CITY OF OCEANSIDE

SALES TAX NEWSLETTER

Sales for Fourth Quarter of Calendar Year 2010
(City Revenue for Third Quarter of Fiscal Year 2010-2011)

OVERVIEW

This newsletter covers the City's sales tax revenues received for sales occurring from October through December 2010 (i.e. the "holiday season"). 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 December 31st quarter data was remitted to the City in May and is the most recent data available. The revenues were received by the City in January through March 2011.

Oceanside's revenues for the fourth quarter of 2010 increased by 1.9% compared to the same quarter last year. On a statewide basis, sales tax revenues were 5.8% higher than the same quarter one year ago while all of San Diego County increased 5.9% over the comparable time.

The following list comprises the top 25 producers in alphabetical order for the calendar year 2010. It is interesting to note that ten of these producers are fuel stations and/or fast food facilities.

- 7 Eleven
- Albertsons
- Best Buy
- Chevron
- CVS Pharmacy
- Discount Tire
- Home Depot
- Kohl's
- Lowes
- McDonalds
- Melrose Arco
- Mission AM PM
- Mobile Oil
- Morally Wholesale
- Moshen Oil
- Mossy Nissan
- Oceanside Gas & Market
- One Source Distributors
- Ralphs
- Ross
- San Luis Rey Service Station
- Stater Bros
- Target
- Toys R Us
- Walmart

General Consumer Goods remained relatively flat, apparel and home goods/furnishings fared well, but those gains were offset by closed businesses. This category peaked in 2007, and has steadily declined as indicated on the 13-Year History schedule attached.

Restaurants & Hotels had a slight increase of 1.3% based on several new businesses which offset closed businesses.

Building & Construction category has decreased 14.7% which reflects a payment deviation on one business. Concrete and construction materials have increased. SBOE continues their audit on Hanson Aggregates over the "point of sale" revenue generation, and the City is monitoring this closely.

Fuel & Service Stations continues to reflect increases, with a 19.2% increase for this quarter. Higher prices at the pump on a statewide basis lead to additional revenues to the City.

Autos & Transportation decreased over 8%, primarily due to closed dealerships.

Business & Industry decreased 3% which reflects prior year deviations. Office supplies and technology experienced gains, while electrical was down.

Food & Drugs has increased 7.8% due to a retroactive adjustment for one business. Otherwise, this category remains flat.

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 an 8.6% increase this quarter.

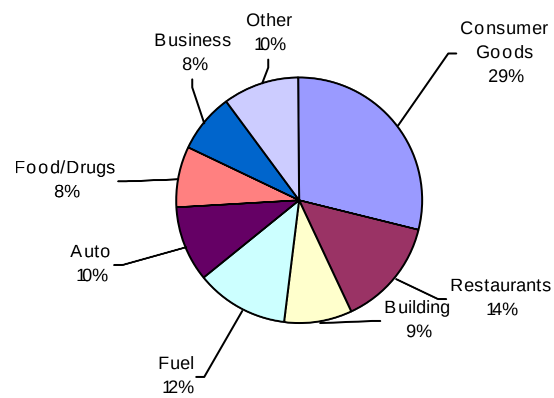
Sales Tax Receipts by Type

Major Industry Groups	4th Qtr 10	4th Qtr 09	% Change
General Consumer Goods	$1,414,290	$1,416,115	**-0.13%**
Restaurants & Hotels	$535,238	$528,170	**1.34%**
Building & Construction	$376,236	$441,486	**-14.78%**
Fuel & Service Stations	$524,237	$439,594	**19.25%**
Autos & Transportation	$311,238	$338,331	**-8.01%**
Business & Industry	$328,788	$339,191	**-3.07%**
Food & Drugs	$371,344	$344,336	**7.84%**
County/State Pool	$481,180	$442,733	**8.68%**
Total	**$4,342,551**	**$4,259,956**	**1.94%**

OUTLOOK

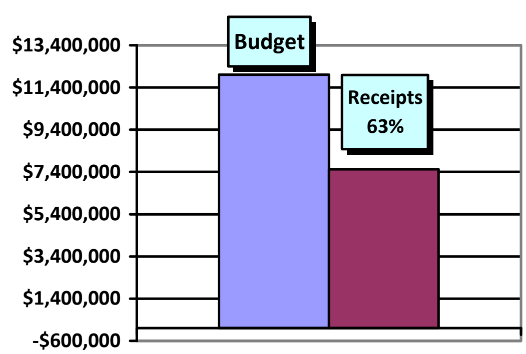
Sales tax revenues comprise approximately 16 percent of General Fund revenues. The composition of the City's sales tax base is diverse, allowing for fluctuations in the economy. This puts the City in a better fiscal standing during tight economic times than other cities that are heavily invested in a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

