

Q3 2018



City of Vallejo Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2018)

Vallejo In Brief

Vallejo's receipts from July through September were 15.8% above the third sales period in 2017. The significant gain was primarily due to the State's transition to a new software system which resulted in numerous double-up payments from taxpayer returns that experienced previous processing delays. Absent these and other reporting aberrations, actual sales were down 0.6%.

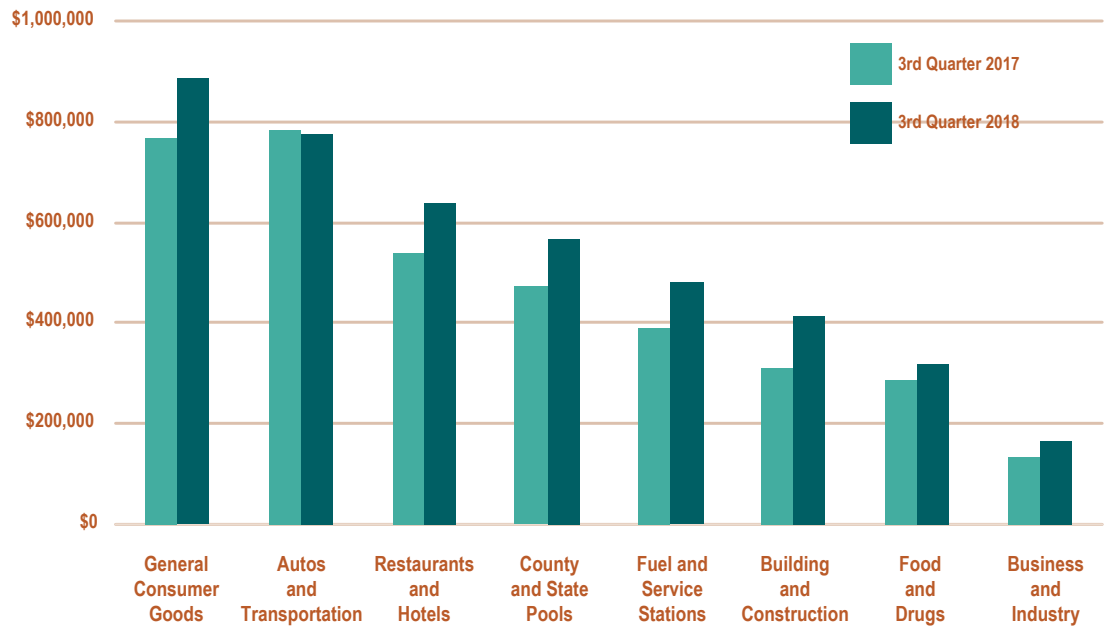
A previous misallocation to the countywide pools was corrected and mostly accounted for the large gain from family apparel. Ignoring late taxpayer returns, smaller stores performed well which yielded larger revenues from building materials.

Restaurants contributed greater taxes; this group outperformed both county and statewide trends. Sales of trucks, cars and SUVs peaked; new motor vehicle dealer's transactions fell when benchmarked against the 2017 summer quarter.

Measure V added \$4,411,865 beyond the amounts listed above. Similar to sales tax, delayed payments inflated cash for the quarter. After trueing up all accounts for exceptions, this local source of funds increased 3.5%.

Net of aberrations, taxable sales for all of Solano County grew 3.3% over the comparable time period; the Bay Area was up 8.1%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Arco	Ross
Autolinx	Safeway
Avery Greene	Safeway Fuel
Honda	Shell
Best Buy	Six Flags Discovery Kingdom
Costco	Target
First Capitol Auction	Team Chevrolet
Foster Lumber Yard	Cadillac Mazda
G & M Oil	Hyundai
Home Depot	Toyota Vallejo
Kohls	Tributary Point Arco
Lowe's	Vallejo Nissan
McDonalds	Walmart
Momentum Chrysler/Dodge/Jeep/Kia	Neighborhood Market
Olive Garden	

REVENUE COMPARISON

One Quarter - Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	\$3,202,469	\$3,684,149
County Pool	468,265	566,811
State Pool	2,525	1,921
Gross Receipts	\$3,673,259	\$4,252,881
Measure V	\$3,760,286	\$4,411,865

California Overall

The CDTEFA's problems with its new software system had yet to be fully resolved by the end of the third quarter. HdL's adjustments for delayed payments and other reporting deficiencies indicate that statewide receipts from the local one cent tax rose 5.2% over the first three quarters of 2018 versus the comparison period. The gains were primarily from higher fuel prices, strong building-construction activity and a rise in tax receipts from online purchases delivered from out-of-state that are shared by all agencies via the county pools.

