



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

TO: DISTRIBUTION

FROM: KELLY TELFORD, FINANCE DIRECTOR

DATE: July 26, 2018

SUBJECT: SALES TAX INFORMATION – 1st Quarter (January 2018 – March 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 January 1, 2018 through March 31, 2018. The schedules and graphs represent sales tax earned during the first quarter and received by the city during the period of April 1, 2018 through June 30, 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 January through March were 4.1% below the first sales period in 2017. However, due to the State's transition to a new software system, multiple transactions were not processed in 1Q18 but are anticipated to be received with the 2Q18 distribution. Including these allocations and other reporting aberrations, actual sales would have been up 4.9%.

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

Kelly A. Telford
Finance Director

Attachments

Distribution:

City Council Members (5)
Planning Commissioners (5)
Department Directors and Staff
Finance and Pension Advisory Committee (11)
Eileen Clifton-Benjamin, Chamber of Commerce

Q1 2018



City of Costa Mesa Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2018)

Costa Mesa In Brief

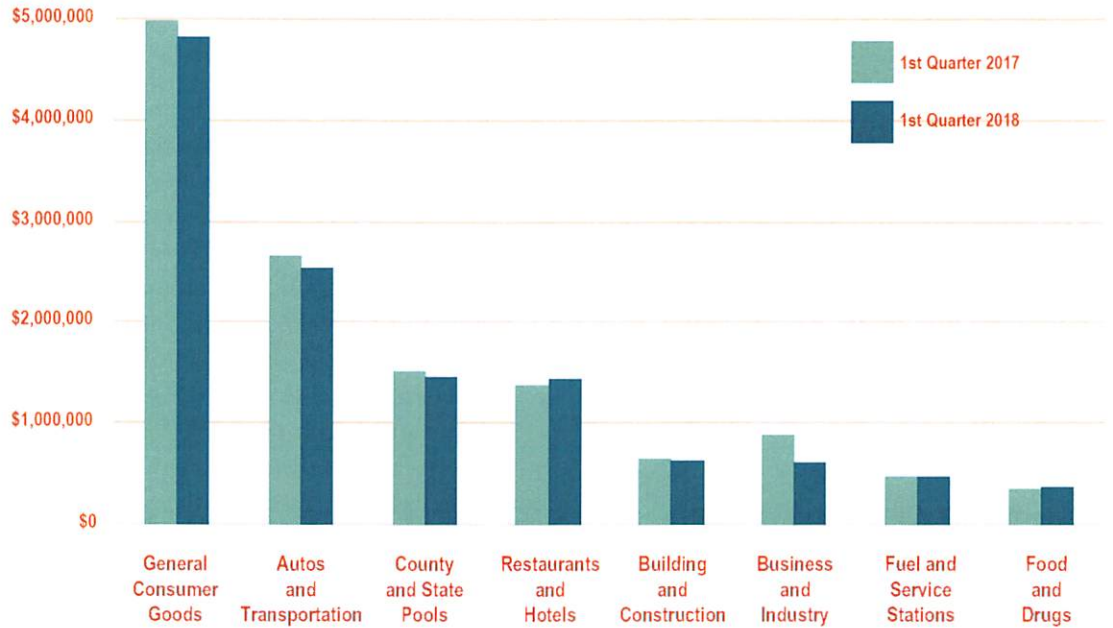
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Missing payments accounted for the decline in department stores, jewelry stores and auto leases. Business closeouts reduced receipts from the business and industry sector.

The losses were partially offset by a strong sales quarter for family apparel, electronics/appliance stores and new motor vehicle dealers along with recent additions that helped boost returns from casual dining restaurants.

Net of aberrations, taxable sales for all of Orange County grew 5.4% over the comparable time period; the Southern California region was up 5.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Apple	Lamborghini
Autonation Honda Costa Mesa	Newport Beach
Best Buy	Louis Vuitton
Bloomingdales	Macys
California Beemers	Orange Coast Chrysler Jeep Dodge
Carmax	Orange Coast Nissan
Chanel	Saks 5th Ave
Connell Chevrolet	South Coast Toyota
Eurocar	Suburban Buick GMC Cadillac
Ganahl Lumber	Gucci
Hermes	Target
Home Depot	Tesla Motors
IKEA	Tiffany & Co

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$48,717,262	\$49,269,256
County Pool	7,711,327	6,406,345
State Pool	38,090	16,509
Gross Receipts	\$56,466,680	\$55,692,111

