

Q2 2018



Laguna Niguel Sales Tax *Update*

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

Laguna Niguel In Brief

Laguna Niguel's receipts from April through June were 5.0% 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 0.9%.

Missing and partial payments accounted for the decline in building materials, restaurants, grocery stores, specialty stores, sporting goods/bike stores and several categories of business-industry.

Double-up payments inflated results from department stores and the autos-transportation sector. 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

Albertsons	Hyundai Lease
Allen Cadillac GMC	Titling Trust
Allen Hyundai Of Laguna Niguel	In N Out Burger
Bed Bath & Beyond	Kohls
Campus Loft	McDonalds
Chevron	Mercedes Benz of Laguna Niguel
Chick Fil A	Nordstrom Rack
Circle K	Pavilions
Costco	Ralphs
CVS Pharmacy	Sepulveda Building Materials
Daimler Trust	Tucker Tire
Hobby Lobby	Verizon Wireless
Home Depot	Walmart

REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$10,234,151	\$10,001,271
County Pool	1,345,403	1,349,791
State Pool	5,784	5,556
Gross Receipts	\$11,585,338	\$11,356,618

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.

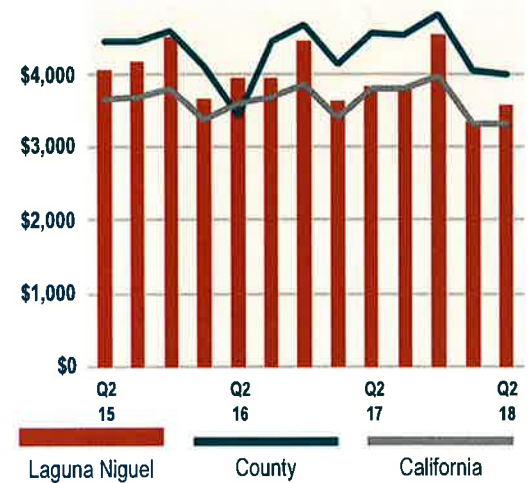
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates.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

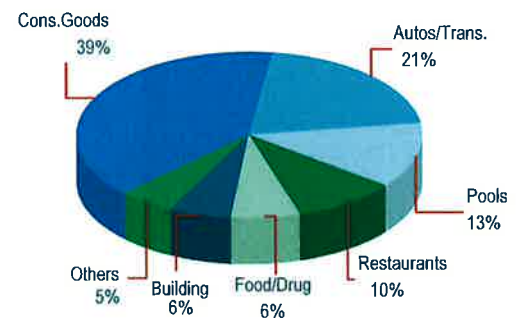
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly 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
Laguna Niguel This Quarter



LAGUNA NIGUEL TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Laguna Niguel Q2 '18*	Laguna Niguel Change	County Change	HdL State Change
Auto Lease	— CONFIDENTIAL —	—	62.1%	60.9%
Building Materials	133.8	-24.8%	-22.6%	-23.2%
Casual Dining	76.4	-16.6%	-13.9%	-12.6%
Department Stores	131.8	51.1%	20.2%	12.7%
Discount Dept Stores	— CONFIDENTIAL —	—	-10.9%	-13.5%
Drug Stores	43.3	-3.3%	-6.4%	-4.2%
Electronics/Appliance Stores	47.6	-19.0%	-1.3%	-5.1%
Family Apparel	24.2	5.4%	-23.3%	-27.2%
Fast-Casual Restaurants	59.0	-17.8%	-6.6%	-3.3%
Grocery Stores	102.9	-21.4%	-7.1%	-7.0%
Home Furnishings	79.3	4.4%	-20.3%	-21.7%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	-4.6%	-1.9%
Quick-Service Restaurants	103.0	-8.2%	-1.6%	-5.8%
Service Stations	— CONFIDENTIAL —	—	-31.3%	-26.4%
Specialty Stores	43.4	-26.9%	-8.7%	-4.6%
Total All Accounts	2,338.7	-6.8%	-11.5%	-12.2%
County & State Pool Allocation	332.9	9.6%	3.9%	5.5%
Gross Receipts	2,671.6	-5.0%	-9.8%	-10.1%