



Economic Alliance of the San Fernando Valley Information Summit 2002

The Cost of Doing Business in Los Angeles

Presented By:

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Cities, Taxes & Competition

- Economic Development programs have been the primary generator of taxes and jobs for cities since the passage of Propositions 13, 62, and 218
- Cities need a competitive tax schedule as part of a comprehensive Economic Development program



Revenue Bingo

**Prop 13
1978**

**Prop 62
1986**

**Prop 218
1996**

Rental Fees	Property Tax	Sales Tax
Bus. Lic. Utility, Hotel Taxes	Develop. Fees	Special Taxes
Assessments	Property Related Fees	Regulatory Fees

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Los Angeles County Transportation Commission v. Richmond (1982)

City and County of San Francisco v. Farrel (1982)

Rider v. County of San Diego (1991)

Santa Clara County Local Transportation Authority v. Guardino (1995)



Redondo Beach faces million shortfall

Prop. 218 credit ratings impact hits San Diego

California Group Plans Push for Bond-Limiting Measure

County facing fiscal choices

Respond to... quickly

Governments Grapple With Prop. 218 Tax Changes

Buena Park is facing a possible \$2 million deficit next year and council members are pondering various ways to address the problem.

Levies: As local officials begin to feel the measure's pinch, leaders are trying to figure out how to keep the complex...

FUNDING FOR BERKELEY PROJECTS FALLS THROUGH

Proposition 218 is doing a number on Berkeley's plans to fund projects that were tied to the million bond measure on November's ballot could now be because of the limitations imposed by Prop 218.

THE BOND BUYER California's New Tax Curbs Have Market Players Anxious

Inglewood still in hunt for arena

The Inglewood City Council has decided to ask voters to approve three taxes to help fund a \$250 million arena for the Lakers and Kings.

Voters no doubt will approve the measures by a heavy margin in the April 1 election.

'Right to Vote on Taxes Act' May Hurt California Localities

SOURCE: Interviews with city and county officials



Cities are Service Companies Trying to Improve Quality of Life

- City Councils spend most time focusing on providing services and responding to quality of life issues
- Cities pay for services with taxes & fee revenue

Since Prop's 13, 62, & 218 – Real estate projects have been the most consistent path to create new jobs and tax revenues



City Funding Choices

- Raise Taxes – election requiring constituent approval
- Get in the real estate business by enabling entitlement approvals and new projects (redevelopment and tax inducements)
- Be cost competitive – low costs support business retention and new business attraction which in turn generates jobs and taxes



Kosmont Cost of Doing Business Survey ® - 2002 Edition



- Database of Fees, Taxes, & Incentives
- Business License Fees
- Kosmont Cost Ratings
- Utility User Taxes
- Special Development Fees
- Economic Incentives
- Special Zones
- Transportation Amenities
- 200 cities nationwide



The Kosmont Cost Ratings

\$	Very Low Cost
\$\$	Low Cost
\$\$\$	Medium Cost
\$\$\$\$	High Cost

- Kosmont Cost Ratings provide a consistent means to compare costs in communities based on several local tax rates.
- Ratings give equal weight, with parity adjustments, to four locally imposed costs:
 1. Business Taxes
 2. Telephone Taxes
 3. Electric Taxes
 4. Property Taxes



City of Los Angeles

The City of Los Angeles has earned a
\$\$\$\$ HIGH COST Kosmont Cost
Rating – 8th consecutive year



City of Los Angeles

\$\$\$\$ High Cost Checklist

Complex “Gross Receipts” Business License Tax

Utility User Taxes

- Electric 12.5%
- Telephone 10.0%
- Cellular 10.0%
- Gas 10.0%

Parking Tax Rate (10.0%)

Transient Occupancy Tax Rate (14.0%)

“Special Development Fees” including:

- Traffic Impact/Improvement Fee
- Art in Public Places Fee
- Parkland In-Lieu Fee



The Big Picture

**How Does Los Angeles
Compare with Other Cities?**



Kosmont Cost Ratings: Major California Cities

\$\$\$\$

Los Angeles
San Francisco
Oakland

\$\$\$

San Bernardino
Pomona
Stockton
Modesto

\$\$

Sacramento
Long Beach
Torrance
Moreno Valley
Glendale
San Jose
Santa Ana
Riverside

