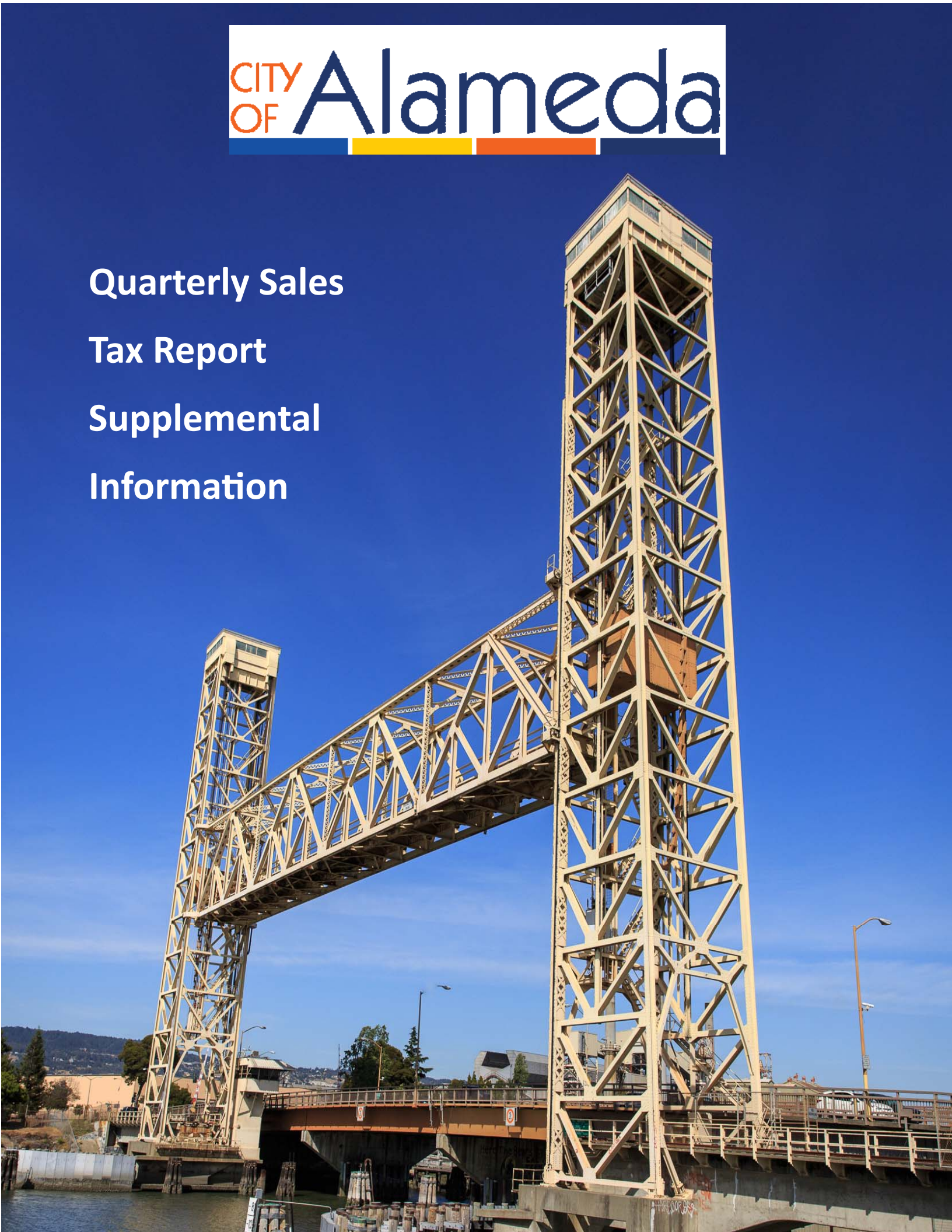
CITY OF Alameda

Quarterly Sales Tax Report Supplemental Information



City of Alameda

Staff Report

File Number:2014-410

City Council

Agenda Date: 6/3/2014

File Type: Consent Calendar Item

Agenda Number: 5-C

Recommendation to Accept the Quarterly Sales Tax Report for the Period Ending March 31, 2014 Collected During the Period October to December 31, 2013. (Finance 2410)

To: Honorable Mayor and Members of the City Council

From: John A. Russo, City Manager

Re: Accept the Quarterly Sales Tax Report for the Period Ending March 31, 2014 Collected During the Period January to March 31, 2014

BACKGROUND

This report summarizes the sales tax transactions for the period October 1 through December 31, 2013, which is the basis for sales tax revenues received by the City between January 1, 2014, and March 31 2014. For purposes of this report, sales tax revenues exclude Proposition 172 funds, the allocation from the statewide pool for public safety services.

DISCUSSION

Sales tax continues to be the fourth largest source of General Fund revenue for the City of Alameda, representing approximately 7% of total budgeted revenues for FY13-14. Taxable sales transactions in Alameda increased approximately 2%, or $39,562, from the same quarter in the prior fiscal year. This increase is shown on the table on the following page, which reflects sales by geographic area.

The top 25 businesses in Alameda represent approximately 53%, or $962,141, of the quarter's sales transactions. The top 100 businesses represent approximately 77%, or $1.4 million, of the quarter's sales transactions.

The following is a summary of the key economic categories of sales tax, in comparison with the same quarter of the prior fiscal year:

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Economic Category	Total	Percent of Total	Dollar Change	Percent Change
Transportation & Fuel	315,045	17%	1,620	1%
Food & Drugs	198,736	11%	3,707	2%
General Consumer Goods	431,095	24%	130,775	44%
Business & Industry	439,688	24%	(74,728)	-15%
Restaurants & Hotels	343,186	19%	36,181	12%
Building & Construction	80,954	4%	(58,660)	-42%
Transfers & Unidentified	667	0%	667	100%
Total - Quarter	**1,809,371**	**100%**	**39,562**	**2%**

The General Consumer Goods category saw increases in department sales, family apparel and sporting goods during the quarter. The decrease in Business and Industry fields were due to declines in business to business sales and one-time reallocations to other agencies resulting from sales tax audits. Restaurants and Hotels saw increases in both the casual and fine dining sectors. The decline in Building & Construction resulted from a decline in construction related supplies during the quarter.

