



# CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

February 13, 2017

The Honorable City Council  
Palo Alto, California

## City of Palo Alto Sales Tax Digest Summary First Quarter Sales (January - March 2016)

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

### ATTACHMENTS:

- Attachment A: Sales Tax Digest Summary - Background and Discussion(PDF)
- Attachment B: MuniServices Sales Tax Digest Summary (PDF)
- Attachment C: Economic Categories and Segments (PDF)
- Attachment D: MuniServices Economic News and Trends (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 2016)

### Informational Report to the City Council

#### BACKGROUND

Sales and use tax was estimated to be about \$27.6 million, or 15 percent, of projected General Fund revenue in the City's adopted operating budget for fiscal year 2016. This revenue includes sales and use tax for the City of Palo Alto and pool allocations from the state and Santa Clara County.<sup>1</sup>

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 share the information provided by MuniServices with the Administrative Services Department (ASD) for use in revenue forecasting and budgeting and coordinated this report with them.

#### DISCUSSION

MuniServices prepared the attached report (Attachment B) covering calendar year 2016 first quarter sales (January through March 2016). These funds are reported as part of the City's fiscal year 2016 revenue. In September, ASD should receive information from the state on aggregate sales and use tax receipts for the second quarter of 2016.

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 2016 increased by about \$273,000, or 4.6 percent, including pool allocations, compared to the first quarter of 2015. For all Santa Clara County jurisdictions, sales and use tax revenue for the first quarter of 2016 increased by \$4.8 million, or 5.1 percent, compared to the first quarter of 2015.
- Statewide, almost every region in California experienced an increase in sales and use tax revenue for the year ending in March 2016, with a one-year statewide increase of 3.1 percent.
- Palo Alto's sales and use tax revenue totaled \$27.4 million for the year ending in March 2016, an increase of 6.6 percent from \$25.7 million during the prior one-year period.
- Excluding pool allocations and adjusting for prior-period and late payments, Palo Alto's sales and use tax revenue for the first quarter of 2016 increased by 1.3 percent compared to the first quarter of 2015 and increased by 3.9 percent compared to the prior year.

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<sup>1</sup> See definitions of state and county pools on page 3.

More detailed information is shown in Attachment B.

**Economic Influences on Sales and Use Tax**

In its Economic News & Trends (Attachment D), MuniServices discusses economic influences, including national and state economic trends, e-commerce, and auto and retail sales, that may affect the City’s sales and use tax revenue.

The California Employment Development Department reports that the June 2016 unemployment rate, which is not seasonally adjusted, was 4.0 percent in Santa Clara County and 2.8 percent in Palo Alto.

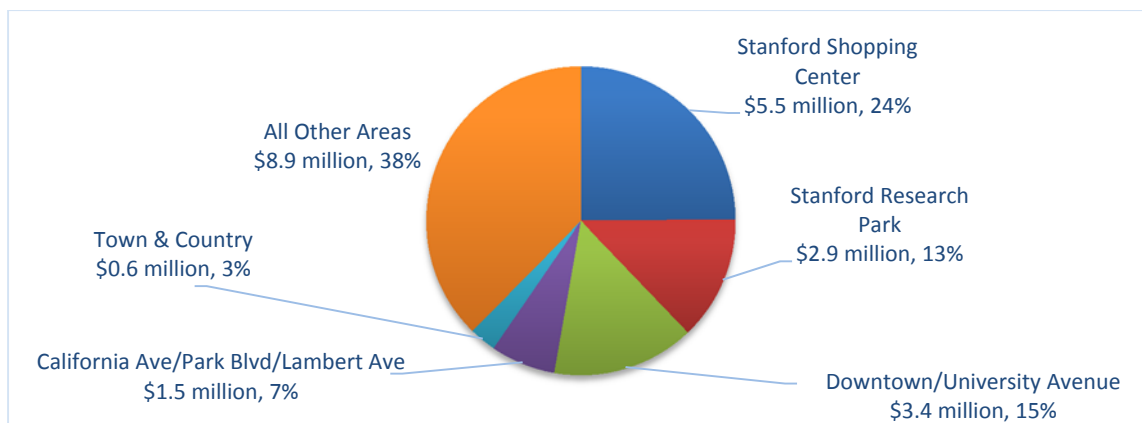
**Economic Category Analysis**

MuniServices’ analysis of economic categories for the year ending March 2016 shows:

Economic category	% of Palo Alto’s sales and use tax revenue	% Increase (Decrease) compared to prior year
General retail	35.5%	(3.3%)
Food products	20.0%	6.2%
Business-to-business	17.9%	22.8%
Construction	4.0%	10.9%
Miscellaneous	22.6%	0.3%

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

**Palo Alto’s Sales and Use Tax Revenue by Geographic Area  
For the Year Ending March 2016  
(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 2016 Adopted Operating Budget

Audit staff: Lisa Wehara

**City of Palo Alto**  
**Sales Tax Digest Summary**  
**Collections through June 2016**  
**Sales through March 2016 (2016Q1)**

**California Overview**

The percent change in cash receipts from the prior year was 3.1% statewide, 3.1% in Northern California and 3.0% 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 2016 by 2.9% statewide, 3.1% in Southern California and 2.5% in Northern California.

**City of Palo Alto**

For the year ended 1st Quarter 2016, sales tax cash receipts for the City increased by 6.6% from the prior year. On a quarterly basis, sales tax revenues increased by 4.6% from 1st Quarter 2015 to 1st Quarter 2016. 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 increased by 3.9% for the year ended 1st Quarter 2016 from the prior year. On a quarterly basis, sales tax activity increased by 1.3% in 1st Quarter 2016 compared to 1st Quarter 2015.