Sales Tax Revenue Categories



The revenues received by the City for October-December 2010 totals $7,527,155 or 63% of budgeted projections (this amount includes revenues posted through February 2011). This remittance pertains to the "Bradley-Burns" portion of sales tax revenues which come from the State Board of Equalization each month. Mid-year projections calculated by our consultant forecasts an approximately $200-$300k surplus over budgeted revenues for FY 10/11.

Sales Tax Budget vs. Receipts
As of March 31, 2011



The Consumer Confidence Index was posted at 60.8 in May. (Note: a reading of 90+ would signal a stabilized consumer).

Says Lynn Franco, Director of The Conference Board Consumer Research Center: "A more pessimistic outlook is the primary reason for this month's decline in consumer confidence. Consumers are considerably more apprehensive about future business and labor market conditions as well as their income prospects. Inflation concerns, which had eased last month, have picked up once again. On the other hand, consumers' assessment of current conditions declined only modestly, suggesting no significant pickup or deterioration in the pace of growth."

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.
- Major Industry Groups (13 year history) – this graph is helpful in identifying a historical trend, with General Consumer Goods peaking in 2007 and Building & Construction peaking in 2005.
- 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.
- Statewide Sales Tax Trends – provides a consensus forecast by The HdL Companies of statewide projections by category for Fiscal Year 2011-2012.

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.

Q4 2010

City of Oceanside Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (Oct-Dec 2010)

Oceanside In Brief

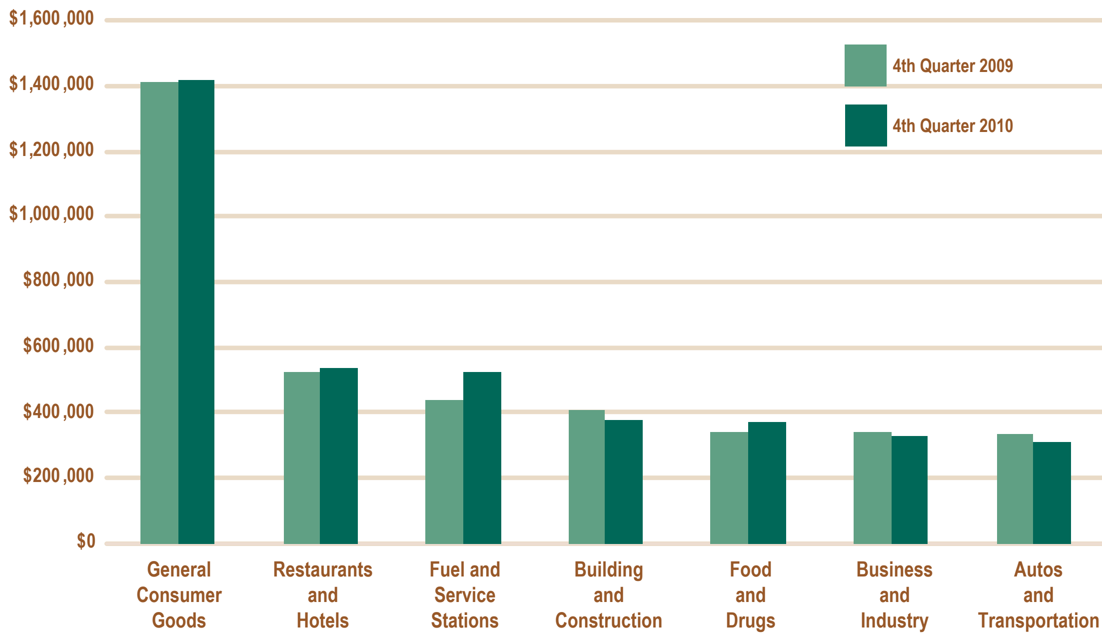
Receipts for Oceanside's October through December sales were 1.9% higher than the same quarter one year ago. Actual sales activity was up 3.3% when reporting aberrations were factored out.

The gain in the service station group from higher fuel prices was overstated by multiple deviations. Store closeouts offset the increase in holiday sales for apparel, home goods and furnishings, and discount department store merchandise. A double payment accounted for the increase in grocery stores with liquor while the purchase of office supplies and technology equipment gained.

