



**CITY OF COSTA MESA  
FINANCE DEPARTMENT  
INTEROFFICE MEMORANDUM**

**TO:** DISTRIBUTION

**FROM:** KELLY TELFORD, FINANCE DIRECTOR

**DATE:** October 5, 2018

**SUBJECT:** SALES TAX INFORMATION – 2nd Quarter (April 2018 – June 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 April 1, 2018 through June 30, 2018. The schedules and graphs represent sales tax earned during the second quarter and received by the City during the period of July 1, 2018 through September 30, 2018. 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 April through June were 8.8% below the second sales period in 2017 though the negative result was caused by the State's transition to a new software and reporting system that delayed the processing of thousands of payments statewide. Sizeable allocations remain outstanding for most categories, particularly home furnishings, used cars, family apparel, specialty stores and restaurants. Absent this and other aberrations actual sales were up 0.6%.

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

A handwritten signature in cursive script, appearing to read "Kelly Telford", written over a horizontal line.

Kelly Telford  
Finance Director

Attachments

Distribution:

City Council Members (5)  
Planning Commissioners (5)  
Department Directors and Staff  
Finance and Pension Advisory Committee (11)  
Eileen Clifton-Benjamin, Chamber of Commerce

# Q2 2018



# City of Costa Mesa Sales Tax *Update*

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

## Costa Mesa In Brief

Costa Mesa's receipts from April through June were 8.8% below the second sales period in 2017 though the negative result was caused by the State's transition to a new software and reporting system that delayed the processing of thousands of payments statewide. Sizeable allocations remain outstanding for most categories, particularly home furnishings, used cars, family apparel, specialty stores and restaurants. Absent this and other aberrations, actual sales were up 0.6%.

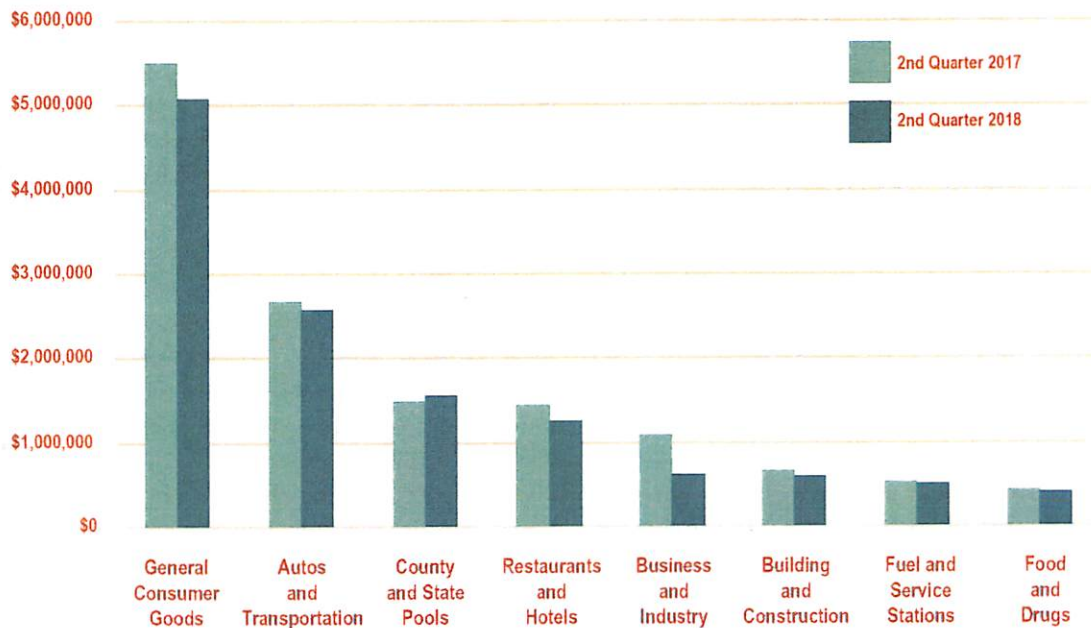
The addition of a new car dealer was a major contributor to this quarter's growth.

Electronics-appliance store allocations may have been inflated by a suspected misallocation, but revenue was also driven higher by a product refresh that stimulated consumer demand. Department stores were artificially boosted by the receipt of delayed payments from the prior quarter.

Business-industrial returns were negatively impacted by onetime allocations, company operational changes and late payments.

