Q3 2007

City of Dana Point Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (Jul-Sep 2007)

Dana Point In Brief

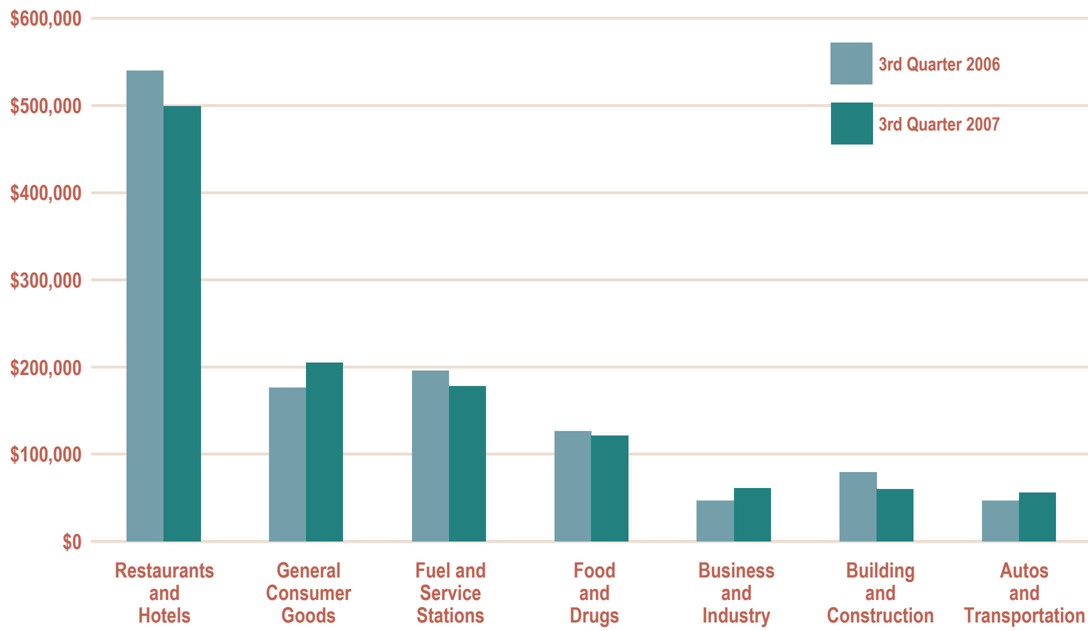
The allocation for Dana Point's July through September sales was 3.1% lower than the same period one year ago.

Receipts declined from service stations and some classifications in the Building and Construction group as they did in most areas of the state. Delayed postings in the current period temporarily depressed results from restaurants serving liquor. Double-up payments that inflated last year's results were major factors for the decline from restaurants serving beer and wine.

Losses were partially offset by gains from boats/motor cycles and the non-automotive transportation group. Onetime accounting anomalies distorted comparisons for specialty retail, sporting goods/ bike shops, home furnishings and women's apparel.

Adjusted for aberrations, taxable sales for all of Orange County declined 3.0% over the same time period while Southern California as a whole was down 3.4%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- Albertsons
- Big 5
- Cannons Seafood Grill
- Capo Beach 76
- Chart House
- Chevron
- Circle K
- Dana Point AM PM
- Doheny Builders Supply
- Ganahl Lumber
- Gelsons Market
- Hennesseys Tavern
- Kwik/Al Sal Oil
- Laguna Cliffs Marriott Resort & Spa
- McKee & Company
- Mobil Oil
- Monarch Bay Chevron
- Pacific Asian Enterprises
- Ralphs
- Ralphs
- Ritz Carlton
- Salt Creek Grille
- Smart & Final
- St Regis Monarch Beach Resort
- Sun Country Marine

Revenue Comparison

Two Quarters – Fiscal Year To Date

	2006-07	2007-08
Point-of-Sale	$2,418,657	$2,336,657
County Pool	255,832	238,251
State Pool	3,132	152
Gross Receipts	**$2,677,620**	**$2,575,060**
Less Triple Flip*	$(669,405)	$(643,765)

**Reimbursed from county compensation fund*

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NOTES

STATEWIDE SALES DECLINE

Further Decreases Anticipated

After adjusting for accounting aberrations, taxable sales during July through September declined 2.9% from the same quarter of 2006.

The inland regions of the state tended to trail the coastal regions. Only San Francisco and portions of the Silicon Valley posted significant gains.

Autos, lumber/building materials and fuel were the primary losers. New car receipts were down 13.3% from the same quarter one year ago while revenues from building/construction materials dropped 11.3% and fuel 6.1%.

Back to school shopping helped boost family apparel sales for the quarter but the gains were largely offset by a drop in demand for home furnishings and large appliances. Receipts from general consumer goods as a whole ended at only 0.7% higher than the third quarter of 2006.

Restaurants continued to be a source of growth exhibiting a 3.9% statewide gain over third quarter 2006 with even larger increases in the North Bay and Central Coast regions.

Capital purchases by manufacturers/exporters of high tech equipment and supplies also helped offset other declines with gains in business-to-business sales second only to the restaurant group.

The Remaining Fiscal Year …

Fourth quarter sales results will not be available until the end of March. Preliminary reports indicate that holiday spending on general consumer goods increased only 2.2% over 2006 but that redemption of gift cards could boost January-February sales more than had been anticipated. Further declines are expected in receipts from auto sales.

Prognostications for 2008 are blurred by wide differences among economists on how much further the economy will drop and on when a recovery might begin. However, most agree that the decline will continue through at least the first half of 2008 and possibly longer.

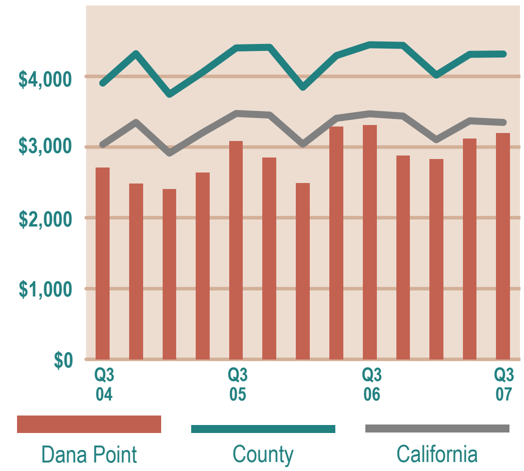
Analysts predict a further decrease of 6.0% to 6.5% in auto sales in 2008 with a recovery in that sector not expected until mid 2009. Sales of general consumer goods are expected to grow only 2.0% to 2.5% overall with solid gains in electronics but weakening performance for apparel, mid-tier department stores and mall shops.

