

Q3 2018



City of San Rafael Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2018)

San Rafael In Brief

San Rafael's receipts from July through September were 20.3% above the third sales period in 2017. Excluding reporting aberrations, actual sales were up 2.7%.

Problems with the State's new computerized tax reporting system inflated allocations for sales occurring this quarter; sizeable payments in excess of \$783,000 delayed from 2nd Quarter 2018 were processed this quarter.

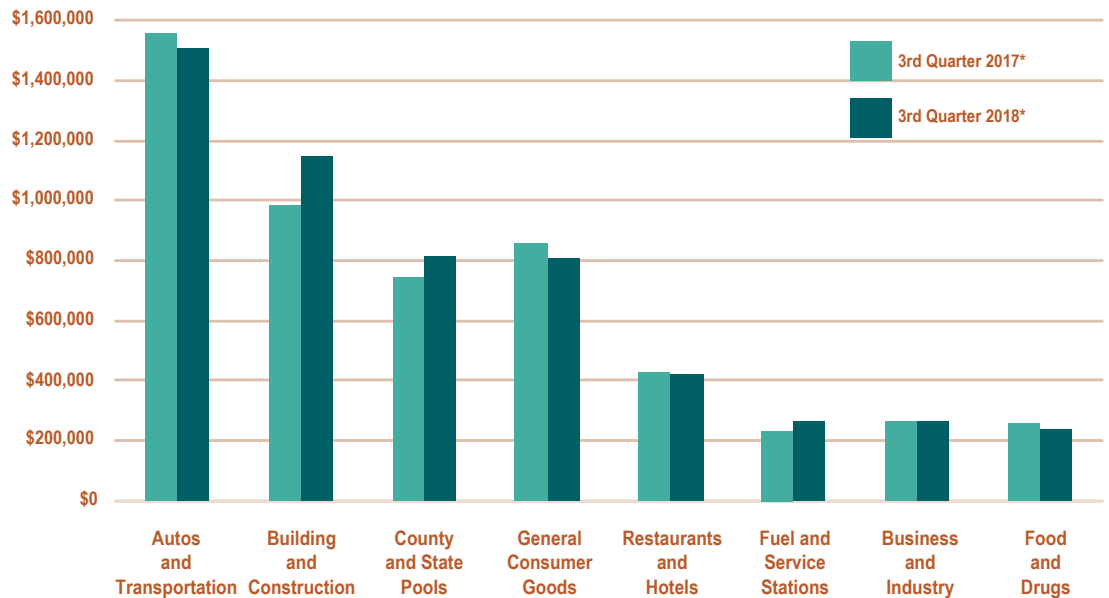
The double payments further inflated the growth for building materials and contractors, which both had strong quarters once the deviations were removed; outcomes were anchored a new outlet and favorable summer construction weather. Meanwhile, service stations posted a 13.7% gain after the anomalies were accounted for.

The delay accounted for the double-digit increases in new motor vehicles, casual dining and general consumer goods which posted declines without the extra payments.

Voter approved Measure E generated \$3,667,745, also inflated by double payments this quarter.

Net of aberrations, taxable sales for all of Marin County grew 7.8% over the comparable time period; the Bay Area was up 8.1%.

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	Jacksons Hardware
Audi Leasing	Lexus of Marin
Bentley Leasing	Macys
Best Buy	Marin Honda
BMW of San Rafael	Marin Mazda
Calmat Co	Marin Subaru
Consolidated Electrical Distributors	Marin Toyota
Daimler Trust	Mercedes Benz of Marin
Financial Services Vehicle Trust	Nissan/Infiniti of Marin
Fuel 24 7 Northgate	Rafael Lumber
Golden State Lumber	Sonnen VW/Audi
Home Depot	Target
	Toyota Lease Trust
	Whole Foods Market

REVENUE COMPARISON

One Quarter – Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	\$4,664,876	\$5,492,837
County Pool	733,160	1,004,697
State Pool	3,713	2,936
Gross Receipts	\$5,401,748	\$6,500,471
Measure E	\$3,053,203	\$3,667,745

California Overall

The CDTEFA's problems with its new software system had yet to be fully resolved by the end of the third quarter. HdL's adjustments for delayed payments and other reporting deficiencies indicate that statewide receipts from the local one cent tax rose 5.2% over the first three quarters of 2018 versus the comparison period. The gains were primarily from higher fuel prices, strong building-construction activity and a rise in tax receipts from online purchases delivered from out-of-state that are shared by all agencies via the county pools.

