CITY OF COSTA MESA
FINANCE DEPARTMENT
INTEROFFICE MEMORANDUM

TO: **DISTRIBUTION**

FROM: **CAROL MOLINA, FINANCE DIRECTOR**

DATE: **JULY 26, 2024**

SUBJECT: **SALES TAX INFORMATION – 4TH QUARTER (OCT. 2023- DEC. 2023)**

Attached are the Fourth Quarter Sales Tax Receipts Report (Oct. thru Dec. 2023). Actual sales were slightly up 0.7% from the same time frame the previous year. This was mainly due to the recent addition of multiple new car dealers coupled with steady sales and leasing activity. This report also includes new reporting from Cannabis retailers that result in a slight increase in the City's allocation from the County pool. Sales tax receipts went down 4.2% This was mainly due to softer sales from general consumer retails, including women 's and family apparel, home furnishings, electronic sales, and jewelry stores.

Staff continues to manage and monitor the City's revenues and economy, 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:

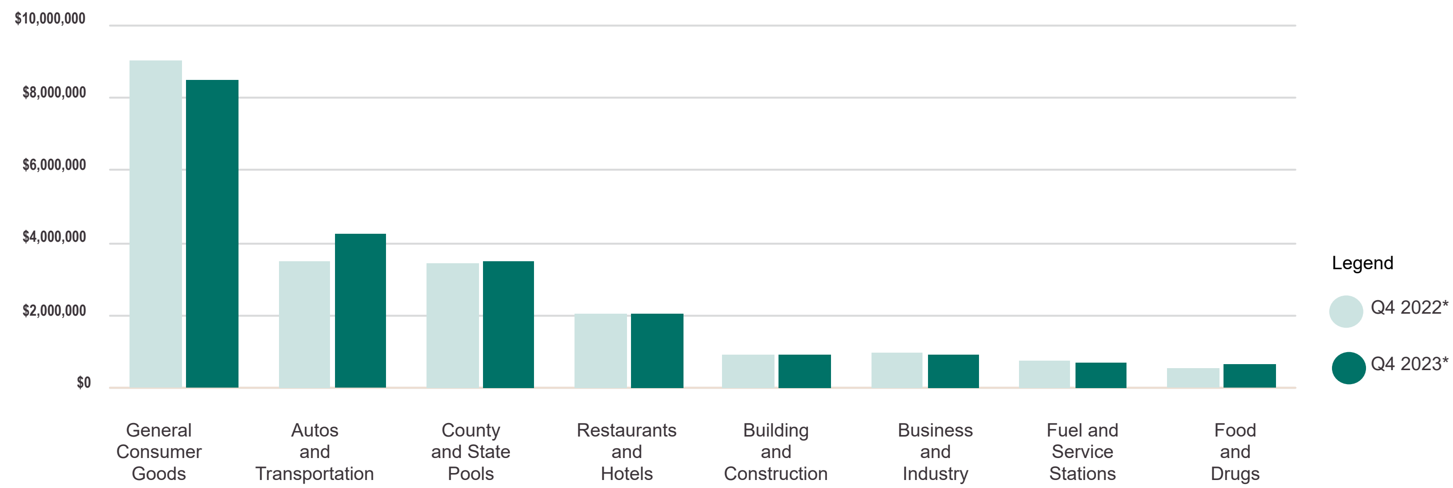
- City Council Members (7)
- Planning Commissioners (7)
- Department Directors and Staff
- Finance and Pension Advisory Committee (9)
- Chamber of Commerce

CITY OF COSTA MESA
SALES TAX UPDATE
4Q 2023 (OCTOBER - DECEMBER)

COSTA MESA	0.7%	-2.7%	-2.5%
TOTAL: $ 21,414,365	4Q2023 ↑	COUNTY ↓	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 October through December were 0.7% above the fourth sales period in 2022. However, due to multiple retroactive adjustments and temporary payment anomalies, actual cash receipts were down 4.2%.

The recent addition of multiple new car dealers coupled with steady sales and leasing activity from other merchants resulted in strong gains from the auto-transportation group. New reporting from cannabis retailers lifted revenue shown in food-drugs, while a slight increase in the city's allocation from the countywide use tax pool further helped slightly lift overall adjusted results.

However, softer sales from general consumer retailers, including women's and family apparel, home furnishings, electronic-appliance and jewelry stores, due to weak demand during the normal holiday shopping period was consistent with the county and statewide trends. Gas station returns remain sluggish as global crude oil prices remained lower compared to a year ago.

Additionally, recent merchant closeouts were largely responsible for the decline in the business-industrial sector.

Net of aberrations, taxable sales for all of Orange County declined 2.7% over the comparable time period; the Southern California region was down 2.0%.

