

Q2 2020



City of Sonoma Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2020)

Sonoma In Brief

Sonoma's receipts from April through June were 14.2% below the second sales period in 2019; cash included late payments by taxpayers who took advantage of State deferral programs. Excluding all reporting aberrations, actual sales were down 28.5%.

The impact of COVID-19 pushed down most major industry groups. The biggest drop was in restaurants-hotels with significant reductions in casual, fast casual and fine dining, also lodging resorts. Multiple weeks of store closures generated lower returns from home furnishings, apparel and specialty stores.

Wineries declined due to a lack of tourists coming to local establishments. Service stations, while open, sold lower volumes at cheaper prices per gallon.

New taxes from marketplace facilitators and more online shopping boosted county use tax pools. Other positives were gains from building materials and grocers.

The City's Measure U generated \$457,702 which comprised similar decreases from the larger tax segments due to pandemic effects on local merchants.

Net of aberrations, taxable sales for all of Sonoma County declined 16.6% over the comparable time period; the Bay Area was down 21.6%.

SALES TAX BY MAJOR BUSINESS GROUP



*Allocation aberrations have been adjusted to reflect sales activity

TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

| | |
|------------------------------|-------------------------------|
| 7 Eleven | Pharmaca |
| Chevron | Rite Aid |
| CVS Pharmacy | Safeway |
| Friedmans Home Improvement | Sebastiani Vineyards & Winery |
| Hopmonk Tavern | Shell |
| Jack in the Box | Silveira Chevrolet |
| Jacks Filling Station | Sonoma Auto Parts |
| Jolly Washer Service Station | Sonoma Market |
| Lodge at Sonoma | Sonoma Paint Center |
| Lucky | Staples |
| Mary's Pizza Shack | Villa Terrazza Patio & Home |
| O'Reilly Auto Parts | Whole Foods Market |
| Pet Food Express | |

REVENUE COMPARISON

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

| | 2018-19 | 2019-20 |
|----------------|-------------|-------------|
| Point-of-Sale | \$2,997,933 | \$2,591,049 |
| County Pool | 430,114 | 538,534 |
| State Pool | 1,487 | 1,346 |
| Gross Receipts | \$3,429,535 | \$3,130,929 |
| Cty/Cnty Share | (85,738) | (78,273) |
| Net Receipts | \$3,343,796 | \$3,052,656 |
| Measure U | \$2,678,966 | \$2,291,087 |

Statewide Results

Local sales and use tax receipts from April through June sales were 16.3% lower than the same quarter of 2019 after factoring for accounting anomalies and back payments from previous quarters.

This was the largest quarter to quarter decline since 2009. The drops were deepest in the San Francisco Bay Area, Central Coast and Southern California where declines in revenues from fuel, automobiles, general consumer goods and restaurants/hotels were the most severe.

However, despite a 14.9% unemployment rate that eclipsed the previous high of 12.3% during the great recession of 2010 and temporary business closures, the drop in sales was less than previously projected by most analysts including HdL.

The high second quarter unemployment rates primarily affected lower wage service sectors which generate a smaller share of sales tax revenues. Internet connected knowledge workers continued to work but locked at home, found that they had extra cash to spend because of reduced commute and work-related expenses and few entertainment or travel options. Additionally, though much of the quarter's government relief payments were spent largely on rents, utilities and necessities, the money was not distributed proportionally to income losses thereby adding temporary discretionary income gains for some recipients.

Low interest rates and longer term lending practices allowed the extra money to be spent on previously delayed purchases such as autos and home improvements. New car registrations dropped 48.9% in the second quarter, but sales tax receipts dropped only 15.8% as buyers who did purchase, opted for more expensive SUV's, trucks and luxury vehicles. As cabin fever set in, sales of RV's, boats and Motorcycles also began to rise.

