SALES TAXES

PAST, PRESENT AND FUTURE

LoCC City Manager's Conference

February 3, 2021
Pools 33% surge mitigated half of brick and mortar 13% decline

<table>
<thead>
<tr>
<th>Business Group</th>
<th>1q20 to 3q20</th>
<th>1q19 to 3q19</th>
<th>$ Chg.</th>
<th>% Chg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business And Industry</td>
<td>$779M</td>
<td>$767M</td>
<td>$13M</td>
<td>2%</td>
</tr>
<tr>
<td>Autos And Transportation</td>
<td>$770M</td>
<td>$830M</td>
<td>-$61M</td>
<td>-7%</td>
</tr>
<tr>
<td>General Consumer Goods</td>
<td>$769M</td>
<td>$980M</td>
<td>-$211M</td>
<td>-22%</td>
</tr>
<tr>
<td>Restaurants And Hotels</td>
<td>$486M</td>
<td>$724M</td>
<td>-$237M</td>
<td>-33%</td>
</tr>
<tr>
<td>Building And Construction</td>
<td>$465M</td>
<td>$454M</td>
<td>$11M</td>
<td>2%</td>
</tr>
<tr>
<td>Fuel And Service Stations</td>
<td>$332M</td>
<td>$475M</td>
<td>-$143M</td>
<td>-30%</td>
</tr>
<tr>
<td>Food And Drugs</td>
<td>$291M</td>
<td>$265M</td>
<td>$26M</td>
<td>10%</td>
</tr>
<tr>
<td>Point of Sale</td>
<td>$3,898M</td>
<td>$4,502M</td>
<td>-$604M</td>
<td>-13%</td>
</tr>
<tr>
<td>Pools</td>
<td>$1,030M</td>
<td>$773M</td>
<td>$256M</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,928M</strong></td>
<td><strong>$5,276M</strong></td>
<td><strong>-$348M</strong></td>
<td><strong>-7%</strong></td>
</tr>
</tbody>
</table>
AB 147 – ‘WAYFAIR’

- Fully implemented
- $1.9b plus statewide
  - Excluding district taxes
- Remote Sellers filed April 1, 2019
- Marketplace Facilitators began October 1
  - Added $260m to pools
- Major contributor to growth last 4 quarters
  - Also grew district taxes
AB147 – ‘WAYFAIR’ BOOSTS POOLS

Wayfair AB 147 Starts - Out of State Remote Sellers

Marketplace Facilitators

LoCC CM Conference - 2/3/2021
## TOP 10 SEGMENTS 2020 YTD

<table>
<thead>
<tr>
<th>Rank</th>
<th>Business Type Description</th>
<th>2020 YTD</th>
<th>YTD $ Chg</th>
<th>YTD % Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>New Motor Vehicle Dealers</td>
<td>$453M</td>
<td>-$28M</td>
<td>-6%</td>
</tr>
<tr>
<td>2</td>
<td>Service Stations</td>
<td>286M</td>
<td>-117M</td>
<td>-29%</td>
</tr>
<tr>
<td>3</td>
<td>Discount Dept Stores</td>
<td>278M</td>
<td>-1M</td>
<td>0%</td>
</tr>
<tr>
<td>4</td>
<td>Building Materials</td>
<td>260M</td>
<td>22M</td>
<td>9%</td>
</tr>
<tr>
<td>5</td>
<td>Quick-Service Restaurants</td>
<td>205M</td>
<td>-32M</td>
<td>-14%</td>
</tr>
<tr>
<td>6</td>
<td>Casual Dining</td>
<td>179M</td>
<td>-111M</td>
<td>-38%</td>
</tr>
<tr>
<td>7</td>
<td>Grocery Stores</td>
<td>144M</td>
<td>12M</td>
<td>9%</td>
</tr>
<tr>
<td>8</td>
<td>Fulfillment Centers</td>
<td>126M</td>
<td>64M</td>
<td>102%</td>
</tr>
<tr>
<td>9</td>
<td>Contractors</td>
<td>124M</td>
<td>-7M</td>
<td>-5%</td>
</tr>
<tr>
<td>10</td>
<td>Medical/Biotech</td>
<td>86M</td>
<td>-2M</td>
<td>-2%</td>
</tr>
</tbody>
</table>

**Decreases** - SIP restrictions, shuttered locations, limited operations, lack of travel

**Increases** – Essential businesses, spike in online ordering, home improvements
8 REGIONS RESULTS

2020 Regional Performance

- Bay Area: -6%
- LA and Orange: -6%
- Other So Cal Counties: -1%
- Central Coast: -2%
- Sacramento Region: -8%
- Inland Empire: -8%
- Far North & Sierras: -6%
- San Joaquin Valley: -1%

1q20 % Change  2q20 % Change  3q20 % Change
BEHAVIORS, INFLUENCES AND MORE…
Sales and Use Tax Receipts

Total (Calendar Year 2020)
$59.6bn
Percent Change From Prior Year (2019 to 2020)
-3.0%

Total Since July 1st
$31.1bn
Percent Change From Prior Year
1.5%

Calendar Year-to-Date Total Tax Receipts
Fiscal Year-to-Date Total Tax Receipts

1. Represents cash receipts (not tax return data). Excludes DMV payments, FTD payments, and other adjustments.
2. Decline in April tax receipts is partly due to a Q1 filing extension of 3 months for small businesses, which could be recouped in the July 31st filing.
The Pandemic's Uneven Effect on Consumer Spending

Change in personal consumption expenditures on goods and services in the U.S. since January 2020*

* underlying monthly spending data is seasonally adjusted at annual rates

Source: U.S. Bureau of Economic Analysis
Some sectors in real pain

Critical Categories:
- Restaurants
- Bars/Nightclubs
- Leisure Venues/Conference Centers
- Retail Centers
- Shopping Malls
- Hotels/Lodging

Many retailers with limited access and/or operational restrictions
MUCH LESS DINING IN…

In California, as of December 27, 2020, restaurant and hotel spending by all consumers decreased by 56.3% compared to January 2020.
FOOTPRINT REDUCTION LOSSES...

