

Q2 2018



City of Upland Sales Tax Update

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

Upland In Brief

Upland's receipts from April through June were 6.3% below the second sales period in 2017. Excluding reporting aberrations, actual sales were up 3.1%.

For the second consecutive quarter, challenges with the State's new software system have resulted in delayed funding and partial funding of local tax payments for thousands of taxpayer accounts.

Partial payments plagued the building and construction sector resulting in a temporary drop in receipts. Businesses in the general consumer goods group reported a sluggish sales quarter. Receipts were reduced further by delayed second quarter payments.

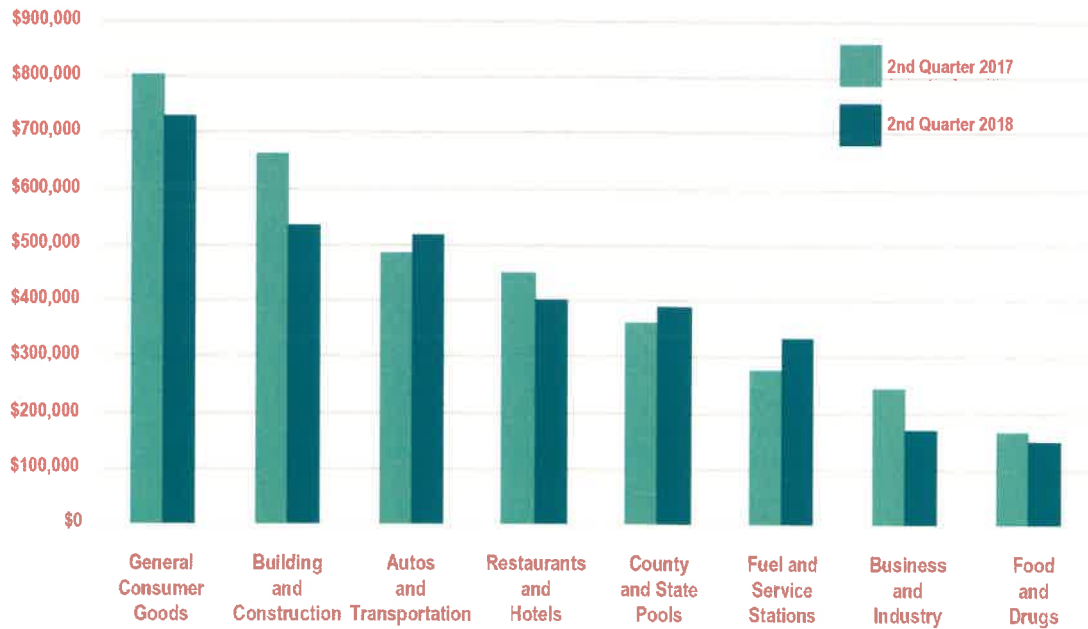
A double payment in the comparison quarter skewed totals for drugs/chemicals. Casual dining and quick-service restaurants were negatively impacted by delayed payments.

Higher fuel prices boosted revenues for fuel and service stations, while autos and transportation reported a strong sales quarter.

The City's share of the countywide use tax pool increased 7.2% over the comparison period.

Net of aberrations, taxable sales for all of San Bernardino County grew 2.0% 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	Nordstrom Rack
Chevron	RF White
Chick Fil A	RV Spa
Circle K	State Bros
Dick's Sporting Goods	Target
Euclid Arco	TJ Maxx
Ford of Upland	Toys R Us
Holliday Rock	Upland Shell
Home Depot	USA Gasoline
Kohls	Verizon
Lowes	Vons Fuel
Marshalls	Walmart
Mountain View Chevrolet	

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$12,017,716	\$11,804,948
County Pool	1,458,334	1,513,117
State Pool	6,482	6,649
Gross Receipts	\$13,482,532	\$13,324,714

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.

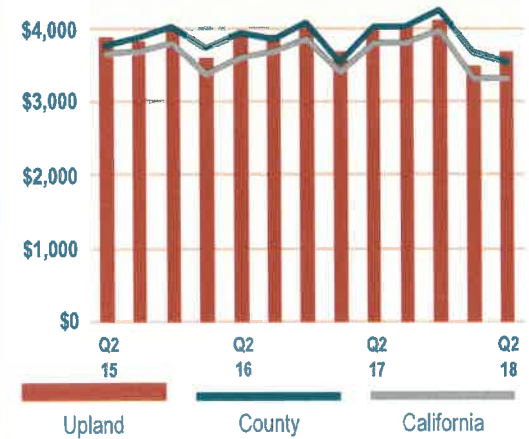
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates.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

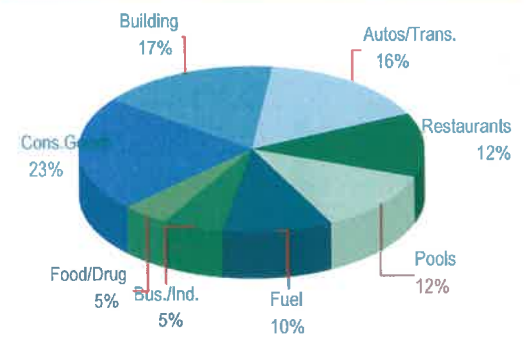
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly 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
Upland This Quarter



UPLAND TOP 15 BUSINESS TYPES

**in thousands of dollars*

Business Type	Upland		County	HdL State
	Q2 '18*	Change	Change	Change
Auto Repair Shops	50.7	-5.1%	-9.1%	-14.8%
Automotive Supply Stores	49.7	4.6%	-4.4%	-11.6%
Building Materials	251.0	-32.5%	-20.8%	-23.2%
Casual Dining	140.2	-19.6%	-13.7%	-12.6%
Contractors	—	CONFIDENTIAL	-9.8%	-10.7%
Department Stores	111.9	39.0%	1.7%	12.7%
Discount Dept Stores	—	CONFIDENTIAL	-15.2%	-13.5%
Electronics/Appliance Stores	81.2	-10.4%	-2.4%	-5.1%
Family Apparel	62.5	8.9%	-26.2%	-27.2%
Fast-Casual Restaurants	60.9	8.9%	4.9%	-3.3%
Grocery Stores	73.1	-8.2%	-2.3%	-7.0%
New Motor Vehicle Dealers	—	CONFIDENTIAL	-5.5%	-1.9%
Quick-Service Restaurants	183.1	-10.3%	-0.8%	-5.8%
Service Stations	333.0	21.6%	-21.8%	-26.4%
Specialty Stores	136.9	10.4%	6.5%	-4.6%
Total All Accounts	2,839.6	-8.0%	-11.2%	-12.2%
County & State Pool Allocation	391.1	8.0%	4.2%	5.5%
Gross Receipts	3,230.7	-6.3%	-9.6%	-10.1%