

CITY OF ALAMEDA

Memorandum

To: Honorable Mayor and
Members of the City Council

From: John A. Russo
City Manager

Date: December 4, 2012

Re: Accept the Quarterly Sales Tax Report for the Period Ending September
30, 2012

BACKGROUND

This report summarizes the sales tax transactions for the period March 1 through June 30, 2012, which is the basis for sales tax revenues received by the City between July 1, 2012, and September 30, 2012. For purposes of this report, sales tax revenues exclude Proposition 172 funds, the allocation from the statewide pool for public safety services.

DISCUSSION

Sales tax continues to be the fourth largest source of General Fund revenue for the City of Alameda, representing approximately 7% of total budgeted revenues for FY12-13. Taxable sales transactions in Alameda increased approximately 5%, or \$75,406, from the same quarter in the prior fiscal year. This increase is shown on the tables on the following page, which reflect sales by economic category and by geographic area.

The top 25 businesses in Alameda represent approximately 51.2%, or \$ 811,357, of the quarter's sales transactions. The top 100 businesses represent approximately 77.2%, or \$1.22 million, of the quarter's sales transactions.

A historical comparison of per capita sales between Alameda and other cities in Alameda County for the past 13 quarters is shown in Exhibit 1. Additional exhibits have been included in this report that summarize the history of sales tax for the City's major industry groups (Exhibit 2), a per capita sales tax surplus/gap analysis showing potential sales lost to other communities (Exhibit 3), and the sales tax economic outlook for California (Exhibit 4).

The following is a summary of the key economic categories of sales tax, in comparison with the same quarter of the prior fiscal year:

Economic Category	Total	Percent of Total	Dollar Change	Percent Change
Transportation & Fuel	\$306,605	19%	\$25,186	9%
Food & Drugs	216,446	14%	7,751	4%
General Consumer Goods	250,451	16%	23,878	7%
Business & Industry	468,217	30%	9,021	2%
Restaurants & Hotels	290,839	18%	10,644	4%
Building & Construction	53,280	3%	7,380	16%
Transfers & Other	0	0%	(\$8,454)	-100%
Total - Quarter	\$1,585,838	100%	\$75,406	5%

The increase in the Transportation and Fuel section was due to increased gas prices at the City's service stations, while the increase in Restaurants and Hotels was due to an increase in restaurant sales. The increase in the Building & Construction sections was a result of an overall increase in building and construction in the area. There was also a small one-time sales tax adjustment in same period of the prior year.

The following is a summary of sales tax by geographic area, in comparison with the same quarter of the prior fiscal year:

Geographic Areas	1st Quarter 2012			
	Total	Percent of Total	Dollar Change	Percent Change
Park -- North of Lincoln	\$160,398	10%	\$14,643	10%
Park -- South of Lincoln	190,374	12%	44,619	31%
Webster -- North of Lincoln	101,146	6%	(478)	0%
Webster -- South of Lincoln	36,147	2%	4,275	13%
Bridgeside Center	64,311	4%	3,164	5%
South Shore Center	328,611	21%	15,964	5%
Marina Village Shopping Center	38,564	2%	(406)	-1%
Harbor Bay Landing	41,199	3%	2,124	5%
Marina Village Business Park	43,805	3%	(13,240)	-23%
Harbor Bay Business Park	297,984	22%	(30,807)	-9%
All Other Areas	283,299	15%	24,375	11%
Total - Quarter	\$1,585,838	100%	\$75,406	5%

*Includes monies received from the State and County sales tax pool

The increases in the Park Street – North and South of Lincoln and Webster – South of Lincoln areas are primarily due to a continued increase in fuel and restaurant sales. The increases in the South Shore Center are due to increased apparel, grocery and fuel sales. The decreases in Marina Village and Harbor Bay resulted from continued lower general retail sales. All other areas have seen an increase in fuel and overall retail sales.

As of September 30, 2012, fiscal year sales tax revenues were approximately \$573k million, or 12%, of the \$4.8 million budgeted for FY12-13. The variance is due to an accrual of a portion of payments received in July and August back to Fiscal Year 2011-12, the period during which the sales actually occurred.

