

CITY OF LOS ANGELES

CALIFORNIA

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December 15, 2011

Office of the City Administrative Officer
Request for Bids for Economic Analysis and Fiscal Impact
of the Proposed Reduction and/or Elimination of the City's Gross Receipts Tax

Deadline: January 4, 2012 at 3:00 PM California Time

The Office of the City Administrative Officer (CAO) requests bids for an economist or team of economists to perform an Economic and Fiscal Impact Analysis (Analysis) of the proposed elimination of the City's gross receipts tax (GRT) discussed in multiple documents referenced in this request. The Analysis will also include a fiscal and economic analysis of the data provided by the CAO and the Chief Legislative Analyst (CLA) in addition to other specific requests described below.

The City imposes a tax on businesses located or doing business within the City. The City's business tax is based on gross receipts; it is not a net income or payroll tax. The applicable tax rate varies from \$1.01 per \$1,000 to \$5.07 per \$1,000 of gross receipts depending on which classifications are applicable to each business. Business tax reform measures implemented to date include a 15 percent tax rate reduction, a small business exemption, a start-up incentive, a bad debt deduction, entertainment industry tax relief, tax simplification through consolidation of business tax classes, internet tax relief and a film production tax credit. The 2011-12 GRT revenue estimate includes \$15.2 million from new economic growth within the City. After adjusting for the film production tax credit, this is four percent above estimated 2010-11 renewal revenue (reference: Report to the City of Los Angeles on Potential Revisions to the Business Tax dated August 3, 2011 by Charles Swenson).

The elimination of the GRT is envisioned to necessitate development of annual revenue benchmarks that will determine if the tax reduction has been measurably positive in order to assist the Mayor and Council in deciding whether or not to continue the reductions and to what degree. A component of the Analysis should be whether the elimination or reduction of the GRT should occur on a phased-in basis, and if so, over what time period. In FY 2011-12, the GRT is budgeted at \$439 million which is approximately 10 percent of the City's General Fund revenues and six percent of the total budget.

The purpose of the requested Analysis is to provide information to the Mayor and City Council to enable the City to make an informed determination regarding the reformation of the City's GRT. The economic impacts described in the Analysis will be evaluated by the City Council during the 2012-13 budget deliberations which will begin in April 2012.

Please provide the following information within five pages, single spaced, 12-font, 1-inch margins:

1. Your firm's experience highlighting:

- Preparation of Fiscal and Economic Impact Studies relative to tax-related issues such as elimination of business tax, implementing tax reduction on a phased-in basis and/or assessing the effect of tax reduction on a local government's general fund.
- Presentations of your findings to elected officials and dissemination of public information for review and comment.
- Ability to produce Fiscal and Economic Impact Studies with transparency and independence, especially regarding the GRT stakeholders.

2. Description of what your report or deliverables will include, including achievement timeframes.
3. Fixed fee, staff and schedule. The proposal should identify the Project Manager, the names of the staff who will be involved and their hourly rates. The final price and schedule for the Analysis will be negotiated by the City and the selected firm or firms prior to the execution of an agreement. Completion of the final product by March 23, 2012 is ideal so that findings can be discussed in conjunction with the development of the City's Fiscal Year 2012-13 Budget.
4. Description of the data to be collected, proposed methods of analysis and how the data will be reported.
5. Resources required from the City.
6. Cover transmittal letter signed by an officer or other person empowered to commit the proposer to the terms and conditions of the proposal.

When responding to the bid, and as part of your final report, your firm should review available documents related to the GRT including, but not limited to, the following legislation and reports:

- Evaluation of Alternatives to the City's Gross Receipts Business Tax, dated January 14, 2004 and prepared by MBIA MuniServices Company et al, located on the world wide web at:
http://www.muniservices.com/consulting/la_final_Evaluation_Report_January_15.pdf
- CAO/CLA report dated November 7, 2011, Council File 09-1914-S8, located on the world wide web at:
http://clkrep.lacity.org/onlinedocs/2009/09-1914-s8_rpt_11-08-11.pdf
- Relevant Council Motions discussing the elimination and/or reduction of the GRT and BTAC, including Council Files 10-1048 and 10-0994.
- Report of Business Tax Advisory Committee (BTAC) Recommending How to Eliminate Gross Receipts Business Tax dated September 14, 2011, located on the world wide web at:
http://finance.lacity.org/form/BTAC_Final_Report_on_Phasing_Out_Gross_Receipts_Tax-2.pdf
- Report to the City of Los Angeles on Potential Revisions to the Business Tax dated August 3, 2011 and written by Charles Swenson, CPA, PhD, located on the world wide web at:
http://clkrep.lacity.org/onlinedocs/2009/09-1914-s6_pc_8-3-11a.pdf
- City Budget Documents for 2010-11 located on the City's website at:
<http://mayor.lacity.org/Issues/BalancedBudget/BudgetArchive/index.htm>

