

Q1 2019



City of Encinitas Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2019)

Encinitas In Brief

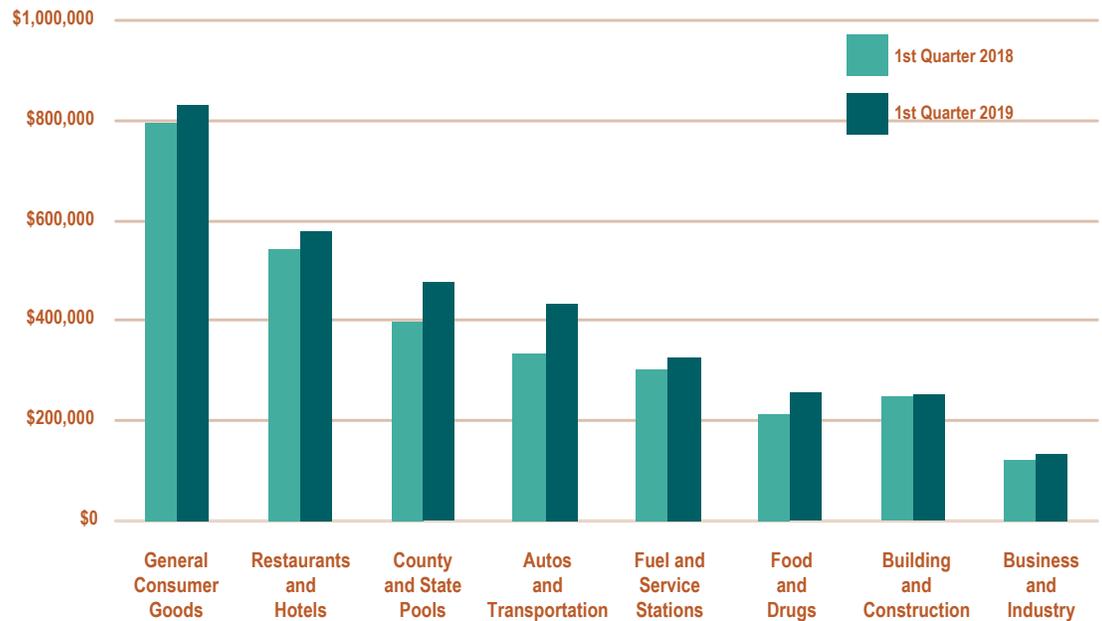
Encinitas's receipts from January through March were 11.2% above the first sales period in 2018 though results were inflated by irregularities in the timing of local revenue allocations following the State's recent transition to a new software system. Auto leasing firms, service stations, grocery stores and allocations from the countywide use tax pool were particularly impacted. Adjusted for proper payment timing, results were down 1.9%.

The largest negative factor was poor results for home furnishing outlets, electronics-appliance stores and several other general consumer good categories, as shopping activity continues to migrate to online retailers.

Service station receipts were also down as prices have recently moderated from recent highs.

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 0.9%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

7 Eleven	Home Goods
76	Pacific Coast Grill
Best Buy	REI
BMW of Encinitas	Scotty Cameron Gallery
Cab West/Volvo Leasing	Shell
Chevron	Shell Car Wash At Encinitas Ranch
Dick's Sporting Goods	Target
Encinitas Ford	TJ Maxx
Financial Services Vehicle Trust	Trader Joes
Hansen Surfboards	Valero
Herman Cook Volkswagen	Verizon Wireless
Home Depot	Vons
	Walmart Supercenter

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date (Q3 to Q1)

	2017-18	2018-19
Point-of-Sale	\$8,632,530	\$9,717,886
County Pool	1,303,718	1,517,878
State Pool	5,481	5,112
Gross Receipts	\$9,941,728	\$11,240,876

Statewide Results

Local sales and use tax receipts from January through March sales were 1.0% higher than the first quarter of 2018 after factoring out accounting anomalies and back payments from previous state reporting shortfalls. This was the lowest percentage increase since first quarter, 2010.

