

# Q2 2018



# Pacific Grove Sales Tax *Update*

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

## Pacific Grove In Brief

Pacific Grove's receipts from April through June were 18.7% below the second sales period in 2017, largely from the ongoing sales tax return processing issues caused by the State's new systems. While most of last quarter's missing receipts have been turned over to the City, an additional \$77,400 is estimated to be missing. Combining that amount with actual receipts and excluding reporting adjustments, actual receipts were down 6.4%.

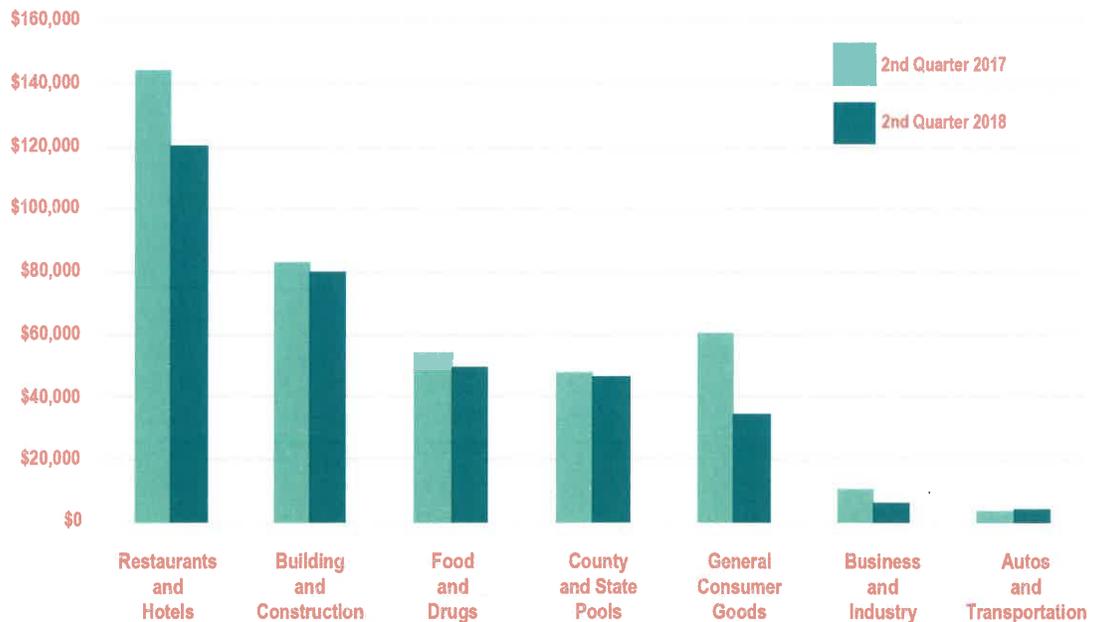
Restaurant activity reflects lower transaction counts when the effect of missing payments and a large tax recovery in the prior year are not considered. Similarly, building and construction activity is lower than at this time last year.

Business and industry group results reflect a mix of missing payments and an overall decline in sales. Both general consumer and fuel group results were caused by missing payments.

Measure U received \$434,557 this quarter but was missing an estimated \$84,000. Combining the two, this quarter's results were nearly 4% higher compared to this time last year.

Net of adjustments, taxable sales for all of Monterey County declined 1.1% 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

Ace Hardware	Michael's Grill & Taqueria
Aqua Terra Culinary	One Stop Chevron Gas & Food Mart
Asilomar Conference Center	Pacific Grove Hardware
Beach House at Lovers Point	Passionfish
Dominos	Peppers Mexicali Cafe
Fandango	Red House Cafe
First Awakenings	Rite Aid
Fishwife	Safeway
Hayward Lumber	Trader Joes
Home Lighter	Visions Design Center
International Cuisine	Vivolos Chowder House
Kelly Moore Paints	
Lucky	
Marita's Boutique	

### REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$1,508,308	\$1,401,230
County Pool	196,153	195,056
State Pool	824	811
<b>Gross Receipts</b>	<b>\$1,705,285</b>	<b>\$1,597,097</b>
Measure U	\$1,983,230	\$1,900,774

**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.

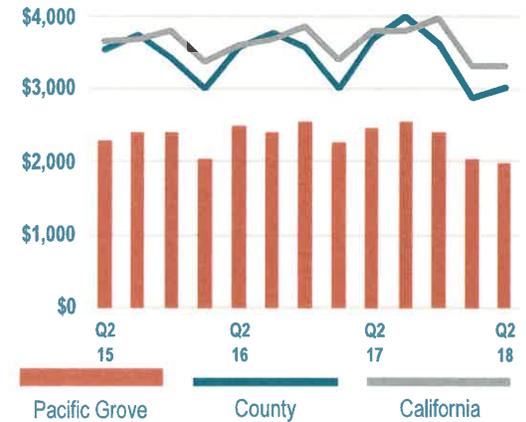
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates.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



**COUNTY OVERALL  
2Q YOY RECEIPTS % CHANGE**

Major Industry Groups	Cash	Adjusted*
Autos and Transportation	-1.7%	-1.8%
Building and Construction	-16.8%	6.3%
Business and Industry	-28.0%	-2.1%
Food and Drugs	-5.5%	3.5%
Fuel and Service Stations	-41.3%	-19.1%
General Consumer Goods	-15.5%	-0.5%
Restaurants and Hotels	-8.2%	3.0%
County and State Pools	3.2%	3.8%
<b>Total</b>	<b>-13.5%</b>	<b>-1.1%</b>

\*Accounting anomalies factored out

**REVENUE BY BUSINESS GROUP  
Pacific Grove This Quarter**

