

Q2 2018



City of Nevada City Sales Tax *Update*

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

Nevada City In Brief

Nevada City's receipts from April through June were 33.8% lower than the same quarter a year ago. For the second time this year, the State's software conversion resulted in unusual processing delays. Consequently, sizeable payments remain outstanding. Actual sales after adjusting for all anomalies would have been down 3.6%.

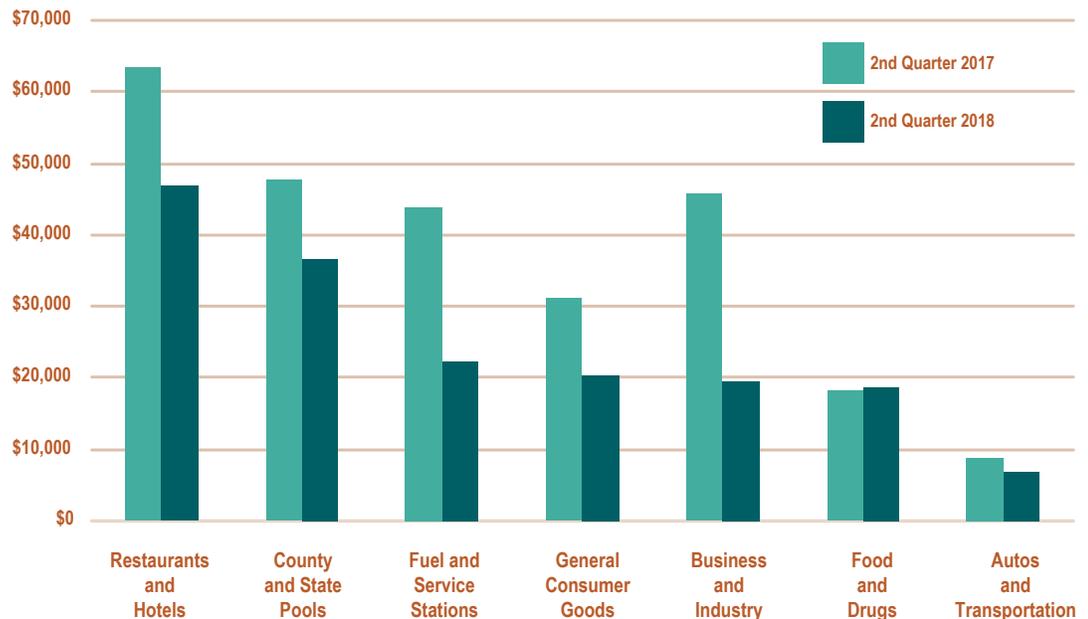
All major industry groups were adversely impacted by the delay in allocations. Once these payments were restored restaurants and hotels were up 2.8% while service stations rose 4.3%.

Most retail sectors slipped compared to a year ago on an actual basis. Business to business activity was depressed by outstanding disbursements and an apparent reporting error.

Finally, the City's returns from the countywide use tax allocation pool trailed the comparison period. Receipts from the City's voter-approved transactions tax districts were temporarily reduced due to missing payments.

Net of aberrations, taxable sales for all of Nevada County grew 1.4% 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

49er Communications	Magic Carpet
Bonanza Market	Matteos Public
California Organics	New Moon Cafe
Chevron	Northridge of Nevada City
Crazy Horse Saloon & Grill	Plaza Tire & Auto Service
Ferrellgas	Riebes Auto Parts
Freds Szechuan Restaurant	Robinson Ent Investment Co
Fudenjuce	Sierra Metal Fabricators
Golden Era	South Pine Cafe
Heartwood	SPD Market
J H Petroleum	Telestream
Jernigans Tap House & Grill	Tour of Nevada City Bicycle Shop
Lefty's Grill	

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$776,910	\$740,037
County Pool	184,889	217,606
State Pool	428	476
Gross Receipts	\$962,228	\$958,119
Measure S	\$629,419	\$584,627
Measure C	\$118,266	\$432,035

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.

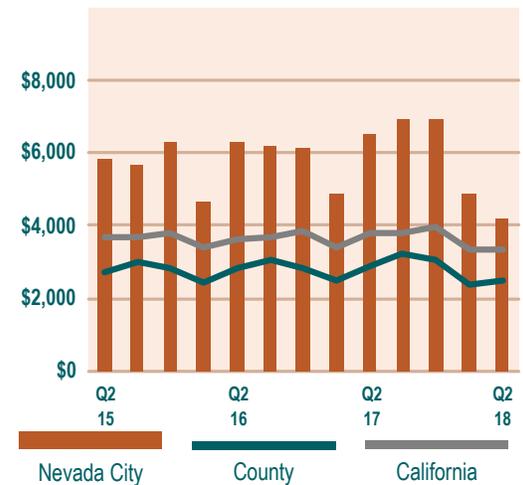
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates. 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



COUNTY OVERALL 2Q YOY RECEIPTS % CHANGE

Major Industry Groups	Cash	Adjusted*
Autos and Transportation	4.8%	5.0%
Building and Construction	-12.4%	0.4%
Business and Industry	-29.8%	-7.7%
Food and Drugs	-0.6%	0.6%
Fuel and Service Stations	-16.0%	11.0%
General Consumer Goods	-24.7%	-8.5%
Restaurants and Hotels	-11.5%	-3.6%
County and State Pools	4.2%	9.4%
Total	-10.1%	1.4%

*Accounting anomalies factored out

REVENUE BY BUSINESS GROUP Nevada City This Quarter

