



Memorandum **Financial Services Department**

TO: Honorable Mayor and City Councilmembers

THROUGH: Peter Weiss, City Manager

FROM: Teri Ferro, Director of Financial Services

DATE: February 2, 2012

SUBJECT: Sales Tax Newsletter

Attached please find a copy of the Sales Tax Newsletter for the quarter ending December 31, 2011. This report will be posted on the City's Web site.

Sales tax revenues for the second quarter of FY 11/12 are on target with 35% received. There was a significant reduction in one category due to the deduction by SBOE to correct a prior error in the building and construction group. Even with this one-time event, it is projected that the City will receive about \$380,000 above the budgeted revenue for this fiscal year. This was addressed in the Mid-Year Financial Report presented to City Council on February 1, 2012.

I am available to answer any questions or concerns you may have.



CITY OF OCEANSIDE
SALES TAX NEWSLETTER
Sales for Third Quarter of Calendar Year 2011
(City Revenue for Second Quarter of Fiscal Year 2011-2012)

OVERVIEW

This newsletter covers the City's sales tax revenues received for sales occurring from July through September 2011. 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 December and is the most recent data available. The revenues were received by the City in October through December 2011.

Oceanside's revenues for the second quarter of 2012 decreased by 4.3% compared to the same quarter last year. There was a significant adjustment that led to this negative amount, specifically the one-time repayment of sales tax to SBOE based on an appeal by the City of San Diego. If that one-time repayment were excluded from the analysis, Oceanside's sales tax revenues for the quarter actually increased 6.1%. On a statewide basis, sales tax revenues were 9.4% higher than the same quarter one year ago while all of San Diego County increased 8.5% over the comparable time.

General Consumer Goods increased 0.8% with positive growth in family apparel and home furnishings. A couple of new outlets offset the loss in electronics.

Restaurants & Hotels had an increase of 6.4% based on double payments from several businesses. Restaurants with liquor fared well.

Building & Construction category has decreased 104.8% which reflects a repayment to SBOE which greatly exaggerated the overall loss. Building materials were on the upside.

Fuel & Service Stations continues to reflect increases, with a 22.9% increase for this quarter. Higher prices at the pump on a statewide basis led to additional revenues to the City.

Autos & Transportation increased almost 2.7%, showing positive gains although there was a late payment from one business.

Business & Industry increased 35.2% due to multiple deviations, along with a large one-time allocation.

Food & Drugs has increased 12.3% due to an additional business, and a retroactive adjustment that inflated the results.

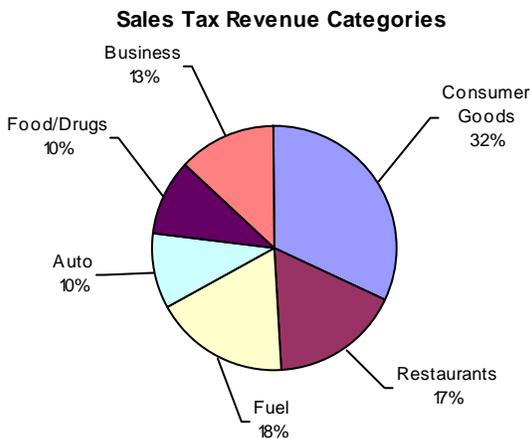
County/State Pool this category reflects revenues the City receives from "use taxes" paid by out-of-state buyers which do not involve a specific "point of sale" in California. Per the Bradley Burns Uniform Tax Law, a pooling system was devised to distribute any sales tax that cannot be easily tied to 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. An HdL representative met with City staff to advise them on ways to work with contractors of large projects to capture these revenues in Oceanside, rather than the County pool. 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 decrease of 9.5% this quarter.

