

Q3 2011



City of Los Altos Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2011)

Los Altos In Brief

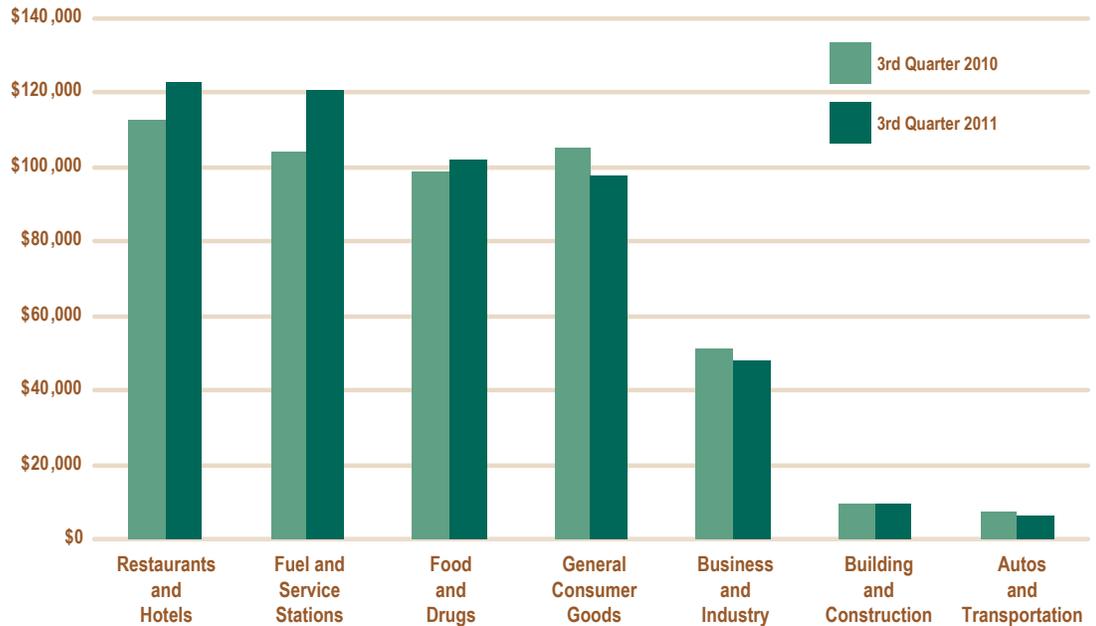
Receipts from third quarter sales were 4.6% above the same sales period one year ago.

In dollar terms, fuel and service stations, restaurants and hotels and the city's allocation from the countywide use tax pool provided most of the quarterly increase. Service station gains were due to higher prices at the pump. All restaurant classifications were up and as with most areas of the region and state, restaurants with liquor outperformed those with beer and wine or without alcohol. In Los Altos, this group benefited from new business additions. Capital purchases by businesses located throughout Santa Clara County helped to boost pro-rata use tax amounts distributed through the pool.

Business and industry and general consumer sales slipped. Retroactive payment corrections skewed the business and industry comparison by cutting third quarter receipts. Similar adjustments exaggerated the general consumer group decline.

Net of accounting adjustments, all of Santa Clara County was up 6.8%; statewide sales grew 8.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

Andronicos	Los Altos Supply & Garden Center
Armadillo Willys BBQ & Cafe	Los Altos True Value Hardware
Bicycle Outfitter	Lucky
Chain Reaction Bicycle Shop	Ricks
Chef Chus	Rite Aid
Design & Interiors	Safeway
Draegers Super Markets	Tesoro West Coast Valero
El Camino Unocal	Trader Joes
First & Main Sports Lounge	Village Chevron
Grand Petroleum	Vitamin Shoppe
J P Liquors	Walgreens
Los Altos Chevron	Whole Foods Market
Los Altos Grill	

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2010-11	2011-12
Point-of-Sale	\$996,135	\$1,026,434
County Pool	153,836	167,283
State Pool	732	120
Gross Receipts	\$1,150,702	\$1,193,836
Less Triple Flip*	\$(287,676)	\$(298,459)

*Reimbursed from county compensation fund

California Overall

Adjusted for accounting aberrations, statewide local sales and use tax revenues for July through September transactions increased 8.6% over last year's comparison quarter. This is the seventh consecutive quarterly gain since the beginning of the recovery.

