

Q1 2014



City of Los Altos Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2014)

Los Altos In Brief

Receipts for Los Altos' January through March sales were 0.9% higher than the same quarter one year ago. Actual sales activity was down 0.5% when reporting aberrations were factored out.

Multiple payment deviations inflated the gain in restaurants and hotels. Nonetheless, casual dining and fine dining posted increases on an actual basis compared to a year ago. Building-related sectors surpassed regional trends.

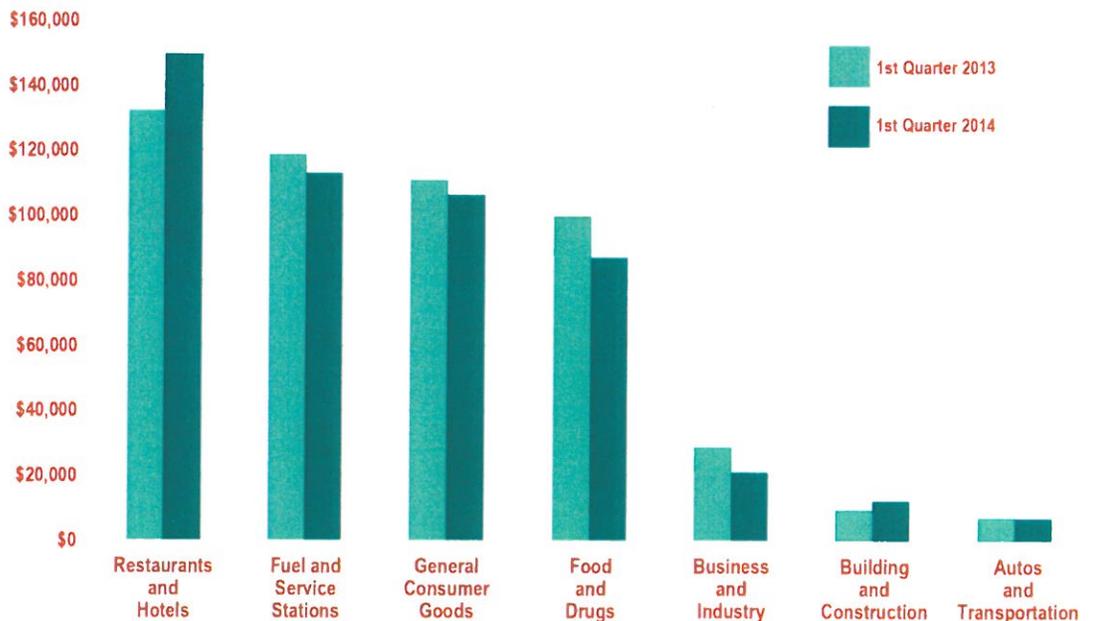
The decline in the fuel and service station group was commensurate with lower fuel prices. Recent openings in several categories including family apparel and jewelry stores partially offset lower post-holiday sales in general retail overall.

The double digit rise in the county-wide use tax allocation pool accounted for the positive results in gross receipts.

A temporary store closure was the primary factor in the loss in food and drugs while business to business receipts declined.

Adjusted for aberrations, taxable sales for all of Santa Clara County increased 2.8% over the comparable time period, while the Bay Area as a whole was up 4.8%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

A Good Morning Cafe	Los Altos Chevron
Akane Japanese Cuisine	Los Altos Grill
Andronicos Market	Lucky Supermarket
Armadillo Willys BBQ & Cafe	OPA Authenic Greek Cuisine
Bumble	Pho Vi Hoa Restaurant
Chef Chus	Rite Aid
Chicos	Select Windows
Draegers Super Market	Tesoro West Coast Valero
El Camino 76	Trader Joes
First & Main Sports Lounge	True Value Hardware
Footwear Etc	Village Chevron
Grand Petroleum	Walgreens
	Whole Foods Market

REVENUE COMPARISON

Four Quarters - Fiscal Year To Date

	2012-13	2013-14
Point-of-Sale	\$2,122,595	\$2,132,655
County Pool	326,738	333,051
State Pool	1,137	1,481
Gross Receipts	\$2,450,470	\$2,467,186
Less Triple Flip*	\$(612,617)	\$(616,797)

*Reimbursed from county compensation fund

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Statewide Results

Net of payment aberrations, first quarter retail sales were 3.8% higher than the same period one year earlier.

