

Q1 2011



Manhattan Beach Sales Tax *Update*

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

Manhattan Beach In Brief

Receipts for Manhattan Beach's January through March sales were 12.7% higher than the same quarter one year ago. Actual sales activity was up 13.0% when reporting aberrations were factored out.

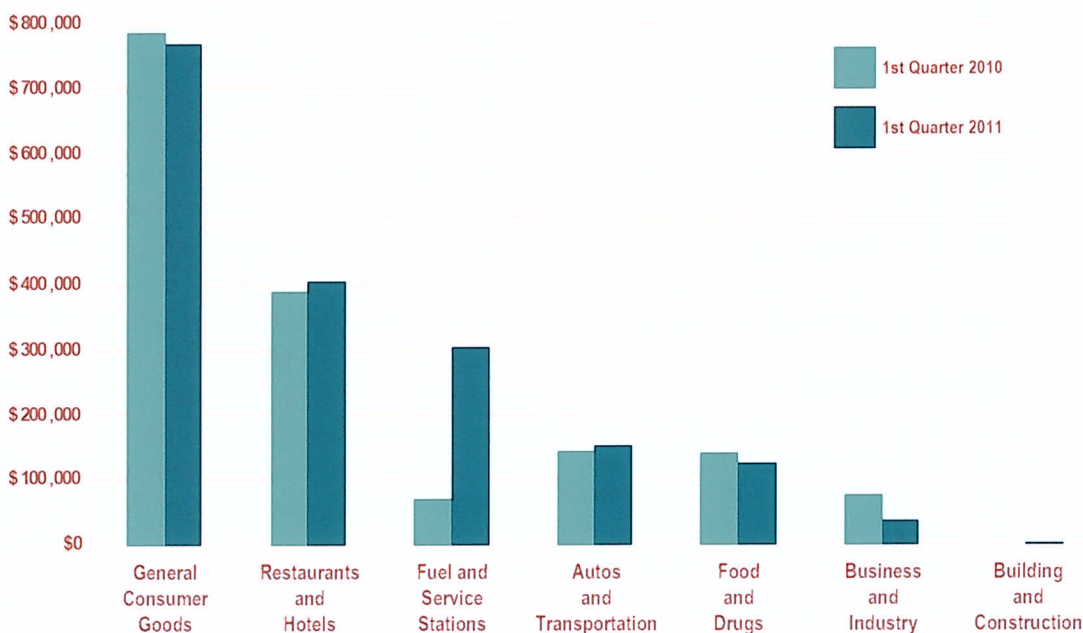
The fuel & service stations group benefited from the addition of a new business and higher fuel prices, significant factors in the city's overall gain. Autos & transportation posted positive results despite a business closure. The restaurant group was up overall after adjusting for payment aberrations from restaurants with and without alcohol.

The losses were partially offset by sales declines from family apparel, home furnishings, and office supplies. An accounting adjustment that inflated the comparison quarter from business services exaggerated the overall drop from the business & industry group. A payment deviation from grocery stores with liquor temporarily depressed the results from the food & drugs sector.

A 22.2% increase in the city's share of the countywide use tax pool allocation was also a factor in the overall increase.

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

Apple Computer	Manhattan Beach
Barnes & Noble	Marriott
Beverages & More	Manhattan Beach
California Pizza Kitchen	Toyota Scion
Chevron - Gasoline Sales	Mobil Oil
CVS Pharmacy	Office Depot
Dewitt Petroleum	Old Navy
Frys Electronics	Olive Garden
Houstons	Pottery Barn
Islands	REI
Kwik Gas	Sephora
Lam Enterprise	Skechers By Mail
Macys	Target
	Trader Joes

REVENUE COMPARISON

Four Quarters - Fiscal Year To Date

	2009-10	2010-11
Point-of-Sale	\$6,754,265	\$7,655,999
County Pool	709,571	864,821
State Pool	5,904	3,415
Gross Receipts	\$7,469,740	\$8,524,235
Less Triple Flip*	\$(1,867,435)	\$(2,131,059)

*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 through 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.

MANHATTAN BEACH TOP 15 BUSINESS TYPES

Business Type	Manhattan Beach		County	HdL State
	Q1 '11*	Change	Change	Change
Department Stores	— CONFIDENTIAL —	—	6.5%	4.1%
Discount Dept Stores	— CONFIDENTIAL —	—	2.3%	2.1%
Electronics/Appliance Stores	231.0	-0.7%	19.1%	11.9%
Family Apparel	47.7	-39.2%	4.6%	3.8%
Grocery Stores Liquor	37.4	-40.4%	-25.0%	-12.5%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	17.8%	19.7%
Petroleum Prod/Equipment	— CONFIDENTIAL —	—	26.5%	35.9%
Restaurants Beer And Wine	85.1	9.9%	-2.6%	-3.7%
Restaurants Liquor	206.4	5.6%	6.9%	8.5%
Restaurants No Alcohol	78.0	-6.0%	7.8%	8.6%
Service Stations	84.8	21.0%	19.1%	19.8%
Shoe Stores	36.2	50.5%	12.7%	11.3%
Specialty Stores	53.8	-2.6%	1.6%	3.2%
Sporting Goods/Bike Stores	45.7	-0.9%	3.1%	3.6%
Women's Apparel	60.0	9.0%	1.6%	4.3%
Total All Accounts	\$1,800.9	11.7%	3.7%	7.5%
County & State Pool Allocation	213.4	21.8%		
Gross Receipts	\$2,014.3	12.7%		<i>*In thousands</i>