



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

October 13, 2015

The Honorable City Council
Palo Alto, California

City of Palo Alto Sales Tax Digest Summary First Quarter Sales (January - March 2015)

The following files are attached for this informational report for which no action is required.

ATTACHMENTS:

- **Attachment:** Attachment A: Sales Tax Digest Summary - Background and Discussion (PDF)
- Attachment: Attachment B: MuniServices Sales Tax Digest Summary (PDF)
- Attachment: Attachment C: Economic Categories and Segments (PDF)
- Attachment: Attachment D: MuniServices Economic News (PDF)

Department Head: Harriet Richardson, City Auditor



CITY OF
**PALO
ALTO**

Office of the City Auditor

Sales Tax Digest Summary – First Quarter Sales (January – March 2015)

Informational Report to the City Council

BACKGROUND

Sales and use tax represents about \$26 million, or 15 percent, of projected General Fund revenue in the City's Adopted Operating Budget for fiscal year 2015. Projected sales and use tax revenue has increased, and the Administrative Services Department (ASD) now estimates it at \$29.2 million for fiscal year 2015. This revenue includes sales and use tax for the City of Palo Alto and pool allocations from the state and Santa Clara County.¹

We contract with MuniServices LLC (MuniServices) for sales and use tax recovery services and informational reports. We use the recovery services and informational reports to help identify misallocation of tax revenue owed to the City, and to follow up with the State Board of Equalization to ensure that the City receives identified revenues. We include sales and use tax recovery information in our quarterly reports to the Policy and Services Committee.

The California Revenue and Taxation Code, Section 7056, requires that sales and use tax data remain confidential. Therefore, the City may not disclose amounts of tax paid, fluctuations in tax amounts, or any other information that would disclose the operations of a business. This report, including the attached Sales Tax Digest Summary, includes certain modifications and omissions to maintain the required confidentiality of taxpayer information.

We also share the information provided by MuniServices with ASD for use in revenue forecasting and budgeting and with Economic Development for business outreach strategies. We coordinated this informational report with them.

DISCUSSION

MuniServices prepared the attached report (Attachment B) covering calendar year 2015 first quarter sales (January through March 2015). These funds are reported as part of the City's fiscal year 2015 revenue. In September, ASD should receive information from the state on aggregate sales and use tax receipts for the second quarter of 2015.

Following are some highlights of the sales and use tax information:

- Palo Alto's overall sales and use tax revenue (cash receipts) for the first quarter of 2015 increased by approximately \$68,000, or 1.1 percent, including pool allocations, compared to the first quarter of 2014. For all Santa Clara County jurisdictions, sales and use tax revenue for the first quarter of 2015 increased by \$4.2 million, or 4.7 percent, compared to the first quarter of 2014.
- Statewide, almost every region in California experienced an increase in sales and use tax revenue for the year ending in March 2015, with a one-year statewide increase of 3.1 percent.

¹ See definitions on page 3.

- Palo Alto’s sales and use tax revenue totaled \$25.7 million for the year ending in March 2015, a decrease of 5.7 percent from \$27.2 million during the prior one-year period. This change is due in part to an unexpectedly high and one-time revenue flow in FY 2013 and not from a decrease in base receipts.
- Excluding pool allocations and adjusting for prior-period and late payments, Palo Alto’s sales and use tax revenue for the first quarter of 2015 increased by 1.8 percent compared to the first quarter of 2014 and decreased by 6.4 percent compared to the prior year. The explanation for this decrease is provided in the previous bullet.

More detailed information is shown in Attachment B.

Economic Influences on Sales and Use Tax

In its Economic News (Attachment C), MuniServices discusses economic influences, including national and state economic trends, the job market, and retail and restaurant sales, that may affect the City’s sales and use tax revenue.

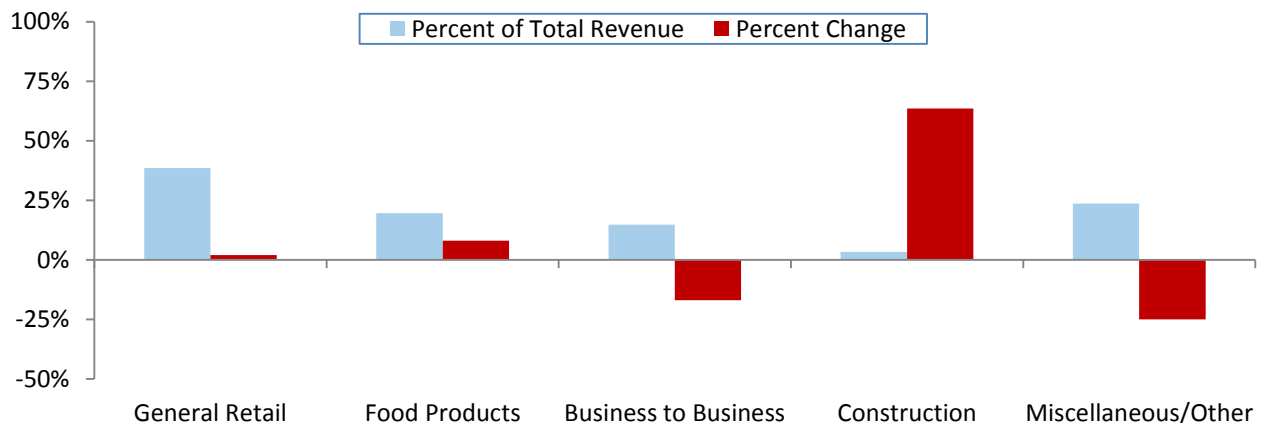
Preliminary estimates from the California Employment Development Department show that the June 2015 unemployment rate, which is not seasonally adjusted, is 4.0 percent in Santa Clara County and 2.7 percent in Palo Alto.

Economic Category Analysis

MuniServices’ analysis of economic categories for the year ending March 2015 shows:

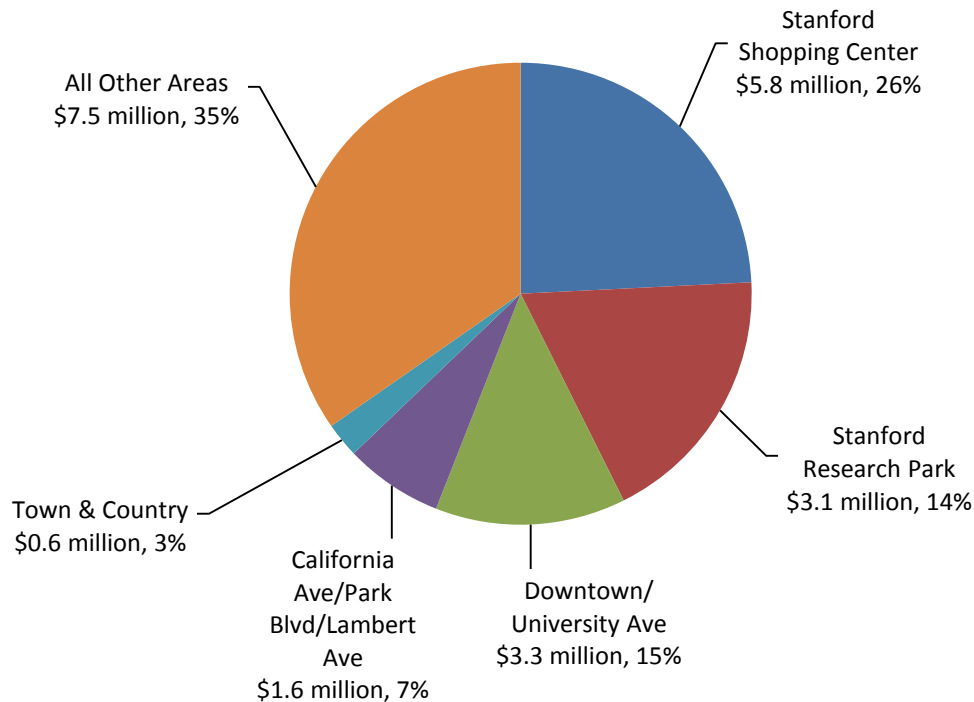
- General retail comprised 38.5 percent of Palo Alto’s sales and use tax revenue, a 2.0 percent increase compared to the prior year.
- Food products comprised 19.6 percent of total revenues, an 8.0 percent increase.
- Construction comprised 3.4 percent of total revenues, a 63.5 percent increase.
- Business-to-business comprised 14.8 percent of total revenues, a 17.0 percent decrease.
- Miscellaneous/Other comprised 23.7 percent of total revenues, a 25 percent decrease.

