FORM GEN. 160 (REV. 6-80)

CITY OF LOS ANGELES

INTER-DEPARTMENTAL CORRESPONDENCE

Date: August 5, 2025

To: The Honorable Members of City Council of the City of Los Angeles

From: Diana Mangioglu, City Treasurer / Director of Finance
Office of Finance

Subject: **COUNCIL FILE 25-0029 RELATIVE TO POTENTIAL OPTIONS FOR INCREASING GENERAL FUND TAX REVENUE**

In response to Motion (25-0029), the Office of Finance hereby presents this discussion of a variety of potential options for increasing General Fund Tax revenue. The options discussed herein should be considered as a potential menu for discussion and, should the Council choose, a starting point for further study and elaboration on the items chosen to move forward. Inclusion on this list should not be considered as a recommendation for the Council to advance any or all of these options.

Each of the below options would necessarily have to be placed before the voters for approval. As presented, all of these would be categorized as General Taxes, and would require greater than 50% approval. However, should the Council choose to modify the structure or application of the taxes, or restrict the usage of the revenue, the revised proposal could be categorized as a Special Tax, requiring two-thirds approval.

There are eight options discussed herein: three would be modifications to existing City taxes while five would be entirely new taxes. Generally, modifying existing taxes would be easier, both legally and administratively, because the legal basis and the collection and enforcement infrastructure have already been established. New taxes would likely require administrative expenditures which could expend some of the new revenue that they would generate. They may also face additional legal challenges that existing tax proposals might not face.

Also for general consideration is an understanding of the people or industries that would pay the tax, as well as the potential to advance (or hinder) the City's policy goals.

Four of these proposals would directly impact the tourist economy, a sector which generates a sizable portion of the City's general fund revenue but which has struggled to recover from the pandemic. While tourism certainly generates costs such as waste management and law enforcement to go along with the revenues it brings, the impact on this critical part of the economy should not be ignored.

Three of the proposals have associated environmental impacts and may offer the potential dual benefit of discouraging activities with negative environmental consequences, while generating revenue to offset the impacts created by those who continue to engage in such activities.

Many of these proposals could exacerbate inflationary pressures already putting a strain on the City's residents and economy. While this may or may not be a strong argument against the proposals individually, the impact on inflation should be considered as part of the discussions on each of these proposals.

Amendments to Existing City Taxes

Transient Occupancy Tax

The Transient Occupancy Tax (TOT) is an existing tax on the right to occupy space for lodging. This includes both hotel rooms in the common sense and other spaces with similar usage, such as short-term rentals, hostels, etc. The tax rate is currently 14% of the paid total, including all fees and charges that are associated with occupancy of the space.

As discussed in the report from this Office dated April 10, 2025 associated with Council File 24-1456, there is an existing, robust proposal aimed at increasing TOT revenue by increasing the tax rate from 14% to 16%, codifying the taxability of online travel companies' (OTCs) markups and other charges, and various other changes. These changes would be expected to generate an estimated $55 million in additional annual revenue.

For further discussion of this proposal, please see the Office of Finance report.

Parking Occupancy Tax

The Parking Occupancy Tax (POT) is a tax on the usage of space for parking vehicles. The tax is applied across all paid parking except for parking associated with a person's residence and public parking meters. The tax is 10% of the total parking charge. In fiscal year 24-25, POT generated approximately $140 million.

Many cities across California and the nation have parking taxes. Most local jurisdictions apply the same 10% rate that Los Angeles does. Notably, a number of the California cities that are often compared to Los Angeles have higher parking tax rates, including San Diego (10.5%), Anaheim (15%), and San Francisco (25%).

There is no intrinsic limitation on the specifics of a proposal to increase the parking tax. For sake of calculation and scale, a 5% increase, which would raise the rate from 10%

to 15%, would generate around $70 million annually. Smaller increases would generate less revenue, and larger increases would generate more, though at a certain point the increase would begin to have a noticeable effect on parking preferences and utility.