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

Apple	Louis Vuitton
Autonation Honda Costa Mesa	Macy's
Best Buy	Nordstrom
Bloomingdale's	Orange Coast Chrysler Jeep Dodge
California Beemers	Orange Coast Nissan
Cartier	Pirch
Chanel	South Coast Toyota
Circle K	Suburban Buick GMC Cadillac
Connell Chevrolet	Target
Eurocar	Tesla Motors
Ganahl Lumber	Theodore Robins Ford
Gucci	
Hermes	
Home Depot	

### REVENUE COMPARISON

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

	2016-17	2017-18
Point-of-Sale	\$49,105,729	\$47,979,779
County Pool	6,450,240	6,473,348
State Pool	27,265	26,975
<b>Gross Receipts</b>	<b>\$55,583,235</b>	<b>\$54,480,102</b>

**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.

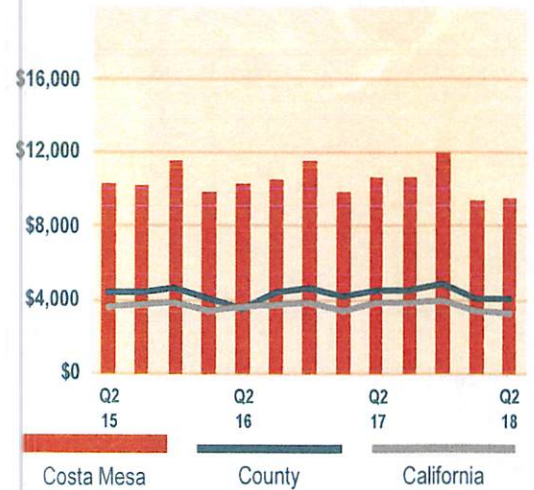
Despite the current debates, analysts believe that the impact on prices and sales will be minimal through the remainder of 2018-19 as most major retailers have already imported their inventory for the holiday season and are attempting to rush spring inventories through customs ahead of the new 5% rates.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

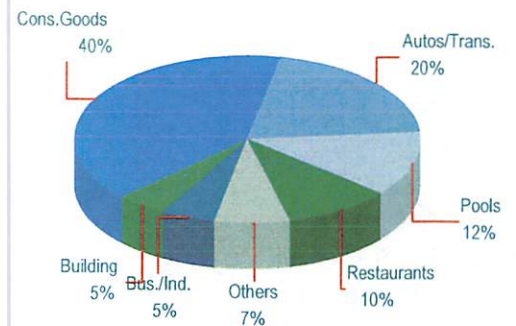
The key concern for analysts projecting 2019-20 tax revenues will be how the federal government refines its trade policies and the impact on sales and use tax revenues. Although higher prices generate more sales tax from individual purchases, they also potentially reduce the number of purchases, particularly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

