

Q3 2016



Santa Cruz County Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2016)

Santa Cruz County In Brief

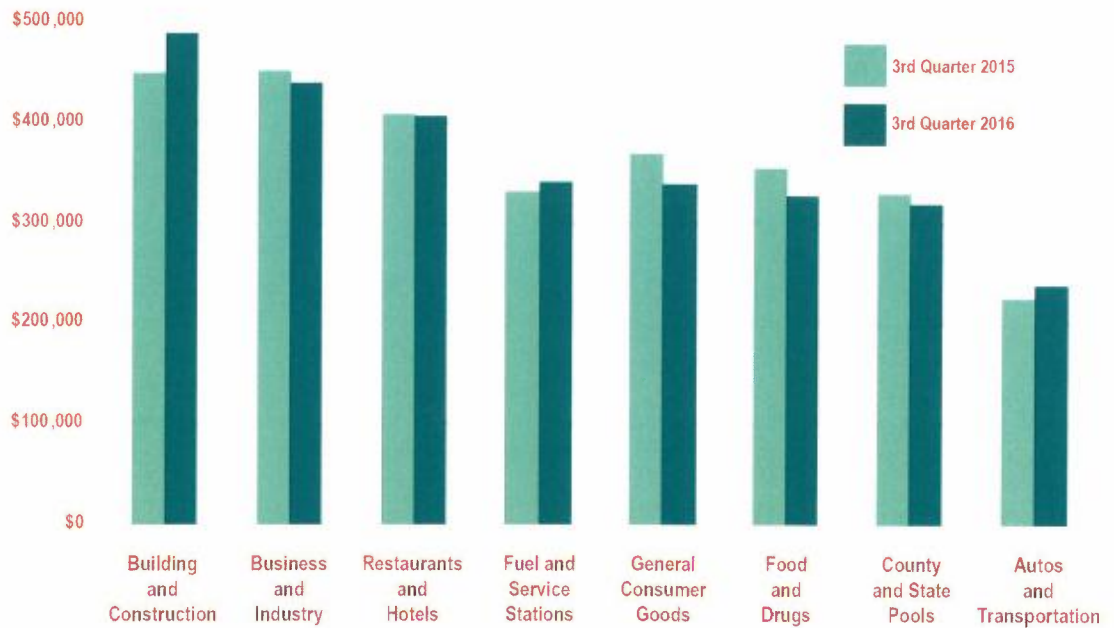
The unincorporated area's receipts for July through September sales were 0.6% less than the same quarter one year ago.

Accounting events that affected one or both periods overstated losses from general consumer goods and more than offset gains from drug stores, marijuana dispensaries, casual dining and the business and industry group. Current quarter adjustments that cut the allocation from the county use tax pool were also a factor for the overall decline.

The automotive group reported solid sales and postings were up from the building and construction group although group results were inflated by an adjustment to a lumber/building materials account. Receipt of taxes due from other quarters masked a 15.1% decline in proceeds from the fuel and service station group caused by lower prices at the pump.

Adjusted for reporting anomalies, taxable sales for all of Santa Cruz County increased 1.5% over the same period; Central Coast regional totals were up 2.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

76	Ocean Honda
ABC Supply	Pacific AG Supplies
Best Buy	Palace Art & Office Supply
Big Creek Lumber	Performance Food Group
Boulder Creek Beacon Station	Pet Pals
Capitola Healing Association	Probuild
Chaminade Hotel	Quik Stop
Chevron	Safeway
Crop Production Services	Safeway Fuel
Home Depot	Santa Cruz Hydroponics & Organics
Independent Electric Supply	Scarborough Home Center
Kind Peoples Collective	Seascape Resort
Marshalls	

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$4,963,387	\$4,986,536
County Pool	653,153	667,821
State Pool	2,498	1,718
Gross Receipts	\$5,619,037	\$5,656,075
Less Triple Flip*	\$(1,404,759)	\$0

*Reimbursed from county compensation fund

Statewide Results

Statewide local sales and use taxes from transactions occurring July through September were up 1.9% over the same third sales quarter of 2015 after factoring for accounting anomalies.

The countywide use tax allocation pools contributed the largest portion of the increase reflecting the acceleration in online shopping where most orders are shipped from out-of-state. Automotive group receipts rose 5.4% over the year-ago period although more than half of the increase was from a specific electric car manufacturer. Higher returns from restaurants and sales of building/construction materials also contributed to the statewide gain.

The gains were significantly offset by a 14.6% drop in receipts from fuel and service stations and a generally flat quarter for other economic segments. General consumer goods grew less than 1%. Value priced clothing, pet shops, cosmetics and dollar stores were among the few bright spots.

