Hollister In Brief

Hollister’s receipts from October through December were 6.8% above the fourth sales period in 2015.

Receipts for the auto and transportation group grew at a pace that exceeded the statewide average five times over.

The addition of a new grocery store and a pair of reporting anomalies that inflated results accounted for most of the gains reported by the food/drug group. Another reporting anomaly boosted building and construction receipts while overall group sales were lower this quarter.

The countywide use tax pool grew this quarter as did the city’s allocation amount.

Partially dampening these gains were a drop in receipts from chemical manufacturers and the light industry segment of the business/industry group. A large reporting anomaly in the prior year negatively skewed results for the fuel and service station group.

Measure E generated $1,381,635 or 6.1% more than the same period a year ago. Auto sales generated the largest gains.

Net of anomalies, taxable sales for all of San Benito County grew 2.8% over the comparable time period; the Central Coast region was up 1.0%.

Sales Tax by Major Business Group

Revenue Comparison

Three Quarters – Fiscal Year To Date

<table>
<thead>
<tr>
<th></th>
<th>2015-16</th>
<th>2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Point-of-Sale</td>
<td>$2,564,771</td>
<td>$2,868,486</td>
</tr>
<tr>
<td>County Pool</td>
<td>$17,567</td>
<td>$82,440</td>
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<tr>
<td>State Pool</td>
<td>3,069</td>
<td>1,728</td>
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<tr>
<td>Gross Receipts</td>
<td>$3,085,407</td>
<td>$3,452,654</td>
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<tr>
<td>Less Triple Flip*</td>
<td>$(771,352)</td>
<td>$0</td>
</tr>
<tr>
<td>Measure E</td>
<td>$3,603,978</td>
<td>$4,055,988</td>
</tr>
</tbody>
</table>

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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 countywide 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.