



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

TO: DISTRIBUTION

FROM: CAROL MOLINA, FINANCE DIRECTOR

DATE: AUGUST 24, 2020

SUBJECT: SALES TAX INFORMATION – 1ST QUARTER (JANUARY 2020 – MARCH 2020)

Attached you will find the Quarterly Receipts for First Quarter Sales (January thru March 2020). The sales tax receipts for this first quarter were impacted by the March 2020 stay-at-home orders by the Governor as a result of COVID-19. Governor Newsom shortly thereafter allowed the deadline extension of Sales Tax receipts, providing relief to California Small Businesses a 90-day extension in state and local taxes. On April 2, 2020, Governor Newsom announced a "bridge loan" of up to \$50,000 for small businesses in California, with a 12-month reprieve of state sales tax. These executive orders provided much needed relief to Costa Mesa small businesses, however, it did impact the City's sales tax receipts. Thankfully, the State did experience a surge of online purchases, positioning the City well to recoup some of the anticipated Sales Tax loss. However, until the Second Quarter Sales Tax results are analyzed, the City will not fully know the impacts of COVID-19 on the City's sales tax receipts for FY 2019/20.

To further complicate the sales tax impact in FY 2019/20, municipalities across the State received sales tax disbursements significantly higher than anticipated in the month of May. HDL, the City's Sales Tax Consultant, assumes that the disbursement could be double or higher than they should have been. The City just received the second quarter true-up payment from CDTFA (California Department of Tax and Fee Administration), demonstrating that the May disbursement most likely included an overpayment. Staff continues work with HDL to obtain further information as it relates to the City's sales tax performance. Finally, staff continues to review its cash flow status and revenue receipts diligently to ensure fiscal sustainability during these unprecedented times.

Please feel free to reach out to me directly if you have any questions.

Carol Molina
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

Q1 2020



City of Costa Mesa Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2020)

Costa Mesa In Brief

Costa Mesa's receipts from January through March were 26.2% below the first sales period in 2019. However, tax payment deferrals offered by the State has temporarily delayed actual receipts. Once estimated payments are incorporated into the data and reporting aberrations excluded, actual sales were still down 9.3%.

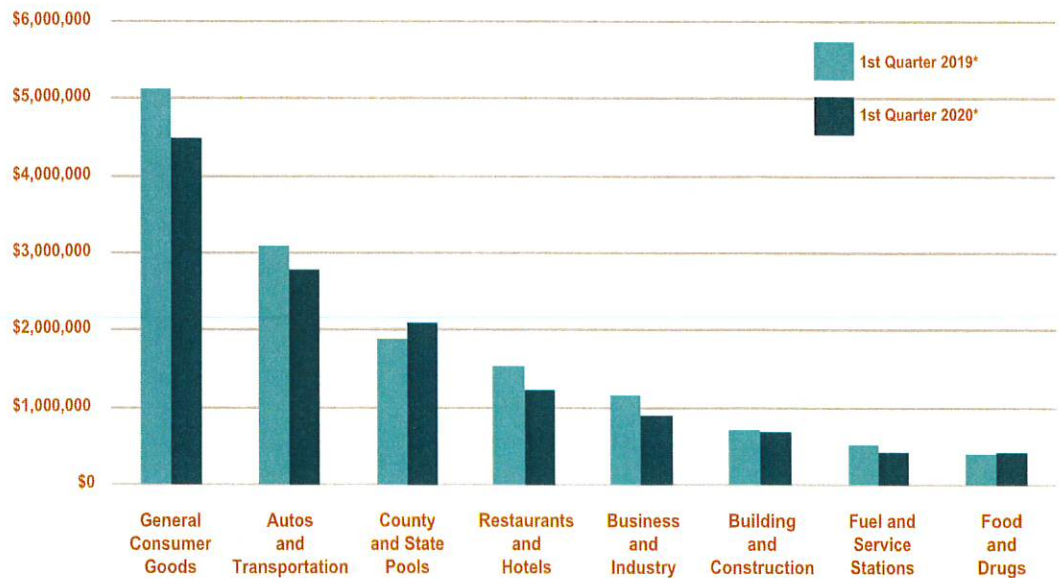
This quarter is the first negatively impacted by the economic shutdown resulting from Covid-19 and the shelter-in-place directive which began in March 2020. General consumer goods and restaurants were the most immediately hindered, however new auto dealer results were also adversely affected.

The business-industrial sector, which benefitted from one-time allocations in the prior year, did not experience the same dynamic in the current period.

Continued new tax revenue from online sales by out-of-state retailers due to the enactment of AB147 and increased sales due to the shutdown, boosted results from the countywide use tax pool, helping partially offset the decline.

Net of aberrations, taxable sales for all of Orange County declined 4.4% over the comparable time period; the Southern California region was down 4.1%.

SALES TAX BY MAJOR BUSINESS GROUP



*Allocation aberrations have been adjusted to reflect sales activity

TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Apple	Louis Vuitton
Audi Fletcher Jones	Macys
Best Buy	Nordstrom
Bloomingdale's	Officexpress
Carmax	Orange Coast
Cartier	Chrysler Jeep
Chanel	Dodge Ram Fiat
Connell Chevrolet	South Coast Toyota
Eurocar	Suburban Buick
Ganahl Lumber Company	GMC Cadillac
Gucci	Target
Hermes	Tesla Motors
Home Depot	Theodore Robins
IKEA	Ford
	Tourneau

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date (Q3 to Q1)

	2018-19	2019-20
Point-of-Sale	\$44,233,528	\$38,109,570
County Pool	6,141,823	6,960,476
State Pool	22,938	21,198
Gross Receipts	\$50,398,289	\$45,091,244

Statewide Results

With stay at home/non-essential business restrictions in place during the last two weeks of the quarter, local one cent tax revenues for the state overall, were 18.8% lower than January to March of 2019. Taxpayer relief programs accounted for much of the decline with receipts down roughly 3.1% after factoring for payment deferrals and other accounting anomalies.