Building and construction material sales could bottom out in mid 2008 with commercial, utility and public construction projects helping offset further losses from housing construction setbacks. However, a recovery in housing construction will be more gradual and is not expected until late 2010 or 2011.

Business-to-business sales may level off in the first half of 2008 but, as long as export demand stays strong, analysts do not expect actual declines.

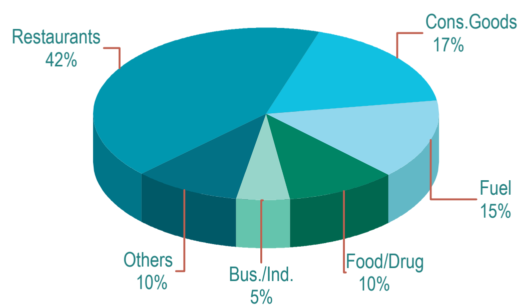
As always, the trends for an individual jurisdiction will vary with the specific make-up of its tax base.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP

Dana Point This Quarter



DANA POINT TOP 15 BUSINESS TYPES

Business Type	Dana Point Q3 '07*	Dana Point Change	County Change	HdL State Change
Hotels-Liquor	$244.3	-1.7%	12.6%	-3.5%
Service Stations	178.0	-9.2%	-12.4%	-4.4%
Restaurants Liquor	101.2	-18.1%	10.9%	12.9%
Restaurants Beer And Wine	92.5	-15.3%	-1.4%	-0.6%
Grocery Stores Liquor	78.4	-0.2%	3.2%	0.0%
Restaurants No Alcohol	60.3	4.1%	2.3%	3.4%
Lumber/Building Materials	— CONFIDENTIAL —		-27.3%	-27.4%
Specialty Stores	39.9	22.0%	22.8%	5.6%
Sporting Goods/Bike Stores	38.5	12.5%	1.2%	3.5%
Boats/Motorcycles	37.8	61.1%	-2.4%	-10.3%
Home Furnishings	32.2	108.4%	-0.9%	-2.9%
Drug Stores	27.7	8.9%	0.0%	3.7%
Transportation-Non-Auto	16.1	na	3.8%	27.6%
Women's Apparel	15.0	21.9%	-1.4%	-1.4%
Electronics/Appliance Stores	14.6	-11.4%	-5.5%	-0.4%
Total All Accounts	**$1,182.1**	**-2.5%**	**-2.1%**	**-2.2%**
County & State Pool Allocation	**115.2**	**-8.4%**		
Gross Receipts	**$1,297.2**	**-3.1%**		**In thousands*

Q2 2007

City of Dana Point Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (Apr-Jun 2007)

Dana Point In Brief

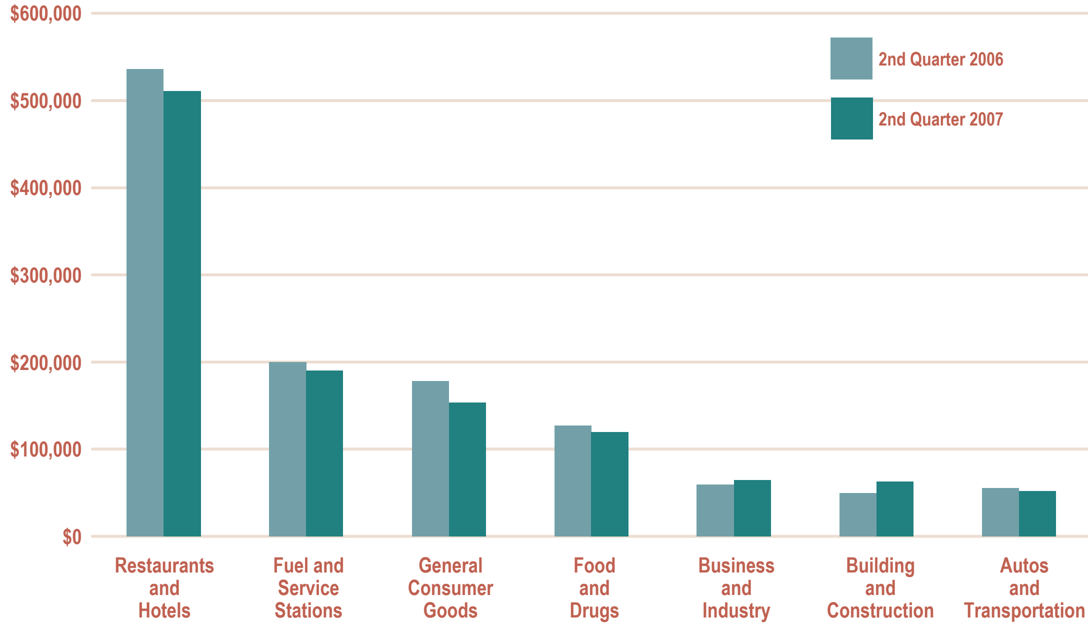
Second quarter receipts were 4.6% lower than one year ago but reporting aberrations, including a state audit that temporarily boosted year-ago amounts, skewed the data. With payment adjustments excluded, real results were unchanged.

On the positive side, transportation non-auto, light industrial/printers, electronics/appliance stores and restaurants with no alcohol groups showed strong gains. New business openings added to the electronics store and restaurant with no alcohol increases.

Reporting aberrations exaggerated the hotels with liquor, grocery stores with liquor, drug store, specialty store and restaurants with beer/wine decreases. Business closeouts also contributed to the restaurants with beer/wine and specialty store drops. The home furnishings category, also down, showed the effects of a late payment.

Over the same period, all of Orange County dipped 0.4% once accounting adjustments were factored out.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

Albertsons
Capo Beach 76
Chart House
Chevron
Circle K
Dana Point AM PM
Doheny Builders Supply
Ganahl Lumber
Gelsons Market
Harbor House Cafe
Hennesseys Tavern
Kwik/Al Sal Oil
Laguna Cliffs Marriott Resort & Spa
Longs
Mobil Oil
Monarch Bay Chevron
Pacific Asian Enterprises
Ralphs
Ralphs
Ritz Carlton
Salt Creek Grille
Smart & Final
St Regis Monarch Beach Resort
Sun Country Marine
Wind & Sea Restaurant

Revenue Comparison

One Quarter – Fiscal Year To Date

	2006-07	2007-08
Point-of-Sale	$1,206,110	$1,154,605
County Pool	131,547	122,160
State Pool	1,648	1,092
Gross Receipts	**$1,339,306**	**$1,277,857**
Less Triple Flip*	$(334,826)	$(319,464)

**Reimbursed from county compensation fund*

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NOTES

SALES TAX, HOUSING AND THE GLOOMY ECONOMY

The combination of declining home sales and prices, foreclosures and tightening credit have created new challenges for local officials in forecasting the impact on sales tax revenues.

