City of Los Angeles

CITY HALL
LOS ANGELES, CALIFORNIA 90012

May 8, 2020

Honorable Mayor Eric Garcetti
Honorable Paul Krekorian, Chair of Budget and Finance Committee
c/o Office of the City Clerk

Re: Commission on Revenue Generation Final Report

Dear Mayor and City Councilmembers:

The Commission on Revenue Generation (Commission) was formed by a Letter of Agreement (LOA) between the Coalition of City Unions and the City of Los Angeles (City) to develop recommendations and maximize revenue to the City's general and special funds sufficient to provide: high quality City services that are consistent across the City; to ensure equity in the City budget for underserved communities; and to ensure a high quality of life in our neighborhoods. To ensure the Commission has sufficient resources to accomplish its mission, the City provided $500,000 to fund administrative expenditures such as staff costs and consultant studies through the Commission's two-year tenure.

The Commission considered numerous revenue generating policies and programs, including the implementation of a vacant property tax and increased data coordination between the City Office of Finance and the County of Los Angeles Assessor's Office. The Commission also procured consulting services to research the feasibility of implementing a payment-in-lieu-of taxes program, windfall rent tax, and best practices for the City's Los Angeles City Employees' Retirement System (LACERS) and Los Angeles Fire and Police Pensions (LAFPP) pension funds. On February 19, 2020, the Commission held its final meeting and approved the final report outlining its recommendations on these measures. The following is a summary of these recommendations made by the Commission:

- Implement LAFPP and LACERS Pension Management Cost Reduction Strategies: The Commission recommends the Mayor request the LACERS and LAFPP Boards of Administration to adopt plans that may reduce their combined costs of investments by: 1) utilizing the Asset Management Cost and Forecasting Tool developed for the Commission by Moss Adams and reporting on the efficacy of the Forecasting Tool as part of their asset management strategies; and, 2) adopting the five best practices strategies and timelines that were outlined by the Commission and analyzed by Navigant consulting. The LACERS and LAFPP Boards of Administration would submit an annual report on both the Asset Management Cost and Forecasting Tool and the five strategies that should be provided to the Mayor and City Council with a full report submitted by the beginning of fiscal year 2025-26.

- Implement a proportional across-the-board tax increase above the current business tax rate for landlords: The Commission hired BAE Urban Economics to study the feasibility of implementing a Windfall Rent Tax. For the purposes of the BAE Urban Economics study, “windfall” is rental income to a landlord that exceeds a specific threshold. BAE’s study outlined three Windfall Rent tax scenarios, of which the Commission recommends an across-the-board tax increase on gross receipts for dwelling units. In this scenario outlined in the report, potential revenue generated ranges from $18.8 million to $83.6 million in gross receipts taxes.

- Improve coordination between the City Office of Finance and the County of Los Angeles Assessor’s Office regarding the collection of unsecured business property tax: The Commission facilitated the addition of a business personal property question to the City’s Business License Application, which will improve the County’s ability to identify taxable business property in the City and should lead to increased revenue. The Office of Finance agreed to work with the County Assessor’s Office in identifying and notifying City-licensed businesses that might owe taxes on unsecured business property.

- Implement the City Controller’s audit report, “In the Balance: Financial Report on the City’s Special Funds,” dated February 3, 2019: The Commission submitted a letter to the Los Angeles City Council Budget and Finance Committee to endorse and accept Los Angeles City Controller Ron Galperin’s Audit Report (C.F. no. 17-0786), including the Special Purpose Funds Management Policy. The Controller’s report detailed 705 special purpose funds totaling $4.1 billion as of June 2018. As of February 2019, there were no uniform policies or procedures for creating, using, reviewing, repurposing, or closing these accounts. The Controller’s report included recommendations to reform the special funds policy.

- Implement City Controller’s recommendations in the audit, “Tax Breaks and Subvention Deals,” dated August 10, 2018: The Commission submitted a letter to the Budget and Finance Committee to endorse and accept City Controller Ron Galperin’s report on the efficacy of the Incentive Agreements entered into by the City and his recommendations for the development of standards. The City Controller’s Office reviewed five incentive agreements approved between

2005 and 2015 - $654 million in tax refunds or abatement. Incentive agreements between 2016 and 2018 totaled $345 million. The Commission reviewed and endorsed the Controller's recommendations.

- Implement a Billboard Policy Program: After reviewing staff reports on the development of citywide sign regulations (including billboards), the Commission sent a letter to the Planning and Land Use Management (PLUM) Committee urging it to continue working on this issue to develop a billboard program that would be approved by the City Council.

The Commission looks forward to the consideration and implementation of these recommendations that will maximize revenue for the City. We thank our staff, our consultants, and the City departments that supported us as we identified ways of increasing revenue. Thank you for your support and for making this Commission possible, as we worked together toward providing high quality, equitable services across the City.

Best Regards,

Jan Breidenbach
Chair, Commission on Revenue Generation

Peter Dreier, Commissioner
Rudy Espinoza, Commissioner
Jack Humphreville, Commissioner
Jonathan Klein, Commissioner
Tim McDaniel, Vice Chair
Wayne Moore, Commissioner
Barbara Ringuette, Commissioner
William Smart, Commissioner
Jake Stevens, Commissioner

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Final Report 2020

COMMISSION ON REVENUE GENERATION

Jan Breidenbach
Chair, Commission on Revenue Generation

Peter Dreier, Commissioner
Rudy Espinoza, Commissioner
Jack Humphreville, Commissioner
Jonathan Klein, Commissioner
Timothy McDaniel, Jr., Vice Chair
Wayne Moore, Commissioner
Barbara Ringuette, Commissioner
William D. Smart, Jr., Commissioner
Jake Stevens, Commissioner

A MESSAGE FROM THE COMMISSION ON REVENUE GENERATION

After 24 months of research and extensive deliberation, we are excited to present our recommendations and considerations to maximize revenue to the City's general and special funds.

The Commission is a diverse group of individuals with a wide range of experience from community and social activism to academia, faith leadership, public policy and pension fund management. With all our disparate backgrounds, we have one thing in common: our dedication to making the City of Los Angeles a better place for all Angelenos to live, work and play.

As we conducted research, commissioned studies, and listened to presentations, forefront in our minds was the mandate given to us to seek new revenue sources that would maximize revenue, to ensure high quality services that are consistent across the city, to ensure equity in the City budget for underserved communities and to ensure a high quality of life in all neighborhoods. This was the goal with each recommendation and consideration we put forth.

We would like to thank the staff of the Office of the City Administrative Officer for their assistance and guidance during this process. Their knowledge and direction allowed us to remain on track and made it possible to do as much research as possible during our tenure.

The total estimated revenue stemming from the Commission's research is approximately $194 million. The actual revenue generated will vary depending on how the recommendations and considerations are implemented.

Top Rov L - R- Jack Humphreville, Timothy McDaniel, Jr. (Vice Chair), Peter Dreier, William D. Smart, Jr., Rudy Espinoza 2nd Row L -R- Wayne Moore, Jan Breidenbach (Chair), Barbara Ringuette, Jake Stevens. Not pictured - Jonathan Klein.

It is our hope that both the Mayor's Office and City Council find these recommendations and considerations useful in supporting the ongoing work of ensuring that all residents in the City of Los Angeles receive equal benefits from city services.

Best Regards,

Jan Breidenbach

Jan Breidenbach
Chair, Commission on Revenue Generation

Peter Dreier, Commissioner
Rudy Espinoza, Commissioner
Jack Humphreville, Commissioner
Jonathan Klein, Commissioner
Timothy McDaniel, Jr., Vice Chair
Wayne Moore, Commissioner
Barbara Ringuette, Commissioner
William D. Smart. Jr., Commissioner
Jake Stevens, Commissioner

COMMISSIONERS

JAN BREIDENBACH, CHAIR

Jan Breidenbach started her career as an organizer in the movements of the 1960s and 1970s, leading to 10 years as a union organizer for Local 535 of the Service Employees International Union (SEIU). In the mid-1980s, she founded the nonprofit Coalition for Women's Economic Development, working with low-income women wanting to start micro-businesses. In 1991, she became the executive director of the Southern California Association of Nonprofit Housing (SCANPH). During her tenure at SCANPH, she led policy campaigns to increase funding and update land use policies that prevent the construction of affordable housing. She taught housing and community development at the Price School of Public Policy at the University of Southern California and now continues her involvement in housing and community development as an instructor at Occidental College.

