

# **Memorandum** Financial Services Department

*TO:* Honorable Mayor and City Councilmembers

THROUGH: Peter Weiss, City Manager

FROM: Teri Ferro, Director of Financial Services

**DATE:** January 24, 2013

**SUBJECT:** Sales Tax Newsletter

Attached please find a copy of the Sales Tax Newsletter for the quarter ending December 31, 2012. This report will be posted on the City's Web site.

Sales tax revenues for the second quarter of FY 12/13 are on target with 36% received. HdL Companies has projected the City to receive an additional \$94,000 over the amended budget, and this will be presented to the City Council at the Mid-Year Financial Report on January 30, 2013.

I am available to answer any questions you may have.



## CITY OF OCEANSIDE SALES TAX NEWSLETTER

Sales for Third Quarter of Calendar Year 2012 (City Revenue for Second Quarter of Fiscal Year 2012-2013)

#### **OVERVIEW**

This newsletter covers the City's sales tax revenues received for sales occurring from July through September 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 December 31<sup>st</sup> quarter data was remitted to the City in January and is the most recent data available. The revenues were received by the City in October through December 2012.

Oceanside's revenues for the second quarter of 2012 increased by 18.8% compared to the same quarter last year. On a statewide basis, sales tax revenues were 8.1% higher than the same quarter one year ago while all of San Diego County increased 7.2% over the comparable time.

General Consumer Goods increased 4.6% predominantly due to one-time tax payments. The SBOE performed an audit on a prominent statewide business, resulting in one-time tax payments to cities dating back to 2002. Home furnishings sales were up, but were offset by a decrease in electronic sales.

Restaurants & Hotels had an increase of 13.8% based on several new businesses. With changing demographics, the "millenniums" do not cook at home and tend to eat out, especially at fast food locations.

Building & Construction category for the prior year included a significant reduction which reflected a re-payment to SBOE per their "allocation group decision" on a petition filed by the City of San Diego. Factoring out this one-time loss, the category is still facing a 6.2% decrease this quarter.

Fuel & Service Stations continues to reflect increases, with an 11.0% increase for this quarter which is all price driven. The change in fuel prices is not indicative of fuel usage, which has dropped two years in a row.

Autos & Transportation increased 27.4%. Auto sales, on a statewide basis, is doing very well as consumers are lured to showrooms by no down payment lease deals, generous manufacturer's incentives, and attractive subprime loans. This category also reflects a one-time users tax payment from a local business.

Business & Industry reflects a 33.1% decrease due to a prior year one-time users tax from an Oceanside business distributing supplies to a project based outside of San Diego.

Food & Drugs increased 9.9% partially due to a double-up payment from a supermarket chain on a statewide basis.

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 14.7% this quarter.

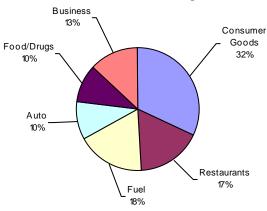
Sales Tax Receipts by Type

Gaide Tax Receipte by Type				
Major Industry Groups	3 <sup>rd</sup> Qtr 12	3 <sup>rd</sup> Qtr 11	% Change	
General Consumer				
Goods	\$1,212,714	\$1,159,126	4.6%	
Restaurants & Hotels	\$671,758	\$590,140	13.8%	
Building & Construction	\$460,120	(\$23,073)	N/A	
Fuel & Service Stations	\$719,326	\$647,846	11.0%	
Autos & Transportation	\$469,613	\$368,505	27.4%	
Business & Industry	\$292,945	\$437,601	-33.1%	
Food & Drugs	\$388,438	\$353,365	9.9%	
County/State Pool	\$457,088	\$398,661	14.7%	
Total	\$4,672,002	\$3,932,171	18.8%	

#### **OUTLOOK**

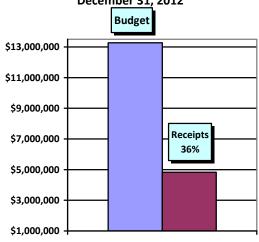
Sales tax revenues comprise approximately 16 percent of General Fund revenues. The composition of the City's sales tax base is diverse, allowing for fluctuations in the economy.

