



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

OVERVIEW

This newsletter covers the City's sales tax revenues received for sales occurring from April through June 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 June 30th quarter data was remitted to the City in October and is the most recent data available. The revenues were received by the City in July through September 2011.

Oceanside's revenues for the second quarter of 2011 increased by 4.7% compared to the same quarter last year. On a statewide basis, sales tax revenues were 10.1% higher than the same quarter one year ago while all of San Diego County increased 8.0% over the comparable time.

General Consumer Goods increased over 3.6% with positive growth in family apparel, home furnishings and electronics.

Restaurants & Hotels had a slight increase of 2.4% based on double payments from several businesses.

Building & Construction category has decreased 9.8% which reflects a payment deviation on one business.

Fuel & Service Stations continues to reflect increases, with a 27% increase for this quarter. Higher prices at the pump on a statewide basis led to additional revenues to the City.

Autos & Transportation increased almost 13%, there were some double payments, but overall the businesses were up in real terms.

Business & Industry decreased 5% which reflects an error by SBOE that will reverse out next quarter, along with prior year deviations (i.e. one-time use tax in 2010).

Food & Drugs has increased 3.6% due to an additional business.

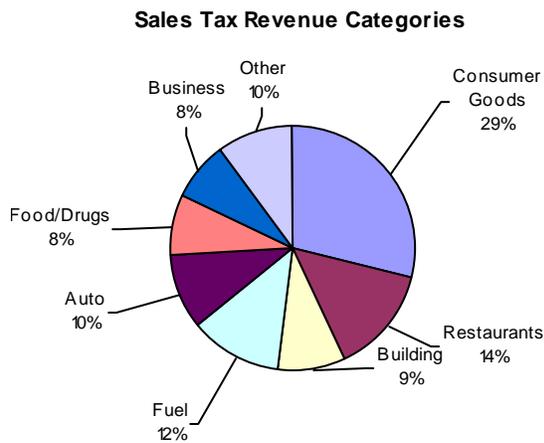
County/State Pool this category reflects revenues the City receives from "use taxes" paid by out-of-state buyers which do not involve a specific "point of sale" in California. Per the Bradley Burns Uniform Tax Law, a pooling system was devised to distribute any sales tax that cannot be easily tied to 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 an 1.9% increase this quarter.

Sales Tax Receipts by Type

| Major Industry Groups | 2 nd Qtr 11 | 2 nd Qtr 10 | % Change |
|-------------------------|------------------------|------------------------|--------------|
| General Consumer Goods | \$1,140,650 | \$1,099,259 | 3.63% |
| Restaurants & Hotels | \$608,500 | \$594,320 | 2.39% |
| Building & Construction | \$431,681 | \$478,973 | -9.87% |
| Fuel & Service Stations | \$641,044 | \$504,219 | 27.14% |
| Autos & Transportation | \$402,672 | \$356,981 | 12.80% |
| Business & Industry | \$322,359 | \$340,371 | -5.29% |
| Food & Drugs | \$340,516 | \$328,507 | 3.66% |
| County/State Pool | \$445,974 | \$437,669 | 1.90% |
| Total | \$4,333,396 | \$4,140,299 | 4.66% |

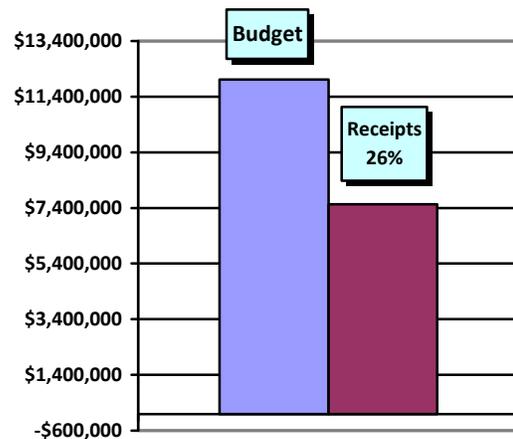
OUTLOOK

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 July-September 2011 totals \$3,146,447 or 26% of budgeted projections (this amount includes revenues posted through November 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 meet the projected revenues for FY 11/12.

