

CALIFORNIA FORECAST

SALES TAX TRENDS & ECONOMIC DRIVERS

APRIL 2020



HdL[®] Companies

CORONAVIRUS IMPACTS ON CALIFORNIA SALES TAX

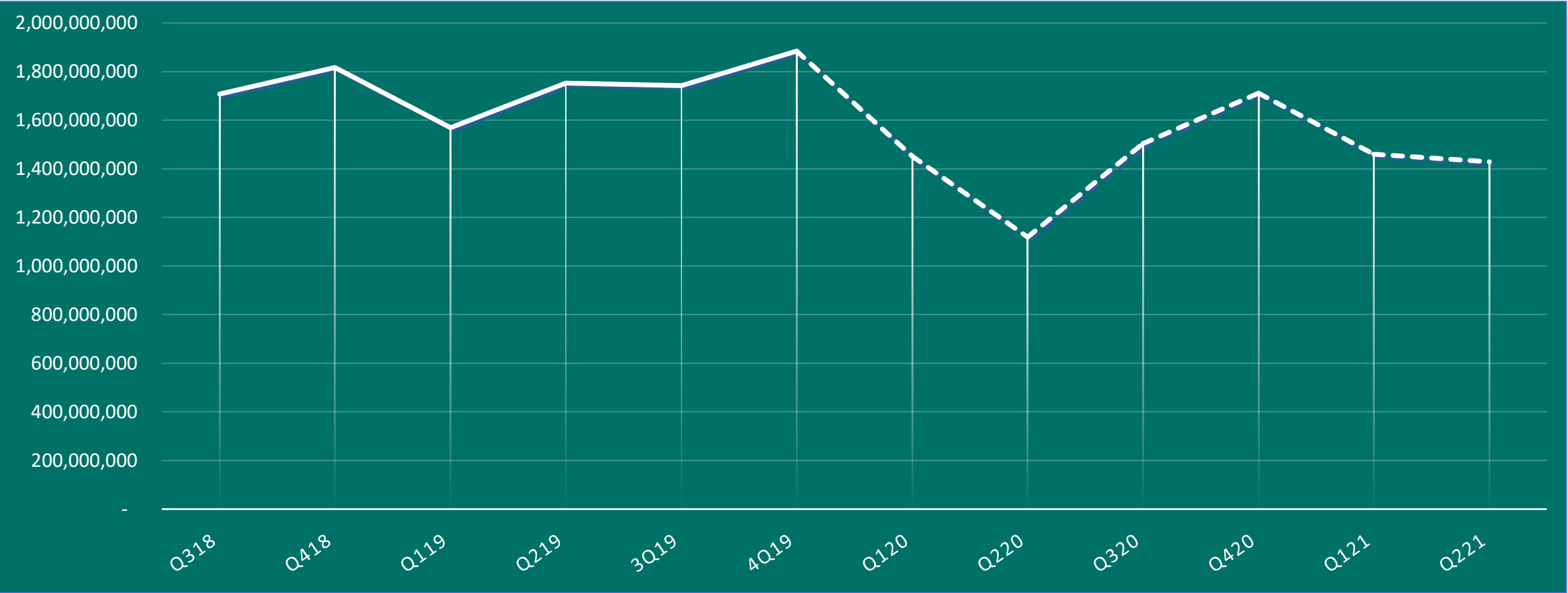
- Assumes statewide 'shelter-in-place' directive will continue until the end of May 2020
- Virus runs its course by the end of September (based on China & South Korea)
- Local sales & use tax declines are expected to continue through 2020, with only moderate gains for several quarters thereafter
- The return to previous spending patterns after significant income interruptions is not immediate and often evolves



