



Date: October 17, 2014
To: Members of the Economic Development and Finance Committee
From: Patrick H. West, City Manager *PW*
Subject: Economic Development - Sales and Use Tax

On September 9, 2014, the City Council requested staff to work with the Economic Development and Finance (ED&F) Committee to develop a plan to achieve the goals of increasing Sales Tax, addressing Sales Tax leakage and strengthening the City's economic development functions and programs. The following report from the Director of Financial Management and the Director of Economic and Property Development attempts to do just that. The attached report includes the following:

Summary and Overview

The report provides a comprehensive overview of the background, successes and current state of the City's Sales and Use Tax program. It also details opportunities to maximize Long Beach's Sales and Property Tax revenues and strengthen the City's Economic Development functions and programs.

I. Background

The Background section explains the difference between the Sales and Use Tax, and discusses the conditions on access to Sales Tax data set by the Board of Equalization through Revenue and Taxation Code Section 7056.

II. Long Beach Successes in Revenue Maximization

The City employs various mechanisms and programs to enhance our ability to capture and enhance available Sales and Use Tax revenues, including corrections to misallocations and revenue recovery, Use Tax direct pay permits, purchasing companies, location agreements, and retail agreements. These efforts are described in detail in the Revenue Maximization section.

III. Long Beach Sales Tax Base Today

Understanding the current Sales Tax environment in Long Beach is critical to formulating a successful economic development plan. To that end, this section discusses the Sales Tax performance by economic category and highlights key retail centers in the City. The section also introduces the topic of Sales tax "leakage" and describes some of the factors that impact the growth of Sales Tax revenues in Long Beach. Finally, the goal of economic development is placed within the larger context of the City's General Plan, using Douglas Park as an example.

IV. Opportunities to Maximize Long Beach Revenues

The City has many options available to increase its capture of Sales Tax especially in consumer-driven economic segments. Options described in this section include utilizing consultants to develop a strategic plan to attract retailers, allocating City-owned properties designated for development towards economic development pursuits, continuing use of Property Business Improvement Districts (BIDS) to fund beautification and safety improvements for businesses, and advocating legislative opportunities to increase Sales and Property Tax generation.

V. Next Steps to Strengthen Long Beach Economy

This section discusses the next steps that could be taken by the ED&F Committee to strengthen Long Beach and its economic development functions. This includes providing a regular report of economic activity to the ED&F Committee, establishing a dedicated revenue source to assist with Economic Development functions, and updating the City's two Resolutions governing access to Sales and Use Tax data.

VI. Conclusion

Staff appreciates the opportunity for guidance from the ED&F Committee and looks forward to efforts directed toward strengthening the fiscal resilience of Long Beach and expanding its Economic Development functions.


If you have any questions, please contact City Manager Patrick West at extension 8-6916.



CC: MAYOR AND MEMBERS OF THE CITY COUNCIL
JYL MARDEN, INTERIM ASSISTANT CITY MANAGER
REGGIE HARRISON, DEPUTY CITY MANAGER
TOM MODICA, DEPUTY CITY MANAGER
ALL DEPARTMENT HEADS

ATTACHMENT



Date: October 17, 2014

To: Patrick H. West, City Manager 

From: John Gross, Director of Financial Management 
Michael P. Conway, Director of Economic and Property Development 

For: Members of the Economic Development and Finance Committee

Subject: Long Beach Sales and Use Tax and Economic Development Summary

On September 9, 2014, as part of a discussion regarding revising the Board of Equalization-mandated resolution on access to Sales and Use Tax information (Agenda Item R-16), the City Council requested that staff work with the Economic Development and Finance (ED&F) Committee to develop a long-range plan to achieve the goals of increasing Sales Tax, addressing Sales Tax leakage and strengthening the City's economic development functions and programs.

The City has a multifaceted approach to maximize Sales and Use Tax in Long Beach. This report provide a comprehensive overview of the background, successes and current state of the City's Sales and Use Tax program. It also details opportunities to maximize Long Beach's Sales and Property Tax revenues and strengthen the City's Economic Development functions and programs.

The City annually receives approximately \$60 million in Sales and Use Tax revenue. This revenue pays for General Fund services such as Police, Fire, Parks, Recreation and Libraries. The City receives only 1 percent of the total 9 percent Sales Tax, with the rest going to State, Los Angeles County Metropolitan Transportation Authority and other government entities. State Law requires that Sales and Use Tax data be kept confidential. Specified City staff, and our consultant, are able to access the Sales and Use Tax data to ensure that the City receives its proper allocation of Sales Tax revenue and for revenue projections. Additional information on the background and rules for access to the Sales and Use Tax data is provided in Section I.- Background.

The City has successfully recaptured \$7.6 million of misallocated Sales and Use Tax over a 7-year period. In 2013, the City successfully received a \$2.9 million misallocation of Use Tax. The City also uses a Use Tax Direct Payment Permit and actively works to request businesses to get and use their own Permit in order to maximize the Use Tax allocated to Long Beach, which has generated over \$0.5 million in additional revenue over the past few years.

The City has taken active steps to retain and grow the City's Sales and Use Tax revenues. The City has entered into location agreements, a purchasing company agreement and multiple retail agreements. These agreements rebate a portion of

the Sales and Use Tax revenue as incentive for either locating a business in Long Beach, making significant capital improvements or significantly expanding a business in Long Beach. Taken as a whole, these agreements account for \$6.3 million in net annual Sales Tax. More details on the City's management of the Sales and Use Tax program is detailed in Section II. - Long Beach Successes in Revenue Maximization.

The responsibility of the City is to try to maximize the possible Sales and Use Tax that could be generated by the residents of Long Beach and visitors to Long Beach. However, the City is not capturing its full potential Sales Tax. A comparison of the buying power of our residents to actual sales shows that the City is experiencing Sales Tax "Leakage." In this context, Leakage means that residents are spending more than Long Beach businesses are capturing in sales tax revenue. Leakage would be less of a problem if Long Beach were isolated and not surrounded by cities with competing retail centers. The number of shopping options available to consumers in Southern California makes Leakage more commonplace. Long Beach can improve its capture rate of Sales Tax in many categories; the most significant include Apparel Stores, Department Stores and Auto Sales – New Vehicles. Taken in total, Leakage is estimated to total approximately \$20.4 million annually. Fortunately, due in part to the City's sales Tax incentive agreements, Long Beach is over-performing in some categories and, therefore, the net Leakage amount is \$10.4 million annually. The data indicates that Cerritos, Lakewood and Signal Hill capturing Sales Tax from Long Beach residents.

To address Leakage of Sales Tax revenue to neighboring cities, a myriad of factors must be considered, including:

- Available space for development;
- Protection of the quality of life in neighborhood communities;
- Demographic data and disposable income in surrounding neighborhoods with available space;
- Demographic requirements of expanding or relocating retailers;
- Cannibalization of current vendors; and
- Regulations limiting the ability to entice retailers to move from one city to another.

Also, in pursuing a retail strategy, a balance is needed between enhancing City Sales Tax revenues with City Council direction of designated land uses as approved in the City's General Plan. Compliance with the General Plan, Leakage and other factors that impact Sales Tax growth are discussed further in Section III. - Long Beach's Sales Tax Base Today.

There are opportunities to maximize Long Beach's Sales Tax revenues. First, lists of retailers who are looking to expand in our region could be developed by identifying expanding California retailers and Long Beach's fastest growing retailers. These retailers can be aligned with the list of former Redevelopment Agency (RDA) properties to determine compatibility. Of the 259 properties, there are 188 parcels, which are assembled into 48 sites that are available for sale or

for future development that could be marketed to retail entities in categories where the City is experiencing Sales Tax Leakage. Another benefit to the development of former RDA or other City-owned land is that it is currently not included on property tax rolls until it is either leased to a private entity or sold. Once those properties are sold and developed, they will be included on the tax rolls and property taxes will increase, adding additional revenue to the General Fund.

