

Q3 2018



City of Seal Beach Sales Tax *Update*

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

Seal Beach In Brief

Seal Beach's receipts from July through September were 24.5% above the third sales period in 2017 though results were skewed by catch-up payments owed from last quarter, which had been delayed by the State's recent transition to a new software and reporting system. The double-up payments inflated numerous categories including casual dining, service stations, general consumer goods and allocations from the countywide use tax pool.

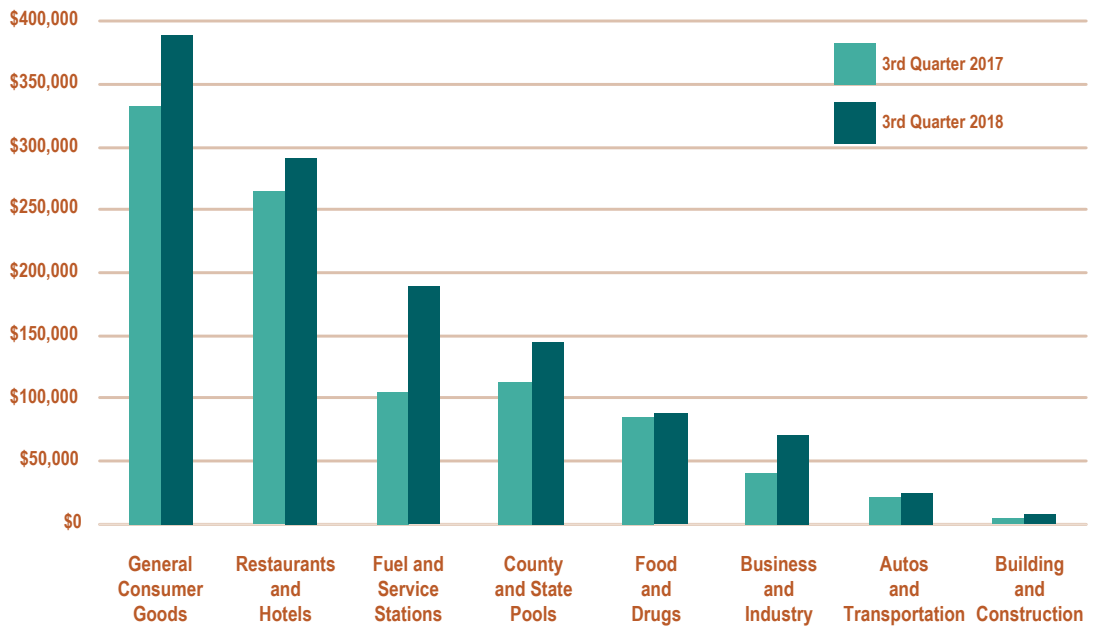
In addition, a State payment correction artificially inflated women's apparel, while a onetime equipment acquisition lifted business-industrial returns. Excluding reporting aberrations, actual sales were up 3.9%.

Local fuel and service station receipts were boosted by the global surge in the price of petroleum products in the third quarter. The strong economy and international political tensions resulted in a tightening of supply that drove the price from around \$50 per barrel to \$70 per barrel.

A specialty store closure, however, partially offset the overall rate of improvement.

Net of aberrations, taxable sales for all of Orange County grew 4.1% over the comparable time period; the Southern California region was up 4.3%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

76	Marshalls
Bed Bath & Beyond	Mobil
California Pizza Kitchen	Old Ranch Country Club
Chevron	Original Parts Group
Chick Fil A	Pavilions
CVS Pharmacy	Ralphs
Energy Tubulars	Roger Dunn Golf Shop
Hangout	Spaghettini
Haworth	Sprouts
Home Goods	Target
In N Out Burger	Ultra Beauty
Kohls	Walt's Wharf
Leisure World Automotive 76	

REVENUE COMPARISON

One Quarter – Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	\$855,882	\$1,063,009
County Pool	113,326	144,161
State Pool	667	546
Gross Receipts	\$969,874	\$1,207,715

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.

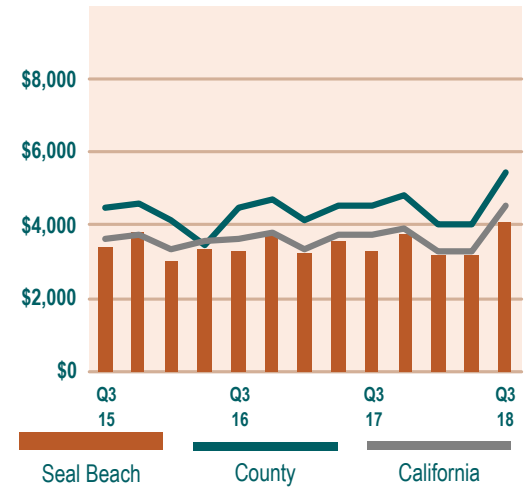
California will begin enforcing the Wayfair reversal effective April 1, 2019

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.

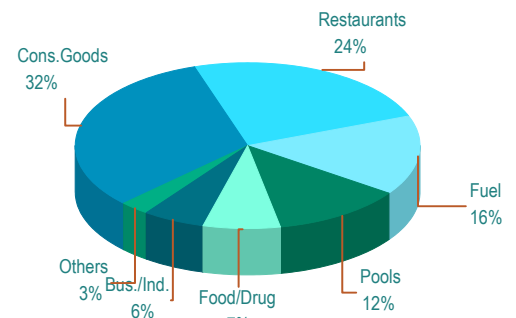
Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

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
Seal Beach This Quarter



SEAL BEACH TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Seal Beach Q3 '18*	Seal Beach Change	County Change	HdL State Change
Casual Dining	157.3	15.3%	14.8%	14.8%
Department Stores	—	CONFIDENTIAL	-5.2%	-3.6%
Discount Dept Stores	—	CONFIDENTIAL	16.2%	18.3%
Drug Stores	—	CONFIDENTIAL	1.2%	2.8%
Family Apparel	37.0	9.7%	30.2%	36.3%
Fast-Casual Restaurants	36.7	10.8%	9.0%	15.2%
Grocery Stores	52.1	0.0%	15.4%	16.1%
Home Furnishings	50.0	3.7%	16.8%	21.9%
Office Supplies/Furniture	—	CONFIDENTIAL	10.5%	9.2%
Petroleum Prod/Equipment	—	CONFIDENTIAL	56.5%	24.6%
Quick-Service Restaurants	67.9	14.8%	9.1%	13.4%
Service Stations	152.6	67.9%	45.4%	43.1%
Specialty Stores	35.5	-22.4%	13.2%	8.3%
Sporting Goods/Bike Stores	23.1	12.6%	20.4%	21.1%
Women's Apparel	30.9	251.4%	12.5%	13.7%
Total All Accounts	1,063.0	24.2%	21.2%	21.8%
County & State Pool Allocation	144.7	26.9%	23.9%	27.8%
Gross Receipts	1,207.7	24.5%	21.5%	22.6%