



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

TO: DISTRIBUTION

FROM: CAROL MOLINA, FINANCE DIRECTOR

DATE: JANUARY 25, 2021

SUBJECT: SALES TAX INFORMATION – 3RD QUARTER (JULY 2020 – SEPT. 2020)

Attached are the Third Quarter Sales Tax Receipts Reports (July thru September 2020). Costa Mesa businesses continue to be impacted by the various State shut-down orders and color tiered system brought on by the pandemic. On July 21st, City Council approved an Urgency Ordinance that allowed a temporary expansion of retail and services businesses to operate outside on sidewalks and parking lots. Businesses expanded their outdoor dining areas to limit and, in some cases, eliminate indoor dining, gyms implemented safe distancing and cleansing guidelines when allowed indoors and then took advantage of available outdoor space when indoor options were closed, and retail expanded the use of parking lots to allow for personal shopping experiences as well as curbside pickup options. Further, the City partnered with the Chamber of Commerce, Travel Costa Mesa and South Coast Metro to assist its local businesses by launching the Business Assistance Collaborative (BAC) website. This site offers a simple and effective online method to search and contact Costa Mesa businesses that continue to operate.

On August 28th, the State released a "Blueprint for a Safer Economy" that allowed for gradual reopenings of certain businesses and activities. The State implemented a colored tiered system with varying restrictions based upon the number of COVID tests and positive cases. The colored tier system places counties in four different colors: purple, the most restrictive tier, red, orange and into yellow, being the least restrictive. During this timeframe, the County of Orange was placed in the purple tier, resulting in the most restrictions placed upon certain business sectors.

On December 3, 2020, Governor Newsom announced the second stay-at-home order due to soaring COVID cases, the significant reduction of ICU bed capacity, and the strains upon critical care services. Although the restrictions placed upon local businesses continue to impact the City's sales tax revenues, the County Pool continues to rise due to the increase of online purchases thereby allowing for a partial recovery of the anticipated Sales Tax loss. Finally, earlier today, January 25th the State returned to the colored tiered system, lifting the stay-at-home order. 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.

Carol Molina
Finance Director

Attachments

Distribution:

- City Council Members (7)
- Planning Commissioners (5)
- Department Directors and Staff
- Finance and Pension Advisory Committee (8)
- Eileen Clifton-Benjamin, Chamber of Commerce

CITY OF COSTA MESA

SALES TAX UPDATE

3Q 2020 (JULY - SEPTEMBER)



COSTA MESA

TOTAL: \$ 13,584,703

-11.5%

3Q2020



-1.7%

COUNTY



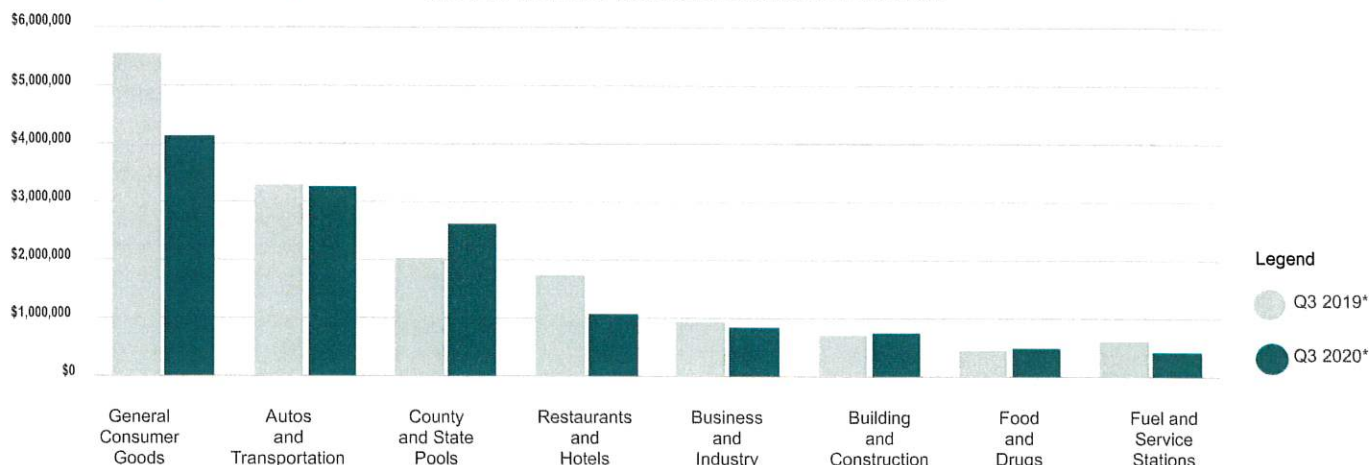
-0.9%

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 July through September were 9.4% below the third 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 11.5%.

This was the second quarter of economic impacts due to the pandemic. As expected, general consumer retailers like family apparel and department stores continue to be hindered. Lack of indoor dining hurt restaurants, while lower gas prices and reduced commuter frequency held service station returns lower.

Although new car dealers and leasing activity fell compared to the

prior year, improved used car sales helped soften the impacts to the auto-transportation group.

Also 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 pandemic, which lifted countywide use tax pool allocations to the City by 29%.

Net of aberrations, taxable sales for the Southern California region was down 1.5% over the comparable time period.



