



CITY OF OCEANSIDE
SALES TAX NEWSLETTER
Sales for Second Quarter of Calendar Year 2012
(City Revenue for First Quarter of Fiscal Year 2012-2013)

OVERVIEW

This newsletter covers the City's sales tax revenues received for sales occurring from April through June 2012. 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 September and is the most recent data available. The revenues were received by the City in July through September 2012.

Oceanside's revenues for the first quarter of 2012 increased by 5.9% compared to the same quarter last year. On a statewide basis, sales tax revenues were 6.8% higher than the same quarter one year ago while all of San Diego County increased 6.0% over the comparable time.

General Consumer Goods decreased less than one percent. Consumers are buying goods at their lowest prices ever – with sales volume being offset by low prices for a net zero gain. Also, as fuel prices rise, consumers tend to diminish their purchases of general goods.

Restaurants & Hotels had an increase of 11.8% based on several new businesses along with late payments from several businesses. Ironically, rising fuel prices do not impact consumers from eating out. With changing demographics, the "millenniums" do not cook at home and tend to eat out, especially at fast food locations.

Building & Construction category had an increase of 15.3% which is primarily due to account adjustments for several of the large businesses. With the exception of one-time energy projects, this category is trending "flat".

Fuel & Service Stations continues to reflect increases, with a 9.0% increase for this quarter which is all price driven.

Autos & Transportation increased 1.9%, showing modest gains for dealerships. An interesting development is the "bundling" of car loans for investment purposes. This cheap financing is luring drivers to trade in their models more regularly and even buyers with poor credit histories have access to car loans.

Business & Industry reflects an increase of 3.6% due to an Oceanside business distributing supplies to a project based outside of San Diego. While this is a positive return for the City, it should be considered one-time money. Some smaller businesses are having trouble transitioning to on-line tax filing.

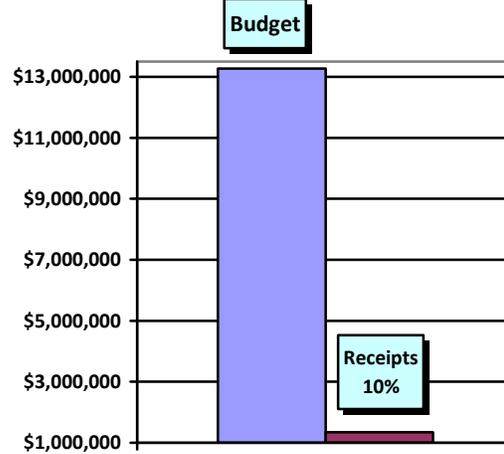
Food & Drugs increased 1.1% as chains increase sales of food supplements.

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 increase of 10.4% this quarter.

Sales Tax Receipts by Type

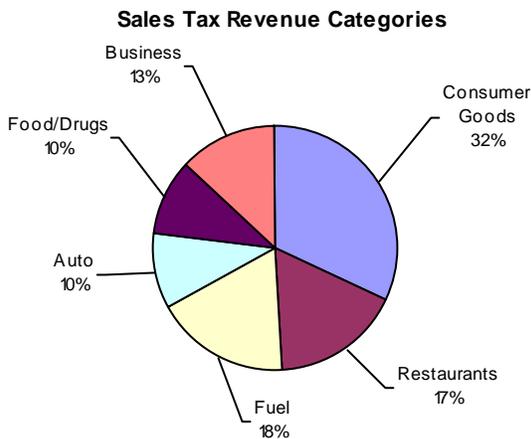
Major Industry Groups	2 nd Qtr 12	2 nd Qtr 11	% Change
General Consumer Goods	\$1,134,873	\$1,143,588	-0.8%
Restaurants & Hotels	\$680,111	\$608,500	11.8%
Building & Construction	\$483,405	\$419,303	15.3%
Fuel & Service Stations	\$701,832	\$643,723	9.0%
Autos & Transportation	\$405,695	\$398,033	1.9%
Business & Industry	\$348,638	\$336,437	3.6%
Food & Drugs	\$341,697	\$337,838	1.1%
County/State Pool	\$492,343	\$445,974	10.4%
Total	\$4,588,594	\$4,333,396	5.9%

Sales Tax Budget vs. Receipts as of September 30, 2012



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.



