

Q4 2016



City of Poway Sales Tax Update

First Quarter Receipts for Fourth Quarter Sales (October - December 2016)

Poway In Brief

Poway's receipts from October through December were 1.2% above the fourth sales period in 2015. Excluding reporting aberrations, actual sales were up 4.2% outperforming the state and regional trend.

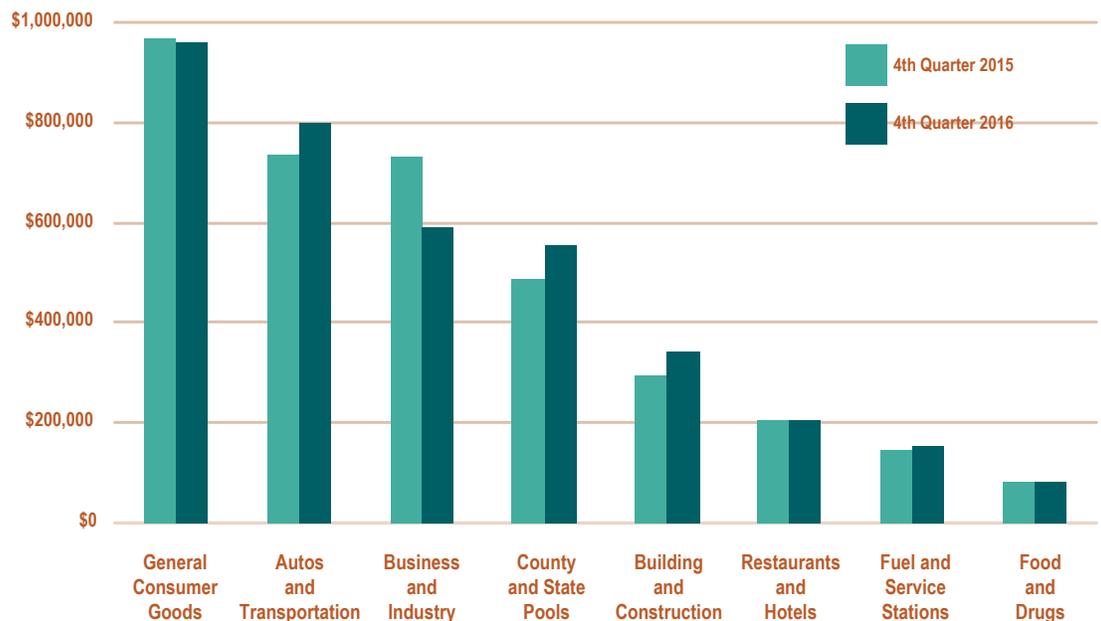
Allocations from the countywide use tax pool were boosted by a onetime audit recovery from a business-industrial supplier. New car sales also increased, aided by the largest dealer incentives offered since 2009 as national automakers struggle to maintain market share amid what appears to be otherwise plateauing sales.

The strong regional construction market boosted contractors and plumbing/electrical suppliers, while a new business relocation into the City aided building-material results.

Significantly offsetting this improvement, however, was a sharp drop for electrical equipment suppliers. A misallocation to another jurisdiction and a large onetime audit recovery in the comparison year were responsible for the loss. Absent these anomalies, the category would have otherwise risen slightly.

Net of aberrations, taxable sales for all of San Diego County grew 2.6% over the comparable time period; the Southern California region was up 1.4%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Arco AM PM	Perry Ford of Poway
Circle K	Poway Chrysler
Cirrascale	Dodge Jeep Ram
Climatec	Poway Honda
Costco	Poway Mitsubishi
Ferguson	Hyundai & Vespa
Waterworks	Poway Toyota/Scion
General Atomics	Quality Reinforcing
Aeronautical Systems	Ross
Home Depot	Stein Mart
Home Goods	Sysco Food Services
Kohls	Target
Lowe's	United Oil
Mitchell Repair	Walmart
Mossy Nissan	Supercenter

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$6,023,962	\$5,999,927
County Pool	861,812	972,755
State Pool	7,780	4,300
Gross Receipts	\$6,893,555	\$6,976,983
Less Triple Flip*	\$(1,723,389)	\$0

*Reimbursed from county compensation fund

NOTES

Statewide Results

Statewide sales tax receipts for the fourth quarter rose 1.5% over 2015, when excluding reporting aberrations.

The largest gain was in the county-wide use tax allocation pools due to the acceleration in online shopping where many of the orders are placed to, or shipped from, out-of-state fulfillment centers. Restaurant and auto sales closed the calendar year with strong results while receipts from general consumer goods were flat. Off-price apparel and dollar store gains offset declines in traditional department stores and warehouse retailers.