The following is a summary of sales tax by geographic area, in comparison with the same quarter of the prior fiscal year:

Geographic Areas	Total	Percent of Total	Dollar Change	Percent Change
South Shore Center	399,343	22%	22,799	6%
Park – South of Lincoln	206,412	11%	10,752	5%
Park – North of Lincoln	158,186	9%	5,706	4%
Clement Ave & Blanding Ave	137,953	8%	605	0%
Webster – North of Lincoln	100,943	6%	(5,104)	-5%
Harbor Bay Business Park	358,749	20%	(71,899)	-17%
Marina Village Business Park	14,839	1%	(10,888)	-42%
Bridgeside Center	62,379	3%	(5,101)	-8%
North Waterfront	34,961	2%	5,904	20%
Alameda Point	52,430	3%	(8,909)	-15%
Neighborhood Development Districts	58,931	3%	4,899	9%
Harbor Bay Landing	52,453	3%	3,635	7%
Marina Village Shopping Center	41,081	2%	554	1%
Webster – South of Lincoln	39,298	2%	1,284	3%
All Other Areas	91,413	5%	85,325	1402%
Total - Quarter	**$1,809,371**	**100%**	**39,562**	**2%**

The South Shore center continued to show growth in the both the retail and restaurant sectors during the holiday season. The Park Street area, both North and South, continued to see solid sales from their restaurants and service stations, while Webster Street sales taxes declined due to a temporary decrease in gas prices during the quarter. The drop in sales at Harbor Bay Business Park resulted from a reduction in

business to business sales. The increase in all other areas resulted from one-time negative sales tax adjustments in the prior year.

As of March 31, 2014, fiscal year sales tax revenues as recorded in the City's General Fund were approximately $3.25 million, or 58%, of the $5.6 million budgeted (excluding Prop 172 sales tax funds) for FY13-14. The percentage received is relatively consistent with the prior fiscal year for the same time period.

This quarter's report includes a new supplemental section containing the following information:

1. Major Industry Groups - Current Quarter Comparison and 13 Year History
2. Sales by Geographic Area - 13 Year History
3. Sales Tax Surplus/Gap Comparison by Retail Category
4. Quarterly Sales Comparison of Cities in Alameda County
5. Per Capita Sales Comparison of Cities in Alameda County
6. City to State Comparison by Sector - Calendar Year 2013
7. Statewide Sales Tax Update
8. Statewide Sales Tax Trend Information

ENVIRONMENTAL REVIEW

This activity is not a project and is exempt from the California Environmental Quality Act (CEQA) pursuant to section 15378 (b)(4) of the CEQA Guidelines, because it involves governmental fiscal activities, which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

RECOMMENDATION

Accept the Quarterly Sales Tax Report for the period ending March 31, 2014.

Respectfully submitted,
Fred Marsh, Finance Director

By,
Brad Farmer, Finance Supervisor

Exhibit:
1. Quarterly Sales Tax Report Supplemental Information

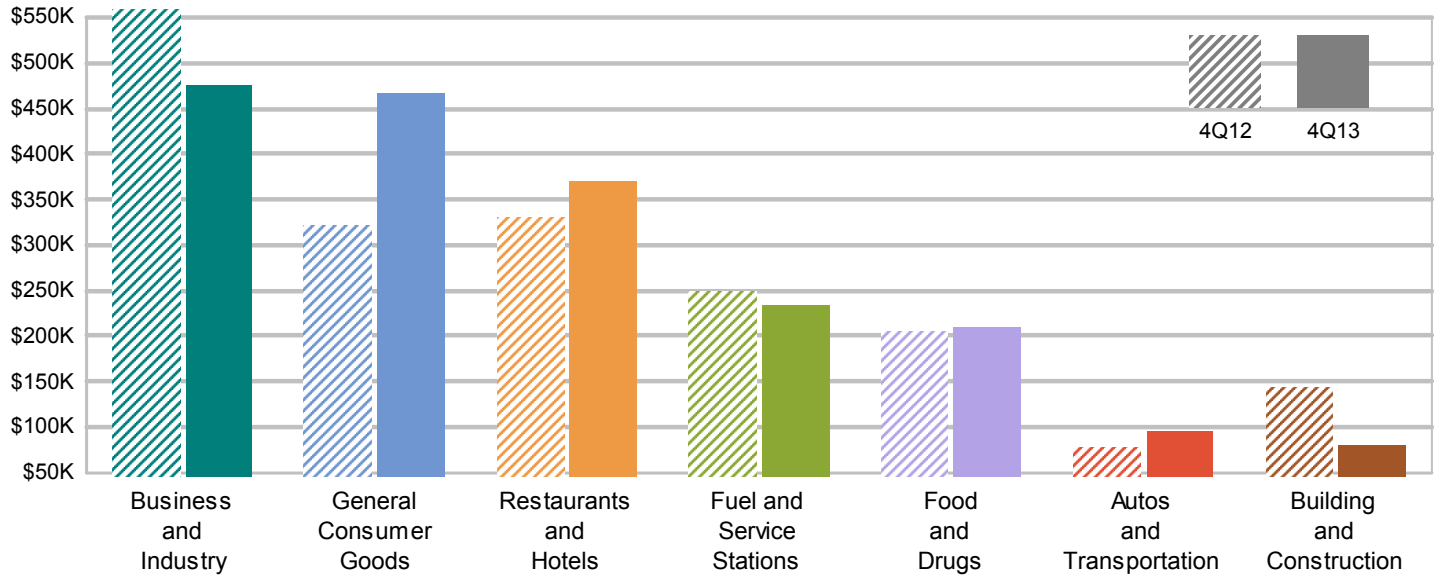
cc: Robb Ratto, PSBA
Harry Hartman, GABA
Brad Shook and Carolyn Lantz, WABA
Mark Sorensen, Alameda Chamber of Commerce