The revenues received by the City for July-September 2012 totals \$1,346,000 or 10% of budgeted projections. This remittance pertains to the "Bradley-Burns" portion of sales tax revenues which come from the State Board of Equalization each month.

The Consumer Confidence Index was posted at 70.3 in September, reflecting a nine point gain since August. (Note: a reading of 90+ would signal a stabilized consumer).

Says Lynn Franco, Director of The Conference Board Consumer Research Center: "Consumers were more positive in their assessment of current conditions, in particular the job market, and considerably more optimistic about the short-term outlook for business conditions, employment and their financial situation."

As a promising sign for the 2012 holiday shopping season, the National Retail Federation in Washington, D.C. said it expects retailers to hire permanent as well as seasonal employees.

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.

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.

Q2 2012



City of Oceanside Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2012)

Oceanside In Brief

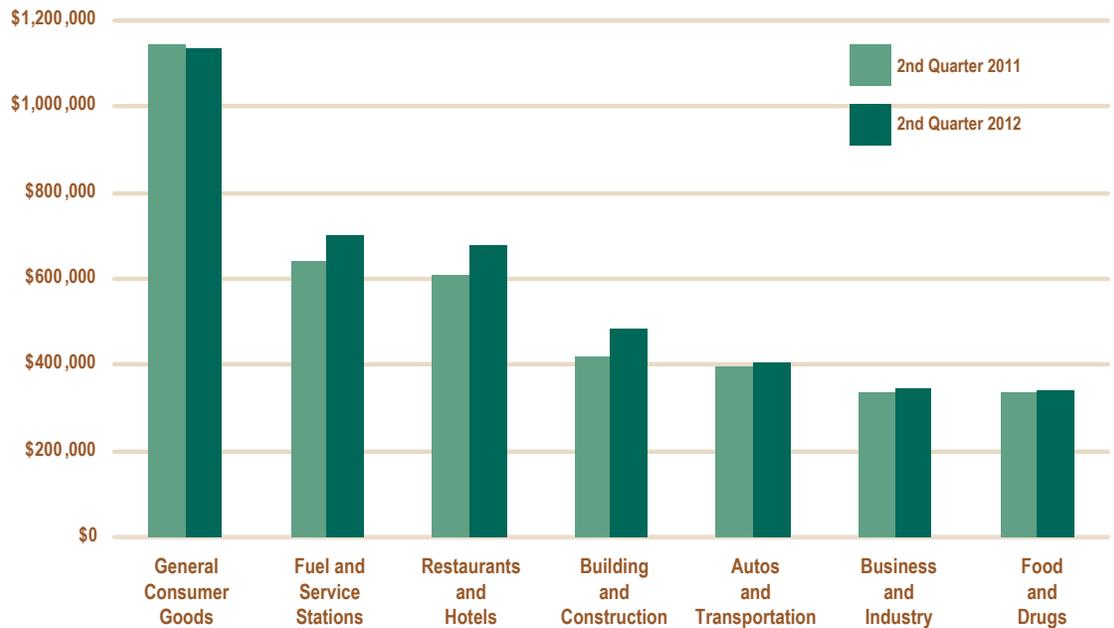
Receipts from second quarter sales were up 5.9% from the comparable sales period one year earlier but payment aberrations skewed the data. With anomalies excluded, actual sales grew 5.1%.

All major industry groups were up except general consumer goods though autos and transportation and food and drugs gains were modest. The jump in the building and construction group was due to late-arriving receipts from sales in a prior period and to new business additions. A retroactive payment in the office supplies/furniture category a year ago retarded overall business and industry results; whereas a one-time use tax payment contributed to heavy industrial totals. Service station results were mixed but gains outnumbered declines. Restaurant sales were strong. Quick service and eateries offering beer/wine generated most of gain.

Slower electronics/appliance store, home furnishings and sporting goods/bike sales caused the drop in the general consumer goods group.

