

Q3 2018



San Luis Obispo Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2018)

San Luis Obispo In Brief

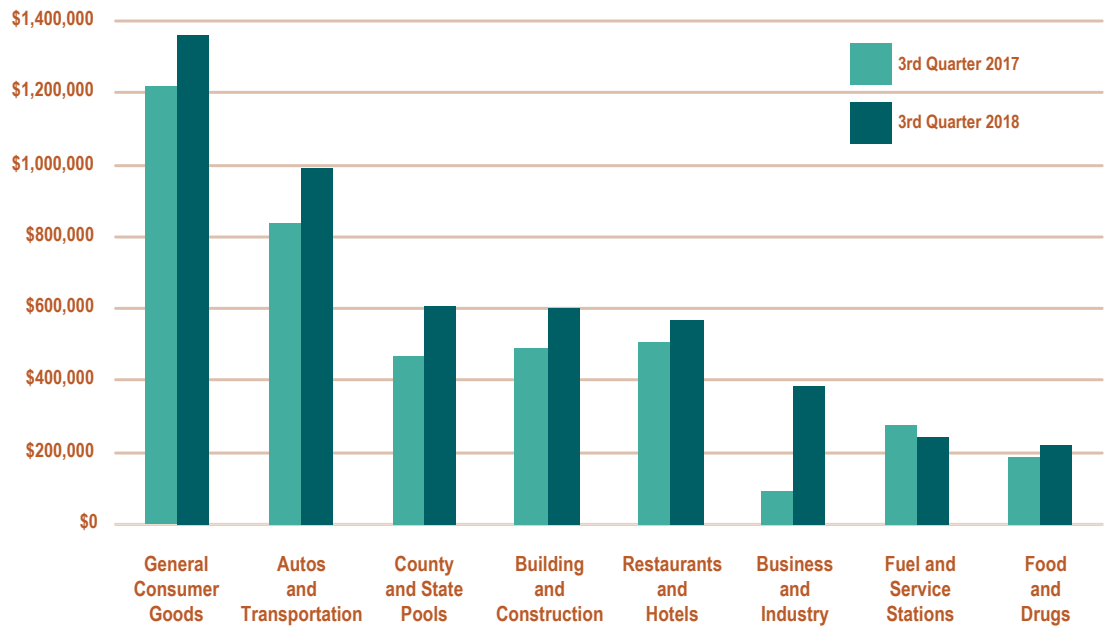
San Luis Obispo's allocation of sales and use tax from its July through September sales was 22.2% higher than the summer quarter of 2017. The allocation was inflated by late back payments and reporting errors related to the State's computer problems. Actual revenues were up 1.8% after these are factored out.

Higher fuel prices, a solid quarter for some categories of building-construction supplies and a rise in the countywide use tax allocation pool were the primary contributors to the actual increase. Most other categories were either flat or down once back payments and reporting errors are removed. The trend reflects the impact of the trend toward online shopping as well as expanding retail and restaurant-hotel options to both north and south of San Luis Obispo.

Voter approved Measure G added \$2,070,944 to the above and was 9.9% higher after factoring for State computer issues. The gains came primarily from a spike in fuel prices along with purchases of autos, construction and industrial related supplies and equipment.

Adjusted for aberrations, sales and use tax receipts for all of San Luis Obispo County rose 5.9% over the comparable time period while the central coast as a whole, was up 3.3%

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

| | |
|----------------------|---------------------------|
| Alfano Motorcars | Rancho Grande |
| Mercedes Benz | Motors Buick Gmc |
| Chevrolet | Hyundai Subaru |
| Apple | Rec Solar |
| Best Buy | Rec Solar |
| Coast BMW Nissan | Commercial Corporation |
| Cole Chrysler Dodge | Ross |
| Jeep Cole Mazda | Running Warehouse |
| Conserv Fuel | Shell |
| Costco | Smith Volvo |
| Ferguson Enterprises | Sunset Honda |
| Hayward Lumber | Tackle Warehouse |
| Home Depot | Target |
| Mccarthys | Tennis Warehouse |
| Perry Ford Lincoln | Toyota of San Luis Obispo |
| Volkswagen | Whole Foods Market |

REVENUE COMPARISON

One Quarter – Fiscal Year To Date (Q3)

| | 2017-18 | 2018-19 |
|-----------------------|--------------------|--------------------|
| Point-of-Sale | \$3,608,089 | \$4,375,959 |
| County Pool | 465,491 | 602,408 |
| State Pool | 2,802 | 2,250 |
| Gross Receipts | \$4,076,382 | \$4,980,616 |
| Measure G | \$1,891,681 | \$2,364,347 |

California Overall

The CDTEFA's problems with its new software system had yet to be fully resolved by the end of the third quarter. HdL's adjustments for delayed payments and other reporting deficiencies indicate that statewide receipts from the local one cent tax rose 5.2% over the first three quarters of 2018 versus the comparison period. The gains were primarily from higher fuel prices, strong building-construction activity and a rise in tax receipts from online purchases delivered from out-of-state that are shared by all agencies via the county pools.

