

# Q3 2017



# National City Sales Tax Update

Fourth Quarter Receipts for Third Quarter Sales (July - September 2017)

## National City In Brief

National City's receipts from July through September were 2.0% above the third sales period in 2016. Excluding reporting aberrations, actual sales were flat.

A surge in building material sales, driven by the booming regional construction market, was the primary factor in the overall improvement.

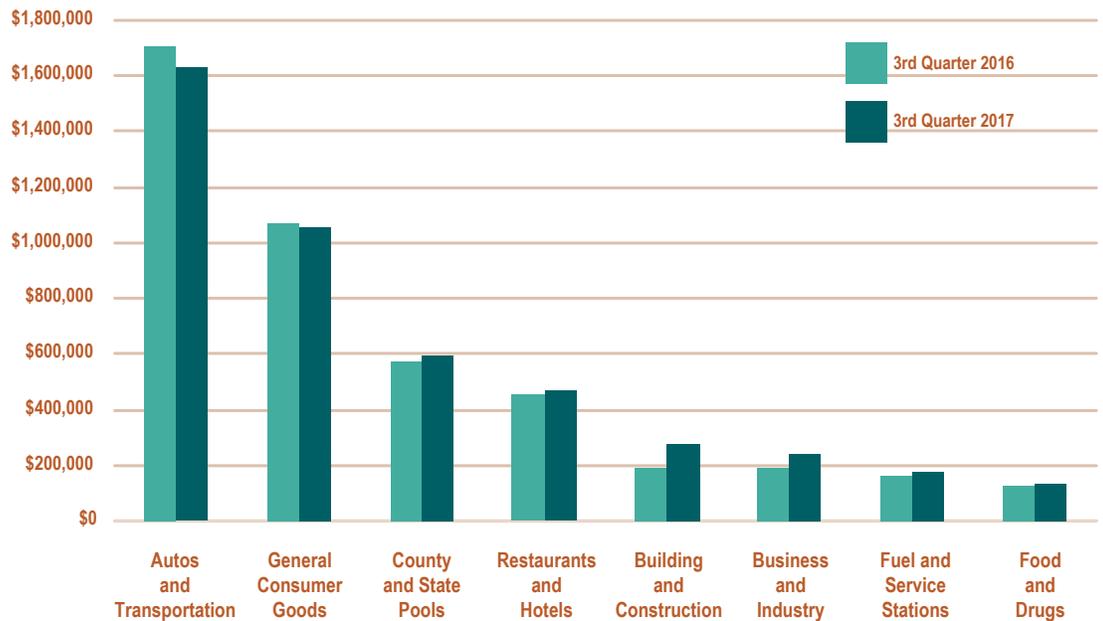
Business-industrial sales were higher, but this gain was exaggerated by the write-off of a consumer bad-debt expense in the prior comparison year.

Auto lease revenue advanced as customers turn to leasing in record levels to obtain affordable monthly payments, though a State payment correction was responsible for some of this growth. New car sales, on the other hand, declined as car registrations in the United States fell for the first time this year since the end of the last recession.

National City's voter approved Measure D added an additional \$2,782,000 in revenue for the quarter, a 0.7% increase from last year.

Net of aberrations, taxable sales for all of San Diego County grew 2.1% over the comparable time period; the Southern California region was up 3.1%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Arco AM PM	Ron Baker Chevrolet
Frank Hyundai	Ross
Frank Subaru	South Bay
Frank Toyota Scion	Volkswagen
Honda Acura Mitsu	South County Buick
Suzuki & Kia	GMC
In N Out Burgers	Sweetwater Harley
JC Penney	Davidson
Macys	Target
Mor Furniture 4 Less	Univar
Mossy Nissan	USA Gasoline
Nordstrom Rack	Walmart
Perry Chrysler	Supercenter
Dodge Jeep Ram	Wescott Mazda
Perry Ford	Westair Gases &
Probuild Company	Equipment

### REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$7,907,394	\$7,988,674
County Pool	1,164,880	1,140,932
State Pool	2,757	1,040
<b>Gross Receipts</b>	<b>\$9,075,032</b>	<b>\$9,130,646</b>
Measure D	\$5,444,192	\$5,583,499

**Statewide Trends**

After factoring for accounting anomalies, local government's one-cent share of statewide sales and use tax from July through September sales was 3.6% higher than 2016's summer quarter.

