Q2 2016

Rancho Santa Margarita Sales Tax *Update*

Third Quarter Receipts for Second Quarter Sales (April - June 2016)

Rancho Santa Margarita In Brief

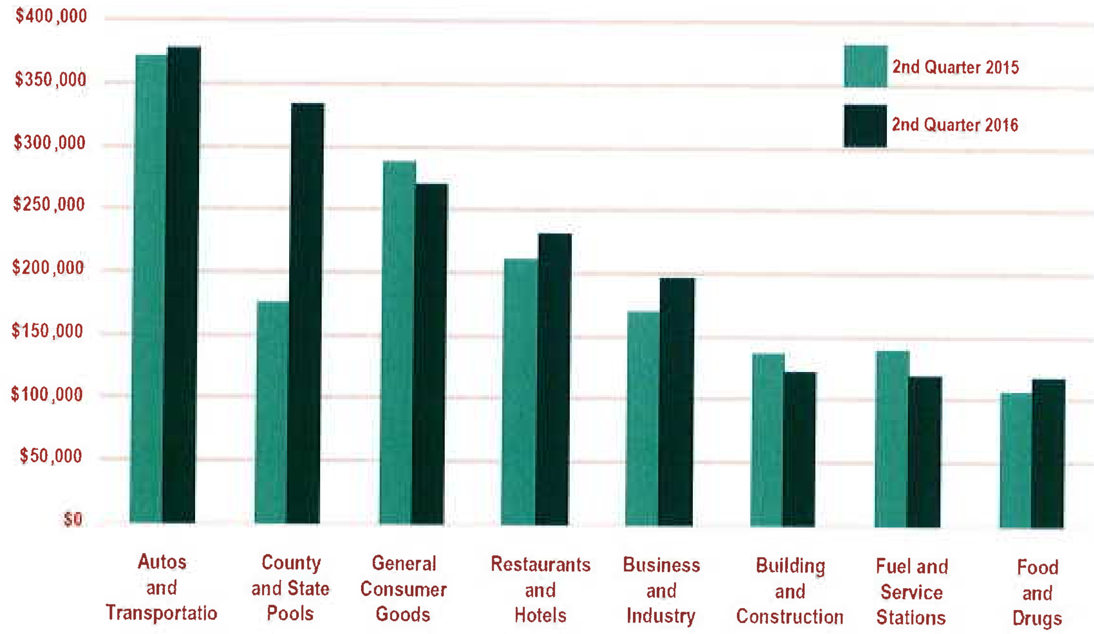
Rancho Santa Margarita's receipts for April through June sales were 10.6% higher than the same quarter of 2015, but a multi-year reallocation that hiked current quarter revenues from the county use tax pool skewed the comparison. Net of anomalies, the value of sales at the City's retailers declined 3.2%.

A prior closeout cut proceeds from the building and construction group and closeouts and lower sales hurt home furnishings and consumer electronics/appliances. Lower fuel prices cut service station returns.

A recent addition helped quick-service restaurants. Accounting events that impacted one or both quarters inflated gains from fast casual eateries and some categories within the business and industry group, including business services. A reporting problem that temporarily cut year-ago returns from a now-closed outlet masked a 5.8% decline in revenue from grocery/liquor.

Adjusted for aberrations, taxable sales for all of Orange County grew 1.0% over the same period; the Southern California region as a whole was up 1.6%.

Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- Applied Medical Distribution
- Applied Medical Resources
- BJs Restaurant
- Circle K
- CVS
- Del Mar Petroleum
- Denault Commercial
- Hannas Restaurants & Bar
- Honda Lease Trust
- In N Out
- Juniper Networks
- Kohls
- Lowes
- Pavillions
- Ralphs
- Rancho Santa Margarita Honda
- Ross
- Santa Margarita Ford
- Santa Margarita Toyota
- Target
- Tesoro
- Ulta
- Verizon
- Walmart Neighborhood Market
- Wood Ranch BBQ & Grill

Revenue Comparison

One Quarter – Fiscal Year To Date

	2015-16	2016-17
Point-of-Sale	$1,426,147	$1,438,793
County Pool	175,539	332,980
State Pool	1,193	540
Gross Receipts	**$1,602,880**	**$1,772,314**
Less Triple Flip*	$(400,720)	$0

**Reimbursed from county compensation fund*

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California Overall

Statewide local sales and use tax receipts were up 1.9% over last year's spring quarter after adjusting for payment aberrations.

The largest gains were for building supplies, restaurants, utility/energy projects and countywide use tax pool allocations. Tax revenues from general consumer goods and business investment categories rose slightly while auto sales leveled off.

Interest In Tax Reform Grows

With modest growth in sales and use taxes, agencies are increasingly reliant on local transaction tax initiatives to cover growing infrastructure and employee retirement costs. As of October 1, there are 210 active add-on tax districts with dozens more proposed for the upcoming November and April ballots.

