

Q3 2018



City of Avalon Sales Tax *Update*

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

Avalon In Brief

Avalon's receipts from July through September were 0.4% above the third sales period in 2017. Excluding reporting aberrations, actual sales were down 9.3%.

The CDTFA appears to have resolved the majority of the software-driven reporting issues that plagued the first and second quarter 2018 local tax distributions.

Throughout the region and the State crude oil prices remained steady, while gasoline and diesel followed seasonal pricing patterns.

In the Southern California area building and construction spending continues to be strong, led by transportation and public safety projects.

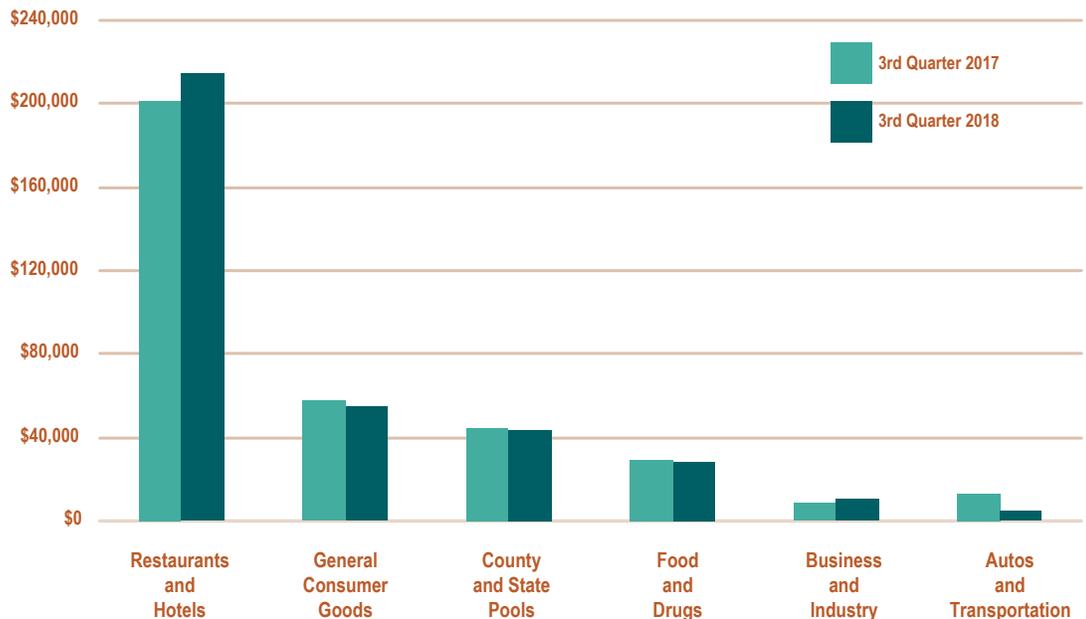
Business closures have had a negative impact on both the restaurants-hotels and general consumer goods sectors.

Revenue fell flat this quarter for business and industry, while food and drugs were slightly down.

The City's share of the countywide use tax pool decreased 0.9% over the same period in the prior year.

Net of aberrations, taxable sales for all of Los Angeles County grew 4.0% over the comparable time period; the Southern California region was up 4.3%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Antonios Pizzeria & Cabaret	Island Threadz
Avalon Fuel Dock	Leos Catalina Drugstore
Bluewater Grill	Lobster Trap
Buoys & Gulls	Luau Larrys
Carnival Cruise Lines	Maggies Blue Rose
Casino Ballroom	Mi Casita
Catalina By The Sea	Original Jacks
Catalina Cantina	Pancake Cottage
Chets Hardware	Perico Gallery
Coney Island West	Steamer Trunk
Coyote Joe's	Steves Steakhouse
El Galleon	Vons
Eric's On The Pier	

REVENUE COMPARISON

One Quarter - Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	\$320,440	\$322,228
County Pool	44,149	43,737
State Pool	251	165
Gross Receipts	\$364,840	\$366,130
Measure C	\$215,511	\$232,982

California Overall

The CDTEA'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



COUNTY OVERALL 3Q YOY RECEIPTS % CHANGE

Major Industry Groups	Cash	Adjusted*
Autos and Transportation	17.6%	5.3%
Building and Construction	33.4%	6.2%
Business and Industry	24.3%	-0.7%
Food and Drugs	19.6%	3.2%
Fuel and Service Stations	37.8%	16.1%
General Consumer Goods	18.9%	1.6%
Restaurants and Hotels	13.7%	2.1%
County and State Pools	19.7%	4.3%
Total	21.5%	4.0%

*Accounting anomalies factored out

REVENUE BY BUSINESS GROUP
Avalon This Quarter

