

# Q1 2019



# City of Capitola Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2019)

## Capitola In Brief

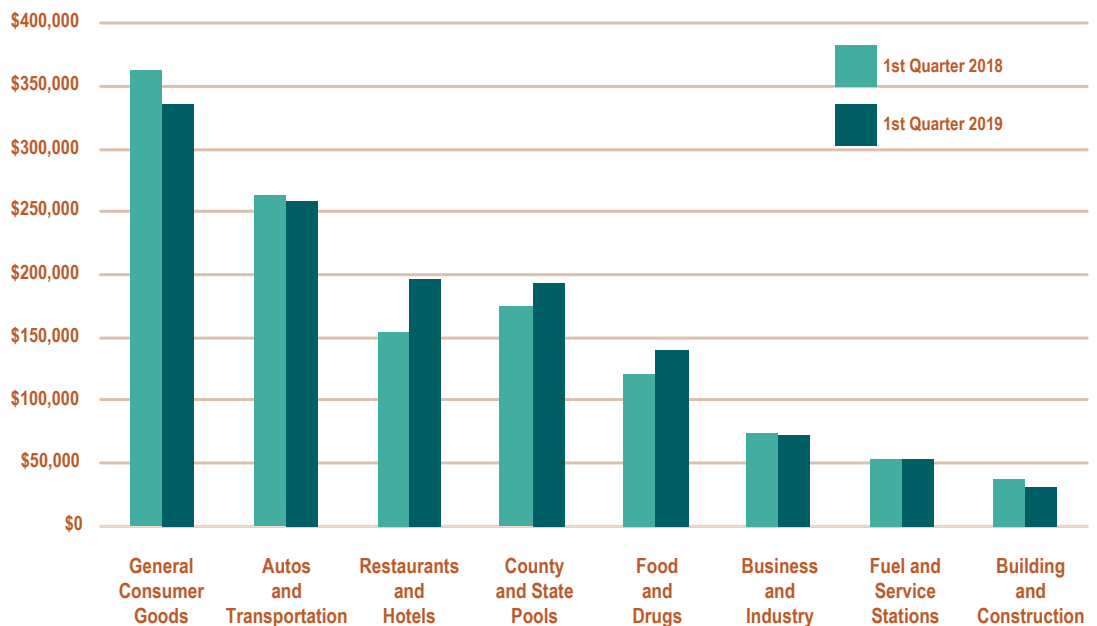
Capitola's receipts from January through March were 3.3% above the first sales period in 2018. However, this comparison is inflated due to CDTFA's transition to a new reporting system in the prior year which temporarily left multiple returns unprocessed. After including the prior remittances and other reporting aberrations, actual sales were down 4.5%.

Weak returns from multiple auto-transportation vendors, largely consistent with the regional trend, hurt the overall results. Recent closeouts of a building-construction supplier and general consumer retailer further contributed to adjusted decline.

The City's voter approved quarter-cent transaction taxes, Measure F and O, generated an additional \$237,832 and \$236,442 respectively. While each experienced positive growth over last year, both were also dramatically impacted by CDTFA software changes in the prior year and recent activity as explained above. Once adjusted, both measures experienced a 4.4% drop comparatively.

Net of aberrations, taxable sales for all of Santa Cruz County were flat over the comparable time period; the Central Coast region was down 2.1%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

AJs Fuel Market Of Capitola	Olive Garden
Bed Bath & Beyond	Ross
Capitola Coast	Royal Wholesale Electric
Capitola Shell	Santa Cruz Mazda
Chevron	Shadowbrook
CVS Pharmacy	Sierra Utility Sales
Gayles Bakery & Rosticceria	Target
Kohls	Toyota Lease Trust
Lens Crafters	Toyota Of Santa Cruz
Margaritaville	Trader Joes
New Leaf Community Market	Ulta Beauty
Nob Hill General Store	Verizon Wireless
	Whole Foods Market

### REVENUE COMPARISON

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

	2017-18	2018-19
Point-of-Sale	\$3,696,864	\$4,035,816
County Pool	534,852	636,908
State Pool	2,338	2,121
<b>Gross Receipts</b>	<b>\$4,234,054</b>	<b>\$4,674,845</b>
Measure F	\$790,446	\$843,433
Measure O	\$792,142	\$841,528

**Statewide Results**

Local sales and use tax receipts from January through March sales were 1.0% higher than the first quarter of 2018 after factoring out accounting anomalies and back payments from previous state reporting shortfalls. This was the lowest percentage increase since first quarter, 2010.

The growth came primarily from a solid quarter for purchases related to expanding logistics, medical and technology facilities and modest gains in building-construction supplies and restaurants. Cannabis sales produced a slight uptick in the food-drug group.

Lower fuel prices and declining general consumer good purchases offset the gains. The shift to internet purchases continued with online shopping accounting for 22.3% of the total general consumer goods segment versus 20.2% one year ago. Tax receipts from new car sales exhibited significant reductions although the drop was partially offset by an upswing in used autos and auto leases.

