



## STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE ENROLLED BILL ANALYSIS

Date Amended:	<b>Enrolled</b>	Bill No:	<b>AB 588</b>
Tax:	<b>Local Sales and Use</b>	Author:	<b>Goldberg &amp; Koretz</b>
Related Bills:	<b>AB 2329 (Oropeza) SB 143 (Runner)</b>		

### **BILL SUMMARY**

This bill would require the State Board of Equalization (Board), Employment Development Department (EDD), Department of Industrial Relations (DIR), Department of Finance (DOF), and the Department of Transportation (DOT), in the preparation and maintenance of any statistical analyses and data by city, to make a separate breakdown of the community of Hollywood, as provided, and require the City of Los Angeles to provide all necessary data.

### **ANALYSIS**

#### **Current Law**

Since 1976, pursuant to Section 11093 of the Government Code, the Department of Finance, the State Department of Health Services, and the Department of Transportation have been required, in the preparation and maintenance of any statistical analyses of cities, to make a separate breakdown of the San Fernando Valley. The City of Los Angeles is required to provide all necessary data. However, other state agencies were not required to prepare or maintain any statistical information by city unless: (1) information was currently being prepared or maintained by city; or (2) a state agency voluntarily prepared or maintained information by city.

Effective January 1, 2005, the passage of Assembly Bill 2207 (Chapter 181, Statutes 2004) requires any state agency or department that develops and maintains data and statistics on the municipal level to make a separate breakdown of the San Fernando Valley in the preparation and maintenance of any statistical analyses by city, and authorizes state agencies to require the City of Los Angeles to provide all necessary data. If the use of a tax area code is required in order to make a separate breakdown of the San Fernando Valley, then an alternate method may be used to determine the separate breakdown of the San Fernando Valley. Also under current law, the Controller may, upon request in a motion adopted by the City Council of the City of Los Angeles, designate additional statistical areas within the City of Los Angeles, except that the statistical areas shall not exceed three in number.

Under current Bradley-Burns Uniform Local Sales and Use Tax Law, the Board is required to collect and maintain local tax data by city, county, or city and county. Under current Transactions and Use Tax Law, the Board is required to collect and maintain local tax data by special taxing district. The Board, in its annual report, publishes the following statistical data: (1) State Sales and Use Tax Statistics by County; (2) Revenues Distributed to Cities and Counties From Local Sales and Use Taxes; (3) Revenues Distributed to Counties From County Transportation Tax; and (4) Revenues Distributed to Special Districts From Transactions and Use Tax.

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The Board publishes both a quarterly and annual booklet titled “Taxable Sales in California (Sales & Use Tax).” The booklets are a quarterly or annual report on retail sales activity in California. These reports provide taxable sales data by: (1) Statewide Taxable Sales, By Type of Business; (2) Taxable Sales, By County; (3) Taxable Sales in the 36 Largest Counties, By Type of Business; (4) Taxable Sales in the 22 Smallest Counties, By Type of Business; (5) Taxable Sales in the 272 Largest Cities, By Type of Business; and (6) Taxable Sales in All Cities Except the 272 Largest. Both the quarterly and annual reports are available on the Board’s website at [www.boe.ca.gov](http://www.boe.ca.gov).

### Proposed Law

This bill would add Section 11093.4 to the Government Code to provide that the Board, EDD, DIR, DOF, and DOT would be required, in the preparation and maintenance of any statistical analyses and data by city, to make a separate breakdown of the community of Hollywood, and would require the City of Los Angeles, at its sole expense, to provide all necessary data. This bill would also:

- Specify that the designated state agencies are required to implement the bill only to the extent the data is available from federal, state or local sources that provide data for other jurisdictions or is provided by the City of Los Angeles, and that the state agencies are not required to develop or collect data;
- Prohibit data from being reported if such reporting would violate data confidentiality agreements or rules;
- Specify that the designated state agencies are not required to report data that would not meet the statistical accuracy standards for the publication or data series for which they relate.
- Permit the designated state agencies to report special analyses or data compilations for the community of Hollywood if reimbursement or other funding is provided;
- Permit an alternate method to be used to determine the separate breakdown of the community of Hollywood if the use of a tax area code is required to comply with provisions of the bill; and
- Make various legislative findings.

