Q4 2016

National City Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (October - December 2016)

National City In Brief

National City's receipts from October through December were 6.0% above the fourth sales period in 2015. Excluding reporting aberrations, actual sales were up 3.4%.

The countywide use tax pool contributed the most to the overall improvement, though this gain was exaggerated by a onetime audit recovery from a business-industrial supplier.

New car sales also increased, aided by the largest dealer incentives available since 2009 as national automakers struggle to maintain market share.

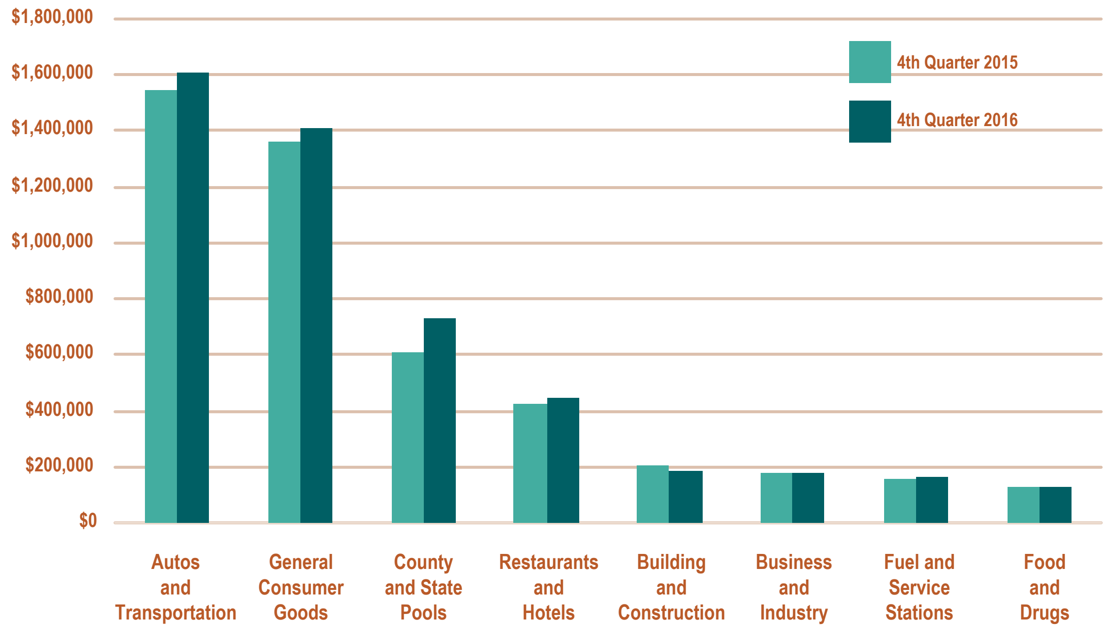
A new merchant lifted family apparel, while double payments from two specialty stores inflated results.

Building and construction was the only major category to fall, but this loss was the result of a misallocation received last year. Absent this aberration, the sector would have otherwise posted a 9% gain amidst a vibrant regional construction market.

National City's voter approved Measure D added $3,025,000 in revenue for the quarter, a 3.5% increase from last year.

Net of aberrations, taxable sales for all of San Diego County grew 2.6% over the comparable time period; the Southern California region was up 1.4%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- Arco AM PM
- Ball Honda Acura Mitsubishi Suzuki Kia
- Frank Hyundai
- Frank Subaru
- Frank Toyota Scion
- H & M
- JC Penney
- Macys
- Mossy Nissan
- Nordstrom Rack
- Perry Chrysler Dodge Jeep Ram
- Perry Ford
- Probuild
- Ron Baker Chevrolet
- Ross
- South Bay Volkswagen
- South County Buick GMC
- Sweetwater Harley Davidson
- T Mobile
- Target
- Toys R Us
- USA Gasoline
- Victoria's Secret
- Walmart Supercenter
- Wescott Mazda

Revenue Comparison

Three Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	$11,483,576	$12,026,303
County Pool	1,637,318	1,891,167
State Pool	12,958	7,100
Gross Receipts	$13,133,852	$13,924,570
Less Triple Flip*	$(3,283,463)	$0
Measure D	$8,054,265	$8,468,870

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NOTES

Statewide Results

Statewide sales tax receipts for the fourth quarter rose 1.5% over 2015, when excluding reporting aberrations.

The largest gain was in the countywide use tax allocation pools due to the acceleration in online shopping where many of the orders are placed to, or shipped from, out-of-state fulfillment centers. Restaurant and auto sales closed the calendar year with strong results while receipts from general consumer goods were flat. Off-price apparel and dollar store gains offset declines in traditional department stores and warehouse retailers.

Business and industry receipts were down due to cutbacks in major energy projects; however, huge gains in warehouse fulfillment centers that fill in-state shipments from online orders somewhat negated the decline.

