



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

August 14, 2017

The Honorable City Council
Palo Alto, California

City of Palo Alto Sales Tax Digest Summary Fourth Quarter Sales (October - December 2016)

The following files are attached for this informational report for which no action is required.

ATTACHMENTS:

- Attachment A: Sales Tax Highlights (PDF)
- Attachment B: MuniServices Sales Tax Digest Summary (PDF)
- Attachment C: Economic Categories and Segments (PDF)
- Attachment D: MuniServices Economic News and Trends (PDF)

Department Head: Harriet Richardson, City Auditor



Office of the City Auditor

Sales Tax Highlights – Fourth Quarter Sales (October – December 2016)

Informational Report to the City Council

BACKGROUND

Sales and use tax represents about \$29.2 million, or 15 percent, of projected General Fund revenue in the City's adopted operating budget for fiscal year 2017. This revenue includes sales and use tax for the City of Palo Alto and pool allocations from the state and Santa Clara County.¹

We contract with MuniServices LLC (MuniServices) for sales and use tax recovery services and informational reports. We use the recovery services and informational reports to help identify misallocation of tax revenue owed to the City, and to follow up with the State Board of Equalization to ensure that the City receives identified revenues. We include sales and use tax recovery information in our quarterly reports to the Policy and Services Committee.

The California Revenue and Taxation Code, Section 7056, requires that sales and use tax data remain confidential. Therefore, the City may not disclose amounts of tax paid, fluctuations in tax amounts, or any other information that would disclose the operations of a business. This report, including the attached Sales Tax Digest Summary, includes certain modifications and omissions to maintain the required confidentiality of taxpayer information.

MuniServices prepares the Sales Tax Digest Summary and Economic & News Trends report (Attachments B and D), which we share with the Administrative Services Department (ASD) for use in revenue forecasting and budgeting. Sales tax information is reported on a calendar-year basis.

DISCUSSION

The Sales Tax Digest Summary covers fourth quarter sales for calendar year 2016, which are reported as part of the City's fiscal year 2017 revenue. In June 2017, ASD should receive information from the state on aggregate sales and use tax receipts for the first quarter of 2017. Following are some highlights of the sales and use tax information:

- Palo Alto's overall sales and use tax revenue (cash receipts) for the fourth quarter of 2016 increased by about \$160,000, or 2.0 percent, including pool allocations, compared to the fourth quarter of 2015. For all Santa Clara County jurisdictions, sales and use tax revenue for the fourth quarter of 2016 increased by \$1.4 million, or 1.2 percent, compared to the fourth quarter of 2015.
- Statewide, most regions in California experienced an increase in sales and use tax revenue for the year ending in December 2016, with a one-year statewide increase of 2.1 percent.
- Palo Alto's sales and use tax revenue totaled \$28.4 million for the year ending in December 2016, an increase of 5.1 percent from \$27.1 million during the prior one-year period. Most of this revenue increase came from a small number of businesses.

¹ See definitions of state and county pools on page 3.

- Excluding pool allocations and adjusting for prior-period and late payments, Palo Alto's sales and use tax revenue for the fourth quarter of 2016 decreased by 0.7 percent compared to the fourth quarter of 2015 and increased by 3.4 percent compared to the prior year.

Economic Influences on Sales and Use Tax

The Economic News & Trends report discusses economic influences, including national and state economic trends, auto, gasoline, retail, e-commerce, food service and restaurant trends, that may affect the City's sales and use tax revenue.

Preliminary estimates from the California Employment Development Department show that the March 2017 unemployment rate, which is not seasonally adjusted, was 3.4 percent in Santa Clara County and 2.4 percent in Palo Alto.

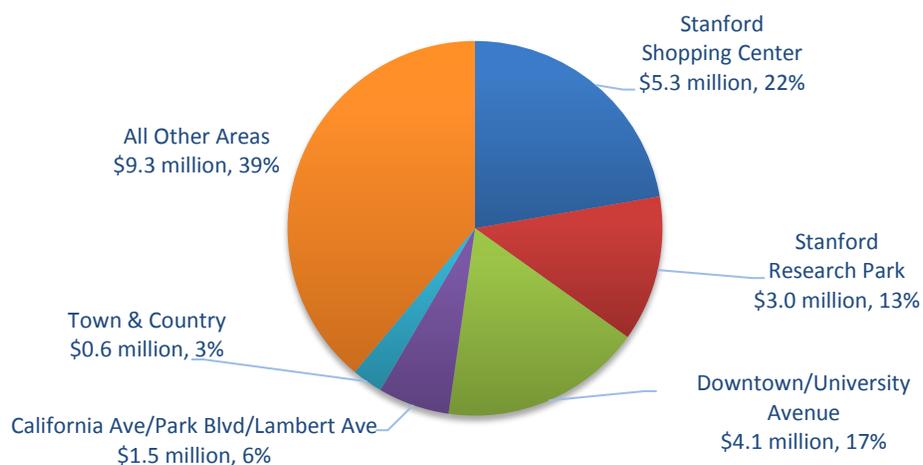
Economic Category Analysis

MuniServices' analysis of economic categories for the year ending December 2016 shows:

Economic category	Percent of Palo Alto's sales and use tax revenue	Percent Increase (Decrease) compared to prior year
General retail	36.1%	3.1%
Food products	20.0%	4.9%
Business-to-business	17.1%	(5.8%)
Construction	3.6%	(3.6%)
Miscellaneous	23.2%	7.0%

The following chart shows sales and use tax revenue by geographic area:

**Palo Alto's Sales and Use Tax Revenue by Geographic Area
For the Year Ending December 2016
(Amounts include tax estimates and exclude pool allocations)**



DEFINITIONS

In California, either sales tax or use tax may apply to a transaction, but not both. The sales and use tax rate in Palo Alto was 8.75 percent during the fourth quarter of 2016. Effective April 1, 2017, the sales and use tax rate in Palo Alto changed to 9.0 percent.

Sales tax – imposed on all California retailers; applies to all retail sales of merchandise (tangible personal property) in the state.

Use tax – generally imposed on consumers of merchandise (tangible personal property) that is used, consumed, or stored in this state; purchases from out-of-state retailers when the retailer is not registered to collect California tax or does not collect California tax for some other reason; and leases of merchandise (tangible personal property).

Countywide/statewide pools – mechanisms used to allocate local tax that cannot be identified with a specific place of sale or use in California. Local tax reported to the pool is distributed to the local jurisdiction each calendar quarter using a formula that relates to the direct allocation of local tax to each jurisdiction for a given period.

Examples of taxpayers who report use tax allocated through the countywide pool include:

- Construction contractors who consume materials used when improving real property and whose job site is regarded as the place of business
- California or out-of-state sellers who ship goods directly to consumers in the county from inventory located outside the state
- Auctioneers, catering trucks, itinerant vendors, and vending machine operators and other permit holders who operate in more than one local jurisdiction but are unable to readily identify the particular jurisdiction where the taxable transaction takes place

Respectfully submitted,



Harriet Richardson
City Auditor

Sources: MuniServices
California State Board of Equalization
California Employment Development Department
City of Palo Alto Fiscal Year 2017 Adopted Operating Budget

Audit staff: Lisa Wehara

Attachment B

City of Palo Alto

Sales Tax Digest Summary

Collections through March 2017

Sales through December 2016 (2016Q4)

California Overview

The percent change in cash receipts from the prior year was 2.1% statewide, 2.9% in Northern California and 1.6% in Southern California. The period's cash receipts include tax from business activity during the period, payments for prior periods and other cash adjustments. When we adjust for non-period related payments, we determine the overall business activity increased for the year ended 4th Quarter 2016 by 1.5% statewide, 1.4% in Southern California and 1.5% in Northern California.

City of Palo Alto

For the year ended 4th Quarter 2016, sales tax cash receipts for the City increased by 5.1% from the prior year. On a quarterly basis, sales tax revenues increased by 2.0% from 4th Quarter 2015 to 4th Quarter 2016. The period's cash receipts include tax from business activity during the period, payments for prior periods and other cash adjustments.

Excluding state and county pools and adjusting for anomalies (payments for prior periods) and late payments, local sales tax increased by 3.4% for the year ended 4th Quarter 2016 from the prior year. On a quarterly basis, sales tax activity decreased by -0.7% in 4th Quarter 2016 compared to 4th Quarter 2015.

