

Q4 2017



City of Nevada City Sales Tax *Update*

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

Nevada City In Brief

Nevada City's receipts from October through December were 22.7% above the fourth sales period in 2016. Excluding reporting adjustments reported by the state, actual sales appeared to increase 22.7%. However, two reporting errors went undetected and inflated the countywide use tax pool by nearly \$453,000. As a result, the City's pool allocation was overstated by \$33,000. When all reporting issues are eliminated from the receipt total, the City's sales tax base actually increased 9.7%. The overpayment will be returned within the next few months.

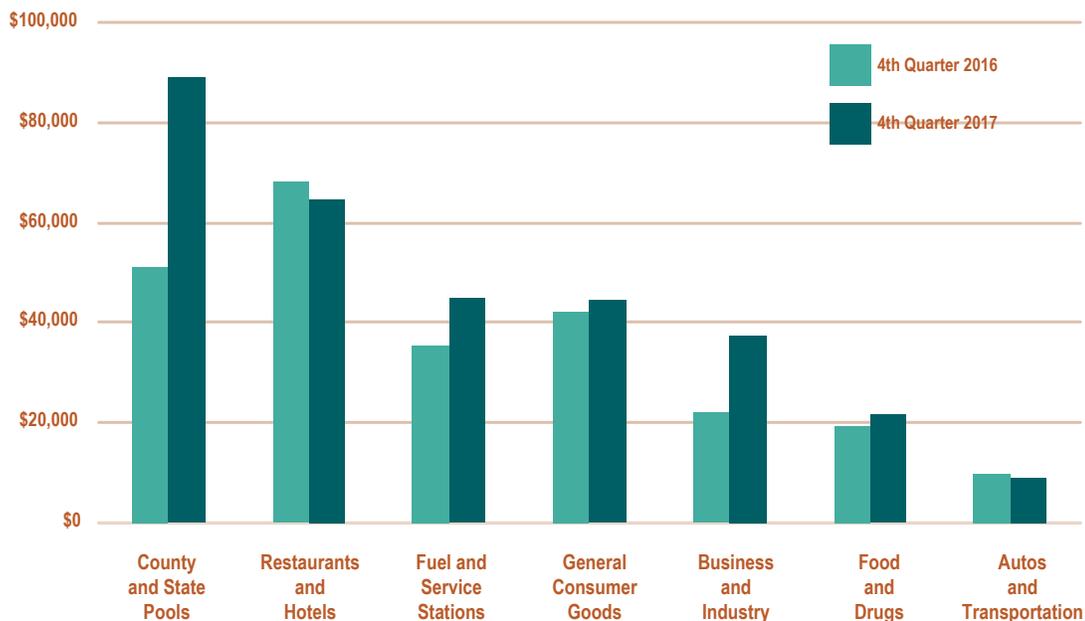
Retail sales amounts from the business and industry group vary each quarter but were higher this period.

Restaurant receipts were negatively skewed by a series of reporting issues that recurring sales could not overcome.

Measure S brought in \$164,092 while Measure L generated \$122,657. Results for both Measures are level with last year's results while Measure C produced \$121,173 in its third quarter since inception.

Net of adjustments, including the posting errors to the countywide pool, taxable sales for all of Nevada County increased 7.5% over the comparable time period while those of the entire the Far North region were up 7.9%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

49er Communications	Northridge of Nevada City
Abstrakt	Plaza Tire & Auto Service
Bonanza Market	Riebes Auto Parts
California Organics	Robinson Enterprises
Crazy Horse Saloon & Grill	Sierra Metal Fabricators
Express Mart & Liquor	Sopa Thai Cuisine
Ferrellgas	South Pine Cafe
Friar Tucks Restaurant	SPD Market
Fur Traders	Spring Street Market
Golden Era	Telestream
JH Petroleum	Three Forks Bakery & Brewing
Lefty's Grill	Tour of Nevada City Bicycle Shop
New Moon Cafe	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$617,275	\$658,819
County Pool	144,978	188,148
State Pool	382	149
Gross Receipts	\$762,634	\$847,117
Measure S	\$484,015	\$496,196
Measure L	\$361,003	\$371,570
Measure C	\$0	\$362,541

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

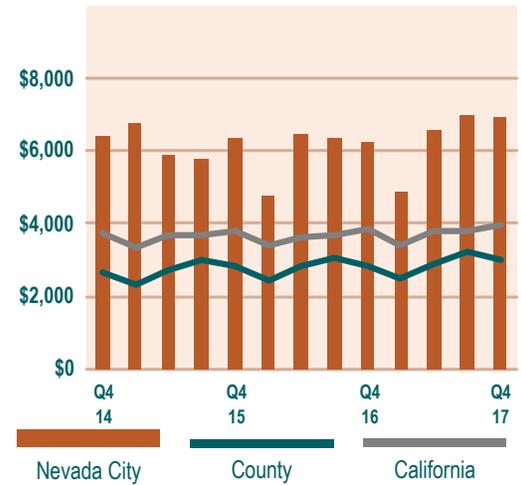
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

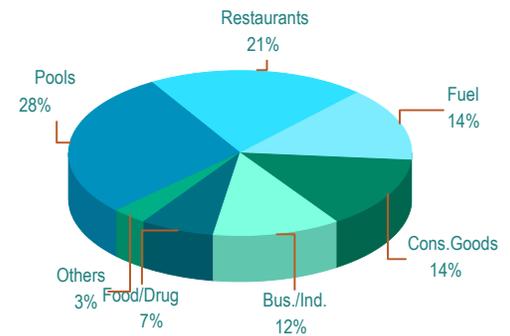
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Nevada City This Quarter



NEVADA CITY TOP 15 BUSINESS TYPES

Business Type	Nevada City		County	HdL State
	Q4 '17	Change	Change	Change
Art/Gift/Novelty Stores	5,407	-4.9%	1.3%	-5.8%
Auto Repair Shops	—	CONFIDENTIAL	3.7%	3.6%
Automotive Supply Stores	—	CONFIDENTIAL	-0.3%	1.9%
Casual Dining	60,039	-5.1%	4.3%	3.7%
Convenience Stores/Liquor	—	CONFIDENTIAL	12.3%	8.2%
Electrical Equipment	—	CONFIDENTIAL	18.5%	5.7%
Family Apparel	—	CONFIDENTIAL	1.2%	2.1%
Grocery Stores	—	CONFIDENTIAL	1.1%	-1.5%
Heavy Industrial	—	CONFIDENTIAL	106.0%	10.0%
Jewelry Stores	3,598	-14.9%	4.7%	2.3%
Motion Pictures/Equipment	—	CONFIDENTIAL	17.9%	-34.2%
Petroleum Prod/Equipment	—	CONFIDENTIAL	12.6%	30.1%
Service Stations	—	CONFIDENTIAL	19.3%	11.4%
Specialty Stores	12,346	13.2%	4.6%	4.4%
Women's Apparel	6,238	-4.6%	10.2%	-5.9%
Total All Accounts	223,102	10.0%	6.8%	4.0%
County & State Pool Allocation	88,822	72.9%	67.8%	0.8%
Gross Receipts	311,924	22.7%	19.1%	3.6%