CITY OF COSTA MESA
FINANCE DEPARTMENT
INTEROFFICE MEMORANDUM

TO: **DISTRIBUTION**

FROM: **KELLY TELFORD, FINANCE DIRECTOR**
DATE: **April 29, 2019**

SUBJECT: **SALES TAX INFORMATION – 4th Quarter (October 2018-December 2018)**

The attached schedules and graphs detail selected sales tax data for your information. These allocations were generated by sales of retailers during the period of October 1, 2018 through December 31, 2018. The schedules and graphs represent sales tax earned during the fourth quarter and received by the City during the period of January 1, 2019 through March 31, 2019. There is a three-month lag from the time the retailers make their payment to the California Department of Tax and Fee Administration to the time the City receives its sales tax allocations.

Costa Mesa's receipts from October through December were 8.3% above the fourth quarter sales period in 2017, significantly outperforming the State and regional trend.

Should you have any questions, please give me a call at extension 5243.

Kelly Telford
Finance Director

Attachments

Distribution:
- City Council Members (7)
- Planning Commissioners (5)
- Department Directors and Staff
- Finance and Pension Advisory Committee (10)
- Eileen Clifton-Benjamin, Chamber of Commerce

Q4 2018

City of Costa Mesa Sales Tax *Update*

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

Costa Mesa In Brief

Costa Mesa's receipts from October through December were 8.3% above the fourth sales period in 2017, significantly outperforming the State and regional trend.

The primary factor in this quarter's improvement was a surge in new car sales combined with the recent opening of a new dealership in town that further lifted results.

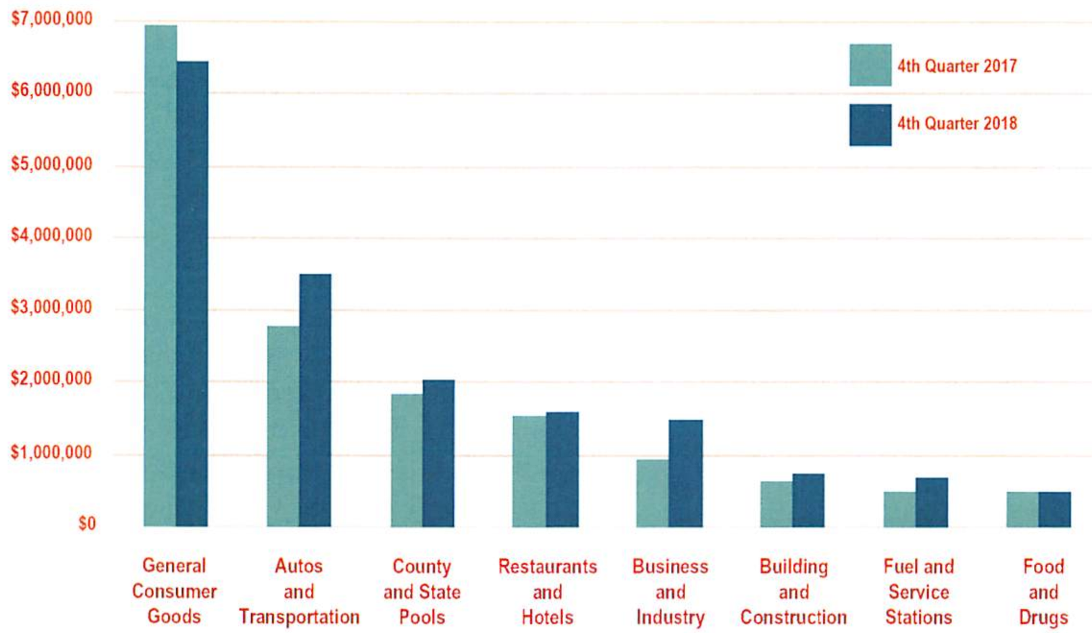
The relocation of a business-industrial vendor from a neighboring jurisdiction and a sales spike from an existing business-industrial vendor additionally contributed to the phenomenal quarter. Higher gasoline prices at the pump also lifted proceeds from local service stations.

The sale of family apparel, jewelry and other general consumer goods were additionally strong in the holiday quarter as the robust economy put consumers in a shopping mood.

Department store sales were artificially deflated by a payment error, however, which is expected to be corrected in a future quarter.

Net of aberrations, taxable sales for all of Orange County grew 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

ABC Bus
Apple
Best Buy
Bloomingdale's
Carmax
Cartier
Chanel
Chevron
Connell Chevrolet
Eurocar
Ganahl Lumber
Gucci
Hermes
Home Depot
IKEA
Louis Vuitton
Macys
Nordstrom
Orange Coast Chrysler Jeep Dodge Ram Fiat
Saks Fifth Avenue
Sears
South Coast Toyota
Suburban Buick GMC Cadillac
Target
Tesla Motors

Revenue Comparison

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

	2017-18	2018-19
Point-of-Sale	$26,067,753	$30,552,465
County Pool	3,462,256	4,153,648
State Pool	13,484	15,222
Gross Receipts	**$29,543,493**	**$34,721,335**

Published by HdL Companies in Spring 2019
www.hdlcompanies.com | 888.861.0220

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.

