

Q4 2017



City of Pasadena Sales Tax *Update*

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

Pasadena In Brief

Pasadena's receipts from October through December were 6.8% below the fourth sales period in 2016. Excluding reporting aberrations, actual sales were down 6.0%.

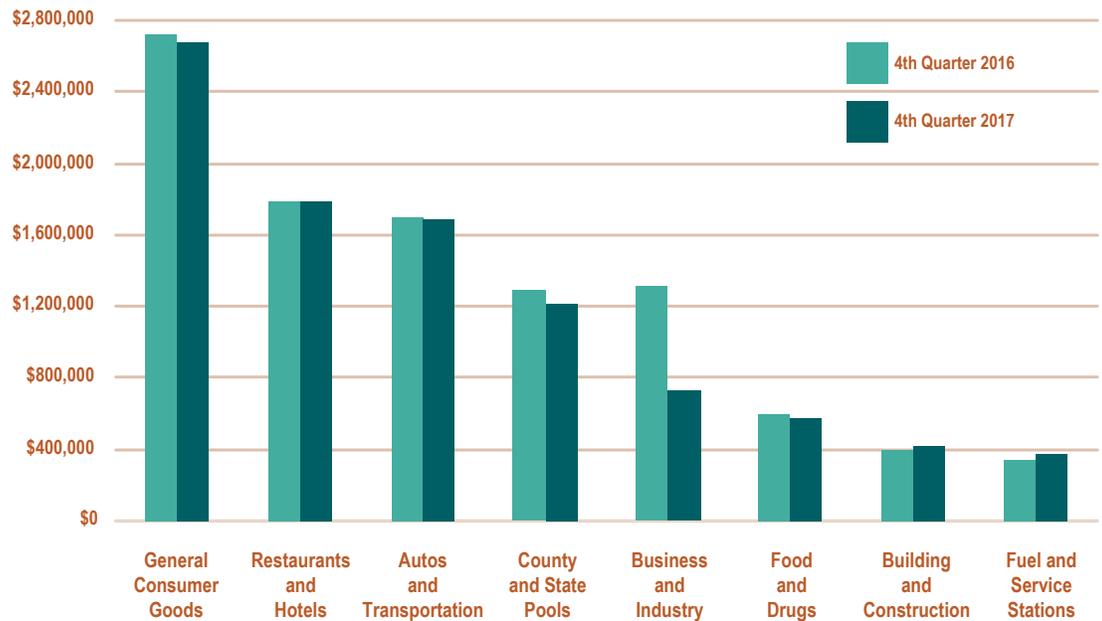
A onetime payment that inflated last year's allocation from the business and industry sector was primarily responsible for the current decrease. A drop in the City's allocation from the county use tax pool also contributed to the lower overall results.

The City experienced a decline in sales from new motor vehicle dealers, grocery stores and several categories of general consumer goods.

The losses were partially offset by higher fuel prices at the pump that increased results from service stations and a strong sales quarter for quick-service restaurants, auto leases and plumbing/electrical supplies.

Net of aberrations, taxable sales for all of Los Angeles 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	Porsche Leasing
Audi & Bentley Leasing	Ralphs Fresh Fare
Avon Distribution Center	Ross
Bed Bath & Beyond	Rusnak Luxury Autos
Best Buy	Symes Cadillac/Land Rover
Enterprise Rent A Car	Target
Ganahl Lumber	Tesla Motors
Honda of Pasadena	Thorson GMC Buick
JP Morgan Chase Bank	Tiffany & Co
Langham Huntington Hotel & Spa	Toyota of Pasadena
Macys	Vons
Nordstrom Rack	Vroman's Bookstore
	Whole Foods Market

REVENUE COMPARISON

Three Quarters - Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$23,738,816	\$23,382,372
County Pool	3,396,370	3,281,972
State Pool	14,245	4,125
Gross Receipts	\$27,149,431	\$26,668,469

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."

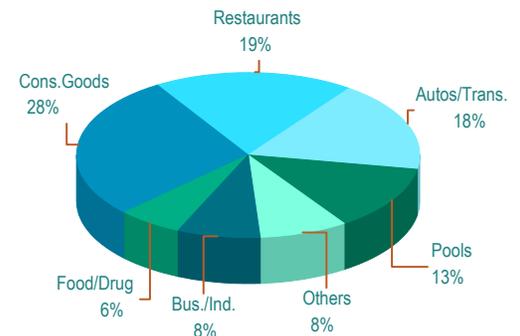
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Pasadena This Quarter



PASADENA TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Pasadena Q4 '17*	Change	County Change	HdL State Change
Auto Lease	238.0	14.6%	12.9%	16.6%
Building Materials	226.8	-0.2%	7.8%	11.6%
Casual Dining	729.6	-2.1%	3.5%	3.5%
Department Stores	269.0	-9.2%	-3.0%	-5.4%
Discount Dept Stores	— CONFIDENTIAL —		3.7%	4.1%
Electronics/Appliance Stores	516.5	0.7%	3.3%	5.8%
Family Apparel	337.1	-2.1%	3.1%	2.1%
Fine Dining	231.1	6.0%	8.7%	10.4%
Fulfillment Centers	— CONFIDENTIAL —		36.9%	55.5%
Grocery Stores	369.1	-4.3%	-5.8%	-1.5%
Home Furnishings	307.9	6.6%	0.8%	2.6%
New Motor Vehicle Dealers	1,133.0	-3.3%	-0.9%	2.6%
Quick-Service Restaurants	395.4	8.4%	4.5%	4.9%
Service Stations	369.4	9.9%	10.0%	11.4%
Specialty Stores	240.9	6.0%	5.1%	4.4%
Total All Accounts	8,241.0	-6.8%	-0.9%	4.0%
County & State Pool Allocation	1,207.4	-6.4%	-0.5%	0.8%
Gross Receipts	9,448.4	-6.8%	-0.8%	3.6%