

# Q3 2018



# Santa Monica Sales Tax *Update*

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

## Santa Monica In Brief

Santa Monica's receipts from July through September were 25.2% above the third sales period in 2017. This dramatic rise is mostly attributed to CDTFA's transition to a new reporting system where multiple returns not processed in the prior period were received with this quarter's allocations. Once all remittances were shown correctly, actual sales in the current period were up 6.7%.

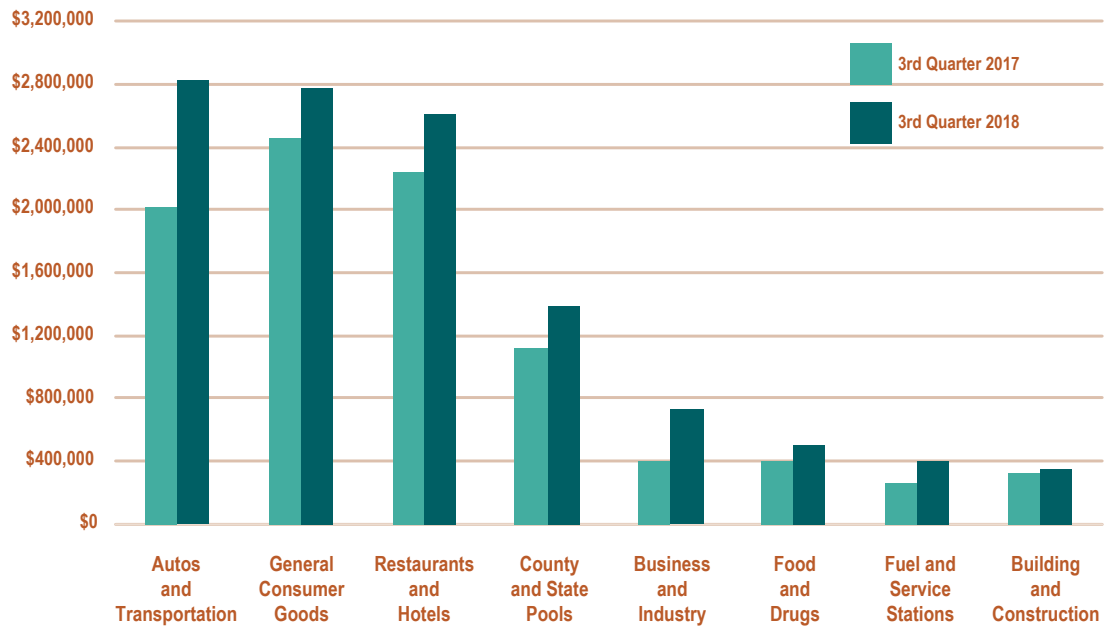
The boost in revenue from auto-transportation was largely due to a dealer filling back orders and enhanced leasing activity. The recent addition of a merchant and increased sales by medical/biotech suppliers helped lift business-industry.

In contrast, weak returns from multiple general consumer sectors including women's apparel, family apparel and shoe stores partially offset the gains.

The City's voter approved one-cent transaction tax, Measure GSH, generated an additional \$9,702,264 a 22.2% increase over last year. This additional revenue source was also temporarily inflated by CDTFA software changes and increased 5.1% once adjusted, mostly due to the same reasons above.

Net of aberrations, taxable sales for all of Los Angeles County grew 4.0% 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

Apple	Nordstrom
Audi Leasing	Pacific Park
Bentley Leasing	REI
Bird Rides	Santa Monica Alfa Romeo
Daimler Trust	Santa Monica Audi
Fair Financial	Sephora
Fairmont Miramar Hotel	Shutters on the Beach
Ferguson Enterprises	Snyder Diamond
Honda of Santa Monica	Subaru Santa Monica
Hornburg Jaguar Land Rover	Tesla Motors
JP Morgan Chase Bank	Toyota Lease Trust
Lexus Santa Monica	Toyota Scion Santa Monica
Michael Smith Design	Wl Simonson Mercedes

### REVENUE COMPARISON

One Quarter – Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	\$8,135,044	\$10,207,124
County Pool	1,120,825	1,385,444
State Pool	6,366	5,239
<b>Gross Receipts</b>	<b>\$9,262,235</b>	<b>\$11,597,807</b>
<b>TUT GSH</b>	<b>\$7,941,212</b>	<b>\$9,702,264</b>

**California Overall**

The CDTEFA'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.

