

CALIFORNIA FORECAST

SALES TAX TRENDS
AND ECONOMIC DRIVERS

July 2021

HdL[®] Companies





Introductions



Bobby Young

- 20+ years of local government experience
- Former external auditor
- City of Costa Mesa (13 years)
- Active member of the GFOA, CFOA



Bret Plumlee

- 35+ years in the public sector
- Former City Manager and Finance Director
- Los Alamitos, El Segundo, Rolling Hills Estates

◎ Clients include cities, counties, and special districts

◎ 99% client retention rate

◎ Services:

- *Sales Tax & Transaction Use Tax*
- *Property Tax*
- *Economic Development*
- *Cannabis Management*
- *Tax and Fee Administration*
 - *Business License*
 - *TOT & Short-term Rental*
 - *Utility User & Franchise Fee Tax*

PROUD
TO HAVE SERVED
LOCAL GOVERNMENTS
AND
SPECIAL DISTRICTS
FOR OVER

37 YEARS

100%
EMPLOYEE
OWNED

HdL  Companies



Federal Economic Response

Multiple stimulus and relief packages to sustain/maintain the economy

- Families First Coronavirus Response Act (FFCRA) – March 2020
- CARES Act – with Payroll Protection Program (PPP) – March 2020
- \$900 billion attached to the Omnibus Budget Bill – December 2020
- American Rescue Plan Act (ARPA) – March 2021



Trickle Down Effect

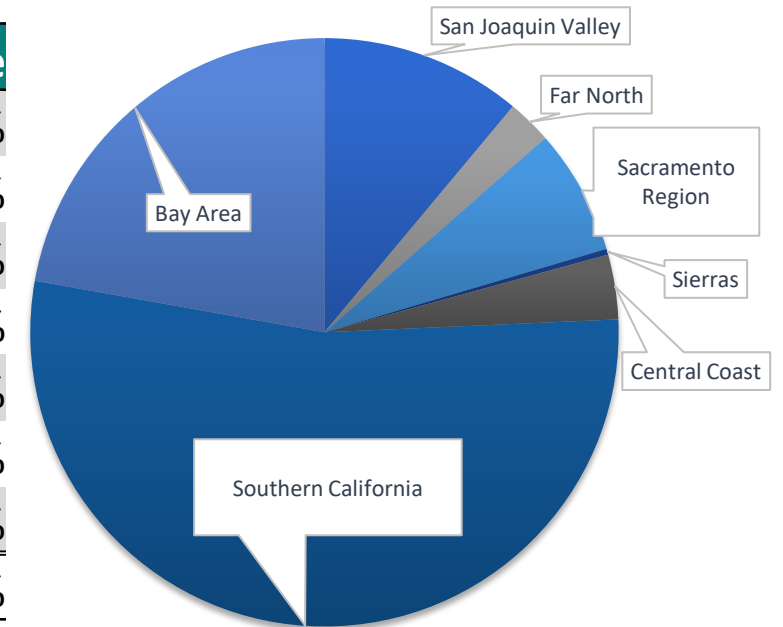
- #1 = Additional \$600/week unemployment payments, later extended but reduced to \$400/week
- #2 = \$1,200/per person, \$500/child cash payments
- #3 = Mortgage forbearance for 6+ months
- #4 = Additional \$600/per person
- #5 = Additional \$1,400/per person in the ARP distributed



Local Tax by Region

Region	CY 2019	CY 2020	% Change
San Joaquin Valley	\$724 M	\$771 M	6.4%
Far North	\$165 M	\$171 M	4.0%
Sacramento Region	\$478 M	\$480 M	0.5%
Sierras	\$23 M	\$22 M	-3.1%
Central Coast	\$259 M	\$248 M	-4.4%
Southern California	\$3,948 M	\$3,726 M	-5.6%
Bay Area	\$1,703 M	\$1,546 M	-9.2%
California	\$7,300 M	\$6,964 M	-4.6%

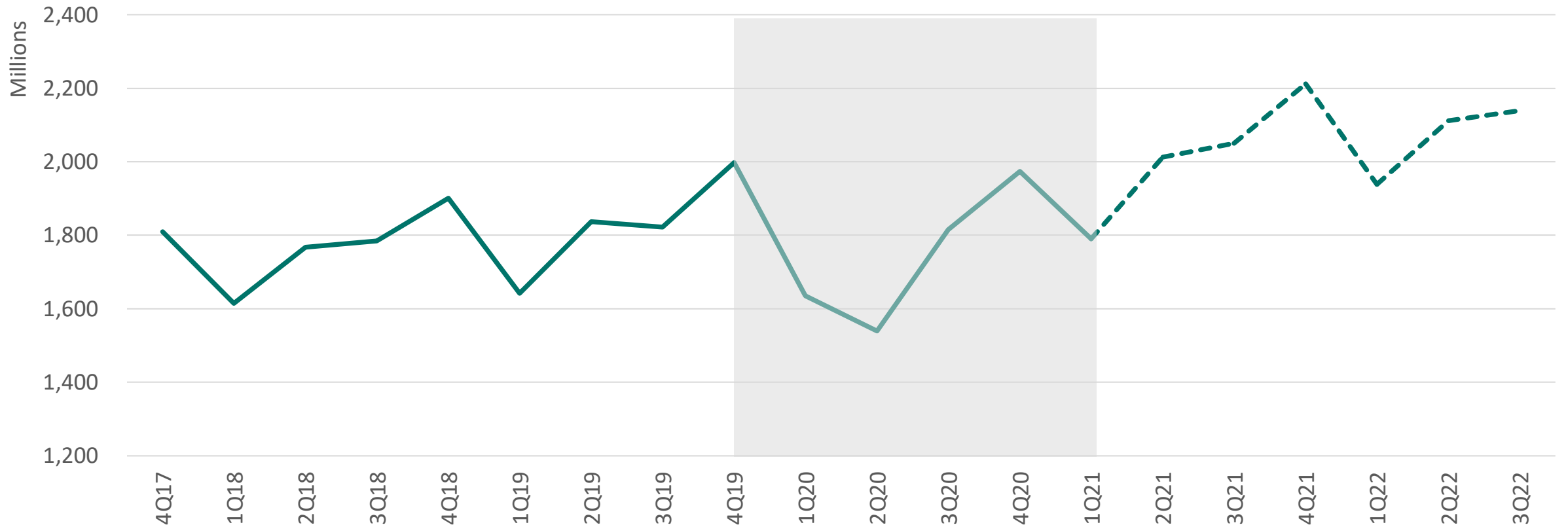
CY 2020





HdL Statewide Trend – Quarterly Outlook

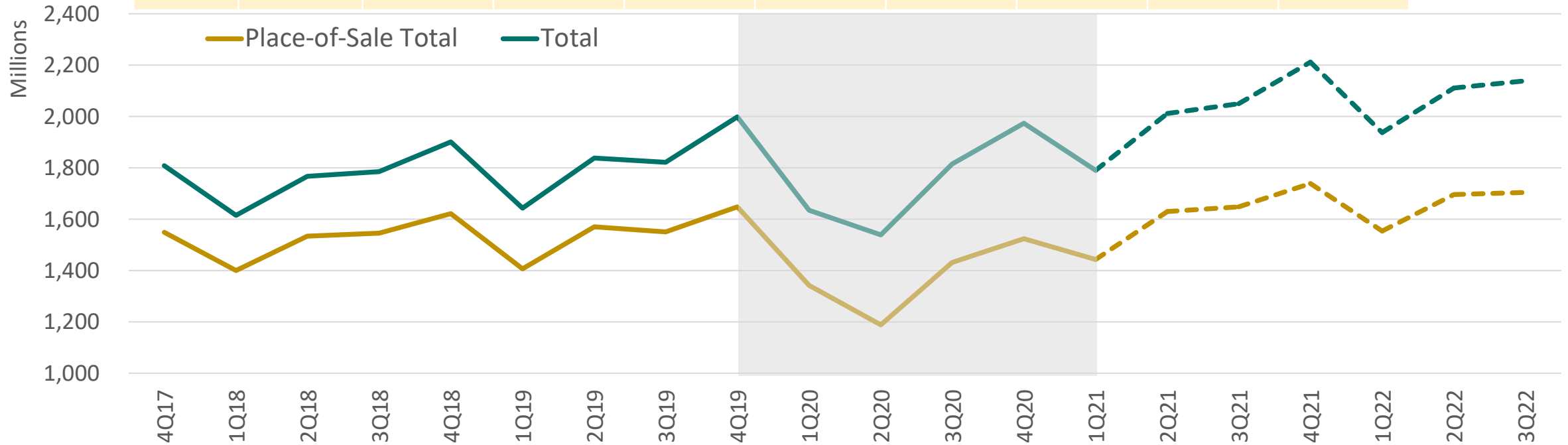
1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
-0.4%	-16.2%	-0.4%	-1.2%	9.5%	30.7%	13.0%	12.1%	8.3%	5.0%





