



CITY OF OCEANSIDE
SALES TAX NEWSLETTER
First Quarter of Calendar Year 2010
(Fourth Quarter of Fiscal Year 2009-2010)

OVERVIEW

This newsletter covers the City's sales tax revenues received for sales occurring from January through March 2010. 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 March 31st quarter data was remitted to the City in August and is the most recent data available.

Oceanside's revenues for the first quarter of 2010 decreased by four percent compared to the same quarter last year. On a statewide basis, sales tax revenues were 1.1% higher than the same quarter one year ago, marking the first year-over-year gain in statewide sales in two and one-half years.

General Consumer Goods remain flat, with family apparel up and sporting goods down.

Restaurants & Hotels has a slight decline based on multiple payment corrections coupled with the closure of Black Angus.

Building & Construction category has decreased over 21.8 percent. Multiple one-time aberrations, including shifts of payments to the City of San Diego, distort the results in this category. Many economists project a new flood of foreclosures being on put on the market in 2011-2012 that will have to be absorbed prior to new construction. 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 an increase of over 35 percent attributed to higher prices at the pump, coupled with multiple deviations as businesses "double up" on payments.

Autos & Transportation decreased almost 24 percent. Retroactive adjustments from last year overstated the loss from closed dealerships.

Business & Industry has decreased over 20 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. Some businesses are pursuing and obtaining tax refunds on financing packages, which translates into less sales tax revenue to the City. A large portion of this decrease affected one business.

Food & Drugs has decreased slightly less than five percent, with an overall decrease impacting all businesses in this category.

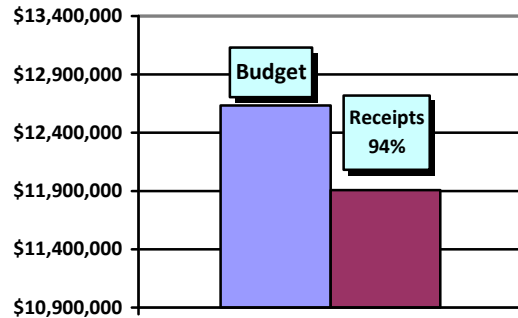
County/State Pool this category reflects revenues the City receives from "use taxes" paid by out-of-state buyers which do not involve a specific "point of sale" in California. Per the Bradley Burns Uniform Tax Law, a pooling system was devised to distribute any sales tax that cannot be easily tied to 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 four percent increase this quarter.

Sales Tax Receipts by Type

Major Industry Groups	1 st Qtr 10	1 st Qtr 09	% Change
General Consumer Goods	\$1,115,531	\$1,121,067	-0.49%
Restaurants & Hotels	\$540,706	\$548,188	-1.36%
Building & Construction	\$367,700	\$470,593	-21.86%
Fuel & Service Stations	\$472,072	\$347,589	35.81%
Autos & Transportation	\$337,326	\$443,191	-23.89%
Business & Industry	\$259,860	\$326,454	-20.40%
Food & Drugs	\$294,187	\$309,485	-4.94%
County/State Pool	\$430,898	\$411,833	4.63%
Total	\$3,818,280	\$3,978,380	-4.02%

several quarters, staff has advised that revenues for the remainder of FY 09/10 would fall short approximately \$0.9 million. As the City closes out the fiscal year, sales tax revenues actually fell short of projections by \$724,176.