On an annual basis, the statewide gain ended 2.1% higher than calendar year 2015.

The Shrinking, Disappearing Retail Store

Agencies dependent on traditional brick-and-mortar retail stores for a major portion of their sales tax will be facing new challenges in the coming year as merchants retrench and downsize to cope with a rapidly changing environment.

Generational preferences for experiences over merchandise, plus the growing costs of health care, education and housing, are reducing discretionary spending for taxable goods while time-challenged consumers are opting for the convenience of online shopping.

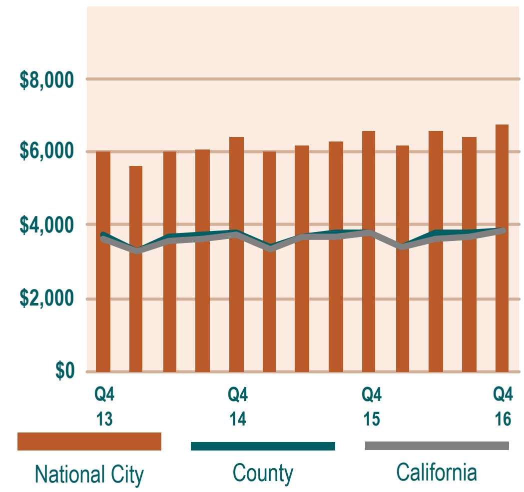
Online sales accounted for 13.0% of all general consumer goods purchased in 2016 with a 9.2% gain over calendar year 2015, while the growth in tax receipts from brick-and-mortar stores only grew 0.6%. The trend has been accelerated by the growing popularity of smart phones which Amazon estimates were used by nearly 70% of its shoppers during the most recent holiday quarter.

Retailers are responding by increasing their investment in mobile shopping platforms and delivery systems while pulling back investment on brick-and-mortar stores. Substantial closures are planned for 2017 while experiments with smaller stores, pick-up locations for online purchases, temporary "pop-up" shops and subleasing in-store space to others are on the rise.

Mall operators are turning to grocers, fitness centers, medical services and residential components to fill vacant space and attract traffic. Smaller centers and downtown areas are responding by enhancing the shopping experience with more dining and entertainment options while local governments seek voter approval for higher levies to offset shrinking tax bases.

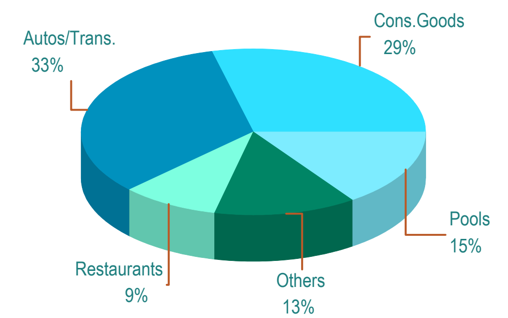
Stores are not in danger of disappearing. The ability to see, touch and feel, along with the overall shopping experience, will always be important. But evolving trends are requiring more focused economic strategies with better data and closer collaborations. The ultimate solution may be tax rates levied against today's economy rather than the one that existed when sales tax was first imposed in 1933.

Sales Per Capita



Revenue By Business Group

National City This Quarter



National City Top 15 Business Types

**In thousands of dollars*	National City		County	HdL State
Business Type	Q4 '16*	Change	Change	Change
Auto Lease	75.9	5.1%	7.3%	9.8%
Building Materials	143.9	9.5%	2.6%	0.7%
Casual Dining	163.4	3.2%	1.6%	2.9%
Department Stores	229.7	-0.9%	-8.1%	-5.6%
Discount Dept Stores	— CONFIDENTIAL —		-3.0%	-0.6%
Electronics/Appliance Stores	95.9	9.1%	-4.0%	-1.3%
Family Apparel	268.1	6.8%	0.6%	4.7%
Jewelry Stores	54.4	-5.1%	-2.1%	0.3%
New Motor Vehicle Dealers	1,264.9	4.5%	4.1%	5.6%
Quick-Service Restaurants	233.0	4.0%	6.8%	5.7%
Service Stations	161.7	1.9%	2.3%	-1.0%
Shoe Stores	83.7	15.3%	10.5%	4.5%
Specialty Stores	154.2	16.3%	5.8%	3.6%
Used Automotive Dealers	93.5	-4.1%	12.3%	7.6%
Women's Apparel	104.7	-3.1%	-0.2%	-0.5%
Total All Accounts	**4,118.9**	**3.9%**	**2.5%**	**2.4%**
County & State Pool Allocation	**730.6**	**19.5%**	**17.9%**	**6.9%**
Gross Receipts	**4,849.5**	**6.0%**	**4.6%**	**3.0%**