



**CITY OF COSTA MESA
FINANCE DEPARTMENT
INTEROFFICE MEMORANDUM**

TO: DISTRIBUTION

FROM: KELLY TELFORD, FINANCE DIRECTOR

DATE: January 23, 2019

SUBJECT: SALES TAX INFORMATION – 3rd Quarter (July 2018- September 2018)

The attached schedules and graphs detail selected sales tax data for your information. These allocations were generated by sales of retailers during the period of July 1, 2018 through September 30, 2018. The schedules and graphs represent sales tax earned during the third quarter and received by the City during the period of October 1, 2018 through December 31, 2018. There is a three-month lag from the time the retailers make their payment to the California Department of Tax and Fee Administration to the time the City receives its sales tax allocations.

Costa Mesa's receipts from July through September were 28.0% above the third sales period in 2017. Excluding reporting aberrations, actual sales were up 10.7%.

Should you have any questions, please give me a call at extension 5243.

Kelly Telford
Finance Director

Attachments

Distribution:

City Council Members (7)
Planning Commissioners (5)
Department Directors and Staff
Finance and Pension Advisory Committee (10)
Eileen Clifton-Benjamin, Chamber of Commerce

Q3 2018



City of Costa Mesa Sales Tax *Update*

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

Costa Mesa In Brief

Costa Mesa's receipts from July through September were 28.0% above the third sales period in 2017. Excluding reporting aberrations, actual sales were up 10.7%.

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 pool.

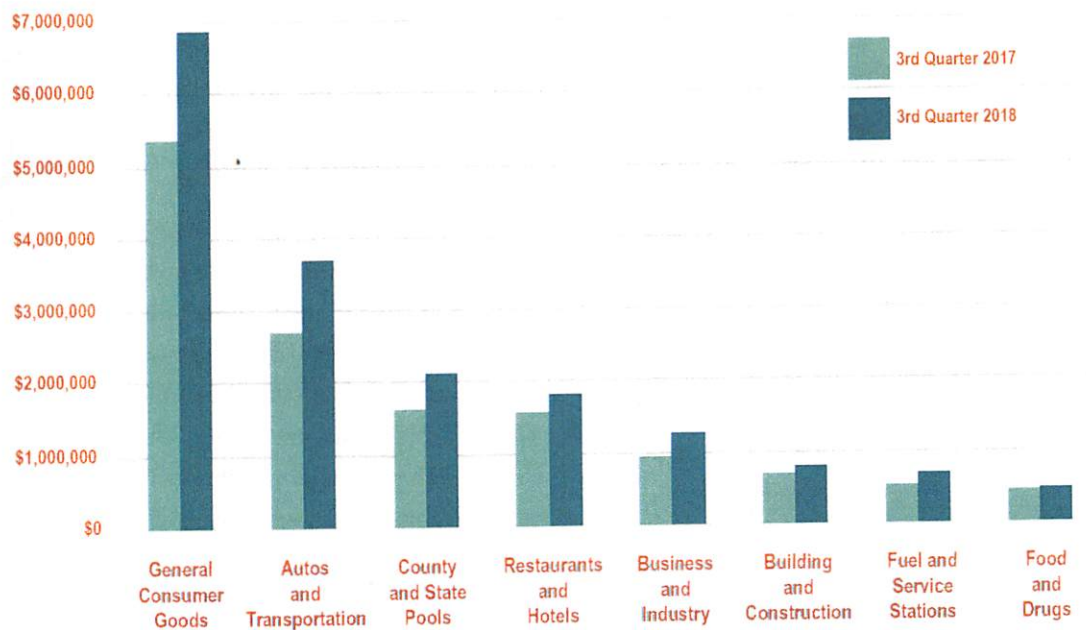
General consumer goods rose 5.5% once double payments were removed from family apparel, home furnishings, jewelry stores, specialty stores and women's apparel. However, this gain was overstated by a reporting error in jewelry stores that reduced receipts in the comparison quarter.

Openings in several sectors including casual dining and back quarter receipts accounted for the double digit increase in restaurants and hotels overall.

A new dealership combined with an unanticipated jump in auto sales bumped up auto-related returns. Performance in business to business activity was lifted by recent additions in office supplies and business services.

Net of aberrations, taxable sales for all of Orange County grew 4.1% over the comparable time period.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Apple	Macys
Autonation Honda	Nordstrom
Best Buy	Orange Coast Chrysler Jeep Dodge
Bloomingdale's	Orange Coast Nissan
Carmax	Saks Fifth Avenue
Cartier	Sephora
Chanel	South Coast Toyota
Connell Chevrolet	Suburban Buick GMC Cadillac
Eurocar	Target
Ganahl Lumber	Tesla Motors
Hermes	Tiffany & Co
Home Depot	
IKEA	
Louis Vuitton	

REVENUE COMPARISON

One Quarter - Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	\$12,206,758	\$15,579,313
County Pool	1,616,280	2,112,800
State Pool	9,508	7,995
Gross Receipts	\$13,832,546	\$17,700,108

California Overall

The CDTFA'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.

