

Q1 2018



City of Santa Cruz Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2018)

Santa Cruz In Brief

Santa Cruz's receipts from January through March were 2.7% below the first sales period in 2017. Excluding reporting anomalies but allowing for an estimated \$114,000 worth of un-processed sales tax returns due to processing changes made by the state, actual sales were up 3.7%. The missing amounts should be included in next quarter's totals.

Auto and transportation results reflect declining new and used car sales while missing tax returns reduced lease and auto repair receipts by approximately \$11,000. Meanwhile the few gas stations whose returns were processed indicated modest gains, but missing tax returns and a negative payment adjustment overcame those gains.

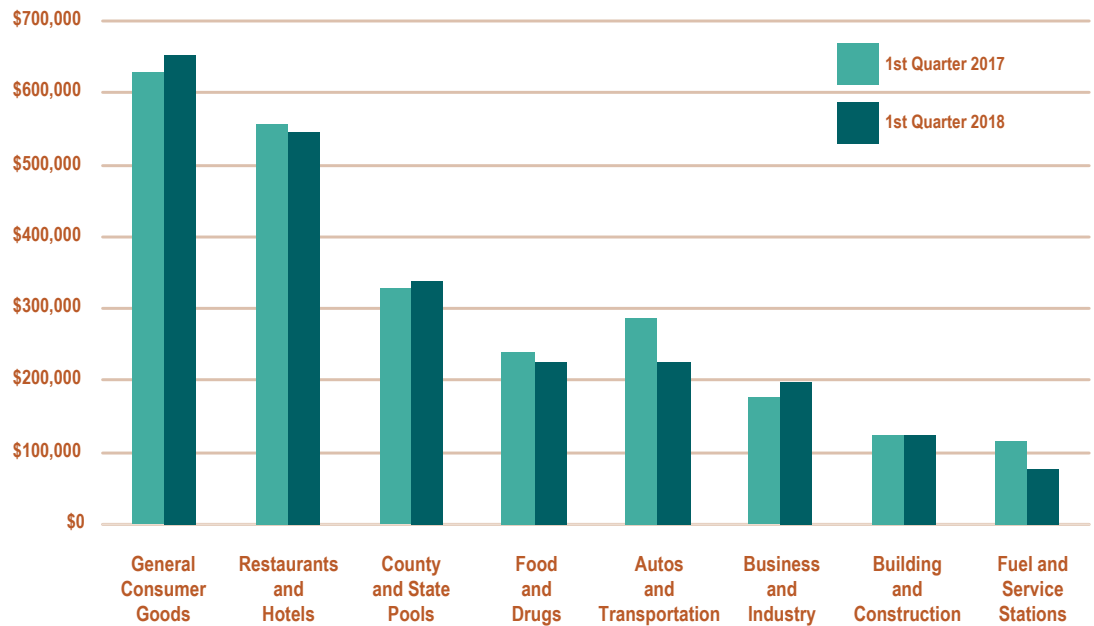
Missing tax returns caused the declines reported by restaurants and food-drug outlets.

On the plus side, a tax recovery boosted business and industry group receipts while most general consumer good outlets enjoyed a good quarter.

Measure H generated \$1,378,255 or 1.5% less than in the same period a year ago. The district tax results reflect an estimated \$55,000 in missing tax returns.

Net of anomalies, taxable sales for all of Santa Cruz County grew 4.1% over the comparable time period while those of the entire Central Coast region were up 5.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

7 Eleven	Nuance Energy Group
Auto One	Patagonia
Beauty Solutions	Petsmart
Cannacruz	Regents University of California
Chevron	Ross
Costco	Rotten Robbie
CVS Pharmacy	Safeway
Granite Rock	San Lorenzo Lumber & Home Center
Las Animas Concrete	Santa Cruz Dodge
New Flyer of America	Santa Cruz Seaside
New Leaf Community Market	Staff of Life Natural Foods Market
North Bay Ford Lincoln	Volkswagen Santa Cruz
	Whole Foods Market

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$9,587,890	\$9,781,430
County Pool	1,367,971	1,402,099
State Pool	7,308	3,247
Gross Receipts	\$10,963,169	\$11,186,776
Measure H	\$6,208,578	\$6,327,410

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

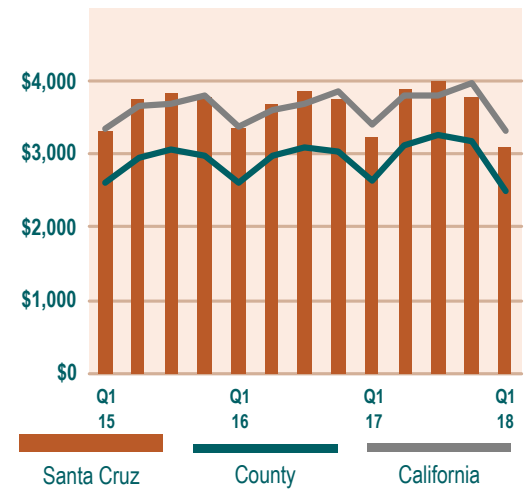
Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the on-line interstate marketplace was not the prevailing issue before the court in 1992.

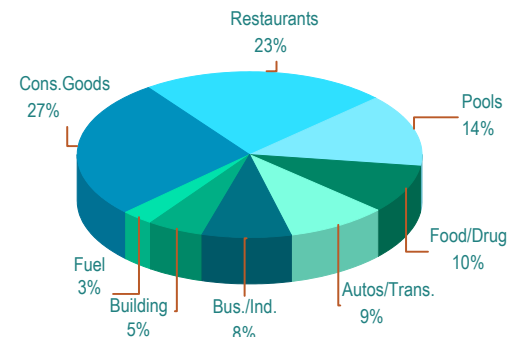
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about \$1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average \$60 per year for each California household, and California businesses average \$171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court's opinion to determine next steps to support taxpayers.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Santa Cruz This Quarter



SANTA CRUZ TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Santa Cruz Q1 '18*	Change	County Change	HdL State Change
Building Materials	58.9	15.1%	12.5%	3.8%
Casual Dining	343.6	-5.4%	0.5%	-2.0%
Contractors	52.0	-10.5%	2.8%	21.5%
Convenience Stores/Liquor	42.9	4.2%	-3.8%	0.6%
Discount Dept Stores	— CONFIDENTIAL —		-6.4%	2.8%
Electronics/Appliance Stores	42.8	4.7%	-0.3%	0.8%
Family Apparel	63.4	10.3%	3.0%	8.2%
Grocery Stores	95.5	-13.0%	-9.3%	1.9%
Home Furnishings	53.8	2.6%	-1.2%	-1.0%
Leisure/Entertainment	41.7	7.8%	20.2%	3.5%
New Motor Vehicle Dealers	115.2	-15.6%	-3.6%	-0.2%
Quick-Service Restaurants	102.8	-5.2%	-4.6%	-3.8%
Service Stations	95.7	-16.5%	-0.6%	4.6%
Specialty Stores	64.5	4.1%	-12.5%	-10.0%
Sporting Goods/Bike Stores	50.4	8.6%	1.0%	1.4%
Total All Accounts	2,055.2	-3.6%	-5.1%	-1.8%
County & State Pool Allocation	337.9	3.2%	1.7%	-2.1%
Gross Receipts	2,393.2	-2.7%	-4.2%	-1.8%