ENVIRONMENTAL REVIEW

This activity is not a project and is exempt from the California Environmental Quality Act (CEQA) pursuant to section 15378 (b)(4) of the CEQA Guidelines, because it involves governmental fiscal activities, which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

RECOMMENDATION

Accept the Quarterly Sales Tax Report for the period ending September 30, 2012.

Respectfully Submitted,



Fred Marsh
Controller

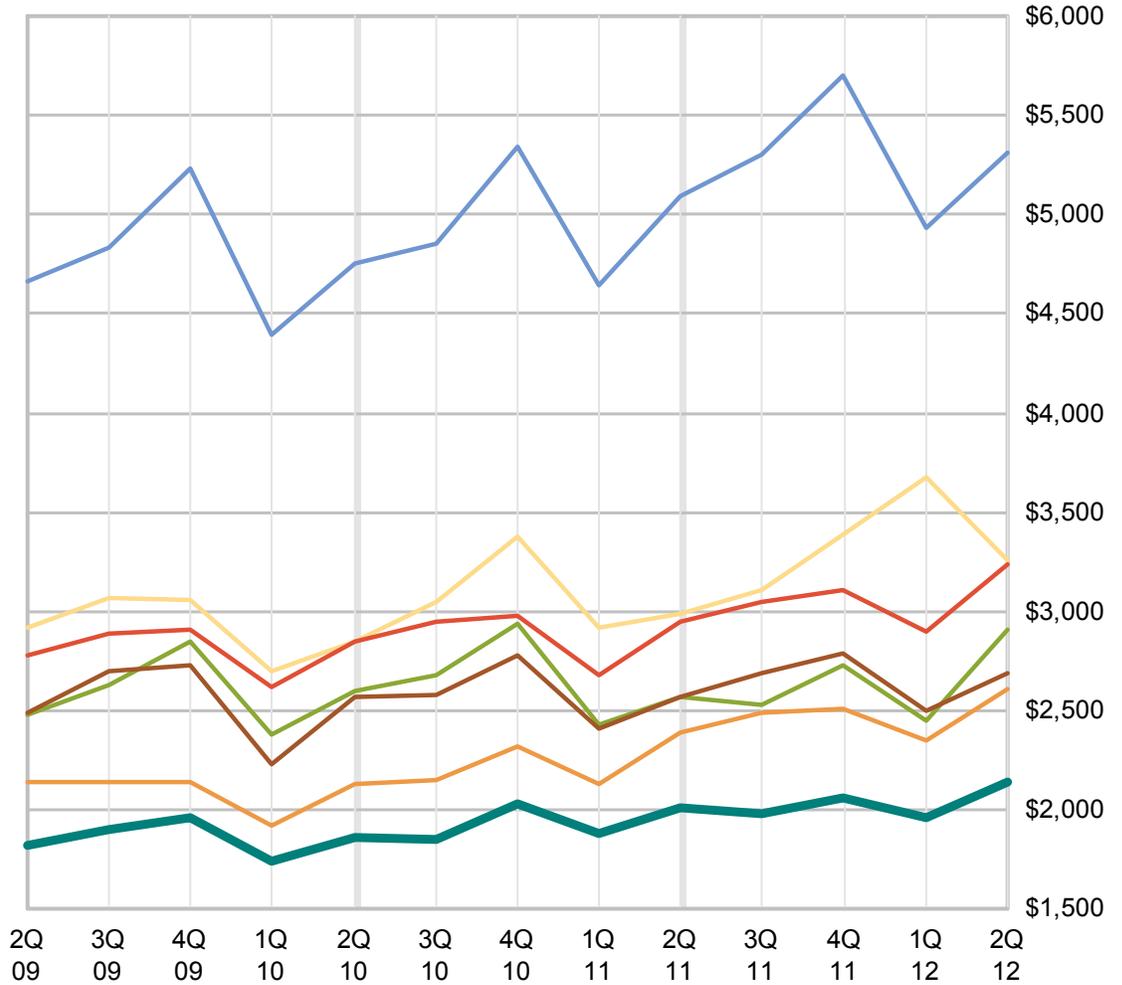
Exhibits:

