



SALES TAX MONTHLY REPORT



DECEMBER 2023

Waco December 2023 Sales Tax Report

Background

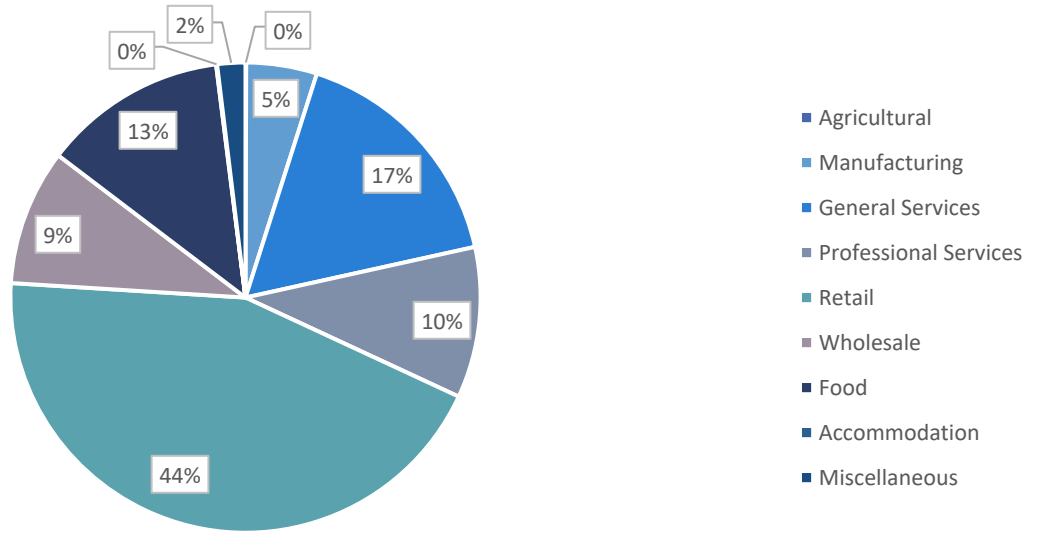
The sales tax information is provided monthly by the Texas Comptroller. The sales tax information is reported 2 months in arrears; therefore, this report reflects October actual sales tax figures.

The City collected \$4,377,067 in October 2023. This amount is \$253,368 or 6.14% over the budgeted amount for the month. December Sales Tax receipts were 2.90% higher than last year. The increase in receipts in December (October Sales) is a real decline of 0.30% when compared to the inflation rate of 3.20% for October 2023.

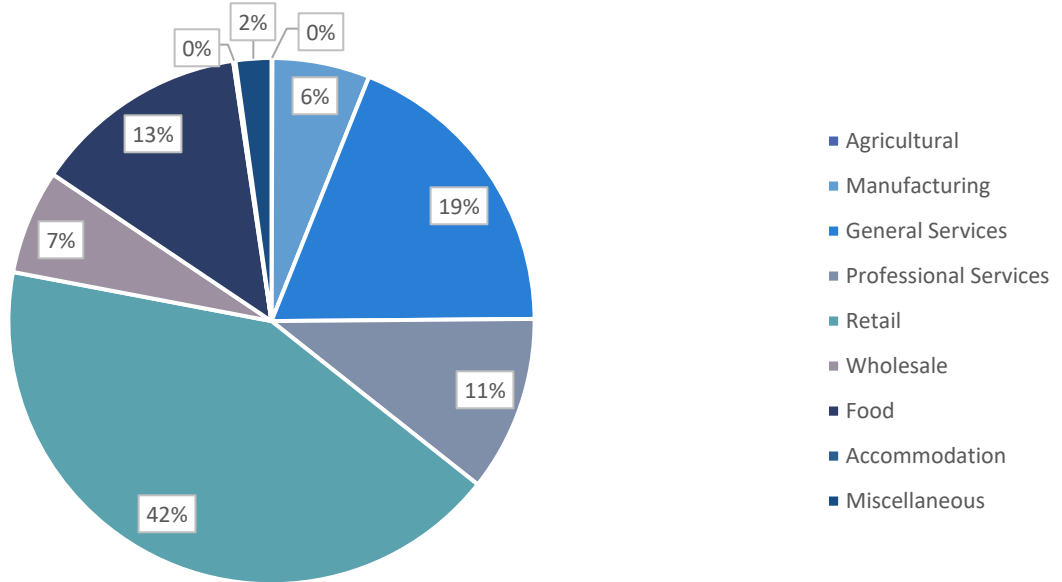
FY24	FY24 Budget	FY24 Actuals	Variance to Budget	FY23 Actuals	FY22 Actuals
Oct	4,208,548	4,696,264	487,716	4,572,933	3,987,666
Nov	5,054,183	5,121,959	67,776	5,207,763	5,022,083
Dec	4,123,699	4,377,067	253,368	4,253,706	3,975,154
Jan	4,374,400		(4,374,400)	4,539,320	4,520,451
Feb	5,663,488		(5,663,488)	6,021,931	5,365,589
Mar	3,939,141		(3,939,141)	3,969,988	3,889,036
Apr	3,779,100		(3,779,100)	4,166,169	3,666,717
May	5,588,807		(5,588,807)	5,399,117	5,059,187
Jun	4,369,997		(4,369,997)	3,913,909	4,226,780
Jul	4,485,105		(4,485,105)	4,406,393	4,265,084
Aug	5,064,174		(5,064,174)	4,936,203	4,875,255
Sep	4,489,766		(4,489,766)	4,320,016	5,225,903
Total	55,140,406	14,195,290	(40,945,116)	55,707,447	54,078,904



