

CITY OF MORGAN HILL

SALES TAX UPDATE

4Q 2022 (OCTOBER - DECEMBER)



MORGAN HILL

TOTAL: \$ 3,306,880

-3.0%
4Q2022



2.9%
COUNTY

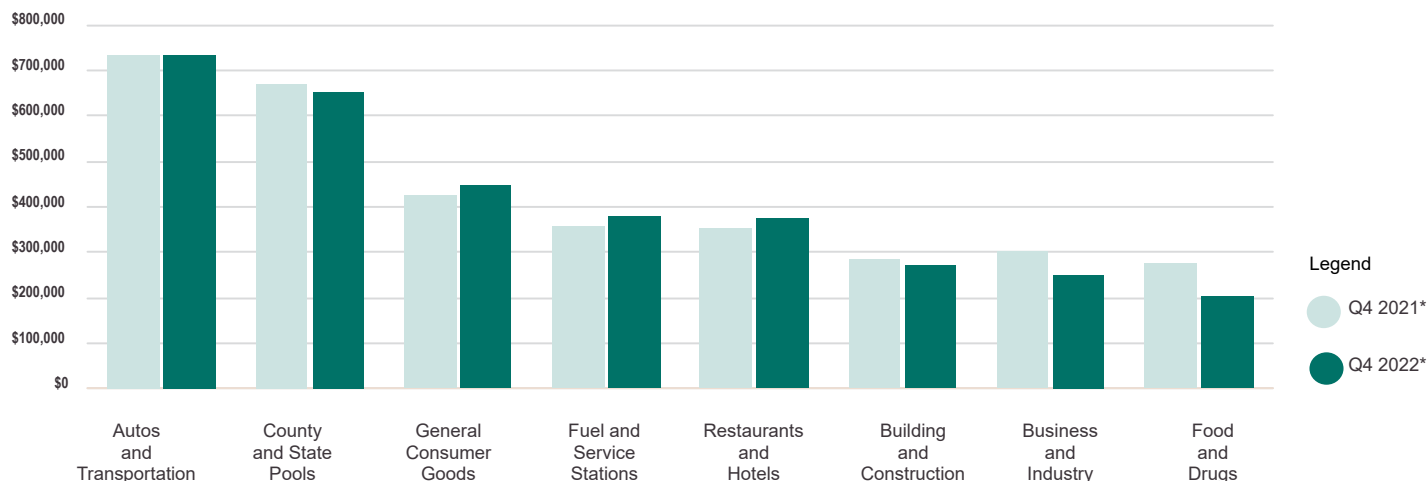


4.7%
STATE



*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 October through December were 7.0% below the fourth sales period in 2021. After adjusting for reporting modifications, net revenues were 3% lower than a year ago. Returns were mixed across the various sales tax categories.

As the largest tax group, autos-transportation had an even fourth quarter performance. Declines in trailer/RV sales were offset by gains in new vehicle purchases and repair shop activity. In-store retail varied by sector, but the busy holiday shopping season encouraged spending in family apparel and specialty stores.

Service station receipts continued to benefit from the high price of fuel and increased travelers on the roads. As in recent quarters, patrons enjoyed the experience of dining out at both casual

and quick service restaurants, even when faced with rising menu prices.

Although building materials and plumbing/equipment sales were up, comparison to a contractor misallocation a year ago skewed the overall results down for building-construction. Similarly, comparison to a large, one-time allocation reduced food-drugs receipts. Business-industry revenues declined in the medical-biotech and electrical equipment sectors – pulling down the group. The reduction in sales tax resulted in a lower share of the countywide use tax pool and a 2.7% drop in allocations.

Net of adjustments, taxable sales for all of Santa Clara County grew 2.9% over the comparable time period; the Bay Area was up 5.6%.



TOP 25 PRODUCERS

7 Eleven	Safeway Fuel
Anritsu America	Shell
Arco	Shoe Palace
Chevron	South Bay Airstream Adventures
Chrysler Dodge Jeep Ram Morgan Hill	Target
Cochrane 76	TJ Maxx
Cochrane Chevron	Victory Honda of Morgan Hill
Ford Store Morgan Hill	Walmart Supercenter
Golden Eagle Gas	
Hobby Lobby	
Home Depot	
House of Thunder	
Harley Davidson	
Johnson Lumber Ace Hardware	
McDonalds	
Morgan Hill Gas & Shop	
Pan Pacific RV Center	
Safeway	



STATEWIDE RESULTS

California's local one cent sales and use tax receipts for sales during the months of October through December were 4.7% higher than the same quarter one year ago after adjusting for accounting anomalies. A holiday shopping quarter, the most consequential sales period of the year, experienced solid results which lifted revenue to local agencies across the State.