Severe drops in auto sales, general consumer goods, service stations and restaurants were largely offset by new revenue from implementation of the Wayfair v. South Dakota decision that now requires out-of-state retailers to collect and remit Californian's sales and use tax. Other offsets included a surge in online shopping that boosted receipts from the county use tax allocation pools and from online retailers who maintain and ship their inventory from within California.

The food/drug sector also showed strong gains as did many home supply, dollar and discount stores that remained open during the shutdown.

New Challenges & Opportunities

Current indicators suggest that overall tax receipts for the April thru June sales period will bottom out at 27% below the second quarter of 2019. The speed of the rebound in sales activity will be dependent on the availability of adequate testing, treatment therapies and ultimately a vaccine. Until then, physical distancing, COVID-19 protocols and supply chain disruptions will create limitations on some operating capacities and the return to work of all employees. Health fears, discounts and liquidation sales may also keep sales tax revenues below pre-pandemic levels until solutions are in place.

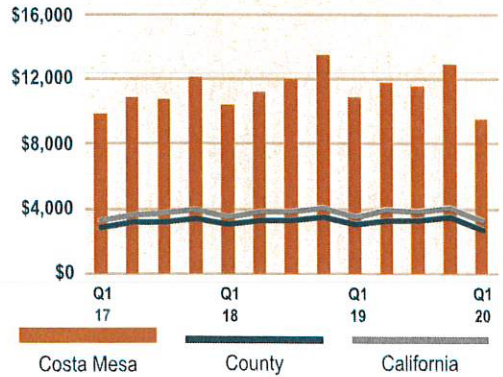
Regardless of when full recovery does occur, reports are that some elements of the economy will be permanently altered. Generation of future tax revenues may require rethinking of local economic strategies.

Over expansion, excessive debt and consumer shifts to online shopping were already resulting in bankruptcies with estimates of up to 25,000 brick-and-mortar store closings by the end of 2020. "Touch and feel" shopping is not going away but retailers see an evolution where in-store shopping is more leisure/recreational oriented with smaller stores offering more show-rooming and delivery/pick-up services. The smaller footprints and lifestyle emphasis offer opportunities to reinstate downtowns and neighborhood centers as economic/social gathering places.

The Pandemic's capture of new online customers and the growing trend of manufacturers and entrepreneurs with new concepts to bypass physical stores and sell directly to the consumer also expands options for agencies without large market populations to generate sales tax through industrial development.

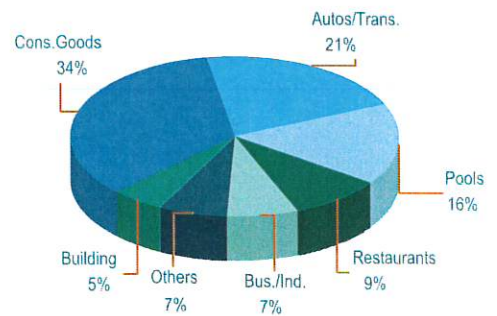
Finally, the Pandemic's disruption of supply chains has also accelerated growing dissatisfaction with overseas arrangements and some reshoring will occur which offers opportunities to leverage a city's existing business base to attract compatible support industries.

