

Q4 2017



City of Chula Vista Sales Tax *Update*

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

Chula Vista In Brief

Chula Vista's receipts from October through December were 2.2% above the fourth sales period in 2016. Excluding reporting aberrations, actual sales were up 4.4%.

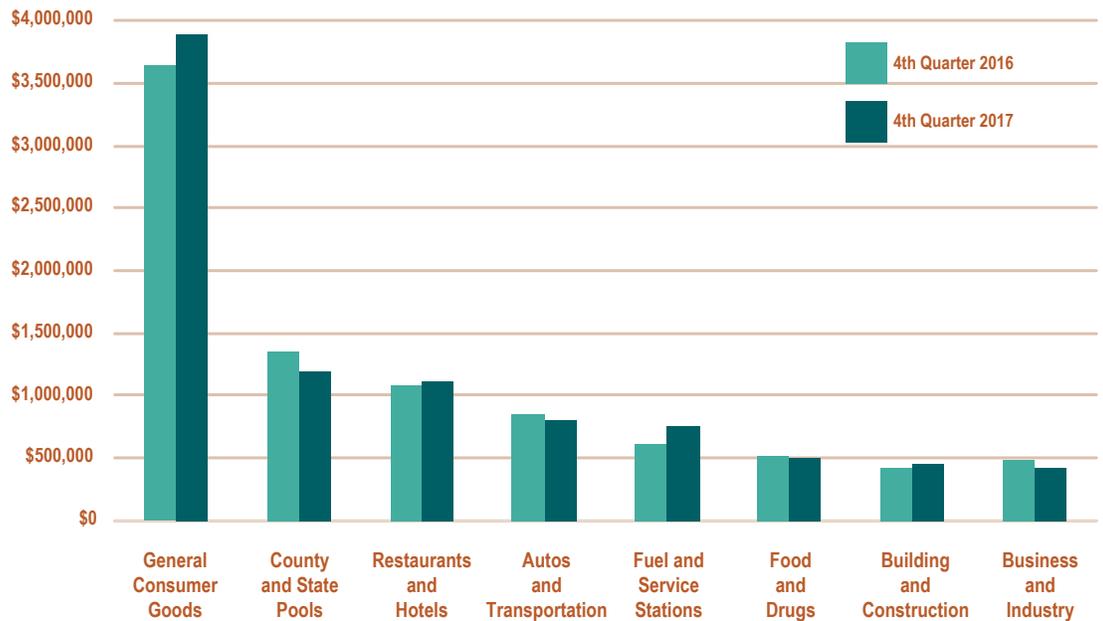
Synchronized global growth and disciplined OPEC oil production led to higher petroleum prices, benefiting the City's fuel and service station dealers. It also contributed to strong results at the local discount department outlets that sell gasoline. Recent merchant openings in town further benefited discount department store and family apparel postings. Electronic-appliance store results also improved.

A late vendor payment depressed the county use-tax pool, tempering the overall rate of progress. New car sales were also lower.

Measure P, the voter approved half-cent transaction tax, added an additional \$5,085,000 to the amounts previously described.

Net of aberrations, taxable sales for all of San Diego 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

Apple	Mossy Nissan Chula Vista
Arco AM PM	Penske Ford Chula Vista
Best Buy	Penske Honda Chula Vista
Burlington	Ralphs
Chevron	Ross
Circle K	Sears
Costco	Target
Home Depot	Toyota/Scion
JC Penney	Toys R Us
Jeromes Furniture Warehouse	Vons
Kohls	Walmart
Lowe's	Youngevity
Macys	

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$14,389,693	\$15,071,580
County Pool	2,335,470	2,250,120
State Pool	10,373	7,939
Gross Receipts	\$16,735,536	\$17,329,639
Measure P	\$0	\$9,858,765

California Overall

Factored for accounting anomalies, statewide fourth quarter receipts from local government's one cent sales tax were 4.5% 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."

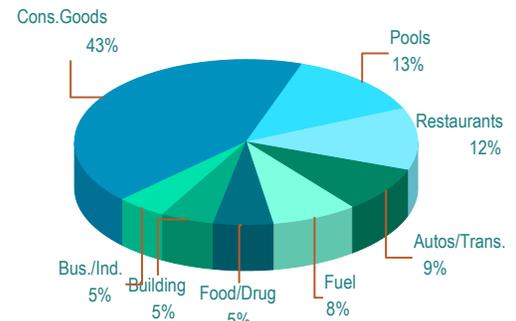
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Chula Vista This Quarter



CHULA VISTA TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Chula Vista	County	HdL State	
	Q4 '17*	Change	Change	Change
Automotive Supply Stores	117.8	-2.3%	0.5%	1.9%
Building Materials	288.2	6.6%	5.9%	11.6%
Casual Dining	454.4	3.8%	0.8%	3.5%
Convenience Stores/Liquor	104.4	12.2%	6.6%	8.3%
Department Stores	369.6	-4.3%	-2.4%	-5.4%
Discount Dept Stores	1,783.1	9.0%	4.4%	4.1%
Drug Stores	96.2	-10.4%	-12.3%	-10.7%
Electronics/Appliance Stores	525.4	12.4%	4.6%	5.8%
Family Apparel	403.9	17.0%	3.6%	2.1%
Grocery Stores	295.8	-6.2%	-2.7%	-1.5%
Home Furnishings	151.8	2.2%	1.9%	2.6%
New Motor Vehicle Dealers	436.0	-10.8%	-0.1%	2.6%
Quick-Service Restaurants	499.1	-0.6%	6.0%	5.0%
Service Stations	753.1	10.7%	8.9%	11.4%
Specialty Stores	316.5	1.2%	1.7%	4.4%
Total All Accounts	7,950.8	4.6%	5.1%	4.0%
County & State Pool Allocation	1,196.9	-11.3%	-10.8%	0.8%
Gross Receipts	9,147.7	2.2%	2.7%	3.6%