

# Q3 2018



# City of Montebello Sales Tax *Update*

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

## Montebello In Brief

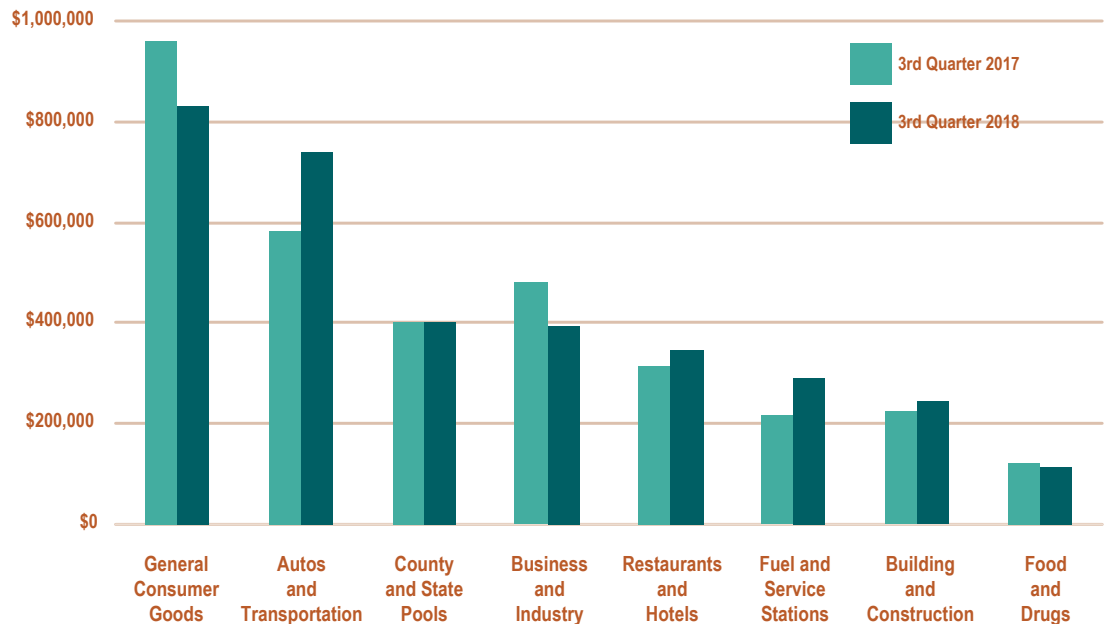
Montebello's receipts from July through September were 1.9% above the third sales period in 2017. This increase resulted from the city receiving significant amounts of delayed allocations that were not processed in 2Q18 due to the State's software conversion project and it masked a 7.2% decline in actual sales that was largely caused by a sharp drop in sales from a light industrial supplier and the relocation of a major retailer.

Those decreases in actual sales were partially offset by a 17.9% increase in new auto and truck sales, solid gains from building materials and contractors' supplies sales consistent with statewide trends, and a jump in service stations receipts due to higher gas prices compared to a year ago.

Restaurants sales remained steady posting a 3.5% increase. The close-out of a specialty store was offset by gains in other general retail categories. The City's allocation from the countywide use tax pool increased 0.6% during the quarter.

Net of aberrations, taxable sales for all of Los Angeles County grew 4.2% over the comparable time period; the Southern California region was up 4.4%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

|                             |                              |
|-----------------------------|------------------------------|
| Air Product Sales           | HD Supply Repair             |
| Allied Building Products    | Inland Kenworth              |
| Ararat Arco                 | JC Penney                    |
| Arco AM PM                  | LA Auto Exchange             |
| Arco/Auto Repair & Electric | Landsberg Orora              |
| Best Buy                    | Marshalls                    |
| Chevrolet of Montebello     | Montebello Cat Scales & Fuel |
| Chevron                     | PCI Industries               |
| Empire Cleaning Supply      | Ross                         |
| Ford of Montebello          | Sears                        |
| Forever 21                  | Shell                        |
| Gale Supply                 | Victoria's Secret            |
|                             | Wilbur Curtis                |

### REVENUE COMPARISON

One Quarter – Fiscal Year To Date (Q3)

|                       | 2017-18            | 2018-19            |
|-----------------------|--------------------|--------------------|
| Point-of-Sale         | \$2,898,961        | \$2,961,141        |
| County Pool           | 399,411            | 401,925            |
| State Pool            | 2,269              | 1,520              |
| <b>Gross Receipts</b> | <b>\$3,300,641</b> | <b>\$3,364,585</b> |

**California Overall**

The CDTEFA'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.

