

# CITY OF MORGAN HILL

## SALES TAX UPDATE

### 2Q 2023 (APRIL - JUNE)



**MORGAN HILL**  
TOTAL: \$ 3,321,668

-1.9%  
2Q2023



0.6%  
COUNTY

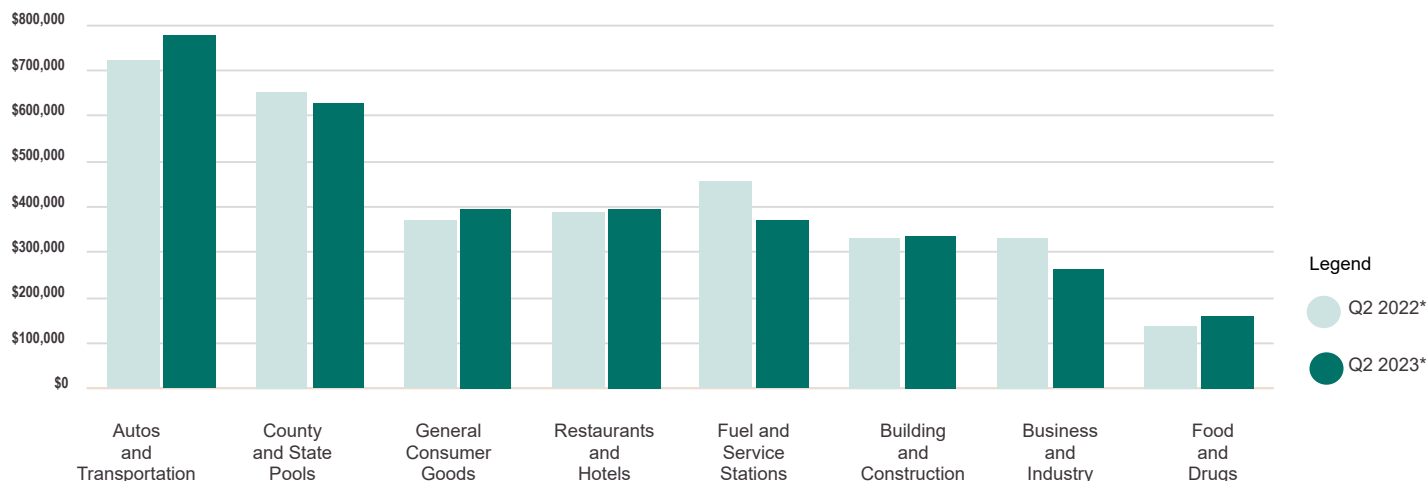


-2.9%  
STATE



*\*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 April through June were 4.2% below the second sales period in 2022. However, after adjusting for reporting modifications like audit adjustments and delayed payments, actual sales were down 1.7%. Results were mixed across the various sales tax categories.

Although most sectors of the autos-transportation group declined, new vehicle sales continued to deviate from statewide downward trends and jumped almost 11%, boosting the autos-transportation group.

Marking nine consecutive quarters of growth, restaurants-hotels revenues demonstrated that people enjoyed the experience of dining at casual and quick service restaurants during the spring months. Convenience store and taxable grocery store sales also remained strong, lifting food-drugs receipts. Almost all

sectors of general consumer goods grew as in-store shopping remained popular especially apparel and specialty stores.

Conversely, the City's allocation from the countywide use tax pool dropped 3.7% as other agencies in the county realized higher quarterly sales tax returns. A fluctuation in fuel prices and a decrease in consumption resulted in a drop in fuel-service station revenues of 18.5%. Electrical equipment and heavy industrial equipment sales slowed during the period contributing to a large drop in business-industry returns. The combination of these revenue reductions pulled down the overall quarterly results.

Net of adjustments, taxable sales for all of Santa Clara County grew 0.6% over the comparable time period; the Bay Area was down 2.7%.



#### TOP 25 PRODUCERS

7 Eleven	Safeway Fuel
Anritsu America	Shell
Arco	South Bay Airstream Adventures
Cal Door & Drawers	Star Concrete
Chevron	Target
Chrysler Dodge Jeep Ram Morgan Hill	TJ Maxx
Cochrane 76	Victory Honda of Morgan Hill
Cochrane Chevron	Walmart Supercenter
Ford Store Morgan Hill	
Golden Eagle Gas	
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 April through June were 2.8% lower than the same quarter one year ago after adjusting for accounting anomalies. The second quarter of the calendar year was impacted by continued wet weather and a difficult comparison with the prior year, which experienced dramatic growth.

