

Q1 2011



City of Menifee Sales Tax Update

Second Quarter Receipts for First Quarter Sales (Jan-Mar 2011)

Menifee In Brief

Receipts for Menifee's January through March sales were 13.8% higher than the same quarter one year ago.

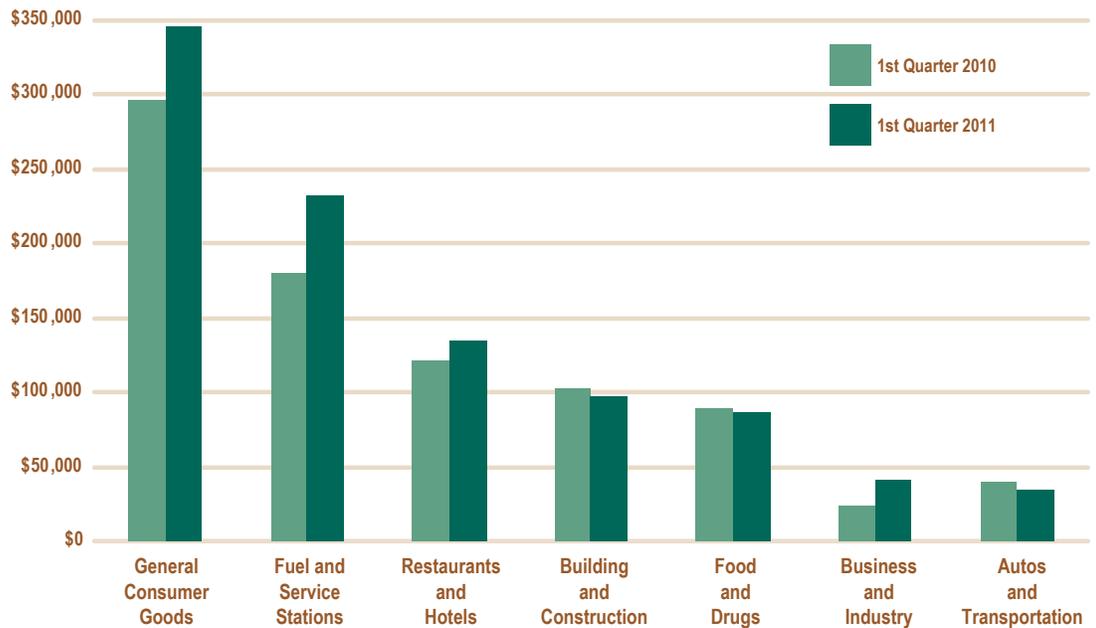
New store openings accounted for the lion's share of the gain in general consumer goods while additional eateries contributed to the rise in restaurants.

Higher fuel prices and a new station boosted results in service stations. A onetime aberration in the repair shop/hand tool rental category overstated the increase in business and industry as a whole.

The overall decline in food and drugs was due to a temporary payment deviation but sales activity in building and construction was lower than the same quarter a year ago.

Adjusted for aberrations, taxable sales for all of Riverside County increased 10.2% over the comparable time period, while the Southern California region as a whole was up 8.7%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

Ahern Rentals	Menifee Car Wash
Albertsons	Menifee Mart
Amerimax Building Products	Menifee Shell
APRO	Red Robin
Arco AM PM	Richardsons Auto & RV Sales
AutoZone	Rite Aid
Best Buy	Ross
Chevron	Stater Bros.
Circle K	Sun City Chevron
Jack in the Box	Target
Kohls	TJ Maxx
Living Spaces Furniture	Walgreens
Lowe's	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2009-10	2010-11
Point-of-Sale	\$3,554,284	\$3,895,483
County Pool	374,999	393,227
State Pool	3,105	1,685
Gross Receipts	\$3,932,388	\$4,290,395
Less Triple Flip*	\$(983,097)	\$(1,072,599)

*Reimbursed from county compensation fund

Statewide Sales on the Rise

Adjusted for accounting aberrations, California's local sales and use tax revenues from transactions during the first quarter of 2011 were 9.2% higher than the previous year's comparable quarter. This represents the fifth consecutive quarter of recovery and the largest percentage gain since the second quarter of 2005. Total annual revenues however, are still 14.8 % below 2006-2007.

