

Q1 2018



City of Redlands Sales Tax Update

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

Redlands In Brief

Redlands's receipts from January through March were 5.3% above the first sales period in 2017. Excluding reporting aberrations, actual sales were up 1.9%.

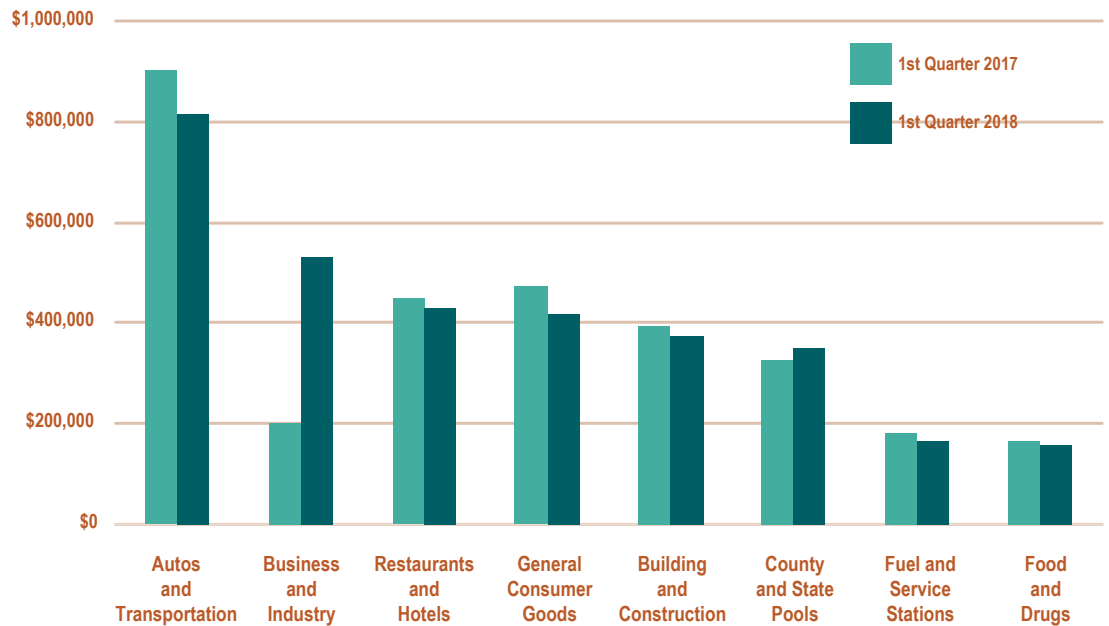
A large multi-year accounting adjustment in the business and industry sector offset multiple missing payments caused by the State's transition to a new software and reporting system. The missing allocations impacted most business groups. The large adjustment also contributed to a 7.7% increase in the City's allocation from the county-wide use tax pool.

Lower new auto sales for the second consecutive quarter and missing allocations contributed to a 9.1% drop in the automotive sector. Missing payments, lower net retail sales, and prior misallocations in family apparel depressed general consumer goods. Missing payments similarly caused declines in the fuel group and food-drugs; actual sales were up 8.8% and 6.2%, respectively.

Building and construction net of aberrations was up 7.3%, although that gain was about half regional and statewide trends as building activity remained strong. Restaurant sales were up a modest 2.5%.

Net of aberrations, taxable sales for all of San Bernardino County grew 8.0% over the comparable time period; the Southern California region was up 5.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

AT&T	McDonalds
BD Microbiology System	Metro Nissan of Redlands
Burlington	Office Depot
Calply	Redlands Chrysler Jeep Dodge Ram
Citrus Arco	Redlands Ford
Core Health & Fitness	Shell
ESRI Systems	Stater Bros
Hatfield Buick & GMC Truck	Tom Bell Chevrolet
Home Depot	Tom Bell Toyota
Honda of Redlands	USA Gasoline
Lowe's	Valero
Marshalls	Vector Steel
	Walmart

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$11,334,990	\$11,466,372
County Pool	1,377,628	1,412,932
State Pool	8,659	3,891
Gross Receipts	\$12,721,277	\$12,883,195

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.

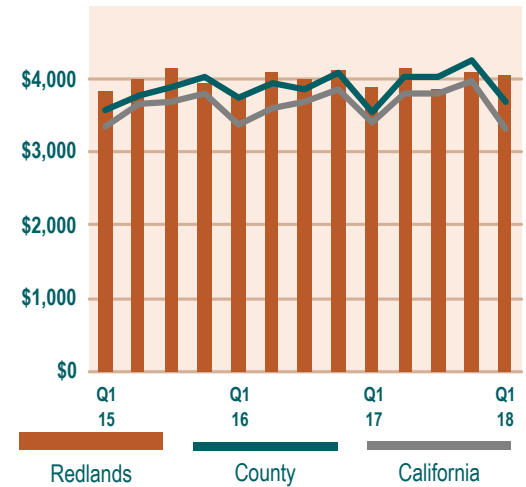
Supreme Court Ruling

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.

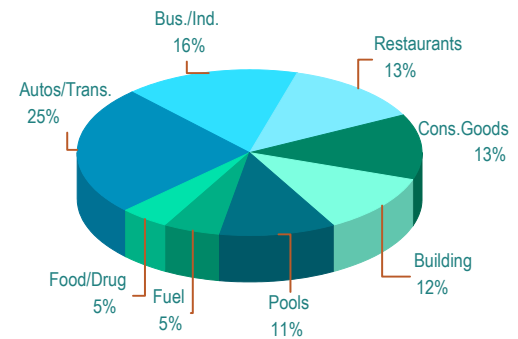
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

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
Redlands This Quarter



REDLANDS TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Redlands Q1 '18*	Redlands Change	County Change	HdL State Change
Auto Repair Shops	38.5	-9.9%	-12.1%	-7.5%
Automotive Supply Stores	64.9	-2.0%	-3.0%	-4.0%
Building Materials	311.1	-8.5%	9.7%	3.8%
Casual Dining	169.4	-9.2%	-1.8%	-2.0%
Contractors	54.9	20.0%	24.2%	21.5%
Discount Dept Stores	— CONFIDENTIAL —	—	4.8%	2.8%
Family Apparel	59.1	-38.5%	11.0%	8.2%
Fast-Casual Restaurants	41.4	1.9%	8.7%	6.8%
Grocery Stores	108.4	-2.9%	9.1%	1.9%
Medical/Biotech	— CONFIDENTIAL —	—	20.8%	10.0%
New Motor Vehicle Dealers	665.2	-7.1%	-4.3%	-0.2%
Quick-Service Restaurants	191.1	-3.3%	-1.6%	-3.8%
Service Stations	165.9	-8.0%	3.7%	4.6%
Specialty Stores	56.0	7.9%	-7.8%	-10.0%
Sporting Goods/Bike Stores	61.6	154.0%	8.2%	1.4%
Total All Accounts	2,890.9	5.1%	5.3%	-1.8%
County & State Pool Allocation	351.9	7.2%	7.4%	-2.1%
Gross Receipts	3,242.8	5.3%	5.5%	-1.8%