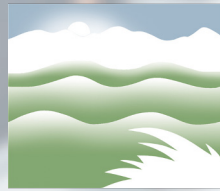


Q4 2017



City of San Jacinto Sales Tax *Update*

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

San Jacinto In Brief

San Jacinto's receipts from October through December were 6.6% above the fourth sales period in 2016.

Continually rising retail gas prices caused by higher crude oil costs boosted service station sales 18.6% and represented 58% of the overall gain in cash receipts.

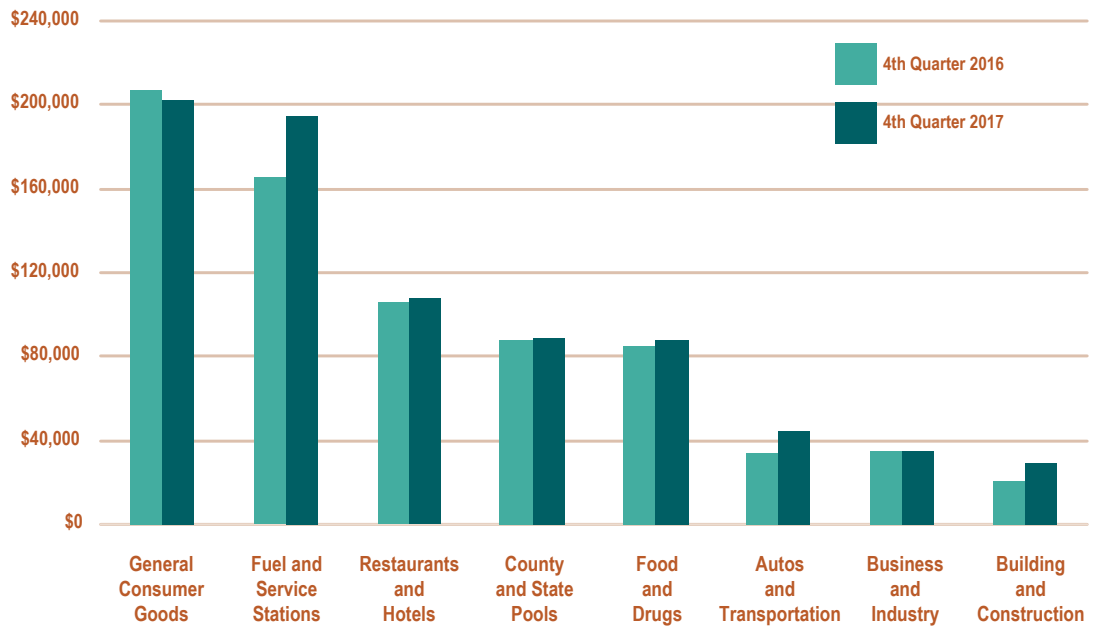
Higher used auto sales produced most of the gain in the automotive sector, while increased sales of contractors' supplies boosted building and construction. Grocery store receipts were strong, up 7.6%.

Payment aberrations depressed restaurant returns; actual dining out sales were up 3.9% in line with regional and statewide trends. The City's allocation from the county-wide use tax pool increased a modest 1.7% as overall pool receipts were down for the quarter.

The gains were partially offset by lower overall general consumer goods sales.

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	Jack in the Box
Arco AM PM	Little Caesar's
AutoZone	McDonalds
Cardenas	Mobil Shop N Go
Chevron	Peps Equipment
Circle K	Rite Aid
Crop Production Services	Rock Auto Group
Del Taco	San Jacinto Fastrip
Farmer Boys	San Jacinto Shell
Gamestop	Stater Bros
Hemet Valley Pipe & Supply	Walgreens
Hemet Valley Tool	Walmart Supercenter
Interstate Steel Structures	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$1,928,575	\$2,012,621
County Pool	242,093	235,201
State Pool	1,098	364
Gross Receipts	\$2,171,766	\$2,248,186

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

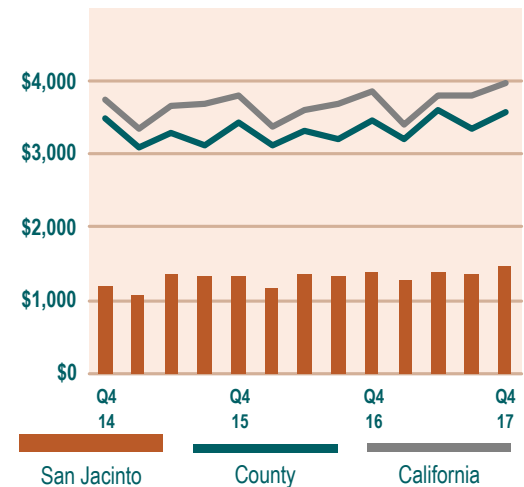
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

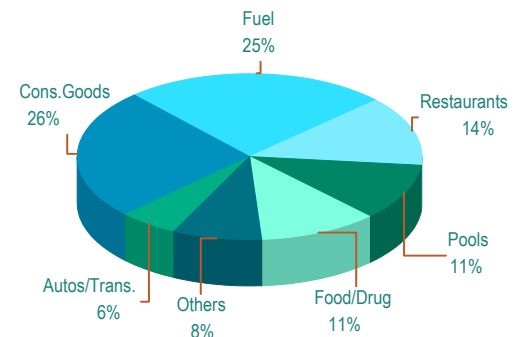
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP San Jacinto This Quarter



SAN JACINTO TOP 15 BUSINESS TYPES

Business Type	San Jacinto		County	HdL State
	Q4 '17	Change	Change	Change
Auto Repair Shops	14,135	34.2%	5.4%	3.6%
Automotive Supply Stores	15,545	-6.6%	2.6%	1.9%
Casual Dining	17,972	-9.1%	4.9%	3.7%
Cigarette/Cigar Stores	8,132	8.3%	17.9%	13.5%
Contractors	13,754	76.2%	11.8%	13.8%
Convenience Stores/Liquor	15,550	16.3%	5.7%	8.2%
Discount Dept Stores	— CONFIDENTIAL —		1.4%	4.1%
Drug Stores	23,918	-11.3%	-8.8%	-10.9%
Electronics/Appliance Stores	15,140	16.7%	4.2%	5.8%
Garden/Agricultural Supplies	— CONFIDENTIAL —		9.2%	2.3%
Grocery Stores	— CONFIDENTIAL —		2.1%	-1.5%
Plumbing/Electrical Supplies	10,463	16.0%	11.6%	10.3%
Quick-Service Restaurants	87,273	7.5%	6.5%	4.9%
Service Stations	194,217	17.1%	8.7%	11.4%
Used Automotive Dealers	13,049	148.9%	23.8%	0.4%
Total All Accounts	700,501	7.3%	4.7%	4.0%
County & State Pool Allocation	89,062	1.1%	-1.4%	0.8%
Gross Receipts	789,563	6.6%	3.9%	3.6%