



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

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**TO: DISTRIBUTION**

**FROM: CAROL MOLINA, FINANCE DIRECTOR** *cm*

**DATE: JUNE 30, 2023**

**SUBJECT: SALES TAX INFORMATION – 1ST QUARTER (JAN. 2023- MAR. 2023)**

Attached are the First Quarter Sales Tax Receipts Report (Jan. thru Mar. 2023). Actual sales were down 0.9% from the same time frame the previous year. This was mainly due to decreased sales of auto sales due to the higher interest rates compared to last year. Gas prices have decreased from last year, which is good news to the consumer, however, it caused a reduction in sales tax returns for Fuel and Service Stations. Buildings and Construction was down 13.7% due mostly to rainy weather. This sector is expected to rebound in the 2<sup>nd</sup> quarter. On the positive side the Business and Industry category increased year over year by 14.5% as companies invest in capital. Restaurants and Hotels are still increasing in sales as consumers are still wanting to get out and dine and also to travel. Finally, General Consumer Goods such as women's apparel, home furnishings, and jewelry stores increased slightly at 2.6%.

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.

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

### 1Q 2023 (JANUARY - MARCH)



#### COSTA MESA

TOTAL: \$ 17,782,930

-0.9%

1Q2023



-0.1%

COUNTY



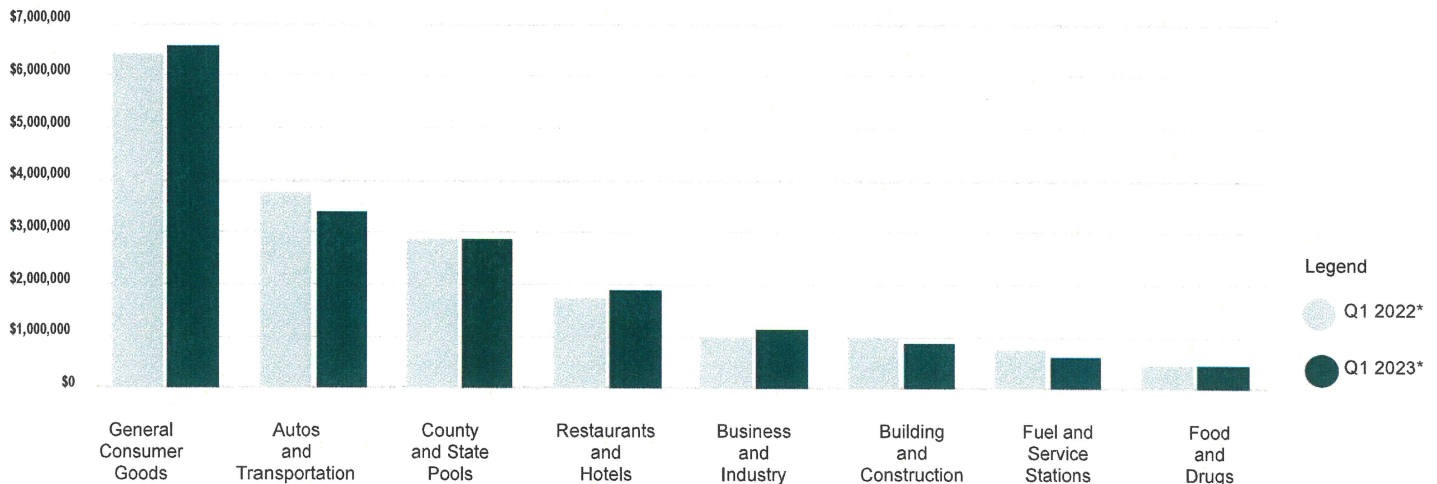
-1.1%

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 January through March were 0.5% above the first sales period in 2022. Excluding reporting aberrations, actual sales were down 0.9%.

Weaker returns from multiple new and used car dealers were largely responsible for the overall decline. Softening demand as higher financing rates impact buyers and new locations opening in neighboring jurisdictions remain for the sector.

Consistent with the statewide trend, a drop in year-over-year lumber prices combined with wet weather conditions negatively impacted returns from the building-construction group, while the reduction in fuel prices at the pump compared to last year also pulled service stations receipts lower.

Growth from multiple other sectors partially offset the losses. General consumer goods experienced growth in excess of the countywide trend as women's apparel, home furnishings and jewelry stores continued strong activity in the post-holiday period.

Spending at restaurants, especially quick-service and casual dining establishments, remained stout and returns from office supplies/furniture vendors and other industrial merchants further contributed.

Net of aberrations, taxable sales for all of Orange County were flat over the comparable time period; the Southern California region was down 0.8%.



