

Q3 2016



City of Encinitas Sales Tax Update

Fourth Quarter Receipts for Third Quarter Sales (July - September 2016)

Encinitas In Brief

Encinitas' receipts from July through September were 1.9% above the third sales period in 2015.

A payment deviation in home furnishings offset tepid results in electronics/appliance stores and specialty stores including a store closure in sporting goods.

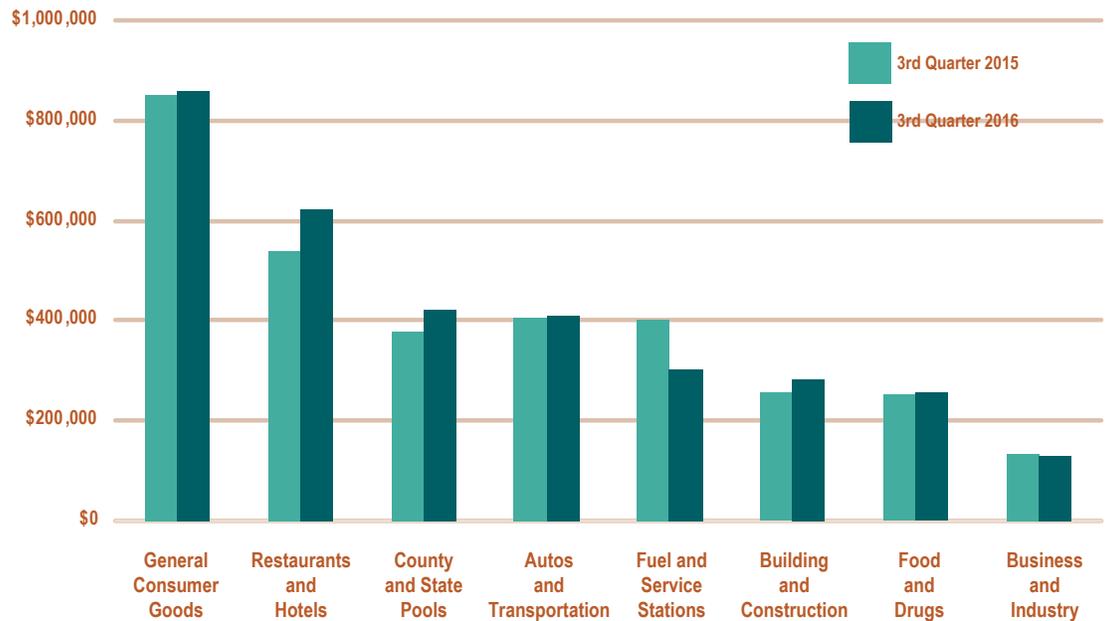
New eateries boosted the restaurant and hotel group as a whole. However, reporting errors overstated the increase. The gain in building-related sectors exceeded regional trends.

An increase in the countywide pool, primarily due to temporary adjustments, was a significant factor in the rise in gross receipts overall.

Lower fuel prices depressed returns in service stations.

Net of aberrations, taxable sales for all of San Diego County grew 2.2% over the comparable time period; the Southern California region was up 1.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

7 Eleven (2)	RCP Block & Brick
Best Buy	REI
BMW of Encinitas	Rosanos Unocal 76
Chevron	Ross
Encinitas Ford	Shell Gas & Car Wash
Financial Services Vehicle Trust	Target
Hansen Surfboards	TJ Maxx
Herman Cook Volkswagen	USA Gasoline
Home Depot	Valero
Home Goods	Verizon Wireless
Pacific Coast Grill	Vons
Quick Shine Car Wash	Walmart Supercenter

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$5,813,926	\$5,568,686
County Pool	801,241	820,198
State Pool	3,067	1,941
Gross Receipts	\$6,618,234	\$6,390,826
Less Triple Flip*	\$(1,654,558)	\$0

*Reimbursed from county compensation fund

Statewide Results

Statewide local sales and use taxes from transactions occurring July through September were up 1.9% over the same third sales quarter of 2015 after factoring for accounting anomalies.

The countywide use tax allocation pools contributed the largest portion of the increase reflecting the acceleration in online shopping where most orders are shipped from out-of-state. Automotive group receipts rose 5.4% over the year-ago period although more than half of the increase was from a specific electric car manufacturer. Higher returns from restaurants and sales of building/construction materials also contributed to the statewide gain.

The gains were significantly offset by a 14.6% drop in receipts from fuel and service stations and a generally flat quarter for other economic segments. General consumer goods grew less than 1%. Value priced clothing, pet shops, cosmetics and dollar stores were among the few bright spots.