SALES PER CAPITA*



*Allocation aberrations have been adjusted to reflect sales activity

REVENUE BY BUSINESS GROUP
Costa Mesa This Quarter*



*Allocation aberrations have been adjusted to reflect sales activity

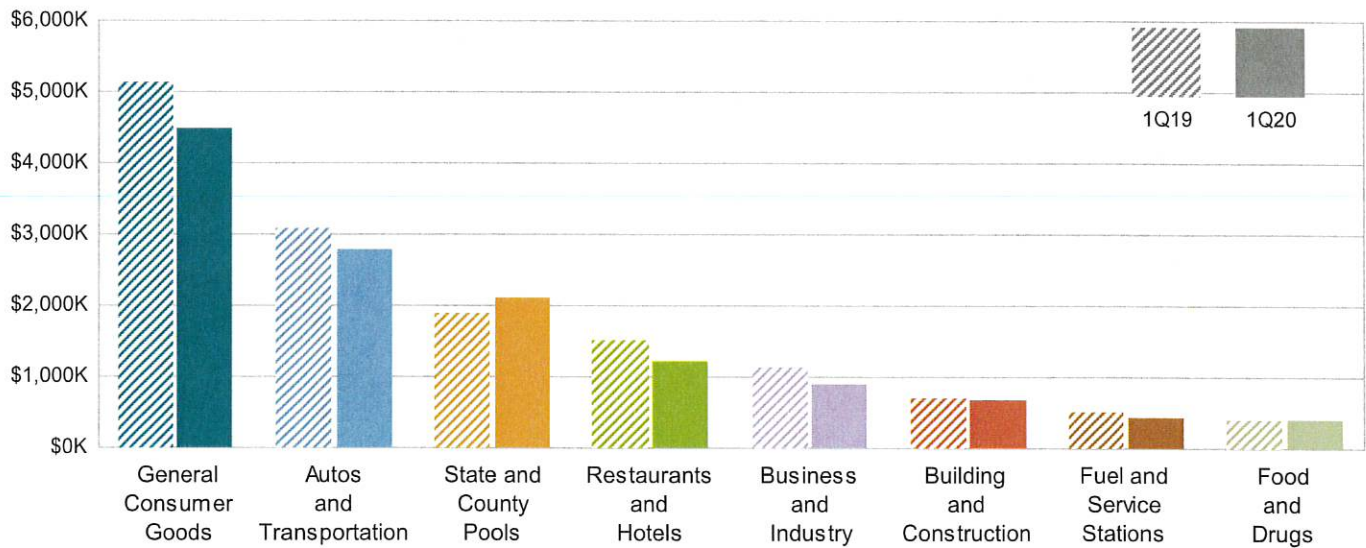
COSTA MESA TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	Costa Mesa	County	HdL State	
	Q1 '20*	Change	Change	Change
Building Materials	387.3	-2.6%	-1.4%	3.0%
Casual Dining	536.8	-17.8%	-18.8%	-18.8%
Department Stores	594.5	-32.8%	-33.6%	-34.7%
Electronics/Appliance Stores	497.9	-7.5%	-13.6%	-18.0%
Family Apparel	1,045.1	-12.6%	-15.6%	-21.1%
Grocery Stores	223.4	9.2%	11.7%	11.8%
Home Furnishings	597.5	-13.6%	-12.1%	-12.9%
Jewelry Stores	548.3	42.6%	19.4%	-3.0%
New Motor Vehicle Dealers	1,376.8	-12.1%	-13.0%	-10.6%
Plumbing/Electrical Supplies	181.0	7.2%	-0.5%	1.5%
Quick-Service Restaurants	328.7	-7.8%	-5.5%	-8.5%
Service Stations	434.3	-16.3%	-12.4%	-9.5%
Specialty Stores	305.5	-10.5%	-13.0%	-10.1%
Used Automotive Dealers	932.2	-5.4%	-13.3%	-12.7%
Women's Apparel	387.4	-15.6%	-24.1%	-31.6%
Total All Accounts	10,977.5	-12.4%	-9.9%	-7.3%
County & State Pool Allocation	2,111.9	11.1%	21.5%	22.4%
Gross Receipts	13,089.4	-9.3%	-4.4%	-3.0%

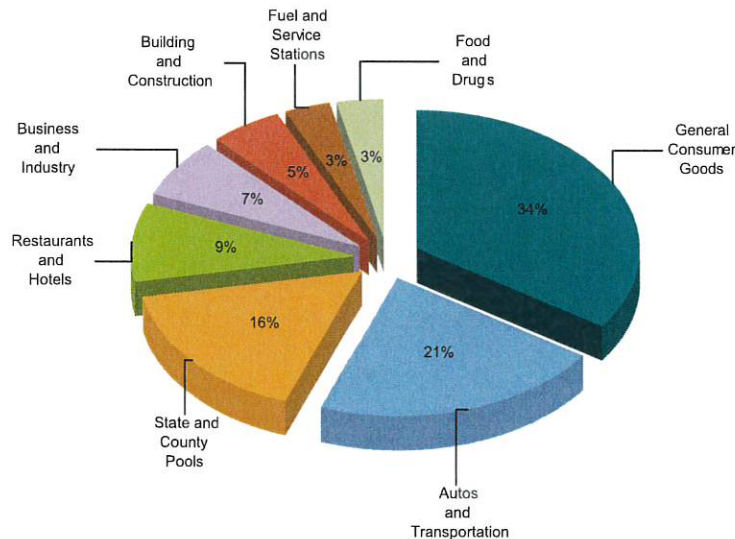
** Accounting aberrations such as late payments, fund transfers, and audit adjustments have been adjusted to reflect the quarter in which the sales occurred.

Major Industry Group	Count	1Q20	1Q19	\$ Change	% Change
General Consumer Goods	7,051	4,491,287	5,126,232	(634,944)	-12.4%
Autos and Transportation	702	2,793,407	3,095,995	(302,588)	-9.8%
State and County Pools	-	2,112,032	1,900,781	211,251	11.1%
Restaurants and Hotels	799	1,227,737	1,524,078	(296,341)	-19.4%
Business and Industry	2,950	901,776	1,146,305	(244,530)	-21.3%
Building and Construction	282	692,865	701,582	(8,717)	-1.2%
Fuel and Service Stations	45	436,295	520,501	(84,206)	-16.2%
Food and Drugs	217	429,308	410,649	18,659	4.5%
Transfers & Unidentified	207	4,830	6,401	(1,571)	-24.5%
Total	12,253	13,089,536	14,432,523	(1,342,987)	-9.3%

