

Q4 2018



City of Fortuna Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (October - December 2018)

Fortuna In Brief

Fortuna's receipts from October through December were 0.4% below the fourth sales period in 2017.

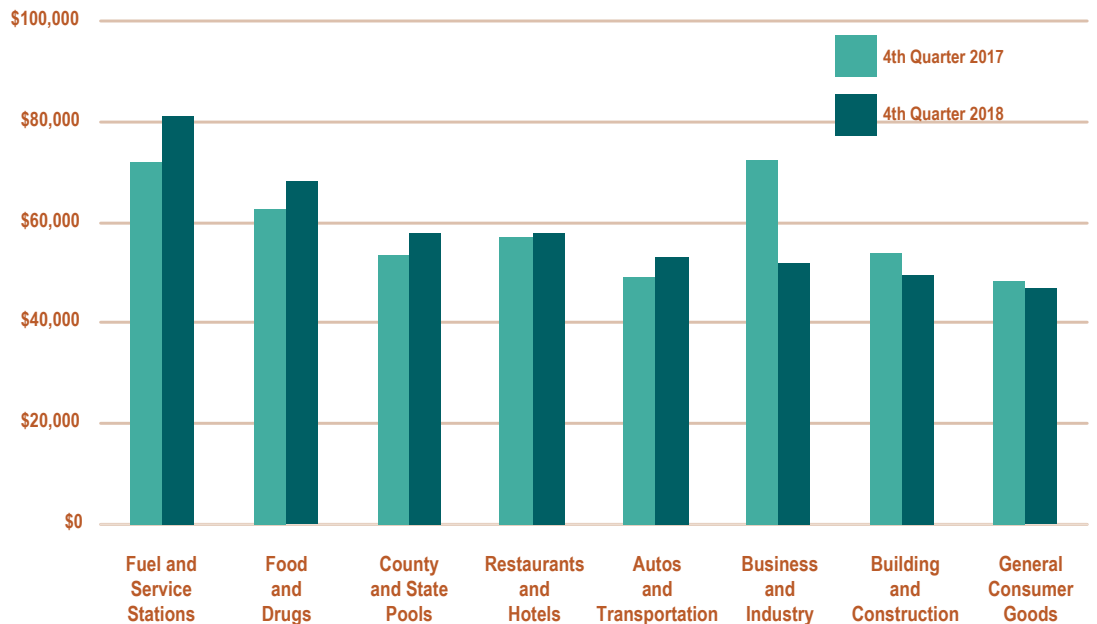
In spite of the State's efforts to teach taxpayers how to accurately report their taxes, reporting errors continue to plague this quarter's reporting. The result is that the increase in receipts from rising fuel prices coupled with the collection of previously missing payments were offset by new amounts that went missing from this quarter.

Even the countywide use tax pool was affected as the gain it reported came from payments sent to the pool in error. The amount the City received this quarter will be deducted at a later date.

Measure E's receipts totaled \$413,998 or 1.4% more cash compared to this time last year. Without reporting adjustments, Measure E actually declined by 0.9%.

Net of adjustments, taxable sales for all of Humboldt County declined 7.6% over the comparable time period while those of the entire Far North region were flat.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Ace Hardware & Garden	McDonalds
Beverage Plus Foods	Northcoast Horticulture Supply
Dollar Tree	Ray's Quality Cars
Eel River Brewing	Redi Rents
Forbusco Lumber	Rite Aid
Fortuna Chevron	Safeway
Fortuna Fire Protection District	Sequoia Gas
Fortuna Gas 4 Less	Taco Loco
Grocery Outlet	Tractor Supply
Hummel Tire & Wheel	United Petrol
L & M Renner	Victra
Les Schwab Tire Center	Walgreens
	Wyckoff Plumbing

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date (Q3 to Q4)

	2017-18	2018-19
Point-of-Sale	\$857,312	\$893,032
County Pool	108,364	125,921
State Pool	461	448
Gross Receipts	\$966,137	\$1,019,401
Measure E	\$836,305	\$913,120

Statewide Results

The local one cent share of sales and use tax from October through December sales was 2.8% higher than 2017's holiday quarter after factoring for state reporting aberrations.

The overall increase came primarily from a solid quarter for contractor materials and equipment, expanded production by an auto manufacturer and rising fuel prices. Online fulfillment centers, new technology investment and cannabis start-ups also produced significant gains. Receipts in the six county Sacramento region grew 7.9% over last year while the remainder of the state was generally flat or exhibited only minor growth.

Notable was the 0.09% rise in tax receipts from brick and mortar retailers which is the lowest holiday gain for that sector since 2009. A 9.6% increase in receipts from online shopping which is allocated to central order desks or county pools was part of the reason. Other factors include lower prices, gift cards which move purchases to future quarters and greater gifting of non-taxable experiences and services.