CITY OF ALAMEDA

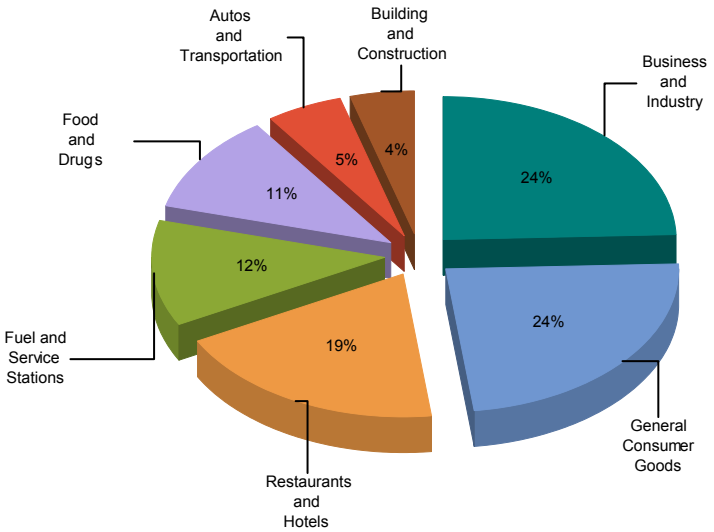
MAJOR INDUSTRY GROUPS

Major Industry Group	Count	4Q13	4Q12	$ Change	% Change
Business and Industry	621	439,688	514,416	(74,728)	-14.5%
General Consumer Goods	1,848	431,095	300,320	130,775	43.5%
Restaurants and Hotels	286	343,186	307,005	36,182	11.8%
Fuel and Service Stations	19	220,353	233,853	(13,500)	-5.8%
Food and Drugs	83	198,736	195,029	3,707	1.9%
Autos and Transportation	136	94,692	79,572	15,120	19.0%
Building and Construction	68	80,954	139,615	(58,661)	-42.0%
Transfers & Unidentified	1	667	0	667	-N/A-
Total	3,062	1,809,371	1,769,809	39,563	2.2%

