

Q2 2012



West Hollywood Sales Tax Update

Third Quarter Receipts for Second Quarter Sales (April - June 2012)

West Hollywood In Brief

Receipts from second quarter sales were 4.4% above the comparable sales period one year earlier but payment aberrations skewed the data. Excluding anomalies, actual sales were up 7.3%.

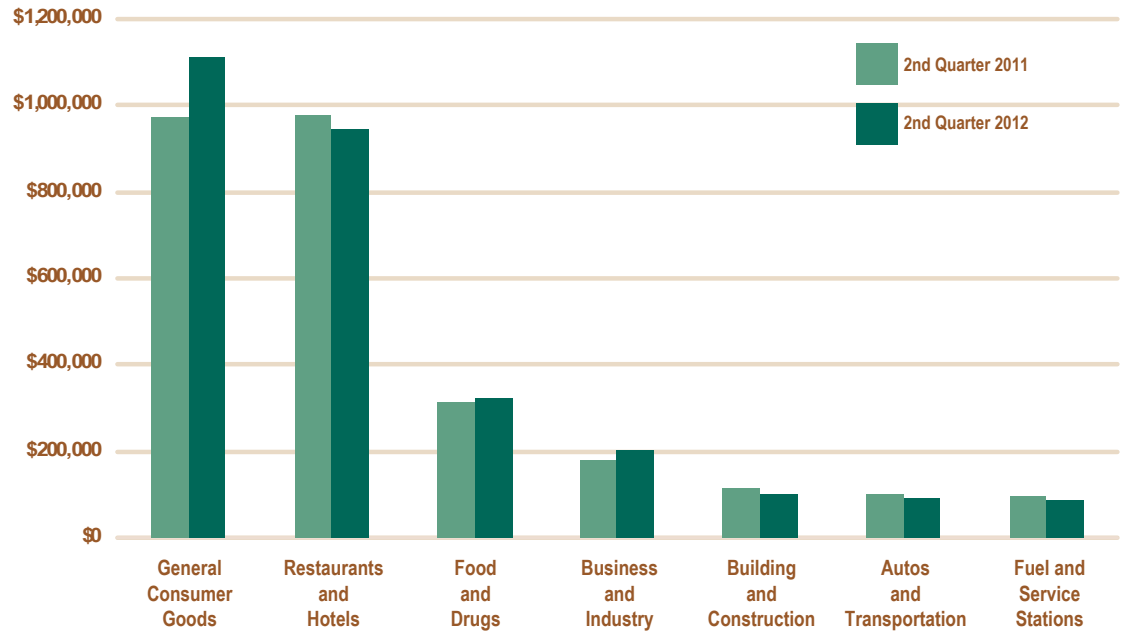
Results from home furnishings, electronics/appliance stores and women's apparel resulted in strong overall general consumer goods increases. Though onetime accounting adjustments inflated the textiles/furnishings comparison, the group was still up in double digits and was largely responsible for the increase in the business and industry group overall. Solid gains in the grocery stores with beer and wine category generated positive food and drugs results.

The restaurant and hotel group appeared to be down, but net of accounting adjustments, sales in all restaurant classifications were up.

Weak results from the service station group caused the fuel and service station decline. Apparent late payments in the lumber and building materials and plumbing/electrical supplies categories caused the drop in the building and construction group.

With reporting aberrations factored out, all of Los Angeles County was up 7.6%; statewide sales grew 7.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS In Alphabetical Order

Best Buy	Pavillions
BOA Steakhouse	Ralphs
Ceconis	Ralphs
Christian Louboutin	Saddle Ranch
CVS Pharmacy	Chop House
Gelsons Market	Shell
Hornburg Jaguar	Soho House
Janus Et Cie	Steinway & Sons
John Varvatos	Target
Katana	The Abbey
La Cienega	The London West Hollywood
Chevron	Trader Joes
Maxfield Bleu	Whole Foods Market
Mondrian/Asian de Cuba/Sky Bar	

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

	2011-12	2012-13
Point-of-Sale	\$2,764,045	\$2,864,591
County Pool	306,609	337,381
State Pool	(1,630)	2,872
Gross Receipts	\$3,069,025	\$3,204,844
Less Triple Flip*	\$(767,256)	\$(801,211)

*Reimbursed from county compensation fund

Statewide Results

Net of payment aberrations, second quarter retail sales were 7.5% higher than the same period one year earlier.

