

CITY OF OCEANSIDE SALES TAX NEWSLETTER

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

OVERVIEW

This newsletter covers the City's sales tax revenues received for sales occurring from April through June 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 June 30th quarter data was remitted to the City in November and is the most recent data available.

Revenues for the second quarter of 2009 decreased by 11.7 percent compared to the same quarter last year. On a statewide basis, sales tax revenues continue to trend downward for the eighth consecutive quarter. Subsequent reductions should become increasingly moderate as the economy bottoms out and future quarters are compared to previous record lows.

General Consumer Goods have decreased 5 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 increased over 7 percent, which reflects facilities that have opened within the last year. Restaurants that serve alcohol (i.e. sit down facilities) are experiencing a decline, while the non-alcohol, "fast food" sales are increasing.

Building & Construction category has decreased 22 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.

Fuel & Service Stations reflects a decrease of 37 percent. Fuel consumption has dropped due to higher unemployment, as well as some fuel efficiency in new cars. It is anticipated that future fuel revenues will show signs of leveling off as the fuel price market corrects itself.

Autos & Transportation decreased over 14 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. Along with the reduction in new car sales, consumers are also deferring vehicle maintenance and repairs. Fortunately the City is not heavily dependent upon this industry, but is still impacted financially.

Business & Industry has decreased over 11 percent. The business and industry sector lags approximately four quarters behind general consumer goods. Businesses are curtailing their own spending (i.e. furniture, computers, office supplies, etc.) which is reflected in this category.

Food & Drugs has slightly increased by 2 percent, which includes the new Smart & Final store. 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 Bradley 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. This 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 12 percent decrease this quarter.

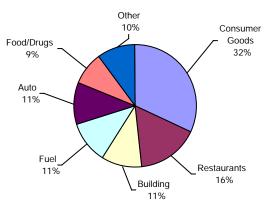
Sales Tax Receipts by Type

Caree Tax Heecipie by Type			
Major Industry Groups	2 nd Qtr 09	2 nd Qtr 08	% Change
General Consumer			
Goods	\$1,145,033	\$1,210,088	-5.38%
Restaurants & Hotels	\$578,900	\$540,062	7.19%
Building & Construction	\$398,724	\$509,930	-21.81%
Fuel & Service Stations	\$408,065	\$648,071	-37.03%
Autos & Transportation	\$406,117	\$472,360	-14.02%
Business & Industry	\$344,634	\$389,291	-11.47%
Food & Drugs	\$341,739	\$332,898	2.66%
County/State Pool	\$402,277	\$457,523	-12.08%
Total	\$4,025,489	\$4,560,222	-11.73%

<u>OUTLOOK</u>

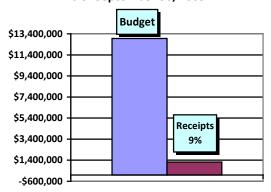
Sales tax revenues comprise approximately 16 percent of General Fund revenues. The composition of the City's sales tax base is diverse, allowing for fluctuations in the economy. This puts the City in a better fiscal standing during tight economic times than other cities that are heavily invested in a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

Sales Tax Revenue Categories



As of September 30, 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 \$1,223,314 or only 9% of budgeted projections. Typically the City would receive between 20-25% of sales tax receipts in the first quarter. 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 indicate the need to make further reductions, especially in light of dropping fuel prices. Reductions were made in October, and staff will continue to closely monitor these revenues each month.

Sales Tax Budget vs. Receipts
As of September 30, 2009



The Consumer Confidence Index still remains pessimistically low with the Conference Board publishing a 49.5 index for November 2009. (Note: a reading of 90+ would signal a stabilized consumer).

Consumers are saving their money, and any savings they may have had were used for the "Cash for Clunkers" program. Consumers have traditionally used their home equity to finance large ticket purchases, but due to the housing crisis have drastically scaled 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.

<u>ATTACHMENTS</u>

- 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.

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.





