

Q1 2017



City of Irwindale Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2017)

Irwindale In Brief

Irwindale's receipts from January through March were 6.1% above the first sales period in 2016. Excluding reporting aberrations, actual sales were down 2.1%.

Results for food service equipment/supplies were skewed by a negative accounting adjustment in the prior year period. The drug/chemical sector enjoyed a strong sales quarter. The increase in heavy industrial totals was enhanced by a onetime use tax payment.

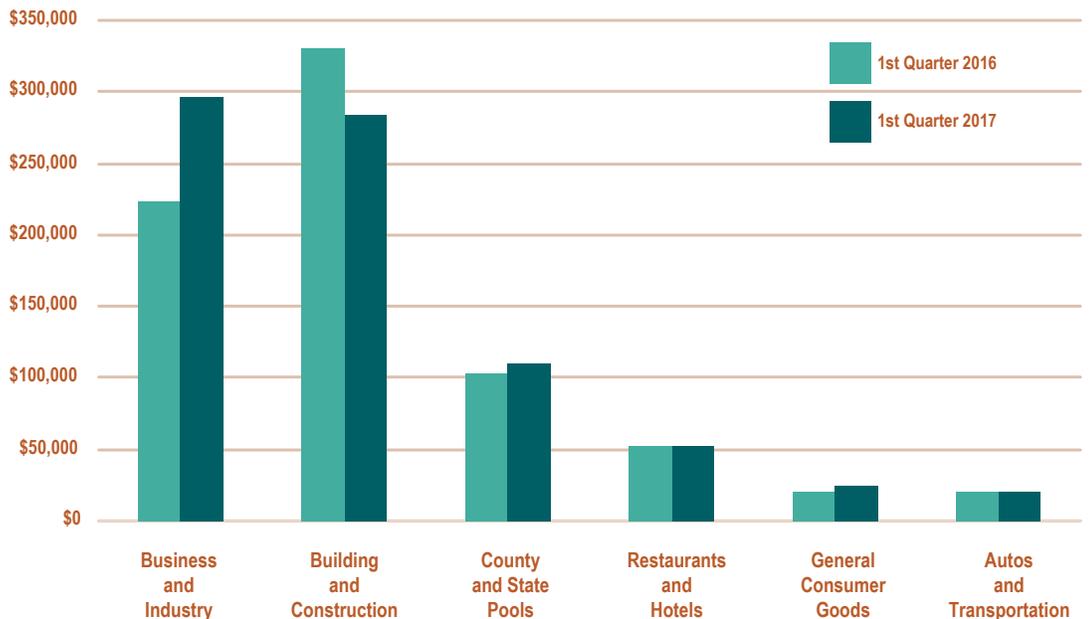
A new retailer helped to increase totals for general consumer goods. A double payment temporarily boosted revenues for a category of business and industry.

Contractors had a sluggish winter quarter, resulting in lower totals. Business closures negatively impacted results from electrical equipment and plumbing/electrical supplies.

The City's share of the countywide use tax pool increased 4.6% over the comparison period.

Net of aberrations, taxable sales for all of Los Angeles County grew 2.1% over the comparable time period; the Southern California region was up 2.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

ACH Supply	L & L Building Materials
Airgas USA	McDonalds
Applied Industrial Tech	Miller Brewing Company
Arco AM PM	National Ready Mixed Concrete
Bartley Optical Sales	Patton Sales
Chaparral Concrete	Rivergrade Shell Station
Chem Arrow	Sigler
Crowley Company	Spot Not Car Wash
Decore Active Specialties	Spragues Rock & Sand
Food Makers Bakery Equipment	Unitek
G&I Islas Industries	Vulcan Materials
Hanson Aggregates West	Western Emulsions
Holiday Rock	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$3,192,125	\$3,426,869
County Pool	421,872	488,391
State Pool	1,766	2,552
Gross Receipts	\$3,615,763	\$3,917,812
Less Triple Flip*	\$(694,630)	\$0

*Reimbursed from county compensation fund

Statewide Results

Local tax receipts from January through March sales were 2.1% higher than the first quarter of 2016 after factoring for accounting anomalies.

Rising fuel prices, auto sales, county use tax pool allocations and dining out added most to the overall gain. Some general consumer goods and B2B sales were flat or down.

