Sales Tax Trends & Economic Drivers

California Forecast

January 2025

HdL Companies

Introductions

Ken Nordhoff

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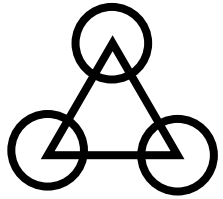
HdL Companies

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!

800+
Municipal Clients

$3billion+
Recovered revenue

99.6%
Avg. Client Retention

HdL Companies

3rd Quarter 2024 Statewide Results

Major Industry Group	3Q 2024
Autos & Transportation	-4.8%
Building & Construction	-3.2%
Business & Industry	-0.1%
Food & Drugs	-2.8%
Fuel & Service Stations	-13.0%
General Consumer Goods	-3.8%
Restaurants & Hotels	0.7%
Pools	3.1%
Total	**-2.3%**
Sept. Projection	*-1.7%*

Region	3Q 2024
Sierras	-5.9%
Far North	-4.3%
San Joaquin Valley	-2.9%
Central Coast	-2.8%
Southern California	-2.3%
Bay Area	-1.9%
Sacramento Region	-1.1%

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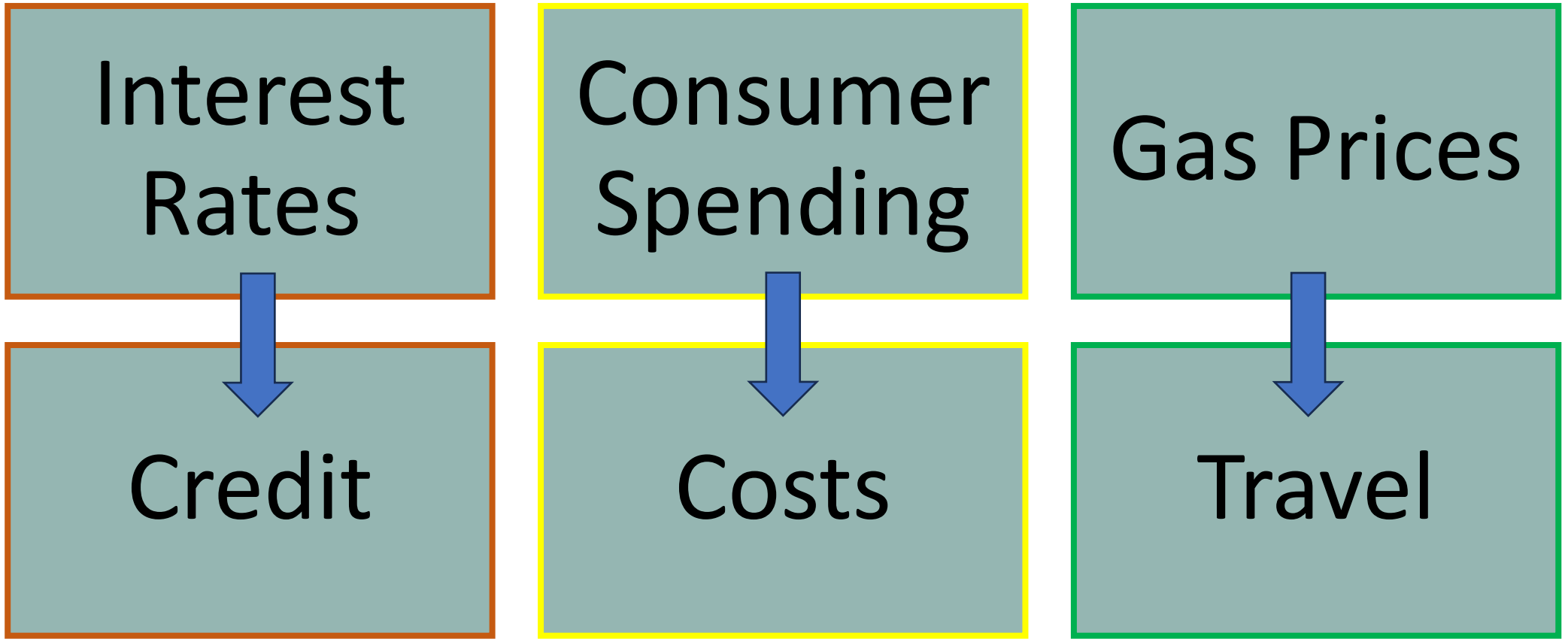
Considerations



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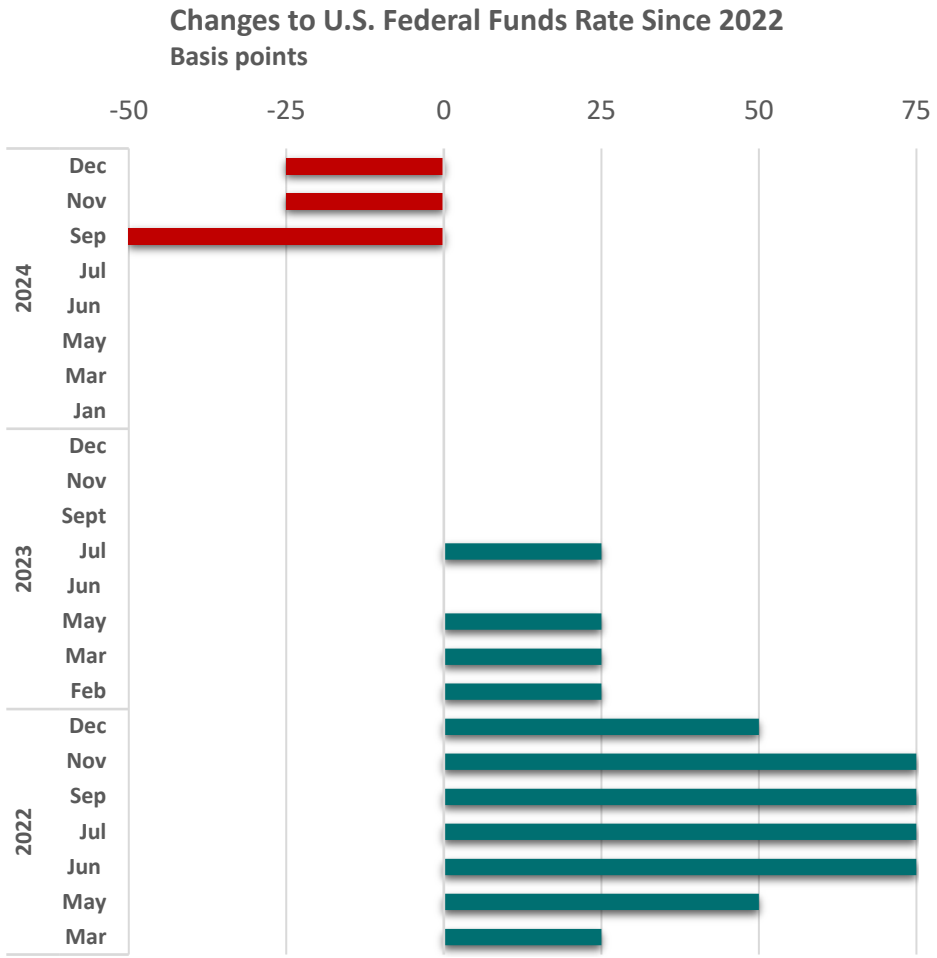
Interest Rates

Federal Reserve reduced federal funds rate by 100 bps in 2024



- December's cut moved benchmark rates down by a full percentage point since September.
- Chairman Powell indicated going forward the Fed would move slower.
- Fed indicated only two cuts in 2025

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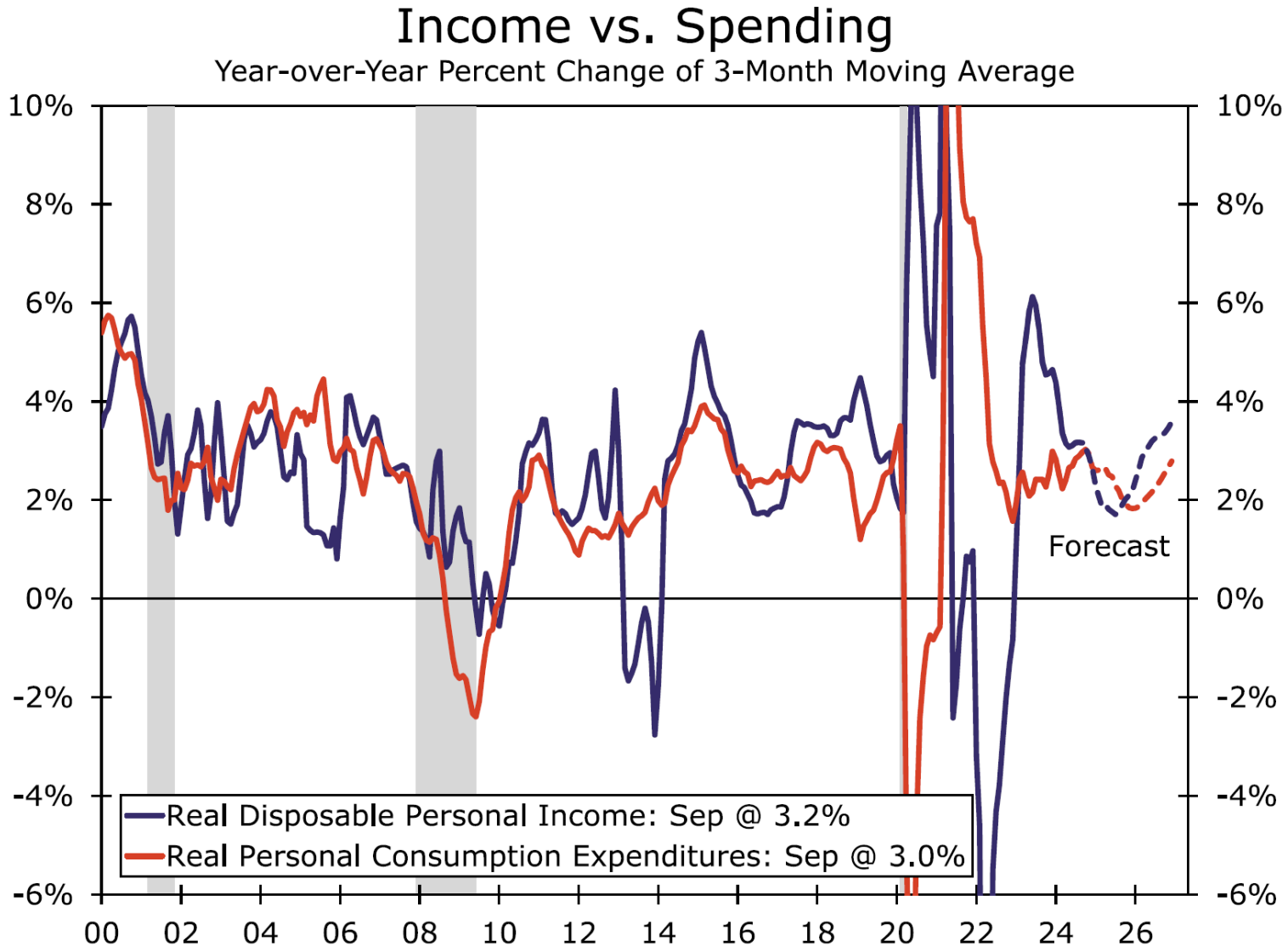
Income vs Spending



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

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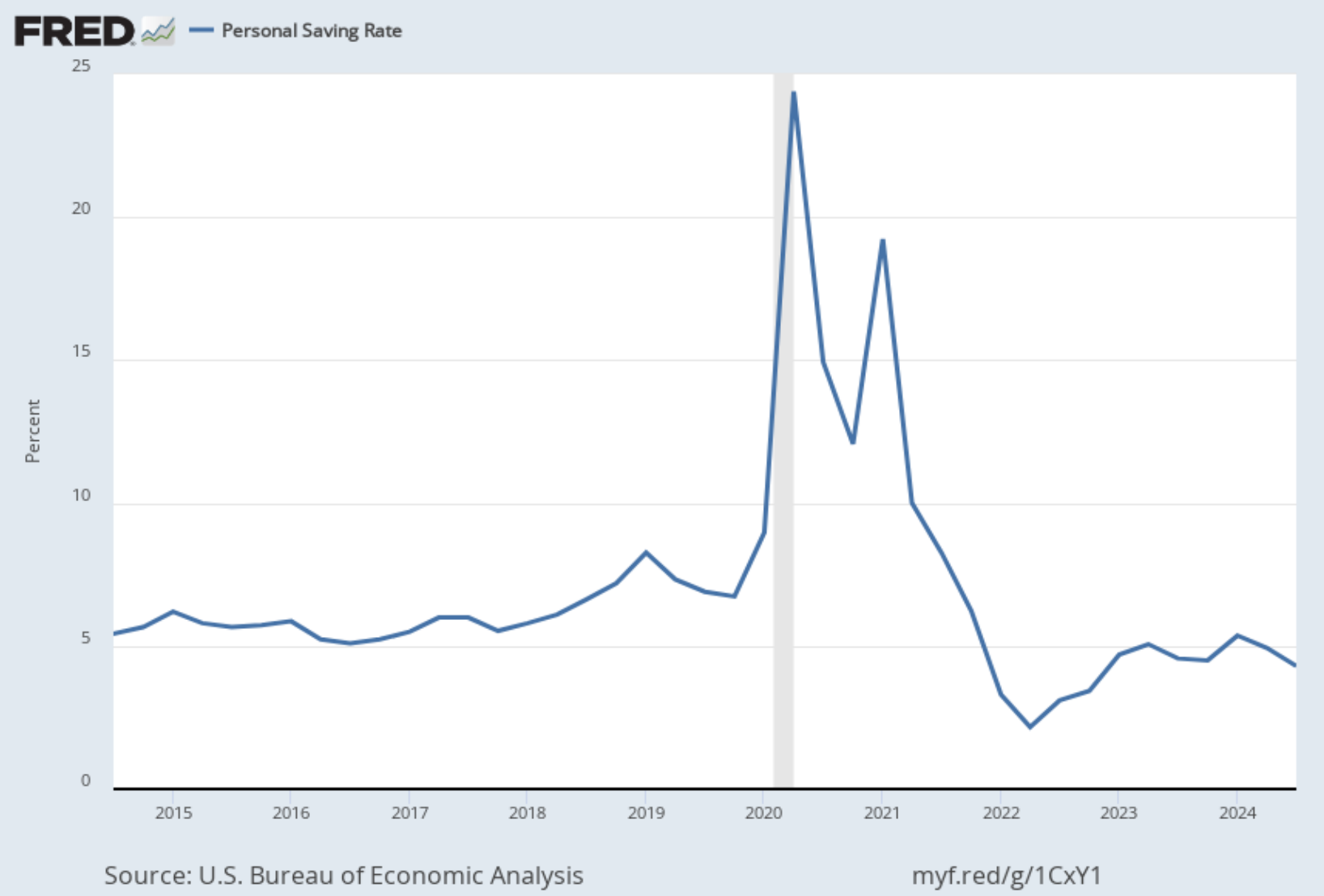
Savings & Disposable Income



Personal Savings Rate

- **Q3 2024: 4.3%**
- Q2 2024: 4.9%
- Q1 2024: 5.4%
- Q4 2023: 4.5%
- Q3 2023: 4.6%
- Q2 2023: 5.1%

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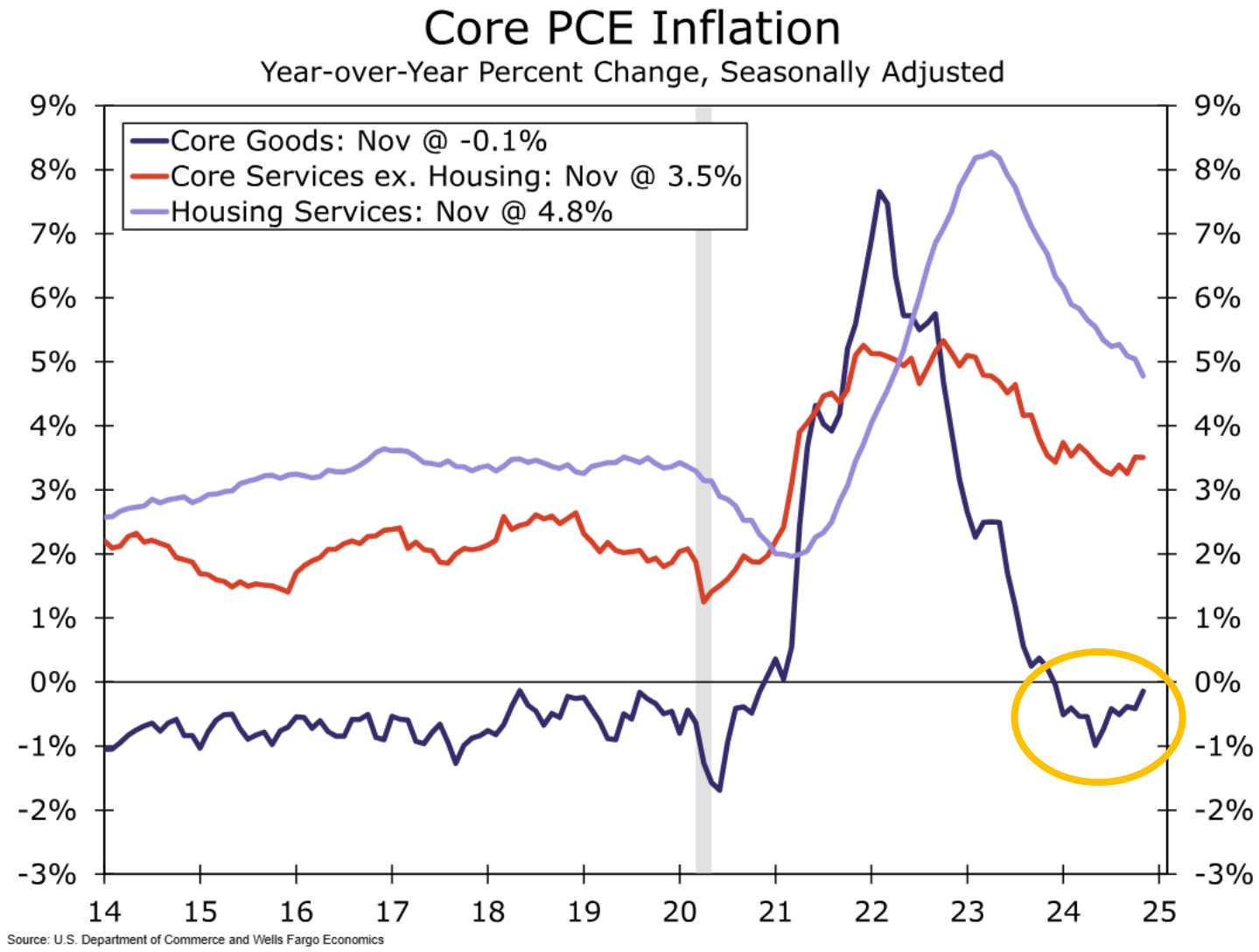
Goods vs Services



