

Q2 2018



Arroyo Grande Sales Tax Update

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

Arroyo Grande In Brief

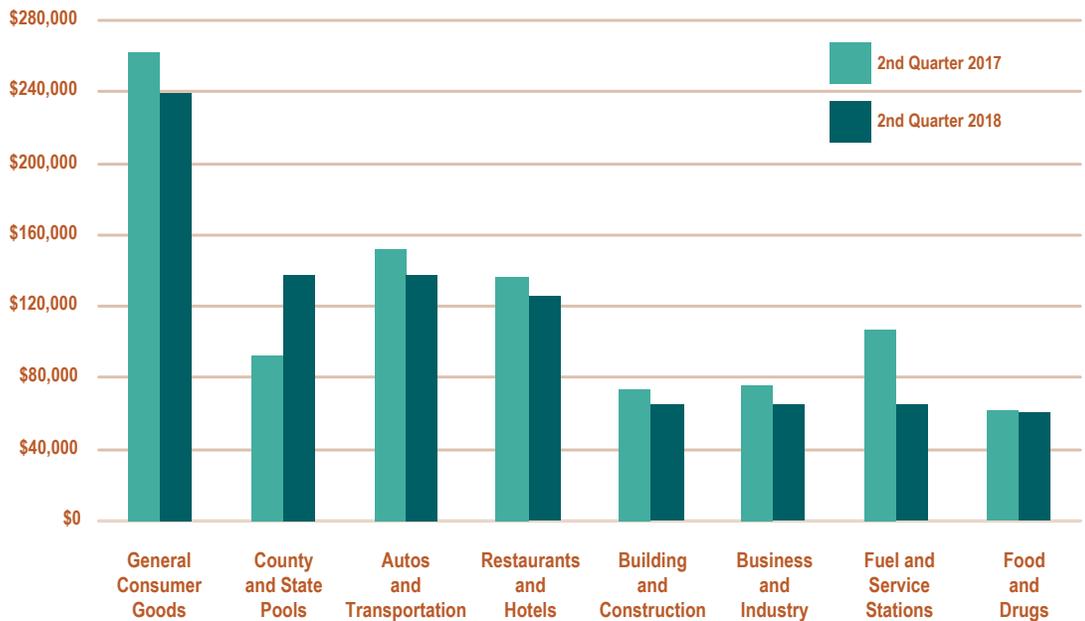
Arroyo Grande's receipts from April through June were 6.9% below the second sales period in 2017. However, CDTFA's transition to a new reporting system resulted in multiple returns not processed in the current period for the second quarter in a row. Comparisons in sectors like fuel-service stations and building-construction were heavily impacted by the lack of allocations. Including expected remittances and other reporting aberrations, actual sales were up 3.6%.

Once adjusted, steady price increases at the pump, mostly due to the global cost of crude oil and the implementation of SB-1 locally, pushed gas station returns higher, while the current stable housing market and still favorable interest rates contributed to produce solid growth from building material and contractor suppliers.

The City's voter approved half-cent transaction tax, Measure O-06, generated an additional \$486,279, a 12.8% decrease over last year. This additional revenue source was also temporarily impacted by CDTFA software changes for the second consecutive quarter.

Net of aberrations, taxable sales for all of San Luis Obispo County declined 3.8% over the comparable time period; the Central Coast region was down 1.3%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Ace Hardware	Marshalls
Arroyo Grande Chevrolet	McDonalds
Arroyo Grande Shell	Mier Bros
Arroyo Grande Valero	Landscape Products
Burke & Pace Lumber Sales	Mullahey Ford
Donnas Interiors Furniture	Petco
Ember Restaurant	R & R Furniture
Field To Table Events	Rite Aid
Food 4 Less	Rooster Creek
Gills Food Market	Smart & Final
In N Out Burger	Streator Pipe & Supply
Kmart	Trader Joes
	Verizon Wireless
	Wal Mart

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$3,305,991	\$3,304,428
County Pool	449,850	515,529
State Pool	1,799	1,914
Gross Receipts	\$3,757,640	\$3,821,871
Measure O - 06	\$2,199,613	\$2,150,450

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.

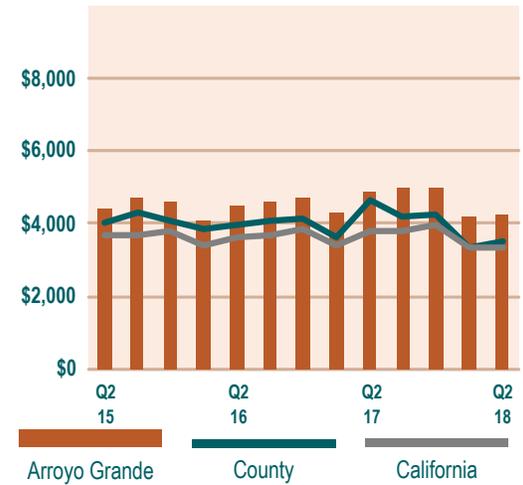
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates.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

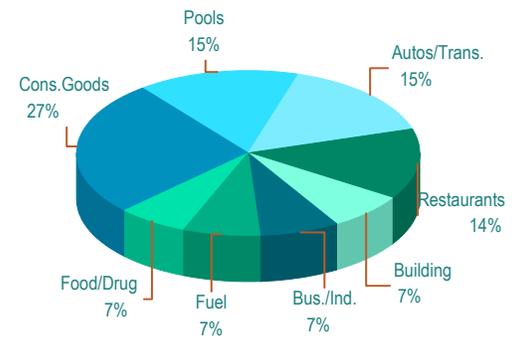
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly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



ARROYO GRANDE TOP 15 BUSINESS TYPES

Business Type	Arroyo Grande		County	HdL State
	Q2 '18	Change	Change	Change
Automotive Supply Stores	13,682	3.8%	-6.9%	-11.6%
Building Materials	63,496	11.1%	-19.6%	-23.2%
Casual Dining	57,919	-20.1%	-14.9%	-12.6%
Discount Dept Stores	— CONFIDENTIAL —	—	-14.1%	-13.5%
Drug Stores	— CONFIDENTIAL —	—	-7.3%	-4.2%
Electronics/Appliance Stores	17,205	1.8%	4.5%	-5.1%
Family Apparel	— CONFIDENTIAL —	—	-25.1%	-27.2%
Fast-Casual Restaurants	15,114	-5.2%	-3.0%	-3.3%
Garden/Agricultural Supplies	26,044	-29.8%	3.0%	-15.8%
Grocery Stores	— CONFIDENTIAL —	—	-5.4%	-7.0%
Home Furnishings	33,935	-17.4%	-15.9%	-21.7%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	-17.1%	-1.9%
Quick-Service Restaurants	41,579	-10.5%	-17.6%	-5.8%
Service Stations	— CONFIDENTIAL —	—	-33.9%	-26.4%
Specialty Stores	22,549	21.6%	-12.5%	-4.6%
Total All Accounts	758,957	-12.8%	-24.2%	-12.2%
County & State Pool Allocation	137,559	47.9%	28.5%	5.5%
Gross Receipts	896,516	-6.9%	-19.1%	-10.1%