

Q1 2018



City of Irwindale Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2018)

Irwindale In Brief

Irwindale's receipts from January through March were 17.6% below the first sales period in 2017.

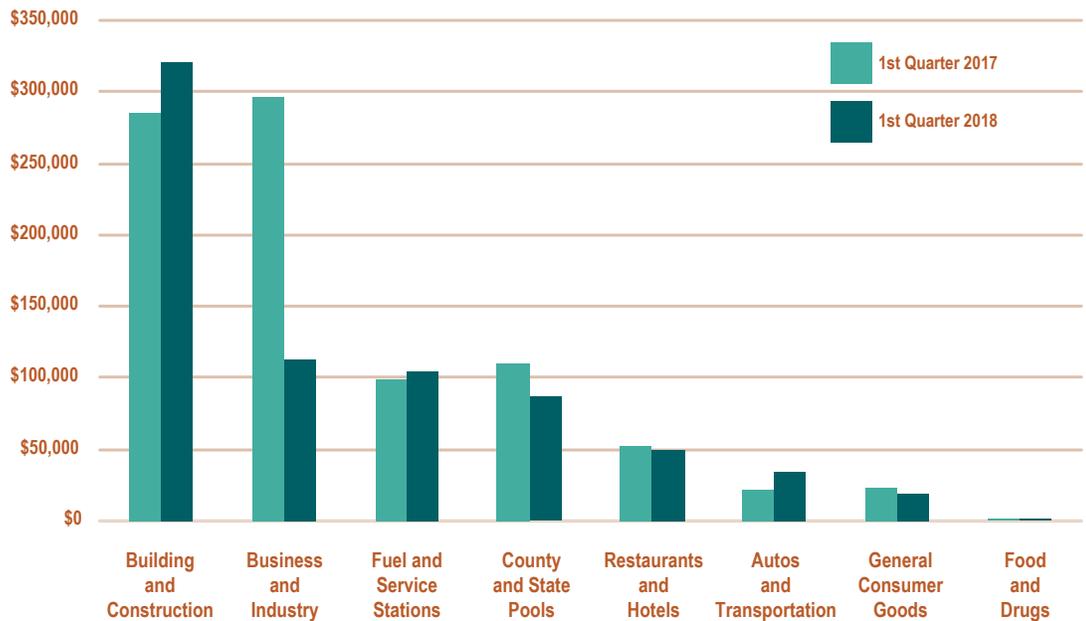
The reversal of a prior large audit adjustment and sharp declines in multiple industrial segments including drugs/chemicals, heavy industrial, light industrial/printers and electrical equipment caused a 61.9% decrease in business-industrial and were the major factors in the overall decline in receipts. This decrease also contributed to a 20.7% drop in the City's allocation from the county-wide use tax pool.

Sluggish sales and missing payments from a couple outlets depressed quick-service and casual dining receipts. A specialty store closeout and overall declining sales pushed general consumer goods down 12.6%

The losses were partially offset by another strong quarter from the contractors' group, receipts from two newly opened used auto dealers and higher service station sales due to continually rising retail gas prices.

Net of aberrations, taxable sales for all of Los Angeles County grew 4.4% over the comparable time period; the Southern California region was up 5.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

ACH Supply	McDonalds
Airgas	MCS Auto
Applied Industrial Tech	Miller Brewing Company
Arco AM PM	National Ready Mixed Concrete
Bartley Optical Sales	Pacific Panel Products
Chaparral Concrete Company	Patton Sales
Chem Arrow	Rivergrade Shell Station
Davis Wire	Sigler
Decore Active Specialties	Spragues Rock & Sand
Food Makers Bakery Equipment	United Rock Products
Hanson Aggregates West	Unitek
Holliday Rock	Vulcan Materials
L & L Building Materials	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$3,426,869	\$3,662,107
County Pool	488,391	507,971
State Pool	2,552	1,142
Gross Receipts	\$3,917,812	\$4,171,220

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

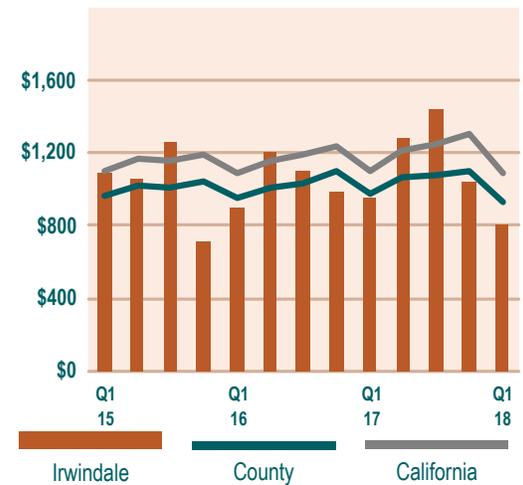
Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the on-line interstate marketplace was not the prevailing issue before the court in 1992.

