

Q1 2011



City of Los Altos Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (Jan-Mar 2011)

Los Altos In Brief

Receipts for Los Altos' January through March sales were 11.8% higher than the same quarter one year ago. Actual sales activity was up 12.3% when reporting aberrations were factored out.

Higher prices at the pump helped boost revenues from service stations, a significant factor in the city's overall gain. The positive results from the restaurant group were largely due to sales increases from restaurants with beer/wine and liquor.

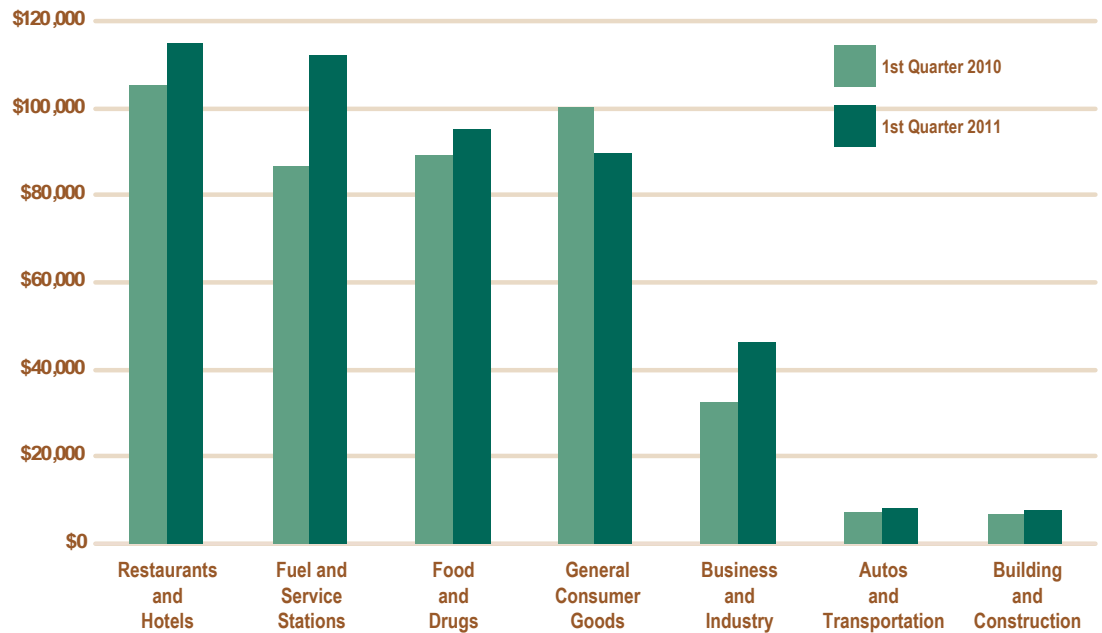
A onetime payment from electrical equipment and strong sales from business services were key factors in the gain from business & industry. The food & drugs sector posted higher receipts from grocery stores with liquor.

The gains were partially offset by sales declines from specialty stores, home furnishings, and restaurants without alcohol. A previous business closure was primarily responsible for the losses from jewelry stores.

The 20.2% increase in the city's share of the countywide use tax pool allocation also contributed to the overall gain.

Adjusted for aberrations, taxable sales for all of Santa Clara County and the Bay area as a whole increased 9.5% over the comparable time period.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

Aldo Los Altos	Los Altos True Value Hardware
Andronicos	Lucky
Armadillo Willys BBQ & Cafe	Marie Callenders
Chef Chus	Ricks
Draegers Super Market	Rite Aid
Earthworks	Safeway
El Camino Unocal	Tesoro West Coast Valero
First & Main Sports Lounge	Trader Joes
Grand Petroleum	Turn 2 Solutions
Los Altos Chevron	Village Chevron
Los Altos Grill	Vitamin Shoppe
Los Altos Supply & Garden Center	Walgreens
	Whole Foods Market

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2009-10	2010-11
Point-of-Sale	\$1,886,528	\$2,002,341
County Pool	258,353	309,337
State Pool	1,704	929
Gross Receipts	\$2,146,585	\$2,312,607
Less Triple Flip*	\$(536,646)	\$(578,152)

*Reimbursed from county compensation fund

Statewide Sales on the Rise

Adjusted for accounting aberrations, California's local sales and use tax revenues from transactions during the first quarter of 2011 were 9.2% higher than the previous year's comparable quarter. This represents the fifth consecutive quarter of recovery and the largest percentage gain since the second quarter of 2005. Total annual revenues however, are still 14.8 % below 2006-2007.

