Q3 2017

City of Cupertino Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2017)

Cupertino In Brief

Cupertino's receipts from July through September were 17.6% above the third sales period in 2016. Excluding reporting aberrations, actual sales were up 19.2%.

Solid performance from multiple large vendors boosted results, while continued work at the Apple Campus also helped spike overall receipts.

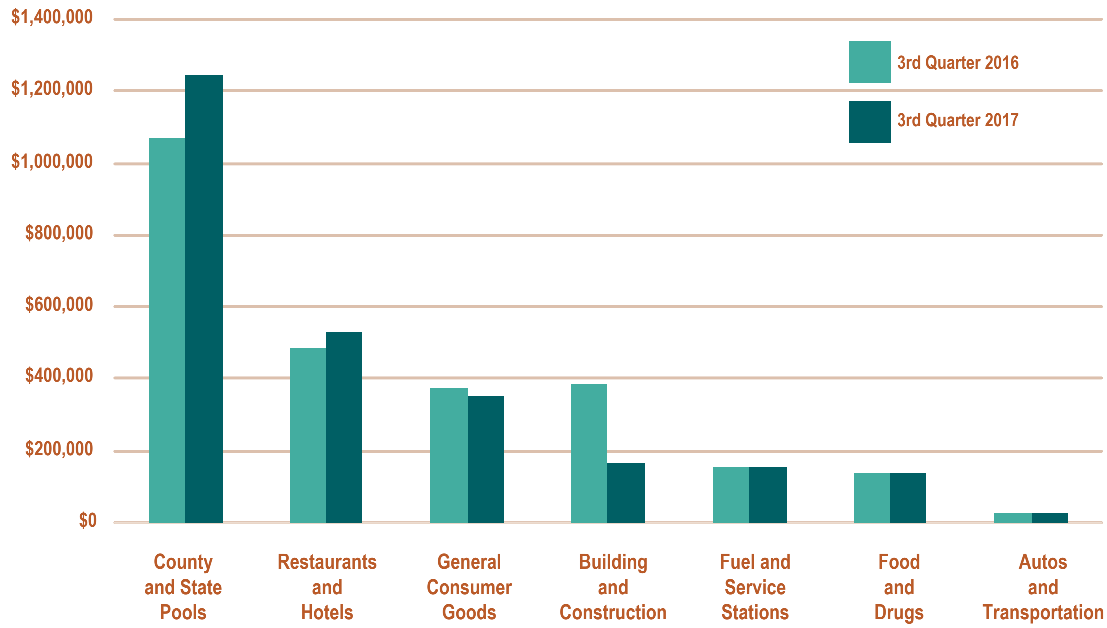
Greater variety and creative new concepts improved consumer interest in eating out and therefore positively impacted returns from fast-casual and casual dining restaurants.

These increases in local point of sale revenue and increased capital and online purchases of items shipped into the region boosted allocations from the countywide use tax pool, further contributing to the positive outcome.

Decreases by contractor suppliers due to a spike in the comparison period for work at the Apple Campus partially offset the gains.

Net of aberrations, taxable sales for all of Santa Clara County grew 2.5% over the comparable time period; the Bay Area was up 3.4%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- Agie Charmilles
- Alexander's Steak House
- Alliance
- Apple
- Argonaut Window & Door
- BJs Restaurant & Brewhouse
- Brightview Landscape Development
- Brightview Tree Company
- Chevron
- Dental Arts of California
- Estel Group
- Insight Direct
- Insight Public Sector
- Lazy Dog Cafe
- Mirapath
- Rotten Robbie
- Safeway
- Scandinavian Designs
- Seele
- Shane Company
- Superior Air Handling
- Target
- Teknion
- TJ Maxx
- Whole Foods Market

Revenue Comparison

Two Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	$11,161,429	$13,200,123
County Pool	2,218,745	2,298,230
State Pool	4,066	2,049
Gross Receipts	$13,384,241	$15,500,403

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NOTES

Statewide Trends

After factoring for accounting anomalies, local government's one-cent share of statewide sales and use tax from July through September sales was 3.6% higher than 2016's summer quarter.

Rising fuel prices, increased demand for building-construction materials and the continuing acceleration in online shopping for merchandise shipped from out-of-state that is expanding receipts from the countywide use tax allocation pools were the primary contributors to the overall increase.

This quarter marked the anticipated leveling off of auto sales while agriculture and transit-related purchases helped boost otherwise tepid gains in business-industrial receipts. Restaurant sales exhibited healthy overall gains of 3.5% although growth rates are slowing from previous quarters.