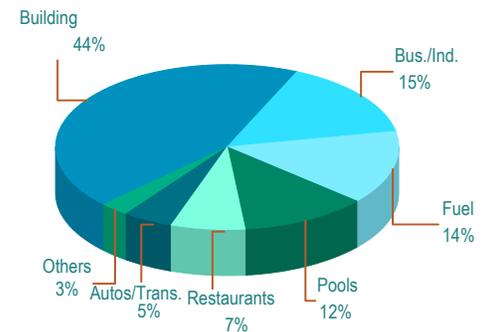
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about \$1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average \$60 per year for each California household, and California businesses average \$171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court's opinion to determine next steps to support taxpayers.

SALES PER ACCOUNT



REVENUE BY BUSINESS GROUP
Irwindale This Quarter



IRWINDALE TOP 15 BUSINESS TYPES

Business Type	Irwindale		County	HdL State
	Q1 '18	Change	Change	Change
Building Materials	16,126	35.8%	-3.0%	3.8%
Contractors	301,443	11.6%	7.8%	21.6%
Drugs/Chemicals	56,839	-20.6%	16.6%	4.4%
Electrical Equipment	7,985	-14.6%	13.2%	2.1%
Fast-Casual Restaurants	— CONFIDENTIAL —	—	6.8%	6.8%
Garden/Agricultural Supplies	13,661	33.0%	2.1%	3.0%
Heavy Industrial	42,439	-28.9%	-0.2%	11.7%
Light Industrial/Printers	20,886	-25.3%	-10.2%	-12.2%
Medical/Biotech	— CONFIDENTIAL —	—	2.0%	10.0%
Office Supplies/Furniture	— CONFIDENTIAL —	—	-18.9%	-11.4%
Quick-Service Restaurants	34,516	0.0%	-4.1%	-3.8%
Repair Shop/Equip. Rentals	6,011	408.4%	-1.2%	-3.8%
Service Stations	105,183	6.2%	-3.8%	4.6%
Textiles/Furnishings	13,103	1.4%	-7.5%	-2.1%
Used Automotive Dealers	24,539	265.3%	-8.5%	-4.3%
Total All Accounts	645,407	-17.1%	-5.9%	-1.8%
County & State Pool Allocation	87,133	-21.0%	-10.3%	-2.1%
Gross Receipts	732,540	-17.6%	-6.4%	-1.8%

Q2 2018



City of Irwindale Sales Tax Update

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

Irwindale In Brief

Receipts from Irwindale's April through June sales were 15.8% lower than the same quarter one year ago. However, for the 2nd 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 increased 3.7%.

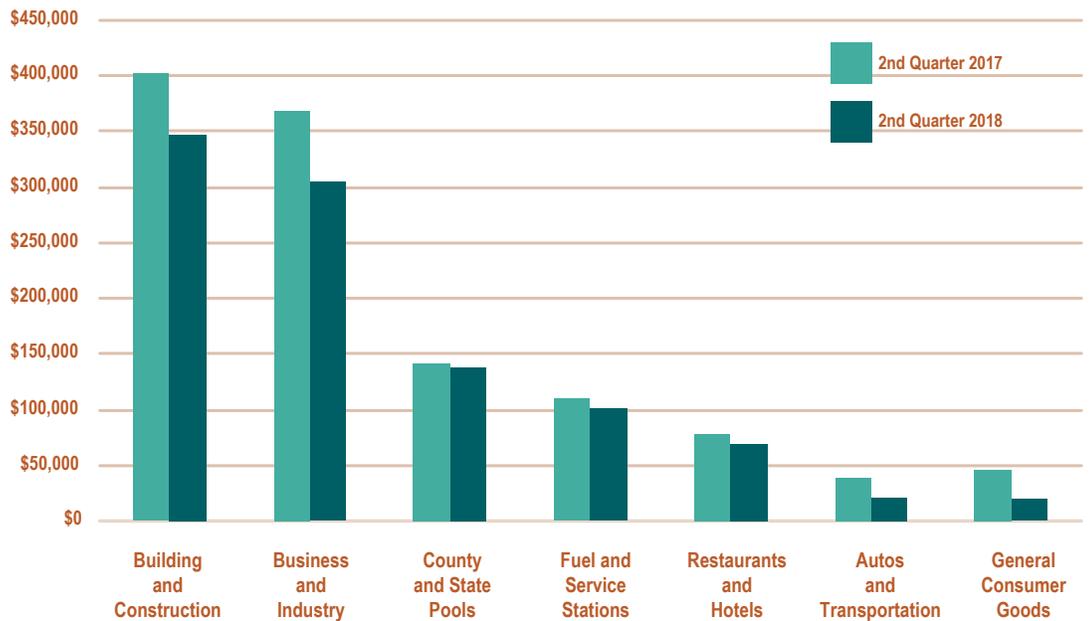
Missing/delayed payments had a large negative impact on all restaurant categories and several building-construction sectors and general consumer goods segments.

