



Local Revenue Campaign

Backgrounder

July 21, 2014

SCOPE's Values and Vision

As many cities across the country are recouping the job and revenue losses from the great recession, Los Angeles residents are still facing the reality of a slow recovery, a precarious budget, and limited city services. The economic downturn has been hard on everyone, but low-income families and communities have been hit the hardest. The increasing concentration of wealth and power among corporations and the rich allowed them to weather the recession, but families already struggling to pay bills and keep a roof over their heads were not so lucky. Some people lost everything—their job, their house, and their life savings—due to the decades of Wall Street greed and government deregulation that led to the collapse of the housing market and the economic crash.

SCOPE believes that the public sector can—and should—play an important role to spur economic growth and create jobs through strategic investment of public resources. When people are working, they are paying taxes and spending money: two key factors the economy needs to recover and grow. But due to ongoing budget deficits, government has little capacity to invest in programs and services that help improve the quality of life in our communities. At a time when the need is the greatest, public investment has disappeared and support services have been slashed to the bone.

But the lack of public investment is not just an economic problem; it's also political. We see the same anti-government, anti-tax dynamics at work here in Los Angeles as we see in statewide debate and across the country. This is a major hurdle because, in California, voters must approve revenue-raising measures to establish, extend, or increase taxes at the local level.¹ What's more, public sector workers face ongoing attacks that threaten to lower wages, benefits and pensions despite concessions made by unions in recent years to help do their part to address the budget crisis.

SCOPE believes that everyone deserves and has a right to an economically secure quality of life that includes access to employment with family-supporting wages, benefits, career pathways, training, and supportive services. We also believe everyone should have access to good quality, affordable, and equitable housing, health care, education, and other fundamental services. To achieve this, government should be responsive and accountable to the needs of low-income communities and communities of color that have disproportionately low access to these fundamental services.

We believe that our communities should have the power, voice, and influence to shape decisions that impact their lives by helping to identify problems and develop solutions. That's why SCOPE has launched a campaign to maintain and build a healthy public sector by winning and maintaining revenue at the local level. To ensure that local government has the ability to invest in our communities, SCOPE is committed to:

- Building a citywide, multi-sector coalition that lifts up the leadership and expertise from community, labor, social service providers and other key sectors;
- Shifting public consciousness about government and taxes in a progressive direction;
- Exercising electoral power in the local arena by motivating thousands of low-income voters of color to participate in city elections; and
- Winning policies to generate new revenue and protect existing revenue while ensuring strong government accountability and oversight.

This campaign comes at a significant moment for Los Angeles. In 2013, voters elected a new Mayor, Controller and many new City Council members. These transitions in political leadership will be both a challenge and an opportunity for our work, furthering the need to deepen collaborative efforts across issues and sectors.

Background: Budgets & Taxes

On the most basic level, a government budget is a plan for allocating expected revenue to services and programs over the course of a time period, often one year. More importantly, a budget reflects the values and priorities of decision makers.

Each level of government generally provides and funds different services and programs (see Figure 1). However, many key programs are funded through a mix of federal, state and local dollars. This helps to establish minimum service levels and ensure equitable access to similar services and programs in different states and regions, regardless of the income of residents. The downside of mixed funding is that it is hard to know who is ultimately responsible for maintaining these services and programs.

Figure 1: Who Pays for What?

Level of Government	Examples of Services & Programs	Examples of Revenue Sources
Federal	Social Security, Defense	Payroll Tax, Income Tax, Corporate Tax
State	Universities, Prisons, Parks, Highways	Sales Tax, Income Tax, Business Tax, Property Tax, Licenses & Fees
Local (City, County or District)	Police & Fire Protection, Libraries, Local Roads	Sales Tax, Business Tax, Property Tax, Licenses & Fees
Mixed (Federal, State and/or Local)	Health & Welfare, Education, Public Safety, Transportation, Housing	Payroll Tax, Income Tax, Corporate Tax, Property Tax

Taxes are a major source of revenue for government services and programs, many of which are vitally important to families in South Los Angeles. While some see taxes as merely a burden, taxes allow governments to pool and collectively invest in communities by building and maintaining infrastructure and providing services such as parks and libraries to improve the quality of all of our lives. Taxes ensure that kids get an education, that people who can't afford healthcare can still go the doctor when they're sick, and that the buses keep running. That's why it's important for our families to have a voice in how government spends and generates tax dollars. Amidst the current anti-government, anti-tax environment we have to fight to maintain what we have while working towards the larger goal of making our communities better places to live, work and play.