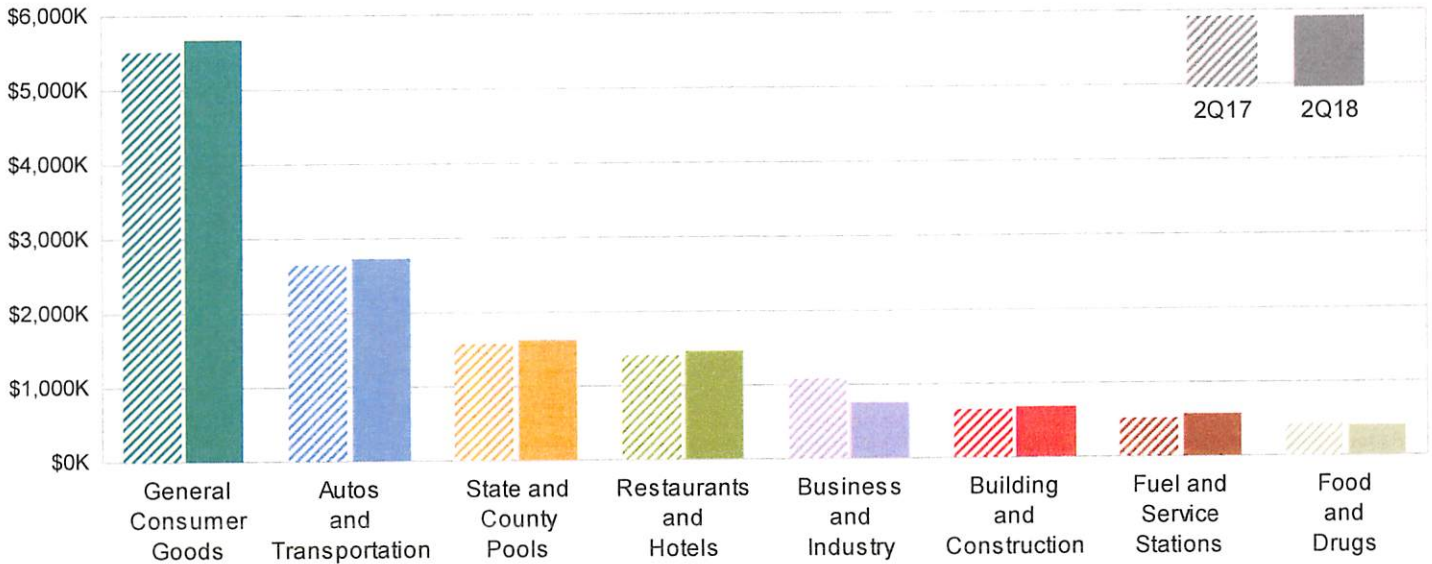


**COSTA MESA TOP 15 BUSINESS TYPES**

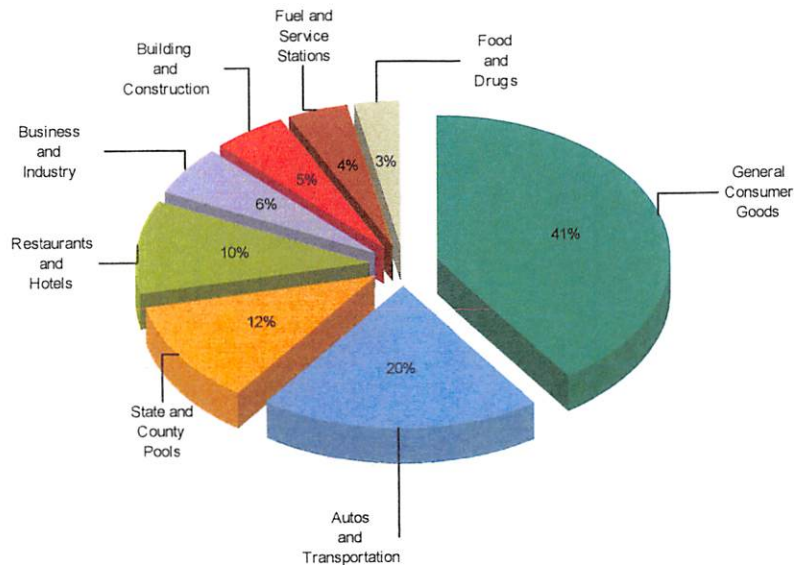
Business Type	*In thousands of dollars			
	Costa Mesa Q2 '18*	Costa Mesa Change	County Change	HdL State Change
Auto Lease	249.8	11.9%	62.1%	60.9%
Building Materials	293.3	-23.1%	-22.6%	-23.2%
Casual Dining	504.4	-14.8%	-14.0%	-12.7%
Department Stores	1,388.7	13.4%	20.2%	12.7%
Electronics/Appliance Stores	568.8	25.2%	-1.3%	-5.1%
Family Apparel	869.3	-10.4%	-23.3%	-27.2%
Grocery Stores	198.3	-9.6%	-7.1%	-7.0%
Home Furnishings	398.7	-44.7%	-20.3%	-21.7%
Jewelry Stores	401.2	-15.1%	-15.5%	-18.3%
New Motor Vehicle Dealers	1,482.9	14.8%	-4.6%	-2.0%
Quick-Service Restaurants	341.6	-6.0%	-1.7%	-6.0%
Service Stations	496.9	-3.0%	-31.3%	-26.6%
Specialty Stores	364.4	-24.5%	-8.6%	-4.5%
Used Automotive Dealers	509.7	-38.0%	-43.5%	-41.5%
Women's Apparel	522.6	7.3%	-8.2%	-12.9%
<b>Total All Accounts</b>	<b>11,014.9</b>	<b>-10.5%</b>	<b>-11.5%</b>	<b>-12.2%</b>
<b>County &amp; State Pool Allocation</b>	<b>1,567.7</b>	<b>5.2%</b>	<b>3.9%</b>	<b>5.5%</b>
<b>Gross Receipts</b>	<b>12,582.6</b>	<b>-8.8%</b>	<b>-9.8%</b>	<b>-10.1%</b>

<u>Major Industry Group</u>	<u>Count</u>	<u>2Q18</u>	<u>2Q17</u>	<u>\$ Change</u>	<u>% Change</u>
General Consumer Goods	7,837	5,659,431	5,506,254	153,177	2.8%
Autos and Transportation	789	2,720,850	2,664,267	56,583	2.1%
State and County Pools	-	1,631,330	1,575,954	55,376	3.5%
Restaurants and Hotels	767	1,462,007	1,416,701	45,306	3.2%
Business and Industry	2,931	775,671	1,096,083	(320,412)	-29.2%
Building and Construction	323	692,024	661,076	30,948	4.7%
Fuel and Service Stations	45	580,097	518,202	61,895	11.9%
Food and Drugs	242	427,858	436,478	(8,620)	-2.0%
Transfers & Unidentified	311	1,746	(4,001)	5,747	143.6%
<b>Total</b>	<b>13,245</b>	<b>13,951,015</b>	<b>13,871,015</b>	<b>80,000</b>	<b>0.6%</b>