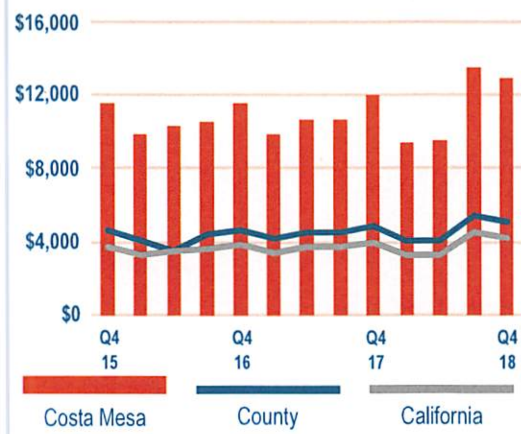
Retailers are not planning the end of physical stores which continue to be important for personalized experiences and shopping entertainment. However, the shifting trends encourage reduced square footage with less overhead to better compete on prices and provide more intimate shopping encounters.

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."

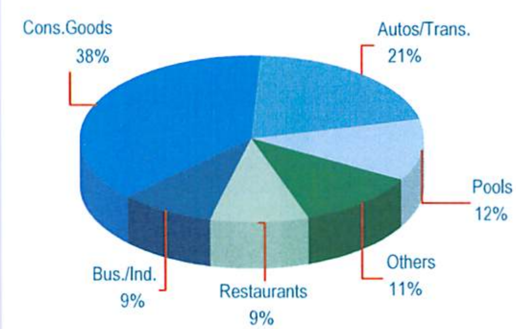
With more companies using the internet to sell directly to customers from their warehouses, the trend also provides jurisdictions whose populations aren't adequate in size to support large scale retail to focus on industrial development for sales tax as well as jobs.

