

Q1 2011



City of Murrieta Sales Tax Update

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

Murrieta In Brief

Receipts from first quarter sales were 5% above the same period one year earlier.

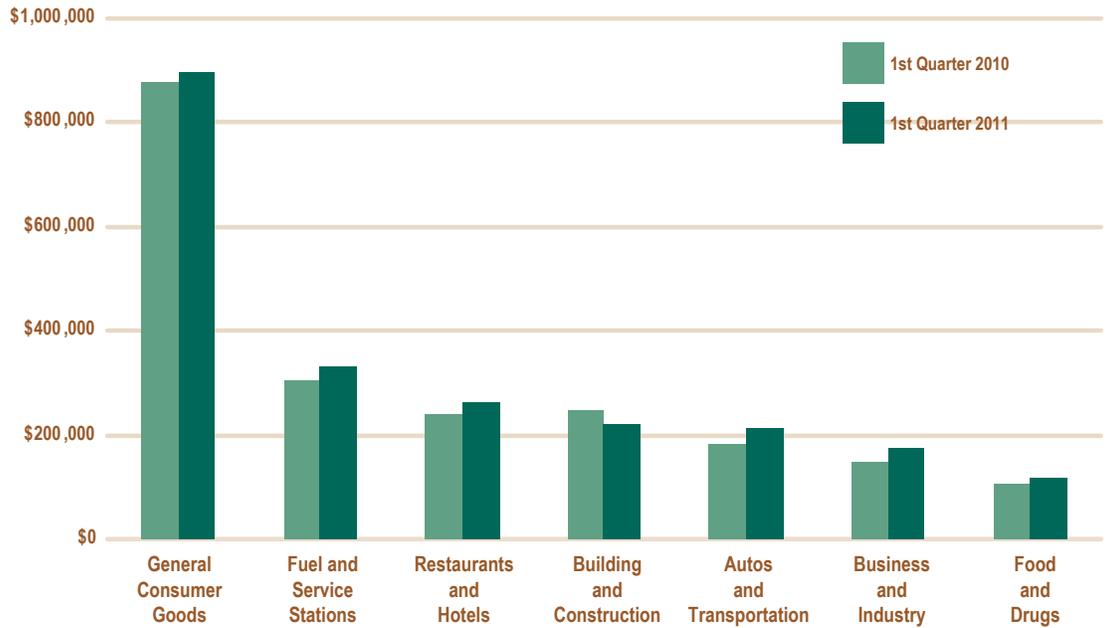
Gains came principally from service station, boats/motorcycles, heavy industrial and restaurant groups. A retroactive payment adjustment inflated heavy industrial totals; whereas, net of accounting adjustments, results from service station and restaurants with liquor categories were better than they appeared.

General consumer goods and food and drugs groups also showed increases. In both cases, new business additions bolstered quarterly comparisons.

A combination of business close-outs, negative accounting adjustments and onetime payment aberrations that boosted year-ago receipts contributed to the drop in the building and construction sector. Net of payment adjustments, actual sales were not as weak as the raw data showed.

After factoring out accounting-related adjustments, all of Riverside County was up 10.2%; statewide sales grew 9.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

7 Eleven	Mobil Oil
Albertsons	Mor Furniture For Less
Arco AM PM	Murrieta Hot Springs
Best Buy	Shell
Chevron	Murrieta Volkswagen
Giant Inland Empire RV Center	Helio Power
Home Depot	Ross
Jerome's Furniture Warehouse	Sam's Club
Kalmia Gas Mart	Target
Kohls	Temecula Motorsports
Las Alamos Shell	Toys R Us
Lowe's	USA Gasoline
Matreno	Walmart

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2009-10	2010-11
Point-of-Sale	\$9,010,694	\$9,240,456
County Pool	950,656	932,119
State Pool	7,891	4,057
Gross Receipts	\$9,969,241	\$10,176,632
Less Triple Flip*	\$(2,492,310)	\$(2,544,158)

*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.

MURRIETA TOP 15 BUSINESS TYPES

Business Type	Murrieta		County	HdL State
	Q1 '11*	Change	Change	Change
Boats/Motorcycles	54.2	19.6%	2.8%	-1.2%
Contractors	68.0	-17.8%	-1.1%	2.7%
Discount Dept Stores	374.3	3.6%	1.0%	2.1%
Electronics/Appliance Stores	97.7	-2.0%	12.2%	11.9%
Family Apparel	86.6	0.0%	2.5%	3.8%
Grocery Stores Liquor	47.2	-3.7%	-21.7%	-12.6%
Heavy Industrial	41.8	89.6%	0.0%	16.6%
Home Furnishings	133.5	1.9%	1.4%	5.1%
Lumber/Building Materials	148.4	-0.2%	6.0%	2.6%
Restaurants Beer And Wine	45.8	19.0%	-2.6%	-2.7%
Restaurants Liquor	50.4	-0.1%	10.2%	8.3%
Restaurants No Alcohol	159.1	10.6%	14.4%	8.6%
Service Stations	330.5	7.9%	25.6%	19.8%
Specialty Stores	82.1	3.0%	23.9%	3.1%
Sporting Goods/Bike Stores	46.4	0.1%	9.0%	3.5%
Total All Accounts	\$2,219.6	5.2%	9.6%	7.5%
County & State Pool Allocation	228.7	3.2%		
Gross Receipts	\$2,448.4	5.0%		<i>*In thousands</i>