Q4 2017

City of Suisun City Sales Tax *Update*

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

Suisun City In Brief

Suisun City's receipts from October through December were 7.9% above the fourth sales period in 2016.

Building and construction, which accounted for two-thirds of the receipts growth this quarter, included a misallocated payment representing most of this increase.

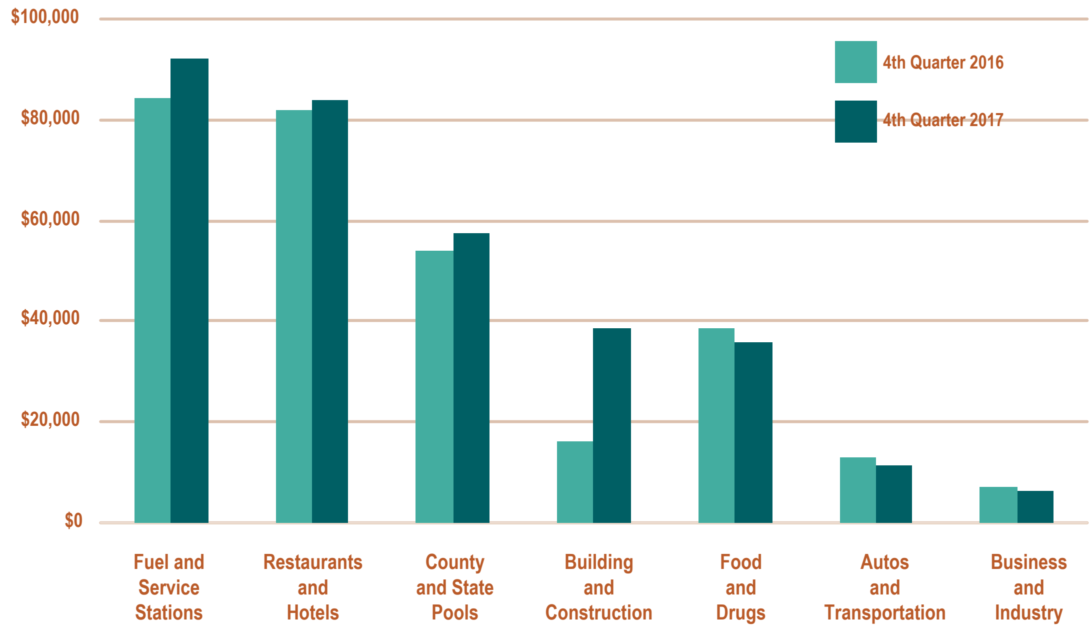
Fuel and service stations reflect recent upticks in gasoline and diesel fuel prices. Accounting anomalies in both the current and year-ago period within the autos-transportation, food-drugs and restaurants groups partially skewed the comparison.

County pools included more activity through online purchases; quarterly increases reflected out of state equipment purchases along a payment anomaly. Growth in taxable sales by local merchants during this quarter helped boost the City's pool allocation.

Voter approved Measure S, the City's one cent transaction tax approved November 2016, added $587,965 beyond the amounts listed above; strong contributions came from the auto sales and consumer goods sectors.

Net of aberrations, taxable sales for all of Solano County grew 3.6% 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	Raito
Ashria Chevron Mart	Raleys
AutoZone	Rite Aid
Babs Delta Diner	Shell
Black Bear Diner	Stoneyard Masonry Suisun
Bonfare Market	Suisun Gas
Cast Iron Grill & Bar	Suisun Roofing
Chicken Express	Suisun Wine & Spirits
Dollar Tree	Sunset Chevron
Jack in the Box	Taco Bell
La Cabana	Walmart Supercenter
Marina Arco AM PM	
McDonalds	
Panda Express	

Revenue Comparison

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	$1,061,175	$1,145,381
County Pool	145,613	166,258
State Pool	618	212
Gross Receipts	**$1,207,407**	**$1,311,850**
Measure S	$0	$1,729,418

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NOTES

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.

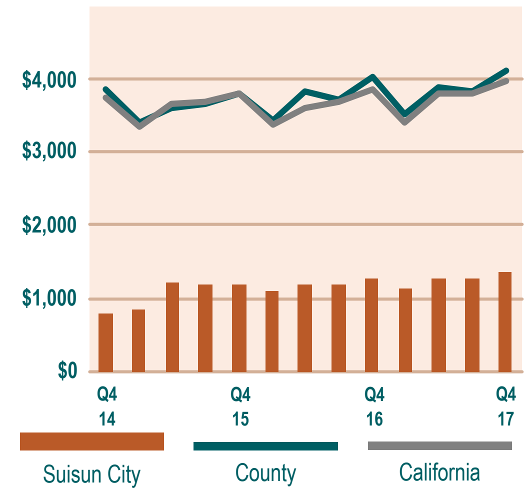
Still, the estimated revenue losses are substantial particularly for agencies with voter-approved transactions tax districts. Because of *Quill*, retailers are not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The 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



COUNTY OVERALL 4Q YOY RECEIPTS % CHANGE

Major Industry Groups	Cash	Adjusted*
Autos and Transportation	3.4%	-5.4%
Building and Construction	24.1%	10.9%
Business and Industry	-10.3%	2.3%
Food and Drugs	-2.8%	1.1%
Fuel and Service Stations	14.7%	14.2%
General Consumer Goods	4.3%	2.7%
Restaurants and Hotels	3.0%	4.9%
County and State Pools	1.9%	8.0%
Total	**3.1%**	**3.6%**

*Accounting anomalies factored out

Revenue By Business Group
Suisun City This Quarter