Q3 2017

City of Paramount Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2017)

Paramount In Brief

Receipts from Paramount's July through September sales were 6.9% higher than the same quarter one year ago. Actual sales activity increased 2.4% after accounting aberrations were factored out.

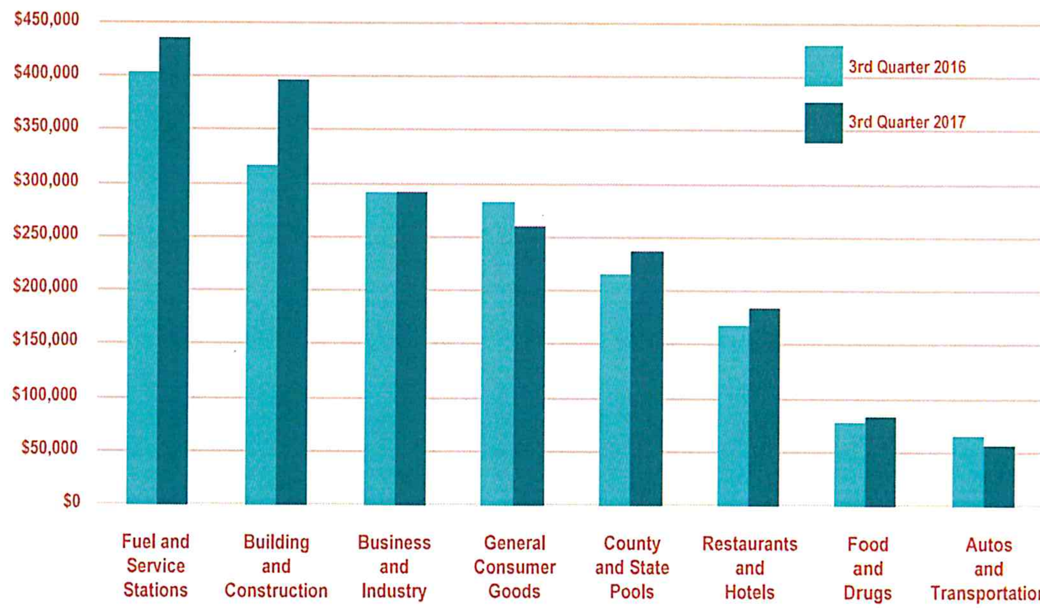
Favorable payment adjustments and higher building material/supply sales buoyed building and construction results 24.8% and was a significant factor in the overall quarterly increase.

Higher fuel prices lifted fuel and service stations returns. Newer fast-casual eatery openings coupled with net higher sales from other categories boosted restaurant revenues. A larger allocation from the countywide use tax pool was also a factor.

Despite a new retail store opening, competition from a nearby city shopping center dropped general consumer goods results.

Net of aberrations, taxable sales for all of Los Angeles County and the Southern California region grew 3.1% over the comparable time period.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

76	Hub Construction Specialities
Arco AM PM	Jankovich
Champion Equipment Sales	Lindsay Lumber
Chemco	Northgate Market
Chevron	Paramount Metal & Supply
Circle K	Premium Windows
Cort Furniture Rental	Ross
Drees Wood Products	Sams Roofing Material
Falcon Fuels	Sherwin Williams
GCR Tire Center	Stater Bros
Hardy Roofing Materials	United Oil
HD Supply	Walmart Supercenter
Home Depot	

Revenue Comparison

Two Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	$3,251,644	$3,445,394
County Pool	461,685	472,648
State Pool	1,129	433
Gross Receipts	$3,714,457	$3,918,474

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Statewide Trends

After factoring for accounting anomalies, local government's one-cent share of statewide sales and use tax from July through September sales was 3.9% higher than 2016's summer quarter.

Rising fuel prices, increased demand for building-construction materials and the continuing acceleration in online shopping for merchandise shipped from out-of-state that is expanding receipts from the countywide use tax allocation pools were the primary contributors to the overall increase.

This quarter marked the anticipated leveling off of auto sales while agriculture and transit-related purchases helped boost otherwise tepid gains in business-industrial receipts. Restaurant sales exhibited healthy overall gains of 3.5% although growth rates are slowing from previous quarters.

