V. Retail and Economic Development

Overview

> *"Understanding the current Sales Tax environment in Long Beach is critical to formulating a successful economic development plan."*[1]

In the minds of many, economic development means retail development. For decades, the economic development strategy for California cities can be summarized in two words: Get Retail! As a result, cities have competed for all manner of retailers: from auto dealerships to big box outlets to Trader Joe's. Cities have paid consultant groups hefty sums to identify and analyze "sales tax leakage" – meaning, how much sales tax *should* a city be getting and how much is being siphoned off by neighboring jurisdictions – and how to patch the hole.

Staff, management and elected officials have concentrated their economic development concerns and efforts on retail attraction. Cities have sought development deals that feature retail as the headliner – and have increasingly required a retail component for residential development. For years, delegations from cities have made pilgrimages to Las Vegas for International Council of Shopping Centers conferences in the hope of luring retailers to their jurisdiction.

The reason, of course, is sales tax revenue. Under California law – the Bradley-Burns Uniform Local Sales and Use Tax Law – jurisdictions receive 1% sales tax. Sales tax became crucial for many cities following the passage of Prop 13; for many cities, sales tax revenue exceeds 25% of their General Fund budget. Cities chased retail.

The Basics

"A sandwich purchased to go may shift from tax-exempt to taxable if the customer chooses to have the bread toasted," states a recent California Legislative Analyst's Office report. And *that* says volumes about California's complicated, arcane and sometimes bizarre regulations for sales tax. Sales tax provides revenue for state and local governments, and its allocation has had a tortured history, subject to accounting twists and turns in Sacramento, including the infamous "triple flip." (Don't ask; it's almost over.)

Start here: sales tax revenue is a principal source of revenue for both the state and local governments. State and local governments can tax retail sales of tangible (you can touch them) goods. The tax has two components: (1) Sales Tax – goods sold by retailers (that line item at the bottom of the sales receipt) and (2) Use Tax – when buyers pay for certain items purchased out of state – such as some internet purchase from Amazon or that truck purchased in Nevada. Sales tax occurs at the retail level – individuals purchasing goods -- and also business-to-business.

The current rate for Long Beach is 9%, including state, county and city set-asides. In June, voters approved Measure A, which will raise the rate beginning January 1, 2017 to 10% for the first six

[1] "Economic Development – Sales and Use Tax", Memorandum to Members of the Economic Development and Finance Committee, October 17, 2014, p. 1.

years, then 9.5% for the final four years. Eleven LA County cities currently have rates higher than Long Beach, ranging from 9.5% to 10%.

High Jacking Sales Tax? You Be the Judge!

Sales tax poaching? Really? West Sacramento recently lost $1 million in annual sales tax revenue when a home improvement products distributor agreed to consolidate its point of sale operations to Santee. The payoff? Santee agreed to rebate 50% of its sales tax collection when tax revenue exceeded $500,000 annually. Said the Mayor of West Sacramento, "They are simply hijacking 100 percent of the sales tax and sending it this rogue city." Said the Santee city manager, "It's not like we went and sought them out. They came to us."

With some notable exceptions sales tax revenue is allocated at the point of sale. That means, for example, that the sales tax for a flat screen television purchased in Long Beach goes to Long Beach – even if the purchaser lives in Seal Beach. If that flat screen costs $500, it generates 1% ($5) of the purchase price in sales tax revenue for the City. Multiply that $5 by hundreds of thousands of sales and you understand why cities so want retailers – and why developments that lure nonresidents to your city to spend their disposable income have become a key objective for jurisdictions.

That also promotes, as politely stated in a recent California Legislative Analyst report, local governments giving "fiscal incentives to maximize retail sales within their boundaries." In some cases, cities and counties have responded to these incentives by seeking to influence the location of new retail development. For example, some cities and counties have (1) used their land use powers to reserve large tracts of readily developable land for retail purposes and (2) established fiscal policies—such as partial sales tax rebates to retail businesses—to attract or retain retail development."[2] The effect has led cities to chase retail while treating other economic sectors – manufacturing, for example – with benign neglect.

A New Wrinkle: Competing for Online Sales Tax

Recently Fresno and Visalia became finalists for a Nordstrom packaging and online distribution center. Both cities are expected to propose a sales tax rebate deal – with Fresno's returning up to $10 million to Nordstrom. A second development phase would create a distribution center to supply brick-and-mortar Nordstrom stores, and that too would have a sales tax rebate deal worth $8.75 million.

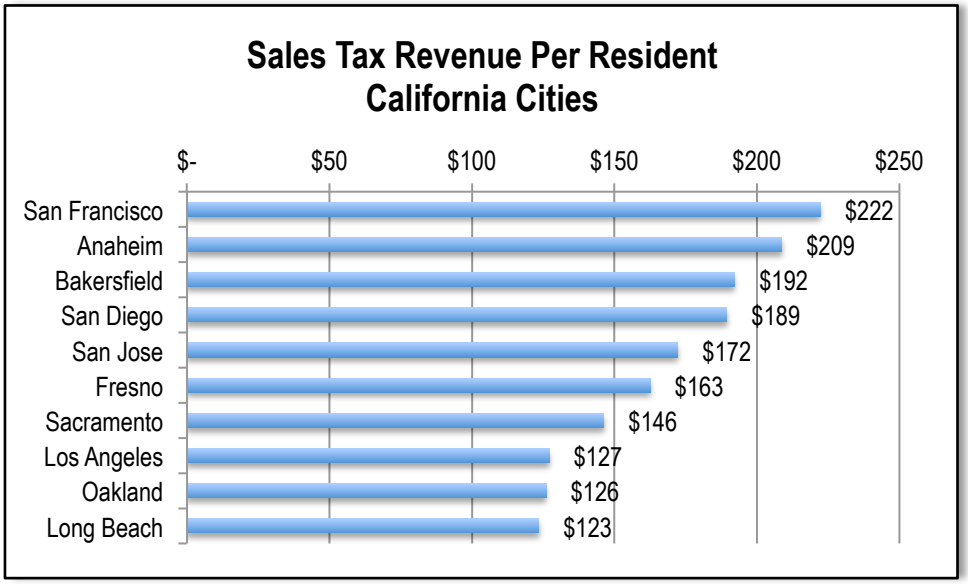
The wrinkle in this deal is that the winning city would capture all of Nordstrom's online sales in California by making the distribution center the single point-of-sale for the state. Fresno's proposal is tied to jobs; the agreement would kick in when the facility reaches 700 full time equivalent employees. The rebate would be 75% the first 3 years and then 50% of the annual sales tax revenue up to a $10 million cap.