TOP 25 PRODUCERS

Apple
Audi Fletcher Jones
Bloomingdale's
Carmax
Cartier
Chanel
Christian Dior
Connell Chevrolet
Costa Mesa Buick GMC Cadillac
Eurocar & Lotus Of Orange County
Ganahl Lumber Company
Hermes
Home Depot
IKEA
Louis Vuitton
Macy's
Newport Auto Center Porsche Bentley
Nordstrom
Pacific Auto Center
Rivian
South Coast Toyota
Target
Tesla Motors
Tiffany & Co
Tourneau

STATEWIDE RESULTS

California's local one cent sales and use tax receipts during the months of October through December were 2.5% lower than the same quarter one year ago after adjusting for accounting anomalies. The fourth quarter is notably the highest sales tax generating quarter of the year and exhibited diminished year-over-year returns as consumers balanced higher prices and financing costs with essential household needs.

Higher interest rates impacted the auto-transportation sector, especially luxury vehicles, as the group dropped 6.2%. Inventories for many dealers returned, creating downward pressure on prices, further constraining receipts. Lenders have tightened credit standards, making loan financing challenging. Improved leasing activity was the lone bright spot. With slow movement expected by the Federal Treasury setting interest rate policy, future revenue growth may stagnate.

Fuel and service stations contributed a similar downturn, as lower fuel prices reduced receipts from gas stations and petroleum providers. While this has been the trend throughout 2023, recently global crude oil prices have been on the rise and should see growth in the coming year. This decline also impacted the general consumer goods category as those retailers selling fuel experienced a similar drop.

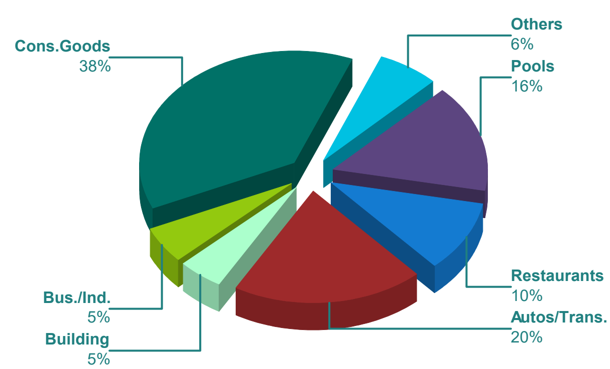
During this holiday shopping period, general consumer goods experienced lackluster sales as results pulled back 3.4%. Most sectors saw reductions with home furnishings, women's apparel, shoe and electronic-appliance stores being the most significant. Returns also marked the fourth consecutive quarter showing comparable declines. Similar to the anticipated trend of new vehicles, consumer spending may be sluggish in the near term.

Even though revenue from most major sectors slowed, restaurant sales remained steady with a modest gain of 1.0%. Results from casual dining establishments grew during the early winter period as patrons enjoyed indoor dining. However, following the greater trend of consumers looking for value, fine dining eateries experienced lower receipts. The industry is still bracing for implementation of AB 1228, a new law increasing minimum wages for 'fast food restaurants', on April 1, 2024.

Use taxes remitted via the countywide pools grew 1.0%, marking the first positive rebound after four consecutive quarters of decline. While overall online sales volume is steady, pool collections contracted with more taxes allocated directly to local agencies via in-state fulfillment and through existing retail outlets.

Statewide, calendar year 2023 ended with a 2.3% decline from 2022. Elevated inflation and interest rates led to higher cost of goods resulting in consumers not spending as much as they had prior. Following multiple years of post-pandemic tax growth assisted by federal tax policy and temporary workplace accommodations, consumers reassessed their economic conditions and limited purchases. As the Federal Reserve considers delaying softening rates, consumer spending could likely stagnate delaying a return to the normal historical growth trend in 2024.

REVENUE BY BUSINESS GROUP
Costa Mesa This Calendar Year*



*ADJUSTED FOR ECONOMIC DATA

TOP NON-CONFIDENTIAL BUSINESS TYPES

Costa Mesa Business Type	Q4 '23*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	2,519.2	31.8% ↑	-7.5% ↓	-7.7% ↓
Family Apparel	2,038.0	-7.9% ↓	-5.8% ↓	-0.4% ↓
Jewelry Stores	1,446.0	-4.5% ↓	-2.9% ↓	-2.2% ↓
Department Stores	1,435.9	5.6% ↑	3.4% ↑	1.5% ↑
Used Automotive Dealers	1,141.1	15.1% ↑	11.2% ↑	-2.4% ↓
Casual Dining	980.2	-2.6% ↓	2.3% ↑	1.9% ↑
Women's Apparel	827.1	-7.2% ↓	-7.2% ↓	-6.0% ↓
Home Furnishings	753.6	-7.9% ↓	-10.3% ↓	-10.1% ↓
Service Stations	698.2	-5.5% ↓	-3.8% ↓	-4.9% ↓
Electronics/Appliance Stores	651.8	-16.8% ↓	-10.9% ↓	-7.7% ↓

Allocation aberrations have been adjusted to reflect sales activity

In thousands of dollars