

Q3 2017



City of West Covina Sales Tax Update

Fourth Quarter Receipts for Third Quarter Sales (July - September 2017)

West Covina In Brief

West Covina's receipts from July through September were 5.4% below the third sales period in 2016. Excluding reporting aberrations, actual sales were down 1.1%.

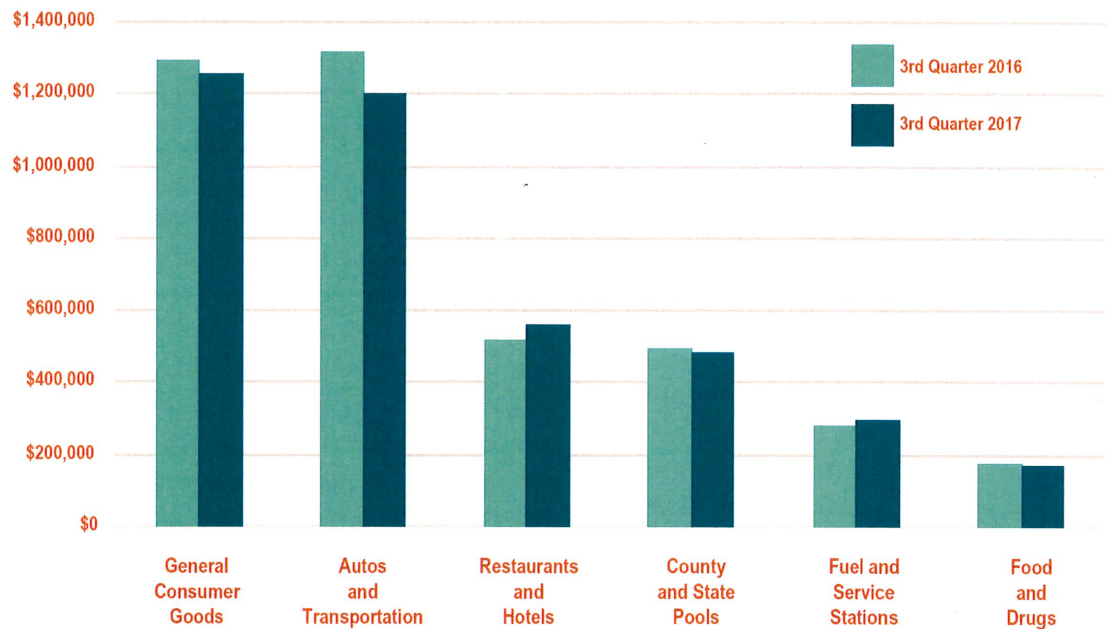
The largest factor in the overall decline was a 10% drop in new car sales, though this drop was exacerbated by a partial payment from a local dealer. The payment is expected to be made whole in a future quarter.

The negative reversal of a prior quarter misallocation artificially deflated business-industrial returns. Reported results would have otherwise improved. Electronic/appliance stores also fell.

Restaurant sales were the bright-spot this quarter, though the reported gain in the fast-food category was exaggerated by a partial payment last year, which made for a favorable comparison.

Net of aberrations, taxable sales for all of Los Angeles County grew 3.1% over the comparable time period; the Southern California region was up 3.1%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS IN ALPHABETICAL ORDER

76	Nordstrom Rack
Ashley Furniture	Norm Reeves Honda
Audi West Covina	Penske Mercedes Benz
Azusa Arco	Penske Toyota of West Covina
Best Buy Mobile	Ross
Crestview Cadillac	Sears
Daimler Trust	Stater Bros
Drivetime	Target
Ford of West Covina	Triples Chevron
Home Depot	Walmart Supercenter
Honda Lease Trust	West Covina Chrysler Dodge Jeep Ram
JC Penney	
LA Auto Exchange	
Macys	

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$7,620,623	\$7,382,620
County Pool	1,083,107	1,012,554
State Pool	2,646	694
Gross Receipts	\$8,706,375	\$8,395,869

Statewide Trends

After factoring for accounting anomalies, local government's one-cent share of statewide sales and use tax from July through September sales was 3.6% higher than 2016's summer quarter.

Rising fuel prices, increased demand for building-construction materials and the continuing acceleration in online shopping for merchandise shipped from out-of-state that is expanding receipts from the countywide use tax allocation pools were the primary contributors to the overall increase.

This quarter marked the anticipated leveling off of auto sales while agriculture and transit-related purchases helped boost otherwise tepid gains in business-industrial receipts. Restaurant sales exhibited healthy overall gains of 3.5% although growth rates are slowing from previous quarters.

