

Q2 2018



City of Vallejo Sales Tax *Update*

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

Vallejo In Brief

Vallejo's receipts from April through June were 10.1% below the 2017 second quarter due largely to ongoing problems related to the State's new software system that for the second consecutive quarter caused multiple transactions to not get posted. Including these allocations and other aberrations, actual sales were up 2.0%.

Delayed payments temporarily reduced taxes from contractors, service stations, building materials, cannabis and several restaurant categories. A vendor reported sales to the countywide pools in error which contributed to the drop in general consumer goods.

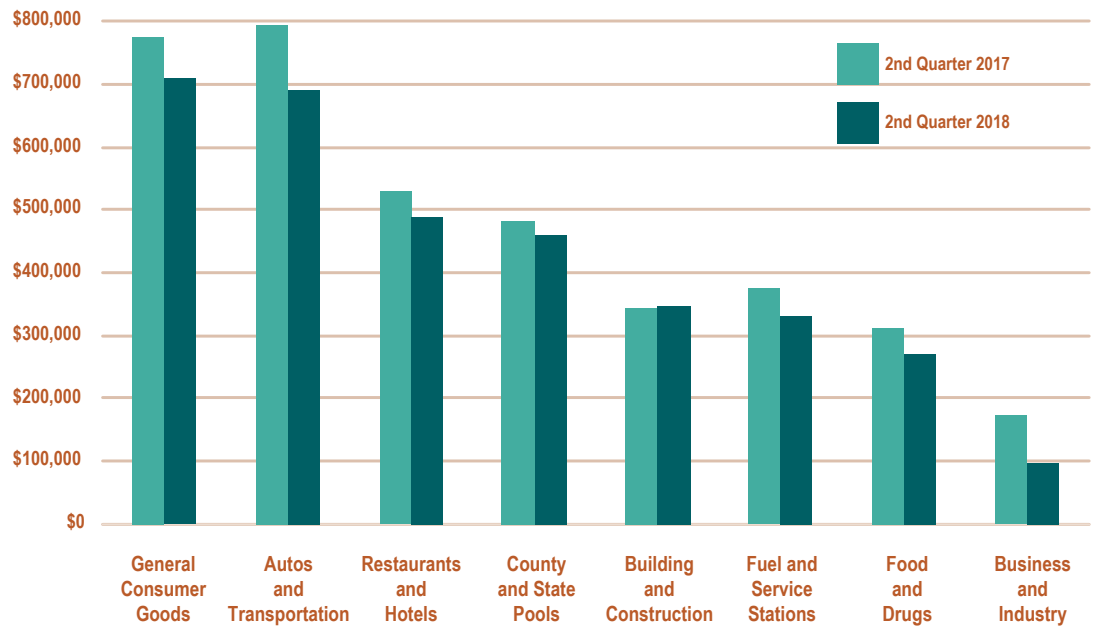
Onetime audit corrections that inflated last year's distribution triggered a decrease from electronics stores. Fewer buyers left showrooms with vehicles; the result was softer returns from new motor and used automotive dealers.

Activity from specialty stores were up; however, the increase reflected double payments that inflated the current quarter.

Voter approved Measure V added \$3,387,172 to the above discussed amounts; the 10.4% short-term decline is primarily tied to the missing payments discussed above.

Net of aberrations, taxable sales for all of Solano County grew 1.5% over the comparable time period; the Bay Area was up 3.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Au Energy Shell Station	McDonalds
Autolinx	Petco
Avery Greene	Safeway
Honda	Safeway Fuel
Best Buy	Six Flags Discovery Kingdom
Comcast	Target
Costco	Team Chevrolet
Earthquake Protection Systems	Cadillac Mazda
Foster Lumber Yard	Hyundai
G & M Oil	Toyota Vallejo
Home Depot	Toys R Us/Babys R Us
Kohls	Tributary Point Arco
Lowes	Vallejo Holistic Health Center
Marshalls	Vallejo Nissan

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$12,513,859	\$12,393,390
County Pool	1,798,305	1,807,628
State Pool	6,734	7,097
Gross Receipts	\$14,318,898	\$14,208,114
Measure V	\$14,681,715	\$14,600,169

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.

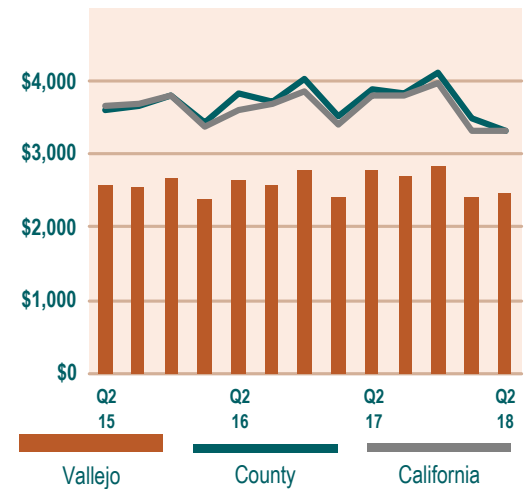
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates. 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.

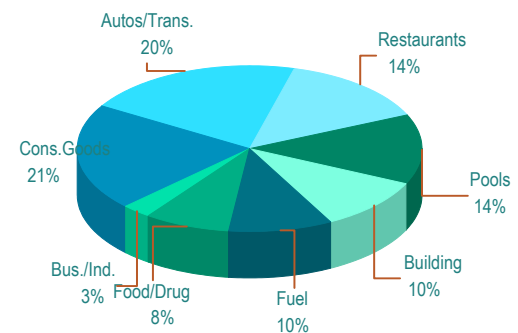
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly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



VALLEJO TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Vallejo Q2 '18*	Vallejo Change	County Change	HdL State Change
Automotive Supply Stores	55.2	-7.2%	-10.4%	-11.6%
Building Materials	202.3	-18.1%	-22.0%	-23.2%
Cannabis Related	56.0	-23.0%	-26.7%	7.0%
Casual Dining	138.7	-21.6%	-13.2%	-12.7%
Contractors	— CONFIDENTIAL —	—	4.0%	-10.7%
Convenience Stores/Liquor	52.3	-16.7%	-17.7%	-8.0%
Discount Dept Stores	— CONFIDENTIAL —	—	-8.3%	-13.5%
Electronics/Appliance Stores	113.9	-11.7%	-15.4%	-5.1%
Grocery Stores	121.1	-6.4%	-2.1%	-7.0%
Leisure/Entertainment	— CONFIDENTIAL —	—	4.2%	-3.6%
New Motor Vehicle Dealers	453.9	-5.3%	3.9%	-2.0%
Quick-Service Restaurants	198.9	-7.6%	-8.7%	-6.0%
Service Stations	331.0	-11.9%	-28.4%	-26.6%
Specialty Stores	90.2	57.1%	13.9%	-4.6%
Used Automotive Dealers	75.7	-14.5%	-58.9%	-41.5%
Total All Accounts	2,937.0	-11.0%	-13.6%	-12.2%
County & State Pool Allocation	461.3	-4.1%	-6.8%	5.5%
Gross Receipts	3,398.3	-10.1%	-12.7%	-10.1%