

Q1 2020



City of Poway Sales Tax Update

Second Quarter Receipts for First Quarter Sales (January - March 2020)

Poway In Brief

Poway's receipts from January through March were 14.6% below the first sales period in 2019 but the decline was exaggerated by the Governor's recent Executive Order allowing some businesses an extra 90-days to file their tax return. Absent this aberration, sales were down 1.0%.

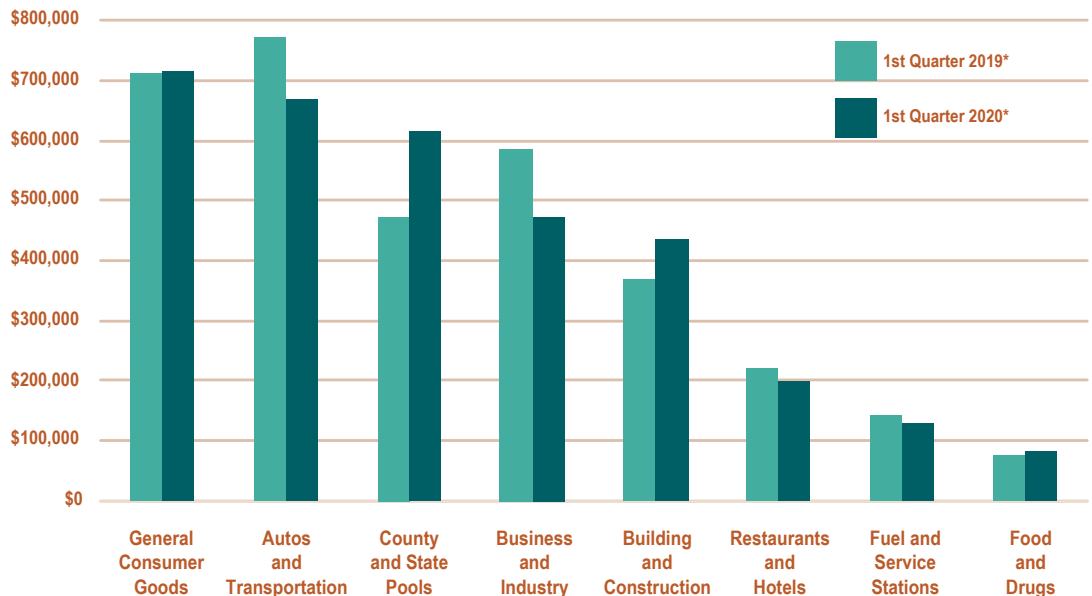
A drop in business-industrial related tax receipts was a major factor in the overall loss, which was further compounded by the closure of a local supplier.

New car sales also fell as consumers shied away from making major purchases at the onset of the recession, though partial payments from several local dealers exaggerated the rate of decline. Casual dining receipts also fell after the Governor's March 19 shutdown order closed dining rooms.

Conversely, allocations from the countywide use tax pool surged 30% after a recent legislative change that allows the State to collect tax revenue from small, third-party sellers on internet-based, market-platforms. The sale of building material and contractor supplies were also strong as mortgage related edged toward record lows.

Net of aberrations, taxable sales for all of San Diego County declined 4.0% over the comparable time period; the Southern California region was down 4.1%.

SALES TAX BY MAJOR BUSINESS GROUP



*Allocation aberrations have been adjusted to reflect sales activity

TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Arco AM PM	Mossy Nissan
Chef Works	Paradise Sewing
Circle K	Perry Ford of Poway
Costco	Poway Chrysler Dodge Jeep Ram
Ferguson Enterprises	Poway Honda
General Atomics Aeronautical	Quality Reinforcing
Genesis Of Poway	Scion of Poway Toyota of Poway
Home Depot	Stater Bros
Home Goods	Sysco Food Services
Honda Lease Trust	Target
Kohls	United Oil
Lowe's	Walmart Supercenter
Maintex	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date (Q3 to Q1)

	2018-19	2019-20
Point-of-Sale	\$9,980,736	\$8,833,500
County Pool	1,560,644	1,867,912
State Pool	5,252	5,110
Gross Receipts	\$11,546,632	\$10,706,522

Statewide Results

With stay at home/non-essential business restrictions in place during the last two weeks of the quarter, local one cent tax revenues for the state overall, were 18.8% lower than January to March of 2019. Taxpayer relief programs accounted for much of the decline with receipts down roughly 3.1% after factoring for payment deferrals and other accounting anomalies.

Severe drops in auto sales, general consumer goods, service stations and restaurants were largely offset by new revenue from implementation of the Wayfair v. South Dakota decision that now requires out-of-state retailers to collect and remit Californian's sales and use tax. Other offsets included a surge in online shopping that boosted receipts from the county use tax allocation pools and from online retailers who maintain and ship their inventory from within California.

