

Q1 2020



City of Los Altos Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2020)

Los Altos In Brief

Los Altos' receipts from January through March were 34.9% below the first sales period in 2019. Cash allocations were pulled down by eligible companies taking advantage of the extra 90 days to file tax returns under the Governor's recent Executive Order. Excluding all reporting aberrations, actual sales were down 15.0%.

Consequences were significant as a result of 'shelter in place' declarations in mid-March. Hospitality-related segments including casual and fine dining, quick-service and fast-casual restaurants reported large tax reductions.

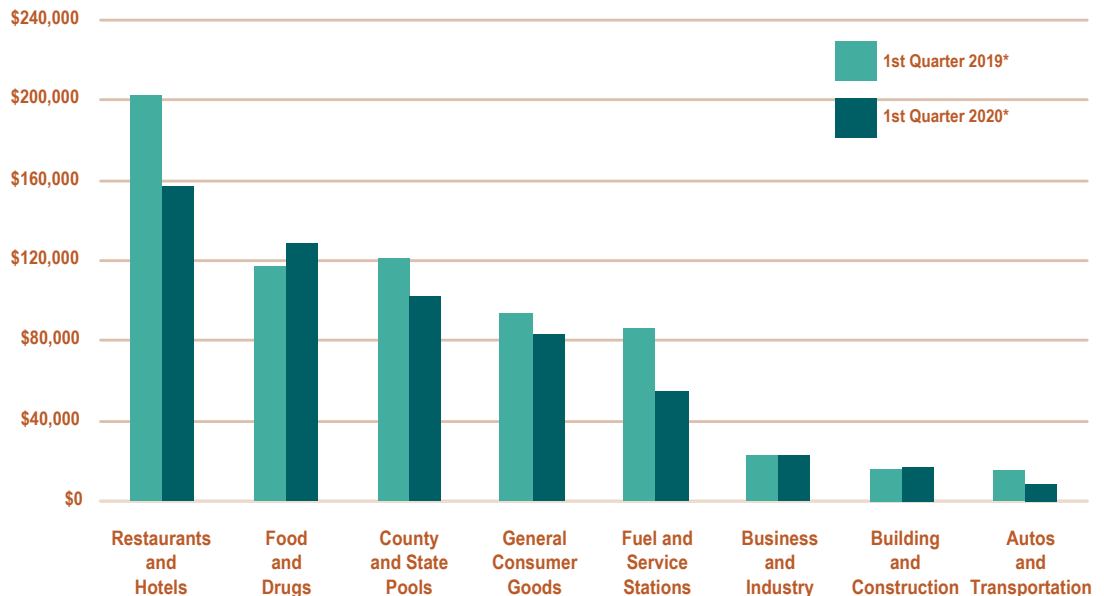
General consumer goods had fewer taxable transactions in most categories. The drop in gas consumption, plunging fuel prices and partial payments adversely impacted service stations.

Essential merchants remained operational all quarter; impacts showed up in growth from grocery and drug stores.

The drop in point of sale allocations depressed the City's share of the countywide pool.

Net of aberrations, taxable sales for all of Santa Clara County grew 1.5% over the comparable time period; the Bay Area was down 2.9%.

SALES TAX BY MAJOR BUSINESS GROUP



*Allocation aberrations have been adjusted to reflect sales activity

TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Amber India Restaurant	Rancho 76
Armadillo Willys BBQ & Cafe	Rite Aid
BevMo	Rustic House
Chef Chus	Safeway
Draegers Super Market	Shell
El Camino 76	State of Mind Public House & Pizzeria
Footwear Etc	Steinway
Los Altos 76	The Post
Los Altos Chevron	Trader Joes
Los Altos Grill	True Value Hardware
Lucky Supermarket	Turn 2 Solutions
Pho Vi Hoa Restaurant	Walgreens
	Whole Foods Market

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date (Q3 to Q1)

	2018-19	2019-20
Point-of-Sale	\$2,051,154	\$1,614,506
County Pool	421,968	364,499
State Pool	1,125	918
Gross Receipts	\$2,474,247	\$1,979,923

Statewide Results

With stay at home/non-essential business restrictions in place during the last two weeks of the quarter, local one cent tax revenues for the state overall, were 18.8% lower than January to March of 2019. Taxpayer relief programs accounted for much of the decline with receipts down roughly 3.1% after factoring for payment deferrals and other accounting anomalies.

Severe drops in auto sales, general consumer goods, service stations and restaurants were largely offset by new revenue from implementation of the Wayfair v. South Dakota decision that now requires out-of-state retailers to collect and remit Californian's sales and use tax. Other offsets included a surge in online shopping that boosted receipts from the county use tax allocation pools and from online retailers who maintain and ship their inventory from within California.

The food/drug sector also showed strong gains as did many home supply, dollar and discount stores that remained open during the shutdown.

