

Q4 2017



City of Fortuna Sales Tax *Update*

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

Fortuna In Brief

Fortuna's receipts from October through December were 0.4% above the fourth sales period in 2016. Excluding reporting aberrations, actual sales were up 1.8%.

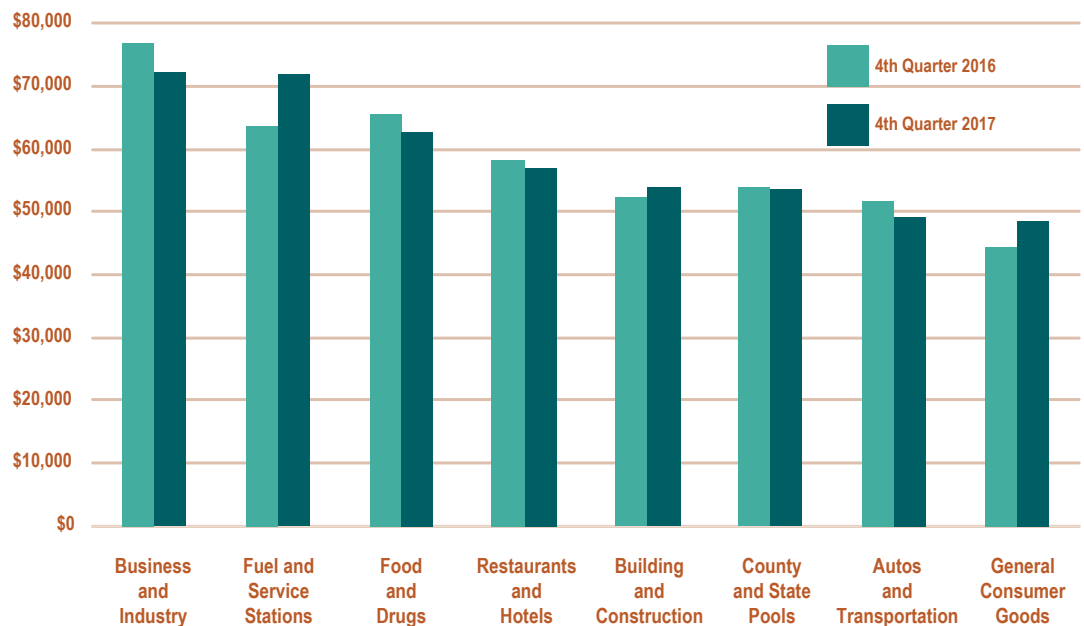
Higher fuel prices lifted service stations while building-related sectors continued to perform well. Despite double payments that temporarily inflated returns, general retail posted a solid holiday quarter growing 4.0%.

While the City benefits from a balanced economic base, the decline in business to business performance flattened overall gross receipts. Restaurants also produced lower results compared to a year ago.

The City's recently voter-approved transactions tax, Measure E, generated an additional \$410,368.

Net of aberrations, taxable sales for all of Humboldt County grew 1.3% over the comparable time period; the Far North region was up 9.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Ace Hardware & Garden	McDonalds
Burger King	Mercer Fraser
Dollar Tree	Northcoast Horticulture Supply
Eel River Brewing	O'Reilly Auto Parts
Forbusco Lumber	Peterson Tractor
Fortuna Chevron	Rays Used Cars
Fortuna Gas 4 Less	Redi Rents
Grocery Outlet	Rite Aid
Hummel Tire & Wheel	Safeway
L & M Renner	Sequoia Gas
Larry's Market	Tractor Supply
Les Schwab Tire Center	Walgreens
	Wyckoff Plumbing

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$839,787	\$857,312
County Pool	107,946	108,364
State Pool	564	461
Gross Receipts	\$948,297	\$966,137
Measure E	\$0	\$836,305

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

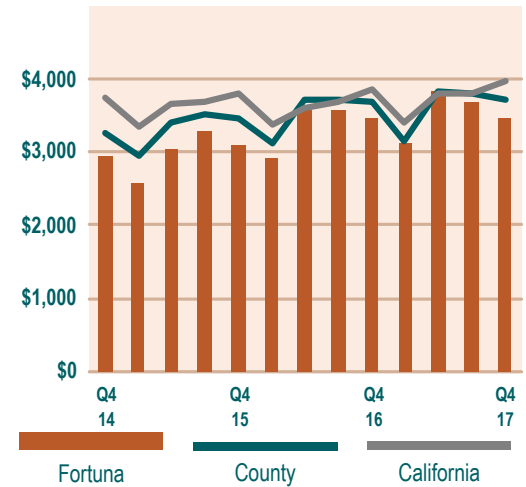
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

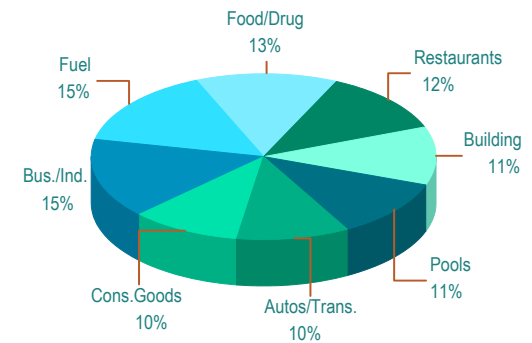
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Fortuna This Quarter



FORTUNA TOP 15 BUSINESS TYPES

Business Type	Fortuna		County	HdL State
	Q4 '17	Change	Change	Change
Auto Repair Shops	10,813	-2.4%	7.2%	3.6%
Automotive Supply Stores	30,750	-1.3%	-4.9%	1.9%
Building Materials	— CONFIDENTIAL —	—	47.7%	11.6%
Casual Dining	33,922	-7.7%	-10.6%	3.4%
Contractors	12,753	11.9%	17.8%	13.9%
Convenience Stores/Liquor	12,638	10.2%	-2.3%	8.3%
Drug Stores	— CONFIDENTIAL —	—	-13.9%	-10.7%
Electronics/Appliance Stores	15,488	1.1%	10.3%	5.8%
Garden/Agricultural Supplies	30,056	-19.8%	-19.6%	2.6%
Grocery Stores	— CONFIDENTIAL —	—	-1.1%	-1.5%
Petroleum Prod/Equipment	— CONFIDENTIAL —	—	7.3%	29.9%
Quick-Service Restaurants	21,483	4.3%	0.7%	5.0%
Service Stations	57,062	12.6%	9.1%	11.4%
Variety Stores	— CONFIDENTIAL —	—	12.7%	10.4%
Warehse/Farm/Const. Equip.	— CONFIDENTIAL —	—	-10.1%	18.1%
Total All Accounts	414,992	0.5%	1.8%	4.0%
County & State Pool Allocation	53,658	-0.5%	0.7%	0.8%
Gross Receipts	468,650	0.4%	1.7%	3.6%