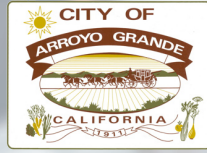


Q3 2011



Arroyo Grande Sales Tax Update

Fourth Quarter Receipts for Third Quarter Sales (July - September 2011)

Arroyo Grande In Brief

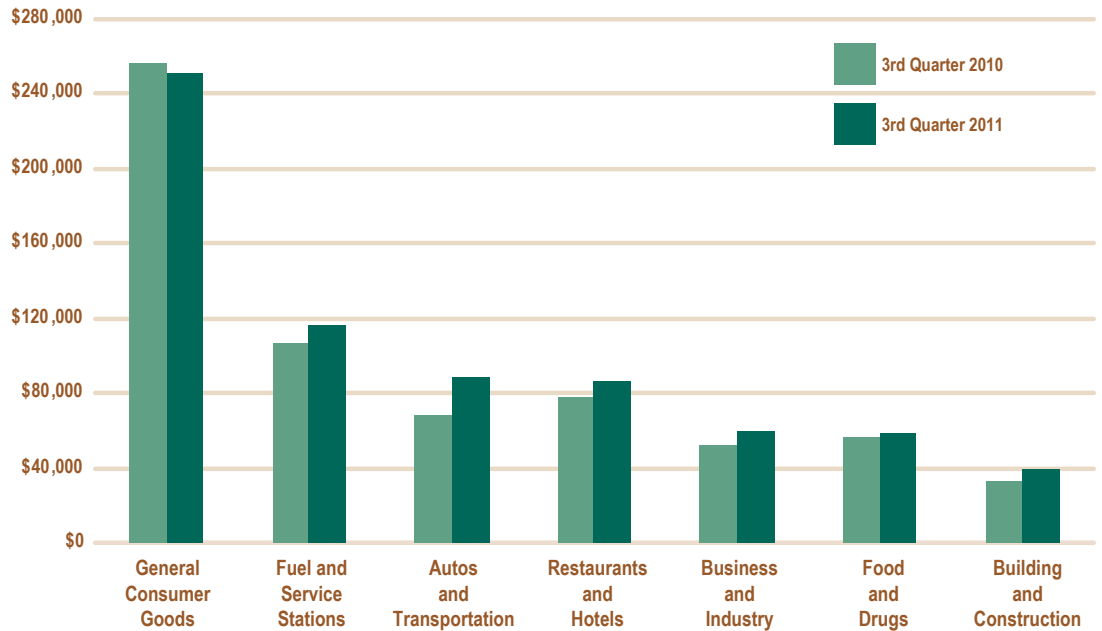
Receipts for Arroyo Grande's July through September sales were 8.5% higher than the same quarter one year ago. Actual sales activity was up 9.3% when reporting aberrations were factored out.

The city experienced a strong sales quarter for the autos & transportation sector. Higher fuel prices increased returns from service stations. A recent addition helped boost revenues from restaurants.

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

Adjusted for aberrations, taxable sales for all of San Luis Obispo County decreased 1.4% over the comparable time period, while the Central Coast region as a whole was up 6.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS In Alphabetical Order

Ace Hardware	Grand Estate Furniture
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 Grill & Bar	Rite Aid
Christianson Chevrolet Oldsmobile	San Luis Obispo Country Farm
Gills Food Market	Slo World
	Trader Joes
	Verizon Wireless
	Wal Mart

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2010-11	2011-12
Point-of-Sale	\$1,314,689	\$1,390,284
County Pool	140,702	146,982
State Pool	927	177
Gross Receipts	\$1,456,318	\$1,537,443
Less Triple Flip*	\$(364,079)	\$(384,361)
Gross Trans. Tax	\$836,701	\$912,466

*Reimbursed from county compensation fund

California Overall

Adjusted for accounting aberrations, statewide local sales and use tax revenues for July through September transactions increased 8.6% over last year's comparison quarter. This is the seventh consecutive quarterly gain since the beginning of the recovery.

All categories were up with receipts from higher fuel prices accounting for much of the statewide increase. Sales of new autos, consumer goods and quick and full service restaurants also exhibited solid growth.