1Q19 Compared To 1Q20



1Q20 Percent of Total





CITY OF COSTA MESA

MAJOR INDUSTRY GROUPS - 13 QUARTER HISTORY

Sales Tax by Major Industry Group

General Consumer Goods

Count: 7,051

Autos And Transportation

Count: 702

State & County Pools

Restaurants And Hotels

Count: 799

Business And Industry

Count: 2,950

Building And Construction

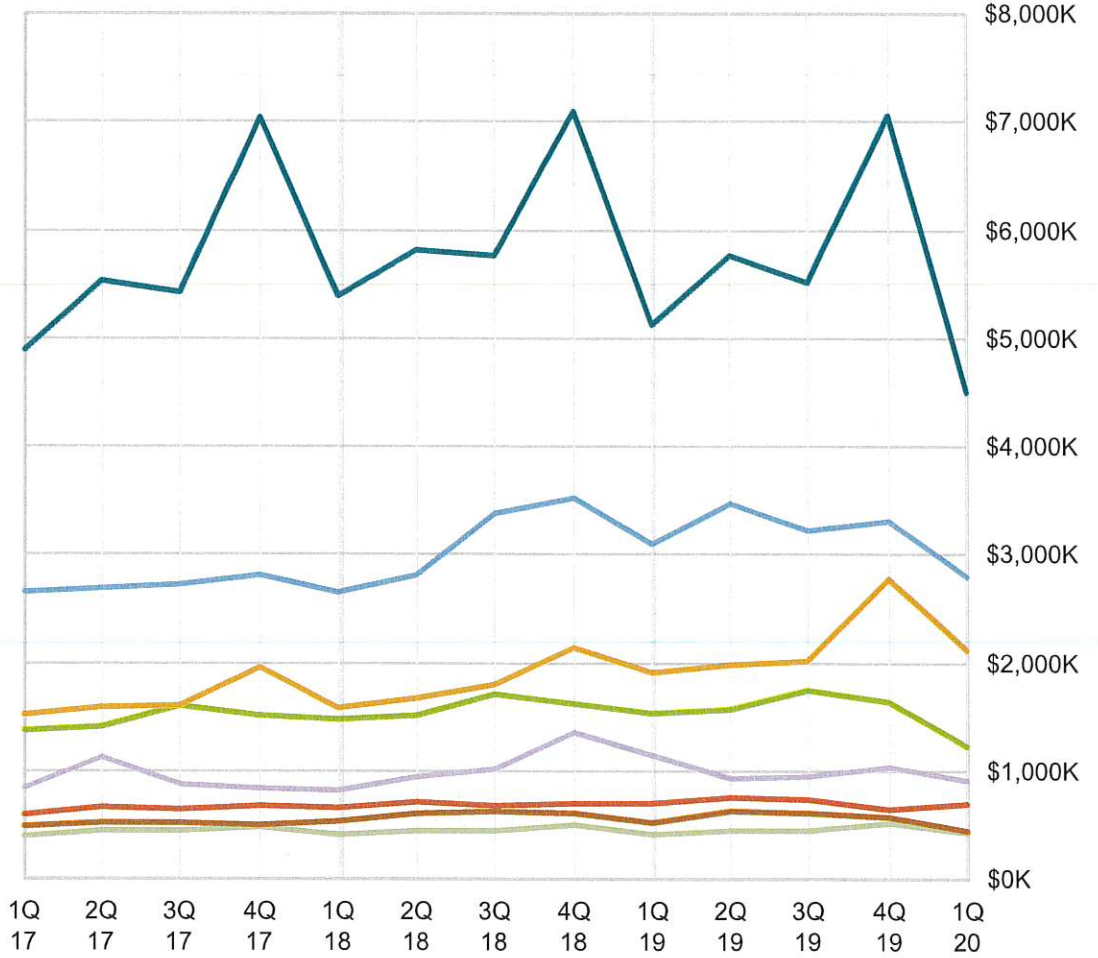
Count: 282

Fuel And Service Stations

Count: 45

Food And Drugs