A retroactive adjustment that inflated the year-ago period caused the decline in building & construction as a whole. Concrete and aggregate sales increased. The drop in new automobile revenues was due to the closure of dealerships.

Adjusted for aberrations, taxable sales for all of San Diego County increased 6.0% over the comparable time period, while the Southern California region as a whole was up 6.8%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- Albertsons
- Bed Bath & Beyond
- Best Buy
- Chevron
- Chevron
- CVS Pharmacy
- Discount Tire
- Home Depot
- K Mart
- Kohls
- Lowes
- Melrose Arco
- Mission AM PM
- Mobil Oil
- Morally Wholesale
- Moshen Oil
- Mossy Nissan
- Oceanside Gas & Market
- One Source Distributors
- Ralphs
- Ross
- Stater Bros
- Target
- Toys R Us
- Walmart

Revenue Comparison

Three Quarters – Fiscal Year To Date

	2009-10	2010-11
Point-of-Sale	$11,078,924	$11,233,212
County Pool	1,239,893	1,353,792
State Pool	10,756	5,795
Gross Receipts	$12,329,573	$12,592,799
Less Triple Flip*	$(3,082,393)	$(3,148,200)

**Reimbursed from county compensation fund*

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NOTES

Statewide Sales Increase!

Adjusted for accounting aberrations, California's local sales and use tax revenues for the fourth quarter of 2010 were 7.3% higher than the same quarter one year ago. This represents the fourth straight quarter of growth and the largest percentage increase since the third quarter of 2005.

Higher fuel prices and usage, robust sales of new autos and rebounds in restaurants and general consumer goods helped boost overall receipts. Capital purchases of business equipment and labor-saving technology were especially strong in the Bay Area and Southern California. A onetime use tax payment for alternative energy equipment added to San Joaquin Valley's pooled use tax totals. Excluding accounting aberrations the state's strongest regions were the San Joaquin Valley +12.5%, the Bay Area +7.7% and the Central Coast +7.1%.

Some Problems Remain

Although recent better than expected improvements in the state's labor markets suggest the rebound is gaining momentum, most economists believe the unemployment rate will remain in double-digits through 2012.

The large volume of unsold residential, commercial and office properties will continue to suppress new construction spending and be a drag on the economy through 2012-13. Soaring oil prices and budget cutbacks by state and local governments will have a short-term negative impact on economic growth.

Post tsunami problems in Japan are likely to cause supply shortages of autos, auto parts and various electronic components. However, the depth and duration of the impact remains unclear at this time.

Green Energy Exemptions

SB 71, which was pushed through the Legislature as one of last year's budget deals, authorizes the previously obscure California Alternative Energy & Advanced Transportation Financing Authority (CAEATFA) to grant sales and use tax exemptions of state and local sales, use and transactions taxes for "green manufacturing" projects. There is no cap on the value of exemptions CAEATFA may approve but the Legislature must be notified if they exceed $100 million annually.

Through March, CAEATFA has approved 28 projects exempting almost $961 million in qualified property that would have generated about $87.5 million statewide using an average tax rate of 9.1%. Local government losses are expected to exceed $19 million.

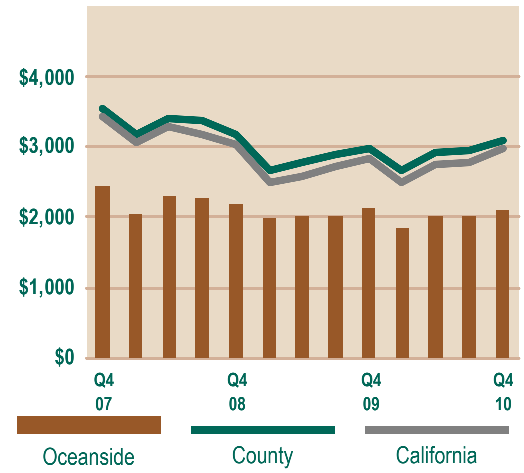
Although approved projects are located in various areas of the state, Santa Clara and Alameda Counties have been the most impacted thus far.

Renewable Energy Exemptions

In late February the CAEATFA Board of Directors postponed expansion of the exemption program with a proposed $50 million sales and use tax exemption program for renewable energy generation projects until early 2012 pending a better understanding of the state's fiscal condition. Industry lobbyists are pushing for a much larger program than CAEATFA originally planned.