Receipts from consumer goods sold by brick and mortar stores were up 0.7% over the previous year while revenues from online purchases grew 13.3%.

Cannabis Taxation

A 15% excise tax on retail cannabis and cannabis products along with a cultivation tax and sales tax on recreational uses take effect on January 1, 2018.

Significant sales tax revenues are not expected until late 2018-19 as retail start-ups comply with lengthy state and local permitting processes. Although sales of medicinal cannabis became exempt in 2016 for purchasers with a state issued Medical Marijuana ID card, jurisdictions with dispensaries continue to receive sales tax from that source as most patients prefer to use a note from their physicians.

Some decline in revenues from medical dispensaries are expected as users' transition to new purchase options and because of lower prices caused by anticipated overproduction and the six month window that suppliers have to sell existing inventory grown under previous regulations.

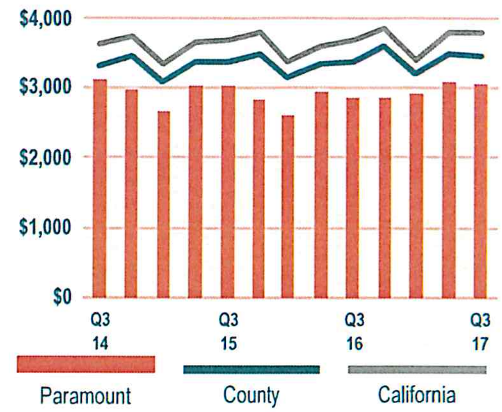
Sales Tax and Natural Disasters

The recent firestorm tragedies have raised questions on potential bumps in sales tax revenues from reconstruction and recovery activities.

HdL analyzed the sales tax data from the 1991 Oakland Hills, 2003 San Diego Cedar and 2007 San Diego Witch fires which involved the combined loss of over 7,700 structures. Surprisingly, there were no identifiable gains in construction and auto-related purchases within the impacted areas during the five years after each event with receipts following normal economic cycles experienced by the state as a whole.

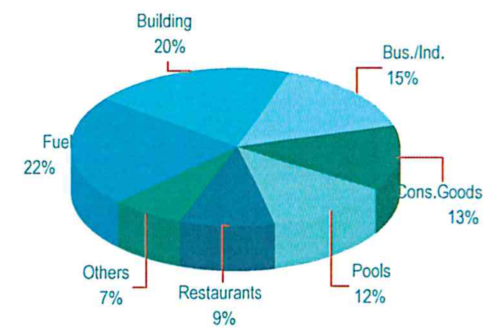
Further analysis suggests that though the individual losses are catastrophic, purchases of replacement items are a small fraction of the impacted area's total spending and is often spread to other jurisdictions where disaster victims relocate. Tax receipts from construction spending are defused over time because of lengthy claims and permitting processes that cause up to 40% of disaster victims to relocate leaving vacant lots that are not immediately redeveloped.

