

Q4 2019



City of Los Altos Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (October - December 2019)

Los Altos In Brief

Los Altos' receipts from October through December were 2.5% below the fourth sales period in 2018. Excluding reporting aberrations, actual sales were down 8.3%.

A multi-quarter allocation spiked results in the autos and transportation group which boosted overall gross receipts. Once similar events were removed from hospitality-related sectors, revenues declined 5.1%. Fine dining and hotels with no liquor were on the upside while other sectors dipped.

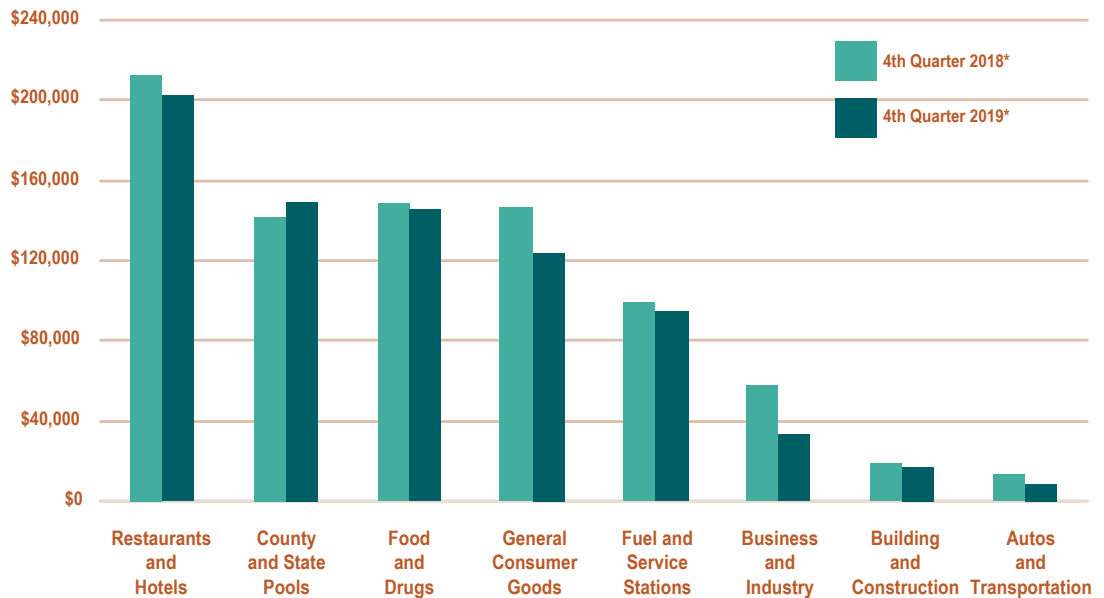
A late payment temporarily cut-back proceeds in grocery stores while store closures pulled down holiday quarter performance in general retail. Home furnishings/design services were particularly curtailed in comparison to a year ago.

A shift in reporting period was the largest factor in the decrease in business and industry.

On the flip side, full implementation of the Wayfair decision including Marketplace Facilitators boosted the city's receipts from the county-wide pool.

Net of aberrations, taxable sales for all of Santa Clara County grew 7.7% over the comparable time period; the Bay Area was up 3.9%.

SALES TAX BY MAJOR BUSINESS GROUP



*Allocation aberrations have been adjusted to reflect sales activity

TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Armadillo Willys BBQ & Cafe	Pendleton Woolen Mills
BevMo	Rancho 76
Chef Chus	Restaurant ASA
Draegers Super Market	Rite Aid
El Camino 76	Rustic House
Los Altos 76	Safeway
Los Altos Chevron	Shell
Los Altos Grill	Steinway
Love Fine Art	The Post
Lucky Supermarket	Trader Joes
Main Street Chevron	True Value Hardware
Noodle Talk	Walgreens
	Whole Foods Market

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date (Q3 to Q4)

	2018-19	2019-20
Point-of-Sale	\$1,452,145	\$1,239,402
County Pool	291,704	265,235
State Pool	766	574
Gross Receipts	\$1,744,616	\$1,505,211

California Overall

Statewide sales and use tax receipts from 2019's fourth quarter were 4.2% higher than last year's holiday quarter after factoring for accounting anomalies.

The increase came from the acceleration in online shopping which generated huge gains in the countywide use tax pools for merchandise shipped from out-of-state and from California based fulfillment warehouses in those cases where the warehouse is also point-of-sale. This segment was further boosted by the first full quarter of California's implementation of the Wayfair vs South Dakota ruling that requires out-of-state retailers to collect and remit sales tax on merchandise sold to California customers. The ruling has led to an increase in sales tax receipts of roughly \$2.95 per capita while also producing double digit gains for in-state online fulfillment centers.

