

CITY OF MORGAN HILL

SALES TAX UPDATE

2Q 2024 (APRIL - JUNE)



MORGAN HILL
TOTAL: \$ 3,118,272

-6.3%
2Q2024



-1.7%
COUNTY

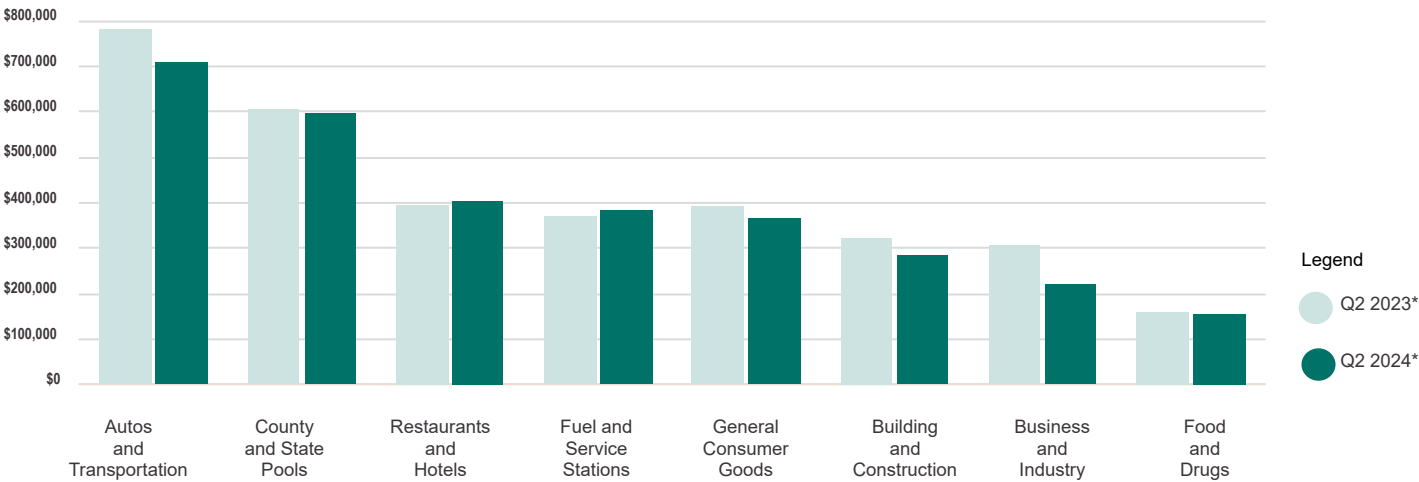


-0.6%
STATE



**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 April – June were 5.6% below the second sales period in 2023. However, after adjusting for reporting modifications such as audit adjustments and delayed payments, actual sales were down 6.1%. Sales tax results varied by tax group.

Similar to last quarter, buyers deferred new auto and recreational vehicle purchases – and compared to the high sales a year ago, pushed comparative autos-transportation revenues down 9%.

Commodity deflation and a reduction in contractor activity lowered building-construction results. Several business-industry sectors, including heavy industrial, electrical equipment and business services, influenced a 28% drop in receipts.

The City's allocation from the countywide use tax pool dipped 1%, caused largely by comparison to an extremely high taxpayer payment a year ago. Although family apparel returns improved, declines in sporting goods and specialty stores contributed to an overall reduction in general retail revenues.

On the positive, with an uptick in the price of crude oil during the period, service station revenues netted almost 3% in growth. People enjoyed the convenience of dining out as most sectors of restaurants-hotels posted positive results, with the largest gains in casual and quick service dining.

Net of adjustments, taxable sales for all of Santa Clara County declined 1.7% over the comparable time period; the Bay Area was down 1.7%.



