

Q4 2013



Santa Cruz County Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (October - December 2013)

Santa Cruz County In Brief

Receipts for the unincorporated area's October through December sales were 11.7% higher than the same quarter one year ago. However, a payment anomaly inflated results from building-construction materials. Actual sales activity was up 5.9% when reporting aberrations were factored out.

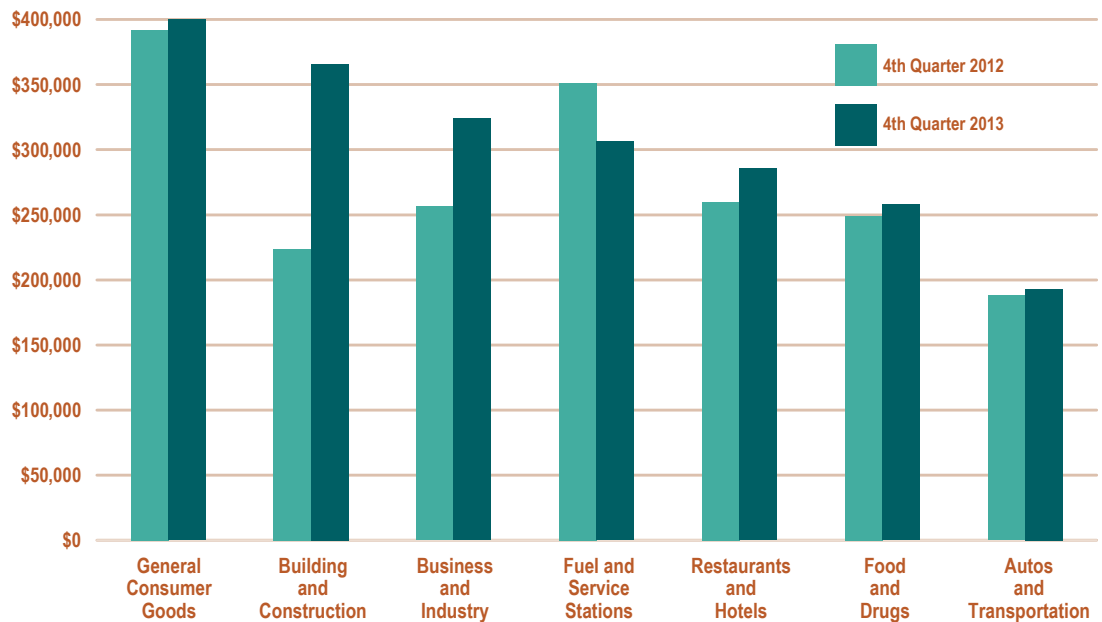
The addition of a new food service supplier and increased sales of garden-agricultural supplies boosted returns from the business and industry group. Receipts from restaurants were exaggerated by payment deviations in the current period.

Holiday sales of home furnishings and family apparel were up; however, losses from electronic-appliance stores cut the overall growth of general consumer goods. A 16.6% increase in the unincorporated county share of the countywide use tax pool allocation also contributed to the positive outcome.

The gains were partially offset by a reporting anomaly that negatively impacted results from service stations.

Adjusted for aberrations, taxable sales for all of Santa Cruz County increased 4.5% over the comparable time period, while the Central Coast region as a whole was down 1.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

AJs Fuel & Food Mart	Palace Art & Office Supply
American Builders Contractors Supply	Performance Food Group
Best Buy	Pet Pals
Big Creek Lumber	Probuild Company
Boulder Creek Beacon Station	Rite Aid
Chaminade Hotel	Safeway
Crop Production Services	Safeway Gasoline
Felton Valero	Scarborough Home Center
Home Depot	Staples
Marshalls	Steves Union Service
Ocean Honda	Tesoro West Coast
Ocean Street Chevron	Toys R Us
	Valero

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2012-13	2013-14
Point-of-Sale	\$6,273,085	\$6,579,967
County Pool	718,158	835,682
State Pool	2,712	3,872
Gross Receipts	\$6,993,955	\$7,419,521
Less Triple Flip*	\$(1,748,489)	\$(1,854,880)

*Reimbursed from county compensation fund

Statewide Results

Excluding accounting anomalies, the local share of sales and use tax receipts from California's 2013 holiday spending rose 3.4% over the fourth quarter of 2012.

Auto sales and leases and all categories of building and construction materials were substantially up over the previous year while tourism and convenience-driven consumer demand continued to produce healthy gains in restaurant related revenues.

