

Q4 2017



City of Poway Sales Tax Update

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

Poway In Brief

Poway's receipts from October through December were 8.7% above the fourth sales period in 2016. Excluding reporting aberrations, actual sales were up 6.8%.

Non-recurring events in several sectors including light industrial/printers and office supplies spiked results in the business and industry group. On an actual basis, revenues related to business to business transactions were up 5.4%.

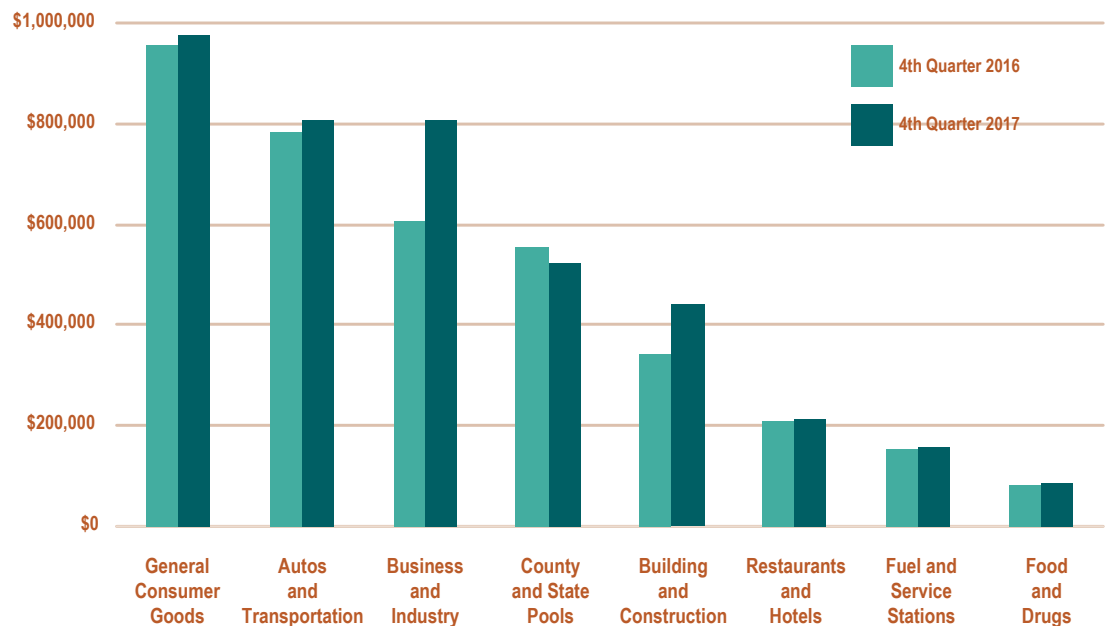
Contract based projects, which fluctuate, boosted building and construction. New autos were up 4.9% surpassing regional trends and in part lifted by a recent addition.

Solid holiday performance in home furnishings and specialty stores including fuel sales at retail locations was partially offset by lower results in other categories.

The decline in the countywide use tax allocation pool was due to one-time reporting errors which inflated the year ago period.

Net of aberrations, taxable sales for all of San Diego County grew 3.0% over the comparable time; the Southern California region was up 3.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

CBT Systems	Mossy Nissan
Circle K	Perry Ford of Poway
Consolidated Electrical Distributors	Poway Chrysler Dodge Jeep Ram
Costco	Poway Honda
Ferguson Waterworks	Poway Mitsubishi Hyundai & Vespa
General Atomics Aeronautical	Poway Toyota/Scion
H M Electronics	Production Systems
Home Depot	Quality Reinforcing
Home Goods	Sysco Food Services
Kohls	Target
Lowe's	United Oil
Maintex	Walmart Supercenter
Mitchell Repair	

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$5,999,927	\$6,506,988
County Pool	972,755	971,577
State Pool	4,300	3,400
Gross Receipts	\$6,976,983	\$7,481,964

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

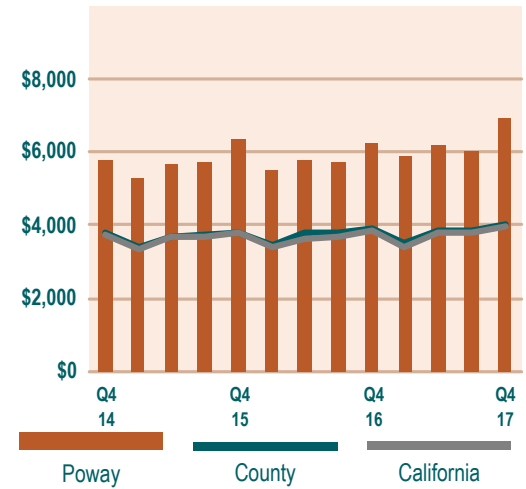
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state 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."

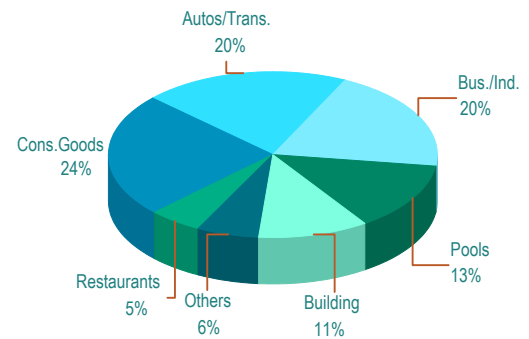
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Poway This Quarter



POWAY TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Poway Q4 '17*	Change	County Change	HdL State Change
Auto Repair Shops	46.9	-4.0%	5.2%	3.6%
Building Materials	171.6	5.3%	5.9%	11.6%
Casual Dining	85.1	6.8%	0.8%	3.5%
Contractors	72.4	-19.4%	15.3%	14.0%
Department Stores	— CONFIDENTIAL —	—	-2.4%	-5.4%
Discount Dept Stores	— CONFIDENTIAL —	—	4.4%	4.1%
Electrical Equipment	— CONFIDENTIAL —	—	8.8%	5.7%
Food Service Equip./Supplies	— CONFIDENTIAL —	—	26.0%	2.6%
Grocery Stores	49.4	2.4%	-2.7%	-1.5%
Heavy Industrial	57.9	56.8%	22.4%	10.1%
Light Industrial/Printers	50.8	44.7%	9.2%	0.9%
New Motor Vehicle Dealers	644.9	5.0%	-0.1%	2.6%
Plumbing/Electrical Supplies	— CONFIDENTIAL —	—	11.8%	9.9%
Quick-Service Restaurants	86.8	0.4%	6.0%	5.0%
Service Stations	156.1	2.8%	8.9%	11.4%
Total All Accounts	3,488.3	11.3%	5.1%	4.0%
County & State Pool Allocation	525.1	-5.6%	-10.8%	0.8%
Gross Receipts	4,013.5	8.7%	2.7%	3.6%