After factoring out accounting adjustments all of San Diego County was up 6.6%; statewide sales grew 7.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

7 Eleven	Melrose Arco
Apro	Mission AM PM
Best Buy	Moshen Oil
Chevron	Mossy Nissan
Circle K	Oceanside Gas & Market
CVS Pharmacy	One Source Distributors
Discount Tire	One Source Supply Solutions
Elsner Engineering Works	Ralphs
Express Fuel	Ross
G & M Oil Company	San Luis Rey Service Station
Home Depot	Target
Kohls	Walmart
Lowe's	

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

	2011-12	2012-13
Point-of-Sale	\$3,887,423	\$4,096,306
County Pool	448,275	488,177
State Pool	(2,302)	4,112
Gross Receipts	\$4,333,396	\$4,588,594
Less Triple Flip*	\$(1,083,349)	\$(1,147,149)

*Reimbursed from county compensation fund

Statewide Results

Net of payment aberrations, second quarter retail sales were 7.5% higher than the same period one year earlier.

Purchases of new automobiles, spurred by low interest rates, easy credit and manufacturers' incentives, outpaced first quarter growth and generated 22% of the total increase. Business-to-business sales reflected strength in a number of sectors, notably heavy industrial, business services and equipment for energy related projects. Restaurant and hotel receipts grew by 8.6%, outpacing all other industry groups except autos and transportation. Family apparel sales were strong but weak electronics/appliances returns and lackluster results from department stores and big box discounters held general consumer group gains to a modest 3.9%. Flattening fuel prices and ongoing weakness in lumber and building materials sales also restrained overall results.

Outlook for the Year

The momentum for the recovery is slowing and has recently prompted another round of "quantitative easing" by the Federal Reserve Board in an effort to reinvigorate the housing market and spur business investment by keeping interest rates low. Retail growth in California, which fell further than the nation as a whole during the "Great Recession," may outpace the nation going forward but stubborn unemployment, nearly static income levels, and cautious business spending will keep overall sales at moderate levels at least through 2014-15.

Sales Tax from On-line Retailers

AB 155, which was passed last year as a compromise with Amazon.com went into effect on September 15. While the bill expanded the state's ability to require the collection of tax

on out-of-state sales, local agencies expecting immediate revenue gains will be disappointed.

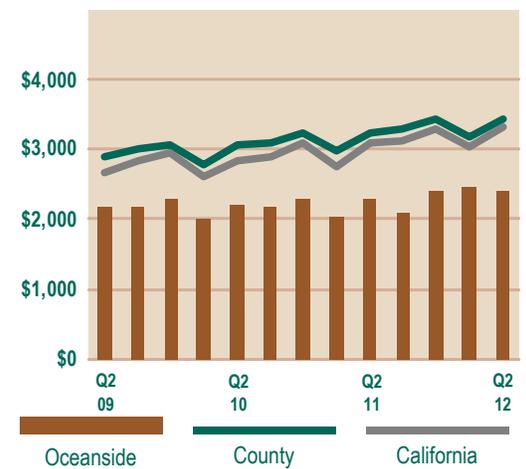
Federal case law continues to provide that remote sellers without nexus in a state are not required to collect that state's sales tax. Amazon agreed not to contest AB 155's definition of nexus which includes remote sellers who have annual sales in California of one million dollars or more and who have an in-state affiliate that provides services in connection with the remote seller's sales if those connected sales exceed \$10,000 per year.

The Board of Equalization's initial estimate was that the legislative change would raise approximately \$38.2 million in one-cent local revenues. However since then, Amazon which was a significant portion of the estimate has decided to build distribution facilities in California which will divert the revenues to the hosting jurisdictions. Other remote sellers, such as Overstock.com, have announced that

they will simply drop their in-state affiliates to avoid collecting the tax.

The Board of Equalization expects to add up to 100 staff positions over the next three years to enforce the new provisions. However, at least initially, local governments should not expect annual revenues of more than \$0.25 per capita and the ultimate solution continues to be federal legislation that eliminates the nexus prohibition and levels the playing field for all retailers.

