

Q4 2017



City of Chino Sales Tax *Update*

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

Chino In Brief

Chino's receipts from October through December were 9.9% above the fourth sales period in 2016. Results were inflated by recovery of a large business-industrial local tax payment that had been previously misallocated, garnered by the City's ongoing point of sale audit program. Excluding this and other reporting aberrations, actual sales were up 2.6%.

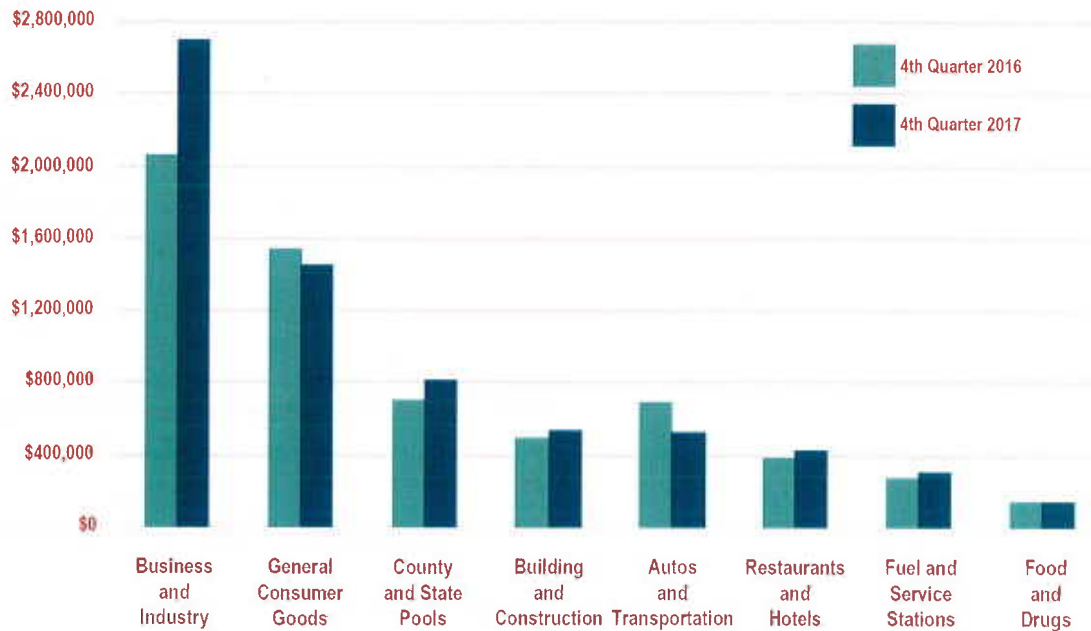
Business-industrial postings surged with the recent addition of a new supplier and strong medical-biotech sales.

Contractor receipts also leaped, benefiting from the healthy regional construction market and by an easy comparison with last year when wet winter weather temporarily depressed results. Allocations from the countywide use-tax pool also increased 15%. The pool is divided proportionately among county agencies based on cash receipts and the City received a larger share given its robust relative performance.

Lower auto-transportation sales and the relocation of a general consumer goods supplier hindered the overall rate of progress.

Net of aberrations, taxable sales for all of San Bernardino County grew 4.1% 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

Argos Material Distribution	McKesson Medical Surgical
Best Buy	MK Smith Chevrolet
Chino Hills Ford	Nordstrom Rack
Circle K	Redbuilt
Corona Millworks	Ross
Creative Bus Sales	Sams Club w/ Fuel
Curacao	Soligent Distribution
El & El Wood Products	Stater Bros
Fisher Scientific Co	Target
Home Depot	TJ Maxx
JC Penney	Walmart Fulfillment Center
Kohls	Walmart Supercenter
Main Electric Supply	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$16,637,507	\$17,531,531
County Pool	2,041,591	2,177,571
State Pool	9,411	3,186
Gross Receipts	\$18,688,509	\$19,712,289

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 CPAs 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

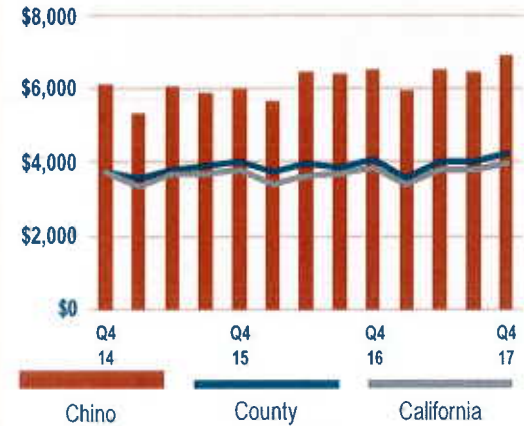
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

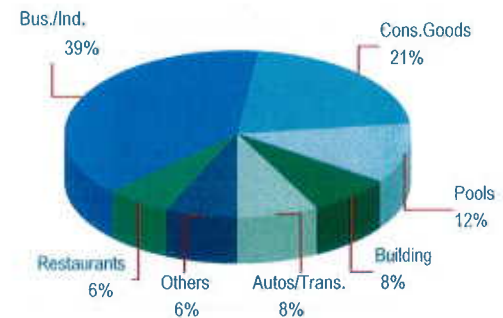
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Chino This Quarter



CHINO TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Chino Q4 '17*	Chino Change	County Change	HdL State Change
Building Materials	165.3	8.1%	14.8%	11.6%
Casual Dining	160.7	12.6%	9.7%	3.7%
Contractors	363.3	15.3%	15.4%	13.8%
Department Stores	142.5	-4.1%	-6.7%	-5.4%
Discount Dept Stores	590.6	-2.6%	2.2%	4.1%
Electrical Equipment	197.5	9.3%	-15.4%	5.7%
Electronics/Appliance Stores	199.3	10.1%	17.4%	5.8%
Family Apparel	186.8	-0.8%	0.3%	2.1%
Fulfillment Centers	— CONFIDENTIAL —		151.4%	55.5%
Light Industrial/Printers	154.2	-16.6%	0.1%	0.9%
Medical/Biotech	1,368.7	8.4%	-6.6%	4.9%
New Motor Vehicle Dealers	— CONFIDENTIAL —		-2.0%	2.6%
Quick-Service Restaurants	224.3	6.5%	3.9%	4.9%
Service Stations	299.6	13.1%	11.1%	11.4%
Used Automotive Dealers	— CONFIDENTIAL —		-11.4%	0.4%
Total All Accounts	6,123.0	9.3%	5.1%	4.0%
County & State Pool Allocation	811.8	15.1%	10.8%	0.8%
Gross Receipts	6,934.8	9.9%	5.7%	3.6%