Overall, general consumer goods growth was up a meager 1.8%, in large part from merchants also selling gas as prices remained elevated over last year. Otherwise, many brick and mortar retailers experienced mixed results as the phenomenal prior year activity made for an extremely difficult comparison. This was especially true for jewelry stores receipts which had soared tremendously after the pandemic as consumers diversified readily available cash into other assets.

Commuters and seasonal travelers were again burdened with gas prices above \$5 per gallon in most of the State, leaving fuel-service stations 10% higher than a year ago. However, this trend did not distract from spending at local restaurants and hotels. Increased menu prices and return-to-office workplaces enhanced gains, with the Bay Area experiencing it's greatest amount of post-pandemic rebound.

Although inventory shortages negatively impacted unit sales and leasing activity throughout 2022, year-end returns by new car dealers, especially high-end luxury and electronic/hybrid brands, sustained auto-transportation sector gains. In contrast, rising interest rates and higher gas prices pulled trailer-RV revenues lower. Steady housing demand and pend up construction projects delayed by supply chain interruptions have contractors contributing the majority of growth within the building-construction sector.

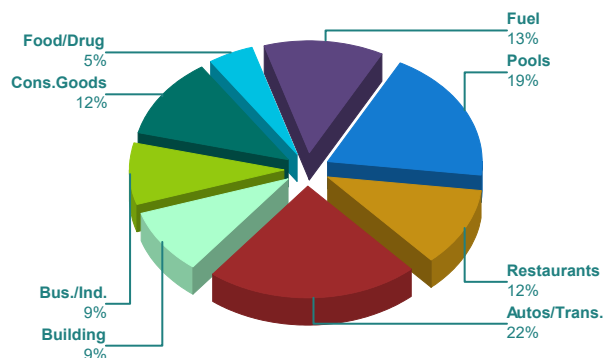
With rising interest rates tempering selling activity, property owners are still likely to maintain home improvement spending.

Use taxes remitted via the countywide pools rose a scant 0.3%. While national ecommerce spending behaviors climbed upward again, expansion of more in-state fulfillment centers plus retailers using existing locations to deliver goods tied to online orders shifted taxes away from pools. The offsetting effect was these dollars being directed to local agency's coffers where the goods resided. This evolving trend is anticipated to persistently weaken taxes coming from the pools in the near term.

Looking back, calendar year 2022 exhibited a 9.5% surge in tax receipts compared to 2021. Each of the eight major tax categories all reported greater returns. Most influential was inflation that drove up prices on everything from normal daily purchases to vehicles. Secondly, all-time peak global crude oil costs had fuel seller's payments skyrocketing.

Heading into 2023, additional interest rate hikes along with consumer sentiment waning about the economy foretells minimal change coming from California's taxable sales in the months ahead.

REVENUE BY BUSINESS GROUP Morgan Hill This Calendar Year*



*ADJUSTED FOR ECONOMIC DATA

TOP NON-CONFIDENTIAL BUSINESS TYPES

Morgan Hill Business Type	Q4 '22*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	573.9	5.9% ↑	20.4% ↑	12.5% ↑
Service Stations	378.9	5.8% ↑	8.2% ↑	7.6% ↑
Building Materials	213.9	2.0% ↑	3.0% ↑	2.1% ↑
Casual Dining	168.3	10.5% ↑	14.2% ↑	8.1% ↑
Quick-Service Restaurants	140.4	6.3% ↑	8.5% ↑	5.7% ↑
Specialty Stores	88.0	6.0% ↑	11.9% ↑	2.2% ↑
Convenience Stores/Liquor	74.7	245.3% ↑	2.4% ↑	0.9% ↑
Heavy Industrial	64.0	0.1% ↑	19.2% ↑	9.7% ↑
Family Apparel	62.5	0.8% ↑	0.2% ↑	-1.0% ↓
Trailers/RVs	60.4	-29.5% ↓	-5.4% ↓	-23.4% ↓

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*In thousands of dollars