

Q1 2011



Arroyo Grande Sales Tax Update

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

Arroyo Grande In Brief

Receipts for Arroyo Grande's first quarter sales were 9.1% higher than the same period one year ago. Actual point-of-sale activity was up 7.8% after accounting aberrations were factored out.

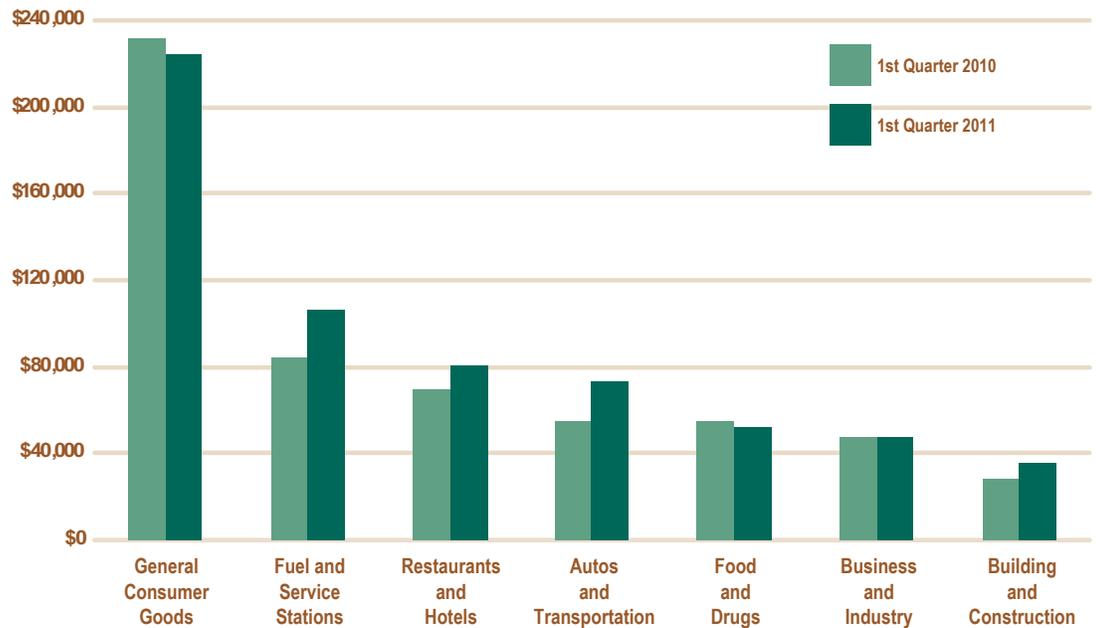
Higher fuel prices that lifted returns from service stations, the recent addition of a quick service eatery and increased sales from some categories of both the automotive group and general consumer goods were major factors for the increase. The larger allocation from the county-wide use tax pool was also a factor. Payment anomalies inflated results from used car dealers and the building/construction sector.

A delayed posting overstated the impact of a recent business close-out on specialty stores. Proceeds slipped from restaurants-liquor and some classifications in the food & drugs group.

The city's voter-approved one half cent transactions tax generated an additional \$399,335 for the quarter, including \$3,356 due from prior periods.

Adjusted for onetime accounting events, taxable sales for all of San Luis Obispo County increased 16.9% over the same time period; the Central Coast region as a whole was up 9.4%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS In Alphabetical Order

Ace Hardware	Donnas Interiors
Albertsons	Furniture
Aqua Systems	Grand Estate
Arco AM PM	Furniture
Arroyo Grande Shell	In N Out Burger
Arroyo Grande Valero	K Mart
Burke & Pace Lumber Sales	Marshalls
Chevron	Mullahey Ford
Chilis Grill & Bar	Officemax
Christianson Chevrolet Oldsmobile	Rite Aid
Coast Motors	San Luis Obispo Country Farm
CWS Inc	Slo World
	Trader Joes
	Verizon Wireless
	Wal Mart

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2009-10	2010-11
Point-of-Sale	\$2,521,329	\$2,619,705
County Pool	264,721	291,818
State Pool	2,216	1,174
Gross Receipts	\$2,788,266	\$2,912,697
Less Triple Flip*	\$(697,067)	\$(728,174)
Gross Trans. Tax	\$1,610,970	\$1,700,149

*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.

ARROYO GRANDE TOP 15 BUSINESS TYPES

Business Type	Arroyo Grande		County	HdL State
	Q1 '11	Change	Change	Change
Discount Dept Stores	— CONFIDENTIAL —		3.1%	2.1%
Drug Stores	15,862	-4.1%	1.1%	3.3%
Electronics/Appliance Stores	14,507	7.7%	-3.1%	11.9%
Family Apparel	20,634	-0.9%	-6.8%	3.8%
Garden/Agricultural Supplies	16,055	3.8%	1.7%	2.1%
Grocery Stores Liquor	27,076	-4.6%	-8.1%	-12.5%
Home Furnishings	29,856	16.6%	6.4%	5.1%
Lumber/Building Materials	15,342	3.2%	12.8%	2.3%
New Motor Vehicle Dealers	— CONFIDENTIAL —		19.0%	19.9%
Office Supplies/Furniture	11,893	-1.1%	1.8%	0.2%
Restaurants Beer And Wine	19,637	5.8%	3.9%	-3.3%
Restaurants Liquor	20,768	-4.7%	11.5%	8.3%
Restaurants No Alcohol	38,470	37.4%	-1.3%	8.6%
Service Stations	99,569	27.1%	20.8%	19.8%
Used Automotive Dealers	10,807	155.4%	29.9%	16.6%
Total All Accounts	\$619,493	8.3%	15.7%	7.5%
County & State Pool Allocation	70,061	16.9%		
Gross Receipts	\$689,554	9.1%		