Q2 2017

City of Cupertino Sales Tax *Update*

CUPERTINO

Third Quarter Receipts for Second Quarter Sales (April - June 2017)

Cupertino In Brief

Cupertino's receipts from April through June were 13.9% above the second sales period in 2016. Excluding reporting aberrations, actual sales were up 10.7%.

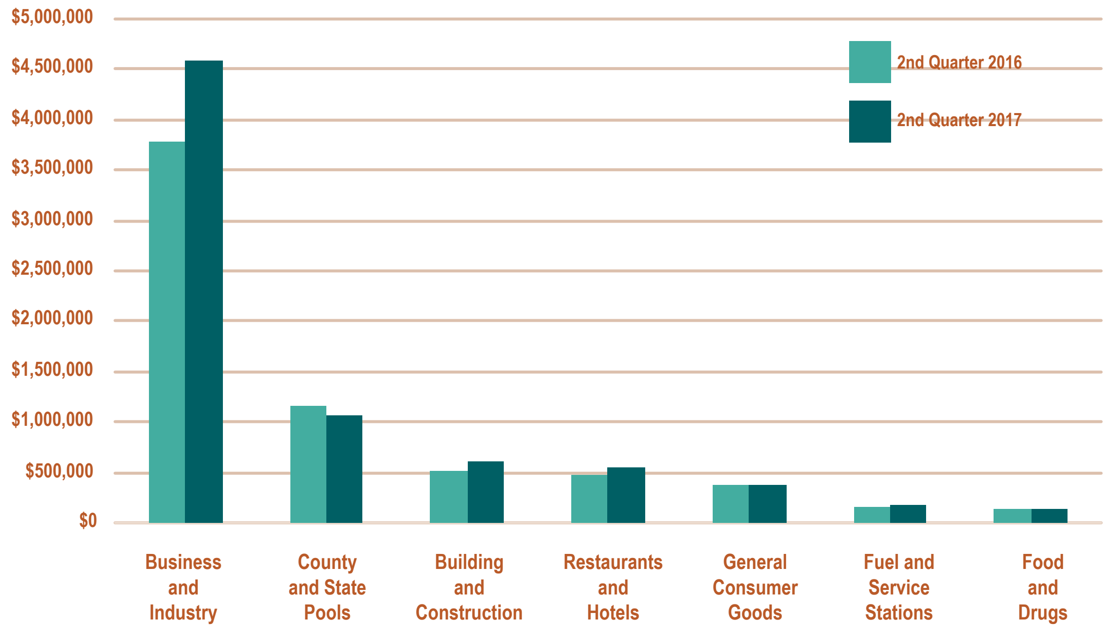
During this reporting period, results from two major sectors were impacted by the Apple Campus project. Business and industry had sizeable acquisitions of taxable goods which contributed to gains from office supplies/furniture, electrical equipment and garden/agriculture. Substantial payment corrections in both the current and year-ago periods within the building-construction category skewed this sectors comparison; actual performance declined 53% after removing reporting anomalies.

Rising fuel prices and a double-up payment yielded growth from service stations. Eating out favorites across a variety of venues was strong; returns from fast-causal and casual dining restaurants reflected recent location openings.

Countywide collections were down overall; increased online buying could not overcome a large county pool reallocation made a year ago by the State Board of Equalization to reclassify prior sales activity as use tax purchases.

Net of aberrations, taxable sales for all of Santa Clara County grew 0.6% over the comparable time period; the Bay Area was up 2.5%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- Alexander's Steak House
- Alliance
- Apple
- Argonaut Window & Door
- Automated Logic
- BJs Restaurant & Brewhouse
- Brightview Tree Company
- Chevron
- Columbia Stone
- Dental Arts of California
- Estel Group
- Insight Direct
- Insight Public Sector
- Lazy Dog Cafe
- Mirapath
- Permasteelisa North America
- Rotten Robbie
- Safeway
- Seagate Technology
- Seele
- Shane Company
- Target
- Teknion
- TJ Maxx
- Whole Foods Market

Revenue Comparison

One Quarter – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	$5,427,026	$6,441,824
County Pool	1,152,572	1,059,553
State Pool	2,007	(3,451)
Gross Receipts	**$6,581,605**	**$7,497,926**
Less Triple Flip*	$0	$0

**Reimbursed from county compensation fund*

Published by HdL Companies in Fall 2017
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NOTES

California Overall

Local government's one-cent share of statewide sales and use tax from transactions occurring April through June was 3.2% higher than the same quarter of 2016 after payment aberrations are factored out.

The largest percentage increases were from the countywide allocation pools, building supplies and rising fuel prices. Auto sales and restaurants continued to post solid gains. Except for value priced apparel and dollar stores, most categories of general consumer goods were down or flat with the growth in online shopping shifting tax receipts to in-state distribution centers or to the countywide allocation pools.

