



# THE FUTURE OF RETAIL: SALES TAX TRENDS & PREDICTIONS

**CSMFO**  
**Annual Conference**

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Andy Nickerson, President  
Denise Ovrom, Principal  
Karan Reid, Director of Finance

# I WANT WHAT I WANT, WHEN AND WHERE I WANT IT!



***THE FUTURE IS NOW!***

**HdL**  
Companies

# THE PERSONAL TELECOMMUNICATIONS AGENT!



Digital devices have emerged as the growth engine for all retail sales in the US.

# E-COMMERCE CAME ALONG



## **Retail stores use to be about 5 things:**

- Inspiration
- Convenience
- Immediate Gratification
- Taction
- Experience of being somewhere



# THE AGE OF AMAZON



It's Amazon's world...we're just living in it!

# HOWEVER...PHYSICAL RETAIL ISN'T DEAD

- Largest retailers are still physical
- Innovative stores
- Digital-native brands
- 4,000 store openings in 2017
- Right-sizing

## RETAILERS CLOSING STORES AND THOSE THAT ARE EXPANDING

### CLOSING

Sears, Toys-R-Us, Sam's Club,  
Macy's, Clair's, Kmart, OSH

### EXPANDING

Ulta, Target, Warby Parker,  
Ross, Burlington, TJX, Sprouts,  
Dollar Tree

# CHORE SHOPPING HAS BECOME EASIER



Subscribe & Save

Be your family's hero:  
save time and money  
with Subscribe & Save

- Automatic deliveries of your favorite items
- Save up to 15%
- Skip or cancel anytime



# NEW RETAIL FORMATS





# SMALLER FOOTPRINTS & RIGHT-SIZING



# PHYSICAL NEEDS DIGITAL



# VIDEO

<https://www.cnbc.com/2017/09/22/how-shark-tank-business-plated-sold-to-albertsons-for-300-million.html>



# DIGITAL NEEDS PHYSICAL





# THE RISE OF SUBSCRIPTION SERVICES

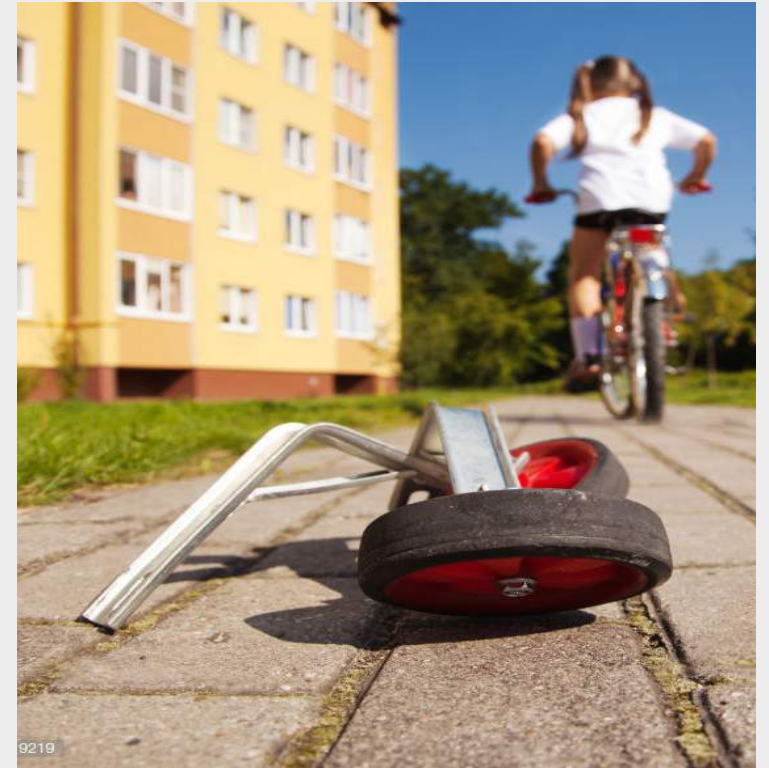
If you love meat...	<i>Carnivore Club</i>
If you love beauty products...	<i>Birchbox</i>
If your fickle about jewelry...	<i>Switch</i>
If you love coffee...	<i>Bean Box</i>
If you are outraged by the cost of razors...	<i>Dollar Shave Club</i>
If you love to cook, but hate grocery shopping...	<i>Home Chef</i>
If you want to look good, but don't have time to shop...	<i>Stich Fix</i>



# THE RISE OF SOCIAL COMMERCE

## Facebook Takes Off the Training Wheels and becomes a retailer!

- 80% of U.S. population uses social media
- 2.95 billion users by 2020
- 95% of adults 18-34 follow a brand
- Gen Zers and millennials are twice as influenced by social media than by “deals”



# EXPERIENTIAL STORES

***It's not enough as a retailer to just “sell stuff”.  
That process has been commoditized online.***

***Retailers instead need to focus on how to  
make the store visit something engaging  
beyond the acquisition of products.***

