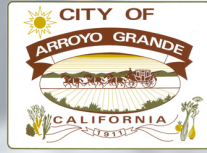


Q2 2012



Arroyo Grande Sales Tax Update

Third Quarter Receipts for Second Quarter Sales (April - June 2012)

Arroyo Grande In Brief

Receipts for Arroyo Grande's April through June sales were 2.4% higher than the same quarter one year ago. Actual sales activity was up 2.6% when reporting aberrations were factored out.

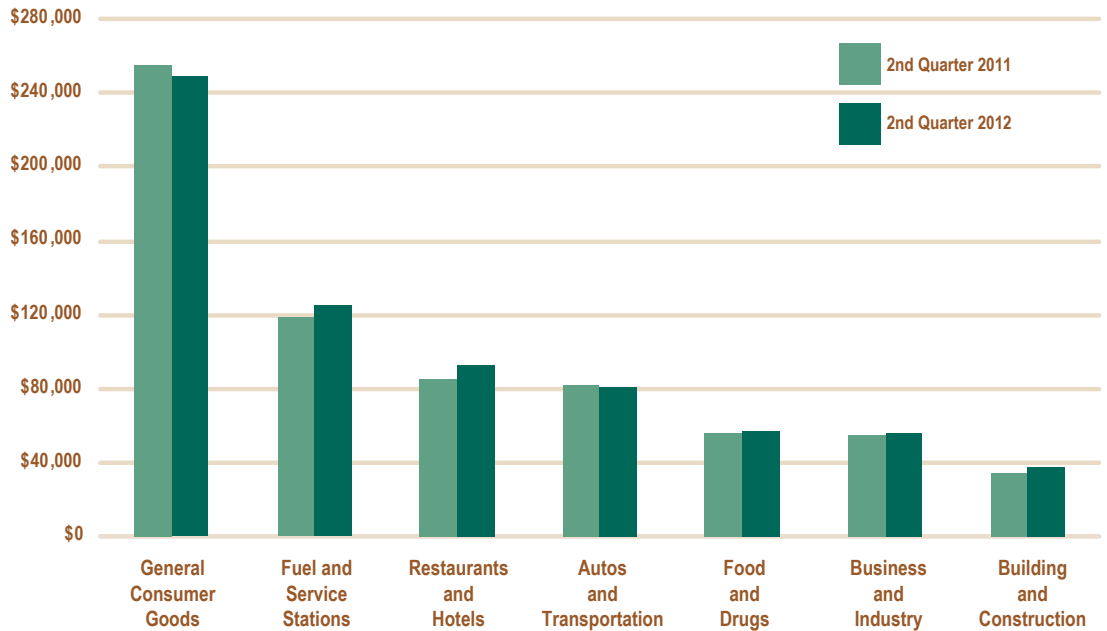
Recent additions helped boost revenues from restaurants with liquor and specialty stores. The city experienced a moderate sales quarter for fuel & service stations and building & construction.

The gains were partially offset by a decline in sales from some categories of general consumer goods.

The city's voter-approved half-cent transaction tax generated an additional \$481,482 for the quarter, an increase of 5.9% over the same period last year.

Adjusted for aberrations, taxable sales for all of San Luis Obispo County increased 12.9% over the comparable time period, while the Central Coast region as a whole was up 7.4%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

| | |
|----------------------------|------------------------------|
| Ace Hardware | Gills Food Market |
| Albertsons | In N Out Burger |
| Aqua Systems | JB Dewar |
| Arco AM PM | K Mart |
| Arroyo Grande Shell | Marshalls |
| Arroyo Grande Valero | McDonalds |
| Burke & Pace Lumber Sales | Mullahey Ford |
| Chevron | Officemax |
| Chilis | Rite Aid |
| Christianson Chevrolet | San Luis Obispo Country Farm |
| Donnas Interiors Furniture | Slo World |
| | Trader Joes |
| | Verizon Wireless |
| | Walmart |

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

| | 2011-12 | 2012-13 |
|--------------------------|--------------------|--------------------|
| Point-of-Sale | \$687,888 | \$698,211 |
| County Pool | 71,082 | 77,958 |
| State Pool | (403) | 696 |
| Gross Receipts | \$758,567 | \$776,865 |
| Less Triple Flip* | \$(189,642) | \$(194,216) |
| Gross Trans. Tax | \$454,584 | \$481,482 |

*Reimbursed from county compensation fund

Statewide Results

Net of payment aberrations, second quarter retail sales were 7.5% higher than the same period one year earlier.

