPERATING EXPENSES	Early Retirement Incentive Plan (ERIP) PAYOUTS	POSITIONS as of July 1, 2011	AVERAGE BASE SALARY	
											LAST YEAR'S BUDGET ESTIMATE
24	PERSONNEL	\$40,656,000	1.5%	\$41,267,436	\$30,946,854	75.0%	\$9,171,363	\$879,842	388	\$79,750	
25	PLANNING	\$23,236,000	9.3%	\$25,393,267	\$21,652,170	85.3%	\$2,749,866	\$819,231	240	\$90,217	
26	POLICE	\$1,201,222,000	-2.8%	\$1,167,771,840	\$1,091,935,400	93.5%	\$47,171,500	\$4,045,940	13,677	\$79,837	
27	PIV - Board of Public Works	\$17,628,000	-13.7%	\$15,212,179	\$6,956,682	45.7%	\$7,672,364	\$572,796	95	\$73,228	
28	PIV - CONTRACTS ADMINISTRATION	\$30,828,000	-7.6%	\$28,466,926	\$25,463,822	89.4%	\$1,527,461	\$629,081	230	\$110,712	
29	PIV - ENGINEERING Bureau	\$67,217,000	6.5%	\$71,567,612	\$64,330,926	89.9%	\$3,082,007	\$2,896,488	701	\$91,770	
30	PIV - SANITATION Bureau	\$200,301,000	10.5%	\$221,352,636	\$202,655,202	91.6%	\$8,167,909	\$2,887,189	2,739	\$73,989	
31	PIV - STREET LIGHTING Bureau	\$22,666,000	5.4%	\$23,908,283	\$18,148,456	75.9%	\$4,826,673	\$452,154	214	\$84,806	
32	PIV - STREET SERVICES Bureau	\$132,441,000	10.3%	\$146,019,376	\$59,687,507	40.9%	\$79,673,206	\$2,455,698	762	\$78,330	
33	TRANSPORTATION	\$131,981,000	-3.1%	\$127,917,673	\$97,189,888	76.0%	\$23,075,942	\$2,777,921	1,341	\$72,476	
34	ZOO	\$17,481,000	4.6%	\$18,283,477	\$14,807,065	81.0%	\$3,127,826	\$297,422	228	\$64,943	
35	LIBRARY FUND	\$75,902,000	26.0%	\$95,648,178	\$54,489,310	57.0%	\$39,180,236	\$1,943,209	828	\$65,808	
36	RECREATION & PARKS FUND	\$179,192,000	0.2%	\$179,586,089	\$111,222,706	61.9%	\$62,653,788	\$4,300,000	1,524	\$72,981	
37	L.A. CITY EMPLOYEES' RETIREMENT SYSTEM (LACERS)	\$16,662,000	7.6%	\$17,936,000	\$10,659,000	59.4%	\$7,217,000			31,971	\$83,787
38	FIRE & POLICE PENSION SYSTEM (FAPPS)	\$15,681,000	8.0%	\$16,932,535	\$9,725,717		\$7,048,818				\$68,192
39	HUMAN RESOURCES BENEFITS										
40	TRANSIT SHELTER INCOME										
41	CIVIC CENTER PARKING INCOME										
42	Los Angeles WALL RENTAL INCOME										
43	COURT FINES										
44	Other Agencies										
45	GENERAL FUND - Misc. Income										
46	BUDGETARY DEPTS ALLOCATIONS	\$3,498,523,000	-2.9%	\$3,396,596,712	\$2,678,747,539	78.9%	\$540,730,320	\$39,954,543			
47											

EQUAL TO ALL FULL-TIME EMPLOYEES

31,971 MEDIAN -> \$83,787 \$68,192

FY2011-2012 ALLOCATIONS of the \$ 4.3 billion L.A. City GENERAL FUND for the 36 BUDGETARY DEPTs and two PENSION PLANS

(Departments marked with a '*' star serve and are reimbursed by other Departments.)



"Gross Receipts Tax" vs. a REALLY FAIR BUSINESS INCOME TAX

by
Daniel Wiseman
March 23, 2012

On Wednesday, March 28, 2012, at 2:30 pm, the Business Tax Advisory Committee (BTAC) will meet to consider (CF 09-1914-S8) the recommendations contained in four documents:

1. Charles Swenson, CPA, PhD – report dated Aug 3, 2011
(Professor & Leventhal Research Fellow at the Marshall School of Business, USC)
2. Power Point Presentation of BTAC Recommendations dated February 29, 2012
3. Miguel Santana, CAO, City of Los Angeles – report dated November 7, 2011
4. Blue Sky Consulting, Chris Weare PhD.
(Research Associate Professor, School of Policy, Planning & Development, USC)

A HISTORY of L.A. CITY BUSINESS TAX REFORM

On July 31, 2009, City Council Members Janice Hahn (CD15), Eric Garcetti (CD13), Bill Rosendahl (CD11), Dennis Zine (CD03) proposed (CF #09-1914) a number of Business Tax Rate adjustments reduction exploration of elimination of the "City Gross Receipts Tax."

On March 2, 2011, the City Council (CF #09-1914-S6) contracted with Charles Swenson, CPA, PhD, to analyze modifying the "Gross Receipts Tax" in ways which would be "more supportive of the existing and potentially new businesses in the City." Dr. Swenson thought that the "Gross Receipts Tax" could be eliminated and might be replaced by an improved business environment. Dr. Swenson's full report is on the Office of Finance website (lacity.org/finance). His recommendations were quickly and publicly supported by the L.A. Chamber of Commerce and V.I.C.A.