City of Waco Sales Tax by Sector - FY23 YTD through November 2022



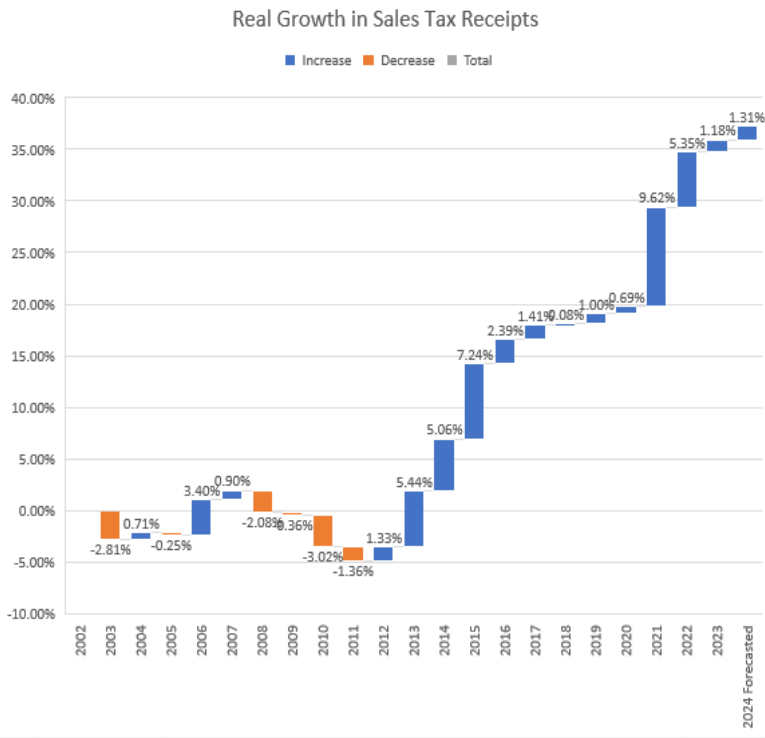
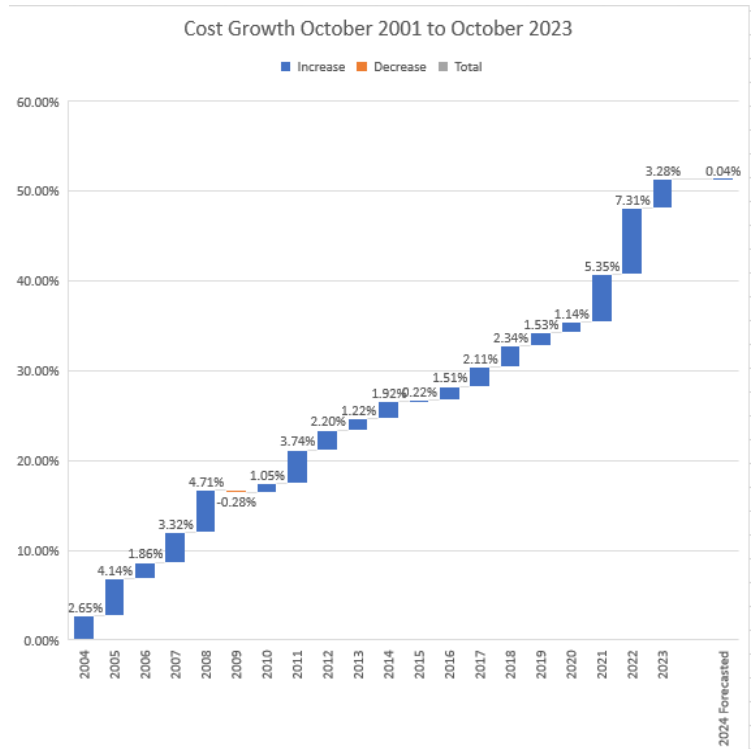
City of Waco Sales Tax by Sector - FY24 YTD - through November 2023



Overall, the sales tax composition by sector year over year has stayed relatively stable. Retail remains the largest component of sales tax receipts with General Services as the second largest sector.

Sales Tax Factors and Forecast

The December report is the third report of the 2024 fiscal year. Sales tax collections for FY 23 were significantly above the \$47.1 million budget and were the highest that the City has collected. The collection was 18.2% or \$8.6 million higher than the budget amount and 3.0% or \$1.6M higher than collected in FY 22. The record collection is positive; however, the budget staff remains cautious and there is a strong level of uncertainty in the overall economy right now.