Retail and Long Beach

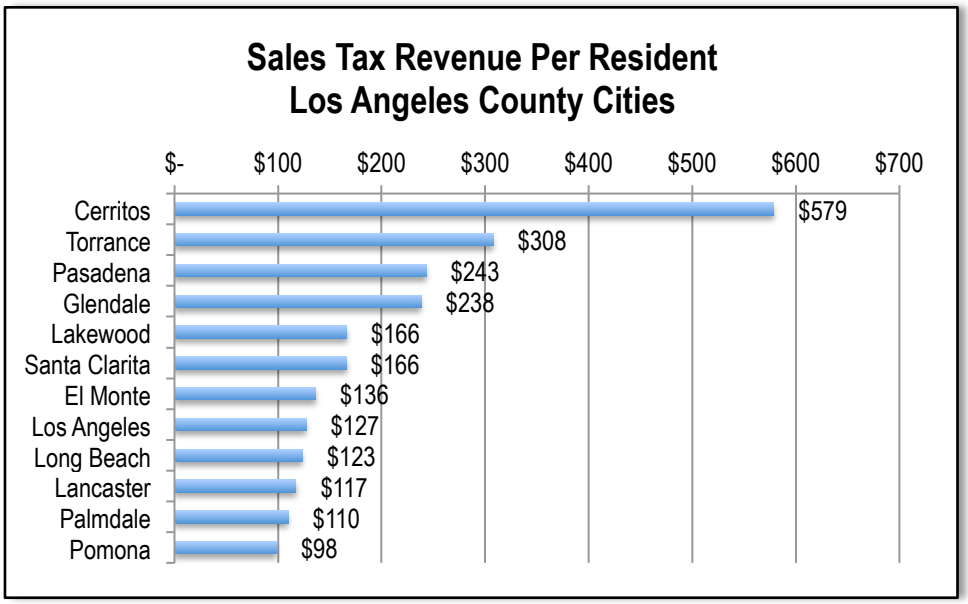
How is Long Beach doing in the sales tax race? Not that well. First, let's look at how cities across the state compare. A good indicator is to compare sales tax revenue per capita – that is, dividing the total sales tax revenue captured by a city by the number of residents. The following

[2] "Understanding California's Sales Tax," Mac Taylor, Legislative Analyst's Office, May 2015.

is a chart of Sales Tax Revenue Per Resident of the ten largest cities in California.[3] Long Beach is 10th out of 10, with a rate pretty similar to that of Los Angeles and Oakland.



The following is a chart of the ten largest cities in Los Angeles County, plus the neighboring cities of Cerritos and Lakewood.[4]

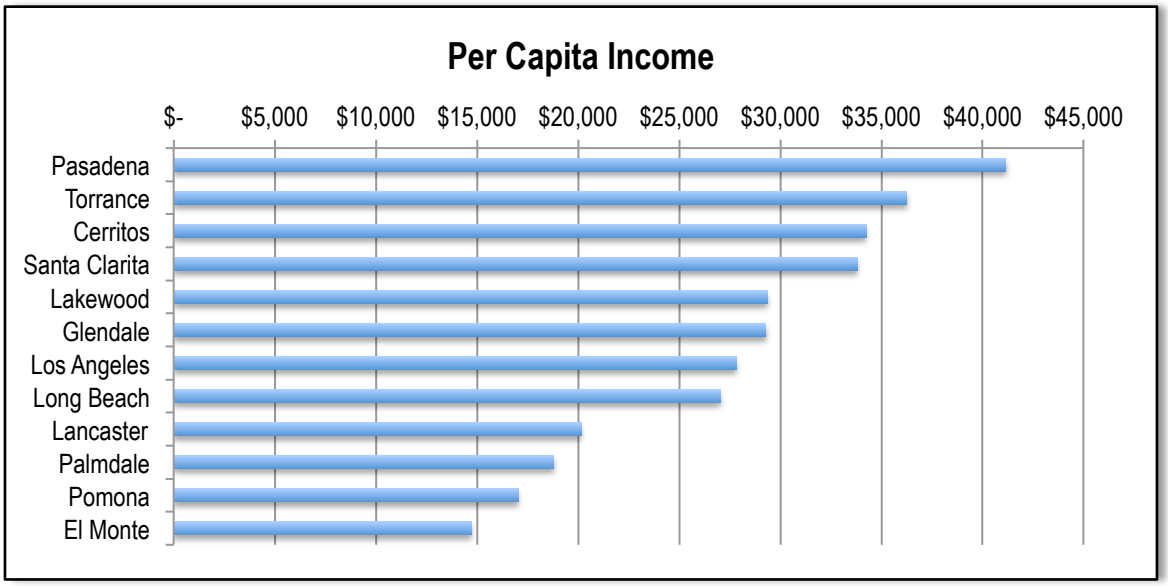


Historically, Long Beach has not been a high sales tax performer. Why?

[3] HDL, Sales Tax Revenue for California Cities, Q4 2014 – Q3 2015 and CA Department of Finance Population Estimates for Cities.
[4] Ibid.

One reason is that neighboring cities were quicker off the mark in establishing auto and shopping malls. Both Cerritos and Lakewood have the reputation of high retail performance. Cerritos used redevelopment tools to develop the Cerritos Auto Mall in the 1980s – and the resulting enormous revenue from vehicle sales propelled the Cerritos city budget. (It is most likely the only city of less than 100,000 in the world with a titanium-clad library.) The Lakewood Mall has provided a substantial portion of the General Fund budget for Lakewood – and Lakewood's desire to protect that asset sparked a heated legal disagreement between Lakewood and Long Beach about the development of the Town Center.