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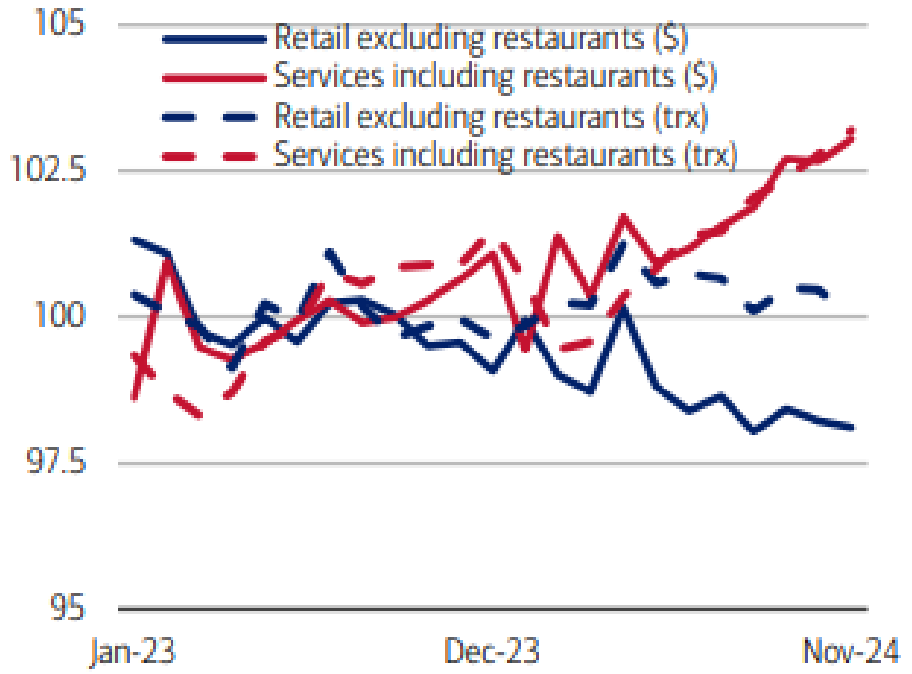
Credit Card Spending

Exhibit 5: Services spending and retail transaction (trx) growth is healthy compared to 2023, up 3%, while retail spending growth lagged

Spending and transaction per household growth by category, Bank of America card data (monthly, index 2023 = 100, SA)



Source: Bank of America internal data

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- Bank of America card data suggests consumers are making about the same number of transactions as last year but **spending fewer dollars.**
- Lower gas prices and savings from "trading down" is moving those savings towards experiences, which you can see growing.

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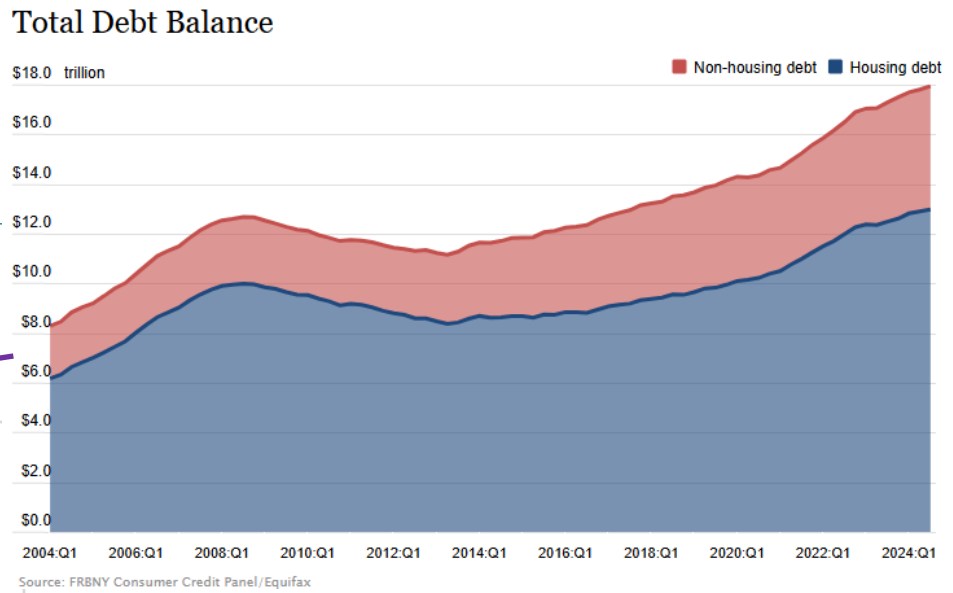
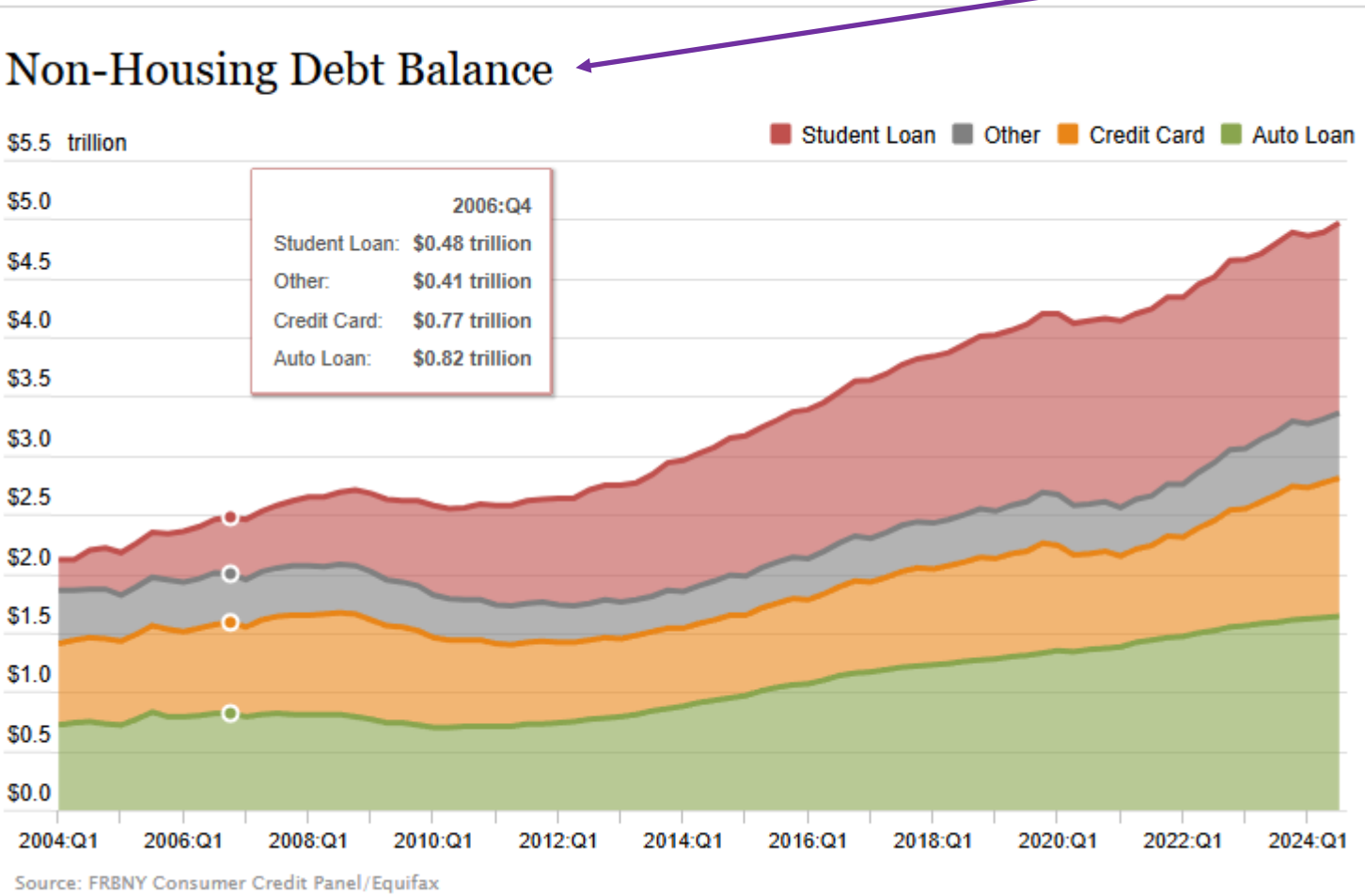
Household Debt





- People taking on larger student debts
- Credit card balances 3Q24 grew to $1.17 trillion, a record high
- Auto financing rates, cost of vehicles impacted growth in these types of loans

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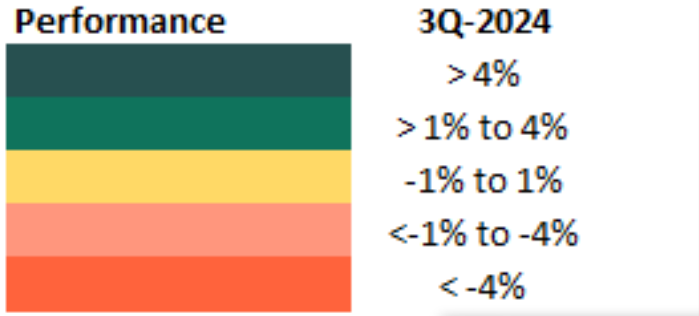
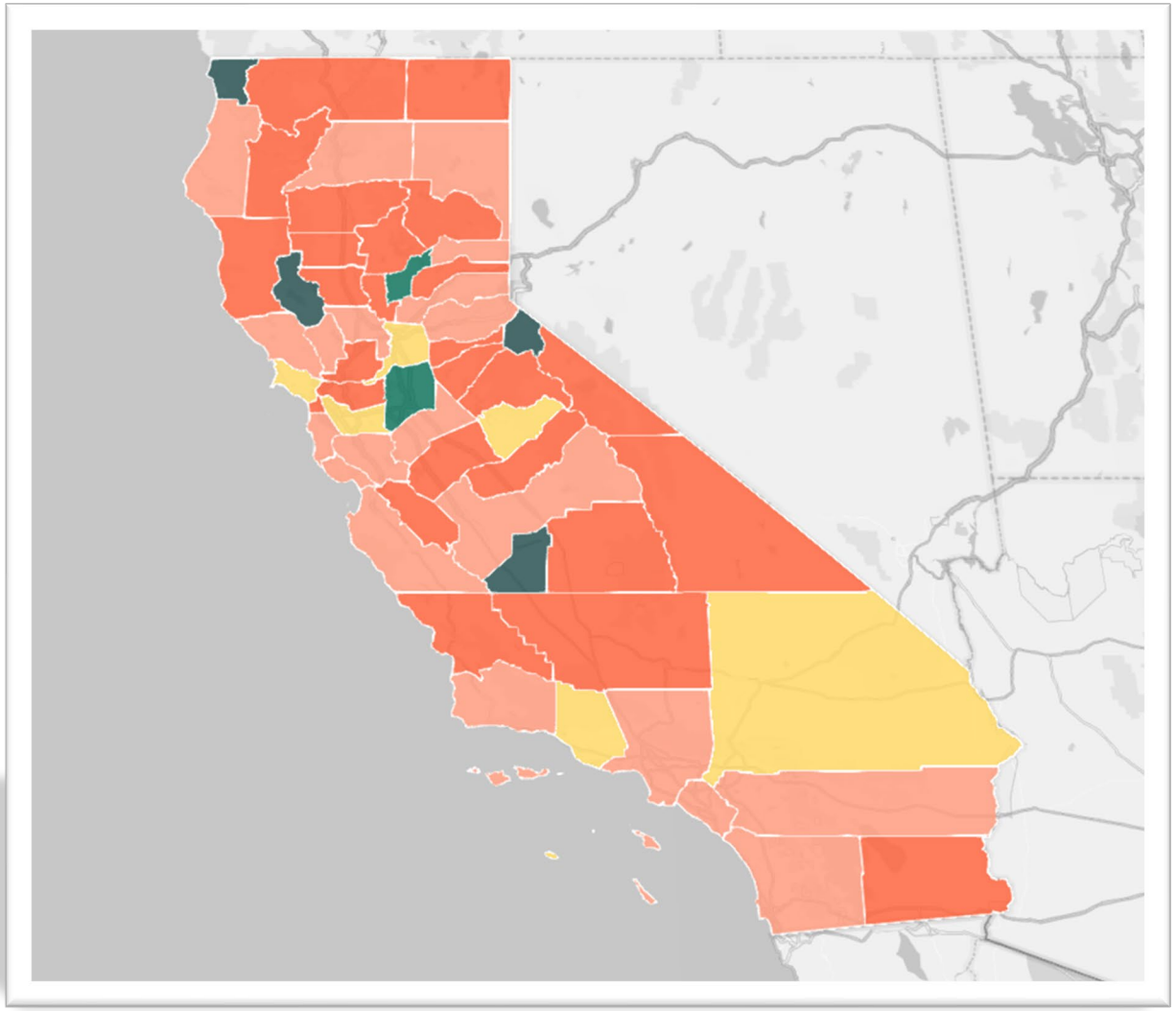
County Trends: Local Sales Tax

3Q-2024

-2.3%





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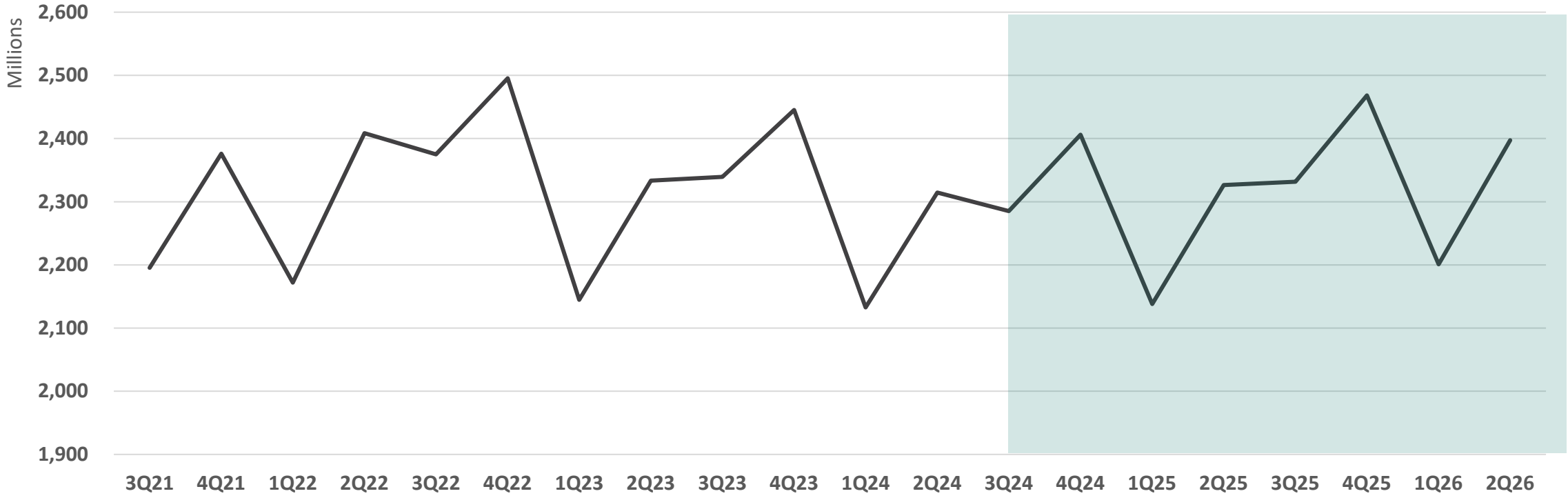
HdL Statewide Trend

% Change YoY	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
	8.2%	5.0%	-1.3%	-3.1%	-1.5%	-2.0%	-0.6%	-0.8%	-2.3%	-1.6%	0.3%	0.5%	2.0%	2.6%	2.9%	3.0%
Fiscal Year Change	**2.1%**				**-1.3%**				**-0.8%**				**2.6%**			



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Autos and Transportation Factors

Positive

- Interest rates declining
- Record age of vehicle will require replacement
- Car sales reported to have jumped to 3.5 year high in November, boosted by bigger incentives
- Threat of tariffs may boost sales in the short-term
- Animal spirits unleashed post election?

