

Q3 2018



City of West Covina Sales Tax Update

Fourth Quarter Receipts for Third Quarter Sales (July - September 2018)

West Covina In Brief

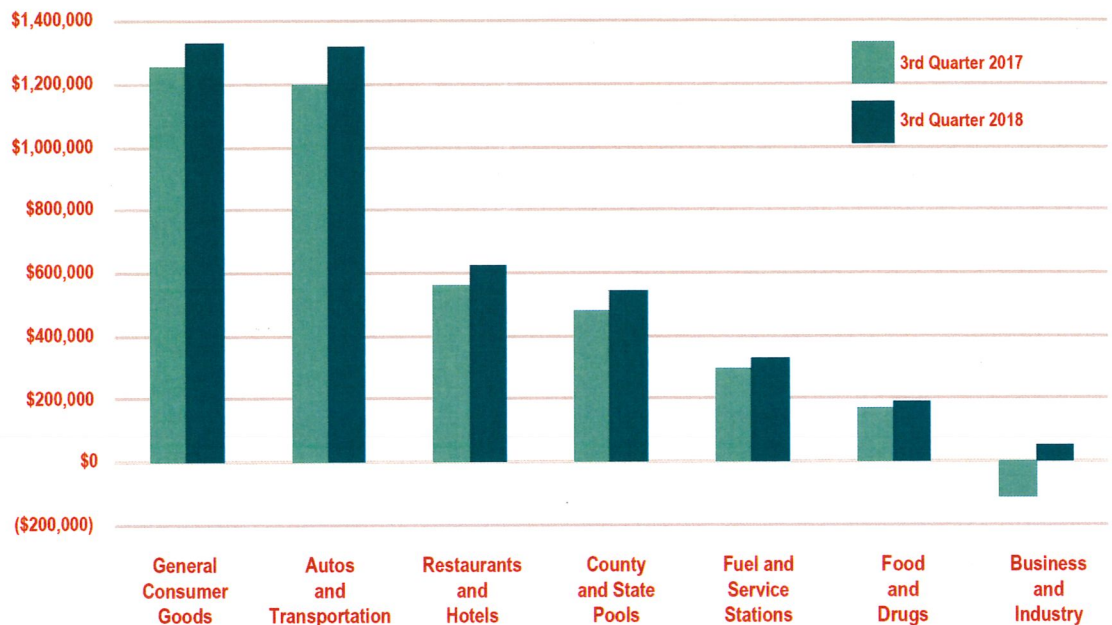
West Covina's receipts from July through September were 14.6% above the third sales period in 2017. This dramatic rise is mostly attributed to CDTFA's transition to a new reporting system where multiple returns not processed in the prior period were received with this quarter's allocations. Once all remittances were shown correctly, actual sales in the current period were down 1.1%.

Softening sales by home furnishing and department stores combined with the closeout of a specialty retailer hurt general consumer goods summer results. Although receipts from new auto dealers struggle to match last year's peak, returns from leasing activity and used auto vendors helped offset the drop. Onetime activity in the comparison period also hurt business-industry.

Steady price increases at the pump, mostly related to the global cost of crude oil and implementation of SB-1 locally, pushed gas station receipts higher. While continued interest in eating out and a new quick service establishment positively impacted restaurant results.

Net of aberrations, taxable sales for all of Los Angeles County grew 4.0% over the comparable time period; the Southern California region was up 4.3%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

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

REVENUE COMPARISON

One Quarter - Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	\$3,488,699	\$4,004,594
County Pool	480,664	543,556
State Pool	2,730	2,055
Gross Receipts	\$3,972,093	\$4,550,205

California Overall

The CDTEFA's problems with its new software system had yet to be fully resolved by the end of the third quarter. HdL's adjustments for delayed payments and other reporting deficiencies indicate that statewide receipts from the local one cent tax rose 5.2% over the first three quarters of 2018 versus the comparison period. The gains were primarily from higher fuel prices, strong building-construction activity and a rise in tax receipts from online purchases delivered from out-of-state that are shared by all agencies via the county pools.

The data exhibits the start of a leveling pattern in other sectors. The statewide gain in new car sales for July through September was due to a single manufacturer filling back orders. Price competition kept tax revenues from consumer goods receipts relatively flat while the rise in online shopping is expanding the diversion of tax revenues from brick and mortar stores to county pools or to in-state distribution centers.

