



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

TO: DISTRIBUTION

FROM: CAROL MOLINA, FINANCE DIRECTOR

DATE: MARCH 9, 2023

SUBJECT: SALES TAX INFORMATION – 2ND QUARTER (APRIL 2022- JUNE 2022)

Attached is the Second Quarter Sales Tax Receipts Report (April thru June 2022). Sales tax receipts continued to grow. The City's actual sales receipts were up 9.1% from the same timeframe the year before. This was mainly due to increased sales of general consumer goods such as apparel, department stores, and jewelry stores. As higher mortgage rates cool the new housing market, owners of existing properties stay focused on home renovations. As a result, the building and construction sector also continued strong returns. Restaurants have maintained increased consumer demand even though menu prices have significantly increased. The travel and tourism industry is optimistic that restaurants and hotels will continue to see relatively positive tax filings in the coming months.

However, caution should be taken with expectations for fiscal year 2022-23. Inflation is at a record high, and economists have warned of a potential impending recession. Also, be mindful that last year's sales tax includes some onetime adjustments that won't be repeated in 2022-23. And finally, it is projected that a slow Christmas season is on the horizon, with lower sales than usual. As a result, City staff will continue 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.

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

2Q 2022 (APRIL - JUNE)



COSTA MESA
TOTAL: \$ 19,434,694

9.1%
2Q2022



11.7%
COUNTY

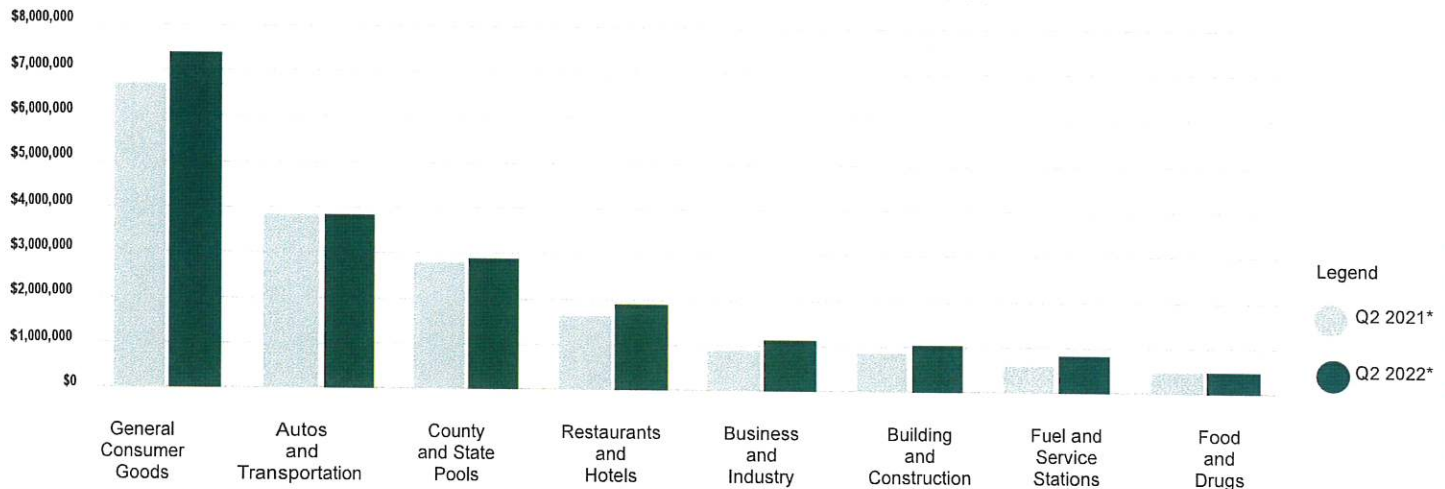


10.1%
STATE



**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 2.2% above the second sales period in 2021. Excluding reporting aberrations, actual sales were up 9.1%.

Sustained higher gas prices due to more commuters on the road and global crude oil reaching an all-time high point, receipts from service stations vaulted up 34% over a year ago. Sensational returns from multiple retailers including family apparel, jewelry and home department stores were largely responsible for the dynamic general consumer growth, stronger than the county and statewide trends.

Activity at building material and plumbing-electrical suppliers continued strong gains largely due to the stable housing & commercial markets and on-going infrastructure investment, while office furniture and equipment providers

lifted business-industry returns as employers reconfigure and renovate workplace environments.

Restaurants experienced another fantastic quarter as new eateries open and patrons continue spending with more expensive menus.

Increased allocations from the countywide use tax pool further contributed to the overall positive outcome. Greater investments in industrial equipment purchases helping the pool grow combined with the improved local results stated above has the City's portion 4% higher than last year.

Net of aberrations, taxable sales for all of Orange County grew 11.7% over the comparable time period; the Southern California region was up 11.1%.