Sales Per Capita



Revenue By Business Group

Paramount This Quarter



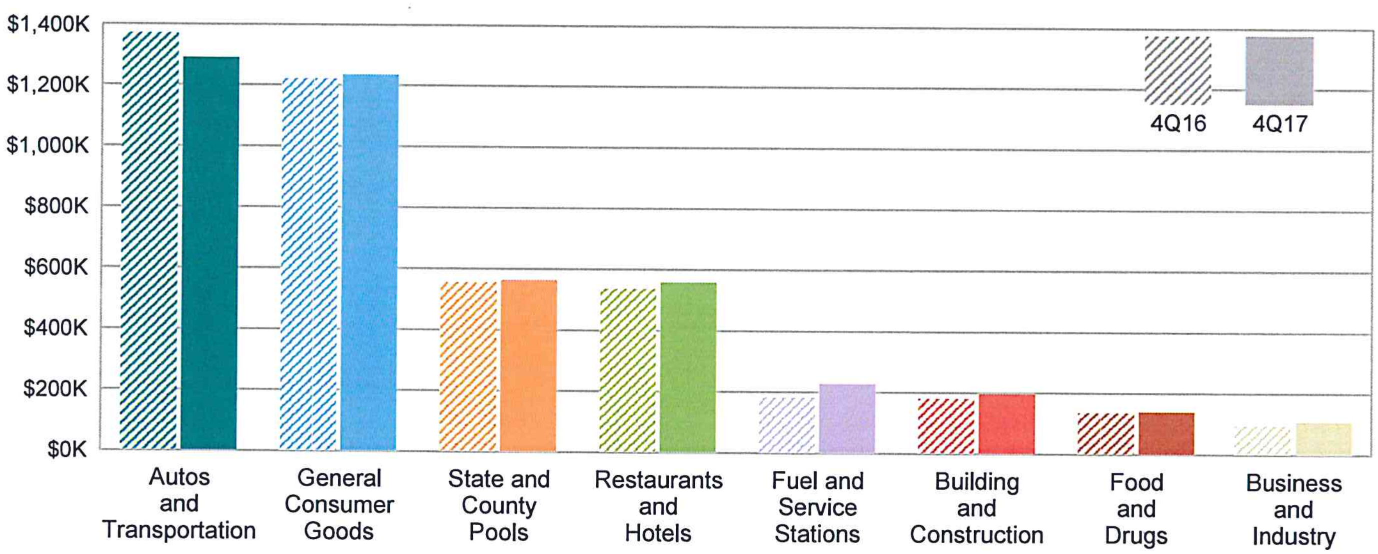
Paramount Top 15 Business Types

In thousands of dollars	Paramount		County	HdL State
Business Type	**Q3 '17***	**Change**	**Change**	**Change**
Automotive Supply Stores	35.6	-3.9%	1.7%	3.6%
Building Materials	277.2	30.5%	3.3%	5.6%
Casual Dining	51.0	13.3%	3.1%	2.2%
Contractors	98.0	17.8%	13.9%	6.3%
Discount Dept Stores	— CONFIDENTIAL —		6.3%	6.1%
Drugs/Chemicals	— CONFIDENTIAL —		-4.8%	-0.1%
Family Apparel	29.8	-3.6%	3.4%	1.7%
Grocery Stores	53.7	1.2%	0.3%	0.6%
Heavy Industrial	99.9	-6.4%	-5.5%	6.5%
Home Furnishings	20.4	-17.8%	3.4%	0.6%
Light Industrial/Printers	30.8	0.0%	-5.4%	-4.0%
Petroleum Prod/Equipment	— CONFIDENTIAL —		-8.1%	28.4%
Quick-Service Restaurants	113.1	0.9%	3.7%	4.8%
Service Stations	187.3	8.9%	6.8%	9.2%
Specialty Stores	27.3	8.8%	1.6%	2.2%
Total All Accounts	**1,711.7**	**6.5%**	**3.2%**	**4.1%**
County & State Pool Allocation	**237.2**	**10.1%**	**6.7%**	**4.8%**
Gross Receipts	**1,948.9**	**6.9%**	**3.6%**	**4.2%**

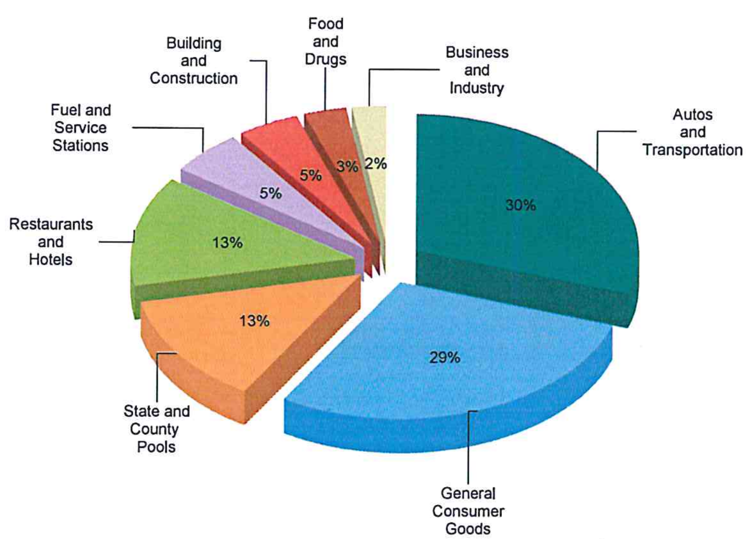
CITY OF PROSPERITY
MAJOR INDUSTRY GROUPS

