

# Q2 2018



# City of Los Altos Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2018)

## Los Altos In Brief

Los Altos' receipts from April through June were 1.4% below the second sales period in 2017. For the second time this year, the State's new computer system experienced unusual delays in tax returns processing; consequently, significant 2<sup>nd</sup> quarter 2018 payments remain outstanding. Actual sales, after adjusting for the delayed payments and other reporting anomalies, increased by 2.7%.

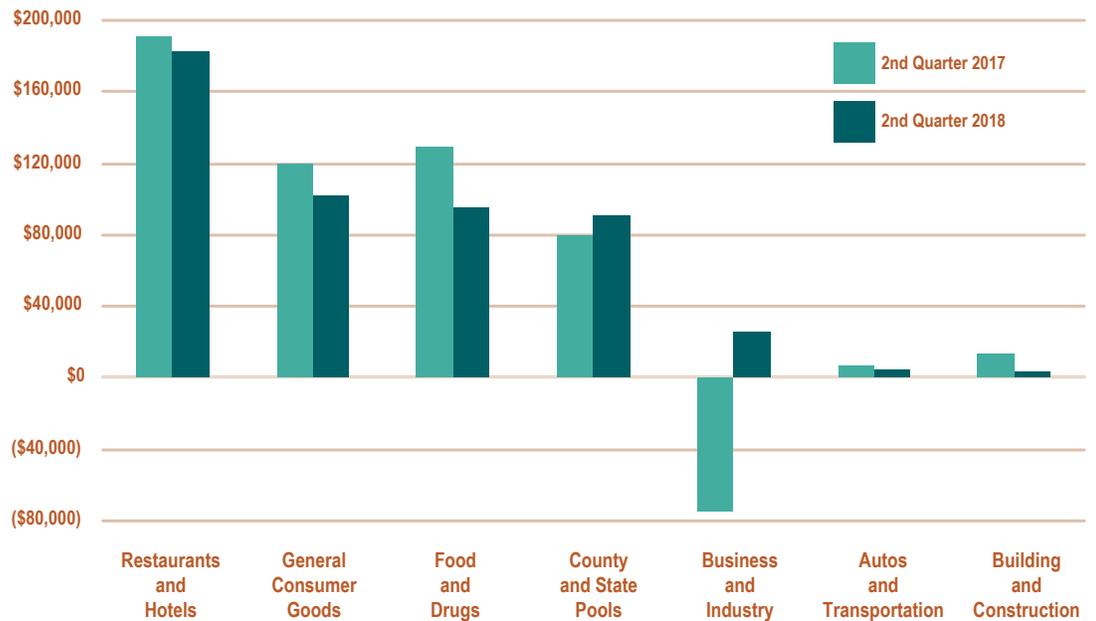
Over \$170,000 of delayed payments occurred which was offset by an audit correction in business and industry. Receipts declined when measured against yearago taxpayer filings in all other categories.

Stronger sales were posted by home furnishings merchants and fine dining establishments. New merchants offset closures in several restaurant categories and in general consumer goods.

Increases the countywide use tax allocation pool also contributed to offset the decline in gross receipts due to missing payments.

Net of aberrations, taxable sales for all of Santa Clara County grew 1.3% over the comparable time period; the Bay Area was up 2.7%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Amber India Restaurant	Noodle Talk Restaurant
Armadillo Willys BBQ & Cafe	Pho Vi Hoa Restaurant
BevMo	Rite Aid
Cetrella	Rustic House
Chef Chus	Safeway
Design Image	Securify Us
Draegers Super Market	Shell
Footwear Etc	Spectrum Interior Design
Grand Petroleum	Steinway
Los Altos Chevron	Sumo Sushi Boats
Los Altos Grill	The Post
Lucky Supermarket	Trader Joes
	Walgreens

### REVENUE COMPARISON

Four Quarters – Fiscal Year To Date (Q3 to Q2)

	2016-17	2017-18
Point-of-Sale	\$2,349,426	\$2,346,556
County Pool	429,515	443,892
State Pool	1,588	1,417
<b>Gross Receipts</b>	<b>\$2,780,529</b>	<b>\$2,791,865</b>

**California Overall**

Local Government cash receipts from April through June sales dropped 10.1% from the same quarter one year ago due to implementation issues with CDFTA's new tax reporting software system. The results were further skewed by the State's attempt to offset the resulting shortages by advancing tax revenues that it estimates will be generated next quarter.

After reviewing unprocessed returns and approximating the full amounts of partial payments, HdL estimates that once all returns are properly processed and the data adjusted to reflect actual quarter receipts, statewide local sales and use tax revenues will be 1.6% higher than second quarter 2017.

