

# Q1 2017



# City of Santa Cruz Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2017)

## Santa Cruz In Brief

Santa Cruz's receipts from January through March were 3.2% below the first sales period in 2016.

Opening of a new store last year could not offset softer demand for home improvement goods, which drove building and construction receipts downward. Fewer vehicles were sold at used automotive dealers; this decline was compounded by a double payment in the prior year quarter.

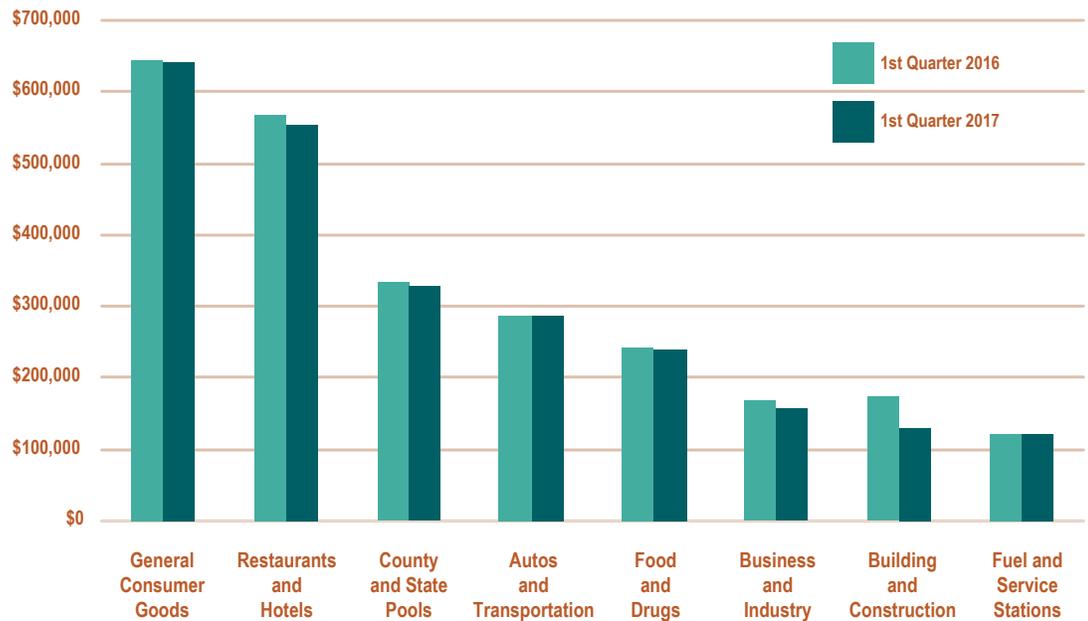
Slower sales volumes and a reporting correction in the comparable period triggered a drop from casual dining eateries. Consumers continued online shopping preference chipped away at returns from the general consumer goods group; results were down in family apparel, home furnishings and sporting goods/bike stores.

A payment anomaly was largely responsible for the growth from specialty stores. Leisure and entertainment climbed 16% after adjusting for reporting irregularities.

Revenues from Measure H totaled \$1,416,703, an improvement of 1.2% when compared to the first quarter of 2016.

Net of aberrations, taxable sales for all of Santa Cruz County grew 2.6% over the comparable time period; the Central Coast region was up 0.2%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

|                           |                                    |
|---------------------------|------------------------------------|
| 7 Eleven                  | Petsmart                           |
| Auto One                  | Regents University of California   |
| Beauty Solutions          | Ross                               |
| Chevron                   | Safeway                            |
| Costco                    | San Lorenzo Lumber & Home Center   |
| Crows Nest                | Santa Cruz Dodge                   |
| CVS Pharmacy              | Santa Cruz Seaside                 |
| El Palomar                | Staff of Life Natural Foods Market |
| Granite Rock              | Trader Joes                        |
| Las Animas Concrete       | Volkswagen Santa Cruz              |
| New Leaf Community Market | Walgreens                          |
| North Bay Ford Lincoln    | Whole Foods Market                 |
| Patagonia                 |                                    |

### REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

|                       | 2015-16             | 2016-17             |
|-----------------------|---------------------|---------------------|
| Point-of-Sale         | \$9,596,618         | \$9,587,890         |
| County Pool           | 1,329,316           | 1,367,971           |
| State Pool            | 6,664               | 7,308               |
| <b>Gross Receipts</b> | <b>\$10,932,598</b> | <b>\$10,963,169</b> |
| Less Triple Flip*     | \$ (2,097,661)      | \$0                 |
| <b>Measure H</b>      | <b>\$6,084,985</b>  | <b>\$6,208,578</b>  |

**Statewide Results**

Local tax receipts from January through March sales were 2.1% higher than the first quarter of 2016 after factoring for accounting anomalies.

Rising fuel prices, auto sales, county use tax pool allocations and dining out added most to the overall gain. Some general consumer goods and B2B sales were flat or down.