The data exhibits the start of a leveling pattern in other sectors. The statewide gain in new car sales for July through September was due to a single manufacturer filling back orders. Price competition kept tax revenues from consumer goods receipts relatively flat while the rise in online shopping is expanding the diversion of tax revenues from brick and mortar stores to county pools or to in-state distribution centers.

Restaurant sales are beginning to show signs of market saturation as well as the impact of new competition that includes - prepared food and meal kits delivered from a variety of other sources. A modest gain in business-industrial sales was largely related to data and warehouse technology as well as a few major development projects.

Anticipated declines in fuel prices in the first quarter of 2019 adds support to HdL's latest consensus forecast for a modest statewide gain of 1.5% in fiscal year 2019-20 unless new trade conflicts further impact the economy.

South Dakota V. Wayfair Decision

In June, the Supreme Court reversed its previous ruling that retailers are not required to collect taxes for jurisdictions where they have no physical presence or "nexus." Instead, the buyer was responsible for remitting the tax.

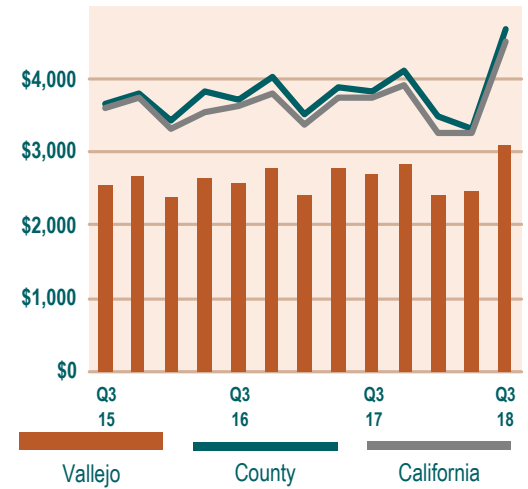
California will begin enforcing the Wayfair reversal effective April 1, 2019

by making retailers delivering from out-of-state responsible for collecting and remitting use tax if calendar year sales exceed \$100,000 and/or 200 or more separate transactions. The same threshold will also determine whether in-state retailers are responsible for collecting taxes on deliveries to individual transactions tax districts.

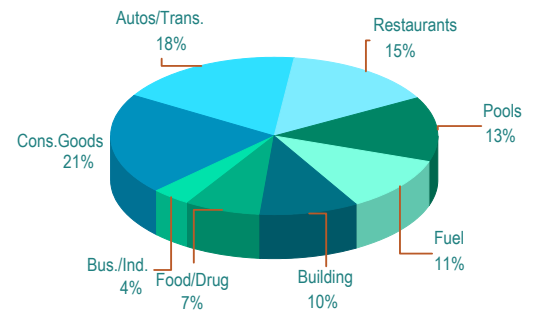
Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

As most major online retailers, including Wayfair, are already collecting California taxes and the state has traditionally enforced a broad definition of "nexus," the impact of the South Dakota decision may be less than in other states. The U.S. Government Accountability Office estimates a potential eventual gain of \$3 to \$5 per capita in receipts from our one cent local tax.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Vallejo This Quarter



VALLEJO TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Vallejo Q3 '18*	Vallejo Change	County Change	HdL State Change
Automotive Supply Stores	61.1	1.1%	14.2%	8.3%
Building Materials	352.9	33.8%	29.6%	29.8%
Cannabis Related	65.5	8.4%	8.5%	65.7%
Casual Dining	200.2	14.8%	16.7%	14.7%
Contractors	50.1	40.6%	36.4%	37.6%
Convenience Stores/Liquor	75.3	14.3%	23.8%	20.6%
Discount Dept Stores	— CONFIDENTIAL —		16.5%	18.3%
Electronics/Appliance Stores	118.5	14.9%	25.9%	12.4%
Family Apparel	129.4	66.8%	26.0%	36.3%
Grocery Stores	135.7	10.0%	10.2%	16.1%
Leisure/Entertainment	— CONFIDENTIAL —		17.7%	17.1%
New Motor Vehicle Dealers	481.5	-8.0%	3.5%	12.7%
Quick-Service Restaurants	272.4	24.0%	18.2%	13.4%
Service Stations	482.2	23.7%	37.7%	43.1%
Used Automotive Dealers	114.9	34.6%	57.1%	46.9%
Total All Accounts	3,684.1	15.0%	23.6%	21.8%
County & State Pool Allocation	568.7	20.8%	29.8%	27.8%
Gross Receipts	4,252.9	15.8%	24.4%	22.6%