Receipts from consumer goods sold by brick and mortar stores were up 0.7% over the previous year while revenues from online purchases grew 13.3%.

Cannabis Taxation

A 15% excise tax on retail cannabis and cannabis products along with a cultivation tax and sales tax on recreational uses take effect on January 1, 2018.

Significant sales tax revenues are not expected until late 2018-19 as retail start-ups comply with lengthy state and local permitting processes. Although sales of medicinal cannabis became exempt in 2016 for purchasers with a state issued Medical Marijuana ID card, jurisdictions with dispensaries continue to receive sales tax from that source as most patients prefer to use a note from their physicians.

Some decline in revenues from medical dispensaries are expected as users' transition to new purchase options and because of lower prices caused by anticipated overproduction and the six month window that suppliers have to sell existing inventory grown under previous regulations.

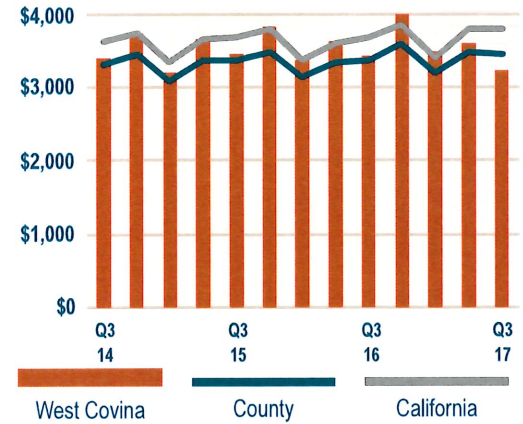
Sales Tax and Natural Disasters

The recent firestorm tragedies have raised questions on potential bumps in sales tax revenues from reconstruction and recovery activities.

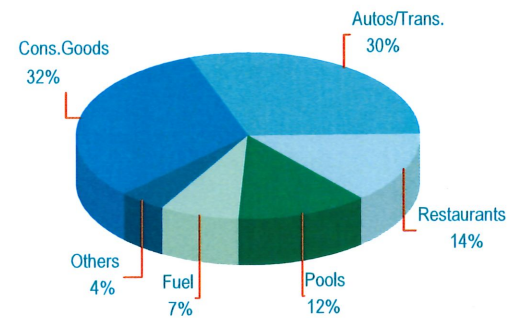
HdL analyzed the sales tax data from the 1991 Oakland Hills, 2003 San Diego Cedar and 2007 San Diego Witch fires which involved the combined loss of over 7,700 structures. Surprisingly, there were no identifiable gains in construction and auto-related purchases within the impacted areas during the five years after each event with receipts following normal economic cycles experienced by the state as a whole.

Further analysis suggests that though the individual losses are catastrophic, purchases of replacement items are a small fraction of the impacted area's total spending and is often spread to other jurisdictions where disaster victims relocate. Tax receipts from construction spending are defused over time because of lengthy claims and permitting processes that cause up to 40% of disaster victims to relocate leaving vacant lots that are not immediately redeveloped.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
West Covina This Quarter



WEST COVINA TOP 15 BUSINESS TYPES

Business Type	West Covina		County	HdL State
	Q3 '17*	Change	Change	Change
Auto Lease	125.7	-10.4%	3.7%	4.6%
Building Materials	— CONFIDENTIAL —	—	3.3%	5.6%
Casual Dining	260.1	1.5%	3.3%	2.5%
Department Stores	204.5	-6.7%	-8.7%	-7.7%
Discount Dept Stores	— CONFIDENTIAL —	—	6.3%	6.1%
Electronics/Appliance Stores	166.6	-14.1%	-1.2%	0.4%
Family Apparel	169.4	0.0%	3.3%	1.6%
Grocery Stores	97.1	-2.3%	0.2%	0.6%
Home Furnishings	96.1	18.8%	3.6%	0.8%
New Motor Vehicle Dealers	928.2	-14.7%	-4.0%	0.9%
Quick-Service Restaurants	215.6	14.8%	3.7%	4.8%
Service Stations	297.5	6.8%	6.8%	9.2%
Shoe Stores	71.3	2.5%	-0.6%	-1.0%
Specialty Stores	129.6	9.6%	1.6%	2.2%
Used Automotive Dealers	— CONFIDENTIAL —	—	2.9%	2.9%
Total All Accounts	3,488.7	-5.8%	3.2%	4.1%
County & State Pool Allocation	483.4	-2.6%	6.7%	4.8%
Gross Receipts	3,972.1	-5.4%	3.6%	4.2%