The fuel-service stations sector contributed the most to this decline as year-over-year (YOY) falling fuel prices at the pump reduced receipts from gas stations and petroleum providers. Russia's invasion of Ukraine and other world events during this period last year, pushed the global cost of crude oil to record highs. This dynamic also carried into general consumer goods as retailers selling fuel experienced a similar drop. Recently, OPEC and Russia have maintained production cuts having upward pressure on pricing again leading to future comparative growth.

Sustained wet conditions further delayed projects, especially those from the prior quarter, hindering building-construction returns. YOY lumber price declines added to the pull back from building materials providers. Higher interest rates represent a significant headwind for the industry with potential impacts of limited commercial development activity, slowing public infrastructure projects and homeowners left unable to access equity for renovations.

Despite a significant increase in new car registrations, revenue from autos-transportation fell by 1.4%. The improved activity can largely be attributed to rental car agencies restocking their fleets. However, these are wholesale transactions with sales tax charged upon rental of these vehicles. Weak demand for recreational vehicles, boats and motorcycles coupled

with elevated overall financing costs remain challenges going forward.

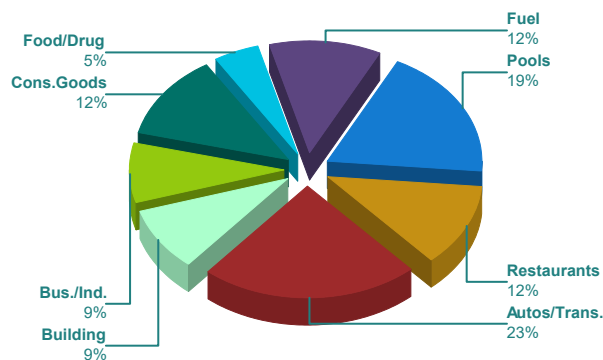
Use taxes remitted via the countywide pools decreased 0.75%, marking the third consecutive quarter of decline. While overall online sales continue to rise, pool collections dropped with the offsetting effect of more in-state fulfillment generated at large warehouses and through existing retail outlets allocated directly to local agencies.

Restaurant sales were a bright spot as the summer season began. Although menu prices have flattened after a year of sharp gains, patrons are making more restaurant trips and are favoring spending their disposable income on experiences. Better sales by office

material suppliers and enhanced investments of warehouse-farm-construction equipment contributed to improved returns for the business-industry category.

Sales tax for the remainder of 2023 appears likely to follow the recent trend of moderate declines before leveling off in early 2024. Cooling consumer confidence and greater pressure on household budgets may lead to a lackluster upcoming holiday shopping period. Furthermore, the possibility of a longer and more pronounced slowdown in economic activity exists as the Federal Reserve considers additional interest rate increases to combat high prices that are already stretching consumer wallets.

## REVENUE BY BUSINESS GROUP Morgan Hill This Fiscal Year\*



\*ADJUSTED FOR ECONOMIC DATA

## TOP NON-CONFIDENTIAL BUSINESS TYPES

Morgan Hill Business Type	Q2 '23*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	563.5	12.4% ↑	2.4% ↑	-0.3% ↓
Service Stations	370.6	-18.5% ↓	-17.5% ↓	-19.9% ↓
Building Materials	219.6	-14.1% ↓	-4.6% ↓	-8.0% ↓
Casual Dining	186.0	5.5% ↑	8.8% ↑	4.5% ↑
Quick-Service Restaurants	146.3	4.3% ↑	4.5% ↑	3.2% ↑
Trailers/RVs	96.4	13.1% ↑	-12.5% ↓	-15.2% ↓
Grocery Stores	85.1	12.0% ↑	6.5% ↑	2.9% ↑
Contractors	78.9	67.0% ↑	-13.0% ↓	-2.9% ↓
Specialty Stores	62.7	7.0% ↑	-2.8% ↓	-1.3% ↓
Electrical Equipment	61.9	-46.2% ↓	-6.3% ↓	0.5% ↑

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\*In thousands of dollars