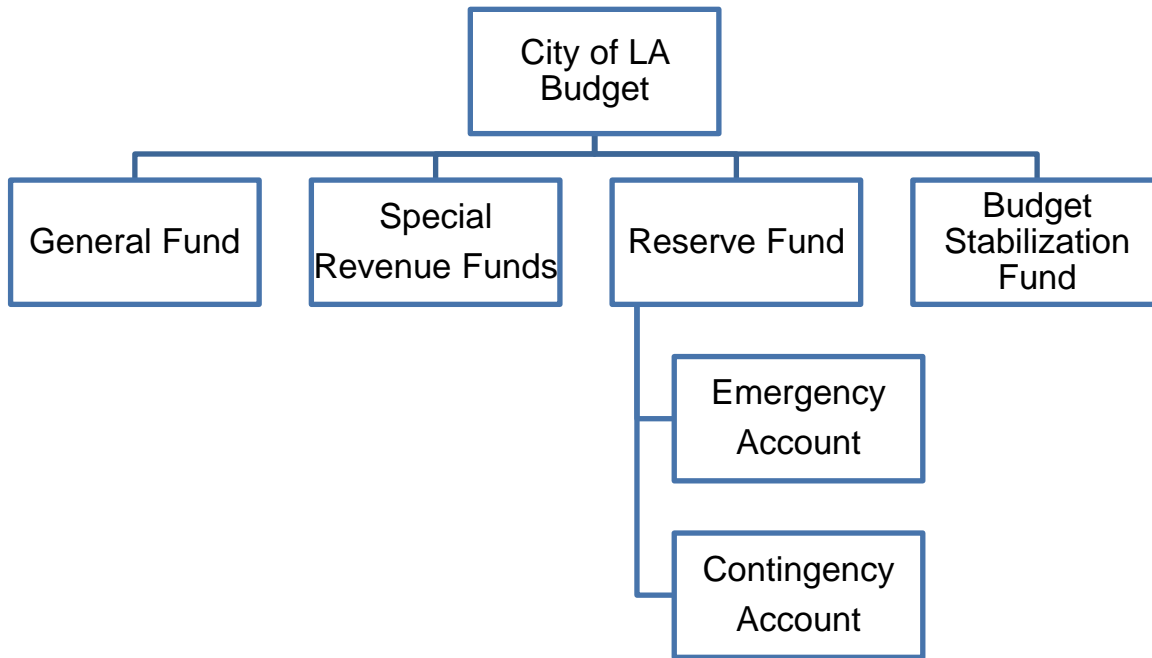
When it comes to budgets, size matters but so does local control. That's why the budget of the City of Los Angeles is vitally important to our families and communities, despite being smaller in dollars than the budgets of the county, state and federal governments. Ongoing state budget cuts in California have decimated education, social services and healthcare, and reduced the funding funneled down into cities. In response to the state budget deficit, local Community Redevelopment Agencies (CRAs) were dismantled, removing a critical revenue stream for local job creation and affordable housing.

At the same time, federal budget reductions have eliminated critical dollars passed through the city budget, for things like job training and community development, and additional cuts are a constant threat. Given the uncertainty of future federal and state funding, there is an increasing urgency for cities to be proactive by generating local revenue that can maintain services and begin to restore programs cuts.

City of Los Angeles Budget

The City of Los Angeles fiscal year (FY) begins July 1st and ends June 30th.² For FY 2013-14, the city's operating budget was \$7.69 billion. This includes the \$4.87 billion in the General Fund and dozens of special revenue funds totaling \$2.29 billion.³ Figure 2 shows the various funds that comprise the city budget.

Figure 2: City of Los Angeles Budget Structure



The Reserve Fund contains unrestricted cash set aside for emergencies and unforeseen spending. Rating agencies use this balance to evaluate the city’s financial position for lending purposes. At the outset of FY 2012-13, the Reserve Fund balance equaled \$210.5 million or 4.6 percent of the General Fund. By the close of the fiscal year, the Reserve Fund increased to \$326.6 million or 6.7 percent of the General Fund receipts, a seven-year high that meets the city’s five percent Reserve Fund Policy goal.⁴

In March 2011, voters passed Measure P (with 66 percent voter approval) to establish two sub-accounts in the Reserve Fund.⁵ The Emergency Account must equal at least 2.75 percent of General Fund revenue each year. To access this money, the Mayor and two-thirds of the City Council must vote to find "urgent economic necessity" and funds must be repaid the following year. The Contingency Account is for the remaining money in the Reserve Fund, to be used for unanticipated expenditures and revenue shortfalls. Measure P also created a Budget Stabilization Fund to prevent overspending during prosperous years and set aside resources to help maintain service levels during lean years.