Rising fuel prices, increased demand for building-construction materials and the continuing acceleration in online shopping for merchandise shipped from out-of-state that is expanding receipts from the countywide use tax allocation pools were the primary contributors to the overall increase.

This quarter marked the anticipated leveling off of auto sales while agriculture and transit-related purchases helped boost otherwise tepid gains in business-industrial receipts. Restaurant sales exhibited healthy overall gains of 3.5% although growth rates are slowing from previous quarters.

Receipts from consumer goods sold by brick and mortar stores were up 0.7% over the previous year while revenues from online purchases grew 13.3%.

**Cannabis Taxation**

A 15% excise tax on retail cannabis and cannabis products along with a cultivation tax and sales tax on recreational uses take effect on January 1, 2018.

Significant sales tax revenues are not expected until late 2018-19 as retail start-ups comply with lengthy state and local permitting processes. Although sales of medicinal cannabis became exempt in 2016 for purchasers with a state issued Medical Marijuana ID card, jurisdictions with dispensaries continue to receive sales tax from that source as most patients prefer to use a note from their physicians.

Some decline in revenues from medical dispensaries are expected as users' transition to new purchase options and because of lower prices caused by anticipated overproduction and the six month window that suppliers have to sell existing inventory grown under previous regulations.

**Sales Tax and Natural Disasters**

The recent firestorm tragedies have raised questions on potential bumps in sales tax revenues from reconstruction and recovery activities.

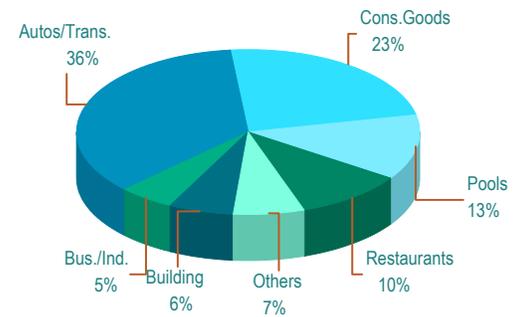
HdL analyzed the sales tax data from the 1991 Oakland Hills, 2003 San Diego Cedar and 2007 San Diego Witch fires which involved the combined loss of over 7,700 structures. Surprisingly, there were no identifiable gains in construction and auto-related purchases within the impacted areas during the five years after each event with receipts following normal economic cycles experienced by the state as a whole.

Further analysis suggests that though the individual losses are catastrophic, purchases of replacement items are a small fraction of the impacted area's total spending and is often spread to other jurisdictions where disaster victims relocate. Tax receipts from construction spending are defused over time because of lengthy claims and permitting processes that cause up to 40% of disaster victims to relocate leaving vacant lots that are not immediately redeveloped.

**SALES PER CAPITA**



**REVENUE BY BUSINESS GROUP**  
National City This Quarter



**NATIONAL CITY TOP 15 BUSINESS TYPES**

Business Type	<i>*In thousands of dollars</i>			
	National City Q3 '17*	Change	County Change	HdL State Change
Auto Lease	86.8	32.5%	6.1%	4.6%
Building Materials	237.0	55.4%	2.3%	5.6%
Casual Dining	167.0	-1.5%	-0.2%	2.3%
Department Stores	140.6	-4.1%	-4.2%	-7.5%
Discount Dept Stores	— CONFIDENTIAL —		5.4%	6.1%
Drugs/Chemicals	— CONFIDENTIAL —		5.2%	-0.1%
Electronics/Appliance Stores	74.9	-3.3%	-4.8%	0.3%
Family Apparel	211.3	2.6%	3.0%	1.7%
New Motor Vehicle Dealers	1,268.9	-7.9%	1.8%	0.9%
Quick-Service Restaurants	253.6	6.0%	4.6%	4.8%
Service Stations	180.6	10.3%	8.0%	9.2%
Shoe Stores	66.8	0.1%	-2.4%	-1.0%
Specialty Stores	96.9	15.2%	0.8%	2.2%
Used Automotive Dealers	113.2	-4.3%	-7.3%	3.0%
Women's Apparel	71.6	-6.9%	-7.5%	-12.3%
<b>Total All Accounts</b>	<b>3,976.2</b>	<b>1.8%</b>	<b>2.5%</b>	<b>4.1%</b>
<b>County &amp; State Pool Allocation</b>	<b>592.5</b>	<b>3.3%</b>	<b>3.9%</b>	<b>4.8%</b>
<b>Gross Receipts</b>	<b>4,568.8</b>	<b>2.0%</b>	<b>2.7%</b>	<b>4.2%</b>