4Q12 Compared To 4Q13



4Q13 Percent of Total



CITY OF ALAMEDA

MAJOR INDUSTRY GROUPS - 13 YEAR HISTORY

ADJUSTED FOR ECONOMIC DATA

Sales Tax by Major Industry Group

Business And Industry
Count: 621

Restaurants And Hotels
Count: 286

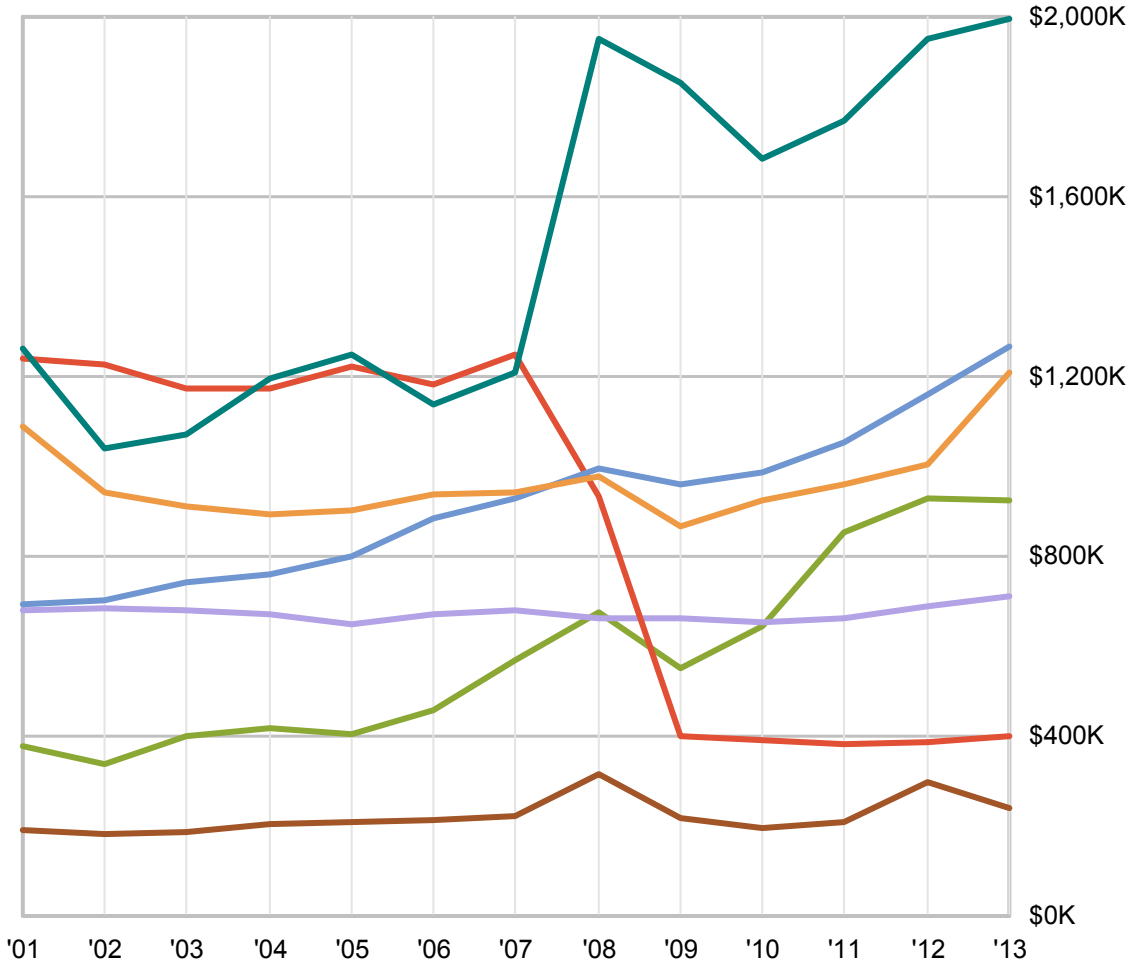
General Consumer Goods
Count: 1,848

Fuel And Service Stations
Count: 19

Food And Drugs
Count: 83

Autos And Transportation
Count: 136

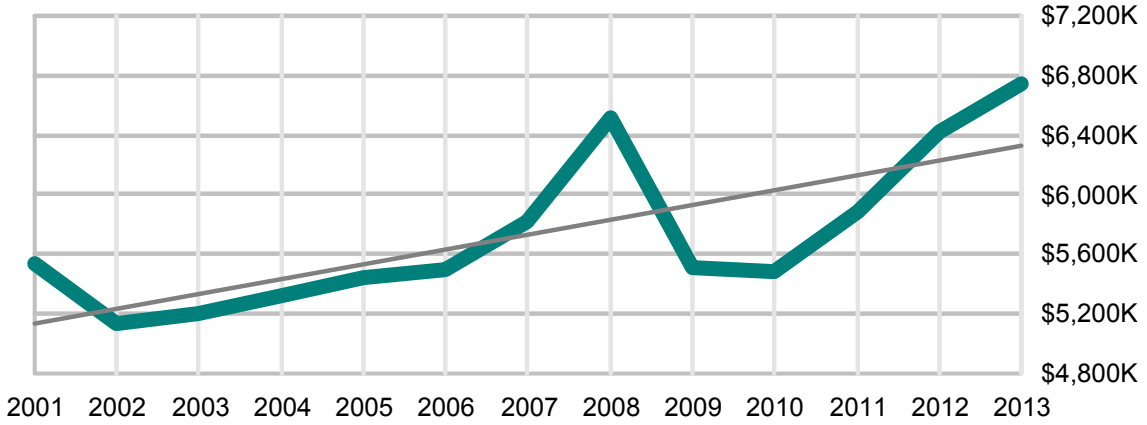
Building And Construction
Count: 68



Agency Trend

Alameda

13 Year Trend: +23.3%



Periods shown reflect the period in which the sales occurred - Point of Sale

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CITY OF ALAMEDA

TOP GEOS - 13 YEAR HISTORY

Geo Area Names

Sales Tax by Geographic areas

Harbor Bay Business Park
Count: 46

South Shore Center
Count: 76

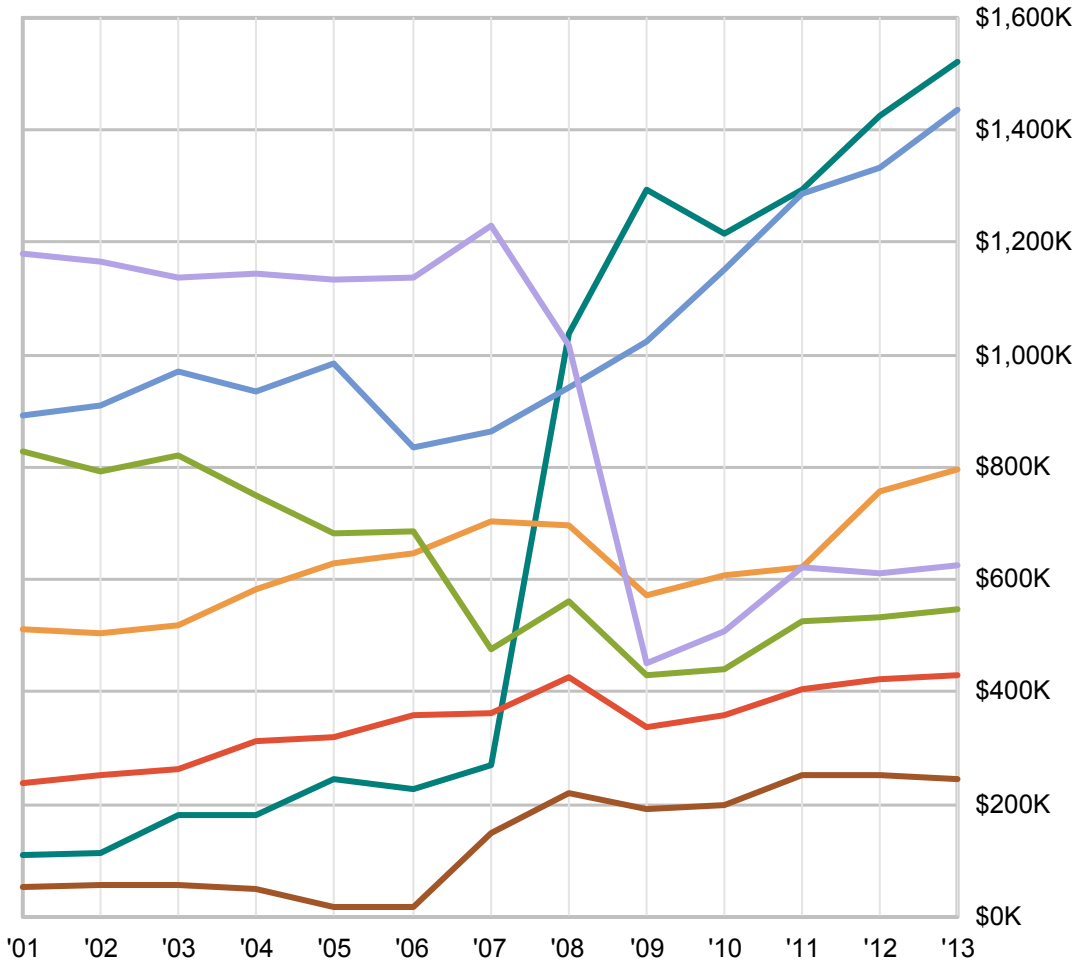
Park - South Of Lincoln
Count: 285

Clement Ave & Blanding Ave
Count: 120

Park - North Of Lincoln
Count: 112

Webster-north Of Lincoln
Count: 38

Bridgeside Center
Count: 28



* Periods Shown Reflect the Period in Which the Sales Occurred - Point of Sale

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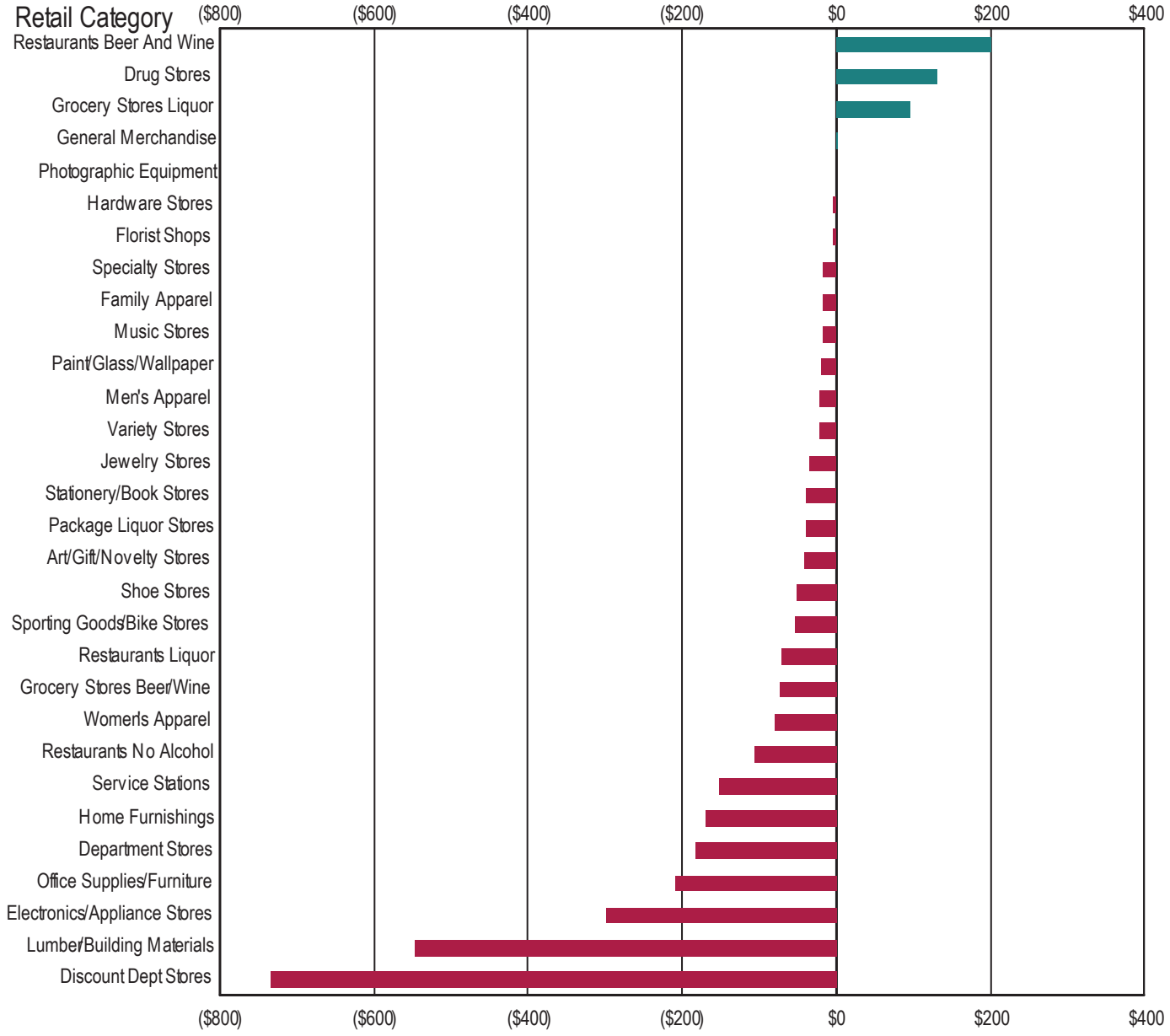
CITY OF ALAMEDA

