



CITY OF OCEANSIDE
SALES TAX NEWSLETTER
First Quarter of Calendar Year 2009
(Fourth Quarter of Fiscal Year 2008-2009)

OVERVIEW

This newsletter covers the City's sales tax revenues received for sales occurring from January through March 2009. 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.

Revenues for the first quarter of 2009 decreased by 2.5 percent compared to the same quarter last year. On a statewide basis, sales tax revenues continue to trend downward for the seventh consecutive quarter.

General Consumer Goods have decreased slightly less than 4 percent. While the discount department stores are benefitting from consumers "shopping down", the City's revenue in this category has declined due to the liquidation/closure of several businesses.

Restaurants & Hotels increased over six percent, which includes a one-time aberration. Restaurants that serve alcohol (i.e. sit down facilities) are experiencing a decline, while the non-alcohol, "fast food" sales are increasing.

Building & Construction category has increased 32%, reflecting a one-time aberration of a business filing multiple prior-year payments. Home remodels have been placed on hold by consumers, which constitute a significant portion for retailers in this industry.

Fuel & Service Stations reflect a decrease of 33%. Fuel consumption has dropped due to higher unemployment, as well as some

fuel efficiency in new cars. It is anticipated that future fuel revenues will actually decrease 25-30% as the fuel price market corrects itself. A five-year gasoline price trend graph has been included as an attachment to this newsletter.

Autos & Transportation increased slightly less than one percent. As noted by the California New Car Dealers Association, new car sales reflect a continued weakening market in California. However, there have been slight increases in the resale of used cars. Along with the reduction in new car sales, consumers are also deferring vehicle maintenance and repairs. Fortunately the City is not heavily dependent upon this industry, but is still impacted financially.

Business & Industry has decreased over 8 percent. The business and industry sector lags approximately four quarters behind general consumer goods.

Food & Drugs has slightly decreased in the local drug stores sector. There is a noted trend that drug stores sales of non-prescription products are being reflected in the "General Consumer Goods" 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 minimal decrease this quarter.

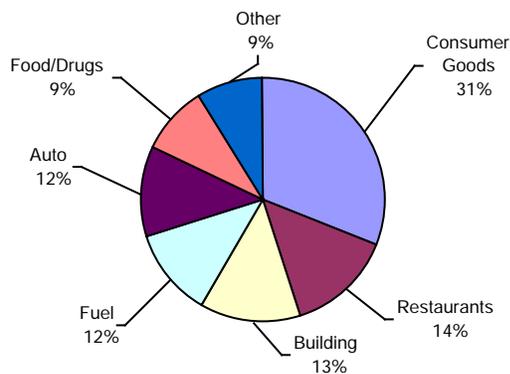
Sales Tax Receipts by Type

Major Industry Groups	1 st Qtr 09	1 st Qtr 08	% Change
General Consumer Goods	\$1,121,067	\$1,165,339	-3.80%
Restaurants & Hotels	\$548,188	\$515,858	6.27%
Building & Construction	\$470,593	\$354,779	32.64%
Fuel & Service Stations	\$347,569	\$520,548	-33.23%
Autos & Transportation	\$443,191	\$439,863	0.76%
Business & Industry	\$326,454	\$356,168	-8.34%
Food & Drugs	\$309,485	\$314,010	-1.44%
County/State Pool	\$411,833	\$412,730	-0.22%
Total	\$3,978,380	\$4,079,295	-2.47%

OUTLOOK

Sales tax revenues comprise approximately 17 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.

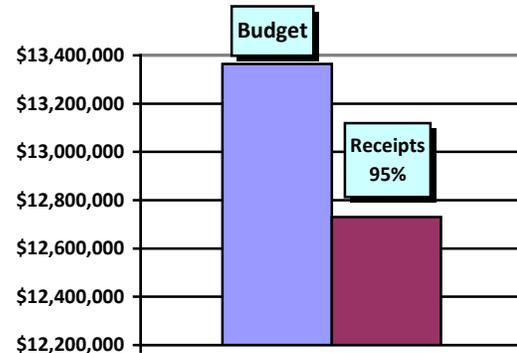
Sales Tax Revenue Categories



As of June 30, 2009, 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 \$12,729,714 or 95%

of budgeted projections. There have been several businesses that closed throughout the year which impacted our revenue reductions (Mervyns, Vons, Black Angus, Biggs Harley, True Value Hardware, Auto Buyers Plus, Catherine's of California, and Steinmart).

