



Quarterly Sales Tax Report





City of Alameda

Staff Report

File Number:2014-940

City Council

Agenda Date: 10/7/2014

File Type: Consent Calendar Item

Agenda Number: 5-C

Recommendation to Accept the Quarterly Sales Tax Report for the Period Ending June 30, 2014 Collected During the Period April 1, 2014 to June 30, 2014. (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 June 30, 2014 Collected During the Period April 1, 2014 to June 30, 2014

BACKGROUND

This report summarizes the sales tax transactions for the period January 1 through March 30, 2014, which is the basis for sales tax revenues received by the City between April 1, 2014, and June 30 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 20%, or \$329,137, 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 69%, or \$1,363,484, of the quarter's sales transactions. The top 100 businesses represent approximately 79%, or \$1.5 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 Over Previous Year	Percent Change Over Previous Year
Transportation & Fuel	\$321,519	16%	(\$6,500)	-2%
Food & Drugs	164,096	8%	(69)	0%
General Consumer Goods	331,623	17%	86,789	35%
Business & Industry	759,345	39%	215,214	40%
Restaurants & Hotels	334,722	17%	25,687	8%
Building & Construction	59,882	3%	7,951	15%
Transfers & Unidentified	65	0%	65	0%
Total - Quarter	\$1,971,252	100%	\$329,137	20%

Overall the City saw a good quarter of sales tax revenue. There was a 15% increase in sales combined with a 5% sales tax adjustment in the City's favor to account for the 20% increase in the current year's quarter over last year's quarter. The General Consumer Goods category saw increases in discount department sales, specialty stores and foot apparel while sporting goods and electronics were slightly down during the quarter. Business and Industry saw increases due to strong sales in the medical/health sectors and industrial equipment sales. Restaurants and Hotels continue to see increases due to the casual and fine dining sectors. Building & Construction saw increases due to supply sales increasing in the spring.

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 Over Previous Year	Percent Change Over Previous Year
South Shore Center	328,275	17%	5,898	2%
Park – South of Lincoln	196,274	10%	5,403	3%
Park – North of Lincoln	159,282	8%	(655)	0%
Clement Ave & Blanding Ave	146,834	7%	14,419	11%
Webster – North of Lincoln	90,676	5%	(8,765)	-9%
Harbor Bay Business Park	610,020	31%	211,611	53%
Marina Village Business Park	54,579	3%	6,053	12%
Bridgeside Center	68,999	4%	8,437	14%
North Waterfront	40,656	2%	(2,959)	-7%
Alameda Point	43,377	2%	9,762	29%
Neighborhood Development Districts	49,394	3%	2,744	6%
Harbor Bay Landing	40,866	2%	(1,432)	-3%
Marina Village Shopping Center	40,928	2%	499	1%
Webster – South of Lincoln	35,953	2%	2,633	8%
All Other Areas	65,139	3%	75,489	-729%
Total - Quarter	\$1,971,252	100%	329,137	20%

The Clement Avenue and Blanding Avenue area saw increases sales from service stations and business to business sales. While the Webster - North of Lincoln area saw lower sales from both service stations and casual dining, Webster - South of Lincoln saw increases in dining. Harbor Bay Business Park saw large increases in Medical/Health sales. Marina Village Business Park continues to show strong sales from the medical/health industries and the Bridgeside Center also saw slight increases from the marine and manufacturing fields. Alameda Point saw increases from business to business sales, beverage vendors and the contractors at the Point. Neighborhood Development Districts saw small increases due to local grocery and apparel sales. All other areas are where local sales and sales tax adjustments occur and are reflected and should be considered one-time adjustments.

As of June 30, 2014, unaudited fiscal year sales tax revenues as recorded in the City’s General Fund were approximately \$5.7 million, or 101%, 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 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 - Fiscal Year 2013-14
7. Statewide Sales Tax Update
8. Statewide Sales Tax Trend Information

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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 June 30, 2014 Collected During the Period April 1, 2014 to June 30, 2014.

Respectfully submitted,
Juelle-Ann Boyer, Interim Finance Director

By,
Brad Farmer, Finance Supervisor

Exhibit:

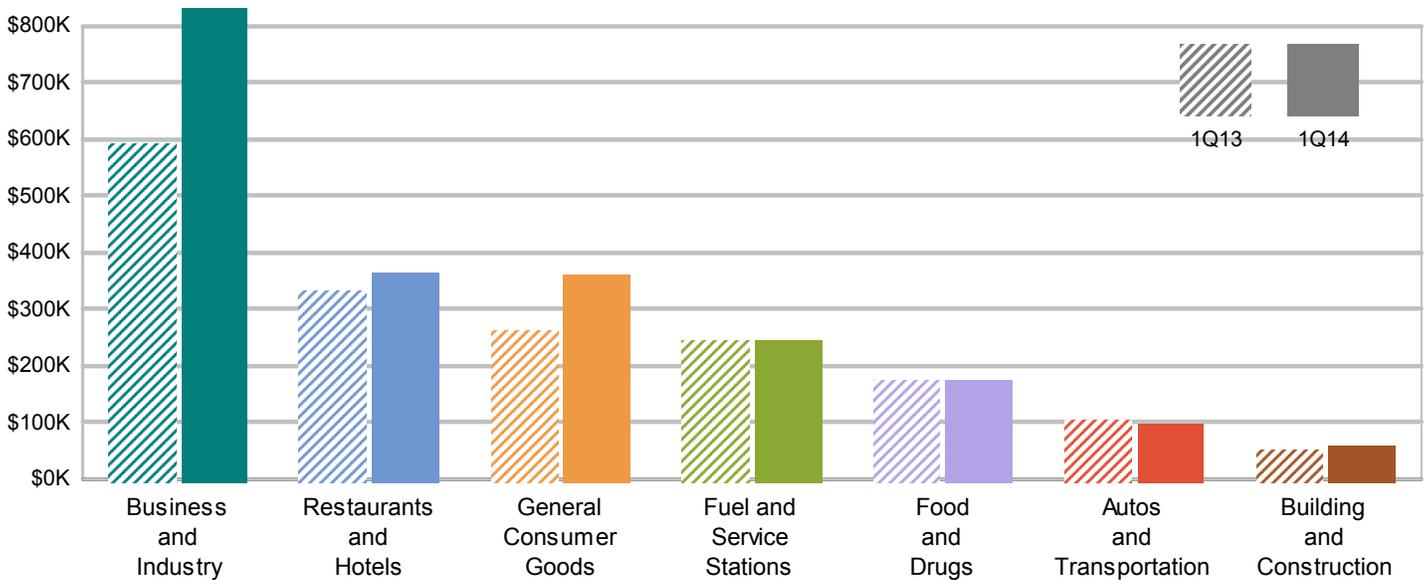
1. Quarterly Sales Tax Report Supplemental Information

