



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

TO: DISTRIBUTION

FROM: CAROL MOLINA, FINANCE DIRECTOR

DATE: MAY 4, 2021

SUBJECT: SALES TAX INFORMATION – 4TH QUARTER (OCT. 2020 – DEC. 2020)

Attached are the Fourth Quarter Sales Tax Receipts Reports (October thru December 2020). The fourth quarter of the year is the highest sales tax quarter of the year due to holiday shopping that brings shoppers to our City to enjoy the variety of general consumer goods found. This year, due to the worldwide pandemic, COVID-19, the holiday season experienced restrictions in in-person shopping and dining opportunities that resulted in a decline in the City's sales tax revenues in the fourth quarter. Specifically, the months of November and December 2020, there was a surge of COVID-19 cases that led to renewed measures to control the virus, including significant restrictions.

Specifically, a second Regional Stay at Home Order was issued in California on December 3, 2020, triggered by regions having less than 15 percent Intensive Care Unit (ICU) capacity. All Southern California regions were affected by the Stay At Home Order, including areas that fell to zero percent capacity. This Order was lifted on January 25, 2021 as projected ICU availability over four weeks in all regions rose to over 15 percent, triggering the State to announce the return to a color-tiered system of county-by-county restrictions. Orange County fell in the purple tier, which is the most restrictive tier. The purple tier restricted retail to a maximum of 25% capacity, including shopping centers. Restaurants, gyms and fitness centers, and family entertainment centers were restricted to outdoors only with modifications. Bars, movie theatres and fairs were closed. The restrictions significantly reduced in-person sales that the City normally enjoys during this particular quarter of the year, with not only the sale of general merchandise, but also the limitations upon the restaurants and bars that also enjoy a surge in sales during this quarter.

In early April, Governor Newsom announced that the State will open up on June 15th as a result of the decline in California's COVID cases and vaccination supply. Further, as of May 2, 2021, the State reported that over 12.9 million, approximately 40% of the population, is fully vaccinated.

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

A handwritten signature in black ink, appearing to read "Carol", written over a horizontal line.

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

4Q 2020 (OCTOBER - DECEMBER)



COSTA MESA
TOTAL: \$ 16,446,717

-6.7%
4Q2020



-1.9%
COUNTY

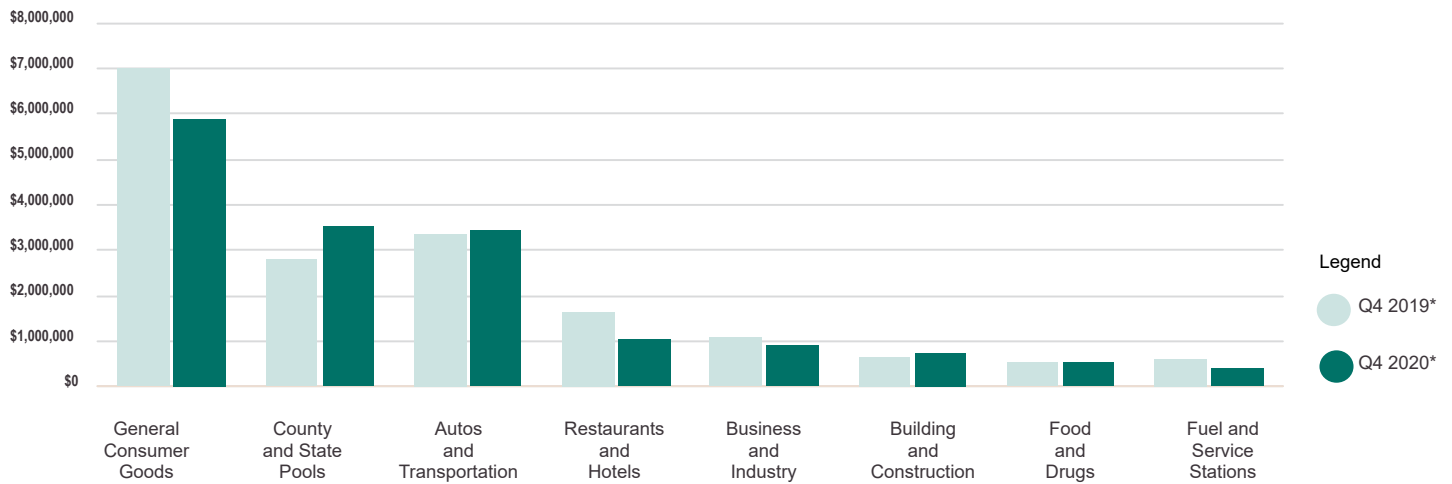


-2.0%
STATE



**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 October through December were 7.9% below the fourth sales period in 2019. Excluding reporting aberrations, actual sales were down 6.7%.

This was the third quarter impacted by the pandemic but also the normal holiday shopping time that was pre-Covid-19 in the comparison period. Due to persistent in-store capacity limitation for both general consumer retailers and indoor dining restaurants, these categories were expectantly hindered the most.

Continued reduced commuter frequency and lower gas prices compared to the prior year held service stations lower, while the diminished need for office supplies-furniture hurt business-industry.

Increased allocations from the countywide use tax pool partially offset the declines. They were enhanced by consumers buying more online, and out-of-state retailers and marketplace facilitators collecting local sales tax.

Also, similar to the state and county trend, new auto sales were strong as consumers take advantage of favorable interest rate conditions. Furthermore, the current stable housing market also contributed to a rise in spending at building material suppliers.

