

Q3 2016



City of Los Altos Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2016)

Los Altos In Brief

Los Altos' receipts from July through September were 2.2% above the third sales period in 2015. Excluding reporting aberrations, actual sales were up 1.1%.

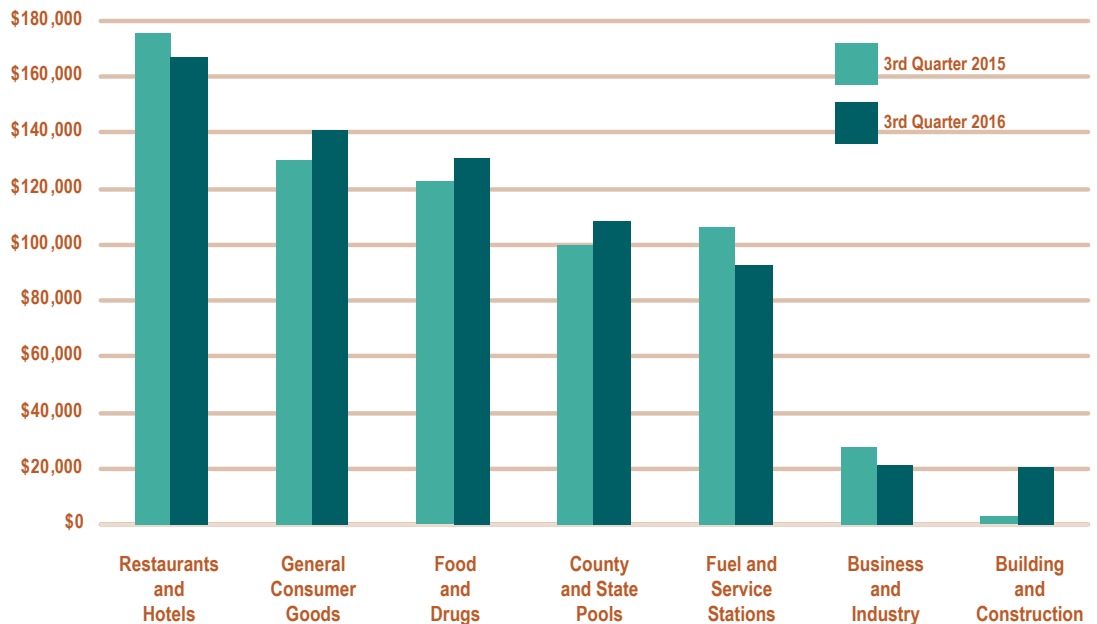
Receipts from the building and construction sector were inflated by onetime reporting aberrations. A recent addition helped boost revenues from fine dining restaurants. The City experienced a strong sales quarter for jewelry stores and convenience stores/liquor.

The acceleration of consumer purchases from online retailers lifted the City's allocation from the county-wide use tax pool by 8.2% over the year-ago period.

The gains were partially offset by lower gasoline prices which depressed returns from service stations and a partial payment that exaggerated the drop in drug store receipts.

Net of aberrations, taxable sales for all of Santa Clara County grew 1.2% over the comparable time period; the Bay Area was up 2.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Amber India Restaurant	Lucky Supermarket
Andronicos Market	Pho Vi Hoa Restaurant
Armadillo Willys BBQ & Cafe	Rite Aid
Bevmo	Safeway
Chef Chus	Select Windows
Chevron	Shell
Draegers Super Market	Spectrum Interior Design
Earthworks	Steinway
El Camino 76	Trader Joes
Footwear Etc	True Value Hardware
Grand Petroleum	Walgreens
Los Altos Chevron	Whole Foods Market
Los Altos Grill	

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$1,144,799	\$1,151,143
County Pool	205,119	229,115
State Pool	615	419
Gross Receipts	\$1,350,534	\$1,380,677
Less Triple Flip*	\$(337,634)	\$0

*Reimbursed from county compensation fund

Statewide Results

Statewide local sales and use taxes from transactions occurring July through September were up 1.9% over the same third sales quarter of 2015 after factoring for accounting anomalies.

The countywide use tax allocation pools contributed the largest portion of the increase reflecting the acceleration in online shopping where most orders are shipped from out-of-state. Automotive group receipts rose 5.4% over the year-ago period although more than half of the increase was from a specific electric car manufacturer. Higher returns from restaurants and sales of building/construction materials also contributed to the statewide gain.

The gains were significantly offset by a 14.6% drop in receipts from fuel and service stations and a generally flat quarter for other economic segments. General consumer goods grew less than 1%. Value priced clothing, pet shops, cosmetics and dollar stores were among the few bright spots.