The Foggy Crystal Ball

Although 2011-12 is shaping up to be a period of strong sales tax recovery, most analysts believe that the pace of growth will slow in 2012-13 with the only disagreement being over the degree of slowdown.

Additional state budget cuts, continued high unemployment, further declines in home values and unstable fuel prices are part of the uncertainty. The financial turmoil in Europe is also of concern.

Manufacturers, growers, distributors, transporters and other companies involved in export trade make up 25% of the state's gross product. The European crisis has the potential of slowing the demand for both U.S. and Asian goods which would also pare the growth of California's Asian markets. Comparative strengthening of the U.S. dollar would also make exports more expensive.

Analysts worry about the resulting impact on Silicon Valley's technology industries, the Central Valley's agricultural exports and Southern California's transportation sector.

Sales Tax and the Internet

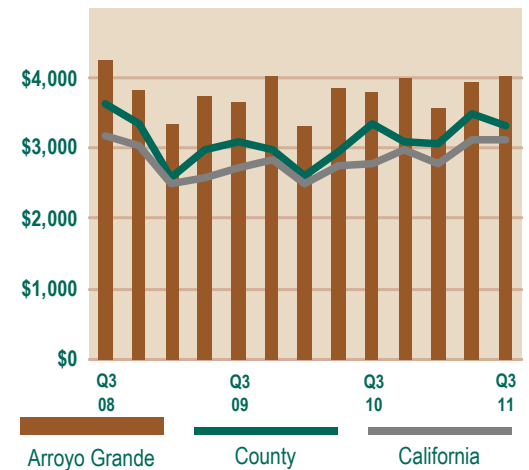
In 1992, the Supreme Court ruled that interstate commerce rules preclude states from requiring sellers without an in-state physical presence to collect local taxes. Since that time, attempts to interest Congress in correcting the problem have been unsuccessful.

With internet sellers becoming a major retail competitive force and more states adopting legislation expanding the definition of what constitutes "physical presence," the need for fairness and uniformity is softening opposition. This year, three competing bills were introduced in Congress that would allow the collection of local taxes. These are: S.1452, H.R. 3179 and S. 1832.

Given the general discord and paralysis in Congress, there is some question of whether any of these will pass. However, a compromise agreement between the State of California and Amazon has resulted

in legislation (AB 155) that requires in-state affiliates of remote sellers to begin collecting and remitting sales and use tax by September 15, 2012. Estimates on the amount of new revenues that will be generated have been difficult to develop but local agencies should not expect gains of more than \$1 per capita. More on the congressional legislation can be found in HdL's December issues paper.

SALES PER CAPITA



ARROYO GRANDE TOP 15 BUSINESS TYPES

Business Type	Arroyo Grande		County	HdL State
	Q3 '11	Change	Change	Change
Discount Dept Stores	— CONFIDENTIAL —	—	8.5%	3.1%
Drug Stores	17,170	5.9%	1.5%	6.2%
Electronics/Appliance Stores	12,996	-4.1%	-11.3%	-9.1%
Family Apparel	23,908	5.7%	-3.0%	7.9%
Garden/Agricultural Supplies	19,508	2.7%	12.9%	11.2%
Grocery Stores Liquor	29,454	-2.2%	-1.8%	10.8%
Hardware Stores	— CONFIDENTIAL —	—	3.1%	6.5%
Home Furnishings	31,197	6.0%	6.5%	7.4%
Lumber/Building Materials	20,076	14.8%	2.7%	4.1%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	14.0%	12.3%
Office Supplies/Furniture	10,997	-1.3%	-136.7%	-27.2%
Restaurants Beer And Wine	22,255	10.5%	4.3%	0.8%
Restaurants Liquor	22,032	-2.9%	6.3%	10.9%
Restaurants No Alcohol	40,806	22.0%	8.6%	7.1%
Service Stations	111,552	10.9%	21.4%	20.5%
Total All Accounts	\$702,397	7.8%	-0.9%	9.4%
County & State Pool Allocation	76,480	15.1%		
Gross Receipts	\$778,877	8.5%		