

Q2 2014



City of Los Altos Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2014)

Los Altos In Brief

Receipts for Los Altos' April through June sales were 6.3% higher than the same quarter one year ago.

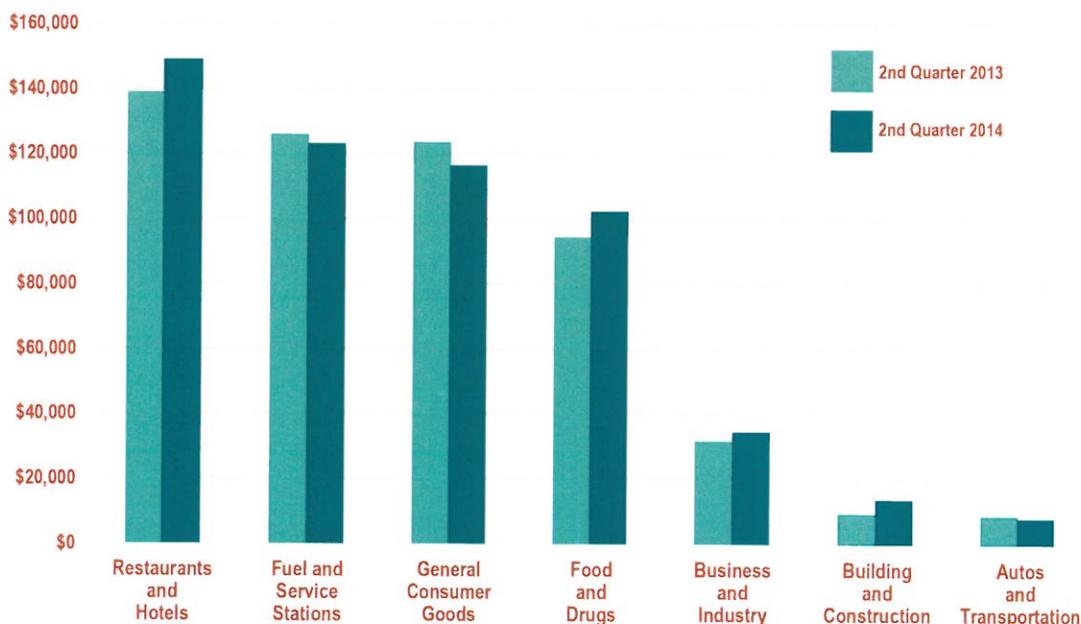
Sales activity increased in all restaurant sectors with the exception of quick-service. A retroactive adjustment inflated positive returns in food and drugs while building and construction posted double digit gains.

Corrections in several categories including family apparel accounted for the loss in general consumer goods. Once these onetime events were removed, this group rose 9.8%. New stores and robust returns in home furnishings contributed to the increase that surpassed regional trends.

The rise in the countywide use tax allocation pool due to a year-ago deduction boosted gross receipts overall.

Adjusted for aberrations, taxable sales for all of Santa Clara County increased 4.6% over the comparable time period, while the Bay Area as a whole was up 6.3%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Akane Japanese Cuisine	Lucky Supermarket
Andronicos Market	Lynn Szekely Decor
Armadillo Willys BBQ & Cafe	OPA Authentic Greek Cuisine
Bicycle Outfitter	Pho Vi Hoa Restaurant
Chain Reaction Bicycle Shop	Rite Aid
Chef Chus	Tesoro West Coast Valero
Chicos	Trader Joes
Draegers Super Market	True Value Hardware
El Camino 76	Turn 2 Solutions
Footwear Etc	Village Chevron
Grand Petroleum	Walgreens
Los Altos Chevron	Whole Foods Market
Los Altos Grill	

REVENUE COMPARISON

One Quarter - Fiscal Year To Date

	2013-14	2014-15
Point-of-Sale	\$532,339	\$546,496
County Pool	70,788	94,877
State Pool	375	436
Gross Receipts	\$603,503	\$641,808
Less Triple Flip*	\$(150,876)	\$(160,452)

*Reimbursed from county compensation fund

California as a Whole

Excluding onetime payment aberrations the local one cent share of state-wide sales and use tax was 5.2% higher than the second quarter of 2013.