STATEWIDE SALES TAX TRENDS

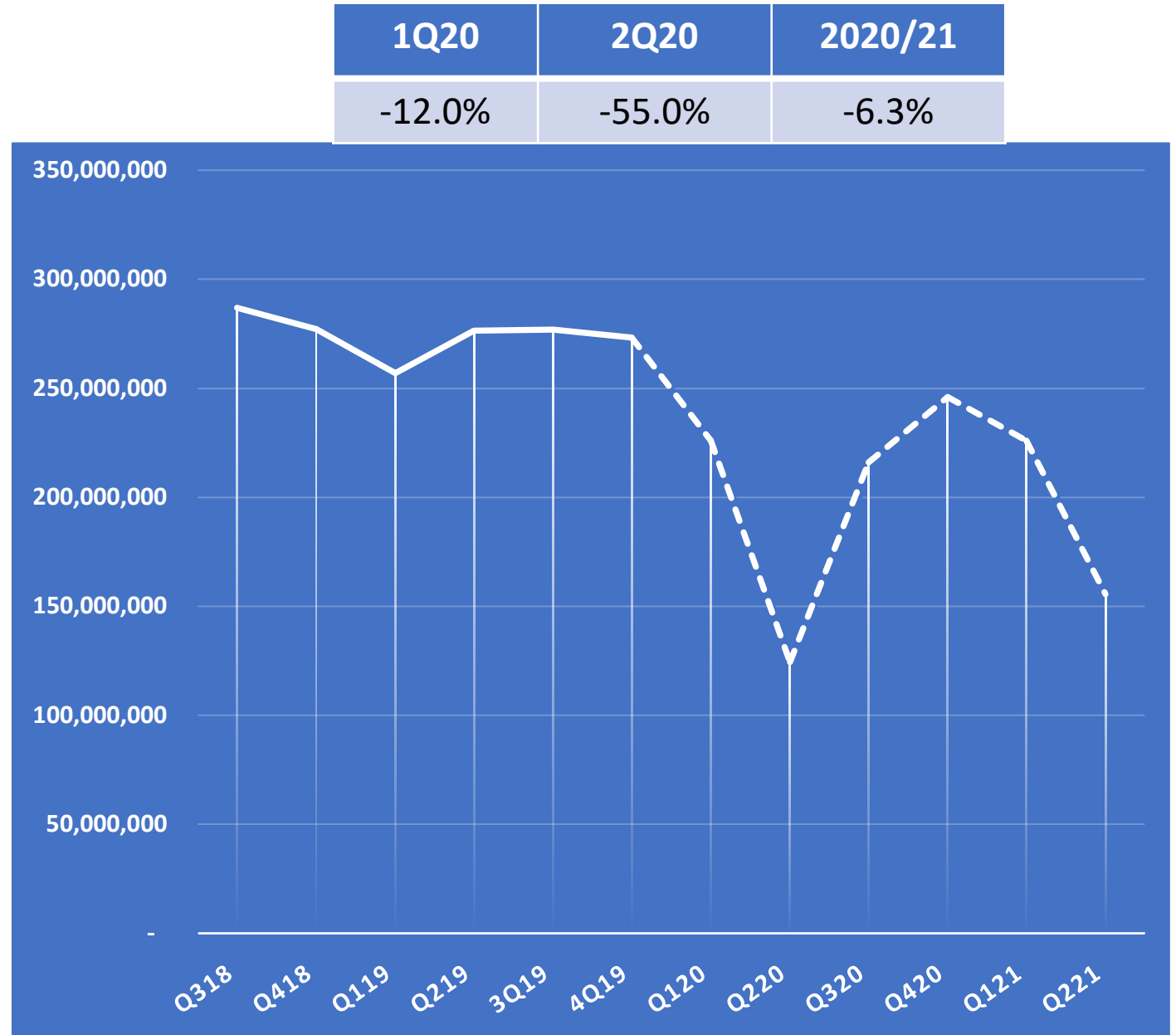
1Q20	2Q20	2019/20	2020/21
-7.5%	-36.1%	-9.5%	-1.5%

