

Q2 2016



Garden Grove Sales Tax *Update*

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

Garden Grove In Brief

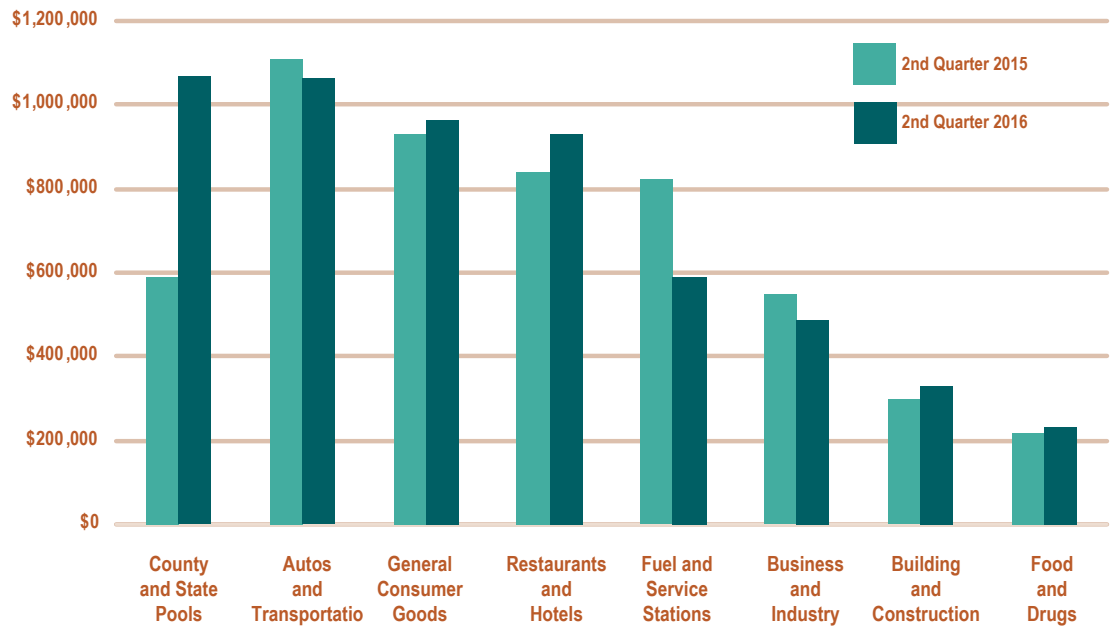
Garden Grove's receipts from April through June sales increased 5.9% compared to the same quarter of 2015. Actual sales activity reported by the City's retailers slipped 1.8% when accounting aberrations were excluded.

A multi-year adjustment that hiked the allocation from the county use tax pool was the primary reason for the difference between cash receipts and actual sales. Accounting events that affected one or both periods exaggerated the impact of lower fuel prices on service station returns and depressed comparisons for petroleum products/equipment. An adjustment pared current quarter postings from auto leases while a shift to pool reporting hurt light industrial/printer receipts. A onetime year-ago use tax allocation and lower sales cut business and industry group comparisons.

A recent addition, combined with the reclassification of an eatery from casual dining, boosted hotel/liquor returns. Sales increased from grocery stores and the building and construction sector. Receipt of taxes due from prior periods masked a 1.2% decline in sales of consumer goods due, in part, to a business closeout.

Adjusted for anomalies, taxable sales for all of Orange County grew 1.0% over the same period; the Southern California region as a whole was up 1.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Arco AM PM	One Source Distributors
Burlington Coat Factory	Quantum Auto Sales
California Fuels & Lubricants	Ross
Chevron (2)	Shell
Costco	Simpson Chevrolet
Ferguson Bath & Kitchen Gallery	T Mobile
Garden Grove Hyundai	Target
Garden Grove Kia	Toyota Place
Great Wolf Lodge	Volkswagen of Garden Grove
Home Depot	Vons
Hyatt Regency	Walmart
Imperio Nissan Of Garden Grove	
McDonalds	

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$4,762,271	\$4,601,555
County Pool	586,171	1,064,939
State Pool	3,984	1,728
Gross Receipts	\$5,352,427	\$5,668,222
Less Triple Flip*	\$(1,338,107)	\$0

*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:

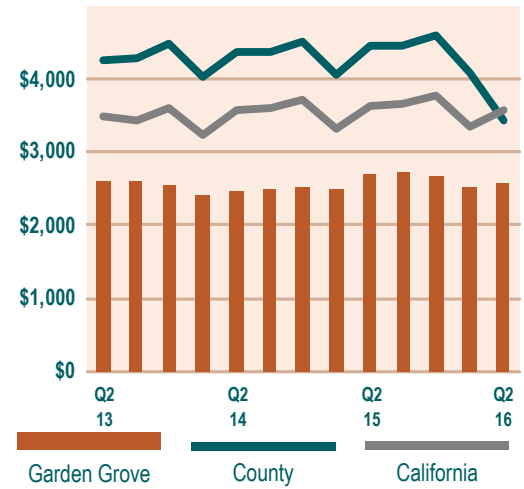
Eliminate much of the \$11.5 billion in exemptions adopted since the tax was first implemented and expand the base to include the digital goods and services commonly taxed in other states. This would allow a lower, less regressive tax that is more competitive nationally and would expand local options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

Allocate to Place of Consumption:

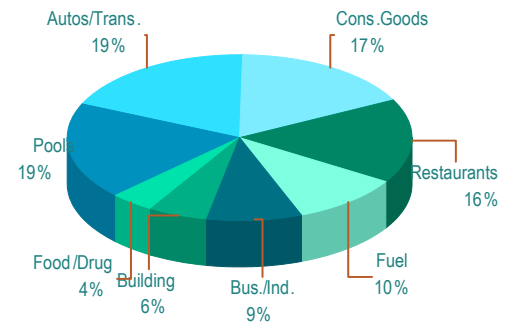
Converting to destination sourcing, already in use in the state's transactions and use tax districts, would maintain the allocation of local sales tax to the jurisdiction where stores, restaurants and other carryout businesses are located, but return the tax for online and catalog sales to the jurisdiction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



GARDEN GROVE TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Garden Grove Q2 '16*	Change	County Change	HdL State Change
Automotive Supply Stores	89.5	5.9%	2.6%	1.5%
Casual Dining	464.2	-5.6%	4.1%	4.3%
Discount Dept Stores	— CONFIDENTIAL —	—	-0.8%	0.7%
Electrical Equipment	182.5	-2.4%	-3.0%	23.4%
Family Apparel	110.4	6.2%	6.4%	4.4%
Grocery Stores Liquor	102.6	4.0%	2.8%	1.2%
Hotels-Liquor	119.9	309.4%	9.9%	8.1%
Light Industrial/Printers	96.7	-20.8%	-0.5%	0.5%
Lumber/Building Materials	— CONFIDENTIAL —	—	0.3%	3.3%
New Motor Vehicle Dealers	724.5	-3.9%	0.6%	2.7%
Petroleum Prod/Equipment	120.4	-14.0%	-18.5%	-31.3%
Quick-Service Restaurants	289.6	6.4%	5.1%	6.7%
Service Stations	470.9	-31.0%	-23.2%	-19.2%
Specialty Stores	105.1	2.4%	1.2%	2.5%
Used Automotive Dealers	160.9	9.2%	9.5%	10.9%
Total All Accounts	4,601.6	-3.4%	-22.1%	-0.6%
County & State Pool Allocation	1,066.7	80.7%	45.7%	15.2%
Gross Receipts	5,668.2	5.9%	-14.6%	1.4%