

# Q4 2017



# City of Vallejo Sales Tax Update

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

## Vallejo In Brief

Vallejo's receipts from October through December were 2.6% above the 2016 fourth sales period.

Service stations grew robustly due to rising fuel prices; local results outpaced statewide trends. Dining out remained a preferred choice; quick-service and casual dining eateries posted sizeable growth.

Households invested in home improvements as evidenced by building materials' double-digit gains. Recent retail tenanting added new taxes from specialty stores; overall, general consumer goods experienced a strong sales quarter.

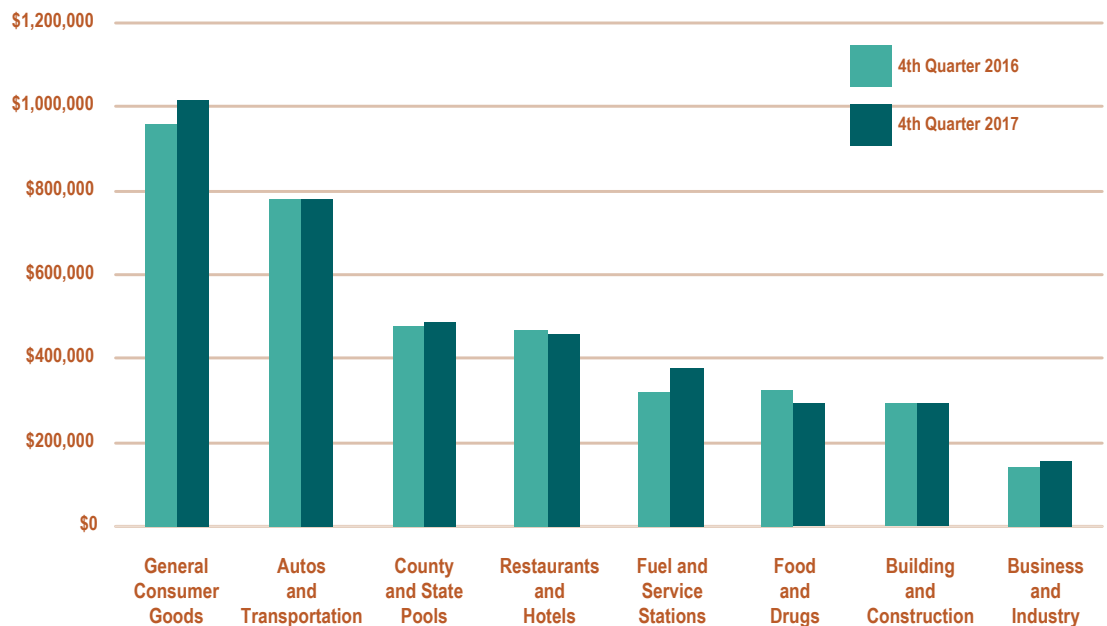
Weakened demand plus reporting anomalies pulled down new motor vehicle dealers. Closure of a local outlet reduced grocery stores. Double payments which inflated the comparison quarter along with a missing payment this period were largely responsible for the drop from marijuana related businesses.

A late filed tax return dampened what was otherwise a strong quarter for online transactions; the county-wide pool achieved a modest allocation gain for the City.

Voter approved Measure V added \$3,949,390 and was 3.3% higher than the same quarter of 2016.

Net of aberrations, taxable sales for all of Solano County grew 3.6% over the comparable time period; the Bay Area was up 4.5%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

AT&T Mobility	Momentum Chrysler/Dodge/Jeep/Kia
Au Energy Shell Station	Ross
Autolinx	Safeway
Avery Greene	Safeway Fuel
Honda	Target
Best Buy	Team Chevrolet
Costco	Cadillac Mazda
First Capitol Auction	Hyundai
Foster Lumber Yard	Toyota Vallejo
Home Depot	Toys R Us/Babys R Us
Kohls	Tributary Point Arco
La Mesa RV Center	Vallejo Nissan
Lowe's	Walmart
Marshalls	Neighborhood Market
McDonalds	

### REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$6,342,606	\$6,582,822
County Pool	917,119	952,156
State Pool	4,432	3,503
<b>Gross Receipts</b>	<b>\$7,264,158</b>	<b>\$7,538,481</b>
Measure V	\$7,480,200	\$7,709,676

**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

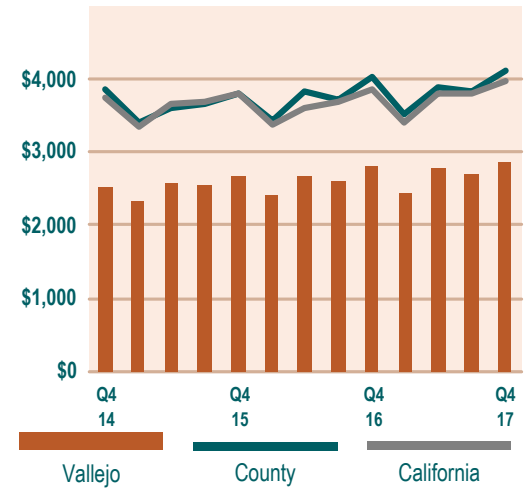
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

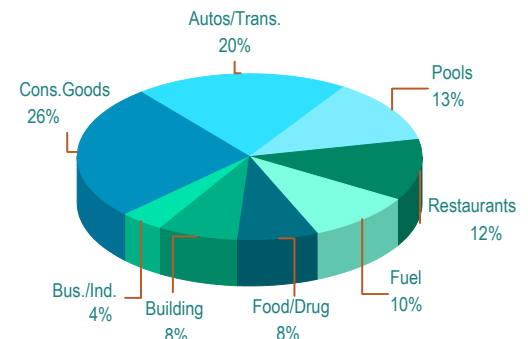
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

**SALES PER CAPITA**



**REVENUE BY BUSINESS GROUP**  
Vallejo This Quarter



**VALLEJO TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	Vallejo Q4 '17*	Vallejo Change	County Change	HdL State Change
Automotive Supply Stores	58.9	2.7%	2.5%	1.9%
Building Materials	248.4	14.3%	6.0%	11.6%
Casual Dining	176.0	9.3%	6.0%	3.5%
Convenience Stores/Liquor	64.0	11.6%	6.1%	8.3%
Discount Dept Stores	— CONFIDENTIAL —		6.0%	4.1%
Electronics/Appliance Stores	141.4	11.8%	8.6%	5.8%
Family Apparel	94.8	-0.4%	4.9%	2.1%
Grocery Stores	135.7	-9.0%	-0.5%	-1.5%
Home Furnishings	45.0	-5.1%	5.6%	2.6%
Marijuana Related	51.2	-28.4%	-26.9%	7.8%
New Motor Vehicle Dealers	516.4	-3.1%	-3.8%	2.6%
Quick-Service Restaurants	229.3	12.0%	6.8%	5.0%
Service Stations	378.2	17.8%	17.2%	11.4%
Specialty Stores	102.5	23.5%	4.4%	4.4%
Used Automotive Dealers	71.3	4.3%	72.8%	0.4%
<b>Total All Accounts</b>	<b>3,380.4</b>	<b>2.8%</b>	<b>3.2%</b>	<b>4.0%</b>
<b>County &amp; State Pool Allocation</b>	<b>484.9</b>	<b>1.5%</b>	<b>1.9%</b>	<b>0.8%</b>
<b>Gross Receipts</b>	<b>3,865.2</b>	<b>2.6%</b>	<b>3.1%</b>	<b>3.6%</b>