SALES PER CAPITA



REVENUE BY BUSINESS GROUP

Costa Mesa This Quarter



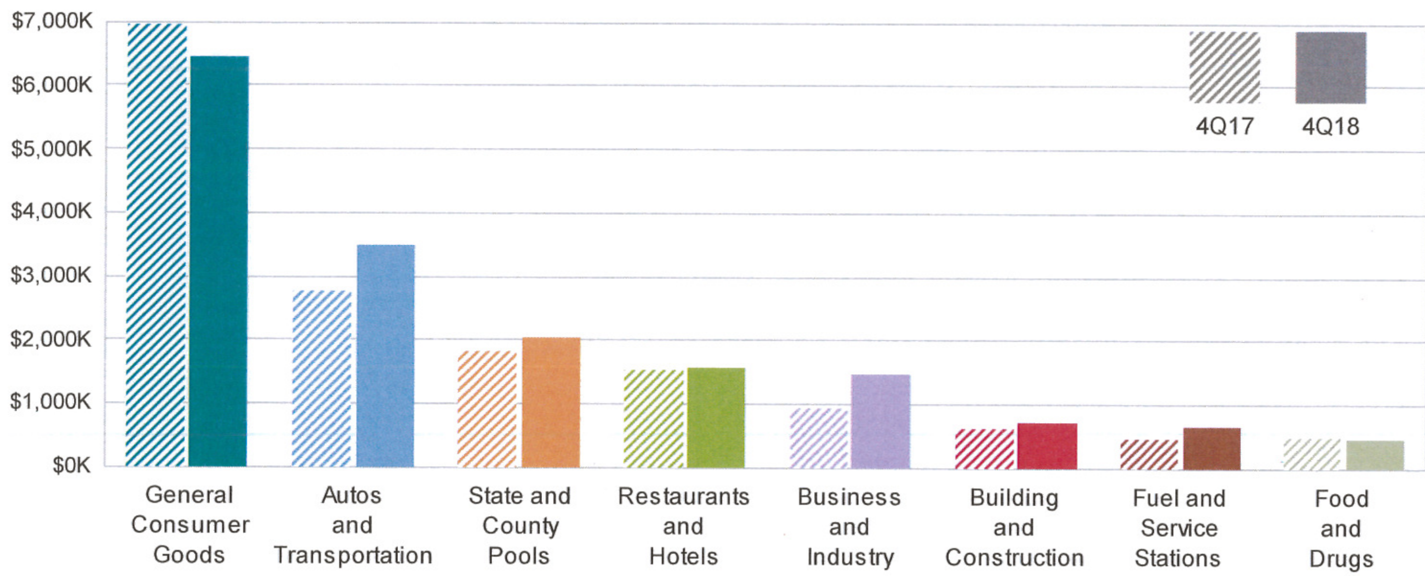
COSTA MESA TOP 15 BUSINESS TYPES

**In thousands of dollars*	Costa Mesa		County	HdL State
Business Type	**Q4 '18***	**Change**	**Change**	**Change**
Building Materials	399.3	13.9%	6.6%	5.5%
Business Services	247.7	133.6%	18.4%	8.1%
Casual Dining	674.8	7.6%	1.5%	2.4%
Department Stores	1,254.2	-18.5%	-10.0%	-3.4%
Electronics/Appliance Stores	683.6	4.1%	0.9%	-1.6%
Family Apparel	1,401.6	4.6%	-0.7%	0.5%
Home Furnishings	774.7	-5.0%	-0.4%	0.8%
Jewelry Stores	537.9	-17.4%	-0.3%	-4.2%
New Motor Vehicle Dealers	2,152.2	42.5%	14.1%	5.8%
Quick-Service Restaurants	388.6	1.3%	3.4%	6.6%
Service Stations	677.0	36.7%	31.0%	28.4%
Specialty Stores	373.1	-19.4%	-10.2%	-10.6%
Trailers/Auto Parts	— CONFIDENTIAL —		34.2%	-4.0%
Used Automotive Dealers	772.6	2.5%	2.7%	5.6%
Women's Apparel	590.3	-2.4%	1.2%	-3.6%
Total All Accounts	**14,973.2**	**8.0%**	**7.0%**	**7.0%**
County & State Pool Allocation	**2,048.1**	**10.7%**	**9.6%**	**8.6%**
Gross Receipts	**17,021.2**	**8.3%**	**7.3%**	**7.2%**

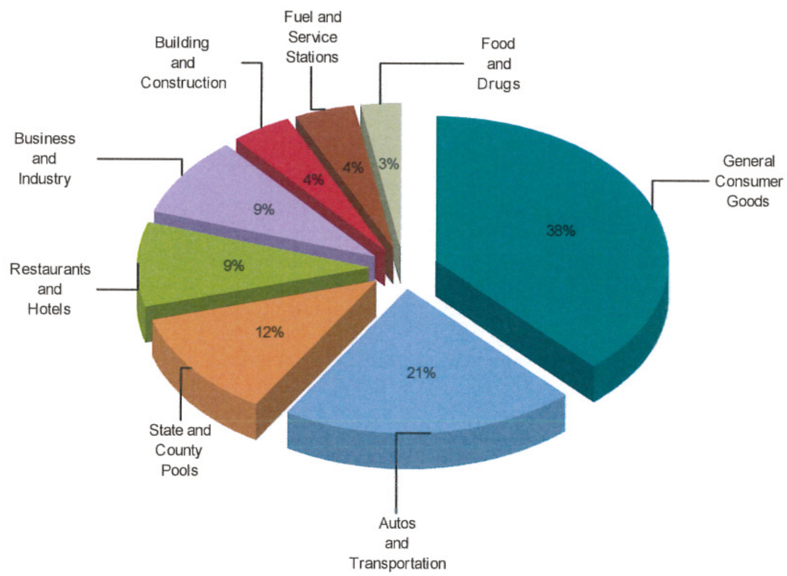
CITY OF COSTA MESA
MAJOR INDUSTRY GROUPS

Major Industry Group	Count	4Q18	4Q17	$ Change	% Change
General Consumer Goods	7,373	6,461,822	6,945,728	(483,906)	-7.0%
Autos and Transportation	745	3,501,952	2,786,597	715,355	25.7%
State and County Pools	-	2,048,075	1,849,952	198,123	10.7%
Restaurants and Hotels	797	1,590,171	1,540,498	49,673	3.2%
Business and Industry	2,970	1,501,068	947,746	553,321	58.4%
Building and Construction	301	743,086	643,030	100,056	15.6%
Fuel and Service Stations	45	678,431	496,554	181,877	36.6%
Food and Drugs	234	484,407	506,261	(21,854)	-4.3%
Transfers & Unidentified	234	12,215	(5,420)	17,636	325.4%
Total	12,699	17,021,226	15,710,947	1,310,280	8.3%

