

Q1 2017



City of Vallejo Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2017)

Vallejo In Brief

Vallejo's receipts from January through March were flat compared to the first sales period in 2016. Excluding reporting aberrations, actual sales were up 3.6%.

The City experienced a strong sales quarter from contractors and service stations; the latter segment benefitted from higher prices at the pump. Marijuana related businesses yielded another sizeable jump in sales.

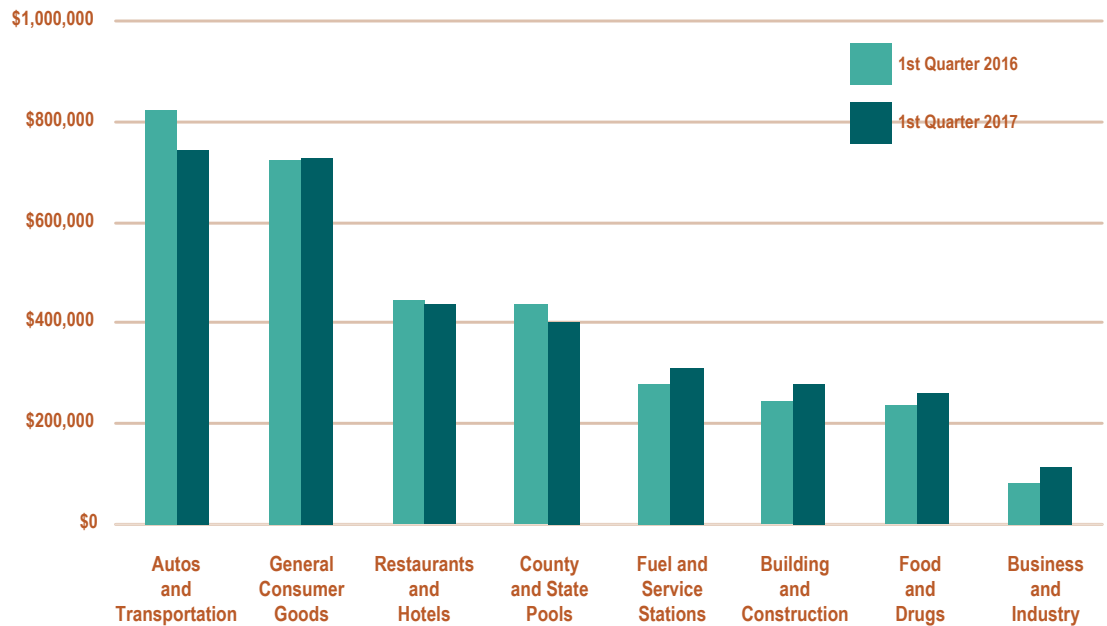
Modest gains from casual dining and quick-service eateries did not offset losses due to a diner closure and winter weather's adverse impacts on leisure/entertainment destinations; the net result was a decline in the restaurants and hotels group.

Autos and transportation demand softened; receipts dropped from used dealers and supply stores. A double payment in the comparable year period was largely responsible for the dip from new motor vehicle dealers; with this anomaly removed, revenues climbed 1.9%.

Voter approved Measure V, the 1% local transaction tax, provided \$3,419,638, a 3.1% upturn over the 2016 quarter. Business and industry along with fuel/service stations were the key contributors.

Net of aberrations, taxable sales for all of Solano County grew 2.7% over the comparable time period; the Bay Area was up 1.9%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

AT&T Mobility	Ross
Au Energy Shell	Safeway
Autolinx	Six Flags Discovery Kingdom
Avery Greene	Target
Honda	Team Chevrolet
Best Buy	Cadillac Hyundai
Costco	Mazda
Earthquake Protection Systems	Toyota Vallejo
First Capitol Auction	Tributary Point Arco
Home Depot	Vallejo Holistic Health Center
Kohls	Vallejo Nissan
Lowe's	Walgreens
Marshalls	Walmart Neighborhood Market
McDonalds	
Momentum Chrysler/Dodge/Jeep/Kia	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$8,979,836	\$9,213,325
County Pool	1,332,910	1,315,588
State Pool	5,875	8,475
Gross Receipts	\$10,318,621	\$10,537,388
Measure V	\$10,413,499	\$10,899,828

Statewide Results

Local tax receipts from January through March sales were 2.1% higher than the first quarter of 2016 after factoring for accounting anomalies.

Rising fuel prices, auto sales, county use tax pool allocations and dining out added most to the overall gain. Some general consumer goods and B2B sales were flat or down.

This quarter reflects the start of an anticipated leveling off of future tax revenues. After seven years of recovery, analysts are reporting an end to the previous pent-up demand for autos. Demand for new cars will ease due to more buyers tied to long-term loans and a glut of used cars coming off lease.

