

Sales Tax Report

June 2022

Office of Management and Budget



CITY OF WACO

Waco June 2022 Sales Tax Report

Background

The sales tax information is provided monthly by the Texas Comptroller. The sales tax information is reported 2 months in arrears; therefore, the June report reflects April actual sales tax figures.

The city collected \$4,226,780 for April 2022. This amount continues the trend of above average collections. This amount is \$1M over the budgeted amount for the month, and YTD collections are \$7.1M or 21.85% higher than the budgeted amount.

	FY 22 Budget	FY 22 Actuals	Variance to Budget	FY 21 Actuals	FY 20 Actuals
FY 22					
Oct	3,527,248	3,987,666	460,419	3,358,924	3,328,242
Nov	4,024,289	5,022,083	997,794	4,084,701	3,915,536
Dec	3,426,967	3,975,154	548,187	3,450,354	3,343,871
Jan	3,357,207	4,520,451	1,163,243	3,329,482	3,157,356
Feb	4,721,890	5,365,589	643,699	4,652,710	4,704,468
Mar	3,191,527	3,889,036	697,509	3,297,481	2,997,631
Apr	3,165,367	3,666,717	501,350	2,870,347	2,932,647
May	3,980,689	5,059,187	1,078,498	5,370,413	3,459,183
Jun	3,195,887	4,226,780	1,030,893	4,236,094	2,628,993
Jul	3,422,607		-	4,031,318	3,135,039
Aug	4,059,169		-	4,531,386	4,059,669
Sep	3,527,248		-	3,941,023	3,170,619
Grand Total	43,600,094	39,712,663	7,121,593	47,154,233	40,833,255



Sales Tax Forecast

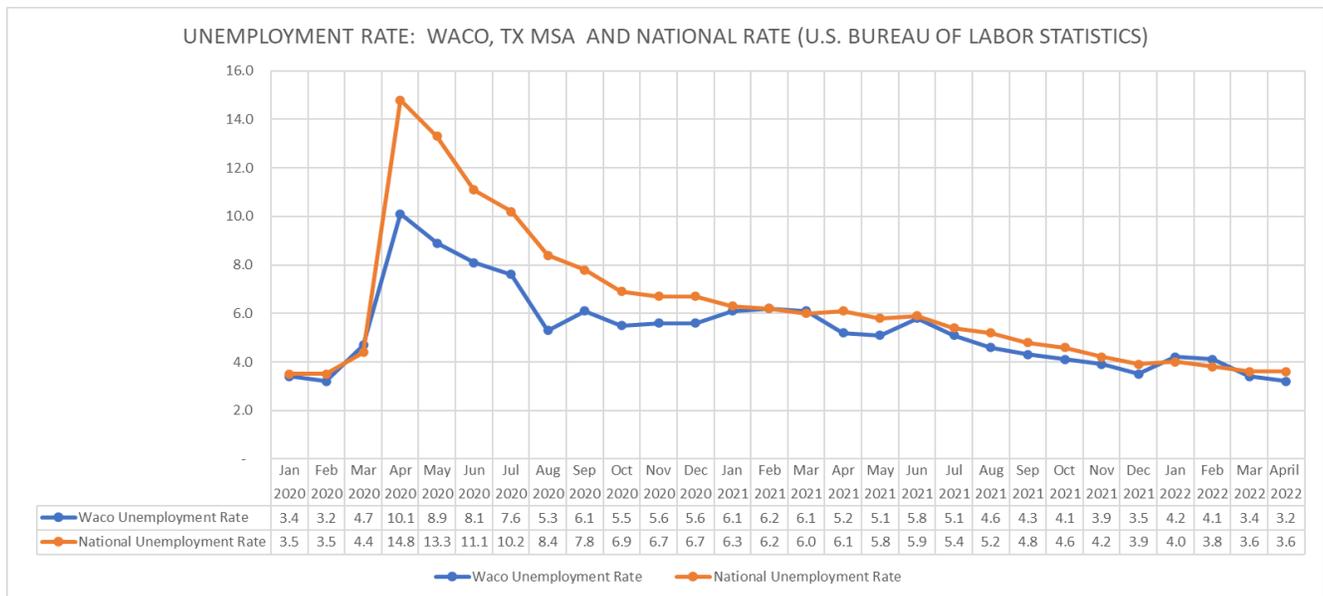
The June sales tax report is the ninth report of the 2022 fiscal year. The budget staff expects sales tax collections in the city to return to pre-pandemic levels, increasing 3 to 6 percent year over year as the population and number of businesses increase. As a result, the budget staff has budgeted \$43,600,094 for the 2022 fiscal year. However, the budget staff monitors sales tax collections monthly, to make any adjustments. The forecast is based on historical actuals and the current month collections. Therefore, if a month is above average the forecast will show a higher year end forecast. If a month's collection is below average, then the forecast will decrease.