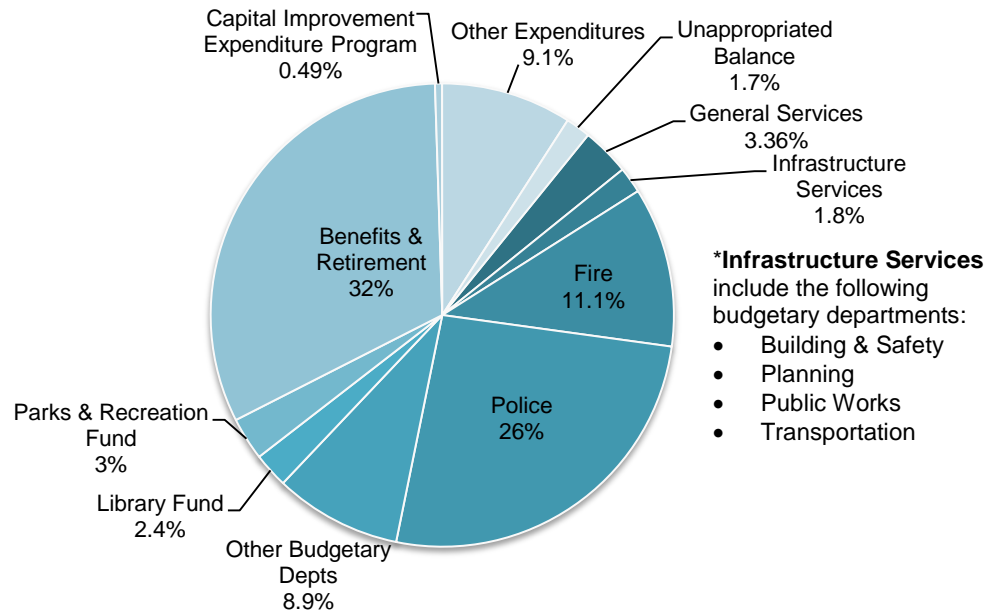
Three proprietary departments are not included in the city’s budget: the Los Angeles Department of Water and Power (DWP), the Los Angeles World Airports (LAWA) and the Port of Los Angeles (also known as the Harbor Department). These departments are self-governing and control their own funds raised directly through revenue sources related to their work.

- DWP is the largest municipal utility in the nation, servicing 1.4 million electric customers and 640,000 water customers. In FY 2013-14, the LADWP managed a \$7.2 billion budget.
- LAWA owns and operates three airports: LAX, Ontario, and Van Nuys. In FY 2013-14, LAWA managed a \$5.8 billion budget.
- The Port generates the highest shipping container volume and cargo value in North America. In FY 2013-14, the Port managed a \$1.07 billion budget.

City of Los Angeles General Fund

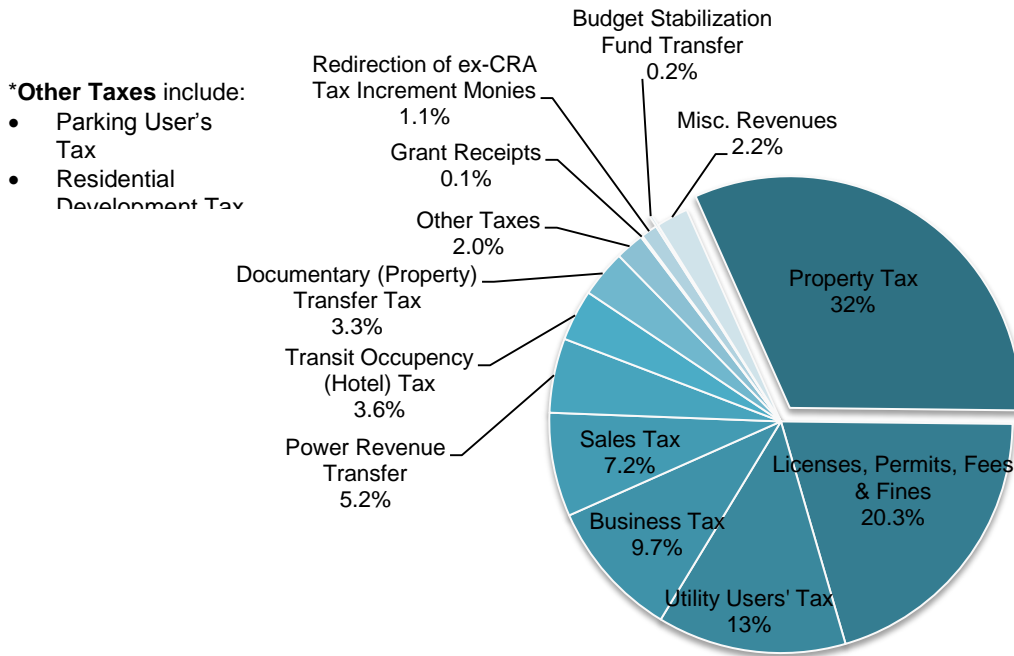
Figures 3 and 4 break down major expenditures and revenue sources, respectively, for the General Fund in FY 2013-14. Figure 3 shows that over 37 percent of the General Fund went to public safety: Police (26 percent) and Fire (11 percent). Other key spending categories include Health Care & Workers' Compensation, Infrastructure, General Services, Parks and Recreation, and Libraries. The Other Expenditures category includes utility costs for city buildings, capital finance administration, payments for liability claims against the city and other miscellaneous expenses.

