Q1 2011

City of Whittier Sales Tax *Update*

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

Whittier In Brief

Gross receipts for Whittier's first quarter sales were 5.8% higher than the same period of 2010. Actual sales increased 6.8% when accounting anomalies were excluded.

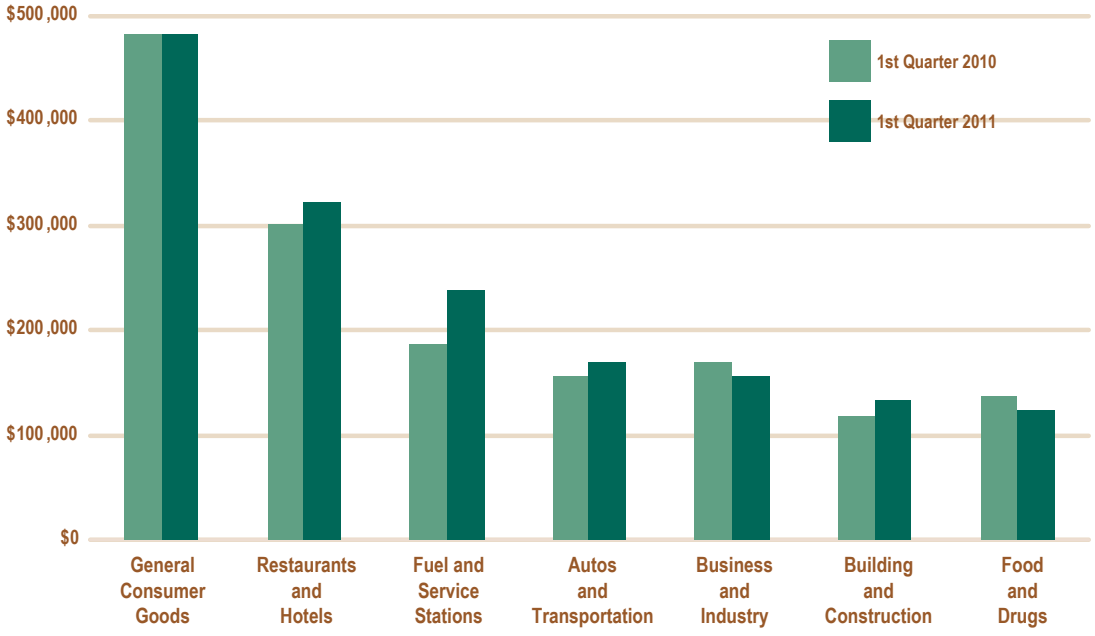
Recent additions contributed to gains from restaurants-beer & wine, those with no alcohol and contractor supplies in the building/construction group, but a double-up payment inflated postings from the latter. Accounting aberrations that affected one or both periods overstated results from business services and the impact of higher fuel prices on service station returns.

The city experienced increased sales from new car dealers, lumber/ building materials, restaurants with full liquor service and consumer electronics. The larger allocation from the countywide use tax pool was also a factor for the overall gain in gross receipts.

Accounting anomalies depressed comparisons for grocery-liquor and some categories in the general consumer goods group and some classifications of business to business transactions.

Adjusted for onetime reporting events, sales and use tax receipts for all of Los Angeles County increased 7.3% over the same time period; Southern California totals were up 8.7%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- AM PM Mini Mart
- Arco Mini Mart
- Associated Reproduction Service
- Burlington Coat Factory
- Chevron
- Collard Rose Optical Lab
- Community Honda
- CVS Pharmacy
- Eastman Kodak
- Friendly Hills Chevron
- Gastribution
- Home Depot
- JC Penney
- Kohls
- Olive Garden
- Rite Aid
- Ross
- Sears
- Target
- TJ Maxx
- Toyota of Whittier
- Vallejo AM PM
- Verizon Wireless
- Whittier Arco AM PM
- Whittier Valero

Revenue Comparison

Four Quarters – Fiscal Year To Date

	2009-10	2010-11
Point-of-Sale	$6,981,278	$6,537,197
County Pool	734,553	739,417
State Pool	6,153	2,915
Gross Receipts	**$7,721,984**	**$7,279,530**
Less Triple Flip*	$(1,930,496)	$(1,819,882)

**Reimbursed from county compensation fund*

Published by The HdL Companies in Summer 2011
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NOTES

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 putting 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.

Whittier Top 15 Business Types

Business Type	Whittier Q1 '11*	Whittier Change	County Change	HdL State Change
Auto Repair Shops	34.7	9.5%	7.5%	4.9%
Business Services	28.6	91.5%	-43.5%	-11.1%
Department Stores	— CONFIDENTIAL —		6.5%	4.1%
Discount Dept Stores	— CONFIDENTIAL —		2.3%	2.1%
Drug Stores	43.6	0.0%	3.1%	3.1%
Electronics/Appliance Stores	34.0	21.0%	19.1%	11.9%
Family Apparel	85.1	-0.5%	4.6%	3.8%
Grocery Stores Liquor	44.2	-28.7%	-25.1%	-12.6%
Lumber/Building Materials	92.3	7.0%	1.7%	2.6%
New Motor Vehicle Dealers	— CONFIDENTIAL —		17.8%	20.0%
Restaurants Beer And Wine	68.2	14.8%	-2.0%	-2.7%
Restaurants Liquor	75.5	5.3%	6.7%	8.3%
Restaurants No Alcohol	169.5	5.5%	7.8%	8.6%
Service Stations	237.8	28.0%	19.2%	19.8%
Specialty Stores	75.0	4.9%	1.7%	3.1%
Total All Accounts	**$1,628.2**	**4.9%**	**3.7%**	**7.5%**
County & State Pool Allocation	**192.9**	**14.4%**		
Gross Receipts	**$1,821.1**	**5.8%**		

**In thousands*