Major Industry Group	Count	4Q17	4Q16	$ Change	% Change
Autos and Transportation	162	1,291,518	1,372,047	(80,528)	-5.9%
General Consumer Goods	835	1,236,306	1,223,262	13,044	1.1%
State and County Pools	-	561,358	553,197	8,161	1.5%
Restaurants and Hotels	251	557,478	535,313	22,165	4.1%
Fuel and Service Stations	11	225,816	180,228	45,588	25.3%
Building and Construction	52	194,068	177,708	16,360	9.2%
Food and Drugs	86	136,519	133,791	2,728	2.0%
Business and Industry	549	105,777	93,232	12,546	13.5%
Transfers & Unidentified	5	(105)	(357)	252	70.6%
Total	1,951	4,308,736	4,268,420	40,315	0.9%

4Q16 Compared To 4Q17



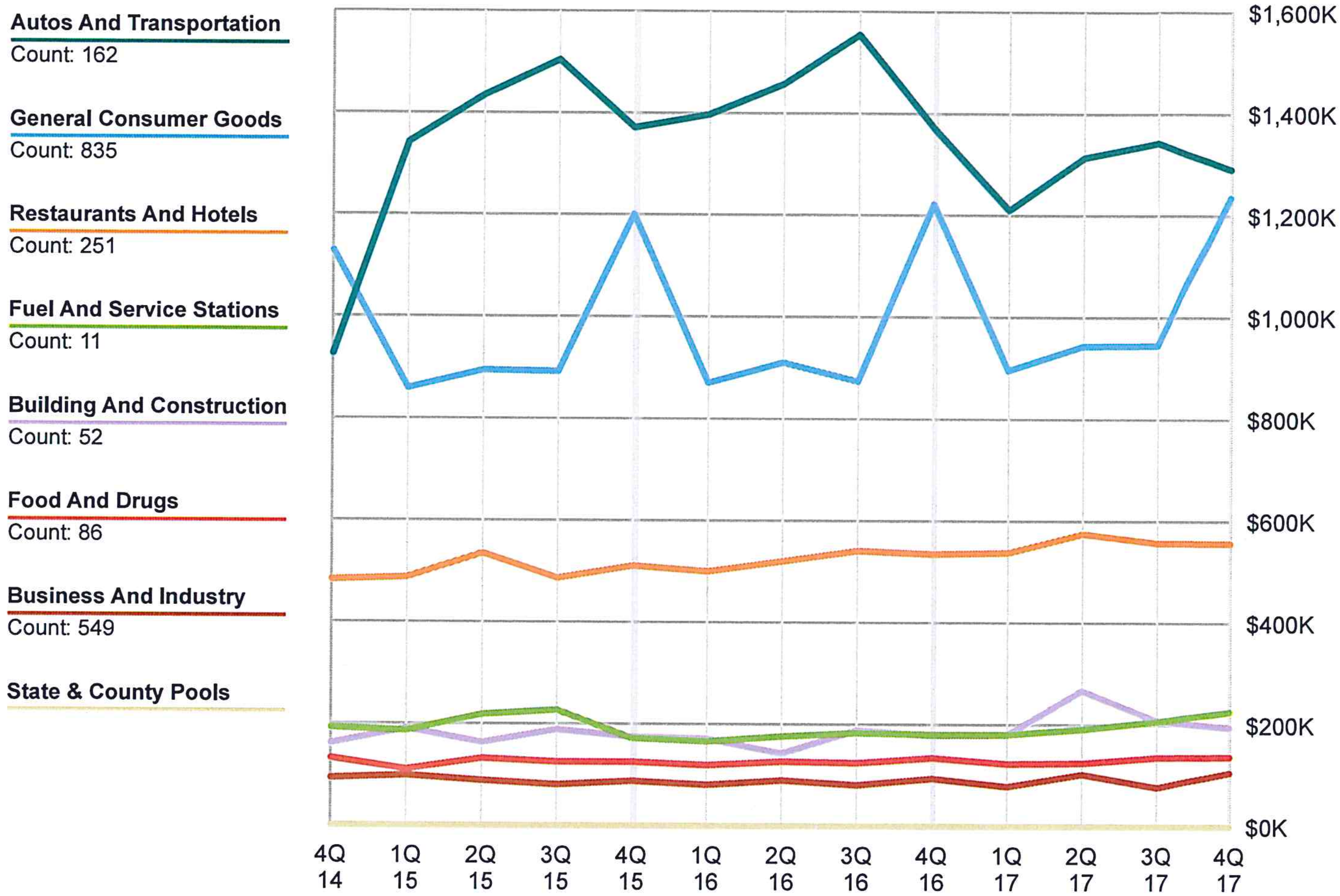
4Q17 Percent of Total



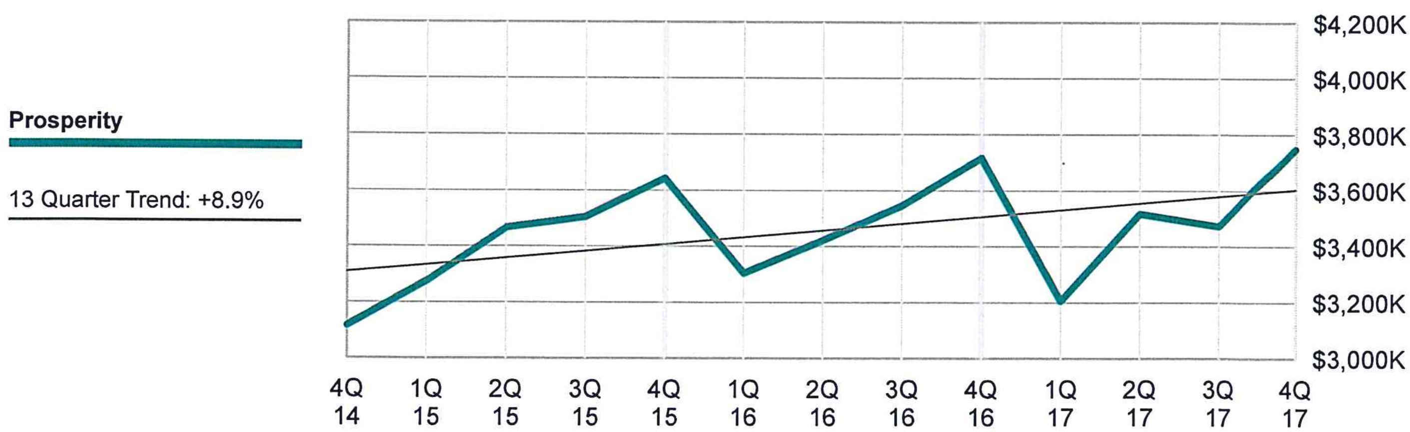
CITY OF PROSPERITY

MAJOR INDUSTRY GROUPS - 13 QUARTER HISTORY

Sales Tax by Major Industry Group



Agency Trend



Periods shown reflect the period in which the sales occurred - Point of Sale

CITY OF PROSPERITY

HdL COMPANIES

TOP 25 BUSINESS TYPES LISTED BY ALLOCATION
4Q 2017 COMPARED TO 4Q 2016

Code	Business Type Description (Count)	AGENCY 4Q 2017	AGENCY 4Q 2016	AGENCY Change	HdL STATE 4Q 2017	HdL STATE 4Q 2016	HdL STATE Change
60	New Motor Vehicle Dealers (17)	881,775	1,017,016	-13.3%	169,739,655	165,478,101	2.6%
08	Discount Dept Stores (3)	778,845	760,682	2.4%	116,931,729	112,302,166	4.1%
35	Casual Dining (74)	289,283	270,787	6.8%	88,158,927	85,291,342	3.4%
65	Auto Lease (22)	287,776	233,739	23.1%	22,385,131	19,200,177	16.6%
62	Service Stations (11)	225,816	180,228	25.3%	122,200,722	109,699,697	11.4%
24	Quick-Service Restaurants (155)	217,315	210,343	3.3%	78,049,896	74,342,442	5.0%
50	Building Materials (5)	146,741	139,099	5.5%	78,166,203	70,059,154	11.6%
19	Specialty Stores (242)	128,232	123,154	4.1%	41,400,145	39,648,207	4.4%
03	Family Apparel (95)	80,578	77,931	3.4%	55,097,582	53,927,717	2.2%
