

Q4 2017



City of Murrieta Sales Tax Update

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

Murrieta In Brief

Murrieta's receipts from October through December were 10.9% above the fourth sales period in 2016. Excluding aberrations, actual sales were up 12.3%.

Receipts from recently opened dealerships helped produce a 44.7% gain in the automotive group and were the major factor in the overall gain. Sharply higher contractors' supplies sales and solid gains in building materials and plumbing/electrical supplies boosted building-construction, reflecting the strength in that sector.

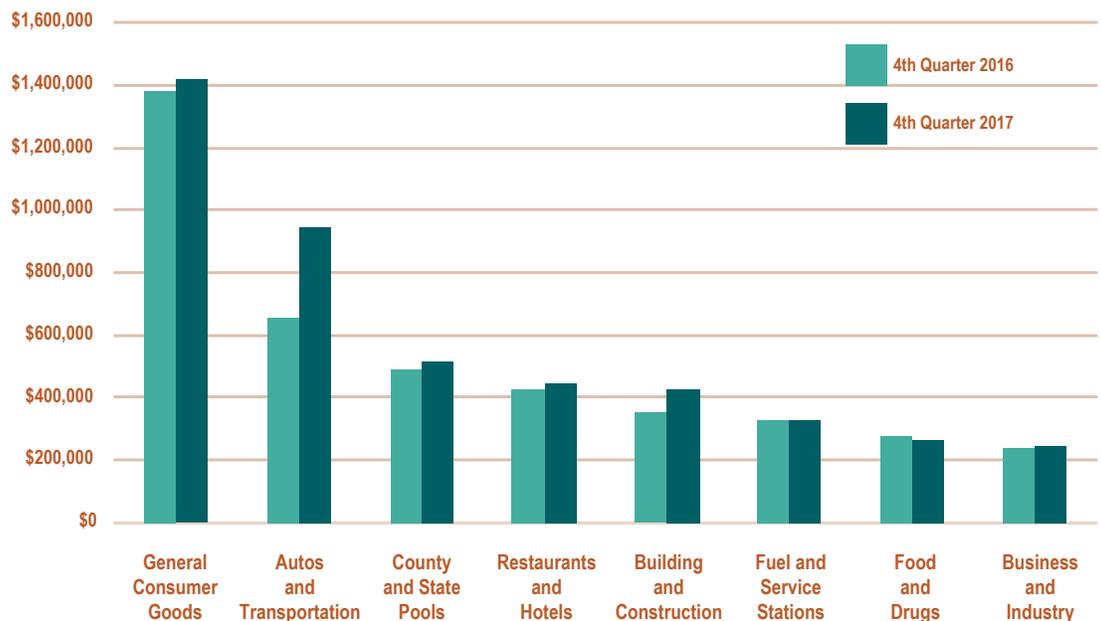
A new outlet and payment aberrations lifted general consumer goods; overall retail sales were sluggish, up 0.3%. Similarly, payment anomalies and a new casual dining eatery boosted the restaurant group. Multiple offsetting onetime events produced a 2.2% increase in business and industry.

Due to higher point of sales receipts, the City's allocation from the countywide use tax pool increased 5.7% during the quarter.

The gains were partially offset by lower receipts from food and drugs. Payment aberrations produced net flat results for the fuel group despite rising retail gas prices.

Net of aberrations, taxable sales for all of Riverside County grew 5.9% 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

7 Eleven	Kohls
Abramovich Motors	Lowes
Arco AM PM	Mor Furniture For Less
Ashley Furniture	Ralphs Marketplace
Best Buy	Ross
BMW of Murrieta	Sams Club w/ Fuel
Burlington	Shell
Carmax	Target
Chevron	Temecula Motorsports
Dick's Sporting Goods	Toys R Us
Giant Inland Empire RV Center	Volkswagen of Murrieta
Home Depot	Walmart
Jeromes Furniture Warehouse	

REVENUE COMPARISON

Three Quarters - Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$10,516,491	\$11,891,379
County Pool	1,321,473	1,387,412
State Pool	6,054	2,079
Gross Receipts	\$11,844,017	\$13,280,870

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

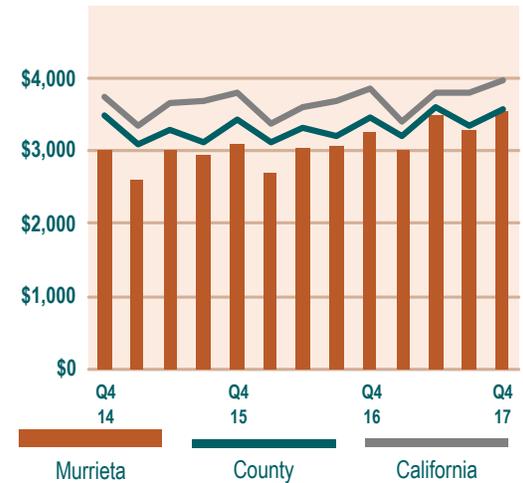
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

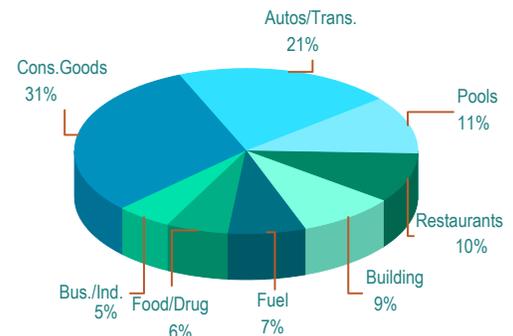
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Murrieta This Quarter



MURRIETA TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Murrieta Q4 '17*	Murrieta Change	County Change	HdL State Change
Boats/Motorcycles	— CONFIDENTIAL —	—	10.2%	5.3%
Building Materials	263.0	6.1%	13.6%	11.6%
Casual Dining	157.4	2.0%	4.9%	3.7%
Contractors	110.2	80.3%	11.8%	13.8%
Discount Dept Stores	— CONFIDENTIAL —	—	1.4%	4.1%
Electronics/Appliance Stores	160.1	1.8%	4.2%	5.8%
Family Apparel	107.3	7.1%	1.9%	2.1%
Grocery Stores	173.9	-3.2%	2.1%	-1.5%
Home Furnishings	190.3	-1.7%	3.0%	2.6%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	0.9%	2.6%
Quick-Service Restaurants	229.6	6.7%	6.5%	4.9%
Service Stations	327.0	-0.1%	8.7%	11.4%
Specialty Stores	143.6	1.9%	2.7%	4.4%
Trailers/RVs	— CONFIDENTIAL —	—	9.1%	8.7%
Used Automotive Dealers	— CONFIDENTIAL —	—	23.8%	0.4%
Total All Accounts	4,081.3	11.6%	4.7%	4.0%
County & State Pool Allocation	518.9	5.2%	-1.4%	0.8%
Gross Receipts	4,600.2	10.9%	3.9%	3.6%