

Q3 2012



Grand Terrace Sales Tax Update

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

Grand Terrace In Brief

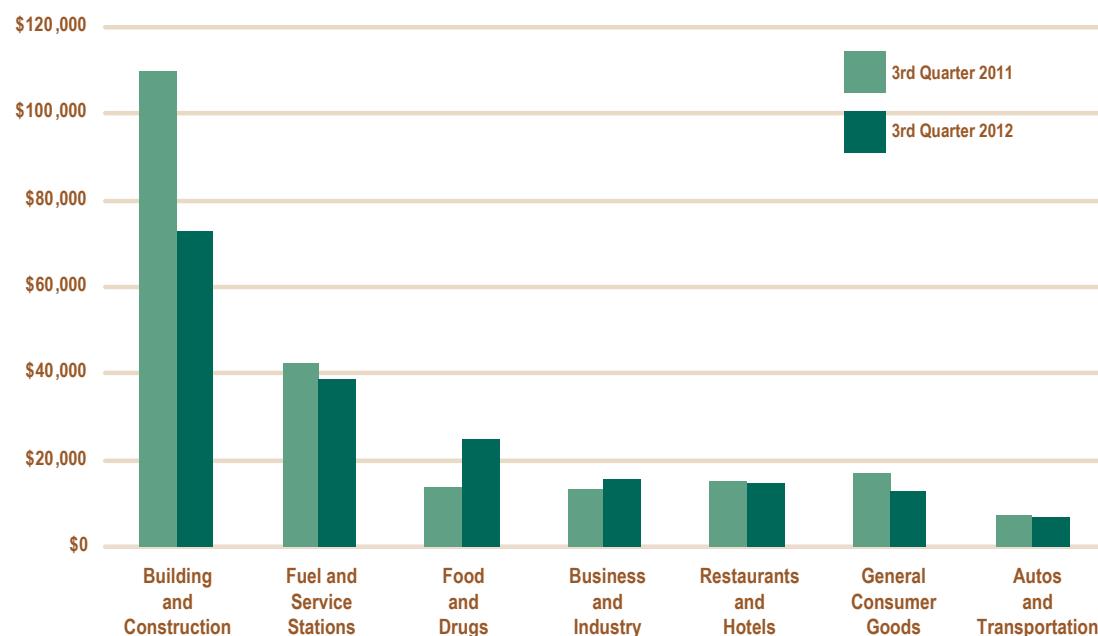
Receipts for Grand Terrace's July through September sales were 16.9% lower than the same quarter one year earlier. Actual sales were down 13.5% when accounting anomalies were factored out.

Reporting problems that cut receipts from some classifications of building and construction materials were primarily responsible for the losses, but prior business closeouts that trimmed proceeds from general consumer goods and the automotive group were also factors. The smaller allocation from the county use tax pool contributed to the decline in gross receipts. The pool, which is shared by all county agencies based on a ratio of taxable sales, was 13.1% smaller than last year when a reporting error spiked totals.

Payment anomalies inflated results from medical/biotech and the food and drugs group, but depressed comparisons for quick service restaurants.

Adjusted for onetime reporting events, taxable sales for all of San Bernardino County rose 5.6% over the comparable period; Southern California as a whole was up 6.7%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS In Alphabetical Order

| | |
|-------------------------|---------------------------------------|
| Alexander Dental | Little Caesars Pizza |
| Designs Lab | Miguels Jr |
| Arco | Mr TV Video |
| Auto Zone | Riverside Winnelson |
| California Skate | Saloncentric |
| Chevron | Smart Time Food Store |
| CVS Pharmacy | Stater Bros |
| Demetris Burgers | Superior Pool Products |
| Dollar Tree | Swertfegers Equipment |
| Dominos Pizza | Unitek Dental Laboratory |
| Esso Wholesale Electric | West Coast Plastics Equipment & Knife |
| Grand Terrace Liquor | |
| Grand Terrace Shell | |
| Harris Transfer | |
| Inland Business Forms | |

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

| | 2011-12 | 2012-13 |
|-------------------|-------------|-------------|
| Point-of-Sale | \$442,125 | \$411,344 |
| County Pool | 50,544 | 42,666 |
| State Pool | 54 | 156 |
| Gross Receipts | \$492,722 | \$454,166 |
| Less Triple Flip* | \$(123,180) | \$(113,541) |

*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.

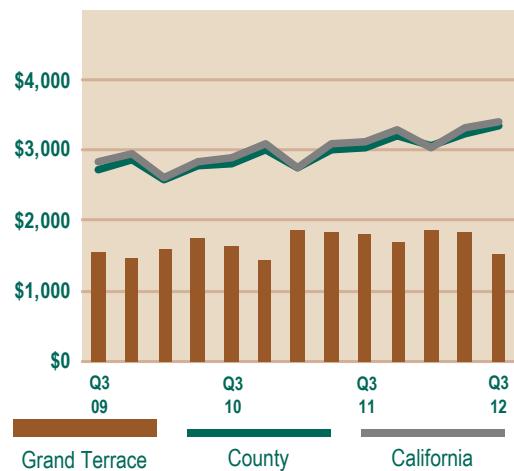
The state's housing market is strengthening with fewer distressed transactions and record low inventories. The median sales price of homes has increased for the last eight consecutive months of the year and building activity, particularly in the coastal areas, is expected to pick up steam in 2013. Elevated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



GRAND TERRACE TOP 15 BUSINESS TYPES

| Business Type | Grand Terrace | | County | | HdL State |
|---|------------------|---------------|-------------|-------------|-----------|
| | Q3 '12 | Change | Q3 '12 | Change | Q3 '12 |
| Automotive Supply Stores | 4,645 | 6.8% | 3.0% | 1.6% | |
| Contractors | 3,068 | -27.4% | 15.4% | 6.9% | |
| Drug Stores | — CONFIDENTIAL — | 0.8% | 0.4% | | |
| Drugs/Chemicals | — CONFIDENTIAL — | -21.2% | 1.8% | | |
| Electronics/Appliance Stores | — CONFIDENTIAL — | -20.7% | -1.1% | | |
| Grocery Stores Liquor | — CONFIDENTIAL — | 11.9% | 9.5% | | |
| Medical/Biotech | 2,526 | 50.5% | -8.4% | -21.9% | |
| Plumbing/Electrical Supplies | 69,687 | -33.6% | -11.9% | 19.6% | |
| Restaurants No Alcohol | 14,262 | -5.7% | 6.8% | 8.1% | |
| Service Stations | — CONFIDENTIAL — | 4.4% | 1.7% | | |
| Specialty Stores | 3,501 | -22.2% | 5.8% | 0.6% | |
| Sporting Goods/Bike Stores | — CONFIDENTIAL — | 5.6% | 6.8% | | |
| Stationery/Book Stores | — CONFIDENTIAL — | -7.5% | -12.6% | | |
| Trailers/RVs | — CONFIDENTIAL — | 2.4% | 2.6% | | |
| Variety Stores | — CONFIDENTIAL — | 6.3% | 4.5% | | |
| Total All Accounts | \$186,779 | -14.8% | 9.8% | 8.8% | |
| County & State Pool Allocation | 18,597 | -33.3% | | | |
| Gross Receipts | \$205,376 | -16.9% | | | |