cc: Robb Ratto, PSBA
Tony Kuttner, GABA

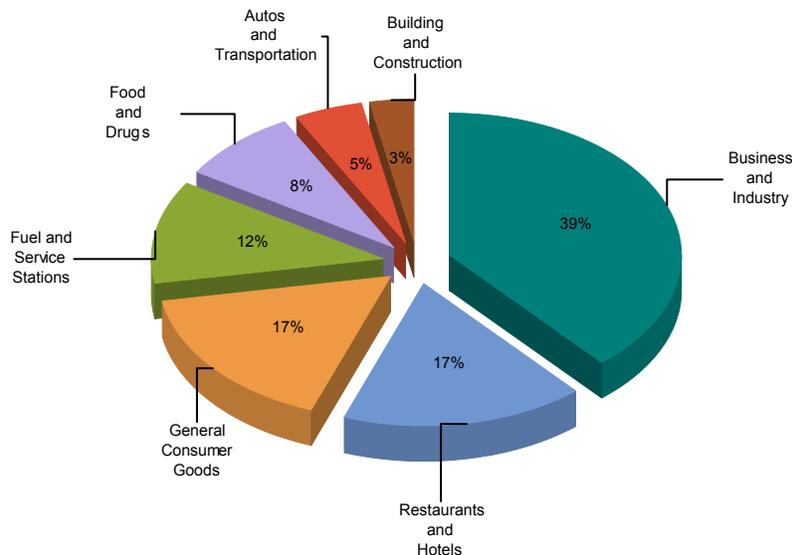
Sandip Jariwala and Michelle Berner, WABA
Mark Sorensen, Alameda Chamber of Commerce

<u>Major Industry Group</u>	<u>Count</u>	<u>1Q14</u>	<u>1Q13</u>	<u>\$ Change</u>	<u>% Change</u>
Business and Industry	646	759,345	544,131	215,214	39.6%
Restaurants and Hotels	296	334,722	309,035	25,687	8.3%
General Consumer Goods	1,885	331,623	244,834	86,789	35.4%
Fuel and Service Stations	19	227,216	226,664	551	0.2%
Food and Drugs	81	164,096	164,165	(69)	0.0%
Autos and Transportation	132	94,303	101,355	(7,052)	-7.0%
Building and Construction	69	59,884	51,932	7,952	15.3%
Transfers & Unidentified	1	65	0	65	-N/A-
Total	3,129	1,971,252	1,642,115	329,137	20.0%

