

CITY OF MORGAN HILL

SALES TAX UPDATE

2Q 2025 (APRIL - JUNE)



MORGAN HILL

TOTAL: \$ 3,295,772

5.8%

2Q2025



2.1%

COUNTY



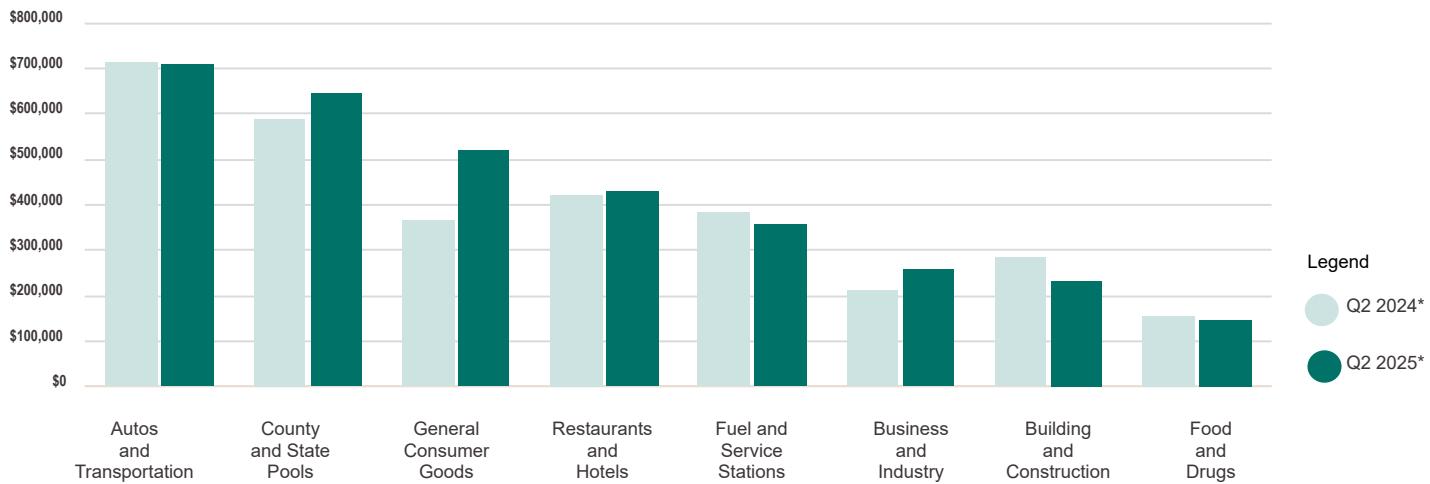
0.5%

STATE



*Allocation aberrations have been adjusted to reflect sales activity

SALES TAX BY MAJOR BUSINESS GROUP



Legend

- Q2 2024*
- Q2 2025*

CITY OF MORGAN HILL HIGHLIGHTS

Morgan Hill's net receipts from May – June 2025 were up 5.8% compared to the second sales period in 2024. However, after accounting for a taxpayer misallocation, quarterly results would be closer to growth of 1%.

Brick and mortar retail experienced a sizable boost – which is likely caused by a payment error and will be corrected in future quarters. Absent this allocation, the general consumer goods group would have ended relatively flat.

New car sales edged higher during the spring months (perhaps related to pre-tariff purchases), but the loss of two taxpayers pulled down autos-transportation. The fluctuating price of crude oil directly affected fuel-service station receipts – with revenues slipping 6.2%.

Building materials sales dropped 33%, yet even an uptick in contractor activity

could not offset a net reduction of 19%. Most sectors of the food-drugs group waned, with loss of a business and declining convenience store/liquor sales driving the 4.2% fall.

On the positive, business-industry benefited from growth in the B2B and heavy industrial sectors. Restaurants-hotels edged up 2.2%, assisted by new quick service and casual dining businesses and growth in leisure-entertainment.

The City's allocation from the countywide use-tax pool improved 10% due the higher quarterly returns and from a couple statewide audits that moved funds to the pools.

Net of adjustments, taxable sales for all of Santa Clara County grew 2.1% and the Bay Area was up 1.3%.

