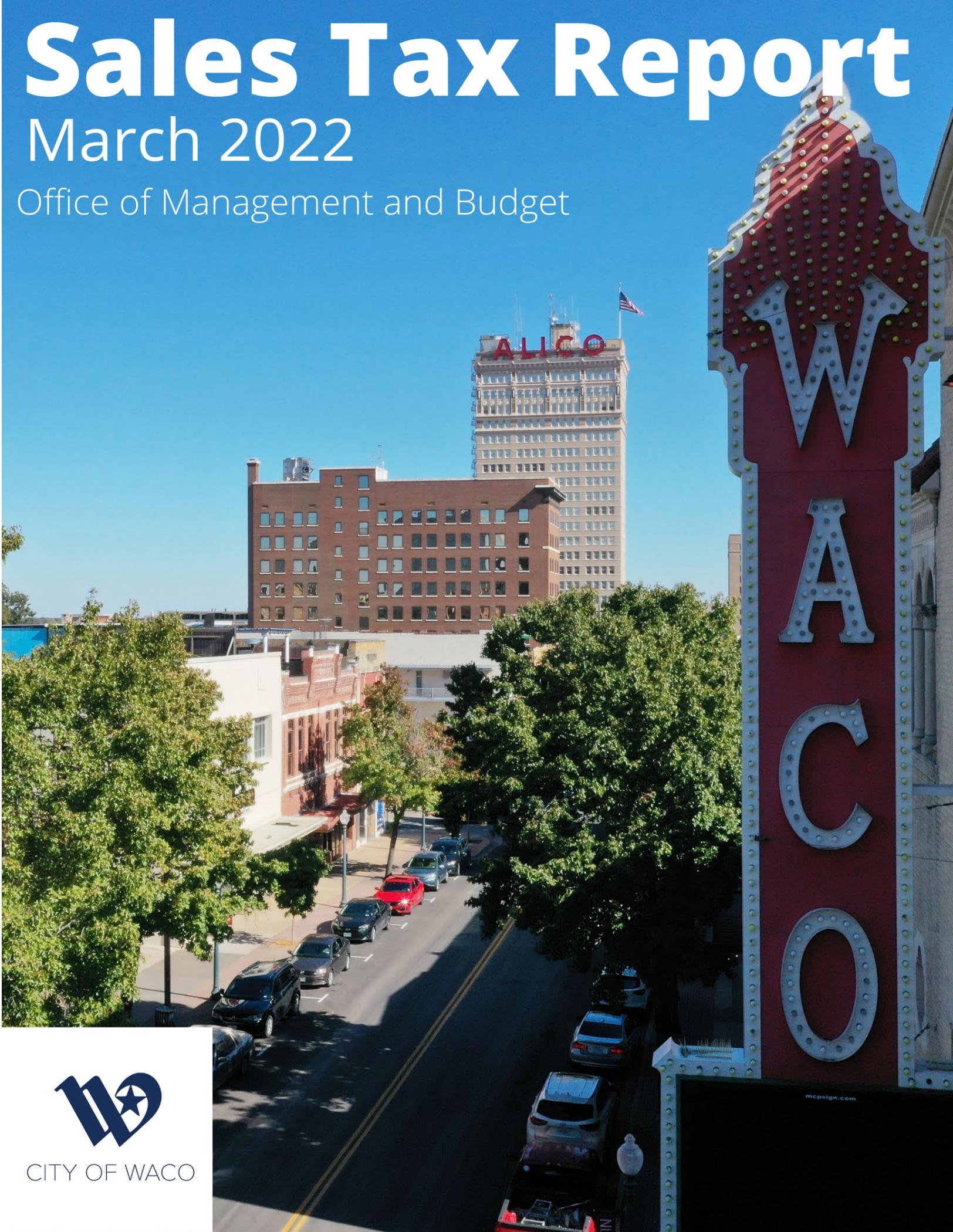


Sales Tax Report

March 2022

Office of Management and Budget



CITY OF WACO

Waco March 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 March report reflects January actual sales tax figures.

