

Q1 2011



City of Chula Vista Sales Tax *Update*

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

Chula Vista In Brief

Receipts for Chula Vista's January through March sales were 4.5% higher than the same quarter one year ago. Actual sales activity was up 6.2% when reporting aberrations were factored out.

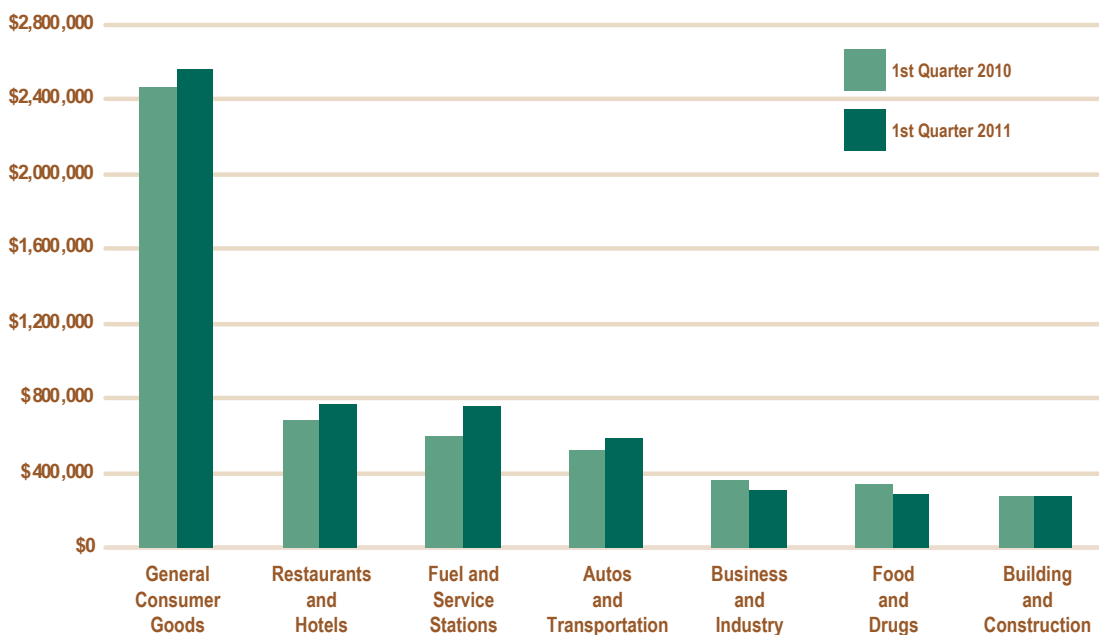
Higher fuel prices helped boost revenues from the fuel & service stations group, a significant factor in the city's overall gain. In addition, the autos & transportation sector benefited from strong auto sales.

General consumer goods experienced a strong sales quarter from multiple categories including, discount department stores, electronics, home furnishings, and sporting goods. Restaurants & hotels posted positive results primarily due to increases from restaurants with and without alcohol; however the gain was inflated by payment aberrations.

The results from food & drugs were temporarily down due to a reporting change from grocery stores with liquor; actual receipts were up after adjusting for this payment deviation. Year ago double payments that inflated the comparisons from electrical equipment and repair shops were factors in the drop from the business & industry sector.

Adjusted for aberrations, taxable sales for all of San Diego County increased 9.1% 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

Arco AM PM	Lowes
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Best Buy	Ross
Chevron	Sears
Circle K	Target
Costco w/Gas	Toyota/Scion of Chula Vista
Eastlake Chevron	Toys R Us
Fuller Ford/Kia	Verizon Wireless
Fuller Honda	Vons
Home Depot	Walmart
JC Penney	
Jeromes Furniture Warehouse	
Kohls	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2009-10	2010-11
Point-of-Sale	\$22,308,823	\$23,531,308
County Pool	2,575,765	2,813,281
State Pool	19,677	10,423
Gross Receipts	\$24,904,266	\$26,355,012
Less Triple Flip*	\$(6,226,066)	\$(6,588,753)

*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 ABX 1 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. ABX 1 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.

ABX 1 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.

CHULA VISTA TOP 15 BUSINESS TYPES

Business Type	Chula Vista		County	HdL State
	Q1 '11*	Change	Change	Change
Automotive Supply Stores	118.6	3.2%	7.3%	5.9%
Department Stores	179.4	0.7%	2.6%	4.1%
Discount Dept Stores	1,180.6	2.7%	1.2%	2.1%
Drug Stores	83.5	1.8%	5.3%	3.3%
Electronics/Appliance Stores	321.0	5.2%	6.1%	11.9%
Family Apparel	232.7	-1.0%	5.9%	3.8%
Grocery Stores Liquor	120.6	-31.7%	-19.1%	-12.5%
Home Furnishings	145.9	12.4%	5.5%	5.0%
Lumber/Building Materials	176.4	2.4%	2.1%	2.3%
New Motor Vehicle Dealers	314.6	28.7%	20.0%	19.7%
Restaurants Beer And Wine	71.3	-8.6%	-7.3%	-3.7%
Restaurants Liquor	230.8	4.9%	9.5%	8.5%
Restaurants No Alcohol	453.4	20.3%	11.6%	8.6%
Service Stations	750.2	25.0%	22.6%	19.8%
Specialty Stores	180.9	5.3%	4.9%	3.2%
Total All Accounts	\$5,560.0	5.5%	8.7%	7.5%
County & State Pool Allocation	646.2	-3.6%		
Gross Receipts	\$6,206.2	4.5%		<i>*In thousands</i>