A business closure further depressed the general consumer goods group. Non-payments and a onetime use tax receipt in the prior years' quarter dropped business-industry results.

While missing/delayed payments also had a negative impact on service station revenues, higher fuel prices and increased sales activity drove actual group sales up 34.6%. In addition, autos-transportation group sales increased 12.7% due to a new business addition and a favorable payment adjustment.

Net of aberrations, taxable sales for all of Los Angeles County grew 0.6% 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

ACH Supply	Hanson Aggregates West
Airgas	Holiday Rock
Applied Industrial Tech	McDonalds
Arco	National Ready Mixed Concrete
Arco AM PM	Patton Sales
Bartley Optical Sales	Renaissance Pleasure Faire
Cal Blend Soils	Sigler
Chem Arrow	Spragues Rock & Sand
Crowley Company	Supreme Manufacturing
Davis Wire	Unitek
DCI	Vulcan Materials
Decore Ative Specialties	Western Emulsions
Food Makers Bakery Equipment	

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$3,483,763	\$3,479,217
County Pool	482,789	502,382
State Pool	1,658	2,017
Gross Receipts	\$3,968,210	\$3,983,617

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.

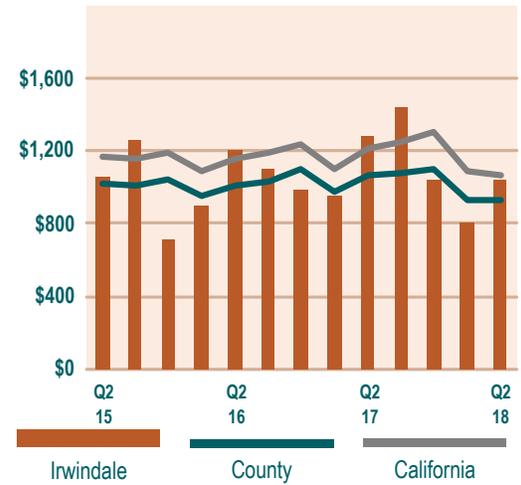
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates.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

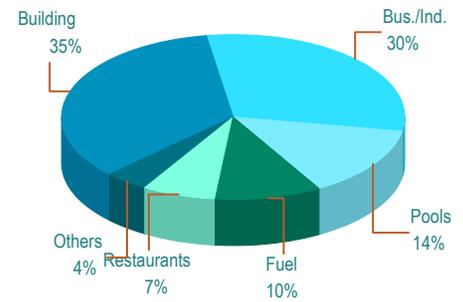
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly 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 ACCOUNT



REVENUE BY BUSINESS GROUP
Irwindale This Quarter



IRWINDALE TOP 15 BUSINESS TYPES

Business Type	Irwindale		County	HdL State
	Q2 '18	Change	Change	Change
Casual Dining	9,259	-12.0%	-11.3%	-12.6%
Contractors	330,882	-10.6%	-14.1%	-10.7%
Drugs/Chemicals	51,387	-24.6%	-31.1%	-27.5%
Food Service Equip./Supplies	—	CONFIDENTIAL	-20.7%	-19.9%
Garden/Agricultural Supplies	—	CONFIDENTIAL	-16.3%	-15.8%
Heavy Industrial	167,799	170.9%	-32.3%	-26.2%
Leisure/Entertainment	—	CONFIDENTIAL	-7.4%	-3.6%
Light Industrial/Printers	14,715	-37.5%	-23.9%	-26.0%
Medical/Biotech	—	CONFIDENTIAL	-61.8%	-28.4%
Office Equipment	8,053	16.9%	-21.9%	-21.8%
Office Supplies/Furniture	—	CONFIDENTIAL	-46.7%	-25.8%
Plumbing/Electrical Supplies	—	CONFIDENTIAL	-2.3%	-6.7%
Quick-Service Restaurants	36,632	-14.4%	-5.9%	-5.8%
Service Stations	99,834	-9.4%	-23.5%	-26.4%
Used Automotive Dealers	12,909	54.6%	-41.4%	-41.5%
Total All Accounts	863,518	-17.5%	-11.9%	-12.2%
County & State Pool Allocation	137,673	-3.3%	3.2%	5.5%
Gross Receipts	1,001,191	-15.8%	-10.1%	-10.1%