Figure 3: FY 2013-14 General Fund Expenditures \$4.866B⁶



General Fund revenue comes from a variety of sources including property tax, fees and fines, utility tax, business tax and sales tax.

Figure 4: FY 2013-14 General Fund Revenue \$4.866B⁷



City of Los Angeles "Ecosystem"

Figure 5: City Government, Stakeholders, Services & Programs

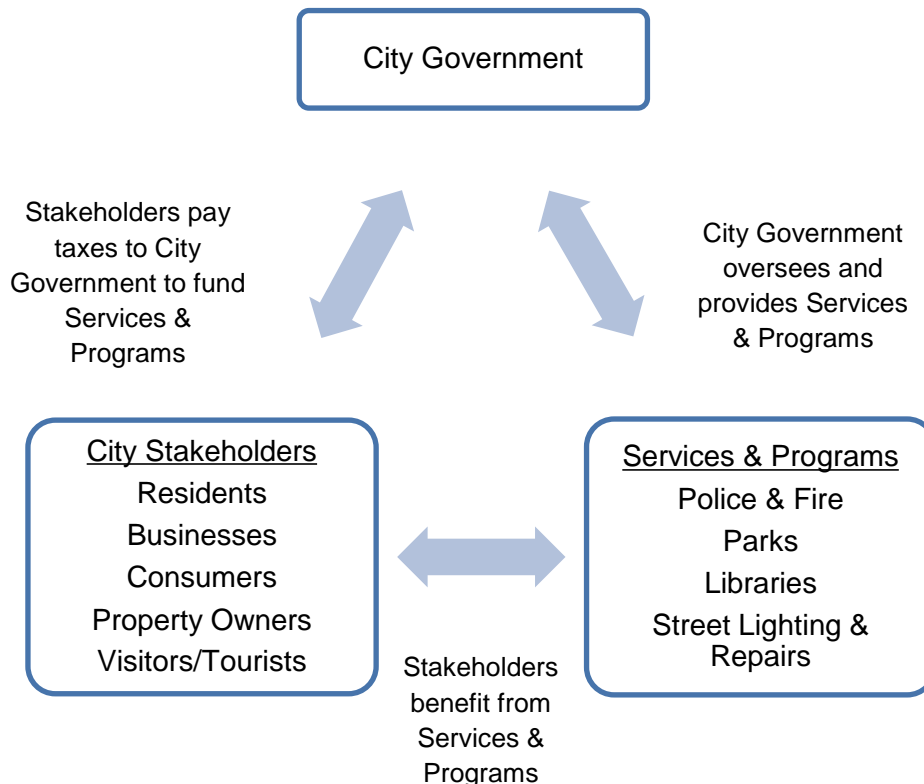


Figure 5 provides a snapshot of who pays for city services in Los Angeles. City government oversees and provides services and programs such as the examples listed above, but it relies on tax revenue to fund this work. Because these services and programs benefit many different types of stakeholders, the city collects different types of taxes to help ensure that everyone pays their fair share (see Figure 6). If the overall system is functional and fair, we will have plenty of resources to fund services and programs. Unfortunately, this is not the case.

Figure 6: Stakeholders & Taxes

Type of Stakeholder	Example of Tax Paid
Residents	Utility Tax (Electricity, Gas, Water, Phone)
Businesses	Business Tax
Consumers	Sales Tax
Property Owners	Property Tax, Parcel Tax, Documentary Transfer Tax
Visitors/Tourists	Hotel Tax, Parking Tax

Budget Deficits

Governments at every level are facing significant budget deficits, which occur when costs exceed revenues. This can happen for many reasons. The media often focuses on stories of corruption or mismanagement which, in some cases may be a major factor. Strong government accountability and oversight are critical to the fiscal health of cities. But in most cases, there are larger political and economic forces at work.

The first force, unsurprisingly, is the economy. Since the housing market crash and economic downturn, people are buying and selling fewer items so revenue streams such as property and sales tax have declined compared to what would be generated in a better economic climate. But even before the downturn, the increasingly inequitable distribution of wealth and income played a major role in suppressing the amount of tax revenue available for public services and investments.

In 2011, the Occupy movement focused attention on what researchers and policy makers had been observing for decades: increasing concentration of income and wealth in the U.S. among the top of the distribution. From the end of World War II into the 1970s, the U.S. experienced significant economic growth and broadly shared prosperity. Beginning in the 1970s, economic growth slowed and the income gap widened. Income growth for working and middle class households slowed sharply, while incomes at the top continued to grow strongly.⁸

The second major factor contributing to ongoing budget deficits across California is that local governments lack the legal authority to establish, extend or increase taxes. California voters have approved ballot measures that, among other things, require local voters to approve revenue-raising measures:

- **Prop 13** (1978): Constrains local government ability to raise property tax rates and requires two-thirds voter approval for special taxes allocated for a specific purpose.
- **Prop 62** (1984): Requires majority voter approval for general taxes in general law cities and counties.
- **Prop 218** (1996): Requires majority voter approval for general taxes in charter cities and counties.
- **Prop 26** (2010): Requires two-thirds voter approval for fees and charges.