FY 2020/21 projected to **decrease 10.9%** compared to FY 2018/19



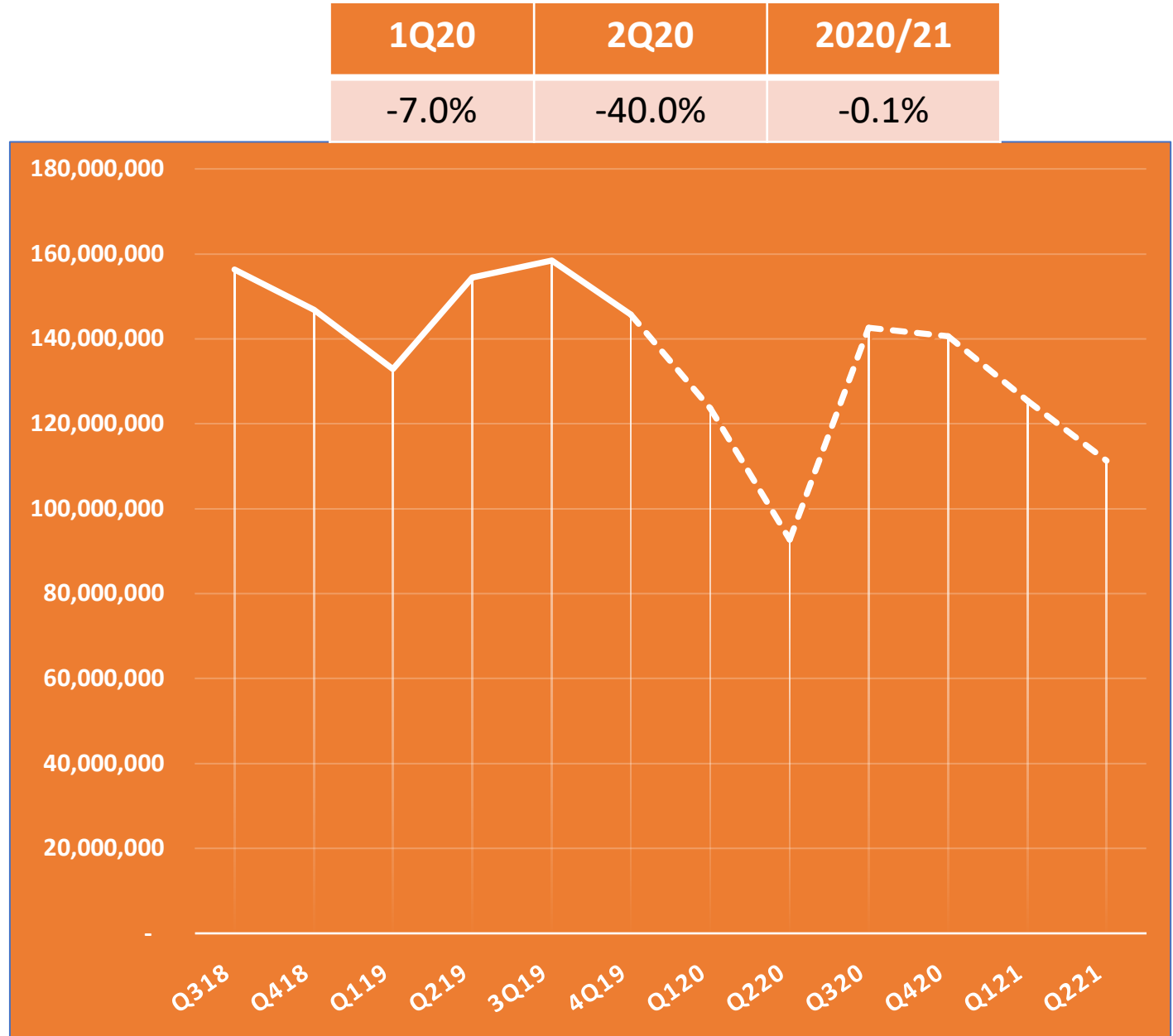
AUTOS & TRANSPORTATION

- Industry leaders predicting 80% declines (while SIP is enforced)
- A local Southern California auto center association is reporting 65% - 70% declines
- New car sales in 2020 estimated between 12.1M and 14.8M. Declines from 18% - 29% from 2019's 17M
- HdL forecasts an overall decline of 25%, exceeding the worst annual decline during the Great Recession



BUILDING & CONSTRUCTION

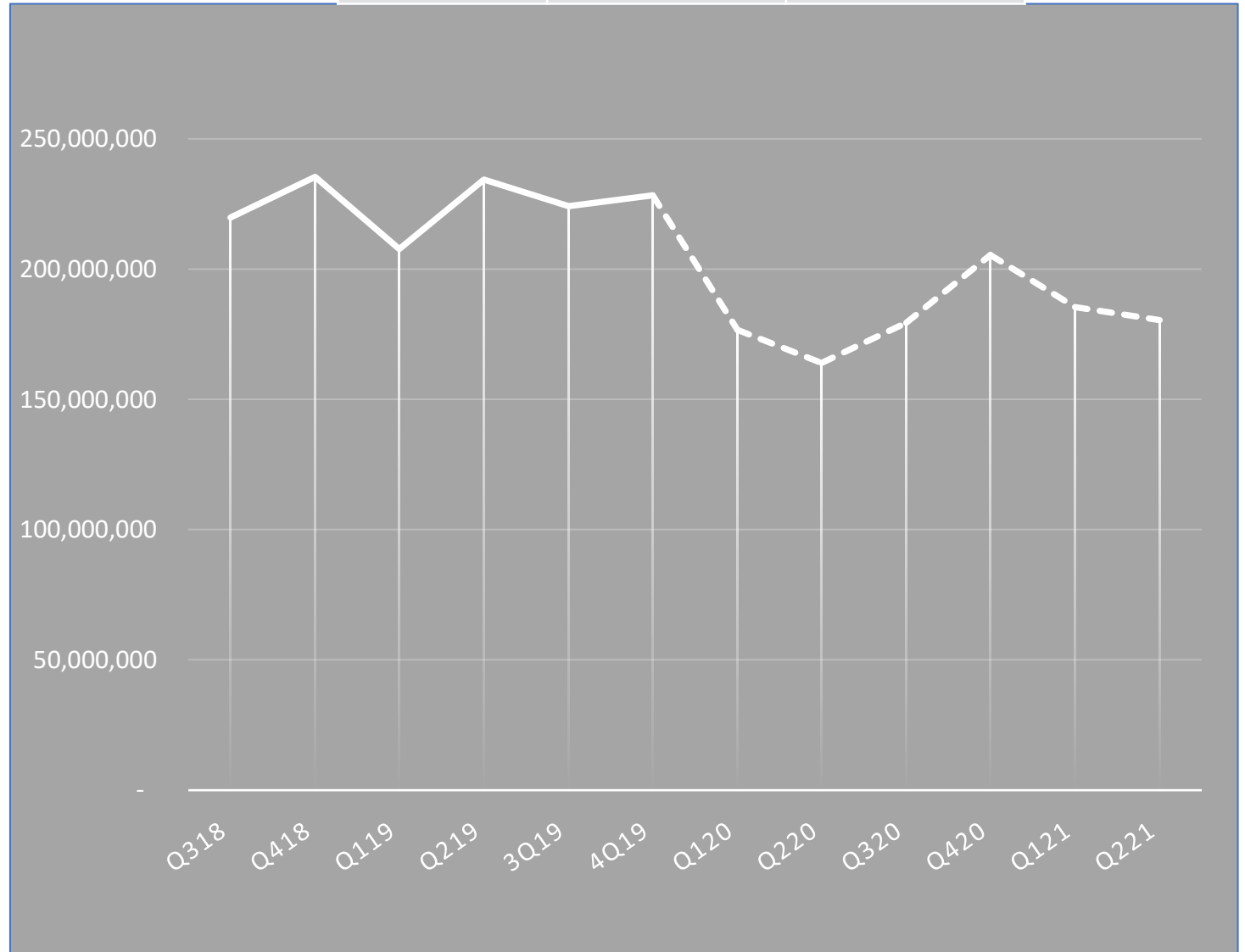
- Prolonged work stoppages (regional impacts may vary)
- Permits levels expected to decline, impacting future work
- Housing development likely to dry up
- Commercial projects may be put off
- Focused on backlog after pandemic passes