PER CAPITA SALES TAX SURPLUS/GAP COMPARISON - 4 QUARTERS ENDING 4Q 2013

ADJUSTED FOR ECONOMIC DATA



The above graph compares **per capita** sales tax generated from targeted retail categories against countywide averages. A **retail surplus** suggests the community is capturing its local market for that category of goods plus attracting shoppers from outside the jurisdiction. A **retail gap** suggests the possibility that residents may have a greater demand for products in the specific category than is being satisfied by local businesses. The information is provided only as a **starting point** in identifying potential sources of sales tax loss and should not automatically be interpreted as an expansion or leveraging opportunity without more detailed analysis and assessment.

ALAMEDA COUNTY ALL AGENCIES

SALES TAX TRENDS FOR ALL AGENCIES - 4Q 2013 SALES

Agency allocations reflect "point of sale" receipts

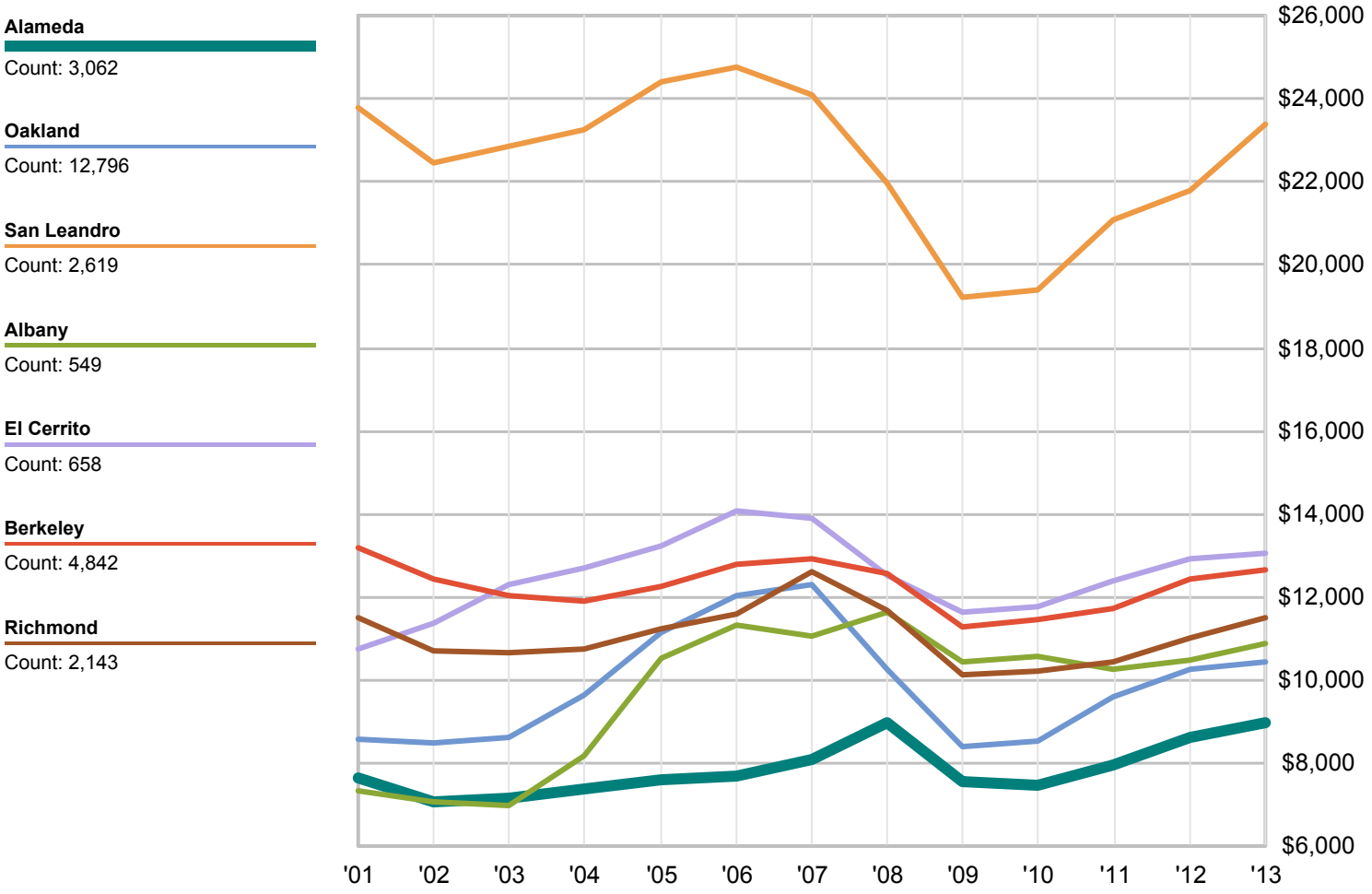
Agency Name	Count	Current Year 4Q 2013	Prior Year 4Q 2012	Share of County Pool	Actual Receipts % Change	Adjusted* % Change
Piedmont	214	66,271	37,469	0.1%	+ 76.9%	+ 25.3%
Fremont	5,389	8,803,424	7,592,386	14.1%	+ 16.0%	+ 10.1%
Livermore	2,761	5,722,927	4,784,976	9.1%	+ 19.6%	+ 9.3%
Dublin	1,278	4,194,547	3,703,209	6.7%	+ 13.3%	+ 8.9%
Hayward	4,373	7,179,253	6,359,073	11.5%	+ 12.9%	+ 8.8%
San Leandro	2,619	5,514,038	4,914,628	8.8%	+ 12.2%	+ 8.1%
Albany	549	543,042	503,567	0.9%	+ 7.8%	+ 6.3%
Berkeley	4,842	3,935,352	3,797,592	6.3%	+ 3.6%	+ 4.5%
Union City	1,282	2,235,262	2,007,125	3.6%	+ 11.4%	+ 4.1%
Emeryville	875	1,873,379	1,677,913	3.0%	+ 11.6%	+ 3.8%
Oakland	12,796	10,903,770	10,293,211	17.4%	+ 5.9%	+ 3.1%
Alameda	3,062	1,809,371	1,769,809	2.9%	+ 2.2%	+ 3.0%
Pleasanton	3,489	5,660,007	4,820,096	9.0%	+ 17.4%	+ 2.4%
Newark	1,360	2,274,958	2,274,256	3.6%	+ 0.0%	+ 1.2%
Alameda Co. Uninc	2,362	1,896,194	1,957,580	3.0%	- 3.1%	- 1.2%
Totals	47,251	62,611,796	56,492,889	100.0%	+ 10.8%	+ 6.0%
Alameda Pool	14,035	11,761,931	9,476,146		+ 24.1%	+ 7.3%