- 1 – Agency Comparisons
- 2 – Major Industry Groups
- 3 – Per Capita Sales Tax Surplus / Gap Analysis
- 4 – Sales Tax Update

cc: Robb Ratto, PSBA
Harry Hartman, GABA
Brad Shook and Carolyn Lantz, WABA
Mark Sorensen, Alameda Chamber of Commerce

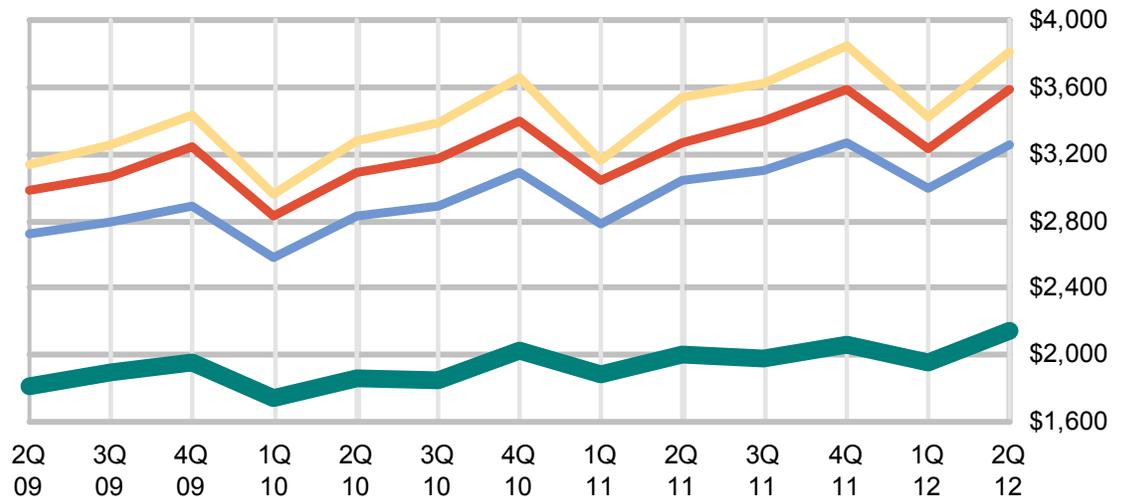
Per Capita Sales

Alameda	Count: 2,516
Oakland	Count: 12,551
San Leandro	Count: 2,654
Albany	Count: 522
El Cerrito	Count: 680
Berkeley	Count: 4,735
Richmond	Count: 2,138



Per Capita Sales

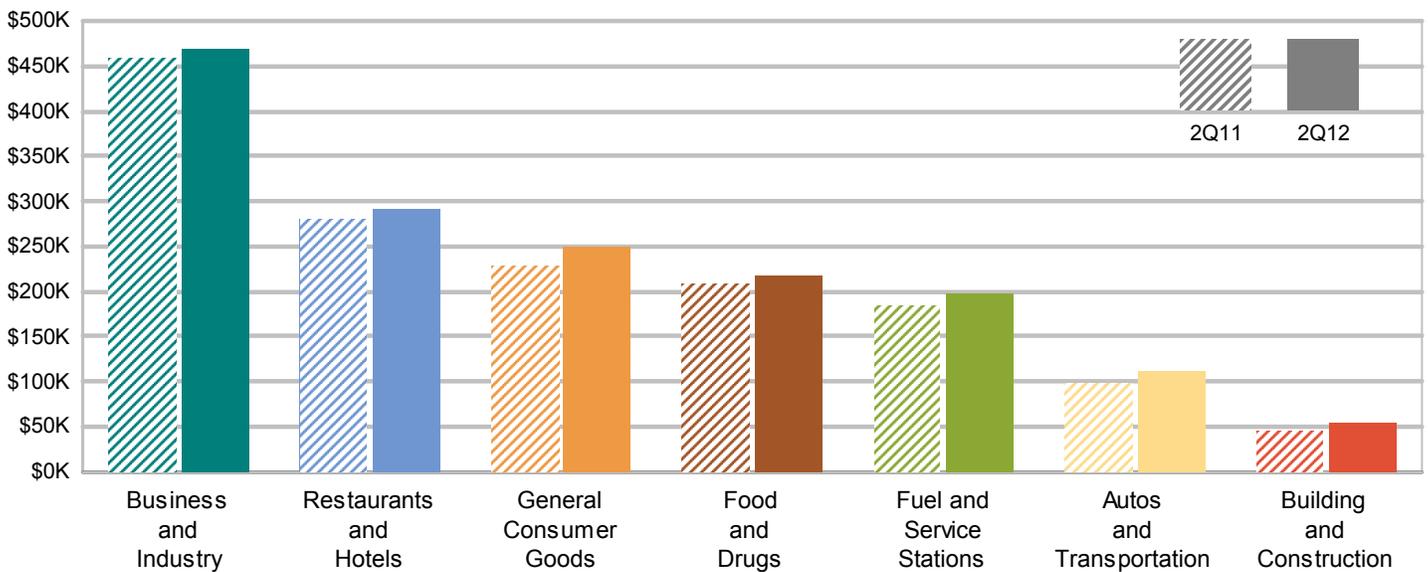
Alameda	
Alameda County	
Bay Area	
California	



