

Q2 2008



Merced County Sales Tax Update

Third Quarter Receipts for Second Quarter Sales (Apr-Jun 2008)

Merced County In Brief

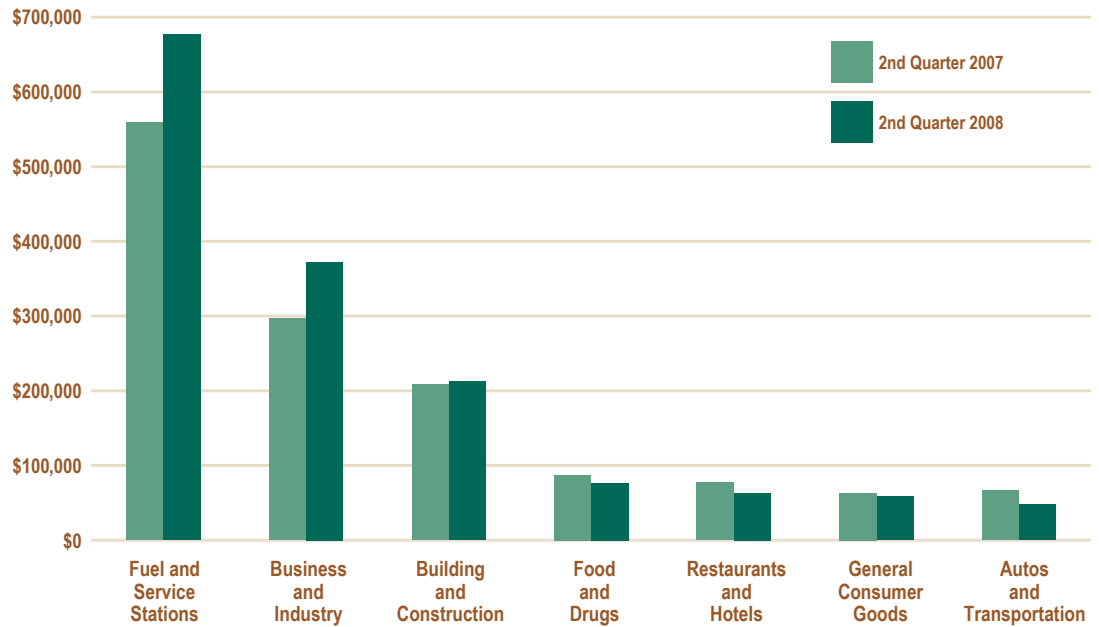
The allocation from the unincorporated area's April through June sales tax was 5.2% higher than the same quarter one year ago.

Higher fuel prices plus increased sales from farm/construction equipment and petroleum products/equipment were partially responsible for the increase. Recent additions helped boost revenues from heavy industrial and repair shop/hand tool rentals. Comparisons of garden/agricultural supplies and lumber/building materials were temporarily inflated by onetime accounting adjustments.

The gains were offset by decreased sales from restaurants with liquor. Recent closeouts reduced revenues from grocery stores with liquor. Delayed allocations temporarily decreased receipts from grocery stores with beer and wine, restaurants with no alcohol and drugs/chemicals. A onetime payment that temporarily inflated last year's allocation was responsible for the decrease in contractors.

Adjusted for reporting aberrations, taxable sales for Merced County, including its cities, decreased 4.3% over the comparable time period while the San Joaquin Valley as a whole was down 2.7%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

In Alphabetical Order

Central Valley Concrete	Penny Wise Travel Plaza
Chevron	Petro
Delhi Arco	Pilot Travel Center
Dickey Petroleum	Ranchers Tractor
George Reed	Rotten Robbie
Helena Chemical	Shannon Pump
Hilmar Lumber	Simplot Soilbuilders
Kirby Manufacturing	TA Operating
M & M Mini Mart	Triangle Rock Products
Mel Bokides Petroleum	Valero Corner Store
Merced Hesston	Weimer Manufacturing
Mid Valley Agricultural	Wilbur Ellis
N & S Tractor	

REVENUE COMPARISON

One Quarter – Fiscal Year To Date

	2007-08	2008-09
Point-of-Sale	\$1,358,926	\$1,507,492
County Pool	186,006	172,948
State Pool	1,321	(399)
Gross Receipts	\$1,546,253	\$1,680,040
Cty/Cnty Share	299,960	261,273
Net Receipts	\$1,846,213	\$1,941,314
Less Triple Flip*	\$(461,553)	\$(485,328)

*Reimbursed from county compensation fund

Statewide Sales Decline Continues

After adjusting for accounting aberrations, California's taxable sales for April through June declined four percent from the same quarter of 2007.