All categories were up with receipts from higher fuel prices accounting for much of the statewide increase. Sales of new autos, consumer goods and quick and full service restaurants also exhibited solid growth.

The Foggy Crystal Ball

Although 2011-12 is shaping up to be a period of strong sales tax recovery, most analysts believe that the pace of growth will slow in 2012-13 with the only disagreement being over the degree of slowdown.

Additional state budget cuts, continued high unemployment, further declines in home values and unstable fuel prices are part of the uncertainty. The financial turmoil in Europe is also of concern.

Manufacturers, growers, distributors, transporters and other companies involved in export trade make up 25% of the state's gross product. The European crisis has the potential of slowing the demand for both U.S. and Asian goods which would also pare the growth of California's Asian markets. Comparative strengthening of the U.S. dollar would also make exports more expensive.

Analysts worry about the resulting impact on Silicon Valley's technology industries, the Central Valley's agricultural exports and Southern California's transportation sector.

Sales Tax and the Internet

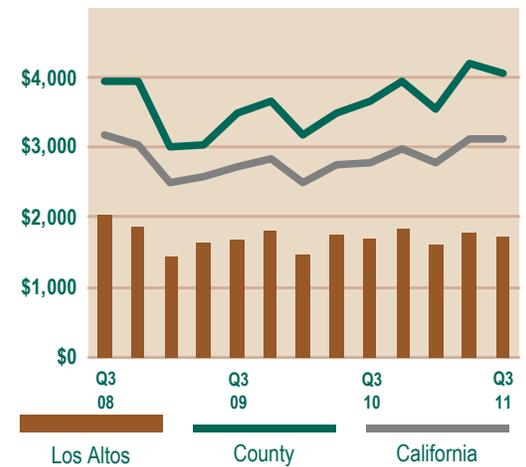
In 1992, the Supreme Court ruled that interstate commerce rules preclude states from requiring sellers without an in-state physical presence to collect local taxes. Since that time, attempts to interest Congress in correcting the problem have been unsuccessful.

With internet sellers becoming a major retail competitive force and more states adopting legislation expanding the definition of what constitutes "physical presence," the need for fairness and uniformity is softening opposition. This year, three competing bills were introduced in Congress that would allow the collection of local taxes. These are: S.1452, H.R. 3179 and S. 1832.

Given the general discord and paralysis in Congress, there is some question of whether any of these will pass. However, a compromise agreement between the State of California and Amazon has resulted in legislation (AB 155) that requires

in-state affiliates of remote sellers to begin collecting and remitting sales and use tax by September 15, 2012. Estimates on the amount of new revenues that will be generated have been difficult to develop but local agencies should not expect gains of more than \$1 per capita. More on the congressional legislation can be found in HdL's December issues paper.

SALES PER CAPITA



LOS ALTOS TOP 15 BUSINESS TYPES

Business Type	Los Altos		County	HdL State
	Q3 '11	Change	Change	Change
Art/Gift/Novelty Stores	6,153	33.8%	13.6%	9.3%
Contractors	5,034	22.0%	10.6%	8.6%
Drug Stores	— CONFIDENTIAL —	—	2.3%	6.2%
Family Apparel	9,086	4.0%	9.5%	7.9%
Garden/Agricultural Supplies	— CONFIDENTIAL —	—	10.9%	11.2%
Grocery Stores Liquor	80,007	3.7%	6.2%	10.8%
Home Furnishings	15,602	-27.5%	5.9%	7.5%
Jewelry Stores	5,347	-10.0%	14.7%	18.2%
Restaurants Beer And Wine	49,785	2.2%	1.4%	0.6%
Restaurants Liquor	49,105	15.3%	15.8%	10.9%
Restaurants No Alcohol	23,217	12.5%	9.2%	7.0%
Service Stations	120,614	15.6%	19.0%	20.5%
Specialty Stores	14,330	-18.6%	8.8%	8.3%
Sporting Goods/Bike Stores	10,200	20.3%	9.5%	8.2%
Women's Apparel	14,291	7.7%	6.6%	9.9%
Total All Accounts	\$508,253	3.9%	6.5%	9.4%
County & State Pool Allocation	82,894	9.4%		
Gross Receipts	\$591,146	4.6%		