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## *Administration and Projects Committee* **STAFF REPORT**

**Meeting Date:** May 04, 2023

<b>Subject</b>	<b>Accept Quarterly Sales Tax Revenue Report for the Period Ended December 31, 2022</b>
<b>Summary of Issues</b>	This report contains a summary of sales tax revenues, including analysis and comparisons against prior quarterly periods.
<b>Recommendations</b>	Staff seeks acceptance of the quarterly sales tax revenue report for the period ended December 31, 2022.
<b>Staff Contact</b>	Brian Kelleher
<b>Financial Implications</b>	None
<b>Options</b>	N/A
<b>Attachments</b>	<p><b>A.</b> Quarter 4 Sales Tax Update by Hinderliter, de Llamas and Associates (HdL), Quarterly Comparison</p> <p><b>B.</b> Sales Tax Consensus Forecast by HdL</p>
<b>Changes from Committee</b>	N/A

### **Background**

Sales tax revenues are collected by the California Department of Tax and Fee Administration (CDTFA) and distributed to the jurisdictions in monthly installments (advances) based on quarterly estimates for taxable sales for the county. Actual sales tax revenues are accounted for in a “clean-up payment” four times a year. For the fiscal year ending June 30, 2022, the clean-up payment occurred in August.

## Sales Tax Revenues

The Authority entered into a service agreement with HdL to provide sales tax transaction and audit services. In addition to the audit and recovery of tax revenues, HdL provides two other major services that are extremely beneficial to the Authority. HdL provides analysis of sales tax revenue on a quarterly and annual basis that is vital in the estimation of sales tax revenue to be received and projected by the Authority in its budgeting and strategic plan updates. However, the data from CDTFA is not available for three months following the end of each quarter. The Authority has granted HdL access to the data released from CDTFA for the reports and analysis prepared by HdL.

For the second quarter of Fiscal Year (FY) 2022-23 (October-December 2022), the Authority's adjusted for economic data sales tax revenues totaled \$33.1 million. Compared to the prior fiscal year, this is an increase of \$1.9 million or 6.2%. The Authority reports in the financials sales tax revenue collected on a cash basis vs. adjusted for economic data sales based on transaction date. HdL provides reports supporting both methods as it is imperative to view historical data and forecast future revenue trends based on an actual date of point-of-sale transactions.

Major sales tax retailers are required to report monthly and during the pandemic, many retailers have been late in reporting and filing sales taxes. These delinquent payments will be paid to the Authority when received by CDTFA.

The sales tax revenue receipts (cash basis) received by the Authority for the second quarter (October – December 2022) is \$32.7 million. Compared to the prior fiscal year, this is an increase of \$1.3 million or 4.2%.

The sales tax revenue receipts (cash basis) received by the Authority for the first two quarters (July – December 2022) is \$63.7 million. Compared to the prior fiscal year, this is an increase of \$3.0 million or 5.0%. The current budget projection for FY 2022-23 is \$110 million.

These missing and late payments from prior quarters will continue this fiscal year and beyond until all delinquencies are collected. These types of collections are normal in year-to-year collections, but the pandemic has seen much higher than usual reporting delays by retailers. With these delinquencies, the analysis of adjusted for economic data reporting is essential in

tracking the effects of the pandemic and planning for future sales tax revenue estimates.

The table below will highlight the difference in receipts based on the adjusted for economic data to reflect date of point-of-sale transactions for reporting purposes. Also, the table highlights which major industry groups have been impacted by the pandemic.

Major Industry Group	Adjusted for (Date of Transaction) Receipts			
	Oct-Dec 2022	Oct-Dec 2021	\$ Change	% Change
General Consumer Goods	11,246,650	11,066,680	179,970	4.6%
Autos and Transportation	5,873,385	5,468,278	405,107	7.7%
Business and Industry	4,533,975	4,292,997	240,978	2.6%
Restaurants and Hotels	3,227,540	2,929,304	298,236	8.6%
Fuel and Service Stations	3,124,372	2,407,771	716,601	25.2%
Building and Construction	2,909,146	2,836,649	72,497	-1.8%
Food and Drugs	1,814,991	1,805,121	9,870	0.5%
Transfers & Unidentified	386,569	367,480	19,089	6.3%
<b>Total</b>	<b>33,116,628</b>	<b>31,174,280</b>	<b>1,942,348</b>	<b>6.2%</b>

Staff continue to monitor sales tax receipts and will keep the Administration and Projects Committee and Authority Board apprised.