Local governments will not be notified of applications that could affect their revenues. However, agenda notices can be obtained by visiting http://www.treasurer.ca.gov/caeatfa/agenda.asp.

Sales Per Capita



Oceanside Top 15 Business Types

Business Type	Oceanside Q4 '10*	Oceanside Change	County Change	HdL State Change
Automotive Supply Stores	75.9	6.6%	11.4%	11.3%
Contractors	122.9	20.9%	-5.3%	-2.0%
Discount Dept Stores	601.8	1.9%	2.2%	2.2%
Electrical Equipment	86.4	-20.2%	3.3%	21.1%
Electronics/Appliance Stores	184.6	-1.2%	0.3%	8.8%
Family Apparel	137.2	5.8%	6.8%	5.8%
Grocery Stores Liquor	203.1	12.2%	11.0%	4.6%
Home Furnishings	78.4	11.8%	1.3%	5.8%
Lumber/Building Materials	231.3	-20.8%	-11.2%	-14.7%
New Motor Vehicle Dealers	107.0	-26.7%	12.2%	14.4%
Restaurants Beer And Wine	93.5	-11.6%	-3.8%	-2.1%
Restaurants Liquor	147.4	18.4%	9.6%	7.8%
Restaurants No Alcohol	280.7	-1.3%	4.2%	5.5%
Service Stations	524.1	19.2%	15.9%	13.1%
Specialty Stores	141.8	2.8%	-0.2%	7.5%
Total All Accounts	**$3,861.4**	**1.2%**	**5.9%**	**5.8%**
County & State Pool Allocation	**481.2**	**8.7%**		
Gross Receipts	**$4,342.6**	**1.9%**		