1Q13 Compared To 1Q14



1Q14 Percent of Total



Sales Tax by Major Industry Group

Business And Industry

Count: 646

Restaurants And Hotels

Count: 296

General Consumer Goods

Count: 1,885

Fuel And Service Stations

Count: 19

Food And Drugs

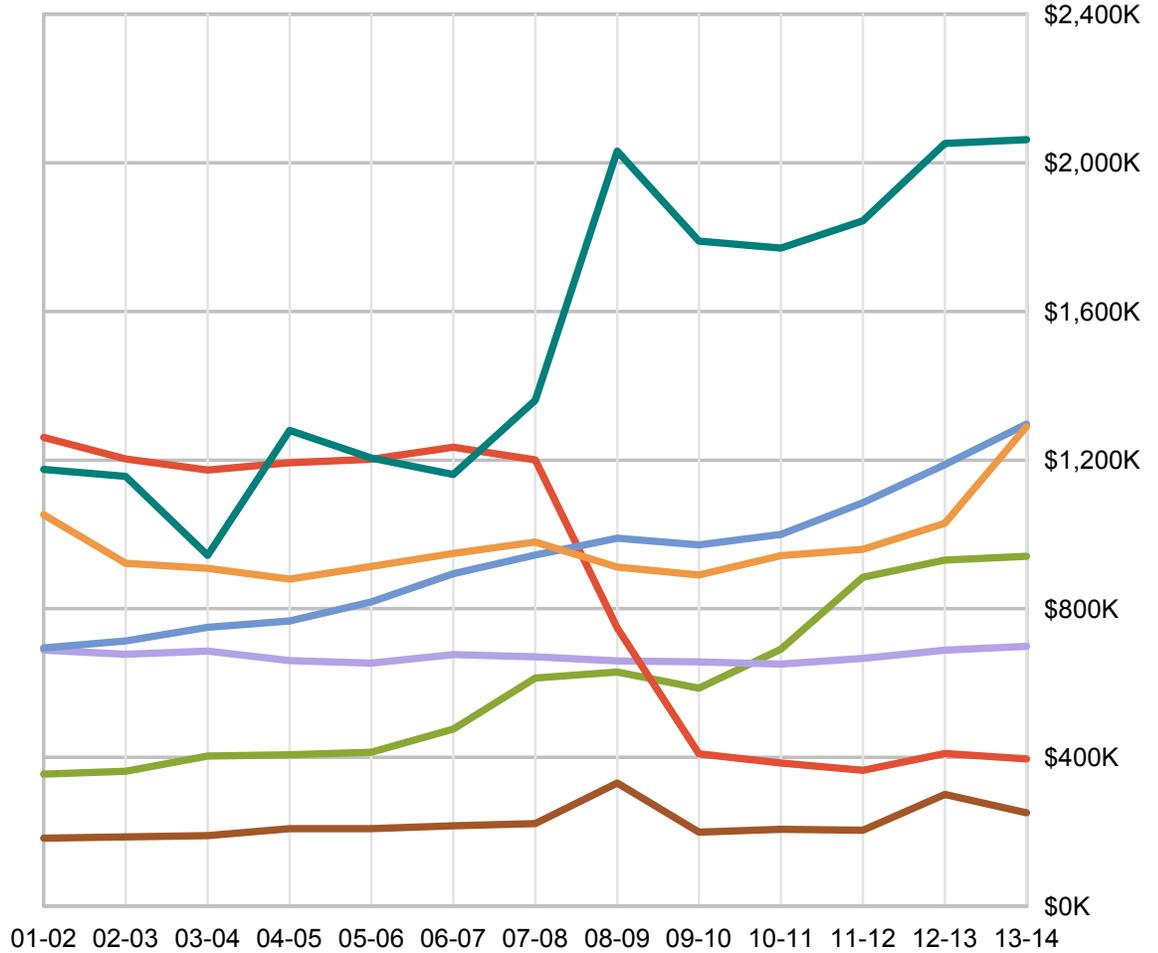
Count: 81

Autos And Transportation

Count: 132

Building And Construction

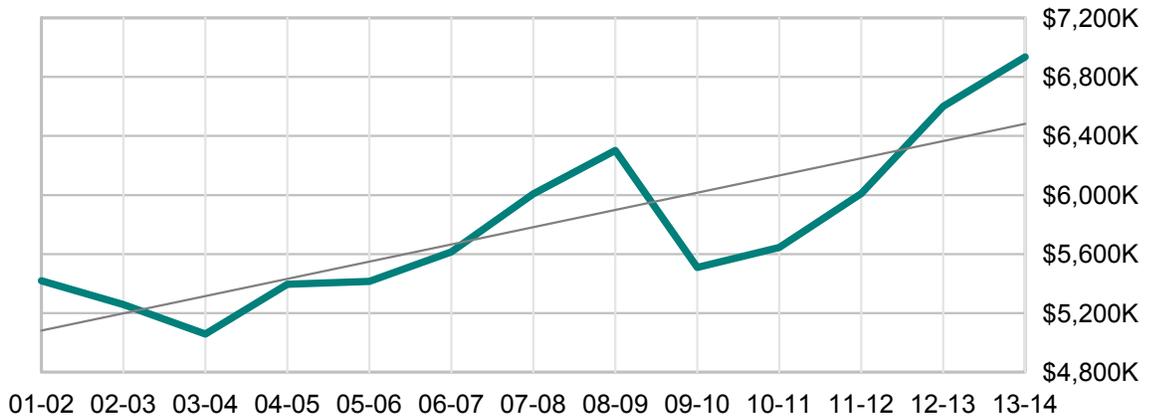
Count: 69



Agency Trend

Alameda

13 Year Trend: +27.6%



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

