

# CITY OF MORGAN HILL

## SALES TAX UPDATE

### 1Q 2025 (JANUARY - MARCH)



**MORGAN HILL**  
TOTAL: \$ 2,814,937

0.1%  
1Q2025



-2.2%  
COUNTY

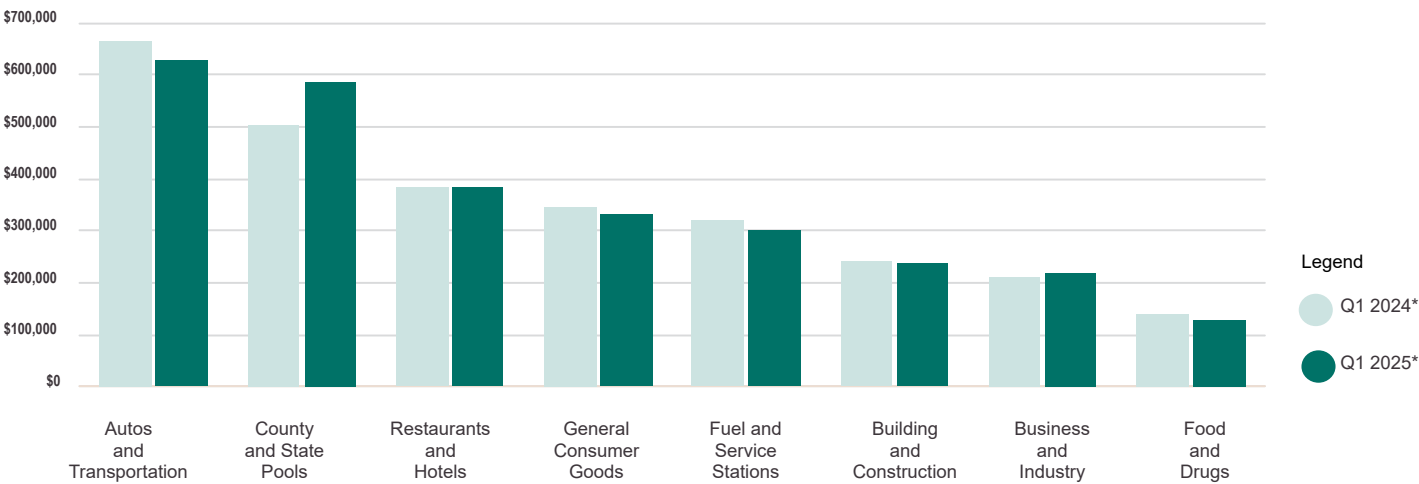


0.3%  
STATE



*\*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 January through March 2025 were 1.3% down compared to the first sales period in 2024. However, after adjusting for reporting modifications from audit adjustments and a number of delayed payments, actual sales were essentially even at 0.1%.

Results were mixed across tax groups. while new car sales dipped slightly, the loss of a taxpayer and comparison to last year's payments pulled down the overall autos-transportation results. The fluctuating price of crude oil directly affected fuel-service station receipts – with revenues slipping 5.8%.

Cautious consumers pulled back on in-store spending contributing to a 5.1% fall in retail revenues. While building materials sales grew, a slowing in contractor activity pulled down the building-construction group. All sectors

of the food-drugs group declined, with grocery, convenience, and drug store returns driving the 7.6% drop.

On the positive, the City's allocation from the countywide use-tax pool improved 16.1% due to redistribution of revenues to the pool from a couple statewide audit adjustments and increased business-to-business activity.

Restaurants-hotels remained even for the period with new taxpayer reporting in casual dining offsetting a quick service business closure. Electrical equipment and heavy industrial related sales offset declines in light industry and helped net 3.2% growth in business-industry.

Net of adjustments, taxable sales for all of Santa Clara County declined 2.2% over the comparable time period; the Bay Area was up 0.5%.



#### TOP 25 PRODUCERS

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



## STATEWIDE RESULTS

California's local one-cent sales and use tax receipts for January through March 2025 increased by 0.34% compared to the same quarter in 2024, after adjusting for accounting anomalies. While this modest growth may signal the end of an eight-quarter decline, it could be temporary, as the broader economy remains on the edge between recovery and further slowdown.