The first criticism of Dr. Swenson's report and proponents of this approach is creation of the term "Gross Receipts Tax" used in an effort to "villainize" the City's Business Tax. On August 10, 2011, the City Council approved CF #09-1914-S6 which quoted Dr. Swenson to say that "...the indirect revenue projections will not be realized until five years after elimination of the tax..." They asked for and received a four-year phase in plan from the BTAC.

The CAO reviewed the proposal to eliminate the Business Tax and FLATLY OPPOSED IT stating that unreplaced loss of the Business Tax could remove 10% (\$ 424 million) of the City's General Fund (\$ 4.38 billion). The danger posed by such action would threaten the financial solvency of the City. He said that "...the greatest relief in the early years would be to taxpayers (businesses) currently paying ... the highest rates and those (businesses) most likely to leave..." (move their businesses out of the City). He pointed out that the Business Tax is applied and collected, here, in Los Angeles and is not dependent upon County or State actions.

Date: 3/28/12
Submitted in: SBP Committee
Council File No: 09-1914-S8
Item No.: 1
Deputy: publ c

In the last 90 days, there has been a flurry of Council Files recommending special Business Tax Treatment for the following industries:

1. 03/21/2012 – Radio & Television Broadcasting – CF #09-1914-S13
2. 02/08/2012 – Internet-Based Businesses – CF #09-1914-S12
3. 12/09/2011 – Car Dealerships – CF #09-1914-S11

...and... extension of a two-year exemption for "new" Businesses which earn \$ 500,000 or less.

Our City does not need to proliferate laws which serve "special interests" ... we need fairness for all.

Using the arguments propounded by Dr. Swenson, the BTAC (Power Point) report of February 15, 2012, continues to recommend that the City eliminate the "Gross Receipts Tax" and suggests that will result in increased jobs, sales, Property Values and other City revenue sources.

Chris Weare, PhD., U.S.C. faculty of the Blue Sky Consulting Firm has been quoted in the Daily News (March 24, 2012) that "... eliminating the business tax would lead to a net reduction in revenues of nearly \$ 400 million a year..." On March 28, 2012, Dr. Weare will testify that the City Council Jobs and Business Development Committee.

Proponents of the proposal use phrases like businesses are the "job creators" and the primary drivers of the City's economic success. It reminded me of split between the 1% of the wealthy (which owns 24% of the assets) vs. the 99% of the population who do the work. It reminded me of the rhetoric from the radical right in Washington, D.C. I would remind them that his "job creators" are "profit makers" first ...long before... they create any new jobs. The argument that eliminating the Business Tax would increase business, increase jobs and increase City Revenue from Sales Taxes and other sources is the same old, flawed and forgotten "trickle down" theory. In the recent economic downturn, our City's businesses, like businesses everywhere, downsized their companies (fired thousands of employees) in an attempt to preserve their profits. Many of those workers (over 16% of Los Angeles' workforce) are still out of work. We can not depend on tax breaks or even on the hope of economic recovery to create new jobs.

THE PROPOSAL OF THE NEIGHBORHOOD COUNCIL BUDGET ADVOCATES

Contrary to the above persiflage ("sound & fury"), there IS much that is unfair about our City's Business Tax and there is much that could be done to reform it into a respectable and more valuable part of the City's Income. The Business Tax is 10% (\$ 424 million) of our \$ 4.3 billion General Fund. Therefore, it is not easily eliminated without severe and immediate dire consequences.

Companies which bill and collect for a total product or service but sub-contract services (who ask other companies to perform some of the services included in their business products and/or services) must pay a tax on the sub-contracted work, too. That is a taxation of the business's expenses and a "double taxation" when the sub-contracting company is taxed. Small and "new" companies need some consideration so that Business Taxes do not over-tax

their ability to get established and to grow.

For several years, Budget Advocates and others have proposed CONVERTING THE BUSINESS TAX FROM A "Gross Revenue Tax" TO A DIRECT INCOME TAX. Small and large businesses could use their federal I.R.S. Tax Forms (Schedule C or other Federal Business Tax report) data to report Adjusted Gross Income or Net Income Before Taxes. The amount of tax due each year would be known on April 15th. Just like Federal and State Taxes, estimates would be necessary and payments are due, even for those requesting Federal Tax Reporting extensions. Using these values could remove the unfairness of the "pass through"/double taxation and would identify the "new" and "small" companies needing special (decreased) taxation.

This would move the due dates for Business Tax Payments from February to April or May. Better still, if we used a 4 – 5 year phase-in, 20-25% of Business Taxpayers could defer their payments to July 31st. The first phase would contain the lowest income businesses, followed by higher and higher income businesses.

If the Business Tax was collected in July, it could decrease and eventually cancel the need for the Tax Revenue Anticipation Notes (TRAN). It could convert the TRAN into a realistic "line of credit" instead of a threat (a 27% encumbrance of the General Fund against) to the solvency of the City. The decrease would bring additional benefits in decreases in loan debt. If completely eliminated, the \$ 20 million interest on the TRAN loan would be eliminated, too.

RELENTLESS INCREASE in the total TRAN & TRAN as a PERCENT of GENERAL FUND

