

# Q1 2017



# Santa Cruz County Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2017)

## Santa Cruz County In Brief

The unincorporated area's January through March receipts were 3.8% above the first sales period in 2016. Excluding reporting aberrations, actual sales were up 4.9%.

Weather related construction projects and residential improvements boosted returns from building materials, contractors and plumbing/electrical supplies. Higher fuel prices created a positive quarter from service stations for the first time since 2014.

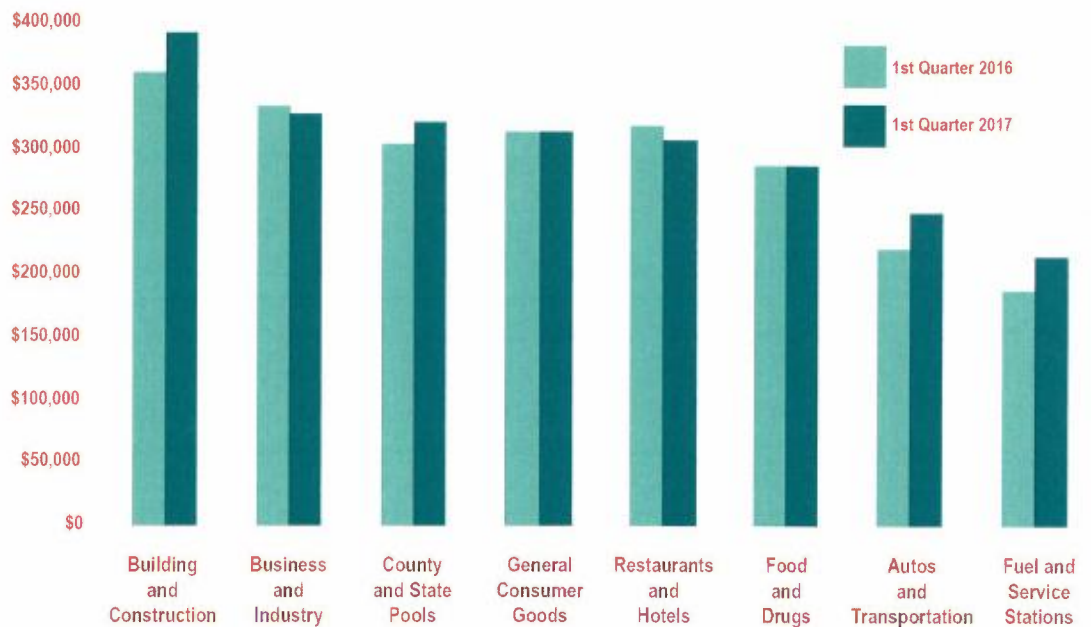
Several garden/agricultural vendors were up; the autos and transportations group generated better revenues reflecting buyers demand for various types of vehicles.

Casual dining dropped due to a missing payment and accounting corrections. Marijuana related businesses included first time reporting for a recently opened dispensary; however, results were skewed due to a remittance omission and payment adjustment in the comparable quarter.

The County's voter approved library tax generated \$2,310,253, which was a 3.4% increase from last year.

Net of aberrations, taxable sales for all of Santa Cruz County grew 2.6% over the comparable time period; the Central Coast region was up 0.2%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

76	Kind Peoples Collective
ABC Supply	Marshalls
Best Buy	Ocean Honda
Big Creek Lumber	Palace Art & Office Supply
Boulder Creek Beacon Station	Performance Food Service
Capitola Healing Association	Pet Pals
Chevron	Probuild Company
Crop Production Services	Safeway
Felton Valero	Safeway Fuel
Ferguson Enterprises	Scarborough Home Center
Home Depot	Seascape Resort
Honda Lease Trust	Toys R Us
Independent Electric Supply	

### REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$9,354,975	\$9,492,761
County Pool	1,292,390	1,352,856
State Pool	6,560	7,192
<b>Gross Receipts</b>	<b>\$10,653,925</b>	<b>\$10,852,808</b>
Less Triple Flip*	\$(2,082,145)	\$0

\*Reimbursed from county compensation fund

## Statewide Results

Local tax receipts from January through March sales were 2.1% higher than the first quarter of 2016 after factoring for accounting anomalies.

Rising fuel prices, auto sales, county use tax pool allocations and dining out added most to the overall gain. Some general consumer goods and B2B sales were flat or down.

This quarter reflects the start of an anticipated leveling off of future tax revenues. After seven years of recovery, analysts are reporting an end to the previous pent-up demand for autos. Demand for new cars will ease due to more buyers tied to long-term loans and a glut of used cars coming off lease.

