

# Q3 2018



# City of Poway Sales Tax Update

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

## Poway In Brief

Poway's receipts from July through September were 21.7% above the third sales period in 2017. Excluding reporting aberrations, actual sales were up 2.4%.

The CDTFA has resolved the bulk of outstanding payments that resulted from the State's software conversion. These multi-quarter adjustments temporarily spiked returns and triggered the surge in the countywide use tax allocation pool.

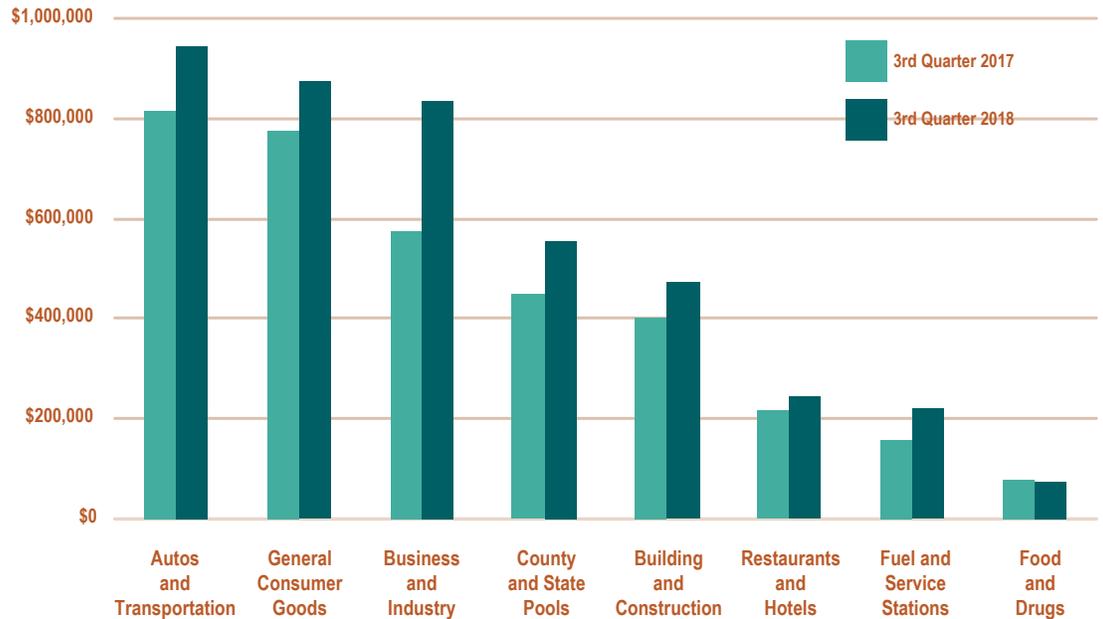
The actual decline of 5.0% in new auto sales pulled down auto-related receipts once double payments were removed. Positive sales in several sectors including home furnishings and specialty stores produced the 2.0% rise in general retail on an adjusted basis.

The restoration of deferred allocations overstated positive economic activity in building and construction while higher fuel prices boosted service stations.

Onetime adjustments combined with significant shifts due to the nature of business to business sales activity accounted for the double-digit increase in business and industry overall.

Net of aberrations, taxable sales for all of San Diego County grew 3.7% 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

CBT Systems	Perry Ford of Poway
Chef Works	Poway Chrysler
Circle K	Dodge Jeep Ram
Costco	Poway Honda
Ferguson Enterprises	Poway Mitsubishi
General Atomics Aeronautical	Hyundai & Vespa
Home Depot	Production Systems
Home Goods	Ross
Kohls	Scion of Poway
Lowe's	Toyota of Poway
Maintex	Sysco Food Services
Mitchell Repair	Target
Modular Space	United Oil
Mossy Nissan	Walmart Supercenter

### REVENUE COMPARISON

One Quarter – Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	\$3,018,651	\$3,667,708
County Pool	447,465	551,368
State Pool	2,384	1,907
<b>Gross Receipts</b>	<b>\$3,468,500</b>	<b>\$4,220,983</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.

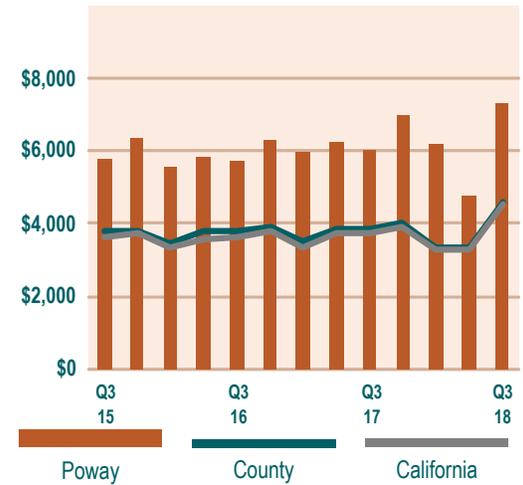
California will begin enforcing the Wayfair reversal effective April 1, 2019

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.

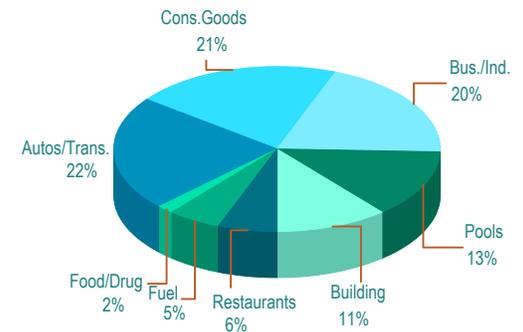
Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

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**  
Poway This Quarter



**POWAY TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	Poway Q3 '18*	Poway Change	County Change	HdL State Change
Auto Repair Shops	54.7	13.6%	10.8%	14.5%
Building Materials	242.6	31.6%	29.6%	29.8%
Business Services	47.2	29.7%	24.2%	49.1%
Casual Dining	94.3	9.0%	11.8%	14.9%
Contractors	66.2	-2.7%	31.4%	36.8%
Department Stores	— CONFIDENTIAL —	—	-1.8%	-3.6%
Discount Dept Stores	— CONFIDENTIAL —	—	17.1%	18.3%
Electrical Equipment	— CONFIDENTIAL —	—	44.8%	36.3%
Food Service Equip./Supplies	— CONFIDENTIAL —	—	18.1%	24.2%
Heavy Industrial	90.2	158.4%	30.3%	29.9%
Light Industrial/Printers	47.9	-5.5%	31.5%	28.8%
New Motor Vehicle Dealers	743.1	13.8%	3.9%	12.7%
Plumbing/Electrical Supplies	— CONFIDENTIAL —	—	7.1%	15.3%
Quick-Service Restaurants	103.3	14.0%	17.2%	13.5%
Service Stations	220.8	39.3%	50.1%	43.1%
<b>Total All Accounts</b>	<b>3,667.7</b>	<b>21.5%</b>	<b>21.1%</b>	<b>21.8%</b>
<b>County &amp; State Pool Allocation</b>	<b>553.3</b>	<b>23.0%</b>	<b>22.6%</b>	<b>27.8%</b>
<b>Gross Receipts</b>	<b>4,221.0</b>	<b>21.7%</b>	<b>21.3%</b>	<b>22.6%</b>