Q1 2018

City of Orinda Sales Tax *Update*

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

Orinda In Brief

Orinda'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 is anticipated to be made up with 2Q18 receipts. However, including these allocations and other reporting aberrations, actual sales were down 5.4%.

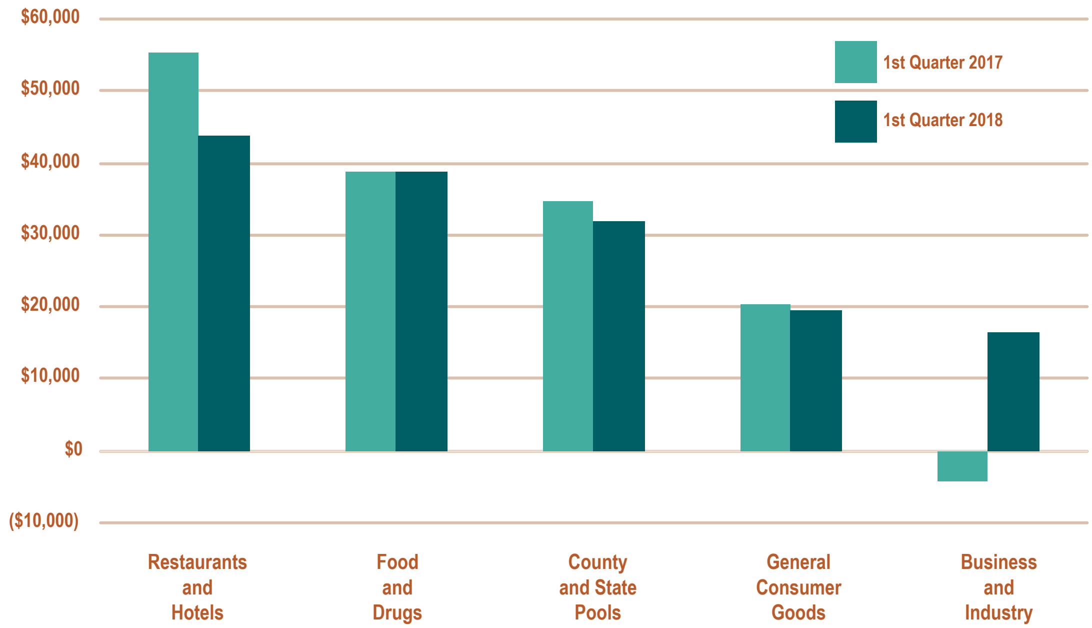
A missing taxpayer payment coupled with closure of a local eatery decreased receipts from casual dining. Reporting anomalies along with lower use taxes remitted from some vendors contributed to reductions in the countywide pool allocations.

General consumer goods fell slightly, with irregularities removed, results rose 10%. The primary cause of the gain from the business and industry group was a negative retroactive adjustment in the year-ago quarter; absent exceptions, this sector decreased 5%.

Voter approved Measure L, the City's one-half cent local tax dedicated to street maintenance, added $250,501 to the above discussed amounts.

Net of aberrations, taxable sales for all of Contra Costa County grew 7.2% over the comparable time period; the Bay Area was up 6.7%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- 76 Orinda
- BevMo
- Chevron
- CVS Pharmacy
- Energy Comm
- Europa Hof Brau
- Fourth Bore Tap Room & Grill
- Julie Miller Designs
- Maria Tenaglia Design
- McCaulou's
- McDonnell Nursery
- Morrisons Jewelers
- Nation's Giant Hamburgers
- Orinda Books
- Orinda Country Club
- Orinda Hardware & Rental
- Orinda Motors
- P & M Window Co
- Rite Aid
- Safeway
- Shelbys Restaurant
- Siam Orchid
- Szechwan Restaurant
- Taverna Pellegrini
- Yu Bistro

Revenue Comparison

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	$894,088	$936,132
County Pool	163,855	158,526
State Pool	698	286
Gross Receipts	$1,058,641	$1,094,945
Cty/Cnty Share	(26,466)	(27,374)
Net Receipts	**$1,032,175**	**$1,067,571**
Measure L	$1,088,424	$1,150,165

Published by HdL Companies in Summer 2018
www.hdlcompanies.com | 888.861.0220

NOTES

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.

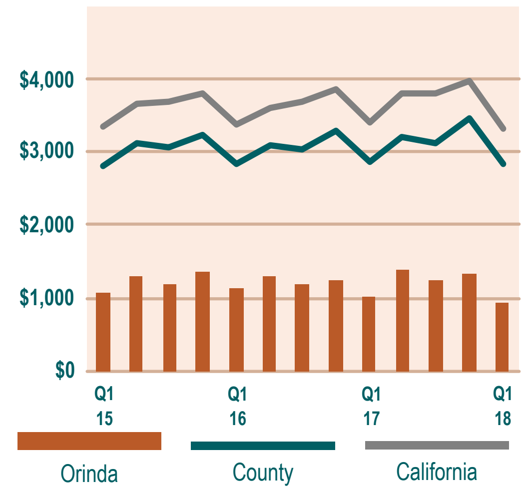
Supreme Court Ruling

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



COUNTY OVERALL 1Q YOY RECEIPTS % CHANGE

Major Industry Groups	Cash	Adjusted*
Autos and Transportation	-7.4%	-0.7%
Building and Construction	9.6%	14.9%
Business and Industry	13.1%	17.9%
Food and Drugs	-10.8%	3.6%
Fuel and Service Stations	11.4%	16.9%
General Consumer Goods	-5.6%	3.2%
Restaurants and Hotels	-0.7%	3.8%
County and State Pools	-0.7%	10.2%
Total	**-0.3%**	**7.2%**

*Accounting anomalies factored out

Revenue By Business Group

Orinda This Quarter