# DYSON - EXPERIENCE

<https://www.youtube.com/watch?v=pAl3KpbU2s8>





# PREDICTIONS & CHALLENGES

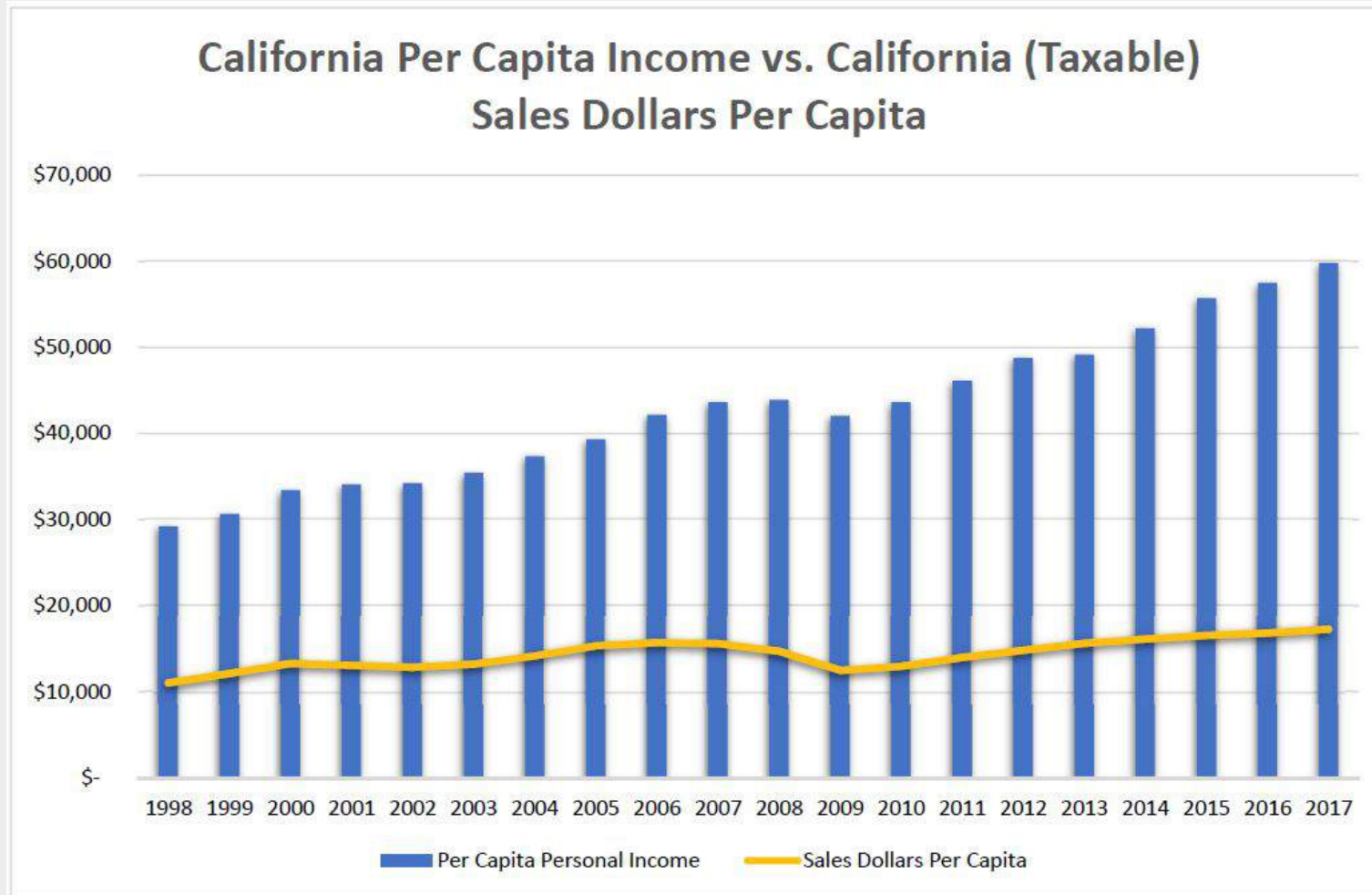
**Denise Ovrum**  
Principal

# PREDICTIONS & CHALLENGES



***AND the future is?***

# SALES TAX REVENUES ARE LEVELING OFF



# STATEWIDE 13-YEAR TREND

## General Consumer Goods

Count: 542,918

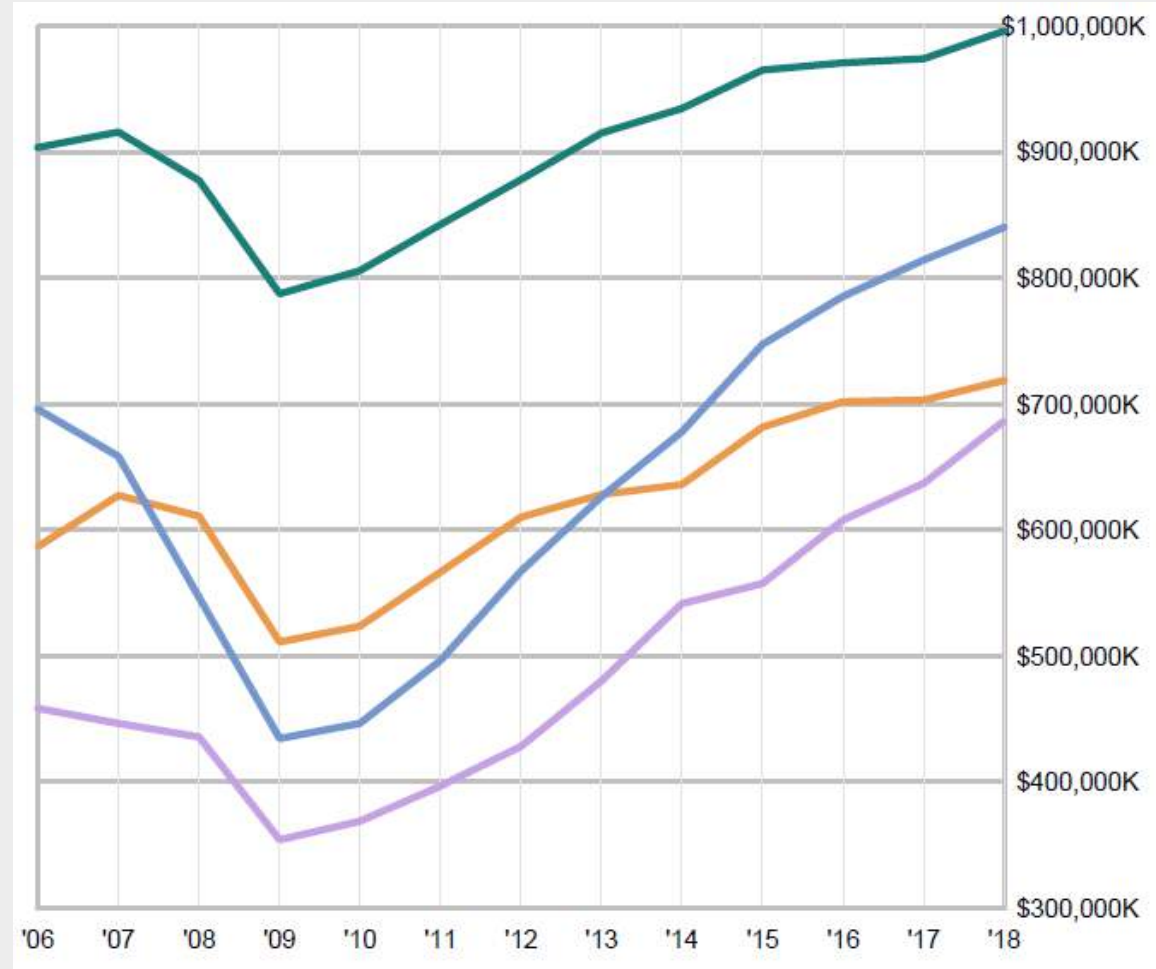
## Autos And Transportation

Count: 82,961

## Business And Industry

Count: 331,465

## State & County Pools





# STATEWIDE 13-YEAR TREND

## Restaurants And Hotels

Count: 122,246

## Fuel And Service Stations

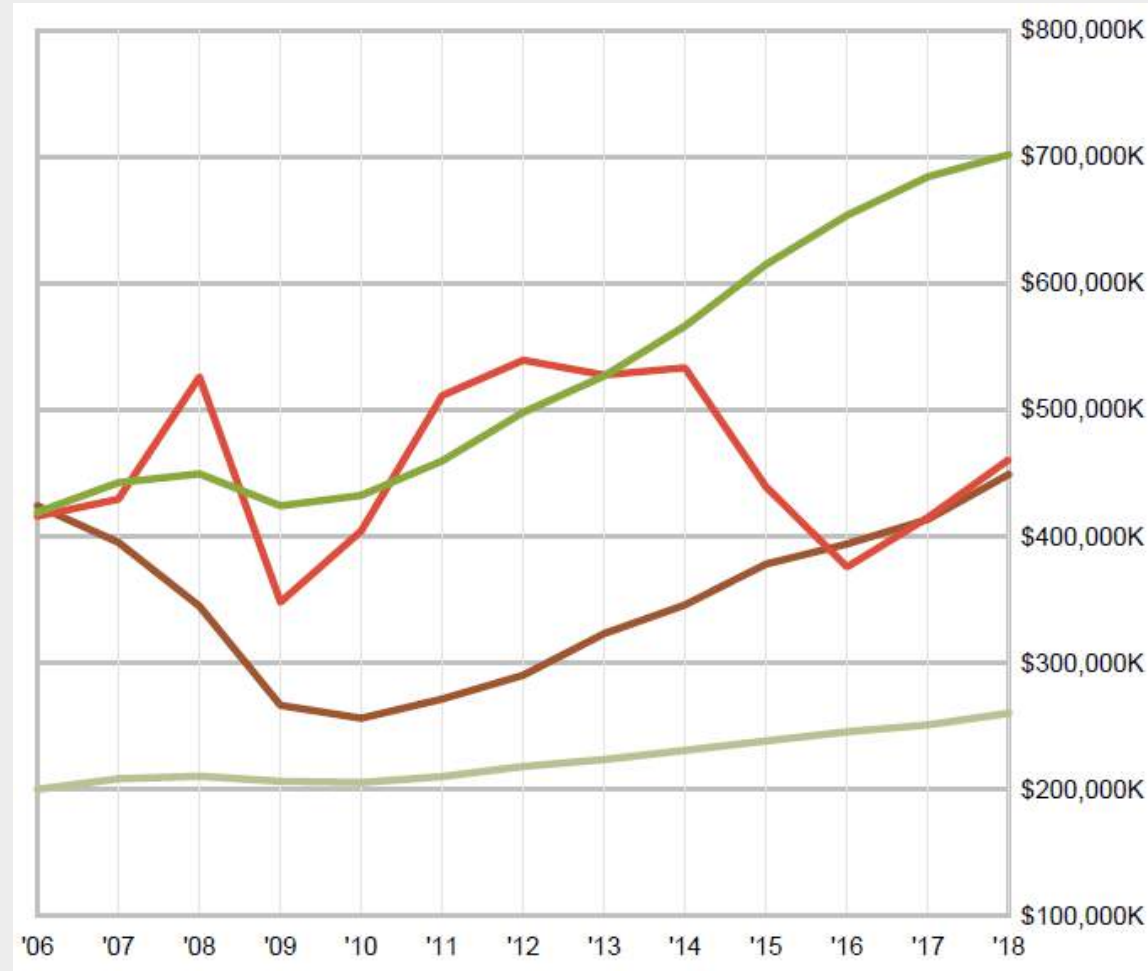
Count: 13,976

## Building And Construction

Count: 40,933

## Food And Drugs

Count: 46,147

