

Q4 2016



Pacific Grove Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (October - December 2016)

Pacific Grove In Brief

Pacific Grove's receipts from October through December were 5.9% above the fourth sales period in 2015. Excluding reporting anomalies, actual sales were down 0.4%.

The recovery of delinquent taxes this quarter figured prominently in the comparison with the prior year. Significant tax recoveries were reported for the food-drug group and also for the home furnishing segment of the general consumer goods group.

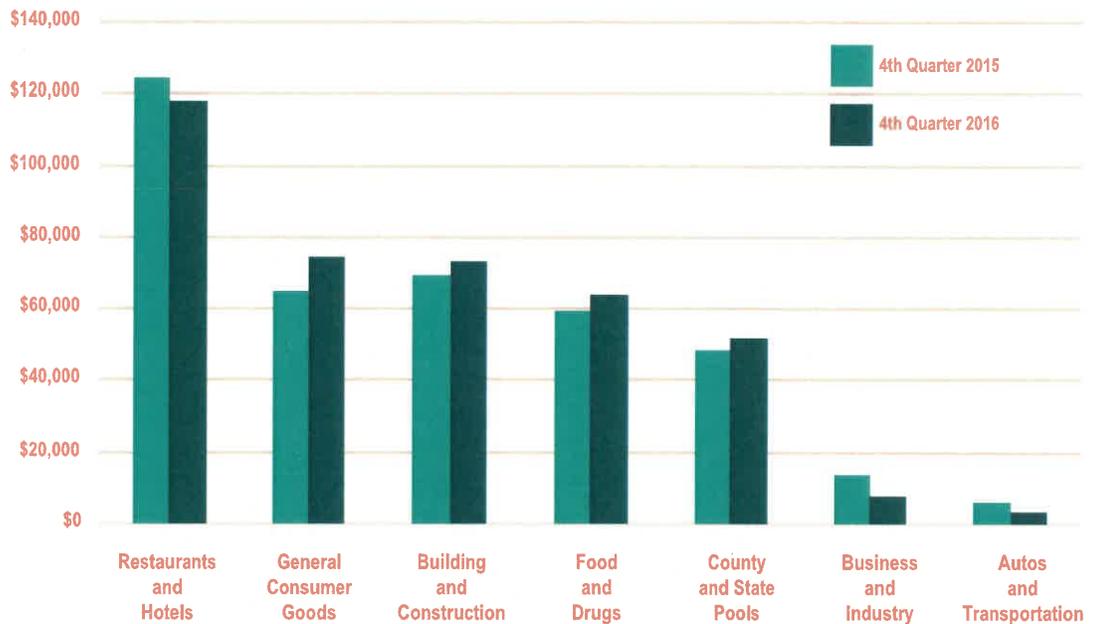
A new building materials outlet helped lift building-construction receipts while growth in the size of the countywide use tax pool boosted the size of the City's allocation by over \$3,500.

Partially offsetting these gains were a decline in restaurant transactions and changes in taxpayer reporting methods that negatively skewed results for the business-industry, and auto-transportation groups.

Measure U, the City's 1% local tax, generated \$524,482 or 8% more than in the same period a year ago. Many of the reporting issues discussed above also affected Measure U's results.

Net of reporting anomalies, taxable sales for all of Monterey County grew 1.6% over the comparable time period; the Central Coast region was up 1.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Ace Hardware	Pacific Grove Shell
Asilomar Conference Center	Passionfish
Beach House at Lovers Point	Pendleton Woolen Mills
Fandango	Pier 1 Imports
First Awakenings	Red House Cafe
Hayward Lumber	Rite Aid
Home Lighter	Safeway
Il Vecchio	Save Mart Supermarkets
La Creme Monterey	Shell
Marita's Boutique	Shrestha Empire
Mum's Place	Trader Joes
Nob Hill Foods	Visions Design Center
One Stop Gas & Food Mart	

REVENUE COMPARISON

Three Quarters - Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$1,091,762	\$1,145,787
County Pool	126,761	155,831
State Pool	1,189	658
Gross Receipts	\$1,219,712	\$1,302,276
Less Triple Flip*	\$(304,928)	\$0
Measure U	\$1,441,962	\$1,544,891

Statewide Results

Statewide sales tax receipts for the fourth quarter rose 1.5% over 2015, when excluding reporting aberrations.

The largest gain was in the county-wide use tax allocation pools due to the acceleration in online shopping where many of the orders are placed to, or shipped from, out-of-state fulfillment centers. Restaurant and auto sales closed the calendar year with strong results while receipts from general consumer goods were flat. Off-price apparel and dollar store gains offset declines in traditional department stores and warehouse retailers.