**Sales Tax Budget vs. Receipts as of
September 30, 2011**



The Consumer Confidence Index was posted at 56 in November. (Note: a reading of 90+ would signal a stabilized consumer).

Says Lynn Franco, Director of The Conference Board Consumer Research Center: "Confidence has bounced back to levels last seen during the summer (July 2011, 59.2). Consumers' assessment of current conditions finally improved, after six months of steady declines. Consumers' apprehension regarding the short-term outlook for business conditions, jobs and income prospects eased considerably. Consumers appear to be entering the holiday season in better spirits, though overall readings remain historically weak."

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.

Q2 2011



City of Oceanside Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (Apr-Jun 2011)

Oceanside In Brief

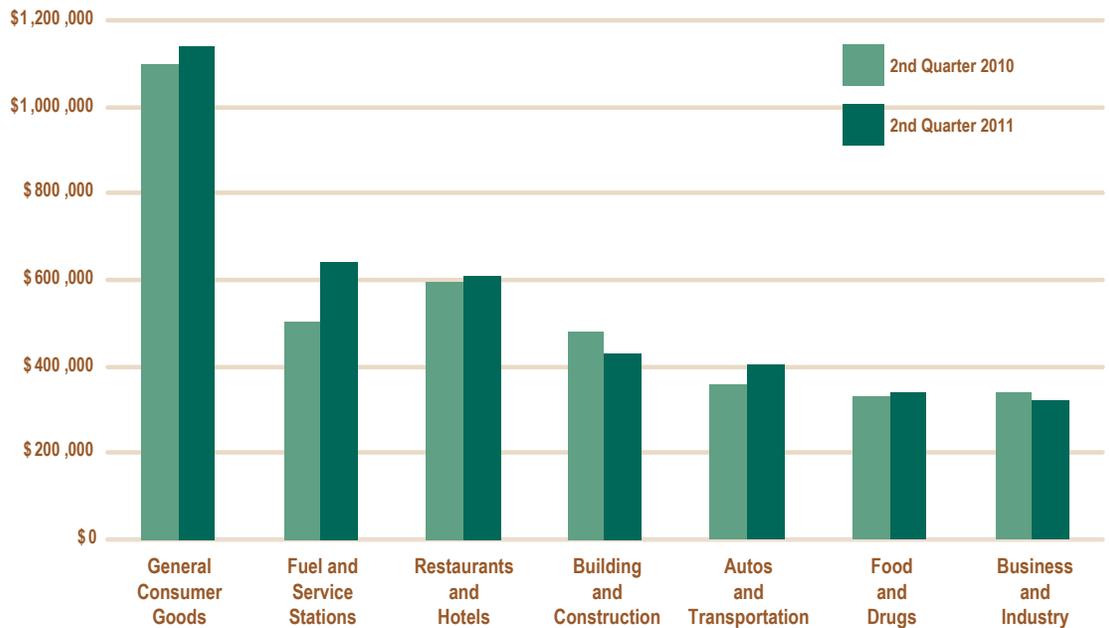
Receipts from second quarter sales were up 4.7% compared to the same sales period one year earlier but payment aberrations skewed the data. With anomalies factored out, actual sales increased 5.4%.

As in most areas of the state, higher prices at the pump boosted service station results. Gains in the electronics/appliance store, family apparel and sporting goods/bike stores contributed to overall general consumer goods increases. New business additions added to drug store, restaurants no alcohol and restaurants with liquor categories. Sales for several business types in the autos and transportation group were up. A payment coding error caused the jump in office supplies/furniture totals (a correction is pending) and offset declines in several business and industry categories. Actual business and industry results were weaker than they appeared.

A drop in receipts from the contractor group was the primary cause of the building and construction decrease, but an accounting adjustment that boosted year-ago receipts exaggerated the negative results. Similar retroactive adjustments caused the restaurant with beer/wine drop.