Generally, the side effects are expected to be less than the real estate downturn of the 1990s which was accompanied by a national recession, high unemployment and escalating inflation.

Despite layoffs in real estate and home construction, unemployment in California remains relatively low. The weak U.S. dollar has resulted in growing export activity and tourism, and business investment in new technology continues. The impact on sales tax should be more regional and industry specific than in previous down cycles.

Regional

Areas that have enjoyed the highest growth rates in recent years are most likely to exhibit the smallest gains and possibly some revenue declines.

At the peak of the housing boom in 2005, over 10% of the country's disposable income came from home equity loans. The reversal in home values should reduce spending in the Sacramento and Central Valleys, Inland Empire, and some portions of San Diego and the Central Coast.

The San Francisco Bay area and Silicon Valley are benefiting from a strong rebound in the technology sectors and rising tourism, and are expected to out-perform the rest of the state. The experience of other communities will be largely determined by the makeup of their specific tax bases.

Sales Tax by Characteristic

Communities that derive a high percentage of their sales tax revenues from building materials or home improvement merchandise could be impacted more than others as demand and prices drop through 2008. Although auto sales are more brand and dealer specific, this group as a whole, is expected to continue a downward pattern through spring.

Statewide, sales of general consumer goods including apparel and soft goods are expected to grow 4%, although big ticket items such as furniture and appliances may exhibit regional declines. Department stores and discounters in lower income areas may also be flat or slightly down.

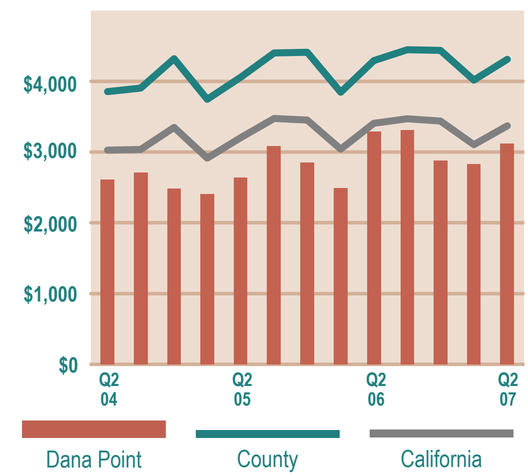
Tax generation from restaurants, service stations, and grocers should continue to show moderate growth. Barring an international crisis, business investment in equipment and technology is expected to remain solid, although potential water and labor shortages may reduce agricultural spending.

The Bottom Line

The more media coverage of the housing correction, the more conservative consumers and businesses become in their spending plans. How this plays out will probably not be known until the March 2008 sales tax receipts.

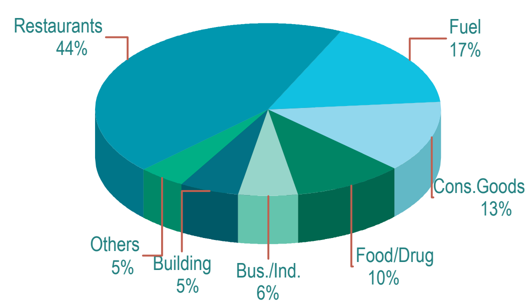
At this point in time however, economists predict slow or modest sales growth but not significant decreases.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP

Dana Point This Quarter



DANA POINT TOP 15 BUSINESS TYPES

Business Type	Dana Point Q2 '07*	Dana Point Change	County Change	HdL State Change
Hotels-Liquor	$252.0	-9.5%	0.7%	5.3%
Service Stations	190.5	-4.6%	-1.9%	4.2%
Restaurants Liquor	113.2	1.8%	11.6%	13.3%
Restaurants Beer And Wine	93.0	-3.1%	6.5%	2.5%
Grocery Stores Liquor	64.5	-9.4%	-12.9%	-5.5%
Lumber/Building Materials	— CONFIDENTIAL —		-6.9%	-6.8%
Restaurants No Alcohol	51.6	5.4%	7.9%	5.7%
Specialty Stores	32.1	-23.4%	1.7%	0.8%
Boats/Motorcycles	32.0	-2.0%	-10.4%	-7.3%
Sporting Goods/Bike Stores	27.5	-2.8%	-0.8%	5.2%
Drug Stores	27.1	-11.3%	-24.6%	-11.2%
Grocery Stores Beer/Wine	22.3	10.4%	-8.1%	1.5%
Electronics/Appliance Stores	16.2	25.7%	-6.3%	1.3%
Transportation-Non-Auto	13.5	na	13.9%	-6.7%
Repair Shop/Hand Tool Rentals	13.4	-11.4%	0.8%	4.1%
Total All Accounts	**$1,154.6**	**-4.3%**	**1.3%**	**0.3%**
County & State Pool Allocation	**123.3**	**-7.5%**		
Gross Receipts	**$1,277.9**	**-4.6%**		**In thousands*

Q1 2007

City of Dana Point Sales Tax *Update*

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

Dana Point In Brief

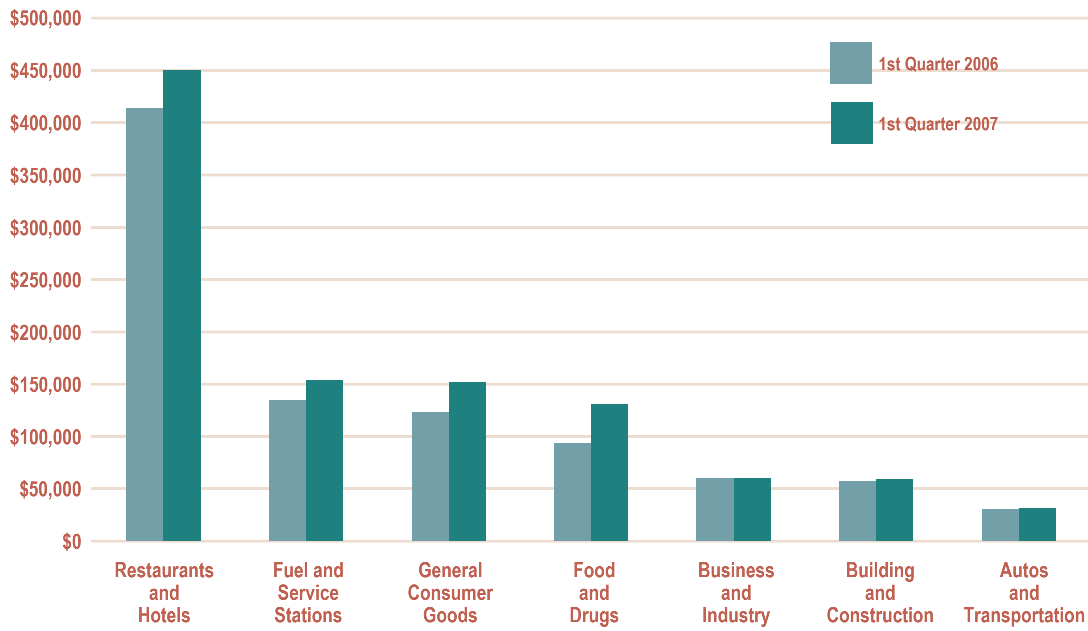
Receipts from January – March sales gained 13.9% compared to the same period last year but aberrations skewed results. With anomalies removed, actual sales increased 4.8%.

