

Q1 2018



Rancho Santa Margarita Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2018)

Rancho Santa Margarita In Brief

Rancho Santa Margarita's receipts from January through March were 1.3% below the first sales period in 2017. Excluding reporting aberrations, actual sales were up 4.3%.

Due to the State's transition to a new software system, multiple transactions were not processed in 1Q18 but are anticipated to fund with 2Q18 allocations. Auto leases were significantly impacted by the delay.

Business closures and misallocated payments were responsible for the drop in revenue for restaurants and hotels. Grocery stores and drug stores also suffered from missing payments.

New business additions and a strong sales quarter helped to boost revenues for medical/biotech. Climbing retail gasoline prices have resulted in higher revenue from fuel and service stations group. Retailers in the general consumer goods sector posted modest gains for the first quarter of 2018.

The City's share of the countywide use tax pool decreased 0.1% when compared to the same period in the prior year.

Net of aberrations, taxable sales for all of Orange County grew 5.4% over the comparable time period; the Southern California region was up 5.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Applied Medical Distribution	Rancho Santa Margarita Honda
Applied Medical Resources	Ross
Arco	Santa Margarita Ford
BJs Restaurant & Brewhouse	Santa Margarita Toyota
Calligari & Associates	Staples
CVS Pharmacy	Target
Del Mar Petroleum	Tesoro
Denault Commercial Supply	Tutto Fresco
Hannas Restaurants & Bar	Ulta Beauty
In N Out Burgers	Verizon Wireless
Kohls	Walmart
Lowe's	Neighborhood Market
Pavillions	Wood Ranch BBQ & Grill

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$5,730,999	\$5,884,630
County Pool	910,768	764,455
State Pool	4,494	1,956
Gross Receipts	\$6,646,261	\$6,651,040

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

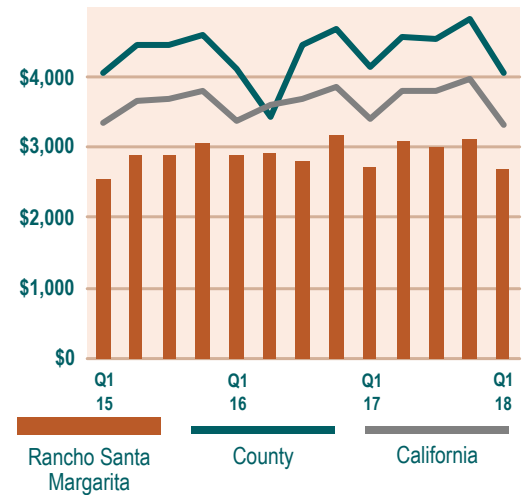
Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the on-line interstate marketplace was not the prevailing issue before the court in 1992.

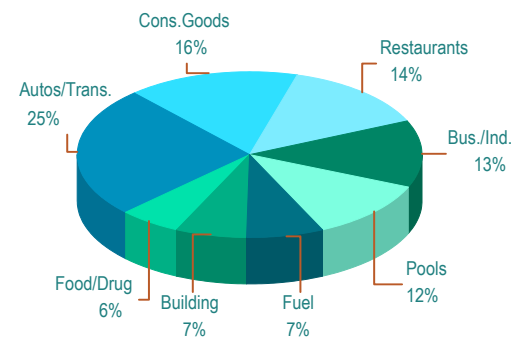
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about \$1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average \$60 per year for each California household, and California businesses average \$171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court's opinion to determine next steps to support taxpayers.

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 Q1 '18*	Change	County Change	HdL State Change
Building Materials	— CONFIDENTIAL —	—	2.8%	3.8%
Casual Dining	89.7	-1.6%	-3.4%	-2.0%
Department Stores	— CONFIDENTIAL —	—	-41.0%	-35.1%
Discount Dept Stores	— CONFIDENTIAL —	—	4.5%	2.8%
Electronics/Appliance Stores	20.3	13.9%	-0.2%	0.8%
Family Apparel	20.3	7.1%	5.8%	8.2%
Fast-Casual Restaurants	38.1	-10.2%	0.7%	6.8%
Grocery Stores	57.5	-4.3%	3.2%	1.9%
Heavy Industrial	19.6	11.8%	-0.1%	11.7%
Home Furnishings	22.9	-1.3%	6.5%	-1.0%
Medical/Biotech	88.9	36.2%	11.7%	10.0%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	-1.6%	-0.2%
Quick-Service Restaurants	60.9	-1.6%	0.4%	-3.8%
Service Stations	— CONFIDENTIAL —	—	13.1%	4.6%
Specialty Stores	42.5	0.1%	-8.5%	-10.0%
Total All Accounts	1,329.1	-1.4%	-2.0%	-1.8%
County & State Pool Allocation	177.7	-0.6%	-1.2%	-2.1%
Gross Receipts	1,506.8	-1.3%	-1.9%	-1.8%