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ERIC GARCETTI  
MAYOR

April 21, 2017

The Honorable Members of the Budget and Finance Committee  
City Clerk  
City Hall, Room 395  
Attention: Richard Williams

## OFFICE OF FINANCE FY 2017-18 PROPOSED BUDGET

Dear Honorable Members:

One year ago - under new leadership - the Office of Finance (Finance) made the commitment to improving customer service while identifying personnel and technology as the key areas where much progress needed to be made.

With the Mayor and Council's support we have begun to realize progress on each of these fronts. Building on the foundation of this year's budget we were able to achieve a number of critical goals.

We appreciate the Mayor's demonstrated support for improving customer service and the investment in technology as reflected in the proposed budget. Funding critical improvements in our customer support structure and LATAX system are our top priorities.

### Personnel

A year ago the department was plagued by high turnover due to transfers, retirements and promotions to other departments while our civil service hiring lists were expired. We have substantially curbed these issues, having hired 50 employees so far this fiscal year. A great deal of time and effort has gone into re-establishing critical employment lists for Tax Compliance Officers, Tax Auditors and Customer Service Specialists and we are just beginning to see the fruits of these efforts as recent hires are being trained to substantially help shore up customer service.

Earlier this year Finance became the first department in the City to launch permanent online chat. This innovation has provided Finance's customers with the most responsive communication channel we have available, but it does require the staffing necessary to maintain real time communications and allow this program to grow while continuing to support customers using traditional communication channels.

The proposed budget takes positive steps in a direction that will help bolster customer service, particularly in ensuring an appropriate management structure is in place. However, we will be challenged to maintain the momentum of our progress in light of the proposed position reductions and substantial decreases to salary accounts.

### **Technology**

After arriving at Finance one year ago, we analyzed our internal technology landscape and discovered that our systems are largely outdated and in some cases unsupportable and breaking down. We have since developed a prioritization and strategy for addressing these problems and it starts with LATAX.

LATAX is the core system that supports Finance's efficient management and collection of tax revenue. It manages all tax and permit activities for Finance, has over 625,000 active tax and permit accounts, and administers over \$2.5 billion in annual revenue. The LATAX system provides online services that allow any business to register, renew, or pay billings 24 hours a day. Over 75 percent of businesses renew their annual business certificates online and over 58 percent of all service transactions are performed using online services. LATAX was implemented in 2004 and it is now near end of life, going out of support by January 2020. It is imperative that the City replace the current LATAX system.

Finance is pressing forward with LATAX replacement, having already conducted an RFP process and is currently finalizing a contract with the selected vendor. Work on the project is expected to commence immediately in order to meet the January 2020 deadline. Delays put the system and the City's revenue collection activities at risk. The \$500,000 funding in the proposed budget can be used to cover the anticipated contractual service outlays; however, an additional \$250,000 is necessary in Fiscal Year 2017-18 for equipment, licensing and training, while assuming no contingencies. In Fiscal Year 2018-19, an additional \$750,000 will be required to complete the project.

### **Considerations**

While the Mayor's budget submission provides several key elements for support of Finance's operations, there are a number of items that Finance respectfully requests the Committee's careful consideration as these will greatly enhance Finance's success in carrying out its customer focused strategy and further ensure continuity of key operations.

- Restoration of deleted positions and regularization of resolution authorities. Finance advocates to maintain the position authorities deleted in the budget, even without funding, as it provides management flexibility in hiring. As all of the positions support ongoing programs we respectfully request that all positions be regularized. We fully recognize our obligation to maintain expenditures within budget.
- Increase funding for LATAX replacement by \$250,000. The \$500,000 funding in the proposed budget can be used to cover the anticipated contractual service outlays; however, an additional \$250,000 is necessary for equipment, licensing and training, while assuming no contingencies.

- Restoration of salary savings rate and expenditure accounts. The proposed budget increases Finance's salary savings rate by two percent, from five to seven percent. While historically Finance has generated significant salary savings, these have been utilized to fund as-needed and overtime accounts which are crucial to meeting peak workloads such as business tax renewals. Finance requests to restore the department's salary savings rate back to the five percent level consistent with the current year. Additionally, the one-time reductions to various expenditure accounts may impact certain set costs such as with contractual services or employee mileage reimbursement.

Finally, there are a couple of items that we would like to highlight for the Budget and Finance Committee (Committee) for consideration and discussion in the budget process:

- A. Merchant Services Fees. Finance reported to Committee (C.F. 16-0600-S174) on the opportunity for General Fund cost recovery of merchant service fees and the Committee instructed that recovery of these costs be considered in the 2017-18 Budget process. We are available to provide the necessary support for the Council's consideration in the budget process.
- B. Cannabis Tax Compliance and Cash Management. On March 6, 2017, Finance submitted a plan for tax collection on cannabis business activity in response to a Motion (Krekorian, Wesson) which detailed the requirements of Finance for taxation of the cannabis industry. It is our understanding that this topic will be addressed in a separate report to be transmitted by the City Administrative Officer in the coming weeks and we look forward to participating in that discussion.

Thank you for the opportunity to address your Committee. We have established a solid foundation and, with the support of the Mayor and Council, we will only continue to improve. We appreciate your consideration and look forward to answering any questions you may have.

Sincerely,



Claire Bartels  
Director of Finance / City Treasurer

cc: Matthew Szabo, Office of the Mayor  
Richard H. Llewellyn, Interim City Administrative Officer  
Zara Bukirin-Garcia, Office of the City Administrative Officer  
Roy Morales, Office of the Chief Legislative Analyst  
Office of Finance Executives  
Wai Y. Lau, Office of Finance