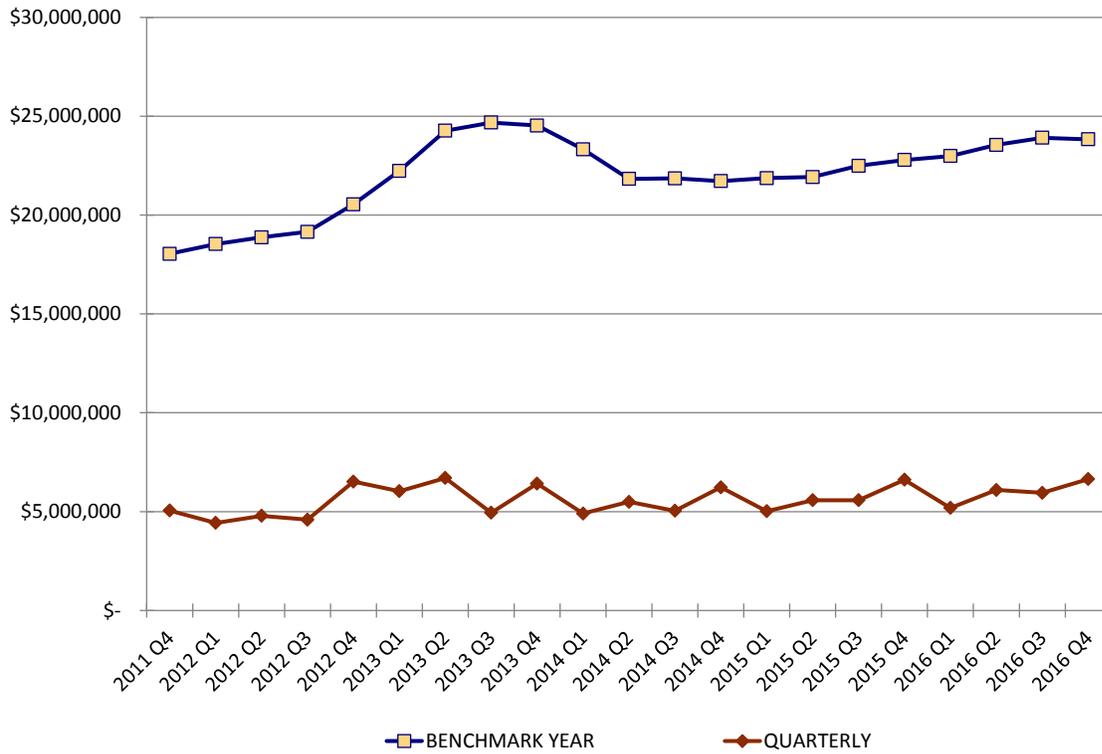
Regional Overview

This seven-region comparison includes estimated payments and excludes net pools and adjustments.

CITY OF PALO ALTO
BENCHMARK YEAR 2016Q4 COMPARED TO BENCHMARK YEAR 2015Q4

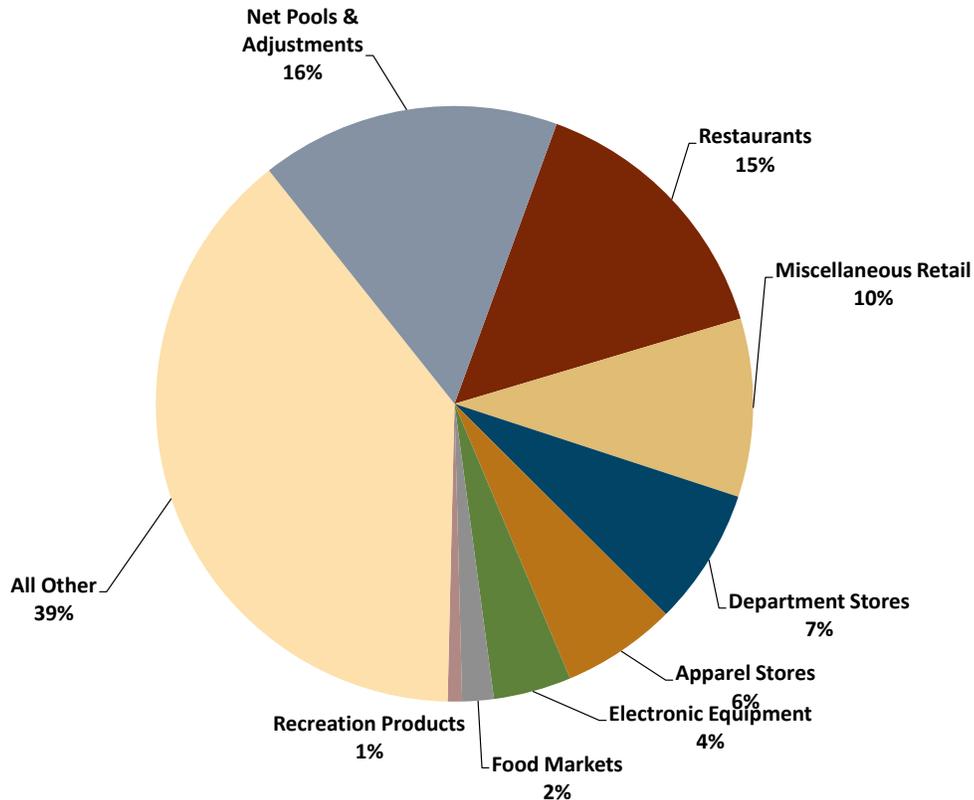
ECONOMIC CATEGORY ANALYSIS FOR YEAR ENDED 4th QUARTER 2016									
% of Total / % Change	City of Palo Alto	California Statewide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
General Retail	36.1 / 3.1	28.3 / 1.3	26.5 / -0.2	27.9 / 2.9	31.3 / 4.5	28.9 / 0.4	27.2 / 5.2	28.7 / 3.0	31.0 / -1.0
Food Products	20.0 / 4.9	21.0 / 4.6	22.3 / 3.9	17.1 / 3.8	16.9 / 4.1	22.3 / 5.1	17.5 / 5.2	18.8 / 4.2	31.0 / 0.6
Construction	3.6 / -3.6	9.5 / 1.6	9.6 / 1.7	11.7 / 5.6	12.2 / 2.5	8.3 / 2.3	11.3 / -2.4	13.5 / 3.5	9.5 / 3.1
Business to Business	17.1 / -5.8	16.4 / 0.4	19.7 / 0.8	13.6 / -1.6	12.3 / -4.5	16.2 / 0.5	15.7 / 3.0	8.1 / -3.7	6.4 / 2.8
Miscellaneous/Other	23.2 / 7.0	24.7 / 2.4	21.7 / 1.2	29.7 / 7.0	27.6 / 3.8	24.2 / 0.5	28.3 / 7.8	30.7 / 1.4	21.8 / 1.3
Total	100.0 / 3.4	100.0 / 1.5	100.0 / 1.2	100.0 / 2.5	100.0 / 1.9	100.0 / 1.1	100.0 / 2.9	100.0 / 1.8	100.0 / 0.2
ECONOMIC SEGMENT ANALYSIS FOR YEAR ENDED 4th QUARTER 2016									
	City of Palo Alto	State Wide	S.F. Bay Area	Sacramento Valley	Central Valley	South Coast	Inland Empire	North Coast	Central Coast
Largest Segment	Restaurants	Restaurants	Restaurants	Restaurants	Department Stores	Service Stations	Restaurants	Auto Sales - New	Restaurants
% of Total / % Change	17.7 / 4.5	14.9 / 5.4	15.9 / 4.5	16.4 / 5.8	13.5 / 1.5	18.1 / -57.5	11.5 / 6.3	12.0 / 9.4	22.4 / -0.5
2nd Largest Segment	***	Auto Sales - New	Auto Sales - New	Auto Sales - New	Auto Sales - New	Restaurants	Auto Sales - New	Restaurants	Misc. Retail
% of Total / % Change	*** / ***	11.4 / 4.3	11.2 / 5.0	11.4 / 3.1	11.0 / 5.6	14.3 / -31.8	11.1 / 5.3	10.9 / 4.8	10.4 / -1.2
3rd Largest Segment	Miscellaneous Retail	Department Stores	Department Stores	Department Stores	Restaurants	Auto Sales - New	Department Stores	Department Stores	Auto Sales - New
% of Total / % Change	11.6 / 28.3	9.3 / -0.9	7.6 / -2.8	9.1 / -1.4	10.9 / 5.6	11.6 / 12.2	10.3 / 0.7	10.8 / -0.5	9.3 / 13.6
*** Not specified to maintain confidentiality of tax information									

Gross Historical Sales Tax Performance by Benchmark Year and Quarter (Before Adjustments)



Net Cash Receipts for Benchmark Year 4th Quarter 2016: \$28,448,802

*Benchmark year (BMY) is the sum of the current and 3 previous quarters (2016Q4 BMY is sum of 2016 Q4, Q3, Q2, & Q1)