Property Business Improvement Districts (BIDs) are a great tool to enhance retail corridors or centers and make them more attractive to retail entities looking to expand or relocate. BIDs provide services beyond the City's basic level of service and improve retail corridors through beautification, maintenance, and crime reduction efforts. They also provide economic development benefits, such as area economic revitalization through business attraction and retention, job creation, and the development of close ties among community members and between business owners and the City.

Another avenue of opportunity for the ED&F Committee to maximize the City's Sales and Property Tax revenues is through Federal and State legislative advocacy. Three areas that could increase tax revenue include addressing online Sales Tax Leakage, expanding the taxable Sales Tax base and exploring a split roll assessment. More information on this and the related economic development opportunities is contained in Section IV. - Opportunities to Maximize Long Beach's Revenues.

Lastly, this report details staff recommendations for next steps for the ED&F Committee to consider, including:

- Reviewing periodic economic activity reports in order to determine trends to ensure proper direction.
- Providing policy direction on the retail categories for City staff to focus on to market former RDA properties.
- Allocating a portion of the proceeds from the sale of city-owned properties being used for development to fund ongoing economic development efforts such as a "Buy Long Beach" marketing program, revolving loan funds for small business establishment and growth, local incentives for business to locate or expand in the City and other marketing incentives.
- Refer to the City Council the attached proposed resolution, which consolidates the two existing resolutions for Sales and Use Tax data, adds Economic Development as a government function and provides a mechanism for elected official access to Sales Tax data. This would allow the City Manager to designate the Director of Economic and Property Development to access the Sales and Use Tax data for Economic Development purposes in order to expand the City's Sales Tax base and would allow the City Attorney to determine when access to retailer specific Sales Tax data is appropriate for elected officials during policy formation and decision making.

The next five sections of this report provide much more detail on all the areas that have been touched upon in this summary.

I. Background

Sales and Use Tax are two components of the same government revenue stream. Sales Tax is imposed on the retailer upon the sale of goods within the State and is based upon the total gross receipts from retail sales. As of January 2013, the Sales Tax rate in Long Beach is 9.0 percent. Long Beach receives 1.0 percentage point of the 9.0 percent tax; Los Angeles County Metropolitan Transportation Authority receives 1.5 percent and the remaining 6.5 percent goes to the State. In FY 13, the City received approximately \$60 million in Sales and Use Tax revenue.

The Use Tax rate is imposed on consumers of merchandise (tangible personal property) that is purchased out-of-state but used, consumed or stored in this state. The Use Tax rate is the same as the Sales Tax rate (9.0 percent). As an example, a computer purchased in California, would require the retailer to collect Sales Tax. The same computer purchased from a retailer in New York for use in California would require the purchaser to remit Use Tax to the State of California. Although retailers often collect Use Tax, the purchaser is the responsible party for remitting payment to the State of California. To make payment of out-of-state Use Tax easier for retailers who collect the tax, the State allows the Use Tax to be allocated to a countywide pool. Tax paid into the countywide pool is allocated to jurisdictions within that county in direct proportion to each jurisdiction's percentage of the total countywide Sales Tax. Based on this methodology, Long Beach receives approximately 2.2 percent of the 1.0 percent local Sales or Use Tax allocation apportioned through the countywide pool. Given the amount of out-of-state retail, this is a suboptimal distribution for a city of Long Beach's size. Current programs to address Long Beach's collection of Use Tax are discussed in further detail in Section II.

Conditions on Access to the Sales and Use Tax Data

Revenue and Taxation Code Section 7056 (Regulation 7056) requires that Sales and Use Tax data be kept confidential. Thus, it is unlawful for any person who obtains access to Sales and Use Tax records to make known, in any manner, the information disclosed on any tax return, including any abstract thereof. Therefore, a local agency may not disclose amounts of tax paid, whether tax amounts have increased or decreased from a prior period, or any other information that would reveal the business affairs or operations of a business. Though confidential by law, Sales and Use Tax information can be used by local government officials if the use is "related to collection of local sales and use taxes" or "related to other governmental functions of the county, city and county, or city." Only those positions or individuals authorized by a State Board of Equalization (SBE) form-approved Confidentiality Resolution of the City Council may have access to confidential data and each person so authorized is required to abide by the provisions of Regulation 7056.

Regulation 7056 restricts access to the City's Sales Tax data to authorized officers and employees of the City designated by Resolution. Currently, this is limited to the City Manager, City Auditor, Director of Finance, Budget Manager, a few members of Financial Management staff, and the City's consultant, MuniServices, LLC (MuniServices). City Council, by Resolution, can change who has access to this data.

Regulation 7056 is intended to safeguard the confidential operational information of the State's businesses. The confidential nature of this information is such that retailer Sales Tax data falls into the limited category of public information that is not subject to Public Records Act requests. To facilitate the work of cities and counties, yet adhere to the confidential nature of the data, Sales Tax payments for groups of businesses may be revealed to the general public under the condition that certain State rules are followed. Specifically, SBE releases tax amounts only when combined data for four or more businesses are grouped together. The "group" may be defined in myriad ways, including any businesses in the same shopping center, specific business types such as new auto dealers, or businesses sharing the same major business category. The "gang of four" rule must be four separate businesses with individual sellers' permit numbers. Additionally, by Executive Order of Governor Pete Wilson in 1993, it is also possible to publish a list of the top Sales Tax generators if the following conditions are met: (i) at least 25 retailers are included; (ii) businesses are presented in random or alphabetical order; (iii) businesses are not ranked by amount of Sales Tax paid; and (iii) individual Sales or Use Tax amounts are omitted. The Brown Act further complicates the discussion of confidential Sales Tax data among City Council because of the public disclosure and transparency requirements.

While specific retailer information is not available for public dissemination, review and analysis of retail patterns and trends within given geographic areas and business sectors are available for ED&F Committee review and will be discussed in Section III. Also, if the City is entering into an agreement abating a percentage of the sales tax, the Company's sales tax information is authorized by that company to be shared for decision making.

II. Long Beach Successes in Revenue Maximization

The City employs various mechanisms and programs to enhance our ability to capture and enhance available Sales and Use Tax. Long Beach tackles the issues of Sales and Use Tax on many fronts, including corrections to misallocations and revenue recovery, Use Tax direct pay permits, a purchasing company agreement, location agreements, and retail agreements.

Misallocations and Revenue Recovery

The California State Board of Equalization (SBE) is responsible for administering California local and district Sales and Use Tax programs. Although SBE regulations regarding confidentiality are strict, they do provide municipalities with the ability to use consultants to facilitate the review of Sales and Use Tax data to ensure proper allocation and revenue projections. Long Beach engages the

services of consultants to review, audit, and assist with forecasts of Sales and Use Tax revenue and for Sales and Use Tax misallocations or agreements. Every quarter, the City receives data from the SBE related to Sales and Use Tax receipts for every Long Beach business that has remitted their tax. MuniServices audits the data in search of misallocations of monies that should have been paid to Long Beach. This could include revenue erroneously allocated into the countywide pool or misallocated to another city, county or other county pool. Depending on the nature of the correction, misallocations can result in one-time revenues or on-going revenue. Over the past 7 years, MuniServices' audits and corrections of misallocated Sales and Use Tax have generated over \$7.6 million in one-time and ongoing revenues. Since the inception of the City's contract with MuniServices approximately \$21 million in revenue has been generated from their audits and corrections. In conjunction with the auditing of Sales Tax records, building permit data is compared with BOE reports to ensure Sales and Use Taxes for building projects are being properly captured. In 2013, the City successfully petitioned the SBE for the correction of a \$2.9 million misallocation of Use Tax.