4Q17 Compared To 4Q18



4Q18 Percent of Total



STATE OF CALIFORNIA - HDL DATABASE

MAJOR INDUSTRY GROUPS - 13 YEAR HISTORY

ADJUSTED FOR ECONOMIC DATA

Sales Tax by Major Industry Group

General Consumer Goods
Count: 547,433

Autos And Transportation
Count: 83,667

Business And Industry
Count: 337,150

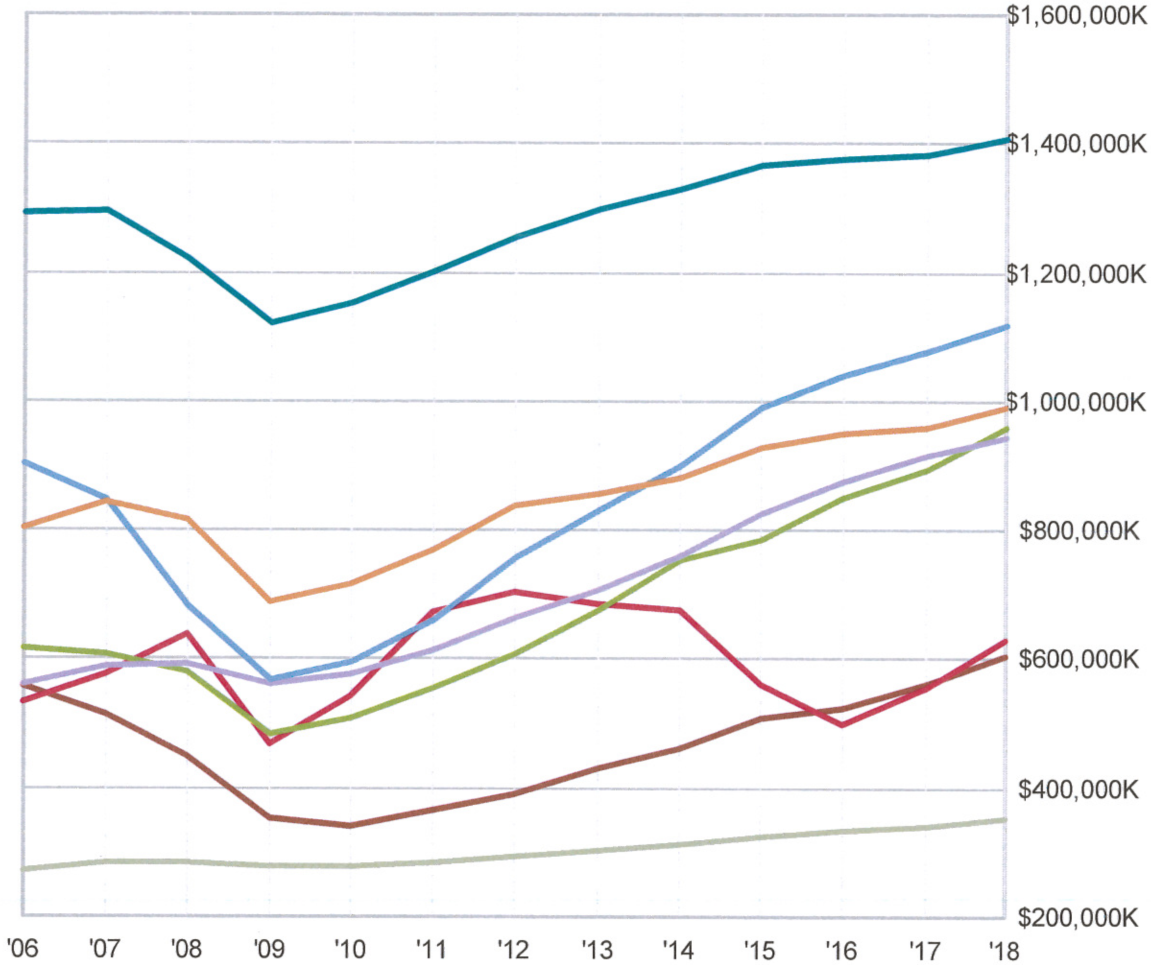
State & County Pools

Restaurants And Hotels
Count: 124,254

Fuel And Service Stations
