



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

TO: DISTRIBUTION

FROM: CAROL MOLINA, FINANCE DIRECTOR

DATE: AUGUST 13, 2024

SUBJECT: SALES TAX INFORMATION – 1ST QUARTER (JAN. 2024- MAR. 2024)

Attached are the First Quarter Sales Tax Receipts Report (January thru March 2024). Adjusting for reporting aberrations, actual sales for the City of Costa Mesa were down 0.5% versus the same period in 2023. These results are roughly in line with the overall decline in receipts for Orange County (-0.4%), Los Angeles County (-0.8%), Riverside County (-0.3%), and Statewide (-0.2%).

Slower sales in autos due to a lack of affordability from high interest rates were offset by the addition of multiple new car dealerships in the City of Costa Mesa, thereby raising overall sales tax receipts within that sector in the first quarter despite lower sales. As pandemic savings declines, a general slowdown in consumer spending was reflected in weaker sales particularly in luxury Jewelry and Apparel vendors, as well as Electronics/Appliance stores, which was magnified by a merchant closeout within that group during the period. Building Materials and Plumbing/Electrical Supplies produced reduced sales in the quarter as a result of prolonged bad weather during the time period delaying construction projects.

Looking ahead, we continue to track key economic indicators and leverage available expertise such as HdL in order to anticipate impacts to the City's sales tax revenues.

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

1Q 2024 (JANUARY - MARCH)



COSTA MESA

TOTAL: \$ 17,711,859

-0.5%

1Q2024



-0.4%

COUNTY



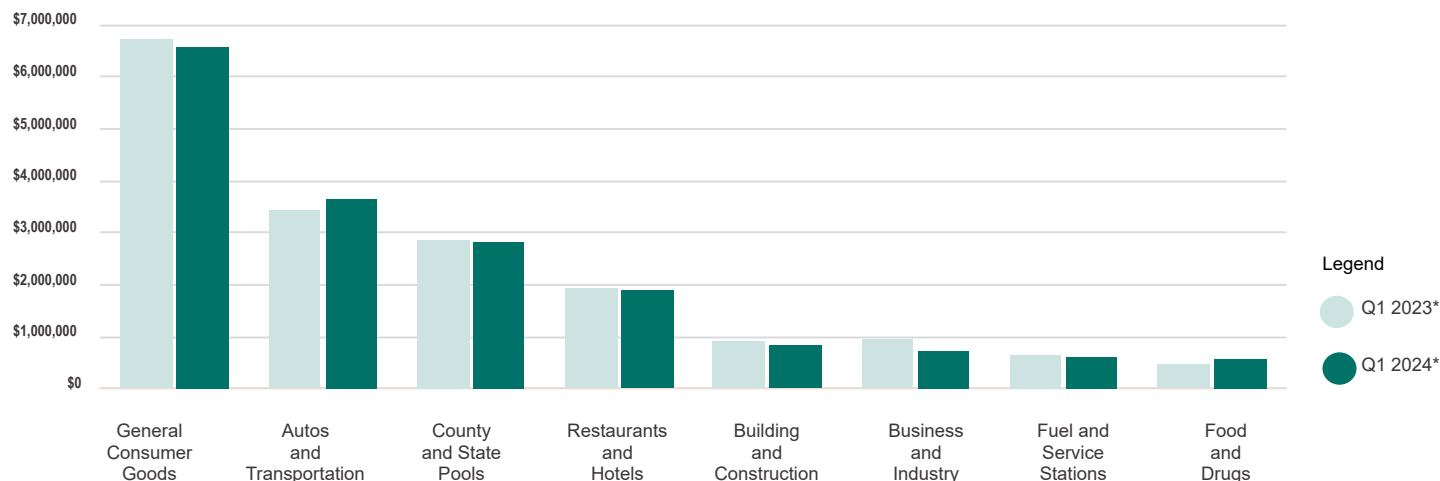
-0.2%

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 flat compared to the first sales period in 2023. Excluding reporting aberrations, actual sales were down 0.5%.

Weaker sales activity coupled with a recent merchant closeout hurt business-industry sector results, which was largely responsible for the overall decline. Building-construction also pulled back compared to the prior year as strong winter weather negatively impacted returns from material providers and plumbing/electrical suppliers.

Although general consumer goods experienced a dip, high-end jewelry vendors, family apparel and electronic/appliance stores hindered the group the most. Like the state and countywide trend, sluggish receipts from fuel/service stations were mainly due to lower gas

prices.

Autos-transportation saw solid growth, but mostly from the addition of multiple new car dealers. When new money is removed, data would suggest consumers have slowed purchases of vehicles overall because of the current high interest rate environment.