New Challenges & Opportunities

Current indicators suggest that overall tax receipts for the April thru June sales period will bottom out at 27% below the second quarter of 2019. The speed of the rebound in sales activity will be dependent on the availability of adequate testing, treatment therapies and ultimately a vaccine. Until then, physical distancing, COVID-19 protocols and supply chain disruptions will create limitations on some operating capacities and the return to work of all employees. Health fears, discounts and liquidation sales may also keep sales tax revenues below pre-pandemic levels until solutions are in place.

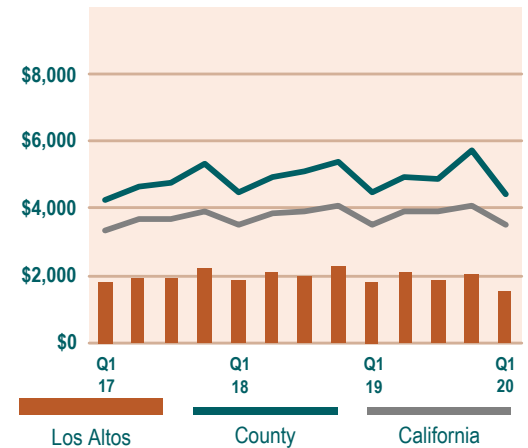
Regardless of when full recovery does occur, reports are that some elements of the economy will be permanently altered. Generation of future tax revenues may require rethinking of local economic strategies.

Over expansion, excessive debt and consumer shifts to online shopping were already resulting in bankruptcies with estimates of up to 25,000 brick-and-mortar store closings by the end of 2020. "Touch and feel" shopping is not going away but retailers see an evolution where in-store shopping is more leisure/recreational oriented with smaller stores offering more show-rooming and delivery/pick-up services. The smaller footprints and lifestyle emphasis offer opportunities to reinstate downtowns and neighborhood centers as economic/social gathering places.

The Pandemic's capture of new online customers and the growing trend of manufacturers and entrepreneurs with new concepts to bypass physical stores and sell directly to the consumer also expands options for agencies without large market populations to generate sales tax through industrial development.

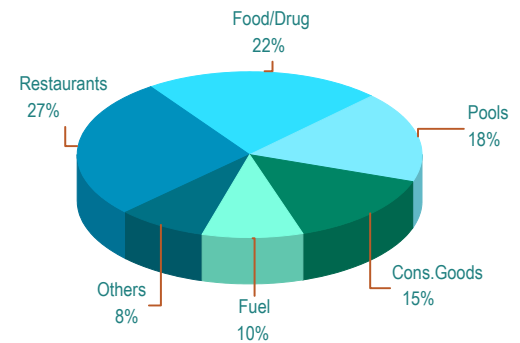
Finally, the Pandemic's disruption of supply chains has also accelerated growing dissatisfaction with overseas arrangements and some reshoring will occur which offers opportunities to leverage a city's existing business base to attract compatible support industries.

SALES PER CAPITA*



*Allocation aberrations have been adjusted to reflect sales activity

REVENUE BY BUSINESS GROUP
Los Altos This Quarter*



*Allocation aberrations have been adjusted to reflect sales activity

LOS ALTOS TOP 15 BUSINESS TYPES**

Business Type	Los Altos		County	HdL State
	Q1 '20	Change	Change	Change
Building Materials	— CONFIDENTIAL —	—	-0.7%	2.9%
Casual Dining	104,911	-23.0%	-21.0%	-19.2%
Contractors	7,246	14.8%	2.0%	2.8%
Convenience Stores/Liquor	12,615	2.0%	-5.1%	-4.8%
Drug Stores	— CONFIDENTIAL —	—	0.6%	2.8%
Electrical Equipment	— CONFIDENTIAL —	—	-16.8%	-7.1%
Fast-Casual Restaurants	10,313	-14.2%	-11.1%	-10.1%
Fine Dining	19,644	-33.3%	-27.4%	-24.5%
Grocery Stores	96,828	13.1%	13.9%	11.7%
Home Furnishings	14,157	-28.6%	-11.3%	-13.4%
Music Stores	— CONFIDENTIAL —	—	-1.4%	-12.3%
Quick-Service Restaurants	14,663	-8.4%	-13.0%	-8.7%
Service Stations	54,505	-36.5%	-16.7%	-9.9%
Specialty Stores	12,863	-3.3%	-11.2%	-10.4%
Women's Apparel	9,575	-15.6%	-37.1%	-31.6%
Total All Accounts	470,928	-14.9%	-1.0%	-7.5%
County & State Pool Allocation	102,174	-15.7%	13.7%	22.4%
Gross Receipts	573,102	-15.0%	1.5%	-3.3%

** Accounting aberrations such as late payments, fund transfers, and audit adjustments have been adjusted to reflect the quarter in which the sales occurred.