

ANTOINETTE CHRISTOVALE

DIRECTOR of FINANCE
CITY TREASURER

CITY OF LOS ANGELES
CALIFORNIA



ERIC GARCETTI
MAYOR

OFFICE OF FINANCE
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September 18, 2015

Honorable Members of the City Council
Room 395, City Hall
200 North Spring Street
Los Angeles, California 90012

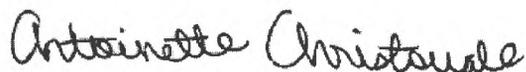
**Re: Office of Finance's Response to Controller's Audit on Smart Data Sharing
Council File # 15-0983**

Dear Honorable Members of the City Council:

Please see attached response from the Office of Finance concerning the Controller's report entitled "Smart Data Sharing: A Path to More Revenue."

If you or your staff have any questions, please contact Ed Cabrera, Assistant Director, at (213) 978-1516 or via e-mail at ed.cabrera@lacity.org.

Sincerely,



Antoinette Christovale, CPA
Director of Finance/City Treasurer

Attachment

cc: Honorable Ron Galperin, City Controller
Honorable Michael Feuer, City Attorney
Ana Guerrero, Mayor's Chief of Staff
Matt Szabo, Deputy Mayor, Budget and Innovation
Independent City Auditors
Sharon Tso, Chief Legislative Analyst
Farid Saffar, Director of Auditing

Report Title:
 Report Issuance Date:
 Department responsible for Implementation:
 Reported Status Date:

Smart Data Sharing: A Path to More
 19-Aug-15
Office of Finance
 18-Sep-15

Finding Number	Summary Description of Finding	Rec. No.	Recommendation	DEPARTMENT REPORTED INFORMATION		
				Current Status	Basis for Status	Target Date for Implementation
Section I	Business Personal Property Tax		The Office of Finance should:			
1	Sharing City business registration tax certificate and County property tax assessment records and data between the County and City would help ensure that all 380,416 businesses registered with both entities are being properly, accurately, and efficiently assessed for business personal property taxes.	1.1	Collaborate with the County Assessor's Office to determine the data each agency has and what would be useful to each other in the interest of identifying businesses that have not filed property statements with the County Assessor's Office and that have unpaid business personal property tax liabilities.	PI	Finance has posted its full database of non-confidential Business Tax information for registered businesses on the City's OpenData website and will collaborate with the County Assessor's Office on usage. In addition, Finance has and continues to utilize County Assessor secured and unsecured property databases in the administration of various City tax compliance programs and will follow up with the Assessor on any other available databases.	April 1, 2016
		1.2	Conduct an internal analysis of its business registration tax certificate systems and data to determine how it could best extract and assemble data for sharing with the County Assessor.	PI	Same as 1.1.	April 1, 2016
		1.3	Collaborate with the County Assessor's Office about the City utilizing the County's unique identification system in its taxpayer databases, or both parties transitioning to a more universal standard such as the Internal Revenue Services' electronic identification numbers (EIN).	PI	Finance intends to contact the County Assessor's Office to obtain further information that will allow Finance to determine the practical, cost and resource feasibility of implementing this recommendation. If deemed feasible, implementation will likely be subject to the approval of a funding budget package by City policy-makers.	June 30, 2016
		1.4	Request that the City Attorney prepare a formal agreement for the City to provide its full business certificate data, including gross receipts, to the County Assessor's Office in exchange for access to the County Assessor's Office's Business Property Abstracts.	PI/D	Finance intends to contact the County Assessor's Office and the City Attorney to discuss the possibility of entering into a reciprocal data-sharing agreement with the County Assessor. However, Finance disagrees with the recommendation to include confidential gross receipts information in any prospective agreement due to the confidentiality provisions of LAMC Sec. 21.17.	June 30, 2016