Post holiday sales rose in hotels with liquor, restaurants with liquor, restaurants with no alcohol, and home furnishings. A new outlet boosted the electronics/appliance store group. Low returns in the prior period contributed to positive results in service stations. Retroactive adjustments exaggerated receipts in restaurants with beer/wine, grocery stores with liquor and grocery stores with beer/wine. Results in the specialty store and sporting goods/bike store categories were overstated by payment deviations.

The increase in the transportation-non auto category was offset by fluctuating business activity in other business sectors.

Taxable sales for all of Orange County rose 5.1% over the comparable quarter while the Southern California region as a whole was up 3.3%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- Albertsons
- Capo Beach 76
- Chart House
- Chevron
- Circle K
- Circle K
- Dana Point AM PM
- Doheny Builders Supply
- Ganahl Lumber
- Gelsons Market
- Hennesseys Tavern
- Kwik/Al Sal Oil
- Laguna Cliffs Marriott Resort & Spa
- McKee & Company
- Mobil Oil
- Monarch Bay Chevron
- Pacific Asian Enterprises
- Ralphs
- Ralphs
- Renaissance Cafe
- Ritz Carlton
- Salt Creek Grille
- Smart & Final
- St. Regis Monarch Beach Resort
- Wind & Sea Restaurant

Revenue Comparison

Four Quarters – Fiscal Year To Date

	2005-06	2006-07
Point-of-Sale	$4,065,254	$4,519,829
County Pool	443,378	477,317
State Pool	6,501	6,020
Gross Receipts	$4,515,134	$5,003,166
Less Triple Flip*	$(1,128,783)	$(1,250,792)

**Reimbursed from county compensation fund*

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NOTES

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 statewide 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.

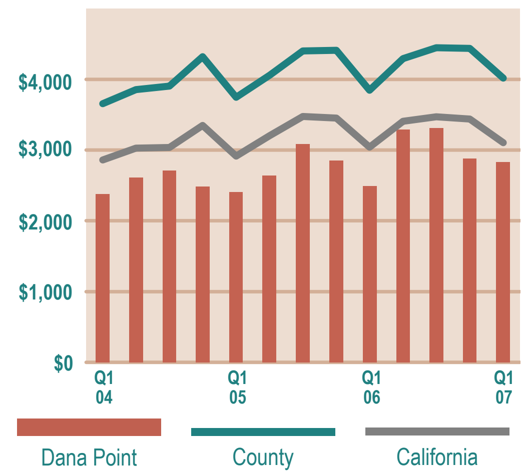
The second largest component of the tax gap lies with the underground economy where transactions are paid by cash and businesses operate without registering in order to avoid taxation. The final component consists of upaid taxes on sales and purchases that are purposely or inadvertently under reported.

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.

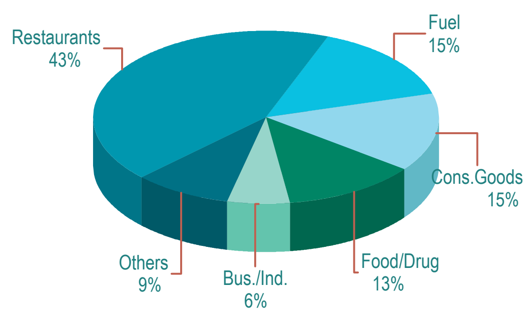
Copies of the plan can be reviewed at www..boe.ca.gov.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP

Dana Point This Quarter



DANA POINT TOP 15 BUSINESS TYPES

Business Type	Dana Point Q1 '07*	Dana Point Change	County Change	HdL State Change
Hotels-Liquor	$211.9	2.3%	11.5%	4.5%
Service Stations	154.2	14.5%	10.9%	5.3%
Restaurants Liquor	103.3	6.8%	8.1%	10.4%
Restaurants Beer And Wine	82.4	24.1%	4.2%	1.2%
Grocery Stores Liquor	72.4	28.4%	6.8%	4.5%
Restaurants No Alcohol	51.8	19.0%	4.2%	5.8%
Lumber/Building Materials	— CONFIDENTIAL —		-21.0%	-23.2%
Specialty Stores	36.5	33.5%	4.5%	8.7%
Grocery Stores Beer/Wine	29.4	184.5%	8.9%	17.5%
Drug Stores	23.8	6.2%	2.5%	8.3%
Sporting Goods/Bike Stores	20.1	134.9%	22.4%	20.6%
Boats/Motorcycles	16.8	2.7%	10.7%	-0.3%
Home Furnishings	16.3	26.0%	0.3%	2.6%
Electronics/Appliance Stores	14.6	11.9%	-3.6%	0.3%
Repair Shop/Hand Tool Rentals	12.8	7.3%	-5.9%	-4.6%
Total All Accounts	**$1,044.5**	**14.2%**	**5.4%**	**3.5%**
County & State Pool Allocation	**114.3**	**11.2%**		
Gross Receipts	**$1,158.8**	**13.9%**		**In thousands*

Q4 2006

City of Dana Point Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (Oct-Dec 2006)

