

Sales Tax Revenue – Disappointing Results for Final Quarter of FY 2013/14

Sales tax revenue came in lower than anticipated for the final quarter of FY 2013/14. Staff met with our sales tax consultant, HdL, and received a detailed report for the period covering sales from April through June (Q4). The HdL report highlighted the driving factors for the decline. In particular, the Business and Industry segment, which is the largest segment of sales taxpayers in the City, was down 33 percent.

Revenue for the quarter was \$7.2 million, a 7.7 percent decline from the same quarter of the prior year. Adjusted for economic data (which excludes one-time retroactive accounting changes), the returns are slightly better with revenue down 6.1 percent. The data for the quarter, in contrast to an exceptionally high prior quarter, underlines the dramatic volatility of this revenue source.

When we look at the other major industry groups the outlook is more positive. Revenue from Restaurants and Hotels was up 14 percent, Building and Construction was up 12 percent, and Autos and Transportation was up 9 percent. In addition, the County pool continues to become a larger revenue source, up 9 percent for the quarter. However, each of these gains is offset by the decrease in Business and Industry, as that segment alone accounts for over 41 percent of total sales tax revenue.

Final sales tax revenue in FY 2013/14 was \$30.3 million, slightly above the \$29.8 million projected in the FY 2014/15 Adopted Budget. Despite the negative Q4, the City met its target due to the high Q3 returns. Sales tax revenue for FY 2014/15 is projected to be \$30.2 million.