

**CITY OF SAN LEANDRO
MEMORANDUM**

DATE: November 4, 2011

TO: Finance Committee

FROM: Lianne Marshall, Interim City Manager

BY: Jim O’Leary, Interim Finance Director

SUBJECT: Discussion Regarding Quarterly Sales Tax Update

RECOMMENDATION

Staff recommends that the Finance Committee review and accept the attached report on the Quarterly Sales Tax Update.

OVERVIEW

Sales and Use Tax is the City’s largest source of General Fund revenue and represents about 30% of total General Fund revenue. Under the California Sales and Use Tax Law, the sale of tangible property is subject to either sales or use tax unless exempt or otherwise excluded. When sales tax applies, the use tax does not. Sales tax is imposed on all retailers for the privilege of selling tangible personal property in the state and is measured by the retailer’s gross receipts. The use tax is imposed on the purchaser of tangible personal property from any retailer not required to pay sales tax to the state, for storage, use, or other consumption in this state and is measured by the sales price of the property purchased. The proceeds of sales and use taxes imposed within the boundaries of San Leandro are distributed by the state to various agencies, with the City receiving the equivalent of 1% of the amount collected (Bradley-Burns), including 0.25% that is backfilled by an equal amount of property tax.

The State modified the structure of city sales tax revenues, effective July 1, 2004, when it enacted legislation from a voter-approved deficit financing bond measure. This measure included a reduction of the local Bradley-Burns sales tax share from 1% to 0.75%, routing the 0.25% to other state funding needs. The 0.25% was fully replaced with property tax revenues (sales tax back-fill) to make cities whole. This shift of revenues is commonly referred to as the “Triple Flip.”

Effective April 1, 2009, the State sales and use tax rate was increased by 1%, from 8.75% to 9.75%. This 1% tax rate increase expired on July 1, 2011. Effective April 1, 2011, the voters of San Leandro approved a quarter cent increase to the City’s transaction and use tax (Measure Z). This is a temporary tax is set to sunset in seven years, on March 31, 2018.

The City Manager's Weekly Update included information on the second quarter Sales Tax update. San Leandro's Sales Tax revenue was up over 6% from the same quarter last year.

Additional worksheets have been included to further the Committee's understanding of this critical City revenue source. The schedules from the Weekly Update are included in the packet for Committee discussion and staff response to questions.

The following schedules are included are attached to the report:

- Sales Tax Revenue Components and Payment Schedule – *Attachment 1*
- Quarterly Detail by Ranking of Accounts – *Attachment 2*

In addition, the following were included from the Weekly Update:

- Sales Tax Per Capita and Sales Tax Capture & Leakage Analysis
- Benchmark Year 2011 Q2 Compared to Benchmark Year 2010 Q2 and Economic Segments Analysis
- Alameda County, Sales Tax Per Capita
- Historic Sales Tax Per Capita by Benchmark Year