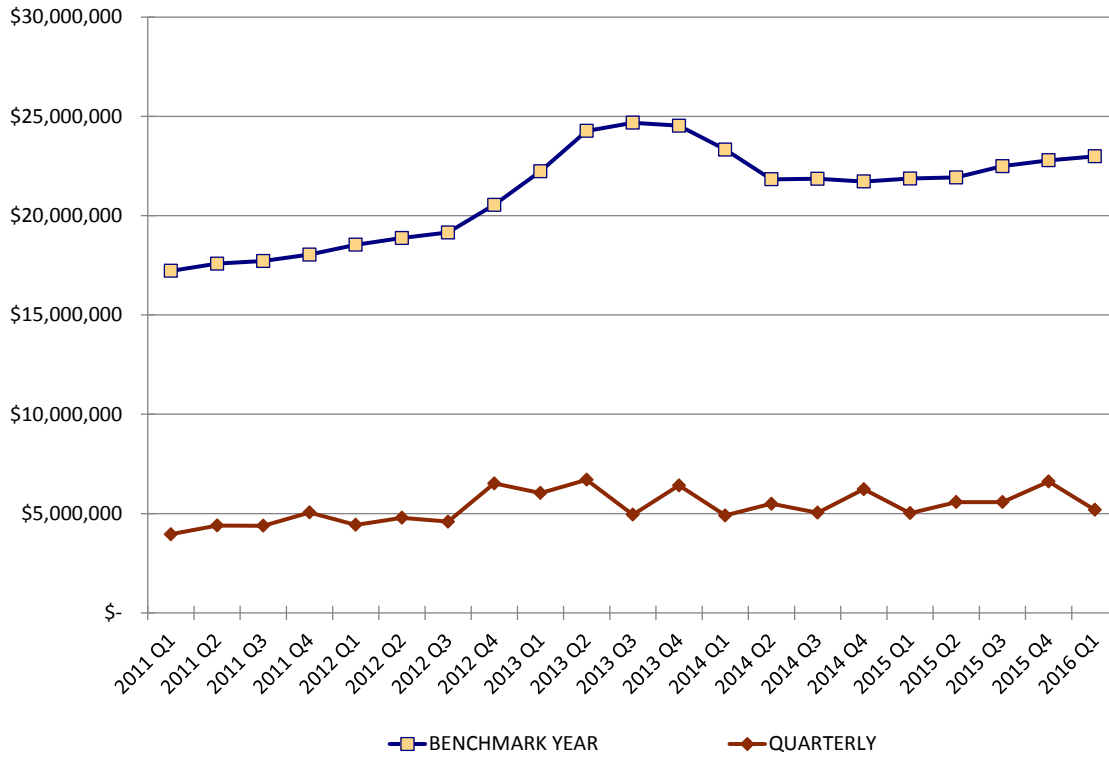
**Regional Overview**

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

**CITY OF PALO ALTO**  
 BENCHMARK YEAR 2016Q1 COMPARED TO BENCHMARK YEAR 2015Q1

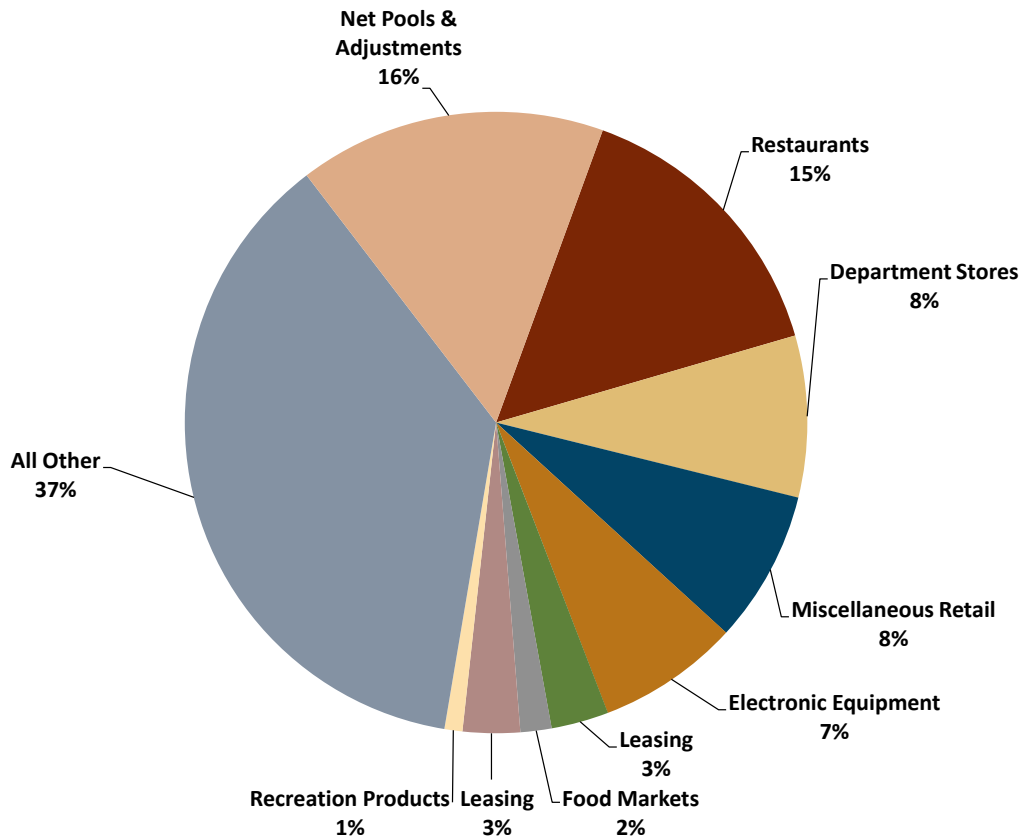
ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 1st QUARTER 2016									
% of Total / % Change	City of Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
General Retail	35.5 / -3.3	28.3 / 3.0	26.7 / 1.3	27.8 / 4.0	30.7 / 3.2	29.2 / 3.1	26.6 / 5.3	28.4 / 3.2	31.6 / 0.9
Food Products	20.0 / 6.2	20.4 / 5.2	21.8 / 5.6	16.8 / 3.8	16.5 / 4.0	21.6 / 5.2	17.0 / 5.5	18.4 / 2.9	30.7 / 1.5
Construction	4.0 / 10.9	9.6 / 7.9	9.5 / 6.4	11.3 / 7.1	12.1 / 5.5	8.3 / 5.9	12.2 / 18.2	13.4 / 6.4	9.4 / 3.3
Business to Business	17.9 / 22.8	16.5 / -0.6	20.0 / 4.1	14.3 / 5.7	12.9 / -9.0	16.0 / -3.0	15.4 / 1.0	8.3 / -7.1	6.2 / 10.9
Miscellaneous/Other	22.6 / 0.3	25.2 / 3.6	22.0 / 1.8	29.9 / 6.3	27.8 / 3.7	24.9 / 2.7	28.8 / 8.1	31.4 / 1.9	22.1 / 1.7
<b>Total</b>	<b>100.0 / 3.9</b>	<b>100.0 / 2.9</b>	<b>100.0 / 2.7</b>	<b>100.0 / 4.3</b>	<b>100.0 / 0.9</b>	<b>100.0 / 2.3</b>	<b>100.0 / 5.4</b>	<b>100.0 / 1.5</b>	<b>100.0 / 1.0</b>
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 1st QUARTER 2016									
	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	Restaurants	Department Stores	Service Stations	Restaurants	Service Stations	Restaurants
% of Total / % Change	17.8 / 6.5	14.4 / 6.5	15.5 / 6.6	15.8 / 6.5	13.6 / 1.5	26.6 / -2.2	11.1 / 6.9	11.4 / 11.7	22.2 / 0.9
2nd Largest Segment	***	Auto Sales - New	Auto Sales - New	Auto Sales - New	Auto Sales - New	Restaurants	Auto Sales - New	Auto Sales - New	Misc. Retail
% of Total / % Change	*** / ***	11.1 / 7.2	10.7 / 6.2	11.3 / 6.7	10.8 / 7.8	12.9 / 4.1	11.0 / 10.1	11.3 / -12.8	10.8 / 11.4
3rd Largest Segment	Department Stores	Department Stores	Department Stores	Department Stores	Restaurants	Food Markets	Department Stores	Department Stores	Department Stores
% of Total / % Change	10.0 / -4.0	9.5 / 0.5	7.9 / -1.5	9.3 / 0.3	10.7 / 6.8	8.4 / 0.3	10.6 / 3.3	11.0 / 1.1	8.6 / -2.9
*** 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 2016: \$27,352,428**

*\*Benchmark year (BMY) is the sum of the current and 3 previous quarters (2016Q1 BMY is sum of 2016 Q1 and 2015 Q4, Q3 & Q2)*

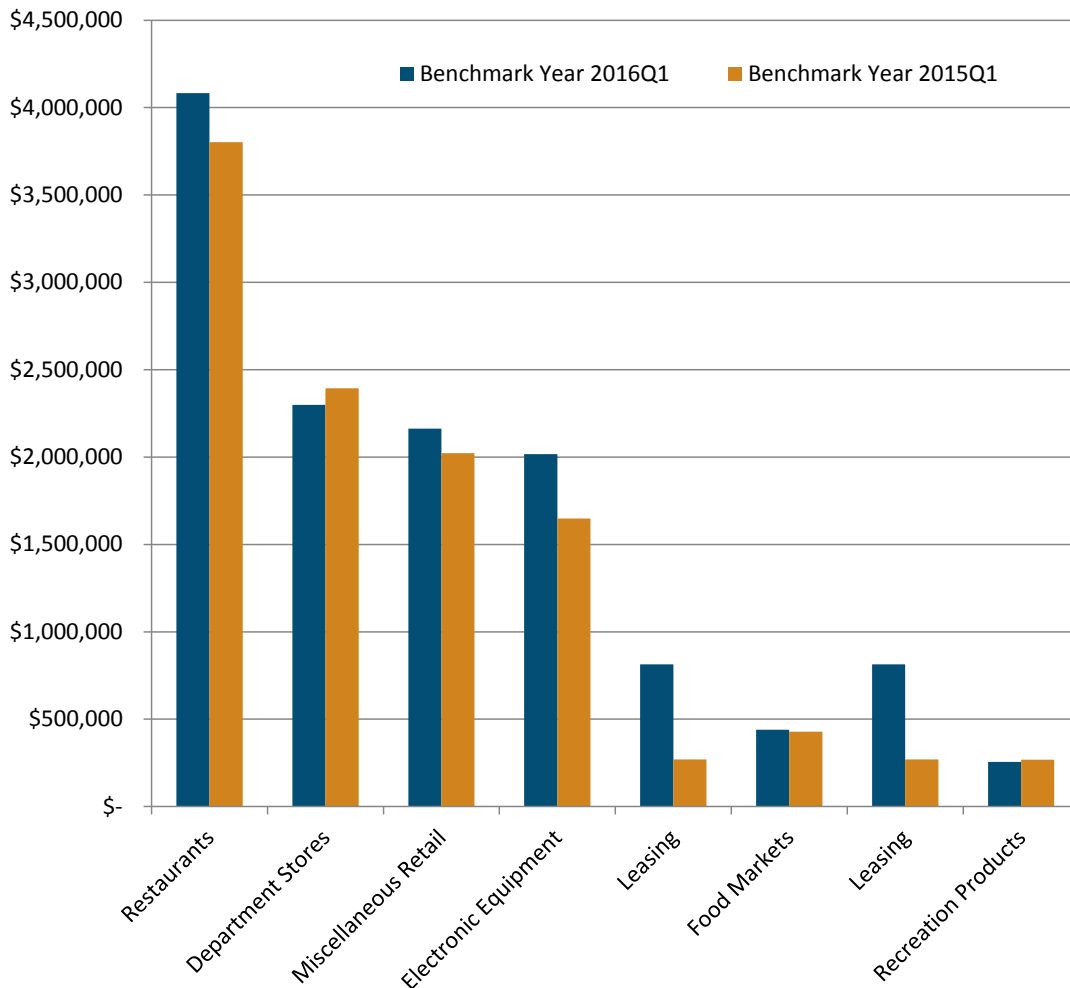


**TOP 25 SALES/USE TAX CONTRIBUTORS**

The following list identifies Palo Alto’s Top 25 Sales/Use Tax contributors. The list is in alphabetical order and represents the year ended 1st Quarter 2016. The Top 25 Sales/Use Tax contributors generate 49.9% of Palo Alto’s total sales and use tax revenue.