**2Q17 Compared To 2Q18**



**2Q18 Percent of Total**



Sales Tax by Major Industry Group

**General Consumer Goods**

Count: 7,837

**Autos And Transportation**

Count: 789

**State & County Pools**

**Restaurants And Hotels**

Count: 767

**Business And Industry**

Count: 2,931

**Building And Construction**

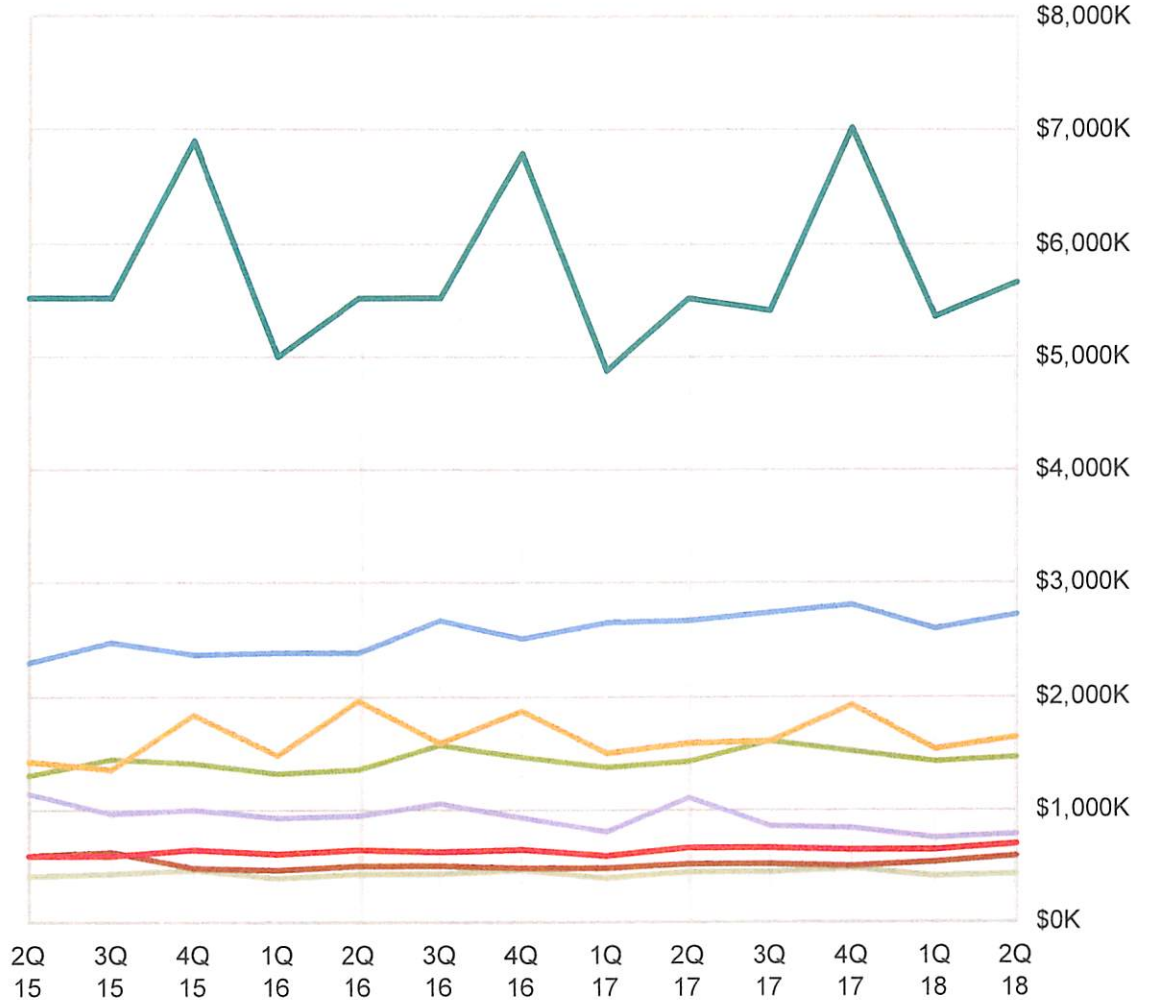
Count: 323

