

Q2 2016



Huntington Beach Sales Tax *Update*

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

Huntington Beach In Brief

Huntington Beach's receipts from April through June were 9.1% above the same quarter one year ago but a onetime county pool reallocation skewed results. Actual sales activity at the city's retailers was up 1.0%.

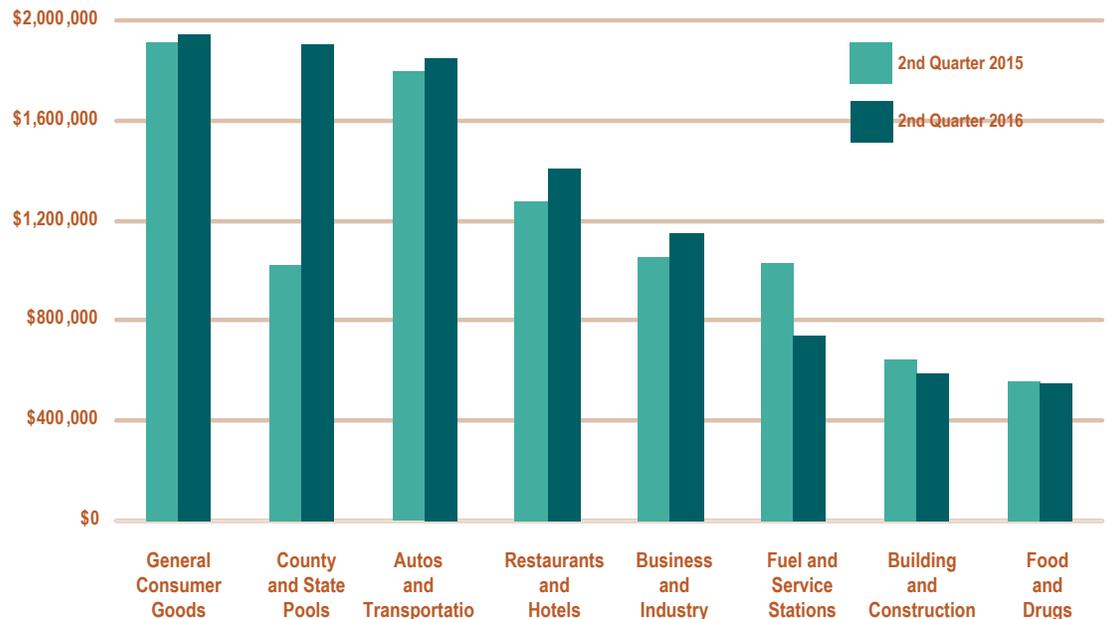
A multi-year adjustment for out-of-state use tax purchases that inflated results from the county pool was primarily responsible for the current increase.

Recent additions helped boost revenues from casual dining restaurants, family apparel and specialty stores. The City experienced a strong sales quarter for the business and industry sector and quick-service restaurants.

The gains were offset by lower fuel prices at the pump and a decline in sales from petroleum products/equipment. Onetime accounting adjustments negatively impacted returns from contractor supplies.

Net of aberrations, taxable sales for all of Orange County grew 1.0% over the comparable time period; the Southern California region was up 1.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

| | |
|--|-----------------------------------|
| ACS Applied Computer Solutions | Huntington Beach Toyota Scion Kia |
| Albertsons | Hyatt Regency |
| Car Pros Kia | Kohls |
| Chevron | Living Spaces |
| Costco w/ Gas | Lowe's |
| Delillo Chevrolet | Nordstrom Rack |
| Home Depot | Norm Reeves Honda |
| Huntington Beach Car Wash | Pinnacle Petroleum |
| Huntington Beach Chrysler Dodge Jeep Ram | Ralphs |
| Huntington Beach Ford | Reliable Wholesale Lumber |
| Huntington Beach Hyundai | Surf City Nissan |
| Huntington Beach Mazda | Target |
| | Walmart |

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

| | 2014-15 | 2015-16 |
|-----------------------|---------------------|---------------------|
| Point-of-Sale | \$32,284,273 | \$32,025,996 |
| County Pool | 3,946,317 | 4,912,582 |
| State Pool | 21,737 | 18,287 |
| Gross Receipts | \$36,252,326 | \$36,956,865 |
| Less Triple Flip* | \$(9,063,082) | \$(4,620,245) |

