

COMMUNICATION

TO: LOS ANGELES CITY COUNCIL

File No. 09-1914-S13

**FROM: COUNCILMEMBER ERIC GARCETTI, CHAIR
JOBS AND BUSINESS DEVELOPMENT COMMITTEE**

COMMUNICATION FROM CHAIR, JOBS AND BUSINESS DEVELOPMENT COMMITTEE relative to the evaluation of the City's taxing system and the different taxing methods for the radio and television broadcasting industries.

Recommendations for Council action:

1. INSTRUCT the Office of Economic Analysis, in conjunction with the Office of Finance, to conduct a review of the potential impact on the radio and television broadcast industry of both the current tax structure and a revised structure for this industry and to include in their analysis, the impact of a new tax rate for broadcasters (\$1.27/\$1,000) to ensure there would be no Prop. 218 issues.
2. INSTRUCT the City Administrative Officer (CAO) to report back to identify potential funding for the study that will be conducted by the Office of Economic Analysis as detailed in the above recommendation.
3. INSTRUCT the CAO, Chief Legislative Analyst (CLA), Office of Finance and REQUEST the City Attorney to continue to meet with the Motion Picture Association of America (MPAA) within 15 days to further discuss the letter submitted by MPAA on September 7, 2012.

Fiscal Impact Statement: The CLA reports that the recommendations contained in the report will not have an impact to the General Fund. However, should the City Council adopt a policy that changes the current taxing method for Fund Class 5 (radio and television broadcasters) to the same thresholds as the Entertainment Production Cap, there would be an estimated reduction in General Fund revenues of approximately \$3.2 Million.

Community Impact Statement: None submitted.

SUMMARY:

At its regular meeting held on October 24, 2012, the Jobs and Business Development Committee Chair considered a CLA report dated October 23, 2012, relative to the evaluation of the City's taxing system for radio and television broadcasting industries and the different taxing methods, including a maximum tax similar to the entertainment production cap, establishment of a minimum tax and its impact on the entertainment cap, and consistency on agency fees, impact of a minimum tax for entertainment cap on the general fund, and impact on the general fund if extended to broadcasting.

According to the CLA representative, on July 12, 2012, the City Council instructed the CAO and CLA to evaluate the City's taxing system and the different taxing methods for the radio and television broadcasting industries, the establishment of a minimum tax similar to the entertainment production cap, the consistency of agency fees and the impact to the General Fund if extended to broadcasting. The CLA representative further states that the Los Angeles Municipal Code Section 21.45 (Fund Class 5) includes Radio Broadcasters, Television Broadcasters and Theater Operators.

The CLA report dated October 23, 2012 states that in Fiscal Year 2011-12, there were 4,241 accounts comprised of radio broadcasters, television broadcasters and theater operators. The report (attached to the Council file) shows the breakdown of the accounts by gross receipts and taxes paid. These accounts generated a combined total of \$3.9 million in annual gross receipts revenue for the City. Approximately 2,419 (57%) of the accounts either reported no gross receipts or paid no gross receipts tax as a result of previously enacted tax incentives such as the Small Business Tax Exemption which exempts businesses with gross receipts under \$100,000 from paying taxes. The top one percent of businesses in this category earns, on average, between \$25 Million and \$85 Million per year and pays a corresponding average tax amount between \$38,000 and \$109,000.

During the discussion, the CAO representative recommended adding an additional instruction for the CAO to report back to identify potential funding for the study that will be conducted by the Office of Economic Analysis, in conjunction with the Office of Finance, to conduct a review of the potential impact on the radio and television broadcast industry of both the current tax structure and a revised structure for this industry. After further discussion and having provided an opportunity for public comment, the Chair of the Jobs and Business Development Committee recommended approval of the CLA's first and third recommendations as reflected on its October 23, 2012 report with the additional instruction to include the CAO and the CLA in the discussion. The second recommendation to consider an adjustment to the tax method for radio and television broadcasters as part of the overall discussion of the Gross Receipts Tax will be dealt as a separate issue to avoid getting lost in the bigger discussion about the Gross Receipts tax. This matter is now submitted to Council for its consideration.

Respectfully submitted,

COUNCILMEMBER ERIC GARCETTI, CHAIR
JOBS AND BUSINESS DEVELOPMENT COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
GARCETTI:	YES
PARKS:	ABSENT
LABONGE:	ABSENT

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