Q3 2018

City of Cupertino Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2018)

Cupertino In Brief

Cupertino's receipts from July through September were 17.8% above the third sales period in 2017. A multitude of non-recurring adjustments expanded results. Nonetheless, actual returns were up 10.3% keeping in mind that sales activity for a major portion of the City's tax base fluctuates depending on market demand.

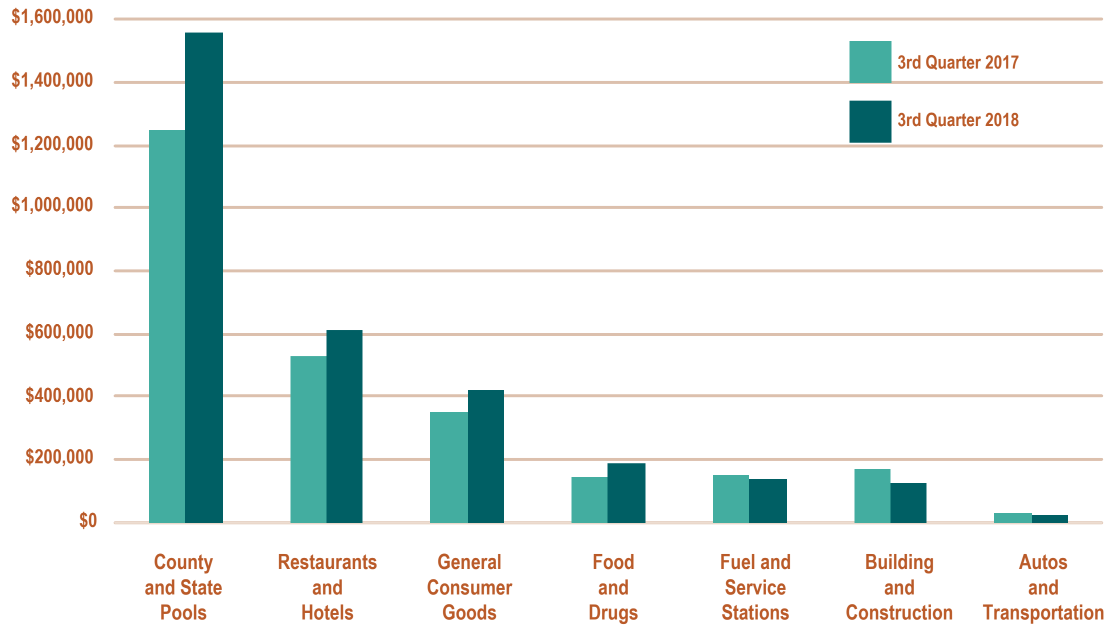
Multi-quarter payments to resolve outstanding disbursements that resulted from the State's software conversion temporarily spiked receipts in both general consumer goods and food-drugs and triggered the surge in the countywide use tax allocation pool.

Recent new eateries contributed to the double-digit increase in restaurants.

The slowdown in local construction projects accounted for the drop in building and construction.

Net of aberrations, taxable sales for all of Santa Clara County grew 8.1% over the comparable time period; the Bay Area was up 8.1%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- 7 Eleven
- Alexander's Steak House
- Alliance
- Apple
- Aqui Cal Mex
- Argonaut Window & Door
- California Dental Arts
- Cloud Trekkers Technologies
- Cupertino Valero
- Estel Group
- Insight Direct
- Insight Public Sector
- Lazy Dog Cafe
- Marina Food
- Mirapath
- Ross
- Rotten Robbie
- Safeway
- Scandinavian Designs
- Seagate Technology
- Shane Company
- Target
- TJ Maxx
- Vikhar
- Whole Foods Market

Revenue Comparison

One Quarter – Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	$6,758,299	$7,872,809
County Pool	1,238,677	1,548,663
State Pool	5,500	4,258
Gross Receipts	**$8,002,476**	**$9,425,730**

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NOTES

California Overall

The CDTFA's problems with its new software system had yet to be fully resolved by the end of the third quarter. HdL's adjustments for delayed payments and other reporting deficiencies indicate that statewide receipts from the local one cent tax rose 5.2% over the first three quarters of 2018 versus the comparison period. The gains were primarily from higher fuel prices, strong building-construction activity and a rise in tax receipts from online purchases delivered from out-of-state that are shared by all agencies via the county pools.

