

Q1 2017



Pacific Grove Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2017)

Pacific Grove In Brief

Pacific Grove's January through March receipts were 14.2% above the first sales period in 2016. Excluding reporting aberrations, actual sales were up 15.4%.

A large payment anomaly in the prior year comparable quarter accounts for most of the growth in restaurants and hotels. Residential demand for lumber and supplies yielded an increase from building materials.

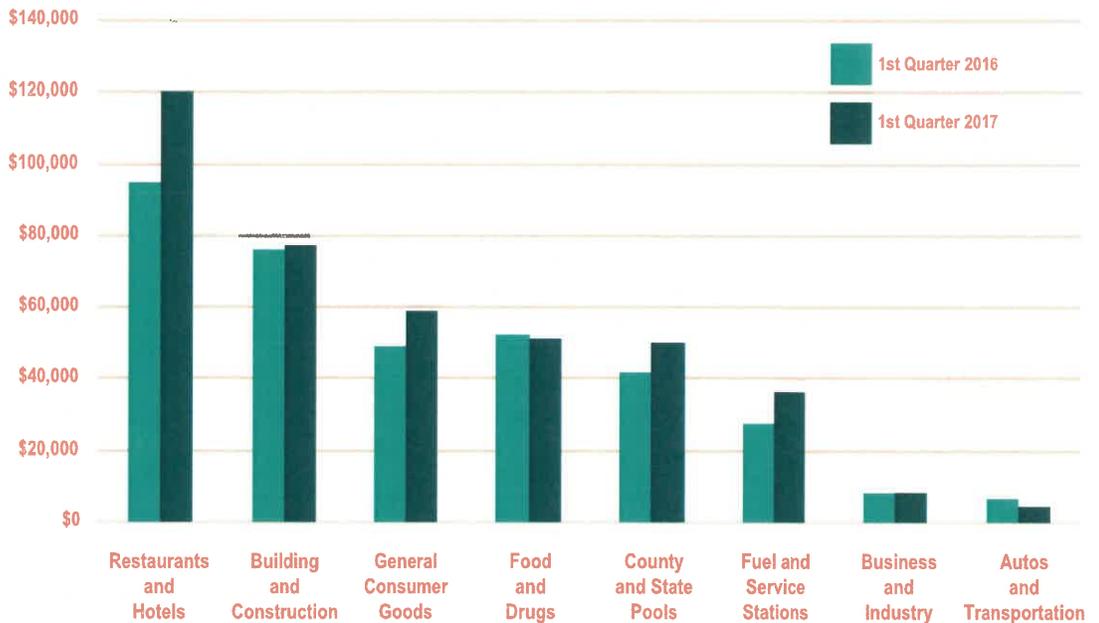
Modest growth tied to consumer preferences for value priced goods helped boost receipts from family apparel and specialty stores. Service station revenues rose through a combination of higher fuel prices and a vendor double payment in the current quarter.

Home furnishing gains were skewed by a late tax payment due in the prior year. Preferences for eating out slowed, causing a mild drop in casual dining; closure of a fast food establishment last year contributed to the decline from quick-service restaurants.

The voter approved Measure U tax added \$450,683, or 11% more than 2016 reporting; restaurants-hotels and general consumer goods were the key tax group contributors.

Net of aberrations, taxable sales for all of Monterey County grew 2.4% over the comparable time period; the Central Coast region was up 0.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Ace Hardware	Nob Hill Foods
Asilomar Conference Center	One Stop Chevron Gas & Food Mart
Beach House at Lovers Point	Pacific Grove Shell
El Shrestha Empire 76	Passionfish
Fandango	Pendleton Woolen Mills
First Awakenings	Peppers Mexicali Cafe
Fishwife	Red House Cafe
Hayward Lumber	Rite Aid
Home Lighter	Safeway
Il Vecchio	Shell
Lucky	Trader Joes
Marita's Boutique	Visions Design Center
Mum's Place	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$1,406,142	\$1,502,376
County Pool	168,600	205,303
State Pool	987	1,160
Gross Receipts	\$1,575,728	\$1,708,839
Less Triple Flip*	\$(304,928)	\$0
Measure U	\$1,847,367	\$1,995,574

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Statewide Results

Local tax receipts from January through March sales were 2.1% higher than the first quarter of 2016 after factoring for accounting anomalies.

Rising fuel prices, auto sales, county use tax pool allocations and dining out added most to the overall gain. Some general consumer goods and B2B sales were flat or down.

This quarter reflects the start of an anticipated leveling off of future tax revenues. After seven years of recovery, analysts are reporting an end to the previous pent-up demand for autos. Demand for new cars will ease due to more buyers tied to long-term loans and a glut of used cars coming off lease.