The city collected \$3,889,036 for January 2022. This amount is significantly above average collections for the month. This is the sixth collection of the fiscal year. This amount is \$698k over the budgeted amount for the month, and YTD collections are \$4.5M or 20.3% 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		-	2,870,347	2,932,647
May	3,980,689		-	5,370,413	3,459,183
Jun	3,195,887		-	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	26,759,979	4,510,851	47,154,233	40,833,255



Sales Tax Forecast

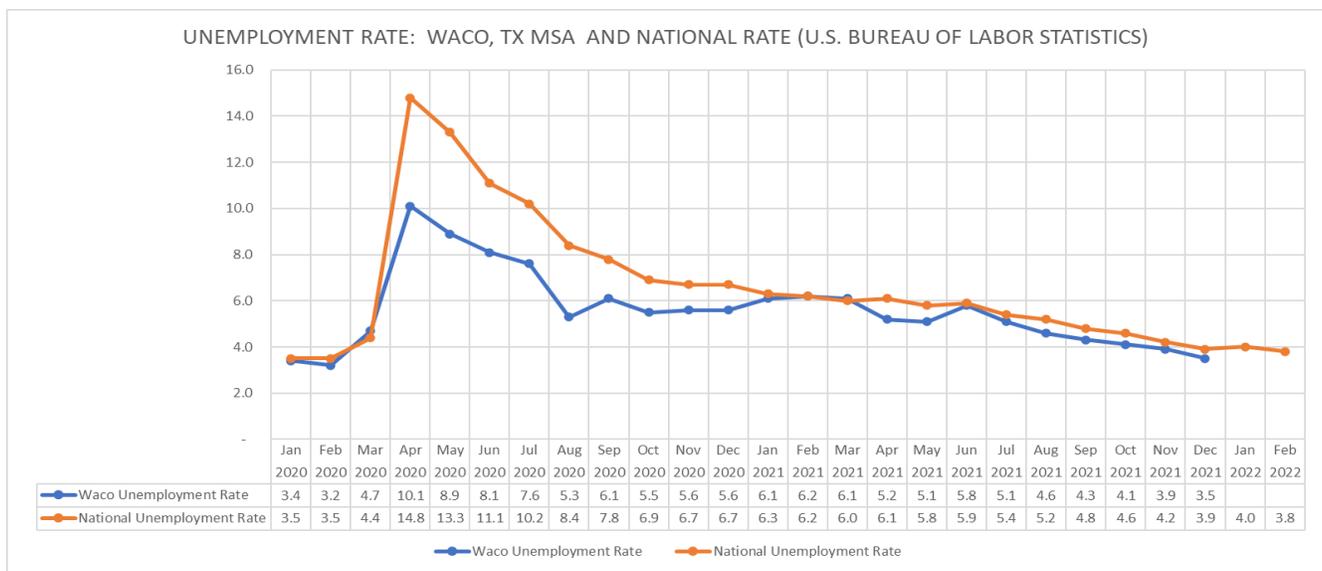
The March sales tax report is the sixth report of the 2022 fiscal year. The budget staff expects sales tax collections in the city to return to pre-pandemic levels, increasing 3 to 6 percent year over year as the population and number of businesses increase. As a result, the budget staff has budgeted \$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 6.2% to 3.8%, from February 2021 to February 2022. This is the lowest unemployment rate since Covid shutdowns started in March 2020 and when unemployment peaked at 14.8%.¹

The Waco Metro area's unemployment rate is mirroring the national trend. The local unemployment rate decreased from 5.6% to 3.5% from December 2020 to December 2021 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

as of March 10, 2022, the BLS has not updated unemployment figures for the Waco MSA area.