Sales Tax Budget vs. Receipts
As of June 30, 2009



Future budget projections for FY 09/10 have been revised downward to reflect the continued erosion in the fuel, auto & transportation, general consumer goods, and building/construction categories. Staff continues to monitor the economic trends and will bring forth any future recommendations if necessary.

Oceanside has over 4,600 businesses that report sales taxes. It is interesting to note that the top 100 sales tax producers generate 67% of the revenue received by the City.

Consumers have traditionally used their home equity to finance large ticket purchases, but due to the housing crisis have drastically scaled 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.
- California Retail Gasoline Prices – this graph identifies quarterly gasoline prices since 2004, with a projected look towards 2010.

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 2009



City of Oceanside Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (Jan-Mar 2009)

Oceanside In Brief

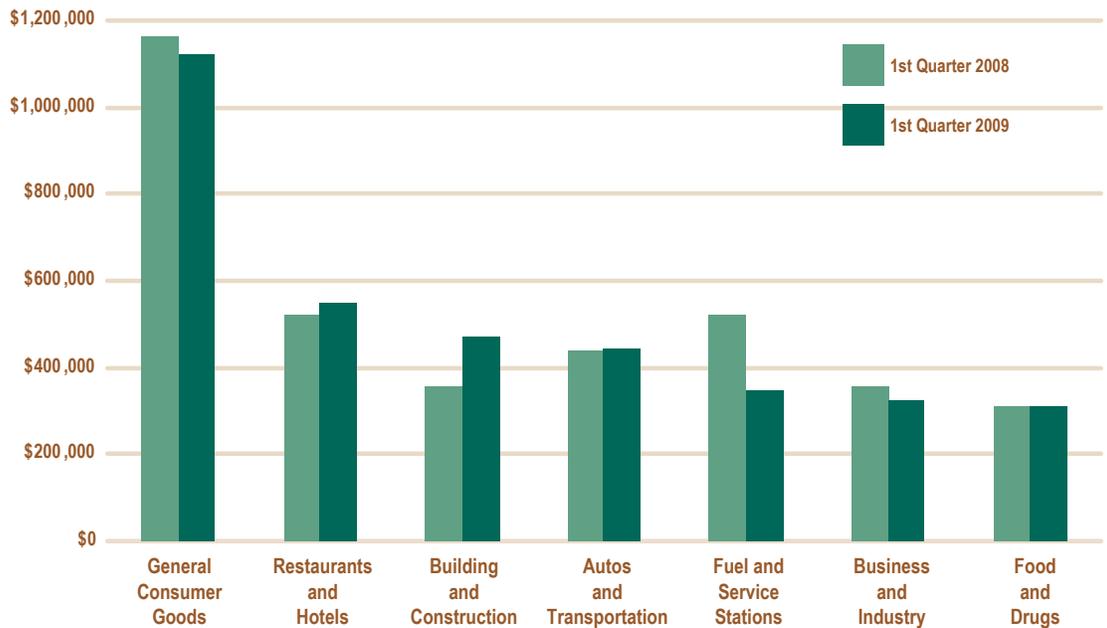
Receipts for Oceanside's January through March sales were 2.5% lower than the same quarter one year ago. Actual sales activity was down 6.0% when reporting aberrations were factored out.

The city experienced a decline in sales from new motor vehicles, lumber/building materials, and home furnishings. The sales declines from light industrial/printers and office supplies/furniture were exaggerated by payment deviations. The first quarter drop in fuel prices reduced service station receipts.

The losses were partially offset by a strong sales quarter from discount department stores, heavy industrial supplies, and sporting goods/bike stores. Payment deviations overstated the results from contractor supplies. Used auto dealers received a boost from recent additions and the double up of previous late payments.

