Q1 2018

City of Cupertino Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2018)

Cupertino In Brief

Cupertino's receipts from January through March were 8.7% below the first sales period in 2017. Excluding reporting aberrations, actual sales were up 1.5%.

Temporary use tax associated with commercial development, which fluctuates quarter to quarter, curtailed revenues in several sectors including contractors and electrical equipment.

In addition, missing allocations due to the State's transition to a new software system adversely impacted overall business to business results.

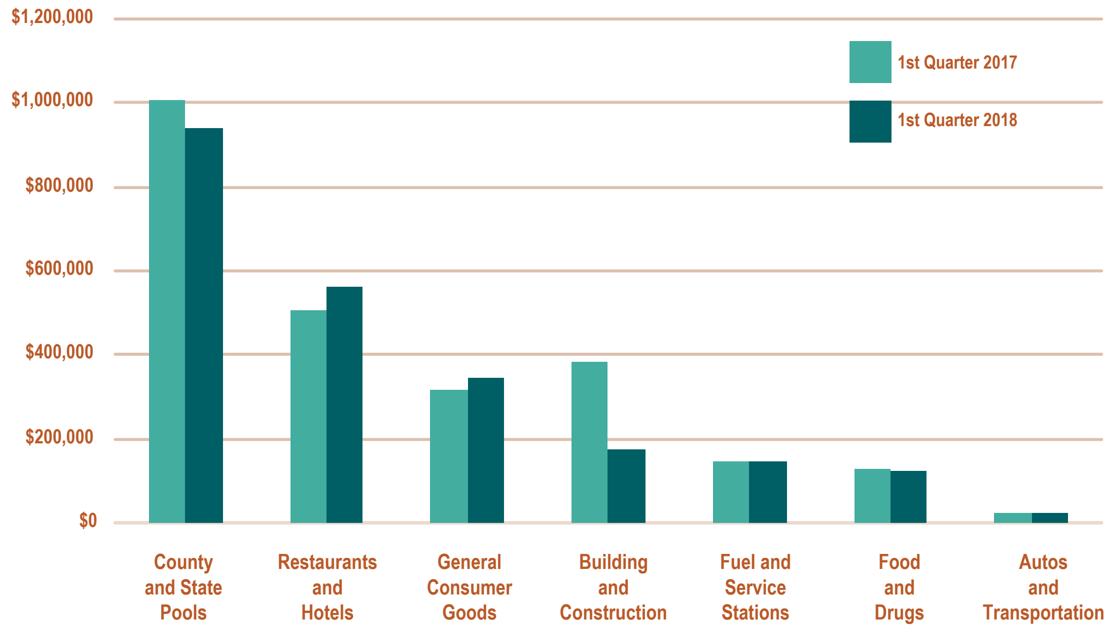
A decline in the City's share of the countywide use tax allocation pool also contributed to lower gross receipts.

Conversely, a new store added to positive post-holiday retail sales which outpaced regional trends.

Recent openings boosted performance in restaurants and hotels.

Net of aberrations, taxable sales for all of Santa Clara County grew 6.8% over the comparable time; the Bay Area was up 6.7%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- 7 Eleven
- 99 Ranch Market
- Alexander's Steak House
- Alliance
- Apple
- Argonaut Window & Door
- Benihana
- BJs Restaurant & Brewhouse
- Brightview Landscape Development
- Chevron
- Dental Arts of California
- Estel Group
- Haidilao Hot Pot
- Lazy Dog Cafe
- Mirapath
- Permasteelisa North America
- Residence Inn by Marriott
- Rotten Robbie
- Safeway
- Seagate Technology
- Seele
- Shane Company
- Target
- TJ Maxx
- Whole Foods Market

Revenue Comparison

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	$24,796,838	$27,849,057
County Pool	4,827,358	5,105,933
State Pool	20,900	9,557
Gross Receipts	**$29,645,096**	**$32,964,547**

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NOTES

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

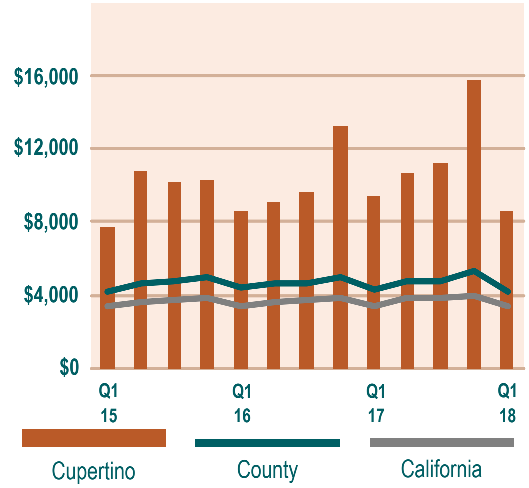
Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the online interstate marketplace was not the prevailing issue before the court in 1992.

In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

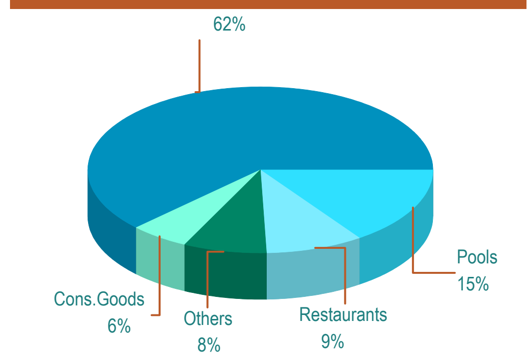
According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about $1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average $60 per year for each California household, and California businesses average $171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court's opinion to determine next steps to support taxpayers.

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	**Q1 '18***	**Change**	**Change**	**Change**
Casual Dining	346.3	10.3%	-0.8%	-2.0%
Contractors	166.6	-55.7%	5.2%	21.6%
Discount Dept Stores	— CONFIDENTIAL —		6.5%	2.8%
Electrical Equipment	42.5	-61.1%	41.7%	2.1%
Family Apparel	62.8	10.2%	5.6%	8.2%
Fast-Casual Restaurants	61.5	5.0%	3.6%	6.8%
Fine Dining	— CONFIDENTIAL —		3.7%	5.5%
Fulfillment Centers	— CONFIDENTIAL —		23.8%	40.3%
Garden/Agricultural Supplies	41.0	8.1%	14.0%	3.2%
Grocery Stores	94.6	0.1%	-4.7%	1.9%
Home Furnishings	40.2	16.4%	-2.3%	-1.0%
Jewelry Stores	— CONFIDENTIAL —		-0.2%	-2.7%
Office Supplies/Furniture	— CONFIDENTIAL —		-33.3%	-11.4%
Quick-Service Restaurants	59.7	-9.5%	-3.7%	-3.8%
Service Stations	145.3	0.7%	6.7%	4.6%
Total All Accounts	**5,166.1**	**-9.1%**	**-0.7%**	**-1.8%**
County & State Pool Allocation	**938.7**	**-6.6%**	**2.0%**	**-2.1%**
Gross Receipts	**6,104.8**	**-8.7%**	**-0.3%**	**-1.8%**