

Q4 2017



City of San Rafael Sales Tax *Update*

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

San Rafael In Brief

San Rafael's receipts from October through December were 4.0% above the fourth sales period in 2016.

The spike in new autos, which was inflated by a onetime fund transfer, was a significant factor in the overall gain. Over 30% of the increase in receipts was due to the rise in auto-related sectors compared to a year ago.

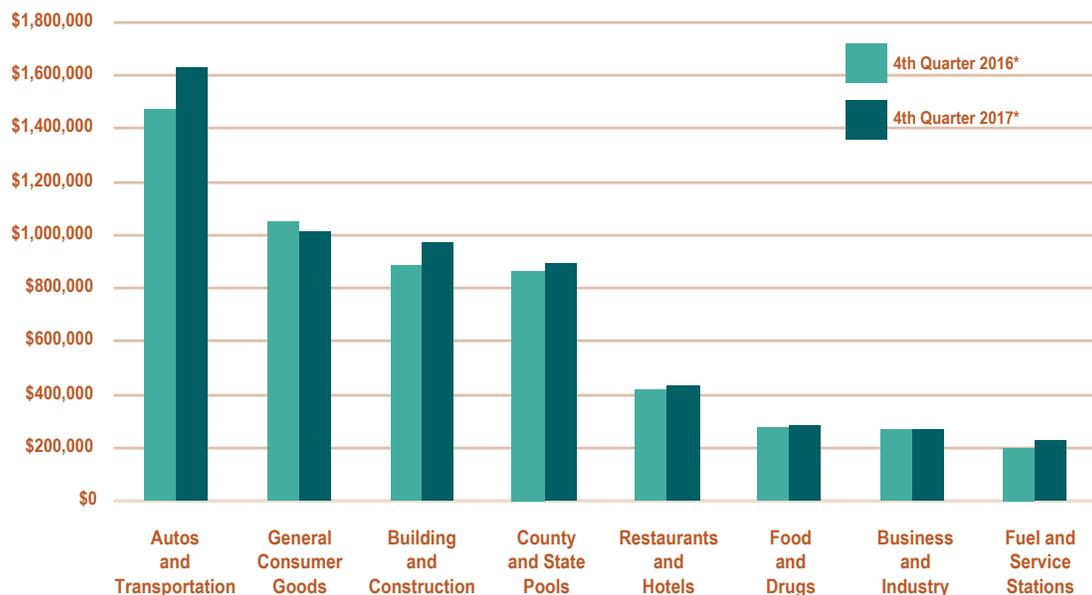
Unanticipated robust building and construction activity and higher fuel prices added to gross receipts.

All categories in general retail with the exception of sporting goods were down during the holiday quarter. Temporary non-recurring events accounted for the decline in the City's share of the countywide use tax allocation pool.

Revenues from the City's voter-approved .75% transactions tax, Measure E, rose 5.3%. Double-digit gains in building/construction, business to business transactions and higher fuel prices were major factors.

Net of aberrations, taxable sales for all of Marin County declined 0.2% over the comparable time period; the Bay Area was up 4.5%.

SALES TAX BY MAJOR BUSINESS GROUP



*Allocation aberrations have been adjusted to reflect sales activity

TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Au Energy Shell Station	Marin Mazda
Best Buy	Marin Subaru
BMW of San Rafael	Marin Toyota
Calmat Co	Mercedes Benz of Marin
Consolidated Electrical Distributors	Monark Premium Appliance
Financial Services Vehicle Trust	Rafael Lumber
Golden State Lumber	Safeway
Home Depot	Sonnen VW/Audi
Infiniti of Marin	Target
Lexus of Marin	TJ Maxx
Macys	Toyota Lease Trust
Marin Honda	Toys R Us
	Whole Foods Market

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$8,957,196	\$9,496,696
County Pool	1,544,471	1,576,017
State Pool	6,417	5,150
Gross Receipts	\$10,508,084	\$11,077,862
Measure E	\$6,023,008	\$6,338,044

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

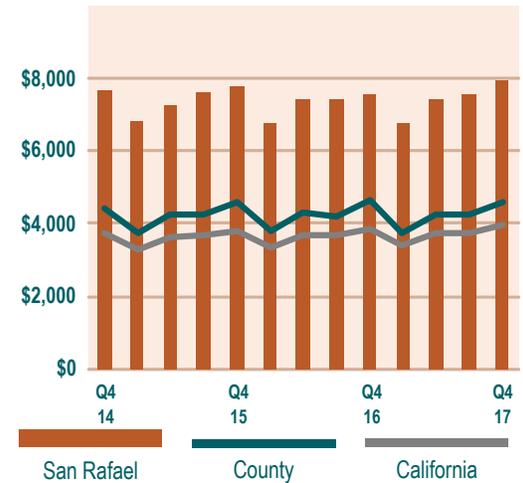
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

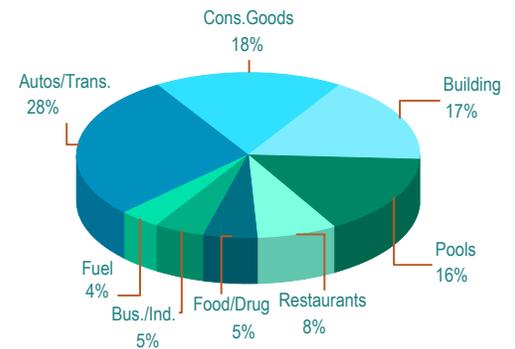
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
San Rafael This Quarter



SAN RAFAEL TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	San Rafael Q4 '17*	San Rafael Change	County Change	HdL State Change
Auto Lease	192.0	12.9%	8.3%	10.0%
Auto Repair Shops	90.6	4.0%	2.6%	0.7%
Building Materials	691.9	13.6%	13.8%	10.7%
Casual Dining	232.6	4.2%	4.8%	2.2%
Contractors	130.6	-2.6%	-0.7%	10.1%
Department Stores	— CONFIDENTIAL —	—	-3.9%	-4.4%
Discount Dept Stores	— CONFIDENTIAL —	—	9.4%	4.1%
Electronics/Appliance Stores	237.7	-2.6%	4.0%	5.5%
Grocery Stores	153.6	2.5%	3.4%	2.8%
Home Furnishings	121.3	-3.2%	8.8%	0.9%
New Motor Vehicle Dealers	1,208.1	13.2%	4.2%	2.4%
Plumbing/Electrical Supplies	107.2	8.1%	7.2%	9.5%
Quick-Service Restaurants	91.6	10.1%	8.4%	4.7%
Service Stations	229.1	13.9%	15.5%	12.2%
Specialty Stores	108.1	-3.4%	-0.7%	-0.4%
Total All Accounts	4,830.8	5.6%	-1.0%	4.1%
County & State Pool Allocation	895.1	3.6%	4.1%	6.6%
Gross Receipts	5,725.9	5.3%	-0.2%	4.4%

** Accounting aberrations such as late payments, fund transfers, and audit adjustments have been adjusted to reflect the quarter in which the sales occurred.