Q4 2017

City of Pleasanton Sales Tax *Update*

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

Pleasanton In Brief

Pleasanton's receipts from October through December were 5.3% below the fourth sales period in 2016. Excluding reporting aberrations, actual sales fell 4.0%.

Business and industry activity slowed. Reporting anomalies in both periods adversely impacted office equipment, business services and electrical equipment outcomes and are primarily the reason for this overall decrease.

Slower sales of motor vehicles triggered the drop from autos and transportation; gains in vehicle leasing mitigated a portion of the loss.

Consistent with national trends, department stores experienced fewer shoppers and lower revenues this holiday season. Interconnected categories also suffered. Specialty stores had softer sales; double-up collections masked a reduction from family apparel.

Receipts from medical/biotech were up; however, year-ago payment abnormalities exaggerated the gain. Solid returns were reported from electronics stores, quick-service eateries and casual dining venues.

Net of aberrations, taxable sales for all of Alameda County grew 6.9% over the comparable time period; the Bay Area was up 4.5%.

Sales Tax by Major Business Group

Revenue Comparison

Two Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	$11,096,278	$10,891,284
County Pool	1,810,672	1,714,274
State Pool	7,988	5,838
Gross Receipts	$12,914,938	$12,611,397
Cty/Cnty Share	(645,747)	(630,570)
Net Receipts	**$12,269,191**	**$11,980,827**

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NOTES

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.

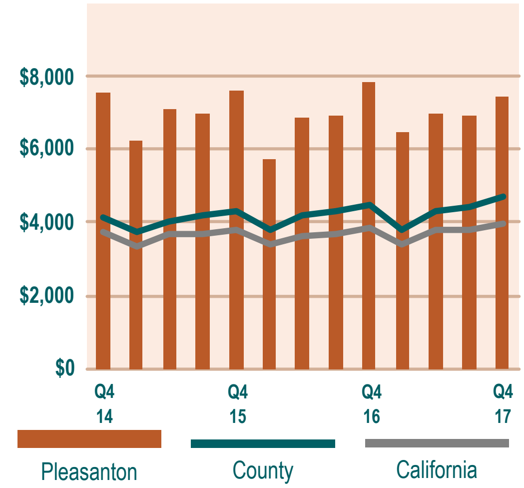
Still, the estimated revenue losses are substantial particularly for agencies with voter-approved transactions tax districts. Because of *Quill*, retailers are not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The 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.

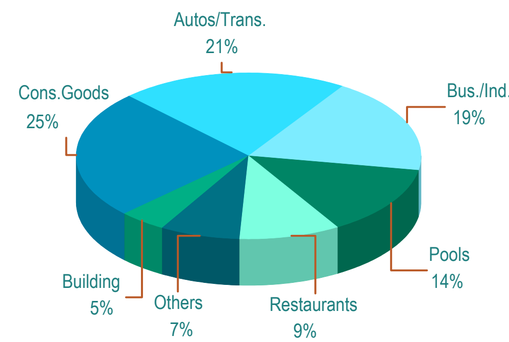
Oral arguments are scheduled for April with a decision expected by the end of June 2018.

Sales Per Capita



Revenue By Business Group

Pleasanton This Quarter



Pleasanton Top 15 Business Types

In thousands of dollars	Pleasanton		County	HdL State
Business Type	**Q4 '17***	**Change**	**Change**	**Change**
Auto Lease	179.4	48.9%	24.8%	16.6%
Building Materials	170.8	17.5%	18.7%	11.6%
Business Services	132.8	-47.9%	27.0%	2.1%
Casual Dining	299.0	9.9%	4.6%	3.6%
Department Stores	512.7	-9.9%	-8.0%	-5.4%
Electrical Equipment	196.4	-40.6%	-17.0%	5.7%
Electronics/Appliance Stores	222.8	15.9%	7.8%	5.8%
Family Apparel	181.2	1.3%	3.3%	2.1%
Medical/Biotech	371.0	66.7%	17.8%	4.9%
New Motor Vehicle Dealers	889.5	-9.5%	19.3%	2.6%
Office Equipment	184.2	-17.0%	30.3%	3.3%
Quick-Service Restaurants	167.6	8.3%	4.2%	4.9%
Service Stations	231.5	9.8%	13.1%	11.4%
Specialty Stores	150.4	-6.9%	7.0%	4.4%
Used Automotive Dealers	— CONFIDENTIAL —		-8.9%	0.4%
Total All Accounts	**5,633.7**	**-4.1%**	**7.0%**	**4.0%**
County & State Pool Allocation	**883.8**	**-11.9%**	**-1.6%**	**0.8%**
Gross Receipts	**6,517.5**	**-5.3%**	**5.7%**	**3.6%**
City/County Share	**(325.9)**	**5.3%**		
Net Receipts	**6,191.6**	**-5.3%**		