

Q4 2017



Santa Cruz County Sales Tax *Update*

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

Santa Cruz County In Brief

The Unincorporated Area's receipts from October through December were 7.1% above the fourth sales period in 2016.

Building-construction accounted for almost half of the growth; home improvements and new construction demanded more products from contractors, lumber suppliers and plumbing/electrical vendors. Home furnishings were up as consumers chose to shop local stores.

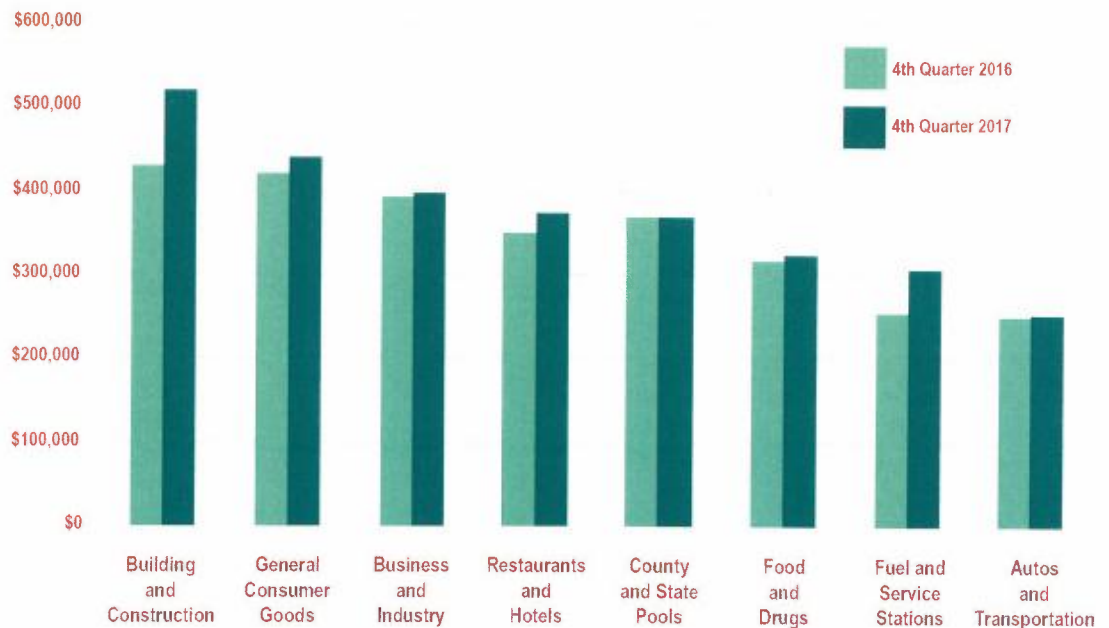
Other primary contributors to the increase were solid quarters from casual dining and cannabis related businesses. Sizeable increases in fuel prices generated bigger revenues from service stations.

Slower activity was reported from the garden/agricultural sector. An audit adjustment received in the prior year softened the gains in the business-industry group. Payment aberrations in the countywide pool reduced use taxes available for distribution; the net effect was a temporary decline in the allocation received this quarter.

Measure R, the countywide one-quarter cent library tax, contributed \$2,702,853, a 2% increase over the comparable period.

Net of aberrations, taxable sales for all of Santa Cruz County grew 5.1% over the comparable time period; the Central Coast region was up 3.9%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS IN ALPHABETICAL ORDER

76	Kind Peoples Collective
ABC Supply Co	Marshalls
Best Buy	Ocean Honda
Big Creek Lumber	Palace Art & Office Supply
Boulder Creek Beacon Station	Performance Food Service
Capitola Healing Association	Pet Pals
Chaminade Hotel	Probuild Company
Chevron	Quik Stop
Crop Production Services	Safeway
Felton Valero	Safeway Fuel
Home Depot	Scarborough Building Supply
Independent Electric Supply	Seascape Resort
	Toys R Us

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$7,401,184	\$7,900,704
County Pool	1,034,796	1,090,036
State Pool	4,212	1,523
Gross Receipts	\$8,440,192	\$8,992,263

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

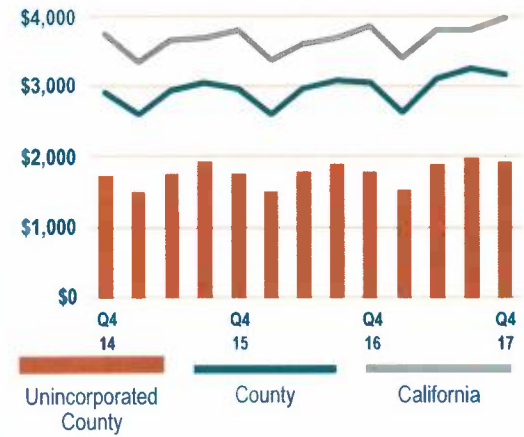
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

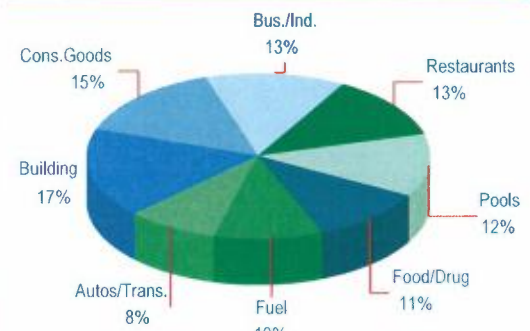
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Santa Cruz Co. Uninc This Quarter



SANTA CRUZ COUNTY TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Unincorporated County Q4 '17*	County Change	County Change	HdL State Change
Auto Repair Shops	59.9	13.0%	1.7%	3.6%
Building Materials	397.5	21.2%	14.0%	11.6%
Casual Dining	220.4	8.7%	5.4%	3.7%
Contractors	52.9	43.2%	43.0%	13.8%
Convenience Stores/Liquor	77.3	-4.5%	2.0%	8.2%
Electronics/Appliance Stores	— CONFIDENTIAL —		0.7%	5.8%
Family Apparel	58.8	1.3%	-2.2%	2.1%
Garden/Agricultural Supplies	123.6	-1.2%	1.7%	2.3%
Grocery Stores	117.3	2.0%	3.3%	-1.5%
Home Furnishings	74.4	11.8%	0.5%	2.6%
Marijuana Related	82.3	14.6%	-11.4%	9.3%
New Motor Vehicle Dealers	— CONFIDENTIAL —		11.2%	2.6%
Plumbing/Electrical Supplies	62.5	6.6%	-1.9%	10.3%
Service Stations	305.1	20.5%	14.2%	11.4%
Specialty Stores	96.9	0.4%	0.9%	4.4%
Total All Accounts	2,615.2	8.3%	4.5%	4.0%
County & State Pool Allocation	367.4	-0.6%	-4.1%	0.8%
Gross Receipts	2,982.5	7.1%	3.3%	3.6%