CITY OF PALO ALTO
OFFICE OF THE CITY AUDITOR

The Honorable City Council
Palo Alto, California

February 3, 2003

PALO ALTO SALES TAX RECEIPTS FOR THIRD QUARTER 2002 SALES

Attached is an informational report showing Palo Alto sales tax receipts for July through September 2002 sales. This report is generated quarterly by HdL Companies as part of their contract for sales tax auditing and information services.

Please note that the State Board of Equalization (SBOE) made a $543,000 accounting adjustment that dramatically affected our receipts for the quarter. We are investigating the adjustment and plan to appeal. We believe we have a good chance of overturning the SBOE's action.

Regardless of the outcome of our appeal, the adjustment was a one-time event. It affected total sales tax receipts, totals for the San Antonio Industrial Area, and totals for the "business and industry" category.

Including the one-time adjustment, Palo Alto's sales tax receipts were 17.3 percent lower than the same quarter of the prior year. Without that adjustment, **Palo Alto's sales taxes were 5.9 percent lower than the same quarter of 2001**. In comparison, Santa Clara County declined 9.7 percent over the same time period. Statewide sales taxes increased 3.1 percent.

Respectfully submitted,

Sharon W. Erickson

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City Auditor

Attachments

PALO ALTO SALES TAX

City of PALO ALTO

Fourth Quarter Receipts for Third Quarter Sales (July - Sept. 2002)

Publication Date: January 2003 The HdL Companies (www.hdlcompanies.com)

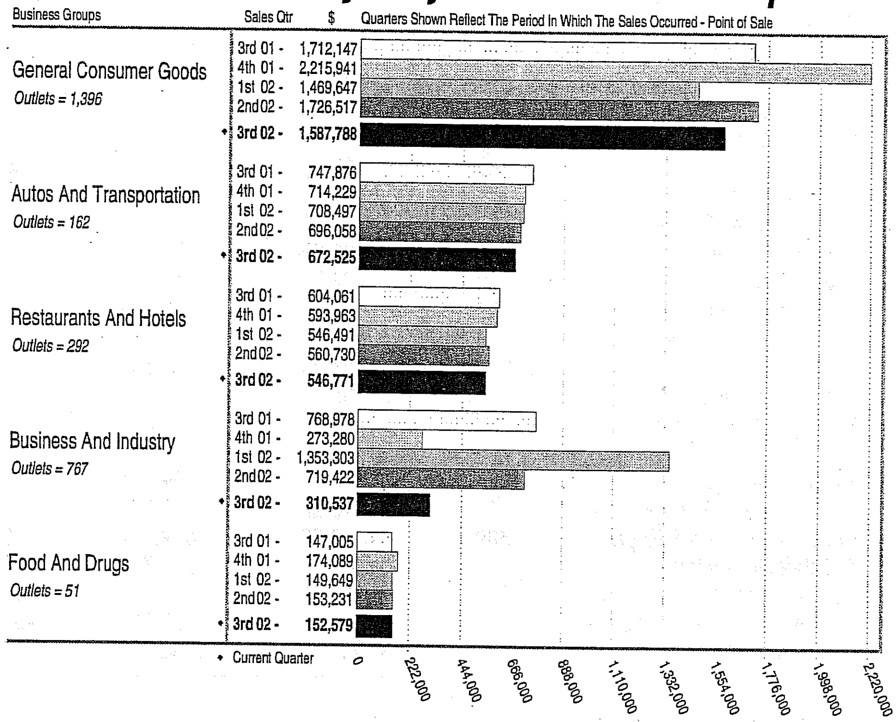
In Brief

Receipts from the city's July through September sales were 17.3% lower than the same quarter of the prior year.

A state accounting adjustment and a drop in the countywide use tax allocation pool contributed to a portion of the decrease. Declines in new car sales, several categories of general consumer goods, and business-to-business sales were additional factors. Onetime payments helped boost light industrial equipment while recent additions expanded revenues from women's apparel, specialty retail, full service restaurants and office equipment. Comparisons of service stations and shoe stores were skewed by reporting aberrations.

Santa Clara County declined 9.7% over the comparable time period, while the nine-county Bay region as a whole, was down 3.1%.

Sales Tax By Major Business Group



SALES TAX NOTES

Statewide Sales Up

Fourth quarter receipts for statewide sales occurring July through September increased 3.1% over last year's comparable quarter. Revenue changes continued to be regional in character with growing population areas in the Inland Empire, San Joaquin Valley and Sacramento Foothills exhibiting significant gains while the Silicon Valley declined.