SALES PER CAPITA



OCEANSIDE TOP 15 BUSINESS TYPES

Business Type	Oceanside		County	HdL State
	Q2 '12*	Change	Change	Change
Automotive Supply Stores	84.1	-1.5%	8.0%	8.0%
Contractors	122.1	0.3%	4.2%	12.0%
Discount Dept Stores	— CONFIDENTIAL —		4.7%	3.7%
Electrical Equipment	100.1	34.4%	6.6%	-5.4%
Electronics/Appliance Stores	131.1	-16.0%	-12.1%	-3.0%
Grocery Stores Liquor	169.5	1.1%	5.2%	4.2%
Home Furnishings	68.8	-8.9%	6.1%	7.0%
Lumber/Building Materials	305.5	24.2%	16.1%	20.4%
New Motor Vehicle Dealers	150.8	3.6%	18.8%	22.2%
Restaurants Beer And Wine	123.1	17.5%	1.5%	-0.1%
Restaurants Liquor	180.8	0.7%	13.4%	11.3%
Restaurants No Alcohol	359.1	16.5%	13.4%	8.1%
Service Stations	701.7	9.1%	-1.0%	2.3%
Specialty Stores	113.6	13.7%	1.0%	2.5%
Sporting Goods/Bike Stores	71.9	-5.3%	5.8%	9.0%
Total All Accounts	\$4,096.3	5.4%	5.5%	6.7%
County & State Pool Allocation	492.3	10.4%		
Gross Receipts	\$4,588.6	5.9%		<i>*In thousands</i>