Anderson Honda	Integrated Archive Systems	Tesla Motors
Apple Stores	Loral Space Systems	The Pace Gallery
Audi Palo Alto	Macy's Department Store	Tiffany & Company
Bloomington's	Magnussen's Toyota	USB Leasing
Bon Appetit Management Co.	Neiman Marcus Department Store	Varian Medical Systems
CVS/PHARMACY	Nordstrom Department Store	Volvo Cars Palo Alto
Eat Club	Pottery Barn Kids	Wilkes Bashford
Fry's Electronics	Stanford University Hospital	
Hewlett-Packard	Tesla Lease Trust	

**Sales Tax from Largest Non-confidential Economic Segments**





Historical Analysis by Calendar Quarter

Economic Category	%	2016Q1	2015Q4	2015Q3	2015Q2	2015Q1	2014Q4	2014Q3	2014Q2	2014Q1	2013Q4	2013Q3
General Retail	26.7%	1,668,860	2,526,551	1,935,178	2,009,743	1,797,756	2,591,589	1,994,264	2,032,155	1,791,298	2,585,931	1,945,413
Miscellaneous/Other	23.5%	1,468,705	1,491,158	1,609,541	1,564,157	1,400,769	1,655,225	1,400,415	1,437,507	1,283,210	1,553,169	1,196,569
Food Products	17.9%	1,119,559	1,166,195	1,146,174	1,167,014	1,061,755	1,096,087	1,054,462	1,051,681	972,997	1,009,848	950,359
Business To Business	14.8%	928,407	1,428,210	888,609	833,370	757,827	885,327	596,226	970,762	858,119	1,268,059	848,634
Net Pools & Adjustments	17.2%	1,074,507	1,226,261	1,060,979	1,039,250	968,777	1,178,482	945,653	786,945	1,013,633	1,095,801	924,963
<b>Total</b>	<b>100.0%</b>	<b>6,260,038</b>	<b>7,838,375</b>	<b>6,640,481</b>	<b>6,613,534</b>	<b>5,986,884</b>	<b>7,406,710</b>	<b>5,991,020</b>	<b>6,279,050</b>	<b>5,919,257</b>	<b>7,512,808</b>	<b>5,865,938</b>

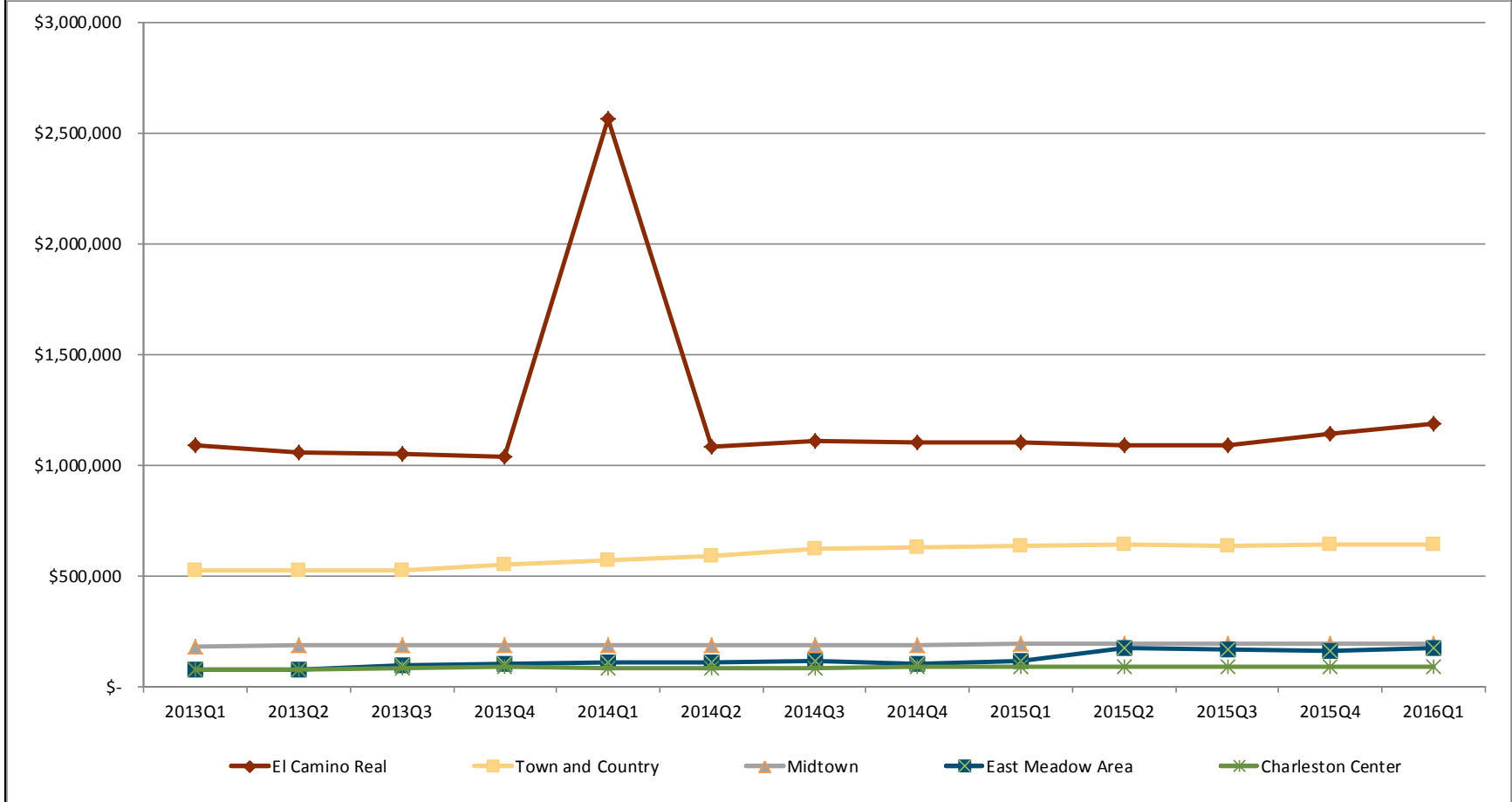
Economic Segments	%	2016Q1	2015Q4	2015Q3	2015Q2	2015Q1	2014Q4	2014Q3	2014Q2	2014Q1	2013Q4	2013Q3
Miscellaneous/Other	41.8%	2,617,484	3,237,983	2,720,241	2,549,852	2,370,361	2,906,134	2,211,697	2,577,014	2,328,959	3,184,808	2,230,000
Restaurants	16.0%	999,036	1,029,733	1,019,505	1,045,011	942,709	962,018	936,160	940,540	870,158	890,739	833,865
Miscellaneous Retail	7.4%	464,015	714,151	478,994	479,298	415,270	628,099	508,061	514,133	481,305	661,268	458,124
Department Stores	7.0%	435,470	714,831	553,325	595,374	503,590	750,481	548,595	591,500	472,857	762,760	574,389
Apparel Stores	5.4%	337,876	519,318	397,534	428,100	370,810	507,843	398,747	429,748	365,777	515,296	400,201
Service Stations	2.0%	123,004	140,758	173,082	181,582	148,902	166,861	203,484	215,162	184,185	177,096	214,276
Food Markets	1.7%	104,790	116,778	113,092	106,818	104,856	117,245	105,600	98,705	90,272	104,592	104,815
Business Services	0.8%	51,471	76,156	51,885	120,003	103,773	131,505	66,163	62,060	63,768	61,832	57,139
Recreation Products	0.8%	52,385	62,406	71,844	68,246	57,836	58,042	66,860	63,243	48,343	58,616	68,166
Net Pools & Adjustments	17.2%	1,074,507	1,226,261	1,060,979	1,039,250	968,777	1,178,482	945,653	786,945	1,013,633	1,095,801	924,963
<b>Total</b>	<b>100.0%</b>	<b>6,260,038</b>	<b>7,838,375</b>	<b>6,640,481</b>	<b>6,613,534</b>	<b>5,986,884</b>	<b>7,406,710</b>	<b>5,991,020</b>	<b>6,279,050</b>	<b>5,919,257</b>	<b>7,512,808</b>	<b>5,865,938</b>