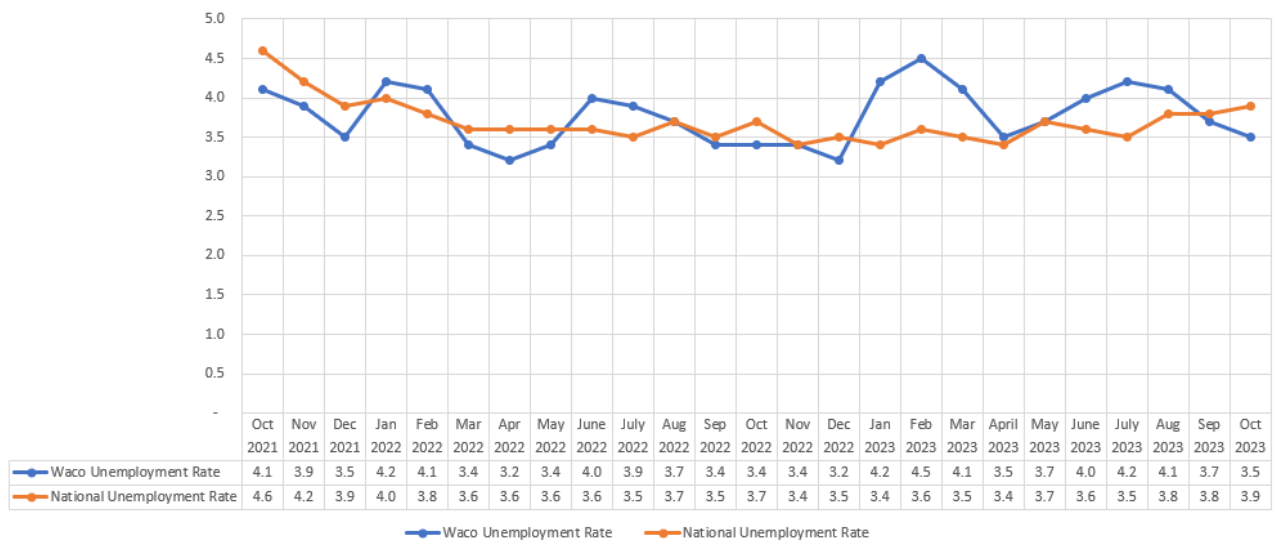
In a typical year the budget staff expects sales tax collections to increase 3% to 6% year over year as the population and number of businesses increase. Due to strong sales tax performance over the past three years, the sales tax budget was set at \$55,140,406 for the 2024 fiscal year. Two out of three collections has exceeded budget and the prior year collections. The budget staff monitors sales tax collections and other economic factors throughout the year, to make any adjustments.

1. Unemployment Nationally and Locally

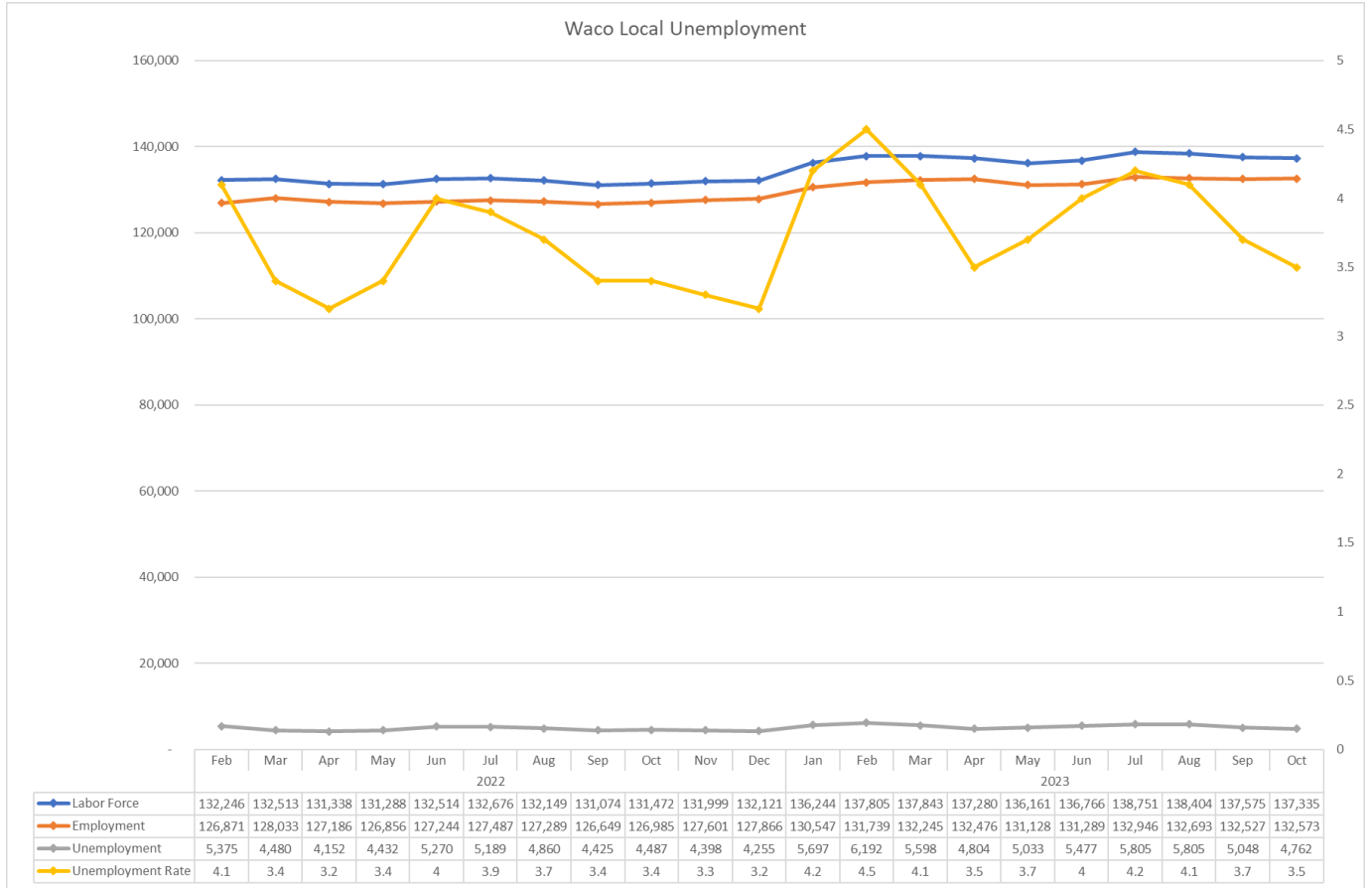
The national unemployment rate increased from 3.7%, from October 2022 to 3.9% October 2023. The national unemployment rate has returned to pre-pandemic levels.