Geo Area Names

Sales Tax by Geographic areas

Harbor Bay Business Park

Count: 47

South Shore Center

Count: 77

Park - South Of Lincoln

Count: 296

Clement Ave & Blanding Ave

Count: 123

Park - North Of Lincoln

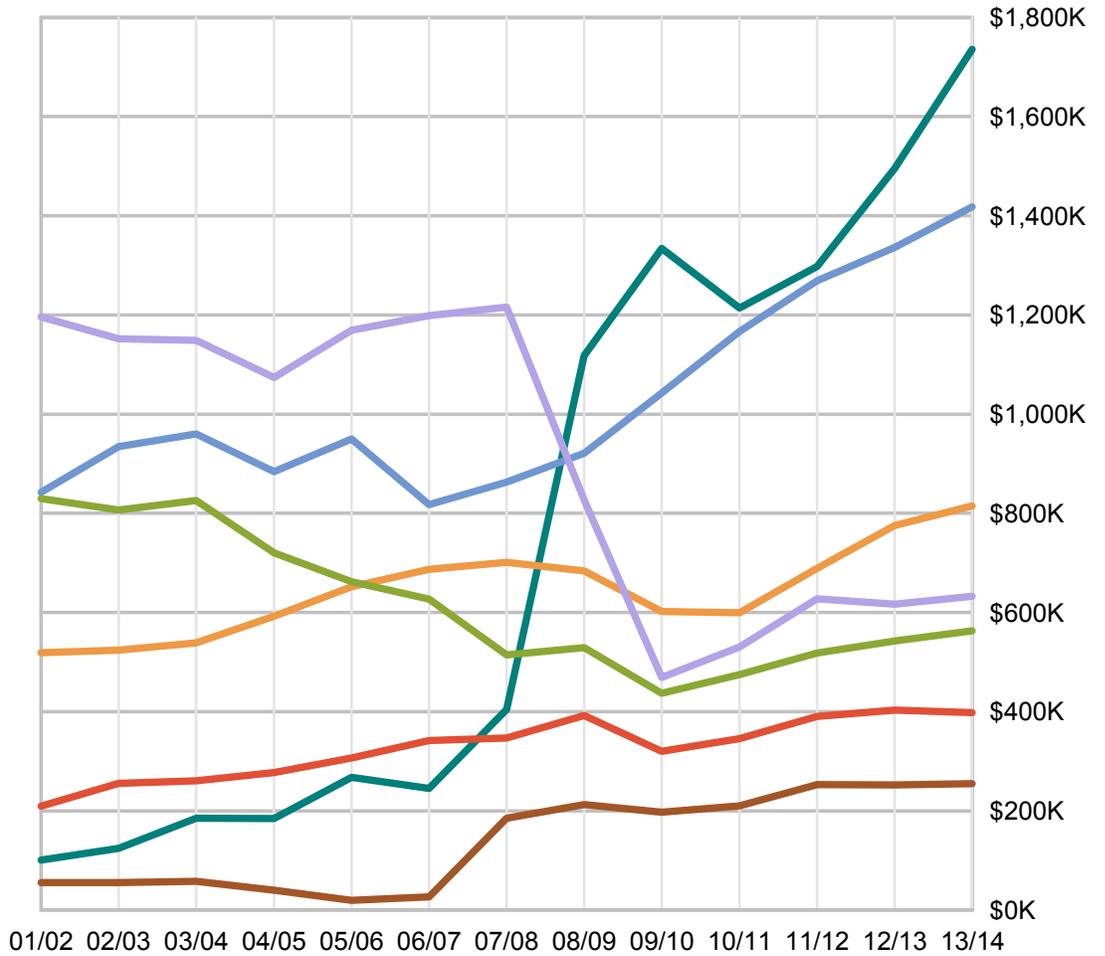
Count: 115

Webster-north Of Lincoln

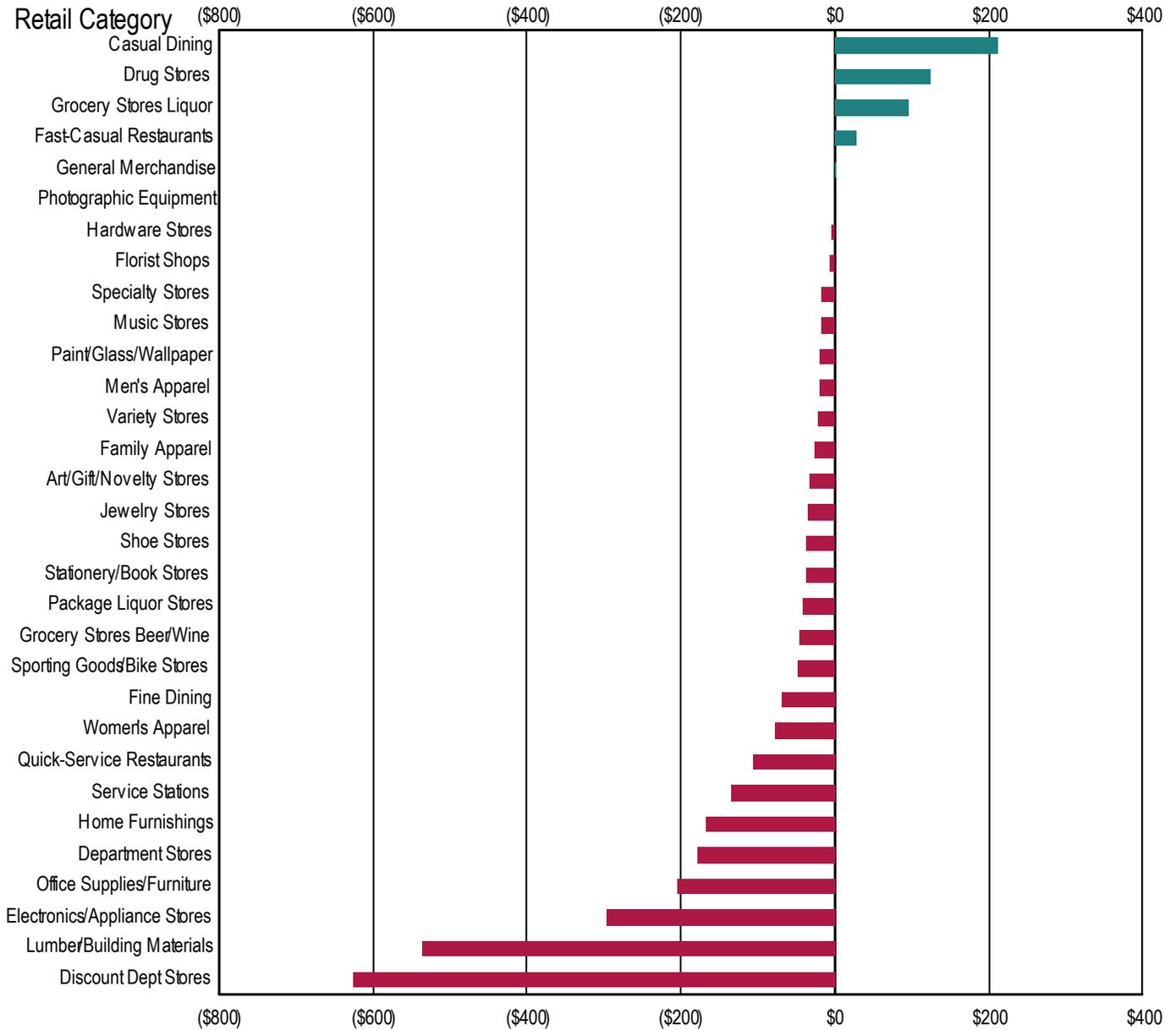
Count: 39

Bridgeside Center

Count: 28



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



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.