TOP 25 PRODUCERS

- | | |
|-----------------------|----------------------|
| Apple | South Coast Toyota |
| Audi Fletcher Jones | 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 | |
| Macy's | |
| Nordstrom | |
| Orange Coast Chrysler | |
| Dodge Jeep Ram Fiat | |
| Pacific Auto Center | |



STATEWIDE RESULTS

Local one cent sales and use tax for sales occurring April through June was 10% higher than the same quarter one year ago after adjusting for accounting anomalies and back payments from previous quarters. These returns mark the sixth consecutive quarter of double-digit growth since the pandemic periods in 2020, with the July-June 2022 fiscal year up 15%.

Commuters returning to offices combined with the Russia-Ukraine conflict continuing to put upward pressure on oil prices and left Californians facing the highest average price per gallon on record resulting in fuel and service station receipts 42% higher than last year. While statewide fuel consumption still trails 2019 levels, local gas prices are expected to remain high until after the summer blend period.

Led by consumer's desire to dine out, a steady rise in tourism and business travel, higher menu prices and great weather, the restaurant sector continues to flourish. Theme parks, entertainment venues and hotels showed the strongest growth with casual dining establishments remaining solid, a trend likely to remain through 2022.

The automobile sector experienced modest gains for new car dealers and rental car vendors, however sales of used autos and leasing activity has begun to cool. Brands prioritizing full electric and hybrid models still appear to be the most attractive with consumers, however increased financing rates may cause even their activity to dampen. Tight inventories that contributed to dramatic price increases over the last 18 months are also showing signs of loosening as newer models are released

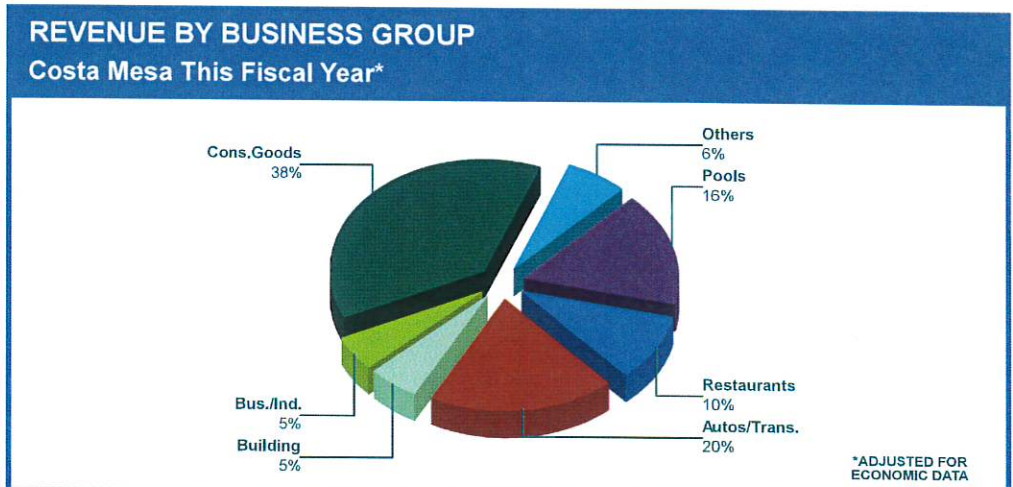
in greater numbers.

General consumer goods categories saw steady returns largely propped up by retailers also selling fuel. In comparison with the prior year when consumers were buying merchandise at a record pace, the current returns from apparel and jewelry stores grew moderately with home furnishings showing a slight decrease.

With new housing starts accelerating and residential and commercial property values rising, construction contractors remain busy. Lumber prices have softened from prior year highs leaving material suppliers with modest gains, however electrical, plumbing and energy

suppliers boosted building sector results. Increased investment in capital equipment remains an important area of growth for county pool allocations, especially as online spending for general consumer goods begins to flatten as consumers return to in-store shopping.

Overall, higher priced goods through periods of consistent demand have led to economic inflation. The Federal Reserve Board's recent actions to curb inflation are anticipated to put downward pressure on auto sales, building materials and financed general consumer goods, resulting in slower growth by year end and into 2023.



TOP NON-CONFIDENTIAL BUSINESS TYPES

Costa Mesa Business Type	Q2 '22*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	2,061.7	-5.7% ↓	6.2% ↑	6.6% ↑
Family Apparel	1,886.4	10.8% ↑	5.5% ↑	0.6% ↑
Jewelry Stores	1,199.4	13.2% ↑	13.2% ↑	1.2% ↑
Used Automotive Dealers	1,159.7	8.8% ↑	-2.6% ↓	-2.5% ↓
Department Stores	1,136.1	8.1% ↑	4.8% ↑	1.3% ↑
Casual Dining	931.4	14.2% ↑	13.6% ↑	17.2% ↑
Service Stations	804.2	34.5% ↑	37.2% ↑	36.4% ↑
Women's Apparel	775.0	27.2% ↑	14.6% ↑	6.2% ↑
Home Furnishings	735.2	0.0% ↓	-1.8% ↓	-4.6% ↓
Building Materials	528.0	12.4% ↑	5.3% ↑	2.9% ↑

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