This quarter reflects the start of an anticipated leveling off of future tax revenues. After seven years of recovery, analysts are reporting an end to the previous pent-up demand for autos. Demand for new cars will ease due to more buyers tied to long-term loans and a glut of used cars coming off lease.

Price competition and store closures have reduced tax receipts from consumer goods. Business investment remains strong but much of the growth is for non-taxable items such as cloud computing and large data solutions. Declines in foreign tourist visits and lower costs of eating at home are expected to slow the growth in restaurant sales.

New Sales Tax Organization

As of July 1, the operating divisions responsible for allocation of tax revenues other than property, insurance and alcoholic beverages will shift from the State Board of Equalization (BOE) to the Governor's new Department of Tax and Fee Administration.

The BOE was first established by constitutional amendment in 1879 to oversee property tax assessment practices by all counties in the state. It eventually became responsible for other tax revenues including sales, insurance, corporate franchise and special fees.

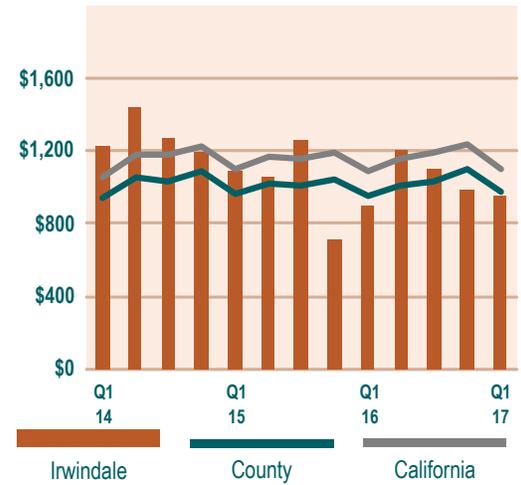
In 2011, HdL detected discrepancies in the BOE's allocation of public safety revenues which led to the recovery of over \$124 million in revenues for counties. Subsequent audits by the State

Controller and State Department of Finance revealed further shortcomings. The result was the passage of budget trailer bill SB86/AB102 that reduces the BOE to its previous constitutionally defined functions.

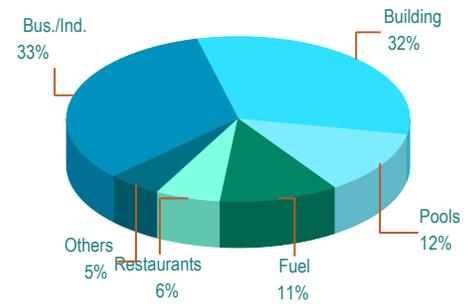
The BOE is also empowered to hear appeals and disputes over tax assessments including sales/use, personal income and corporate taxes and is the only elected Tax Board in the United States that hears tax disputes. Effective January 1, 2018, that function will be turned over to a new Office of Tax Appeals (OTA) composed of panels of administrative law judges appointed by the Governor with locations in Sacramento, Fresno and Los Angeles.

For functions other than the appeal process, this is primarily a reshuffling of existing personnel so the change will have little impact on local agencies. However, the issue of local government's ability to provide input regarding future policy and regulation changes that impact revenues remains under discussion. HdL will share more about the BOE transition as details become available in the weeks ahead.

SALES PER ACCOUNT



REVENUE BY BUSINESS GROUP
Irwindale This Quarter



IRWINDALE TOP 15 BUSINESS TYPES

Business Type	Irwindale		County	HdL State
	Q1 '17	Change	Change	Change
Building Materials	11,754	17.3%	7.1%	3.1%
Casual Dining	8,098	21.8%	0.8%	0.6%
Contractors	269,162	-13.9%	4.6%	-3.9%
Drugs/Chemicals	71,554	31.2%	-15.4%	3.9%
Electrical Equipment	9,344	-31.0%	-21.3%	-6.7%
Fast-Casual Restaurants	— CONFIDENTIAL —		12.0%	9.4%
Food Service Equip./Supplies	52,799	167.8%	14.5%	11.6%
Garden/Agricultural Supplies	— CONFIDENTIAL —		1.1%	-1.0%
Heavy Industrial	56,957	10.5%	-3.2%	2.0%
Light Industrial/Printers	29,489	67.5%	1.9%	7.3%
Medical/Biotech	— CONFIDENTIAL —		11.7%	0.4%
Office Supplies/Furniture	— CONFIDENTIAL —		-4.3%	-1.3%
Quick-Service Restaurants	34,531	4.3%	4.9%	4.5%
Service Stations	— CONFIDENTIAL —		6.8%	10.0%
Textiles/Furnishings	12,918	14.2%	18.1%	5.6%
Total All Accounts	778,231	6.1%	2.6%	1.8%
County & State Pool Allocation	110,315	6.1%	2.6%	2.9%
Gross Receipts	888,546	6.1%	2.6%	1.9%

