

Q2 2012



City of Chico Sales Tax Update

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

Chico In Brief

Receipts for Chico's April through June sales were 9.9% higher than the same quarter one year ago. Actual sales activity was up 6.7% when reporting aberrations were factored out.

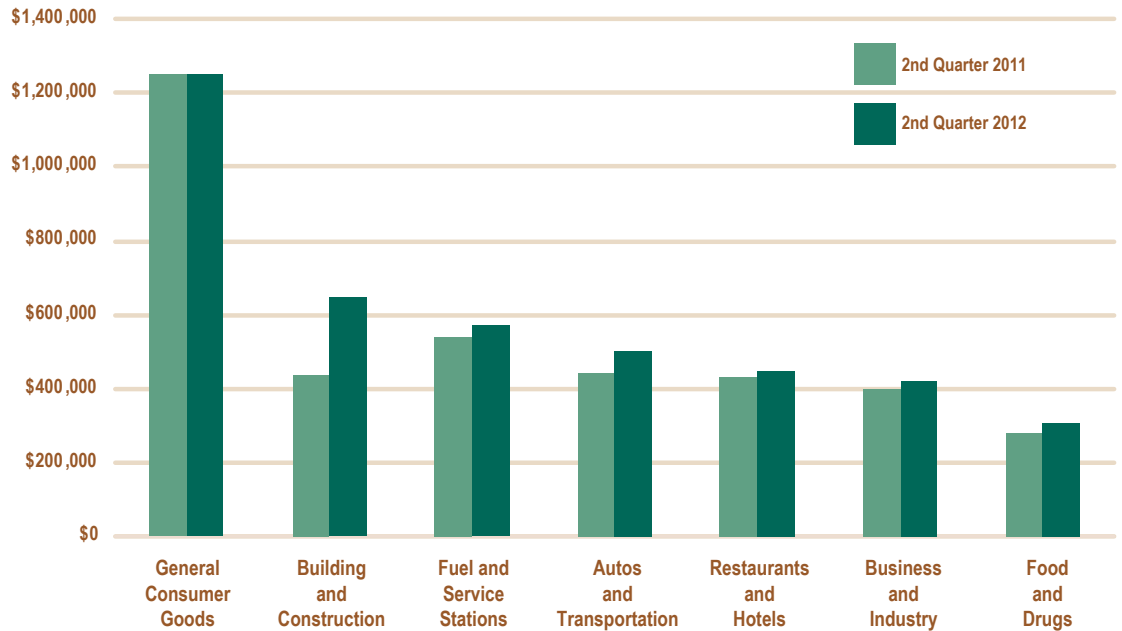
The spike in building and construction was due to retroactive adjustments in lumber/building materials and plumbing/electrical supplies. Nonetheless, this group rose 13.9% once adjusted for these onetime events. Sales activity increased in new autos and agricultural-related supplies and equipment while higher prices boosted service stations. New openings contributed to positive returns in restaurants and food and drugs.

General retail as a whole was about equal to a year ago with apparel up and electronics down.

An increase in the city's share of the countywide use tax allocation pool added to gross receipts overall.

Adjusted for aberrations, taxable sales for all of Butte County increased 5.6% over the comparable time period, while the Far North region as a whole was up 5.7%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

| | |
|-------------------|---------------|
| Best Buy | JC Penney |
| Chevron | Kohls |
| Chevron | Lowes |
| Chico Nissan | Nella Oil |
| Hyundai | Northgate |
| Chuck Patterson | Petroleum |
| Toyota Scion | Raleys |
| Dodge | Ross |
| Costco | Safeway |
| Courtesy Motors | Safeway Gas |
| Auto Center | Sierra Nevada |
| Ed Wittmeier Ford | Brewing |
| Esplanade AM PM | Target |
| Faucet Direct | Vanella Oil |
| Home Depot | Walmart |
| Hunt & Sons | |

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

| | 2010-11 | 2011-12 |
|-----------------------|---------------------|---------------------|
| Point-of-Sale | \$14,802,745 | \$15,674,073 |
| County Pool | 1,715,552 | 1,907,367 |
| State Pool | 2,397 | 12,041 |
| Gross Receipts | \$16,520,693 | \$17,593,481 |
| Cty/Cnty Share | (826,035) | (879,674) |
| Net Receipts | \$15,694,659 | \$16,713,807 |
| Less Triple Flip* | \$(3,923,665) | \$(4,178,452) |

*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.

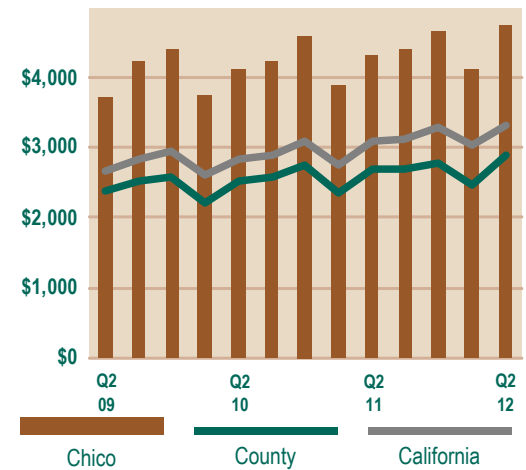
Federal case law continues to provide that remote sellers without nexus in a state are not required to collect that state's sales tax. Amazon agreed not to contest AB 155's definition of nexus which includes remote sellers who have annual sales in California of one million dollars or more and who have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



CHICO TOP 15 BUSINESS TYPES

| Business Type | Chico | | County | HdL State |
|---|------------------|--------------|-------------|-------------|
| | Q2 '12* | Change | Change | Change |
| Department Stores | 87.8 | -8.9% | -8.8% | 1.1% |
| Discount Dept Stores | 481.9 | 2.4% | 2.7% | 3.7% |
| Electronics/Appliance Stores | 122.3 | -13.2% | -11.8% | -2.4% |
| Family Apparel | 108.9 | 4.7% | 15.7% | 8.8% |
| Grocery Stores Liquor | 181.5 | 8.9% | 7.6% | 4.2% |
| Home Furnishings | 92.3 | 14.3% | 11.3% | 7.1% |
| Lumber/Building Materials | 302.8 | 42.3% | 30.8% | 20.5% |
| New Motor Vehicle Dealers | 337.1 | 17.7% | 15.9% | 22.3% |
| Petroleum Prod/Equipment | 154.5 | -4.5% | -1.3% | 3.5% |
| Plumbing/Electrical Supplies | 213.1 | 139.1% | 126.0% | -1.5% |
| Restaurants Beer And Wine | 95.5 | 1.0% | 3.2% | 0.3% |
| Restaurants Liquor | 162.2 | 7.3% | 7.6% | 11.2% |
| Restaurants No Alcohol | 173.0 | 3.9% | 3.9% | 8.1% |
| Service Stations | 415.3 | 9.6% | 6.5% | 2.3% |
| Specialty Stores | 89.6 | 2.6% | 5.4% | 2.3% |
| Total All Accounts | \$4,143.4 | 9.6% | 7.5% | 6.7% |
| County & State Pool Allocation | 499.8 | 12.7% | | |
| Gross Receipts | \$4,643.2 | 9.9% | | |
| City/County Share | (232.2) | -9.9% | | |
| Net Receipts | \$4,411.0 | 9.9% | | |

*In thousands