



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

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**TO: DISTRIBUTION**

**FROM: CAROL MOLINA, FINANCE DIRECTOR**

**DATE: OCTOBER 23, 2023**

**SUBJECT: SALES TAX INFORMATION – 2ND QUARTER (APRIL 2023- JUNE 2023)**

Attached are the Second Quarter Sales Tax Receipts Report (April thru June 2023). Actual sales were slightly up, 0.6% from the same time frame the previous year. The Business and Industry category increased year over year by 18.3% as companies continued to invest in equipment. The cyber sales tax allocation increased 12% as consumers continued to increase online spending. In addition, the Food and Drugs category showed an increase of 9.9% primarily because of the higher cost of groceries due to inflation.

In contrast, gas prices decreased in the second quarter from the year before. In September 2022, gas prices hovered around \$7 per gallon. This September, prices were around \$6.20 per gallon. Therefore, gas prices year over year resulting in a reduction of 22% in sales tax returns for Fuel and Service Stations. Buildings and Construction was down 10.4% due mostly to continued unprecedented rainy weather in the second quarter, and homeowners not refinancing for home renovations, as a result of the increase in interest rates. Finally, the Autos and Transportation sector was down 3%. Challenges within this sector included higher auto loan rates and labor disputes at major automakers such as Ford, General Motors, Chrysler, Jeep, Ram and Dodge.

Overall, the second quarter of the year shows a slight increase from the same time period the previous fiscal year. Preliminary, unaudited estimates show that Sales Tax, for the fiscal year of 2022-2023, was up around 3% from the previous fiscal year.

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 (7)
- Chamber of Commerce

# CITY OF COSTA MESA

## SALES TAX UPDATE

### 2Q 2023 (APRIL - JUNE)



**COSTA MESA**  
TOTAL: \$ 19,829,487

0.6%  
2Q2023



-0.4%  
COUNTY

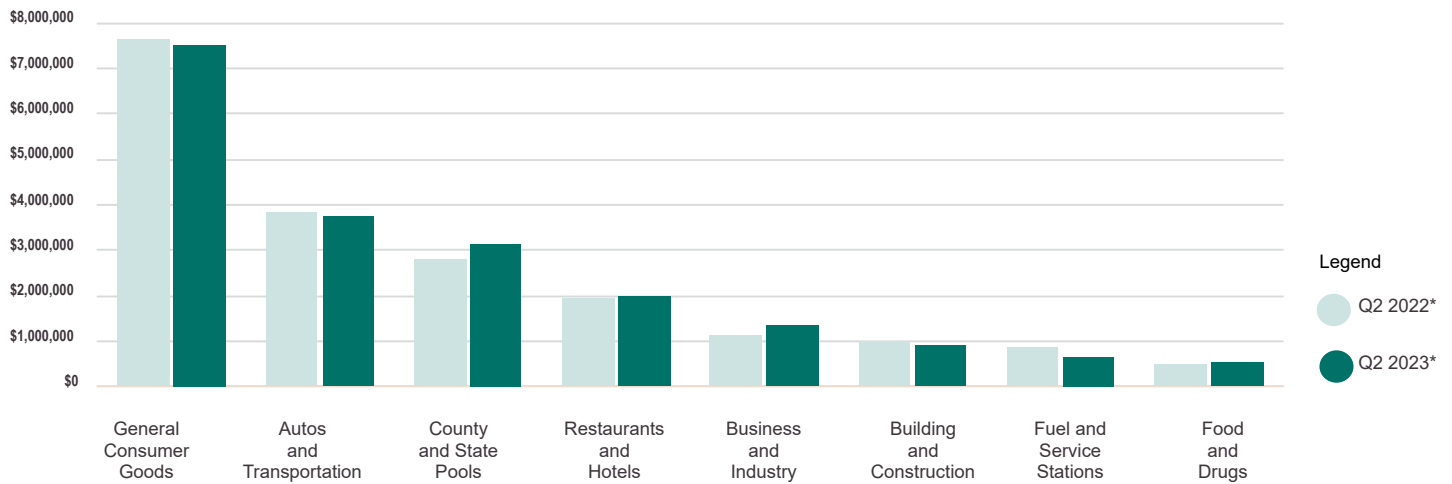


-2.9%  
STATE



*\*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 7.0% above the second sales period in 2022. Excluding reporting aberrations, actual sales were up 0.6%.

A spike in activity combined with solid sales by multiple industrial suppliers was largely responsible for the gain. Restaurant spending remained steady as casual and fast-casual dining showed the most growth.

Higher cost of taxable goods lifted grocery stores while the recent addition of cannabis retailers also helped food-drugs results.

Furthermore, a 12% increased allocation from the countywide use tax pool further supported overall gains. The total pool amount improved compared to last year due to more tax revenue from onetime activity, with enhanced results

locally compared to other jurisdictions in the county benefitting the quarterly allocation.

Mostly offsetting the growth were weaker returns from women's and family apparel stores hurting general consumers. In addition, softer sales by new car dealerships pulled auto-transportation down. Year-over-year pricing of lumber and fuel caused the building and gas stations declines.

Net of aberrations, taxable sales for all of Orange County declined 0.4% over the comparable time period; the Southern California region was down 2.9%.



