

Q2 2007



Arroyo Grande Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (Apr-Jun 2007)

Arroyo Grande In Brief

The allocation from Arroyo Grande's April through June sales was 1.3% less than the same quarter one year ago.

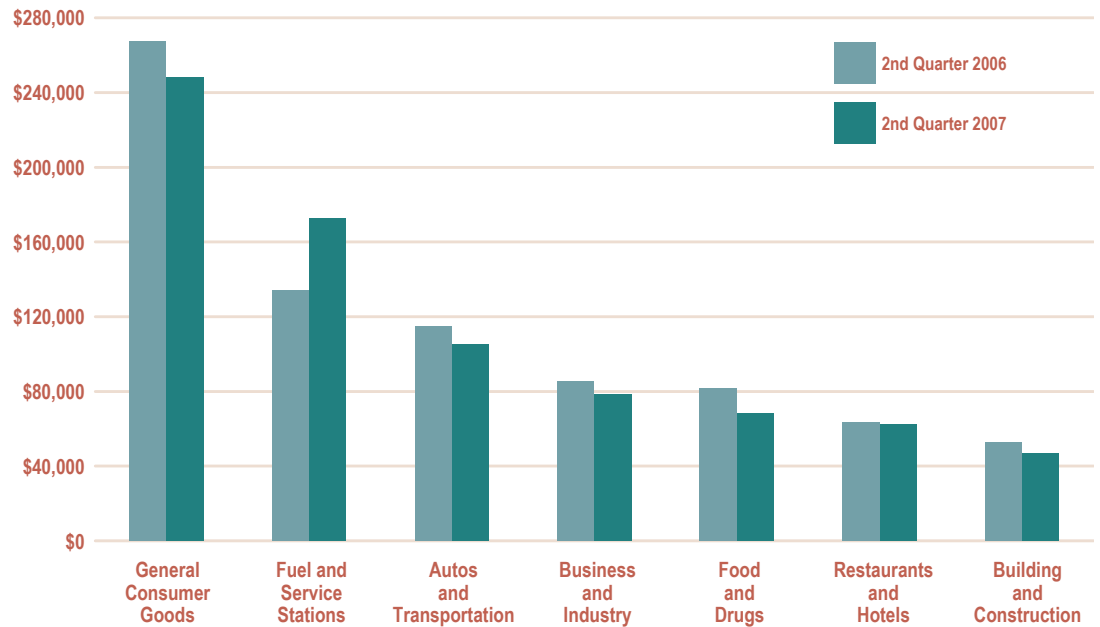
Decreased sales from lumber/building materials, drug stores and some categories of Autos & Transportation were partially responsible for the decrease. Recent closeouts reduced revenues from restaurants with no alcohol, home furnishings and family apparel. Delayed allocations temporarily decreased receipts from restaurants with beer and wine. A onetime accounting adjustment that temporarily inflated last year's allocation was responsible for the decrease in grocery stores with liquor.

The losses were offset by increased sales from garden/agricultural supplies, hardware stores, office supplies/furniture and some categories of General Consumer Goods. Comparisons of service stations were inflated by onetime accounting adjustments.

In addition to its sales tax receipts, the city received its first allocation of the newly-approved district tax which generated \$448,193 in added city revenue.

Gross receipts for all of San Luis Obispo County gained 0.5% over the comparable time period while the Central Coast region as a whole was up 2.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

Ace Hardware	McDonalds
Albertsons	Mid State Bank
Aqua Systems	Mier Bros
Arroyo Grande Auto Sales	Landscape Products
Arroyo Grande Shell	Mullahey Ford
Burke & Pace Lumber Sales	Officemax
Chevron	P & J Lee Partnership
Christianson	Rite Aid
Chevrolet Oldsmobile	San Luis Obispo Country Farm
Donnas Interiors Furniture	Stan Robertsons Beacon
Grand Estate Sales	Streator Pipe & Supply
JB Dewar	Trader Joes
K Mart	Wal Mart
Marshalls	

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

	2006-07	2007-08
Point-of-Sale	\$799,495	\$782,669
County Pool	87,996	93,757
State Pool	1,093	750
Gross Receipts	\$888,584	\$877,175
Less Triple Flip*	\$(222,146)	\$(219,294)
Gross Trans. Tax	\$0	\$448,193

*Reimbursed from county compensation fund

SALES TAX, HOUSING AND THE GLOOMY ECONOMY

The combination of declining home sales and prices, foreclosures and tightening credit have created new challenges for local officials in forecasting the impact on sales tax revenues.

Generally, the side effects are expected to be less than the real estate downturn of the 1990s which was accompanied by a national recession, high unemployment and escalating inflation.