POT is a good example of a tax with a clear policy nexus. The act of parking is associated with automobile driving, which has numerous environmental impacts such as air and noise pollution. Parking is also generally considered an inefficient land use, as many parking lots are vacant for a significant amount of time. Thus, an increase to the cost of parking is predicted to disincentivize this activity, leading some people who would otherwise drive and park to find other options such as public transportation or shared rides. However, these environmental benefits may be minimized in the event that shared ride platforms such as Uber, Lyft, and Waymo picked up this demand.

POT is paid by a mix of residents and visitors. Visitors to the City often pay POT for parking at hotels, so increasing this tax would impact the price of travelling to Los Angeles. However, the increase would also be felt by workers who drive to work and park in public parking, as well as local residents and tourists who attend sports and entertainment events.

<u>Taxation of Unpermitted Cannabis Businesses</u>

Currently, the City's business tax provisions relating to cannabis businesses are very clear that only businesses permitted by the Department of Cannabis Regulation (DCR) are eligible for business tax registration certificates (BTRCs) and are subject to business tax. This language was deliberately included in Measure M which was adopted by the voters in 2017.

However, as the cannabis industry has grown and changed since that time, this language has established a two-tier system which provides financial incentives for businesses who don't comply with the City's requirements to neither follow DCR permitting requirements nor pay business tax.

A simple solution to the taxation part of this problem is to eliminate the requirement that cannabis businesses are required to have DCR permits in order to register for a BTRC. This would bring the cannabis industry into conformity with every other industry in the City, where permitting and/or legal status is irrelevant when it comes to tax requirements.

The proposal in this area would be to eliminate the language in the tax code limiting the provisions to only "permitted businesses". This change would extend the requirements to the entire industry and allow the Office of Finance to issue BTRCS to, and collect taxes from, unpermitted businesses. This would also enable the Office of Finance to pursue delinquent debt from unpermitted businesses that do not register and pay taxes timely.

Due to the nature of the cannabis industry and the current tax structure, it is difficult to come up with accurate revenue estimates for this change. The number of unpermitted cannabis businesses is unknown and constantly changing. Compliance would also be a challenge. It is unclear whether or not these businesses would act in accordance with new tax laws, as they have already shown their willingness to operate outside of the law.

Making some general assumptions, an order of magnitude revenue estimate may roughly be $60-$80 million annually. This is based on market data that seems to indicate that the illegal market is roughly the same size as the legal market, and assumes that gross receipts are generally similar per business but compliance is lower. However, these are all assumptions – the actual figure could be much less if compliance is lower or if the unpermitted businesses generate significantly less gross receipts. There is also the potential that, due to this change or other changes, the industry balance would shift more in favor of legal businesses, shrinking the market share (and tax revenue) of the illegal market. This shift would also result in additional revenue from legal businesses.

New Taxes

<u>Olympic Ticket Tax</u>

Los Angeles will host the world for the Olympic and Paralympic Games in Summer, 2028. Hundreds of thousands of visitors from around the world will travel to the City to attend sporting events at iconic City venues such as the Coliseum, Crypto.com Arena, and Dodger Stadium. While the host City agreement projects that the Games will generate more revenue than costs, the City is required to provide a financial backstop should the need arise. These impacts, in infrastructure, disruption, and potentially direct financial need, provide the conceptual basis for taxing the events themselves.

In 1984, the last time Los Angeles hosted the Games, the City implemented an across-the-board tax of 6% on ticket sales. This produced $8.5 million in General Fund revenue on total ticket sales of $140 million.