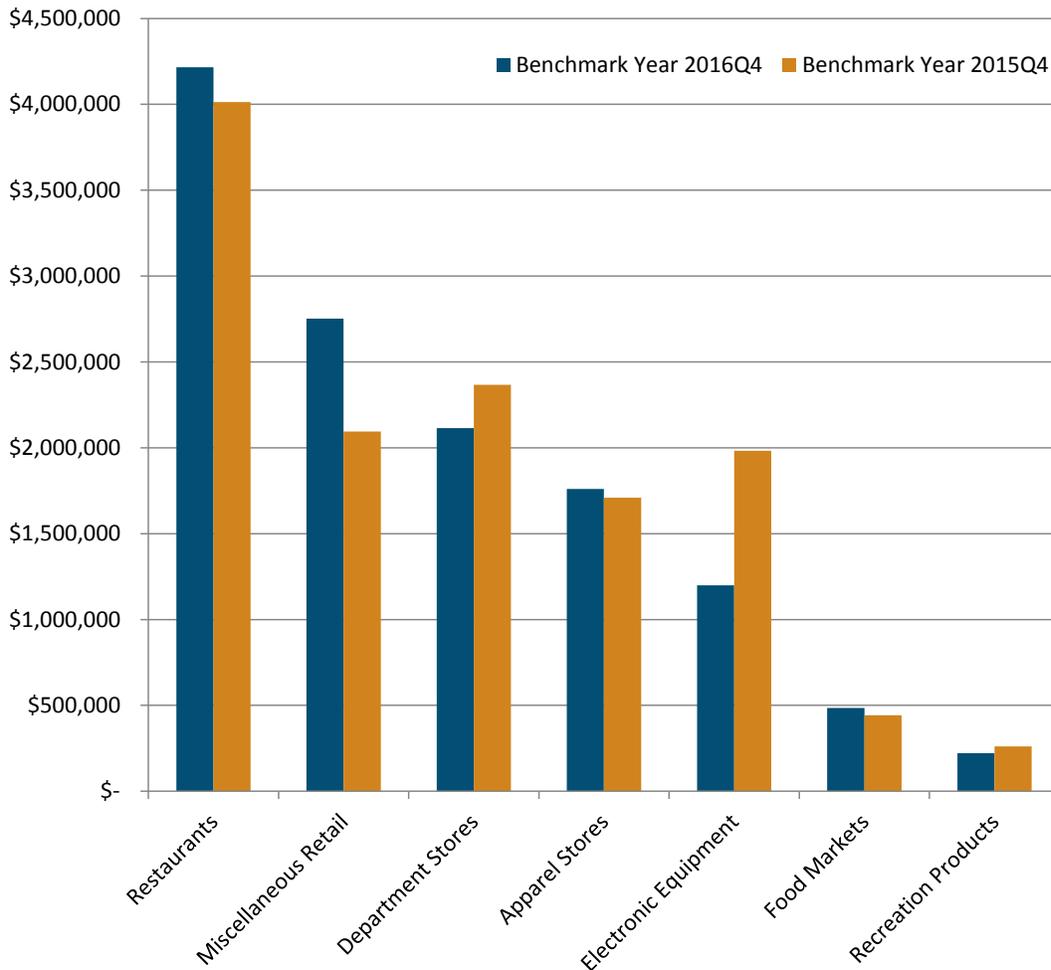


TOP 25 SALES/USE TAX CONTRIBUTORS

The following list identifies Palo Alto’s Top 25 Sales/Use Tax contributors. The list is in alphabetical order and represents the year ended 4th Quarter 2016. The Top 25 Sales/Use Tax contributors generate 50.8% of Palo Alto’s total sales and use tax revenue.

Anderson Honda	Integrated Archive Systems	Tesla Lease Trust
Apple Stores	Lucile Packard Children's Hospital	Tesla Motors
Audi Palo Alto	Macy's Department Store	The Pace Gallery
Bloomingdale's	Magnussen'S Toyota	Tiffany & Company
Bon Appetit Management Co.	Neiman Marcus Department Store	Urban Outfitters
CVS/Pharmacy	Nordstrom Department Store	USB Leasing
Eat Club	Redwood City Electric	Volvo Cars Palo Alto
Fry's Electronics	Space Systems Loral	
Hewlett-Packard	Stanford University Hospital	

Sales Tax from Largest Non-confidential Economic Segments



Historical Analysis by Calendar Quarter

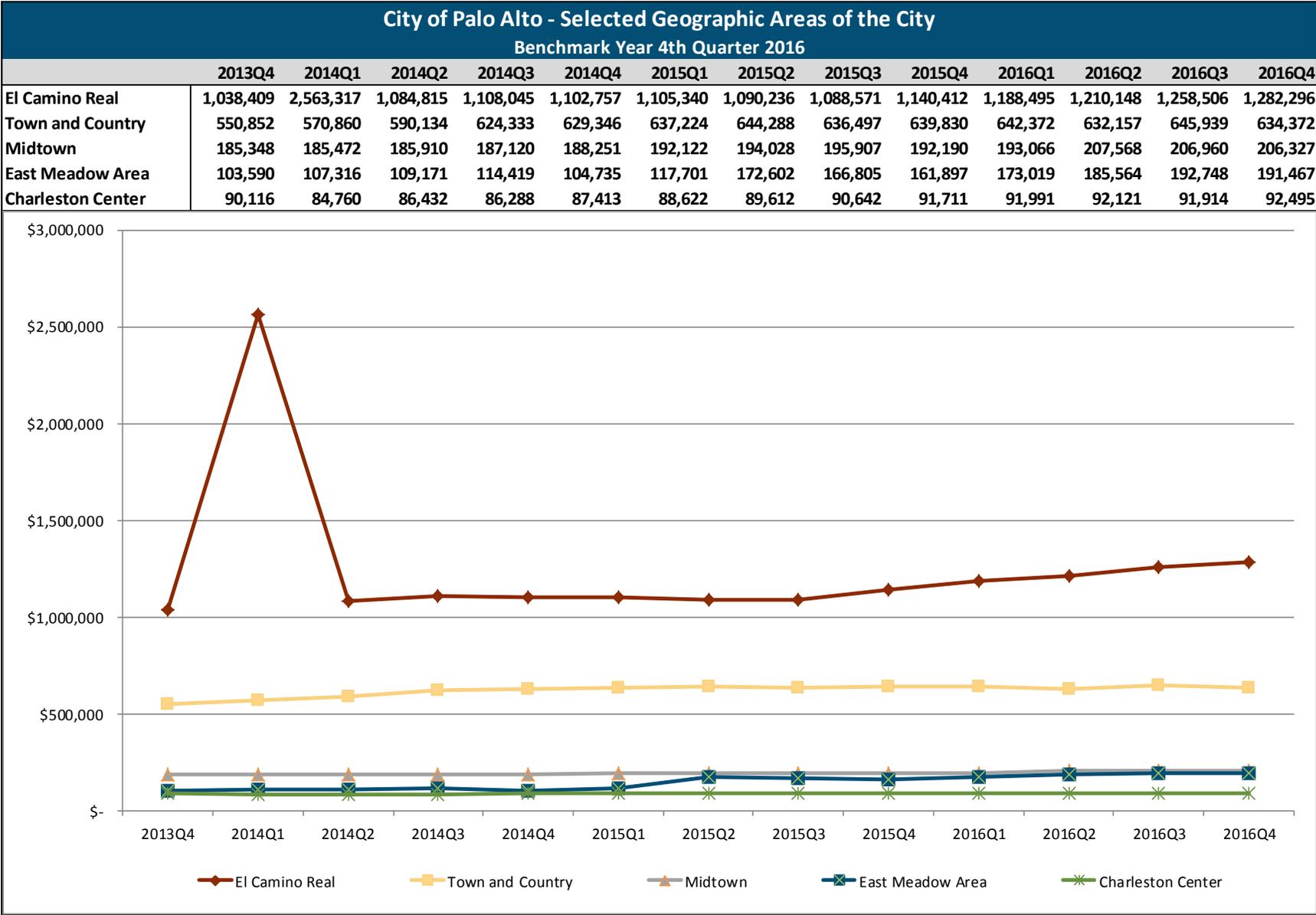
Economic Category	%	2016Q4	2016Q3	2016Q2	2016Q1	2015Q4	2015Q3	2015Q2	2015Q1	2014Q4	2014Q3	2014Q2
General Retail	34.8%	2,784,731	1,983,231	2,141,794	1,673,846	2,526,551	1,935,178	2,009,743	1,797,756	2,591,589	1,994,264	2,032,155
Miscellaneous/Other	20.3%	1,621,044	1,727,134	1,617,307	1,413,133	1,491,158	1,609,541	1,564,157	1,400,769	1,655,225	1,400,415	1,437,507
Food Products	15.5%	1,235,801	1,213,382	1,194,369	1,126,103	1,166,195	1,146,174	1,167,014	1,061,755	1,096,087	1,054,462	1,051,681
Business To Business	12.6%	1,004,883	1,027,730	1,140,526	974,162	1,428,210	888,609	833,370	757,827	885,327	596,226	970,762
Net Pools & Adjustments	16.9%	1,351,709	831,377	1,313,745	1,072,794	1,226,261	1,060,979	1,039,250	968,777	1,178,482	945,653	786,945
Total	100.0%	7,998,168	6,782,854	7,407,741	6,260,038	7,838,375	6,640,481	6,613,534	5,986,884	7,406,710	5,991,020	6,279,050

