

Q1 2018



City of Fortuna Sales Tax *Update*

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

Fortuna In Brief

Fortuna's receipts from January through March were 7.2% below the first sales period in 2017. Due to complications from a changeover to a new computer software, the State left some taxpayer activity out of the 1Q18 allocation that should be made up with 2Q18 receipts. Including all reporting aberrations, actual sales were down 2.4%.

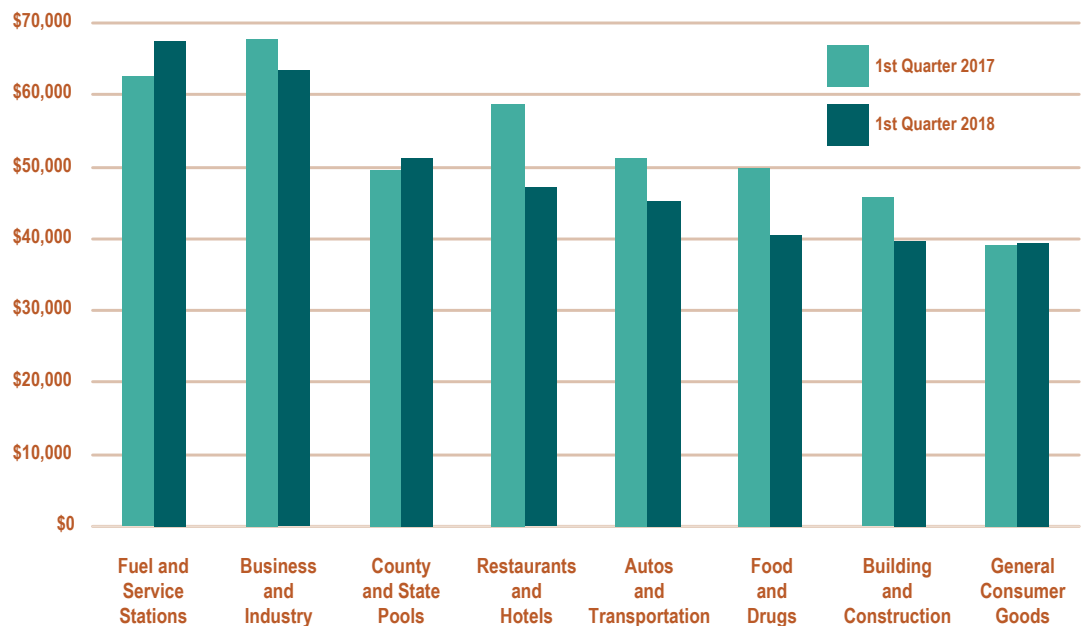
Tax payments absent in this quarter's dispersals caused reductions in food-drugs, casual dining and quick-service eateries. Revenue declines in the building-construction trades included prior period adjustments; suppliers of garden/agricultural goods reflected weakened product demand.

Similar to all of 2017, higher gasoline and diesel prices at the pumps produced gains in fuel-service stations. General consumer goods sales ticked up slightly.

The fourth consecutive quarter of receipts from the City's new Measure E ¼-cent local tax added \$339,513 this period above the amounts described earlier. Results included a double-up payment in the building-construction sector.

Net of aberrations, taxable sales for all of Humboldt County declined 3.8% 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

Ace Hardware & Garden	Les Schwab Tire Center
Burger King	McDonalds
Cigarette Payless	Northcoast Horticulture Supply
Dollar Tree	O'Reilly Auto Parts
Eel River Brewing	Peterson Tractor
Forbusco Lumber	Ray's Quality Cars
Fortuna Chevron	Rite Aid
Fortuna Gas 4 Less	Safeway
Grocery Outlet	Sequoia Gas
Hummel Tire & Wheel	Tractor Supply
Johnnys Flooring & Window Coverings	Village Sport & Cycle
L & M Renner	Wyckoff Plumbing
Larry's Market	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$1,214,805	\$1,200,123
County Pool	157,069	159,242
State Pool	1,088	760
Gross Receipts	\$1,372,962	\$1,360,124
Measure E	\$47	\$1,175,825

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.

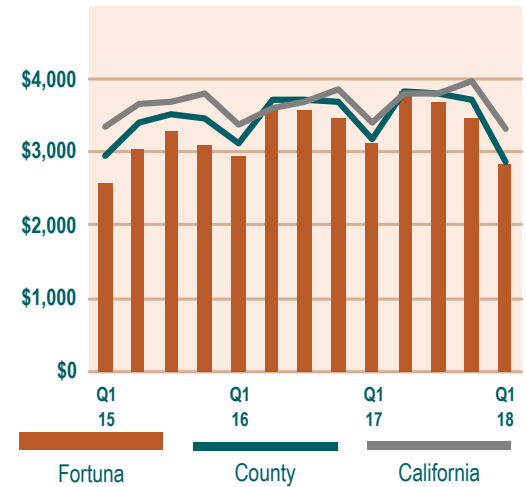
Supreme Court Ruling

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.

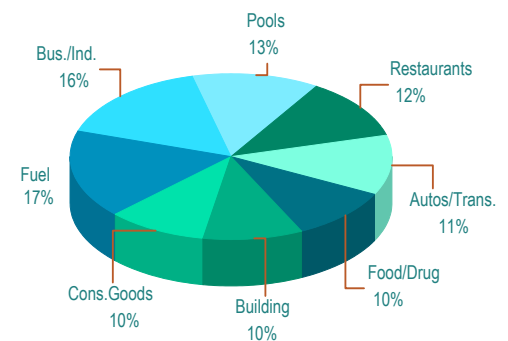
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

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
Fortuna This Quarter



FORTUNA TOP 15 BUSINESS TYPES

Business Type	Fortuna		County	HdL State
	Q1 '18	Change	Change	Change
Auto Repair Shops	10,101	-11.3%	-12.5%	-7.6%
Automotive Supply Stores	27,395	-5.7%	-6.5%	-4.1%
Building Materials	— CONFIDENTIAL —	—	-3.3%	3.8%
Casual Dining	28,366	-22.0%	-5.1%	-2.0%
Contractors	6,507	-30.3%	-15.6%	21.6%
Convenience Stores/Liquor	— CONFIDENTIAL —	—	-12.6%	0.5%
Electronics/Appliance Stores	10,480	-11.8%	15.6%	0.8%
Garden/Agricultural Supplies	27,160	-27.0%	-35.5%	3.0%
Grocery Stores	— CONFIDENTIAL —	—	1.2%	1.9%
Petroleum Prod/Equipment	— CONFIDENTIAL —	—	9.0%	4.0%
Quick-Service Restaurants	17,674	-19.2%	-11.5%	-3.8%
Service Stations	53,161	6.2%	0.8%	4.6%
Used Automotive Dealers	— CONFIDENTIAL —	—	-7.8%	-4.3%
Variety Stores	— CONFIDENTIAL —	—	-7.8%	-12.3%
Warehse/Farm/Const. Equip.	— CONFIDENTIAL —	—	-2.8%	-0.4%
Total All Accounts	342,810	-8.6%	-9.5%	-1.8%
County & State Pool Allocation	51,177	3.1%	2.0%	-2.1%
Gross Receipts	393,987	-7.2%	-8.2%	-1.8%