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

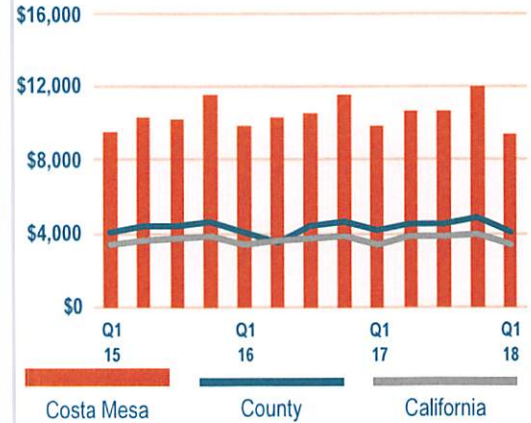
Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the online interstate marketplace was not the prevailing issue before the court in 1992.

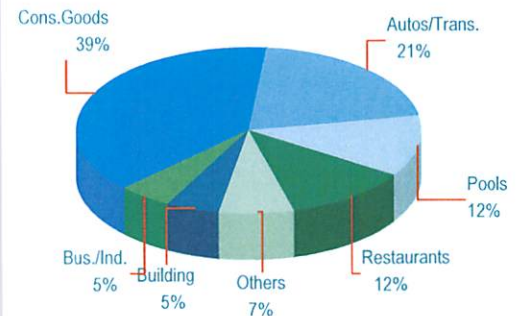
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about \$1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average \$60 per year for each California household, and California businesses average \$171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court's opinion to determine next steps to support taxpayers.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Costa Mesa This Quarter

