

Q1 2011



Nevada City Sales Tax Update

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

Nevada City In Brief

Receipts for Nevada City's first quarter sales dipped 3.0% compared to the same period one year ago. Actual sales increased 6.4% after accounting aberrations were excluded.

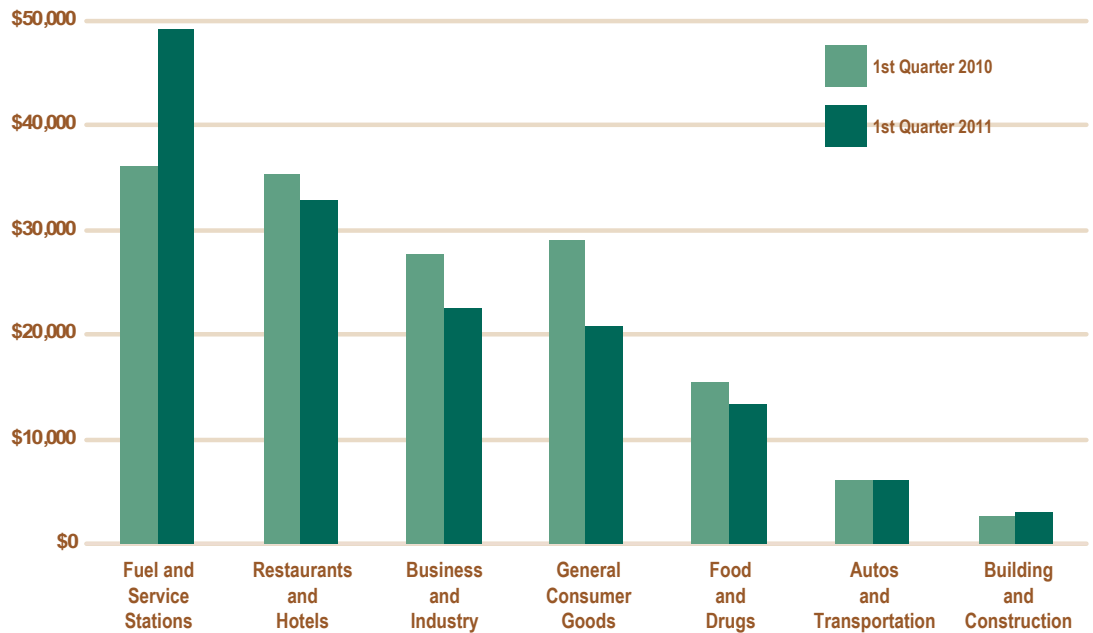
Double-up payments that inflated last year's allocations depressed comparisons for restaurants with no alcohol, electrical equipment, second hand stores and the food & drugs group. Sales declined from some categories of general consumer goods; business close-outs pared returns from restaurants-beer/wine.

Accounting deviations understated the impact of higher fuel prices on service station receipts, but overstated fuel & service station group totals. Payment anomalies, not higher sales, were responsible for apparent gains from restaurants-liquor, contractor supplies and specialty stores.

The city's voter-approved Street Improvements transactions tax generated an additional \$115,040 including \$8,442 due from other periods.

Adjusted for reporting anomalies, sales and use tax receipts for all of Nevada County increased 5.3% over the same time period; the Far North region, as a whole, was up 1.1%

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

Automata	Nevada City Gas
Bonanza Market	New Moon Cafe
Cirinos	Northridge of Nevada City
Earth Song Market & Cafe	Port of Subs Express Market
Express Mart	Riebes Auto Parts
Friar Tucks Restaurant	Robinson Enterprises
Fur Traders	Sierra Metal Fabricators
Grass Valley USA	Sopaworn Savedra
Heausers Plaza Tire	SPD Market
Hospice Gift & Thrift	SPD Saw Shop
Ikes Quarter Cafe	Superior Propane
JH Petroleum	Trolley Junction Cafe
Leftys Grill	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2009-10	2010-11
Point-of-Sale	\$643,297	\$688,319
County Pool	111,298	121,496
State Pool	597	338
Gross Receipts	\$755,192	\$810,153
Less Triple Flip*	\$(188,798)	\$(202,538)
Gross Trans. Tax	\$509,811	\$527,764

*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.

NEVADA CITY TOP 15 BUSINESS TYPES

Business Type	Nevada City		County	HdL State
	Q1 '11	Change	Change	Change
Auto Repair Shops	3,968	-9.0%	20.2%	4.8%
Automotive Supply Stores	— CONFIDENTIAL —	—	2.7%	5.9%
Contractors	1,600	2.6%	50.5%	2.3%
Electrical Equipment	— CONFIDENTIAL —	—	-14.3%	10.1%
Fuel/Ice Dealers	— CONFIDENTIAL —	—	19.2%	17.9%
Grocery Stores Liquor	13,124	-1.7%	-0.7%	-12.5%
Jewelry Stores	1,835	0.8%	-0.7%	10.5%
Petroleum Prod/Equipment	— CONFIDENTIAL —	—	50.2%	35.9%
Restaurants Beer And Wine	19,496	-11.3%	-8.5%	-3.3%
Restaurants Liquor	9,584	7.8%	-1.9%	8.3%
Restaurants No Alcohol	3,067	-18.4%	-0.9%	8.6%
Second-Hand Stores	4,162	-55.0%	111.6%	14.9%
Service Stations	14,452	3.8%	7.5%	19.8%
Specialty Stores	4,833	5.4%	0.1%	3.1%
Women's Apparel	3,312	-15.0%	-26.7%	4.3%
Total All Accounts	\$147,900	-2.9%	3.2%	7.5%
County & State Pool Allocation	23,459	-3.4%		
Gross Receipts	\$171,359	-3.0%		