Q2 2017



City of Irwindale Sales Tax Update

Third Quarter Receipts for Second Quarter Sales (April - June 2017)

Irwindale In Brief

Irwindale's receipts from April through June were 4.4% above the second sales period in 2016. Excluding reporting aberrations, actual sales were up 6.5%.

Most major business groups were up, led by contractors' supply sales that lifted building and construction. A multi-year audit adjustment for a business that previously left the City and strong used auto sales boosted the automotive group.

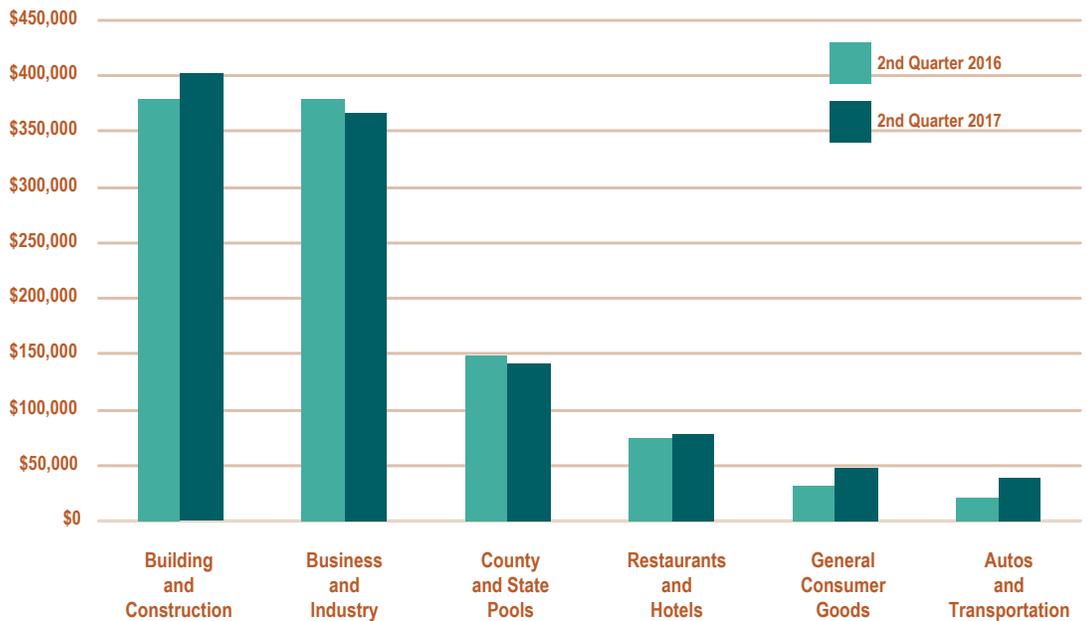
Receipts from two new outlets produced a 50% gain in general consumer goods. Service station receipts were up 9.5% as retail gas prices continued to rise. Quick-service sales were strong, while receipts from other restaurant categories were sluggish. Overall restaurant sales were up 2.5%.

A large payment from a newer vendor in the City was offset by onetime payments from a couple businesses that inflated the comparative quarter.

Despite higher point of sale receipts, the City's allocation from the countywide use tax pool decreased 3.8% as county pools statewide were lower due to a large multi-year adjustment that inflated prior year results.

