

Q4 2017



Pacific Grove Sales Tax *Update*

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

Pacific Grove In Brief

Pacific Grove's receipts from October through December were 3.5% below the fourth sales period in 2016. Excluding reporting aberrations, actual sales were up 6.7%. The wide disparity between cash receipts and actual sales stems from a multi quarter recovery of delinquent taxes that inflated year-ago totals.

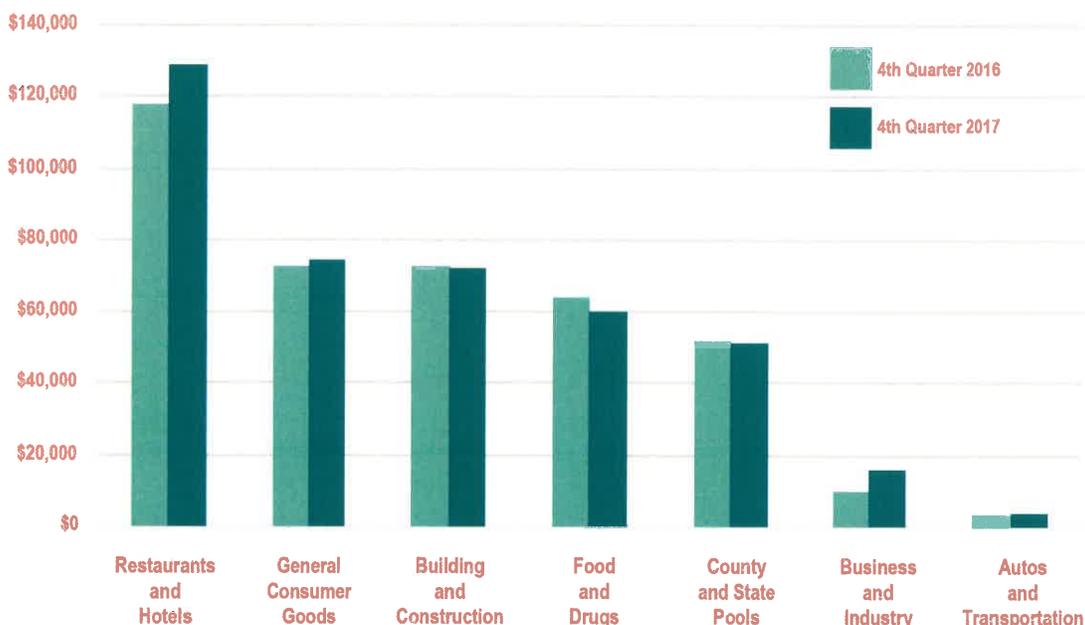
The food-drug segment and home furnishings sales were flat after eliminating double-up payments that occurred in the comparable period. Building materials returns dipped as sales slowed at local establishments.

Residents and visitors exhibited a strong dining out preference at local eateries as evidenced by sizeable gains from casual dining and quick-service restaurants. Shoppers were generous spenders at specialty and art/gift/novelty stores over the holiday season.

Measure U, the local one cent tax approved by the City's voters, produced \$504,451 above the amounts discussed above.

Net of aberrations, taxable sales for all of Monterey County grew 4.1% 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

Ace Hardware	One Stop Chevron Gas & Food Mart
Asilomar Conference Center	Pacific Grove Hardware
Beach House at Lovers Point	Pacific Grove Shell
Cengage Learning Inc	Passionfish
Fandango	Pendleton Woolen Mills
Fifi's Bistro Cafe	Peppers Mexicali Cafe
First Awakenings	Red House Cafe
Fishwife	Rite Aid
Hayward Lumber	Safeway
Il Vecchio	Stones Pet Shop
Lucky	Trader Joes
Marita's Boutique	Visions Design Center
Mum's Place	

REVENUE COMPARISON

Three Quarters - Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$1,145,787	\$1,162,932
County Pool	155,831	149,280
State Pool	658	215
Gross Receipts	\$1,302,276	\$1,312,427
Measure U	\$1,544,891	\$1,526,634

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

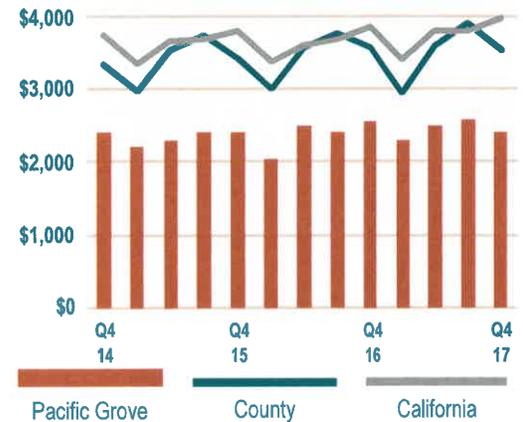
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

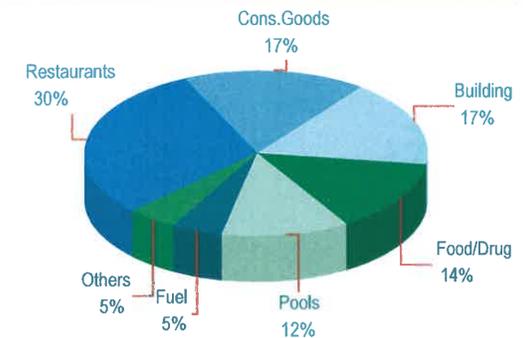
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Pacific Grove This Quarter



PACIFIC GROVE TOP 15 BUSINESS TYPES

Business Type	Pacific Grove		County	HdL State
	Q4 '17	Change	Change	Change
Art/Gift/Novelty Stores	6,937	42.7%	8.4%	-5.8%
Building Materials	52,488	-4.4%	14.1%	11.6%
Casual Dining	60,305	12.2%	8.2%	3.7%
Contractors	11,110	32.1%	13.0%	13.8%
Drug Stores	— CONFIDENTIAL —	—	-9.7%	-10.9%
Family Apparel	— CONFIDENTIAL —	—	3.6%	2.1%
Fine Dining	— CONFIDENTIAL —	—	17.4%	9.6%
Grocery Stores	45,026	1.0%	1.3%	-1.5%
Home Furnishings	14,147	-22.0%	11.9%	2.6%
Leisure/Entertainment	— CONFIDENTIAL —	—	6.1%	3.1%
Light Industrial/Printers	— CONFIDENTIAL —	—	-50.5%	0.9%
Paint/Glass/Wallpaper	— CONFIDENTIAL —	—	39.7%	45.4%
Quick-Service Restaurants	11,961	17.3%	3.2%	4.9%
Service Stations	— CONFIDENTIAL —	—	6.9%	11.4%
Specialty Stores	11,737	26.8%	2.9%	4.4%
Total All Accounts	375,802	-3.8%	1.9%	4.0%
County & State Pool Allocation	51,279	-0.9%	5.0%	0.8%
Gross Receipts	427,080	-3.5%	2.3%	3.6%