PETER DREIER

Peter Dreier is a professor of Politics and chair of the Urban & Environmental Policy Institute at Occidental College. Prior to joining the Occidental faculty in 1993, he served for eight years as Boston's director of housing policy under Mayor Ray Flynn. Among his six books are: *The Next Los Angeles: The Struggle for a Livable City and Place Matters: Metropolitics for the 21st Century.* His research focuses on housing, community economic development, and inequality. He has served on several city-sponsored task forces, served on the advisory board of the federal Resolution Trust Corporations (created to address the savings-and-loans crisis in the 1990s), was a member of the board of the Southern California Association for Nonprofit Housing (SCANPH), and currently serves on the board of the Los Angeles Alliance for a New Economy.

RUDY ESPINOZA

Rudy Espinoza is a community development practitioner with experience designing place-based initiatives for major financial institutions and philanthropic organizations, establishing innovative private-nonprofit partnerships and providing business assistance to entrepreneurs. Mr. Espinoza designed and managed an initiative that provided business assistance and microloans to street vendors and entrepreneurs. In the informal economy, including the development of a new microloan fund to finance Health Department-certified food carts for street vendors, he was responsible for the development of a unique micro-equity program that invests in businesses in low-income neighborhoods in exchange for a minority share of the respective businesses.

COMMISSIONERS

JACK HUMPHREVILLE

Jack Humphreville is a Neighborhood Council Budget Advocate. He is also a long-time contributor to CityWatch where he comments on the finances of the City and the Department of Water and Power. He is concerned about the City's ever increasing water and power rates, the City's need for transparency in its budget process and labor negotiations, the state of the City's streets and infrastructure, the City's current budget deficit, its structural deficit, its service deficit, and the transfer of pension and infrastructure liabilities to the next generations of Angelenos.

JONATHAN KLEIN

A UCLA grad and nearly lifelong Angeleno, Rabbi Jonathan Klein served as the Executive Director for Clergy & Laity United for Economic Justice (CLUE) from 2009 to 2018. Prior to ordination in 1997 from Hebrew Union College, Rabbi Klein served congregations in Flagstaff, Arizona, and Rye, New York. Upon receiving his rabbinical degree, he served three years as director of KESHER, the Reform Jewish Movement's college outreach program and then eight years as the Allen and Ruth Ziegler Rabbinic Director of USC Hillel at the University of Southern California. Prior to his role at CLUE, Rabbi Klein served on the staff of the Progressive Jewish Alliance (now Bend the Arc) and is particularly proud of his first job there as a community organizer.

TIMOTHY MCDANIEL, JR., VICE CHAIR

Timothy McDaniel, Jr. was born and raised in Los Angeles and received his B.A. in Communication Studies with a minor In Political Science from San Jose State University. He currently serves full-time as Owner and CEO of Section 8 Managers, a nonprofit helping low income households with rental subsidies with obtaining safe and stable housing in the Greater Los Angeles region for almost two years. Tim also serves as the Vice-Chair on the Revenue Commission for the City of Los Angeles as a champion for a more robust and transparent revenue-generating city. Tim has individually housed hundreds of homeless veterans and thousands of individuals and families. Timothy is a Certified Fair Housing Manager and Housing Placement Specialist who has been a California licensed real estate professional for over seven years.

COMMISSIONERS

WAYNE MOORE

Wayne Moore was appointed as a trustee of the Los Angeles County Employees Retirement Association Board of Investment in February 2017. He currently serves as Board Secretary and chairs the Credit and Risk Mitigation Committee. Wayne was also appointed a Commissioner of the City of Los Angeles Fire and Police Pension Board in February 2010 and served through December 2014. He retired from public service employment in December 2012 having been an executive public administrator in Los Angeles County for over 25 years as Director, Office of Management and Budget for the Metropolitan Transportation Authority, CFO of the City of Los Angeles Department of Public Works, Assistant General Manager of the City Department of Transportation, and CFO of the Southern California Association of Governments.

BARBARA RINGUETTE

Barbara Ringuette is Vice Chair for Development of the Neighborhood Council Budget Advocates, an Alliance of the Los Angeles Neighborhood Councils addressing the City Budget and services provided to neighborhoods. Ringuette has 10 years of experience in the Neighborhood Council system serving on the Governing Board of the Silver Lake Neighborhood Council and tackling land use issues and homelessness. She also serves on the Board of the Silver Lake Improvement Association. She is a former Assistant Regional Administrator for the Los Angeles County Department of Children and Family Services.

WILLIAM D. SMART, JR.

William Smart has served as the president and CEO of the Southern Christian Leadership of Southern California (SCLC) since 2018 where he directs budget activities to fund operations and maximize investments. He also directs all SCLC fundraising activities. Prior to joining SCLC, he was the program director for the Los Angeles Alliance for a new economy where he led a team of professionals to implement comprehensive campaigns to meet organizational needs. As an ordained minister, Pastor Smart has served at churches around the country.

JAKE STEVENS

Jake Stevens is a former Deputy to West Hollywood Mayor Jeffrey Prang, served as Capitol Hill staffer for Congressman Xavier Becerra and was a National Surrogate Director on President Barack Obama’s 2012 re-election campaign. He served as an Eagle Rock Neighborhood Councilmember and graduated magna cum laude from Occidental College. Mr. Stevens serves on the City of Los Angeles East Area Planning Commission and lives in Highland Park.

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EXECUTIVE SUMMARY

In 2016, as a part of its negotiations with the City of Los Angeles, the Coalition of City Unions ("Coalition") invited community organizations to participate in discussions regarding the need for equitable services throughout the City of Los Angeles. Deliberations between the City and the Coalition led to a joint decision to create a Commission on Revenue Generation to explore revenue-generating possibilities that would bring new monies to the City's general fund that could be used to provide services equally across the City.

The Commission on Revenue Generation received numerous presentations and recommendations from industry specific consultants, Union representatives, the City Controller, the Chief Legislative Analyst, the County Assessor and other City officials, administrators and subject matter experts. Based on the studies, presentations and research, the commission narrowed its focus for recommendation to the following:

- Proposals that would increase the City's share of property taxes through volunteer payments by large non-profits with property and potentially through changes in how private golf courses are taxed.
- Proposals that would raise taxes to be used for affordable housing (new taxes)
- Proposals that would improve financial management of the City's two pension funds (LACERS – Los Angeles City Employees System and LAFPP – Los Angeles Fire and Policy Pensions)
- Proposal to better coordinate with the County Assessor's Office regarding the Collection of property taxes
- Support the recommendations of the City Controller regarding the City's Incentive Tax Abatements and Guidelines, as well as Special Purpose Funds
- Establishing a Citywide Signage Regulation program

The Commission concluded its work with six recommendations and four considerations. **Recommendations** are specific policies with the greatest potential of maximizing revenue and can be implemented within a reasonable timeframe. **Considerations** are policies that have definite potential for increasing revenue, but require additional research and entail extensive effort for implementation.

All ten recommendations and considerations in this report have the potential of either substantially increasing revenue to the City or, in some cases, saving funds through cost reductions. **The total estimated revenue stemming from the Commission's research is approximately $194 million annually.** However, actually receiving this revenue depends on leadership from the Mayor and City Council to explore the necessary policy changes and initiatives to realize it, including determination of tax rates, implementation costs, ballot measures, etc. The recommendations and considerations that do not have estimated income still have the potential of substantial increased funds, but require changes in legislation or deeper historical research to determine the approximate revenue.

RECOMMENDATION: Implement LAFPP and LACERS Pension Management Cost Reduction Strategies.

- Reduce pension fund management costs for Los Angeles City Employees Retirement System (LACERS) and Los Angeles Fire & Police Pension (LAFPP) to lower the Unfunded Actuarial Accrued Liabilities (UAAL) through a number of different strategies.
- Potential Cost Savings: Depending on different variables, total savings could be substantial.

RECOMMENDATION: Implement an across-the-board Gross Receipts Tax (Windfall Tax)

- Increase revenue to the General Fund through an across-the- board increase in the Gross Receipts. Initial research by the Commission identified the tax as a "Windfall Rent Tax."
- Potential Cost Savings: Depending on the percentage of increase, up to $84 million annually.

RECOMMENDATION: Improve coordination between Los Angeles Office of Finance and Los Angeles County regarding the collection of unsecured business personal property taxes and data sharing. (Implemented)

- Engage in data sharing with the Los Angeles County Tax Assessor's office to improve the collection of Unsecured Business Personal Property Tax, resulting in increased property tax revenue to the City. This recommendation was implemented during the Commission's tenure.
- The potential range of annual revenue: Not known at this time.

