

Q1 2011



City of Pleasanton Sales Tax *Update*

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

Pleasanton In Brief

Receipts for Pleasanton's January through March sales were 17.1% higher than the same quarter one year ago. Actual sales activity was up 12.7% when reporting aberrations were factored out.

Over half of the adjusted gain in gross receipts was due to a change in reporting for a company in the office equipment category. In addition the spike in electrical equipment was a result of a temporary payment deviation. Nonetheless office supplies and materials showed a gain while revenues dipped in electronics and medical equipment.

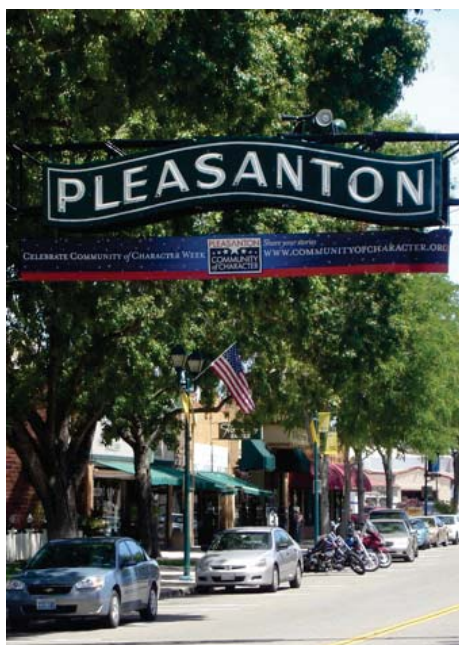
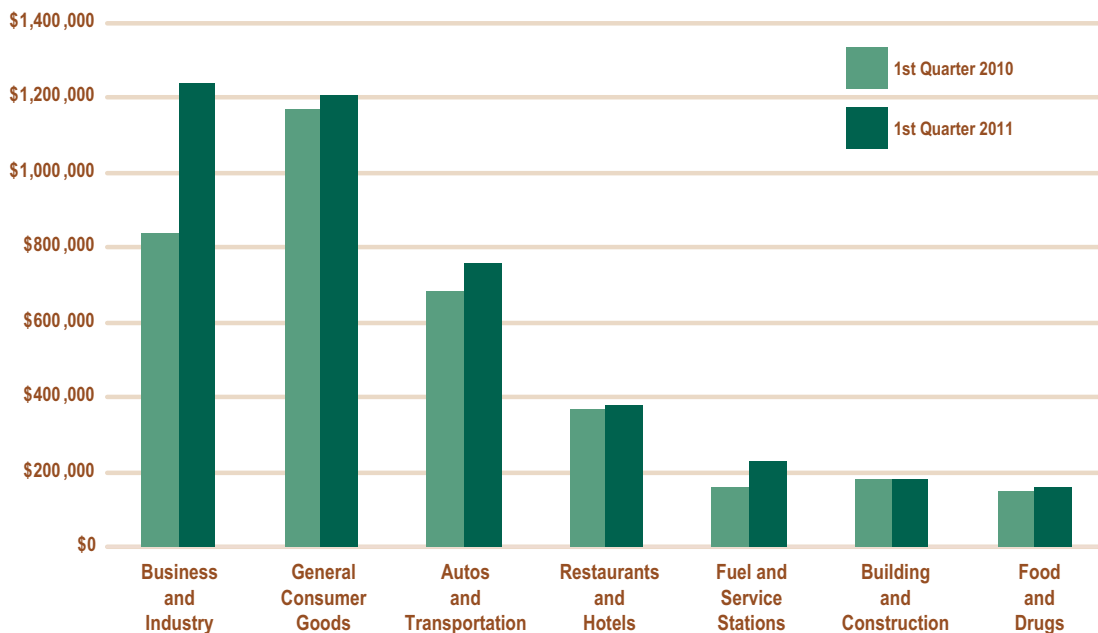
The increase in service stations from higher fuel prices was overstated by multiple payment aberrations. Lower auto lease receipts partially offset the uptick in new auto sales.

Despite the closure of several stores, general consumer goods showed positive results from gains in electronics, women's apparel, sporting goods and department stores. New eateries contributed to the rise in restaurants as a whole.

A business closeout accounted for the loss in building and construction.

Adjusted for aberrations, taxable sales for all of Alameda County increased 9.7% over the comparable time period, while the Bay Area as a whole was up 9.5%.

SALES TAX BY MAJOR BUSINESS GROUP



REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2009-10	2010-11
Point-of-Sale	\$15,159,239	\$17,421,187
County Pool	1,969,354	2,445,527
State Pool	13,561	7,792
Gross Receipts	\$17,142,155	\$19,874,506
Cty/Cnty Share	(857,108)	(993,725)
Net Receipts	\$16,285,047	\$18,880,781
Less Triple Flip*	\$(4,071,262)	\$(4,720,195)

*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.

PLEASANTON TOP 15 BUSINESS TYPES

Business Type	Pleasanton		County	HdL State
	Q1 '11*	Change	Change	Change
Business Services	202.9	-9.5%	-3.9%	-10.9%
Department Stores	413.3	0.5%	-0.1%	4.1%
Discount Dept Stores	— CONFIDENTIAL —		4.3%	2.1%
Electrical Equipment	152.0	197.1%	31.8%	9.7%
Electronics/Appliance Stores	122.2	26.0%	4.5%	11.9%
Family Apparel	126.3	-2.3%	6.1%	3.8%
Light Industrial/Printers	176.3	13.2%	3.1%	6.7%
Lumber/Building Materials	102.8	11.1%	5.3%	2.5%
Medical/Biotech	133.2	0.8%	1.7%	3.3%
New Motor Vehicle Dealers	600.3	14.8%	22.8%	19.9%
Office Equipment	274.7	907.3%	114.9%	19.3%
Office Supplies/Furniture	170.2	15.3%	6.9%	0.1%
Restaurants Liquor	147.9	2.6%	5.8%	8.1%
Restaurants No Alcohol	118.0	12.0%	9.7%	8.6%
Service Stations	228.8	44.7%	17.1%	19.8%
Total All Accounts	\$4,161.3	17.2%	9.8%	7.5%
County & State Pool Allocation	598.6	16.3%		
Gross Receipts	\$4,759.9	17.1%		
City/County Share	(238.0)	-17.1%		
Net Receipts	\$4,521.9	17.1%		

*In thousands