Negative

- Interest rate declines may take time to filter further into auto loan rates, and future declines may be limited
- Interest rate cuts may also pause for several months after December reduction
- Recent increase in car sales offset by price declines/incentives?
- Consumers stressed, switching to smaller, less expensive vehicles
- Risk of tariffs may hurt sales in the long-term

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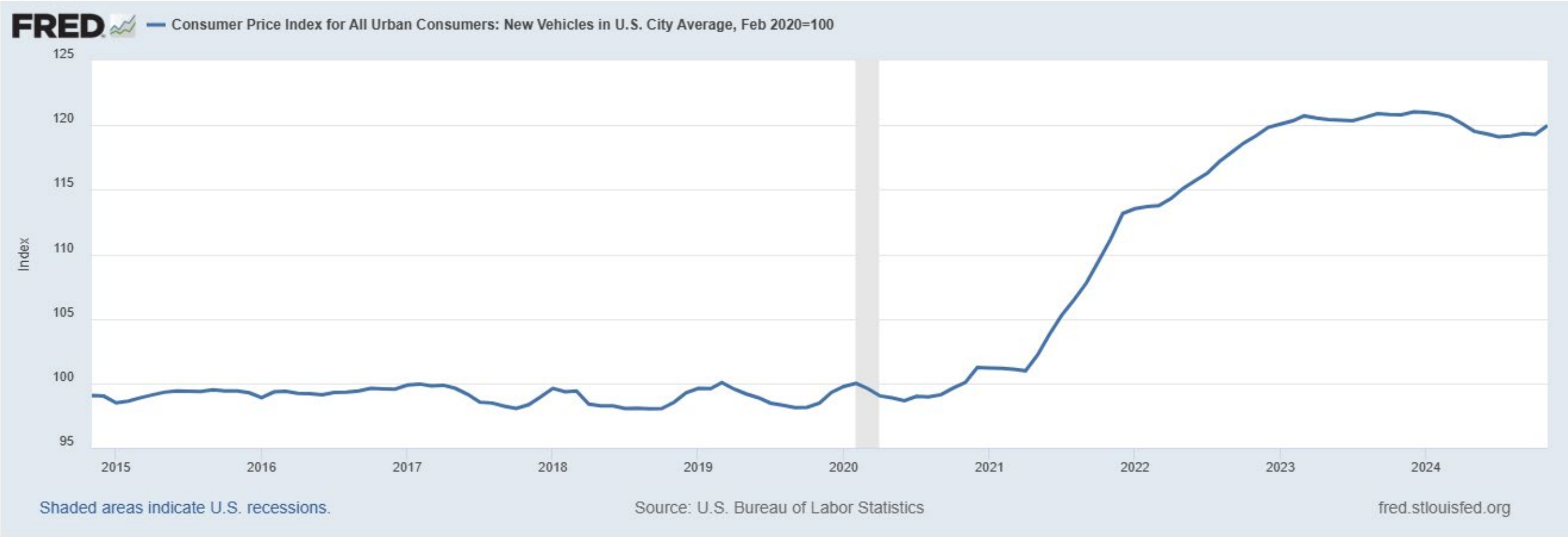
New Vehicle Pricing



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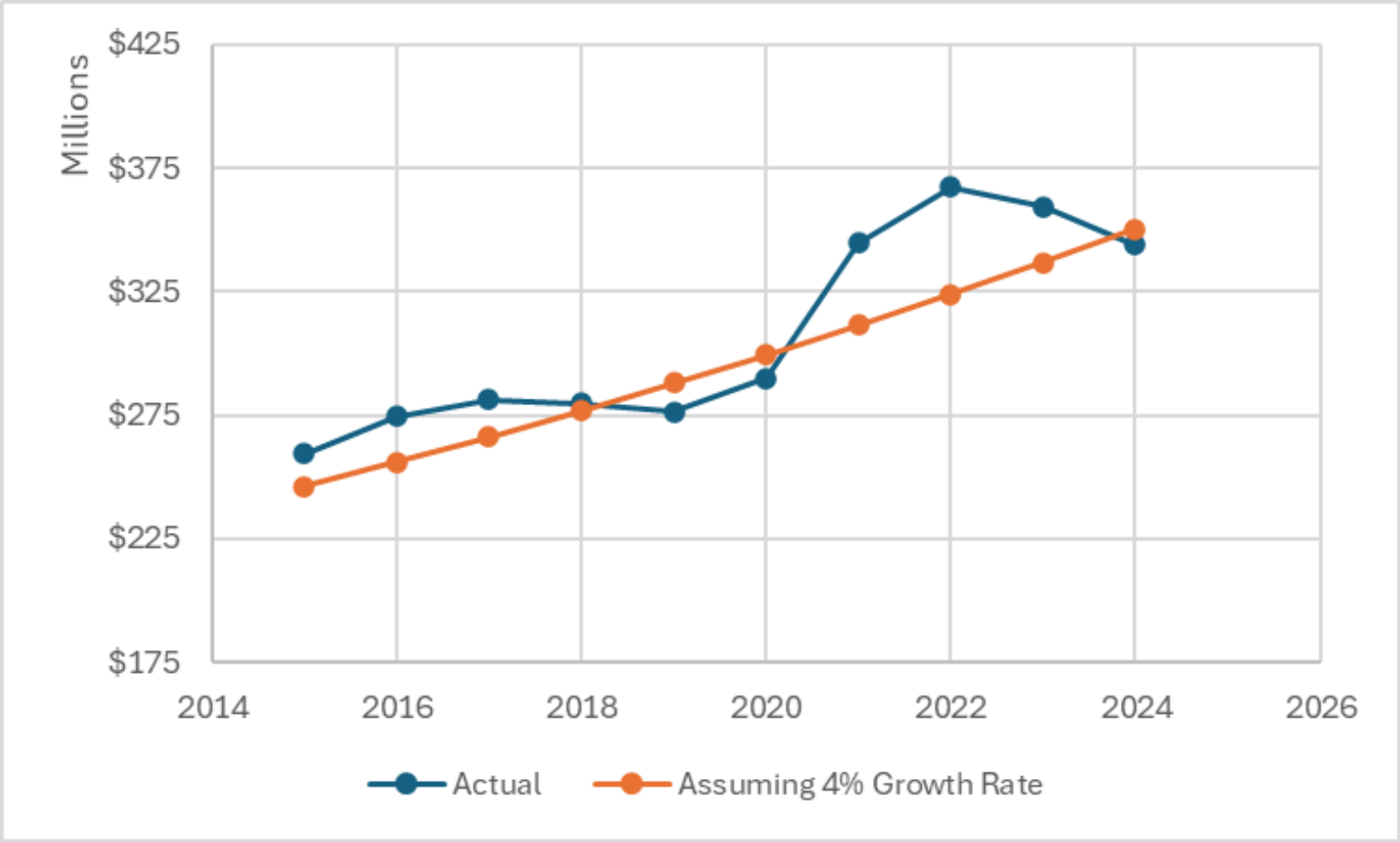
Analysis of Auto Growth Trend

Actual Results Compared to a Steady 4% Annual Growth Rate Target Since 2014



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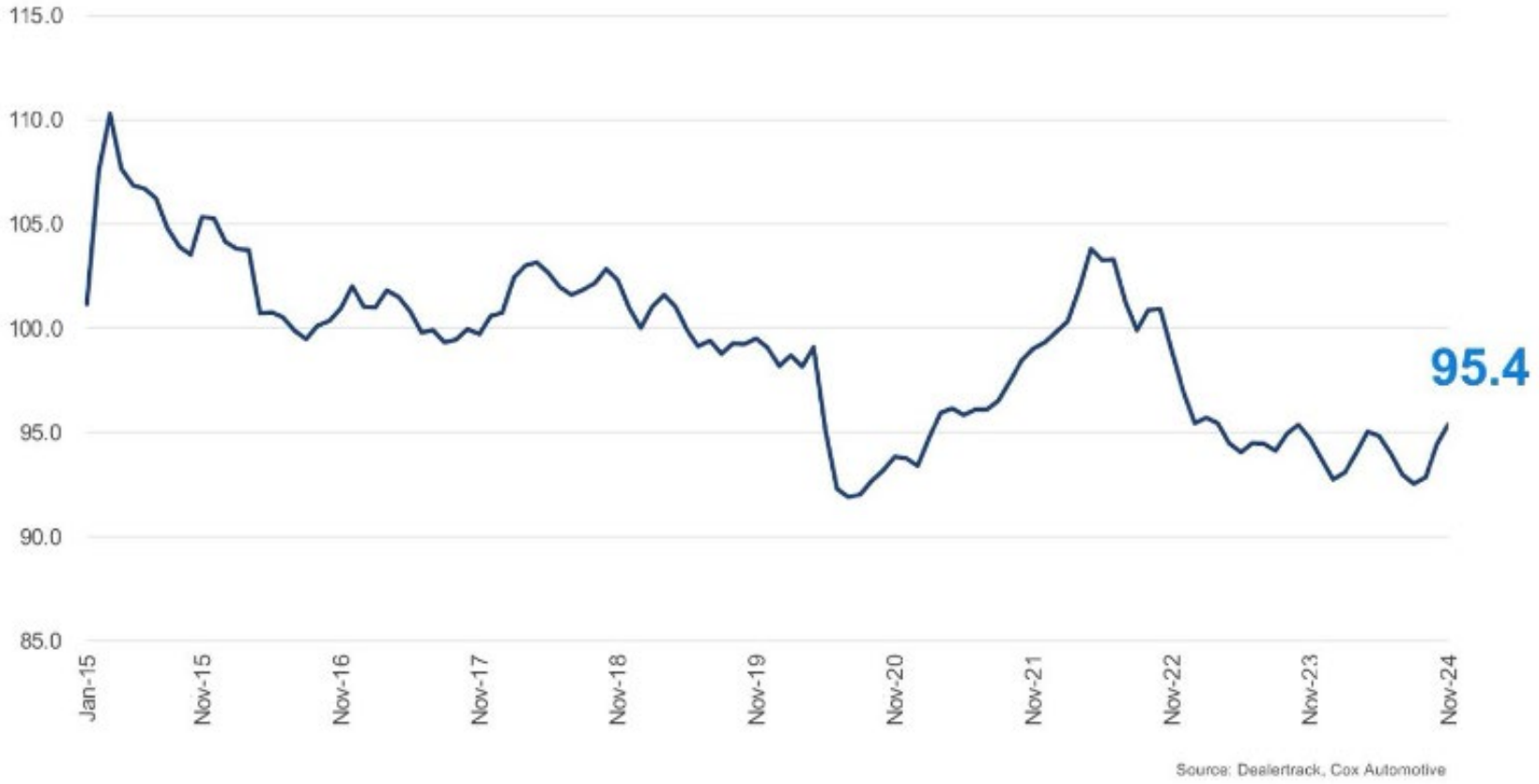
Auto Financing

Credit Availability Index

All Auto Loans Index (Jan2019 = 100)



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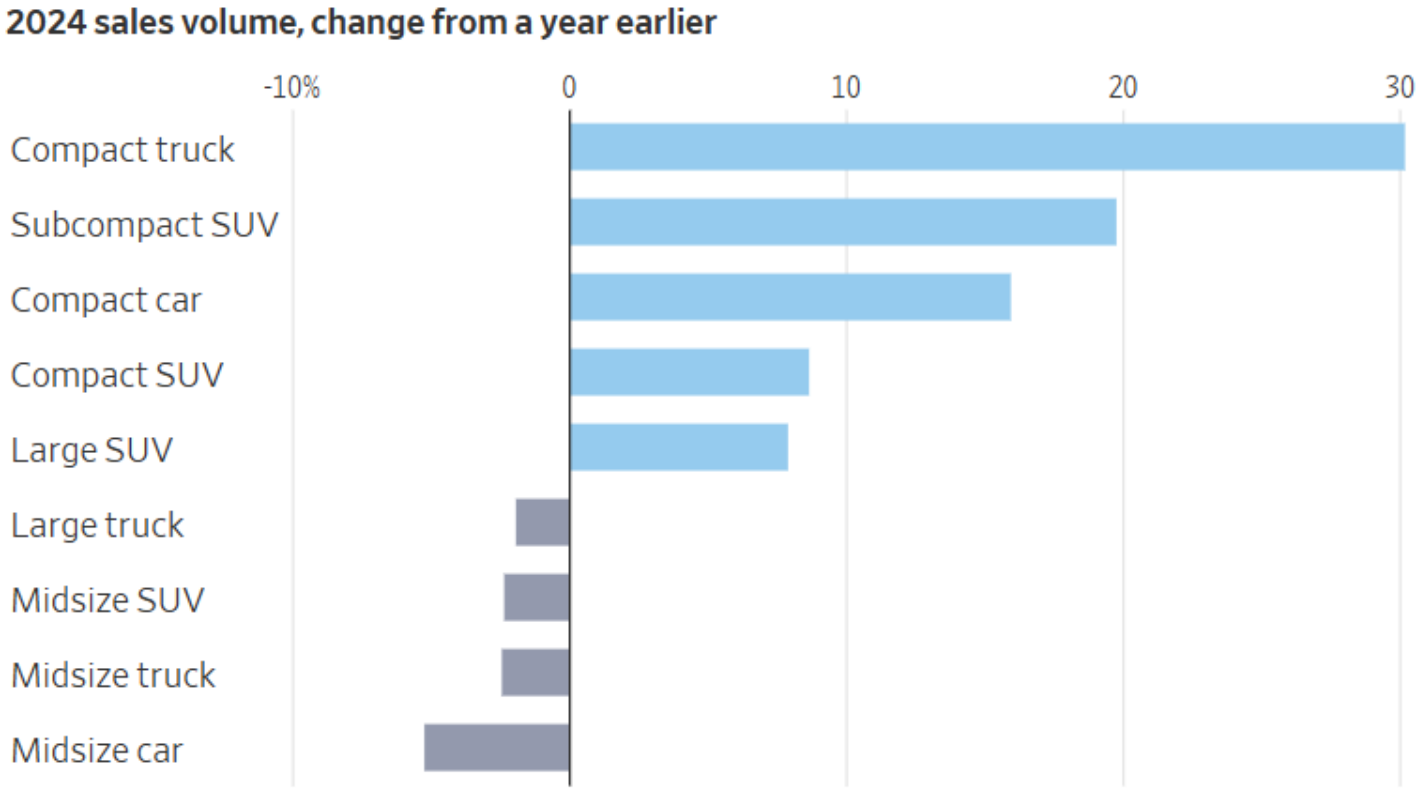
Shift in Sales



Note: Change in the number of vehicles sold from January through November of each year. Sales of large cars, which aren't shown, declined 47%.
Source: Edmunds

The Wall Street Journal. (2024, December 23). *After years of going big, American car buyers are downsizing.* Retrieved from https://www.wsj.com/business/autos/after-years-of-going-big-american-car-buyers-are-downsizing-801a81b8

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Tax Receipts by Market Segment

Luxury	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Tax	$11.1	$11.1	$10.3	$10.5	$9.9	$10.2	$9.1	$9.5	**$9.1**
% YOY Change	22%	10%	-1%	-5%	-11%	-8%	-11%	-9%	**-8%**

Value	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Tax	$11.9	$12.0	$11.5	$12.7	$13.0	$12.1	$11.6	$12.1	**$11.9**
% YOY Change	-3%	+8%	-7%	0%	9%	1%	1%	-4%	**-8%**

Domestic	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Tax	$8.8	$9.0	$8.6	$9.0	$9.0	$8.6	$8.2	$9.0	**$8.8**
% YOY Change	11%	8%	5%	0%	2%	-4%	-5%	0%	**-3%**