Price competition and store closures have reduced tax receipts from consumer goods. Business investment remains strong but much of the growth is for non-taxable items such as cloud computing and large data solutions. Declines in foreign tourist visits and lower costs of eating at home are expected to slow the growth in restaurant sales.

## New Sales Tax Organization

As of July 1, the operating divisions responsible for allocation of tax revenues other than property, insurance and alcoholic beverages will shift from the State Board of Equalization (BOE) to the Governor's new Department of Tax and Fee Administration.

The BOE was first established by constitutional amendment in 1879 to oversee property tax assessment practices by all counties in the state. It eventually became responsible for other tax revenues including sales, insurance, corporate franchise and special fees.

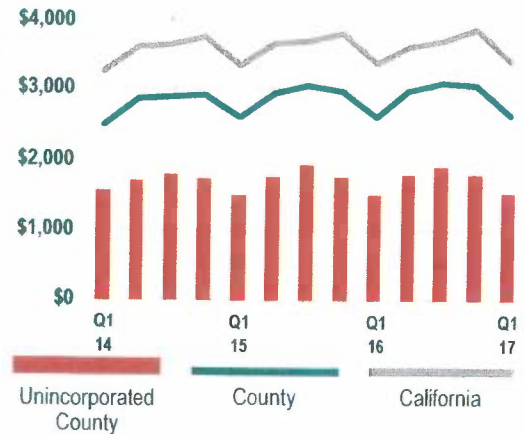
In 2011, HdL detected discrepancies in the BOE's allocation of public safety revenues which led to the recovery of over \$124 million in revenues for counties. Subsequent audits by the State

Controller and State Department of Finance revealed further shortcomings. The result was the passage of budget trailer bill SB86/AB102 that reduces the BOE to its previous constitutionally defined functions.

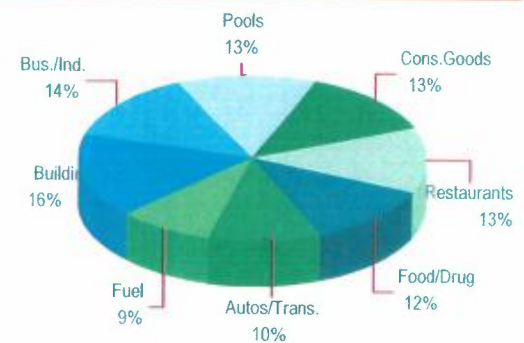
The BOE is also empowered to hear appeals and disputes over tax assessments including sales/use, personal income and corporate taxes and is the only elected Tax Board in the United States that hears tax disputes. Effective January 1, 2018, that function will be turned over to a new Office of Tax Appeals (OTA) composed of panels of administrative law judges appointed by the Governor with locations in Sacramento, Fresno and Los Angeles.

For functions other than the appeal process, this is primarily a reshuffling of existing personnel so the change will have little impact on local agencies. However, the issue of local government's ability to provide input regarding future policy and regulation changes that impact revenues remains under discussion. HdL will share more about the BOE transition as details become available in the weeks ahead.

## SALES PER CAPITA



## REVENUE BY BUSINESS GROUP Santa Cruz Co. Uninc This Quarter



## SANTA CRUZ COUNTY TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Unincorporated County Q1 '17*	County Change	HdL State Change	Change
Auto Repair Shops	54.2	-1.8%	10.5%	5.1%
Building Materials	287.6	10.2%	-6.1%	3.1%
Casual Dining	188.2	-8.3%	-5.9%	0.5%
Contractors	46.2	7.2%	-11.5%	-4.1%
Convenience Stores/Liquor	61.3	-1.7%	3.8%	3.7%
Electronics/Appliance Stores	— CONFIDENTIAL —	—	-1.6%	-0.3%
Garden/Agricultural Supplies	114.8	11.6%	13.6%	-0.9%
Grocery Stores	99.7	3.9%	-0.5%	0.5%
Home Furnishings	49.6	-4.0%	-8.2%	-1.9%
Marijuana Related	86.5	-3.5%	-0.9%	15.2%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	28.3%	4.4%
Plumbing/Electrical Supplies	50.8	2.3%	-2.8%	-1.5%
Quick-Service Restaurants	45.0	6.2%	-0.3%	4.6%
Service Stations	210.8	13.1%	5.4%	10.0%
Specialty Stores	60.9	11.3%	-0.7%	0.3%
<b>Total All Accounts</b>	<b>2,091.6</b>	<b>3.5%</b>	<b>1.5%</b>	<b>1.8%</b>
<b>County &amp; State Pool Allocation</b>	<b>321.0</b>	<b>5.5%</b>	<b>3.5%</b>	<b>2.9%</b>
<b>Gross Receipts</b>	<b>2,412.6</b>	<b>3.8%</b>	<b>1.7%</b>	<b>1.9%</b>