

Q1
2011



City of Glendale Sales Tax Update

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

Glendale In Brief

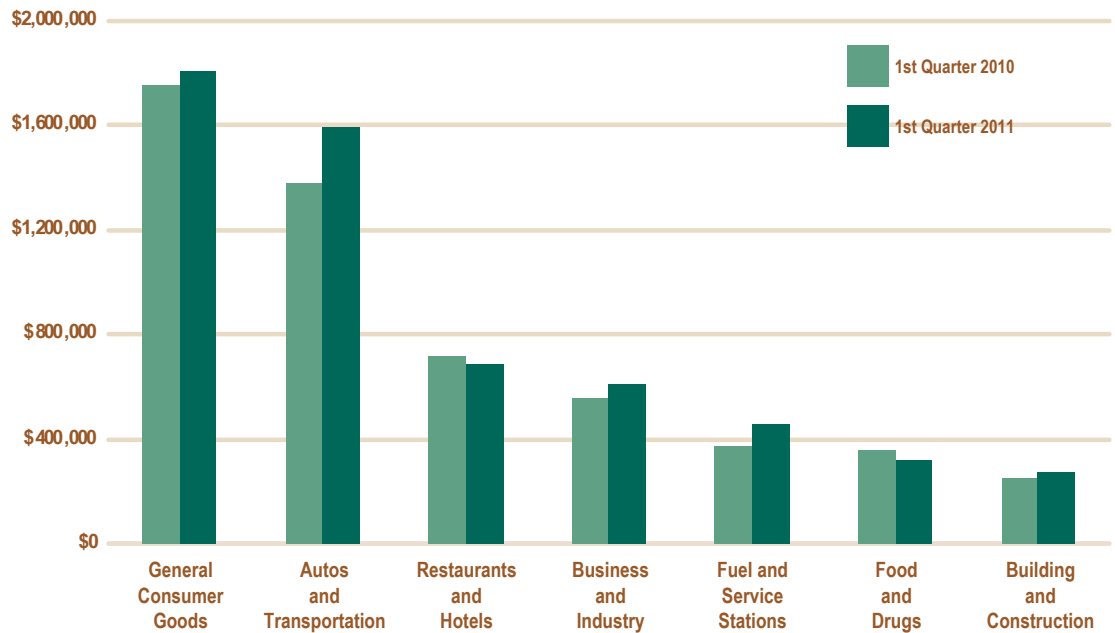
Receipts for Glendale's January through March sales were 7.3% higher than the same quarter one year ago. Actual sales were up 8.0% when reporting aberrations were factored out.

A strong sales quarter for new motor vehicle dealers was primarily responsible for the current increase. Higher fuel prices helped boost revenues from service stations. The double-up of previously late payments and a recent addition increased receipts from the general consumer goods sector.

The gains were partially offset by a onetime reporting aberration that temporarily depressed returns from grocery stores with liquor. A one-time accounting adjustment and a decline in sales reduced receipts from auto leases. Double-up payments that inflated last year's allocation exaggerated the drop in restaurants with liquor.

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

Allen Gwynn Chevrolet	JC Penney
Apple Computer	Kwik/AI Sal Oil
Bob Smith Toyota	Lexus of Glendale
Calstar Mercedes	Macy's
City of Glendale	Nordstrom
CVS Pharmacy	Pacific BMW
Diamond Honda	Sears
Financial Services Vehicle Trust	Star Ford Lincoln
Glendale Dodge Chrysler Jeep	Target
Glendale Hyundai	Toyota of Glendale
Glendale Mitsubishi	Video Equipment Rental
Glendale Nissan Infiniti	Vons
Home Depot	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2009-10	2010-11
Point-of-Sale	\$23,288,824	\$24,073,297
County Pool	2,448,430	2,720,625
State Pool	20,430	10,777
Gross Receipts	\$25,757,684	\$26,804,698
Less Triple Flip*	\$(6,439,421)	\$(6,701,175)

*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.

GLENDALE TOP 15 BUSINESS TYPES

Business Type	Glendale		County	HdL State
	Q1 '11*	Change	Change	Change
Auto Lease	212.2	-17.9%	-27.0%	-28.1%
Department Stores	391.7	-1.3%	6.5%	4.1%
Discount Dept Stores	— CONFIDENTIAL —		2.3%	2.1%
Electronics/Appliance Stores	160.8	3.7%	19.1%	11.9%
Family Apparel	313.0	1.9%	4.6%	3.8%
Grocery Stores Liquor	123.2	-29.0%	-25.0%	-12.5%
Home Furnishings	100.7	22.7%	7.9%	5.0%
Light Industrial/Printers	111.2	4.6%	-1.6%	6.5%
Lumber/Building Materials	142.5	-1.0%	1.5%	2.3%
New Motor Vehicle Dealers	1,142.3	26.0%	17.8%	19.7%
Restaurants Liquor	245.7	-14.7%	6.9%	8.5%
Restaurants No Alcohol	331.5	4.1%	7.8%	8.6%
Service Stations	458.0	23.0%	19.1%	19.8%
Specialty Stores	179.2	-4.5%	1.6%	3.2%
Women's Apparel	177.9	6.9%	1.6%	4.3%
Total All Accounts	\$5,736.3	6.3%	3.7%	7.5%
County & State Pool Allocation	679.6	16.0%		
Gross Receipts	\$6,415.9	7.3%		<i>*In thousands</i>