\*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 2015Q1 to 2016Q1

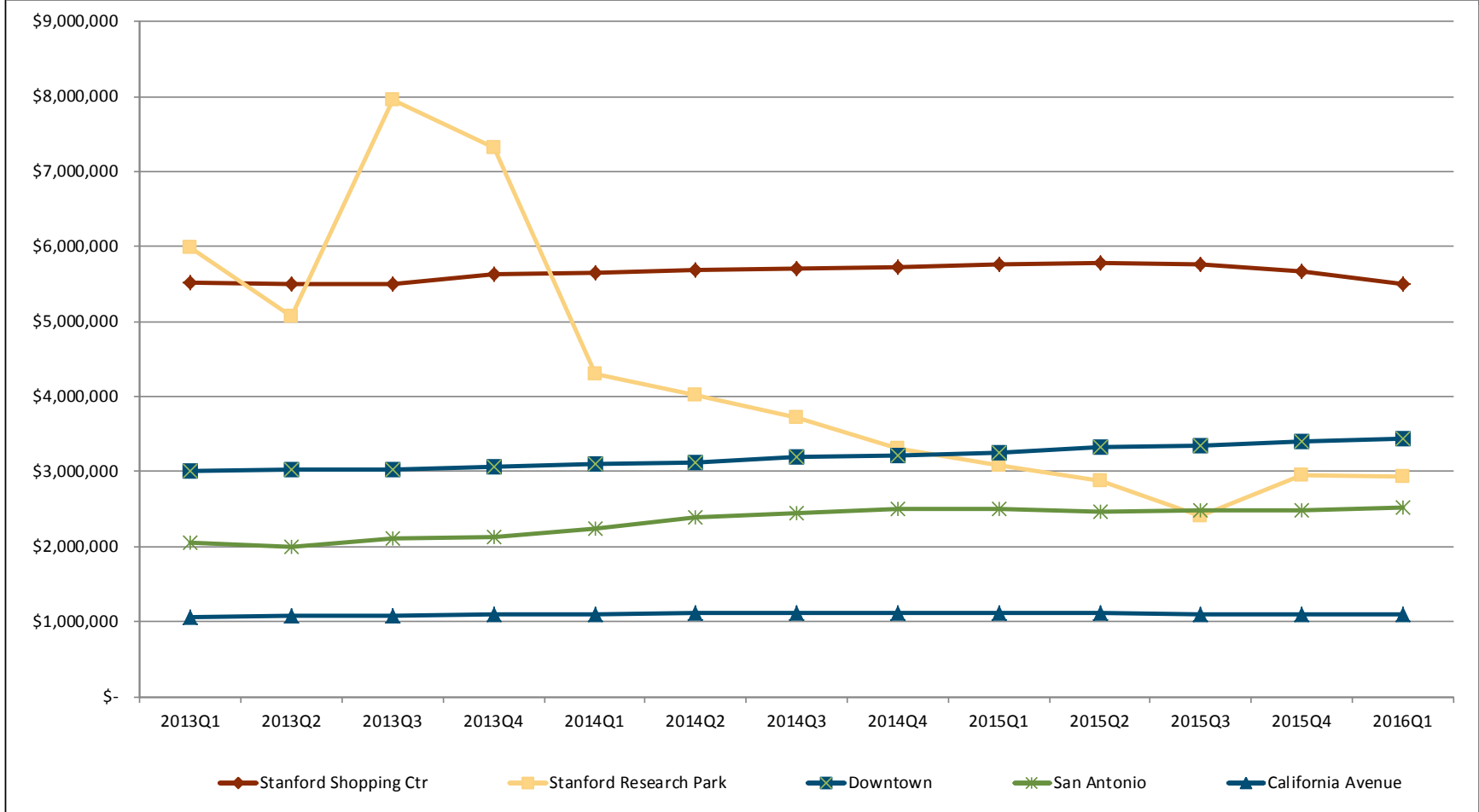
	General Retail	Food Products	Construction	Business to Business	Misc/Other	2016/1 Total	2015/1 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	1.8%	3.7%	2.9%	-13.8%	-9.9%	2,137,810	2,188,880	-2.3%	Recreation Products	Restaurants	Business Services	Service Stations
Cupertino	-17.6%	6.4%	-19.8%	8.6%	-11.4%	4,877,716	4,829,767	1.0%	Business Services	Office Equipment	Bldg.Mats-Whsle	Department Stores
Gilroy	-0.8%	4.6%	14.3%	14.0%	7.6%	3,185,988	3,043,944	4.7%	Auto Sales - New	Misc. Vehicle Sales	Service Stations	Apparel Stores
Los Altos	-6.9%	13.7%	22.3%	21.2%	-6.3%	518,359	495,041	4.7%	Restaurants	Liquor Stores	Furniture/Appliance	Service Stations
Los Gatos	-11.1%	2.3%	32.3%	-7.6%	-15.3%	1,481,022	1,607,090	-7.8%	Bldg.Mats-Retail	Restaurants	Miscellaneous Other	Auto Sales - New
Milpitas	-2.9%	10.9%	4.6%	-3.2%	-0.5%	4,301,908	4,279,212	0.5%	Restaurants	Office Equipment	Electronic Equipment	Furniture/Appliance
Morgan Hill	2.2%	5.3%	6.0%	-23.2%	-0.7%	1,700,925	1,745,997	-2.6%	Restaurants	Misc. Vehicle Sales	Electronic Equipment	Service Stations
Mountain View	-0.4%	5.9%	-20.0%	45.5%	-8.2%	3,942,546	3,590,713	9.8%	Office Equipment	Restaurants	Light Industry	Electronic Equipment
Palo Alto	-7.3%	5.7%	9.6%	8.6%	3.6%	5,185,530	5,121,394	1.3%	Leasing	Restaurants	Furniture/Appliance	Department Stores
San Jose	-0.6%	1.9%	3.1%	18.0%	-1.4%	36,801,795	35,251,152	4.4%	Light Industry	Energy Sales	Office Equipment	Service Stations
Santa Clara	-5.1%	5.4%	-1.3%	12.7%	-4.9%	10,126,901	9,754,604	3.8%	Office Equipment	Business Services	Auto Sales - New	Electronic Equipment
Santa Clara Co.	-6.4%	-3.0%	-25.6%	-17.6%	1.3%	892,579	979,159	-8.8%	Office Equipment	Service Stations	Bldg.Mats-Whsle	Electronic Equipment
Saratoga	9.7%	-0.3%	129.3%	26.5%	-11.1%	211,018	208,590	1.2%	Electronic Equipment	Furniture/Appliance	Service Stations	Office Equipment
Sunnyvale	-2.1%	6.7%	-2.2%	-3.5%	-1.2%	6,186,416	6,256,695	-1.1%	Light Industry	Auto Sales - New	Electronic Equipment	Health & Government

City of Palo Alto - Selected Geographic Areas of the City													
Benchmark Year 1st Quarter 2016													
	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1
El Camino Real	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	1,090,236	1,088,571	1,140,412	1,188,495
Town and Country	522,374	523,504	525,116	550,852	570,860	590,134	624,333	629,346	637,224	644,288	636,497	639,830	642,372
Midtown	183,780	184,646	185,301	185,348	185,472	185,910	187,120	188,251	192,122	194,028	195,907	192,190	193,066
East Meadow Area	74,680	77,869	100,045	103,590	107,316	109,171	114,419	104,735	117,701	172,602	166,805	161,897	173,019
Charleston Center	76,315	78,734	81,455	90,116	84,760	86,432	86,288	87,413	88,622	89,612	90,642	91,711	91,991



*\*Benchmark year (BMY) is the sum of the current and 3 previous quarters (2016Q1 BMY is sum of 2016 Q1 and 2015 Q4, Q3 & Q2)*

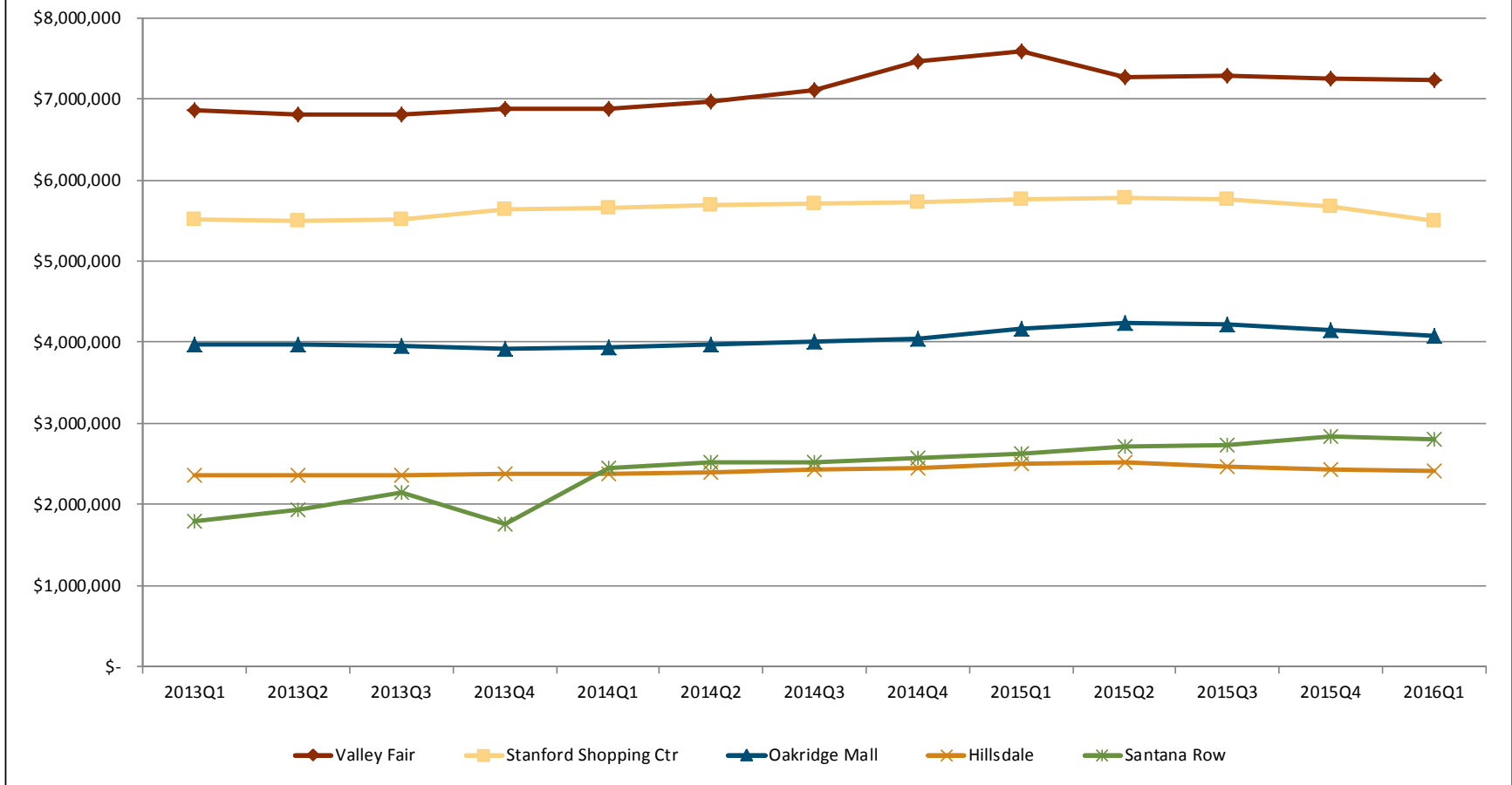
City of Palo Alto - Selected Geographic Areas of the City													
Benchmark Year 1st Quarter 2016													
	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1
Stanford Shopping Ctr	5,519,326	5,501,836	5,508,513	5,637,256	5,647,210	5,685,894	5,713,169	5,726,273	5,769,236	5,775,751	5,765,715	5,670,796	5,501,996
Stanford Research Park	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	2,869,143	2,411,043	2,953,900	2,924,944
Downtown	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	3,318,323	3,351,331	3,399,758	3,445,331
San Antonio	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	2,465,311	2,483,850	2,476,949	2,517,603
California Avenue	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	1,108,904	1,106,175	1,097,493	1,091,796



