

Q1 2017



City of Poway Sales Tax Update

Second Quarter Receipts for First Quarter Sales (January - March 2017)

Poway In Brief

Poway's receipts from January through March were 8.5% above the first sales period in 2016. Excluding reporting aberrations, actual sales were up 3.9%.

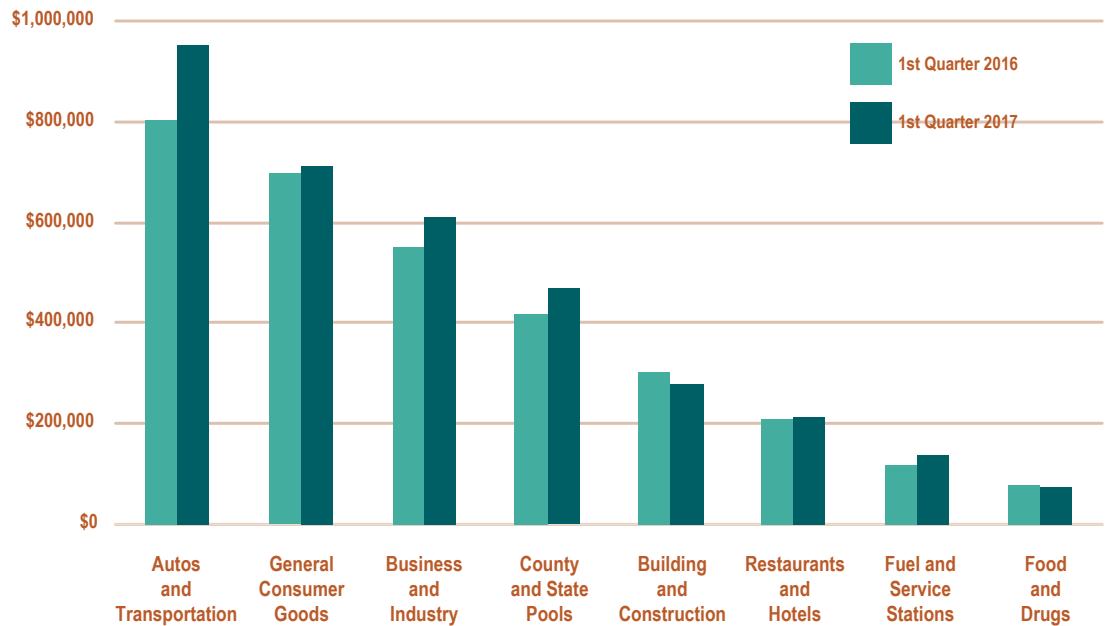
Non-recurrent events that triggered the double digit increase in the auto-transportation group accounted for the overall actual growth in gross receipts. Nonetheless, auto lease sales activity outpaced regional trends.

Business to business sales activity was temporarily overstated by multiple payment deviations. However, the increase from recent openings in heavy industry and light/industrial printers was offset by business closures in other sectors.

A new store was a significant factor in higher post-holiday general retail receipts. The rise in the countywide use tax allocation pool and spike in service stations countered the overall decline in building-construction.

Net of aberrations, taxable sales for all of San Diego County grew 2.7% over the comparable time period; the Southern California region was up 2.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Arco AM PM	Maintex
Bay City Electric Works	Mitchell Repair
Circle K	Modular Space
Costco	Mossy Nissan
Crawford & Company	Perry Ford of Poway
Ferguson Waterworks	Poway Chrysler Dodge Jeep Ram
General Atomics Aeronautical Systems	Poway Honda
H M Electronics	Poway Mitsubishi Hyundai & Vespa
Home Depot	Poway Toyota/Scion
Home Goods	Sysco Food Services
Kohls	Target
Lowe's	United Oil
	Walmart Supercenter

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$8,784,131	\$8,979,383
County Pool	1,281,930	1,438,032
State Pool	5,980	8,561
Gross Receipts	\$10,072,040	\$10,425,976
Less Triple Flip*	\$(1,723,389)	\$0

*Reimbursed from county compensation fund

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Statewide Results

Local tax receipts from January through March sales were 2.1% higher than the first quarter of 2016 after factoring for accounting anomalies.

Rising fuel prices, auto sales, county use tax pool allocations and dining out added most to the overall gain. Some general consumer goods and B2B sales were flat or down.

This quarter reflects the start of an anticipated leveling off of future tax revenues. After seven years of recovery, analysts are reporting an end to the previous pent-up demand for autos. Demand for new cars will ease due to more buyers tied to long-term loans and a glut of used cars coming off lease.

