



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

TO: DISTRIBUTION

FROM: CAROL MOLINA, FINANCE DIRECTOR


DATE: JUNE 14, 2022

SUBJECT: SALES TAX INFORMATION – 4TH QUARTER (OCT. 2021- DEC. 2021)

Attached are the Fourth Quarter Sales Tax Receipts Report (October thru December 2021). 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 here. Sales tax receipts continued to rebound from the effects of the pandemic last year. In particular, pent up demand for sales from general consumer goods, led the way to a healthy sales return. Retailers enjoyed pre-pandemic level sales, or even better sales, than ever before. Restaurants were also a leading indicator of increased consumer demand as dining out continued to make a comeback. Once again, building materials had an increase from the remodeling and building activity associated with low interest rates and high housing demand.

As noted last quarter, conference business for hotels is still recovering slowly and it is unknown when it will be at pre-pandemic levels. Staff continues to manage and monitor the City's revenues, and work with HDL to spot trends in the economy, as it relates to the City's 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 (7)
Department Directors and Staff
Finance and Pension Advisory Committee (9)
Chamber of Commerce

CITY OF COSTA MESA

SALES TAX UPDATE

4Q 2021 (OCTOBER - DECEMBER)



COSTA MESA
TOTAL: \$ 20,805,243

22.9%
4Q2021



15.3%
COUNTY

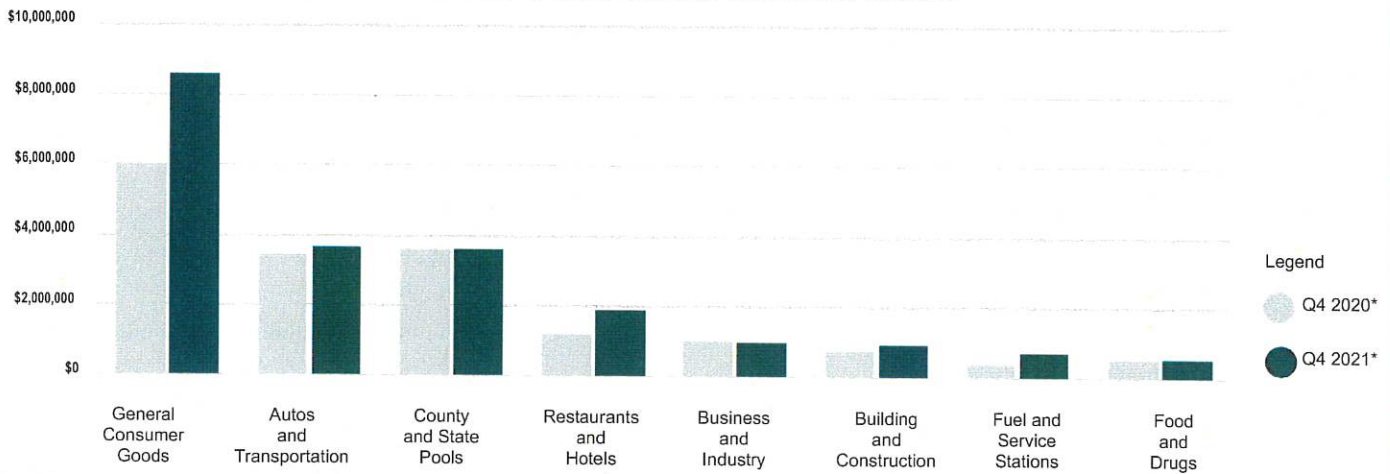


15.6%
STATE



*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 28.4% above the fourth sales period in 2020. Excluding reporting aberrations, actual sales were up 22.9%.

This strong percentage gain signifies the continued rebound from the pandemic impacts of a year ago, especially during the normal 'holiday shopping period'. Sensational returns from multiple retailers including family and women's apparel, specialty, jewelry and department stores were largely responsible for the dynamic 43% general consumer growth.

With enhanced optional dining areas, continued pent up demand to eat out and new eateries available, receipts from casual, quick-service and fine dining restaurants were only surpassed by amounts reported last quarter in the

City's history. A rise in gas prices, caused by more commuters and the higher cost of crude oil globally, boosted receipts from service stations, a trend not likely to change for some time.

Building-construction results also fared better than a year ago with a still hot housing market providing available equity keeping contractors busy, while steady gains by new and used car dealers are supported by increased vehicle pricing.

The City's allocation from the countywide use tax pool was flat mostly due to a softening of online purchases from out-of-state vendors compared to the shutdown periods a year ago.

Net of aberrations, taxable sales for all of Orange County grew 15.3% over the comparable time period; the Southern California region was up 17.4%.



