

# Q3 2017



# Santa Cruz County Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2017)

## Santa Cruz County In Brief

The unincorporated area's receipts from July through September were 6.4% above the third sales period in 2016.

A onetime sale of capital equipment coupled with more spending on agricultural materials helped the business and industry group top all increases this period. Meanwhile building contractors kept busy and pushed up sales at local materials outlets.

The County's share of the county-wide use tax pool is roughly 30%. With the pool growing by \$147,000 this quarter, the County's allocation increased by nearly \$45,000.

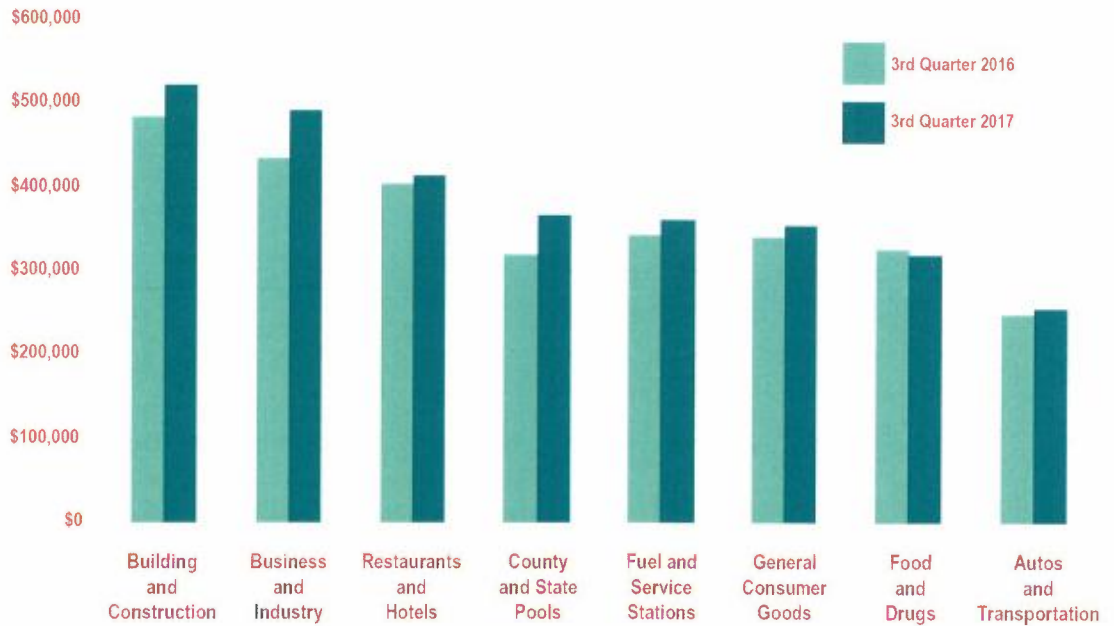
General consumer good receipts were spiked by a store closing sale and several prior year reporting anomalies as sales at active outlets rose only slightly. Fuel prices continued to rise, sending receipts up 5.8%.

Receipts from marijuana-related businesses were lower due to an outlet's closure, lower sales and a late payment by other operators.

The countywide library tax generated \$2,760,443 or 4.7% more than a year ago. New car sales, restaurants and construction activity created the largest gains.

Net of reporting adjustments, taxable sales for all of Santa Cruz County grew 5.1% over the comparable time period; the Central Coast region was up 4.2%.

## SALES TAX BY MAJOR BUSINESS GROUP



## TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

76	Marshalls
ABC Supply	Ocean Honda
Best Buy	Pacific AG Supplies
Big Creek Lumber	Palace Art & Office Supply
Capitola Healing Association	Performance Food Service
Chaminade Hotel	Pet Pals
Chevron	Probuild Company
Crop Production Services	Quik Stop
Felton Valero	Safeway
GE Grid Solutions	Safeway Fuel
Home Depot	Scarborough Building Supply
Independent Electric Supply	Seascape Resort
Kind Peoples Collective	

## REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$4,986,536	\$5,285,521
County Pool	667,821	723,438
State Pool	1,718	768
<b>Gross Receipts</b>	<b>\$5,656,075</b>	<b>\$6,009,726</b>

## Statewide Trends

After factoring for accounting anomalies, local government's one-cent share of statewide sales and use tax from July through September sales was 3.9% higher than 2016's summer quarter.

Rising fuel prices, increased demand for building-construction materials and the continuing acceleration in online shopping for merchandise shipped from out-of-state that is expanding receipts from the countywide use tax allocation pools were the primary contributors to the overall increase.

This quarter marked the anticipated leveling off of auto sales while agriculture and transit-related purchases helped boost otherwise tepid gains in business-industrial receipts. Restaurant sales exhibited healthy overall gains of 3.5% although growth rates are slowing from previous quarters.

