



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

TO: DISTRIBUTION

FROM: CAROL MOLINA, FINANCE DIRECTOR *cm*

DATE: JANUARY 25, 2024

SUBJECT: SALES TAX INFORMATION – 3RD QUARTER (JULY 2023-SEPT 2023)

Attached are the Third Quarter Sales Tax Receipts Report (July thru Sept 2023). Actual sales were up 1.3% from the same time frame the previous year. The Business and Industry category increased year-over-year by 34% as new companies moved into the City, for instance ABC Companies. Autos and transportation increased 18.1% as we see new dealerships, such as Rivian, open their doors. In addition, the Food and Drugs category showed an increase of 12.3% primarily because of the higher cost of groceries due to inflation.

General Consumer Goods category decreased by 7.4% as consumers slowed down on buying electronics and furnishings. Fuel and Service Stations also reduced as gas prices year over year resulted in a reduction of 5.3% in sales tax returns due to higher gas prices last year. Buildings and Construction was down 3.7% due mostly to higher interest rates as consumers hold back on building and remodeling in anticipation of rate reductions.

Overall, the third quarter shows a slight increase from the same time period for 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

3Q 2023 (JULY - SEPTEMBER)



COSTA MESA

TOTAL: \$ 20,068,198

1.3%
3Q2023



-1.1%
COUNTY

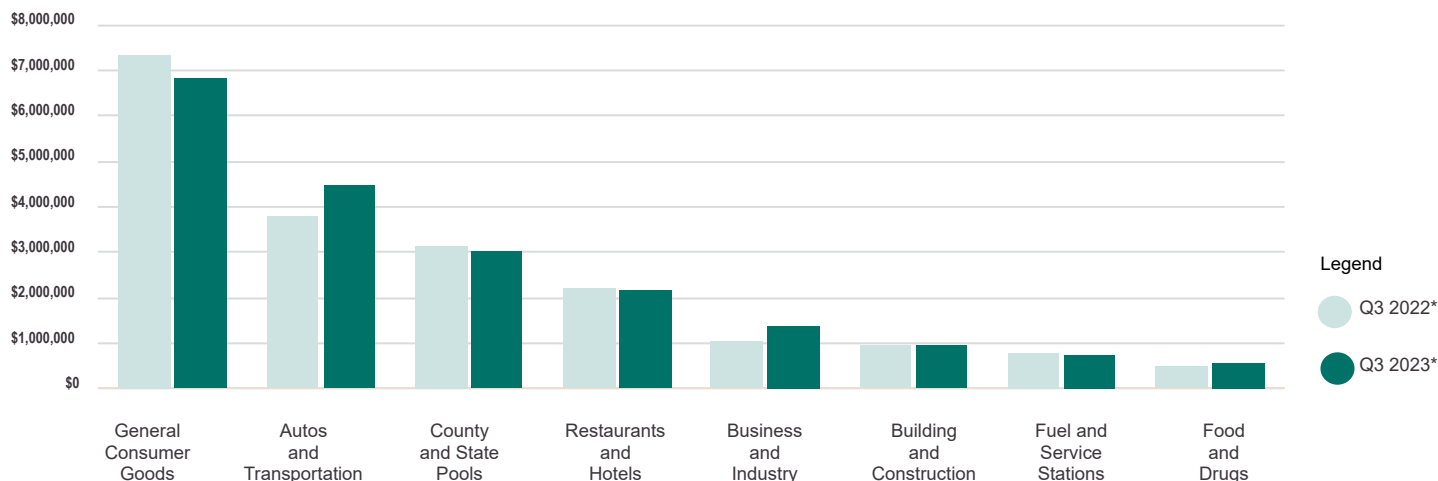


-1.7%
STATE



**Allocation aberrations have been adjusted to reflect sales activity*

SALES TAX BY MAJOR BUSINESS GROUP



CITY OF COSTA MESA HIGHLIGHTS

Costa Mesa's sales from July through September were 1.3% above the third sales period in 2022, once multiple payment anomalies and retroactive adjustments in both the current and year ago period were excluded. However, actual cash receipts were down 4.6%.

The recent addition of multiple new car dealers helped offset sluggish returns from other established locations, consistent with the statewide trends during the current higher interest rate environment. New companies and solid activity also contributed to the strong growth of business-industry.

Slowing sales by general consumer retailers partially offset the gains. Family apparel, home furnishings, and

electronic-appliance stores all struggled keeping pace with prior year returns. For the third straight quarter, lower gas prices hurt fuel-service station results.

Furthermore, the City's allocation from the countywide use tax pool dipped as overall online transactions and purchases of industrial products shipped from out-of-state have declined.

Net of aberrations, taxable sales for all of Orange County declined 1.1% over the comparable period; the Southern California region was down 1.4%.