Third Quarter Receipts for Second Quarter Sales (Apr-Jun 2009)

Oceanside In Brief

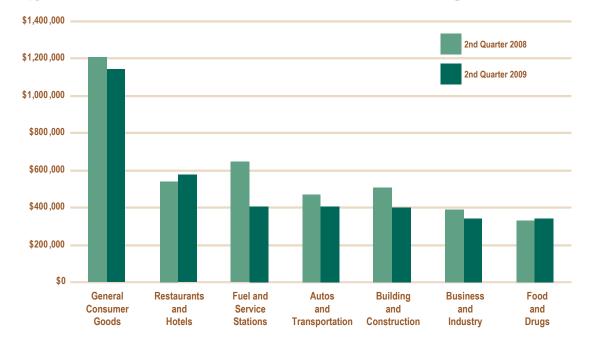
The allocation from Oceanside's April through June sales tax was 11.7% less than the same quarter one year ago.

Lower fuel prices and decreased sales from lumber/building materials, contractors, new autos, electronics/appliance stores, specialty stores, sporting goods/bike stores and restaurants with beer and wine were primarily responsible for the decrease.

The losses were offset by increased sales from discount department stores, office equipment and family apparel. Recent additions helped boost revenues from restaurants with no alcohol, restaurants with liquor and grocery stores with liquor. The comparison of used autos was temporarily inflated by a onetime accounting adjustment.

Adjusted for reporting aberrations, taxable sales for all of San Diego County decreased 18.3% over the comparable time period while Southern California as a whole was down 20.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

Mobil Oil

Morally Wholesale Albertsons **Best Buy** Mossy Nissan North County BMW Chevron Computer Geeks One Source **Discount Outlet** Distributors **CVS Pharmacy** Ralphs Discount Tire Ross Home Depot San Luis Rev Service Station Kia of Oceanside Stater Bros Kohls Superior Ready Mix Lowes Concrete McDonalds Target Melrose Arco Walmart Mission AM PM Supercenter

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

	2008-09	2009-10		
Point-of-Sale	\$4,102,699	\$3,623,212		
County Pool	458,606	398,643		
State Pool	(1,083)	3,634		
Gross Receipts	\$4,560,222	\$4,025,489		
Less Triple Flip*	\$(1,140,056)	\$(1,006,372)		
*Reimbursed from county compensation fund				

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Statewide Trends

Adjusted for accounting aberrations, the local portion of California's sales and use tax for transactions occurring April through June were 18.4% lower than last year's comparable quarter.

All categories and regions were down with receipts from fuel, automobiles, business supplies, and construction materials exhibiting the largest reductions. This is the eighth consecutive quarter of statewide declines but subsequent reductions should become increasingly moderate as the economy bottoms out and future quarters are compared to previous record lows.

The Climb Back Up

Statistically most economists agree that the national recession bottomed out somewhere around the end of July. Minor recovery is expected in the last half of the year as companies restock depleted inventories, federal stimulus programs filter through the system, and investor confidence returns.

However, restoration of California's previous sales tax levels will lag. Unemployment is projected to increase through the first quarter of 2010 and remain weak for several quarters after. Incomes are flat, household wealth has been exhausted, inflation is in decline, and the drops in property values are not over. Lenders are less risk tolerant and previously excessive borrowers have become disciplined savers.

The California Budget Project recently concluded that it took six years for the average household to fully rebound from the jobless recovery following the recession of 2001. New consumer frugality, tight credit, and moderate job growth may result in an equally slow recovery from this recession.

Prognostications for key segments:

General Consumer Goods – Sales of personal electronics remain solid but consumers are focusing on price and necessities when it comes to apparel and other merchandise. Weak back-to-school sales and limited credit

for new stock have retailers planning lean inventories for the holiday season which is projected to be flat with only modest gains through 2010.

Transportation - Cash-for-clunkers stimulated new car sales but largely borrowed from the next two quarters. Significant recovery is not expected until the 2011 models arrive. RV, boat, and motorcycle sales may languish until the return of full employment.

Business & Industry – Sales to health providers and manufacturers of food products, energy, and information technology remain stable. Investment in equipment and supplies as a whole however, generally drops in and out of a recession four to six quarters after consumer goods. Continued declines are expected through 2010.

Building & Construction - Benefits from the stimulus package will be offset by state cutbacks. Projections are for weak office and commercial construction. Modest recovery in overall spending is not expected until after next summer.

