

Q2 2018



City of Poway Sales Tax Update

Third Quarter Receipts for Second Quarter Sales (April - June 2018)

Poway In Brief

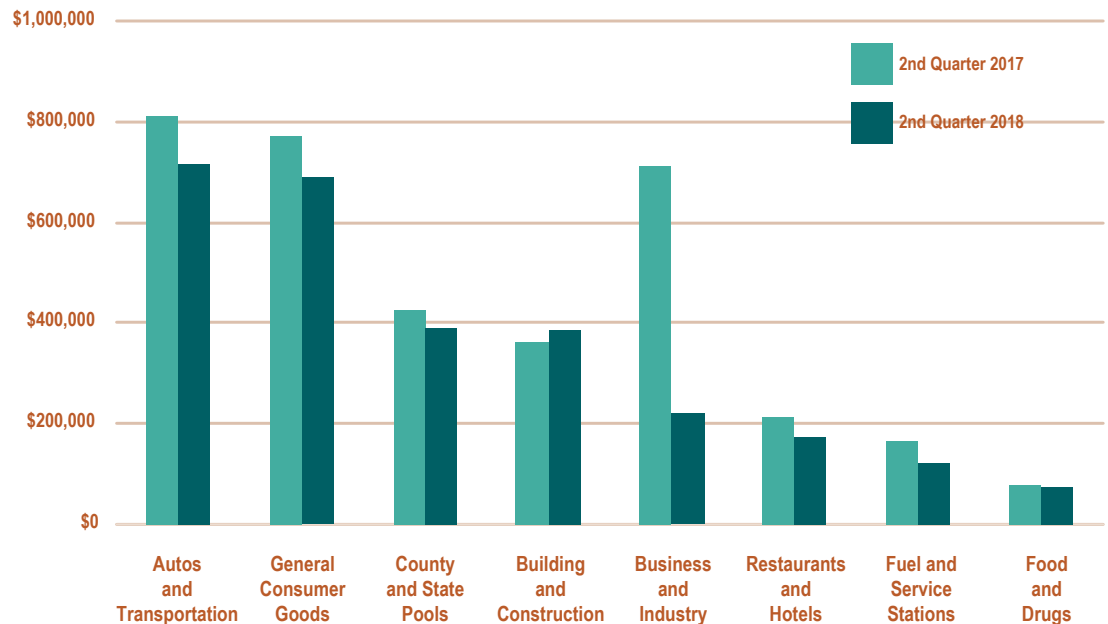
Poway's receipts from April through June were 21.7% below the second sales period in 2017 though the decline was predominately the result of the State's transition to a new software and reporting system that caused a delay in processing thousands of payments statewide. Sizable local allocations remain outstanding, particularly for numerous business and industrial suppliers, new car dealers, building material purveyors, service stations and general consumer goods merchants

A State audit recovery last year of additional tax pertaining to sales between 2012 and 2015 also artificially depressed comparison cash results for the category of light industrial-printers.

Excluding identified reporting errors and aberrations, sales were down 6.3% due primarily due to lower reported business-industrial sales. However, a suspected mis-allocation and other possible reporting issues in a quarter with incomplete data may be overstating this decline.

Net of aberrations, taxable sales for all of San Diego County grew 0.9% over the comparable time period; the Southern California region was up 1.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Arco AM PM	Lowe's
Cab West/Volvo Leasing	Maintex
Chef Works	Modular Building Concepts
Chevron	Modular Space
Circle K	Mossy Nissan
Consolidated Electrical Distributors	Perry Ford of Poway
Costco	Petco
Ferguson Enterprises	Poway Honda
Home Depot	Poway Toyota/Scion
Home Goods	Stein Mart
Honda Lease Trust	Target
Kohls	Techni Tool
	Walmart Supercenter

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$12,095,659	\$11,986,858
County Pool	1,866,374	1,841,498
State Pool	6,930	7,023
Gross Receipts	\$13,968,962	\$13,835,378

California Overall

Local Government cash receipts from April through June sales dropped 10.1% from the same quarter one year ago due to implementation issues with CDFTA's new tax reporting software system. The results were further skewed by the State's attempt to offset the resulting shortages by advancing tax revenues that it estimates will be generated next quarter.

After reviewing unprocessed returns and approximating the full amounts of partial payments, HdL estimates that once all returns are properly processed and the data adjusted to reflect actual quarter receipts, statewide local sales and use tax revenues will be 1.6% higher than second quarter 2017.