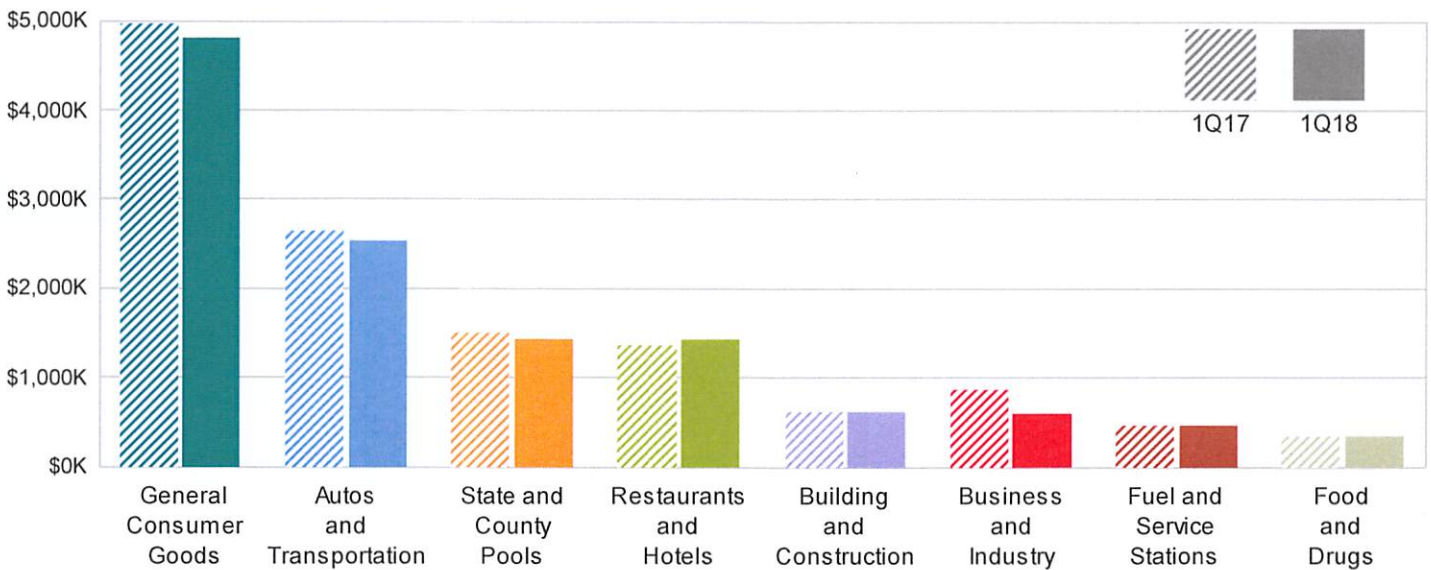


COSTA MESA TOP 15 BUSINESS TYPES

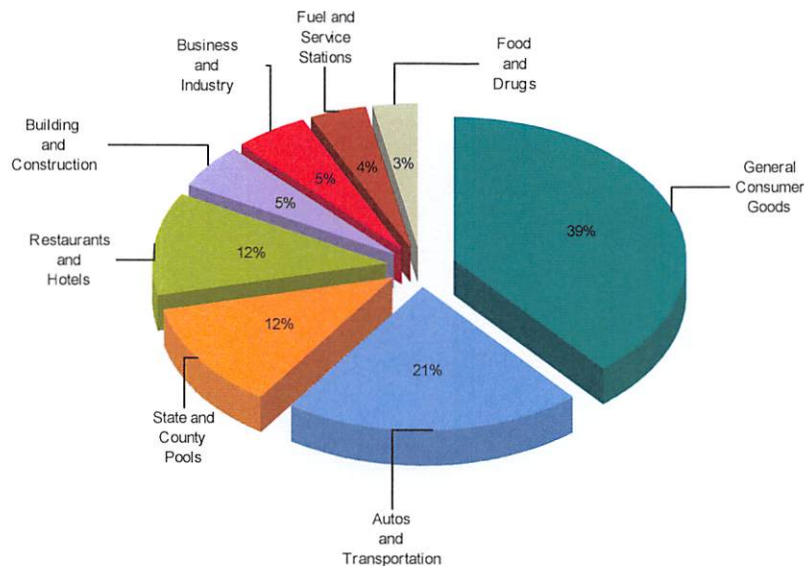
*In thousands of dollars	Costa Mesa		County	HdL State
Business Type	Q1 '18	Change	Change	Change
Building Materials	347.2	-1.5%	2.8%	3.8%
Casual Dining	609.6	8.7%	-3.4%	-2.0%
Department Stores	638.2	-33.4%	-41.0%	-35.1%
Electronics/Appliance Stores	549.1	18.1%	-0.2%	0.8%
Family Apparel	1,013.2	17.2%	5.8%	8.3%
Fine Dining	196.4	-7.3%	6.6%	5.6%
Home Furnishings	697.2	-0.3%	6.5%	-1.1%
Jewelry Stores	323.0	-20.7%	-11.1%	-2.7%
New Motor Vehicle Dealers	1,394.3	3.6%	-1.6%	-0.2%
Quick-Service Restaurants	329.4	0.4%	0.4%	-3.8%
Service Stations	479.3	1.5%	13.1%	4.6%
Shoe Stores	198.1	23.0%	10.3%	0.2%
Specialty Stores	477.8	-7.8%	-8.9%	-10.0%
Used Automotive Dealers	764.8	-3.3%	0.8%	-4.3%
Women's Apparel	486.3	7.7%	-7.0%	-6.7%
Total All Accounts	10,897.1	-4.2%	-2.0%	-1.8%
County & State Pool Allocation	1,456.8	-3.4%	-1.2%	-2.1%
Gross Receipts	12,354.0	-4.1%	-1.9%	-1.8%

Major Industry Group	Count	1Q18	1Q17	\$ Change	% Change
General Consumer Goods	7,788	4,814,170	4,980,161	(165,991)	-3.3%
Autos and Transportation	785	2,540,820	2,657,351	(116,531)	-4.4%
State and County Pools	-	1,456,849	1,508,675	(51,826)	-3.4%
Restaurants and Hotels	739	1,441,168	1,384,762	56,406	4.1%
Building and Construction	321	631,763	648,429	(16,666)	-2.6%
Business and Industry	2,911	617,188	879,011	(261,823)	-29.8%
Fuel and Service Stations	45	479,945	473,974	5,972	1.3%
Food and Drugs	234	371,328	361,836	9,492	2.6%
Transfers & Unidentified	10	743	(8,061)	8,804	109.2%
Total	12,833	12,353,975	12,886,138	(532,163)	-4.1%