31	Electronics/Appliance Stores (53)	74,169	67,125	10.5%	47,802,753	45,172,029	5.8%
34	Grocery Stores (16)	60,536	54,512	11.1%	52,350,110	53,128,849	-1.5%
07	Department Stores (15)	51,207	54,193	-5.5%	38,678,886	40,881,089	-5.4%
12	Sporting Goods/Bike Stores (15)	47,978	58,035	-17.3%	13,103,961	14,332,636	-8.6%
27	Drug Stores (32)	44,868	50,070	-10.4%	16,473,385	18,449,990	-10.7%
71	Auto Repair Shops (44)	36,613	34,412	6.4%	15,482,749	14,946,089	3.6%
81	Energy/Utilities (3)	31,780	137	na	7,402,880	7,004,828	5.7%
61	Automotive Supply Stores (34)	30,806	20,669	49.0%	18,112,191	17,828,783	1.6%
22	Convenience Stores/Liquor (21)	30,602	28,541	7.2%	23,307,869	21,509,838	8.4%
05	Variety Stores (45)	29,019	26,165	10.9%	10,336,925	9,301,913	11.1%
37	Fast-Casual Restaurants (8)	25,181	23,993	5.0%	16,028,771	14,757,437	8.6%
82	Contractors (36)	24,976	20,264	23.3%	41,485,917	36,434,221	13.9%
85	Transportation/Rentals (29)	21,830	27,952	-21.9%	14,471,716	14,741,391	-1.8%
52	Plumbing/Electrical Supplies (9)	17,842	13,595	31.2%	20,999,538	19,096,763	10.0%
64	Used Automotive Dealers (12)	17,747	21,632	-18.0%	23,047,175	22,970,859	0.3%
30	Home Furnishings (33)	14,489	25,347	-42.8%	32,350,762	31,542,440	2.6%
	All Others (922)	151,375	175,604	-13.8%	410,205,586	400,472,077	2.4%
	TOTAL ALL TYPES (1951)	3,747,378	3,715,224	0.9%	1,573,771,165	1,512,520,233	4.0%
	Major Industry Groups						
	Autos And Transportation (162)	1,291,518	1,372,047	-5.9%	277,457,749	268,288,965	3.4%
	Building And Construction (52)	194,068	177,708	9.2%	144,805,284	128,453,781	12.7%
	Business And Industry (549)	105,777	93,232	13.5%	244,314,391	244,712,751	-0.2%
	Food And Drugs (86)	136,519	133,791	2.0%	98,249,610	98,845,950	-0.6%
	Fuel And Service Stations (11)	225,816	180,228	25.3%	145,755,672	127,982,055	13.9%
