

# Q1 2020



# City of Morgan Hill Sales Tax *Update*

Second Quarter Receipts for First Quarter Sales (January - March 2020)

## Morgan Hill In Brief

Morgan Hill's receipts from January through March were 14.5% below the first sales period in 2019. Excluding reporting aberrations, actual sales were up 1.3%.

Positive economic activity lifted the building materials and contractors sectors. A onetime deduction that depressed year ago returns accounted for the surge in the business and industry group.

Other segments were adversely impacted as a result of shelter in place declarations in mid-March. Less office workers and temporary closures resulted in large tax reductions in all restaurant categories.

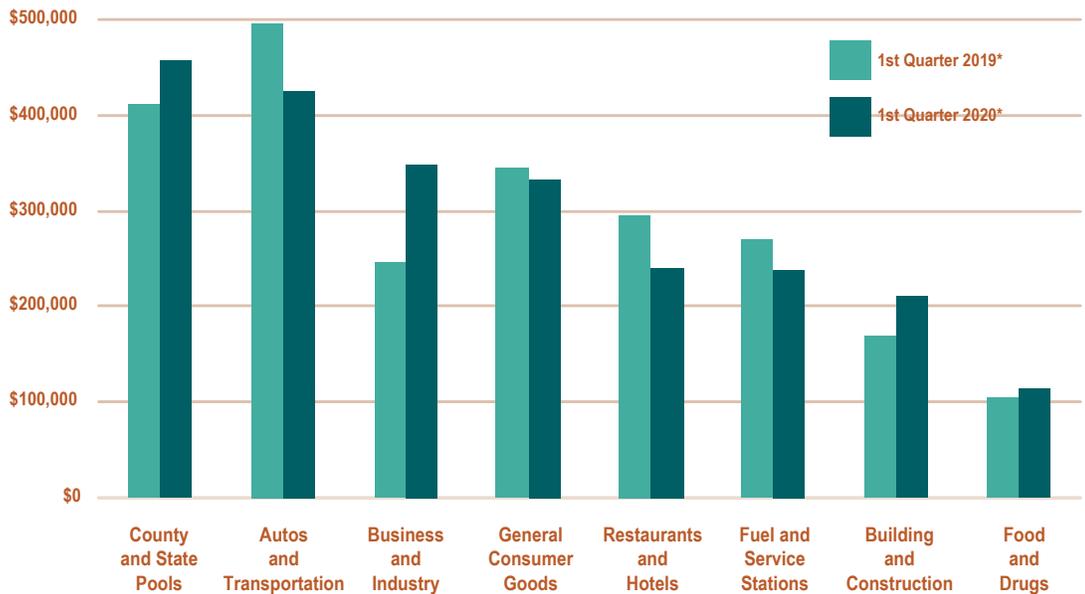
Auto-related sectors and general consumer goods had fewer taxable transactions. The drop in gas consumption and plunging fuel prices curtailed service stations.

Essential merchants stayed operational all quarter; impacts showed up in growth from grocery stores and drug stores.

The countywide use tax pool grew 10.8%. Allocations climbed upward as recent legislation allowed tax collection from third-party sellers on internet-based market platforms.

Net of aberrations, taxable sales for all of Santa Clara County grew 1.5% over the comparable time period; the Bay Area was down 2.9%.

## SALES TAX BY MAJOR BUSINESS GROUP



\*Allocation aberrations have been adjusted to reflect sales activity

### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

7 Eleven	Norcal Kenworth
Anritsu America	Pan Pacific RV Center
Arco	Pinnacle Exhibits
Cal Door & Drawers	Safeway
Chevron	Safeway Fuel
Cochrane 76	Shell
Cochrane Chevron	Specialized Bicycle Components
Ford Store Morgan Hill	Star Concrete
Golden Eagle Gas	Target
Home Depot	TJ Maxx
House of Thunder Harley Davidson	Victory Honda of Morgan Hill
In N Out Burger	Walmart Supercenter
Johnson Lumber Ace Hardware	

### REVENUE COMPARISON

Three Quarters – Fiscal Year To Date (Q3 to Q1)

	2018-19	2019-20
Point-of-Sale	\$6,893,202	\$5,858,346
County Pool	1,419,286	1,334,751
State Pool	3,781	3,461
<b>Gross Receipts</b>	<b>\$8,316,270</b>	<b>\$7,196,559</b>

## Statewide Results

With stay at home/non-essential business restrictions in place during the last two weeks of the quarter, local one cent tax revenues for the state overall, were 18.8% lower than January to March of 2019. Taxpayer relief programs accounted for much of the decline with receipts down roughly 3.1% after factoring for payment deferrals and other accounting anomalies.

Severe drops in auto sales, general consumer goods, service stations and restaurants were largely offset by new revenue from implementation of the Wayfair v. South Dakota decision that now requires out-of-state retailers to collect and remit Californian's sales and use tax. Other offsets included a surge in online shopping that boosted receipts from the county use tax allocation pools and from online retailers who maintain and ship their inventory from within California.