With restaurants and many brick and mortar stores closed or restricted to limited occupancy, buyers shifted to online shopping with tax revenues from in-state fulfillment centers rising 142.7% over the

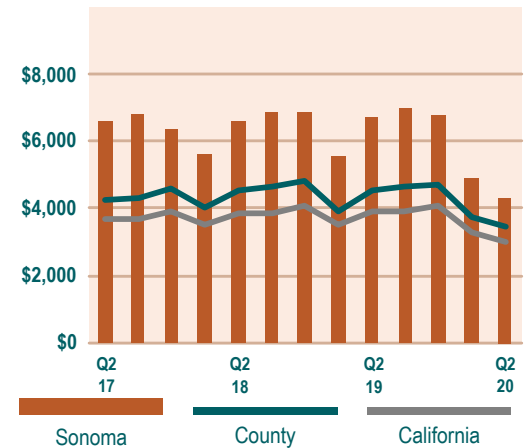
second quarter of 2019 and county pools where tax receipts from out-of-state goods are allocated, rising 28.9%. Online sales accounted for 52.0% of this quarter's tax revenues from the general consumer goods group.

Working at home eventually morphed into working on home thereby boosting related improvement purchases. Grocers, cannabis, liquor and sporting goods further helped offset losses in other segments.

Strong demand for warehouse and shipping technology, equipment and supplies to accommodate the increase in online shopping as well as home offices and virtual classrooms helped offset declines in the business/industrial group. Unanticipated gains in agriculture related purchases and transit spending further added to the offset.

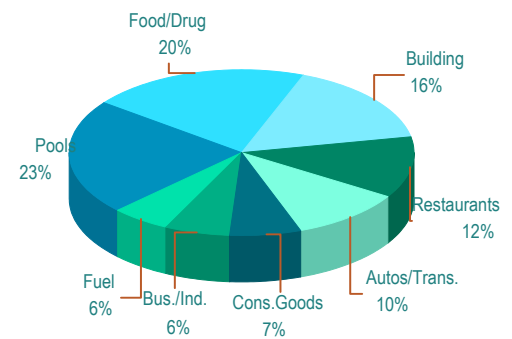
Pandemic uncertainties, fires, childcare issues and bankruptcies are expected to result in uneven gains through 2020-21 with each jurisdiction's experience differing according to the scope and character of their individual tax bases. Overall recovery and improvement in statewide receipts is not expected to begin until 2021-22.

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 |
|---|----------------|---------------|---------------|---------------|
| | Q2 '20 | Change | Change | Change |
| Automotive Supply Stores | — | CONFIDENTIAL | -12.3% | -4.7% |
| Building Materials | — | CONFIDENTIAL | 5.8% | 7.0% |
| Casual Dining | 38,937 | -64.0% | -51.6% | -53.2% |
| Convenience Stores/Liquor | 10,031 | -29.1% | 0.7% | 8.4% |
| Drug Stores | — | CONFIDENTIAL | -3.8% | 0.1% |
| Fine Dining | 8,366 | -74.4% | -61.1% | -64.0% |
| Grocery Stores | 86,426 | 5.7% | 8.2% | 7.8% |
| Home Furnishings | 11,829 | -48.4% | -44.9% | -41.7% |
| Hotels-Liquor | 14,424 | -69.5% | -75.2% | -80.1% |
| New Motor Vehicle Dealers | — | CONFIDENTIAL | -20.3% | -15.8% |
| Office Supplies/Furniture | — | CONFIDENTIAL | -31.3% | -28.7% |
| Quick-Service Restaurants | 9,120 | -21.0% | -26.8% | -22.0% |
| Service Stations | 34,457 | -44.8% | -43.7% | -45.2% |
| Specialty Stores | 11,533 | -44.2% | -38.1% | -36.0% |
| Wineries | 21,177 | -42.3% | -23.5% | -25.7% |
| Total All Accounts | 477,899 | -36.1% | -24.3% | -24.0% |
| County & State Pool Allocation | 139,364 | 20.6% | 33.5% | 28.2% |
| Gross Receipts | 617,263 | -28.5% | -16.6% | -16.4% |

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