



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

TO: DISTRIBUTION

FROM: CAROL MOLINA, FINANCE DIRECTOR

DATE: DECEMBER 27, 2021

SUBJECT: SALES TAX INFORMATION – 2ND QUARTER (APRIL 2021 – JUNE 2021)

Attached are the Second Quarter Sales Tax Receipts Report (April thru June 2021). The second quarter of 2020, a year ago, was dramatically impacted by the economic shutdown resulting from COVID-19 and the shelter-in-place directive. Retailers and restaurants were immediately hindered by the pandemic. With restaurants and brick and mortar stores closed or restricted to limited occupancies, sales tax revenues shifted to online shopping. Further, the shift to working from home also resulted into home improvement projects and work from home purchases, boosting the purchase of building materials, technology and home office items. The shift into these investments helped offset some of the sales revenue loss experienced. However, net of aberrations, taxable sales for the City declined by 36%, the County declined by 18% and the State was also negatively impacted by 16%.

The second quarter of 2021 shows a rebound of sales tax revenues in comparison to last year. Pent up demand combined with enhanced shopping and dining opportunities continue to grow. General consumer goods, autos and restaurants have experienced the most gains in this quarter. Consumers also continue to make large purchases online, thereby boosting the County's pool. It is important to note, however, that inflation continues to rise and there is a growing concern over the current state of the service industry workforce.

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)
- Carla Valenzuela, Chamber of Commerce

CITY OF COSTA MESA

SALES TAX UPDATE

2Q 2021 (APRIL - JUNE)



COSTA MESA
TOTAL: \$ 17,264,587

73.1%
2Q2021



37.6%
COUNTY

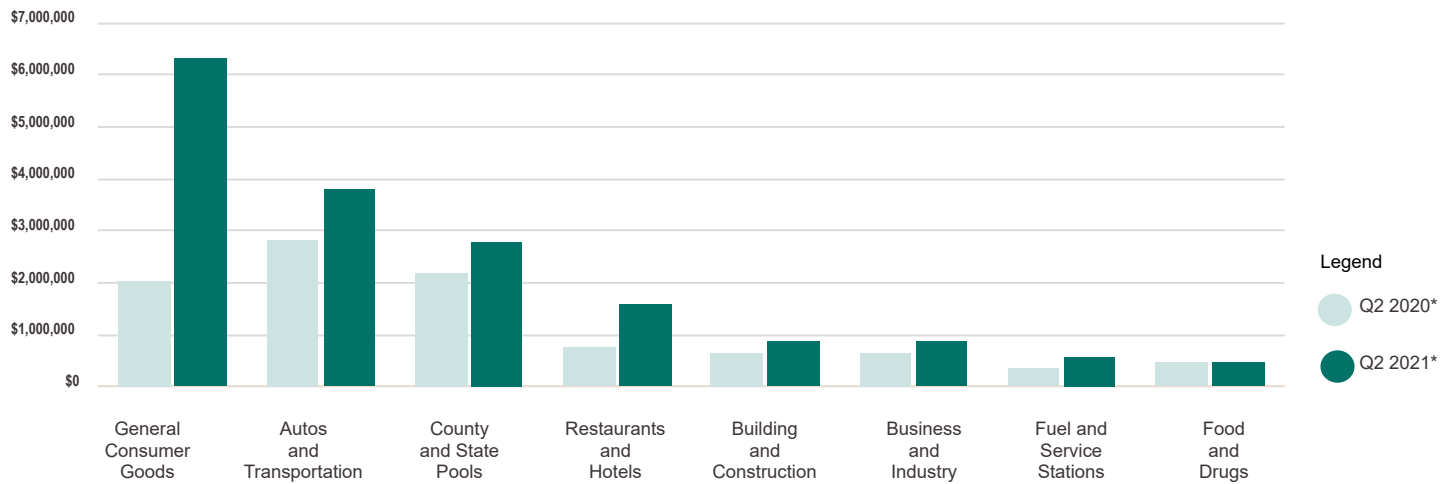


37.3%
STATE



**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 64.9% above the second sales period in 2020. Excluding reporting aberrations, actual sales were up 73.1%.

The dramatic percentage change is largely due to the depths of the pandemic impacts felt one year ago. However, consistent with the recent quarterly results, overall revenue continues to rebound and grow.

High demand and low inventory for new and used cars continue to boost sales tax generated, while multiple brick and mortar general consumer merchants experienced a strong rebound with department stores, jewelry and family apparel retailers showing the most gains.

The return of commuters to the road with higher gas prices has service station receipts up. Pent up demand and more

available indoor opportunities, especially at casual and fine dining establishments, pushed returns from restaurants closer to pre-pandemic levels.

Further supporting the overall growth, allocations from the countywide use tax pool continues to be a bright spot. With more online purchases being made and a greater number of out-of-state retailers collecting and remitting local sales tax, the City's share grew 27% compared to a year ago.

Net of aberrations, taxable sales for all of Orange County grew 37.6% over the comparable time period; the Southern California region was up 40.3%.



