



RON GALPERIN
CONTROLLER

August 19, 2015

Honorable Eric Garcetti, Mayor
Honorable Michael Feuer, City Attorney
Honorable Members of the Los Angeles City Council

Re: Smart Data Sharing: A Path To More Revenue

Taxes and fees collected by agencies of our county and state governments on the City's behalf account for 44% of the City's General Fund revenues.

For too long, the City has merely counted what it received from these agencies instead of looking critically at how much it *could* be receiving, then working with the other agencies to get better results. As a consequence, there have been lost opportunities to collect millions of dollars in tax and other revenues to fund services Angelenos depend upon.

Data sharing between the City, the County and the State would help all to take advantage of the revolution in big data--and to identify avoiders of state and local taxes.

While it is not possible to forecast with certainty how much in additional tax revenues increased data sharing will yield the City, our auditors predict that the various efforts we are advocating could eventually add \$20 million per year or more to City revenues. That is no small sum. It is, to pick one example, roughly five times what the City spends to counsel and shelter victims of the scourge of domestic violence, which is the subject of another audit forthcoming from my office. While there are certain practical and legal complexities, we believe that, with the right strategies, we can achieve what we are recommending.

In this audit, we delve deeply into esoteric areas of local finance to recommend:

- **GROSS RECEIPTS** -- That the City, which collects a gross receipts tax on business conducted in Los Angeles, share its information on gross receipts with the County Assessor, who is responsible for collecting taxes on business equipment. The idea is

that the Assessor could use the City's information to identify businesses that report significant revenues to the City but report to the County little or no business equipment or assets, on which the law says they should be paying business personal property taxes. We currently get more than \$30 million from business personal property taxes annually.

- **ASSESSMENTS** -- That the City provide financial information to the Assessor that the City already collects on more than 500 larger hotels within City limits. Information on gross receipts and hotel occupancy would better equip the County Assessor to calculate how much income a hotel generates—which is one method appraisers use to figure out the taxable value of hotel buildings and land.
- **REASSESSMENTS** -- That other County agencies, such as the County Recorder and County Department of Public Health shall promptly notify the City and the County Assessor when they get information that property owners have died. With lawful exceptions, including deaths that result in inheritances by a spouse, deaths of property owners result in property transfers that should trigger substantially higher reassessments under Proposition 13, resulting in greater property tax revenues for the City.
- **SALES AND USE TAXES** -- That the City exchange information with the State Board of Equalization, which oversees sales tax collections—some of which are then distributed to the City. Information in City files on business' gross receipts will help the State agency identify businesses that report high volumes of sales to the City but lower volumes to sales tax authorities. Conversely, information in the State agency's files will help the City identify businesses that report high sales to the State but low gross receipts to the City. The City took a partial step in this direction three months ago while this audit was under way. While the City may be contemplating an eventual end to the business gross receipts tax, so long as it is still in place, it should be enforced fairly and equitably.
- **REAL PROPERTY TRANSFER TAXES** -- That the City consider ways to improve collection of its transfer tax of \$4.50 per \$1,000 of the sales price of real property. Collection gets tricky when property is transferred within a legal entity and no recordation of the transfer takes place. Further, the City, unlike several others in California, deducts the value of a property's liens and encumbrances from its sales price in calculating how much in real property transfer taxes is owed. The City should consider removing the latter provision from its code.

The fact that pooling data leads to more tax revenues grew out of work I did prior to becoming City Controller, when I chaired the lay-led Commission on Revenue Efficiency (CORE). I would like to thank my then-fellow commissioners for laying the groundwork for this new report and its recommendations which call for what I believe are smart uses of big data.

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I want to thank the Honorable Jeffrey Prang, Assessor for the County of Los Angeles, the County Recorder's office, the State Board of Equalization and the State Franchise Tax Board which have expressed their support for data sharing. This presents an opportunity for the City, County and State governments to work together to benefit the residents and businesses of Los Angeles.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ron Galperin", written in a cursive style.

RON GALPERIN
City Controller