### COMMENTS

- 1. Sponsor and purpose.** This bill is sponsored by the Hollywood Chamber of Commerce. According to the sponsor of the bill, the community of Hollywood has turned a corner from the crime and dilapidation that plagued the area for decades and, today, is attracting close to \$1 billion in new development. The Hollywood Chamber of Commerce now receives numerous requests each month for information on the community. Developers, entrepreneurs interested in opening businesses, civic and education leaders as well as residents are requesting specific data on Hollywood’s population, median income, employment, housing stock, general land use, tourism and infrastructure. However, the critical data and information is often scattered among multiple city agencies and departments, not reported on a regular basis, or is not collected at all. The difficulty or, sometimes, impossibility of gathering information in a timely manner often jeopardizes bringing major development and is a barrier to planning and to promoting Hollywood’s economic and social growth.

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- 2. Key Amendments. The June 13, 2006 amendments:** 1) narrowed the list of state agencies required to provide separate statistical reporting for the community of Hollywood; 2) required the City of Los Angeles to bear the full expense of providing the necessary data; 3) provided that the state agencies required to make a separate breakdown are to do so only to the extent that data is available from federal, state, or local sources or is provided by the City of Los Angeles, and that the state agencies are not required to develop or collect data; 4) specified that state agencies are not required to report data that would not meet the statistical accuracy standards for the publication or data series for which they relate; 5) provided that state agencies may report special analyses or data compilations for Hollywood if reimbursement or other funding is provided; and 6) make various legislative findings. **The June 30, 2005 amendments** required the DHCD, DRE, CHFA, DMV, DOT, DGS, and the DFEH, in addition to the Board, FTB, EDD, DIR, and the DOF, in preparing data and statistics by city, to make a separate breakdown of the community of Hollywood. **The June 21, 2005 amendments** required the Board, FTB, EDD, DIR, and the DOF, rather than all state agencies, in preparing data and statistics by city, to make a separate breakdown of the community of Hollywood. **The May 31, 2005 amendments** made technical changes to the geographical description of the community of Hollywood. **The March 29, 2005 amendments** corrected street names that had been misspelled.
- 3. To develop data using the Board's tax area code system would be costly.** As previously stated, the Board maintains two types of data by city and county: distributions of local sales and use tax revenues and taxable sales. This information is collected and maintained using a tax area code system. All registered permit holders are assigned a tax area code. A tax area code is a twelve (12) digit number that identifies the city and county in which the account is located, as well as any special districts or redevelopment areas. All newly incorporated cities are assigned a tax area code.

To implement the provisions of this bill using the Board's existing system, and not an alternative method as this bill allows, the Board would have to treat the community of Hollywood as a newly incorporated city. This would require creating a special tax area code for the community of Hollywood. Once the tax area code is established, the Board would have to identify all accounts within the community of Hollywood. The Board requires all newly incorporated cities to furnish maps and listings of street addresses. The Board would have to print out all accounts currently within the City of Los Angeles and the surrounding areas. Using the street listings provided by the City of Los Angeles, Board staff would have to compare each business address from the Board's records to the city's street listing to identify those accounts within the community of Hollywood.

Once the accounts have been identified, each account must be changed on the Board's registration system. This would require changing the tax area code, entering comments regarding the nature of the changes made, and other minor modifications. When changes have been made to the registration system, a listing of all accounts that were changed, as well as copies of maps and street listings, are forwarded to the appropriate district offices for distribution to personnel responsible for registration of new accounts.

Other tasks associated with establishing the new tax area for the community of Hollywood include: preparing written guidelines for audit and compliance staff; designing and printing a special mailer to be mailed with the tax returns to all affected accounts, and revising various forms and publications.

4. **“Alternate method” for the San Fernando Valley.** Prior to the enactment of Assembly Bill 2207, Board staff met with the author’s staff to discuss how it prepared statistical data on cities. Board staff explained to the author’s office that to use a tax area code to make a separate breakdown for the San Fernando Valley would be too costly. The author’s staff recommended amending the bill to provide that, in the case where a tax area code is used in making a separate breakdown for the San Fernando Valley, an alternate method may be used instead. The Board staff explained that, if the City of Los Angeles were to compile data on the San Fernando Valley, with the Board performing a minimal amount of verification, such work could be done with insignificant costs (i.e., under \$10,000) to the Board. However, any other method that would require the Board to compile all the data would result in significant costs to the Board. The Board staff explained that it would publish the data provided the City of Los Angeles in its “Taxable Sales in California (Sales and Use Tax)” publication.