CITY OF ALAMEDA

PER CAPITA SALES TAX SURPLUS/GAP COMPARISON - 4 QUARTERS ENDING 1Q 2014

Retail Category	Per Cap Sales Capture (+) or Gap (-)	Sales Tax Deviation	Typical Sales Per Sq Ft by Retail Type	Approx Sq Ft to Close Gap
Casual Dining	\$211	\$160,213	\$525	n/a
Drug Stores	125	95,031	350	n/a
Grocery Stores Liquor	97	73,435	110	n/a
Fast-Casual Restaurants	28	21,102	520	n/a
General Merchandise	3	2,515	100	n/a
Photographic Equipment	0	(114)	Insufficient data	Insufficient data
Hardware Stores	(4)	(3,412)	225	2,000
Florist Shops	(5)	(3,883)	150	3,000
Specialty Stores	(17)	(12,774)	175	7,000
Music Stores	(17)	(13,207)	200	7,000
Paint/Glass/Wallpaper	(18)	(13,799)	250	6,000
Men's Apparel	(20)	(14,985)	225	7,000
Variety Stores	(21)	(15,965)	100	16,000
Family Apparel	(25)	(19,369)	375	5,000
Art/Gift/Novelty Stores	(32)	(24,491)	150	16,000
Jewelry Stores	(35)	(26,717)	500	5,000
Shoe Stores	(37)	(28,222)	200	14,000
Stationery/Book Stores	(37)	(28,268)	200	14,000
Package Liquor Stores	(40)	(30,631)	Insufficient data	Insufficient data
Grocery Stores Beer/Wine	(46)	(35,251)	175	20,000
Sporting Goods/Bike Stores	(47)	(35,684)	225	16,000
Fine Dining	(69)	(52,318)	800	7,000
Women's Apparel	(79)	(60,099)	375	16,000
Quick-Service Restaurants	(106)	(80,874)	500	16,000
Service Stations	(135)	(102,614)	n/a	n/a
Home Furnishings	(168)	(127,721)	175	73,000
Department Stores	(178)	(135,525)	175	77,000
Office Supplies/Furniture	(204)	(154,955)	225	69,000
Electronics/Appliance Stores	(297)	(225,373)	500	45,000
Lumber/Building Materials	(536)	(407,334)	300	136,000
Discount Dept Stores	(626)	(475,335)	475	100,000

Average sales per square foot are based on HdL's overview of average statewide chain store sales. The square footage needed to close the gap is only on approximation and specific demand will vary with regional and local market conditions and individual retailers.



ALAMEDA COUNTY ALL AGENCIES

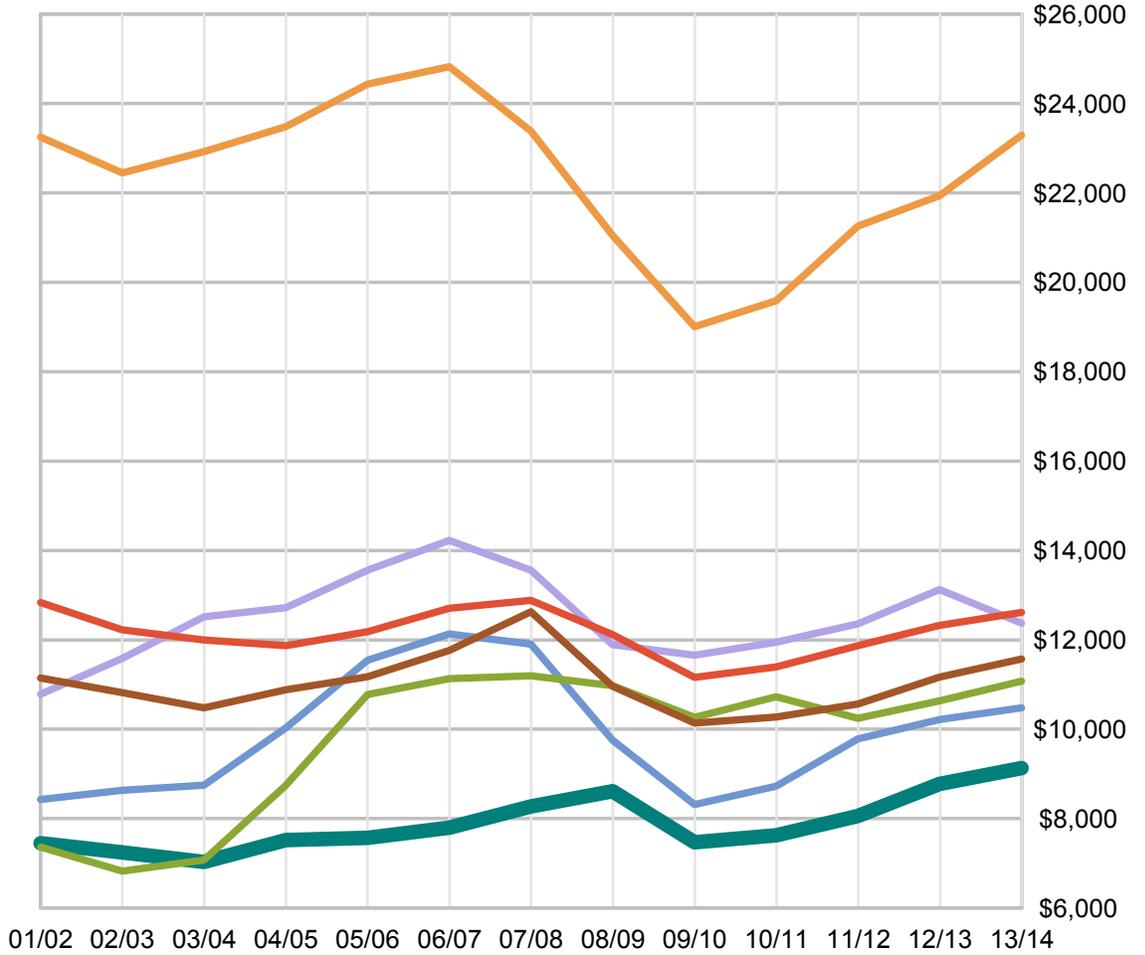
SALES TAX TRENDS FOR ALL AGENCIES - 1Q 2014 SALES

