

# Q2 2012



# City of Los Altos Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2012)

## Los Altos In Brief

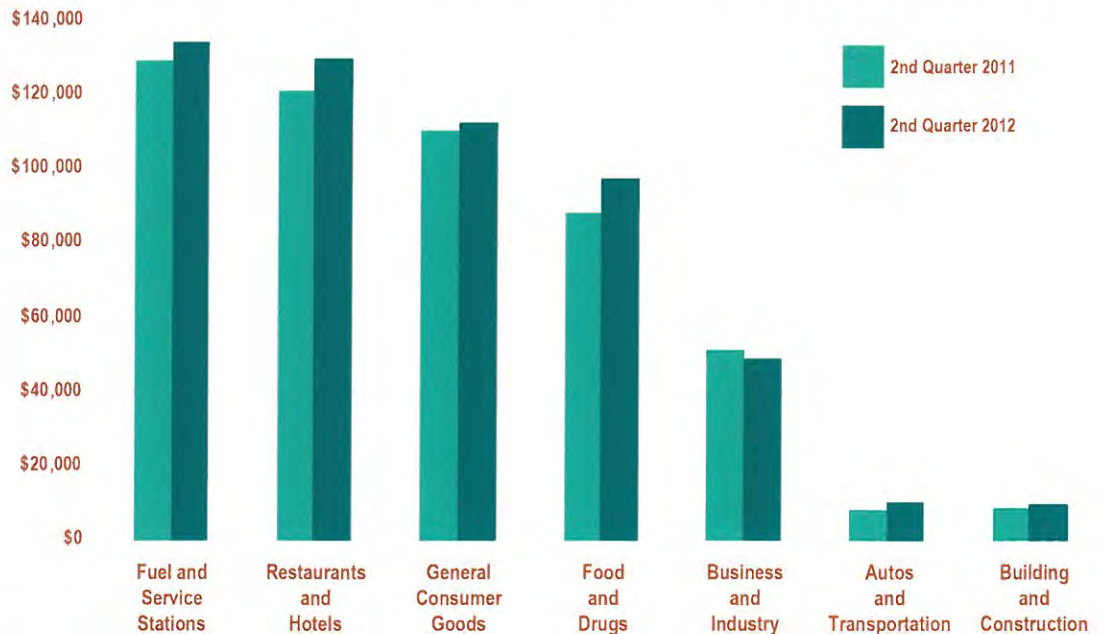
Second quarter receipts were 2.9% above the comparable sales period one year before but payment aberrations skewed the data. With anomalies excluded, actual sales were up 3.4%.

All major industry groups except business and industry showed gains this quarter. In dollar terms food and drugs and restaurants and hotels increased most. Grocery stores with liquor generated much of the gain in the food and drugs category in which year-ago receipts were unusually low. As in most areas of the state, restaurants without alcohol and restaurants with liquor were up but restaurants with beer/wine decreased. New business openings added to overall positive results. Autos and transportation, building and construction, fuel and service stations and general consumer goods were also up but gains were modest.

Business and industry results trended down this quarter in part due to an unusually large allocation in the comparison quarter. The city's allocation from the countywide use tax pool fell because a retroactive accounting adjustment temporarily boosted pool totals a year ago.

After factoring out onetime payment aberrations, all of Santa Clara County rose 5.7%; statewide sales grew 7.5%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

In Alphabetical Order

Andronicos Market	Lucky Supermarket
Armadillo Willys BBQ & Cafe	Opa Authentic Greek Cuisine
Bicycle Outfitter	Rite Aid
Chef Chus	Safeway
Chicos	Tesoro West Coast Valero
Draegers Super Market	Trader Joes
Earthworks	True Value Hardware
El Camino 76	Turn 2 Solutions
Footwear Etc	Village Chevron
Grand Petroleum	Vitamin Shoppe
Los Altos Chevron	Walgreens
Los Altos Grill	Whole Foods Market
Los Altos Supply & Garden	

### REVENUE COMPARISON

One Quarter - Fiscal Year To Date

	2011-12	2012-13
Point-of-Sale	\$518,181	\$542,573
County Pool	84,829	77,319
State Pool	(320)	556
<b>Gross Receipts</b>	<b>\$602,690</b>	<b>\$620,447</b>
<b>Less Triple Flip*</b>	<b>\$(150,673)</b>	<b>\$(155,112)</b>

\*Reimbursed from county compensation fund

**Statewide Results**

Net of payment aberrations, second quarter retail sales were 7.5% higher than the same period one year earlier.