Exhibit 1 - Comparison of Palo Alto’s Sales and Use Tax Revenue and Percent Change by Economic Category for the Year Ending March 2015



The following chart shows sales and use tax revenue by geographical area based on information provided by MuniServices.

**Exhibit 2 – Palo Alto’s Sales and Use Tax Revenue by Geographical Area
For the Year Ending March 2015
(Amounts include tax estimates and exclude pool allocations)**



DEFINITIONS

In California, either sales tax or use tax may apply to a transaction, but not both. The sales and use tax rate in Palo Alto is 8.75 percent.

Sales tax – imposed on all California retailers; applies to all retail sales of merchandise (tangible personal property) in the state.

Use tax – generally imposed on consumers of merchandise (tangible personal property) that is used, consumed, or stored in this state; purchases from out-of-state retailers when the retailer is not registered to collect California tax, or for some other reason does not collect California tax; leases of merchandise (tangible personal property).

Countywide/statewide pools – mechanisms used to allocate local tax that cannot be identified with a specific place of sale or use in California. Local tax reported to the pool is distributed to the local jurisdiction each calendar quarter using a formula that relates to the direct allocation of local tax to each jurisdiction for a given period.

Examples of taxpayers who report use tax allocated through the countywide pool include construction contractors who are consumers of materials used in the improvement of real property and whose job site is regarded as the place of business, out-of-state sellers who ship goods directly to consumers in the

state from inventory located outside the state, and California sellers who ship goods directly to consumers in the state from inventory located outside the state.

Other examples of taxpayers who report use tax through the pools include auctioneers, construction contractors making sales of fixtures, catering trucks, itinerant vendors, vending machine operators and other permit holders who operate in more than one local jurisdiction but are unable to readily identify the particular jurisdiction where the taxable transaction takes place.

Respectfully submitted,



Harriet Richardson
City Auditor

Sources: MuniServices
California State Board of Equalization
California Employment Development Department
City of Palo Alto Fiscal Year 2015 Adopted Operating Budget

Audit staff: Lisa Wehara

City of Palo Alto
Sales Tax Digest Summary
Collections through June 2015
Sales through March 2015 (2015Q1)

California Overview

The percent change in cash receipts from the prior year was 4.3% statewide, 4.8% in Northern California and 4.0% in Southern California. The period's cash receipts include tax from business activity during the period, payments for prior periods and other cash adjustments. When we adjust for non-period related payments, we determine the overall business activity increased for the year ended 1st Quarter 2015 by 4.0% statewide, 3.8% in Southern California and 3.9% in Northern California.

City of Palo Alto

For the year ended 1st Quarter 2015, sales tax cash receipts for the City declined by -5.7% from the prior year. On a quarterly basis, sales tax revenues increased by 1.1% from 1st Quarter 2014 to 1st Quarter 2015. The period's cash receipts include tax from business activity during the period, payments for prior periods and other cash adjustments.

Excluding state and county pools and adjusting for anomalies (payments for prior periods) and late payments, local sales tax decreased by -6.4% for the year ended 1st Quarter 2015 from the prior year. On a quarterly basis, sales tax activity increase by 1.8% in 1st Quarter 2015 compared to 1st Quarter 2014.

Regional Overview

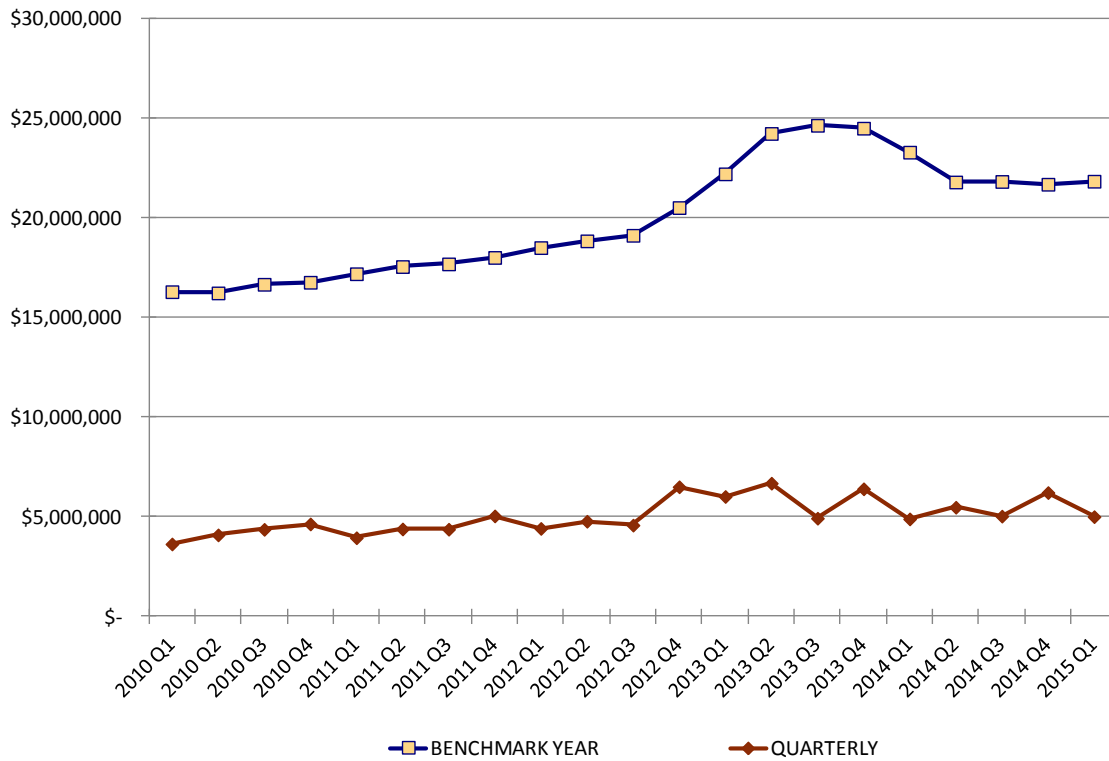
This seven-region comparison includes estimated payments and excludes net pools and adjustments.

