

Q4 2017



City of Aliso Viejo Sales Tax *Update*

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

Aliso Viejo In Brief

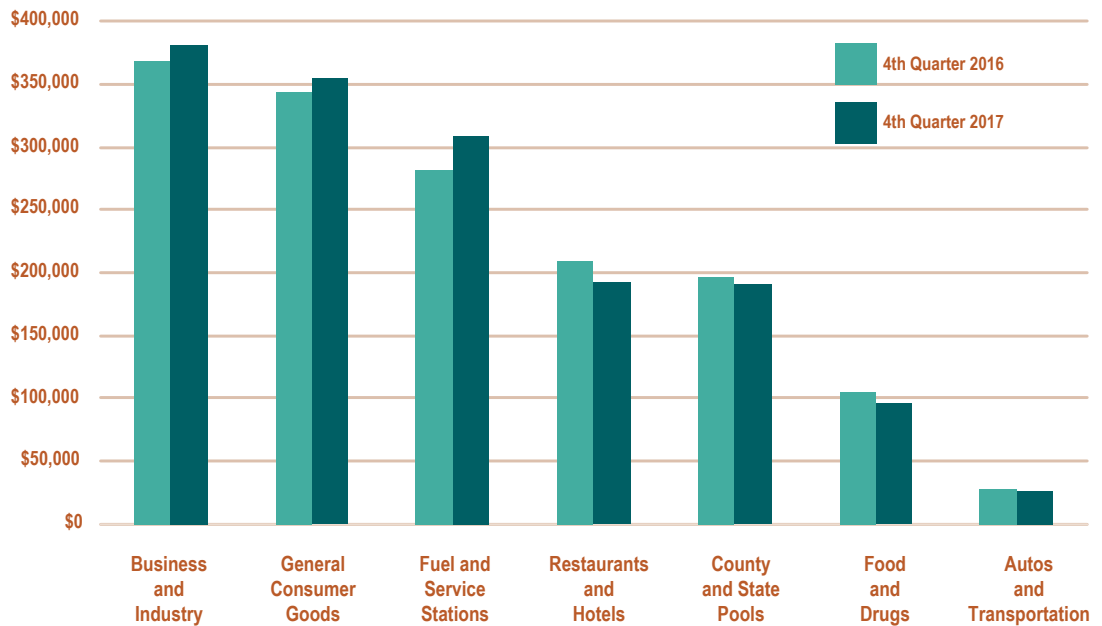
Aliso Viejo's receipts from October through December were 1.4% above the fourth sales period in 2016. Excluding reporting aberrations, actual sales were down 2.5%.

The City experienced a strong sales quarter for the fuel and service stations sector. A onetime payment and onetime accounting adjustments inflated results from the business and industry group.

The gains were offset by a decline in sales from office supplies/furniture and grocery stores. A business closeout reduced receipts from casual dining restaurants.

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

76	Mark Andy Inc
Aliso Creek Chevron	Metagenics
Aliso Creek Shell	Michaels Arts & Crafts
All Hands Car Wash/ Chevron	Petsmart
Barnes & Noble	Ralphs
Calhoun Vision	Shell
Circle K/Mobil	Stadium Brewing Company
CVS Pharmacy	Staples
Digital River	Stater Bros
eFuel	Target
El Dorado Hand Car Wash	TJ Maxx
Lasting Interior	Trader Joes
Lowes	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$4,061,720	\$4,392,951
County Pool	677,214	565,515
State Pool	2,389	643
Gross Receipts	\$4,741,324	\$4,959,110

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

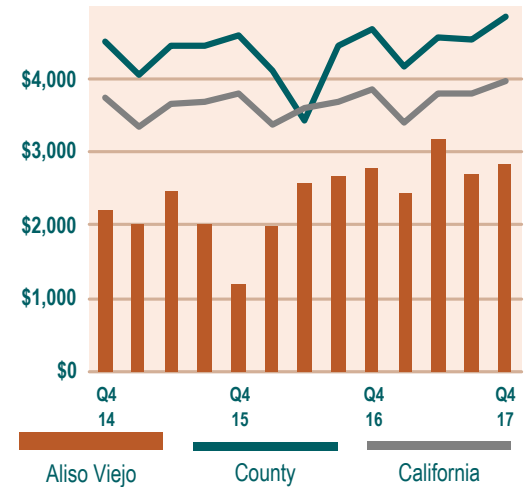
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state 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."

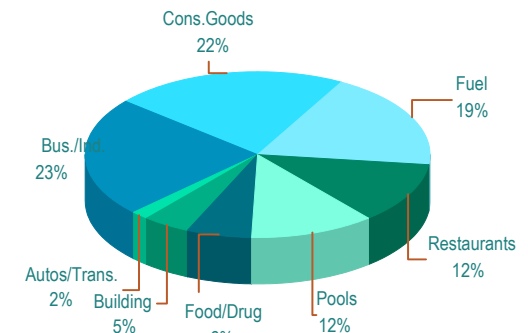
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

SALES PER CAPITA



REVENUE BY BUSINESS GROUP
Aliso Viejo This Quarter



ALISO VIEJO TOP 15 BUSINESS TYPES

Business Type	*In thousands of dollars			
	Aliso Viejo Q4 '17*	Aliso Viejo Change	County Change	HdL State Change
Building Materials	— CONFIDENTIAL —	—	11.1%	11.6%
Business Services	— CONFIDENTIAL —	—	-16.1%	2.2%
Casual Dining	66.0	-22.6%	4.8%	3.7%
Discount Dept Stores	— CONFIDENTIAL —	—	4.6%	4.1%
Drug Stores	— CONFIDENTIAL —	—	-9.2%	-10.9%
Drugs/Chemicals	— CONFIDENTIAL —	—	6.6%	3.1%
Electronics/Appliance Stores	31.8	24.5%	3.6%	5.8%
Family Apparel	— CONFIDENTIAL —	—	3.5%	2.1%
Fast-Casual Restaurants	61.1	8.5%	6.6%	9.3%
Grocery Stores	— CONFIDENTIAL —	—	-2.9%	-1.5%
Medical/Biotech	34.8	-23.8%	23.9%	4.9%
Petroleum Prod/Equipment	— CONFIDENTIAL —	—	29.0%	30.1%
Quick-Service Restaurants	41.9	-1.8%	7.3%	4.9%
Service Stations	133.3	-1.7%	7.8%	11.4%
Specialty Stores	23.3	-15.7%	4.4%	4.4%
Total All Accounts	1,433.1	1.9%	4.2%	4.0%
County & State Pool Allocation	191.3	-2.6%	-0.4%	0.8%
Gross Receipts	1,624.3	1.4%	3.6%	3.6%