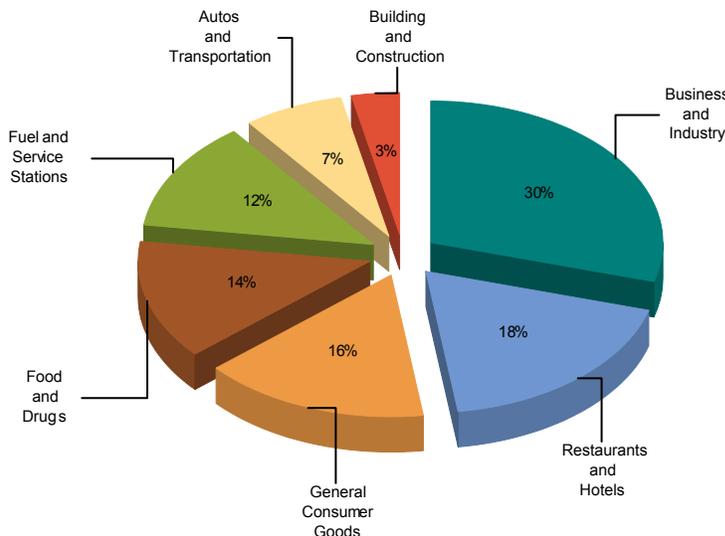
Adjusted by moving retroactive payments into the quarter the sale occurred
 Periods shown reflect the period in which the sales occurred - Point of Sale