*In thousands

ADJUSTED FOR ECONOMIC DATA

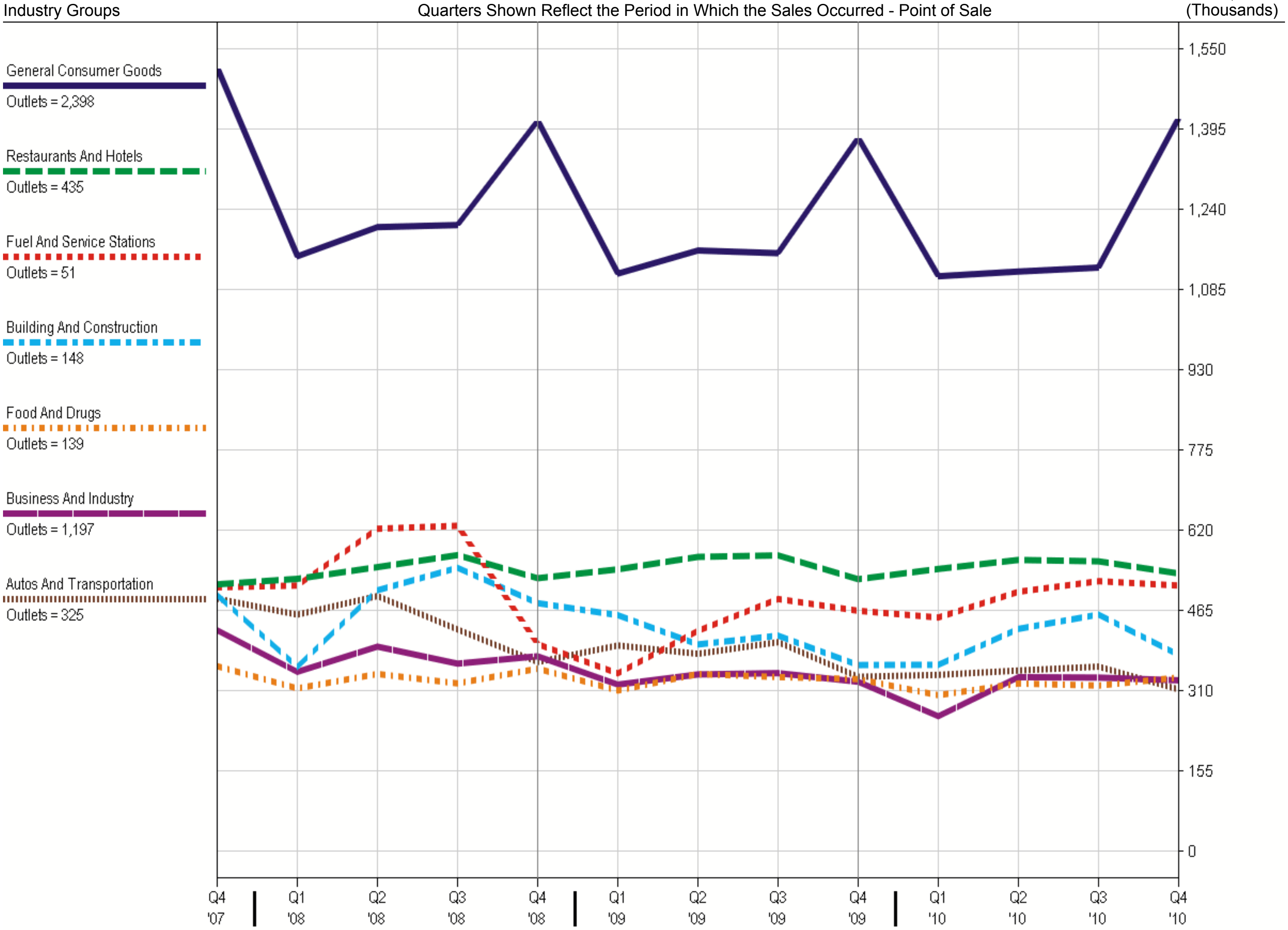
CITY OF OCEANSIDE

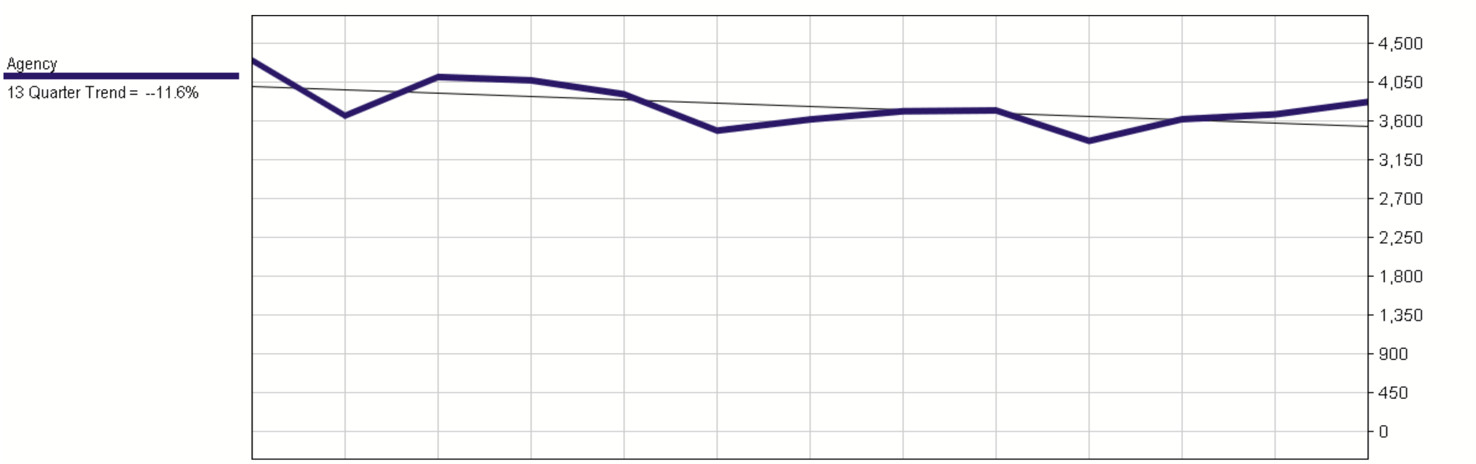
MAJOR INDUSTRY GROUPS - 13 QUARTER HISTORY

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.***

Industry Groups — Quarters Shown Reflect the Period in Which the Sales Occurred - Point of Sale — $ (Thousands)



