Q2 2016

City of Encinitas Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2016)

Encinitas In Brief

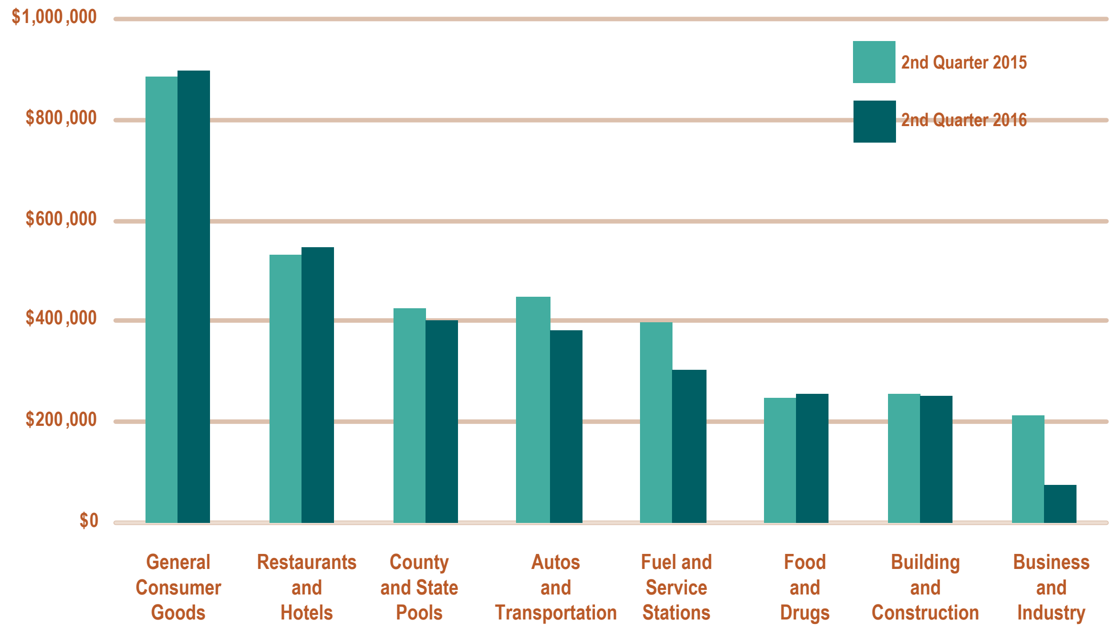
Encinitas' receipts from April through June were 8.5% below 2015's second sales quarter. Excluding reporting aberrations, actual sales were down 4.1%.

The large disparity between cash results and actual sales was caused by a negative accounting adjustment in the business and industry group to correct a payment error in the prior fiscal year. The correction exaggerated the quarterly decline but autos and transportation, fuel and service stations and business and industry results were all down compared to the same sales period one year earlier. General consumer goods appeared to be up but the increase was due to retroactive payment recoveries following a routine City audit.

Restaurant receipts were up in part due to new business additions. Food and drug gains outpaced countywide growth trends. The building and construction comparison appeared to be down but the drop was due to onetime accounting adjustments that boosted year-ago receipts.

Net of aberrations, taxable sales for all of San Diego County grew 1.3% over the comparable sales period in 2015; the Southern California region was up 1.6%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- 7 Eleven (2)
- Best Buy
- BMW of Encinitas
- Chevron
- Encinitas Ford
- Evotek Solutions
- Financial Services Vehicle Trust
- Hansen Surfboards
- Home Depot
- Home Goods
- Pacific Coast Grill
- Quick Shine Car Wash
- RCP Block & Brick
- REI
- Shell
- Sleep Train
- Sports Authority
- Target
- TJ Maxx
- Unocal 76
- USA Gasoline
- Valero
- Vons
- Walmart Supercenter

Revenue Comparison

One Quarter – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	$2,977,141	$2,711,551
County Pool	423,140	401,387
State Pool	2,533	949
Gross Receipts	$3,402,813	$3,113,888
Less Triple Flip*	$(850,703)	$0

**Reimbursed from county compensation fund*

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NOTES

California Overall

Statewide local sales and use tax receipts were up 1.9% over last year's spring quarter after adjusting for payment aberrations.

The largest gains were for building supplies, restaurants, utility/energy projects and countywide use tax pool allocations. Tax revenues from general consumer goods and business investment categories rose slightly while auto sales leveled off.

Interest In Tax Reform Grows

With modest growth in sales and use taxes, agencies are increasingly reliant on local transaction tax initiatives to cover growing infrastructure and employee retirement costs. As of October 1, there are 210 active add-on tax districts with dozens more proposed for the upcoming November and April ballots.