BUSINESS & INDUSTRY

- Declines due to shutdowns and disruptions in supply chains and labor
- Food processing, medical, and telecommunication equipment or businesses deemed essential less impacted
- Logistics and fulfillment centers might see positive impacts
- Agencies with point of sale fulfillment centers might expect a short-term boost.

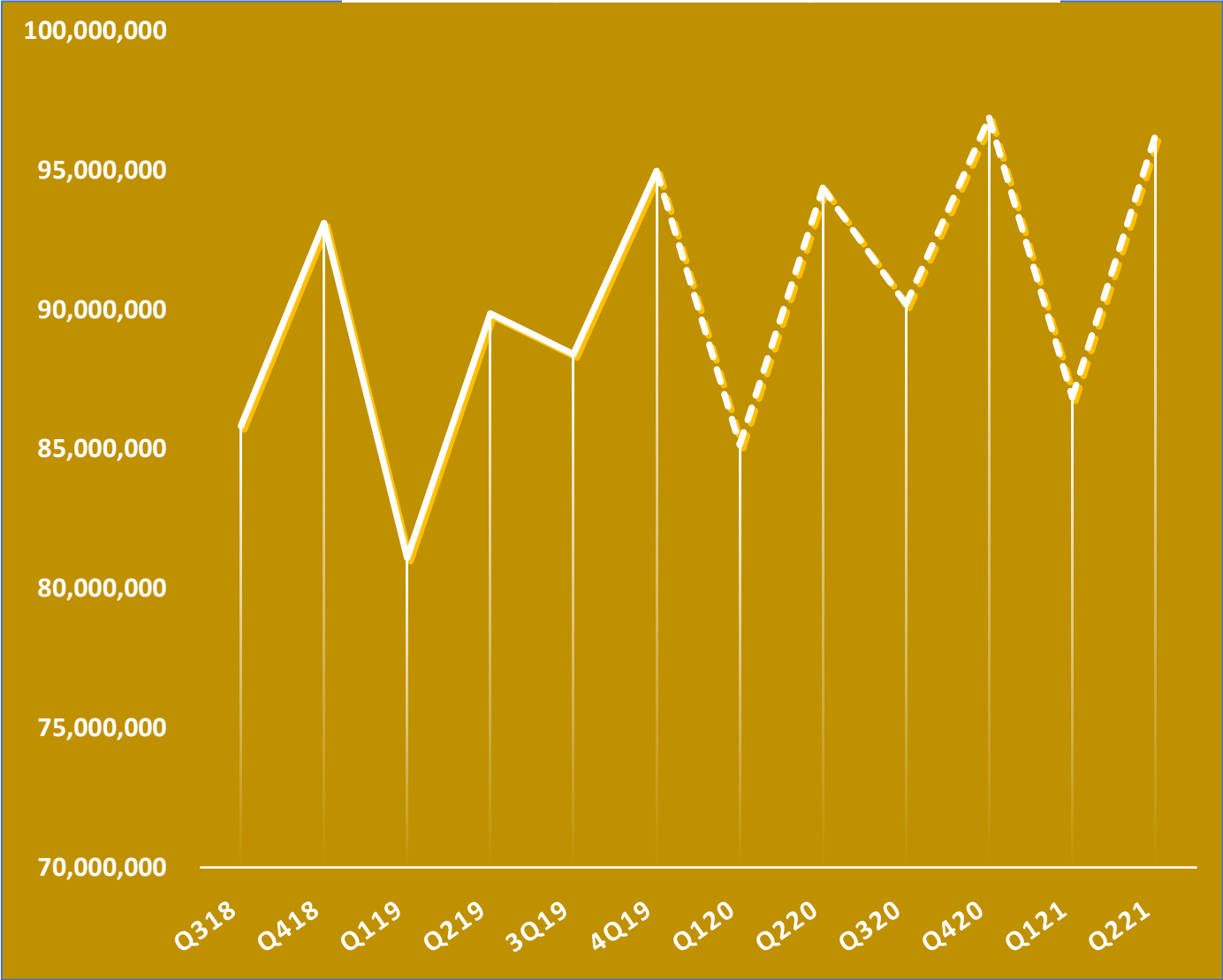
1Q20	2Q20	2020/21