\$

Oxnard
Chula Vista
Bakersfield
Oceanside
Irvine
San Diego
Ontario
Santa Clarita



Kosmont Cost Ratings: Select L.A. County Cities

\$\$\$\$

- Los Angeles
- Santa Monica
- Culver City
- Inglewood
- Compton

\$\$\$

- El Monte
- Pomona
- Pasadena

\$\$

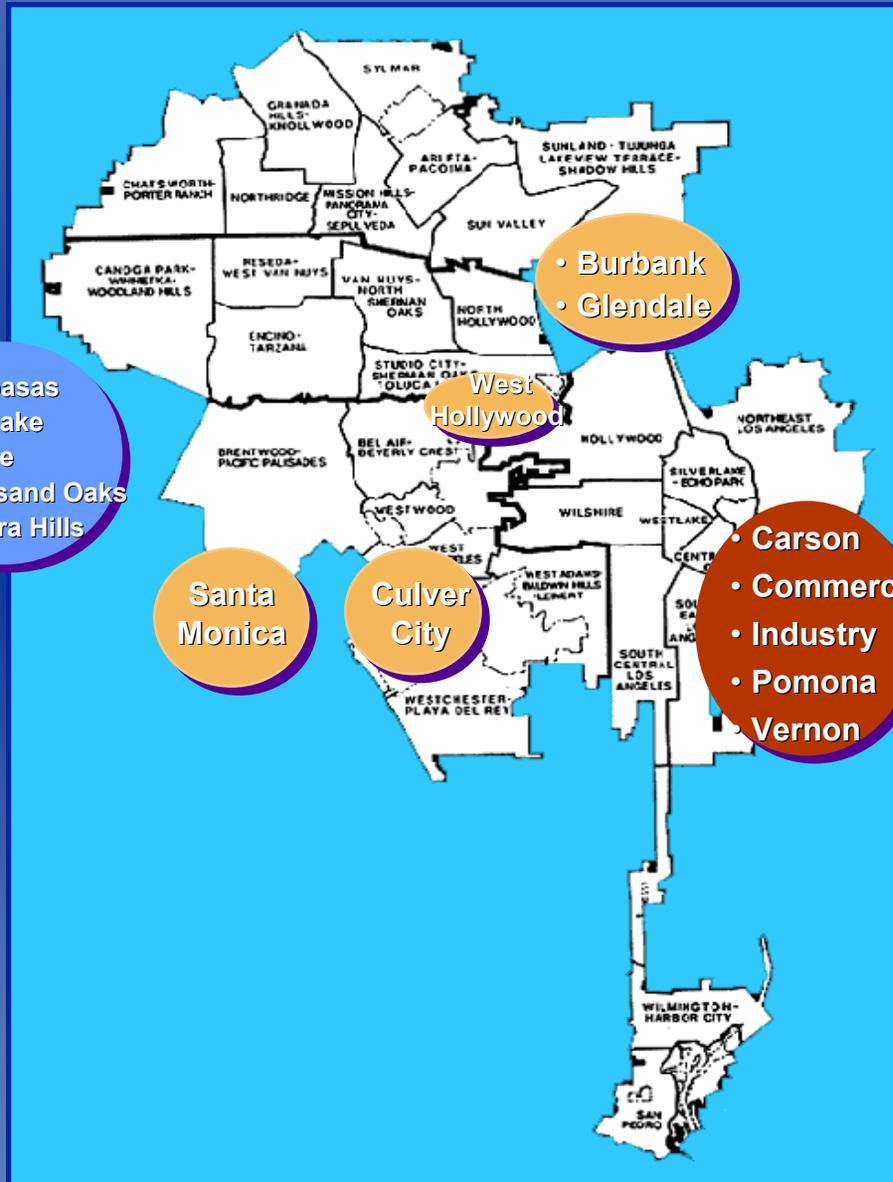
- Long Beach
- Calabasas
- Torrance
- Glendale
- Beverly Hills
- Downey
- San Fernando
- L.A. County

\$

- Palmdale
- W. Hollywood
- W. Covina
- Lancaster
- Carson
- South Gate
- Santa Clarita



Why is L.A. in Trouble?



Adjacent cities compete for both new and existing L.A. businesses in key industries such as health care, entertainment, manufacturing and distribution.



Adjacent Cities Comparison

Los Angeles: \$\$\$\$

Santa Monica	\$\$\$\$	Culver City	\$\$\$\$
Pomona	\$\$\$	Pasadena	\$\$\$
Industry	\$\$	Burbank	\$\$
Calabasas	\$\$	Glendale	\$\$
Commerce	\$	El Segundo	\$\$
Vernon	\$	San Fernando	\$
Agoura Hills	\$	Carson	\$
		Westlake Village	\$



Case Studies

Office Tenants' relocation decisions:

Case Study #1: 350,000 Square Foot Office (HMO)

Case Study #2: 20,000 Square Foot Office (Law Firm)



Case Study 1: HMO Relocation

Annual Occupancy Cost 350,000 SF Tenant				
Location	Real Estate Lease	Local Taxes	Total Cost	Index
Valencia – Santa Clarita	\$8,400,000	\$0	\$8,400,000	1.00
Burbank	\$10,794,000	\$221,000	\$11,015,000	1.29
Glendale	\$11,718,000	\$59,000	\$11,777,000	1.40
Warner Center	\$11,348,000	\$3,832,000	\$15,180,000	1.82
Ventura Blvd.	\$11,037,000	\$3,906,000	\$14,943,000	1.79
Universal City	\$10,626,000	\$3,823,000	\$14,449,000	1.73



Case Study 1: HMO Relocation

Comparison: Lease and Taxes (10 Yr.)

