

Q4 2017



City of Pismo Beach Sales Tax *Update*

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

Pismo Beach In Brief

The allocation of sales and use taxes for Pismo Beach's October through December sales was 2.0% higher than the same quarter one year ago. Actual sales rose 4.0% net of accounting anomalies.

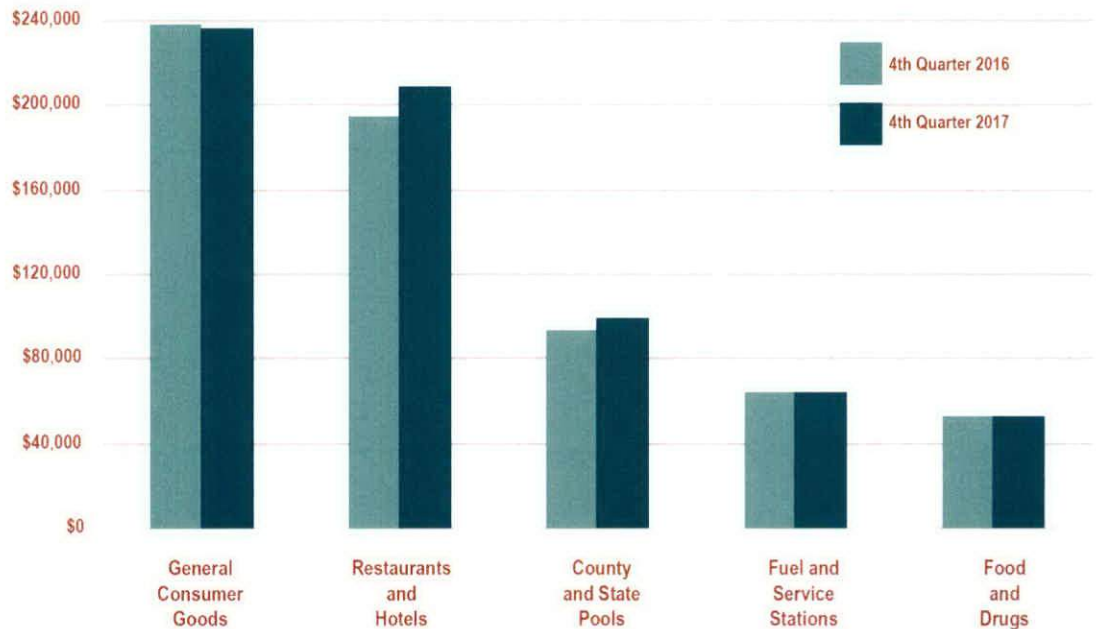
Restaurant group results were helped by recent additions to casual dining and hotels-liquor, but group gains were understated by a late posting in quick-service eateries. Shoes, home furnishings and electronics/appliances reported increases that were more than offset by declines in other categories of consumer goods. Payment aberrations overstated results from specialty stores, but understated comparisons for service stations and the food and drugs group.

Sales declined from the building and construction group while a retroactive adjustment cut current quarter cash receipts from the business and industry group.

In addition to the amounts reviewed above, receipts from voter-approved Measure I increased 1.2% totaling \$372,953 for the quarter.

Adjusted for onetime reporting events, taxable sales for all of San Luis Obispo County increased 5.7% over the same period; the Central Coast region was up 3.9%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Arco AM PM	Nike
California Fresh Market	Orchard Supply Hardware
Calvin Klein	Oshkosh B Gosh
Chevron	Ralph Lauren
Cliffs at Shell Beach	Rite Aid
Coach	Ross
Cracked Crab	Sky River RV
CVS Pharmacy	Splash Cafe
F McLintocks Saloon	Spyglass Shell
GH Bass & Co	Vans
Levis Outlet	Ventana Grill
McDonalds	Wooly's Oyster Loft
Miller 76	

REVENUE COMPARISON

Three Quarters - Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$2,009,895	\$2,046,711
County Pool	299,029	268,977
State Pool	1,117	407
Gross Receipts	\$2,310,041	\$2,316,094
Measure I	\$1,179,276	\$1,210,155

NOTES

California Overall

Factored for accounting anomalies, statewide fourth quarter receipts from local government's one cent sales tax were 4.5% 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

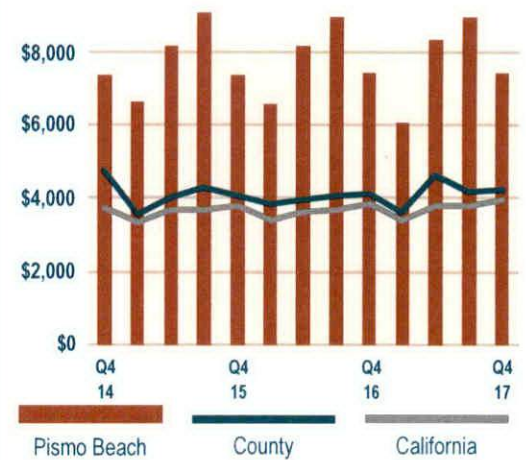
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

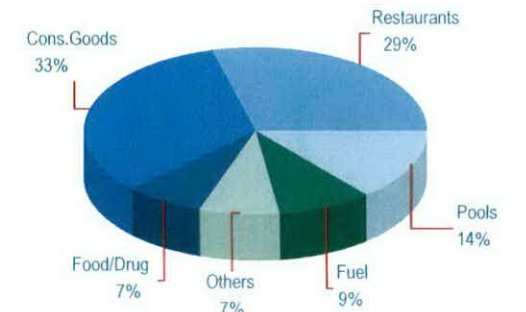
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Pismo Beach This Quarter



PISMO BEACH TOP 15 BUSINESS TYPES

Business Type	Pismo Beach		County	HdL State
	Q4 '17	Change	Change	Change
Building Materials	— CONFIDENTIAL —	—	8.1%	11.6%
Casual Dining	126,544	9.3%	1.1%	3.5%
Convenience Stores/Liquor	12,607	7.6%	5.6%	8.3%
Drug Stores	— CONFIDENTIAL —	—	-18.0%	-10.7%
Family Apparel	111,193	-2.6%	-1.6%	2.1%
Fine Dining	— CONFIDENTIAL —	—	11.1%	10.5%
Grocery Stores	— CONFIDENTIAL —	—	2.1%	-1.5%
Hotels-Liquor	31,620	8.9%	3.5%	7.9%
Quick-Service Restaurants	28,567	-3.9%	11.1%	5.0%
Service Stations	64,621	0.3%	5.3%	11.4%
Shoe Stores	47,204	4.4%	0.4%	0.3%
Specialty Stores	17,017	8.0%	2.0%	4.4%
Sporting Goods/Bike Stores	8,227	-8.1%	-4.6%	-8.5%
Trailers/RVs	— CONFIDENTIAL —	—	1.5%	8.4%
Women's Apparel	32,558	-5.8%	-5.0%	-5.9%
Total All Accounts	615,660	1.3%	3.8%	4.0%
County & State Pool Allocation	99,435	6.5%	9.2%	0.8%
Gross Receipts	715,095	2.0%	4.6%	3.6%