Regional changes ranged from a decline of 2.1% to gains as high as 4.4%. However, the differences were primarily attributable to onetime projects or capital purchases and not reflective of overall economic trends.

**Slower Growth Ahead?**

July marks ten years of continuous economic growth which is the longest period of U.S. economic expansion on record. However, analysts from a variety of economic segments are reporting signs that we may be leveling off.

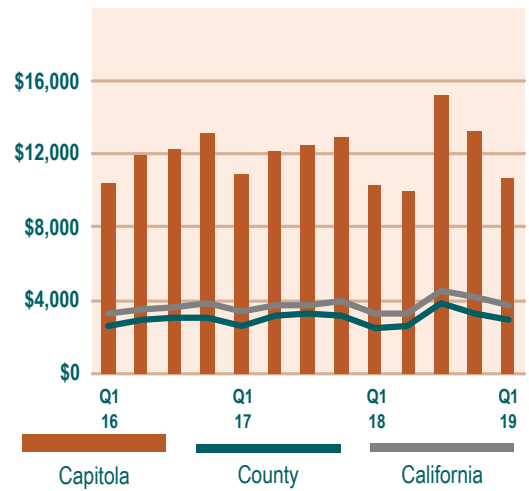
This quarter marked the eighth consecutive comparative period decline in California new car registrations with analysts noting that higher prices and a growing supply of vehicles coming off lease are making used cars more attractive. They also note that on-demand services such as Uber and Lyft are making it easier for debt-burdened millennials to avoid buying cars altogether.

Rising restaurant menu prices, renewed competition from grocer prepared meals, and cutbacks in foreign tourism appear to be reducing restaurant patronage which in recent years was one of the state's fastest growth segments. There will be an uptick in the second quarter's fuel-related tax receipts because of that period's refinery shutdowns; lower crude oil costs are expected to produce subsequent declines.

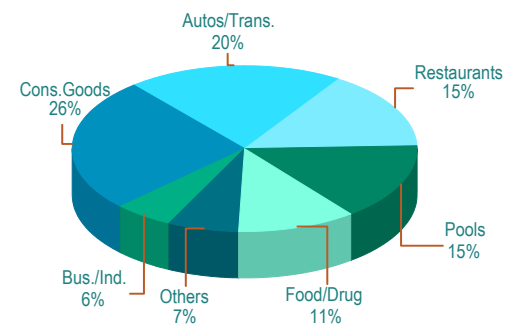
Uncertainty over U.S. tariff and trade policies plus labor shortages are delaying some investment and business expansion decisions while reduced home sales and two quarters of declining construction permit values suggest a potential future leveling in that sector. Investment in technological advances should continue and remain strong.

Economic shifts are not the only factor leveling sales tax revenues. With an economy based on intellectual technology rather than goods and consumer priorities shifting to non-taxable services and experiences, sales tax no longer reflects 21st century spending. Each year therefore, the portion of the economy that is taxed, shrinks.

**SALES PER CAPITA**



**REVENUE BY BUSINESS GROUP**  
Capitola This Quarter



**CAPITOLA TOP 15 BUSINESS TYPES**

*\*In thousands of dollars*

Business Type	Capitola		County	HdL State
	Q1 '19*	Change	Change	Change
Casual Dining	120.5	50.1%	9.6%	13.3%
Convenience Stores/Liquor	21.0	-8.4%	8.3%	16.2%
Department Stores	— CONFIDENTIAL —	—	-63.4%	35.0%
Discount Dept Stores	— CONFIDENTIAL —	—	18.1%	2.9%
Drug Stores	32.8	-0.9%	23.0%	37.8%
Electrical Equipment	— CONFIDENTIAL —	—	8.0%	20.8%
Electronics/Appliance Stores	40.6	49.0%	9.9%	-3.2%
Family Apparel	38.2	-9.0%	-8.5%	7.1%
Grocery Stores	71.8	40.9%	12.3%	25.7%
Home Furnishings	35.7	-8.0%	-0.1%	3.5%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	-6.1%	-1.8%
Quick-Service Restaurants	50.1	2.9%	11.1%	10.1%
Service Stations	53.5	0.1%	58.6%	15.8%
Specialty Stores	47.7	23.8%	7.1%	23.4%
Sporting Goods/Bike Stores	23.1	-3.0%	-1.9%	2.7%
<b>Total All Accounts</b>	<b>1,088.3</b>	<b>2.1%</b>	<b>15.7%</b>	<b>13.5%</b>
<b>County &amp; State Pool Allocation</b>	<b>193.2</b>	<b>10.3%</b>	<b>24.9%</b>	<b>23.8%</b>
<b>Gross Receipts</b>	<b>1,281.5</b>	<b>3.3%</b>	<b>17.0%</b>	<b>14.9%</b>