



Rancho Santa Margarita Sales Tax Update

First Quarter Receipts for Fourth Quarter Sales (October - December 2018)

Rancho Santa Margarita In Brief

Rancho Santa Margarita's receipts from October through December were 7.3% above the fourth sales period in 2017 though results were inflated by payment corrections, including a significant statewide auto lease adjustment. Excluding reporting aberrations, actual sales were up 2.3%.

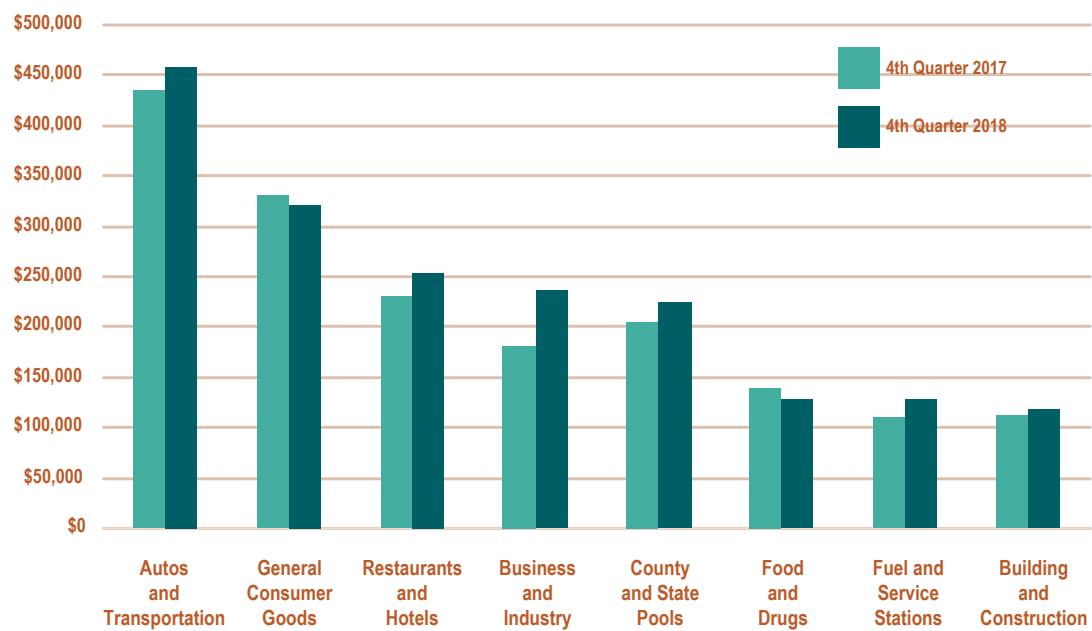
The primary factor in this improvement was higher medical-biotech, business services and heavy industrial postings, though these results may have been inflated by a suspected misallocation.

Proceeds from local service stations also increased due to higher prices at the pump resulting from refinery disruptions and heightened political tension now surrounding several major oil producing nations.

Auto and transportation related revenue dipped for the first time in over a year, partially offsetting this progress.

Net of aberrations, taxable sales for all of Orange County increased 2.0% over the comparable time period; the Southern California region was up 2.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS IN ALPHABETICAL ORDER

Applied Medical Distribution	Pavilions
Applied Medical Resources	Rancho Santa Margarita Honda
Bed Bath & Beyond	Ross
BJ's Restaurant	Santa Margarita Ford
Cab West/Volvo Leasing	Santa Margarita Toyota
Circle K	Shell
Del Mar Petroleum	Target
Denault Commercial Supply	Tesoro
Hannas Restaurants & Bar	Tutto Fresco
Honda Lease Trust	Ulta Beauty
In N Out Burger	Walmart Neighborhood Market
Kohls	Wood Ranch BBQ
Lowes	

REVENUE COMPARISON

Two Quarters – Fiscal Year To Date (Q3 to Q4)

	2017-18	2018-19
Point-of-Sale	\$3,027,490	\$3,313,074
County Pool	402,050	450,432
State Pool	1,601	1,650
Gross Receipts	\$3,431,141	\$3,765,156

Statewide Results

The local one cent share of sales and use tax from October through December sales was 2.8% higher than 2017's holiday quarter after factoring for state reporting aberrations.

The overall increase came primarily from a solid quarter for contractor materials and equipment, expanded production by an auto manufacturer and rising fuel prices. Online fulfillment centers, new technology investment and cannabis start-ups also produced significant gains. Receipts in the six county Sacramento region grew 7.9% over last year while the remainder of the state was generally flat or exhibited only minor growth.

