

Q1 2018



City of Hollister Sales Tax *Update*

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

Hollister In Brief

Hollister's receipts from January through March were 2.4% below the first sales period in 2017. However, due to CDTFA's transition to a new reporting system, multiple transactions were not processed in the current period but are anticipated to be received with the next quarterly allocations. Including these expected remittances and other reporting aberrations, actual sales were up 3.7%.

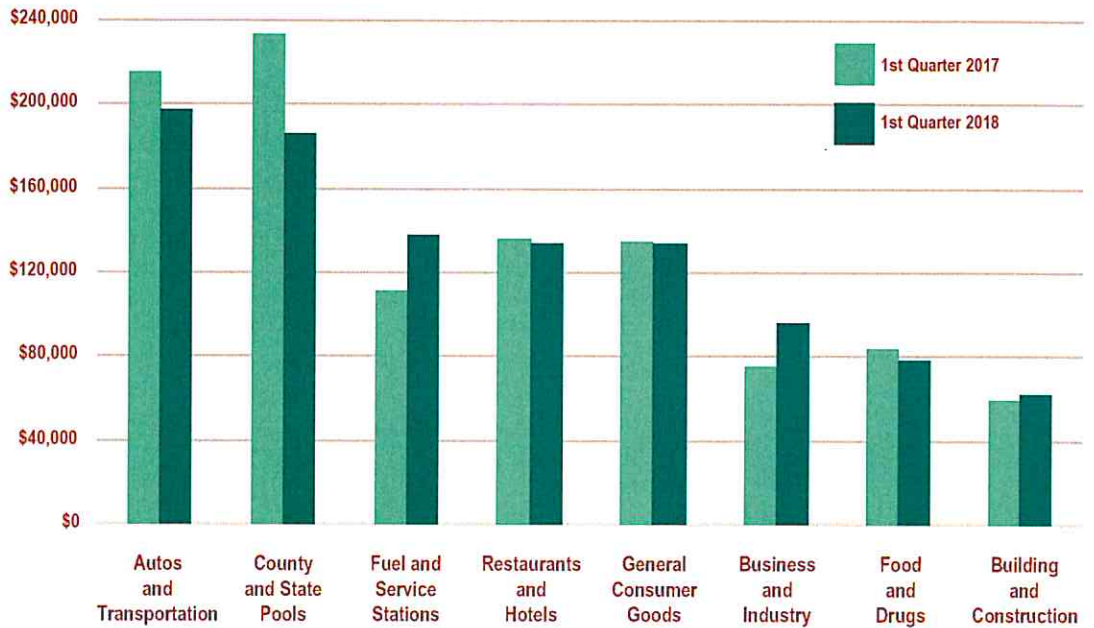
Steady price increases at the pump, mostly due to the global cost of crude oil and implementation of SB-1 locally, pushed service stations higher. Strong growth by drug/chemical and garden/agricultural lifted business-industry, while the recent addition of a contractor supplier and light winter weather benefited building-construction.

Weak returns from multiple auto-transportation vendors partially offset the gains.

The City's voter approved one-cent transaction tax, Measure E, generated an additional \$1,247,615, an increase of 3.2% over a year ago. Similar to above, the boost came from fuel-service stations and building-construction returns.

Net of aberrations, taxable sales for all of San Benito County grew 51.7% over the comparable time period; the Central Coast region was up 5.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

| | |
|----------------------------|---------------------|
| Ace Hardware & Lumber | Hollister Chevron |
| Atec Systems | McDonalds |
| AutoZone | McKinnon Lumber |
| AZ Electronics Materials | Nob Hill Foods |
| Brigantino Irrigation | O'Reilly Auto Parts |
| Chevron Tiger Express Mart | Rite Aid |
| Ciminos Cabinet Doors | Round Table Pizza |
| Crop Production Services | Safeway |
| Gateway Arco AM PM | Safeway Fuel |
| Greenwood Chevrolet | Save Mart |
| | Shop N Save |
| | Taco Bell |
| | Target |
| | Tiffany Ford |
| | Verizon Wireless |

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

| | 2016-17 | 2017-18 |
|-----------------------|--------------------|--------------------|
| Point-of-Sale | \$3,686,069 | \$3,854,459 |
| County Pool | 814,626 | 786,575 |
| State Pool | 3,026 | 1,349 |
| Gross Receipts | \$4,503,721 | \$4,642,383 |
| Measure E | \$5,264,522 | \$5,599,946 |

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.