RECOMMENDATION: Implement City Controller recommendations from: "In the Balance: Financial Report on the City's Special Funds." (Special Management Policy)

- Review un or under-utilized special funds throughout the City, either repurposing or closing them.
- Potential range of annual revenue: There is no increased revenue from this change. However, there is the potential of moving unused funds back into the general fund. As of June 2018, there were 705 special purpose funds totaling $4.1 billion. Almost 200 of these, with more than $31 million, were dormant with no expenditures. As of the date of the Controller's report, nine funds had been closed, releasing $1.2 million.

EXECUTIVE SUMMARY

RECOMMENDATION: Implement City Controller recommendations from the audit, "Incentive Agreements: Tax Breaks and Subvention Deals."

- Assess the financial assistance to the City's Incentive Agreements and recommend development of standards consistent with recently approved Governmental Accounting Standards Board (GASB) Statement 77 reported requirements.
- The potential range of annual revenue: Audit did not estimate revenue going forward.

RECOMMENDATION: Complete internal departmental review, hold hearings and implement a citywide billboard (signage) policy.

- Complete the review conducted over the past number of years and finalize an equitable billboard policy for electronic and material billboards across the City.
- The potential range of annual revenue: Unknown at this time.

CONSIDERATION: Implement a Vacant Property Tax in the City of Los Angeles.

- Increase revenue to the City of Los Angeles' general fund through a tax on vacant property or buildings.
- The potential range of annual revenue: The amount of revenue collected from a vacancy tax would depend on the definition of the tax base, the tax rate and exemptions. The expected range is $127.9 million the first year and $100.2 million each year thereafter.

CONSIDERATION: Adopt a City of Los Angeles Payment In Lieu Of Taxes (PILOT) Program.

- To increase revenue to the City's General Fund through a program whereby larger, property-owning non-profit organizations exempt from paying property taxes voluntarily agree to a payment that, at least in part, reimburses the City for services it provides to the organization but are not paid for by property taxes.
- The potential range of annual revenue: According to research by Blue Sky Consulting, the City of Los Angeles could collect between $2.5 million and $12.4 million in revenue. The administrative costs would likely be between 1.7% and 17% of revenues.

CONSIDERATION: Increase property taxes from privately owned golf courses in the City of Los Angeles

- Increase property tax revenue to the City of Los Angeles from updated assessment of property taxes owed by privately-owned golf courses in the City. These taxes are kept artificially low due to passage of Proposition 6 (1964) that prevents golf courses from being assessed compared to nearby properties.
- The potential range of annual revenue: If golf courses were assessed and paid property taxes at the average rate per acre in their zip codes, the assessed values would be $2.7 billion, the increase to the City would be about $1.8 million.

CONSIDERATION: Implement legislative changes regarding the composition of the County Assessment Appeals Boards

- Update present state law to raise the professional standards for County Assessment Appeals Boards.
- The potential range of increased annual revenue: Revenue accruing to the City of Los Angeles would come from more efficient AAB process and better qualified AAB members. An estimation of this increase is not feasible at this point.

The Commission concludes that the six recommendations and four considerations outlined in this report are viable options for the City of Los Angeles to realize substantial funds from untapped revenue sources, along with savings that can be redirected. The recommendations and considerations are based on sound and verified research. We urge the Mayor, the City Council, the Coalition and other interested parties to use this report as a blueprint for revenue generation.

INTRODUCTION

In 2016, as a part of its negotiations with the City of Los Angeles, the Coalition of City Unions ("Coalition") invited community organizations to participate in discussions regarding the need for equitable services throughout the City of Los Angeles. Streets and sidewalks across the City were in dire need of repair and, in certain communities, garbage piled up on sidewalks and alleyways. The Coalition's research into the city's employment records revealed thousands of jobs – jobs needed to assist with city maintenance - were left unfilled. The City needed new or additional revenue sources to fund these resources. Deliberations between the City and the Coalition led to a joint decision to create a commission that would explore revenue-generating possibilities that would bring new monies to the City's general fund that could be used to provide services across the City.

The Coalition and the Office of the Mayor identified qualified candidates with a wide range of expertise and backgrounds including: public finance experts, academics, business leaders, community-based organizers, and City bargaining unit representatives. These individuals would participate on a commission to develop recommendations to maximize revenue to the City's general and special funds sufficient to provide: high quality City services that are consistent across the City; equity in the City budget for underserved communities; and ensure a high quality of life for all Angelenos.

In February 2018, the Mayor appointed 15 members to the Commission on Revenue Generation ("Commission"), 10 of whom completed the full term of their appointments. The Commission was staffed by and served under the direction of the Inspector General for Revenue. The Commission convened its first public meeting on March 16, 2018, and continued the third Wednesday of every month, unless otherwise noticed. Quarterly reports were submitted to the Mayor and the Chair of the Budget and Finance Committee to provide an update on Commission activities and spending. Professional services needed to assist the Commission in its efforts were obtained using established contracts for on-call consulting services administered by the Offices of the City Administrative Officer and the Controller, and new contracts were solicited through the City's Business Assistance Virtual Network. As set forth in the Letter of Agreement between the Coalition and the City, a budget of $500,000 was provided to the Commission to support its administrative expenses, which includes expenditures that produced this final report as well as the economic and policy studies discussed within it.

INTRODUCTION

In March 2018, the Commission on Revenue Generation ("Commission") convened for the first time and reviewed the Letter of Agreement outlining its scope of work. At its April meeting, the Commission established its mission statement:

> *The Commission on Revenue Generation will develop recommendations to maximize revenue to the City's general and special funds sufficient to provide high quality City services that are consistent across the City to ensure equity in the City budget for unserved communities and to ensure a high quality of life in our neighborhoods.*

The Commission considered over fifty issues for revenue generation or cost savings. The field of options was narrowed based on several factors, including:

- Does the revenue opportunity present a significant opportunity to generate revenue for the City?
- What is the timeframe to realize revenue or cost savings?
- Will the proposed recommendation require action by another scale of government or a vote?
- What are the challenges/opportunities for implementation?
- How long will it take to implement the proposed recommendation?
- What is the experience of other jurisdictions that have adopted similar policies?

The Commission received numerous presentations and recommendations from industry specific consultants, Union representatives, the City Controller, the Chief Legislative Analyst, the County Assessor and other city officials, administrators and subject matter experts. It authorized five studies, reviewed both an audit and report from the City Controller's office and engaged in dialogue with the Los Angeles County Assessor's office. Based on the studies, presentations and research, the commission narrowed its focus for recommendation to the following:

- Proposals that would increase the City's share of property taxes through volunteer payments by large nonprofits with property and potentially through changes in how private golf courses are taxed.
- Proposals that would raise taxes to be used for affordable housing (new taxes)
- Proposal that would improve financial management of the City's two pension funds

(LACERS – city employees and LAFPP – police and fire department)

- Proposal to better coordinate with the County Assessor's Office regarding the Collection of property taxes.
- Review of a report from the City Controller's office regarding Special Purpose funds and review of an audit from the City Controller's office regarding Tax abatements and Subvention deals.
- Establishing a Citywide Signage Regulation program

AT-A-GLANCE
Recommendations and Considerations

RECOMMENDATION: Implement LAFPP and LACERS Pension Asset Management Cost Reduction Strategies	
Goal:	Reduce pension fund management costs for the Los Angeles City Employees Retirement System (LACERS) and the Los Angeles Fire & Police Pension (LAFPP) to lower the Unfunded Actuarial Accrued Liabilities (UAAL) through a number of different strategies.
Potential cost savings:	Depending on different variables, potential cost total savings could be substantial. .
City agencies and departments responsible for carrying out the recommendations:	The two City pension funds: the Los Angeles City Employees Retirement System, the Los Angeles Fire & Police Pension.
Implementation Opportunities/Challenges:	Implementation of any of the strategies requires agreement among the Boards of both the City pension funds as well as the Mayor and City Council. In some cases, changes may have to be addressed through the City's labor contract negotiations.
Summary of reasoning for recommendation:	By reducing the costs of investment, net investment returns increase, which helps close the gap between low return expectations and required actuarial return objectives. This may also reduce the need for some portfolio risk taking on the margins. Furthermore, reducing investment costs increases fund balances in the long term, decreasing the City's UAAL and the annual cost of fully amortizing it.
Action required by another scale of government:	The LACERS and LAFPP Boards of Administration should submit an annual report on both the Asset Management Cost & Forecasting Tool and the five strategies should be provided to the Mayor and City Council with a full report submitted by the beginning of fiscal year 2025-2026.

