

Q3 2016



Arroyo Grande Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2016)

Arroyo Grande In Brief

Arroyo Grande's receipts from July through September were 0.6% below the third sales period in 2015.

The largest factor in the overall decline was a 20% drop in revenue from local service stations, which fell proportionately with the state-wide price of gasoline during the quarter.

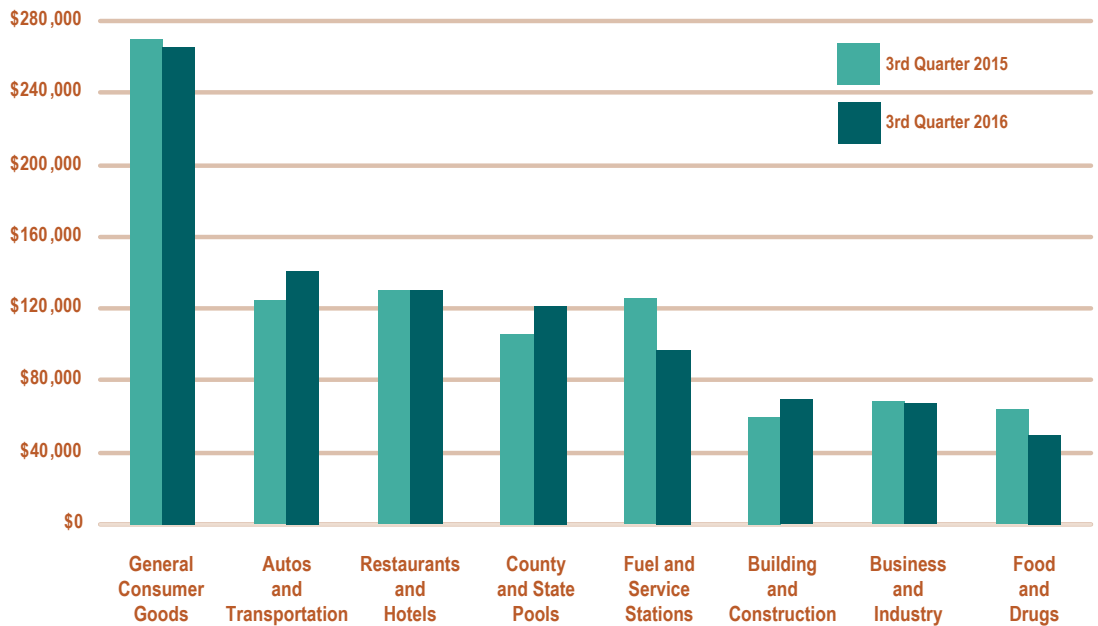
Food-drug receipts were negatively impacted by the prior closure of one local outlet and a partial payment made by another.

Mitigating a significant portion of these losses was a surge in sales in the auto-transportation sector. Allocations from the countywide use-tax pool also increased 14% as consumers embrace the convenience of online shopping. The revenue from these transactions is distributed via the county pool.

Measure O-06, the City's voter approved half-cent transaction tax, generated \$552,000 in addition to the amounts discussed above.

Net of aberrations, taxable sales for all of San Luis Obispo County declined 3.6% over the comparable time period; the Central Coast region was up 2.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Ace Hardware	Kmart
Arco AM PM	Marshalls
Arroyo Grande Chevrolet	McDonalds
Arroyo Grande Shell	Mullahey Ford
Arroyo Grande Valero	OfficeMax
Burke & Pace Lumber Sales	R&R Furniture
Chevron	Rooster Creek
Donnas Interiors	Rugged Race Products
Ember Restaurant	Smart & Final
Figueroa Mountain Brewing	Streator Pipe & Supply
Gills Food Market	Trader Joes
In N Out Burgers	Verizon Wireless
	Walmart

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$1,628,133	\$1,617,388
County Pool	204,978	237,932
State Pool	817	564
Gross Receipts	\$1,833,928	\$1,855,884
Less Triple Flip*	\$(458,482)	\$0
Measure O - 06	\$1,111,700	\$1,090,629

Statewide Results

Statewide local sales and use taxes from transactions occurring July through September were up 1.9% over the same third sales quarter of 2015 after factoring for accounting anomalies.

The countywide use tax allocation pools contributed the largest portion of the increase reflecting the acceleration in online shopping where most orders are shipped from out-of-state. Automotive group receipts rose 5.4% over the year-ago period although more than half of the increase was from a specific electric car manufacturer. Higher returns from restaurants and sales of building/construction materials also contributed to the statewide gain.

The gains were significantly offset by a 14.6% drop in receipts from fuel and service stations and a generally flat quarter for other economic segments. General consumer goods grew less than 1%. Value priced clothing, pet shops, cosmetics and dollar stores were among the few bright spots.

