

# Q1 2011



# West Hollywood Sales Tax Update

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

## West Hollywood In Brief

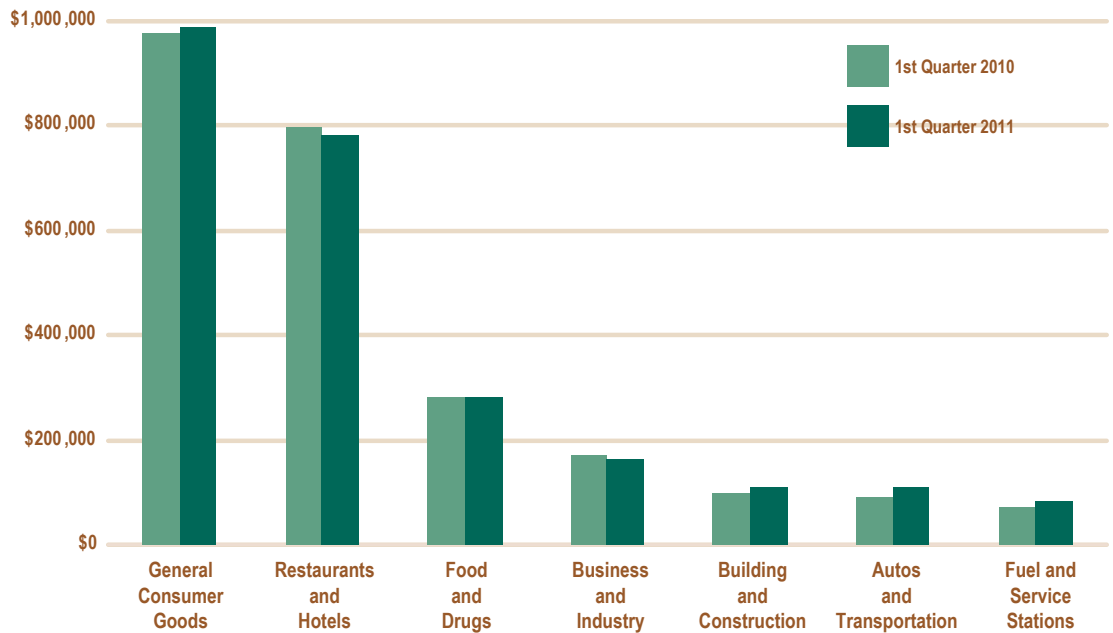
Receipts for West Hollywood's January through March sales were 1.9% higher than the same quarter one year ago. Actual sales activity was up 2.3% when reporting aberrations were factored out.

The city experienced a strong sales quarter for family apparel and plumbing/electrical supplies. A late payment in the year ago period exaggerated results from restaurants with no alcohol. Higher fuel prices helped boost revenues from service stations.

The gains were partially offset by a decline in sales from restaurants with liquor and a onetime accounting adjustment that temporarily inflated last year's allocation from textiles/furnishings.

Adjusted for aberrations, taxable sales for all of Los Angeles County increased 7.3% over the comparable time period, while the Southern California region as a whole was up 8.7%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS In Alphabetical Order

Abbey Food & Bar	Katana
Asia de Cuba	Koontz Hardware
Best Buy	La Cienega Chevron
BevMo	The London West Hollywood
Boa Steakhouse	Madeo Restaurant
Bristol Farms	Maxfield Bleu Pavilions
Cecconi's West Hollywood	Saddle Ranch Chop House
CVS Pharmacy	Sunset Tower Bar
Gelson's Market	Target
Herman Miller Workplace Resource	Trader Joes
Hornburg Jaguar	Whole Foods Market
John Varvatos	World Oil Marketing

### REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2009-10	2010-11
Point-of-Sale	\$10,105,980	\$10,430,869
County Pool	1,063,289	1,179,363
State Pool	8,809	4,686
<b>Gross Receipts</b>	<b>\$11,178,078</b>	<b>\$11,614,918</b>
Less Triple Flip*	\$(2,794,520)	\$(2,903,729)

\*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.

## WEST HOLLYWOOD TOP 15 BUSINESS TYPES

Business Type	West Hollywood		County	HdL State
	Q1 '11*	Change	Change	Change
Discount Dept Stores	—	CONFIDENTIAL	2.3%	2.1%
Electronics/Appliance Stores	155.4	-4.4%	19.1%	12.0%
Family Apparel	128.4	30.6%	4.5%	4.5%
Grocery Stores Beer/Wine	51.4	5.3%	0.8%	2.9%
Grocery Stores Liquor	108.1	-5.5%	-25.5%	-12.7%
Home Furnishings	191.9	4.0%	7.9%	5.1%
Hotels-Liquor	83.9	11.5%	4.7%	10.0%
New Motor Vehicle Dealers	—	CONFIDENTIAL	17.8%	20.0%
Restaurants Beer And Wine	71.3	-9.9%	-1.5%	-2.6%
Restaurants Liquor	520.7	-6.5%	6.6%	8.3%
Restaurants No Alcohol	105.3	20.8%	7.7%	8.6%
Service Stations	83.0	19.5%	19.2%	19.8%
Specialty Stores	99.7	-4.6%	2.2%	3.3%
Textiles/Furnishings	86.5	-12.7%	-3.9%	5.0%
Women's Apparel	47.0	17.7%	2.1%	4.6%
<b>Total All Accounts</b>	<b>\$2,519.4</b>	<b>1.0%</b>	<b>3.7%</b>	<b>7.5%</b>
<b>County &amp; State Pool Allocation</b>	<b>298.5</b>	<b>10.1%</b>		
<b>Gross Receipts</b>	<b>\$2,817.9</b>	<b>1.9%</b>		<i>*In thousands</i>