AT-A-GLANCE
Recommendations and Considerations

RECOMMENDATION: Implement an across-the-board increase in the Gross Receipts Tax (Windfall Rent Tax)	
Goal:	Increase revenue to the General Fund through an across-the- board increase in the Gross Receipts Tax. Initial research by the Commission identified the tax as a "Windfall Rent Tax."
Potential range of annual revenue:	Depending on percentage of increase, up to $84 million annually. The implementation costs are estimated to be 15 percent of the tax collected.
Experiences of other jurisdictions that have adopted similar policies (if available)	Cities that have implemented gross receipts taxes: Berkeley, East Palo Alto, City/County of San Francisco, and Mountain View, California, as well as New York City and Seattle. A 2018 vacancy tax passed in Oakland has not yet been implemented. To bypass the 2/3 supermajority required to raise local taxes, the cities cited above generally included an understanding that the tax revenue would be directed to housing through appointed Commissions or other vehicles.
City agencies and departments responsible for carrying out the recommendations	Housing & Community Investment Department and the Office of Finance.
Implementation Opportunities/Challenges	Tax is passed through ballot initiative.
Summary of reasoning for recommendation	Of various options for increased taxes for housing, increasing an across-the-board gross revenue tax does not require a new tax and is not difficult to implement. With fewer administrative costs, revenue would possibly be the same as from a Vacant Property Tax.
Action required by another scale of government:	No

AT-A-GLANCE
Recommendations and Considerations

RECOMMENDATION:	Improve coordination between the Los Angeles Office of Finance and Los Angeles County regarding collection of unsecured business personal property tax and data sharing (Implemented)
Goal:	Engage in data sharing with the Los Angeles County Tax Assessor's office to improve the collection of Unsecured Business Personal Property Tax, resulting in increased property tax revenue to the City. This recommendation was implemented during the Commission's tenure.
The potential range of annual revenue:	Not known at this time.
City agencies and departments responsible for carrying out the recommendations:	Los Angeles City Office of Finance
Implementation Opportunities/Challenges:	None, the policy has been implemented.
Summary of reasoning for recommendation	The addition of a question regarding unsecured personal property on the City's annual business license application will capture unknown business property, leading to additional revenue through property taxes. Having this question on the application saves resources that can be used for other revenue-generating work.
Action required by another scale of government	The Los Angeles County Tax Assessor's office.

AT-A-GLANCE
Recommendations and Considerations

RECOMMENDATION:	Implement City Controller recommendations from: "In the Balance: Financial Report on the City's Special Funds," dated February 3, 2019 (Special Fund Management Policy)
Goal:	Review un- or under-utilized special funds throughout the City, either repurposing or closing them.
Potential range of annual revenue:	There is no increased revenue from this change. However, there is the potential of moving unused funds back into the general fund. As of June 2018, there were 705 special purpose funds totaling $4.1 billion. Almost 200 of these, with more than $31 million, were dormant with no expenditures. As of the date of the Controller's report, nine funds had been closed, releasing $1.2 million.
City agencies and departments responsible for carrying out the recommendations:	Departments with special funds, the Office of Finance.
Implementation Opportunities/Challenges:	None identified. Further, as noted, a number of funds have already been closed.
Summary of reasoning for recommendation:	As of February 2019, there were no uniform policies or procedures for creating, using, reviewing, repurposing or closing these accounts. Having policies and procedures in place would increase efficiency in budget management.
Action required by another scale of government:	No.

AT-A-GLANCE
Recommendations and Considerations

RECOMMENDATION: Implement the City Controller recommendations from the audit: "Incentive Agreements: Tax Breaks and Subvention Deals," dated August 10, 2018.	
Goal:	Assess the financial assistance to the City's Incentive Agreements and recommend development of standards consistent with recently approved Governmental Accounting Standards Board (GASB) Statement 77 reported requirements.
The potential range of annual revenue:	Audit did not estimate revenue going forward.
City agencies and departments responsible for carrying out the recommendations:	Mayor and City Council and the Office of the Chief Legislative Analyst.
Implementation Opportunities/Challenges:	Incentive Agreements that provide better benefits to the City's budget. Challenges include the complexity of these agreements and the balance of providing financial assistance while assuring financial gain to the City.
Summary of reasoning for recommendation:	The City Controller's recommendations have the potential to assist the City in negotiating more favorable Incentive Agreements.
Action required by another scale of government:	No.

AT-A-GLANCE
Recommendations and Considerations

RECOMMENDATION:	Complete internal departmental review, hold hearings and implement a Citywide Billboard (Signage) Policy
Goal:	Complete the review conducted over the past number of years and finalize an equitable billboard policy for electronic and material billboards across the City.
The potential range of annual revenue based on research:	Unknown at this time.
City agencies and departments responsible for carrying out the recommendations:	Mayor; City Council; Planning and Land Use Management Committee (PLUM); L.A. Department of Planning
Implementation Opportunities/Challenges:	Billboard policy has been contentious for a number of years; there are important parties with completely opposing views. Implementing a policy will take research and compromise.
Summary of reasoning for recommendation:	While recognizing the serious challenges in coming to an agreement, the Commission recommends addressing it with all urgency.
Action required by another scale of government:	No

AT-A-GLANCE
Recommendations and Considerations

CONSIDERATION: Implement a Vacant Property Tax in the City of Los Angeles	
Goal:	Increase revenue to the City of Los Angeles' general fund through a tax on vacant properties or buildings.
Experiences of other jurisdictions that have adopted similar policies (if available):	Cities that have implemented a vacant property tax include Oakland, CA (passed 2018 but not yet implemented), Washington, D.C., and Vancouver, BC. It is under consideration in San Jose. Although passed as general taxes (majority vote), tax increases in California generally require a super majority (2/3 vote). The California cities that have passed or are considering the tax included an understanding that the tax revenue would be directed to housing through appointed commissions or other vehicles.
The potential range of annual revenue based on research:	The amount of revenue collected from a vacancy tax would depend on the definition of the tax base, the tax rate and exemptions. The expected range is $127.9 million the first year and $100.2 million each year thereafter. There would be an estimated $2.9 million start-up cost followed by an annual implementation cost of $5.6 million.
City agencies and departments responsible for carrying out the recommendations:	The Housing & Community Investment Department and the Office of Finance.
Implementation Opportunities/Challenges:	The tax is imposed through a ballot measure. There is the potential of it being passed with a majority vote (rather than 2/3), depending on whether it is placed on the ballot by the City Council or citizen initiative, but this is being determined by the California Supreme Court. If passed, the new tax would require a system for verifying vacancies and additional staff to administer it as a new function.
Summary of reasoning for recommendation:	The City is experiencing a serious housing crisis and needs more funds to address it. It is important that all potential revenue sources be examined. Given that this tax has been, or is being, implemented in other cities provides a potential model for implementing it in Los Angeles.
Action required by another scale of government:	No

AT-A-GLANCE
Recommendations and Considerations

CONSIDERATION:	Adopt a City of Los Angeles Payment In Lieu Of Taxes (PILOT) Program
Goal:	To increase revenue to the City's General Fund through a program whereby larger, property -owning non-profit organizations exempt from paying property taxes voluntarily agree to a payment that, at least in part, reimburses the City for services it provides to the organization but are not paid for by property taxes.
Potential range of annual revenue based on research:	According to research by Blue Sky Consulting, the City of Los Angeles could collect between $2.5 million and $12.4 million in revenue. The administrative costs would likely be between 1.7% and 17% of revenue collected.
City agencies and departments responsible for carrying out the recommendations:	The Mayor and City Council would be responsible for establishing the program through outreach to the large property-owning non-profit institutions. The Office of Finance would be responsible for collecting the revenue.
Implementation Opportunities/Challenges:	A PILOT payment would be voluntary, requiring it to be developed in a manner that maintains and enhances good relations and partnerships between the City and its large nonprofits. Additionally, the potential revenue to Los Angeles is small compared to the effort to establish and maintain it on an ongoing basis.
Summary of reasoning for recommendation:	PILOTs have been successful in other cities, specifically Boston, where it has operated for a number of years and deepened relationships between Boston city government and large non-profits. It could be a unique opportunity for new partnerships.
Action required by another scale of government:	No.

AT-A-GLANCE
Recommendations and Considerations

CONSIDERATION:	Increase property taxes from privately-owned golf courses in the City of Los Angeles
Goal:	Increase property tax revenue to the City of Los Angeles from the updated assessment of property taxes owed by privately-owned golf courses in the City. These are presently assessed at approximately $257 million, generating approximately $680,000/year to the City. The City could negotiate a type of PILOT with these organizations to increase property tax revenue to the City.
The potential range of annual revenue based on research:	If golf courses were assessed and paid property taxes at the average rate per acre in their zip codes, the assessed values would be $2.7 billion, the increase to the City would be about $1.8 million.
City agencies and departments responsible for carrying out the recommendations:	To determine the amount, the Office of Finance would calculate the increase in property tax revenue if Proposition 6 had not been adopted. If sufficient, the Mayor and City Council would approach the golf courses and negotiate a form of PILOT to have them voluntarily pay all or a percentage of these taxes.
Implementation Opportunities/Challenges:	There are two courses for implementation: 1) through negotiations noted above; or 2) a change in the California constitution that reverses Proposition 6.
Summary of reasoning for recommendation:	The City of Los Angeles' General Fund suffers due to the forgone tax revenue through the Bob Hope Exemption. No other form of sport or entertainment enjoys this exemption, nor is the general public allowed to use these golf courses or their amenities, yet the City provides the public services that all other private entities receive.
Action required by another scale of government:	In the absence of a negotiated agreement, Proposition 6 would have to be overturned through a new constitutional amendment or a constitutional challenge through the courts.