Place of Sale (POS)

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
-0.4%	-16.2%	-0.4%	-1.2%	9.5%	30.7%	13.0%	12.1%	8.3%	5.0%
1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
-4.6%	-24.2%	-7.7%	-7.5%	7.6%	37.1%	15.1%	14.2%	7.6%	4.0%





Autos: Registrations

Percent Change In Brand Registrations: YTD 2021 thru March vs YTD 2020

Largest Increases

Porsche	+42.8%
Mercedes	+17.6%
Tesla	+12.5%
Ram Trucks	+7.5%
Toyota	+3.7%
Land Rover	+3.4%

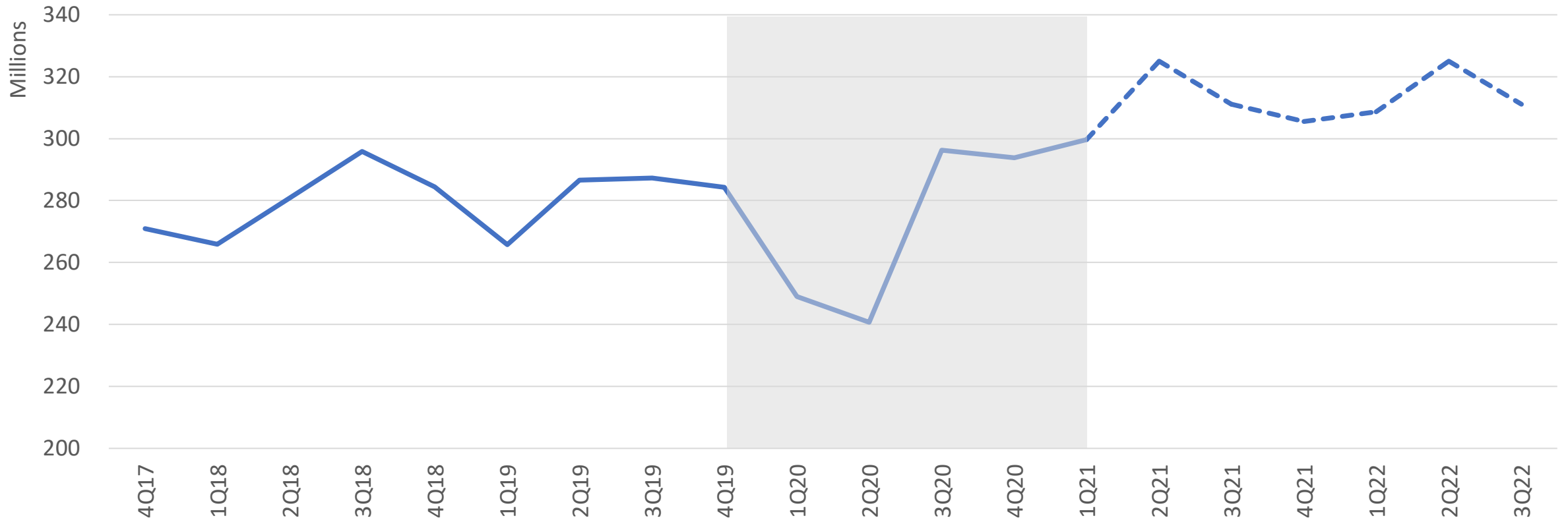
Largest Decreases

Mitsubishi	-49.0%
Infiniti	-38.3%
Buick	-26.8%
Dodge	-26.1%
Acura	-25.2%
Lincoln	-21.6%



Autos & Transportation

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
-6.3%	-16.0%	3.1%	3.4%	20.4%	35.0%	5.0%	4.0%	3.0%	0.0%





Building & Construction

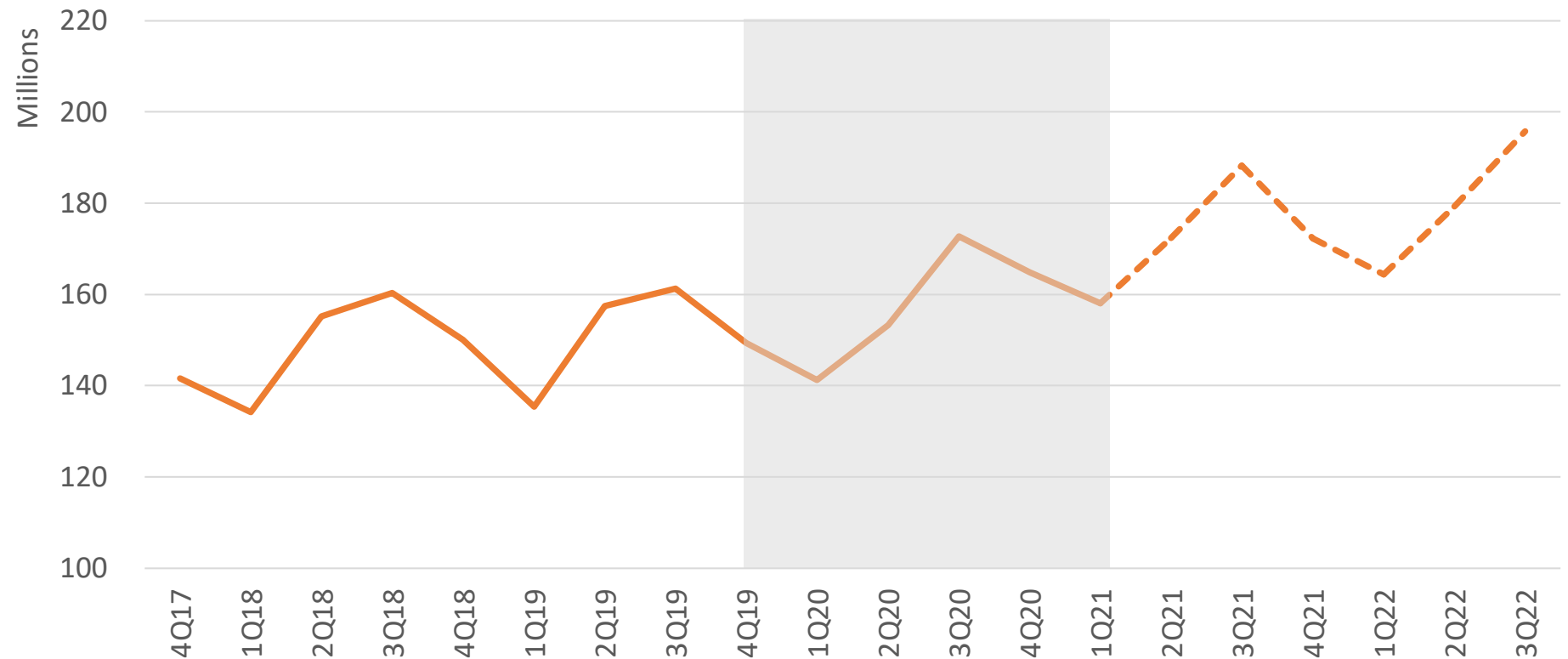
1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
4.3%	-2.6%	7.1%	10.4%	12.0%	12.5%	9.0%	4.5%	4.0%	4.0%

Commodity prices soared
(Lumber up 400%)