TOP 25 PRODUCERS

- | | |
|----------------------------------|-----------------------|
| ABC Companies | Nordstrom |
| Audi Fletcher Jones | Orange Coast Chrysler |
| Bloomingdale's | Dodge Jeep Ram Fiat |
| Carmax | Pacific Auto Center |
| Cartier | Rivian |
| Chanel | South Coast Toyota |
| Christian Dior | Target |
| Connell Chevrolet | Tesla Motors |
| Costa Mesa Buick GMC | Tourneau |
| Cadillac | |
| Eurocar & Lotus of Orange County | |
| Ganahl Lumber Company | |
| Hermes | |
| Home Depot | |
| IKEA | |
| Louis Vuitton | |
| Macy's | |
| Newport Auto Center | |
| Porsche Bentley | |



STATEWIDE RESULTS

California's local one cent sales and use tax receipts for sales during the months of July through September were 1.6% lower than the same quarter one year ago after adjusting for accounting anomalies. The third quarter of the calendar year continued with a challenging comparison to prior year growth and stagnating consumer demand in the face of higher prices of goods.

Fuel and service stations contributed the greatest overall decline as lower fuel prices at the pump reduced receipts from gas stations and petroleum providers. While global crude oil prices have stabilized, they remained 15% lower year-over-year. This decline also impacted the general consumer goods category as those retailers selling fuel experienced a similar drop. Despite OPEC and Russia production cuts having upward pressure on pricing, global demand during the winter months has softened.

Along with merchants selling gas, many other general consumer categories were also down from the 2022 quarter, confirming consumers pulling back on purchases. Home furnishings and electronic-appliances were a couple of the largest sectors with the biggest reductions. As inflation and higher prices were the main story a year ago, currently it appears to be a balancing act between wants and needs, leaving meek expectations for the upcoming holiday shopping season.

Even following a long, wet first half of 2023, spending at building and construction suppliers moderately slowed. The current high interest rate environment did not help the summer period and still represents the largest potential headwind for the industry with depressed commercial development, slowing public infrastructure projects and new housing starts waiting for more profitable financial conditions.

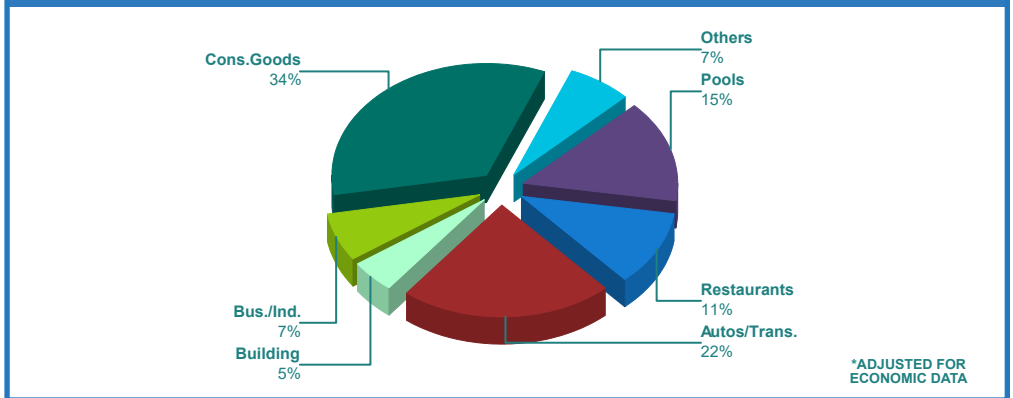
Despite continued increases of new car registrations, revenue from the auto-transportation sector slipped 2.6%. The improved activity remains mostly attributed to rental car agencies restocking their fleets. Like other segments, elevated financing costs are expected to impede future retail volume.

Use taxes remitted via the countywide pools dipped 3.0%, marking the fourth consecutive quarter of decline. While overall online sales volume is steady, pool collections dropped with the offsetting effect of more taxes allocated directly to local agencies via in-state fulfillment generated at large warehouses and through existing retail outlets.

Restaurants remained an economic bright spot through summer exhibiting a 2.6% gain. As tourism, holiday and business travel are all expected to have recovered in 2024, the industry is bracing for implementation of AB 1228 - new CA law setting minimum wages for 'fast food restaurants'.

With one more quarterly result to go in 2023, the recent trend of a moderate decline appears likely before a recovery in 2024. Initial reports from the holiday shopping season reflect a 3% bump in retail sales compared to 2022. Lingering consumer confidence may have also received welcome news as the Federal Reserve considers softening rates by mid-2024.

REVENUE BY BUSINESS GROUP Costa Mesa This Quarter*



TOP NON-CONFIDENTIAL BUSINESS TYPES

Costa Mesa Business Type	Q3 '23*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	2,593.6	23.9% ↑	-0.9% ↓	-2.4% ↓
Family Apparel	1,587.7	-9.7% ↓	-3.7% ↓	3.1% ↑
Used Automotive Dealers	1,275.4	20.2% ↑	9.4% ↑	-5.8% ↓
Jewelry Stores	1,100.7	-1.8% ↓	0.1% ↑	1.2% ↑
Department Stores	1,059.9	-0.5% ↓	-0.3% ↓	-1.7% ↓
Casual Dining	933.5	-2.3% ↓	2.5% ↑	2.8% ↑
Home Furnishings	787.3	-9.1% ↓	-6.9% ↓	-12.1% ↓
Service Stations	756.0	-5.3% ↓	-5.9% ↓	-7.3% ↓
Women's Apparel	681.2	-1.1% ↓	-2.7% ↓	-3.3% ↓
Building Materials	540.0	2.1% ↑	-1.8% ↓	-2.7% ↓

*Allocation aberrations have been adjusted to reflect sales activity

*In thousands of dollars