

Q2 2018



Santa Cruz County Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2018)

Santa Cruz County In Brief

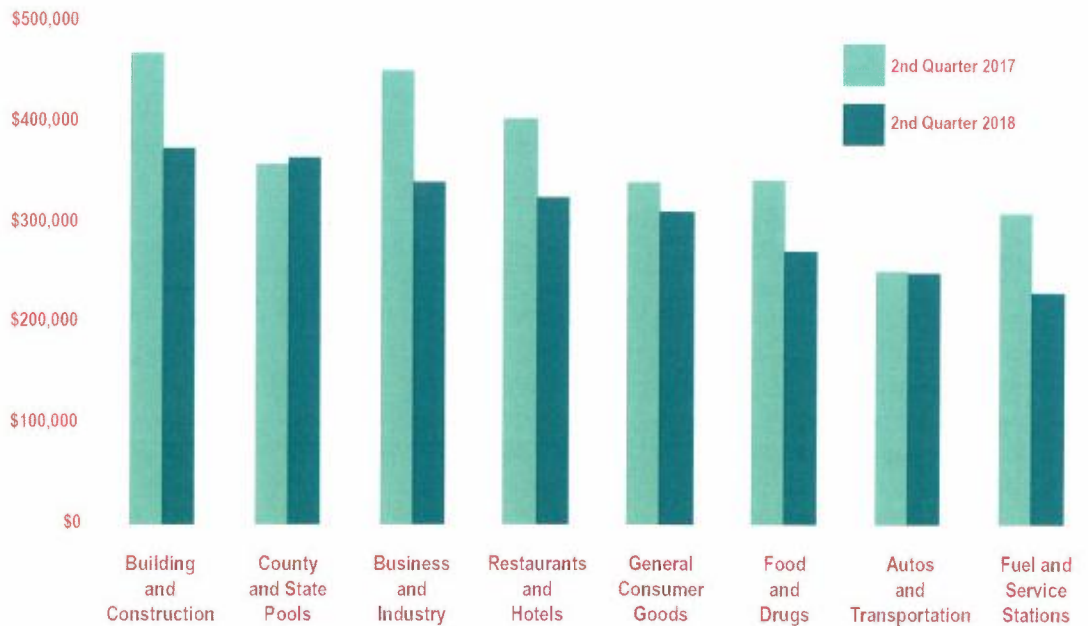
The Unincorporated Area's receipts from April through June were 15.8% below the second sales period in 2017, largely due to ongoing issues related to the State's new sales tax reporting system. This quarter the county was underpaid an estimated \$415,000. When this amount is added to the allocations received by the City and other reporting adjustments are factored out, actual receipts were down 2.2%. Most of the unprocessed receipts from last quarter have been recovered.

The state of this period's reporting makes it difficult to analyze the results but it appears there has been a decline in ongoing activity for the auto-transportation, business-in-dustry, and food-drug groups.

The countywide library tax received a total of \$2,273,547 but an estimated \$357,000 is missing from that total. When the missing receipts are accounted for, Measure R's receipts grew nearly 1% over this time last year.

Net of adjustments, taxable sales for all of Santa Cruz County were flat over the comparable time period while those of the entire Central Coast region were down 1.3%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

76	Ocean Honda
ABC Supply Co	Palace Art & Office Supply
Best Buy	Performance Food Service
Boulder Creek American	Pet Pals
Chaminade Hotel	Probuild Company
Crop Production Services	Quik Stop
Ferguson Enterprises	Rite Aid
Home Depot	Safeway
Honda Lease Trust	Safeway Fuel
Independent Electric Supply	Santa Cruz Naturals
Kind Peoples Collective	Scarborough Building Supply
Marshalls	Toys R Us
	USA Gas

REVENUE COMPARISON

Four Quarters - Fiscal Year To Date (Q3 to Q2)

	2016-17	2017-18
Point-of-Sale	\$9,652,983	\$9,545,110
County Pool	1,363,643	1,438,748
State Pool	5,001	5,545
Gross Receipts	\$11,021,627	\$10,989,403

California Overall

Local Government cash receipts from April through June sales dropped 10.1% from the same quarter one year ago due to implementation issues with CDFTA's new tax reporting software system. The results were further skewed by the State's attempt to offset the resulting shortages by advancing tax revenues that it estimates will be generated next quarter.