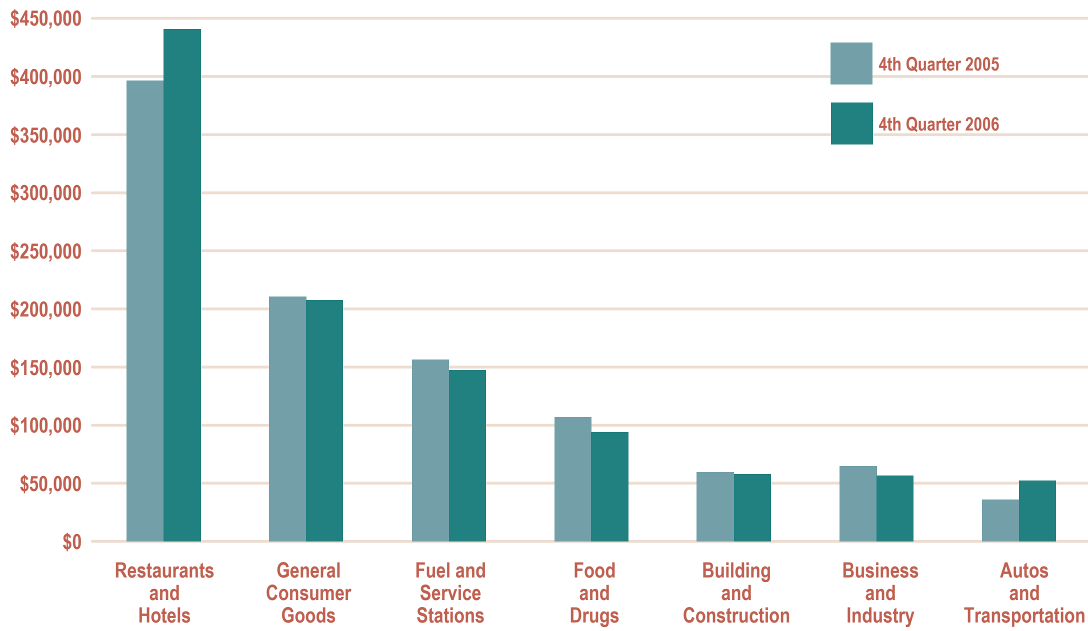
Dana Point In Brief

Receipts for Dana Point's fourth quarter sales were 0.6% higher than the same quarter one year ago. Actual sales activity was up 3.8% when reporting aberrations are factored out.

The city experienced a strong sales quarter for hotels with liquor. Reporting problems that inflated year-ago returns exaggerated the drops in sporting goods/bike stores and business services. A onetime accounting adjustment and an apparent late payment negatively impacted grocery stores. A decline in sales reduced receipts from service stations.

Gross receipts for all of Orange County increased 0.8% over the comparable time period while the Southern California area, as a whole, was down 0.3%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- Albertsons
- Capo Beach 76
- Chevron
- Circle K
- Dana Point AM PM
- Doheny Builders Supply
- Ganahl Lumber
- Harbor Grill
- Hennesseys Tavern
- Killer Dana
- Kwik/Al Sal Oil
- Laguna Cliffs Marriott Resort & Spa
- McKee & Company
- Mobil Oil
- Monarch Bay Chevron
- Ralphs
- Ralphs
- Reel Time Sight & Sound
- Ritz Carlton
- Rubens Imports
- Salt Creek Grille
- Smart & Final
- St Regis Monarch Beach Resort
- Stats
- Wind & Sea Restaurant

Revenue Comparison

Three Quarters – Fiscal Year To Date

	2005-06	2006-07
Point-of-Sale	$3,150,834	$3,475,351
County Pool	342,413	363,923
State Pool	4,609	5,083
Gross Receipts	**$3,497,856**	**$3,844,357**
Less Triple Flip*	$(874,464)	$(961,089)

**Reimbursed from county compensation fund*

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NOTES

Statewide Sales Flatten

Fourth quarter sales were unchanged from the same period in 2005 with payment aberrations excluded. This represented the weakest holiday performance since 2001.

As indicated below, the slump impacted all business groups with growth weaker in 2006 than in 2005 in all but Autos & Transportation.

Fourth Quarter Sales Tax Comparison

Business Group	*Q4 '06 v. Q4 '05*	*Q4 '05 v. Q4 '04*
Autos & Transportation	0.1%	-3.5%
Building & Construction	-5.7%	15.5%
Business & Industry	-0.5%	4.5%
Food & Drugs	2.9%	5.4%
Fuel & Service Stations	-1.6%	14.1%
General Consumer Goods	1.2%	5.0%
Restaurants & Hotels	4.1%	6.8%
HdL State	0.0%	5.3%

All figures adjusted for economic data.

The lackluster quarter was largely due to a 5.7% drop in Building & Construction receipts. The shift was a reflection of the slowdown in residential construction with the previously highest growth areas (Riverside/San Bernardino, San Joaquin Valley and the Sacramento region) experiencing the severest declines.

The dip in Business & Industry receipts was exaggerated by a $ 1.9 M refund for taxes paid on financed purchases that later became uncollectible. Over 200 local jurisdictions in California had related negative adjustments to their fourth quarter allocations. Another factor in the decrease was a $1M delayed return for a large business services outlet.

A temporary drop in the average price of gasoline and diesel fuel led to a 1.6% decline in receipts from Fuel & Service Stations. Pump prices have since rebounded significantly.

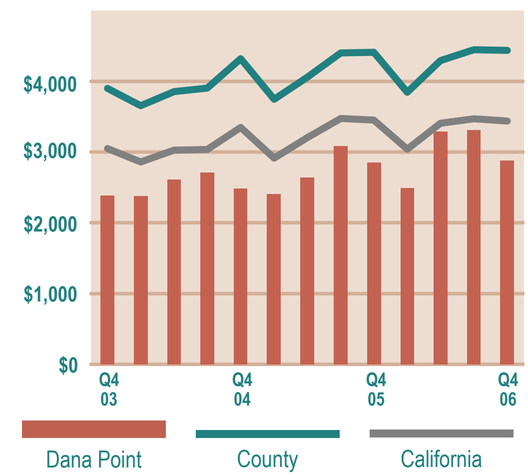
Revenues from restaurants & hotels, the quarter's bright spot, were up in nearly all areas of the state with the Bay Area and the Central Coast regions feasting best.

General Consumer Goods sales exceeded last year's by just 1.2% after a 5% gain the year before. One likely factor: an upsurge in gift card use. Since gift card sales are not taxed until the card is redeemed, more holiday related receipts are being delayed to the following quarter. Reports are that the dollar value of gift cards was up 35% compared to 2005 resulting in a surge in January 2007 sales that was 10.5% above the prior year.

Fourth quarter Autos & Transportation results were virtually unchanged, an improvement from last year's 3.5% decline. Foreign brands continued to outperform domestics.

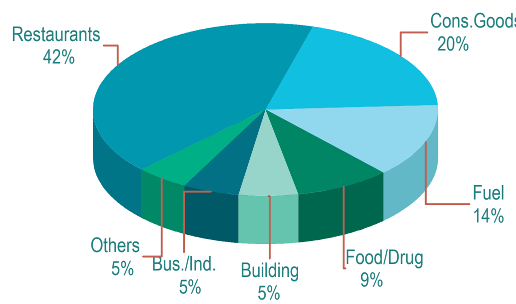
Economists are expressing concern about the impact of volatile energy prices, cutbacks in capital investment, and sub-prime lending on sales revenues through the remainder of calendar year 2007. However, the current consensus overall, is that statewide growth will be weaker than recent years but actual declines are not expected.

