

Q2 2020



City of Capitola Sales Tax Update

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

Capitola In Brief

Capitola's receipts from April through June were 11.6% below the second sales period in 2019 inflated by deferred payments from earlier periods. Excluding reporting aberrations, actual sales were down 24.1%.

Second quarter 2020 was the economic bottoming out from the COVID-19 pandemic. Much smaller numbers of local travelers had a profound negative impact on casual and quick service eateries and service stations. With doors closed for all but a few essential businesses, general consumer goods sectors reported significant declines in tax revenues.

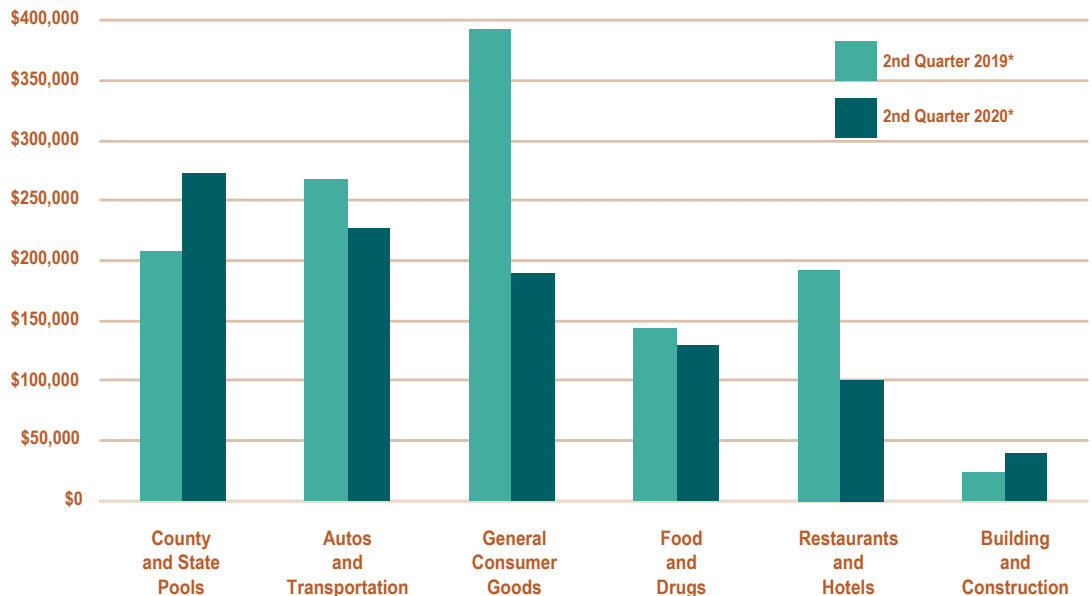
One bright spot was countywide pool allocations, boosted by stronger online sales, mitigated some portion of the point of sale retailer's losses.

There were a couple of other bright spots including segments in building-construction as home projects became a priority and convenience stores.

The voter approved district taxes generated a combined total of \$368,105, also posting declines due to the pandemic.

Net of aberrations, taxable sales for all of Santa Cruz County declined 16.0% over the comparable time period; the Central Coast region was down 17.8%.

SALES TAX BY MAJOR BUSINESS GROUP



*Allocation aberrations have been adjusted to reflect sales activity

TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

| | |
|-----------------------------|-------------------------|
| Ajs Fuel Market Of Capitola | Outdoor Supply Hardware |
| BevMo | Pizza My Heart |
| Burger King | Rite Aid |
| Capitola Coast | Ross |
| Capitola Shell | Santa Cruz Subaru |
| Chevron | Santa Cruz Toyota |
| CVS Pharmacy | Sierra Utility Sales |
| Kohls | Target |
| Lucky | Toyota Lease Trust |
| New Leaf | Trader Joes |
| Community Market | Ulta Beauty |
| Nob Hill General Store | Whole Foods Market |
| O Neills Surf Shop | Zelda's on the Beach |

