Q4 2018

Arroyo Grande Sales Tax *Update*

CITY OF ARROYO GRANDE CALIFORNIA 1911

First Quarter Receipts for Fourth Quarter Sales (October - December 2018)

Arroyo Grande In Brief

Arroyo Grande's receipts from October through December were 1.4% below the fourth sales period in 2017.

Lower home furnishing sales and a merchant closure negatively impacted the general consumer goods category.

A delayed payment from a casual dining eatery artificially diminished restaurant and hotel receipts.

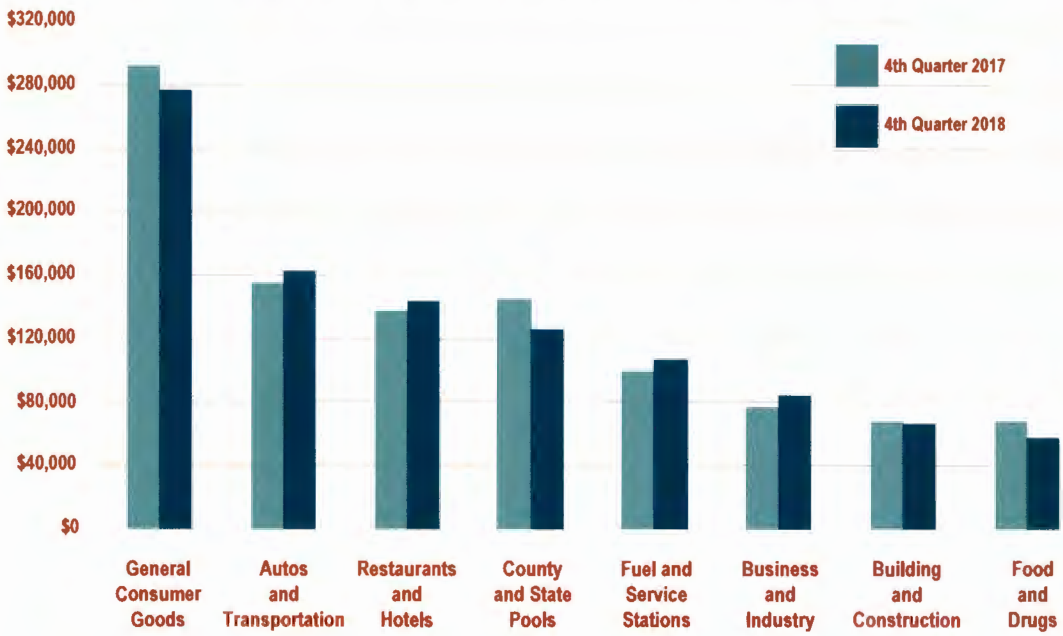
Conversely the 14% gain in service station postings outpaced the 10% statewide trend. Gasoline prices have been driven higher by refinery disruptions and political tension that is now intensifying in several major oil producing nations.

Building material sales improved while a new business opening lifted the food and drug category.

Proceeds from Measure O-06 added an additional $574,000 to the amounts previously discussed, a decline of 1% largely due to a reduction in new car purchases by City residents.

Net of aberrations, taxable sales for all of San Luis Obispo County declined 6.8% over the comparable time period; the Central Coast region was down 0.7%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- Ace Hardware
- Arco AM PM
- Arroyo Grande Chevrolet
- Arroyo Grande Valero
- Burke & Pace Lumber Sales
- Chevron
- Dollar Tree
- Donnas Interiors Furniture
- Ember Restaurant
- Food 4 Less
- Gills Food Market
- Heacock Trailers & Truck Accessories
- In N Out Burger
- Katch Go
- Marshalls
- Mason Bar
- McDonalds
- Mullahey Ford
- Petco
- Rite Aid
- Rooster Creek
- Rugged Race Products
- Smart & Final
- Streator Pipe & Supply
- Wal Mart

Revenue Comparison

Two Quarters – Fiscal Year To Date (Q3 to Q4)

	2017-18	2018-19
Point-of-Sale	$1,791,739	$1,928,723
County Pool	260,048	267,584
State Pool	958	965
Gross Receipts	$2,052,746	$2,197,272
Measure O - 06	$1,151,026	$1,245,647

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NOTES

Statewide Results

The local one cent share of sales and use tax from October through December sales was 2.8% higher than 2017's holiday quarter after factoring for state reporting aberrations.