Adjusted for aberrations, taxable sales for all of San Diego County declined 14.9% over the comparable time period, while the Southern California region as a whole was down 16.8%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS In Alphabetical Order

500 Motors	Melrose Arco
Albertsons	Mission AM PM
Best Buy	Mossy Nissan
Chevron	One Source Distributors
Chicks	Ralphs
Computer Geeks Discount Outlet	Rite Aid
CVS Pharmacy	Saturn
Discount Tire	Stater Bros
Hanson Aggregates	Superior Ready Mix Concrete
Home Depot	Target
Kohls	Wal Mart
Lowe's	Supercenter
McDonalds	
McDonalds	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2007-08	2008-09
Point-of-Sale	\$15,900,185	\$15,623,369
County Pool	1,824,121	1,767,717
State Pool	8,834	7,762
Gross Receipts	\$17,733,139	\$17,398,847
Less Triple Flip*	\$(4,433,285)	\$(4,349,712)

*Reimbursed from county compensation fund

California Overall

Statewide sales tax revenues continued to trend downward for the seventh consecutive quarter with June's allocations for sales occurring in the January through March period 16.5% lower than the same period one year ago.

The contraction was experienced in all regions with previous holdouts such as the Silicon Valley and some pockets of high end tourism now exhibiting the same percentage decreases as the rest of California. The drop in tax receipts resulted as much from significant price reductions as it did from reduced consumer spending and business investment.

Excluding accounting aberrations, the most severe impact was from a 38.3% decline in fuel and service station receipts reflecting the dramatic retreat from last year's record fuel prices and lower consumption.

The allocations from new car sales dropped another 28.3% from the first quarter of 2008 while revenues from traditional department stores, furniture stores and building materials all exhibited reductions of 20% or more. Sales and use tax revenues are projected to continue to decline through the remainder of 2009 although subsequent reductions should become increasingly moderate. The beginning of a recovery for most regions and categories is not anticipated until mid-2010.

Additional Use Tax Options

The state's budget deliberations include provisions for more aggressive collection of unpaid use tax. Sellers without physical nexus in the state are not required to collect sales tax from their California customers. In these cases the buyer is liable for paying a corresponding "use tax."

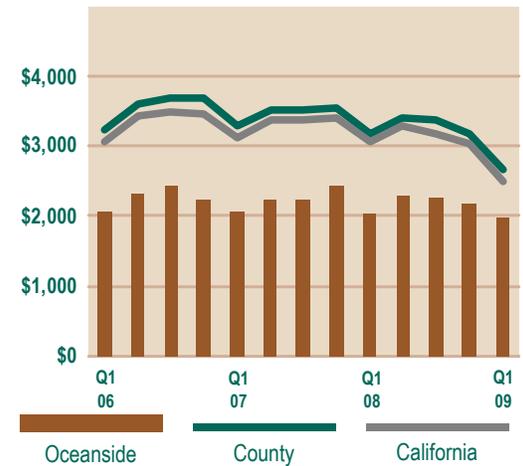
Although the state does an effective job of auditing larger companies, cost and lack of data make monitoring of taxes paid on purchases by individuals and small companies impractical.

Two actions are being considered to partially deal with this problem. The first is to require non-sellers to register with the Board of Equalization and file annual returns on unpaid use tax. As professional tax preparers are obligated to properly report purchases, the state estimates that the proposal would generate an additional \$57 million per year by 2009-2010.

The second action involves a practice enacted by the State of New York that expands the definition of "nexus" to include companies that pay commissions on sales referrals from New York based web sites or affiliates that advertise their products. It is estimated that a similar definition in California could generate up to \$110 million per year. Both actions would also increase city and county collections.