Sales Per Capita



Revenue by Business Group

Dana Point This Quarter



Dana Point Top 15 Business Types

Business Type	Dana Point Q4 '06*	Dana Point Change	County Change	HdL State Change
Hotels-Liquor	$225.8	23.0%	17.0%	11.6%
Service Stations	147.5	-5.7%	19.4%	2.9%
Restaurants Liquor	87.7	-0.5%	9.5%	11.1%
Restaurants Beer And Wine	79.4	1.8%	2.8%	4.4%
Specialty Stores	53.9	8.8%	2.8%	1.2%
Lumber/Building Materials	49.0	-9.4%	-35.1%	-31.8%
Restaurants No Alcohol	47.2	2.8%	3.0%	4.0%
Grocery Stores Liquor	47.0	-12.4%	0.5%	2.7%
Drug Stores	28.1	9.9%	10.7%	5.8%
Sporting Goods/Bike Stores	23.0	-42.8%	-7.0%	-7.5%
Electronics/Appliance Stores	22.1	23.0%	-0.4%	-0.2%
Home Furnishings	20.2	30.7%	-3.2%	-2.0%
Boats/Motorcycles	19.5	50.3%	20.4%	0.1%
Florist Shops	17.7	3.2%	1.8%	1.2%
Used Automotive Dealers	16.7	34.7%	-0.8%	-0.7%
Total All Accounts	**$1,056.7**	**0.9%**	**1.1%**	**0.5%**
County & State Pool Allocation	**110.0**	**-2.4%**		
Gross Receipts	**$1,166.7**	**0.6%**		

*In thousands

Q3 2006

City of Dana Point Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (Jul-Sep 2006)

Dana Point In Brief

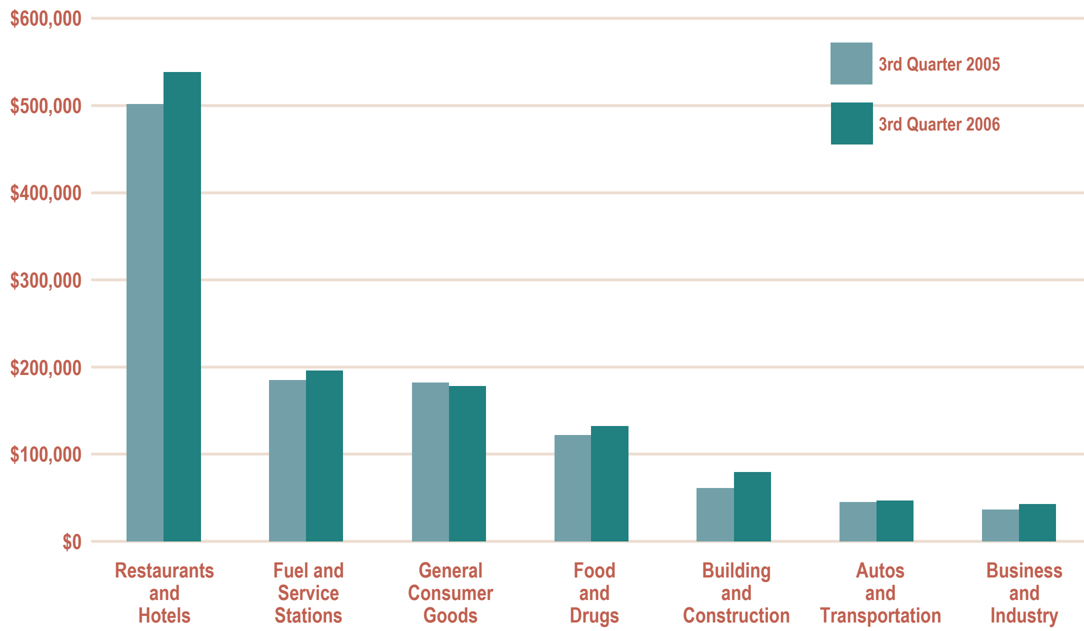
The allocation from Dana Point's July through September sales was 7.0% higher than the same quarter one year ago.

Increased sales from hotel-liquor, restaurants with liquor, restaurants with beer and wine, grocery stores with liquor, grocery stores with beer and wine, drug stores plus higher fuel prices were partially responsible for the increase. Recent additions helped boost revenues from electronics/appliance stores. Comparisons of lumber/building materials and art/gift/novelty stores were inflated by onetime accounting adjustments.

The gains were offset by decreased sales from boats/motorcycles and a recent closeout in sporting goods/bike stores. Onetime payments that temporarily inflated last year's allocation were responsible for the decrease in specialty stores and home furnishings.

Gross receipts for all of Orange County increased 1.5% over the comparable time period while Southern California as a whole was up 1.7%.

Sales Tax by Major Business Group



Top 25 Producers

Albertsons
Big 5
Capo Beach 76
Chart House
Chevron
Circle K
Circle K
Dana Point AM PM
Doheny Builders Supply
Ganahl Lumber
Gelsons Market
Hennesseys Tavern
Kwik/Al Sal Oil
Laguna Cliffs Marriott Resort & Spa
Mobil Oil
Monarch Bay Chevron
Ralphs
Ralphs
Reel Time Sight & Sound
Ritz Carlton
Rubens Imports
Salt Creek Grille
Smart & Final
St Regis Monarch Beach Resort
Wind & Sea Restaurant

Revenue Comparison

Two Quarters – Fiscal Year To Date

	2005-06	2006-07
Point-of-Sale	$2,103,240	$2,418,657
County Pool	231,671	255,832
State Pool	2,637	3,132
Gross Receipts	**$2,337,549**	**$2,677,620**
Less Triple Flip*	$(584,387)	$(669,405)

**Reimbursed from county compensation fund*

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NOTES

Statewide Receipts

Statewide revenues from the July through September sales period exhibited a 2.9% gain over the same quarter one year ago after onetime payments from last year's amnesty program and other accounting adjustments are factored out.

Higher fuel prices continued to be responsible for much of the growth with receipts from service stations and bulk fuel sellers up 8.8%. General consumer goods produced a modest 2.7% increase with the highest gains from discount department stores. Revenues from the various categories of restaurants were up 4.3%.

Business spending, particularly in the light industry, office, farm and textiles/furnishings categories remained strong as did non-residential contractor supplies.

The gains were offset by an 8.5% drop in new car sales as well as declines in used cars, boats/motorcycles, RVs and lumber/building materials (net of accounting aberrations).

