Q4 2018

City of Cupertino Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (October - December 2018)

Cupertino In Brief

Cupertino's receipts from October through December were 14.0% below the fourth sales period in 2017. Excluding reporting aberrations, actual sales were down 15.2%.

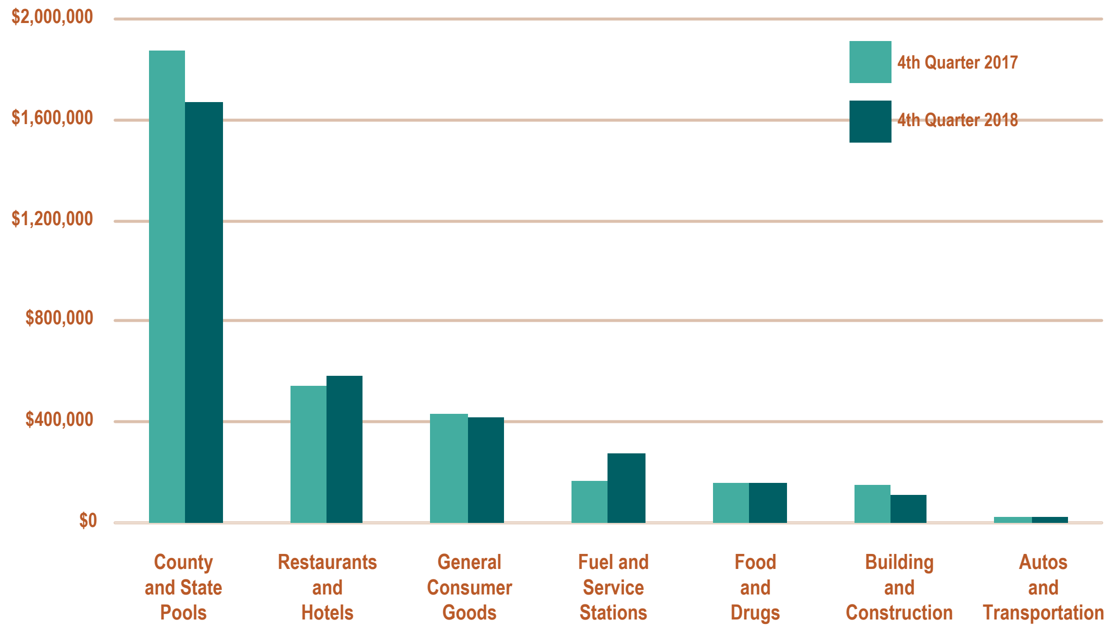
New restaurant openings since the year-ago comparison quarter were largely responsible for the gains in restaurants and hotels. A double payment in services stations inflated results which posted a 10% increase after accounting for anomalies.

The Apple Campus project completed most of its work since the comparison quarter causing returns related to the construction to decline as expected.

Due to the point of sale decrease, the City's allocation from the countywide use tax pool decreased by 14%.

Net of aberrations, taxable sales for all of Santa Clara County grew 2.5% over the comparable time period; the Bay Area was up 2.3%.

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
- BJ's Restaurant & Brewhouse
- California Dental Arts
- Chevron
- Estel Group
- Galpao Gaucho
- Haidilao Hot Pot
- Insight Direct
- Lazy Dog Cafe
- Mirapath
- Rotten Robbie
- Safeway
- Scandinavian Designs
- Seagate Technology
- Shane Company
- Target
- TJ Maxx
- Valero
- Whole Foods Market

Revenue Comparison

Two Quarters – Fiscal Year To Date (Q3 to Q4)

	2017-18	2018-19
Point-of-Sale	$16,241,123	$15,967,809
County Pool	3,112,336	3,214,615
State Pool	8,376	8,404
Gross Receipts	**$19,361,835**	**$19,190,828**

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NOTES

Statewide Results

The local one cent share of sales and use tax from October through December sales was 2.8% higher than 2017's holiday quarter after factoring for state reporting aberrations.

The overall increase came primarily from a solid quarter for contractor materials and equipment, expanded production by an auto manufacturer and rising fuel prices. Online fulfillment centers, new technology investment and cannabis start-ups also produced significant gains. Receipts in the six county Sacramento region grew 7.9% over last year while the remainder of the state was generally flat or exhibited only minor growth.

Notable was the 0.09% rise in tax receipts from brick and mortar retailers which is the lowest holiday gain for that sector since 2009. A 9.6% increase in receipts from online shopping which is allocated to central order desks or county pools was part of the reason. Other factors include lower prices, gift cards which move purchases to future quarters and greater gifting of non-taxable experiences and services.