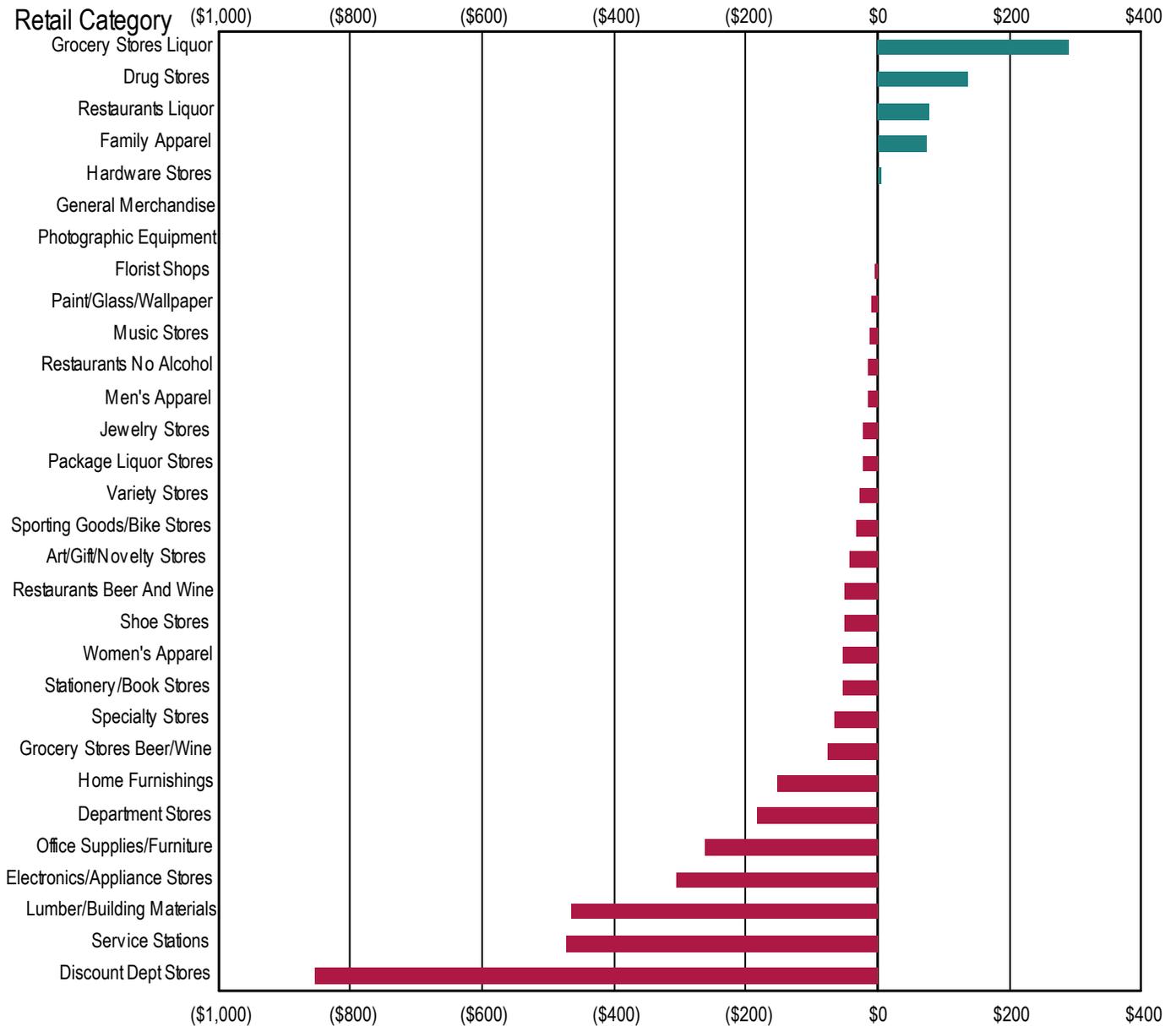
<u>Major Industry Group</u>	<u>Count</u>	<u>2Q12</u>	<u>2Q11</u>	<u>\$ Change</u>	<u>% Change</u>
Business and Industry	520	468,217	459,196	9,021	2.0%
Restaurants and Hotels	268	290,839	280,195	10,644	3.8%
General Consumer Goods	1,417	250,451	226,573	23,878	10.5%
Food and Drugs	96	216,446	208,694	7,751	3.7%
Fuel and Service Stations	16	196,479	183,554	12,925	7.0%
Autos and Transportation	132	110,126	97,865	12,261	12.5%
Building and Construction	67	53,280	45,900	7,380	16.1%
Transfers & Unidentified	0	0	8,454	(8,454)	-100.0%
Total	2,516	1,585,838	1,510,432	75,406	5.0%

2Q11 Compared To 2Q12



2Q12 Percent of Total





The above graph compares **per capita** sales tax generated from targeted retail categories against countywide averages. A **retail surplus** suggests the community is capturing its local market for that category of goods plus attracting shoppers from outside the jurisdiction. A **retail gap** suggests the possibility that residents may have a greater demand for products in the specific category than is being satisfied by local businesses. The information is provided only as a **starting point** in identifying potential sources of sales tax loss and should not automatically be interpreted as an expansion or leveraging opportunity without more detailed analysis and assessment.