Agency allocations reflect "point of sale" receipts

Agency Name	Count	Current Year 1Q 2014	Prior Year 1Q 2013	Share of County Pool	Actual Receipts % Change	Adjusted* % Change
Livermore	2,813	5,211,128	4,755,910	9.2%	+ 9.6%	+ 10.8%
Alameda	3,129	1,971,252	1,642,115	3.5%	+ 20.0%	+ 9.5%
Hayward	4,477	6,545,687	6,035,841	11.5%	+ 8.4%	+ 9.1%
Fremont	5,520	8,309,018	7,604,143	14.6%	+ 9.3%	+ 8.4%
Emeryville	895	1,812,917	1,645,870	3.2%	+ 10.1%	+ 6.6%
Oakland	13,276	10,484,770	9,795,233	18.4%	+ 7.0%	+ 6.0%
Berkeley	4,941	3,513,182	3,446,320	6.2%	+ 1.9%	+ 4.5%
Union City	1,330	1,952,878	2,101,385	3.4%	- 7.1%	+ 4.3%
Dublin	1,350	3,744,830	3,306,141	6.6%	+ 13.3%	+ 3.8%
Albany	560	529,318	460,271	0.9%	+ 15.0%	+ 3.4%
San Leandro	2,684	4,777,157	4,824,814	8.4%	- 1.0%	+ 3.2%
Newark	1,406	2,151,897	1,989,363	3.8%	+ 8.2%	+ 2.9%
Pleasanton	3,625	4,171,247	3,888,687	7.3%	+ 7.3%	+ 1.8%
Alameda Co. Uninc	2,441	1,686,883	1,814,623	3.0%	- 7.0%	- 2.8%
Piedmont	220	39,264	41,513	0.1%	- 5.4%	- 14.7%
Totals	48,667	56,901,428	53,352,229	100.0%	+ 6.7%	+ 5.9%
Alameda Pool	13,189	8,868,575	7,573,828		+ 17.1%	+ 15.8%

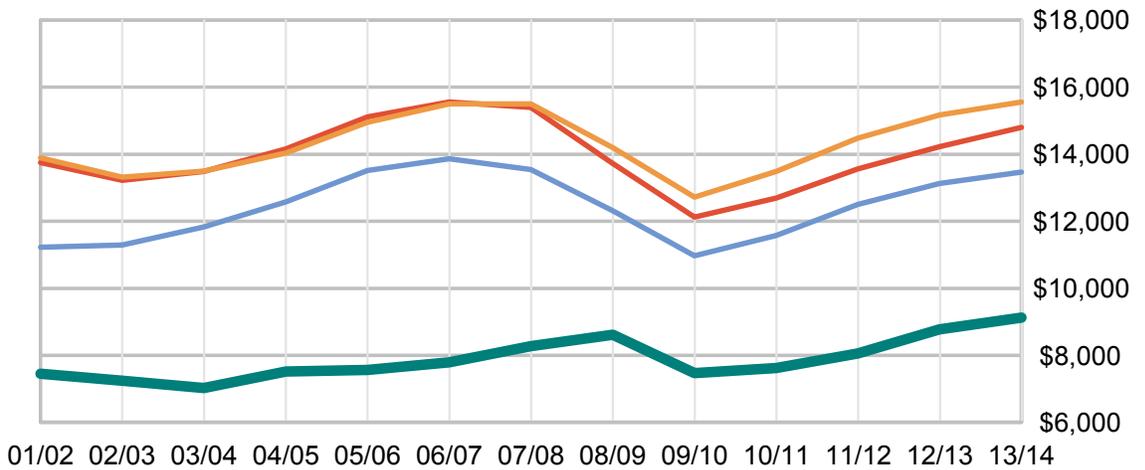
Per Capita Sales

Alameda	Count: 3,129
Oakland	Count: 13,276
San Leandro	Count: 2,684
Albany	Count: 560
El Cerrito	Count: 674
Berkeley	Count: 4,941
Richmond	Count: 2,190



