

Q3 2018



City of Los Altos Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2018)

Los Altos In Brief

Los Altos' receipts from July through September were 28.7% above the third sales period in 2017. Excluding reporting aberrations, actual sales were up 5.1%.

The CDTFA has resolved the bulk of outstanding payments that resulted from the State's software conversion. These multi-quarter adjustments temporarily spiked returns and triggered the surge in the countywide use tax allocation pool.

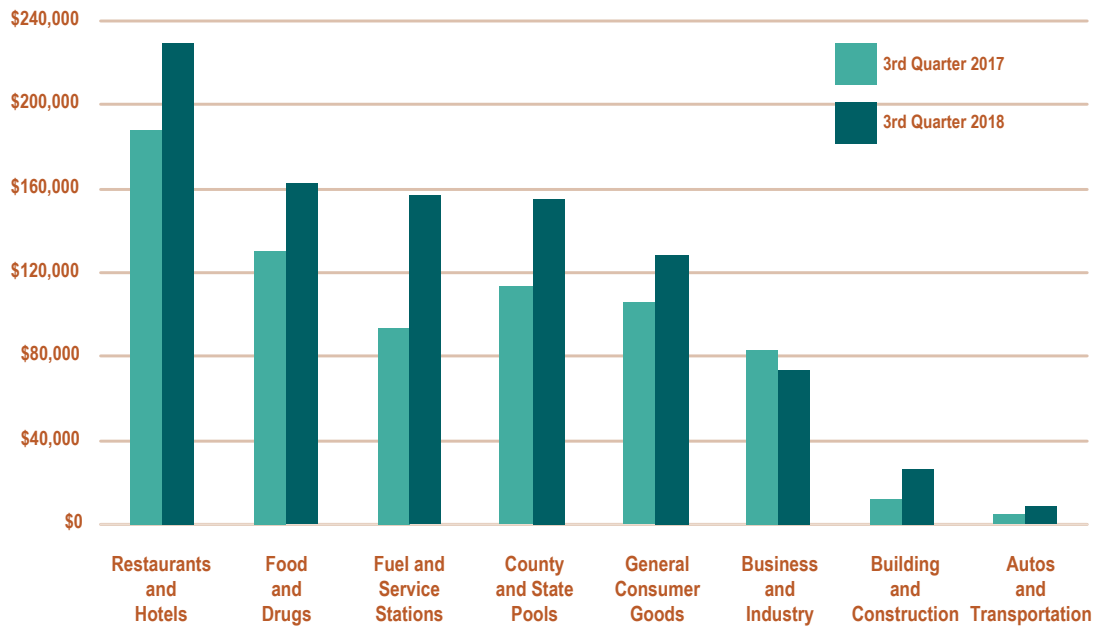
The emergence of new eateries yielded the 10.9% increase in restaurants and hotels once all deviations were removed. Service stations posted an actual gain of 8.6% reflecting higher fuel prices.

Double payments accounted for the double-digit rise in the food and drugs group. However, adjusted receipts reflected a downturn compared to a year ago. A closeout and decline in home furnishings and family apparel curtailed actual general retail performance. Nonetheless, other sectors were on the upside including specialty stores.

A year-ago fund transfer cutback results in business and industry.

Net of aberrations, taxable sales for all of Santa Clara County grew 8.1% over the comparable time period; the Bay Area was up 8.1%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Alys Grace	OPA Authentic Greek Cuisine
Amber India Restaurant	Pendleton Woolen Mills
Armadillo Willys BBQ & Cafe	Restaurant ASA
BevMo	Rite Aid
Chef Chus	Rustic House
Draegers Super Market	Safeway
El Camino Unocal	Shell
Kiwi Crate	Steinway
Los Altos Chevron	Trader Joes
Los Altos Grill	True Value Hardware
Lucky Supermarket	Walgreens
Main Street Chevron	Whole Foods Market
Noodle Talk Restaurant	

REVENUE COMPARISON

One Quarter – Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	\$617,890	\$786,282
County Pool	113,248	154,670
State Pool	503	425
Gross Receipts	\$731,641	\$941,377

California Overall

The CDTEFA's problems with its new software system had yet to be fully resolved by the end of the third quarter. HdL's adjustments for delayed payments and other reporting deficiencies indicate that statewide receipts from the local one cent tax rose 5.2% over the first three quarters of 2018 versus the comparison period. The gains were primarily from higher fuel prices, strong building-construction activity and a rise in tax receipts from online purchases delivered from out-of-state that are shared by all agencies via the county pools.

