Q4 2018

City of Poway Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (October - December 2018)

Poway In Brief

Poway's receipts from October through December were 4.1% below the fourth sales period in 2017. Excluding reporting aberrations, actual sales were down 9.3%.

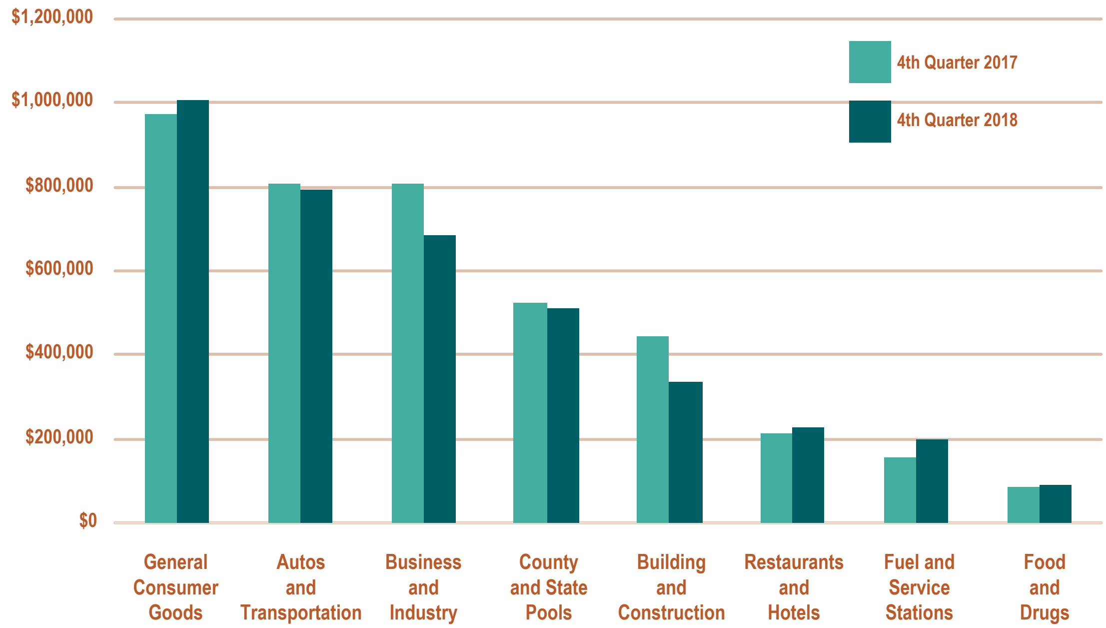
A decrease in sales activity and an accounting change negatively impacted returns from multiple electrical equipment providers and were largely responsible for the overall decline. Receipts from new auto dealers and building material suppliers struggled to match last year's peak, further pulling results lower.

These decreases in local point of sale revenue also hurt allocations from the countywide use tax pool.

In contrast, the City experienced a solid holiday shopping season from multiple general consumer retailers including home furnishings and electronic-appliance stores. Steady price increases at the pump leading to higher returns from service stations, consistent with the county and statewide trend, also helped partially offset the drop.

Net of aberrations, taxable sales for all of San Diego County were flat over the comparable time period; the Southern California region was up 2.6%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- Arco AM PM
- Bay City Electric Works
- Cab West/Volvo Leasing
- Chevron
- Circle K
- Costco
- Ferguson Enterprises
- General Atomics Aeronautical
- Home Depot
- Home Goods
- Kohls
- Lowe's
- Maintex
- Mossy Nissan
- Perry Ford of Poway
- Poway Chrysler Dodge Jeep Ram
- Poway Honda
- Poway Hyundai
- Quality Reinforcing
- Scion of Poway Toyota of Poway
- Sysco Food Services
- Target
- Techni Tool
- United Oil
- Walmart Supercenter

Revenue Comparison

Two Quarters – Fiscal Year To Date (Q3 to Q4)

	2017-18	2018-19
Point-of-Sale	$6,506,988	$7,007,608
County Pool	971,577	1,060,418
State Pool	3,400	3,542
Gross Receipts	$7,481,964	$8,071,568

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NOTES

Statewide Results

The local one cent share of sales and use tax from October through December sales was 2.8% higher than 2017's holiday quarter after factoring for state reporting aberrations.

The overall increase came primarily from a solid quarter for contractor materials and equipment, expanded production by an auto manufacturer and rising fuel prices. Online fulfillment centers, new technology investment and cannabis start-ups also produced significant gains. Receipts in the six county Sacramento region grew 7.9% over last year while the remainder of the state was generally flat or exhibited only minor growth.

Notable was the 0.09% rise in tax receipts from brick and mortar retailers which is the lowest holiday gain for that sector since 2009. A 9.6% increase in receipts from online shopping which is allocated to central order desks or county pools was part of the reason. Other factors include lower prices, gift cards which move purchases to future quarters and greater gifting of non-taxable experiences and services.

