



**STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE ENROLLED BILL ANALYSIS**

Date Amended:	Enrolled	Bill No:	<u>AB 922</u>
Tax:	Local Sales and Use	Author:	Levine
Related Bills:			

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 Wilshire Corridor Traffic Relief Planning District, 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 DOT 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 (Stats. 2004, Ch. 181, Levine) 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.

Effective January 1, 2007, the passage of Assembly Bill 588 (Stats. 2006, Ch. 185, Goldberg) requires the Board, EDD, DIR, DOF, and DOT, in the preparation and maintenance of any statistical analyses of cities, to make a separate breakdown of the community of Hollywood, and requires the City of Los Angeles, at its sole expense, to provide all necessary data. The specified state entities are required to implement the data reporting and analysis requirements 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 state agencies are not required to develop or collect data. The specified state entities may not report data that would violate data confidentiality agreements or rules. Also, under current law, the specified state entities are not required to report data that would not meet the statistical accuracy standards for the publication or data series for which they relate.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

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.

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.

PROPOSED LAW

This bill would add Section 11093.1 to the Government Code to require the Board, EDD, DIR, DOF, and DOT, in the preparation and maintenance of any statistical analyses and data by city, to make a separate breakdown of the Wilshire Corridor Traffic Relief Planning District (Wilshire corridor), and require the City of Los Angeles, at its sole expense, to provide all necessary data. This bill also:

- Specifies 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;
- Prohibits data from being reported if such reporting would violate data confidentiality agreements or rules;
- Specifies 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.
- Permits the designated state agencies to report special analyses or data compilations for the Wilshire corridor if reimbursement or other funding is provided; and,
- Permits an alternate method to be used to determine the separate breakdown of the Wilshire corridor if the use of a tax area code is required to comply with provisions of the bill.

BACKGROUND

Two bills were introduced during the 2005-06 Legislative Session that would have required specified state entities that develop data and statistics by county, to make a separate breakdown of a statistical district, as defined:

AB 2329 (Oropeza) would have require the 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

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the Department of Fair Employment and Housing, and the Franchise Tax Board, 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.

COMMENTS

1. **Purpose.** This bill is sponsored by the author. According to the author's office, "by creating a statistical district for the region, better transportation planning can be accomplished. Specifically, as the merits of extending a subway line westward along Wilshire Blvd. are considered, it is critically important that policy makers understand the unique challenges posed by this area. CalTrans collects statistical information on a citywide level. However, in a city as large and diverse as Los Angeles, the aggregated statistical information is not helpful in illuminating transportation situations within specific regions of the city. In this case, the Wilshire Corridor represents a section of Los Angeles with very heavy population density, and tremendous vehicular traffic."
2. **Summary of Amendments.** The **August 31, 2007 amendments** further defined the geographic boundary of the Wilshire Corridor Traffic Relief Planning District by specifying certain streets, intersections and freeways. The **August 20, 2007 amendments** substituted Wilshire Corridor Traffic Relief Planning District for the community of the Wilshire corridor. The **August 1, 2007 amendments** made a minor technical correction related to the geographic boundary of the statistical district.
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 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 the Wilshire corridor as a newly incorporated city. This would require creating a special tax area code for the community of Wilshire corridor. Once the tax area code is established, the Board would have to identify all accounts within the Wilshire corridor. 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 Wilshire corridor.

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 Wilshire corridor 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. **The Board provides registration and local sales tax allocation information upon request to cities and counties.** Registration information includes the following: 1) taxpayer's name (and dba, if applicable); 2) the business address; 3) seller's permit (account) number; 4) code for type of ownership; and 5) code for type of business. In addition to the registration data provided by the Board, local jurisdictions may also request a list of the local sales tax dollars allocated to the jurisdiction from taxpayer's returns. Cities and counties typically monitor this data for questionable tax allocations or unusual dollar amounts, but also find it useful as a budgeting tool.

With respect to the allocation information, each jurisdiction receives the local tax amounts attributable to each taxpayer. In the case of a taxpayer that holds a consolidated account and files a consolidated return, the jurisdiction only receives the local tax amounts attributable to the taxpayer and not attributable to each taxpayer's separate location within the jurisdiction. For example, if the taxpayer operates three pizza parlors—two in the City of Los Angeles and one in the City of Beverly Hills, the City of Los Angeles will receive a single lump-sum amount of local sales tax attributable to the two pizza parlors within its jurisdiction. Thus, if one of the pizza parlors is located within the Wilshire corridor, the information provided to the City of Los Angeles will not show this, as the City of Los Angeles will receive a single lump-sum amount for both pizza parlors located within the city. The Board's practice for maintaining data on consolidated accounts is further discussed under comment 4.

5. **Consolidated accounts.** A taxpayer who operates more than one place of business under the exact same ownership may report sales for all locations on one return. These taxpayers are required to complete and attach to the return a Schedule C – Detailed Allocation by Suboutlet of Uniform Local Sales and Use Tax. However, taxpayers with one or more locations situated in a single local jurisdiction are not required to complete a Schedule C. In this case, the Board would not know the local tax attributable to each location that is situated within the same jurisdiction.

Taxpayers with multiple locations in multiple jurisdictions are required to file a Schedule C. For these taxpayers, they may report one amount of local tax for multiple locations that are within the same jurisdiction, even though most of these taxpayers report amounts of local tax attributable to each separate location. In this case, the Board does know the amount of local tax attributable to each location.

However, it should be noted that, under the Board's current practice, Board staff enters into its computer system a single, lump-sum amount of local sales tax for

each local jurisdiction to which the local sales tax is reported, even if the taxpayer has more than one location within that local jurisdiction and even if the taxpayer has reported amounts of tax attributable to each location.

Thus, for consolidated accounts with multiple locations in multiple jurisdictions, the Board can provide the local tax attributable to each location, but this would require the Board to manually pull each Schedule C from the taxpayer's central file to identify the tax attributable for a specific location.

5. **“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 bill was amended 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 (i.e., Board staff would provide data on some of the consolidated accounts) such work could be done with insignificant costs 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.

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.

6. **This bill presents the same concerns for the Board that both the San Fernando Valley and the community of Hollywood bills did.** As previously stated, to make a separate breakdown of the Wilshire corridor 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 minor 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, using allocation data provided by the Board, will identify all accounts within the Wilshire corridor (like they are required to do for the San Fernando Valley and community of Hollywood). The data that the City of Los Angeles does not have, for consolidated accounts (more than one location), are the local tax amounts attributable to locations in the Wilshire corridor. Board staff will compile this data.

7. **Could taxable sales data be developed using zip codes?** Zip codes are developed for purposes of mail delivery and not geographical boundary

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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 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 permit that consists of a single selling location. However, the Board's system cannot extract data using zip codes for consolidated permits, which is a sales and use tax permit consisting of two or more selling locations for which one tax return is filed. The Board's local sales and use tax schedules for consolidated permits are based on tax area codes, not zip codes. An example of a consolidated permit 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, Board staff enters into its computer system a single, lump-sum amount of local sales tax for that tax area code (jurisdiction), 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 permits which would result in very imprecise data almost to the point of being meaningless.

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 Wilshire corridor, 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.

As long as the City of Los Angeles is providing all necessary data, with moderate review performed by the Board, the Board's costs would be approximately \$50,000.

REVENUE ESTIMATE

This bill would not impact the state's revenues.

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