Staff seeks acceptance of the quarterly sales tax revenue report for the period ended December 31, 2022.

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# CCTA

## SALES TAX UPDATE

### 4Q 2022 (OCTOBER - DECEMBER)

ATTACHMENT A



CCTA

TOTAL: \$ 33,116,628

6.2%  
4Q2022

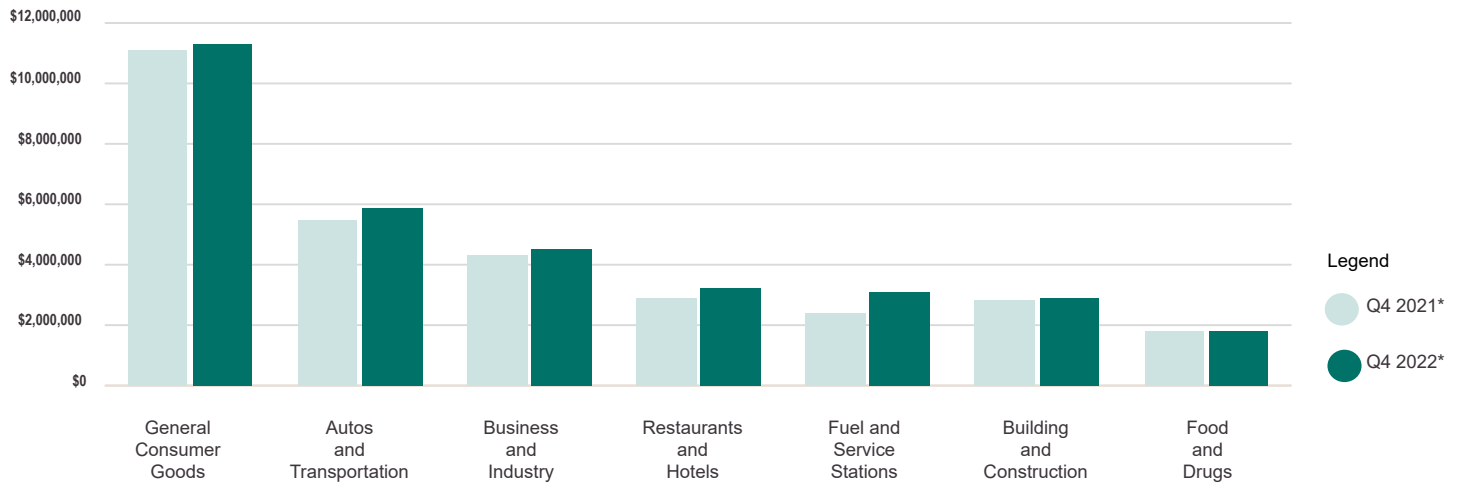


4.7%  
STATE



\*Allocation aberrations have been adjusted to reflect sales activity

### SALES TAX BY MAJOR BUSINESS GROUP



## CONTRA COSTA TRANSPORTATION AUTHORITY (CCTA) HIGHLIGHTS

Contra Costa Transportation Authority (CCTA)'s receipts from October through December were 4.3% above the fourth sales period in 2021. Excluding reporting aberrations, actual sales were up 6.2%.

At this time last year, total receipts were up nearly 11%, so adding to that base shows the economy still has some strength left. One

example is the fact that new motor vehicle purchases were up 16.7% in this quarter with prices still remaining elevated. However, used vehicles were down, reports indicated that inventory is low and will continue to be for several years. Nonetheless, another healthy sign is the gain reported by discount department stores and purchases from

online sources, one up 7% and the other up 8% respectively. Service stations were up 31% this quarter with high prices at the pumps during this time period.

Electronic and department stores were two of the few categories that posted declines. While industry reports indicate that consumers are slowing their dining out patterns as the economy tightens, agency data shows a different story; casual dining receipts were up 11.6% and quick service restaurants were up 5.5%.

Net of aberrations, taxable sales for all of Contra Costa County grew 6.4% over the comparable time period; the Bay Area was up 5.6%.