In addition to its audit services, MuniServices also works with City staff to forecast future Sales and Use Tax by analyzing past business sector performance and general economic trends. The composition of Long Beach's Sales Tax revenue base and the dependence on Sales and Use tax from a small number of businesses with location or purchasing agreements makes revenue projections difficult to forecast. Despite these challenges, City staff uses the historical information and current economic indicators to project Sales Tax revenue and develop General Fund projections three to five years out.

Use Tax Permits

Due to the confidential nature of most Sales Tax transactions, the capture of some Use Tax revenue will occur as the result of audits and corrections of misallocations. The City has taken proactive measures to capture as much of the Use Tax for activities in which the City can exert some influence. These opportunities include being involved earlier in the purchasing process and to arrange direct payment permits, when possible. Beginning in 1998, cities in California were authorized to take out a Direct Payment permit and issue a Use Tax exemption certificate to out-of-state vendors and lessors (except lessors of new vehicles). This practice exempts vendors from collecting Use Tax and allows the City to self-assess and pay the Use Tax on its quarterly tax return. The local portion of the tax (1.0 percent) is then allocated to Long Beach, thereby the City ensures the entire 1.0 percent local portion is allocated to Long Beach instead of the countywide pool. For example, in 2014, the City received Use Taxes totaling \$283,997 associated with the purchase of two fireboats to be used at the Port of Long Beach (POLB). Additional use tax is anticipated as that contract is completed.

Additionally, under Revenue and Taxation Code 7051.3, private sector taxpayers have the option of applying for a direct payment permit if they make \$500,000 or more in cumulative leases or purchases subject to Use Tax during the 12 months preceding the application. This practice, similar to the municipal Direct Pay permit,

directs 100 percent of the 1.0 percent local Use Tax to the local jurisdiction. To capture Use Tax for projects within the POLB, the City and the POLB collaborated with the general contractor and two major subcontractors to register the Gerald Desmond bridge jobsite with the SBE in order to allocate the Use Tax associated with the project to the City. To date, \$169,000 in Use Tax has been directed to the City through this program. Additionally, City staff has also been in close contact with Long Beach Terminal Container regarding the Middle Harbor Project to ensure that the Use Tax from the lease-purchase of cranes will be accrued to the City. It is anticipated that there will be significant Use Tax revenue collected during the life of these POLB projects.

Location, Purchasing and Retail Agreements

The City has a history of entering into agreements that bring new or keep current Sales Tax generating businesses in Long Beach. As of October 1, 2014, the City is engaged in three location agreements, one purchasing company agreement and six retail agreements. These agreements rebate a portion of Sales Tax revenue as incentive for either locating a business in Long Beach, making significant capital improvements or significantly expanding a business in Long Beach. Taken as a whole, in FY 13, these agreements accounted for \$6.3 million in net annual sales tax.

The three location agreements are with General Petroleum, Southern Counties Oil Company, and Dion and Sons. This program has a minimum requirement of at least \$50 million in taxable sales. All three retailers sell specialized fuel. One of the City's longest standing Sales Tax purchasing company agreements is with Edison Material and Supply (EMS), the buying company for Southern California Edison. Located in downtown Long Beach, EMS is a purchasing company responsible for the purchases and resale of equipment and supplies used by Southern California Edison. Location and purchasing agreements allow a company to consolidate the purchase and sale of business equipment and/or services at one location, as opposed to having various locations, thereby directing the local 1.0 percent Sales and Use Tax to a local jurisdiction where the sales are located. In the case of Long Beach's location and purchasing agreements, the 1.0 percent local tax is directed to Long Beach, enhancing our sales tax base.

In addition to the location and purchasing company agreements, the City has entered into various retail agreements with merchants who are expanding in Long Beach. Historically, retail agreements have required that the business entity already have a location in Long Beach that generates at least \$5 million in taxable sales along with planned major capital investment. An incentive for the capital undertaking, a rebate (above a determined Sales Tax base and available only if Sales Tax increases) is structured in a manner that helps defray the cost of the capital investment over a number of years. Retail agreements are currently in place with Cabe Toyota, Worthington Ford, Marina Pacifica, Circle Porche/Audi and, Los Altos Marketplace. A new agreement with Hooman Toyota is scheduled to be before the City Council on October 21, 2014.

III. Long Beach's Sales Tax Base Today

The picture of Long Beach's Sales Tax base is relatively diverse with significant Sales Tax generated by large-scale retailers such as those with location and retail agreements, geographically diverse service stations, restaurants and the sale of food products. The responsibility of the City is to maximize the amount of Sales Tax generated by residents shopping locally, while also attracting residents of neighboring jurisdictions and other visitors to make purchases in Long Beach. Identifying strategies to formulate an economic development plan that maximizes Sales Tax revenue potential is central to that responsibility. To that end, understanding the current Sales Tax environment today is critical.

A 12-month period is often used when reviewing Sales and Use Tax data. In the 12-month period ending June 2014, \$49.8 million in Sales Tax revenue was generated in Long Beach (this amount excludes the approximately \$6.5 million from the County-pool and \$3.0 million in adjustments). Revenue from the County pools is excluded because it does not reflect business activity only in the City of Long Beach, but in the entire County. As illustrated in Table 1, the \$49.8 million in economic activity is segmented into six broad Economic Categories, which are further grouped into 28 Economic Segments. Revenue from these Economic Categories and Segments can be disclosed as long as the Regulation 7056 described in Section I is adhered to.

Table 1.		
Economic Category		
Food Products	22.6%	\$ 11,267,182
Transportation	21.0%	10,454,167
Construction	18.7%	9,295,353
General Retail	18.6%	9,257,210
Business-to-Business	18.4%	9,173,370
Miscellaneous	0.7%	358,313
Totals	100.0%	\$ 49,805,596

Economic Categories include the following business segments:

Food Products: Restaurants, Food Markets, Liquor Stores and Food Processing Equipment

Transportation: Auto Parts/Repair, Auto sales–New, Auto sales–Used, Service Stations and Miscellaneous Vehicle Sales

Construction: Retail and wholesale Building Materials

General Retail: Apparel Stores, Department Stores, Furniture/ Appliances, Drug Stores, Recreation Products, Florist/Nursery and Miscellaneous Retail

Business-to-Business: Office Equipment, Electronic Equipment Energy Sales, Leasing, Chemical Products, Heavy Industry and Light Industry

Miscellaneous: Health and Government, Other and Closed Account Adjustments, Miscellaneous Other

In addition to reviewing Sales Tax data by Economic Category, the City is able to aggregate the information into geographic areas to review current and historic trends. Currently Sales Tax data is grouped by address range into 16 different retail centers. By defining the major geographic retail areas by address range, it is possible to review the Sales Tax data of a retail area as a whole over time. This makes it possible to compare retail Sales Tax generation among different areas of the City, while new retail areas can easily be created as the community changes.

Table 2 summarizes current Sales Tax revenue for the 16 retail areas identified within the City.