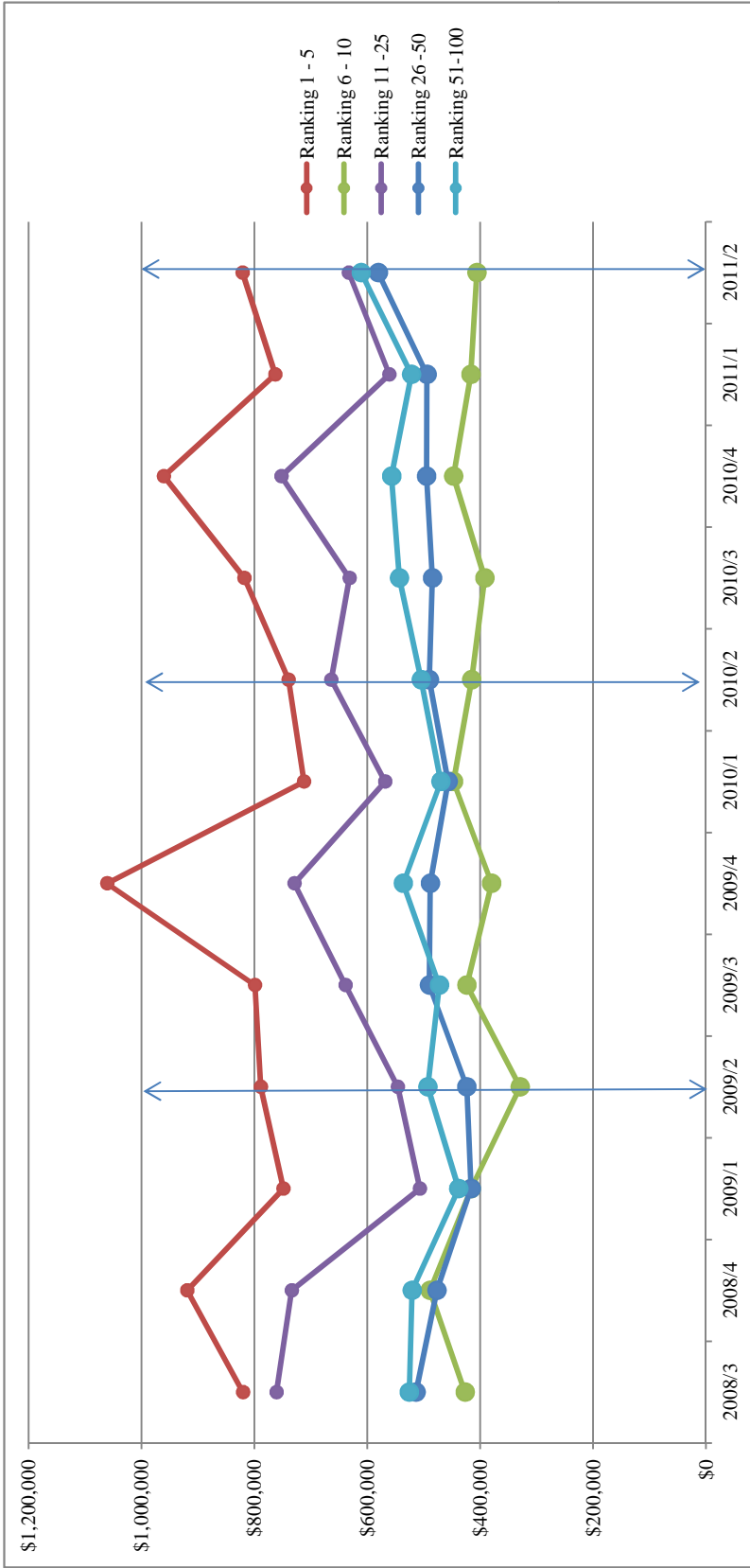
CONCLUSION

Staff recommends that the Finance Committee review and accept the attached report on the Quarterly Sales Tax Update.

Sales Tax Revenue Components and Payment Schedule

| Tax Revenue | Description | Payment Schedule | 2008-09 Actual | 2009-10 Actual | 2010-11 Actual | 2011-12 Proposed |
|--------------------------------|---|--|-----------------------|-----------------------|-----------------------|-------------------------|
| Sales and Use Taxes | Tax imposed on all retail sales/leases taking place within City. | Monthly commencing in October (for July) with adjustment (cleanup) payments in Jan/Mar/June/Sept for previous quarters | \$14,140,600 | \$14,126,700 | \$14,131,700 | \$14,370,000 |
| Sales Tax/Public Safety | Based on state-wide Proposition 172 in 1993, 0.50% tax rate increase to support Public Safety | Monthly | \$255,800 | \$231,300 | \$250,000 | \$240,000 |
| Transaction and Use Tax | Based on Measure Z in 2010, 0.25% rate increase approved by voters. | Monthly commencing in October (for July) with adjustment payments in Jan/Mar/June/Sept for previous quarters | - | - | - | \$3,800,000 |
| Sales and Use Tax Backfill | Based on state Triple-Flip beginning in 2004, 0.25% replaced with Property Tax | 50% in December and 50% in April (received with two property tax remittances) | \$4,955,200 | \$3,468,3007 | \$3,468,300 | \$4,700,000 |
| Total Sales and Use Tax | | | \$19,351,600 | \$17,826,272 | \$17,850,000 | \$23,110,000 |

City of San Leandro
 Quarterly Detail by Ranking of Accounts
 Top 100 Sales Tax Generators



