

Q1 2017



National City Sales Tax Update

Second Quarter Receipts for First Quarter Sales (January - March 2017)

National City In Brief

National City's receipts from January through March were flat compared to the first sales period in 2016.

Recent openings in family apparel and specialty stores boosted post-holiday receipts in general retail. New eateries in quick-service, casual dining and fast-casual restaurants lifted the restaurant-hotel group as a whole.

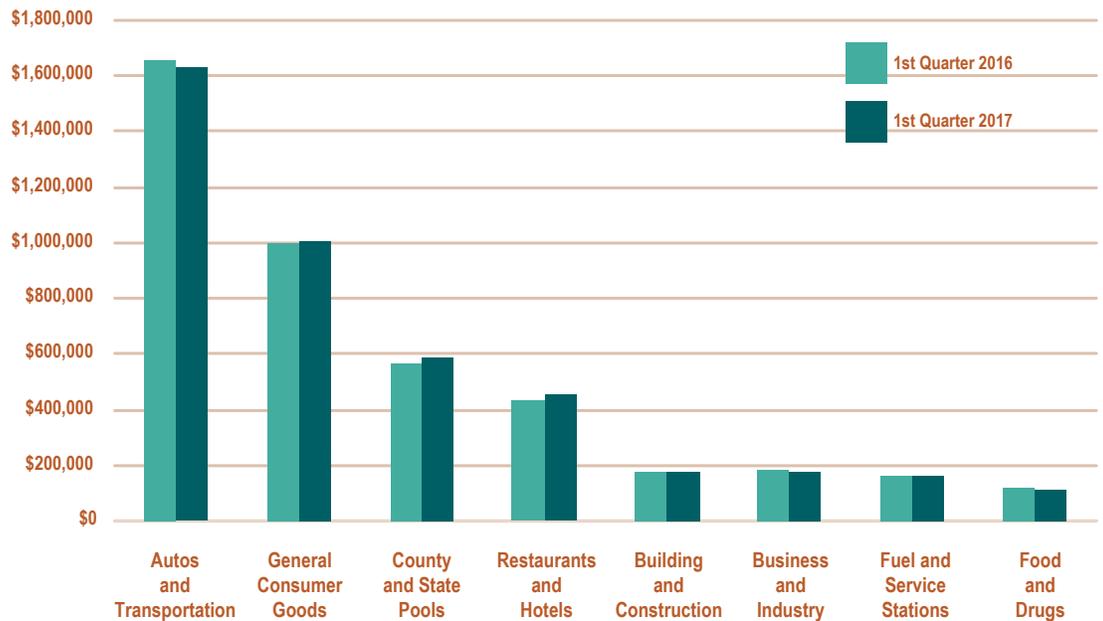
The rise in the countywide use tax allocation pool reflects the acceleration of online purchases and the increasing share of overall gross receipts compared to locally generated 'point of sale' revenue.

New auto sales trailed regional trends while auto lease revenue posted a double-digit gain over last year. Non-recurring events accounted for the decline in business to business sales activity.

Measure D, the city's voter-approved transactions tax, generated an additional \$2,573,000 reflecting growth in auto-related sectors, restaurants and service stations.

Net of aberrations, taxable sales for all of San Diego County grew 2.7% over the comparable time period; the Southern California region was up 2.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Arco AM PM	Probuild Company
Ball Honda Acura Mitsubishi Suzuki Kia	Ron Baker Chevrolet Ross
Frank Hyundai	South Bay Volkswagen
Frank Subaru	South County Buick GMC
Frank Toyota Scion	Sweetwater Harley Davidson
JC Penney	T Mobile
Macys	Target
Mor Furniture 4 Less	USA Gasoline
Mossy Nissan	Walmart Supercenter
National City Auto Center	Wescott Mazda
Nordstrom Rack	Westair Gases & Equipment
Perry Chrysler Dodge Jeep Ram	
Perry Ford	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$15,228,977	\$15,750,345
County Pool	2,207,395	2,472,720
State Pool	10,515	12,425
Gross Receipts	\$17,446,887	\$18,235,491
Less Triple Flip*	\$(3,283,463)	\$0
Measure D	\$10,658,585	\$11,042,368

Statewide Results

Local tax receipts from January through March sales were 2.1% higher than the first quarter of 2016 after factoring for accounting anomalies.