The Retail Evolution Continues

A recent survey identified U.S. closures of 102 million sq. ft. of retail space in 2017 and an additional 155 million sq. ft. in 2018. Similar losses are expected in 2019 with 5,300 closures already announced. Payless Shoes, Gymboree, Performance Bicycle and Charlotte Russe are going out of business while chains including Sears, Kmart, Macy's, JCPenney, Kohl's, Nordstrom, Dollar Tree, Victoria's Secret, Chico's, Foot Locker and Lowe's have announced plans for further cuts in oversaturated markets and downsizing of stores.

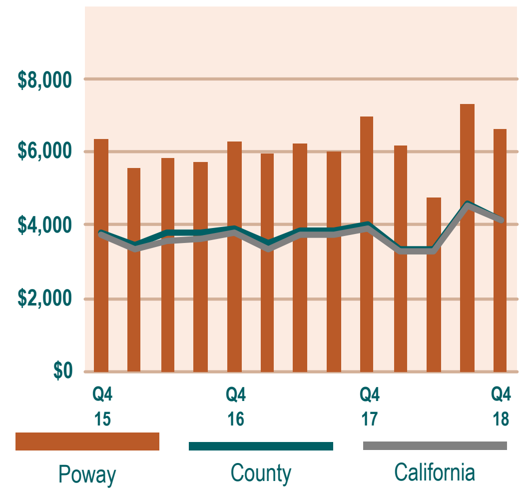
Retailers are not planning the end of physical stores which continue to be important for personalized experiences and shopping entertainment. However, the shifting trends encourage reduced square footage with less overhead to better compete on prices and provide more intimate shopping encounters.

With smartphones allowing purchase and delivery of almost anything at any time of the day without leaving home, big box retailers are responding by downsizing stores and subleasing excess space to compatible businesses to help draw traffic. Locations where people congregate for entertainment, food and services have become part of the evolving strategy as has integrating retail with more convenient spots for pick-up and delivery of online orders.

Barry Foster of HdL's EconSolutions, notes that "shifting shopping habits present challenges but also opportunities." "Smaller footprints enable expanding into smaller niche markets while mixed use projects and 18-hour environments are chances to rebuild downtowns and reinvigorate shopping centers."

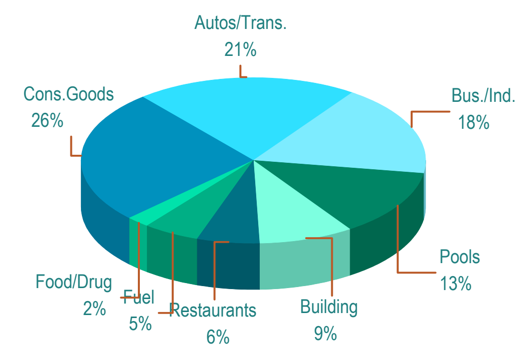
With more companies using the internet to sell directly to customers from their warehouses, the trend also provides jurisdictions whose populations aren't adequate in size to support large scale retail to focus on industrial development for sales tax as well as jobs.

Sales Per Capita



Revenue By Business Group

Poway This Quarter



Poway Top 15 Business Types

*In thousands of dollars	Poway		County	HdL State
Business Type	**Q4 '18***	**Change**	**Change**	**Change**
Auto Lease	61.7	47.1%	-4.2%	-11.4%
Auto Repair Shops	54.1	15.3%	3.6%	4.2%
Building Materials	166.1	-3.2%	4.5%	5.5%
Casual Dining	87.7	3.1%	5.0%	2.5%
Department Stores	— CONFIDENTIAL —		2.9%	-3.4%
Discount Dept Stores	— CONFIDENTIAL —		4.9%	3.9%
Electrical Equipment	329.2	-22.9%	11.9%	-1.2%
Food Service Equip./Supplies	— CONFIDENTIAL —		14.3%	3.6%
Grocery Stores	49.7	0.6%	-15.6%	-11.7%
Home Furnishings	44.4	8.8%	0.4%	0.0%
Light Industrial/Printers	50.5	1.5%	2.5%	9.1%
New Motor Vehicle Dealers	585.6	-7.4%	3.0%	5.8%
Plumbing/Electrical Supplies	— CONFIDENTIAL —		1.6%	8.9%
Quick-Service Restaurants	92.7	6.7%	6.8%	6.6%
Service Stations	199.5	27.8%	16.7%	28.5%
Total All Accounts	**3,339.9**	**-4.3%**	**2.8%**	**7.0%**
County & State Pool Allocation	**510.7**	**-2.8%**	**4.4%**	**8.6%**