Count: 13,907

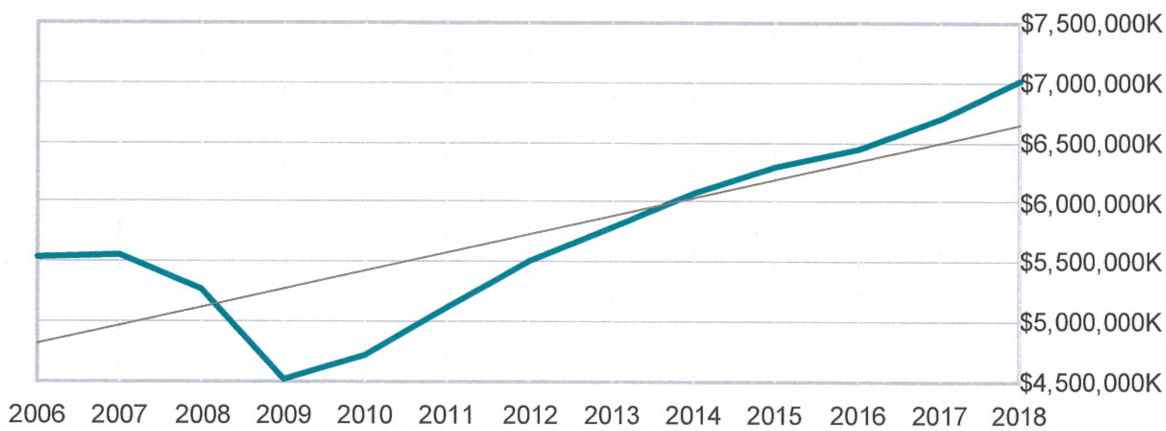
Building And Construction
Count: 40,964

Food And Drugs
Count: 46,014



Agency Trend

13 Year Trend: +38.2%

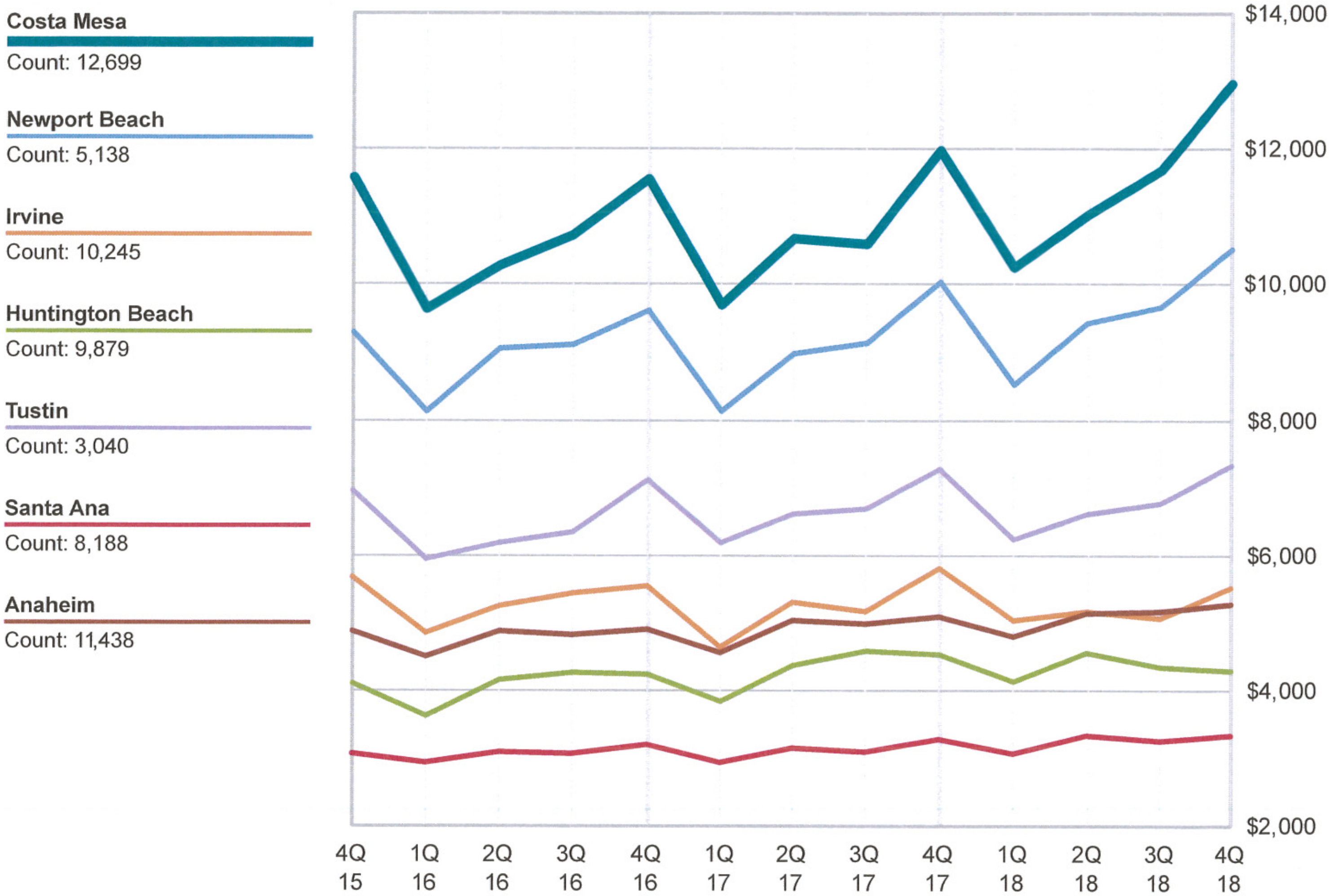


Periods shown reflect the period in which the sales occurred - Point of Sale

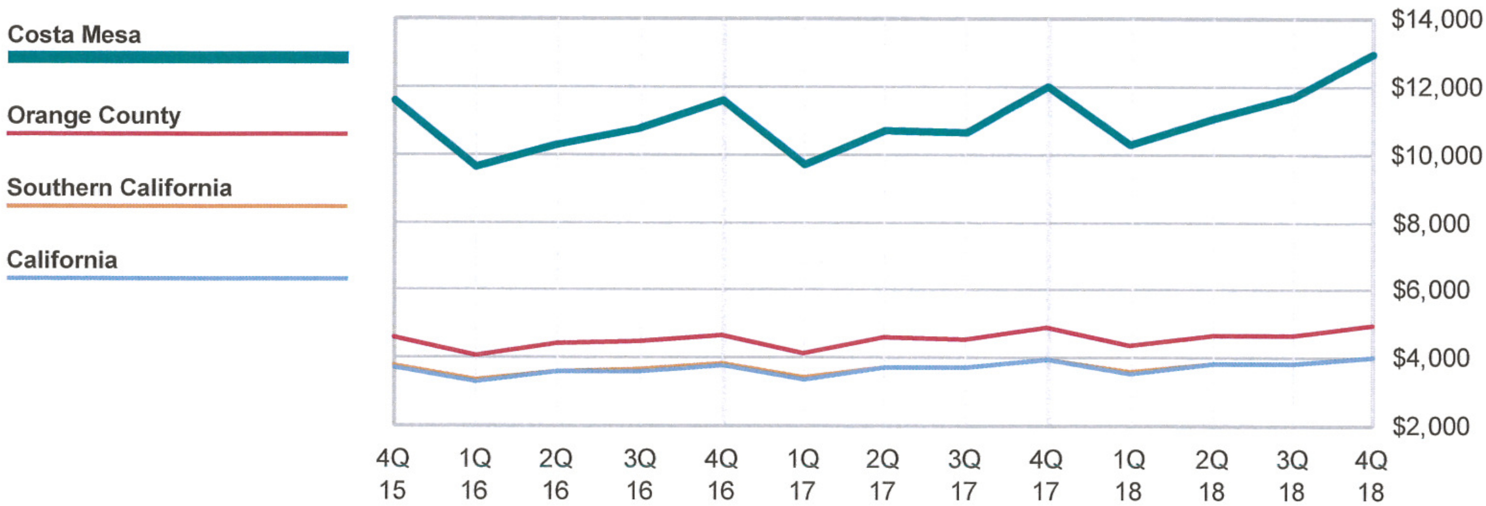
CITY OF COSTA MESA
AGENCY COMPARISONS

ADJUSTED FOR ECONOMIC DATA

Per Capita Sales



Per Capita Sales