Californians' passion for new cars again accounted for the bulk of statewide sales tax growth. "Business-to-business" receipts were down in all areas except those related to agriculture. Lower fuel prices produced a slight drop in petroleum related receipts after adjusting for a statewide allocation error. Allocations from other retail groups varied by region.

Anecdotal data from various tracking services suggests that statewide receipts from the all important Christmas quarter will reflect similarly modest growth patterns. Auto sales are expected to remain relatively strong while general consumer sales will show only incremental gains. "Business-to-business" sales are expected to be flat or exhibit further but more moderate declines.

Tax Simplification Progresses

In November, delegates from 31 states approved a model interstate agreement to create greater uniformity in imposing sales tax. The four year project involved 39 states as well as national chain stores and retail associations from across the country. It establishes uniform definitions for various categories of taxable goods, provides for centralized registration and procedures, and simplifies taxpayer reporting.

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Top 25 Producers

Listed Alphabetically

Anderson Honda
Apple Computer
Bloomingdales
Carlsen Audi Porsche VW
Carlsen Volvo
Crate & Barrel
Dow Jones & Company
Frys Electronics
Gap
Hewlett Packard
Hold Everything
Integrated Archive Systems
Keeble & Shuchat Photography
Longs Drugs
Lutz Ford
Macys
Magnussen's Toyota
Mitsubishi International
Neiman Marcus
Nordstrom
Palo Alto Shell
Tiffany & Company
Valero Sevice
Varian
Varian Medical Systems

Top 20 Business Categories

Business Type	Outlets	3rd Qtr '02	3rd Qtr '01	Percent Change	Percent of Total City	Percent of Total County	Percent of Total State
Department Stores	5	537,255	599,458	-10.4%	15.4%	3.7%	3.6%
New Motor Vehicle Dealers	9	535,868	591,485	-9.4%	15.4%	11.8%	14.0%
Light Industrial/Printers	128	227,083	108,301	109.7%	6.5%	4.0%	4.1%
Radio/Appliance Stores	8	219,014	241,326	-9.2%	6.3%	1.8%	1.4%
Restaurants Beer And Wine	95	204,594	209,031	-2.1%	5.9%	3.1%	2.4%
Restaurants Liquor	38	188,490	177,152	6.4%	5.4%	2.4%	2.8%
Home Furnishings	140	142,549	163,855	-13.0%	4.1%	2.2%	2.3%
Service Stations	15	133,762	91,112	46.8%	3.8%	5.8%	7.6%
Specialty Stores	328	121,002	103,815	16.6%	3.5%	2.6%	3.0%
Business Services	242	118,831	165,779	-28.3%	3.4%	2.8%	1.4%
Fast Food	145	113,081	174,106	-35.1%	3.2%	3.1%	4.4%
Family Apparel	43	111,026	119,847	-7.4%	3.2%	1.7%	1.8%
Office Supplies/Furniture	67	96,392	145,240	-33.6%	2.8%	4.5%	2.5%
Women's Apparel	36	83,594	78,691	6.2%	2.4%	0.9%	0.9%
Jewelry Stores	42	72,748	116,919	-37.8%	2.1%	0.6%	0.4%
Office Equipment	38	64,745	1,983	na	1.9%	3.4%	0.8%
Sporting Goods/Bike Stores	30	61,873	57,758	7.1%	1.8%	0.9%	0.8%
Photographic Equipment	7	56,587	58,565	-3.4%	1.6%	0.4%	0.3%
Grocery Stores Liquor	9	55,916	47,326	18.2%	1.6%	2.3%	2.9%
Stationery/Book Stores	57	51,367	56,227	-8.6%	1.5%	0.9%	0.9%
Retail Stores	1,322	3,106,367	3,359,661	-7.5%	89.2%	67.8%	75.9%
Non-Store/Part Time Retailers	472	16,207	17,387	-6.8%	0.5%	0.5%	0.6%
Business, Service & Repairs	589	309,829	459,710	-32.6%	8.9%	9.7%	7.7%
All Other Outlets (Industrial)	345	49,853	302,780	-83.5%	1.4%	22.0%	15.8%
Total All Accounts	2,728	3,482,256	4,139,539	-15.9%			
County & State Pool Allocation		455,537	622,999	-26.9%			
Gross Receipts		3,937,793	4,762,537	-17.3%			

