

Q1 2014



Santa Cruz County Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2014)

Santa Cruz County In Brief

Receipts for the unincorporated area's January through March sales were 15.3% higher than the same quarter one year ago. Actual sales activity was up 5.1% when reporting aberrations were factored out.

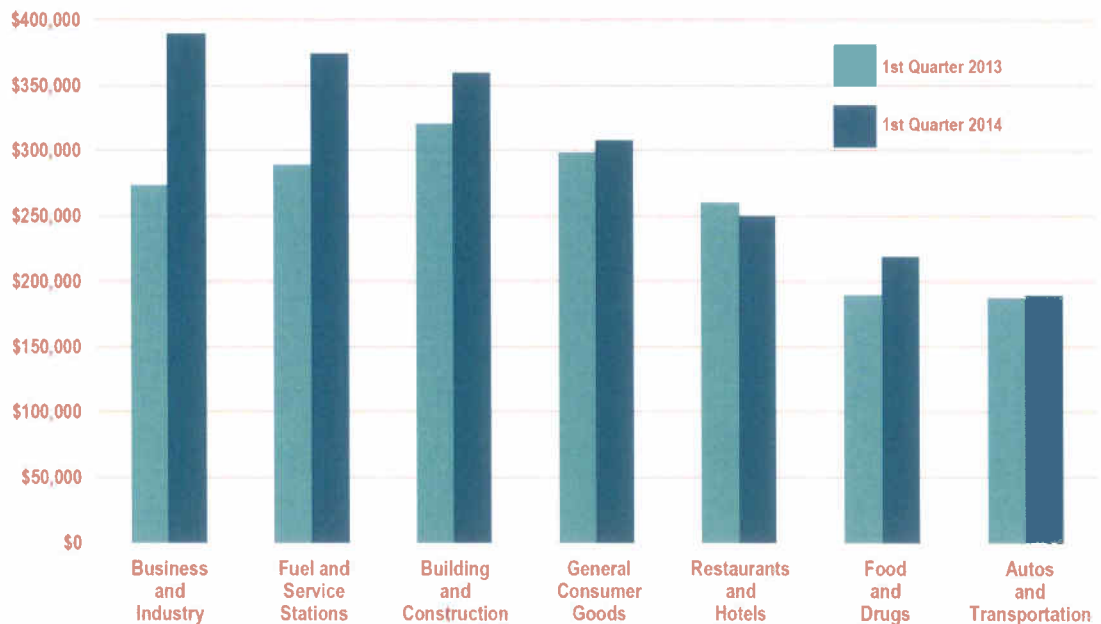
Retroactive payments from wineries and garden agricultural supplies were partially responsible for inflating receipts from business and industry. Receipts from food and drugs were also temporarily boosted by various anomalies. Service stations posted positive results; however, the increase was due to onetime adjustments.

Strong sales from lumber and plumbing supplies were significant factors in the overall gain from building and construction. General consumer goods experienced sales increases from multiple categories including, home furnishings and sporting goods. An 18.4% increase in the unincorporated area's share of the countywide use tax pool allocation also contributed to the overall increase.

The gains were partially offset by payment deviations that temporarily depressed the restaurants and hotels group.

Adjusted for aberrations, taxable sales for all of Santa Cruz County increased 2.8% over the comparable time period, while the Central Coast region as a whole was up 2.3%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

AJs Fuel & Food Mart	Palace Art & Office Supply
Best Buy	Performance Food Group
Boulder Creek Beacon Station	Pet Pals
Chaminade Hotel	Probuild Company
Crop Production Services	Quik Stop Market
Felton Valero	Safeway
Ferguson Enterprises	Safeway Gasoline
Home Depot	Scarborough Home Center
Independent Electric Supply	Staples
Marshalls	Steves Union Service
Ocean Honda	Tesoro West Coast
Ocean Street Chevron	Toys R Us
	Valero

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2012-13	2013-14
Point-of-Sale	\$8,091,461	\$8,669,211
County Pool	944,086	1,103,124
State Pool	4,035	5,832
Gross Receipts	\$9,039,583	\$9,778,167
Less Triple Flip*	\$(2,259,896)	\$(2,444,542)

*Reimbursed from county compensation fund

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Statewide Results

Net of payment aberrations, first quarter retail sales were 3.8% higher than the same period one year earlier.