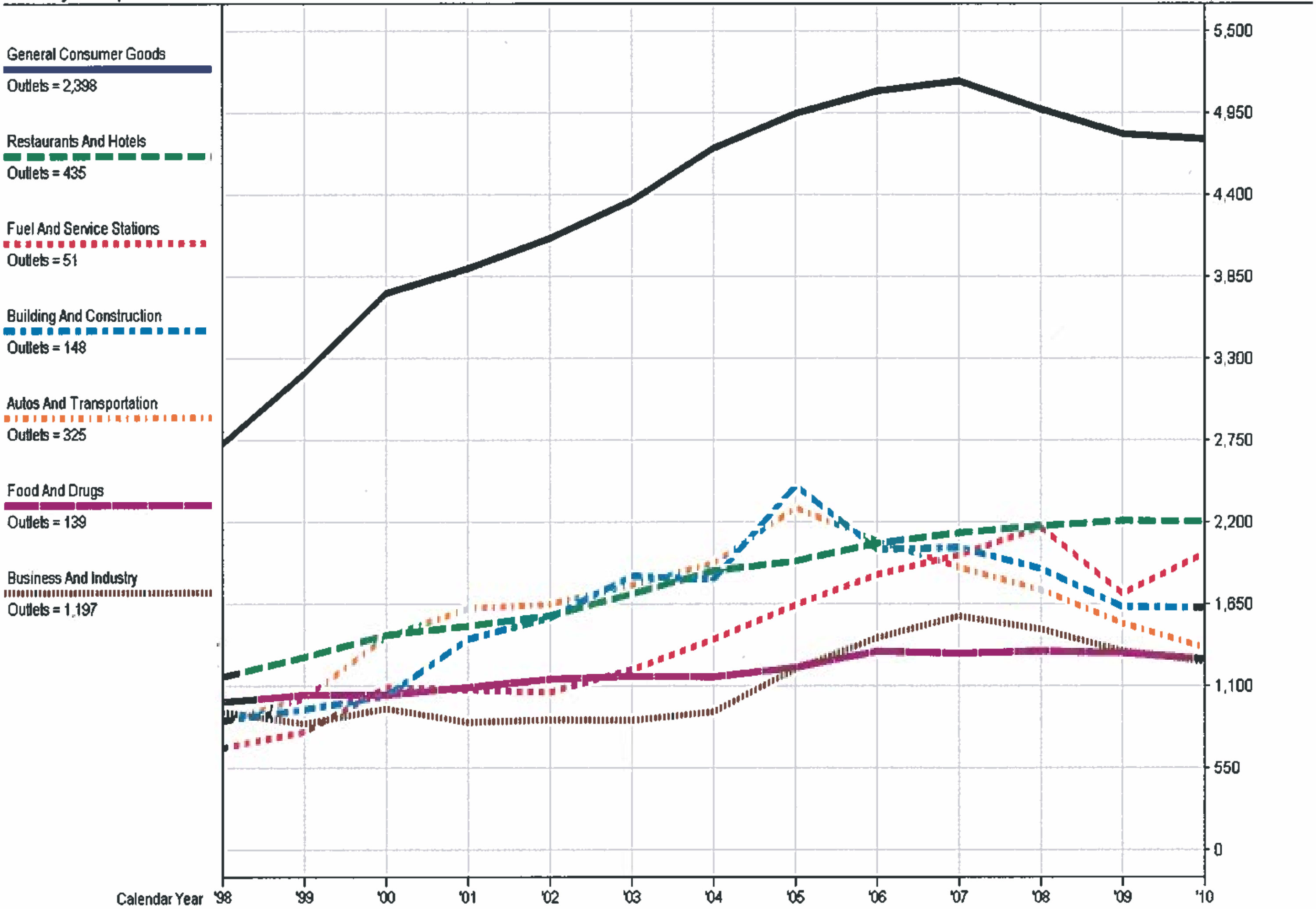


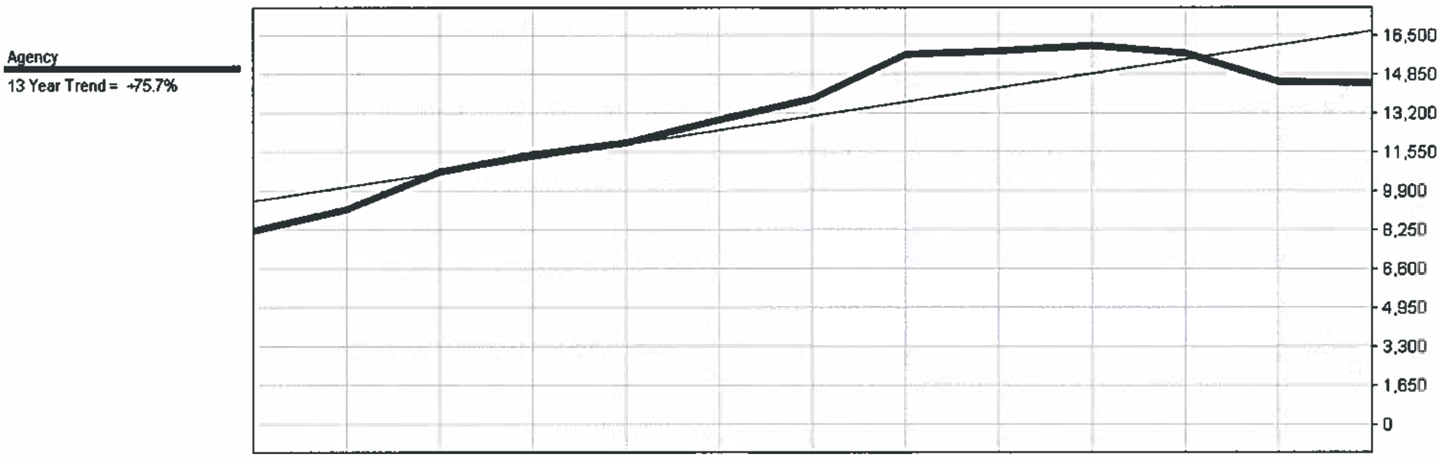
CITY OF OCEANSIDE
MAJOR INDUSTRY GROUPS - 13 YEAR HISTORY

THE HdL COMPANIES
ADJUSTED FOR ECONOMIC DATA

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