Sales of new automobiles were up 9.4%, stimulated by pent up demand, consumer interest in new feature-rich models and easy financing options. The building and construction sector reported solid gains in a number of categories, notably contractors, sellers of lumber/building materials and suppliers of plumbing/electrical equipment. Restaurant and hotel receipts increased by 6.4%, out-pacing all other industry groups except autos and transportation.

Proceeds from general consumer goods were flat primarily due to the ongoing shift from brick-and-mortar stores to online retailers, many of which allocate the local sales tax to the countywide allocation pools. Gains from most other segments were relatively modest, while tax revenues from fuel sales experienced a fifth consecutive quarterly drop.

Sales Tax and the Drought

All of California is currently under either severe or exceptional levels of drought and is experiencing the driest 30 month period in the state's recorded history.

A recent study by UC Davis projects that the socioeconomic impacts of the current drought will be 50% more severe than in 2009 with 410,000 acres of row and feed crops taken out of production in order to preserve diminishing water supplies for longer term orchard and vineyard investments and the thinning of cattle and dairy herds in anticipation of green pasture shortages. A loss of 14,500 jobs is estimated as are higher food prices and increased energy costs to replace the loss of inexpensive hydro power.

Even so, most analysts predict that the near term impact on the overall statewide economy and 2014-15 sales tax receipts should be minor though some localized pockets may be vulnerable where dependency on agricultural and water-related tourism expenditures is exceptionally high.

The analysts point out that less than 3% of the state's economy comes from agriculture and that in many areas surface water supplies are being replaced with increased pumping of groundwater. They further estimate that the impact of job losses will be offset by employment growth in other segments of the economy. They also note that government drought aid, crop insurance, unemployment benefits and public assistance programs will temporarily avert some potential economic and revenue impacts.

The longer term concern is that the drought could persist for another two or three years. Groundwater

supplies are being pumped out at a faster rate than can be naturally recharged and a UC Berkeley analysis suggests that the relatively wet 20th century was an anomaly. If that is true and the state reverts to a suspected drier norm, the impact on the economy, environment, fire safety and food and energy costs will become more severe and far reaching.

SALES PER CAPITA



LOS ALTOS TOP 15 BUSINESS TYPES

Business Type	Los Altos		County	HdL State
	Q1 '14	Change	Change	Change
Art/Gift/Novelty Stores	6,493	3.9%	9.7%	2.1%
Casual Dining	108,091	12.0%	4.9%	6.6%
Contractors	7,056	50.4%	8.4%	14.7%
Drug Stores	— CONFIDENTIAL —		-7.3%	-9.8%
Family Apparel	9,902	46.0%	-4.4%	-3.3%
Fine Dining	10,636	124.4%	16.4%	13.4%
Grocery Stores Liquor	67,391	-10.7%	6.5%	-14.2%
Hardware Stores	— CONFIDENTIAL —		-20.3%	-2.5%
Home Furnishings	20,220	-4.0%	36.2%	6.8%
Jewelry Stores	6,024	30.1%	18.2%	9.0%
Quick-Service Restaurants	24,673	-5.5%	5.5%	4.8%
Service Stations	112,916	-4.8%	-3.2%	-1.0%
Specialty Stores	17,898	-34.3%	-0.4%	2.7%
Sporting Goods/Bike Stores	9,484	13.0%	-6.3%	-6.0%
Women's Apparel	15,146	8.4%	-10.8%	-4.9%
Total All Accounts	\$495,853	-2.0%	-0.2%	3.2%
County & State Pool Allocation	\$92,355	19.8%	21.9%	7.7%
Gross Receipts	\$588,208	0.9%	2.7%	3.7%