

BUDGET AND FINANCE COMMITTEE REPORT relative to an analysis and extension of the Internet-based Business Tax Subclassification.

Recommendations for Council action, as initiated by Motion (Blumenfield - Cedillo):

1. REQUEST the City Attorney to prepare and present an ordinance to amend Ordinance No. 181127 to extend the sunset provision for Internet-based businesses to the 2018 tax period.
2. INSTRUCT the City Administrative Officer (CAO), with assistance from the Chief Legislative Analyst, to identify funding to allow the Office of Economic Analysis to complete a comprehensive analysis of the Internet-based business tax subclassification with regards to effectiveness of the ordinance to attract new Internet-based businesses, promote job growth, and contribute to local economic growth.

Fiscal Impact Statement: The CAO reports that extending the Internet-based business category to the 2015 tax period with the lower tax rate will result in the City continuing to forgo undetermined business tax revenue. This revenue loss may be offset by new Internet-based businesses becoming established in the City or by positive impacts to other General Fund revenues. However, the full fiscal impact cannot be determined at this time.

Community Impact Statement: None submitted.

SUMMARY

At its meeting of August 25, 2014, the Budget and Finance Committee considered CAO and City Attorney reports submitted in response to Motion (Blumenfield - Cedillo) relative to an analysis and extension of the Internet-based Business Tax Subclassification. The CAO reports that in March 2010, Council approved Ordinance No. 181127 reducing the business tax rate for Internet-based businesses. The ordinance established new classifications for businesses providing online electronic applications or online search engines, which would then be assessed the lowest business tax rate of \$1.01 per \$1,000 of gross receipts. The lower rate would be in effect for the tax years from 2010 to 2014.

On July 2, 2014, the Council referred Motion (Blumenfield-Cedillo) to the Budget and Finance Committee seeking a comprehensive analysis from the Office of Finance and the Department of Economic and Workforce Development of the impact and effectiveness of the lower tax rate for Internet-based businesses to include details on the number and type of businesses, the number of employees, and the gross receipts and related tax revenue of Internet-based businesses, as well as the broad impact of the tax policy. The CAO report, attached to the Council file, summarizes data provided by Finance for the number of businesses, gross receipts and tax revenue. However as reported at the August 4, 2014 Budget and Finance Committee meeting, the additional analysis requested cannot be conducted using available City data. The CAO recommends that the pending analysis be conducted by subject-matter experts through the Office of Economic Analysis upon the identification of contract funding.

During Committee discussion, representatives of Finance, City Attorney and CAO provided an overview of the matter and responded to related questions from Committee members. After further consideration and having provided an opportunity for public comment, the Budget and Finance Committee recommended that Council approve the amended recommendations as detailed above to extend the sunset provision for Internet-based businesses while a comprehensive analysis of the Internet-based business tax subclassification is completed. This matter is now forwarded to the Council for its consideration.

Respectfully Submitted,

BUDGET AND FINANCE COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
KREKORIAN:	YES
ENGLANDER:	YES
KORETZ:	YES
BLUMENFIELD:	YES
BONIN:	YES

ep

14-0945 8-25-14

-NOT OFFICIAL UNTIL COUNCIL ACTS-