CITY OF ALAMEDA

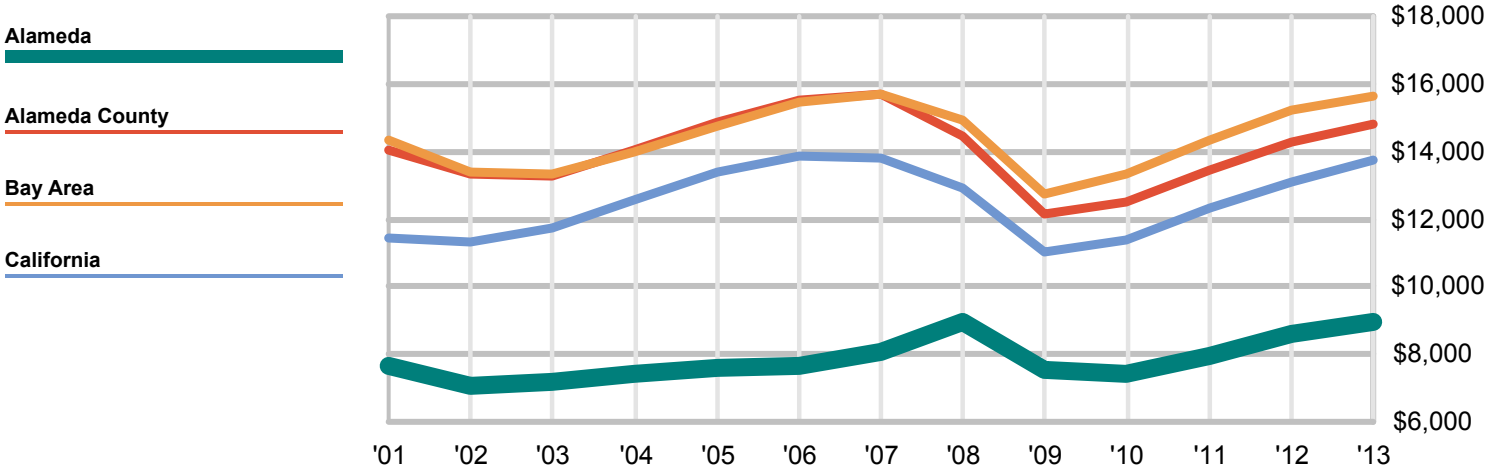
AGENCY COMPARISONS

ADJUSTED FOR ECONOMIC DATA

Per Capita Sales



Per Capita Sales



Periods shown reflect the period in which the sales occurred - Point of Sale

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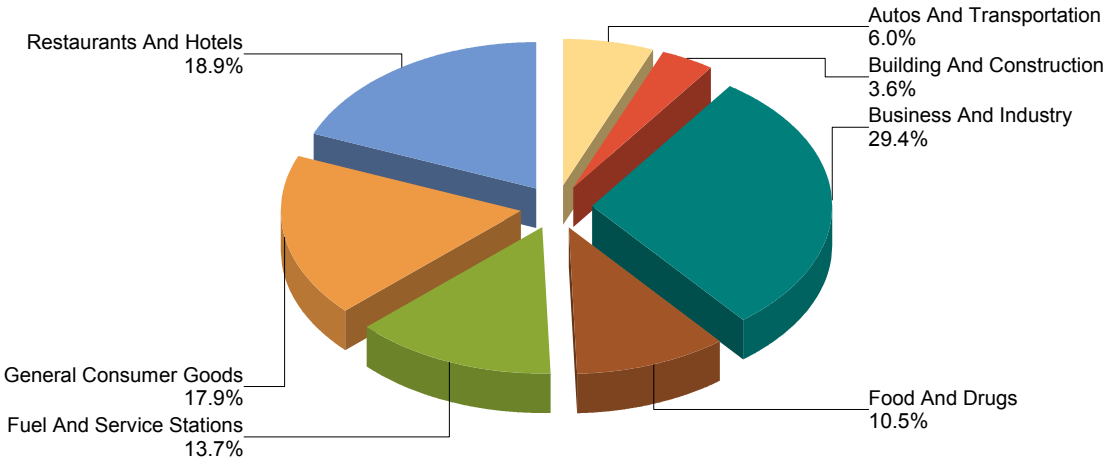
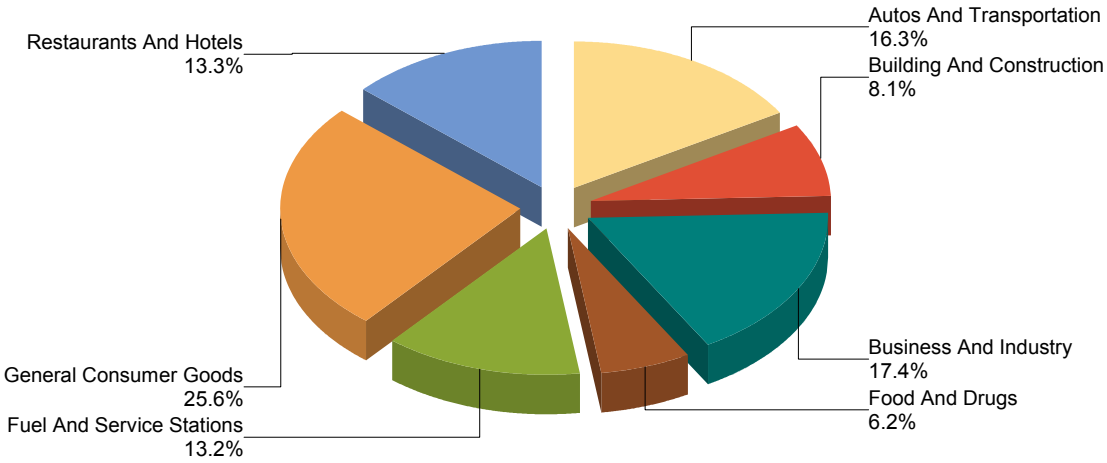
CITY TO STATE COMPARISON
CALENDAR YEAR 2013