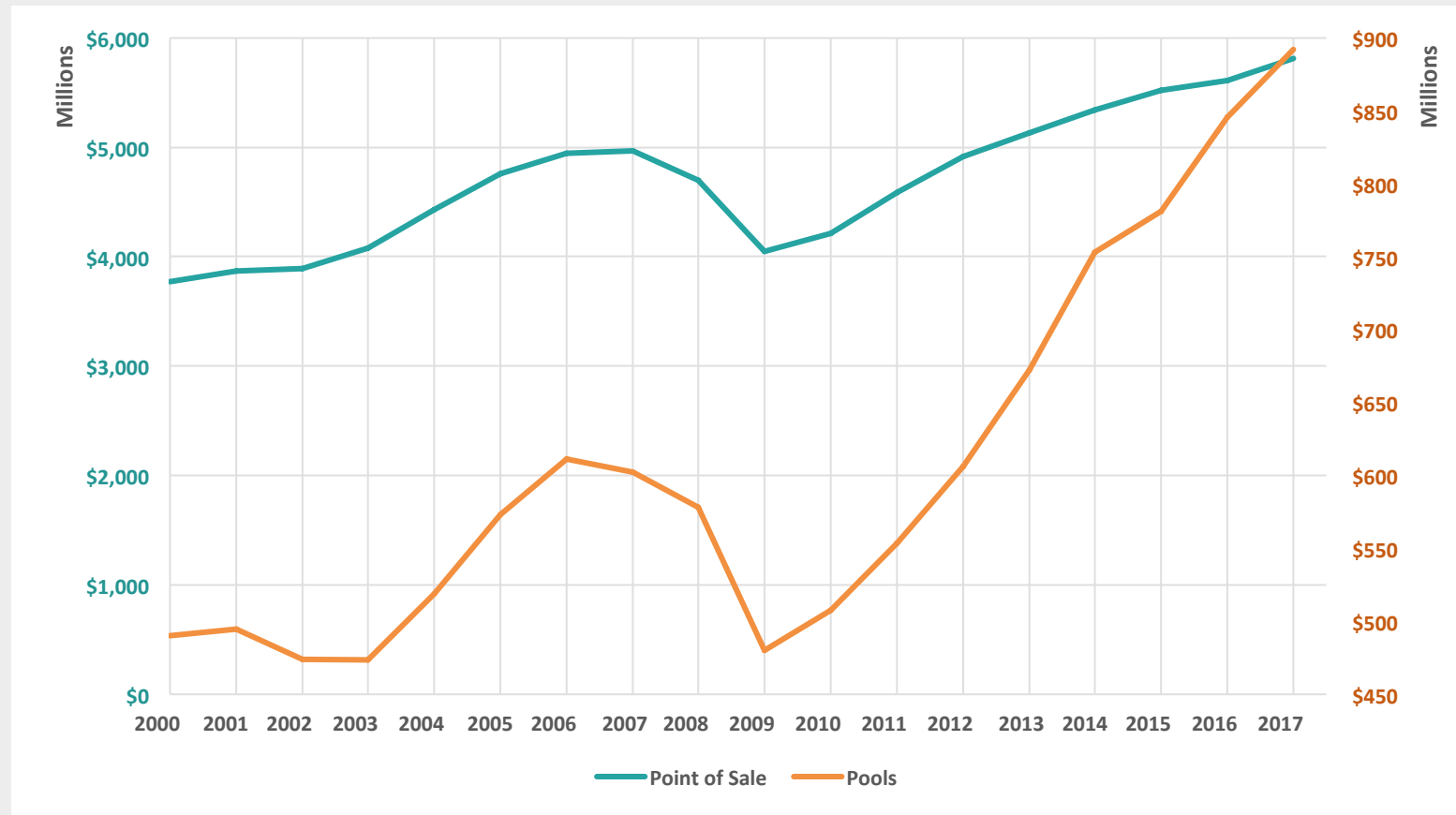


# DETERMINING WHERE ONLINE SALES TAX GOES – *IT'S COMPLICATED!*

Where is Order Placed?	Where are the Goods when they are sold?	Sales Tax Allocated to:
Out-of-state	Out-of-state	County-wide pools
In-State	Out-of-state	County-wide pools
Out-of-state	In-state	Jurisdiction where goods are located and shipped from
Out-of-state	Picked up at store	Jurisdiction of store if drawn from store inventory; County pool if goods drop shipped to store from out of state
Out-of-state	Shipped from out-of-state "FOB Destination"	Jurisdiction where order is shipped

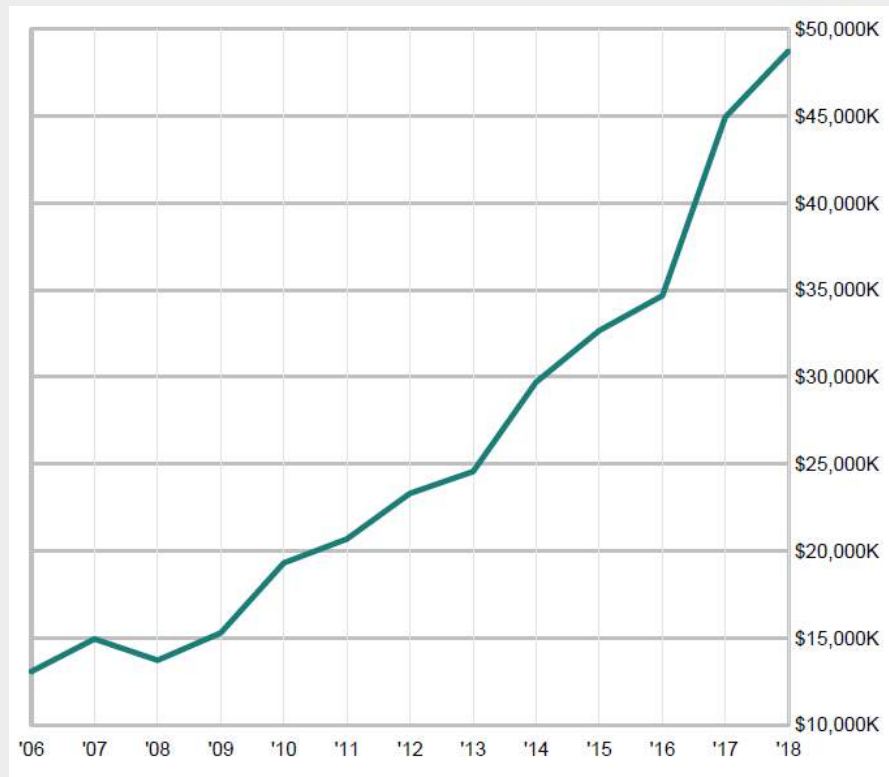
# COUNTYWIDE POOLS

Much of the growth in online sales has been distributed via the countywide pools...

