

Q2 2017



Pacific Grove Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2017)

Pacific Grove In Brief

Pacific Grove's receipts from April through June were 0.8% below the second sales period in 2016. However, a large audit adjustment and onetime retroactive payments spiked allocations from the county-wide use tax pool and restaurants in the prior year. Excluding reporting aberrations, actual sales were up 4.3%.

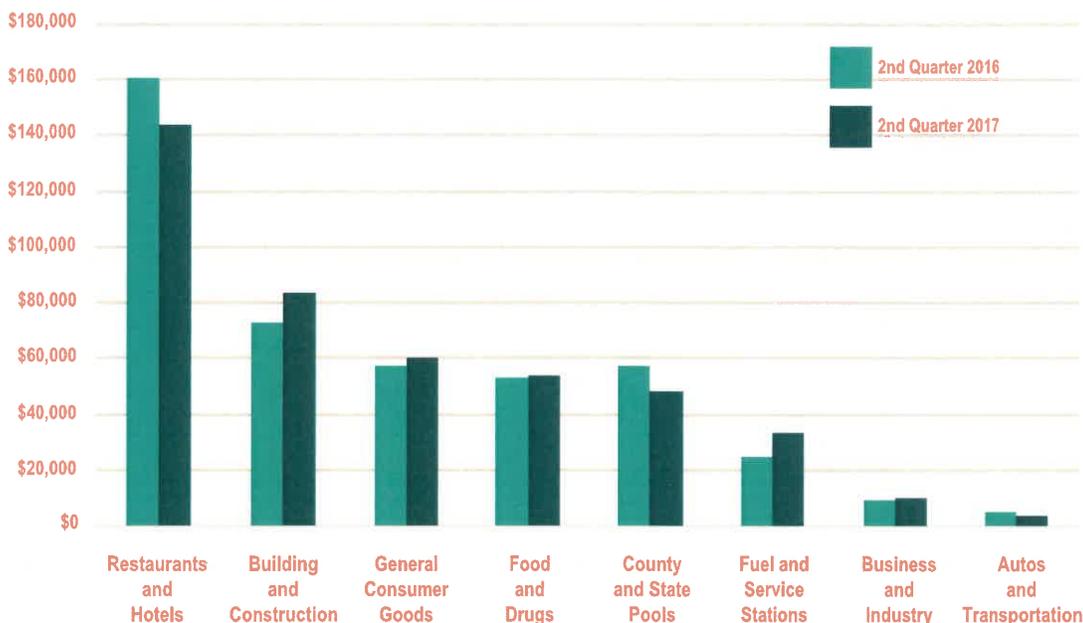
Strong summer results by material suppliers boosted building-construction returns, while improved sales of art/gift/novelty items and home furnishings lifted general consumer goods.

The return of higher gas prices mostly attributed to a rise in the cost of crude oil and consistent with the statewide trend, pushed revenue from service stations higher, further contributing to the positive outcome.

The City's voter approved one-cent transaction tax, Measure U, generated an additional \$501,580, a decrease of -2.4% compared to the prior year. Similarly, retroactive payments which spiked receipts last year caused the drop in the current period.

Net of aberrations, taxable sales for all of Monterey County grew 0.9% over the comparable time period; the Central Coast region was up 4.9%.

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 |
| Il Vecchio | Safeway |
| La Creme Monterey | Shell |
| Lucky | Trader Joes |
| Marita's Boutique | Visions Design Center |
| Mum's Place | |

REVENUE COMPARISON

One Quarter - Fiscal Year To Date

| | 2016-17 | 2017-18 |
|-----------------------|------------------|------------------|
| Point-of-Sale | \$382,970 | \$388,901 |
| County Pool | 57,209 | 48,059 |
| State Pool | 134 | (201) |
| Gross Receipts | \$440,313 | \$436,759 |
| Less Triple Flip* | \$0 | \$0 |
| Measure U | \$513,924 | \$501,580 |

California Overall

Local government's one-cent share of statewide sales and use tax from transactions occurring April through June was 3.2% higher than the same quarter of 2016 after payment aberrations are factored out.

The largest percentage increases were from the countywide allocation pools, building supplies and rising fuel prices. Auto sales and restaurants continued to post solid gains. Except for value priced apparel and dollar stores, most categories of general consumer goods were down or flat with the growth in online shopping shifting tax receipts to in-state distribution centers or to the countywide allocation pools.

Receipts from business and industrial transactions were lower than last year's comparable quarter because of declines in new alternative energy projects. Agricultural and new technology related purchases exhibited healthy gains as did sales of warehouse and construction equipment. Most other categories were down from 2016.

Where does the Money Go?