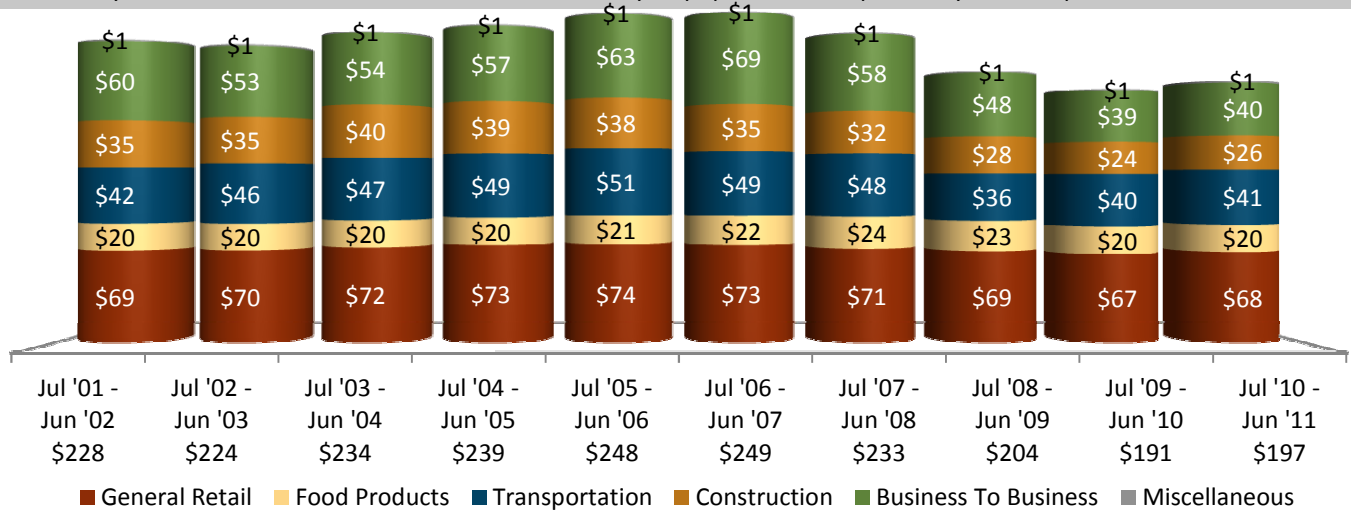
| Group | 2008/3 | 2008/4 | 2009/1 | 2009/2 | 2009/3 | 2009/4 | 2009/1 | 2009/2 | 2009/3 | 2009/4 | 2010/1 | 2010/2 | 2010/3 | 2010/4 | 2011/1 | 2011/2 |
|-----------------|---------|---------|---------|---------|---------|-----------|---------|---------|---------|---------|---------|--------|--------|--------|--------|--------|
| Ranking 1 - 5 | 820,083 | 918,929 | 748,555 | 788,543 | 798,930 | 1,060,696 | 712,117 | 817,627 | 960,392 | 762,926 | 820,868 | | | | | |
| Ranking 6 - 10 | 426,605 | 488,844 | 415,871 | 329,238 | 423,692 | 379,814 | 447,277 | 391,730 | 447,060 | 416,372 | 405,760 | | | | | |
| Ranking 11 - 25 | 760,720 | 733,755 | 506,860 | 545,957 | 638,490 | 728,993 | 568,254 | 631,343 | 752,124 | 560,975 | 632,743 | | | | | |
| Ranking 26 - 50 | 513,708 | 476,661 | 415,840 | 423,775 | 489,963 | 488,233 | 456,815 | 484,468 | 495,048 | 494,132 | 580,448 | | | | | |
| Ranking 51-100 | 525,636 | 520,576 | 438,127 | 492,779 | 472,124 | 536,267 | 469,697 | 543,067 | 556,762 | 521,625 | 610,786 | | | | | |