	General Consumer Goods (835)	1,236,306	1,223,262	1.1%	425,952,392	417,791,045	2.0%
	Restaurants And Hotels (251)	557,478	535,313	4.1%	235,861,111	224,231,455	5.2%
	Transfers & Unidentified (5)	(105)	(357)	70.6%	1,374,956	2,214,231	-37.9%
	TOTAL ALL GROUPS (1951)	3,747,378	3,715,224	0.9%	1,573,771,165	1,512,520,233	4.0%
	TOTAL ALL BUSINESSES (1951)	3,747,378	3,715,224	0.9%	1,573,771,165	1,512,520,233	4.0%
	ALLOCATIONS FROM COUNTY POOL	560,246	549,307	2.0%			
	ALLOCATIONS FROM STATE POOL	1,112	3,890	-71.4%			
	GROSS RECEIPTS	4,308,736	4,268,420	0.9%			

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April 2018

California Forecast:

Sales Tax Trends and Economic Drivers

HdL provides relevant information and analyses on the economic forces affecting California's local government agencies. In addition, HdL's Revenue Enhancement and Economic Development Services help clients to maximize revenues.

HdL serves over 400 cities, counties and special districts in California and across the nation.

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COMPANIES

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HdL

HdL Consensus Forecast – April 2018

STATEWIDE SALES TAX TRENDS

	2017/18	2018/19
Autos/Transportation	2.9%	1.9%

Most analysts expect minor gains in revenue over the next several quarters as demand for replacement vehicles stabilizes after a decade of growth during the extended recovery from the Great Recession. Pricier new vehicles are competing with a surplus of nearly new cars returned to dealer's lots at the end of their lease terms. Sales and leases at the State's new car dealers currently represent almost 70% of the group's revenue followed by used car dealers and automotive supply stores. Longer term projections are clouded by expected interest rate increases and international trade uncertainty.

