Q4 2018

City of Avalon Sales Tax *Update*

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

Avalon In Brief

Avalon's receipts from October through December were 10.5% below the fourth sales period in 2017.

The State continues to focus on solving its issues with the transition to a new software system, with revenue from prior periods still flowing in to local government agencies.

Business closures continue to have a negative impact on revenue from general consumer goods. Sluggish winter sales are responsible for the decline in totals from restaurants-hotels.

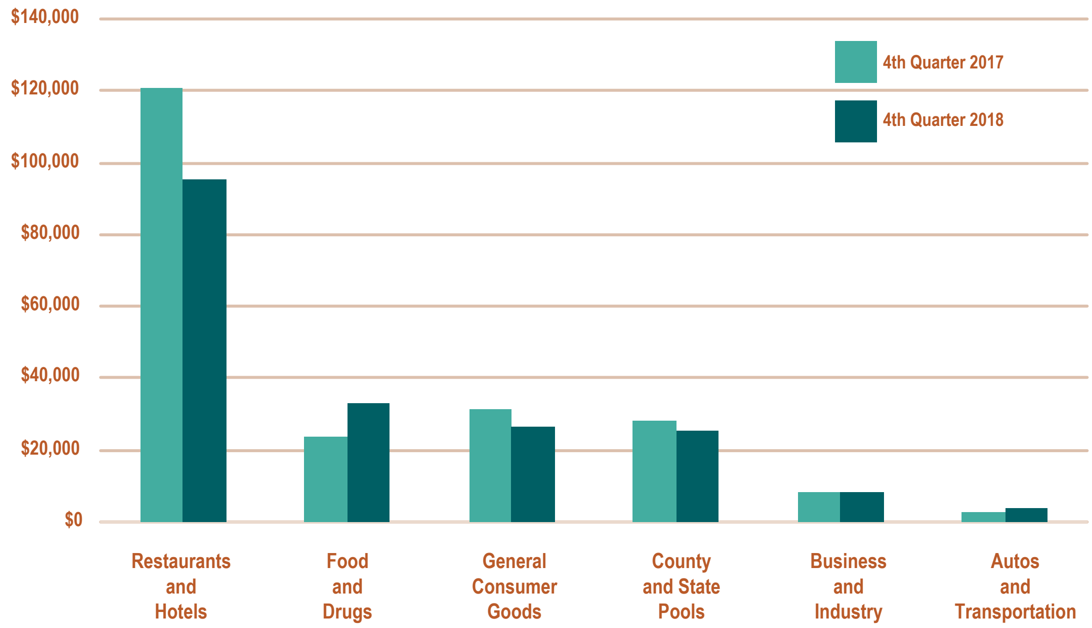
Double payments caused a temporary increase for the food and drugs group. Autos and transportation reported slightly higher sales.

Construction spending slowed slightly at the end of the fourth quarter throughout the county and the state.

The City's share of the countywide use tax pool decreased 10.6% when compared to the same period in the prior year.

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

- Abes Liquor Store
- Antonios Pizzeria & Cabaret
- Bluewater Grill
- Buoys & Gulls
- Carnival Cruise Lines
- Casino Ballroom
- Catalina By The Sea
- Catalina Yamaha Golf Cars
- Chets Hardware
- Coyote Joe's
- El Galleon
- Island Threadz
- Jordahl Construction
- Leos Catalina Drugstore
- Lobster Trap
- Luau Larrys
- Maggies Blue Rose
- Mi Casita
- Northwind Refrigeration
- Original Jacks
- Pancake Cottage
- Perico Gallery
- Steves Steakhouse
- The Locker Room
- Vons

Revenue Comparison

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

	2017-18	2018-19
Point-of-Sale	$513,701	$495,266
County Pool	72,408	69,012
State Pool	307	250
Gross Receipts	$586,415	$564,527
Measure C	$361,154	$362,285

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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 solid sales of 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 was the lowest holiday gain for that sector since 2009. A 9.6% increase in receipts from online retailers, driven by rapidly changing consumer buying habits, was part of the reason for weak results from brick-and-mortar stores. 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

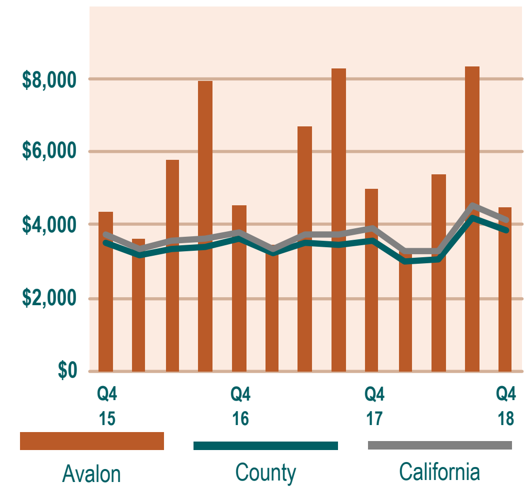
A recent survey identified U.S. closures of 102 million sq. ft. of retail space in 2017 and an additional 155 million sq. ft. in 2018. Similar losses are expected in 2019 with 5,300 closures already announced. Payless Shoes, Gymboree, Performance Bicycle and Charlotte Russe are going out of business 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 experiences.

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



COUNTY OVERALL 4Q YOY RECEIPTS % CHANGE

Major Industry Groups	Cash	Adjusted*
Autos and Transportation	4.3%	5.6%
Building and Construction	10.6%	3.5%
Business and Industry	40.7%	2.8%
Food and Drugs	-5.1%	3.3%
Fuel and Service Stations	25.0%	12.0%
General Consumer Goods	-0.1%	40.0%
Restaurants and Hotels	4.1%	2.0%
County and State Pools	9.0%	2.0%
Total	**9.0%**	**3.2%**

*Accounting anomalies factored out

Revenue By Business Group

Avalon This Quarter