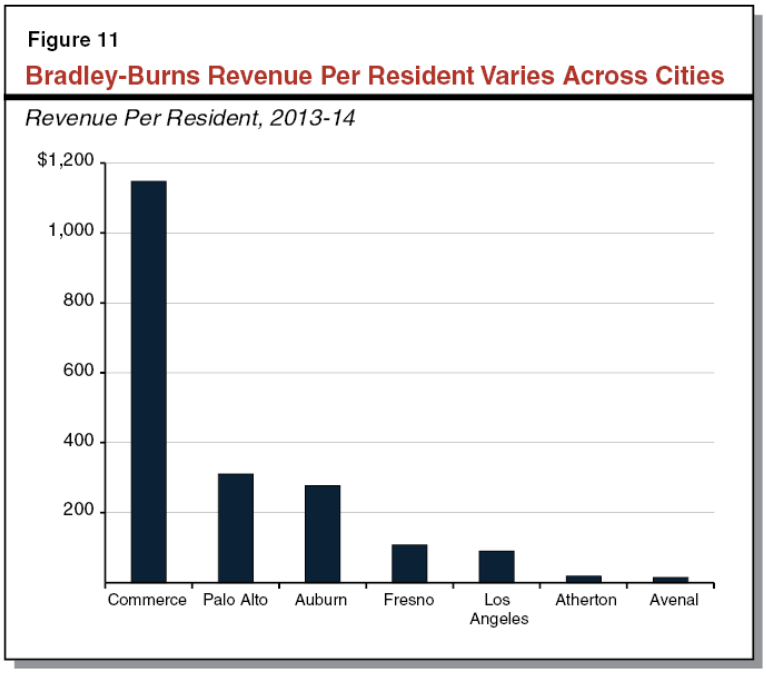
Retail is driven by location and a key location decision is income. The level of retail activity for a region is a function of income and population. The following is a chart of per capita income for those previously listed 12 Los Angeles County cities:[5]



The order of the cities for sales tax revenue per resident and per capita income is pretty close. The top six cities in per capita income are also the top six cities in sales tax revenue per capita. The outlier is El Monte, which has the lowest per capita income but is 7th in retail sale tax per resident. The reason? El Monte is home to Longo Toyota, the biggest Toyota dealer in the nation.

What factors help account for different levels of sales tax revenue performance? The following chart[6] is a comparison of sales tax revenue (Bradley-Burns Revenue) per resident for various cities, as compiled by the Legislative Analyst's Office. With $110 per resident, Fresno's number was close to the average for a city at that time (2013).

[5] U.S. Census, American Community Survey.
[6] "Understanding California's Sales Tax," Mac Taylor, Legislative Analyst's Office, May 2015, p. 18.



The widely different amounts are caused by a number of factors:

Amount of retail outlets. Atherton – one of the states's highest income cities – has few retailers and so its residents shop out of town. Result: low sales tax revenue despite high income levels.

Amount of population. The big number for Commerce (almost $1,200 per resident!) reflects its successful outlet mall coupled with its low number of residents (13,600).

Sales Tax Leakage! Los Angeles – like Long Beach – is surrounded by jurisdictions offering retail – Burbank, Santa Monica, Torrance, West Hollywood, etc. etc. -- and many Angelenos shop outside city boundaries, resulting in a lower rate than for the average California city.

Income Levels. Palo Alto, with residents having a much higher than average income outpaces Avenal, a rural city with a much lower average.

Based on per capita income, Long Beach's retail performance is somewhat lower than could be expected. In addition, there is a generalized perception that the City is substantially underserved by retail. A report prepared for Downtown Long Beach Associates offered an insightful analysis on retail in the Downtown and some of its observations could also be applied to the entire City:

> "Perhaps more importantly, the appetite for proven retail, despite being unreflective of the Downtown area's demographic composition, had risen to the point where the community's expectations exceeded market potential."[7]

[7] "Retail Visioning," MJB Consulting and KlingStubbins, Downtown Long Beach Associates, July 2010, p. 6.

Attracting and retaining retail remains a clear priority for the City. The first reason is the need to provide great retail choices for its residents. The second is that retail helps define and support neighborhoods – and Long Beach is a city of neighborhoods. The third is the need to maintain sales tax revenue, which currently stands at 15.7% of the General Fund budget.[8]

How can Long Beach increase its retail peformance? There are numerous factors –some market-driven and some regulatory – that make that goal more difficult to achieve than in the past.

That Was Then; This Is Now

The chase for retail occurred from 1980 to the Great Recession during a period of unprecedented retail expansion. Many of the conditions that prompted that expansion have changed – and that has implications for any city's long-term economic development strategy.

Retail is Morphing

Retail is morphing – rapidly – and those changes will impact cities. Here are excerpts from news stories about the 2015 holiday shopping period that highlight current trends:

- "Black Friday shopping is shifting from hours spent in line to more time online."[9]
- "A big reason for the decline [in store sales] is increased online shopping, as Americans hunt down deals on their smartphones, tablets and computers."[10]
- "Online e-commerce sales on Black Friday and Thanksgiving Day continued to grow to record spending levels, thanks to more shoppers forgoing crowds in stores to shop at home."[11]
- "In store foot traffic fell 6.4% in November and December."[12]
- "'The two biggest growth areas in retailing today are online and off-price,' said Jerry Storch, chief executive of Saks Fifth Avenue."[13]
- "Amazon.com captured 42.7% of online sales in November and December."[14]

The following are some recent observations on the changing retail landscape from industry observers, insiders and participants:

- " . . . we are on the verge of a number of business failures of specialty retailers as well as some national general retailers which in turn will have a domino effect on those dealing with the retail industry."[15]

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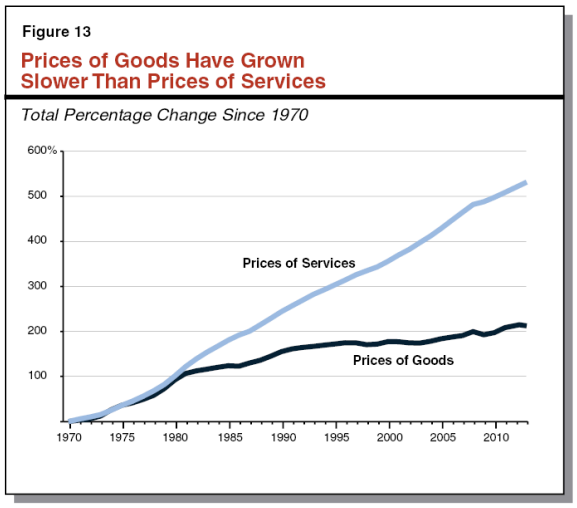
[8] Budget Documents, longbeach.gov.
[9] "Black Friday and Thanksgiving 2015 Retail," Associated Press, November 28, 2015.
[10] Ibid.
[11] "E-Commerce Sales Grow," Lena Rao, Fortune, November 28, 2015.
[12] "Holiday Shopping Mostly Flat," Suzanne Kapner, Wall Street Journal, January 7, 2016.
[13] Ibid.
[14] Ibid.