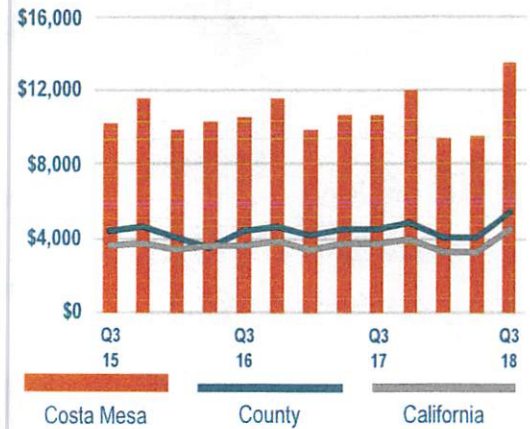
California will begin enforcing the Wayfair reversal effective April 1, 2019

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.

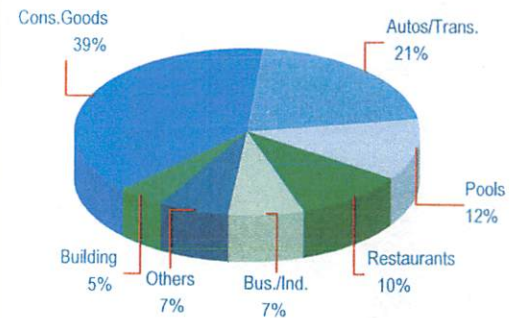
Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

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
Costa Mesa This Quarter



COSTA MESA TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Costa Mesa	County	HdL State	
	Q3 '18*	Change	Change	Change
Building Materials	463.0	26.4%	27.3%	29.8%
Business Services	316.9	261.6%	45.5%	48.7%
Casual Dining	704.2	21.2%	14.7%	14.9%
Department Stores	1,115.2	-5.1%	-5.2%	-3.6%
Electronics/Appliance Stores	526.3	6.2%	6.7%	12.4%
Family Apparel	1,255.5	29.1%	30.8%	36.3%
Grocery Stores	234.3	15.0%	15.4%	16.1%
Home Furnishings	1,124.6	43.6%	16.8%	21.9%
Jewelry Stores	855.3	167.0%	77.8%	49.2%
New Motor Vehicle Dealers	2,001.9	41.2%	19.9%	12.7%
Quick-Service Restaurants	486.4	3.6%	9.2%	13.4%
Service Stations	672.0	29.2%	45.4%	43.1%
Specialty Stores	673.7	36.1%	11.7%	8.5%
Used Automotive Dealers	1,118.5	48.5%	45.8%	46.9%
Women's Apparel	481.8	21.5%	12.5%	13.7%
Total All Accounts	15,579.3	27.6%	21.2%	21.8%
County & State Pool Allocation	2,120.8	30.4%	23.9%	27.8%
Gross Receipts	17,700.1	28.0%	21.5%	22.6%

