

Q4 2017



Laguna Niguel Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (October - December 2017)

Laguna Niguel In Brief

Laguna Niguel's receipts from October through December were 4.0% above the fourth sales period in 2016.

General consumer goods was the strongest major category as consumers opened their pocketbooks for the holidays.

Autos and transportation sales also surged, outpacing the trend seen in most areas of the state where results have generally flattened since the huge run-up after the end of the recent recession. The sale of building materials was also robust, aided by the strong regional construction market and by an easy comparison to last year's rainy winter weather that slowed activity across the state.

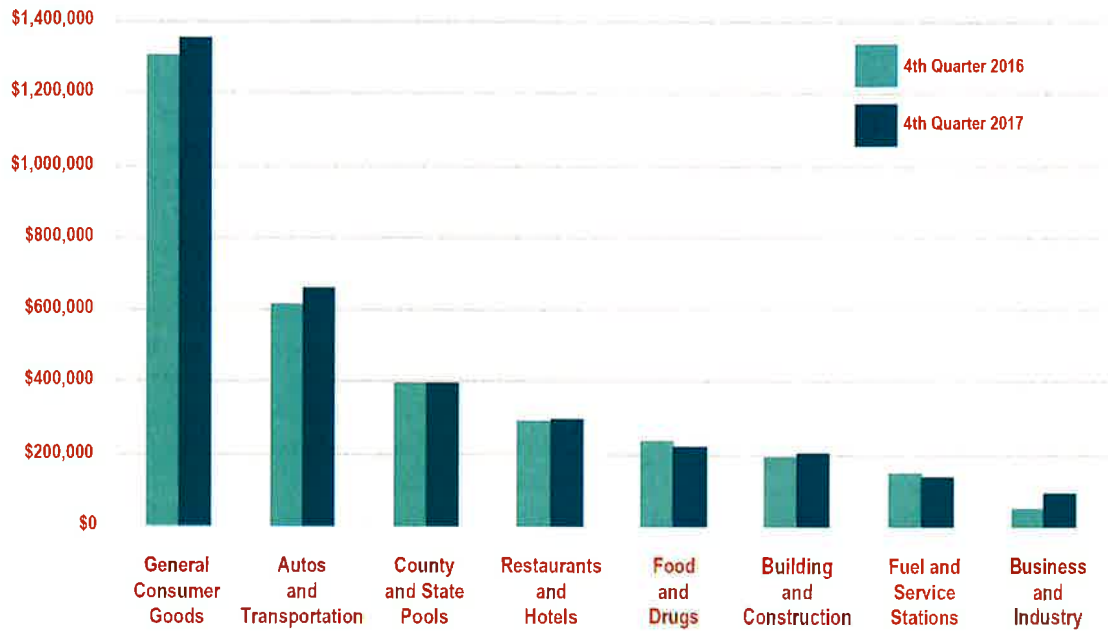
Business and industry returns spiked and were further aided by several new business openings. New casual dining eateries in town also lifted restaurants and hotels.

Sporting goods/bike stores were higher, but only because of a payment aberration as the group would have otherwise fallen.

Service stations and grocery stores dropped, but most of these declines were also due to payment anomalies.

Net of aberrations, taxable sales for all of Orange County grew 3.6% over the comparable time period; the Southern California region was up 3.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Albertsons	Laguna Niguel Shell
Allen Cadillac GMC	Mercedes Benz of Laguna Niguel
Allen Hyundai	Nordstrom Rack
Arco AM PM	Ralphs
Bed Bath & Beyond	Sepulveda Building Materials
BevMo	Tucker Tire
Chevron	Vereco Finance
Costco	Verizon Wireless
CVS Pharmacy	Vons
Daimler Trust	Walmart
Hobby Lobby	Whole Foods Market
Home Depot	
In N Out Burgers	
Kohls	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$7,871,407	\$7,987,515
County Pool	1,311,309	1,032,875
State Pool	4,710	1,509
Gross Receipts	\$9,187,426	\$9,021,899

NOTES

California Overall

Factored for accounting anomalies, statewide fourth quarter receipts from local government's one cent sales tax were 4.4% higher than the holiday quarter of 2016.

Rising fuel prices and solid gains from building/construction supplies, restaurants and e-commerce were the primary contributors to the overall increase. A healthy quarter for auto sales and construction equipment were additional factors. Tax revenues from general consumer goods sold through brick and mortar stores rose a modest 1% over last year's comparable quarter while receipts from online sales increased 13.2%.

