

Q2 2018



City of Chico Sales Tax *Update*

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

Chico In Brief

Chico's receipts from April through June were 13.4% below the second sales period in 2017. Excluding reporting aberrations, actual sales were down 0.3%.

For the second consecutive quarter, challenges with the State's new software system have resulted in delayed funding and partial funding of local tax payments for thousands of taxpayer accounts.

While gas prices typically head higher every spring due to increased driving demand, current quarter totals are down temporarily as nearly half of the service station returns were impact by delays at the State level.

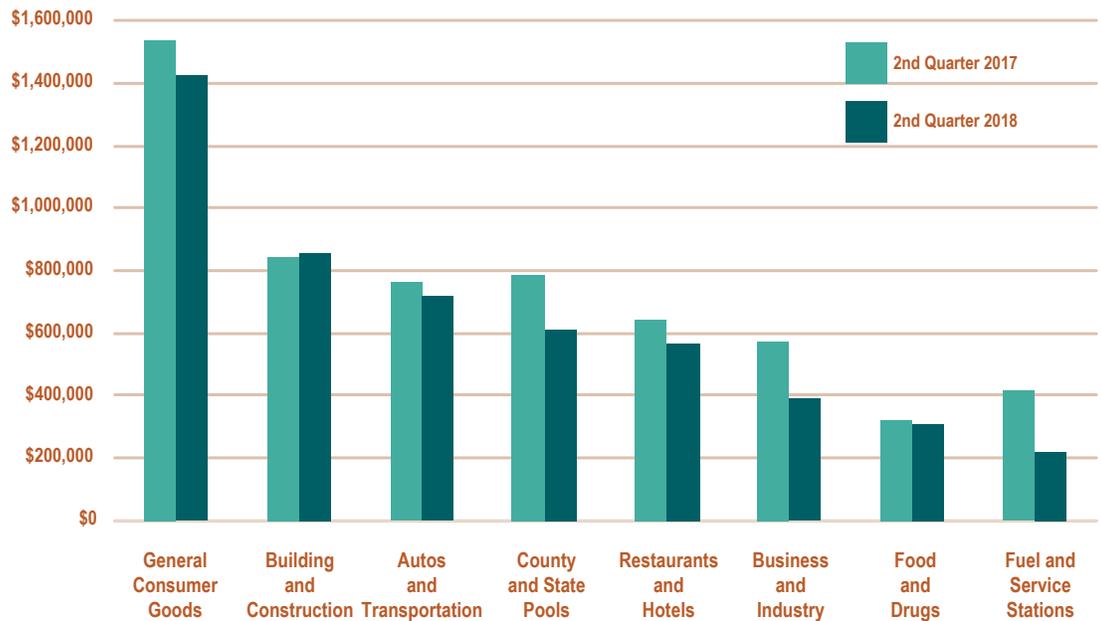
A store closure and partial taxpayer payments contributed to the decline for general consumer goods. A large accounting adjustment in the comparison periods caused a temporary decrease for the business and industry sector.

The restaurants and hotels group were also plagued by late and partial payments that caused a provisional drop in receipts.

The City's share of the countywide use tax pool decreased 22.8% over the same period in the prior year.

Net of aberrations, taxable sales for all of Butte County declined 2.4% over the comparable time period; the Far North region was down 1.4%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Best Buy	JC Penney
Build.Com	Kohls
Chico Nissan/Hyundai	Lowes
Chuck Patterson Toyota/Dodge	Lulus Fashion Lounge
Consolidated Electrical Distributors	Meeks Building Center
Costco	MJB Welding Supply
Courtesy Automotive Center Buick Cadillac Bmw GMC	Payless Building Supply
Ed Wittmeier Auto Center Honda Ford Chevy Lincoln	Raley's
Ferguson Enterprises	Safeway
Flyers	Safeway Fuel
Home Depot	Target
	TJ Maxx
	Walmart Supercenter
	Winco Foods

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$19,159,011	\$19,506,725
County Pool	3,212,933	3,115,786
State Pool	10,580	11,308
Gross Receipts	\$22,382,524	\$22,633,820
Cty/Cnty Share	(1,119,126)	(1,131,691)
Net Receipts	\$21,263,398	\$21,502,129

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.

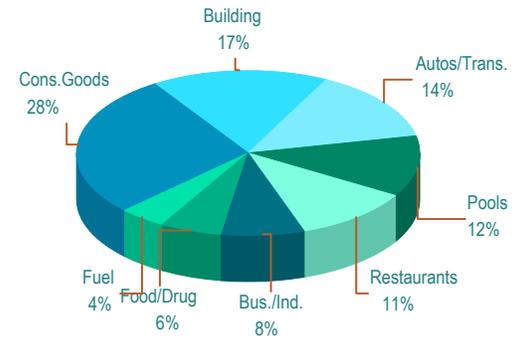
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly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



CHICO TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Chico Q2 '18*	Chico Change	County Change	HdL State Change
Building Materials	389.7	-7.3%	-11.6%	-23.2%
Casual Dining	304.3	-16.8%	-17.6%	-12.7%
Discount Dept Stores	468.3	-7.9%	-10.3%	-13.5%
Electronics/Appliance Stores	141.1	-18.7%	-18.8%	-5.1%
Family Apparel	221.2	2.0%	2.3%	-27.2%
Grocery Stores	184.1	3.3%	1.2%	-7.0%
Home Furnishings	87.2	-16.0%	-11.9%	-21.7%
New Motor Vehicle Dealers	515.8	-1.4%	-6.2%	-2.0%
Plumbing/Electrical Supplies	377.2	13.0%	8.1%	-6.8%
Quick-Service Restaurants	192.0	-4.0%	-6.1%	-6.0%
Repair Shop/Equip. Rentals	94.8	11.0%	6.4%	-18.6%
Service Stations	220.0	-26.7%	-38.0%	-26.6%
Specialty Stores	126.6	13.5%	9.9%	-4.6%
Sporting Goods/Bike Stores	88.3	-3.9%	-2.6%	-20.9%
Warehouse/Farm/Const. Equip.	71.7	3.1%	-42.0%	-26.3%
Total All Accounts	4,488.0	-12.0%	-14.8%	-12.2%
County & State Pool Allocation	612.0	-22.3%	-24.7%	5.5%
Gross Receipts	5,100.0	-13.4%	-16.1%	-10.1%
City/County Share	(255.0)	13.4%		
Net Receipts	4,845.0	-13.4%		