

Q1 2016



Santa Cruz County Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2016)

Santa Cruz County In Brief

The unincorporated area's receipts from January through March were 0.7% above the first sales period in 2015.

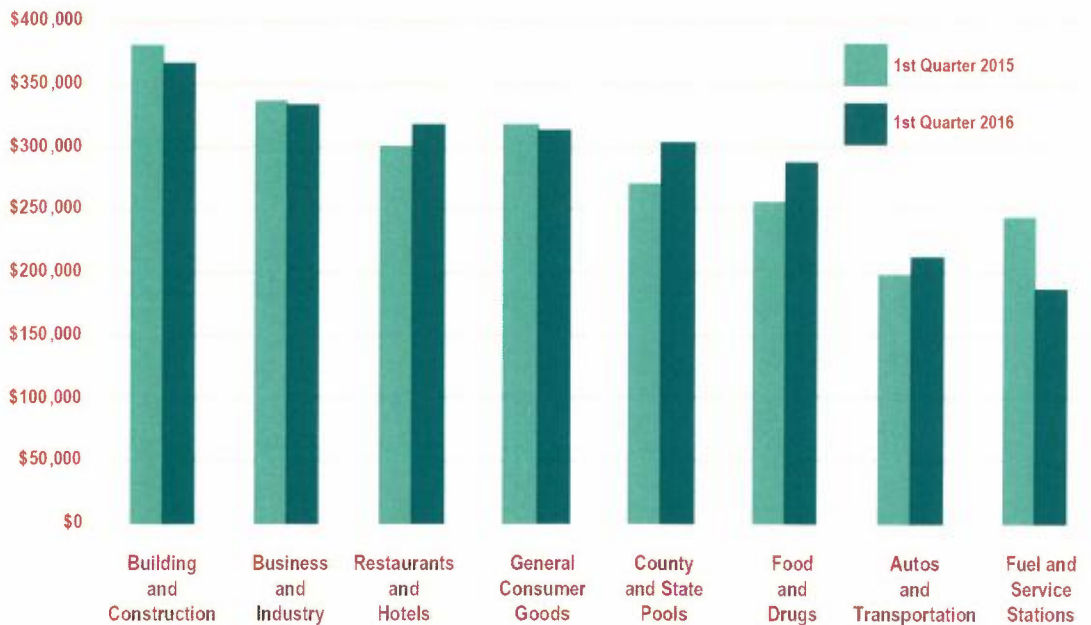
Steady positive performance by most restaurants, including casual and quick-service establishments, can be attributed to the greater variety and new dining options for consumers. The unincorporated area also continues to experience solid growth from auto-transportation vendors, consistent with current statewide trends.

Receipts from marijuana dispensaries were largely responsible for the gains from food and drug stores, while allocations from the county-wide use tax pool increased 12%, further contributing to the overall growth.

For the sixth straight quarter, weak demand for crude oil and a stable supply of retail fuel locally, pushed down gas prices and therefore revenue from service stations, mostly offsetting the gains. Weak winter results from lumber/building material suppliers, specialty stores and home furnishing retailers also negatively impacted the results.

Net of aberrations, taxable sales for all of Santa Cruz County were flat over the comparable time period; the Central Coast region was up 4.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

76	Ocean Honda
ABC Supply	Palace Art & Office Supply
Best Buy	Performance Food Group
Big Creek Lumber	Pet Pals
Capitola Healing Association	Probuild
Chaminade Hotel	Rite Aid
Chevron	Safeway
Crop Production Services	Safeway Fuel
Ferguson Enterprises	Santa Cruz Hydroponics & Organics
Home Depot	Scarborough Home Center
Independent Electric Supply	Seascape Resort
Kindpeoples Collective	Toys R Us
Marshalls	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2014-15	2015-16
Point-of-Sale	\$9,014,736	\$9,354,975
County Pool	1,137,603	1,292,390
State Pool	5,954	6,560
Gross Receipts	\$10,158,293	\$10,653,925
Less Triple Flip*	\$(2,539,573)	\$(2,082,145)

*Reimbursed from county compensation fund

California Overall

The local one-cent share of the statewide sales and use tax was 3.1% higher than the year-ago quarter after excluding payment aberrations.

Gains in the countywide use tax pools were the largest contributor to the increase due to the growing impact of online purchases from out-of-state sellers and the corresponding shift of tax revenues from brick and mortar retail stores to fulfillment centers that process orders online. Not surprisingly, areas with concentrations of young, affluent buyers saw the highest online sales growth and the weakest general consumer goods results.

Solid results from auto sales and leases, transportation rentals, contractor supplies and restaurants also contributed to the overall increase.

The 5.6% gain in the business-industry sector was bolstered by onetime receipts for equipment purchases related to alternative energy projects.

