# Sales Tax Trends & Economic Drivers

## California Forecast

June 2024

HdL Companies

# Introductions

Ken Nordhoff

Bret Plumlee

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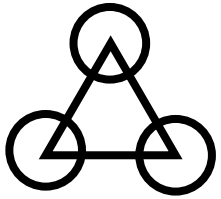
HdL Companies

# ABOUT HdL COMPANIES

**PROUD**
**TO SERVE**
CITIES, COUNTIES & SPECIAL DISTRICTS FOR
**40+ YEARS**

**100%**
EMPLOYEE
**OWNED**



### TRIFECTA
Superior service
Increased revenue
Decreased costs

### COMPLIANCE
HdL helps clients reduce risk by keeping current with ever-changing legislation

### RESULTS
Average city growth rates are ~3%, HdL clients are 2x that!

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**700+**
Municipal Clients

**$3billion+**
Recovered revenue

**99.6%**
Avg. Client Retention

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# 1st Quarter 2024 Statewide Results

| Major Industry Group | 1Q 2024 |
|---|---|
| Autos & Transportation | -7.5% |
| Building & Construction | -0.1% |
| Business & Industry | 3.6% |
| Food & Drugs | -0.2% |
| Fuel & Service Stations | -2.3% |
| General Consumer Goods | 0.5% |
| Restaurants & Hotels | 2.1% |
| Pools | 1.6% |
| **Total** | **-0.2%** |
| March Projection | -0.7% |

| Region | 1Q 2024 |
|---|---|
| Sierras | 4.3% |
| Central Coast | 2.3% |
| San Joaquin Valley | 1.4% |
| Southern California | 0.1% |
| Sacramento Region | 0.0% |
| Bay Area | -2.2% |
| Far North | -2.4% |

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# Considerations

- Interest Rates
- Household Costs
- Credit Availability
- Consumer Spending
- Tourism & Business Travel
- Gas Prices

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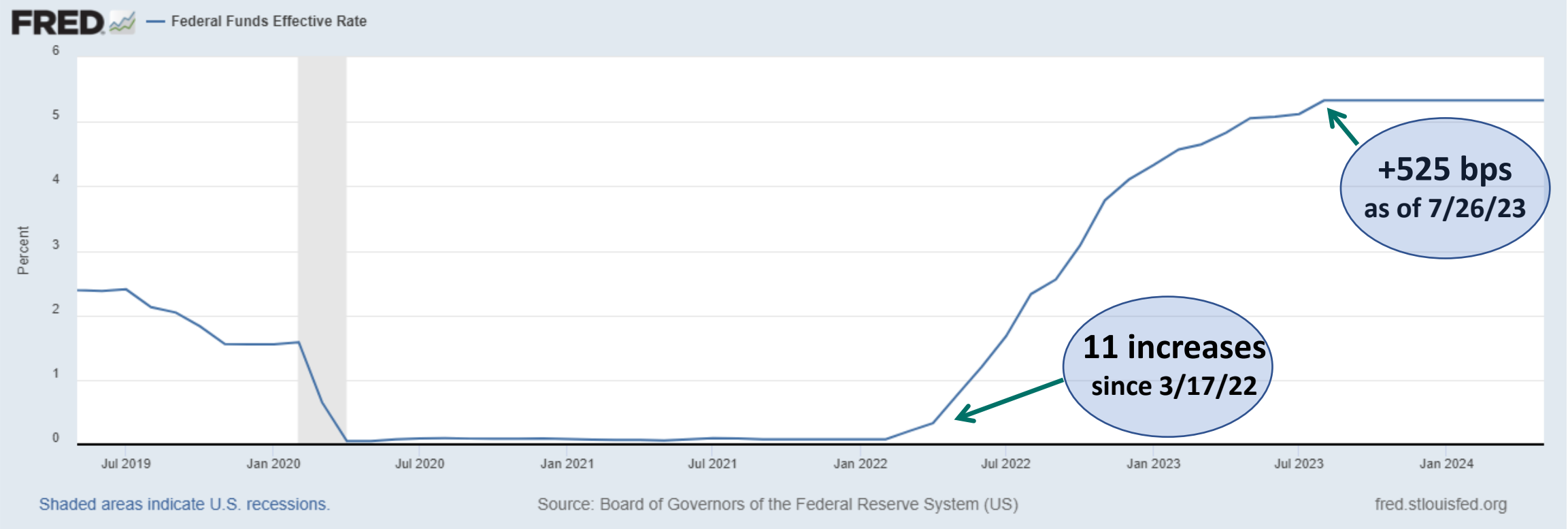
# Interest Rates




**Rate cuts and a soft landing: This will be a critical year for the Fed**

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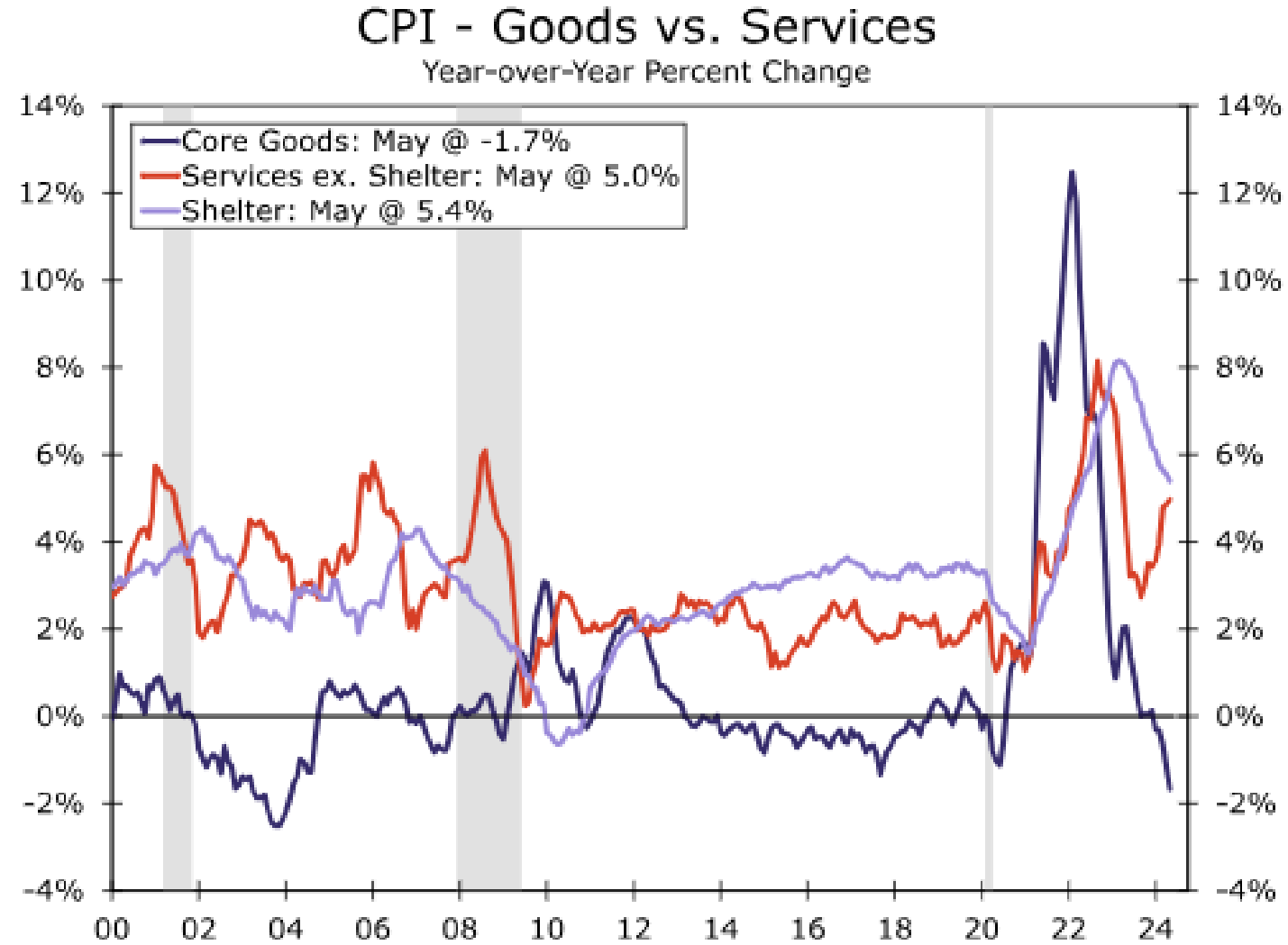
# Goods vs Services




Source: U.S. Department of Labor and Wells Fargo Economics

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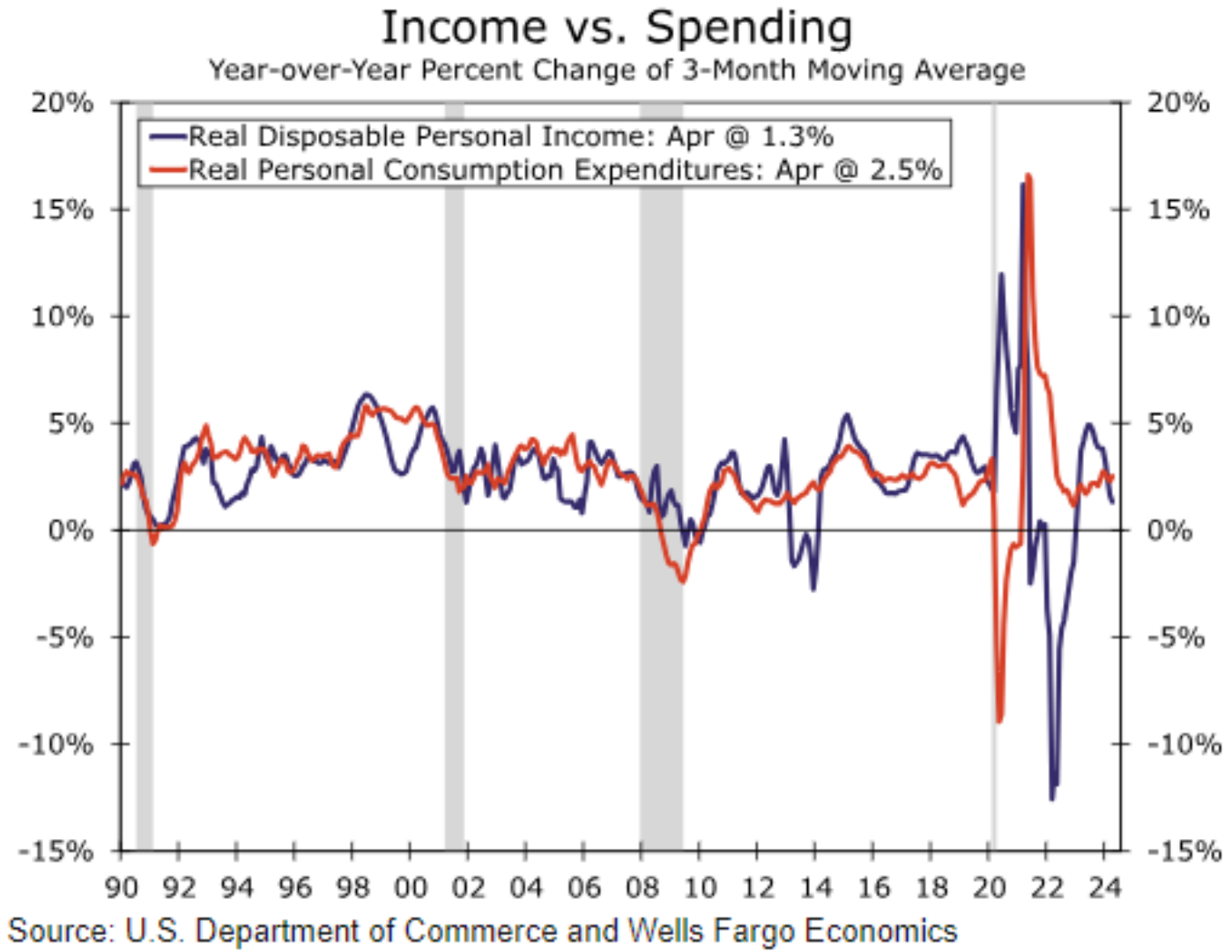
# Income vs Spending

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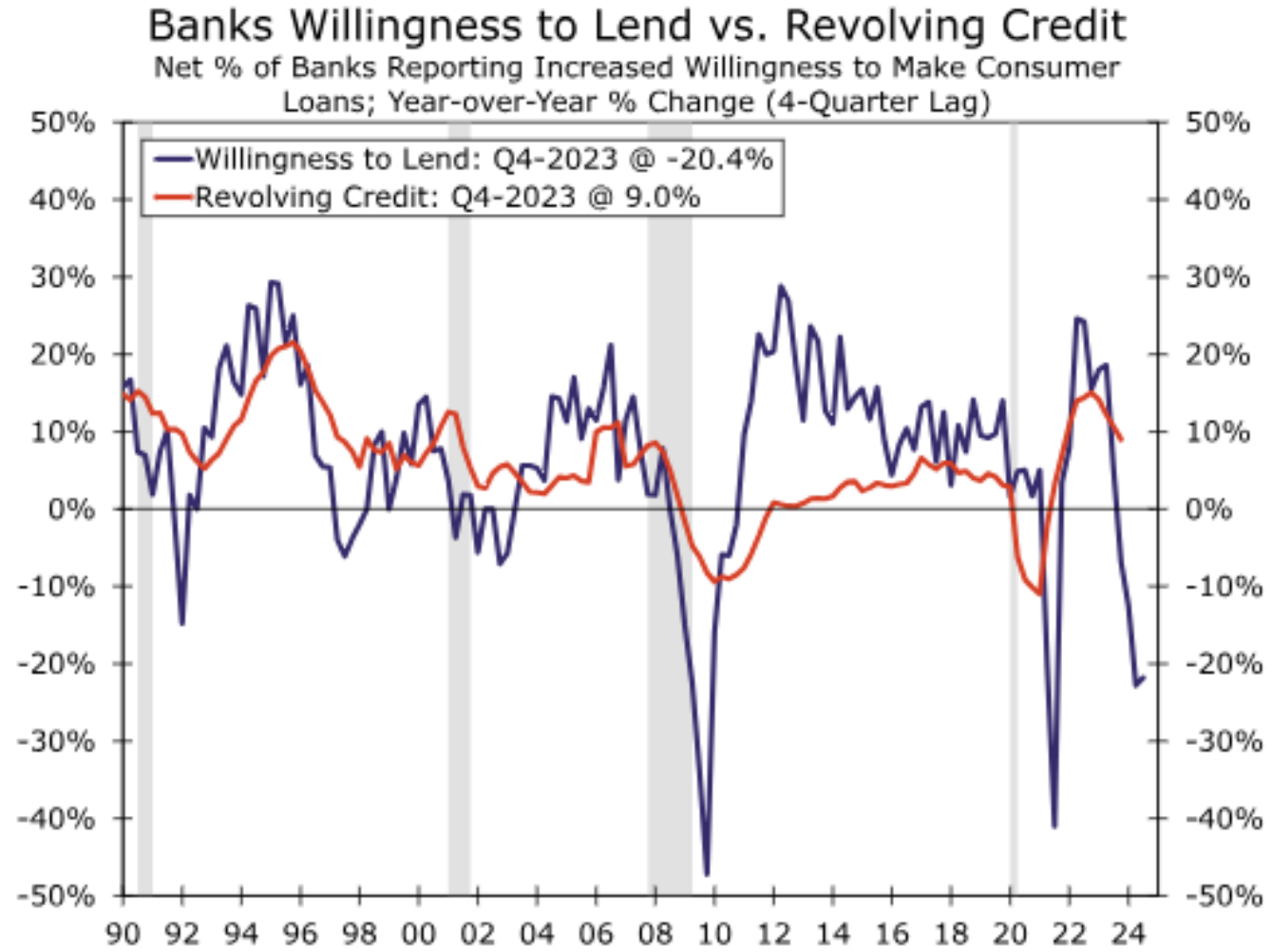
# Consumer Credit




