March 8, 2002

Honorable Mayor and Members of
the Hermosa Beach City Council

Regular Meeting of
March 12, 2002

AUTHORIZE MAYOR TO SIGN LETTER TO ASSEMBLYMAN NAKANO REGARDING AMENDMENT OF SALES TAX SHARING LEGISLATION

Recommendation

It is recommended that the City Council authorize the Mayor to sign a letter to Assemblyman Nakano requesting his sponsorship of an amendment to sales tax sharing legislation that was passed in 1999.

Background

The Governor signed AB 178 into law on 9/2/99. The purpose of the legislation is to limit competition among local agencies for sales tax revenue by requiring a sharing of revenue between the cities if financial assistance is provided as an incentive for relocation of a business. The law applies to automobile dealers and big box retailers specifically. If financial assistance is offered to an automobile dealer or big box retailer to entice them to relocate from one city to another, within the same market area, the receiving city must offer the other city a contract that apportions sales tax between the two cities for a period of ten years. (*Financial assistance* includes loans, subsidies, tax rebates, sale/lease of property at less than market value, reduction of fees, etc. *Big box retailers* are defined as having greater than 75,000 square feet of gross buildable area.)

In calculating the amount to be shared, the law stipulates that the annual amount of assistance is subtracted from the annual sales tax, with the remaining amount shared between the two cities.

Analysis

When South Bay BMW was negotiating with the City of Torrance to move the dealership there, Torrance was required to draft a sales tax sharing agreement with Hermosa Beach since they planned to provide financial assistance to the dealer. Staff had an opportunity to analyze the agreement and the resulting effect on sales tax revenue.

The intent of the law is to discourage cities from using public funds for the purpose of "stealing" major sales tax generators from another nearby city. However, since the financial assistance is deducted from the gross sales tax, the "sharing" is greatly reduced for the city who is losing the business.

In the case of the proposed agreement with Torrance, financial incentives included a loan of $2.3 million to be repaid over ten years and reduced lease payments for three years. Factoring these incentives into the calculation would have resulted in Hermosa Beach receiving no sales tax from the sharing agreement for the first three years and only 8–13% of the projected sales tax revenue for the remaining seven years of the agreement. Clearly, the result is far from the intended 50/50 sharing of sales tax.

Staff recommends that a letter, signed by the Mayor, be sent to Assemblyman Nakano, asking him to sponsor legislation that would close this "loophole" that conflicts with the original intent of the bill.

Respectively submitted,

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Viki Copeland

Concur:

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Stephen Burrell

Finance Director City Manager