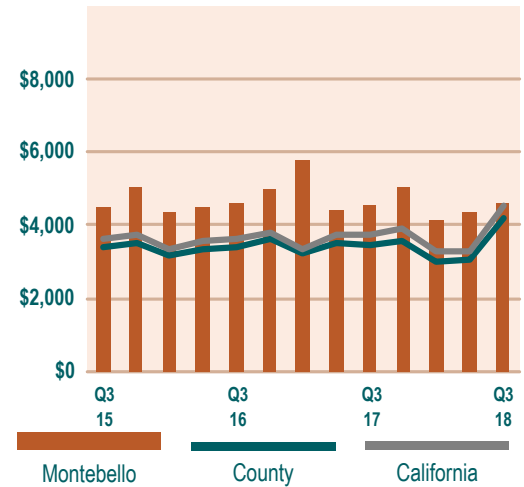
California will begin enforcing the Wayfair reversal effective April 1, 2019

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.

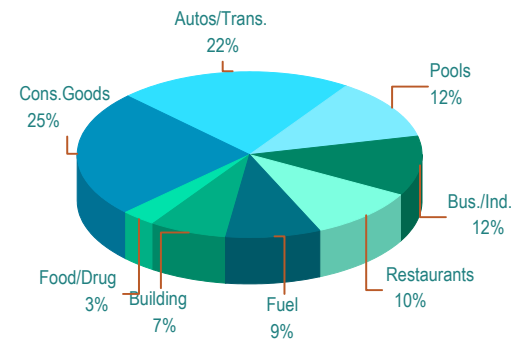
Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

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**  
Montebello This Quarter



**MONTEBELLO TOP 15 BUSINESS TYPES**

| Business Type                             | *In thousands of dollars |                   |               |                  |
|-------------------------------------------|--------------------------|-------------------|---------------|------------------|
|                                           | Montebello Q3 '18*       | Montebello Change | County Change | HdL State Change |
| Building Materials                        | 154.1                    | -0.2%             | 36.3%         | 29.8%            |
| Casual Dining                             | 135.5                    | 12.2%             | 15.8%         | 14.7%            |
| Department Stores                         | 107.8                    | -3.8%             | -1.5%         | -3.6%            |
| Electronics/Appliance Stores              | — CONFIDENTIAL —         |                   | 9.7%          | 12.4%            |
| Family Apparel                            | 249.5                    | 40.5%             | 36.4%         | 36.3%            |
| Grocery Stores                            | 55.5                     | -13.6%            | 22.4%         | 16.1%            |
| Heavy Industrial                          | 77.5                     | 74.1%             | 39.0%         | 30.5%            |
| Light Industrial/Printers                 | 131.7                    | -50.3%            | 27.1%         | 29.1%            |
| New Motor Vehicle Dealers                 | 563.1                    | 31.1%             | 12.1%         | 12.7%            |
| Quick-Service Restaurants                 | 168.8                    | 8.7%              | 11.5%         | 13.4%            |
| Service Stations                          | 267.3                    | 33.2%             | 43.8%         | 43.1%            |
| Shoe Stores                               | 63.7                     | 8.9%              | 6.7%          | 5.5%             |
| Textiles/Furnishings                      | 57.1                     | 13.0%             | 36.1%         | 33.4%            |
| Used Automotive Dealers                   | — CONFIDENTIAL —         |                   | 50.2%         | 46.9%            |
| Women's Apparel                           | 96.4                     | 17.8%             | 17.3%         | 13.7%            |
| <b>Total All Accounts</b>                 | <b>2,961.1</b>           | <b>2.1%</b>       | <b>21.7%</b>  | <b>21.8%</b>     |
| <b>County &amp; State Pool Allocation</b> | <b>403.4</b>             | <b>0.4%</b>       | <b>19.7%</b>  | <b>27.8%</b>     |
| <b>Gross Receipts</b>                     | <b>3,364.6</b>           | <b>1.9%</b>       | <b>21.5%</b>  | <b>22.6%</b>     |