

Q2 2018



City of Brawley Sales Tax *Update*

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

Brawley In Brief

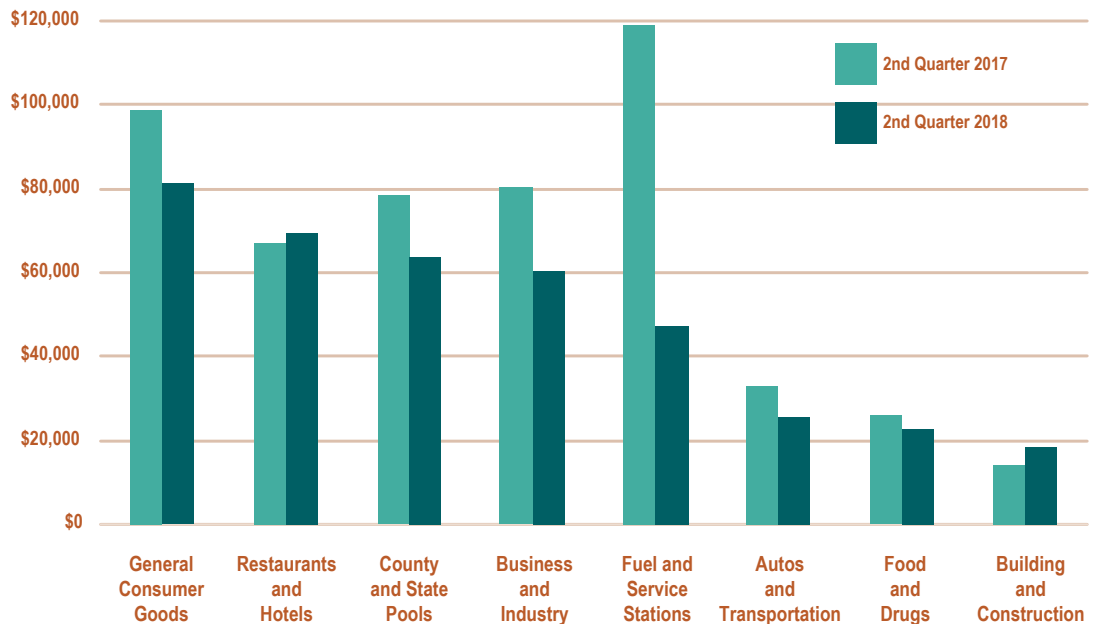
Brawley's receipts from April through June were 24.7% below the second sales period in 2017. However, CDTFA's transition to a new reporting system resulted in multiple returns not processed in the current period for the second quarter in a row. Comparisons in sectors like fuel-service stations, business-industry and allocations from the county use tax pool were heavily impacted by the lack of allocations. Including expected remittances and other reporting aberrations, actual sales were up 0.5%.

Once adjusted, steady price increases at the pump, mostly due to the global cost of crude oil and the implementation of SB-1 locally, pushed gas station returns higher, while improved consumer spending at electronic/appliance stores and other retailers lifted general goods.

The recent addition of a business-industrial supplier and continued interest in eating out positively impacted restaurant receipts, further contributing to the adjusted growth.

Net of aberrations, taxable sales for all of Imperial County grew 7.0% 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

AutoZone	KFC
Carl's Jr	Las Chabelas Restaurant
China Inn Restaurant	Little Caesars Pizza
Circle K 76	McDonalds
Daniels Tire Service	Pacific Ag Rentals
Dollar Tree	Pioneers Memorial Hospital
Exxon	Rite Aid
Fillco	T Mobile
HD Supply Waterworks	USA Gas
Imperial Hardware	Vons
Jack in the Box	Walmart Online
Johnnys Burritos	Walmart Supercenter
Jordan Implement	

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$1,857,501	\$1,826,634
County Pool	292,036	365,617
State Pool	1,058	1,114
Gross Receipts	\$2,150,595	\$2,193,365

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.

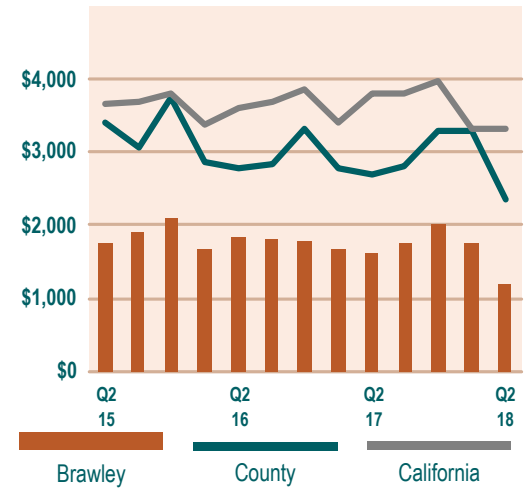
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates. Many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

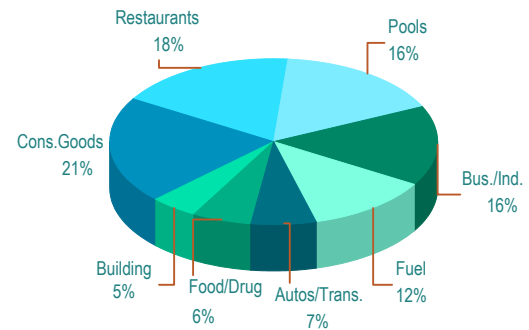
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly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



BRAWLEY TOP 15 BUSINESS TYPES

Business Type	Brawley		County	HdL State
	Q2 '18	Change	Change	Change
Auto Repair Shops	7,043	5.9%	-42.5%	-14.8%
Automotive Supply Stores	17,470	-24.5%	-26.6%	-11.6%
Building Materials	— CONFIDENTIAL —	—	-20.7%	-23.2%
Casual Dining	16,218	8.3%	-11.7%	-12.7%
Convenience Stores/Liquor	6,735	-6.2%	16.7%	-8.8%
Discount Dept Stores	— CONFIDENTIAL —	—	-15.7%	-13.5%
Electronics/Appliance Stores	6,608	214.6%	-0.9%	-5.1%
Fulfillment Centers	— CONFIDENTIAL —	—	0.4%	-3.9%
Grocery Stores	— CONFIDENTIAL —	—	3.0%	-7.0%
Plumbing/Electrical Supplies	— CONFIDENTIAL —	—	-12.3%	-6.7%
Quick-Service Restaurants	53,041	2.2%	14.4%	-5.9%
Repair Shop/Equip. Rentals	10,887	63.8%	123.2%	-18.6%
Service Stations	44,219	-33.5%	-34.4%	-26.4%
Variety Stores	— CONFIDENTIAL —	—	10.2%	-3.0%
Warehouse/Farm/Const. Equip.	— CONFIDENTIAL —	—	-81.5%	-26.3%
Total All Accounts	324,920	-25.8%	-11.7%	-12.2%
County & State Pool Allocation	63,963	-18.6%	-3.6%	5.5%
Gross Receipts	388,883	-24.7%	-10.5%	-10.1%