Economic Segments	%	2016Q4	2016Q3	2016Q2	2016Q1	2015Q4	2015Q3	2015Q2	2015Q1	2014Q4	2014Q3	2014Q2
Miscellaneous/Other	36.7%	2,939,228	3,027,081	2,973,047	2,607,097	3,237,983	2,720,241	2,549,852	2,370,361	2,906,134	2,211,697	2,577,014
Restaurants	13.4%	1,071,053	1,068,101	1,068,502	1,005,688	1,029,733	1,019,505	1,045,011	942,709	962,018	936,160	940,540
Miscellaneous Retail	12.5%	1,002,389	581,831	681,345	469,360	714,151	478,994	479,298	415,270	628,099	508,061	514,133
Department Stores	8.0%	641,541	491,433	546,629	435,470	714,831	553,325	595,374	503,590	750,481	548,595	591,500
Apparel Stores	6.9%	553,250	398,170	444,383	337,880	519,318	397,534	428,100	370,810	507,843	398,747	429,748
Service Stations	1.6%	130,396	138,155	144,735	123,004	140,758	173,082	181,582	148,902	166,861	203,484	215,162
Food Markets	1.8%	145,179	126,755	109,108	104,676	116,778	113,092	106,818	104,856	117,245	105,600	98,705
Business Services	1.3%	102,095	47,066	65,510	51,647	76,156	51,885	120,003	103,773	131,505	66,163	62,060
Recreation Products	0.8%	61,328	72,885	60,737	52,422	62,406	71,844	68,246	57,836	58,042	66,860	63,243
Net Pools & Adjustments	16.9%	1,351,709	831,377	1,313,745	1,072,794	1,226,261	1,060,979	1,039,250	968,777	1,178,482	945,653	786,945
Total	100.0%	7,998,168	6,782,854	7,407,741	6,260,038	7,838,375	6,640,481	6,613,534	5,986,884	7,406,710	5,991,020	6,279,050

*Net Pools & Adjustments reconcile economic performance to periods' net cash receipts. The historical amounts by calendar quarter: (1) include any prior period adjustments and payments in the appropriate category/segment and (2) exclude businesses no longer active in the current period.

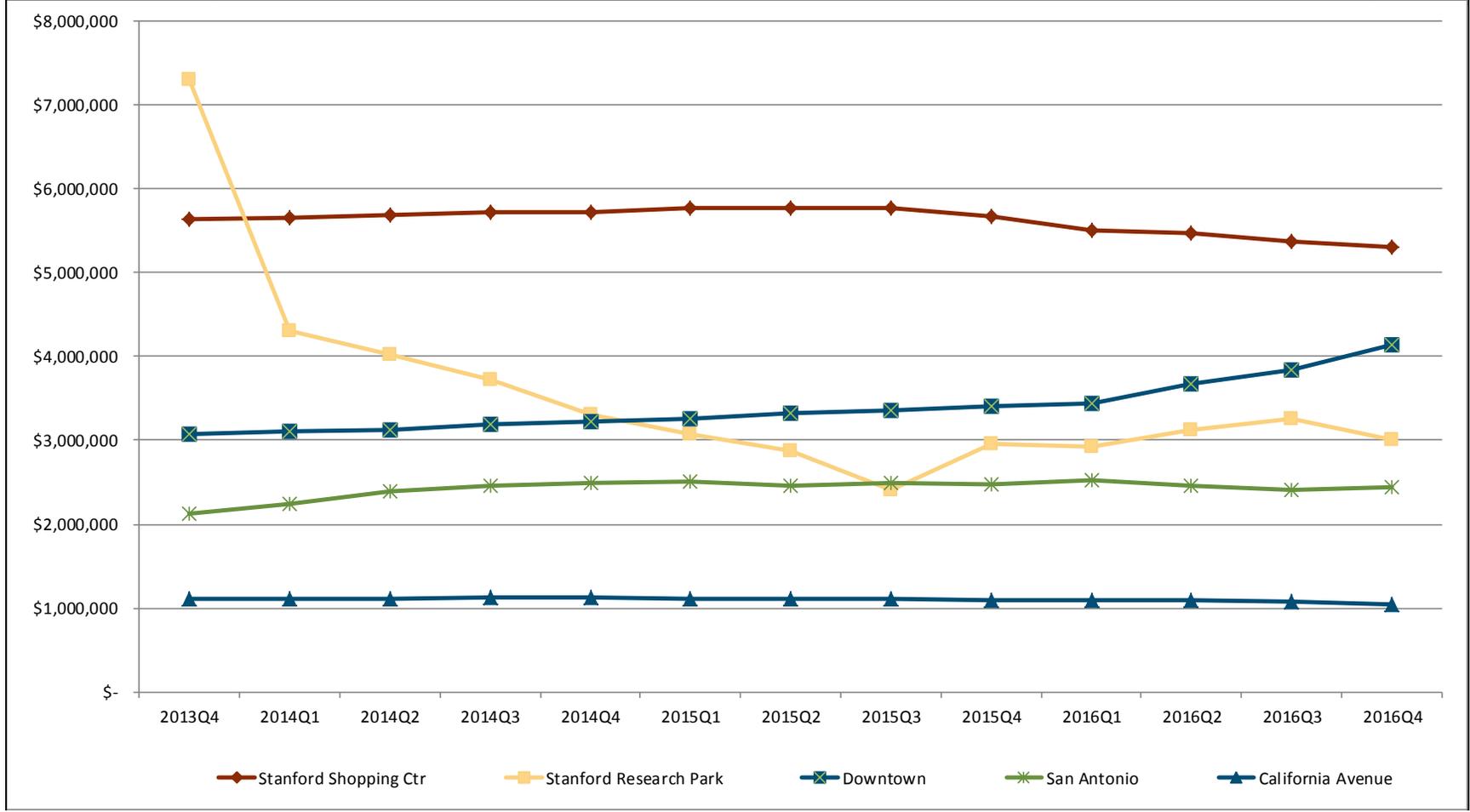
Quarterly Analysis by Economic Category, Total and Segments: Change from 2015Q4 to 2016Q4

	General Retail	Food Products	Construction	Business to Business	Misc/Other	2016/4 Total	2015/4 Total	% Chg	Largest Gain	Second Largest Gain	Largest Decline	Second Largest Decline
Campbell	0.8%	3.1%	3.3%	9.3%	-1.0%	2,526,356	2,453,879	3.0%	Office Equipment	Restaurants	Miscellaneous Retail	Electronic Equipment
Cupertino	-15.0%	10.3%	-48.3%	42.2%	2.1%	7,641,209	6,201,976	23.2%	Business Services	Office Equipment	Bldg.Matls-Whsle	Department Stores
Gilroy	1.8%	4.4%	30.5%	14.5%	10.9%	4,081,919	3,801,759	7.4%	Auto Sales - New	Bldg.Matls-Retail	Recreation Products	Service Stations
Los Altos	-11.9%	-11.6%	-15.1%	-24.6%	4.3%	601,337	668,016	-10.0%	Auto Parts/Repair	Apparel Stores	Food Processing Eqp	Restaurants
Los Gatos	-9.1%	1.2%	-17.8%	21.5%	-6.0%	1,756,993	1,821,060	-3.5%	Business Services	Leasing	Miscellaneous Other	Furniture/Appliance
Milpitas	1.8%	3.2%	58.2%	3.9%	4.7%	5,524,820	5,138,854	7.5%	Bldg.Matls-Whsle	Electronic Equipment	Business Services	Heavy Industry
Morgan Hill	10.1%	5.4%	5.0%	4.6%	-2.4%	1,925,863	1,866,617	3.2%	Electronic Equipment	Recreation Products	Light Industry	Heavy Industry
Mountain View	-2.1%	-3.0%	2.5%	-28.9%	-3.7%	4,004,516	4,460,195	-10.2%	Recreation Products	Bldg.Matls-Whsle	Business Services	Office Equipment
Palo Alto	9.0%	5.0%	2.4%	-33.4%	12.9%	6,646,458	6,693,230	-0.7%	Miscellaneous Retail	Leasing	Electronic Equipment	Office Equipment
San Jose	-4.0%	4.0%	-3.8%	-8.4%	0.2%	39,362,635	40,479,156	-2.8%	Restaurants	Leasing	Light Industry	Bldg.Matls-Whsle
Santa Clara	-14.0%	1.0%	-6.6%	-23.0%	-2.0%	11,278,287	13,036,702	-13.5%	Auto Sales - New	Leasing	Office Equipment	Electronic Equipment
Santa Clara Co.	3.0%	1.6%	22.0%	-51.0%	1.8%	263,696	266,297	-1.0%	Restaurants	Auto Parts/Repair	Office Equipment	Electronic Equipment
Saratoga	-6.3%	0.0%	-49.1%	13.7%	-1.1%	6,939,309	6,969,592	-0.4%	Electronic Equipment	Office Equipment	Bldg.Matls-Whsle	Bldg.Matls-Retail
Sunnyvale	-18.9%	-4.6%	-5.7%	35.4%	-22.7%	1,041,692	1,137,588	-8.4%	Heavy Industry	Apparel Stores	Miscellaneous Retail	Health & Government