The taxable sales data on the San Fernando Valley will also contain a footnote referencing that the source of the data is the City of Los Angeles. A footnote regarding the source of the data is necessary because the Board will not be preparing the data.

5. **This bill presents the same concerns for the Board that the San Fernando Valley bill did.** As previously stated, to make a separate breakdown of the community of Hollywood using a tax area code would be too costly. In addition, to modify the Board’s computer system in order to capture data using another method would be equally as costly.

The problem with using an alternate method, with the City of Los Angeles providing all necessary data, is that it is data that is not prepared by the Board. The data is primarily prepared by the City of Los Angeles, with minimal verification performed by the Board. This data would be published in the Board’s Taxable Sales in California publication; however, there would be a footnote stating that the data was developed from a source other than the Board. It seems that the purpose of the bill is to have reliable data developed for a specified statistical area, and to the extent feasible to require state agencies already collecting data by city, to collect data for a new statistical area. The problem is that the Board’s existing system cannot be reasonably modified to collect data using another method. This means that in order to keep the costs at a minimum, the City of Los Angeles will prepare the data for the community of Hollywood (like they are required to do for the San Fernando Valley), with minimal verification performed by the Board.

6. **Could taxable sales data be developed using zip codes?** Zip codes are developed for purposes of mail delivery and not geographical boundary determinations. In general, city boundaries and zip codes do not coincide. Some cities have multiple zip codes. For example, most of the City of Diamond Bar is in 91765 zip code, but the City’s western area is in the 91789 zip code, centered on the adjacent City of Walnut. Some zip codes encompass parts of a city and the unincorporated area of a county. For example, the City of Trinidad and parts of

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Humboldt County have the same zip code. Therefore, to develop data using zip codes can result in the data being materially under- or over-stated.

In addition, the Board can extract data using zip codes for a sales and use tax account that consists of a single selling location. However, the Board's system cannot extract data using zip codes for consolidated accounts, which is a sales and use tax account consisting of two or more selling locations for which a single tax return is filed. The Board's local sales and use tax schedules for consolidated accounts are based on tax area codes, not zip codes. An example of a consolidated account would be a large drug store, which could have 15 stores reported on one consolidated return. The data on the individual stores would be reported based on tax area codes. Additionally, if two or more stores are in the same tax area code, the retailer may report a combined amount of tax for that tax area code, thus making it impossible to identify an amount attributable to the individual location. Therefore, to develop data using zip codes that would not capture the sublocations on consolidated accounts would result in very imprecise data almost to the point of being meaningless.

7. **Is legislation necessary?** Under current law, the Controller may, upon request in a motion adopted by the City Council of the City of Los Angeles, designate additional statistical areas within the City of Los Angeles, except that the additional statistical areas shall not exceed three in number. Perhaps the author should first attempt making a request to the City of Los Angeles and the Controller before pursuing legislation?
8. **Related Legislation.** Assembly Bill 2329 (Oropeza) would require the Franchise Tax Board, EDD, DOF, DIR, DOT, Department of Housing and Community Development, Department of Real Estate, California Housing Finance Agency, Department of Motor Vehicles, Department of General Services, and the Department of Fair Employment and Housing, in the preparation and maintenance of any statistical analyses and data by city, to make a separate breakdown of the South Bay Cities and Harbor area within the County of Los Angeles. This bill was set to be heard in Assembly Business and Professions Committee, but the hearing was canceled at the request of the author.

Senate Bill 143 (Runner, Ch. 679, Stats. 2005) requires the EDD and DOF, in the preparation and maintenance of statistical analyses and data by county, to make a separate breakdown of the Antelope Valley, as specified, and encourages the Counties of Kern and Los Angeles to voluntarily provide data to those state agencies.

**COST ESTIMATE**

This bill would require five state agencies that collect and maintain data on a city level to make a separate breakdown for the community of Hollywood, and would require the City of Los Angeles, at its sole expense, to provide all necessary data. The state agencies are required to implement the data reporting and analysis requirements only to the extent such data is available from federal, state, or local sources that provide data for other jurisdictions or is provided by the City of Los Angeles and that the state agencies are not required to develop or collect data. If a tax area code is used to collect or develop data, then an alternate method may be used to determine the separate breakdown of the community of Hollywood.

As long as the City of Los Angeles is providing all necessary data, with minimal review performed by the Board, the Board's costs would be insignificant (i.e., under \$10,000).

**REVENUE ESTIMATE**

This bill would not impact the state's revenues.

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