Q2 2016

City of Tustin Sales Tax *Update*

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

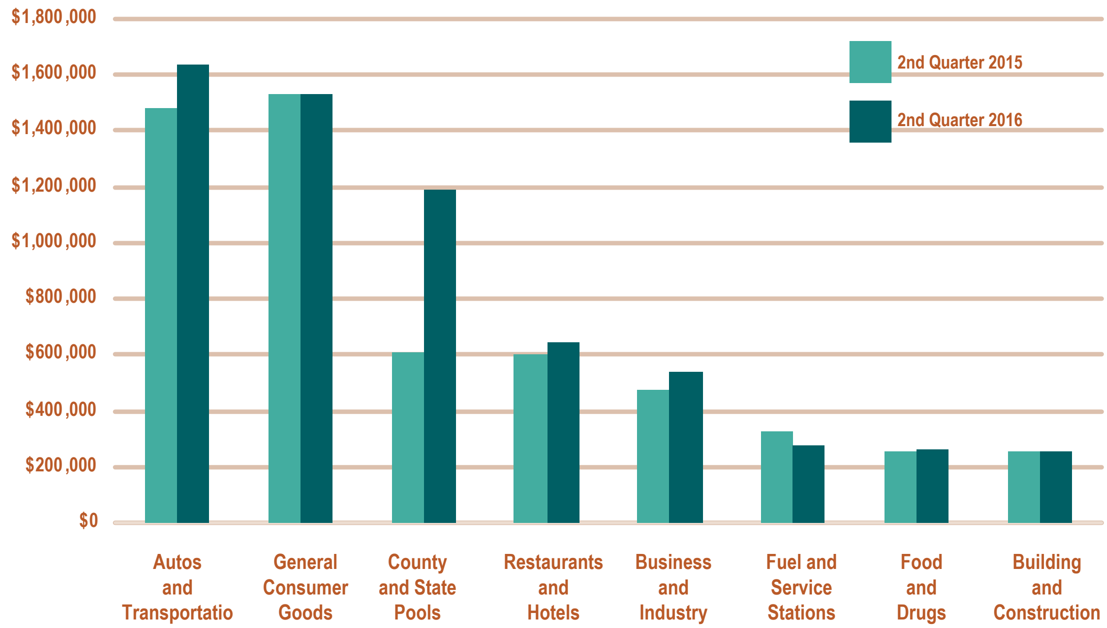
Tustin In Brief

Tustin's revenue from April through June was 14.1% above the second sales period in 2015. Cash receipts spiked due to a large county pool reallocation made by the State Board of Equalization for prior year out-of-state use tax purchases. Point-of-sale growth, adjusted for this and other payment aberrations, would have instead increased 0.8% in the second quarter and outperformed the countywide trend of 0.3%.

Aside from a near doubling in pool receipts from the Board of Equalization's reallocation, the largest gain was for auto-transportation sales. The reported 11% increase in cash receipts for this group; however, was inflated by accounting adjustments for new cars and auto leases. Returns would have otherwise matched the countywide growth rate of 4%. Electronic/appliance sales also increased, but this gain was also exaggerated by accounting anomalies.

Partially offsetting these advances was a decline in local service station revenue resulting from the lower price of fuel. The percentage loss in this category was similar to the statewide trend.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- AutoNation Ford
- AutoNation Infiniti
- Best Buy
- Chevron
- Costco
- Home Depot
- In N Out
- Jewelry Exchange
- Lowes
- McLean Cadillac
- Micro Center
- REI
- Shell
- Target
- TJ Maxx
- Toshiba America Medical System
- Total Wine & More
- Toyota Lease Trust
- Tustin Acura
- Tustin Buick GMC
- Tustin Chrysler Jeep Dodge
- Tustin Hyundai/ Mazda
- Tustin Lexus
- Tustin Nissan
- Tustin Toyota

Revenue Comparison

One Quarter – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	$4,937,106	$5,141,540
County Pool	607,691	1,189,908
State Pool	4,130	1,931
Gross Receipts	$5,548,927	$6,333,378
Less Triple Flip*	$(1,387,232)	$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.

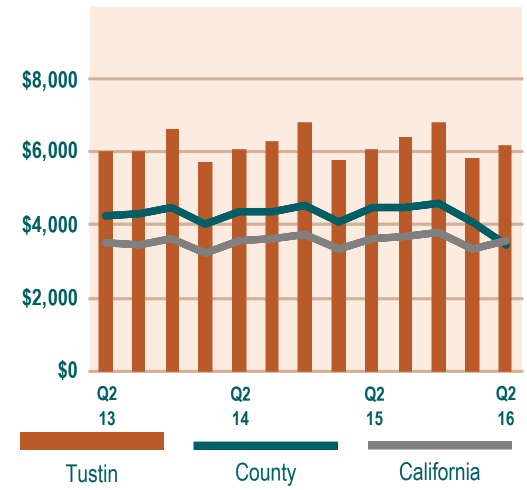
The State Controller, several legislators and some newspaper editorials have suggested a fresh look at the state's tax structure and a few ideas for reform have been proposed, including:

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.

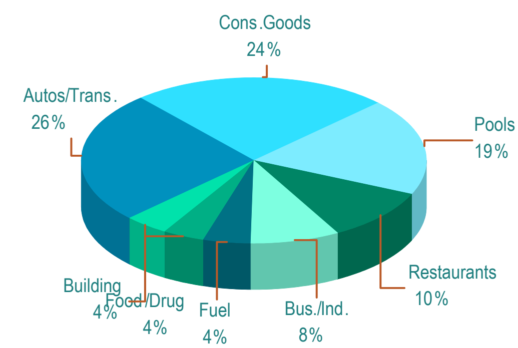
Tax reform will not be easy. However, failing to reach agreement on a simpler, less regressive tax structure that adapts this century's economy could make California a long-term "loser" in competing with states with lower overall tax rates.

Sales Per Capita



Revenue By Business Group

Tustin This Quarter



Tustin Top 15 Business Types

**In thousands of dollars*	Tustin		County	HdL State
Business Type	**Q2 '16***	**Change**	**Change**	**Change**
Auto Lease	243.5	58.8%	4.4%	20.6%
Casual Dining	330.0	3.9%	4.1%	4.3%
Discount Dept Stores	— CONFIDENTIAL —		-0.8%	0.7%
Electronics/Appliance Stores	144.2	37.9%	27.1%	22.4%
Family Apparel	180.5	-0.3%	6.4%	4.4%
Grocery Stores Liquor	84.2	-8.0%	2.8%	1.2%
Jewelry Stores	79.1	0.5%	-0.2%	0.2%
Lumber/Building Materials	203.7	-2.2%	0.3%	3.3%
Medical/Biotech	84.0	42.5%	-2.1%	12.9%
New Motor Vehicle Dealers	1,286.1	5.3%	0.6%	2.7%
Office Supplies/Furniture	145.1	2.0%	na	-153.9%
Quick-Service Restaurants	214.0	11.3%	4.6%	6.6%
Service Stations	268.3	-17.3%	-23.2%	-19.2%
Specialty Stores	140.2	6.7%	1.2%	2.5%
Sporting Goods/Bike Stores	132.8	0.9%	8.4%	9.4%
Total All Accounts	**5,141.5**	**4.1%**	**-22.1%**	**-0.6%**
County & State Pool Allocation	**1,191.8**	**94.8%**	**45.7%**	**15.2%**
Gross Receipts	**6,333.4**	**14.1%**	**-14.6%**	**1.4%**