

Q1 2018



City of Los Altos Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2018)

Los Altos In Brief

Los Altos' receipts from January through March were 12.7% below the first sales period in 2017. Excluding reporting aberrations, actual sales were up 3.7%.

A reporting error that spiked year ago returns accounted for the temporary drop in the business and industry group.

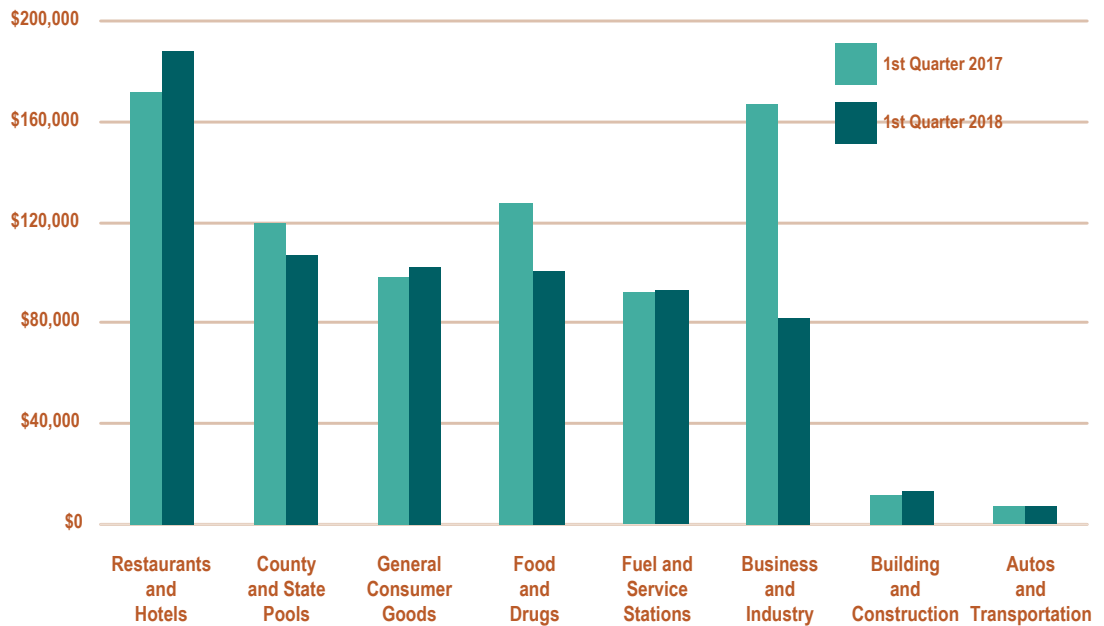
Grocery-related receipts were depressed by closed outlets combined with missing allocations due to the state's transition to a new software system. Similar occurrences adversely impacted the City's share of the countywide use tax allocation pool.

Conversely, recent openings boosted results in restaurants as a whole. The rise in the casual dining, fine dining and fast-casual sectors outpaced regional trends.

Post-holiday performance in general retail was understated by payment deviations. Most categories were up once these onetime events were removed.

Net of aberrations, taxable sales for all of Santa Clara County grew 6.8% over the comparable time; the Bay Area was up 6.7%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Amber India Restaurant	Los Altos Grill
Armadillo Willys BBQ & Cafe	Lucky Supermarket
BevMo	Noodle Talk Restaurant
Cetrella	Pho Vi Hoa Restaurant
Chef Chus	Restaurant ASA
Design Image	Rite Aid
Draegers Super Market	Rustic House
El Camino 76	Safeway
Franchise Tax Board Allocation Ac	Shell
Grand Petroleum	Steinway
Kiwi Crate	True Value Hardware
Los Altos Chevron	Village Chevron
	Whole Foods Market

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$2,435,435	\$2,366,009
County Pool	470,983	432,747
State Pool	2,058	975
Gross Receipts	\$2,908,475	\$2,799,731

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

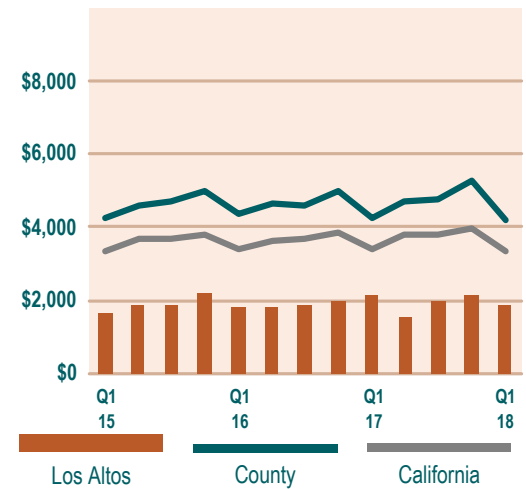
Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the on-line interstate marketplace was not the prevailing issue before the court in 1992.

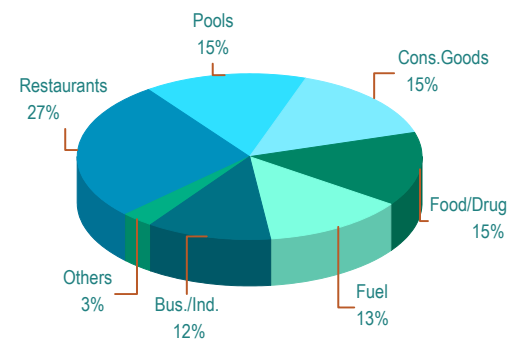
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about \$1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average \$60 per year for each California household, and California businesses average \$171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court's opinion to determine next steps to support taxpayers.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Los Altos This Quarter



LOS ALTOS TOP 15 BUSINESS TYPES

Business Type	Los Altos		County	HdL State
	Q1 '18	Change	Change	Change
Casual Dining	125,925	8.8%	-0.8%	-2.0%
Convenience Stores/Liquor	— CONFIDENTIAL —	—	5.0%	0.5%
Drug Stores	— CONFIDENTIAL —	—	-42.0%	-27.9%
Electrical Equipment	— CONFIDENTIAL —	—	41.7%	2.1%
Fast-Casual Restaurants	11,421	18.5%	3.6%	6.8%
Fine Dining	31,094	35.9%	3.7%	5.5%
Fulfillment Centers	— CONFIDENTIAL —	—	23.8%	40.3%
Government/Social Org.	— CONFIDENTIAL —	—	3.7%	-1.1%
Grocery Stores	76,606	-13.9%	-4.7%	1.9%
Home Furnishings	22,655	11.1%	-2.3%	-1.0%
Music Stores	— CONFIDENTIAL —	—	-13.8%	-27.4%
Quick-Service Restaurants	11,617	-22.5%	-3.7%	-3.8%
Service Stations	92,913	1.2%	6.7%	4.6%
Specialty Stores	13,932	-5.5%	-13.1%	-10.0%
Women's Apparel	11,476	-6.6%	-9.9%	-6.7%
Total All Accounts	587,946	-13.0%	-0.7%	-1.8%
County & State Pool Allocation	106,829	-10.7%	2.0%	-2.1%
Gross Receipts	694,775	-12.7%	-0.3%	-1.8%