1Q17 Compared To 1Q18



1Q18 Percent of Total



Sales Tax by Major Industry Group

General Consumer Goods

Count: 7,788

Autos And Transportation

Count: 785

State & County Pools

Restaurants And Hotels

Count: 739

Business And Industry

Count: 2,911

Building And Construction

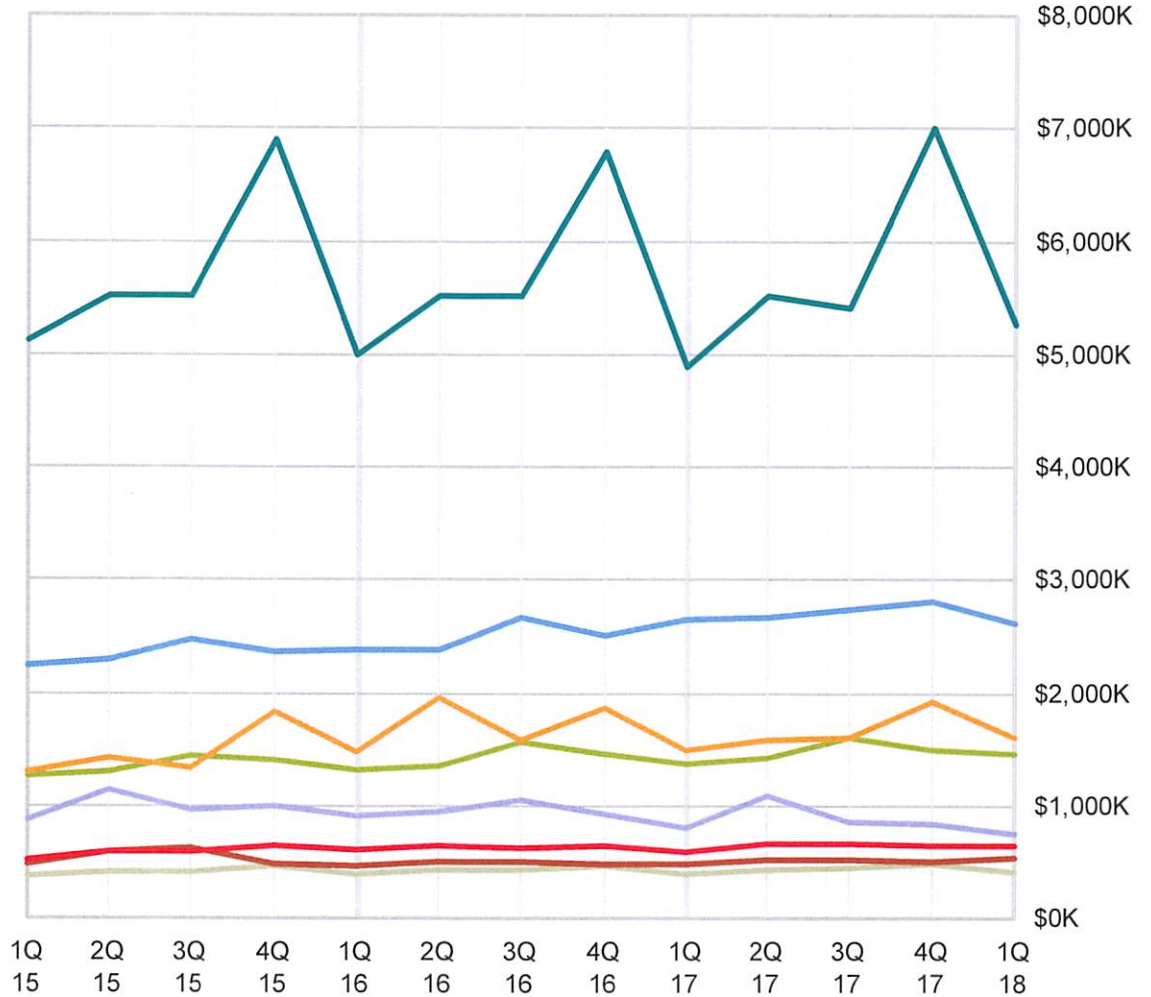
Count: 321

Fuel And Service Stations

Count: 45

Food And Drugs

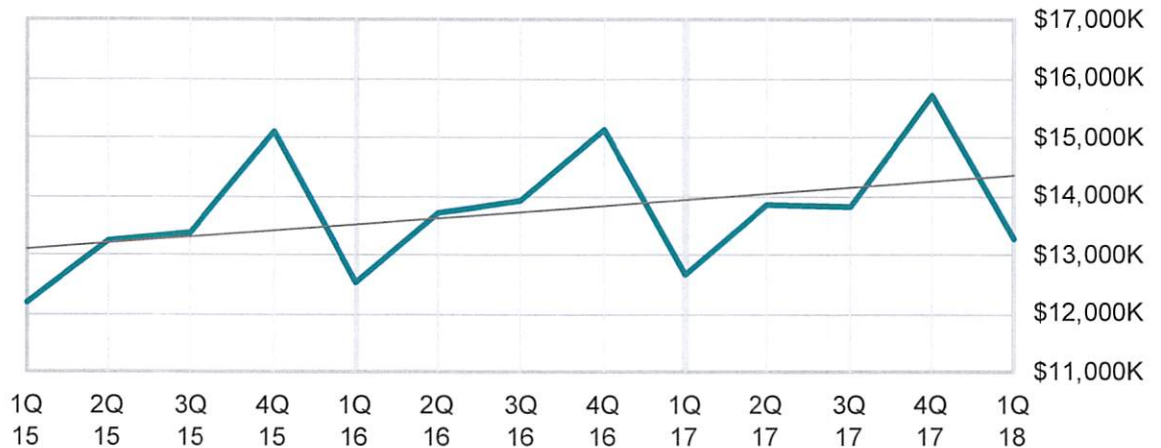
Count: 234



Agency Trend

Costa Mesa

13 Quarter Trend: +9.4%



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

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Per Capita Sales

Costa Mesa

Count: 12,833

Newport Beach

Count: 5,079

Irvine

Count: 9,853

Huntington Beach

Count: 9,808

