

Q4 2017



City of Azusa Sales Tax *Update*

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

Azusa In Brief

Azusa's receipts from October through December were 1.5% below the fourth sales period in 2016. Excluding reporting aberrations, actual sales were down 0.4%.

A large onetime payment in the comparison period temporarily depressed receipts for office equipment. A change in reporting methods was responsible for the decline in building materials.

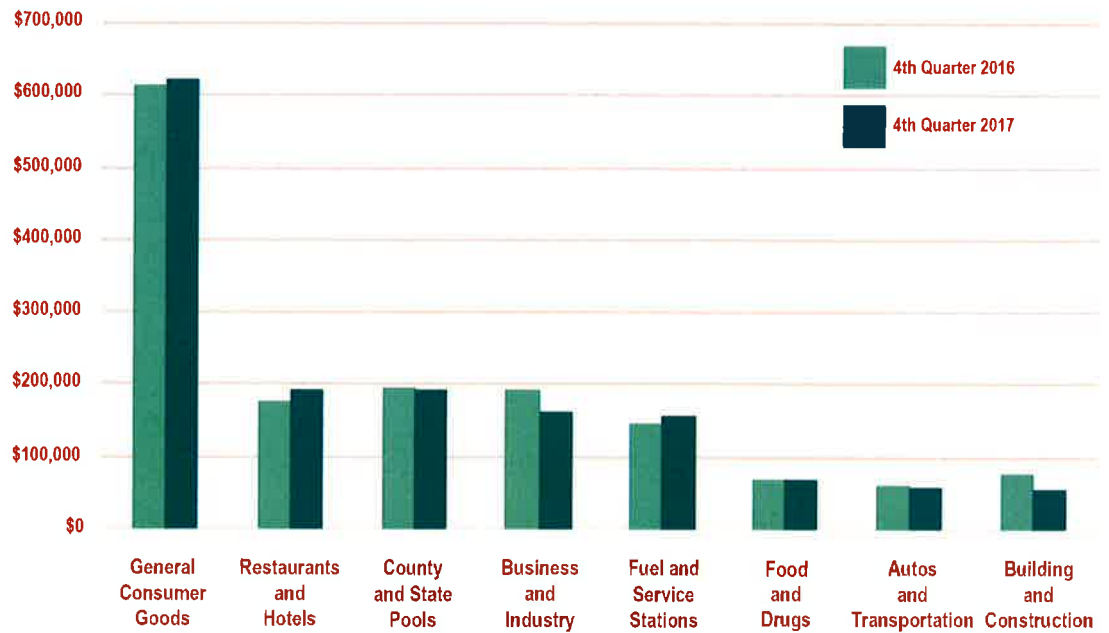
General consumers goods experienced a sluggish holiday sales quarter with declines in sporting goods/bike stores and electronics/appliance stores.

A new business addition helped boost sales for grocery stores, while an accounting adjustment resulted in a temporary increase for the heavy industrial group. Tax revenue from service stations continued to grow with steady price increases at the pump due to global crude oil and the implementation of SB-1.

The City's share of the countywide use tax pool decreased 0.7% when compared to the same period in the prior year.

Net of aberrations, taxable sales for all of Los Angeles County grew 3.0% 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

76	Innovative Designs & Manufacturing
Arco AM PM	Kali Matha Mobil
Azusa Arco	McDonalds
Azusa Pacific University	Outlet By ELS
Chevron	Rain Bird Corporation
Chick Fil A	Ross
Costco	Shell
CVS Pharmacy	Stater Bros
Digital Printing Systems	Target
Evas Shell	Totten Tubes
Ferguson Enterprises	USA Gas
G & M Oil	Valley Thrift Store
	Virginia Hardwood

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$3,687,736	\$3,827,500
County Pool	527,305	536,993
State Pool	2,187	744
Gross Receipts	\$4,217,229	\$4,365,237

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

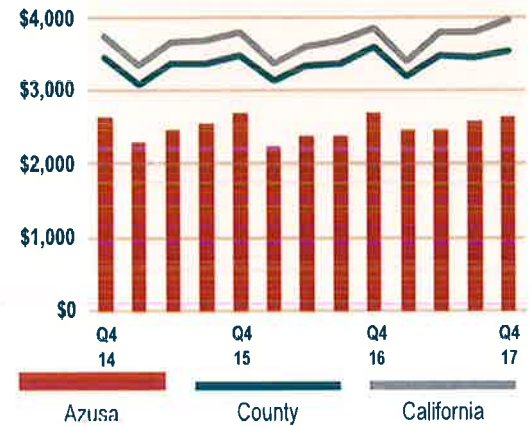
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

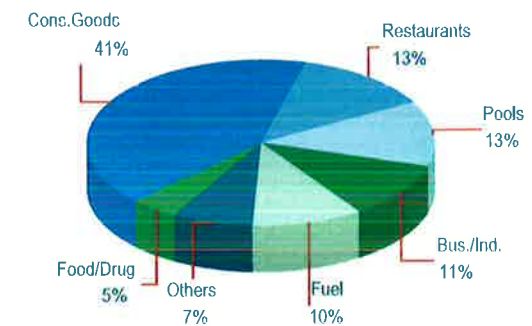
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Azusa This Quarter



AZUSA TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Azusa Q4 '17*	Azusa Change	County Change	HdL State Change
Auto Repair Shops	18.5	-8.0%	-0.5%	3.6%
Automotive Supply Stores	26.2	2.7%	0.2%	1.9%
Casual Dining	53.0	4.5%	3.8%	3.8%
Contractors	20.8	3.2%	7.6%	13.8%
Convenience Stores/Liquor	25.0	-8.6%	8.2%	8.2%
Discount Dept Stores	— CONFIDENTIAL —	—	3.7%	4.1%
Drug Stores	— CONFIDENTIAL —	—	-11.7%	-10.9%
Family Apparel	— CONFIDENTIAL —	—	3.1%	2.1%
Garden/Agricultural Supplies	23.3	-29.1%	2.1%	2.3%
Grocery Stores	23.5	20.5%	-5.9%	-1.5%
Heavy Industrial	60.9	28.0%	5.8%	10.0%
Light Industrial/Printers	30.5	10.2%	-3.9%	0.8%
Plumbing/Electrical Supplies	29.5	-4.9%	7.5%	10.3%
Quick-Service Restaurants	121.2	14.4%	4.4%	4.9%
Service Stations	155.8	7.1%	10.0%	11.4%
Total All Accounts	1,315.2	-1.6%	-0.9%	4.0%
County & State Pool Allocation	192.7	-1.2%	-0.5%	0.8%
Gross Receipts	1,507.9	-1.5%	-0.8%	3.6%