This quarter reflects the start of an anticipated leveling off of future tax revenues. After seven years of recovery, analysts are reporting an end to the previous pent-up demand for autos. Demand for new cars will ease due to more buyers tied to long-term loans and a glut of used cars coming off lease.

Price competition and store closures have reduced tax receipts from consumer goods. Business investment remains strong but much of the growth is for non-taxable items such as cloud computing and large data solutions. Declines in foreign tourist visits and lower costs of eating at home are expected to slow the growth in restaurant sales.

**New Sales Tax Organization**

As of July 1, the operating divisions responsible for allocation of tax revenues other than property, insurance and alcoholic beverages will shift from the State Board of Equalization (BOE) to the Governor's new Department of Tax and Fee Administration.

The BOE was first established by constitutional amendment in 1879 to oversee property tax assessment practices by all counties in the state. It eventually became responsible for other tax revenues including sales, insurance, corporate franchise and special fees.

In 2011, HdL detected discrepancies in the BOE's allocation of public safety revenues which led to the recovery of over \$124 million in revenues for counties. Subsequent audits by the State

Controller and State Department of Finance revealed further shortcomings. The result was the passage of budget trailer bill SB86/AB102 that reduces the BOE to its previous constitutionally defined functions.

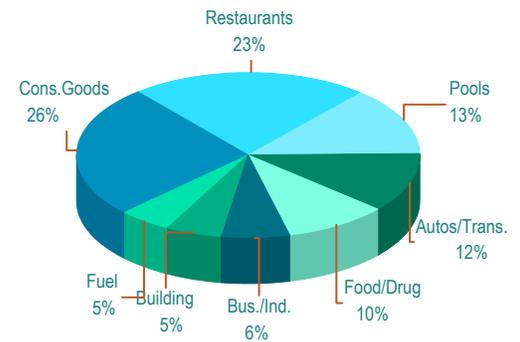
The BOE is also empowered to hear appeals and disputes over tax assessments including sales/use, personal income and corporate taxes and is the only elected Tax Board in the United States that hears tax disputes. Effective January 1, 2018, that function will be turned over to a new Office of Tax Appeals (OTA) composed of panels of administrative law judges appointed by the Governor with locations in Sacramento, Fresno and Los Angeles.

For functions other than the appeal process, this is primarily a reshuffling of existing personnel so the change will have little impact on local agencies. However, the issue of local government's ability to provide input regarding future policy and regulation changes that impact revenues remains under discussion. HdL will share more about the BOE transition as details become available in the weeks ahead.

**SALES PER CAPITA**



**REVENUE BY BUSINESS GROUP**  
Santa Cruz This Quarter



**SANTA CRUZ TOP 15 BUSINESS TYPES**

| Business Type                             | <i>*In thousands of dollars</i> |              |               |                  |
|---|---------------------------------|--------------|---------------|------------------|
|   | Santa Cruz Q1 '17*              | Change       | County Change | HdL State Change |
| Auto Repair Shops                         | 46.2                            | 5.0%         | 10.5%         | 5.1%             |
| Building Materials                        | — CONFIDENTIAL —                | —            | -6.1%         | 3.1%             |
| Casual Dining                             | 369.1                           | -6.2%        | -5.9%         | 0.5%             |
| Contractors                               | 72.3                            | 8.9%         | -11.5%        | -3.9%            |
| Discount Dept Stores                      | — CONFIDENTIAL —                | —            | 3.6%          | 1.6%             |
| Drug Stores                               | 53.3                            | -5.2%        | 0.4%          | -2.5%            |
| Family Apparel                            | 60.2                            | -3.5%        | -2.4%         | 0.8%             |
| Grocery Stores                            | 109.5                           | 0.7%         | -0.5%         | 0.5%             |
| Home Furnishings                          | 50.0                            | -8.1%        | -8.2%         | -1.8%            |
| New Motor Vehicle Dealers                 | — CONFIDENTIAL —                | —            | 28.3%         | 4.4%             |
| Quick-Service Restaurants                 | 108.0                           | -2.5%        | -0.3%         | 4.6%             |
| Service Stations                          | 114.8                           | -3.9%        | 5.4%          | 10.0%            |
| Specialty Stores                          | 69.0                            | 3.9%         | -0.7%         | 0.1%             |
| Sporting Goods/Bike Stores                | 44.8                            | -9.4%        | -9.2%         | -13.8%           |
| Used Automotive Dealers                   | 51.9                            | -38.9%       | -13.8%        | 1.9%             |
| <b>Total All Accounts</b>                 | <b>2,132.4</b>                  | <b>-3.5%</b> | <b>1.5%</b>   | <b>1.8%</b>      |
| <b>County &amp; State Pool Allocation</b> | <b>327.3</b>                    | <b>-1.6%</b> | <b>3.5%</b>   | <b>2.9%</b>      |
| <b>Gross Receipts</b>                     | <b>2,459.7</b>                  | <b>-3.2%</b> | <b>1.7%</b>   | <b>1.9%</b>      |