

Q2 2012



City of San Rafael Sales Tax *Update*

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

San Rafael In Brief

Receipts for San Rafael's April through June sales were 2.8% higher than the same quarter one year ago. Actual sales activity was up 8.6% when reporting aberrations were factored out.

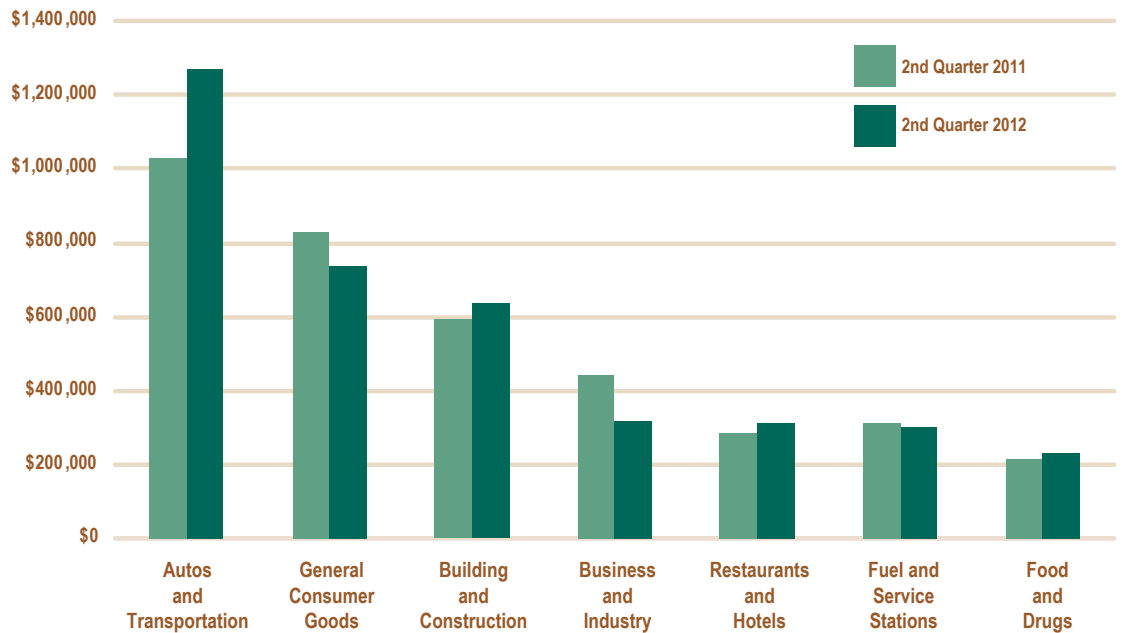
The increase in the autos and transportation group including new auto sales surpassed both county-wide and statewide trends. Restaurants also outperformed regional gains. Retroactive adjustments inflated positive returns in building materials.

Multiple payment deviations combined with several business close-outs accounted for the drop in business and industrial sectors as a whole. The loss in general consumer goods was due to a onetime deduction to correct a prior error in the specialty store category. Nonetheless, new openings added to returns in several classifications including family apparel.

The voter-approved half cent transactions tax generated an additional \$1,653,619 for a 4.6% gain compared to a year ago.

Adjusted for aberrations, taxable sales for all of Marin County increased 7.7% over the comparable time period, while the Bay Area as a whole was up 8.1%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS In Alphabetical Order

Arco Smog Pros	Marin Toyota
Best Buy	Orchard Supply Hardware
Daimler Trust	RAB Mercedes Benz
Ducati Triumph	Rafael Lumber
Yamaha of Marin	Safeway
Financial Services Vehicle Trust	Scotland Car Yard
Golden State Lumber	Sears
Home Depot	Shamrock Materials
Irwin Shell	Sonnen Audi
Lexus of Marin	Volkswagen
Macys	Sonnen BMW
Marin Honda	Unocal 76
Marin Infiniti	Water Components & Building Supply
Marin Mazda	

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

	2011-12	2012-13
Point-of-Sale	\$3,704,199	\$3,811,180
County Pool	397,106	399,482
State Pool	(2,177)	3,776
Gross Receipts	\$4,099,128	\$4,214,438
Less Triple Flip*	\$(1,024,782)	\$(1,053,609)
Gross Trans. Tax	\$1,580,718	\$1,653,619

*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.

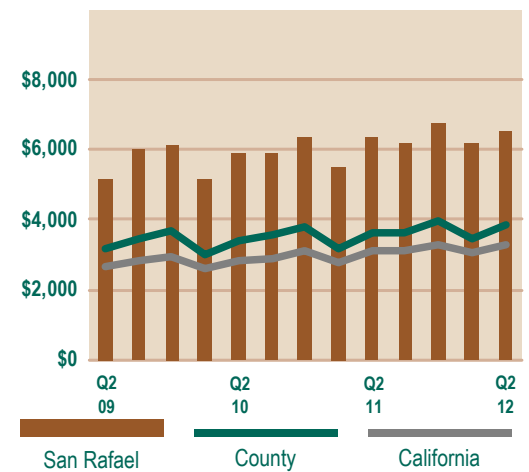
Federal case law continues to provide that remote sellers without nexus in a state are not required to collect that state's sales tax. Amazon agreed not to contest AB 155's definition of nexus which includes remote sellers who have annual sales in California of one million dollars or more and who have 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



SAN RAFAEL TOP 15 BUSINESS TYPES

Business Type	San Rafael		County	HdL State
	Q2 '12*	Change	Change	Change
Auto Lease	121.7	15.1%	10.7%	6.1%
Auto Repair Shops	78.8	15.6%	6.9%	4.9%
Contractors	90.0	-5.9%	-6.6%	11.6%
Department Stores	128.7	-3.7%	0.9%	1.1%
Electronics/Appliance Stores	163.1	-2.0%	-14.7%	-2.4%
Family Apparel	90.2	17.6%	33.4%	8.8%
Grocery Stores Liquor	84.5	5.6%	4.7%	4.2%
Home Furnishings	90.6	1.5%	2.3%	7.1%
Lumber/Building Materials	426.2	12.9%	12.0%	20.5%
New Motor Vehicle Dealers	834.7	27.7%	22.1%	22.3%
Restaurants Liquor	115.6	15.8%	11.8%	11.2%
Restaurants No Alcohol	100.9	11.1%	2.8%	8.1%
Service Stations	303.7	-3.1%	2.6%	2.3%
Sporting Goods/Bike Stores	78.6	9.8%	5.2%	9.0%
Used Automotive Dealers	103.9	7.3%	3.5%	13.6%
Total All Accounts	\$3,811.2	2.9%	6.4%	6.7%
County & State Pool Allocation	403.3	2.1%		
Gross Receipts	\$4,214.4	2.8%		<i>*In thousands</i>