

Q2 2016



City of Los Altos Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2016)

Los Altos In Brief

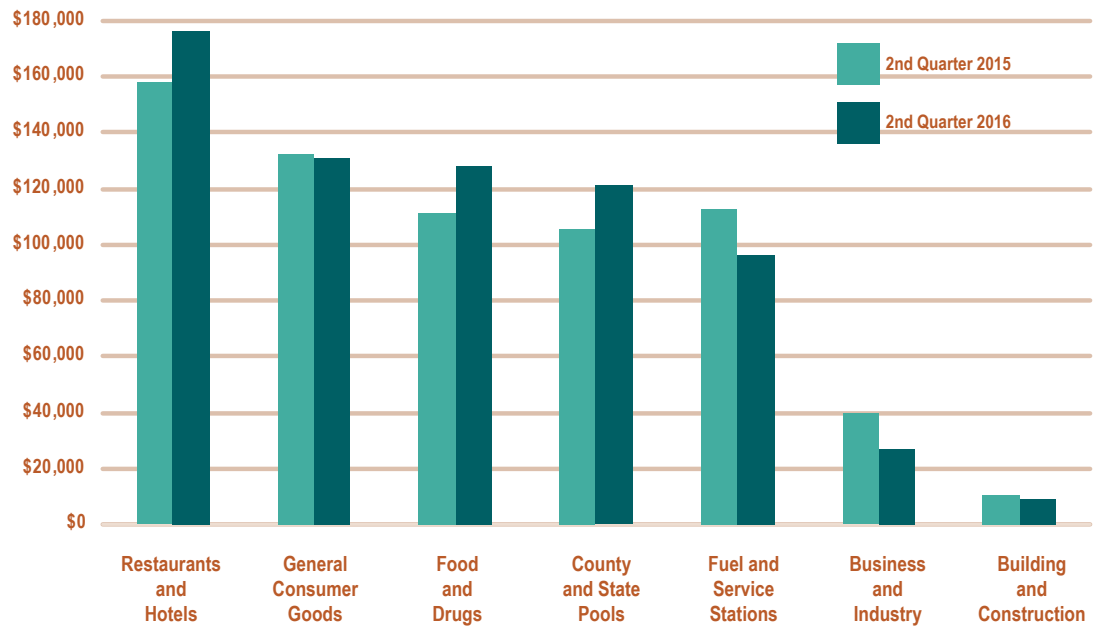
Los Altos' receipts from April through June were 2.3% above the second sales period in 2015. However, the receipt of a retroactive audit payment from a general merchandise retailer, skewed the results. Excluding reporting aberrations, actual sales were down 0.4%.

For the seventh straight quarter, weak demand for crude oil and a stable supply of retail fuel locally, pushed gas prices down dramatically impacting revenue from service stations. Business and industrial returns were hampered by sluggish sales activity and a temporary reporting deviation compared to the prior year.

Helping offset some of the adjusted losses were: solid growth from both quick-service and fast casual dining establishments, the addition of food-drug vendors and increased allocations from the countywide use tax pool.

Net of aberrations, taxable sales for all of Santa Clara County only grew 0.3% over the comparable time period; while the Bay Area was up 2.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Amber India Restaurant	Los Altos Chevron
Anchorage Place Properties & Design	Los Altos Grill
Andronicos Market	Lucky Supermarket
Armadillo Willys BBQ & Cafe	OPA Authentic Greek Cuisine
BevMo	Pho Vi Hoa
Cetrella	Rite Aid
Chef Chus	Safeway
Chevron	Shell
Draegers Super Market	Steinway
El Camino 76	Trader Joes
Footwear Etc	True Value Hardware
Grand Petroleum	Walgreens
	Whole Foods Market

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$570,345	\$570,413
County Pool	105,292	121,142
State Pool	503	211
Gross Receipts	\$676,140	\$691,766
Less Triple Flip*	\$(169,035)	\$0

*Reimbursed from county compensation fund

California Overall

Statewide local sales and use tax receipts were up 1.9% over last year's spring quarter after adjusting for payment aberrations.

The largest gains were for building supplies, restaurants, utility/energy projects and countywide use tax pool allocations. Tax revenues from general consumer goods and business investment categories rose slightly while auto sales leveled off.

Interest In Tax Reform Grows

With modest growth in sales and use taxes, agencies are increasingly reliant on local transaction tax initiatives to cover growing infrastructure and employee retirement costs. As of October 1, there are 210 active add-on tax districts with dozens more proposed for the upcoming November and April ballots.

