



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

**TO: DISTRIBUTION**

**FROM: CAROL MOLINA, FINANCE DIRECTOR**

**DATE: NOVEMBER 6, 2020**

**SUBJECT: SALES TAX INFORMATION – 2<sup>ND</sup> QUARTER (APRIL 2020 – JUNE 2020)**

Attached are the Second Quarter Sales Tax Receipts Reports (April thru June 2020). The sales tax receipts were impacted by the worldwide pandemic that resulted in the March 19, 2020 stay-at-home orders. Governor Newsom shortly thereafter approved a 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 fiscal relief to small businesses, however, it did impact the City’s sales tax revenues. The County’s increase in online purchases allowed for a partial recovery of the anticipated Sales Tax loss.

The City’s FY 2019/20 preliminary, unaudited sales tax revenues resulted in a loss of \$2.9 million in comparison to the General Fund’s adopted sales tax estimate. Sales tax reductions were mostly experienced in large consumer retailers, restaurants, and businesses located within a hotel establishment. Staff continues to work with HDL to obtain further information as it relates to the City’s continued sales tax performance.

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

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Carol Molina  
Finance Director

Attachments

Distribution:

City Council Members (7)  
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Finance and Pension Advisory Committee (8)  
Eileen Clifton-Benjamin, Chamber of Commerce

# 2Q 2020 (APRIL - JUNE) CITY OF COSTA MESA SALES TAX UPDATE



**COSTA MESA**  
**TOTAL: \$9,897,900**

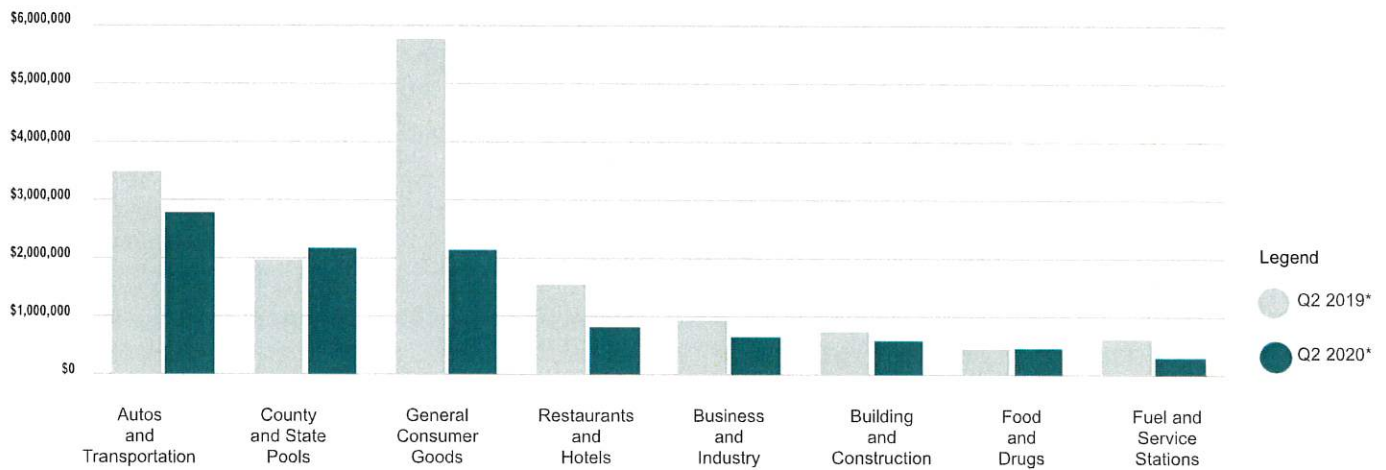
**-36.33%**  
**Q2 2020** ↓

**-18.31%**  
**COUNTY** ↓

**-16.26%**  
**STATE** ↓

*\*Allocation aberrations have been adjusted to reflect sales activity*

## SALES TAX BY MAJOR BUSINESS GROUP



## CITY OF COSTA MESA HIGHLIGHTS

Costa Mesa's receipts from April through June were 27.1% below the second sales period in 2019. However, deferred tax payments from last quarter temporarily exaggerated the cash results. Once these and other reporting aberrations are excluded, actual sales were down 36.3%.

This quarter was dramatically impacted by the economic shutdown resulting from Covid-19 and the shelter-in-place directive.

As expected, large general consumer retailers like family apparel, specialty, jewelry and home furnishing stores were immediately hindered. Restaurants that usually depend on indoor services like casual and fine dining establishments along with hotels were also adversely affected.

To a slightly lesser degree, new and used auto dealerships were also negatively impacted similar to the county and statewide trend.

Partially offsetting the declines were continued new tax revenue from out-of-state online retailers due to the enactment of AB147 combined with increased online sales due to the shutdown, which lifted countywide use tax pool allocations to the city by 8%.

Net of aberrations, taxable sales for all of Orange County declined 18.3% over the comparable time period; the Southern California region was down 18.0%.