City of San Leandro

Sales Period: July 2010 - June 2011

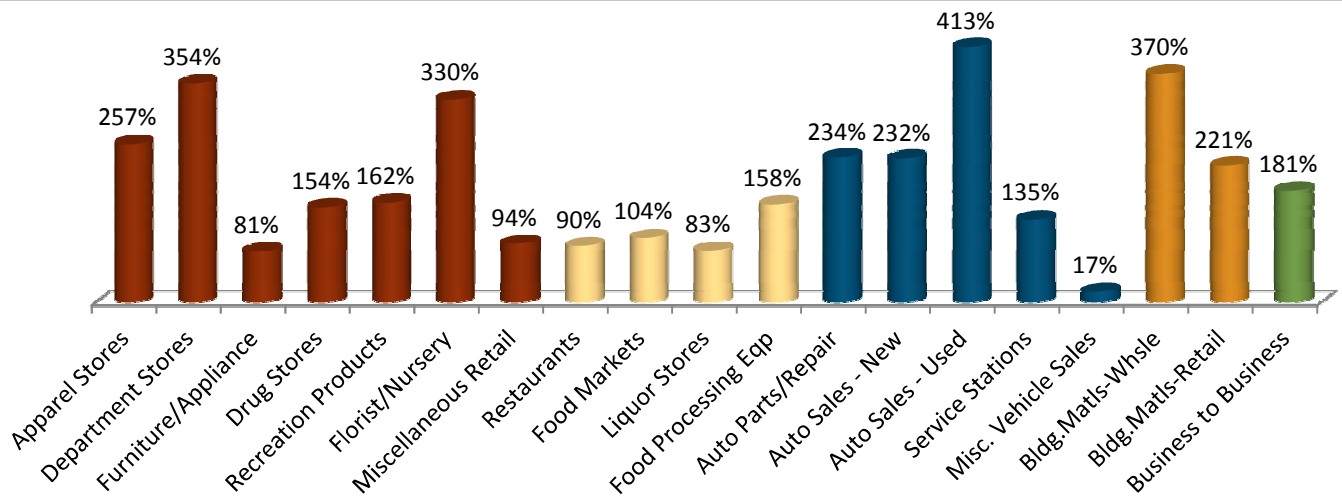
Sales Tax Per Capita

City of San Leandro's annualized sales tax divided by its population as reported by State Department of Finance