Estimating revenues from a similar tax on the 2028 Games is complicated by changes in tax law and the ticket sales industry. To ensure equal application of the tax, the clearest model seems to be a User's Tax, comparable to that on parking, hotels, and electricity. Under this model the tax would be applied to the purchaser of tickets and the seller would be obligated to collect the tax and remit it to the City. The need for a physical nexus to establish tax liability also limits this tax model, as the City would only be able to tax tickets for events physically within the City. Events in Inglewood, Long Beach or any other jurisdiction would not be subject to the tax. With this model and all its limitations, a 6% ticket tax could generate around $100 million in one-time revenue, assuming approximately $1.7 billion in ticket sales, of which roughly two thirds are generated by events within the City.

There is a mixed history of Olympic host cities seeking to generate local revenue from the Games. To our knowledge, LA84 is the only example of a specific ticket tax. However, in 2024 Paris significantly increased their hotel tax in an effort to generate additional revenue from Olympic attendees.

While there is some concern that a tax on Olympic tickets would have a negative impact on ticket sales, sales for major sporting events have historically been resistant to increases in price. Attendance at the Games is an expensive proposition for most of the world, which limits access to those with ample financial resources. This clientele would likely not be deterred by a slight increase in ticket cost. The tax would, however, present an additional cost for current City residents wanting to attend the Games.

Vacancy Tax

A vacancy tax is a tax on properties that are held unused, with the idea of creating a greater financial incentive for owners to find occupants for their properties. The most prominent example of this in California is in Oakland, which applies a flat tax of $3,000 or $6,000 per vacant parcel depending on the nature of the land use. This tax is added onto the owner's annual property tax bill. "Vacant" is generally defined by Oakland as in use less than 50 days in a calendar year, though there are a number of details and exceptions.

Given the lack of data available on the number of properties in Los Angeles that would qualify as vacant for purposes of taxation, it is very difficult to make revenue projections. Oakland's tax, which has applied to between 1,500 and 2,000 parcels annually, has been generating about $5.5 million in revenue per year. Los Angeles consists of just under 800,000 parcels, which is about eight times as many as Oakland. Making a general assumption that all the other definitions, exemptions, and variables are roughly equivalent, this tax could generate around $45 million annually.

There are a number of considerations, both positive and negative, regarding a vacancy tax proposal. These are discussed and evaluated in detail in the June 2020 report from the Chief Legislative Analyst presented as part of Council File 19-0623. In addition to the positive aspects of generating revenue from properties intentionally held vacant, that report also notes concerns about impacts on overall property values and valuable open space. In addition to those concerns, administration of a vacancy tax would require a relatively large ongoing effort from the City. Setting up registration and exemption systems, enforcement, discovery, appeals would likely eat up at least 10% of the new revenue.

There are many different models, exemptions, exceptions, definitions of “vacant”, and definitions of “property” for discussion in this context. For example, the study cited in the CLA report modeled a tax of $5,000 per vacant unit or vacant parcel. This use of "unit" instead of "parcel" as the object of taxation greatly increased the number of applicable “vacancies”, and led to a revenue estimate of $128 million annually.

Should the Council wish to pursue a vacancy tax ballot measure, the Housing Department may be able to provide a report with recommendations for a more detailed proposal relative to residential properties for consideration. For consideration relative to taxing vacant commercial properties, this Office would likely work with the Departments of Building and Safety and City Planning on a detailed proposal.

<u>Transportation for Hire/Shared Ride Tax</u>

The concept of taxing transportation for hire and shared rides is based on the reality that these actions generate use of the City’s streets, increasing the need for maintenance and impacting traffic and the environment. While these activities are currently taxed through the City’s business tax (LAMC Section 21.194), the amount generated is quite small, as these activities are taxed via individual drivers at a rate of $1.06 per day. In addition, Section 21.194 excludes taxis operating under a City taxicab franchise. The model of taxation discussed here is a user’s tax which would be added onto the cost of these rides, whether they be in franchised taxicabs or shared ride services like Uber or Lyft.

This tax could be a flat fee per ride or a percentage of the amount paid, or a combination of the two. It could also vary based on a variety of factors.