Periods shown reflect the period in which the sales occurred - Point of Sale

CITY OF COSTA MESA

REGIONAL MALLS - 13 YEAR HISTORY

ADJUSTED FOR ECONOMIC DATA

Geo areas

Sales Tax by Geographic areas

South Coast Plaza
Count: 347

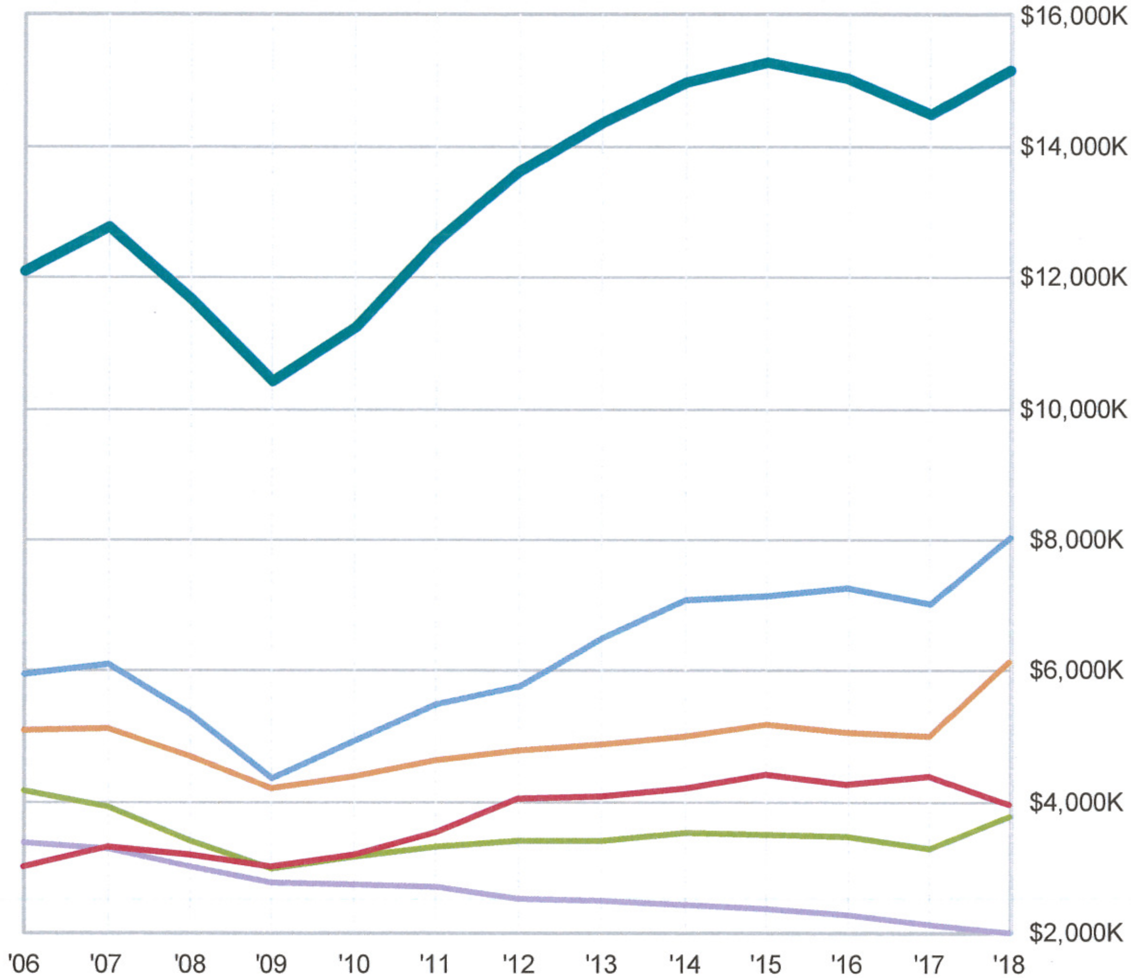
Fashion Island
Count: 409

Brea Mall
Count: 232

Shops At Mission Viejo
Count: 209

Westminster Mall
Count: 178

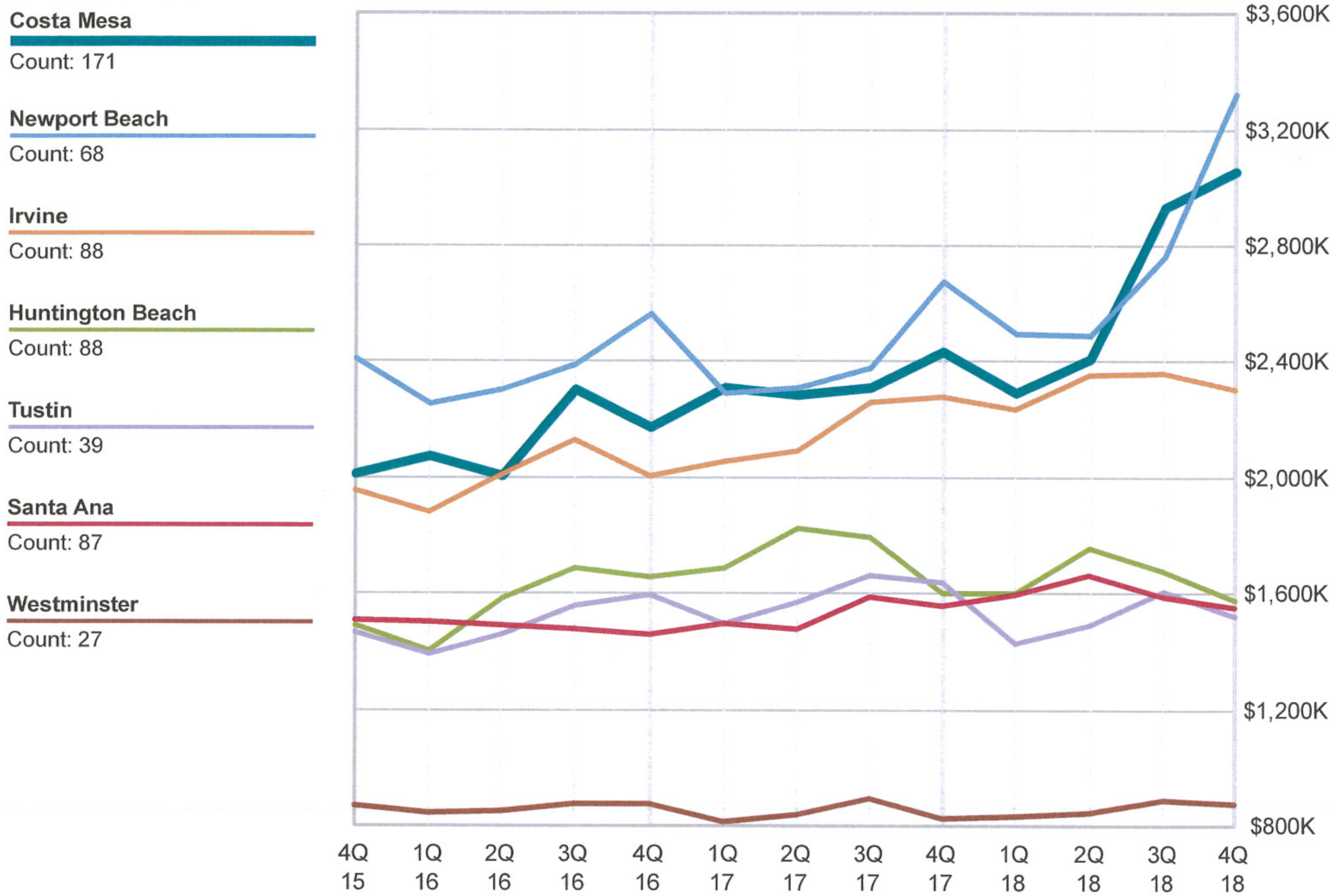