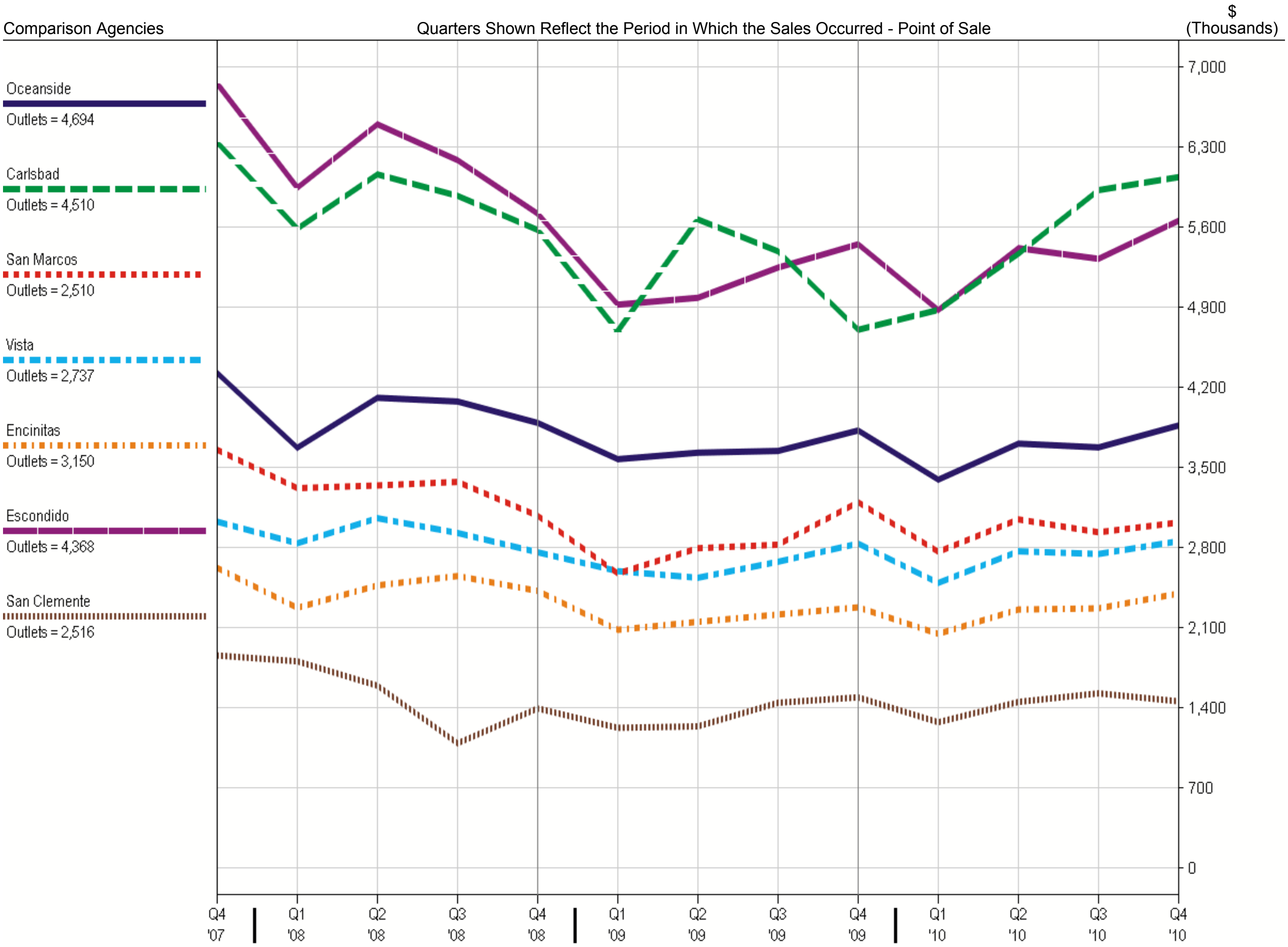
Chart Description: *This chart compares sales tax for the Major Industry Groups. The prior 12 calendar years are shown graphically for historical reference purposes.* ***Allocations have been adjusted to reflect economic data.***