Purchases of new automobiles, spurred by low interest rates, easy credit and manufacturers' incentives, outpaced first quarter growth and generated 22% of the total increase. Business-to-business sales reflected strength in a number of sectors, notably heavy industrial, business services and equipment for energy related projects. Restaurant and hotel receipts grew by 8.6%, outpacing all other industry groups except autos and transportation. Family apparel sales were strong but weak electronics/appliances returns and lackluster results from department stores and big box discounters held general consumer group gains to a modest 3.9%. Flattening fuel prices and ongoing weakness in lumber and building materials sales also restrained overall results.

Outlook for the Year

The momentum for the recovery is slowing and has recently prompted another round of "quantitative easing" by the Federal Reserve Board in an effort to reinvigorate the housing market and spur business investment by keeping interest rates low. Retail growth in California, which fell further than the nation as a whole during the "Great Recession," may outpace the nation going forward but stubborn unemployment, nearly static income levels, and cautious business spending will keep overall sales at moderate levels at least through 2014-15.

Sales Tax from On-line Retailers

AB 155, which was passed last year as a compromise with Amazon.com went into effect on September 15. While the bill expanded the state's ability to require the collection of tax

on out-of-state sales, local agencies expecting immediate revenue gains will be disappointed.

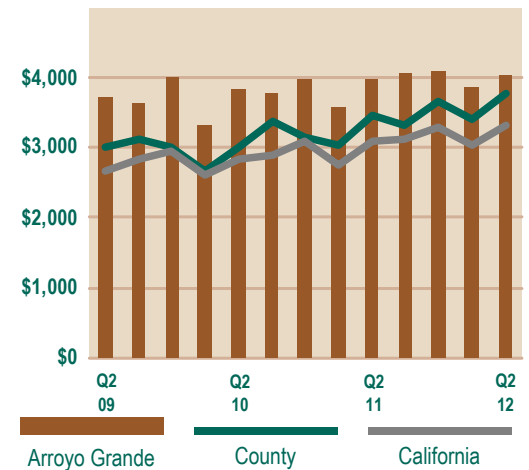
Federal case law continues to provide that remote sellers without nexus in a state are not required to collect that state's sales tax. Amazon agreed not to contest AB 155's definition of nexus which includes remote sellers who have annual sales in California of one million dollars or more and who have an in-state affiliate that provides services in connection with the remote seller's sales if those connected sales exceed \$10,000 per year.

The Board of Equalization's initial estimate was that the legislative change would raise approximately \$38.2 million in one-cent local revenues. However since then, Amazon which was a significant portion of the estimate has decided to build distribution facilities in California which will divert the revenues to the hosting jurisdictions. Other remote sellers, such as Overstock.com, have announced that

they will simply drop their in-state affiliates to avoid collecting the tax.

The Board of Equalization expects to add up to 100 staff positions over the next three years to enforce the new provisions. However, at least initially, local governments should not expect annual revenues of more than \$0.25 per capita and the ultimate solution continues to be federal legislation that eliminates the nexus prohibition and levels the playing field for all retailers.

SALES PER CAPITA



ARROYO GRANDE TOP 15 BUSINESS TYPES

| Business Type | Arroyo Grande | | County | HdL State |
|---|------------------|--------------|-------------|-------------|
| | Q2 '12 | Change | Change | Change |
| Discount Dept Stores | — CONFIDENTIAL — | — | 10.9% | 3.7% |
| Drug Stores | 17,109 | 1.9% | -2.9% | 3.5% |
| Electronics/Appliance Stores | 17,025 | 17.6% | -12.0% | -2.5% |
| Family Apparel | 22,526 | 2.2% | -44.9% | 8.8% |
| Garden/Agricultural Supplies | 21,335 | 0.4% | 18.1% | 5.1% |
| Grocery Stores Liquor | 30,057 | 3.7% | -2.0% | 4.2% |
| Hardware Stores | — CONFIDENTIAL — | — | 4.8% | 5.6% |
| Home Furnishings | 32,843 | -10.0% | 1.4% | 7.1% |
| Lumber/Building Materials | 18,657 | 7.1% | 30.5% | 20.5% |
| New Motor Vehicle Dealers | — CONFIDENTIAL — | — | 17.1% | 22.3% |
| Restaurants Beer And Wine | 20,112 | 9.4% | 4.8% | 0.2% |
| Restaurants Liquor | 28,982 | 25.6% | 11.2% | 11.2% |
| Restaurants No Alcohol | 41,437 | 0.1% | 9.4% | 8.1% |
| Service Stations | 117,792 | 3.3% | 8.9% | 2.3% |
| Specialty Stores | 13,417 | 14.2% | 14.7% | 2.3% |
| Total All Accounts | \$698,211 | 1.5% | 8.8% | 6.7% |
| County & State Pool Allocation | 78,654 | 11.3% | | |
| Gross Receipts | \$776,865 | 2.4% | | |