Home improvement and
material sales lifted home
centers

Contractor activity growing

Residential permits ↑





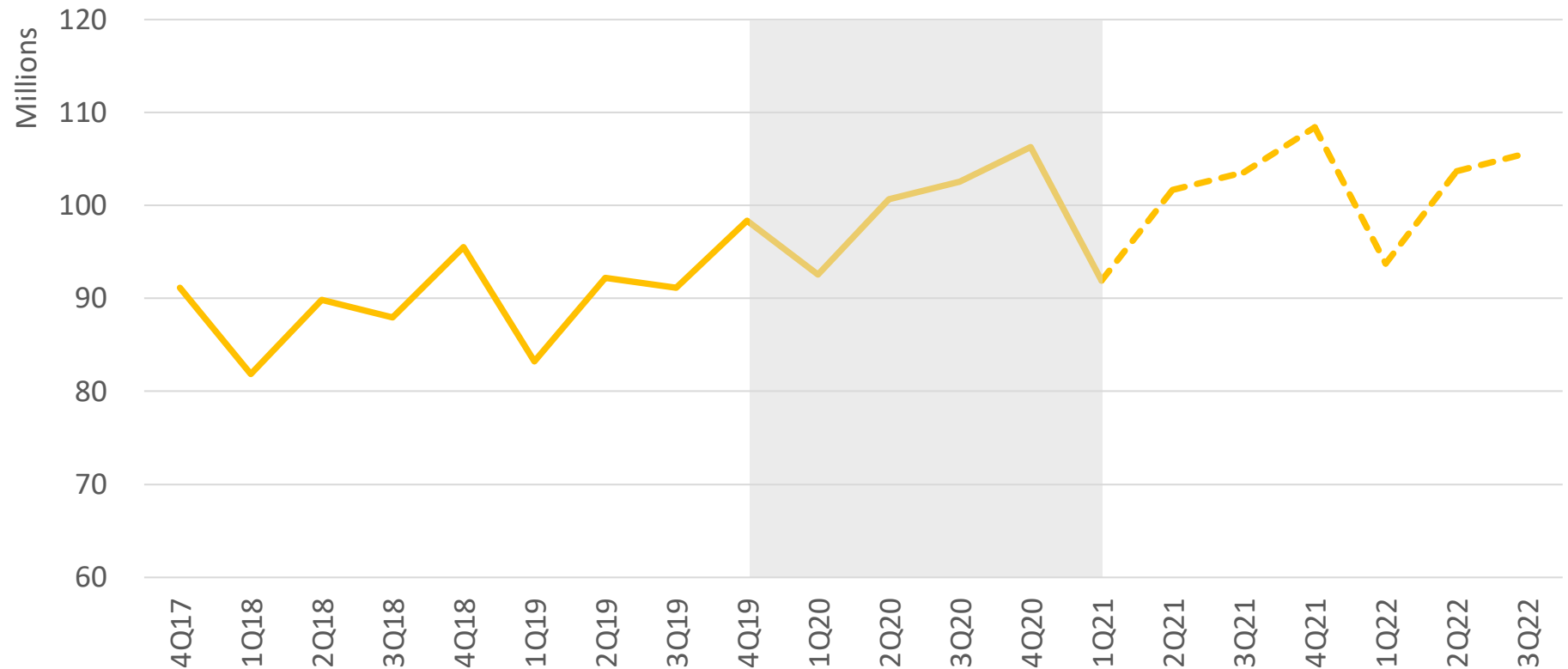
Food & Drugs

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
11.2%	9.2%	12.5%	8.1%	-0.7%	1.0%	1.0%	2.0%	2.0%	2.0%

Grocery stores dipped 6%

Cannabis continued strong gains with 28% increases

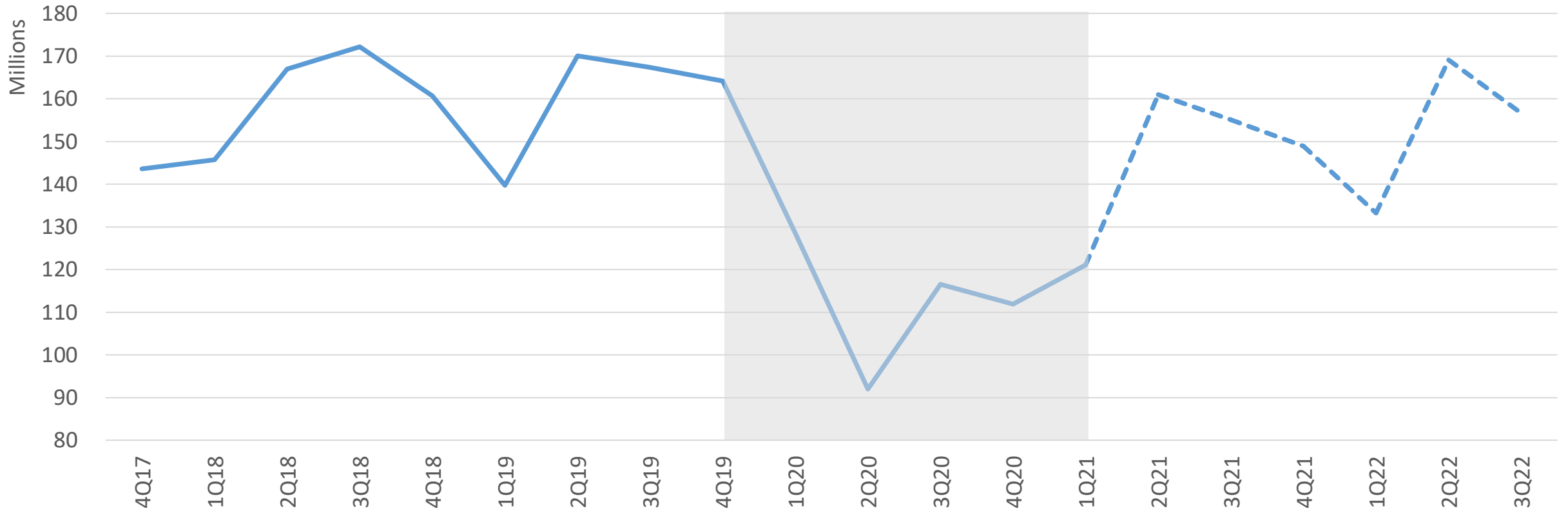
Drug Stores down 15%





Fuel & Service Stations

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
-8.0%	-45.9%	-30.3%	-31.8%	-5.8%	75%	33%	33%	10%	5%





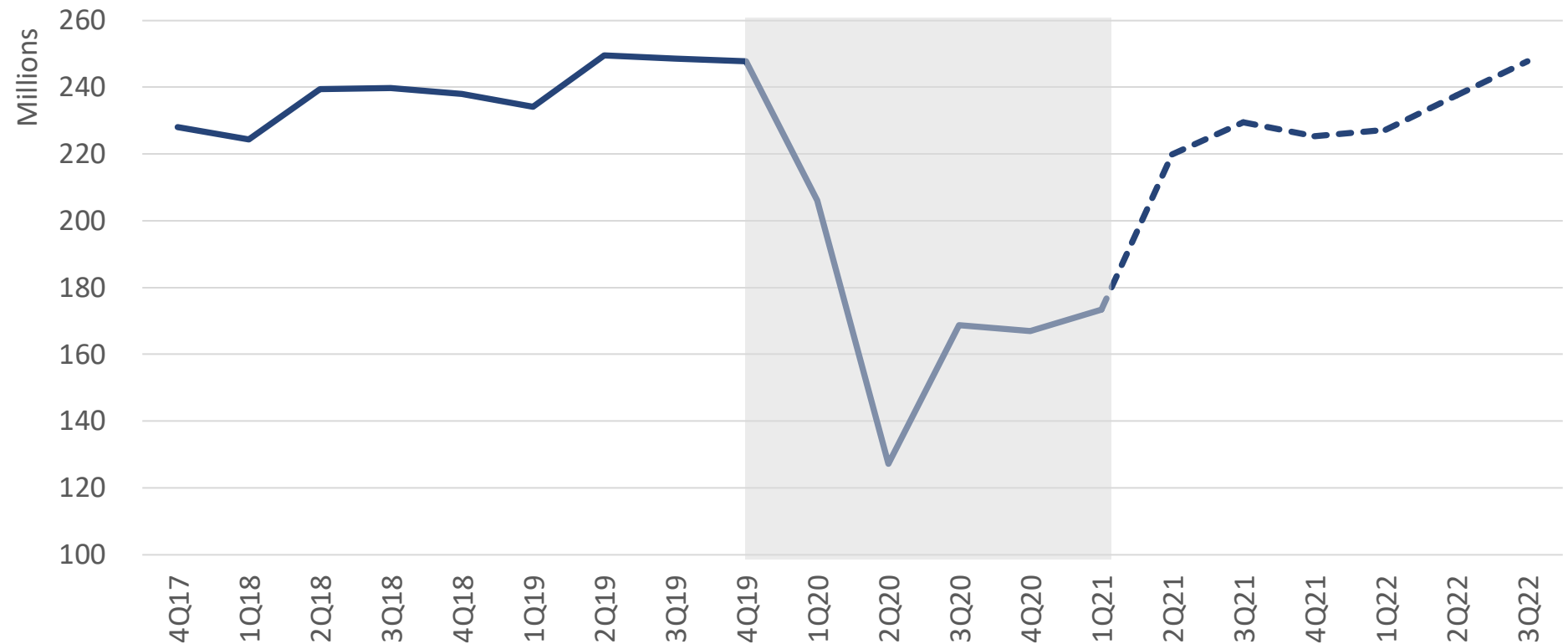
Restaurants & Hotels

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
-12.0%	-49.1%	-32.1%	-32.6%	-15.8%	73.0%	36.0%	35.0%	31.0%	8.0%

Summer surge related to pent-up demand

Campus/office parks?

