Q2 2019

City of Cupertino Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2019)

Cupertino In Brief

Cupertino's receipts from April through June were 23.0% above the second sales period in 2018. However, this comparison is inflated due to CDTFA's transition to a new reporting system. Excluding reporting aberrations, actual sales were up 8.5%.

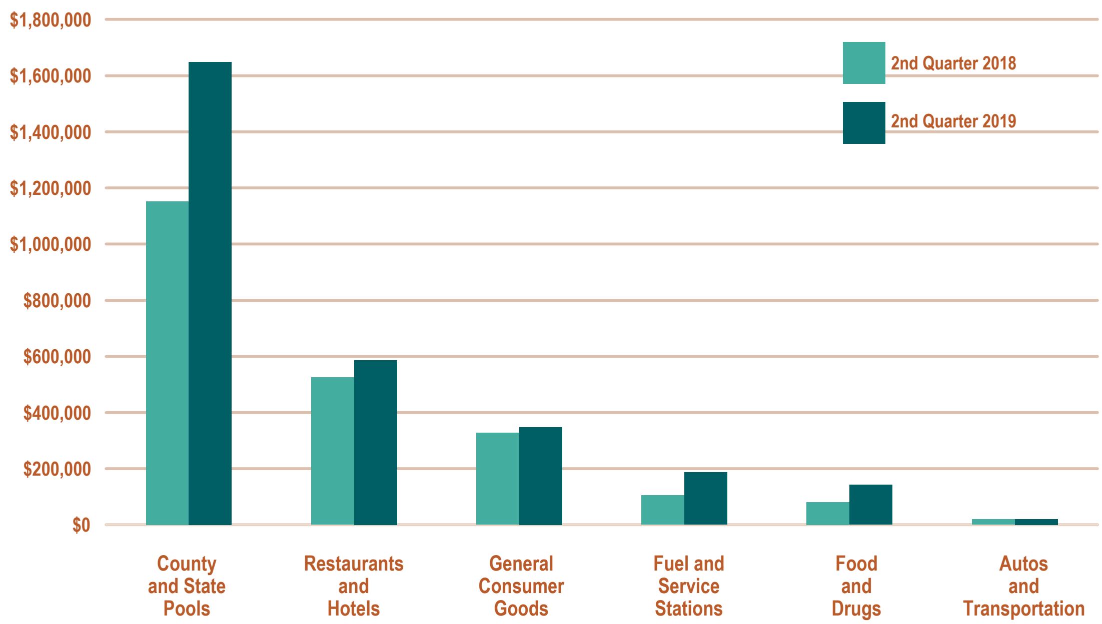
State-related issues significantly overstated results in service stations and food and drugs. Nonetheless, both groups were higher than a year-ago on an adjusted basis. The countywide use tax allocation pool experienced a similar upturn. The rise in the pool was a major factor in the overall increase in gross receipts. Business-related activity also contributed.

A combination of closed and recently opened eateries resulted in a 1.5% gain in restaurants once deviations were removed. All sectors underperformed, except fine dining, compared to regional trends.

Despite higher cash returns, closed stores added to tepid actual performance in general retail as a whole.

Net of aberrations, taxable receipts for all of Santa Clara County grew 1.8% over the comparable time period; the Bay Area was up 1.9%.

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
- Brightview Landscape Development
- California Dental Arts
- Chevron
- Haidilao Hot Pot
- Insight Direct
- Insight Public Sector
- Lazy Dog Cafe
- Rotten Robbie
- Safeway
- Scandinavian Designs
- Shane Company
- Shell
- Target
- TJ Maxx
- Ulta Beauty
- Valero
- Whole Foods Market

Revenue Comparison

Four Quarters – Fiscal Year To Date (Q3 to Q2)

	2017-18	2018-19
Point-of-Sale	$27,298,034	$27,183,305
County Pool	5,197,047	5,773,125
State Pool	15,312	14,170
Gross Receipts	**$32,510,393**	**$32,970,600**

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NOTES

California Overall

The local one percent share of California's sales and use tax from April through June sales was 20.4% higher than the same quarter of 2018. However, the actual gain came to 2.9% after factoring for online filing issues and accounting anomalies. Fiscal year 2018-19 ended with an increase of 3.6% over the previous year after similarly adjusting for reporting aberrations.

The quarter exhibited continuation of a recent softening for most taxable categories. Rising used car sales and rentals helped offset what was otherwise, a generally flat quarter for the auto-transportation group. An acceleration in online shopping boosted receipts from county wide pools while gains for brick and mortar stores were limited to value priced apparel, discount department stores and jewelry.

