



CITY OF OCEANSIDE
SALES TAX NEWSLETTER
Sales for First Quarter of Calendar Year 2011
(City Revenue for Fourth Quarter of Fiscal Year 2010-2011)

OVERVIEW

This newsletter covers the City's sales tax revenues received for sales occurring from January through March 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 March 31st quarter data was remitted to the City in July and is the most recent data available. The revenues were received by the City in April through June 2011, which completes the FY 10/11 budget cycle.

Oceanside's revenues for the first quarter of 2011 increased by 1.6% compared to the same quarter last year. On a statewide basis, sales tax revenues were 7.5% higher than the same quarter one year ago while all of San Diego County increased 8.7% over the comparable time.

General Consumer Goods decreased almost 3.9% as shoppers are leaving the discount stores and returning to department stores. During the past few years, a "bubble" was created as shoppers migrated to the discount stores, but that trend is reversing. Also, many discount stores are now selling groceries which enhance their sales, but since they are not taxable goods it does not benefit the City's tax revenues.

Restaurants & Hotels had a decrease of almost 3% based on several closed businesses.

Building & Construction category reflects a decrease of 2.5% as contractors' activity declines. The City was recently notified by SBOE that they have completed their "allocation group decision" based on a petition filed by the City of San Diego regarding Hanson Aggregates.

It was determined that this taxpayer has a centralized phone order desk in San Diego that receives all incoming sales orders, and SBOE regulations require all Hanson sales tax revenues to be allocated to the City of San Diego. While this impacts the City of Oceanside, along with seven other cities, we have anticipated this action and taken precautionary measures to absorb the retraction of payments.

Fuel & Service Stations continues to reflect increases, with a 21.6% increase for this quarter. Higher prices at the pump on a statewide basis lead to additional revenues to the City.

Autos & Transportation increased 8% due to nice growth in the new automotive as well as used automotive dealerships. Used autos are doing well, but there is a limited supply since fewer cars are being traded in.

Business & Industry increased 21.3% predominantly due to strong sales from one business. This is not expected to be a trend due to the type of business activity.

Food & Drugs has decreased 9.2% due to a change in reporting period for one business.

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 6.2% decrease this quarter.

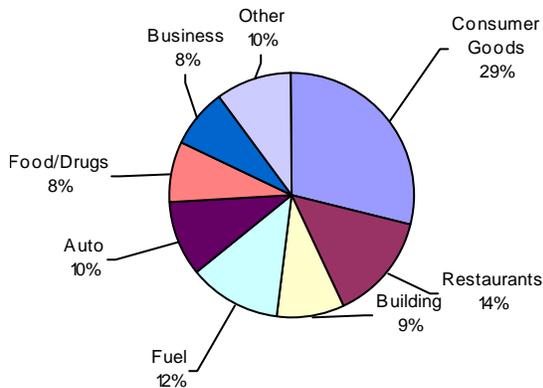
Sales Tax Receipts by Type

| Major Industry Groups | 1 st Qtr 11 | 1 st Qtr 10 | % Change |
|-------------------------|------------------------|------------------------|--------------|
| General Consumer Goods | \$1,072,246 | \$1,115,531 | -3.88% |
| Restaurants & Hotels | \$524,710 | \$540,706 | -2.96% |
| Building & Construction | \$358,693 | \$367,700 | -2.45% |
| Fuel & Service Stations | \$574,130 | \$472,072 | 21.62% |
| Autos & Transportation | \$364,008 | \$337,326 | 7.91% |
| Business & Industry | \$315,278 | \$259,860 | 21.33% |
| Food & Drugs | \$267,117 | \$294,187 | -9.20% |
| County/State Pool | \$404,034 | \$430,898 | -6.23% |
| Total | \$3,880,216 | \$3,818,280 | 1.62% |

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 FY 10/11 totals \$11,421,155 or 95% of budgeted projections (this amount does not include the final June accrual which the City typically receives the end of August). 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 estimates an approximate \$500-\$600k surplus over budgeted revenues for FY 10/11 once the accruals have been posted.

