

Q4 2017



Rancho Santa Margarita Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (October - December 2017)

Rancho Santa Margarita In Brief

Rancho Santa Margarita's receipts from October through December were 1.9% below the fourth sales period in 2016. Excluding reporting aberrations, actual sales were up 0.5%.

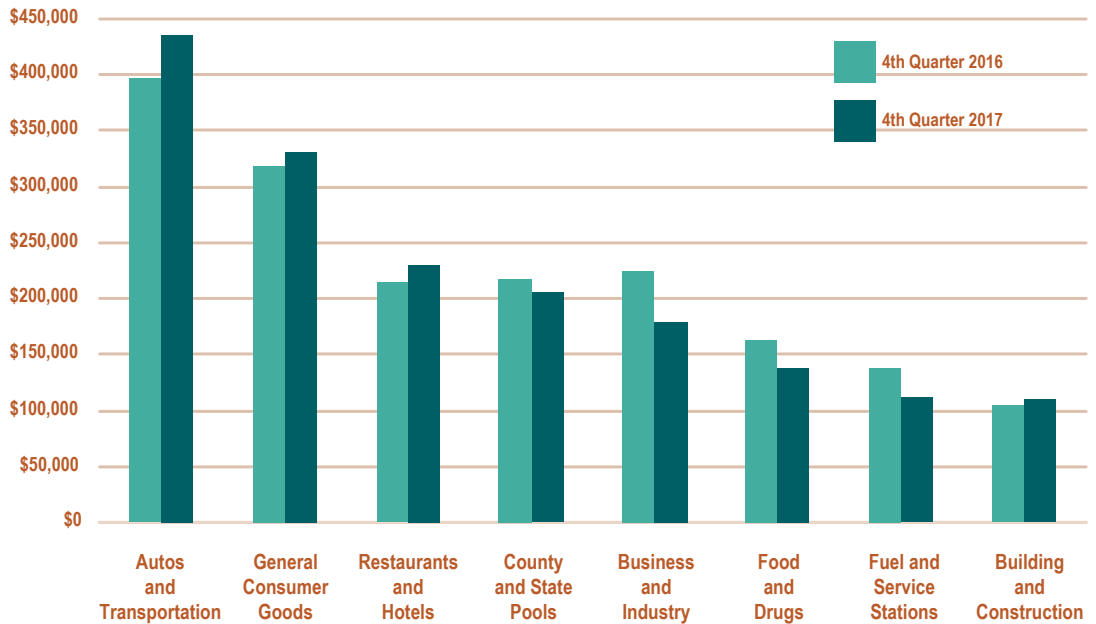
Two large payment corrections resulted in artificial declines in the categories of service stations and grocery stores. Absent these anomalies, both groups would have otherwise posted positive results.

Business-industrial returns were negatively impacted by a spike in revenue last year from a local supplier that made for a difficult comparison.

Auto-transportation cash proceeds surged 10%, nearly triple the state-wide trend of 3.5%.

Net of aberrations, taxable sales for all of Orange County grew 3.6% over the comparable time period; the Southern California region was up 3.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

| | |
|------------------------------|------------------------------|
| Applied Medical Distribution | Ralphs Fresh Fare |
| Applied Medical Resources | Rancho Santa Margarita Honda |
| Arco | Ross |
| Bed Bath & Beyond | Santa Margarita Ford |
| Circle K | Santa Margarita Toyota |
| Del Mar Petroleum | Target |
| Denault Commercial Supply | Tesoro |
| Hannas Restaurants & Bar | Tutto Fresco |
| Honda Lease Trust | Ultra Beauty |
| In N Out Burgers | Verizon Wireless |
| Kohls | Walmart Neighborhood Market |
| Lowe's | Wood Ranch BBQ & Grill |
| Pavillions | |

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

| | 2016-17 | 2017-18 |
|-----------------------|--------------------|--------------------|
| Point-of-Sale | \$4,383,400 | \$4,555,499 |
| County Pool | 733,959 | 587,905 |
| State Pool | 2,608 | 812 |
| Gross Receipts | \$5,119,967 | \$5,144,217 |

California Overall

Factored for accounting anomalies, statewide fourth quarter receipts from local government's one cent sales tax were 4.4% higher than the holiday quarter of 2016.

Rising fuel prices and solid gains from building/construction supplies, restaurants and e-commerce were the primary contributors to the overall increase. A healthy quarter for auto sales and construction equipment were additional factors. Tax revenues from general consumer goods sold through brick and mortar stores rose a modest 1% over last year's comparable quarter while receipts from online sales increased 13.2%.

Performance for the inland areas of the state were generally stronger than the coastal areas which had earlier recovered from the previous downturn.