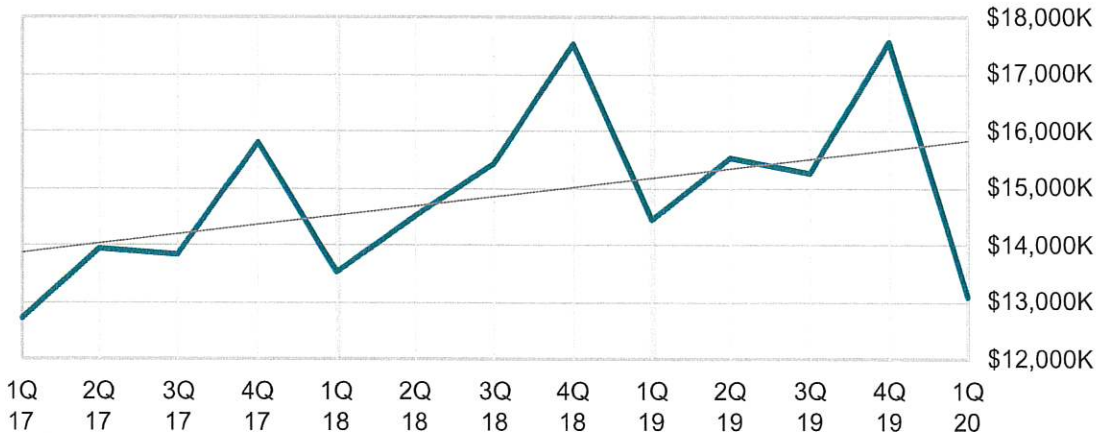
Count: 217



Agency Trend

Costa Mesa

13 Quarter Trend: +14.2%

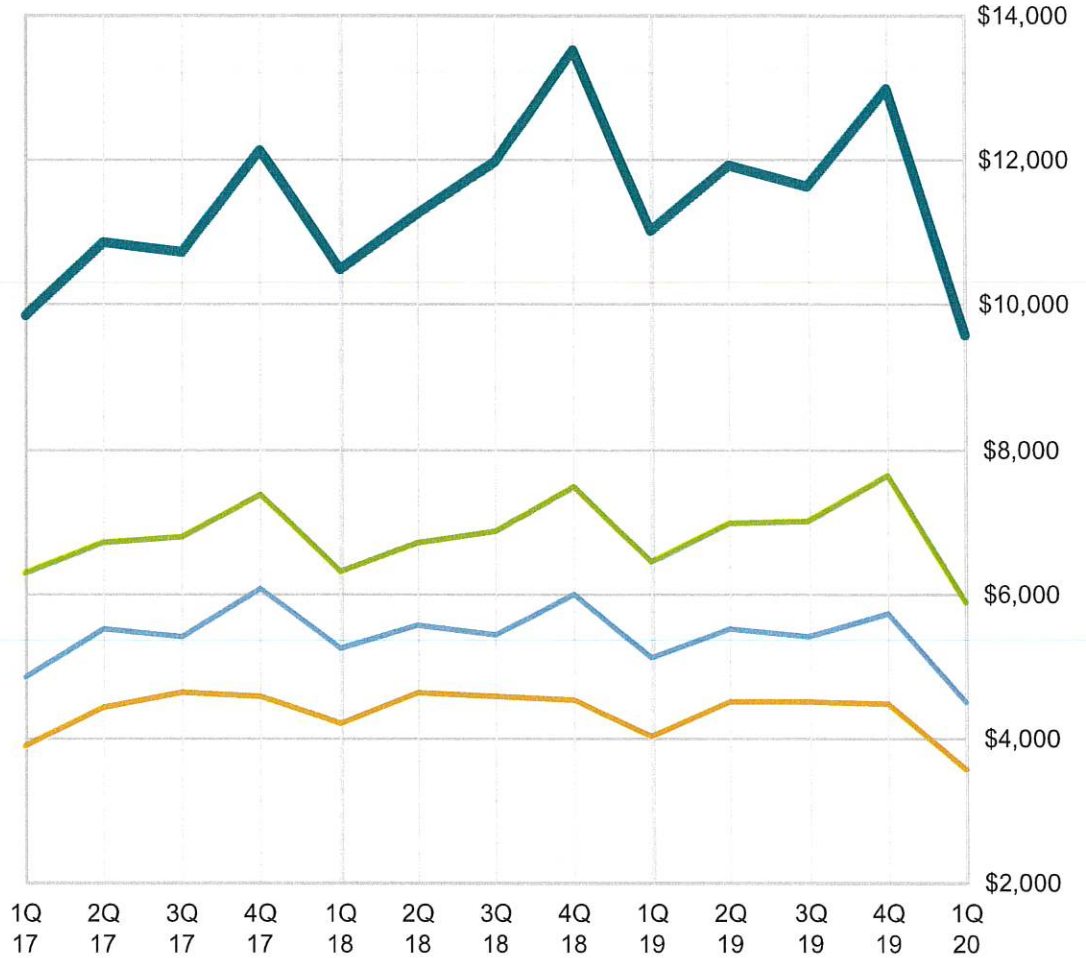


Periods shown reflect the period in which the sales occurred - Point of Sale

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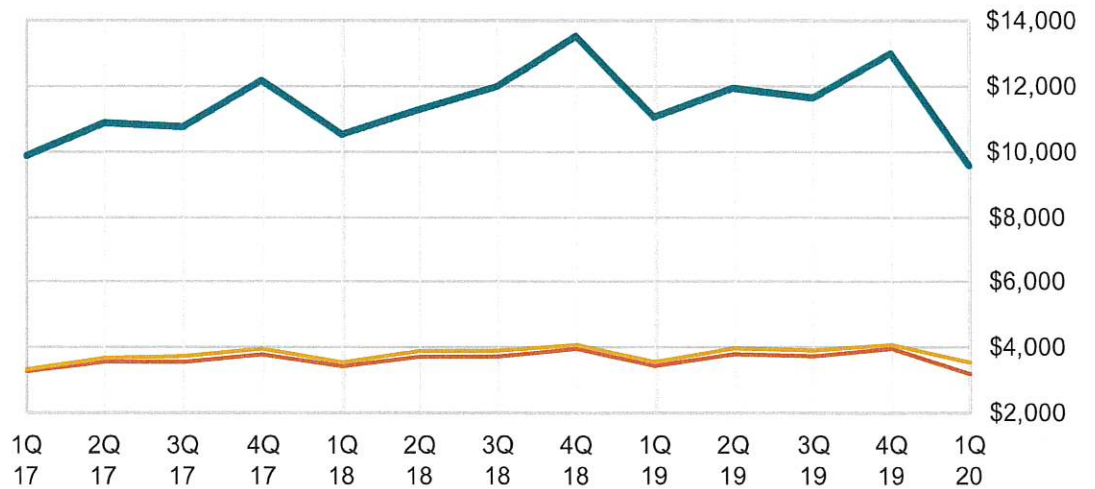
Per Capita Sales

- Costa Mesa**
Count: 12,253
- Irvine**
Count: 11,131
- Huntington Beach**
Count: 10,152
- Tustin**
Count: 3,163



