

Q2 2018



City of Murrieta Sales Tax Update

Third Quarter Receipts for Second Quarter Sales (April - June 2018)

Murrieta In Brief

Murrieta's receipts from April through June were 15.8% lower than the same quarter a year ago. For the second time this year, the State's software conversion resulted in unusual processing delays. Consequently, sizeable payments remain outstanding. Actual sales after adjusting for all anomalies would have been up 0.9%.

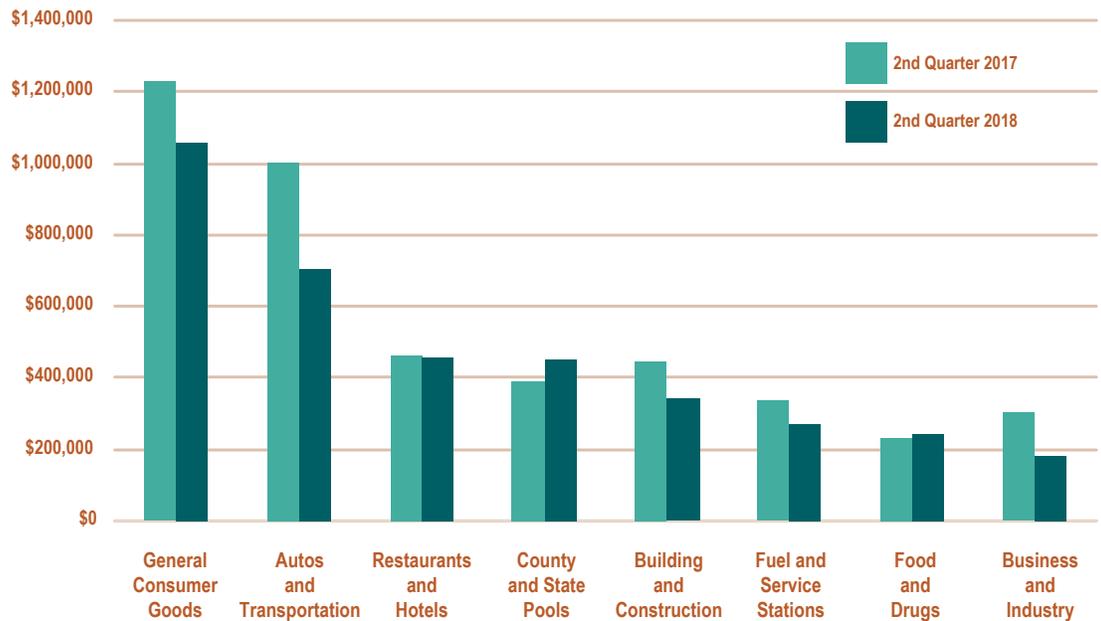
Delayed and partial allocations dragged down cash results in general consumer goods. Once these payments were restored electronics, family apparel and specialty stores yielded positive economic activity.

Similar events accounted for the double-digit drop in autos-transportation and building-construction. Fuel-related receipts posted a 7.3% increase on an actual basis while business closeouts contributed to the overall loss in the business-industry group.

Non-recurring reporting issues inflated the gain in the City's share of the countywide use tax allocation pool.

Net of aberrations, taxable sales for all of Riverside County grew 3.0% over the comparable time period; the Southern California region was up 1.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Abramovich Motors	Lowes
Arco AM PM	Mor Furniture For Less
Ashley Furniture	Pool & Electrical Products
Best Buy	Ralphs Marketplace
BMW of Murrieta	Sams Club w/ Fuel
Burlington	Shell
Circle K	Target
Dick's Sporting Goods	Temecula Motorsports
Financial Services Vehicle Trust	Tesoro Refining & Marketing
Giant Rv	Toys R Us
Home Depot	Volkswagen of Murrieta
Jeromes Furniture Warehouse	Walmart
Kohls	

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$14,568,011	\$14,676,008
County Pool	1,722,347	1,902,967
State Pool	7,660	8,355
Gross Receipts	\$16,298,017	\$16,587,329

California Overall

Local Government cash receipts from April through June sales dropped 10.1% from the same quarter one year ago due to implementation issues with CDFTA's new tax reporting software system. The results were further skewed by the State's attempt to offset the resulting shortages by advancing tax revenues that it estimates will be generated next quarter.

After reviewing unprocessed returns and approximating the full amounts of partial payments, HdL estimates that once all returns are properly processed and the data adjusted to reflect actual quarter receipts, statewide local sales and use tax revenues will be 1.6% higher than second quarter 2017.

