

CITY OF MORGAN HILL

SALES TAX UPDATE

4Q 2020 (OCTOBER - DECEMBER)



MORGAN HILL

TOTAL: \$ 2,610,909

2.2%
4Q2020



-3.9%
COUNTY

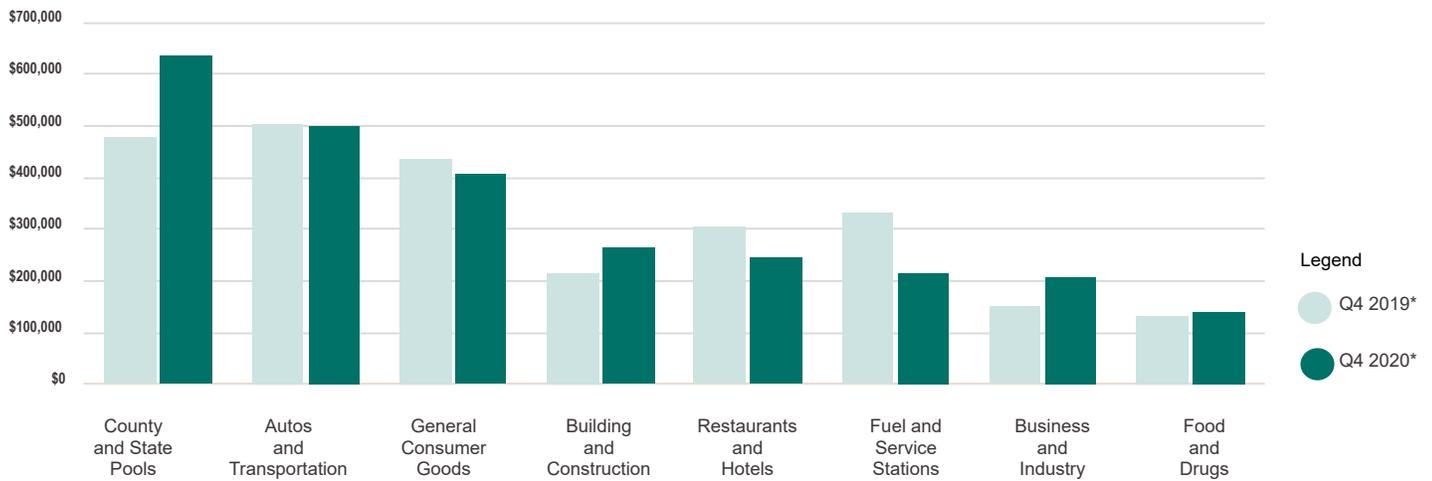


-2.0%
STATE



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

SALES TAX BY MAJOR BUSINESS GROUP



CITY OF MORGAN HILL HIGHLIGHTS

Morgan Hill's receipts from October through December were 8.9% above the fourth sales period in 2019. Excluding reporting aberrations, actual sales were up 2.2%.

Overall pace of sale collections declined 4.9% as Covid-19 pandemic related economic impacts continue to weigh on certain business sectors, while others thrive. Restaurants-hotels sales declined 19.7% due to restrictions placed on the industry, however, this loss was better than regional and state trends.

Weaker gas prices and diminished demand for fuel thrust service stations downward by 34.9%. General retail sales dropped 7.1% lower in part from less foot traffic.

The autos-transportation group posted mixed returns; some segments dipped

slightly while trailers/RVs, auto leasing and supply stores recorded gains.

Strong growth was reported by building materials and heavy industrial companies. Other favorable results included grocers and specialty stores.

E-commerce spending over the holiday season surged with a 33% improvement in use tax allocations from the countywide pool; results in this category more than made up for brick and mortar losses.

Net of aberrations, taxable sales for all of Santa Clara County declined 3.9% over the comparable time period; the Bay Area was down 8.0%.



TOP 25 PRODUCERS

- | | |
|------------------------|------------------------------|
| Anritsu America | Safeway Fuel |
| Arco | Shell |
| Cab West/Volvo Leasing | Shoe Palace |
| Chevron | Target |
| Cochrane 76 | TJ Maxx |
| Cochrane Chevron | Victory Honda of Morgan Hill |
| Dick's Sporting Goods | Walmart Supercenter |
| Ford Store Morgan Hill | |
| Golden Eagle Gas | |
| Hobby Lobby | |
| Home Depot | |
| House of Thunder | |
| Harley Davidson | |
| Johnson Lumber Ace | |
| Hardware | |
| McDonalds | |
| Norcal Kenworth | |
| Pan Pacific RV Center | |
| Ross | |
| Safeway | |



STATEWIDE RESULTS

The local one cent sales and use tax from sales occurring October through December, the holiday shopping season, was 1.9% lower than the same quarter one year ago after adjusting for accounting anomalies and back payments from previous periods. Lower receipts were primarily concentrated in the Bay Area and coastal southern regions while much of inland California, including the San Joaquin Valley, Inland Empire, and northern regions, exhibited solid gains.