Net of aberrations, taxable sales for all of Los Angeles County grew 2.9% over the comparable time period; the Southern California region was up 3.4%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

ACH Supply	Lifetouch National School Studios
Airgas	Miller Brewing Company
Applied Industrial Tech	National Ready Mixed Concrete
Arco AM PM	New Flyer of America
Barron/Hallett Boats	Renaissance Pleasure Faire
Bartley Optical Sales	Rivergrade Shell Station
Chem Arrow	Sigler
Davis Wire	Spragues Rock & Sand
Decore Active Specialties	Unitek
Food Makers Bakery Equipment	Vulcan Materials
Geary Pacific Supply	Western Emulsions
Hanson Aggregates West	
Holiday Rock	
L & L Building Materials	

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$989,513	\$1,046,407
County Pool	148,536	142,934
State Pool	347	(547)
Gross Receipts	\$1,138,397	\$1,188,794
Less Triple Flip*	\$0	\$0

*Reimbursed from county compensation fund

California Overall

Local government's one-cent share of statewide sales and use tax from transactions occurring April through June was 3.2% higher than the same quarter of 2016 after payment aberrations are factored out.

The largest percentage increases were from the countywide allocation pools, building supplies and rising fuel prices. Auto sales and restaurants continued to post solid gains. Except for value priced apparel and dollar stores, most categories of general consumer goods were down or flat with the growth in online shopping shifting tax receipts to in-state distribution centers or to the countywide allocation pools.

Receipts from business and industrial transactions were lower than last year's comparable quarter because of declines in new alternative energy projects. Agricultural and new technology related purchases exhibited healthy gains as did sales of warehouse and construction equipment. Most other categories were down from 2016.

Where does the Money Go?

E-commerce, technology and changing consumer preferences have retailers undergoing a dizzying transformation as they compete for customers through online websites, mobile apps, home delivery, social media, pop-up/flex stores and pick-up lockers as well as traditional brick and mortar businesses.

The changes in how goods are inventoried, sold and delivered has created some confusion in allocating local sales and use tax. However, it still involves three basic principles:

- Location where the sale is negotiated
- Location of goods at time of sale
- Ownership of goods being sold

Place of sale continues to be California's primary rule for allocating local sales tax. If the inventory is owned by the seller and is located in-state, the tax goes to the location that participates in the sale, either by receiving the order or

shipping the goods. If the order is taken outside the state but the seller owns the inventory and delivers the goods from inside California, the tax is allocated to the jurisdiction where the warehouse is located. Otherwise, the tax is shared by all agencies in the county where the goods are shipped on a pro-rata basis through the county allocation pools.

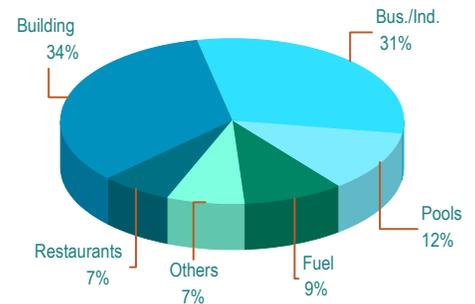
Ownership of the goods being sold is also a factor. In order for an agency to receive a direct allocation of local tax for goods shipped from a California fulfillment center, the location must be the retailer's place of business and not owned or operated by a separate legal entity. If the retailer has no place of business in California, the only opportunity for local tax is an indirect allocation through the countywide pools

For jurisdictions with transactions tax overrides, that tax goes to the place of purchase rather than the place of the seller. For example, the sales tax on the purchase of an automobile goes to the seller's location. However, the transactions tax, if any, goes to the jurisdiction where the buyer's vehicle is registered.

SALES PER ACCOUNT



REVENUE BY BUSINESS GROUP
Irwindale This Quarter



IRWINDALE TOP 15 BUSINESS TYPES

**In thousands of dollars*

Business Type	Irwindale		County	HdL State
	Q2 '17*	Change	Change	Change
Boats/Motorcycles	— CONFIDENTIAL —	—	-8.2%	4.5%
Building Materials	— CONFIDENTIAL —	—	6.2%	6.1%
Contractors	381.9	5.4%	8.0%	9.6%
Drugs/Chemicals	68.2	13.3%	-6.0%	-2.3%
Food Service Equip./Supplies	42.7	-15.4%	0.1%	0.6%
Garden/Agricultural Supplies	16.1	-3.2%	10.6%	4.4%
Heavy Industrial	62.0	-56.7%	-7.0%	0.5%
Leisure/Entertainment	— CONFIDENTIAL —	—	9.8%	6.7%
Light Industrial/Printers	24.1	-45.1%	1.9%	5.7%
Medical/Biotech	— CONFIDENTIAL —	—	29.3%	7.5%
Portrait Studios	— CONFIDENTIAL —	—	18.0%	14.7%
Quick-Service Restaurants	42.8	15.7%	5.5%	5.8%
Service Stations	110.2	9.4%	9.5%	8.6%
Textiles/Furnishings	15.8	36.9%	-2.0%	-1.0%
Trailers/Auto Parts	— CONFIDENTIAL —	—	-7.9%	-9.6%
Total All Accounts	1,046.4	5.7%	4.8%	6.4%
County & State Pool Allocation	142.4	-4.4%	-5.2%	-9.9%
Gross Receipts	1,188.8	4.4%	3.5%	4.1%