*\*Benchmark year (BMY) is the sum of the current and 3 previous quarters (2016Q1 BMY is sum of 2016 Q1 and 2015 Q4, Q3 & Q2)*

**City of Palo Alto - Regional Shopping Mall Comparison**  
 Benchmark Year 1st Quarter 2016

	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1
Valley Fair	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	7,273,028	7,282,265	7,248,371	7,228,310
Stanford Shopping Ctr	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	5,775,751	5,765,715	5,670,796	5,501,966
Oakridge Mall	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	4,236,080	4,215,653	4,158,194	4,075,061
Hillsdale	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	2,513,866	2,470,404	2,434,086	2,410,095
Santana Row	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	2,706,867	2,735,522	2,834,796	2,807,754



*\*Benchmark year (BMY) is the sum of the current and 3 previous quarters (2016Q1 BMY is sum of 2016 Q1 and 2015 Q4, Q3 & Q2)*

<b>Economic Categories and Segments</b>		
<b>Economic Category</b>	<b>Economic Segment</b>	<b>Description</b>
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

<b>Economic Categories and Segments</b>		
<b>Economic Category</b>	<b>Economic Segment</b>	<b>Description</b>
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

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ECONOMIC NEWS & TRENDS

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## HIGHLIGHTS

- **California economy ranking:** Became the 6th largest economy in the world with \$2.46 trillion in gross state product. (DOF, June, 2016)
- **United State GDP:** Grew by 1.2 % in 1Q2016. (DOF, July, 2016)
- **E-commerce sales in the U.S:** 1Q2016 accounted for 7.7% of total sales; estimated at \$1,183.9 billion for 4Q2016; a decrease of 0.2% from the 4Q2015. (US Census Bureau, May, 2017)
- **Major component indexes that rose in June:** Shelter, rent, lodging away from home, medical care, prescription drugs, medical care services, education, airline fares, tobacco, alcoholic, recreation (BLS, July, 2015)
- **Major component indexes that declined in June:** Used cars and trucks, new vehicles, apparel, communication, household furnishings, operations. (BLS, July, 2016)
- **Imports and exports:** Year-to-date goods and services is \$41.1 billion, which is the highest on record. (US Census Bureau, June, 2016)
- **California automobile dealers' sales:** Increased in 1Q2016; new light vehicles exceeded 500,000; represents 22<sup>nd</sup> consecutive year-over-year increase in quarterly registrations; on track to top 2 million units. (CNDA, May, 2016)
- **California used car registrations:** Increased 11.7% in 1Q2016. YTD through March for 2016 is 975,233, an 11% change from 2015 to 2016. (CNDA, May, 2016)
- **National new vehicles sales in 2016:** Cuts the forecast by 300,000 (or 1.7%) (LWC Automotive, July 2016)
- **California gas prices:** Declined 37% from June 2014 to May 2016. (BOE and EIA)
- **California sales and use tax year to date:** \$126 million below the month's forecast of 2.563 billion; Fiscal year 2015-16 sales tax revenues are \$108 million below forecast. (DOF, July, 2016)
- **California's unemployment:** Decreased to 5.2% and nonfarm payroll jobs increased by 4,200; lowest in San Mateo County at 2.6%; the highest is 19.4% in Imperial County (for May, 2016). (EDD, May, 2016; DOF July, 2016)
- **California homes sales:** Increased 0.6% in May; the statewide median price of existing single-family homes sold in May increased to \$518,760 or 6.3% increase from a year ago. (DOF, July, 2016)

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**SECTION 1 - U.S. ECONOMY****Consumer Price Index (June, 2016)**

<http://www.bls.gov/news.release/cpi.nr0.htm> (released July 15, 2016)

*The CPI is a measure of the average change in prices over time of goods and services purchased by households.*

**Consumer Price Index for All Urban Consumers (CPI-U):** Increased 0.2% in June and 1.0% over the last 12 months.

**Food index:** Fell 0.1% in June after a 0.2% decrease in May. The index for food at home fell 0.3%; this index declined 1.3% over the past year, its largest decline since February 2010. Four of the six major grocery store food groups declined. The non-alcoholic beverages index fell 0.7% in June, the largest decline since 2013. The only major grocery store food group index to rise in June was cereals and bakery products, which increased by 0.1%.

**Energy index:** Increased 1.3% in June; which is the fourth increase in a row; the gasoline index continued to rise increasing 3.3% in June after a 2.3% advance in May. This index has declined 9.4% over the past year, with all of its major components falling over the period.

**Major component indexes that rose in June:** Shelter (0.3%), rent index (0.4%) and lodging away from home rose 0.6%. The medical care index increased 0.4%; prescription drugs rose 1.3%, and the medical care services index increased 0.2%. The education index increased 0.5%, and airline fares rose 1.6% after declining in May. The index for motor vehicle insurance continued to rise 0.2%, tobacco 0.6%, alcoholic beverages and recreation both at 0.1%.

**Major component indexes that declined in June:** Used cars and trucks (fell 1.1% after a 1.3% decline in May; May is the largest decline since March 2009). New vehicles declined 0.2% for a fifth consecutive decline. The apparel index fell 0.4% after rising in May. Communication, household furnishings and operations also declined.

**U.S. Trends and Outlook Financial Market and Economies (2Q2016)**

Sources: <http://www.federalreserve.gov>; [http://www.census.gov/foreign-trade/Press-Release/current\\_press\\_release/ftdpress.pdf](http://www.census.gov/foreign-trade/Press-Release/current_press_release/ftdpress.pdf);

[http://dof.ca.gov/Forecasting/Economics/Economic\\_and\\_Revenue\\_Updates/documents/2016/june/documents/jun-16.pdf](http://dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2016/june/documents/jun-16.pdf)

**U.S. economy:** Continued but slow GDP growth in the two percentage range; driven by increase in consumer spending and housing. Anticipates continued steady gains in employment through 2018 and a steady decrease in the unemployment rate over the next two years. 1.7% real GDP growth in 2016, 2.8% in 2017 and 2.1% in 2018

**U.S. manufacturing:** Production will grow 2.6% in 2016, 3.0% in 2017, and 2.8% in 2018. Growth will slow to 2.6% in 2019 and 2.0% in 2020.

**Interest rates:** The Federal Reserve Board members all voted against raising interest rates in 2Q2016.

**Business spending:** Increasing by 4% in 2016.

**Inflation:** 1.4% in 2016; 1.9% in 2017, and 2.0 in 2018. All are higher than the 0.7% inflation experienced in 2015 caused by low oil prices. The core inflation rate (without gas or food prices) will be 1.7% in 2016, 1.9% in 2017, and 2.0% in 2018.

**Food sales:** \$455.6 billion in May, 2016 (an increase of 2.0% from May, 2015).

**Retail trade sales:** Core retail sales were up 0.4% from April 2016; non-store retailers were up 12.2% from May, 2015; while Health and Personal Care Stores were up 8.3% from last year.

**Imports of services:** \$41.1 billion which is the highest on record.

**Rental vacancy rate:** 7.0%, down 0.1 percentage point from the 1Q2015 rate of 7.1%.

**Homeownership rate:** 63.5%, down 0.2 (+/- 0.4)\* percentage points from 1Q2015 rate of 63.7%. The homeownership rates in the Northeast, Midwest, South and West were not statistically different from the rates in 1Q2015

**US Metro Economies in 2016-2017**

<http://usmayors.org/metroeconomies/> (June, 2016)

**Job growth:** In 2016 a total of 52 (14%) metros will have job growth of more than 3%; 152 (40%) will gain more than 2%, and 273 (72%) greater than 1%. Thirty-seven metros however will lose jobs in 2016.

**Goods Manufacturing Product (GMP):** Real GMP growth in 2016 will exceed 3% for 42 (11%) metros, 2% for 126 (33%), 1% for 255 (67%), and will be positive for 333 (87%). In 2017, GMP growth for all metros of 2.7% again leads the increase in US GDP. Eighty-one percent of metros (309), are projected to see real GMP growth of at least 2% in 2017, with 33% (125) exceeding 3% growth. Though the Sun Belt areas will still lead the US, growth will be more evenly distributed with the Northeast and Midwest improving significantly.

**Employment:** In 2016 the USCM's estimate that another 20 metros will have prerecession peak levels of employment, bringing the total to 250, or 66%. And by year-end 2016 we forecast that 264 metros (69%) will have achieved this job recovery. While these job gains will enable most metros to reach new heights of economic activity, it will still be the case that 117 metros (31%) will yet enter 2017 with fewer jobs than they supported almost a decade ago. Employment growth between 1% and 2% is forecast in 2017 for 203 metros (53%). Sixty five metros (17%) will see job growth greater than 2%, only 3 metros are projected to see a decline.

**U.S. Employment Data (June, 2016)**

<http://www.bls.gov/news.release/empsit.nr0.htm> (next release is August 5, 2016)

**Unemployment:** Risen to 4.9%

**Employment: Loss:** Mining continued to trend down in June. Since reaching its peak in September 2014, mining has lost 211,000 jobs; **Gains:** Total nonfarm payroll employment rose by 287,000 in June, 2016

**Retail:** Retail trade added 30,000 jobs in June. Employment gains occurred in general merchandise stores (+9,000), health and personal care stores (+5,000) Over the past 12 months, retail trade has added 313,000 jobs **Health care:** Increased by 58,000 in June (March, 2015 to March, 2016). Job gains occurred in ambulatory health care services (+19,000) and hospitals (+15,000), about in line with average monthly gains over the prior 12 months in each industry **Social assistance:** Child day care services added 15,000 jobs in June

**SECTION 2 - CALIFORNIA'S ECONOMY****Economic and Revenue Update (July, 2016)**

[http://dof.ca.gov/Forecasting/Economics/Economic\\_and\\_Revenue\\_Updates/documents/2016/june/documents/jun-16.pdf](http://dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2016/june/documents/jun-16.pdf)

[http://dof.ca.gov/Forecasting/Economics/Economic\\_and\\_Revenue\\_Updates/documents/2016/july/documents/jul-16.pdf](http://dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2016/july/documents/jul-16.pdf)

**California's economy:** Became the 6<sup>th</sup> largest in the world in 2015 with \$2.46 trillion in gross state product. In real terms, state growth was 4.1% for the year.

