

Q4 2018



Pacific Grove Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (October - December 2018)

Pacific Grove In Brief

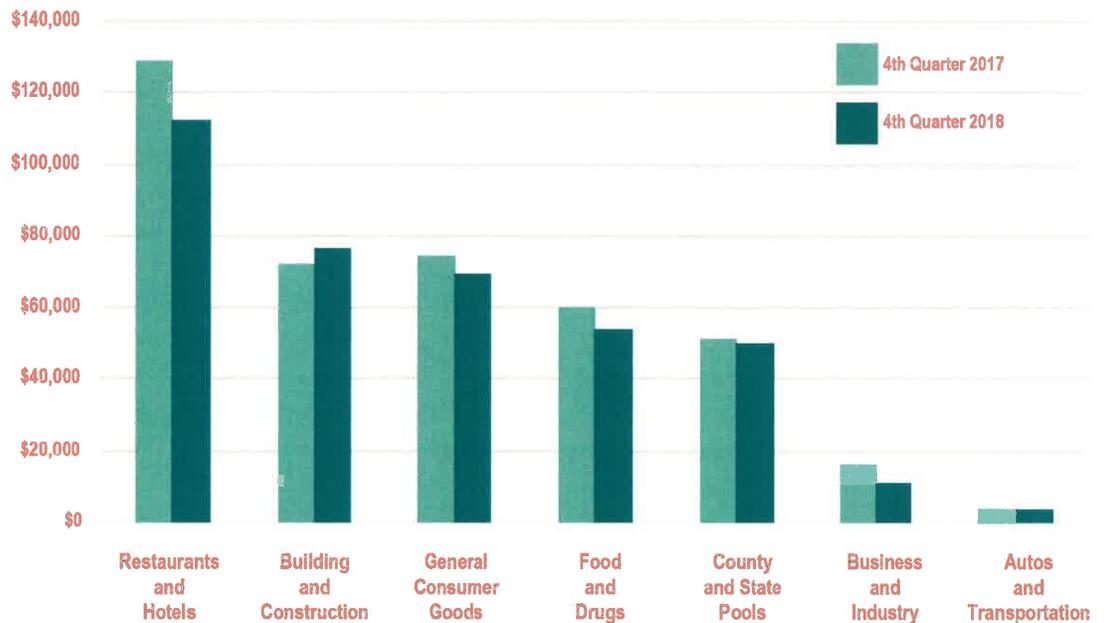
Pacific Grove's allocation of sales and use tax from it's from October through December sales was 6.2% lower than the same quarter of 2017. However, the data was skewed by late payments and reporting issues related to the state's computer problems. Actual receipts would have been at the same level as last year after these are factored back in.

The gains from higher fuel prices and some business related sales were offset by a soft holiday quarter for restaurants and some general consumer goods categories. The rise in the food-drugs group was due to reporting errors that will be reversed in future quarters.

Voter-approved Measure U added \$561,959 to the amounts discussed above and was 6.7% higher than the same quarter one year ago after factoring for state reporting issues. The gains from this source came primarily from higher fuel prices and business purchases.

Net of aberrations, sales and use tax receipts for all of Monterey County rose 2.1% over the comparable time period while the five county central coast region as a whole, was down 0.7%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Ace Hardware	Pacific Grove Hardware
Beach House at Lovers Point	Pacific Grove Shell
Fandango	Passionfish
First Awakenings	Pebble Beach Market
Fishwife	Pendleton Woolen Mills
Hardware Concepts	Peppers Mexicali Cafe
Hayward Lumber	Pet Supplies Plus
Il Vecchio	Red House Cafe
Lucky	Rite Aid
Marita's Boutique	Safeway
Michael's Grill & Taqueria	Tri California Events
Mum's Place	Visions Design Center
One Stop Chevron Gas & Food Mart	

REVENUE COMPARISON

Two Quarters -- Fiscal Year To Date (Q3 to Q4)

	2017-18	2018-19
Point-of-Sale	\$774,031	\$807,969
County Pool	101,221	110,100
State Pool	416	404
Gross Receipts	\$875,668	\$918,473
Measure U	\$1,025,054	\$1,237,155

Statewide Results

The local one cent share of sales and use tax from October through December sales was 2.8% higher than 2017's holiday quarter after factoring for state reporting aberrations.