Sales of building and construction materials, jet fuel and online shopping appear to have been the primary drivers of statewide growth during the second quarter. Auto sales leveled off as previously anticipated, although receipts from auto leases continued to show substantial gains. Online fulfillment centers and value themed apparel stores were the primary gainers within the general consumer goods group. Business-industrial purchases were slightly lower than previous quarters with declines in new energy projects being a major factor.

Regionally, the San Francisco Bay area and the Sacramento and San Joaquin Valley areas outperformed the rest of the state.

Tariff Policies and Sales Tax

Tariffs are becoming a key element of the federal government's international trade strategy with additional duties of 10% announced for the end of the third quarter, rising to 25% by the end of 2018.

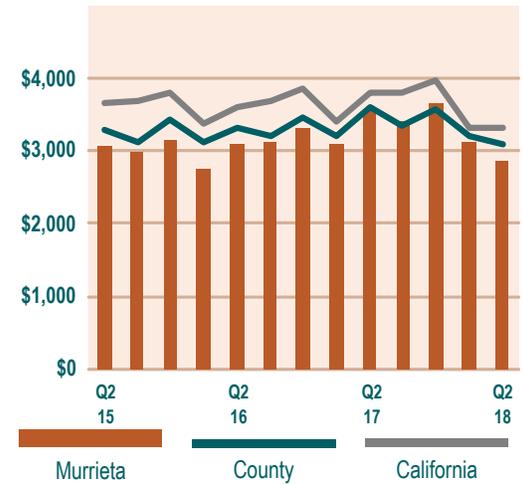
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates. Many manufacturers have managed to avoid raising prices by absorbing the costs of the

initial first round of tariffs on metals, machinery and components. On the down side, small retailers without the power to lock in prices may be placed at a competitive disadvantage and contractors are beginning to require escalation clauses in contracts to cover potential cost increases on long range projects.

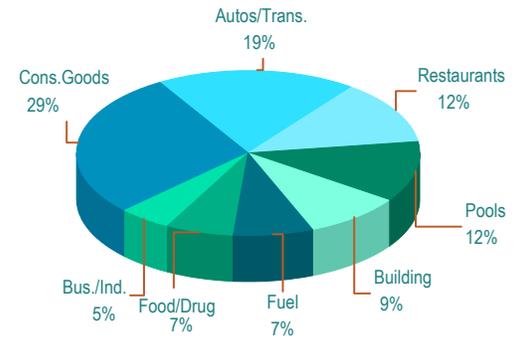
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly in an environment where rising housing, education and health care costs compete for a significant portion of discretionary income.

Proponents of rising tariffs argue that the rising strength of the U.S. dollar will offset the impact of tariff related price increases on consumers. Opponents worry that the stronger dollar and the announced \$5.6 billion in retaliatory tariffs on California exports will negatively impact both the affected companies' job base and capital investment in supplies, equipment and expansion opportunities.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Murrieta This Quarter



MURRIETA TOP 15 BUSINESS TYPES

**In thousands of dollars*

Business Type	Murrieta		County	HdL State
	Q2 '18*	Change	Change	Change
Auto Lease	— CONFIDENTIAL —	—	83.8%	60.9%
Auto Repair Shops	70.5	-5.3%	-8.9%	-14.8%
Boats/Motorcycles	— CONFIDENTIAL —	—	-27.8%	-12.4%
Building Materials	219.8	-24.2%	-19.1%	-23.2%
Casual Dining	168.2	-0.5%	-12.8%	-12.6%
Discount Dept Stores	— CONFIDENTIAL —	—	-16.1%	-13.5%
Electronics/Appliance Stores	127.3	7.4%	-0.8%	-5.1%
Grocery Stores	161.9	9.1%	2.3%	-7.0%
Home Furnishings	155.8	-14.5%	-17.8%	-21.7%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	-6.8%	-1.9%
Quick-Service Restaurants	221.3	-5.3%	-4.1%	-5.8%
Service Stations	268.5	-20.7%	-13.2%	-26.4%
Specialty Stores	143.9	42.8%	4.9%	-4.6%
Trailers/RVs	— CONFIDENTIAL —	—	1.1%	-6.7%
Used Automotive Dealers	— CONFIDENTIAL —	—	-53.6%	-41.5%
Total All Accounts	3,254.8	-18.9%	-13.3%	-12.2%
County & State Pool Allocation	451.0	15.5%	23.4%	5.5%
Gross Receipts	3,705.8	-15.8%	-10.1%	-10.1%