

Q2
2018



Rancho Santa Margarita Sales Tax Update

Third Quarter Receipts for Second Quarter Sales (April - June 2018)

Rancho Santa Margarita In Brief

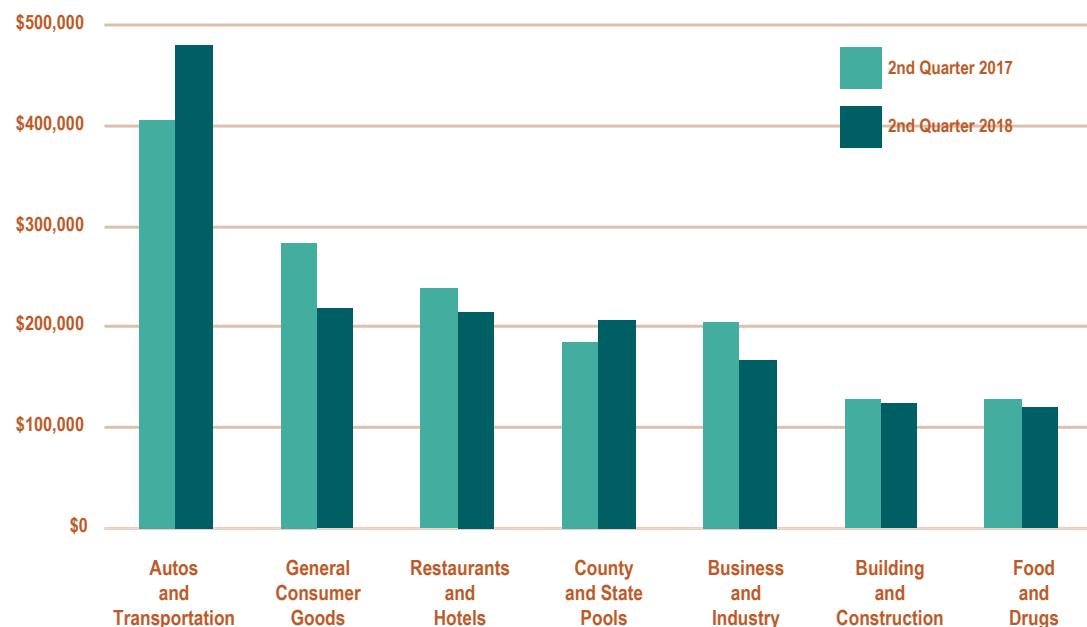
Rancho Santa Margarita's receipts from April through June were 2.9% below the second sales period in 2017. However, for the second consecutive quarter, challenges with the State's new software system have resulted in delayed funding for 2Q18 local tax payments. Other accounts received only partial funding for the current quarter. Including these allocations and other reporting aberrations, actual sales would have been up 2.4%.

Missing and partial payments accounted for the decline in general consumer goods, restaurants, heavy industrial and the food-drugs sector.

Strong sales and double-up payments inflated returns from the autos and transportation group. An increase in the City's allocation from the county use tax pool also helped offset the losses.

Net of aberrations, taxable sales for all of Orange County grew 0.7% over the comparable time period; the Southern California region was up 1.0%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Applied Medical Distribution	Pavilions
Applied Medical Resources	Ralphs Fresh Fare
BJ's Restaurant & Brewhouse	Rancho Santa Margarita Honda
Cab West/Volvo Leasing	Santa Margarita Ford
Calligari & Associates	Santa Margarita Toyota
Circle K	Target
CVS Pharmacy	Tesoro
Denault Commercial Supply	Tutto Fresco
Hannas Restaurants & Bar	Ulta Beauty
Honda Lease Trust	Verizon Wireless
In N Out Burger	Walmart Neighborhood Market
Kohls	Wood Ranch BBQ & Grill
Lowes	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date (Q3 to Q2)

	2016-17	2017-18
Point-of-Sale	\$5,820,215	\$5,812,327
County Pool	763,644	785,244
State Pool	3,165	3,288
Gross Receipts	\$6,587,023	\$6,600,859

Rancho Santa Margarita Sales Tax Update

California Overall

Local Government cash receipts from April through June sales dropped 10.1% from the same quarter one year ago due to implementation issues with CDFTA's new tax reporting software system. The results were further skewed by the State's attempt to offset the resulting shortages by advancing tax revenues that it estimates will be generated next quarter.

After reviewing unprocessed returns and approximating the full amounts of partial payments, HdL estimates that once all returns are properly processed and the data adjusted to reflect actual quarter receipts, statewide local sales and use tax revenues will be 1.6% higher than second quarter 2017.

