

Q1 2020



City of Fullerton Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2020)

Fullerton In Brief

Fullerton's receipts from January through March were 23.2% below the first sales period in 2019 but this decline was magnified by the Governor's recent Executive Order allowing some businesses an extra 90-days to file their tax return. Excluding this, actual sales were down 4.7%.

Receipts from casual dining restaurants were down 19%, matching the statewide trend, as the Governor's March 19 lockdown closed restaurant dining rooms at the tail-end of the quarter. Fast food sales were also down, but only by 3% as drive through service was less impacted.

Auto-transportation related sales were also lower by 14% as consumers shied away from major purchases amidst the uncertainty. The sale of building-construction supplies fell, but a misallocation may have contributed to this loss.

Conversely, allocations from the countywide use tax pool surged 16%, partially offsetting the declines in other categories. These receipts were boosted by a recent legislative change that allows the taxation of additional internet sales that previously went untaxed.

Net of aberrations, taxable sales for all of Orange County declined 4.4% over the comparable time period; the Southern California region was down 4.1%.

SALES TAX BY MAJOR BUSINESS GROUP



*Allocation aberrations have been adjusted to reflect sales activity

TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Albertsons	Golden West Towing Equipment
Anderco	Home Depot
Arco	McCoy & Mills Ford
Arco AM PM	OC Auto Exchange
Atlas Construction Supply	Ocean Subaru of Fullerton
Auto Republic	Opus Inspection
Best Buy	Ralphs
Car Castle	Rexel
Chevron	Sam's Club w/ Fuel
Costco	Shell
CSU Fullerton Foundation	Stater Bros
Engineered Floors	Target
Floor & Decor	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date (Q3 to Q1)

	2018-19	2019-20
Point-of-Sale	\$16,133,840	\$14,165,044
County Pool	2,238,940	2,580,449
State Pool	8,357	7,852
Gross Receipts	\$18,381,138	\$16,753,346

Statewide Results

With stay at home/non-essential business restrictions in place during the last two weeks of the quarter, local one cent tax revenues for the state overall, were 18.8% lower than January to March of 2019. Taxpayer relief programs accounted for much of the decline with receipts down roughly 3.1% after factoring for payment deferrals and other accounting anomalies.

Severe drops in auto sales, general consumer goods, service stations and restaurants were largely offset by new revenue from implementation of the Wayfair v. South Dakota decision that now requires out-of-state retailers to collect and remit Californian's sales and use tax. Other offsets included a surge in online shopping that boosted receipts from the county use tax allocation pools and from online retailers who maintain and ship their inventory from within California.

The food/drug sector also showed strong gains as did many home supply, dollar and discount stores that remained open during the shutdown.

New Challenges & Opportunities

Current indicators suggest that overall tax receipts for the April thru June sales period will bottom out at 27% below the second quarter of 2019. The speed of the rebound in sales activity will be dependent on the availability of adequate testing, treatment therapies and ultimately a vaccine. Until then, physical distancing, COVID-19 protocols and supply chain disruptions will create limitations on some operating capacities and the return to work of all employees. Health fears, discounts and liquidation sales may also keep sales tax revenues below pre-pandemic levels until solutions are in place.

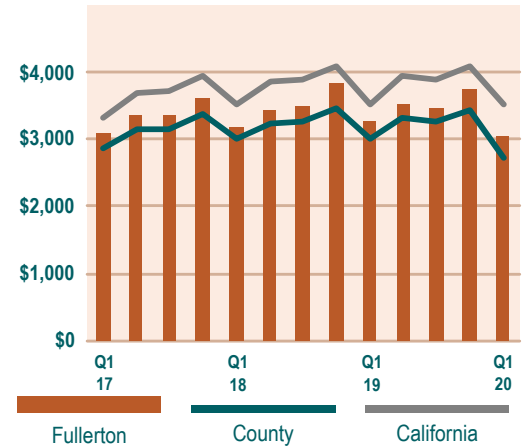
Regardless of when full recovery does occur, reports are that some elements of the economy will be permanently altered. Generation of future tax revenues may require rethinking of local economic strategies.

Over expansion, excessive debt and consumer shifts to online shopping were already resulting in bankruptcies with estimates of up to 25,000 brick-and-mortar store closings by the end of 2020. "Touch and feel" shopping is not going away but retailers see an evolution where in-store shopping is more leisure/recreational oriented with smaller stores offering more show-rooming and delivery/pick-up services. The smaller footprints and lifestyle emphasis offer opportunities to reinstate downtowns and neighborhood centers as economic/social gathering places.

The Pandemic's capture of new online customers and the growing trend of manufacturers and entrepreneurs with new concepts to bypass physical stores and sell directly to the consumer also expands options for agencies without large market populations to generate sales tax through industrial development.

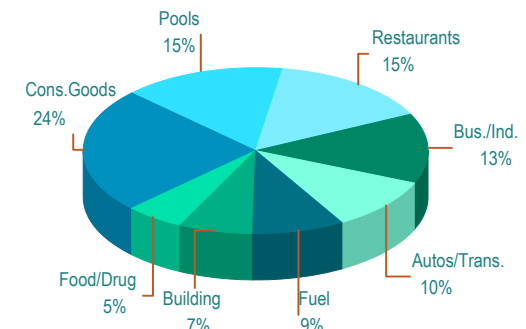
Finally, the Pandemic's disruption of supply chains has also accelerated growing dissatisfaction with overseas arrangements and some reshoring will occur which offers opportunities to leverage a city's existing business base to attract compatible support industries.

SALES PER CAPITA*



*Allocation aberrations have been adjusted to reflect sales activity

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



*Allocation aberrations have been adjusted to reflect sales activity

FULLERTON TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	Fullerton Q1 '20*	Fullerton Change	County Change	HdL State Change
Automotive Supply Stores	76.9	-24.5%	-12.0%	-9.7%
Building Materials	165.8	-1.6%	-1.4%	2.9%
Casual Dining	319.0	-19.4%	-18.8%	-19.2%
Contractors	90.6	-6.0%	-10.7%	2.8%
Discount Dept Stores	— CONFIDENTIAL —	—	3.3%	3.2%
Electronics/Appliance Stores	176.4	-8.7%	-13.6%	-18.3%
Fast-Casual Restaurants	77.7	-18.5%	-11.5%	-10.1%
Grocery Stores	180.9	11.7%	11.7%	11.7%
Light Industrial/Printers	181.3	-5.3%	-4.7%	-5.3%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	-13.0%	-10.9%
Plumbing/Electrical Supplies	— CONFIDENTIAL —	—	-0.5%	1.3%
Quick-Service Restaurants	336.0	-3.3%	-5.6%	-8.7%
Service Stations	443.1	-4.1%	-12.4%	-9.9%
Textiles/Furnishings	70.6	7.8%	-9.6%	-9.4%
Used Automotive Dealers	165.7	-18.3%	-13.3%	-13.1%
Total All Accounts	4,305.0	-7.7%	-9.9%	-7.5%
County & State Pool Allocation	781.1	15.8%	21.5%	22.4%
Gross Receipts	5,086.0	-4.7%	-4.4%	-3.3%

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