

Q1 2018



City of San Rafael Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2018)

San Rafael In Brief

San Rafael's receipts from January through March were 3.2% below the same period in 2017. Conversion to a new State computer software left some taxpayer activity out of the 1Q18 allocation that is anticipated to be made up in 2Q18. However, including these allocations and other reporting aberrations, actual sales would have been up 6.7%.

Ordinary tax payments omitted in this quarter's distribution weakened results from quick-service and casual diners, service stations and grocery stores. The auto leases sector was uniquely hit hard by this conversion timing; this segment fell \$199,957.

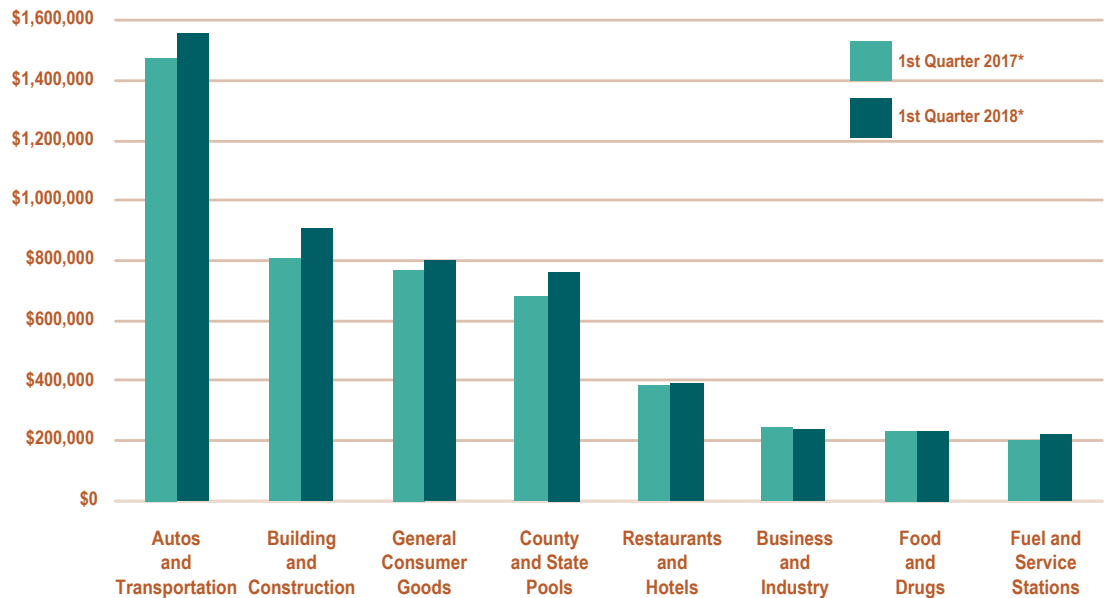
Business-industry declined as location closures and weaker demand hurt sales. New motor vehicle dealers generated higher receipts; however, results were inflated by a year-ago late payment.

Improved use tax remittances bolstered the countywide pool; the City's portion reflected a small gain. Plumbing/electrical, contractors and building materials boosted revenues.

Measure E generated \$2,682,028, or 1% more compared to the same period in 2017. Strong collections by building-construction was the primary driver of positive growth.

Net of aberrations, taxable sales for all of Marin County grew 5.8% over the comparable time period; the Bay Area was up 6.7%.

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 Honda
Best Buy	Marin Mazda
BMW of San Rafael	Marin Subaru
Calmat Co	Marin Toyota
Consolidated Electrical Distributors	Mercedes Benz of Marin
Golden State Lumber	Monark Premium Appliance
Home Depot	Pace Supply
Home Goods	Rafael Lumber
Infiniti of Marin	Safeway
Jacksons Hardware	Sonnen VW/Audi
Lexus of Marin	Target
Macys	TJ Maxx
	Whole Foods Market

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$13,065,554	\$13,426,041
County Pool	2,252,467	2,310,330
State Pool	12,373	8,691
Gross Receipts	\$15,330,394	\$15,745,062
Measure E	\$8,681,935	\$9,020,073

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

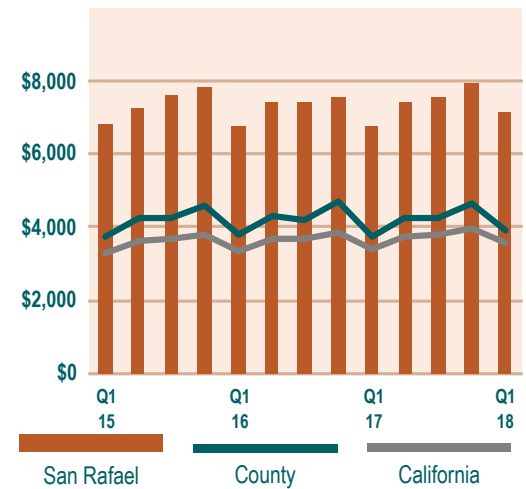
Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the online interstate marketplace was not the prevailing issue before the court in 1992.

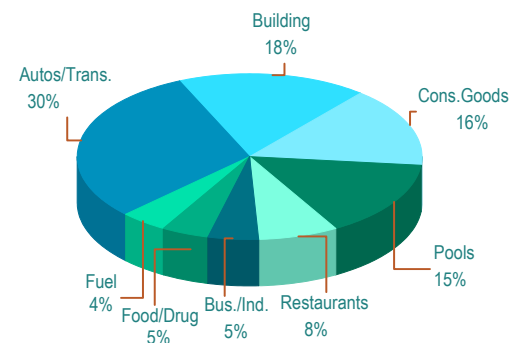
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about \$1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average \$60 per year for each California household, and California businesses average \$171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court's opinion to determine next steps to support taxpayers.

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 Q1 '18*	San Rafael Change	County Change	HdL State Change
Auto Lease	240.0	33.2%	28.7%	5.4%
Auto Repair Shops	94.7	2.2%	-3.2%	-2.4%
Building Materials	615.6	10.0%	9.0%	10.6%
Casual Dining	210.5	0.2%	3.7%	1.7%
Contractors	139.1	29.9%	31.5%	20.0%
Department Stores	—	CONFIDENTIAL	-5.8%	1.4%
Discount Dept Stores	—	CONFIDENTIAL	2.6%	4.1%
Electronics/Appliance Stores	199.9	3.7%	7.6%	11.6%
Grocery Stores	120.6	-3.7%	1.8%	3.7%
Home Furnishings	110.5	5.2%	4.4%	1.0%
New Motor Vehicle Dealers	1,071.0	1.6%	-1.3%	0.0%
Plumbing/Electrical Supplies	110.2	9.2%	7.6%	14.8%
Quick-Service Restaurants	84.5	-1.3%	1.6%	3.0%
Service Stations	220.5	9.4%	13.1%	12.3%
Specialty Stores	87.1	4.1%	5.9%	2.9%
Total All Accounts	4,348.0	5.7%	4.7%	5.3%
County & State Pool Allocation	763.8	12.8%	12.0%	10.3%
Gross Receipts	5,111.8	6.7%	5.8%	5.9%

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