Business and industrial tax revenue was down 1.9%. Relatively healthy sales of agricultural and medical/biotech supplies could not overcome the decline in new alternative energy projects and a flat quarter for most other categories.

The Year Ahead

The consensus from dozens of industry analysts, economic think tanks and trade associations is for a leveling off in the rate of sales tax growth that the state has enjoyed for the last six years.

Manufacturer incentives are expected to produce lower gains from new vehicle purchases through the end of 2016 and it is believed that dealers are now borrowing from 2017 sales. Vehicle sales are expected to drop in 2017-18 but the trend toward higher priced vehicles loaded with options could maintain tax revenues close to current levels.

Consumer preferences toward spending more on services rather than goods, digital downloading of previously taxable products and rising health care and housing costs will be a drag on sales of consumer

goods.

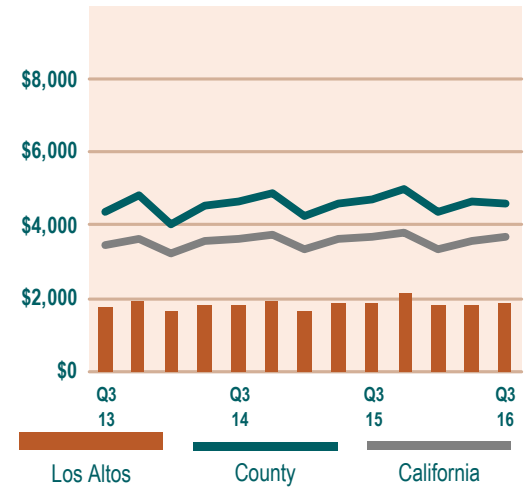
Receipts from fuel and service stations may be one of the largest gainers in 2017-18. New Middle East agreements on production caps are raising crude oil prices while California's limited refinery capacity and the trend toward less fuel-efficient SUV's and trucks have analysts believing that prices have finally leveled out and will rise through the year.

Continuing gains from restaurants are also expected although at lower than previous rates because of reduced grocery prices and the cost of eating at home. The growing strength of the dollar and recent criticisms of trade agreements and immigrants could reduce international tourism.

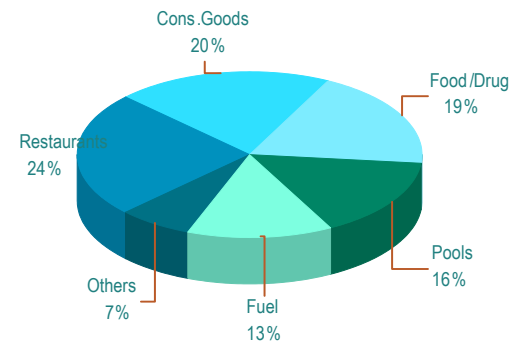
It usually takes up to two years for new stimulus programs to be reflected in sales tax receipts. As many of the coming administration's proposals related to trade, immigration, health services and the environment present potential issues for a significant number of California industries, delays in major construction projects and business/industrial investments are expected until these are sorted out.

HdL's current forecast is for a statewide increase of 2.5% in 2016-17 and 3.4% in 2017-18 compared to a year earlier.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Los Altos This Quarter



LOS ALTOS TOP 15 BUSINESS TYPES

Business Type	Los Altos		County	HdL State
	Q3 '16	Change	Change	Change
Casual Dining	102,001	-12.7%	4.4%	4.3%
Contractors	— CONFIDENTIAL —	—	-9.6%	1.4%
Convenience Stores/Liquor	— CONFIDENTIAL —	—	5.1%	3.7%
Drug Stores	— CONFIDENTIAL —	—	-7.7%	-8.7%
Family Apparel	9,583	1.1%	1.5%	5.9%
Fast-Casual Restaurants	9,108	-13.8%	0.4%	4.4%
Fine Dining	32,166	26.2%	9.2%	12.3%
Grocery Stores	95,013	1.5%	2.1%	-1.9%
Home Furnishings	25,880	-23.4%	11.4%	-0.5%
Jewelry Stores	31,155	193.3%	9.1%	4.1%
Quick-Service Restaurants	16,375	2.0%	6.7%	8.9%
Service Stations	92,912	-12.5%	-14.0%	-13.8%
Specialty Stores	15,967	-4.8%	-6.0%	2.2%
Sporting Goods/Bike Stores	10,825	-13.3%	10.3%	-0.6%
Women's Apparel	13,278	-13.9%	-3.1%	2.8%
Total All Accounts	580,730	1.1%	-1.6%	0.9%
County & State Pool Allocation	108,181	8.2%	5.3%	11.5%
Gross Receipts	688,911	2.2%	-0.6%	2.2%