Per Capita Sales

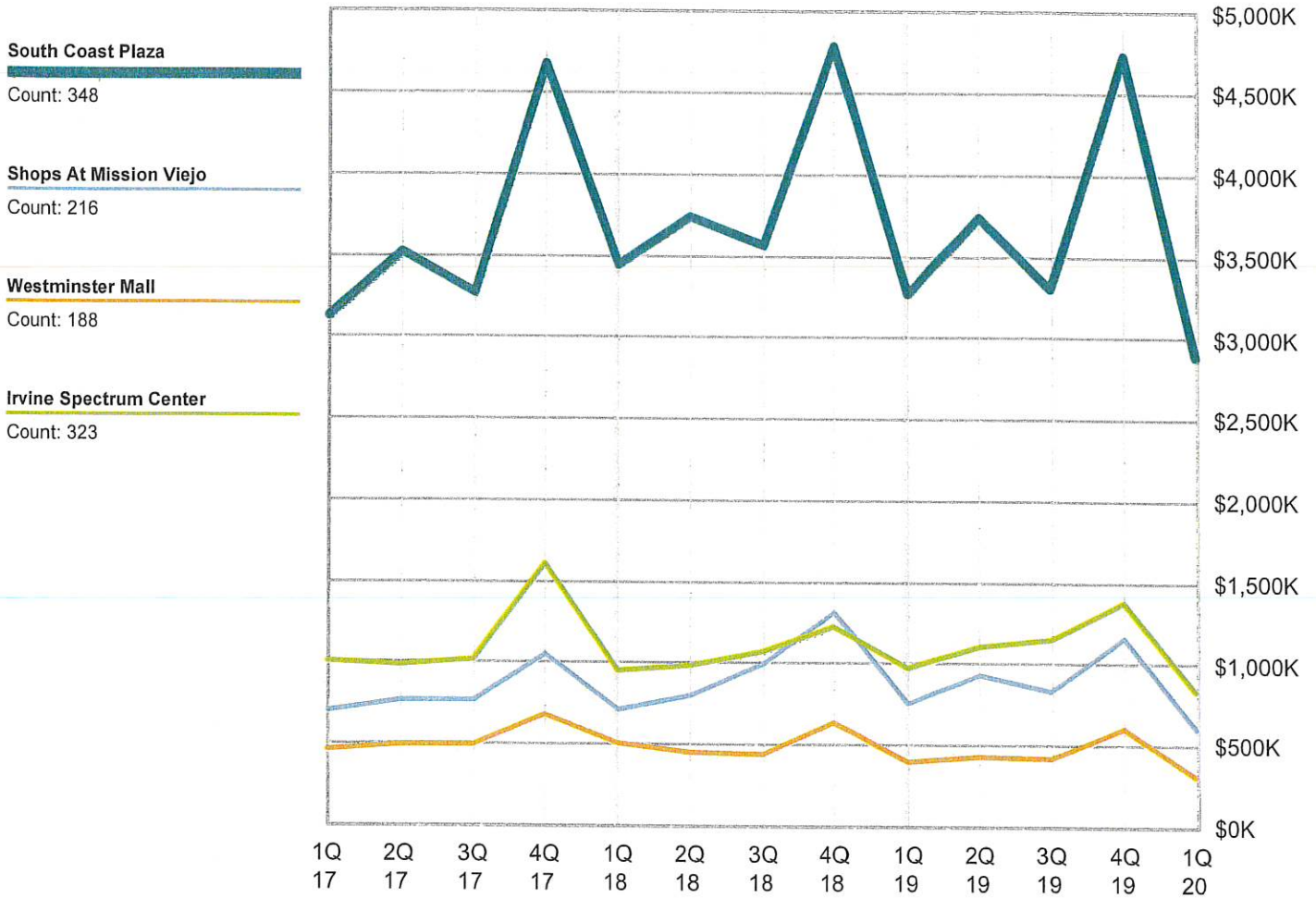
- Costa Mesa**
- Southern California**
- California**