Even if elected officials had the legal power to raise taxes, it is very unlikely they would muster the political will to do so in the current climate. Over the past few decades, the right-wing has been very successful in shifting public consciousness towards anti-government, anti-tax views. This has played out across the country in extreme ways, such as the rise of the Tea Party, and through attacks on public sector workers. Here in California, organizations like the Howard Jarvis Taxpayers Association continue to amplify the same anti-government, anti-tax rhetoric that helped to pass Proposition 13 in 1978.

In extreme cases, budget deficits can lead to bankruptcy. Bankruptcy is a last resort with major immediate consequences for a city, including losing access to credit markets and incurring high costs for staff time and legal fees. Long-term bankruptcy has a stigma that can discourage business activity and real estate sales, two important sources of revenue for a city.

Vallejo, Stockton and San Bernardino are recent examples of California cities that have declared bankruptcy for protection from creditors, such as bond-owners and employees, while figuring out a plan of action to pay debts. Because revenue trickles in over the course of the year, cities often borrow money through municipal bonds or other financial instruments to help pay the upfront costs of infrastructure projects or general operations. Bankruptcy can invalidate existing collective bargaining agreements and force unions to renegotiate vested and other contractual benefits.

Cities can also declare a fiscal emergency in order to authorize reduced work hours and other cuts. The Mayor and City Council in Los Angeles have quietly done this in recent years to have the option to furlough employees in order to address the budget deficit.

But even without declarations of bankruptcy or fiscal emergency, the factors outlined above—the economy, the law, and the lack of political will among the electorate—demonstrate that cities often choose to address deficits through spending cuts that reduce services.

City of Los Angeles Budget Deficit

In recent years the City of Los Angeles has faced a structural budget deficit, meaning that expenditures have outpaced revenues even as the economy improves. For FY 2013-14, the city projected a \$216 million deficit, and projected it to rise to \$242 million for FY 2014-15. Based on the 2013-14 adopted budget, the four-year outlook presented ongoing structural deficits, but declining each year thereafter. The City Administrative Officer estimates that as a part of the economic recovery, property tax revenue will grow countywide by 2.9% and that major tax category receipts will continue to expand.⁹

The ongoing budget deficits are due, in part, to the economic downturn and slow recovery but also a result of city leaders relying on short-term solutions to long-term problems. Since 2007, the Mayor and City Council have cut each city department by at least 20 percent.¹⁰ The direct result has been cuts to library hours, tree trimming and many other services provided by the city. City leaders have also relied on one-time revenue proposals (e.g. selling off assets such as parking structures), one-time transfer proposals (e.g. raiding special funds), and regressive revenue solutions (e.g. raising parking citation rates) to address the deficit. Figure 7 breaks down how the city proposed to address the FY 2014-15 deficit.¹¹

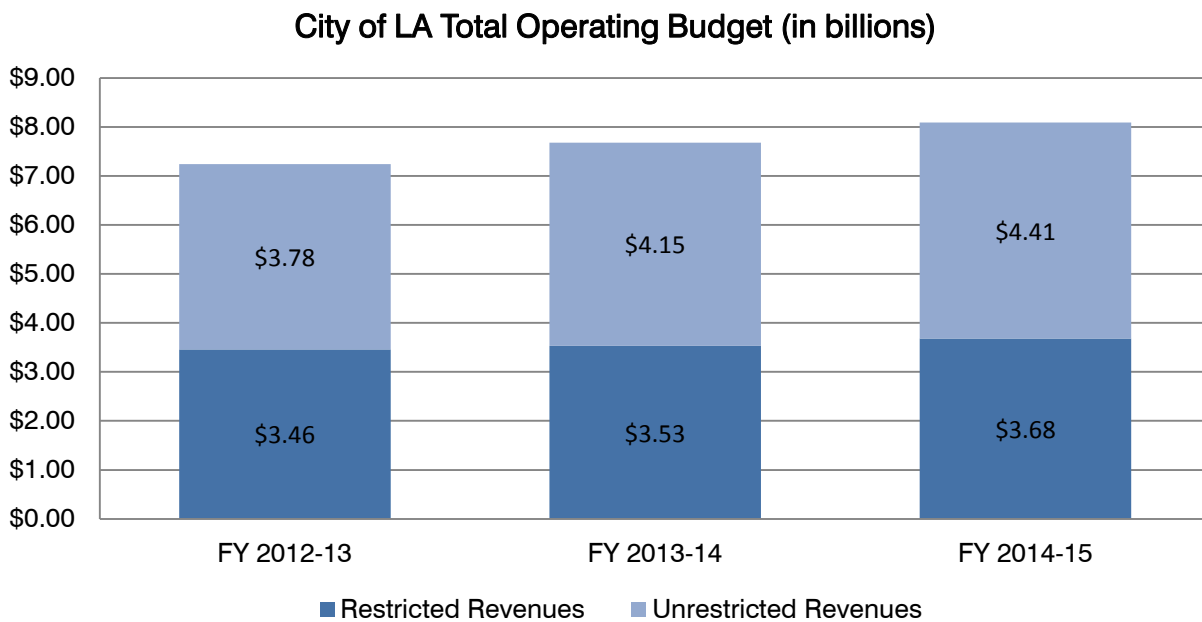
Figure 7: Strategies to Address FY 2014-15 Budget Deficit (\$242 Million)