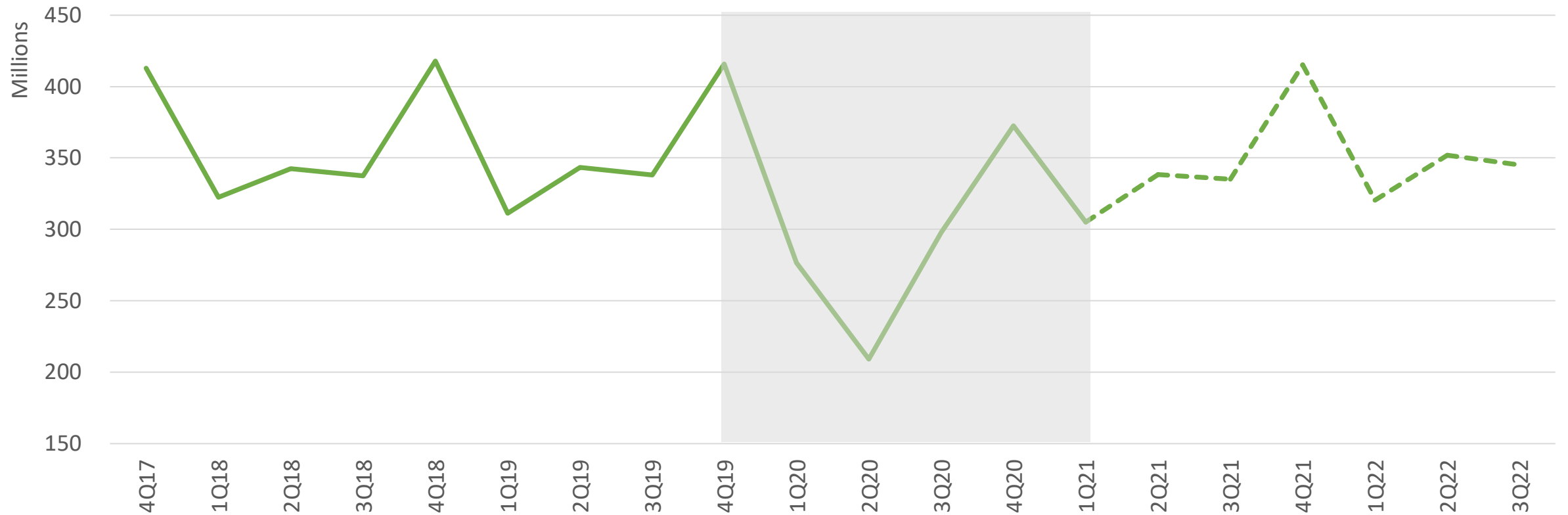
Anticipate a strong recovery but timeline is somewhat unknown





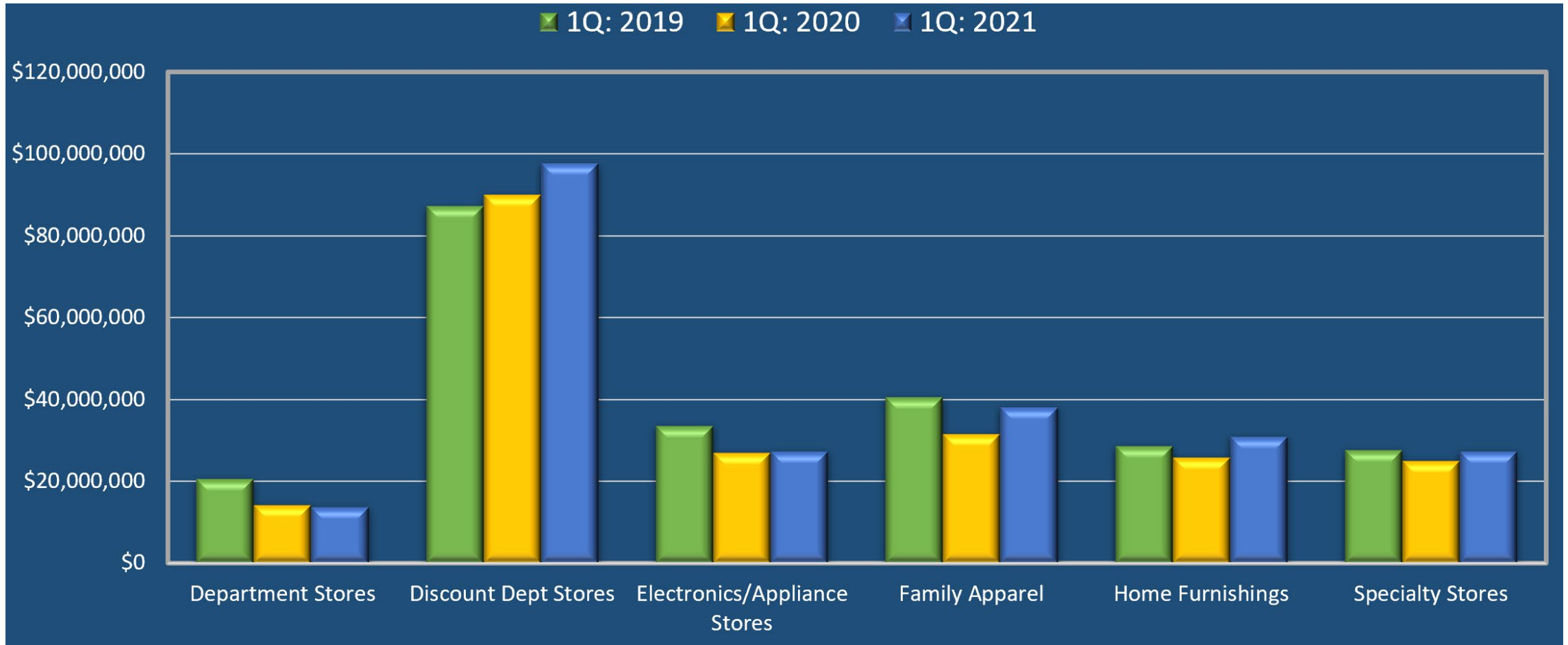
General Consumer Goods

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
-11.2%	-39.2%	-11.9%	-10.5%	10.4%	62.0%	12.5%	11.5%	5.0%	4.0%





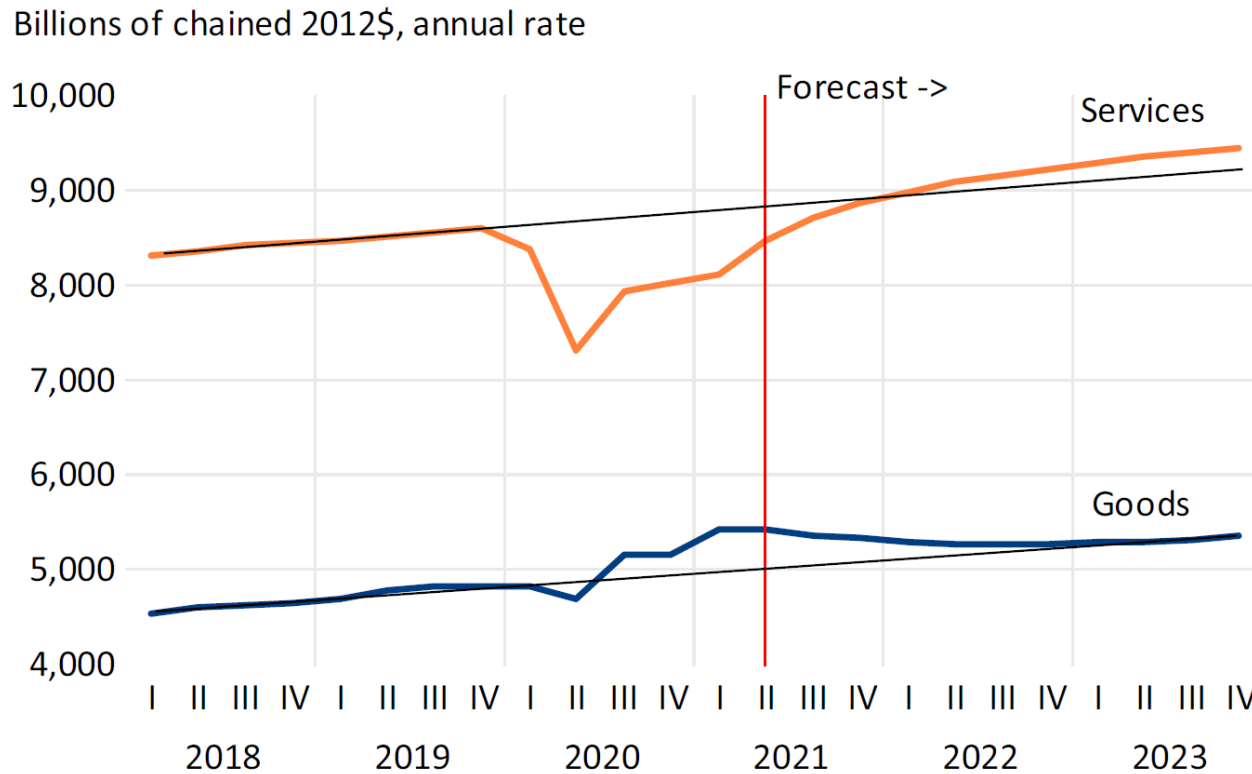
General Consumer Goods: Pre-Pandemic





Consumer spending shifts...

