

Q4 2012



City of Poway Sales Tax Update

First Quarter Receipts for Fourth Quarter Sales (October - December 2012)

Poway In Brief

Receipts from fourth quarter sales edged up 1.9% but onetime reporting aberrations skewed the data. With anomalies excluded, actual sales were up 6.7%.

Autos and transportation results, led by new motor vehicle dealers, grew most and bested regional and statewide trends. General consumer sales were also up, but only moderately.

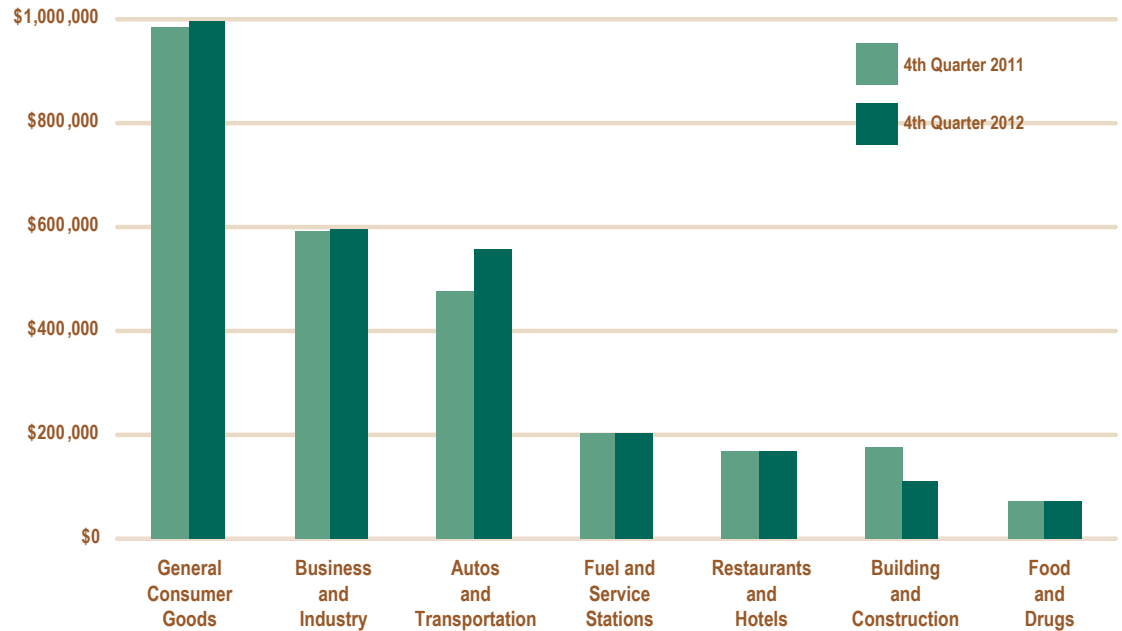
Both business and industry and fuel and service station categories appeared to be little-changed from a year earlier, but payment aberrations inflated year ago totals for both and distorted the comparison. Actual results were strongly positive.

New business openings added to modest increases in the restaurants and hotels classification.

The drop in building and construction was due to a payment timing anomaly that caused some fourth quarter sales to appear with third quarter receipts.

Net of accounting adjustments, all of San Diego County increased 5.6%; statewide sales grew 6.1%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

Bay City Electric Works	Kohls
Bobst Group North America	Mitchell Repair
Chevron	Mossy Nissan
Circle K	Perry Ford
Climatec	Poway Honda
Complete Office	Poway Mitsubishi
Costco	Hyundai & Vespa
Exoil	Poway Toyota/Scion
Exxon	Quality Steel Fabricators
Ferguson	Richardson Auto Sales
Waterworks	Stein Mart
General Atomics Aeronautical Systems	Sysco Food Services
Home Goods	Target
	Walmart

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2011-12	2012-13
Point-of-Sale	\$5,145,635	\$5,341,656
County Pool	597,066	633,220
State Pool	2,626	1,016
Gross Receipts	\$5,745,327	\$5,975,892
Less Triple Flip*	\$(1,436,332)	\$(1,493,973)

*Reimbursed from county compensation fund

Statewide Results

Statewide sales tax receipts for October through December sales were up 3.4%; however, net of onetime payment aberrations, actual sales increased 6.1% compared to the same sales period in 2011.

