

Q2 2012



Contra Costa County Sales Tax *Update*

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

Contra Costa County In Brief

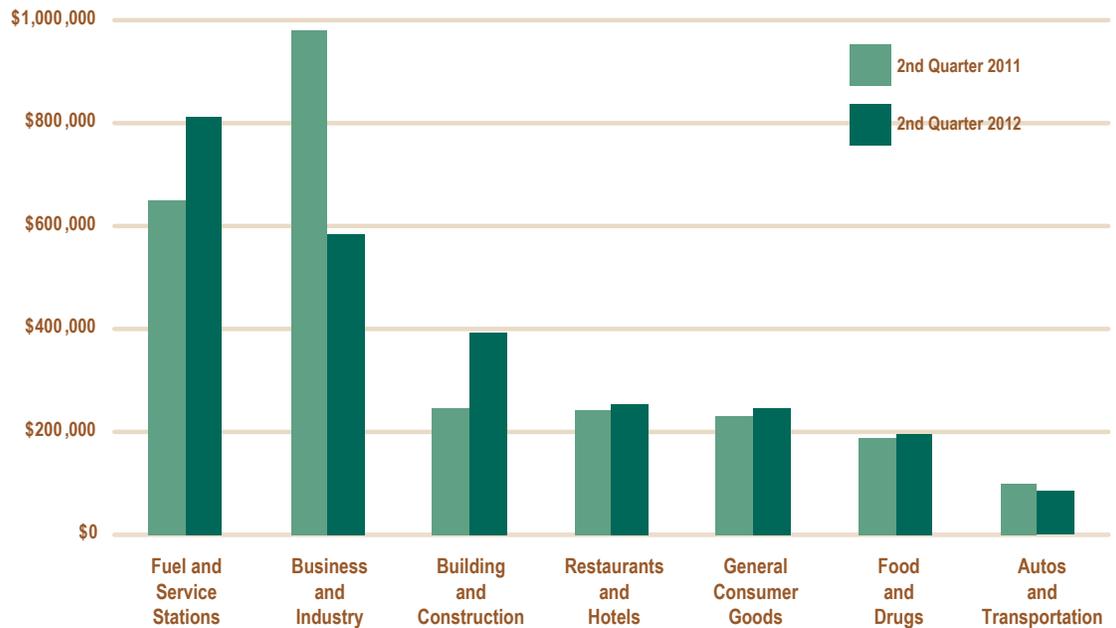
The allocation for April through June sales in the unincorporated area was 0.4% higher than the same quarter one year ago, but multiple accounting aberrations skewed the data; actual sales declined 11.9% when anomalies were excluded.

Recoveries of previously errant funds spiked returns from service stations, electrical equipment, contractor supplies and quick service restaurants. An accounting adjustment overstated gains from medical/biotech. Sales increased from light industrial/printers, clubs/ amusement places and some categories of consumer goods.

Receipt of onetime allocations in the year-ago period that temporarily boosted proceeds from petroleum products/equipment and the business and industry group were major factors for the decline. Sales decreased from garden/agricultural supplies and repair shop/hand tool rentals while an adjustment pared automotive group totals.

Adjusted for onetime reporting events, taxable sales for all of Contra Costa County, including its cities, rose 11.6% over the same period; Bay Area totals were up 8.1%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

| | |
|----------------------------------|------------------------------|
| Alamo Hardware | Hunt & Sons |
| Alamo Shell | Kensington Chevron |
| Alliance Minimart | Kiewit Industrial |
| BDV Chevron | New York Times Sales |
| Blackhawk Country Club | Patterson Dental Supply |
| C & H Sugar | Rotten Robbie |
| Chevron | Safeway |
| Concord Feed & Fuel | Safeway Gas |
| County Asphalt | Sams Club |
| Criterion Catalysts Technologies | Shell |
| General Plumbing Supply | Tesoro Golden Eagle Refinery |
| Huawei Technologies | Tower Mart |
| | Wesco Distribution |

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

| | 2011-12 | 2012-13 |
|-----------------------|--------------------|--------------------|
| Point-of-Sale | \$2,643,695 | \$2,585,848 |
| County Pool | 307,471 | 276,315 |
| State Pool | (1,567) | 2,567 |
| Gross Receipts | \$2,949,599 | \$2,864,730 |
| Cty/Cnty Share | 724,304 | 823,670 |
| Net Receipts | \$3,673,904 | \$3,688,401 |
| Less Triple Flip* | \$(918,476) | \$(922,100) |

*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.

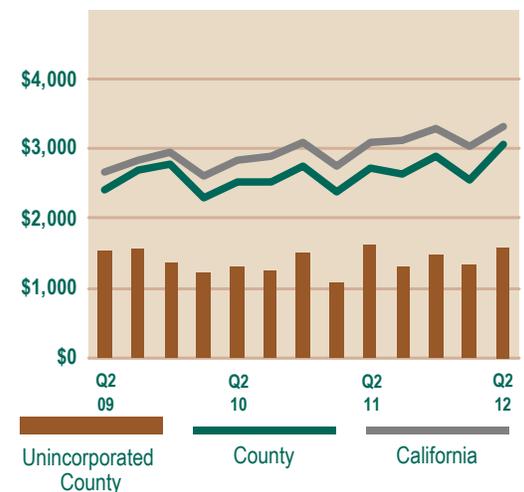
Federal case law continues to provide that remote sellers without nexus in a state are not required to collect that state's sales tax. Amazon agreed not to contest AB 155's definition of nexus which includes remote sellers who have annual sales in California of one million dollars or more and who have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



CONTRA COSTA COUNTY TOP 15 BUSINESS TYPE

| Business Type | Unincorporated County | | County | HdL State |
|---|-----------------------|--------------|--------------|-------------|
| | Q2 '12* | Change | Change | Change |
| Clubs/Amusement Places | 60.8 | 8.0% | 12.6% | 7.3% |
| Contractors | 316.5 | 76.2% | 25.4% | 11.4% |
| Discount Dept Stores | — CONFIDENTIAL — | | 2.2% | 3.7% |
| Electrical Equipment | 59.8 | 101.5% | 28.7% | -5.4% |
| Garden/Agricultural Supplies | 59.8 | -4.1% | 5.2% | 5.2% |
| Grocery Stores Beer/Wine | 46.5 | 1.9% | 10.3% | 7.1% |
| Grocery Stores Liquor | 83.6 | 3.8% | 4.5% | 4.2% |
| Light Industrial/Printers | 155.9 | 8.2% | 9.2% | -1.4% |
| Medical/Biotech | 91.1 | 36.5% | 5.2% | 11.0% |
| Petroleum Prod/Equipment | 136.5 | -34.7% | -59.6% | 3.4% |
| Repair Shop/Equip. Rentals | 75.0 | -27.7% | -5.3% | 11.2% |
| Restaurants Liquor | 71.5 | -2.8% | 10.8% | 11.0% |
| Restaurants No Alcohol | 83.2 | 12.5% | 7.9% | 8.1% |
| Service Stations | 665.5 | 54.7% | 1.1% | 2.3% |
| Specialty Stores | 42.9 | 10.8% | 6.4% | 2.2% |
| Total All Accounts | \$2,585.8 | -2.2% | 12.8% | 6.7% |
| County & State Pool Allocation | 278.9 | -8.8% | | |
| Gross Receipts | \$2,864.7 | -2.9% | | |
| City/County Share | 823.7 | 13.7% | | |
| Net Receipts | \$3,688.4 | 0.4% | | |

*In thousands