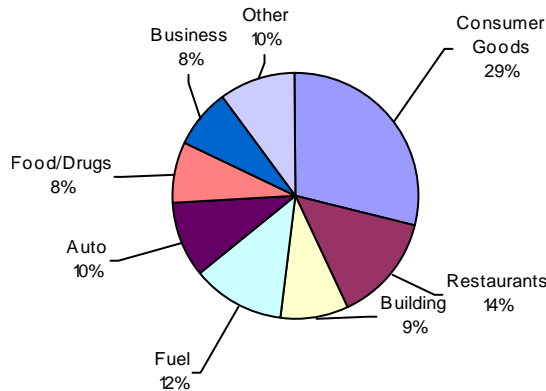
Sales Tax Budget vs. Receipts
As of June 30, 2010



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



The Consumer Confidence Index was posted at 53.7 in August. (Note: a reading of 90+ would signal a stabilized consumer). Lynn Franco, Director of the Conference Board Consumer Research Center states "...Consumers' assessment of current conditions was less favorable as employment concerns continue to weigh heavily on consumer attitudes. All in all, consumers are about as confident today as they were a year ago." [August 2009 Index posted at 54.5]

As of June 30, 2010, 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 \$11,908,674 or 94% of budgeted projections. For the past

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 retailled" 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.

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.

Q1 2010



City of Oceanside Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (Jan-Mar 2010)

Oceanside In Brief

Receipts from January – March sales were 4.0% lower than the same period last year.

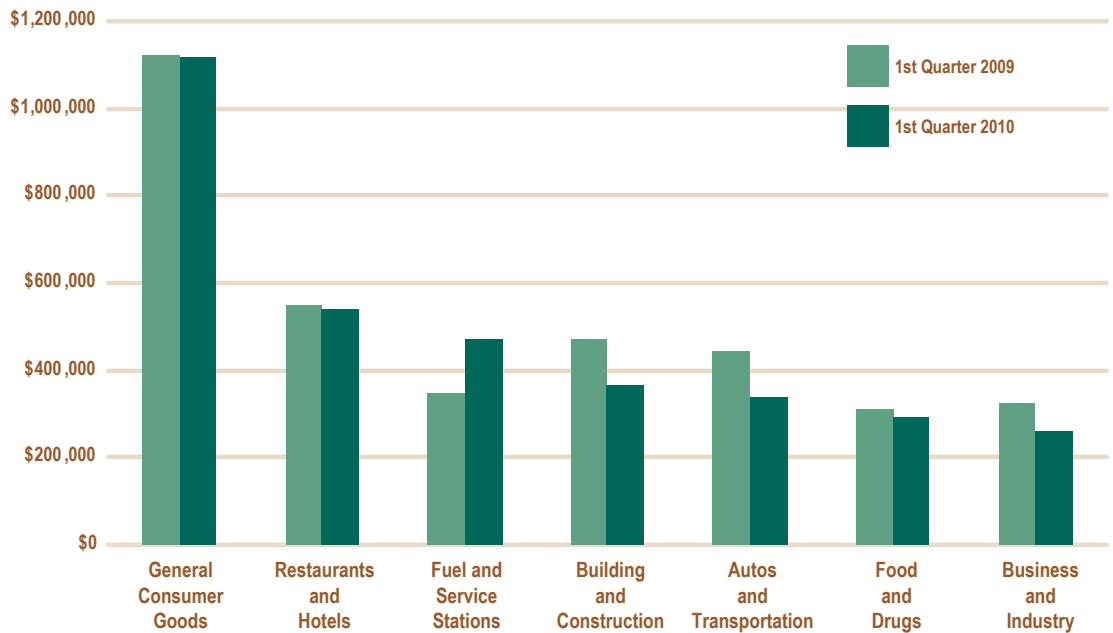
The overall drop in the Autos & Transportation group from closed dealerships was exaggerated by double payments that inflated the year-ago quarter. Multiple aberrations distorted results in the lumber/building materials and contractor classifications. Once adjusted for onetime events, both sectors declined from lower sales and a change in business operations.

Sales activity dropped for business to business operations while revenues dipped in restaurants overall.

Higher prices boosted returns in service stations.

Adjusted for reporting aberrations, taxable sales for all of San Diego County including its cities gained 1.8% over the comparable time period while Southern California as a whole was up 0.5%.

