

CITY OF OCEANSIDE SALES TAX NEWSLETTER

Third Quarter of Calendar Year 2009 (Second Quarter of Fiscal Year 2009-2010)

OVERVIEW

This newsletter covers the City's sales tax revenues received for sales occurring from July through September 2009. Businesses are required to remit their sales tax returns to the State Board of Equalization at the end of the month following quarter-end; and the SBOE releases the sales tax data three months later. Due to this cyclical lag, the September 30th quarter data was remitted to the City in January and is the most recent data available.

Revenues for the third quarter of 2009 decreased by 11.3 percent compared to the same quarter last year. On a statewide basis, sales tax revenues continue to trend downward for the ninth consecutive quarter. It is anticipated that this will be the last quarter of comparative double digit decreases as the recession begins to bottom out. Subsequent reductions should become increasingly moderate as future quarters are compared to previous record lows.

General Consumer Goods have decreased 3 percent. While the discount department stores are benefitting from consumers "shopping down", the City's revenue in this category has declined due to the liquidation/closure of several businesses.

Restaurants & Hotels decreased just over 1 percent, which reflects non-payment to SBOE by a few businesses. Middle level restaurants are slightly trending upwards as they change their menu options.

Building & Construction category has decreased 29 percent. Home remodels have been placed on hold by consumers, which constitute a significant portion for retailers in this industry. The difficulty of obtaining financing also contributes to the slow-down of new construction and remodel

projects. Over the past 13 quarters, this category has decreased 11.4%. The quarter to quarter volatility for contractors is noted on the attached chart "Selected Business Types – 13 Quarter History". The "Major Industry Group – 5 Year History" chart shows the peak of building and construction sales in FY 05/06. Excessive commercial vacancies also contribute to the diminished demand for building and construction services, and consequently, diminished demand for building supplies.

Fuel & Service Stations reflects a decrease of 21 percent. Fuel prices peaked in the third quarter 2008; future comparisons should settle down until there is a significant change in fuel prices and/or a business opens or closes.

Autos & Transportation decreased 10 percent. New car sales reflect a continued weakening market in California, although the high end car market is showing stability. Unfortunately once BMW moves out of the City, those stable revenues will be eliminated.

Business & Industry has decreased almost 13 percent. The business and industry sector lags approximately four quarters behind general consumer goods. curtailing Businesses are their own spending (i.e. furniture, computers, office supplies, etc.) which is reflected in this category. Some businesses are pursuing and obtaining tax refunds on financing packages, which translates into less sales tax revenue to the City.

Food & Drugs has decreased just over 3 percent. There is a noted trend that drug stores sales of non-prescription products are being reflected in the "General Consumer Goods" category.

County/State Pool this category reflects revenues the City receives from "use taxes" paid by out-of-state buyers which do not involve a specific "point of sale" in California. Per the Bradlev Burns Uniform Tax Law, a pooling system was devised to distribute any sales tax that cannot be easily tied to a permanent place of sale. category is difficult to track and monitor and is not included in the "retail base" that the City monitors. Approximately 10% to 14% of a local jurisdiction's total sales and use tax revenues have traditionally been through the pools. In Oceanside's case, it represents a 17 percent decrease this quarter.

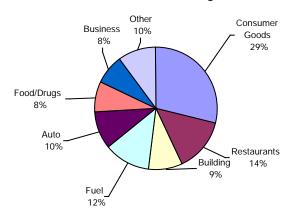
Sales Tax Receipts by Type

-Major Industry Groups	3 rd Qtr 09	3 rd Qtr 08	% Change
General Consumer Goods	\$1,154,207	\$1,186,846	-2.75%
Restaurants & Hotels	\$568,506	\$575,762	-1.26%
Building & Construction	\$375,974	\$532,558	-29.40%
Fuel & Service Stations	\$477,255	\$606,698	-21.34%
Autos & Transportation	\$401,267	\$445,371	-9.90%
Business & Industry	\$335,142	\$385,011	-12.95%
Food & Drugs	\$326,139	\$338,204	-3.57%
County/State Pool	\$405,637	\$490,460	-17.29%
Total	\$4,044,127	\$4,560,910	-11.33%

OUTLOOK

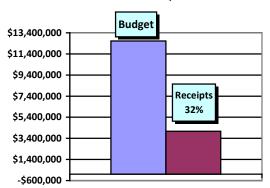
Sales tax revenues comprise approximately 16 percent of General Fund revenues. The composition of the City's sales tax base is diverse, allowing for fluctuations in the economy. This puts the City in a better fiscal standing during tight economic times than other cities that are heavily invested in a single industry such as car dealerships.