Sales Tax Receipts by Type

| Major Industry Groups | 3 rd Qtr 11 | 3 rd Qtr 10 | % Change |
|-------------------------|------------------------|------------------------|---------------|
| General Consumer Goods | \$1,143,357 | \$1,134,176 | 0.81% |
| Restaurants & Hotels | \$589,544 | \$554,100 | 6.40% |
| Building & Construction | (\$21,431) | \$444,815 | -104.82% |
| Fuel & Service Stations | \$645,000 | \$524,690 | 22.93% |
| Autos & Transportation | \$373,159 | \$363,471 | 2.67% |
| Business & Industry | \$447,670 | \$331,022 | 35.24% |
| Food & Drugs | \$356,211 | \$317,186 | 12.30% |
| County/State Pool | \$398,661 | \$440,487 | -9.50% |
| Total | \$3,932,171 | \$4,109,947 | -4.33% |

OUTLOOK

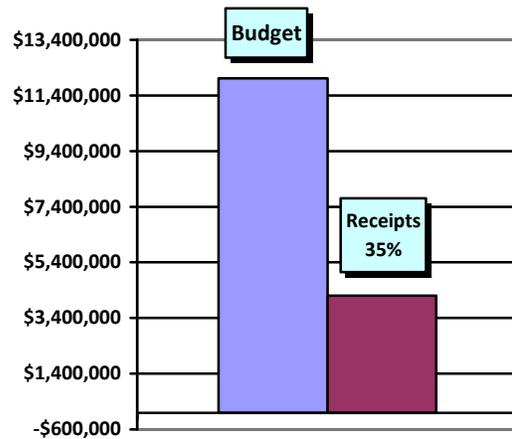
Sales tax revenues comprise approximately 15 percent of General Fund revenues. The composition of the City's sales tax base is diverse, allowing for fluctuations in the economy. This puts the City in a better fiscal standing during tight economic times than other cities that are heavily invested in a single industry such as car dealerships.



The revenues received by the City for October-December 2011 totals \$4,199,420 or 35% of budgeted projections (this amount includes revenues posted through December 2011). This remittance pertains

to the "Bradley-Burns" portion of sales tax revenues which come from the State Board of Equalization each month. If this trend continues, the City will exceed the projected revenues for FY 11/12. An increase of \$380,000 was reported in the Mid-Year Financial Report to City Council on February 1, 2012.

Sales Tax Budget vs. Receipts as of December 31, 2011



The Consumer Confidence Index was posted at 61.1 in January. (Note: a reading of 90+ would signal a stabilized consumer).

Says Lynn Franco, Director of The Conference Board Consumer Research Center: "Consumer Confidence retreated in January, after large back-to-back gains in the final two months of 2011. Consumers' assessment of current business and labor market conditions turned more downbeat and is back to November 2011 levels. Regarding the short-term outlook, consumers are more upbeat about employment, but less optimistic about business conditions and their income prospects. Recent increases in gasoline prices may have consumers feeling a little less confident this month."

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.

Q3 2011



City of Oceanside Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2011)