Gains in the countywide use tax allocation pools were the largest contributor to the overall increase reflecting the growing influence of online purchases from out of state companies without nexus or a specific “point of sale” in California. The trend was also reflected by a growing shift of tax revenues from brick and mortar stores to in-state fulfillment centers that process on-line orders.

Auto sales and leases, contractor supplies and restaurants also posted major gains. These were partially offset by a decline in alternative energy projects that had previously added significant use tax revenues to the business and industry group.

The consensus among analysts is that the current pattern of increases will continue through the remainder of the fiscal year.

Triple Flip - The End is in Sight

California’s 2014/15 budget provides for retiring the \$15 billion fiscal recovery bonds authorized in 2004 to finance that year’s state budget deficit.

To guarantee the bonds, the state re-directed 1/4 of local government’s one cent sales tax and backfilled it with property tax revenues taken from the Educational Revenue Augmentation funds (ERAF) established for schools. The school ERAF funds were in turn replaced with state general revenues. This reshuffling became known as the “triple flip” and has caused cash flow and budget projection problems for local governments since.

The current plan is to discontinue the deductions at the end of calendar year 2015 and reimburse local governments with their final clean-up payments in January 2016.

Proposition 1A, approved by the voters in 2004, prohibits the state from further extending the debt or from making additional reductions or changes to local government revenues without voter approval.

Allocation Formulas Corrected

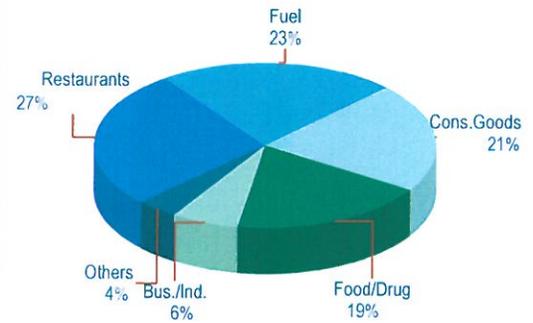
In addition to local sales tax and transactions tax overrides, counties and cities share in the half-cent public safety tax approved by the voters in 1993 to cushion the state’s use of property tax revenues to finance Proposition 198’s minimum educational funding requirements (ERAF). Counties also receive 1.5635 cents of state sales tax to reimburse for health, welfare and corrections functions shifted to them from the state in 1991 and 2011.

Inconsistencies in the public safety remittances brought to the state’s attention by HdL revealed that allocation formulas did not reflect recent legislative changes. As a result, counties will receive onetime backfill payments totalling \$116 million in 2014/2015.

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 '14	Change	Change	Change
Art/Gift/Novelty Stores	8,598	11.8%	13.8%	1.8%
Casual Dining	97,102	10.9%	2.9%	3.5%
Contractors	7,518	126.4%	11.6%	14.4%
Drug Stores	— CONFIDENTIAL —	—	4.3%	10.0%
Electrical Equipment	— CONFIDENTIAL —	—	0.8%	5.3%
Family Apparel	11,392	-15.6%	3.7%	9.6%
Fast-Casual Restaurants	12,307	2.6%	11.5%	9.6%
Fine Dining	22,726	5.6%	12.2%	15.8%
Grocery Stores Liquor	73,791	2.4%	5.2%	5.7%
Home Furnishings	26,852	39.3%	9.1%	6.8%
Jewelry Stores	6,693	4.6%	8.4%	3.7%
Quick-Service Restaurants	13,419	-9.1%	9.0%	6.7%
Service Stations	123,101	-2.2%	6.3%	6.7%
Sporting Goods/Bike Stores	12,305	-4.7%	0.8%	0.2%
Women's Apparel	17,697	-12.0%	8.0%	4.3%
Total All Accounts	\$546,496	2.7%	1.1%	2.8%
County & State Pool Allocation	\$95,313	33.9%	31.9%	12.7%
Gross Receipts	\$641,808	6.3%	4.7%	3.9%