7 Eleven

76 with Burger King

Arco

Camping World Rv Sales

Chevron

Chrysler Dodge Jeep

Ram Morgan Hill

Cochrane Chevron

Ford Store Morgan Hill

Golden Eagle Gas

Home Depot

House of Thunder

Harley Davidson

In N Out Burger

Johnson Lumber Ace Hardware

Mcdonalds

Morgan Hill Gas & Shop

Pinnacle Exhibits

Safeway

TOP 25 PRODUCERS

Safeway Fuel

Shell

Shoe Palace

Star Concrete

Target

TJ Maxx

Victory Honda of Morgan Hill

Walmart Supercenter



STATEWIDE RESULTS

California's one-cent local sales and use tax receipts rose 0.6% in Q2 compared to the same period last year, after adjusting for accounting anomalies. While only modest growth, it is the second consecutive quarter experiencing positive results following an extended timeline of declines. This period is traditionally met with improved weather with the beginning of summer activity.

Steady gains in both business-industry and countywide use tax pools were driven by strong online sales, reflecting shopper's willingness and ability to spend. Whether pulled from inventory within California or shipped from outside the state, demand for goods by value-conscious shoppers prevailed. Other notable upticks came from purchases of office and electrical equipment.

Increased tax receipts from restaurants also demonstrated diners continued desire to eat out. Even amongst higher menu prices and tip fatigue, casual dining establishments generated the largest lift. While this is a good sign for the coming summer season, underlying data shows that disposal personal income – a key driver of restaurant sales – is growing at a slower pace than prior years, possibly signaling softer tax growth on the horizon.

The two sectors primed to take advantage of upcoming interest rate changes, auto-transportation and building-construction, only experienced lackluster returns this period. New auto sales declined, offsetting gains in used vehicles and leasing, while building material sales remained unchanged from a year ago. However, aging vehicles and deferred home improvements remain a potential catalyst driving demand in the near term.

Balancing the positive results, revenue from fuel and service stations declined for the ninth time in ten quarters, primarily due to West Texas Intermediate (WTI) low crude oil prices. As the global economy and development remains tempered, so has the demand for oil, leaving prices relatively low. While this dampens sales taxes, lower fuel costs during peak travel months may boost spending in other segments.

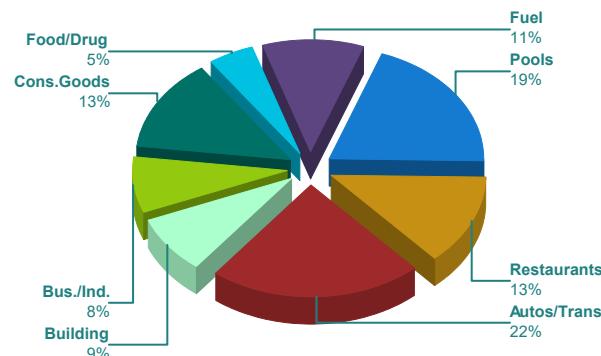
Traditional retailers saw a 1% decline, with specialty, sporting goods, and department stores underperforming compared to year ago totals. Inflation and tariffs continue to pressure consumer spending and retailer margins, prompting reevaluation of physical

store investments by regional and national companies alike.

The September reduction in the federal funds rate, noting the possibility of more in early 2026, leaves optimism regarding future financing and accessing equity opportunities for some consumers. However, national tariff/trade talks remain a vital piece of the inflation/higher prices story with the potential of diminishing spending power. So sluggish calendar year 2025 continues with only modest expansion expected braced against the ever-changing larger economic trends.

REVENUE BY BUSINESS GROUP

Morgan Hill This Fiscal Year*



*ADJUSTED FOR
ECONOMIC DATA

TOP NON-CONFIDENTIAL BUSINESS TYPES

Morgan Hill Business Type	Q2 '25*	Change	County Change	HdL State Change
New Motor Vehicle Dealers	545.1	1.4% ↑	1.4% ↑	-2.4% ↓
Service Stations	357.3	-6.2% ↓	-7.1% ↓	-9.7% ↓
Casual Dining	208.9	6.0% ↑	4.0% ↑	1.4% ↑
Quick-Service Restaurants	158.8	-1.8% ↓	0.1% ↑	-0.9% ↓
Building Materials	145.3	-32.4% ↓	-2.3% ↓	-1.2% ↓
Grocery Stores	85.0	2.6% ↑	-1.2% ↓	-0.3% ↓
Family Apparel	64.1	-2.0% ↓	-0.6% ↓	1.3% ↑
Heavy Industrial	58.3	67.7% ↑	-3.1% ↓	1.6% ↑
Contractors	56.0	41.7% ↑	11.1% ↑	-1.2% ↓
Specialty Stores	53.0	-6.5% ↓	1.2% ↑	-3.5% ↓

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*In thousands of dollars