CITY OF PALO ALTO

BENCHMARK YEAR 2015Q1 COMPARED TO BENCHMARK YEAR 2014Q1

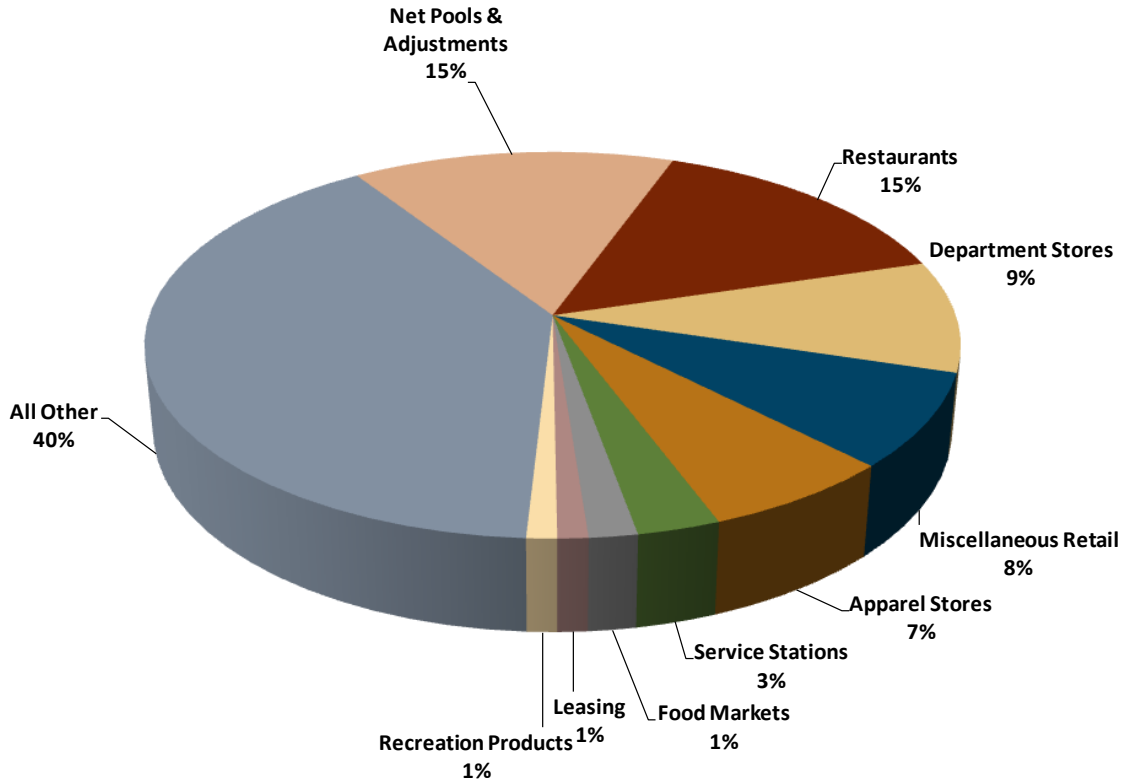
ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 1st QUARTER 2015									
% of Total / % Change	City of Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
General Retail	38.5 / 2.0	28.4 / 3.2	27.3 / 2.9	28.0 / 2.2	30.6 / 4.4	29.0 / 3.0	26.7 / 4.5	28.0 / 1.8	31.7 / 1.9
Food Products	19.6 / 8.0	19.8 / 6.0	21.2 / 7.0	16.7 / 5.4	16.0 / 4.0	20.8 / 5.9	16.9 / 5.8	18.5 / 3.5	30.5 / 5.1
Construction	3.4 / 63.5	9.1 / 6.1	9.2 / 5.7	11.0 / 6.9	11.4 / 5.5	8.0 / 7.3	10.8 / 3.4	12.7 / 4.0	9.3 / 3.9
Business to Business	14.8 / -17.0	17.0 / 4.5	19.6 / 5.6	14.1 / 4.2	14.1 / 3.3	17.0 / 3.6	16.1 / 6.4	9.2 / 6.3	5.8 / 14.5
Miscellaneous/Other	23.7 / -25.0	25.7 / 1.9	22.8 / 2.1	30.2 / 2.8	27.9 / 2.5	25.2 / 1.0	29.4 / 4.3	31.9 / 0.9	22.6 / 2.2
Total	100.0 / -6.4	100.0 / 4.0	100.0 / 4.3	100.0 / 3.7	100.0 / 3.8	100.0 / 3.5	100.0 / 4.8	100.0 / 2.5	100.0 / 3.8
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 1st QUARTER 2015									
	City of Palo Alto	State Wide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
Largest Segment	Restaurants	Restaurants	Restaurants	Auto Sales - New	Department Stores	Restaurants	Service Stations	Service Stations	Restaurants
% of Total / % Change	17.4 / 8.2	13.9 / 7.4	14.9 / 7.8	12.2 / 7.5	13.7 / 2.7	15.1 / 7.1	11.0 / -3.8	12.8 / -5.4	22.0 / 6.7
2nd Largest Segment	***	Auto Sales - New	Auto Sales - New	Department Stores	Auto Sales - New	Auto Sales - New	Restaurants	Department Stores	Misc. Retail
% of Total / % Change	*** / ***	10.8 / 8.2	10.4 / 8.7	11.3 / 1.6	10.5 / 12.0	10.9 / 7.5	10.9 / 8.4	11.2 / 1.0	9.8 / 2.9
3rd Largest Segment	Department Stores	Department Stores	Department Stores	Restaurants	Service Stations	Department Stores	Department Stores	Auto Sales - New	Service Stations
% of Total / % Change	10.9 / -0.8	9.9 / 1.7	8.3 / 1.8	10.8 / 6.4	10.2 / -6.5	9.6 / 1.3	10.9 / 2.6	10.6 / 7.8	9.3 / 0.3
*** Not specified to maintain confidentiality of tax information									

Gross Historical Sales Tax Performance by Benchmark Year and Quarter (Before Adjustments)



Net Cash Receipts for Benchmark Year 1st Quarter 2015: \$25,663,665

*Benchmark year (BMY) is the sum of the current and 3 previous quarters (2015Q1 BMY is sum of 2015 Q1 & 2014 Q4, Q3, Q2)

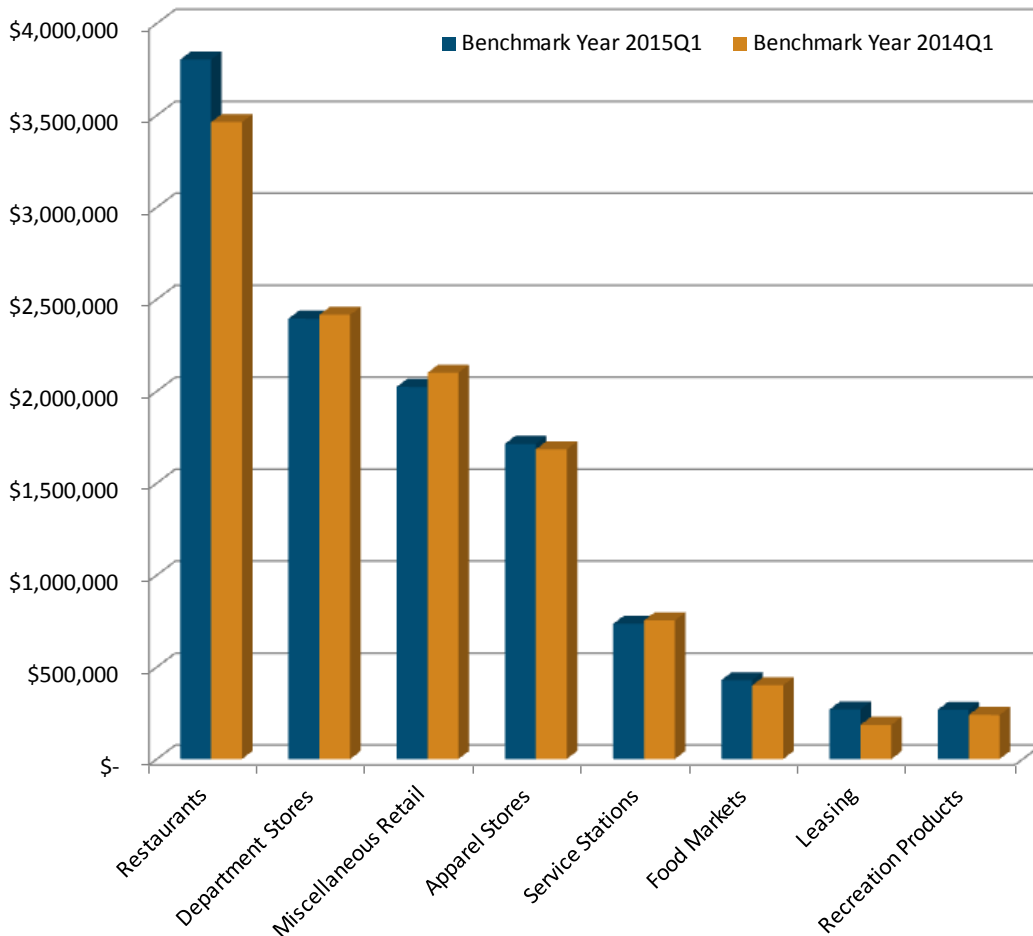


TOP 25 SALES/USE TAX CONTRIBUTORS

The following list identifies Palo Alto’s Top 25 Sales/Use Tax contributors. The list is in alphabetical order and represents the year ended 4th Quarter 2014. The Top 25 Sales/Use Tax contributors generate 49.8% of Palo Alto’s total sales and use tax revenue.

- | | | |
|--------------------------------|------------------------------|-------------------------|
| Apple Stores | Audi Palo Alto | Wilkes Bashford |
| Anderson Honda | Integrated Archive Systems | CVS/Pharmacy |
| Hewlett-Packard | Stanford University Hospital | Valero Service Stations |
| Tesla Motors | Bloomingdale's | Shell Service Stations |
| Nordstrom Department Store | Fry's Electronics | Urban Outfitters |
| Neiman Marcus Department Store | Loral Space Systems | Volvo Palo Alto |
| Varian Medical Systems | Tiffany & Company | Louis Vuitton |
| Magnussen'S Toyota | Pottery Barn Kids | |
| Macy's Department Store | Eat Club | |

Sales Tax from Largest Non-confidential Economic Segments



Historical Analysis by Calendar Quarter

Economic Category	%	2015Q1	2014Q4	2014Q3	2014Q2	2014Q1	2013Q4	2013Q3	2013Q2	2013Q1	2012Q4	2012Q3
General Retail	30.0%	1,797,756	2,591,589	1,994,264	2,032,155	1,791,298	2,585,931	1,945,413	1,959,201	1,759,098	2,444,528	1,913,125
Miscellaneous/Other	23.4%	1,400,769	1,655,225	1,400,415	1,437,507	1,283,210	1,553,169	1,196,569	2,974,293	2,796,863	2,067,125	958,899
Food Products	17.7%	1,061,755	1,096,087	1,054,462	1,051,681	972,997	1,009,848	950,359	966,208	882,949	905,156	877,520
Business To Business	12.7%	757,827	885,327	596,226	970,762	858,119	1,268,059	848,634	800,341	592,136	1,101,068	843,770
Net Pools & Adjustments	16.2%	968,777	1,178,482	945,653	786,945	1,013,633	1,095,801	924,963	1,227,552	1,162,968	1,155,841	603,635
Total	100.0%	5,986,884	7,406,710	5,991,020	6,279,050	5,919,257	7,512,808	5,865,938	7,927,595	7,194,014	7,673,718	5,196,949