Most general consumer goods categories were flat or down, except for specialty stores, electronics-appliance stores and home furnishings, consistent with the trend of consumers buying more from online retailers.

Gains from most other segments were relatively modest, while lower prices at the pump caused an 11.4% decline in fuel tax revenues, extending the decline to a sixth consecutive quarter.

Robust Growth in Online Sales

National surveys reveal that consumers buy online to avoid crowds, save time and find better bargains. Online shopping also benefits buyers in rural areas with fewer shopping options.

Total online spending comprised 12.8% of all general consumer goods purchases in 2015, up from 3.4% in 2000.

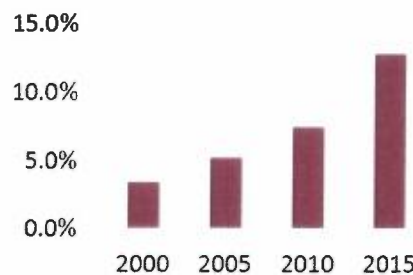
According to Forrester Research, Amazon accounted for 60% of total online sales growth in 2015.

Though the online share of overall sales

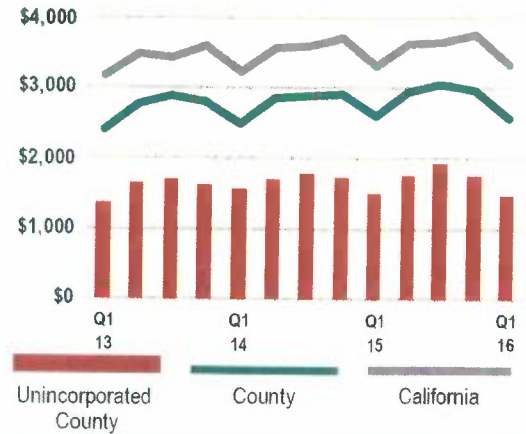
remains relatively modest, the year-over-year growth rate indicates a major shift in retailing is well underway. In response, more and more traditional brick and mortar retailers are opening online sales channels in recognition of this growing trend largely powered by younger buyers.

Department store chains have been particularly hard hit as Amazon has expanded its offerings to include apparel and fashion merchandise. Media reports indicate Macy's recently suffered its worse quarterly sales since the recession, while Nordstrom, J.C. Penney and Kohl's all reported lower sales. Each of these chains has established a solid web presence in a fight to retain market share.

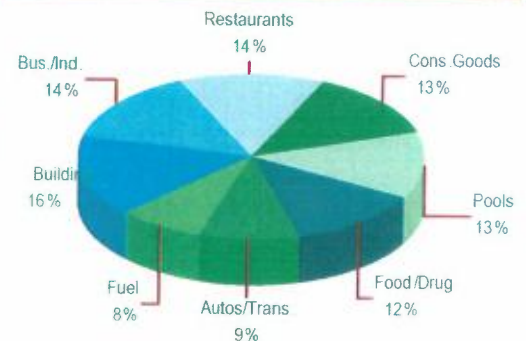
**Online General Consumer Goods
YOY Percentage Growth**



SALES PER CAPITA



**REVENUE BY BUSINESS GROUP
Santa Cruz Co. Uninc This Quarter**



SANTA CRUZ COUNTY TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Unincorporated County Q1 '16*	Change	County Change	HdL State Change
Auto Repair Shops	55.1	4.9%	-3.0%	7.4%
Casual Dining	197.7	7.0%	1.9%	5.9%
Electronics/Appliance Stores	— CONFIDENTIAL —	—	10.3%	2.8%
Garden/Agricultural Supplies	106.2	-14.0%	-9.3%	0.2%
Grocery Stores Liquor	— CONFIDENTIAL —	—	6.8%	1.6%
Home Furnishings	52.2	-10.0%	-6.7%	3.0%
Liquor Stores	53.2	1.8%	0.0%	3.6%
Lumber/Building Materials	232.4	-6.5%	21.5%	4.5%
Marijuana Dispensary	89.6	56.5%	20.0%	40.6%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	5.6%	3.1%
Office Supplies/Furniture	44.7	16.1%	-36.8%	-7.0%
Plumbing/Electrical Supplies	55.4	10.1%	13.2%	12.0%
Quick-Service Restaurants	46.5	11.3%	9.8%	6.4%
Service Stations	186.5	-23.3%	-15.6%	-9.3%
Specialty Stores	50.3	-12.3%	5.9%	3.4%
Total All Accounts	2,021.1	-0.8%	-0.2%	1.8%
County & State Pool Allocation	304.2	12.2%	12.9%	14.1%
Gross Receipts	2,325.3	0.7%	1.4%	3.2%