With reporting aberrations factored out, all of San Diego County was up 9%; statewide sales gained 9.7%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS In Alphabetical Order

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

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

| | 2010-11 | 2011-12 |
|--------------------------|----------------------|----------------------|
| Point-of-Sale | \$3,702,382 | \$3,887,423 |
| County Pool | 435,924 | 448,275 |
| State Pool | 1,995 | (2,302) |
| Gross Receipts | \$4,140,301 | \$4,333,396 |
| Less Triple Flip* | \$(1,035,075) | \$(1,083,349) |

*Reimbursed from county compensation fund

Statewide Results

California's local sales and use tax revenues for sales occurring April through June 2011 were 9.4% higher than the same quarter of 2010 after payment aberrations were removed. This marks the sixth consecutive quarter of growth since the recovery began.

Higher fuel prices accounted for much of the statewide increase. Easing consumer credit, sales incentives and pent up demand led to gains in new auto sales while consumers also showed signs of spending more freely in specialty stores, home furnishings, apparel categories, jewelry and restaurants.

Electronics sales in the Bay Area sharply outpaced statewide results and highlighted the continued strength of tech-oriented business in that region. Stimulus funded infrastructure projects produced temporary gains in sales tax on concrete, asphalt and aggregates but are expected to wane later in the year as funding is depleted.

Increased airport traffic and auto rentals suggest that travel and leisure sales are in a recovery mode.

Fuel Prices Boosting Receipts

Second quarter fuel sales represented 38% of the total statewide sales tax increase. California consumers paid an average of \$3.94 per gallon the week of September 12th, 94 cents higher than the same period of 2010, but below the all-time high of \$4.59 in 2008. Crude oil prices, which account for about 85% of gasoline price variability, were \$90.21 a barrel in September 2011 versus \$141.06 in the summer of 2008.

Although future gas prices are expected to decline from this year's highs, increased exports of U.S. refinery output to other countries are expected to keep prices here at elevated levels.

Growth in the Hourglass Economy

The good news is that the economy is in recovery, the bad news is this may be as good as it gets according to a recent International Monetary Fund report

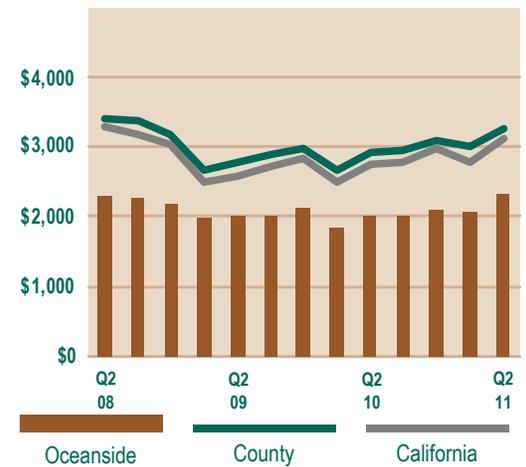
which highlights problems caused by a shift to an hourglass economy.

This type of economy is characterized by a large and expanding group at the top with high skills and high incomes offset by an expanding group at the bottom with low skills and low pay. The middle levels traditionally composed of skilled or semi-manual workers in good paying jobs continue to decline, giving the occupational income profile of the economy its distinctive shape. The 2010 Census revealed that most Americans' inflation-adjusted incomes were either stagnate or in decline with the proportion of people living in poverty now at 15.3% while 24% of the nation's wealth is concentrated in the top 1/10th of one percent.

Consumer spending has historically accounted for 70% of economic output and with the wealthiest 5% of Americans now accounting for 37% of all consumer spending, retailers are bifurcating their marketing strategies into sales of high end and low end goods while reducing offerings for the disappearing middle class. Economists say

the dependency on just a small portion of the population for increased spending limits future growth potential and fosters more boom and bust cycles. This is because the wealthy splurge and speculate when their savings are doing well and quickly cut back when the value of their assets tumble. Analysts further argue that this lack of growth potential is why major corporations are sitting on record profits and not investing in more employees.

