

Q3 2016



Rancho Santa Margarita Sales Tax *Update*

Fourth Quarter Receipts for Third Quarter Sales (July - September 2016)

Rancho Santa Margarita In Brief

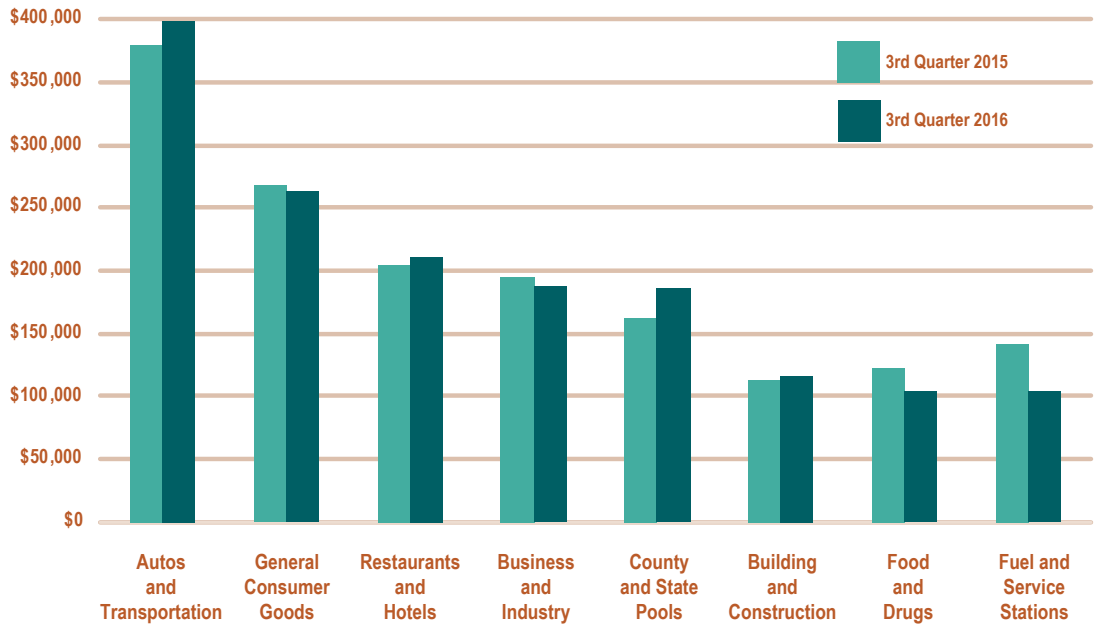
Rancho Santa Margarita's receipts from July through September were 1.2% below the third sales period in 2015. Actual sales were down 1.8% when reporting aberrations were factored out.

Lower fuel prices at the pump that reduced receipts from service stations were primarily responsible for the current decrease. Business closeouts caused the drops in grocery stores and the business and industry sector.

The losses were offset by an increase in the City's allocation from the county use tax pool and a strong sales quarter for the autos and transportation group. Recent additions helped boost revenues from restaurants.

Net of aberrations, taxable sales for all of Orange County grew 1.9% over the comparable time period; the Southern California region was up 1.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Applied Medical Distribution	Rancho Santa Margarita Honda
Applied Medical Resources	Ross
Bed Bath & Beyond	Santa Margarita Ford
BJs Restaurant & Brewhouse	Santa Margarita Toyota
Circle K	Staples
CVS Pharmacy	Target
Del Mar Petroleum	Tesoro
Denault Commercial	Ulta
Honda Lease Trust	Verizon Wireless
In N Out Burgers	Walmart
Kohls	Neighborhood Market
Lowe's	Wood Ranch BBQ & Grill
Pavillions	
Ralphs Fresh Fare	

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	\$2,850,778	\$2,822,308
County Pool	337,562	517,584
State Pool	1,457	1,015
Gross Receipts	\$3,189,796	\$3,340,907
Less Triple Flip*	\$(797,449)	\$0

*Reimbursed from county compensation fund

Statewide Results

Statewide local sales and use taxes from transactions occurring July through September were up 1.9% over the same third sales quarter of 2015 after factoring for accounting anomalies.

The countywide use tax allocation pools contributed the largest portion of the increase reflecting the acceleration in online shopping where most orders are shipped from out-of-state. Automotive group receipts rose 5.4% over the year-ago period although more than half of the increase was from a specific electric car manufacturer. Higher returns from restaurants and sales of building/construction materials also contributed to the statewide gain.

The gains were significantly offset by a 14.6% drop in receipts from fuel and service stations and a generally flat quarter for other economic segments. General consumer goods grew less than 1%. Value priced clothing, pet shops, cosmetics and dollar stores were among the few bright spots.