E-commerce, technology and changing consumer preferences have retailers undergoing a dizzying transformation as they compete for customers through online websites, mobile apps, home delivery, social media, pop-up/flex stores and pick-up lockers as well as traditional brick and mortar businesses.

The changes in how goods are inventoried, sold and delivered has created some confusion in allocating local sales and use tax. However, it still involves three basic principles:

- Location where the sale is negotiated
- Location of goods at time of sale
- Ownership of goods being sold

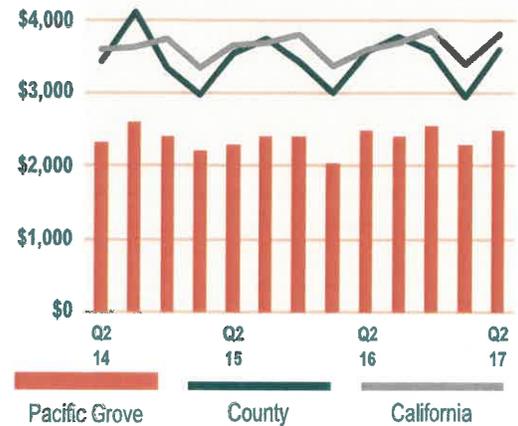
Place of sale continues to be California's primary rule for allocating local sales tax. If the inventory is owned by the seller and is located in-state, the tax goes to the location that participates in the sale, either by receiving the order or

shipping the goods. If the order is taken outside the state but the seller owns the inventory and delivers the goods from inside California, the tax is allocated to the jurisdiction where the warehouse is located. Otherwise, the tax is shared by all agencies in the county where the goods are shipped on a pro-rata basis through the county allocation pools.

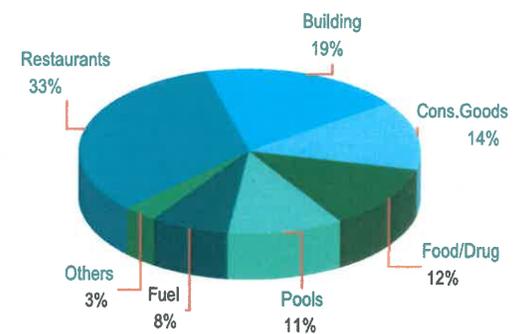
Ownership of the goods being sold is also a factor. In order for an agency to receive a direct allocation of local tax for goods shipped from a California fulfillment center, the location must be the retailer's place of business and not owned or operated by a separate legal entity. If the retailer has no place of business in California, the only opportunity for local tax is an indirect allocation through the countywide pools

For jurisdictions with transactions tax overrides, that tax goes to the place of purchase rather than the place of the seller. For example, the sales tax on the purchase of an automobile goes to the seller's location. However, the transactions tax, if any, goes to the jurisdiction where the buyer's vehicle is registered.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Pacific Grove This Quarter



PACIFIC GROVE TOP 15 BUSINESS TYPES

| Business Type | Pacific Grove | | County | HdL State |
|---|------------------|---------------|---------------|--------------|
| | Q2 '17 | Change | Change | Change |
| Art/Gift/Novelty Stores | 6,557 | 92.9% | 12.2% | -2.0% |
| Building Materials | 59,154 | 23.6% | 14.7% | 6.0% |
| Casual Dining | 66,254 | -3.9% | 0.1% | 2.1% |
| Contractors | — CONFIDENTIAL — | — | 1.2% | 9.7% |
| Drug Stores | — CONFIDENTIAL — | — | -1.6% | 0.8% |
| Family Apparel | 6,131 | -11.6% | 7.2% | 4.0% |
| Fine Dining | — CONFIDENTIAL — | — | 6.6% | 12.8% |
| Grocery Stores | 38,060 | 0.6% | 2.8% | 2.1% |
| Home Furnishings | 12,532 | 18.2% | -15.1% | 0.4% |
| Leisure/Entertainment | 6,114 | -25.1% | 6.9% | 6.6% |
| Paint/Glass/Wallpaper | — CONFIDENTIAL — | — | 16.9% | 4.4% |
| Quick-Service Restaurants | 53,625 | -20.7% | 2.9% | 5.8% |
| Service Stations | 33,080 | 35.1% | 5.7% | 8.6% |
| Specialty Stores | 8,783 | 1.9% | -2.0% | 1.0% |
| Women's Apparel | 5,637 | -2.7% | -1.1% | -4.0% |
| Total All Accounts | 388,901 | 1.5% | 4.1% | 6.4% |
| County & State Pool Allocation | 47,857 | -16.5% | -14.5% | -9.9% |
| Gross Receipts | 436,759 | -0.8% | 1.7% | 4.1% |