Store closures continued to pile up

Store closures and openings each year, from 2016 to 2020

- **2020**
  - 8,736 closed
  - 3,300 opened
  - 5,436 net closed

- **2019**
  - 9,832 closed
  - 4,689 opened
  - 5,143 net closed

- **2018**
  - 5,706 closed
  - 3,748 opened
  - 1,957 net closed

- **2017**
  - 8,059 closed
  - 5,097 opened
  - 2,962 net closed

- **2016**
  - 4,358 closed
  - 5,559 opened
  - 1,240 net opened

*Source: Nami Sumida/Retail Dive; data from Coresight Research*
HOLIDAYS 2020

4q20 will see growth in pools; not good news for local merchants in general retail sector
BEHAVIORAL SHIFTS CONTINUE...

- Working from home stays
  - Less time/people in office
- Fewer customers in stores, eateries
  - More online, delivery, curbside
- Household savings weaken
HOSPITALITY PAIN

- **Years to Recover**
  - Occupancy levels
  - Room Rates
  - Impacts linked to eateries, venues, stores

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**U.S. Forecast**
Key Performance Indicators
2019 – 2020F – 2021F

<table>
<thead>
<tr>
<th>Metric</th>
<th>2019 Actual</th>
<th>2020 Forecast</th>
<th>2021 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy*</td>
<td>66.0%</td>
<td>42.2%</td>
<td>52.2%</td>
</tr>
<tr>
<td>ADR</td>
<td>$131.22</td>
<td>$103.65</td>
<td>$109.21</td>
</tr>
<tr>
<td>RevPAR*</td>
<td>$86.67</td>
<td>$43.76</td>
<td>$57.03</td>
</tr>
</tbody>
</table>

*Reflects Total Room Inventory (TRI) methodology; which assumes no temporary hotel closures.

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“2020 U.S. hotel forecast slightly upgraded; full recovery still unlikely until 2024”

STR Nov 2020
• Since 2012, business structure kept Amazon as ‘out of state’ company
  • 100% local use taxes distributed via 58 pools
  • Began reporting under AB155
• Recently, Amazon changed business structure
• No confirmation yet from CDTFA if revamped Amazon business structure changes pools allocations
  • Change would not impact local transactions/district taxes
2021 TRENDS

• Delivery, curbside, in store pickup = new normal
• Alternative business models
  • Lines blurring between rentals, sales and subscriptions
  • New store concepts (e.g. Ulta Beauty in Targets)
• Fulfillment hubs eclipse storefronts
  • Some commercial spaces repurposed
• Services related spending to increase
  • Fewer $ on ‘goods’ as pandemic settles down
2021 OUTLOOK

Hospitality/travel struggle
Ecommerce up (again)
Strong housing market
   No so for office & commercial centers
Phase II stimulus
   Expected, targeted, limited impact
Vaccine effect to be gradual
Income tax rates going higher?
- **FY 2020/2021** – partial prior year rebound
- **FY 2021/2022** – real recovery underway
- City projections differ due to:
  - Local tax base
  - Geography
  - Reopening variances

<table>
<thead>
<tr>
<th></th>
<th>FY15/16</th>
<th>FY16/17</th>
<th>FY17/18</th>
<th>FY18/19</th>
<th>FY19/20</th>
<th>FY20/21</th>
<th>FY21/22</th>
<th>FY22/23</th>
<th>FY23/24</th>
<th>FY24/25</th>
<th>FY25/26</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pools</strong></td>
<td>6.3%</td>
<td>7.3%</td>
<td>7.1%</td>
<td>9.9%</td>
<td>20.0%</td>
<td>19.3%</td>
<td>3.1%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td><strong>Point-of-Sale</strong></td>
<td>2.6%</td>
<td>2.5%</td>
<td>5.1%</td>
<td>3.4%</td>
<td>-8.2%</td>
<td>-1.7%</td>
<td>8.7%</td>
<td>3.6%</td>
<td>3.0%</td>
<td>2.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td><strong>Combined Total</strong></td>
<td><strong>3.1%</strong></td>
<td><strong>3.1%</strong></td>
<td><strong>5.4%</strong></td>
<td><strong>4.3%</strong></td>
<td><strong>-4.1%</strong></td>
<td><strong>2.1%</strong></td>
<td><strong>7.5%</strong></td>
<td><strong>4.1%</strong></td>
<td><strong>3.6%</strong></td>
<td><strong>3.4%</strong></td>
<td><strong>3.4%</strong></td>
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RECOVERY RESOURCES

- Opportunity Insights: https://tracktherecovery.org/

The Back-to-Normal Index

The pandemic economy is far from normal. So Moody’s Analytics and CNN Business have partnered to create a proprietary Back-to-Normal Index, comprised of 37 national and seven state-level indicators. The index ranges from zero, representing no economic activity, to 100%, representing the economy returning to its pre-pandemic level in March.

California

72%

The economy in California is operating at 72% of where it was in early March.

New coronavirus cases in the last 7 days: 73,058

Back-to-Normal state rank: 48

Source: Moody’s Analytics, AHA CYSE COVID-19 Data

Percent of the way back to normal (100%=normal):

- Less than 60%
- 60% to 69%
- 70% to 79%
- 80% to 89%
- 90% to 99%
- 100% or more

Data as of January 15, 2021
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