

**Q3**  
2018



# Rancho Santa Margarita Sales Tax Update

*Fourth Quarter Receipts for Third Quarter Sales (July - September 2018)*

## Rancho Santa Margarita In Brief

**R**ancho Santa Margarita's receipts from July through September were 12.3% above the third sales period in 2017. This dramatic rise is mostly attributed to CDTFA's transition to a new reporting system where multiple returns not processed in the prior period were received with this quarter's allocations. Once all remittances were shown correctly, actual sales in the current period were up 3.5%.

**T**he City continued to experience strong car buying and leasing activity with favorable financing options benefitting consumers. Solid sales growth by home furnishing and family apparel retailers also enhanced revenues.

**G**ains by medical-biotech suppliers and onetime receipts helped lift business-industry, while steady price increases at the pump, mostly related to the global cost of crude oil and implementation of SB-1 locally, pushed gas station receipts higher.

**T**he recent addition of multiple building-construction merchants further contributed to the positive results.

**N**et of aberrations, taxable sales for all of Orange County grew 4.1% over the comparable time period; the Southern California region was up 4.3%.

## SALES TAX BY MAJOR BUSINESS GROUP



## TOP 25 PRODUCERS IN ALPHABETICAL ORDER

Applied Medical Distribution	Lowes
Applied Medical Resources	Pavilions
Arco	Ralphs Fresh Fare
BJ's Restaurant & Brewhouse	Rancho Santa Margarita Honda
Calligari & Associates	Ross
Circle K	Santa Margarita Ford
Del Mar Petroleum	Santa Margarita Toyota
Denault Commercial Supply	Target
Hannas Restaurants & Bar	Tesoro
Honda Lease Trust	Toyota Lease Trust
In N Out Burger	Trader Joes
Kohls	Ulta Beauty
	Walmart Neighborhood Market

## REVENUE COMPARISON

One Quarter – Fiscal Year To Date (Q3)

	2017-18	2018-19
Point-of-Sale	\$1,488,379	\$1,666,725
County Pool	197,074	226,034
State Pool	1,159	855
<b>Gross Receipts</b>	<b>\$1,686,612</b>	<b>\$1,893,615</b>

# Rancho Santa Margarita Sales Tax Update

## California Overall

The CDTFA's problems with its new software system had yet to be fully resolved by the end of the third quarter. HdL's adjustments for delayed payments and other reporting deficiencies indicate that statewide receipts from the local one cent tax rose 5.2% over the first three quarters of 2018 versus the comparison period. The gains were primarily from higher fuel prices, strong building-construction activity and a rise in tax receipts from online purchases delivered from out-of-state that are shared by all agencies via the county pools.

The data exhibits the start of a leveling pattern in other sectors. The statewide gain in new car sales for July through September was due to a single manufacturer filling back orders. Price competition kept tax revenues from consumer goods receipts relatively flat while the rise in online shopping is expanding the diversion of tax revenues from brick and mortar stores to county pools or to in-state distribution centers.

Restaurant sales are beginning to show signs of market saturation as well as the impact of new competition that includes - prepared food and meal kits delivered from a variety of other sources. A modest gain in business-industrial sales was largely related to data and warehouse technology as well as a few major development projects.

Anticipated declines in fuel prices in the first quarter of 2019 adds support to HdL's latest consensus forecast for a modest statewide gain of 1.5% in fiscal year 2019-20 unless new trade conflicts further impact the economy.

## South Dakota V. Wayfair Decision

In June, the Supreme Court reversed its previous ruling that retailers are not required to collect taxes for jurisdictions where they have no physical presence or "nexus." Instead, the buyer was responsible for remitting the tax.

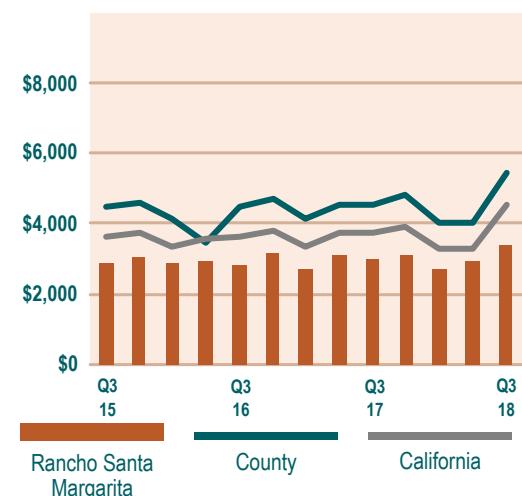
California will begin enforcing the Wayfair reversal effective April 1, 2019

by making retailers delivering from out-of-state responsible for collecting and remitting use tax if calendar year sales exceed \$100,000 and/or 200 or more separate transactions. The same threshold will also determine whether in-state retailers are responsible for collecting taxes on deliveries to individual transactions tax districts.

Some legislators have announced their intention to hold hearings and may modify the regulations prior to the announced April 1 implementation date. That process and anticipated start-up and notification issues will probably delay full compliance in 2019-20.

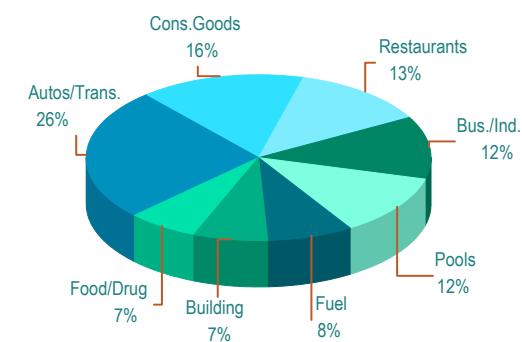
As most major online retailers, including Wayfair, are already collecting California taxes and the state has traditionally enforced a broad definition of "nexus," the impact of the South Dakota decision may be less than in other states. The U.S. Government Accountability Office estimates a potential eventual gain of \$3 to \$5 per capita in receipts from our one cent local tax.

## 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 Change	County Change	HdL State Change
	Q3 '18*	Change			
Auto Lease	34.7	55.2%	52.4%	43.4%	
Building Materials	— CONFIDENTIAL —		27.3%	29.6%	
Casual Dining	86.6	-4.1%	14.7%	14.8%	
Department Stores	— CONFIDENTIAL —		-5.2%	-3.6%	
Discount Dept Stores	— CONFIDENTIAL —		16.2%	18.3%	
Family Apparel	35.1	50.2%	30.2%	36.3%	
Fast-Casual Restaurants	54.3	28.6%	9.1%	15.2%	
Grocery Stores	92.9	20.5%	15.4%	16.1%	
Heavy Industrial	25.4	64.1%	27.8%	30.1%	
Home Furnishings	37.0	47.4%	16.8%	21.9%	
Medical/Biotech	92.0	10.6%	28.9%	18.6%	
New Motor Vehicle Dealers	— CONFIDENTIAL —		19.9%	12.7%	
Quick-Service Restaurants	69.5	7.7%	9.1%	13.5%	
Service Stations	150.8	24.0%	45.4%	43.0%	
Specialty Stores	44.0	2.7%	13.4%	8.4%	
<b>Total All Accounts</b>	<b>1,666.7</b>	<b>12.0%</b>	<b>21.2%</b>	<b>21.8%</b>	
<b>County &amp; State Pool Allocation</b>	<b>226.9</b>	<b>14.5%</b>	<b>23.9%</b>	<b>27.8%</b>	
<b>Gross Receipts</b>	<b>1,893.6</b>	<b>12.3%</b>	<b>21.5%</b>	<b>22.6%</b>	