

Q3 2018



City of Redlands Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2018)

Redlands In Brief

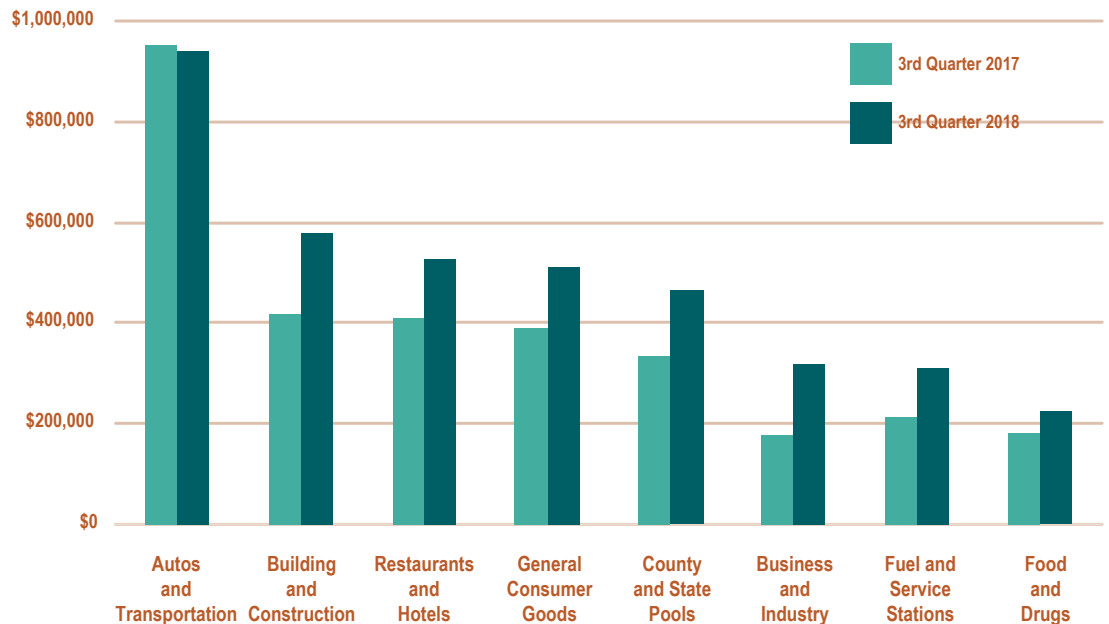
Redlands's allocation of sales and use tax from its July through September sales was up 26.1% over the same quarter last year but was inflated by back late payments from the State's ongoing reporting problems. Actual receipts were up 5.7% when late payments and other reporting aberrations are factored out.

Higher fuel prices, strong building-construction activity and onetime purchases within the business-industrial group were primarily responsible for the overall gain. A rise in the countywide use tax allocation pool caused by increased online purchases of merchandise shipped from out-of-state and recent business additions were also factors.

The gains were partially offset by declining auto sales and a soft quarter for most categories of general consumer goods.

Adjusted for aberrations, sales and use tax receipts for all of San Bernardino County rose 5.7% over the comparable time period while the Southern California region as a whole, was up 4.3%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

| | |
|----------------------------|----------------------------------|
| 7 Eleven | Metro Nissan of Redlands |
| Burlington | Mu Restaurant |
| Calply | Redlands 76 |
| Circle K | Redlands Chevron |
| Citrus Arco | Redlands Chrysler Jeep Dodge Ram |
| ESRI Systems | Redlands Ford |
| Hatfield Buick & GMC Truck | Redlands Shell |
| Home Depot | Stater Bros |
| Kimberly Clark | Tom Bell Chevrolet |
| Layne Water Mgmt/Drilling | Tom Bell Toyota |
| Lowe's | Toyota Lease Trust |
| Marshalls | USA Gasoline |
| | Walmart |

REVENUE COMPARISON

One Quarter – Fiscal Year To Date (Q3)

| | 2017-18 | 2018-19 |
|-----------------------|--------------------|--------------------|
| Point-of-Sale | \$2,739,722 | \$3,413,953 |
| County Pool | 333,935 | 461,351 |
| State Pool | 2,114 | 1,751 |
| Gross Receipts | \$3,075,770 | \$3,877,056 |

California Overall

The CDTEA's problems with its new software system had yet to be fully resolved by the end of the third quarter. HdL's adjustments for delayed payments and other reporting deficiencies indicate that statewide receipts from the local one cent tax rose 5.2% over the first three quarters of 2018 versus the comparison period. The gains were primarily from higher fuel prices, strong building-construction activity and a rise in tax receipts from online purchases delivered from out-of-state that are shared by all agencies via the county pools.

