

Q2 2018



City of Paso Robles Sales Tax *Update*

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

Paso Robles In Brief

Paso Robles's receipts from April through June were 21.4% below the second sales period in 2017. However, CDTFA's transition to a new reporting system resulted in multiple returns not processed in the current period for the second quarter in a row. Comparisons in sectors like autos, fuel-service stations and building-construction were heavily impacted by the lack of allocations. Including expected aberrances and other reporting aberrations, actual sales were up 1.8%.

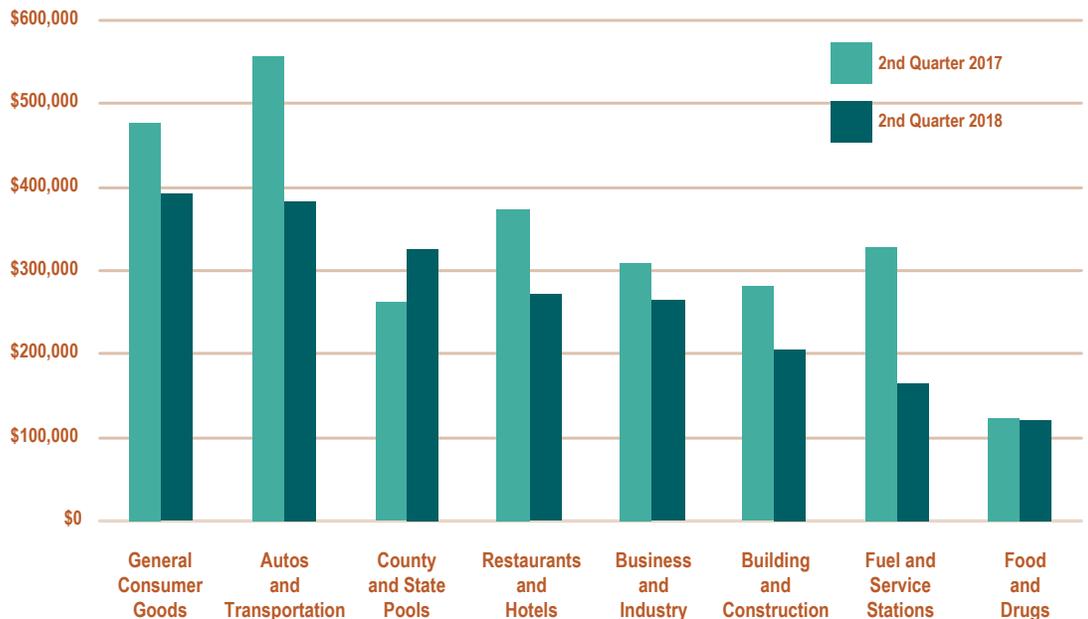
Once adjusted, steady price increases at the pump, mostly due to the global cost of crude oil and the implementation of SB-1 locally, pushed gas station returns higher. Solid summer sales by business-industrial merchants further added to the adjusted growth.

While new auto dealer receipts remain steady, when compared to a peak period one year ago, total revenue generated declined slightly.

The City's voter approved half-cent transaction tax, Measure E-12, generated an additional \$1,053,168, a 18.9% decrease over last year. This additional revenue source was also temporarily impacted by the CDTFA software changes.

Net of aberrations, taxable sales for all of San Luis Obispo County declined 3.8% over the comparable time period; the Central Coast region was down 1.3%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

ABC Supply Co	Paso Robles Chevrolet
Albertsons	Paso Robles Ford
Arco AM PM	Petco
Borjon Auto Center	Rite Aid
Buick Gmc	San Luis Bay Kia
Buttonwillow Warehouse Company	Sky River
Crop Production Services	Smart & Final
Idler's Home	Target
Jaco Oil	Tesoro Refining & Marketing
Kohls	TGP West
Lowe's	Third Base Market & Spirits
McDonalds	TJ Maxx
Orchard Supply Hardware	Walmart

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$8,902,019	\$8,422,285
County Pool	1,207,079	1,310,766
State Pool	4,640	4,906
Gross Receipts	\$10,113,738	\$9,737,958
Supplemental Tax	\$4,778,722	\$4,689,494

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.

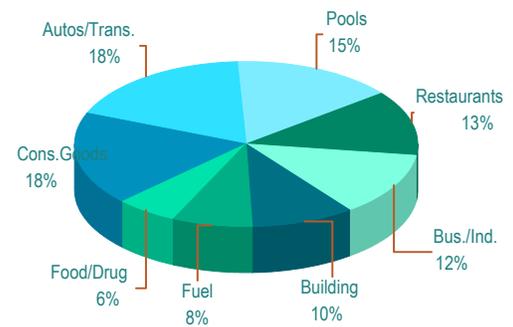
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly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



PASO ROBLES TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Paso Robles Q2 '18*	Change	County Change	HdL State Change
Automotive Supply Stores	50.1	-6.2%	-6.9%	-11.6%
Building Materials	142.2	-26.5%	-19.6%	-23.2%
Casual Dining	126.9	-33.8%	-14.9%	-12.6%
Department Stores	— CONFIDENTIAL —	—	-42.1%	12.7%
Discount Dept Stores	— CONFIDENTIAL —	—	-14.1%	-13.5%
Electronics/Appliance Stores	43.4	4.4%	4.5%	-5.1%
Garden/Agricultural Supplies	94.9	19.6%	3.0%	-15.8%
Grocery Stores	70.0	-1.3%	-5.4%	-7.0%
Home Furnishings	28.9	1.0%	-15.9%	-21.7%
New Motor Vehicle Dealers	215.8	-39.8%	-17.1%	-1.9%
Quick-Service Restaurants	74.0	-24.6%	-17.6%	-5.8%
Repair Shop/Equip. Rentals	40.9	57.5%	1.1%	-18.6%
Service Stations	160.9	-34.5%	-33.9%	-26.4%
Specialty Stores	40.1	13.9%	-12.5%	-4.6%
Trailers/RVs	— CONFIDENTIAL —	—	4.9%	-6.7%
Total All Accounts	1,804.4	-26.3%	-24.2%	-12.2%
County & State Pool Allocation	327.0	24.9%	28.5%	5.5%
Gross Receipts	2,131.4	-21.4%	-19.1%	-10.1%