

Q4 2018



City of Los Altos Sales Tax *Update*

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

Los Altos In Brief

Los Altos' receipts from October through December were 0.8% below the fourth sales period in 2017. Excluding reporting aberrations, actual sales were down 3.7%.

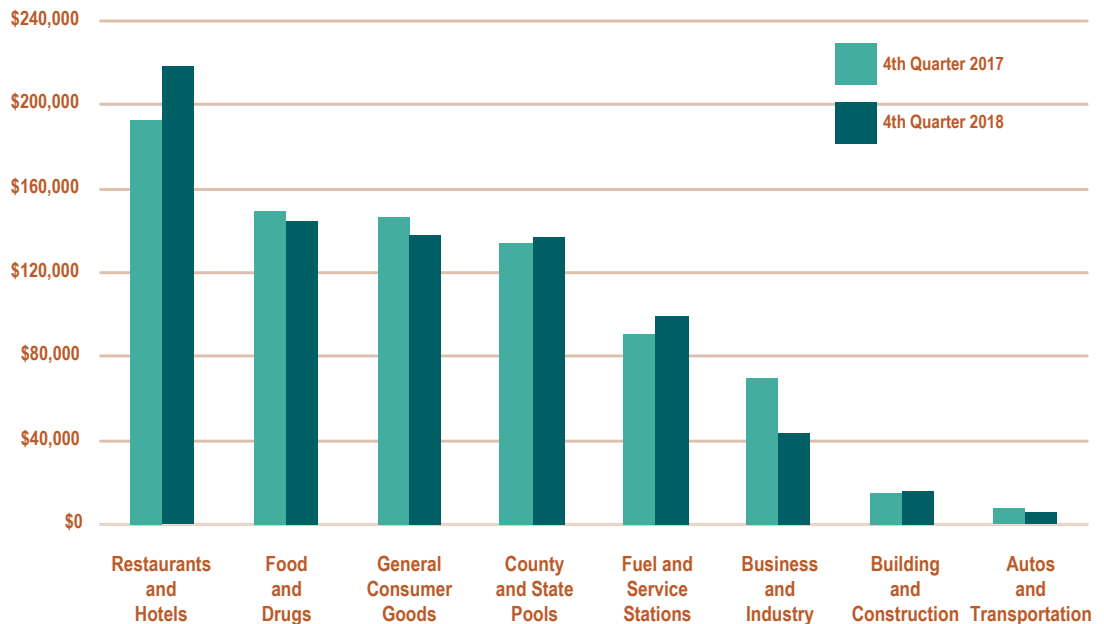
Double payments inflated receipts in the restaurant and hotel groups which posted a 6.7% increase after adjusting for the anomalies. Growth in the services stations was a result of the prices at the pumps continuing to surpass the comparison quarter rate.

Missing payments and spikes in the comparable quarter resulted in declines in the general consumer good group. A closure of a major outlet resulted in strong declines in the business and industry group.

Even though there was a decline in point of sale receipts, the allocation from the Santa Clara County-wide pool increased by 2.7% because pool receipts grew by 8.4% in 4th quarter.

Net of aberrations, taxable sales for all of Santa Clara County grew 2.5% over the comparable time period; the Bay Area was up 2.3%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Amber India Restaurant	Pendleton Woolen Mills
Armadillo Willys BBQ & Cafe	Pho Vi Hoa Restaurant
BevMo	Rancho 76
Chef Chus	Rite Aid
Draegers Super Market	Rustic House
El Camino 76	Safeway
Los Altos 76	Shell
Los Altos Chevron	Spectrum Interior Design
Los Altos Grill	Steinway
Lucky Supermarket	The Post
Main Street Chevron	Turn 2 Solutions
Noodle Talk	Walgreens
	Whole Foods Market

REVENUE COMPARISON

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

	2017-18	2018-19
Point-of-Sale	\$1,293,659	\$1,452,145
County Pool	246,770	291,704
State Pool	708	766
Gross Receipts	\$1,541,136	\$1,744,616

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.

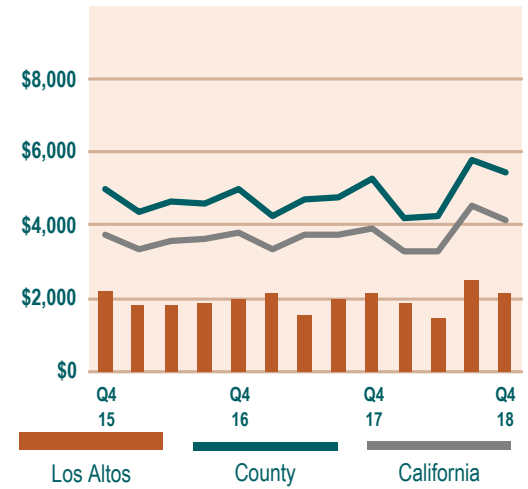
Retailers are not planning the end of physical stores which continue to be important for personalized experiences and shopping entertainment. However, the shifting trends encourage reduced square footage with less overhead to better compete on prices and provide more intimate shopping encounters.

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.

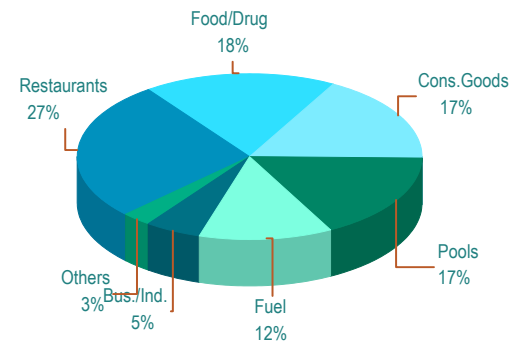
Barry Foster of HdL's EconSolutions, notes that "shifting shopping habits present challenges but also opportunities." "Smaller footprints enable expanding into smaller niche markets while mixed use projects and 18-hour environments are chances to rebuild downtowns and reinvigorate shopping centers."

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 CAPITA



REVENUE BY BUSINESS GROUP
Los Altos This Quarter



LOS ALTOS TOP 15 BUSINESS TYPES

Business Type	Los Altos		County	HdL State
	Q4 '18	Change	Change	Change
Casual Dining	141,990	15.8%	1.3%	2.5%
Convenience Stores/Liquor	— CONFIDENTIAL —	—	-3.7%	2.1%
Drug Stores	— CONFIDENTIAL —	—	28.9%	21.9%
Electrical Equipment	20,789	36.7%	-15.7%	-1.2%
Family Apparel	14,950	-6.0%	0.9%	0.5%
Fast-Casual Restaurants	14,953	12.1%	2.3%	4.5%
Fine Dining	30,114	-7.3%	7.5%	6.7%
Grocery Stores	94,691	-10.4%	-5.4%	-11.7%
Home Furnishings	29,527	8.8%	-3.4%	0.0%
Medical/Biotech	8,143	56.1%	-9.0%	25.9%
Music Stores	— CONFIDENTIAL —	—	-29.1%	-25.7%
Quick-Service Restaurants	18,349	14.9%	3.0%	6.6%
Service Stations	99,024	9.2%	31.6%	28.5%
Specialty Stores	19,762	2.7%	-20.1%	-10.8%
Women's Apparel	15,100	-2.0%	-2.0%	-3.6%
Total All Accounts	665,863	-1.5%	4.1%	7.0%
County & State Pool Allocation	137,376	2.7%	8.5%	8.6%
Gross Receipts	803,239	-0.8%	4.8%	7.2%