Fuel & Service Stations- Lack of competition allows refiners to manip-

Family Apparel

Used Automotive Dealers

Total All Accounts

Gross Receipts

Sporting Goods/Bike Stores

County & State Pool Allocation

OCEANSIDE TOP 15 BUSINESS TYPES

ulate costs of the state's environmentally friendly summer blend, but overall receipts are expected to stabilize after next quarter's comparison with the previous year's record price spike. Grocers & Restaurants - Intense price competition has kept receipts from grocers' taxable goods down while higher-end restaurants contin-

ue to experience reduced patronage.

Revenues are expected to remain flat

SALES PER CAPITA

for the next five to six quarters.



County

-21.9%

-6.4%

-17.2%

HdL State

-5.4%

-22.6%

-4.6%

-21.2%

*In thousands

Business Type Q2 '09* Change Change Change **Discount Dept Stores** \$482.6 1.5% -6.9% -4.7% Service Stations 408.0 -37.0% -35.9% -36.8% Restaurants No Alcohol 287.6 13.1% 4.5% 2.9% Lumber/Building Materials 232.8 -6.1% -21.1% -21.1% **Grocery Stores Liquor** 181.9 3.8% -3.6% -2.6% Restaurants Liquor 165.1 16.3% -4.8% -5.1% **New Motor Vehicle Dealers** 152.9 -22.0% -28.9% -32.7% -39.8% -28.3% Contractors 143.6 -31.1% Electronics/Appliance Stores 132.8 -5.3% -15.0% -14.2% **Specialty Stores** 113.6 -8.1% -12.6% -12.3% Office Equipment 26.6% -9.9% 21.3% 113.5 Restaurants Beer And Wine 109.6 -13.6% -11.1% -12.7% 8.1% -8.6%

97.0

79.6

76.7

\$3,623.2

\$4,025.5

402.3

6.2%

-2.6%

-11.7%

-12.1%

-11.7%

Oceanside

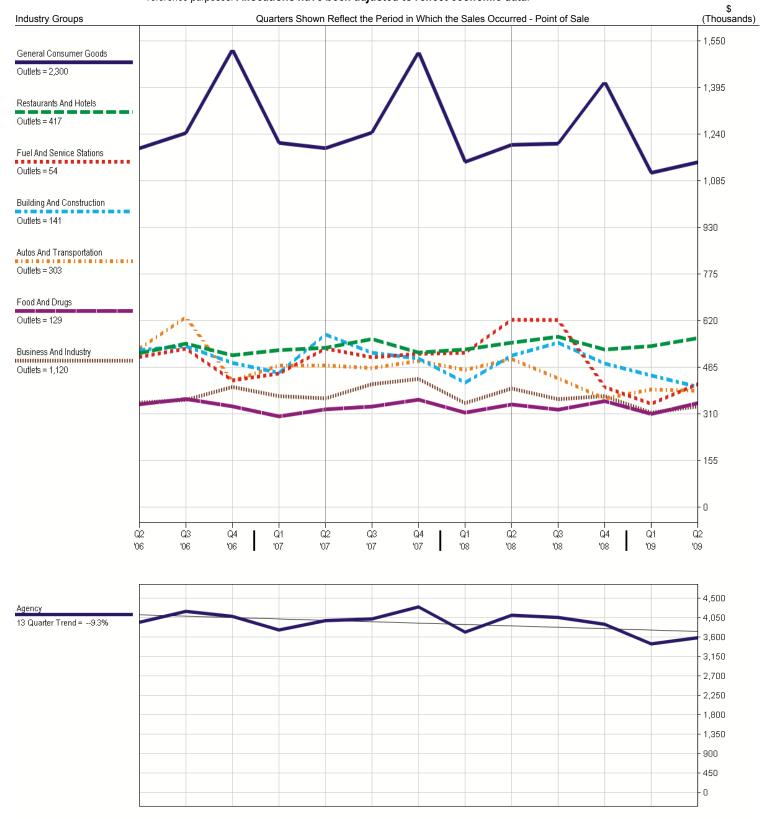


CITY OF OCEANSIDE MAJOR INDUSTRY GROUPS - 13 QUARTER HISTORY

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**.

