

Q3 2016



City of San Rafael Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2016)

San Rafael In Brief

San Rafael's receipts from July through September were 4.1% below the third sales period in 2015 due to the anticipated redistribution of taxes that had been misallocated to the City by a member of the auto and transportation group. Excluding such reporting anomalies, actual sales were down 1.8%.

In addition to the correction for misallocated taxes, new car sales and revenues from leasing activities were sharply lower this period. Low fuel prices continued to depress service station returns.

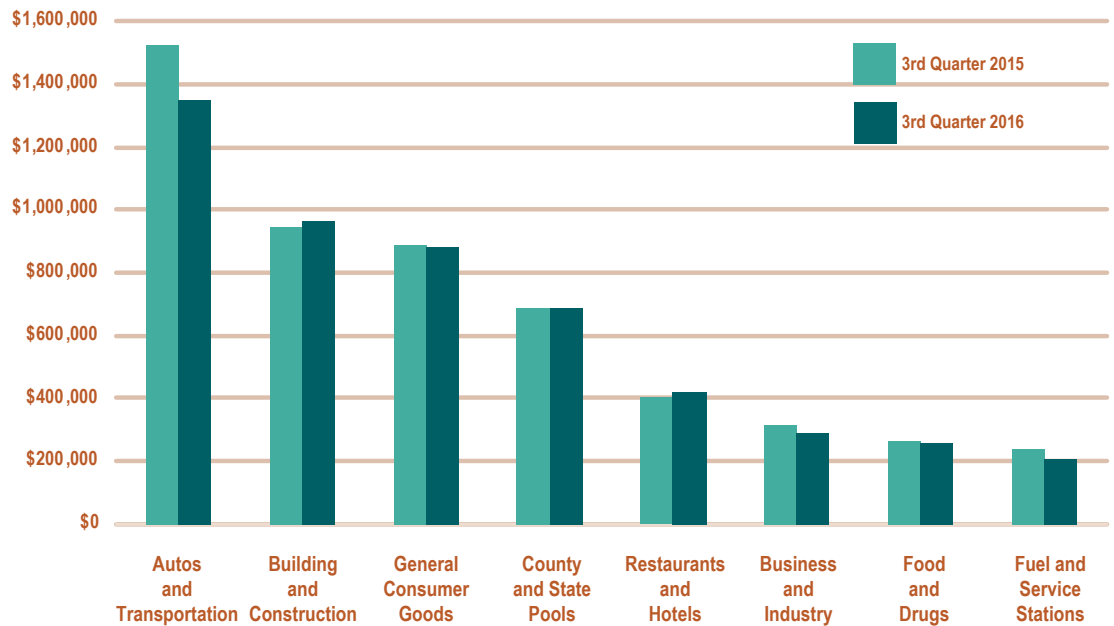
The recovery of misallocated taxes from a home furnishings outlet was not enough to offset lower sales posted by electronics retailers and another segment in the general consumer goods group.

The positive economic outlook held by consumers spurred the increase in casual dining transactions along with a jump in construction material sales.

Measure E, the .75% local tax generated \$2,904,869 or -.57% less than the same period a year ago. While it was not affected by the reporting anomalies listed above, most business segments reported level or slightly lower activity this period.

Net of anomalies, taxable sales for all of Marin County declined 1.5% over the comparable time period; the Bay Area was up 2.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Au Energy Shell Station	Marin Mazda
Best Buy	Marin Toyota
BMW of San Rafael	Mercedes Benz of Marin
California Builder Appliances	Nissan/Infiniti of Marin
Consolidated Electrical Distributors	Orchard Supply Hardware
Daimler Trust	Rafael Lumber
Financial Services Vehicle Trust	Safeway
Golden State Lumber	San Rafael Mitsubishi
Home Depot	Sears
Lexus of Marin	Shamrock Materials
Macys	Target
Marin Honda	Toyota Lease Trust
	Whole Foods Market

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$4,579,785	\$4,365,247
County Pool	687,152	682,822
State Pool	875	1,529
Gross Receipts	\$5,267,812	\$5,049,597
Less Triple Flip*	\$(1,316,953)	\$0
Measure S	\$(1,052)	\$6,500
Measure E	\$2,921,629	\$2,904,869

Statewide Results

Statewide local sales and use taxes from transactions occurring July through September were up 1.9% over the same third sales quarter of 2015 after factoring for accounting anomalies.

The countywide use tax allocation pools contributed the largest portion of the increase reflecting the acceleration in online shopping where most orders are shipped from out-of-state. Automotive group receipts rose 5.4% over the year-ago period although more than half of the increase was from a specific electric car manufacturer. Higher returns from restaurants and sales of building/construction materials also contributed to the statewide gain.