Q3 2018



City of Irwindale Sales Tax Update

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

Irwindale In Brief

Irwindale's receipts from July through September were 10.7% below the third sales period in 2017. Excluding reporting aberrations, actual sales were down 9.0%.

The CDTFA appears to have resolved most of the software-driven reporting issues that plagued the first and second quarter 2018 local tax distributions.

A taxpayer refund, a business closure and a onetime use tax payment in the prior year had a negative impact on the business and industry sector.

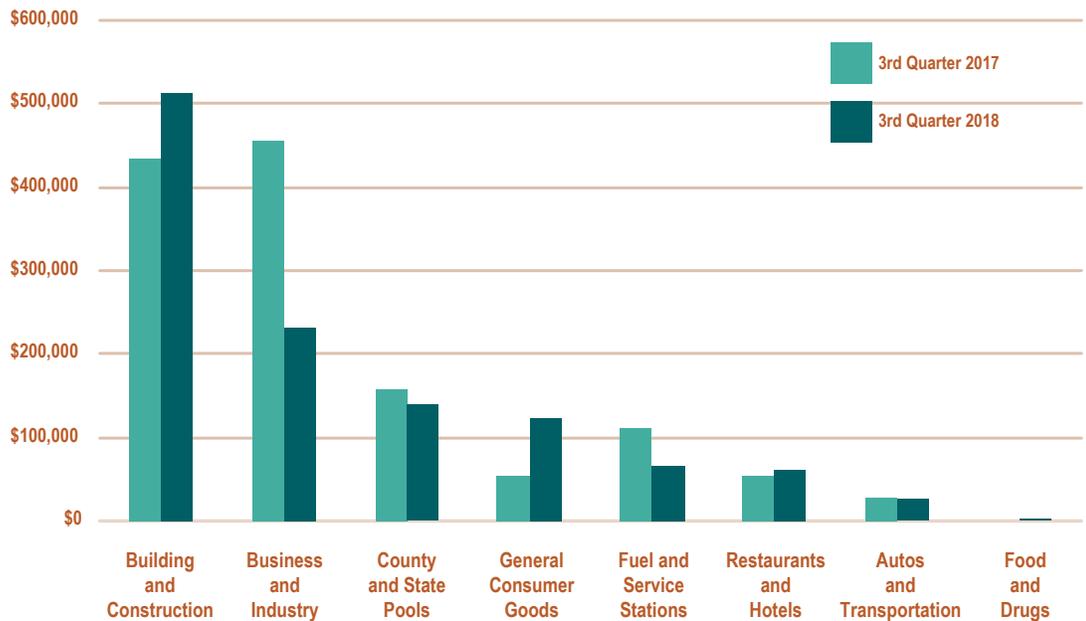
Missing payments caused a drop for fuel and service stations, while sluggish sales caused the drop for autos and transportation.

Double payments helped to boost results for restaurants and hotels. The correction of a formerly mis-allocated business had a positive impact on receipts for general consumer goods.

The City's share of the countywide use tax pool decreased 11.9% when compared to the same period in the prior year.

Net of aberrations, taxable sales for all of Los Angeles County grew 3.5% over the comparable time period; the Southern California region was up 3.8%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

ACH Supply	L & L Building Materials
Applied Industrial Tech	Lifetouch National School Studios
Arco AM PM	McDonalds
Bartley Optical Sales	National Ready Mixed Concrete
Chaparral Concrete Company	Patton Sales
Chem Arrow	RE Michel Company
Decore Ative Specialties	Ready Pac Produce
Distribution International	Semihandmade
Food Makers Bakery Equipment	Sigler
Geary Pacific Supply	Spragues Rock & Sand
Hanson Aggregates West	Unitek
Holiday Rock	Vulcan Materials
	Western Emulsions

REVENUE COMPARISON

One Quarter – Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	\$1,141,426	\$1,021,020
County Pool	157,263	138,586
State Pool	893	524
Gross Receipts	\$1,299,582	\$1,160,131

California Overall

The CDTEFA'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 4.8% 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.