Sales Tax Revenue Categories



As of December 31, 2009, the City was under target for receiving the "Bradley-Burns" portion of sales tax revenues which come from the State Board of Equalization each month, having received \$4,071,926 or only 32% of budgeted projections. Part of this shortage is due to a delay by SBOE in remitting payments, coupled with their reduction of "advanced payments". These are merely cash flow issues, since the City will ultimately receive the funds from the State, albeit at a future time. However, updated revenue estimates additional erosion in the fuel, building and general consumer categories. While a reduction to sales tax revenues was made in October, it is anticipated that revenues for the remainder of FY 09/10 will fall short an additional \$0.9 million.

Sales Tax Budget vs. Receipts
As of December 31, 2009



The Consumer Confidence Index has improved slightly with the Conference Board publishing a 55.9 index for January 2010. (Note: a reading of 90+ would signal a stabilized consumer). Lynn Franco, Director of the Conference Board Consumer Research Center states "Consumers' short-term outlook, while moderately more positive, does not suggest any significant pickup in activity in the coming months."

Unemployment, under-employment, layoffs and furloughs throughout California will only intensify as Sacramento legislators grapple with the State's projected \$21 billion deficit. California, compared to the rest of the nation, is "over retailed" and consumers continue to save their money and scale back their spending patterns. There will not be a quick turnaround in sales taxes for cities, since the value of houses are not going to rebound at the prior pace. Economists believe it will be another few years for the economy to return to 2004 sales levels. On the positive side, San Diego County could recover faster from the rest of the state with the influx of Federal Stimulus funds.

ATTACHMENTS

- Sales Tax Update prepared by The HdL Companies which highlights key trends and sales tax issues.
- Major Industry Groups (13 quarter history) – this graph is helpful in identifying cyclical trends especially in the General Consumer Goods category.
- Sales Per Capita (13 quarter history) –
 this graph reflects the cyclical trends of
 the City compared to other cities in San
 Diego County. Coupled with a decline
 in revenue, Oceanside's population has
 increased, which reduces the per capita
 sales.

- Selected Business Type (13 quarter history) – this graph reflects the cyclical trend of contractor sales in Oceanside.
- Major Industry Groups (5 year history) this graph providing cyclical trending for the past five years. On a broader scale, it is easy to note the building and construction peak in FY 05/06 which has been declining since.

FOR MORE INFORMATION

If you require additional information about the City's retail base, or have questions about this newsletter, please contact the finance department at (760) 435-3890.





Fourth Quarter Receipts for Third Quarter Sales (Jul-Sep 2009)

Oceanside In Brief

Receipts from third quarter sales were 11.3% lower than the same period one year earlier.

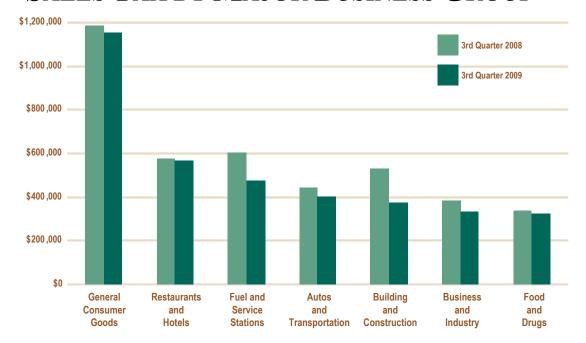
New motor vehicle dealer and contractor groups experienced another down quarter; a retroactive accounting adjustment exaggerated the contractor decrease. New auto results were similar to most other areas of the state. Results for restaurants without alcohol, restaurants with beer/wine, electronics & appliance stores and sporting goods/bike stores were also down. Service station totals reflected a retreat from record high fuel prices a year ago.

The city's allocation from the countywide use tax pool contracted 17.4% as business to business sales dropped.