Irvine Spectrum Center
Count: 268



Periods shown reflect the period in which the sales occurred - Point of Sale

ADJUSTED FOR ECONOMIC DATA

CITY OF COSTA MESA
AUTO SALES & LEASES



Periods shown reflect the period in which the sales occurred - Point of Sale

ORANGE COUNTY ALL AGENCIES

SALES TAX TRENDS FOR ALL AGENCIES - 4Q 2018 SALES

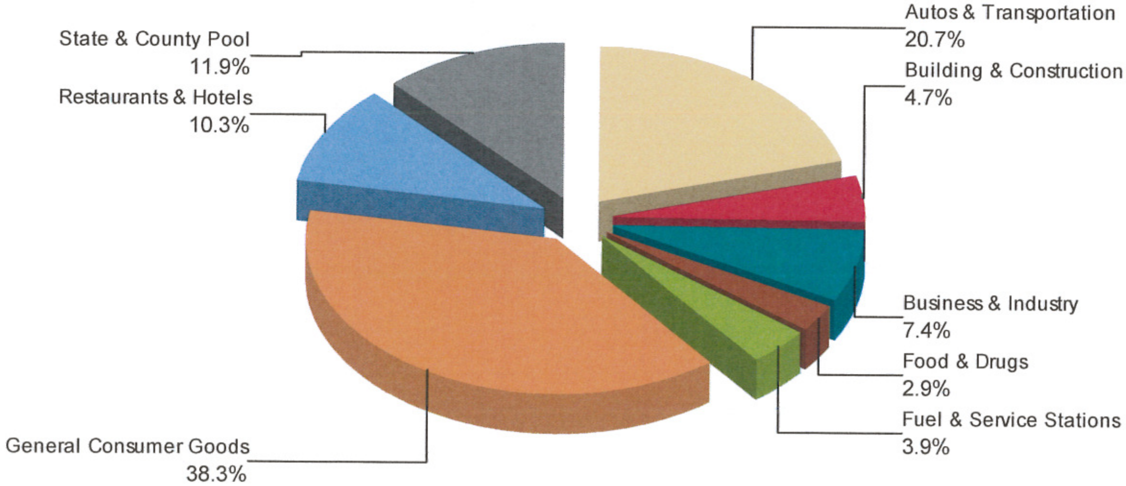
Agency allocations reflect "point of sale" receipts

