

Q4 2019



City of Fullerton Sales Tax Update

First Quarter Receipts for Fourth Quarter Sales (October - December 2019)

Fullerton In Brief

Fullerton's receipts from October through December were 2.1% above the fourth sales period in 2018.

The largest factor in the improvement was a 33% surge in allocations from the countywide use tax pool, which was boosted by a recent legislative change that allows the State to collect tax revenue from small, third-party sellers on internet-based marketplace platforms.

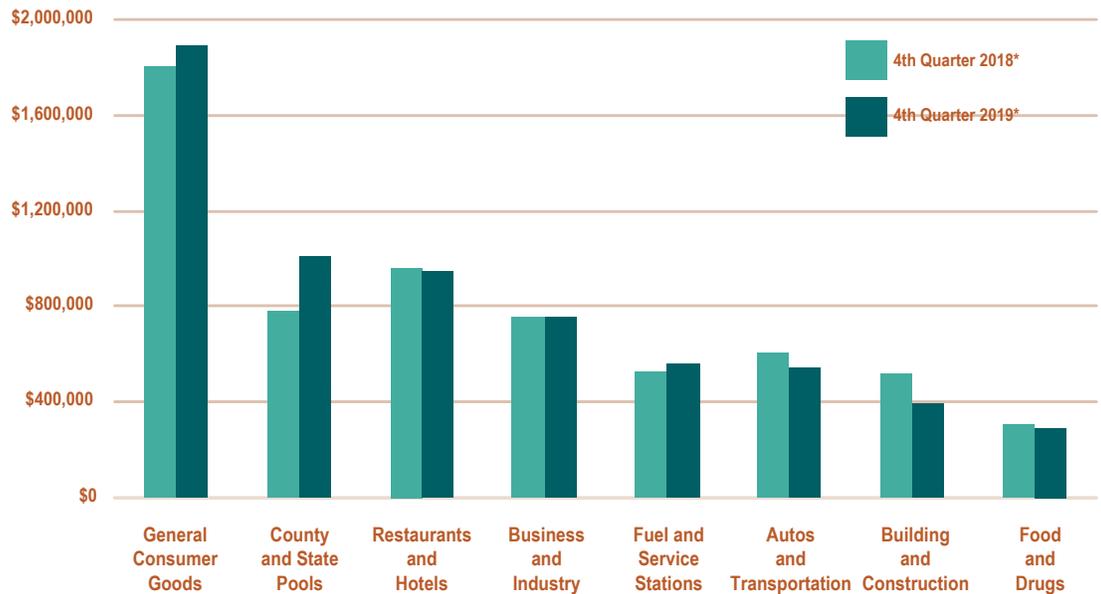
Sales at general consumer goods retailers were up 5%, outpacing the 1% statewide trend, as the City's mix of retailers appears to be better suited to today's environment than the traditional department store model.

A suspected taxpayer misallocation to another agency may have artificially deflated building-construction proceeds. The State is working directly with this company to determine correct tax reporting.

Auto-transportation sales posted an off-quarter, though the decline was magnified by payment anomalies.

Net of aberrations, taxable sales for all of Orange County grew 5.3% over the comparable time period; the Southern California region was up 4.4%.

SALES TAX BY MAJOR BUSINESS GROUP



*Allocation aberrations have been adjusted to reflect sales activity

TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Albertsons	Home Depot
Anderco	Marshalls
Arco	McCoy & Mills Ford
Arco AM PM	OC Auto Exchange
Auto Republic	Ocean Subaru of Fullerton
Best Buy	Opus Inspection
Burlington	Ralphs
Chevron	Rexel
Costco	Sam's Club w/ Fuel
Engineered Floors	Shell
Floor & Decor	Target
Golden West Towing Equipment	Wine Country Gift Baskets
Happy Jewelry	

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date (Q3 to Q4)

	2018-19	2019-20
Point-of-Sale	\$11,277,504	\$10,650,894
County Pool	1,533,202	1,821,149
State Pool	5,618	4,750
Gross Receipts	\$12,816,324	\$12,476,794

California Overall

Statewide sales and use tax receipts from 2019's fourth quarter were 4.2% higher than last year's holiday quarter after factoring for accounting anomalies.

The increase came from the acceleration in online shopping which generated huge gains in the countywide use tax pools for merchandise shipped from out-of-state and from California based fulfillment warehouses in those cases where the warehouse is also point-of-sale. This segment was further boosted by the first full quarter of California's implementation of the Wayfair vs South Dakota ruling that requires out-of-state retailers to collect and remit sales tax on merchandise sold to California customers. The ruling has led to an increase in sales tax receipts of roughly \$2.95 per capita while also producing double digit gains for in-state online fulfillment centers.