The autos and transportation group, led by continued strong sales of new cars and light trucks, recorded another quarter of robust increases over prior year results and accounted for 26% of the adjusted statewide gain. For many general consumer goods retailers the holiday sales season can be the difference between a profit and a loss for the year. This group bested year-ago receipts by 4.3%. Business and industry totals again included tax receipts from a variety of alternative energy projects. Heavy industrial, office equipment and office supplies/furniture also contributed to the group's 5.3% increase. Restaurant dining remained popular as overall sales moved up 5.7%, with most of the increase going to full and quick-service operators. Higher prices at the pump bolstered returns for fuel and service stations which posted a 2.1% rise, even as gasoline consumption for the period trended down. Receipts for building and construction increased 5.3%, while food and drugs gained 1.5%. County use tax pool totals were buoyed by receipt of previously uncollected taxes on internet sales.

First Full Quarter for AB 155

AB 155 expanded the definition of nexus to include out-of-state sellers with statewide annual sales of \$1M or more and who have in-state affiliates providing services tied to those out-of-state sales. Effective September 15, 2012 companies meeting these criteria were required to collect California sales and use tax.

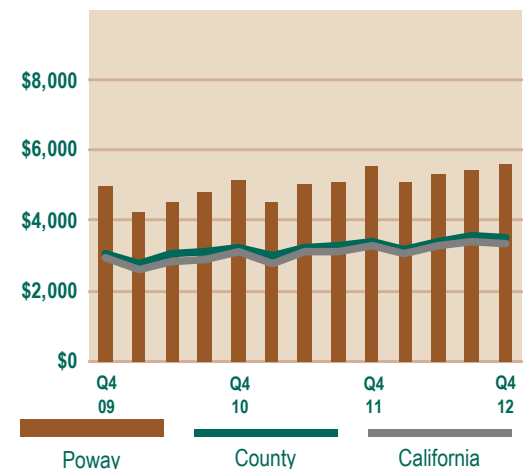
The 26 companies HdL has identified to date as falling under AB 155's criteria produced slightly over \$12M in local one-cent sales tax revenues in the fourth quarter of 2012. It is estimated that this will translate into annual revenues of about \$0.80 per capita. To date, the revenues are being allocated to all jurisdictions in California via the countywide use tax allocation pools. Each city and county receives its proportionate share of the pool based on its ratio of taxable sales.

Past deal making by high volume retailers suggests that new revenues could eventually be redirected to just a few agencies in exchange for sales tax rebates as more out-of-state companies decide where to locate their in-state distribution warehouses. Online sellers already located in the state have negotiated rebates as high as 85% of the local sales tax they collect.

S.336/HR.684, the Federal Marketplace Fairness Act, would provide

a uniform approach to allowing all states to require online and remote sellers to collect sales taxes. The bills are strongly supported by a coalition of national retailers and local governments but are opposed by eBay and anti-tax groups. Although the Sentate has adopted a resolution of support, the bills themselves have not been formally acted upon in either the Senate or House of Representatives.

SALES PER CAPITA



POWAY TOP 15 BUSINESS TYPES

Business Type	Poway		County	HdL State
	Q4 '12*	Change	Change	Change
Contractors	59.1	9.8%	8.8%	2.0%
Department Stores	— CONFIDENTIAL —		-5.0%	-3.2%
Discount Dept Stores	— CONFIDENTIAL —		4.6%	4.4%
Electrical Equipment	179.6	6.5%	0.2%	4.5%
Food Mfg.	68.2	-22.2%	22.1%	4.6%
Grocery Stores Liquor	44.8	12.3%	-21.8%	-17.6%
Heavy Industrial	40.6	-12.4%	6.5%	10.9%
Light Industrial/Printers	87.3	21.1%	-1.8%	-3.7%
New Motor Vehicle Dealers	445.2	24.1%	17.4%	17.2%
Office Supplies/Furniture	63.6	-10.6%	-14.6%	4.5%
Plumbing/Electrical Supplies	41.4	18.4%	11.0%	9.1%
Restaurants Liquor	40.4	12.5%	5.4%	8.1%
Restaurants No Alcohol	84.9	-1.4%	5.0%	5.1%
Service Stations	202.4	-0.5%	-1.0%	2.8%
Specialty Stores	46.4	9.2%	-0.5%	-0.6%
Total All Accounts	\$2,711.3	1.1%	2.0%	2.0%
County & State Pool Allocation	349.0	8.5%		
Gross Receipts	\$3,060.3	1.9%		<i>*In thousands</i>