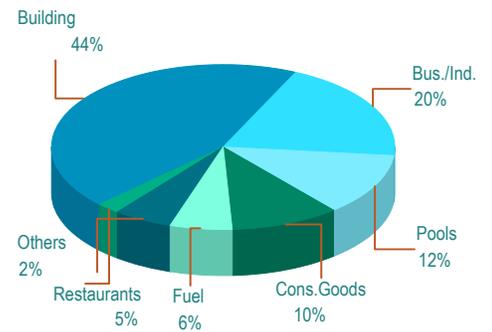
Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

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 ACCOUNT



REVENUE BY BUSINESS GROUP
Irwindale This Quarter



IRWINDALE TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Irwindale Q3 '18*	Change	County Change	HdL State Change
Building Materials	24.1	43.6%	35.8%	29.7%
Contractors	469.4	16.8%	44.1%	37.5%
Drugs/Chemicals	54.6	-27.8%	29.9%	28.7%
Electronics/Appliance Stores	15.1	112.0%	9.6%	12.3%
Fast-Casual Restaurants	—	CONFIDENTIAL	11.5%	14.7%
Garden/Agricultural Supplies	15.6	-2.6%	21.9%	9.0%
Heavy Industrial	50.1	-5.7%	38.7%	29.7%
Light Industrial/Printers	16.0	-12.1%	27.3%	30.0%
Medical/Biotech	17.6	11.6%	28.6%	18.5%
Office Equipment	13.4	23.1%	12.2%	20.3%
Plumbing/Electrical Supplies	—	CONFIDENTIAL	12.1%	16.1%
Portrait Studios	—	CONFIDENTIAL	60.4%	43.2%
Quick-Service Restaurants	42.2	17.0%	11.4%	13.4%
Service Stations	66.5	-39.8%	43.8%	43.0%
Textiles/Furnishings	28.1	85.4%	36.4%	33.5%
Total All Accounts	1,021.0	-10.5%	21.7%	21.8%
County & State Pool Allocation	139.1	-12.0%	19.7%	27.8%
Gross Receipts	1,160.1	-10.7%	21.5%	22.6%

Q4 2018



City of Irwindale Sales Tax *Update*

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

Irwindale In Brief

Irwindale's receipts from October through December were 2.8% above the fourth sales period in 2017. Excluding reporting aberrations, actual sales were down 7.1%.

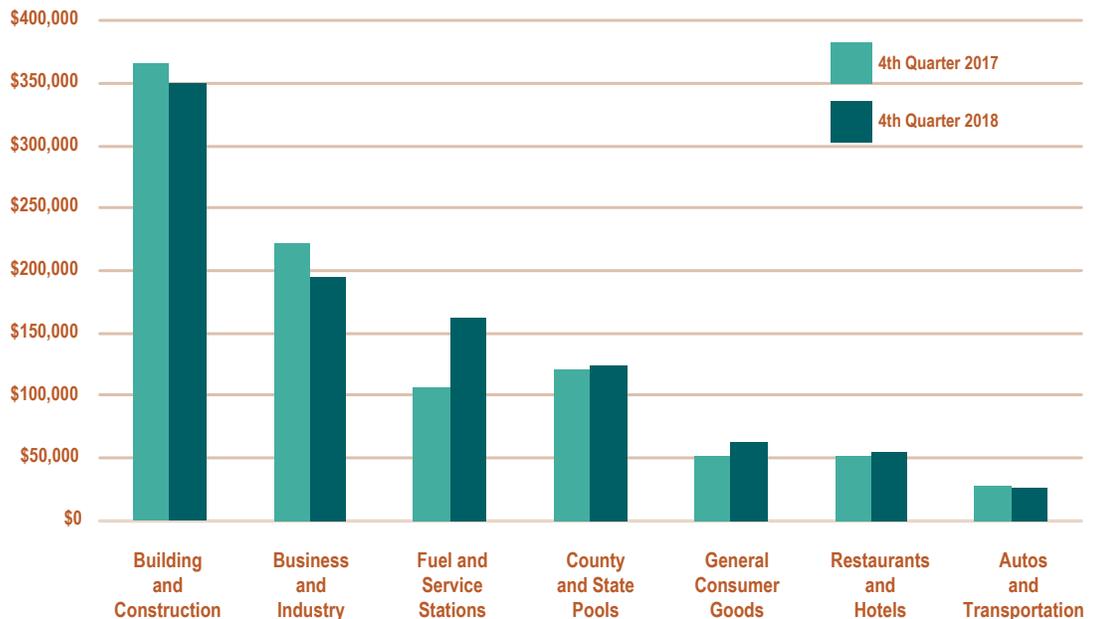
Double payments in the fuel group and general consumer goods inflated cash results for those two sectors and were the major factor in the disparity between cash receipts and actual sales. Service stations actual sales were down 11.1% despite higher retail gas prices.