Sales of building and construction materials, jet fuel and online shopping appear to have been the primary drivers of statewide growth during the second quarter. Auto sales leveled off as previously anticipated, although receipts from auto leases continued to show substantial gains. Online fulfillment centers and value themed apparel stores were the primary gainers within the general consumer goods group. Business-industrial purchases were slightly lower than previous quarters with declines in new energy projects being a major factor.

Regionally, the San Francisco Bay area and the Sacramento and San Joaquin Valley areas outperformed the rest of the state.

Tariff Policies and Sales Tax

Tariffs are becoming a key element of the federal government's international trade strategy with additional duties of 10% announced for the end of the third quarter, rising to 25% by the end of 2018.

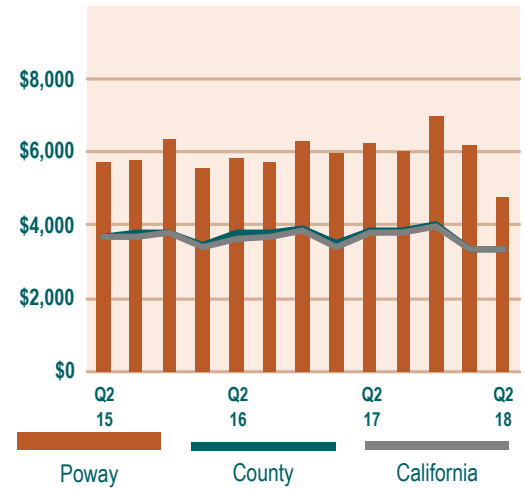
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates. Many manufacturers have managed to avoid raising prices by absorbing the costs of the

initial first round of tariffs on metals, machinery and components. On the down side, small retailers without the power to lock in prices may be placed at a competitive disadvantage and contractors are beginning to require escalation clauses in contracts to cover potential cost increases on long range projects.

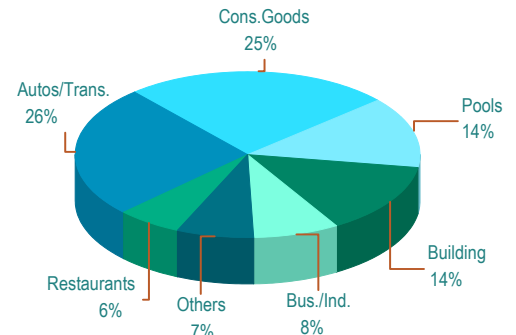
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly in an environment where rising housing, education and health care costs compete for a significant portion of discretionary income.

Proponents of rising tariffs argue that the rising strength of the U.S. dollar will offset the impact of tariff related price increases on consumers. Opponents worry that the stronger dollar and the announced \$5.6 billion in retaliatory tariffs on California exports will negatively impact both the affected companies' job base and capital investment in supplies, equipment and expansion opportunities.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Poway This Quarter



POWAY TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Poway Q2 '18*	Change	County Change	HdL State Change
Auto Lease	79.7	52.2%	67.8%	60.9%
Auto Repair Shops	46.9	-3.4%	-13.6%	-14.8%
Building Materials	134.8	-24.5%	-25.3%	-23.2%
Casual Dining	52.7	-37.6%	-9.6%	-12.6%
Contractors	55.4	9.4%	-26.5%	-10.7%
Department Stores	51.0	-3.7%	23.6%	12.7%
Discount Dept Stores	—	CONFIDENTIAL	-12.0%	-13.5%
Grocery Stores	43.5	1.0%	-2.1%	-7.0%
Light Industrial/Printers	34.5	-71.1%	-31.3%	-26.0%
New Motor Vehicle Dealers	489.3	-22.9%	-5.9%	-1.9%
Plumbing/Electrical Supplies	—	CONFIDENTIAL	1.5%	-6.7%
Quick-Service Restaurants	85.2	-3.4%	-5.2%	-5.8%
Service Stations	120.8	-26.8%	-31.9%	-26.4%
Specialty Stores	44.7	36.0%	3.9%	-4.6%
Trailers/RVs	41.7	64.5%	-41.9%	-6.7%
Total All Accounts	2,384.6	-23.5%	-12.3%	-12.2%
County & State Pool Allocation	390.5	-8.5%	4.9%	5.5%
Gross Receipts	2,775.1	-21.7%	-10.3%	-10.1%