

Q2 2018



City of Redlands Sales Tax *Update*

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

Redlands In Brief

Redlands' receipts from April through June were 11.0% below the second sales period in 2017. Excluding reporting aberrations, actual sales were down 1.0%.

For the second consecutive quarter, challenges with the State's new software system have resulted in delayed funding of 2Q18 local tax payment for thousands of taxpayer accounts. Other accounts received only partial funding for the current quarter.

Onetime use tax payments in the year ago period combined with delayed payments caused a temporary drop in revenue for the business and industry group.

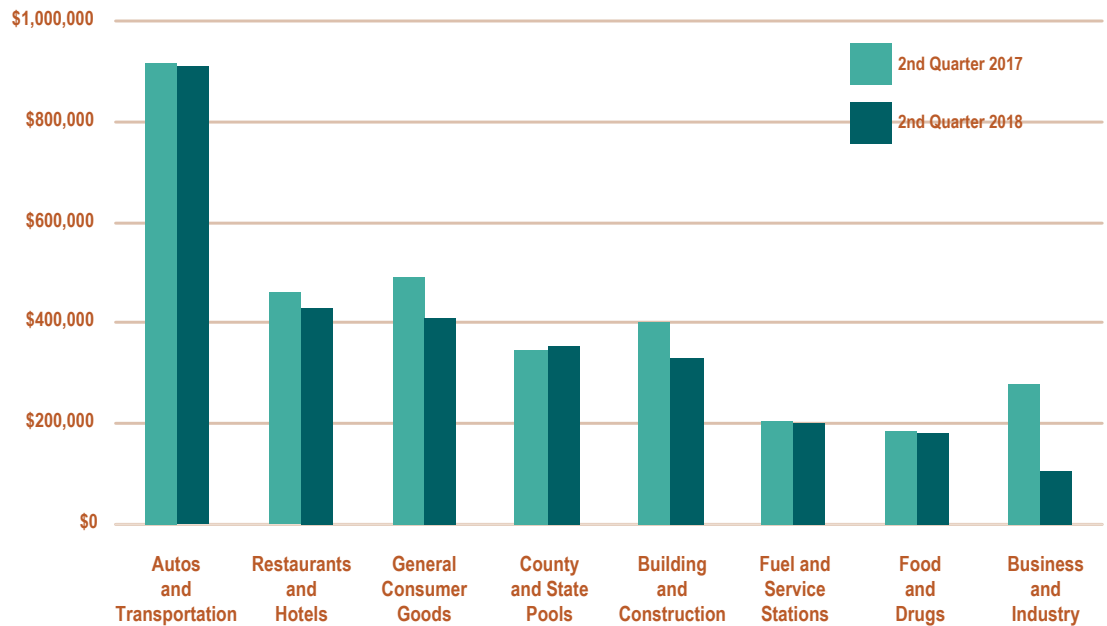
The general consumer good sector was plagued by negative accounting adjustments and missing payments that created a decrease in receipts.

Although the average price per gallon rose in the second quarter, proceeds from fuel-service stations were heavily constrained due to delayed payments

The City's share of the countywide use tax pool increased 1.8% over the same period in the prior year.

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

| | |
|----------------------------|----------------------------------|
| Albertsons | Marshalls |
| AT&T | Matich Bros Paving |
| Burlington | McDonalds |
| Calply | Metro Nissan of Redlands |
| Circle K | Redlands Chrysler Jeep Dodge Ram |
| Citrus Arco | Redlands Ford |
| CVS Pharmacy | Stater Bros |
| Hatfield Buick & GMC Truck | Tom Bell Chevrolet |
| Home Depot | Tom Bell Toyota |
| Honda of Redlands | USA Gasoline |
| Jack in the Box | Vector Steel |
| Kmart | Walmart |
| Lowe's | |

REVENUE COMPARISON

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

| | 2016-17 | 2017-18 |
|-----------------------|---------------------|---------------------|
| Point-of-Sale | \$11,409,616 | \$11,095,299 |
| County Pool | 1,384,124 | 1,419,324 |
| State Pool | 6,167 | 6,361 |
| Gross Receipts | \$12,799,907 | \$12,520,984 |

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.

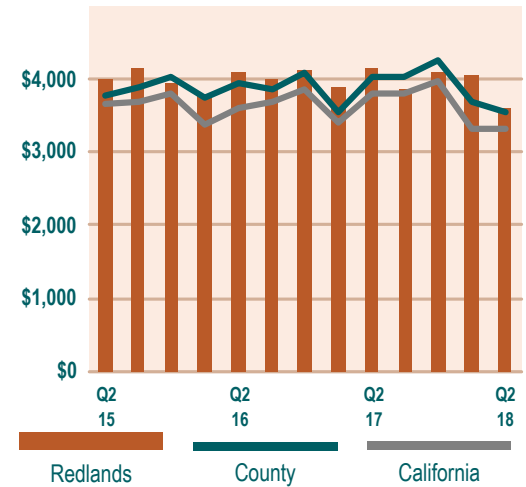
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates.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

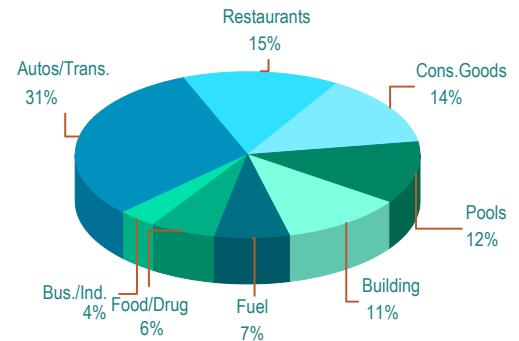
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly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



REDLANDS TOP 15 BUSINESS TYPES

| Business Type | *In thousands of dollars | | | |
|---|--------------------------|-----------------|---------------|------------------|
| | Redlands Q2 '18* | Redlands Change | County Change | HdL State Change |
| Auto Lease | 33.3 | 14.8% | 69.5% | 60.9% |
| Auto Repair Shops | 36.2 | -19.3% | -9.1% | -14.8% |
| Automotive Supply Stores | 60.6 | -4.8% | -4.4% | -11.6% |
| Building Materials | 264.2 | -15.1% | -20.8% | -23.2% |
| Casual Dining | 140.6 | -21.7% | -13.7% | -12.6% |
| Contractors | 58.9 | -26.6% | -9.5% | -10.7% |
| Discount Dept Stores | — CONFIDENTIAL — | | -15.2% | -13.5% |
| Electronics/Appliance Stores | 38.3 | 3.5% | -2.4% | -5.1% |
| Family Apparel | 68.9 | -3.9% | -26.2% | -27.2% |
| Fast-Casual Restaurants | 41.0 | -1.0% | 4.9% | -3.3% |
| Grocery Stores | 127.8 | -1.3% | -2.3% | -7.0% |
| New Motor Vehicle Dealers | 715.7 | -0.2% | -5.5% | -1.9% |
| Quick-Service Restaurants | 215.4 | 3.7% | -0.8% | -5.8% |
| Service Stations | 202.7 | -1.6% | -21.8% | -26.4% |
| Specialty Stores | 64.4 | 14.2% | 6.5% | -4.5% |
| Total All Accounts | 2,571.5 | -12.6% | -11.2% | -12.2% |
| County & State Pool Allocation | 354.2 | 2.6% | 4.2% | 5.5% |
| Gross Receipts | 2,925.6 | -11.0% | -9.6% | -10.1% |