Source: Federal Reserve Board and Wells Fargo Economics

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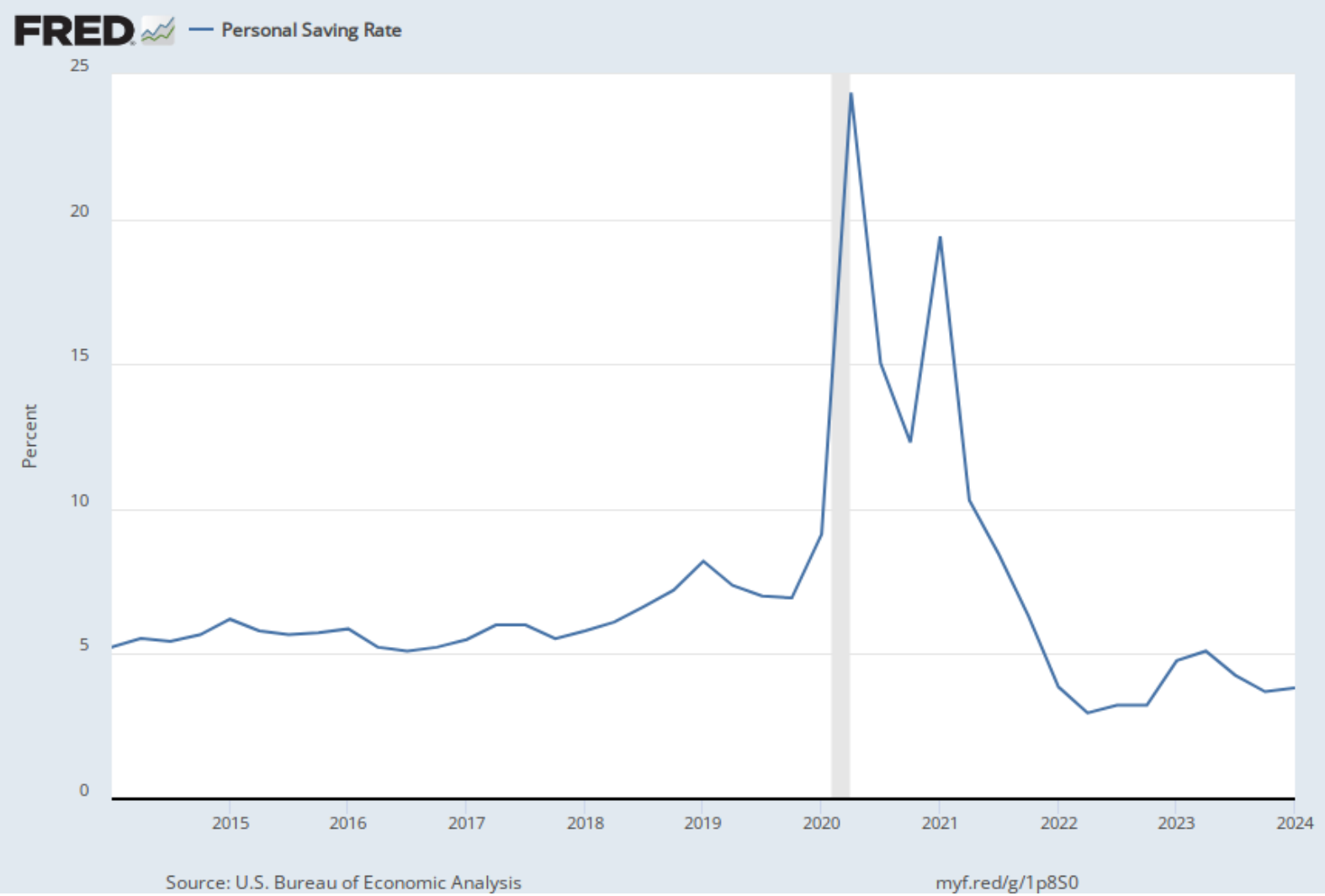
# Savings & Disposable Income




**Personal Savings Rate**

- **Q1 2024: 3.8%**
- Q4 2023: 3.7%
- Q3 2023: 4.3%
- Q2 2023: 5.1%
- Q1 2023: 4.8%

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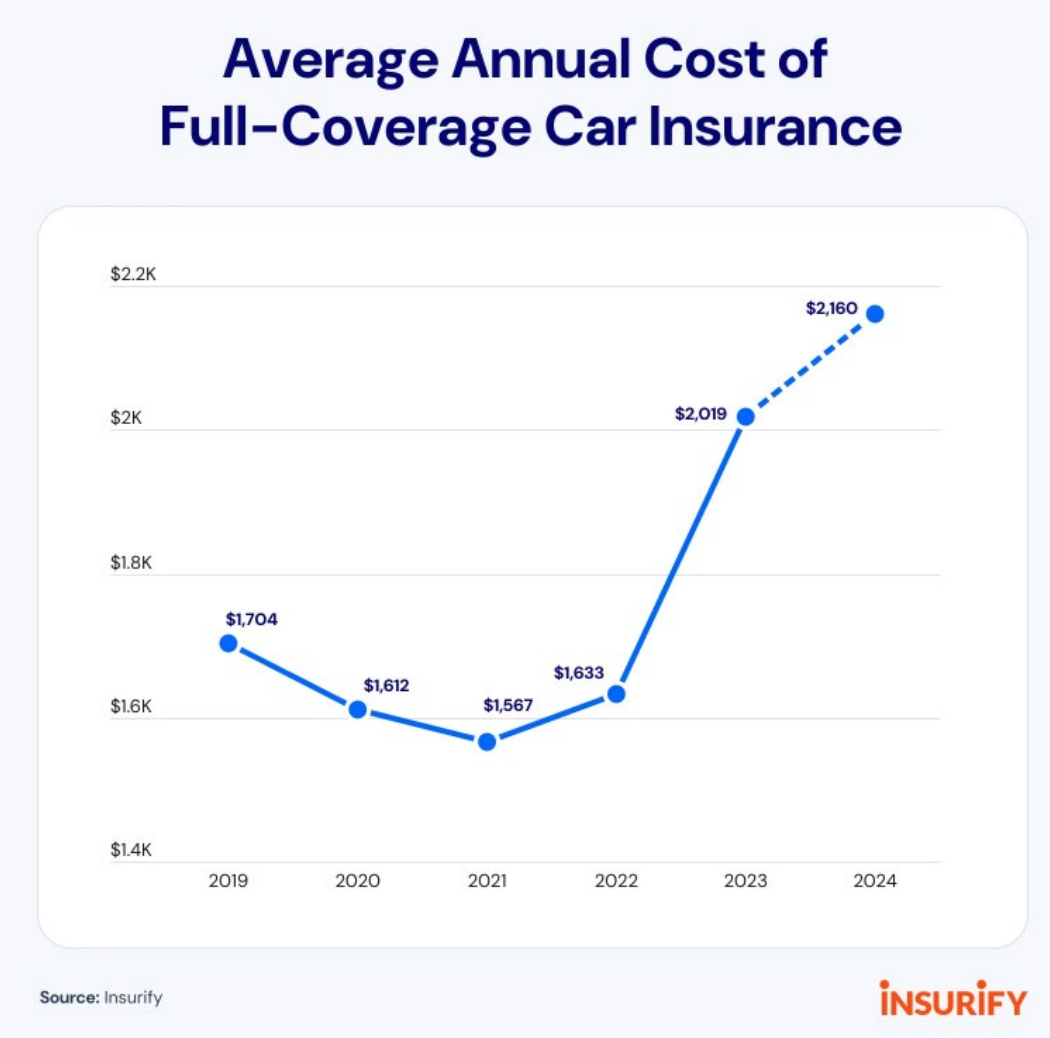
# Rising Household Costs




**Headlines related to Home Insurance**

- Limited home insurance options in California as major carriers pull back
- California Homeowners Face an Insurance Crisis. What Will It Mean for Home Prices in the State?
- One of California's largest home insurance companies is raising rates by 15% on average
- California's insurance crisis resulting in canceled policies, increased rates.

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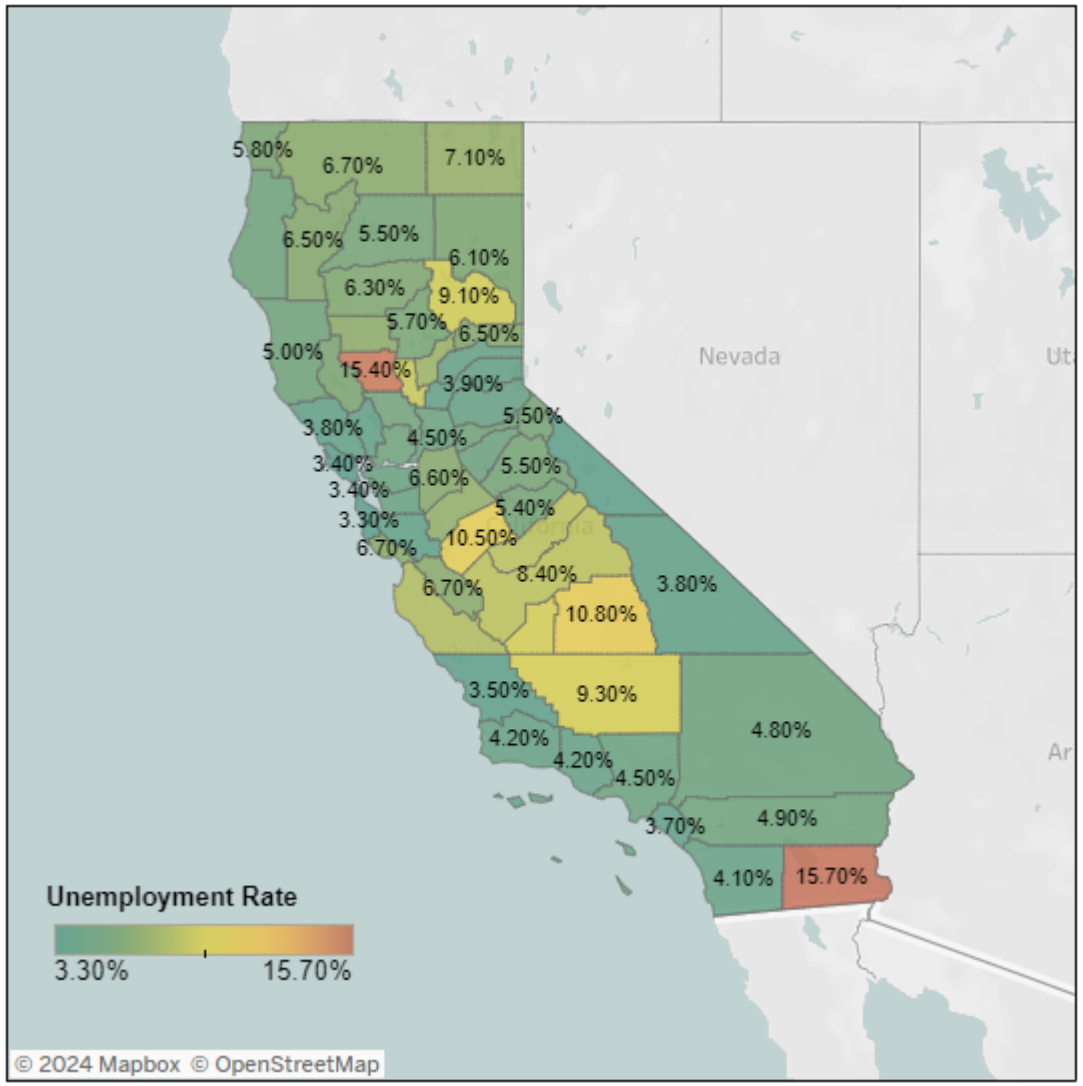
# CA Unemployment



