

Q1 2017



City of Redlands Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2017)

Redlands In Brief

Redlands' receipts from January through March were 3.6% above the first sales period in 2016. Excluding reporting aberrations, actual sales were up 2.3%.

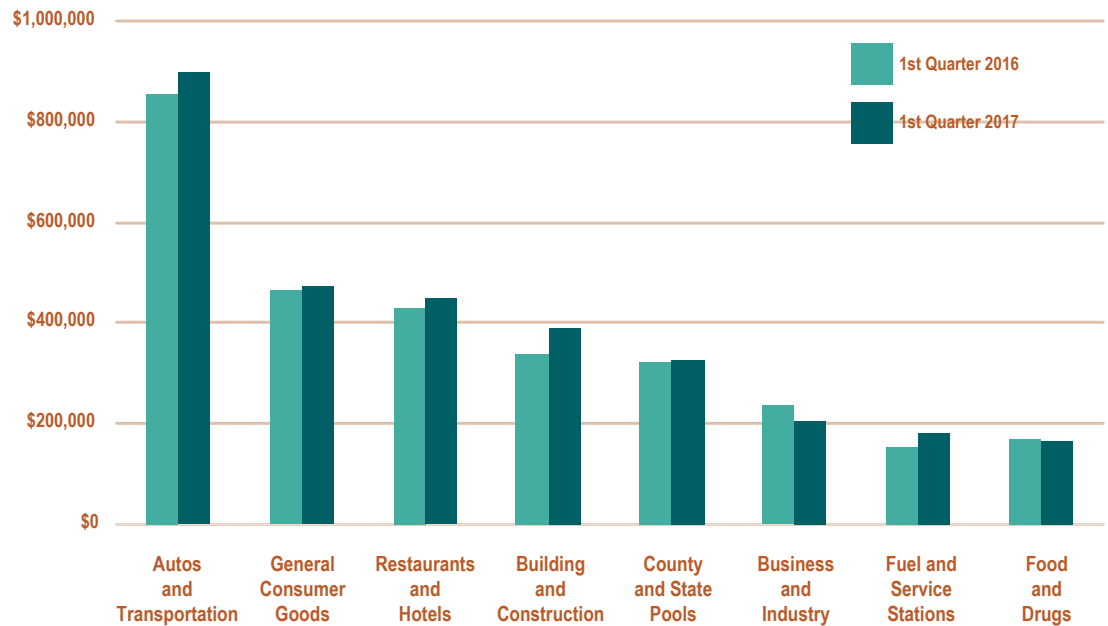
New auto sales and leases posted strong sales quarters and were a major factor in the increase in cash receipts. Higher building materials sales and a double payment that inflated building and construction results in the current quarter were also major contributors to the overall gain.

The restaurant group saw mixed results as quick-service eateries posted higher sales, casual dining receipts were lower, and fast casual was up but continues to experience payment misallocations that skew results. Lower receipts from family apparel, sporting goods and wireless stores depressed the general retail group. Aberrations and higher gas prices boosted the fuel group, although actual sales were only up 4.2% lagging county and statewide trends.

The gains were partially offset by an accounting adjustment in medical/biotech, a vendor closeout in business services and sluggish sales in the food and drugs sector.

Net of aberrations, taxable sales for all of San Bernardino County declined 0.3% over the comparable time period; the Southern California region was up 2.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Albertsons	Lowes
AutoZone	Marshalls
BD Microbiology System	McDonald's
Burlington Coat Factory	Metro Nissan of Redlands
Cal Wholesale Material Supply	Redlands Chrysler Jeep Dodge Ram
Calply	Redlands Ford
Circle K	Ross
Citrus Arco	Shell
ESRI Systems	Stater Bros
Hatfield Buick & GMC Truck	Tom Bell Chevrolet
Home Depot	Tom Bell Toyota
Kmart	USA Gasoline
	Walmart

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$11,125,076	\$11,334,990
County Pool	1,294,592	1,377,628
State Pool	7,365	8,659
Gross Receipts	\$12,427,033	\$12,721,277
Less Triple Flip*	\$ (2,363,602)	\$0

*Reimbursed from county compensation fund

Statewide Results

Local tax receipts from January through March sales were 2.1% higher than the first quarter of 2016 after factoring for accounting anomalies.

Rising fuel prices, auto sales, county use tax pool allocations and dining out added most to the overall gain. Some general consumer goods and B2B sales were flat or down.

This quarter reflects the start of an anticipated leveling off of future tax revenues. After seven years of recovery, analysts are reporting an end to the previous pent-up demand for autos. Demand for new cars will ease due to more buyers tied to long-term loans and a glut of used cars coming off lease.