The food/drug sector also showed strong gains as did many home supply, dollar and discount stores that remained open during the shutdown.

## New Challenges & Opportunities

Current indicators suggest that overall tax receipts for the April thru June sales period will bottom out at 27% below the second quarter of 2019. The speed of the rebound in sales activity will be dependent on the availability of adequate testing, treatment therapies and ultimately a vaccine. Until then, physical distancing, COVID-19 protocols and supply chain disruptions will create limitations on some operating capacities and the return to work of all employees. Health fears, discounts and liquidation sales may also keep sales tax revenues below pre-pandemic levels until solutions are in place.

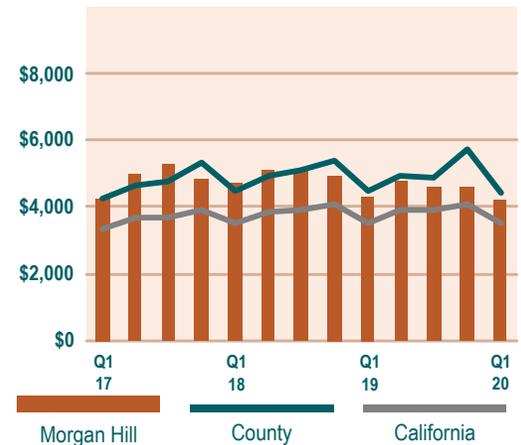
Regardless of when full recovery does occur, reports are that some elements of the economy will be permanently altered. Generation of future tax revenues may require rethinking of local economic strategies.

Over expansion, excessive debt and consumer shifts to online shopping were already resulting in bankruptcies with estimates of up to 25,000 brick-and-mortar store closings by the end of 2020. "Touch and feel" shopping is not going away but retailers see an evolution where in-store shopping is more leisure/recreational oriented with smaller stores offering more show-rooming and delivery/pick-up services. The smaller footprints and lifestyle emphasis offer opportunities to reinstate downtowns and neighborhood centers as economic/social gathering places.

The Pandemic's capture of new online customers and the growing trend of manufacturers and entrepreneurs with new concepts to bypass physical stores and sell directly to the consumer also expands options for agencies without large market populations to generate sales tax through industrial development.

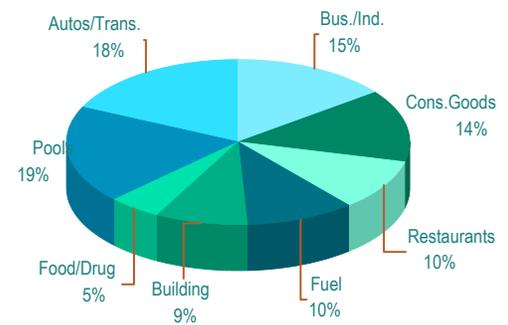
Finally, the Pandemic's disruption of supply chains has also accelerated growing dissatisfaction with overseas arrangements and some reshoring will occur which offers opportunities to leverage a city's existing business base to attract compatible support industries.

## SALES PER CAPITA\*



\*Allocation aberrations have been adjusted to reflect sales activity

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



\*Allocation aberrations have been adjusted to reflect sales activity

## MORGAN HILL TOP 15 BUSINESS TYPES\*\*

Business Type	*In thousands of dollars			
	Morgan Hill Q1 '20*	Change	County Change	HdL State Change
Auto Repair Shops	29.2	-11.3%	-8.8%	-7.5%
Building Materials	164.5	9.1%	-0.7%	3.0%
Casual Dining	116.2	-14.9%	-21.0%	-18.8%
Contractors	31.6	396.8%	2.0%	3.1%
Discount Dept Stores	—	CONFIDENTIAL	4.4%	3.2%
Electrical Equipment	—	CONFIDENTIAL	-16.8%	-7.1%
Family Apparel	32.8	-15.0%	-24.0%	-21.1%
Grocery Stores	74.2	18.3%	13.9%	11.8%
Heavy Industrial	38.1	2.7%	-0.6%	-6.3%
New Motor Vehicle Dealers	—	CONFIDENTIAL	-15.3%	-10.6%
Quick-Service Restaurants	81.1	-23.8%	-13.0%	-8.5%
Service Stations	238.8	-11.6%	-16.7%	-9.5%
Specialty Stores	48.2	-11.8%	-11.2%	-10.1%
Sporting Goods/Bike Stores	55.9	27.8%	-6.9%	-10.3%
Trailers/RVs	—	CONFIDENTIAL	-24.5%	-5.9%
<b>Total All Accounts</b>	<b>1,910.7</b>	<b>-0.8%</b>	<b>-1.0%</b>	<b>-7.3%</b>
<b>County &amp; State Pool Allocation</b>	<b>456.7</b>	<b>10.8%</b>	<b>13.7%</b>	<b>22.4%</b>
<b>Gross Receipts</b>	<b>2,367.3</b>	<b>1.3%</b>	<b>1.5%</b>	<b>-3.0%</b>

\*\* Accounting aberrations such as late payments, fund transfers, and audit adjustments have been adjusted to reflect the quarter in which the sales occurred.