Business and industrial tax revenue was down 1.9%. Relatively healthy sales of agricultural and medical/biotech supplies could not overcome the decline in new alternative energy projects and a flat quarter for most other categories.

The Year Ahead

The consensus from dozens of industry analysts, economic think tanks and trade associations is for a leveling off in the rate of sales tax growth that the state has enjoyed for the last six years.

Manufacturer incentives are expected to produce lower gains from new vehicle purchases through the end of 2016 and it is believed that dealers are now borrowing from 2017 sales. Vehicle sales are expected to drop in 2017-18 but the trend toward higher priced vehicles loaded with options could maintain tax revenues close to current levels.

Consumer preferences toward spending more on services rather than goods, digital downloading of previously taxable products and rising health care and housing costs will be a drag on sales of consumer

goods.

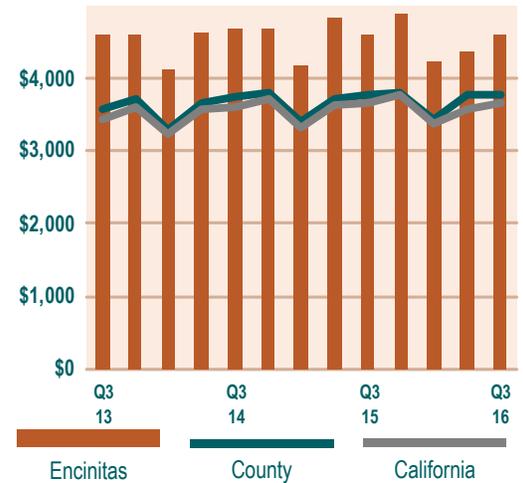
Receipts from fuel and service stations may be one of the largest gainers in 2017-18. New Middle East agreements on production caps are raising crude oil prices while California's limited refinery capacity and the trend toward less fuel-efficient SUV's and trucks have analysts believing that prices have finally leveled out and will rise through the year.

Continuing gains from restaurants are also expected although at lower than previous rates because of reduced grocery prices and the cost of eating at home. The growing strength of the dollar and recent criticisms of trade agreements and immigrants could reduce international tourism.

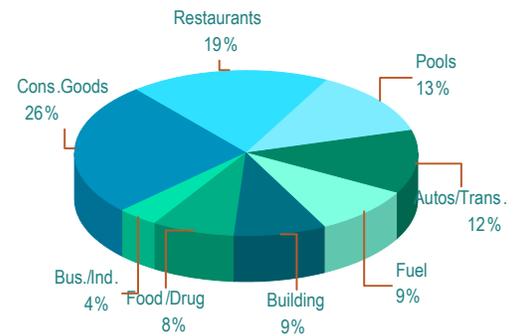
It usually takes up to two years for new stimulus programs to be reflected in sales tax receipts. As many of the coming administration's proposals related to trade, immigration, health services and the environment present potential issues for a significant number of California industries, delays in major construction projects and business/industrial investments are expected until these are sorted out.

HdL's current forecast is for a statewide increase of 2.5% in 2016-17 and 3.4% in 2017-18 compared to a year earlier.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Encinitas This Quarter



ENCINITAS TOP 15 BUSINESS TYPES

**In thousands of dollars*

Business Type	Encinitas		County	HdL State
	Q3 '16*	Change	Change	Change
Auto Lease	— CONFIDENTIAL —	—	14.7%	14.9%
Casual Dining	320.3	11.3%	4.4%	4.5%
Discount Dept Stores	— CONFIDENTIAL —	—	-2.4%	-0.4%
Electronics/Appliance Stores	95.9	-7.5%	-1.8%	-1.5%
Family Apparel	80.1	0.9%	3.9%	5.9%
Fast-Casual Restaurants	62.6	24.4%	5.8%	4.9%
Fine Dining	64.9	30.1%	15.0%	11.9%
Grocery Stores	156.0	3.2%	-3.8%	-2.1%
Home Furnishings	113.7	14.2%	-2.0%	-0.2%
Lumber/Building Materials	— CONFIDENTIAL —	—	6.0%	6.9%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	0.8%	4.8%
Quick-Service Restaurants	171.8	15.5%	7.0%	8.9%
Service Stations	304.6	-23.9%	-15.7%	-13.8%
Specialty Stores	63.2	-6.7%	5.4%	2.0%
Sporting Goods/Bike Stores	122.3	-6.9%	-6.2%	-0.6%
Total All Accounts	2,857.1	0.7%	0.9%	0.9%
County & State Pool Allocation	419.8	10.9%	11.1%	11.5%
Gross Receipts	3,276.9	1.9%	2.1%	2.2%