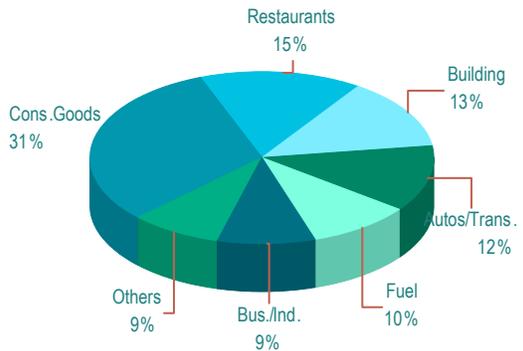
Amazon.com recently lost a court challenge to the New York law and has threatened to drop its affiliates to avoid losing the competitive advantage of not having to collect and pay sales tax. California's governor has also indicated his opposition.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP

Oceanside This Quarter



OCEANSIDE TOP 15 BUSINESS TYPES

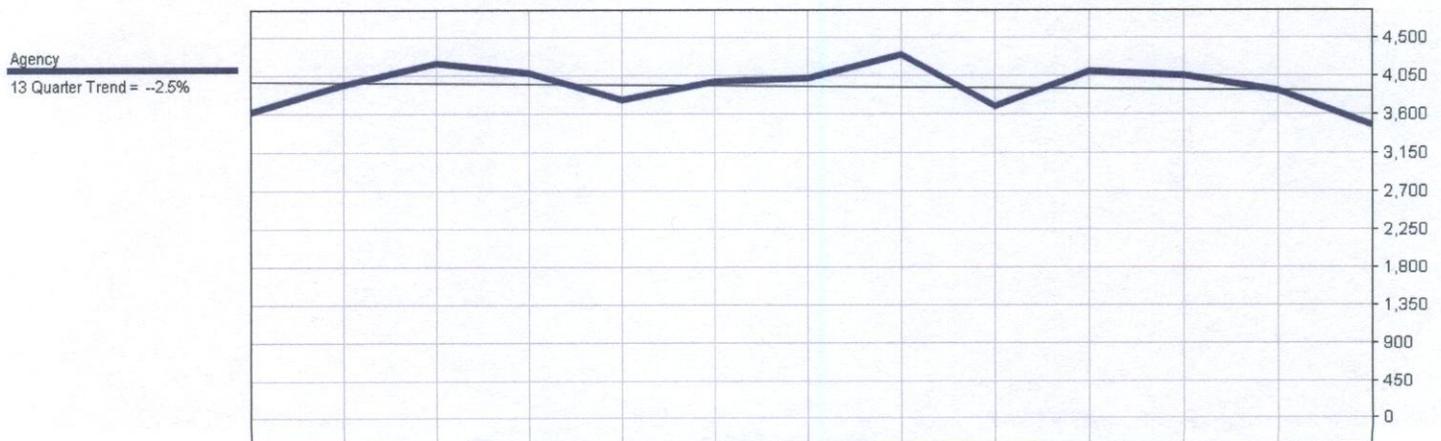
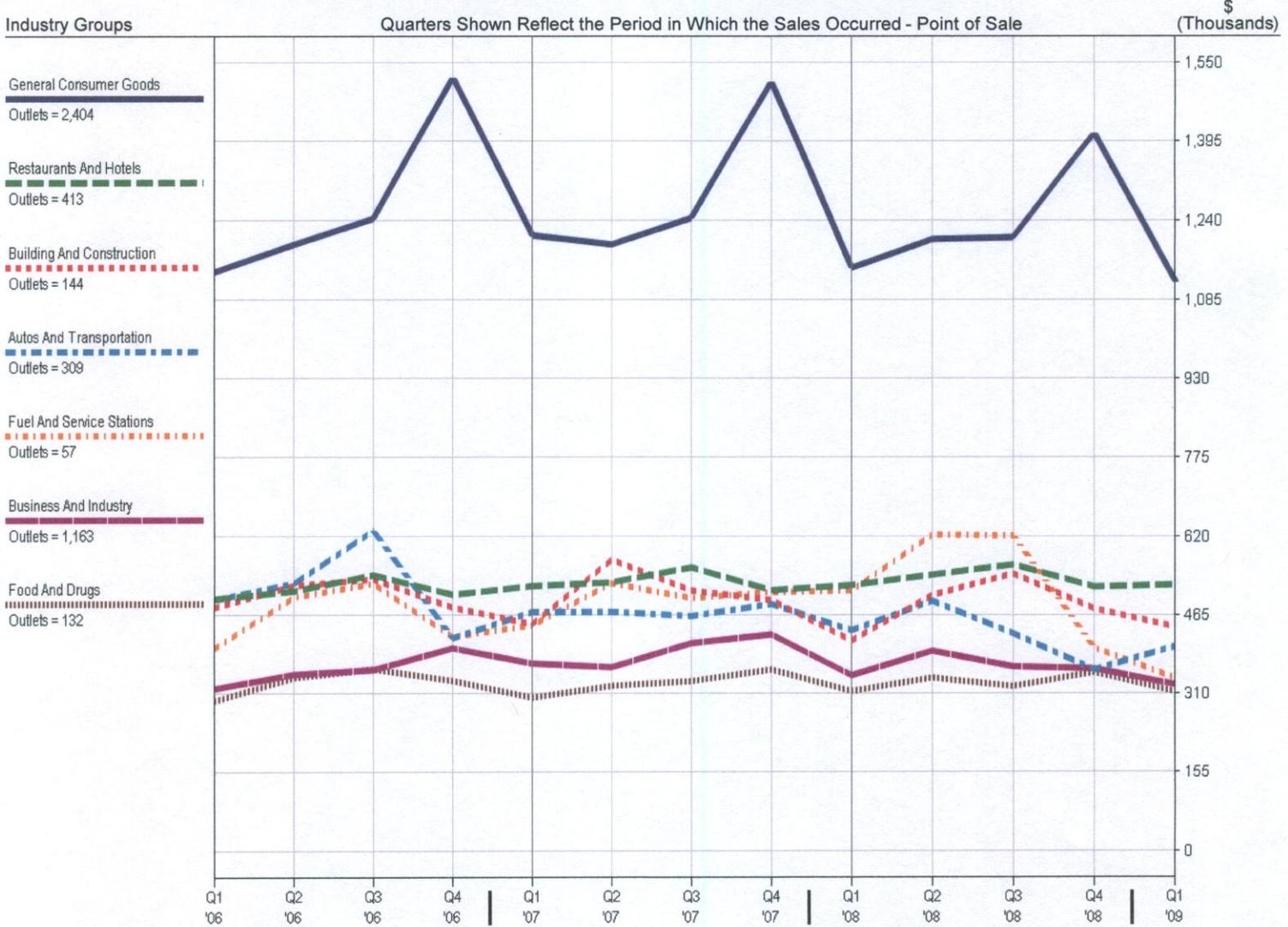
Business Type	Oceanside		County	HdL State
	Q1 '09*	Change	Change	Change
Discount Dept Stores	\$458.1	2.3%	-4.8%	-3.3%
Service Stations	347.6	-33.2%	-34.5%	-35.3%
Restaurants No Alcohol	285.6	10.4%	-2.8%	-2.7%
Contractors	252.2	156.8%	-17.4%	-23.8%
Lumber/Building Materials	199.9	-15.1%	-18.8%	-22.6%
Grocery Stores Liquor	160.4	-2.0%	-1.4%	-1.8%
New Motor Vehicle Dealers	155.9	-14.8%	-24.7%	-27.7%
Electronics/Appliance Stores	148.6	1.8%	-7.7%	-6.6%
Restaurants Liquor	145.9	5.6%	-2.7%	-2.1%
Specialty Stores	110.8	-4.5%	-10.3%	-7.9%
Used Automotive Dealers	104.5	72.0%	-21.0%	-25.9%
Restaurants Beer And Wine	103.7	-4.1%	-7.1%	-10.0%
Office Equipment	88.9	0.7%	-11.0%	-35.4%
Sporting Goods/Bike Stores	81.8	6.5%	-7.0%	-6.6%
Automotive Supply Stores	72.8	-0.4%	-8.4%	-6.4%
Total All Accounts	\$3,566.5	-2.7%	-15.4%	-17.6%
County & State Pool Allocation	411.8	-0.2%		
Gross Receipts	\$3,978.4	-2.5%		<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.**

