

Q1 2018



City of Chico Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2018)

Chico In Brief

Chico's receipts from January through March were 0.8% above the first sales period in 2017. Excluding reporting aberrations, actual sales were up 8.2%.

Electronics/appliance stores were up; however, a six figure payment misallocation which should have been remitted to other cities inflated the gain. Sales were strong in building materials, family apparel and plumbing/electrical.

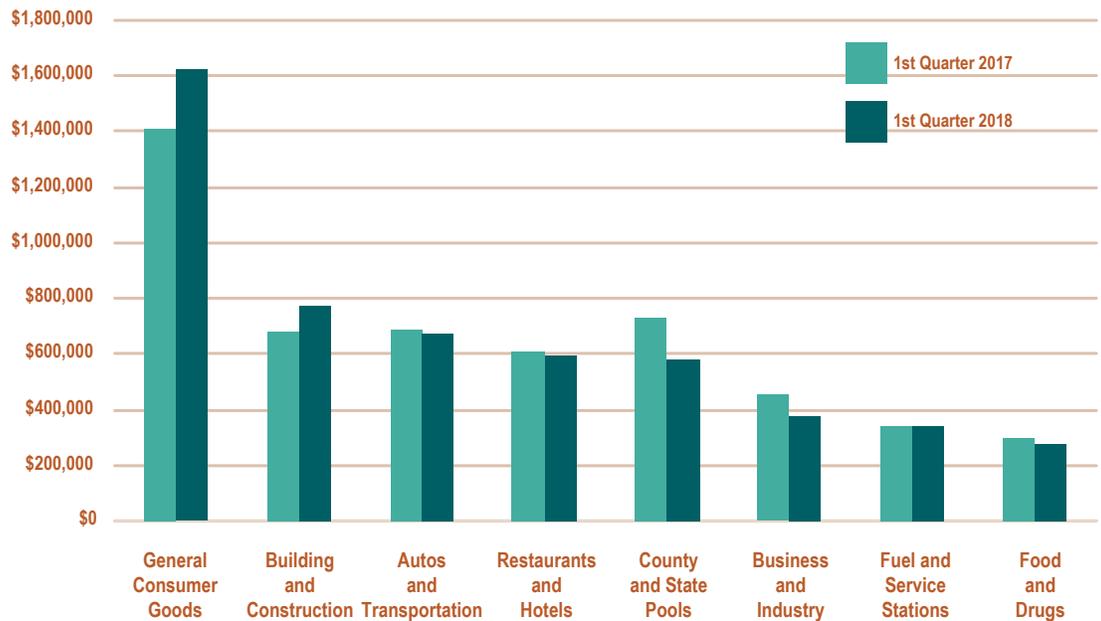
New motor vehicle dealers nudged into positive territory; greater used auto inventory, buyer weariness and rising interest rates softened performance. Service station gains reflected rising fuel prices.

Strong point of sales activity was offset by a sizeable decrease in the countywide use tax pool; the City's share fell \$152,000. A large allotment error dating back to 2016 was corrected this quarter; absent anomalies, pool revenues were flat.

Due to complications from a changeover to new software, the State left some taxpayer activity out of the 1Q18 allocation that is anticipated to be made up in 2Q18. Missing payments befell the food-drugs group, auto leasing, quick-service eateries, specialty outlets and discount department stores.

Net of aberrations, taxable sales for all of Butte County grew 5.1% over the comparable time period; the Far North region was up 3.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

A Wireless	Meeks Building Center
Best Buy	MJB Welding Supply
Build.Com	Northgate Petroleum
Chico Nissan/Hyundai	Payless Building Supply
Chuck Patterson Toyota/Dodge	Raleys
Costco	Ross
Courtesy Automotive Center	Safeway
Ed Wittmeier Ford Lincoln	Safeway Fuel
Home Depot	Target
JC Penney	TJ Maxx
Lowe's	Walmart Supercenter
Lulus Fashion Lounge	Winco Foods
	Wittmeier Chevrolet

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$14,058,900	\$15,018,705
County Pool	2,422,677	2,505,447
State Pool	13,290	9,639
Gross Receipts	\$16,494,867	\$17,533,791
Cty/Cnty Share	(824,743)	(876,690)
Net Receipts	\$15,670,123	\$16,657,102

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the on-line interstate marketplace was not the prevailing issue before the court in 1992.

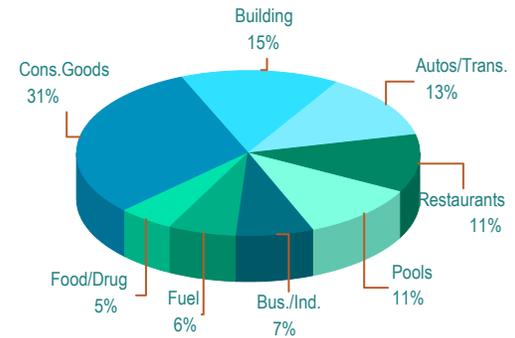
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about \$1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average \$60 per year for each California household, and California businesses average \$171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court's opinion to determine next steps to support taxpayers.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Chico This Quarter



CHICO TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Chico Q1 '18*	Chico Change	County Change	HdL State Change
Automotive Supply Stores	72.5	1.8%	4.5%	-4.1%
Building Materials	355.8	7.5%	9.8%	3.8%
Casual Dining	335.0	-3.1%	-4.3%	-2.0%
Convenience Stores/Liquor	79.7	7.3%	-0.7%	0.6%
Discount Dept Stores	478.3	-1.1%	0.5%	2.8%
Electronics/Appliance Stores	379.7	147.5%	121.9%	0.8%
Family Apparel	217.6	26.4%	24.3%	8.3%
Grocery Stores	159.6	-4.7%	-3.8%	1.9%
Home Furnishings	102.4	1.5%	6.6%	-1.1%
New Motor Vehicle Dealers	484.9	1.5%	3.3%	-0.2%
Plumbing/Electrical Supplies	344.7	25.1%	24.1%	11.6%
Quick-Service Restaurants	187.3	-3.2%	-2.5%	-3.8%
Service Stations	273.7	5.4%	6.9%	4.6%
Specialty Stores	85.1	-21.6%	-17.1%	-10.0%
Sporting Goods/Bike Stores	85.4	0.1%	-3.4%	1.4%
Total All Accounts	4,661.3	4.3%	4.6%	-1.8%
County & State Pool Allocation	578.9	-20.8%	-20.6%	-2.1%
Gross Receipts	5,240.2	0.8%	1.1%	-1.8%
City/County Share	(262.0)	-0.8%		
Net Receipts	4,978.2	0.8%		