

Q4 2017



City of Los Altos Sales Tax *Update*

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

Los Altos In Brief

Los Altos' receipts from October through December were 10.6% above the fourth sales period in 2016. However, multiple payments relating to prior periods temporarily exaggerated the results. Excluding reporting aberrations, actual sales were still up 4.1%.

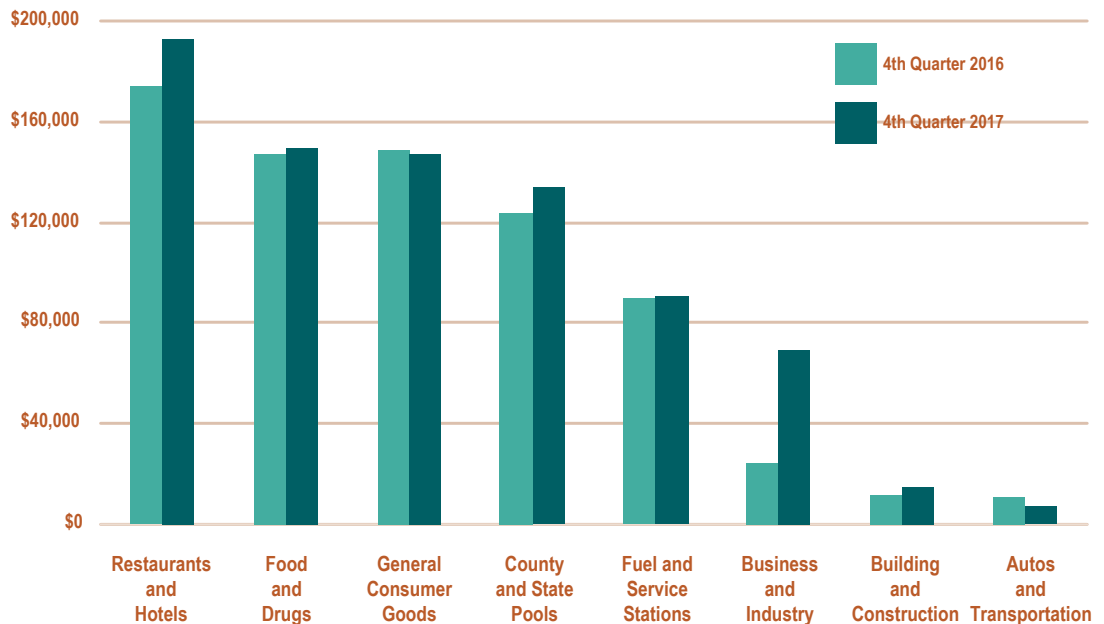
The recent addition of a merchant and solid sales growth enhanced receipts from business-industry, while greater variety and creative new concepts continue to improve interest in eating out therefore positively impacting casual dining and quick-service restaurants.

These increases in local point of sale revenue and increased capital and online purchases of items shipped into the region boosted allocations from the countywide use tax pool, further contributing to the positive outcome.

The gains were partially offset by weak holiday returns from family apparel, specialty and home furnishing retailers.

Net of aberrations, taxable sales for all of Santa Clara County grew 5.2% over the comparable time period; the Bay Area was up 4.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

A Runners Mind	Pendleton Woolen Mills
Amber India Restaurant	Pho Vi Hoa
Armadillo Willys BBQ & Cafe	Rite Aid
BevMo	Safeway
Chef Chus	Shell
Daintree Networks	Spectrum Interior Design
Draegers Super Market	Steinway
El Camino 76	Trader Joes
Kiwi Crate	True Value Hardware
Los Altos Chevron	Village Chevron
Los Altos Grill	Walgreens
Lucky Supermarket	Whole Foods Market
Noodle Talk	

REVENUE COMPARISON

Three Quarters - Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$1,759,259	\$1,778,063
County Pool	352,350	326,445
State Pool	1,075	448
Gross Receipts	\$2,112,684	\$2,104,956

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

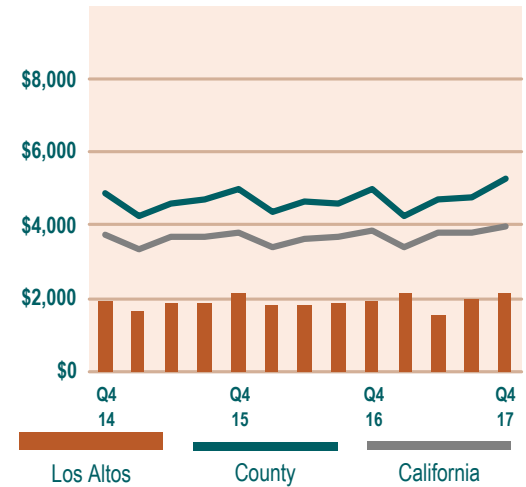
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

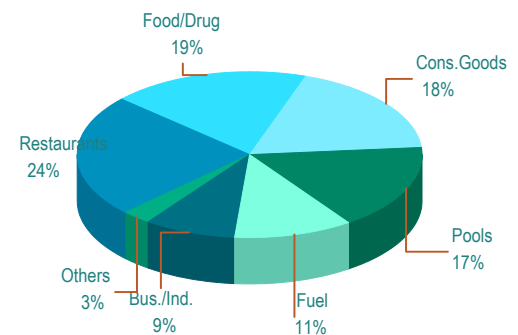
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Los Altos This Quarter



LOS ALTOS TOP 15 BUSINESS TYPES

Business Type	Los Altos		County	HdL State
	Q4 '17	Change	Change	Change
Casual Dining	122,578	9.7%	3.3%	3.5%
Convenience Stores/Liquor	— CONFIDENTIAL —	—	15.4%	8.3%
Drug Stores	— CONFIDENTIAL —	—	-8.9%	-10.7%
Electrical Equipment	— CONFIDENTIAL —	—	6.3%	5.7%
Family Apparel	16,002	-11.6%	-0.1%	2.1%
Fast-Casual Restaurants	13,345	-11.5%	10.7%	8.9%
Fine Dining	— CONFIDENTIAL —	—	11.2%	10.4%
Fulfillment Centers	— CONFIDENTIAL —	—	36.9%	55.5%
Grocery Stores	105,636	9.4%	1.7%	-1.5%
Home Furnishings	26,548	-7.4%	5.3%	2.6%
Music Stores	— CONFIDENTIAL —	—	-2.9%	-7.1%
Quick-Service Restaurants	15,875	12.6%	3.1%	4.9%
Service Stations	90,691	1.1%	9.9%	11.4%
Specialty Stores	19,833	-6.2%	1.4%	4.4%
Women's Apparel	15,413	0.8%	-9.5%	-5.9%
Total All Accounts	675,769	11.1%	6.6%	4.0%
County & State Pool Allocation	133,726	7.9%	3.6%	0.8%
Gross Receipts	809,496	10.6%	6.1%	3.6%