**Fuel And Service Stations**

Count: 45

**Food And Drugs**

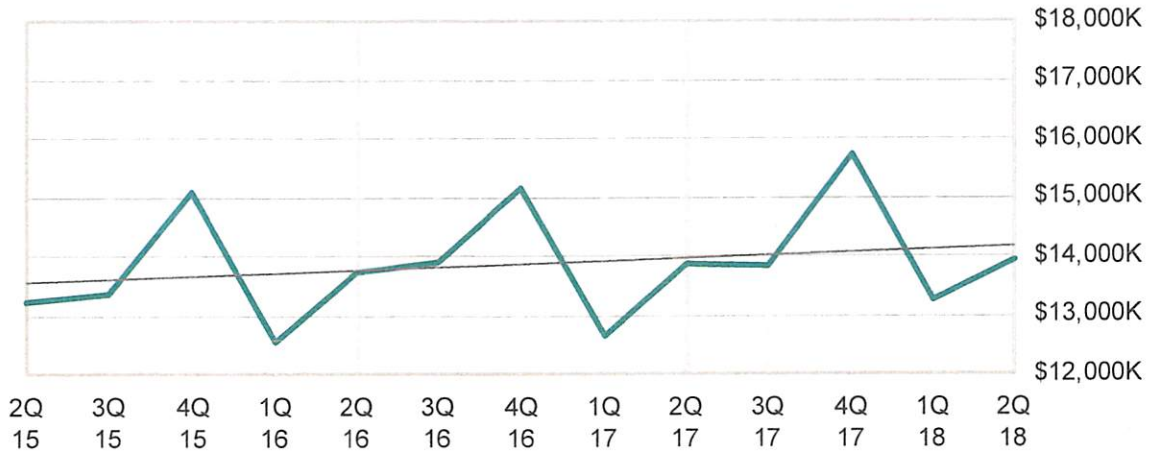
Count: 242



Agency Trend

**Costa Mesa**

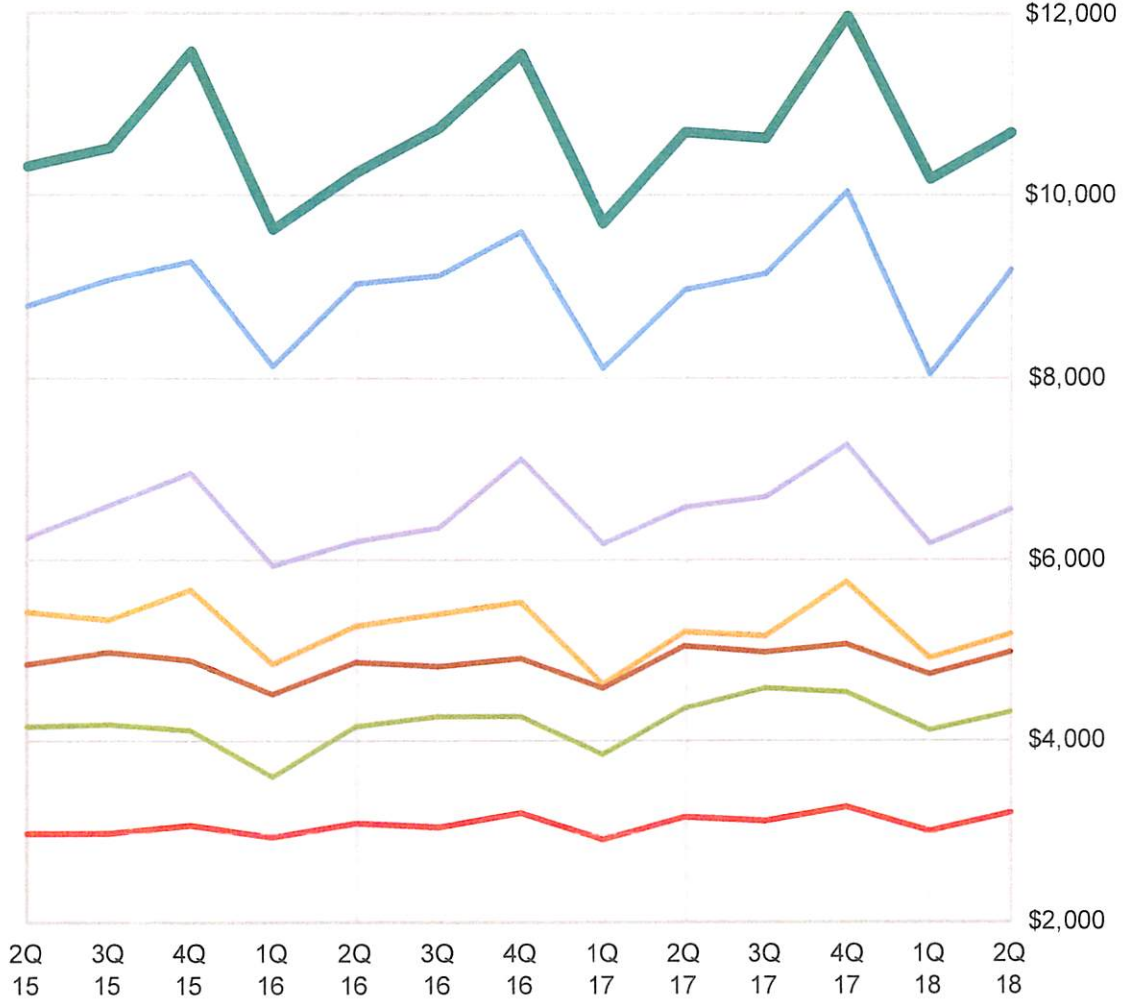
13 Quarter Trend: +4.5%



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

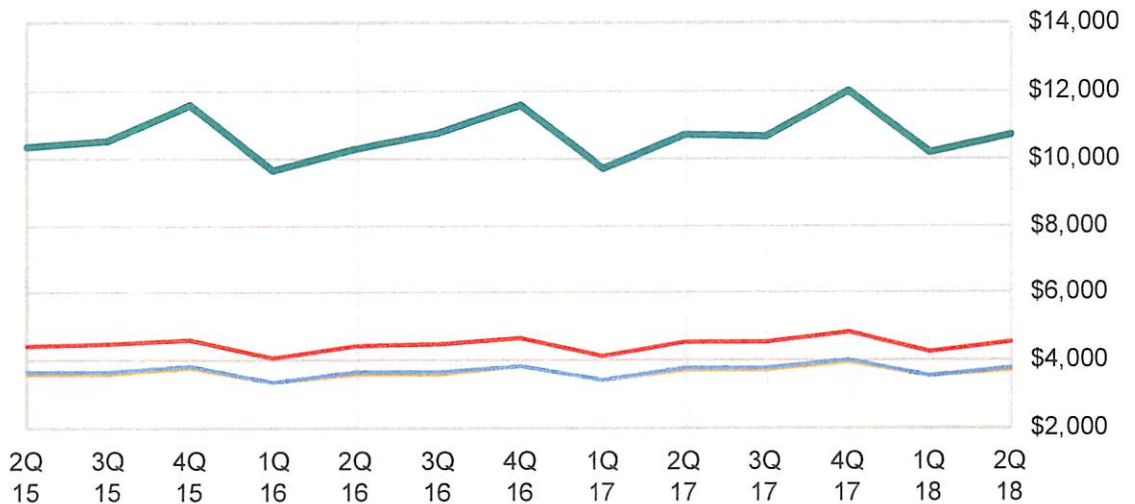
Per Capita Sales

- Costa Mesa**  
Count: 13,245
- Newport Beach**  