The city is collecting more funds than expected, which is positive; however, the budget staff remains cautious as some of the increase in sales tax revenue is aided by other major factors occurring in the overall economy and there is a strong level of uncertainty in the overall economy right now.

1. Decrease in Unemployment

The national unemployment rate decreased from 5.2% to 3.2%, from April 2021 to April 2022. This is the lowest unemployment rate since Covid shutdowns started in March 2020 and when unemployment peaked at 14.8%.¹ The national unemployment rate is also returning to pre-pandemic levels.

The Waco Metro area's unemployment rate is mirroring the national trend. The local unemployment rate decreased from 6.1% to 3.2% from April 2021 to April 2022 and peaked in April 2020 at 10.1% (U.S. Bureau of Labor Statistics).²



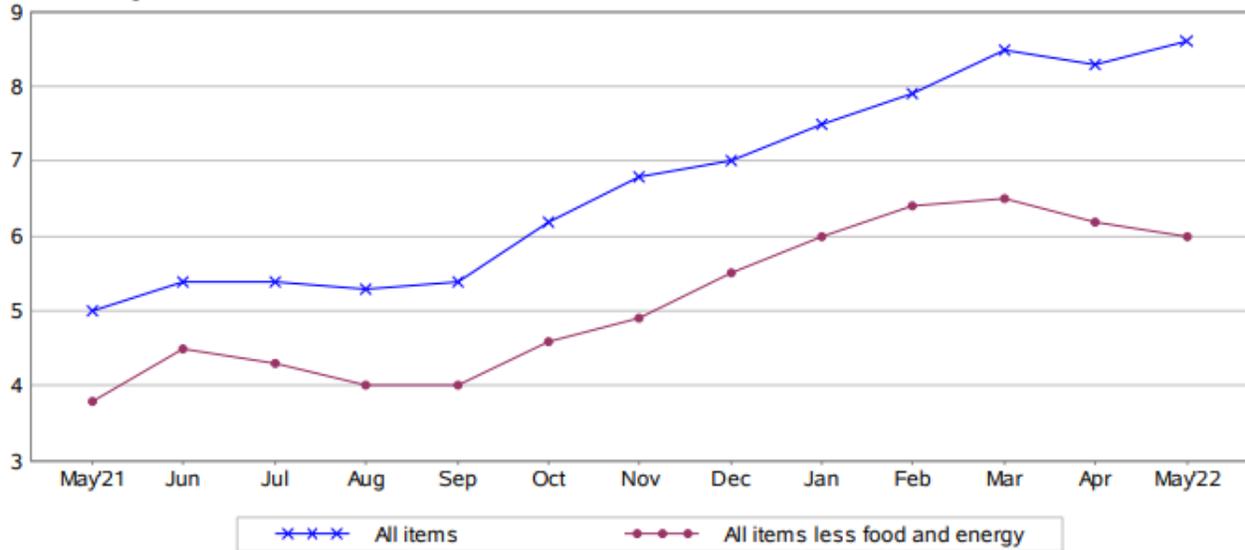
¹ <https://beta.bls.gov/dataViewer/view/timeseries/LNS14000000>

² https://www.bls.gov/eag/eag.tx_waco_msa.htm

2. Inflation

The all-items index increased 8.6 percent for the 12 months ending May, the largest 12-month increase since the period ending December 1981. The all items less food and energy index rose 6.0 percent over the last 12 months. The energy index rose 34.6 percent over the last year, the largest 12-month increase since the period ending September 2005. The food index increased 10.1 percent for the 12-months ending May, the first increase of 10 percent or more since the period ending March 1981.