The data exhibits the start of a leveling pattern in other sectors. The statewide gain in new car sales for July through September was due to a single manufacturer filling back orders. Price competition kept tax revenues from consumer goods receipts relatively flat while the rise in online shopping is expanding the diversion of tax revenues from brick and mortar stores to county pools or to in-state distribution centers.

Restaurant sales are beginning to show signs of market saturation as well as the impact of new competition that includes - prepared food and meal kits delivered from a variety of other sources. A modest gain in business-industrial sales was largely related to data and warehouse technology as well as a few major development projects.

Anticipated declines in fuel prices in the first quarter of 2019 adds support to HdL's latest consensus forecast for a modest statewide gain of 1.5% in fiscal year 2019-20 unless new trade conflicts further impact the economy.

South Dakota V. Wayfair Decision

In June, the Supreme Court reversed its previous ruling that retailers are not required to collect taxes for jurisdictions where they have no physical presence or "nexus." Instead, the buyer was responsible for remitting the tax.

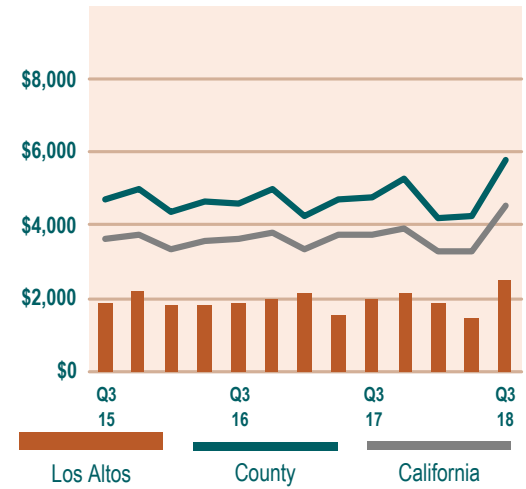
California will begin enforcing the Wayfair reversal effective April 1, 2019

by making retailers delivering from out-of-state responsible for collecting and remitting use tax if calendar year sales exceed \$100,000 and/or 200 or more separate transactions. The same threshold will also determine whether in-state retailers are responsible for collecting taxes on deliveries to individual transactions tax districts.

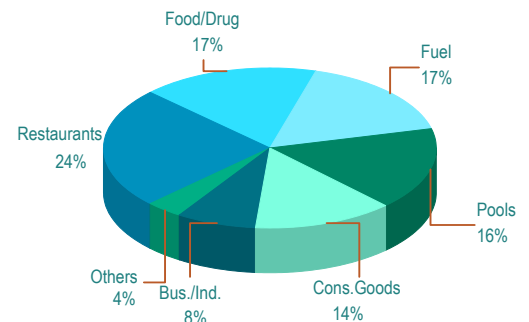
Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

As most major online retailers, including Wayfair, are already collecting California taxes and the state has traditionally enforced a broad definition of "nexus," the impact of the South Dakota decision may be less than in other states. The U.S. Government Accountability Office estimates a potential eventual gain of \$3 to \$5 per capita in receipts from our one cent local tax.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Los Altos This Quarter



LOS ALTOS TOP 15 BUSINESS TYPES

Business Type	Los Altos		County	HdL State
	Q3 '18	Change	Change	Change
Building Materials	— CONFIDENTIAL —	—	24.0%	29.7%
Casual Dining	149,923	25.7%	14.5%	14.6%
Convenience Stores/Liquor	— CONFIDENTIAL —	—	19.7%	20.5%
Drug Stores	— CONFIDENTIAL —	—	0.6%	2.8%
Family Apparel	12,890	86.9%	32.5%	36.3%
Fast-Casual Restaurants	13,363	-16.6%	25.2%	14.9%
Fine Dining	35,187	27.3%	20.0%	16.8%
Fulfillment Centers	— CONFIDENTIAL —	—	17.0%	13.4%
Grocery Stores	125,281	36.8%	19.5%	16.1%
Home Furnishings	24,211	12.2%	9.2%	21.9%
Music Stores	— CONFIDENTIAL —	—	15.9%	29.6%
Quick-Service Restaurants	17,284	13.9%	10.0%	13.4%
Service Stations	156,675	68.3%	35.0%	43.0%
Specialty Stores	18,619	37.9%	19.9%	8.6%
Women's Apparel	16,768	20.8%	7.7%	13.7%
Total All Accounts	786,282	27.3%	22.4%	21.8%
County & State Pool Allocation	155,095	36.3%	31.1%	27.8%
Gross Receipts	941,377	28.7%	23.7%	22.6%