The local unemployment rate increased from 3.4% from October 2022 to 3.5% October 2023 and peaked in April 2020 at 9.7% (U.S. Bureau of Labor Statistics).¹ Labor force and employment numbers have increased over the past year as well. The number of individuals in the labor force has increased at a greater rate as compared to the number of jobs added over the same timeframe. This could be due in part to several factors including but not limited to people re-entering the workforce after the pandemic, individuals moving to Waco because of jobs and economic development activities that the City has engaged in, or financial need.

UNEMPLOYMENT RATE: WACO, TX MSA AND NATIONAL RATE (U.S. BUREAU OF LABOR STATISTICS)



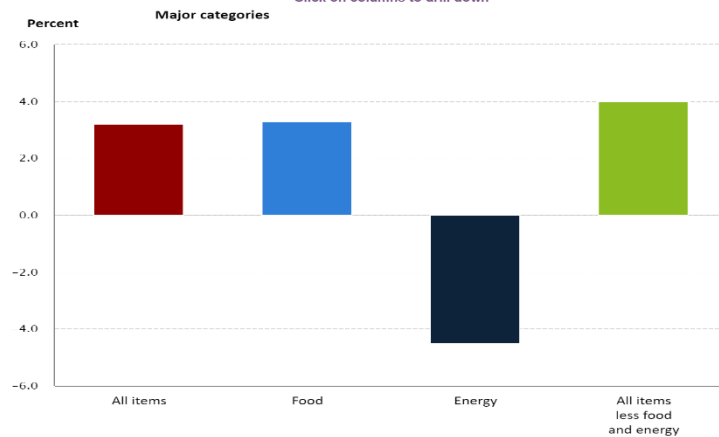
¹ https://www.bls.gov/eag/eag.tx_waco_msa.htm



2. Inflation

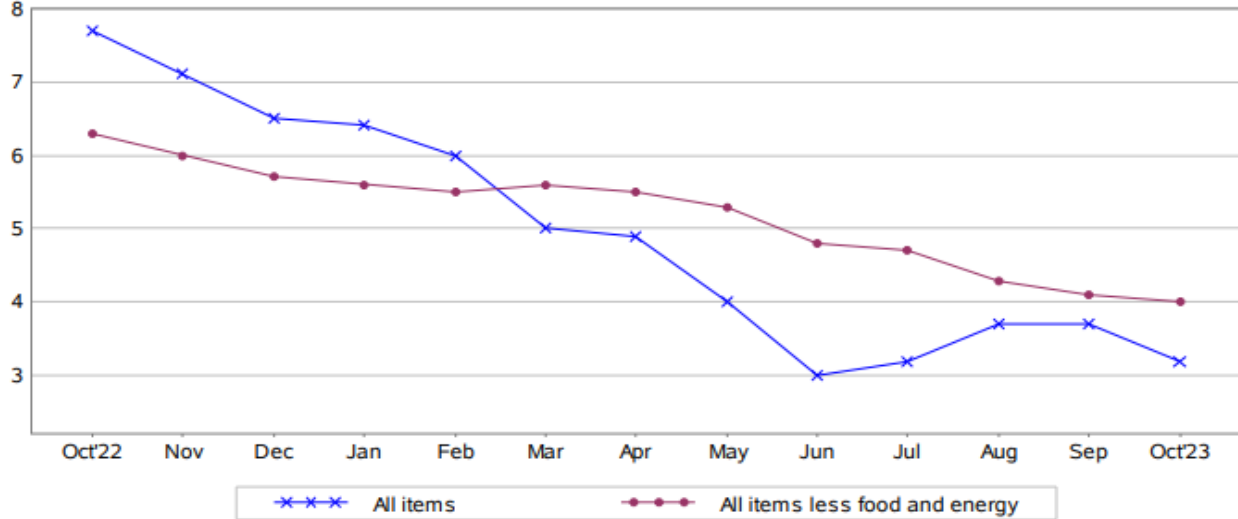
The all-items index increased 3.2 percent for the 12 months ending October 2023, this was close to the smallest 12-month increase since the period ending March 2021. The all items less food and energy index rose 4.0 percent over the last 12 months. The energy index decreased 4.5 percent for the 12 months ending in October 2023, the food index increased 3.3 percent over the last year.²

