

Q2 2018



City of San Rafael Sales Tax *Update*

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

San Rafael In Brief

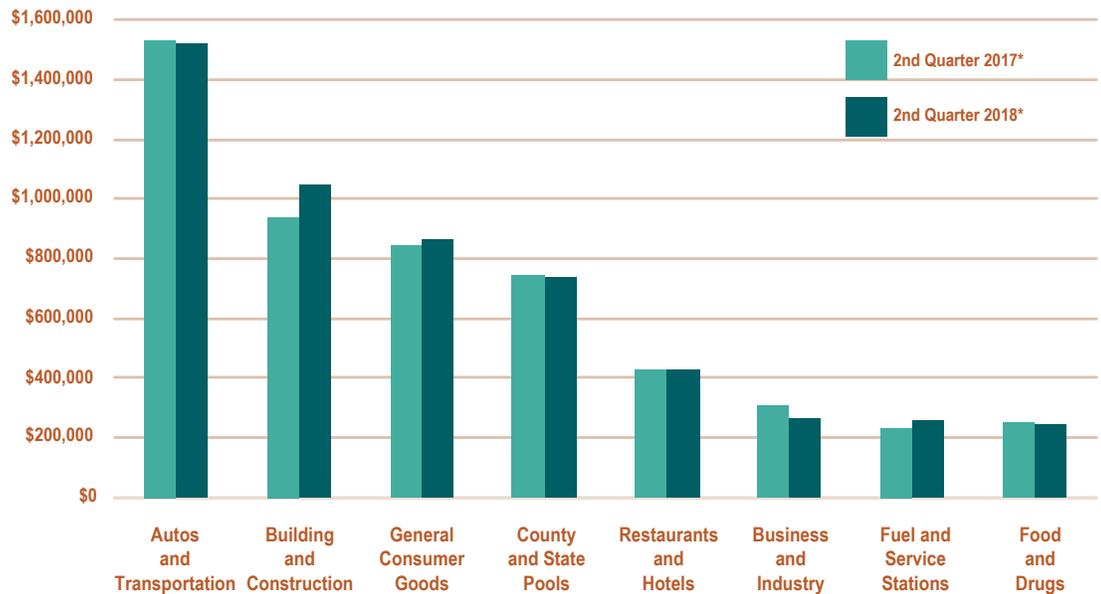
Problems with the state's new computerized tax reporting system reduced San Rafael's allocation from April through June sales to 9.8% below the second quarter of 2017. The State partially made up for the shortfall by advancing a portion of next quarter's anticipated revenues thereby skewing actual results further.

After backing out the advance and factoring for unprocessed returns and related accounting issues, it is estimated that the City's actual tax receipts would have been 1.7% higher than last year's second quarter. The gains came primarily from rising fuel prices and a strong quarter for building-construction supplies and consumer electronics. These were offset by a soft quarter for autos and several categories of general consumer goods plus a series of restaurant closeouts.

San Rafael's voter approved Measure E added \$3,003,503 to the amounts discussed above and would have been 0.6% higher without the State's reporting issues. Building-construction supplies and fuel prices were also the primary drivers of growth from this source.

After factoring for unprocessed returns and accounting aberrations, it is estimated that sales and use tax receipts for all of Marin County grew 0.8% over the comparable time period while the nine county Bay Area as a whole, was up 2.9%.

SALES TAX BY MAJOR BUSINESS GROUP



*Allocation aberrations have been adjusted to reflect sales activity

TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Au Energy Shell Station	Lexus of Marin
Audi Leasing	Macys
Bentley Leasing	Marin Honda
Audio Visual Design Group	Marin Mazda
Best Buy	Marin Subaru
BMW of San Rafael	Mercedes Benz of Marin
Calmat Co	Monark Premium Appliance
Consolidated Electrical Distributors	Rafael Lumber
Daimler Trust	Safeway
Financial Services Vehicle Trust	Sonnen VW/Audi
Golden State Lumber	Target
Home Depot	Toyota Lease Trust
	Toys R Us
	Unocal Fastbreak

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$17,675,068	\$17,540,546
County Pool	3,022,222	3,043,097
State Pool	9,898	10,277
Gross Receipts	\$20,707,188	\$20,593,920
Measure E	\$11,686,781	\$11,655,779

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.

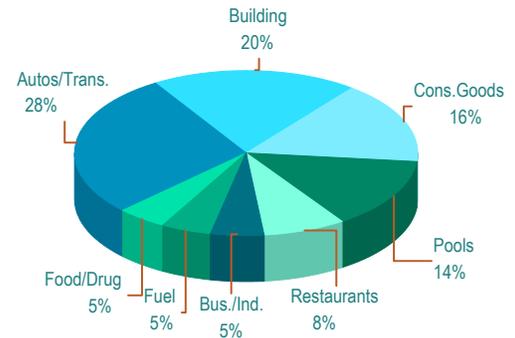
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly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



SAN RAFAEL TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	San Rafael Q2 '18*	San Rafael Change	County Change	HdL State Change
Auto Lease	219.3	15.5%	14.8%	6.5%
Auto Repair Shops	90.8	-3.1%	-4.4%	-6.6%
Building Materials	708.6	3.1%	3.4%	2.7%
Casual Dining	211.1	-5.7%	-0.5%	-1.7%
Contractors	172.5	69.2%	43.0%	5.1%
Department Stores	—	CONFIDENTIAL	-9.2%	-3.0%
Discount Dept Stores	—	CONFIDENTIAL	-1.0%	3.2%
Electronics/Appliance Stores	236.2	16.8%	13.4%	4.2%
Grocery Stores	134.0	1.6%	1.8%	1.7%
Home Furnishings	110.7	-1.4%	-0.3%	-1.9%
New Motor Vehicle Dealers	1,049.4	-3.8%	1.9%	2.6%
Plumbing/Electrical Supplies	122.6	15.1%	12.7%	3.0%
Quick-Service Restaurants	90.8	-1.1%	1.4%	1.1%
Service Stations	255.4	10.8%	10.0%	7.8%
Specialty Stores	87.3	-3.3%	-5.4%	-2.5%
Total All Accounts	4,622.2	2.1%	1.2%	1.1%
County & State Pool Allocation	737.7	-0.6%	-1.4%	4.7%
Gross Receipts	5,359.9	1.7%	0.8%	1.6%

** Accounting aberrations such as late payments, fund transfers, and audit adjustments have been adjusted to reflect the quarter in which the sales occurred.