Q3 2017



City of Irwindale Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2017)

Irwindale In Brief

Receipts from Irwindale's July through September sales were 31.4% higher than the same quarter one year ago. Actual sales activity increased 9.9% after accounting aberrations were factored out.

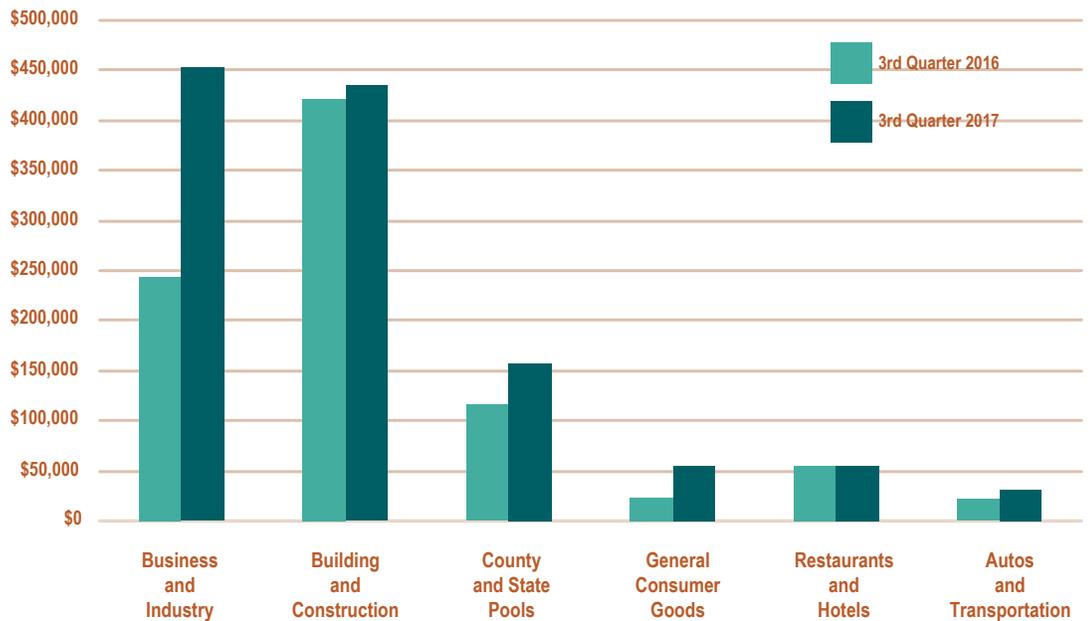
A large missed/late payment from a previous quarter temporarily inflated business-industry 85.3% and was a significant factor in the overall quarterly increase. With the anomaly removed, group results were up 1.4%. This large receipt also spiked an increase in the City's share of the countywide use tax pool allocation for this quarter.

Continued higher fuel prices positively impacted service station revenues. A business relocation helped buoyed general consumer goods 142.6%. Both building-construction and autos-transportation enjoy modest increases.

The gains were partially offset by weak sales from quick-service restaurants.

Net of aberrations, taxable sales for all of Los Angeles County and the Southern California region grew 3.1% over the comparable time period.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

ACH Supply	Lifetouch National School Studios
Airgas	Matheson Tri Gas
Applied Industrial Tech	Miller Brewing
Arco AM PM	National Ready Mixed Concrete
Chaparral Concrete	New Flyer of America
Chem Arrow	Rivergrade Shell Station
Crowley Company	Sigler
Decore Ative Specialties	Spragues Rock & Sand
Food Makers Bakery Equipment	United Rock Products
Geary Pacific Supply	Unitek
Hanson Aggregates West	Vulcan Materials
Holliday Rock	Western Emulsions
L & L Building Materials	

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$1,861,377	\$2,187,834
County Pool	265,085	300,197
State Pool	646	346
Gross Receipts	\$2,127,108	\$2,488,377

Statewide Trends

After factoring for accounting anomalies, local government's one-cent share of statewide sales and use tax from July through September sales was 3.6% higher than 2016's summer quarter.