**Residential permits:** Increased by 8.7% in May to annual total of 117,000 permits in May. After both categories added 54,000 units each in April, permits for single-family units were down 10.8% to 48,000, while multifamily units totaled 69,000, up 28.3% from April. The five-month average is now 100,000, slightly above the 12-month average of 96,000.

**Non-residential construction:** Grew by 1.8% in May to \$28.8 billion.

**Real estate:** Sales of existing single-family homes increased 0.6% in May, following a 2.4-percent drop in April. The statewide median price of existing single-family homes sold in May climbed to \$518,760, a 6.3-percent increase from a year ago and just 12.7% off the pre-recession peak of \$594,530 reached in May, 2007. (DOF, July, 2016)

**California Forecast / Economic Outlook**

<http://www.pacific.edu/Documents/school-business/BFC/Forecasts/CA-Metro-Forecast-May2016.pdf> (May, 2016);

[http://beaconecon.com/Misc/Beaconomics\\_Summer2016.pdf](http://beaconecon.com/Misc/Beaconomics_Summer2016.pdf); CBRE Group

**Growth:** The California economy maintained a steady course and is on track for a fifth consecutive year of economic growth, job creation, and lower unemployment. California ranked first among the 50 states in economic growth last year with a 4.1% gain. Steady growth in real gross state product at approximately 3% through 2019. Gross state product grew at an estimated 2.0% rate in 1Q2016.

**Tourism:** Growing tourism and a gradual shift in consumer spending from retail to restaurants has led the leisure and hospitality sector to exceed 4% job growth in each of the past 4 years; projected to add more than 35,000 additional jobs over the next year.

**Commercial office space:** The fastest growing company headcount is about 400 employees. In San Francisco rents have increased by 137% since 2010. The tech sector overall occupies 22 million square feet or 29% of the entire city's office market. The largest consumer of space in the city has been Salesforce.com. (CBRE Group)

**Rents:** The effect of a less-than-healthy owner-occupied housing market has been a falling homeownership rate and higher rents. Rents will continue to increase in markets where supply is constrained.

**State and local government employment:** Is one of the slowest growing sectors, projected to grow less than 1% over the next year. State and local government payrolls in California will finally regain their 2008 level in late 2017.

**Construction jobs:** Nearly 40,000 new jobs are anticipated in each of the next three years, just below a 5% annual growth rate. Despite this expected growth, there will still be fewer Construction jobs in 2020 than before the recession.

**Jobs:** Outpaced the nation in terms of job gains, with a 2.8% yearly increase in May compared to the nation's 1.7% rate.

**The U.S. goods and trade (exports and imports)** California ports was up marginally to 18.12% (12-month moving total, up from 18.03% in April)

**California Labor and Employment Trends**

<http://www.labormarketinfo.edd.ca.gov/Publications/Labor-Market-Analysis/calmr.pdf> (May, 2016);

<http://ajed.assembly.ca.gov/sites/ajed.assembly.ca.gov/files/California%20Economy%20Employment%20Data%20revised-%20May%2020%2C%202016.pdf>

**Unemployment rate:** Decreased to 5.2 and nonfarm payroll jobs increased by 4,200.

**Lowest unemployment rates:** Was 2.6% in San Mateo County in May.

**Other counties with rates below 4.0% in May:** Marin (2.8%); San Francisco (2.9%); Santa Clara (3.3%); Napa (3.4%); San Luis Obispo (3.5%); Sonoma (3.5%); Orange (3.6%); and Alameda (3.8%).

**Highest unemployment rate:** The highest unemployment rate in May was 19.4% in Imperial County.

**Employment gains:** Forty-seven of the 50 areas recorded month-over increases in nonfarm payrolls. Anaheim-Santa Ana-Irvine experienced the largest job gain (11,700 jobs) while Mono County experienced the largest month-over job loss (810 jobs). Forty-five of the 50 sub-state areas recorded year-over employment gains, with the Los Angeles-Long Beach-Glendale showing the largest numerical job growth of 101,000 jobs (2.4%) and Madera County showing the largest percentage growth of 6.7% (2,400 jobs).

**Job decrease:** Mariposa and Colusa County showed the largest numerical job decrease of 50 jobs while Sierra showed the largest percentage decrease of 6.5% (-40 jobs).

**Sectors increases and decreases:** Within nonfarm industries, six sectors saw month-over job gains and five sectors saw job decline. The sectors with increased employment in May were: professional and business services (12,800); educational and health services (12,800); financial activities (2,300); information (1,900); other services (1,600); and government (1,000). Sectors that lost jobs were: leisure & hospitality (-7,300); manufacturing (-5,000); construction (-2,800); trade, transportation, and utilities (-1,500); and mining and logging (-600).

**SECTION 3 – SECTOR PROFILE: CALIFORNIA’S NON-PROFITS ECONOMIC CONTRIBUTION AND IMPACT****California’s Non-Profit Sector**

<http://calnonprofits.org/publications/causes-count>

**Economic activity:** Contributes 15% (or 1/6) of California’s Gross State Product (GSP).

**Industry ranking:** Nonprofits rank as the 4th largest industry in California by employment, producing more jobs than the construction, finance, or real estate industries.

**Regional data profiles:** **Bay Area:** Home to 19% of the state’s population, 28% of its nonprofits, and 53% of its total nonprofit revenue; **Central Valley:** Home to 4% of the state’s population, 5% of its nonprofits, and 2% of its total nonprofit revenue; **Far North:** Home to 3% of the state’s population, 4% of its nonprofits, and 2% of its total nonprofit revenue; **Inland Empire:** Home to 11% of the state’s population, 6% of its nonprofits, and 3% of its total nonprofit revenue; **Los Angeles:** Home to 29% of the state’s population, 21% of its nonprofits, and 21% of its total nonprofit revenue; **Orange County:** Home to 8% of the state’s population, 8% of its nonprofits, and 5% of its total nonprofit revenue; **Sacramento:** Home to 6% of the state’s population, 6% of its nonprofits, and 4% of its total nonprofit revenue; **San Diego:** home to 9% of the state’s population, 9% of its nonprofits, and 7% of its total nonprofit revenue; **San Joaquin:** Home to 11% of the state’s population, 7% of its nonprofits, and 4% of its total nonprofit revenue; **Sierras:** Home to 1% of the state’s population, 1% of its nonprofits, and less than 1% of its total nonprofit revenue.

**SECTION 4 - E-COMMERCE****Quarterly Retail E-Commerce Sales / 1<sup>st</sup> Q 2016/ Released May 17, 2016**

[http://www.census.gov/retail/mrts/www/data/pdf/ec\\_current.pdf](http://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf) (second quarter 2016 release on August 16, 2016)

**Estimate:** Adjusted for seasonal variation for 1Q2016, but not for price changes, was \$92.8 billion, an increase of 3.7% from the 4Q2015.

**Total retail sales:** Estimated at \$1,183.9 billion for 4Q 2016; a decrease of 0.2% from the 4Q 2015.

**Increase in estimates:** Increased 15.2% from the 1Q 2015.

**E-commerce sales:** 1Q2016 accounted for 7.7% of total sales.

**Retail Sales Gain - Fueled by Web**

<http://www.usatoday.com/story/money/2016/06/14/retail-sales-post-solid-gain-may/85845800/> (June 14, 2016)

<http://www.nasdaq.com/article/retail-sales-gain-is-fueled-by-web--wsj-20160514-00003> (May 14, 2016)

**Retail Sales:** Grew more slowly in May after surging the previous month but still posted a solid gain. Driven partly by rising gasoline prices, sales increased 0.5%. In May rose 1.3% at sporting goods stores, 0.8% at restaurants and bars, 0.3% at electronics and appliance stores, 0.6% at health and personal care stores, 0.8% at clothing stores and 1.3% online. Partly offsetting the gains were declines of 0.9% at department stores, 1.8% at building material stores and 0.1% at furniture stores. Retail sales make up the bulk of consumer spending, which comprises 70% of economic activity.

**On-line shopping:** Retail sales include online shopping on Amazon, rival websites and applications. In the past year, Internet and catalog sales have grown more than three times as fast as overall sales, up 10.2%. Department-store sales, meanwhile, sank 1.7% over the past 12 months. Amazon is now the second-largest apparel seller in the U.S., behind Wal-Mart Stores Inc. (Morgan Stanley). That category was once dominated by department stores. Executives at traditional large retailers struggled to explain the slump, which for some companies was their worst since the recession.

**Larger Retailers:** Struggling even though they are getting an increasing amount of revenue from their own e-commerce operations. Executives at Nordstrom, which gets 20% of its sales online, cited weak traffic to malls as well as aggressive discounting online for its slump. The global economy is ratcheting up price pressures as well. Consumer prices for apparel, home wares and other goods often imported from overseas have flattened or fallen due to a stronger dollar. In some cases that means retailers' margins shrink between placing orders and stocking their shelves. Even higher-priced luxury retailers haven't been immune. Foot traffic to apparel stores declined 7.2% in April.