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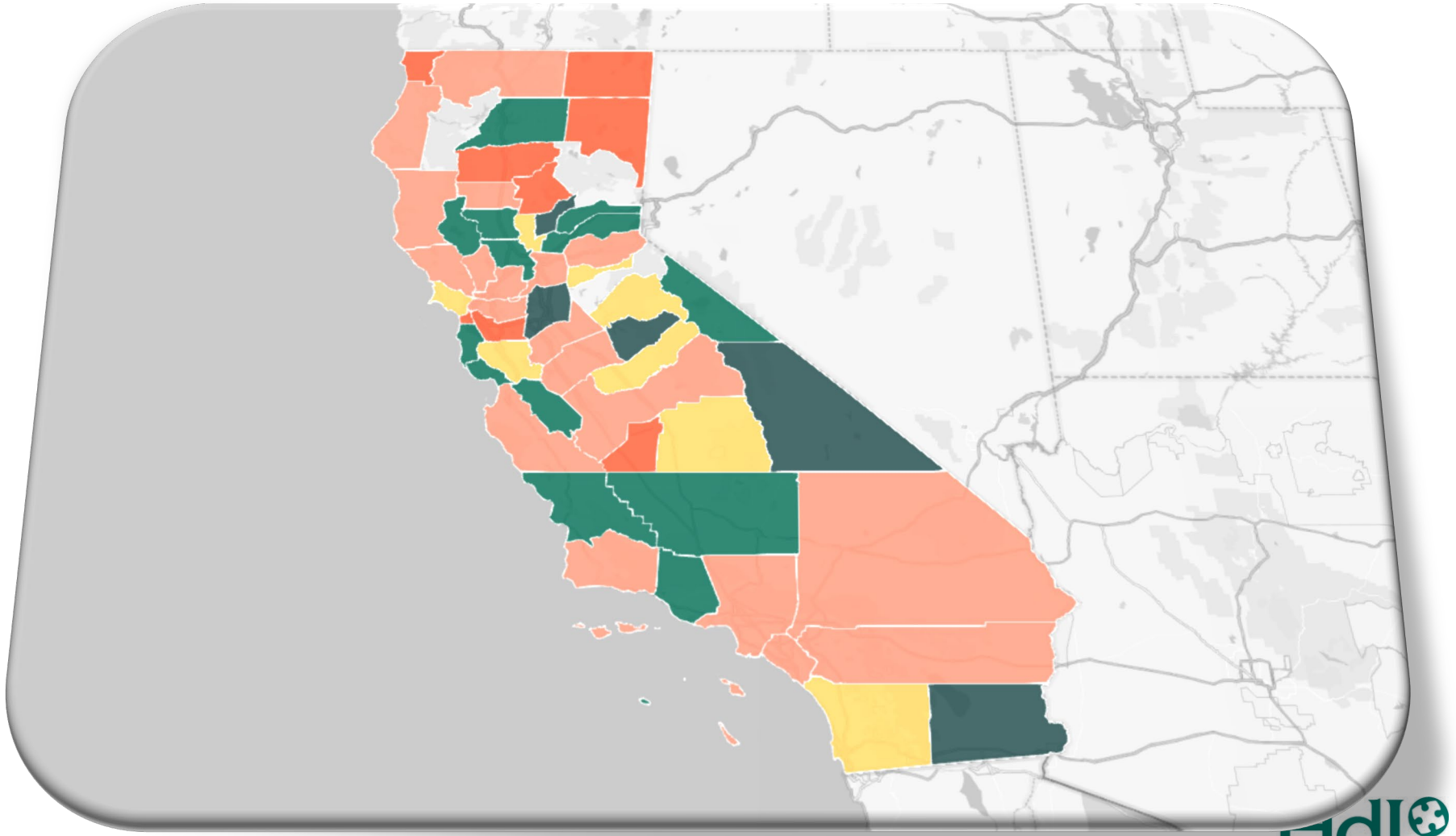
# County Trends: Local Sales Tax

Fiscal Year
2023-24 (YTD)
-1.5%

| Performance | FY 2023-24 (YTD) |
|---|---|
| | > 4% |
| | > 0.5% to 4% |
| | -0.5% to 0.5% |
| | <0.5% to -4% |
| | < -4% |



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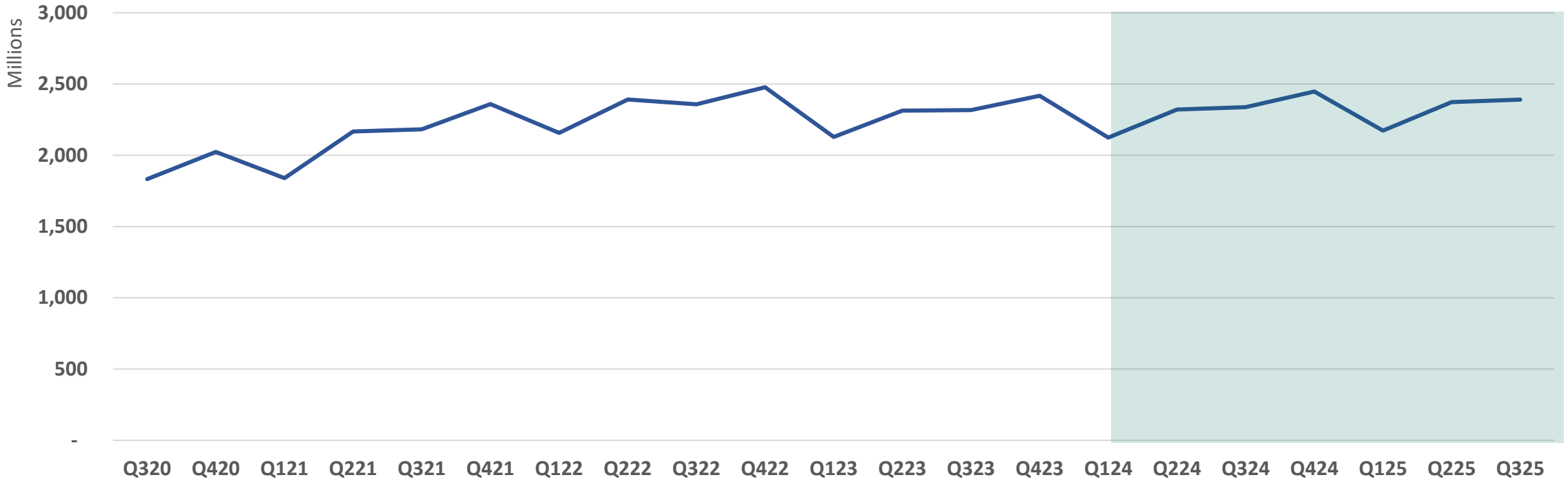
# HdL Statewide Trend

| | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | 1Q25 | 2Q25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % Change YoY | 19.1% | 16.6% | 17.2% | 10.3% | 8.0% | 5.0% | -1.3% | -3.3% | -1.7% | -2.4% | -0.2% | 0.3% | 0.9% | 1.2% | 2.3% | 2.2% |
| Fiscal Year Change | **14.9%** | | | | **2.1%** | | | | **-1.0%** | | | | **1.7%** | | | |

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# Autos and Transportation Trends

More balanced market in 2024

Increased Leasing Activity

Ample inventory + incentives = Buyer's market

Lower prices = lower tax receipts

Lower access to credit + high interest rates

Dealership Software Hack

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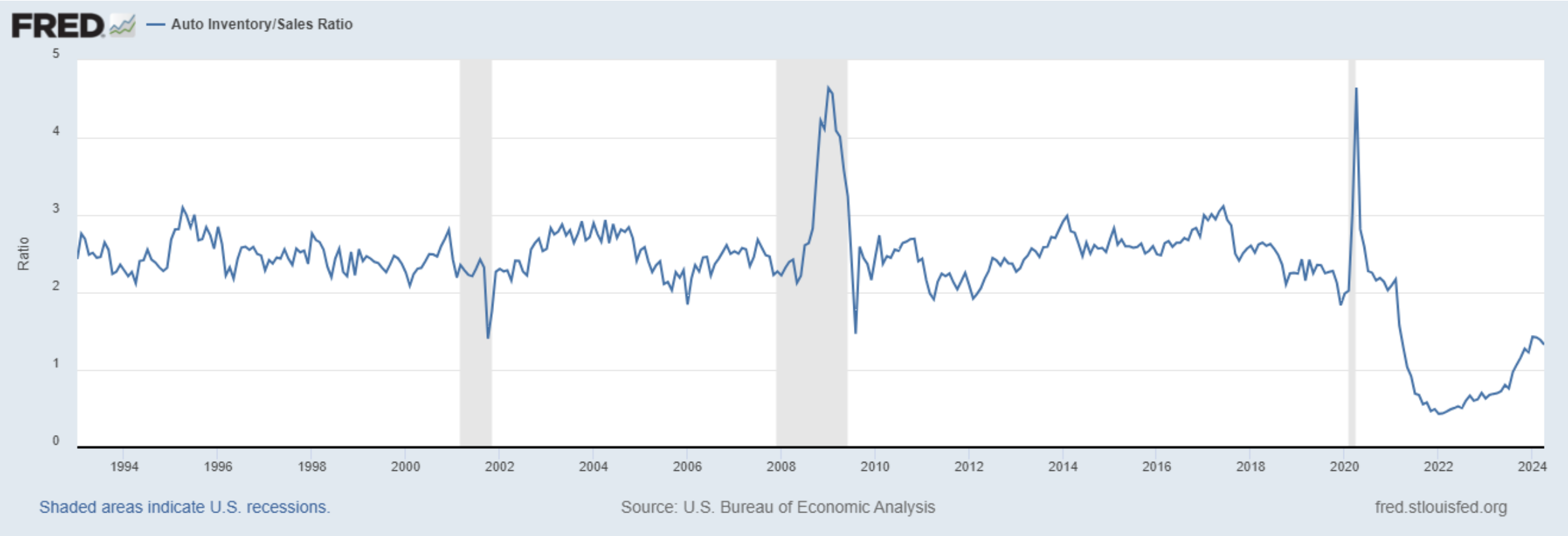
# Auto Inventory/Sales Ratio

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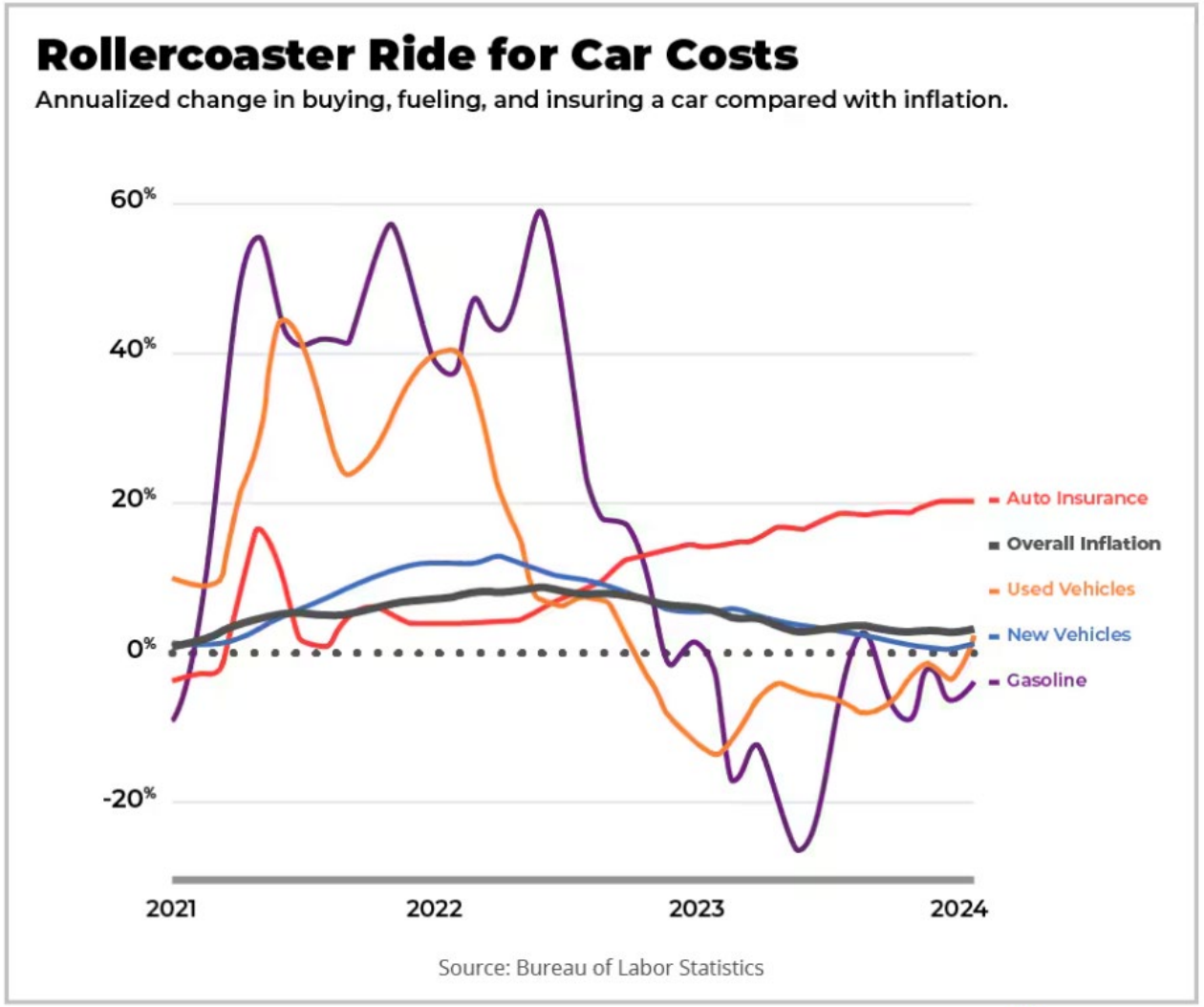
# Auto Costs




*Source: Kbb.com/car-advice/when-will-car-prices-drop/*

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# Tax Receipts by Market Segment

| Luxury | 1Q24 | 4Q23 | 3Q23 | 2Q23 | 1Q23 | 4Q22 | 3Q22 | 2Q22 | 1Q22 |
|---|---|---|---|---|---|---|---|---|---|
| Tax | **$5.9** | $6.5 | $6.4 | $6.7 | $6.8 | $7.6 | $7.4 | $7.3 | $6.9 |
| % YOY Change | **-13%** | -14% | -13% | -8% | -2% | +13% | +23% | +29% | +38% |

| Asian | 1Q24 | 4Q23 | 3Q23 | 2Q23 | 1Q23 | 4Q22 | 3Q22 | 2Q22 | 1Q22 |
|---|---|---|---|---|---|---|---|---|---|
| Tax | **$8.0** | $8.3 | $9.0 | $8.8 | $8.0 | $8.4 | $8.4 | $9.0 | $8.6 |
| % YOY Change | **-0%** | -1% | +6% | -2% | -7% | +8% | -3% | -1% | +10% |

| Domestic | 1Q24 | 4Q23 | 3Q23 | 2Q23 | 1Q23 | 4Q22 | 3Q22 | 2Q22 | 1Q22 |
|---|---|---|---|---|---|---|---|---|---|
| Tax | **$4.7** | $5.0 | $5.3 | $5.3 | $5.3 | $5.5 | $5.2 | $5.3 | $4.9 |
| % YOY Change | **-10%** | -8% | +3% | -0% | +8% | +7% | +8% | +2% | -2% |