Receipts from business and industrial transactions were lower than last year's comparable quarter because of declines in new alternative energy projects. Agricultural and new technology related purchases exhibited healthy gains as did sales of warehouse and construction equipment. Most other categories were down from 2016.

Where does the Money Go?

E-commerce, technology and changing consumer preferences have retailers undergoing a dizzying transformation as they compete for customers through online websites, mobile apps, home delivery, social media, pop-up/flex stores and pick-up lockers as well as traditional brick and mortar businesses.

The changes in how goods are inventoried, sold and delivered has created some confusion in allocating local sales and use tax. However, it still involves three basic principles:

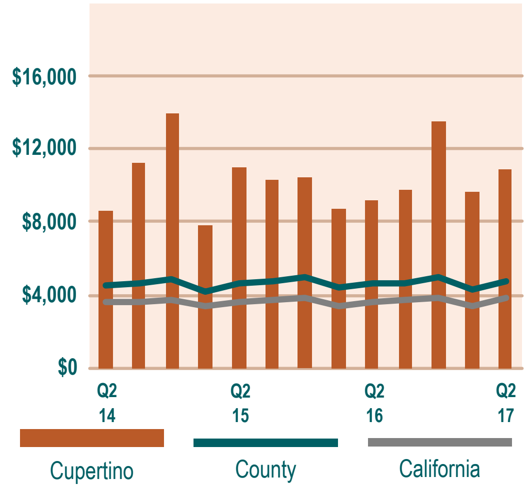
- Location where the sale is negotiated
- Location of goods at time of sale
- Ownership of goods being sold

Place of sale continues to be California's primary rule for allocating local sales tax. If the inventory is owned by the seller and is located in-state, the tax goes to the location that participates in the sale, either by receiving the order or shipping the goods. If the order is taken outside the state but the seller owns the inventory and delivers the goods from inside California, the tax is allocated to the jurisdiction where the warehouse is located. Otherwise, the tax is shared by all agencies in the county where the goods are shipped on a pro-rata basis through the county allocation pools.

Ownership of the goods being sold is also a factor. In order for an agency to receive a direct allocation of local tax for goods shipped from a California fulfillment center, the location must be the retailer's place of business and not owned or operated by a separate legal entity. If the retailer has no place of business in California, the only opportunity for local tax is an indirect allocation through the countywide pools

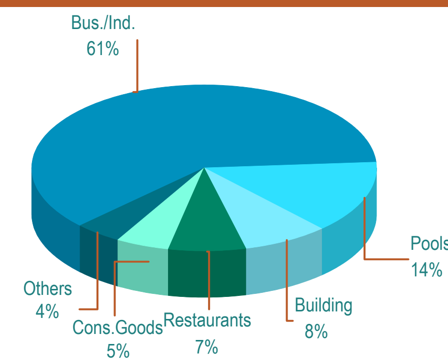
For jurisdictions with transactions tax overrides, that tax goes to the place of purchase rather than the place of the seller. For example, the sales tax on the purchase of an automobile goes to the seller's location. However, the transactions tax, if any, goes to the jurisdiction where the buyer's vehicle is registered.

Sales Per Capita



Revenue By Business Group

Cupertino This Quarter



Cupertino Top 15 Business Types

*In thousands of dollars	Cupertino		County	HdL State
Business Type	**Q2 '17***	**Change**	**Change**	**Change**
Casual Dining	322.8	11.0%	1.1%	2.2%
Contractors	594.0	19.3%	13.0%	9.5%
Discount Dept Stores	— CONFIDENTIAL —		4.0%	3.2%
Electrical Equipment	135.1	79.9%	0.0%	3.5%
Family Apparel	64.7	4.3%	0.0%	4.0%
Fast-Casual Restaurants	69.5	64.9%	11.7%	9.5%
Fine Dining	— CONFIDENTIAL —		8.8%	12.3%
Fulfillment Centers	— CONFIDENTIAL —		14.1%	55.0%
Garden/Agricultural Supplies	117.6	479.7%	20.9%	4.4%
Grocery Stores	92.8	-5.8%	2.9%	2.1%
Medical/Biotech	54.0	53.4%	53.7%	7.5%
Office Equipment	— CONFIDENTIAL —		1.7%	4.4%
Office Supplies/Furniture	381.9	360.1%	14.3%	250.4%
Quick-Service Restaurants	76.7	-0.8%	-0.5%	5.8%
Service Stations	176.9	17.1%	6.8%	8.6%
Total All Accounts	**6,441.8**	**18.7%**	**1.9%**	**6.4%**
County & State Pool Allocation	**1,056.1**	**-8.5%**	**-21.4%**	**-9.9%**
Gross Receipts	**7,497.9**	**13.9%**	**-2.2%**	**4.1%**