

Q1 2017



Huntington Beach Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2017)

Huntington Beach In Brief

Receipts for Huntington Beach's January through March sales were 6.6% higher than the same quarter one year ago. Actual sales activity was up 7.8% when reporting aberrations were factored out.

The City experienced a strong sales quarter for new motor vehicle dealers, service stations, auto leases and petroleum products/equipment.

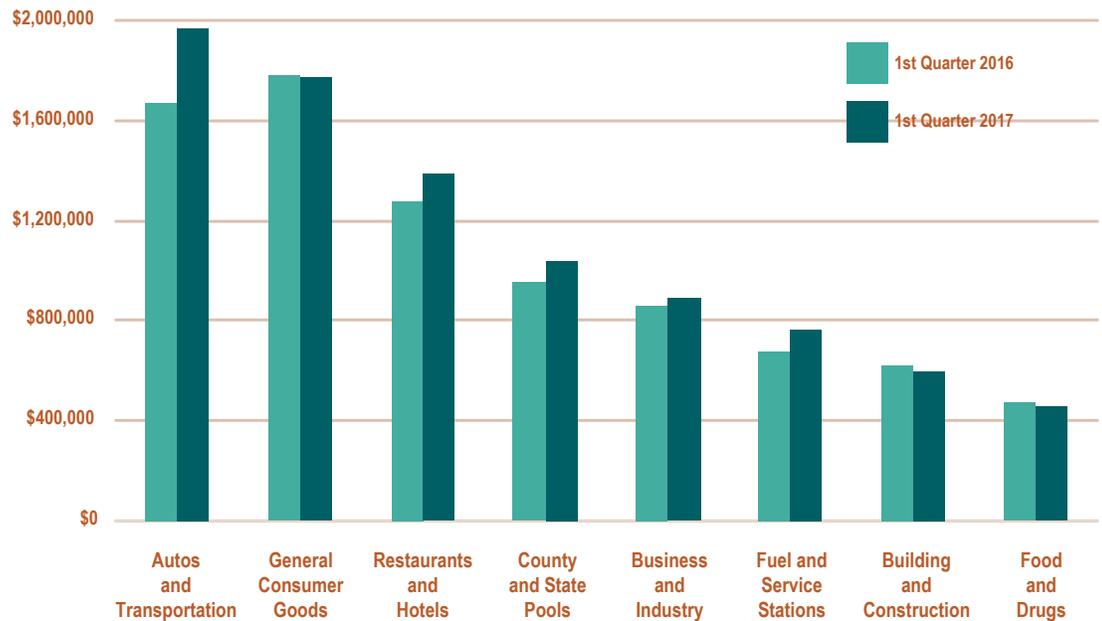
Recent additions helped boost revenues from hotels with liquor, food service equipment/supplies, casual dining and fast casual restaurants.

Double-up payments inflated returns from quick-service restaurants. The City's allocation from the county use tax pool also added to overall results.

The gains were partially offset by reporting problems that exaggerated last year's allocation and caused a drop in heavy industrial. The City experienced a decline in sales from building materials.

Adjusted for aberrations, taxable sales for all of Orange County grew 2.3% over the comparable time period, while the Southern California region was up 2.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

ACS Applied Computer Solutions	Huntington Beach Toyota Scion Kia
Albertsons	Hyatt Regency Huntington Beach
Baker Oil Tools	Kohls
Car Pros Kia Huntington Beach	Living Spaces Furniture
Chevron	Lowes
Costco	Main Electric Supply Company
DeIillo Chevrolet	Mckenna Subaru
Home Depot	Norm Reeves Honda
Huntington Beach Chrysler Dodge Jeep Ram	Pinnacle Petroleum
Huntington Beach Ford	Reliable Wholesale Lumber
Huntington Beach Hyundai	Surf City Nissan
Huntington Beach Mazda	Target
	Walmart

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$23,793,491	\$24,754,182
County Pool	3,007,332	3,329,468
State Pool	15,195	22,532
Gross Receipts	\$26,816,018	\$28,106,182
Less Triple Flip*	\$(4,620,245)	\$0

*Reimbursed from county compensation fund

Statewide Results

Local tax receipts from January through March sales were 2.1% higher than the first quarter of 2016 after factoring for accounting anomalies.

Rising fuel prices, auto sales, county use tax pool allocations and dining out added most to the overall gain. Some general consumer goods and B2B sales were flat or down.

This quarter reflects the start of an anticipated leveling off of future tax revenues. After seven years of recovery, analysts are reporting an end to the previous pent-up demand for autos. Demand for new cars will ease due to more buyers tied to long-term loans and a glut of used cars coming off lease.