Source: Large sampling of dealerships statewide by market segment

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# Auto Financing

## Credit Availability Index

### All Auto Loans Index (Jan2019 = 100)

Source: Dealertrack

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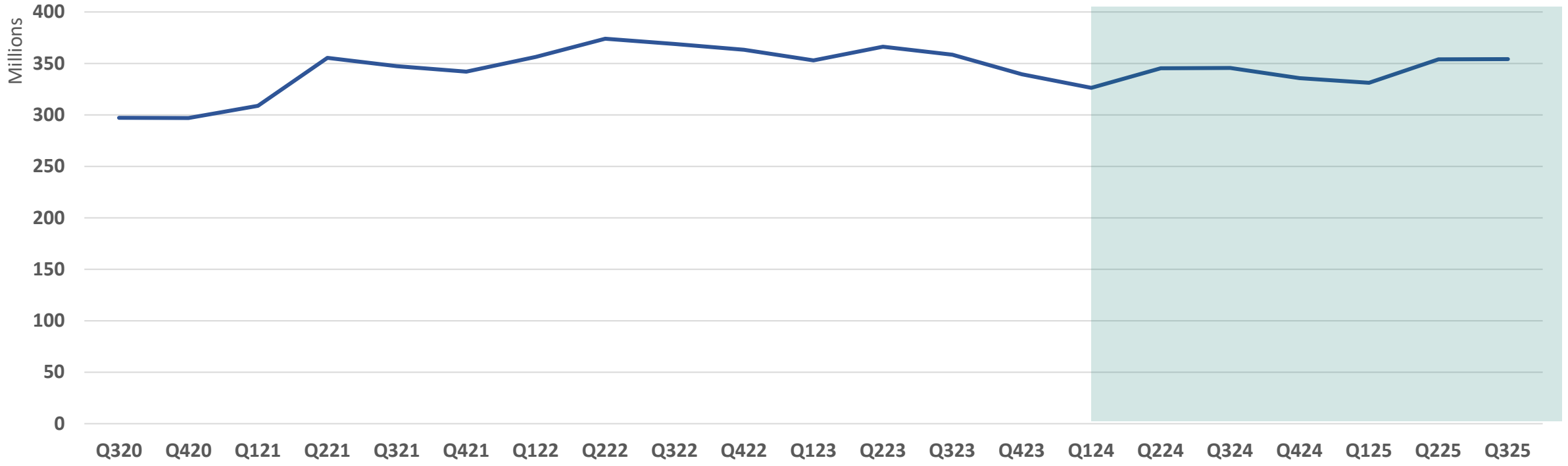
# Autos & Transportation Forecast

| | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | 1Q25 | 2Q25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % Change YoY | 16.9% | 15.2% | 15.4% | 5.2% | 6.2% | 6.2% | -1.0% | -2.1% | -2.8% | -6.5% | -7.5% | -5.7% | -3.6% | -1.1% | 1.5% | 2.5% |
| Fiscal Year Change | **12.8%** | | | | **2.2%** | | | | **-5.6%** | | | | **-0.2%** | | | |

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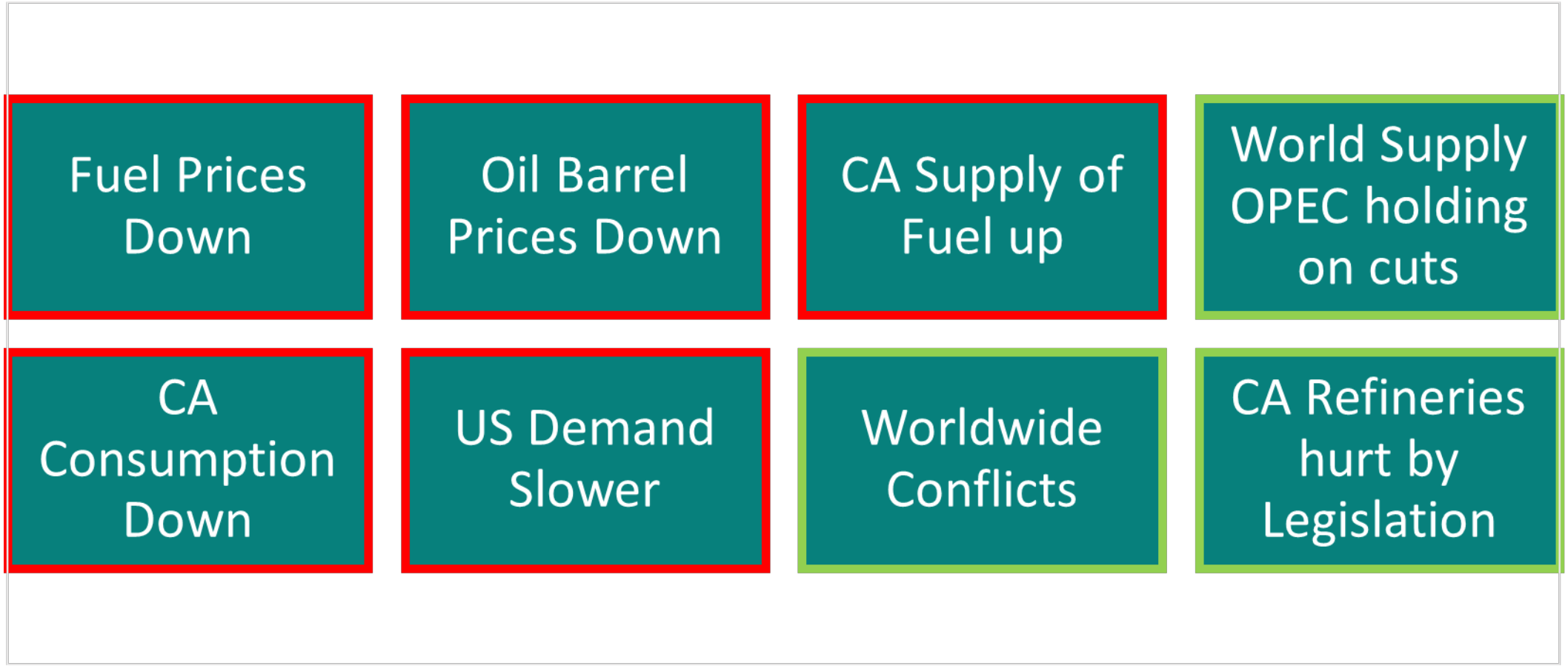
# Fuel and Service Stations Indicators

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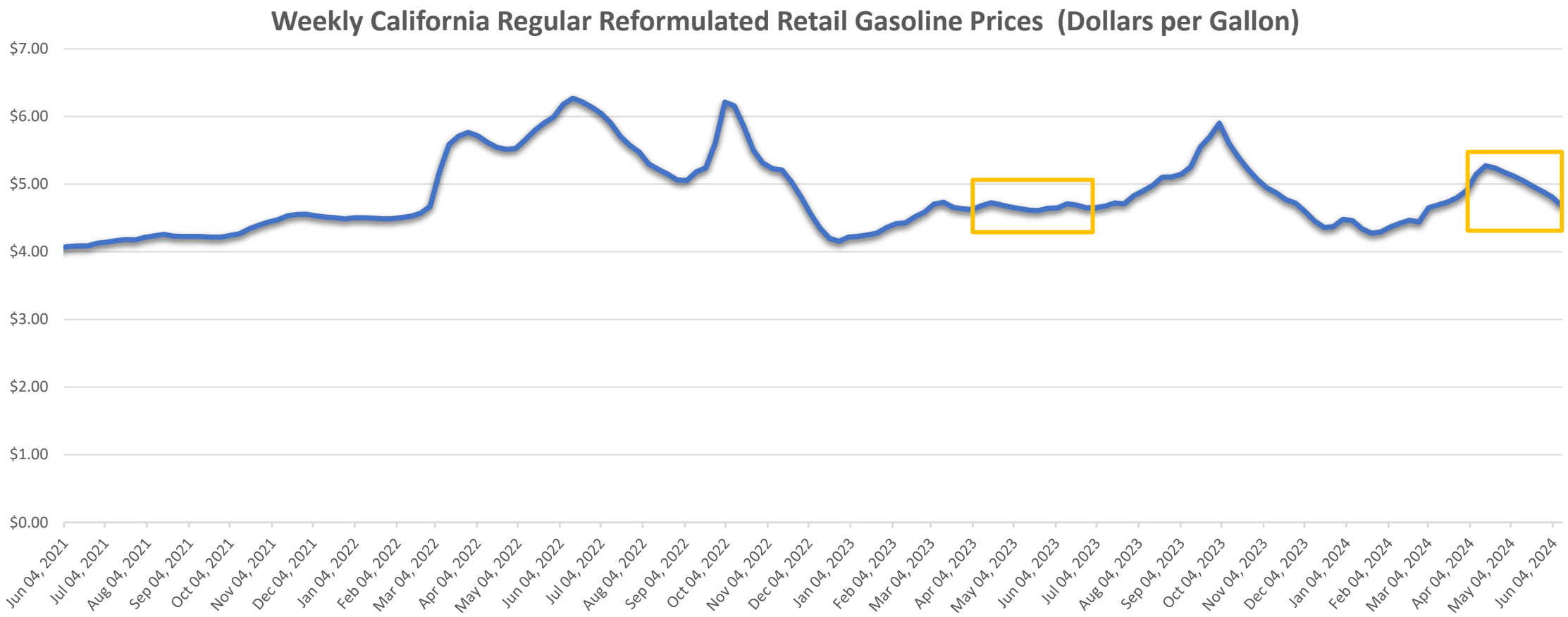
# Gas Prices




*Source: Energy Information Administration (EIA)*

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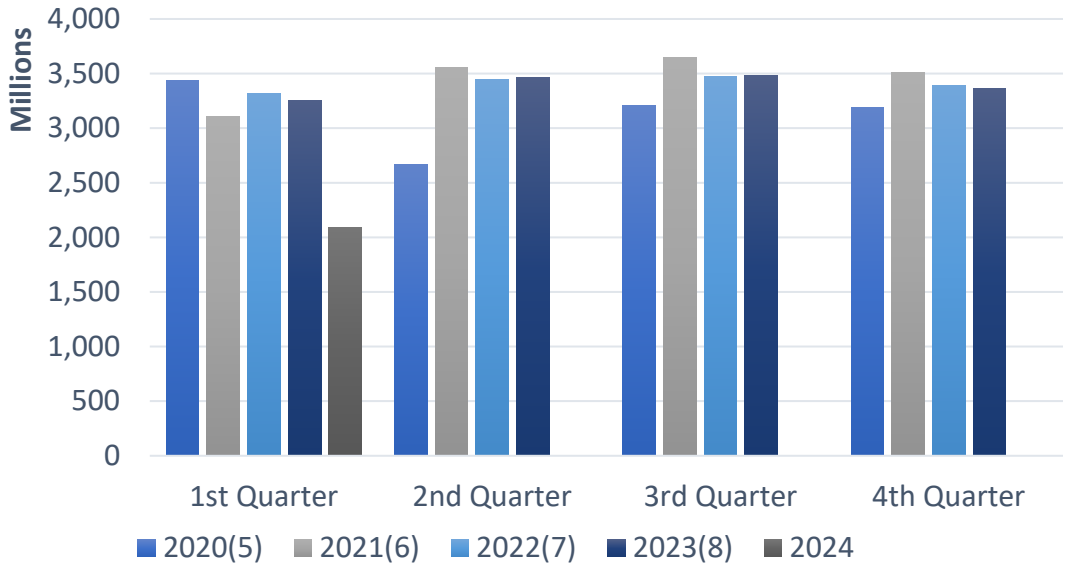
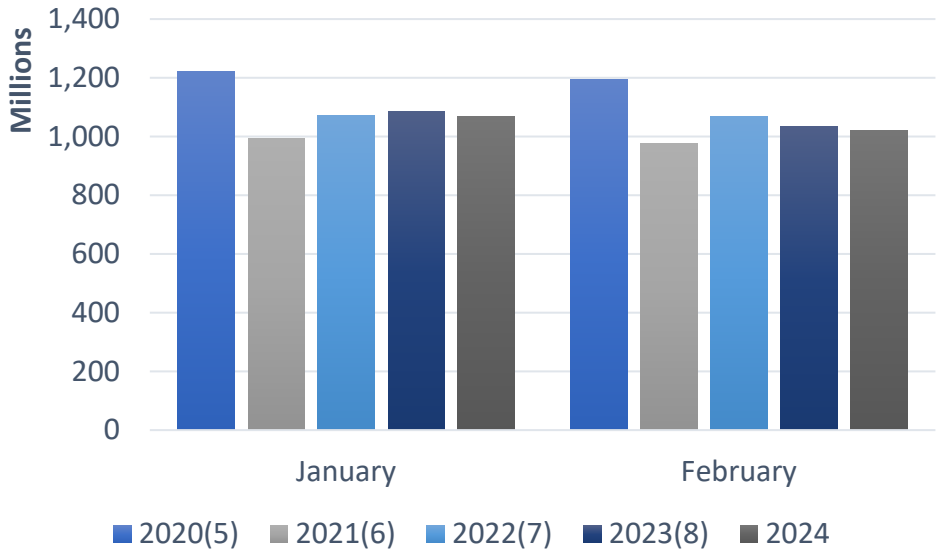
# CA Fuel Consumption

## Motor Vehicle Fuel 4 year quarterly consumption comparison




## Motor Vehicle Fuel 2 month consumption comparison

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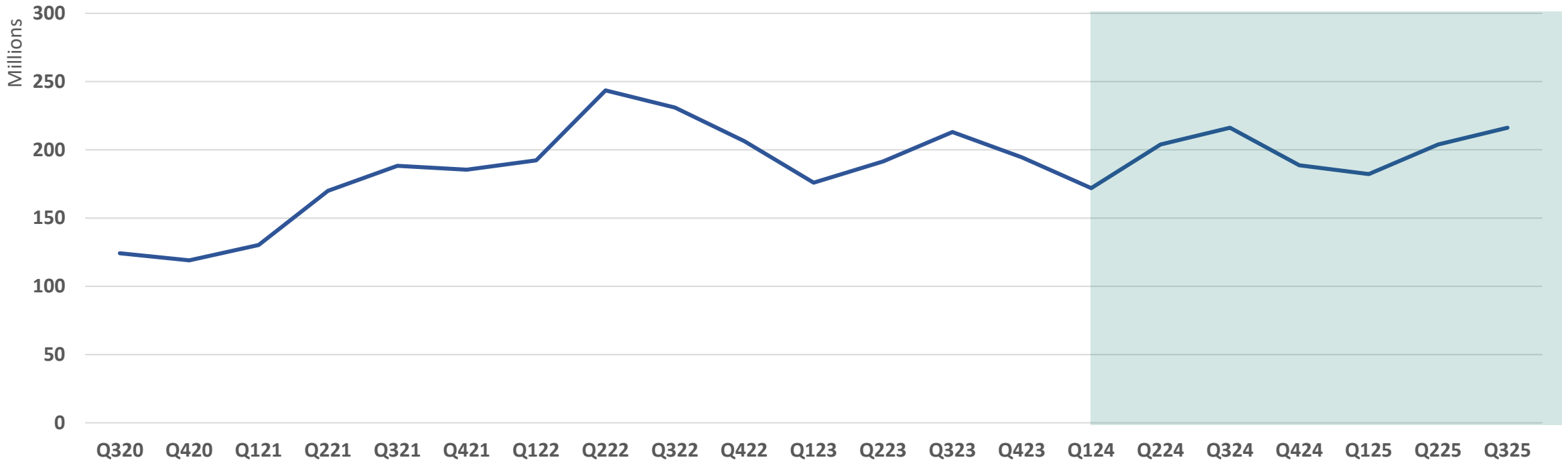
# Fuel & Service Stations Forecast

| | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | 1Q25 | 2Q25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % Change YoY | 51.5% | 55.8% | 47.6% | 43.3% | 22.7% | 11.3% | -8.5% | -21.4% | -7.8% | -5.8% | -2.3% | 6.5% | 1.5% | -3.0% | 6.0% | 0.0% |
| Fiscal Year Change | **48.6%** | | | | **-0.6%** | | | | **-2.7%** | | | | **1.0%** | | | |