Source: Large sampling of dealerships statewide by market segment

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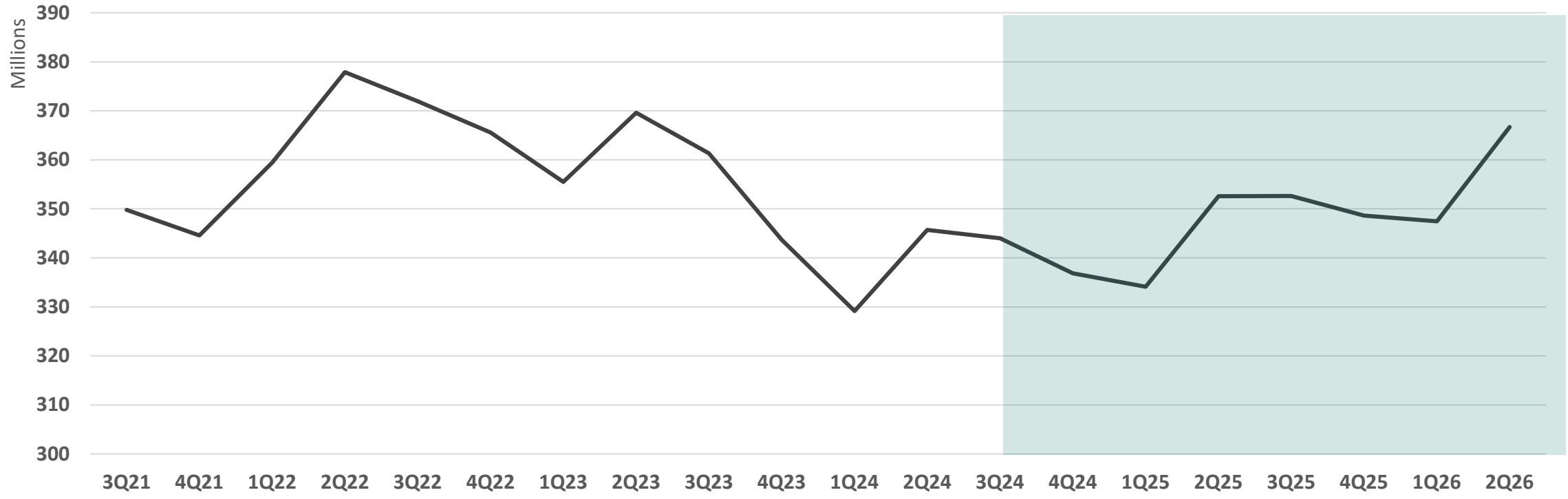
Autos & Transportation Forecast

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
% Change YoY	6.3%	6.1%	-1.1%	-2.2%	-2.8%	-6.0%	-7.4%	-6.5%	-4.8%	-2.0%	1.5%	2.0%	2.5%	3.5%	4.0%	4.0%
Fiscal Year Change	**2.2%**				**-5.7%**				**-0.9%**				**3.5%**			



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Fuel and Service Stations Indicators

Fuel Prices Significantly Down	Oil Barrel Prices Down	CA Regulations	Worldwide Events
CA Consumption Down	CA Holiday Demand up	Fed Reserve Int. Rate Cuts	World Supply OPEC holding on cuts

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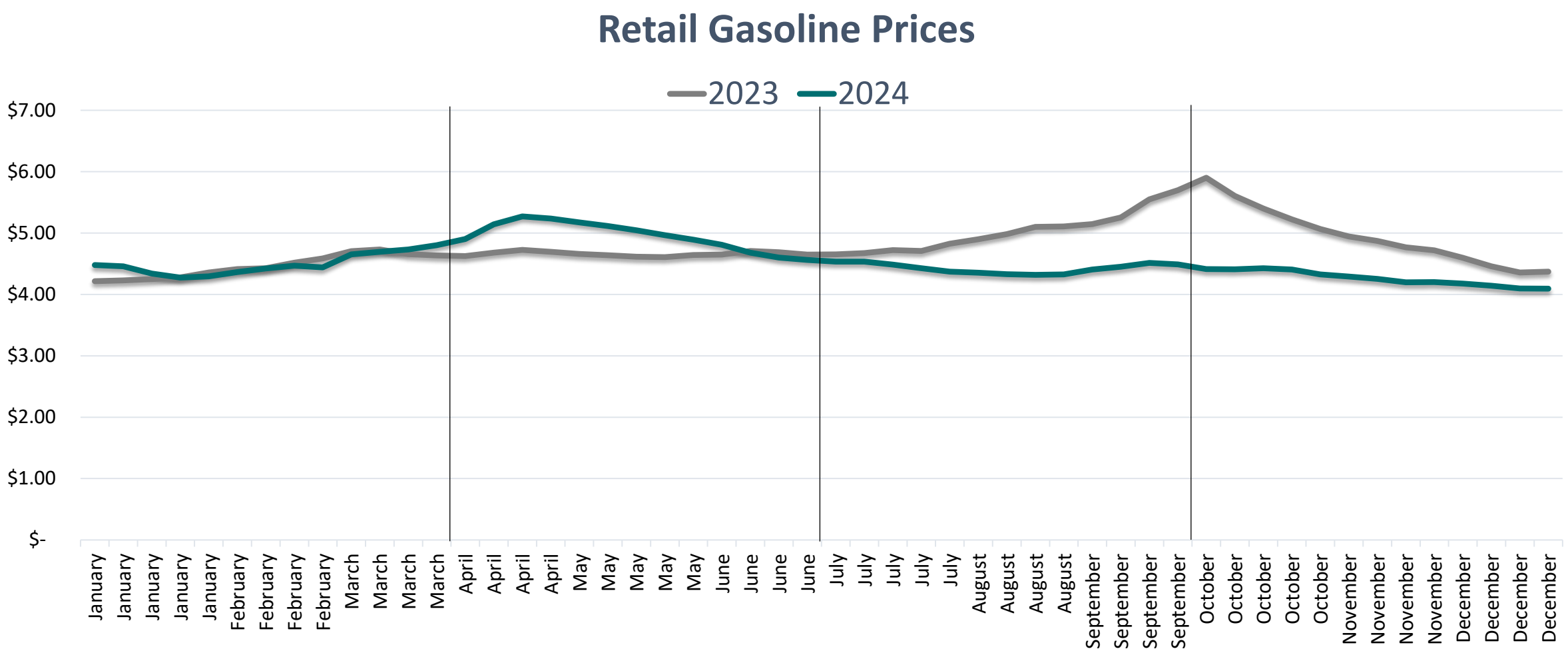
Gas Prices



Source: Energy Information Administration (EIA)

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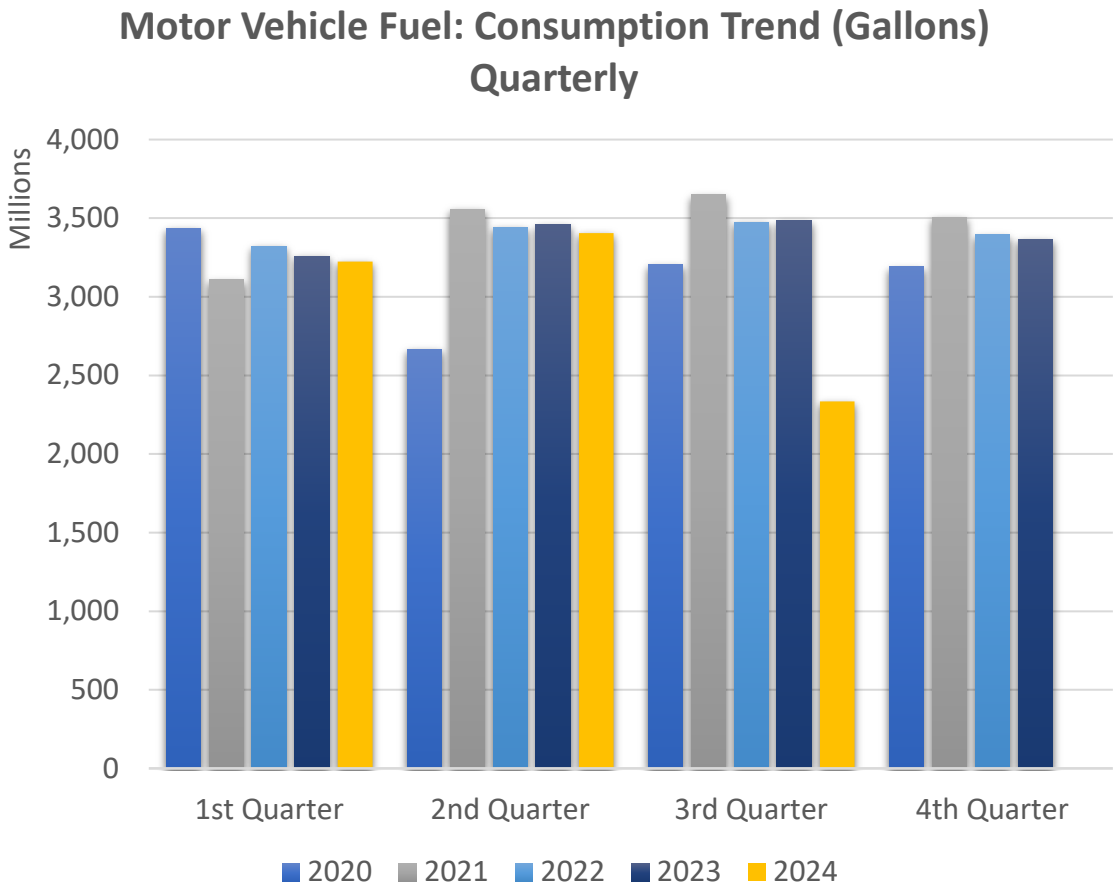
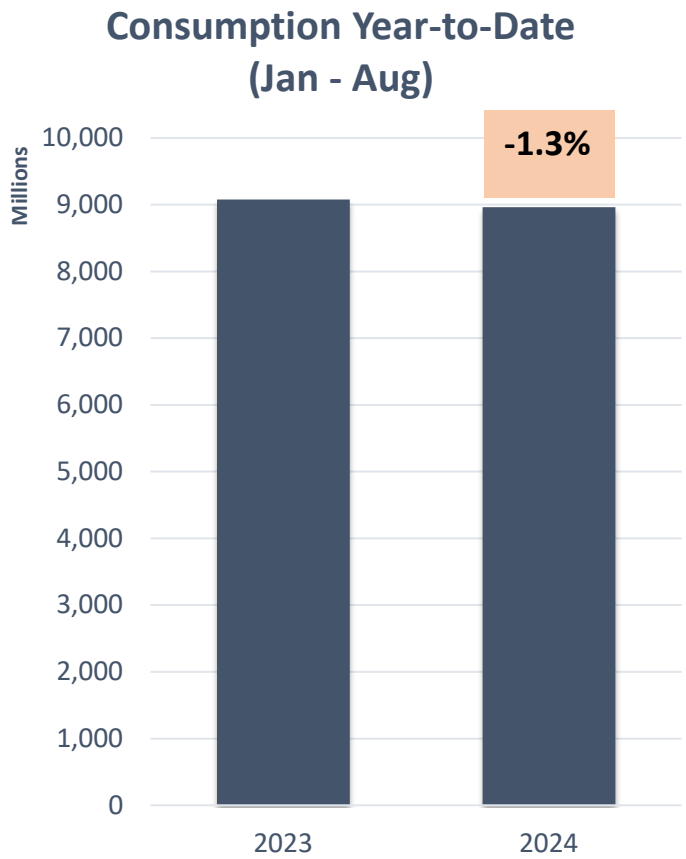
CA Fuel Consumption





*3Q-2024 is partial (2/3) period

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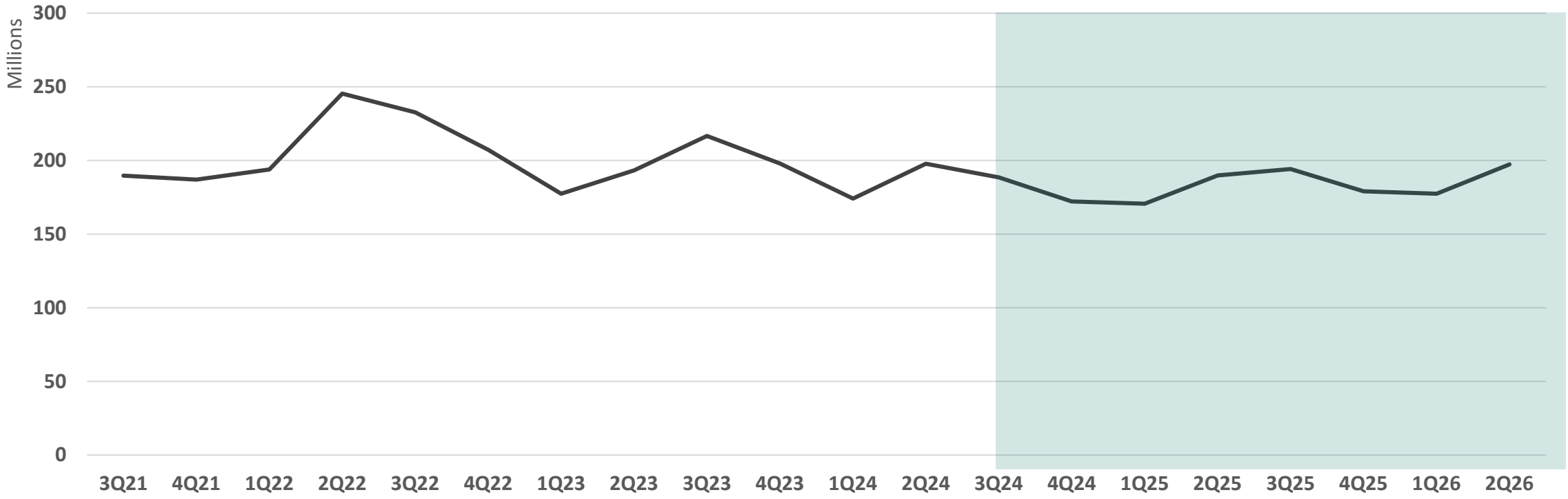
Fuel & Service Stations Forecast

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
% Change YoY	22.6%	10.8%	-8.5%	-21.3%	-6.8%	-4.5%	-1.9%	2.3%	-13.0%	-13.0%	-2.0%	-4.0%	3.0%	4.0%	4.0%	4.0%
Fiscal Year Change	-0.7%				-3.0%				-8.3%				3.7%			



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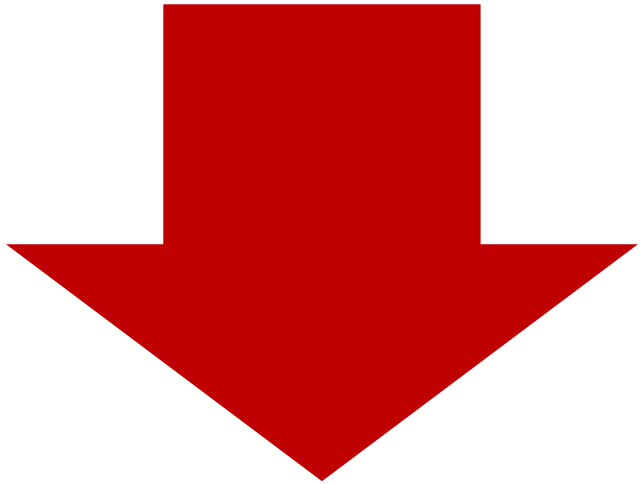
Construction Factors

Positives

- Residential category upturn in October
- Lower interest rates and hopes for more beneficial monetary policy
- Data center, manufacturing and power projects showing resilience
- Lumber and concrete prices increasing could boost tax receipts if demand is sustained



Negatives

- Nonresidential construction pulled back in October
- Reduced credit access and high financing costs are weighing on project starts
- Steel prices significantly deflated

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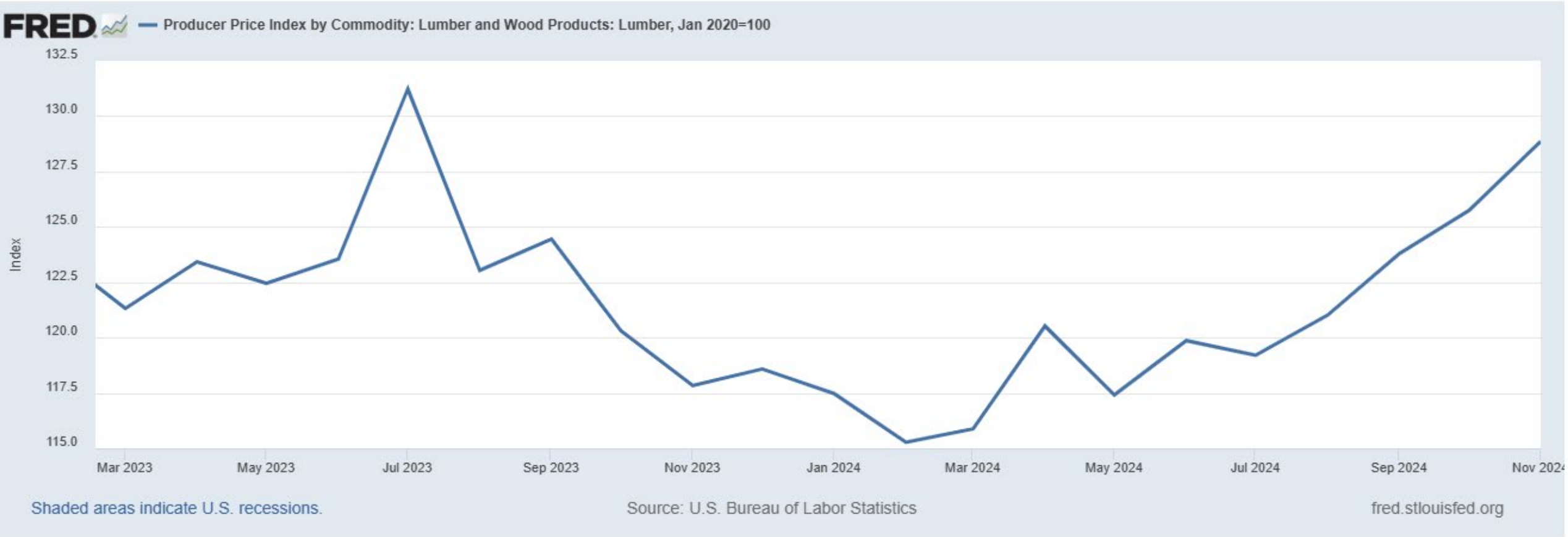
Lumber Prices