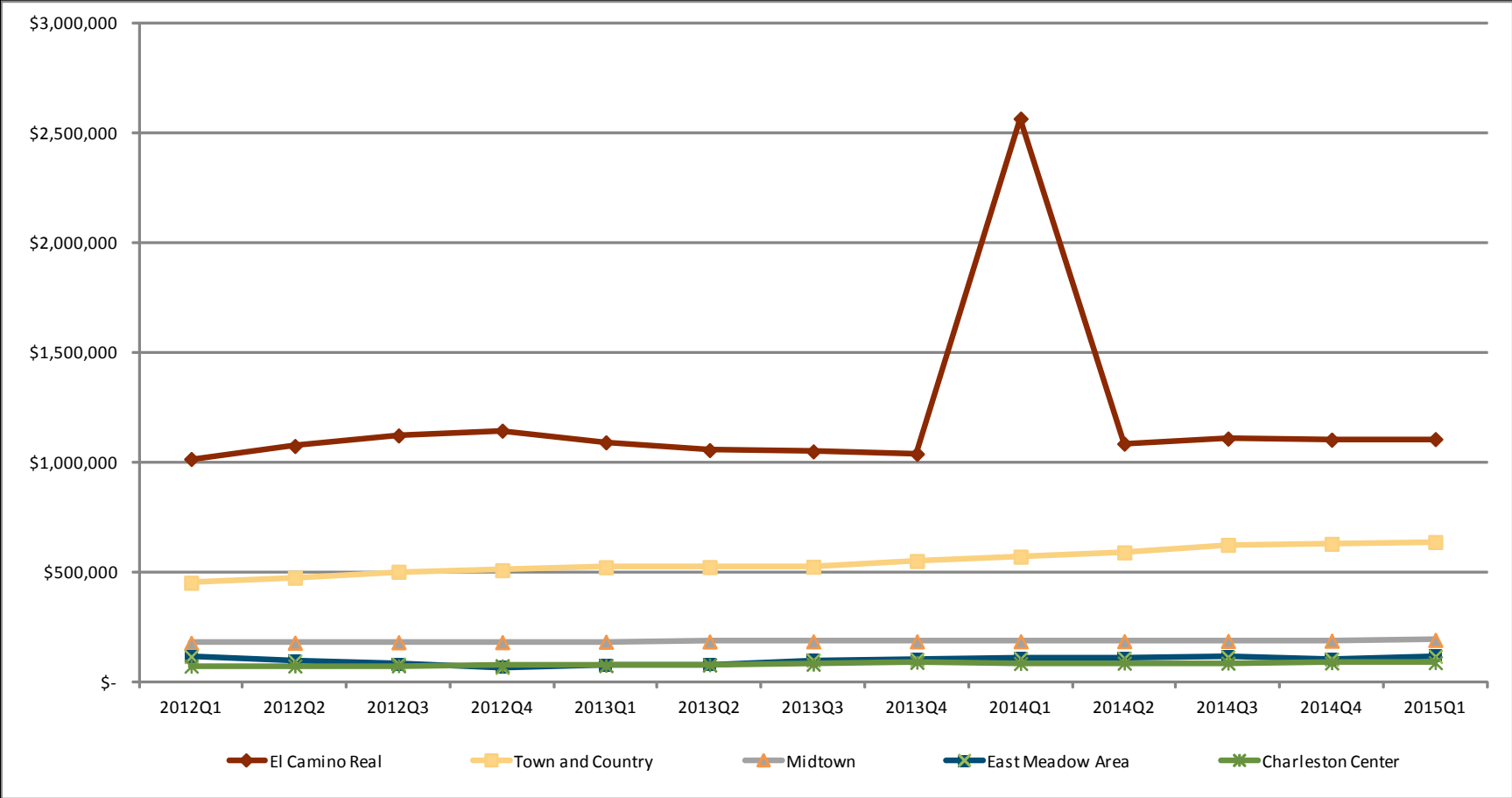
Economic Segments	%	2015Q1	2014Q4	2014Q3	2014Q2	2014Q1	2013Q4	2013Q3	2013Q2	2013Q1	2012Q4	2012Q3
Miscellaneous/Other	39.6%	2,370,361	2,906,134	2,211,697	2,577,014	2,328,959	3,184,808	2,230,000	3,943,660	3,584,353	3,451,258	1,967,348
Restaurants	15.7%	942,709	962,018	936,160	940,540	870,158	890,739	833,865	845,107	771,596	782,184	760,929
Miscellaneous Retail	6.9%	415,270	628,099	508,061	514,133	481,305	661,268	458,124	471,954	393,506	584,169	429,989
Department Stores	8.4%	503,590	750,481	548,595	591,500	472,857	762,760	574,389	603,773	509,699	779,973	584,178
Apparel Stores	6.2%	370,810	507,843	398,747	429,748	365,777	515,296	400,201	404,202	372,909	496,073	383,337
Service Stations	2.5%	148,902	166,861	203,484	215,162	184,185	177,096	214,276	196,568	187,333	182,060	198,973
Food Markets	1.8%	104,856	117,245	105,600	98,705	90,272	104,592	104,815	106,760	99,711	110,625	106,652
Business Services	1.7%	103,773	131,505	66,163	62,060	63,768	61,832	57,139	67,759	63,791	73,619	69,722
Recreation Products	1.0%	57,836	58,042	66,860	63,243	48,343	58,616	68,166	60,260	48,148	57,916	92,186
Net Pools & Adjustments	16.2%	968,777	1,178,482	945,653	786,945	1,013,633	1,095,801	924,963	1,227,552	1,162,968	1,155,841	603,635
Total	100.0%	5,986,884	7,406,710	5,991,020	6,279,050	5,919,257	7,512,808	5,865,938	7,927,595	7,194,014	7,673,718	5,196,949

*Net Pools & Adjustments reconcile economic performance to periods' net cash receipts. The historical amounts by calendar quarter: (1) include any prior period adjustments and payments in the appropriate category/segment and (2) exclude businesses no longer active in the current period.

Quarterly Analysis by Economic Category, Total and Segments: Change from 2014Q1 to 2015Q1