Purchases of new automobiles, spurred by low interest rates, easy credit and manufacturers' incentives, outpaced first quarter growth and generated 22% of the total increase. Business-to-business sales reflected strength in a number of sectors, notably heavy industrial, business services and equipment for energy related projects. Restaurant and hotel receipts grew by 8.6%, outpacing all other industry groups except autos and transportation. Family apparel sales were strong but weak electronics/appliances returns and lackluster results from department stores and big box discounters held general consumer group gains to a modest 3.9%. Flattening fuel prices and ongoing weakness in lumber and building materials sales also restrained overall results.

**Outlook for the Year**

The momentum for the recovery is slowing and has recently prompted another round of "quantitative easing" by the Federal Reserve Board in an effort to reinvigorate the housing market and spur business investment by keeping interest rates low. Retail growth in California, which fell further than the nation as a whole during the "Great Recession," may outpace the nation going forward but stubborn unemployment, nearly static income levels, and cautious business spending will keep overall sales at moderate levels at least through 2014-15.

**Sales Tax from On-line Retailers**

AB 155, which was passed last year as a compromise with Amazon.com went into effect on September 15. While the bill expanded the state's ability to require the collection of tax

on out-of-state sales, local agencies expecting immediate revenue gains will be disappointed.

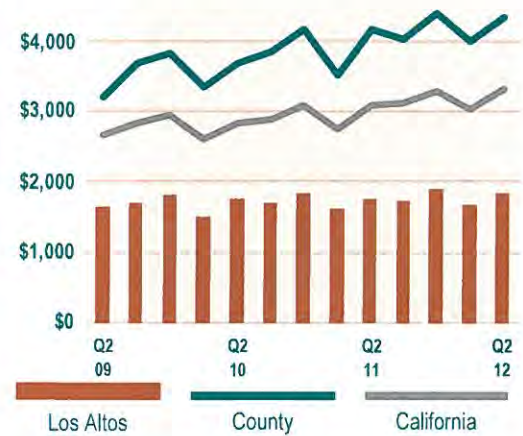
Federal case law continues to provide that remote sellers without nexus in a state are not required to collect that state's sales tax. Amazon agreed not to contest AB 155's definition of nexus which includes remote sellers who have annual sales in California of one million dollars or more and who have an in-state affiliate that provides services in connection with the remote seller's sales if those connected sales exceed \$10,000 per year.

The Board of Equalization's initial estimate was that the legislative change would raise approximately \$38.2 million in one-cent local revenues. However since then, Amazon which was a significant portion of the estimate has decided to build distribution facilities in California which will divert the revenues to the hosting jurisdictions. Other remote sellers, such as Overstock.com, have announced that

they will simply drop their in-state affiliates to avoid collecting the tax.

The Board of Equalization expects to add up to 100 staff positions over the next three years to enforce the new provisions. However, at least initially, local governments should not expect annual revenues of more than \$0.25 per capita and the ultimate solution continues to be federal legislation that eliminates the nexus prohibition and levels the playing field for all retailers.

**SALES PER CAPITA**



**LOS ALTOS TOP 15 BUSINESS TYPES**

Business Type	Los Altos		County	HdL State
	Q2 '12	Change	Change	Change
Art/Gift/Novelty Stores	7,848	2.6%	0.1%	3.4%
Drug Stores	— CONFIDENTIAL —	—	1.0%	3.5%
Family Apparel	10,092	25.1%	11.7%	8.8%
Garden/Agricultural Supplies	— CONFIDENTIAL —	—	5.3%	5.1%
Grocery Stores Liquor	73,964	14.7%	5.1%	4.2%
Home Furnishings	18,508	-2.4%	9.3%	7.1%
Jewelry Stores	6,145	-17.2%	0.1%	4.3%
Personal Service-No Liquor	5,339	-13.4%	10.7%	10.3%
Restaurants Beer And Wine	47,967	-8.6%	-2.2%	0.3%
Restaurants Liquor	51,070	14.4%	9.6%	11.2%
Restaurants No Alcohol	29,640	27.8%	12.0%	8.1%
Service Stations	133,984	3.8%	0.4%	2.3%
Specialty Stores	16,043	-1.8%	-20.9%	2.3%
Sporting Goods/Bike Stores	10,714	11.8%	8.8%	9.0%
Women's Apparel	16,476	11.9%	-3.6%	5.7%
<b>Total All Accounts</b>	<b>\$542,573</b>	<b>4.7%</b>	<b>4.6%</b>	<b>6.7%</b>
<b>County &amp; State Pool Allocation</b>	<b>77,875</b>	<b>-7.9%</b>		
<b>Gross Receipts</b>	<b>\$620,447</b>	<b>2.9%</b>		