AT-A-GLANCE
Recommendations and Considerations

CONSIDERATON: Implement legislative changes regarding the composition of County Assessment Appeals Boards	
Goal:	Replace the current structure with full-time independent administrative hearing officers to review and update the appeals hearing procedure.
The potential range of increased annual revenue:	Revenue accruing to the City of Los Angeles would come from a more efficient AAB process and better qualified AAB members. An estimation of this increase is not feasible at this point.
City agencies and departments responsible for implementation:	The increased funding would come through the existing channels for receiving property tax revenues and be overseen by the Office of Finance.
Implementation Opportunities/Challenges:	While improved efficiency would lower overall, long-term costs by reducing the amount of interest to be paid on refunds for cases that go unresolved for several years, this proposal requires state legislation.
Summary of reasoning for recommendation:	The Los Angeles County Assessor's office estimates approximately $20 million and $25 million in property tax revenues are lost due to approved assessment appeals. Raising the professional standards for board members and hearing officers would reduce the amount of unwarranted reductions, which in turn would likely decrease the amount refunded.
Action required by another scale of government:	California State Legislature

RESEARCH BACKGROUND, RECOMMENDATIONS AND CONSIDERATONS

Based on extensive research over the past two years, the Commission presents these recommendations and considerations. The recommendations are specific policies with the greatest potential of maximizing revenue and can be implemented within a reasonable timeframe of a 12-month period. The considerations are policies that have definite potential for increasing revenue but require changes through the State of California legislature. The Mayor and City Council may wish to engage this work, or the City Unions and community organizations may determine that the benefits warrant such a campaign.

RECOMMENDATIONS

I. LACERS and LAFPP Pension management cost reduction strategies

The Revenue Commission recommends the Mayor request the LACERS and LAFPP Boards of Administration adopt plans to reduce their combined costs of investments by: 1) utilizing the Asset Management Cost and Forecasting Tool and reporting on the efficacy of the Tool as part of their asset management strategies; and 2) adopting five best practices strategies and timelines that were outlined by the Commission and analyzed by Navigant Consulting. The LACERS and LAFPP Boards of Administration would submit an annual report on both the Asset Management Cost & Forecasting Tool and the five strategies should be provided to the Mayor and City Council with a full report submitted by the beginning of fiscal year 2025-2026.

BACKGROUND

The City of Los Angeles sponsors two pension funds: LAFPP and LACERS. The City has an interest in reducing the unfunded liabilities of these two pensions systems as the City funds the amortized costs of the Unfunded Actuarial Accrued Liabilities (UAAL) for both systems. The 2018 actuarial valuation of LACERS included a UAAL of $5.9 billion and $1.5 billion for LAFPP. According to research conducted by Commission member Wayne Moore, the 2019 City budget included $398 billion for LACERS and $225 billion to amortize the LAFPP UAAL.

Commission Moore reported that reducing the costs of investment increases net investment returns which helps close the gap between low return expectations and the required actuarial return objective. This also reduces the need for overall portfolio investment risk trading. Furthermore, reducing investment costs increases fund balances in the long term, decreasing the City's unfunded accrued actuarial pension liabilities (UAAL) and the annual cost of fully amortizing them.

The Commission started its discussion of reducing pension costs with presentations from both LACERS and LAFPP. Further, the Commission heard presentations from Lisa Cody, Researcher for Service Employees International Union (SEIU), Local 721 and Ted Rohrlich, an independent researcher, as well research and presentations from Commission members with expertise in pension management.

Continuing with its investigation, the Commission hired two consulting firms: Moss Adams, to assess the accuracy of the formulae in an "Asset Management Cost Forecasting and Analytical Tool" and Navigant Consulting, to research specific strategies.

Asset Management Cost Forecasting and Analytical Tool

Reducing the costs of investments made by the City's two pension funds can potentially increase total fund assets by a substantial amount and reduce unfunded liabilities, thus increasing the general fund by equivalent amount.

The Commission hired the consulting firm Moss Adams to provide data on an analytical tool, the Asset Management Cost Forecasting and Analytical Tool, which allows users to assess the costs of various asset allocation schemes and measure the impact on overall investment portfolio returns and projected fund balances. The Tool can be used during the asset allocation process to test the impact that investment costs have on expected portfolio returns.

Navigant Report and Recommendations

Navigant conducted peer research on the requested topics, a literature review, and an assessment of strategies to reduce pension costs. Overall, they found that, in general, LACERS and LAFPP align with their peers' practices. However, both funds can adjust their asset allocations, enhance procurement policies and reporting and transparency to further educate external stakeholders and manage external manager costs. The strategies examined were:

- **Bringing some management in-house**. Navigant found that this is feasible only in very large funds; Los Angeles' funds are too small to have this reduce costs.
- **Establishing separate accounts for indexed fixed-income and equities investment**. Navigant found that these are an industry best practice and both LACERS and LAFPP already use separate accounts for their indexed fixed-income and equities investments.
- **Co-investing**. Navigant found that there is a potential for significant cost savings that preserve access to the high returns generally offered by private equity

investment but that both funds need to conduct additional research about how these strategies align with their current investment policies. LACERS has already begun looking at these.

- **Implementing a cash overlay program**. Navigant found that LACERS and LAFPP may achieve benefits of over $8 - $10 million annually, by investing 0.5 percent - 2.0 percent of its total assets in an externally managed cash overlay program.
- **Increasing Manager diversity**. Navigant reports that while it could not quantify returns from increasing manager diversity, it is considered a best practice in the field and recommends it as policy.
- **Peer reviews and research**. Navigant found that there is little data quantifying returns from ongoing review and research and notes that LACERS and LAFPP already invest in research and considers this a best practice policy.

The report includes specific timelines near term: six months to two years; medium-term three to five years; and long-term, over five years.

II. Implement a proportional across-the-board tax increase above the current gross receipts for landlords (Windfall Tax).

The Commission hired BAE Urban Economics to study the feasibility of implementing a Windfall Rent Tax Study. For the purposes of this study, "Windfall," is rental income to a landlord that exceeds a specific, determined threshold. BAE's study outlined three Windfall Rent tax scenarios for revenue generation: (A) Proportional, across-the-board increase in the Gross Receipts Tax, (B) Progressive increase in the Gross Receipts Tax and (C) A new "High Rent" Tax on actual rents above a specified baseline. Based on the ease of implementation and the amount of potential revenue generated $18.9 million to $83.6 million annually, the Commission recommends Scenario A, an across the board tax increase above the current gross receipts for landlords.

RESEARCH BACKGROUND, RECOMMENDATIONS AND CONSIDERATONS

BACKGROUND

Housing affordability has been a persistent issue in Los Angeles. The City has the widest gap between wages and housing costs compared to other large metropolitan areas. Renters make up just over 60 percent of all Angelenos. Of these, over half are rent burdened (paying over 30 percent of income for rent), and 30 percent of these households are severely rent burdened (paying over 50 percent of income for rent). Additionally, less than 30 percent of households could afford to purchase a median priced home in Los Angeles.

The City has a number of programs to fund and encourage the construction and preservation of affordable housing. The City also has a Rent Stabilization Ordinance (RSO) which, for buildings constructed prior to 1978, places a cap on annual rent increases during the tenure of the buildings' occupants.

The City currently requires owners of four or more rental units to pay a gross receipts tax of $1.27 per $1,000 for rental income of $100,000. This tax revenue is deposited in the City's General Fund and is expended according to Mayor and City Council priorities.

The Commission requested an analysis to determine whether a "windfall" rent tax program is a viable means to generate new revenue for the City; how the tax program would impact the market of rental residential units in the City; and how the program could be structured to alleviate the current housing affordability crisis.

Summary of BAE Urban Economics report

BAE conducted a rental market study to determine the extent to which rents in Los Angeles have been rising both over time as well as compared to other large cities. Based in part on the findings from this data, the study explored possible definitions for quantifying any structural "windfall rent." The analysis considered factors such as whether reported rents have outpaced inflation as well as the level of aggregate rent paid by tenants above various thresholds.