Business and industrial tax revenue was down 1.9%. Relatively healthy sales of agricultural and medical/biotech supplies could not overcome the decline in new alternative energy projects and a flat quarter for most other categories.

The Year Ahead

The consensus from dozens of industry analysts, economic think tanks and trade associations is for a leveling off in the rate of sales tax growth that the state has enjoyed for the last six years.

Manufacturer incentives are expected to produce lower gains from new vehicle purchases through the end of 2016 and it is believed that dealers are now borrowing from 2017 sales. Vehicle sales are expected to drop in 2017-18 but the trend toward higher priced vehicles loaded with options could maintain tax revenues close to current levels.

Consumer preferences toward spending more on services rather than goods, digital downloading of previously taxable products and rising health care and housing costs will be a drag on sales of consumer

goods.

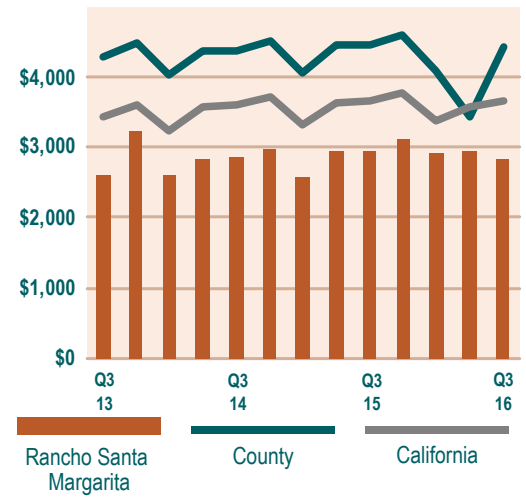
Receipts from fuel and service stations may be one of the largest gainers in 2017-18. New Middle East agreements on production caps are raising crude oil prices while California's limited refinery capacity and the trend toward less fuel-efficient SUV's and trucks have analysts believing that prices have finally leveled out and will rise through the year.

Continuing gains from restaurants are also expected although at lower than previous rates because of reduced grocery prices and the cost of eating at home. The growing strength of the dollar and recent criticisms of trade agreements and immigrants could reduce international tourism.

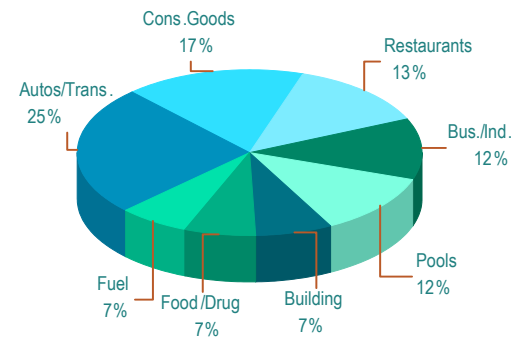
It usually takes up to two years for new stimulus programs to be reflected in sales tax receipts. As many of the coming administration's proposals related to trade, immigration, health services and the environment present potential issues for a significant number of California industries, delays in major construction projects and business/industrial investments are expected until these are sorted out.

HdL's current forecast is for a statewide increase of 2.5% in 2016-17 and 3.4% in 2017-18 compared to a year earlier.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP Rancho Santa Margarita This Quarter



RANCHO SANTA MARGARITA TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Rancho Santa Margarita Q3 '16*	Change	County Change	HdL State Change
Auto Lease	— CONFIDENTIAL —	—	5.6%	14.9%
Casual Dining	78.1	-4.9%	4.5%	4.5%
Department Stores	— CONFIDENTIAL —	—	-6.1%	-2.3%
Discount Dept Stores	— CONFIDENTIAL —	—	-2.2%	-0.4%
Family Apparel	22.5	0.7%	7.6%	5.8%
Fast-Casual Restaurants	40.3	14.0%	8.2%	5.0%
Grocery Stores	64.7	-19.8%	-0.6%	-2.2%
Home Furnishings	25.1	-9.8%	0.8%	-0.4%
Lumber/Building Materials	— CONFIDENTIAL —	—	10.2%	6.8%
Medical/Biotech	71.6	-9.5%	-11.9%	7.5%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	4.8%	4.8%
Office Supplies/Furniture	26.6	10.4%	-8.1%	-18.6%
Quick-Service Restaurants	64.3	12.4%	7.1%	8.9%
Service Stations	103.4	-27.3%	-17.6%	-13.8%
Specialty Stores	42.1	4.5%	4.1%	2.0%
Total All Accounts	1,383.5	-2.9%	0.4%	0.9%
County & State Pool Allocation	185.1	14.0%	17.9%	11.5%
Gross Receipts	1,568.6	-1.2%	2.2%	2.2%