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Ready-Mix Concrete Price

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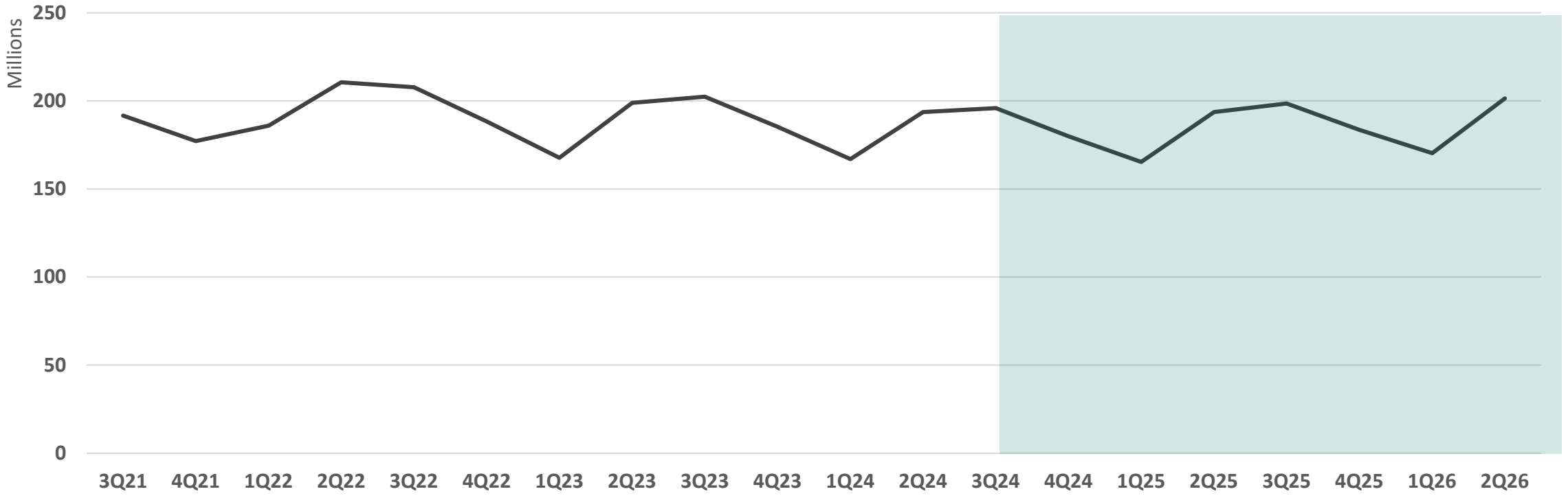
Building & Construction Forecast

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
% Change YoY	8.4%	6.3%	-9.8%	-5.5%	-2.6%	-1.6%	-0.4%	-2.7%	-3.2%	-2.9%	-1.0%	0.0%	1.3%	2.0%	3.0%	4.0%
Fiscal Year Change	-0.3%				-1.9%				-1.8%				2.6%			



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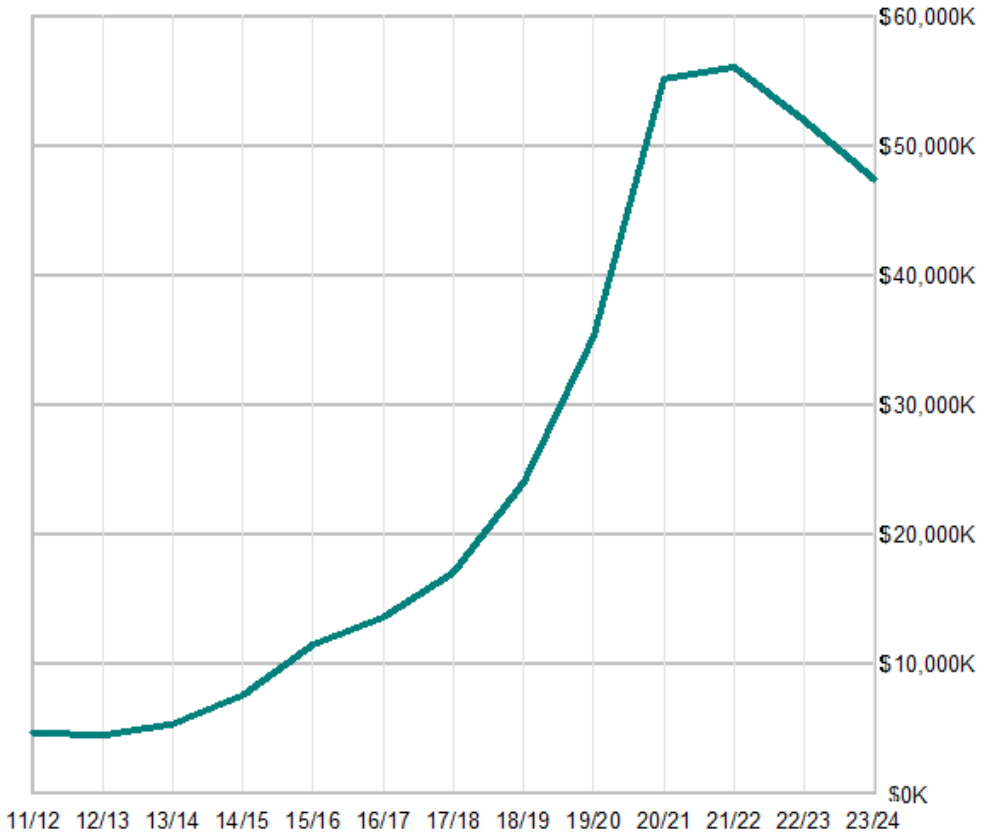
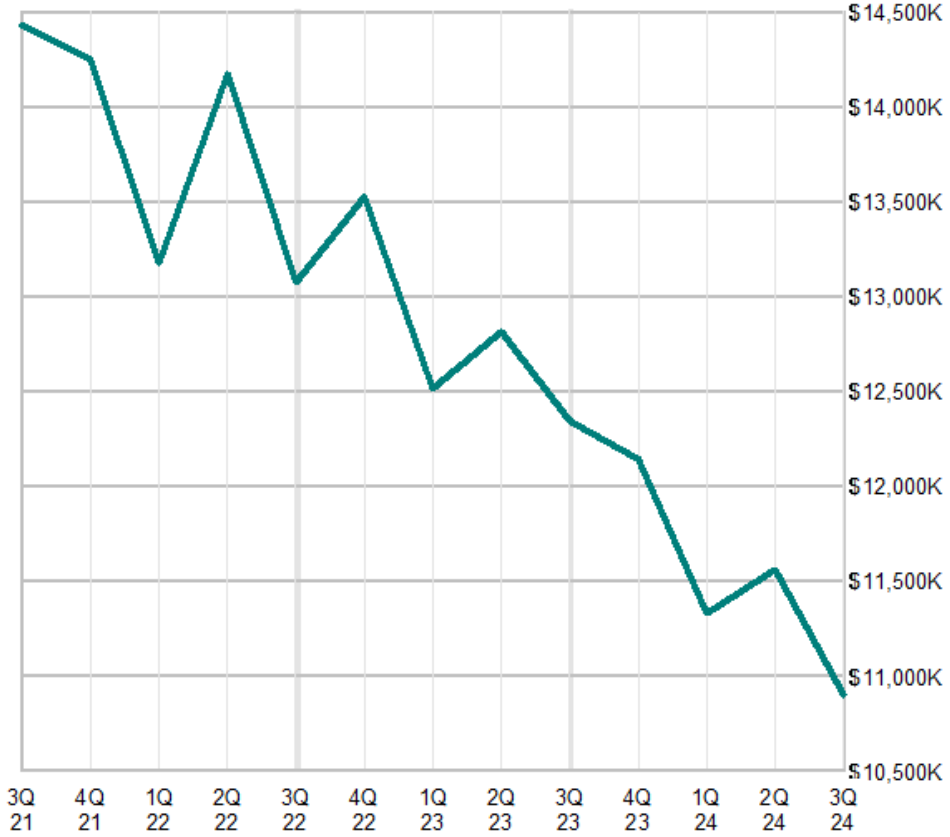
Cannabis Sales Tax Revenue

FY 2023-24: -9%



3Q-2024: -12%



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Food & Drugs Forecast

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
% Change YoY	0.8%	3.2%	1.0%	-1.4%	-1.3%	-5.6%	-1.0%	-2.2%	-2.8%	-2.3%	-1.4%	-0.8%	-0.4%	0.4%	0.8%	0.9%
Fiscal Year Change	**0.9%**				**-2.6%**				**-1.8%**				**0.4%**			

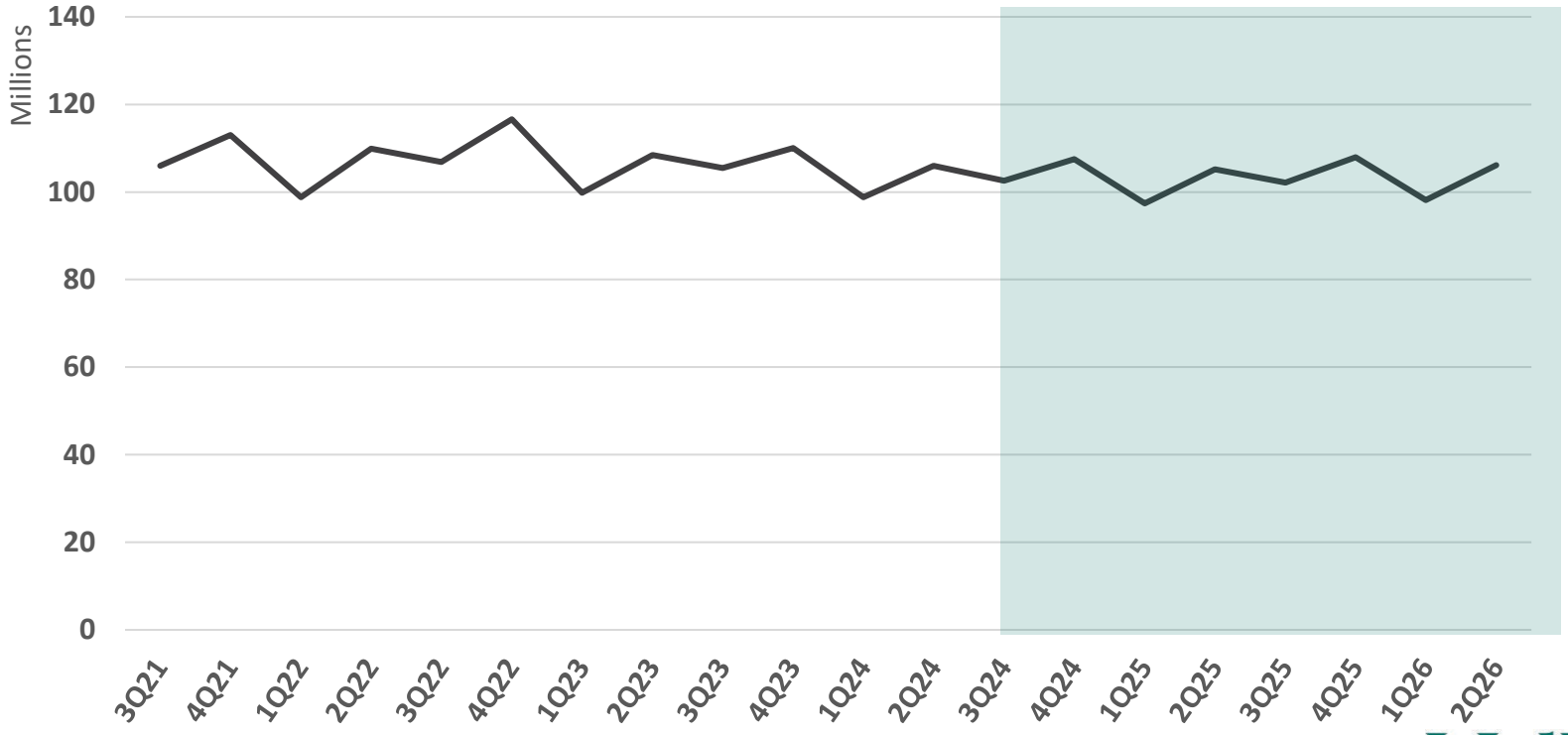
Grocery Store sales +1.4%

- Accounts for >50% of the group

Convenience / Liquor Store sales -2.3%

- Accounts for 24% of the group

Drug store: -11.3%



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General Consumer Goods

Where are they allocated?

Brick & Mortar

- Direct Allocations
- Physical Stores
- 100% of GCG

General Consumer Goods

Online
Out of State

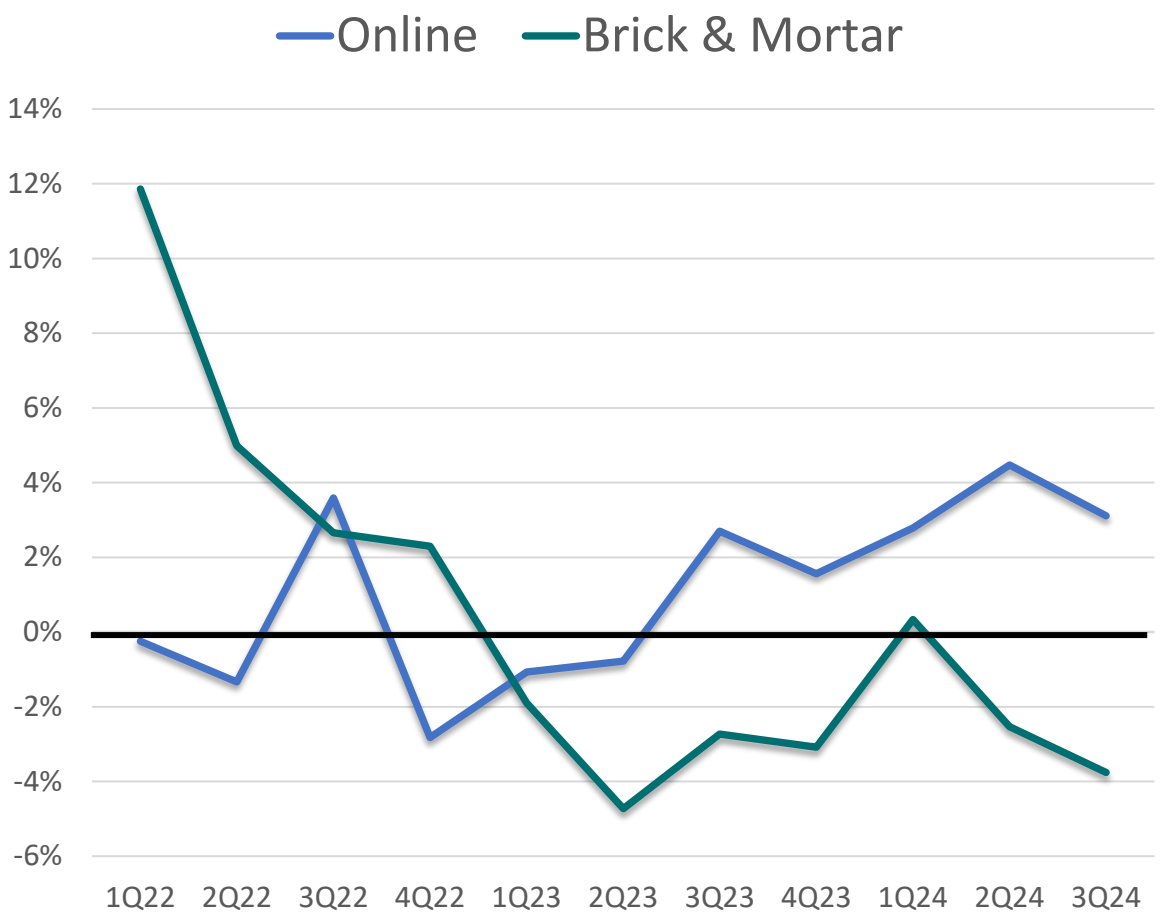
- Indirect Allocations
- Out-of-State merchandise
- **57%** of Online Sales

Pools

Online
In State

- Direct Allocations to agency where fulfillment center is located.
- **43%** of Online Sales