Purchases of new automobiles, spurred by low interest rates, easy credit and manufacturers' incentives, outpaced first quarter growth and generated 22% of the total increase. Business-to-business sales reflected strength in a number of sectors, notably heavy industrial, business services and equipment for energy related projects. Restaurant and hotel receipts grew by 8.6%, outpacing all other industry groups except autos and transportation. Family apparel sales were strong but weak electronics/appliances returns and lackluster results from department stores and big box discounters held general consumer group gains to a modest 3.9%. Flattening fuel prices and ongoing weakness in lumber and building materials sales also restrained overall results.

Outlook for the Year

The momentum for the recovery is slowing and has recently prompted another round of "quantitative easing" by the Federal Reserve Board in an effort to reinvigorate the housing market and spur business investment by keeping interest rates low. Retail growth in California, which fell further than the nation as a whole during the "Great Recession," may outpace the nation going forward but stubborn unemployment, nearly static income levels, and cautious business spending will keep overall sales at moderate levels at least through 2014-15.

Sales Tax from On-line Retailers

AB 155, which was passed last year as a compromise with Amazon.com went into effect on September 15. While the bill expanded the state's ability to require the collection of tax

on out-of-state sales, local agencies expecting immediate revenue gains will be disappointed.

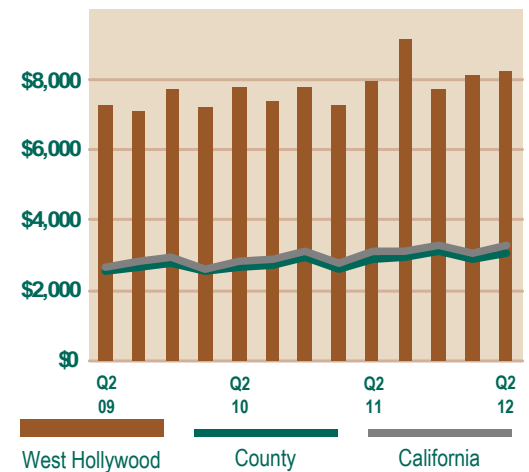
Federal case law continues to provide that remote sellers without nexus in a state are not required to collect that state's sales tax. Amazon agreed not to contest AB 155's definition of nexus which includes remote sellers who have annual sales in California of one million dollars or more and who have an in-state affiliate that provides services in connection with the remote seller's sales if those connected sales exceed \$10,000 per year.

The Board of Equalization's initial estimate was that the legislative change would raise approximately \$38.2 million in one-cent local revenues. However since then, Amazon which was a significant portion of the estimate has decided to build distribution facilities in California which will divert the revenues to the hosting jurisdictions. Other remote sellers, such as Overstock.com, have announced that

they will simply drop their in-state affiliates to avoid collecting the tax.

The Board of Equalization expects to add up to 100 staff positions over the next three years to enforce the new provisions. However, at least initially, local governments should not expect annual revenues of more than \$0.25 per capita and the ultimate solution continues to be federal legislation that eliminates the nexus prohibition and levels the playing field for all retailers.

SALES PER CAPITA



WEST HOLLYWOOD TOP 15 BUSINESS TYPES

Business Type	West Hollywood		County	HdL State
	Q2 '12*	Change	Change	Change
Discount Dept Stores	— CONFIDENTIAL —		2.6%	3.7%
Electronics/Appliance Stores	174.6	70.0%	16.5%	-2.3%
Family Apparel	143.4	-1.9%	9.8%	8.7%
Grocery Stores Beer/Wine	53.0	13.4%	7.6%	7.1%
Grocery Stores Liquor	146.2	-1.2%	4.3%	4.2%
Home Furnishings	232.4	16.5%	8.4%	7.1%
Hotels-Liquor	110.4	-13.4%	11.2%	4.6%
New Motor Vehicle Dealers	— CONFIDENTIAL —		20.4%	22.3%
Restaurants Beer And Wine	111.7	11.2%	1.9%	0.8%
Restaurants Liquor	628.1	-3.3%	11.4%	10.9%
Restaurants No Alcohol	95.4	-6.0%	7.3%	8.2%
Service Stations	86.6	-9.2%	1.0%	2.3%
Specialty Stores	86.9	3.1%	2.6%	2.2%
Textiles/Furnishings	143.1	47.9%	11.2%	-7.0%
Women's Apparel	59.5	12.2%	12.3%	5.7%
Total All Accounts	\$2,864.6	3.6%	5.8%	6.7%
County & State Pool Allocation	340.3	11.6%		
Gross Receipts	\$3,204.8	4.4%		<i>*In thousands</i>