The gains were significantly offset by a 14.6% drop in receipts from fuel and service stations and a generally flat quarter for other economic segments. General consumer goods grew less than 1%. Value priced clothing, pet shops, cosmetics and dollar stores were among the few bright spots.

Business and industrial tax revenue was down 1.9%. Relatively healthy sales of agricultural and medical/biotech supplies could not overcome the decline in new alternative energy projects and a flat quarter for most other categories.

The Year Ahead

The consensus from dozens of industry analysts, economic think tanks and trade associations is for a leveling off in the rate of sales tax growth that the state has enjoyed for the last six years.

Manufacturer incentives are expected to produce lower gains from new vehicle purchases through the end of 2016 and it is believed that dealers are now borrowing from 2017 sales. Vehicle sales are expected to drop in 2017-18 but the trend toward higher priced vehicles loaded with options could maintain tax revenues close to current levels.

Consumer preferences toward spending more on services rather than goods, digital downloading of previously taxable products and rising health care and housing costs will be a drag on sales of consumer

goods.

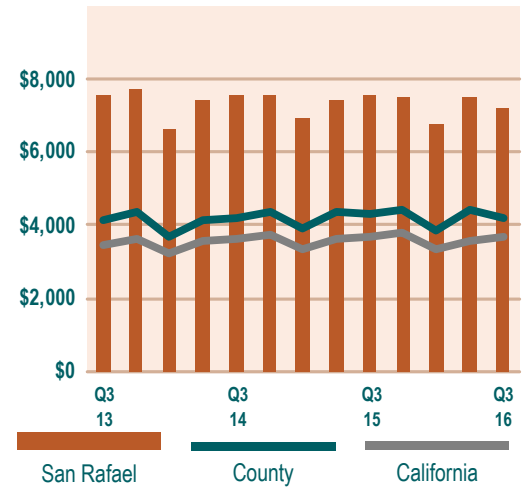
Receipts from fuel and service stations may be one of the largest gainers in 2017-18. New Middle East agreements on production caps are raising crude oil prices while California's limited refinery capacity and the trend toward less fuel-efficient SUV's and trucks have analysts believing that prices have finally leveled out and will rise through the year.

Continuing gains from restaurants are also expected although at lower than previous rates because of reduced grocery prices and the cost of eating at home. The growing strength of the dollar and recent criticisms of trade agreements and immigrants could reduce international tourism.

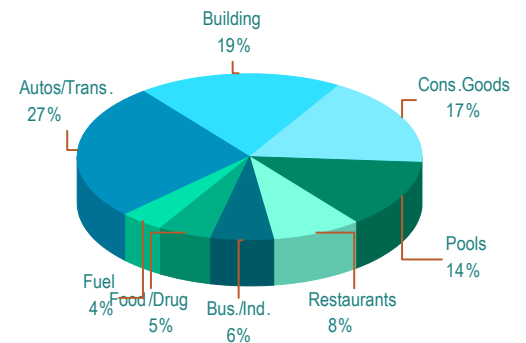
It usually takes up to two years for new stimulus programs to be reflected in sales tax receipts. As many of the coming administration's proposals related to trade, immigration, health services and the environment present potential issues for a significant number of California industries, delays in major construction projects and business/industrial investments are expected until these are sorted out.

HdL's current forecast is for a statewide increase of 2.5% in 2016-17 and 3.4% in 2017-18 compared to a year earlier.

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	County	HdL State	
	Q3 '16*	Change	Change	Change
Auto Lease	189.5	34.8%	29.7%	14.9%
Auto Repair Shops	98.0	6.8%	5.4%	4.5%
Casual Dining	221.7	3.1%	0.1%	4.5%
Contractors	140.6	1.1%	1.3%	1.4%
Department Stores	— CONFIDENTIAL —		-7.9%	-2.3%
Discount Dept Stores	— CONFIDENTIAL —		4.0%	-0.4%
Electronics/Appliance Stores	202.0	-10.0%	-7.7%	-1.5%
Grocery Stores	152.8	3.5%	5.6%	-2.2%
Home Furnishings	133.9	17.2%	6.7%	-0.2%
Lumber/Building Materials	588.0	5.4%	4.8%	6.9%
New Motor Vehicle Dealers	881.5	-20.3%	-0.1%	4.8%
Plumbing/Electrical Supplies	102.5	-9.7%	-11.0%	4.6%
Quick-Service Restaurants	83.5	5.3%	3.2%	8.9%
Service Stations	210.1	-12.2%	-13.9%	-13.8%
Specialty Stores	82.3	-7.1%	-3.8%	2.0%
Total All Accounts	4,365.2	-4.7%	-1.7%	0.9%
County & State Pool Allocation	684.4	-0.5%	2.6%	11.5%
Gross Receipts	5,049.6	-4.1%	-1.1%	2.2%