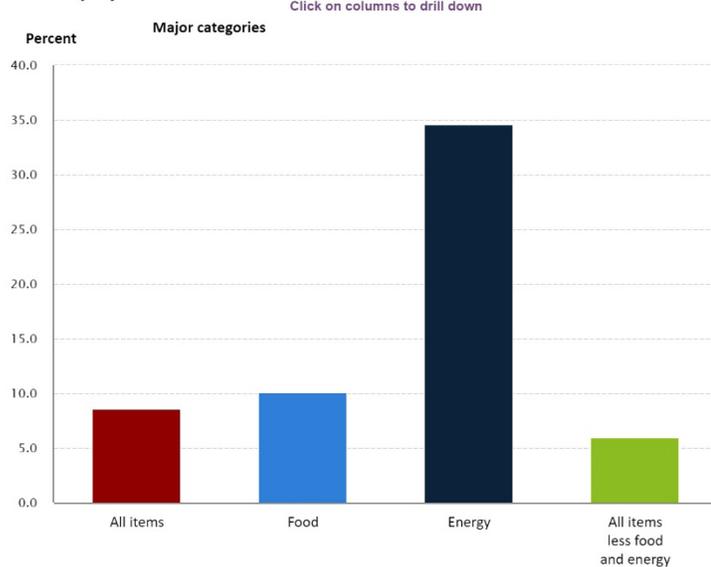
Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, May 2021 - May 2022
Percent change



3. Oil Market

On February 24, 2022, Russia launched an invasion against Ukraine. While the United States and other countries have not entered the conflict directly, they have imposed international sanctions on Russian imports. The United States further expanded sanctions to ban Russian oil. While Russian oil accounts for less than 10% of supply in the United States the ban will result in lower supply. This coupled with the increase in demand from the return to pre-pandemic activities will result in higher gasoline prices and other byproducts. The energy index rose 34.6 percent over the last year. Gasoline (all types) has increased 34.6%.

12-month percentage change, Consumer Price Index, selected categories, May 2022, not seasonally adjusted

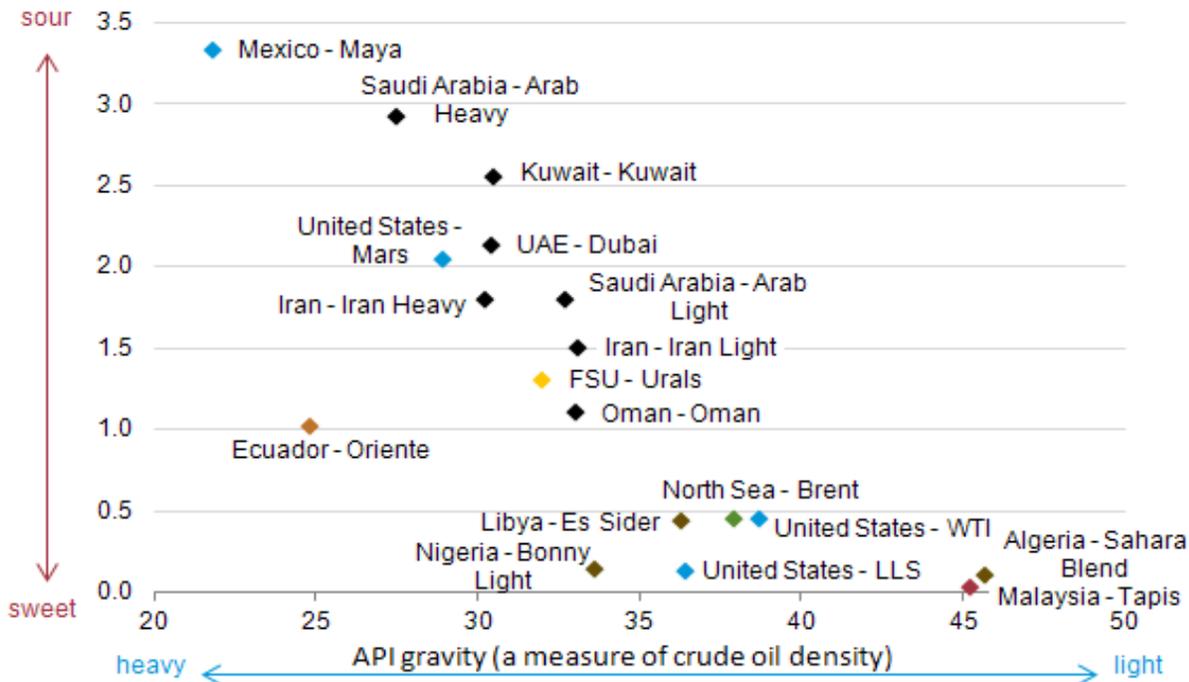


Source: U.S. Bureau of Labor Statistics.