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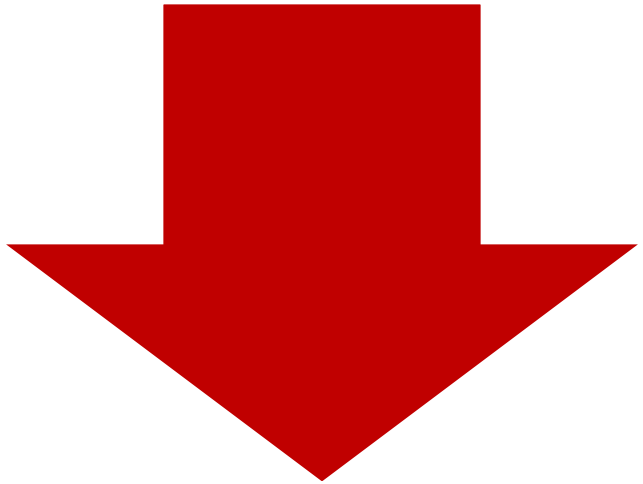
# Construction Factors

## Positives

- Lumber in demand
- Contractors
  - Cement plants
  - Infrastructure projects launching



## Negatives

- Home improvement stores
- Housing development
- Rooftop Solar (residential)

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# Lumber Prices

# Ready-Mix Concrete Price

May 2024: Concrete pricing +5.6% compared to last year

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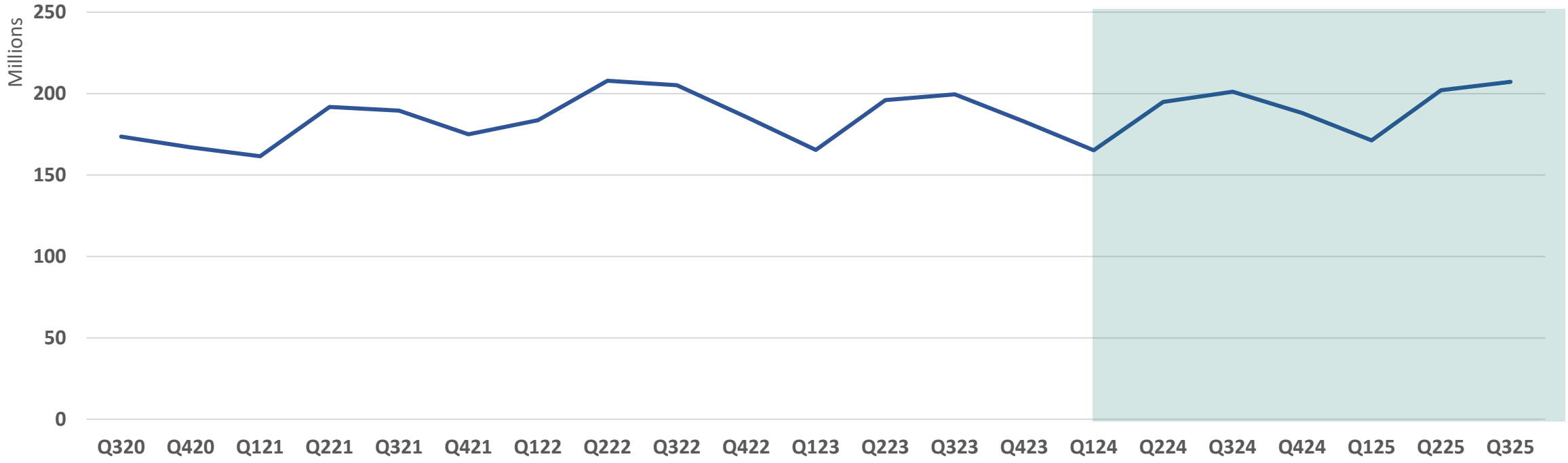
# Building & Construction Forecast

| | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | 1Q25 | 2Q25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % Change YoY | 9.2% | 4.8% | 13.7% | 8.4% | 8.2% | 6.0% | -10.0% | -5.7% | -2.7% | -1.5% | -0.1% | -0.6% | 0.8% | 2.9% | 3.7% | 3.7% |
| Fiscal Year Change | **8.9%** | | | | **-0.4%** | | | | **-1.3%** | | | | **2.7%** | | | |

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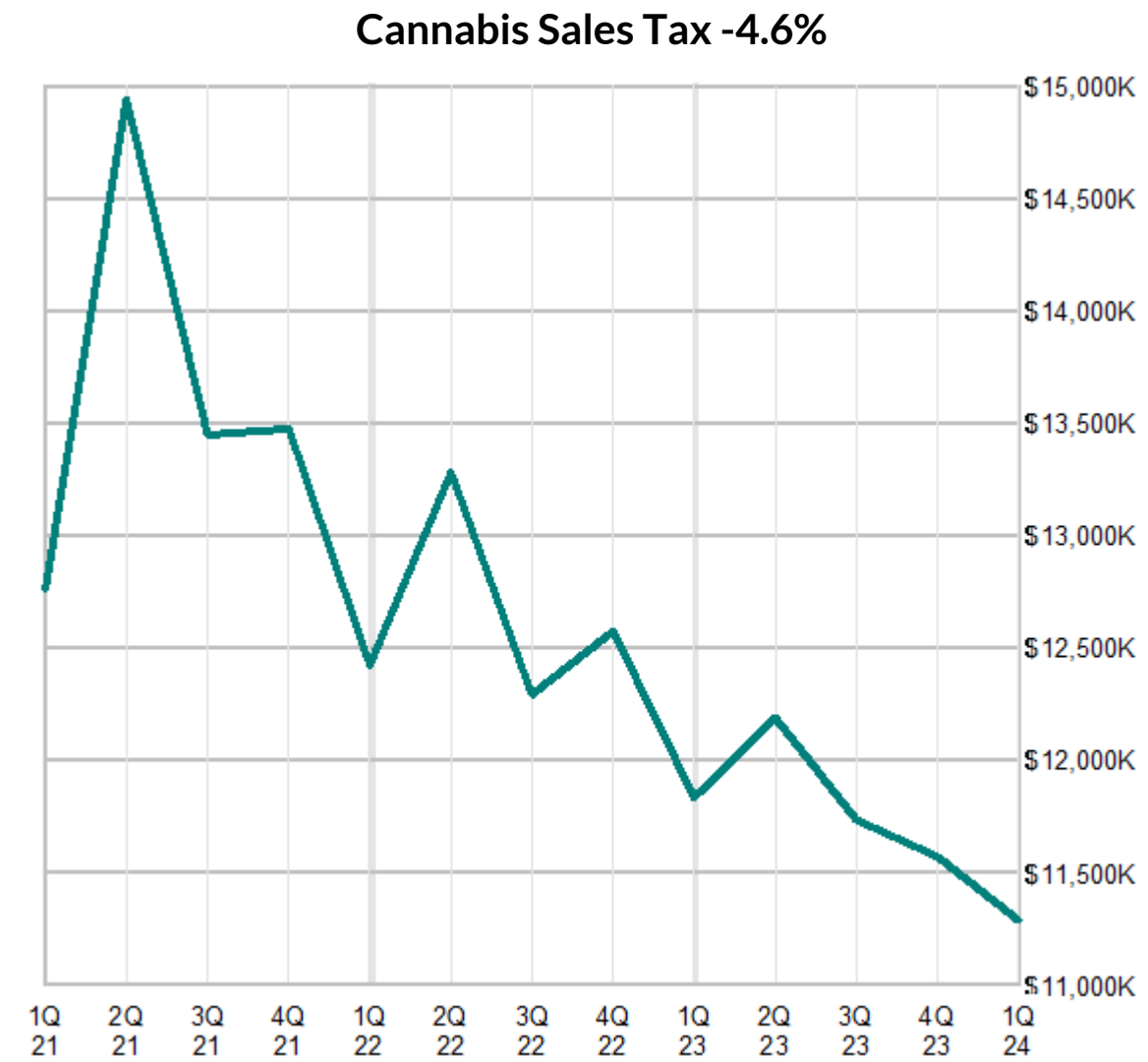
# Cannabis Sales Tax Revenue

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# Food & Drugs Forecast

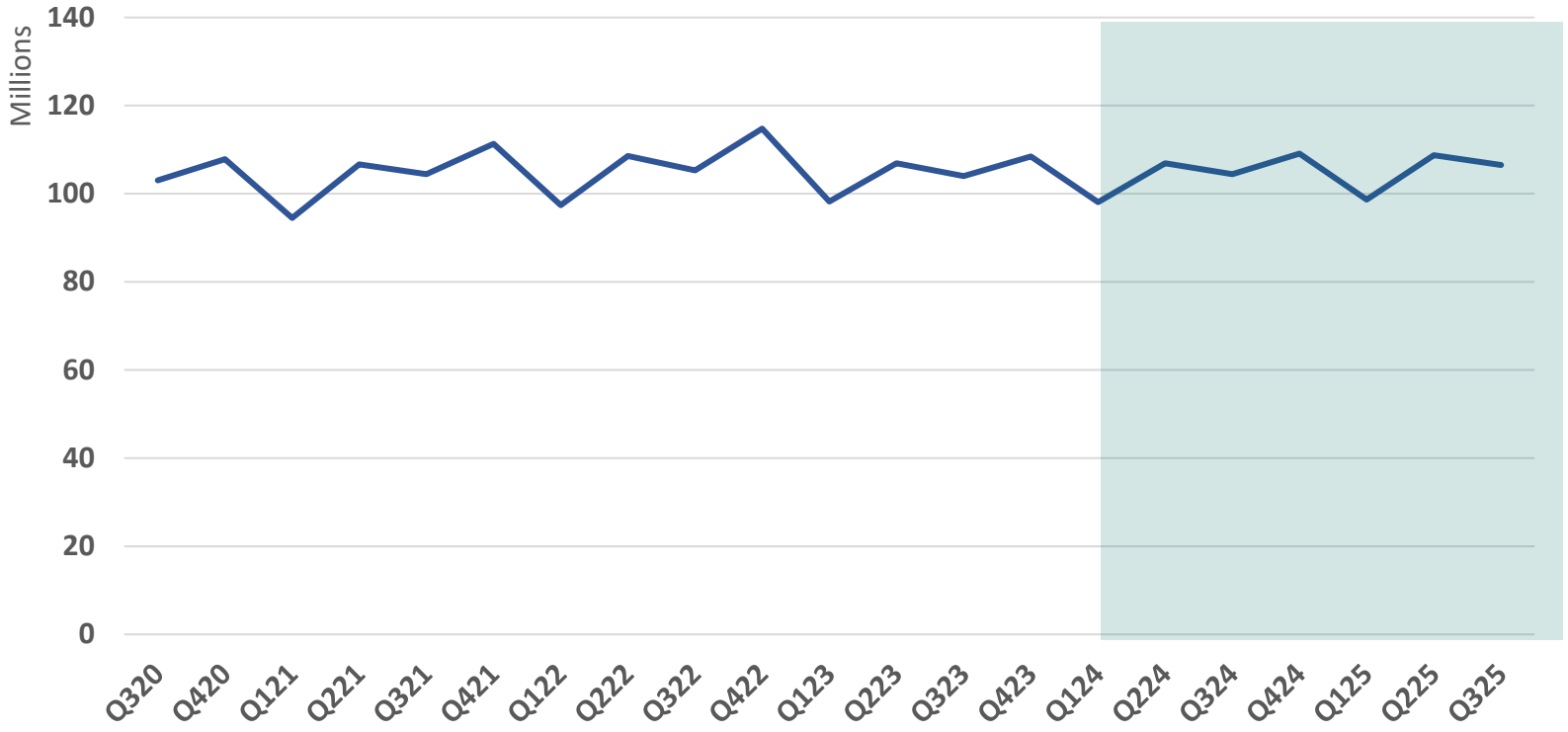
| | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | 1Q25 | 2Q25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % Change YoY | 1.3% | 3.2% | 3.1% | 1.8% | 0.8% | 3.1% | 0.9% | -1.5% | -1.2% | -5.5% | -0.2% | 0.0% | 0.4% | 0.6% | 0.6% | 1.7% |
| Fiscal Year Change | **2.3%** | | | | **0.7%** | | | | **-1.8%** | | | | **0.8%** | | | |

