Q4 2018

City of West Covina Sales Tax *Update*

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

West Covina In Brief

West Covina's receipts from October through December sales were 1.1% higher than the same quarter last year. Actual sales activity decreased 2.6% after accounting aberrations were factored out.

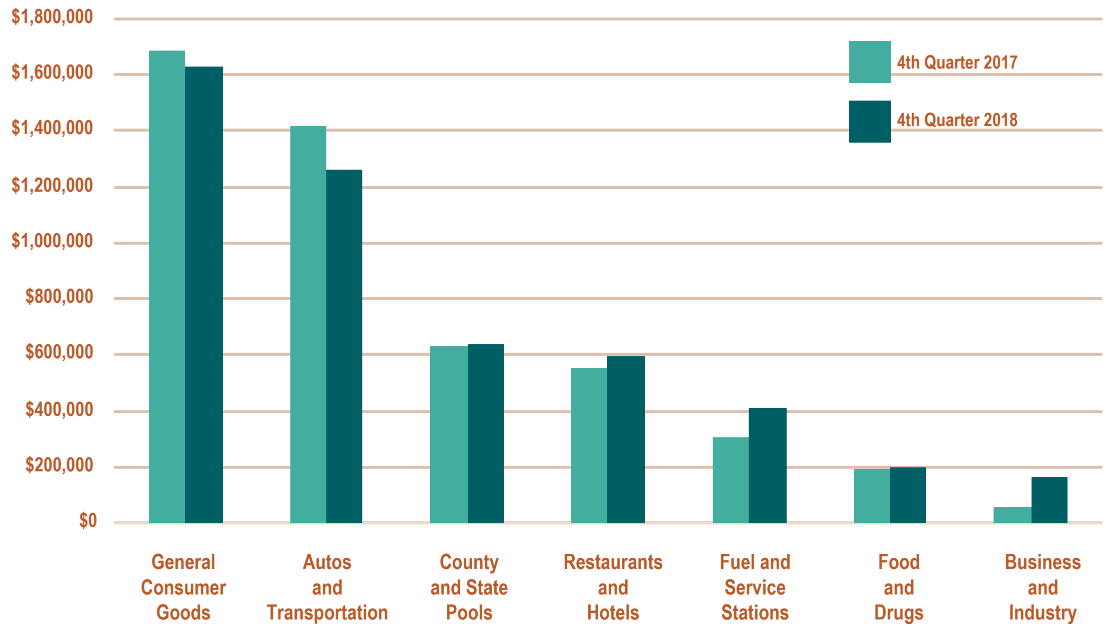
A retroactive positive payment adjustment from a business to business merchant temporarily buoyed business-industry returns. Excluding this onetime reporting anomaly, group results declined 21.1%.

Double-up receipts from prior period late/missing payments plus higher fuel prices boosted service station revenues. New eatery openings and net higher sales lifted restaurants-hotel group receipts.

The gains were partially offset by declining new motor vehicle dealer sales. Further driving down this category was onetime payments that temporarily inflated last year's receipts. Auto leasing was depressed due to a large late/missing payment.

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

76	Macys
Arco	Norm Reeves Honda
Ashley Furniture Homestore	Penske Mercedes Benz
Audi West Covina	Penske Toyota of West Covina
Azusa Arco	Reynolds Buick
Best Buy	Ross
Burlington	Sears
Chevron	Target
Crestview Cadillac	Walmart Supercenter
Ford of West Covina	West Covina Chrysler Dodge Jeep Ram
Home Depot	West Covina Nissan
JC Penney	
LA Auto Exchange	
Lifecare Solutions	

Revenue Comparison

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

	2017-18	2018-19
Point-of-Sale	$7,804,403	$8,367,307
County Pool	1,111,704	1,180,793
State Pool	3,983	4,179
Gross Receipts	**$8,920,089**	**$9,552,279**

Published by HdL Companies in Spring 2019
www.hdlcompanies.com | 888.861.0220

NOTES

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.

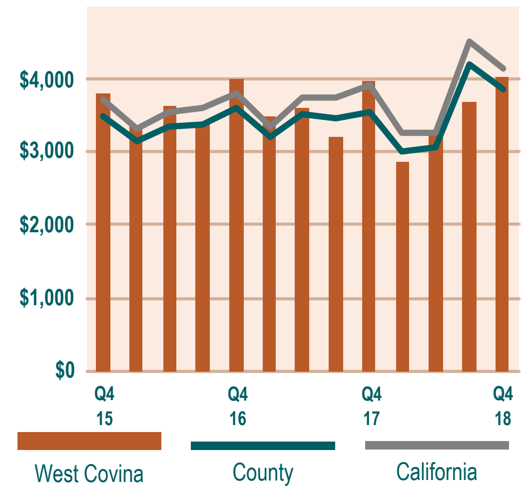
Retailers are not planning the end of physical stores which continue to be important for personalized experiences and shopping entertainment. However, the shifting trends encourage reduced square footage with less overhead to better compete on prices and provide more intimate shopping encounters.

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."

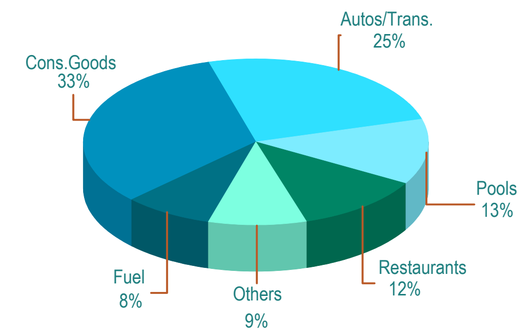
With more companies using the internet to sell directly to customers from their warehouses, the trend also provides jurisdictions whose populations aren't adequate in size to support large scale retail to focus on industrial development for sales tax as well as jobs.

Sales Per Capita



Revenue By Business Group

West Covina This Quarter



West Covina Top 15 Business Types

*In thousands of dollars	West Covina		County	HdL State
Business Type	Q4 '18*	Change	Change	Change
Auto Lease	97.3	-30.1%	-7.4%	-11.4%
Building Materials	— CONFIDENTIAL —		8.1%	5.5%
Casual Dining	281.2	12.8%	2.6%	2.5%
Department Stores	334.3	4.6%	-5.8%	-3.4%
Discount Dept Stores	— CONFIDENTIAL —		2.7%	3.9%
Electronics/Appliance Stores	223.7	-4.2%	3.3%	-1.6%
Family Apparel	216.0	-0.7%	1.6%	0.4%
Grocery Stores	102.0	-10.3%	-19.3%	-11.7%
Home Furnishings	89.7	1.4%	0.6%	0.0%
Medical/Biotech	— CONFIDENTIAL —		19.3%	25.9%
New Motor Vehicle Dealers	995.2	-13.2%	5.4%	5.8%
Quick-Service Restaurants	235.8	3.3%	7.0%	6.6%
Service Stations	410.9	34.2%	28.4%	28.5%
Specialty Stores	150.8	-26.6%	-10.8%	-10.8%
Used Automotive Dealers	100.4	42.1%	9.7%	5.4%
Total All Accounts	**4,362.7**	**1.1%**	**9.0%**	**7.0%**
County & State Pool Allocation	**639.4**	**1.1%**	**9.0%**	**8.6%**
Gross Receipts	**5,002.1**	**1.1%**	**9.0%**	**7.2%**