

Q1 2018



City of Avalon Sales Tax *Update*

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

Avalon In Brief

Avalon's receipts from January through March were 5.8% below the first sales period in 2017. However, due to the State's transition to a new software system, multiple transactions were not processed in 1Q18 but are anticipated to be received with the 2Q18 distribution. Including these allocations and other reporting aberrations, actual sales would have been up 2.6%.

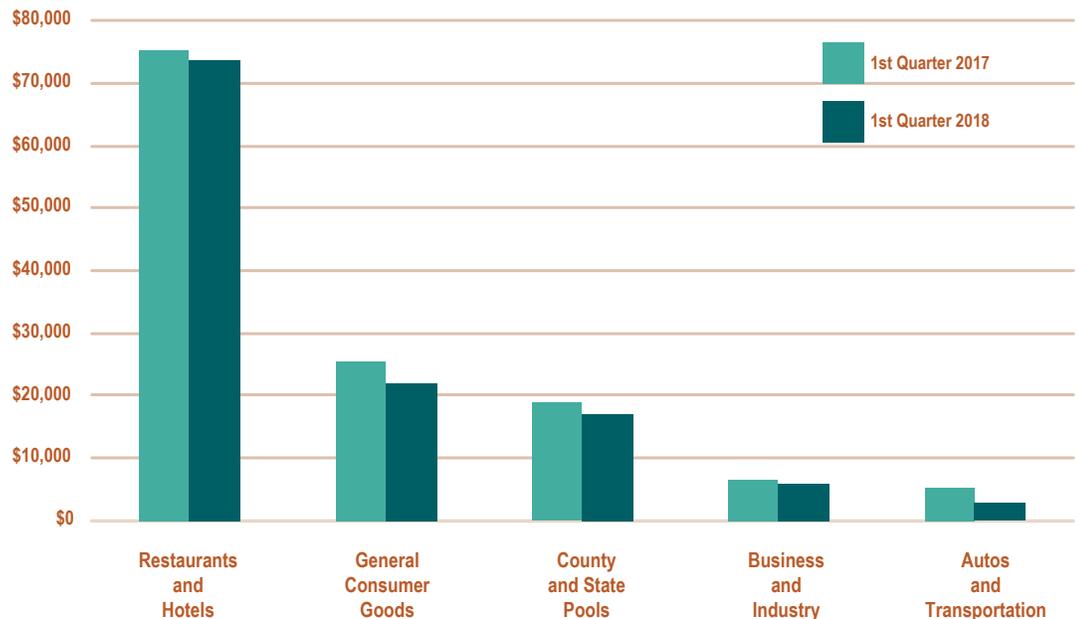
Missing payments accounted for the drop in casual dining restaurants and the autos/transportation sector.

A decline in sales and a business closeout reduced receipts from family apparel.

A drop in the allocation from the county use tax pool contributed to the overall decrease.

Net of aberrations, taxable sales for all of Los Angeles County grew 4.4% over the comparable time period; the Southern California region was up 5.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Abes Liquor Store	CSC Boardshop
Antonios Deli	El Galleon
Antonios Pizzeria & Cabaret	Island Threadz
Bluewater Grill	Jordahl Construction
Buoys & Gulls	Lobster Trap
Carnival Cruise Lines	Maggies Blue Rose
Casino Ballroom	Mi Casita
Casual Lifestyles	Original Jacks
Catalina By The Sea	Pancake Cottage
Catalina Yamaha Golf Cars	Perico Gallery
Chets Hardware	Steves Steakhouse
Coyote Joe's	The Locker Room
	Vons

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$841,738	\$899,262
County Pool	119,071	124,764
State Pool	553	280
Gross Receipts	\$961,361	\$1,024,306
Measure C	\$551,151	\$643,033

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.

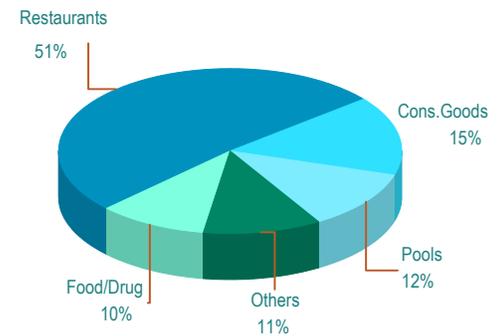
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

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
Avalon This Quarter



AVALON TOP 15 BUSINESS TYPES

Business Type	Avalon		County	HdL State
	Q1 '18	Change	Change	Change
Art/Gift/Novelty Stores	7,628	-5.6%	-3.6%	0.4%
Boats/Motorcycles	— CONFIDENTIAL —	—	-1.7%	3.5%
Building Materials	— CONFIDENTIAL —	—	-3.0%	3.8%
Casual Dining	64,150	-2.7%	-1.1%	-2.0%
Contractors	— CONFIDENTIAL —	—	7.7%	21.5%
Convenience Stores/Liquor	— CONFIDENTIAL —	—	1.6%	0.6%
Family Apparel	9,473	-14.2%	9.6%	8.2%
Fine Dining	— CONFIDENTIAL —	—	3.4%	5.6%
Fuel/Ice Dealers	— CONFIDENTIAL —	—	24.7%	-5.8%
Grocery Stores	— CONFIDENTIAL —	—	8.9%	1.9%
Leisure/Entertainment	2,687	-8.5%	4.1%	3.5%
Quick-Service Restaurants	2,101	9.1%	-4.1%	-3.8%
Repair Shop/Equip. Rentals	— CONFIDENTIAL —	—	-1.2%	-3.8%
Specialty Stores	2,268	-2.2%	-10.9%	-10.0%
Transportation-Non-Auto	— CONFIDENTIAL —	—	8.3%	27.1%
Total All Accounts	126,316	-5.2%	-5.9%	-1.8%
County & State Pool Allocation	17,053	-9.7%	-10.3%	-2.1%
Gross Receipts	143,370	-5.8%	-6.4%	-1.8%