

Q4 2017

LIVERMORE

City of Livermore Sales Tax *Update*

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

Livermore In Brief

Livermore's receipts from October through December were flat compared to the fourth sales period in 2016. Excluding reporting aberrations, actual sales were up 11.3% and reflect the third straight quarter of double digit growth.

The wide disparity between cash receipts and actual sales stems from an accounting error that inflated the comparison period totals; the error was corrected in the first quarter of 2017.

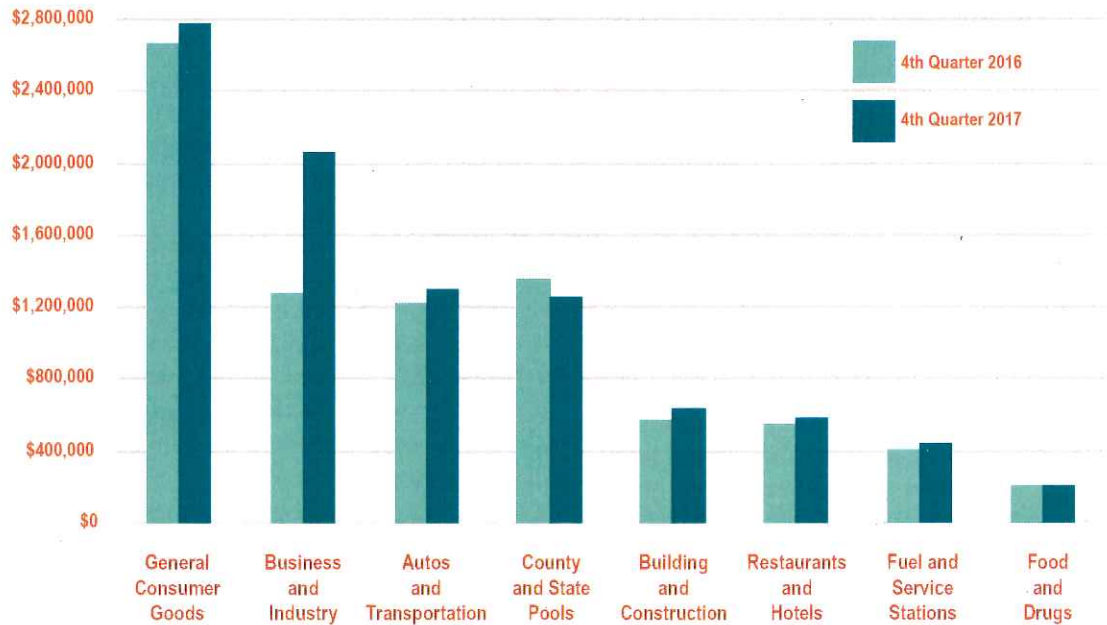
Business relocations into the City over the past year, coupled with several vendor's retroactive adjustments, accounted for the bulk of revenue gains in the business and industry group. Quite a few sectors posted greater sales, including building materials, family apparel and new motor vehicle dealerships.

Payment anomalies inflated results from contractors and quick-service eateries; with exceptions removed, these segments still achieved positive outcomes. Electrical equipment received a payment misallocation that will be corrected in a future quarter.

Countywide pool taxes declined; the impact was a lower allocation for this period.

Net of aberrations, taxable sales for all of Alameda County grew 6.9% over the comparable time period; the Bay Area was up 4.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Bay City Electric Works	Lowes
Burberry Limited	Michael Kors
Coach	Mobile Modular Management
Costco	Polo Ralph Lauren
Gillig	Porsche of Livermore
Gucci	Safeway
Home Depot	Target
JA Momaney Services	Tommy Hillfiger
Kate Spade	Tory Burch
Livermore Audi/Subaru/Honda	US Foodservice
Livermore Ford Lincoln Mitsubishi	Vans
Livermore Toyota & Scion	Walmart
	Waxies

REVENUE COMPARISON

Two Quarters - Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$14,442,738	\$15,437,356
County Pool	2,360,776	2,429,751
State Pool	10,603	8,254
Gross Receipts	\$16,814,117	\$17,875,361

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

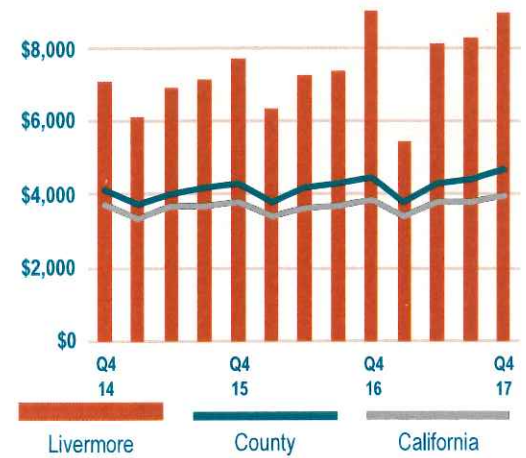
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

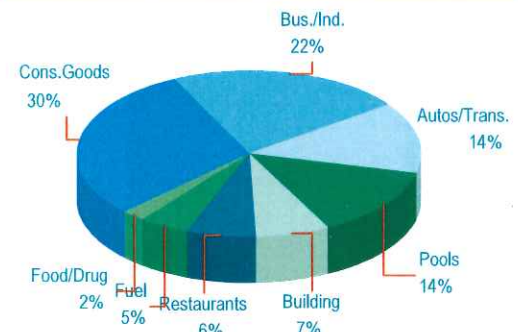
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Livermore This Quarter



LIVERMORE TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Livermore Q4 '17*	Change	County Change	HdL State Change
Building Materials	319.8	9.9%	18.7%	11.6%
Casual Dining	305.1	4.0%	4.6%	3.6%
Contractors	237.4	17.4%	5.9%	13.8%
Discount Dept Stores	— CONFIDENTIAL —	—	4.0%	4.1%
Electrical Equipment	173.3	75.5%	-17.0%	5.7%
Family Apparel	863.7	6.0%	3.3%	2.1%
Food Service Equip./Supplies	— CONFIDENTIAL —	—	-9.2%	2.5%
Heavy Industrial	220.6	0.6%	14.2%	10.1%
Light Industrial/Printers	182.5	-5.9%	-12.7%	0.9%
New Motor Vehicle Dealers	929.4	4.6%	19.3%	2.6%
Quick-Service Restaurants	185.2	9.9%	4.2%	4.9%
Service Stations	426.5	9.0%	13.1%	11.4%
Shoe Stores	310.9	5.8%	-1.3%	0.3%
Trailers/Auto Parts	— CONFIDENTIAL —	—	32.3%	0.9%
Women's Apparel	301.5	1.9%	-2.9%	-5.9%
Total All Accounts	8,026.7	1.1%	7.0%	4.0%
County & State Pool Allocation	1,259.3	-7.1%	-1.6%	0.8%
Gross Receipts	9,286.0	-0.1%	5.7%	3.6%