Budget Strategy	Amount (in millions)	Impacts
Reductions & Efficiencies	\$64.8 M	Cuts to every department including: <ul style="list-style-type: none"> • Vacancy deletions • Salary and expense reductions • Reduced Police overtime
Pensions & Benefits Savings	\$18.8 M	Projected savings in pension & benefits costs are due to higher than anticipated investment earnings in pension funds, and reductions in employee benefits
One-Time Revenue	\$52.6 M	Grant reimbursements, surplus transfers from Special Parking Revenue Fund and Telecommunications Development Account, and

		transfers from other various funds and accounts
Reserve Fund	\$47.9 M	Includes one-time transfer from the Reserve Fund
Economy driven revenue growth	\$57.6 M	Higher than anticipated revenue growth from property tax, documentary transfer tax, and transient occupancy tax

Moving forward, it is clear that the city needs sustainable and reliable sources of ongoing revenue. According to the city’s Chief Legislative Analyst, the city has had no new General Fund tax revenues in nearly 20 years.¹² The city’s most urgent need is for unrestricted revenue which allows for flexible spending as needs change and requires only a majority voter approval (50%). About half of the city’s total operating budget each year consists of restricted revenues that must be spent on specific purposes such as sewer maintenance or grant-funded projects (see Figure 8).

Figure 8: Three-Year Budget Snapshot¹³



Impacts to the Local Economy

City budget cuts have not only reduced services and programs in Los Angeles; they have contributed to the loss of middle class jobs in the region. Public sector jobs typically pay fair wages, offer good benefits, and have historically provided a career path and gateway to the middle class for people of color.

In recent years, workforce reductions have been a central strategy in city efforts to address the budget deficit. Since 2008, the city has eliminated over 5,000 general fund positions. The overall workforce is at its lowest number since the Bradley administration (1973-1993). The city has decreased its workforce through early retirement incentives, transfers to proprietary departments, eliminating vacant positions, limiting new hiring and layoffs.

The city has also attempted to cut spending by reducing benefits and pensions for remaining and future workers. City worker pension funds were hit hard by the economic downturn, resulting in increased pressure on the city budget.

This comes at a time when good quality jobs are needed more than ever in Los Angeles. Historically, the city unemployment rate and poverty rate has exceeded both county and state rates. Unemployment is disproportionately higher in low-income communities of color like South Los Angeles, often double the citywide rate. When under-employed and discouraged workers are included, the number of people seeking work grows significantly. As a member-driven organization, SCOPE hears first-hand about the struggles facing Black and Latino families in South Los Angeles who have a hard time finding and keeping steady employment.

Given the persistent and inequitable nature of unemployment in Los Angeles, due in part to declining private sector investment in the local economy, it is clear that the public sector must step in to act as an engine for local economic growth. SCOPE believes that it is in part the role of the public sector to grow the economy and create jobs through strategic investment of public resources. Additionally as the largest employer in Los Angeles, the City must set an example for other employers. When people are working, they are paying taxes and spending money to help the local economy grow and prosper.

It is particularly critical for local governments to invest in building and maintaining local infrastructure, such as roads and sidewalks, to ensure that Los Angeles is a safe and efficient city in which to live, work and enjoy. Infrastructure investment is particularly critical for attracting and retaining businesses and generating economic activity. Ironically, anti-tax forces opposed to the Business Tax claim that eliminating the tax will grow the local economy and create jobs because businesses will relocate in droves to Los Angeles to avoid taxes. Yet eliminating this tax would slash over \$400 million each year from the city's general fund, inevitably leading to further cuts to services and placing more financial burden on businesses and other stakeholders at a time when the city can't afford to repair sidewalks or trim trees.

Towards a Multi-Year Policy Agenda

Given that Prop 13 and related initiatives have constrained the ability of local governments to raise taxes without voter approval, protecting vital services and expanding the capacity of the city to make investments will require winning new revenue at the ballot box.