Business and industrial tax revenue was down 1.9%. Relatively healthy sales of agricultural and medical/biotech supplies could not overcome the decline in new alternative energy projects and a flat quarter for most other categories.

The Year Ahead

The consensus from dozens of industry analysts, economic think tanks and trade associations is for a leveling off in the rate of sales tax growth that the state has enjoyed for the last six years.

Manufacturer incentives are expected to produce lower gains from new vehicle purchases through the end of 2016 and it is believed that dealers are now borrowing from 2017 sales. Vehicle sales are expected to drop in 2017-18 but the trend toward higher priced vehicles loaded with options could maintain tax revenues close to current levels.

Consumer preferences toward spending more on services rather than goods, digital downloading of previously taxable products and rising health care and housing costs will be a drag on sales of consumer

goods.

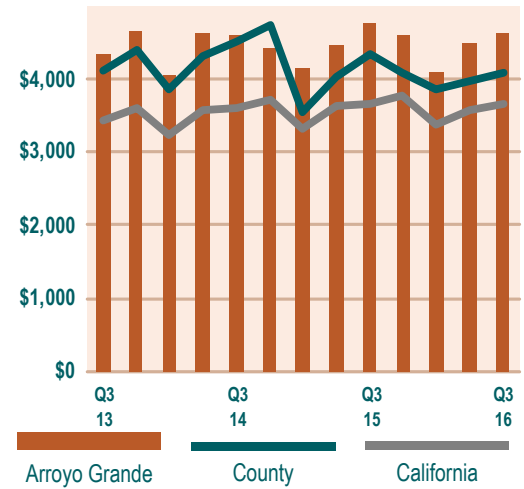
Receipts from fuel and service stations may be one of the largest gainers in 2017-18. New Middle East agreements on production caps are raising crude oil prices while California's limited refinery capacity and the trend toward less fuel-efficient SUV's and trucks have analysts believing that prices have finally leveled out and will rise through the year.

Continuing gains from restaurants are also expected although at lower than previous rates because of reduced grocery prices and the cost of eating at home. The growing strength of the dollar and recent criticisms of trade agreements and immigrants could reduce international tourism.

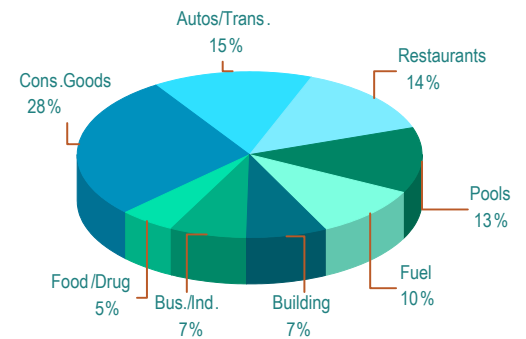
It usually takes up to two years for new stimulus programs to be reflected in sales tax receipts. As many of the coming administration's proposals related to trade, immigration, health services and the environment present potential issues for a significant number of California industries, delays in major construction projects and business/industrial investments are expected until these are sorted out.

HdL's current forecast is for a statewide increase of 2.5% in 2016-17 and 3.4% in 2017-18 compared to a year earlier.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Arroyo Grande This Quarter



ARROYO GRANDE TOP 15 BUSINESS TYPES

Business Type	Arroyo Grande		County	HdL State
	Q3 '16	Change	Change	Change
Casual Dining	58,905	-7.1%	3.7%	4.5%
Discount Dept Stores	— CONFIDENTIAL —	—	-0.9%	-0.4%
Drug Stores	— CONFIDENTIAL —	—	-19.1%	-8.7%
Electronics/Appliance Stores	16,899	-6.9%	-1.4%	-1.5%
Family Apparel	— CONFIDENTIAL —	—	5.9%	5.8%
Fast-Casual Restaurants	14,282	21.4%	-3.7%	4.9%
Garden/Agricultural Supplies	29,172	4.9%	-4.2%	10.8%
Grocery Stores	— CONFIDENTIAL —	—	0.0%	-2.2%
Hardware Stores	— CONFIDENTIAL —	—	3.4%	1.2%
Home Furnishings	33,471	-12.8%	-0.6%	-0.2%
Lumber/Building Materials	— CONFIDENTIAL —	—	4.8%	6.9%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	13.1%	4.8%
Quick-Service Restaurants	45,377	1.6%	11.4%	8.9%
Service Stations	93,744	-20.2%	-16.1%	-13.8%
Specialty Stores	18,339	3.0%	0.6%	2.0%
Total All Accounts	821,136	-2.5%	-4.9%	0.9%
County & State Pool Allocation	121,101	14.2%	11.3%	11.5%
Gross Receipts	942,238	-0.6%	-3.1%	2.2%