Rising fuel prices, increased demand for building-construction materials and the continuing acceleration in online shopping for merchandise shipped from out-of-state that is expanding receipts from the countywide use tax allocation pools were the primary contributors to the overall increase.

This quarter marked the anticipated leveling off of auto sales while agriculture and transit-related purchases helped boost otherwise tepid gains in business-industrial receipts. Restaurant sales exhibited healthy overall gains of 3.5% although growth rates are slowing from previous quarters.

Receipts from consumer goods sold by brick and mortar stores were up 0.7% over the previous year while revenues from online purchases grew 13.3%.

Cannabis Taxation

A 15% excise tax on retail cannabis and cannabis products along with a cultivation tax and sales tax on recreational uses take effect on January 1, 2018.

Significant sales tax revenues are not expected until late 2018-19 as retail start-ups comply with lengthy state and local permitting processes. Although sales of medicinal cannabis became exempt in 2016 for purchasers with a state issued Medical Marijuana ID card, jurisdictions with dispensaries continue to receive sales tax from that source as most patients prefer to use a note from their physicians.

Some decline in revenues from medical dispensaries are expected as users' transition to new purchase options and because of lower prices caused by anticipated overproduction and the six month window that suppliers have to sell existing inventory grown under previous regulations.

Sales Tax and Natural Disasters

The recent firestorm tragedies have raised questions on potential bumps in sales tax revenues from reconstruction and recovery activities.

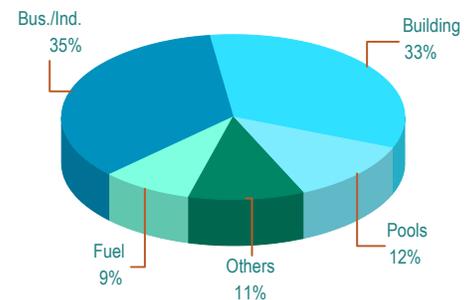
HdL analyzed the sales tax data from the 1991 Oakland Hills, 2003 San Diego Cedar and 2007 San Diego Witch fires which involved the combined loss of over 7,700 structures. Surprisingly, there were no identifiable gains in construction and auto-related purchases within the impacted areas during the five years after each event with receipts following normal economic cycles experienced by the state as a whole.

Further analysis suggests that though the individual losses are catastrophic, purchases of replacement items are a small fraction of the impacted area's total spending and is often spread to other jurisdictions where disaster victims relocate. Tax receipts from construction spending are defused over time because of lengthy claims and permitting processes that cause up to 40% of disaster victims to relocate leaving vacant lots that are not immediately redeveloped.

SALES PER ACCOUNT



REVENUE BY BUSINESS GROUP
Irwindale This Quarter



IRWINDALE TOP 15 BUSINESS TYPES

**In thousands of dollars*

Business Type	Irwindale		County	HdL State
	Q3 '17*	Change	Change	Change
Building Materials	16.8	24.8%	3.3%	5.6%
Contractors	415.1	2.1%	14.0%	6.5%
Drugs/Chemicals	75.6	-13.7%	-4.6%	0.0%
Food Service Equip./Supplies	42.4	93.4%	13.2%	10.6%
Garden/Agricultural Supplies	16.0	-6.5%	2.2%	10.4%
Heavy Industrial	53.1	-7.2%	-5.4%	6.2%
Light Industrial/Printers	— CONFIDENTIAL —	—	-5.2%	-4.7%
Medical/Biotech	— CONFIDENTIAL —	—	10.8%	-0.2%
Office Supplies/Furniture	— CONFIDENTIAL —	—	13.1%	-1.7%
Portrait Studios	— CONFIDENTIAL —	—	18.2%	6.8%
Quick-Service Restaurants	36.1	-7.2%	3.7%	4.8%
Service Stations	110.5	7.0%	6.8%	9.2%
Textiles/Furnishings	15.2	29.2%	0.1%	-11.0%
Trailers/Auto Parts	— CONFIDENTIAL —	—	8.9%	-10.8%
Used Automotive Dealers	— CONFIDENTIAL —	—	2.9%	2.9%
Total All Accounts	1,141.4	30.9%	3.2%	4.1%
County & State Pool Allocation	158.2	35.4%	6.7%	4.8%
Gross Receipts	1,299.6	31.4%	3.6%	4.2%

Q4 2017



City of Irwindale Sales Tax Update

First Quarter Receipts for Fourth Quarter Sales (October - December 2017)

Irwindale In Brief

Irwindale's receipts from October through December were 5.3% above the fourth sales period in 2016. Excluding reporting aberrations, actual sales were up 11.0%.

