

Q3 2012



National City Sales Tax Update

Fourth Quarter Receipts for Third Quarter Sales (July - September 2012)

National City In Brief

Receipts for National City's July through September sales were 21.9% higher than the same quarter one year ago. However, payment anomalies inflated the results. After factoring out these and other reporting aberrations, actual sales activity was up 12.4%.

A onetime accounting adjustment from the contractor supplies category was primarily responsible for inflating building and construction and the city's overall results. Business and industry was also temporarily lifted by onetime adjustments.

Autos and transportation posted a strong sales quarter from new and used auto sales and auto leases. In addition, general consumer goods experienced sales increases from multiple categories including, department stores, electronics, and shoe stores.

The restaurant group was up with all types of eateries posting higher receipts. Gains from grocery stores helped lift the food and drugs group.

The city's transactions tax generated an additional \$2,264,410, a 0.2% decrease compared to the same quarter last year.

Adjusted for aberrations, taxable sales for all of San Diego County increased 5.7% over the comparable time period, while the Southern California region as a whole was up 6.7%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

| | |
|-------------------------|-----------------------------|
| Arco AM PM | Perry Ford |
| Ball Honda Acura | Probuild Company |
| Mitsubishi Suzuki | Ron Baker Chevrolet |
| Kia | Ross |
| Frank Hyundai | South Bay |
| Frank Subaru | Volkswagen |
| Frank Toyota Scion | Target |
| Highland Arco | Tesoro Refining & Marketing |
| JC Penney | Univar |
| Macys | Vintners Distributors |
| McCune Motors | Walmart |
| Mor Furniture 4 Less | Wescott Mazda |
| Mossy Nissan | Westside Building Material |
| Nordstrom Rack | |
| One Source Distributors | |

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

| | 2011-12 | 2012-13 |
|-------------------------|--------------------|--------------------|
| Point-of-Sale | \$5,673,614 | \$6,450,617 |
| County Pool | 645,465 | 735,187 |
| State Pool | 399 | 2,061 |
| Gross Receipts | \$6,319,479 | \$7,187,865 |
| Less Triple Flip* | \$(1,579,870) | \$(1,796,966) |
| Gross Trans. Tax | \$4,476,201 | \$4,442,303 |

*Reimbursed from county compensation fund

Statewide Results

Gains in all seven of HdL's key economic groupings confirm that California's economy continues to mend. Statewide local sales and use tax revenues from transactions occurring July through September 2012 were 6.0% higher than the same quarter in 2011 after onetime accounting and reporting aberrations are factored out.

The continued strong demand for new autos exceeded analysts' expectations and generated about one-fourth of the adjusted statewide increase. Restaurant sales posted another strong quarter with receipts 6.6% higher than the same period one year ago. Use tax from the development of solar energy projects and a modest recovery in some categories of building and construction materials also contributed to the rise.

Overall sales growth was tempered by a leveling in fuel prices compared to the previous year's quarter and by a slowdown in business spending in the Silicon Valley.

The Year Ahead

Gains in sales and use tax receipts from the first half of 2013 are expected to be lower than previous quarters. Recovery from "fiscal cliff" uncertainties and its final outcome may take several months while Europe's financial woes and China's sluggish growth will temper California export activity. Fuel prices should stabilize and not generate the huge bubbles in tax revenues experienced in previous quarters.

The last half of the year is predicted to resume steady, moderate growth. In November, the state's unemployment rate had already dipped to 9.8 percent, the lowest since the recession began. The recent gains are becoming more widespread among job categories and

even include an increase in construction-related employment.

The state's housing market is strengthening with fewer distressed transactions and record low inventories. The median sales price of homes has increased for the last eight consecutive months of the year and building activity, particularly in the coastal areas, is expected to pick up steam in 2013. Elevated foreclosure rates in some inland regions may delay building recovery for another year or two.

Pent-up demand, record low interest rates and easing credit availability have led to robust sales of new automobiles. That demand is expected to continue for another few quarters as consumers replace older, less fuel efficient models and take advantage of lease and financing incentives being offered by manufacturers.

Wage gains from new hiring, combined with lower fuel prices and an improv-

ing housing market are incrementally boosting consumer confidence but much depends on government stewardship of the recovery. Tax increases and reduced benefits could shrink spending at the lower income levels while overly deep cutbacks in government contracts and infrastructure improvements could discourage new business investment.

SALES PER CAPITA



NATIONAL CITY TOP 15 BUSINESS TYPES

| Business Type | National City | | County | HdL State |
|-------------------------------------------|------------------|--------------|-------------|----------------------|
| | Q3 '12* | Change | Change | Change |
| Auto Lease | 46.9 | 19.8% | 10.9% | 10.7% |
| Department Stores | 143.4 | 20.0% | -2.1% | -0.9% |
| Discount Dept Stores | 220.9 | 3.7% | 13.3% | 15.5% |
| Electronics/Appliance Stores | 59.6 | 11.8% | 0.5% | -1.1% |
| Family Apparel | 172.3 | 0.0% | 6.5% | 9.9% |
| Heavy Industrial | 49.0 | -23.3% | -26.1% | 7.0% |
| Lumber/Building Materials | 46.4 | -17.4% | 43.8% | 35.8% |
| New Motor Vehicle Dealers | 1,130.7 | 29.3% | 19.4% | 19.1% |
| Restaurants Liquor | 47.9 | 6.2% | 11.6% | 8.6% |
| Restaurants No Alcohol | 239.6 | 3.7% | 8.8% | 8.1% |
| Service Stations | 221.7 | -0.9% | -0.6% | 1.6% |
| Shoe Stores | 57.2 | 7.7% | 3.6% | 9.3% |
| Specialty Stores | 69.2 | 2.2% | 1.7% | 0.9% |
| Used Automotive Dealers | 87.3 | 3.8% | 15.9% | 11.7% |
| Women's Apparel | 77.2 | -3.2% | 3.4% | 7.4% |
| Total All Accounts | \$3,236.7 | 22.3% | 7.6% | 8.8% |
| County & State Pool Allocation | 351.0 | 17.6% | | |
| Gross Receipts | \$3,587.7 | 21.9% | | <i>*In thousands</i> |