-15.0%	-30.0%	-5.4%



FOOD & DRUGS

1Q20	2Q20	2020/21
5.0%	5.0%	2.0%

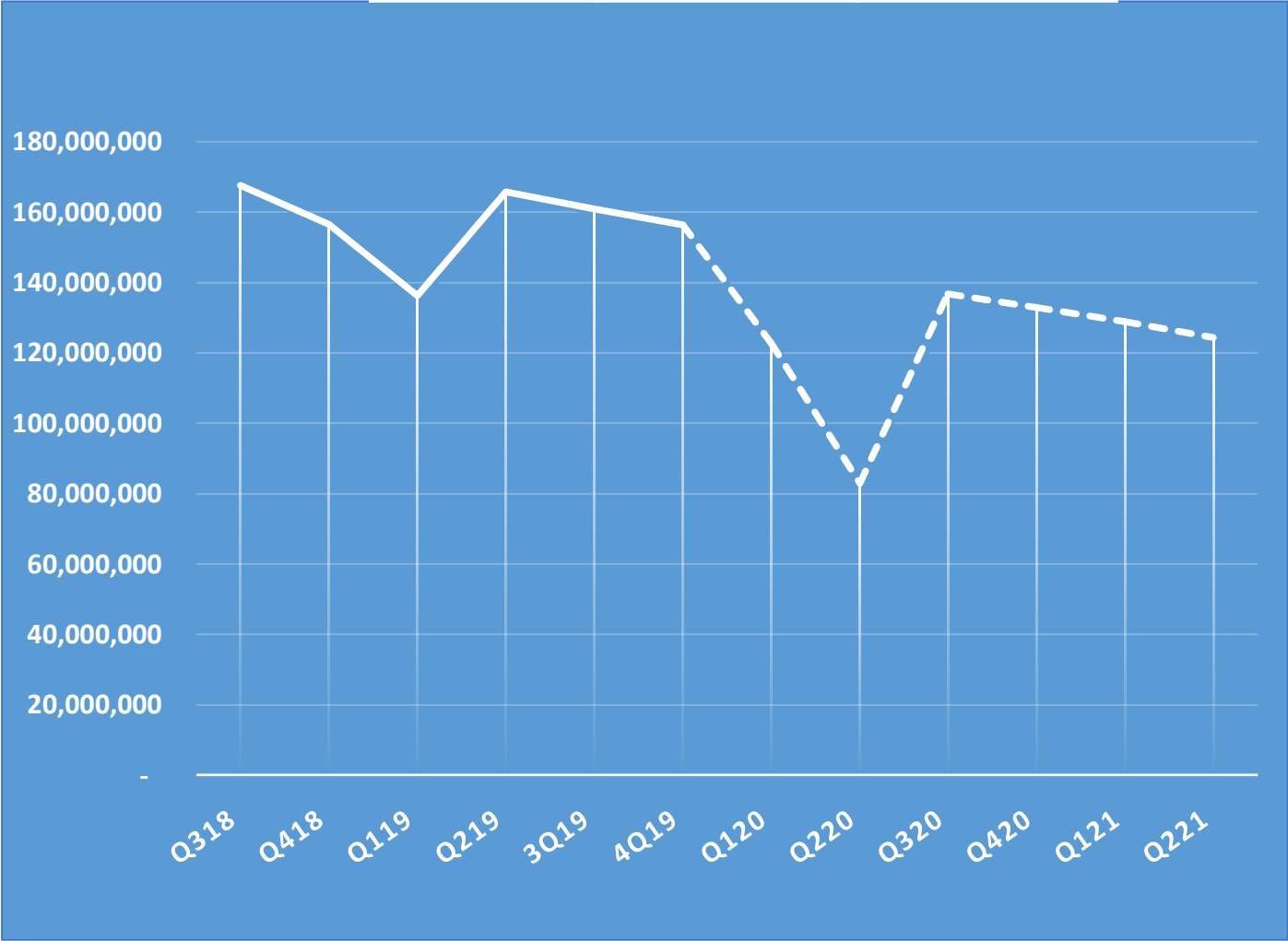
- Grocery and drug stores continue to be open
- Store hours & health concerns may impact traffic
- Grocery sales are expected to boom, while taxable essentials along with alcohol sales are expected to boost tax receipts from this sector.
- Cannabis, a large growth category, is also expected to perform well.