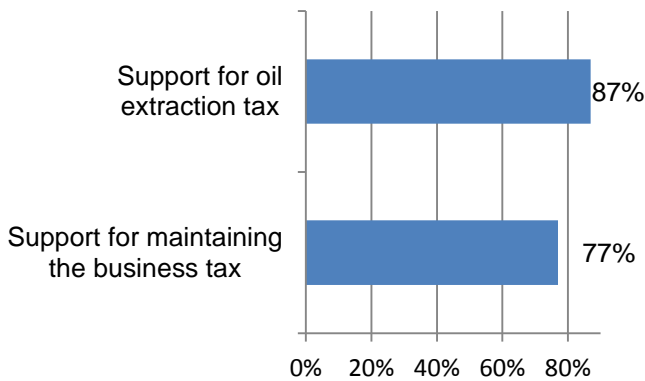
For the past three years, SCOPE, along with our union and organizational partners, has conducted research and voter engagement focused on tax and fiscal policy. In 2012, a comprehensive poll of thousands of voters in low-income communities of color was conducted to inform our policy agenda for the coming years.

We polled on a number of revenue proposals as well as some general questions focused on addressing the city budget deficit and taxation. Specifically we asked:

1. Whether the City of Los Angeles should address budget deficits through taxes or cuts to services;
2. If voters were willing to pay more in taxes to prevent cuts to city services; and
3. If they supported maintaining business taxes and establishing or increasing other taxes to fund city services.

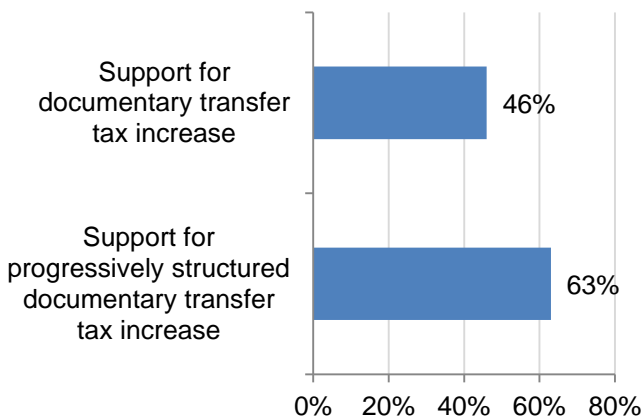
There were several key findings from the poll. First, voters strongly supported maintaining and creating business-related taxes, including maintaining the city's "gross receipts" Business Tax, despite the constant pressure for its elimination from business interests. Additionally, voters strongly supported a potential oil extraction tax on drillers operating within the City of LA.

Figure 9: 2012 polling results on business-related taxes



Second, voters were less supportive of property-related taxes. There are a number of local revenue options that involve fees or taxes on property ownership or transfer. However voters supported tiered or progressively structured property-related tax proposals, such as a progressive documentary transfer tax.

Figure 10: 2012 polling results on property-related taxes



Third, many voters are unsure how to address budget deficits. There is a need and an opportunity to educate and shape voter opinions about budgets and taxes. Overall, voters have mixed consciousness and many questions about budgets and taxes.

Finally, younger voters and those who only vote occasionally are more likely to support taxes than older, more regular voters (see Figures 11 and 12). This speaks to the need to engage and motivate people who always don't vote. Young people (age 18-25) are a particularly important segment of this group.

Figure 11: Polling Results on Maintaining Business Tax by Age

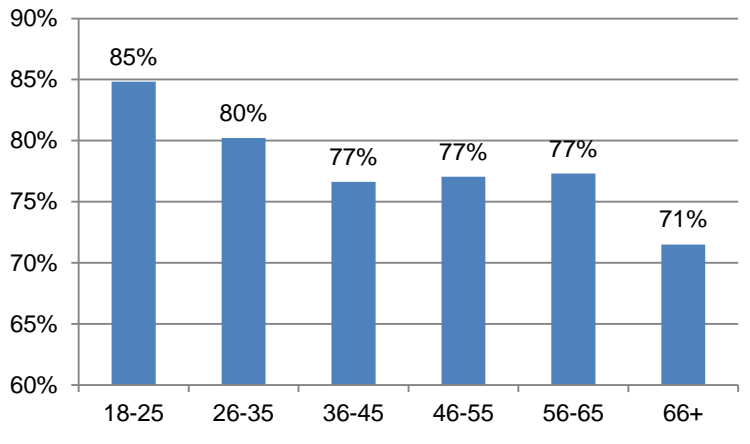
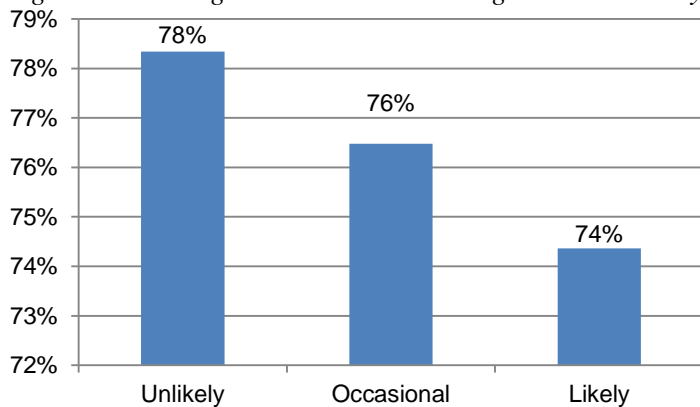