Despite layoffs in real estate and home construction, unemployment in California remains relatively low. The weak U.S. dollar has resulted in growing export activity and tourism, and business investment in new technology continues. The impact on sales tax should be more regional and industry specific than in previous down cycles.

Regional

Areas that have enjoyed the highest growth rates in recent years are most likely to exhibit the smallest gains and possibly some revenue declines.

At the peak of the housing boom in 2005, over 10% of the country's disposable income came from home equity loans. The reversal in home values should reduce spending in the Sacramento and Central Valleys, Inland Empire, and some portions of San Diego and the Central Coast.

The San Francisco Bay area and Silicon Valley are benefiting from a strong rebound in the technology sectors and rising tourism, and are expected to out-perform the rest of the state. The experience of other communities will be largely determined by the makeup of their specific tax bases.

Sales Tax by Characteristic

Communities that derive a high percentage of their sales tax revenues from building materials or home improvement merchandise could be impacted more than others as demand and prices drop through 2008. Although auto sales are more brand and dealer specific, this group as a whole,

is expected to continue a downward pattern through spring.

Statewide, sales of general consumer goods including apparel and soft goods are expected to grow 4%, although big ticket items such as furniture and appliances may exhibit regional declines. Department stores and discounters in lower income areas may also be flat or slightly down.

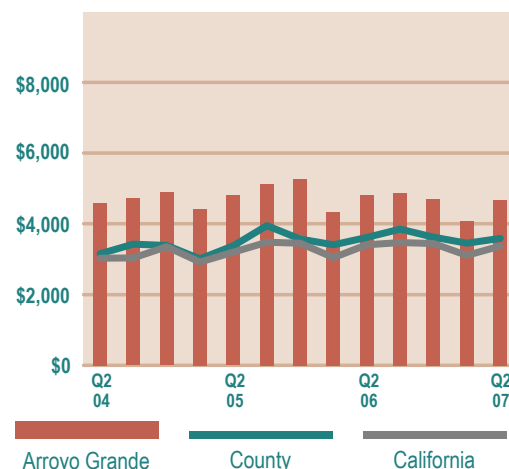
Tax generation from restaurants, service stations, and grocers should continue to show moderate growth. Barring an international crisis, business investment in equipment and technology is expected to remain solid, although potential water and labor shortages may reduce agricultural spending.

The Bottom Line

The more media coverage of the housing correction, the more conservative consumers and businesses become in their spending plans. How this plays out will probably not be known until the March 2008 sales tax receipts.

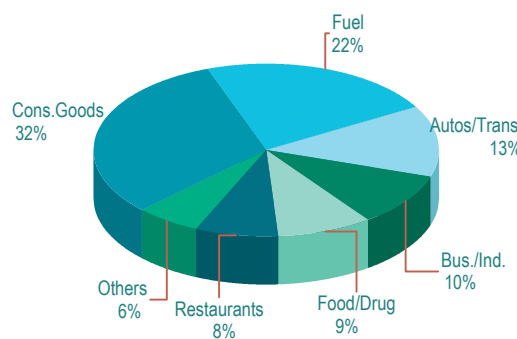
At this point in time however, economists predict slow or modest sales growth but not significant decreases.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP

Arroyo Grande This Quarter



ARROYO GRANDE TOP 15 BUSINESS TYPES

Business Type	Arroyo Grande		County	HdL State
	Q2 '07	Change	Change	Change
Service Stations	\$165,407	32.0%	20.7%	4.2%
Discount Dept Stores	— CONFIDENTIAL —		2.6%	1.0%
New Motor Vehicle Dealers	— CONFIDENTIAL —		-10.5%	-7.3%
Grocery Stores Liquor	39,710	-24.0%	-16.7%	-5.5%
Restaurants No Alcohol	32,425	-2.4%	5.4%	5.8%
Home Furnishings	30,478	-27.1%	-20.0%	-3.3%
Lumber/Building Materials	28,689	-19.7%	-15.7%	-6.8%
Garden/Agricultural Supplies	23,357	1.9%	-4.2%	2.7%
Specialty Stores	18,598	7.0%	-5.1%	1.2%
Family Apparel	18,516	-0.7%	0.9%	3.0%
Restaurants Beer And Wine	17,909	-27.9%	-2.9%	2.2%
Drug Stores	17,690	-1.1%	-2.6%	-11.2%
Hardware Stores	15,527	4.0%	-0.1%	-10.0%
Office Supplies/Furniture	15,472	13.6%	0.1%	9.0%
Used Automotive Dealers	12,824	-24.9%	3.7%	-4.7%
Total All Accounts	\$782,669	-2.1%	-0.3%	0.3%
County & State Pool Allocation	94,506	6.1%		
Gross Receipts	\$877,175	-1.3%		