Q2 2011

City of Chico Sales Tax *Update*

CITY OF CHICO INC. 1872

Third Quarter Receipts for Second Quarter Sales (Apr-Jun 2011)

Chico In Brief

Second quarter receipts were 4.4% above the same period one year earlier.

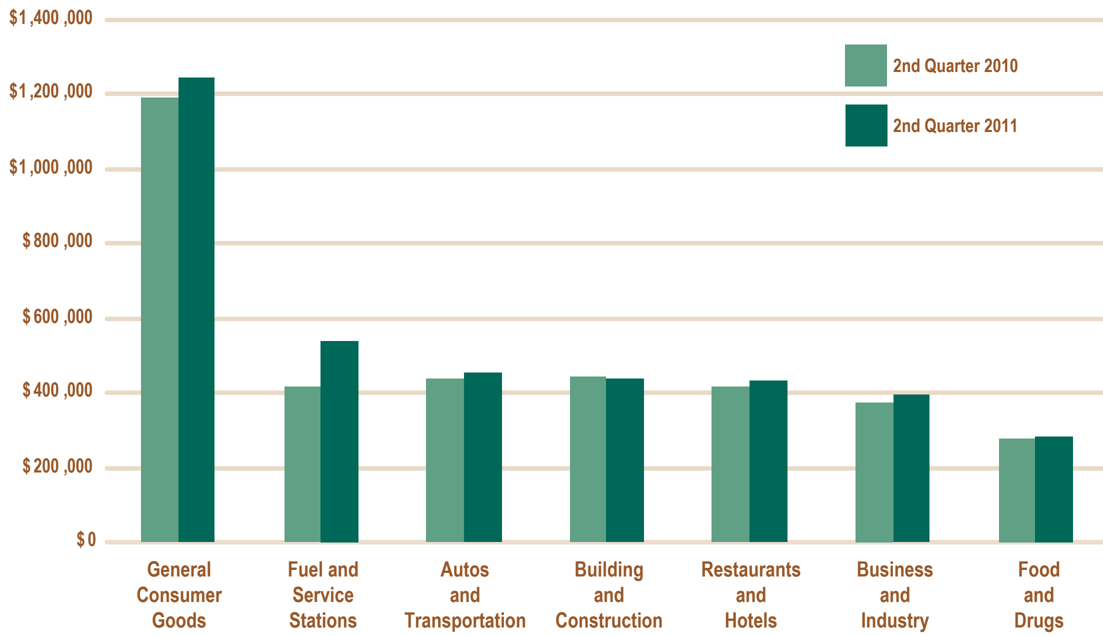
Gains were widespread with six of seven major business groupings showing increases. However, overall results were restrained by a drop in the city's allocation from the countywide use tax pool because year-ago amounts were boosted by onetime use tax receipts.

Higher prices at the pump were the single largest factor in the year-over-year increase as fuel and service station group results jumped 29%. But general consumer sales benefited from gains in family apparel and electronics/appliance store increases; new motor vehicle dealers were up; and most restaurant classifications increased. The business and industry group was up mainly on increases in the repair shop/hand tool rental category. Food and drug sales were modestly positive.

Only the building and construction group recorded a decline. An unusual use tax payment last year in the plumbing/electrical supplies category was the cause.

Net of temporary accounting adjustments, the state's far north region was up 6.5%; statewide sales grew 9.7%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- Arco AM PM Mini Mart
- Best Buy
- Chevron
- Chico Nissan Hyundai
- Chuck Patterson Toyota Scion Dodge
- Costco w/ Gas
- Courtesy Motors Auto Center
- Ed Wittmeier Ford
- Esplanade AM PM
- Faucet Direct
- Home Depot
- Hunt & Sons
- JC Penney
- K Mart
- Kohls
- Lowes
- Nella Oil
- Northgate Petroleum
- Orchard Supply Hardware
- Safeway
- Safeway Gas
- Target
- Vanella Oil
- Walmart
- Winco Foods

Revenue Comparison

Four Quarters – Fiscal Year To Date

	2009-10	2010-11
Point-of-Sale	$14,166,974	$14,802,745
County Pool	1,834,112	1,715,552
State Pool	11,014	2,397
Gross Receipts	$16,012,100	$16,520,693
Cty/Cnty Share	(800,605)	(826,035)
Net Receipts	**$15,211,495**	**$15,694,659**
Less Triple Flip*	$(3,802,874)	$(3,923,665)

**Reimbursed from county compensation fund*

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NOTES

Statewide Results

California's local sales and use tax revenues for sales occurring April through June 2011 were 9.4% higher than the same quarter of 2010 after payment aberrations were removed. This marks the sixth consecutive quarter of growth since the recovery began.