Restaurant patronage appears to be leveling with a shift toward lower cost dining options that produced relatively modest gains for the group when compared to previous quarters. New cannabis operations resulted in a small rise in food and drug receipts.

A 2.5% gain in business-industrial sales and use tax revenues came primarily from online fulfillment centers, logistics and utility company purchases and ongoing investment in automation and information technology. A similar rise in receipts from the building-construction group was due to a variety of infrastructure and onetime special projects that offset declines in material purchases for new home construction.

Marketplace Facilitator Act

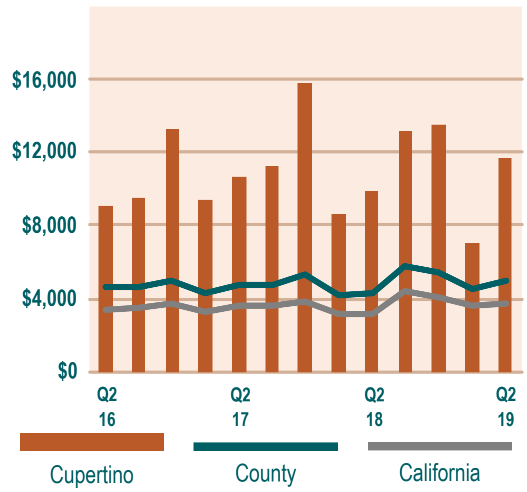
Effective Oct. 1, 2019, companies such as Amazon, eBay and Google who provide sales tax related services to other retailers are required to assume the obligation for collecting and remitting their client's sales and use tax. The definition of sales-related services includes payment processing, inventory and shipping of merchandise, order taking, providing customer service, or assisting with returns and exchanges.

The Marketplace provision was part of AB 147 which was adopted to implement California's approach to the U.S. Supreme Court decision in South Dakota v. Wayfair Inc.

AB 147 requires out-of-state retailers with annual combined sales of $500,000 or more to now collect and remit this state's sales and use tax from its customers. Applying the $500,000 threshold to the sum total of all the third-party transactions that facilitators process for their clients, is hoped to produce moderate gains in previously uncollected revenues for the state, cities, counties and local transaction tax districts.

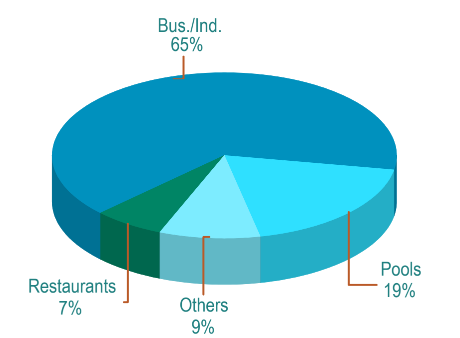
Facilitator tax remittances from merchandise inventoried in California will be allocated to specific jurisdictions while receipts from deliveries outside of the state will be distributed via the pools. Some facilitators have begun to collect and remit taxes ahead of this deadline. This is evidenced by new pool allocations and increases in direct allocations to certain jurisdictions.

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 '19***	**Change**	**Change**	**Change**
Casual Dining	366.9	10.3%	23.5%	24.5%
Contractors	— CONFIDENTIAL —		17.7%	26.9%
Discount Dept Stores	— CONFIDENTIAL —		20.7%	26.3%
Family Apparel	— CONFIDENTIAL —		46.5%	45.3%
Fast-Casual Restaurants	74.6	42.0%	24.0%	18.9%
Fine Dining	59.5	2.5%	13.2%	16.3%
Fulfillment Centers	— CONFIDENTIAL —		52.9%	-6.4%
Garden/Agricultural Supplies	50.4	92.9%	33.1%	22.0%
Grocery Stores	101.6	151.4%	26.2%	9.6%
Home Furnishings	32.7	-25.9%	-1.6%	15.6%
Jewelry Stores	— CONFIDENTIAL —		4.8%	23.1%
Office Equipment	— CONFIDENTIAL —		-4.3%	7.9%
Quick-Service Restaurants	65.9	5.7%	16.1%	15.9%
Service Stations	186.3	77.5%	46.3%	51.4%
Specialty Stores	36.4	-4.4%	13.1%	-8.4%
Total All Accounts	**7,015.1**	**19.1%**	**15.5%**	**20.1%**
County & State Pool Allocation	**1,648.3**	**43.0%**	**38.6%**	**22.4%**
Gross Receipts	**8,663.4**	**23.0%**	**19.2%**	**20.4%**