

Q4 2017



City of Paso Robles Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (October - December 2017)

Paso Robles In Brief

Receipts from October through December sales were 8.0% higher than the same quarter one year ago. Actual sales rose 6.7% when accounting anomalies were factored out.

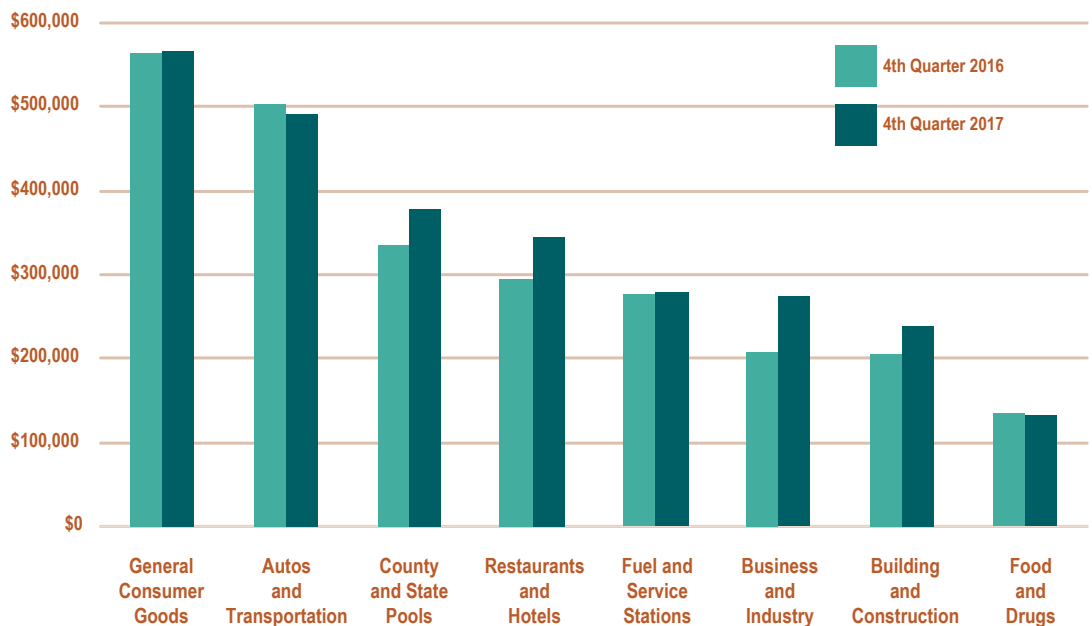
Business and industry gains were overstated by a combination of reporting problems that inflated postings from wineries and warehouse/farm/construction equipment and payment anomalies that affected other group accounts. Aberrations that affected one or both quarters hiked comparisons for contractor supplies, but understated gains from building materials and both the fuel and service station and food and drugs groups. The larger allocation from the county use tax pool also contributed to overall increase in gross receipts.

Sales of consumer goods flattened overall with off-price retailers faring better than some traditional outlets. Sales at both new car and trailer/RV dealers remained strong but were unable to match last year's levels again this quarter.

Proceeds from voter-approved Measure E-12 totaled \$1,308,824 for the quarter, including \$22,090 due from other periods.

Adjusted for onetime reporting events, taxable sales for all of San Luis Obispo County increased 5.7% over the same period; the Central Coast region was up 3.9%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

ABC Supply Co	McDonalds
Albertsons	Mullahey Chrysler Dodge Jeep Ram
Arco AM PM	Paso Robles Chevrolet
Big Creek Lumber	Paso Robles Ford
Borjon Auto Center	Ross
Central Coast Stainless	Sky River
Firestone Walker Brewery	Smart & Final
Hideout Partnership	South Paso Chevron
Idler's Home	Target
Jaco Oil	Third Base Market
JB Dewar	TJ Maxx
Kohls	Walmart
Lowes	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$6,638,356	\$7,088,234
County Pool	988,641	937,034
State Pool	3,812	1,222
Gross Receipts	\$7,630,809	\$8,026,490
Supplemental Tax	\$3,588,486	\$3,858,153

California Overall

Factored for accounting anomalies, statewide fourth quarter receipts from local government's one cent sales tax were 4.4% higher than the holiday quarter of 2016.

Rising fuel prices and solid gains from building/construction supplies, restaurants and e-commerce were the primary contributors to the overall increase. A healthy quarter for auto sales and construction equipment were additional factors. Tax revenues from general consumer goods sold through brick and mortar stores rose a modest 1% over last year's comparable quarter while receipts from online sales increased 13.2%.