CITY OF OCEANSIDE
ALL BUSINESS TYPES - 13 QUARTER HISTORY

Chart Description: *This chart compares sales tax to that of other jurisdictions. The prior 12 quarters are shown graphically for historical reference purposes.*



THE HdL COMPANIES

HdL Consensus Forecast – April 2011

STATEWIDE SALES TAX TRENDS

	2010/11	2011/12
Auto/Transportation	5.6%	8.9%

The average age of light duty vehicles in the U.S. is now at 10.2 years; the highest reported since 1995. Increased pent up demand plus easing credit availability is resulting in higher than previously anticipated sales. Analysts predict that rising fuel prices combined with parts shortages and temporary manufacturing interruptions, caused by Japan's earthquake and tsunami will push up prices on compact and mid-sized cars - the most favored models during periods of high fuel prices.

	2010/11	2011/12
Building/Construction	-0.3%	0.0%

Construction spending is at its lowest level in over a decade and at half the pace usually associated with a healthy building sector. Declining home prices, swelling supplies of vacant and unsold properties and government cut-backs will continue to suppress construction related revenues and be a drag on the economy through 2012-13.

	2010/11	2011/12
Business/Industry	6.7%	6.1%

The solid recovery in business and industry is expected to continue with companies replenishing inventories and investing in new technology and equipment. Demand from China and other emerging markets continue to boost exports of U.S. made goods. Local gains will be industry and agency specific though use tax on equipment leases and out of state purchases will be spread more widely in the form of higher county pools allocations.

	2010/11	2011/12
Food/Drugs	0.0%	0.0%

Growing competition from discounters, dollar and speciality stores are drawing more of the taxable sales associated with grocery and drug chains into the general consumer goods segment. Sales tax revenues from traditional grocery and drug stores are exhibiting little growth and are expected to remain flat.

	2010/11	2011/12
Fuel/Service Stations	13.5%	16.1%

Increased demand from a recovering economy and production uncertainties caused by political unrest in the Middle East and North Africa are raising fuel prices to levels not seen since 2008. Prices are not expected to peak until summer with average costs reaching $4.40 per gallon.

	2010/11	2011/12
General Consumer Goods	3.3%	3.5%

Increased employment in the higher paid professional, scientific and technical sectors, stock market gains and historically low income taxes have the wealthy five percent who account for 37% of consumer spending boosting receipts from high end and luxury goods. However, increased costs of food and gas are expected to keep growth in the middle and lower priced retail segments at relatively modest levels.

	2010/11	2011/12
Restaurants/Hotels	3.2%	2.3%

Business travel is on the rise and consumers are spending more on dining out although higher fuel prices are expected to pare the rate of increase in 2011-12. Analysts expect the growth to be primarily in the quick and casual service restaurant segments.

	2010/11	2011/12
State and County Pools	9.8%	6.5%

Recent strong gains in statewide county use tax pool receipts are likely to continue due to a rising number of private vehicle sales and upswings in equipment leases and out of state purchases of business equipment and supplies. Out of state purchases under $500,000 are allocated via the use tax pools rather than to place of use.

	2010/11	2011/12
TOTAL*	5.4%	5.7%

*** For Proposition 172 allocations which are distributed on a federal fiscal year basis, the gains are estimated at 6.1% and 5.1%.**