After reviewing unprocessed returns and approximating the full amounts of partial payments, HdL estimates that once all returns are properly processed and the data adjusted to reflect actual quarter receipts, statewide local sales and use tax revenues will be 1.6% higher than second quarter 2017.

Sales of building and construction materials, jet fuel and online shopping appear to have been the primary drivers of statewide growth during the second quarter. Auto sales leveled off as previously anticipated, although receipts from auto leases continued to show substantial gains. Online fulfillment centers and value themed apparel stores were the primary gainers within the general consumer goods group. Business-industrial purchases were slightly lower than previous quarters with declines in new energy projects being a major factor.

Regionally, the San Francisco Bay area and the Sacramento and San Joaquin Valley areas outperformed the rest of the state.

Tariff Policies and Sales Tax

Tariffs are becoming a key element of the federal government's international trade strategy with additional duties of 10% announced for the end of the third quarter, rising to 25% by the end of 2018.

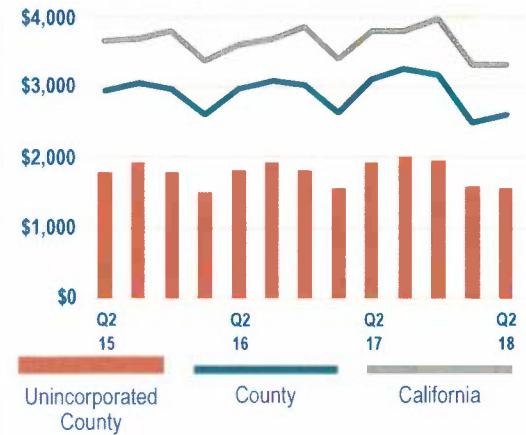
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates. Many manufacturers have managed to avoid raising prices by absorbing the costs of the

initial first round of tariffs on metals, machinery and components. On the down side, small retailers without the power to lock in prices may be placed at a competitive disadvantage and contractors are beginning to require escalation clauses in contracts to cover potential cost increases on long range projects.

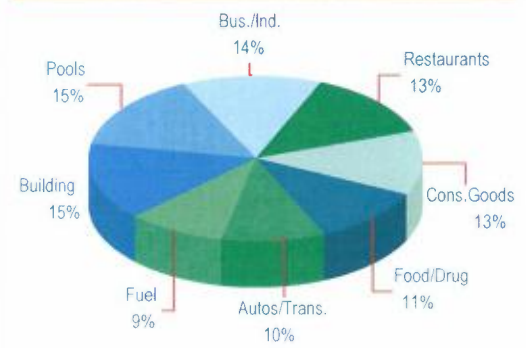
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly in an environment where rising housing, education and health care costs compete for a significant portion of discretionary income.

Proponents of rising tariffs argue that the rising strength of the U.S. dollar will offset the impact of tariff related price increases on consumers. Opponents worry that the stronger dollar and the announced \$5.6 billion in retaliatory tariffs on California exports will negatively impact both the affected companies' job base and capital investment in supplies, equipment and expansion opportunities.

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 '18*	Change	Change	Change
Auto Repair Shops	56.8	3.2%	-6.0%	-14.8%
Building Materials	274.7	-23.9%	-28.5%	-23.2%
Cannabis Related	55.1	-52.8%	-32.8%	7.5%
Casual Dining	184.0	-18.5%	-12.0%	-12.6%
Contractors	43.0	12.5%	9.0%	-10.7%
Convenience Stores/Liquor	79.2	-6.4%	-9.6%	-9.2%
Electronics/Appliance Stores	—	CONFIDENTIAL	-6.4%	-5.1%
Garden/Agricultural Supplies	127.0	-31.0%	-37.3%	-15.8%
Grocery Stores	98.0	2.5%	-9.2%	-7.0%
Home Furnishings	44.8	-19.1%	-10.3%	-21.7%
New Motor Vehicle Dealers	—	CONFIDENTIAL	2.9%	-1.9%
Plumbing/Electrical Supplies	55.2	-10.2%	-2.6%	-6.7%
Quick-Service Restaurants	55.3	2.6%	-3.9%	-5.8%
Service Stations	231.1	-24.8%	-36.8%	-26.4%
Specialty Stores	74.7	14.5%	5.5%	-4.6%
Total All Accounts	2,103.8	-18.2%	-16.2%	-12.2%
County & State Pool Allocation	364.4	1.5%	4.0%	5.5%
Gross Receipts	2,468.2	-15.8%	-13.7%	-10.1%