Retail Areas	No. of Businesses	Annual Sales Tax Generated
Belmont Shore PBIA	230	\$ 551,414
Bixby Knolls PBIA	366	784,335
Cherry Ave South St.	12	94,868
Downtown PBIA	3,585	4,059,291
East Anaheim PBIA	517	960,266
Fourth Street PBIA	88	81,889
Long Beach Towne Center	102	2,077,900
Los Altos Center	118	1,186,136
Los Altos Gateway	28	729,926
Magnolia Industrial Group PBIA	135	474,524
Marina Pacifica Market Place	195	1,446,303
North Long Beach	13	668,605
Spring St. Plaza	105	320,190
Traffic Circle	129	1,710,615
Uptown PBID	318	280,941
Wrigley Market Place	50	163,662
Totals	5,991	\$ 15,590,865

Leakage

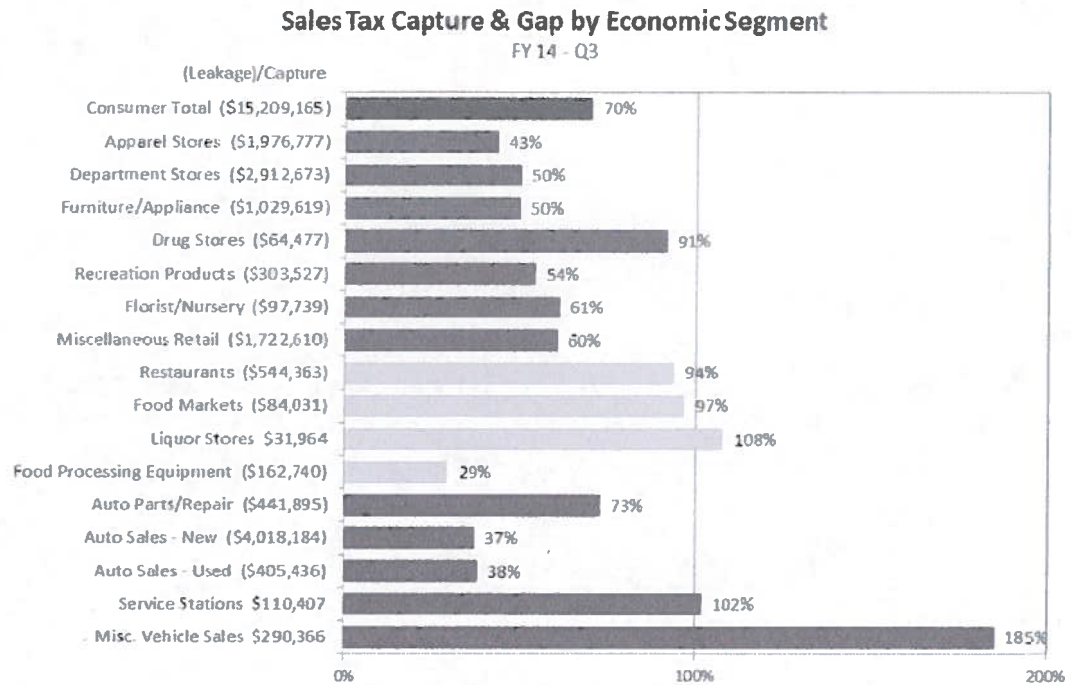
While reviewing the areas in which Sales Tax is generated is useful, this data alone does not provide the full picture necessary for the development of an economic development policy. To support the City's economic development goals, current Sales and Use Tax information can be coupled with information on potential Sales Tax generation. To that end, as part of the City's ongoing review of Sales Tax data, a Capture and Gap Analysis is provided by MuniServices on a quarterly basis. This analysis determines the City's residents' total disposable income, assesses regional spending patterns and estimates how much Sales Tax revenue could be generated assuming the City's residents followed similar buying

patterns as consumers in greater Los Angeles and Orange County regions. The analysis then goes on to compare this potential Sales Tax generation estimate to the City's actual Sales Tax generation by Economic Segment to determine the uncaptured potential Sales Tax. This uncaptured Sales Tax is identified as Sales Tax Leakage. Sales Tax Capture is depicted as Sales Tax revenue above the total potential Sales Tax revenue (100 percent and above) and Leakage is defined as Sales Tax revenue below the total potential Sales Tax revenue (less than 100 percent). Basically, Long Beach residents are buying outside of Long Beach and a low number are coming from outside to shop in Long Beach. As a result of this analysis, a picture develops of potential areas for focus in Sales Tax revenue development.

According to this analysis, Long Beach is capturing most of the available Sales Tax revenue in the restaurant, service station, and liquor store Economic Segments, as well as in those Economic Categories where there are location and purchasing agreements. Leakage of Sales Tax is found in general retail, such as apparel stores, department stores, new and used auto sales, and light industry, among others. This Leakage of Sales Tax does not imply that it is being lost completely from the economy or that it is being erroneously allocated to other municipalities. Instead, the Leakage Analysis shows the amount of Sales Tax that the could be collected in key business segments if the City were to perform similar to other municipalities in the region, adjusting for Long Beach's demographics and population size. The Leakage of Sales Tax revenue in Long Beach can be attributed to a myriad of factors, including our location in a heavily developed urban environment, past land use policy decisions in Long Beach and its neighboring communities, and aggressive use of incentive agreements by some neighboring cities. Long Beach is also a built out community with little or no free land to development new commercial areas. Long Beach development policy has focused on preserving its industrial base and related job growth, and single family residential and multi-family housing. This focus, in conjunction with the very close proximity to neighboring cities that put large retail centers and malls near our population centers, has resulted in a population that does not have to go far from home to spend its disposable income, and is not spending as much as it could in Long Beach. In other words, Long Beach residents frequent local retailers such as Target, Costco or Home Depot even if they are in Signal Hill or Lakewood, if convenient.

Graph 1 shows that the City could improve in many Economic Categories, the most significant include Apparel Stores, Department Stores and Auto Sales – New vehicles. Taken in total, Leakage in underperforming areas totals approximately \$20.4 million. Fortunately, due in part to the City's location and buying company agreements, we are over-performing in Economic Categories with location agreements and, therefore, the net Leakage amount is \$10.4 million annually.

Graph 1.



When Sales Tax Capture and Gap analysis is compared to neighboring and comparable cities, it is possible to see the potential Sales Tax revenue that exists in these Economic Categories. Compared to neighboring cities, whose development strategies have been focused on retail development, Long Beach experiences three times more Leakage than Cerritos, Lakewood and Signal Hill in the General Retail Economic Category. Similarly, statewide Leakage is evident in both Food Products and Transportation.

Table 3. Sales Tax Leakage

City	General Retail	Food Products	Transportation
Long Beach	53%	94%	70%
Cerritos	266%	110%	558%
Huntington Beach	71%	82%	88%
Lakewood	166%	99%	77%
Signal Hill	348%	145%	779%
Fresno	88%	98%	89%
Los Angeles	81%	97%	76%
Oakland	51%	102%	105%
San Jose	94%	77%	108%
Santa Ana	119%	118%	147%
Examples of stores	Target, Wal-Mart, Sam's Club, Ross, Drug Stores, cell phone retailers, recreation products and BestBuy	Fast food, sit down dining, food markets and grocery stores	Toyota, VW, Ford, Audi, Honda, GM, service stations, boats, motorcycles and airplanes

As mentioned earlier, to address the Leakage of Sales Tax revenue to neighboring cities, various factors must be considered, including:

- Available space for development;
- Protection of the quality of life in neighborhood communities;
- Demographic data and disposable income in surrounding neighborhoods with available space;
- Demographic requirements of expanding or relocating retailers;
- Cannibalization of current vendors; and
- Regulations limiting the ability to entice retailers to move from one city to another.

Factors in Growing Sales Tax Revenue

There are mitigating factors that impact growth in Sales Tax revenue. The first is cannibalization. Cannibalization refers to the potential reduction in sales volume when the same or a similar retailer locates two or more sites in close proximity to each other. This results in a company competing with itself or a similar retail chain for the same and limited quantity of customers. When analyzing the locations of current Sales Tax producers and future locations for revenue growth, City policy should weigh the factor of cannibalization within its own borders with other economic priorities (i.e., job creation, development of vacant property, protection of neighborhood communities, and expansion of service and retail offerings).

The second factor impacting Sales Tax growth is that regulations exist to keep cities from infringing on each other's Sales Tax revenue. These regulations prohibit the new city from providing any type of incentive to the business, if the local tax allocation will change from the old city to the new city. For example, California Government Code Section 53084, commonly known as the "Big Box Retailer Rule," states that a city cannot offer an incentive to a vehicle dealer or big box retailer that relocates from one city to another city, if it is within the same market area. Similarly, Section 53084.5, sometimes known as the "Fillmore Rule," prohibits providing an incentive to a business that opens a new business location, if the local tax that was previously being allocated to the location of the business' distribution center, will now be allocated to the business' new location in another city. New legislation seeking to regulate the environment in which cities seek to attract and retain sales tax generating business is now a common part of the legislative process.