The study outlined the process by which the City's Office of Finance (OOF) currently collects gross receipts taxes on eligible dwelling units, exploring:

- The current universe of taxpayers who might be subject to an updated gross receipts tax on eligible rental units, and

- The estimated baseline gross receipts tax currently attributable to dwelling units alone, and not other types of commercial property such as commercial and/or self-storage.

RESEARCH BACKGROUND, RECOMMENDATIONS AND CONSIDERATONS

Based on these findings, BAE outlined some key items for the Commission to consider, as well as suggestions for any new procedures that might need to be put in place to provide for enhanced gross receipts tax program.

BAE reviewed the efforts of other jurisdictions in California and beyond who have recently enacted changes to their tax code in an effort to raise additional funding for affordable housing, in addition to outlining potential considerations for the City of Los Angeles, including possible exemptions from the gross receipts tax, phase-in periods, and income thresholds by which a jurisdiction might define a progressive tax rate. BAE provided the Commission with three alternative “scenarios” of how Los Angeles might structure this new tax:

- Scenario A would represent a proportional, “across-the-board” tax increase above the current gross receipts rate for lessors of dwelling units. Potential revenue generated ranges from $18.8 to $83.6 million in gross receipt taxes (GRT).

- Scenario B would represent a “progressive” tax structure, whereby taxpayers with income from dwelling units exceeding a certain threshold (e.g., $1 million) could be charged a higher tax rate than those whose income below the threshold. Potential revenue generated ranges from $3.5 to $11.5 million in gross receipt taxes (GRT).

- Scenario C would represent a “high rent” tax structure, in which landlords with income from individual dwelling units exceeding a certain threshold (e.g., $2,500 per unit per month) would be charged a separate “high rent” tax on any increment above that threshold amount. Potential revenue generated is $50.1 million in gross receipt taxes (GRT) based on the example of 8 percent after $2,500 rent threshold, but the actual revenue generated depends on the implementation rates. Additionally, in determining the actual base, rents it above would be proportional to the number of bedrooms and any other differentiating characteristic.

The implementation costs for all three scenarios are estimated to be 15 percent of the tax collected.

For each of these scenarios, BAE explored the likelihood of voter approval based on past history and existing legal precedent; the level of administrative oversight required beyond what is currently in place; and estimated projections for annual revenue.

III. Improve Coordination between the City Office of Finance and the County of Los Angeles Assessor's Office regarding the collection of unsecured business personal property tax

The Commission successfully facilitated the addition of a business personal property question to the City's Business License Application which will improve the County's ability to identify taxable business property in the City and should lead to increased revenue. This process is currently underway.

BACKGROUND

At the Commission's request, Los Angeles County Assessor Jeffrey Prang gave a presentation on the operations of the County Assessor's office. The assessor identified areas where additional revenue could be generated or a loss of revenue could be prevented.

First, the addition of a question regarding business property on the business license application could capture unknown business properties and lead to additional revenue. Having this question on the application saves resources that can be used for other revenue-generating work.

The Office of Finance agreed to work with the County Assessor's Office in identifying and notifying City-licensed businesses that might owe taxes on unsecured business property.

Chief Tax Compliance Officer Robert Lee from the Office of Finance presented an update to the Commission on the progress of the collaboration between Finance and the County Assessor's Office to identify and notify City-licensed businesses that might owe taxes on unsecured business property and identified changes they would make in their e-filing process to provide additional information and data collection regarding the County's personal property tax. Additionally, both agencies discussed methods to improve data exchanges regarding business enrollments and discoveries.

These changes will be implemented before the upcoming 2020 business tax renewal season.

IV. Implement the City Controller’s Audit Report “In the Balance: Financial Report on the City’s Special Funds,” dated February 3, 2019.

The Commission submitted a letter to the Los Angeles City Council Budget and Finance Committee to endorse and accept Los Angeles City Controller Ron Galperin’s report “In the Balance: Financial Report on the City’s Special Funds” (C.F. no. 17-0786), including the Special Purpose Funds Management Policy.

The Controller’s report detailed 705 special purpose funds (special funds) totaling $4.1 billion as of June 2018. As of February 2019, there were no uniform policies or procedures for creating, using, reviewing, repurposing or closing these accounts. The Controller’s report included recommendations to reform the special funds policy.

BACKGROUND

In February 2019, L.A. Controller Ron Galperin released a report calling for reforms of the way the City handles 705 special purpose funds which totaled $4.1 billion as of June 30, 2018. The number of Special Funds is greater than in any other American city.

Each fund is governed by rules limiting how the funds may be spent. Controller Galperin has said, “L.A.’s many special funds need to be better managed by departments and more fully integrated into the City’s public budgeting process.”

Special Funds make up roughly half of the City’s treasury, yet nearly 600 special funds are “off-budget,” that is, not included in the annual adopted budget. There are currently no uniform policies or procedures for creating, using, reviewing, repurposing or closing them – resulting in millions going unspent that could otherwise be put to good use on City services.

Some City departments administer many Special Funds while other departments administer few. The City Clerk administers 105 special Funds; Economic and Workforce Development has 77; Personnel has six; Animal Services has three.

Attachments in the Controller’s 93-page report and, also, a dashboard on the Controller’s website -lacontroller.org/special funds - detail the functions of these funds, the City department administering them and each fund’s cash balance.

On June 30, 2018, of the top 10 funds by both revenue and expenditures three were sewer related funds, administered by the Department of Public Works, totaling over one billion dollars. Recreation and Parks, Building & Safety and Library Departments were also among the department's top 10 revenue and expenditures funds. A number of funds saw their cash balances increase by large amounts - GO Bonds for HHH from new bond issuance, federal grants for Sixth Street Viaduct Improvement, Wastewater System Construction from new debt issuance, and Measure M Local Return from new sales tax receipts.

Three problem areas were identified: 1) Fund creation; 2) Management, accounting and oversight policies contributing to underspending inefficiencies and risk; and 3) Closing zero dollar and idle funds represents a great deal of work for little benefit from a Departmental point of view.

The Controller's report urges the City to adopt a comprehensive, multi-pronged policy (Attachments A and B) including:

- Apply standard procedures when creating new funds with review by the Controller's office
- Create funds with "sunset" clauses that require funds to justify their continued existence after a certain period or be closed
- Eliminate old and outdated encumbrances and appropriations
- Mandate annual revenue and expenditure plans for each fund
- Adopt new procedures and timelines to close out idle funds

The Commission submitted a letter of endorsement for the City Controller's report on August 22, 2019 .

V. Implement City Controller's Recommendations in the Audit "Tax Breaks and Subvention Deals," dated August 10, 2018

The Commission submitted a letter to the Los Angeles City Council Budget and Finance Committee to endorse and accept City Controller Ron Galperin's report on the efficacy of the Incentive Agreements entered into by the City of Los Angeles and his recommendations for the development of standards.

The City Controller's Office reviewed five incentive agreements approved between 2005 and 2015 - $654 million in tax refunds or abatement. Incentive agreements between 2016 and 2018 totaled $345 million.
The Commission reviewed and endorses the Controller's recommendations.

RESEARCH BACKGROUND, RECOMMENDATIONS AND CONSIDERATONS

BACKGROUND

The City provides financial assistance to developers of hotels in the form of Incentive Agreements that either waive or reduce payment of the Transient Occupancy Tax (TOT). In these agreements, a maximum amount is waived or reduced taxes continue for a specified time period or until the maximum amount outlined in the Incentive Agreement is reached. The City is the direct recipient of the TOT and can track and quantify the amount of TOT generated by a developer.

The current TOT rate is 14 percent in the City and is applicable to all properties rented to transients, short-term renters (who exercise occupancy or are entitled to occupancy for 30 days or less). The operator of a hotel with an associated tax Incentive Agreement actually pays the TOT it collects from its guests to the City, but the City remits these amounts to the developer of the project per the Incentive Agreement.

The Controller's office investigated up to $1 billion in tax incentives the City offers for large-scale real estate developments. This includes: tax refunds or abatements totaling $654 million over a 25-year period for five projects, and $345 million in tax incentives approved for three more projects that are currently in progress.

The incentives are to make up for what developers claim to be a "feasibility gap" that prevents projects from coming to fruition. Another four projects that could receive tax incentives are being considered by City Council.

Controller recommendations

Framework for incentive agreements to ensure clear and measurable goals and opportunities for economic and fiscal optimization.

- Plans must include clear goals for industry specific growth, job creation, maximization of tax revenue, and developing specific neighborhoods that usually lack development.

- The City should consider an overall limitation on tax incentives that it might want to establish over a one- to five-year period.