Performance for the inland areas of the state were generally stronger than the coastal areas which had earlier recovered from the previous downturn.

Nexus Issue to be Revisited

In 1992, the U.S. Supreme Court ruled in *Quill v. North Dakota* that businesses lacking a physical presence or "nexus" in a state cannot be required to collect or remit that state's taxes. This does not excuse buyers from paying a corresponding use tax but the costs of enforcement, particularly on smaller purchases, is difficult and local brick and mortar retailers are placed at a competitive disadvantage.

California has been more effective at collecting use tax than most states with an aggressive program of auditing major business purchases, requiring CPA's to report unpaid use tax on client's annual returns and requiring businesses with annual gross receipts of \$100,000 or more to register for the purposes of reporting use tax.

The State has also increased the number of out-of-state sellers required to collect sales tax through broader definitions of what constitutes physical presence including a requirement that larger internet retailers collect and remit sales tax if paying a commission for customer referrals obtained via a link on a California seller's website.

Still, the estimated revenue losses are substantial particularly for agencies with voter-approved transactions tax districts. Because of *Quill*, retailers are

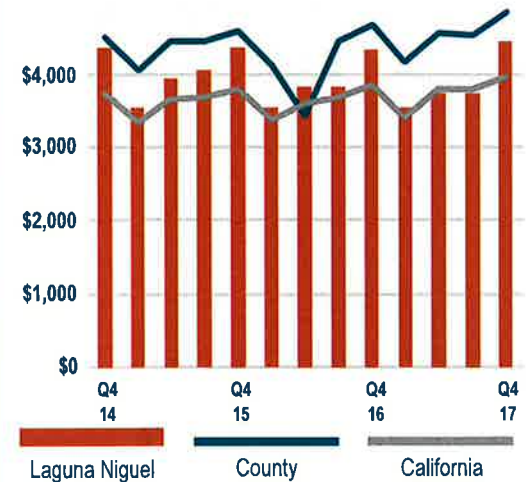
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state of \$697 Million: (<https://www.boe.ca.gov/legdiv/pdf/e-commerce-2017F.pdf>).

Congress has refused to act on numerous attempts to seek legislative relief over the last two decades. However, three justices – Clarence Thomas, Neil Gorsuch and Anthony Kennedy have recently expressed doubts about the *Quill* decision with Kennedy noting in 2015, that the ruling has produced a "startling revenue shortfall" in many states as well as "unfairness to local retailers and customers."

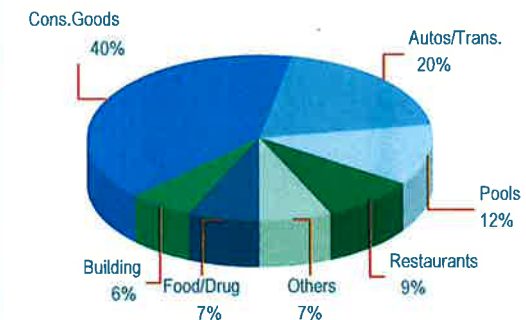
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

Oral arguments are scheduled for April with a decision expected by the end of June 2018.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Laguna Niguel This Quarter



LAGUNA NIGUEL TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Laguna Niguel Q4 '17*	Change	County Change	HdL State Change
Auto Lease	— CONFIDENTIAL —	—	20.1%	16.6%
Building Materials	176.8	12.0%	11.1%	11.6%
Casual Dining	95.8	12.4%	4.7%	3.5%
Department Stores	— CONFIDENTIAL —	—	-5.8%	-5.4%
Discount Dept Stores	— CONFIDENTIAL —	—	4.6%	4.1%
Drug Stores	46.9	-8.2%	-9.2%	-10.7%
Electronics/Appliance Stores	48.3	-1.6%	3.6%	5.8%
Fast-Casual Restaurants	67.2	2.0%	6.2%	9.0%
Grocery Stores	145.5	-6.0%	-2.9%	-1.5%
Home Furnishings	86.9	-4.6%	11.9%	2.6%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	2.6%	2.6%
Quick-Service Restaurants	111.0	-6.3%	7.3%	5.0%
Service Stations	139.4	-4.7%	7.8%	11.4%
Specialty Stores	75.9	0.7%	4.4%	4.4%
Sporting Goods/Bike Stores	33.5	47.0%	-10.0%	-8.5%
Total All Accounts	2,975.9	4.6%	4.2%	4.0%
County & State Pool Allocation	397.2	0.0%	-0.4%	0.8%
Gross Receipts	3,373.1	4.0%	3.6%	3.6%