Business & Industry



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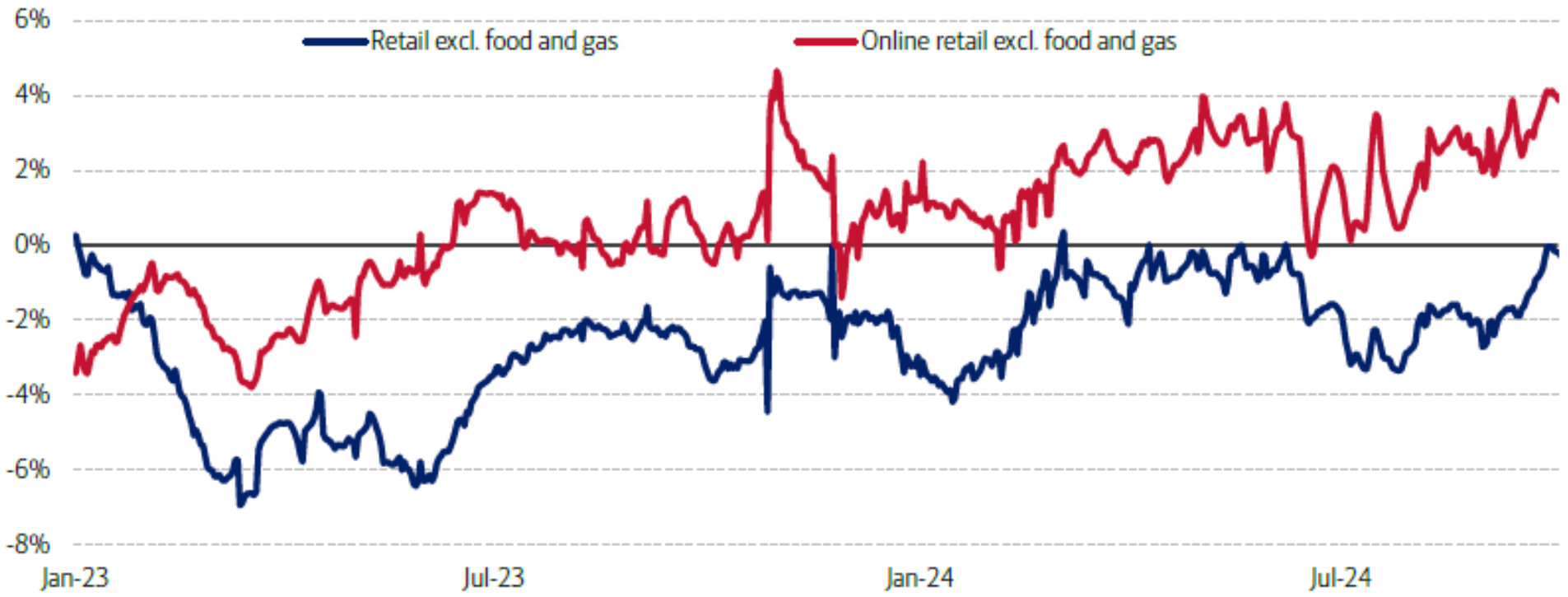
BoA Consumer Checkpoint: Online v. Brick & Mortar

Exhibit 10: Online card spending for retail excluding food and gas has been growing much faster than B&M retail excluding food and gas spending over the past year. In October 2024 the gap was four percentage points

Average credit and debit card retail spending excluding groceries, restaurants, and gas by online and in-person (28-day moving average, YoY%)



Source: Bank of America Internal data

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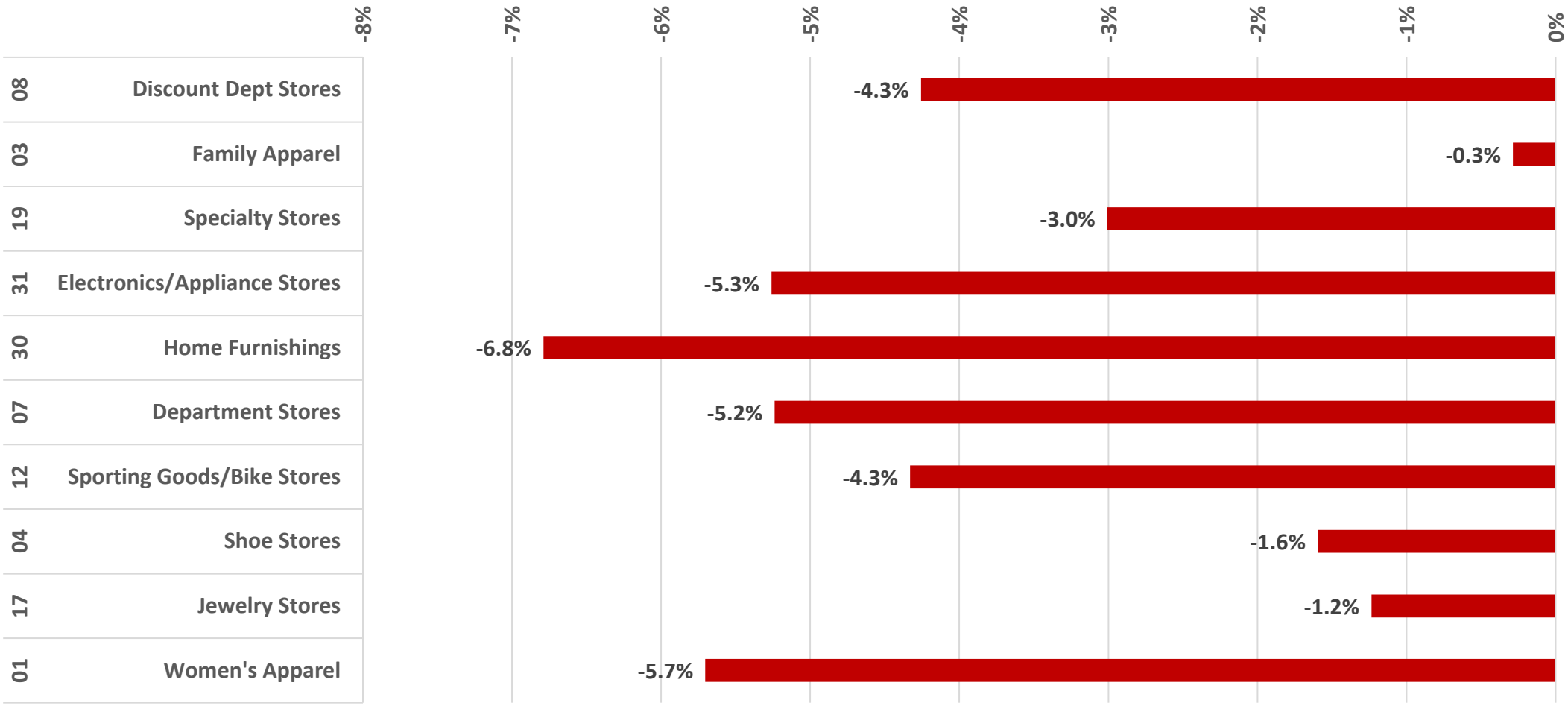
General Consumer Goods: 3Q24



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CPI YoY: Select Categories

Category	Oct 2023 – Oct 2024 Change
Furniture & Bedding	-2.7%
Bedroom Furniture	-2.3%
Living room, kitchen, and dining room furniture	-1.2%
Other Furniture	-8.6%
Appliances	-2.3%
Apparel	+0.3%
Footwear	+0.8%
Sporting Goods	-3.1%
Computers	-5.4%
Computer Software & Accessories	-0.6%
Smartphones	-9.9%
Cosmetics	-0.9%

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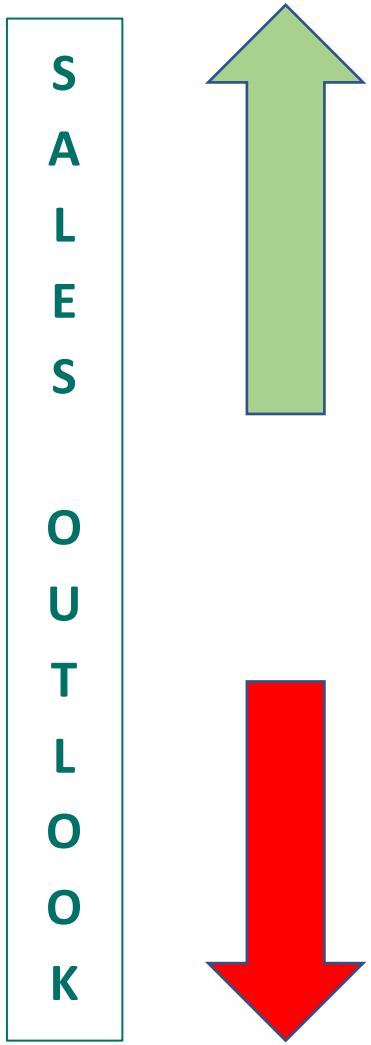
Retailer Guidance



Ross

TJX Companies

Costco

Walmart

Target

Macy's

ULTA

Best Buy

Kohls

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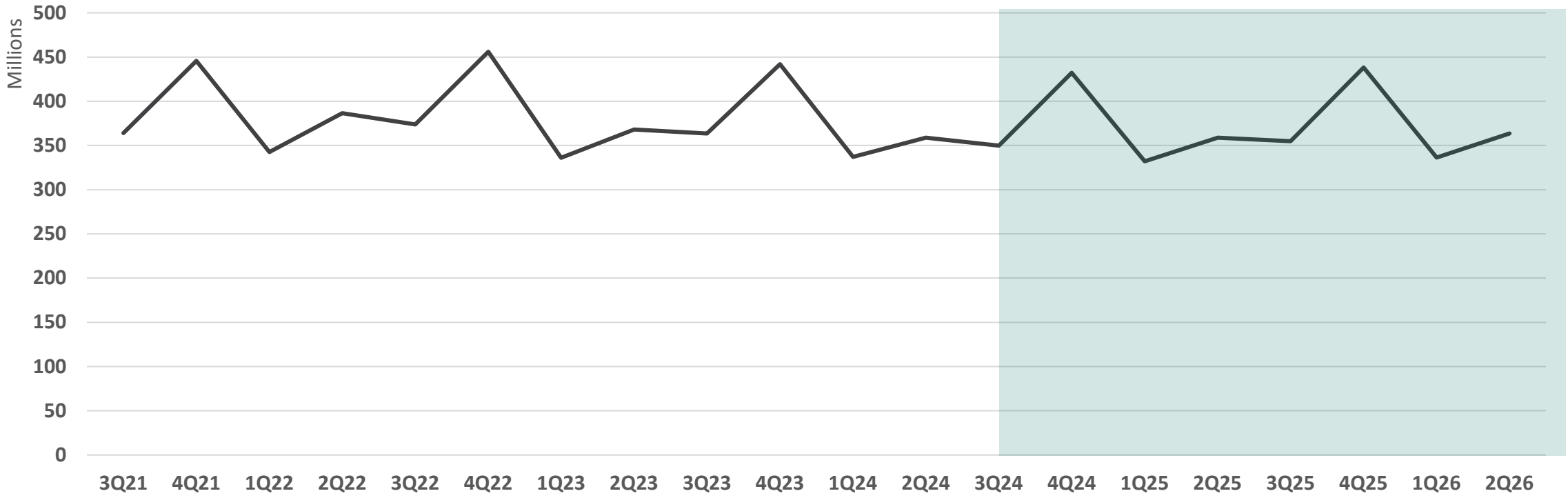
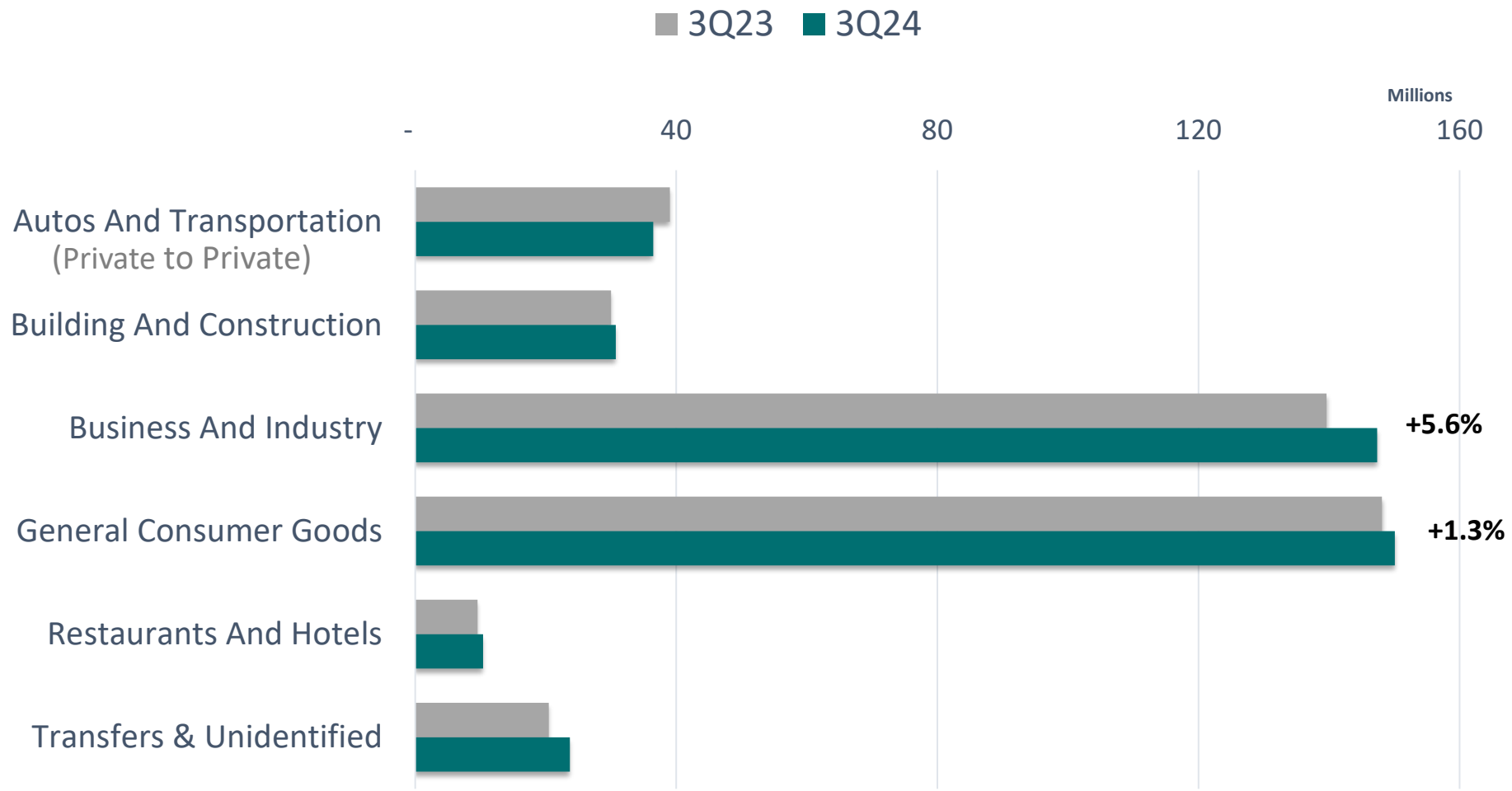
General Consumer Goods Forecast

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
% Change YoY	2.7%	2.3%	-1.9%	-4.7%	-2.7%	-3.1%	0.3%	-2.5%	-3.8%	-2.2%	-1.5%	0.0%	1.4%	1.4%	1.3%	1.3%
Fiscal Year Change	**-0.3%**				**-2.2%**				**-1.9%**				**1.4%**			