Business and industry receipts were down due to cutbacks in major energy projects; however, huge gains in warehouse fulfillment centers that fill in-state shipments from online orders somewhat negated the decline.

On an annual basis, the statewide gain ended 2.1% higher than calendar year 2015.

The Shrinking, Disappearing Retail Store

Agencies dependent on traditional brick-and-mortar retail stores for a major portion of their sales tax will be facing new challenges in the coming year as merchants retrench and downsize to cope with a rapidly changing environment.

Generational preferences for experiences over merchandise, plus the growing costs of health care, education and housing, are reducing discretionary spending for taxable goods while time-challenged consumers are opting for the convenience of online shopping.

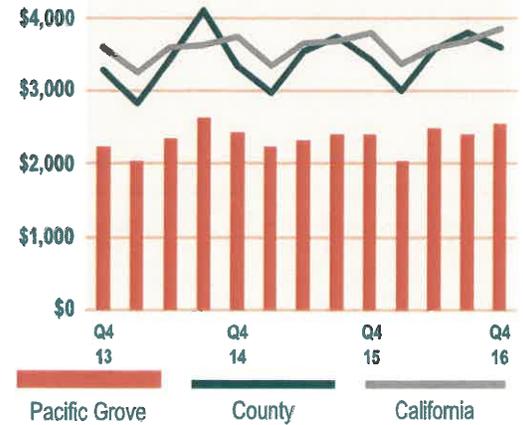
Online sales accounted for 13.0% of all general consumer goods purchased in 2016 with a 9.2% gain over calendar year 2015, while the growth in tax receipts from brick-and-mortar stores only grew 0.6%. The trend has been accelerated by the growing popularity of smart phones which Amazon estimates were used by nearly 70% of its shoppers during the most recent holiday quarter.

Retailers are responding by increasing their investment in mobile shopping platforms and delivery systems while pulling back investment on brick-and-mortar stores. Substantial closures are planned for 2017 while experiments with smaller stores, pick-up locations for online purchases, temporary “pop-up” shops and subleasing in-store space to others are on the rise.

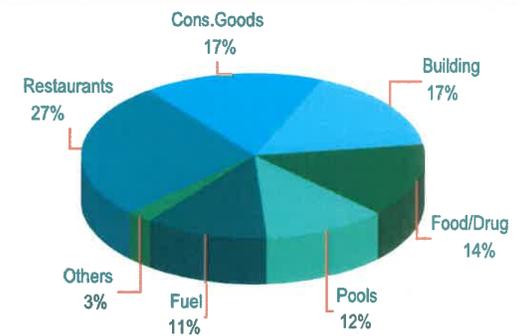
Mall operators are turning to grocers, fitness centers, medical services and residential components to fill vacant space and attract traffic. Smaller centers and downtown areas are responding by enhancing the shopping experience with more dining and entertainment options while local governments seek voter approval for higher levies to offset shrinking tax bases.

Stores are not in danger of disappearing. The ability to see, touch and feel, along with the overall shopping experience, will always be important. But evolving trends are requiring more focused economic strategies with better data and closer collaborations. The ultimate solution may be tax rates levied against today’s economy rather than the one that existed when sales tax was first imposed in 1933.

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 '16	Change	Change	Change
Building Materials	54,876	9.5%	6.3%	0.7%
Casual Dining	56,246	-4.0%	-1.8%	2.9%
Contractors	8,771	-19.6%	-9.8%	-0.1%
Drug Stores	— CONFIDENTIAL —		11.1%	10.2%
Family Apparel	13,858	22.9%	6.5%	4.7%
Fine Dining	— CONFIDENTIAL —		-4.9%	11.6%
Grocery Stores	44,595	0.4%	1.2%	4.1%
Home Furnishings	18,002	36.2%	-3.7%	0.2%
Hotels-Liquor	— CONFIDENTIAL —		-3.9%	5.8%
Leisure/Entertainment	— CONFIDENTIAL —		-8.5%	9.4%
Quick-Service Restaurants	10,895	-20.3%	3.3%	5.7%
Second-Hand Stores	6,045	5.4%	-7.1%	1.3%
Service Stations	— CONFIDENTIAL —		3.7%	-1.0%
Specialty Stores	10,030	14.3%	11.5%	3.6%
Women's Apparel	5,359	-5.0%	5.4%	-0.5%
Total All Accounts	390,762	5.8%	5.7%	2.4%
County & State Pool Allocation	51,766	6.4%	6.2%	6.9%
Gross Receipts	442,527	5.9%	5.7%	3.0%