

Q1 2017



City of Chico Sales Tax Update

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

Chico In Brief

Chico's receipts from January through March were 7.6% above the first sales period in 2016. Excluding reporting anomalies, actual sales were up 6.0%.

This was an outstanding quarter as most sales groups reported solid gains. Reporting anomalies most affected fuel and service station receipts, accounting for nearly two-thirds of the gains from that group.

Several prior store openings helped lift general consumer good sales while construction activity was strong this period in spite of, or perhaps because of, the heavy rains. New car sales remained strong.

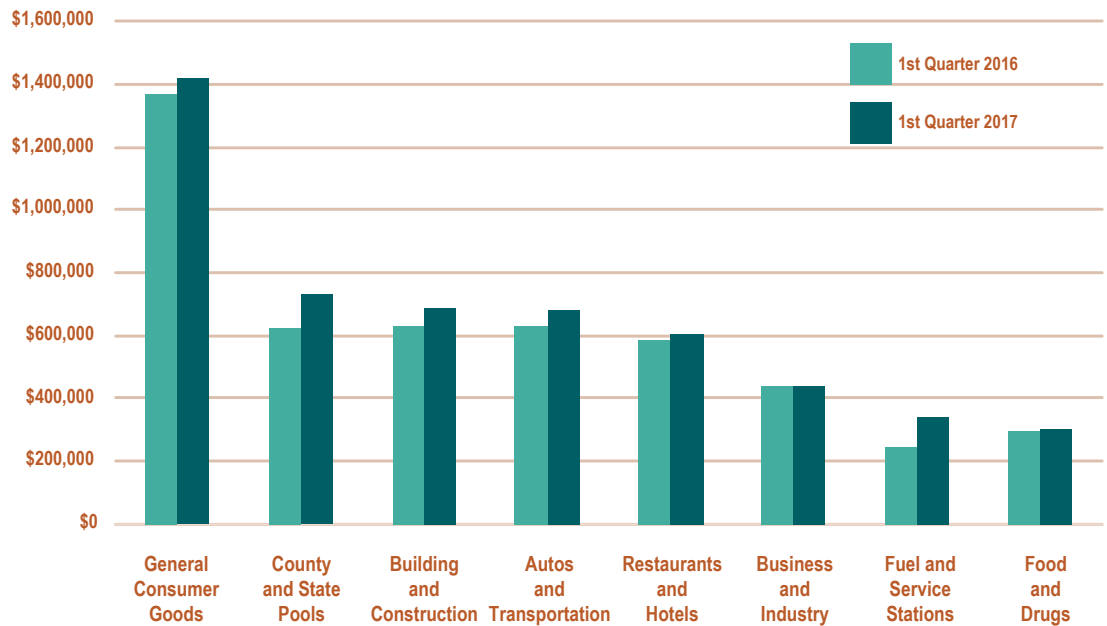
Restaurant sales grew with the help of two recently opened dining venues but overall growth was less than the statewide average.

The City's allocation from the countywide use tax pool grew by nearly \$100,000 after the pool saw substantial growth this quarter. The prior opening a new grocery store helped lift food/drug group receipts.

Several onetime payment events in the prior year negatively skewed this quarter's business/industry results which were further reduced by lower business-to-business sales.

Net of anomalies, taxable sales for all of Butte County grew 4.1% over the comparable time period; the Far North region was up 2.9%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Best Buy	Lulus Fashion Lounge
Build.Com	Meeks Building Center
Chico Nissan/Hyundai	MJB Welding Supply
Chico Volkswagen	Northgate Petroleum
Chuck Patterson Toyota/Dodge	Raleys
Costco	Ross
Courtesy Automotive Center	Safeway
Ed Wittmeier Ford	Safeway Fuel
Home Depot	Target
Hunt & Sons	Walmart
JC Penney	Supercenter
Lowes	Winco Foods
	Wittmeier Chevrolet Zones

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$13,596,401	\$14,058,900
County Pool	1,997,786	2,422,677
State Pool	8,954	13,290
Gross Receipts	\$15,603,141	\$16,494,867
Cty/Cnty Share	(780,157)	(824,743)
Net Receipts	\$14,822,984	\$15,670,123
Less Triple Flip*	\$ (2,557,975)	\$0

*Reimbursed from county compensation fund

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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.

