

# Q3 2018



# City of Fortuna Sales Tax *Update*

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

## Fortuna In Brief

Fortuna's receipts from July through September were 11.1% above the third sales period in 2017. Excluding reporting aberrations, actual sales were down 7.4%.

Multi-quarter adjustments to resolve outstanding payments that resulted from the State's software conversion temporarily spiked returns in several business groups, most notably in fuel-service stations and general consumer goods.

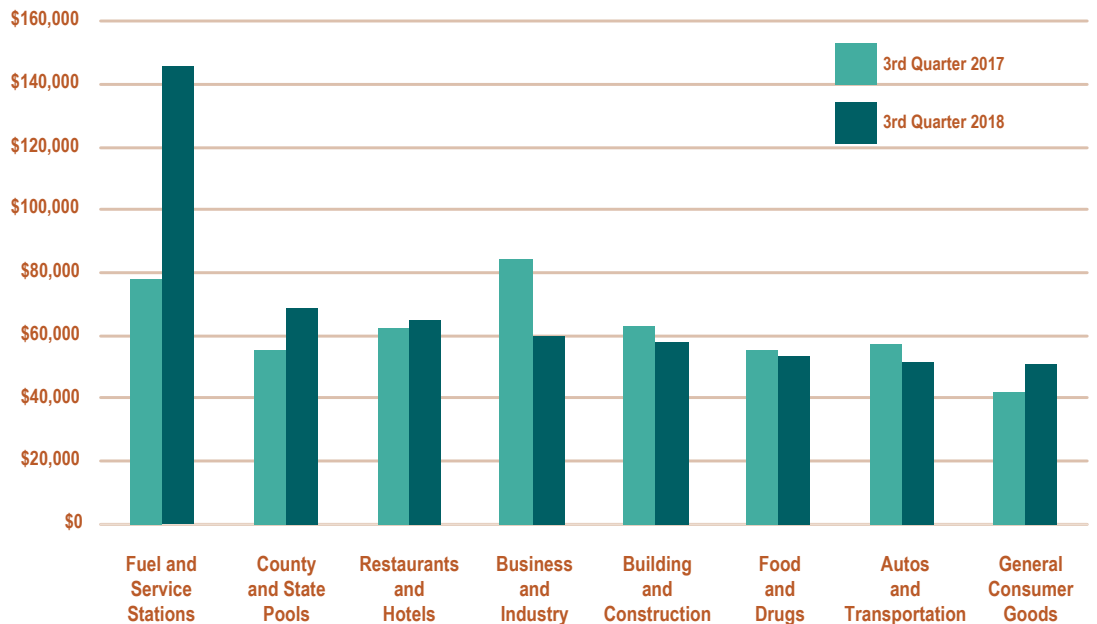
The sharp decline in business and industry was a result of weakening sales and missing payments; after accounting for the anomalies, the group is down 26%. A temporary misallocation from the countywide pools in the building and construction group lessened the drop in receipts as compared to the previous year.

Receipts were up in fuel and service stations; however overall results were inflated by payment anomalies. After accounting for the double payments, gains in casual dining were offset by declines in quick-service restaurants.

Voter approved Measure E added \$495,543 to the amounts discussed above with revenues down 0.2% after factoring for the State's reporting issues.

Net of aberrations, taxable sales for all of Humboldt County declined 4.5% over the comparable time period; the Far North region was up 2.3%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Ace Hardware & Garden	Northcoast Horticulture Supply
Burger King	O'Reilly Auto Parts
Eel River Brewing	Peterson Tractor
Eel Valley Appliance	Redi Rents
Forbusco Lumber	Redwood Glass & Windows
Fortuna Chevron	Rite Aid
Fortuna Gas 4 Less	Safeway
Grocery Outlet	Sequoia Gas
Hummel Tire & Wheel	United Petrol
L & M Renner	Village Sport & Cycle
Les Schwab Tire Center	Walgreens
McDonalds	Wyckoff Plumbing
Mercer Fraser	

### REVENUE COMPARISON

One Quarter – Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	\$442,321	\$484,438
County Pool	54,824	68,143
State Pool	342	250
<b>Gross Receipts</b>	<b>\$497,487</b>	<b>\$552,831</b>
<b>Measure E</b>	<b>\$425,938</b>	<b>\$495,543</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.

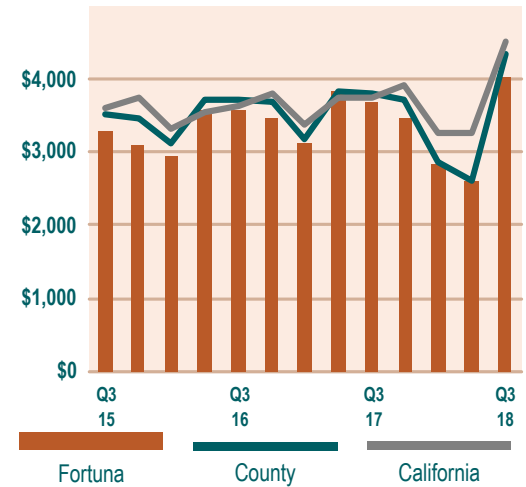
California will begin enforcing the Wayfair reversal effective April 1, 2019

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.

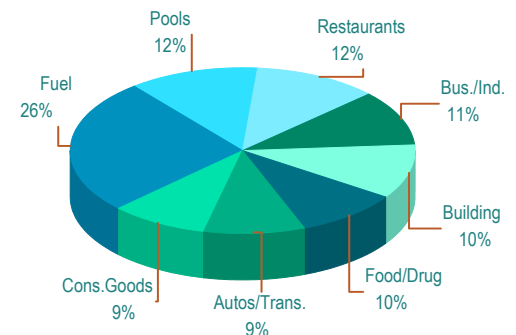
Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

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**  
Fortuna This Quarter



**FORTUNA TOP 15 BUSINESS TYPES**

Business Type	Fortuna		County	HdL State
	Q3 '18	Change	Change	Change
Auto Repair Shops	12,583	8.4%	12.3%	14.4%
Automotive Supply Stores	36,173	1.2%	-2.6%	8.4%
Building Materials	— CONFIDENTIAL —	—	4.0%	29.6%
Casual Dining	38,252	-4.5%	16.0%	14.8%
Contractors	13,405	-3.8%	-4.9%	37.9%
Convenience Stores/Liquor	11,384	-5.5%	-9.6%	20.6%
Drug Stores	— CONFIDENTIAL —	—	16.6%	2.8%
Electronics/Appliance Stores	15,073	11.4%	-22.2%	12.4%
Garden/Agricultural Supplies	30,469	-31.2%	-9.0%	9.4%
Grocery Stores	— CONFIDENTIAL —	—	2.1%	16.1%
Petroleum Prod/Equipment	— CONFIDENTIAL —	—	122.6%	24.8%
Quick-Service Restaurants	25,961	17.8%	7.4%	13.5%
Service Stations	107,276	72.2%	53.3%	43.0%
Sporting Goods/Bike Stores	— CONFIDENTIAL —	—	40.9%	21.2%
Warehse/Farm/Const. Equip.	— CONFIDENTIAL —	—	-7.6%	38.5%
<b>Total All Accounts</b>	<b>484,438</b>	<b>9.5%</b>	<b>14.0%</b>	<b>21.8%</b>
<b>County &amp; State Pool Allocation</b>	<b>68,393</b>	<b>24.0%</b>	<b>29.0%</b>	<b>27.8%</b>
<b>Gross Receipts</b>	<b>552,831</b>	<b>11.1%</b>	<b>15.6%</b>	<b>22.6%</b>