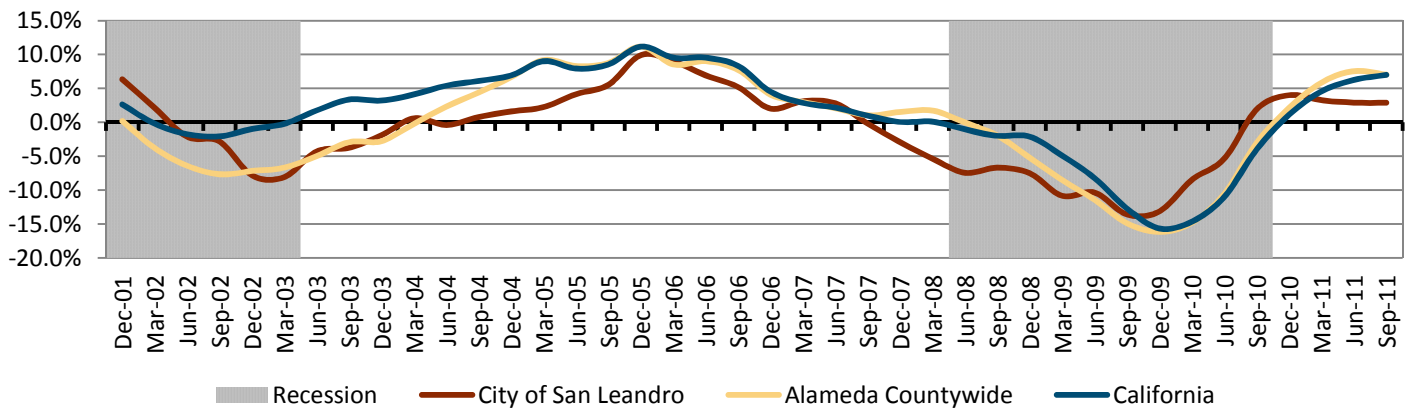


Sales Tax Capture & Leakage Analysis

100% = Equilibrium; Over 100% = Capture; Under 100% = Leakage



Annualized Change in Sales Tax Cash Receipts



CITY OF SAN LEANDRO

BENCHMARK YEAR 2011Q2 COMPARED TO BENCHMARK YEAR 2010Q2

| ECONOMIC CATEGORY ANALYSIS | | | | | | | | | |
|---|---------------------|----------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--------------------|--------------------|
| | City Of San Leandro | California Statewide | S.F. Bay Area | Sacramento Valley | Central Valley | South Coast | Inland Empire | North Coast | Central Coast |
| General Retail <i>% of Total / % Change</i> | 34.7 / 3.1 | 30.1 / 1.3 | 29.5 / 2.8 | 30.9 / 2.7 | 32.5 / 3.7 | 30.1 / 0.8 | 28.6 / -3.4 | 29.7 / 0.5 | 32.6 / -1.0 |
| Food Products <i>% of Total / % Change</i> | 10.3 / 0.6 | 19.1 / 1.0 | 19.9 / 3.2 | 17.3 / 2.5 | 16.9 / 1.4 | 19.5 / 0.7 | 16.9 / -5.8 | 19.1 / 1.2 | 30.3 / 1.4 |
| Construction <i>% of Total / % Change</i> | 13.1 / 8.8 | 8.5 / 0.2 | 8.3 / 1.5 | 10.2 / 0.8 | 10.4 / 3.0 | 7.9 / 0.1 | 9.8 / -5.7 | 11.9 / -4.7 | 8.8 / -2.1 |
| Transportation <i>% of Total / % Change</i> | 21.0 / 3.9 | 23.4 / 9.1 | 20.4 / 9.8 | 26.0 / 10.2 | 25.0 / 14.4 | 23.7 / 8.2 | 27.2 / 6.1 | 29.0 / 13.4 | 21.0 / 14.6 |
| Business to Business <i>% of Total / % Change</i> | 20.2 / 4.0 | 17.6 / 5.3 | 20.8 / 7.5 | 14.0 / 0.2 | 13.8 / 12.0 | 17.6 / 4.8 | 15.6 / -1.6 | 9.3 / 8.9 | 5.8 / -7.2 |
| Miscellaneous <i>% of Total / % Change</i> | 0.7 / 53.3 | 1.3 / -2.3 | 1.2 / -4.0 | 1.6 / 0.3 | 1.4 / 28.5 | 1.2 / -3.1 | 2.0 / -7.9 | 1.0 / -60.2 | 1.5 / -2.4 |
| Total | 100.0 / 4.1 | 100.0 / 3.5 | 100.0 / 5.0 | 100.0 / 3.9 | 100.0 / 7.1 | 100.0 / 3.0 | 100.0 / -1.5 | 100.0 / 2.6 | 100.0 / 2.1 |

General Retail: Apparel Stores, Department Stores, Furniture/Appliances, Drug Stores, Recreation Products, Florist/Nursery, and Misc. Retail

Food Products: Restaurants, Food Markets, Liquor Stores, and Food Processing Equipment

Construction: Building Materials Retail and Building Materials Wholesale

Transportation: Auto Parts/Repair, Auto Sales - New, Auto Sales - Used, Service Stations, and Misc. Vehicle Sales

Business to Business: Office Equip., Electronic Equip., Business Services, Energy Sales, Chemical Products, Heavy Industry, Light Industry, and Leasing

