

# Q4 2017



# City of Montebello Sales Tax *Update*

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

## Montebello In Brief

Montebello's receipts from October through December were 1.7% above the fourth sales period in 2016.

Higher sales from electronics stores and one large retailer, receipts from a newly opened outlet, and accounting adjustments that inflated specialty stores offset a missing payment from another large retailer to produce a 1.8% gain in general consumer goods, the City's largest business group.

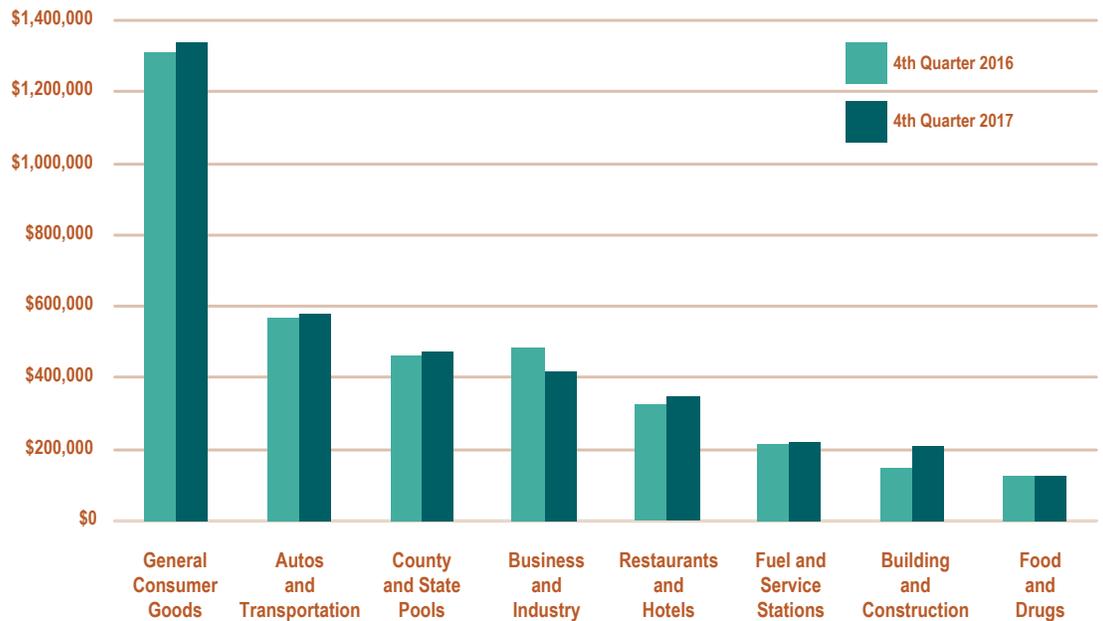
An accounting adjustment that depressed prior year's results caused the large gain in building and construction; actual sales were down 0.7%. Similarly, restaurant receipts were inflated by payment anomalies. Actual dining out sales were up 2.8%, trailing trends.

The auto and fuel groups posted modest gains, while the City's allocation from the countywide use tax pool increased 2.1% during the quarter.

Multiple onetime payments for equipment purchases that inflated prior year results and a light industrial business closeout sank business to business returns.

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

Allied Building Products	JC Penney
Arco/Auto Repair & Electric	LA Auto Exchange
Best Buy	Landsberg Orora
Chevrolet of Montebello	Marshalls
Chevron	Old Navy
Clean Sweep Supply	PCI Industries
Costco	Quiet Cannon
Empire Cleaning Supply	Ross
Ford of Montebello	Sears
Forever 21	T Mobile
HD Supply Repair & Remodeling	Toys R Us
Inland Kenworth	Victoria's Secret
	Westrux International

### REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$8,974,245	\$8,992,049
County Pool	1,282,572	1,262,865
State Pool	5,277	1,716
<b>Gross Receipts</b>	<b>\$10,262,094</b>	<b>\$10,256,630</b>

**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

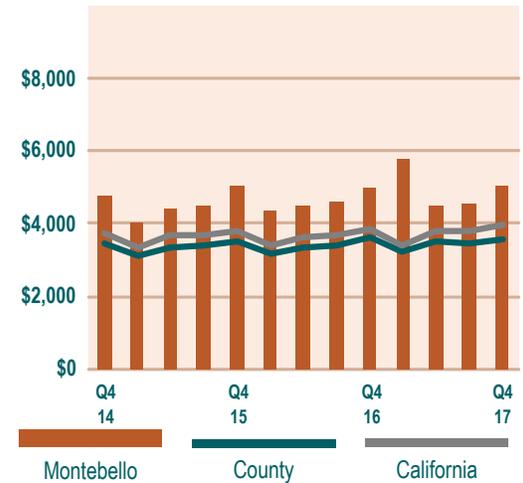
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

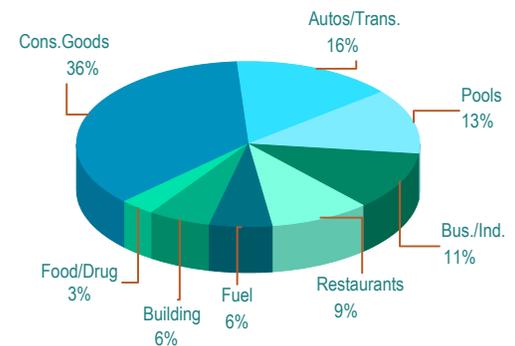
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

**SALES PER CAPITA**



**REVENUE BY BUSINESS GROUP**  
Montebello This Quarter



**MONTEBELLO TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	Montebello Q4 '17*	Montebello Change	County Change	HdL State Change
Building Materials	— CONFIDENTIAL —	—	7.8%	11.6%
Casual Dining	136.6	13.7%	3.5%	3.5%
Department Stores	— CONFIDENTIAL —	—	-3.0%	-5.4%
Discount Dept Stores	— CONFIDENTIAL —	—	3.7%	4.1%
Electronics/Appliance Stores	195.6	10.7%	3.3%	5.8%
Family Apparel	239.0	-1.8%	3.1%	2.1%
Grocery Stores	69.3	3.3%	-5.8%	-1.5%
Light Industrial/Printers	229.9	-4.1%	-4.0%	0.9%
New Motor Vehicle Dealers	417.4	-2.9%	-0.9%	2.6%
Quick-Service Restaurants	158.5	3.2%	4.5%	5.0%
Service Stations	205.3	10.1%	10.0%	11.4%
Shoe Stores	76.5	0.4%	2.6%	0.3%
Specialty Stores	140.6	5.7%	5.3%	4.4%
Used Automotive Dealers	— CONFIDENTIAL —	—	-0.4%	0.4%
Women's Apparel	106.8	-1.8%	-4.9%	-5.9%
<b>Total All Accounts</b>	<b>3,238.4</b>	<b>1.7%</b>	<b>-0.9%</b>	<b>4.0%</b>
<b>County &amp; State Pool Allocation</b>	<b>474.5</b>	<b>2.1%</b>	<b>-0.5%</b>	<b>0.8%</b>
<b>Gross Receipts</b>	<b>3,712.9</b>	<b>1.7%</b>	<b>-0.8%</b>	<b>3.6%</b>