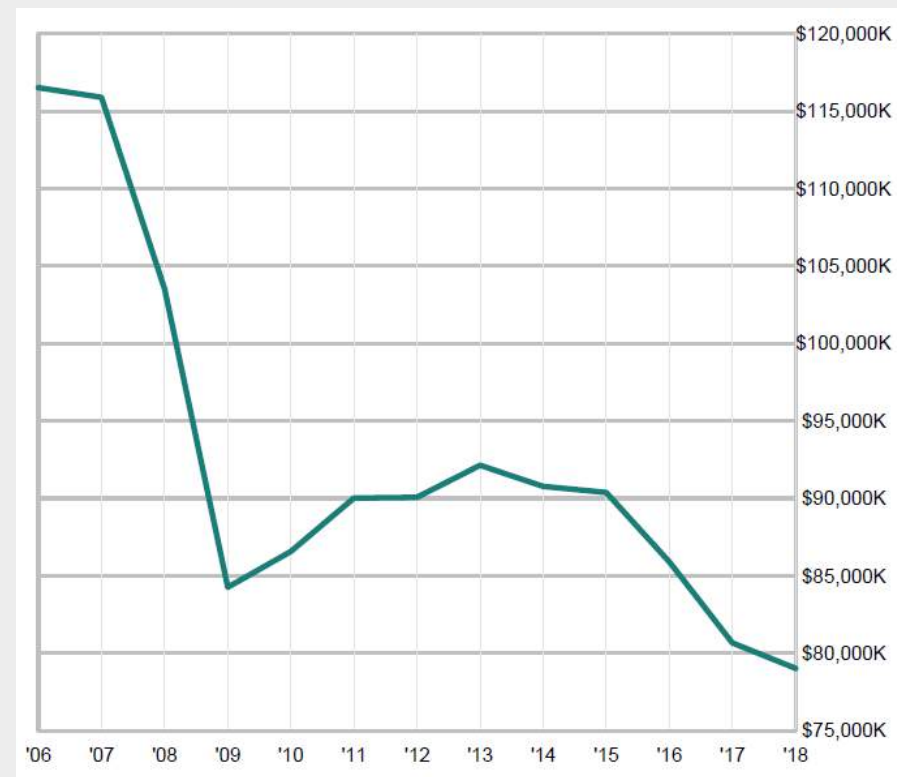


# FULFILLMENT VS DEPT STORE - 13 YEAR HISTORY

Fulfillment Centers: 443

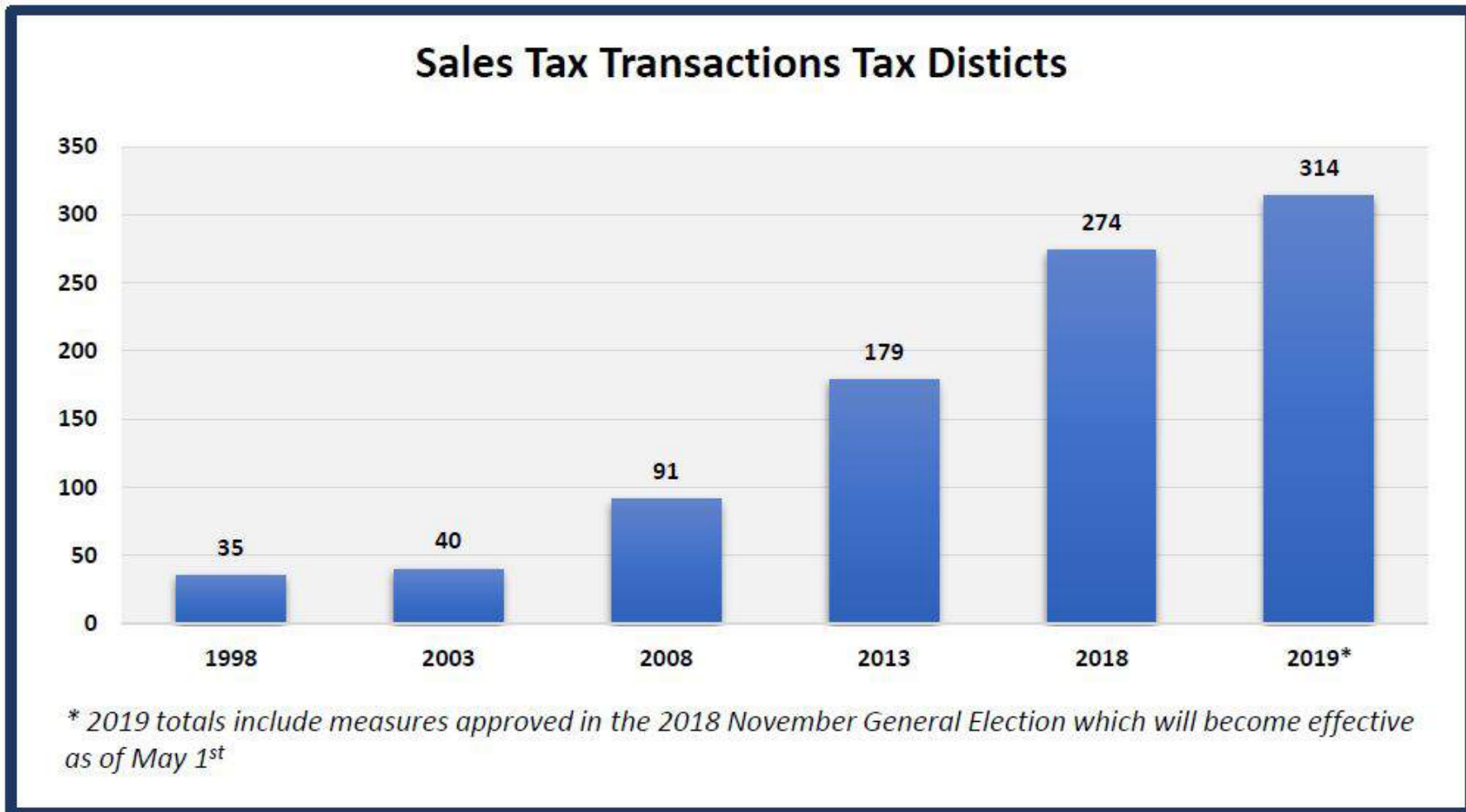


Department Stores: 6,118

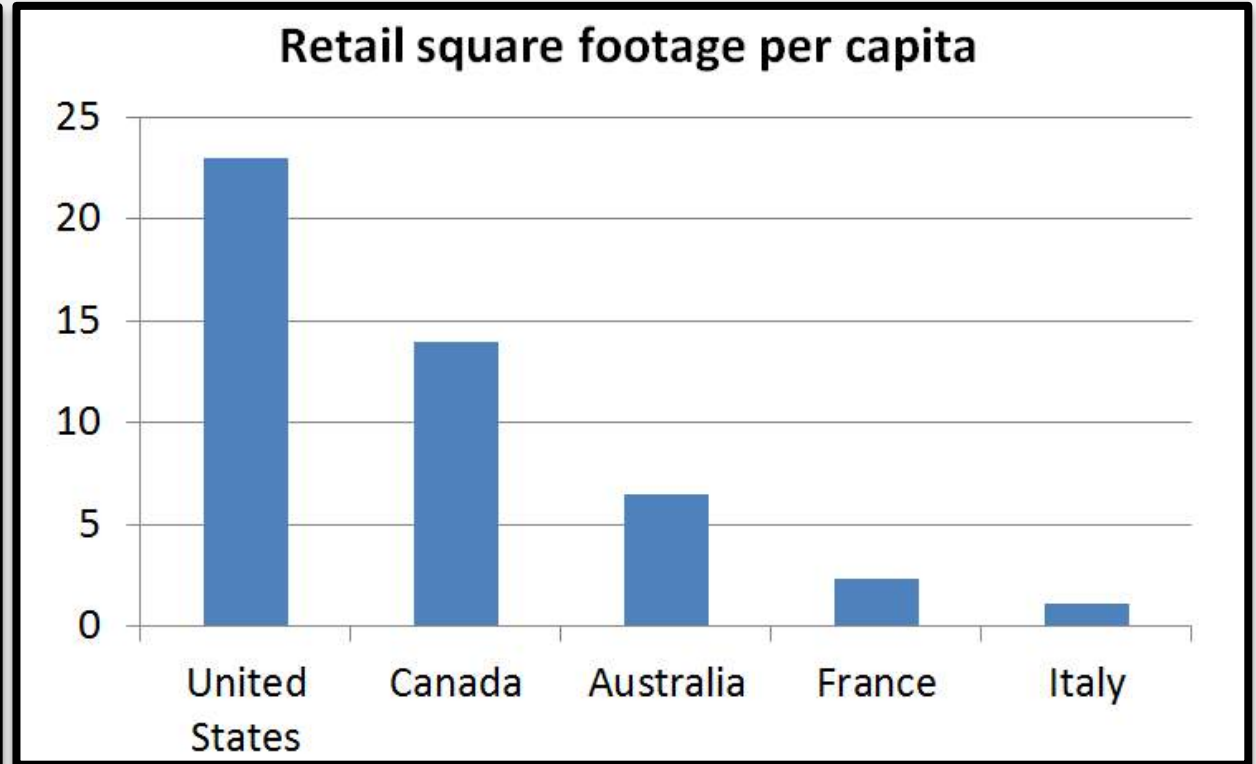




# GROWTH IN DISTRICT TAXES



# TOO MANY STORES



# THE BASE CONTINUES TO SHRINK



- Technology and globalization reducing the cost of goods.
- More spending on services, social networking and education – less on taxable stuff.
- Increased costs of housing, education, and healthcare taking bigger share of disposable income.
- State exemptions narrowing the taxable base.

# HABITS ARE CHANGING



**Digital Downloads** – *no sales tax*

**Social Networking** – *no sales tax*

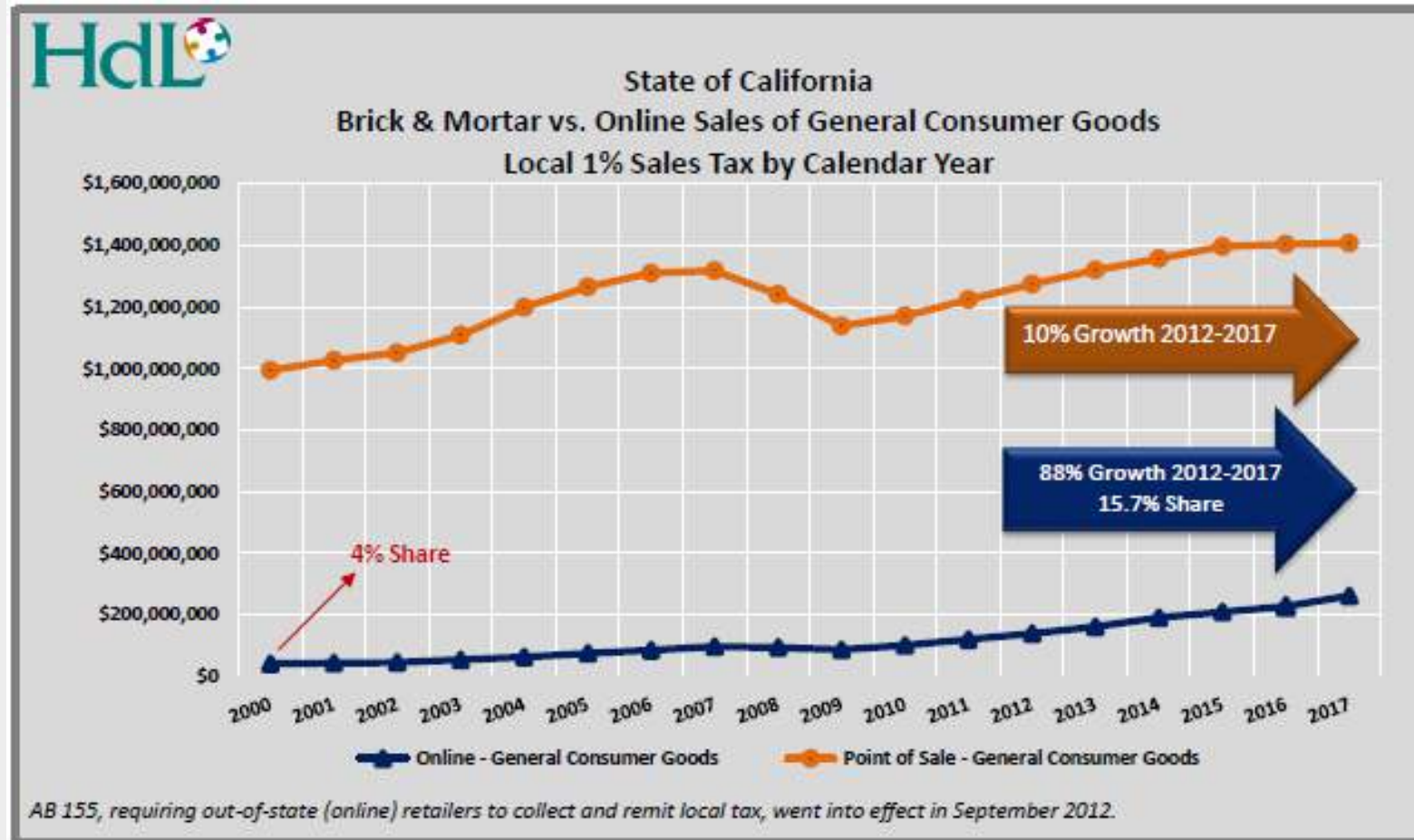
**Focus on Experiences** – *little sales tax: travel, gyms, classes, entertainment*

**Extreme Price Awareness** – *ouch!*

**Sharing Economy** – *no sales tax*



# CONSUMERS HAVE MOVED ONLINE





# THE CHANGING ECONOMY

- Shift retail jobs from stores to warehouses
- Investment in data centers, distribution, and fulfillment centers
- Demand for technically adept employees



# ECONOMIC FORECAST



## **Deceleration:**

- Gradual slide path, but growing
- Technology driving the economy
- Trade wars not impacting port traffic (yet)
- Restrictions at the border having an impact

# TAX REFORM AND LEGISLATION

- Wayfair decision
- SCA20 – dead for now
- Housing updates
- Sales tax reform?





