

Q1 2017



City of Hughson Sales Tax *Update*

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

Hughson In Brief

Hughson's receipts from January through March were 21.9% below the first sales period in 2016. Excluding reporting aberrations, actual sales were down 25.1%.

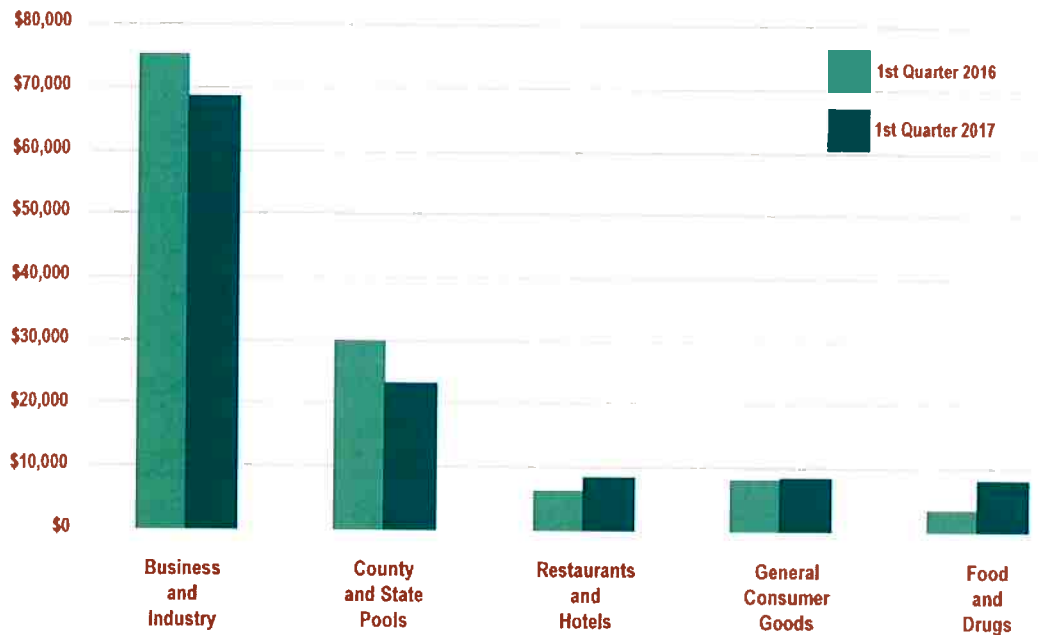
Declining sales in business and industry negatively impacted group totals.

An audit adjustment led to higher receipts from the food and drugs group, while increased sales activity lifted returns from general consumer goods. A payment anomaly was primarily responsible for the gain in casual dining. The return of higher gas prices has boosted revenue across the county.

The city's allocation from the countywide use tax pool decreased 22.7%, reflecting a decline in private party auto sales

Net of aberrations, taxable sales for all of Stanislaus County grew 4.1% over the comparable time period; the San Joaquin Valley was up 1.3%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

| | |
|-------------------------------|----------------------------------|
| Agave Azul | Master Blasterz |
| Bobs Coffee Shop | Mid Valley Agricultural Services |
| Boulet Consulting | Napa Auto Parts |
| California Trusframe | Pizza Factory |
| Coco's Taqueria | Pure Water Pool Service |
| Dollar General | Quick N Save |
| Dollar Tree | Rancho Market |
| Golden Bowl | Ricos Italian Pizza |
| Grossi Fabrication | Santa Fe Market & Liquor |
| Hughson Farm Supply | Sav Mor Market |
| Hughson Shell | Subway |
| La Perla Tapatia | Wilbur Ellis |
| Lacy's Furniture & Home Decor | |

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

| | 2015-16 | 2016-17 |
|-----------------------|------------------|--------------------|
| Point-of-Sale | \$862,958 | \$878,763 |
| County Pool | 113,174 | 137,423 |
| State Pool | 595 | 653 |
| Gross Receipts | \$976,727 | \$1,016,838 |
| Less Triple Flip* | \$(185,063) | \$0 |

*Reimbursed from county compensation fund

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

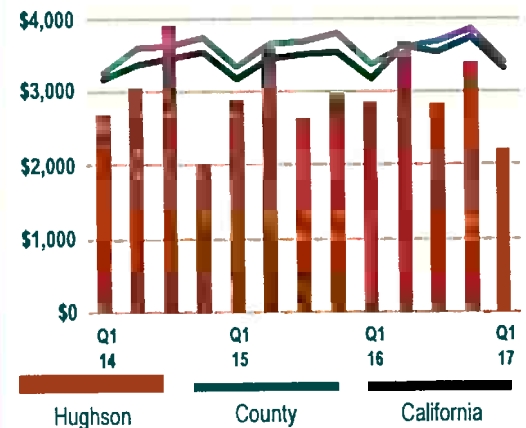
including sales, insurance, corporate franchise and special fees.

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
Hughson This Quarter