Favorable winter weather led to a strong sales quarter for contractors. A new business additional resulted in solid gains for general consumer goods.

Tax revenue from service stations continue to grow with steady price increases at the pump due to global crude oil and the implementation of SB-1.

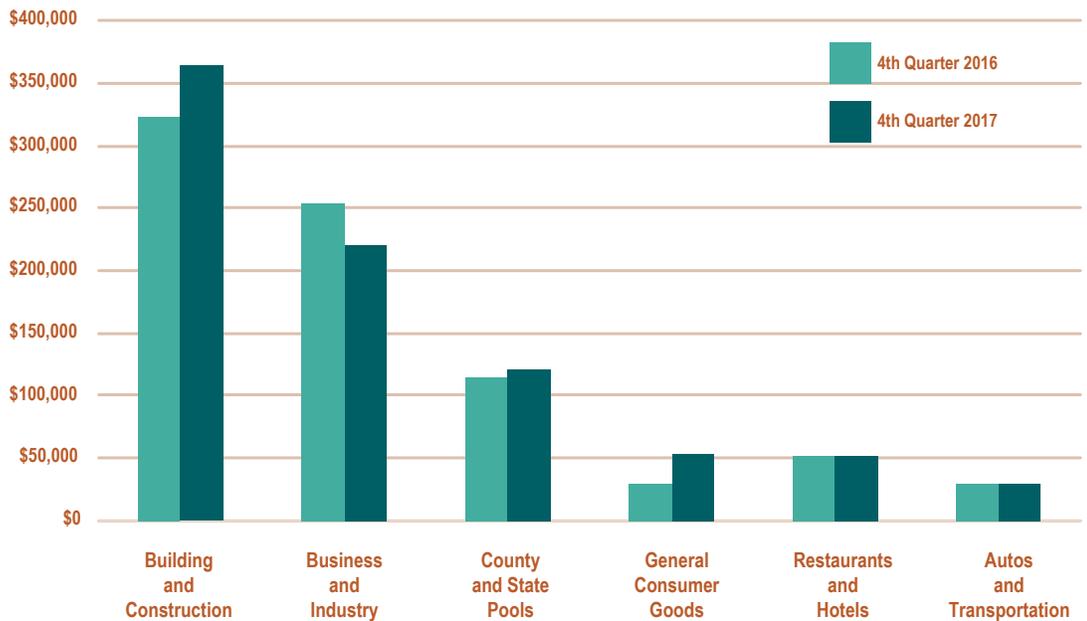
Several categories in the business and industry sector also reported steady gains including heavy industrial, medical/biotech, and food service equipment/supplies.

A negative accounting adjustment for a prior period skewed results from drugs/chemicals. A onetime use tax payment in the comparison period caused a temporary drop for light industrial/printers.

The City's share of the countywide use tax pool increased 6.2% when compared to the same period in the prior year.

Net of aberrations, taxable sales for all of Los Angeles County grew 3.0% over the comparable time period; the Southern California region was up 3.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

ACH Supply	Lifetouch National School Studios
Airgas	Miller Brewing Company
Applied Industrial Tech	National Ready Mixed Concrete
Arco AM PM	Patton Sales
Bartley Optical Sales	Rivergrade Shell Station
Chaparral Concrete	Sigler
Chem Arrow	Spragues Rock & Sand
Crowley Company	United Rock Products
Davis Wire	Unitek
Decore Active Specialties	Vulcan Materials
Food Makers Bakery Equipment	Western Emulsions
Hanson Aggregates West	
Holiday Rock	
L & L Building Materials	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$2,648,638	\$3,016,699
County Pool	379,174	421,393
State Pool	1,454	587
Gross Receipts	\$3,029,266	\$3,438,679

California Overall

Factored for accounting anomalies, statewide fourth quarter receipts from local government's one cent sales tax were 4.4% higher than the holiday quarter of 2016.