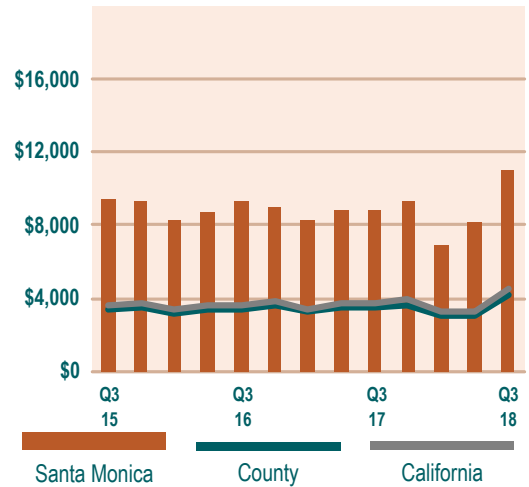
California will begin enforcing the Wayfair reversal effective April 1, 2019

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.

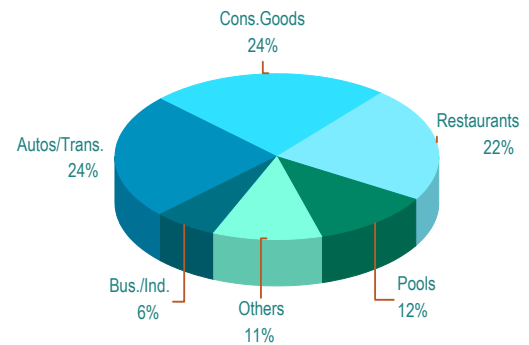
Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

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**



**REVENUE BY BUSINESS GROUP**  
Santa Monica This Quarter



**SANTA MONICA TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	Santa Monica Q3 '18*	Change	County Change	HdL State Change
Auto Lease	792.4	60.0%	44.8%	43.4%
Casual Dining	1,027.0	4.3%	16.1%	14.9%
Electronics/Appliance Stores	— CONFIDENTIAL —		9.9%	12.7%
Family Apparel	581.1	15.7%	36.5%	36.3%
Fast-Casual Restaurants	306.3	5.2%	12.1%	15.2%
Fine Dining	417.2	15.8%	10.3%	15.5%
Grocery Stores	308.3	43.0%	22.5%	16.1%
Home Furnishings	262.6	5.9%	25.3%	23.1%
Hotels-Liquor	401.3	54.7%	15.8%	16.9%
New Motor Vehicle Dealers	1,562.7	25.0%	12.1%	12.7%
Quick-Service Restaurants	250.0	14.1%	11.6%	13.5%
Service Stations	375.3	62.9%	43.6%	43.1%
Specialty Stores	314.6	38.0%	12.0%	8.5%
Sporting Goods/Bike Stores	263.3	48.9%	18.2%	21.1%
Transportation/Rentals	283.3	280.1%	12.5%	12.7%
<b>Total All Accounts</b>	<b>10,207.1</b>	<b>25.5%</b>	<b>21.7%</b>	<b>21.8%</b>
<b>County &amp; State Pool Allocation</b>	<b>1,390.7</b>	<b>23.4%</b>	<b>19.7%</b>	<b>27.8%</b>
<b>Gross Receipts</b>	<b>11,597.8</b>	<b>25.2%</b>	<b>21.5%</b>	<b>22.6%</b>