The Bradley-Burns 1% local sales tax structure has not kept pace with social and economic changes occurring since the tax was first implemented in 1933. Technology and globalization are reducing the cost of goods while spending is shifting away from taxable merchandise to non-taxed experiences, social networking and services. Growing outlays for housing and health care are also cutting family resources available for discretionary spending. Tax-exempt digital downloads and a growing list of legislative exemptions have compounded the problem.

California has the nation's highest sales tax rate, reaching 10% in some jurisdictions. This rate, however, is applied to the smallest basket of taxable goods. A basic principle of sound tax policy is to have the lowest rate applied to the broadest possible basket of goods. California's opposite approach leads to revenue volatility and causes the state and local governments to be more vulnerable to economic downturns.

The State Controller, several legislators and some newspaper editorials have suggested a fresh look at the state's tax structure and a few ideas for reform have been proposed, including:

Expand the Base / Lower the Rate:

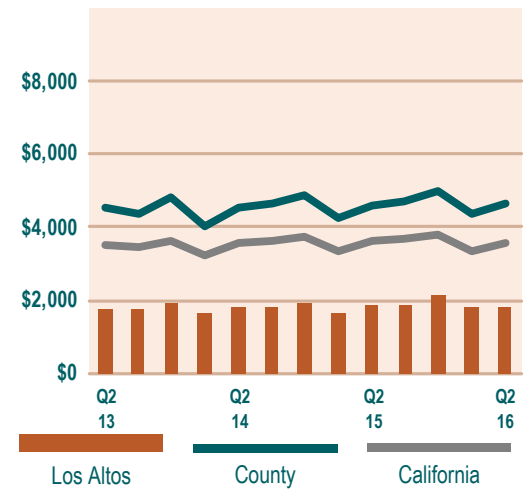
Eliminate much of the \$11.5 billion in exemptions adopted since the tax was first implemented and expand the base to include the digital goods and services commonly taxed in other states. This would allow a lower, less regressive tax that is more competitive nationally and would expand local options for economic development.

Allocate to Place of Consumption:

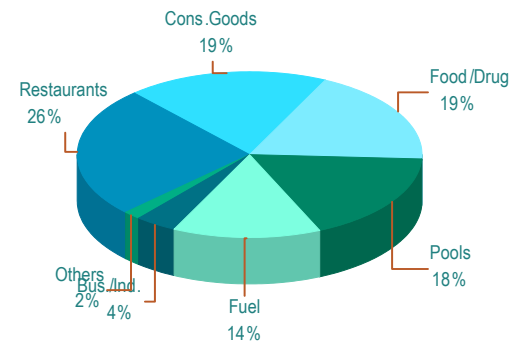
Converting to destination sourcing, already in use in the state's transactions and use tax districts, would maintain the allocation of local sales tax to the jurisdiction where stores, restaurants and other carryout businesses are located, but return the tax for online and catalog sales to the jurisdiction of the buyer that paid the tax. One outcome of this proposal would be the redirection of tax revenues to local agencies that are currently being shared with business owners and corporations as an inducement to move order desks to their jurisdictions.

Tax reform will not be easy. However, failing to reach agreement on a simpler, less regressive tax structure that adapts this century's economy could make California a long-term "loser" in competing with states with lower overall tax rates.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Los Altos This Quarter



LOS ALTOS TOP 15 BUSINESS TYPES

Business Type	Los Altos		County	HdL State
	Q2 '16	Change	Change	Change
Casual Dining	100,581	-6.6%	3.4%	4.3%
Drug Stores	— CONFIDENTIAL —	—	-3.7%	0.5%
Family Apparel	10,030	-19.8%	1.2%	4.4%
Fast-Casual Restaurants	13,241	31.4%	-5.3%	4.4%
Fine Dining	— CONFIDENTIAL —	—	17.4%	11.8%
Grocery Stores Beer/Wine	— CONFIDENTIAL —	—	0.8%	-0.8%
Grocery Stores Liquor	45,830	3.0%	1.9%	1.2%
Home Furnishings	27,178	0.8%	17.5%	1.3%
Liquor Stores	— CONFIDENTIAL —	—	-1.0%	4.3%
Music Stores	— CONFIDENTIAL —	—	6.5%	2.2%
Quick-Service Restaurants	18,072	24.7%	3.5%	6.6%
Service Stations	96,041	-14.6%	-18.7%	-19.2%
Specialty Stores	18,052	-14.3%	10.5%	2.5%
Sporting Goods/Bike Stores	11,036	-0.6%	9.7%	9.4%
Women's Apparel	15,039	-10.5%	-2.3%	1.8%
Total All Accounts	570,413	0.0%	2.6%	-0.6%
County & State Pool Allocation	121,353	14.7%	17.7%	15.2%
Gross Receipts	691,766	2.3%	5.0%	1.4%