2. Child Tax Credit Program

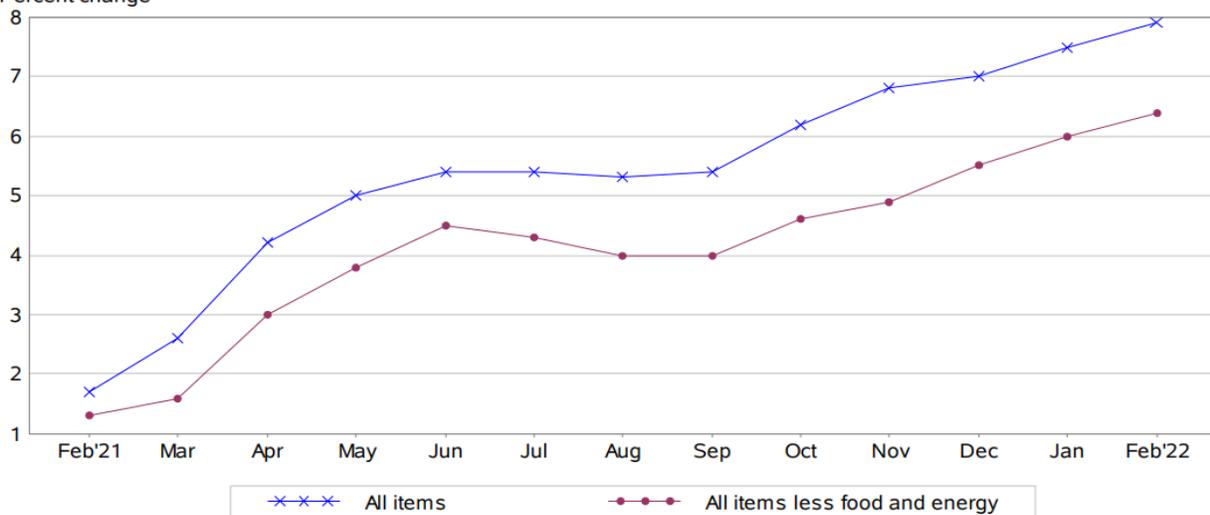
As part of the American Rescue Plan Act, families were able to receive a portion of their child tax credit throughout the year, rather than as a part of their income tax return. This policy reached nearly 60 million children and pumped \$15 billion dollars into the US economy every month. On average, a family with eligible dependents received an additional \$423 per month (US Treasury and Internal Revenue Service)³.

At the start of 2022, the United States Congress has not renewed the advance child tax credit program. The State of Texas has 6.3 million qualifying children. The program has paid out \$1.6 billion to Texans, with an average family receiving \$449 per month⁴. The termination of the program may impact sales tax the remainder of the fiscal year.

3. Inflation

The all-items consumer price index (CPI) rose 7.9 percent for the 12 months ending February. The 12-month increase has been steadily rising and is now the largest since the period ending January 1982. The all items less food and energy index rose 6.4 percent, the largest 12-month change since the period ending August 1982. The energy index rose 25.6 percent over the last year, and the food index increased 7.9 percent, the largest 12-month increase since the period ending July 1981.⁵

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



³Source: <https://home.treasury.gov/news/press-releases/Treasury-and-IRS-Announce-Families-of-Nearly-60-Million-Children-Receive-%2415-Billion-Dollars-in-First-Payments-of-Expanded-and-Newly-Advanceable-Child-Tax-Credit>

⁴ <https://home.treasury.gov/system/files/131/Advance-CTC-Payments-Disbursed-November-2021-by-State-11162021.pdf>