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

Geo areas

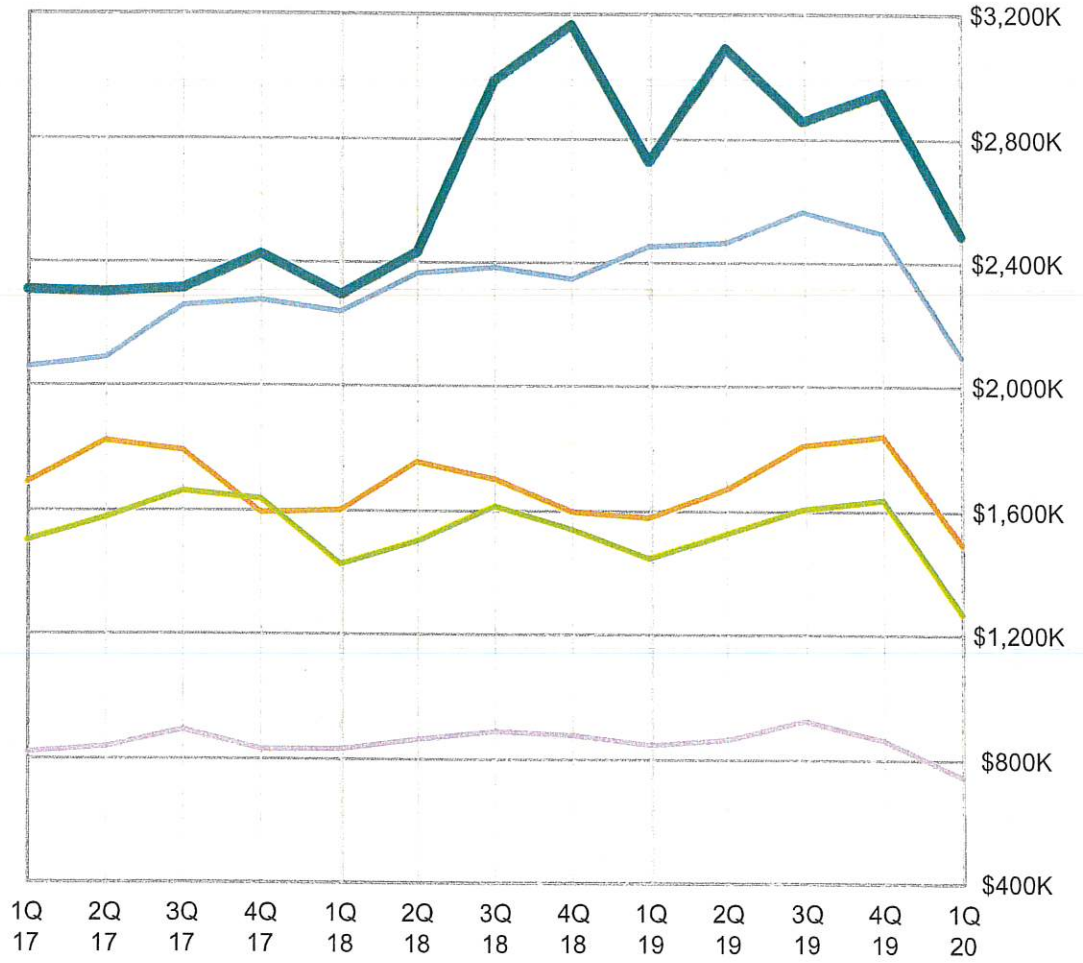
Sales Tax by Geographic areas



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

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- Costa Mesa**
Count: 180
- Irvine**
Count: 91
- Huntington Beach**
Count: 89
- Tustin**
Count: 38
- Westminster**
Count: 34



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



ORANGE COUNTY ALL AGENCIES

SALES TAX TRENDS FOR ALL AGENCIES - 1Q 2020 SALES

Agency allocations reflect "point of sale" receipts

Agency Name	Count*	Current Year 1Q 2020	Prior Year 1Q 2019	Share of County Pool	Actual Receipts % Change
Orange	6,090	7,941,751	7,315,831	7.2%	+ 8.6%
Los Alamitos	789	632,597	687,268	0.6%	- 8.0%
Cypress	938	2,342,622	2,690,347	2.1%	- 12.9%
Villa Park	155	43,559	50,036	0.0%	- 12.9%
Laguna Niguel	2,047	2,072,049	2,415,202	1.9%	- 14.2%
Garden Grove	4,730	4,170,748	4,865,325	3.8%	- 14.3%
La Habra	1,828	1,967,865	2,303,743	1.8%	- 14.6%
Yorba Linda	1,937	1,349,562	1,587,254	1.2%	- 15.0%
Laguna Woods	272	176,496	209,477	0.2%	- 15.7%
Orange Co. Uninc	1,362	1,434,530	1,730,655	1.3%	- 17.1%
Buena Park	2,812	4,180,773	5,098,751	3.8%	- 18.0%
Anaheim	6,909	13,927,104	17,365,252	12.7%	- 19.8%
Stanton	999	712,479	901,344	0.6%	- 21.0%
Rancho Santa Margarita	1,344	1,129,194	1,458,055	1.0%	- 22.6%
Brea	3,235	3,478,633	4,515,035	3.2%	- 23.0%
San Clemente	2,894	1,505,423	1,991,723	1.4%	- 24.4%
Tustin	3,163	4,013,860	5,343,105	3.7%	- 24.9%
Westminster	2,892	2,695,133	3,602,361	2.5%	- 25.2%
Irvine	11,131	11,146,468	15,058,099	10.2%	- 26.0%
Fountain Valley	1,993	1,981,111	2,683,896	1.8%	- 26.2%
Seal Beach	792	597,049	815,944	0.5%	- 26.8%
Placentia	1,521	965,773	1,326,984	0.9%	- 27.2%
Fullerton	4,928	3,514,150	4,856,337	3.2%	- 27.6%
Mission Viejo	3,346	2,724,780	3,815,941	2.5%	- 28.6%
Santa Ana	7,651	7,504,061	10,508,273	6.8%	- 28.6%
Costa Mesa	12,253	9,502,459	13,681,064	8.7%	- 30.5%
Newport Beach	3,202	5,561,766	8,232,206	5.1%	- 32.4%
Huntington Beach	10,152	5,609,202	8,325,536	5.1%	- 32.6%
San Juan Capistrano	1,543	1,202,980	1,787,581	1.1%	- 32.7%
Lake Forest	2,976	2,612,244	3,971,931	2.4%	- 34.2%
Laguna Hills	1,618	778,988	1,196,113	0.7%	- 34.9%
Dana Point	1,582	741,740	1,148,267	0.7%	- 35.4%
La Palma	415	298,624	491,473	0.3%	- 39.2%
Laguna Beach	953	570,759	1,046,488	0.5%	- 45.5%
Aliso Viejo	1,501	722,372	1,465,437	0.7%	- 50.7%
Totals	111,952	109,808,901	144,542,332	100.0%	- 24.0%
Orange Pool	17,466	23,726,343	21,005,348		+ 13.0%