The overall increase came primarily from a solid quarter for contractor materials and equipment, expanded production by an auto manufacturer and rising fuel prices. Online fulfillment centers, new technology investment and cannabis start-ups also produced significant gains. Receipts in the six county Sacramento region grew 7.9% over last year while the remainder of the state was generally flat or exhibited only minor growth.

Notable was the 0.09% rise in tax receipts from brick and mortar retailers which is the lowest holiday gain for that sector since 2009. A 9.6% increase in receipts from online shopping which is allocated to central order desks or county pools was part of the reason. Other factors include lower prices, gift cards which move purchases to future quarters and greater gifting of non-taxable experiences and services.

The Retail Evolution Continues

A recent survey identified U.S. closures of 102 million sq. ft. of retail space in 2017 and an additional 155 million sq. ft. in 2018. Similar losses are expected in 2019 with 5,300 closures already announced. Payless Shoes, Gymboree, Performance Bicycle and Charlotte Russe are going out of business while chains including Sears, Kmart, Macy's, JCPenney, Kohl's, Nordstrom, Dollar Tree, Victoria's Secret, Chico's, Foot Locker and Lowe's have announced plans for further cuts in oversaturated markets and downsizing of stores.

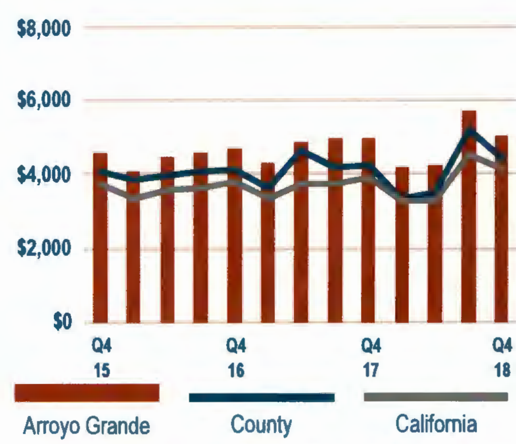
Retailers are not planning the end of physical stores which continue to be important for personalized experiences and shopping entertainment. However, the shifting trends encourage reduced square footage with less overhead to better compete on prices and provide more intimate shopping encounters.

With smartphones allowing purchase and delivery of almost anything at any time of the day without leaving home, big box retailers are responding by downsizing stores and subleasing excess space to compatible businesses to help draw traffic. Locations where people congregate for entertainment, food and services have become part of the evolving strategy as has integrating retail with more convenient spots for pick-up and delivery of online orders.

Barry Foster of HdL's EconSolutions, notes that "shifting shopping habits present challenges but also opportunities." "Smaller footprints enable expanding into smaller niche markets while mixed use projects and 18-hour environments are chances to rebuild downtowns and reinvigorate shopping centers."

With more companies using the internet to sell directly to customers from their warehouses, the trend also provides jurisdictions whose populations aren't adequate in size to support large scale retail to focus on industrial development for sales tax as well as jobs.

SALES PER CAPITA



COUNTY OVERALL 4Q YOY RECEIPTS % CHANGE

Major Industry Groups	Cash	Adjusted*
Autos and Transportation	2.4%	0.0%
Building and Construction	-4.3%	-4.2%
Business and Industry	8.2%	-34.5%
Food and Drugs	-5.1%	0.4%
Fuel and Service Stations	30.2%	3.4%
General Consumer Goods	-0.7%	-0.9%
Restaurants and Hotels	5.3%	1.8%
County and State Pools	-8.9%	-4.5%
Total	2.9%	-6.8%

*Accounting anomalies factored out

REVENUE BY BUSINESS GROUP

Arroyo Grande This Quarter