

Q4 2017



El Dorado County Sales Tax Update

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

El Dorado County In Brief

The Unincorporated Area's receipts from October through December were 3.4% above the fourth sales period in 2016. Excluding reporting adjustments, actual sales were up 5.7%.

Construction spending topped all gains this quarter as combined sales of materials and contractor billings far exceeded those of the region and the state.

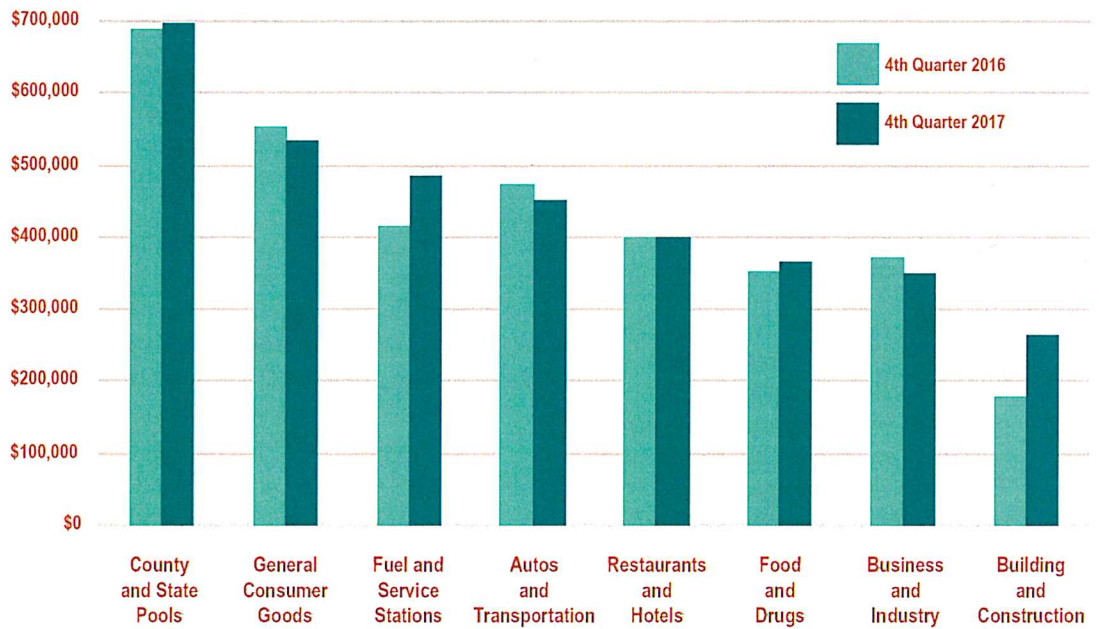
After many months of decline, rising fuel prices are causing some grumbling at the pump but are helping to fill the County's coffers. Sales at convenience stores picked up this quarter and accounted for a large part of the gain reported by the food and drug group.

Sporting good sales were off this quarter as some facilities were closed and others failed to attract consistent business. Restaurant receipts were also negatively affected by a large tax recovery last year and business turnover in the current year further reduced tax receipts.

A large tax recovery in the prior year negatively skewed results for the auto and transportation group which saw mixed results in the current period.

Net of adjustments, taxable sales for all of El Dorado County grew 5.1% over the comparable time period while those of the entire Sacramento region were up 7.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS IN ALPHABETICAL ORDER

Cameron Park Arco Ampm	Musco Sports Lighting
Chevron	My Goods Market
Circle K 76	Quik Stop
Crystal View Shell	Raleys
CVS Pharmacy	Safeway
Daimler Trust	Safeway Fuel
Heavenly Valley Cal Base Lodge	Shell
Jon-Don	Shingle Springs Honda
Kmart	Shingle Springs Nissan Subaru
Lees Feed & Western Store	Syar Concrete
Meeks Building Center	Target
Mercedes Benz of El Dorado Hills	TJ Maxx
	Walmart

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$7,926,445	\$8,388,046
County Pool	1,901,942	1,958,098
State Pool	5,020	1,699
Gross Receipts	\$9,833,407	\$10,347,843

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

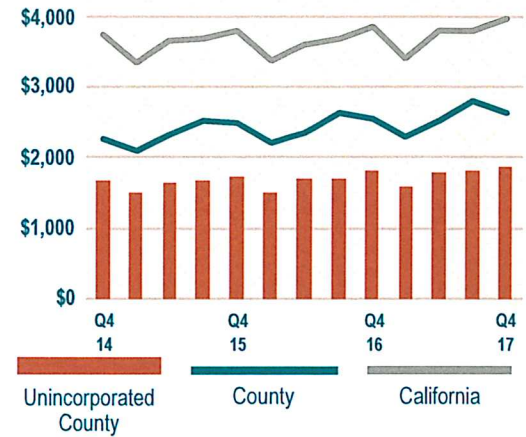
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

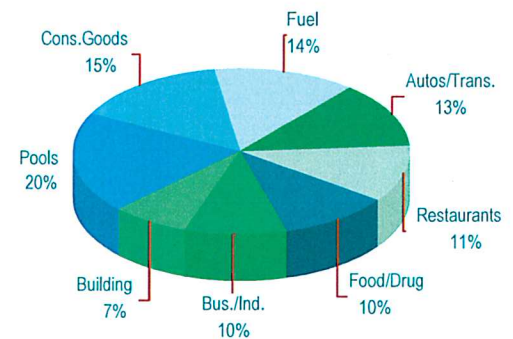
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
El Dorado Co. Uninc This Quarter



EL DORADO COUNTY TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Unincorporated County Q4 '17*	Change	County Change	HdL State Change
Auto Repair Shops	59.6	7.6%	7.3%	3.6%
Automotive Supply Stores	53.7	-39.0%	-20.0%	1.9%
Building Materials	104.9	33.9%	10.9%	11.6%
Casual Dining	229.7	6.2%	6.6%	3.6%
Contractors	95.2	44.6%	42.1%	13.8%
Convenience Stores/Liquor	74.7	9.6%	7.1%	8.2%
Discount Dept Stores	— CONFIDENTIAL —	—	-3.8%	4.1%
Garden/Agricultural Supplies	64.6	19.4%	10.2%	2.3%
Grocery Stores	204.4	2.7%	2.3%	-1.5%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	4.6%	2.6%
Plumbing/Electrical Supplies	57.7	82.6%	48.8%	10.3%
Quick-Service Restaurants	95.2	3.6%	7.5%	4.9%
Service Stations	443.4	18.4%	15.7%	11.4%
Specialty Stores	69.9	4.1%	6.2%	4.4%
Wineries	53.0	10.2%	10.2%	-0.2%
Total All Accounts	2,855.1	4.0%	3.1%	4.0%
County & State Pool Allocation	696.1	1.2%	0.4%	0.8%
Gross Receipts	3,551.2	3.4%	2.5%	3.6%