Rising fuel prices, auto sales, county use tax pool allocations and dining out added most to the overall gain. Some general consumer goods and B2B sales were flat or down.

This quarter reflects the start of an anticipated leveling off of future tax revenues. After seven years of recovery, analysts are reporting an end to the previous pent-up demand for autos. Demand for new cars will ease due to more buyers tied to long-term loans and a glut of used cars coming off lease.

Price competition and store closures have reduced tax receipts from consumer goods. Business investment remains strong but much of the growth is for non-taxable items such as cloud computing and large data solutions. Declines in foreign tourist visits and lower costs of eating at home are expected to slow the growth in restaurant sales.

New Sales Tax Organization

As of July 1, the operating divisions responsible for allocation of tax revenues other than property, insurance and alcoholic beverages will shift from the State Board of Equalization (BOE) to the Governor's new Department of Tax and Fee Administration.

The BOE was first established by constitutional amendment in 1879 to oversee property tax assessment practices by all counties in the state. It eventually became responsible for other tax revenues including sales, insurance, corporate franchise and special fees.

In 2011, HdL detected discrepancies in the BOE's allocation of public safety revenues which led to the recovery of over \$124 million in revenues for counties. Subsequent audits by the State

Controller and State Department of Finance revealed further shortcomings. The result was the passage of budget trailer bill SB86/AB102 that reduces the BOE to its previous constitutionally defined functions.

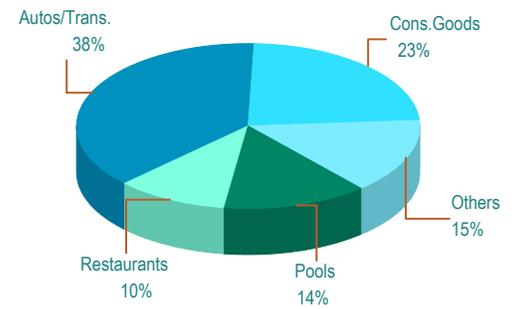
The BOE is also empowered to hear appeals and disputes over tax assessments including sales/use, personal income and corporate taxes and is the only elected Tax Board in the United States that hears tax disputes. Effective January 1, 2018, that function will be turned over to a new Office of Tax Appeals (OTA) composed of panels of administrative law judges appointed by the Governor with locations in Sacramento, Fresno and Los Angeles.

For functions other than the appeal process, this is primarily a reshuffling of existing personnel so the change will have little impact on local agencies. However, the issue of local government's ability to provide input regarding future policy and regulation changes that impact revenues remains under discussion. HdL will share more about the BOE transition as details become available in the weeks ahead.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
National City This Quarter



NATIONAL CITY TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	National City Q1 '17*	National City Change	County Change	HdL State Change
Auto Lease	89.5	14.5%	0.3%	1.7%
Auto Repair Shops	53.0	11.3%	2.1%	5.1%
Building Materials	138.0	-5.8%	-1.0%	3.1%
Casual Dining	169.6	1.3%	-2.2%	0.4%
Department Stores	127.3	-0.2%	-7.3%	-6.5%
Discount Dept Stores	— CONFIDENTIAL —		0.0%	1.6%
Electronics/Appliance Stores	85.8	-6.6%	-1.8%	-0.3%
Family Apparel	174.7	11.7%	-1.4%	0.8%
New Motor Vehicle Dealers	1,258.5	-3.9%	3.9%	4.4%
Quick-Service Restaurants	232.9	0.4%	4.7%	4.6%
Service Stations	166.0	2.2%	12.5%	9.9%
Shoe Stores	62.3	13.0%	-2.8%	-2.8%
Specialty Stores	106.2	12.7%	-2.9%	0.4%
Used Automotive Dealers	122.7	4.6%	0.9%	1.8%
Women's Apparel	70.3	-12.3%	-10.5%	-7.3%
Total All Accounts	3,724.0	-0.6%	2.5%	1.8%
County & State Pool Allocation	586.9	3.4%	6.6%	2.9%
Gross Receipts	4,310.9	0.0%	3.1%	1.9%