- "The shopping center business in general is not a great place to be – not with the growth online and move toward urbanization, the downsizing of the size of stores. There's no growth in the department store business and you can't have a mall without those so-called anchor tenants."[16]

- "Consumers are losing patience for the retail store distribution model. The tedious and time-consuming process of slogging from store to store seeking "the perfect" whatever is becoming less of an entertaining recreational hobby, and more of an avoidable annoyance. Retail store closings . . . are a reflection of an antiquated distribution system that is increasingly losing its appeal to the average consumer.[17]

- "Macroeconomic factors are driving this push toward a smaller store base. Retailers simply have too many stores."[18]

Besides these changes in the very nature of retail, there has been an ongoing economic change: California consumers are spending a declining share of income on taxable goods. California's spending on taxable goods peaked in 1979 – at about 50% -- and has declined ever since. The reason is the price for services – typically not taxed – has risen about four times more than the price of goods. The result is Californians are spending more on services and less on taxable purchases. The chart from the Legislative Analyst Office shows the change:[19]



What is driving this changing retail landscape? Industry experts focus on four major causes:

- *Retail Store Supply Exceeding Demand*. "The amount of commercial retail store space in the U.S. grew 120% from 1970 to 2010. In an economy where approximately 70% of the GDP is dependent on the purchase of goods and services, this seems like a positive indicator of economic expansion and strength. But during that same time period, the population of the U.S. consumers only grew 52%. So . . . the number of retail stores in the U.S. is more of a sign of retail store supply exceeding retail store demand."[20]
- *Impact of On-Line Sales*. On-line sales barely existed before 2000, but the growth has been dramatic – and has impacted brick and mortar locations. A retail industry analyst stated, "We're in the middle of a profound structural shift from physical to digital retail . . . it's happening faster than I could have imagined."[21] The U.S. Census reports total e-commerce

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[15] "Retailers Are Closing Up Shop", Krystina Gustafson, January 9, 2015, CNBC, p. 1.
[16] "The Mall is Not Dead But It's A Good Time to Get Out", Aaron Task, Yahoo Finance, March 5, 2015, p. 1.
[17] Ibid. p. 2.
[18] Ibid. p. 3.
[19] Op. City. LAO, p. 15.
[20] Ibid. p. 3.
[21] "The Future of Retail", January 2015, Business Insider, p. 4.

sales for 2014 increased 15.4% over 2013 – compared to a total retail sales increase of 3.8 percent.[22]

- *Shrinking Middle Class*. Studies and news reports have focused on the shrinking middle class. One effect has been a sharp decline in discretionary income. From 2007 to 2013 jobs have been added at the top and bottom of the wage scale, a Reuters analysis shows. However, in the middle, the economy shed positions.[23] For a married couple with two children, the costs of childcare, higher education, health care, housing, and retirement rose by more than $10,000 in the 12 years from 2000 to 2012, at a time when this family's income was stagnant.[24]

- *Shift from Suburban to Urban*. Belus Capital Advisors analyst Brian Sozzi has said, "Suburban markets are particularly vulnerable [to retail sales loss]. Mall-based locations are facing greater challenges than off-mall concepts. In recent years, employment in city centers has grown and employment in the surrounding suburban areas has shrunk. The changes . . . represent an important shift in the American work force. As recently as 2007, employment outside city centers was climbing much faster than inside."[25]

Business Insider succinctly framed the issues facing retailers in two slides:[26]

And then there's this. The Great Recession has had a lasting impact on the consumption and saving habits of Americans. They want to save more – and they are. And if you're saving more, you're spending less. Here's a chart from the Gallop organization. The question posed by Gallop: Do you prefer spending or saving? The increasing spread since 2005 between "prefer spending" and "prefer saving" is both obvious and ongoing:[27]