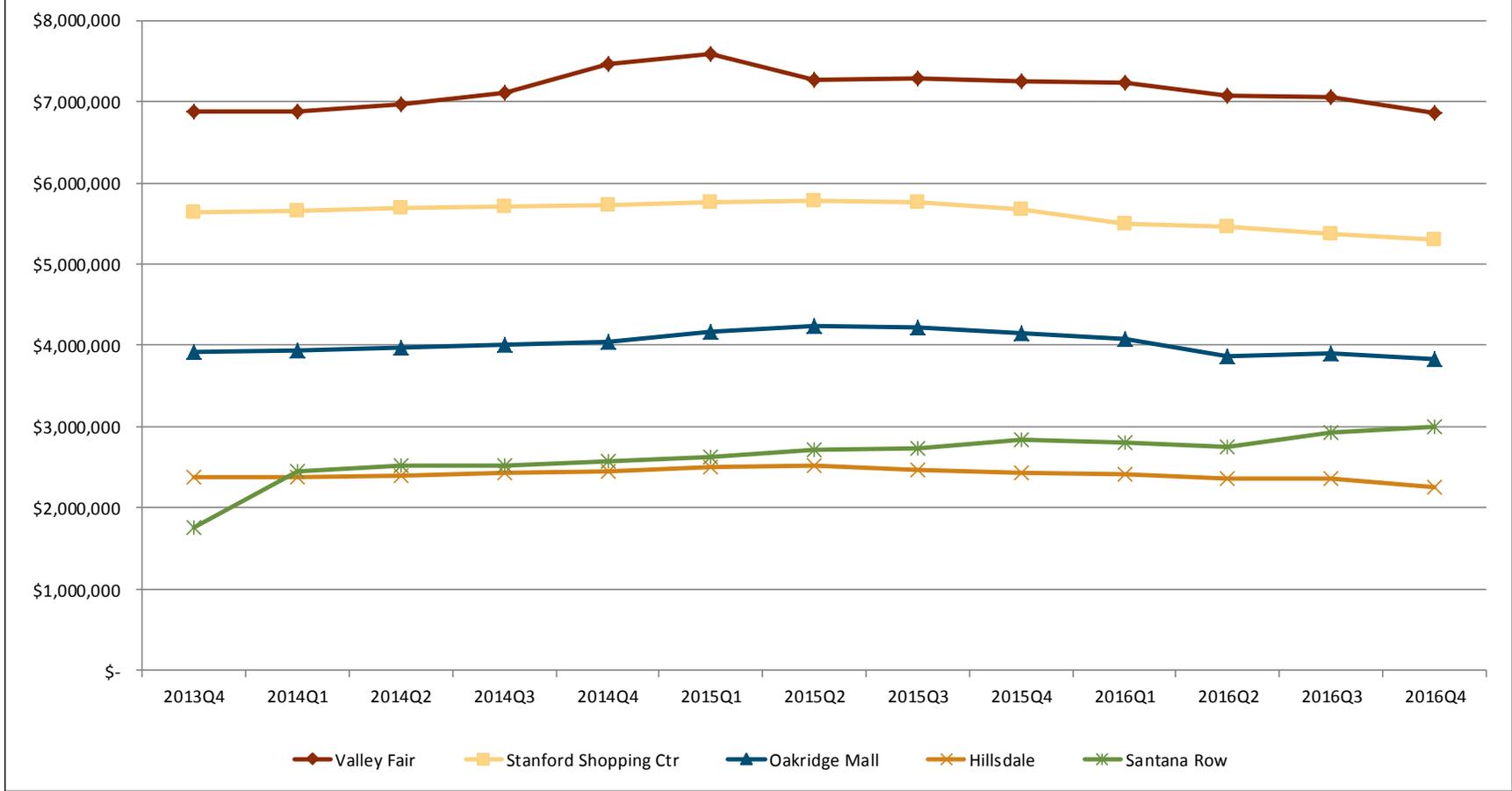
**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2016Q4 BMY is sum of 2016 Q4, Q3, Q2 & Q1)*

City of Palo Alto - Selected Geographic Areas of the City													
Benchmark Year 4th Quarter 2016													
	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4
Stanford Shopping Ctr	5,637,256	5,647,210	5,685,894	5,713,169	5,726,273	5,769,236	5,775,751	5,765,715	5,670,796	5,501,966	5,464,490	5,371,067	5,309,725
Stanford Research Park	7,307,557	4,299,015	4,027,889	3,724,671	3,304,003	3,082,331	2,869,143	2,411,043	2,953,900	2,924,944	3,119,427	3,257,664	2,999,685
Downtown	3,068,553	3,108,592	3,124,224	3,189,273	3,220,248	3,251,198	3,318,323	3,351,331	3,399,758	3,445,331	3,672,532	3,838,501	4,144,463
San Antonio	2,122,586	2,234,235	2,393,463	2,453,548	2,495,915	2,504,156	2,465,311	2,483,850	2,476,949	2,517,603	2,451,491	2,414,093	2,448,764
California Avenue	1,104,341	1,104,237	1,109,685	1,119,047	1,120,996	1,113,385	1,108,904	1,106,175	1,097,493	1,091,796	1,090,901	1,073,085	1,048,035



**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2016Q4 BMY is sum of 2016 Q4, Q3, Q2 & Q1)*

City of Palo Alto - Regional Shopping Mall Comparison													
Benchmark Year 4th Quarter 2016													
	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4
Valley Fair	6,883,838	6,885,378	6,958,214	7,108,448	7,455,179	7,588,546	7,273,028	7,282,265	7,248,371	7,228,310	7,063,549	7,053,562	6,851,598
Stanford Shopping Ctr	5,637,256	5,647,210	5,685,894	5,713,169	5,726,273	5,769,236	5,775,751	5,765,715	5,670,796	5,501,966	5,464,490	5,371,067	5,309,725
Oakridge Mall	3,924,360	3,934,469	3,972,556	4,005,370	4,040,521	4,159,367	4,236,080	4,215,653	4,158,194	4,075,061	3,871,802	3,909,043	3,831,354
Hillsdale	2,387,185	2,374,185	2,401,370	2,438,295	2,450,278	2,494,792	2,513,866	2,470,404	2,434,086	2,410,095	2,363,729	2,363,729	2,251,467
Santana Row	1,765,101	2,453,638	2,523,193	2,525,349	2,565,665	2,634,908	2,706,867	2,735,522	2,834,796	2,807,754	2,754,804	2,933,889	3,005,007



**Benchmark year (BM Y) is the sum of the current and 3 previous quarters (2016Q4 BM Y is sum of 2016 Q4, Q3, Q2 & Q1)*

Economic Categories and Segments		
Economic Category	Economic Segment	Description
Business to Business - sales of tangible personal property from one business to another business and the buyer is the end user. Also includes use tax on certain purchases and consumables.	Business Services	Advertising, banking services, copying, printing and mailing services
	Chemical Products	Manufacturers and wholesalers of drugs, chemicals, etc.
	Electronic Equipment	Manufacturers of televisions, sound systems, sophisticated electronics, etc.
	Energy Sales	Bulk fuel sales and fuel distributors and refiners
	Heavy Industry	Heavy machinery and equipment, including heavy vehicles, and manufacturers and wholesalers of textiles and furniture and furnishings
	Leasing	Equipment leasing
	Light Industry	Includes, but is not limited to, light machinery and automobile, truck, and trailer rentals
	Office Equipment	Businesses that sell computers, and office equipment and furniture, and businesses that process motion pictures and film development
Construction	Building Materials – Retail	Building materials, hardware, and paint and wallpaper stores
	Building Materials - Wholesale	Includes, but is not limited to, sheet metal, iron works, sand and gravel, farm equipment, plumbing materials, and electrical wiring
Food Products	Food Markets	Supermarkets, grocery stores, convenience stores, bakeries, delicatessens, health food stores
	Food Processing Equipment	Processing and equipment used in mass food production and packaging
	Liquor stores	Stores that sell alcoholic beverages
	Restaurants	Restaurants, including fast food and those in hotels, and night clubs

Economic Categories and Segments		
Economic Category	Economic Segment	Description
General Retail – all consumer focused sales, typically brick and mortar stores	Apparel Stores	Men's, women's, and family clothing and shoe stores
	Department Stores	Department, general, and variety stores
	Drug Stores	Stores where medicines and miscellaneous articles are sold
	Florist/Nursery	Stores where flowers and plants are sold
	Furniture/Appliance	Stores where new and used furniture, appliances, and electronic equipment are sold
	Miscellaneous Retail	Includes, but is not limited to, stores that sell cigars, jewelry, beauty supplies, cell phones, and books; newsstands, photography studios; personal service businesses such as salons and cleaners; and vending machines
	Recreation Products	Camera, music, and sporting goods stores
Miscellaneous/Other	Miscellaneous/Other	Includes but not limited to health services, government, nonprofit organizations, non-store retailers, businesses with less than \$20,000 in annual gross sales, auctioneer sales, and mortuary services and sales
Transportation	Auto Parts/Repair	Auto parts stores, vehicle and parts manufacturing facilities, and vehicle repair shops
	Auto Sales - New	New car dealerships
	Auto Sales - Used	Used car dealerships
	Miscellaneous Vehicle Sales	Sale and manufacture of airplanes and supplies, boats, motorcycles, all-terrain vehicles, trailers and supplies
	Service stations	Gas stations, not including airport jet fuel

ECONOMIC NEWS & TRENDS



HIGHLIGHTS

GDP: Increased at 0.7% in 1Q2017. In 4Q2016, increased 2.1%. Most economists expect growth to rebound to a rate of between 3% and 4% this quarter and then to settle back into its 2% trend in the months ahead.

