

Q1 2018



Santa Cruz County Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2018)

Santa Cruz County In Brief

The Unincorporated Area's receipts from January through March were 1.9% above the first sales period in 2017. Excluding reporting adjustments but allowing for an estimated \$55,000 in unprocessed sales tax returns caused by system changes made by the state, actual sales were up 6.9%. It is expected that the unprocessed returns will be included in next quarter's totals.

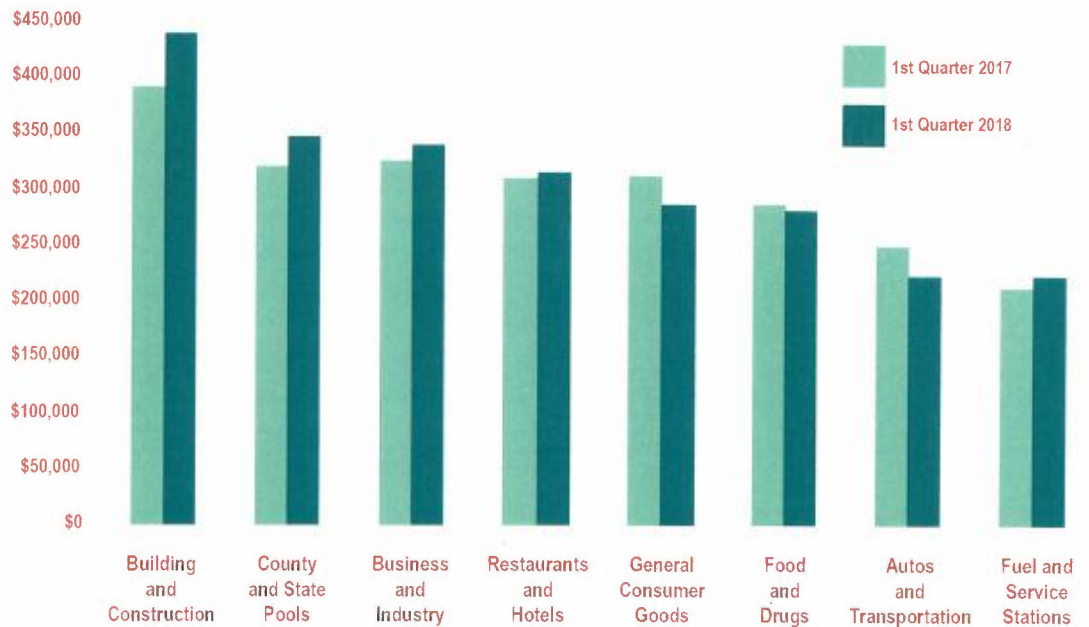
Construction activity brought the largest gain this period as most material suppliers posted sales increases. Meanwhile the Agency's share of the countywide pool rose 1.5% which led to a \$27,300 increase in the pool allocation.

The effects of the missing tax returns were most evident in the auto-transportation group and accounted for over 50% of the reported decline while the same was true with general consumer good results which were also negatively skewed by several reporting adjustments.

Measure R, the county library tax, generated \$2,217,427 or 1.5% less than in the same period a year ago due to an estimated \$86,000 worth of unprocessed sales tax returns and a large, negative reporting adjustment.

Net of adjustments, taxable sales for all of Santa Cruz County grew 4.1% over the comparable time period while those of the entire Central Coast region were up 5.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

76	Independent Electric Supply
AJs Fuel & Food Mart	Joby Aviation
Best Buy	Kind Peoples Collective
Big Creek Lumber	Marshalls
Boulder Creek Beacon Station	Ocean Honda
Capitola Healing Association	Palace Art & Office Supply
Chevron	Performance Food Service
Crop Production Services	Pet Pals
Felton Valero	Probuild Company
Ferguson Enterprises	Safeway
GrowBiz	Safeway Fuel
Home Depot	Scarborough Building Supply
	Seascape Resort

REVENUE COMPARISON

Four Quarters - Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$9,492,761	\$10,012,283
County Pool	1,352,856	1,435,364
State Pool	7,192	3,389
Gross Receipts	\$10,852,808	\$11,451,036

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

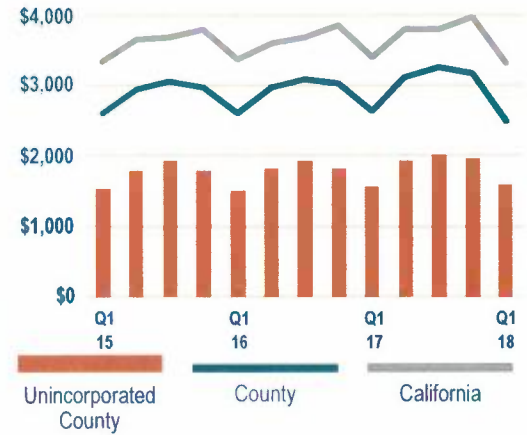
Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the online interstate marketplace was not the prevailing issue before the court in 1992.

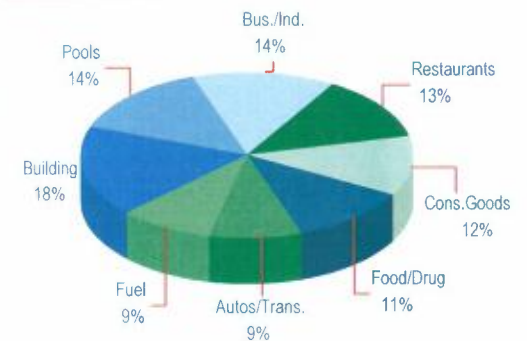
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about \$1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average \$60 per year for each California household, and California businesses average \$171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court's opinion to determine next steps to support taxpayers.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Santa Cruz Co. Uninc This Quarter



SANTA CRUZ COUNTY TOP 15 BUSINESS TYPES

Business Type	Unincorporated County		County	HdL State
	Q1 '18*	Change	Change	Change
Auto Repair Shops	53.3	-2.5%	-9.2%	-7.5%
Building Materials	330.9	13.0%	12.5%	3.8%
Casual Dining	191.2	4.2%	0.5%	-2.0%
Convenience Stores/Liquor	66.4	-1.4%	-3.8%	0.6%
Electronics/Appliance Stores	— CONFIDENTIAL —		-0.3%	0.8%
Family Apparel	44.4	-1.8%	3.0%	8.2%
Garden/Agricultural Supplies	120.5	4.4%	-1.5%	3.0%
Grocery Stores	87.2	-7.2%	-9.3%	1.9%
Home Furnishings	48.0	-3.0%	-1.2%	-1.0%
Marijuana Related	88.4	0.5%	6.6%	19.3%
New Motor Vehicle Dealers	— CONFIDENTIAL —		-3.6%	-0.2%
Plumbing/Electrical Supplies	63.9	14.5%	13.5%	11.6%
Quick-Service Restaurants	44.4	-4.2%	-4.6%	-3.8%
Service Stations	221.7	6.1%	-0.6%	4.6%
Specialty Stores	43.9	-28.0%	-12.5%	-10.0%
Total All Accounts	2,111.6	1.0%	-5.1%	-1.8%
County & State Pool Allocation	347.2	8.1%	1.7%	-2.1%
Gross Receipts	2,458.8	1.9%	-4.2%	-1.8%