**Grocery Store sales 2.8%**
- Accounts for 50% of the group

**Convenience / Liquor Store sales +0.6%**
- Accounts for 23% of the group

**Drug store closures (Rite Aid) shifting tax elsewhere: -7.3%**

**eCommerce growing within the Grocery Segment**

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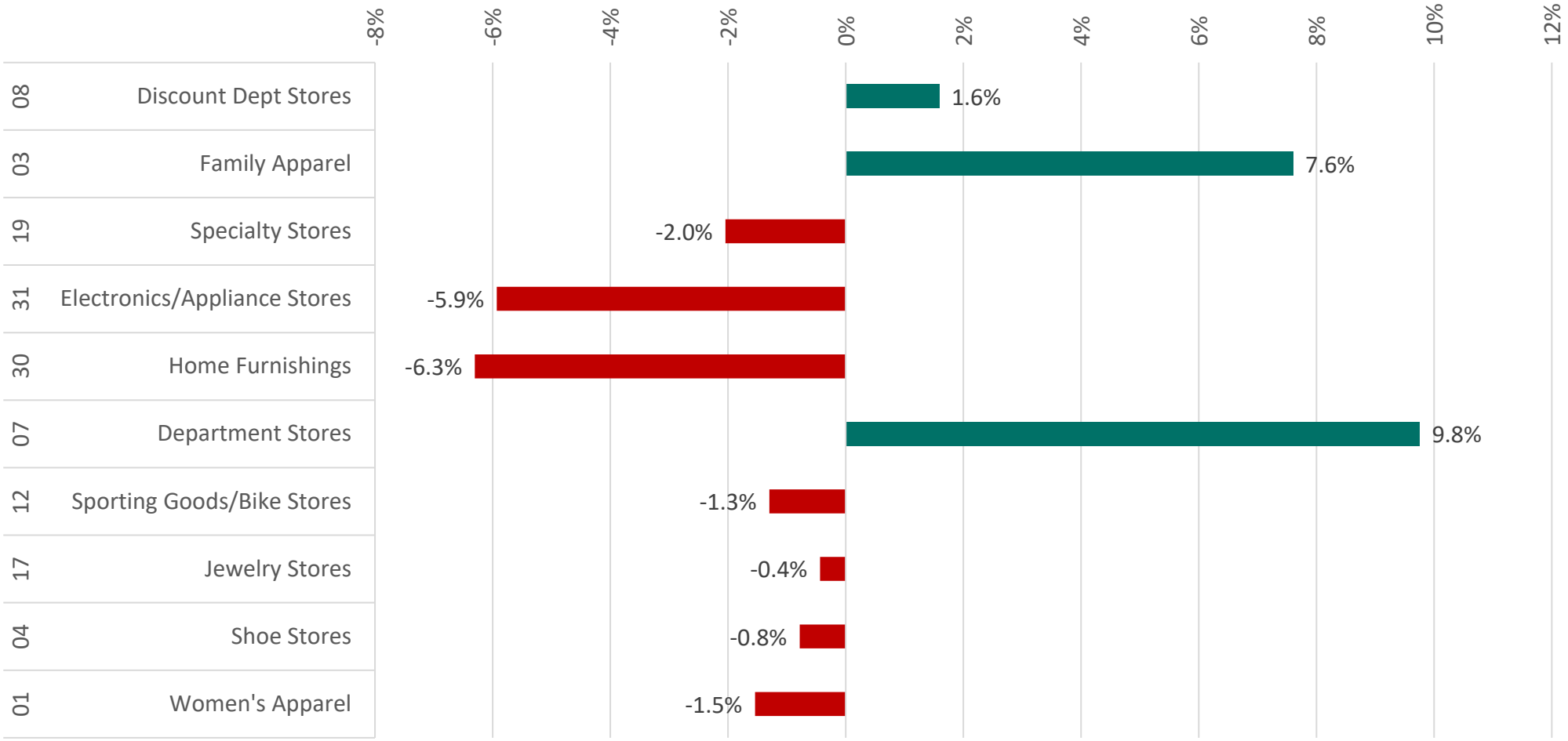
# General Consumer Goods: 1Q24

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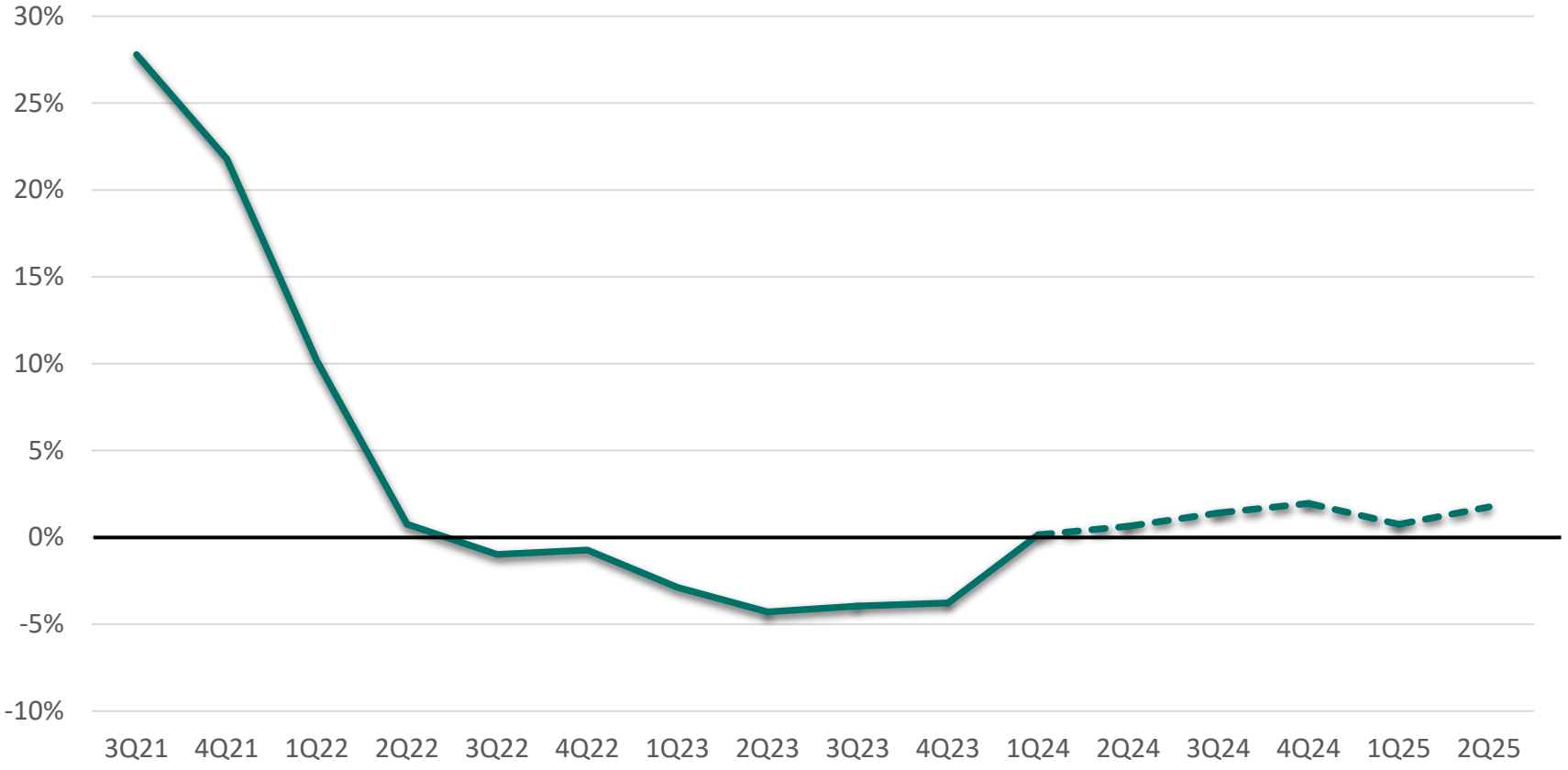
# General Consumer Goods: Trends

High impact categories were flat in 1Q-2024 following six consecutive quarters of contraction as demand for goods weakened and consumers spending normalizes across more service categories…




**Includes:**

Department Stores
Electronics/Appliances
Family Apparel
Home Furnishings
Jewelry Stores
Shoe Stores
Specialty Stores
Sporting Goods
Women's Apparel

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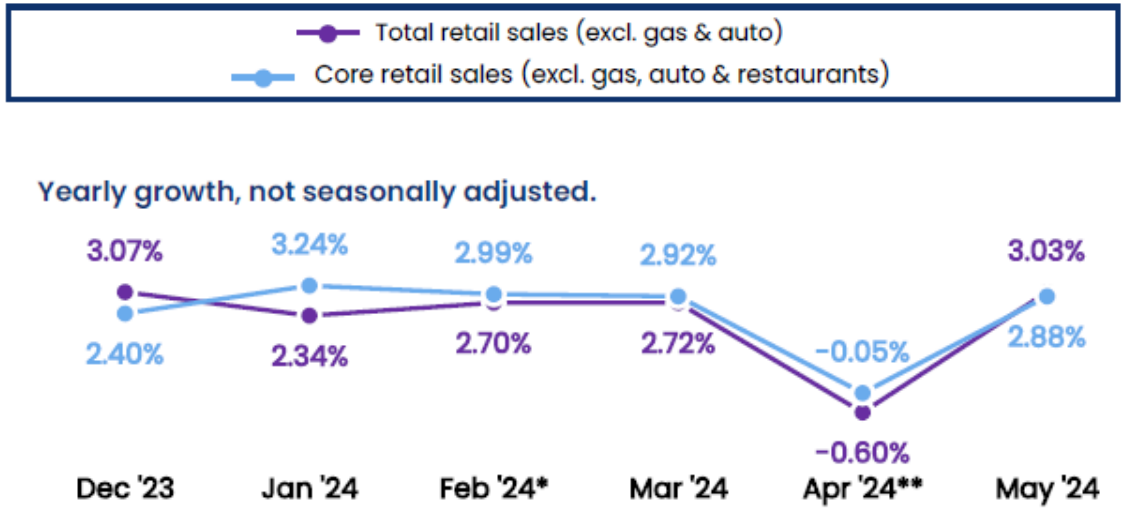
# National Retail Federation

Consumers retained their ability to spend.

Stubborn inflation almost entirely in services rather than retail goods.

NRF believes April's moderation was an outlier.




*Numbers based on the first 28 days in February.

**The year-over-year decline in April 2024 appeared to be an anomaly reflecting that Easter fell in April last year but came in March this year. April had two fewer weekend days this year.

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# Retailer Guidance

SALES OUTLOOK

| | | | |
|---|---|---|---|
| Walmart<br>3% to 4%<br>(expect high end) | Costco<br>6.0%<br>(12 weeks ending May 12) | TJX Companies<br>2% to 3%<br>(unchanged) | Ross<br>2% to 3%<br>(unchanged) |
| Dollar Tree<br>Low-to-Mid single digit growth | Target<br>0% to 2%<br>(unchanged) | ULTA<br>2% to 3%<br>(decreased) | Verizon<br>2% to 3.5% |
| Macy's<br>-1% to +1.5%<br>(increased lower end) | Nordstrom<br>-1% to +2% | Kohls<br>-1% to -3% | Best Buy<br>-3% |

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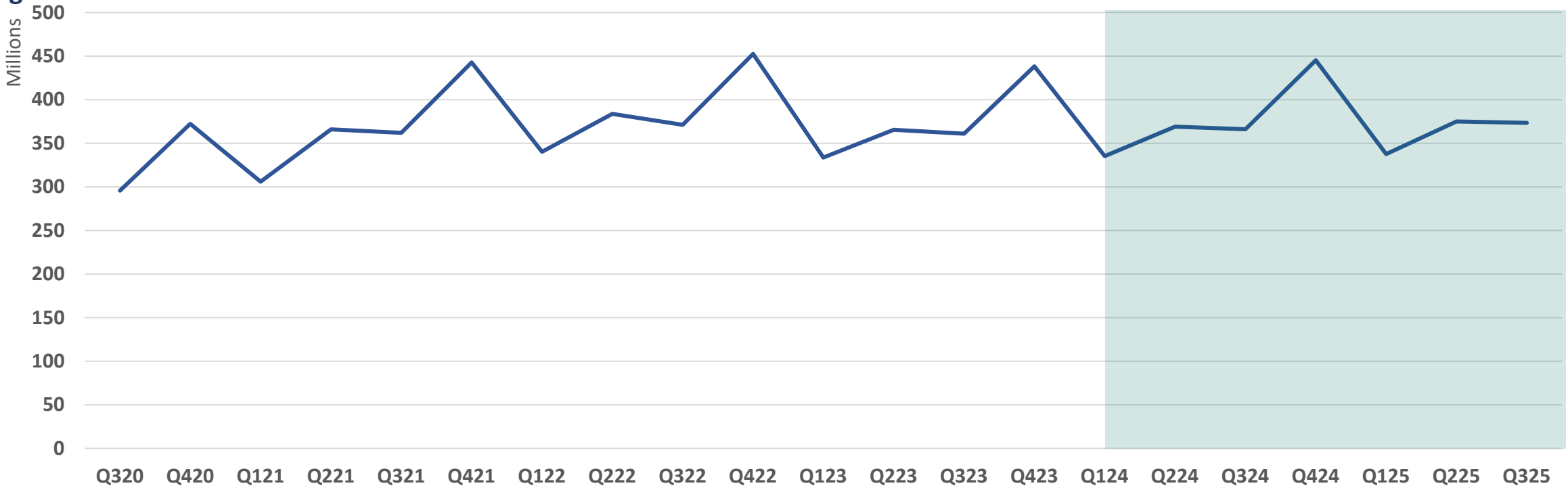
# General Consumer Goods Forecast

| | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | 1Q25 | 2Q25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % Change YoY | 22.4% | 18.9% | 11.2% | 4.8% | 2.5% | 2.2% | -1.9% | -4.8% | -2.8% | -3.2% | 0.5% | 1.0% | 1.4% | 1.6% | 0.7% | 1.6% |
| Fiscal Year Change | **14.1%** | | | | **-0.3%** | | | | **-1.3%** | | | | **1.4%** | | | |