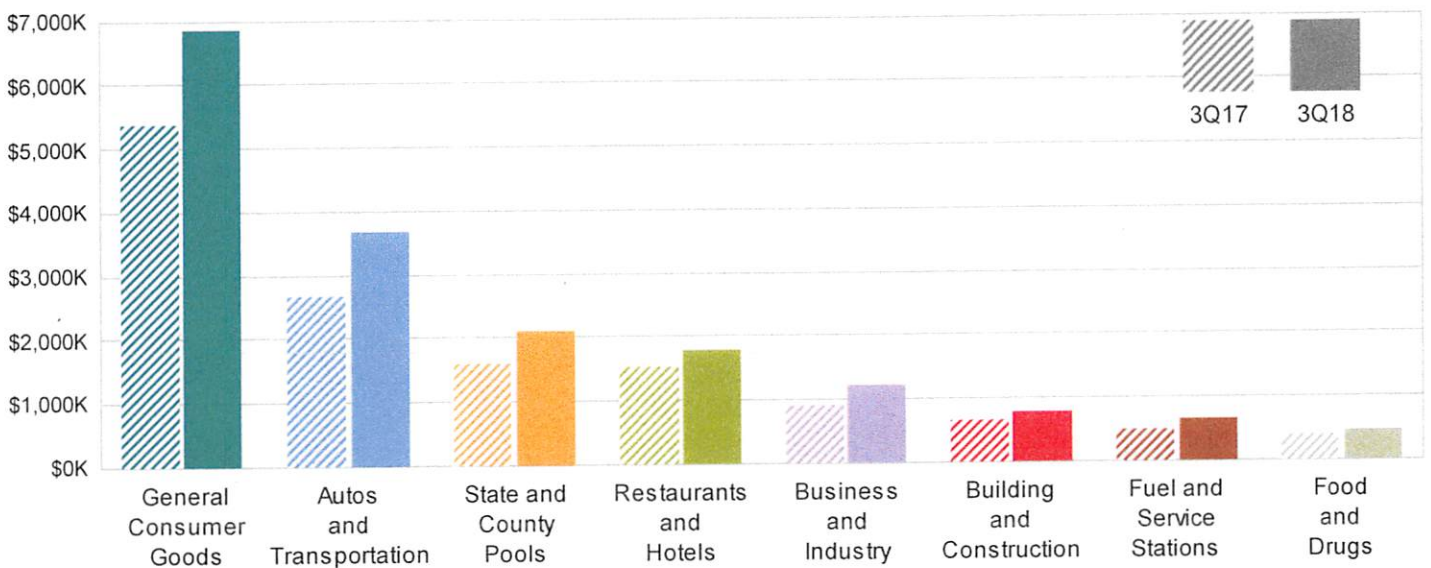


CITY OF COSTA MESA

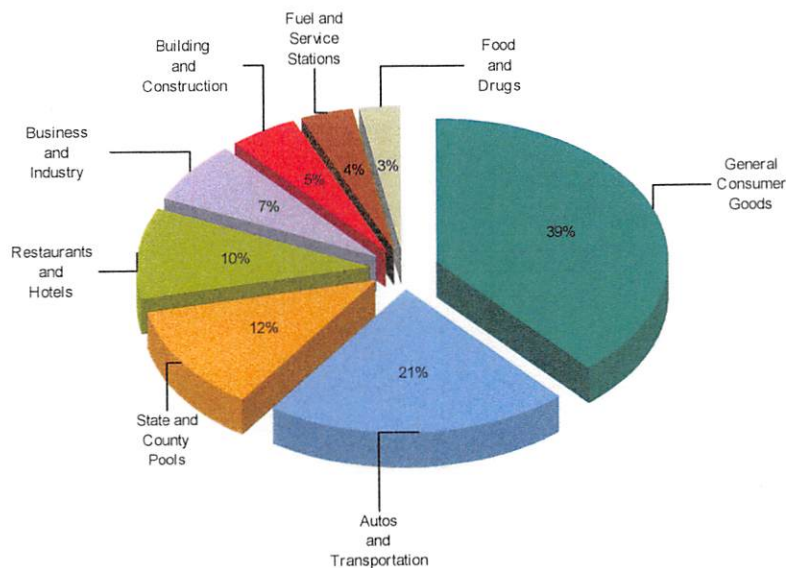
MAJOR INDUSTRY GROUPS

<u>Major Industry Group</u>	<u>Count</u>	<u>3Q18</u>	<u>3Q17</u>	<u>\$ Change</u>	<u>% Change</u>
General Consumer Goods	7,386	6,851,712	5,377,707	1,474,004	27.4%
Autos and Transportation	761	3,694,179	2,694,519	999,660	37.1%
State and County Pools	-	2,120,795	1,625,788	495,008	30.4%
Restaurants and Hotels	785	1,812,505	1,569,762	242,743	15.5%
Business and Industry	2,918	1,254,490	928,062	326,428	35.2%
Building and Construction	300	802,817	682,937	119,881	17.6%
Fuel and Service Stations	45	675,305	522,286	153,018	29.3%
Food and Drugs	236	477,990	436,103	41,888	9.6%
Transfers & Unidentified	305	10,315	(4,617)	14,933	323.4%
Total	12,736	17,700,108	13,832,546	3,867,562	28.0%