Performance for the inland areas of the state were generally stronger than the coastal areas which had earlier recovered from the previous downturn.

Nexus Issue to be Revisited

In 1992, the U.S. Supreme Court ruled in *Quill v. North Dakota* that businesses lacking a physical presence or "nexus" in a state cannot be required to collect or remit that state's taxes. This does not excuse buyers from paying a corresponding use tax but the costs of enforcement, particularly on smaller purchases, is difficult and local brick and mortar retailers are placed at a competitive disadvantage.

California has been more effective at collecting use tax than most states with an aggressive program of auditing major business purchases, requiring CPA's to report unpaid use tax on client's annual returns and requiring businesses with annual gross receipts of \$100,000 or more to register for the purposes of reporting use tax.

The State has also increased the number of out-of-state sellers required to collect sales tax through broader definitions of what constitutes physical presence including a requirement that larger internet retailers collect and remit sales tax if paying a commission for customer referrals obtained via a link on a California seller's website.

Still, the estimated revenue losses are substantial particularly for agencies with voter-approved transactions tax districts. Because of *Quill*, retailers are

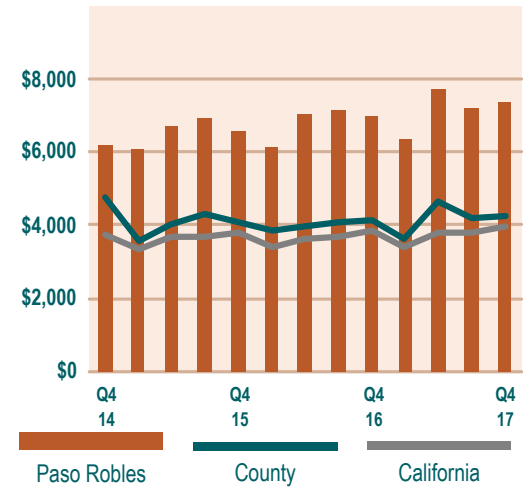
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state of \$697 Million: (<https://www.boe.ca.gov/legdiv/pdf/e-commerce-2017F.pdf>).

Congress has refused to act on numerous attempts to seek legislative relief over the last two decades. However, three justices – Clarence Thomas, Neil Gorsuch and Anthony Kennedy have recently expressed doubts about the *Quill* decision with Kennedy noting in 2015, that the ruling has produced a "startling revenue shortfall" in many states as well as "unfairness to local retailers and customers."

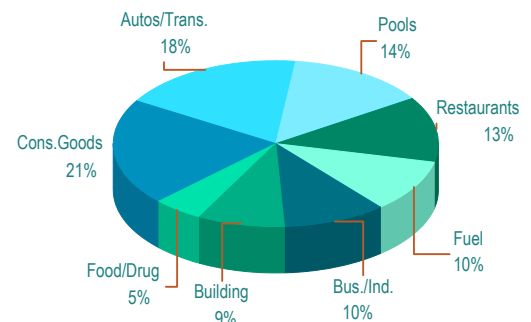
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

Oral arguments are scheduled for April with a decision expected by the end of June 2018.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Paso Robles This Quarter



PASO ROBLES TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Paso Robles Q4 '17*	Change	County Change	HdL State Change
Automotive Supply Stores	49.2	6.3%	2.2%	1.9%
Building Materials	158.6	0.1%	8.1%	11.6%
Casual Dining	149.2	1.2%	1.1%	3.4%
Contractors	42.0	93.7%	40.8%	13.9%
Department Stores	— CONFIDENTIAL —	—	-28.2%	-5.4%
Discount Dept Stores	— CONFIDENTIAL —	—	0.3%	4.1%
Electronics/Appliance Stores	46.7	-1.2%	4.2%	5.8%
Family Apparel	60.8	3.5%	-1.6%	2.1%
Grocery Stores	73.8	4.0%	2.0%	-1.5%
New Motor Vehicle Dealers	331.9	-5.5%	1.5%	2.6%
Petroleum Prod/Equipment	— CONFIDENTIAL —	—	-0.8%	29.9%
Quick-Service Restaurants	118.5	39.5%	11.1%	5.0%
Service Stations	240.3	8.6%	5.3%	11.4%
Trailers/RVs	46.9	-17.9%	1.5%	8.3%
Wineries	50.5	58.3%	9.4%	-0.4%
Total All Accounts	2,346.3	7.2%	3.8%	4.0%
County & State Pool Allocation	378.9	12.7%	9.2%	0.8%
Gross Receipts	2,725.2	8.0%	4.6%	3.6%