PALO ALTO SALES TAX

Fourth Quarter Receipts for Third Quarter Sales (July - Sept. 2004)

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In Brief

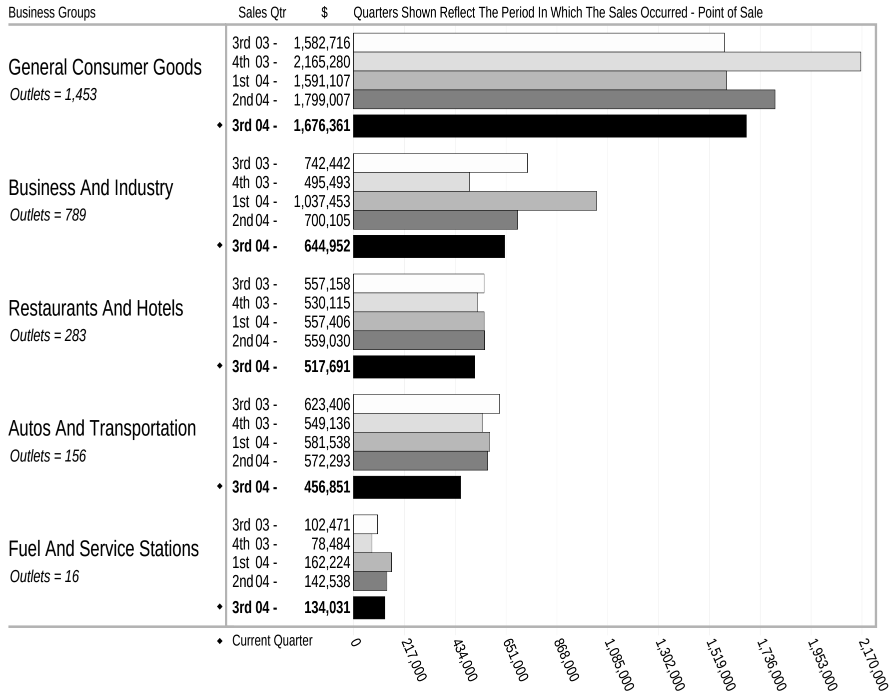
July - September sales receipts were .9% higher than in the year-earlier period, but a variety of payment aberrations skewed results. Adjusted for anomalies, actual sales were up about 4.3%.

A retroactive payment correction following a routine city audit boosted the light industrial/printers gain. Higher prices and a delayed payment that temporarily cut year-ago receipts fueled the service station increase. Receipt of amounts due in the prior quarter inflated used auto increases.

A payment delay caused by state processing tie-ups caused the new auto dealer decline while a tax refund cut electrical equipment totals. A onetime accounting adjustment caused the office supplies/furniture drop by boosting year-ago proceeds.

Sales in the 9-county Bay Area grew 1.7%; the state rose 4.9%.

Sales Tax By Major Business Group



2005 SALES TAX FORECASTS

Modest, moderate, murky are all being used to describe California's economic growth in 2005. Even so, a recent consensus forecast suggests a 5.2% sales tax gain for the state overall although performance will vary by jurisdiction. Segments:

GENERAL CONSUMER GOODS: Consumer confidence is up, but the percentage of disposable income used for servicing debt is at an all time high. Meanwhile rising mortgage interest rates are cutting the number of refinancing and home equity loans that have been funding extra consumption. Analysts project an overall inflation gain of 2.5%. Sales increases will be more related to regional growth in household income and population.

AUTOS/TRANSPORTATION: With financing incentives losing their punch, overall car sales are projected to grow less than 1%. Some Asian and European makes expect to gain while some domestic manufacturers cut production in anticipation of a drop off from record sales. The increased competition may produce an uneven pattern of losers and winners among dealerships.

BUSINESS/INDUSTRY: The steady devaluation of the dollar makes California exports more marketable and encourages new business investment which is projected to grow faster than consumer spending in 2005. Capital investment in heavy equipment and commercial transportation is expected to grow 9%. Some segments of high tech spending should also increase.

