

# Q4 2017



# Arroyo Grande Sales Tax Update

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

## Arroyo Grande In Brief

Arroyo Grande's receipts from October through December sales increased 7.0% compared to the same quarter one year ago. Actual sales were up 8.9% after reporting anomalies were excluded.

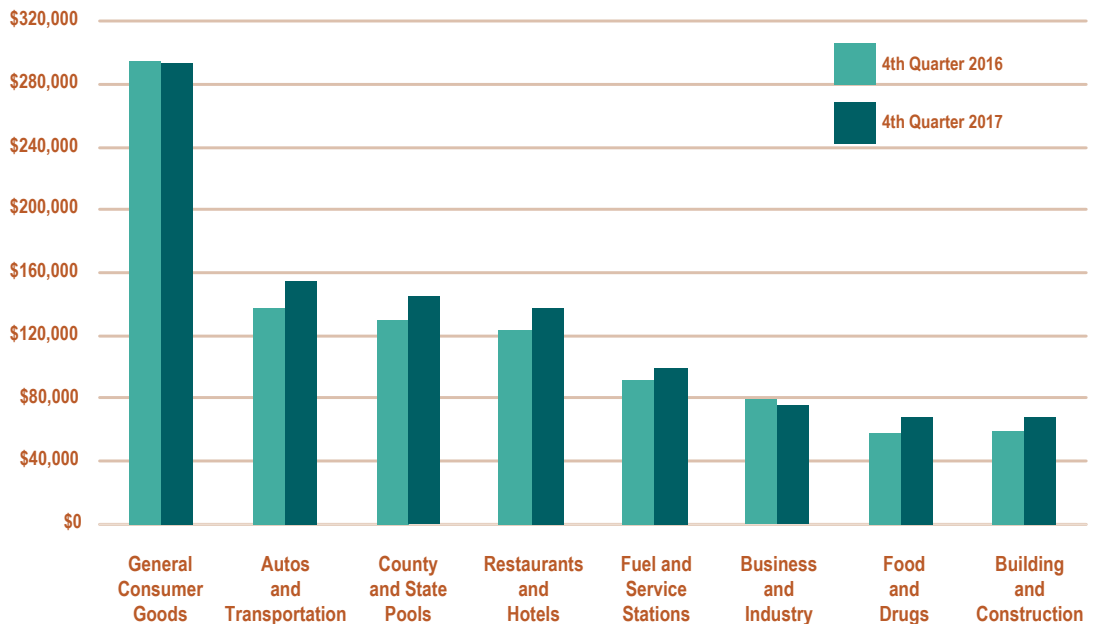
The City experienced solid sales from building materials, home furnishings and the automotive group. Prior additions contributed to increases from the food and drugs group and consumer electronics/appliances. Higher prices at the pump and the larger allocation from the county use tax pool were also factors for this quarter's gains. Multiple payment deviations skewed restaurant group comparisons, inflating results from both fast casual and quick-service eateries, but depressing cash receipts from casual dining.

Sales declined from some categories of consumer goods and the transportation sector. A recent business closeout and a year-ago reporting problem pared business and industry group receipts.

Voter-approved Measure O-06 added \$579,968 to the city's coffers, up 1.5% from last year.

Adjusted for aberrations, taxable sales for all of San Luis Obispo County increased 5.7% over the same period; Central Coast regional totals grew 3.9%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Ace Hardware	Marshalls
Aqua Systems	McDonalds
Arco AM PM	Mullahey Ford
Arroyo Grande Chevrolet	OfficeMax
Arroyo Grande Shell	R & R Furniture
Arroyo Grande Valero	Rite Aid
Burke & Pace Lumber Sales	Rooster Creek
Chevron	Rugged Race Products
Donnas Interiors Furniture	Smart & Final
Food 4 Less	Streator Pipe & Supply
In N Out Burgers	Trader Joes
Kmart	Verizon Wireless
	Walmart

### REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$2,461,246	\$2,661,953
County Pool	366,730	353,488
State Pool	1,436	515
<b>Gross Receipts</b>	<b>\$2,829,411</b>	<b>\$3,015,956</b>
<b>Measure O - 06</b>	<b>\$1,661,821</b>	<b>\$1,708,803</b>

**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

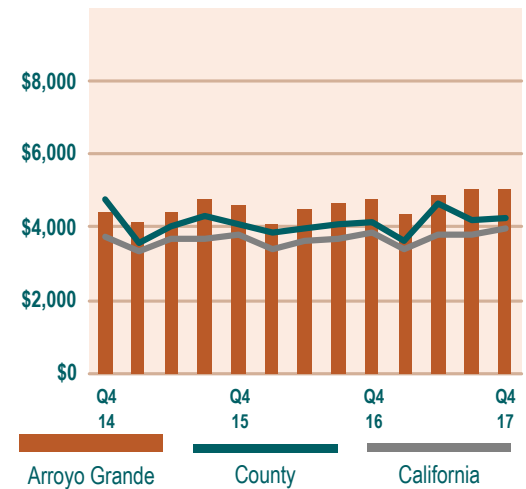
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

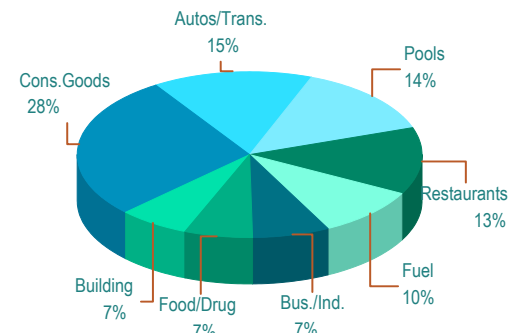
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

**SALES PER CAPITA**



**REVENUE BY BUSINESS GROUP**  
Arroyo Grande This Quarter



**ARROYO GRANDE TOP 15 BUSINESS TYPES**

Business Type	Arroyo Grande		County	HdL State
	Q4 '17	Change	Change	Change
Building Materials	52,597	16.6%	8.1%	11.6%
Casual Dining	64,357	-3.7%	1.1%	3.5%
Convenience Stores/Liquor	14,986	17.6%	5.6%	8.3%
Discount Dept Stores	— CONFIDENTIAL —	—	0.3%	4.1%
Drug Stores	— CONFIDENTIAL —	—	-18.0%	-10.7%
Electronics/Appliance Stores	22,446	13.2%	4.2%	5.8%
Family Apparel	— CONFIDENTIAL —	—	-1.6%	2.1%
Fast-Casual Restaurants	21,926	88.5%	16.5%	8.9%
Garden/Agricultural Supplies	25,261	0.2%	3.6%	2.4%
Grocery Stores	— CONFIDENTIAL —	—	2.1%	-1.5%
Home Furnishings	41,220	9.5%	7.8%	2.6%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	1.5%	2.6%
Quick-Service Restaurants	46,820	7.9%	11.1%	5.0%
Service Stations	93,376	7.7%	5.3%	11.4%
Specialty Stores	18,938	6.6%	2.0%	4.4%
<b>Total All Accounts</b>	<b>897,135</b>	<b>6.3%</b>	<b>3.8%</b>	<b>4.0%</b>
<b>County &amp; State Pool Allocation</b>	<b>144,896</b>	<b>11.7%</b>	<b>9.2%</b>	<b>0.8%</b>
<b>Gross Receipts</b>	<b>1,042,031</b>	<b>7.0%</b>	<b>4.6%</b>	<b>3.6%</b>