

Q3 2012



Santa Cruz County Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2012)

Santa Cruz County In Brief

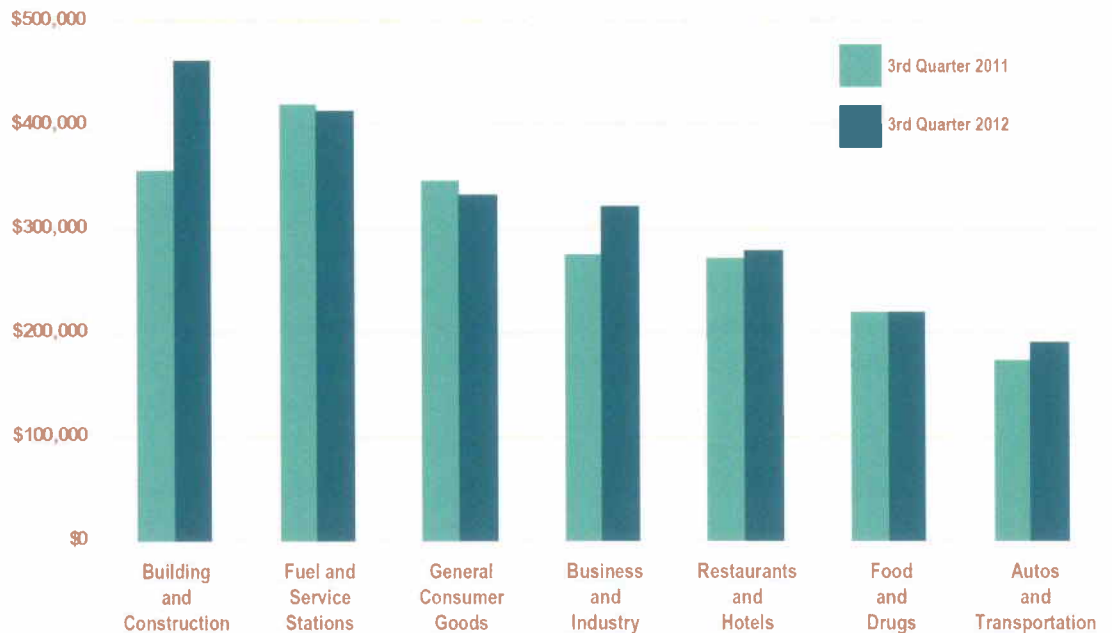
Receipts from the unincorporated area's July through September sales were 9.1% higher than the same quarter one year ago but reporting aberrations skewed the data. With anomalies removed, actual sales activity was up 3.8%.

Both the building and construction and the business and industry groups were temporarily exaggerated by onetime accounting adjustments. New eatery openings and higher net sales buoyed results from restaurants serving beer & wine and liquor. Stronger sales boosted returns from the autos and transportation group. A larger allocation from the countywide use tax pool further contributed to the gain.

The gains were partially offset by lower gasoline usage which contributed to reduced service station receipts. General consumer goods experienced mixed results with a slight net loss in sales.

Adjusted for aberrations, taxable sales for all of Santa Cruz County increased 5.7% over the comparable time period, while the state as a whole was up 6.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

AJs Fuel & Food Mart	Palace Art & Office Supply
Best Buy	Pet Pals
Big Creek Lumber	Probuild Company
Boulder Creek Beacon Station	Quik Stop Market
Chaminade Hotel	Safeway
Crop Production Services	Safeway Gasoline
Deer Park Service Station	Scarborough Home Center
Home Depot	Seascape Resort
Independent Electric Supply	Staples
Marshalls	Steves Union Service
Ocean Honda	Tesoro West Coast
Pacific AG Supplies	Toys R Us
	Valero

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2011-12	2012-13
Point-of-Sale	\$4,139,766	\$4,352,898
County Pool	401,583	464,224
State Pool	462	1,316
Gross Receipts	\$4,541,811	\$4,818,438
Less Triple Flip*	\$(1,135,453)	\$(1,204,609)

*Reimbursed from county compensation fund

Statewide Results

Gains in all seven of HdL's key economic groupings confirm that California's economy continues to mend. Statewide local sales and use tax revenues from transactions occurring July through September 2012 were 6.0% higher than the same quarter in 2011 after onetime accounting and reporting aberrations are factored out.