**China's growing E-Commerce:** Chinese consumers already make up for almost half of global online retail sales, and are only growing in numbers. Online retail sales amounted to \$581.61 billion in 2015, surging 33.3% from the previous year. Compared to brick-and-mortar retailing in China, e-commerce sales often experience fewer licensing requirements and quicker customs clearance. Expected to comprise 42% of growth in private consumption by 2020.

**Resale Luxury and Designer Labels**

<https://www.thredup.com/resale/>;

<http://www.wsj.com/articles/ranking-the-resale-value-of-designer-fashion-labels-1465414071?mod=e2tw> (June 8, 2016)

<http://www.chicagotribune.com/business/ct-luxury-garage-sale-funding-0601-biz-20160531-story.html> (June 2, 2016)

Growth in the resale market is expected to outpace all e-commerce and retail sectors over the next 10 years. By some estimates, over \$8 billion of clothing in American closets is unused and ignored. Los Angeles and San Francisco are among the top 10 cities with the greatest amount of resale activity.

**New U.S. Rules Make Foreign Goods Better Deal for Online Shoppers**

<http://www.nasdaq.com/article/new-us-rules-make-foreign-goods-better-deal-for-online-shoppers-20160504-01842#ixzz4E4OvKdZS> (June 28, 2016)

A change in trade rules is making it cheaper and easier for American consumers to buy overseas goods online, heartening merchants abroad but threatening stiffer competition for U.S. retailers. Since about a month ago, the government has allowed Americans to import up to \$800 at a time of most foreign goods without having to pay import duties or tax. Until the new rules took effect March 10, duties averaged 33% on the top 50 products brought into the U.S. when purchases exceeded \$200, according to United Parcel Service Inc. On a \$201 purchase of costume jewelry, U.S. customs would collect a duty of 110%, more than doubling the price. Now, those duties are zero, providing the price totals less than \$800.

**Warehouses Growth and Employment Trend**

*Wall Street Journal, Bureau of Labor and Colliers Internatinol (June 9, 2016)*

New warehouses can top one million square feet and contain thousands of different types of items. May data cites that 185 million square feet is under construction (3,200 football fields). In the Los Angeles/ Inland Empire (16.2 million square feet is under construction). U.S. warehouse jobs are among the fastest growing categories for employment.

**SECTION 5 - AUTO SALES AND TRENDS****California Auto Outlook/ 1st Q 2016 / Released May, 2016**

<http://www.cncda.org/CMS/Pubs/CA%20Auto%20Outlook%201Q%202016.pdf>;

<http://www.autodealermonthly.com/news/story/2016/07/lmc-automotive-revises-us-auto-sale-forecast-sales-to-steer-downward.aspx>

**New Vehicle Market:** Increased in 1Q2016. New light vehicle registrations in the state exceeded 500,000 units for Q12016 and improved 3.8% versus a year earlier. It was 22nd consecutive year-over-year increase in quarterly registrations.

**Future gains:** Strong consumer interest in the abundance of new vehicles being introduced by manufacturers, combined with low fuel prices, attractive incentive offers, and low interest rates should help keep the market on an upward path for at least the next 12 months. Note that national forecasts predict slower sales for new cars that fall below 2015 records.

**Used vehicle market:** Increased 11.7% during the first three months of this year versus a year earlier.

**U.S. Regulator Flags Auto-Lending Risks**

<http://www.occ.treas.gov/publications/publications-by-type/other-publications-reports/semiannual-risk-perspective/semiannual-risk-perspective-spring-2016.pdf>

Banking regulator warns about growing credit risk in the auto-lending sector, raising the prospect of fresh regulatory pressure in the area. Auto lending has been increasing in recent years amid historically low interest rates, cheap gasoline and stronger consumer demand.

**Leasing a Used Car**

<http://www.wsj.com/articles/hot-on-the-lot-leasing-a-used-car-1460417861>

Finance companies and dealers are offering leases as a way to make payments affordable for people who don't qualify for cheap deals on new cars or those looking to save cash. Sales of used cars rose 7% in 1Q2016. More than 16% of vehicles purchased new and used in the final three months of 2015 were leased, compared with 11.5% in the same period in 2012. Used-vehicle supply was extremely thin four years ago following a sales drought during the financial crisis.

**SECTION 6 - GASOLINE****Gas Price Trends**

[https://www.boe.ca.gov/news/pdf/ep616\\_accessible.pdf](https://www.boe.ca.gov/news/pdf/ep616_accessible.pdf)

[http://www.eia.gov/Energyexplained/index.cfm?page=gasoline\\_factors\\_affecting\\_prices](http://www.eia.gov/Energyexplained/index.cfm?page=gasoline_factors_affecting_prices)

<http://energyalmanac.ca.gov/gasoline/index.html> (current California statistics and data)

**Declining Gas Prices:** Declined 37% from June, 2014 to May, 2016.

**Factors Affecting Gas Prices:** The retail price of gasoline includes four main components: The cost of crude oil; Refining costs and profits; Distribution and marketing costs and profits; and Taxes (U.S. Energy Information Administration)

**Major Factors Influencing Volatility in California:** The California refinery system runs near its capacity limits, which means there is little excess capability in the region to respond to unexpected shortfalls; California is isolated and lies a great distance from other supply sources (e.g., 14 days travel by tanker from the Gulf Coast), which prevents a quick resolution to any supply/demand imbalances; and the region uses a unique gasoline that is difficult and expensive to make, and as a result, the number of other suppliers who can provide product to the State are limited.

**California and U.S. Gas Prices** There is a strong relationship between California gas prices and U.S. gas prices. California state gas taxes averaged \$0.59 per gallon on January 1, 2016, while the U.S. average state tax was \$0.48 per gallon, an \$0.11 per gallon differential (American Petroleum Institute). Starting on January 1, 2015, California petroleum refiners became subject to meeting cap and trade carbon allowance requirements; most analysts believe cap and trade added about \$0.12 per gallon to retail gasoline prices starting in 2015.

**The Consumer Response to a Year of Low Gas Prices**

<https://www.jpmorganchase.com/corporate/institute/institute-insights.htm> (July 7, 2016, JP Morgan Study)

On average, gas prices in the United States were 25% lower in 2015 than in 2014. It is estimated that the lower gas prices generated a potential savings of about \$630 for middle-income households. Altogether households spent 58% of their total potential gas savings. Of that amount, households spent 24% or roughly \$150 at gas stations. They spent 34%, over \$200 on things other than gas, primarily on restaurants and retail. The remaining 42% might have been saved or otherwise spent on purchases not typically paid for using a debit or credit card, notably vehicles or other durables.

**SECTION 7 - SUPERMARKETS****New Future for Independent Natural Retail**

<http://supermarketnews.com/natural-food-stores/crafting-new-future-independent-natural-retail>

<http://newhope.com/nfm-market-overview/2016-nfm-market-overview-pdf-download>

<http://www.wsj.com/articles/attention-shoppers-yoga-in-aisle-3-1465860325>

Rather than trying to compete with Kroger, Whole Foods Market, Sprouts Farmers Market and the like, many independents are focusing on providing much more than a place to buy food. They're offering classes in obscure crafts such as sausage making and home fermenting. They're reaching into underserved neighborhoods with experimental mini-stores. They're returning to the activist, local roots from which this industry was born.

Supermarkets have long featured bank branches and dry cleaners, but transforming them into village-like destinations is a newer experiment. Most of these enhanced stores appear to be located in affluent suburbs and city neighborhoods, places where shoppers are more inclined to order groceries from e-commerce sites or meals from services such as Blue Apron.



**Millennials Are Driving the Rise of the Grocerant**

<https://www.npd.com/wps/portal/npd/us/news/press-releases/2016/millennials-are-driving-the-rise-of-the-grocerant/>

Restaurant-quality and fresh food, chef-driven menus, in-store experiences have given rise to the “Grocerant” and inspiration to Millennials to visit and spend. In-store dining and take-out of prepared foods from grocers has grown nearly 30% since 2008, and accounted for 2.4 billion foodservice visits and \$10 billion of consumer spending in 2015. Over 40% of the U.S. population purchases prepared foods from grocery stores, and while Millennials use grocery stores less than other generational groups, retail foodservice is gaining traction with them.

**Changes, News and Trends**

<http://www.theshelbyreport.com> (April, 2016 to July, 2016)

**Aldi:** Plans to operate about 45 stores in California by end of 2016

**Andronico:** Sales rising 3% to 3.5% since last year after installing Instacart delivery programs

**Raley's:** Announced flagship store for Truckee; will be Rancho Murieta's only full service grocery store; opening in Rancho Cordova, two others in Sacramento

**Safeway:** Open new store in Mountain View

**Smart and Final:** Re-opened all 33 lease locations (formerly Haggen)

**Super King:** Opens 7<sup>th</sup> store in Santa Ana

**SECTION 8 - RETAIL TRENDS****Retailers Cut Back On In-Store Inventory**

<http://www.wsj.com/articles/retailers-rethink-inventory-strategies-1467062280> (June 27, 2016)

Every move of inventory is an added cost that eats away at already thin margins. Target has moved bulky items into centralized distribution locations. Kohl's is aiming to lower inventory by 10% by the end of next year, after seeing it swell 15% over the past five years as the department-store chain tried to become a bigger online player. Home Depot has weathered the shift to online shopping habits better than most, with sales at existing stores up at least 5% in each of the past three year.

**Hand-on Services Brick and Mortar Retail Growth**

[www.nreionline.com](http://www.nreionline.com)

Hands-on services and attractive merchandising are luring customers into beauty departments and independent changes. Percentage change from 2015, based on five-month sales totals: Sports goods (6.4%); food services (6.9%); health and personal care that include beauty (7.3%); and building materials and garden (8.0%).