TOP 25 PRODUCERS

- | | |
|-------------------------------------|--------------------------------|
| 7 Eleven | Safeway |
| 76 with Burger King | Safeway Fuel |
| Anritsu America | Shell |
| Arco | South Bay Airstream Adventures |
| Chevron | Target |
| Chrysler Dodge Jeep Ram Morgan Hill | TJ Maxx |
| Cochrane Chevron | Victory Honda of Morgan Hill |
| Ford Store Morgan Hill | Walmart Supercenter |
| Golden Eagle Gas | |
| Home Depot | |
| House of Thunder Harley Davidson | |
| In N Out Burger | |
| Jayco Morgan Hill | |
| Johnson Lumber Ace Hardware | |
| Kwik Serve Gas & Auto | |
| McDonald's | |
| Morgan Hill Gas & Shop | |



STATEWIDE RESULTS

California's local one cent sales and use tax receipts during the months of April through June were 0.6% lower than the same quarter one year ago after adjusting for accounting anomalies. The calendar year second quarter is traditionally the beginning of the summer spending season; however, returns were relatively flat when compared to a year ago. For many California agencies, this also marks the end of the 2023-24 fiscal year, where statewide sales tax revenues were down 1.3% from the 2022-23 fiscal year.

Consistent with recent trends, auto-transportation receipts fell 6.2% - the largest sector decline this quarter. Sustained high interest rates, tightened credit standards, and increased cost of insurance all converged to impact returns. While inventory-levels for many dealerships have rebounded, it's only proving to create downward pressure on prices, further constraining receipts.

Summer weather usually marks fruitful periods for building-construction, however as property owners struggle to access equity for improvements, year-over-year receipts declined. The price of lumber and other materials are now more affordable, but new projects have been sidelined by developers until financing and mortgage costs drop further.

Similarly, as the price of consumer goods has cooled with moderate inflation rates, returns from multiple merchants have curtailed. Men's and women's apparel, home furnishings, electronic-appliance and specialty stores could not escape the change in shopper's preferences for lower priced items from large brick-and-mortar retailers like discount department stores.

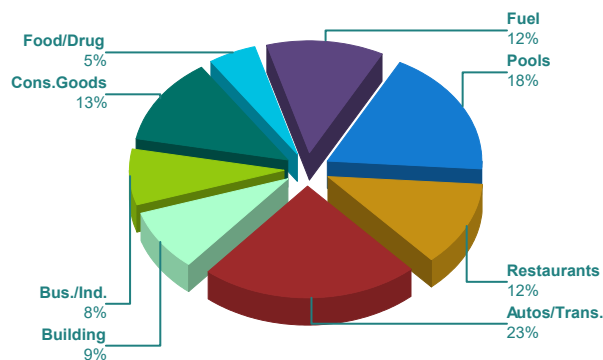
Restaurants experienced only a modest

gain of 0.7%. As AB 1228 is enacted - state law increasing California's minimum wage at designated eateries - third party data reports that foot traffic to all such establishments decreased during this same time period. Not only are diners selecting less expensive places to eat, but many may have been pushed to limit their frequency to dine out.

Multiple of sectors experienced mild growth including allocations from the countywide use tax pool and the business-industrial group, both benefiting from online shopping, and fuel-service stations as drivers continue to hit the road even as gas prices remain elevated.

Halfway through the current calendar year, revenue trends remain slightly lower than a year ago overall. Although the Federal Reserve recently reduced the Fed Funds Rate helping temper the cost of financing, personal consumption forecasts remain insipid through the remainder of 2024. Consumers are more likely to wait for greater improvement of household economic conditions before extending themselves again, inspiring the next sales tax growth cycle.

REVENUE BY BUSINESS GROUP Morgan Hill This Fiscal Year*



*ADJUSTED FOR ECONOMIC DATA

TOP NON-CONFIDENTIAL BUSINESS TYPES

Morgan Hill Business Type	Q2 '24*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	537.6	-4.6% ↓	-8.3% ↓	-7.3% ↓
Service Stations	381.0	2.8% ↑	3.4% ↑	4.1% ↑
Building Materials	215.8	-1.7% ↓	-4.8% ↓	-4.0% ↓
Casual Dining	183.7	1.9% ↑	3.8% ↑	0.2% ↑
Quick-Service Restaurants	160.9	6.7% ↑	2.3% ↑	0.7% ↑
Grocery Stores	82.9	-1.6% ↓	-1.1% ↓	1.9% ↑
Trailers/RVs	70.6	-26.5% ↓	-20.9% ↓	-15.7% ↓
Family Apparel	62.7	18.4% ↑	0.4% ↑	0.3% ↑
Specialty Stores	59.7	-4.6% ↓	-5.1% ↓	-5.4% ↓
Heavy Industrial	50.3	-19.1% ↓	-4.9% ↓	-0.9% ↓

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*In thousands of dollars