Business and industrial tax revenue was down 1.9%. Relatively healthy sales of agricultural and medical/biotech supplies could not overcome the decline in new alternative energy projects and a flat quarter for most other categories.

The Year Ahead

The consensus from dozens of industry analysts, economic think tanks and trade associations is for a leveling off in the rate of sales tax growth that the state has enjoyed for the last six years.

Manufacturer incentives are expected to produce lower gains from new vehicle purchases through the end of 2016 and it is believed that dealers are now borrowing from 2017 sales. Vehicle sales are expected to drop in 2017-18 but the trend toward higher priced vehicles loaded with options could maintain tax revenues close to current levels.

Consumer preferences toward spending more on services rather than goods, digital downloading of previously taxable products and rising health care and housing costs will be a drag on sales of consumer

goods.

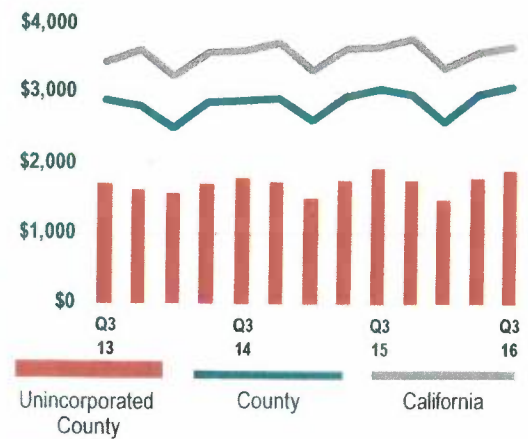
Receipts from fuel and service stations may be one of the largest gainers in 2017-18. New Middle East agreements on production caps are raising crude oil prices while California's limited refinery capacity and the trend toward less fuel-efficient SUV's and trucks have analysts believing that prices have finally leveled out and will rise through the year.

Continuing gains from restaurants are also expected although at lower than previous rates because of reduced grocery prices and the cost of eating at home. The growing strength of the dollar and recent criticisms of trade agreements and immigrants could reduce international tourism.

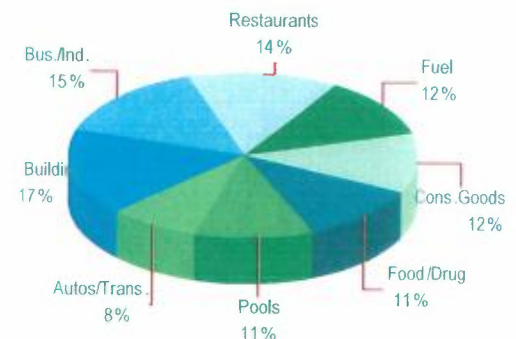
It usually takes up to two years for new stimulus programs to be reflected in sales tax receipts. As many of the coming administration's proposals related to trade, immigration, health services and the environment present potential issues for a significant number of California industries, delays in major construction projects and business/industrial investments are expected until these are sorted out.

HdL's current forecast is for a statewide increase of 2.5% in 2016-17 and 3.4% in 2017-18 compared to a year earlier.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP Santa Cruz Co. Uninc This Quarter



SANTA CRUZ COUNTY TOP 15 BUSINESS TYPES

Business Type	<i>*In thousands of dollars</i>			
	Unincorporated County Q3 '16*	Change	County Change	HdL State Change
Auto Repair Shops	57.3	7.9%	2.7%	4.3%
Casual Dining	217.7	-3.5%	2.8%	4.3%
Contractors	55.4	11.6%	-9.0%	1.5%
Convenience Stores/Liquor	81.3	-0.7%	2.9%	3.5%
Electronics/Appliance Stores	— CONFIDENTIAL —	—	-9.1%	-1.5%
Garden/Agricultural Supplies	183.1	0.0%	2.2%	10.8%
Grocery Stores	113.3	1.4%	1.5%	-2.1%
Home Furnishings	56.7	-22.3%	-2.4%	-0.5%
Lumber/Building Materials	332.7	6.1%	6.9%	6.9%
Marijuana Related	94.7	-20.9%	3.8%	25.7%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	11.4%	4.8%
Plumbing/Electrical Supplies	52.0	8.8%	2.0%	4.4%
Quick-Service Restaurants	60.6	7.0%	4.8%	8.9%
Service Stations	340.3	3.2%	-3.5%	-13.8%
Specialty Stores	57.1	-11.9%	-1.6%	2.2%
Total All Accounts	2,575.8	-0.3%	1.5%	0.9%
County & State Pool Allocation	319.3	-2.9%	-1.2%	11.5%
Gross Receipts	2,895.0	-0.6%	1.2%	2.2%