Receipts from consumer goods sold by brick and mortar stores were up 0.7% over the previous year while revenues from online purchases grew 13.3%.

## Cannabis Taxation

A 15% excise tax on retail cannabis and cannabis products along with a cultivation tax and sales tax on recreational uses take effect on January 1, 2018.

Significant sales tax revenues are not expected until late 2018-19 as retail start-ups comply with lengthy state and local permitting processes. Although sales of medicinal cannabis became exempt in 2016 for purchasers with a state issued Medical Marijuana ID card, jurisdictions with dispensaries continue to receive sales tax from that source as most patients prefer to use a note from their physicians.

Some decline in revenues from medical dispensaries are expected as users' transition to new purchase options and because of lower prices caused by anticipated overproduction and the six month window that suppliers have to sell existing inventory grown under previous regulations.

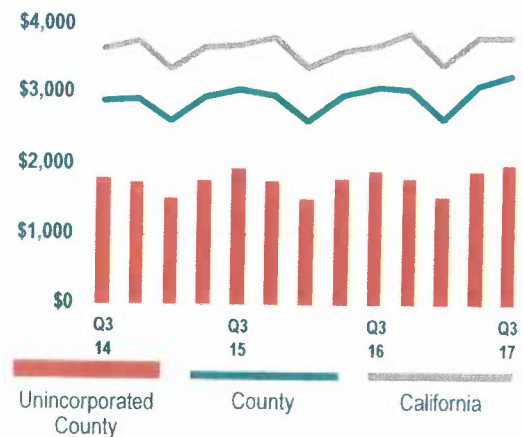
## Sales Tax and Natural Disasters

The recent firestorm tragedies have raised questions on potential bumps in sales tax revenues from reconstruction and recovery activities.

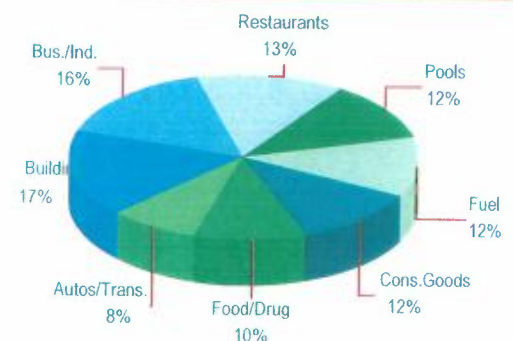
HdL analyzed the sales tax data from the 1991 Oakland Hills, 2003 San Diego Cedar and 2007 San Diego Witch fires which involved the combined loss of over 7,700 structures. Surprisingly, there were no identifiable gains in construction and auto-related purchases within the impacted areas during the five years after each event with receipts following normal economic cycles experienced by the state as a whole.

Further analysis suggests that though the individual losses are catastrophic, purchases of replacement items are a small fraction of the impacted area's total spending and is often spread to other jurisdictions where disaster victims relocate. Tax receipts from construction spending are defused over time because of lengthy claims and permitting processes that cause up to 40% of disaster victims to relocate leaving vacant lots that are not immediately redeveloped.

## SALES PER CAPITA



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



## SANTA CRUZ COUNTY TOP 15 BUSINESS TYPES

*\*In thousands of dollars*

Business Type	Unincorporated County		County	HdL State
	Q3 '17*	Change	Change	Change
Auto Repair Shops	57.8	0.9%	8.7%	4.1%
Building Materials	392.2	7.0%	6.6%	5.6%
Casual Dining	232.6	1.7%	3.3%	2.2%
Contractors	60.9	17.0%	12.7%	6.3%
Convenience Stores/Liquor	81.0	-4.9%	3.4%	7.8%
Electronics/Appliance Stores	—	CONFIDENTIAL	-3.9%	0.3%
Garden/Agricultural Supplies	211.0	14.5%	7.1%	11.0%
Grocery Stores	105.9	-1.8%	0.2%	0.6%
Home Furnishings	57.0	0.4%	-1.5%	0.6%
Marijuana Related	88.7	-7.5%	-0.9%	17.0%
New Motor Vehicle Dealers	—	CONFIDENTIAL	16.9%	0.9%
Plumbing/Electrical Supplies	60.3	6.9%	-39.5%	4.6%
Quick-Service Restaurants	57.6	-2.8%	3.6%	4.8%
Service Stations	360.2	5.8%	5.5%	9.2%
Specialty Stores	64.6	13.1%	3.3%	2.3%
<b>Total All Accounts</b>	<b>2,714.5</b>	<b>5.4%</b>	<b>5.3%</b>	<b>4.1%</b>
<b>County &amp; State Pool Allocation</b>	<b>365.3</b>	<b>14.4%</b>	<b>14.3%</b>	<b>4.8%</b>
<b>Gross Receipts</b>	<b>3,079.9</b>	<b>6.4%</b>	<b>6.3%</b>	<b>4.2%</b>