Restaurant sales are beginning to show signs of market saturation as well as the impact of new competition that includes - prepared food and meal kits delivered from a variety of other sources. A modest gain in business-industrial sales was largely related to data and warehouse technology as well as a few major development projects.

Anticipated declines in fuel prices in the first quarter of 2019 adds support to HdL's latest consensus forecast for a modest statewide gain of 1.5% in fiscal year 2019-20 unless new trade conflicts further impact the economy.

South Dakota V. Wayfair Decision

In June, the Supreme Court reversed its previous ruling that retailers are not required to collect taxes for jurisdictions where they have no physical presence or "nexus." Instead, the buyer was responsible for remitting the tax.

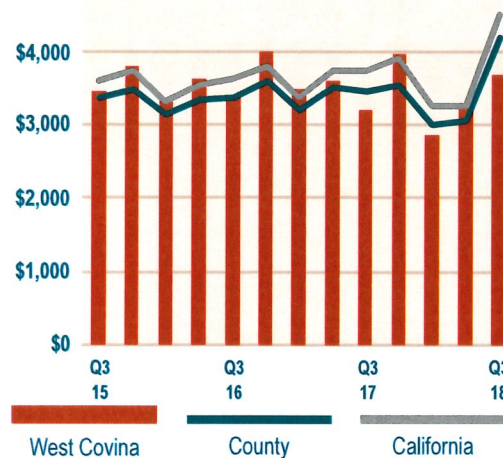
California will begin enforcing the Wayfair reversal effective April 1, 2019

by making retailers delivering from out-of-state responsible for collecting and remitting use tax if calendar year sales exceed \$100,000 and/or 200 or more separate transactions. The same threshold will also determine whether in-state retailers are responsible for collecting taxes on deliveries to individual transactions tax districts.

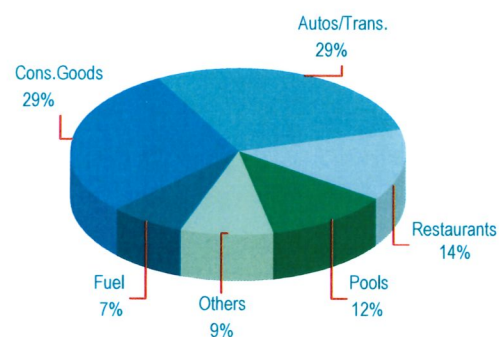
Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

As most major online retailers, including Wayfair, are already collecting California taxes and the state has traditionally enforced a broad definition of "nexus," the impact of the South Dakota decision may be less than in other states. The U.S. Government Accountability Office estimates a potential eventual gain of \$3 to \$5 per capita in receipts from our one cent local tax.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
West Covina This Quarter



WEST COVINA TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	West Covina	County	HdL State	
	Q3 '18*	Change	Change	Change
Auto Lease	235.8	87.8%	44.8%	43.4%
Building Materials	— CONFIDENTIAL —		36.0%	29.8%
Casual Dining	283.5	8.6%	16.1%	14.9%
Department Stores	191.1	-6.5%	-1.5%	-3.6%
Discount Dept Stores	— CONFIDENTIAL —		17.9%	18.3%
Electronics/Appliance Stores	161.4	-0.3%	9.9%	12.7%
Family Apparel	213.9	27.3%	36.5%	36.3%
Grocery Stores	103.7	6.8%	22.5%	16.1%
Home Furnishings	86.4	-10.0%	25.3%	23.1%
New Motor Vehicle Dealers	907.9	-2.2%	12.1%	12.7%
Quick-Service Restaurants	247.4	14.8%	11.6%	13.5%
Service Stations	329.2	10.7%	43.6%	43.1%
Shoe Stores	73.3	2.8%	6.7%	5.5%
Specialty Stores	105.7	-19.3%	12.0%	8.5%
Used Automotive Dealers	96.0	11.6%	50.2%	46.9%
Total All Accounts	4,004.6	14.8%	21.7%	21.8%
County & State Pool Allocation	545.6	12.9%	19.7%	27.8%
Gross Receipts	4,550.2	14.6%	21.5%	22.6%