

Q4 2015



City of Los Altos Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (October - December 2015)

Los Altos In Brief

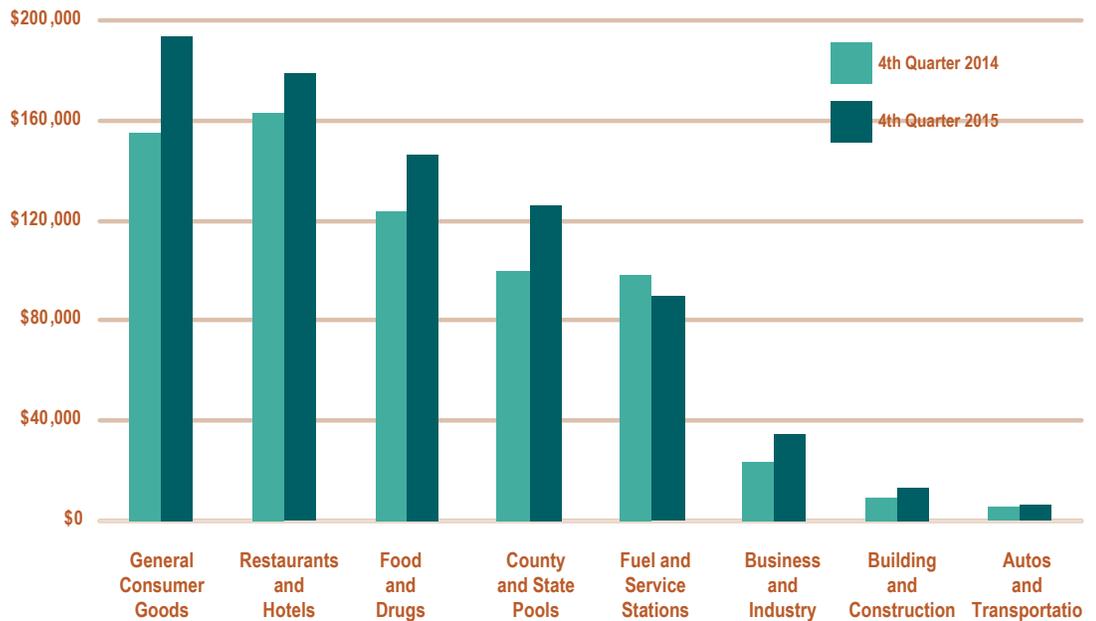
Los Altos's receipts from October through December were 16.2% above 2014's fourth quarter. Excluding reporting aberrations, actual sales were up 11.1%.

The exceptional increase was due mainly to new business additions that boosted general consumer goods, food and drugs and restaurant and hotel comparisons. Retroactive recovery of misallocated funds for some of the added accounts were largely responsible for the disparity between cash receipts and actual sales activity. The apparent increase in the business and industry group stemmed from onetime reporting aberrations. Overall gains increased the City's proportionate share of the county-wide use tax pool.

Lower prices at the pump pared fuel and service station receipts.

Net of aberrations, taxable sales for all of Santa Clara County grew 3.2% over the comparable time period; the Bay Area was up 3.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Amber India	Pendleton Woolen Mills
Andronicos Market	Pho Vi Hoa Restaurant
Armadillo Willys BBQ & Cafe	Rite Aid
Bevmo	Safeway
Cetrella	Steinway
Chef Chus	Tesoro West Coast
Draegers Super Market	Valero
Earthworks	Trader Joes
El Camino 76	True Value
Grand Petroleum	Village Chevron
Los Altos Chevron	Viscusi Elson Interior Design
Los Altos Grill	Walgreens
Lucky Supermarket	Whole Foods Market

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2014-15	2015-16
Point-of-Sale	\$1,672,230	\$1,806,956
County Pool	288,588	329,216
State Pool	1,486	2,179
Gross Receipts	\$1,962,305	\$2,138,351
Less Triple Flip*	\$(490,576)	\$(534,588)

*Reimbursed from county compensation fund

California Overall

Excluding accounting aberrations, local sales and use tax receipts from the fourth quarter of 2015 ended 2.6% above 2014's holiday quarter.

Solid returns for autos, RVs, building materials and most categories of restaurants were the primary contributors to the statewide increase. The growth in online shopping for merchandise shipped from out-of-state continued to raise countywide use tax allocation pool revenues.

The gains were largely offset by a 13.2% drop in tax receipts from service stations and other fuel-related expenditures. Except for value price clothing and shoes, most categories of general consumer goods were flat or down, reflecting heavy price discounting to reduce excess holiday inventories and the impact of the strong dollar on international tourist spending.

