

Q1 2011



City of Poway Sales Tax Update

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

Poway In Brief

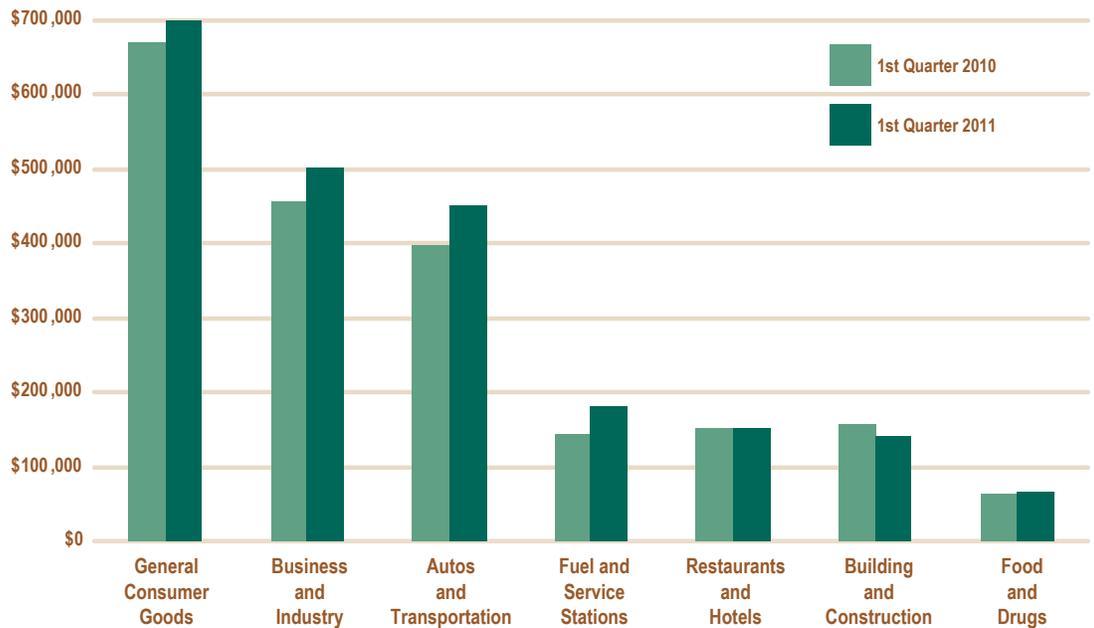
First quarter receipts were 6.3% higher than the same sales period one year earlier but reporting aberrations skewed the data. With anomalies excluded, actual sales were up 7.6%.

New motor vehicle dealer, service station, electrical equipment and office supplies/furniture generated most of the quarterly increase but restaurants with beer/wine, restaurants no alcohol, heavy industrial and business services categories also contributed. Late-arriving receipts from sales in prior periods provided a moderate boost to new motor vehicle results. Conversely, payment aberrations a year ago reduced heavy industrial gains.

The light industrial/printers classification declined as did lumber/building materials and specialty stores. Temporary payment adjustments caused much of the light industrial decrease.

Net of payment aberrations, all of San Diego County was up 9.1%; statewide sales grew 9.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

Centerline Industrial	Kohls
Chevron - Gasoline Sales	Mitchell Repair Info
Complete Office	Mobil Oil
Costco w/Gas	Mossy Nissan
Crawford & Company	Perry Ford
Exoil	Poway Honda
Exxon - Gasoline Sales	Poway Mitsubishi
Ferguson Waterworks	Hyundai & Vespa
G & M Oil	Poway Toyota/Scion
General Atomics Aernutcl Sys	Stater Bros
Home Depot	Stein Mart
Home Goods	Sysco Food Services
	Target
	Walmart

REVENUE COMPARISON

Three Quarters - Fiscal Year To Date

	2009-10	2010-11
Point-of-Sale	\$6,742,783	\$6,999,213
County Pool	788,894	840,224
State Pool	5,713	2,956
Gross Receipts	\$7,537,390	\$7,842,393
Less Triple Flip*	\$(1,884,348)	\$(1,960,598)

*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.

POWAY TOP 15 BUSINESS TYPES

Business Type	Poway		County	HdL State
	Q1 '11*	Change	Change	Change
Automotive Supply Stores	39.0	-1.1%	7.3%	5.8%
Discount Dept Stores	517.1	5.9%	1.2%	2.1%
Electrical Equipment	105.2	63.1%	26.4%	9.6%
Family Apparel	37.7	-2.6%	5.9%	3.8%
Food Mfg.	65.9	-0.9%	4.2%	0.4%
Grocery Stores Liquor	34.6	-0.8%	-19.1%	-12.5%
Light Industrial/Printers	93.6	-17.6%	27.0%	6.7%
Lumber/Building Materials	80.0	-5.4%	2.1%	2.3%
New Motor Vehicle Dealers	335.0	20.1%	20.0%	19.9%
Office Supplies/Furniture	80.9	18.7%	0.0%	0.1%
Restaurants Beer And Wine	33.1	7.6%	-7.3%	-2.9%
Restaurants Liquor	34.9	0.7%	9.5%	8.2%
Restaurants No Alcohol	74.6	7.1%	11.6%	8.6%
Service Stations	179.4	25.9%	22.6%	19.8%
Specialty Stores	37.5	-4.6%	4.9%	3.1%
Total All Accounts	\$2,194.9	7.3%	8.7%	7.5%
County & State Pool Allocation	255.1	-1.9%		
Gross Receipts	\$2,450.0	6.3%		<i>*In thousands</i>