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		1.5	Collaborate with the County Assessor's Office about establishing a taskforce to improve assessment and revenue collection. Consider opportunities to partner with third-parties such as the California Franchise Tax Board and the California Secretary of State's Universal Commercial Code (UCC) filings system.	PI	Finance intends to contact the County Assessor's Office to explore interest in establishing a taskforce to improve assessment and revenue collection. Finance has a long-standing reciprocal data-sharing agreement with the State Franchise Tax Board and has entered into a similar reciprocal data-sharing agreement with the State Board of Equalization. In addition, Finance employs California Secretary of State data, along with other governmental databases, in its various tax enforcement and discovery programs.	June 30, 2016
		1.6	Make formal arrangements for the City to provide digital and physical copies of the County Assessor's Business Property Statement, BOE-571-L which requires details on a business's equipment and supplies if their aggregate costs are \$100,000 or more, to all business certificate applicants in-person, by mail and online.	PI	Finance has prepared and issues an information handout listing other governmental entities and identifying potential filing obligations that may apply to businesses seeking a City Business Tax Registration Certificate. Additional steps planned include: providing the same information handout to users of Finance's on-line E-registration services and enhancing Finance's website link to other governmental agencies.	January 1, 2016
		1.7	Communicate with the County Assessor's Office about any additional ways the City can communicate with businesses and residents to encourage further compliance and subsequent e-filing of the Business Personal Property Statements.	PI	Finance intends to contact the County Assessor's Office to discuss options that may be available to enhance outreach for both the City and the County Assessor, within the data constraints of Finance's LATAX taxpayer database of registered businesses.	April 1, 2016
			The Office of Finance should:			
2	Some businesses in the City of Los Angeles appear to have inaccurate and potentially under-valued business personal property in the County Assessor's records.	2.1	Collaborate with the County Assessor's Office to determine the data each entity has and what would be useful to each other in the interest of identifying businesses whose assessable business property values are likely underreported.	PI	Same as 1.1.	April 1, 2016

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		2.2	Prepare an internal analysis of how Office of Finance business tax registration certificate records could be analyzed by industry, area and other characteristics to help identify businesses with likely under-reported business personal property valuations.	D	The Controller's Office is the City department with responsibility to monitor secured and unsecured property tax revenue received from the County Assessor's Office. Finance does not have any relevant knowledge or experience with regards to analysis of secured or unsecured property tax issues. However, Finance is amenable to providing non-confidential Business Tax Registration Certificate data to Controller staff to facilitate their fulfillment of this recommendation.	January 1, 2016
		2.3	In collaboration with the County Assessor's Office, determine other City, County and other government entities with whom data sharing opportunities exist in the interest of improved assessment and collection of property taxes.	D	Finance defers to the Controller's Office regarding fulfillment of this recommendation as the Controller's Office is the City department with responsibility to monitor secured and unsecured property tax revenue received from the County Assessor's Office.	N/A
Section II	Opportunities for Improving Real Property Tax Assessments and Collections		The City Office of Finance and the City Attorney should:			
3	The City does not share data with the County Assessor that would facilitate accurate valuation of major hotels, and the County of Los Angeles Recorder does not share sufficient data with the Assessor that would result in accurate and timely reassessment of certain properties that may reduce property tax revenue to the City and other County taxing entities.	3.1	Facilitate entering in to a Memorandum of Understanding with the County Assessor's Office to: 1) track transient occupancy tax receipts by hotel and furnish this information monthly to the County Assessor's Office, and 2) supply annual gross receipts as reported for City business tax purposes to the Assessor's Office upon receipt.	D	Finance does not concur with this recommendation due to the fact that gross receipts information is confidential and precluded from release to third parties under LAMC Sec. 21.17, with certain exceptions.	N/A

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		3.2	Amend the existing real property transfer tax agreement between the City and County Recorder, or enter into a new agreement, with the County Recorder to require the Recorder to furnish access to complete images of death certificates of City property owners as needed by the County Assessor's Office to fulfill its duty to reassess property effective on the date of the owner's death.	PI	Finance intends to confer with the City Attorney to determine the legal feasibility of this recommendation and, if feasible, to determine next steps.	June 30, 2016
		3.3	Approach the County Public Health Department for access to death information records for purposes of reassessment of property upon the death of the property owner if such an arrangement cannot be made with the County Recorder.	D	Finance defers to the Controller's Office regarding fulfillment of this recommendation as the Controller's Office is the City department with responsibility to monitor secured and unsecured property tax revenue received from the County Assessor's Office.	N/A
Section III	Real Property (Documentary) Transfer Tax		The Office of Finance should confer with the City Attorney to plan to:			
4	The City's Real Property Transfer Tax receipts are estimated to be \$4.5 million less annually as a result of 1) the City exempting liens and encumbrances from its tax, 2) the lack of verification of these liens and encumbrances and other exemptions - by the County Recorder, and 3) case law that makes certain changes in real property ownership tax exempt. In addition, the City loses an additional estimated \$7.3 million in annual property tax receipts due to those same tax-exempt changes in property transfers.	4.1	Amend the City's tax collection agreement with the County Recorder Division, and, if necessary, the City of Los Angeles Municipal Ordinance Code, to require the Recorder to obtain documentation of all instances in which City Real Property Transfer Tax is calculated on an amount less than the full value of the property transferred (due to claimed exemptions) and to furnish this information to the Office of Finance on at least a monthly basis.	PI	Finance intends to confer with the City Attorney to determine the legal feasibility of this recommendation and, if feasible, to determine next steps. Furthermore, if the recommendation is deemed feasible, fulfillment may require additional Finance staffing and training resources to appropriately analyze data.	June 30, 2016

