



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

C-4

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

May 11, 2004

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Agreement With the State of California Franchise Tax Board (FTB) for Records Obtained From the FTB Taxpayer Information System and Business Entity Tax System (Citywide)

DISCUSSION

The State of California passed Assembly Bill 63, which permits the State to share income tax information with local governments. Under this program, participating cities are provided a list of businesses within the city that filed California income tax returns as a business. The city can then ensure these businesses have city business licenses. Los Angeles and Newport Beach participated in the pilot program and discovered many underground businesses in their cities, realizing significant increases in business license tax revenues. Funding for Long Beach's participation in this program was included as part of the Fiscal Year 2004 budget, as called for in the Three-Year Financial Strategic Plan.

This agreement will authorize the City of Long Beach to participate in the Local Government Sharing Program (AB 63), whereby the Franchise Tax Board (FTB) will provide the City with information from those business entities that filed business tax returns with the State of California for the 2003 tax year. The information that will be provided by the FTB is taxpayer name, taxpayer address, taxpayer social security number or taxpayer identification number, and principal business activity code; which will allow the Department of Financial Management to discover underground businesses within the City of Long Beach that are operating without a business license.

The City of Long Beach will pay a pro rata share, based on the populations of the participating cities, of the \$350,000 cost for the state to operate the Local Government Sharing Program. For the tax year 2003 records, Long Beach's pro rata share is \$16,168.00. From the experiences of both the City of Los Angeles and the City of Newport Beach, who participated in the program last year, Long Beach should realize more than \$100,000 in ongoing annual revenue from the new business licenses obtained from using the FTB data.

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The proposed agreement contains the following major provisions:

- Length of term: One year. This agreement is for tax year 2003 information only. In order to participate in subsequent years, a new agreement will be required for each year.
- Confidentiality: Each City employee with access to the FTB records will be required to sign a confidentiality agreement. The City shall destroy the FTB records within one year of receipt.
- Compensation: The City will pay the State of California \$16,168.

This item was reviewed by Assistant City Attorney Michael J. Mais on April 30, 2004 and Budget Manager Michael A. Killebrew on April 29, 2004.

TIMING CONSIDERATIONS

City Council action on this item is requested on May 11, 2004, since the California Franchise Tax Board has requested that the approved agreement be forwarded to them by May 20, 2004.

FISCAL IMPACT

The total amount of the agreement is \$16,168 and sufficient funds are budgeted in the Department of Financial Management (FM) and in the General Fund (GP). It is estimated that approximately \$100,000 in additional revenue will be deposited into the General Fund through this program annually.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Authorize the City Manager to execute an agreement with the California Franchise Tax Board with a term of January 1, 2004 through January 31, 2005.

Respectfully submitted,



ROBERT S. TORREZ
CFO/DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

RST:PW-H:JAG:lgc



GERALD R. MILLER
CITY MANAGER