An example of external factors that have impacted Long Beach's economic development and Sales Tax base is the story of the Long Beach Towne Center. In early 1994, the Long Beach Naval Hospital closed down and, through an economic development conveyance under base closure rules, transferred the property to the City. Long Beach planned to reuse the site as a big-box power center. However, a coalition of six cities, led by the City of Lakewood, challenged the City's plans saying that it would destroy nearby businesses. Lakewood used the California Environmental Quality (CEQA) review process that was triggered by the Federal Government's sale of the hospital to challenge the project. Finally, in late 1995, Long Beach and Lakewood entered into a settlement agreement which put restrictions on the site that prevented both factory outlets and department stores from locating there. It also required the City to oversee \$10 million of

needed traffic improvements near the complex and pay for managing the expected rise in traffic on the Lakewood side of the property. Lastly, the settlement agreement prohibited the City from offering any incentives to retailers to locate on the site. The settlement agreement limited the City's ability to maximize the Sales Tax potential of the site. While this settlement agreement expired in 2005, it is an example of a legacy project that has shaped the current Sales Tax picture today in Long Beach.

Compliance with the General Plan

As demonstrated by the Capture and Gap Analysis, the City does not supply the level of retail that its population can support. This represents a loss of convenience for some of the City's residents and of Sales Tax revenue for the City. The City may choose to pursue future opportunities to add additional retail establishments in order to improve Sales Tax revenue, reduce Leakage, and offer convenience and alternatives to our residents. However, in pursuing this retail strategy, a balance is needed with prior City Council direction and of designated land uses as described in the City's General Plan.

Economic Development is one of the stated goals of the General Plan. The primary reasons for fostering economic development are to create employment opportunities for our population and Sales Tax revenue for our City. The City's General Plan has expressed a vision that simultaneously combines small town friendliness and tranquility with big city vitality and economic opportunity. The General Plan sets out to achieve this very difficult balance of achieving the "best of both worlds" and states that it is important that growth have an overall beneficial impact upon the City's quality of life.

According to the General Plan, the City works to accommodate high technology research and development and manufacturing, bio-medical research and development, computer, aerospace, and similar types of industries. The City also strives to provide opportunities for Port-related businesses without compromising environmental benefits. The City's heavy industrial lands are strictly intended to be preserved as industrial employment opportunity areas and non-industrial uses are strongly discouraged. Therefore, these areas are not currently appropriate for large retail centers, as they do not have adequate infrastructure for retail users (i.e. landscaped parkways, large parcels of land, adjacent residential neighborhoods, etc.).

An example of successful compliance with the General Plan is Douglas Park. The City worked with The Boeing Company to master plan the former 717 aircraft manufacturing plant into a thriving economic employment center. This area is a burgeoning success story and a good example of how compliance with the General Plan is integral to successful land use planning and job growth. Though only half of the property is built out, Douglas Park is now home to several corporate headquarters for high value manufacturing businesses. Under the auspices of the developer, Sares-Regis, two businesses consolidated other operations from outside the City in conjunction with establishing their corporate headquarters. Other early projects included an extended stay hotel and small retail pads to support neighboring businesses. Future projects planned for the

area include medical office uses for three separate doctor groups, an aircraft parts manufacturer and a high-tech automotive repair training facility.

Additionally, across the street from Douglas Park, the former C-17 hangar, also owned by Sares-Regis, is being repurposed by Mercedes-Benz as their western regional headquarters, after-market facility and a "readiness" center for new autos arriving into the U.S., and employee-training center. This facility represents over 250 new jobs to the Long Beach market. Just south of the Mercedes-Benz facility, Sares-Regis is planning Pacific Pointe East, a three-building, 500,000-square foot complex geared towards corporate headquarters and high-end manufacturing. There is still approximately 70 acres remaining that could be developed into new office, industrial and retail. It is interesting to note that there are approximately 40 acres zoned for retail development within Douglas Park, which have yet to be developed. This is because it is more important to wait for the right type of retail to be developed, as opposed to committing to the first retail offer received. The retail developed there must take into consideration the surrounding land uses, potential traffic impacts due to its location, and must be compatible with existing uses. Only then will the retail development be successful. In total, Douglas Park is a significant employment center for the City – centrally located with freeway accessibility, its development in compliance with the General Plan, reduced potential negative impacts to the surrounding neighborhoods, while focusing on high wage jobs.

As an operational goal, the General Plan seeks to provide at least 1.35 jobs for every household in the City. This favorable balance of jobs to households will assure residents a reasonable opportunity to find employment within Long Beach, thereby avoiding long commutes. This would also result in regional benefits such as reduced air pollution, freeway congestion and energy consumption. Also, increasing the number of high-paying jobs in the City increases spending power in Long Beach, which contributes to a higher disposable income and generates higher Sales Tax. Currently, with approximately 153,154 jobs and 163,794 households, the City's ratio is less than one job for every household. This ratio is also reflected in the City's unemployment rate of 9.4 percent, which is higher than the State and Federal unemployment rates of 7.4 percent and 6.1 percent, respectively.

Conformance with the General Plan appears to require a balance in the pursuit of expanded retail development, focusing on Sales Tax generation, with the quality of jobs and protection of neighborhood communities. The General Plan implies that the City can benefit by continuing to preserve industrial lands for the purpose of protecting and growing high quality jobs. It also indicates that the City should also carefully consider the needs of its neighborhoods to support a quality living environment. Lastly, the General Plan indicates that the City's retail strategy should match the appropriate type of retail in compatible locations that would place larger types of retail developments into existing activity centers and integrating smaller retail establishments into underserved residential areas.

IV. Opportunities to Maximize Long Beach's Revenues

There are many different opportunities to maximize Long Beach's Sales and Property Tax revenues. As part of this process, the City will need to take steps to ascertain what types of development would be best suited to serve the needs of a given locale and community.

Sales Tax Capture and Maximization

While the City could improve in many Economic Segments, the most significant include Apparel Stores, Department Stores and Auto Sales – New vehicles, which are experiencing annual Leakage of \$2.0 million, \$2.9 million and \$4.0 million, respectively. If the City was able to attract 100% capture in these three areas, we would be receiving a total of \$8.9 million in additional Sales Tax revenue. As mentioned earlier, the City already has incentive agreement programs for retailers locating or expanding in Long Beach that meet certain thresholds. Expanding or marketing those programs could be explored.

Another opportunity is to use specialized retail development consultants to develop lists of retailers looking to expand in our region. Retailers often have very specific requirements regarding the location and demographic characteristics of the sites where they are willing to locate. These lists would contain important information on the Economic Segment of the retailer, retailers square footage requirements, desired community demographics information and type of retail center location desired (strip mall, regional mall, retail pad, outlet center, etc). While this information is available for City use, the needs of the City and the economic and operational goals of the retailer must be in sync for long-term success. Ultimately retailers will determine where they locate.

As a result of the dissolution of the Redevelopment Agency (RDA), the City has an inventory of 259 parcels, which are assembled into 71 sites. State Assembly Bill AB 1484 segregated Redevelopment Property into four categories:

Government Use. Properties to be retained for Government Use pursuant to Section 34181(a) of AB 1484. These properties include properties or assets that were or will be constructed for use as roads, parks and park facilities, police or fire stations, libraries and other administrative buildings and shall be transferred by the Successor Agency to the City, which will retain the property and assets for ongoing governmental use. There are 62 parcels in this category, which are assembled into 21 sites.