Sales of new automobiles were up 9.4%, stimulated by pent up demand, consumer interest in new feature-rich models and easy financing options. The building and construction sector reported solid gains in a number of categories, notably contractors, sellers of lumber/building materials and suppliers of plumbing/electrical equipment. Restaurant and hotel receipts increased by 6.4%, out-pacing all other industry groups except autos and transportation.

Proceeds from general consumer goods were flat primarily due to the ongoing shift from brick-and-mortar stores to online retailers, many of which allocate the local sales tax to the countywide allocation pools. Gains from most other segments were relatively modest, while tax revenues from fuel sales experienced a fifth consecutive quarterly drop.

Sales Tax and the Drought

All of California is currently under either severe or exceptional levels of drought and is experiencing the driest 30 month period in the state's recorded history.

A recent study by UC Davis projects that the socioeconomic impacts of the current drought will be 50% more severe than in 2009 with 410,000 acres of row and feed crops taken out of production in order to preserve diminishing water supplies for longer term orchard and vineyard investments and the thinning of cattle and dairy herds in anticipation of green pasture shortages. A loss of 14,500 jobs is estimated as are higher food prices and increased energy costs to replace the loss of inexpensive hydro power.

Even so, most analysts predict that the near term impact on the overall statewide economy and 2014-15 sales tax receipts should be minor though some localized pockets may be vulnerable where dependency on agricultural and water-related tourism expenditures is exceptionally high.

The analysts point out that less than 3% of the state's economy comes from agriculture and that in many areas surface water supplies are being replaced with increased pumping of groundwater. They further estimate that the impact of job losses will be offset by employment growth in other segments of the economy. They also note that government drought aid, crop insurance, unemployment benefits and public assistance programs will temporarily avert some potential economic and revenue impacts.

The longer term concern is that the drought could persist for another two or three years. Groundwater

supplies are being pumped out at a faster rate than can be naturally recharged and a UC Berkeley analysis suggests that the relatively wet 20th century was an anomaly. If that is true and the state reverts to a suspected drier norm, the impact on the economy, environment, fire safety and food and energy costs will become more severe and far reaching.

SALES PER CAPITA



SANTA CRUZ COUNTY TOP 15 BUSINESS TYPES

Business Type	*In thousands			
	Unincorporated County Q1 '14*	Unincorporated County Change	County Change	HdL State Change
Auto Repair Shops	53.4	-2.8%	3.9%	1.5%
Casual Dining	126.2	5.7%	8.5%	7.1%
Contractors	44.5	19.1%	5.6%	14.8%
Electronics/Appliance Stores	— CONFIDENTIAL —	—	2.8%	2.4%
Garden/Agricultural Supplies	200.4	119.8%	0.8%	4.5%
Grocery Stores Liquor	— CONFIDENTIAL —	—	5.3%	-14.6%
Home Furnishings	53.3	14.9%	5.6%	6.7%
Lumber/Building Materials	248.6	7.8%	7.9%	17.0%
Marijuana Dispensary	39.4	114.7%	64.1%	10.6%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	3.7%	9.4%
Package Liquor Stores	41.3	5.3%	-5.6%	6.3%
Plumbing/Electrical Supplies	48.1	26.6%	21.4%	8.1%
Quick-Service Restaurants	41.9	-6.5%	0.5%	4.8%
Service Stations	373.2	29.5%	15.0%	-1.1%
Specialty Stores	60.1	-2.8%	-0.3%	2.5%
Total All Accounts	\$2,089.2	14.9%	5.0%	3.2%
County & State Pool Allocation	\$269.4	18.5%	8.3%	7.7%
Gross Receipts	\$2,358.6	15.3%	5.4%	3.7%