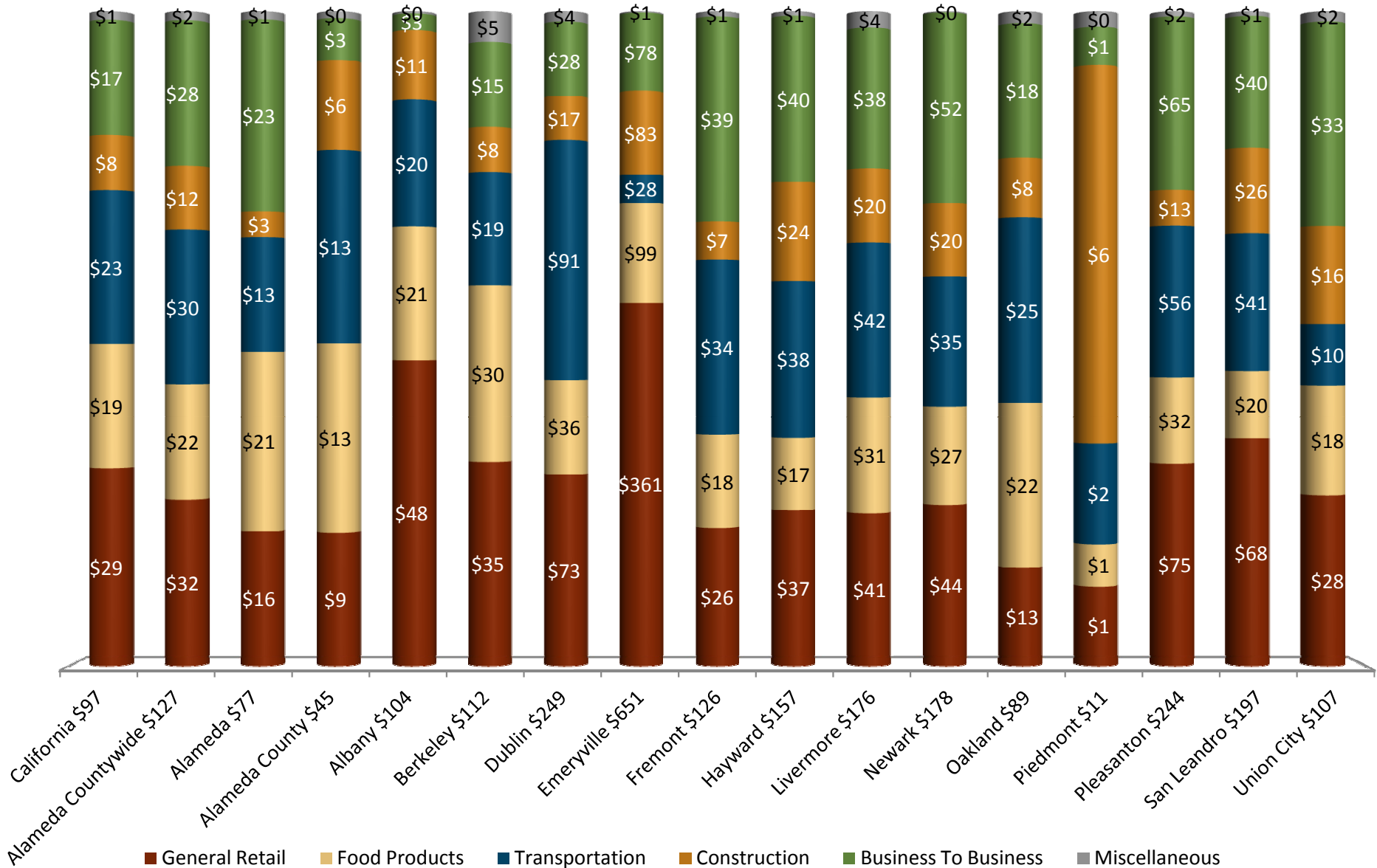
Miscellaneous: Health & Government, Miscellaneous Other, and Closed Account Adjustments

| ECONOMIC SEGMENTS ANALYSIS | | | | | | | | | |
|--|---------------------------------|---------------------------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|----------------------------------|----------------------------------|--------------------------------|
| | City Of San Leandro | California Statewide | S.F. Bay Area | Sacramento Valley | Central Valley | South Coast | Inland Empire | North Coast | Central Coast |
| Largest Segment <i>% of Total / % Change</i> | Department Stores 18.6 / 1.0 | Restaurants 13.0 / 1.8 | Restaurants 13.5 / 4.2 | Department Stores 13.1 / 3.4 | Department Stores 15.4 / 3.9 | Restaurants 13.9 / 1.5 | Department Stores 11.6 / -7.1 | Department Stores 12.8 / 1.4 | Restaurants 19.8 / 1.1 |
| 2nd Largest Segment <i>% of Total / % Change</i> | Auto Sales - New 9.9 / 15.9 | Department Stores 11.1 / 0.9 | Department Stores 9.7 / 1.8 | Restaurants 10.7 / 1.7 | Service Stations 11.9 / 21.0 | Department Stores 10.7 / 0.8 | Service Stations 12.4 / 9.6 | Services Stations 14.0 / 22.3 | Misc. Retail 10.1 / -5.3 |
| 3rd Largest Segment <i>% of Total / % Change</i> | Bldg.Matls-Whsle 7.8 / 16.1 | Service Stations 10.3 / 14.9 | Service Stations 8.9 / 15.9 | Service Stations 10.5 / 15.6 | Restaurants 9.9 / 1.3 | Service Stations 10.3 / 14.1 | Restaurants 10.7 / -5.1 | Restaurants 9.8 / 1.2 | Service Stations 9.7 / 19.4 |

ALAMEDA COUNTY

Sales Tax Per Capita

July 2010 - June 2011 Sales Period (Benchmark Year 2011Q2)



SAN LEANDRO

Historical Sales Tax Per Capita by Benchmark Year