TOP 25 PRODUCERS

Audi Fletcher Jones
Autonation Honda
Best Buy
Bloomingdale's
Carmax
Cartier
Chanel
Christian Dior
Connell Chevrolet
Eurocar
Ganahl Lumber
Gucci
Home Depot
IKEA
Macys
Nordstrom
Orange Coast Chrysler
Jeep Dodge Ram Fiat
Pacific Auto Center
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 April through June, was 37% higher than the same quarter one year ago after factoring for accounting anomalies and back payments from previous quarters.

The 2nd quarter of 2020 was the most adversely impacted sales tax period related to the Covid-19 pandemic and Shelter-In-Place directive issued by Governor Newsom. The 2Q21 comparison quarter of 2Q20 was the lowest since 2Q14 due to indoor dining restrictions at most restaurants; non-essential brick and mortar store closures; and employee remote/work from home options which significantly reduced commuting traffic and fuel sales. Therefore, similar to the 1st quarter 2020 comparison, dramatic percentage gains for 2Q21 were anticipated and materialized.

Up to this point through California's recovery, we've seen some regions experience stronger gains than others. However, with the latest data and the depths of declines in the comparison period, statewide most regions saw very similar growth.

Within the results, prolonged gains by the auto-transportation and building-construction industries generated higher receipts. Although the explosion of sales by new and used car dealers has come as welcome relief, the latest news of inventories being stretched thin due to the micro processing chip issues earlier in the year may result in a headwind into 2022. Conversely for the building-construction group, as housing prices in many markets increased over the last year, sustained available homeowner and investor equity is in place for the foreseeable future. Receipts from general consumer goods marked a steady and expected come back, led by family apparel, jewelry and home furnishing stores. When combined with solid greater economic trends, this is a welcome

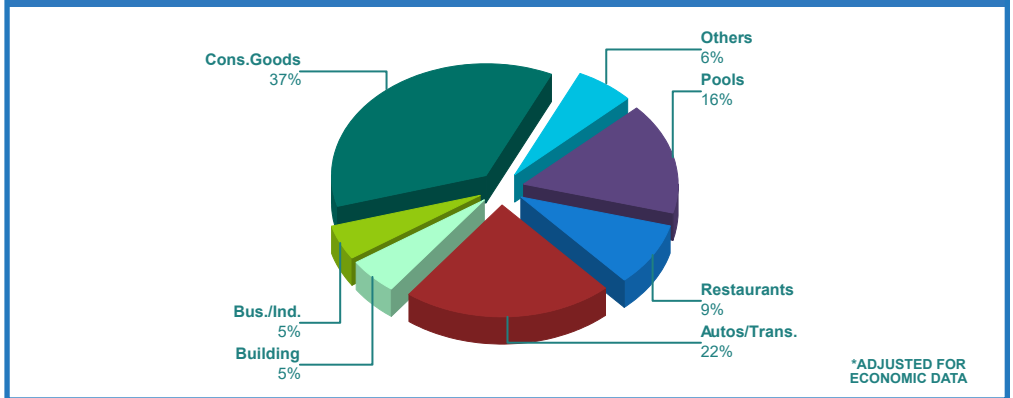
sign for many companies as a lead up to the normal holiday shopping period later this calendar year.

As consumers flock back into retail locations and with AB 147 fully implemented, growth from the county use tax pools - largely enhanced by out-of-state online sales activity - returned to more traditional gains of 9%. These results also included the reallocation of tax dollars previously distributed through the countywide pools to specific local jurisdictions that operate in-state fulfillment centers. Thus, the business and industry category, where fulfillment centers, medical-biotech vendors and garden-agricultural supplies are shown, jumped 26%.

In June, many restaurants reopened indoor dining. Given consumer desires to eat out and beautiful spring weather, all categories experienced a strong, much-needed rebound. However, labor shortages and a rise in menu prices continue to be a concern.

Looking ahead, sustained sales tax growth is still anticipated through the end of the 2021 calendar year. Inflationary effects are showing up in the cost of many taxable products. Pent up demand for travel and experiences, the return of commuters with more costly fuel, and labor shortages having upward pressure on prices may begin to consume more disposable income and tighten growth by the start of 2022.

REVENUE BY BUSINESS GROUP
Costa Mesa This Quarter*



TOP NON-CONFIDENTIAL BUSINESS TYPES

Costa Mesa Business Type	Q2 '21*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	2,187.3	47.9% ↑	51.3% ↑	55.9% ↑
Family Apparel	1,317.9	230.8% ↑	172.3% ↑	230.5% ↑
Jewelry Stores	1,056.9	509.1% ↑	333.4% ↑	289.7% ↑
Department Stores	1,051.4	385.6% ↑	359.1% ↑	335.1% ↑
Used Automotive Dealers	1,041.7	20.2% ↑	45.3% ↑	50.4% ↑
Casual Dining	766.0	153.0% ↑	134.3% ↑	130.4% ↑
Home Furnishings	723.8	111.9% ↑	97.9% ↑	88.5% ↑
Women's Apparel	603.5	554.8% ↑	296.6% ↑	266.9% ↑
Service Stations	554.8	67.0% ↑	82.1% ↑	73.9% ↑
Building Materials	466.7	23.3% ↑	19.4% ↑	21.7% ↑

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