Sales Tax Budget vs. Receipts As of June 30, 2011



The Consumer Confidence Index was posted at 59.5 in July. (Note: a reading of 90+ would signal a stabilized consumer).

Says Lynn Franco, Director of The Conference Board Consumer Research Center: "Consumer's appraisal of current business and employment conditions ... [is] less favorable as concerns about the labor market continue to weigh on consumers' attitudes. Overall, consumers remain apprehensive about the future..."

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.

Q1 2011



City of Oceanside Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (Jan-Mar 2011)

Oceanside In Brief

Receipts for Oceanside's January through March sales were 1.6% higher than the same quarter one year ago. Actual sales activity was up 3.0% when reporting aberrations were factored out.

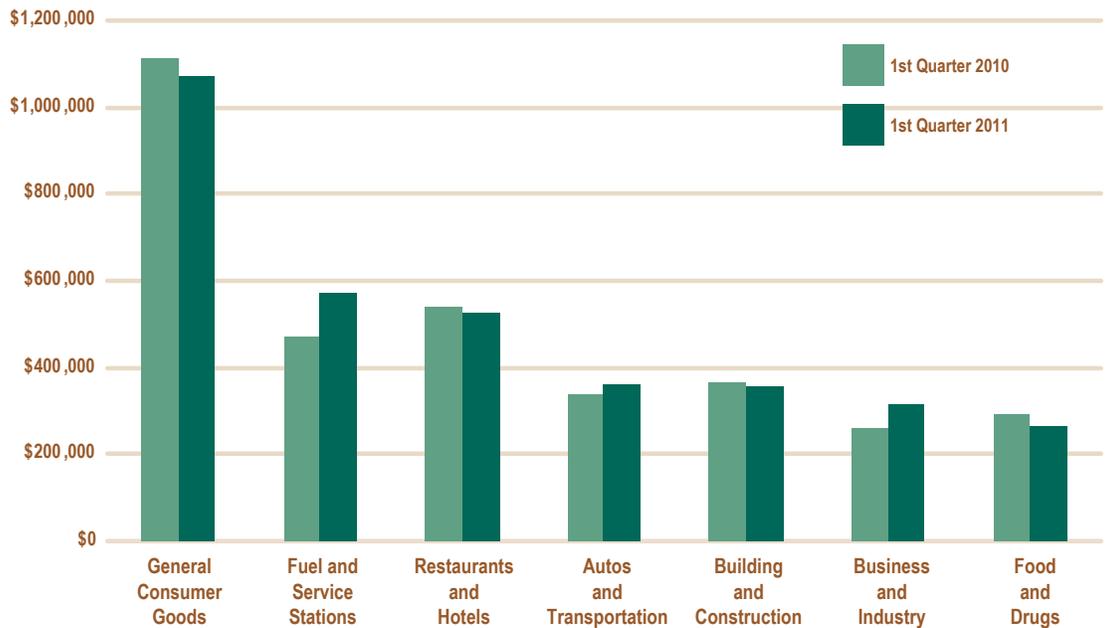
Higher prices helped boost revenues from fuel & service stations, a significant factor in the city's overall increase. In addition, the business & industry group benefited from a new repair shop and strong sales from electrical equipment and light industrial supplies. Increased receipts from auto sales were primarily responsible for lifting revenues from the autos & transportation sector.

The gains were partially offset by losses from restaurants & hotels, where sales from restaurants with beer, wine & liquor were down. Losses from discount retailers were a factor in the decrease from general consumer goods.

Building & construction posted a decline overall largely due to decreases from contractor supplies. An accounting adjustment from grocery stores with liquor was primarily responsible for temporarily depressing the results from the food & drugs group.