Price competition and store closures have reduced tax receipts from consumer goods. Business investment remains strong but much of the growth is for non-taxable items such as cloud computing and large data solutions. Declines in foreign tourist visits and lower costs of eating at home are expected to slow the growth in restaurant sales.

New Sales Tax Organization

As of July 1, the operating divisions responsible for allocation of tax revenues other than property, insurance and alcoholic beverages will shift from the State Board of Equalization (BOE) to the Governor's new Department of Tax and Fee Administration.

The BOE was first established by constitutional amendment in 1879 to oversee property tax assessment practices by all counties in the state. It eventually became responsible for other tax revenues including sales, insurance, corporate franchise and special fees.

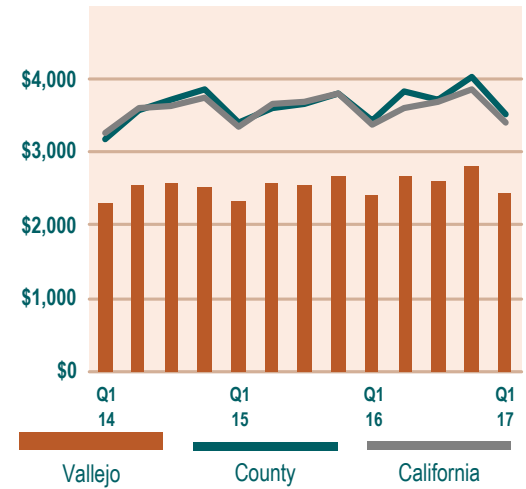
In 2011, HdL detected discrepancies in the BOE's allocation of public safety revenues which led to the recovery of over \$124 million in revenues for counties. Subsequent audits by the State

Controller and State Department of Finance revealed further shortcomings. The result was the passage of budget trailer bill SB86/AB102 that reduces the BOE to its previous constitutionally defined functions.

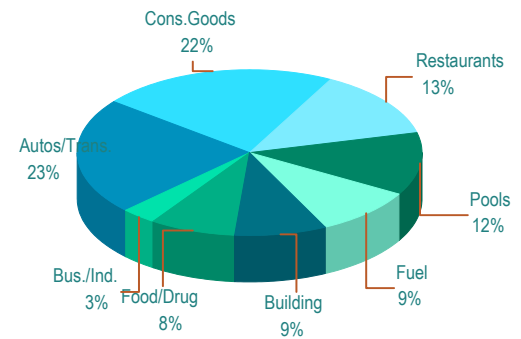
The BOE is also empowered to hear appeals and disputes over tax assessments including sales/use, personal income and corporate taxes and is the only elected Tax Board in the United States that hears tax disputes. Effective January 1, 2018, that function will be turned over to a new Office of Tax Appeals (OTA) composed of panels of administrative law judges appointed by the Governor with locations in Sacramento, Fresno and Los Angeles.

For functions other than the appeal process, this is primarily a reshuffling of existing personnel so the change will have little impact on local agencies. However, the issue of local government's ability to provide input regarding future policy and regulation changes that impact revenues remains under discussion. HdL will share more about the BOE transition as details become available in the weeks ahead.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Vallejo This Quarter



VALLEJO TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Vallejo Q1 '17*	Change	County Change	HdL State Change
Automotive Supply Stores	58.4	-3.4%	6.3%	0.0%
Building Materials	208.0	5.1%	7.9%	3.1%
Casual Dining	160.4	2.0%	1.6%	0.9%
Contractors	60.6	66.7%	2.6%	-3.9%
Convenience Stores/Liquor	53.9	3.7%	10.6%	3.5%
Discount Dept Stores	— CONFIDENTIAL —		3.9%	1.6%
Electronics/Appliance Stores	100.1	-3.2%	-4.3%	-0.5%
Family Apparel	69.7	0.1%	-1.1%	0.8%
Grocery Stores	99.2	0.3%	0.8%	0.4%
Marijuana Related	64.7	49.8%	58.7%	15.2%
New Motor Vehicle Dealers	508.3	-12.7%	-10.8%	4.4%
Quick-Service Restaurants	210.8	1.0%	3.8%	4.4%
Service Stations	309.5	10.9%	10.6%	10.0%
Specialty Stores	51.4	-12.3%	-3.1%	0.4%
Used Automotive Dealers	75.9	-8.4%	-16.4%	1.9%
Total All Accounts	2,870.7	1.1%	4.1%	1.8%
County & State Pool Allocation	402.5	-8.0%	-5.3%	2.9%
Gross Receipts	3,273.2	-0.1%	2.8%	1.9%