

Q4 2008



City of Santa Cruz Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (Oct-Dec 2008)

Santa Cruz In Brief

Fourth quarter receipts were 11% lower than the same period one year ago.

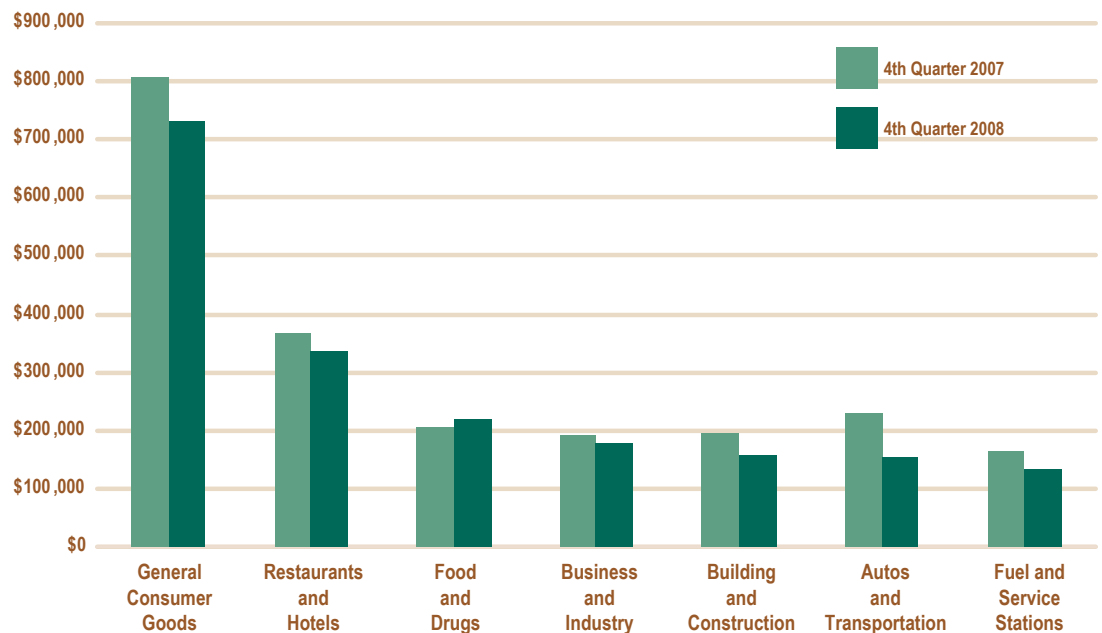
Business closeouts cut results from the Autos & Transportation group. Restaurants with beer/wine, home furnishings, sporting goods/bike store, stationery/book store, lumber/building materials and contractor categories fell much as they did in most areas of the state. Restaurants with liquor and family apparel groups appeared to be down but payment aberrations that temporarily inflated year-ago results caused those declines. Service station totals eased as gasoline prices retreated from record highs.

Grocery stores with liquor, restaurants without alcohol and auto repair shops managed modest gains.

Proceeds from the city's voter-approved half-cent sales tax dipped 5.5%.

With accounting adjustments factored out, all of Santa Cruz County was down 11.2%, statewide results dropped 13.1%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS In Alphabetical Order

Bookshop Santa Cruz	Officemax
Borders	Petsmart
Central Home Supply	Ross
Chevron	Rotten Robbie
Cost Plus	Safeway
Costco	San Lorenzo Lumber
Crows Nest	Santa Cruz Hydroponics & Organics
De Laveaga Motors & Bottom Line	Santa Cruz Nissan
Devco Oil	Staff of Life Natural Foods Bakery
Granite Rock	Trader Joes
Las Animas Concrete	University of California
Longs	Valero Corner Store
North Bay Ford	
Lincoln Mercury	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2007-08	2008-09
Point-of-Sale	\$6,625,377	\$6,249,119
County Pool	684,127	669,270
State Pool	2,857	2,730
Gross Receipts	\$7,312,361	\$6,921,119
Less Triple Flip*	\$(1,828,090)	\$(1,730,280)
Gross Trans. Tax	\$4,091,799	\$3,872,667

**Reimbursed from county compensation fund*

Statewide Sales Sink!

Adjusted for accounting aberrations, point of sale receipts from October through December sales were 13.1% lower than the same quarter of 2007. The revenues generated in this holiday quarter were the lowest since 2003.

The declines occurred in all categories of sales except fast food restaurants and grocery stores and were experienced in all counties and regions. Of particular significance were the 23% decline in receipts from petroleum related businesses which resulted from declining prices and consumption, a 37% drop in revenues from new car sales, and a 14.6% decrease in sales tax allocations from building and construction materials.

