

# Q2 2018



# City of La Habra Sales Tax Update

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

## La Habra In Brief

Problems with the State's new computerized tax reporting system reduced La Habra's allocation for sales occurring April through June to 12.3% below the second sales period of 2017. The State partially made up for the resulting shortfall by advancing a portion of next quarter's anticipated revenues thereby skewing actual results even further.

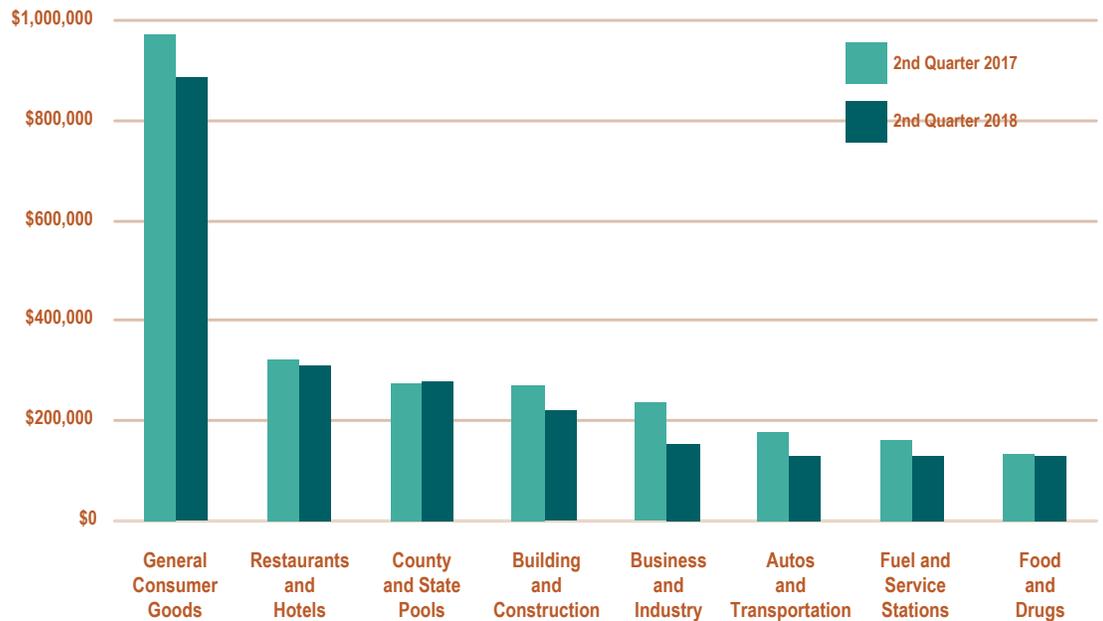
After backing out the advance and factoring for unprocessed returns and related accounting issues, it is estimated that the City's actual sales activity was 0.3% higher than the same quarter one year ago.

Higher fuel prices and recent additions to the restaurant and specialty retail categories helped offset declines in business-industrial purchases and closeouts within the auto-transportation and building-construction groups.

La Habra's voter approved Measure "T" added \$1,307,565 to the above and was 1.3% higher than the second quarter of last year after adjusting for the State's computer issues. The gains from this source were primarily from new auto purchases, higher fuel prices and recent business additions.

Net of aberrations, sales and use tax receipts for all of Orange County are estimated to have grown 0.7% over the comparable time period while Southern California as a whole, was up 1.0%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Arco AM PM	Raising Cane's
Costco	Red Robin
Dangelo Company	Salinas Tires & Wheels
El Cholo	Sams Club
G & M Oil	Shepard Brothers
Home Depot	Star Texaco Mart & Car Wash
Howards Appliances	T Mobile
Hughes Water & Sewer	Target
In N Out Burger	Tesoro Refining & Marketing
Kohls	TJ Maxx
Lowe's	Verizon Wireless
Moto United	WalMart
Northgate Market	

### REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$8,828,770	\$8,828,745
County Pool	1,158,573	1,190,557
State Pool	4,825	4,982
<b>Gross Receipts</b>	<b>\$9,992,168</b>	<b>\$10,024,284</b>
Measure T	\$5,136,189	\$5,259,166

**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.

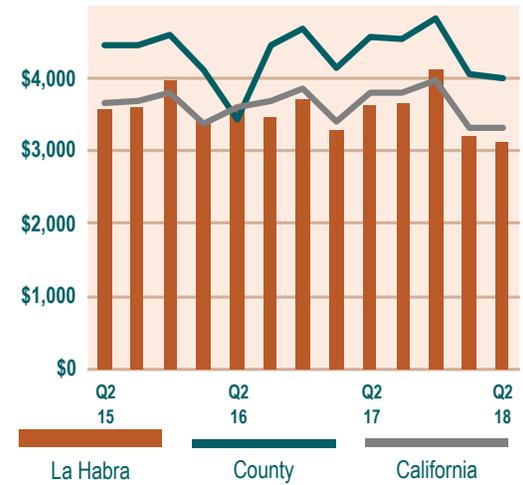
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates.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

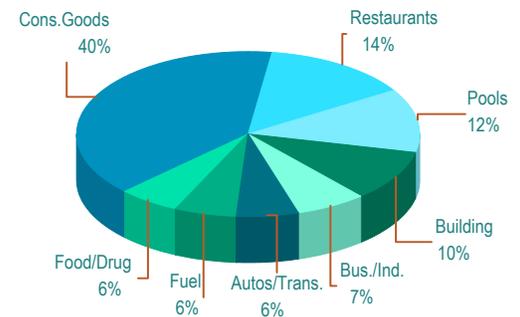
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly 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**  
La Habra This Quarter



**LA HABRA TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	La Habra Q2 '18*	Change	County Change	HdL State Change
Automotive Supply Stores	61.0	-7.9%	-16.1%	-11.6%
Building Materials	152.8	-27.7%	-22.6%	-23.2%
Casual Dining	119.1	-11.8%	-14.0%	-12.7%
Department Stores	— CONFIDENTIAL —	—	20.2%	12.7%
Discount Dept Stores	594.9	-8.3%	-10.9%	-13.5%
Drugs/Chemicals	— CONFIDENTIAL —	—	-36.6%	-27.5%
Electronics/Appliance Stores	74.3	-12.5%	-1.3%	-5.1%
Family Apparel	— CONFIDENTIAL —	—	-23.3%	-27.2%
Fast-Casual Restaurants	31.4	-4.0%	-6.6%	-3.5%
Grocery Stores	76.8	0.8%	-7.1%	-7.0%
Light Industrial/Printers	63.1	-31.7%	-32.2%	-26.1%
Plumbing/Electrical Supplies	— CONFIDENTIAL —	—	-16.5%	-6.8%
Quick-Service Restaurants	146.0	3.0%	-1.7%	-6.0%
Service Stations	129.9	-19.3%	-31.3%	-26.6%
Specialty Stores	62.5	46.5%	-8.6%	-4.5%
<b>Total All Accounts</b>	<b>1,961.7</b>	<b>-13.9%</b>	<b>-11.5%</b>	<b>-12.2%</b>
<b>County &amp; State Pool Allocation</b>	<b>279.2</b>	<b>1.2%</b>	<b>3.9%</b>	<b>5.5%</b>
<b>Gross Receipts</b>	<b>2,240.9</b>	<b>-12.3%</b>	<b>-9.8%</b>	<b>-10.1%</b>