

Q4 2017



West Hollywood Sales Tax *Update*

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

West Hollywood In Brief

West Hollywood's receipts from October through December were 2.6% above the fourth sales period in 2016. Excluding reporting aberrations, actual sales were up 0.7%.

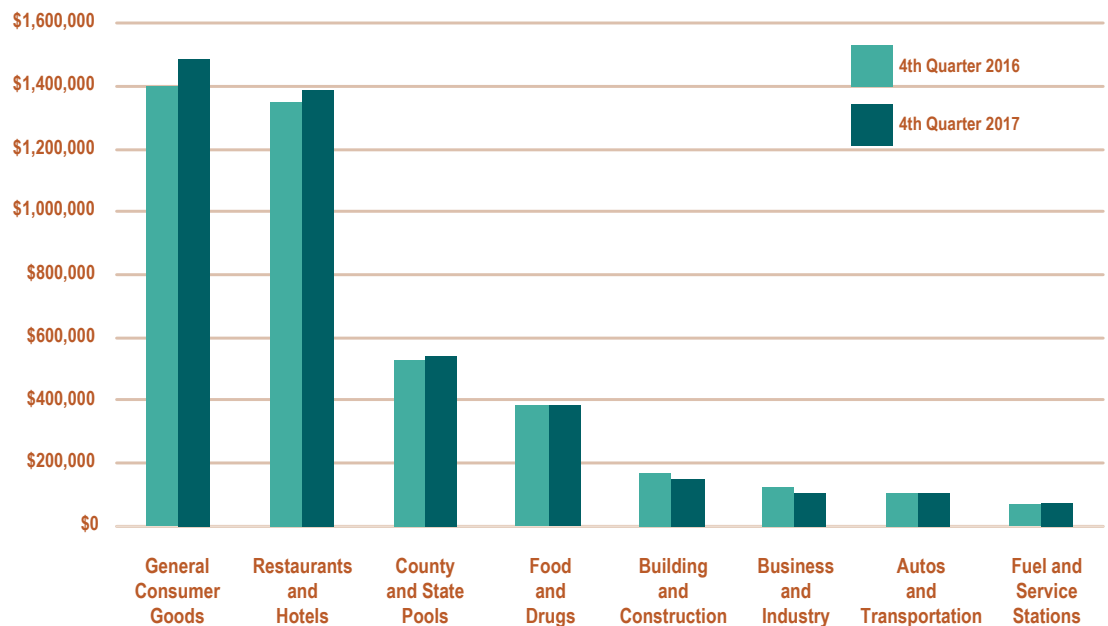
Onetime accounting adjustments that exaggerated results from general consumer goods and the leisure/entertainment group were primarily responsible for the current increase.

A recent addition helped boost revenues from hotels with liquor. An increase in the City's allocation from the county use tax pool added to overall results.

The gains were offset by a decline in sales from contractor supplies and art/gift/novelty stores. Onetime accounting adjustments negatively impacted receipts from fine dining restaurants. Business closeouts reduced returns from casual dining restaurants.

Net of aberrations, taxable sales for all of Los Angeles County grew 3.0% over the comparable time period; the Southern California region was up 3.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

1 Oak	Janus Et Cie
Best Buy	John Varvatos
BOA Steakhouse	Magnolia Hi Fi
Brilliant Earth	Maxfield Bleu
Bristol Farms	Pavillions
Catch LA	Ralphs
Cecconis	Ralphs Fresh Fare
Christian Louboutin	Soho House
EP & LP	Sunset Tower
Factory Night Club	Target
Gelson's Markets	The Abbey
Gracias Madre	Whole Foods Market
Hornburg Jaguar	
Land Rover	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$10,719,437	\$11,211,545
County Pool	1,531,502	1,571,464
State Pool	6,171	2,016
Gross Receipts	\$12,257,110	\$12,785,025

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

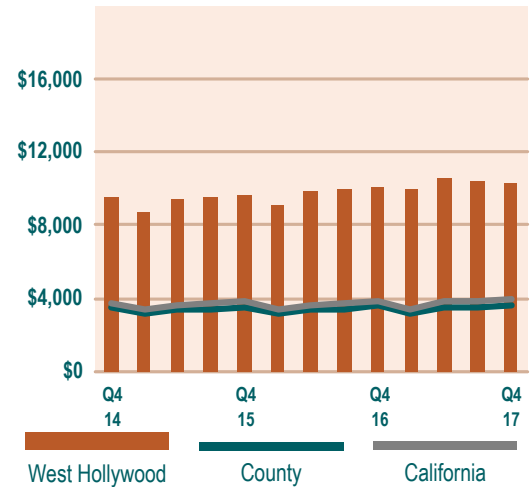
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state 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."

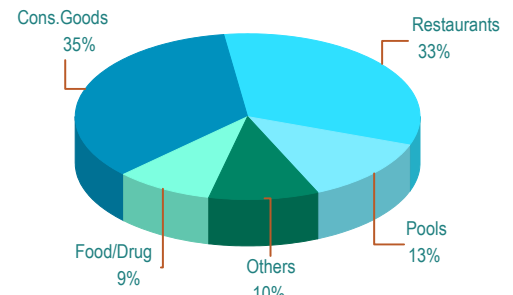
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

Oral arguments are scheduled for April with a decision expected by the end of June 2018.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
West Hollywood This Quarter



WEST HOLLYWOOD TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	West Hollywood Q4 '17*	West Hollywood Change	County Change	HdL State Change
Casual Dining	540.4	-3.6%	3.6%	3.5%
Convenience Stores/Liquor	77.7	0.3%	7.9%	8.3%
Discount Dept Stores	— CONFIDENTIAL —	—	3.7%	4.1%
Electronics/Appliance Stores	214.1	4.8%	3.3%	5.8%
Family Apparel	238.9	1.4%	3.1%	2.1%
Fast-Casual Restaurants	66.5	11.2%	10.4%	9.1%
Fine Dining	402.1	-3.7%	8.5%	10.2%
Grocery Stores	237.1	0.4%	-5.8%	-1.5%
Home Furnishings	396.5	18.1%	0.8%	2.6%
Hotels-Liquor	151.0	15.1%	13.5%	7.9%
Leisure/Entertainment	150.2	47.7%	0.3%	3.2%
Quick-Service Restaurants	77.4	2.7%	4.5%	4.9%
Service Stations	74.5	8.9%	10.0%	11.4%
Shoe Stores	— CONFIDENTIAL —	—	2.6%	0.3%
Specialty Stores	126.9	9.0%	5.3%	4.4%
Total All Accounts	3,700.2	2.5%	-0.9%	4.0%
County & State Pool Allocation	542.1	2.9%	-0.5%	0.8%
Gross Receipts	4,242.3	2.6%	-0.8%	3.6%