⁵ <https://www.bls.gov/news.release/pdf/cpi.pdf>

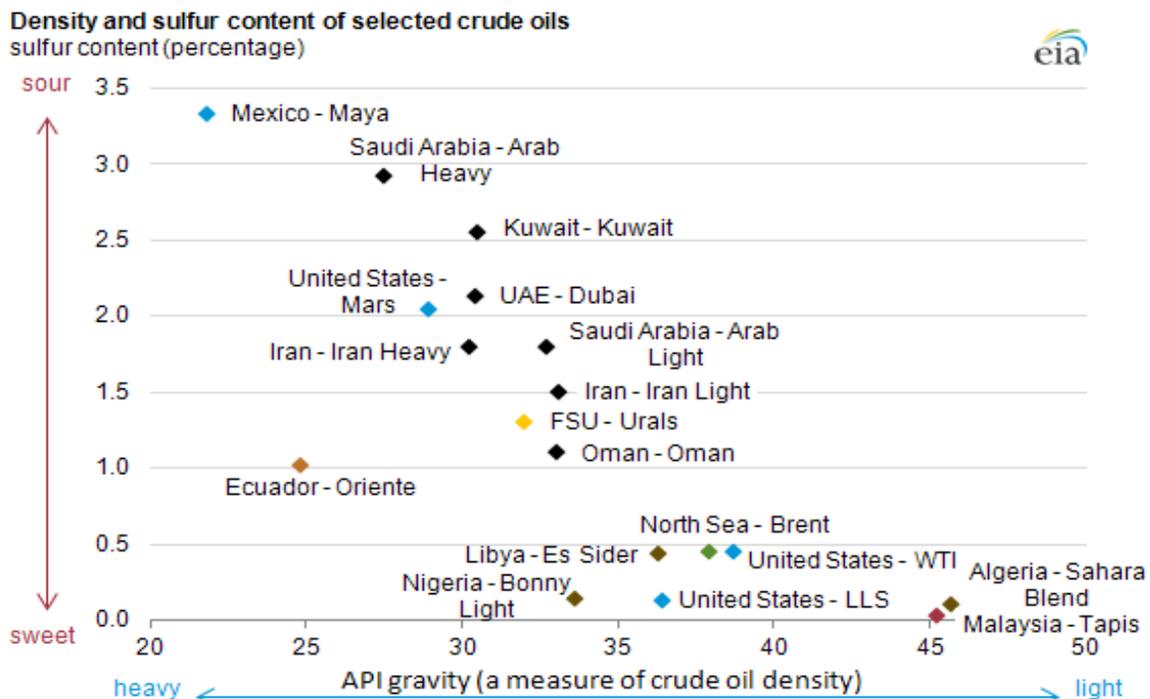
4. Oil Market

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 will result in higher gasoline prices and other byproducts. The energy index rose 25.6 percent over the past 12 months with all major energy component indexes increasing. The index for gasoline rose 38.0 percent over the last year and the index for natural gas rose 23.8 percent.

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.

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Crude oils have different quality characteristics



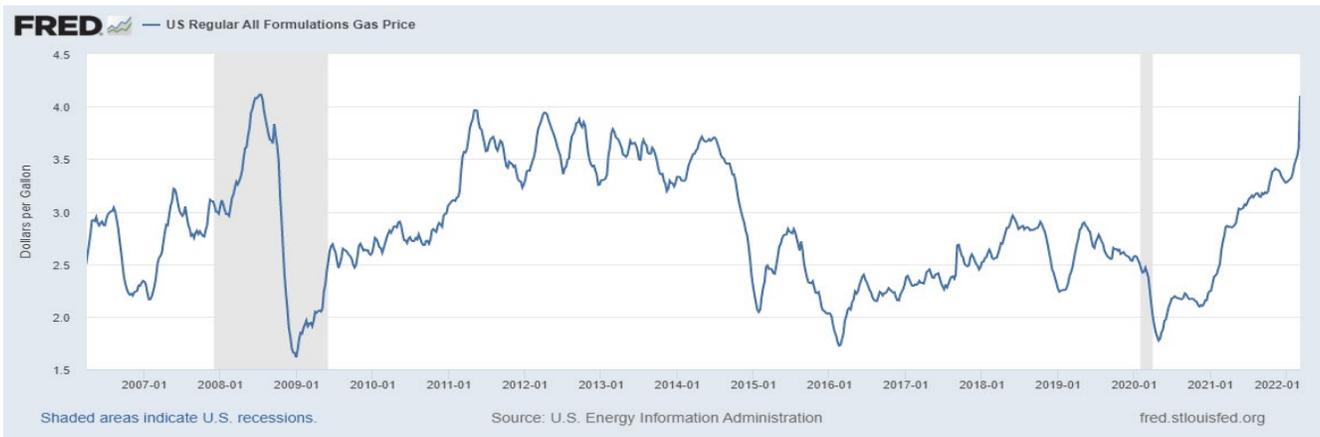
Source: U.S. Energy Information Administration, based on Energy Intelligence Group—International Crude Oil Market Handbook.

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.

