

Q4 2017



San Bernardino Sales Tax *Update*

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

San Bernardino In Brief

San Bernardino's receipts from October through December were 6.2% above the fourth sales period in 2016.

An expanded number of entertainment offerings, the re-opening of a pair of restaurants and the expansion of another pushed restaurant receipts well above the statewide average this period. Rising fuel prices pumped up gas station receipts.

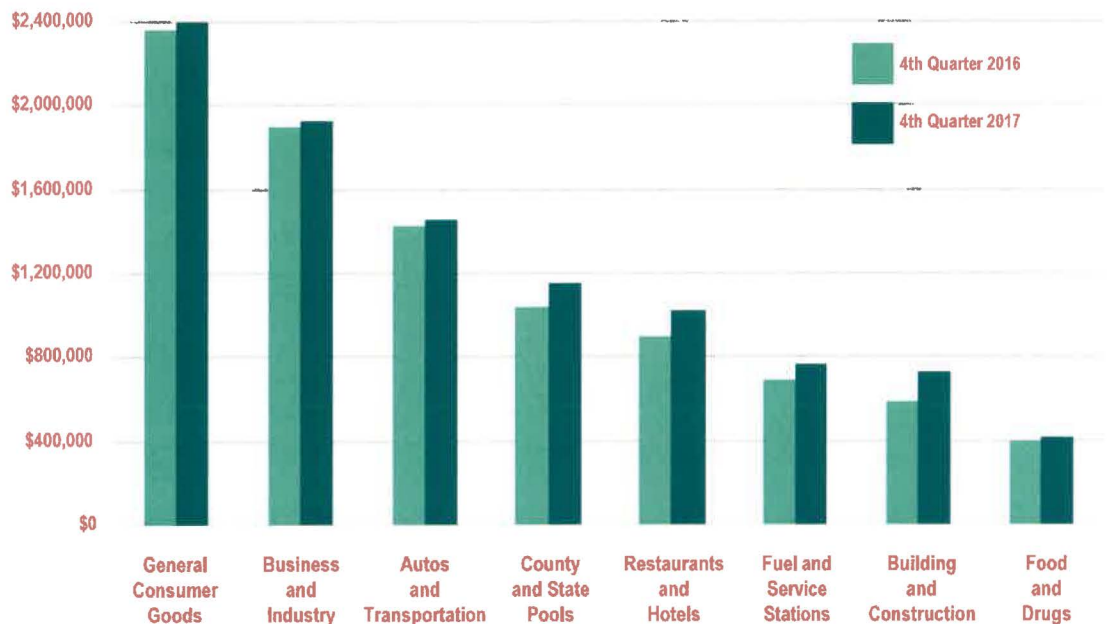
Holiday sales at discount department stores and electronics retailers overcame declines at traditional department store venues.

A temporary jump in the size of the countywide use tax pool grew the City's allocation by 12%.

Measure Z, the City's .25% local tax generated \$2,222,690 or 2.3% more than this time last year. Vehicle sales, new construction and rising fuel prices brought the largest gains.

Net of reporting adjustments, taxable sales for all of San Bernardino County grew 4.1% over the comparable time period while those of the entire the Southern California region were up 3.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Allied Building Products	Interline Brands
Allstar Kia	Kohls Distribution Center
Best Buy	Larry H Miller Nissan San Bernardino
Chaparral Motorsports	Macys
Costco	Moss Bros Chrysler Dodge Jeep Ram Fiat
Crest Chevrolet	Ross
Curacao	Sams Club w/ Fuel
Dis Events	Sears
Fairview Ford	Stater Bros
G & M Oil	Target
Greenbrier Rail Services	Toyota/Subaru of San Bernardino
Home Depot	Walmart Supercenter
Hub Construction Specialties	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$23,202,556	\$24,021,681
County Pool	2,847,639	2,987,830
State Pool	13,418	4,432
Gross Receipts	\$26,063,613	\$27,013,942
Measure Z	\$6,494,191	\$6,280,964

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

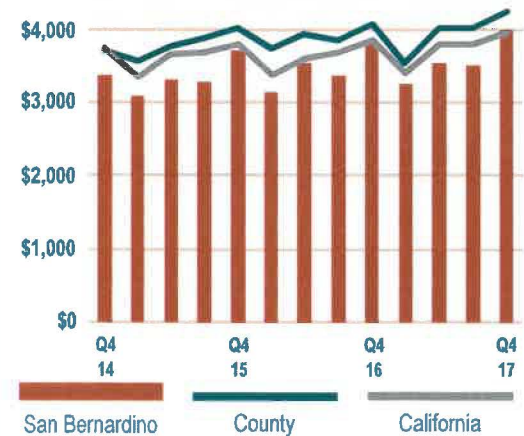
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

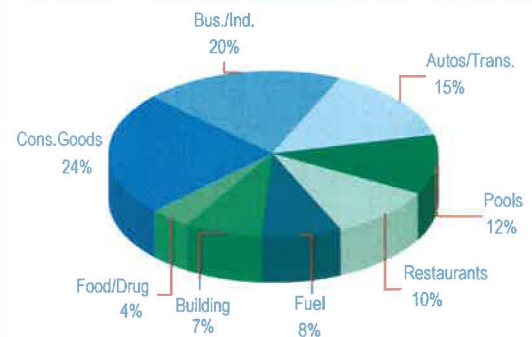
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP San Bernardino This Quarter



SAN BERNARDINO TOP 15 BUSINESS TYPES

<i>*In thousands of dollars</i>	San Bernardino		County	HdL State
Business Type	Q4 '17*	Change	Change	Change
Automotive Supply Stores	159.8	3.5%	3.4%	1.9%
Boats/Motorcycles	—	CONFIDENTIAL	0.1%	5.3%
Building Materials	482.9	34.6%	14.8%	11.6%
Casual Dining	324.7	9.2%	9.5%	3.5%
Department Stores	203.1	-12.0%	-6.7%	-5.4%
Discount Dept Stores	1,094.0	3.5%	2.2%	4.1%
Electronics/Appliance Stores	291.9	16.6%	17.4%	5.8%
Family Apparel	211.2	2.3%	0.3%	2.1%
Fulfillment Centers	—	CONFIDENTIAL	151.4%	55.5%
Grocery Stores	227.3	4.6%	-0.4%	-1.5%
Heavy Industrial	167.3	-5.5%	15.3%	10.1%
New Motor Vehicle Dealers	928.6	4.4%	-2.0%	2.6%
Plumbing/Electrical Supplies	151.7	4.5%	9.6%	9.9%
Quick-Service Restaurants	544.1	4.1%	4.3%	5.0%
Service Stations	757.6	10.1%	11.1%	11.4%
Total All Accounts	8,718.6	5.6%	5.1%	4.0%
County & State Pool Allocation	1,155.9	11.3%	10.8%	0.8%
Gross Receipts	9,874.5	6.2%	5.7%	3.6%