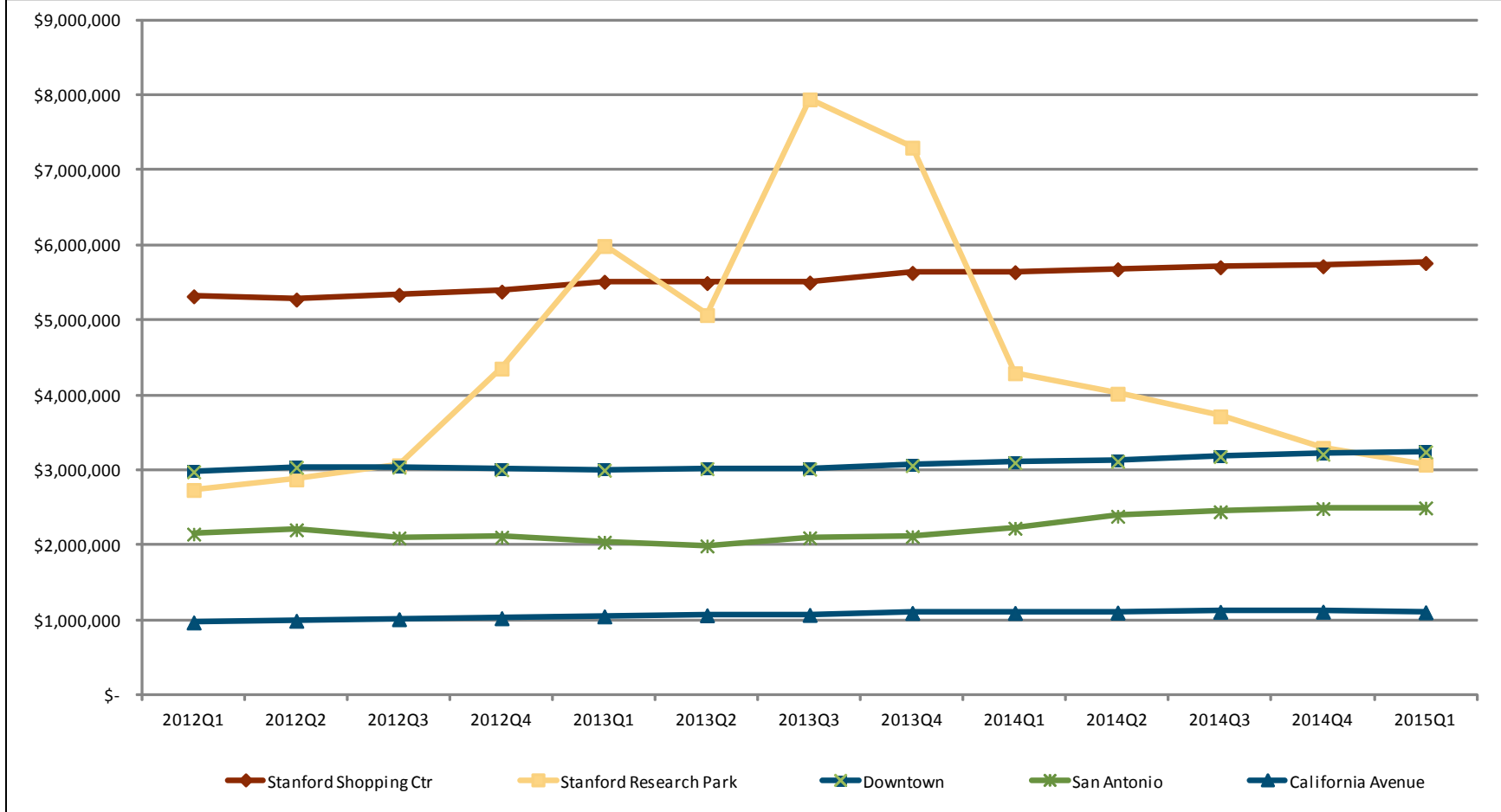
	General Retail	Food Products	Construction	Business to Business	Misc/Other	2015/1 Total	2014/1 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	3.0%	5.4%	-4.6%	25.5%	-16.4%	2,149,248	2,125,717	1.1%	Business Services	Restaurants	Service Stations	Bldg.Matls-Whsle
Cupertino	4.0%	2.6%	184.3%	-8.5%	-16.1%	4,785,188	4,642,756	3.1%	Bldg.Matls-Whsle	Food Markets	Business Services	Office Equipment
Gilroy	3.9%	8.0%	3.3%	5.5%	5.5%	3,024,894	2,883,001	4.9%	Auto Sales - New	Electronic Equipment	Service Stations	Chemical Products
Los Altos	1.2%	15.0%	-26.2%	-4.7%	-18.0%	487,921	481,758	1.3%	Food Markets	Restaurants	Service Stations	Bldg.Matls-Whsle
Los Gatos	-2.1%	3.6%	-10.1%	-1.4%	-6.2%	1,577,702	1,603,249	-1.6%	Furniture/Appliance	Restaurants	Miscellaneous Retail	Service Stations
Milpitas	8.5%	8.2%	106.3%	53.7%	-4.7%	4,255,587	3,537,653	20.3%	Office Equipment	Bldg.Matls-Whsle	Service Stations	Department Stores
Morgan Hill	2.6%	8.5%	7.1%	-3.9%	-2.6%	1,728,804	1,717,150	0.7%	Restaurants	Auto Sales - New	Service Stations	Heavy Industry
Mountain View	4.3%	15.7%	13.0%	3.5%	-7.7%	3,570,770	3,409,006	4.7%	Restaurants	Business Services	Service Stations	Office Equipment
Palo Alto	2.3%	8.3%	106.2%	-13.5%	-1.4%	5,018,109	4,927,829	1.8%	Bldg.Matls-Whsle	Restaurants	Electronic Equipment	Service Stations
San Jose	4.5%	5.5%	14.3%	7.5%	-2.2%	34,990,274	33,403,485	4.8%	Bldg.Matls-Whsle	Light Industry	Service Stations	Energy Sales
Santa Clara	8.0%	22.3%	-19.2%	-9.6%	4.0%	9,384,220	9,502,172	-1.2%	Restaurants	Auto Sales - New	Office Equipment	Bldg.Matls-Whsle
Santa Clara Co.	0.3%	18.2%	5.9%	62.3%	1.5%	977,221	871,101	12.2%	Restaurants	Food Processing Eqp	Auto Sales - Used	Recreation Products
Saratoga	-0.5%	10.7%	-61.6%	18.5%	-0.9%	203,823	193,638	5.3%	Restaurants	Auto Parts/Repair	Service Stations	Bldg.Matls-Whsle
Sunnyvale	1.2%	9.9%	7.1%	-9.1%	2.2%	6,229,411	6,302,681	-1.2%	Electronic Equipment	Restaurants	Office Equipment	Service Stations

City of Palo Alto - Selected Geographic Areas of the City													
Benchmark Year 1st Quarter 2015													
	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1
El Camino Real	1,014,867	1,074,079	1,122,001	1,143,951	1,090,870	1,055,524	1,049,438	1,038,409	2,563,317	1,084,815	1,108,045	1,102,757	1,105,340
Town and Country	451,982	475,054	502,127	509,180	522,374	523,504	525,116	550,852	570,860	590,134	624,333	629,346	637,224
Midtown	178,344	179,250	181,352	181,654	183,780	184,646	185,301	185,348	185,472	185,910	187,120	188,251	192,122
East Meadow Area	116,558	94,868	81,598	67,124	74,680	77,869	100,045	103,590	107,316	109,171	114,419	104,735	117,701
Charleston Center	72,602	73,408	74,213	74,683	76,315	78,734	81,455	90,116	84,760	86,432	86,288	87,413	88,622



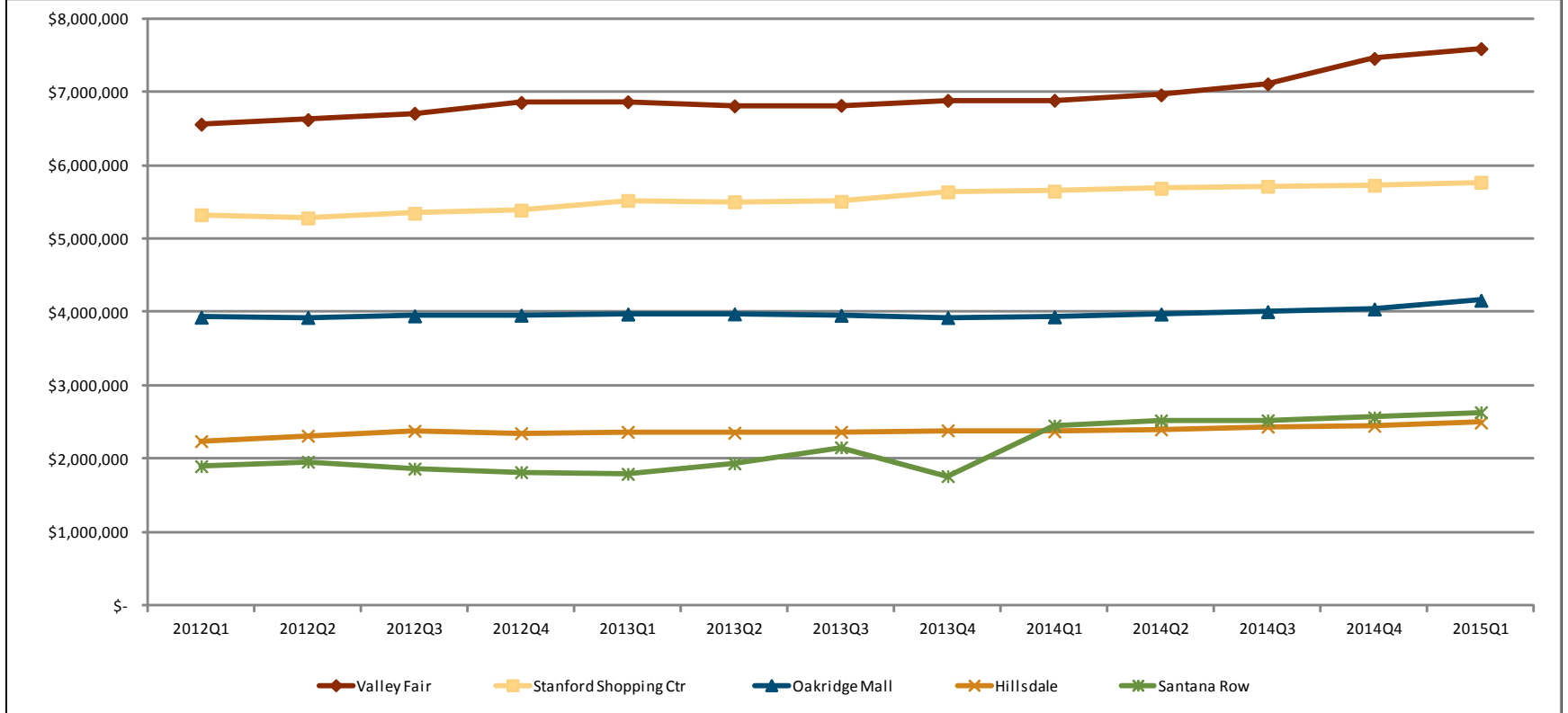
*Benchmark year (BMY) is the sum of the current and 3 previous quarters (2015Q1 BMY is sum of 2015 Q1 & 2014 Q4, Q3, Q2)