Net of aberrations, taxable sales for all of Orange County declined 1.9% over the comparable time period; the Southern California region was down 2.7%.



TOP 25 PRODUCERS

Abc Companies
 Audi Fletcher Jones
 Best Buy
 Bloomingdale's
 Carmax
 Cartier
 Chanel
 Connell Chevrolet
 Eurocar
 Ganahl Lumber Company
 Gucci
 Hermes
 Home Depot
 IKEA
 Louis Vuitton
 Macys
 Nordstrom
 Orange Coast Chrysler
 Jeep Dodge Ram Fiat

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



STATEWIDE RESULTS

The local one cent sales and use tax from sales occurring October through December, the holiday shopping season, was 1.9% lower than the same quarter one year ago after adjusting for accounting anomalies and back payments from previous periods. Lower receipts were primarily concentrated in the Bay Area and coastal southern regions while much of inland California, including the San Joaquin Valley, Inland Empire, and northern regions, exhibited solid gains.

As expected, the larger place of sale categories which have been negatively impacted throughout the pandemic continue to be brick and mortar general consumer goods retailers like family apparel, department, and electronics/appliance stores. With limited to zero allowed indoor dining (depending on a County's Covid-19 tier assignment), restaurants and hotels suffered the largest losses especially in communities that strongly rely on tourism. Although the workforce has slowly begun to return to physical office environments, fuel and service stations revenues lagged the prior year performance.

It does not appear that Governor Newsom's second 'shelter at home' directive, initiated by the increase in Covid-19 cases had an impact on overall results. While some merchants chose to utilize the Governor's executive order allowing for a 90-day deferral of sales tax remittance, it was substantially less than the similar opportunity companies utilized during the 1st and 2nd quarters of 2020. The outstanding payments for most California cities will be remitted before the end of the 2020-21 fiscal year.

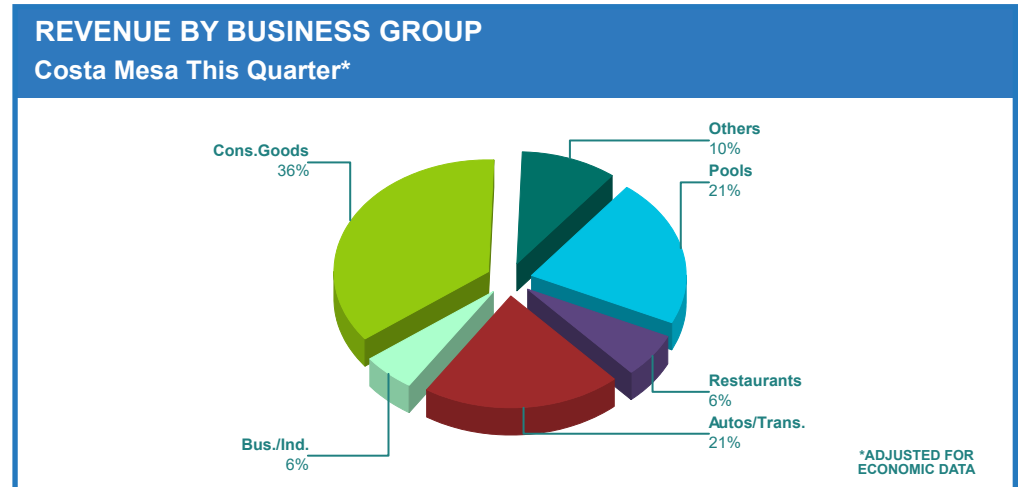
On the bright side, as consumer confidence stabilized post the national presidential election, customers were motivated to comfortably spend on high-end luxury automobiles, boats-motorcycles, RVs, and sporting goods/equipment.

The building-construction sector, with 1) increased price of goods - like lumber, 2) continued home improvement projects, and 3) advantageous fall/winter weather conditions saw strong gains that remained consistent throughout the calendar year.

Exponential growth from countywide use tax pools further helped offset

the declines. Greater online shopping signifying a permanent shift of consumer habits to this more convenient experience was inevitable.

On the horizon, mass deployment of the Covid-19 vaccine will help a greater number of businesses, restaurants and theme parks to reach reopen status. Recent approval of the American Rescue Plan Act of 2021 will further support greater consumer spending, albeit in targeted segments. Pent up demand for summer outdoor experiences and travel is likely and thereby household spending is temporarily reverted away from taxable goods when compared to recent activity.



TOP NON-CONFIDENTIAL BUSINESS TYPES

Costa Mesa Business Type	Q4 '20*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	2,006.2	8.5% ↑	10.0% ↑	7.2% ↑
Family Apparel	1,597.7	-1.0% ↓	-6.3% ↓	-16.2% ↓
Used Automotive Dealers	907.8	-2.6% ↓	-2.5% ↓	-2.1% ↓
Department Stores	885.3	-35.8% ↓	-34.7% ↓	-40.2% ↓
Jewelry Stores	813.9	21.7% ↑	12.0% ↑	-1.8% ↓
Home Furnishings	682.8	-10.0% ↓	3.4% ↑	0.8% ↑
Casual Dining	481.3	-32.1% ↓	-32.2% ↓	-39.3% ↓
Women's Apparel	465.7	-26.0% ↓	-31.8% ↓	-36.0% ↓
Electronics/Appliance Stores	436.6	-41.8% ↓	-28.3% ↓	-25.0% ↓
Service Stations	410.3	-31.9% ↓	-35.2% ↓	-31.3% ↓

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