Declining receipts from contractors caused by misallocated payments to the countywide pools depressed building and construction sales. It is anticipated this will be corrected in the future. Lower sales from multiple categories including food service equipment and supplies, light industrial, medical/biotech, garden/agricultural supplies, and a business closeout in drugs and chemicals depressed business to business sales 13.9%. Used auto sales were down 12.0%.

On the positive side, new specialty stores boosted general retail sales, quick service eateries were up 3.1% and the City's allocation from the countywide use tax pool increased 2.7% during the quarter.

Net of aberrations, taxable sales for all of Los Angeles County grew 3.2% over the comparable time period; the Southern California region was up 2.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

ACH Supply	L & L Building Materials
Applied Industrial Tech	Lifetouch National School Studios
Arco	McDonalds
Arco AM PM	Miura
Bartley Optical Sales	National Ready Mixed Concrete
Chaparral Concrete Company	Patton Sales
Chem Arrow	Rivergrade Shell Station
Crowley Company	Semihandmade
Decore Ative Specialties	Sigler
Food Makers Bakery Equipment	Spragues Rock & Sand
Garden View	Vulcan Materials
Hanson Aggregates West	Western Emulsions
Holiday Rock	

REVENUE COMPARISON

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

	2017-18	2018-19
Point-of-Sale	\$1,970,292	\$1,872,955
County Pool	278,459	263,024
State Pool	1,134	939
Gross Receipts	\$2,249,885	\$2,136,917

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.

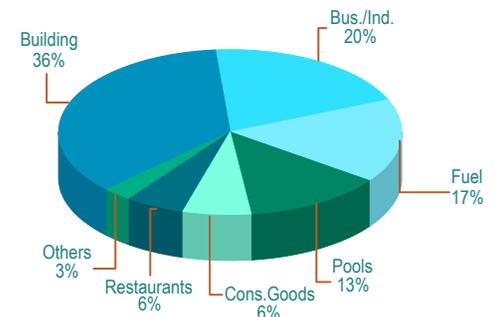
Barry Foster of HdL's EconSolutions, notes that "shifting shopping habits present challenges but also opportunities." "Smaller footprints enable expanding into smaller niche markets while mixed use projects and 18-hour environments are chances to rebuild downtowns and reinvigorate shopping centers."

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 ACCOUNT



REVENUE BY BUSINESS GROUP
Irwindale This Quarter



IRWINDALE TOP 15 BUSINESS TYPES

Business Type	Irwindale		County	HdL State
	Q4 '18	Change	Change	Change
Building Materials	14,003	6.9%	8.1%	5.5%
Contractors	320,636	-5.0%	22.2%	17.4%
Drugs/Chemicals	16,012	-73.6%	-3.5%	5.3%
Food Service Equip./Supplies	21,957	-37.9%	6.7%	3.6%
Garden/Agricultural Supplies	15,613	13.3%	11.5%	-2.3%
Heavy Industrial	65,995	15.0%	-2.3%	5.8%
Light Industrial/Printers	9,976	-56.5%	4.4%	9.0%
Medical/Biotech	13,018	-22.8%	19.3%	25.9%
Office Supplies/Furniture	— CONFIDENTIAL —	—	131.8%	na
Plumbing/Electrical Supplies	15,211	6.3%	4.5%	8.9%
Portrait Studios	— CONFIDENTIAL —	—	-2.8%	-5.1%
Quick-Service Restaurants	38,983	7.2%	7.0%	6.6%
Service Stations	160,967	50.9%	28.4%	28.5%
Textiles/Furnishings	16,982	17.0%	12.7%	7.4%
Used Automotive Dealers	13,813	-10.3%	9.7%	5.4%
Total All Accounts	851,935	2.8%	9.0%	7.0%
County & State Pool Allocation	124,852	2.8%	9.0%	8.6%
Gross Receipts	976,787	2.8%	9.0%	7.2%