Tustin

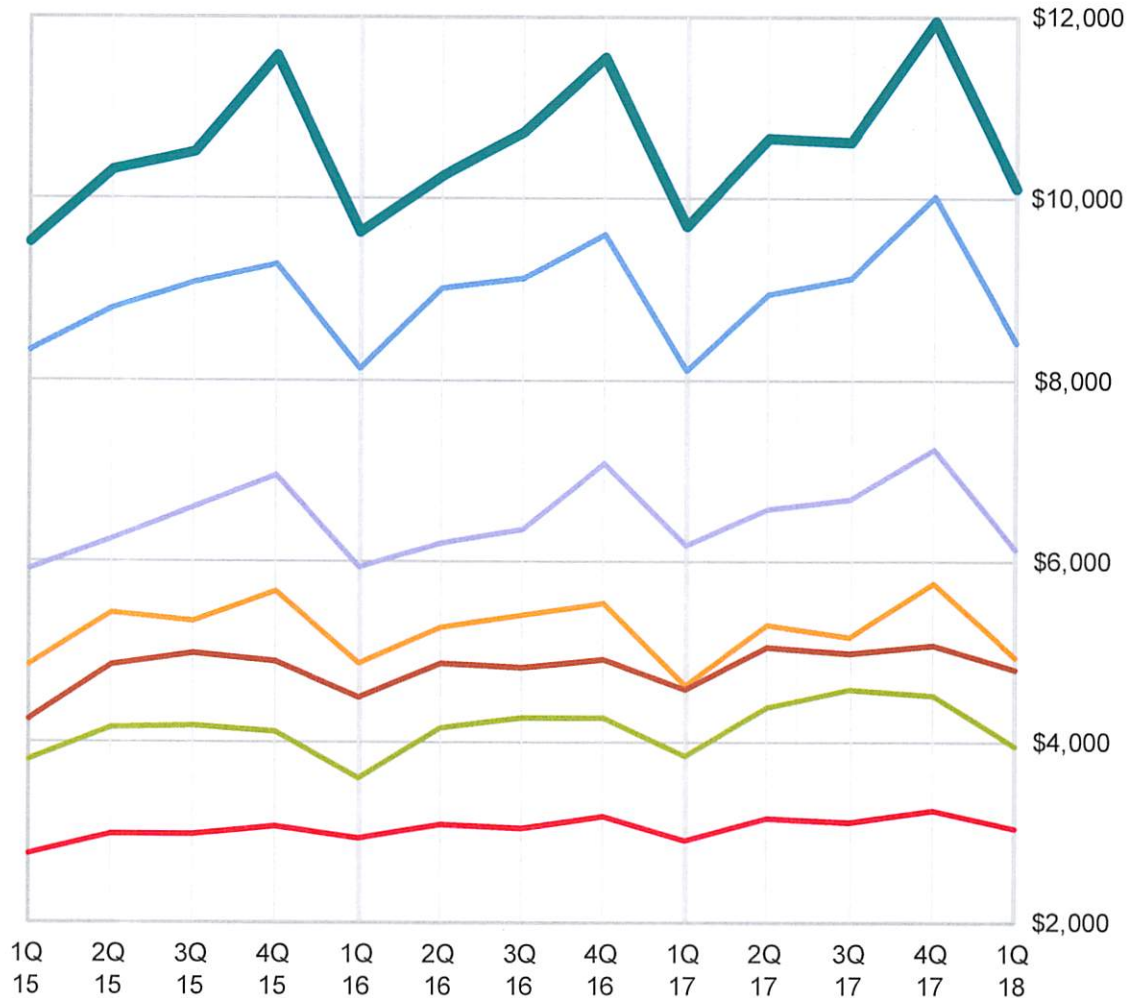
Count: 2,920

Santa Ana

Count: 8,203

Anaheim

Count: 11,684



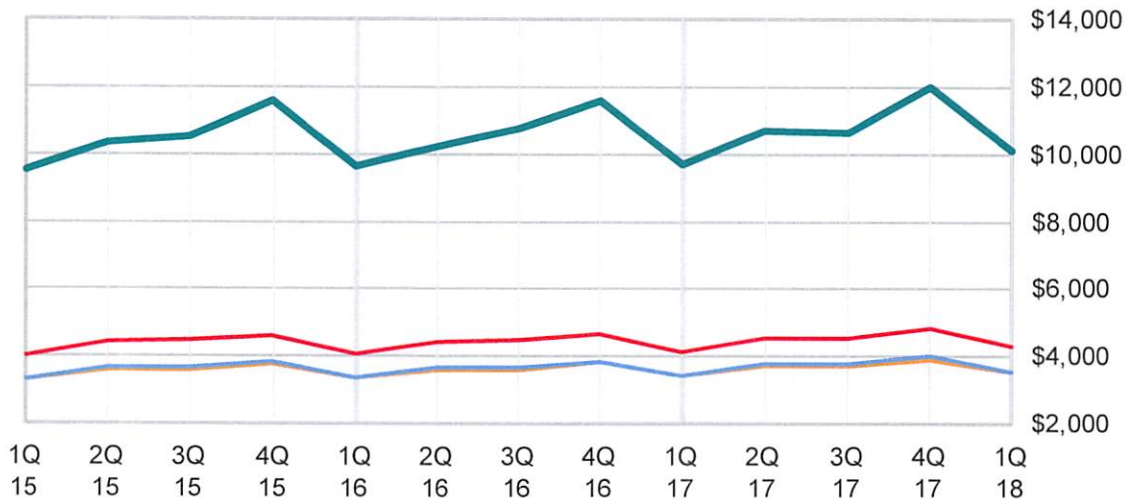
Per Capita Sales

Costa Mesa

Orange County

Southern California

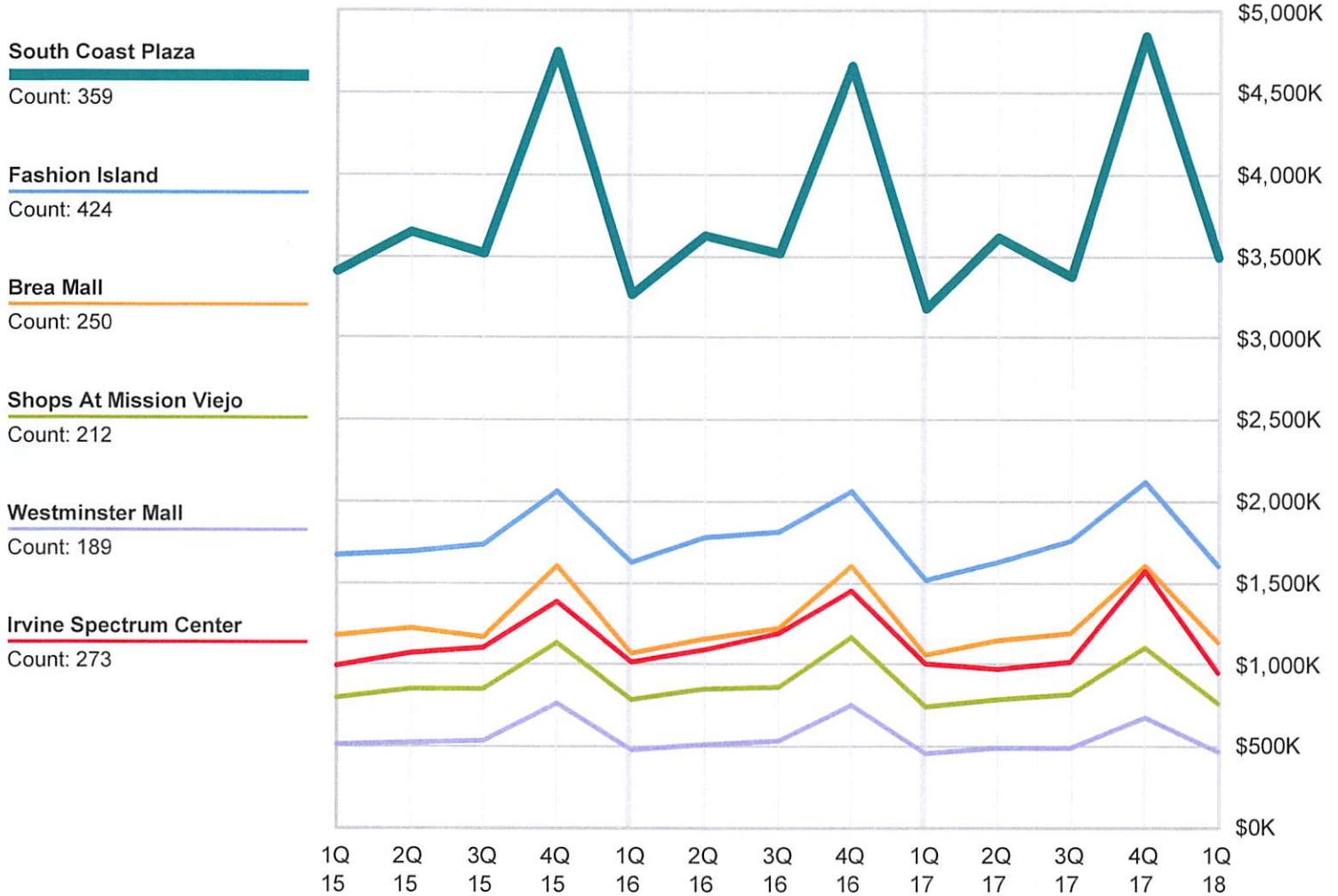
California



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: 173

Newport Beach

Count: 58

Irvine

Count: 72

Huntington Beach

Count: 81

Tustin

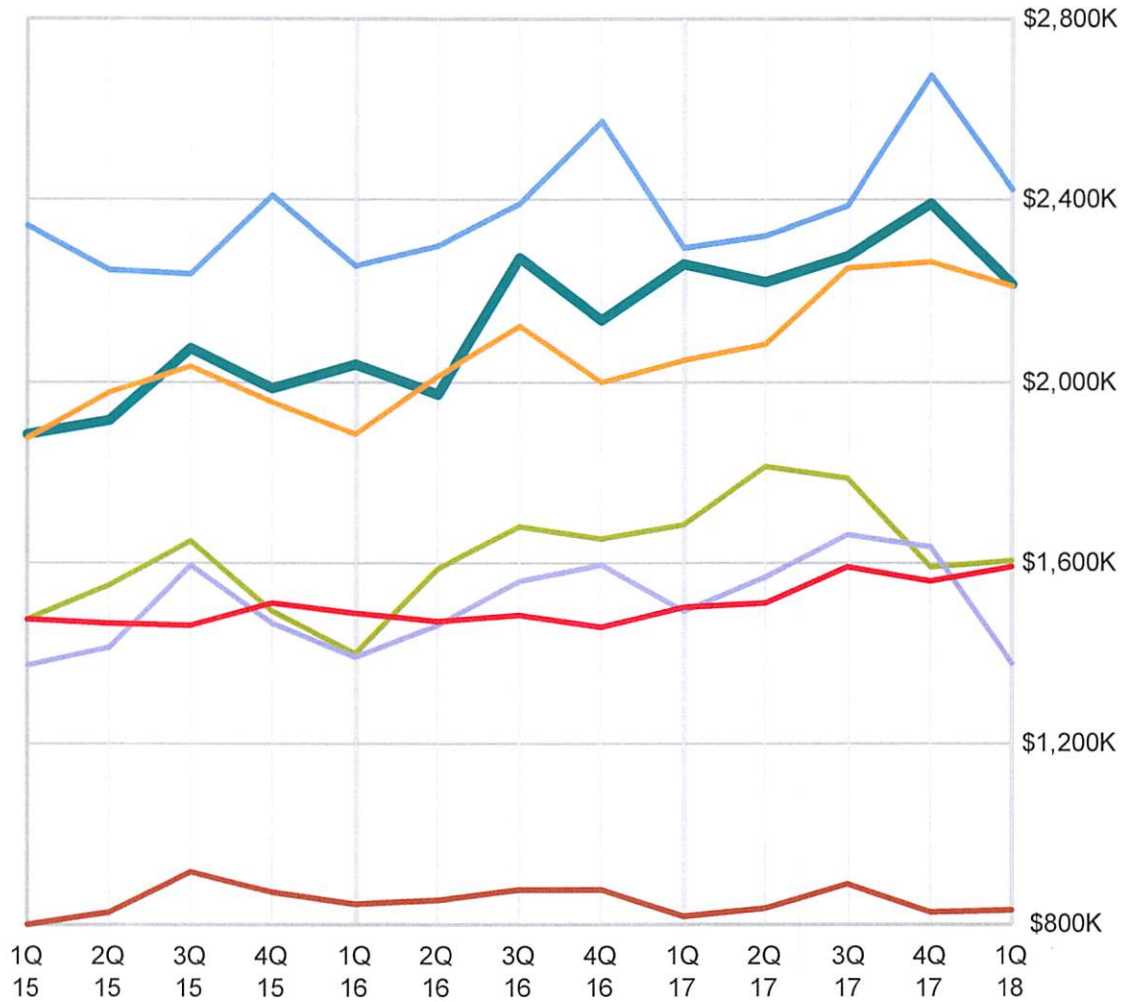
Count: 36

Santa Ana

Count: 86

Westminster

Count: 30



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



ORANGE COUNTY ALL AGENCIES

SALES TAX TRENDS FOR ALL AGENCIES - 1Q 2018 SALES

Agency allocations reflect "point of sale" receipts