Business and industry receipts were down due to cutbacks in major energy projects; however, huge gains in warehouse fulfillment centers that fill in-state shipments from online orders somewhat negated the decline.

On an annual basis, the statewide gain ended 2.1% higher than calendar year 2015.

The Shrinking, Disappearing Retail Store

Agencies dependent on traditional brick-and-mortar retail stores for a major portion of their sales tax will be facing new challenges in the coming year as merchants retrench and downsize to cope with a rapidly changing environment.

Generational preferences for experiences over merchandise, plus the growing costs of health care, education and housing, are reducing discretionary spending for taxable goods while time-challenged consumers are opting for the convenience of online shopping.

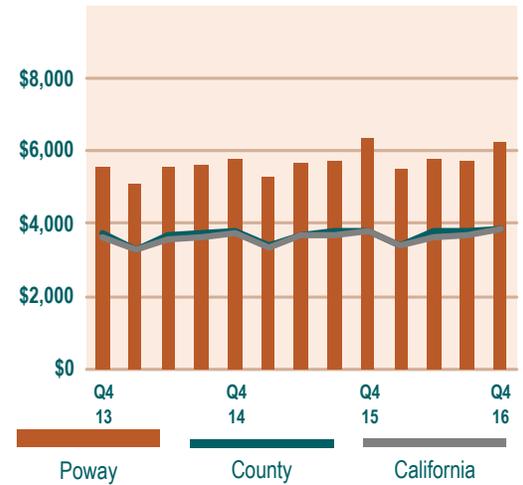
Online sales accounted for 13.0% of all general consumer goods purchased in 2016 with a 9.2% gain over calendar year 2015, while the growth in tax receipts from brick-and-mortar stores only grew 0.6%. The trend has been accelerated by the growing popularity of smart phones which Amazon estimates were used by nearly 70% of its shoppers during the most recent holiday quarter.

Retailers are responding by increasing their investment in mobile shopping platforms and delivery systems while pulling back investment on brick-and-mortar stores. Substantial closures are planned for 2017 while experiments with smaller stores, pick-up locations for online purchases, temporary “pop-up” shops and subleasing in-store space to others are on the rise.

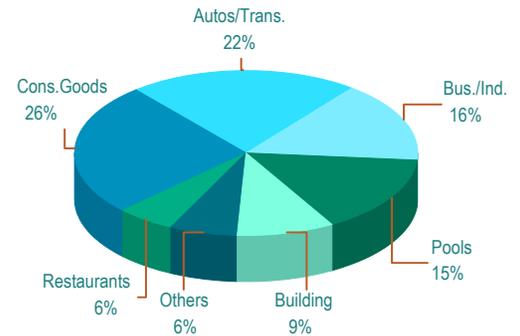
Mall operators are turning to grocers, fitness centers, medical services and residential components to fill vacant space and attract traffic. Smaller centers and downtown areas are responding by enhancing the shopping experience with more dining and entertainment options while local governments seek voter approval for higher levies to offset shrinking tax bases.

Stores are not in danger of disappearing. The ability to see, touch and feel, along with the overall shopping experience, will always be important. But evolving trends are requiring more focused economic strategies with better data and closer collaborations. The ultimate solution may be tax rates levied against today’s economy rather than the one that existed when sales tax was first imposed in 1933.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Poway This Quarter



POWAY TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Poway Q4 '16*	Change	County Change	HdL State Change
Auto Repair Shops	43.5	12.5%	4.8%	4.3%
Building Materials	163.1	10.7%	2.6%	0.7%
Business Services	38.0	-0.4%	10.6%	14.5%
Casual Dining	81.2	-11.3%	1.6%	2.9%
Contractors	89.8	18.9%	-1.4%	-0.1%
Department Stores	— CONFIDENTIAL —		-8.1%	-5.6%
Discount Dept Stores	— CONFIDENTIAL —		-3.0%	-0.6%
Electrical Equipment	244.9	-38.9%	8.2%	7.1%
Food Service Equip./Supplies	— CONFIDENTIAL —		16.4%	12.7%
Grocery Stores	50.0	-6.7%	2.7%	4.1%
New Motor Vehicle Dealers	614.1	6.5%	4.1%	5.6%
Plumbing/Electrical Supplies	— CONFIDENTIAL —		1.5%	1.5%
Quick-Service Restaurants	86.9	10.3%	6.8%	5.7%
Service Stations	151.9	6.0%	2.3%	-1.0%
Trailers/RVs	44.6	22.4%	17.2%	11.0%
Total All Accounts	3,135.3	-0.8%	2.5%	2.4%
County & State Pool Allocation	556.1	14.1%	17.9%	6.9%
Gross Receipts	3,691.4	1.2%	4.6%	3.0%