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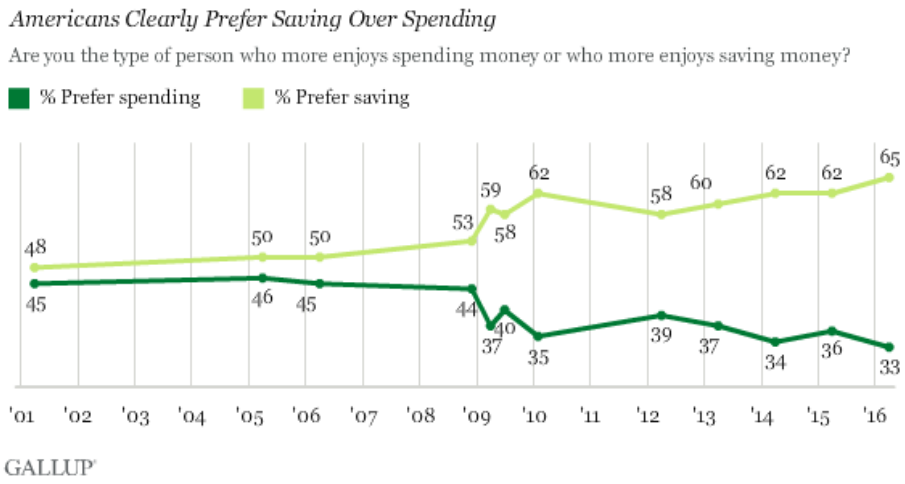
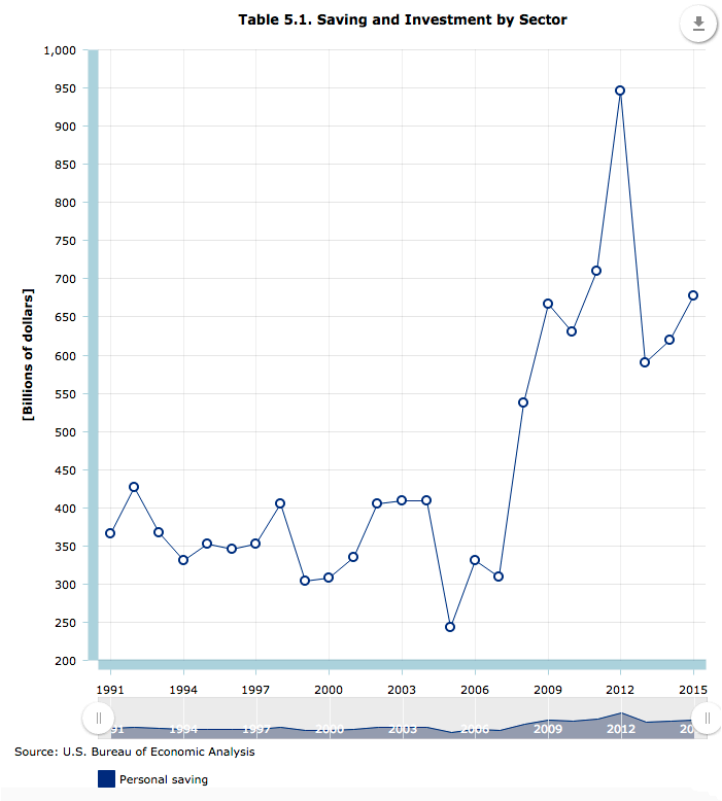
[22] "E-Commerce Sales 2014", February 17, 2015, U.S. Census, p 1.
[23] "Middle class decline looms over Final Years of Obama presidency", Howard Schneider, Reuters, January 18, 2015, p. 2.

[24] "The Middle Class Squeeze, Center for American Progress, September 24, 2014, p. 3.
[25] "More New Jobs In City Centers", Clair Cain Miller, New York Times, February 24, 2015, p. 1.
[26] "The Future of Retail", January 2015, Business Insider, p. 4.
[27] Gallop.com



Here is chart from the U.S. Bureau of Economic Analyis on Personal Savings:



Retail is a dynamic industry; yesterday's winners can be tomorrow's losers and churning is a fact of life in the industry. Major retailers announcing store closings for 2015 include:. Include Abercrombie & Fitch, Cache, Jones New York, Macy's, Radio Shack, Wet Seal, Coldwater Creek, California

"Traditional brick-and-mortar retailing is at an inflection point. No longer are many retailers only required to compete with stores on the other side of the street. They are now required to compete with stores on the other side of the country. Navigating the seismic shift will continue to be very, very difficult for many." Howard Schultz, CEO, Starbucks. "Retail Outlook," Nicole Sinclair, Yahoo Finance, November 15,2015.

Pizza Kitchen, Delia's, Kmart, Office Mart, Sbarro, Sears, La Boulange, Anna's Linens, Ascis, Quicksilver, DC Outlet, Famima!, Frederick's of Hollywood, Haggen Supermarkets, Wal-Mart and JC Penny.[28]

Here's a list of retailers and their announced store closings, as of May:[29]

McDonald's	500
Office Depot/Office Max	400
Hancock Fabrics	255
Barnes & Noble	223
Children's Place	200
Walgreens	200
Aeropostale	175
Walmart	154
American Eagle	150
Finish Line	150
Sports Authority	140
Chico's	120
Pier One	100
Kmart	80
Pier One	60
Golf Galaxy	54
Staples	50
Sports Chalet	47
Joyce Leslie	42
Macy's	36
Gap/Gap Kids	35
Bob Evans	27
Hartstrings	30
Deckers	20
Kohl's	18
Sears	15
Pick 'n Save	20
Target	13

Some closings represent poor market analysis and implementation (Fresh and Easy); some a withdrawal from a competive market (Haggen); and others simply reflect changes in consumer taste. Some sites will have ready replacements; for example, Gelson's, Smart & Final and Albertson's are purchasing 69 Haggen sites.

But changes in the industry are also forcing retailers to evaluate their basic market strategy. Three trends seem to stand out:

- Major retailers are adjusting and downsizing their brick and mortar locations.

Retail's Newest Trend!

"If anything, it looks like the hot new trend in retail is to try and shut down as many stores as you can to keep Wall Street happy." CNN Money. February 25, 2016.

[28] "Retail Earthquake: All These Big Name Stores Are Closing," January 152 2015, WND.com, p. 2-5.
[29] About.com, May 4, 2016.

- Retailers are attempting to respond to increased on-line sales by leveraging brick and mortar investment for "omni-channel" or "multi-channel" retail.

- On-line retailers that are experimenting with brick and motar stores. It's back-to-the-future for firms like Bonobos, Warby Parker, Renttherunway – and even Amazon. Warby Parker says it's "medium agnostic. In five years, I'm not sure what other channels will exist. The key is to stay flexible and follow the customer."[30]

Just What Is "Omni-Channel"?

Facing the competition from on-line retailers (think Amazon) almost all U.S. retailers have invested in an online presence – but for many it has not yet become a sizable bottom-line component. The primary reason is Amazon, which continues to dominate online sales. To counter Amazon, retailers are employing an "omni-channel" strategy, which means trying to provide a seamless shopping experience across multiple shopping channels: brick and mortar, online and mobile phone. Examples include picking or returning orders at store locations – or shipping directly from stores, and so shave time of delivery.

As stated in a recent CBRE report on retail in Southern Californai, "major tenants are beginning to evolve their overall strategy . . . with today's most effective retailers adopt(ing) the internet as an active part of their business." [31] The evolution includes "recognizing a lessened need for their retail footprint, many tenants are reducing sizes and locations as companies are continuing to experiment in balancing their physical store use between showroom and goods distributor."[32] Retailers are "experimenting by presenting smaller format stores and reducing sizes . . . of their leases."