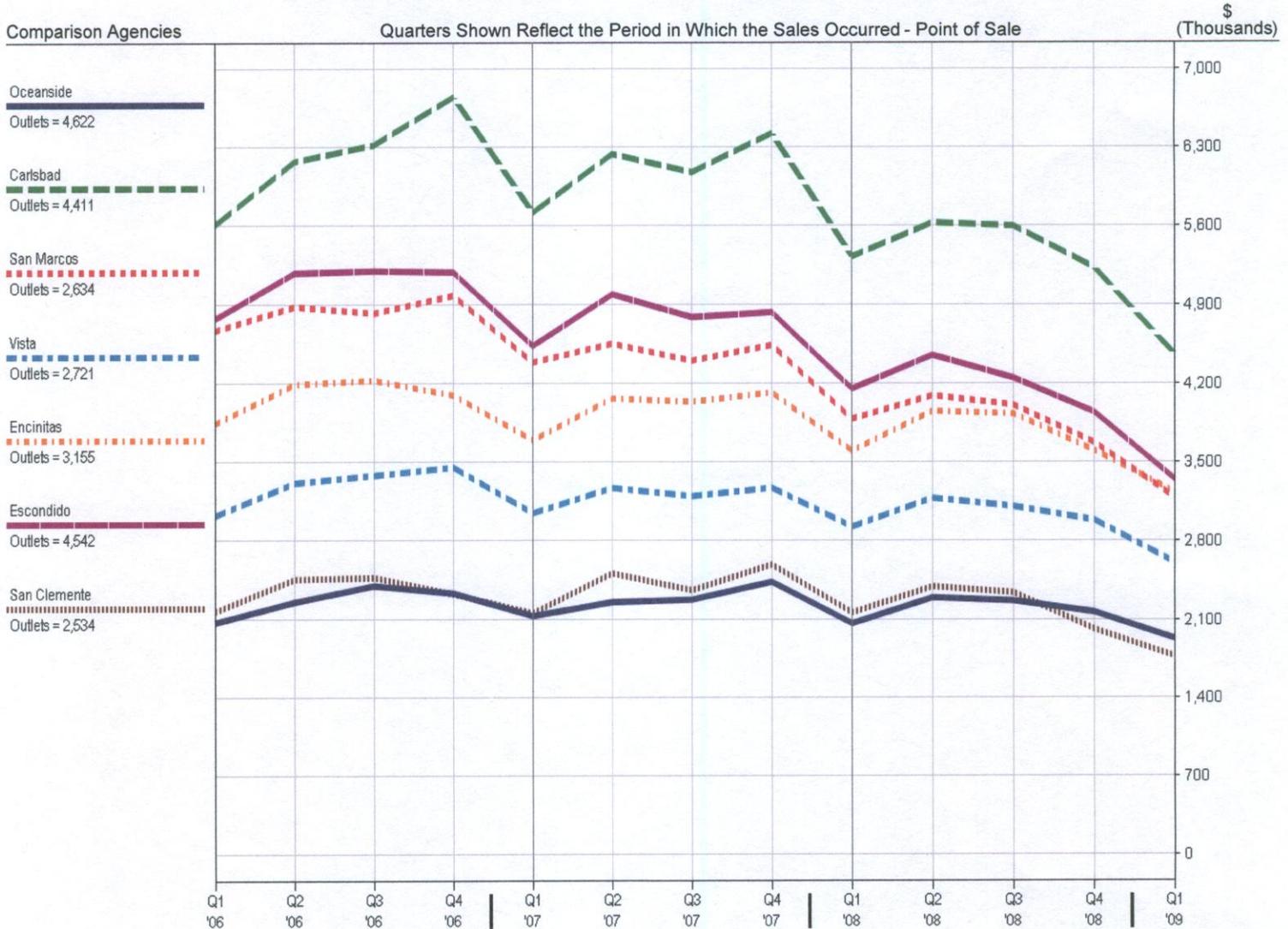




CITY OF OCEANSIDE ALL BUSINESS TYPES - 13 QUARTER HISTORY

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

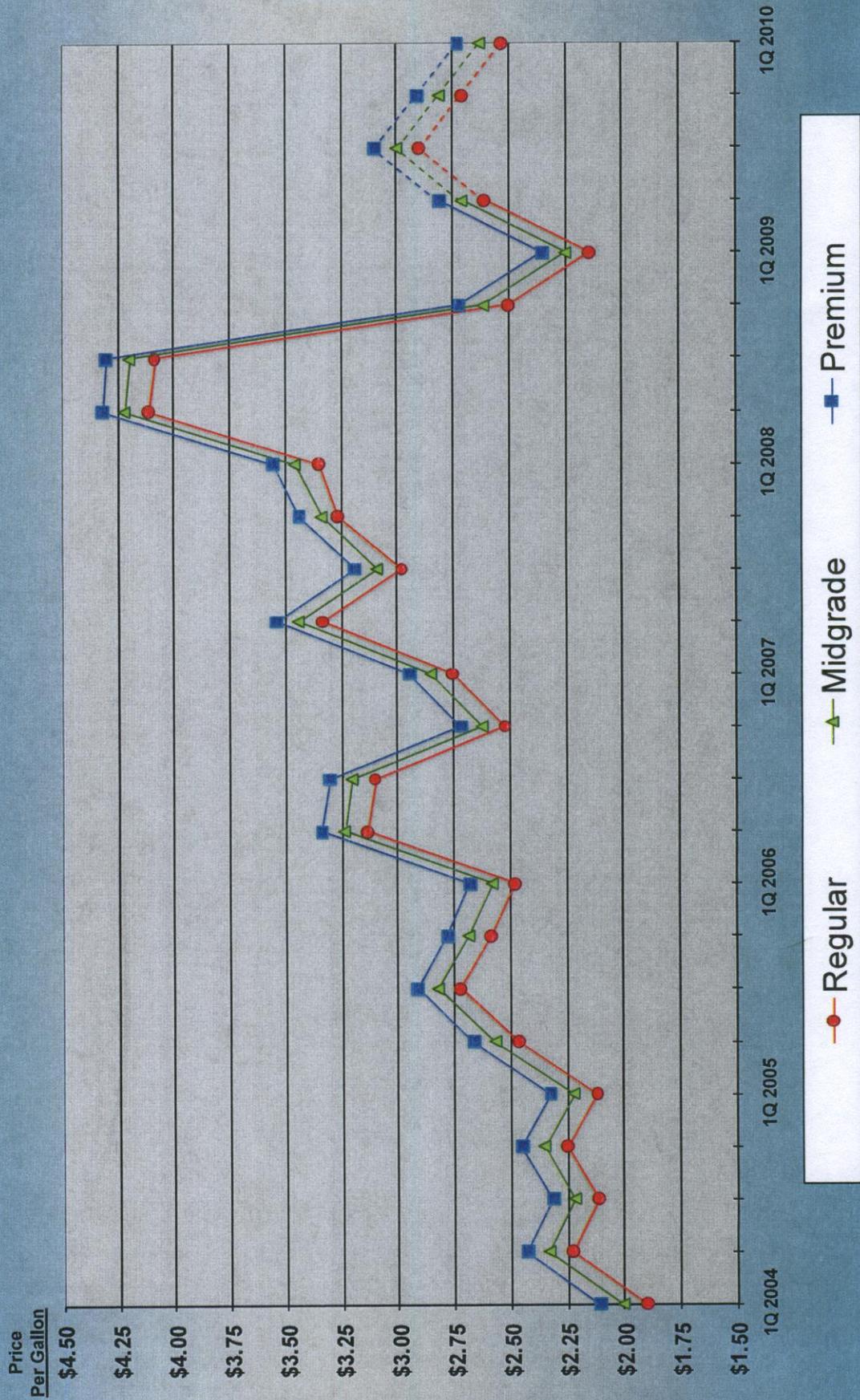
Chart Description: This chart compares **per capita** sales to that of 6 other jurisdictions. The prior 12 quarters are shown graphically for historical reference purposes. **Allocations have been adjusted to reflect economic data.**





CALIFORNIA RETAIL GASOLINE PRICES

1st Quarter 2004 - 1st Quarter 2010 (projected)



Source: Energy Information Administration & The HDL Companies