City of Alameda



HdL Client Database Statewide Totals



NOTES

Statewide Results

Excluding accounting anomalies, the local share of sales and use tax receipts from California's 2013 holiday spending rose 3.4% over the fourth quarter of 2012.

Auto sales and leases and all categories of building and construction materials were substantially up over the previous year while tourism and convenience-driven consumer demand continued to produce healthy gains in restaurant related revenues.

Sales of luxury goods and portable electronics did particularly well while cut backs in food stamp programs and unemployment benefits reduced spending at discount department stores and many value oriented retailers. Generally, the gains in sales from online purchases were higher than for brick and mortar stores.

Rising fuel efficiency resulted in lower receipts from service stations and petroleum supply companies while a slowing pace in solar and alternate energy development reduced use tax receipts from the business/industrial segment.

Spending patterns were fairly consistent throughout most regions.

E-Commerce Spending Up

Tax receipts from holiday spending on general consumer goods at brick and mortar stores grew by 2.3% over last year's comparable quarter while local tax revenues from online purchases increased 16% and accounted for 10.3% of total general consumer goods sales and use tax receipts.

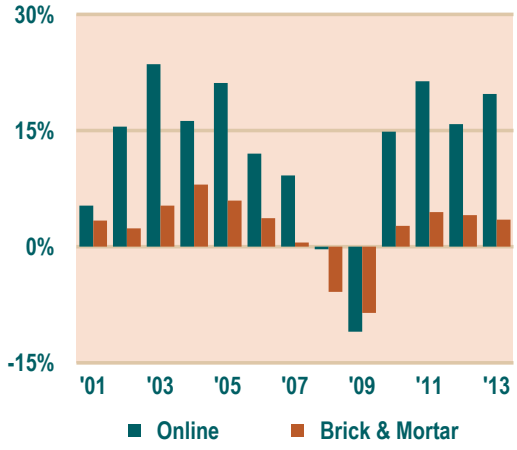
The rise in online retail shopping accelerates trends that began 20 years ago by sellers of materials and equipment to business and industrial users. Suppliers were able to take advantage of business preferences for the ease of online ordering by consolidating sales offices and inventories into just a few locations.

However, it was not until social networking and growth in the use of mobile devices that the general public became fully comfortable with online purchasing. Retail analysts expect the trend to expand and every major retailer is testing new concepts to reduce store size and overhead costs by driving more of their sales to centralized web-based order desks.

New technology, recent court decisions and legislative exemptions are constantly reducing what is taxable and has substantially altered the base on which the tax was created in 1933. The concentration of business supplies and now consumer goods into fewer and larger "points of sale" has accelerated competition for what is becoming a diminishing resource. Local governments are now bidding rebates up to 85% of the local tax collected in exchange for location of order desks.

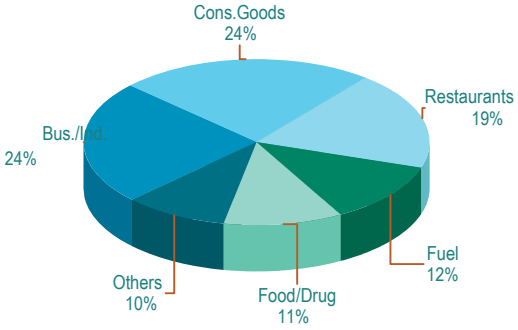
Online vs. Brick & Mortar

Year-Over-Year Percent Growth



Revenue by Business Group

Alameda This Quarter



Alameda Top 15 Business Types

In thousands	Alameda		County	HdL State
Business Type	**Q4 '13***	**Change**	**Change**	**Change**
Boats/Motorcycles	31.2	-6.0%	21.2%	12.6%
Business Services	40.5	-27.8%	30.3%	9.2%
Casual Dining	148.6	14.0%	8.5%	5.8%
Contractors	31.3	-66.7%	10.5%	15.2%
Department Stores	— CONFIDENTIAL —		-1.5%	1.6%
Discount Dept Stores	— CONFIDENTIAL —		2.4%	0.1%
Drug Stores	56.7	-6.3%	4.3%	2.6%
Family Apparel	90.6	8.5%	14.2%	6.8%
Fine Dining	42.3	24.7%	22.7%	15.5%
Grocery Stores Liquor	104.7	8.1%	2.7%	38.3%
Light Industrial/Printers	34.6	29.9%	4.7%	7.9%
Medical/Biotech	312.4	-6.3%	23.9%	24.2%
Quick-Service Restaurants	107.4	0.2%	8.5%	7.8%
Service Stations	218.4	-6.3%	-7.4%	-2.7%
Specialty Stores	72.5	17.0%	8.1%	7.6%
Total All Accounts	**$1,809.4**	**2.2%**	**10.8%**	**8.7%**
County & State Pool Allocation	**$341.2**	**14.4%**	**24.1%**	**9.4%**
Gross Receipts	**$2,150.6**	**4.0%**	**12.7%**	**8.8%**
City/County Share	**(107.5)**	**-4.0%**		
Net Receipts	**$2,043.1**	**4.0%**		

HdL COMPANIES

HdL Consensus Forecast – April 2014

STATEWIDE SALES TAX TRENDS

	2013-14	2014-15
Autos/Transportation	9.7%	5.0%

The rebound in construction activity is boosting pickup and truck sales. However, new car inventories have reached their highest levels since 2009 and manufacturers are beginning to offer discounts and other incentives to entice customers onto dealer lots. Pent-up demand remains but the rate of sales growth is expected to be more moderate in 2014-15.