# **SALES TAX AND THE FUTURE OF RETAIL: A Case Study in Concord**

**Karan Reid**  
Director of Finance



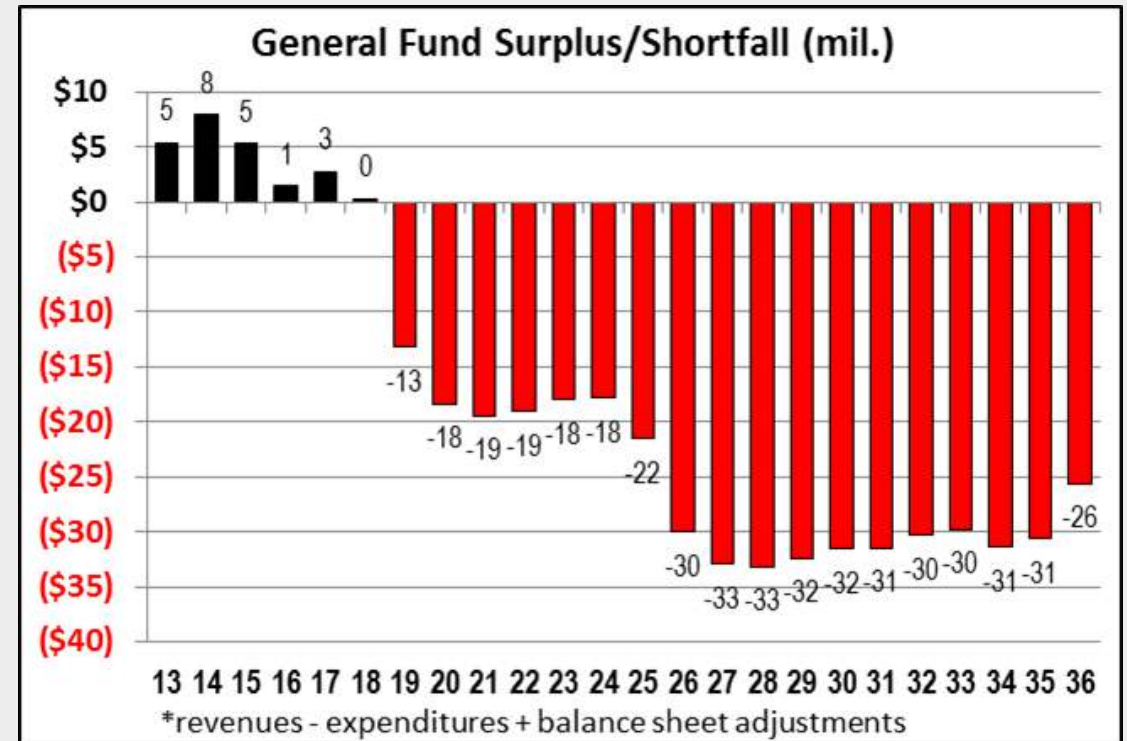
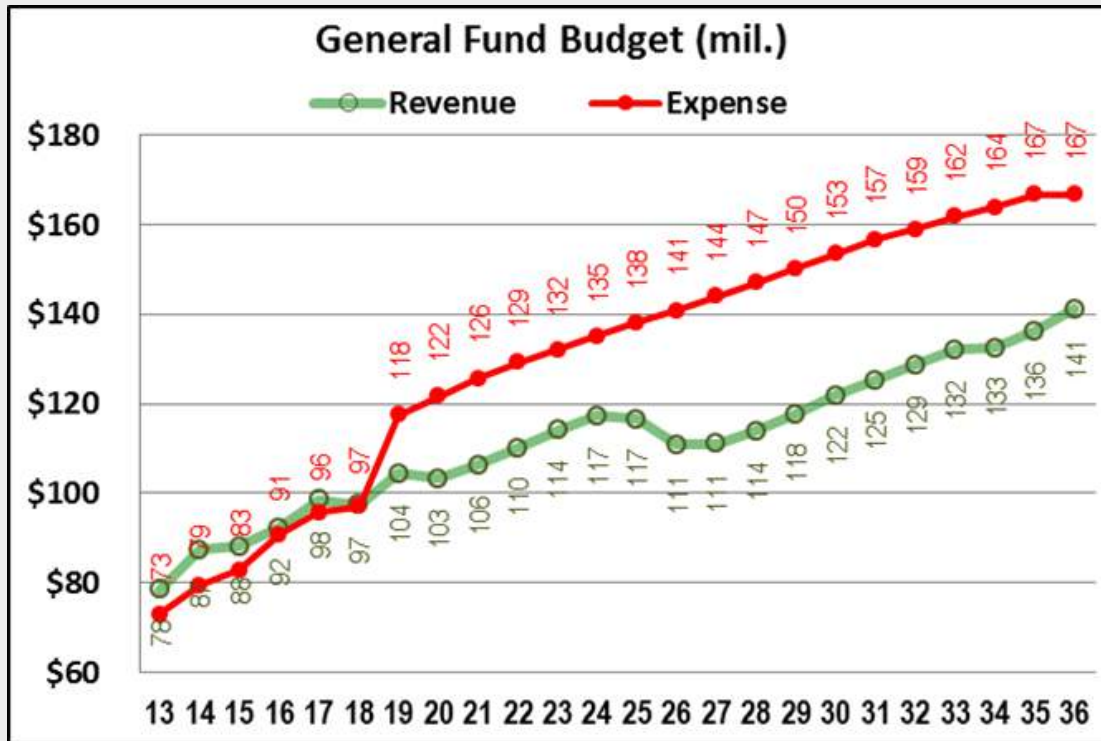
# ABOUT CONCORD



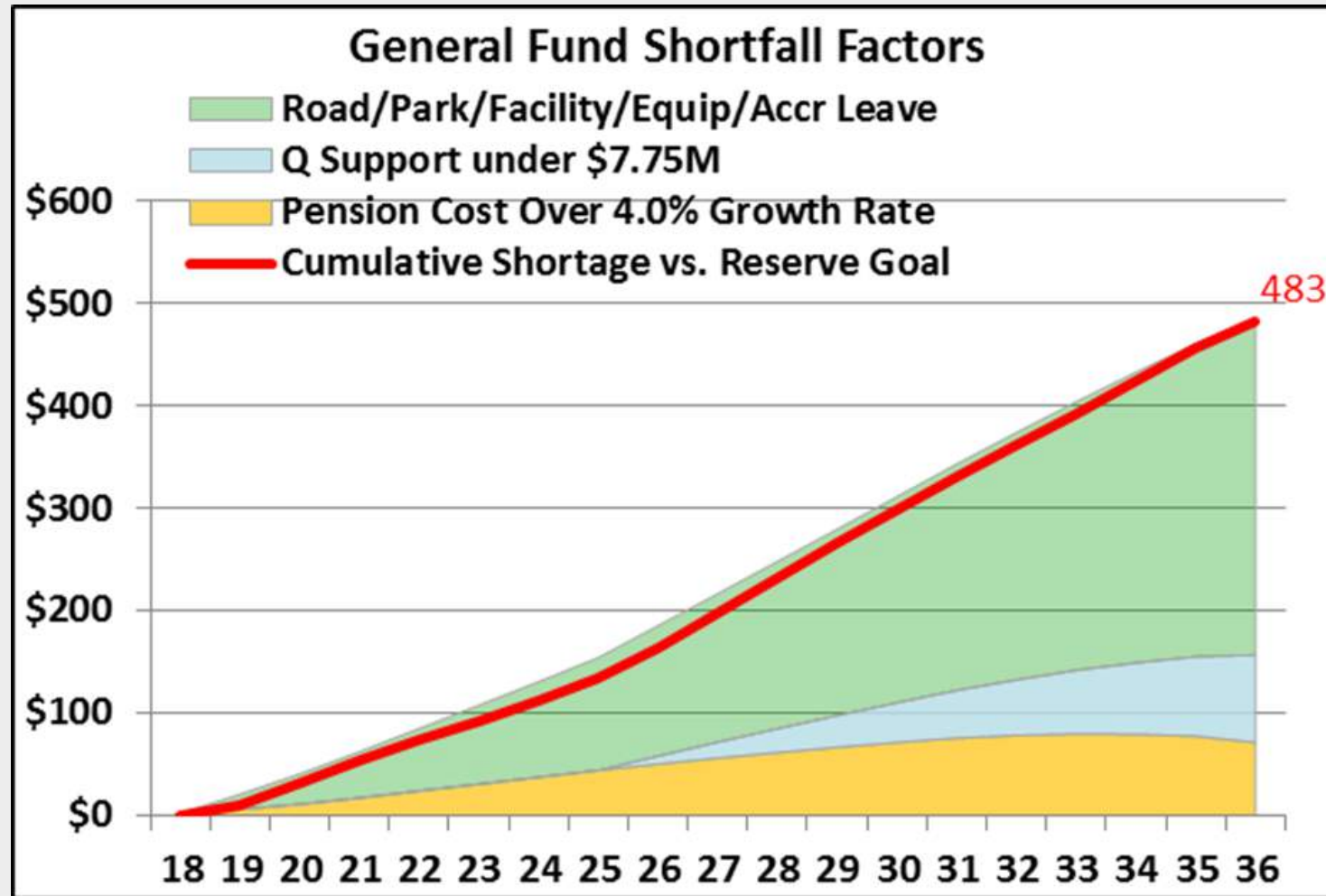
- Population: 130,245
- Median Home Value: \$620,000
- Median Household Income: \$84,099



