

Q1 2020



City of Sonoma Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2020)

Sonoma In Brief

Sonoma's receipts from January through March were 18.1% below the first sales period in 2019. Excluding aberrations, actual sales were down 7.7%. Cash was reduced by eligible companies taking advantage of the extra 90 days to file tax returns under the Governor's Executive Order.

County Officials declared a shelter in place in mid-March. Industries anchored to hospitality and tourism suffered big losses as lesser taxes arrived from casual and fine dining restaurants, wineries and hotels.

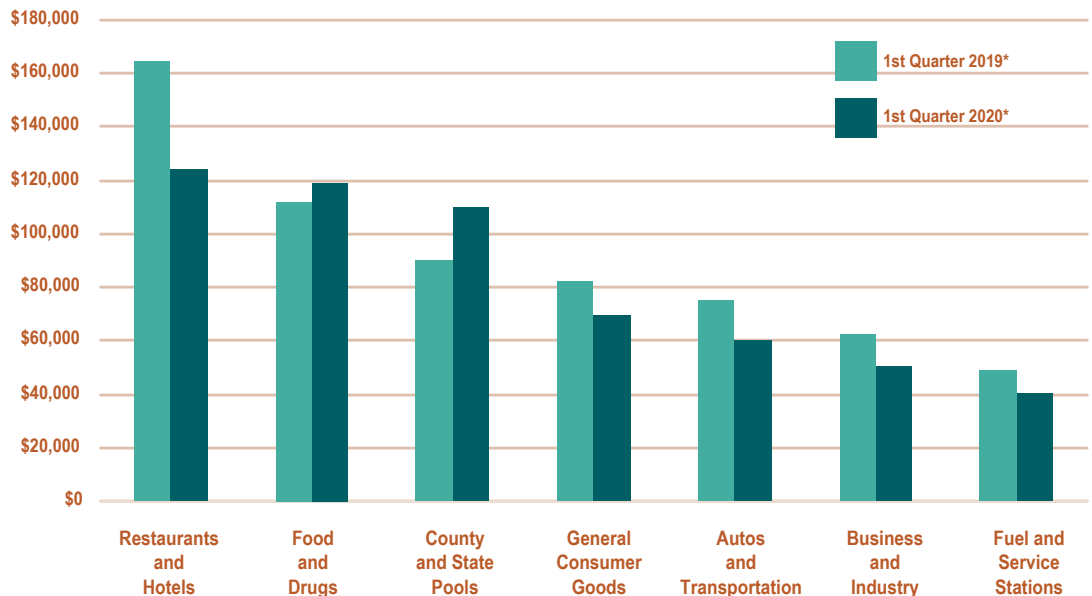
Further, COVID-19 impacts drove returns from general consumer goods and autos-transportation downward. Service stations decreased as consumption dropped off and fuel prices fell.

Bright spots included gains from building-construction and grocers that remained open all quarter. Pool results were boosted by implementation of the marketplace facilitator provision under 'Wayfair' that required additional out of state companies to collect sales tax.

Measure U provided \$496,456, the 16% decrease was negative pandemic effects to autos, general retail and restaurants.

Net of aberrations, taxable sales for all of Sonoma County declined 1.6% over the comparable time period; the Bay Area was down 2.9%.

SALES TAX BY MAJOR BUSINESS GROUP



*Allocation aberrations have been adjusted to reflect sales activity

TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Chaise Ventures Wines	Pet Food Express
Chevron	Pharmaca
CVS Pharmacy	Red Grape Pizzeria
Friedmans Home Improvement	Rite Aid
Girl & The Fig	Safeway
Jacks Filling Station	Shell
Jolly Washer Service Station	Silveira Chevrolet
Lodge at Sonoma	Sonoma Market
Lucky	Staples
MacArthur Place Hotel	Sunflower Caffe
Mary's Pizza Shack	Three Sticks Wines
O'Reilly Auto Parts	Villa Terrazza Patio & Home
	Whole Foods Market

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date (Q3 to Q1)

	2018-19	2019-20
Point-of-Sale	\$2,258,836	\$2,009,960
County Pool	316,013	387,406
State Pool	1,167	1,113
Gross Receipts	\$2,576,015	\$2,398,479
Cty/Cnty Share	(64,400)	(59,962)
Net Receipts	\$2,511,615	\$2,338,517
Measure U	\$2,060,269	\$1,738,176

Statewide Results

With stay at home/non-essential business restrictions in place during the last two weeks of the quarter, local one cent tax revenues for the state overall, were 18.8% lower than January to March of 2019. Taxpayer relief programs accounted for much of the decline with receipts down roughly 3.1% after factoring for payment deferrals and other accounting anomalies.

Severe drops in auto sales, general consumer goods, service stations and restaurants were largely offset by new revenue from implementation of the Wayfair v. South Dakota decision that now requires out-of-state retailers to collect and remit Californian's sales and use tax. Other offsets included a surge in online shopping that boosted receipts from the county use tax allocation pools and from online retailers who maintain and ship their inventory from within California.