City of Palo Alto - Selected Geographic Areas of the City													
Benchmark Year 1st Quarter 2015													
	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1
Stanford Shopping Ctr	5,325,435	5,281,772	5,345,618	5,388,747	5,519,326	5,501,836	5,508,513	5,637,256	5,647,210	5,685,894	5,713,169	5,726,273	5,769,236
Stanford Research Park	2,744,058	2,884,600	3,073,009	4,362,778	5,995,489	5,075,848	7,949,998	7,307,557	4,299,015	4,027,889	3,724,671	3,304,003	3,082,331
Downtown	2,986,093	3,044,755	3,047,356	3,013,183	3,007,123	3,027,279	3,022,194	3,068,553	3,108,592	3,124,224	3,189,273	3,220,248	3,251,198
San Antonio	2,155,721	2,212,977	2,103,881	2,114,306	2,047,925	1,997,654	2,106,291	2,122,586	2,234,235	2,393,463	2,453,548	2,495,915	2,504,156
California Avenue	976,897	999,421	1,020,704	1,034,151	1,058,098	1,072,925	1,078,153	1,104,341	1,104,237	1,109,685	1,119,047	1,120,996	1,113,385



**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2015Q1 BMY is sum of 2015 Q1 & 2014 Q4, Q3, Q2)*

City of Palo Alto - Regional Shopping Mall Comparison													
Benchmark Year 1st Quarter 2015													
	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1
Valley Fair	6,559,394	6,621,598	6,708,343	6,855,987	6,865,443	6,808,919	6,815,517	6,883,838	6,885,378	6,958,214	7,108,448	7,455,179	7,588,546
Stanford Shopping Ctr	5,325,435	5,281,772	5,345,618	5,388,747	5,519,326	5,501,836	5,508,513	5,637,256	5,647,210	5,685,894	5,713,169	5,726,273	5,769,236
Oakridge Mall	3,928,855	3,925,454	3,947,751	3,957,195	3,972,739	3,974,067	3,954,094	3,924,360	3,934,469	3,972,556	4,005,370	4,040,521	4,159,367
Hillsdale	2,241,553	2,315,120	2,381,548	2,348,668	2,367,315	2,356,855	2,367,935	2,387,185	2,374,185	2,401,370	2,438,295	2,450,278	2,494,792
Santana Row	1,900,328	1,961,561	1,867,513	1,819,616	1,795,942	1,938,742	2,156,984	1,765,101	2,453,638	2,523,193	2,525,349	2,565,665	2,634,908



**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2015Q1 BMY is sum of 2015 Q1 & 2014 Q4, Q3, Q2)*

Economic Categories and Segments		
Economic Category	Economic Segment	Description
Business to Business - sales of tangible personal property from one business to another business and the buyer is the end user. Also includes use tax on certain purchases and consumables.	Business Services	Advertising, banking services, copying, printing and mailing services
	Chemical Products	Manufacturers and wholesalers of drugs, chemicals, etc.
	Electronic Equipment	Manufacturers of televisions, sound systems, sophisticated electronics, etc.
	Energy Sales	Bulk fuel sales and fuel distributors and refiners
	Heavy Industry	Heavy machinery and equipment, including heavy vehicles, and manufacturers and wholesalers of textiles and furniture and furnishings
	Leasing	Equipment leasing
	Light Industry	Includes, but is not limited to, light machinery and automobile, truck, and trailer rentals
	Office Equipment	Businesses that sell computers, and office equipment and furniture, and businesses that process motion pictures and film development
Construction	Building Materials – Retail	Building materials, hardware, and paint and wallpaper stores
	Building Materials - Wholesale	Includes, but is not limited to, sheet metal, iron works, sand and gravel, farm equipment, plumbing materials, and electrical wiring
Food Products	Food Markets	Supermarkets, grocery stores, convenience stores, bakeries, delicatessens, health food stores
	Food Processing Equipment	Processing and equipment used in mass food production and packaging
	Liquor stores	Stores that sell alcoholic beverages
	Restaurants	Restaurants, including fast food and those in hotels, and night clubs

Economic Categories and Segments		
Economic Category	Economic Segment	Description
General Retail – all consumer focused sales, typically brick and mortar stores	Apparel Stores	Men’s, women’s, and family clothing and shoe stores
	Department Stores	Department, general, and variety stores
	Drug Stores	Stores where medicines and miscellaneous articles are sold
	Florist/Nursery	Stores where flowers and plants are sold
	Furniture/Appliance	Stores where new and used furniture, appliances, and electronic equipment are sold
	Miscellaneous Retail	Includes, but is not limited to, stores that sell cigars, jewelry, beauty supplies, cell phones, and books; newsstands, photography studios; personal service businesses such as salons and cleaners; and vending machines
	Recreation Products	Camera, music, and sporting goods stores
Miscellaneous/Other	Miscellaneous/Other	Includes but not limited to health services, government, nonprofit organizations, non-store retailers, businesses with less than \$20,000 in annual gross sales, auctioneer sales, and mortuary services and sales
Transportation	Auto Parts/Repair	Auto parts stores, vehicle and parts manufacturing facilities, and vehicle repair shops
	Auto Sales - New	New car dealerships
	Auto Sales - Used	Used car dealerships
	Miscellaneous Vehicle Sales	Sale and manufacture of airplanes and supplies, boats, motorcycles, all-terrain vehicles, trailers and supplies
	Service stations	Gas stations, not including airport jet fuel

ECONOMIC NEWS

July 2015



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1) U.S. QUARTER TO QUARTER ECONOMIC INDICATORS

Real Gross National Product (GNP) - goods and services produced

Real GNP decreased by 1.0 percent in 2015Q1 compared to 2014Q4, in contrast to an increase of 1.4 percent in 2014Q4 over 2014Q3.

Real Gross Domestic Purchases (GDP) - purchases of goods and services regardless of where produced

Real GDP decreased 1.6 percent in 2015Q1, in contrast to an increase of 3.2 percent in 2014Q4.

Current-Dollar Gross Domestic Purchases (GDP) - goods and services regardless of where produced

Current-Dollar GDP decreased by 0.2 percent in 2015Q1, in contrast to an increase of 2.4 in 2014Q4.

Real Gross Domestic Income (GDI) – income earned by the production of goods and services

Real GDI increased 1.9 percent in 2015Q1, compared to an increase of 3.7 percent in 2014Q4. Estimates of GDP and GDI may vary in a given quarter, but they tend to follow similar patterns of change over time.

Real Personal Consumption Expenditures (PCE) – expenditures for goods and services

Real PCE increased by 1.8 percent in 2015Q1, compared with an increase of 4.4 percent in 2014Q4.

Source: Bureau of Economic Analysis

2) EVENTS IMPACTING CALIFORNIA'S ECONOMY

California Current-Dollar (GDP)

California's economy remained the *eighth largest in the world* as the state's current-dollar gross domestic product reached \$2.3 trillion in 2014, an increase of 4.9 percent over \$2.2 trillion in 2013.

California State Budget

On June 24, the Governor signed California's Fiscal Year 2015-2016 State Budget. Budgeted Expenditures of \$167.5 billion increased by 7.2% over \$156.4 billion for Fiscal Year 2014-2015.

Water restrictions

On April 1, the Governor announced mandatory water restrictions for California to achieve a statewide 25% reduction in the use of urban drinking water. On May 22 Farmers in California's Sacramento-San Joaquin River Delta agreed to reduce the amount of water diverted from adjacent rivers or streams by 25 percent.

Citywide minimum wage increase for Los Angeles

On June 13, Los Angeles Mayor Eric Garcetti signed a law raising the citywide minimum wage to \$15 by 2020, which is estimated to impact as many as 600,000 of the city's residents.

Rule on Overtime Pay Changed

On June 29, a rule change made more U.S. workers eligible for overtime pay, raising the threshold for full-time salaries workers to \$50,440 from \$23,660 per year, which impact about 420,000 workers in California.

San Francisco Uber Drivers Ruled Employees

On June 16, the California Labor Commission ruled in one case that San Francisco Uber drivers are considered employees, independent contractors. Uber is appealing the decision.