Notable was the 0.09% rise in tax receipts from brick and mortar retailers which is the lowest holiday gain for that sector since 2009. A 9.6% increase in receipts from online shopping which is allocated to central order desks or county pools was part of the reason. Other factors include lower prices, gift cards which move purchases to future quarters and greater gifting of non-taxable experiences and services.

The Retail Evolution Continues

A recent survey identified U.S. closures of 102 million sq. ft. of retail space in 2017 and an additional 155 million sq. ft. in 2018. Similar losses are expected in 2019 with 5,300 closures already announced. Payless Shoes, Gymboree, Performance Bicycle and Charlotte Russe are going out of business while chains including Sears, Kmart, Macy's, JCPenney, Kohl's, Nordstrom, Dollar Tree, Victoria's Secret, Chico's, Foot Locker and Lowe's have announced plans for further cuts in oversaturated markets and downsizing of stores.

Retailers are not planning the end of physical stores which continue to be important for personalized experiences and shopping entertainment. However, the shifting trends encourage reduced square footage with less overhead to better compete on prices and provide more intimate shopping encounters.

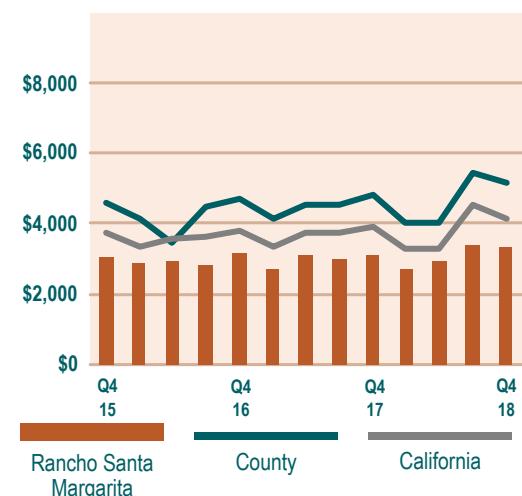
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With smartphones allowing purchase and delivery of almost anything at any time of the day without leaving home, big box retailers are responding by downsizing stores and subleasing excess space to compatible businesses to help draw traffic. Locations where people congregate for entertainment, food and services have become part of the evolving strategy as has integrating retail with more convenient spots for pick-up and delivery of online orders.

Barry Foster of HdL's EconSolutions, notes that "shifting shopping habits present challenges but also opportunities." "Smaller footprints enable expanding into smaller niche markets while mixed use projects and 18-hour environments are chances to rebuild downtowns and reinvigorate shopping centers."

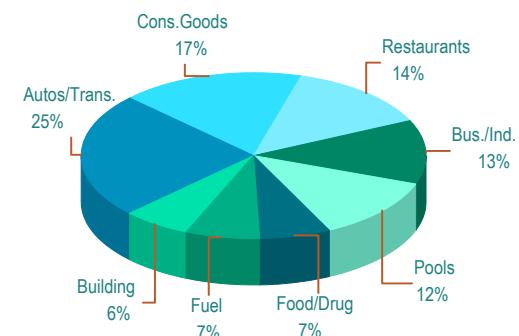
With more companies using the internet to sell directly to customers from their warehouses, the trend also provides jurisdictions whose populations aren't adequate in size to support large scale retail to focus on industrial development for sales tax as well as jobs.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP

Rancho Santa Margarita This Quarter



RSM TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars		Rancho Santa Margarita	County	HdL State
	Q4 '18*	Change	Change	Change	Change
Auto Lease	77.4	199.5%	-18.2%	-11.4%	
Building Materials	— CONFIDENTIAL —		6.6%	5.5%	
Business Services	33.3	134.6%	19.2%	14.7%	
Casual Dining	106.4	9.3%	1.6%	2.5%	
Department Stores	— CONFIDENTIAL —		-10.0%	-3.4%	
Discount Dept Stores	— CONFIDENTIAL —		3.5%	3.9%	
Family Apparel	29.9	14.2%	-0.8%	0.5%	
Fast-Casual Restaurants	47.0	12.3%	5.4%	4.5%	
Grocery Stores	79.6	-17.5%	-17.8%	-11.7%	
Heavy Industrial	33.2	82.8%	32.4%	5.8%	
Medical/Biotech	96.2	11.8%	12.9%	25.9%	
New Motor Vehicle Dealers	— CONFIDENTIAL —		14.1%	5.8%	
Quick-Service Restaurants	68.4	7.6%	3.4%	6.6%	
Service Stations	127.2	14.8%	31.4%	28.5%	
Specialty Stores	54.5	-1.6%	-10.4%	-10.8%	
Total All Accounts	1,646.3	7.0%	7.0%	7.0%	
County & State Pool Allocation	225.2	9.6%	9.6%	8.6%	
Gross Receipts	1,871.5	7.3%	7.3%	7.2%	