**Bookstores - In-Store Printing**

<http://www.thelowdownblog.com/2016/04/how-tech-is-bringing-readers-back-into.html> (April, 24, 2016)

Bookstores of the future may well feature other cool technology that makes book shopping easier while expanding choices. Espresso Book Machine prints new paperbacks in five minutes or less. These are heady days for independent booksellers, whose ranks have grown to 1,712 bookstores operating in 2,227 locations in 2015, compared with 1,410 bookstores in 1,660 locations in 2010, according to the American Booksellers Association. Amazon has opened a bookstore in Seattle and has a second planned for La Jolla.

**Retailers Bolt Aging Malls for Luxurious Spots to Lure Customers from the Web**

<https://eresearch.fidelity.com/eresearch/evaluate/news/basicNewsStory.jhtml?symbols=RH&storyid=201604210248DOWJONESDJONLINE000182&provider=DOWJONES&product=DJONLINE&sb=1>

The shifting shopping habits have prompted chains such as Williams-Sonoma Inc. and Macy's Inc. to close stores in secondary malls to focus on web sales and more upscale shopping centers. Many of the top malls are attracting higher-end tenants and leasing space to upscale restaurants and gyms, or hosting events. As a result, shoppers are more apt to bypass smaller, local malls that tend to stock basic items more easily purchased online.

**Small Businesses at Malls**

<http://www.cnbc.com/2016/06/21/small-businesses-shake-up-the-mix-at-local-malls.html> (June 21, 2016)

With sales growth at small-business retailers outpacing that of their larger competitors nearly every month over the past four years, landlords are looking more favorably at mom-and-pop tenants than in the past. As shopping centers seek to differentiate themselves from neighboring properties, and drum up traffic in an increasingly digital world, adding small businesses to the mix is an easy way for property owners to accomplish both goals. The largest publicly traded owner and operator of open-air shopping centers in North America, has expanded a program that offers small businesses one year of free rent and reduced property charges.

**Shadow Lending**

<http://www.wsj.com/articles/slowdown-in-shadow-lending-tightens-credit-on-main-street-1467679698> (July, 2016)

A \$98 billion drop in bonds backed by loans makes it harder for businesses, shopping-mall owners and consumers to refinance debt. There are more than \$10 trillion in outstanding securities backed by U.S. consumer, business and other loans. The remainder consists of collateralized loan obligations, commercial mortgage-backed securities and other bonds underpinned by outstanding credit-card debt, auto loans and assets like solar-panel leases and vacation timeshares.

**Retail & Restaurant Expansion Guide, North America (Summer, 2016)**

<http://www.cushmanwakefield.com/en/research-and-insight/download/?report={6118FDB1-A72A-4B0E-AFEA-D44978422FAD}&field={9811993E-4C4B-49AE-9907-0562CB471AE4}&>

The report shows that despite declining store sales and predictions that traditional stores and malls will be killed off by online shopping, retailers are still opening lots of new bricks-and-mortar stores. The report lists the expansion plans for close to 2,000 retail and restaurant chains over the next 12 months. It shows that most of the retail growth this year and in 2017 will be driven by discount and dollar stores and off-price apparel, food and services, such as hair salons and massage chains.

**Retail Store Changes and News**

[www.nreionline.com](http://www.nreionline.com); [www.plainvanillashsell.com](http://www.plainvanillashsell.com); [http://retailindustry.about.com/od/USRetailStoreClosingInfoFAQs/fl/US-2016-Store-Closings-All-Retail-Chain-Store-Locations-To-Be-Closed\\_2.htm](http://retailindustry.about.com/od/USRetailStoreClosingInfoFAQs/fl/US-2016-Store-Closings-All-Retail-Chain-Store-Locations-To-Be-Closed_2.htm) (April, 2016 to July, 2016)

**Ambercrobie & Fitch:** Closing 60 stores per year

**Aeropostale:** Closing 175 in the years ahead

**Anytime Fitness:** Ranked #1 global franchise

**Apple:** Expected to introduce new smartphone; consumer are purchasing from third-party retailers rather than Apple

**Brookstone:** Filed bankruptcy in 2014; expanding in China with three stores

**Barnes and Noble:** Closing 223 stores through 2023; 10 stores closing in fiscal 2017 while opening four new concept stores

**Bargain Hunt:** Takes over Office Depot space in Antioch; one of 20 planned nationwide this year

**Big Lots:** Projects adding stores

**Chicos:** Closing 120 by 2017

**Coach:** Growth in sales increased in the U.S.; first quarterly sales increase in nearly three years

**Dollar Tree:** Adding new stores and distribution center for growth; average customer salary at \$40,000

**Gap:** Had its credit rating cut to junk status

**H&M:** Opening more stores as other retailers bet on the web

**Hancock Fabrics:** 255 closing in various locations

**J. Crew:** Closing stores; opening discount namesake stores, J. Crew Factory and Madewell

**Jos. A. Banks:** Will close 250 stores this year (was purchased by Men's Warehouse)

**Kohl's:** 18 underperforming stores will close this year; half in California

**Kmart:** Closed 16 store in March; same store sales dropped 6.1 % for the quarter ending April 30

**Les Schwab:** Expanding in July (four in Riverside County and one in San Bernardino)

**Lulumon:** Concerns the company is not keeping up with athletic market and capitalizing on the trend of workout gear for everyday life (WSJ, June, 2016)

**Macys:** Last year announced plans to close 35-40 stores

**Michaels:** Creating a modern brick-and-mortar experience in stores

**Office Depot:** Closed 56 stores in the final quarter of 2015 and planning 50 closings in 2016

**PacSun:** Closed over 250 stores between January 2011 and September 2015

**Petco:** Opening stores throughout the Country including one in Los Angeles in April

**PetSmart:** Expands with 12 new stores in 1Q2016 with California locations in El Centro, Goleta, and Van Nuys

**Pet Supplies Plus:** Entry into new states including California

**Pier One:** Closing 100 by 2017

**Ralph Lauren:** Revenue and profit have declined; closing 50 stores

**Sears:** Will close 68 Kmart and 10 Sears stores nationwide this summer

**Sephora:** Will open in JCPenny's new flagship store in Salinas

**T-Mobile:** Will open about 1,400 more retail stores this year to keep pace with its expanding network footprint

**Shake Shack:** Bolstering its unit growth plans in California

**Sports Authority:** Dick's wins auction for company

**Sports Chalet:** Closing all California locations and stopped selling on-line

**Staples:** Staples closed between 242 stores between 2014 and 2015; another 50 is planned for 2016

**Sears:** Sears will close 50 locations in 2016

**T.J. Maxx, Marshalls, and HomeGoods:** Will have 5,600 stores (from 3,700) when it is finished expanding

**Victoria Secrets:** Shifting and setting aside more space for sportswear under garments

**Walgreens:** Closing 200 by 2017

**Williams Sonoma:** Owns West Elm and Pottery Barn. Gets half of its sales from e-commerce; has suffered in recent quarters because of competition

**SECTION 9 – RESTAURANT TRENDS****U.S. Restaurant Industry Continues To Grow at Slow Pace but There Are Pockets of Stronger Growth**

<https://www.npd.com/wps/portal/npd/us/news/press-releases/2016/us-restaurant-industry-continues-to-grow-at-slow-pace-but-there-are-pockets-of-stronger-growth/> (June 7, 2016)

Visits to fast-food restaurants had been growing at a quarterly clip of 2% since September 2015, but haven't grown at all in March, April or May (NPD Group Inc.) Restaurants are among the first industries to benefit when consumers are feeling flush, but recent economic indicators may be giving people pause about dining out. Job growth slowed last month, and gas prices are starting to climb again.

**Chipotle:** Working to win customers with free items

**Creamistry:** Continues expansion in Southern California

**David's TEA:** Opens 200<sup>th</sup> store in the U.S.

**Dickeys:** Opening franchise in 12 locations including Northern San Diego

**Dunkin' Donuts:** Eight new openings in Los Angeles and more

**Freshi:** Opens seven stores in four countries

**Hooters:** To open 10 new Hooters locations in Sacramento over the next six years.

**Ikes Place:** Opening 24 stores across California

**Johnny Rockets:** Opening 14 mall locations in 2016

**Juice It Up!** Will develop throughout Southern California; first location is in Beaumont

**McDonalds:** Closing 500 in 2016 and beyond

**Noodles & Company:** Added 15 new restaurants

**Quiznos:** Closed more than 300 stores; has less than 1,000 locations down from 5,000 in 2006

**Pie Hole:** Expands into Orange County with 1<sup>st</sup> franchise

**ShopHouse Southeast Asian Kitchen:** 15<sup>th</sup> location opened in Los Angeles; continues plan for growth in three existing markets

**SECTION 10: CANNABIS****The Economic Impacts of Cannabis Sales in the State of California**

<http://www.icfi.com/insights/white-papers/2016/economic-impact-of-marijuana-sales-in-california/>;

<http://www.muniservices.com/services/cannabis-support-services/>

Legal sales of cannabis by residents and visitors could support between 81,000 and 103,000 annual jobs and between \$8.4 billion and \$10.6 billion in total industry activity. ICF estimate that California residents could consume between 1,435 and 1,824 tons per year if cannabis legalized for recreational use. ICF estimates sales revenue between \$15.9 billion and \$20.2 billion per year. Using the California state sales tax base rate of 7.5%, these sales revenue estimates amount to tax revenue between \$1.2 billion and \$1.5 billion per year. If SB 987 (known as the Marijuana Value Tax Act) passes, which proposes a 15% excise tax on cannabis purchased from retailers, these tax revenue estimates would double to at least between \$2.4 billion and \$3.0 billion per year.