	2017/18	2018/19
Building/Construction	7.6%	6.0%

The industry foresees continued expansion in both residential and commercial construction for the next several years but attention is being paid to rising mortgage interest rates. Labor is the largest cost driver behind land prices in residential construction. Material prices are expected to rise 2-3% in 2018 exclusive of any significant impacts from the new steel and aluminum tariffs. The large number of SB-1 funded projects should measurably boost sales of materials, especially those used in paving jobs.

	2017/18	2018/19
Business/Industry	1.9%	2.5%

Manufacturers are reporting a backlog of orders for equipment and supplies from industries other than those in the consumer and food-related sectors which appear to be leveling off. Solid gains are expected for road construction and transportation-related equipment. Online fulfillment warehouses and order desks are included in this group and account for over half of this segment's growth.

	2017/18	2018/19
Food/Drugs	2.9%	2.5%

Like many evolving markets, food and drug stores are increasingly reaching customers who demand greater convenience and the ability to save time by offering consumers robust product options around the clock. Grocery consumer preferences are trending away from one store loyalty, instead shopping multiple outlets for specific products including locally grown and artisanal goods. Cannabis taxes are being remitted; local impacts will vary based upon decisions to ban or allow these businesses in each community.

	2017/18	2018/19
Fuel/Service Stations	10.9%	5.8%

While U.S. shale production growth in the North and South Dakota (Bakken) area continues, extraction from the West Texas/Permian basin is also driving U.S. output higher. This development is helping offset OPEC output caps, keeping global crude oil prices in the mid $60 range. California is beginning the normal summer blend pricing cycle with statewide averages expected to be $3.50/gallon or more by mid-2018. It appears there will be at least one ballot measure in November to overturn SB-1 the legislation action that increased statewide excise tax on gas and diesel fuels.

	2017/18	2018/19
General Consumer Goods	0.7%	0.5%

Statewide quarterly performance was slightly positive, up 1% for 2017. Forward looking companies are reaping dividends from billions in e-commerce technology investments supporting online orders and customer selected delivery alternatives. Traditional department stores along with interior mall merchants may see further declines due to slower foot traffic and changing consumer behavior. Niche retailer expansion (such as specialty shops and off-price apparel) is expected this coming year.

	2017/18	2018/19
Restaurants/Hotels	4.4%	3.8%

Restaurant sales accelerated at the end of the year as the strong labor market and ebullient stock market induced consumers to spend. Though still below the average rate of growth experienced in recent years, the uptick is a positive sign for the future. In addition, restaurant operators are now reporting they are more optimistic about future sales going up than they have been in several years.

	2017/18	2018/19
State and County Pools	5.5%	5.3%

In 2000, online activity accounted for 4% of general consumer goods taxes; by the end of last year this figure has risen 16%. Internet sellers, many of whom posted record activity in the fourth quarter, are poised to gain market share at the expense of traditional brick and mortar stores. Focused attention given to consumer preferences, buying habits and behaviors are expected to yield greater pools revenues across several business sectors. Out of state equipment acquisition could accelerate in part due to lower corporate tax rates.

	2017/18	2018/19
TOTAL	3.8%	3.0%

Proposition 172 projections vary from statewide Bradley-Burns calculations due to the state's utilization of differing collection periods in its allocation to counties. No retroactive accounting adjustments are anticipated prior to 2018/19 when the California Department of Tax and Fee Administration will have migrated to a new information management platform. HdL forecasts a statewide increase of 3.40% for Fiscal Year 2017/18 and a gain of 2.93% in 2018/19.

BEACON ECONOMICS

National and Statewide – April 2018
ECONOMIC DRIVERS

	2017/18	2018/19
U.S. Real GDP Growth	2.6%	2.8%

Despite all the political tumult of the last several months, the U.S. economy was a smooth-running machine last year. The nation's economy grew at a solid, steady pace throughout the year, with overall output expanding by a reasonable 2.3% over 2016 levels, and later this year, the current economic expansion will become the second longest on record. Despite the strong momentum, the start of 2018 has been far less sanguine. Volatility returned to the financial markets with a bang, which have made little headway since the start of the year. Beacon Economics still expects 2018 to end up being a robust year for growth.

