

Q3 2018



City of Upland Sales Tax Update

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

Upland In Brief

Upland's receipts from July through September were 17.6% above the third sales period in 2017 as a result of the City receiving a significant amount of delayed allocations that were not processed in 2Q18 due to the State's software conversion project. Excluding these allocations and other reporting aberrations, actual sales were up 2.4%.

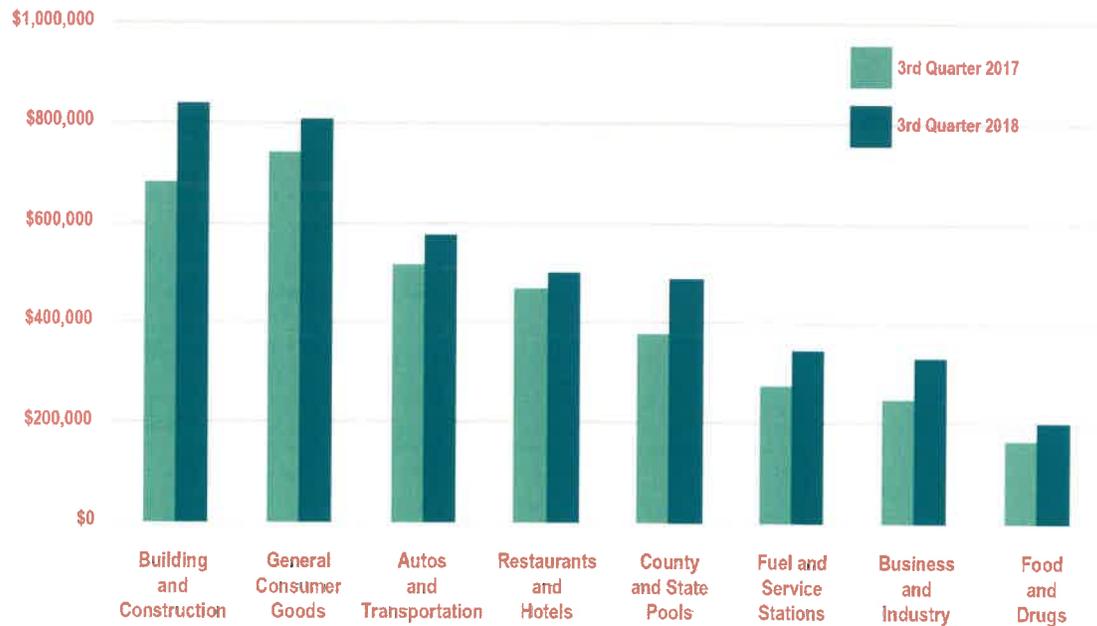
Higher retail gas prices caused by increased crude oil costs pushed service station receipts up 16.1% resulting in the largest gain in actual sales during the quarter. A surge in medical/biotech sales boosted business and industry 8.6%. Grocery and drug stores sales aided by new outlets helped lift food and drugs actual sales 9.0%.

The City's allocation from the countywide use tax pool increased 6.3% during the quarter.

Receipts from a new used auto dealership were offset by lower sales from existing dealerships. Similarly, higher sales from building materials and plumbing/electrical supplies were offset by lower sales from contractors. A store closeout caused the decline in general consumer goods as overall retail were relatively flat.

Net of aberrations, taxable sales for all of San Bernardino County grew 5.7% over the comparable time period; the Southern California region was up 4.3%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

7 Eleven	Lowes
Airbus Helicopters	Marshalls
Arco AM PM	Mountain View Chevrolet
Circle K	Nordstrom Rack
Chick Fil A	RV Spa
Daniel Mechanical	San Antonio Community Hospital
Dick's Sporting Goods	Stater Bros
Euclid Arco	Target
Ford of Upland	TJ Maxx
G&M Oil	USA Gasoline
Holliday Rock	Vons Fuel
Home Depot	Walmart
Kohls	

REVENUE COMPARISON

One Quarter - Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	\$3,094,173	\$3,598,277
County Pool	377,137	486,260
State Pool	2,388	1,846
Gross Receipts	\$3,473,698	\$4,086,383

California Overall

The CDTFAs' 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.

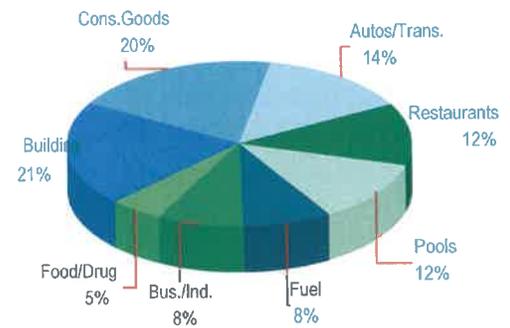
Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

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
Upland This Quarter



UPLAND TOP 15 BUSINESS TYPES

Business Type	Upland		County	HdL State
	Q3 '18*	Change	Change	Change
Automotive Supply Stores	68.4	30.1%	8.7%	8.4%
Building Materials	543.0	38.3%	38.4%	29.8%
Casual Dining	196.6	1.3%	20.1%	15.0%
Contractors	— CONFIDENTIAL —		41.5%	36.7%
Convenience Stores/Liquor	77.5	30.3%	25.9%	20.3%
Department Stores	73.9	-1.7%	-3.0%	-3.6%
Discount Dept Stores	— CONFIDENTIAL —		20.7%	18.3%
Family Apparel	68.5	19.6%	36.2%	36.2%
Fast-Casual Restaurants	63.1	10.4%	17.9%	15.5%
Grocery Stores	92.3	17.8%	19.4%	16.1%
New Motor Vehicle Dealers	— CONFIDENTIAL —		-1.1%	12.7%
Quick-Service Restaurants	229.4	12.9%	9.6%	13.5%
Service Stations	341.5	25.1%	43.9%	42.9%
Specialty Stores	109.5	-8.4%	9.3%	8.5%
Sporting Goods/Bike Stores	61.7	11.8%	8.5%	21.5%
Total All Accounts	3,598.3	16.3%	20.5%	21.8%
County & State Pool Allocation	488.1	28.6%	33.3%	27.8%
Gross Receipts	4,086.4	17.6%	21.9%	22.6%

*In thousands of dollars