Figure 4 Real Consumption of Goods and Services, 2018Q1—2023Q4



“The slower growth in goods consumption reflects satiation after a year of above average goods purchases and a shift in household spending towards experiences.”

-UCLA Anderson

Source: U.S. Bureau of Economic Analysis and UCLA Anderson Forecast.



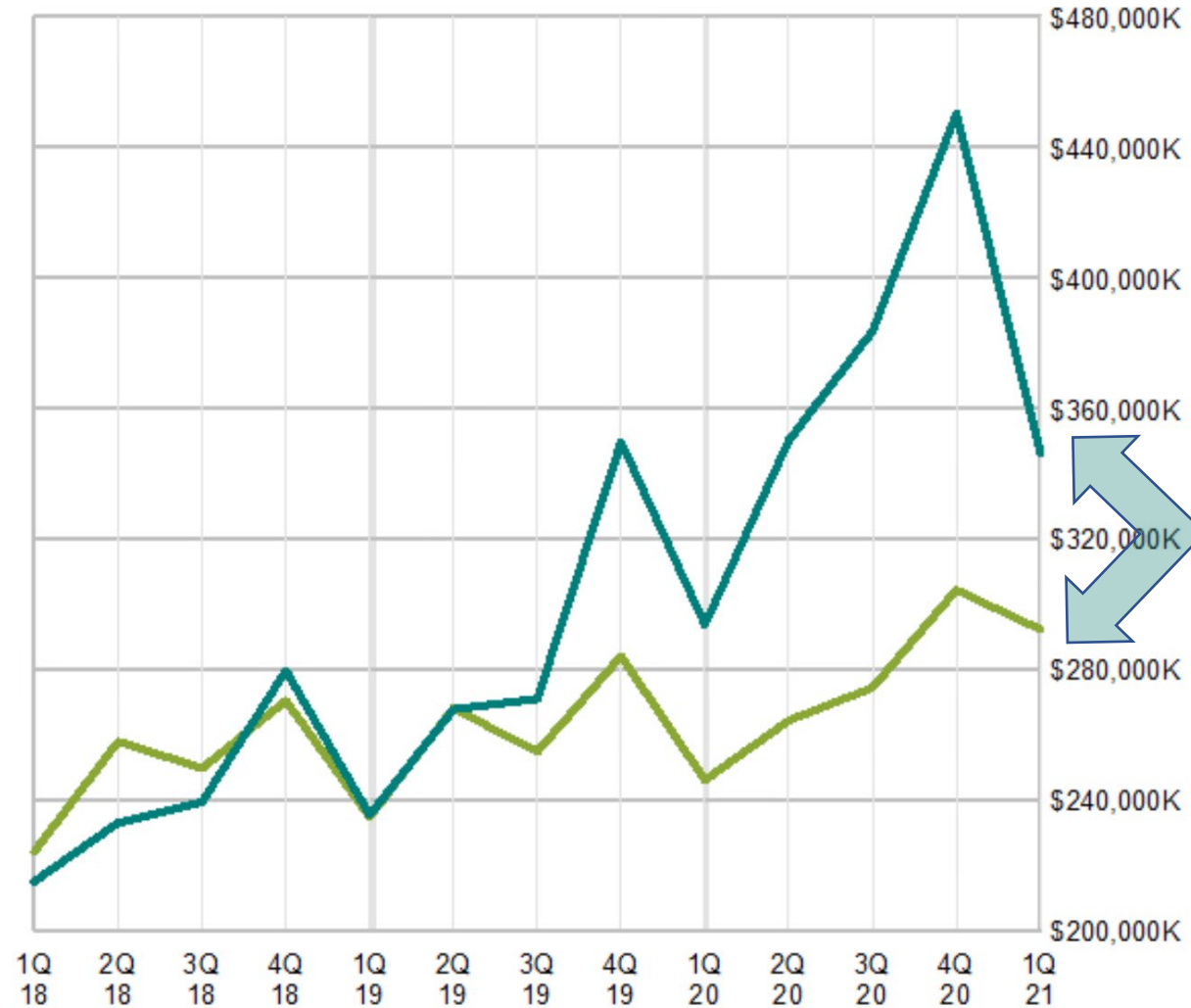
Local Tax Shifts

Sales Tax by Major Industry Group

State & County Pools

Business And Industry

Count: 376,491





Sales Tax vs Use Tax: Bradley-Burns

Sales Tax applies when the goods are located in California at the time the sales occur. This includes a stock of goods held in a California warehouse, fulfillment center or retail stores.

Use Tax applies when title to the goods passes to the purchaser at a point outside of California. Goods that ship to a customer from outside the state are generally subject to use tax.





Allocation of Bradley-Burns Tax

Sales Tax

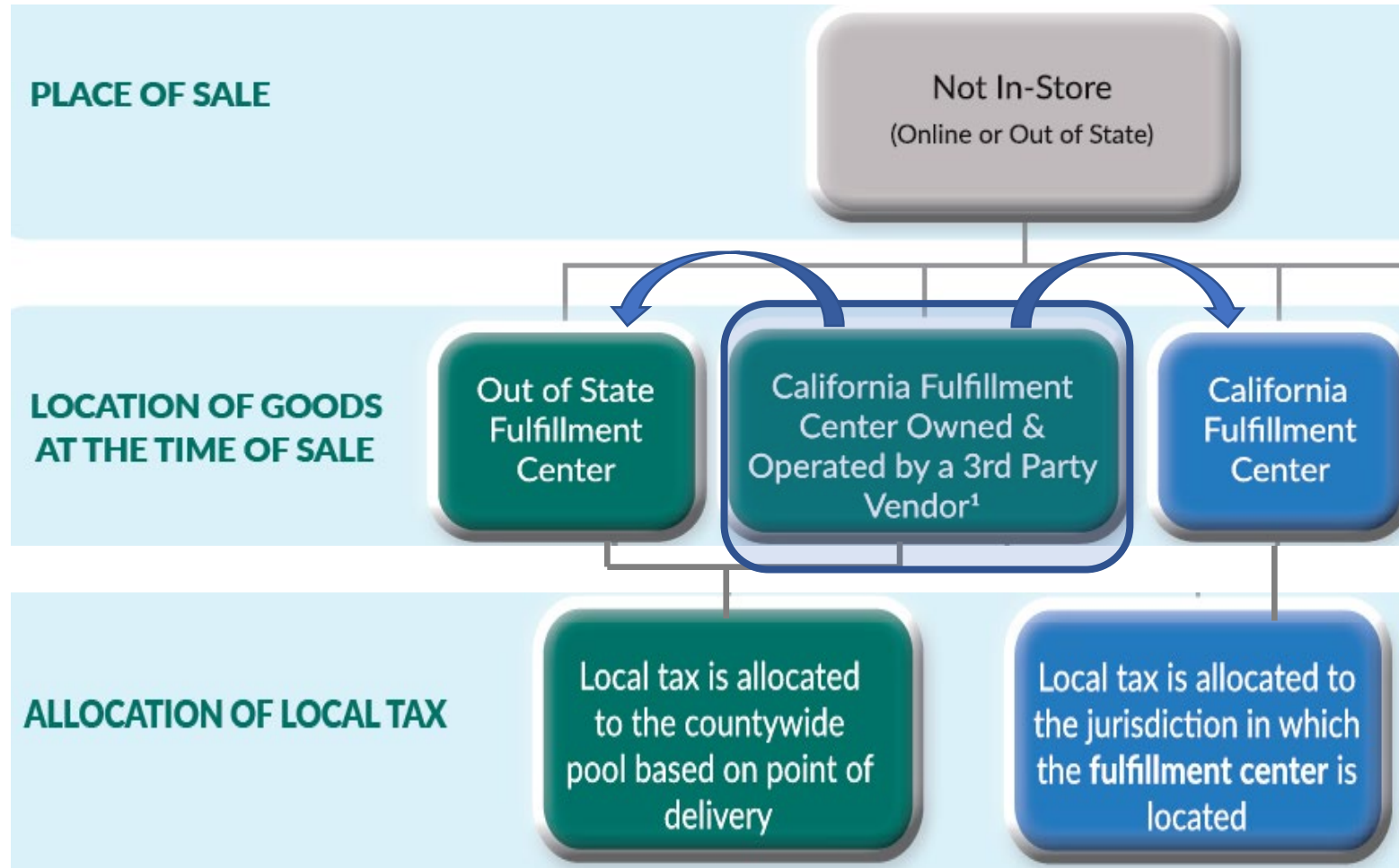
- **PLACE OF SALE** (where the sale/order was placed or negotiated)
- Allocated directly to local jurisdiction
- If an out of state retailer does not have a permanent place of business in this state other than a stock of tangible personal property, then local tax will be distributed to the jurisdiction **where the inventory is located at the time of sale**
- *Allocated indirectly if the seller is not required to hold a seller's permit*