Truckers at Ports of Los Angeles and Long Beach Strike Again

On July 21, Truckers walked off their jobs, alleging that they are being misclassified as independent contractors rather than employees, and as a result being deprived of benefits and higher pay.

Sources: California Department of Finance, REUTERS, NY Times, USA Today

3) CALIFORNIA'S ECONOMY – A SNAPSHOT

California's economy continues to recover from its worst recession since the Great Depression.

Advantages: Advantages include sustained growth in population, employment, consumer spending, tourism, residential and commercial real estate, and port activity. After decades of struggle, the state has achieved a balanced budget.

Challenges: Challenges to face include drought, an insufficient level of infrastructure spending in recent years, increases in entitlements and a complex regulatory environment.

Forecasts

2014 (Actual)		2015		2016		2017	
Description	Amount	Amount	Change	Amount	Change	Amount	Change
Taxable Sales	\$625.4 billion	\$655.7 billion	4.8%	\$687.0 billion	4.8%	\$722.8 billion	5.2%
Population	38.6 million	39.0 million	1.0%	39.4 million	1.0%	39.8 million	1.0%
Home Sales	314,600	347,400	10.4%	370,500	6.7%	383,700	3.6%
Home Prices	377,600	396,300	5.0%	412,400	4.0%	430,600	4.4%

Range of Median Home Prices: San Mateo's median home price was \$1,202,000 in February. Only one hundred miles east of San Mateo, Merced's median home price was \$177,240.

Range of Percent of Home Ownership

Upper Range		Lower Range	
Yorba Linda	85.2%	El Cajon	37.6%
Mission Viejo	82.3%	Santa Barbara	37.0%
Carson	75.6%	El Monte	36.6%
Chino Hills	75.5%	Los Angeles	35.9%
Simi Valley	72.7%	San Francisco	35.9%
San Ramon	71.2%	Inglewood	35.7%
Elk Grove	71.1%	Glendale	34.1%
Menifee	71.1%	East Los Angeles	32.1%
Livermore	69.9%	Hawthorne	27.2%

Employment: California added over 54,000 jobs in May and the unemployment rate inched up by 0.1 percentage point to 6.4 percent. The state's unemployment rate is expected to fall to 5 percent by 2017. Thirteen California counties had unemployment rates under 5 percent in April, while 26 had unemployment rates over seven percent.

Sources: *Sacramento Bee, Department of Finance, Cal Lutheran, UCLA Anderson, Beacon Economics*

4) CALIFORNIA'S EMPLOYMENT AND LABOR OUTLOOK**Employment Forecast and Economic Expansion**

The current economic expansion includes an unusually large number of long-term unemployed. This roughly corresponds to the decline in manufacturing, the shrinkage of a construction sector bloated by the housing bubble, and changes in the finance, legal and professional services sectors. The arrival of the information age has eliminated jobs that no amount of stimulus will bring back. Some examples of this: the GM/Toyota plant in Fremont becoming highly automated, the robot driven Tesla plant, the elimination of human toll takers on the Golden Gate Bridge and the automated warehouse handlers in the Inland Empire.

Future Job Opportunities

The trend to view employees as investments rather than labor is one reason brick-and-mortar retailers are starting to raise wages for their workforces. As store sales are lost to online shopping, owners are seeing the benefits of a more knowledgeable and engaged staff, capable of drawing customers to their stores.

Projected Job Openings from 2012 to 2022

Hospitality and Tourism	823,883
Retail	647,468
Health Care Services	602,228
Business Services	492,658
Education and Training	467,713
Professional and Technical Services	350,483
Information and Communication Technologies	317,896
Construction Materials and Services	304,961
Social Services	271,977
Financial Services and Real Estate	246,710

5) CALIFORNIA STATE TAX REVENUES

- Year-to-date California state tax revenues in June were \$732 million *above* the forecast of \$114.1 billion.
- Personal income tax revenues for June are \$737 million *above* the month's forecast of \$10.2 billion.
- Year-to-date Sales and use tax revenues in June were \$40 million *above* forecast.
- Sales and use tax revenues for June were \$35 million *above* the month's forecast of \$2.4 billion.
- Year-to-date Corporation tax revenues are \$9 million *below* forecast.
- Corporation tax revenues for June were \$1 million *above* the month's forecast of \$2.664 billion.
- Year-to-date Insurance tax revenues in June were \$36 million *below* the forecasted \$2.486 billion.
- Insurance tax revenues for June were \$43 million *below* the \$176 million forecast.
- Revenues from estate taxes, alcoholic beverage and tobacco taxes, and pooled money interest were \$3 million *above* the \$41 million that was expected.

Sources: UCLA Anderson, California Employment Development Department, California Department of Finance

6) RETAIL SALES AND NEWS

- Total retail sales estimated at \$1,151.2 billion for 2015Q1, a decrease of 1.5 percent from the 2014Q4.
- U.S. retail sales of cars, furniture, and groceries fell 0.3% in June compared to May.
- National Retail Federation (NRF) reduced its 2015 Forecast of Retail Sales Growth from 4.1% to 3.5%.
- Americans are saving more now than a year ago, the annual savings rate is now 5.6% higher.
- American spenders make up the majority of, (about 70%), economic activity in the country.

Retail Spending and Back to School Forecasts

The National Retail Federation predicted that back-to-school sales will drop by 9 percent this year. The average family is expected to spend \$630 on back-to-school supplies in 2015, compared with \$669 last year.

Luxury Brands and Online Shoppers

A recent report from McKinsey & Co. found that nearly all of the growth in the global luxury goods market in 2014 came from e-commerce purchases. In studying the shopping “decision journeys” of 7,000 luxury shoppers in the world, they found that three out of four luxury purchases are influenced by digital interactions.

Malls are the Top Shopping Destination

Consumer shopping habits have changed in the 40 years since the first U.S. mall opened, but the venue still remains Americans’ favorite place to shop.

Retail News

- **Bowl of Heaven** is expanding via a franchise deal to include La Canada, Pasadena, and Burbank.
- As of 2014 **Costco** was the second largest retailer in the US, the third largest in the world and the largest membership warehouse club chain in the US. They recently changed their credit card co-branding partner from American Express to Visa, which is expected to bring them more customers.
- **Dick’s Sporting Goods** is launching a competitor to Lululemon, Chelsea Collective.
- **Dunkin’ Donuts** has multi-unit store development agreements in place in California for 26 restaurants.
- **Habit Burger** plans to open between 26 and 28 stores in fiscal year 2015.
- **Lululemon’s** is expanding in North America and growing in international markets.
- **LunchBox** has new agreements in Southern California, the East SF Bay and Sacramento areas.
- **Muscle Maker Grill** plans to grow its fast-casual chain in Southern California.
- **Nordstrom’s** downtown Seattle store and its counterparts in Chicago and San Francisco are getting an expensive makeover in hopes of creating an “international destination” experience.
- **Sears** is planning to raise more than \$2.5 billion by selling more than 200 of its top Sears and Kmart properties and leasing them back through a new real-estate investment trust.
- **Tuesday Morning** has closed 21 stores since May.
- **Wok Box** plans to develop 37 restaurants throughout Northern California over the next 10 years.
- **Yogasmoga’s** is adding new units in CA: Beverly Hills, Newport Beach's Fashion Island, La Jolla Village in San Diego and Malibu Country Mart. Plans are in the works for an outlet in San Francisco.

Sources: US Census, CNN Money, Washington Post, International Council of Shopping Centers, PlainVanillaShell

10 Most Popular, (Most Visited), Stores in America

- **Wal-Mart** - Visited by more than half of American consumers in March; highest share in all U.S.
- **McDonalds** - Nearly 16,000 restaurants.
- **Subway** - Over 25,000 locations worldwide.
- **Starbucks** - Researchers have observed a relationship between rising real estate prices and the growth concentrations of their stores.
- **Walgreen** - Pharmaceutical drug use has been on the rise in recent years.
- **Target** - Nearly 24% of American consumers visited a Target at least once in March.
- **CVS** - Roughly 7,800 stores located around the country.
- **Burger King** - Approximately 13,960 restaurants worldwide.
- **Taco Bell** - Food is consumed much more regularly than many other products.
- **Dollar Tree** - About half of its merchandise is consumable, which may help increase volume.

