

Q1 2017



Arroyo Grande Sales Tax Update

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

Arroyo Grande In Brief

Arroyo Grande's receipts from January through March sales were 7.2% higher than the same quarter one year ago.

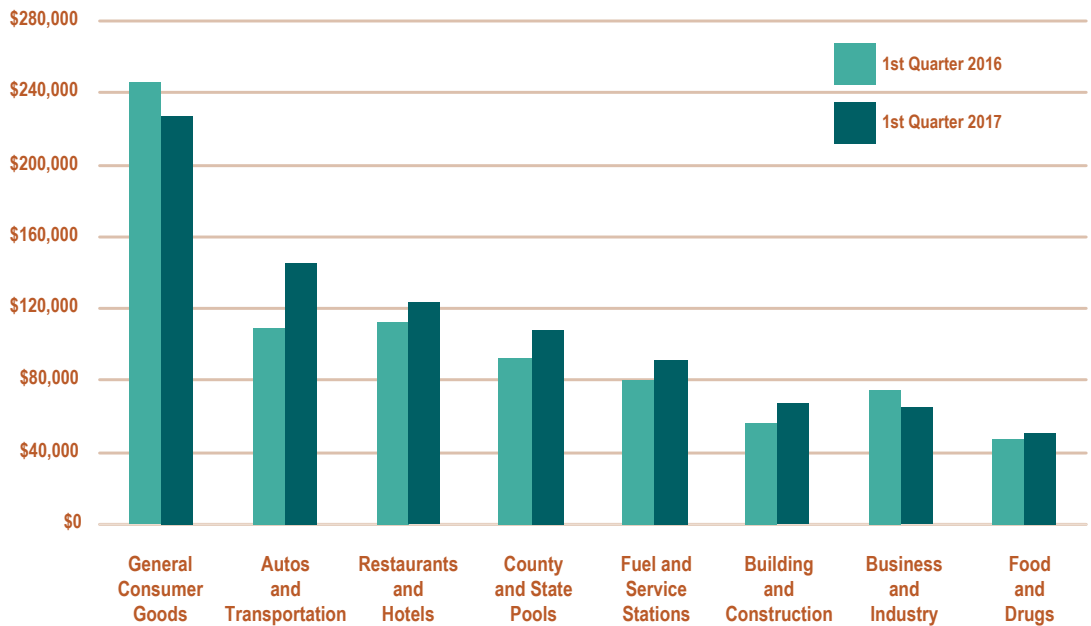
Robust sales boosted automotive group returns while higher fuel prices buoyed service station postings. New or re-opened outlets helped the food and drugs group and fast casual eateries, although a year-ago delayed allocation overstated gains from the latter category. Receipts were up from both building materials and contractor's supplies. The larger allocation from the countywide use tax pool was also a factor for the overall increase.

Several categories of consumer goods reported lower post-holiday sales, including home furnishings where a business closeout contributed to the decline. Accounting aberrations depressed results from casual dining and the business and industry group which actually reported a 6.3% overall increase for the quarter.

Measure O-06, the City's voter-approved local transactions tax, generated \$519,001 for the quarter.

Adjusted for anomalies, sales and use tax receipts for all of San Luis Obispo County declined 5.0% over the same period; the Central Coast region was up 0.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

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

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$3,169,547	\$3,232,029
County Pool	416,346	473,526
State Pool	2,209	2,521
Gross Receipts	\$3,588,102	\$3,708,077
Less Triple Flip*	\$(692,165)	\$0
Measure O - 06	\$2,186,843	\$2,180,822

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.

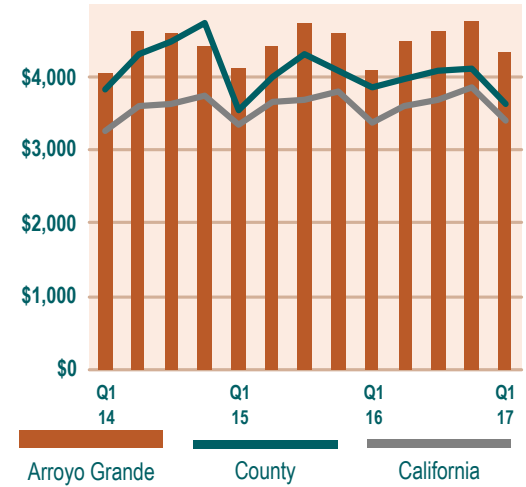
In 2011, HdL detected discrepancies in the BOE's allocation of public safety revenues which led to the recovery of over \$124 million in revenues for counties. Subsequent audits by the State

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.

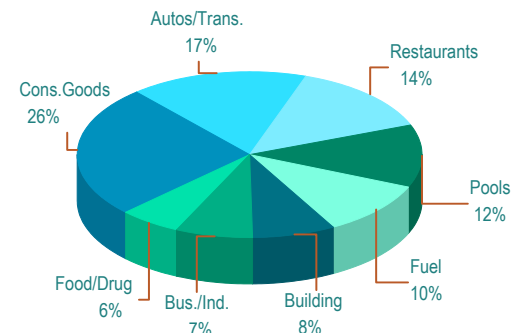
The BOE is also empowered to hear appeals and disputes over tax assessments including sales/use, personal income and corporate taxes and is the only elected Tax Board in the United States that hears tax disputes. Effective January 1, 2018, that function will be turned over to a new Office of Tax Appeals (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
Arroyo Grande This Quarter



ARROYO GRANDE TOP 15 BUSINESS TYPES

Business Type	Arroyo Grande		County	HdL State
	Q1 '17	Change	Change	Change
Building Materials	45,844	9.1%	4.3%	3.1%
Casual Dining	59,469	-5.5%	-2.8%	0.4%
Contractors	17,633	80.4%	3.6%	-4.0%
Discount Dept Stores	— CONFIDENTIAL —	—	-1.6%	1.6%
Drug Stores	— CONFIDENTIAL —	—	-2.8%	-2.5%
Electronics/Appliance Stores	15,826	-9.2%	-4.8%	-0.3%
Family Apparel	— CONFIDENTIAL —	—	-0.3%	0.8%
Fast-Casual Restaurants	17,540	107.3%	18.8%	9.0%
Garden/Agricultural Supplies	23,933	6.2%	11.2%	-0.9%
Grocery Stores	— CONFIDENTIAL —	—	3.0%	0.5%
Home Furnishings	32,824	-18.6%	-2.4%	-1.9%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	16.7%	4.4%
Quick-Service Restaurants	44,016	0.8%	8.7%	4.6%
Service Stations	87,126	14.5%	9.7%	9.9%
Specialty Stores	16,626	2.9%	2.1%	0.4%
Total All Accounts	770,784	6.0%	-5.3%	1.8%
County & State Pool Allocation	107,882	16.7%	4.3%	2.9%
Gross Receipts	878,665	7.2%	-4.2%	1.9%