Most regions of the state shared in the increase with the largest contributor coming from a dramatic surge in fuel prices. Allocations from new car sales also were a factor with a statewide gain of 19.8% over the first quarter of 2010. Revenues from full service restaurants and consumer electronics exhibited increases of 10% or more.

California Outlook

The good news is that California's economy is recovering and sales tax growth will follow. However, gains in the next two quarters will be held back by temporary supply chain disruptions caused by the earthquake and tsunami in Japan and by reduced consumer spending as rising gas prices cut into disposable incomes. New uncertainties from further declines in home values and additional government layoffs may also soften consumer spending and business investment for the first half of the fiscal year.

Sales tax growth is expected to pick up in the second half although sluggish improvement in employment and lackluster construction spending will continue to affect the economies of the state's inland regions.

Internet Taxation

Under federal case law, states cannot require businesses without a physical presence in their state to collect sales tax. Companies such as Amazon have built their business plans around avoiding collecting the tax thereby put-

ting local brick and mortar stores at a competitive disadvantage.

This year, California has attempted to partially correct the inequity through the passage of ABX1 28 which combines the differing strategies of three previous bills with each designed to be severable in the event of a successful court challenge.

The first follows the lead of New York State by declaring that internet sales through a host of in-state affiliates constitutes "substantial nexus" and therefore makes sales through those affiliates subject to sales tax. ABX1 28 also prevents companies with in-state brick and mortar stores from treating those stores as separate legal entities to avoid collecting tax on internet sales. The third strategy permits the state to use a revised definition of "engaged in business in this state" if future court decisions expand the definition of nexus so that internet sellers must collect sales tax in their customers' jurisdictions.

ABX1 28 is expected to increase

statewide tax collections by \$317 million annually, with local governments splitting about \$39 million or roughly \$1.00 per capita. Revenues from these out of state sales would be distributed primarily though the countywide use tax allocation pools.

Staying Alive (shrinking retailers)

Agencies in smaller market areas may have fresh opportunities for new retail with big box stores now planning on smaller facilities. Reducing floor area is seen as another method of cost containment as consumer thriftiness keeps pressure on corporate profit margins. JC Penney, Petsmart, TJ Maxx and Staples have announced plans to build stores up to 40% smaller than their existing locations while Best Buy is planning to sublease part of the space in their existing stores and retail giant Wal-Mart is experimenting with stores as small as 14,000 square feet to recapture lost market share from dollar stores.

MENIFEE TOP 15 BUSINESS TYPES

Business Type	Menifee		County	HdL State
	Q1 '11	Change	Change	Change
Automotive Supply Stores	16,527	15.3%	6.1%	5.8%
Contractors	31,410	-14.4%	-1.1%	2.7%
Discount Dept Stores	— CONFIDENTIAL —		1.0%	2.1%
Drug Stores	28,474	7.4%	3.5%	3.1%
Electronics/Appliance Stores	68,549	12.9%	12.2%	11.9%
Family Apparel	84,764	0.3%	2.5%	3.8%
Grocery Stores Liquor	48,802	-12.3%	-21.7%	-12.6%
Home Furnishings	40,021	na	1.4%	5.1%
Lumber/Building Materials	— CONFIDENTIAL —		6.0%	2.6%
Repair Shop/Hand Tool Rentals	21,431	284.1%	0.6%	8.7%
Restaurants Liquor	30,754	28.8%	10.2%	8.3%
Restaurants No Alcohol	88,485	3.1%	14.4%	8.6%
Service Stations	231,437	29.3%	25.6%	19.8%
Specialty Stores	19,536	13.5%	23.9%	3.1%
Trailers/RVs	15,228	-26.1%	7.1%	8.9%
Total All Accounts	\$974,820	14.0%	9.6%	7.5%
County & State Pool Allocation	100,462	11.8%		
Gross Receipts	\$1,075,282	13.8%		