Adjusted for aberrations, taxable sales for all of San Diego County increased 9.1% over the comparable time period, while the Southern California region as a whole was up 8.7%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

| | |
|---------------|------------------------------|
| 7 Eleven | Morally Wholesale |
| Albertsons | Moshen Oil |
| Best Buy | Mossy Nissan |
| Chevron | Oceanside Gas & Market |
| Chevron | One Source Distributors |
| CVS Pharmacy | Plaza Drive Arco |
| Discount Tire | Ross |
| Home Depot | San Luis Rey Service Station |
| Kohls | Stater Bros |
| Lowes | Target |
| McDonalds | Walmart |
| Melrose Arco | |
| Mission AM PM | |
| Mobil Oil | |

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

| | 2009-10 | 2010-11 |
|-----------------------|---------------------|---------------------|
| Point-of-Sale | \$14,466,308 | \$14,709,394 |
| County Pool | 1,668,761 | 1,756,961 |
| State Pool | 12,784 | 6,660 |
| Gross Receipts | \$16,147,853 | \$16,473,015 |
| Less Triple Flip* | \$(4,036,963) | \$(4,118,254) |

*Reimbursed from county compensation fund

Statewide Sales on the Rise

Adjusted for accounting aberrations, California's local sales and use tax revenues from transactions during the first quarter of 2011 were 9.2% higher than the previous year's comparable quarter. This represents the fifth consecutive quarter of recovery and the largest percentage gain since the second quarter of 2005. Total annual revenues however, are still 14.8 % below 2006-2007.

Most regions of the state shared in the increase with the largest contributor coming from a dramatic surge in fuel prices. Allocations from new car sales also were a factor with a statewide gain of 19.8% over the first quarter of 2010. Revenues from full service restaurants and consumer electronics exhibited increases of 10% or more.

California Outlook

The good news is that California's economy is recovering and sales tax growth will follow. However, gains in the next two quarters will be held back by temporary supply chain disruptions caused by the earthquake and tsunami in Japan and by reduced consumer spending as rising gas prices cut into disposable incomes. New uncertainties from further declines in home values and additional government layoffs may also soften consumer spending and business investment for the first half of the fiscal year.

Sales tax growth is expected to pick up in the second half although sluggish improvement in employment and lackluster construction spending will continue to affect the economies of the state's inland regions.

Internet Taxation

Under federal case law, states cannot require businesses without a physical presence in their state to collect sales tax. Companies such as Amazon have built their business plans around avoiding collecting the tax thereby put-

ting local brick and mortar stores at a competitive disadvantage.

This year, California has attempted to partially correct the inequity through the passage of ABX1 28 which combines the differing strategies of three previous bills with each designed to be severable in the event of a successful court challenge.

The first follows the lead of New York State by declaring that internet sales through a host of in-state affiliates constitutes "substantial nexus" and therefore makes sales through those affiliates subject to sales tax. ABX1 28 also prevents companies with in-state brick and mortar stores from treating those stores as separate legal entities to avoid collecting tax on internet sales. The third strategy permits the state to use a revised definition of "engaged in business in this state" if future court decisions expand the definition of nexus so that internet sellers must collect sales tax in their customers' jurisdictions.

ABX1 28 is expected to increase

statewide tax collections by \$317 million annually, with local governments splitting about \$39 million or roughly \$1.00 per capita. Revenues from these out of state sales would be distributed primarily though the countywide use tax allocation pools.

Staying Alive (shrinking retailers)

Agencies in smaller market areas may have fresh opportunities for new retail with big box stores now planning on smaller facilities. Reducing floor area is seen as another method of cost containment as consumer thriftiness keeps pressure on corporate profit margins. JC Penney, Petsmart, TJ Maxx and Staples have announced plans to build stores up to 40% smaller than their existing locations while Best Buy is planning to sublease part of the space in their existing stores and retail giant Wal-Mart is experimenting with stores as small as 14,000 square feet to recapture lost market share from dollar stores.