Sales Tax by Major Industry Group

General Consumer Goods

Count: 2,663

Fuel And Service Stations

Count: 49

Restaurants And Hotels

Count: 440

Building And Construction

Count: 141

Autos And Transportation

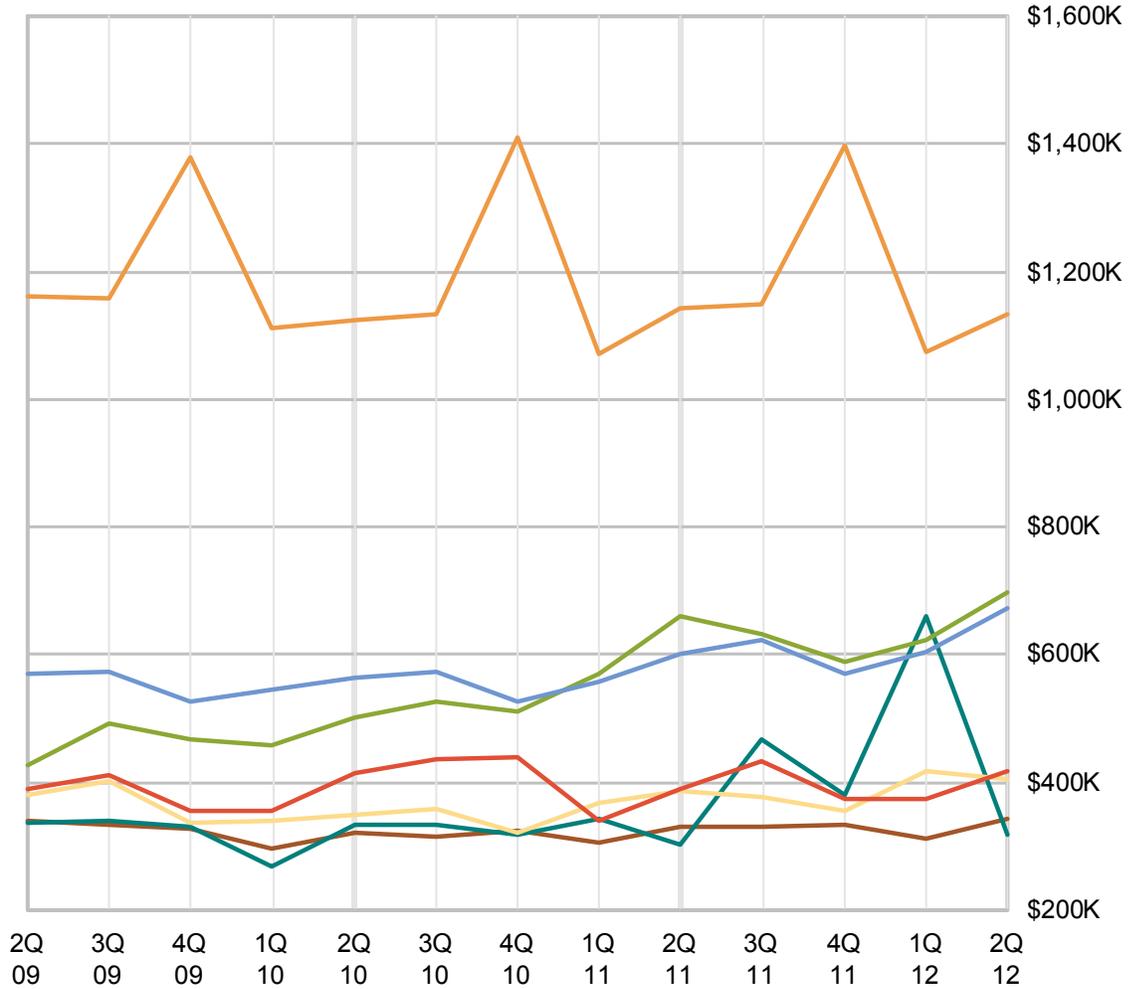
Count: 332

Food And Drugs

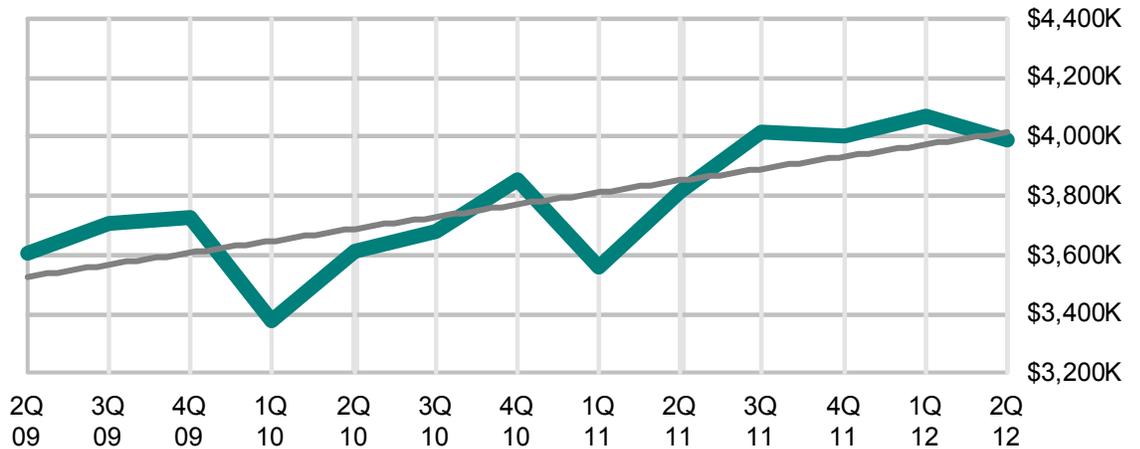
Count: 135

Business And Industry

Count: 1,176



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

Per Capita Sales

Oceanside