Use Tax

- **PLACE OF USE**
- Allocated indirectly through the countywide use tax pool system
- There are certain circumstances where local (1%) use tax can be allocated directly.



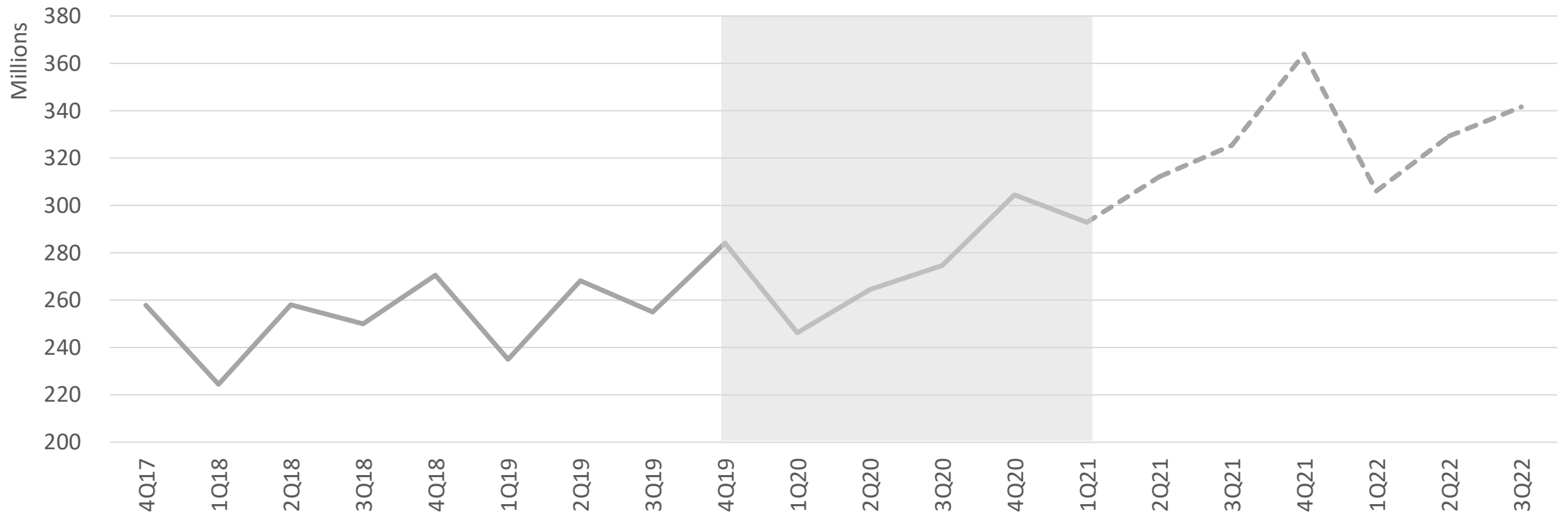
When Sales Tax Applies





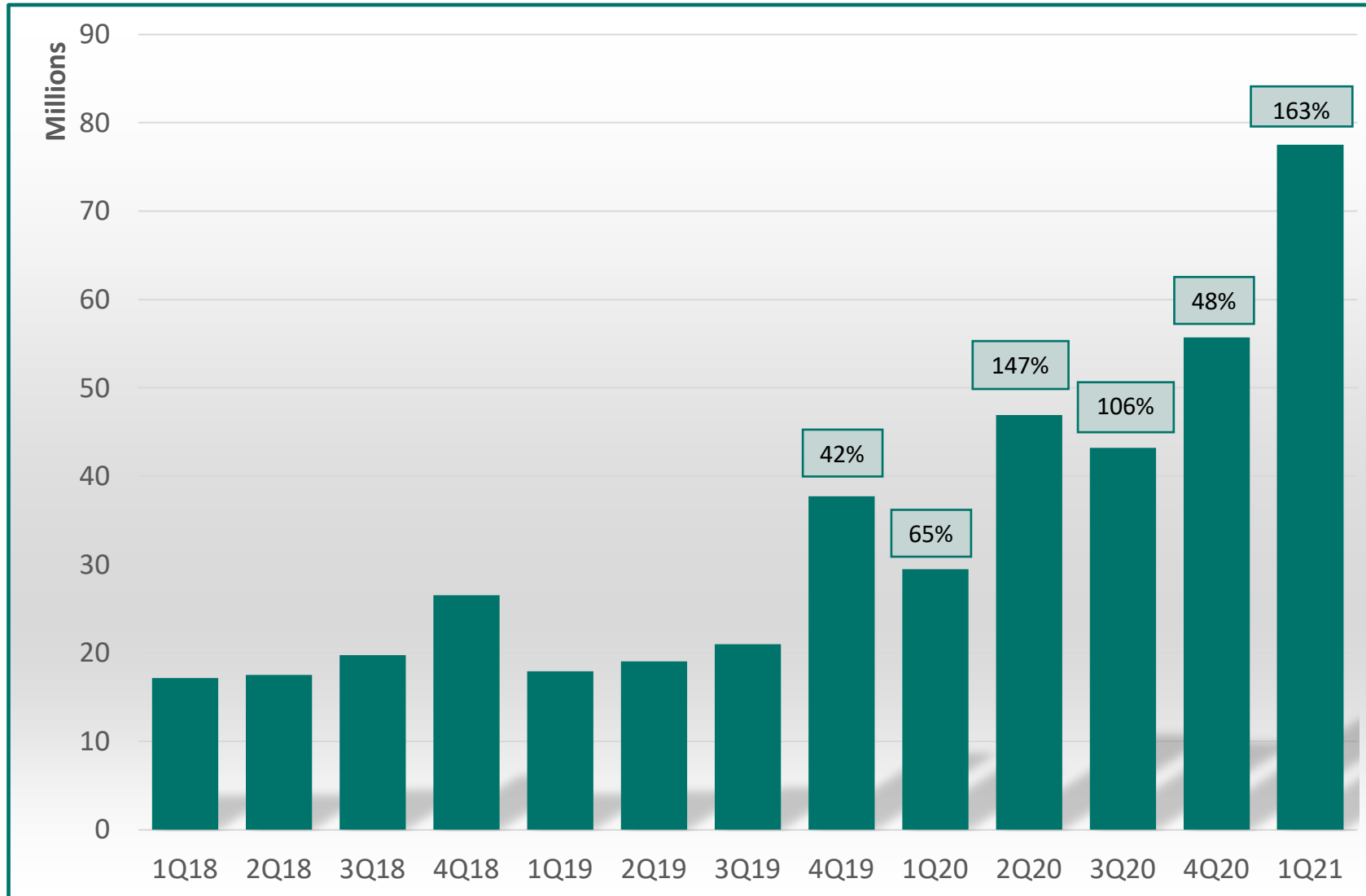
Business & Industry

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
4.8%	-1.4%	7.7%	7.2%	19.0%	18.0%	18.5%	19.5%	4.5%	5.5%





Fulfillment Centers



Place-of-Sale direct allocations to local agencies

4Q19 – 3Q20: Growth corresponds to increased local tax collections related to AB 147 and Marketplace Facilitators as well as Pandemic induced behavior shifts

4Q20: Continued Pandemic induced behavior shifts to online shopping

1Q21: Shifts of local tax reporting due to changes in business structure. Partial allocations shift from indirect to direct reporting.



