

Economies, Efficiencies & Darned Good Ideas

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Los Angeles Finds Budget Relief from an Unlikely Source

While the State of California struggles to resolve its multibillion-dollar deficit, Los Angeles joins many California cities facing budget shortfalls for fiscal year 2004-05. Municipalities are scrambling to find innovative ways to make ends meet and looking for new sources of revenue.

Enter Assembly Bill 63 (AB 63), which was passed by the Legislature and signed into law by Governor Gray Davis in 2001. AB 63 authorizes the state Franchise Tax Board (FTB) to make available to cities a listing of individuals, partnerships and corporations claiming business expenses or reporting income on IRS Form 1099 and their state tax returns. Cities are authorized to receive information only for businesses that file their returns from addresses within their boundaries.

The City of Los Angeles collects approximately \$373 million a year in business taxes to pay for critical city services such as police, fire protection and parks and recreation. Tax discovery consultants have estimated that up to 25 percent of businesses located in the City of Los Angeles are either not registered to pay city business taxes or are under reporting, denying the city substantial revenue. As a result, the city has embarked on an aggressive program through its Office of Finance, which uses information made available by AB 63 and mails letters to businesses identified from the FTB listing that are not currently registered to pay the city business tax.

The Office of Finance kicked off its mail campaign in November 2002 with 151,000 letters to businesses thought to be operating in the city. The city also engaged in an extensive outreach program through television, radio, print media and inserts in utility bills to inform businesses and residents of the registration requirements for conducting business activities. Additionally, in an effort to encourage compliance, the city council mandated an automatic waiver of late fees for businesses that met certain conditions.

City officials originally projected that up to 5 percent of the businesses contacted would ultimately register and begin paying city business taxes. But the Office of Finance was in for a welcome surprise. To date, nearly 45,000 businesses have registered, a 29 percent response rate that generated more than \$20 million in new business tax revenues. This revenue has been designated for business-tax reform and affordable housing. Businesses large and small, from firms in the towers of Century City to home-based businesses in El Sereno, have come forward and registered. The City of Los Angeles estimates that the AB 63 program will generate between \$7 million and \$8 million for the city annually before the program sunsets in 2008.

As budget woes continue for many municipalities in California, AB 63 is providing a tool for cities to help balance their budgets. The City of Los Angeles, with the aid of the state, is ensuring local businesses are paying their fair share toward the city services they use and the ones that benefit all Los Angeles residents.

For additional information regarding this program, visit the City of Los Angeles Office of Finance website at www.lacity.org/finance.

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