⁶ <https://www.eia.gov/todayinenergy/detail.php?id=7110>

The largest variable to oil prices will be if the European Union (“EU”) imposes a ban on Russian oil like the United States. 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. ⁷ A 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. As of March 7, 2022, the average price for gas is \$4.10 per gallon and is expected to rise. ⁸

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.



Forecast

The reported amount for March was significantly 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 may continue to increase. This could have an impact on tourism as we enter the spring and summer months with lower revenues for enterprise funds as well as sales tax revenues.

⁷ <https://ec.europa.eu/eurostat/cache/infographs/energy/bloc-2c.html#carouselControls?lang=en>

⁸ <https://fred.stlouisfed.org/series/GASREGW>

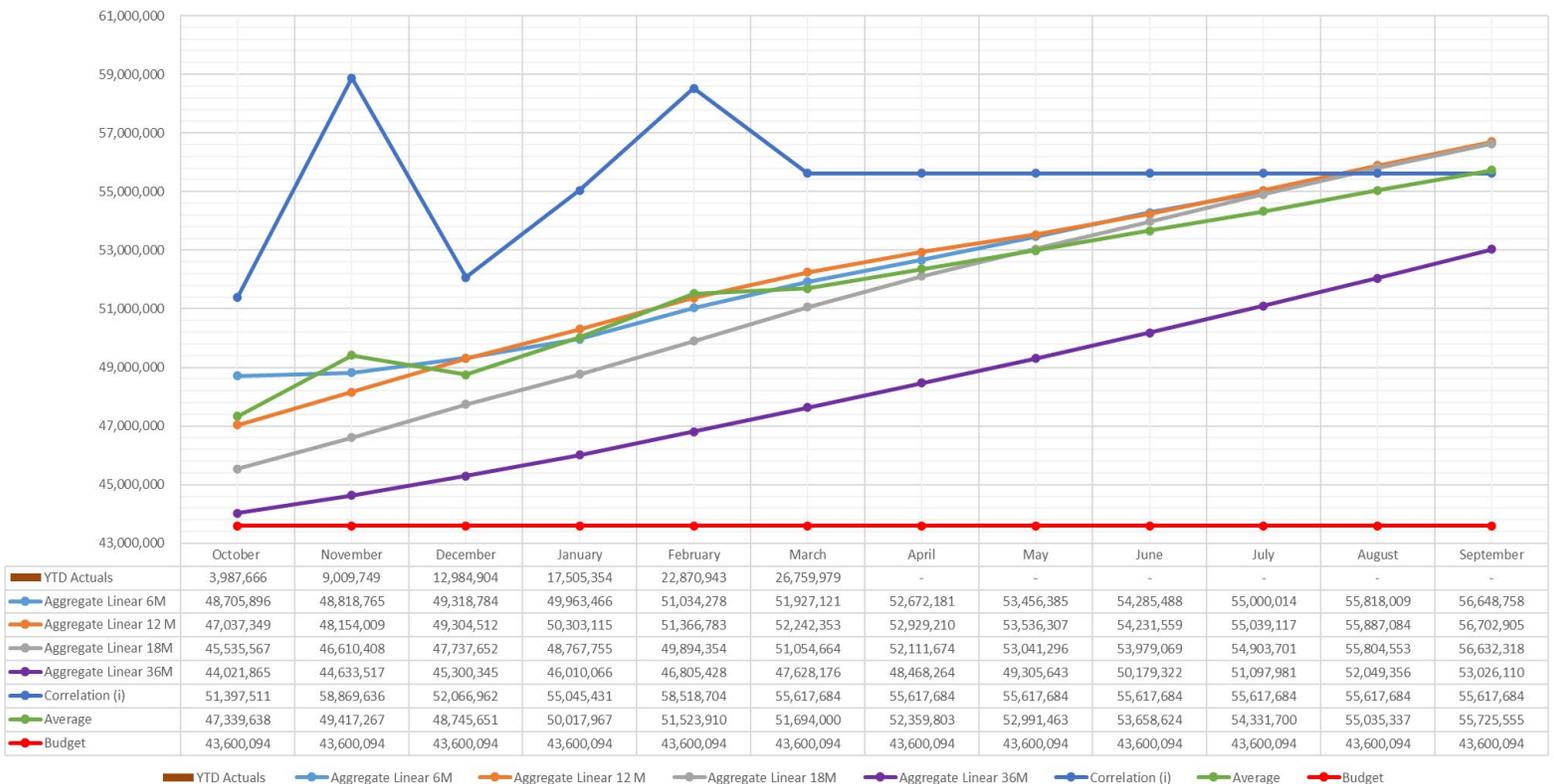
Furthermore, if inflation in the overall economy continues to increase but wages do not, then spending on discretionary goods or non-essential products will decline. The city does not collect sales tax on most food and energy commodities, which are considered necessities.

