

Q2 2018



Scotts Valley Sales Tax *Update*

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

Scotts Valley In Brief

Scotts Valley's receipts from April through June were 17.6% 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 City was underpaid an estimated \$138,000. When this amount is added to the allocations received by the City and other reporting adjustments are factored out, actual receipts were down 1.1%. Most of the unprocessed payments missing last period have been recovered.

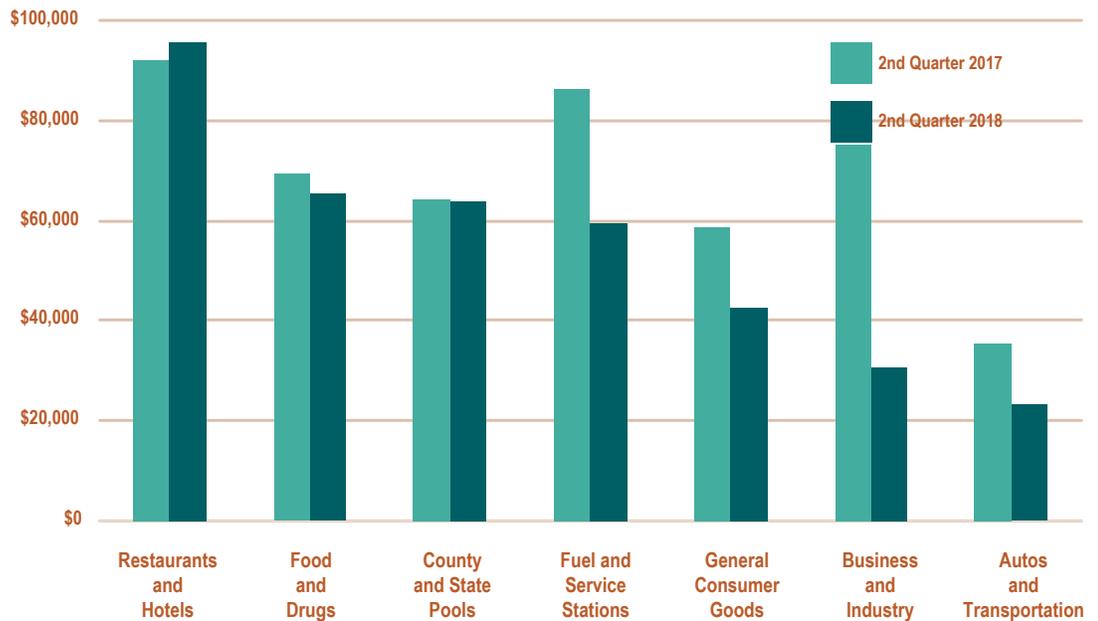
Increased activity at leisure venues and the recovery of a missing payment from last quarter pushed up restaurant receipts.

The results for fuel and service stations was lower due to missing payments. The remaining groups' results were also reduced by missing payments but also reflect lower ongoing activity.

Measure U's receipts this period was \$288,972. An estimated \$79,000 is missing from this period's collections and when this amount is added to the cash received, actual receipts increased nearly 14%.

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

1440 Multiversity	Quik Stop
Brunos Bar & Grill	Safeway
CVS Pharmacy	Scarborough Lumber & Building Supply
Dollar Tree	Scotts Valley 76
Jia Tellas	Scotts Valley Chevron
Kmart	Scotts Valley Cycle Sport
Leos Scotts Valley Liquor Store	Scotts Valley Gas & Mart
Los Gallos Taqueria	Scotts Valley Market
Malones Grille	SSL Retaining Walls
Market Tech	Taco Bell
McDonalds	Walgreens
Napa Auto Parts	
Nob Hill Foods	
Otoro Sushi	

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$1,793,266	\$1,512,983
County Pool	253,311	224,938
State Pool	948	813
Gross Receipts	\$2,047,526	\$1,738,734
Measure U	\$1,281,445	\$1,220,107

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.

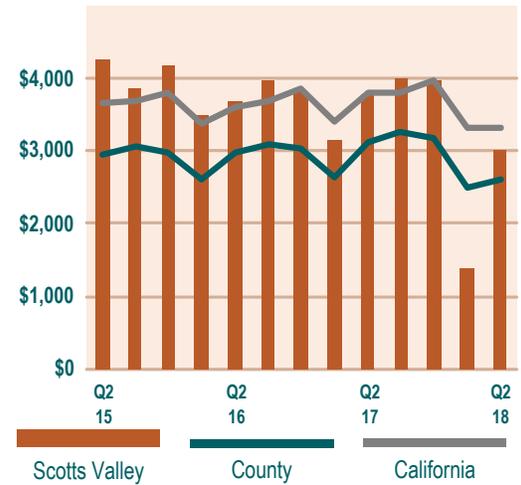
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates.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

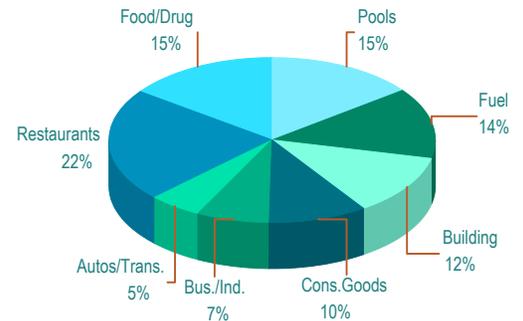
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly 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
Scotts Valley This Quarter



SCOTTS VALLEY TOP 15 BUSINESS TYPES

Business Type	Scotts Valley		County	HdL State
	Q2 '18	Change	Change	Change
Auto Repair Shops	11,327	12.1%	-6.0%	-14.8%
Automotive Supply Stores	10,719	-39.7%	-25.1%	-11.6%
Building Materials	— CONFIDENTIAL —	—	-28.5%	-23.2%
Casual Dining	49,023	1.4%	-12.0%	-12.6%
Contractors	— CONFIDENTIAL —	—	9.0%	-10.7%
Convenience Stores/Liquor	— CONFIDENTIAL —	—	-9.6%	-9.2%
Discount Dept Stores	— CONFIDENTIAL —	—	-7.1%	-13.5%
Drug Stores	— CONFIDENTIAL —	—	-5.8%	-4.2%
Electrical Equipment	12,148	-1.4%	-43.3%	-23.9%
Grocery Stores	— CONFIDENTIAL —	—	-9.2%	-7.0%
Leisure/Entertainment	12,218	100.8%	4.7%	-3.6%
Light Industrial/Printers	4,177	-26.7%	-22.6%	-26.0%
Quick-Service Restaurants	30,564	-6.2%	-3.9%	-5.8%
Service Stations	58,325	-29.7%	-36.8%	-26.4%
Sporting Goods/Bike Stores	6,836	-7.3%	-19.7%	-20.9%
Total All Accounts	368,615	-20.0%	-16.2%	-12.2%
County & State Pool Allocation	63,852	-0.7%	4.0%	5.5%
Gross Receipts	432,467	-17.6%	-13.7%	-10.1%