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



TOP 25 PRODUCERS

Apple
Audi Fletcher Jones
Bloomingdale's
California Beemers
Teslers
Carmax
Cartier
Chanel
Christian Dior
Connell Chevrolet
Costa Mesa Gmc Costa
Mesa 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
Tourneau



STATEWIDE RESULTS

California’s local one cent sales and use tax receipts during the months of January through March were 0.2% lower than the same quarter one year ago after adjusting for accounting anomalies. The calendar year first quarter is traditionally the lowest sales tax generating period; however, returns were more on par with the comparison period.

One of the only sectors continuing to display declines was autos-transportation. High interest rates created more expensive long-term financing costs. Combined with a dramatic cost of insurance coverage rate spike, this group declined 7.5%.

Fuel and service stations was the other sector with a drop over last year. As California drivers embark on summer travel, they’ll do so with slightly elevated gas prices versus 2023, probably yielding the final period of negative results for the category heading into 2025.

During this post-holiday shopping period, general consumer goods experienced a soft rebound with very modest 0.5% growth. Although retailers selling gas were hurt by fuel prices, it did not stop family apparel and department stores from lifting revenues.

Restaurant activity contributed constant growth of 2.1%. Only fine dining establishments remain hindered as more affordable menus are preferred. Also, it appears some eateries made operational changes while implementing AB 1228; however, there isn’t enough data

yet to understand if this new bill impacted revenue.

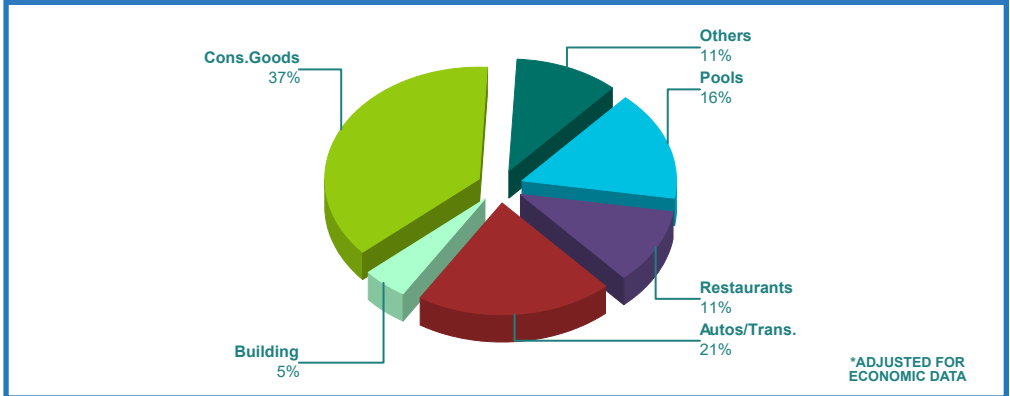
Seemingly dramatic one-time events helped boost business-industry, as investments in office supplies-furniture and energy projects were a significant reason for 3.6% gains this quarter. Additionally, strong fulfillment center direct payments demonstrated sustained logistical expansion. When coupled with improved returns via the countywide use tax pools, customers demonstrated e-commerce preferences for obtaining various goods. Overall

pool allocations improved 1.6%.

Statewide, 2024 begins in a more positive fashion compared to the recent trends of 2023. Buoyed 1st quarter results may signify ‘the floor’ helping ease tax revenue concerns while awaiting the next growth cycle. The Federal Reserve and their position with the Fed Funds Rate remains the most probable component between economic stagnation or spring-boarding consumer spending. Tourism and local travel in the coming summer period could further inspire confidence.

REVENUE BY BUSINESS GROUP

Costa Mesa This Quarter*



TOP NON-CONFIDENTIAL BUSINESS TYPES

Costa Mesa Business Type	Q1 '24*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	1,892.9	8.3% ↑	-11.9% ↓	-10.4% ↓
Family Apparel	1,593.7	-3.2% ↓	1.7% ↑	7.7% ↑
Used Automotive Dealers	1,176.0	9.1% ↑	7.4% ↑	-3.8% ↓
Jewelry Stores	1,051.9	-10.3% ↓	-6.7% ↓	-0.5% ↓
Department Stores	961.4	12.3% ↑	8.7% ↑	9.9% ↑
Casual Dining	949.0	-1.7% ↓	2.2% ↑	2.4% ↑
Home Furnishings	736.4	0.8% ↑	5.2% ↑	-6.3% ↓
Women's Apparel	708.9	-0.5% ↓	0.6% ↑	-1.2% ↓
Service Stations	617.4	-1.7% ↓	-0.8% ↓	-0.9% ↓
Building Materials	455.1	-4.6% ↓	0.9% ↑	-1.0% ↓

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