The growth came primarily from a solid quarter for purchases related to expanding logistics, medical and technology facilities and modest gains in building-construction supplies and restaurants. Cannabis sales produced a slight uptick in the food-drug group.

Lower fuel prices and declining general consumer good purchases offset the gains. The shift to internet purchases continued with online shopping accounting for 22.3% of the total general consumer goods segment versus 20.2% one year ago. Tax receipts from new car sales exhibited significant reductions although the drop was partially offset by an upswing in used autos and auto leases.

Regional changes ranged from a decline of 2.1% to gains as high as 4.4%. However, the differences were primarily attributable to onetime projects or capital purchases and not reflective of overall economic trends.

Slower Growth Ahead?

July marks ten years of continuous economic growth which is the longest period of U.S. economic expansion on record. However, analysts from a variety of economic segments are reporting signs that we may be leveling off.

This quarter marked the eighth consecutive comparative period decline in California new car registrations with analysts noting that higher prices and a growing supply of vehicles coming off lease are making used cars more attractive. They also note that on-demand services such as Uber and Lyft are making it easier for debt-burdened millennials to avoid buying cars altogether.

Rising restaurant menu prices, renewed competition from grocer prepared meals, and cutbacks in foreign tourism appear to be reducing restaurant patronage which in recent years was one of the state's fastest growth segments. There will be an uptick in the second quarter's fuel-related tax receipts because of that period's refinery shutdowns; lower crude oil costs are expected to produce subsequent declines.

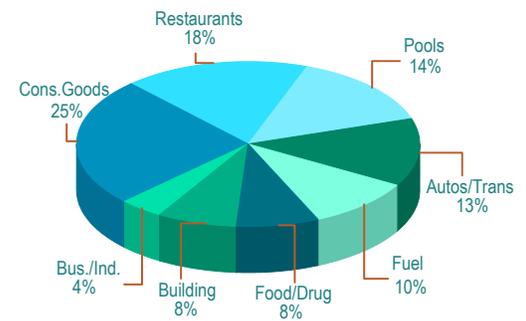
Uncertainty over U.S. tariff and trade policies plus labor shortages are delaying some investment and business expansion decisions while reduced home sales and two quarters of declining construction permit values suggest a potential future leveling in that sector. Investment in technological advances should continue and remain strong.

Economic shifts are not the only factor leveling sales tax revenues. With an economy based on intellectual technology rather than goods and consumer priorities shifting to non-taxable services and experiences, sales tax no longer reflects 21st century spending. Each year therefore, the portion of the economy that is taxed, shrinks.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Encinitas This Quarter



ENCINITAS TOP 15 BUSINESS TYPES

**In thousands of dollars*

Business Type	Encinitas		County	HdL State
	Q1 '19*	Change	Change	Change
Auto Lease	— CONFIDENTIAL —		na	na
Building Materials	— CONFIDENTIAL —		6.0%	4.0%
Casual Dining	279.7	6.5%	12.1%	13.3%
Convenience Stores/Liquor	67.2	17.2%	13.2%	16.2%
Discount Dept Stores	— CONFIDENTIAL —		0.4%	2.9%
Electronics/Appliance Stores	104.2	13.4%	2.1%	-3.2%
Family Apparel	90.8	16.9%	6.5%	7.1%
Fast-Casual Restaurants	104.2	5.9%	6.5%	8.7%
Grocery Stores	148.3	27.5%	34.8%	25.7%
Home Furnishings	108.1	-9.3%	1.0%	3.5%
New Motor Vehicle Dealers	— CONFIDENTIAL —		2.0%	-1.8%
Quick-Service Restaurants	153.8	6.6%	12.2%	10.1%
Service Stations	325.4	8.0%	22.2%	15.8%
Specialty Stores	61.1	18.9%	27.3%	23.4%
Sporting Goods/Bike Stores	126.3	18.1%	-4.6%	2.7%
Total All Accounts	2,814.9	10.0%	14.8%	13.5%
County & State Pool Allocation	475.2	19.0%	24.2%	23.8%
Gross Receipts	3,290.1	11.2%	16.0%	14.9%