

Q4 2017



City of Riverside Sales Tax *Update*

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

Riverside In Brief

Riverside's receipts from October through December were 0.4% above the fourth sales period in 2016. Excluding reporting aberrations, actual sales were up 1.7%.

The City's three largest industry groups, autos, general consumer goods and business and industry all posted lower receipts. Lower sales in new autos and department stores, a couple discount department store closeouts and drop off in receipts from warehouse and construction equipment and heavy industrial were the major factors impacting those groups.

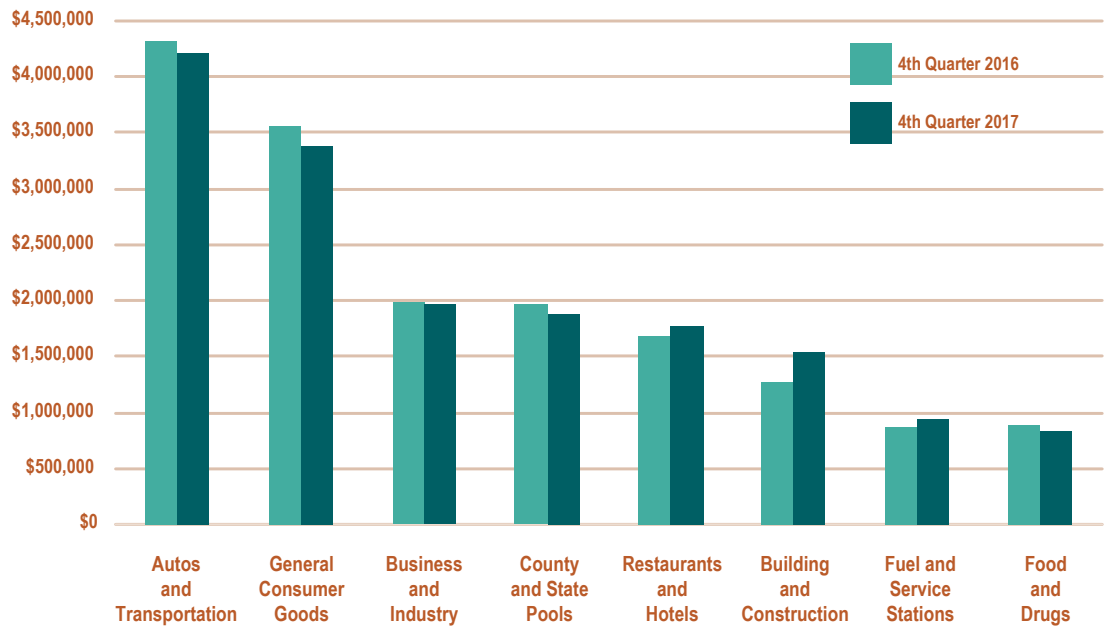
Those losses were offset by robust gains in building materials, plumbing/electrical supplies and contractors' sales, strong quick-service eatery results aided by new outlets and continual rising retail gas prices that boosted service station receipts.

The City's allocation from the countywide use tax pool decreased 4.2% during the quarter.

Measure Z, which was effective April 1, 2017, added \$14,636,882 and has generated \$41,236,310 in its first three quarters.

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

Best Buy	Nordstrom
BMW of Riverside	Quinn CAT Company
Carmax	Raceway Ford
Champion Lumber	Riverside Chevrolet
Consolidated Electrical Distributors	Riverside Honda
Dutton Cadillac, Buick, GMC	Riverside Mazda
Food 4 Less	Sams Club w/ Fuel
Fritts Ford	Stater Bros
Home Depot	Target
Lexus of Riverside	Toyota of Riverside
Macys	Walmart Supercenter
Main Electric Supply	Walters Porsche/Audi/Mercedes Benz
Moss Bros Chrysler	
Dodge Jeep Fiat	

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$28,921,487	\$28,586,968
County Pool	3,713,718	3,609,930
State Pool	19,684	14,934
Gross Receipts	\$32,654,889	\$32,211,832
Measure Z	\$0	\$28,783,856

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

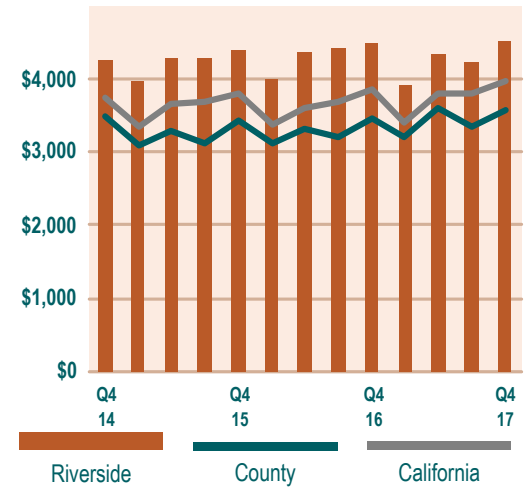
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

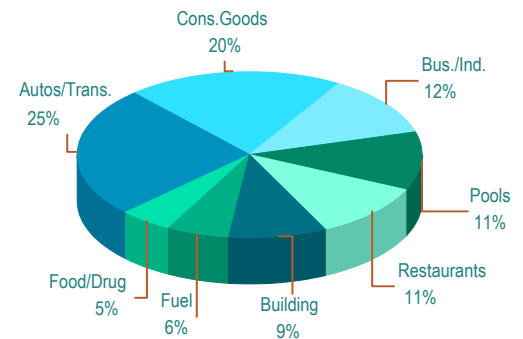
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Riverside This Quarter



RIVERSIDE TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Riverside Q4 '17*	Riverside Change	County Change	HdL State Change
Auto Lease	422.1	12.2%	16.8%	16.6%
Building Materials	789.0	24.1%	13.6%	11.6%
Casual Dining	643.4	2.6%	5.4%	3.5%
Department Stores	469.1	-4.6%	-5.1%	-5.4%
Discount Dept Stores	819.2	-6.3%	1.4%	4.1%
Electronics/Appliance Stores	451.7	6.5%	4.2%	5.8%
Family Apparel	352.9	-0.4%	1.9%	2.1%
Grocery Stores	517.9	-2.6%	2.1%	-1.5%
New Motor Vehicle Dealers	2,688.9	-5.6%	0.9%	2.6%
Plumbing/Electrical Supplies	495.6	12.5%	11.6%	9.9%
Quick-Service Restaurants	800.6	8.0%	6.1%	4.9%
Service Stations	931.3	9.6%	8.7%	11.4%
Specialty Stores	378.2	5.2%	3.0%	4.4%
Used Automotive Dealers	344.9	-0.1%	23.8%	0.4%
Warehouse/Farm/Const. Equip.	— CONFIDENTIAL —		-0.5%	18.0%
Total All Accounts	14,724.9	1.1%	4.7%	4.0%
County & State Pool Allocation	1,872.1	-4.7%	-1.4%	0.8%
Gross Receipts	16,597.0	0.4%	3.9%	3.6%