Oceanside In Brief

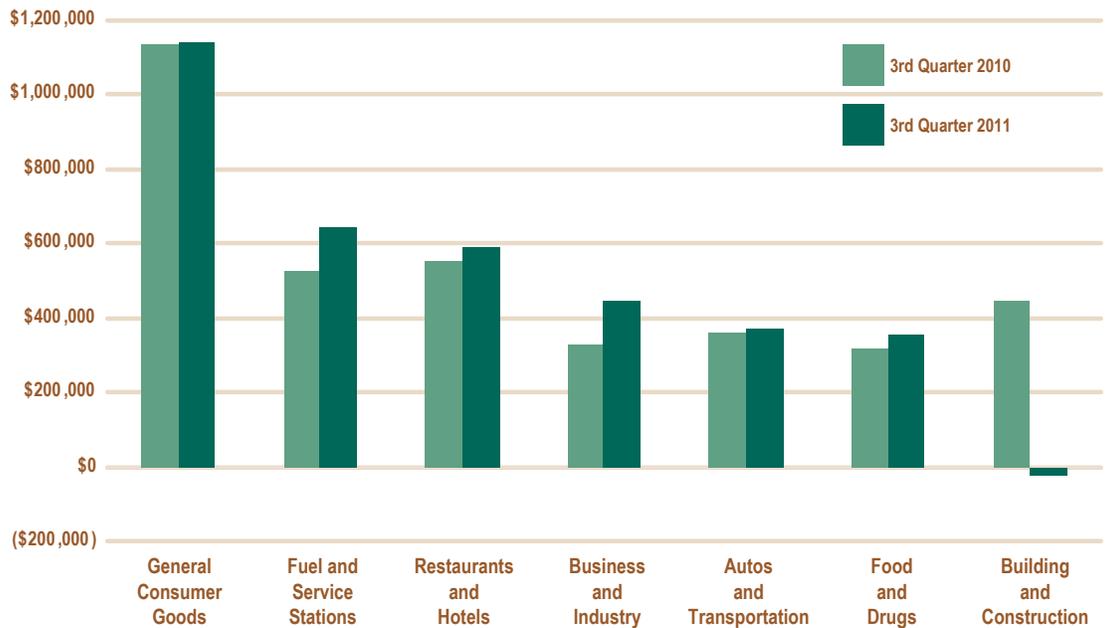
Receipts for Oceanside's July through September sales were 4.3% lower than the same quarter one year ago. This loss was due to a deduction to correct a prior error in the building and construction group. Actual sales activity was up 6.1% when this onetime event and other reporting aberrations were factored out.

Higher prices boosted returns in service stations while temporary use tax allocations accounted for the rise in business and industry. New outlets in home furnishings and electronics contributed to the increase in general retail. Apparel sales activity also rose.

Retroactive adjustments overstated positive results in both restaurants and grocery stores with liquor.

Adjusted for aberrations, taxable sales for all of San Diego County increased 7.0% over the comparable time period, while the Southern California region as a whole was up 8.3%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

| | |
|-------------------|------------------------------|
| 7 Eleven | Moshen Oil |
| Apro | Mossy Nissan |
| Best Buy | Oceanside Gas & Market |
| Chevron | One Source Distributors |
| CVS Pharmacy | Ralphs |
| Discount Tire | Ross |
| Genentech | San Luis Rey Service Station |
| Home Depot | Stater Bros |
| Johnnys Shell | Target |
| Kohls | Walmart |
| Lowe's | |
| Melrose Arco | |
| Mission AM PM | |
| Mobil Oil | |
| Morally Wholesale | |

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

| | 2010-11 | 2011-12 |
|--------------------------|----------------------|----------------------|
| Point-of-Sale | \$7,371,841 | \$7,420,933 |
| County Pool | 873,143 | 844,009 |
| State Pool | 5,263 | 626 |
| Gross Receipts | \$8,250,247 | \$8,265,569 |
| Less Triple Flip* | \$(2,062,562) | \$(2,066,392) |

*Reimbursed from county compensation fund

California Overall

Adjusted for accounting aberrations, statewide local sales and use tax revenues for July through September transactions increased 8.6% over last year's comparison quarter. This is the seventh consecutive quarterly gain since the beginning of the recovery.

All categories were up with receipts from higher fuel prices accounting for much of the statewide increase. Sales of new autos, consumer goods and quick and full service restaurants also exhibited solid growth.

The Foggy Crystal Ball

Although 2011-12 is shaping up to be a period of strong sales tax recovery, most analysts believe that the pace of growth will slow in 2012-13 with the only disagreement being over the degree of slowdown.

Additional state budget cuts, continued high unemployment, further declines in home values and unstable fuel prices are part of the uncertainty. The financial turmoil in Europe is also of concern.

Manufacturers, growers, distributors, transporters and other companies involved in export trade make up 25% of the state's gross product. The European crisis has the potential of slowing the demand for both U.S. and Asian goods which would also pare the growth of California's Asian markets. Comparative strengthening of the U.S. dollar would also make exports more expensive.

