

Q3 2019



City of Capitola Sales Tax Update

Fourth Quarter Receipts for Third Quarter Sales (July - September 2019)

Capitola In Brief

Capitola's receipts from July through September were 18.8% below the third sales period in 2018. This comparison is skewed due to the CDTFA's transition to a new reporting system in the previous year when additional payments were received by the City. Excluding reporting aberrations, actual sales were down 7.0%.

New motor vehicle returns reflected ownership changes; nevertheless, taxes from this sector dwindled for the fourth straight quarter. Specialized equipment orders fell and triggered the revenue decline from business-industry.

National chain retail closures adversely affected comparisons in the general consumer goods and building-construction groups. Casual dining, service stations and grocers also posted minor reductions.

First time returns by out-of-state retailers generated new taxes under the Wayfair decision; this aided in the gain from the countywide pool allocation.

Beyond sales taxes, voter-approved Measures O and F each added \$274,000 of local revenues.

Net of aberrations, taxable sales for all of Santa Cruz County grew 1.2% over the comparable time period; the Central Coast region was up 1.0%.

SALES TAX BY MAJOR BUSINESS GROUP



*Allocation aberrations have been adjusted to reflect sales activity

TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Ajs Fuel Market Of Capitola	Pizza My Heart
Bed Bath & Beyond	Ross
Capitola Coast	Santa Cruz Mazda
Capitola Shell	Santa Cruz Subaru
Chevron	Santa Cruz Toyota
CVS Pharmacy	Shadowbrook
Gayles Bakery & Rosticceria	Sierra Utility Sales
Kohls	Target
Macys	Toyota Of Santa Cruz
Margaritaville	Trader Joes
Nob Hill General Store	Ulta Beauty
O Neills Surf Shop	Whole Foods Market
	Zelda's on the Beach

REVENUE COMPARISON

One Quarter – Fiscal Year To Date (Q3)

	2018-19	2019-20
Point-of-Sale	\$1,574,866	\$1,236,942
County Pool	237,710	234,323
State Pool	819	504
Gross Receipts	\$1,813,394	\$1,471,768
Measure F	\$309,002	\$276,607
Measure O	\$308,637	\$276,547

NOTES

Statewide Results

The local one-cent share of statewide sales and use tax from sales occurring July through September was 2.2% higher than the summer quarter of 2018 after adjusting for accounting anomalies.

The bulk of the increase came from the countywide use tax allocation pools and is due to the acceleration in online shopping where a large volume of the orders are shipped from out-of-state.

Online shopping also produced gains in the business-industrial group with in-state industrial zoned logistics centers filling orders previously taken by brick and mortar retailers. Purchases to support healthcare, food processing, logistics/warehouse operations and information/data technology also helped offset declines in other business-related categories.

With the exception of some discount and value-oriented retail, most categories of general consumer goods were down. New cannabis related start-ups offset declines in the food and drug group while a softening in building-construction receipts was consistent with recent declines in the volume and value of new building permit issuances.

Overall growth in restaurant receipts continued to soften with a shift toward lower cost dining establishments and takeout meal options. Reports of labor shortages and the impact of homelessness on customer traffic in metropolitan areas were reportedly factors in the decline in tax revenues from higher price, fine dining establishments.

Despite a slight uptick in used auto and auto lease receipts, the auto related group was significantly down due to a drop in new car and RV sales. Previously propped up by a 23% subprime rated customer base and six- and seven-year financing, loan delinquencies have recently surged back to levels last seen in 2009.

Additional Tax Districts Approved

Voters approved eight of the nine sales

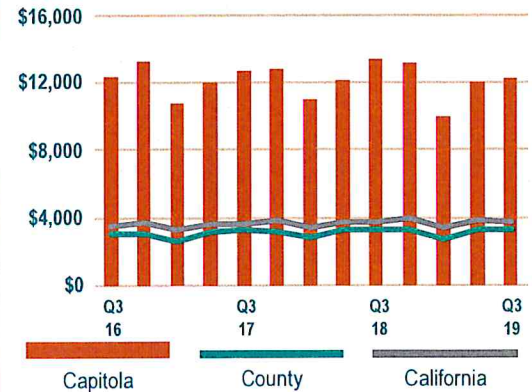
tax measures on the November 2019 ballot adding six new districts and extending two others.

This brings the total number of local transactions and use tax districts (TUT's) to 325 with 62 that are levied countywide and 263 imposed by individual cities. The number of local districts have close to tripled over the last decade as agencies deal with rising costs and service needs. TUT's have been a favorable option as visitors contribute to the tax and a collection system is already in place that minimizes administrative and monitoring costs.

California's basic rule is that the rate for all local TUT's combined, shall not exceed 2.0% or a total of 9.25% including the state levy. However, the state legislature has authorized higher caps in some jurisdictions with the highest voter-approved, combined state/local rate now at 10.5%.

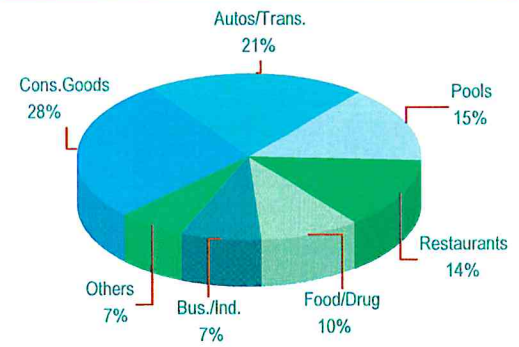
Thirty-five or more additional local TUT measures are currently being considered for the March 2020 ballot.

SALES PER CAPITA*



*Allocation aberrations have been adjusted to reflect sales activity

**REVENUE BY BUSINESS GROUP
Capitola This Quarter***



*Allocation aberrations have been adjusted to reflect sales activity

CAPITOLA TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	Capitola	County	HdL State	
	Q3 '19*	Change	Change	Change
Casual Dining	105.3	-1.4%	-1.0%	2.3%
Convenience Stores/Liquor	25.7	-1.7%	1.2%	1.0%
Department Stores	— CONFIDENTIAL —	—	-34.9%	-9.5%
Discount Dept Stores	— CONFIDENTIAL —	—	0.7%	2.8%
Drug Stores	32.9	-2.0%	-0.8%	-1.2%
Electrical Equipment	— CONFIDENTIAL —	—	-21.3%	1.5%
Electronics/Appliance Stores	26.9	-8.4%	0.7%	-3.2%
Family Apparel	46.2	-8.3%	-5.8%	1.5%
Grocery Stores	69.8	-1.0%	2.5%	1.7%
Home Furnishings	40.9	-0.8%	-4.2%	-1.0%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	-0.7%	-7.2%
Quick-Service Restaurants	61.2	-0.8%	0.6%	2.6%
Service Stations	65.1	-1.1%	2.1%	-1.5%
Specialty Stores	41.7	-12.7%	-8.4%	0.3%
Sporting Goods/Bike Stores	37.6	-3.3%	2.8%	-1.3%
Total All Accounts	1,260.8	-8.9%	-0.6%	0.2%
County & State Pool Allocation	218.6	5.8%	16.8%	14.9%
Gross Receipts	1,479.3	-7.0%	1.7%	2.3%

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