Factors to be incorporated in the Analysis of the proposed Project should include, but are not limited to, the areas in the two lists below. The Primary Factors should be approximately 50 percent of the Analysis. The Secondary Factors are items to review or questions to consider and would constitute the remaining 50 percent of the Analysis. Your firm should add appropriate items based on your experience and what you believe will provide the best information to the City. Your response should indicate which of the following areas you can analyze within the timeframe referenced above:

Primary Factors

- Analysis of CAO/CLA Alternative Recommendations #1 and #2 in the CAO/CLA report dated November 7, 2011, Council File 09-1914-S8 and referenced above, which include permanently extending the business tax holiday and freezing the tax base for all existing businesses in the City to their current GRT level.
- Analysis of the BTAC's four-year phase-out plan and specific recommendations on alternatives to this timeline (see the September 14, 2011 BTAC report referenced above). Specifically, identify the point of economic equilibrium resulting in revenue maximization between GRT reduction and measurable economic impact of job creation.
- Given the significance of this revenue to the City's budget and the services the City provides, provide careful analysis of the economic impact of GRT elimination.
- Provide comment on GRT elimination and/or reformation on the City's ability to 1) attract new businesses to Los Angeles; 2) retain existing businesses that might otherwise leave Los Angeles; and 3) incentivize or encourage existing businesses to expand in Los Angeles. All three areas would be considered regarding their effect on creating jobs.

Secondary Factors

- Comment on the economic impact to businesses that can no longer claim a federal tax deduction due to elimination of the City's GRT and the larger economic impact to the City by shifting these tax dollars to the federal government from the City.
- Comment on whether the elimination of the GRT will stimulate economic growth, in what way and within what time frame, and whether this stimulus will lead to job creation and in what sectors.
- Analyze what other existing revenue sources are likely to grow through the elimination of the GRT tax, by how much, and within what time frame.
- Discuss how the City can responsibly plan for the reduction of the GRT and the growth of other revenue sources.
- Comment on whether the replacement of the GRT can be offset through increased revenue of other existing sources of income to the City, including, but not limited to, sales tax, secured and unsecured property taxes, utility tax, power revenue transfers, permits, licenses, and fees.
- Comment on whether limiting the GRT elimination to highly competitive and/or mobile sectors such as manufacturing, service and biotech would help stimulate job creation in those industry sectors.
- Provide information on how other jurisdictions have responsibly eliminated or substantially reduced a GRT or a business tax while balancing their respective budgets.

The selected economist or team of economists will also be expected to present their reports and deliverables to City Council, Mayor and other City officials. Resources for this activity should be included in the bid.

The selected economist or team of economists will be required to comply with the City's current Contractor Responsibility Ordinance and other City contracting requirements. In addition, the selected firm or firms will need to provide a copy of their Business Tax Registration Certificate (BTRC) from the City of Los Angeles Office of Finance.

Please note that the City does not pay for mileage, parking, travel, faxes, internal printing and copying or computer time, as these are considered by the City to be part of the normal cost of doing business.

The City will be choosing the economist or team of economists and reserves the right to make the selection with any configuration from the qualified list. The most qualified firm or firms will be chosen based on the proposal, the fixed fee submitted and the specific information provided. Each responsive proposal will be evaluated for negotiation and selection by the CAO in accordance with established City criteria.

A conference call for proposers will be held on Wednesday, December 21, 2011 at 10:00 AM PST. The phone number and access code will be e-mailed to all of the firms by Tuesday, December 20, 2011. In addition, the CAO will provide access to related documents at the OEA website: cao.lacity.org/oea. If firms have questions about the RFB, you may e-mail the questions to cao.oea@lacity.org. The questions and the responses will be posted at the OEA website. Please note that the CAO will be closed from Monday, December 26, 2011 through Monday, January 2, 2012.

All information is due by Wednesday, January 4, 2012 at 3:00 PM by e-mail and two hard copies delivered to our Office at 200 North Spring Street, Suite 1500, Los Angeles, 90012. Please send your response to Trina Unzicker and Madeleine Rackley at cao.oea@lacity.org. If you have any questions, please contact Trina Unzicker at (213) 978-7686 or Trina.Unzicker@lacity.org.

We look forward to hearing from you.