

Q1 2007



Huntington Beach Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (Jan-Mar 2007)

Huntington Beach In Brief

The allocation from Huntington Beach's January through March sales was 5.5% higher than the same quarter one year ago.

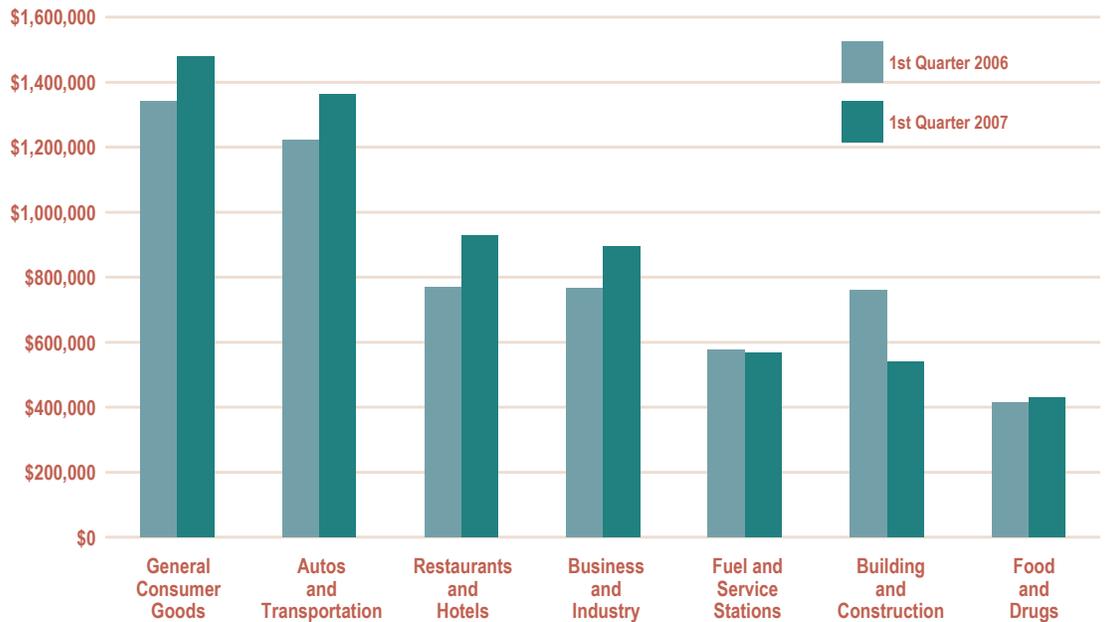
Actual sales activity was up 2.4% when onetime accounting aberrations that temporarily inflated revenues from new motor vehicle dealers and other categories are factored out.

A solid quarter for most categories of General Consumer Goods and restaurants was a major contributor to the increase in real sales. Recent additions in specialty retail, full service restaurants and office supplies were also a factor as was a 5.9% actual rise in auto sales.

The gains were largely offset by a decline in sales of lumber/building materials and home improvement supplies.

Adjusted for aberrations, taxable sales for all of Orange County increased 2.0% over the comparable time period while Southern California as a whole was up 0.9%

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

Albertsons	Hyatt Regency Huntington Beach
Applied Computer Solutions	I & S Mini Market
Baker Oil Tools	Kohls
Chevron	Mervyns
Circuit City	Nissan Huntington Beach
Delillo Chevrolet	Norm Reeves
G&M Oil	Honda
Home Depot	Officemax
Huntington Beach Chrysler Jeep	Ralphs
Huntington Beach Dodge	Reliable Wholesale Lumber
Huntington Beach Ford	Sharp Electronics
Huntington Beach Toyota Scion Kia	South County VW
	Isuzu
	Target
	Wal Mart

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2005-06	2006-07
Point-of-Sale	\$19,386,336	\$19,544,161
County Pool	2,057,486	2,039,508
State Pool	31,082	25,978
Gross Receipts	\$21,474,904	\$21,609,647
Less Triple Flip*	\$(5,368,726)	\$(5,402,412)

*Reimbursed from county compensation fund

DIRECT ALLOCATION OF USE TAX EXPANDED

With some exceptions, merchandise delivered from an out of state location is subject to Use Tax with the local portion distributed via county or state-wide allocation pools. The revenues are divided among each jurisdiction in the pool based on their pro rata share of taxable sales.

The Board of Equalization's current Regulation 1802 provides an exception by allocating the use tax on purchases exceeding \$500,000 to the jurisdiction of delivery if the order is placed to an out-of-state location and the merchandise is shipped from out of state directly to the buyer.