# LONG-TERM FINANCE PROJECTION

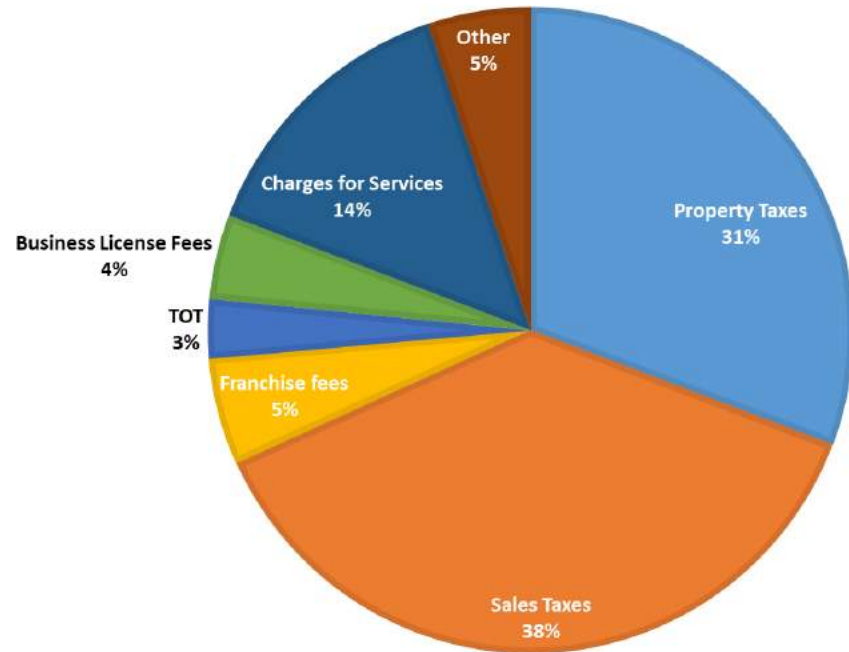


# LONG-TERM FINANCE PROJECTION

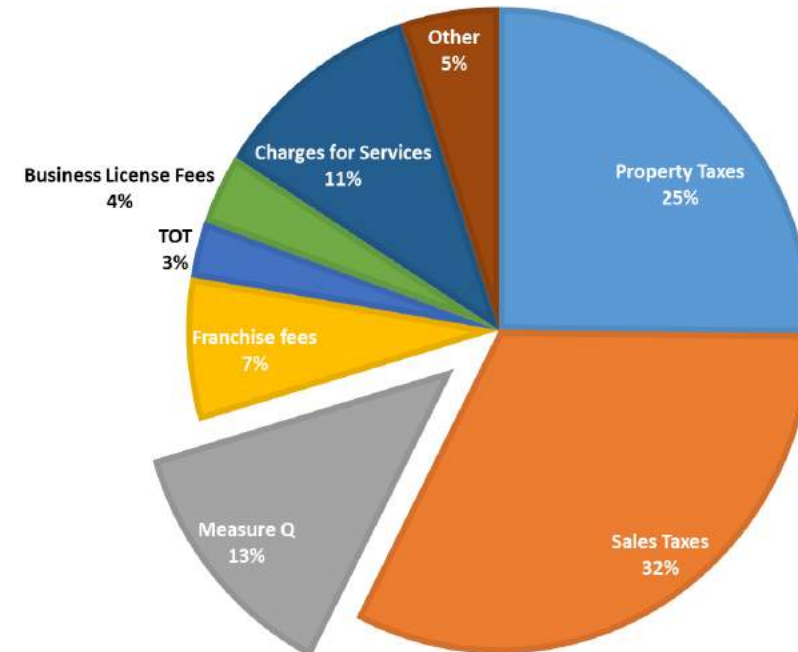


# GENERAL FUND REVENUES

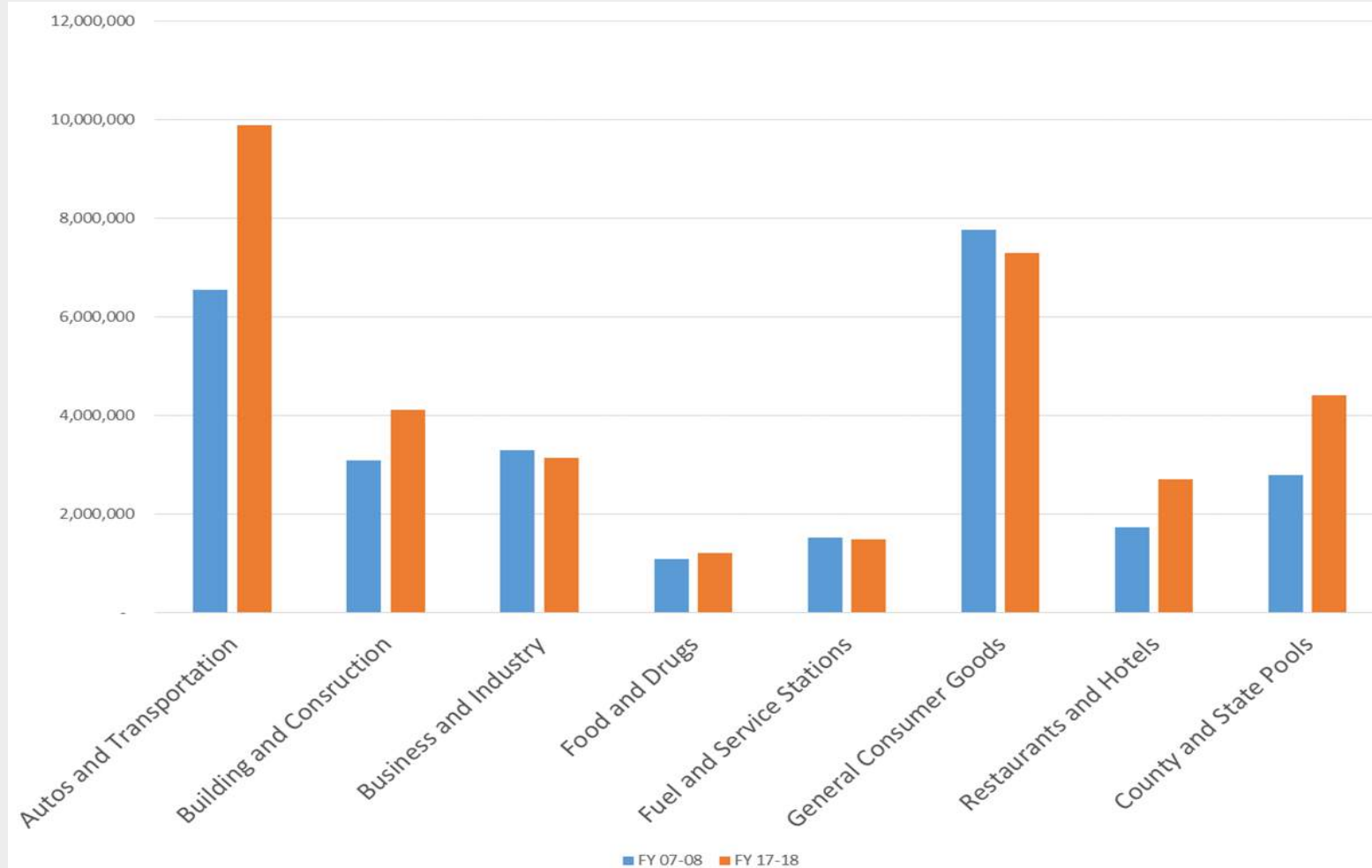
**FY 2007-08**  
\$74.5 Million



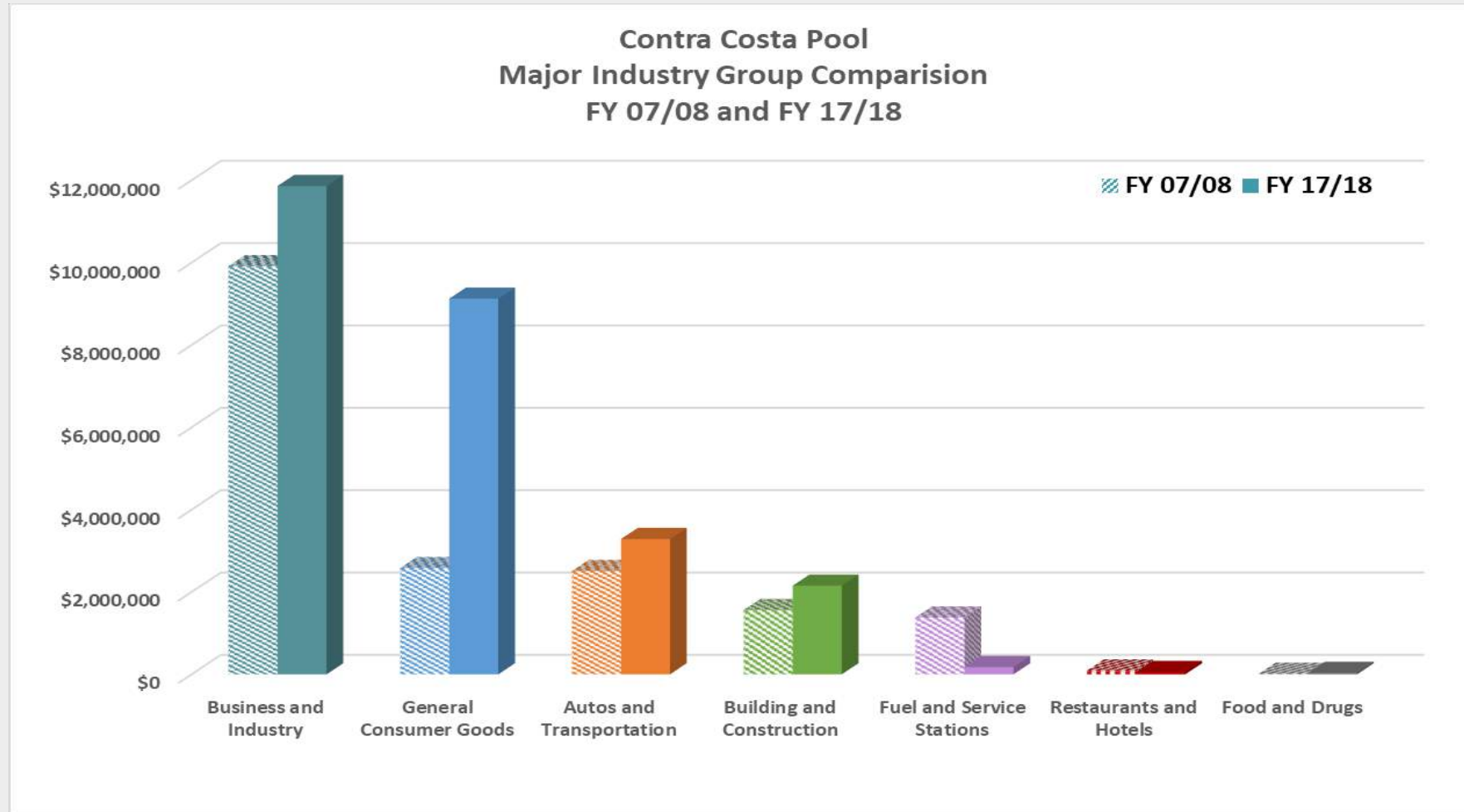
**FY 2017-18**  
\$107.0 Million



# SALES TAX BY CATEGORY



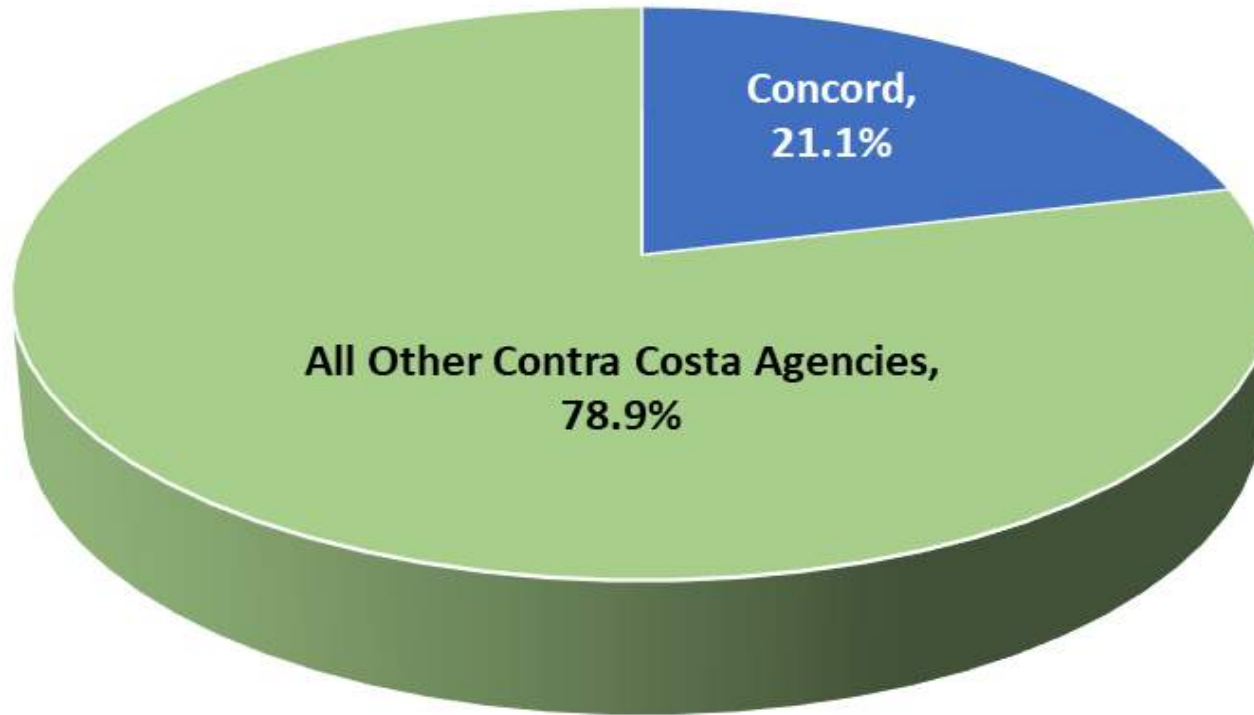
# SALES TAX – POOL REVENUES





# CONTRA COSTA COUNTY POOL

4Q17 – 3Q18 Total Allocations



# RECENT DEVELOPMENT: The Veranda

VERANDA  
**LUXE**  
CINEMA

  
CITY | SPORTS  
CLUB

  
Sutter  
Walk-In  
Care



*Residual* SUGAR  
WINE BAR

**COST PLUS**  
**WORLD MARKET®**

WHOLE  
FOODS **365**  
MARKET

**BARNES & NOBLE**  
BOOKSELLERS

  
SEPHORA

**SUPER  
DUPER**  
BURGERS



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# THE VERANDA



# THE WILLOWS






# CHALLENGES

- Forecasting for a 20-year horizon
- Retail closures
- Evolution of spending patterns
- Change in retail tenant mix






# ECONOMIC DEVELOPMENT



**GROWTH  
SHOULD  
NEVER BE  
A PROBLEM**

- Build to Suit
- Low Cost Square Footage
- Mass Transit Accessible
- Attainable Live / Work Community



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# INDUSTRY SPECIFIC ATTRACTION





# QUALITY OF LIFE ENHANCEMENT



# A LOOK TO THE FUTURE



- Research development market remains strong
- Continued interest by large retailers
- Multi-family housing developments in downtown core
- Soccer specific mixed-use development downtown, with hotel and commercial space, 20k seat sports stadium

# CONCLUSION

- Refine Sales Tax projection methodologies
- Maintain General Fund reserves
- Educate, educate, educate
- Influence diversification in revenue base
- Understand and communicate fiscal impacts







THANK YOU

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