Count: 5,248
- Irvine**  
Count: 10,125
- Huntington Beach**  
Count: 10,097
- Tustin**  
Count: 3,011
- Santa Ana**  
Count: 8,475
- Anaheim**  
Count: 11,944



Per Capita Sales

- Costa Mesa**
- Orange County**
- Southern California**
- California**



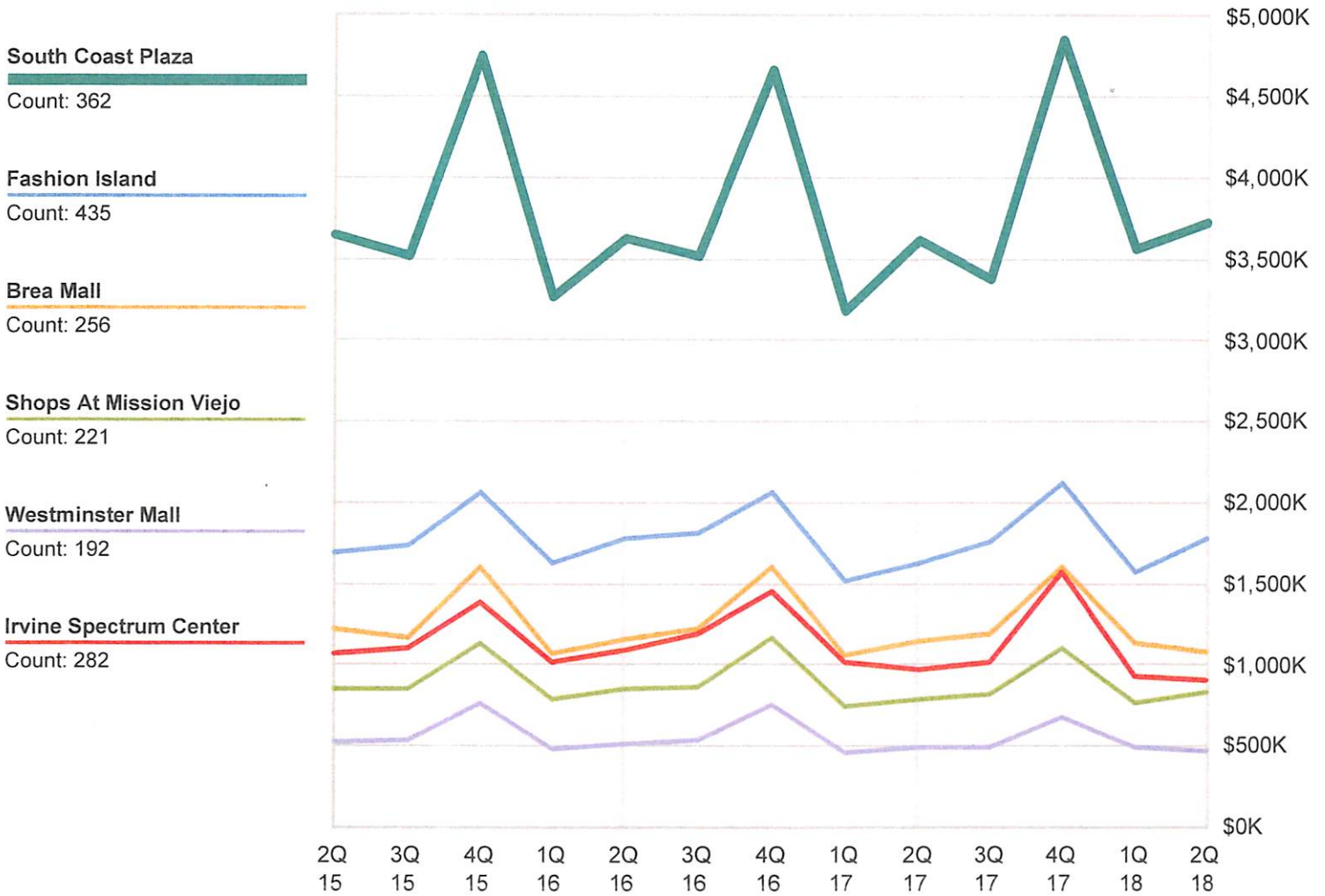
Periods shown reflect the period in which the sales occurred - Point of Sale

