

Q3 2019



Santa Cruz County Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2019)

Santa Cruz County In Brief

The unincorporated area's receipts from July through September were 16.2% below the third sales period in 2018. This comparison is skewed due to the CDTFA's transition to a new reporting system last year when additional payments were received by the City. Excluding reporting aberrations, actual sales were down 0.6%.

Product demand slowed across a few business-industry segments. Autos-transportation also reflected reduced consumer spending.

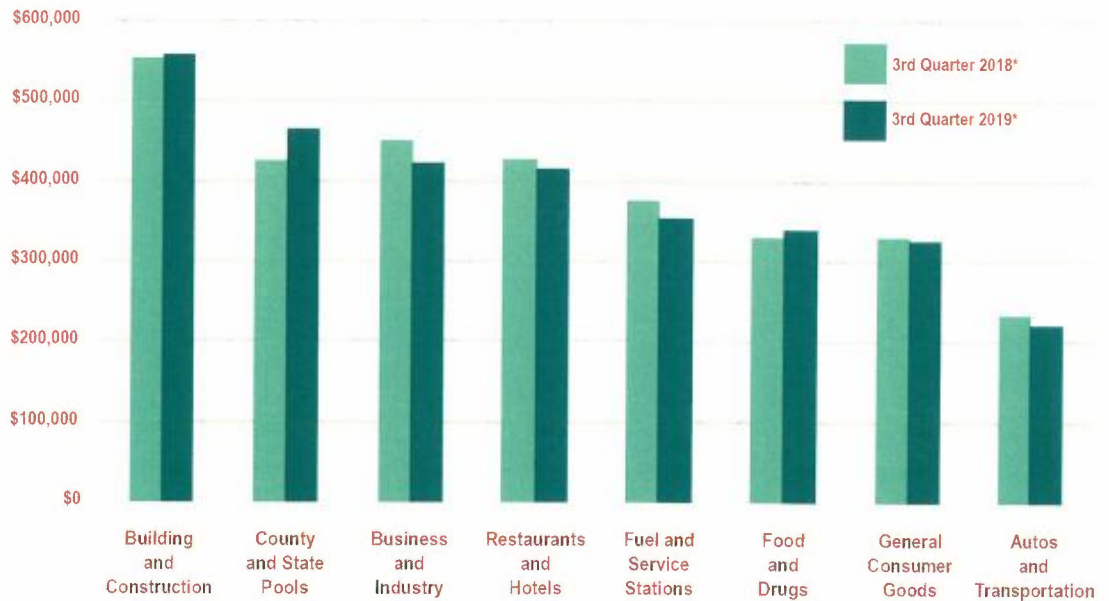
Recent declines in consumption negatively impacted service stations. Closure of a local establishment contributed to restaurant-hotel's diminution.

Good news came from modest gains provided by building materials and grocery merchants. Retailer's now obligated to pay out-of-state use taxes under the Wayfair decision added to the countywide pool allocation.

Measure G, the unincorporated area's 0.50% tax, reported \$1,855,218. Further, the countywide 0.25% tax known as Measure R generated \$2,851,523 for library services.

Net of aberrations, taxable sales for all of Santa Cruz County grew 1.2% over the comparable time period; the Central Coast region was up 1.0%.

SALES TAX BY MAJOR BUSINESS GROUP



*Allocation aberrations have been adjusted to reflect sales activity

TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

76	Kind Peoples Collective
ABC Supply Co	Marshalls
Best Buy	Ocean Honda
Big Creek Lumber	Pacific AG Supplies
Boulder Creek American	Palace Art & Office Supply
Chevron	Pet Pals
Crop Production Services	Probuild Company
Felton Valero	Quik Stop
Ferguson Enterprises	Safeway
Home Depot	Safeway Fuel
Independent Electric Supply	Santa Cruz Naturals
Joby Aviation	Scarborough Building Supply
	Seascape Resort

REVENUE COMPARISON

One Quarter - Fiscal Year To Date (Q3)

	2018-19	2019-20
Point-of-Sale	\$3,249,982	\$2,634,115
County Pool	490,551	498,999
State Pool	1,690	1,072
Gross Receipts	\$3,742,223	\$3,134,187
Measure G	\$0	\$1,947,483

Statewide Results

The local one-cent share of statewide sales and use tax from sales occurring July through September was 2.2% higher than the summer quarter of 2018 after adjusting for accounting anomalies.

The bulk of the increase came from the countywide use tax allocation pools and is due to the acceleration in online shopping where a large volume of the orders are shipped from out-of-state.

Online shopping also produced gains in the business-industrial group with in-state industrial zoned logistics centers filling orders previously taken by brick and mortar retailers. Purchases to support healthcare, food processing, logistics/warehouse operations and information/data technology also helped offset declines in other business-related categories.