Enforceable Obligations. Properties to be retained for purposes of fulfilling an Enforceable Obligation pursuant to Section 34191.5 (c)(2) of AB 1484. These properties shall be transferred by the Successor Agency to the City to comply with the enforceable obligations. Examples of enforceable obligations to be developed include Shoreline Gateway, which includes plans to convert a vacant lot at the corner of Alamitos Avenue and Ocean Boulevard into an urban infill mixed-use project. The proposal includes constructing two towers; one consisting of 18-stories and the second tower consisting of 35-stories that will provide increased retail and high-rise residential opportunities in the City. Additionally, the new

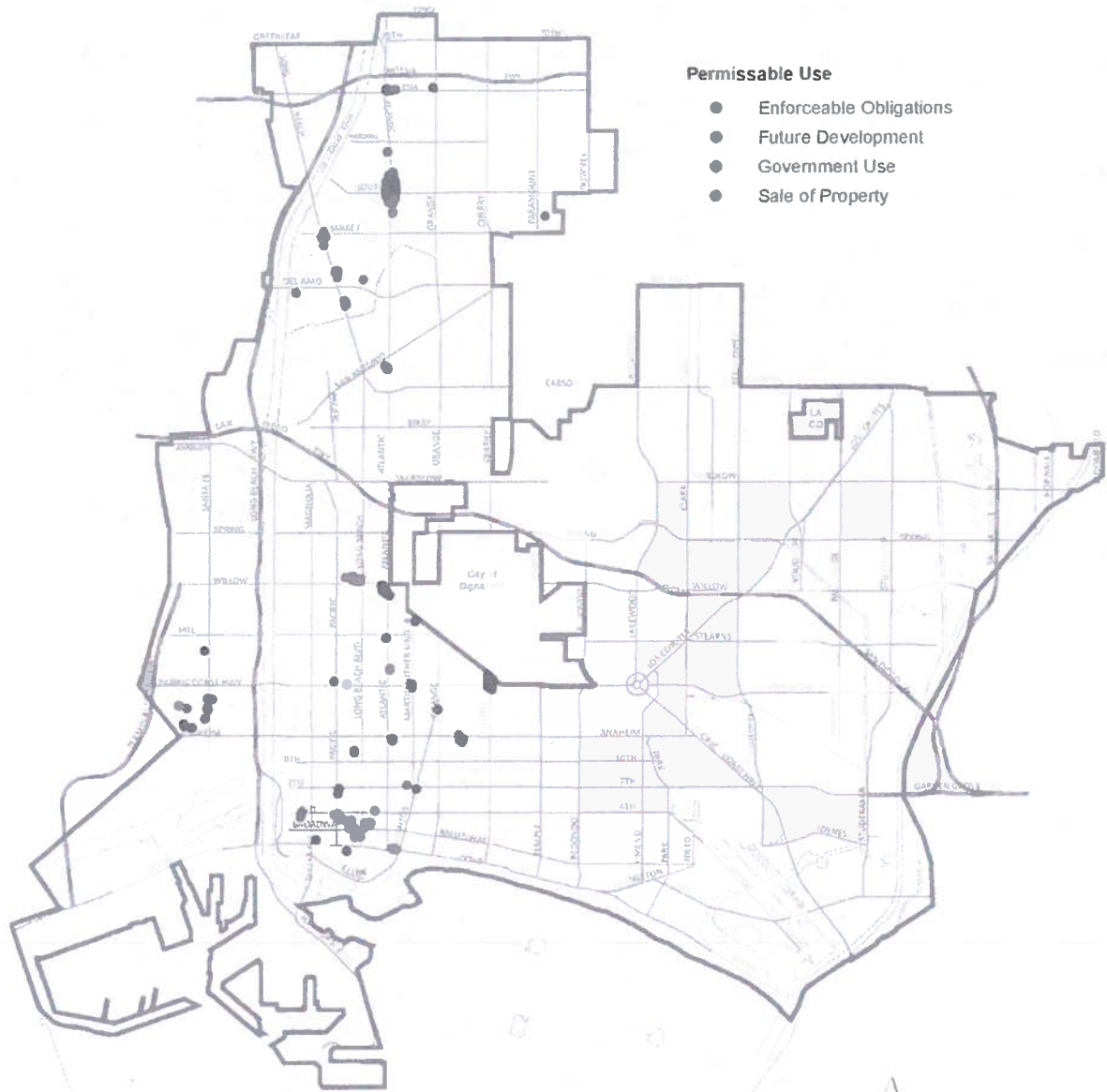
North Neighborhood Library is also a property on the enforceable obligation list. Once constructed, the North Neighborhood Library will provide a revitalized community space for residents in the City. There are nine parcels in this category, which are assembled into two sites.

Future Development. Properties to be retained for Future Development pursuant to Section 34191.5(c)(2) of AB 1484. These properties were acquired for a purpose or project identified in the related redevelopment plan, strategic guide, or other related guiding documents. These properties shall be transferred by the Successor Agency to the City to further the goals and objectives of the redevelopment plan and related guiding documents. There are 161 parcels in this category, which are assembled into 33 sites.

Properties For Sale. Pursuant to Section 34191.5(c)(2) and (2)(b) of AB 1484, these properties were acquired for a specific community purpose such as blight removal, elimination of a concentration of crime, accommodation of parking demand, or a change of land use. These properties have not been assembled into developable sites and will be disposed of through traditional marketing practices. These properties will not be transferred by the Successor Agency and proceeds generated by the sale of these properties will be distributed as Property Tax to the local taxing agencies. There are 27 parcels in this category, which are assembled into 15 sites.

The sites held for Future Development and Properties For Sale are good candidates for marketing to retail entities in order to grow both Property Tax and Sales Tax. Map 1 illustrates the location of the Successor Agency properties.

Map 1. Location of Successor Agency Properties



Property Tax Generation through Economic Development Efforts

Unlike Sales and Use Tax, which is a more volatile form of taxes, aside from the recent recession, Property Tax revenue has been incredibly stable. Due to Proposition 13 mandates, residential and commercial properties are reassessed only when sold. Property taxes represent 1.0 percent of the assessed valuation of the property and increase at a maximum of 2.0 percent per year, unless a previous assessment was lowered due to the economic downturn. This tax revenue is also allocated in a manner that benefits the City's residents, with 22 cents of every dollar paid going to the City, and 28 cents to our local school and community college districts.

Economic development of City-owned land is also a viable option. Although, the City does not pay property taxes on land that it owns within its own boundaries, when a city leases its own property for private uses, those leases generate a Possessory Interest Tax. Lessees pay the Possessory Interest Tax to the County, which remits a portion to the City. There are many large developments in the City that are on long-term ground leases, including Alamitos Bay Marina, Long Beach Towne Center, the Pike at Rainbow Harbor, and Shoreline Village. While the City doesn't pay property taxes on these parcels, the Lessee's pay Possessory Interest Tax and also generate Sales Tax. Additionally, the properties currently held by the Successor Agency are also not included in the tax rolls and are not producing Property Taxes for the County or the City. Once those properties are sold and developed, they will be included on the tax rolls, property taxes will increase.

The Role of Property Business Improvement Districts

Maintaining a reputation as a business-friendly City that strives to attract new and retain current businesses will serve to energize new economic development. An example of this business-friendly climate includes the City's support of BIDs. Property Business Improvement Districts fall into two broad categories, Parking and Business Improvement Areas and Property and Business Improvement Districts. Local BIDs offer the chance for businesses to join together and assess themselves to fund agreed-upon improvements in their business district. Nine BIDs have been formed in Long Beach since 1973. The first BID was an early version of the Belmont Shore Parking and Business Improvement Area. The most recent is the Uptown Property and Business Improvement District established in 2013. The goal of these BIDs is to use self-assessed fees to provide enhanced security, beautification, maintenance, and economic development, creating a business-friendly environment.

