

Q2 2018



City of Martinez Sales Tax *Update*

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

Martinez In Brief

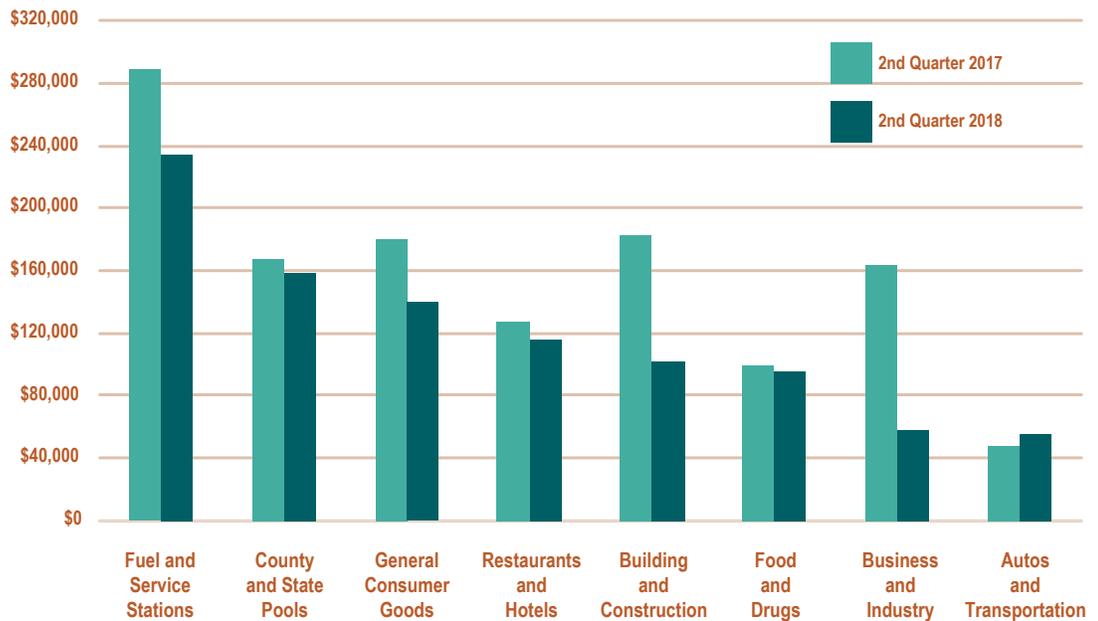
Martinez's receipts from April through June were 23.7% below the second sales period in 2017 due to ongoing issues related to the State's transition to a new software and reporting system that for the second consecutive quarter caused multiple allocations to not get posted. Accounting for these and other reporting aberrations, actual sales were up 0.6%.

The missing allocations caused all major business sectors to post lower cash receipts, except for the automotive group which benefitted from a new used auto outlet. Business and industry, building and construction, the fuel group and general consumer goods had the largest impacts from the missing payments. Business to business actual sales were up 14.7%, while the building sector and fuel group were up 4.1% and 3.3%, respectively. General retail sales were down 5.1%.

Higher quick-service returns boosted restaurant sales; casual dining and fast casual eateries were relatively flat. A convenience store closeout helped depress food and drugs. The City's allocation from the countywide use tax pool decreased 5.9% while Measure D added an additional \$716,371 in revenue this quarter.

Net of aberrations, taxable sales for all of Contra Costa County grew 1.8% over the comparable time period; the Bay Area was up 2.9%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

ABC Supply Co	Lucky Supermarket
Abel West Auto Center	Main Jail Commissary
Ace Auto Dealers	Martinez Valero
Alhambra Shell	McDonalds
Canyon Sports	Nob Hill Foods
Colonial Energy	Petco
Copart	Quik Stop
CVS Pharmacy	Rite Aid
Geo Options	Safeway
Golden Gate Petroleum	Spectrum Analytics
Home Depot	Telfer Pavement Technologies
Industrial Lumber	Walmart
Les Schwab Tire Center	

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$4,227,989	\$3,883,350
County Pool	745,777	698,752
State Pool	2,400	2,300
Gross Receipts†	\$4,976,165	\$4,584,402
Cty/Cnty Share	(124,404)	(114,610)
Net Receipts	\$4,851,761	\$4,469,792
Measure D	\$834,803	\$3,370,680

†Includes tax sharing amounts due to others

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.

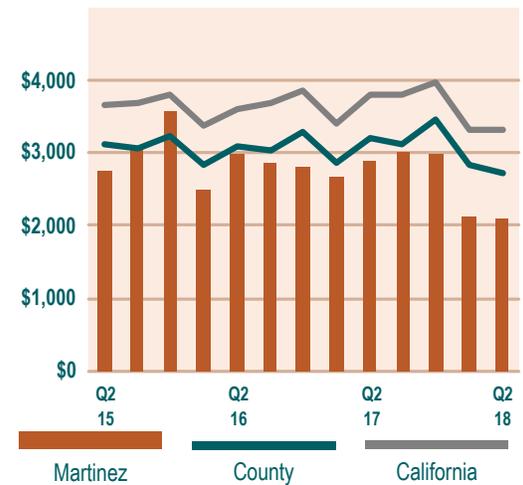
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates.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

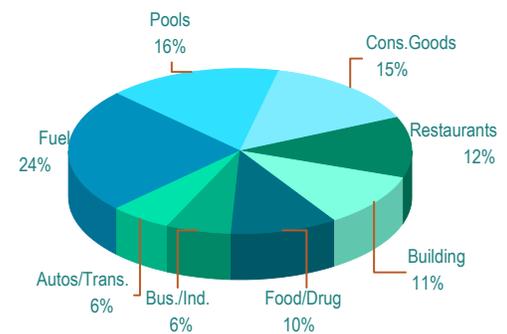
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly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



MARTINEZ TOP 15 BUSINESS TYPES

Business Type	Martinez		County	HdL State
	Q2 '18	Change	Change	Change
Automotive Supply Stores	15,958	-16.0%	-20.4%	-11.6%
Building Materials	78,726	-50.7%	-23.1%	-23.2%
Casual Dining	41,582	-21.4%	-16.7%	-12.6%
Contractors	21,826	-0.7%	-17.9%	-10.7%
Convenience Stores/Liquor	15,931	-20.6%	-10.4%	-9.2%
Discount Dept Stores	— CONFIDENTIAL —	—	-10.8%	-13.5%
Drug Stores	— CONFIDENTIAL —	—	-4.1%	-4.2%
Garden/Agricultural Supplies	— CONFIDENTIAL —	—	-15.0%	-15.8%
Grocery Stores	— CONFIDENTIAL —	—	-9.7%	-7.0%
Light Industrial/Printers	12,188	-62.3%	-28.0%	-26.0%
Petroleum Prod/Equipment	— CONFIDENTIAL —	—	-15.8%	0.4%
Quick-Service Restaurants	59,676	1.0%	-6.1%	-5.8%
Service Stations	63,959	-48.6%	-30.9%	-26.4%
Specialty Stores	21,632	53.1%	0.9%	-4.6%
Used Automotive Dealers	29,488	149.8%	-23.1%	-41.5%
Total All Accounts	801,628	-26.5%	-13.7%	-12.2%
County & State Pool Allocation	158,320	-5.4%	11.1%	5.5%
Gross Receipts	959,948	-23.7%	-10.4%	-10.1%
City/County Share	(23,999)	23.7%		
Net Receipts	935,949	-23.7%		