3Q17 Compared To 3Q18



3Q18 Percent of Total



Sales Tax by Major Industry Group

General Consumer Goods

Count: 7,386

Autos And Transportation

Count: 761

State & County Pools

Restaurants And Hotels

Count: 785

Business And Industry

Count: 2,918

Building And Construction

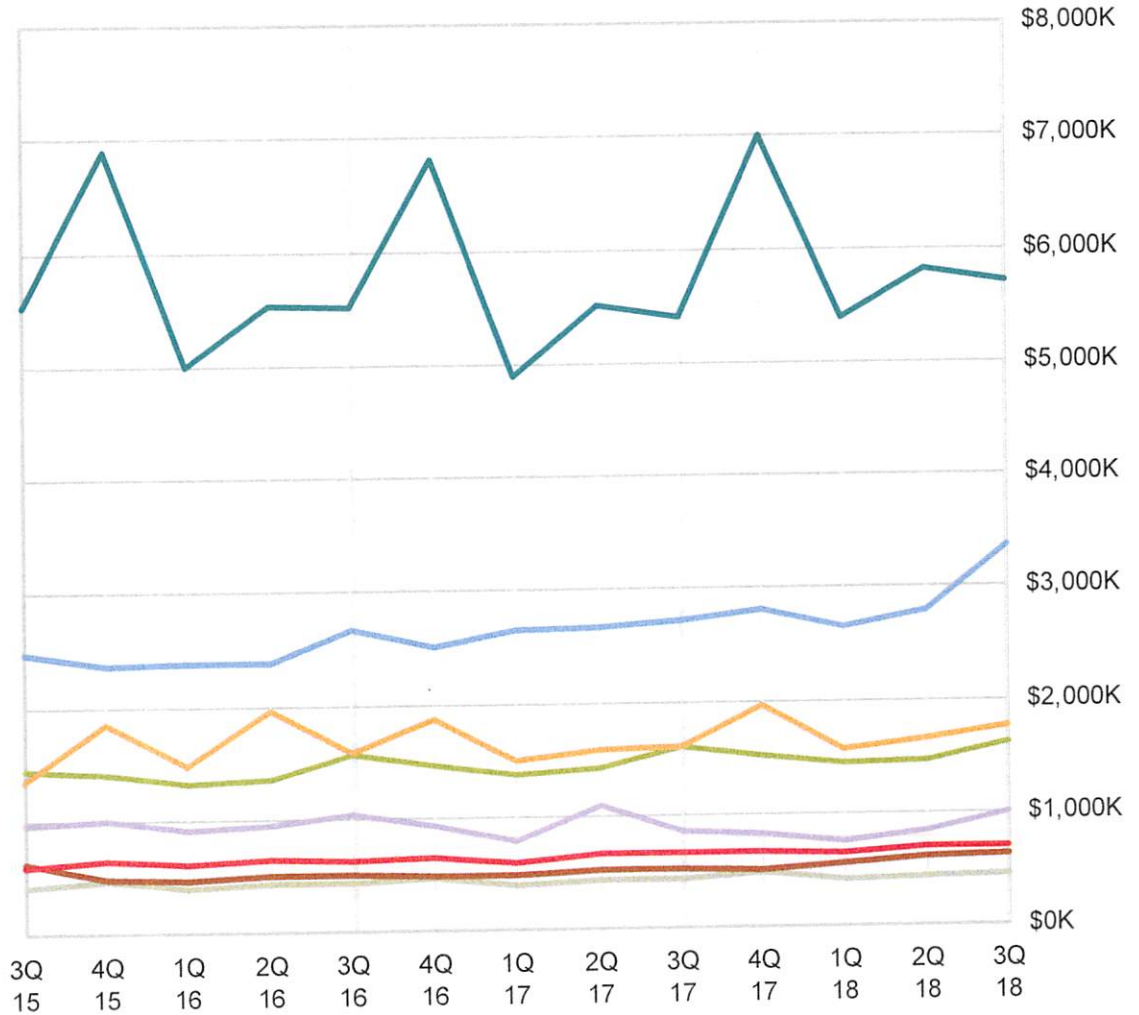
Count: 300

Fuel And Service Stations

Count: 45

Food And Drugs

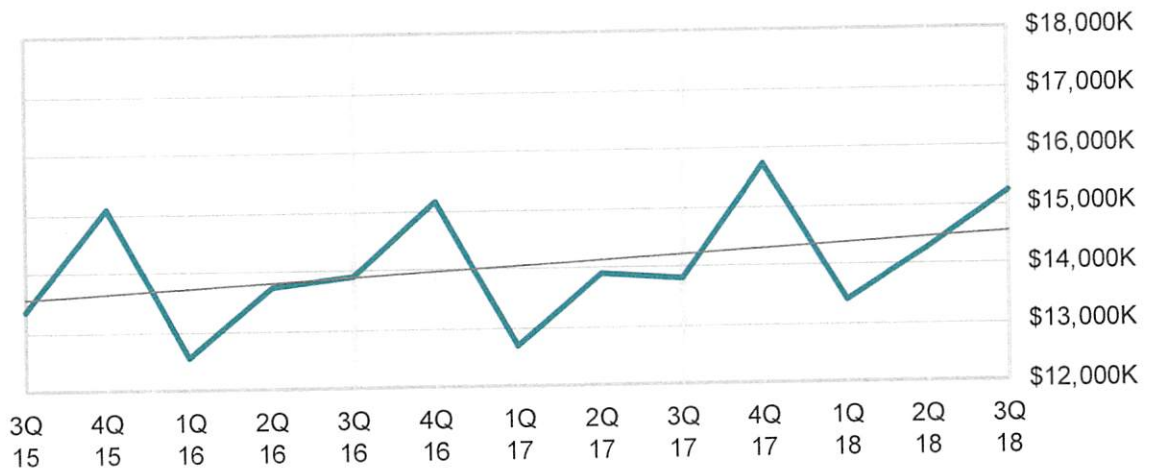