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 Distributors
Discount Tire	Plaza Drive Arco
Home Depot	Ralphs
Johnnys Shell	San Luis Rey Service Station
Kohls	Stater Bros
Lowes	Target
McDonalds	Walmart
Melrose Arco	
Mission AM PM	
Mobil Oil	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2008-09	2009-10
Point-of-Sale	\$15,623,369	\$14,466,308
County Pool	1,767,717	1,668,761
State Pool	7,762	12,784
Gross Receipts	\$17,398,847	\$16,147,853
Less Triple Flip*	\$(4,349,712)	\$(4,036,963)

*Reimbursed from county compensation fund

Statewide Results

Adjusted for accounting aberrations, California's local sales and use tax revenues from the first quarter of 2010 were 1.1% higher than the same quarter one year ago. This marks the first year-over-year gain in statewide sales in two and one-half years.

For most agencies, the increase came almost exclusively from the 33% recovery in fuel prices since first quarter 2009. An early Easter also helped boost receipts from discount department stores and value priced apparel while year-end bonuses, the prior stock market rally and manufacturer incentives produced auto sales gains in some high income communities.

Geographically, the central and northern coastal areas of California did better than the rest of the state. However, the only solid across-the-board increases occurred in a few areas surrounding the technology centers of Silicon Valley.

Projections for a Tepid Recovery Continue

Statewide, declines in local sales and use tax revenues are generally thought to have "bottomed out" and expectations are for moderate gains in local allocations over the next two quarters. Rising fuel prices, stimulus rebates for energy-related purchases, inventory rebuilding by retailers and manufacturers and a temporary slump in consumer savings to satisfy pent up demand are all expected to have a positive impact on revenues.

Aggressive manufacturer incentives are also projected to improve new car sales over the next few quarters although the taxable values of the units sold will be far less than at the peak of the credit bubble when 40% of all California new car sales were financed from home equity loans which had encouraged more expensive purchases. However the increases are anticipated to taper off in the last half of the fis-

cal year as inventory rebuilding winds down and various federal stimulus and tax incentive programs are phased out. Overall year-end gains are expected to be modest except in jurisdictions benefitting from new development or specific business/retail segments.

The current consensus is that California's fiscal problems, high unemployment and a continued slump in construction activity make significant recovery in tax revenues unlikely before 2012-2013.

Local Add-On Sales Tax Measures Approved

All six proposals for sales tax additions were approved in June as voters continued to exhibit an openness to financing services in their immediate communities where they have more input and control.

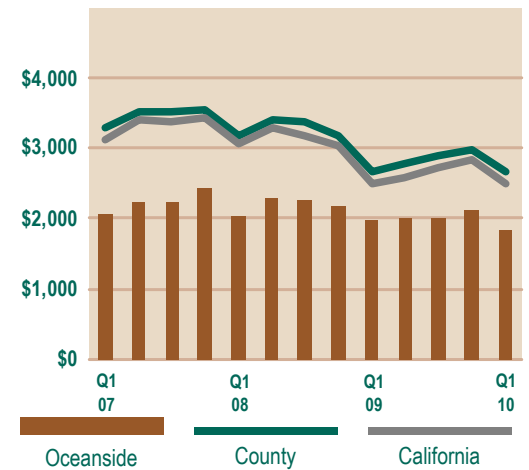
New taxes were approved in the cities of Calexico, Cathedral City, Cotati, Rohnert Park and Woodland. Davis approved continuation of an existing tax that was about to sunset.

This brings the number of agencies

with one or more "transactions tax" districts to 78 cities and 27 counties. While sales tax is collected on all purchases and allocated to where the sale is negotiated, the local "transactions tax" is collected and distributed for purchases in only the levying jurisdiction where the goods are delivered, consumed or registered.

A dozen agencies are considering similar measures for the November 2010 ballot.