12-month percentage change, Consumer Price Index, selected categories, October 2023, not seasonally adjusted



² <https://www.bls.gov/cpi/>
December 6, 2023

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Oct. 2022 - Oct. 2023
Percent change



2. 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.

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.³

On October 4, 2022, The Organization of the Petroleum Exporting Countries (“OPEC”) announced it will cut the daily supply of oil production by 2 million barrels per day. On April 2, 2023, OPEC announced cuts in production of about 1.16 million barrels per day. Further reducing the global supply. In addition, on June 4, 2023, Saudi Arabia announced that it would voluntarily cut production by 1 million barrels per day beginning in July in an effort to increase oil prices.

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.⁴

³ <https://ec.europa.eu/eurostat/cache/infographs/energy/bloc-2c.html#carouselControls?lang=en>

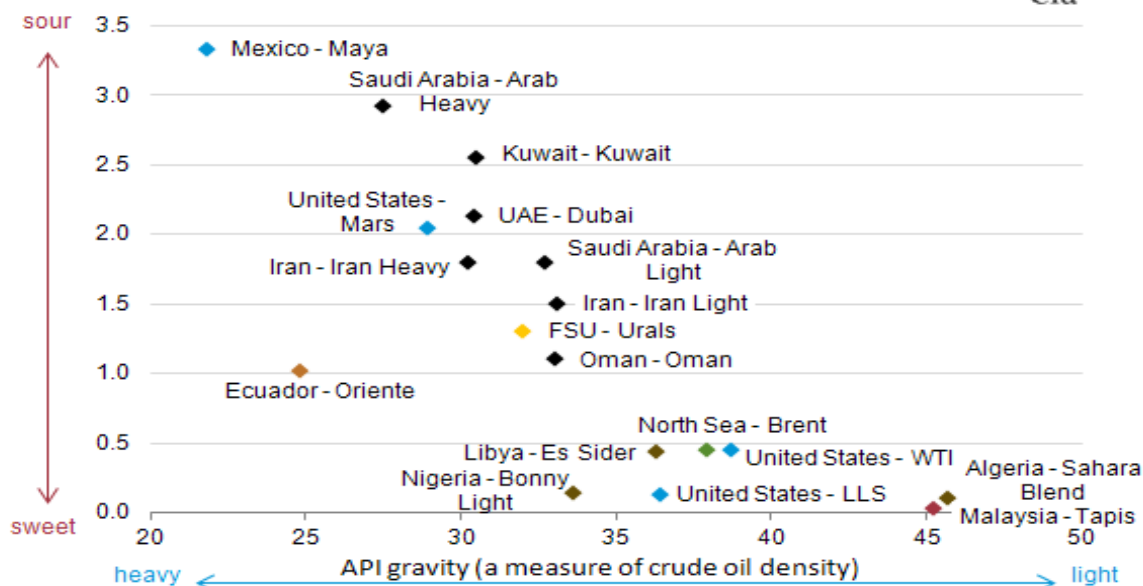
⁴ <https://www.eia.gov/todayinenergy/detail.php?id=7110>

On October 7th, 2023, Hamas launched an attack against Israel, and the conflict has the potential to impact the global fuel market.

The major events listed above have drastically affected supply and demand in the global oil markets and may lead to higher gas prices. The energy index decreased 4.5 percent over the past 12 months. The gasoline index increased 5.3 percent over the same time span and the fuel oil index decreased 21.4 percent. The decline in oil recently has been attributed to a potential oversupply combined with a decline in overall demand for fuel across the world. The index for electricity rose 2.4 percent over the last 12 months, and the index for natural gas decreased 15.8 percent over the same period.