REVENUE COMPARISON

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

| | 2018-19 | 2019-20 |
|-----------------------|--------------------|--------------------|
| Point-of-Sale | \$5,260,793 | \$4,420,993 |
| County Pool | 842,938 | 1,109,594 |
| State Pool | 2,657 | 2,427 |
| Gross Receipts | \$6,106,389 | \$5,533,013 |
| Measure F | \$1,091,812 | \$954,296 |
| Measure O | \$1,087,938 | \$953,434 |

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

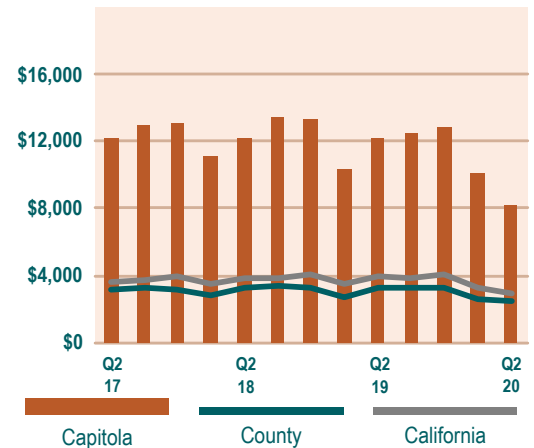
second quarter of 2019 and county pools where tax receipts from out-of-state goods are allocated, rising 28.9%. Online sales accounted for 52.0% of this quarter's tax revenues from the general consumer goods group.

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.

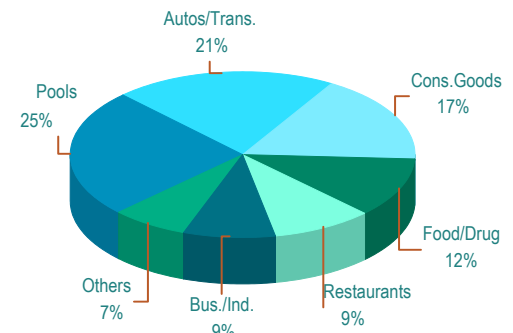
Pandemic uncertainties, fires, childcare issues and bankruptcies are expected to result in uneven gains through 2020-21 with each jurisdiction's experience differing according to the scope and character of their individual tax bases. Overall recovery and improvement in statewide receipts is not expected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

SALES PER CAPITA*



*Allocation aberrations have been adjusted to reflect sales activity

REVENUE BY BUSINESS GROUP
Capitola This Quarter*



*Allocation aberrations have been adjusted to reflect sales activity

CAPITOLA TOP 15 BUSINESS TYPES**

| Business Type | Capitola | | County | HdL State |
|---|------------------|---------------|---------------|---------------|
| | Q2 '20 | Change | Change | Change |
| Auto Lease | 13,758 | -8.6% | -13.2% | -9.2% |
| Building Materials | — CONFIDENTIAL — | — | 9.4% | 7.0% |
| Casual Dining | 50,766 | -51.2% | -51.7% | -53.2% |
| Convenience Stores/Liquor | 25,976 | 10.9% | 6.2% | 8.4% |
| Discount Dept Stores | — CONFIDENTIAL — | — | -14.5% | -6.3% |
| Drug Stores | 30,638 | -10.9% | -2.5% | 0.1% |
| Electrical Equipment | — CONFIDENTIAL — | — | -30.5% | -16.5% |
| Family Apparel | 16,106 | -63.9% | -67.5% | -66.3% |
| Grocery Stores | 70,865 | -2.6% | 1.4% | 7.8% |
| Home Furnishings | 13,577 | -61.1% | -44.0% | -41.7% |
| New Motor Vehicle Dealers | — CONFIDENTIAL — | — | -15.7% | -15.8% |
| Quick-Service Restaurants | 40,662 | -28.5% | -28.9% | -22.0% |
| Service Stations | 38,278 | -42.7% | -39.3% | -45.2% |
| Specialty Stores | 23,976 | -41.5% | -26.3% | -35.9% |
| Sporting Goods/Bike Stores | 16,809 | -53.8% | 6.3% | -11.0% |
| Total All Accounts | 819,895 | -33.4% | -26.0% | -24.0% |
| County & State Pool Allocation | 271,956 | 31.2% | 41.9% | 28.2% |
| Gross Receipts | 1,091,850 | -24.1% | -16.0% | -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.