Sales Tax Revenue Categories



The revenues received by the City for October-December 2012 totals \$4,828,051 or 36% 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.

Sales Tax Budget vs. Receipts as of December 31, 2012



The Consumer Confidence Index was posted at 65.1 in December, reflecting a 6.4 point decrease since November. (Note: a reading of 90+ would signal a stabilized consumer).

Savs Lvnn Franco. Director of The Conference Board Consumer Research Center: "Consumers' expectations retreated sharply in December resulting in a decline in the overall Index. The sudden turnaround in expectations was most likely caused by uncertainty surrounding the oncoming fiscal cliff. A similar decline in expectations was experienced in August of 2011 during the debt ceiling discussions. While consumers are quite negative about the short-term outlook, they are more upbeat than last month about current business and labor market conditions."

#### 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.





# City of Oceanside Sales Tax Update

Fourth Quarter Receipts for Third Quarter Sales (July - September 2012)

## Oceanside In Brief

Receipts for Oceanside's July 18.8% higher than the same quarter one year ago. However, various anomalies boosted the results. After factoring out these and other reporting aberrations, actual sales activity was up 3.3%.

Receipts from building and construction were down; however, the the decrease.

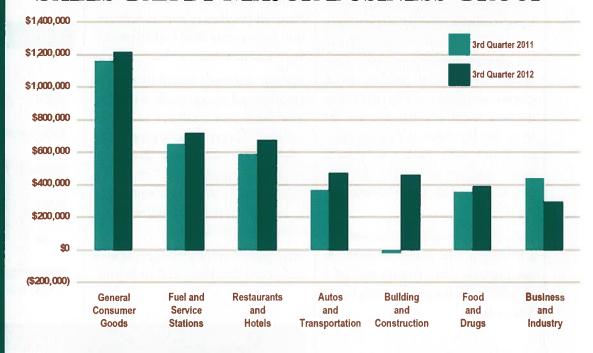
Gains from auto sales were primarily responsible for the increase ily apparel.

Receipts from the restaurant group A double payment from grocery stores inflated the gain from the tions posted higher receipts for the

A large onetime allocation that boosted the year ago quarter was a es from business and industry.

Adjusted for aberrations, taxable sales for all of San Diego County increased 5.7% over the comparable time period, while the Southern 6.7%.

### SALES TAX BY MAJOR BUSINESS GROUP



#### Top 25 Producers In Alphabetical Order

7 Eleven Mossy Nissan Apro **Best Buy** Chevron Circle K Market **CVS Pharmacy Express Fuel** Ralphs G & M Oil Ross Home Depot Kohls Lowes

North San Diego County Transit Development

Oceanside Gas &

One Source Supply Solutions

San Luis Rev Service Station

Stater Bros Target

Melrose Arco Walmart Mission AM PM

**McDonalds** 

Moshen Oil

### REVENUE COMPARISON

Two Quarters - Fiscal Year To Date

	2011-12	2012-13
Point-of-Sale	\$7,420,933	\$8,311,225
County Pool	844,009	946,782
State Pool	626	2,594
Gross Receipts	\$8,265,569	\$9,260,601
Less Triple Flip*	\$(2,066,392)	\$(2,315,150)

\*Reimbursed from county compensation fund





#### **Statewide Results**

Gains in all seven of HdL's key economic groupings confirm that California's economy continues to mend. Statewide local sales and use tax revenues from transactions occurring July through September 2012 were 6.0% higher than the same quarter in 2011 after onetime accounting and reporting aberrations are factored out.