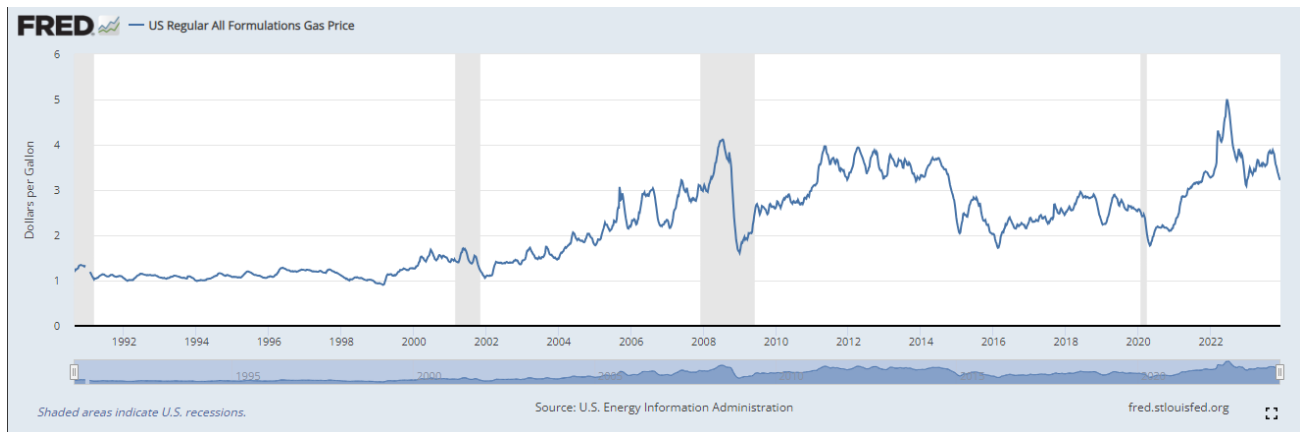
Crude oils have different quality characteristics

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.



As of December 4, 2023, the average price for gas is \$3.23 per gallon in the United States down from the peak of \$5.00 on June 13, 2022.⁵ In comparison, the price the City of Waco last paid for unleaded fuel was \$2.08 and Diesel fuel was \$2.55. The risk for instability in the oil market will persist as long as the conflicts in Ukraine and Israel continue and interest rates fluctuate. 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 a corresponding rate.

3. 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 normal activities the Federal Reserve increased interest rates by 0.25% in March 2022, by



0.50% at the start of May 2022, 0.75% in June, July, September, and November, 0.50% in December, 0.25% in February, March, and May 2023, held steady with no increase for June 2023, and was raised by 0.25% in July and August to help lower the soaring inflation.⁶ The Federal Reserve held rates steady in September, October and November 2023. 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. Federal Reserve Chair Jerome Powell, vowed to raise interest rates to fight inflation “until the job is done.” Mr. Powell made the remarks during the 40th Annual Monetary Conference hosted by the Cato Institute.⁷

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

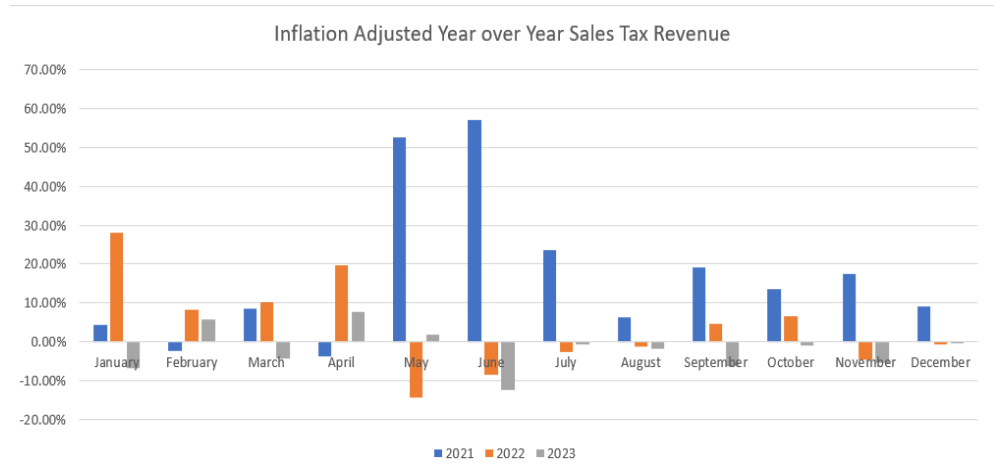
⁶ <https://tradingeconomics.com/united-states/interest-rate#:~:text=Interest%20Rate%20in%20the%20United,percent%20in%20December%20of%202008.>

⁷ <https://www.c-span.org/video/?522707-1/fed-chair-jerome-powell-discusses-monetary-policy>

Forecast

The reported amount for December was higher than budget for the second straight month of this fiscal year and higher than last year's collections. The budget staff is cautious as it relates to sales tax revenues given the economic backdrop and sentiment.