### TOP NON-CONFIDENTIAL BUSINESS TYPES

Business Type	Q4 '22*	Change	HdL State Change
New Motor Vehicle Dealers	3,853.5	16.7% ↑	12.5% ↑
Service Stations	2,902.0	31.4% ↑	7.6% ↑
Discount Dept Stores	2,633.8	7.3% ↑	7.7% ↑
General Merchandise	2,443.3	8.3% ↑	20.2% ↑
Building Materials	1,635.6	0.8% ↑	2.1% ↑
Casual Dining	1,498.1	11.6% ↑	8.1% ↑
Electronics/Appliance Stores	1,173.6	-8.1% ↓	10.8% ↑
Family Apparel	1,024.1	0.3% ↑	-1.0% ↓
Quick-Service Restaurants	962.6	5.5% ↑	5.7% ↑
Grocery Stores	910.7	5.8% ↑	6.2% ↑

\*Allocation aberrations have been adjusted to reflect sales activity

\*In thousands of dollars



## STATEWIDE RESULTS

California's local one cent sales and use tax receipts for sales during the months of October through December were 4.7% higher than the same quarter one year ago after adjusting for accounting anomalies. A holiday shopping quarter, the most consequential sales period of the year, experienced solid results which lifted revenue to local agencies across the State.

Overall, general consumer goods growth was up a meager 1.8%, in large part from merchants also selling gas as prices remained elevated over last year. Otherwise, many brick and mortar retailers experienced mixed results as the phenomenal prior year activity made for an extremely difficult comparison. This was especially true for jewelry stores receipts which had soared tremendously after the pandemic as consumers diversified readily available cash into other assets.

Commuters and seasonal travelers were again burdened with gas prices above \$5 per gallon in most of the State, leaving fuel-service stations 10% higher than a year ago. However, this trend did not distract from spending at local restaurants and hotels. Increased menu prices and return-

to-office workplaces enhanced gains, with the Bay Area experiencing it's greatest amount of post-pandemic rebound.

Although inventory shortages negatively impacted unit sales and leasing activity throughout 2022, year-end returns by new car dealers, especially high-end luxury and electronic/hybrid brands, sustained auto-transportation sector gains. In contrast, rising interest rates and higher gas prices pulled trailer-RV revenues lower. Steady housing demand and pend up construction projects delayed by supply chain interruptions have contractors contributing the majority of growth within the building-construction sector. With rising interest rates tempering selling activity, property owners are still likely to maintain home improvement spending.

Use taxes remitted via the countywide pools rose a scant 0.3%. While national ecommerce spending behaviors climbed upward again, expansion of more in-state fulfillment centers plus retailers using existing locations to deliver goods tied to online orders shifted taxes away from pools. The offsetting effect was these dollars being directed to local agency's coffers where

the goods resided. This evolving trend is anticipated to persistently weaken taxes coming from the pools in the near term.

Looking back, calendar year 2022 exhibited a 9.5% surge in tax receipts compared to 2021. Each of the eight major tax categories all reported greater returns. Most influential was inflation that drove up prices on everything from normal daily purchases to vehicles. Secondly, all-time peak global crude oil costs had fuel seller's payments skyrocketing.

Heading into 2023, additional interest rate hikes along with consumer sentiment waning about the economy foretells minimal change coming from California's taxable sales in the months ahead.

## MAJOR BUSINESS GROUP TRENDS BY COUNTY

Percent Change from 4th Quarter 2021 \*

	Autos/Tran.	Bldg/Const	Bus/ind.	Food/Drug	Fuel	Cons. Goods	Restaurants
Alameda Co.	33.1%	1.1%	9.1%	-2.0%	10.5%	3.3%	8.6%
Contra Costa Co.	1.3%	5.9%	17.3%	1.7%	34.7%	1.6%	9.5%
Marin Co.	2.6%	8.2%	19.0%	0.3%	10.1%	-2.7%	5.2%
Napa Co.	22.8%	-2.7%	2.1%	-0.5%	10.3%	1.3%	3.7%
San Francisco Co.	15.2%	-2.6%	15.5%	-2.2%	18.0%	1.6%	23.4%
San Mateo Co.	11.4%	12.4%	-0.4%	-0.7%	18.1%	6.3%	16.2%
Santa Clara Co.	13.9%	6.4%	-9.4%	1.1%	11.0%	4.1%	15.8%
Solano Co.	-2.3%	-2.1%	11.1%	1.3%	7.8%	-1.6%	4.6%
Sonoma Co.	-0.3%	6.2%	4.1%	2.8%	6.3%	1.4%	6.1%

\*Allocation aberrations have been adjusted to reflect sales activity