

Q2 2012



National City Sales Tax Update

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

National City In Brief

Receipts from second quarter sales were 6.7% above the comparable sales period one year earlier but payment aberrations skewed the data. With anomalies excluded, actual sales grew 11.4%.

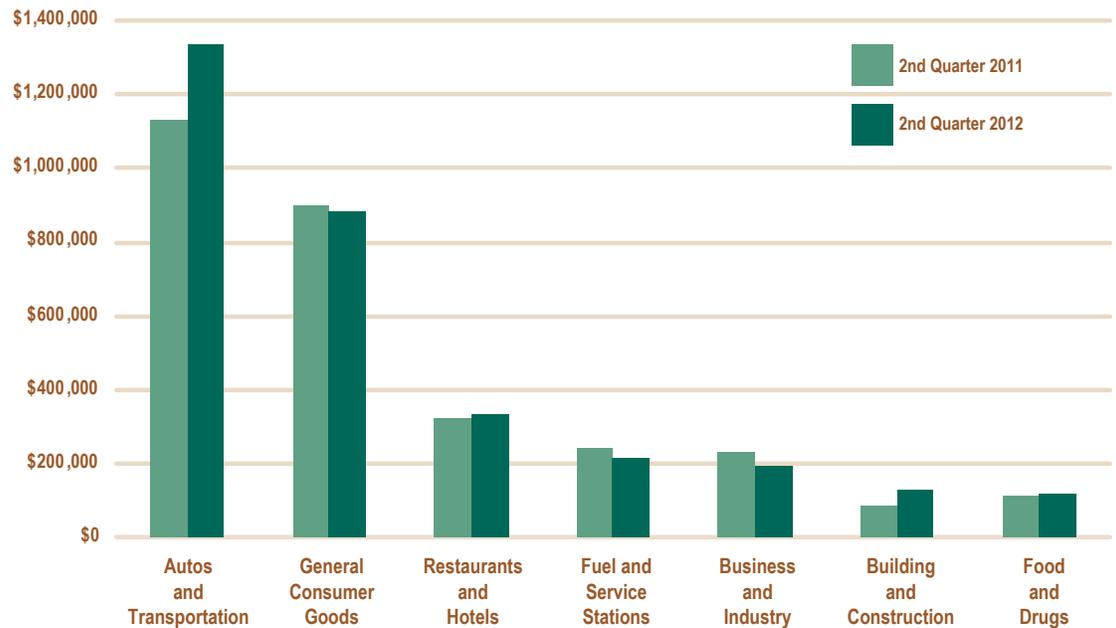
Autos and transportation gains came mainly from new motor vehicle sales as buyers took advantage of low interest rates and dealer incentives but a reporting aberration caused actual gains to be understated. A new business addition in the contractor group boosted the building and construction comparison. New business openings also added to food and drug and restaurants and hotels gains.

Onetime reporting aberrations exaggerated the business and industry and general consumer goods declines by temporarily inflating year-ago receipts. Fuel and service station proceeds declined in part due to reporting aberrations following a change in business ownership.

Net of accounting adjustments, receipts from voter-approved Proposition "D" were unchanged.

After factoring out onetime payment adjustments, all of San Diego County was up 6.6%; statewide sales grew 7.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

Arco AM PM	Nordstrom Rack
Ball Honda Acura	One Source Distributors
Mitsubishi Suzuki	Penske
Kia	Perry Ford
Frank Hyundai	Probuild Company
Frank Subaru	Ron Baker Chevrolet
Frank Toyota Scion	Ross
Hanson Aggregates	South Bay Volkswagen
Pacific Southwest	Target
Highland Arco	Univar
JC Penney	Vintners Distributors
Macys	Walmart
McCune Motors	Wescott Mazda
Mor Furniture for Less	
Mossy Nissan	

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

	2011-12	2012-13
Point-of-Sale	\$3,027,755	\$3,213,878
County Pool	349,143	383,014
State Pool	(1,793)	3,226
Gross Receipts	\$3,375,105	\$3,600,118
Less Triple Flip*	\$(843,776)	\$(900,030)
Gross Trans. Tax	\$2,207,797	\$2,177,893

*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



NATIONAL CITY TOP 15 BUSINESS TYPES

Business Type	National City		County	HdL State
	Q2 '12*	Change	Change	Change
Contractors	65.1	100.7%	4.2%	12.0%
Department Stores	149.6	23.6%	-0.1%	1.1%
Discount Dept Stores	185.4	-21.8%	4.7%	3.7%
Electronics/Appliance Stores	57.1	13.2%	-12.1%	-3.0%
Family Apparel	152.2	-7.5%	8.0%	8.9%
Heavy Industrial	48.7	1.4%	31.3%	14.7%
Lumber/Building Materials	52.8	26.2%	16.1%	20.4%
New Motor Vehicle Dealers	1,085.2	17.2%	18.8%	22.2%
Restaurants Liquor	51.1	10.5%	13.4%	11.3%
Restaurants No Alcohol	235.1	6.5%	13.4%	8.1%
Service Stations	212.9	-7.8%	-1.0%	2.3%
Shoe Stores	53.2	7.1%	6.4%	8.0%
Specialty Stores	72.7	-0.5%	1.0%	2.5%
Used Automotive Dealers	83.0	16.3%	16.3%	13.6%
Women's Apparel	91.5	6.2%	0.2%	5.3%
Total All Accounts	\$3,213.9	6.1%	5.5%	6.7%
County & State Pool Allocation	386.2	11.2%		
Gross Receipts	\$3,600.1	6.7%		<i>*In thousands</i>