

Q2 2018



City of Encinitas Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2018)

Encinitas In Brief

Encinitas' receipts from April through June were 18.3% below the second sales period in 2017 though the decline was largely the result of the State's transition to a new software and reporting system that caused a delay in processing thousands of payments statewide. Sizable local allocations remain outstanding, particularly for service stations, casual dining eateries, building and construction suppliers, sporting goods and bike stores and other categories of general consumer goods. Excluding reporting aberrations, actuals sales were down 0.6%.

Auto and transportation receipts were higher but reported growth was inflated by catch-up payments from last quarter. The allocations had been delayed by the same software issue that impacted this quarter's results.

Economic growth was relatively flat overall after adjusting for payment anomalies due primarily to lower real casual dining and sporting good and bike store receipts that restrained the overall rate of progress.

Net of aberrations, taxable sales for all of San Diego County grew 0.9% over the comparable time period; the Southern California region was up 1.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Best Buy	Lazy Acres
BevMo	Pacific Coast Grill
BMW of Encinitas	Petco
Buy Buy Baby	Ralphs
Cab West/Volvo Leasing	Smart & Final
Dick's Sporting Goods	Target
Encinitas Ford	TJ Maxx
Financial Services Vehicle Trust	Trader Joes
Herman Cook Volkswagen	USA Gasoline
Home Depot	Valero
Home Goods	Verizon Wireless
Kohls	Vons
	Walmart Supercenter

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date (Q3 to Q2)

	2016-17	2017-18
Point-of-Sale	\$11,341,310	\$10,948,094
County Pool	1,749,527	1,682,024
State Pool	6,340	6,363
Gross Receipts	\$13,097,176	\$12,636,481

California Overall

Local Government cash receipts from April through June sales dropped 10.1% from the same quarter one year ago due to implementation issues with CDFTA's new tax reporting software system. The results were further skewed by the State's attempt to offset the resulting shortages by advancing tax revenues that it estimates will be generated next quarter.

After reviewing unprocessed returns and approximating the full amounts of partial payments, HdL estimates that once all returns are properly processed and the data adjusted to reflect actual quarter receipts, statewide local sales and use tax revenues will be 1.6% higher than second quarter 2017.

Sales of building and construction materials, jet fuel and online shopping appear to have been the primary drivers of statewide growth during the second quarter. Auto sales leveled off as previously anticipated, although receipts from auto leases continued to show substantial gains. Online fulfillment centers and value themed apparel stores were the primary gainers within the general consumer goods group. Business-industrial purchases were slightly lower than previous quarters with declines in new energy projects being a major factor.

Regionally, the San Francisco Bay area and the Sacramento and San Joaquin Valley areas outperformed the rest of the state.

Tariff Policies and Sales Tax

Tariffs are becoming a key element of the federal government's international trade strategy with additional duties of 10% announced for the end of the third quarter, rising to 25% by the end of 2018.

Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates. Many manufacturers have managed to avoid raising prices by absorbing the costs of the

initial first round of tariffs on metals, machinery and components. On the down side, small retailers without the power to lock in prices may be placed at a competitive disadvantage and contractors are beginning to require escalation clauses in contracts to cover potential cost increases on long range projects.

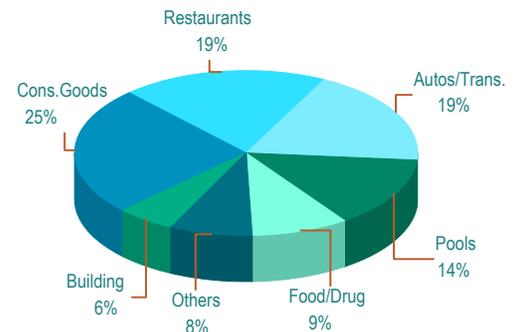
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly in an environment where rising housing, education and health care costs compete for a significant portion of discretionary income.

Proponents of rising tariffs argue that the rising strength of the U.S. dollar will offset the impact of tariff related price increases on consumers. Opponents worry that the stronger dollar and the announced \$5.6 billion in retaliatory tariffs on California exports will negatively impact both the affected companies' job base and capital investment in supplies, equipment and expansion opportunities.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Encinitas This Quarter



ENCINITAS TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Encinitas Q2 '18*	Encinitas Change	County Change	HdL State Change
Auto Lease	— CONFIDENTIAL —	—	67.8%	60.9%
Building Materials	— CONFIDENTIAL —	—	-25.3%	-23.2%
Casual Dining	242.3	-19.1%	-9.6%	-12.6%
Convenience Stores/Liquor	64.7	-5.3%	-4.4%	-9.2%
Discount Dept Stores	— CONFIDENTIAL —	—	-12.0%	-13.5%
Electronics/Appliance Stores	98.1	-11.2%	-3.1%	-5.1%
Family Apparel	65.2	-25.3%	-28.5%	-27.2%
Fast-Casual Restaurants	91.0	13.0%	-6.3%	-3.3%
Grocery Stores	135.3	-12.4%	-2.1%	-7.0%
Home Furnishings	109.6	-9.4%	-20.2%	-21.7%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	-5.9%	-1.9%
Quick-Service Restaurants	143.9	-13.0%	-5.2%	-5.8%
Service Stations	89.1	-71.6%	-31.9%	-26.4%
Specialty Stores	66.5	-3.8%	3.9%	-4.6%
Sporting Goods/Bike Stores	51.9	-62.8%	-22.3%	-20.9%
Total All Accounts	2,315.6	-20.2%	-12.3%	-12.2%
County & State Pool Allocation	379.2	-4.5%	4.9%	5.5%
Gross Receipts	2,694.8	-18.3%	-10.3%	-10.1%