The Retail Evolution Continues

A recent survey identified U.S. closures of 102 million sq. ft. of retail space in 2017 and an additional 155 million sq. ft. in 2018. Similar losses are expected in 2019 with 5,300 closures already announced. Payless Shoes, Gymboree, Performance Bicycle and Charlotte Russe are going out of business while chains including Sears, Kmart, Macy's, JCPenney, Kohl's, Nordstrom, Dollar Tree, Victoria's Secret, Chico's, Foot Locker and Lowe's have announced plans for further cuts in oversaturated markets and downsizing of stores.

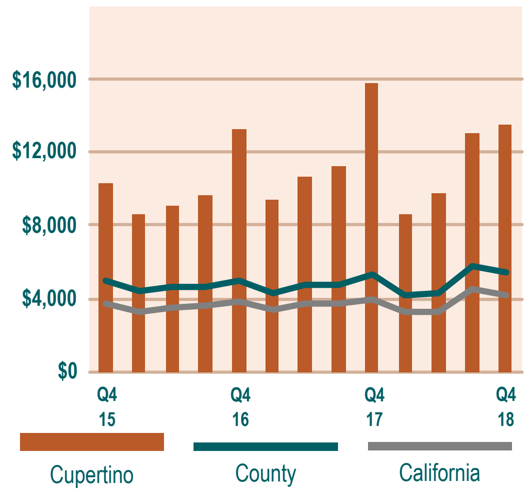
Retailers are not planning the end of physical stores which continue to be important for personalized experiences and shopping entertainment. However, the shifting trends encourage reduced square footage with less overhead to better compete on prices and provide more intimate shopping encounters.

With smartphones allowing purchase and delivery of almost anything at any time of the day without leaving home, big box retailers are responding by downsizing stores and subleasing excess space to compatible businesses to help draw traffic. Locations where people congregate for entertainment, food and services have become part of the evolving strategy as has integrating retail with more convenient spots for pick-up and delivery of online orders.

Barry Foster of HdL's EconSolutions, notes that "shifting shopping habits present challenges but also opportunities." "Smaller footprints enable expanding into smaller niche markets while mixed use projects and 18-hour environments are chances to rebuild downtowns and reinvigorate shopping centers."

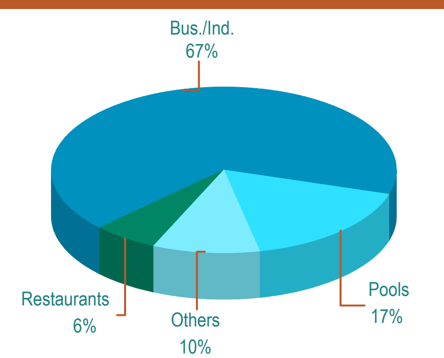
With more companies using the internet to sell directly to customers from their warehouses, the trend also provides jurisdictions whose populations aren't adequate in size to support large scale retail to focus on industrial development for sales tax as well as jobs.

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	**Q4 '18***	**Change**	**Change**	**Change**
Casual Dining	354.3	5.2%	1.3%	2.5%
Contractors	— CONFIDENTIAL —		7.8%	17.3%
Discount Dept Stores	— CONFIDENTIAL —		5.9%	3.9%
Electrical Equipment	32.2	-47.3%	-15.7%	-1.2%
Family Apparel	72.2	-3.0%	0.9%	0.5%
Fast-Casual Restaurants	71.5	10.7%	2.3%	4.5%
Fine Dining	— CONFIDENTIAL —		7.5%	6.7%
Fulfillment Centers	— CONFIDENTIAL —		-19.2%	4.5%
Grocery Stores	115.7	4.3%	-5.4%	-11.7%
Home Furnishings	46.4	5.4%	-3.4%	0.0%
Jewelry Stores	— CONFIDENTIAL —		-13.2%	-4.0%
Office Equipment	— CONFIDENTIAL —		28.1%	12.8%
Quick-Service Restaurants	70.9	11.0%	3.0%	6.6%
Service Stations	271.6	66.7%	31.6%	28.5%
Specialty Stores	48.7	20.8%	-20.1%	-10.8%
Total All Accounts	**8,095.0**	**-14.6%**	**4.1%**	**7.0%**
County & State Pool Allocation	**1,670.1**	**-11.0%**	**8.5%**	**8.6%**
Gross Receipts	**9,765.1**	**-14.0%**	**4.8%**	**7.2%**