Business & Industry Trends

Medical/Biotech

Count: 22,827

Light Industrial/Printers

Count: 66,534

Heavy Industrial

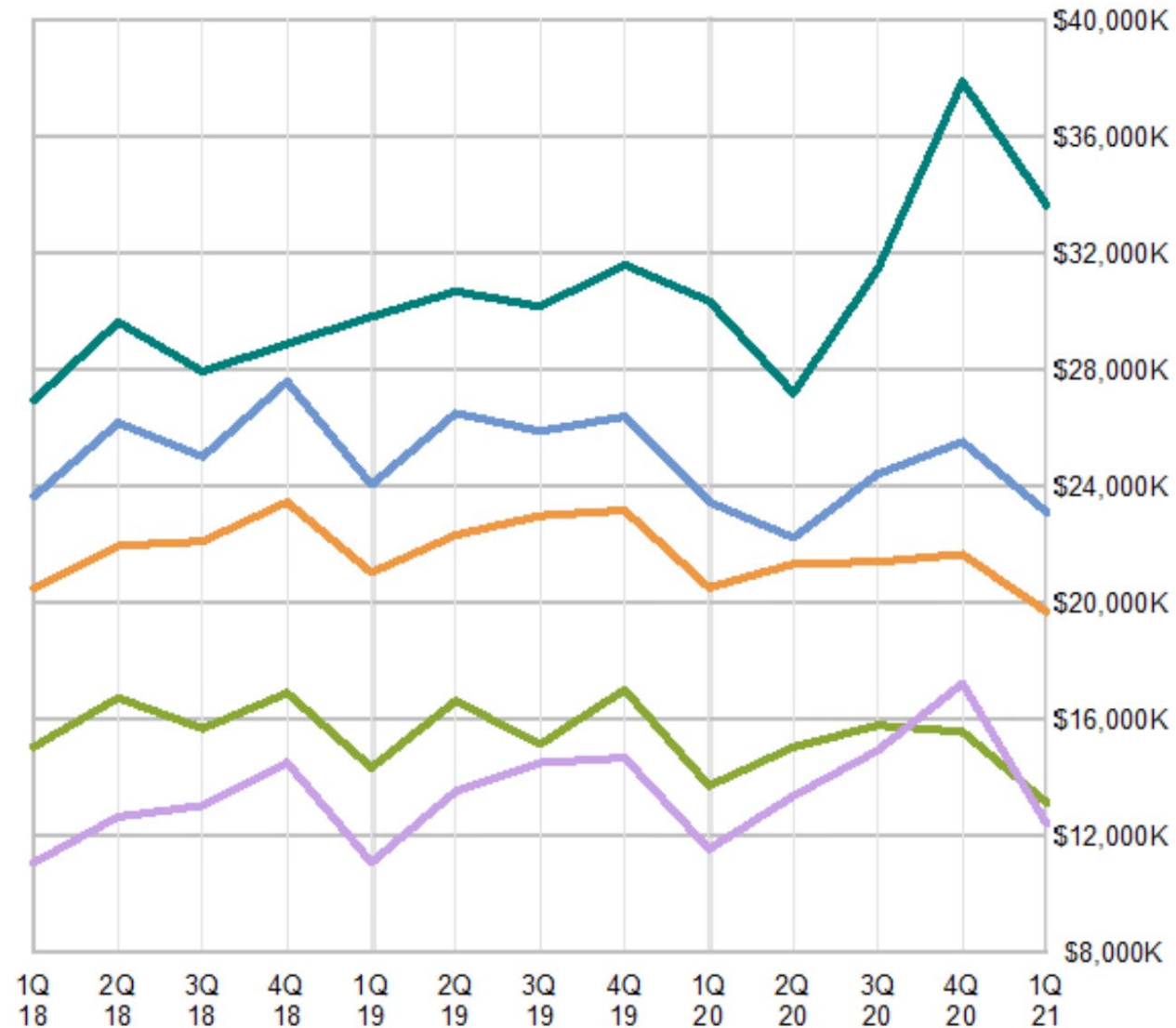
Count: 21,356

Office Equipment

Count: 7,356

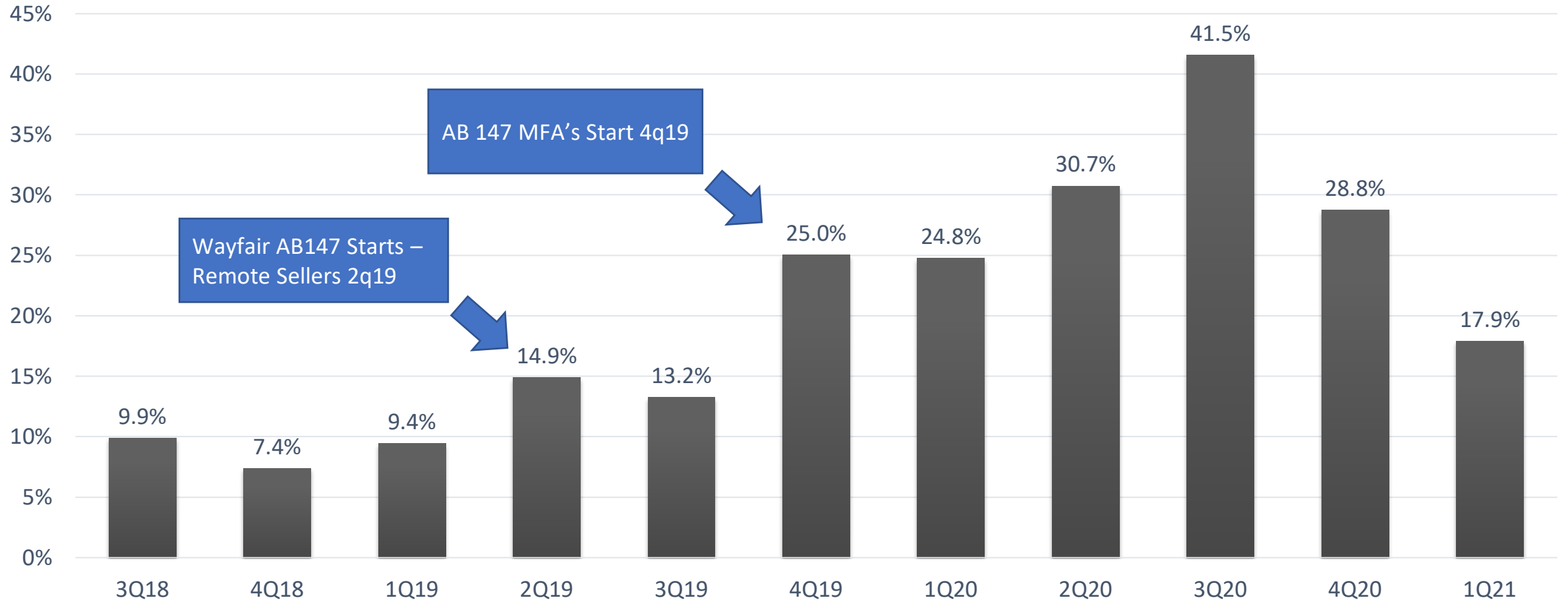
Warehse/Farm/Const. Equip.

