

# Q2 2018



# City of Fortuna Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2018)

## Fortuna In Brief

Problems with the State's new computerized reporting system reduced Fortuna's allocation from April through June sales to 28.6% below the second quarter of 2017. The shortfall was partially made up by advancing a portion of next quarter's estimated revenues which skewed actual results even further.

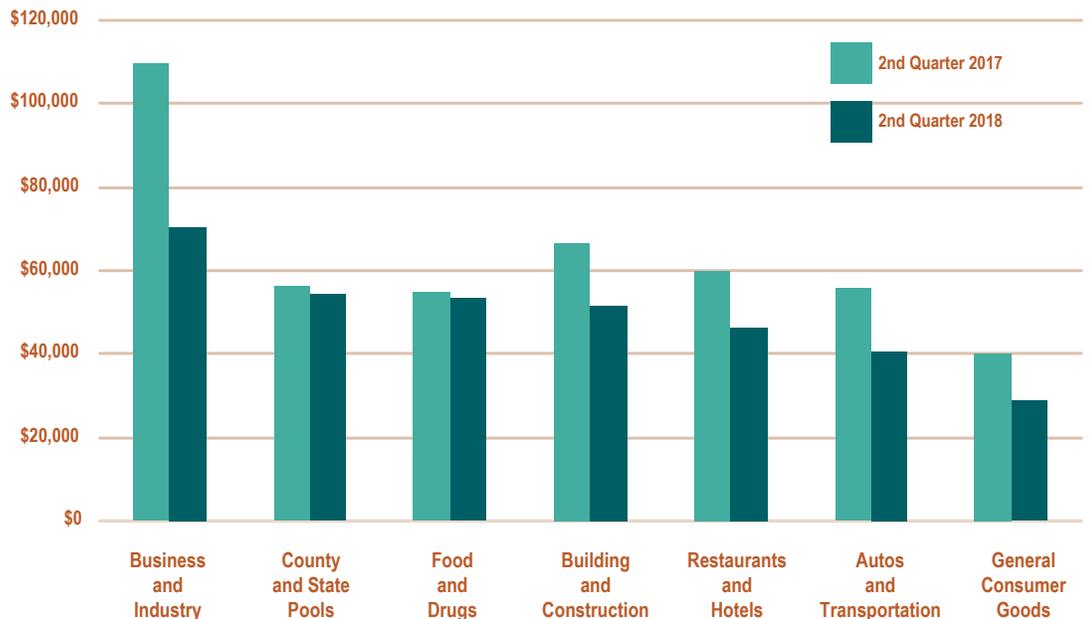
After backing out the advance and factoring for unprocessed returns and related accounting issues, actual receipts were approximately 5.7% less than the same quarter one year ago.

Declines in agriculture, restaurants and building-construction supplies were the primary contributors to the overall decrease. The losses were partially offset by a rise in the countywide use tax allocation pool of which the City received an 8.8% share.

Voter approved Measure E added \$397,277 to the amounts discussed above with revenues down 4.2% after factoring for the State's reporting issues. The declines were primarily in agriculture, building-construction, and restaurants partially offset by higher fuel prices and rising on-line purchases of general consumer goods.

Estimates are that sales and use tax receipts for all of Humboldt County declined 8.2% over the comparable time period while the 13 county far north region as a whole, was down 1.4%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Ace Hardware & Garden	O'Reilly Auto Parts
Beverage Plus Foods	Peterson Tractor
Dollar General	Ray's Quality Cars
Dollar Tree	Redi Rents
Eel River Brewing	Rite Aid
Forbusco Lumber	Safeway
Fortuna Chevron	Scottys Cutters Edge
Gary Crivellos Cars	Sequoia Gas
Grocery Outlet	Tractor Supply
Johnnys Flooring & Window Coverings	United Petrol
Les Schwab Tire Center	Walgreens
McDonalds	Wildwood Saw & Workwear
	Wyckoff Plumbing

### REVENUE COMPARISON

Four Quarters – Fiscal Year To Date (Q3 to Q2)

	2016-17	2017-18
Point-of-Sale	\$1,674,571	\$1,514,358
County Pool	213,744	213,245
State Pool	851	880
<b>Gross Receipts</b>	<b>\$1,889,166</b>	<b>\$1,728,483</b>
<b>Measure E</b>	<b>\$381,193</b>	<b>\$1,485,161</b>

**California Overall**

Local Government cash receipts from April through June sales dropped 10.1% from the same quarter one year ago due to implementation issues with CDFTA's new tax reporting software system. The results were further skewed by the State's attempt to offset the resulting shortages by advancing tax revenues that it estimates will be generated next quarter.

After reviewing unprocessed returns and approximating the full amounts of partial payments, HdL estimates that once all returns are properly processed and the data adjusted to reflect actual quarter receipts, statewide local sales and use tax revenues will be 1.6% higher than second quarter 2017.

Sales of building and construction materials, jet fuel and online shopping appear to have been the primary drivers of statewide growth during the second quarter. Auto sales leveled off as previously anticipated, although receipts from auto leases continued to show substantial gains. Online fulfillment centers and value themed apparel stores were the primary gainers within the general consumer goods group. Business-industrial purchases were slightly lower than previous quarters with declines in new energy projects being a major factor.

Regionally, the San Francisco Bay area and the Sacramento and San Joaquin Valley areas outperformed the rest of the state.

**Tariff Policies and Sales Tax**

Tariffs are becoming a key element of the federal government's international trade strategy with additional duties of 10% announced for the end of the third quarter, rising to 25% by the end of 2018.

Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates. Many manufacturers have managed to avoid raising prices by absorbing the costs of the

initial first round of tariffs on metals, machinery and components. On the down side, small retailers without the power to lock in prices may be placed at a competitive disadvantage and contractors are beginning to require escalation clauses in contracts to cover potential cost increases on long range projects.

The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly in an environment where rising housing, education and health care costs compete for a significant portion of discretionary income.

Proponents of rising tariffs argue that the rising strength of the U.S. dollar will offset the impact of tariff related price increases on consumers. Opponents worry that the stronger dollar and the announced \$5.6 billion in retaliatory tariffs on California exports will negatively impact both the affected companies' job base and capital investment in supplies, equipment and expansion opportunities.

**SALES PER CAPITA**



**COUNTY OVERALL  
2Q YOY RECEIPTS % CHANGE**

Major Industry Groups	Cash	Adjusted*
Autos and Transportation	-21.8%	-9.1%
Building and Construction	-13.6%	-11.9%
Business and Industry	-58.8%	-25.3%
Food and Drugs	-7.3%	-4.5%
Fuel and Service Stations	-65.2%	1.7%
General Consumer Goods	-17.8%	-3.9%
Restaurants and Hotels	-27.2%	-7.6%
County and State Pools	-5.1%	4.2%
<b>Total</b>	<b>-29.4%</b>	<b>-8.2%</b>

\*Accounting anomalies factored out

**REVENUE BY BUSINESS GROUP  
Fortuna This Quarter**

