

Q4 2017



South El Monte Sales Tax *Update*

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

South El Monte In Brief

South El Monte's receipts from October through December were 1.9% above the fourth sales period in 2016. Excluding reporting aberrations, actual sales were up 3.7%.

Favorable winter weather and the stable housing market contributed to building-construction growth, while 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.

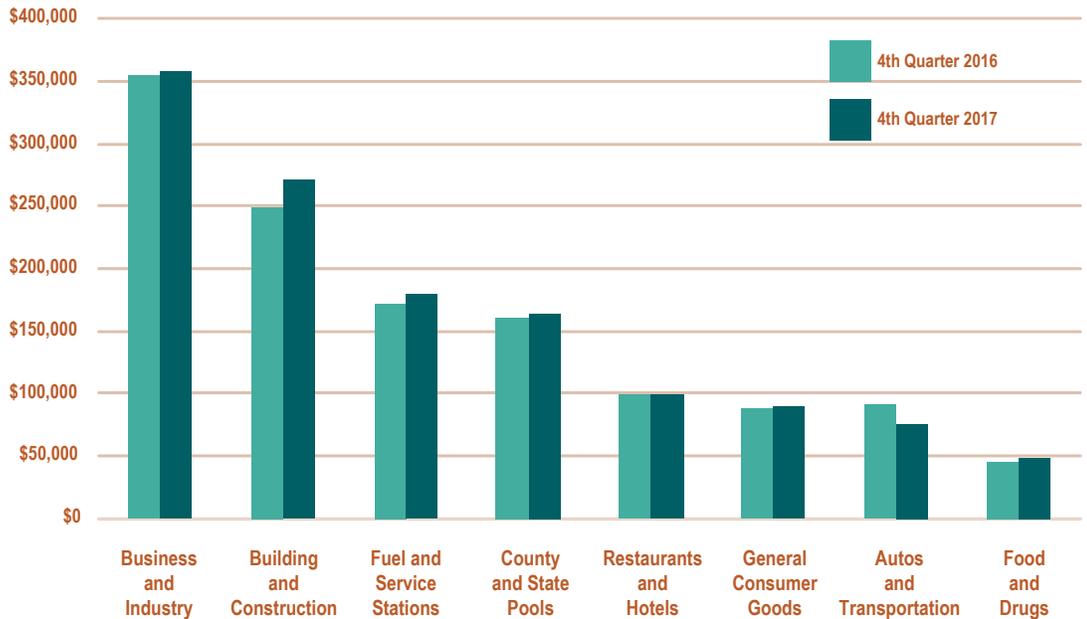
Even though business-industry experienced mixed returns, improved sales by food service equipment providers helped propel group gains. The City also experienced a larger allocation from the county-wide use tax pool.

The recent closeout of an auto supply store and accounting anomalies that exaggerated the prior year slightly hindered autos and the overall results.

The City's voter approved half-cent transaction tax, Measure R, generated an additional \$503,174, a decrease of 6.1% compared to last year largely due to payment deviations by merchants in the current period.

Net of aberrations, taxable sales for all of Los Angeles County grew 3.0% over the comparable time period; the Southern California region was up 3.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

2010 Office Furniture	King Building Materials
Arco AM PM	Lawrence Equipment
Asia Building Supply	LBC Lighting
Chevron	Leader Industries
DDC Electric Supply	Marshalls
El Monte Gas N Save	McDonalds
El Monte Green Petroleum	Peck Durfee Mobil
El Monte Ornamental Supply	Quartz Max
Exquisite Cabinet & Counter Top	S & M Oil
Greencastle Cabinetry	Shell
IMS	Smardan Supply Co
	Southeast Concrete Products
	Superior Grocers
	USA Gas

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$3,239,770	\$3,373,652
County Pool	463,570	472,899
State Pool	1,871	577
Gross Receipts	\$3,705,212	\$3,847,128
Measure R	\$1,539,630	\$1,598,816

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."

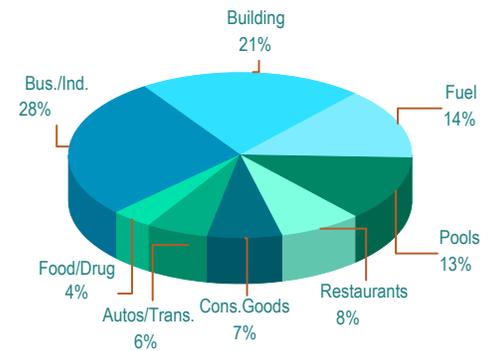
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
South El Monte This Quarter



SOUTH EL MONTE TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	South El Monte Q4 '17*	Change	County Change	HdL State Change
Auto Repair Shops	24.3	-14.4%	-0.5%	3.6%
Automotive Supply Stores	22.9	-32.9%	0.1%	1.9%
Building Materials	34.3	5.3%	7.8%	11.6%
Casual Dining	21.3	8.4%	3.6%	3.7%
Contractors	162.9	9.2%	7.7%	13.8%
Convenience Stores/Liquor	20.8	10.0%	8.0%	8.2%
Family Apparel	—	CONFIDENTIAL	3.1%	2.1%
Food Service Equip./Supplies	46.1	99.4%	-2.5%	2.5%
Heavy Industrial	72.6	-2.0%	5.8%	10.0%
Light Industrial/Printers	47.2	-6.4%	-3.9%	0.9%
Plumbing/Electrical Supplies	67.6	4.8%	7.5%	10.3%
Quick-Service Restaurants	68.0	-1.9%	4.5%	4.9%
Service Stations	170.8	4.6%	10.0%	11.4%
Trailers/Auto Parts	—	CONFIDENTIAL	2.8%	0.9%
Used Automotive Dealers	22.4	6.4%	-0.4%	0.4%
Total All Accounts	1,119.9	1.9%	-0.9%	4.0%
County & State Pool Allocation	164.1	2.3%	-0.5%	0.8%
Gross Receipts	1,284.0	1.9%	-0.8%	3.6%