- Include follow-up, enforcement and incentive adjustment provisions in any incentive agreements.

Revised scope of evaluations and consultant studies to require a more thorough evaluation of "feasibility gaps," encourage development with fewer public dollars, and more rigorous analysis of future economic and fiscal benefits.

- Alternative project analyses
- Broader evaluation of "feasibility gaps": Currently accepted definition is the difference between the cost of a project (including developer fees) and the warranted value (what an investor would likely pay for the project upon completion).
- Alternative methods could mitigate or even eliminate the "feasibility gap."
- More rigorous analysis of future economic and fiscal benefits:
  - Including tax revenues, construction-related jobs, ongoing project-related employment, public improvements
  - Analysis of net new revenue does not account for the impact to existing revenue as a consequence of incentivized development, such as the loss of tax revenue from an older hotel when a new one develops nearby.

Conduct a Post-completion analysis to compare the actual versus the projected costs. Appraise the post-completion cost to determine whether incentive amounts should be reduced.

Prepare an Annual report to identify how goals, job creation, and tax revenue meet within the parameters claimed of current projects.

- Require submission by "project developer, or successor in interest," to assess performances of these Incentive Agreements.
- Based on the submitting reports by project developers/owners, the CLA, or some designated entity, should prepare an annual report identifying the actual outcomes

Strengthen Room Block Agreements for the CLA and CAO to work with the Los Angeles Tourism and Convention Board.

VI. Implement a Billboard Policy Program

After reviewing staff reports on the development of Citywide Sign Regulations (including billboards), the Commission sent a letter to the Planning and Land Use Management (PLUM) Committee, urging it to continue working on this issue to develop a billboard program that would be approved by the City Council.

BACKGROUND

The City Council has been discussing a billboard policy for a number of years. The primary issue has been how many and where as well as how to regulate electronic billboards. During the Commission's tenure, there were no changes to policy. The Planning and Land Use Management (PLUM) Committee continues to deliberate on the issue.

Recognizing that this is an important issue with long-term financial, legal and community impacts, the Commission reviewed the most recent planning reports on the various policy options and sent a letter to the PLUM Committee, encouraging it to continue to consider, deliberate and debate the best outcomes for the City as a whole and finalize a policy as soon as it is feasible.

CONSIDERATIONS

I. Vacant Property Tax

The Commission contracted Blue Sky Consulting Group (Blue Sky) to determine the feasibility and potential of implementing a vacant/underutilized property tax or fee in the City.

According to Blue Sky's report, the vacancy they tax proposed would initially generate an annual revenue of $128 million upon implementation; then, $100 million annually after full implementation. There would be an estimated $2.9 million start-up cost followed by an annual implementation cost of $5.6 million. Due to the fact that estimated revenue from a vacant property tax would be significant, the Commission recommends that Blue Sky's study be taken into consideration along with additional research to make a final determination on whether to place a vacant property tax on the ballot.

RESEARCH BACKGROUND, RECOMMENDATIONS AND CONSIDERATONS

BACKGROUND

Overview of Vacancy Taxes

Although many jurisdictions around the country have established fees or charges on vacant or blighted property in order to incentivize property maintenance and upkeep, vacancy taxes designed primarily to raise revenue and encourage property owners to use, occupy, rent or develop their property are a relatively new phenomenon.

The most prominent example of such a vacancy tax comes from the City of Vancouver in Canada. Vancouver began implementing an "Empty Homes Tax" on vacant residential units beginning in 2017. In addition to Vancouver, voters in Oakland, California, approved a vacancy tax in November 2018. The tax applies to residential structures (similar to Vancouver's tax) as well as to empty ground floor commercial space and vacant land. A property is deemed vacant if it is not used for at least 50 days during the year. The city has approved plans to levy the tax on properties determined to be vacant during calendar year 2019.

In addition to Vancouver, voters in Oakland, California, approved a vacancy tax in November 2018. The tax applies to residential structures (similar to Vancouver's tax) as well as to empty ground floor commercial space and vacant land. A property is deemed vacant if it is not used for at least 50 days during the year. The city has approved plans to levy the tax on properties determined to be vacant during calendar year 2019.

These two recent examples highlight the range of potential options for a vacancy tax. While Vancouver applies its tax solely to residential units, Oakland applies its tax to a full range of parcels. And, while Vancouver's tax applies only to properties vacant for at least six months, Oakland's tax applies to parcels vacant for more than ten months. Beyond the definition of the tax base and defined vacancy period, each jurisdiction has identified various exemptions, such as for properties actively under construction or where the imposition of the tax would produce a "demonstrable hardship" for the taxpayer. Development of any vacancy tax proposal for the City of Los Angeles would also need to include careful consideration of the various types of possible exemptions.

Beyond the structure of the tax itself, policy makers (and voters who will have the final say about whether the City imposes a vacancy tax) will need to consider the potential impacts of any vacancy tax program. Vacancy taxes can encourage property owners to rent unoccupied units or develop vacant land, thereby, increasing the available supply of housing and commercial space. The potential benefits of a vacancy tax (in addition to the revenue raised) must be weighed against the potential costs. Specifically, to the

extent properties are vacant or unoccupied due to economic conditions such as during a recession or as a result of circumstances beyond a property owner's control, or a delay in obtaining a business license or building permit, taxing vacancies could impose additional hardships on property owners actively, but unsuccessfully, seeking tenants or buyers for their properties.

Potential Vacancy Tax Revenue for the City of Los Angeles

The amount of revenue collected from a vacancy tax would depend on the definition of the tax base (i.e. whether it applies to residential units, commercial structures, vacant land, or all three), the tax rate (i.e. the amount each property owner would be asked to pay for a vacant or unoccupied parcel), and any exemptions specified.

A vacancy tax that covered residential units, ground floor commercial space, and vacant land could include exemptions for parcels under construction, those adjacent to another parcel owned by the same owner, or where the parcel could not be developed due to legal obstacles or an inability to get a building permit would generate approximately $128 million annually at a tax rate of $5,000 per unit or parcel (with larger parcels paying proportionately more). As properties are placed in use, become available for rent, or are developed, the amount of revenue collected from a vacancy tax would be expected to decline over time to approximately $100 million annually.

Administering a vacancy tax would require the City to hire additional staff and develop a system for verifying vacancies. These additional functions would cost approximately $5.6 million annually.

II. Adopt a Payment In Lieu Of Taxes (PILOT) Program

The Commission contracted with the consulting firm Blue Sky to analyze the feasibility and cost-benefit of implementing a Payment In Lieu of Taxes (PILOT) program, where large, property-owning nonprofits would voluntarily contribute some portion of what they would pay if they did not have tax-exempt status. Estimated revenue ranges from $2.5 million to $12.4 million per year based on various scenarios. This would equal about 0.02 percent to 0.12 percent of total projected City revenues for 2019-2020 and 0.1 percent to 0.6 percent of projected property tax revenues. The revenue generation is less substantial than other recommendations, especially when the cost of effort – both political will and staff time – are factored into the equation. However, it is a viable way to recoup taxpayer dollars and generate revenue.

RESEARCH BACKGROUND, RECOMMENDATIONS AND CONSIDERATONS

BACKGROUND

In California, nonprofit organizations qualify for favorable tax treatment of real property, including a tax exemption and reduction in the assessed value. A PILOT is a voluntary payment made by nonprofit organizations to local governments to compensate for the reduced property tax revenue from the tax-exempt ownership or use of real property. In Los Angeles, property tax revenue represents over 30 percent of the City's General Fund budget and funds crucial programs such as: police, fire and emergency medical services; transportation and traffic control; and infrastructure construction, maintenance and repair. PILOT payments would ensure that exempt nonprofits contribute to the cost of the City services that benefit their organizations and their stakeholders.

A PILOT program simply consists of requested voluntary contributions to a municipality from selected nonprofit organizations. Although requesting PILOT payments from affordable housing developments is explicitly prohibited by state law, there are no other statutory prohibitions on establishing a PILOT program. And, although a requested PILOT payment is based on the amount of a nonprofit's property tax bill, any amounts requested are not property tax payments; as such, the program can be implemented by the City of Los Angeles directly and need not be run through the county assessor's office (although publicly available assessed value data would be required).

In 2012, the most recent year for which national data are available, approximately 800 localities received PILOT payments totaling about $110 million. Most revenue is concentrated in a few cities and is paid by a few large nonprofits. Boston has the oldest and largest PILOT program in the country, collecting about $34 million in 2018.