Analysts worry about the resulting impact on Silicon Valley's technology industries, the Central Valley's agricultural exports and Southern California's transportation sector.

Sales Tax and the Internet

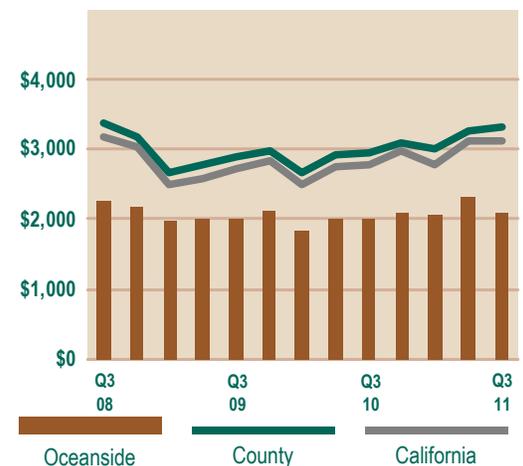
In 1992, the Supreme Court ruled that interstate commerce rules preclude states from requiring sellers without an in-state physical presence to collect local taxes. Since that time, attempts to interest Congress in correcting the problem have been unsuccessful.

With internet sellers becoming a major retail competitive force and more states adopting legislation expanding the definition of what constitutes "physical presence," the need for fairness and uniformity is softening opposition. This year, three competing bills were introduced in Congress that would allow the collection of local taxes. These are: S.1452, H.R. 3179 and S. 1832.

Given the general discord and paralysis in Congress, there is some question of whether any of these will pass. However, a compromise agreement between the State of California and Amazon has resulted in legislation (AB 155) that requires

in-state affiliates of remote sellers to begin collecting and remitting sales and use tax by September 15, 2012. Estimates on the amount of new revenues that will be generated have been difficult to develop but local agencies should not expect gains of more than \$1 per capita. More on the congressional legislation can be found in HdL's December issues paper.

SALES PER CAPITA



OCEANSIDE TOP 15 BUSINESS TYPES

| Business Type | Oceanside | | County | HdL State |
|---|------------------|--------------|-------------|----------------------|
| | Q3 '11* | Change | Change | Change |
| Automotive Supply Stores | 86.1 | 15.2% | 13.2% | 12.3% |
| Discount Dept Stores | 474.9 | 1.9% | 0.7% | 3.1% |
| Drugs/Chemicals | 127.2 | na | 20.9% | 10.1% |
| Electrical Equipment | 117.8 | 1.2% | 0.7% | 2.4% |
| Electronics/Appliance Stores | 133.7 | 1.7% | -1.1% | -9.2% |
| Family Apparel | 112.1 | 1.3% | 10.0% | 7.9% |
| Grocery Stores Liquor | 193.4 | 20.0% | 17.5% | 10.8% |
| Lumber/Building Materials | 255.9 | 2.0% | 3.1% | 4.1% |
| New Motor Vehicle Dealers | 135.7 | 0.3% | 11.1% | 12.2% |
| Restaurants Beer And Wine | 99.8 | 15.4% | -2.4% | 0.6% |
| Restaurants Liquor | 169.1 | 15.6% | 9.9% | 10.9% |
| Restaurants No Alcohol | 305.1 | -0.3% | 6.9% | 7.0% |
| Service Stations | 644.8 | 20.9% | 18.2% | 20.5% |
| Specialty Stores | 104.6 | 1.7% | -0.5% | 8.3% |
| Sporting Goods/Bike Stores | 82.8 | 7.8% | 5.4% | 8.2% |
| Total All Accounts | \$3,533.5 | -3.7% | 8.5% | 9.4% |
| County & State Pool Allocation | 398.7 | -9.5% | | |
| Gross Receipts | \$3,932.2 | -4.3% | | <i>*In thousands</i> |