Sales of building and construction materials, jet fuel and online shopping appear to have been the primary drivers of statewide growth during the second quarter. Auto sales leveled off as previously anticipated, although receipts from auto leases continued to show substantial gains. Online fulfillment centers and value themed apparel stores were the primary gainers within the general consumer goods group. Business-industrial purchases were slightly lower than previous quarters with declines in new energy projects being a major factor.

Regionally, the San Francisco Bay area and the Sacramento and San Joaquin Valley areas outperformed the rest of the state.

**Tariff Policies and Sales Tax**

Tariffs are becoming a key element of the federal government's international trade strategy with additional duties of 10% announced for the end of the third quarter, rising to 25% by the end of 2018.

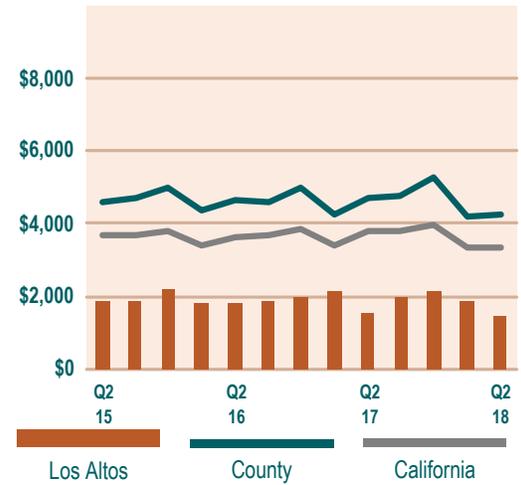
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates. Many manufacturers have managed to avoid raising prices by absorbing the costs of the

initial first round of tariffs on metals, machinery and components. On the down side, small retailers without the power to lock in prices may be placed at a competitive disadvantage and contractors are beginning to require escalation clauses in contracts to cover potential cost increases on long range projects.

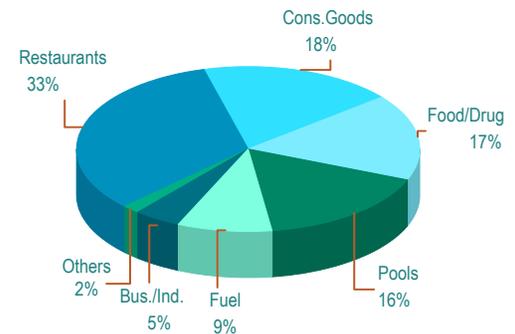
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly in an environment where rising housing, education and health care costs compete for a significant portion of discretionary income.

Proponents of rising tariffs argue that the rising strength of the U.S. dollar will offset the impact of tariff related price increases on consumers. Opponents worry that the stronger dollar and the announced \$5.6 billion in retaliatory tariffs on California exports will negatively impact both the affected companies' job base and capital investment in supplies, equipment and expansion opportunities.

**SALES PER CAPITA**



**REVENUE BY BUSINESS GROUP**  
Los Altos This Quarter



**LOS ALTOS TOP 15 BUSINESS TYPES**

Business Type	Los Altos		County	HdL State
	Q2 '18	Change	Change	Change
Casual Dining	123,481	1.0%	-12.2%	-12.4%
Convenience Stores/Liquor	— CONFIDENTIAL —	—	-15.7%	-9.2%
Drug Stores	— CONFIDENTIAL —	—	-7.3%	-4.2%
Fast-Casual Restaurants	14,843	-1.3%	-5.6%	-3.3%
Fine Dining	25,297	5.9%	-1.6%	-4.4%
Grocery Stores	56,871	-35.2%	-15.7%	-7.0%
Home Furnishings	26,468	5.6%	-8.3%	-21.7%
Music Stores	— CONFIDENTIAL —	—	-13.3%	-15.9%
Office Equipment	— CONFIDENTIAL —	—	-1.9%	-21.8%
Quick-Service Restaurants	16,794	-2.0%	-3.0%	-5.8%
Service Stations	— CONFIDENTIAL —	—	-25.9%	-26.4%
Shoe Stores	— CONFIDENTIAL —	—	-5.9%	-3.3%
Specialty Stores	14,166	-11.6%	-21.0%	-4.5%
Sporting Goods/Bike Stores	6,439	-30.2%	-32.0%	-20.8%
Women's Apparel	12,406	-14.8%	-10.2%	-13.2%
<b>Total All Accounts</b>	<b>464,952</b>	<b>-4.0%</b>	<b>-8.8%</b>	<b>-12.2%</b>
<b>County &amp; State Pool Allocation</b>	<b>91,002</b>	<b>14.6%</b>	<b>8.9%</b>	<b>5.5%</b>
<b>Gross Receipts</b>	<b>555,954</b>	<b>-1.4%</b>	<b>-6.3%</b>	<b>-10.1%</b>