Price competition and store closures have reduced tax receipts from consumer goods. Business investment remains strong but much of the growth is for non-taxable items such as cloud computing and large data solutions. Declines in foreign tourist visits and lower costs of eating at home are expected to slow the growth in restaurant sales.

New Sales Tax Organization

As of July 1, the operating divisions responsible for allocation of tax revenues other than property, insurance and alcoholic beverages will shift from the State Board of Equalization (BOE) to the Governor's new Department of Tax and Fee Administration.

The BOE was first established by constitutional amendment in 1879 to oversee property tax assessment practices by all counties in the state. It eventually became responsible for other tax revenues including sales, insurance, corporate franchise and special fees.

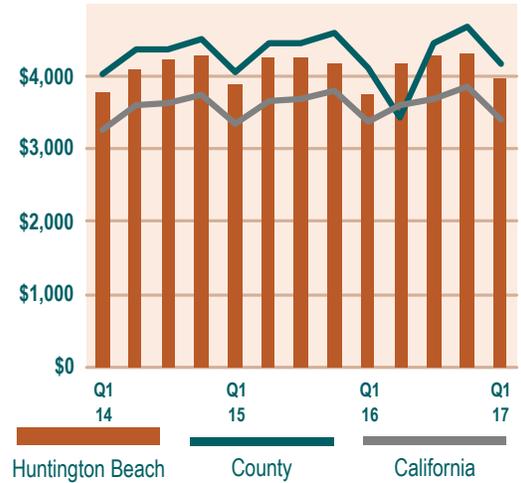
In 2011, HdL detected discrepancies in the BOE's allocation of public safety revenues which led to the recovery of over \$124 million in revenues for counties. Subsequent audits by the State

Controller and State Department of Finance revealed further shortcomings. The result was the passage of budget trailer bill SB86/AB102 that reduces the BOE to its previous constitutionally defined functions.

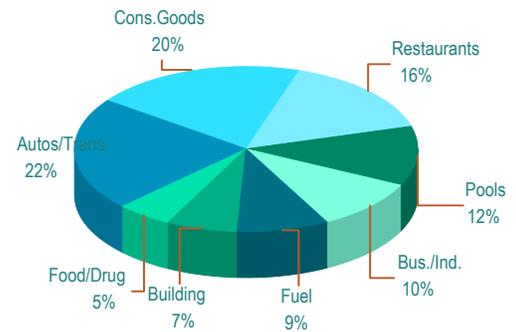
The BOE is also empowered to hear appeals and disputes over tax assessments including sales/use, personal income and corporate taxes and is the only elected Tax Board in the United States that hears tax disputes. Effective January 1, 2018, that function will be turned over to a new Office of Tax Appeals (OTA) composed of panels of administrative law judges appointed by the Governor with locations in Sacramento, Fresno and Los Angeles.

For functions other than the appeal process, this is primarily a reshuffling of existing personnel so the change will have little impact on local agencies. However, the issue of local government's ability to provide input regarding future policy and regulation changes that impact revenues remains under discussion. HdL will share more about the BOE transition as details become available in the weeks ahead.

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 Q1 '17*	Change	County Change	HdL State Change
Auto Lease	141.1	22.4%	-2.7%	1.7%
Building Materials	494.7	-3.9%	0.8%	3.2%
Casual Dining	750.9	2.6%	1.7%	0.3%
Discount Dept Stores	—	CONFIDENTIAL	-0.4%	1.6%
Family Apparel	159.8	9.3%	3.5%	0.8%
Grocery Stores	232.4	-0.3%	4.2%	0.5%
Home Furnishings	167.4	-3.6%	-5.5%	-1.9%
Light Industrial/Printers	151.0	8.3%	0.2%	7.8%
New Motor Vehicle Dealers	1,527.0	20.4%	6.3%	4.4%
Office Supplies/Furniture	163.9	-7.8%	1.3%	-0.5%
Petroleum Prod/Equipment	294.3	11.8%	35.5%	51.9%
Quick-Service Restaurants	346.3	10.4%	1.3%	4.6%
Service Stations	469.8	13.1%	9.9%	9.9%
Specialty Stores	252.0	-1.5%	-0.1%	0.2%
Sporting Goods/Bike Stores	157.5	-5.6%	-12.6%	-13.8%
Total All Accounts	7,842.7	6.3%	1.9%	1.8%
County & State Pool Allocation	1,040.0	8.9%	4.4%	2.9%
Gross Receipts	8,882.7	6.6%	2.2%	1.9%