The overall impact of these changes? "Less retail space has been needed as a whole in the overall market."[33]

Regulatory Issues

Reforming the Bradley-Burns Uniform Sales Tax law is a persistent topic in Sacramento and among cities. Weak growth in revenue, a concentration of revenues and sales tax leakage from incentives, and allocating revenues to the countywide pool (now we are deep in the weeds) are three issues that have drawn attention from the California League of Cities.

For the Wonkiest: Countywide Pools

Some sales tax revenue – including use tax – goes into a countywide pool. Then the revenue is distributed among cites not by population or overall economic activity, but in proportion to other taxable sales. If city XYZ generates 6% of a county's total sales, City XYZ gets 6% of the pool. Fair? No, but that's how it was done 30 years ago when technology was less capable, *so let's just keep doing it that way*. (FYI, purchases over $500K are allocated to location of first use, so updating the allocation is possible.)

Underlying those specific issues is the "fiscalization of land" issue that has been a topic of debate in policy circles for over 25 years. The following statement from the San Diego Association of Governments summarizes the issue :

[30] "Retailers Getting Physical," Elizabeth Weise, USA Today, November 6, 2015.
[31] "How Technology Is Transforming Retail," Nicole Moler and Ashley Hill, CBRE, December 2015, p. 2.
[32] Ibid. p. 4.
[33] Ibid. p. 4.

> "Due to current tax distribution policies between state and local governments, local government officials have lost much of their control over tax revenues. In many instances, local elected officials approve retail development projects because they produce revenue through sales taxes. This results in what is known as the 'fiscalization' of land use: the favoring of retail development over housing and other non retail projects."[34]

The upshot of the legal and regulatory hodgepodge is that cities – including Long Beach -- are trying to navigate as best they can a jury-rigged sales tax system that has not kept up with changing times. A good example is that sales tax applies to *tangible* goods – and so products in a digital format are not taxable. Music, games, books, software, images and products being developed that we can't imagine that are sold and delivered digitally aren't taxable.

Long Beach would reap considerable benefits if the distribution of sales tax from the countywide pool (see text box titled "For the Wonkiest" above) were made by population. Because revenue is distributed to cities not by population but in proportion to taxable sales, Long Beach *gets hammered*. The following table shows the damage:[35]

	Population
LA County	10,241,335
Long Beach	484,958
Long Beach population as % of LA County	4.74%
Current Countywide Pool Allocation	2.20%
% Less	54.40%

Long Beach has 4.74% of LA County's population but only receives 2.2% of the countywide sales tax pool. That means Long Beach receives *54.4% less* than it would if the countywide pool were distributed by population percentage. That's a bad deal for the City. Los Angeles also receives significantly less under the countywide pool than it would under a percentage of population formula. You would think with a little effort the two largest cities in the County might be able to exert a bit influence and get the regulations changed to achieve a fairer distribution.

Sales Tax reform efforts have been suggested for decades. Then Governor Schwarzenegger made a run at it, which led to a 415 page report suggesting flattening (reducing) the sales tax and expanding it across more sectors of the economy. Result: nothing.

Former Assembly Speaker Bob Hertzberg, now in the state senate, introduced an omnibus tax overhaul proposal in January 2015 that would alter the exiting sales tax structure. Results so far: discussion.

<u>What Is, Is</u>

Some realities aren't changing:

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[34] "State-Local Fiscal Reform: Fiscal Abilities and Responsibilities," Marney Cox, San Diego Association of Governments, sandag.org.
[35] California Dept. of Finance 2016 population estimates; current allocation based on 10/17/2014 memo to Economic Development and Finance Committee.

- The Lakewood Mall, the Cerritos Mall and the Signal Hill Auto Malls are not going away.
- The era of rampant big-box development has closed.
- There isn't a 300-acre parcel in Long Beach just waiting to become a retail center.
- It is not likely that the California Coastal Commission will allow the Queen Mary site to become a full-blown retail center.
- Retailers will locate – or relocate – to Long Beach when it is in their best interest.
- Income levels are principal drivers of retail location decisions.
- Attraction incentives only make sense when reasonable.

And there's this:[36]

Retail Wages: Not Great

Retail does create jobs – but how well do those jobs pay? Here is data (Q1 – 2015) from the California Economic Development Department re: the wages of retail workers. This data is statewide, and does not take into account regional variations or any local ordinances. But even so . . .

Retail Sales and Related Occupations	Mean Hourly Wage	Mean Annual Wage
First-Line Supervisors of Retail Sales Workers	$21.57	$44,868
Cashiers	$10.99	**$22,863**
Counter and Rental Clerks	$13.83	**$28,773**
Parts Salespersons	$16.39	$34,096
Retail Salespersons	$13.51	**$28,092**

Recommendations

Long Beach is not as dependent on sales tax revenue as some cities, but it still represents about 16% of the General Fund. Growing the amount of sales tax revenue should remain a key component – but not the principal objective – of the City's economic development efforts.

The City has assets that can increase the retail footprint. For example, the City has marketed and sold former RDA properties that may add to the overall retail footprint. Some of these properties are located in areas that would benefit from neighborhood serving retail.

The reworking of the Pike into an outlet center is a long overdue correction. An outlet center with national retail presence should do well with residents and convention, and tourism visitors. A reimagined City Place should boost sales at that center. Retail concepts are constantly changing, and malls and shopping centers need to constantly reinvent themselves to adjust to changes and tastes.

Here are three general principals that Long Beach should consider:

[36] Occupational Employment Statistic Survey Result, 2015 First Quarter Data, California Employment Development Department.

- *Developers, property owners and mall managers – not city officials -- are best positioned to originate and negotiate retail deals*. These entities have three key qualities that make them best positioned: knowledge, expertise and financial self-interest. Let them do their job – that's what they get paid for.

- *Attraction and retention incentives only succeed when financially justified*. Incentives should be judged on a straightforward ROI (return on investment) financial model. Investments that rely on other justifications have a history of not succeeding.