If the order or sale is negotiated in state, the use tax on the out-of-state merchandise continues to be apportioned via the pools.

Effective January 1, 2008, the Board has agreed to eliminate the in-state participation requirement so that the use tax on transactions delivered from out of state that exceed \$500,000 in value goes to the jurisdiction of use.

The primary benefit for local agencies will be an increase in occasional receipts of use tax from out of state capital purchases made by local businesses and taxpayers.

BOARD TACKLES TAX GAP

Each year the state collects over \$44 billion dollars in state and local tax revenues. They estimate that an additional \$2 billion (the tax gap) goes uncollected.

The largest portion of the tax gap is comprised of unpaid use tax. Out-of-state retailers are not required to collect and remit sales tax if they do not have a physical nexus in California. In these cases, the buyer is responsible for reporting and remitting the corresponding use tax and often fails to do so either purposely or because they are unaware of the requirement.

The second largest component of

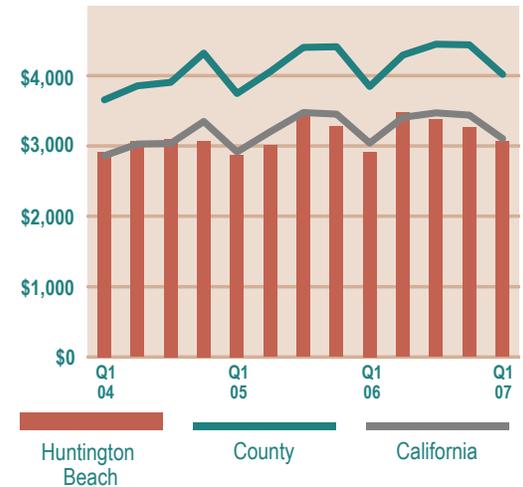
the tax gap lies with the underground economy where transactions are paid by cash and businesses operate without registering in order to avoid taxation. The final component consists of unpaid taxes on sales and purchases that are purposely or inadvertently under reported.

The Board of Equalization has proposed a three year plan to reduce the gap. Elements include additional sharing and utilization of data bases to identify unregistered businesses and/or potential use tax purchases by companies not required to register, additional staffing and technology to improve audit and collection effectiveness, and more field inspections and involvement in special events such as swap meets and auctions.

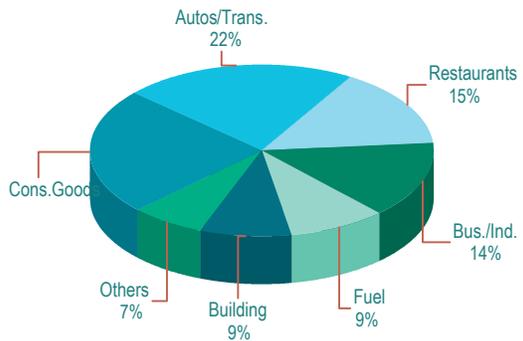
The plan also calls for increased tax preparer education and more effective registration requirements including consolidation of state and local agencies into a one stop registration system.

Copies of the plan can be reviewed at www.boe.ca.gov.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP Huntington Beach This Quarter



HUNTINGTON BEACH TOP 15 BUSINESS TYPES

Business Type	Huntington Beach		County	HdL State
	Q1 '07*	Change	Change	Change
New Motor Vehicle Dealers	\$1,007.9	20.3%	-0.6%	-3.2%
Service Stations	475.4	-1.2%	11.0%	5.3%
Lumber/Building Materials	408.2	-38.2%	-21.0%	-23.2%
Restaurants No Alcohol	336.6	13.7%	4.4%	5.8%
Restaurants Liquor	295.8	44.4%	8.0%	10.4%
Discount Dept Stores	— CONFIDENTIAL —		9.1%	5.8%
Grocery Stores Liquor	214.8	2.0%	6.8%	4.5%
Specialty Stores	200.5	16.3%	4.3%	10.0%
Restaurants Beer And Wine	185.1	8.8%	4.3%	1.2%
Business Services	182.1	-4.0%	56.5%	15.1%
Family Apparel	177.8	-0.9%	13.7%	17.5%
Light Industrial/Printers	166.8	21.7%	-5.1%	10.1%
Electronics/Appliance Stores	154.1	4.5%	-3.6%	0.3%
Office Supplies/Furniture	153.6	15.3%	62.1%	11.5%
Home Furnishings	144.3	3.3%	0.4%	2.6%
Total All Accounts	\$6,200.3	5.8%	5.4%	3.5%
County & State Pool Allocation	678.7	3.0%		
Gross Receipts	\$6,879.0	5.5%		<i>*In thousands</i>