

Q4 2019



City of Costa Mesa Sales Tax *Update*

First Quarter Receipts for Fourth Quarter Sales (October - December 2019)

Costa Mesa In Brief

Costa Mesa's receipts from October through December were 5.0% above the fourth sales period in 2018. Excluding reporting aberrations, actual sales were up 2.3%.

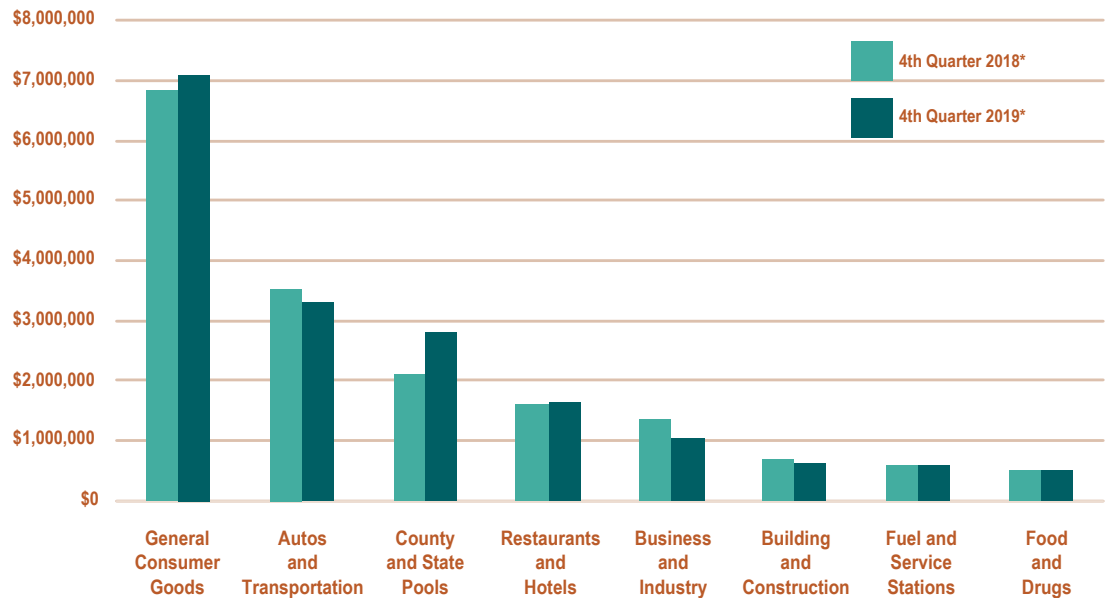
Strong holiday shopping results from multiple general consumer categories including department stores, electronic retailers and specialty merchants were largely responsible for the overall adjusted gains. The recent addition of a new casual dining establishment and consistent interest in eating out helped lift receipts from restaurants.

These local point of sale improvements combined with increased taxes collected for online purchases of items shipped into the region compared to last year, boosted allocations from the countywide use tax pool, further contributing to the positive outcome.

However, weak sales activity by new auto dealers partially offset the gains. Furthermore, one-time payments that inflated business-industry and building-construction last year did not reoccur.

Net of aberrations, taxable sales for all of Orange County grew 5.3% over the comparable time period; the Southern California region was up 4.4%.

SALES TAX BY MAJOR BUSINESS GROUP



*Allocation aberrations have been adjusted to reflect sales activity

TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

ABC Bus	IKEA
Apple	Louis Vuitton
Audi Fletcher Jones	Macys
Best Buy	Nordstrom
Bloomingdale's	Officexpress
Carmax	Orange Coast Chrysler Jeep Dodge Ram Fiat
Cartier	Saks Fifth Avenue
Chanel	South Coast Toyota
Connell Chevrolet	Suburban Buick GMC Cadillac
Eurocar	Target
Ganahl Lumber Company	Tesla Motors
Gucci	Tiffany & Co
Home Depot	

REVENUE COMPARISON

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

	2018-19	2019-20
Point-of-Sale	\$30,552,465	\$28,607,111
County Pool	4,153,648	4,907,286
State Pool	15,222	12,809
Gross Receipts	\$34,721,335	\$33,527,206

California Overall

Statewide sales and use tax receipts from 2019's fourth quarter were 4.2% higher than last year's holiday quarter after factoring for accounting anomalies.

