

# Q2 2018



# Monterey County Sales Tax *Update*

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

## Monterey County In Brief

The Unincorporated Area's receipts from April through June were 17.5% below the second sales period in 2017, largely from the ongoing sales tax return processing issues caused by the State's new systems. While most of last quarter's missing receipts have been turned over to the County, an additional \$451,600 is estimated to be missing. Combining that amount with actual receipts and excluding reporting adjustments, actual receipts were down .9%.

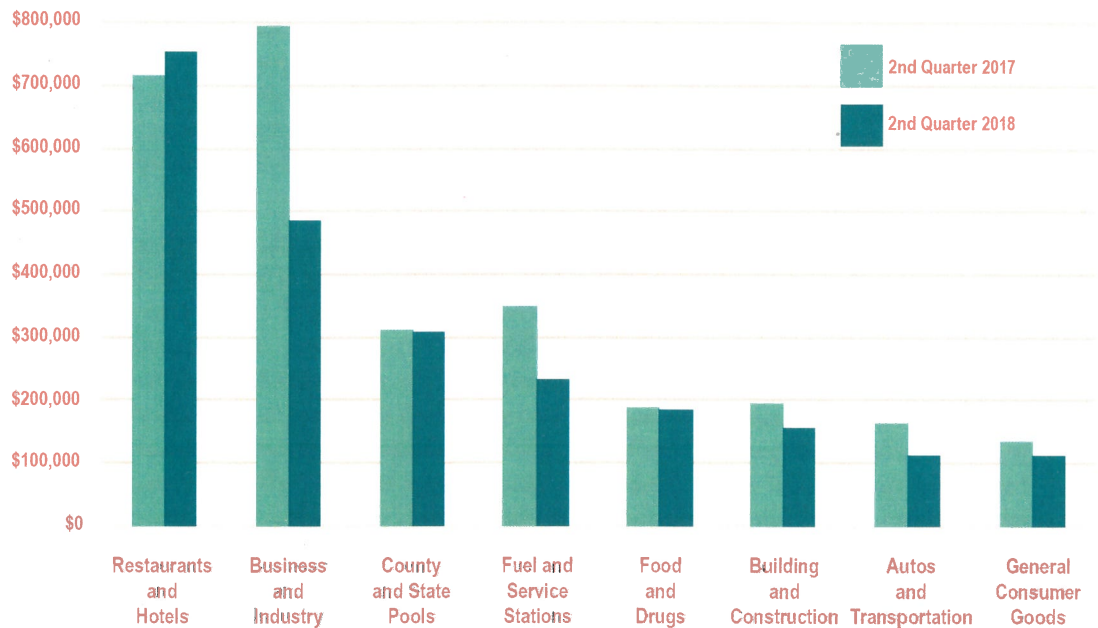
Restaurant and hotel activity show signs of strength ahead of the re-opening of Highway 1 as evidenced by an overall gain posted by the group despite a substantial volume of missing payments.

The business-industry group's results were influenced by missing payments, prior year capital project spending, and various reporting issues. Meanwhile the construction group saw generally lower sales along with some missing receipts.

Missing payments from fuel vendors triggered the large decline posted by that group.

Net of adjustments, taxable sales for all of Monterey County declined 1.1% over the comparable time period while those of the entire Central Coast region were down 1.3%.

## SALES TAX BY MAJOR BUSINESS GROUP



## TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

ABC Supply Co	Kristich Monterey Concrete Pipe
Arco	Nepenthe
Brad Rose Inc	Pacific Ag Rentals
C & N Tractors	Pebble Beach Resorts
Carmel Valley Ranch	Phil's Fish Market
CVS Pharmacy	Post Ranch Inn
Dibwani Motors	Prundale Valero/farm's Service
Dune Company of Salinas	Quik Stop
Helena Chemical Company	R & S Supply
Hyatt Vacation Management	Roberts & Brune
JP Morgan Chase Bank	Safeway
Kleen Globe	Wilbur Ellis
	Wm Power Products

## REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$9,397,009	\$9,610,296
County Pool	1,217,950	1,331,408
State Pool	4,660	5,665
<b>Gross Receipts</b>	<b>\$10,619,619</b>	<b>\$10,947,370</b>

## 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.

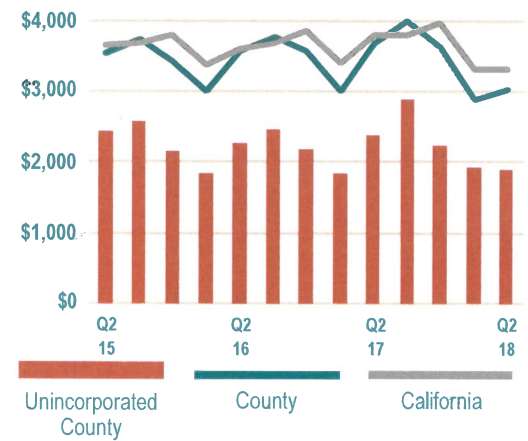
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates.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

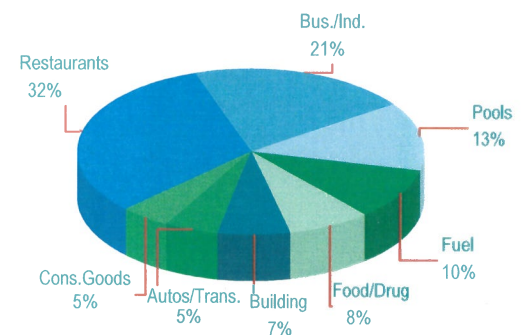
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly 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 Monterey Co. Uninc This Quarter



## MONTEREY COUNTY TOP 15 BUSINESS TYPES

Business Type	Unincorporated County		County	HdL State
	Q2 '18*	Change	Change	Change
Building Materials	59.0	-24.4%	-20.2%	-23.2%
Casual Dining	155.0	3.2%	-12.0%	-12.6%
Contractors	96.8	-16.8%	-9.9%	-10.7%
Convenience Stores/Liquor	35.1	-15.6%	-15.1%	-9.2%
Drugs/Chemicals	37.3	10.1%	2.7%	-27.5%
Garden/Agricultural Supplies	178.1	-9.2%	-9.9%	-15.8%
Grocery Stores	106.2	2.2%	-4.1%	-7.0%
Heavy Industrial	59.1	8.1%	-23.6%	-26.2%
Hotels-Liquor	441.8	12.2%	5.2%	-6.4%
Leisure/Entertainment	75.0	-13.2%	-18.9%	-3.6%
Quick-Service Restaurants	42.9	-9.2%	-11.7%	-5.8%
Repair Shop/Equip. Rentals	— CONFIDENTIAL —	—	-24.4%	-18.6%
Service Stations	199.1	-31.5%	-31.5%	-26.4%
Transportation/Rentals	30.1	-33.8%	6.2%	-0.9%
Warehouse/Farm/Const. Equip.	— CONFIDENTIAL —	—	-29.7%	-26.3%
<b>Total All Accounts</b>	<b>2,045.8</b>	<b>-19.5%</b>	<b>-15.5%</b>	<b>-12.2%</b>
<b>County &amp; State Pool Allocation</b>	<b>307.5</b>	<b>-1.7%</b>	<b>3.2%</b>	<b>5.5%</b>
<b>Gross Receipts</b>	<b>2,353.3</b>	<b>-17.5%</b>	<b>-13.5%</b>	<b>-10.1%</b>