Sales Tax by Major Industry Group

General Consumer Goods

Count: 2,648

Fuel And Service Stations

Count: 49

Restaurants And Hotels

Count: 434

Business And Industry

Count: 1,211

Building And Construction

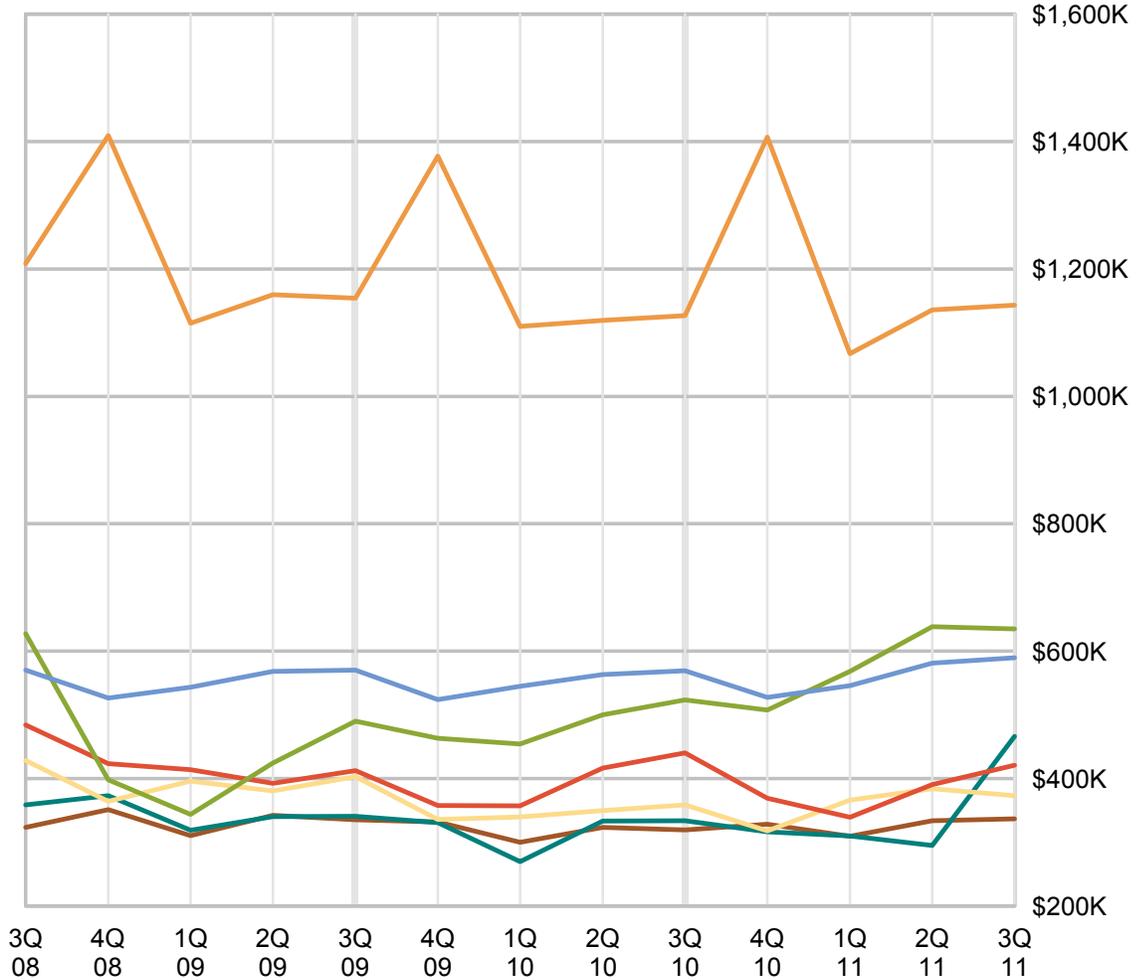
Count: 145

Autos And Transportation

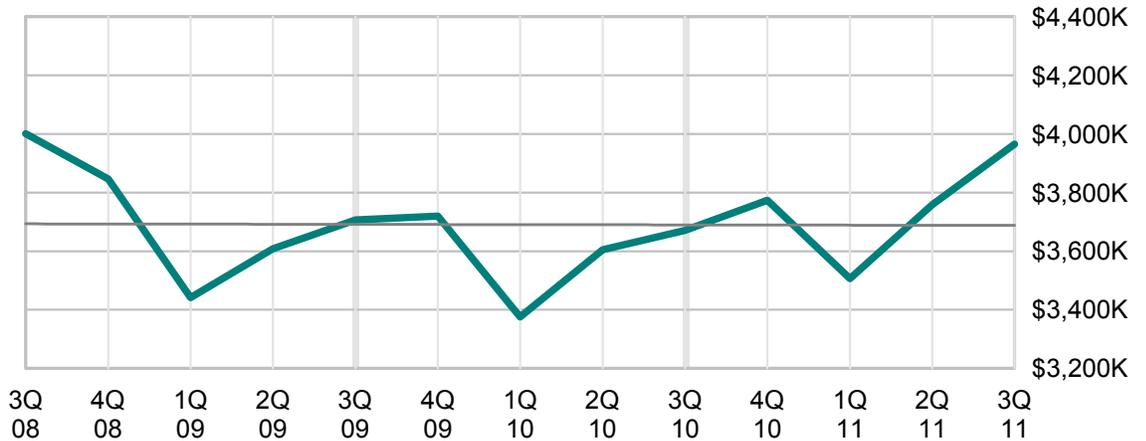