U.S. CPI for March 2017: Decreased 0.3%; gasoline index was the largest factor and wireless telephone services.

Services Sector Total Revenue: 4Q2016 was \$3,615.3 billion, an increase of 2.3% from 3Q2016 and up 6.0% from 4Q2015.

Interest Rates: 10-year T-notes up to 2.7% at the end of 2017; expect two more hikes by the Federal Reserve in 2017; means higher rates for auto loans and home equity credit lines.

California CPI: Increased by 2.7% and 3.0% in the U.S. and California (respectively) in February from a year ago, posting their biggest year-over-year increase in more than four years.

California Retail Sales and Use Tax for April 2017: \$696.7 million fell short of projections in the governor's proposed 2017-18 budget by \$106.7 million, or 13.3%. For the fiscal year to date, sales tax receipts of \$18.99 billion are \$453.5 million below the revised estimates released in January.

Employment: California's unemployment dropped to a ten-year low of 5.0% in February from a revised 5.2% in January. The nation's unemployment rate dropped by 0.1% to 4.7% in February before falling again in March to a near ten-year low of 4.5%.

California Median Home Prices: In February was \$478,790, down 2.2% from January, but up 7.6% from February 2016.

California's Cannabis Economy: A projected \$7 billion potential pot economy in California with an expected \$1 billion in state and local annual taxes. (Fortune)

Travel: California had the largest market share of domestic travel among all 50 states with a mark of 11% in 2016.

State and Local Revenue in 2015 from Tourism: \$10.3 billion (current figures per visitcalifornia.com).

billion and \$9.2 billion in direct income for California in 2017 and 2018 respectively.

E-commerce sales for 4Q2016: For the U.S. \$102.7 billion, an increase of 1.9% from 3Q2016. Total retail sales for the 4Q2016 were estimated at \$1,235.5 billion, an increase of 1.9% from 3Q2016 and were outpaced by e-commerce sales. The 4Q2016 e-commerce estimate increased 14.3% from the 4Q2015 while total retail sales increased 4.1% in the same period. E-commerce sales in 4Q 2016 accounted for 8.3% of total sales.

California E-commerce: Would be approximately 13-14% the total sales, based on California's portion of the national economy.

Context: E-commerce today accounts for 9% of total sales, 25% of electronics and 20% of apparel. By 2022, 30% of clothing sales will take place online, for instance, as shoppers keep shifting to the internet.

Marketplace Fairness Act: Allowing states to collect taxes from residents on goods purchased online introduced.

Grocery / Amazon: Expanding home delivery.

Gasoline Prices: AAA shows (May 10, 2017) the national average price of self-serve regular at \$2.35 per gallon which is four cents less than one week and one month ago, and 14 cents more than the same date last year. MuniServices' February 17, 2017 report noted \$2.26 per gallon and in December 16, 2016 \$2.15.

California Average: \$2.94 (May 10, 2017); \$2.79 (May 10, 2016)

Restaurant Sales Eclipsed Grocery Store Sales: Occurred for the first time ever in 2016, a signal of the growing popularity of foodservice. Europe is tracking in the same direction and Asia was the leader in this trend. The increasing popularity of dining out is revitalizing retail real estate around the globe by creating a true sense of community where people can go out to dinner, take in a movie and shop, all in one place.

SECTION 1 - U.S. ECONOMY

U.S. Economy and Indicators / CPI

<http://www.census.gov>; <https://bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm> (April 28, 2017);

<https://bea.gov/newsreleases/industry/gdpindustry/2017/gdpind416.htm> (April 21, 2017);

<https://www.bls.gov/news.release/pdf/cpi.pdf> (April 14, 2017); <https://www.bls.gov/> (May 5, 2017);

https://bea.gov/newsreleases/national/gdp/2017/gdp1q17_adv.htm (April 28, 2017)

<https://www.wsj.com/articles/u-s-gdp-rose-0-7-in-first-quarter-1493382900>

Real GDP increased at 0.7% in 1Q2017. In 4Q2016, real GDP increased 2.1%. Most economists expect growth to rebound to a rate of between 3% and 4% this quarter and then to settle back into its 2% trend in the months ahead. With confidence and stock prices high, gasoline prices modest and jobs and wages increasing, spending ought to be picking up. Most economists expect growth to rebound to a rate of between 3% and 4% this quarter and then to settle back into its 2% trend in the months ahead. Sluggish consumer spending drove the first-quarter slowdown, presenting the biggest puzzle of the economy this year. With confidence and stock prices high, gasoline prices modest and jobs and wages increasing, spending ought to be picking up.

Disposable Personal Income: Disposable personal income increased \$121.0 billion, or 3.4% in 1Q2017, compared with an increase of \$141.6 billion, or 4.1%, in 4Q2016.

Finance and Insurance: Increased 6.3% in 4Q2016, after increasing 9% in 3Q2016.

Professional, Scientific, and Technical Services: Increased 3.6%, after increasing 2.6%. This was the eleventh consecutive quarter of growth.

Energy for March: Energy fell 3.2% following a 1.0% decline in February. Over the last year this index increased 1.6%.

Gasoline for March: Gasoline fell 6.2%. Natural gas fell 0.8% after rising in each of the last 8 months, and the electricity index declined 0.1% after rising in February.

Over the last year, the gasoline index increased 19.9%, **Retail Trade:** Up 5.7% in 4Q2016 after increasing 2.6% in the previous quarter. The fourth quarter growth primarily reflected an increase in other retail, which includes gasoline stations, as well as building material and garden equipment and supplies stores.

Consumer Price Index (CPI) Year for March 2017

<https://www.bls.gov/news.release/cpi.nr0.htm>

Note: Refer to MuniServices February 2017 economic report for 2016 results

U.S. CPI for March 2017: decreased 0.3%; gasoline index was the largest factor and wireless telephone services contributing.

Gasoline (from proceeding month): For January 2017 (7.8); February 2017 (-3.0); March 2017 (-6.2)

Shelter: (from proceeding month): For January 2017 (.2); February 2017 (.3); March 2017 (.1)

Apparel: (from proceeding month): For January 2017 (1.4); February 2017 (.6); March 2017 (-.7)

Rent: Increased 0.3%

Lodging Away From Home: -2.4%

Medical Care: Rose 0.1% in March

Tobacco and Alcohol: +.5% in March; alcoholic beverages index + 0.2%.

New Vehicles: (from proceeding month): For January 2017 (.9); February 2017 (-.2); March 2017 (-.3)

Used Cars and Trucks: (from proceeding month): For January 2017 (-.4); February 2017 (-.6); March 2017 (-.9)

Services Sector for 4Q2016

<https://www.census.gov/services/qss/qss-current.pdf>

Services Sector Total Revenue: 4Q2016 was \$3,615.3 billion, an increase of 2.3% from 3Q2016 and up 6.0% from 4Q2015

Utilities: \$140.9 billion, a decrease of 9.2% from 3Q2016 and up 5.0% from the 4Q2015.

Transportation and Warehousing: \$223.1 billion, an increase of 1.2% from the 3Q2016 and down 1.6% from 4Q2015.

Real Estate and Rental and Leasing: \$168.6 billion, an increase of 0.9% from 3Q2016 and up 7.6% from 4Q2015.

Educational Services: \$16.1 billion, a decrease of 0.3% from 3Q2016 and up 4.3% from 4Q2015.

Health Care and Social Assistance: \$630 billion, an increase of 4.2% from 3Q2016 and up 6.9% from 4Q2015.

Arts, Entertainment, and Recreation: \$67.5 billion, an increase of 0.9% from 3Q2016 and up 9.7% from 4Q2015.

Accommodation: \$58.2 billion, a decrease of 9.8% from 3Q2016 and up 4.8% from 4Q2015.

Economic Forecasts Under the New U.S. Administration

<http://blogs.anderson.ucla.edu/anderson/2017/03/tweetonomics-ucla-anderson-forecasts-second-look-economic-policy-changes-new-us-presidential-administration.html>

GDP Growth: The forecast calls for GDP growth of 2.4 percent, 3 percent and 2.2 percent in 2017, 2018 and 2019, respectively. (UCLA)

Dollar: Appreciating 3% late in 2017 reversing 3% fall from January through April (May 5, 2017, Kiplinger)

Interest Rates: 10-year T-notes up to 2.7% at the end of 2017 (May 5, 2017, Kiplinger)

Interest Rates: Expect two more hikes by the Federal Reserve in 2017. Means higher rates for auto loans and home equity credit lines. (May 5, 2017, Kiplinger)

Job Growth: Though job growth appears robust with 170,000 jobs a month expected in 2017 and 2018, the figures will trail off to about 110,000 a month in 2019 and

become even slower if the administration embarks on a large-scale deportation program of unauthorized immigrants. Concurrently, the unemployment rate could bottom out at 4.1 percent in late 2018, before gradually rising. (UCLA)

Housing and Interest Rates: Housing starts may plateau at the 1.2 million to 1.3 million range and 30-year fixed mortgage rates could exceed 6 percent in 2019, up from the current 4.25 percent and the recent low of 3.5 percent.