The first quarter is traditionally the lowest sales tax-generating period of the year, often influenced by seasonal weather and post-holiday consumer behavior.

Notably, the autos-transportation and building-construction sectors—both of which had been dragging down statewide results over the past two years—showed the strongest rebounds this quarter. In the autos sector, used car sales and leasing activity led the recovery. Consumers are increasingly opting for more affordable vehicles and shorter-term commitments, moving away from high-end purchases. In construction, pent-up demand for repairs and improvements, especially in weather-affected and wildfire-damaged areas like Southern California, drove strong sales for building material suppliers.

Other segments generating modest growth included business-industry and countywide use tax pools, largely due to continued strength in online sales. Sales of goods already in California before purchase are reported under business-industry fulfillment centers. Goods shipped from outside the state are reported under county pools, based on the destination of the out-of-state shipment. Online shopping remains a preferred option for value-conscious consumers, contributing significantly to tax receipts in these categories.

Calendar year 2024 saw a decline in fuel-

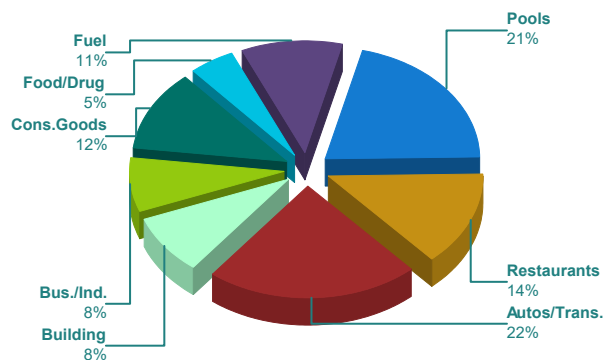
related tax receipts due to lower global crude oil prices—a trend that continued into 1Q 2025. Fuel-related returns dropped by 5%. This decline also affected general consumer goods, as large retailers that sell fuel typically report all sales under a single taxpayer ID. As a result, brick-and-mortar merchants such as post-holiday family apparel stores, winter sporting goods vendors and closures of variety stores contributed to weaker performance.

Although food-drugs is the smallest of the eight tax groupings, it was significant that cannabis returns continued a downturn trend that has been ongoing for over two years. Bankruptcies, customer shopping

alternatives and oversaturation of retail footprint diminished taxes coming from drug stores.

As 2025 begins, sales tax returns remain modest, reflecting broader economic volatility. Key factors influencing our outlook include: ongoing national tariff and trade negotiations and decisions on the federal funds rate - which directly affect consumer interest rates. Recent Middle East conflicts, which temporarily spiked crude oil prices and threatened local gas prices during the summer, will be a short-term concern. In summary, "uncertainty" remains the most accurate descriptor of California's current and future economic climate.

## REVENUE BY BUSINESS GROUP Morgan Hill This Quarter\*



\*ADJUSTED FOR ECONOMIC DATA

## TOP NON-CONFIDENTIAL BUSINESS TYPES

Morgan Hill Business Type	Q1 '25*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	500.5	-2.5% ↓	-7.3% ↓	-0.6% ↓
Service Stations	300.7	-5.8% ↓	-3.9% ↓	-5.8% ↓
Building Materials	192.1	4.8% ↑	2.3% ↑	3.8% ↑
Casual Dining	188.8	4.5% ↑	4.1% ↑	1.3% ↑
Quick-Service Restaurants	139.0	-3.1% ↓	0.5% ↑	-0.9% ↓
Grocery Stores	74.8	-1.9% ↓	-2.1% ↓	-0.8% ↓
Electrical Equipment	58.7	46.1% ↑	44.6% ↑	16.0% ↑
Family Apparel	56.9	-3.3% ↓	-8.4% ↓	-3.2% ↓
Specialty Stores	55.6	-0.2% ↓	-0.2% ↓	-0.6% ↓
Heavy Industrial	47.5	3.1% ↑	4.9% ↑	2.2% ↑

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\*In thousands of dollars