OCEANSIDE TOP 15 BUSINESS TYPES

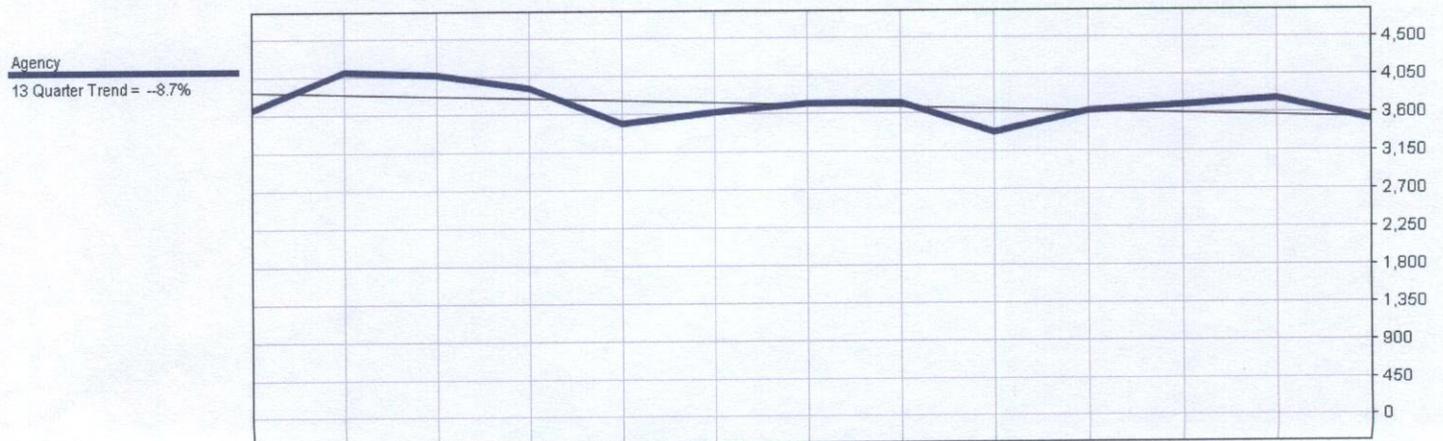
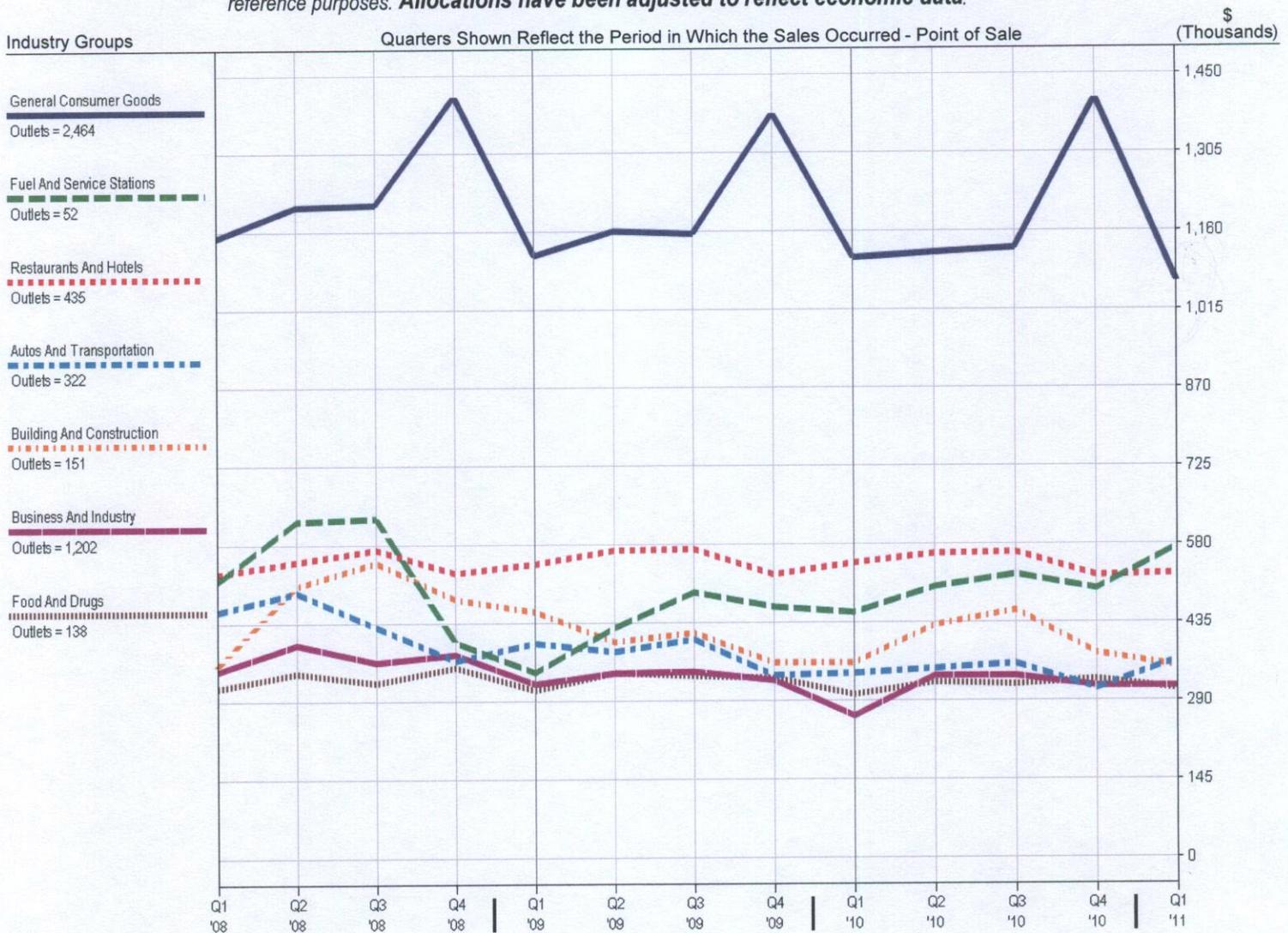
| Business Type | Oceanside | | County | HdL State |
|---|------------------|--------------|-------------|----------------------|
| | Q1 '11* | Change | Change | Change |
| Automotive Supply Stores | 79.0 | 4.5% | 7.3% | 5.8% |
| Contractors | 110.6 | -9.9% | 7.5% | 2.7% |
| Discount Dept Stores | 423.3 | -10.2% | 1.2% | 2.1% |
| Electrical Equipment | 106.2 | 83.9% | 27.3% | 9.7% |
| Electronics/Appliance Stores | 147.1 | 1.2% | 6.1% | 11.9% |
| Family Apparel | 97.7 | 2.2% | 5.8% | 3.8% |
| Grocery Stores Liquor | 111.3 | -27.5% | -18.9% | -12.6% |
| Lumber/Building Materials | 229.4 | 1.5% | 2.6% | 2.5% |
| New Motor Vehicle Dealers | 132.7 | 15.2% | 20.0% | 20.0% |
| Restaurants Beer And Wine | 90.6 | -10.3% | -7.2% | -2.8% |
| Restaurants Liquor | 148.0 | -6.8% | 9.5% | 8.1% |
| Restaurants No Alcohol | 272.9 | 2.2% | 11.6% | 8.6% |
| Service Stations | 565.1 | 19.7% | 22.6% | 19.8% |
| Specialty Stores | 100.1 | -2.8% | 5.1% | 3.2% |
| Sporting Goods/Bike Stores | 73.2 | 6.6% | 4.0% | 3.5% |
| Total All Accounts | \$3,476.2 | 2.6% | 8.7% | 7.5% |
| County & State Pool Allocation | 404.0 | -6.2% | | |
| Gross Receipts | \$3,880.2 | 1.6% | | <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.**



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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 other jurisdictions. The prior 12 quarters are shown graphically for historical reference purposes. **Allocations have been adjusted to reflect economic data.**

Comparison Agencies

Quarters Shown Reflect the Period in Which the Sales Occurred - Point of Sale