- *Be reasonable in expectations.* Just because Long Beach doesn't have a Nordstrom doesn't mean Long Beach automatically *deserves* a Nordstrom. There are many reasons why a retailer might not be in Long Beach: other nearby locations, established trade areas, demographic considerations, etc. In the same vein, there can't be a Trader Joe's in every neighborhood, as much as every neighborhood might want one. Some things just are.

News about retail has been bleak for some time. An iconic Southern California retailer, Sport Chalet, recently closed all its stores. And Sports Authority, with 450 stores nationwide, is in bankruptcy. Why? "Sports Authority is the latest brick-and-mortar giant to fall on hard times as more shopping moves online."[37] The clearest indication of an industry in deep turmoil is the reaction on Wall Street: "Macy's reported terrible sales earlier this week and isn't predicting a major turnaround soon. Yet it's stock also rose. Guess why? It is closing stores too."[38]

<u>Steps Long Beach Should Take</u>

- *Develop reasonable and attainable objectives*. Retail sales are subject to economic conditions (recessions) and the ever-changing structure of the industry. Objectives should recognize and align themselves to those conditions and be driven by reliable data and reasonable expectations.

- *Make retail a component but not the principal economic development component*. Long Beach is in many ways a bedroom community, but it is also an economic center anchored by the nation's second largest port. Small bedroom communities focus on retail – what else do they have? Long Beach needs to focus on business and job retention, expansion, creation and attraction. Retail does generate jobs and sales tax revenue for the City – but those jobs are not high wage. Focusing on sectors with higher wage positions will be more advantageous to the City in the long run.

- *Provide up to date and accurate demographic and economic information*. Retailers make use of increasingly sophisticated location decision-making analyses that factor into complex psychographic data. No major retailer will only rely on general demographic data offered by a city – but that data can be a good starting point. Providing accessible and accurate data that is revised in a timely manner for each Long Beach neighborhood is critical.

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[37] "Sports Authority bankruptcy sale could close remaining stores", Chris Isidore, CNN Money, May 2, 2016.
[38] Ibid.

- *Provide up to date and accurate property information.* A city shouldn't expect to replace mall management, shopping center owners and real estate brokers and agents in providing accurate property information, but it can and should provide information that allows prospective retailers to get that information. Don't try to make the deal but make it easier for a deal to be made.

- *Play an active role in reforming California's arcane sales tax system.* There would be a higher return on investment for city staff time by securing advantageous changes to California's sales tax regulations than chasing retail deals. Many large – Los Angeles! – and small cities could be allies in revamping the system. Long Beach could play a leadership role.

- *Promote regional and neighborhood retail by simplifying and accelerating permitting*. Assisting retailers – small and large – better navigate the permitting system would be a helpful step. Setting and communicating achievable goals – "We'll process your application in x days!" – and then marketing that record would be a welcome sign to prospective retailers.

- *Continue to Support Business Improvement Districts (BIDs).* BIDs have become key players supporting retail and other commercial business interests in many Long Beach neighborhoods. They have been a positive, on the ground influence and should be recognized and supported as vital for the City's economic development.

- *Take the long view in land use planning*. Sacrificing industrial and commercial property designation for retail purposes is short sighted. Chasing sales tax dollars instead of value-added job creation will not improve the overall economic condition of Long Beach.

- *Assist developers/mall managers to understand the Long Beach community.* Long Beach is a unique community. Some retailers make sense for Long Beach and some don't. Would locating a Bass Pro Shops at the Pike ever have been a fit for the urban, diverse Long Beach community? Probably not, but the developer's thinking probably was: if it works in Arkansas, why not Long Beach? *Because Long Beach is different and here is why* – that's helpful input the City can provide.

- *Invite new retail concepts.* Wal-Mart has experimented with stores of varying sizes, including neighborhood locations. When you're the largest retailer in the world, you can afford some experimentation. Sometimes it works; sometimes it doesn't – one of the stores Wal-Mart is closing in California is a neighborhood-sized location in Altadena. But inviting retailers to try new concepts in Long Beach might be explored; for example, perhaps Dell might try its hand at a stand-alone store as did other tech giants Apple and Microsoft.

- *Encourage on-liners to experiment with brick and mortar in Long Beach.* In the biz, this is known as clicks to bricks. Two strategies that could be pitched: "Test and Trash" – meaning, trying out a concept with a bare-bones investment and being ready to pull the plug quickly if it doesn't go well (test fast, fail fast); and "Pop-Ups" – meaning a temporary location to test the market, often at peak sales seasons.

- *Look to local and regional retailers*. A region can only accommodate so many Targets. But local and regional retailers can identify market opportunities unique to certain communities. These retailers may not generate the kind of sales tax revenue that big box retailers do, but they can be significant assets for neighborhoods. Fourth Street is a great example of local retailers creating a destination location.

- *Consider international retailers*. There are major international retailers that have not yet successfully penetrated the American market. Some have tried and faulted – Tesco with Fresh and Easy. Others may be interested in trying their hand on a smaller scale – and Long Beach could be a great test market. After all, it is the *International City*.

In the long term, the most important action Long Beach can take to increase sales tax revenue is to focus its economic development efforts on increasing household income in Long Beach. Ultimately, income and population drive retail. Long Beach has plenty of population; it's the household income that is lagging. Steps that raise the household income in Long Beach will have a far more beneficial impact over the long term – *in every way* – than chasing retail deals. That means focusing on retaining, expanding, creating and attracting businesses that generate high value jobs. If a city has a significant core employment of high value jobs then jobs in other sectors will follow.

Appendix: Retail and Economic Development

A. How Retail Became King (And More Important to Cities then Manufacturing, Technology or Anything Else)

In 1979 California voters approved Proposition 13, the measure that radically changed the tax policy of the state. Prop13 had many impacts, but the most significant in terms of economic development – and perhaps land use – was in retail.

With the reduction in property tax revenue, jurisdictions turned to another source to backfill budget holes: sales tax revenue. The chase for retail was on. A confluence of other factors also contributed to retail development being synonymous with economic development in California. What were some of the other factors?

- *Redevelopment.* Redevelopment offered jurisdictions the legal mechanism to magically transform land into sales tax revenue streams. Using redevelopment techniques – including eminent domain and tax increment financing – jurisdictions facilitated and underwrote massive retail development in the 1980s and 1990s. Redevelopment agencies became developers' BFF.