Unlicensed Retailers

The state has budgeted for a two year pilot program of stepped up field inspections to identify retailers without sellers' permits. The teams are also checking for proper tobacco, motor fuel and other state licenses.

The program was initiated in August because of concerns that years of budget cutbacks have reduced revenue due to lagging compliance. The fears appear to be well founded as four percent of the retailers canvassed thus far were not properly registered.

In addition to raising awareness of permit requirements and increasing compliance, it is estimated that the experiment could generate up to $25 million in new revenues annually.

The permit checks are being conducted in portions of Los Angeles, San Mateo and San Francisco Counties. Local jurisdictions have placed representatives with state field crews to also check for business licenses and other permits.

November Tax Measures

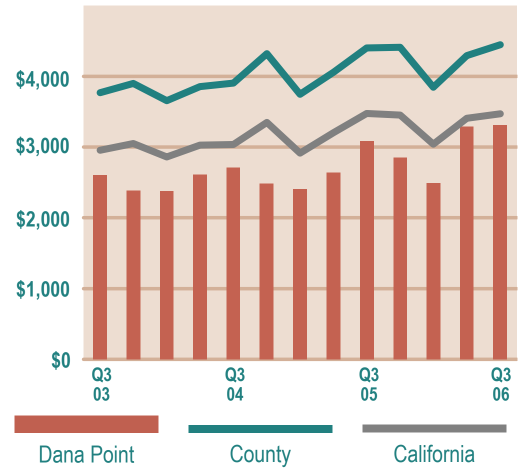
November's ballots included 38 proposals for adding, increasing or extending existing local transactions and use tax levies of which 20 passed.

Although basically an additional sales tax, the transactions tax is allocated to the place of use rather than point of sale. Eight of the passed measures required two thirds approval, the others a majority. The measures will go into effect April 1, 2007 and bring the total number of transactions tax districts to 101 including those in 53 cities.

Cities approving new districts in November included: Arroyo Grande, Del Rey Oaks, Grover Beach, Inglewood, Manteca, Morro Bay, Nevada City, Pinole, San Bernardino, San Luis Obispo, Santa Cruz, Vista, Watsonville and Williams.

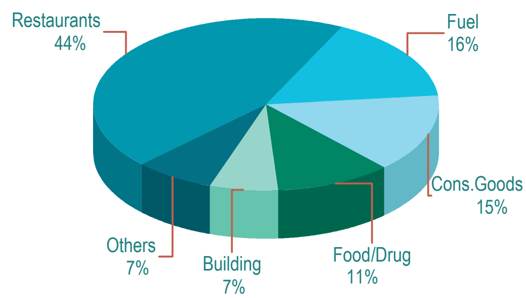
The revenues are used for a wide variety of purposes including public safety, parks and open space, transit and road improvements.

Sales Per Capita



Revenue by Business Group

Dana Point This Quarter



Dana Point Top 15 Business Types

Business Type	Dana Point Q3 '06*	Dana Point Change	County Change	HdL State Change
Hotels-Liquor	$248.5	14.9%	-7.2%	5.7%
Service Stations	195.9	6.0%	18.4%	12.4%
Restaurants Liquor	127.1	4.0%	2.6%	1.1%
Restaurants Beer And Wine	103.7	1.2%	-2.1%	-4.5%
Lumber/Building Materials	71.2	29.4%	17.2%	14.2%
Grocery Stores Liquor	63.7	14.4%	3.2%	5.3%
Restaurants No Alcohol	55.9	0.7%	5.2%	1.5%
Specialty Stores	38.3	-5.3%	-5.0%	-4.1%
Grocery Stores Beer/Wine	34.0	9.9%	2.1%	2.6%
Sporting Goods/Bike Stores	29.4	-21.1%	3.0%	0.0%
Drug Stores	25.4	2.7%	-0.2%	2.3%
Boats/Motorcycles	23.4	-19.6%	-26.0%	-9.7%
Art/Gift/Novelty Stores	19.1	26.7%	-17.7%	-8.2%
Electronics/Appliance Stores	16.4	13.0%	2.9%	3.4%
Home Furnishings	15.5	-37.1%	-11.4%	-5.7%
Total All Accounts	**$1,212.5**	**7.0%**	**1.5%**	**0.8%**
County & State Pool Allocation	**125.8**	**6.9%**		
Gross Receipts	**$1,338.3**	**7.0%**		**In thousands*

Q2 2006

City of Dana Point Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (Apr-Jun 2006)

Dana Point In Brief

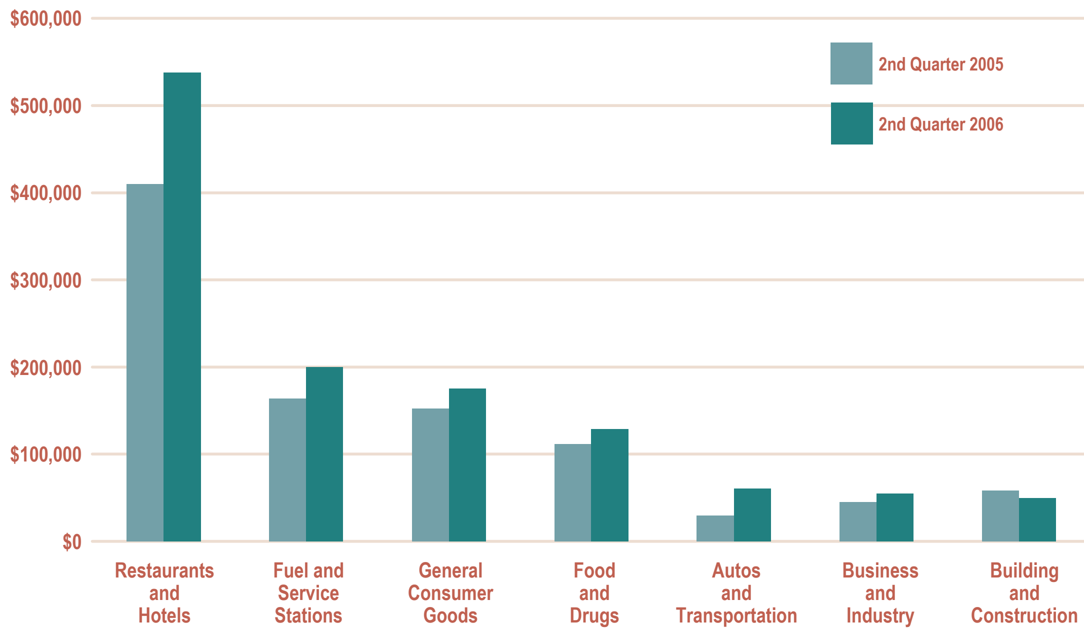
Second quarter receipts jumped 23.2% over the same period in 2005.