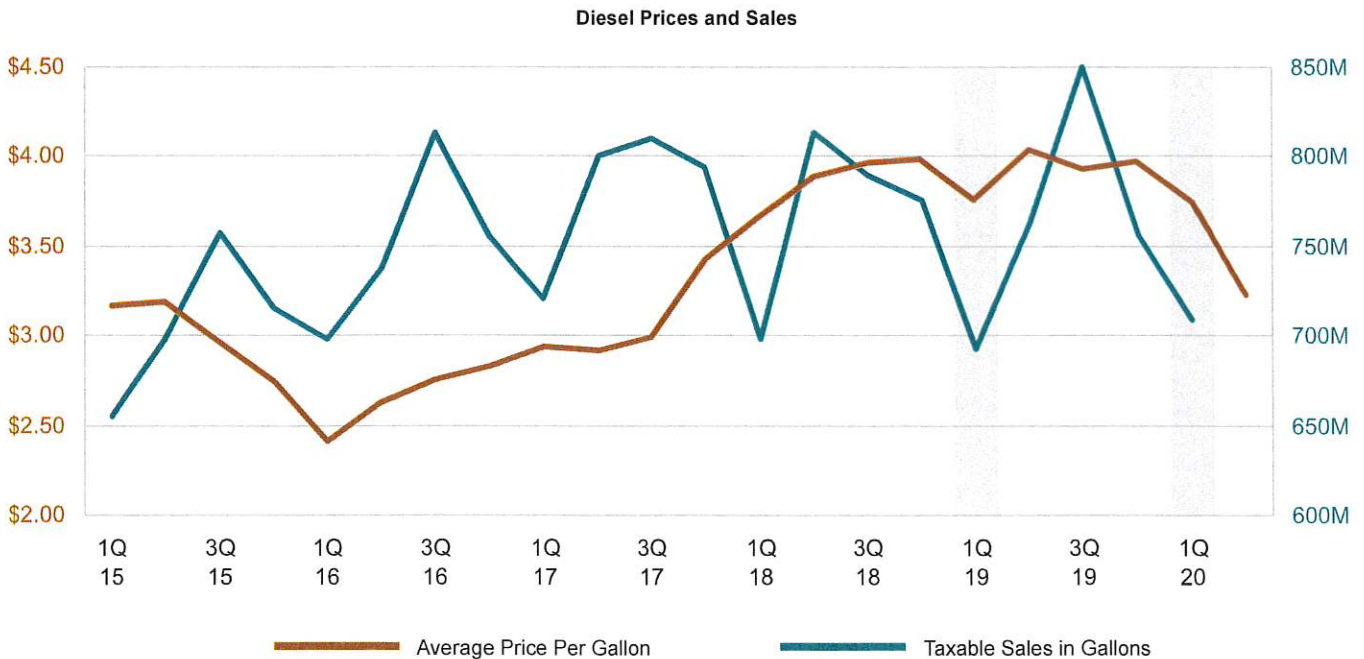
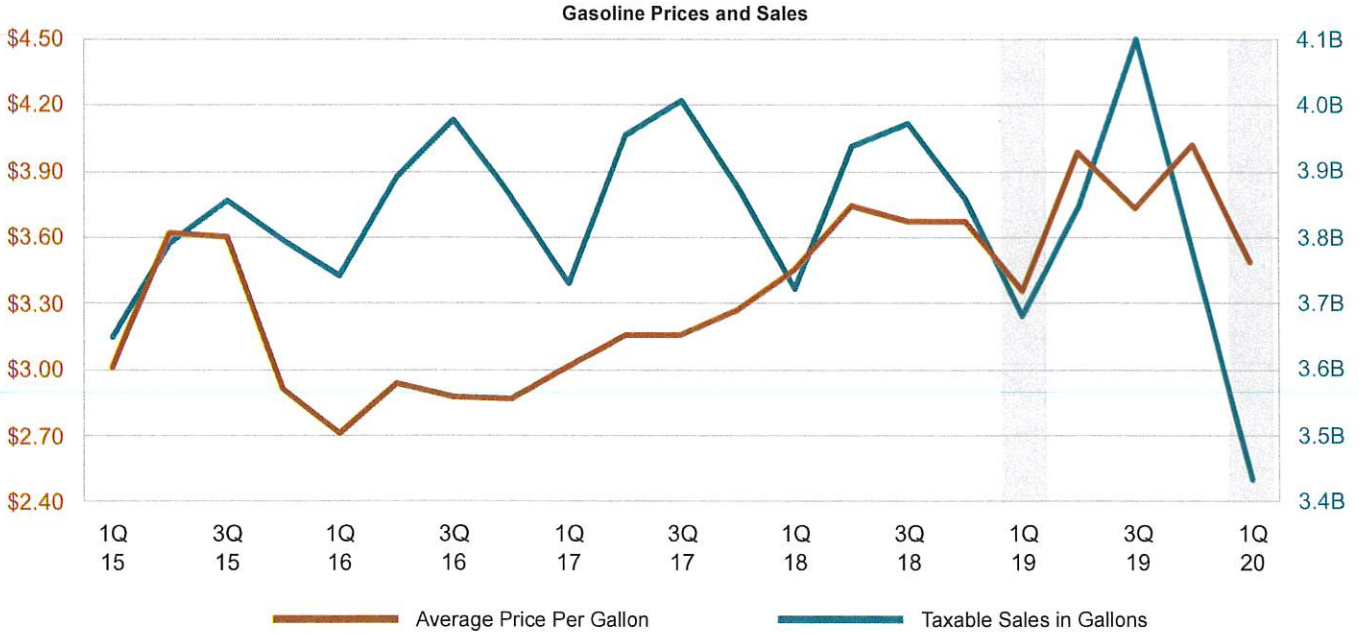
* Value not shown for agencies without detail data



STATE OF CALIFORNIA

GASOLINE AND DIESEL TRENDS

Gasoline Data	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Average Price Per Gallon	\$3.45	\$3.74	\$3.68	\$3.67	\$3.36	\$3.99	\$3.74	\$4.02	\$3.49
% Change from Prior Quarter	5.47%	8.27%	-1.65%	-0.05%	-8.48%	18.60%	-6.31%	7.70%	-13.30%
% Change from Same Qtr Prior Year	14.50%	18.43%	16.24%	12.26%	-2.59%	6.70%	1.65%	9.53%	3.76%



Sources: Board of Equalization, California Department of Tax and Fee Administration, Energy Information Administration, The HdL Companies