

Q1 2018



Laguna Niguel Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2018)

Laguna Niguel In Brief

Laguna Niguel's receipts from January through March were 7.7% below the first sales period in 2017. Excluding reporting aberrations, actual sales were up 2.0%.

The State's transition to a new software system caused a delay in processing for multiple 1Q18 taxpayer returns, however, the local tax is expected to fund with 2Q18 allocations. The autos-transportation group was the most significantly impacted. Waning interest in compact cars, mid-size sedans and full-size cars further contributed to the loss.

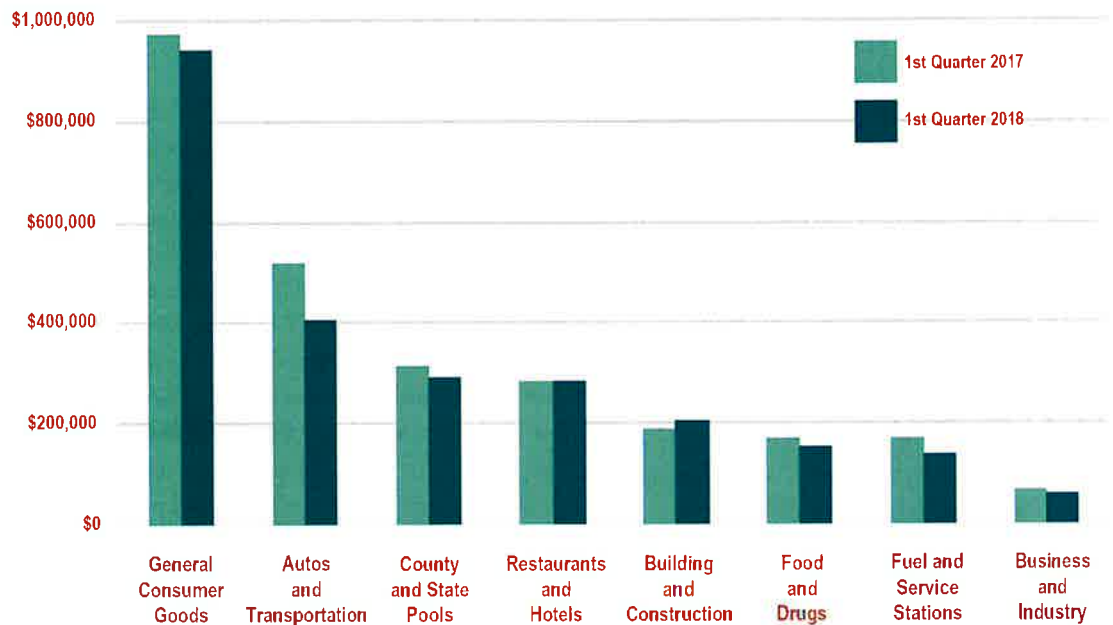
Misallocated payments, delayed payments and business closures caused a drop for general consumer goods. A positive adjustment in the comparison period resulted in a temporary decrease in receipts for fuel-service stations.

A onetime use tax payment in 1Q17 skewed results for business-industry, while more delayed payments pushed down totals for food-drugs and restaurants-hotels.

The City's share of the countywide use tax pool decreased 6.8% when compared to the same period in the prior year.

Net of aberrations, taxable sales for all of Orange County grew 5.4% over the comparable time period; the Southern California region was up 5.6%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Albertsons	Laguna Niguel Shell
Allen Cadillac GMC	McDonalds
Allen Hyundai	Mercedes Benz of Laguna Niguel
Arco AM PM	Nordstrom Rack
Avery Energy	Pavilions
Bed Bath & Beyond	Sepulveda Building Materials
Chevron	Tesoro
Christie's	Tucker Tire
Costco	Verizon Wireless
CVS Pharmacy	Walmart
Hobby Lobby	Whole Foods Market
Home Depot	
In N Out Burgers	
Kohls	

REVENUE COMPARISON

Four Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$10,239,149	\$10,170,820
County Pool	1,621,964	1,322,886
State Pool	8,022	3,387
Gross Receipts	\$11,869,135	\$11,497,093

CDTFA Changes

The California Department of Taxes and Fees Administration (CDTFA) implemented new reporting software – Centralized Revenue Opportunity System (CROS) with the first quarter 2018 tax filings. The change will allow CDTFA to collect and allocate tax revenue more quickly than the prior system making data more timely and relevant for decision making purposes. There will also be a greater emphasis on electronic tax filing with the goal of decreasing errors and misallocations.