Assessments are paid as a part of Property Tax, which is remitted from the County to the City. Once received by the City and placed into segregated accounts, funds are transferred to the BID's management entity and spent on improvements such as parking facilities, lighting, parks, general beautification and maintenance, and on activities such as the promotion of public events, public music, tourism and other economic development activity.

Aside from being a great tool to enhance the City's beautification, maintenance, and crime reduction efforts, BIDs provide economic developments benefits, such as area economic revitalization through business attraction and retention, job creation, financial contributions through self-assessment for the betterment of an area, and the development of close ties among community members and between business owners and the City.

Legislative Advocacy Opportunities

Another avenue of opportunity for the ED&F Committee to maximize the City's sales and Property Tax revenues is through Federal and State legislative advocacy. Three areas that could increase tax revenue include addressing Online Sales Tax Leakage, expanding the taxable Sales Tax base and exploring a split roll assessment.

Online Sales Tax Leakage. It is estimated that California loses \$1.1 billion each year in uncollected taxes on Internet sales due to out-of-state online retailers not collecting taxes owed on consumer purchases. Under existing law, retailers without a brick-and-mortar presence in California cannot be compelled to collect Sales Tax on purchases made by California consumers. Due to the lack of Federal legislation regulating Online Sales Tax, online businesses have a significant economic advantage over traditional retailers, including those located within the City. Failure to charge state and local Sales Tax means that the price of goods sold by online retailers are significantly less than the after-tax price of the identical goods sold in brick-and-mortar stores.

Furthermore, consumer use of online and mobile commerce continues to grow. According to a May 2014 report from ComScore.com, e-commerce is up 12 percent year-over-year and continues to grow at a faster rate than the overall retail sector. Additionally, total digital commerce continues to gain market share from brick-and-mortar retail. The result is revenue loss for local governments experiencing Sales Tax Leakage. Although online retailers cannot be forced to charge consumers Sales Tax on purchased goods, the law requires shoppers to pay their State's Use Tax. Unfortunately, less than 1 percent of shoppers voluntarily pay their Use Tax.

Amazon.com and other online retailers have recently made agreements with individual states regarding the Sales Tax it will collect on sold merchandise. In 2011, under AB 28 1X, California passed an online Sales Tax law. Amazon.com, and other online retailers with more than \$1 million per year in sales were held responsible for collecting Sales Tax on items sold to California residents. The recent Sales Tax law affecting Amazon.com and other large online retailers demonstrates the State's potential to reach similar agreements with other online retailers, such as Amazon.com affiliates to smaller online retailers, to further capture sales tax revenue.

However, despite progress made through this legislation, there are many Amazon.com transactions that remain untaxed. Currently, Sales Tax is only applied to merchandise where Amazon.com is considered the retailer. Sales Tax does not apply to merchandise where Amazon.com provides "Fulfillment Services" or acts as the "Fulfillment Warehouse" for the original seller. By offering Fulfillment Services and Fulfillment Warehouses, Amazon.com and other online retailers are considered intermediary agents and not retailers. Amazon.com and similar retailers are able to provide services such as listing merchandise for sale on the Amazon.com website, storing merchandise in its warehouses, and packaging goods for delivery. Although merchandise flows through the Amazon.com operation through these services, Sales Tax cannot be applied to merchandise that flows through the Fulfillment Services process or through Fulfillment Warehouses. At the State and local level, legislators should analyze possibilities to tax the Fulfillment Services provided by online retailers, which is a growing business model.

At the Federal level, States' ability to capture Sales Tax is limited by the interstate commerce clause of the U.S. constitution requiring a "physical presence" requirement of the retailer because states cannot regulate the commerce of another state. Congress can overturn the "physical presence" requirement upheld by the US Supreme Court rulings by developing new standards under which states can require out-of-state retailers to collect Sales Tax. Addressing these Federal rules would assist in the City capturing Sales Tax revenue that is currently unrealized. This issue is already on the City Council's Federal and State Legislative agendas as a priority.

Expanding the Sales Tax Base. Given fiscal challenges related to the Great Recession, there have been State-wide policy discussions proposing to extend the State's Sales Tax to services in addition to purchased goods, as a strategy to balance the State's budget and modernize California's tax system. Expanding the Sales Tax base to services could raise significant new revenues and potentially improve the stability of Sales Tax.

Sales Tax revenues have declined as a percentage of California's economy. Existing Sales Tax laws were created in the early 1930s when goods accounted for 52 percent of the State's economy, while services accounted for 48 percent of consumer expenditures. In 2010, goods accounted for only 33 percent of purchases, while expenditures on services rose to 67 percent. Given this stark change in consumer spending patterns, there is a reduction in Sales Tax revenue as a percent of expenditures. Expanding the Sales Tax base to tax services could raise significant new revenues and potentially improve the stability of Sales Tax. Lowering the rate while expanding the base may not raise revenue as much, but it will make Sales Tax more stable over the long term. As the policy discussion of taxing services has materialized, three strategies have been identified in determining how services could be taxed: (i) extend Sales Tax to all services; (ii) apply Sales Tax to a select number of services; and (iii) apply a broad-based tax at a low rate on businesses' gross receipts from the sales of services.

Increasing Property Tax from Commercial Properties. Under Proposition 13 (Prop. 13), all categories of real property (residential, commercial, and industrial) on the local assessment roll are assessed at the same time, at the same basic tax rate, and under the same valuation standard. Given recent challenges related to declining tax revenue, proposals have been developed advocating for increasing property tax that could be assessed from commercial properties. These proposals include development of a "split roll" and closing Prop. 13 loopholes used among certain commercial entities during the change of ownership or transfer of a property.

Among the proposals, the "split roll" would result in the most dramatic change to existing Prop. 13 legislation. At its most basic form, a "split roll" would separate real property into different categories, with each category subject to varying assessment timelines, tax rates, and valuation standards. Among almost all proposals, residential properties would remain under current Prop. 13 provisions. It has been proposed that commercial and industrial properties be placed on a separate local assessment roll from residential properties and subject to

potentially higher tax rates and more frequent assessment/valuation standards than what is currently allowed under Prop. 13.

In addition to "split roll" proposals to increase property tax generation from commercial properties, there is legislative concern that commercial entities are utilizing legal loopholes to avoid reassessment of sold properties, and thereby benefitting from artificially low levels of property taxes. Currently, all properties in California are reassessed when the property is sold and/or experiences a change of ownership. However, if none of the purchasers acquire more than 50 percent interest in the property, reassessment may not be triggered. Concerns over corporations using loopholes and exemptions to avoid paying higher property taxes has prompted a reexamination of the change of ownership rules for commercial property. It is believed that millions of dollars in property tax are lost each year due to this rule.

Owners of commercial real estate have also utilized other Prop. 13 mechanisms to prevent reassessment of a property. For example, if a corporation owning commercial property (such as a shopping mall) is sold or merged, but the property stays technically deeded to the corporation, ownership of the property can effectively change hands without triggering Prop. 13's provision that fixes the amount of tax based on the property's resale value. Since many properties owned by large companies are nominally owned by shell companies whose sole assets are the properties in question, this has led to the awareness that companies are taking a lesser percentage of the overall tax burden than private homeowners. Critics of Prop. 13 have argued that this situation unfairly benefits commercial property owners and should be changed, but recent attempted ballot initiatives have not succeeded in altering assessment formulas.

Of these three areas of legislative reform, recent legislative efforts have been made to amend the change-of-ownership provision currently under the purview of Prop. 13. Opposition from the organized business community has stalled any real change to commercial property tax rules. In addition, there have been proposals to exempt commercial properties from Prop. 13 and create a different taxing structure that could have a Property Tax impact in the billions of dollars for the State of California. However, there have been studies projecting an even greater negative impact on jobs and businesses that have also been issued.