	2017/18	2018/19
U.S. Unemployment Rate	4.1%	4.0%

With the nation's unemployment rate below what economists refer to as 'full employment' and job openings still near an all-time high, businesses will have to figure out how to expand output despite being unable to fill all their available positions. Labor shortages along with last year's federal tax cuts will lead companies to invest in labor saving technologies (e.g. invest in capital). The U.S. unemployment rate is now 4.1%, as low as it has been in 45 years, and likely to edge down still further given slow growth in the nation's labor force.

	2017/18	2018/19
California Total Nonfarm Employment Growth	1.9%	1.7%

Throughout much of this expansion, California has outpaced the nation and many states in terms of economic growth and job gains. Improvements in its unemployment rate have been fueled by strength in many of its key industries. California began 2018 on a high note with January employment numbers showing the largest yearly job gain in 18 months. Growing at a 2.4% year-to-year rate in January, the state added 400,000 jobs with the Health Care, Natural Resources and Construction, and Leisure and Hospitality sectors accounting for over half of this increase. These sectors will continue to figure prominently in California's job growth throughout this year and next.

	2017/18	2018/19
California Unemployment Rate	4.6%	4.5%

With California hitting its lowest unemployment rate since 1976, wage gains in the state have been on the rise. Average weekly wages in California increased by 4.3% in 2017, the largest increase in the last 10 years. With steady job growth and limited increases in the labor force expected this year, the unemployment rate will remain low and workers are almost guaranteed to see wages rise again. And it is too soon to gauge the effects of the hike in the statewide minimum wage as pay hikes are currently being driven by the scarcity of labor more than anything else.

	2017/18	2018/19
California Median Existing Home Price	$468,520	$506,085

In looking at California's long-term challenges, the housing problem must be near the top of the list because of its significance for so many of the state's residents and its economy. While Californians clearly understand that high home prices limit affordability, the obvious solution seems less clear: high prices reflect scarcity that can only be addressed through increases in supply. California's median home price was $464,000 in the fourth quarter of 2017, nearly double that of the United States, where the median price stood at just over $250,000. Since 1990, California's median home price has routinely been significantly higher than that of the nation.

	2017/18	2018/19
California Residential Building Permits	117,900	122,100

The state is estimated to need about 200,000 new housing units built per year, yet it has barely seen more than 100,000 units come on line in each of the last few years. Construction activity is expected to increase moderately this year and next but will still fall short of what the state needs. SB-35 has lent new urgency to a problem that has festered for many years, and very likely will force local jurisdictions to rethink their housing strategy. In response, local jurisdictions must first acknowledge that population growth is an inevitable part of their future. They must take steps to understand what that growth will look like, plan adequately, and, finally, execute on those plans. Doing so will go a long way toward addressing the state's housing needs while also ensuring its long-run economic energy and vitality.

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California's allocation data trails actual sales activity by three to six months. HdL compensates for the lack of current information by reviewing the latest reports, statistics and perspectives from fifty or more economists, analysts and trade associations to reach a consensus on probable trends for coming quarters. The forecast is used to help project revenues based on statewide formulas and for reference in tailoring sales tax estimates appropriate to each client's specific demographics, tax base and regional trends.

"Good information leads to good decisions."

BEACON ECONOMICS

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Beacon Economics, LLC has proven to be one of the most thorough and accurate, economic research/analytical forecasters in the country. They regularly provide national, state, regional, and sub-regional economic analysis/forecasting to clients ranging from the State of California to private hedge funds to major universities. Their evaluation of the key drivers impacting local economies and tax revenues provides additional perspective to HdL's quarterly consensus updates. The collaboration and sharing of information between Beacon Economics and HdL helps both companies enhance the accuracy of the work that they perform for their respective clients. nd tax revenues provides additional perspective to HdL's quarterly consensus updates. The collaboration and sharing of information between Beacon Economics and HdL helps both companies enhance the accuracy of the work that they perform for their respective clients.