*Reimbursed from county compensation fund

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:

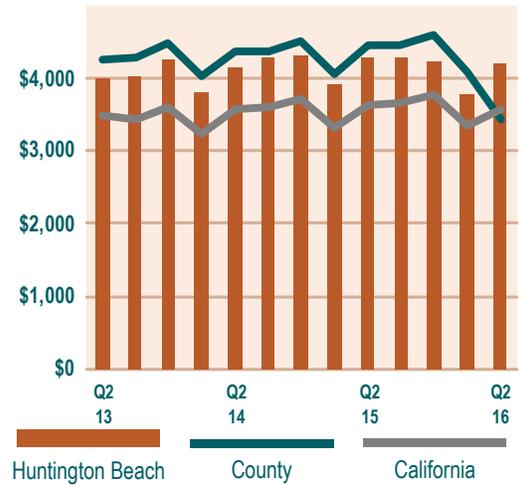
Eliminate much of the \$11.5 billion in exemptions adopted since the tax was first implemented and expand the base to include the digital goods and services commonly taxed in other states. This would allow a lower, less regressive tax that is more competitive nationally and would expand local options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

Allocate to Place of Consumption:

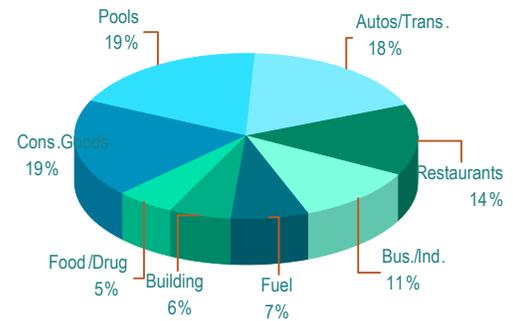
Converting to destination sourcing, already in use in the state's transactions and use tax districts, would maintain the allocation of local sales tax to the jurisdiction where stores, restaurants and other carryout businesses are located, but return the tax for online and catalog sales to the jurisdiction 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 Huntington Beach This Quarter



HUNTINGTON BEACH TOP 15 BUSINESS TYPES

| Business Type | *In thousands of dollars | | | |
|---|--------------------------|--------------|---------------|------------------|
| | Huntington Beach Q2 '16* | Change | County Change | HdL State Change |
| Casual Dining | 752.4 | 12.0% | 3.7% | 4.2% |
| Discount Dept Stores | — CONFIDENTIAL — | — | -0.8% | 0.7% |
| Electronics/Appliance Stores | 152.8 | -12.2% | 27.4% | 22.4% |
| Family Apparel | 175.5 | 26.9% | 6.4% | 4.4% |
| Grocery Stores Liquor | 220.7 | 3.5% | 2.8% | 1.2% |
| Home Furnishings | 186.4 | 3.5% | 0.9% | 1.2% |
| Light Industrial/Printers | 170.3 | -2.1% | -0.1% | 0.5% |
| Lumber/Building Materials | 527.7 | 0.9% | 0.3% | 2.9% |
| New Motor Vehicle Dealers | 1,425.8 | 0.6% | 0.6% | 2.7% |
| Office Supplies/Furniture | — CONFIDENTIAL — | — | na | -153.8% |
| Petroleum Prod/Equipment | 276.2 | -33.1% | -18.5% | -31.3% |
| Quick-Service Restaurants | 342.5 | 8.8% | 5.1% | 6.7% |
| Service Stations | 460.3 | -25.8% | -23.2% | -19.2% |
| Specialty Stores | 246.4 | 3.9% | 1.2% | 2.6% |
| Sporting Goods/Bike Stores | 209.3 | 2.3% | 8.5% | 9.4% |
| Total All Accounts | 8,232.5 | -0.5% | -22.1% | -0.6% |
| County & State Pool Allocation | 1,908.3 | 86.1% | 45.7% | 15.2% |
| Gross Receipts | 10,140.8 | 9.1% | -14.6% | 1.4% |