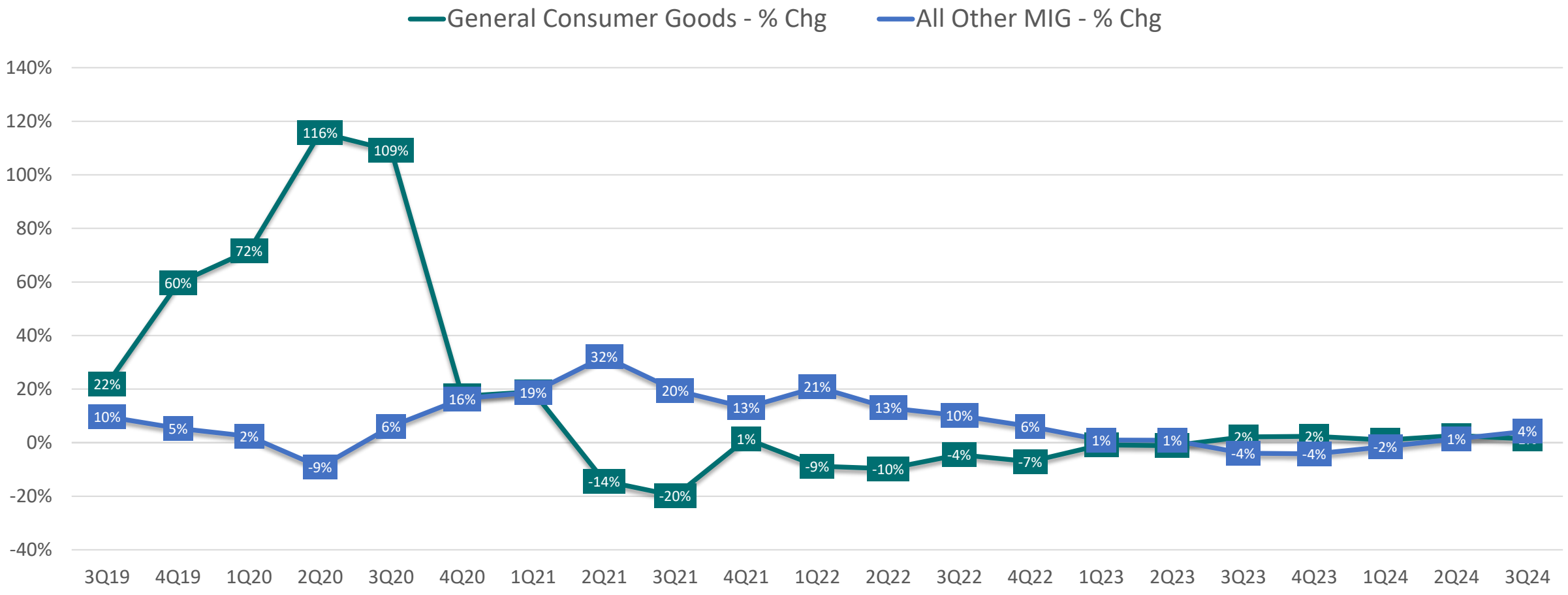
HdL Companies

County Pools

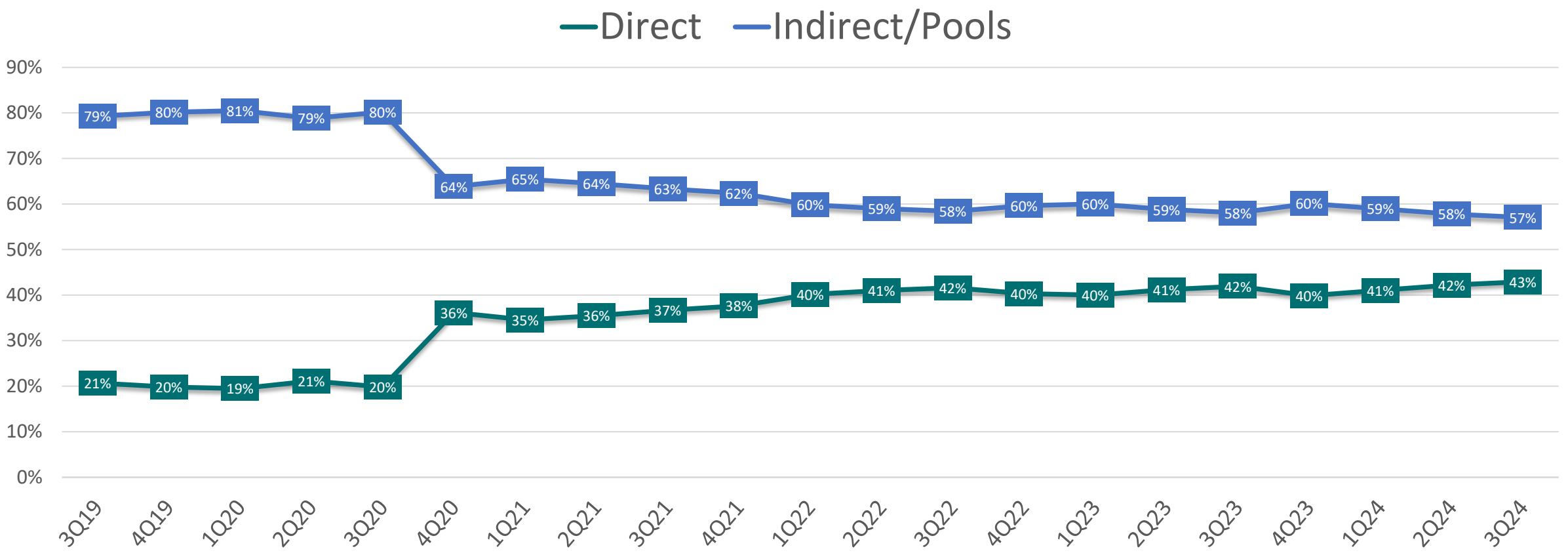


HdL Companies

County Pool Trends



Online Sales Allocations - % of Total



Direct = Local tax allocations from identified fulfillment centers
Indirect = Local tax allocations from General Consumer Goods through the County Pools

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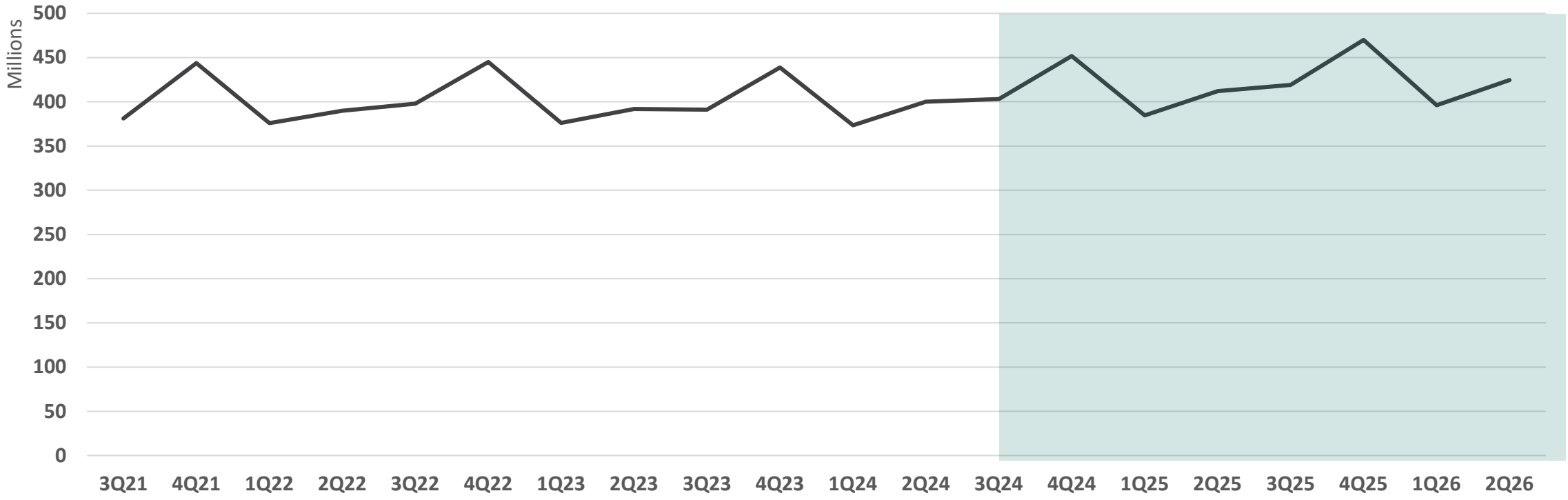
County Pools Forecast

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
% Change YoY	4.4%	0.3%	0.1%	0.5%	-1.7%	-1.4%	-0.7%	2.1%	3.1%	3.0%	3.0%	3.0%	4.0%	4.0%	3.0%	3.0%
Fiscal Year Change	**1.3%**				**-0.5%**				**3.0%**				**3.5%**			



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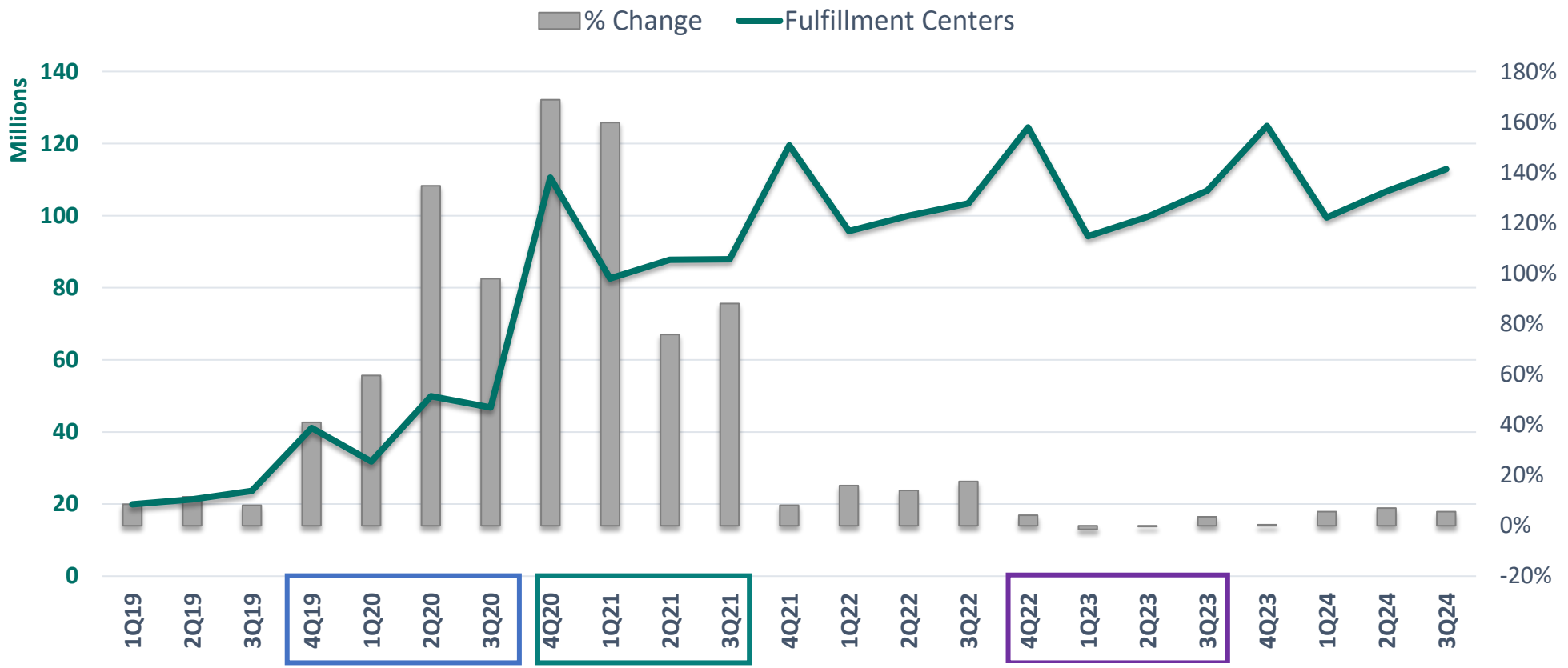
Business & Industry: Fulfillment Centers

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 from indirect to direct reporting



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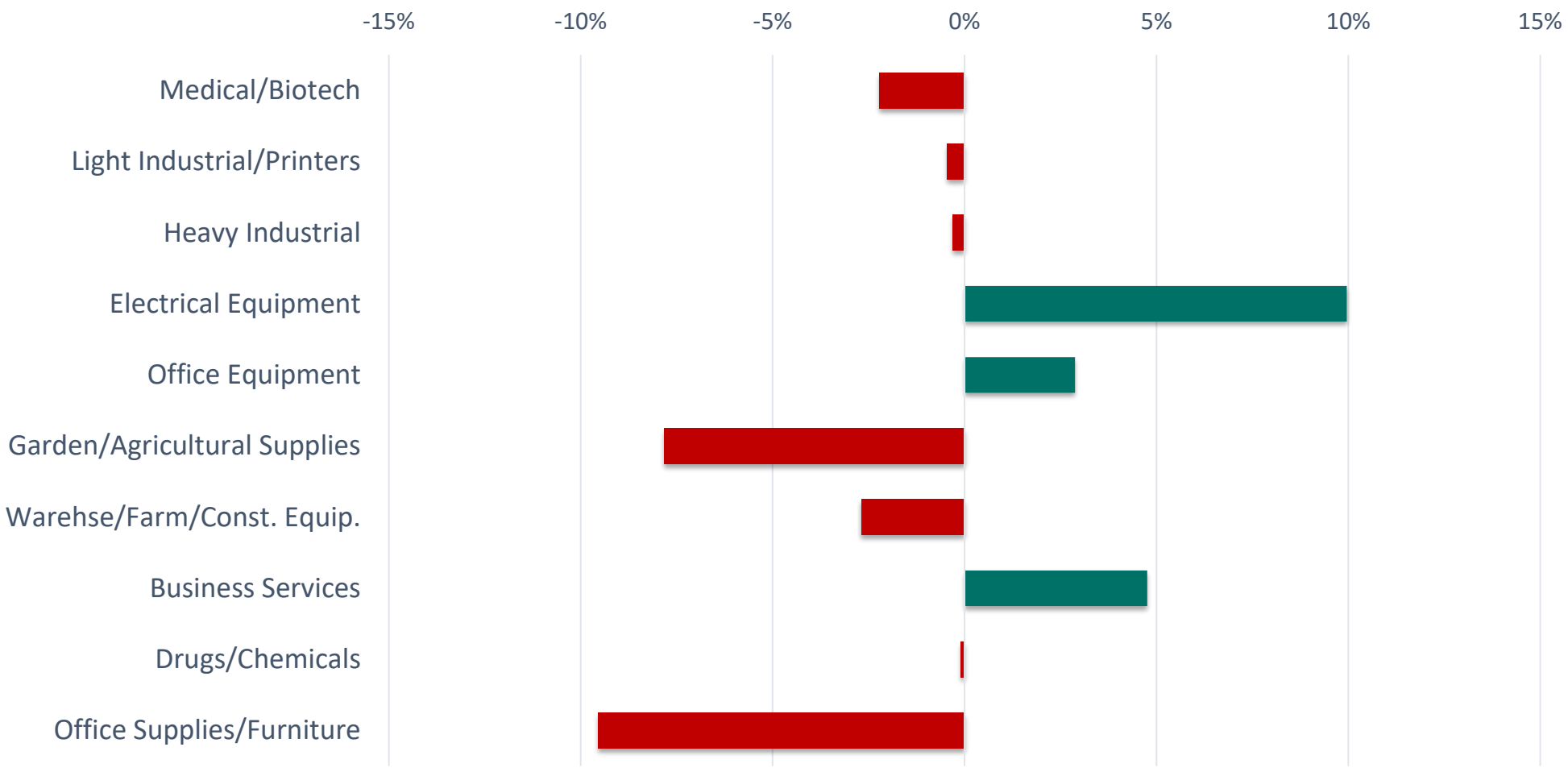
Business & Industry: Top BT's



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Industry Trends

CA Fulfillment Centers

Accounted for 29% of Business & Industry

<u>Growth</u>

+5.3% in 3Q24

Industry

Manufacturing contracting

Tariff stress is real

Rates hurting capital investment

Inventories improving-orders up

Medical/Biotech outlook

AI drug discovery market developing

R&D in pharma growing

Investment outlet is slow and steady into 2025

Agriculture

Labor: UC Merced Study estimated 50% of farm workers are undocumented

Retaliatory trade practices on US agriculture a potential headwind

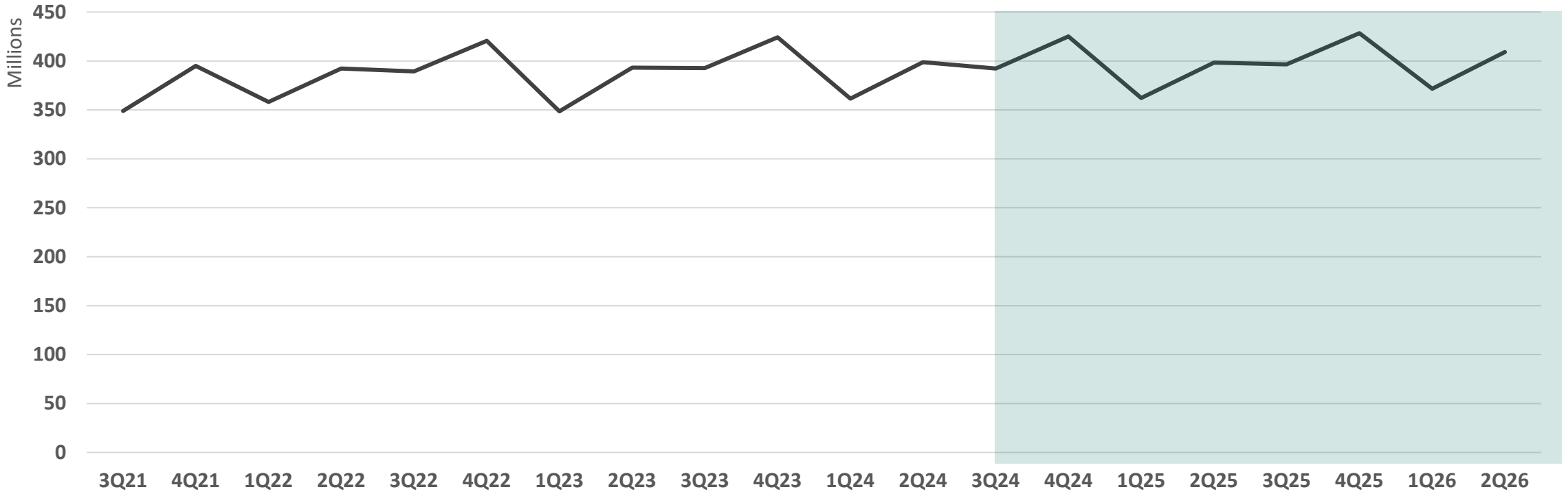
Increased AI (ag-tech)

equipment sales slump

IdL Companies

Business & Industry Forecast

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
% Change YoY	11.6%	6.5%	-2.7%	0.2%	0.9%	0.8%	3.7%	1.4%	-0.1%	0.2%	0.2%	-0.1%	1.1%	0.8%	2.6%	2.7%
Fiscal Year Change	**3.8%**				**1.7%**				**0.0%**				**1.8%**			



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Restaurants & Hotels: Industry Trends

Menu Prices/Foot Traffic

- By June, average price of a fast-food meal in CA rose by **7.5%** (YoY), compared to the national average increase of 3.1%

Consumer behavior

- Value menus/options are making headlines. Diners are also opting for casual dining restaurants as the price between full-service and fast-food narrows.