CONSTRUCTION/BUILDING MATERIALS:

Rising mortgage rates and prices are expected to result in a slight reduction in new housing starts in 2005

con't on back page

Top 25 Producers

Listed Alphabetically

Apple Computer
Bloomingdale's
Carlsen Motor Audi
Carlsen Volvo
Crate & Barrel
Dow Jones
Fry's
Gap
General Accounting
Hengehold Motor
Hewlett Packard
Hold Everything
Integrated Archive Systems
Keeble & Shuchat Photography
Lutz Ford
Macy's
Magnussen's Toyota of Palo Alto
Neiman Marcus
Nordstrom
Palo Alto Shell
Tiffany
Valero Service
Varian
Walgreens
Wilkes Sport

Top 20 Business Categories

Business Type	Outlets	3rd Qtr '04	3rd Qtr '03	Percent Change	Percent of Total City	County	State
Department Stores	5	600,868	536,564	12.0%	15.9%	3.8%	3.5%
New Motor Vehicle Dealers	7	285,083	496,305	-42.6%	7.5%	11.6%	13.9%
Radio/Appliance Stores	9	218,368	212,647	2.7%	5.8%	1.7%	1.5%
Restaurants Beer And Wine	94	199,251	214,606	-7.2%	5.3%	3.3%	2.3%
Light Industrial/Printers	137	198,237	125,297	58.2%	5.2%	4.1%	3.9%
Receivables/Master Outlets	Confidential Information					0.3%	0.2%
Restaurants Liquor	34	155,997	161,905	-3.6%	4.1%	2.5%	2.7%
Home Furnishings	165	133,279	129,933	2.6%	3.5%	2.1%	2.4%
Family Apparel	49	125,792	134,620	-6.6%	3.3%	2.2%	2.1%
Service Stations	14	124,562	95,228	30.8%	3.3%	6.5%	7.6%
Specialty Stores	353	119,776	113,141	5.9%	3.2%	3.0%	3.1%
Electrical Equipment	80	119,664	175,686	-31.9%	3.2%	6.5%	1.4%
Fast Food	141	118,425	140,569	-15.8%	3.1%	3.2%	4.5%
Women's Apparel	61	115,079	99,863	15.2%	3.0%	1.1%	1.0%
Office Supplies/Furniture	81	86,695	169,226	-48.8%	2.3%	4.1%	2.4%
Jewelry Stores	43	81,843	79,935	2.4%	2.2%	0.6%	0.5%
Business Services	225	76,522	96,694	-20.9%	2.0%	3.2%	1.3%
Used Automotive Dealers	5	64,557	35,256	83.1%	1.7%	0.7%	1.3%
Office Equipment	38	61,988	79,610	-22.1%	1.6%	3.6%	0.8%
Photographic Equipment	9	51,717	53,676	-3.6%	1.4%	0.3%	0.2%
Retail Stores	1,444	2,891,760	3,083,137	-6.2%	76.6%	69.4%	76.8%
Non-Store/Part Time Retailers	411	22,341	14,541	53.6%	0.6%	0.4%	0.5%
Business, Service & Repairs	583	263,289	275,488	-4.4%	7.0%	9.2%	7.2%
All Other Outlets (Industrial)	361	598,922	421,498	42.1%	15.9%	21.0%	15.5%
Total All Accounts	2,799	3,776,311	3,794,663	-0.5%			
County & State Pool Allocation		538,541	479,737	12.3%			
Gross Receipts		4,314,852	4,274,400	0.9%			

con't from front page

and state cut backs could reduce public works projects. A minor softening in prices is anticipated for materials other than cement. Even so, projects already in the pipeline and an anticipated increase in commercial construction should offset the losses while sales of "do-it-yourself" home improvement merchandise and materials should increase.

RESTAURANTS/HOTELS:

Americans spend almost 47% of their food dollar outside of the home and the National Restaurant Association forecasts a 4.9% increase in sales. The devaluation of the dollar should also help jurisdictions that host international travel.

FUEL/SERVICE STATIONS: Fuel prices are expected to stabilize in 2005 and possibly decline from 2004's record levels. Tax revenues from this source are not expected to exceed last year.

CONSENSUS FORECAST*

Capital Corp of the West	5.3%
Chapman University	4.9%
L.A. County E. D. C.	5.6%
Legislative Analyst	5.8%
UCLA	4.8%
Wells Fargo	4.8%
Consensus	5.2%

*Western Blue Chip Economic Forecast – December 2004

Fiscal Year To Date Revenue Comparison

	2003-04	2004-05
Point-of-Sale	7,640,319	7,756,330
County Pool	950,505	1,143,197
State Pool	12,988	12,511
Gross Receipts	8,603,811	8,912,038
Less Triple Flip*	0	(1,078,713)

*Reimbursed from county compensation fund