

# Q4 2018



# Santa Cruz County Sales Tax *Update*

*First Quarter Receipts for Fourth Quarter Sales (October - December 2018)*

## Santa Cruz County In Brief

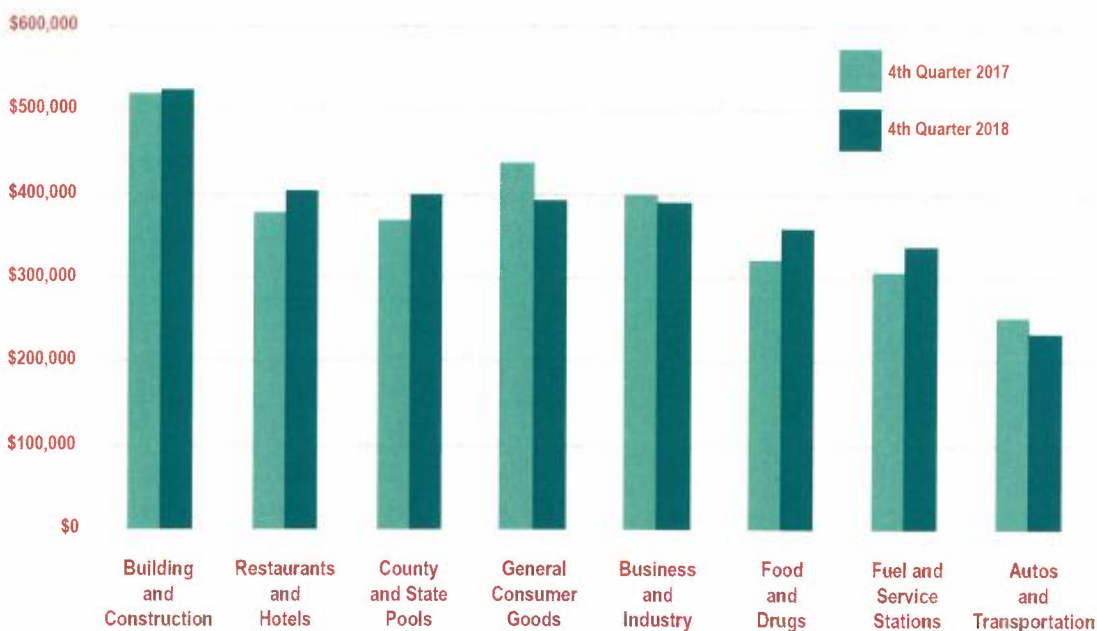
The allocation of sales and use tax from the unincorporated area's October through December sales was 2.0% higher than the holiday quarter of 2017. However, the allocation was inflated by back payments related to the State's problems with its new computer systems. Actual sales revenues were down 1.5% after these and other accounting anomalies are factored out.

The actual gains came from higher fuel prices, cannabis sales and a rise in some classifications of building-construction supplies. The gains here were offset by a series of store closeouts and generally soft holiday spending elsewhere.

The county's voter approved public library tax added \$2,874,850 to the amounts discussed above and adjusted for accounting anomalies, declined 0.2% from the same quarter one year ago. Most economic sector receipts from this source were either flat or down.

Net of accounting aberrations and state computer issues, sales and use tax receipts for all of Santa Cruz County including its cities and the five county central coast region as a whole, were generally at the same level as the fourth quarter of 2017.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

76	Ocean Honda
ABC Supply Co	Palace Art & Office Supply
Best Buy	Performance Food Service
Big Creek Lumber	Pet Pals
Boulder Creek American	Probuild Company
Chevron	Quik Stop
Crop Production Services	Safeway
Felton Valero	Safeway Fuel
Home Depot	Santa Cruz Naturals
Independent Electric Supply	Scarborough Building Supply
Kind Peoples Collective	Seascape Resort
Marshalls	Summit Industrial Supply
Mills Memorial Hospital	

### REVENUE COMPARISON

Two Quarters – Fiscal Year To Date (Q3 to Q4)

	2017-18	2018-19
Point-of-Sale	\$5,329,730	\$5,892,500
County Pool	729,801	888,251
State Pool	2,872	2,982
<b>Gross Receipts</b>	<b>\$6,062,403</b>	<b>\$6,783,733</b>

**Statewide Results**

The local one cent share of sales and use tax from October through December sales was 2.8% higher than 2017's holiday quarter after factoring for state reporting aberrations.

The overall increase came primarily from a solid quarter for contractor materials and equipment, expanded production by an auto manufacturer and rising fuel prices. Online fulfillment centers, new technology investment and cannabis start-ups also produced significant gains. Receipts in the six county Sacramento region grew 7.9% over last year while the remainder of the state was generally flat or exhibited only minor growth.