The data exhibits the start of a leveling pattern in other sectors. The statewide gain in new car sales for July through September was due to a single manufacturer filling back orders. Price competition kept tax revenues from consumer goods receipts relatively flat while the rise in online shopping is expanding the diversion of tax revenues from brick and mortar stores to county pools or to in-state distribution centers.

Restaurant sales are beginning to show signs of market saturation as well as the impact of new competition that includes - prepared food and meal kits delivered from a variety of other sources. A modest gain in business-industrial sales was largely related to data and warehouse technology as well as a few major development projects.

Anticipated declines in fuel prices in the first quarter of 2019 adds support to HdL's latest consensus forecast for a modest statewide gain of 1.5% in fiscal year 2019-20 unless new trade conflicts further impact the economy.

South Dakota V. Wayfair Decision

In June, the Supreme Court reversed its previous ruling that retailers are not required to collect taxes for jurisdictions where they have no physical presence or "nexus." Instead, the buyer was responsible for remitting the tax.

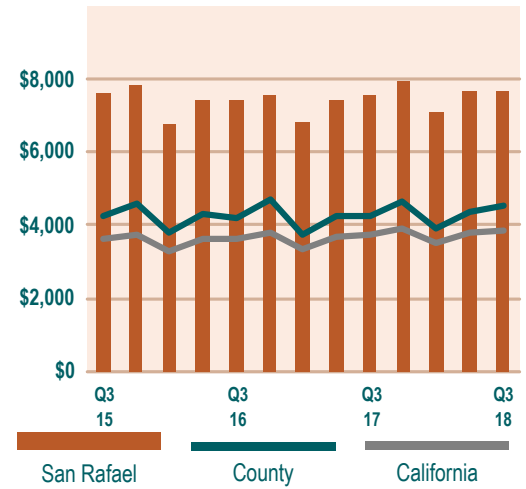
California will begin enforcing the Wayfair reversal effective April 1, 2019

by making retailers delivering from out-of-state responsible for collecting and remitting use tax if calendar year sales exceed \$100,000 and/or 200 or more separate transactions. The same threshold will also determine whether in-state retailers are responsible for collecting taxes on deliveries to individual transactions tax districts.

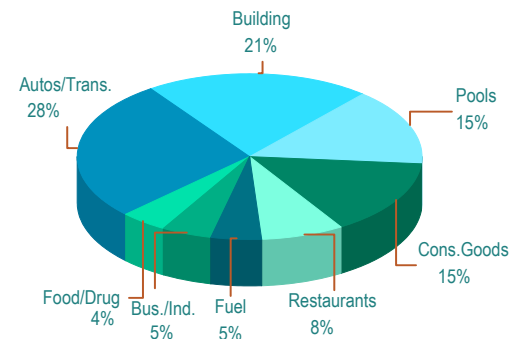
Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

As most major online retailers, including Wayfair, are already collecting California taxes and the state has traditionally enforced a broad definition of "nexus," the impact of the South Dakota decision may be less than in other states. The U.S. Government Accountability Office estimates a potential eventual gain of \$3 to \$5 per capita in receipts from our one cent local tax.

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 Q3 '18*	San Rafael Change	County Change	HdL State Change
Auto Lease	210.3	17.8%	19.7%	7.9%
Auto Repair Shops	100.7	5.9%	-0.6%	-2.7%
Building Materials	774.5	7.3%	7.3%	3.5%
Casual Dining	212.5	-2.0%	0.3%	0.1%
Contractors	195.6	94.0%	53.4%	15.6%
Discount Dept Stores	— CONFIDENTIAL —	—	-3.3%	1.5%
Electronics/Appliance Stores	187.5	-11.5%	-5.0%	3.2%
Grocery Stores	128.1	-6.2%	-2.0%	2.1%
Home Furnishings	122.6	8.5%	8.0%	3.1%
New Motor Vehicle Dealers	1,039.5	-7.5%	20.1%	7.7%
Plumbing/Electrical Supplies	125.2	11.9%	11.2%	4.9%
Quick-Service Restaurants	94.7	-0.5%	1.2%	2.3%
Service Stations	265.3	13.7%	15.7%	14.5%
Specialty Stores	73.6	-18.8%	-8.5%	-3.9%
Sporting Goods/Bike Stores	70.8	-10.5%	11.1%	-3.1%
Total All Accounts	4,653.3	1.5%	6.7%	4.4%
County & State Pool Allocation	815.7	9.8%	14.4%	10.8%
Gross Receipts	5,469.0	2.7%	7.8%	5.2%

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