Count: 4,937

Carlsbad

Count: 4,526

San Marcos

Count: 2,520

Vista

Count: 2,730

Encinitas

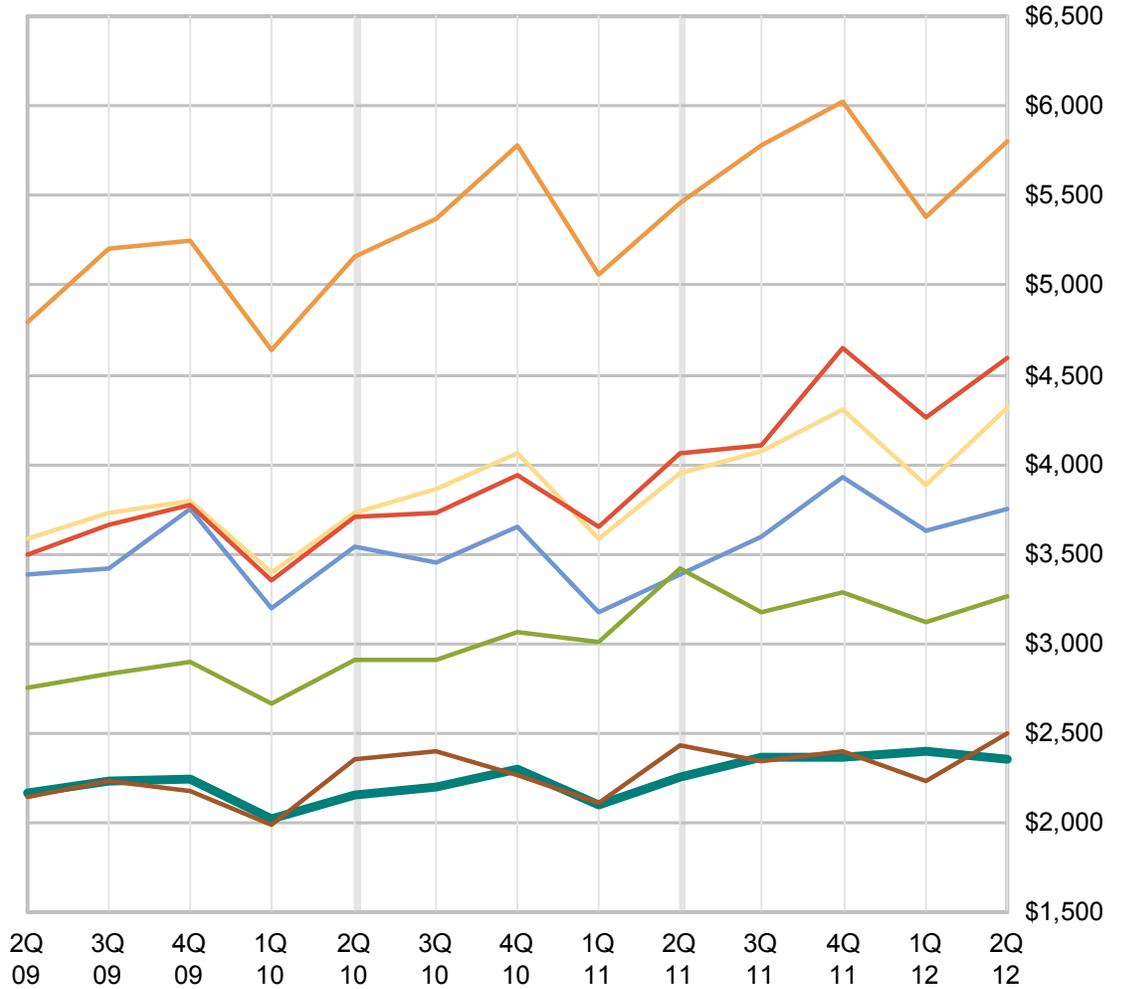
Count: 3,185

Escondido

Count: 4,553

San Clemente

Count: 2,487



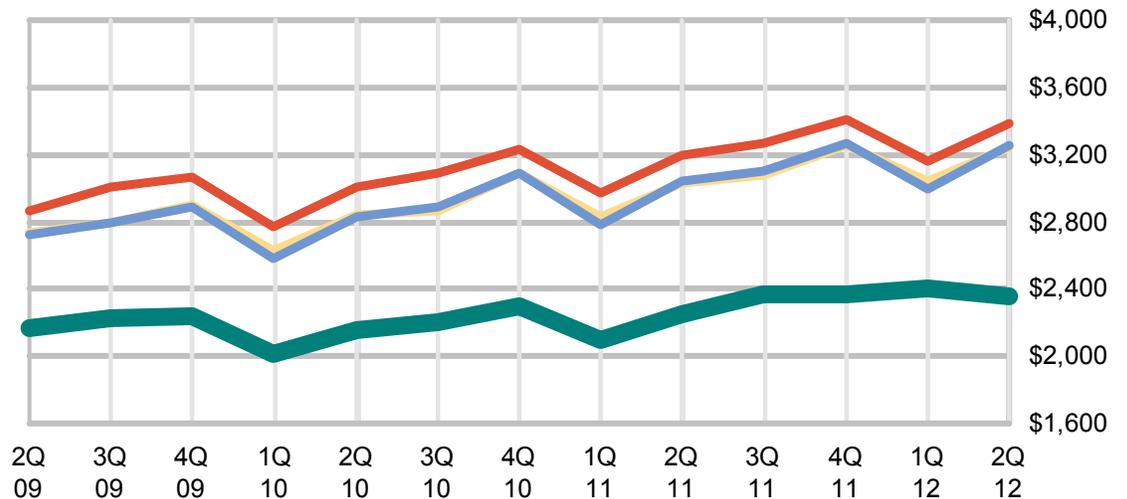
Per Capita Sales

Oceanside

San Diego County

Southern California

California



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Periods shown reflect the period in which the sales occurred - Point of Sale