Crude Oil: Trading from \$47.50 to \$52.50 / bbl. in August (May 5, 2017, Kiplinger)

Employment Data

<https://www.bloomberg.com/news/articles/2017-05-05/payrolls-in-u-s-rise-by-211-000-jobless-rate-falls-to-4-4>

<https://www.bls.gov/news.release/pdf/jolts.pdf>

<https://www.bls.gov/careeroutlook/2016/article/what-is-the-gig-economy.htm>

Unemployment 4.4; Lowest Since May 2007: America added a 211,000 jobs in April, surpassing 79,000 jobs gained in March. The low unemployment rate captures how far the US economy has come since the Great Recession ended in 2009, when unemployment hit 10%. It's a state, where employers have to pay up to hire, because it becomes hard to find workers. That's why wage growth is expected to pick up.

Job Openings: On the last business day of March, there were 5.7 million job openings, little changed from February.

Measuring the Gig Economy: Gig workers could be in contingent or alternative employment arrangements, or both, as measured by BLS. Contingent workers are those who don't have an implicit or explicit contract for long-term employment. Alternative employment arrangements include independent contractors (also called freelancers or independent consultants), on-call workers, and workers provided by temporary help agencies or contract firms. The data BLS has for these types of workers are about a decade old. In 2005, contingent workers accounted for roughly 2 to 4 percent of all workers. About 7 percent of workers were independent contractors, the most common alternative employment arrangement, in that year. BLS plans to collect these data again in May 2017. Other, more recent, data from BLS likely reflect a lot of gig work, but these workers are not broken out separately. For example, gig workers may be included in counts of workers who are part-time, self-employed, or hold multiple jobs. But these counts also include workers who are not part of the gig workforce.

SECTION 2 - CALIFORNIA ECONOMY / FISCAL FOCUS

<http://sco.ca.gov/Files-EO/05-17summary.pdf> (May 2017)

http://dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2017/Apr-17.pdf (April 2017)

California CPI: Increased by 2.7% and 3.0% in the U.S. and California (respectively) in February from a year ago, posting their biggest year-over-year increase in more than four years. (DOF)

Economic Update: California's total personal income rose 4.5% in 2016 after rising 6.3% in 2015. U.S. real GDP grew by 1.6% in 2016, after expanding 2.6% in 2015. (DOF)

April Revenues: \$15.98 billion which fell short of projections in the governor's proposed 2017-18 budget by \$1.05 billion, or 6.2% (Controller)

Retail Sales and Use Tax for April 2017: \$696.7 million fell short of projections in the governor's proposed 2017-

18 budget by \$106.7 million, or 13.3%. For the fiscal year to date, sales tax receipts of \$18.99 billion are \$453.5 million below the revised estimates released in January.

Personal Income Tax for April: \$12.76 billion lagged by \$707.6 million, or 5.3%. Last year nearly 17% of PIT receipts arrived in April. (Controller)

Corporation Tax for April: \$1.97 billion were 13.8% lower than assumptions in the proposed 2017-18 budget. Fiscal year-to-date corporation tax receipts of \$7.17 billion are 1.6 percent above projections in the proposed budget, the only one of the "big three" General Fund revenue sources to exceed expectations. (Controller)

California Economic Outlook

<http://californiaforecast.com/monthly-newsletter/>

http://dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2017/Apr-17.pdf

http://www.anderson.ucla.edu/Documents/areas/ctr/forecast/reports/March2017_CAForecast_Nickelsburg.pdf

Employment: California's unemployment rate dropped to a ten-year low of 5.0% in February from a revised 5.2% in January. The nation's unemployment rate dropped by 0.1% to 4.7% in February before falling again in March to a near ten-year low of 4.5%.

Labor Force: California's labor force participation rate fell 0.1% to 62.1% while the nation's rose 0.1% percentage point to 63%.

Major Industry Gains: Seven of the state's major industry sectors added jobs in February. Trade,

transportation, and utilities led the way followed by leisure and hospitality; construction; professional and business services; educational and health services; other services; and information.

Major Industry Losses: Manufacturing, financial activities; government; and mining and logging.

Residential Building Permits: Fell for a second consecutive month in February 2017, following an end-of-the-year surge to beat new green building code standards that took effect January 2017.

Home Sales: Volume totaled 400,500 in February, down 4.7% from January and up 4.9% from February 2016.

Median Home Prices: In February was \$478,790, down 2.2% from January, but up 7.6% from February 2016.

Unemployment Rate: To have its normal differential to the U.S. rate at 4.6% by the end of the forecast period (2019). Our forecast for 2017, 2018 and 2019 total

employment growth is 2.1%, 1.2% and 0.9% respectively. (UCLA)

Personal Income Growth: Forecast to be 3.4%, 3.7% and 3.2% in 2017, 2018, and 2019, respectively.

Homebuilding: Will continue in California at about 118,000 units per year through the forecast horizon.

Tourism in California/ Impact on the Economy

http://www.anderson.ucla.edu/Documents/areas/ctr/forecast/reports/March2017_CAForecast_Nickelsburg.pdf

<http://industry.visitcalifornia.com/Why-Travel-Matters/Fast-Facts/>

Economic Growth: California had the largest market share of domestic travel among all 50 states with a mark of 11% in 2016.

Travel / Tourism Spending: Generated \$126.3 billion in spending 2016; directly supported 1,096,000 jobs with \$45.4 billion in job earnings; approximately \$30.3 billion on food and beverages in 2016; visitors spent \$25 billion on accommodations in 2016.

State and Local Revenue in 2015: \$10.3 billion (current figures per visitcalifornia.com).

International Trips: 17 million international trips to California in 2015 including .58 million from India and the Middle East, 1.1 million from China and 7.8 million from Mexico.

Tourism Environment and Economic Impact: After the January 27 travel ban was announced by the President, bookings searches were down by 6 to 17 percent on aggregator websites; this translates into a loss of \$7.5 billion and \$9.2 billion in direct income for California in 2017 and 2018 respectively.

Go-Biz – Governor’s Office of Business and Economic Development. Small Business in California / Jump Start

<http://www.business.ca.gov/Newsroom/ArticleId/23/state-officials-kick-off-small-business-month-at-the-state-capitol>

California has over 3.8 million small businesses operating in the state – most of any state in the union. The State launched the new Jump Start program which makes direct loans to business owners officially launches on May 9 and is administered by the California Infrastructure and Economic Development Bank (IBank) within GO-Biz.

SECTION 3 – AUTO SALES

Annual Contributions of California’s New Car Dealers in 2016 (CNCDA’s 2017 Economic Impact Report)

Source: California New Car Dealers Association

New vehicles sold: 1,927,640 (2016); 2,052,750 (2015); 1,848,254 (2014)

Used retail vehicles sold: 777,796 (2016); 769,500 (2015); 691,189 (2014)

Total new and used vehicles sold: 2,705, 436 (2016); 2,822,250 (2015); 2,539,443 (2014)

Total sales: \$121.21 billion (2016); \$105.12 billion (2014)

Average sales per dealership: \$89.92 (2016); \$77.42 million (2014)

Percent of total Statewide sales tax collected: 13% (2016); 12.5% (2014)

Number of new car dealerships: 1,346 (2016); 1,358 (2014)

Total taxes collected or paid: \$9.93 billion (2016); \$8.82 billion (2014)

Total spent for products and services from other California businesses: \$2.68 billion (2016); \$2.4 billion (2014)

California Car Sale Trends / California New Car Dealers Association Covering 4Q2016

<http://www.cncda.org/CMS/Pubs/CA%20Auto%20Outlook%204Q%202016.pdf>

California New Car Market: California new vehicle market leveled off in 2016. Quarterly new light vehicle registrations increased by less than 2 percent during the final three quarters of last year. It's becoming evident that the robust growth that occurred between 2010 and 2016 is coming to an end. Between 2010 and 2016, the state's new vehicle market improved for seven consecutive years and doubled in size, with new vehicle registrations increasing from 1.04 million units in 2009, to 2.09 million in 2016.

Vehicle Trends

Recreational vehicles: Shipments of RVs surpassed 430,000 units in 2016, a 15% increase over 2015.

Auto sales will be down from last year, given the largely saturated market: Sales of new vehicles will hit 17.2 million, versus 17.5 million in 2016.

Favor SUVs and pickup trucks over smaller cars: Eases the sting for automakers and dealers because they fetch

New Retail Light Vehicle Registrations: Increased 1.8% from 2015 to 2016.

Retail Car Registrations: Declined 7%, while light trucks (consisting of pickups, SUVs, and vans) surged 13.9%.

Used Vehicle Market: Basically flat last year, with registrations declining by less than 1 percent. Registrations for vehicles in the four to six-year-old category increased 8.1% in 2016. The seven to ten-year-old market fell 15.1 percent.

higher prices. SUVs on average cost \$8,500 more than the typical passenger sedan sells for.

Leased vehicles: Adding to the drag on new-car sales and profits are once-leased vehicles; car buyers see them as an attractive alternative to buying new vehicles over the next several years. Leasing is growing in popularity, rising from 22% of the vehicle market to 31% over the past four years.