The Top 10 Clothing Companies in America

- **Under Armour** - Continues to grow; signed deals with athletes like Stephen Curry and Jordan Spieth.
- **American Eagle** - New techniques help after comparable sales decreased by 5% in fiscal 2014.
- **Tommy Hilfiger** - Reported fourth consecutive earnings increase in the most recent fiscal quarter.
- **Coach** – Declines; too many outlets; Millennials less inclined to spend more money on luxury apparel.
- **Michael Kors** - Declines due to gravitation away from luxury brands by Millennials.
- **Levi Strauss & Co** - Jeans have seen resurgence as customers embrace basics and classic styles.
- **Gap** – Large retailer is closing many stores and laying-off employees.
- **Old Navy** - Doing better than its parent, (Gap), with lower prices and effective consumer targeting.
- **Ralph Lauren** - One of the leading brands; stays true to its core aesthetic and sticks with what works.
- **Nike** - The most successful and recognizable sports brand in the world recently closed a deal rumored to be worth roughly \$1 billion to become the official uniform and apparel provider for the NBA.

On-Line Retail Sales

- \$80.3 billion for 2015Q1, an increase of 3.5 percent from 2014Q4.
- Accounted for 7.0 percent of Total Retail Sales

Amazon.com Retail Sales

Amazon has had exponential revenue growth, from \$7 billion in 2004 to \$90 billion in 2014. The company recently announced a one-day sales event, (July 15), that promised, "More deals than Black Friday." The target market of the event was Amazon's Prime subscribers who pay Amazon's \$99 annual fee and get 1-2-day shipping on most products and a host of other services. The event, commemorating Amazon's 20th anniversary, was a bid by Amazon to add more users to its Prime membership base. Though Amazon remains the undisputed leader in e-commerce, other retail giants have increased efforts to steal away shoppers, including Wal-Mart, which this year started offering unlimited shipping for \$50 a year.

Sources: 24/7 Wall St, Business Insider, US Census, NY Times

7) SERVICES SPENDING AND ESTIMATES**Though Inflation is Low, US Consumers Still Feel a Pinch; a Gap between Goods and Services**

The prices of goods have been falling for most of the current economic expansion, but the cost of services has increased, sometimes sharply. Service providers have more pricing power than goods producers because of a lack of global competition, rising labor costs and less productivity.

Cumulative change in related goods and service for the five years ended in May 2015:

Television Sets	-57.7%
Sports Equipment	-15.3%
Men's Suits and Coats	-3.7%
Stationary	-1.4%
Bottle of Wine – consumed at home	-0.6%
Household Cleaning Products	0.3%
Household Domestic Services	7.8%
Dry Cleaning	9.2%
Bottle of Wine – consumed at restaurant	12.0%
Cable / Satellite Services	13.7%
Tickets to Sporting Events	17.3%
Postage for Mail Delivery	19.2%

Source: Wall Street Journal

8) RESTAURANT NEWS**Restaurant Sales Surpassed Grocery Store Sales for the First Time**

Monthly sales at restaurants exceeded grocery stores sales for the first time on record in December 2014 and the trend has intensified in the months since. The gap between monthly grocery store sales and restaurant sales started gradually shrinking in 2010, a trend that was partially due to the increase in consumers buying their groceries at big box stores.

Why consumers spend more at restaurants than from one year ago:

- More confident in their financial situation
- Gas prices are lower
- Household incomes went up
- Got a new job
- Home or investments worth more

Source: National Restaurant Association

Top 14 Fastest-Growing Restaurant Chains: 2015 Q1 Same-Store Sales Growth

- **Domino's Pizza:** 14.5%
- **Shake Shack:** 11.7%
- **Chipotle Mexican Grill:** 10.4%
- **Dave & Buster's Entertainment:** 9.9%
- **Jack in the Box:** 8.9%
- **Good Times Restaurants:** 8.3%
- **Diversified Restaurant Holdings, (Buffalo Wild Wings and Bagger Dave's):** 8%
- **Bojangles:** 7.9%
- **Popeyes Louisiana Kitchen:** 7%
- **Sonic:** 6.1%
- **Papa Murphy's Holdings:** 5.6%
- **Cracker Barrel Old Country Store:** 5.1%
- **El Pollo Loco Holdings:** 5.1%
- **Jamba Juice:** 5%

Sources: Wall Street Journal, Forbes

9) GROCERY STORE NEWS**Albertsons / Safeway**

Albertsons Company, which became the second-largest supermarket operator following its recent \$9 billion merger with Safeway early this year, filed for an initial public offering. The planned IPO comes just six months after Cerberus combined Albertsons with Safeway Inc. as part of a string of deals among U.S. grocery chains grappling with tepid growth and fierce competition from discounters and upscale stores.

Amazon

Amazon is expanding its grocery business by broadening its private-label brand, Elements, to include an array of grocery items such as milk, cereal, and baby food as well as household cleaners. Private label brands have become a key part of mass market retailing.

Source: Wall Street Journal

10) AUTO SALES

New Car Registration. New light vehicle registrations in the state increased 12.1 percent during 2015Q1 versus 2014Q1, the 18th consecutive quarterly improvement, and the fourth in a row that exceeded 8 percent. New retail car and light truck registrations in California increased 104 percent during 2015Q1 versus 2010Q1.

New Car Forecast. New vehicle registrations for all of this year will exceed 1.9 million units, and it's possible that the total could reach 2 million in 2015 or 2016.

Use Car Registrations. While total used vehicle registrations were down 4.1 percent for 2015Q1, registrations of used vehicles no more than three years old increased by 7.8 percent.

Top Selling Brands. Among the top 15 selling brands, Jeep, Subaru, Mazda, BMW, Lexus, and Kia had the biggest percentage increases during the first three months of 2015. New registrations for these six brands increased by more than 15 percent. Japanese brand registrations increased 13.3 percent in the 2015Q1 and market share was up 0.6 points. Korean brand registrations improved 14.5 percent. Toyota Camry, Honda Civic, Nissan Altima, Toyota Corolla, and Honda Accord were top sellers in the state's six year old or newer used vehicles.

Source: California New Car Dealers Association

11) GASOLINE PRICES

Current Gas Prices in California. The California statewide average price of gasoline increased 16 cents to \$3.88 a gallon on Monday, July 20. The national average dropped a penny to \$2.76 a gallon. Drivers are paying the highest averages since August 2014, largely due to imbalances between gasoline supply and demand. A shortage of imported components used to make California's unique summer gasoline blend is one reason for the price hike. There also has been a halt since February of gas production at the Exxon-Mobil refinery in Torrance and a Tesoro refinery in Carson began a later-than-usual seasonal overhaul that has curtailed production. Motorists pay a 30-cent-per-gallon state excise tax at the pump, a federal fuel tax of about 18 cents, and about 10 cents a gallon for the passed-along costs of cap-and-trade fees from refiners, along with their local taxes.

Source: American Automobile Association

Sky-High California Gas Prices Have a Green Additive. While the national average is \$2.76 a gallon, California's is \$3.88. Eco-virtue is expensive. The average gas price nationally has dropped by nearly 25% to \$2.76 a gallon over the past 12 months. The state's 2006 global-warming law, AB32, established a cap-and-trade program that requires large industrial companies operating in the state to cut their carbon emissions or buy permits. Cap-and-trade auctions commenced in 2012, but this year refiners have had to buy permits.

Source: Wall Street Journal

12) BOE CANNABIS COMPLIANCE PROJECT

The BOE instituted the Cannabis Compliance Pilot Project to determine the scope of non-compliance and develop strategies to address compliance barriers. A primary focus is in the collection of taxes and reducing the tax gap.

Prior to 2005, the BOE did not issue sellers' permits to retailers under the premise that it was an illegal business. In October 2005, the Board directed staff to issue seller's permits to all retailers of medical cannabis as to provide a mechanism for retailers to collect and remit sales tax. Current registration policy allows taxpayers to "decline to state" the type of tangible personal property sold to reduce the risk of self-incrimination. This is one reason why the precise number of cannabis retailers operating in California is unknown. Additionally, the compliance rate among cannabis growers, many of whom are wholesalers of tangible personal property and are generally required to hold seller's permits, is extremely low.

In February 2014, the BOE instituted a policy to no longer accept cash payments, and encouraged taxpayers to pay online using their bank account information or credit card(s). Many retailers refrained from obtaining a bank account out of a well-founded fear that the federal government could confiscate their assets. However, the absence of bank accounts, among other factors, renders the BOE's normal records verification procedures impractical, and further exacerbates their inability to track gross retail sales of medical cannabis.

Challenges

- BOE only has a rough estimate of how many retailers and growers operate in California
- Uncertainty surrounding the assumptions made to determine current sales and use tax revenue, volume of cannabis produced, current rate of consumption, and lost revenue due to non-compliance
- Recent increase in delivery services with no fixed business location makes tracking and monitoring retail sales difficult, and if recreational use becomes legal in the near future, BOE is unprepared as an agency to address this additional compliance challenge.

Source: California State Board of Equalization