

Q4 2017



City of Eastvale Sales Tax *Update*

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

Eastvale In Brief

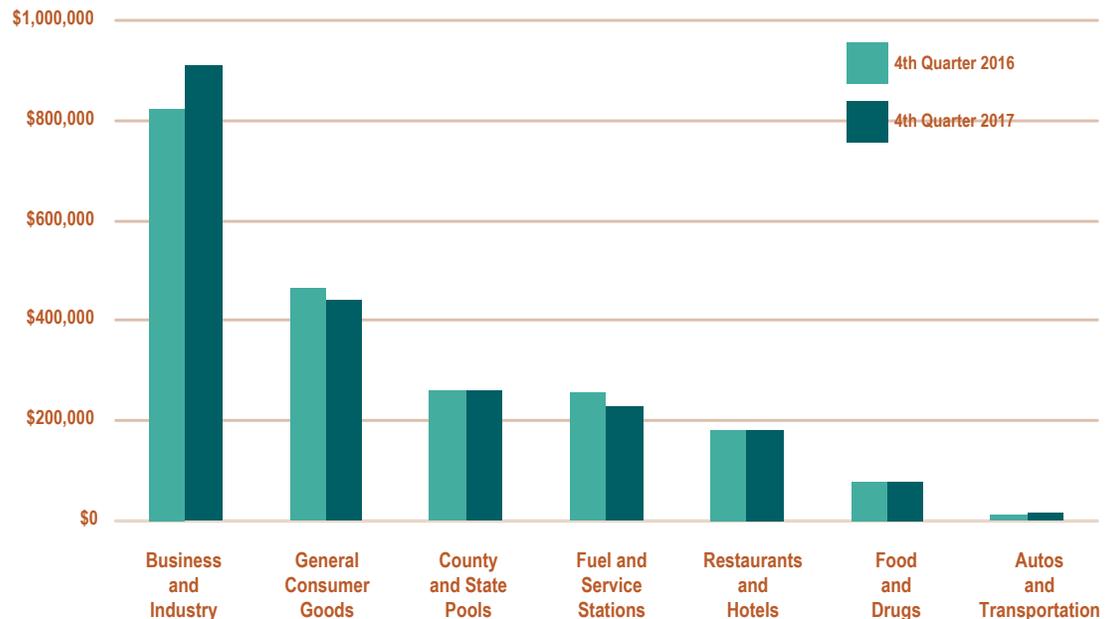
Eastvale's receipts from October through December were 4.4% above the fourth sales period in 2016.

Strong business-industrial results were a major factor in this quarter's improvement, driven higher by several equipment purchases by local firms for deliveries from out of state.

Anomalies resulted in an artificial 10% decline in service station cash receipts, which otherwise would have increased 2%.

Net of aberrations, taxable sales for all of Riverside County grew 5.9% over the comparable time period; the Southern California region was up 3.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

7 Eleven	Lennox Industries
Albertsons	Petsmart
Amazon Fulfillment Center	Ralphs
Amazon Robotics	Shamrock Foods Company
American Electric Supply	Target
Best Buy	TJ Maxx
Buffalo Wild Wings	Ulta Beauty
Chevron	Verizon Wireless
Crown Lift Trucks	Vons
Culver Installations	Vons Fuel
Home Depot	W W Grainger
Home Goods	Walmart Online
Kohls	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$5,211,926	\$6,317,977
County Pool	656,054	731,463
State Pool	3,085	915
Gross Receipts	\$5,871,065	\$7,050,355

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."

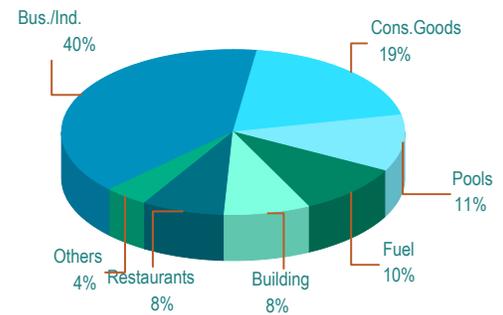
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Eastvale This Quarter



EASTVALE TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Eastvale Q4 '17*	Change	County Change	HdL State Change
Building Materials	— CONFIDENTIAL —	—	13.6%	11.6%
Casual Dining	51.7	-13.1%	4.9%	3.6%
Department Stores	— CONFIDENTIAL —	—	-5.1%	-5.4%
Discount Dept Stores	— CONFIDENTIAL —	—	1.4%	4.1%
Electrical Equipment	— CONFIDENTIAL —	—	11.8%	5.7%
Electronics/Appliance Stores	130.2	-11.4%	4.2%	5.8%
Fast-Casual Restaurants	53.1	3.2%	9.0%	9.3%
Food Service Equip./Supplies	— CONFIDENTIAL —	—	-0.7%	2.5%
Fulfillment Centers	— CONFIDENTIAL —	—	258.7%	55.5%
Grocery Stores	— CONFIDENTIAL —	—	2.1%	-1.5%
Heavy Industrial	— CONFIDENTIAL —	—	11.1%	10.1%
Office Equipment	— CONFIDENTIAL —	—	22.0%	3.3%
Quick-Service Restaurants	74.3	7.5%	6.5%	4.9%
Service Stations	227.8	-10.4%	8.7%	11.4%
Specialty Stores	44.4	2.5%	2.7%	4.4%
Total All Accounts	2,037.1	5.2%	4.7%	4.0%
County & State Pool Allocation	259.0	-0.9%	-1.4%	0.8%
Gross Receipts	2,296.1	4.4%	3.9%	3.6%