The increase came from the acceleration in online shopping which generated huge gains in the countywide use tax pools for merchandise shipped from out-of-state and from California based fulfillment warehouses in those cases where the warehouse is also point-of-sale. This segment was further boosted by the first full quarter of California's implementation of the Wayfair vs South Dakota ruling that requires out-of-state retailers to collect and remit sales tax on merchandise sold to California customers. The ruling has led to an increase in sales tax receipts of roughly \$2.95 per capita while also producing double digit gains for in-state online fulfillment centers.

In contrast, soft sales and closeouts resulted in a decline in almost every category of brick-and-mortar spending during the holiday season while new cannabis retailers helped boost what would have been a soft quarter for the food-drug group. Most other sales categories including new cars and business-industrial purchases were also down. Restaurant group gains were modest compared to previous quarters.

Overall, the rise in county pool receipts offset what would have been otherwise, a flat or depressed quarter for most jurisdictions.

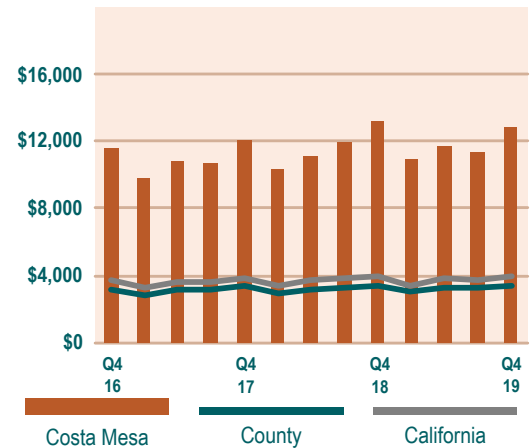
Covid-19

The coronavirus impact will first be seen in next quarter's data reflecting January through March sales. Based on recovery rates being reported in some Asian countries, the virus's disruption of supply chains will be deepest in the first and second quarter and largely resolved by mid-summer. However, recovery from social distancing and home confinements could take longer

with the deepest tax declines expected in the restaurant/hospitality, travel/transportation and brick-and-mortar retail segments. Layoffs and furloughs are also expected to reduce purchases of new cars and other high cost durable goods. The losses from the state's high-tech innovation industries may be more modest while the food-drug and online retail groups could exhibit increases.

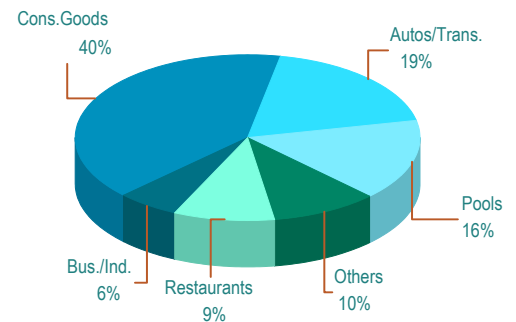
Assuming that the virus is largest contained by the end of September, HdL's economic scenario projects that tax declines will bottom out in the first quarter of 2021 but with only moderate gains for several quarters after. Data from previous downturns suggests that the return to previous spending is not immediate and often evolves. Businesses emerge with ways to operate with fewer employees and more moderate capital investment. Consumers take time to fully get back to previous levels of leisure travel, dining and spending and may permanently transfer to newly discovered services, activities and/or online retail options.

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 Q4 '19*	Costa Mesa Change	County Change	HdL State Change
Building Materials	361.4	-5.2%	-6.0%	1.4%
Casual Dining	690.7	4.8%	2.4%	3.8%
Department Stores	1,379.3	12.3%	3.7%	-4.8%
Electronics/Appliance Stores	747.4	8.4%	-2.6%	-6.6%
Family Apparel	1,609.3	0.2%	1.8%	1.3%
Grocery Stores	234.4	2.7%	3.0%	1.3%
Home Furnishings	785.6	7.3%	-2.9%	-2.1%
Jewelry Stores	711.5	0.4%	0.5%	7.7%
New Motor Vehicle Dealers	1,839.2	-14.5%	-2.2%	-3.4%
Quick-Service Restaurants	367.0	1.2%	2.7%	1.9%
Service Stations	601.5	0.6%	0.8%	0.2%
Specialty Stores	456.6	-0.5%	-6.0%	-3.8%
Trailers/Auto Parts	— CONFIDENTIAL —		-23.5%	21.3%
Used Automotive Dealers	919.6	9.3%	4.5%	4.6%
Women's Apparel	630.4	7.5%	-0.3%	-4.8%
Total All Accounts	14,842.8	-1.9%	0.0%	0.2%
County & State Pool Allocation	2,797.3	32.7%	30.3%	26.7%
Gross Receipts	17,640.2	2.3%	5.3%	4.2%

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