

Q2 2012



City of Montebello Sales Tax *Update*

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

Montebello In Brief

Receipts for Montebello's April through June sales were 7.1% lower than the same quarter one year ago. However, various onetime adjustments exaggerated the decline. After factoring out these and other reporting aberrations, actual sales activity was down 3.6%.

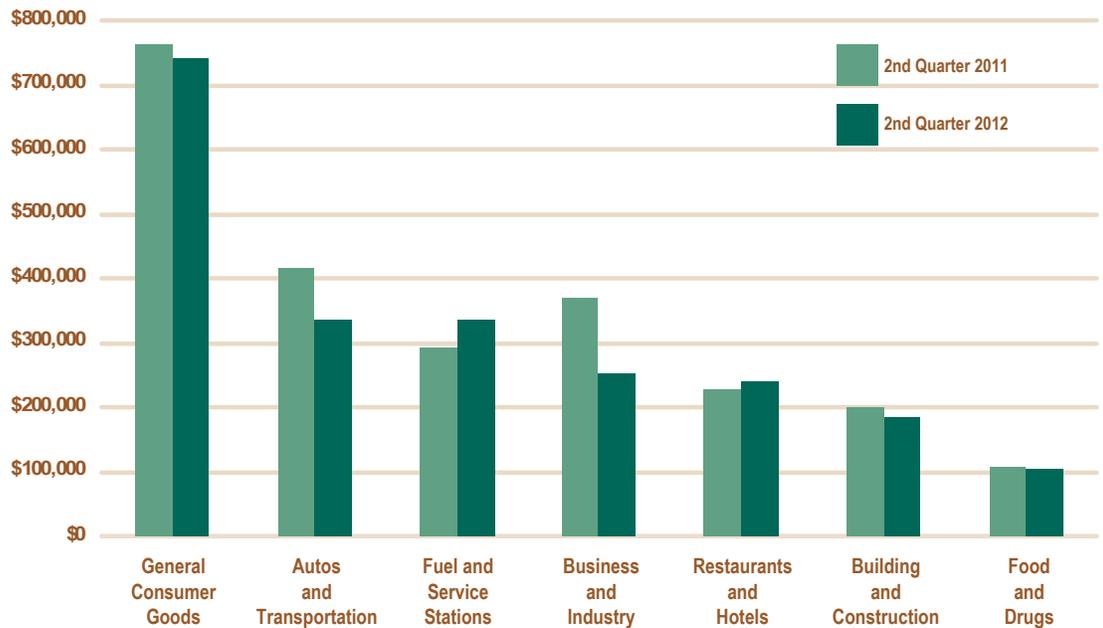
An accounting adjustment offset gains from light industrial supplies and other categories of business and industry. A onetime adjustment that reduced auto repair shops was primarily responsible for the exaggerated decrease from the autos and transportation group.

General consumer goods posted sales declines from multiple categories including, electronics and specialty stores. A current delayed payment that temporarily boosted year-ago receipts was a significant factor in the decrease from building and construction.

The increase from fuel and service stations was inflated by a year-ago adjustment that temporarily depressed the results from petroleum products. Gains from restaurants without alcohol were primarily responsible for lifting the restaurant group as a whole.

Adjusted for aberrations, taxable sales for all of Los Angeles County increased 7.6% over the comparable time period, while the Southern California region as a whole was up 7.4%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS In Alphabetical Order

Amcor Sunclipse	Inland Kenworth
Astro Plumbing Supply	JC Penney
Best Buy	John Ray Co
Chevrolet of Montebello	Marshalls
Chevron	Montebello Cat Scales & Fuel
Clean Sweep Supply	Navizadeh Mini Mart & Gas
Costco	Ross
Diamond Oil Service	Sears
Ford of Montebello	Shell
Forever XXI	Toys R Us
G & M Oil	Vertical Systems
HD Supply Repair & Remodeling	Westrux
	Wilbur Curtis

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

	2011-12	2012-13
Point-of-Sale	\$2,378,914	\$2,193,357
County Pool	263,888	258,326
State Pool	(1,403)	2,199
Gross Receipts	\$2,641,398	\$2,453,881
Less Triple Flip*	\$(660,350)	\$(613,470)

*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.

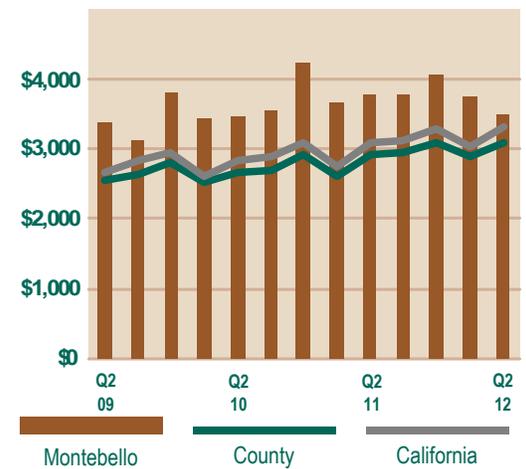
Federal case law continues to provide that remote sellers without nexus in a state are not required to collect that state's sales tax. Amazon agreed not to contest AB 155's definition of nexus which includes remote sellers who have annual sales in California of one million dollars or more and who have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



MONTEBELLO TOP 15 BUSINESS TYPES

Business Type	Montebello		County	HdL State
	Q2 '12*	Change	Change	Change
Contractors	89.2	6.5%	7.7%	11.7%
Department Stores	109.1	-9.8%	1.3%	1.3%
Discount Dept Stores	— CONFIDENTIAL —		2.6%	3.7%
Electronics/Appliance Stores	95.7	-11.8%	16.4%	-2.6%
Family Apparel	107.0	3.7%	10.2%	8.9%
Grocery Stores Liquor	55.9	-5.2%	4.3%	4.2%
Light Industrial/Printers	176.4	5.4%	2.9%	-0.7%
Lumber/Building Materials	— CONFIDENTIAL —		16.6%	20.5%
New Motor Vehicle Dealers	300.7	-9.9%	20.3%	22.2%
Petroleum Prod/Equipment	59.3	843.6%	2.6%	3.6%
Restaurants Liquor	55.0	9.1%	11.8%	11.2%
Restaurants No Alcohol	153.9	7.1%	7.1%	8.1%
Service Stations	275.0	-4.1%	0.9%	2.3%
Specialty Stores	64.0	-5.0%	2.2%	2.2%
Women's Apparel	81.5	-0.2%	12.2%	5.7%
Total All Accounts	\$2,193.4	-7.8%	5.8%	6.7%
County & State Pool Allocation	260.5	-0.7%		
Gross Receipts	\$2,453.9	-7.1%		<i>*In thousands</i>