### TOP 25 PRODUCERS

- ABC Companies
- Apple
- Audi Fletcher Jones
- Bloomingdale's
- Carmax
- Cartier
- Chanel
- Christian Dior
- Costa Mesa Buick GMC
- Cadillac
- Eurocar
- Ganahl Lumber Company
- 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
- Theodore Robins Ford
- Tourneau



## STATEWIDE RESULTS

California’s local one cent sales and use tax receipts for sales during the months of April through June were 2.8% lower than the same quarter one year ago after adjusting for accounting anomalies. The second quarter of the calendar year was impacted by continued wet weather and a difficult comparison with the prior year, which experienced dramatic growth.

The fuel-service stations sector contributed the most to this decline as year-over-year (YOY) falling fuel prices at the pump reduced receipts from gas stations and petroleum providers. Russia’s invasion of Ukraine and other world events during this period last year, pushed the global cost of crude oil to record highs. This dynamic also carried into general consumer goods as retailers selling fuel experienced a similar drop. Recently, OPEC and Russia have maintained production cuts having upward pressure on pricing again leading to future comparative growth.

Sustained wet conditions further delayed projects, especially those from the prior quarter, hindering building-construction returns. YOY lumber price declines added to the pull back from building materials providers. Higher interest rates represent a significant headwind for the industry with potential impacts of limited commercial development activity, slowing public infrastructure projects and homeowners left unable to access equity for renovations.

Despite a significant increase in new car registrations, revenue from autos-transportation fell by 1.4%. The improved activity can largely be attributed to rental car agencies restocking their fleets. However, these are wholesale transactions with sales tax charged upon rental of these vehicles. Weak demand for recreational vehicles, boats and motorcycles coupled

with elevated overall financing costs remain challenges going forward.

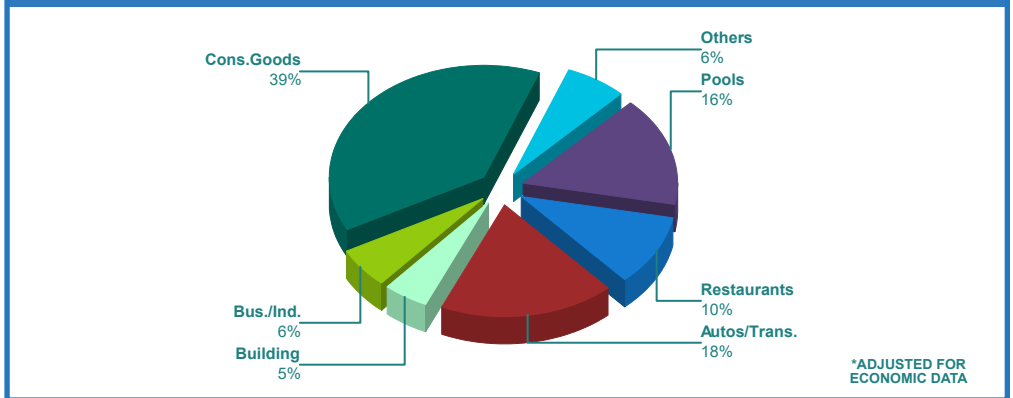
Use taxes remitted via the countywide pools decreased 0.75%, marking the third consecutive quarter of decline. While overall online sales continue to rise, pool collections dropped with the offsetting effect of more in-state fulfillment generated at large warehouses and through existing retail outlets allocated directly to local agencies.

Restaurant sales were a bright spot as the summer season began. Although menu prices have flattened after a year of sharp gains, patrons are making more restaurant trips and are favoring spending their disposable income on experiences. Better sales by office

material suppliers and enhanced investments of warehouse-farm-construction equipment contributed to improved returns for the business-industry category.

Sales tax for the remainder of 2023 appears likely to follow the recent trend of moderate declines before leveling off in early 2024. Cooling consumer confidence and greater pressure on household budgets may lead to a lackluster upcoming holiday shopping period. Furthermore, the possibility of a longer and more pronounced slowdown in economic activity exists as the Federal Reserve considers additional interest rate increases to combat high prices that are already stretching consumer wallets.

### REVENUE BY BUSINESS GROUP Costa Mesa This Fiscal Year\*



### TOP NON-CONFIDENTIAL BUSINESS TYPES

Costa Mesa Business Type	Q2 '23*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	1,931.1	-6.7% ↓	16.6% ↑	-0.3% ↓
Family Apparel	1,796.2	-10.1% ↓	-3.9% ↓	-1.0% ↓
Jewelry Stores	1,261.2	5.5% ↑	2.3% ↑	-1.0% ↓
Department Stores	1,215.7	0.6% ↑	-2.7% ↓	-2.0% ↓
Used Automotive Dealers	1,181.1	1.2% ↑	-0.3% ↓	-6.2% ↓
Casual Dining	979.4	2.5% ↑	3.8% ↑	4.6% ↑
Women's Apparel	757.3	-1.6% ↓	-5.6% ↓	-8.4% ↓
Home Furnishings	756.4	2.8% ↑	-3.8% ↓	-11.1% ↓
Service Stations	668.0	-22.0% ↓	-22.8% ↓	-19.9% ↓
Electronics/Appliance Stores	643.7	19.5% ↑	-1.2% ↓	-6.2% ↓

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