## TOP 25 PRODUCERS

Audi Fletcher Jones  
Autonation Honda  
Bloomingdale's  
California Beemers  
Carmax  
Cartier  
Connell Chevrolet  
Eurocar  
Ganahl Lumber Company  
Hertz Rent A Car  
Hi Time Liquor  
Home Depot  
IKEA  
Louis Vuitton  
Orange Coast Chrysler  
Jeep Dodge Ram Fiat  
Pacific Auto Center  
Pirch  
Sc Car Zone

South Coast Toyota  
Suburban Buick GMC  
Cadillac  
Target  
Tesla Motors  
Theodore Robins Ford  
Tiffany & Co  
Tourneau



**STATEWIDE RESULTS**

Local sales and use tax receipts from April through June sales were 16.3% lower than the same quarter of 2019 after factoring for accounting anomalies and back payments from previous quarters.

This was the largest quarter to quarter decline since 2009. The drops were deepest in the San Francisco Bay Area, Central Coast and Southern California where declines in revenues from fuel, automobiles, general consumer goods and restaurants/hotels were the most severe.

However, despite a 14.9% unemployment rate that eclipsed the previous high of 12.3% during the great recession of 2010 and temporary business closures, the drop in sales was less than previously projected by most analysts including HdL.

The high second quarter unemployment rates primarily affected lower wage service sectors which generate a smaller share of sales tax revenues. Internet connected knowledge workers continued to work but locked at home, found that they had extra cash to spend because of reduced commute and work-related expenses and few entertainment or travel options. Additionally, though much of the quarter's government relief payments were spent largely on rents, utilities and necessities, the money was not distributed proportionally to income losses thereby adding temporary discretionary income gains for some recipients.

Low interest rates and longer term lending practices allowed the extra money to be spent on previously delayed purchases such as autos and home improvements. New car registrations dropped 48.9% in the second quarter, but sales tax receipts dropped only 15.8% as buyers who did purchase, opted for more expensive SUV's, trucks and luxury vehicles. As cabin fever set in, sales of RV's, boats and motorcycles also began to rise.

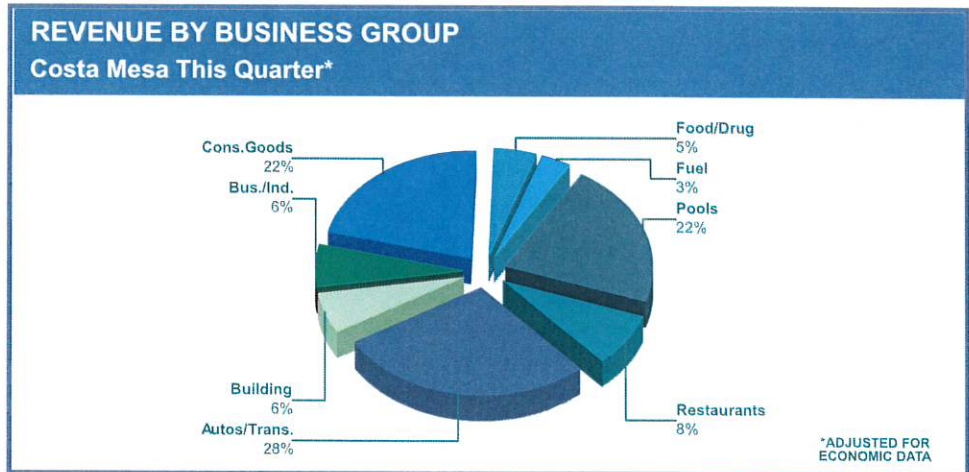
With restaurants and many brick and mortar stores closed or restricted to limited occupancy, buyers shifted to online shopping with tax revenues from in-state fulfillment centers rising 142.7% over the second quarter of 2019 and county pools where tax receipts from out-of-state goods are allocated, rising 28.9%. Online sales accounted for 52.0% of this quarter's tax revenues from the general consumer goods group.

Working at home eventually morphed into working on home thereby boosting related improvement purchases. Grocers, cannabis, liquor and sporting goods further helped offset losses in other segments.

Strong demand for warehouse and shipping

technology, equipment and supplies to accommodate the increase in online shopping as well as home offices and virtual classrooms helped offset declines in the business/industrial group. Unanticipated gains in agriculture related purchases and transit spending further added to the offset.

Pandemic uncertainties, fires, childcare issues and bankruptcies are expected to result in uneven gains through 2020-21 with each jurisdiction's experience differing according to the scope and character of their individual tax bases. Overall recovery and improvement in statewide receipts is not expected to begin until 2021-22.



Business Type	Costa Mesa Q2 '20*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	1,519.6	-20.7% ↓	-11.9% ↓	-15.8% ↓
Used Automotive Dealers	819.3	-18.6% ↓	-20.2% ↓	-20.6% ↓
Family Apparel	409.9	-68.9% ↓	-59.7% ↓	-66.3% ↓
Building Materials	383.1	-0.5% ↓	-0.9% ↓	7.0% ↑
Home Furnishings	368.2	-50.7% ↓	-46.9% ↓	-41.7% ↓
Service Stations	309.7	-50.6% ↓	-51.4% ↓	-45.2% ↓
Casual Dining	306.7	-54.1% ↓	-53.0% ↓	-53.2% ↓
Quick-Service Restaurants	300.9	-20.4% ↓	-17.7% ↓	-22.0% ↓
Grocery Stores	226.6	2.5% ↑	10.4% ↑	7.8% ↑
Jewelry Stores	224.2	-59.0% ↓	-57.7% ↓	-59.1% ↓

\*Allocation aberrations have been adjusted to reflect sales activity      \*In thousands of dollars