# CITY OF COSTA MESA

## REGIONAL RETAIL CENTERS - 13 QUARTER HISTORY

Geo areas

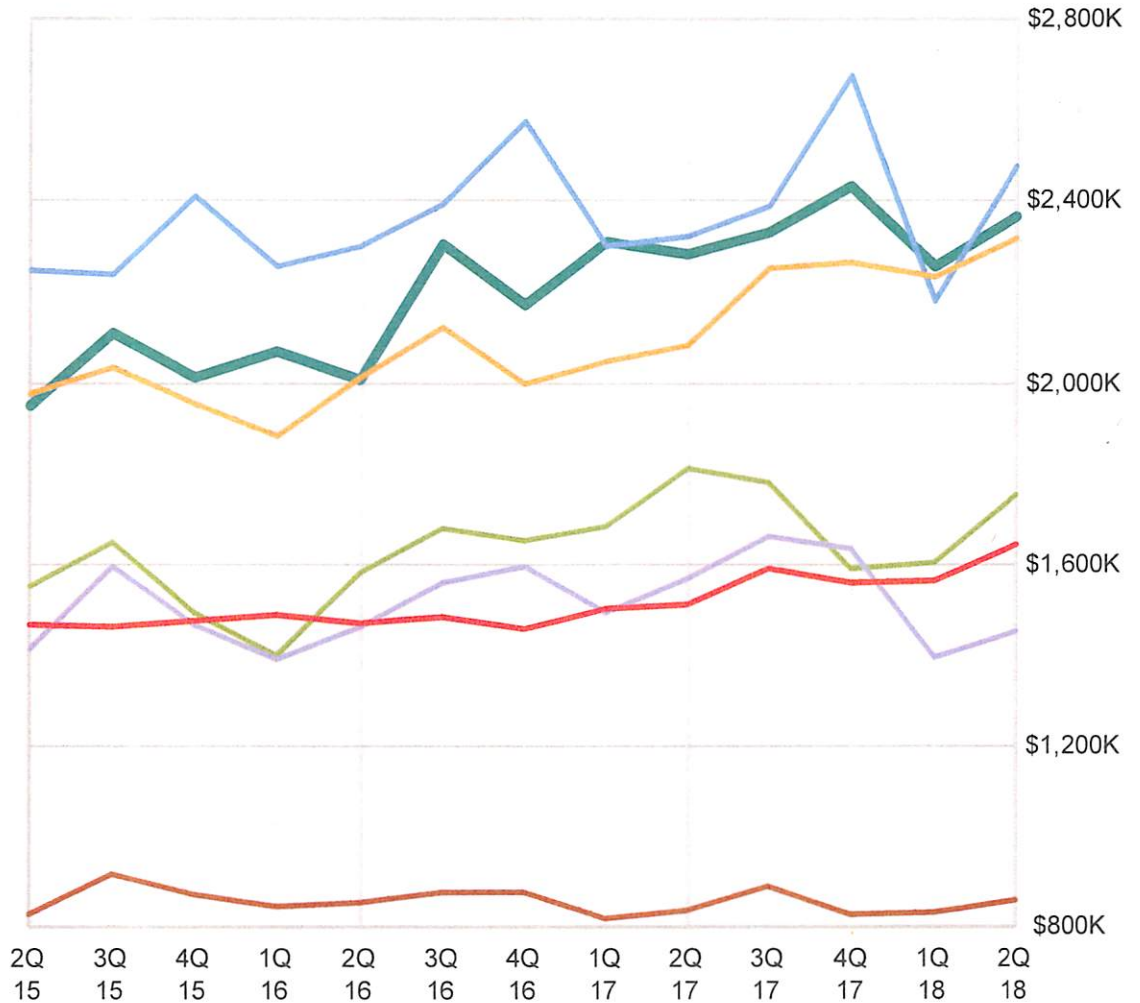
Sales Tax by Geographic areas



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

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- Costa Mesa**  
Count: 176
- Newport Beach**  
Count: 67
- Irvine**  
Count: 81
- Huntington Beach**  
Count: 83
- Tustin**  
Count: 38
- Santa Ana**  
Count: 93
- Westminster**  
Count: 29