The continued strong demand for new autos exceeded analysts' expectations and generated about one-fourth of the adjusted statewide increase. Restaurant sales posted another strong quarter with receipts 6.6% higher than the same period one year ago. Use tax from the development of solar energy projects and a modest recovery in some categories of building and construction materials also contributed to the rise.

Overall sales growth was tempered by a leveling in fuel prices compared to the previous year's quarter and by a slowdown in business spending in the Silicon Valley.

#### The Year Ahead

Gains in sales and use tax receipts from the first half of 2013 are expected to be lower than previous quarters. Recovery from "fiscal cliff" uncertainties and its final outcome may take several months while Europe's financial woes and China's sluggish growth will temper California export activity. Fuel prices should stabilize and not generate the huge bubbles in tax revenues experienced in previous quarters.

The last half of the year is predicted to resume steady, moderate growth. In November, the state's unemployment rate had already dipped to 9.8 percent, the lowest since the recession began. The recent gains are becoming more widespread among job categories and

even include an increase in construction-related employment.

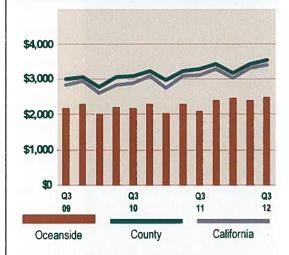
The state's housing market is strengthening with fewer distressed transactions and record low inventories. The median sales price of homes has increased for the last eight consecutive months of the year and building activity, particularly in the coastal areas, is expected to pick up steam in 2013. Elevated foreclosure rates in some inland regions may delay building recovery for another year or two.

Pent-up demand, record low interest rates and easing credit availability have led to robust sales of new automobiles. That demand is expected to continue for another few quarters as consumers replace older, less fuel efficient models and take advantage of lease and financing incentives being offered by manufacturers.

Wage gains from new hiring, combined with lower fuel prices and an improv-

ing housing market are incrementally boosting consumer confidence but much depends on government stewardship of the recovery. Tax increases and reduced benefits could shrink spending at the lower income levels while overly deep cutbacks in government contracts and infrastructure improvements could discourage new business investment.

### SALES PER CAPITA



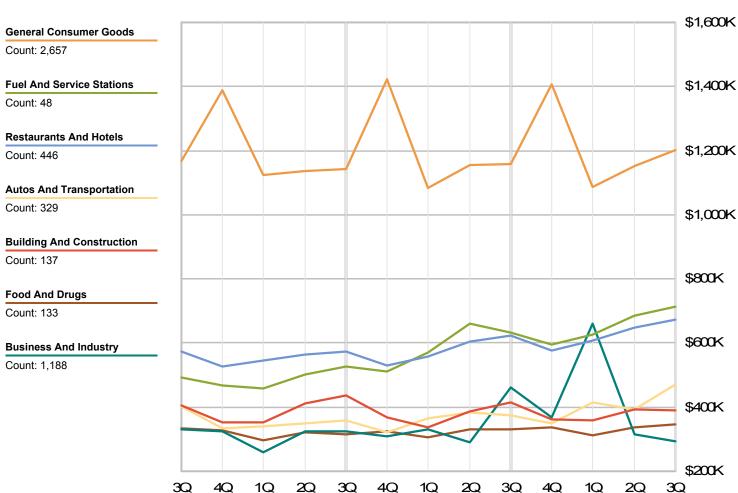
#### OCEANSIDE TOP 15 BUSINESS TYPES County **HdL State** Oceanside **Business Type** Q3 '12\* Change Change Change **Automotive Supply Stores** -1.8% 0.8% 0.7% 84.6 - CONFIDENTIAL -**Discount Dept Stores** 13.3% 15.5% **Electrical Equipment** 99.9 -17.4% 46.4% 18.4% **Electronics/Appliance Stores** 137.4 0.6% 0.5% -1.1% **Grocery Stores Liquor** 205.8 12.6% 10.6% 9.6% Home Furnishings 87.1 15.3% 4.9% 4.5% Lumber/Building Materials 379.7 49.4% 44.0% 35.9% **New Motor Vehicle Dealers** 154.8 14.1% 19.4% 19.2% Restaurants Beer And Wine 126.0 15.6% 2.3% 2.3% 181.6 10.9% Restaurants Liquor 11.6% 8.6% Restaurants No Alcohol 349.1 15.9% 8.7% 8.1% Service Stations 699.5 8.0% -0.6% 1.6% **Specialty Stores** 109.0 1.7% 1.7% 0.9% Sporting Goods/Bike Stores 93.2 4.4% 9.9% 6.8% Transportation/Rentals 97.9 272.1% 19.1% 12.3% 19.3% 7.6% \$4,214.9 8 8% **Total All Accounts County & State Pool Allocation** 457.1 14.7% **Gross Receipts** \$4,672.0 18.8% \*In thousands