The food/drug sector also showed strong gains as did many home supply, dollar and discount stores that remained open during the shutdown.

New Challenges & Opportunities

Current indicators suggest that overall tax receipts for the April thru June sales period will bottom out at 27% below the second quarter of 2019. The speed of the rebound in sales activity will be dependent on the availability of adequate testing, treatment therapies and ultimately a vaccine. Until then, physical distancing, COVID-19 protocols and supply chain disruptions will create limitations on some operating capacities and the return to work of all employees. Health fears, discounts and liquidation sales may also keep sales tax revenues below pre-pandemic levels until solutions are in place.

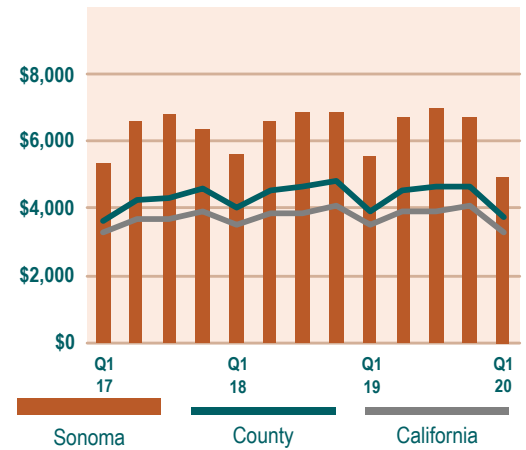
Regardless of when full recovery does occur, reports are that some elements of the economy will be permanently altered. Generation of future tax revenues may require rethinking of local economic strategies.

Over expansion, excessive debt and consumer shifts to online shopping were already resulting in bankruptcies with estimates of up to 25,000 brick-and-mortar store closings by the end of 2020. "Touch and feel" shopping is not going away but retailers see an evolution where in-store shopping is more leisure/recreational oriented with smaller stores offering more show-rooming and delivery/pick-up services. The smaller footprints and lifestyle emphasis offer opportunities to reinstate downtowns and neighborhood centers as economic/social gathering places.

The Pandemic's capture of new online customers and the growing trend of manufacturers and entrepreneurs with new concepts to bypass physical stores and sell directly to the consumer also expands options for agencies without large market populations to generate sales tax through industrial development.

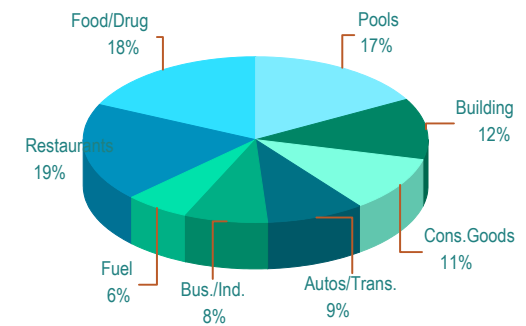
Finally, the Pandemic's disruption of supply chains has also accelerated growing dissatisfaction with overseas arrangements and some reshoring will occur which offers opportunities to leverage a city's existing business base to attract compatible support industries.

SALES PER CAPITA*



*Allocation aberrations have been adjusted to reflect sales activity

REVENUE BY BUSINESS GROUP
Sonoma This Quarter*



*Allocation aberrations have been adjusted to reflect sales activity

SONOMA TOP 15 BUSINESS TYPES**

Business Type	Sonoma		County	HdL State
	Q1 '20	Change	Change	Change
Automotive Supply Stores	—	CONFIDENTIAL	-5.5%	-9.5%
Building Materials	—	CONFIDENTIAL	7.2%	3.0%
Casual Dining	73,862	-20.7%	-17.7%	-18.8%
Convenience Stores/Liquor	9,052	-16.8%	-6.4%	-4.4%
Drug Stores	—	CONFIDENTIAL	2.2%	3.4%
Fast-Casual Restaurants	—	CONFIDENTIAL	-11.7%	-9.9%
Fine Dining	15,064	-40.6%	-27.2%	-24.1%
Grocery Stores	79,820	10.4%	16.2%	11.8%
Home Furnishings	15,411	-23.5%	-18.6%	-13.0%
Hotels-Liquor	20,864	-23.2%	-20.3%	-28.4%
New Motor Vehicle Dealers	—	CONFIDENTIAL	-12.9%	-10.6%
Office Supplies/Furniture	—	CONFIDENTIAL	-10.9%	-9.8%
Service Stations	40,723	-17.2%	-8.7%	-9.5%
Specialty Stores	17,231	0.9%	-8.9%	-10.1%
Wineries	35,181	-21.2%	-4.8%	-6.7%
Total All Accounts	544,409	-12.0%	-5.5%	-7.3%
County & State Pool Allocation	109,580	21.8%	24.1%	22.4%
Gross Receipts	653,989	-7.7%	-1.6%	-3.0%

** Accounting aberrations such as late payments, fund transfers, and audit adjustments have been adjusted to reflect the quarter in which the sales occurred.