PILOTs are typically justified based on the fact that nonprofits benefit from public services and impose costs on host cities for those services. In addition, interest in PILOTs may reflect a shift in public attitudes regarding what constitutes a charitable mission and whether nonprofits provide direct benefits to residents of their host cities. On the other hand, nonprofit organizations have argued that government grants nonprofits a tax exemption because they work for the public good and give up their rights to profit, privacy, and political activism. The Commission contracted with Blue Sky Consulting to assess the feasibility of a PILOT program in Los Angeles.

The study found that 4,746 parcels are fully or partially exempt from property taxes. The exempt assessed value of these parcels is $17.24 billion, which is about 2.7 percent of the $630 billion in the total assessed value of property in the City of Los

Angeles. If these parcels paid property tax in the same way as non- exempt parcels, about $172 million would be collected, of which about 26 percent, or $45 million, would go to the City of Los Angeles. However, review of other programs found that negotiations with large nonprofits in other cities result in only a portion of the estimated full tax actually being paid.

Property tax exemption data for the City of Los Angeles shows that most of the exempt property, by assessed value, is concentrated in a small number of organizations. If, following Boston's example, Los Angeles were to use a $15 million assessed value threshold for including nonprofit organizations in the PILOT program, 96 organizations representing 84 percent of the total assessed value of exempt organizations would be included in the program.

Most PILOT programs ask for a contribution that is substantially less than the amount that these organizations would pay if they were not exempt from property taxes. This reflects a recognition that these exempt organizations provide important services for the local community (and the reality that most organizations would be unlikely to look favorably on a request to pay the full amount of taxes they would owe without their property tax exemption).

One important factor in successful PILOTs is the emphasis on partnership rather than confrontation, between the city and its nonprofits, which includes the possibility of providing community services rather than cash payments. PILOT programs that have been more confrontational have also been less successful. Further, full transparency is necessary to maintain the support of a PILOT by the nonprofits.

A PILOT program can provide modest additions to municipal revenues by encouraging voluntary financial contributions from large nonprofits. Because participation is voluntary, the most challenging part of a PILOT program is the political process of gaining support from key stakeholders. City leaders need to be supportive of and engaged in the PILOT development process in order to lay the groundwork for a program that will provide an ongoing revenue stream over the long term, while maintaining and enhancing collaborative relationships between the City and its major nonprofits. However, once a PILOT program structure is agreed upon and enacted, the program is relatively straightforward to administer.

III. Increase Property Taxes from Privately-owned Golf Courses

Taxpayers carry a greater tax burden due to the forgone tax revenue by the "Bob Hope Exemption" - a property tax exemption passed as Proposition 6 in 1964 that prevents using surrounding property values as comparable land uses, thus reducing all golf course assessments. The general public is not allowed to use these golf courses or their amenities. At the Commission's request, Blue Sky added an analysis of the challenges involved with changing this exemption.

Addressing this problem requires a change in the State Constitution. While daunting, the Commission recommends consideration and further exploration by interested parties: The City, the Coalition of City Unions and/or concerned community organizations.

One option for the City is to estimate what golf courses' property taxes would be if Proposition 6 had not been adopted and ask them to pay a percentage of this amount, thus creating a PILOT program for increasing property taxes from non-exempt private institutions.

BACKGROUND

Private, nonprofit golf courses in California are not exempt from property taxes. However, Proposition 6 (1960) amended the California Constitution to require that county assessors assess the value of private, nonprofit golf course properties based only on their value when used as a golf course rather than nearby properties. This resulted in golf courses having much lower assessed values per acre than surrounding land used for housing or commercial buildings. Over time, the assessed values of nonprofit golf courses, therefore, did not increase along with the value of the surrounding land. As a result, private golf courses in the City of Los Angeles have assessed values per acre that are 1.0 percent to 46 percent of the average assessed value per acre for other properties in their zip codes. Property taxes were further kept very low through Proposition 13 (1978) which reduced property taxes to what they were in 1975 and allowed increases of only 2.0 percent per year.

The total assessed value of the dozen private golf courses in the City of Los Angeles is $257 million, which generates about $680,000 per year in property tax revenue for the City. If golf courses were assessed and paid property taxes at the average rate per acre in their zip codes, these values would be, respectively, $2.7 billion and $7.1 million. However, changing assessment practices for nonprofit golf courses would require amending California's Constitution.

The City could explore requesting voluntary payments from golf courses in addition to the property taxes they already pay. The City could estimate what golf courses' property taxes would be if Proposition 6 had not been adopted and ask them to pay a percentage, or all, of this amount.

The "split roll" property tax initiative measure that may be on the ballot in 2020 would treat golf courses as commercial property that would be subject to reassessment. However, they would still be assessed only for their value as golf courses.

"Bob Hope" Proposition 6 (1960)

Golf courses pay lower property taxes due to the adoption of "Bob Hope" Proposition 6 (amending the California Constitution) in 1960, which exempted private golf courses from the "highest and best use" standard of property tax—ultimately lowering the value at which officials were allowed to assess these golf courses especially those located in the City of Los Angeles, one of the most expensive and densely populated cities.

Proposition 13 (1978)

In 1978, Proposition 13 (Prop 13) limited the property tax rate to one percent of a property's sale price and limited increases in assessed values to two percent or less until that property is re-sold or changes more than 50 percent of its ownership.

Country Club Loophole Regarding Proposition 13

In 2010, the Los Angeles County Assessor requested advice from the California Board of Equalization about whether changes of membership in a golf club constituted changes in ownership. The California Board of Equalization stated that country clubs have not changed hands if there are no transfers where more than 50 percent of ownership transferred to one member; individual changes and transfers in membership are not a change of ownership on their own. Therefore, even if membership turnover has exceeded 50 percent over time, it has not triggered reassessment.

The forgone tax revenue by this property tax loophole exercised by country clubs provides no public benefit because the general public is not allowed to use these golf courses or their other amenities. In order to alleviate this burden, the City can potentially request payments in lieu of taxes from these golf courses.

IV. Change Composition of the Los Angeles County Assessment Appeals Board

Although many appeals for property tax reassessment are valid, the City loses revenue each year from property tax appeals to the Los Angeles County Assessment Appeals Board from: 1) claims that could possibly be denied because they are frivolous; and 2) the current structure/composition of the Board of Appeals members.

The Commission urges consideration by the City, the Coalition of City Unions and/or community organizations to support the implementation of: 1) a hearing attendance confirmation program; 2) an assessment appeal filing fee; and 3) changes in the structure of the Board of Assessment Appeals from part-time volunteers to full-time, independent administrative hearing officers. The third recommendation requires a change in state legislation.

BACKGROUND

County Assessor Jeffrey Prang made a presentation to the Commission outlining the challenges of the assessment appeals process and where a loss of revenue could potentially be prevented. The presentation stated that between $20 million and $25 million in property tax revenues are lost due to approved assessment appeals. In 2016 to 2017, more appeals were filed for the City of Los Angeles than in all of Orange County. Los Angeles County received three times as many appeals as any other county in California.

The Assessment Appeals Board is a body, independent of the Assessor's Office, where taxpayers can appeal the Assessor's valuations. The taxpayer must always pay taxes first then file an appeal. If the taxpayer is successful in the appeal, then he or she will receive a refund with interest. The Appeals Board's decision can be appealed in Superior Court. Currently, there is a large backlog of assessment appeals. Mass filings by tax agents and no-shows for hearings leads to a loss of revenue from the additional costs, including interest to taxpayers with successful appeals.

RESEARCH BACKGROUND, RECOMMENDATIONS AND CONSIDERATONS

Assessor Prang reported on three solutions and alternatives: (1) implement a hearing attendance confirmation program, (2) implement an assessment appeal filing fee and (3) enhance professional standards for board members and hearing officers. Raising the professional standards for board members and hearing officers would result in more equitable case outcomes. This would reduce the amount of unwarranted reductions, which, in turn, would likely decrease the amount refunded.

According to Assessor Prang, as the backlog in the appeals process is reduced, there may be an initial increase in the number of refunds issued due to the acceleration in case resolution. However, improved efficiency would lower overall, long-term costs by reducing the amount of interest to be paid on refunds for cases that go unresolved for several years. An estimation of the impact is not feasible.

CONCLUSION

The City of Los Angeles and the Coalition of City Unions developed the Commission on Revenue Generation to research new and innovative sources of funds to maximize revenue to the City's general and special funds, as well as to identify potential areas of savings to ensure equity in the City budget for under-served communities and a high quality of life in our neighborhoods.

The Commission concludes that the six recommendations and four considerations outlined in this report are viable options for the City of Los Angeles to realize substantial funds from untapped revenue, along with savings that can be redirected. The recommendations and considerations are based on sound and verified research. We urge the Mayor, the City Council, the Coalition and other interested parties to use this report as a blueprint for revenue generation.