

Q2 2016



Santa Cruz County Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2016)

Santa Cruz County In Brief

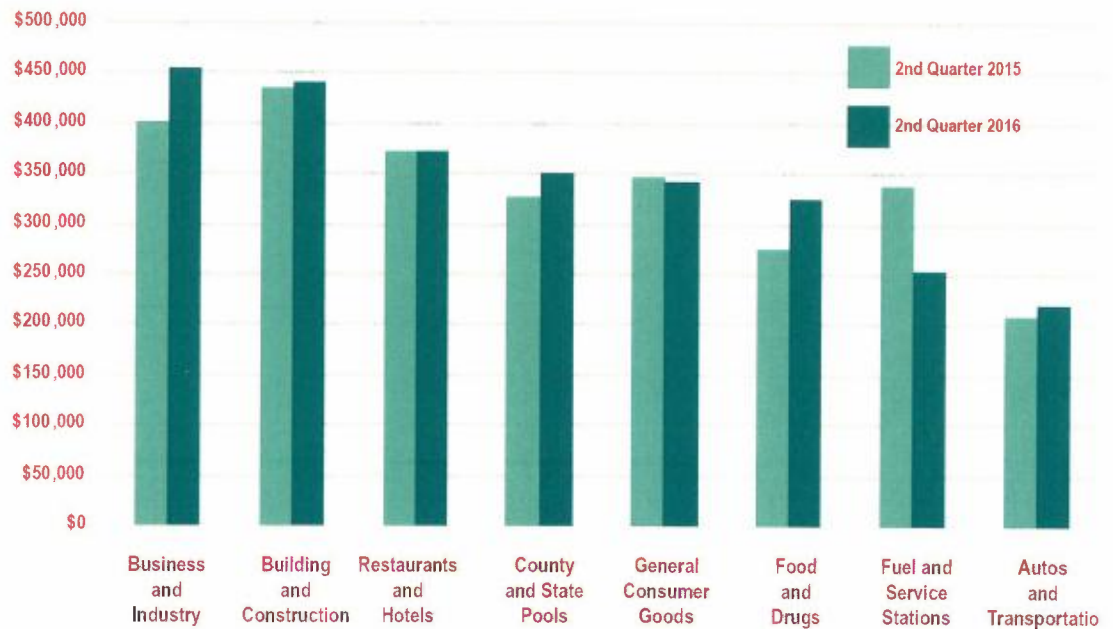
The unincorporated area's receipts from April through June were 2.1% above the second sales period in 2015.

Marijuana dispensaries had the greatest increase this quarter of all business types due to strong sales and a large reporting anomaly. Garden and agricultural suppliers were close behind and led the business-industry group's results. The auto-transportation group's results reflect the national appetite for vehicles of all types and the related maintenance. Increased lumber and building material sales round out the gains.

Dampening these results were lower sales of home furnishings while low fuel prices, a reporting anomaly and the closure of a station negatively skewed fuel and service station results.

Net of aberrations, taxable sales for all of Santa Cruz County grew 1.6% over the comparable time period; the Central Coast region was up 2.7%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

ABC Supply	Mountain Feed & Farm Supply
Best Buy	Ocean Honda
Big Creek Lumber	Palace Art & Office Supply
Boulder Creek Beacon	Performance Food Group
California Radiographics	Pet Pals
Capitola Healing Association	Probuild
Chaminade Hotel	Quik Stop Market
Chevron	Safeway
Crop Production Services	Safeway Fuel
Home Depot	Santa Cruz Hydroponics & Organics
Independent Electric Supply	Scarborough Home Center
Kindpeoples Collective	Seascape Resort
Marshalls	

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$2,378,564	\$2,410,752
County Pool	324,727	349,447
State Pool	2,014	842
Gross Receipts	\$2,705,304	\$2,761,042
Less Triple Flip*	\$(676,326)	\$0

*Reimbursed from county compensation fund

California Overall

Statewide local sales and use tax receipts were up 1.9% over last year's spring quarter after adjusting for payment aberrations.

The largest gains were for building supplies, restaurants, utility/energy projects and countywide use tax pool allocations. Tax revenues from general consumer goods and business investment categories rose slightly while auto sales leveled off.

Interest In Tax Reform Grows

With modest growth in sales and use taxes, agencies are increasingly reliant on local transaction tax initiatives to cover growing infrastructure and employee retirement costs. As of October 1, there are 210 active add-on tax districts with dozens more proposed for the upcoming November and April ballots.