Price competition and store closures have reduced tax receipts from consumer goods. Business investment remains strong but much of the growth is for non-taxable items such as cloud computing and large data solutions. Declines in foreign tourist visits and lower costs of eating at home are expected to slow the growth in restaurant sales.

New Sales Tax Organization

As of July 1, the operating divisions responsible for allocation of tax revenues other than property, insurance and alcoholic beverages will shift from the State Board of Equalization (BOE) to the Governor's new Department of Tax and Fee Administration.

The BOE was first established by constitutional amendment in 1879 to oversee property tax assessment practices by all counties in the state. It eventually became responsible for other tax revenues including sales, insurance, corporate franchise and special fees.

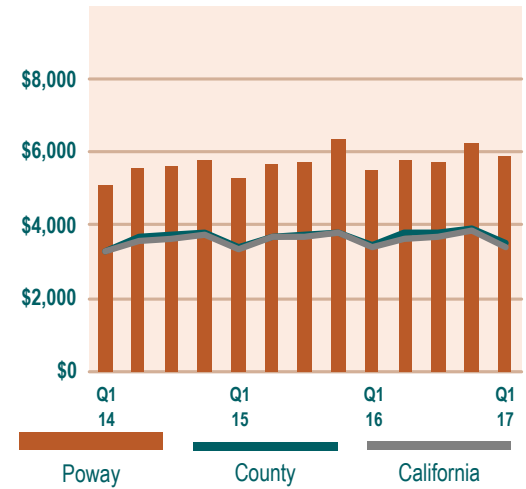
In 2011, HdL detected discrepancies in the BOE's allocation of public safety revenues which led to the recovery of over \$124 million in revenues for counties. Subsequent audits by the State

Controller and State Department of Finance revealed further shortcomings. The result was the passage of budget trailer bill SB86/AB102 that reduces the BOE to its previous constitutionally defined functions.

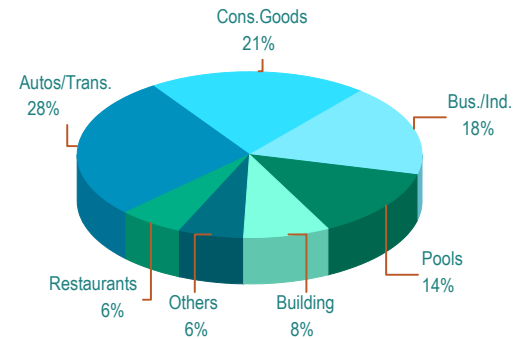
The BOE is also empowered to hear appeals and disputes over tax assessments including sales/use, personal income and corporate taxes and is the only elected Tax Board in the United States that hears tax disputes. Effective January 1, 2018, that function will be turned over to a new Office of Tax Appeals (OTA) composed of panels of administrative law judges appointed by the Governor with locations in Sacramento, Fresno and Los Angeles.

For functions other than the appeal process, this is primarily a reshuffling of existing personnel so the change will have little impact on local agencies. However, the issue of local government's ability to provide input regarding future policy and regulation changes that impact revenues remains under discussion. HdL will share more about the BOE transition as details become available in the weeks ahead.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Poway This Quarter



POWAY TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Poway Q1 '17*	Change	County Change	HdL State Change
Aircraft Sales & Service	— CONFIDENTIAL —	—	227.2%	47.7%
Auto Repair Shops	43.6	7.7%	2.1%	5.1%
Building Materials	164.6	4.4%	-1.0%	3.1%
Casual Dining	89.4	0.0%	-2.1%	0.5%
Contractors	45.2	-30.4%	-4.1%	-3.9%
Department Stores	— CONFIDENTIAL —	—	-7.3%	-6.5%
Discount Dept Stores	— CONFIDENTIAL —	—	0.0%	1.6%
Electrical Equipment	— CONFIDENTIAL —	—	76.6%	-7.6%
Food Service Equip./Supplies	— CONFIDENTIAL —	—	30.5%	11.6%
Light Industrial/Printers	52.3	24.8%	2.4%	7.4%
New Motor Vehicle Dealers	579.6	-1.9%	3.9%	4.4%
Plumbing/Electrical Supplies	— CONFIDENTIAL —	—	-9.7%	-1.6%
Quick-Service Restaurants	84.5	0.8%	4.7%	4.6%
Service Stations	139.4	16.8%	12.5%	10.0%
Transportation/Rentals	54.4	54.1%	4.0%	2.2%
Total All Accounts	2,979.5	7.9%	2.5%	1.8%
County & State Pool Allocation	469.5	12.2%	6.6%	2.9%
Gross Receipts	3,449.0	8.5%	3.1%	1.9%