Reporting aberrations boosted the hotels with liquor, restaurants with beer/wine, restaurants with no alcohol, grocery stores with liquor, drug store and specialty store comparisons. Higher prices at the pump fueled the service station increase.

A likely delayed payment caused the drop in the lumber/building materials group. Receipts for sales in a prior quarter caused the electronics/appliance store decline by temporarily boosting year-ago results.

All of Orange County gained 6.3%; the state was up 5.6%.

Sales Tax by Major Business Group



Top 25 Producers

Albertsons	Mobil Oil
Capo Beach 76	Monarch Bay Chevron
Chart House	Ralphs
Chevron USA	Ralphs
Circle K	Reel Time Sight & Sound
Dana Point AM PM	Ritz Carlton
Dana Point Shell	Salt Creek Grille
Ganahl Lumber	Sav On
Gelsons Market	Smart & Final
Hennesseys Tavern	St Regis Monarch Beach Resort
Kwik/Al Sal Oil	Sun Country Marine
Laguna Cliffs Marriott Resort & Spa	Wind & Sea Restaurant
McKee & Company	

Revenue Comparison

One Quarter – Fiscal Year To Date

	2005-06	2006-07
Point-of-Sale	$970,252	$1,206,110
County Pool	115,067	131,547
State Pool	1,565	1,648
Gross Receipts	**$1,086,884**	**$1,339,306**
Less Triple Flip*	$(271,721)	$(334,826)

**Reimbursed from county compensation fund*

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NOTES

California's Spring Sales

Statewide receipts from retail sales and use tax payments were 5.6% higher than the second quarter of 2005. All regions of the state exhibited gains with one-fourth of the increase due to a spike in prices of fuel and petroleum related products.

Consumer spending appeared to be strong in most regions with home furnishings, electronics/appliances and apparel all showing healthy growth over the previous spring quarter. Receipts from business purchases and capital investment were also generally up although the comparisons were skewed by numerous accounting adjustments. Revenues from sales of equipment and supplies to companies in the high-tech, health-related and petroleum industries showed the most consistent gains.

The overall increase occurred despite a decline in new car sales which were down for the second quarter in a row. Mid-priced domestic nameplates continued to bear the bulk of the decrease while receipts from dealers of luxury makes and fuel efficient Asian brands remained relatively stable. Lumber and building material sales were down in Northern California and the San Joaquin Valley due to severe weather conditions.

Revenues from restaurants appeared to hold up generally well despite concerns that higher fuel prices might impact higher priced, full service establishments. Food & Drug receipts took an unexpected jump because of state processing errors that folded some early-arriving third quarter payments into the current allocation.

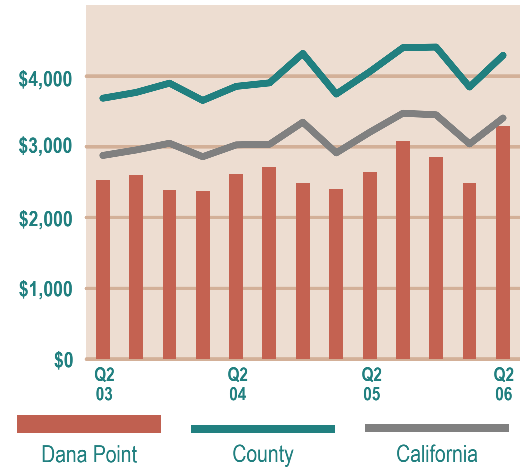
Good Through 2006?

Despite concerns about the impact of the downturn in housing and auto sales, expectations by various forecasters for the remainder of 2006 are relatively optimistic. Easing fuel prices from the spring spike has relieved federal concerns about growing inflation and should reduce the strain on heavy petroleum product users. Discount retailers are also expected to benefit from a let up in fuel prices because the biggest impact has been on lower income families that are an important part of their customer base.

Preliminary reports are that household spending in the third quarter is up and the National Retail Federation (NRF) is predicting holiday sales to rise 5% over 2005. The weakening U.S. dollar is expected to sustain the current foreign demand for machines, computers and other equipment and help partially offset some of the employment concerns related to declining residential investment.

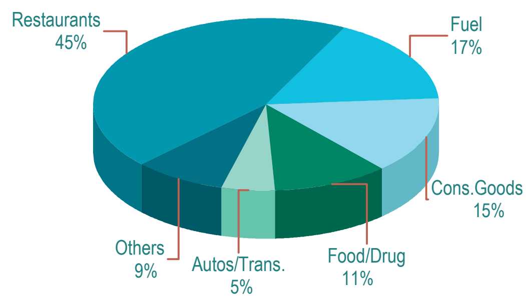
Even the UCLA Anderson Forecast which has been the most pessimistic tracker of the California economy, no longer believes that the state will go into recession unless job losses begin occurring in sectors outside the housing industry. Their September forecast does however, predict very slow growth in 2007 with building permits continuing to decline to 2008.

Sales Per Capita



Revenue by Business Group

Dana Point This Quarter



Dana Point Top 15 Business Types

Business Type	Dana Point Q2 '06*	Dana Point Change	County Change	HdL State Change
Hotels-Liquor	$278.4	52.2%	22.1%	11.2%
Service Stations	199.8	21.9%	24.1%	20.2%
Restaurants Liquor	108.3	3.7%	4.1%	10.7%
Restaurants Beer And Wine	97.4	23.6%	7.5%	7.0%
Grocery Stores Liquor	69.3	15.4%	23.0%	14.1%
Restaurants No Alcohol	50.6	19.1%	3.6%	7.2%
Lumber/Building Materials	43.5	-17.3%	0.1%	-0.7%
Specialty Stores	42.0	47.7%	7.2%	8.1%
Boats/Motorcycles	32.7	10.8%	24.9%	10.9%
Drug Stores	30.6	29.2%	37.7%	19.4%
Sporting Goods/Bike Stores	24.7	5.6%	20.0%	10.0%
Grocery Stores Beer/Wine	20.2	0.4%	7.2%	12.1%
Home Furnishings	20.0	36.3%	6.2%	9.0%
Repair Shop/Hand Tool Rentals	16.7	8.9%	0.4%	14.3%
Art/Gift/Novelty Stores	14.6	0.2%	14.7%	0.2%
Total All Accounts	**$1,206.1**	**24.3%**	**6.3%**	**7.4%**
County & State Pool Allocation	**133.2**	**14.2%**		
Gross Receipts	**$1,339.3**	**23.2%**		

**In thousands*