The Retail Evolution Continues

A recent survey identified U.S. closures of 102 million sq. ft. of retail space in 2017 and an additional 155 million sq. ft. in 2018. Similar losses are expected in 2019 with 5,300 closures already announced. Payless Shoes, Gymboree, Performance Bicycle and Charlotte Russe are going out of business while chains including Sears, Kmart, Macy's, JCPenney, Kohl's, Nordstrom, Dollar Tree, Victoria's Secret, Chico's, Foot Locker and Lowe's have announced plans for further cuts in oversaturated markets and downsizing of stores.

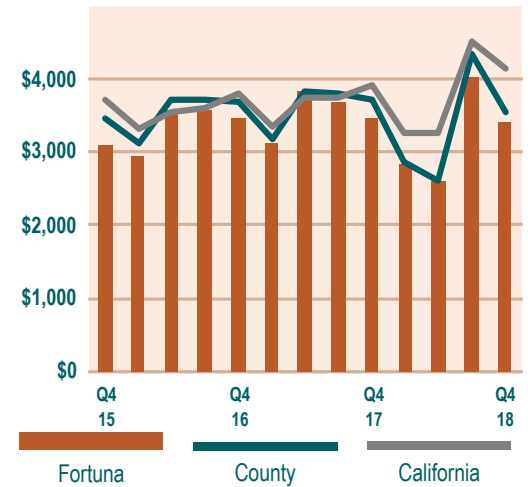
Retailers are not planning the end of physical stores which continue to be important for personalized experiences and shopping entertainment. However, the shifting trends encourage reduced square footage with less overhead to better compete on prices and provide more intimate shopping encounters.

With smartphones allowing purchase and delivery of almost anything at any time of the day without leaving home, big box retailers are responding by downsizing stores and subleasing excess space to compatible businesses to help draw traffic. Locations where people congregate for entertainment, food and services have become part of the evolving strategy as has integrating retail with more convenient spots for pick-up and delivery of online orders.

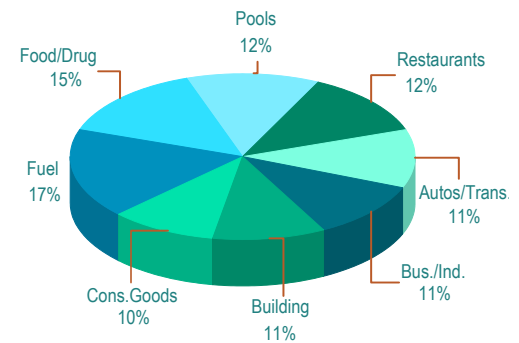
Barry Foster of HdL's EconSolutions, notes that "shifting shopping habits present challenges but also opportunities." "Smaller footprints enable expanding into smaller niche markets while mixed use projects and 18-hour environments are chances to rebuild downtowns and reinvigorate shopping centers."

With more companies using the internet to sell directly to customers from their warehouses, the trend also provides jurisdictions whose populations aren't adequate in size to support large scale retail to focus on industrial development for sales tax as well as jobs.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Fortuna This Quarter



FORTUNA TOP 15 BUSINESS TYPES

Business Type	Fortuna		County	HdL State
	Q4 '18	Change	Change	Change
Auto Repair Shops	14,767	28.7%	12.5%	4.3%
Automotive Supply Stores	27,395	-8.9%	-4.9%	2.7%
Building Materials	— CONFIDENTIAL —	—	-30.6%	5.5%
Casual Dining	35,679	5.2%	1.8%	2.5%
Contractors	11,313	-11.3%	-8.1%	17.5%
Convenience Stores/Liquor	12,209	-3.4%	-2.9%	2.8%
Drug Stores	— CONFIDENTIAL —	—	24.0%	21.9%
Electronics/Appliance Stores	15,625	0.9%	-6.7%	-1.6%
Garden/Agricultural Supplies	25,276	-15.9%	-32.2%	-2.6%
Government/Social Org.	— CONFIDENTIAL —	—	65.4%	23.9%
Grocery Stores	— CONFIDENTIAL —	—	-8.9%	-11.7%
Petroleum Prod/Equipment	— CONFIDENTIAL —	—	12.2%	24.3%
Quick-Service Restaurants	21,218	-1.2%	-2.4%	6.6%
Service Stations	63,978	12.1%	12.3%	28.4%
Used Automotive Dealers	— CONFIDENTIAL —	—	-8.2%	5.6%
Total All Accounts	408,594	-1.5%	-4.7%	7.0%
County & State Pool Allocation	57,976	8.0%	4.5%	8.6%
Gross Receipts	466,570	-0.4%	-3.7%	7.2%