Agency Name	Count	Current Year* 4Q 2018	Prior Year* 4Q 2017	Share of County Pool	Actual Receipts % Change	Adjusted* % Change
Brea	3,013	5,747,639	4,759,078	3.5%	+ 20.8%	+ 13.3%
Buena Park	2,665	5,737,695	3,890,914	3.5%	+ 47.5%	+ 12.5%
Mission Viejo	3,232	4,763,698	4,289,851	2.9%	+ 11.0%	+ 12.0%
Garden Grove	4,944	5,431,692	4,907,153	3.3%	+ 10.7%	+ 9.7%
Cypress	3,519	2,976,413	2,867,865	1.8%	+ 3.8%	+ 9.6%
Orange Co. Uninc	2,918	1,766,666	1,828,325	1.1%	- 3.4%	+ 8.9%
Costa Mesa	12,699	14,973,152	13,860,995	9.0%	+ 8.0%	+ 8.3%
La Habra	1,780	2,705,160	2,569,410	1.6%	+ 5.3%	+ 5.9%
Newport Beach	5,138	8,963,259	8,657,941	5.4%	+ 3.5%	+ 5.8%
Fullerton	4,666	5,542,112	5,142,601	3.3%	+ 7.8%	+ 4.5%
Anaheim	11,438	19,211,065	18,281,085	11.6%	+ 5.1%	+ 3.6%
Yorba Linda	1,865	1,871,928	1,821,138	1.1%	+ 2.8%	+ 2.6%
Rancho Santa Margarita	1,290	1,646,348	1,539,112	1.0%	+ 7.0%	+ 2.4%
Santa Ana	8,188	11,661,726	11,107,617	7.0%	+ 5.0%	+ 2.0%
Dana Point	1,518	1,491,887	1,186,469	0.9%	+ 25.7%	+ 2.0%
San Juan Capistrano	1,493	2,109,588	2,008,638	1.3%	+ 5.0%	+ 1.7%
Aliso Viejo	1,429	1,326,861	1,433,061	0.8%	- 7.4%	+ 0.9%
Tustin	3,040	6,235,366	5,942,679	3.8%	+ 4.9%	+ 0.6%
Fountain Valley	1,907	2,861,245	2,799,790	1.7%	+ 2.2%	+ 0.0%
Seal Beach	776	977,435	977,012	0.6%	+ 0.0%	- 1.5%
Irvine	10,245	16,505,573	16,057,614	10.0%	+ 2.8%	- 1.5%
Laguna Woods	246	192,379	200,964	0.1%	- 4.3%	- 2.3%
Lake Forest	2,838	3,716,895	3,778,784	2.2%	- 1.6%	- 2.4%
Placentia	1,429	1,517,154	1,517,274	0.9%	+ 0.0%	- 2.5%
Westminster	2,797	3,968,106	4,012,730	2.4%	- 1.1%	- 2.6%
San Clemente	2,785	2,306,050	2,273,398	1.4%	+ 1.4%	- 2.7%
Laguna Beach	2,142	1,213,331	1,178,537	0.7%	+ 3.0%	- 3.9%
Laguna Niguel	1,961	2,852,221	2,975,930	1.7%	- 4.2%	- 4.4%
Huntington Beach	9,879	8,901,223	9,079,963	5.4%	- 2.0%	- 5.0%
Los Alamitos	759	762,731	699,383	0.5%	+ 9.1%	- 5.5%
Stanton	997	899,637	926,455	0.5%	- 2.9%	- 6.3%
Laguna Hills	1,539	1,266,570	1,422,935	0.8%	- 11.0%	- 9.4%
Orange	5,899	12,873,139	10,012,275	7.8%	+ 28.6%	- 13.8%
Villa Park	157	48,534	64,989	0.0%	- 25.3%	- 17.0%
La Palma	382	594,260	728,431	0.4%	- 18.4%	- 20.9%
Totals	121,573	165,618,738	154,800,395	100.0%	+ 7.0%	+ 1.7%
Orange Pool	16,323	22,573,913	20,615,961		+ 9.5%	+ 2.6%

CITY TO STATE COMPARISON
CALENDAR YEAR 2018

ADJUSTED FOR ECONOMIC DATA

City of Costa Mesa



HdL Client Database Statewide Totals