FUEL & SERVICE STATIONS

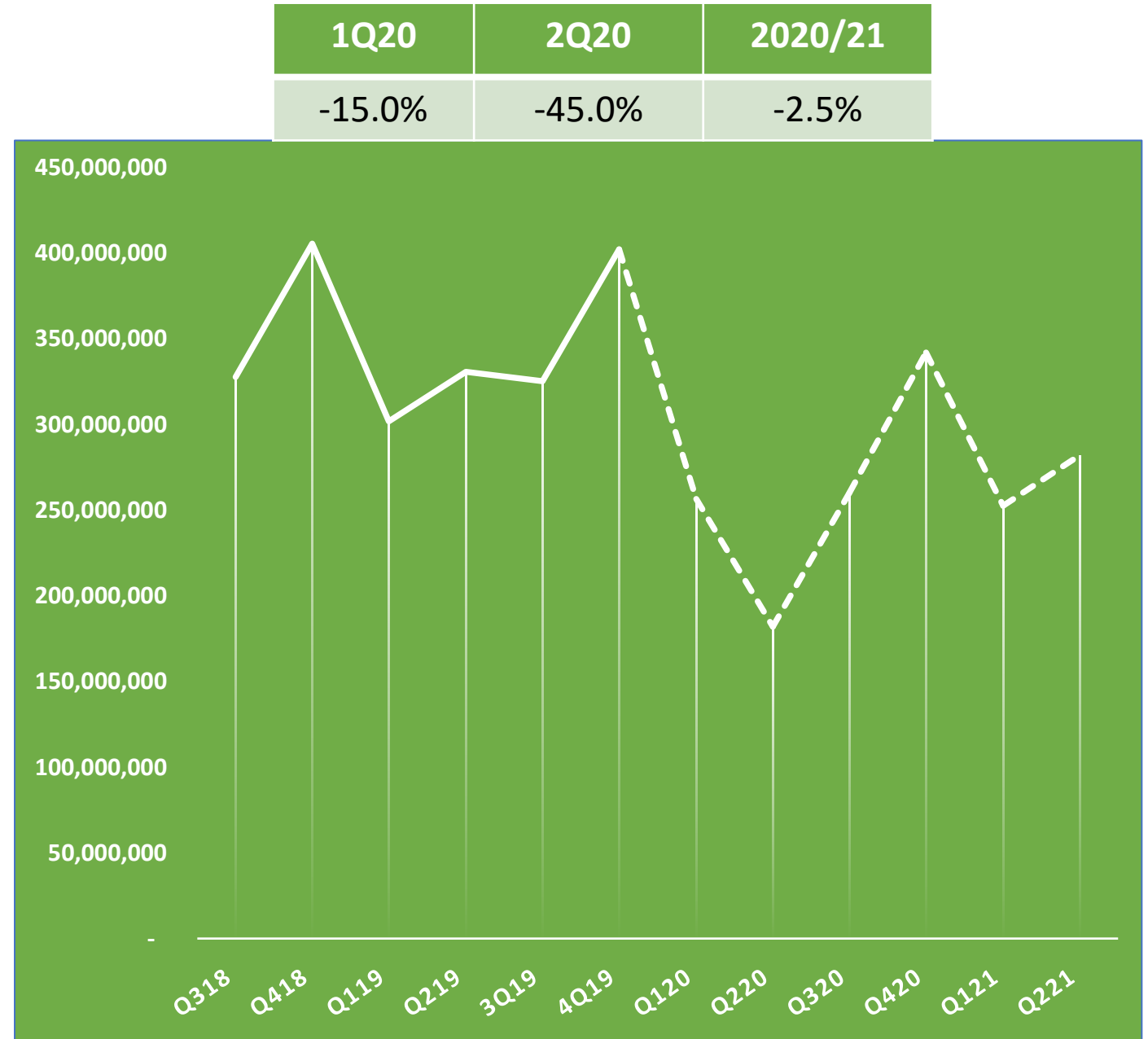
1Q20	2Q20	2020/21
-10.0%	-50.0	0.0%

- Consumption down
- Prices at historic lows
- Tax revenue expected to significantly drop
- Moderate recovery expected late in 2021 but oversupply may keep gas prices relatively low.