In contrast, soft sales and closeouts resulted in a decline in almost every category of brick-and-mortar spending during the holiday season while new cannabis retailers helped boost what would have been a soft quarter for the food-drug group. Most other sales categories including new cars and business-industrial purchases were also down. Restaurant group gains were modest compared to previous quarters.

Overall, the rise in county pool receipts offset what would have been otherwise, a flat or depressed quarter for most jurisdictions.

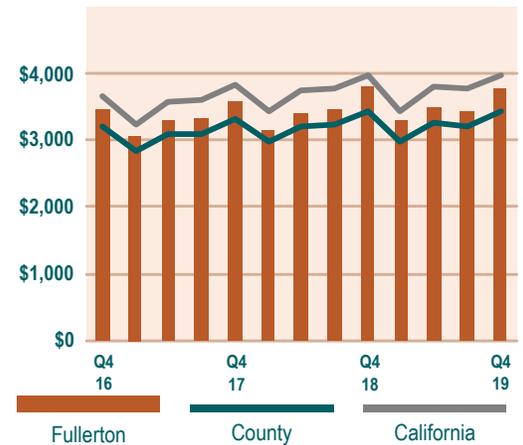
Covid-19

The coronavirus impact will first be seen in next quarter's data reflecting January through March sales. Based on recovery rates being reported in some Asian countries, the virus's disruption of supply chains will be deepest in the first and second quarter and largely resolved by mid-summer. However, recovery from social distancing and home confinements could take longer

with the deepest tax declines expected in the restaurant/hospitality, travel/transportation and brick-and-mortar retail segments. Layoffs and furloughs are also expected to reduce purchases of new cars and other high cost durable goods. The losses from the state's high-tech innovation industries may be more modest while the food-drug and online retail groups could exhibit increases.

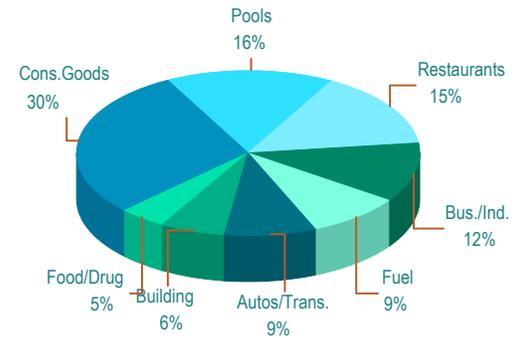
Assuming that the virus is largest contained by the end of September, HdL's economic scenario projects that tax declines will bottom out in the first quarter of 2021 but with only moderate gains for several quarters after. Data from previous downturns suggests that the return to previous spending is not immediate and often evolves. Businesses emerge with ways to operate with fewer employees and more moderate capital investment. Consumers take time to fully get back to previous levels of leisure travel, dining and spending and may permanently transfer to newly discovered services, activities and/or online retail options.

SALES PER CAPITA*



*Allocation aberrations have been adjusted to reflect sales activity

**REVENUE BY BUSINESS GROUP
Fullerton This Quarter***



*Allocation aberrations have been adjusted to reflect sales activity

FULLERTON TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	Fullerton Q4 '19*	Change	County Change	HdL State Change
Building Materials	172.4	2.4%	-6.0%	1.4%
Casual Dining	397.0	0.1%	2.4%	3.8%
Contractors	110.1	4.4%	-18.3%	-4.4%
Discount Dept Stores	— CONFIDENTIAL —		3.6%	3.6%
Electronics/Appliance Stores	298.0	7.6%	-2.6%	-6.6%
Family Apparel	126.1	-0.2%	1.8%	1.3%
Grocery Stores	180.7	-2.1%	3.0%	1.3%
Jewelry Stores	97.2	38.1%	0.5%	7.7%
Light Industrial/Printers	199.9	-5.9%	-6.7%	-7.4%
New Motor Vehicle Dealers	— CONFIDENTIAL —		-2.2%	-3.4%
Quick-Service Restaurants	362.9	2.8%	2.7%	1.9%
Service Stations	555.9	6.4%	0.8%	0.2%
Specialty Stores	141.0	-0.1%	-6.0%	-3.8%
Textiles/Furnishings	96.9	37.2%	2.1%	-8.8%
Used Automotive Dealers	167.6	-6.6%	4.5%	4.6%
Total All Accounts	5,380.2	-1.7%	0.0%	0.2%
County & State Pool Allocation	1,005.7	28.9%	30.3%	26.7%
Gross Receipts	6,385.9	2.1%	5.3%	4.2%

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