

Q4 2017



City of Brentwood Sales Tax *Update*

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

Brentwood In Brief

Brentwood's receipts from October through December were 9.7% above the fourth sales period in 2016. Excluding reporting aberrations, actual sales were up 11.4%.

All major business groups posted higher receipts except for the City's allocation from the countywide use pool which was lower due to a late payment of one large vendor.

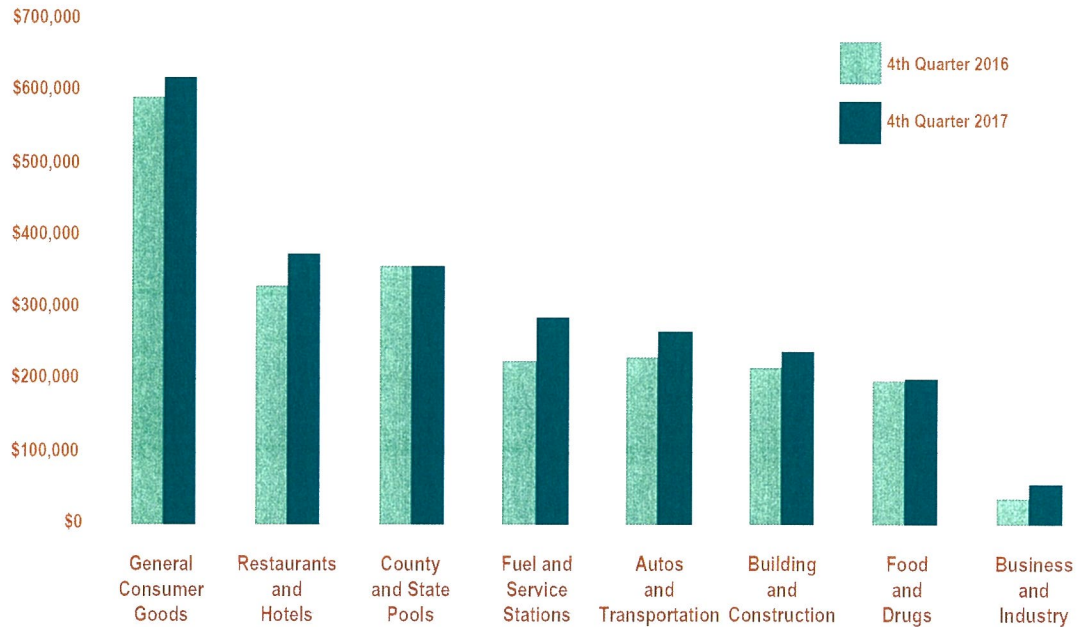
Fuel receipts were up 27.6% due to continual rising gas prices and an unusually large payment from one outlet. All restaurant categories posted robust sales, although quick-service eateries were partially inflated by a misallocation that belongs to another jurisdiction.

The automotive sector continued to post sharp increases, while building materials and contractors' sales remained strong. A newly opened garden/ agricultural outlet helped lift business and industry.

Strong sales from electronics and appliances boosted general retail sales, but this sector will be impacted in the future by the announced relocation of one major vendor.

Net of aberrations, taxable sales for all of Contra Costa County grew 5.3% over the comparable time period; the Bay Area was up 4.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Arco AM PM	Home Depot
AT&T Mobility	Home Goods
Best Buy	Jeffery Way Shell
Big B Lumber	Kohls
Bill Brandt Ford	Oakley Petro
BJs Restaurant & Brewhouse	Ross
Brentwood Ready Mix	Safeway
Chevron	TJ Maxx
Circle K Gas	Ulta Beauty
Colonial Energy	Verizon Wireless
Dallas Shanks Chevron	Victoria's Secret
Golden Gate Petroleum	Walgreens
	Winco Foods

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$5,267,688	\$5,831,929
County Pool	975,538	979,648
State Pool	3,195	1,086
Gross Receipts	\$6,246,420	\$6,812,663
Cty/Cnty Share	(156,161)	(170,317)
Net Receipts	\$6,090,260	\$6,642,347

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

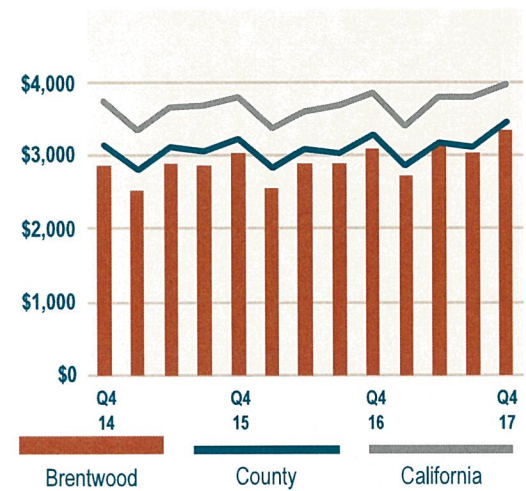
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

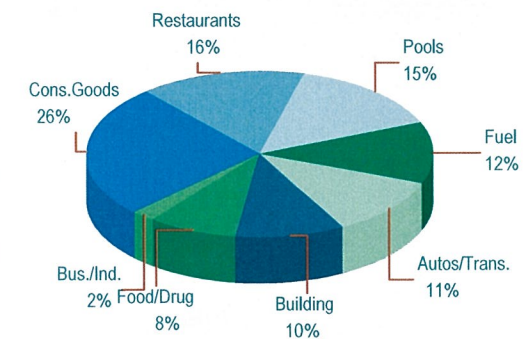
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Brentwood This Quarter



BRENTWOOD TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Brentwood Q4 '17*	Change	County Change	HdL State Change
Automotive Supply Stores	49.3	0.5%	-0.6%	1.9%
Building Materials	180.8	11.1%	8.4%	11.6%
Casual Dining	175.5	17.0%	0.3%	3.5%
Contractors	— CONFIDENTIAL —		12.0%	13.9%
Department Stores	— CONFIDENTIAL —		-14.1%	-5.4%
Drug Stores	— CONFIDENTIAL —		-7.6%	-10.7%
Electronics/Appliance Stores	173.7	9.0%	12.8%	5.8%
Family Apparel	112.5	-0.2%	0.3%	2.1%
Grocery Stores	145.5	2.2%	0.5%	-1.5%
Home Furnishings	56.6	4.5%	-2.7%	2.6%
New Motor Vehicle Dealers	— CONFIDENTIAL —		1.0%	2.6%
Quick-Service Restaurants	123.4	11.9%	8.0%	5.0%
Service Stations	270.0	20.1%	17.0%	11.4%
Specialty Stores	90.0	4.0%	0.5%	4.4%
Women's Apparel	38.1	-6.0%	3.8%	-5.9%
Total All Accounts	2,048.2	11.6%	5.8%	4.0%
County & State Pool Allocation	357.3	-0.1%	-5.4%	0.8%
Gross Receipts	2,405.5	9.7%	4.0%	3.6%
City/County Share	(60.1)	-9.7%		
Net Receipts	2,345.4	9.7%		