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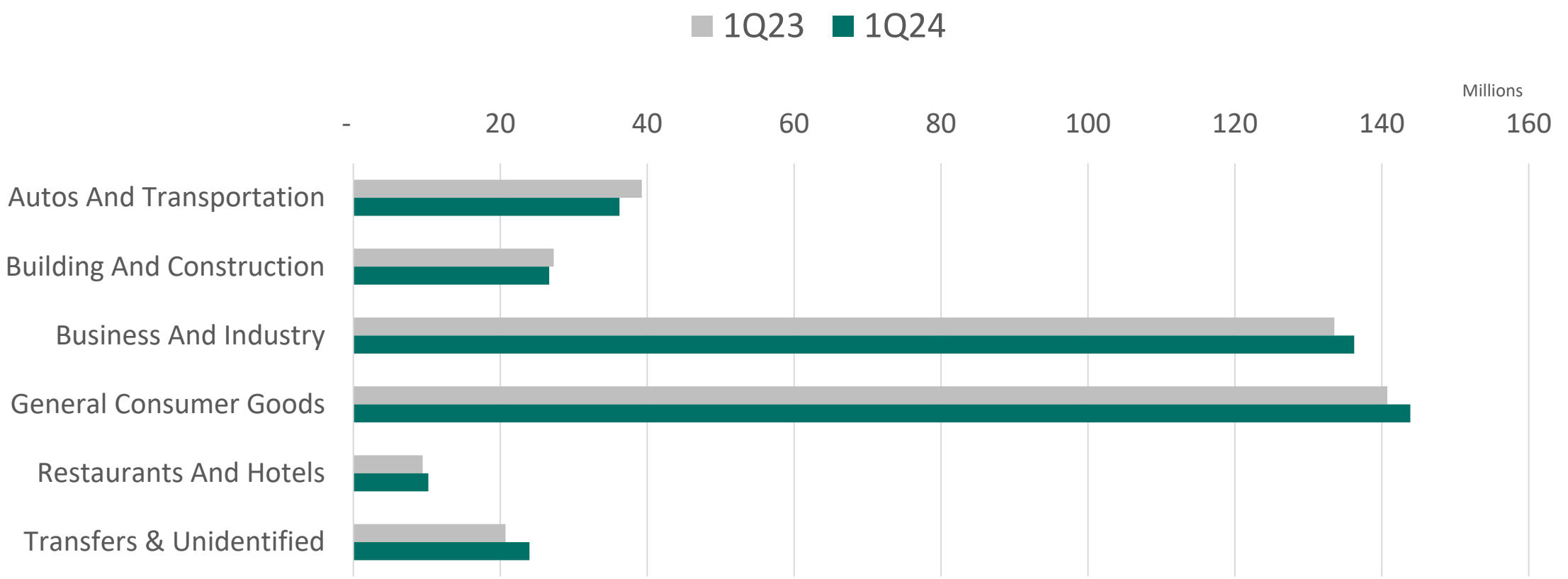
# County Pools

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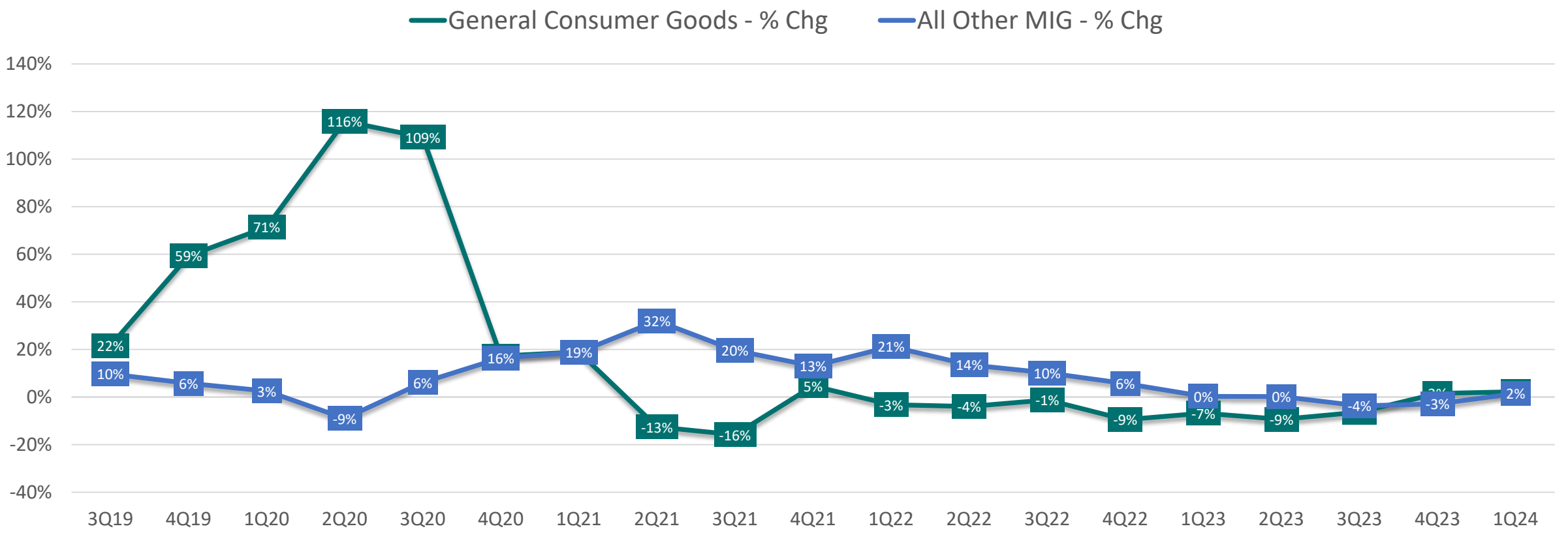
# County Pool Trends

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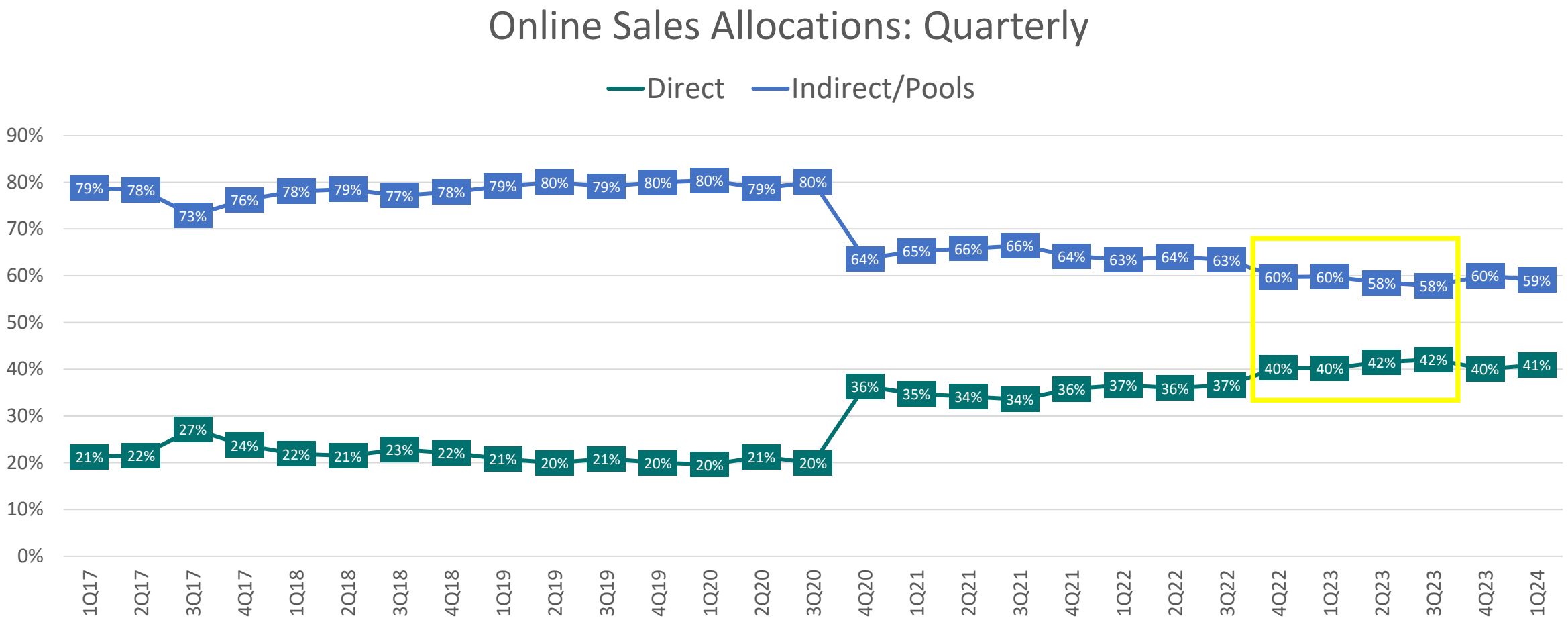
# Online Sales Allocations




*Direct = Local tax allocations from identified fulfillment centers*

*Indirect = Local tax allocations from General Consumer Goods through the County Pools*

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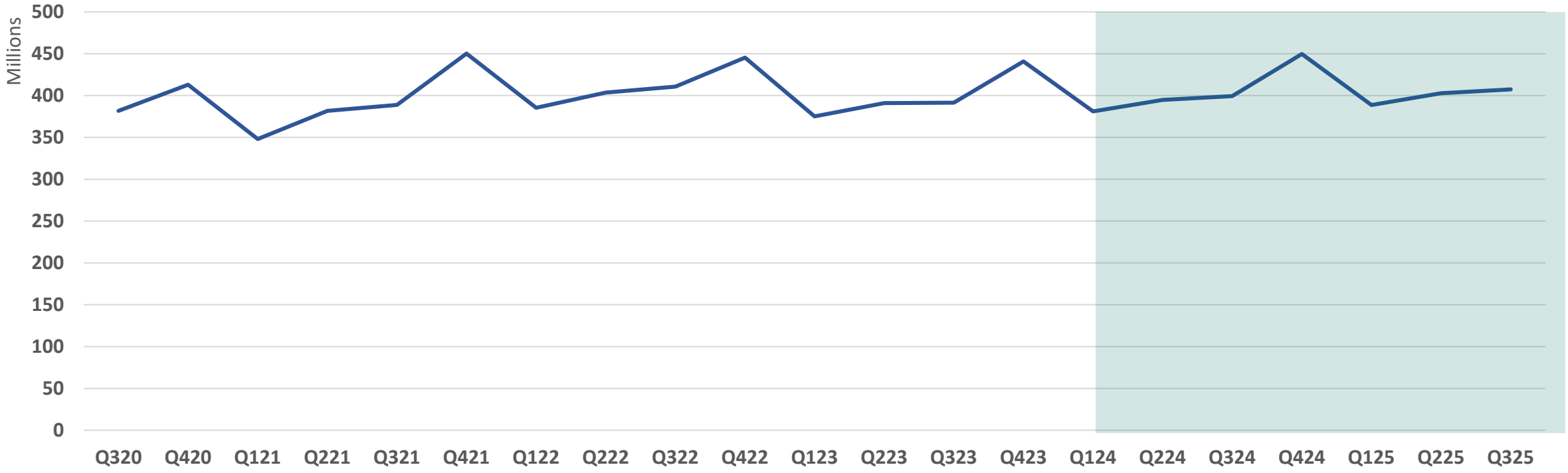
# County Pools Forecast

| | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | 1Q25 | 2Q25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % Change YoY | 1.9% | 9.0% | 10.7% | 5.7% | 5.6% | -1.1% | -2.7% | -3.1% | -4.7% | -1.0% | 1.6% | 1.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Fiscal Year Change | **3.4%** | | | | **-0.2%** | | | | **-0.8%** | | | | **2.0%** | | | |

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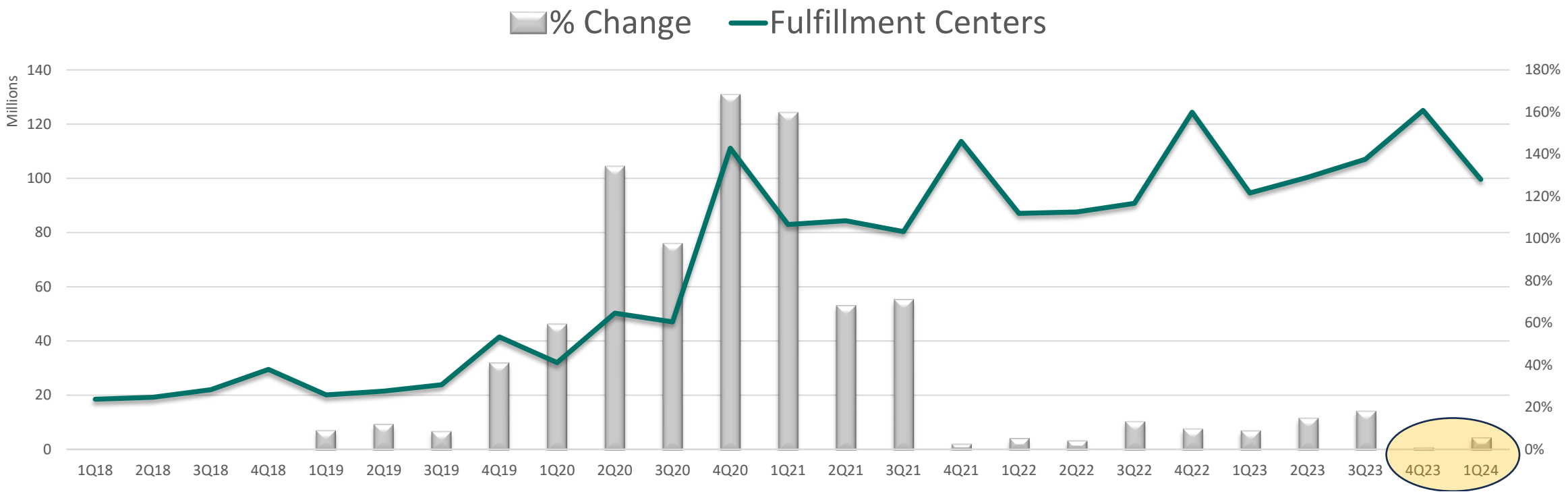
# Business & Industry: Fulfillment Centers