The food/drug sector also showed strong gains as did many home supply, dollar and discount stores that remained open during the shutdown.

New Challenges & Opportunities

Current indicators suggest that overall tax receipts for the April thru June sales period will bottom out at 27% below the second quarter of 2019. The speed of the rebound in sales activity will be dependent on the availability of adequate testing, treatment therapies and ultimately a vaccine. Until then, physical distancing, COVID-19 protocols and supply chain disruptions will create limitations on some operating capacities and the return to work of all employees. Health fears, discounts and liquidation sales may also keep sales tax revenues below pre-pandemic levels until solutions are in place.

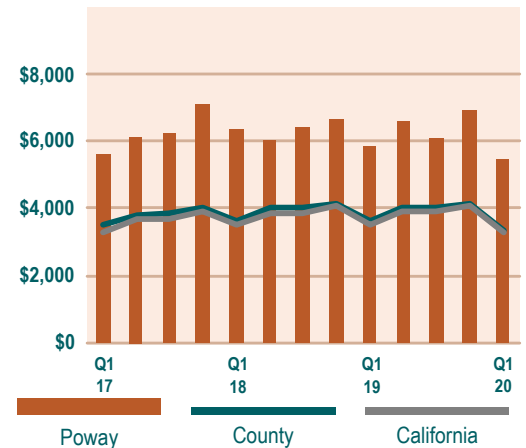
Regardless of when full recovery does occur, reports are that some elements of the economy will be permanently altered. Generation of future tax revenues may require rethinking of local economic strategies.

Over expansion, excessive debt and consumer shifts to online shopping were already resulting in bankruptcies with estimates of up to 25,000 brick-and-mortar store closings by the end of 2020. "Touch and feel" shopping is not going away but retailers see an evolution where in-store shopping is more leisure/recreational oriented with smaller stores offering more show-rooming and delivery/pick-up services. The smaller footprints and lifestyle emphasis offer opportunities to reinstate downtowns and neighborhood centers as economic/social gathering places.

The Pandemic's capture of new online customers and the growing trend of manufacturers and entrepreneurs with new concepts to bypass physical stores and sell directly to the consumer also expands options for agencies without large market populations to generate sales tax through industrial development.

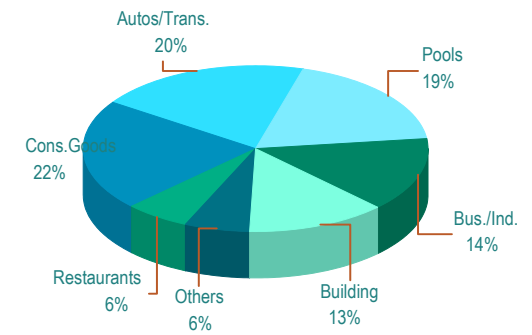
Finally, the Pandemic's disruption of supply chains has also accelerated growing dissatisfaction with overseas arrangements and some reshoring will occur which offers opportunities to leverage a city's existing business base to attract compatible support industries.

SALES PER CAPITA*



*Allocation aberrations have been adjusted to reflect sales activity

**REVENUE BY BUSINESS GROUP
Poway This Quarter***



*Allocation aberrations have been adjusted to reflect sales activity

POWAY TOP 15 BUSINESS TYPES**

Business Type	Poway		County	HdL State
	Q1 '20*	Change	Change	Change
Auto Lease	46.1	-3.7%	0.1%	1.6%
Auto Repair Shops	41.2	-11.4%	-6.5%	-7.5%
Building Materials	168.1	-6.0%	-0.5%	3.0%
Casual Dining	75.8	-17.4%	-18.2%	-18.8%
Contractors	54.7	43.0%	6.8%	3.2%
Discount Dept Stores	—	CONFIDENTIAL	3.8%	3.2%
Electrical Equipment	—	CONFIDENTIAL	-9.5%	-7.1%
Food Service Equip./Supplies	—	CONFIDENTIAL	-5.9%	-5.8%
Grocery Stores	49.6	11.1%	13.1%	11.8%
Heavy Industrial	40.6	5.5%	-13.4%	-6.3%
Light Industrial/Printers	40.7	-7.1%	-7.6%	-5.0%
New Motor Vehicle Dealers	490.4	-16.7%	-10.4%	-10.6%
Plumbing/Electrical Supplies	—	CONFIDENTIAL	1.9%	1.5%
Quick-Service Restaurants	83.9	2.6%	-9.1%	-8.5%
Service Stations	128.3	-10.4%	-8.9%	-9.5%
Total All Accounts	2,697.8	-6.1%	-8.0%	-7.3%
County & State Pool Allocation	614.7	29.8%	19.3%	22.4%
Gross Receipts	3,312.5	-1.0%	-4.0%	-3.0%

** Accounting aberrations such as late payments, fund transfers, and audit adjustments have been adjusted to reflect the quarter in which the sales occurred.