Price competition and store closures have reduced tax receipts from consumer goods. Business investment remains strong but much of the growth is for non-taxable items such as cloud computing and large data solutions. Declines in foreign tourist visits and lower costs of eating at home are expected to slow the growth in restaurant sales.

New Sales Tax Organization

As of July 1, the operating divisions responsible for allocation of tax revenues other than property, insurance and alcoholic beverages will shift from the State Board of Equalization (BOE) to the Governor's new Department of Tax and Fee Administration.

The BOE was first established by constitutional amendment in 1879 to oversee property tax assessment practices by all counties in the state. It eventually became responsible for other tax revenues including sales, insurance, corporate franchise and special fees.

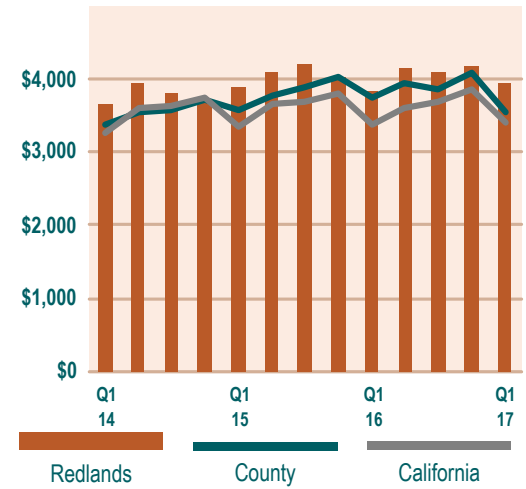
In 2011, HdL detected discrepancies in the BOE's allocation of public safety revenues which led to the recovery of over \$124 million in revenues for counties. Subsequent audits by the State

Controller and State Department of Finance revealed further shortcomings. The result was the passage of budget trailer bill SB86/AB102 that reduces the BOE to its previous constitutionally defined functions.

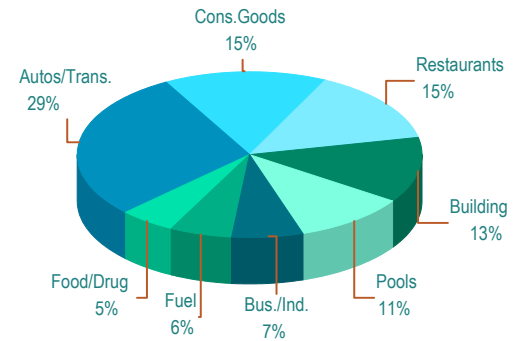
The BOE is also empowered to hear appeals and disputes over tax assessments including sales/use, personal income and corporate taxes and is the only elected Tax Board in the United States that hears tax disputes. Effective January 1, 2018, that function will be turned over to a new Office of Tax Appeals (OTA) composed of panels of administrative law judges appointed by the Governor with locations in Sacramento, Fresno and Los Angeles.

For functions other than the appeal process, this is primarily a reshuffling of existing personnel so the change will have little impact on local agencies. However, the issue of local government's ability to provide input regarding future policy and regulation changes that impact revenues remains under discussion. HdL will share more about the BOE transition as details become available in the weeks ahead.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Redlands This Quarter



REDLANDS TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Redlands Q1 '17*	Redlands Change	County Change	HdL State Change
Auto Repair Shops	42.8	4.0%	6.7%	5.0%
Automotive Supply Stores	64.1	1.5%	4.0%	0.0%
Building Materials	340.0	16.2%	3.6%	3.1%
Business Services	36.9	-23.3%	13.5%	18.5%
Casual Dining	174.6	3.0%	3.7%	1.0%
Contractors	40.4	6.4%	-5.6%	-4.0%
Discount Dept Stores	— CONFIDENTIAL —		-2.0%	1.6%
Family Apparel	98.9	9.5%	2.5%	0.8%
Fast-Casual Restaurants	39.4	-19.3%	4.4%	9.7%
Grocery Stores	113.7	-1.2%	0.7%	0.4%
Medical/Biotech	51.6	-27.9%	15.9%	0.6%
New Motor Vehicle Dealers	716.2	5.7%	3.0%	4.4%
Quick-Service Restaurants	209.5	10.8%	5.2%	4.5%
Service Stations	180.3	17.8%	13.9%	10.0%
Specialty Stores	52.0	18.2%	1.4%	0.3%
Total All Accounts	2,750.8	3.8%	-4.3%	1.8%
County & State Pool Allocation	328.2	2.1%	-5.8%	2.9%
Gross Receipts	3,079.0	3.6%	-4.4%	1.9%