

Q1 2018



City of Poway Sales Tax *Update*

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

Poway In Brief

Poway's receipts from January through March were 3.8% above the first sales period in 2017. However, due to CDTFA's transition to a new reporting system, multiple transactions were not processed in the current period but are anticipated to be received with the next quarterly allocations. Including these expected remittances and other reporting aberrations, actual sales were up 13.8%.

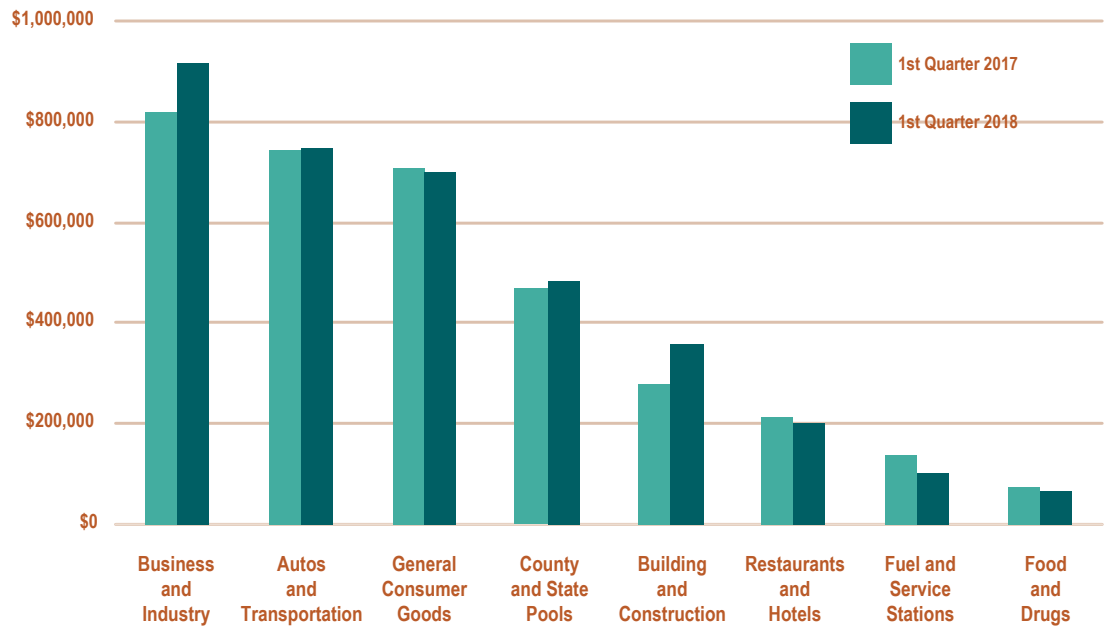
Favorable winter weather and the current stable housing market helped produce dramatic growth from building-construction suppliers, while strong returns from electrical equipment providers boosted business-industry results.

Gains by new auto dealers and leasing activity was supported by sufficient inventory and low financing terms. Steady price increases at the pump, mostly due to the global cost of crude oil and the implementation of SB-1 locally, pushed service stations higher.

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

Net of aberrations, taxable sales for all of San Diego County grew 4.7% 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

Arco AM PM	Lowe's
Bay City Electric Works	Maintex
Chef Works	Modular Space
Chevron	Mossy Nissan
Consolidated Electrical Distributors	Perry Ford of Poway
Costco	Poway Chrysler Dodge Jeep Ram
Ferguson Enterprises	Poway Honda
General Atomics Aeronautical	Poway Mitsubishi Hyundai & Vespa
H M Electronics	Poway Toyota/Scion
Home Depot	Sysco Food Services
Home Goods	Target
Kohls	Techni Tool
	Walmart Supercenter

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$8,979,383	\$9,602,280
County Pool	1,438,032	1,451,916
State Pool	8,561	6,115
Gross Receipts	\$10,425,976	\$11,060,311

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.

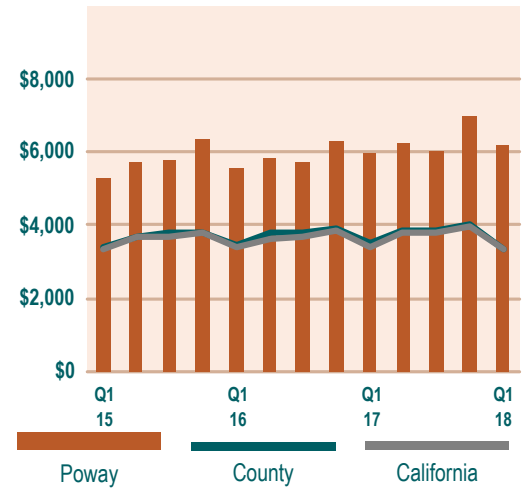
Supreme Court Ruling

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.

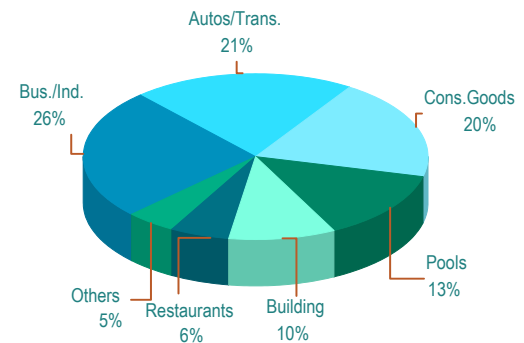
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

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
Poway This Quarter



POWAY TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Poway Q1 '18*	Change	County Change	HdL State Change
Auto Repair Shops	45.8	-7.1%	-7.1%	-7.6%
Building Materials	163.7	-0.5%	3.2%	3.8%
Casual Dining	86.8	-1.4%	-3.7%	-2.0%
Department Stores	— CONFIDENTIAL —		-43.1%	-35.1%
Discount Dept Stores	— CONFIDENTIAL —		3.3%	2.8%
Electrical Equipment	578.0	34.7%	-23.6%	2.1%
Food Service Equip./Supplies	— CONFIDENTIAL —		-6.1%	-3.9%
Grocery Stores	41.8	2.2%	3.4%	1.9%
Heavy Industrial	40.2	-1.0%	11.0%	11.7%
Home Furnishings	39.0	4.3%	2.2%	-1.0%
Light Industrial/Printers	49.8	0.5%	-6.1%	-12.2%
New Motor Vehicle Dealers	630.2	8.7%	-4.7%	-0.2%
Plumbing/Electrical Supplies	— CONFIDENTIAL —		16.0%	11.5%
Quick-Service Restaurants	76.8	-8.5%	-5.0%	-3.8%
Service Stations	102.1	-26.8%	-0.6%	4.6%
Total All Accounts	3,095.3	3.9%	-3.4%	-1.8%
County & State Pool Allocation	483.1	2.9%	-4.4%	-2.1%
Gross Receipts	3,578.3	3.8%	-3.6%	-1.8%