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





# ORANGE COUNTY ALL AGENCIES

## SALES TAX TRENDS FOR ALL AGENCIES - 2Q 2018 SALES

Agency allocations reflect "point of sale" receipts

Agency Name	Count	Current Year* 2Q 2018	Prior Year* 2Q 2017	Share of County Pool	Actual Receipts % Change	Adjusted* % Change
Orange Co. Uninc	3,069	1,727,988	1,774,129	1.3%	- 2.6%	+ 11.6%
Buena Park	2,666	4,487,756	4,727,532	3.5%	- 5.1%	+ 10.7%
Laguna Beach	2,205	1,051,648	1,252,662	0.8%	- 16.0%	+ 6.8%
Newport Beach	5,248	7,983,520	7,498,596	6.2%	+ 6.5%	+ 3.7%
San Juan Capistrano	1,520	1,854,979	1,943,084	1.4%	- 4.5%	+ 3.5%
Yorba Linda	1,844	1,522,978	1,567,435	1.2%	- 2.8%	+ 3.1%
Fountain Valley	1,931	2,423,809	2,707,941	1.9%	- 10.5%	+ 2.8%
Irvine	10,125	11,261,992	14,276,050	8.7%	- 21.1%	+ 2.8%
Seal Beach	769	829,195	930,448	0.6%	- 10.9%	+ 2.3%
Mission Viejo	3,241	3,633,355	3,763,110	2.8%	- 3.4%	+ 2.2%
Santa Ana	8,475	9,527,762	10,611,522	7.4%	- 10.2%	+ 1.5%
Laguna Woods	261	113,038	209,503	0.1%	- 46.0%	+ 1.4%
Rancho Santa Margarita	1,332	1,455,707	1,528,009	1.1%	- 4.7%	+ 1.3%
Los Alamitos	782	657,578	722,799	0.5%	- 9.0%	+ 1.3%
Dana Point	1,546	1,100,159	1,297,114	0.9%	- 15.2%	+ 0.8%
Westminster	2,857	3,285,576	3,767,874	2.5%	- 12.8%	+ 0.5%
La Habra	1,762	1,961,704	2,278,118	1.5%	- 13.9%	+ 0.4%
San Clemente	2,817	1,801,786	2,092,081	1.4%	- 13.9%	+ 0.4%
Garden Grove	5,027	3,999,443	4,750,820	3.1%	- 15.8%	+ 0.3%
Costa Mesa	13,245	11,014,900	12,304,377	8.5%	- 10.5%	+ 0.2%
Laguna Hills	1,534	1,167,989	1,295,998	0.9%	- 9.9%	+ 0.1%
Laguna Niguel	1,978	2,338,749	2,508,299	1.8%	- 6.8%	+ 0.0%
Tustin	3,011	4,917,290	5,547,134	3.8%	- 11.4%	- 0.3%
Huntington Beach	10,097	8,345,592	8,915,409	6.5%	- 6.4%	- 0.9%
Orange	5,931	8,563,363	9,337,729	6.6%	- 8.3%	- 1.1%
Anaheim	11,944	15,660,765	17,920,749	12.1%	- 12.6%	- 1.2%
Fullerton	4,760	3,848,941	4,705,941	3.0%	- 18.2%	- 1.4%
Placentia	1,438	1,285,975	1,484,800	1.0%	- 13.4%	- 2.5%
Aliso Viejo	1,425	1,244,960	1,600,938	1.0%	- 22.2%	- 3.0%
Cypress	3,540	2,068,309	2,495,614	1.6%	- 17.1%	- 3.2%
Brea	3,045	3,869,750	4,537,714	3.0%	- 14.7%	- 3.8%
La Palma	385	584,236	667,912	0.5%	- 12.5%	- 4.7%
Stanton	987	742,542	960,774	0.6%	- 22.7%	- 6.3%
Lake Forest	2,808	2,887,510	3,960,931	2.2%	- 27.1%	- 7.6%
Villa Park	176	48,471	63,496	0.0%	- 23.7%	- 22.1%
<b>Totals</b>	<b>123,781</b>	<b>129,269,312</b>	<b>146,006,642</b>	<b>100.0%</b>	<b>- 11.5%</b>	<b>+ 0.6%</b>
<b>Orange Pool</b>	<b>15,968</b>	<b>18,331,650</b>	<b>17,759,184</b>		<b>+ 3.2%</b>	<b>+ 2.4%</b>