Discount department stores fared well as recession conscious shoppers sought to control expenses. The family apparel and office equipment categories were also up. Restaurants with liquor benefited from new business additions.

Excluding onetime payment aberrations, all of San Diego County was down 13.1%; statewide sales fell 16.2%.

SALES TAX BY MAJOR BUSINESS GROUP



Top 25 Producers

In Alphabetical Order

7 Eleven Morally Wholesale Albertsons Moshen Oil **Best Buy** Mossy Nissan Chevron Oceanside Gas & Market **CVS Pharmacy** One Source Discount Tire Distributors Home Depot Ralphs Kia of Oceanside San Luis Rey Kohls Service Station Lowes Stater Bros McDonalds Superior Ready Mix Concrete Melrose Arco Target Mission AM PM Walmart Mobil Oil

Supercenter

REVENUE COMPARISON

Two Quarters - Fiscal Year To Date

	2008-09	2009-10	
Point-of-Sale	\$8,173,148	\$7,261,703	
County Pool	945,566	800,716	
State Pool	2,417	7,199	
Gross Receipts	\$9,121,131	\$8,069,617	
Less Triple Flip*	\$(2,280,283)	\$(2,017,404)	

*Reimbursed from county compensation fund



Slower Sales Declines

With aberrations factored out, state-wide sales tax receipts for July through September declined 16.4% from the same quarter of 2008. It is anticipated that this will be the last quarter of comparative double digit decreases as the recession begins to bottom out.

This quarter's declines were led by a 32.6% fall from last year's spike in fuel prices and another 25.2% drop in tax receipts from building and construction materials.

The 9.9% decline in new car receipts was the smallest decrease in this category in seven consecutive quarters. The "cash for clunkers" program was partially responsible for the lower contraction although the tax benefits were muted as exempt federal rebates reduced the taxable values of cars purchased under the program by an average of \$4,200.

Edmunds.com estimates that 72% of the purchases would have occurred without the rebate which, if true, means that the program accomplished its goal of accelerating the clearing of inventories to get auto workers back to work but partially borrowed from future sales.

A 10.1% drop in tax revenues from general consumer goods was attributed to falling prices and continuing weak sales in home furnishings, appliances and electronics, as well as disappointing back to school purchases which normally constitute the second largest retail season of the year.

But Slow Recovery

Prognostications are for overall smaller sales tax declines in the next two quarters with revenues flattening out by fiscal year 2010/2011. However, tight credit, high unemployment, price pressures and the end of federal stimulus funding are expected to stall significant recovery until the year after.

Triple Flip Woes

The state's attempts to borrow its way out of its budget problems continued to create havoc with local government fiscal planning with this year's 27.6% average cutback in triple flip backfill payments.

In order to get around the state's flagging bond rating, the borrowing approved by voters in 2004 to close that year's deficit pledged a portion of local sales tax revenues to guarantee the bonds. The complex scheme to backfill the confiscated local sales tax with property tax revenues is referred to as the "triple flip."

Although the deduction occurs in real time, the estimated backfill is set by the state Department of Finance before the fiscal year begins. Last year's overly optimistic revenue projections resulted in overpayments to most local agencies thereby resulting in substantially lower estimates and negative adjustments in this year's backfills to individual agencies.

The 2004 bonds are currently estimated to be paid and the triple flip ended by April of 2016.

Total All Accounts

Gross Receipts

County & State Pool Allocation

OCEANSIDE TOP 15 BUSINESS TYPES

Stimulus Update

Approximately two thirds of the estimated \$85 billion in federal stimulus flowing to California is expected to have been spent by the end of this fiscal year with the bulk filling state budget gaps in education, health and human services, as well as providing tax relief to individuals and businesses.

The \$20.5 billion portion available for public capital improvement projects is half committed with actual expenditures expected to begin later in 2010.

