

# STAFF REPORT

## City of Lancaster

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7/9/2024
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Date: July 9, 2024

To: Mayor Parris and City Council Members

From: Larissa De La Cruz, Director - Community Development  
Chenin Dow, Assistant Director

Subject: Memorandum of Understanding between the Cities of Lancaster and Palmdale  
Prohibiting the Use of Incentives to Relocate Existing Vehicle Dealerships

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### Recommendations:

1. Authorize the City Manager or his designee to negotiate, finalize, and execute a memorandum of understanding (MOU) with the City of Palmdale to prohibit the use of incentives to relocate existing vehicle dealerships, in a form to be approved by the City Attorney.
2. Authorize the City Manager to finalize and execute all related documents.

**G.C. Section 84308:** No

### Fiscal Impact:

None. Each City will continue to receive sales tax revenues generated by existing vehicle dealerships located within their jurisdiction.

### Background:

Over the past 40 years, the Cities of Lancaster and Palmdale have competed to attract new business and investment to each respective city. This type of competition is not unique to the Antelope Valley. Local, regional, and state governments routinely offer financial incentives including sales tax rebates, reduced land costs, and tax credits to entice businesses to locate in their jurisdiction. Although incentives are frequently used, there are concerns regarding the long-term impacts of sales tax rebate programs or other high-cost incentive packages for communities. One such concern is that competition between neighboring cities can fuel aggressive bidding wars and drain revenues for essential public services to the detriment of residents and businesses.

Vehicle dealerships are major sales tax generators for California cities. As a result, jurisdictions often go to great lengths, including offering sales tax rebates and other incentives, to attract and retain dealerships. In order to avoid these negative impacts, it would be beneficial for the cities

of Palmdale and Lancaster to work together to prevent this practice from occurring in the future. Staff recommends the approval of an MOU between the Cities to preserve sales tax generated by existing auto dealerships and to prohibit each City from utilizing incentives to encourage a dealership to move to their City. The proposed MOU is built around the four key deal points outlined below:

1. Cities should not provide any form of financial assistance to an existing vehicle dealer that is relocating from the jurisdiction of one city to the other city. This includes, but is not limited to:
  - o Appropriation of public funds including loans, grants, or subsidies or the payment for or construction of improvements that benefit the vehicle dealer;
  - o The sale or lease of real property at a cost that is less than fair market value; or,
  - o Payment for, forgiveness of, or reduction of fees.
2. If a vehicle dealership relocates to the other jurisdiction, the local sales tax generated by that dealership should be paid to the dealership's City of origin. This does not include any added district taxes approved by the jurisdiction.
3. The MOU should apply to the any dealership and brand currently located in the cities of Palmdale and Lancaster.
4. New dealerships that will offer a vehicle brand that currently does not exist in the market area should not be subject to the MOU.

The MOU aims to save significant taxpayer dollars by avoiding the potential for bidding wars to entice an existing dealership to move from one jurisdiction to another. This will help preserve funding for services to residents, such as public safety, roads, and parks.

CD/js

**Attachment:**

- Memorandum of Understanding