Receipts from consumer goods sold by brick and mortar stores were up 0.7% over the previous year while revenues from online purchases grew 13.3%.

Cannabis Taxation

A 15% excise tax on retail cannabis and cannabis products along with a cultivation tax and sales tax on recreational uses take effect on January 1, 2018.

Significant sales tax revenues are not expected until late 2018-19 as retail start-ups comply with lengthy state and local permitting processes. Although sales of medicinal cannabis became exempt in 2016 for purchasers with a state issued Medical Marijuana ID card, jurisdictions with dispensaries continue to receive sales tax from that source as most patients prefer to use a note from their physicians.

Some decline in revenues from medical dispensaries are expected as users' transition to new purchase options and because of lower prices caused by anticipated overproduction and the six month window that suppliers have to sell existing inventory grown under previous regulations.

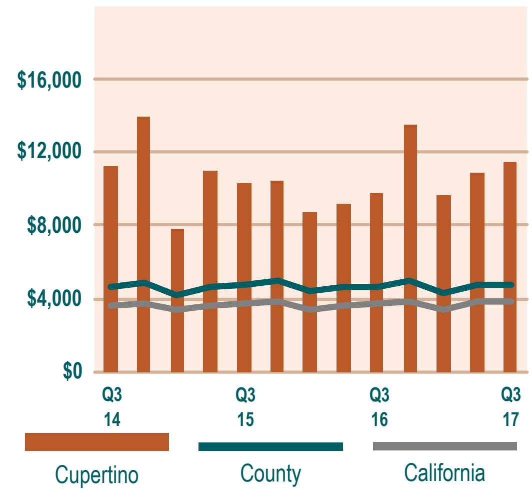
Sales Tax and Natural Disasters

The recent firestorm tragedies have raised questions on potential bumps in sales tax revenues from reconstruction and recovery activities.

HdL analyzed the sales tax data from the 1991 Oakland Hills, 2003 San Diego Cedar and 2007 San Diego Witch fires which involved the combined loss of over 7,700 structures. Surprisingly, there were no identifiable gains in construction and auto-related purchases within the impacted areas during the five years after each event with receipts following normal economic cycles experienced by the state as a whole.

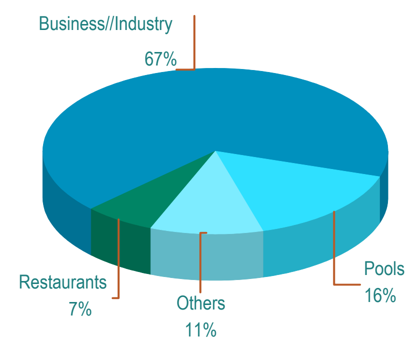
Further analysis suggests that though the individual losses are catastrophic, purchases of replacement items are a small fraction of the impacted area's total spending and is often spread to other jurisdictions where disaster victims relocate. Tax receipts from construction spending are defused over time because of lengthy claims and permitting processes that cause up to 40% of disaster victims to relocate leaving vacant lots that are not immediately redeveloped.

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	**Q3 '17***	**Change**	**Change**	**Change**
Casual Dining	331.0	8.1%	2.1%	2.4%
Contractors	161.1	-57.7%	8.8%	6.5%
Discount Dept Stores	— CONFIDENTIAL —		9.1%	6.1%
Electrical Equipment	55.9	-58.4%	-21.6%	-6.9%
Family Apparel	61.0	0.9%	1.0%	1.7%
Fast-Casual Restaurants	60.6	29.8%	4.7%	8.7%
Fulfillment Centers	— CONFIDENTIAL —		42.4%	43.0%
Garden/Agricultural Supplies	86.6	537.8%	16.7%	10.3%
Grocery Stores	101.3	-4.6%	0.5%	0.6%
Heavy Industrial	— CONFIDENTIAL —		15.2%	6.2%
Jewelry Stores	— CONFIDENTIAL —		-14.1%	-7.7%
Office Equipment	— CONFIDENTIAL —		-0.4%	-2.7%
Office Supplies/Furniture	128.9	-37.8%	-2.4%	-1.7%
Quick-Service Restaurants	74.1	3.4%	3.5%	4.8%
Service Stations	155.5	2.1%	9.1%	9.2%
Total All Accounts	**6,758.3**	**17.9%**	**4.6%**	**4.1%**
County & State Pool Allocation	**1,244.2**	**16.5%**	**3.4%**	**4.8%**
Gross Receipts	**8,002.5**	**17.6%**	**4.4%**	**4.2%**