Sales of luxury goods and portable electronics did particularly well while cut backs in food stamp programs and unemployment benefits reduced spending at discount department stores and many value oriented retailers. Generally, the gains in sales from online purchases were higher than for brick and mortar stores.

Rising fuel efficiency resulted in lower receipts from service stations and petroleum supply companies while a slowing pace in solar and alternate energy development reduced use tax receipts from the business/industrial segment.

Spending patterns were fairly consistent throughout most regions.

E-Commerce Spending Up

Tax receipts from holiday spending on general consumer goods at brick and mortar stores grew by 2.3% over last year's comparable quarter while local tax revenues from online purchases increased 16% and accounted for 10.3% of total general consumer goods sales and use tax receipts.

The rise in online retail shopping accelerates trends that began 20 years ago by sellers of materials and equipment to business and industrial users. Suppliers were able to take advantage of business preferences for the ease

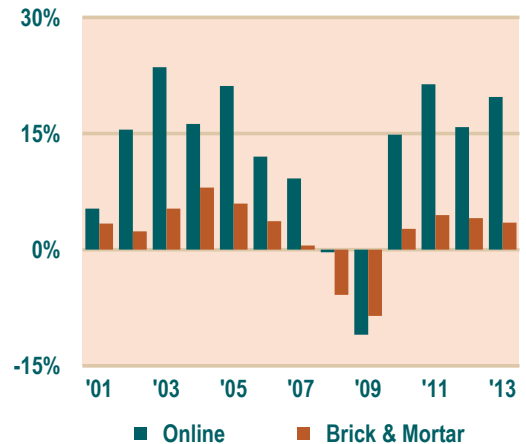
of online ordering by consolidating sales offices and inventories into just a few locations.

However, it was not until social networking and growth in the use of mobile devices that the general public became fully comfortable with online purchasing. Retail analysts expect the trend to expand and every major retailer is testing new concepts to reduce store size and overhead costs by driving more of their sales to centralized web-based order desks.

New technology, recent court decisions and legislative exemptions are constantly reducing what is taxable and has substantially altered the base on which the tax was created in 1933. The concentration of business supplies and now consumer goods into fewer and larger "points of sale" has accelerated competition for what is becoming a diminishing resource. Local governments are now bidding rebates up to 85% of the local tax collected in exchange for location of order desks.

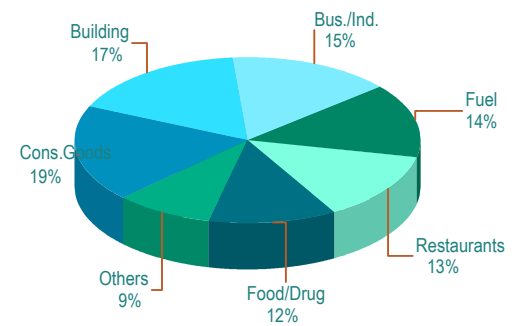
ONLINE VS. BRICK & MORTAR

Year-Over-Year Percent Growth



REVENUE BY BUSINESS GROUP

Santa Cruz County This Quarter



SANTA CRUZ COUNTY TOP 15 BUSINESS TYPES

Business Type	*In thousands			
	Unincorporated County Q4 '13*	Change	County Change	HdL State Change
Auto Repair Shops	54.2	5.2%	16.2%	8.3%
Casual Dining	119.7	12.2%	-0.1%	6.0%
Contractors	50.4	18.8%	8.9%	15.3%
Electronics/Appliance Stores	82.7	-22.1%	0.2%	-0.5%
Family Apparel	46.2	16.6%	5.5%	6.8%
Fine Dining	46.4	56.3%	81.1%	15.1%
Garden/Agricultural Supplies	103.4	13.9%	10.6%	9.2%
Grocery Stores Liquor	99.0	1.5%	-0.5%	38.3%
Home Furnishings	65.6	20.8%	11.7%	8.0%
Lumber/Building Materials	245.8	102.4%	88.1%	265.5%
New Motor Vehicle Dealers	— CONFIDENTIAL —		10.2%	9.4%
Plumbing/Electrical Supplies	51.0	15.5%	9.7%	9.7%
Quick-Service Restaurants	46.1	3.8%	2.6%	7.9%
Service Stations	303.7	-13.1%	-3.7%	-2.7%
Specialty Stores	83.9	4.2%	10.1%	7.5%
Total All Accounts	\$2,132.9	11.1%	9.0%	8.7%
County & State Pool Allocation	\$297.8	16.6%	14.4%	9.4%
Gross Receipts	\$2,430.6	11.7%	9.6%	8.8%