Replacement for the Redevelopment Agency

In addition to these Sales and Property Tax advocacy issues a replacement to the RDA could be another way to maximize revenue through Economic Development. Several legislative proposals have recommended alternatives for local communities to use in a post-RDA environment. However, no State-wide programs have been implemented. The Government Affairs Division will continue to monitor this issue and will report back on any legislation that would be of Economic development interest to the City.

V. Next Steps to Strengthen Long Beach

This report has detailed past successes that the City has had with its Sales and Use Tax program. It has also discussed the current status of Sales Tax in Long Beach and the mitigating factors that impact Sales Tax growth. This report has presented a list of preliminary opportunities to expand Long Beach's Economic Base and a list of legislative advocacy issues that could be pursued to maximize Long Beach's Sales Tax and Property Tax revenues. This section discusses the next steps that could be taken by the ED&F Committee to strengthen Long Beach and its economic development functions. The Mayor and City Council have already taken an important step by establishing the Economic and Property Development Department.

Economic Activity Reports

First, the Director of Economic and Property Development will provide a regular report of economic activity to the ED&F Committee. This report will include data such as:

- Current Sales Tax performance and Sales Tax Leakage by Sector
- Top 25 Sales Tax Generators and the Top 25 Fastest Growing Sales Tax Generators
- Comparison of Sales Tax to Comparable and Neighboring Jurisdictions
- The City's Unemployment Rate
- Number of Business Licenses Issued, Year-to-date
- Number of New Jobs Created, Year-to-date
- Number of Permits Pulled, Year-to-date
- Current Office Vacancy
- Current Retail Vacancy
- Number of Homes Sold
- Average Sale Price per Square Foot
- Number of Hotel Rooms Occupied

In addition to sharing and discussing this data and trending with the ED&F Committee to ensure proper direction, the City staff can bring in consultants or other experts, on an as-needed basis, to make presentations on any specific issues or initiatives.

Maximize Sales and Property Tax Revenues

The ED&F Committee could provide policy guidance on which Economic Segments the City should focus on. Then the Director of Economic and Property Development, with consulting support, will use the data available on site requirements for fastest growing and expanding retailers, appropriately matched to Leakage in Economic Categories of particular interest, and match these criteria to available Successor Agency properties for disposition and development. Successful sale and speedy development of the former RDA sites will strengthen both Sales and Property Tax revenues.

Plan to Strengthen Economic Development Functions and Programs

In order to strengthen the Economic Development functions in Long Beach, a dedicated revenue source would be helpful to develop a strong and pervasive economic development strategy, surgically market the specific properties, and implement other marketing initiatives. As one of the goals of the former Redevelopment Agency was to improve the economic vitality of communities, consideration might be given to allocating a portion of the proceeds from the sale of City-owned properties being used for development to further the goals of ongoing economic development efforts. These funds could be used for a "Buy Long Beach" marketing program, revolving loan funds for small business establishment and growth, and local incentives for businesses to locate or expand in the City, as well as other marketing initiatives.

Council Resolution for Access to the Sales and Use Data

The City currently has two Resolutions governing access to Sales and Use Tax data. They need to be combined and updated. Therefore, it is proposed that the ED&F Committee refer to City Council the attached resolution, which consolidates the two existing resolutions for Sales and Use Tax data, adds Economic Development as a government function, and provides a mechanism for elected official access to sales tax data. This would allow the City Manager to designate the Director of Economic and Property Development to access the Sales and Use Tax data for Economic Development purposes in order to expand the City's Sales Tax base, and also allow the City Attorney to determine when access to retailer-specific sales tax data is appropriate for elected officials during policy formation and decision making.

Conclusion

City staff appreciates the opportunity for guidance from the ED&F Committee and looks forward to efforts directed toward strengthening the fiscal resilience of Long Beach and expanding its Economic Development functions.

If you have any questions, please contact Budget Manager, Lea Eriksen at 8-6533 or Director of Economic and Property Development, Michael Conway at 8-5282.

K:\Budget\Economic Development And Finance\FY 15\TFF Re Sales Tax Presentation v5Final.Doc

CC: MAYOR AND MEMBERS OF THE CITY COUNCIL
JYL MARDEN, INTERIM ASSISTANT CITY MANAGER
REGGIE HARRISON, DEPUTY CITY MANAGER
TOM MODICA, DEPUTY CITY MANAGER
ALL DEPARTMENT HEADS

ATTACHMENT

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE
CITY OF LONG BEACH AUTHORIZING SPECIFIC CITY
OFFICERS AND EMPLOYEES AND THE CITY'S REVENUE
CONSULTANT TO EXAMINE CONFIDENTIAL
TRANSACTION (SALES) AND USE TAX RECORDS

WHEREAS, pursuant to Charter of the City of Long Beach, the City of Long Beach entered into a contract with the State Board of Equalization to perform all functions incident to the administration and collection of local sales and use taxes; and

WHEREAS, the City Council of the City of Long Beach deems it desirable and necessary for authorized representatives of the City to examine confidential sales and use tax records of the State Board of Equalization pertaining to sales and use taxes collected by the Board for the City pursuant to that contract; and

WHEREAS, section 7056 of the California Revenue and Taxation Code sets forth certain requirements and conditions for the disclosure of Board records, and establishes criminal penalties for the unlawful disclosure of information contained in, or derived from, the sales and use tax records of the Board;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF LONG BEACH HEREBY RESOLVES AS FOLLOWS:

Section 1. That the City Manager and the City's City Auditor or any assistant or employee of such officers designated in writing by the City Manager or the City Auditor to the State Board of Equalization (hereafter referred to as Board), is hereby appointed to represent the City with authority to examine sales and use tax records of the Board pertaining to sales and use taxes collected for the City by the Board pursuant to the contract between the City and the Board. The information obtained by examination of Board records shall be used only for purposes related to the collection of City sales and use taxes by the Board pursuant to that contract.

Section 2. That the City Manager and the City Attorney, or other officer or employee of the City designated in writing by the City Manager or the City Attorney to the Board, is hereby appointed to represent the City with authority to examine those sales and use tax records of the Board, for purposes related to the following governmental functions of the City:

- (a) Financial Planning
- (b) Economic Development
- (c) Business Tax compliance

Furthermore, allow the City Attorney to determine, on a case-by-case basis, when access to retailer-specific sales tax data is appropriate for elected officials for policy formation and decision-making related to the above governmental functions, and grant said access.

The information obtained by examination of Board records shall be used only for those governmental functions of the City listed above.

Section 3. That MuniServices LLC is hereby designated to examine the sales and use tax records of the Board pertaining to sales and use taxes collected for the City by the Board. The person or entity designated by this section meets all of the following conditions:

- a) Has an existing contract with the City to examine those sales and use tax records;
- b) Is required by that contract to disclose information contained in, or derived from, those sales and use tax records only to the officer or employee authorized under Section 1 or section 2 of this resolution to examine the information;
- c) Is prohibited by that contract from performing consulting services for a retailer during the term of that contract; and
- d) Is prohibited by that contract from retaining the information contained in, or derived from those sales and use tax records, after that contract has expired.

The information obtained by examination of Board records shall be used only for purposes related to the collection of City sales and use taxes by the Board pursuant to the contract between the City and the Board and for purposes relating to the governmental functions of the City listed in Section 2 of this resolution.

***Section 4.** That this resolution supersedes all prior resolutions of the City Council of the City of Long Beach adopted pursuant to subdivision (b) of Revenue and Taxation Code section 7056. This resolution shall take effect immediately upon its adoption by the City Council, and the City Clerk shall certify the vote adopting this resolution.

I hereby certify that the foregoing resolution was adopted by the City Council of the City of Long Beach at its meeting of _____, 2014, by the following vote:

Ayes: Councilmembers:

Noes: Councilmembers:

Absent: Councilmembers:

City Clerk