Count: 236



Agency Trend

Costa Mesa

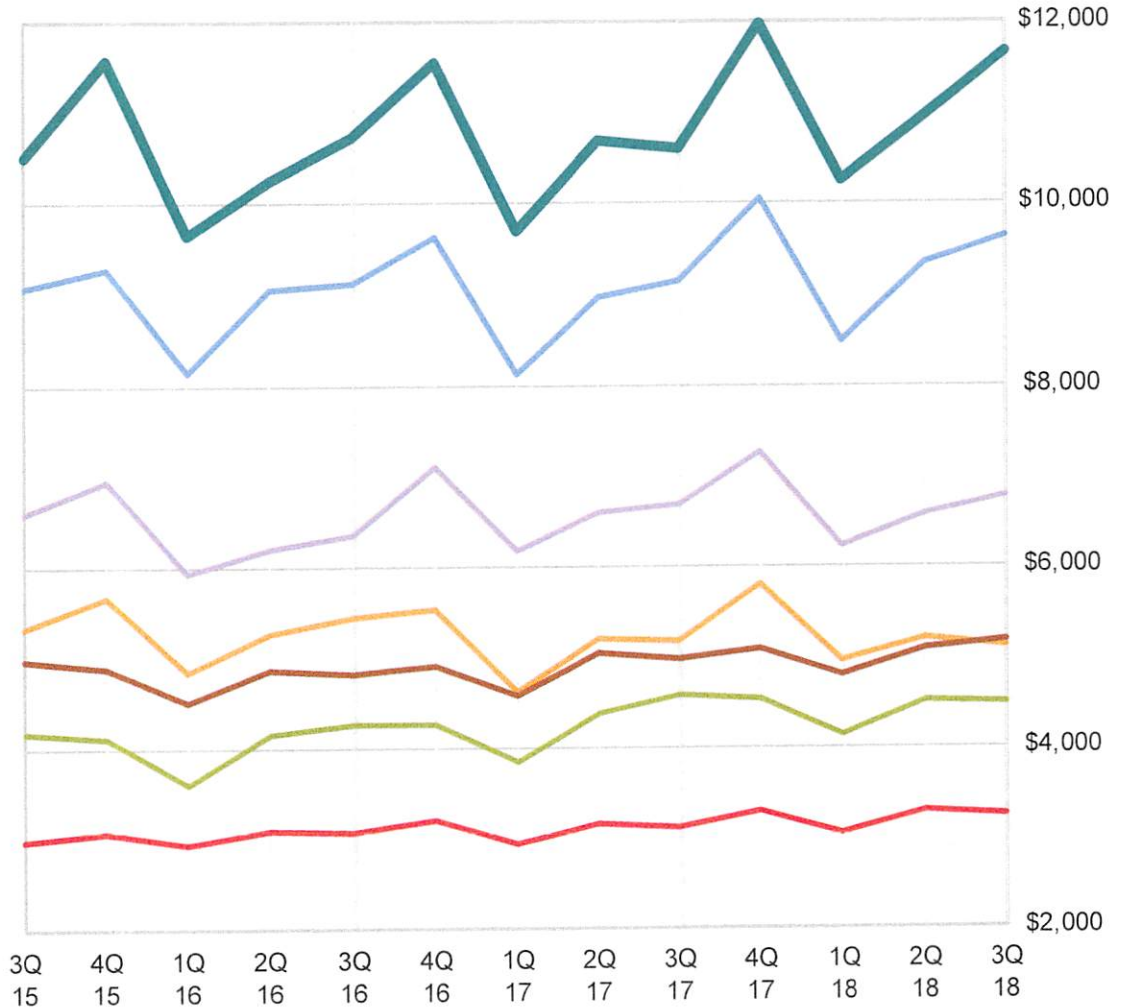
13 Quarter Trend: +7.2%



Periods shown reflect the period in which the sales occurred - Point of Sale

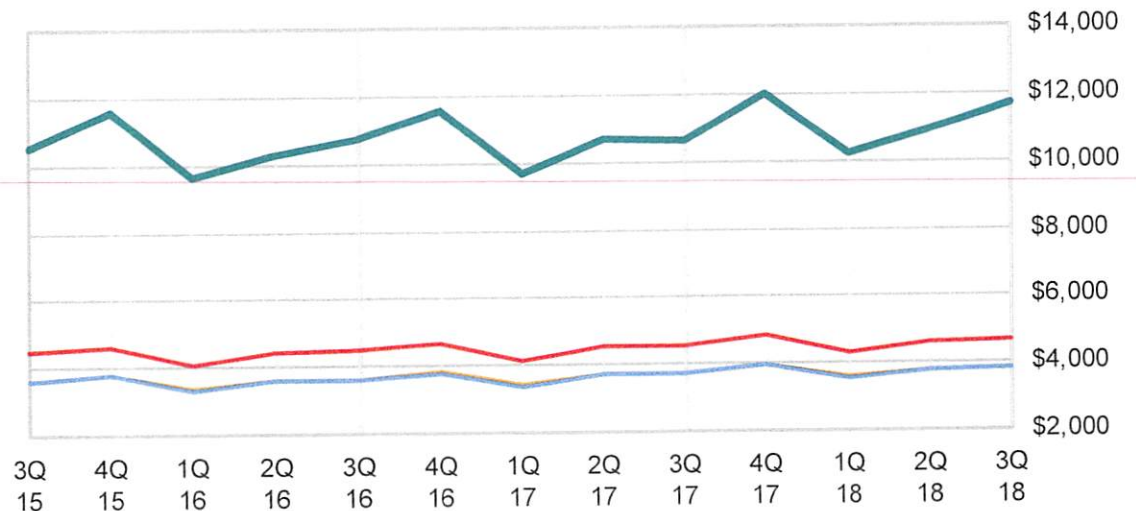
Per Capita Sales

- Costa Mesa**
Count: 12,736
- Newport Beach**
Count: 5,119
- Irvine**
Count: 10,004
- Huntington Beach**
Count: 9,786
- Tustin**
Count: 2,974
- Santa Ana**
Count: 8,163
- Anaheim**
Count: 11,388