Most regions of the state shared in the increase with the largest contributor coming from a dramatic surge in fuel prices. Allocations from new car sales also were a factor with a statewide gain of 19.8% over the first quarter of 2010. Revenues from full service restaurants and consumer electronics exhibited increases of 10% or more.

California Outlook

The good news is that California's economy is recovering and sales tax growth will follow. However, gains in the next two quarters will be held back by temporary supply chain disruptions caused by the earthquake and tsunami in Japan and by reduced consumer spending as rising gas prices cut into disposable incomes. New uncertainties from further declines in home values and additional government layoffs may also soften consumer spending and business investment for the first half of the fiscal year.

Sales tax growth is expected to pick up in the second half although sluggish improvement in employment and lackluster construction spending will continue to affect the economies of the state's inland regions.

Internet Taxation

Under federal case law, states cannot require businesses without a physical presence in their state to collect sales tax. Companies such as Amazon have built their business plans around avoiding collecting the tax thereby put-

ting local brick and mortar stores at a competitive disadvantage.

This year, California has attempted to partially correct the inequity through the passage of ABX1 28 which combines the differing strategies of three previous bills with each designed to be severable in the event of a successful court challenge.

The first follows the lead of New York State by declaring that internet sales through a host of in-state affiliates constitutes "substantial nexus" and therefore makes sales through those affiliates subject to sales tax. ABX1 28 also prevents companies with in-state brick and mortar stores from treating those stores as separate legal entities to avoid collecting tax on internet sales. The third strategy permits the state to use a revised definition of "engaged in business in this state" if future court decisions expand the definition of nexus so that internet sellers must collect sales tax in their customers' jurisdictions.

ABX1 28 is expected to increase

statewide tax collections by \$317 million annually, with local governments splitting about \$39 million or roughly \$1.00 per capita. Revenues from these out of state sales would be distributed primarily though the countywide use tax allocation pools.

Staying Alive (shrinking retailers)

Agencies in smaller market areas may have fresh opportunities for new retail with big box stores now planning on smaller facilities. Reducing floor area is seen as another method of cost containment as consumer thriftiness keeps pressure on corporate profit margins. JC Penney, Petsmart, TJ Maxx and Staples have announced plans to build stores up to 40% smaller than their existing locations while Best Buy is planning to sublease part of the space in their existing stores and retail giant Wal-Mart is experimenting with stores as small as 14,000 square feet to recapture lost market share from dollar stores.

LOS ALTOS TOP 15 BUSINESS TYPES

Business Type	Los Altos		County	HdL State
	Q1 '11	Change	Change	Change
Art/Gift/Novelty Stores	6,998	-10.9%	2.3%	1.6%
Business Services	7,178	47.5%	8.4%	-10.8%
Drug Stores	— CONFIDENTIAL —		2.3%	3.3%
Electrical Equipment	12,954	496.2%	9.8%	9.6%
Family Apparel	6,228	-20.6%	3.8%	3.8%
Garden/Agricultural Supplies	— CONFIDENTIAL —		7.2%	2.1%
Grocery Stores Liquor	73,402	8.1%	4.6%	-12.5%
Home Furnishings	14,412	-22.8%	7.4%	5.1%
Restaurants Beer And Wine	48,686	27.7%	3.0%	-3.0%
Restaurants Liquor	43,904	6.3%	10.5%	8.2%
Restaurants No Alcohol	21,299	-15.7%	9.8%	8.6%
Service Stations	112,337	29.4%	-1.5%	19.8%
Specialty Stores	13,952	-22.7%	13.4%	3.1%
Sporting Goods/Bike Stores	5,644	-2.3%	3.9%	3.5%
Women's Apparel	12,129	1.8%	1.3%	4.4%
Total All Accounts	\$474,271	10.6%	6.7%	7.5%
County & State Pool Allocation	74,812	19.9%		
Gross Receipts	\$549,083	11.8%		