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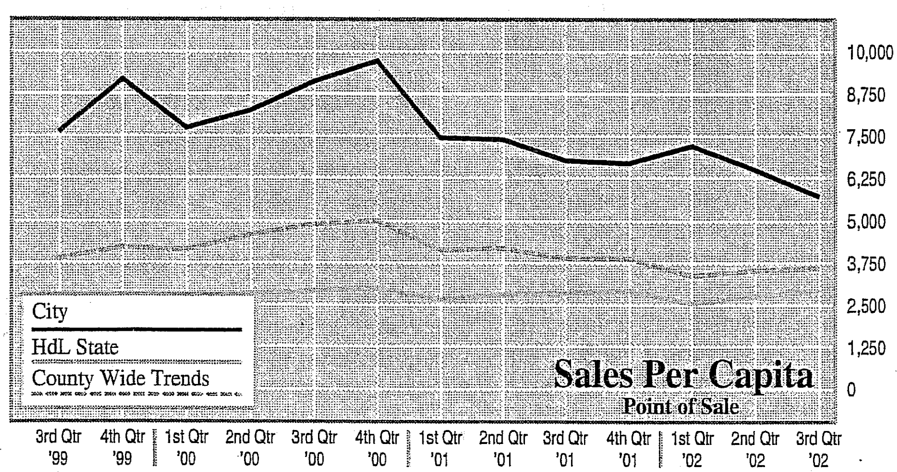
The agreement now goes to each state for integration of the model into local legislation. It will begin operation when ten or more states representing at least 20% of the population of the 45 states that levy sales tax complete their legislative approvals. Once operational, proponents will ask Congress for legislation that would allow participating states to tax remote internet and catalog sales.

Federal case law currently allows such taxation only if the business has a physical presence in the state where the merchandise is shipped. In 2001, California lost $1.7 billion in state and local sales tax revenues to out-of-state purchases according to an analysis funded by the Institute for State Studies. That study does not factor in state recovery of the "use tax" that consumers are technically expected to self-report for such purchases. Even so, the net loss is thought to be substantial. Current internet tracking surveys indicate that internet sales are up even more in 2002, with gains of 23% over Christmas 2001.

To date, California has not opted to participate in the tax simplification effort and has remained philosophically opposed to taxation of internet transactions. For more information, go to www.streamlinedsalestax.org and www.statestudies.org.

Fiscal Year To Date Revenue Comparison

	2001-02	2002-03
Point-of-Sale	8,701,310	7,474,356
County Pool	1,313,630	1,076,119
State Pool	9,539	19,648
Gross Receipts	10,024,478	8,570,124



THE CITY OF PALO ALTO

Sales Tax Revenues by Geographic Area

	Geographic Area	Count	3rd quarter 2002	3rd quarter 2001	% Change
1	Stanford Shopping Center	147	847,965	875,621	-3.2%
2	Downtown Palo Alto	411	628,309	603,832	4.1%
5	Stanford Research Park	123	442,366	371,807	19.0%
13	Embarcadero Road	45	320,306	361,927	-11.5%
8	El Camino Real	164	307,879	314,347	-2.1%
10	Park Boulevard / Lambert Ave	40	265,855	292,338	-9.1%
3	California Avenue	202	245,881	216,740	13.4%
12	S O F A	65	80,470	71,083	13.2%
9	Town & Country	57	63,477	63,483	0.0%
7	Midtown	36	35,155	38,510	-8.7%
4	Stanford Professional Center	32	11,748	112,515	-89.6%
6	San Antonio Industrial Area	188	(142,253)	378,690	-137.6%
	Totals for Listed Geo Areas	**1,510**	**3,107,154**	**3,700,893**	**-16.0%**
	Totals for All Outlets	***2,702***	***3,482,256***	***4,139,539***	***-15.9%***
	County & State Pool Allocation		*455,537*	*622,999*	*-26.9%*
	Gross Receipts		*3,937,793*	*4,762,537*	*-17.3%*

REGIONAL GROWTH COMPARISON
(POINT OF SALE AND POOLS)

