

# Q2 2018



# City of Aliso Viejo Sales Tax *Update*

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

## Aliso Viejo In Brief

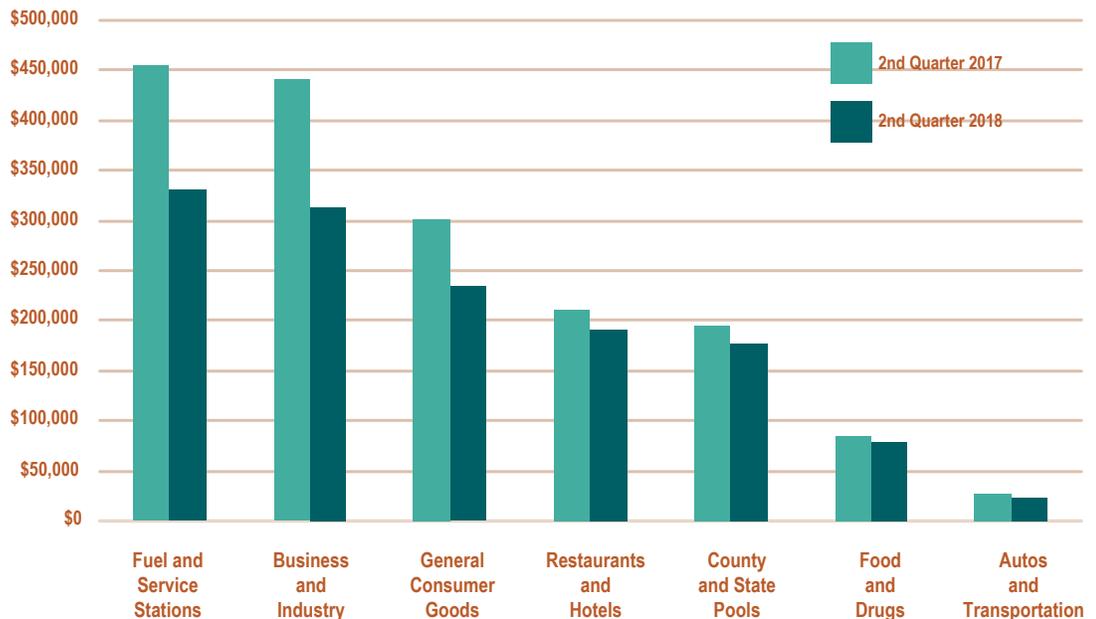
Problems with the State's new computerized tax reporting system reduced Aliso Viejo's allocation for sales occurring April through June to 20.8% below the second quarter of 2017. The resulting cash shortfall was offset by advancing a portion of next quarter's estimated revenues thereby skewing actual results.

After backing out the advance and factoring for unprocessed returns and related accounting issues, it is estimated that the City's actual sales activity during the second quarter was 3.9% lower than the same quarter one year ago.

A soft quarter for general consumer goods and building-construction materials plus previous close-outs within the business-industrial group were primarily responsible for the actual decline. The losses were partially offset by higher fuel prices and new business additions.

After factoring for unprocessed returns and accounting aberrations, it is estimated that sales and use tax receipts for all of Orange County rose 0.7% over the same time period while Southern California as a whole, was up 1.0%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

76	Petsmart
Aliso Creek Shell	Raising Cane's
B5 Technologies	Ralphs
Barnes & Noble	Renaissance Clubsport
Cianna Medical	Shell
Circle K/Mobil	Stadium Brewing Company
CVS Pharmacy	Staples
Digital River	Stater Bros
eFuel	Target
El Dorado Car Wash	TJ Maxx
Lowe's	Trader Joes
Michaels Arts & Crafts	Urban Plates
Microvention	

### REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$5,579,325	\$5,365,801
County Pool	730,118	724,026
State Pool	2,783	3,078
<b>Gross Receipts</b>	<b>\$6,312,226</b>	<b>\$6,092,905</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.

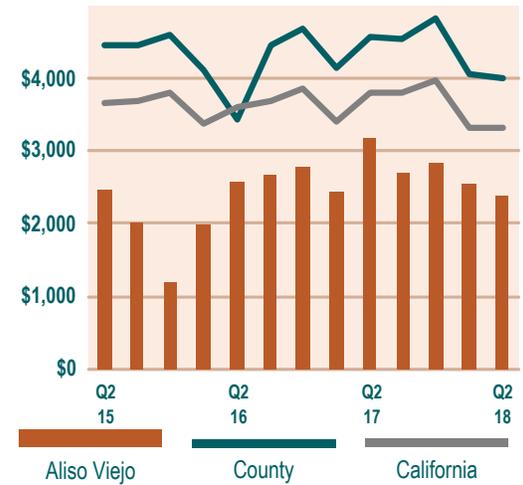
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates.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

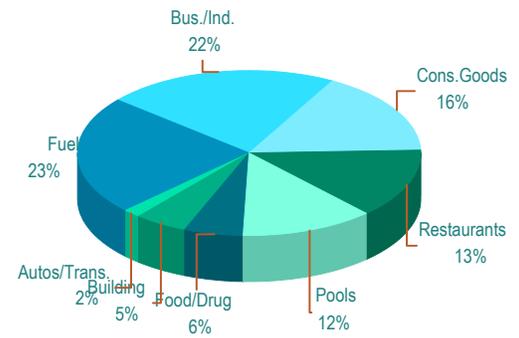
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly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



**ALISO VIEJO TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	Aliso Viejo Q2 '18*	Aliso Viejo Change	County Change	HdL State Change
Building Materials	— CONFIDENTIAL —	—	-22.6%	-23.2%
Business Services	— CONFIDENTIAL —	—	-28.1%	-17.8%
Casual Dining	62.9	-11.0%	-14.0%	-12.7%
Discount Dept Stores	— CONFIDENTIAL —	—	-10.9%	-13.5%
Drug Stores	— CONFIDENTIAL —	—	-6.4%	-4.2%
Family Apparel	— CONFIDENTIAL —	—	-23.3%	-27.2%
Fast-Casual Restaurants	53.5	5.0%	-6.6%	-3.5%
Grocery Stores	— CONFIDENTIAL —	—	-7.1%	-7.0%
Leisure/Entertainment	23.1	-29.3%	5.0%	-3.6%
Medical/Biotech	47.2	-26.7%	-36.8%	-28.4%
Office Supplies/Furniture	24.1	-11.3%	-17.8%	-25.8%
Petroleum Prod/Equipment	— CONFIDENTIAL —	—	16.8%	0.4%
Quick-Service Restaurants	50.1	-9.8%	-1.7%	-6.0%
Service Stations	124.1	-15.8%	-31.3%	-26.6%
Specialty Stores	20.9	-15.0%	-8.6%	-4.5%
<b>Total All Accounts</b>	<b>1,245.0</b>	<b>-22.2%</b>	<b>-11.5%</b>	<b>-12.2%</b>
<b>County &amp; State Pool Allocation</b>	<b>177.2</b>	<b>-8.6%</b>	<b>3.9%</b>	<b>5.5%</b>
<b>Gross Receipts</b>	<b>1,422.2</b>	<b>-20.8%</b>	<b>-9.8%</b>	<b>-10.1%</b>