Agency Name	Count	Current Year* 1Q 2018	Prior Year* 1Q 2017	Share of County Pool	Actual Receipt: % Change	Adjusted* % Change
Aliso Viejo	1,403	1,328,828	1,222,589	1.0%	+ 8.7%	+ 10.8%
Laguna Hills	1,504	1,126,987	1,175,515	0.9%	- 4.1%	+ 10.7%
Irvine	9,853	12,986,376	12,571,592	10.0%	+ 3.3%	+ 10.3%
Orange Co. Uninc	3,000	1,511,135	1,525,748	1.2%	- 1.0%	+ 9.0%
Seal Beach	749	829,740	833,123	0.6%	- 0.4%	+ 8.7%
Fountain Valley	1,894	2,498,781	2,407,896	1.9%	+ 3.8%	+ 7.9%
Buena Park	2,566	4,323,744	4,368,994	3.3%	- 1.0%	+ 7.4%
Placentia	1,405	1,388,177	1,354,477	1.1%	+ 2.5%	+ 6.5%
Westminster	2,770	3,302,705	3,444,520	2.5%	- 4.1%	+ 6.1%
San Clemente	2,761	1,795,413	1,866,972	1.4%	- 3.8%	+ 5.9%
Laguna Woods	255	200,226	187,862	0.2%	+ 6.6%	+ 5.8%