SECTION 4 - GASOLINE

Gas Prices

<http://gasprices.aaa.com/>

Gasoline Prices: AAA shows (May 10, 2017) the national average price of self-serve regular at \$2.35 per gallon which is four cents less than one week and one month ago, and 14 cents more than the same date last year. MuniServices' February 17, 2017 report noted \$2.26 per gallon and in December 16, 2016 \$2.15.

California Average: \$2.94 (May 10, 2017); \$2.79 (May 10, 2016)

National Average: On April 17 national average price for a gallon of regular unleaded gasoline was at a 2017 high at \$2.41 which is 30 cents more than one year ago.

Oil Market Dynamics: At the time of print, U.S. petroleum futures were below \$50 per barrel, but they have gained slightly after encouraging remarks from the Russian and Saudi Arabian energy ministers who stated that there is budding consensus to extend production cuts beyond the June 30 deadline and into 2018, signaling that OPEC and non-OPEC producers are willing to take necessary steps to rebalance the market. Since the cuts were enacted, U.S. oil production has increased more than 10 percent since mid-2016 to a total of 9.3 million barrels per day and close to levels of the world's top producers, Russia and Saudi Arabia.

President Is Willing to Consider Raising Gas Tax

<http://www.sacbee.com/news/business/article147858579.html>

The President is reported to saying he will explore the possibility of higher gasoline and diesel fuel taxes to pay for his infrastructure plan. The U.S. trucking industry which shoulders roughly half the cost of the fuel taxes would welcome an increase if it's dedicated to fixing infrastructure. The industry benefits because better roads reduce travel times, curb the frequency of vehicle repairs and improve roadway safety. By increasing fuel taxes by 35 cents a gallon and indexing them to inflation, the federal government would raise an additional \$473.6 billion over the next decade, according to the staff of the congressional Joint Committee on Taxation.

California's Transportation Package

California's Gas Taxes with Enacted 2017 Legislation (Average Revenue \$2.4 Billion): The base excise tax is 18 cents a gallon. A price-based excise tax is currently set at 9.8 cents a gallon, for a total rate of 27.8 cents a gallon. On November 1, 2017 the base excise tax will increase to 30 cents a gallon. On July 1, 2019 the price-based excise tax will reset to 17.3 cents a gallon, about half-a-cent more than the rate the Brown administration projects will be in effect by then anyway. The 47.3-cent combined excise tax in effect July 1, 2019 will be adjusted for inflation beginning July 1, 2020.

Diesel Taxes with Enacted 2017 Legislation (Average Revenue \$1.08 Billion): The base excise tax is 16 cents a gallon. The state also collects two categories of sales taxes on diesel fuel: the regular state and local sales tax, which averages 8.44 percent, and an additional 1.75 percent sales tax. On November 1, 2017 the base diesel fuel excise tax will increase to 36 cents a gallon. The 36-cent excise tax will be adjusted for inflation beginning July 1, 2020. On November 1, 2017 the 1.75 percent diesel fuel sales tax will increase to 5.75 percent.

Initiative Filed to Repeal 2017 California Gas Tax Increase: Travis Allen, a Republican assemblyman from Orange County, filed the proposed 2018 ballot measure to eliminate the \$5.2 billion annual package to fund road improvements; 365,880 signatures from registered voters are needed to place the repeal before voters.

SECTION 5 - RETAIL AND E-COMMERCE TRENDS

Sales for 4Q2016

https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf (February 17, 2017) (next release is scheduled for May 16, 2017)

E-commerce sales for 4Q2016: For the U.S. \$102.7 billion, an increase of 1.9% from 3Q2016. Total retail sales for the 4Q2016 were estimated at \$1,235.5 billion, an increase of 1.9% from 3Q2016 and were outpaced by e-commerce sales. The 4Q2016 e-commerce estimate increased 14.3% from the 4Q2015 while total retail sales increased 4.1% in the same period. E-commerce sales in 4Q 2016 accounted for 8.3% of total sales. **California:** Would be approximately 13-14% the total sales, based on California's portion of the national economy.

Context: E-commerce today accounts for 9% of total sales, 25% of electronics and 20% of apparel. By 2022, 30% of clothing sales will take place online, for instance, as shoppers keep shifting to the internet.

Harness the Internet: An edge for retailers with physical stores versus online sellers is that those stores can be turned into distribution centers for shipping products ordered online. Some chains are seeing better sales by offering in-store pickup of online orders (shoppers spend more if they walk in the door).

Deep Value Stores: Will have 30% of apparel sales, from 20% now, eating into traditional stores' revenue.

Echo Look by Amazon: A \$200 device to further penetrate the clothing market; via invitation only will enable consumers to take videos and photos of their outfits and compare them via algorithms.

Marketplace Fairness Act – Allowing States to Collect Taxes from Residents on Goods Purchased Online

The U.S. House and Senate reintroduced bipartisan bills that would allow states to collect taxes from residents on goods purchased online regardless of where the seller of the goods is based. S.976, The Marketplace Fairness Act (MFA), has a small-seller exemption for annual sales of less than one million. H.R. 2193, The Remote Transactions Parity Act (RTPA), also has a small seller exemption, but sets the threshold at \$10 million per year. Sen. Mike Enzi (R-Wyo.), a lead sponsor of the Senate bill, said the measure "is about supporting jobs and services we have in our towns, while ensuring states have the ability to collect taxes they are owed, if they choose to." The previous Marketplace Fairness Act passed in the Senate in 2013 by a vote of 69 to 27, with strong bipartisan support. Based on research by ICSC and the National Conference of State Legislatures, states lost an estimated \$26 billion to the online sales tax loophole in 2015.

Retail Trends

Aging Americans: *Impact on the Economy:* The aging American population will weigh on the economy in coming years. With more and more folks approaching retirement, they'll opt to spend less on dining out, household furnishings, etc., as they move to bolster savings accounts. ***Spending Trends by Age:*** The highest levels of spending occur between ages 45 and 54 (about \$70,000 per average household) before dropping by around \$10,000 each decade thereafter. When people reach 75, annual spending declines to about \$38,000 per household; spending more on health care in their later years. ***Impact on GDP – Seniors and Millennials:*** Less spending by seniors will cut GDP growth by a fifth of a percentage point by 2020 as the percentage of the population age 54 and older expands to 38%. Eventually, millennials will partially offset the spending declines by seniors, but it will be 2022 or so before their annual spending levels start to make a difference. (Kiplinger)

Rewards of Using Credit Cards: About 60% of American consumers are enrolled in a credit card rewards program. Consumers who do not use credit cards help foot the bill; households that do not use a card lose an average of \$50 each year while those that use a card gain an average of \$240. It is unclear how much these costs are passed on to the consumer, but some large retailers have said the fees affect their prices and acknowledge some customers absorb the costs. (Wall Street Journal, April 29, 2017)

Mall Space: Call Centers: While retail look to back traditional brick-and mortar retail space, some landlords are looking to repurpose struggling centers by offering portions of them for back-office facilities to support orders placed on line. The move shows how internet retailing and changing shopping preferences are beginning to reshape real estate and local labor markets. 15% of malls nationwide are expected to close during the next decade.

Rethinking Traditional Anchors: Smaller-format stores and restaurants are increasing traffic at centers and attracting a wide range of merchants. As tenant mixes are revamped and customer traffic rises, owners are generating more revenue through higher rents. (ICSH)

SECTION 6 - FOOD SERVICE INDUSTRY / RESTAURANT TRENDS

Food: Rose 0.3% in March following a 0.2% increase in February.

Food at Home: The food at home index declined 0.9% over the past year. The indexes for meats, poultry, fish, and eggs, for fruits and vegetables, and for cereals and bakery products declined over the past 12 months, while the other 3 major grocery store food group indexes increased slightly over the span. The index for food away from home rose 0.2% in March, the same increase as in February, and rose 2.4% over the last 12 months.

Food Service Industry: Expanding at an exponential rate with the amount of space dedicated to food growing from five percent a decade ago to 15 percent today. This trend is expected to increase to 20 percent by 2025.

Restaurant Sales Eclipsed Grocery Store Sales: Occurred for the first time ever in 2016, a signal of the growing popularity of foodservice. Europe is tracking in the same direction and Asia was the leader in this trend. The increasing popularity of dining out is revitalizing retail real estate around the globe by creating a true sense of community where people can go out to dinner, take in a movie and shop, all in one place. (*thecenterofshopping.com*)

Grocery Store

<http://www.theshelbyreport.com/2017/05/08/grocery-stores-best-price/>

Best Prices: Aldi, Costco, Fareway Stores, Market Basket, Military Commissary, Trader Joes, WinCo, Woodmans (*Consumer Reports, May 8, 2017*)

Shopping and Chopping: The task of chopping is time-consuming. Supermarkets to win back shoppers who increasingly turn to takeout, restaurants and meal kits, are trying services that sell chopped vegetables and other short cuts.

Eliminating Less-Frequented Aisles: For example dog food and diapers.

Amazon: Expanding grocery home delivery encouraging consumers to do more of their shopping for groceries and other goods with the online retailer rather than local stores.

eCart Online Services: Raleys and Nob Hills Foods banner expands program in Bay Area.

Safeway Community Markets: Open in Berkeley, Los Altos and San Anselmo.

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