The data exhibits the start of a leveling pattern in other sectors. The statewide gain in new car sales for July through September was due to a single manufacturer filling back orders. Price competition kept tax revenues from consumer goods receipts relatively flat while the rise in online shopping is expanding the diversion of tax revenues from brick and mortar stores to county pools or to in-state distribution centers.

Restaurant sales are beginning to show signs of market saturation as well as the impact of new competition that includes - prepared food and meal kits delivered from a variety of other sources. A modest gain in business-industrial sales was largely related to data and warehouse technology as well as a few major development projects.

Anticipated declines in fuel prices in the first quarter of 2019 adds support to HdL's latest consensus forecast for a modest statewide gain of 1.5% in fiscal year 2019-20 unless new trade conflicts further impact the economy.

South Dakota V. Wayfair Decision

In June, the Supreme Court reversed its previous ruling that retailers are not required to collect taxes for jurisdictions where they have no physical presence or "nexus." Instead, the buyer was responsible for remitting the tax.

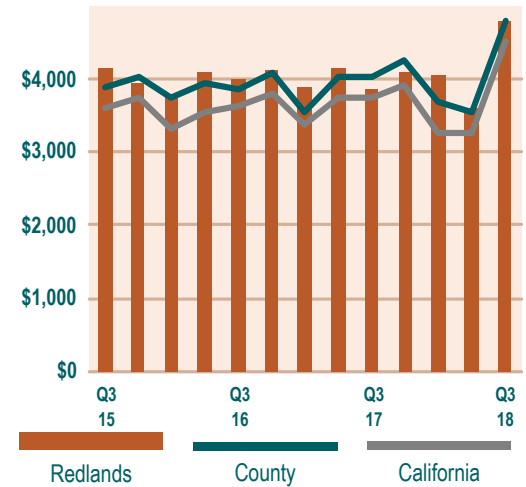
California will begin enforcing the Wayfair reversal effective April 1, 2019

by making retailers delivering from out-of-state responsible for collecting and remitting use tax if calendar year sales exceed \$100,000 and/or 200 or more separate transactions. The same threshold will also determine whether in-state retailers are responsible for collecting taxes on deliveries to individual transactions tax districts.

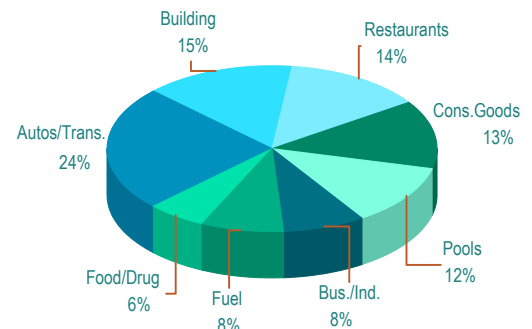
Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

As most major online retailers, including Wayfair, are already collecting California taxes and the state has traditionally enforced a broad definition of "nexus," the impact of the South Dakota decision may be less than in other states. The U.S. Government Accountability Office estimates a potential eventual gain of \$3 to \$5 per capita in receipts from our one cent local tax.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Redlands This Quarter



REDLANDS TOP 15 BUSINESS TYPES

| Business Type | *In thousands of dollars | | | |
|---|--------------------------|-----------------|---------------|------------------|
| | Redlands Q3 '18* | Redlands Change | County Change | HdL State Change |
| Auto Repair Shops | 43.3 | 4.0% | 11.6% | 14.4% |
| Automotive Supply Stores | 67.8 | 4.1% | 8.6% | 9.0% |
| Building Materials | 456.2 | 29.2% | 38.4% | 29.7% |
| Business Services | — CONFIDENTIAL — | — | -9.9% | 46.4% |
| Casual Dining | 210.8 | 28.5% | 19.7% | 14.6% |
| Contractors | 113.7 | 108.1% | 41.7% | 37.5% |
| Discount Dept Stores | — CONFIDENTIAL — | — | 20.6% | 18.3% |
| Family Apparel | 72.9 | 82.6% | 35.8% | 36.3% |
| Fast-Casual Restaurants | 48.2 | 90.2% | 15.6% | 14.8% |
| Grocery Stores | 156.9 | 24.9% | 19.5% | 16.1% |
| Light Industrial/Printers | 91.5 | 185.4% | 15.9% | 29.3% |
| New Motor Vehicle Dealers | 731.1 | -5.3% | -1.1% | 12.7% |
| Quick-Service Restaurants | 228.8 | 15.9% | 9.3% | 13.4% |
| Service Stations | 310.7 | 45.7% | 43.8% | 43.0% |
| Specialty Stores | 65.8 | 23.4% | 9.9% | 8.7% |
| Total All Accounts | 3,414.0 | 24.6% | 20.5% | 21.8% |
| County & State Pool Allocation | 463.1 | 37.8% | 33.3% | 27.8% |
| Gross Receipts | 3,877.1 | 26.1% | 21.9% | 22.6% |