10 Year Occupancy Cost				
350,000 SF Tenant				
Location	Real Estate Lease	Local Taxes	Total Cost	Index
Valencia-Santa Clarita	\$84,000,000	\$0	\$84,000,000	1.00
Burbank	\$108,864,000	\$3,106,000	\$111,970,000	1.33
Glendale	\$119,028,000	\$1,240,000	\$120,268,000	1.43
Warner Center	\$114,962,000	\$45,077,000	\$160,040,000	1.91
Ventura Blvd.	\$112,594,000	\$45,928,000	\$158,521,000	1.89
Universal City	\$107,646,000	\$44,971,000	\$152,617,000	1.82



Case Study 2: 20,000 SF Office Tenant Relocation

Annual Occupancy Cost 20,000 SF Tenant				
Location	Real Estate Lease	Local Taxes	Total Cost	Index
Valencia- Santa Clarita	\$528,000	\$0	\$528,000	1.00
Burbank	\$617,000	\$13,000	\$630,000	1.20
Glendale	\$670,000	\$3,000	\$673,000	1.28
Warner Center	\$648,000	\$117,000	\$765,000	1.46
Ventura Blvd.	\$631,000	\$122,000	\$752,000	1.43
Universal City	\$607,000	\$117,000	\$724,000	1.38



Case Study 2: Office Relocation

Comparison: Lease & Taxes (10 Yr.)

10 Year Occupancy Cost 20,000 SF Tenant				
Location	Real Estate Lease	Local Taxes	Total Cost	Index
Valencia- Santa Clarita	\$5,280,000	\$0	\$5,280,000	1.00
Burbank	\$6,221,000	\$178,000	\$6,398,000	1.21
Glendale	\$6,802,000	\$71,000	\$6,872,000	1.30
Warner Center	\$6,569,000	\$1,407,000	\$7,976,000	1.51
Ventura Blvd.	\$6,434,000	\$1,455,000	\$7,889,000	1.49
Universal City	\$6,151,000	\$1,401,000	\$7,552,000	1.43



Making L.A. More Competitive

**Recast the Business
Tax Program**



Business Tax Advisory Committee (BTAC)

- September 1999 – Mayor Riordan commits to reforming business tax in Los Angeles and establishes BTAC
- BTAC is mandated with drafting alternatives to streamline Business Tax in Los Angeles



Business Tax Advisory Committee (BTAC)

- BTAC members are serving 5 year terms and are 2 ½ years through first term
- With only 2 ½ years remaining – BTAC is running out of time to reform business tax in Los Angeles
- Business community must support BTAC's efforts to get the Business Tax issue high on the City Council priority list



Three Business Tax Reform Proposals

V.I.C.A. – “Ax the Tax”

BTAC – Selective Tax Cuts

Kosmont – “Collect the Tax...Cut the Tax”



V.I.C.A. – Ax the Tax

- **Eliminate the Gross Receipts Tax** as the method the City collects taxes from businesses
- Consider alternative methods of taxing businesses in the City
- VICA has turned up the heat on business tax reform
- City Council not likely to accept loss of a \$350M revenue source



BTAC Recommendation – Selective Tax Reductions

- **Selective Tax Cuts** for businesses based on “Growth Industries”
- Elimination of double taxation
- Targets businesses most likely to relocate
- Selective reductions overlook businesses currently paying tax
- Difficult to predict growth industries



Kosmont Recommendation

“Chamber of Commerce Adopted”

Presented to VICA

1. Collect the Tax
2. Cut the Tax for all Businesses



Part I: Collect the Tax

- Amnesty Program completed in 2001 (yielded \$12-\$15 Million)
- City to aggressively pursue AB 63 tax collections - set aside in a tax reform account



Part II: Cut the Tax

Use New Revenues To:

- Reduce Taxes Across the Board for all Businesses
- Eliminate Double Taxation

All L.A. Businesses Pay High Taxes

Viabile Economic Development Strategy Should
Reduce All Business Taxes

Difficult to Predict Gazelles of the Future

Benefits all Businesses – Not a Select Few



L.A. Needs to Be Competitive

- Reduce Business Tax using “Found” Revenues
- Increase Revenue to Offset Reductions
- Vigorous AB 63 Enforcement to Improve Collections
- Simplify Paperwork to Improve Compliance
- Improve Online Internet Service

**Business Tax Cuts are Critical to
Making Los Angeles More
Business Friendly!**



L.A.'s Competitiveness Can Improve

An Across the Board Tax Cut Program:

- Straightforward and simple
- Sends the right message to ALL businesses
- Supports targeted economic incentives for the select industries we are trying to attract or retain
- Makes it harder for adjacent cities to “cherry pick” L.A.'s industries