The Bradley-Burns 1% local sales tax structure has not kept pace with social and economic changes occurring since the tax was first implemented in 1933. Technology and globalization are reducing the cost of goods while spending is shifting away from taxable merchandise to non-taxed experiences, social networking and services. Growing outlays for housing and health care are also cutting family resources available for discretionary spending. Tax-exempt digital downloads and a growing list of legislative exemptions have compounded the problem.

California has the nation's highest sales tax rate, reaching 10% in some jurisdictions. This rate, however, is applied to the smallest basket of taxable goods. A basic principle of sound tax policy is to have the lowest rate applied to the broadest possible basket of goods. California's opposite approach leads to revenue volatility and causes the state and local governments to be more vulnerable to economic downturns.

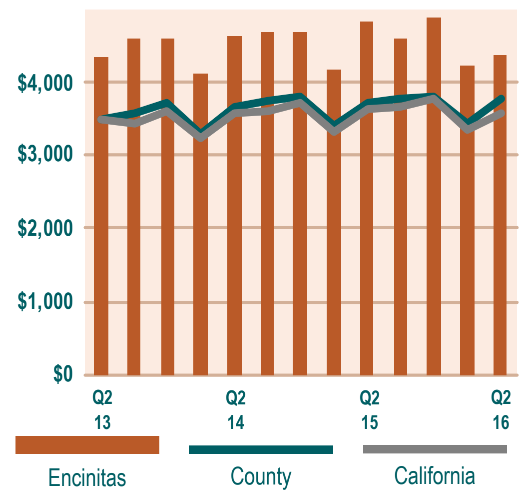
The State Controller, several legislators and some newspaper editorials have suggested a fresh look at the state's tax structure and a few ideas for reform have been proposed, including:

Expand the Base / Lower the Rate: Eliminate much of the $11.5 billion in exemptions adopted since the tax was first implemented and expand the base to include the digital goods and services commonly taxed in other states. This would allow a lower, less regressive tax that is more competitive nationally and would expand local options for economic development.

Allocate to Place of Consumption: Converting to destination sourcing, already in use in the state's transactions and use tax districts, would maintain the allocation of local sales tax to the jurisdiction where stores, restaurants and other carryout businesses are located, but return the tax for online and catalog sales to the jurisdiction of the buyer that paid the tax. One outcome of this proposal would be the redirection of tax revenues to local agencies that are currently being shared with business owners and corporations as an inducement to move order desks to their jurisdictions.

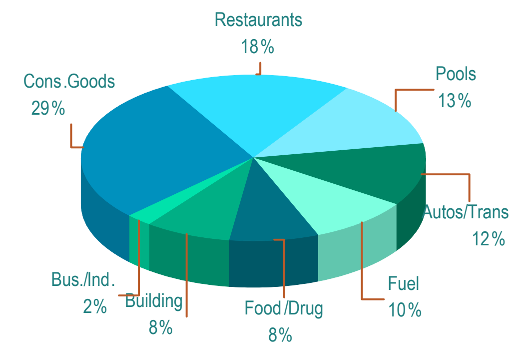
Tax reform will not be easy. However, failing to reach agreement on a simpler, less regressive tax structure that adapts this century's economy could make California a long-term "loser" in competing with states with lower overall tax rates.

Sales Per Capita



Revenue By Business Group

Encinitas This Quarter



Encinitas Top 15 Business Types

*In thousands of dollars	Encinitas		County	HdL State
Business Type	**Q2 '16***	**Change**	**Change**	**Change**
Auto Lease	— CONFIDENTIAL —		40.7%	20.6%
Casual Dining	295.0	-0.8%	3.4%	4.6%
Discount Dept Stores	— CONFIDENTIAL —		-1.5%	0.7%
Electronics/Appliance Stores	93.2	-1.1%	22.1%	22.3%
Family Apparel	79.3	-3.7%	1.2%	4.3%
Fast-Casual Restaurants	51.9	10.8%	5.4%	5.0%
Grocery Stores Beer/Wine	50.2	-1.3%	-2.8%	-0.6%
Grocery Stores Liquor	113.0	3.2%	-2.3%	1.1%
Home Furnishings	148.1	30.3%	2.2%	1.4%
Lumber/Building Materials	— CONFIDENTIAL —		3.4%	3.3%
New Motor Vehicle Dealers	— CONFIDENTIAL —		2.0%	2.7%
Quick-Service Restaurants	152.3	7.7%	7.2%	6.5%
Service Stations	301.6	-23.9%	-21.7%	-19.2%
Specialty Stores	65.5	-5.5%	1.9%	2.1%
Sporting Goods/Bike Stores	122.1	-18.3%	1.8%	9.4%
Total All Accounts	**2,711.6**	**-8.9%**	**2.6%**	**-0.6%**
County & State Pool Allocation	**402.3**	**-5.5%**	**6.5%**	**15.2%**
Gross Receipts	**3,113.9**	**-8.5%**	**3.1%**	**1.4%**