TOP 25 PRODUCERS

- Audi Fletcher Jones
- Autonation Honda
- Best Buy
- Bloomingdale's
- Carmax
- Cartier
- Connell Chevrolet
- Eurocar
- Ganahl Lumber Company
- Hermes
- Hi Time Liquor
- Home Depot
- IKEA
- Louis Vuitton
- Macys
- Nordstrom
- Orange Coast Chrysler
- Jeep Dodge Ram Fiat
- Pacific Auto Center
- Saks Fifth Avenue
- South Coast Toyota
- Suburban Buick GMC
- Cadillac
- Target
- Tesla Motors
- Theodore Robins Ford
- Tiffany & Co



STATEWIDE RESULTS

The local one-cent sales and use tax from sales occurring July through September was 0.9% lower than the same quarter one year ago after factoring for accounting anomalies. The losses were primarily concentrated in coastal regions and communities popular with tourists while much of inland California including the San Joaquin Valley, Sacramento region and Inland Empire exhibited gains.

Generally, declining receipts from fuel sales, brick and mortar retail and restaurants were the primary factors leading to this quarter's overall decrease. The losses were largely offset by a continuing acceleration in online shopping that produced huge gains in the county use tax pools where tax revenues from purchases shipped from out-of-state are allocated and in revenues allocated to jurisdictions with in-state fulfillment centers and order desks.

Additional gains came from a generally solid quarter for autos, RV's, food-drugs, sporting goods, discount warehouses, building material suppliers and home improvement purchases. Some categories of agricultural and medical supplies/equipment also did well.

Although the slight decline in comparable third quarter receipts reflected a significant recovery from the immediate previous period's deep decline, new coronavirus surges and reinstated restrictions from 2020's Thanksgiving and Christmas gatherings compounded by smaller federal stimulus programs suggest more significant drops in forthcoming revenues from December through March sales.

Additionally, the past few quarter's gains in county pool receipts that were generated by the shift to online shopping plus last year's implementation of the

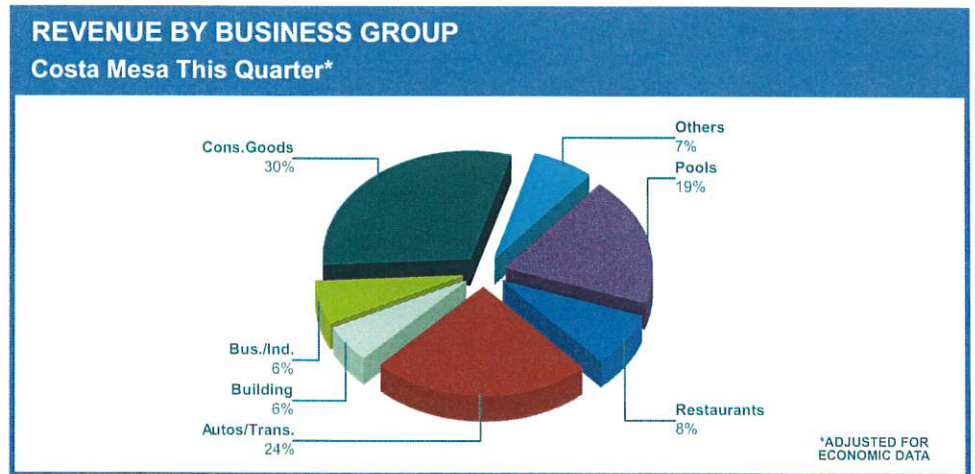
Wayfair v. South Dakota Supreme Court decision will level out after the first quarter of 2021.

Much of the initial demand for computers and equipment to accommodate home schooling and remote workplaces has been satisfied. Manufacturers are also reporting that absenteeism, sanitation protocols, inventory and imported parts shortages have reduced production capacity that will not be regained until mass vaccines have been completed, probably by the fall of 2021.

Significant recovery is not anticipated until 2021-22 with full recovery dependent on the specific character and make up of each jurisdiction's tax base.

Part of the recovery will be a shift back to non-taxable services and activities. Limited to access because of pandemic restrictions, consumers spent 72% less on services during the third quarter and used the savings to buy taxable goods.

Full recovery may also look different than before the pandemic. Recent surveys find that 3 out of 4 consumers have discovered new online alternatives and half expect to continue these habits which suggests that the part of the recent shift of revenues allocated through countywide use tax pools and industrial distribution centers rather than stores will become permanent.



TOP NON-CONFIDENTIAL BUSINESS TYPES

Costa Mesa Business Type	Q3 '20*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	1,654.0	-5.5% ↓	6.9% ↑	5.8% ↑
Used Automotive Dealers	1,077.1	11.2% ↑	12.2% ↑	11.8% ↑
Family Apparel	933.5	-25.7% ↓	-19.1% ↓	-24.4% ↓
Department Stores	712.1	-29.5% ↓	-36.5% ↓	-42.5% ↓
Home Furnishings	679.7	-21.7% ↓	-6.8% ↓	-3.3% ↓
Casual Dining	478.6	-28.1% ↓	-32.9% ↓	-37.9% ↓
Jewelry Stores	452.2	36.8% ↑	18.7% ↑	4.3% ↑
Building Materials	445.2	9.4% ↑	15.9% ↑	16.4% ↑
Service Stations	410.5	-32.4% ↓	-34.5% ↓	-29.0% ↓
Quick-Service Restaurants	347.1	-31.3% ↓	-8.9% ↓	-10.3% ↓

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