Visitation

- Visit California forecasts 6% growth in travel spending in 2025. This follows a downwardly revised 2024 projection of 4% to 3% spending growth from domestic and international travel.

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AB 1228

										AB 1228	
Restaurant Type	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24
Quick Service	9.7%	6.2%	5.1%	6.5%	5.9%	4.5%	3.3%	1.0%	2.9%	1.1%	1.0%
Fast-Casual	14.2%	9.7%	8.3%	8.2%	8.5%	5.8%	4.7%	2.5%	3.6%	3.2%	1.8%

Comparing California private fast food restaurant employment to U.S. private fast food restaurant employment, September 2023 – present

	California	U.S.
Sep 2023	570,909	4,610,236
Oct 2023	568,736	4,585,710
Nov 2023	567,292	4,584,906
Dec 2023	566,469	4,597,768
Jan 2024	564,008	4,525,201
Feb 2024	563,744	4,541,245
Mar 2024	564,337	4,591,397
Apr 2024	568,999	4,637,205
May 2024	570,127	4,693,024
Jun 2024	564,743	4,684,563
Sep 23-Jun 24	**-6,166**	**+74,327**
	-1.1%	**+1.6%**

Bureau of Labor Statistics Quarterly Census of Employment and Wages via the Employment Policies Institute

MENU PRICE INFLATION IN APRIL 2024 (VS. PRIOR MONTH)

	California	All Other States
Sonic Drive-In	11.73%	0.27%
Chick-fil-A	11.09%	0.00%
Blaze Pizza	8.14%	0.19%
Arby's	11.77%	4.12%
Raising Cane's	7.22%	0.00%
Chipotle	6.07%	0.00%
Jimmy John's	6.11%	0.14%
Shake Shack	7.43%	2.41%

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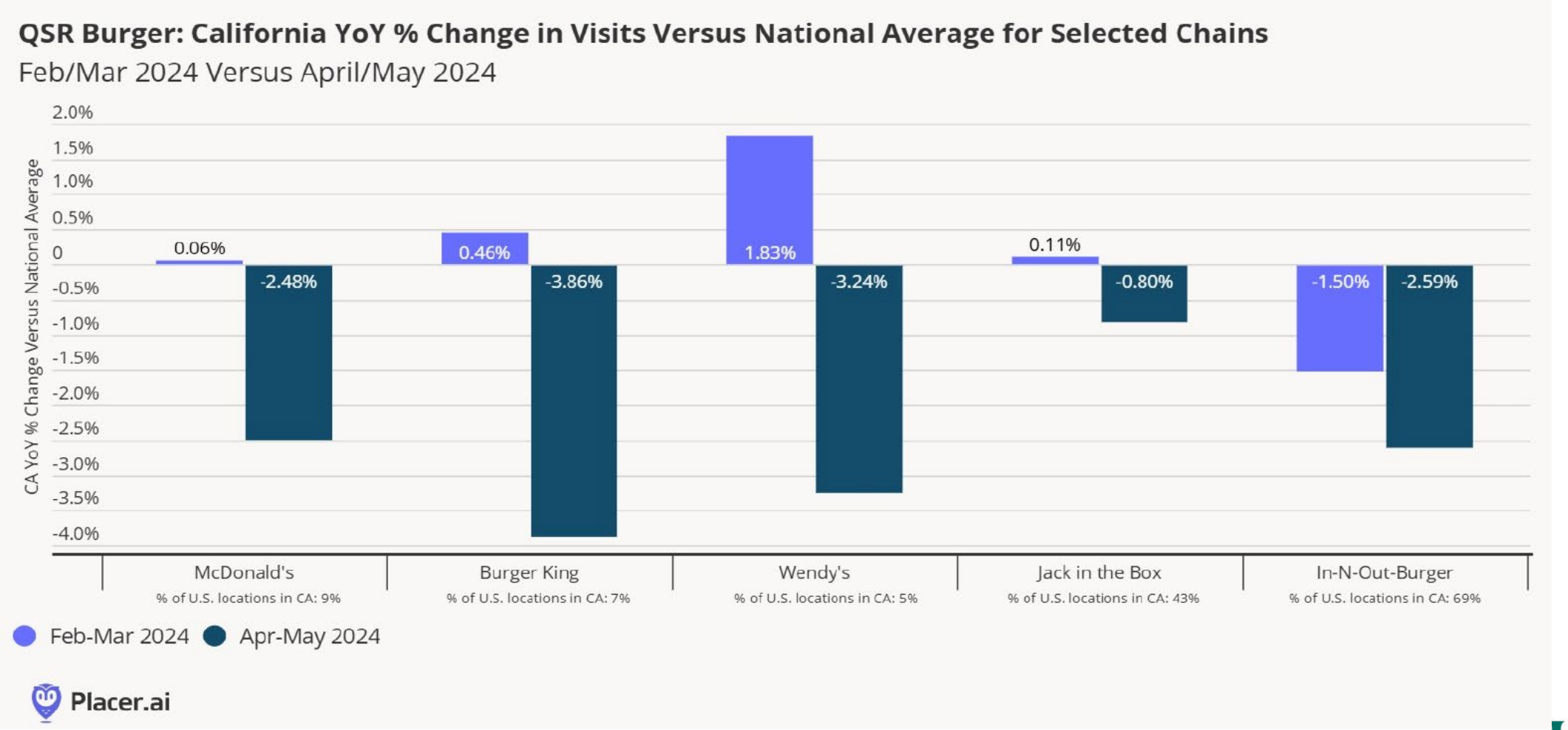
Foot Traffic



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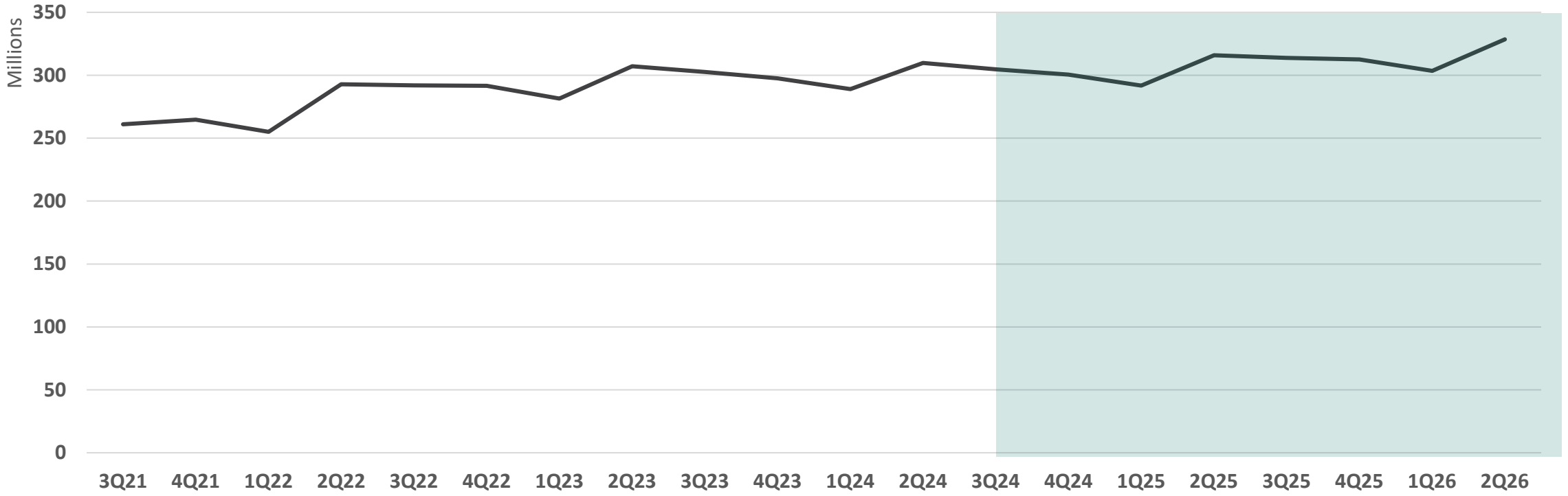
Restaurants & Hotels Forecast

	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
% Change YoY	11.9%	10.1%	10.4%	4.9%	3.7%	2.0%	2.7%	0.8%	0.7%	1.0%	1.0%	2.0%	3.0%	4.0%	4.0%	4.0%
Fiscal Year Change	**9.2%**				**2.2%**				**1.2%**				**3.7%**			



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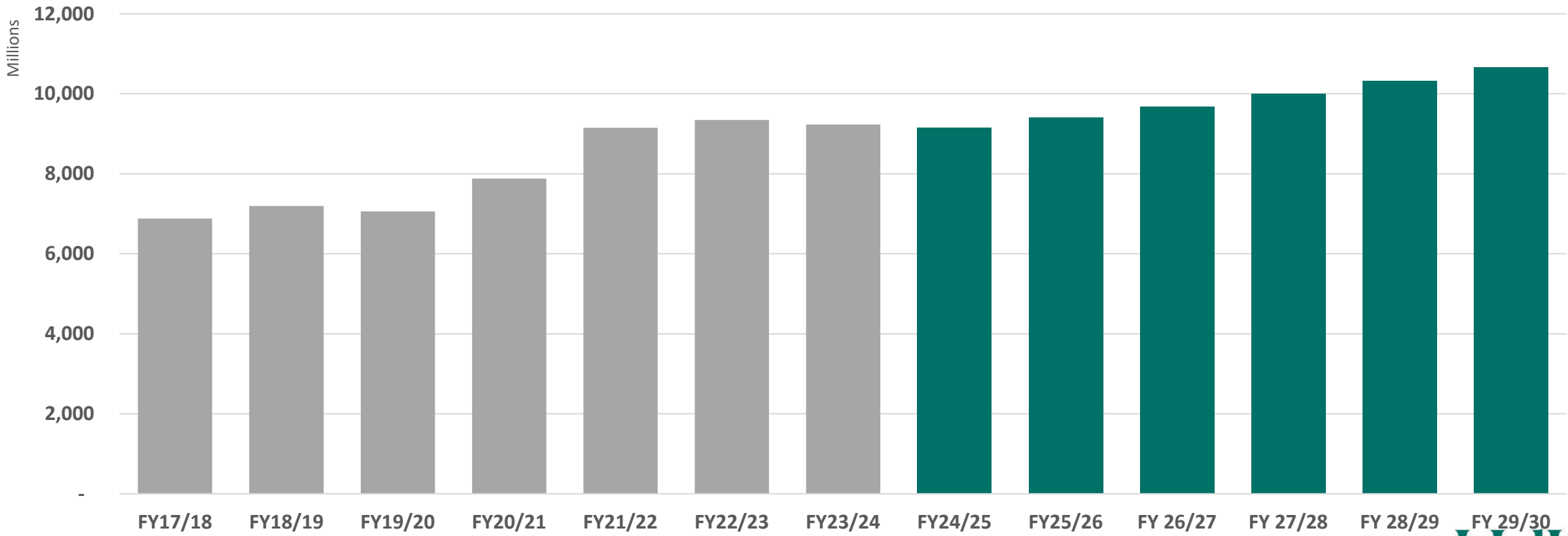
HdL Statewide Trend – Annual Outlook

% Change YoY	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30
	5.6%	4.6%	-1.9%	11.6%	16.1%	2.1%	-1.3%	-0.8%	2.6%	3.1%	3.3%	3.2%	3.3%



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Takeaways

Most agencies won't capture Bradley Burns 1% sales taxes gains until fiscal year 2025-26

Recent interest rate reductions have a token effect on tax growth in the short term; policy changes and other economic factors influence revenue generation

Tax receipts from service stations continue to have strong downward pressure on revenues in the first half of fiscal year 2024-25

Value and deals remain a focus for consumers whether it pertains to spending on food or goods

Ecommerce strength tests endurance of some brick and mortar stores. Retail closures and empty spaces provide a challenge but also opportunity

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Tax Sharing Reporting – AB 2854

AB 2854 passed last Legislative Cycle. R & T Code 7213

MORE INFORMATION:

HdL Companies - Understanding California's AB 2854: A Guide for Local Agencies on Compliance and Reporting

- Requires local agencies to annually provide specified information to CDTFA relating to each agreement resulting in the direct or indirect payment, transfer, diversion, or rebate of Bradley-Burns local tax revenues (sales tax sharing agreement(s)).
- Additionally, agencies are required to publish this information on their internet website
- Penalties for enforcement
- *CDTFA still working out details on process, forms*

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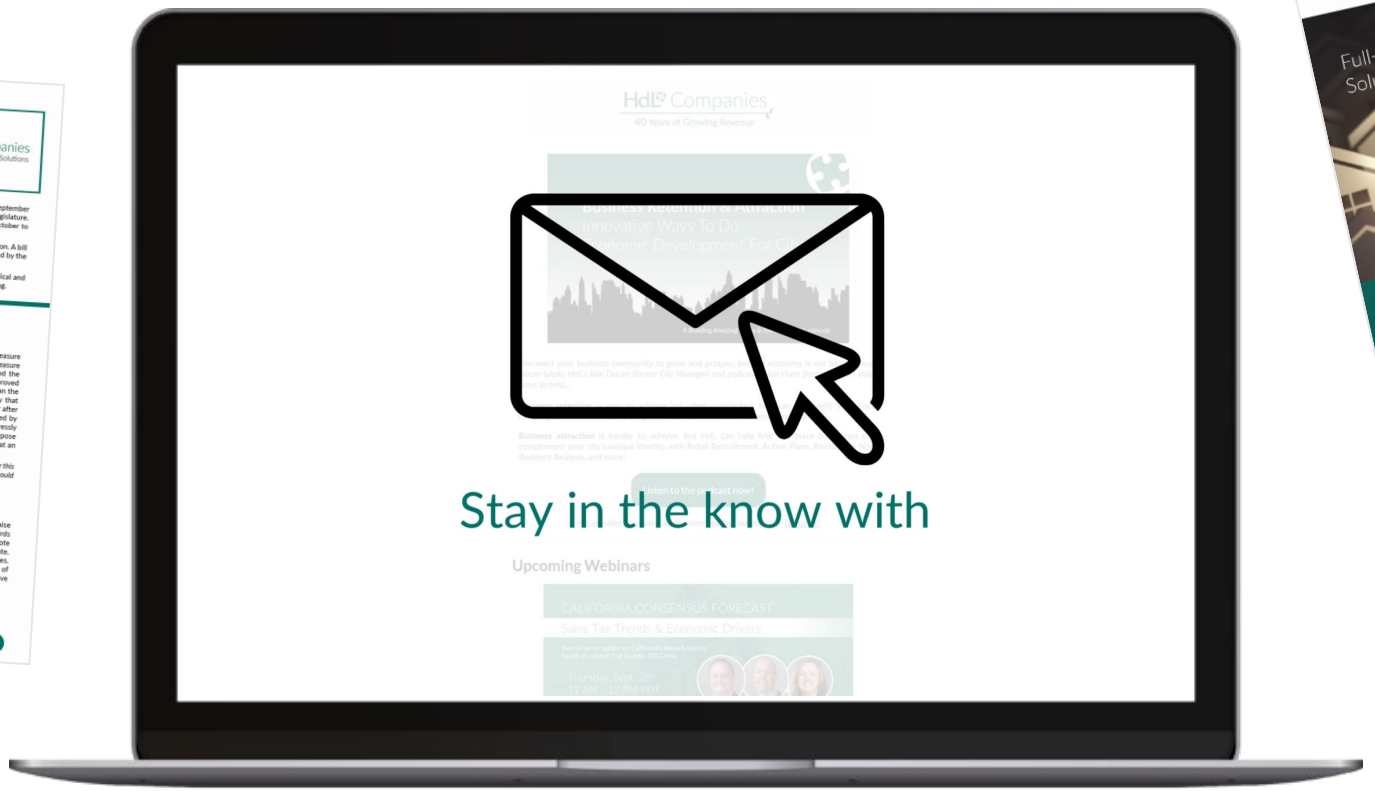

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Q & A

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Thank you!