SALES PER CAPITA



-13.0%

-13.9%

*In thousands

	Oceanside		County	HdL State
Business Type	Q3 '09*	Change	Change	Change
Discount Dept Stores	\$497.4	3.6%	-5.4%	-4.4%
Service Stations	477.1	-21.3%	-28.5%	-28.7%
Restaurants No Alcohol	279.1	-3.9%	-12.1%	-10.1%
Lumber/Building Materials	276.2	0.8%	-9.2%	-9.7%
New Motor Vehicle Dealers	175.0	-13.5%	-6.0%	-9.8%
Restaurants Liquor	167.1	8.9%	-2.1%	-3.9%
Grocery Stores Liquor	164.3	3.6%	0.2%	-1.3%
Electronics/Appliance Stores	130.9	-3.6%	-10.1%	-13.7%
Specialty Stores	114.6	-1.3%	-3.7%	-10.1%
Office Equipment	113.1	4.7%	-7.6%	-14.8%
Restaurants Beer And Wine	107.7	-3.9%	-17.4%	-14.6%
Family Apparel	97.6	11.8%	1.3%	1.3%
Contractors	81.1	-66.2%	-37.4%	-35.5%
Sporting Goods/Bike Stores	80.2	-15.9%	-6.0%	-5.3%
Automotive Supply Stores	71.4	3.4%	-3.8%	-3.6%

\$3,638.5

\$4,044.1

405.6

-10.6%

-17.3%

-11.3%

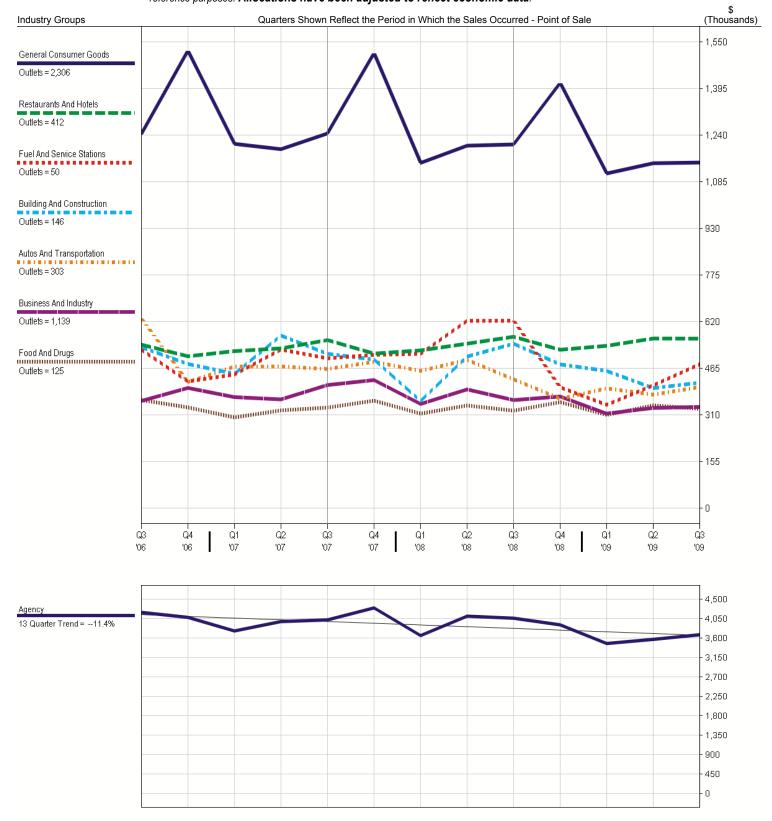


CITY OF OCEANSIDE MAJOR INDUSTRY GROUPS - 13 QUARTER HISTORY

Adjusted by moving retroactive payments with an absolute value of \$5,000 or more into the quarter the sale was generated

Chart Description:

This chart compares sales tax for the Major Industry Groups. The prior 12 quarters are shown graphically for historical reference purposes. **Allocations have been adjusted to reflect economic data**.