Villa Park	171	33,848	35,887	0.0%	- 5.7%	+ 5.8%
Laguna Beach	2,146	1,025,756	1,014,071	0.8%	+ 1.2%	+ 5.8%
Anaheim	11,684	16,440,770	16,580,339	12.6%	- 0.8%	+ 5.4%
Brea	2,997	3,762,814	3,959,288	2.9%	- 5.0%	+ 5.3%
Newport Beach	5,079	7,167,234	7,161,671	5.5%	+ 0.1%	+ 5.0%
San Juan Capistrano	1,489	1,612,089	1,653,288	1.2%	- 2.5%	+ 4.8%
Santa Ana	8,203	9,445,517	9,807,930	7.2%	- 3.7%	+ 4.8%
Costa Mesa	12,833	10,897,126	11,377,463	8.4%	- 4.2%	+ 4.7%
La Palma	371	771,416	677,135	0.6%	+ 13.9%	+ 4.4%
La Habra	1,719	2,018,122	2,064,178	1.5%	- 2.2%	+ 4.4%
Garden Grove	4,893	4,257,667	4,553,958	3.3%	- 6.5%	+ 4.2%
Orange	5,783	8,462,089	8,742,799	6.5%	- 3.2%	+ 3.9%
Dana Point	1,500	1,012,328	1,045,200	0.8%	- 3.1%	+ 3.9%