The continued strong demand for new autos exceeded analysts' expectations and generated about one-fourth of the adjusted statewide increase. Restaurant sales posted another strong quarter with receipts 6.6% higher than the same period one year ago. Use tax from the development of solar energy projects and a modest recovery in some categories of building and construction materials also contributed to the rise.

Overall sales growth was tempered by a leveling in fuel prices compared to the previous year's quarter and by a slowdown in business spending in the Silicon Valley.

The Year Ahead

Gains in sales and use tax receipts from the first half of 2013 are expected to be lower than previous quarters. Recovery from "fiscal cliff" uncertainties and its final outcome may take several months while Europe's financial woes and China's sluggish growth will temper California export activity. Fuel prices should stabilize and not generate the huge bubbles in tax revenues experienced in previous quarters.

The last half of the year is predicted to resume steady, moderate growth. In November, the state's unemployment rate had already dipped to 9.8 percent, the lowest since the recession began. The recent gains are becoming more widespread among job categories and

even include an increase in construction-related employment.

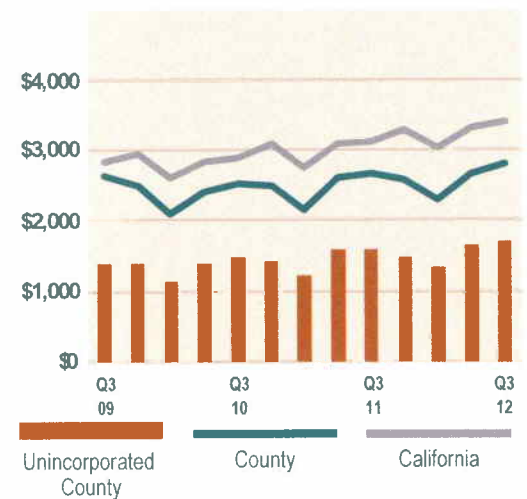
The state's housing market is strengthening with fewer distressed transactions and record low inventories. The median sales price of homes has increased for the last eight consecutive months of the year and building activity, particularly in the coastal areas, is expected to pick up steam in 2013. Elevated foreclosure rates in some inland regions may delay building recovery for another year or two.

Pent-up demand, record low interest rates and easing credit availability have led to robust sales of new automobiles. That demand is expected to continue for another few quarters as consumers replace older, less fuel efficient models and take advantage of lease and financing incentives being offered by manufacturers.

Wage gains from new hiring, combined with lower fuel prices and an improv-

ing housing market are incrementally boosting consumer confidence but much depends on government stewardship of the recovery. Tax increases and reduced benefits could shrink spending at the lower income levels while overly deep cutbacks in government contracts and infrastructure improvements could discourage new business investment.

SALES PER CAPITA



SANTA CRUZ COUNTY TOP 15 BUSINESS TYPES

Business Type	Unincorporated County		County	HdL State
	Q3 '12*	Change	Change	Change
Auto Repair Shops	50.9	1.0%	0.2%	2.6%
Contractors	49.6	23.2%	-2.5%	6.9%
Electronics/Appliance Stores	67.1	-8.1%	3.7%	-1.1%
Garden/Agricultural Supplies	141.0	6.4%	0.0%	-2.5%
Grocery Stores Liquor	83.4	1.4%	3.2%	9.5%
Home Furnishings	51.6	-0.6%	-3.2%	4.5%
Lumber/Building Materials	348.9	37.3%	29.5%	35.9%
New Motor Vehicle Dealers	— CONFIDENTIAL —		6.4%	19.2%
Package Liquor Stores	48.8	6.8%	1.9%	4.6%
Plumbing/Electrical Supplies	45.8	4.4%	5.4%	20.0%
Restaurants Beer And Wine	82.8	3.7%	4.0%	2.2%
Restaurants Liquor	97.9	20.0%	8.6%	8.5%
Restaurants No Alcohol	45.6	0.2%	2.2%	8.1%
Service Stations	412.2	-1.3%	1.5%	1.6%
Specialty Stores	66.0	1.9%	5.9%	0.9%
Total All Accounts	\$2,216.6	7.5%	5.6%	8.8%
County & State Pool Allocation	241.8	27.2%		
Gross Receipts	\$2,458.4	9.1%		<i>*In thousands</i>