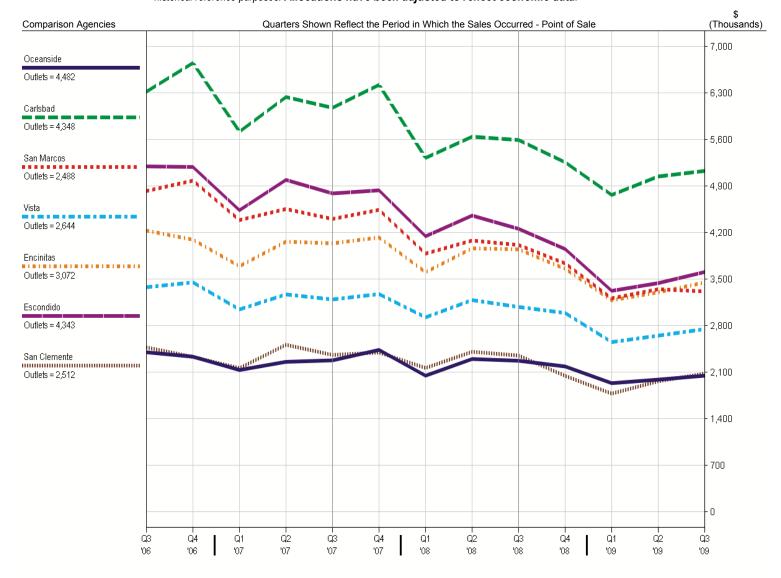


CITY OF OCEANSIDE ALL BUSINESS TYPES - 13 QUARTER HISTORY

Adjusted by moving retroactive payments with an absolute value of \$5,000 or more into the quarter the sale was generated

Chart Description:

This chart compares **per capita** sales to that of 6 other jurisdictions. The prior 12 quarters are shown graphically for historical reference purposes. **Allocations have been adjusted to reflect economic data**.



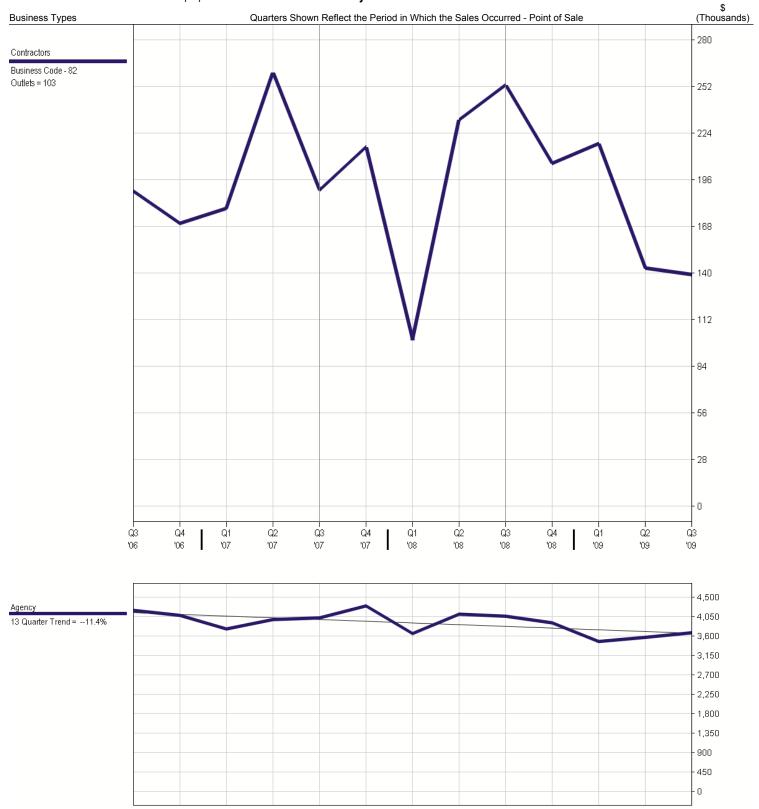


CITY OF OCEANSIDE SELECTED BUSINESS TYPES - 13 QUARTER HISTORY

Adjusted by moving retroactive payments with an absolute value of \$5,000 or more into the quarter the sale was generated

Chart Description:

This chart compares the sales tax for Selected Business Types. The prior 12 quarters are shown graphically for historical reference purposes. **Allocations have been adjusted to reflect economic data**.





CITY OF OCEANSIDE MAJOR INDUSTRY GROUPS - 5 YEAR HISTORY

Adjusted by moving retroactive payments with an absolute value of \$5,000 or more into the quarter the sale was generated

Chart Description:

This chart compares sales tax for the Major Industry Groups. The prior 4 fiscal years are shown graphically for historical reference purposes. **Allocations have been adjusted to reflect economic data**.