During the changeover, CDTFA had a hard cutoff of April 30 for tax returns. Allocating the revenue received through that period left some activity out of the current quarter, pushing it to the second quarter 2018. However, CDTFA will be disbursing the revenue related to the previously delayed payments with the June 2018 monthly allocation.

In summary, the change in software and partial allocations in the first quarter 2018 payments will inflate actual distributions in June 2018 and be included with second quarter 2018 data.

Statewide Results

Given the CDTFA changeover, the statewide first quarter 2018 receipts were 1.8% lower than the prior year. However, once HdL adjusted the results for missing payments and other accounting anomalies, the results were 5.9% higher than the same period in 2017.

A stellar rebound in building-construction activity, compared to a year ago when gloomy winter weather depressed results, and continued increases in fuel prices, were the primary contributors to overall growth. Steady receipts from purchases made online also helped boost countywide use tax pool allocations.

After a long period of solid growth in new car sales, much of the upward movement within this group is now coming from leases rather than purchases. Corporate tax breaks approved by Congress in December 2017, are expected to have a positive impact on the industrial sector as businesses look to invest excess cash.

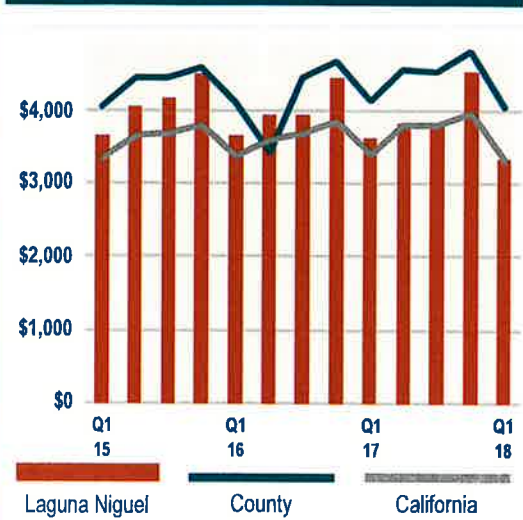
Supreme Court Ruling

On Thursday, June 21, 2018, the Supreme Court ruled in a 5-4 decision to require out-of-state online retailers to collect sales taxes on sales to in-state residents. The physical presence rule as defined by *Quill* is no longer a clear or easily applicable standard, and the online interstate marketplace was not the prevailing issue before the court in 1992.

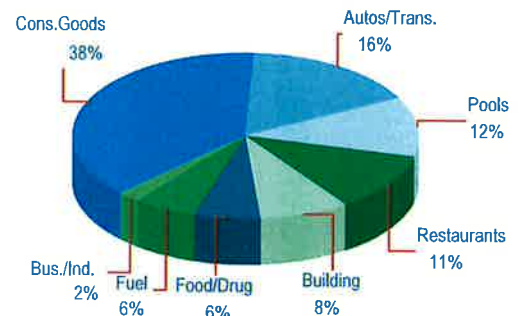
In California, numerous online retailers already collect and remit state and local taxes, including 2 of the 3 companies involved in this Supreme Court case (*Wayfair* and *Newegg*).

According to a study conducted by the California State Board of Equalization, the total revenue losses related to remote sellers for both businesses and household consumers were about \$1.453 billion in fiscal year 2016-17. Unpaid use tax liabilities in 2016-17 average \$60 per year for each California household, and California businesses average \$171 per year in unpaid use tax liabilities. The CDTFA is currently reviewing the court's opinion to determine next steps to support taxpayers.

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 Q1 '18*	Change	HdL State Change
Auctioneers	— CONFIDENTIAL —	—	47.7%
Building Materials	173.6	7.6%	3.8%
Casual Dining	91.0	13.8%	-2.0%
Contractors	24.9	26.8%	21.6%
Department Stores	— CONFIDENTIAL —	—	-35.1%
Discount Dept Stores	— CONFIDENTIAL —	—	2.8%
Drug Stores	34.5	-20.3%	-27.9%
Electronics/Appliance Stores	37.6	-3.7%	0.8%
Fast-Casual Restaurants	66.1	-3.4%	6.8%
Grocery Stores	98.1	-7.4%	1.9%
Home Furnishings	68.2	-7.8%	-1.0%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	-0.2%
Quick-Service Restaurants	104.6	-5.5%	-3.8%
Service Stations	138.9	-17.5%	4.6%
Specialty Stores	49.8	-10.2%	-10.0%
Total All Accounts	2,183.3	-7.8%	-1.8%
County & State Pool Allocation	291.9	-7.0%	-2.1%
Gross Receipts	2,475.2	-7.7%	-1.8%