Figure 12: Polling Results on Maintaining Business Tax by Voting Propensity



In 2013, SCOPE reengaged 8,000 voters on the same issue. After the local mayoral election, SCOPE asked South LA voters whether they thought our new mayor and city council should increase city revenue by taxing corporations, not low wage earners, to help restore our city’s services, programs and jobs. SCOPE identified nearly 5,400 South LA voters in support of progressive taxation that requires businesses to pay their fair share of taxes.

Taken together, the findings indicate a need for greater research, education, and engagement around tax and fiscal policy issues in low-income communities of color. The polling data also indicated which tax policy solutions should be prioritized and further researched.

In 2014, SCOPE partnered with the Center for Community Change and Antioch University’s Masters in Urban Sustainability Program to expand our local tax policy research and assess the viability of winning new and maintaining existing progressive revenue streams at the local level. Building upon the three highest supported revenue streams, SCOPE has developed an initial assessment and recommendations for pursuing an oil extraction tax and a progressive documentary transfer tax, as well as a strategy to improve business tax collections. Each of these proposals alone presents the opportunity to restore millions of dollars into the city’s general fund. However a combination of revenue solutions is needed to fairly redistribute our tax burden based on what different stakeholders can and should pay.

SCOPE is guided by the notion that communities of color have the solutions to the problems they face and have a unique and critical role to play in shifting the diverse Los Angeles political landscape. As demographic shifts

have occurred, South LA voters have become more representative of Los Angeles as a whole; however there is a real urgency as economic forces continue to push these communities outside of the city. With this in mind, SCOPE is expanding our local revenue campaign partners and strategies, with the ultimate goal to ensure that more LA residents can live an economically secure life.

¹ Prop 13 (1978) requires two-thirds voter approval for a tax allocated to a specific purpose. Prop 218 (1996) requires majority voter approval for a tax allocated to a general purpose for charter counties and cities, such as Los Angeles.

² For information about the City of Los Angeles budget formation and adoption process, check out the Advancement Project report “Following the Money: Understanding Los Angeles City’s Finances and Impacting the Budget” available here: http://www.advancementprojectca.org/sites/default/files/imce/Following_the_Money_EPF_10-14-11.pdf

³ FY 2013-14 “2013-2014 Adopted Budget”, City of Los Angeles, http://controller.lacity.org/stellent/groups/ElectedOfficials/@CTR_Contributor/documents/Contributor_Web_Content/LACITYP_027014.pdf

⁴ FY 2012-13 “Controller’s Comprehensive Financial Report”. City of Los Angeles. http://controller.lacity.org/stellent/groups/ElectedOfficials/@CTR_Contributor/documents/Contributor_Web_Content/LACITYP_027750.pdf

⁵ City of Los Angeles Primary Nominating & Consolidated Election Official Election Results. March 8, 2011. http://ens.lacity.org/clk/elections/ckelections316771183_04262011.pdf

⁶ FY 2013-14 “2013-2014 Adopted Budget”, City of Los Angeles, http://controller.lacity.org/stellent/groups/ElectedOfficials/@CTR_Contributor/documents/Contributor_Web_Content/LACITYP_027014.pdf

⁷ *Ibid.*

⁸ Stone, Chad, Danilo Trisi and Arloc Sherman. Revised October 23, 2012. “A Guide to Statistics on Historical Trends in Income Inequality”. Center on Budget and Policy Priorities. <http://www.cbpp.org/files/11-28-11pov.pdf>

⁹ FY 2012-13 “Controller’s Comprehensive Financial Report”. City of Los Angeles. http://controller.lacity.org/stellent/groups/ElectedOfficials/@CTR_Contributor/documents/Contributor_Web_Content/LACITYP_027750.pdf

¹⁰ City Administrative Officer. October 29, 2012. Los Angeles City Council Budget & Finance Committee meeting.

¹¹ City of Los Angeles FY 2014-15 Budget Summary. <http://s3.documentcloud.org/documents/1112484/la-mayors-2014-15-budget-proposal.pdf>

¹² Chief Legislative Analyst. August 20, 2012. “Revenue Day”. Council File 11-1357-S1. http://clkrep.lacity.org/onlinedocs/2011/11-1357-s1_rpt_cla_8-20-12.pdf

¹³ City of Los Angeles FY 2014-15 Budget Summary. <http://s3.documentcloud.org/documents/1112484/la-mayors-2014-15-budget-proposal.pdf>