

Q1 2018



Arroyo Grande Sales Tax Update

Second Quarter Receipts for First Quarter Sales (January - March 2018)

Arroyo Grande In Brief

Arroyo Grande's receipts from January through March were 0.7% below the first sales period in 2017, but results were lower only due to the State's transition to a new software and reporting system that caused a delay in processing multiple payments. The late remittances are expected to be received next quarter. This anomaly contributed to declines for several business categories including general consumer goods and food-drugs. Excluding reporting aberrations, actual sales were up 4.2%.

The City received a larger share of the countywide use tax pool and this was the largest factor in the overall improvement.

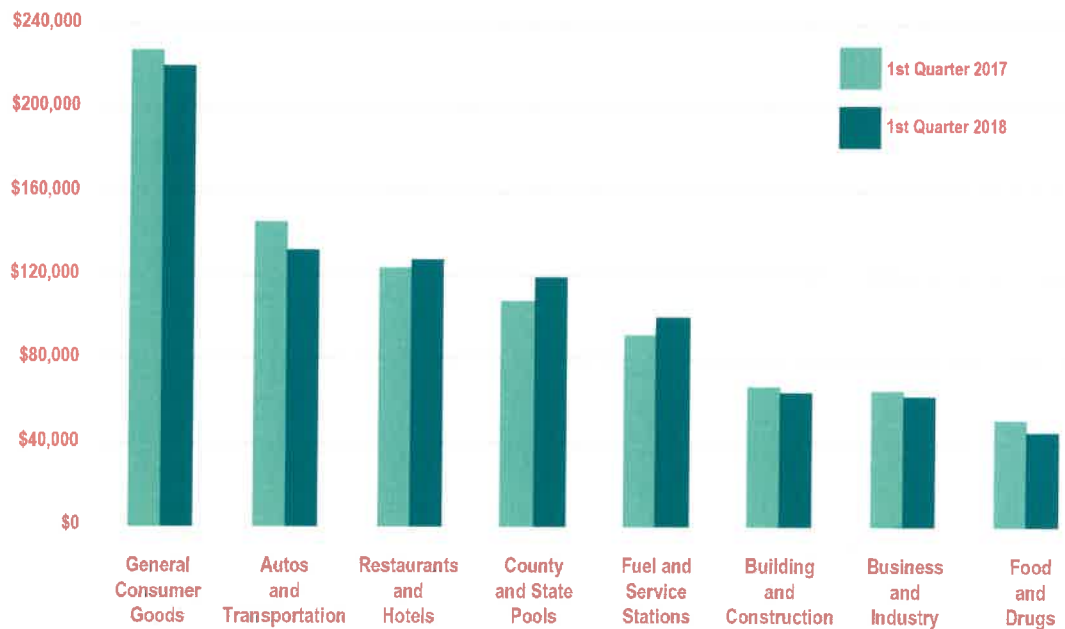
Service station revenues were higher as global political tension and the robust economy has led to tightening fuel supplies and higher prices.

A decline in auto and transportation sales, however, dampened the overall rate of improvement.

Proceeds from Measure O-06 added an additional \$513,000 to the amounts previously discussed

Net of aberrations, taxable sales for all of San Luis Obispo County grew 5.6% over the comparable time period; the Central Coast region was up 5.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Ace Hardware	Marshalls
Arco AM PM	Mason Bar
Arroyo Grande Chevrolet	McDonalds
Arroyo Grande Shell	Mullahey Ford
Arroyo Grande Valero	OfficeMax
Burke & Pace Lumber Sales	R & R Furniture
Chevron	Rite Aid
Donnas Interiors Furniture	Rooster Creek
Ember Restaurant	Rugged Race Products
Food 4 Less	Smart & Final
Gills Food Market	Streator Pipe & Supply
In N Out Burgers	Verizon Wireless
	Walmart

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$3,232,029	\$3,415,684
County Pool	473,526	471,703
State Pool	2,521	1,177
Gross Receipts	\$3,708,077	\$3,888,564
Measure O - 06	\$2,180,822	\$2,221,949

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

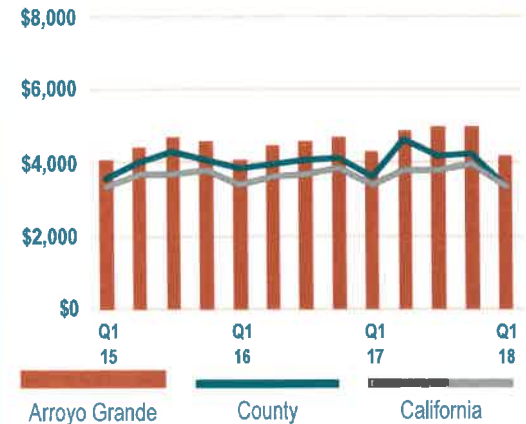
Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the online interstate marketplace was not the prevailing issue before the court in 1992.

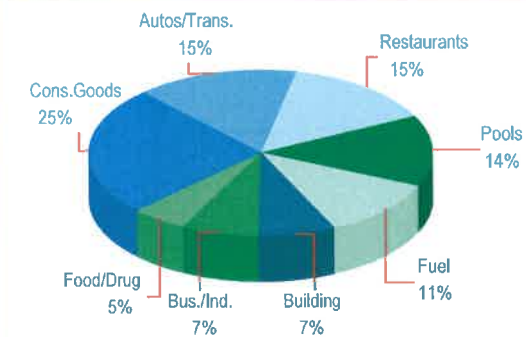
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about \$1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average \$60 per year for each California household, and California businesses average \$171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court’s opinion to determine next steps to support taxpayers.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Arroyo Grande This Quarter



ARROYO GRANDE TOP 15 BUSINESS TYPES

Business Type	Arroyo Grande		County	HdL State
	Q1 '18	Change	Change	Change
Automotive Supply Stores	13,786	6.6%	-3.7%	-4.1%
Building Materials	51,475	12.6%	7.2%	3.8%
Casual Dining	65,329	7.3%	-1.3%	-2.0%
Contractors	10,052	-37.0%	41.2%	21.6%
Discount Dept Stores	— CONFIDENTIAL —	—	-0.9%	2.8%
Drug Stores	— CONFIDENTIAL —	—	-5.6%	-27.9%
Electronics/Appliance Stores	16,734	5.7%	1.4%	0.8%
Family Apparel	— CONFIDENTIAL —	—	11.3%	8.2%
Fast-Casual Restaurants	18,601	6.0%	10.9%	6.8%
Garden/Agricultural Supplies	21,650	-10.2%	-4.0%	3.0%
Grocery Stores	— CONFIDENTIAL —	—	-4.0%	1.9%
Home Furnishings	37,773	15.1%	2.5%	-1.0%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	-9.6%	-0.2%
Quick-Service Restaurants	41,219	-6.4%	-8.3%	-3.8%
Service Stations	93,631	7.5%	8.3%	4.6%
Total All Accounts	753,731	-2.2%	-7.5%	-1.8%
County & State Pool Allocation	118,878	10.2%	4.3%	-2.1%
Gross Receipts	872,608	-0.7%	-6.0%	-1.8%