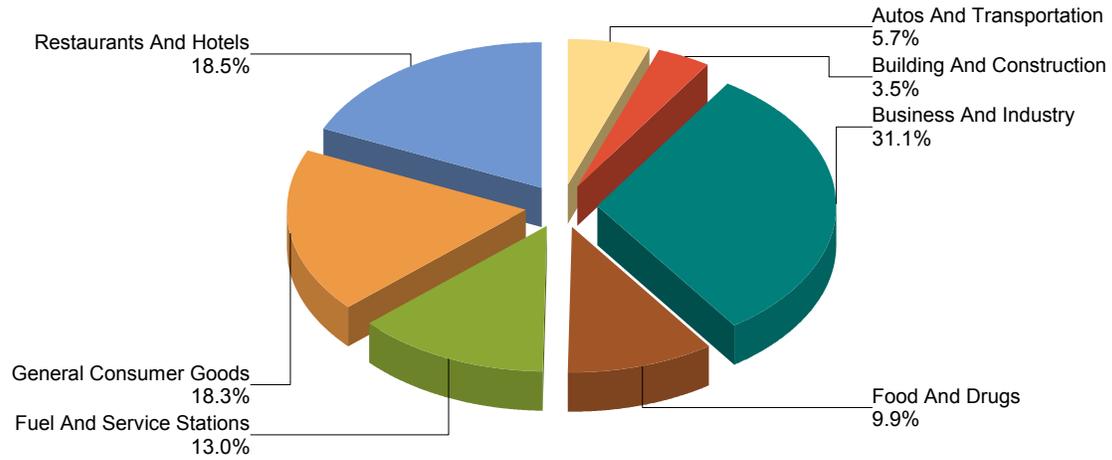
Per Capita Sales

Alameda
Alameda County
Bay Area
California

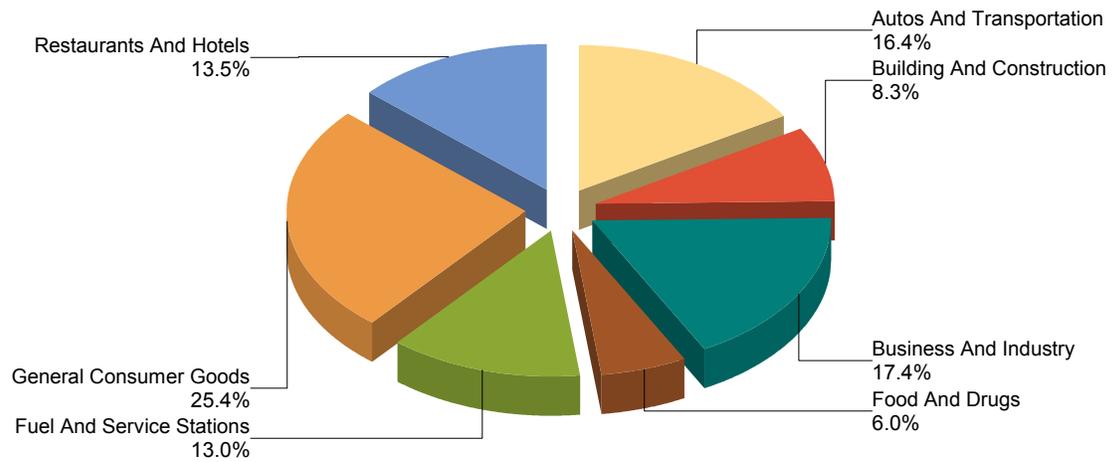


Periods shown reflect the period in which the sales occurred - Point of Sale

City of Alameda



HdL Client Database Statewide Totals



Statewide Results

Net of payment aberrations, first quarter retail sales were 3.8% higher than the same period one year earlier.

Sales of new automobiles were up 9.4%, stimulated by pent up demand, consumer interest in new feature-rich models and easy financing options. The building and construction sector reported solid gains in a number of categories, notably contractors, sellers of lumber/building materials and suppliers of plumbing/electrical equipment. Restaurant and hotel receipts increased by 6.4%, out-pacing all other industry groups except autos and transportation.

Proceeds from general consumer goods were flat primarily due to the ongoing shift from brick-and-mortar stores to online retailers, many of which allocate the local sales tax to the countywide allocation pools. Gains from most other segments were relatively modest, while tax revenues from fuel sales experienced a fifth consecutive quarterly drop.

Sales Tax and the Drought

All of California is currently under either severe or exceptional levels of drought and is experiencing the driest 30 month period in the state's recorded history.

A recent study by UC Davis projects that the socioeconomic impacts of the current drought will be 50% more severe than in 2009 with 410,000 acres of row and feed crops taken out of production in order to preserve diminishing water supplies for longer term orchard and vineyard investments and the thinning of cattle and dairy herds in anticipation of green pasture shortages. A loss of 14,500 jobs is estimated as are higher food prices and increased energy costs to replace the loss of inexpensive hydro power.

Even so, most analysts predict that the near term impact on the overall statewide economy and 2014-15 sales tax receipts should be minor though some localized pockets may be vulnerable where dependency on agricultural and water-related tourism expenditures is exceptionally high.

The analysts point out that less than 3% of the state's economy comes from agriculture and that in many areas surface water supplies are being replaced with increased pumping of groundwater. They further estimate that the impact of job losses will be offset by employment growth in other segments of the economy. They also note that government drought aid, crop insurance, unemployment benefits and public assistance programs will temporarily avert some potential economic and revenue impacts.

The longer term concern is that the drought could persist for another two or three years. Groundwater

supplies are being pumped out at a faster rate than can be naturally recharged and a UC Berkeley analysis suggests that the relatively wet 20th century was an anomaly. If that is true and the state reverts to a suspected drier norm, the impact on the economy, environment, fire safety and food and energy costs will become more severe and far reaching.

SALES PER CAPITA



ALAMEDA TOP 15 BUSINESS TYPES

Business Type	*In thousands			
	Alameda Q1 '14*	Alameda Change	County Change	HdL State Change
Boats/Motorcycles	40.4	-11.8%	-4.7%	9.1%
Business Services	66.2	5.9%	10.3%	-5.0%
Casual Dining	149.8	4.9%	8.8%	6.6%
Discount Dept Stores	—	CONFIDENTIAL	-1.6%	-2.6%
Drug Stores	51.0	-8.8%	-2.4%	-9.8%
Family Apparel	63.1	-2.6%	2.5%	-3.3%
Fine Dining	42.7	32.7%	27.1%	13.4%
Grocery Stores Liquor	79.8	4.2%	1.7%	-14.2%
Light Industrial/Printers	31.3	4.1%	10.1%	-1.1%
Medical/Biotech	571.1	55.4%	16.3%	40.1%
Plumbing/Electrical Supplies	—	CONFIDENTIAL	-5.8%	8.1%
Quick-Service Restaurants	101.8	2.1%	3.5%	4.8%
Service Stations	224.4	-0.7%	4.0%	-1.0%
Shoe Stores	32.2	265.5%	9.9%	2.7%
Specialty Stores	58.1	14.0%	7.7%	2.7%
Total All Accounts	\$1,971.3	20.0%	6.7%	3.2%
County & State Pool Allocation	\$309.1	31.9%	17.2%	7.7%
Gross Receipts	\$2,280.4	21.5%	8.0%	3.7%
City/County Share	(114.0)	-21.5%		
Net Receipts	\$2,166.4	21.5%		