The Bradley-Burns 1% local sales tax structure has not kept pace with social and economic changes occurring since the tax was first implemented in 1933. Technology and globalization are reducing the cost of goods while spending is shifting away from taxable merchandise to non-taxed experiences, social networking and services. Growing outlays for housing and health care are also cutting family resources available for discretionary spending. Tax-exempt digital downloads and a growing list of legislative exemptions have compounded the problem.

California has the nation's highest sales tax rate, reaching 10% in some jurisdictions. This rate, however, is applied to the smallest basket of taxable goods. A basic principle of sound tax policy is to have the lowest rate applied to the broadest possible basket of goods. California's opposite approach leads to revenue volatility and causes the state and local governments to be more vulnerable to economic downturns.

The State Controller, several legislators and some newspaper editorials have suggested a fresh look at the state's tax structure and a few ideas for reform have been proposed, including:

Expand the Base / Lower the Rate:

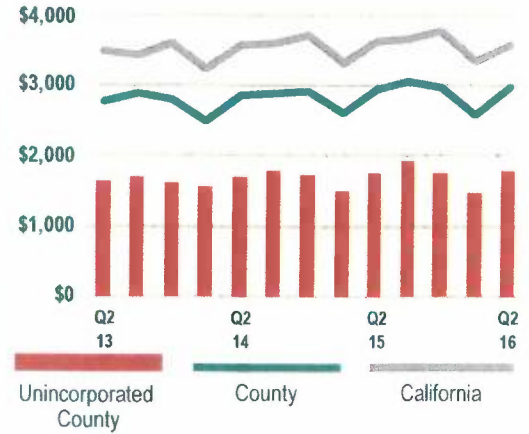
Eliminate much of the \$11.5 billion in exemptions adopted since the tax was first implemented and expand the base to include the digital goods and services commonly taxed in other states. This would allow a lower, less regressive tax that is more competitive nationally and would expand local options for economic development.

Allocate to Place of Consumption:

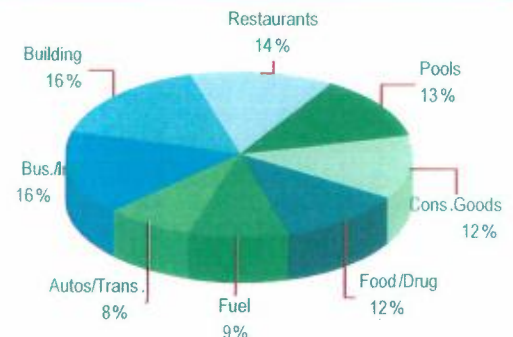
Converting to destination sourcing, already in use in the state's transactions and use tax districts, would maintain the allocation of local sales tax to the jurisdiction where stores, restaurants and other carryout businesses are located, but return the tax for online and catalog sales to the jurisdiction of the buyer that paid the tax. One outcome of this proposal would be the redirection of tax revenues to local agencies that are currently being shared with business owners and corporations as an inducement to move order desks to their jurisdictions.

Tax reform will not be easy. However, failing to reach agreement on a simpler, less regressive tax structure that adapts this century's economy could make California a long-term "loser" in competing with states with lower overall tax rates.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Santa Cruz Co. Uninc This Quarter



SANTA CRUZ COUNTY TOP 15 BUSINESS TYPES

**In thousands of dollars*

Business Type	Unincorporated County		County	HdL State
	Q2 '16*	Change	Change	Change
Auto Repair Shops	52.9	-3.1%	-7.0%	4.7%
Casual Dining	207.6	-3.0%	6.7%	4.3%
Contractors	49.4	-13.2%	-7.0%	6.4%
Electronics/Appliance Stores	—	CONFIDENTIAL	9.5%	22.4%
Garden/Agricultural Supplies	192.0	24.9%	26.4%	5.6%
Grocery Stores Liquor	—	CONFIDENTIAL	2.7%	1.2%
Home Furnishings	55.4	-12.0%	11.0%	1.3%
Liquor Stores	57.8	-0.8%	2.0%	4.3%
Lumber/Building Materials	295.7	3.1%	2.9%	3.3%
Marijuana Dispensary	97.3	84.9%	24.9%	43.1%
New Motor Vehicle Dealers	—	CONFIDENTIAL	15.0%	2.7%
Plumbing/Electrical Supplies	50.5	6.7%	5.2%	7.6%
Quick-Service Restaurants	55.8	5.9%	3.9%	6.6%
Service Stations	254.1	-24.7%	-18.6%	-19.2%
Specialty Stores	65.2	-0.9%	9.0%	2.5%
Total All Accounts	2,410.8	1.4%	1.7%	-0.6%
County & State Pool Allocation	350.3	7.2%	7.5%	15.2%
Gross Receipts	2,761.0	2.1%	2.4%	1.4%