Per Capita Sales

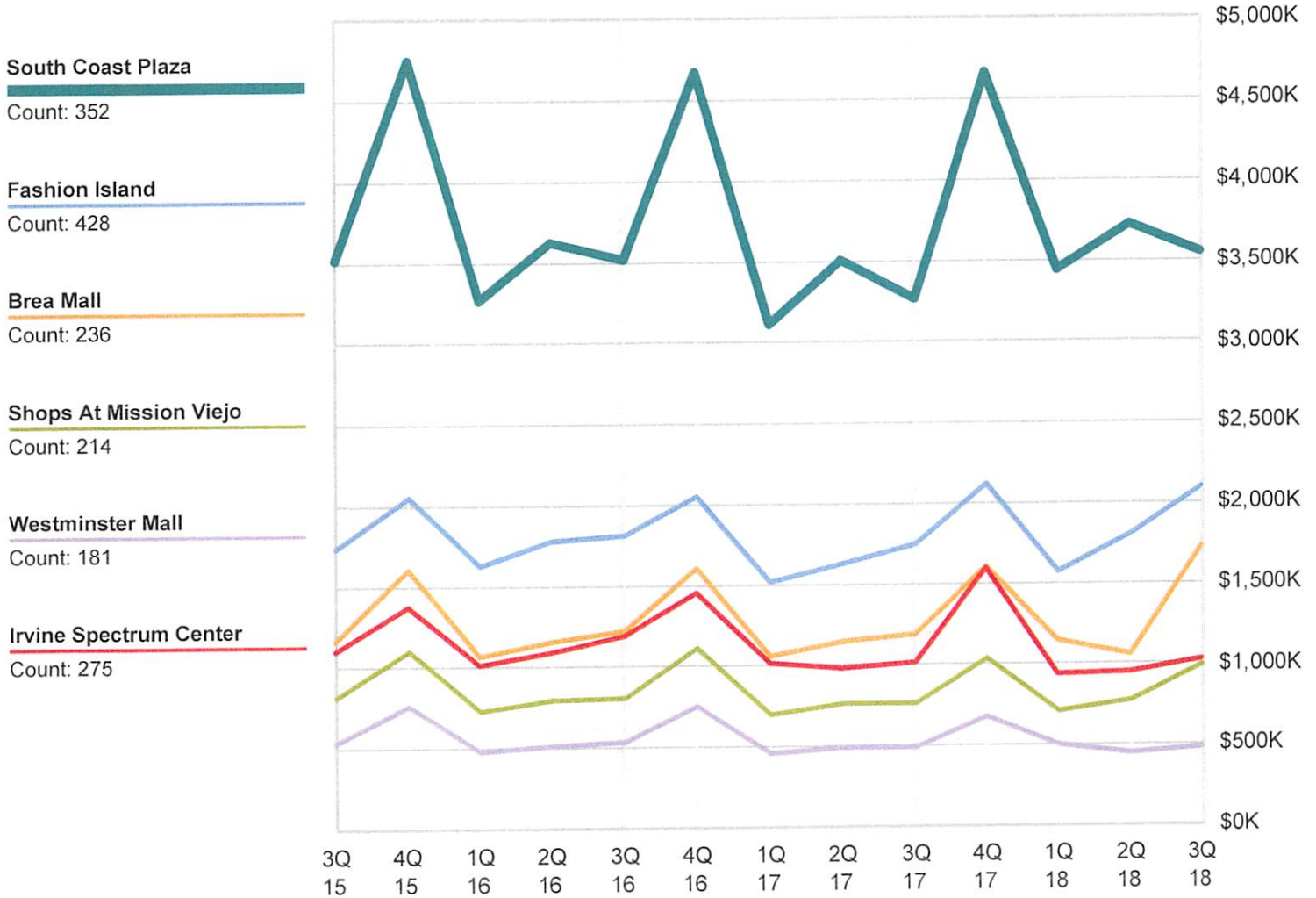
- Costa Mesa**
- Orange County**
- Southern California**
- California**