The Bradley-Burns 1% local sales tax structure has not kept pace with social and economic changes occurring since the tax was first implemented in 1933. Technology and globalization are reducing the cost of goods while spending is shifting away from taxable merchandise to non-taxed experiences, social networking and services. Growing outlays for housing and health care are also cutting family resources available for discretionary spending. Tax-exempt digital downloads and a growing list of legislative exemptions have compounded the problem.

California has the nation's highest sales tax rate, reaching 10% in some jurisdictions. This rate, however, is applied to the smallest basket of taxable goods. A basic principle of sound tax policy is to have the lowest rate applied to the broadest possible basket of goods. California's opposite approach leads to revenue volatility and causes the state and local governments to be more vulnerable to economic downturns.

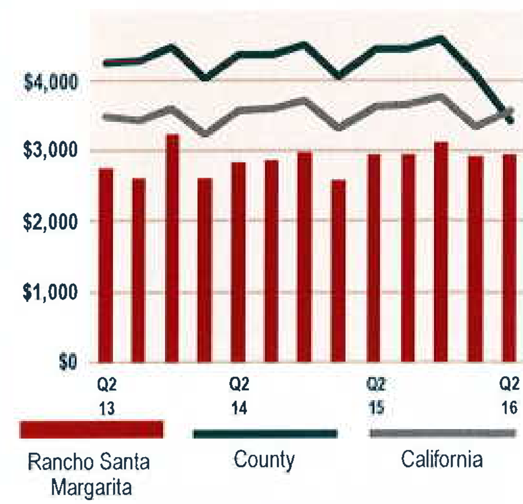
The State Controller, several legislators and some newspaper editorials have suggested a fresh look at the state's tax structure and a few ideas for reform have been proposed, including:

Expand the Base / Lower the Rate: Eliminate much of the $11.5 billion in exemptions adopted since the tax was first implemented and expand the base to include the digital goods and services commonly taxed in other states. This would allow a lower, less regressive tax that is more competitive nationally and would expand local options for economic development.

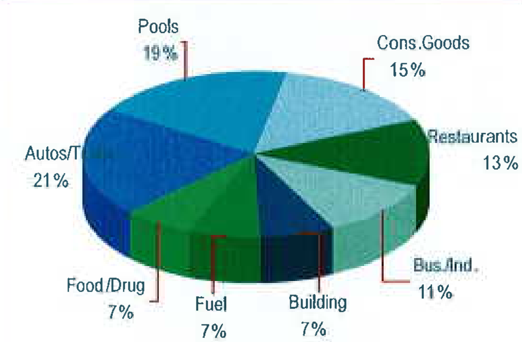
Allocate to Place of Consumption: Converting to destination sourcing, already in use in the state's transactions and use tax districts, would maintain the allocation of local sales tax to the jurisdiction where stores, restaurants and other carryout businesses are located, but return the tax for online and catalog sales to the jurisdiction of the buyer that paid the tax. One outcome of this proposal would be the redirection of tax revenues to local agencies that are currently being shared with business owners and corporations as an inducement to move order desks to their jurisdictions.

Tax reform will not be easy. However, failing to reach agreement on a simpler, less regressive tax structure that adapts this century's economy could make California a long-term "loser" in competing with states with lower overall tax rates.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Rancho Santa Margarita This Quarter



RANCHO SANTA MARGARITA TOP 15 BUSINESS T

In thousands of dollars Business Type	Rancho Santa Margarita Q2 '16*	Rancho Santa Margarita Change	County Change	HdL State Change
Auto Lease	25.1	1.5%	4.4%	20.6%
Business Services	28.1	62.4%	24.4%	0.8%
Casual Dining	86.7	2.4%	4.1%	4.3%
Department Stores	— CONFIDENTIAL —		-4.4%	-4.3%
Discount Dept Stores	— CONFIDENTIAL —		-0.8%	0.7%
Drug Stores	27.1	4.3%	2.5%	0.5%
Fast-Casual Restaurants	44.0	33.7%	4.5%	3.9%
Grocery Stores Liquor	60.2	10.6%	2.8%	1.2%
Home Furnishings	27.0	-20.0%	0.9%	1.2%
Lumber/Building Materials	— CONFIDENTIAL —		0.3%	3.3%
Medical/Biotech	68.7	3.0%	-2.6%	12.8%
New Motor Vehicle Dealers	— CONFIDENTIAL —		0.6%	2.7%
Quick-Service Restaurants	65.7	11.4%	5.1%	6.7%
Service Stations	119.7	-14.6%	-23.2%	-19.2%
Specialty Stores	44.0	6.7%	1.2%	2.5%
Total All Accounts	**1,438.8**	**0.9%**	**-22.1%**	**-0.6%**
County & State Pool Allocation	**333.5**	**88.7%**	**45.7%**	**15.2%**
Gross Receipts	**1,772.3**	**10.6%**	**-14.6%**	**1.4%**