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 expects the following moving forward:

- May report (March sales): The budget staff expects the collection for the month of March will see a decrease from 2021, mostly due to the lack of a stimulus payments (March 2021 was when the American Rescue Plan Act was signed into law and contained the \$1,400 stimulus checks) and the reduction in income tax returns due to the current child tax credit program.

As we progress through the fiscal year and collect more data, the budget staff expects the plotted lines to come closer together to have a more accurate forecast.

Sales Tax Forecast



Texas at a Glance



- The State of Texas total net payments for this Period: \$581,673,365.31
comparable Payment Prior Year: \$491,735,983.18; Percent Change: 18.29%.

The top 32 cities saw an increase in the period.

The City of Waco ranked 32nd in the state for the March net sales tax payment report.

Rank	City	Net Payment This Period	Comparable Payment Prior Year	% Change
1	Houston	\$62,037,096.61	\$52,804,034.31	17.48%
2	San Antonio	\$33,161,153.47	\$28,435,155.74	16.62%
3	Dallas	\$28,650,902.68	\$24,447,613.74	17.19%
4	Austin	\$23,614,650.69	\$18,251,031.06	29.38%
5	Fort Worth	\$15,791,083.46	\$12,977,865.23	21.67%
6	Arlington	\$14,404,749.68	\$9,192,478.32	56.70%
7	Round Rock	\$9,562,658.45	\$9,302,341.31	2.79%
8	Frisco	\$9,507,244.18	\$7,755,264.17	22.59%
9	El Paso	\$9,339,132.87	\$8,069,558.17	15.73%
10	Plano	\$7,749,109.94	\$6,713,629.05	15.42%
11	Irving	\$7,712,605.32	\$6,077,538.61	26.90%
12	Amarillo	\$6,976,928.55	\$6,393,339.27	9.12%
13	Lubbock	\$6,859,266.99	\$5,510,170.94	24.48%
14	Corpus Christi	\$6,453,897.70	\$5,884,996.56	9.66%
15	McAllen	\$6,326,487.78	\$5,580,549.88	13.36%
16	McKinney	\$5,992,894.28	\$5,109,790.24	17.28%
17	Grand Prairie	\$5,616,357.42	\$4,865,551.08	15.43%
18	Midland	\$4,917,108.69	\$3,919,571.23	25.45%
19	Beaumont	\$4,829,539.01	\$3,260,645.25	48.11%
20	Sugar Land	\$4,777,526.35	\$3,776,723.80	26.49%
21	Coppell	\$4,670,047.97	\$3,952,552.87	18.15%
22	Conroe	\$4,418,753.46	\$4,060,096.52	8.83%
23	Richardson	\$4,353,366.54	\$3,362,517.49	29.46%
24	Tyler	\$4,185,356.79	\$3,697,853.62	13.18%
25	Grapevine	\$4,150,656.83	\$3,056,286.02	35.80%
26	Odessa	\$4,145,624.08	\$3,473,311.98	19.35%
27	Abilene	\$4,050,190.08	\$3,667,881.75	10.42%
28	Lewisville	\$4,004,884.42	\$3,072,002.76	30.36%
29	Brownsville	\$3,988,552.13	\$3,658,141.44	9.03%
30	Laredo	\$3,950,665.87	\$3,398,006.19	16.26%
31	Mesquite	\$3,922,587.39	\$3,400,256.37	15.36%
32	Waco	\$3,889,035.83	\$3,297,481.12	17.93%