SALES PER CAPITA



OCEANSIDE TOP 15 BUSINESS TYPES

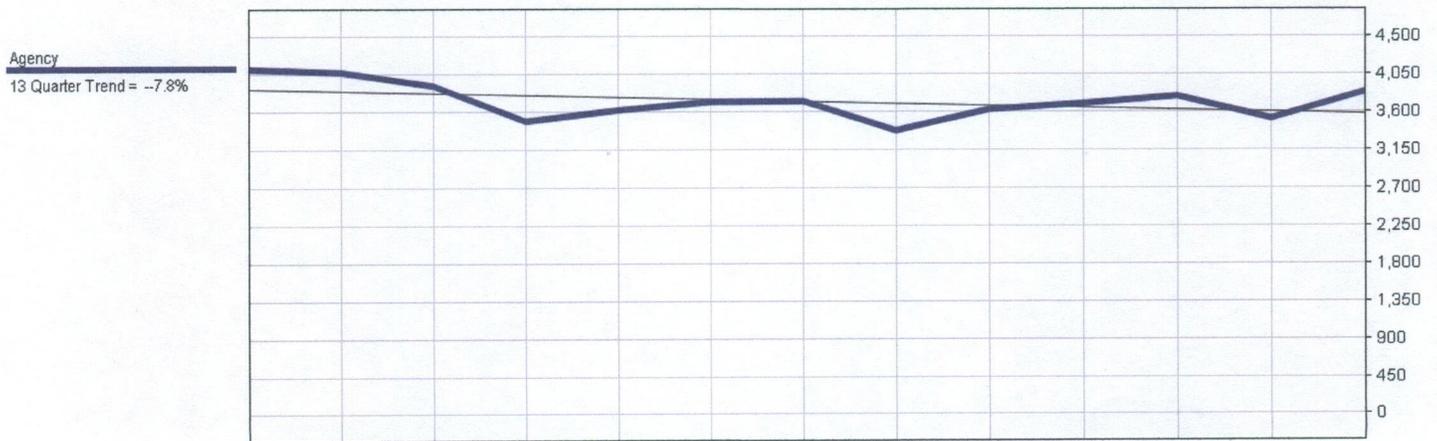
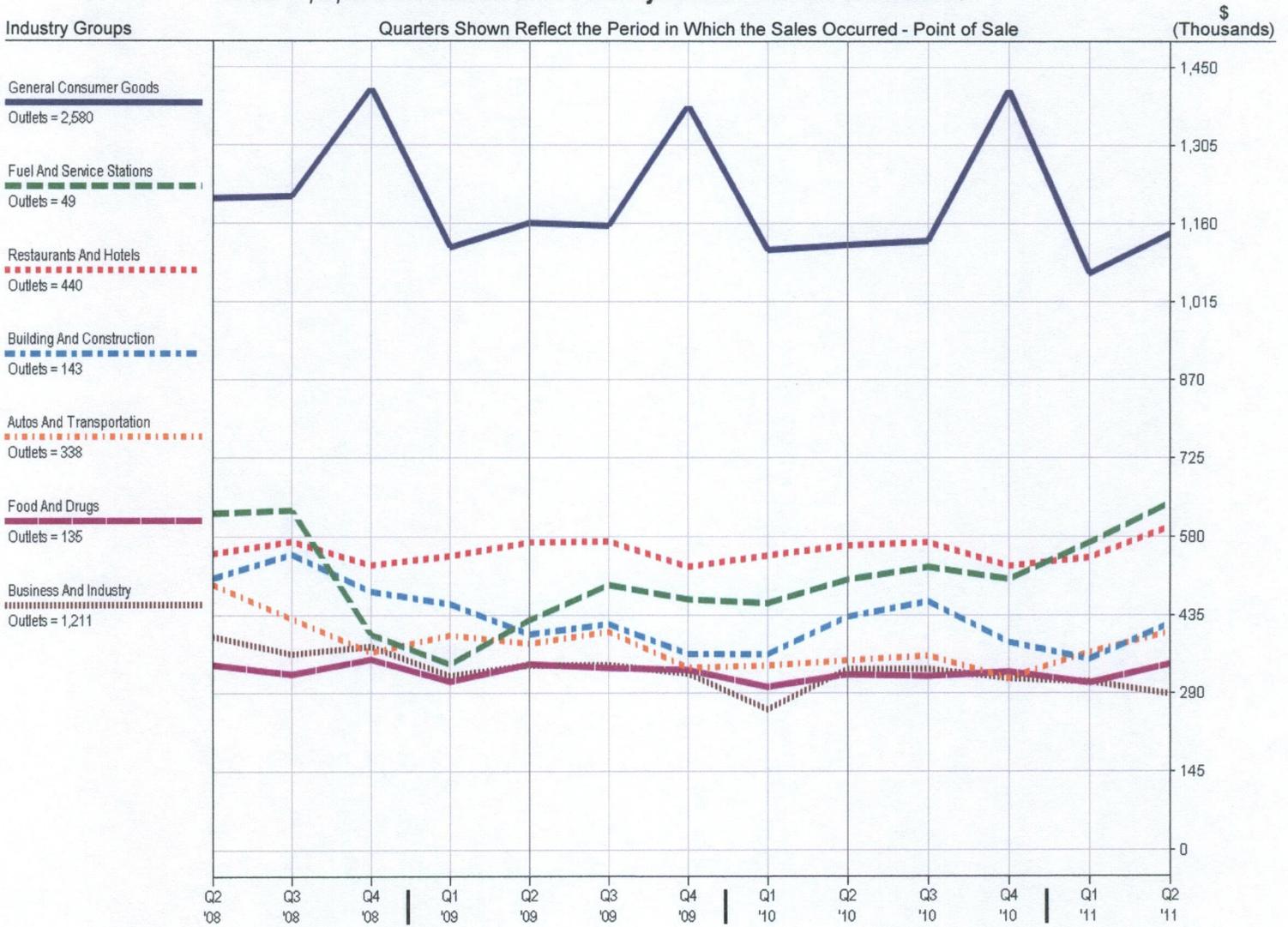
| Business Type | Oceanside | | County | HdL State |
|---|------------------|-------------|-------------|----------------------|
| | Q2 '11* | Change | Change | Change |
| Automotive Supply Stores | 85.3 | 17.4% | 7.7% | 6.5% |
| Contractors | 158.6 | -22.8% | 10.2% | 7.6% |
| Discount Dept Stores | 460.3 | 0.1% | 6.5% | 6.4% |
| Electronics/Appliance Stores | 155.1 | 11.8% | 13.5% | 3.2% |
| Family Apparel | 111.0 | 8.2% | 13.3% | 12.7% |
| Grocery Stores Liquor | 173.4 | 2.0% | 2.2% | 1.5% |
| Lumber/Building Materials | 247.8 | -0.8% | 2.7% | 1.4% |
| New Motor Vehicle Dealers | 145.5 | 20.3% | 10.1% | 9.8% |
| Office Supplies/Furniture | 74.8 | 72.3% | 68.7% | 43.0% |
| Restaurants Beer And Wine | 101.8 | -12.3% | -8.1% | -1.1% |
| Restaurants Liquor | 184.3 | 13.6% | 6.2% | 8.6% |
| Restaurants No Alcohol | 306.6 | 1.7% | -0.8% | 3.5% |
| Service Stations | 640.8 | 28.4% | 29.1% | 31.0% |
| Specialty Stores | 101.0 | -5.7% | 1.8% | 5.3% |
| Sporting Goods/Bike Stores | 74.7 | 1.1% | 3.7% | 6.0% |
| Total All Accounts | \$3,887.4 | 5.0% | 8.0% | 10.1% |
| County & State Pool Allocation | 446.0 | 1.8% | | |
| Gross Receipts | \$4,333.4 | 4.7% | | <i>*In thousands</i> |

CITY OF OCEANSIDE MAJOR INDUSTRY GROUPS - 13 QUARTER HISTORY

**ADJUSTED FOR
ECONOMIC DATA**

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 FOR
ECONOMIC DATA

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

\$