Price competition and store closures have reduced tax receipts from consumer goods. Business investment remains strong but much of the growth is for non-taxable items such as cloud computing and large data solutions. Declines in foreign tourist visits and lower costs of eating at home are expected to slow the growth in restaurant sales.

New Sales Tax Organization

As of July 1, the operating divisions responsible for allocation of tax revenues other than property, insurance and alcoholic beverages will shift from the State Board of Equalization (BOE) to the Governor's new Department of Tax and Fee Administration.

The BOE was first established by constitutional amendment in 1879 to oversee property tax assessment practices by all counties in the state. It eventually became responsible for other tax revenues including sales, insurance, corporate franchise and special fees.

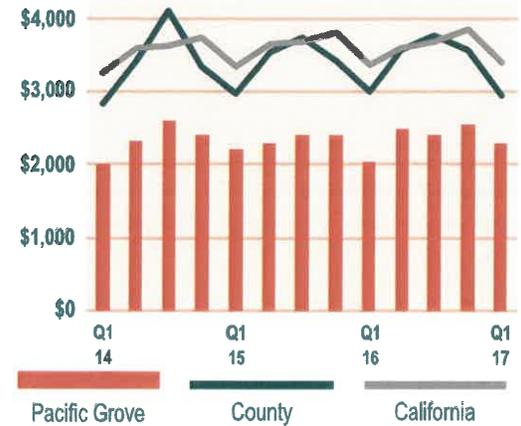
In 2011, HdL detected discrepancies in the BOE's allocation of public safety revenues which led to the recovery of over \$124 million in revenues for counties. Subsequent audits by the State

Controller and State Department of Finance revealed further shortcomings. The result was the passage of budget trailer bill SB86/AB102 that reduces the BOE to its previous constitutionally defined functions.

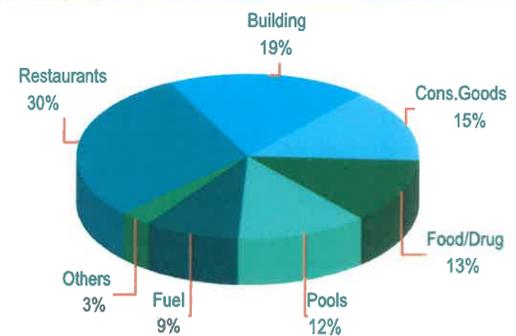
The BOE is also empowered to hear appeals and disputes over tax assessments including sales/use, personal income and corporate taxes and is the only elected Tax Board in the United States that hears tax disputes. Effective January 1, 2018, that function will be turned over to a new Office of Tax Appeals (OTA) composed of panels of administrative law judges appointed by the Governor with locations in Sacramento, Fresno and Los Angeles.

For functions other than the appeal process, this is primarily a reshuffling of existing personnel so the change will have little impact on local agencies. However, the issue of local government's ability to provide input regarding future policy and regulation changes that impact revenues remains under discussion. HdL will share more about the BOE transition as details become available in the weeks ahead.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Pacific Grove This Quarter



PACIFIC GROVE TOP 15 BUSINESS TYPES

Business Type	Pacific Grove		County	HdL State
	Q1 '17	Change	Change	Change
Building Materials	51,460	11.0%	13.4%	3.1%
Casual Dining	58,483	-2.5%	-4.4%	0.5%
Contractors	— CONFIDENTIAL —	—	-1.2%	-4.0%
Drug Stores	— CONFIDENTIAL —	—	-3.7%	-2.5%
Family Apparel	8,540	15.6%	3.5%	0.8%
Fine Dining	— CONFIDENTIAL —	—	-3.4%	12.8%
Grocery Stores	37,051	-3.4%	-0.3%	0.5%
Home Furnishings	11,110	124.7%	-2.8%	-1.9%
Hotels-Liquor	— CONFIDENTIAL —	—	2.5%	6.3%
Quick-Service Restaurants	11,492	-8.8%	4.3%	4.6%
Second-Hand Stores	4,893	-3.5%	-24.9%	0.6%
Service Stations	36,119	30.2%	3.2%	9.9%
Shoe Stores	— CONFIDENTIAL —	—	13.8%	-2.8%
Specialty Stores	9,082	9.6%	3.6%	0.1%
Women's Apparel	4,726	1.7%	-9.6%	-7.2%
Total All Accounts	356,589	13.4%	1.2%	1.8%
County & State Pool Allocation	49,974	20.0%	7.1%	2.9%
Gross Receipts	406,563	14.2%	1.9%	1.9%