	2014-15	2015-16
Autos/Transportation	6.5%	4.5%
<p>Growth continues to beat analyst forecasts as high replacement demand, buyer interest in new models and readily available financing ensure a strong flow of new auto sales. The gains in sales of used cars and auto leases outpaced new car purchases. Some analysts believe pent-up demand will boost sales until 2016; after that sales will rely on growth in the economy and population gains.</p>		
Building/Construction	9.4%	7.0%
<p>California's recovering housing market and a spate of new office projects will all contribute to solid gains in this group. Building permits for all residential building types issued from January through May were up 5.6% from the same period in 2013 with multifamily units holding a modest lead in total numbers. Most new retail space is being developed as a component of various mixed use projects.</p>		
Business/Industry	4.0%	3.5%
<p>The strengthening U.S. economy and accelerating job growth rates are leading to an improved outlook for capital investment in new technology and equipment. Alternative energy development has peaked but additional use tax receipts from energy projects will continue to add to business and industry totals into 2015-16. Drought related crop and herd cutbacks may result in reduced tax receipts from agriculture and food processing related purchases in some regions.</p>		
Food/Drugs	2.3%	2.0%
<p>Rapid expansion by Walmart Neighborhood Markets and the arrival of global food discounter Aldi, with plans to open 150 stores in the California market, will add to already fierce competition among grocers. These brands are hoping to lure customers with convenient store locations, a no-frills shopping experience and shelves stocked with popular off-brand groceries at bargain-basement prices.</p>		
Fuel/Service Stations	5.3%	4.0%
<p>California fuel prices are expected to remain higher than last year through the holiday season and then rise in early 2015 as the costs from AB 32 (2006) cap and trade program are passed to consumers. The program seeks to cap greenhouse gas pollution by charging a fee to oil suppliers who exceed their regulated allotments.</p>		
General Consumer Goods	1.0%	1.0%
<p>Brick-and-mortar retailers are experiencing what may be a permanent drop in traffic as consumers shift purchasing patterns from in-store to online. With the move to online shopping, more sales tax dollars flow through the countywide pools, rather than being directly allocated to a retailer's host jurisdiction.</p>		
Restaurants/Hotels	6.3%	6.0%
<p>Travel and tourism are on the rise in California and many analysts are forecasting growth in this segment through 2016. The improving economy and boost in consumer confidence mean Americans are feeling more comfortable about spending on discretionary items like vacations and dining out. Due to the state's drought, fresh water dependent recreation areas may not fare as well as in past seasons.</p>		
State and County Pools	9.5%	8.0%
<p>The current growth in county pool revenues is largely due to increased online purchasing activity and may decline in the future as more in-state fulfillment centers are developed and qualify as "point of sale". Other factors contributing to the growth include increased private party vehicle transactions, equipment leasing and investment in specialized equipment and supplies from out-of-state vendors.</p>		
TOTAL	5.1%	4.2%

The **Proposition 172** growth projection is 4.8% for Fiscal Year 2013-14 and 3.1% for Fiscal Year 2014-15. The Fiscal Year 2013-14 projection is inflated by an anticipated onetime adjustment of \$50 million to correct for previous underpayments. These factors also vary from HdL's Bradley Burns growth rates due to differing collection periods and comparisons to prior year data that include onetime payment aberrations.



	2014-15	2015-16
U.S. Real GDP Growth	3.2%	3.7%

Recently revised estimates show that U.S. real GDP contracted by nearly 3% during the first quarter of calendar year 2014. However, much of this slowdown was attributable to adverse weather conditions affecting many parts of the nation. Despite this slowdown, consumers continued to add to economic growth, incomes are rising and the unemployment rate has continued to fall. As such, real GDP growth is expected to bounce back to positive territory during the second quarter of 2014 and gain momentum during the second half of the year. Although the output gap has yet to be erased, 2015 remains poised to be better than 2014.

U.S. Unemployment Rate	5.8%	5.5%
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U.S. employment growth has maintained an average of roughly 200,000 new jobs each month for the past 24 months—more than sufficient to offset the growth in the labor force which has expanded by nearly 3.2 million since hitting bottom. The result has led to a continued improvement in the unemployment rate which is expected to continue for the remainder of 2014 and into 2015.

California Total Nonfarm Employment Growth	2.1%	2.5%
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California remains a driver of nationwide job growth. Through May 2014, job growth in California outpaced the U.S. overall for the 27th consecutive month. Indeed, California has added back virtually all of the 1.38 million jobs lost during the downturn. Importantly, this job growth has been broad based with every major region in California returning to a growth mode and virtually every major industry expanding its payrolls. The current forecast calls for a 2.1% increase this fiscal year, and rising to 2.5% in 2015-16.

California Unemployment Rate	7.4%	6.8%
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Although it remains elevated, California's unemployment rate has dropped to levels that are beginning to resemble "normal". California's current unemployment rate of 7.6% in May is the lowest since August 2008. Although higher than the pre-recession low of 4.9% in 2006, it represents a marked improvement over the 12.4% peak that persisted throughout most of 2010. We expect the unemployment rate will continue to fall, averaging 7.4% this fiscal year and dipping to 6.8% in 2015-16.

California Population Growth	0.9%	0.9%
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The California Department of Finance recently reported that population growth in California averaged 0.9% from January 2013 to January 2014. In recent years, domestic migration has been negative and birth rates have been declining amongst a large segment of the population. However, this downward pressure on population growth has been offset by foreign immigration and natural increases. Still, housing affordability remains a critical driver of out-migration and the current forecast maintains a sub-1% population growth projection for the state.

California Median Existing Home Prices	\$ 395,000	\$ 415,000
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California's under-supplied housing market has led to some of the lowest vacancy rates in the nation. Combined with a lack of home equity and falling numbers of distressed units available for sale, housing inventories remain depressed at just 3.6 months of supply. Fortunately, the drop in home ownership appears to finally be leveling off and the average FICO score for a fixed-rate mortgage is beginning to come down which should help to bolster the demand side of the equation. Home prices, rising by double-digit percentages, will facilitate existing home owners selling their properties as they regain lost equity. However, price appreciation is expected to return to more normal levels in 2014-15 and 2015-16.

California Residential Building Permits	109,000	140,000
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After two years of double-digit growth in residential permitting, California is off to a slow start through May of 2014. So far, there have been roughly 2.5% more residential permits issued this year versus the same period in 2013. However, given the supply issues noted here as well as the steady increases in home prices, builders should continue to expand the stock of residential properties in the state. The current forecast calls for roughly 109,000 new permits this fiscal year followed by nearly 140,000 in 2015-16. Multi-family properties are expected to remain a relatively large share of the residential mix in coming years.