Rising fuel prices and solid gains from building/construction supplies, restaurants and e-commerce were the primary contributors to the overall increase. A healthy quarter for auto sales and construction equipment were additional factors. Tax revenues from general consumer goods sold through brick and mortar stores rose a modest 1% over last year's comparable quarter while receipts from online sales increased 13.2%.

Performance for the inland areas of the state were generally stronger than the coastal areas which had earlier recovered from the previous downturn.

Nexus Issue to be Revisited

In 1992, the U.S. Supreme Court ruled in *Quill v. North Dakota* that businesses lacking a physical presence or "nexus" in a state cannot be required to collect or remit that state's taxes. This does not excuse buyers from paying a corresponding use tax but the costs of enforcement, particularly on smaller purchases, is difficult and local brick and mortar retailers are placed at a competitive disadvantage.

California has been more effective at collecting use tax than most states with an aggressive program of auditing major business purchases, requiring CPA's to report unpaid use tax on client's annual returns and requiring businesses with annual gross receipts of \$100,000 or more to register for the purposes of reporting use tax.

The State has also increased the number of out-of-state sellers required to collect sales tax through broader definitions of what constitutes physical presence including a requirement that larger internet retailers collect and remit sales tax if paying a commission for customer referrals obtained via a link on a California seller's website.

Still, the estimated revenue losses are substantial particularly for agencies with voter-approved transactions tax districts. Because of *Quill*, retailers are

not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state of \$697 Million: (<https://www.boe.ca.gov/legdiv/pdf/e-commerce-2017F.pdf>).

Congress has refused to act on numerous attempts to seek legislative relief over the last two decades. However, three justices – Clarence Thomas, Neil Gorsuch and Anthony Kennedy have recently expressed doubts about the *Quill* decision with Kennedy noting in 2015, that the ruling has produced a "startling revenue shortfall" in many states as well as "unfairness to local retailers and customers."

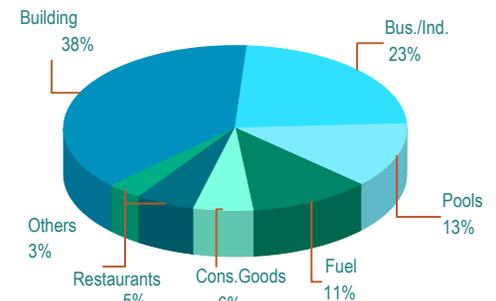
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

Oral arguments are scheduled for April with a decision expected by the end of June 2018.

SALES PER ACCOUNT



REVENUE BY BUSINESS GROUP
Irwindale This Quarter



IRWINDALE TOP 15 BUSINESS TYPES

Business Type	Irwindale		County	HdL State
	Q4 '17	Change	Change	Change
Building Materials	13,101	7.8%	7.8%	11.6%
Contractors	346,000	13.3%	7.7%	13.9%
Drugs/Chemicals	60,568	-18.8%	8.3%	3.1%
Fast-Casual Restaurants	— CONFIDENTIAL —	—	10.2%	8.9%
Food Service Equip./Supplies	35,340	6.5%	-2.4%	2.6%
Garden/Agricultural Supplies	13,775	10.1%	2.1%	2.4%
Heavy Industrial	57,373	14.2%	5.8%	10.2%
Light Industrial/Printers	22,828	-13.4%	-3.9%	0.9%
Medical/Biotech	14,840	141.3%	-0.3%	4.9%
Office Supplies/Furniture	— CONFIDENTIAL —	—	-373.2%	-105.6%
Portrait Studios	— CONFIDENTIAL —	—	4.6%	-1.3%
Quick-Service Restaurants	36,352	-4.1%	4.5%	5.0%
Service Stations	106,689	9.3%	10.0%	11.4%
Textiles/Furnishings	14,521	-11.2%	4.5%	1.6%
Used Automotive Dealers	— CONFIDENTIAL —	—	-0.4%	0.4%
Total All Accounts	828,866	5.3%	-0.9%	4.0%
County & State Pool Allocation	121,437	5.7%	-0.5%	0.8%
Gross Receipts	950,303	5.3%	-0.8%	3.6%