As expected, the larger place of sale categories which have been negatively impacted throughout the pandemic continue to be brick and mortar general consumer goods retailers like family apparel, department, and electronics/appliance stores. With limited to zero allowed indoor dining (depending on a County's Covid-19 tier assignment), restaurants and hotels suffered the largest losses especially in communities that strongly rely on tourism. Although the workforce has slowly begun to return to physical office environments, fuel and service stations revenues lagged the prior year performance.

It does not appear that Governor Newsom's second 'shelter at home' directive, initiated by the increase in Covid-19 cases had an impact on overall results. While some merchants chose to utilize the Governor's executive order allowing for a 90-day deferral of sales tax remittance, it was substantially less than the similar opportunity companies utilized during the 1st and 2nd quarters of 2020. The outstanding payments for most California cities will be remitted before the end of the 2020-21 fiscal year.

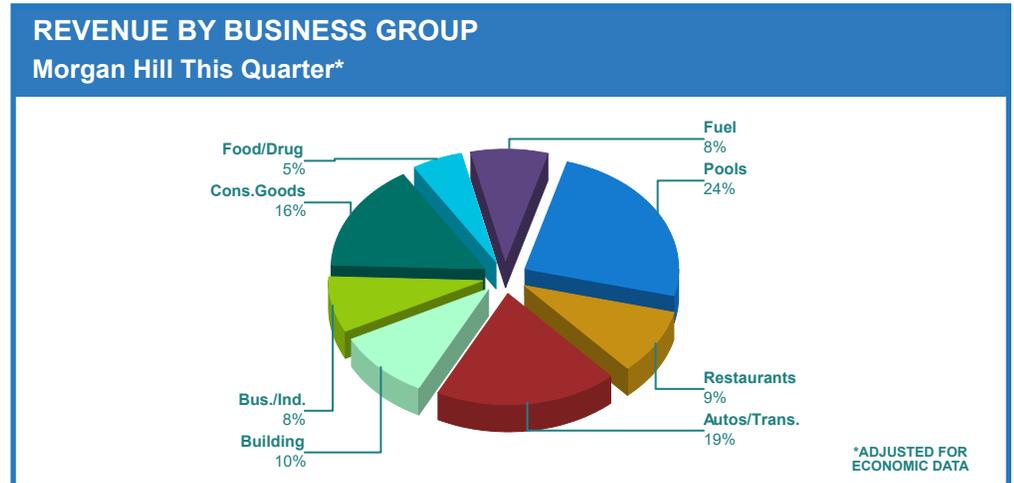
On the bright side, as consumer confidence stabilized post the national presidential election, customers were motivated to comfortably spend on high-end luxury automobiles, boats-motorcycles, RVs, and sporting goods/equipment.

The building-construction sector, with 1) increased price of goods - like lumber, 2) continued home improvement projects, and 3) advantageous fall/winter weather conditions saw strong gains that remained consistent throughout the calendar year.

Exponential growth from countywide use tax pools further helped offset

the declines. Greater online shopping signifying a permanent shift of consumer habits to this more convenient experience was inevitable.

On the horizon, mass deployment of the Covid-19 vaccine will help a greater number of businesses, restaurants and theme parks to reach reopen status. Recent approval of the American Rescue Plan Act of 2021 will further support greater consumer spending, albeit in targeted segments. Pent up demand for summer outdoor experiences and travel is likely and thereby household spending is temporarily reverted away from taxable goods when compared to recent activity.



TOP NON-CONFIDENTIAL BUSINESS TYPES

Morgan Hill Business Type	Q4 '20*	Change	County Change	HdL State Change
Building Materials	225.5	27.8% ↑	10.7% ↑	17.4% ↑
Service Stations	215.7	-34.9% ↓	-39.5% ↓	-31.3% ↓
Quick-Service Restaurants	107.0	-7.8% ↓	-27.8% ↓	-8.8% ↓
Grocery Stores	95.4	6.8% ↑	-3.4% ↓	5.4% ↑
Casual Dining	93.1	-32.6% ↓	-44.4% ↓	-39.4% ↓
Specialty Stores	80.4	6.3% ↑	-19.8% ↓	-6.7% ↓
Heavy Industrial	55.7	82.0% ↑	-11.8% ↓	-10.3% ↓
Family Apparel	51.2	-9.0% ↓	-27.7% ↓	-16.2% ↓
Trailers/RVs	44.3	13.3% ↑	7.1% ↑	27.0% ↑
Electrical Equipment	41.4	-52.2% ↓	-7.0% ↓	-6.4% ↓

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