Notable was the 0.09% rise in tax receipts from brick and mortar retailers which is the lowest holiday gain for that sector since 2009. A 9.6% increase in receipts from online shopping which is allocated to central order desks or county pools was part of the reason. Other factors include lower prices, gift cards which move purchases to future quarters and greater gifting of non-taxable experiences and services.

**The Retail Evolution Continues**

A recent survey identified U.S. closures of 102 million sq. ft. of retail space in 2017 and an additional 155 million sq. ft. in 2018. Similar losses are expected in 2019 with 5,300 closures already announced. Payless Shoes, Gymboree, Performance Bicycle and Charlotte Russe are going out of business while chains including Sears, Kmart, Macy's, JCPenney, Kohl's, Nordstrom, Dollar Tree, Victoria's Secret, Chico's, Foot Locker and Lowe's have announced plans for further cuts in oversaturated markets and downsizing of stores.

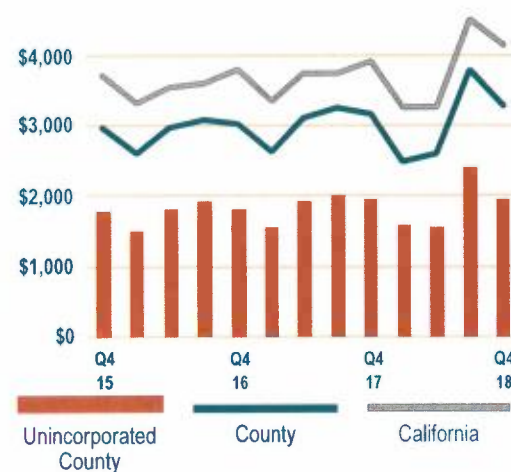
Retailers are not planning the end of physical stores which continue to be important for personalized experiences and shopping entertainment. However, the shifting trends encourage reduced square footage with less overhead to better compete on prices and provide more intimate shopping encounters.

With smartphones allowing purchase and delivery of almost anything at any time of the day without leaving home, big box retailers are responding by downsizing stores and subleasing excess space to compatible businesses to help draw traffic. Locations where people congregate for entertainment, food and services have become part of the evolving strategy as has integrating retail with more convenient spots for pick-up and delivery of online orders.

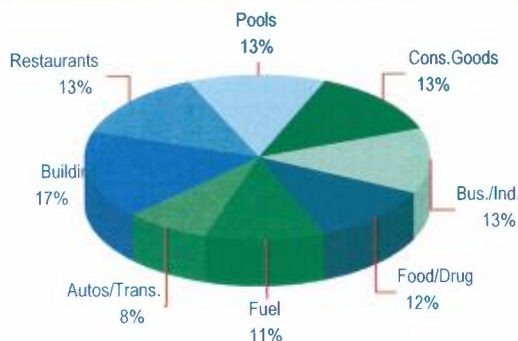
Barry Foster of HdL's EconSolutions, notes that "shifting shopping habits present challenges but also opportunities." "Smaller footprints enable expanding into smaller niche markets while mixed use projects and 18-hour environments are chances to rebuild downtowns and reinvigorate shopping centers."

With more companies using the internet to sell directly to customers from their warehouses, the trend also provides jurisdictions whose populations aren't adequate in size to support large scale retail to focus on industrial development for sales tax as well as jobs.

**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
	Q4 '18*	Change	Change	Change
Auto Repair Shops	59.3	-1.2%	-5.2%	4.2%
Building Materials	390.6	-2.3%	-3.1%	5.5%
Cannabis Related	108.4	31.7%	29.3%	49.7%
Casual Dining	227.6	4.6%	5.0%	2.5%
Contractors	60.0	18.7%	3.7%	17.4%
Convenience Stores/Liquor	91.6	15.8%	2.6%	2.1%
Electronics/Appliance Stores	— CONFIDENTIAL —		-17.9%	-1.6%
Garden/Agricultural Supplies	114.0	-8.3%	-12.5%	-2.3%
Grocery Stores	117.8	2.8%	-5.7%	-11.7%
Home Furnishings	60.2	-18.2%	-8.8%	0.0%
New Motor Vehicle Dealers	— CONFIDENTIAL —		-2.8%	5.8%
Plumbing/Electrical Supplies	71.1	13.8%	23.1%	8.9%
Quick-Service Restaurants	55.3	5.0%	0.4%	6.6%
Service Stations	335.3	9.9%	20.9%	28.5%
Specialty Stores	56.1	-41.4%	-15.0%	-10.8%
<b>Total All Accounts</b>	<b>2,642.5</b>	<b>1.0%</b>	<b>4.1%</b>	<b>7.0%</b>
<b>County &amp; State Pool Allocation</b>	<b>399.0</b>	<b>8.6%</b>	<b>11.9%</b>	<b>8.6%</b>
<b>Gross Receipts</b>	<b>3,041.5</b>	<b>2.0%</b>	<b>5.0%</b>	<b>7.2%</b>