SALES PER CAPITA



OCEANSIDE TOP 15 BUSINESS TYPES

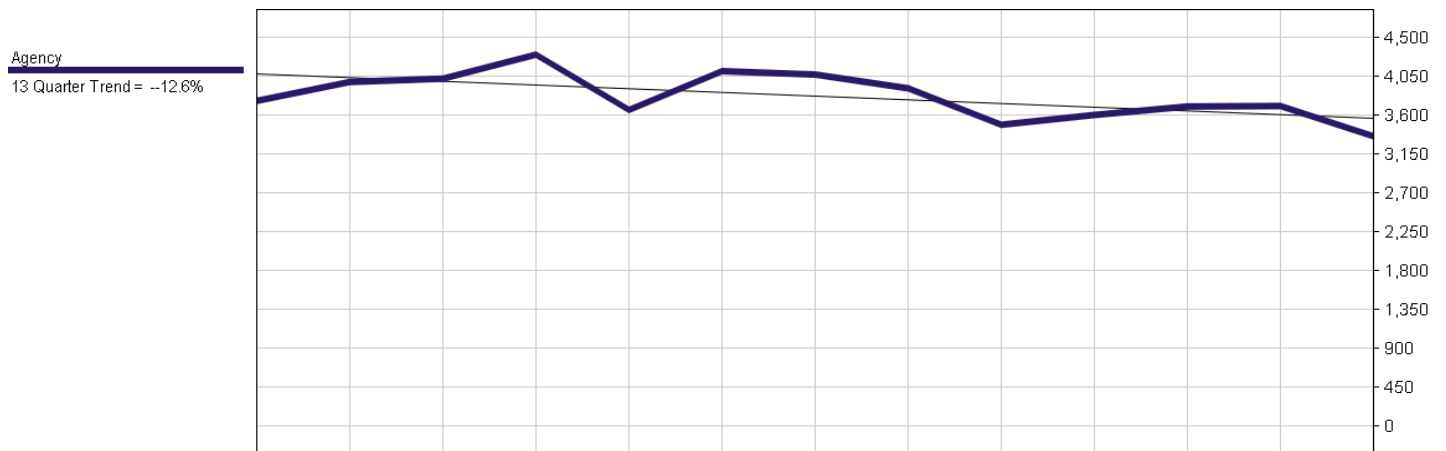
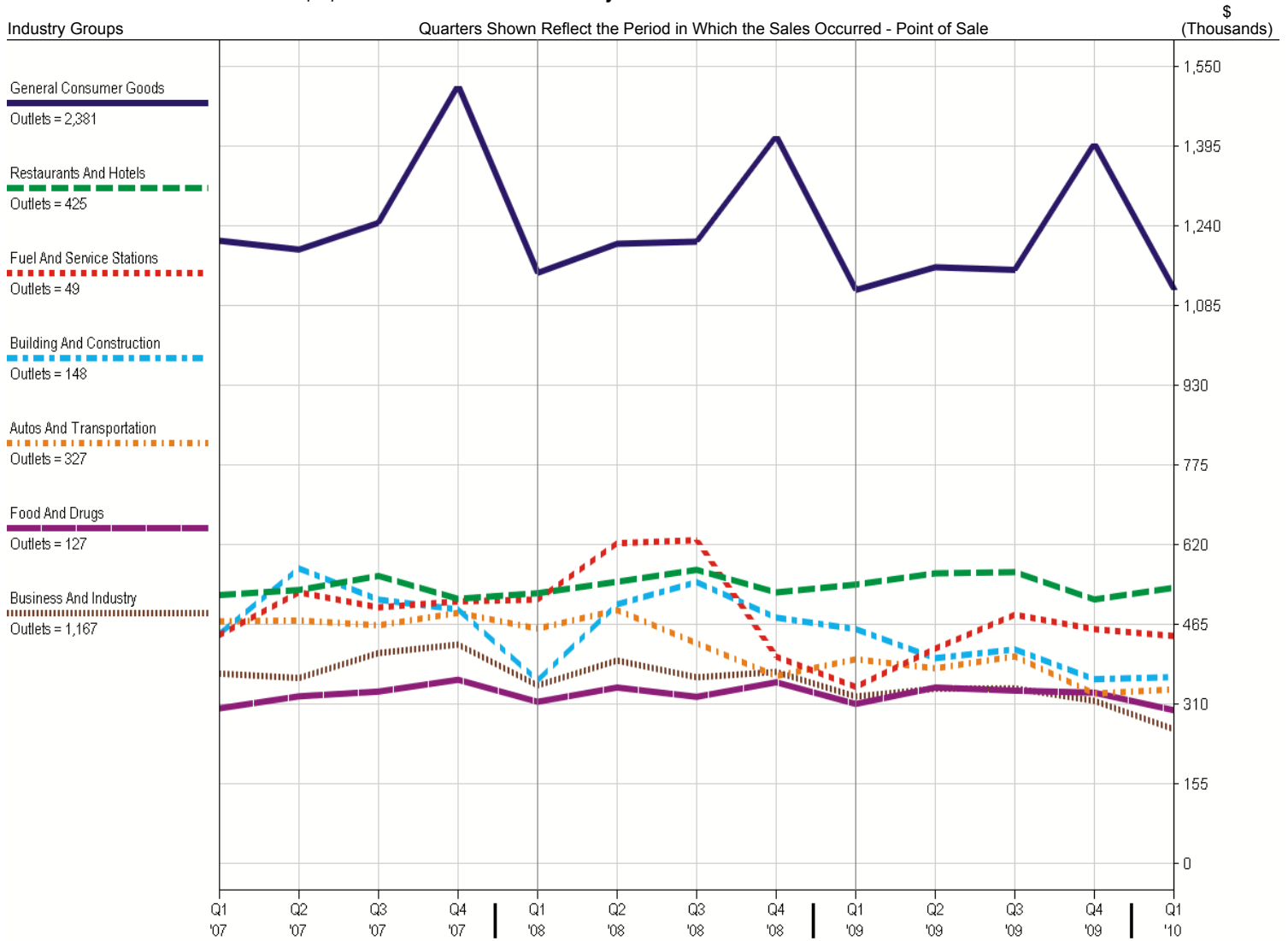
Business Type	Oceanside		County	HdL State
	Q1 '10*	Change	Change	Change
Service Stations	\$472.0	35.8%	23.7%	28.0%
Discount Dept Stores	471.3	2.9%	4.6%	4.9%
Restaurants No Alcohol	266.9	-6.9%	-6.8%	-3.3%
Lumber/Building Materials	226.1	13.1%	-3.9%	1.6%
Grocery Stores Liquor	153.5	-4.3%	-2.2%	-3.5%
Restaurants Liquor	152.9	7.0%	5.8%	5.0%
Electronics/Appliance Stores	145.3	-4.5%	3.5%	-6.0%
Contractors	122.7	-51.3%	-16.3%	-14.9%
New Motor Vehicle Dealers	115.2	-26.1%	-0.4%	0.0%
Restaurants Beer And Wine	106.9	1.1%	-4.8%	-6.0%
Specialty Stores	103.0	-4.0%	-3.9%	-3.7%
Family Apparel	89.2	23.3%	12.4%	13.6%
Automotive Supply Stores	75.6	3.9%	6.4%	3.2%
Sporting Goods/Bike Stores	68.7	-16.1%	0.5%	-1.9%
Home Furnishings	65.7	6.2%	-2.7%	-1.7%
Total All Accounts	\$3,387.4	-5.0%	1.6%	0.8%
County & State Pool Allocation	430.9	4.6%		
Gross Receipts	\$3,818.3	-4.0%		<i>*In thousands</i>



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 sales tax to that of other jurisdictions. The prior 12 quarters are shown graphically for historical reference purposes. **Allocations have been adjusted to reflect economic data.**

Comparison Agencies

Quarters Shown Reflect the Period in Which the Sales Occurred - Point of Sale

\$
(Thousands)