The United States' oil production has different characteristics from those used in most refineries. The oil produced in the United States, mostly in Texas, is considered "light and sweet" crude oil. While conversion to gasoline is possible, the national infrastructure is overwhelmingly set up to refine "heavy and sour" crude oil. An increase in domestic oil production will not have an immediate effect on gas prices as most of the oil production will be exported.³

Crude oils have different quality characteristics

Density and sulfur content of selected crude oils
sulfur content (percentage)



Source: U.S. Energy Information Administration, based on Energy Intelligence Group—International Crude Oil Market Handbook.

Notes: Points on the graph are labeled by country and benchmark name and are color coded to correspond with regions in the map below. The graph does not indicate price or volume output values. United States-Mars is an offshore drilling site in the Gulf of Mexico. WTI = West Texas Intermediate; LLS = Louisiana Light Sweet; FSU = Former Soviet Union; UAE = United Arab Emirates.

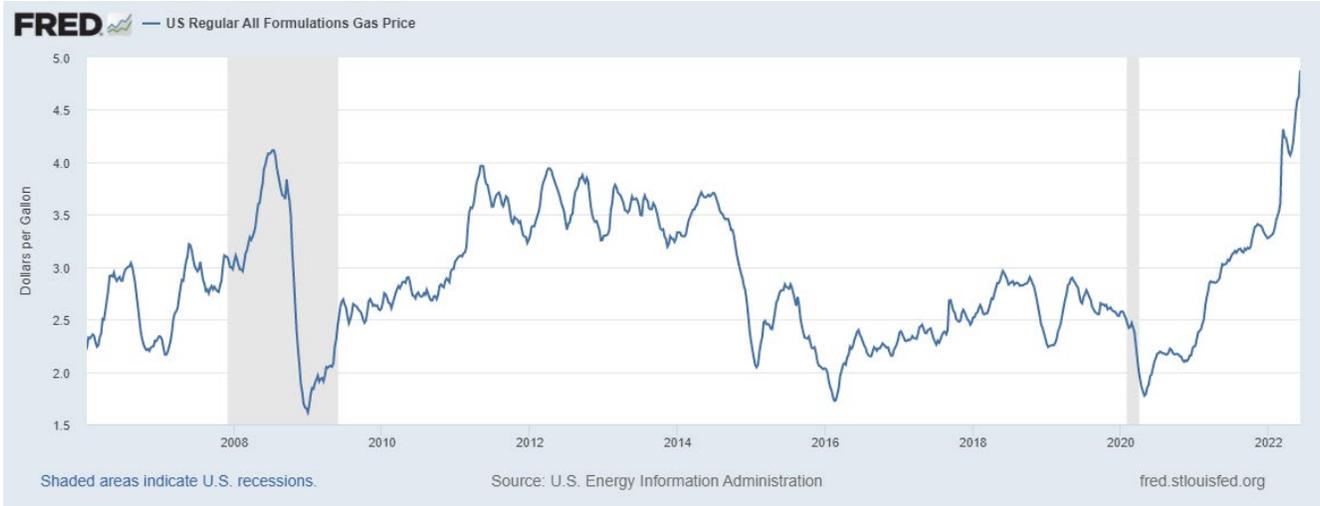
On May 31, 2022, the European Union ("EU") imposed a ban on Russian oil like the United States. The policy's goal is to ban 90% of Russian oil by the end of 2022. The EU heavily depends on Russian oil. The EU imports 41.1% of natural gas, 26.9% of crude oil and 46.7% of solid fuel from Russia.⁴ As of June 6, 2022, the average price for gas is \$4.86 per gallon in the United States.⁵ The ban by the EU will drastically increase demand in the global markets and will lead to significantly higher gas prices. The instability in the oil market will continue so long as the conflict does.