GENERAL CONSUMER GOODS

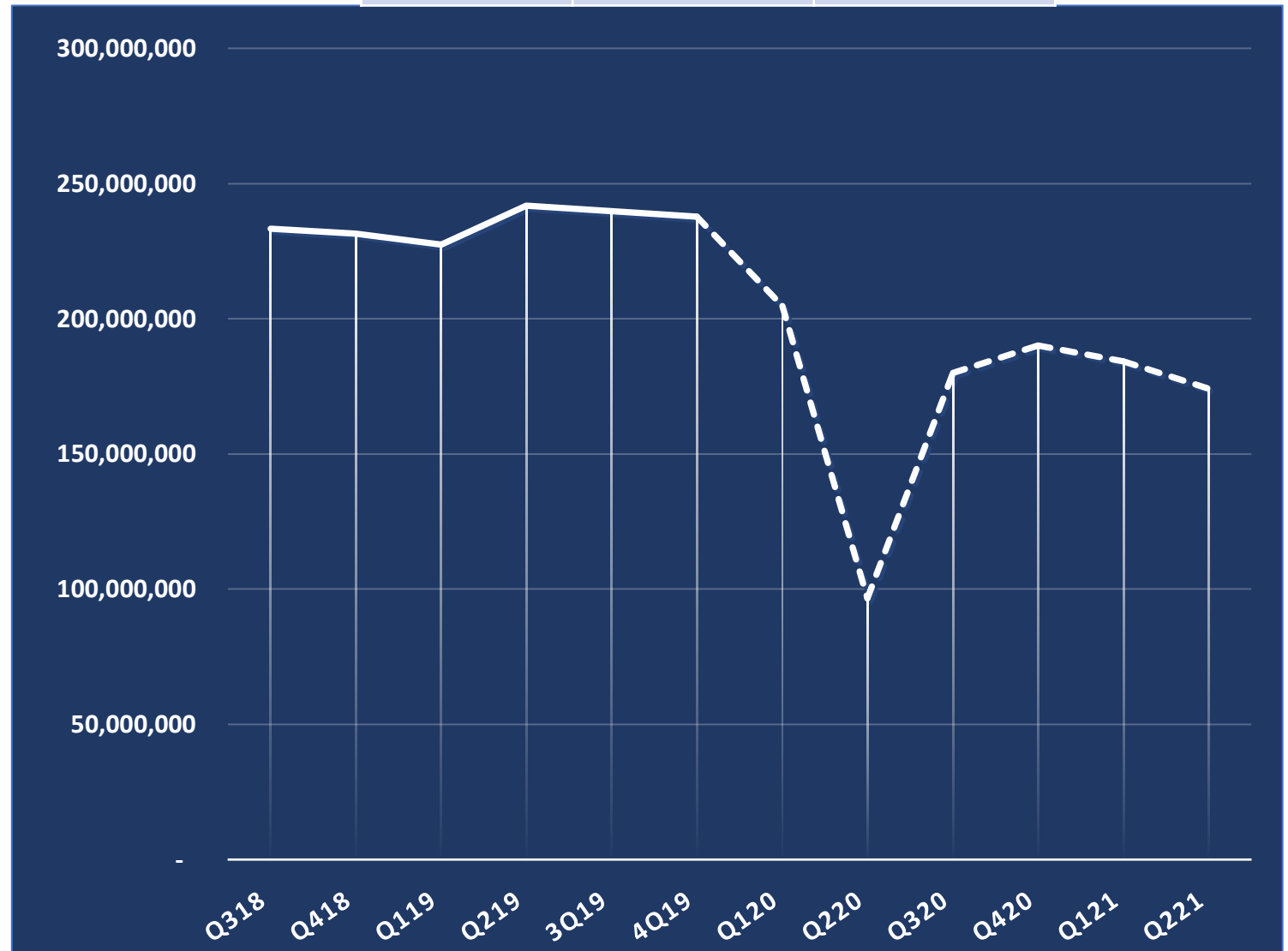
- Malls, shopping centers and many retail stores have temporarily closed their doors.
- Consumer spending & confidence will be extremely disturbed.
- Increased unemployment and the lingering fear will hold discretionary spending down
- Consumer shopping patterns may permanently be changed