Higher fuel prices accounted for much of the statewide increase. Easing consumer credit, sales incentives and pent up demand led to gains in new auto sales while consumers also showed signs of spending more freely in specialty stores, home furnishings, apparel categories, jewelry and restaurants.

Electronics sales in the Bay Area sharply outpaced statewide results and highlighted the continued strength of tech-oriented business in that region. Stimulus funded infrastructure projects produced temporary gains in sales tax on concrete, asphalt and aggregates but are expected to wane later in the year as funding is depleted.

Increased airport traffic and auto rentals suggest that travel and leisure sales are in a recovery mode.

Fuel Prices Boosting Receipts

Second quarter fuel sales represented 38% of the total statewide sales tax increase. California consumers paid an average of $3.94 per gallon the week of September 12th, 94 cents higher than the same period of 2010, but below the all-time high of $4.59 in 2008. Crude oil prices, which account for about 85% of gasoline price variability, were $90.21 a barrel in September 2011 versus $141.06 in the summer of 2008.

Although future gas prices are expected to decline from this year's highs, increased exports of U.S. refinery output to other countries are expected to keep prices here at elevated levels.

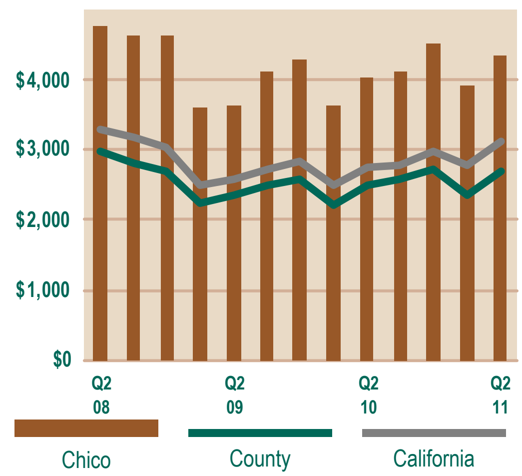
Growth in the Hourglass Economy

The good news is that the economy is in recovery, the bad news is this may be as good as it gets according to a recent International Monetary Fund report which highlights problems caused by a shift to an hourglass economy.

This type of economy is characterized by a large and expanding group at the top with high skills and high incomes offset by an expanding group at the bottom with low skills and low pay. The middle levels traditionally composed of skilled or semi-manual workers in good paying jobs continue to decline, giving the occupational income profile of the economy its distinctive shape. The 2010 Census revealed that most Americans' inflation-adjusted incomes were either stagnate or in decline with the proportion of people living in poverty now at 15.3% while 24% of the nation's wealth is concentrated in the top 1/10th of one percent.

Consumer spending has historically accounted for 70% of economic output and with the wealthiest 5% of Americans now accounting for 37% of all consumer spending, retailers are bifurcating their marketing strategies into sales of high end and low end goods while reducing offerings for the disappearing middle class. Economists say the dependency on just a small portion of the population for increased spending limits future growth potential and fosters more boom and bust cycles. This is because the wealthy splurge and speculate when their savings are doing well and quickly cut back when the value of their assets tumble. Analysts further argue that this lack of growth potential is why major corporations are sitting on record profits and not investing in more employees.

Sales Per Capita



Chico Top 15 Business Types

Business Type	Chico Q2 '11*	Chico Change	County Change	HdL State Change
Discount Dept Stores	470.6	5.5%	3.4%	6.4%
Electronics/Appliance Stores	139.5	20.9%	19.1%	3.2%
Family Apparel	140.1	7.2%	5.7%	12.6%
Grocery Stores Liquor	166.8	-0.3%	0.2%	1.5%
Home Furnishings	75.8	-6.9%	-9.2%	3.5%
Light Industrial/Printers	66.3	-1.2%	40.2%	-0.2%
Lumber/Building Materials	212.8	2.1%	-2.4%	1.3%
New Motor Vehicle Dealers	286.3	6.5%	4.4%	9.8%
Petroleum Prod/Equipment	161.7	34.5%	27.3%	43.1%
Plumbing/Electrical Supplies	89.1	-7.1%	-4.8%	4.4%
Restaurants Beer And Wine	94.6	-0.1%	-1.9%	-1.2%
Restaurants Liquor	151.1	5.4%	1.5%	8.6%
Restaurants No Alcohol	166.5	3.1%	0.0%	3.5%
Service Stations	379.0	26.8%	22.8%	31.0%
Specialty Stores	87.3	-3.0%	-5.5%	5.4%
Total All Accounts	**$3,780.0**	**6.3%**	**7.4%**	**10.1%**
County & State Pool Allocation	**443.6**	**-9.5%**		
Gross Receipts	**$4,223.7**	**4.4%**		
City/County Share	**(211.2)**	**-4.4%**		
Net Receipts	**$4,012.5**	**4.4%**		**In thousands*