	Third Quarter 2002	Third Quarter 2001	Dollar Difference	Percent Difference
SACRAMENTO REGION				
El Dorado	4,040,146	3,904,564	135,583	3.47%
Placer	15,075,155	13,752,769	1,322,385	9.62%
Sacramento	46,207,816	45,805,489	402,327	0.88%
Sutter	2,857,393	2,546,381	311,012	12.21%
Yolo	6,576,982	5,657,071	919,911	16.26%
Yuba	1,132,666	1,015,550	117,115	11.53%
Total	75,890,157	72,681,824	3,208,333	4.41%
SAN JOAQUIN VALLEY				
Fresno	24,257,897	21,814,575	2,443,322	11.20%
Kern	20,564,777	21,006,696	(441,919)	-2.10%
Kings	2,781,293	2,409,030	372,262	15.45%
Madera	2,595,574	2,280,606	314,968	13.81%
Merced	5,063,346	4,845,551	217,795	4.49%
San Joaquin	20,414,295	18,314,890	2,099,405	11.46%
Stanislaus	15,891,454	14,636,803	1,254,651	8.57%
Tulare	9,181,737	8,272,441	909,296	10.99%
Total	100,750,373	93,580,593	7,169,780	7.66%
SIERRAS				
Alpine	74,150	54,388	19,762	36.33%
Amador	1,071,172	953,085	118,087	12.39%
Calveras	750,891	694,223	56,667	8.16%
Inyo	776,622	687,890	88,732	12.90%
Mariposa	438,984	434,988	3,996	0.92%
Mono	658,429	569,217	89,212	15.67%
Tuolumne	1,562,142	1,417,043	145,099	10.24%
Total	1,874,035	1,692,095	181,940	10.75%
SOUTHERN CALIFORNIA				
Imperial	3,695,953	3,355,428	340,525	10.15%
Los Angeles	286,622,504	273,180,518	13,441,986	4.92%
Orange	118,152,705	115,371,755	2,780,949	2.41%
Riverside	49,698,090	45,106,942	4,591,148	10.18%
San Bernardino	55,002,986	50,715,055	4,287,931	8.45%
San Diego	102,197,430	98,597,121	3,600,309	3.65%
Ventura	25,708,801	24,664,721	1,044,080	4.23%
Total	641,078,469	610,991,540	30,086,929	4.92%
STATE TOTAL	1,163,388,874	1,128,700,565	34,688,308	3.07%

REGIONAL GROWTH COMPARISON
(POINT OF SALE AND POOLS)

	Third Quarter 2002	Third Quarter 2001	Dollar Difference	Percent Difference
BAY AREA				
Alameda	57,356,280	59,262,318	(1,906,038)	-3.22%
Contra Costa	31,387,806	31,044,498	343,308	1.11%
Marin	10,019,033	10,066,264	(47,231)	-0.47%
Napa	5,523,713	5,373,686	150,027	2.79%
San Francisco	29,795,258	29,083,031	712,227	2.45%
San Mateo	30,342,542	32,145,547	(1,803,005)	-5.61%
Santa Clara	70,497,565	78,040,683	(7,543,119)	-9.67%
Solano	13,471,096	12,333,956	1,137,140	9.22%
Sonoma	18,118,488	17,711,976	406,512	2.30%
Total	266,511,782	275,061,960	(8,550,178)	-3.11%
CENTRAL COAST				
Monterey	13,328,438	14,016,711	(688,273)	-4.91%
San Benito	1,456,224	1,350,184	106,040	7.85%
San Luis Obispo	8,449,665	8,286,426	163,239	1.97%
Santa Barbara	13,590,644	13,000,086	590,558	4.54%
Santa Cruz	7,686,249	7,451,386	234,863	3.15%
Total	44,511,220	44,104,794	406,426	0.92%
FAR NORTH				
Butte	5,900,778	5,678,784	221,994	3.91%
Colusa	561,933	596,201	(34,268)	-5.75%
Del Norte	529,790	523,917	5,873	1.12%
Glenn	622,447	632,974	(10,527)	-1.66%
Humboldt	3,843,864	3,450,431	393,433	11.40%
Lake	1,288,158	1,169,697	118,461	10.13%
Lassen	674,182	648,528	25,654	3.96%
Mendocino	2,986,332	2,787,887	198,445	7.12%
Modoc	317,732	197,504	120,228	60.87%
Nevada	2,812,459	2,838,401	(25,942)	-0.91%
Plumas	645,386	575,020	70,366	12.24%
Shasta	6,154,866	5,742,194	412,671	7.19%
Sierra	95,161	56,433	38,728	68.63%
Siskiyou	1,170,035	1,052,919	117,116	11.12%
Tehama	1,492,057	1,329,821	162,236	12.20%
Trinity	219,301	188,309	30,993	16.46%
Total	29,314,481	27,469,019	1,845,462	6.72%