

CITY OF MORGAN HILL

SALES TAX UPDATE

3Q 2023 (JULY - SEPTEMBER)



MORGAN HILL

TOTAL: \$ 3,309,371

2.1%
3Q2023



-1.1%
COUNTY

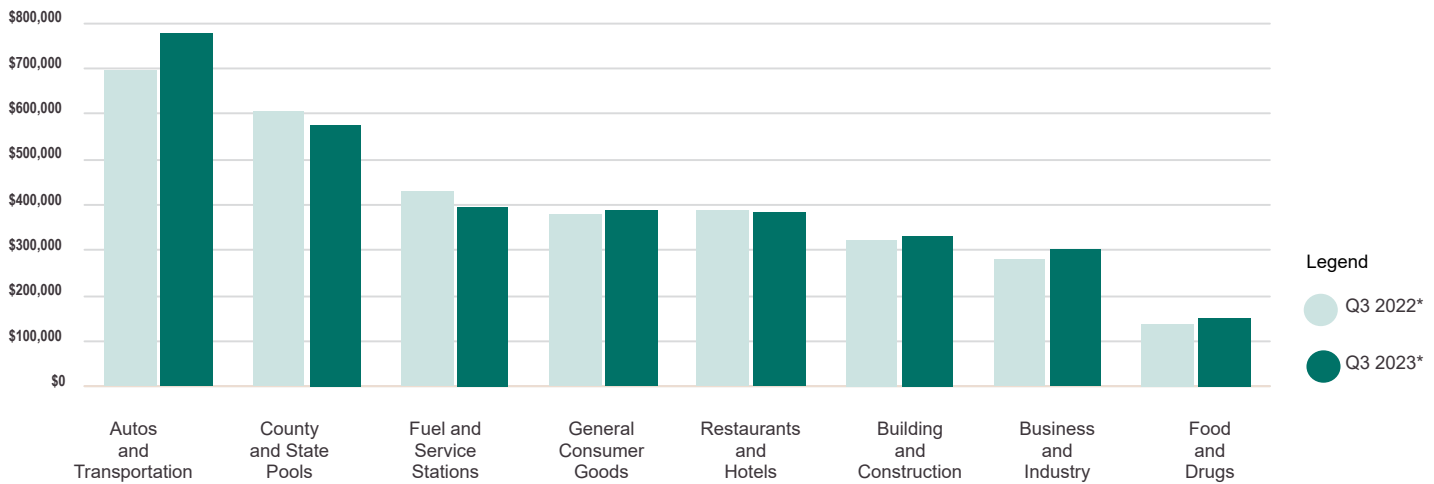


-1.6%
STATE



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

SALES TAX BY MAJOR BUSINESS GROUP



CITY OF MORGAN HILL HIGHLIGHTS

Morgan Hill's gross receipts from July through September were essentially flat at 0.3% for the third sales period in 2023. However, after adjusting for reporting modifications such as audit adjustments and delayed payments, actual sales were up 3.1%.

The city's largest sales tax group, autos-transportation, posted a stellar quarter and skyrocketed up 16.3% boosting the overall results for the city. In-store shopping remained stable with growth in specialty stores and family apparel contributing to a 2.5% rise in general consumer goods returns. Casual and quick service dining experienced gains, but lower leisure-entertainment revenues pulled down the overall restaurant-hotels results. Fuel prices edged down and service station revenues dropped; however, a closed business also influenced revenues.

The 4.6% decline in countywide use-tax pool allocations reflect waning third-party auto and internet sales. Furthermore, online retailers shifted the fulfillment of some of their internet orders from out-of-state to instate fulfillment centers.

A one-time allocation from a taxpayer in the heavy industrial sector lifted business-industry revenues. While building materials receipts slumped contractor activity increased and the building-construction group returns landed in positive territory for the period.

Net of adjustments, taxable sales for all of Santa Clara County declined 1.1% over the comparable time period; the Bay Area was down 3.0%.



TOP 25 PRODUCERS

- 7 Eleven
- Anritsu America
- Arco
- Cal Door & Drawers
- Chevron
- Chrysler Dodge Jeep Ram Morgan Hill
- Cochrane 76
- Cochrane Chevron
- Ford Store Morgan Hill
- Home Depot
- House of Thunder Harley Davidson
- Jayco Morgan Hill
- Johnson Lumber Ace Hardware
- McDonalds
- Morgan Hill Gas & Shop
- New Millennium Building Systems
- Safeway
- Safeway Fuel
- Shoe Palace
- South Bay Airstream Adventures
- Star Concrete
- Target
- TJ Maxx
- Victory Honda of Morgan Hill
- Walmart Supercenter



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.

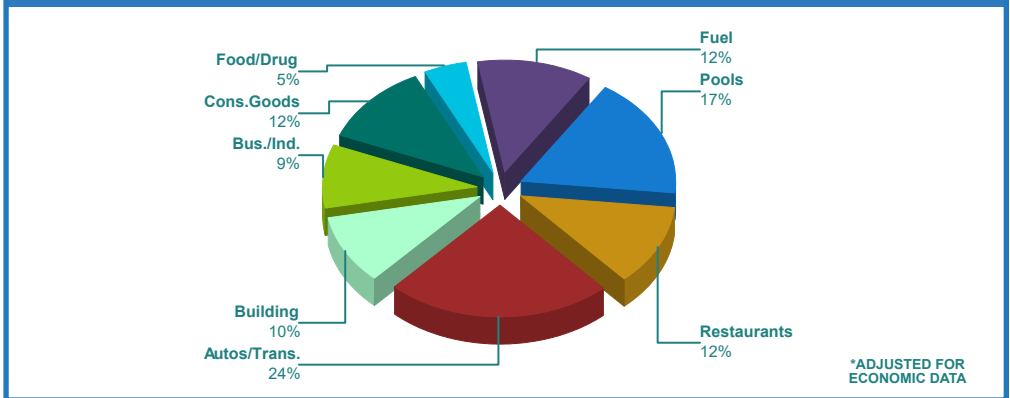
Despite continued increases of new car registrations, revenue from the autos-transportation sector slipped 2.6%. The improved activity remains mostly attributed to rental car agencies restocking their fleets. Like other segments, elevated financing costs are expected to impede future retail volume.

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 Morgan Hill This Quarter*



TOP NON-CONFIDENTIAL BUSINESS TYPES

Morgan Hill Business Type	Q3 '23*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	587.3	21.9% ↑	4.7% ↑	-2.4% ↓
Service Stations	397.2	-7.7% ↓	-6.8% ↓	-7.4% ↓
Building Materials	231.0	-8.5% ↓	-1.8% ↓	-2.7% ↓
Casual Dining	176.6	2.2% ↑	5.8% ↑	2.8% ↑
Quick-Service Restaurants	149.9	4.9% ↑	4.0% ↑	2.7% ↑
Trailers/RVs	86.6	-9.2% ↓	20.8% ↑	-14.2% ↓
Heavy Industrial	82.8	34.0% ↑	13.2% ↑	-6.1% ↓
Grocery Stores	78.9	6.9% ↑	4.4% ↑	2.3% ↑
Contractors	76.6	54.7% ↑	-14.6% ↓	-1.1% ↓
Electrical Equipment	65.9	22.5% ↑	-1.2% ↓	1.5% ↑

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