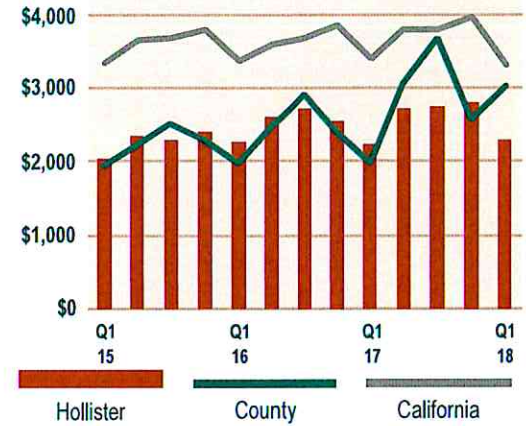
Supreme Court Ruling

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 online interstate marketplace was not the prevailing issue before the court in 1992.

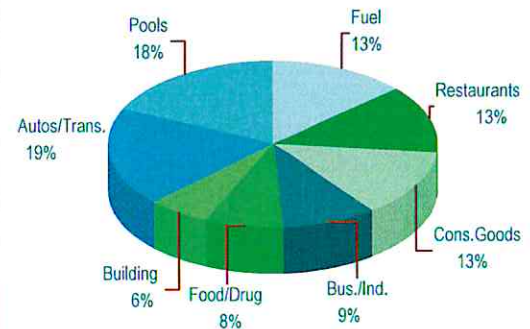
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

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
Hollister This Quarter



HOLLISTER TOP 15 BUSINESS TYPES

| Business Type | Hollister | | County | HdL State |
|---|------------------|---------------|--------------|--------------|
| | Q1 '18 | Change | Change | Change |
| Auto Repair Shops | 9,917 | -9.8% | -4.4% | -7.5% |
| Automotive Supply Stores | 39,021 | -4.2% | -4.5% | -4.0% |
| Building Materials | 41,207 | -9.6% | -9.6% | 3.8% |
| Casual Dining | 51,708 | 8.3% | 8.5% | -2.0% |
| Contractors | 18,528 | 62.6% | 28.0% | 21.5% |
| Convenience Stores/Liquor | 13,553 | 2.2% | -8.6% | 0.6% |
| Discount Dept Stores | — CONFIDENTIAL — | | -5.7% | 2.8% |
| Drugs/Chemicals | 40,042 | 62.5% | 62.4% | 4.5% |
| Electronics/Appliance Stores | 20,402 | -5.7% | -6.5% | 0.8% |
| Garden/Agricultural Supplies | 35,816 | 30.4% | 53.9% | 3.0% |
| Grocery Stores | 54,826 | 6.0% | 3.7% | 1.9% |
| Light Industrial/Printers | 10,631 | 35.0% | 15.3% | -12.2% |
| New Motor Vehicle Dealers | — CONFIDENTIAL — | | -10.4% | -0.2% |
| Quick-Service Restaurants | 72,865 | -1.6% | -4.6% | -3.8% |
| Service Stations | 137,724 | 23.2% | 22.7% | 4.6% |
| Total All Accounts | 839,781 | 2.7% | 54.1% | -1.8% |
| County & State Pool Allocation | 185,685 | -20.5% | 19.3% | -2.1% |
| Gross Receipts | 1,025,466 | -2.4% | 46.4% | -1.8% |