

Q2 2018



San Fernando Sales Tax *Update*

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

San Fernando In Brief

San Fernando's receipts from April through June were 14.7% below the second sales period in 2017. However, for the second consecutive quarter, challenges with the State's new software system have resulted in delayed funding for 2Q18 local tax payments. Other accounts received only partial funding for the current quarter. Including these allocations, actual sales would have been down 7.7%.

A business closeout reduced receipts from the general consumer goods sector. Missing and partial payments accounted for the decline in the building and construction group, service stations, quick-service restaurants and auto leasing.

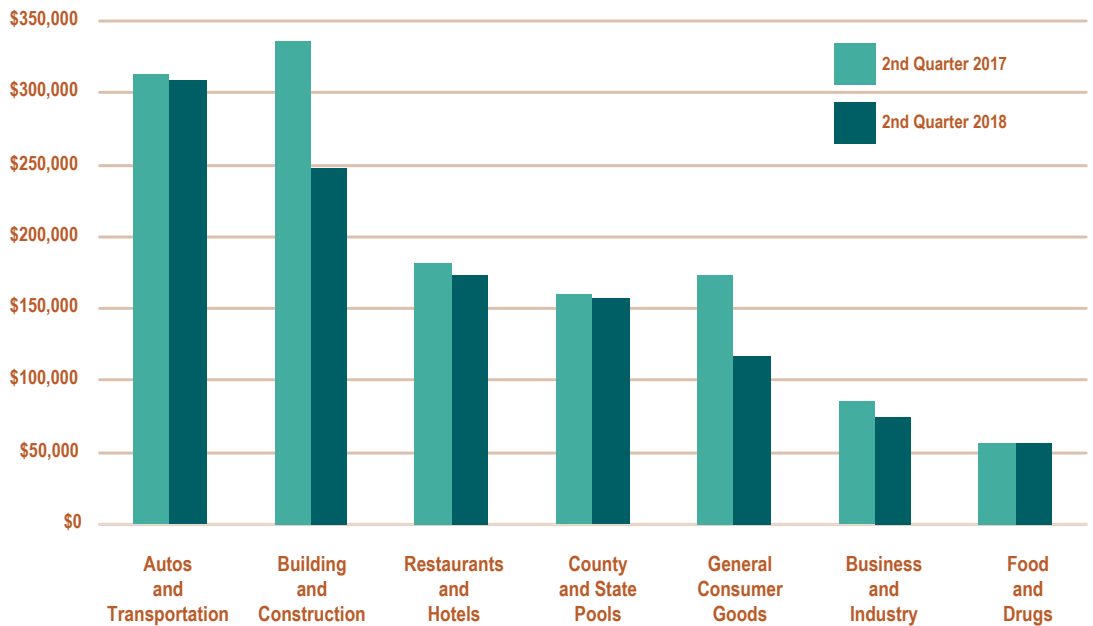
An incorrectly allocated payment temporarily depressed returns from casual dining restaurants.

The losses were partially offset by double-up payments that inflated results from electronics/appliance stores.

The City's Measure A voter approved half-cent transaction tax generated an additional \$522,564 for the quarter, a decrease of 17.8% from the same period one year ago.

Net of aberrations, taxable sales for all of Los Angeles County grew 0.6% 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

Ally Financial	Malbros Ready Mix Concrete
Araca Merchandise	McDonald's
Arroyo Building Materials	Nachos Ornamental
CCAP Auto Lease	Pool & Electrical Products
El Pollo Loco	Rydell Chrysler Dodge Jeep Ram
El Super	Smart & Final
Enterprise Rent A Car	T Mobile
Ferguson Enterprises	Taco Bell
Ganas Auto	TMB Production Supplies & Services
Goodman Distribution	Vallarta Supermarket
Home Depot	Western Motor Sport
Jack in the Box	WSS
Legacy Effects	

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$4,576,822	\$4,377,993
County Pool	635,186	630,025
State Pool	2,477	2,546
Gross Receipts	\$5,214,485	\$5,010,563
Measure A	\$2,464,351	\$2,468,080

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.

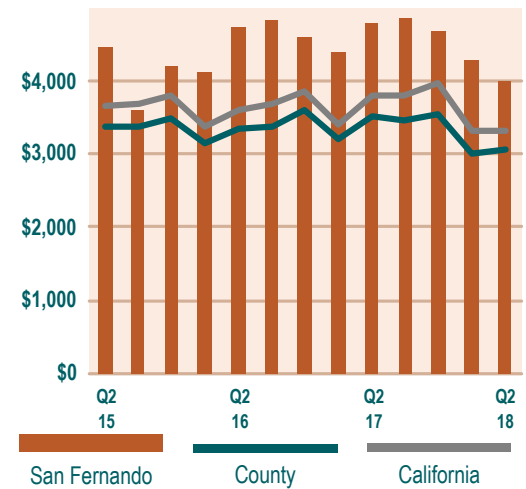
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates.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

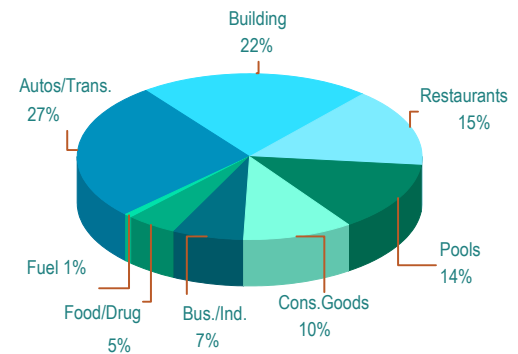
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly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



SAN FERNANDO TOP 15 BUSINESS TYPES

Business Type	San Fernando		County	HdL State
	Q2 '18	Change	Change	Change
Auto Lease	36,576	-20.8%	61.0%	60.9%
Auto Repair Shops	15,537	1.0%	-14.7%	-14.8%
Automotive Supply Stores	23,884	-6.4%	-10.2%	-11.6%
Building Materials	— CONFIDENTIAL —	—	-34.3%	-23.2%
Casual Dining	42,477	-14.1%	-11.4%	-12.7%
Contractors	34,360	-14.7%	-14.1%	-10.7%
Electronics/Appliance Stores	43,889	74.0%	-7.0%	-5.1%
Fast-Casual Restaurants	15,230	3.8%	-6.0%	-3.4%
Grocery Stores	36,640	3.6%	-12.1%	-7.0%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	-5.4%	-2.0%
Plumbing/Electrical Supplies	69,889	-4.1%	-2.4%	-6.8%
Quick-Service Restaurants	112,147	-3.7%	-6.0%	-6.0%
Repair Shop/Equip. Rentals	18,045	-2.6%	-23.0%	-18.6%
Shoe Stores	— CONFIDENTIAL —	—	-0.3%	-3.3%
Used Automotive Dealers	— CONFIDENTIAL —	—	-41.4%	-41.5%
Total All Accounts	985,426	-16.4%	-11.9%	-12.2%
County & State Pool Allocation	157,109	-2.1%	3.2%	5.5%
Gross Receipts	1,142,535	-14.7%	-10.1%	-10.1%