

Q1 2018



City of West Covina Sales Tax *Update*

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

West Covina In Brief

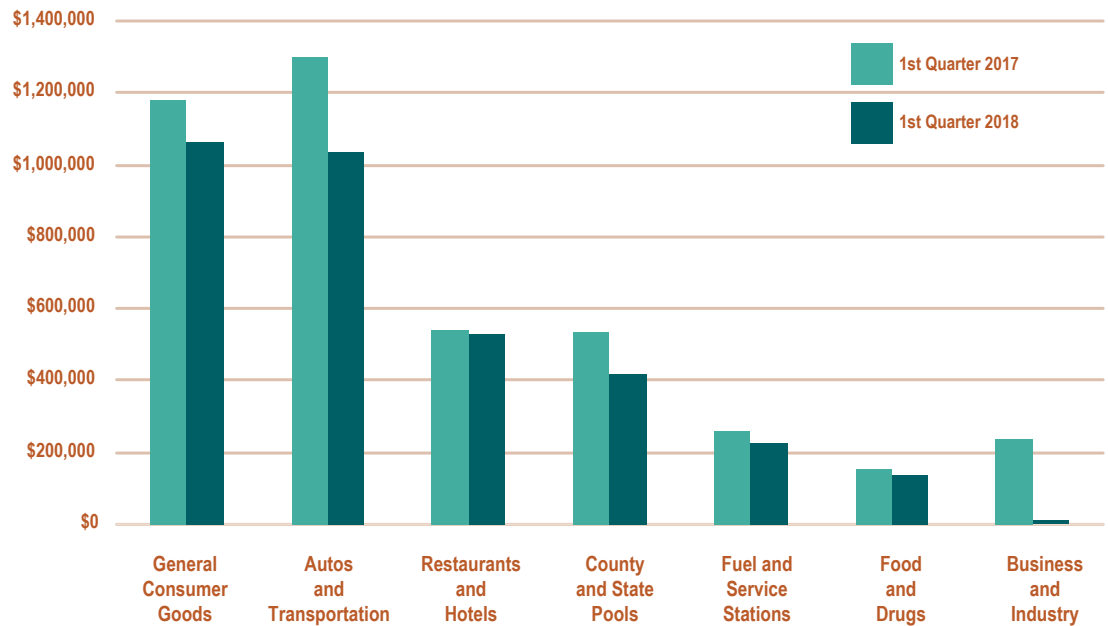
Receipts from West Covina's January through March sales were 18.1% lower than the same quarter one year ago. However, due to the State's transition to a new software system, multiple transactions were not processed in 1Q18 but are anticipated to be received with 2Q18 allocations. Including these allocations and other reporting aberrations, actual sales would have been up 0.3%.

Missing auto lease payments and declining sales in several auto-transportation sectors dropped group revenues. Business-industry was depressed by the correction of a large misallocation error.

A retail store closure and missing payments negatively impacted most general consumer goods categories. A lower allocation from the countywide use tax pool further contributed to the loss.

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

Arco	Norm Reeves Honda
Ashley Furniture Homestore	Penske Mercedes Benz
Audi West Covina	Penske Toyota of West Covina
Azusa Arco	Reynolds Buick
Best Buy Mobile	Ross
Burlington	Stater Bros
Crestview Cadillac	Target
Ford of West Covina	Triples Chevron
Home Depot	Walmart Supercenter
JC Penney	West Covina Chrysler Dodge Jeep Ram
LA Auto Exchange	West Covina Nissan
Macys	
Marshalls	
McDonald's	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$15,721,215	\$14,809,931
County Pool	2,239,744	2,060,998
State Pool	12,409	4,626
Gross Receipts	\$17,973,368	\$16,875,555

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.

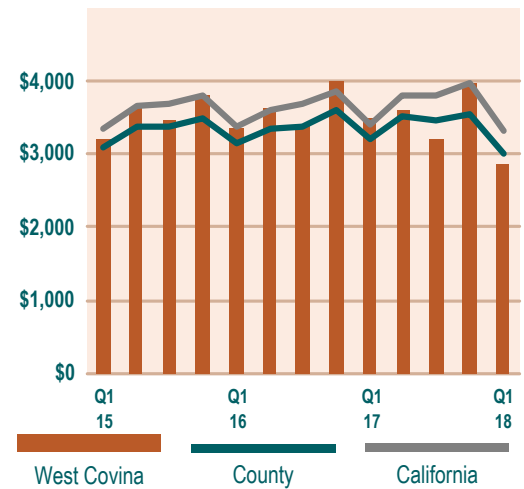
Supreme Court Ruling

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.

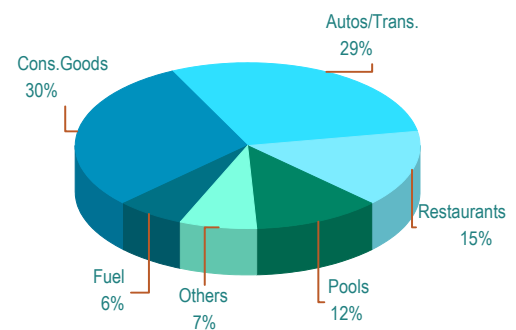
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

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
West Covina This Quarter



WEST COVINA TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	West Covina Q1 '18*	West Covina Change	County Change	HdL State Change
Building Materials	— CONFIDENTIAL —	—	-3.0%	3.8%
Casual Dining	242.2	-9.5%	-1.1%	-2.0%
Department Stores	131.9	-29.4%	-33.0%	-35.1%
Discount Dept Stores	— CONFIDENTIAL —	—	2.7%	2.8%
Electronics/Appliance Stores	144.3	-11.9%	-3.0%	0.8%
Family Apparel	153.2	3.2%	9.6%	8.3%
Grocery Stores	80.4	-3.6%	8.9%	1.9%
Home Furnishings	76.4	-6.8%	-4.7%	-1.1%
New Motor Vehicle Dealers	954.1	-3.9%	-1.2%	-0.2%
Quick-Service Restaurants	211.7	5.4%	-4.1%	-3.8%
Service Stations	225.6	-12.1%	-3.8%	4.6%
Shoe Stores	61.0	13.0%	-3.9%	0.2%
Specialty Stores	102.2	-23.3%	-10.9%	-10.0%
Used Automotive Dealers	76.4	-19.8%	-8.6%	-4.3%
Women's Apparel	50.7	-13.3%	-2.3%	-6.7%
Total All Accounts	3,111.6	-17.6%	-5.9%	-1.8%
County & State Pool Allocation	420.1	-21.5%	-10.3%	-2.1%
Gross Receipts	3,531.7	-18.1%	-6.4%	-1.8%