A strong example of how this would work is San Francisco, which applies a tax between 1.5% and 3.25% depending on the specifics of the ride. Seattle ($0.42) and Chicago ($0.53 to $1.75) both have flat rate per ride tax models. Seattle’s tax applies only to trips originating in the City, while Chicago’s tax applies to all trips in the City but varies based on origin, destination, number of passengers, and time of day.

The primary benefit of a tax on shared rides, in addition to generating an additional revenue stream, would be an incentive to choose alternative transportation, such as public transit. This may potentially reduce traffic and the negative environmental impact of the additional miles driven.

As a user’s tax, collecting and remitting the tax would become an obligation of the business handling the customer charges. Thus, for rides with Uber, for example, Uber would be responsible for calculating the appropriate tax, adding it to the customer charge, and then remitting that tax to the City. Consistent with the City’s other user’s taxes, this would be required on a monthly basis.

Estimating potential revenues for this new tax would depend on a number of factors and gathering of industry data on the number of hired rides occurring in the City. A specific rate model would need to be decided on, as well as details about exemptions, exclusions, or discounts. For rough comparison, San Francisco generated approximately $32 million from their tax in 2024, and Seattle generates just under $6 million annually. Chicago includes their version of this tax in their Ground Transportation Tax, which covers both shared ride apps, taxis, and other similar services and includes what Los Angeles collects through business tax. The combined Ground Transportation Tax generates an estimated $200 million annually.

Should the Council be interested in pursuing a new tax on these services, the Department of Transportation and the Office of Finance should be instructed to return a more detailed proposal and analysis for consideration.

<u>Retail Delivery Tax</u>

Somewhat similar to the transportation for hire tax concept, a tax on deliveries would be a reflection of the increased road usage resulting from the retail delivery model. The simplest taxation model for implementation of this idea would be a basic flat tax on each purchase for delivery to the consumer.

Both the states of Colorado and Minnesota currently impose a tax on delivery or retail goods to consumers. Colorado's tax is $0.29 per purchase and Minnesota's is $0.50. Both are designed as taxes on the retailer, not the consumer, but the concept is the same. Colorado generates about $90 million annually, while Minnesota generates around $60 million. While the details are different between the two states, both taxes contain minimum thresholds, exclusions, and exemptions. Using these models as basic guides and extrapolating based on population, a retail delivery tax of around $1 per delivery could generate between $150 and $200 million annually for Los Angeles.

For consideration as a part of this proposal, it could be reasonable to extend application of this tax beyond standard retail goods to include third party food delivery, and even potentially delivery of cannabis products. This would be a decision point for the City in designing the proposal, but would reflect that these deliveries generate similar street use, and would generate significant additional revenue.

Depending on how it was specifically written and what exemptions and exclusions were included, this tax could exacerbate inflationary pressures on City residents. Additionally new administrative and enforcement functions would need to be developed, though the existing business tax framework would probably provide a good starting point.

Path Forward

Should the Council wish to move forward with some of these proposals, it is recommended that separate instructions be provided to the necessary offices for each proposal. The Office of Finance is prepared to work toward further development of any of these ideas over the coming months, though significant support will be needed from the City Attorney, CAO, CLA, and other departments such as Housing (for the Vacancy Tax) and Transportation (for the Transportation for Hire Tax). Because each would need to be considered and presented separately, individual Council Files would seem to be the best path forward.

Moving any of these proposals forward to the ballot would be a significant effort with not insignificant costs, and these efforts and costs would be wasted if the proposals were to be rejected by the voters. For this reason, it is recommended that the Council focus on no more than two or three of these potential measures.

This Office welcomes the opportunity to discuss these proposals with the Council as we collectively seek to identify additional revenue streams to support the needs of the City in the years to come.

If you have any additional questions, please contact Diana Mangioglu, City Treasurer / Director of Finance at diana.mangioglu@lacity.org.