- *Growth of Consumer Credit.* In 1971, the ratio of total credit to GDP was 150%. Now it is 354%. Credit has been growing much more rapidly than the economy for the past four decades – and more credit means more purchases.

- *New Products*. The 1980s, 1990s and 2000s saw the introduction of a myriad of new and exciting products for American consumption. The explosion of electronic products in particular stoked consumers' appetites.

- *Offshore Production and Technology*. The rise in off shore manufacturing and new technologies were significant components in reducing product costs. A typical VHS player cost $500 in 1985); adjusted for inflation that's $1,141 in 2016 dollars. Amazon lists a Blu-Ray DVD player – an infinitely better product – for $49.98 in 2016.

- *Restructured Economy.* In 1965, not a single retailer was in the Fortune 500 list of the top twenty companies in the nation. Fifty years later, the Number One firm was a retailer – Wal-Mart – and retailers comprised 20 percent of the top twenty firms. By the 2000s, 70% of national GDP was consumer spending.

B. Auto Dealers and Cities

As sales tax revenue became more important to cities, auto dealers enjoyed a remarkable day in the sun. A high volume auto dealer could generate $500,000+ in sales tax revenue for a city, and attracting (or retaining) auto dealers became a number one priority. The result was an economic development free-for-all, with cities desperate for revenue offering various incentives to entice dealers to set up shop in their city.

Reacting to this mayhem, California modified a statute (Government Code section 53084) that put an end (more or less) to the poaching: ". . . a local agency shall not provide any form of financial assistance to a vehicle dealer or big box retailer, or a business entity that sells or leases land to a vehicle dealer or big box retailer, that is relocating from the territorial jurisdiction of one local agency to the territorial jurisdiction of another local agency but within the same market area."

Another factor is that California allocates tax revenue from vehicle sales differently than sales of other products – such as a laptop. Sales tax from vehicle sales is *not* allocated based on point of sale but by the zip code residence of the purchaser. That means that if a resident of Long Beach purchases a car in Signal Hill, the sales tax does not go to Signal Hill – it goes to Long Beach.

The upshot is there is somewhat less reason now for cities to offer incentives to attract or retain auto dealers. But there is still *some* reason, as sales tax revenue on *lease deals* from dealers are are allocated where the dealership is located. (Sales tax from private party sales of autos and leases negotiated by out-of-state leasing companies go to the county pool, which is distributed not by population or overall economic activity but by its proportionate share of taxable sales.) To make informed incentive deals, cities have to tease out what part of sales tax revenue comes from leases versus sales. According to Edmunds.com, nationwide 27% of new vehicles are leased rather than bought, up from 22% in 2012.

C. A Retail Primer

While retail is constantly evolving, most observers divide retail into five distinct categories:

- *Convenience.* Convenience retail is designed to meet an immediate need, such as buying a quart of milk and loaf of bread. Convenience retail was once the province of neighborhood "mom and pop" stores; now there are national chains, such as 7-11, serving this function; hence the name: "convenience stores."

- *Chore.* Chore retail is regular purchase of basic commodities. Grocery stores – Vons's, Ralph's, Albertson's – are the classic examples of chore retail. Chore retail is itself evolving rapidly, as so-called big box retailers enter this category.

- *Comparison.* Comparison retail involves the purchase of larger items. Appliance, electronics and automobile dealerships are classic comparison retail venues. Comparison retail is the sector under the most pressure from on-line shopping.

- *Pleasure.* Pleasure retail is shopping as entertainment. Shopping malls, which began life as regional centers to replace downtown shopping districts, have morphed into entertainment venues. It is not by chance that many retailers seek locations in shopping centers based on the entertainment value of proximate tenants. Examples include Anthropology, the Gap, Abercrombie and Fitch.

- *Entertainment.* Entertainment retail is venues dedicated to entertainment: restaurants, clubs, theaters and bars.

Retail is an enormously dynamic field, and the only reliable principle is that change is constant. Many major regional and national post-war chains, such as Montgomery Wards, have made their way to the retailers' graveyard and others – perhaps Sears – may soon join them. Shopping centers have been replaced by "power centers" featuring "big box" retailers such as Costco and Wal-Mart. Traditional department stores such as Macys have rapidly lost ground to specialty stores with targeted product lines – and off-price retailers such as Ross and TJ Maxx are experiencing the largest growth. Clothing stores themselves target specific age and cultural groups. Successful retailing requires aggressive market segmentation and rapid repositioning.

Some national retailers are capturing both chore and comparison retailing in one setting. For example, Wal-Mart and Costco are two stores that are aggressively expanding their grocery operations (chore) to compliment their comparison shopping efforts. And Costco has become the nation's second largest automotive retailer, trailing only Auto Nation.

Successful developers are yoking multiple categories of retail with a residential component. Prominent developer Rick Caruso, whose credits include The Grove and The Americana in Glendale, has asserted his future developments will include a sizeable residential component along with Pleasure and Entertainment sectors.

Caruso has become the most influential developer in the region. One reason is his underlying concept to create malls as movie sets – with customers as players. In an interview with the *Hollywood Reporter*, Caruso states he "approaches his shopping plazas a lot like a movie: starting with a story, trying to create something that people can connect with, and of course devoting himself to good lighting." Why lighting? Because, just as in movies, great lighting makes people look better. "We learned a lot from studio lighting," says Caruso. "We're probably the largest buyer of pink lights in the world. People look better, and it provides a warm glow."[39]

D. Sales Tax Rates – Los Angeles and Orange County Cities[40]

All cities in Los Angeles County currently have a 9.0% sales tax rate except for:

Avalon	9.50%
Commerce	9.50%
Culver City	9.50%
El Monte	9.50%
Inglewood	9.50%
La Mirada	10.00%
Pico Rivera	10.00%
San Fernando	9.50%
Santa Monica	9.50%
South El Monte	9.50%
South Gate	10.00%

All cities in Orange County currently have an 8.0% sales tax rate.

[39] "Grove Owner Rick Caruso Builds Malls Like He's Making Movies," Bianca Barragan, Curbed LA, May 21, 2015.
[40] California State Board of Equalization, boe.ca.gov