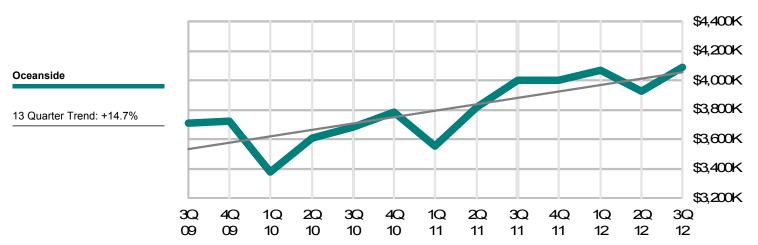
### CITY OF OCEANSIDE

#### MAJOR INDUSTRY GROUPS - 13 QUARTER HISTORY

#### Sales Tax by Major Industry Group



#### **Agency Trend**

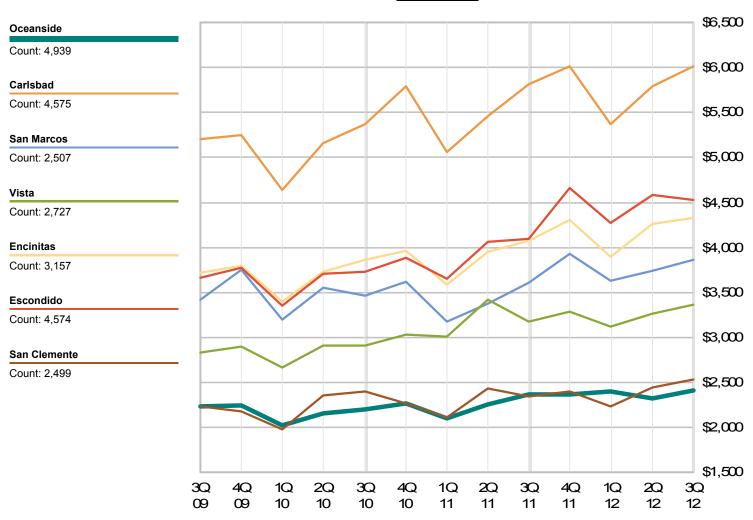


Periods shown reflect the period in which the sales occurred - Point of Sale

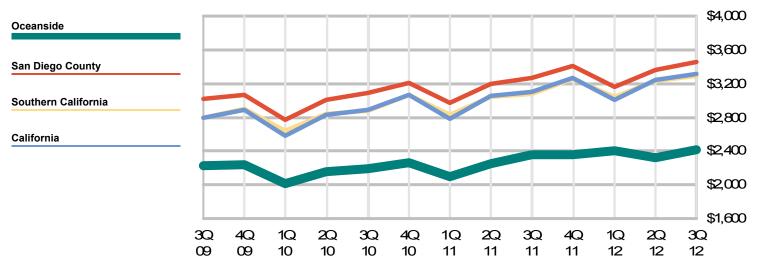
### **CITY OF OCEANSIDE**

#### AGENCY COMPARISONS

#### Per Capita Sales



#### Per Capita Sales



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