Periods shown reflect the period in which the sales occurred - Point of Sale

Geo areas

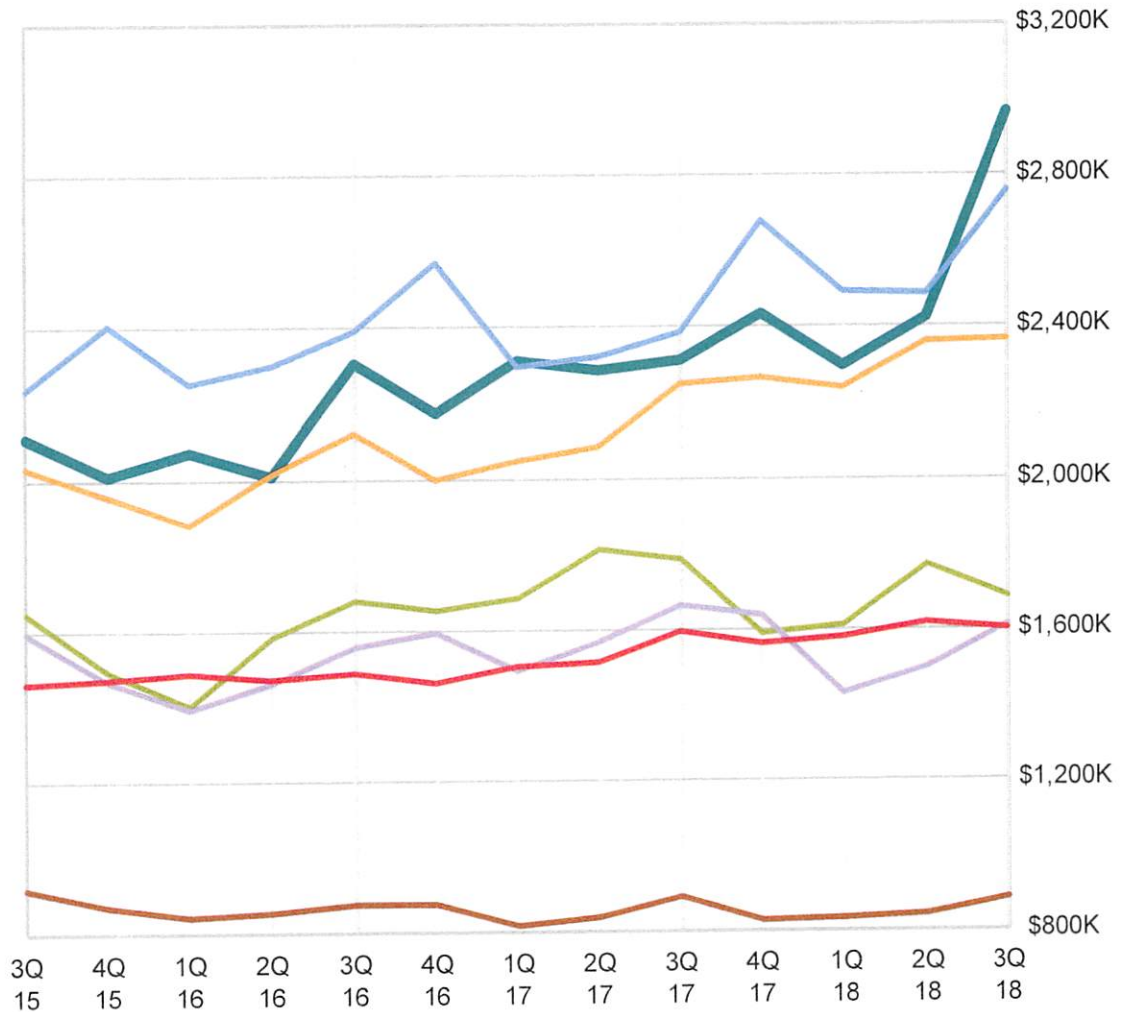
Sales Tax by Geographic areas



Periods shown reflect the period in which the sales occurred - Point of Sale

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- Costa Mesa**
Count: 177
- Newport Beach**
Count: 66
- Irvine**
Count: 79
- Huntington Beach**
Count: 89
- Tustin**
Count: 39
- Santa Ana**
Count: 92
- Westminster**
Count: 28



Periods shown reflect the period in which the sales occurred - Point of Sale



ORANGE COUNTY ALL AGENCIES

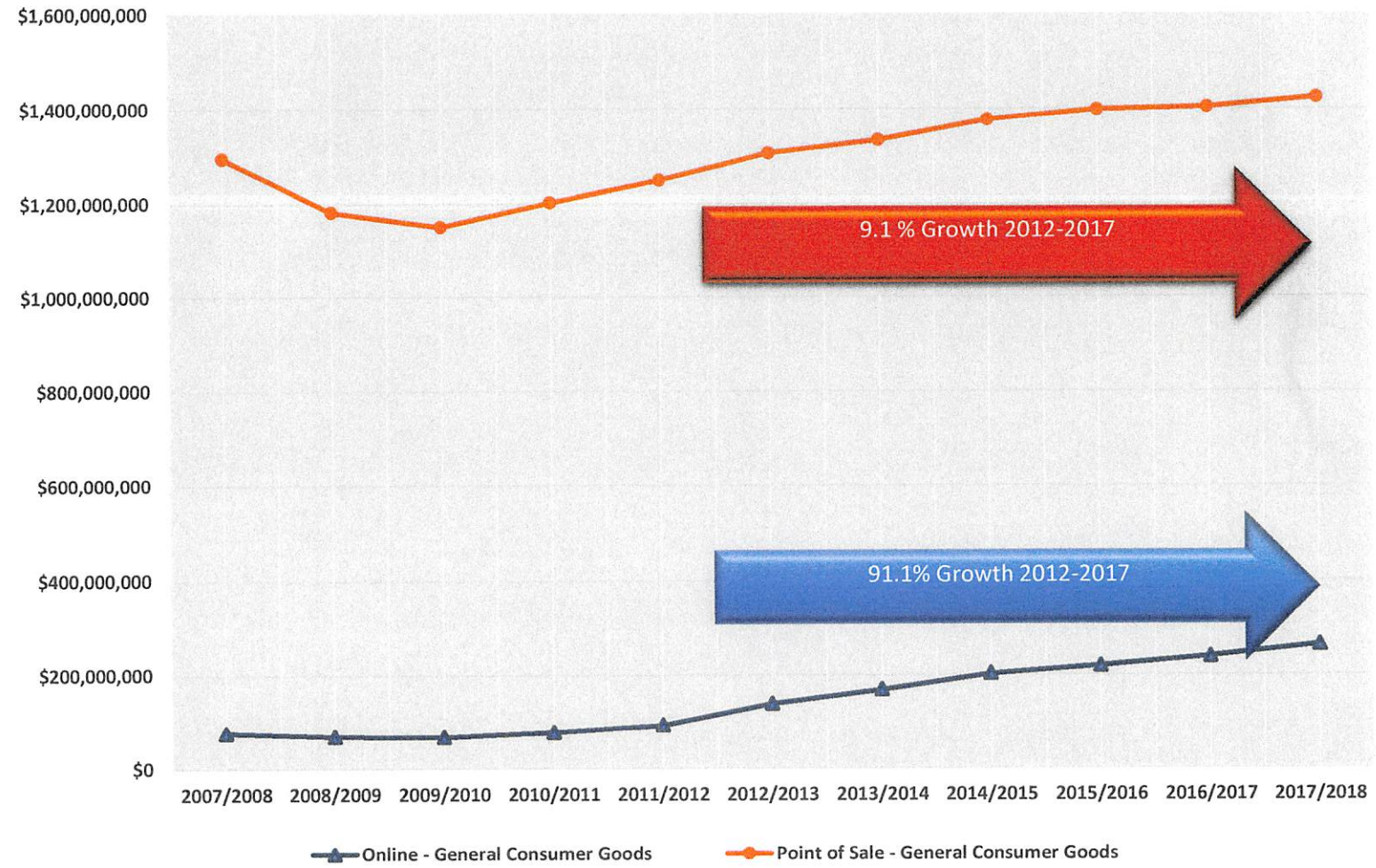
SALES TAX TRENDS FOR ALL AGENCIES - 3Q 2018 SALES