Building/Construction	10.2%	7.5%

California's construction sector continues to gain momentum, with demand for multi-family units particularly robust. The supply of new apartments hasn't kept pace with new household formations, especially in the state's urban centers. Accelerating employment, modest improvement in mortgage availability and historically low interest rates are expected to lead to higher housing demand over the next two years. Investment in transportation infrastructure, water projects and commercial building related to the tech boom are also on the rise.

Business/Industry	0.6%	2.0%

An alternative energy project building "boom" that peaked a year ago has skewed growth comparisons for this group. A drop in federal subsidies available for these projects and fewer power purchasing agreements signed by major utilities will slow the pace of future energy development. However, net of the energy segment, business and industry sales should experience a 4.0% statewide gain in 2014-15.

Food/Drugs	2.1%	2.0%

Traditional supermarket chains continue to be the location of choice for most grocery purchases but consumers face an ever-growing number of shopping choices from high-end and specialty grocers to drug stores, warehouse clubs and dollar stores. Despite the expansion of options, growth in this segment will remain slow and steady.

Fuel/Service Stations	-3.4%	1.0%

Even with declining domestic fuel consumption, increased global demand for oil is putting upward pressure on gasoline prices. With the expectation of $4.00 per gallon prices through the busy summer season, a moderate uptick in receipts is anticipated for 2014-15.

General Consumer Goods	2.9%	2.0%

The demand for luxury goods appears to be peaking while the expiration of long-term unemployment benefits and cuts to food stamp programs have reduced lower income and unemployed consumer's purchases of discount and value priced goods. The trend toward online shopping is shifting tax revenues from brick and mortar stores to either countywide pools or centralized fulfillment distribution warehouses.

Restaurants/Hotels	5.9%	5.0%

The health and wellness trend is shifting sales at traditional quick service restaurants to fast casual operations with healthier alternatives which are also stealing sales from full service dining chains. The lower prices and convenience of the fast casual boom and increased domestic and international air travel and tourism have all contributed to ongoing gains in this group.

State and County Pools	10.3%	7.0%

County pool allocations are increasing due to the shift in consumer habits of buying more goods online. However, future receipts are uncertain as more in-state distribution facilities qualify for point of sale status in lieu of pool allocations. Rising private automobile transactions, equipment leases and out-of-state purchases of business equipment and supplies are adding to the gains.

TOTAL	4.4%	3.7%

The Proposition 172 growth projection is 2.6% for Fiscal Year 2013-14. This factor varies from HdL's Bradley-Burns growth forecast due to differing collection periods and comparisons to prior year data that include onetime payment aberrations.

BEACON ECONOMICS

National and Statewide

ECONOMIC DRIVERS

April 2014

	2013-14	2014-15
U.S. Real GDP Growth	3.3%	3.8%

The U.S. economy enters 2014 poised for improved economic growth. Posting a solid 2.6% increase in Real GDP during the fourth quarter of 2013, the U.S. economy has seen steady gains in consumer and business spending, residential investment is rising, and there has been some modest resolutions to the federal headwinds in Washington D.C. Beacon Economics expects the economy to grow during the remainder of fiscal 2013-14 and is expected to accelerate in the first half of fiscal 2014-15 as the recovery gains momentum.

U.S. Unemployment Rate	6.8%	6.3%

The employment recovery continues to progress through the first quarter of 2014 with nonfarm employment growth averaging 178,000 jobs in the first three months of the year. Through March, the U.S. had added back over 8.3 million of the roughly 8.6 million jobs lost during the Great Recession. The unemployment rate reached 6.7% in March, and the coming fiscal year will see the unemployment rate dip below 6.5% for the first time since 2008.

California Total Nonfarm Employment Growth	2.5%	2.1%

Jobs growth in California progressed during the first quarter of 2014, adding nearly 26,800 new nonfarm positions in January and February. More revealing was the EDD's annual benchmark revisions which showed that nonfarm employment had been undercounted by 158,600 jobs throughout the state, not counting private household jobs that were simply reclassified into the health care sector. California continues to be a leader in the nation's employment recovery because businesses are expanding their operations. Through February, California had added back more than 1.2 million jobs since hitting bottom in February 2010. This rebound has been broad based across both regions as well as industries. Tourism, real estate and professional services are expected to continue driving solid job growth.

California Unemployment Rate	8.3%	7.5%

At 8.0%, California's unemployment rate is improving more quickly than the nation's rate - reducing the spread between the two rates from over 3 percentage points in 2011 to 1.3 percentage points currently. And while the improvement over the last year came as the labor force did not expand, the number of unemployed persons looking for work shrank by 14.1%. Beacon Economics expects the unemployment rate to continue to fall, dipping below 7% by the end of 2015.

California Population Growth	0.9%	1.0%

The California Department of Finance recently reported that population growth in California increased to 0.9% in 2013. Despite the fact that more than 100,000 former Californians left the state (net of new residents from other states), almost 170,000 new residents immigrated to California from other countries last year. Combined with more than 265,000 in natural population increases, the state's population expanded by more than 332,000 last year to 38.2 million. Still, given the high cost of living and lower fertility rates amongst many segments of the population, 1% population growth is forecast to remain in place for some time.

California Median Existing Home Prices	$ 364,800	$ 396,100

The median sales price of a home in California was 22.8% higher in February 2014 than it was a year earlier, although prices have remained level on a month-to-month basis since the latter half of 2013. Housing inventories have risen, but remain below five months of supply. Meanwhile, interest rates have remained fairly stable since June 2013 and are very low by historical standards, which will help encourage first-time and move-up buyers that have been on the sidelines of the recent surge. Home prices are expected to continue to rise, but growth will return toward historical norms of 5% annually over the next two years.

California Residential Building Permits	85,500	109,100

From February 2013 to February 2014, there were more than 80,100 new residential units permitted across California. That represents a 20% increase over permits filed in the same period a year before, primarily because home prices rose rapidly and the number of homes on the market remains limited. Multifamily construction continues to form a larger portion of new developments than the single-family market due to the increasing number of renters statewide. Given that California remains undersupplied on housing, with one of the lowest residential vacancy rates in the nation, Beacon Economics is forecasting that residential permit growth will be robust over the next two years.