#### TOP 25 PRODUCERS

Apple  
Audi Fletcher Jones  
Bloomingdale's  
California Beemers  
Teslers  
Carmax  
Cartier  
Chanel  
Christian Dior  
Connell Chevrolet  
Costa Mesa Buick GMC  
Cadillac  
Eurocar  
Ganahl Lumber  
Hermes  
Home Depot  
IKEA  
Louis Vuitton  
Macy's  
Nordstrom

Orange Coast Chrysler  
Dodge Jeep Ram Fiat  
Pacific Auto Center  
Pirch  
South Coast Toyota  
Target  
Tesla Motors  
Tourneau



## STATEWIDE RESULTS

California's local one cent sales and use tax receipts for sales during the months of January through March were 1.1% lower than the same quarter one year ago after adjusting for accounting anomalies. The first quarter of the calendar year experienced heavy rainfall and a slight pullback by consumers during this post-holiday period.

The building and construction sector was most impacted by wet weather conditions, especially contractors and paint/glass vendors. Furthermore, when coupled with year-over-year (YOY) lumber price declines, the sector saw a 9.7% statewide drop.

YOY declines in fuel prices at the pump reduced receipts from gas stations and petroleum providers. Even with OPEC's recent production cuts, the global cost of crude oil has remained steady setting up for moderate gas prices for travelers and commuters in the coming summer months. Retailers also selling fuel experienced a similar impact and when combined with weak results from department stores, overall general consumer goods' returns slightly declined.

After multiple years of high demand for vehicles (especially high-end luxury and electronic/hybrid brands), along with inflation driving car prices higher, customers demand has softened with revenue slumping 1.3%. The return of available inventory later this calendar year may sustain downward pressure on activity, potentially giving buyers more leverage to negotiate lower prices.

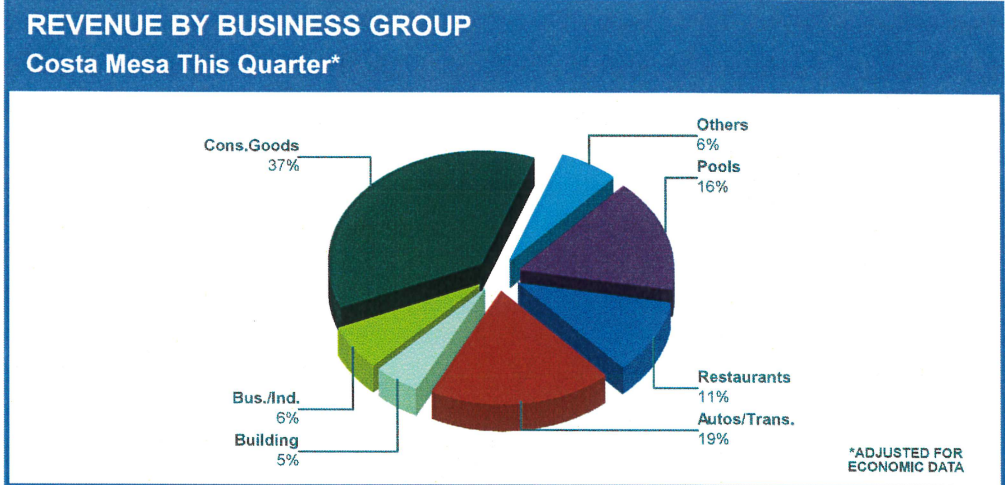
Use taxes remitted via the countywide pools decreased 1.1%, marking the second consecutive quarter of decline. Cooling consumer confidence, expansion

of more in-state fulfillment centers and retailers using existing locations to deliver goods tied to online orders continue to shift taxes away from the pools. While the offsetting effect was these revenues being allocated directly to jurisdictions where the goods were sourced, only a limited number of agencies benefited.

Spending at local restaurants and hotels continues to be robust. Patrons were unaffected by increased menu prices and wait times and maintained their willingness to dine out. In addition, investments in warehouse/farm/construction equipment was steady.

For the remainder of 2023 sales taxes may

decrease modestly, then begin a nominal recovery in early 2024. Volatile economic indicators such as the Federal Funds rate, unemployment levels, and discretionary spending will influence outcomes. While it appears the Federal Reserve's actions to fight inflation is taking effect, any lasting downward pressure on consumer pricing could also hinder short term growth.



### TOP NON-CONFIDENTIAL BUSINESS TYPES

Costa Mesa Business Type	Q1 '23*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	1,740.4	-18.5% ↓	2.0% ↑	0.8% ↑
Family Apparel	1,593.2	-2.2% ↓	2.5% ↑	2.3% ↑
Jewelry Stores	1,119.8	11.2% ↑	7.6% ↑	-7.7% ↓
Used Automotive Dealers	1,083.6	0.4% ↑	-3.4% ↓	-10.9% ↓
Casual Dining	951.8	8.9% ↑	9.0% ↑	9.8% ↑
Department Stores	856.0	-9.8% ↓	-7.5% ↓	-6.9% ↓
Home Furnishings	735.1	7.1% ↑	-7.4% ↓	-10.3% ↓
Women's Apparel	687.9	5.9% ↑	-1.6% ↓	-7.3% ↓
Service Stations	617.9	-18.6% ↓	-14.1% ↓	-9.8% ↓
Electronics/Appliance Stores	550.8	15.2% ↑	0.8% ↑	-2.1% ↓

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