The overall increase came primarily from solid sales of contractor materials and equipment, expanded production by an auto manufacturer and rising fuel prices. Online fulfillment centers, new technology investment and cannabis start-ups also produced significant gains. Receipts in the six-county Sacramento region grew 7.9% over last year while the remainder of the state was generally flat or exhibited only minor growth.

Notable was the 0.09% rise in tax receipts from brick and mortar retailers which was the lowest holiday gain for that sector since 2009. A 9.6% increase in receipts from online retailers, driven by rapidly changing consumer buying habits, was part of the reason for weak results from brick-and-mortar stores. Other factors include lower prices, gift cards which move purchases to future quarters and greater gifting of non-taxable experiences and services.

The Retail Evolution Continues

A recent survey identified U.S. closures of 102 million sq. ft. of retail space in 2017 and an additional 155 million sq. ft. in 2018. Similar losses are expected in 2019 with 5,300 closures already announced. Payless Shoes, Gymboree, Performance Bicycle and Charlotte Russe are going out of business while chains including Sears, Kmart, Macy's, JCPenney, Kohl's, Nordstrom, Dollar Tree, Victoria's Secret, Chico's, Foot Locker and Lowe's have announced plans for further cuts in oversaturated markets and downsizing of stores.

Retailers are not planning the end of physical stores which continue to be important for personalized experiences and shopping entertainment. However, the shifting trends encourage reduced square footage with less overhead to better compete on prices and provide

more intimate shopping experiences.

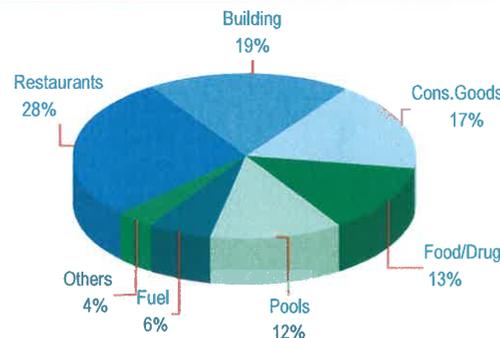
With smartphones allowing purchase and delivery of almost anything at any time of the day without leaving home, big box retailers are responding by downsizing stores and subleasing excess space to compatible businesses to help draw traffic. Locations where people congregate for entertainment, food and services have become part of the evolving strategy as has integrating retail with more convenient spots for pick-up and delivery of online orders.

Barry Foster of HdL's EconSolutions, notes that "shifting shopping habits present challenges but also opportunities." "Smaller footprints enable expanding into smaller niche markets while mixed use projects and 18-hour environments are chances to rebuild downtowns and reinvigorate shopping centers." With more companies using the internet to sell directly to customers from their warehouses, the trend also provides jurisdictions whose populations aren't adequate in size to support large scale retail to focus on industrial development for sales tax as well as jobs.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Pacific Grove This Quarter



PACIFIC GROVE TOP 15 BUSINESS TYPES

Business Type	Pacific Grove		County	HdL State
	Q4 '18	Change	Change	Change
Art/Gift/Novelty Stores	6,398	-7.8%	1.2%	-4.9%
Building Materials	52,412	-0.1%	5.1%	5.5%
Casual Dining	71,399	18.4%	-3.1%	2.4%
Contractors	13,739	23.7%	38.5%	17.5%
Drug Stores	— CONFIDENTIAL —	—	15.9%	21.9%
Family Apparel	— CONFIDENTIAL —	—	-0.7%	0.4%
Fast-Casual Restaurants	5,195	16.7%	19.8%	4.3%
Fine Dining	15,558	-13.3%	-4.3%	6.5%
Government/Social Org.	5,946	27.7%	6.3%	23.6%
Grocery Stores	37,800	-16.0%	-7.5%	-11.7%
Home Furnishings	13,906	-1.7%	-4.4%	0.7%
Plumbing/Electrical Supplies	— CONFIDENTIAL —	—	-6.9%	8.8%
Quick-Service Restaurants	14,438	20.7%	9.2%	6.5%
Service Stations	22,631	10.5%	16.4%	28.4%
Specialty Stores	10,178	-13.3%	-17.6%	-10.6%
Total All Accounts	350,632	-6.7%	9.1%	7.0%
County & State Pool Allocation	49,925	-2.6%	13.8%	8.6%
Gross Receipts	400,556	-6.2%	9.6%	7.2%