## Place-of-Sale direct allocations to local agencies

**4Q19 – 3Q20:** Growth from AB147, Marketplace Facilitators, pandemic behavior shifts

**4Q20 - 3Q21 & 4Q22-3Q23:** Shifts of some local tax reporting from indirect to direct reporting

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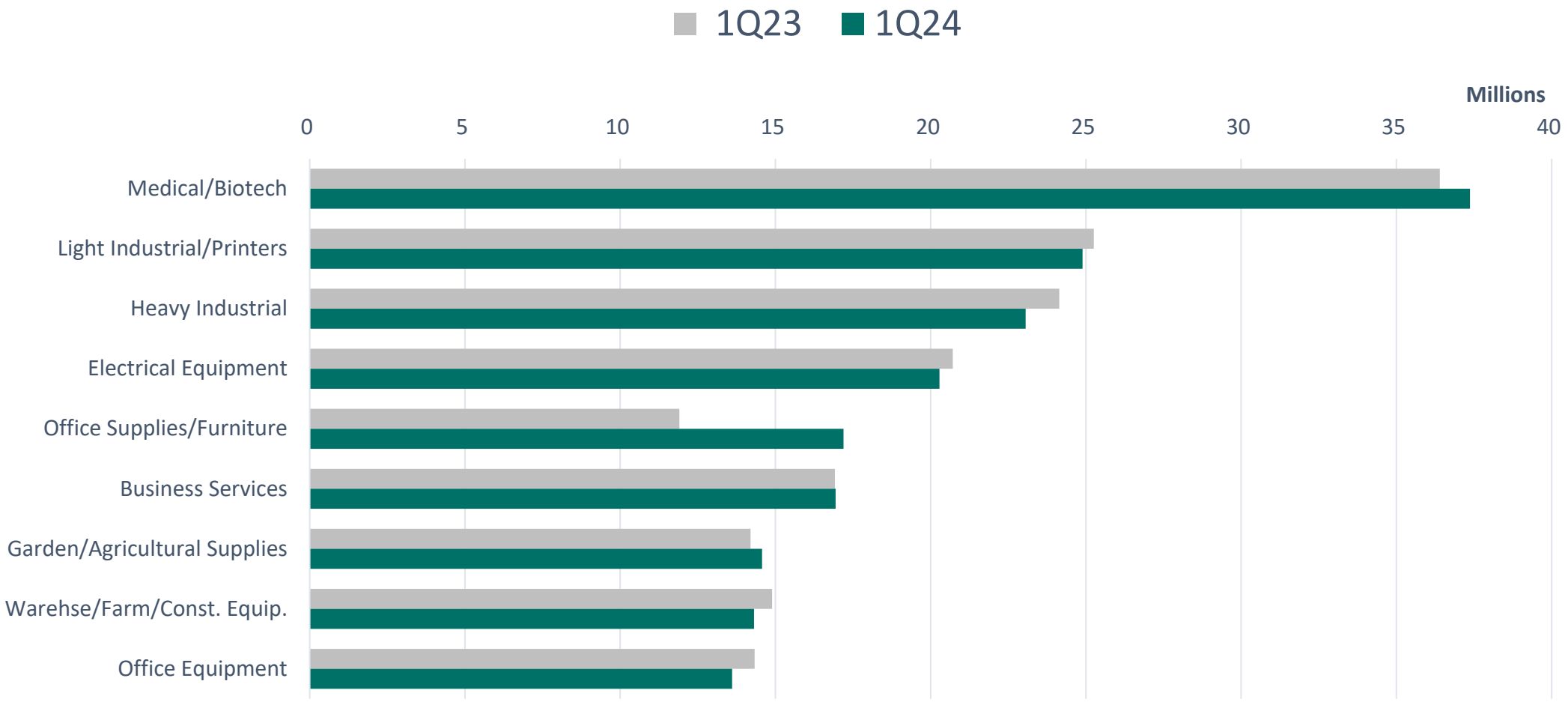
# Business & Industry: Top BT's

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# Industry Trends

**CA fulfillment centers** accounted for 28% of Business & Industry

<u>Growth</u>

5% in 1Q24

**Industry**: *ISM* Manufacturing Index*

Still contracting index

"softening" in the industry

Current monetary policy & other conditions hurting investment

**Medical/Biotech outlook**

Investment depressed by high rates

Pandemic demand diminishing

Positive/hopeful outlook

**AG** Tech is moving fast but venture capital is slow

AI expected to be a key focal point

Tractor makers anticipate lower sales

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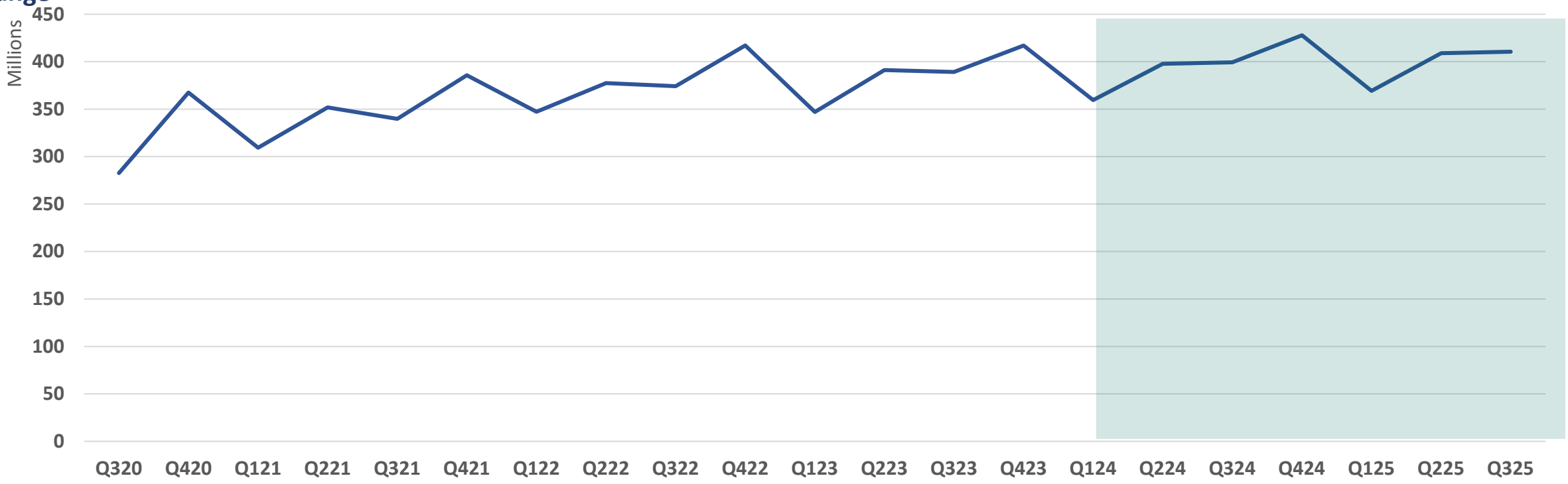
# Business & Industry Forecast

| | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | 1Q25 | 2Q25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % Change YoY | 20.2% | 5.0% | 12.2% | 7.3% | 10.1% | 8.1% | -0.1% | 3.6% | 4.0% | 0.0% | 3.6% | 1.7% | 2.6% | 2.6% | 2.7% | 2.8% |
| Fiscal Year Change | **10.7%** | | | | **5.5%** | | | | **2.2%** | | | **2.7%** | | | | |

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# Restaurants & Hotels: Industry Trends

Prices continue to rise &

Reduced working hours

Breaking point for many small restaurant businesses

Customers were willing to pay those higher charges, **<u>just not as often</u>**.

Foot traffic slower than expected

Closures:

(Applebee's, Red Lobster, Rubio's)

Competing for frugal diner's dollars

SB 478: Junk Fee Ban goes into effect July 1st.

Mandatory service fee's must be included in menu price

Possible exceptions pending (SB1524)

AB 1228 effective 4/1/24

**$20 per hour minimum wage**

Increased prices

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# Menu prices

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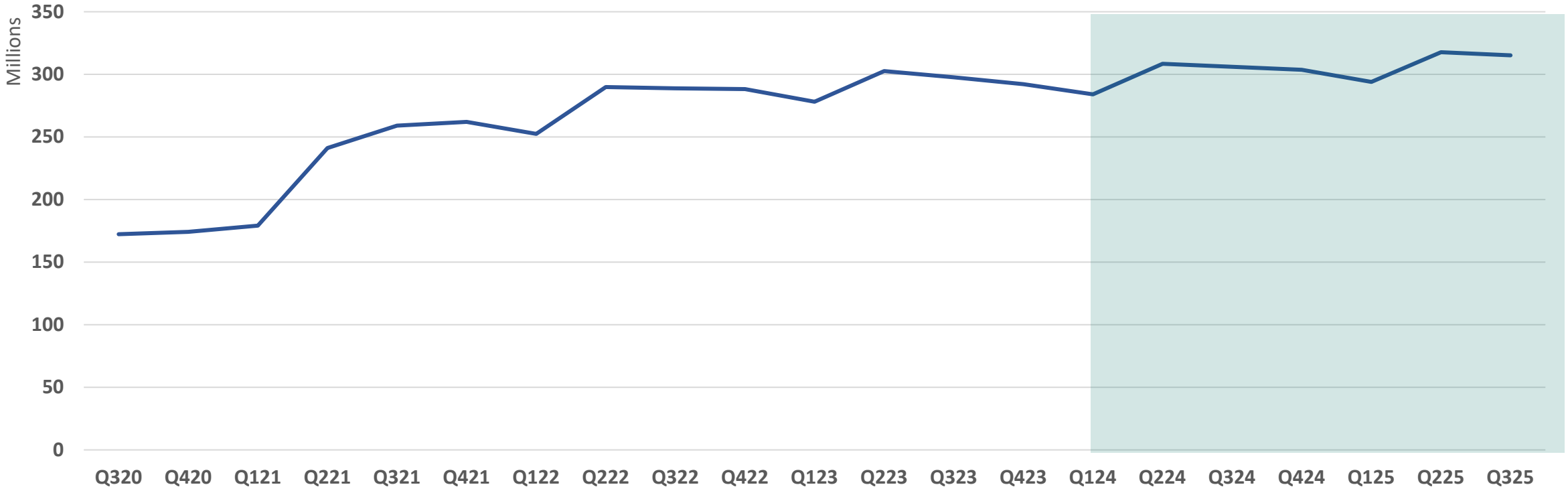
# Restaurants & Hotels Forecast

| | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | 1Q25 | 2Q25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % Change YoY | 50.3% | 50.4% | 40.9% | 20.2% | 11.5% | 10.0% | 10.2% | 4.4% | 3.1% | 1.4% | 2.1% | 1.9% | 2.8% | 3.9% | 3.5% | 3.0% |
| Fiscal Year Change | **38.6%** | | | | **9.1%** | | | | **2.1%** | | | **3.3%** | | | | |

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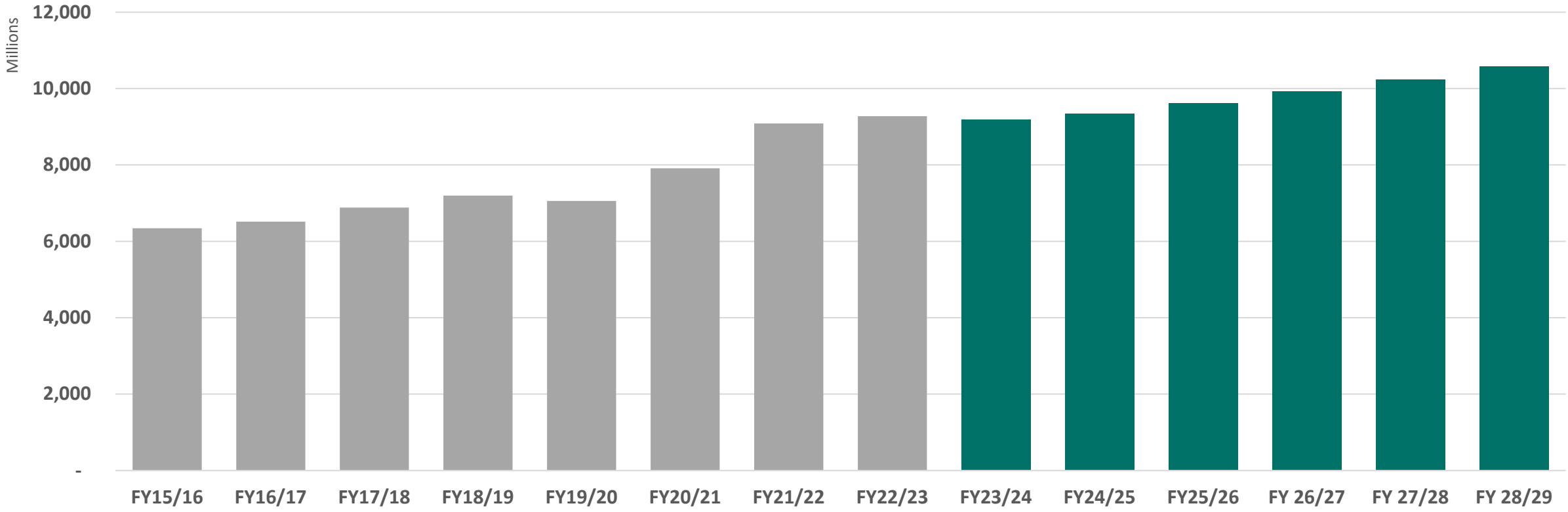
# HdL Statewide Trend – Annual Outlook

| % Change YoY | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | 26/27 | 27/28 | 28/29 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2.7% | 5.6% | 4.6% | -2.0% | 12.1% | 14.9% | 2.1% | -1.0% | 1.7% | 3.0% | 3.2% | 3.2% | 3.3% |

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# Takeaways

Federal reserve action on interest rates delayed deeper into 2024. Consumers likely to delay or defer large purchases for cheaper alternatives.

Households continue to spend but cautiously. Competing demands for dollars.

Modest growth in FY 2024-25 will not make up for dollar declines in FY 2023-24.

Expect more retail and restaurant closure announcements. Expanding concepts in targeted markets.

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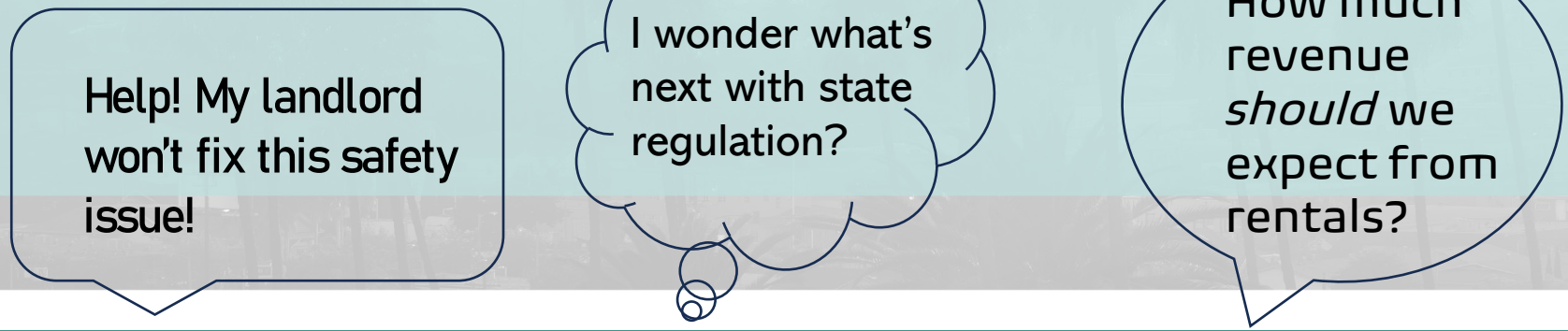
# Rental Registration Services

Maximize compliance and revenues without straining business relations.




Rest easy. We've got this.

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Solutions for Local Governments

# Q & A

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# Thank you!