Stanton	963	861,566	840,389	0.7%	+ 2.5%	+ 3.6%
Rancho Santa Margarita	1,294	1,329,130	1,347,599	1.0%	- 1.4%	+ 3.6%
Huntington Beach	9,808	7,825,378	7,842,720	6.0%	- 0.2%	+ 3.4%
Fullerton	4,614	4,359,570	4,292,285	3.3%	+ 1.6%	+ 2.8%
Mission Viejo	3,178	3,213,633	3,481,581	2.5%	- 7.7%	+ 2.7%
Yorba Linda	1,797	1,498,152	1,811,651	1.1%	- 17.3%	+ 1.8%
Laguna Niguel	1,938	2,183,305	2,367,742	1.7%	- 7.8%	+ 1.8%
Lake Forest	2,747	3,207,799	3,277,831	2.5%	- 2.1%	+ 0.0%
Tustin	2,920	4,750,913	5,098,238	3.6%	- 6.8%	- 0.5%
Cypress	3,435	2,333,057	2,335,487	1.8%	- 0.1%	- 1.5%
Los Alamitos	764	623,658	664,984	0.5%	- 6.2%	- 9.2%
Totals	120,486	130,385,051	132,993,002	100.0%	- 2.0%	+ 4.9%
Orange Pool	17,005	17,319,162	17,449,094		- 0.7%	+ 9.2%