

Q1 2018



City of Pasadena Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2018)

Pasadena In Brief

Pasadena's receipts from January through March were 10.7% below the first sales period in 2017. Due to the State's transition to a new software system, multiple transactions were not processed in 1Q18 but are anticipated to be received with the 2Q18 distribution. Including these allocations and other reporting aberrations, actual sales would have been up 1.3%.

Missing payments adversely impacted post-holiday performance in general consumer goods. On an actual basis, most sectors outperformed regional trends including electronics.

Once delayed distributions were restored, recent openings produced a 1.3% gain in the restaurant and hotel group. Further omissions hampered results in other sectors including auto lease, service stations, drug stores, grocery stores as well as the countywide use tax allocation pool.

Net of aberrations, taxable sales for all of Los Angeles County grew 4.4% over the comparable time period; the Southern California region was up 5.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

76	Pasadena Volkswagon
Apple	Ross
Avon Distribution Center	Rusnak Luxury Autos
Bed Bath & Beyond	Samys Camera
Best Buy	Symes Cadillac/Land Rover
CPO Outlets	Target
CVS Pharmacy	Tesla Motors
Enterprise Rent A Car	Thorson GMC Buick
Ganahl Lumber	Tiffany & Co
Honda of Pasadena	Toyota of Pasadena
Macys	Vons
Marshalls	Whole Foods Market
Mini Mart Arco	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$30,966,294	\$29,871,464
County Pool	4,410,678	4,152,445
State Pool	24,437	9,713
Gross Receipts	\$35,401,409	\$34,033,622

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

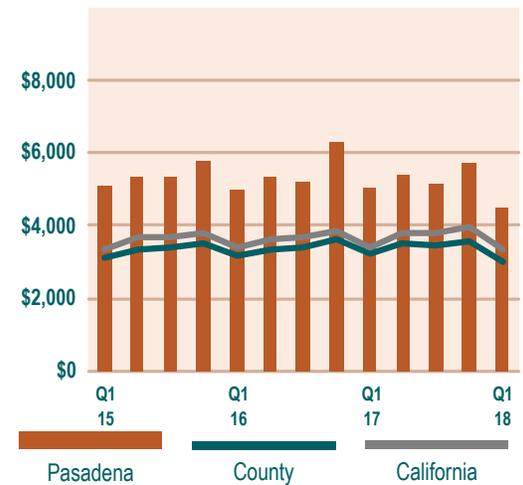
Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the online interstate marketplace was not the prevailing issue before the court in 1992.

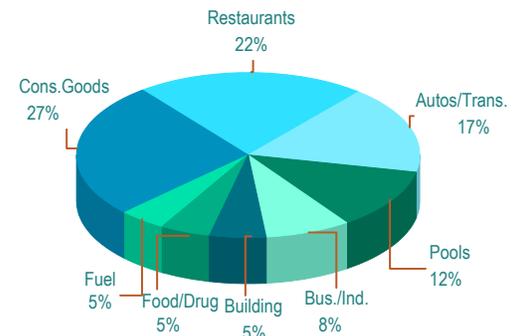
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about \$1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average \$60 per year for each California household, and California businesses average \$171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court's opinion to determine next steps to support taxpayers.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Pasadena This Quarter



PASADENA TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Pasadena Q1 '18*	Change	County Change	HdL State Change
Building Materials	213.7	1.0%	-3.0%	3.8%
Casual Dining	662.2	-10.0%	-1.1%	-2.0%
Discount Dept Stores	— CONFIDENTIAL —	—	2.7%	2.8%
Electronics/Appliance Stores	421.0	12.9%	-3.0%	1.1%
Family Apparel	265.4	10.0%	9.6%	8.4%
Fast-Casual Restaurants	176.9	3.4%	6.8%	6.7%
Fine Dining	226.8	12.6%	3.4%	5.6%
Fulfillment Centers	— CONFIDENTIAL —	—	-7.0%	38.8%
Grocery Stores	204.4	4.3%	8.9%	1.9%
Home Furnishings	215.0	-18.0%	-4.7%	-1.1%
New Motor Vehicle Dealers	1,023.7	-1.2%	-1.2%	-0.2%
Plumbing/Electrical Supplies	144.8	1.5%	10.0%	11.5%
Quick-Service Restaurants	360.3	-1.3%	-4.1%	-3.8%
Service Stations	327.3	-3.2%	-3.9%	4.6%
Specialty Stores	186.6	-6.2%	-10.9%	-10.1%
Total All Accounts	6,489.1	-10.2%	-5.9%	-1.8%
County & State Pool Allocation	876.1	-14.5%	-10.3%	-2.1%
Gross Receipts	7,365.2	-10.7%	-6.4%	-1.8%