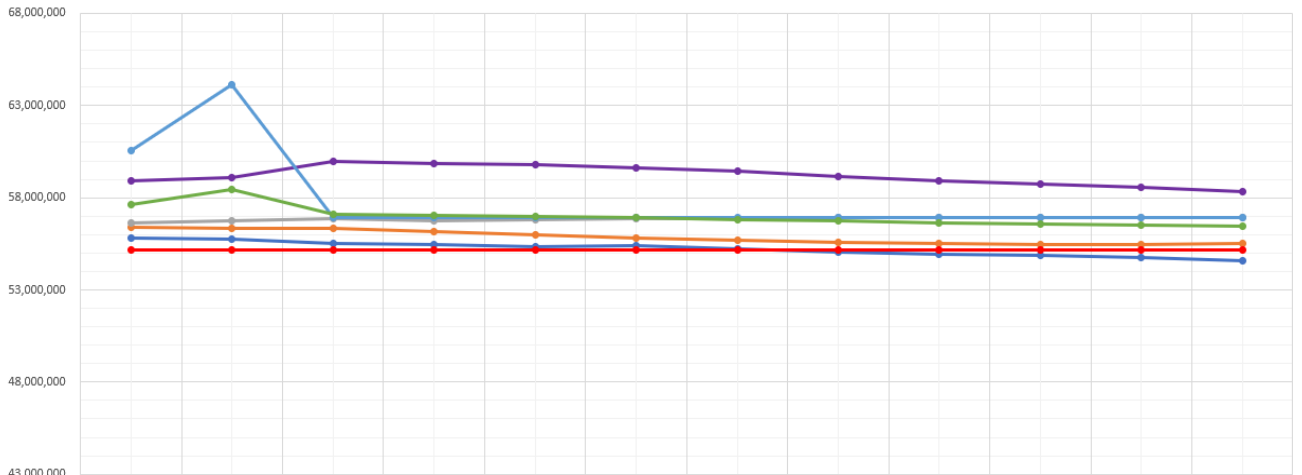
As the conflicts continue with Russia and Ukraine and Hamas and Israel, gas prices may continue their volatility along with other factors such as OPEC+ production decisions. This could have an impact on tourism with lower revenues for enterprise funds as well as sales tax revenues.



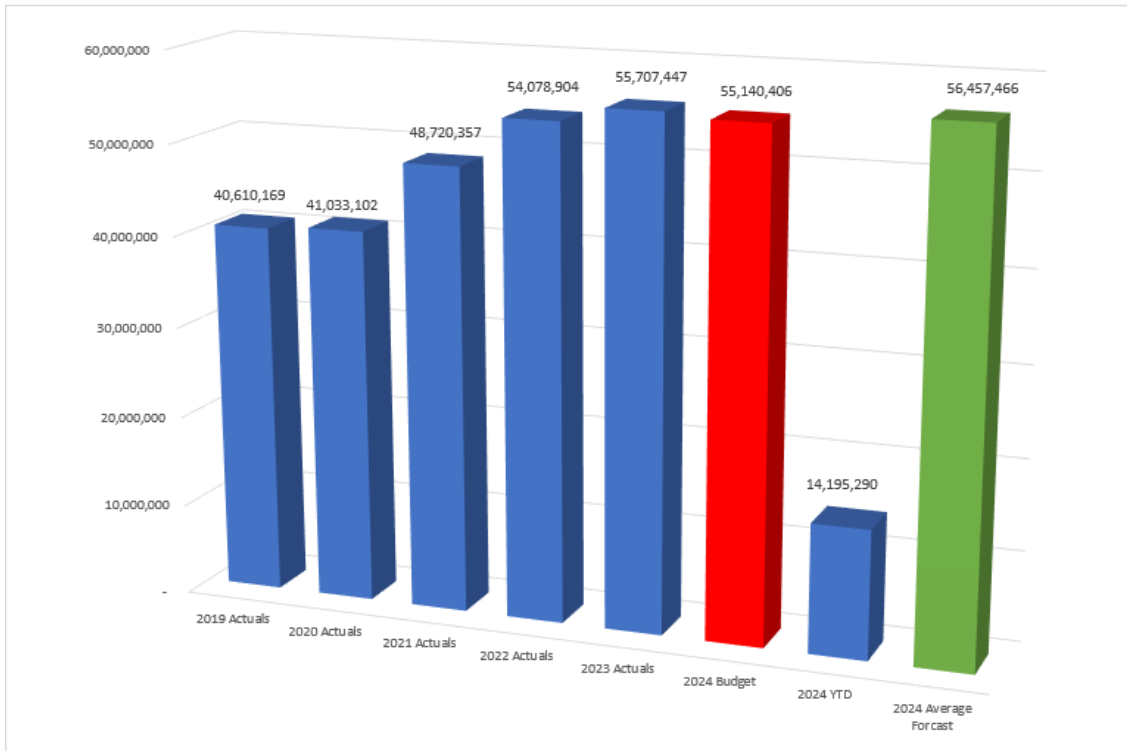
Furthermore, if inflation in the overall economy continues to stay elevated but wages do not increase, then spending on discretionary goods or non-essential products will decline. The City does not collect sales tax on most food and energy commodities, which are considered necessities. If prices continue to increase, it could lead to a lower number of visitors from outside the City or different purchasing patterns by residents.

Finally, Federal Reserve rate increases, decrease the amount of money available to spend on discretionary items 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 cause businesses to reconsider capital investments and growth as borrowing costs rise. As a result of this and the most recent data, the forecast model shows significant deviations based on recent ups and downs in monthly sales tax receipts. As more data points are received, the projection for the year will tighten within a more predictable range.