The data exhibits the start of a leveling pattern in other sectors. The statewide gain in new car sales for July through September was due to a single manufacturer filling back orders. Price competition kept tax revenues from consumer goods receipts relatively flat while the rise in online shopping is expanding the diversion of tax revenues from brick and mortar stores to county pools or to in-state distribution centers.

Restaurant sales are beginning to show signs of market saturation as well as the impact of new competition that includes - prepared food and meal kits delivered from a variety of other sources. A modest gain in business-industrial sales was largely related to data and warehouse technology as well as a few major development projects.

Anticipated declines in fuel prices in the first quarter of 2019 adds support to HdL's latest consensus forecast for a modest statewide gain of 1.5% in fiscal year 2019-20 unless new trade conflicts further impact the economy.

South Dakota V. Wayfair Decision

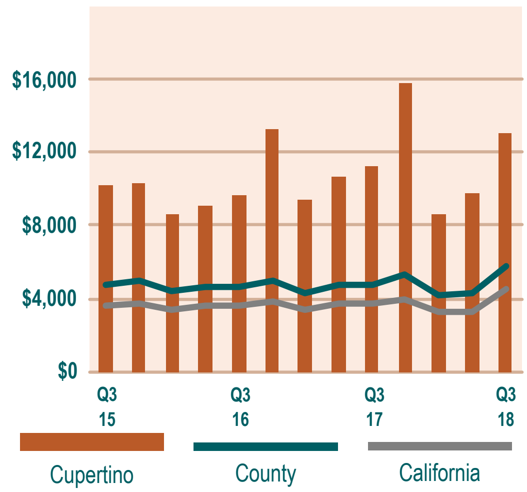
In June, the Supreme Court reversed its previous ruling that retailers are not required to collect taxes for jurisdictions where they have no physical presence or "nexus." Instead, the buyer was responsible for remitting the tax.

California will begin enforcing the Wayfair reversal effective April 1, 2019 by making retailers delivering from out-of-state responsible for collecting and remitting use tax if calendar year sales exceed $100,000 and/or 200 or more separate transactions. The same threshold will also determine whether in-state retailers are responsible for collecting taxes on deliveries to individual transactions tax districts.

Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

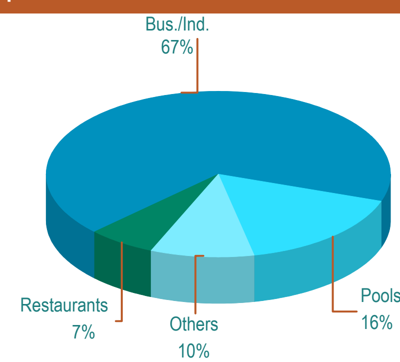
As most major online retailers, including Wayfair, are already collecting California taxes and the state has traditionally enforced a broad definition of "nexus," the impact of the South Dakota decision may be less than in other states. The U.S. Government Accountability Office estimates a potential eventual gain of $3 to $5 per capita in receipts from our one cent local tax.

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 '18*	Change	Change	Change
Casual Dining	378.6	13.6%	14.5%	14.6%
Contractors	— CONFIDENTIAL —		16.0%	37.6%
Discount Dept Stores	— CONFIDENTIAL —		17.4%	18.3%
Electrical Equipment	63.6	13.6%	40.9%	36.5%
Family Apparel	74.1	21.6%	32.5%	36.3%
Fast-Casual Restaurants	94.9	59.5%	25.2%	14.9%
Fine Dining	— CONFIDENTIAL —		20.0%	16.8%
Fulfillment Centers	— CONFIDENTIAL —		17.0%	13.4%
Grocery Stores	152.3	50.4%	19.5%	16.1%
Home Furnishings	45.5	10.8%	9.2%	21.9%
Jewelry Stores	— CONFIDENTIAL —		56.8%	49.2%
Office Equipment	— CONFIDENTIAL —		25.0%	20.4%
Office Supplies/Furniture	— CONFIDENTIAL —		11.6%	9.3%
Quick-Service Restaurants	64.3	-8.9%	10.0%	13.4%
Service Stations	139.4	-8.4%	35.0%	43.0%
Total All Accounts	**7,872.8**	**16.5%**	**22.4%**	**21.8%**
County & State Pool Allocation	**1,552.9**	**24.8%**	**31.1%**	**27.8%**
Gross Receipts	**9,425.7**	**17.8%**	**23.7%**	**22.6%**