With some exceptions, particularly in the areas of computers and agricultural chemicals, overall receipts from business and industrial expenditures were also down primarily due to cutbacks in capital spending by energy producers and manufacturers of exported goods, equipment and raw materials.

Intense competition and price pressures resulted in only modest gains in receipts from grocers and pharmacists with the largest increase in this group coming from liquor stores and marijuana dispensaries.

HdL's most recent economic consensus forecast anticipates similar modest gains through 2016 with an eventual peak in auto sales replaced by strong sales of building and construction materials for home improvement and new housing. A recovery in tax receipts from fuel is not expected until the end of the year.

The Triple Flip Is Over!

Beginning with taxes collected in January and forward, local governments will again receive their full share of Bradley-Burns sales and use tax reve-

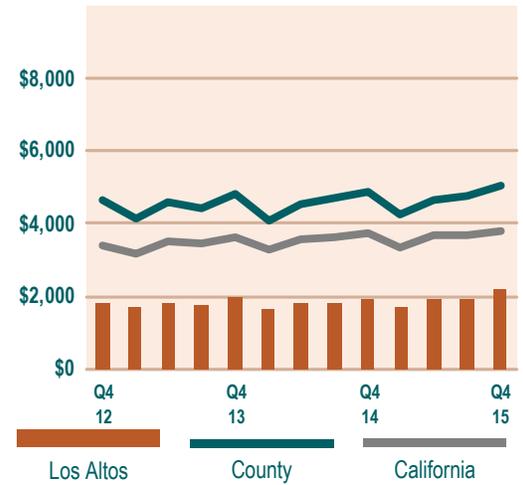
nues thus ending an eleven-year program known as the Triple Flip.

The program began in 2004 when voters approved a \$15 billion bond issue to cover operating deficits resulting from a combination of that year's economic downturn plus failure to offset the loss of revenue from the Governor's popular reduction in the 65-year-old, 2% Motor Vehicle In-Lieu Tax.

The State retained 25% of local sales tax to guarantee the bonds, reimbursed local governments from monies meant for schools and replaced the money taken from schools with state general funds thus creating what became known as the Triple Flip. The financing scheme resulted in interest payments totaling \$4.8 billion, plus another \$200 million in administrative fees while creating new budget challenges for local governments.

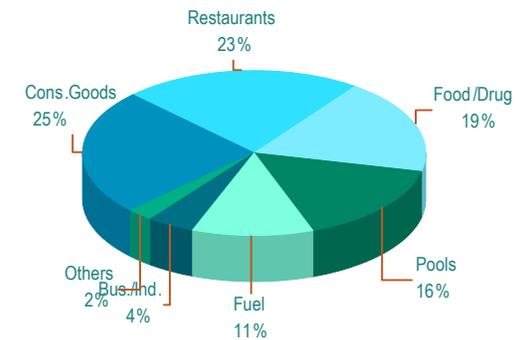
It also resulted in voter passage of constitutional amendment Proposition 1A that bars state tampering with local sales and use tax revenues in the future.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP

Los Altos This Quarter



LOS ALTOS TOP 15 BUSINESS TYPES

Business Type	Los Altos		County	HdL State
	Q4 '15	Change	Change	Change
Art/Gift/Novelty Stores	11,758	-16.8%	2.2%	4.0%
Casual Dining	105,762	0.0%	3.9%	5.8%
Drug Stores	— CONFIDENTIAL —	—	-1.5%	0.8%
Family Apparel	15,650	-8.8%	1.2%	4.1%
Fast-Casual Restaurants	9,783	-21.3%	0.7%	6.9%
Fine Dining	38,955	89.6%	-0.2%	8.1%
Grocery Stores Beer/Wine	— CONFIDENTIAL —	—	4.7%	1.7%
Grocery Stores Liquor	57,017	-0.7%	-1.3%	0.6%
Home Furnishings	35,499	8.1%	-9.8%	2.0%
Liquor Stores	— CONFIDENTIAL —	—	-4.2%	5.5%
Music Stores	— CONFIDENTIAL —	—	27.3%	0.1%
Quick-Service Restaurants	15,136	-21.4%	16.1%	8.0%
Service Stations	89,442	-8.8%	-13.6%	-10.5%
Specialty Stores	28,496	30.4%	4.1%	4.4%
Women's Apparel	14,607	-24.9%	-6.6%	1.2%
Total All Accounts	662,156	14.6%	4.4%	2.4%
County & State Pool Allocation	125,661	25.3%	14.1%	10.8%
Gross Receipts	787,817	16.2%	5.8%	3.5%