Sales of building and construction materials, jet fuel and online shopping appear to have been the primary drivers of statewide growth during the second quarter. Auto sales leveled off as previously anticipated, although receipts from auto leases continued to show substantial gains. Online fulfillment centers and value themed apparel stores were the primary gainers within the general consumer goods group. Business-industrial purchases were slightly lower than previous quarters with declines in new energy projects being a major factor.

Regionally, the San Francisco Bay area and the Sacramento and San Joaquin Valley areas outperformed the rest of the state.

Tariff Policies and Sales Tax

Tariffs are becoming a key element of the federal government's international trade strategy with additional duties of 10% announced for the end of the third quarter, rising to 25% by the end of 2018.

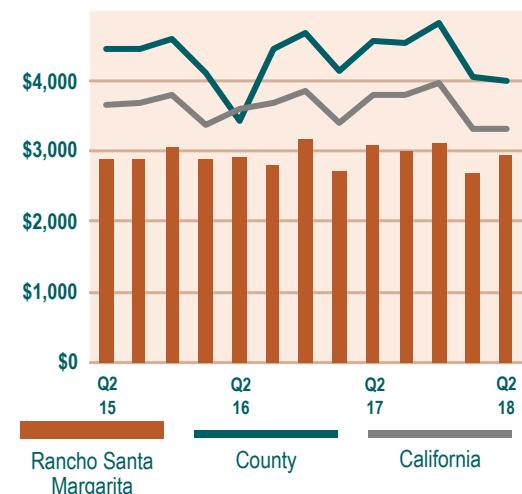
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates. Many manufacturers have managed to avoid raising prices by absorbing the costs of the

initial first round of tariffs on metals, machinery and components. On the down side, small retailers without the power to lock in prices may be placed at a competitive disadvantage and contractors are beginning to require escalation clauses in contracts to cover potential cost increases on long range projects.

The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly in an environment where rising housing, education and health care costs compete for a significant portion of discretionary income.

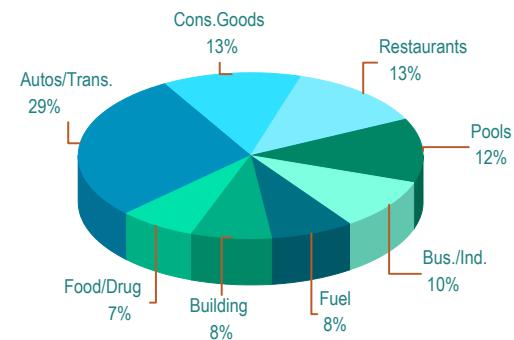
Proponents of rising tariffs argue that the rising strength of the U.S. dollar will offset the impact of tariff related price increases on consumers. Opponents worry that the stronger dollar and the announced \$5.6 billion in retaliatory tariffs on California exports will negatively impact both the affected companies' job base and capital investment in supplies, equipment and expansion opportunities.

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		County Change	HdL State Change
	Q2 '18*	Change		
Auto Lease	64.2	148.8%	62.1%	60.9%
Building Materials	— CONFIDENTIAL —		-22.6%	-23.2%
Casual Dining	93.8	-3.9%	-13.9%	-12.6%
Department Stores	— CONFIDENTIAL —		20.2%	12.7%
Discount Dept Stores	— CONFIDENTIAL —		-10.9%	-13.5%
Drug Stores	22.7	-8.7%	-6.4%	-4.2%
Electronics/Appliance Stores	23.6	18.4%	-1.3%	-5.1%
Fast-Casual Restaurants	36.9	-11.3%	-6.6%	-3.3%
Grocery Stores	75.9	-5.9%	-7.1%	-7.0%
Home Furnishings	28.4	8.0%	-20.3%	-21.7%
Medical/Biotech	82.6	3.6%	-36.8%	-28.4%
New Motor Vehicle Dealers	— CONFIDENTIAL —		-4.6%	-1.9%
Quick-Service Restaurants	56.7	-14.5%	-1.6%	-5.8%
Service Stations	— CONFIDENTIAL —		-31.3%	-26.4%
Specialty Stores	43.0	-5.7%	-8.7%	-4.6%
Total All Accounts	1,455.7	-4.7%	-11.5%	-12.2%
County & State Pool Allocation	207.2	12.0%	3.9%	5.5%
Gross Receipts	1,662.9	-2.9%	-9.8%	-10.1%