RESTAURANTS & HOTELS

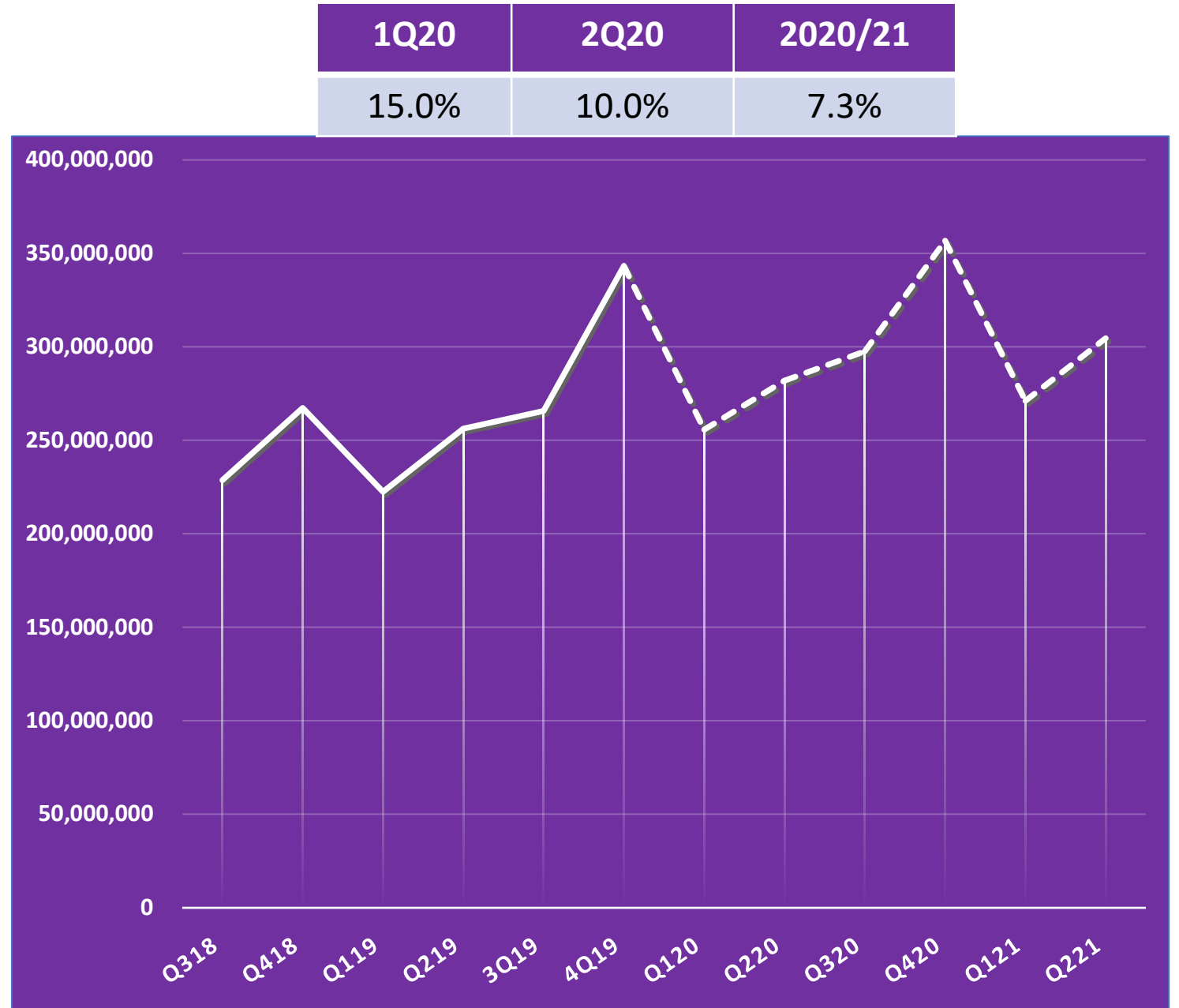
- Restaurant industry reporting 65% drops
- Hotel Industry reporting 85% drops
- Most hotels and large resorts have temporarily shut down.
- Increased shift from take-out to grocery
- Dining rooms expected to operate at reduced capacity after SIP
- Small restaurateurs are vulnerable given already tight operating margins.
- Impacts on travel spending expected to be 7x more than 9/11

1Q20	2Q20	2020/21
-10.0%	-60.0%	-6.5%



STATE & COUNTYWIDE POOLS

- Wayfair & Marketplace Facilitators Impact
 - AB147 legislation in effect 2nd quarter of 2019
 - Marketplace Facilitators began reporting Oct. 1 (4q19)
- Social Distancing pushes consumer spending to online platforms



CONCLUSION

- Wrap up
- Questions



PRESENTERS:



DENISE OVROM
Principal



BRET PLUMLEE
Principal

DENISE'S BACKGROUND:

- During her 19-year tenure with HdL, Ms. Ovrrom has worked with over 250 cities and counties assisting with revenue issues and trends by providing financial information including sales tax, budget projections and economic data.
- Her 25 years as a government executive provides a deep understanding of the operations and challenges of local government.
 - She served as the Assistant City Manager of Beverly Hills, Brea and Claremont and City Manager of Temple City.
 - Her areas of interest included budget development, finance and information technology.
- Over the years she has served as HdL's representative to the League of California Cities Revenue & Taxation Policy Committee and League Partner Program.
- Other professional affiliations include CSMFO, ASPA, MMASC and ICMA.

BRET'S BACKGROUND:

- Mr. Plumlee has over 35 years of public sector experience, most recently as City Manager for the City of Los Alamitos, and brings a wealth of knowledge of municipal finance, management and budgeting.
- Prior to Los Alamitos, he served as City Manager for the City of La Puente, Assistant City Manager of La Quinta, Director of Administrative Services for the City of El Segundo and Finance Director for the City of Rolling Hills Estates.
- Mr. Plumlee holds a Bachelor of Science Degree in Economics from the University of California, Irvine and a Bachelor of Science Degree in Accounting from California State University, Long Beach.

Thank You!

Denise Ovrom, Principal

dovrom@hdlcompanies.com

(714) 879-5000

Bret Plumlee, Principal

bplumlee@hdlcompanies.com

(714) 879-5000