Count: 334

Food And Drugs

Count: 138



Agency Trend

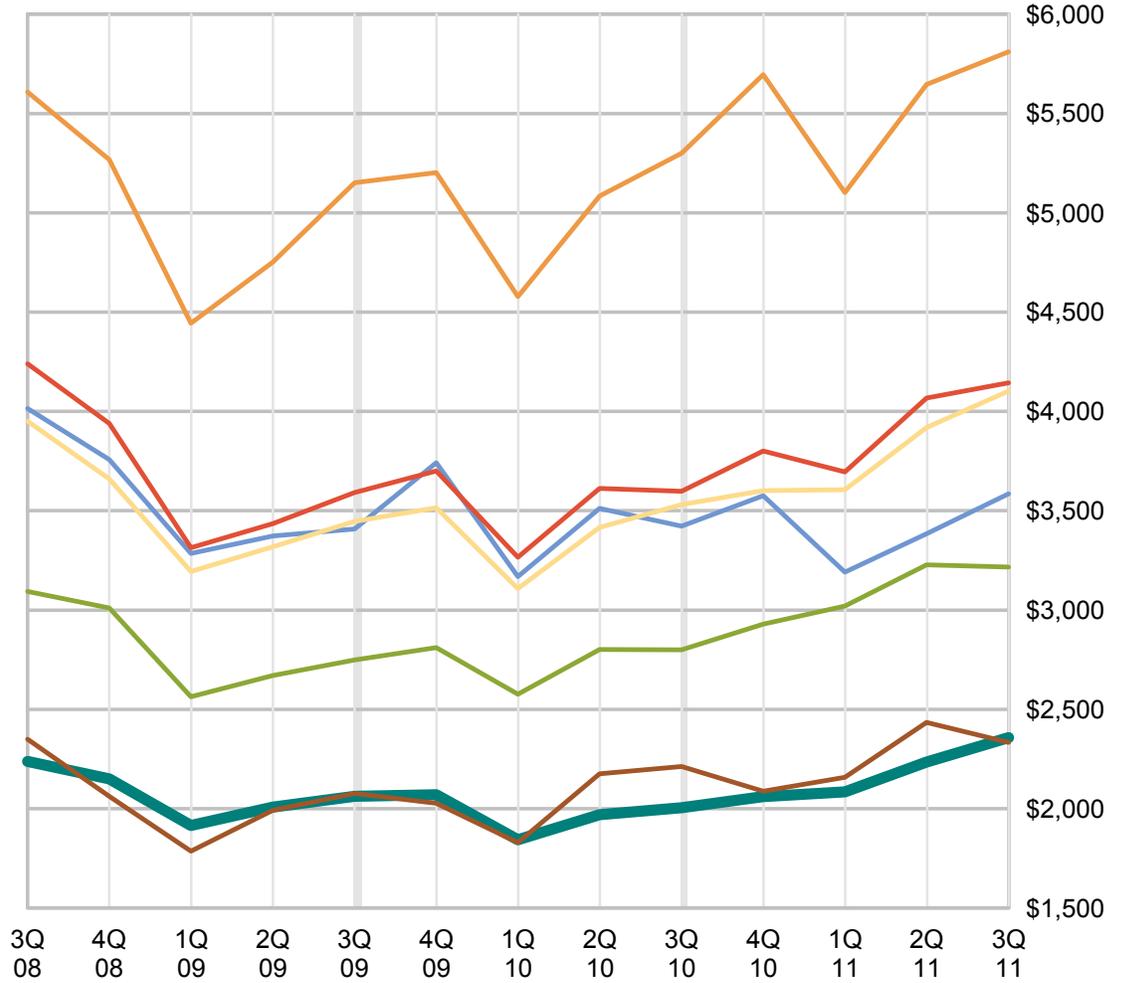


Adjusted by moving retroactive payments into the quarter the sale occurred
Periods shown reflect the period in which the sales occurred - Point of Sale

Comparison Agencies

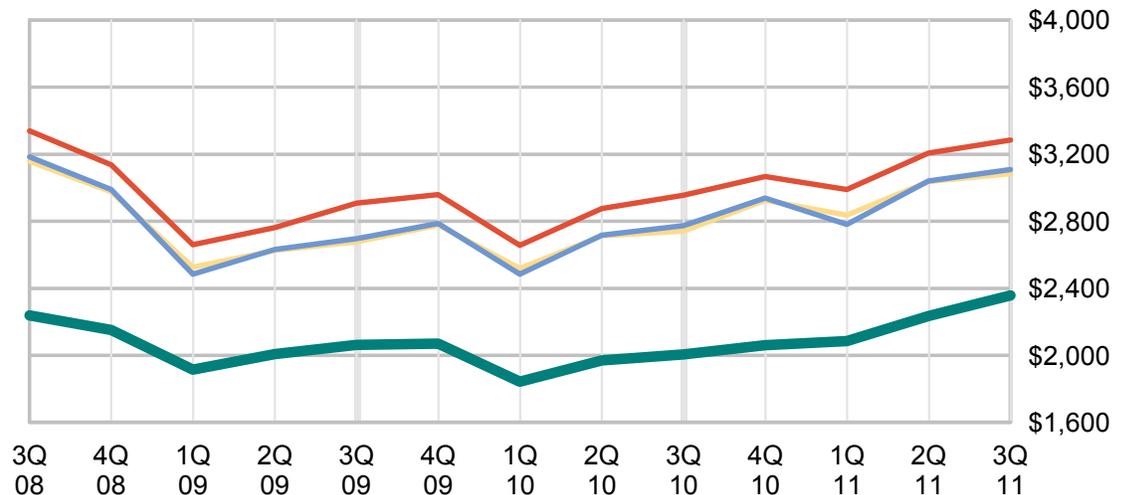
Per Capita Sales

- Oceanside**
Count: 4,959
- Carlsbad**
Count: 4,454
- San Marcos**
Count: 2,460
- Vista**
Count: 2,700
- Encinitas**
Count: 3,114
- Escondido**
Count: 4,481
- San Clemente**
Count: 2,501



Per Capita Sales

- Oceanside**
- San Diego County**
- Southern California**
- California**



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