

Q1 2018



Monterey County Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2018)

Monterey County In Brief

The Unincorporated Area's receipts from January through March were 6.6% above the first sales period in 2017. However, due to CDTFA's transition to a new reporting system, multiple transactions were not processed in the current period but are anticipated to be received with the next quarterly allocations. Including these expected remittances and other reporting aberrations, actual sales were up 12.6%.

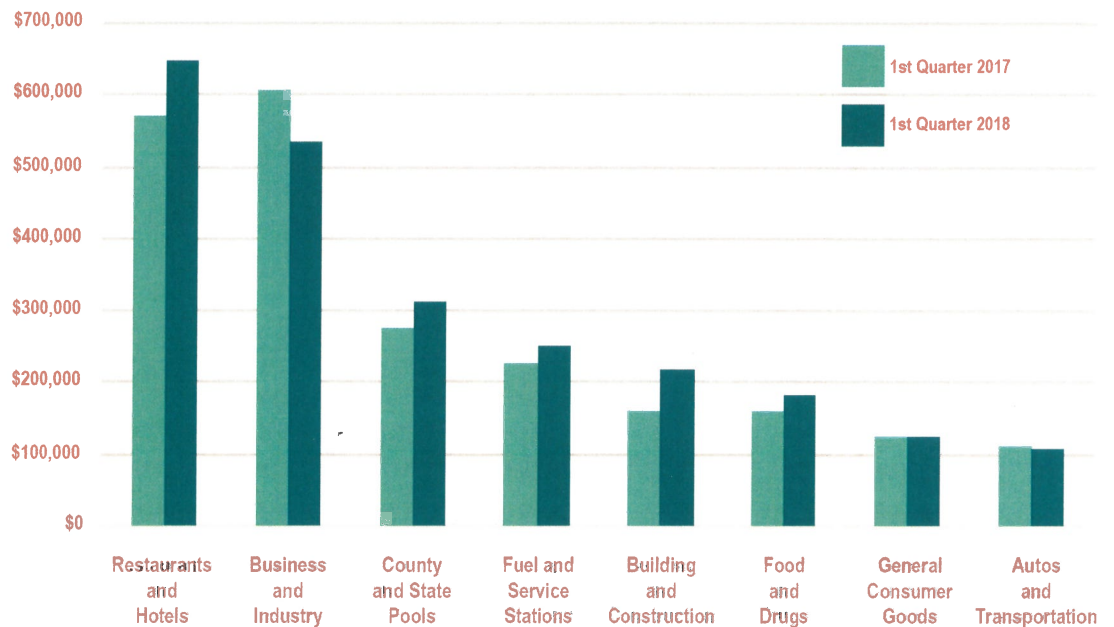
Hotels and casual dining establishments rebounded after being dramatically impacted in the prior year by natural disasters in the region and limited access via Highway 1. Favorable winter weather and the current stable housing market combined to produce solid growth from building material and contractor suppliers.

Steady price increases at the pump, mostly due to the global cost of crude oil and the implementation of SB-1 locally, pushed service stations higher.

This growth in local point of sale revenue and increased capital and online purchases of items shipped into the region boosted countywide use tax pool allocations, further contributing to the positive outcome.

Net of aberrations, taxable sales for all of Monterey County grew 3.9% over the comparable time period; the Central Coast region was up 5.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

7 Eleven	Nepenthe
ABC Supply Co	Pacific Ag Rentals
Arco	Pebble Beach Resorts
Bernardus Lodge	Phil's Fish Market
C & N Tractors	Pks Properties
Cal Door & Drawers	Quiedan
Carmel Valley Ranch	Rain For Rent
Chevron	RDO Agriculture Equipment
CVS Pharmacy	Rinaldi Tile & Marble
Dibwani Motors	Roberts & Brune
Irrigation Design & Construction	Safeway
Kristich Monterey Concrete Pipe	Shell
Monterey Peninsula Country Club	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$9,229,376	\$10,105,779
County Pool	1,258,494	1,338,758
State Pool	6,806	3,582
Gross Receipts	\$10,494,676	\$11,448,119

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

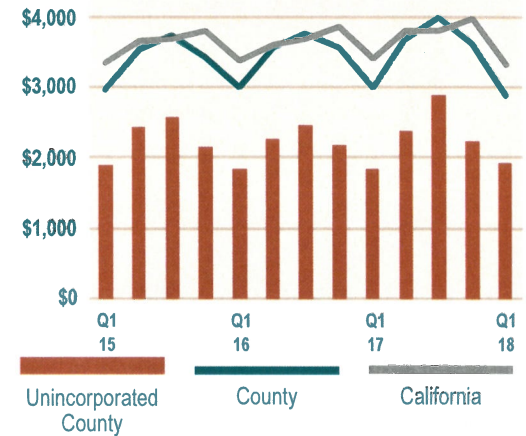
Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the online interstate marketplace was not the prevailing issue before the court in 1992.

In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

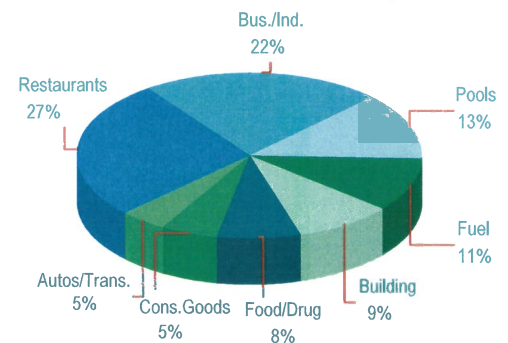
According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about \$1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average \$60 per year for each California household, and California businesses average \$171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court's opinion to determine next steps to support taxpayers.

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
	Q1 '18*	Change	Change	Change
Automotive Supply Stores	34.8	28.4%	-5.3%	-4.1%
Building Materials	60.8	6.3%	14.2%	3.8%
Casual Dining	153.2	23.9%	3.6%	-2.0%
Contractors	156.0	51.6%	14.7%	21.6%
Convenience Stores/Liquor	34.6	1.6%	11.4%	0.5%
Garden/Agricultural Supplies	122.8	56.0%	7.1%	3.0%
Grocery Stores	95.6	5.0%	0.4%	1.9%
Heavy Industrial	69.3	58.1%	15.3%	11.7%
Hotels-Liquor	374.4	17.6%	15.8%	4.0%
Leisure/Entertainment	59.6	-10.3%	1.9%	3.5%
Repair Shop/Equip. Rentals	— CONFIDENTIAL —		-10.3%	-3.8%
Service Stations	222.5	9.5%	-0.4%	4.6%
Used Automotive Dealers	34.2	-17.3%	5.6%	-4.3%
Warehouse/Farm/Constr. Equip.	136.3	-24.9%	-17.0%	-0.4%
Wineries	36.5	6.9%	36.6%	-2.5%
Total All Accounts	2,068.7	5.6%	-1.6%	-1.8%
County & State Pool Allocation	310.7	13.2%	5.4%	-2.1%
Gross Receipts	2,379.3	6.6%	-0.8%	-1.8%