The data exhibits the start of a leveling pattern in other sectors. The statewide gain in new car sales for July through September was due to a single manufacturer filling back orders. Price competition kept tax revenues from consumer goods receipts relatively flat while the rise in online shopping is expanding the diversion of tax revenues from brick and mortar stores to county pools or to in-state distribution centers.

Restaurant sales are beginning to show signs of market saturation as well as the impact of new competition that includes - prepared food and meal kits delivered from a variety of other sources. A modest gain in business-industrial sales was largely related to data and warehouse technology as well as a few major development projects.

Anticipated declines in fuel prices in the first quarter of 2019 adds support to HdL's latest consensus forecast for a modest statewide gain of 1.5% in fiscal year 2019-20 unless new trade conflicts further impact the economy.

South Dakota V. Wayfair Decision

In June, the Supreme Court reversed its previous ruling that retailers are not required to collect taxes for jurisdictions where they have no physical presence or "nexus." Instead, the buyer was responsible for remitting the tax.

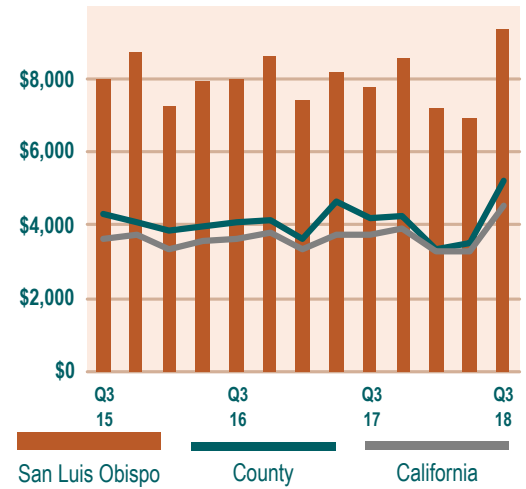
California will begin enforcing the Wayfair reversal effective April 1, 2019

by making retailers delivering from out-of-state responsible for collecting and remitting use tax if calendar year sales exceed \$100,000 and/or 200 or more separate transactions. The same threshold will also determine whether in-state retailers are responsible for collecting taxes on deliveries to individual transactions tax districts.

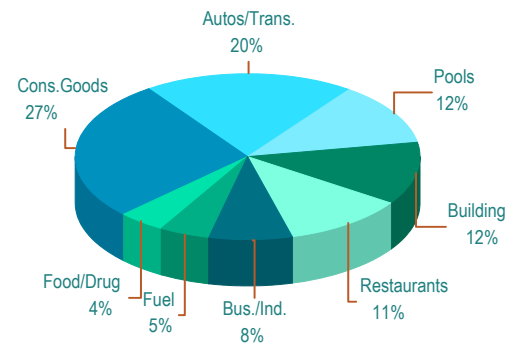
Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

As most major online retailers, including Wayfair, are already collecting California taxes and the state has traditionally enforced a broad definition of "nexus," the impact of the South Dakota decision may be less than in other states. The U.S. Government Accountability Office estimates a potential eventual gain of \$3 to \$5 per capita in receipts from our one cent local tax.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
San Luis Obispo This Quarter



SAN LUIS OBISPO TOP 15 BUSINESS TYPES

| Business Type | <i>*In thousands of dollars</i> | | | |
|---|---------------------------------|------------------------|---------------|------------------|
| | San Luis Obispo Q3 '18* | San Luis Obispo Change | County Change | HdL State Change |
| Building Materials | 302.1 | 25.0% | 25.0% | 29.7% |
| Casual Dining | 326.2 | 14.7% | 15.0% | 14.6% |
| Contractors | 145.7 | 32.8% | 48.9% | 37.6% |
| Discount Dept Stores | — CONFIDENTIAL — | — | 13.0% | 18.3% |
| Electronics/Appliance Stores | 164.7 | 14.9% | 17.5% | 12.3% |
| Energy/Utilities | — CONFIDENTIAL — | — | 736.5% | -5.2% |
| Family Apparel | 129.5 | 22.5% | 22.4% | 36.4% |
| Grocery Stores | 135.7 | 21.4% | 12.3% | 16.1% |
| Home Furnishings | 113.7 | 5.8% | 8.2% | 21.9% |
| New Motor Vehicle Dealers | 722.0 | 13.7% | 18.6% | 12.7% |
| Plumbing/Electrical Supplies | 129.3 | 9.3% | 6.6% | 16.1% |
| Quick-Service Restaurants | 90.7 | 12.5% | 13.7% | 13.4% |
| Service Stations | 239.3 | 10.2% | 46.0% | 43.0% |
| Specialty Stores | 95.6 | 12.2% | 11.2% | 8.9% |
| Sporting Goods/Bike Stores | 211.1 | 25.3% | 17.7% | 20.8% |
| Total All Accounts | 4,376.0 | 21.3% | 24.8% | 21.8% |
| County & State Pool Allocation | 604.7 | 29.1% | 32.9% | 27.8% |
| Gross Receipts | 4,980.6 | 22.2% | 25.8% | 22.6% |