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		4.2	Work with the County Recorder's Office to ensure that protocols are in place to ensure the office's compliance with the provision in its agreement with the City requiring the Recorder's Office to notify the City of instances of non-payment of City transfer tax receipts.	PI	Finance intends to confer with the City Attorney to determine the legal feasibility of this recommendation and, if feasible, to determine next steps. Furthermore, if the recommendation is deemed feasible, fulfillment may require additional Finance staffing and training resources to appropriately analyze data. In addition, Finance will need to obtain legal direction from the City Attorney with regards to Finance's legal authority to take collection action independent of the Recorder's Office.	June 30, 2016
		4.3	Collaborate with the Recorder's Office to ensure its compliance with Section 6 of the agreement between the Recorder and the City that requires that the Office provide details on the real estate transfer tax amounts collected by the Office on behalf of the City.	PI	Finance will need to seek direction from the City Attorney and City policy-makers as this recommendation involves governmental relations between the City and the County.	June 30, 2016
Section IV	Sales and Use Taxes		The Mayor and the Office of Finance should:			
5	Though the City has programs in place to help identify and recover sales and use tax revenue misallocated to other jurisdictions and to curb taxpayer noncompliance, the City still forgoes an estimated \$17.2 to \$19.2 million of annual sales and use tax revenue due to noncompliance. For the County, the annual loss is estimated to be \$5.75 million. A newly announced partnership between the City and State should help close this tax sales and use tax gap.	5.1	Collaborate with the State Board of Equalization as part of its newly signed agreement to identify the data each agency has and what would be useful to each other in the interest of identifying businesses that have not registered with the City and that are under-reporting or not filing sales and use tax to the State.	I	Finance has already taken action to implement this recommendation in the implementation of Finance's reciprocal data-sharing agreement entered into with the State Board of Equalization in April 2015.	N/A

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		5.2	Conduct an internal analysis of the City's business tax registration certificate systems and data to determine how it could best extract and assemble data for sharing with the State Board of Equalization.	I	Finance has already taken action to implement this recommendation in the implementation of Finance's reciprocal data-sharing agreement entered into with the State Board of Equalization in April 2015.	N/A
		5.3	Request that the City Attorney prepare an amendment to the City's Agreement for State Administration of Local Sales and Use Taxes to allow for data exchange between the Office of Finance and the State Board of Equalization.	I	Finance has already taken action to implement this recommendation in the implementation of Finance's reciprocal data-sharing agreement entered into with the State Board of Equalization in April 2015.	N/A
			The Office of Finance should:			
		5.4	Provide digital and physical copies of the BOE's publication 107, "Do You Need a California Seller's Permit?" to all business registration tax certificate applicants.	PI	Finance has prepared and issues an information handout listing other governmental entities and identifying potential filing obligations that may apply to businesses seeking a City Business Tax Registration Certificate. Additional steps planned include: providing the same information handout to users of Finance's on-line E-registration services and enhancing Finance's website link to other governmental agencies.	January 1, 2016
		5.5	Add the following State-approved language to its physical and digital business certificate application forms: "Sales or use tax may apply to your business activities. You may seek written advice regarding the application of tax to your particular business by writing to the nearest BOE office."	PI	Finance has prepared and issues an information handout listing other governmental entities and identifying potential filing obligations that may apply to businesses seeking a City Business Tax Registration Certificate. Additional steps planned include: providing the same information handout to users of Finance's on-line E-registration services and enhancing Finance's website link to other governmental agencies.	January 1, 2016

I - Implemented
 PI - Partially Implemented or In Progress
 NI - Not Implemented
 D - Disagree