³ <https://www.eia.gov/todayinenergy/detail.php?id=7110>

⁴ <https://ec.europa.eu/eurostat/cache/infographs/energy/bloc-2c.html#carouselControls?lang=en>

⁵ <https://fred.stlouisfed.org/series/GASREGW>

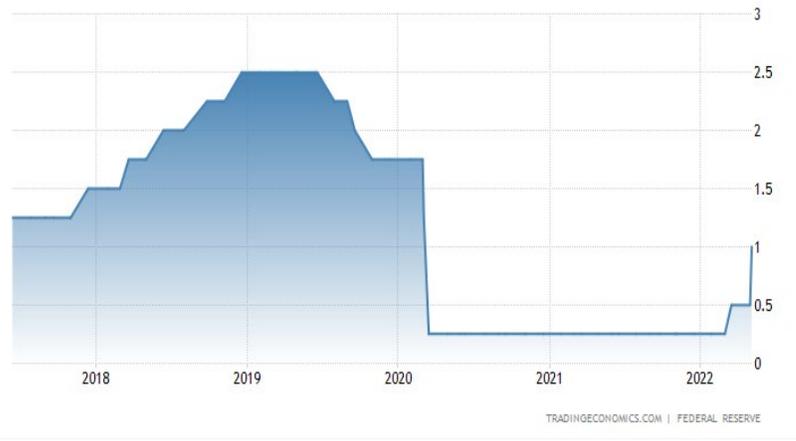




Although gas prices are expected to rise there are opportunities that exist that could fill in the void but are dependent on political discussions and decisions that are yet to be made. This is an area that the Budget Team will continue to track and monitor as it has a potentially significant impact on the prices of goods and services the city purchases and receives as well as the fuel that the city uses in its operations. Further, as consumers spend more on fuel it leaves less funds available for discretionary purposes, if wages don't increase at corresponding rate.

4. Monetary Policy

At the start of the pandemic, the Federal Reserve lowered the interest rate banks pay to between 0.0% and 0.25%. This was done to make it easier and cheaper for banks to loan money out to the public and to avoid an economic recession or depression. However, as the country returns to pre pandemic activities the Federal Reserve increased interest rates by 0.25% in March and by 0.50% at the start of May to help lower the soaring inflation. This will increase interest rates consumers pay on loans, which should in theory reduce the supply of money available in the economy and lower inflation. If inflation continues to increase the federal reserve can continue to increase the rate. ⁶



⁶ <https://tradingeconomics.com/united-states/interest-rate#:~:text=Interest%20Rate%20in%20the%20United,percent%20in%20December%20of%202008.>



Forecast

The reported amount for June was higher than budgeted. The significant variance demonstrates the effects of the factors noted above as well as the resiliency of Wacoans. The budget staff is cautious as to whether this increase will continue to benefit the city long-term. The higher sales tax revenue does not necessarily mean a higher economic output by consumers. It simply could be that consumers are paying higher prices for the same goods.

If the conflict continues with Russia and Ukraine, gas prices will continue to remain high when added to the normal peak in prices typically experienced during the summer. This could have an impact on tourism with lower revenues for enterprise funds as well as sales tax revenues.