The losses were felt throughout California although recent store openings in Yolo County and fuel-related purchases in San Francisco, San Mateo and Kern Counties allowed those specific regions to give the appearance of overall gains. Generally, the Sacramento/Stockton, Riverside/San Bernardino and Solano County areas had more severe declines than the rest of the state.

Double digit declines in auto and building-related sales continued to be the primary contributors to the decrease. Another quarter of record increases in fuel prices provided a significant offset to the losses in other business categories.

The spring sales data suggest that consumers are shopping down to lower priced goods and restaurant meals with fewer discretionary purchases. Although consumer electronics reported modest gains, the only other positive categories were discount department stores and value priced family apparel.

The News is Not Getting Better

Local agencies will not see the results of their July through September sales until the end of December. However, preliminary data from various government and trade association surveys indicate that taxable sales will continue to fall.

Auto manufacturers are reporting another quarter of double digit declines and most industry analysts are pushing their predictions for an auto sales recovery out to 2010.

Retailers of apparel and general consumer goods are reporting sluggish fall sales and disappointment in the back to school buying season which failed to live up to expectations raised by the

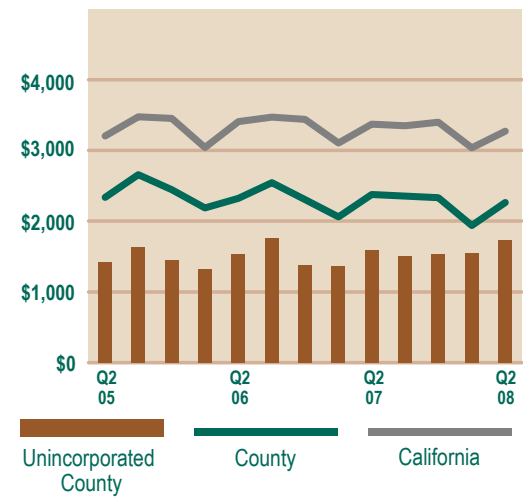
federal tax rebate stimulus. Latest predictions are for the lowest holiday spending since 1991.

Despite the federal credit rescue, liquidations of commercial real estate debt and continued housing oversupply make an immediate recovery in construction activity unlikely. Although institutional and public projects will help, a significant recovery in sales tax from building-related goods and services is not expected until after 2010.

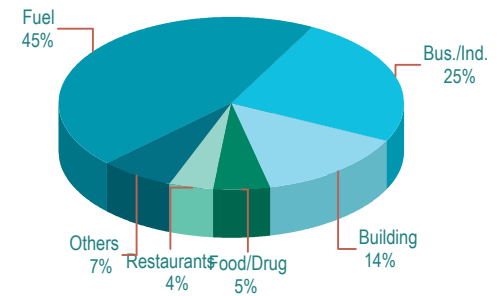
With some of California's biggest overseas markets going into recession, sales tax from business spending on capital equipment, supplies and fuel is also expected to level off. OPEC has cut production quotas to hold prices up against falling demand.

Every agency's sales tax revenues will differ with the makeup of its specific base and some agencies with new projects will be buffered from declines in other areas. However, for the state as a whole, current forecasts are for a downturn that may last through fiscal year 2009/2010.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP Merced County This Quarter



MERCED COUNTY TOP 15 BUSINESS TYPES

Business Type	Unincorporated County		County	HdL State
	Q2 '08*	Change	Change	Change
Service Stations	\$624.6	22.3%	10.4%	18.3%
Farm/Construction Equip.	134.8	33.0%	-40.4%	-10.2%
Contractors	130.7	-18.9%	-22.0%	-17.6%
Garden/Agricultural Supplies	123.2	22.0%	9.0%	-7.0%
Lumber/Building Materials	71.3	106.8%	-18.7%	-16.7%
Petroleum Prod/Equipment	49.9	5.7%	20.4%	47.2%
Heavy Industrial	39.3	68.2%	10.7%	5.6%
Grocery Stores Beer/Wine	34.2	-12.3%	24.0%	2.4%
Restaurants No Alcohol	28.1	-15.5%	4.2%	-2.5%
Grocery Stores Liquor	27.5	-19.8%	-9.0%	2.3%
Automotive Supply Stores	19.8	na	-0.3%	-5.6%
Repair Shop/Hand Tool Rentals	17.0	55.8%	7.1%	56.9%
Drugs/Chemicals	16.3	-5.8%	-10.0%	-2.4%
Auto Repair Shops	16.0	-6.9%	42.0%	-4.5%
Restaurants Liquor	14.8	-17.0%	-5.1%	3.3%
Total All Accounts	\$1,507.5	10.9%	-3.3%	-1.9%
County & State Pool Allocation	172.5	-7.9%		
Gross Receipts	\$1,680.0	8.7%		
City/County Share	261.3	-12.9%		
Net Receipts	\$1,941.3	5.2%		

*In thousands