

Q3 2018



City of Aliso Viejo Sales Tax *Update*

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

Aliso Viejo In Brief

Aliso Viejo's receipts from July through September were 9.6% above the third sales period in 2017. Excluding reporting aberrations, actual sales were up 2.1%.

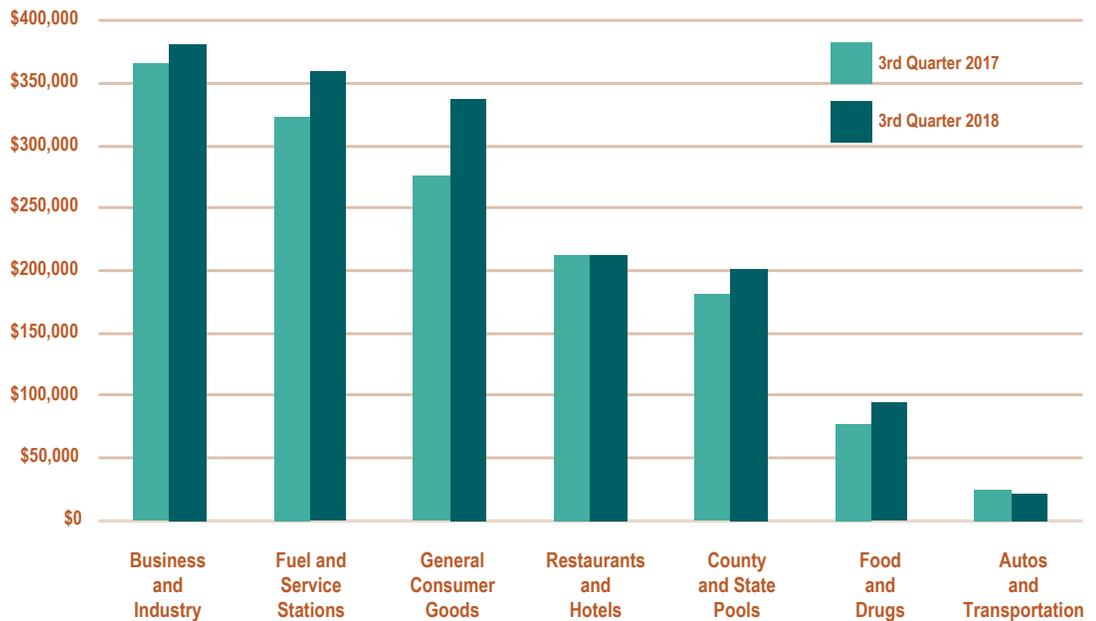
Multi-quarter adjustments to resolve outstanding payments that resulted from the State's software conversion spiked returns in several groups including general consumer goods, food-drugs and the county-wide use tax allocation pool. Nonetheless, most retail sectors trailed regional trends with the exception of home furnishings and electronics.

A recurring missing allocation compressed positive receipts from higher prices in fuel and service stations.

A multitude of deviations including onetime use tax and reporting errors expanded results in business and industry. A new enterprise boosted medical/biotech while sales activity dipped in office supplies/furniture.

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

Aliso Creek Shell	Microvention
Aliso Creek Union 76	Pacific Park Auto Care
All Hands Car Wash/ Chevron	Petsmart
Barnes & Noble	Rakuten Com & Buy Com
Cianna Medical	Ralphs
Circle K/Mobil	Renaissance Clubsport
CVS Pharmacy	Shell
Digital River	Staples
eFuel	Stater Bros
El Dorado Hand Car Wash	Target
Freeway Mobil	TJ Maxx
Lasting Interior	Trader Joes
Lowes	

REVENUE COMPARISON

One Quarter – Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	\$1,358,952	\$1,485,779
County Pool	179,937	201,495
State Pool	1,058	762
Gross Receipts	\$1,539,948	\$1,688,036

California Overall

The CDTEA'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



**COUNTY OVERALL
3Q YOY RECEIPTS % CHANGE**

Major Industry Groups	Cash	Adjusted*
Autos and Transportation	23.5%	7.3%
Building and Construction	24.6%	5.0%
Business and Industry	23.8%	-0.8%
Food and Drugs	13.5%	3.4%
Fuel and Service Stations	47.7%	13.7%
General Consumer Goods	15.3%	0.4%
Restaurants and Hotels	11.9%	1.9%
County and State Pools	23.9%	8.1%
Total	21.5%	4.1%

*Accounting anomalies factored out

**REVENUE BY BUSINESS GROUP
Aliso Viejo This Quarter**