Count: 1,845





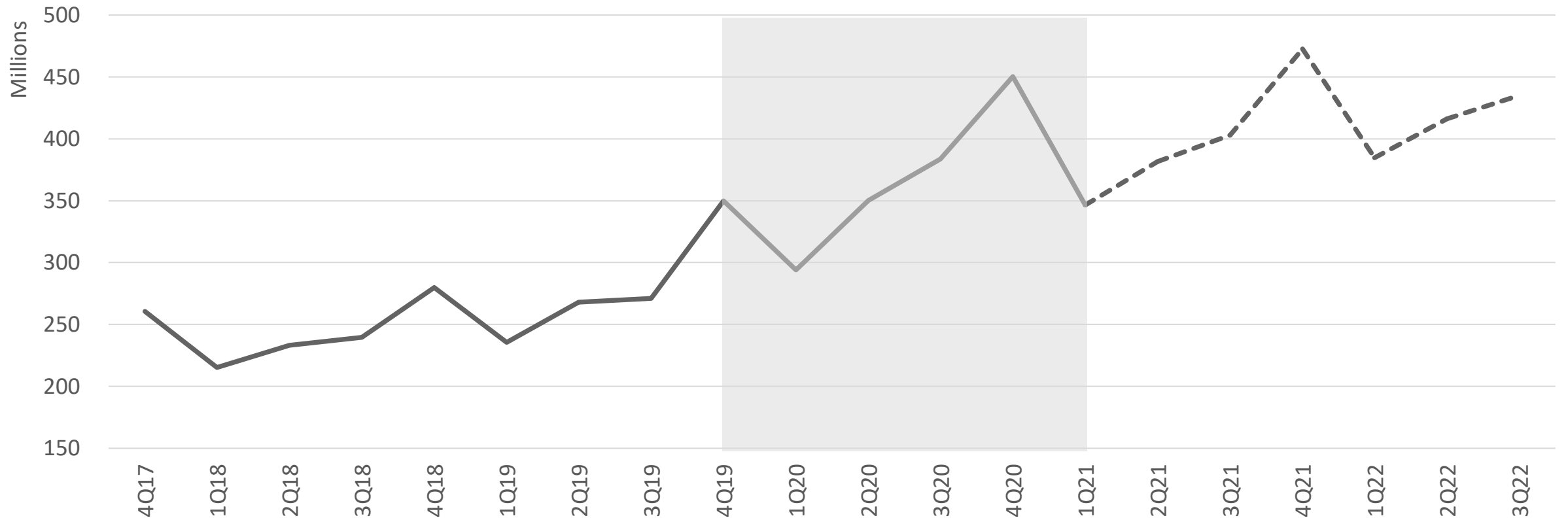
County Pools: Performance





County Pools

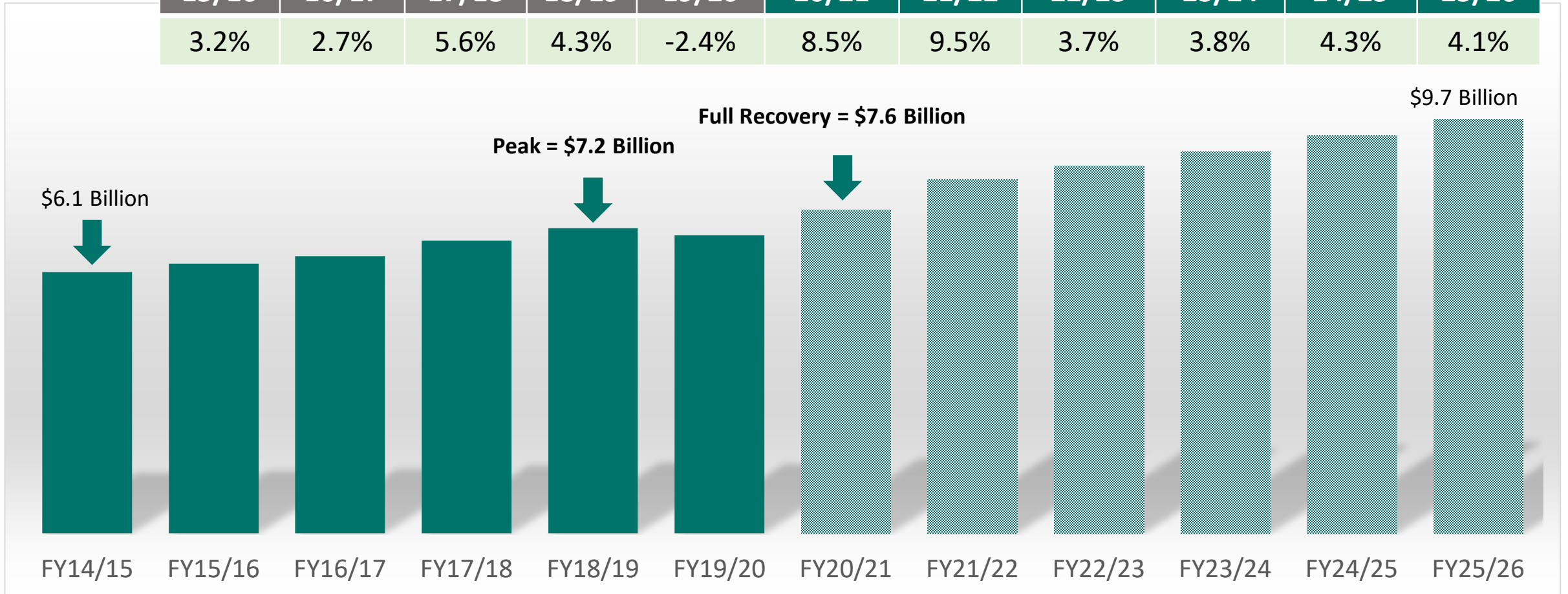
1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
24.8%	30.7%	41.5%	28.8%	17.9%	9.0%	5.0%	5.0%	11.0%	9.0%





HdL Statewide Trend – Annual Outlook(FY)

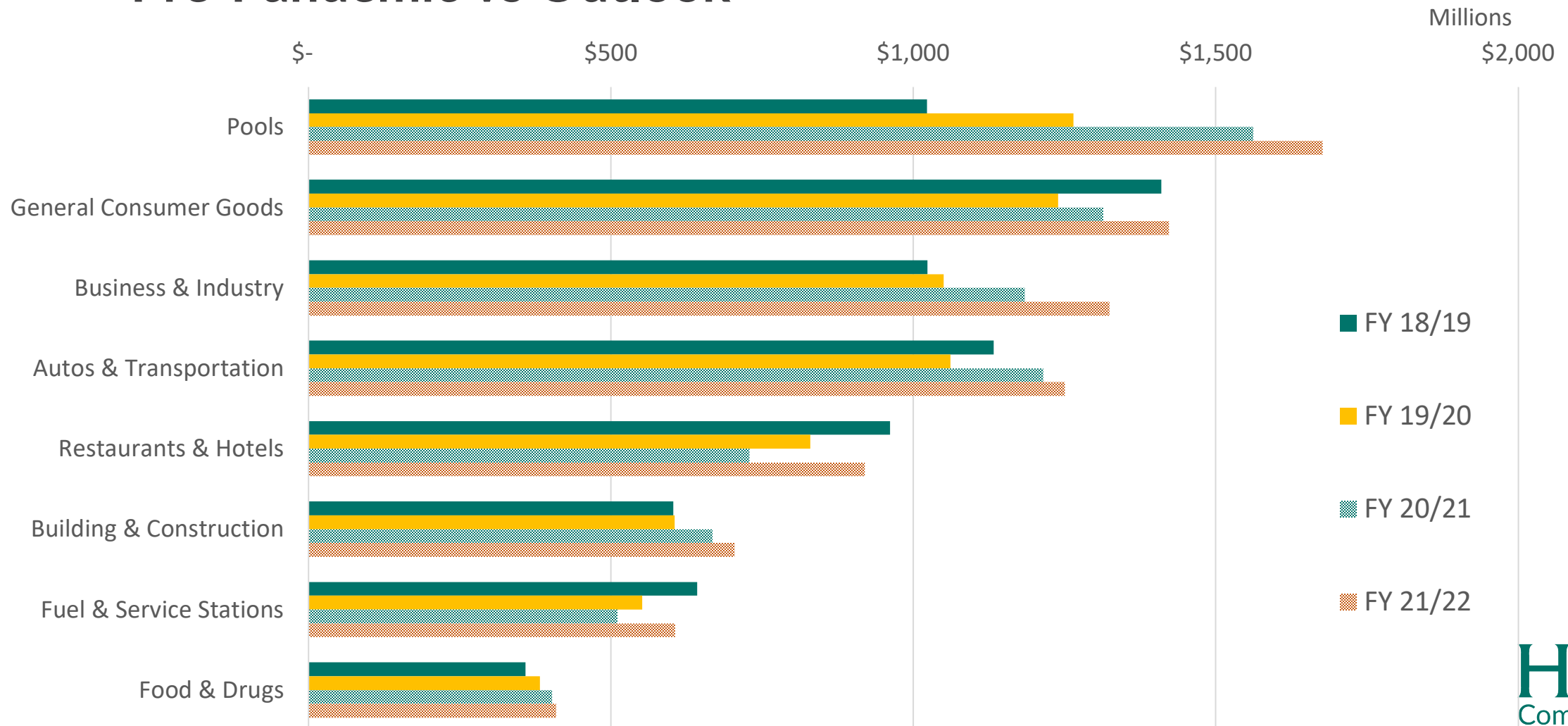
15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
3.2%	2.7%	5.6%	4.3%	-2.4%	8.5%	9.5%	3.7%	3.8%	4.3%	4.1%





Major Industry Group Breakdown

Pre-Pandemic vs Outlook





Final Thoughts

- Covid-19 Pandemic and Shelter-In-Place Directive have impacted the entire State
- Federal Government has pumped trillions into our economy
- Inland land/suburban areas fared better than dense built out metro areas
- The shifting of local Bradley-Burns from pools to local jurisdictions will shift Prop 172 and local transportation funding (LTF) revenues.
- The outlook for local tax revenues remains positive

Thank you!

