

# Q4 2017



# City of Martinez Sales Tax *Update*

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

## Martinez In Brief

Martinez's receipts from October through December were 5.0% above the 2016 fourth sales period. Excluding reporting aberrations, actual sales were up 2.2%.

The primary contributor to the building and construction increase was a solid quarter by contractors which included a new merchant that opened last year.

A retroactive change produced a multi-quarter adjustment reflected in used auto dealerships; with anomalies removed, the autos and transportation group rose 17%. Quick-service restaurants gains were exaggerated due to a double-up remittance.

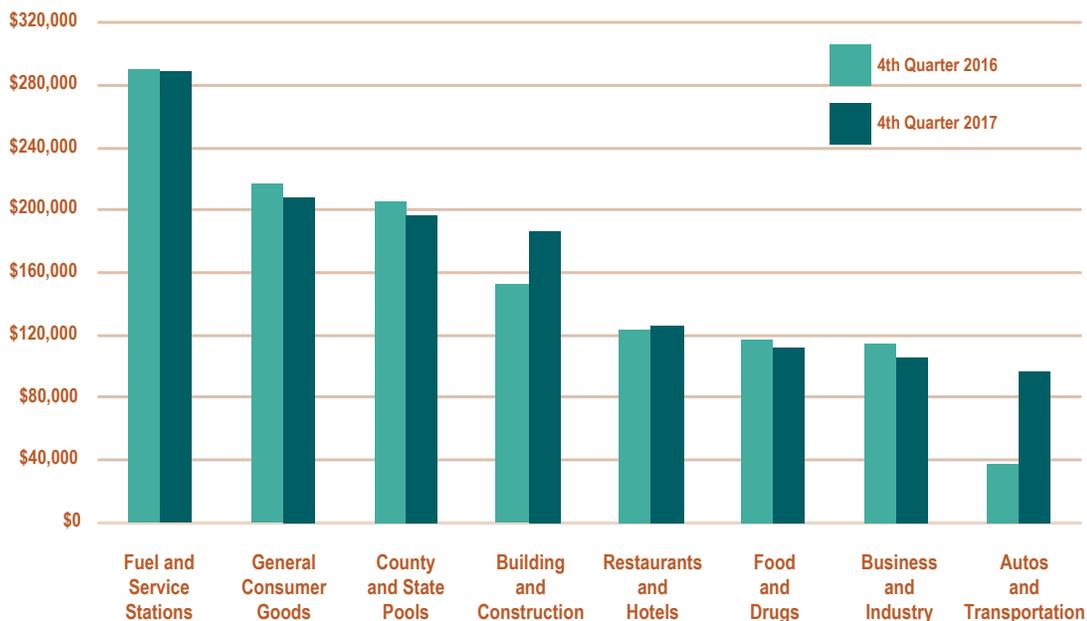
Catch up payments that inflated year-ago results were largely responsible for the meager growth in service stations revenues.

Various corrections in the current and comparison quarters adversely impacted the business and industry segment. A late filed tax return pulled down countywide pool resources available for distribution; the results was a lower allocation to the City.

Measure D was reported for the third time and produced \$957,603 beyond the amounts listed above.

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

|                          |                           |
|--------------------------|---------------------------|
| 7 Eleven                 | Golden Gate Petroleum     |
| ABC Supply Co            | Home Depot                |
| Ace Truckbox Center      | Industrial Lumber         |
| Alhambra Chevron         | Les Schwab Tire Center    |
| Build Tek                | Lucky Supermarket         |
| Canyon Sports            | McDonalds                 |
| Chevron                  | Nob Hill Foods            |
| Colonial Energy          | Quik Stop                 |
| Copart                   | Rite Aid                  |
| Cresco Equipment Rentals | Safeway                   |
| CVS Pharmacy             | Siemens Medical Solutions |
| Eco Services Operations  | Walmart                   |
| Geo Options              |                           |

### REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

|                 | 2016-17     | 2017-18     |
|-----------------|-------------|-------------|
| Point-of-Sale   | \$3,241,253 | \$3,358,877 |
| County Pool     | 599,206     | 564,735     |
| State Pool      | 1,912       | 680         |
| Gross Receipts† | \$3,842,371 | \$3,924,293 |
| Cty/Cnty Share  | (96,059)    | (98,107)    |
| Net Receipts    | \$3,746,312 | \$3,826,185 |
| Measure D       | \$0         | \$2,689,681 |

†Includes tax sharing amounts due to others

**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."

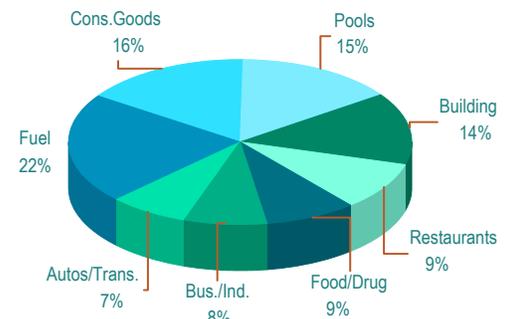
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

**SALES PER CAPITA**



**REVENUE BY BUSINESS GROUP**  
Martinez This Quarter



**MARTINEZ TOP 15 BUSINESS TYPES**

| Business Type                             | *In thousands of dollars |              |               |                  |
|---|--------------------------|--------------|---------------|------------------|
|   | Martinez Q4 '17*         | Change       | County Change | HdL State Change |
| Automotive Supply Stores                  | 16.7                     | -4.7%        | -0.6%         | 1.9%             |
| Building Materials                        | 168.8                    | 19.6%        | 8.4%          | 11.6%            |
| Casual Dining                             | 50.9                     | -1.4%        | 0.3%          | 3.5%             |
| Contractors                               | 17.0                     | 54.8%        | 12.0%         | 14.0%            |
| Convenience Stores/Liquor                 | 17.5                     | -1.9%        | 12.3%         | 8.3%             |
| Discount Dept Stores                      | —                        | CONFIDENTIAL | 4.7%          | 4.1%             |
| Drug Stores                               | —                        | CONFIDENTIAL | -7.6%         | -10.7%           |
| Drugs/Chemicals                           | —                        | CONFIDENTIAL | -0.5%         | 3.1%             |
| Grocery Stores                            | —                        | CONFIDENTIAL | 0.5%          | -1.5%            |
| Medical/Biotech                           | —                        | CONFIDENTIAL | -19.7%        | 4.9%             |
| Petroleum Prod/Equipment                  | —                        | CONFIDENTIAL | 9.0%          | 29.8%            |
| Quick-Service Restaurants                 | 61.3                     | 8.9%         | 8.0%          | 5.0%             |
| Repair Shop/Equip. Rentals                | —                        | CONFIDENTIAL | 13.8%         | 6.5%             |
| Service Stations                          | 118.7                    | 0.3%         | 17.0%         | 11.4%            |
| Used Automotive Dealers                   | 62.8                     | na           | -0.9%         | 0.4%             |
| <b>Total All Accounts</b>                 | <b>1,124.6</b>           | <b>6.9%</b>  | <b>5.8%</b>   | <b>4.0%</b>      |
| <b>County &amp; State Pool Allocation</b> | <b>196.2</b>             | <b>-4.4%</b> | <b>-5.4%</b>  | <b>0.8%</b>      |
| <b>Gross Receipts</b>                     | <b>1,320.8</b>           | <b>5.0%</b>  | <b>4.0%</b>   | <b>3.6%</b>      |
| City/County Share                         | (33.0)                   | -5.0%        |               |                  |
| <b>Net Receipts</b>                       | <b>1,287.8</b>           | <b>5.0%</b>  |               |                  |