Q3 2011

City of Fortuna Sales Tax *Update*

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

Fortuna In Brief

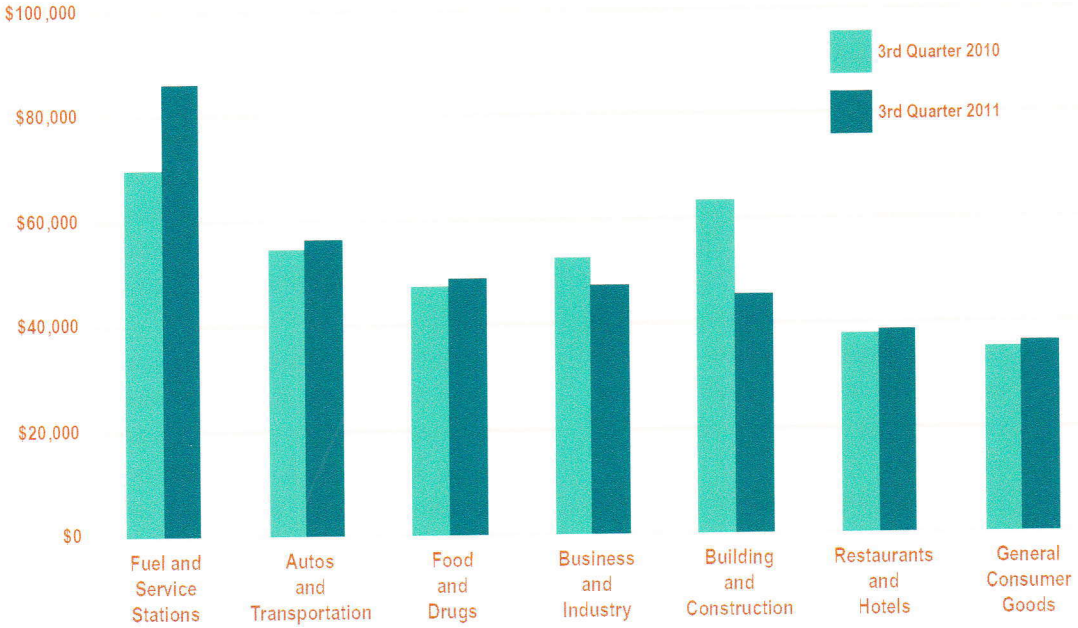
Receipts for Fortuna's July through September sales were 1.2% lower than the same quarter one year ago.

Unusually high returns a year ago for construction materials and heavy equipment accounted for the decline in the building and construction and business and industry groups. A decrease in the city's share of the countywide use tax allocation pool also contributed to lower gross receipts compared to the same quarter last year.

Higher prices boosted results in fuel-related sectors while sales activity rose in drug stores, grocery stores, and home furnishings. Multiple payment deviations understated the increase from new eateries in restaurants.

Adjusted for aberrations, taxable sales for all of Humboldt County increased 3.4% over the comparable time period, while the Far North region as a whole was up 7.7%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- Ace Hardware & Garden
- Beverage Plus Foods
- Burger King
- Eel River Brewing
- Eel River Hydroponics
- Forbusco Lumber
- Fortuna Chevron
- Fortuna Ford Motors
- Fortuna Gas 4 Less
- Gary Crivellos Cars
- Hummel Tire & Wheel
- Kragen Auto Parts
- L & M Renner
- Les Schwab Tire Center
- Lows Furniture
- McDonalds
- Mercer Fraser
- Northcoast Horticulture Supply
- Peterson Tractor
- Rays Food Place
- Rite Aid
- Rohnerville 76
- Safeway
- Village Sport & Cycle
- Walgreens

Revenue Comparison

Two Quarters – Fiscal Year To Date

	2010-11	2011-12
Point-of-Sale	$664,004	$698,345
County Pool	103,129	77,355
State Pool	497	97
Gross Receipts	**$767,630**	**$775,797**
Less Triple Flip*	$(191,907)	$(193,949)

**Reimbursed from county compensation fund*

Published by HdL Companies in Winter 2012
www.hdlcompanies.com | 888.861.0220
The HdL Companies

NOTES

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.

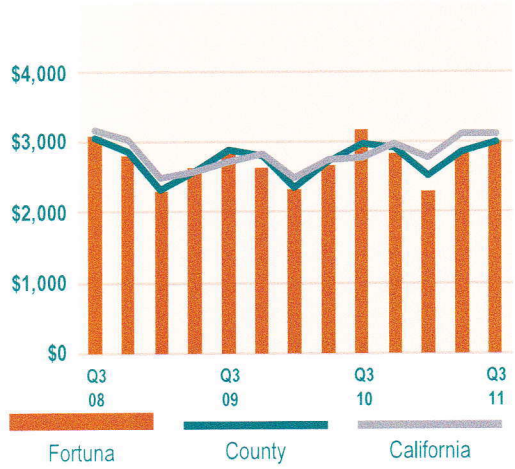
Sales Tax and the Internet

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



Fortuna Top 15 Business Types

Business Type	Fortuna Q3 '11	Fortuna Change	County Change	HdL State Change
Automotive Supply Stores	22,235	12.4%	12.0%	12.3%
Drug Stores	18,451	8.3%	5.2%	6.2%
Electronics/Appliance Stores	10,150	-5.6%	6.0%	-9.1%
Garden/Agricultural Supplies	24,966	12.0%	-1.3%	11.2%
Grocery Stores Liquor	30,532	1.2%	9.2%	10.8%
Hardware Stores	— CONFIDENTIAL —		3.3%	6.5%
Lumber/Building Materials	— CONFIDENTIAL —		3.2%	4.1%
New Motor Vehicle Dealers	— CONFIDENTIAL —		-3.5%	12.3%
Petroleum Prod/Equipment	— CONFIDENTIAL —		31.4%	46.2%
Restaurants Beer And Wine	14,884	0.2%	-8.1%	0.8%
Restaurants Liquor	8,063	32.5%	7.9%	10.9%
Restaurants No Alcohol	15,358	-8.6%	-0.9%	7.1%
Service Stations	59,731	14.3%	13.7%	20.5%
Used Automotive Dealers	— CONFIDENTIAL —		1.0%	10.9%
Warehse/Farm/Const. Equip.	— CONFIDENTIAL —		-10.9%	20.3%
Total All Accounts	**$359,132**	**-0.4%**	**2.7%**	**9.4%**
County & State Pool Allocation	**40,271**	**-7.8%**		
Gross Receipts	**$399,403**	**-1.2%**		