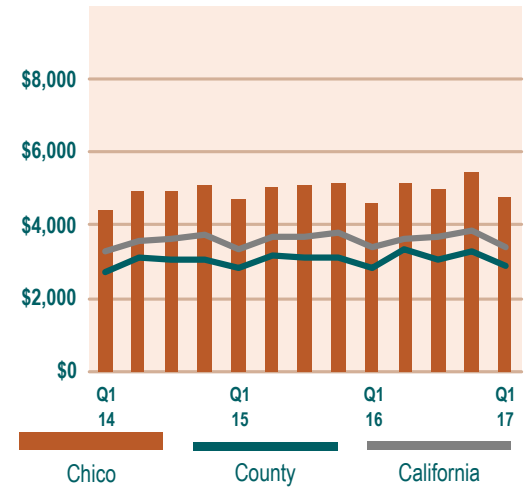
In 2011, HdL detected discrepancies in the BOE's allocation of public safety revenues which led to the recovery of over \$124 million in revenues for counties. Subsequent audits by the State

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.

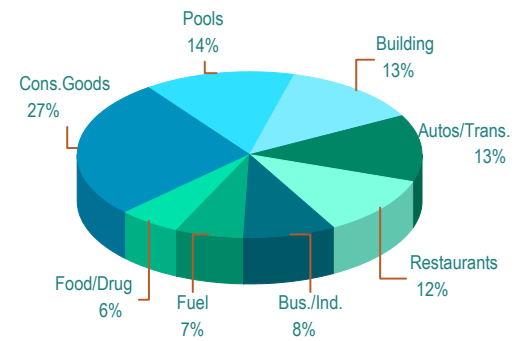
The BOE is also empowered to hear appeals and disputes over tax assessments including sales/use, personal income and corporate taxes and is the only elected Tax Board in the United States that hears tax disputes. Effective January 1, 2018, that function will be turned over to a new Office of Tax Appeals (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
Chico This Quarter



CHICO TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Chico Q1 '17*	Chico Change	County Change	HdL State Change
Building Materials	337.5	6.8%	5.4%	3.2%
Casual Dining	335.0	0.6%	2.4%	0.3%
Discount Dept Stores	483.8	2.6%	0.9%	1.6%
Electronics/Appliance Stores	154.3	6.9%	6.8%	-0.2%
Family Apparel	174.7	17.0%	14.3%	0.8%
Grocery Stores	169.7	1.0%	-1.3%	0.5%
Home Furnishings	101.6	-1.6%	-7.1%	-1.9%
Light Industrial/Printers	73.3	2.0%	-2.2%	7.7%
New Motor Vehicle Dealers	480.3	7.9%	5.7%	4.4%
Petroleum Prod/Equipment	— CONFIDENTIAL —		207.3%	51.9%
Plumbing/Electrical Supplies	260.9	7.6%	9.2%	-1.5%
Quick-Service Restaurants	193.9	2.1%	3.7%	4.6%
Service Stations	259.6	17.9%	12.4%	9.9%
Specialty Stores	109.4	26.5%	19.5%	0.2%
Sporting Goods/Bike Stores	85.1	0.9%	-2.8%	-13.8%
Total All Accounts	4,469.6	6.2%	4.2%	1.8%
County & State Pool Allocation	731.2	17.5%	15.3%	2.9%
Gross Receipts	5,200.8	7.6%	5.6%	1.9%
City/County Share	(260.0)	-7.6%		
Net Receipts	4,940.7	7.6%		