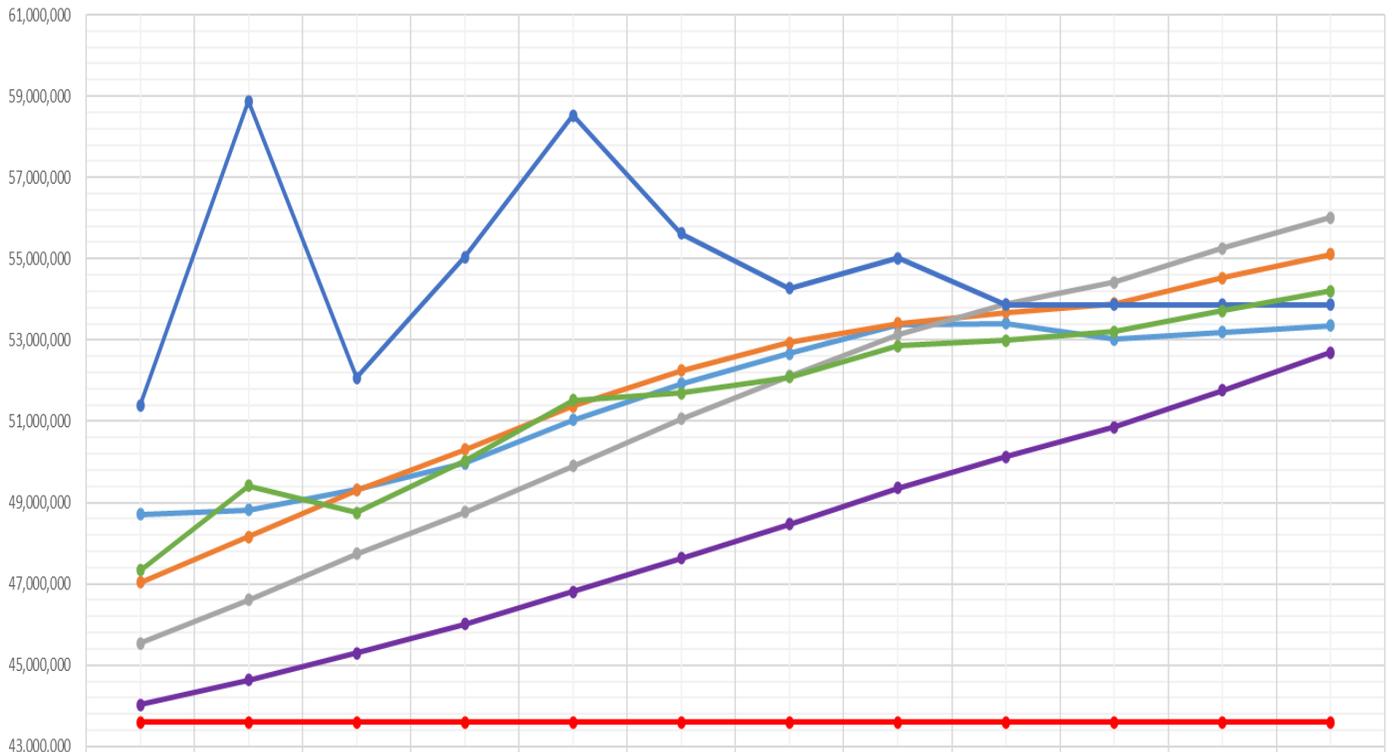
Furthermore, if inflation in the overall economy continues to increase but wages do not, then spending on discretionary goods or non-essential products will decline. The city does not collect sales tax on most food and energy commodities, which are considered necessities.

Lastly, if the Federal Reserve increases rates again the amount of money available to spend on discretionary items will also be reduced as consumers will pay more in interest payments. An increase in rates has a direct impact on economic output, as increasing rates are meant to limit the amount of available money in the economy. Further, increases in rates causes businesses to reconsider capital investments and growth as borrowing costs rise.

As a result of this and the most recent data, the forecast model is showing a significantly higher amount compared to the budget. However, given the economic and geopolitical situation, the budget staff does not see a need to make any adjustments to the original budget of \$43.6 million at the current time. The budget staff will monitor the following:

- July report (May sales tax) - The first potential large impact to sales tax revenues, due to gas prices, will show in the July report. The month of May saw a large increase to gas prices in a short period. The amount of sales tax collected will provide a glance at how consumers are adjusting to the higher prices. The month of May also brings in a good number of visitors to the city for Baylor graduation ceremonies.
- August report (June sales tax) - The August report will continue to show how the local economy is being affected by the increase in gas prices. If prices continue to increase over the summer months, it could lead to a lower number of visitors from outside the city.