Tax revenues from general consumer goods were down 10.4% from the 2007 holiday quarter while business to business sales were 9.0% lower.

This was the sixth consecutive quarter of lower statewide allocations. Trade association surveys indicate that January through March sales will be equally dismal. The latest HdL consensus forecast estimates that fiscal 2008/2009 sales and use tax revenues will be 8.8% below the prior year.

Most economists believe that the recession will not bottom out until late 2009 and significant recovery will not occur before 2011/2012.

New Sales Tax Rate

Article 13A of the state constitution authorizes the state legislature to increase taxes other than property by a two thirds vote. This allowed the 2008/2009 state budget compromise which temporarily increases the state portion of the sales and use tax rate by 1.0% from April 1, 2009 to July 1, 2011. The increase will be extended for one additional year if voters approve Proposition 1A, the state spending cap measure on the May ballot.

This brings California's top combined sales, transactions and use tax rate to

10.25%, except in Los Angeles County, where on July 1, 2009 the maximum possible rate becomes 10.75% as an additional one-half cent tax passed by that county's voters in November takes effect. Only two agencies in California will reach the highest rate.

Economists disagree on how consumers will react to a double digit sales tax. The actual impact may be difficult to distinguish from sales lost due to current economic conditions and record low consumer confidence.

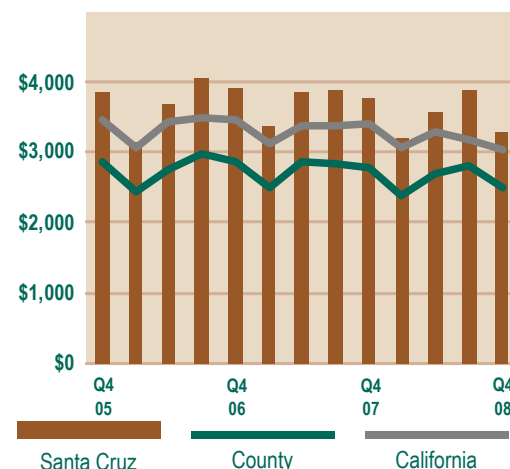
In preparing their revenue projections, the State Department of Finance assumed that the additional one cent tax would result in a one percent loss in future purchases.

Stimulus Package Benefits

The American Recovery and Reinvestment Act of 2009 will send an estimated \$31 billion to the state. Roughly one third will be used to backfill state budget cutbacks in education and other programs, another third for new state spending and the final third for grants made on a competitive basis. Near-

term benefits most likely to boost retail spending include "Making Work Pay" tax credits to boost payroll checks, extending and increasing unemployment insurance payouts, and allowing buyers of new vehicles purchased between February 17th and December 31st to deduct state sales tax from their federal income tax. Analysts warn that for the short term, these benefits will do little more than slow the economy's descent.

SALES PER CAPITA



SANTA CRUZ TOP 15 BUSINESS TYPES

Business Type	Santa Cruz		County	HdL State
	Q4 '08*	Change	Change	Change
Discount Dept Stores	— CONFIDENTIAL —		-5.3%	-3.3%
Restaurants Liquor	145.1	-8.8%	-10.1%	-0.9%
Service Stations	118.0	-15.5%	-22.6%	-23.2%
Restaurants Beer And Wine	104.4	-14.1%	-7.3%	-6.9%
Grocery Stores Liquor	78.5	6.5%	5.5%	0.7%
Restaurants No Alcohol	71.9	1.8%	7.6%	1.3%
Family Apparel	71.3	15.1%	4.0%	-3.6%
Drug Stores	67.5	-1.7%	-2.3%	-1.4%
Home Furnishings	66.3	-17.2%	-8.8%	-20.3%
Contractors	66.2	-29.3%	-19.8%	-15.5%
Lumber/Building Materials	64.4	-9.7%	-7.4%	-12.5%
Specialty Stores	58.2	-3.6%	-8.9%	-7.2%
New Motor Vehicle Dealers	— CONFIDENTIAL —		-47.7%	-36.4%
Stationery/Book Stores	42.4	-15.7%	-15.0%	-8.1%
Sporting Goods/Bike Stores	35.1	-21.9%	-16.8%	-6.5%
Total All Accounts	\$1,911.2	-11.9%	-10.0%	-10.3%
County & State Pool Allocation	205.4	-1.7%		
Gross Receipts	\$2,116.6	-11.0%		<i>*In thousands</i>