Agency allocations reflect "point of sale" receipts

Agency Name	Count	Current Year* 3Q 2018	Prior Year* 3Q 2017	Share of County Pool	Actual Receipt: % Change	Adjusted* % Change
Mission Viejo	3,174	4,722,528	3,769,703	2.7%	+ 25.3%	+ 14.2%
Garden Grove	4,876	6,399,933	4,747,543	3.6%	+ 34.8%	+ 11.3%
Brea	2,947	5,577,378	4,435,530	3.2%	+ 25.7%	+ 11.2%
Orange Co. Uninc	2,884	2,319,683	1,694,761	1.3%	+ 36.9%	+ 10.7%
Laguna Woods	241	305,365	182,617	0.2%	+ 67.2%	+ 10.3%
Costa Mesa	12,736	15,579,313	12,206,758	8.9%	+ 27.6%	+ 10.3%
Buena Park	2,596	6,561,518	4,969,545	3.7%	+ 32.0%	+ 10.2%
Newport Beach	5,119	9,440,251	8,003,801	5.4%	+ 17.9%	+ 6.7%
Santa Ana	8,163	13,187,346	10,455,919	7.5%	+ 26.1%	+ 4.6%
Fountain Valley	1,882	3,272,838	2,733,542	1.9%	+ 19.7%	+ 4.2%
Rancho Santa Margarita	1,281	1,666,725	1,488,379	0.9%	+ 12.0%	+ 4.0%
San Clemente	2,754	2,557,210	2,147,670	1.5%	+ 19.1%	+ 4.0%
Anaheim	11,388	21,227,183	17,976,315	12.1%	+ 18.1%	+ 3.9%
La Habra	1,757	2,769,377	2,279,509	1.6%	+ 21.5%	+ 3.4%
Seal Beach	766	1,063,009	855,882	0.6%	+ 24.2%	+ 3.0%
Yorba Linda	1,825	1,706,581	1,567,142	1.0%	+ 8.9%	+ 2.9%
Aliso Viejo	1,409	1,485,779	1,358,952	0.8%	+ 9.3%	+ 2.7%
Irvine	10,004	16,563,435	13,327,204	9.4%	+ 24.3%	+ 2.3%
San Juan Capistrano	1,484	2,167,017	1,893,796	1.2%	+ 14.4%	+ 1.4%
Tustin	2,974	6,350,248	5,516,994	3.6%	+ 15.1%	+ 1.3%
Los Alamitos	763	1,009,971	769,792	0.6%	+ 31.2%	+ 0.9%
Fullerton	4,649	5,735,392	4,721,780	3.3%	+ 21.5%	+ 0.8%
Dana Point	1,517	1,319,783	1,303,636	0.7%	+ 1.2%	+ 0.1%
Orange	5,816	11,648,591	9,447,328	6.6%	+ 23.3%	- 0.1%
Westminster	2,784	4,427,136	3,694,555	2.5%	+ 19.8%	- 0.1%
Laguna Hills	1,528	1,621,793	1,315,228	0.9%	+ 23.3%	- 0.3%
Placentia	1,412	1,596,409	1,485,289	0.9%	+ 7.5%	- 1.4%
Huntington Beach	9,786	10,338,524	9,023,447	5.9%	+ 14.6%	- 1.8%
Laguna Beach	2,150	1,634,671	1,360,586	0.9%	+ 20.1%	- 2.1%
Laguna Niguel	1,936	2,770,423	2,503,286	1.6%	+ 10.7%	- 2.6%
La Palma	369	636,154	644,336	0.4%	- 1.3%	- 4.7%
Stanton	987	1,166,095	964,601	0.7%	+ 20.9%	- 5.2%
Lake Forest	2,797	4,179,294	3,715,985	2.4%	+ 12.5%	- 7.9%
Cypress	3,460	2,949,413	2,597,004	1.7%	+ 13.6%	- 8.0%
Villa Park	157	52,949	49,003	0.0%	+ 8.1%	- 12.7%
Totals	120,371	176,009,315	145,207,418	100.0%	+ 21.2%	+ 3.6%
Orange Pool	14,454	23,869,632	19,226,717		+ 24.1%	+ 5.0%



State of California
Brick & Mortar vs. Online Sales of General Consumer Goods
Local 1% Sales Tax by Fiscal Year



AB 155, requiring out-of-state (online) retailers to collect and remit local tax, went into effect in September 2012.