In contrast, soft sales and closeouts resulted in a decline in almost every category of brick-and-mortar spending during the holiday season while new cannabis retailers helped boost what would have been a soft quarter for the food-drug group. Most other sales categories including new cars and business-industrial purchases were also down. Restaurant group gains were modest compared to previous quarters.

Overall, the rise in county pool receipts offset what would have been otherwise, a flat or depressed quarter for most jurisdictions.

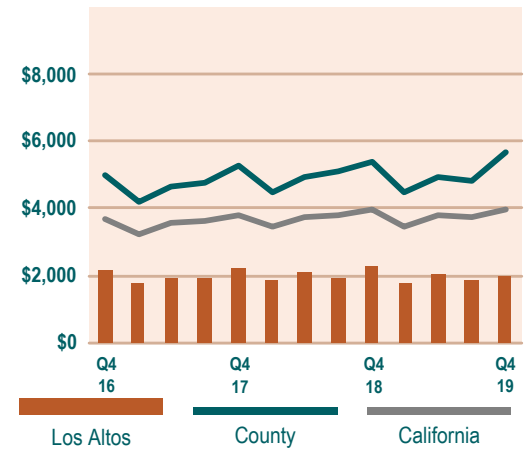
Covid-19

The coronavirus impact will first be seen in next quarter's data reflecting January through March sales. Based on recovery rates being reported in some Asian countries, the virus's disruption of supply chains will be deepest in the first and second quarter and largely resolved by mid-summer. However, recovery from social distancing and home confinements could take longer

with the deepest tax declines expected in the restaurant/hospitality, travel/transportation and brick-and-mortar retail segments. Layoffs and furloughs are also expected to reduce purchases of new cars and other high cost durable goods. The losses from the state's high-tech innovation industries may be more modest while the food-drug and online retail groups could exhibit increases.

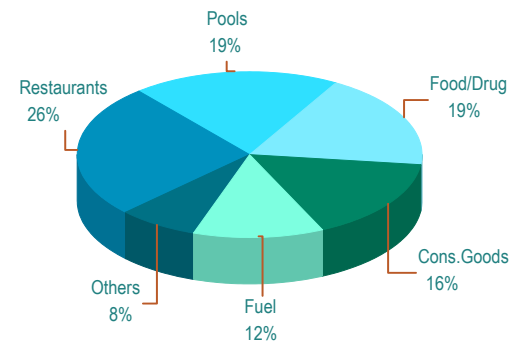
Assuming that the virus is largest contained by the end of September, HdL's economic scenario projects that tax declines will bottom out in the first quarter of 2021 but with only moderate gains for several quarters after. Data from previous downturns suggests that the return to previous spending is not immediate and often evolves. Businesses emerge with ways to operate with fewer employees and more moderate capital investment. Consumers take time to fully get back to previous levels of leisure travel, dining and spending and may permanently transfer to newly discovered services, activities and/or online retail options.

SALES PER CAPITA*



*Allocation aberrations have been adjusted to reflect sales activity

REVENUE BY BUSINESS GROUP
Los Altos This Quarter*



*Allocation aberrations have been adjusted to reflect sales activity

LOS ALTOS TOP 15 BUSINESS TYPES**

Business Type	Los Altos		County	HdL State
	Q4 '19	Change	Change	Change
Building Materials	— CONFIDENTIAL —		0.8%	1.4%
Business Services	11,698	176.2%	-15.3%	-6.0%
Casual Dining	132,445	-7.8%	3.3%	3.8%
Convenience Stores/Liquor	— CONFIDENTIAL —		1.2%	-0.1%
Drug Stores	— CONFIDENTIAL —		-3.4%	-0.7%
Family Apparel	— CONFIDENTIAL —		-0.4%	1.3%
Fast-Casual Restaurants	12,137	-1.6%	11.5%	4.3%
Fine Dining	31,806	5.6%	-8.4%	-2.9%
Grocery Stores	107,770	0.9%	3.7%	1.3%
Home Furnishings	20,393	-37.6%	3.8%	-2.1%
Music Stores	— CONFIDENTIAL —		-7.8%	-3.3%
Quick-Service Restaurants	16,170	-2.4%	2.0%	1.9%
Service Stations	94,367	-4.7%	-1.8%	0.2%
Specialty Stores	17,868	-11.6%	-8.1%	-3.8%
Women's Apparel	15,831	5.9%	-4.8%	-4.8%
Total All Accounts	624,326	-11.1%	5.5%	0.2%
County & State Pool Allocation	149,627	5.6%	18.0%	26.7%
Gross Receipts	773,953	-8.3%	7.7%	4.2%

** Accounting aberrations such as late payments, fund transfers, and audit adjustments have been adjusted to reflect the quarter in which the sales occurred.