With the exception of some discount and value-oriented retail, most categories of general consumer goods were down. New cannabis related start-ups offset declines in the food and drug group while a softening in building-construction receipts was consistent with recent declines in the volume and value of new building permit issuances.

Overall growth in restaurant receipts continued to soften with a shift toward lower cost dining establishments and takeout meal options. Reports of labor shortages and the impact of homelessness on customer traffic in metropolitan areas were reportedly factors in the decline in tax revenues from higher price, fine dining establishments.

Despite a slight uptick in used auto and auto lease receipts, the auto related group was significantly down due to a drop in new car and RV sales. Previously propped up by a 23% subprime rated customer base and six- and seven-year financing, loan delinquencies have recently surged back to levels last seen in 2009.

Additional Tax Districts Approved

Voters approved eight of the nine sales

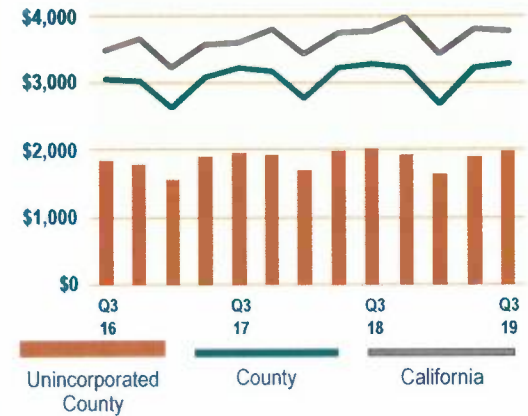
tax measures on the November 2019 ballot adding six new districts and extending two others.

This brings the total number of local transactions and use tax districts (TUT's) to 325 with 62 that are levied countywide and 263 imposed by individual cities. The number of local districts have close to tripled over the last decade as agencies deal with rising costs and service needs. TUT's have been a favorable option as visitors contribute to the tax and a collection system is already in place that minimizes administrative and monitoring costs.

California's basic rule is that the rate for all local TUT's combined, shall not exceed 2.0% or a total of 9.25% including the state levy. However, the state legislature has authorized higher caps in some jurisdictions with the highest voter-approved, combined state/local rate now at 10.5%.

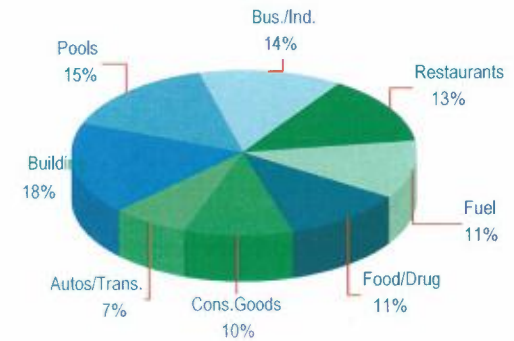
Thirty-five or more additional local TUT measures are currently being considered for the March 2020 ballot.

SALES PER CAPITA*



*Allocation aberrations have been adjusted to reflect sales activity

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



*Allocation aberrations have been adjusted to reflect sales activity

SANTA CRUZ COUNTY TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	Unincorporated County Q3 '19*	County Change	County Change	HdL State Change
Auto Repair Shops	57.4	-2.7%	0.6%	0.9%
Building Materials	432.3	2.3%	-5.0%	0.1%
Cannabis Related	96.0	4.5%	10.2%	38.2%
Casual Dining	226.5	-2.7%	-1.0%	2.3%
Contractors	49.8	-20.5%	-0.8%	2.6%
Convenience Stores/Liquor	89.3	-1.5%	1.2%	1.0%
Electronics/Appliance Stores	— CONFIDENTIAL —	—	0.7%	-3.1%
Garden/Agricultural Supplies	191.4	10.5%	1.6%	4.3%
Grocery Stores	106.9	5.0%	2.5%	1.7%
Home Furnishings	52.4	-14.1%	-4.2%	-1.0%
Leisure/Entertainment	51.5	-2.3%	-0.2%	7.5%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	-0.7%	-7.2%
Plumbing/Electrical Supplies	72.4	15.9%	18.0%	4.4%
Quick-Service Restaurants	58.1	-4.6%	0.6%	2.6%
Service Stations	354.3	-5.3%	2.1%	-1.5%
Total All Accounts	2,645.2	-2.2%	-1.1%	0.2%
County & State Pool Allocation	465.4	9.2%	16.8%	14.9%
Gross Receipts	3,110.6	-0.6%	1.2%	2.3%

** Accounting aberrations such as late payments, fund transfers, and audit adjustments have been adjusted to reflect the quarter in which the sales occurred.