TOP 25 PRODUCERS

- | | |
|-----------------------|----------------------|
| Audi Fletcher Jones | South Coast Toyota |
| Best Buy | Target |
| Bloomingdale's | Tesla Motors |
| Carmax | Theodore Robins Ford |
| Cartier | Tiffany & Co |
| Chanel | Tourneau |
| Christian Dior | |
| Connell Chevrolet | |
| Ganahl Lumber | |
| Gucci | |
| Hajoca Corporation | |
| Hermes | |
| Home Depot | |
| IKEA | |
| Louis Vuitton | |
| Macys | |
| Nordstrom | |
| Orange Coast Chrysler | |
| Dodge Jeep Ram Fiat | |
| Saks Fifth Avenue | |



STATEWIDE RESULTS

California's local one cent sales and use tax receipts for sales during the months of October through December were 15% higher than the same quarter one year ago after adjusting for accounting anomalies. A holiday shopping quarter, the most consequential sales period of the year, and the strong result was a boon to local agencies across the State. Consumers spent freely as the economy continued its rebound from the pandemic and as robust labor demand reduced unemployment and drove up wages.

Brick and mortar retailers did exceptionally well as many shoppers returned to physical stores rather than shopping online as the COVID crisis waned. This was especially true for traditional department stores that have long been among the weakest categories in retail. Discount department stores, particularly those selling gas, family and women's apparel and jewelry merchants also experienced strong sales. Many retailers are now generating revenue that is nearly as much, or even higher, than pre-pandemic levels.

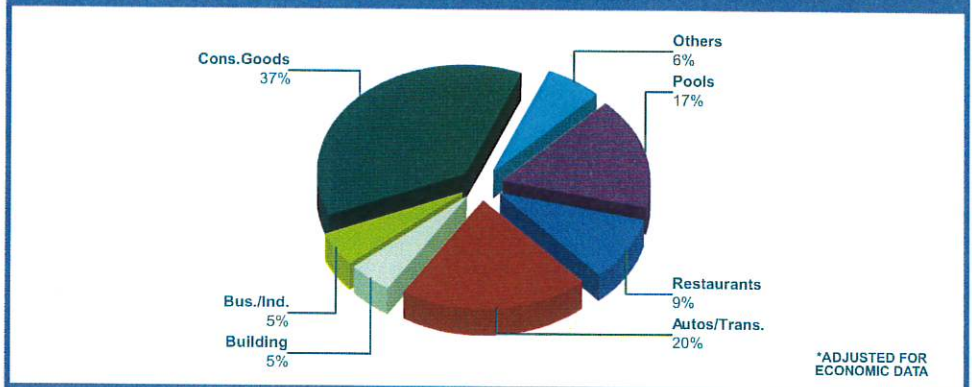
Sales by new and used car dealers were also much higher than a year ago. The inventory shortage has resulted in higher prices that have more than offset the decline in unit volume in terms of revenue generation for most dealerships. Restaurants and hotels were only moderately lower than last quarter, with both periods being the highest in the State's history. Increased menu prices coupled with robust demand to dine out are largely responsible for these gains. These are impressive results for a sector that does not yet include the positive impact that will occur later this year as international travel steadily increases at major airports. Conference business, an important revenue component for many hotels, is also still in the early stages of recovery.

Building material suppliers and contractors were steady as growing residential and commercial property values boosted demand, particularly in the Southern California, Sacramento and San Joaquin Valley regions. Although anticipated interest rate increases by the Federal Reserve could dampen the short-term outlook for this sector, industry experts believe limited selling activity will inspire increased upgrades and improvements by existing owners. With demand remaining tight and calls for more affordable housing throughout the state, the long-term outlook remains positive.

The fourth quarter, the final sales period of calendar year 2021, exhibited a 20% rebound

in tax receipts compared to calendar year 2020. General consumer goods, restaurants, fuel and auto-transportation industries were the largest contributors to this improvement. However, the future growth rate for statewide sales tax revenue is expected to slow markedly. Retail activity has now moved past the easy year-over-year comparison quarters in 2021 versus the depths of the pandemic bottom the year before. Additional headwinds going into 2022 include surging inflation, a dramatic jump in the global price of crude oil due to Russia's war in Ukraine and corresponding monetary tightening by the Federal Reserve. This is expected to result in weakening consumer sentiment and continued, but decelerating, sales tax growth into 2023.

REVENUE BY BUSINESS GROUP Costa Mesa This Calendar Year*



TOP NON-CONFIDENTIAL BUSINESS TYPES

Costa Mesa Business Type	Q4 '21*	Change	County Change	HdL State Change
Family Apparel	2,313.9	42.2% ↑	31.7% ↑	27.3% ↑
New Motor Vehicle Dealers	2,060.7	1.4% ↑	11.8% ↑	15.5% ↑
Department Stores	1,497.5	66.8% ↑	48.8% ↑	44.8% ↑
Jewelry Stores	1,340.7	63.3% ↑	52.1% ↑	37.6% ↑
Used Automotive Dealers	997.9	12.8% ↑	28.0% ↑	27.6% ↑
Casual Dining	917.5	67.1% ↑	56.8% ↑	66.5% ↑
Women's Apparel	799.4	65.9% ↑	50.0% ↑	41.5% ↑
Home Furnishings	760.5	5.2% ↑	8.8% ↑	6.3% ↑
Service Stations	684.3	71.9% ↑	69.4% ↑	53.8% ↑
Electronics/Appliance Stores	546.1	27.4% ↑	10.7% ↑	8.6% ↑

*Allocation aberrations have been adjusted to reflect sales activity

*In thousands of dollars