Nexus Issue to be Revisited

In 1992, the U.S. Supreme Court ruled in *Quill v. North Dakota* that businesses lacking a physical presence or "nexus" in a state cannot be required to collect or remit that state's taxes. This does not excuse buyers from paying a corresponding use tax but the costs of enforcement, particularly on smaller purchases, is difficult and local brick and mortar retailers are placed at a competitive disadvantage.

California has been more effective at collecting use tax than most states with an aggressive program of auditing major business purchases, requiring CPA's to report unpaid use tax on client's annual returns and requiring businesses with annual gross receipts of \$100,000 or more to register for the purposes of reporting use tax.

The State has also increased the number of out-of-state sellers required to collect sales tax through broader definitions of what constitutes physical presence including a requirement that larger internet retailers collect and remit sales tax if paying a commission for customer referrals obtained via a link on a California seller's website.

Still, the estimated revenue losses are substantial particularly for agencies with voter-approved transactions tax districts. Because of *Quill*, retailers are

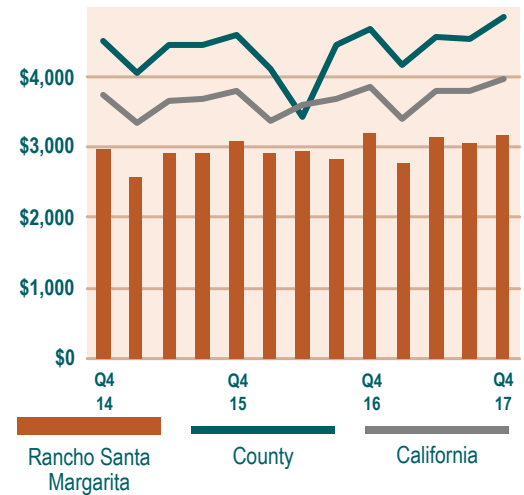
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state of \$697 Million: (<https://www.boe.ca.gov/legdiv/pdf/e-commerce-2017F.pdf>).

Congress has refused to act on numerous attempts to seek legislative relief over the last two decades. However, three justices – Clarence Thomas, Neil Gorsuch and Anthony Kennedy have recently expressed doubts about the *Quill* decision with Kennedy noting in 2015, that the ruling has produced a "startling revenue shortfall" in many states as well as "unfairness to local retailers and customers."

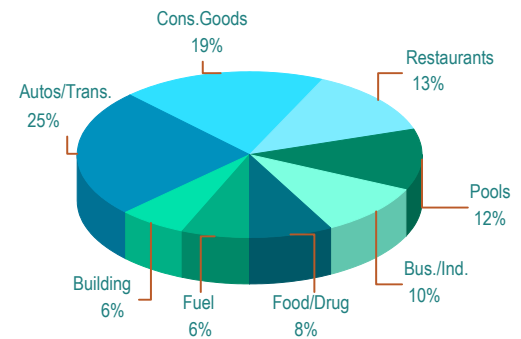
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

Oral arguments are scheduled for April with a decision expected by the end of June 2018.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP Rancho Santa Margarita This Quarter



RANCHO SANTA MARGARITA TOP 15 BUSINESS T

| Business Type | *In thousands of dollars | | | |
|---|--------------------------------|--------------|---------------|------------------|
| | Rancho Santa Margarita Q4 '17* | Change | County Change | HdL State Change |
| Auto Lease | 25.9 | 2.9% | 20.1% | 16.6% |
| Building Materials | — CONFIDENTIAL — | — | 11.1% | 11.6% |
| Casual Dining | 97.3 | 7.4% | 4.7% | 3.5% |
| Department Stores | — CONFIDENTIAL — | — | -5.8% | -5.4% |
| Discount Dept Stores | — CONFIDENTIAL — | — | 4.6% | 4.1% |
| Electronics/Appliance Stores | 29.5 | 21.5% | 3.6% | 5.8% |
| Family Apparel | 26.2 | 1.5% | 3.5% | 2.1% |
| Fast-Casual Restaurants | 41.9 | 22.9% | 6.2% | 8.9% |
| Grocery Stores | 96.5 | -13.4% | -2.9% | -1.5% |
| Home Furnishings | 29.7 | 0.2% | 11.9% | 2.6% |
| Medical/Biotech | 86.0 | 16.2% | 23.7% | 4.9% |
| New Motor Vehicle Dealers | — CONFIDENTIAL — | — | 2.6% | 2.6% |
| Quick-Service Restaurants | 63.6 | -1.5% | 7.3% | 5.0% |
| Service Stations | 110.9 | -19.3% | 7.8% | 11.4% |
| Specialty Stores | 56.9 | 2.7% | 4.4% | 4.4% |
| Total All Accounts | 1,539.1 | -1.4% | 4.2% | 4.0% |
| County & State Pool Allocation | 205.4 | -5.8% | -0.4% | 0.8% |
| Gross Receipts | 1,744.5 | -1.9% | 3.6% | 3.6% |