CITY OF ALAMEDA

PER CAPITA SALES TAX SURPLUS/GAP COMPARISON - 4 QUARTERS ENDING □□2Q 2012

Retail Category	Per Cap Sales Capture (+) or Gap (-)	Sales Tax Deviation	Typical Sales Per Sq Ft by Retail Type	Approx Sq Ft to Close Gap
Grocery Stores Liquor	\$291	\$217,105	\$110	n/a
Drug Stores	138	102,779	350	n/a
Restaurants Liquor	80	59,451	575	n/a
Family Apparel	73	54,293	375	n/a
Hardware Stores	4	2,933	225	n/a
General Merchandise	1	918	100	n/a
Photographic Equipment	(1)	(963)	Insufficient data	Insufficient data
Florist Shops	(6)	(4,344)	150	3,000
Paint/Glass/Wallpaper	(9)	(7,061)	250	3,000
Music Stores	(13)	(10,039)	200	5,000
Restaurants No Alcohol	(14)	(10,756)	650	2,000
Men's Apparel	(15)	(10,972)	225	5,000
Jewelry Stores	(23)	(17,219)	500	3,000
Package Liquor Stores	(24)	(17,697)	Insufficient data	Insufficient data
Variety Stores	(29)	(21,810)	100	22,000
Sporting Goods/Bike Stores	(34)	(25,064)	225	11,000
Art/Gift/Novelty Stores	(42)	(31,356)	150	21,000
Restaurants Beer And Wine	(52)	(38,693)	575	7,000
Shoe Stores	(52)	(38,805)	200	19,000
Women's Apparel	(54)	(39,947)	375	11,000
Stationery/Book Stores	(54)	(40,432)	200	20,000
Specialty Stores	(67)	(49,665)	175	28,000
Grocery Stores Beer/Wine	(77)	(57,794)	175	33,000
Home Furnishings	(154)	(114,572)	175	65,000
Department Stores	(182)	(136,009)	175	78,000
Office Supplies/Furniture	(262)	(195,549)	225	87,000
Electronics/Appliance Stores	(306)	(228,197)	500	46,000
Lumber/Building Materials	(466)	(347,725)	300	116,000
Service Stations	(472)	(352,472)	n/a	n/a
Discount Dept Stores	(854)	(637,314)	475	134,000

Average sales per square foot are based on HdL's overview of average statewide chain store sales. The square footage needed to close the gap is only on approximation and specific demand will vary with regional and local market conditions and individual retailers.

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.

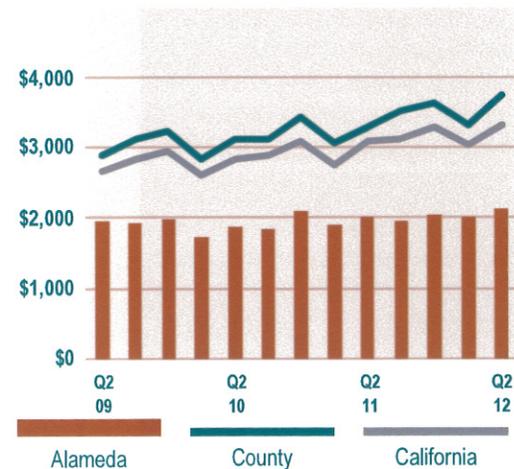
Federal case law continues to provide that remote sellers without nexus in a state are not required to collect that state's sales tax. Amazon agreed not to contest AB 155's definition of nexus which includes remote sellers who have annual sales in California of one million dollars or more and who have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



ALAMEDA TOP 15 BUSINESS TYPES

Business Type	Alameda		County	HdL State
	Q2 '12*	Change	Change	Change
Auctioneers	— CONFIDENTIAL —			
Boats/Motorcycles	53.2	11.7%	50.0%	14.6%
Business Services	50.6	-7.4%	-12.8%	-9.2%
Department Stores	26.4	-1.5%	-1.0%	1.1%
Drug Stores	56.2	-0.2%	-0.8%	3.5%
Family Apparel	67.4	6.1%	7.0%	8.8%
Grocery Stores Liquor	119.2	2.7%	4.2%	4.2%
Light Industrial/Printers	27.4	-11.3%	10.3%	-0.7%
Medical/Biotech	265.8	-13.2%	-12.7%	1.6%
Office Supplies/Furniture	24.0	-2.9%	-13.3%	-12.8%
Restaurants Beer And Wine	46.8	-0.5%	-0.2%	0.3%
Restaurants Liquor	108.6	11.6%	13.8%	11.2%
Restaurants No Alcohol	128.1	6.1%	10.2%	8.1%
Service Stations	195.5	7.1%	11.1%	2.3%
Specialty Stores	49.2	8.4%	6.5%	2.3%
Total All Accounts	\$1,585.8	5.0%	13.1%	6.7%
County & State Pool Allocation	211.0	-1.3%		
Gross Receipts	\$1,796.8	4.2%		
City/County Share	(89.8)	-4.2%		
Net Receipts	\$1,707.0	4.2%		

*In thousands