Sales Tax Forecast



	October	November	December	January	February	March	April	May	June	July	August	September
YTD Actuals	3,987,666	9,009,749	12,984,904	17,505,354	22,870,943	26,759,979	30,426,696	35,485,883	39,712,663	-	-	-
Aggregate Linear 6M	48,705,896	48,818,765	49,318,784	49,963,466	51,034,278	51,927,121	52,672,181	53,366,218	53,401,917	53,010,230	53,188,709	53,351,553
Aggregate Linear 12 M	47,037,349	48,154,009	49,304,512	50,303,115	51,366,783	52,242,353	52,929,210	53,405,547	53,681,762	53,895,001	54,530,598	55,115,265
Aggregate Linear 18M	45,535,567	46,610,408	47,737,652	48,767,755	49,894,354	51,054,664	52,111,674	53,135,797	53,883,990	54,424,569	55,261,162	56,019,785
Aggregate Linear 36M	44,021,865	44,633,517	45,300,345	46,010,066	46,805,428	47,628,176	48,468,264	49,352,893	50,133,926	50,858,591	51,766,981	52,695,892
Correlation (i)	51,397,511	58,869,636	52,066,962	55,045,431	58,518,704	55,617,684	54,268,026	55,008,386	53,865,602	53,865,602	53,865,602	53,865,602
Average	47,339,638	49,417,267	48,745,651	50,017,967	51,523,910	51,694,000	52,089,871	52,853,768	52,993,439	53,210,798	53,722,610	54,209,619
Budget	43,600,094	43,600,094	43,600,094	43,600,094	43,600,094	43,600,094	43,600,094	43,600,094	43,600,094	43,600,094	43,600,094	43,600,094

■ YTD Actuals
 ■ Aggregate Linear 6M
 ■ Aggregate Linear 12 M
 ■ Aggregate Linear 18M
 ■ Aggregate Linear 36M
 ■ Correlation (i)
 ■ Average
 ■ Budget

Texas at a Glance



- The State of Texas total net payments for this Period: \$ 647,113,857.86; Comparable Payment Prior Year: \$ 585,562,470.44; Percent Change: 10.51%.

Most of the top 30 cities saw an increase in the period.

The City of Waco ranked 29th in the state for the June net sales tax payment report.

Rank	City	Net Payment This Period	Comparable Payment Prior Year	% Change
1	Houston	\$67,178,604.80	\$61,330,562.85	9.53%
2	San Antonio	\$37,885,534.21	\$33,628,895.64	12.65%
3	Dallas	\$34,026,054.26	\$29,027,872.35	17.21%
4	Austin	\$27,216,970.82	\$22,533,954.34	20.78%
5	Fort Worth	\$17,112,149.26	\$15,476,213.31	10.57%
6	Arlington	\$16,415,958.31	\$13,423,128.46	22.29%
7	Frisco	\$11,243,019.67	\$8,925,839.23	25.96%
8	El Paso	\$10,703,165.77	\$9,309,325.97	14.97%
9	Plano	\$8,804,165.70	\$7,724,923.11	13.97%
10	Round Rock	\$8,385,771.17	\$9,150,916.03	-8.36%
11	Amarillo	\$7,845,459.14	\$7,360,264.18	6.59%
12	Lubbock	\$7,578,643.71	\$7,259,105.93	4.40%
13	Irving	\$7,399,021.75	\$6,851,724.38	7.98%
14	Corpus Christi	\$7,334,630.10	\$7,072,626.62	3.70%
15	McAllen	\$7,048,537.19	\$6,561,583.80	7.42%
16	McKinney	\$6,910,418.11	\$6,035,331.23	14.49%
17	Grand Prairie	\$6,570,521.68	\$5,743,100.09	14.40%
18	Midland	\$6,091,181.92	\$4,635,303.56	31.40%
19	Conroe	\$5,287,215.05	\$4,850,037.41	9.01%
20	Sugar Land	\$5,202,132.77	\$4,683,190.45	11.08%
21	Odessa	\$5,024,787.78	\$4,365,003.38	15.11%
22	Abilene	\$4,587,973.45	\$4,193,434.06	9.40%
23	Tyler	\$4,543,068.92	\$4,539,538.10	0.07%
24	Mesquite	\$4,524,198.97	\$4,231,401.75	6.91%
25	Laredo	\$4,515,240.50	\$4,018,345.17	12.36%
26	Brownsville	\$4,458,992.56	\$4,007,733.84	11.25%
27	Richardson	\$4,310,145.11	\$4,058,084.28	6.21%
28	Denton	\$4,248,743.96	\$3,557,512.75	19.43%
29	Waco	\$4,226,779.70	\$4,236,093.73	-0.21%
30	Grapevine	\$4,177,115.11	\$3,441,886.86	21.36%