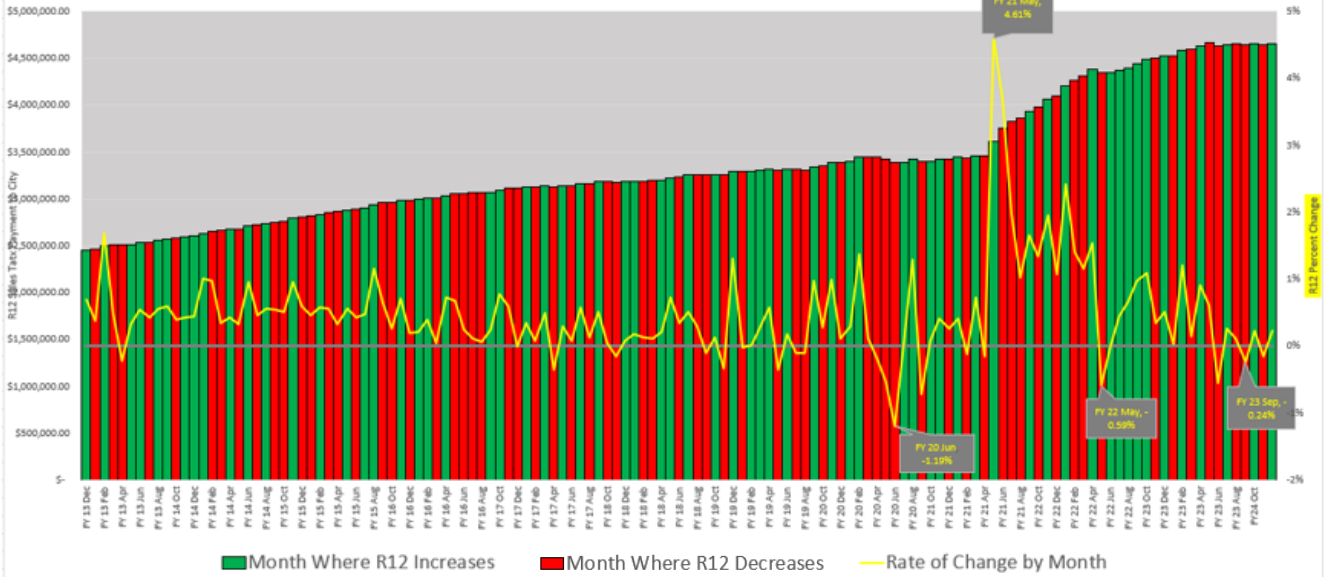
Sales Tax Forecast



	October	November	December	January	February	March	April	May	June	July	August	September
YTD Actuals	4,696,264	9,818,223	14,195,290	-	-	-	-	-	-	-	-	-
Aggregate Linear 6M	55,784,380	55,757,708	55,503,209	55,462,675	55,335,613	55,374,292	55,211,161	55,071,683	54,917,381	54,860,662	54,739,969	54,591,450
Aggregate Linear 12 M	56,374,331	56,353,320	56,360,152	56,134,479	55,967,890	55,840,122	55,679,469	55,573,230	55,535,709	55,471,620	55,455,932	55,497,069
Aggregate Linear 18M	56,657,037	56,776,138	56,854,952	56,738,107	56,804,203	56,876,568	56,880,328	56,906,573	56,919,467	56,931,312	56,913,136	56,941,736
Aggregate Linear 36M	58,936,034	59,068,380	59,971,493	59,853,254	59,772,853	59,624,167	59,428,539	59,157,585	58,932,528	58,742,517	58,552,150	58,336,696
Correlation (i)	60,530,710	64,152,197	56,920,379	56,920,379	56,920,379	56,920,379	56,920,379	56,920,379	56,920,379	56,920,379	56,920,379	56,920,379
Average	57,656,498	58,421,549	57,122,037	57,021,779	56,960,188	56,927,106	56,823,975	56,725,890	56,645,093	56,585,298	56,516,313	56,457,466
Budget	55,140,406	55,140,406	55,140,406	55,140,406	55,140,406	55,140,406	55,140,406	55,140,406	55,140,406	55,140,406	55,140,406	55,140,406



Sales Tax Payments to City
December 2013 - December 2023
Rolling 12 Month Values and Percent Change



Texas at a Glance



- The State of Texas total net payments for this Period: \$ 681,590,369.16; Comparable Payment Prior Year: \$ 665,424,496.14; Percent Change: 2.43%.

Fifteen (15) of the top 30 cities saw a decrease in the period compared to the prior year. Fifteen (15) of the top 30 saw increases.

The City of Waco ranked 30th in the state for the December net sales tax payment report. The City of Waco’s growth was more than the overall state growth of 2.43% year over year for the month.

Rank	City	Net Payment This Period	Comparable Payment Prior Year	% Change
1	Houston	\$70,473,682.61	\$71,151,061.27	-0.95%
2	San Antonio	\$38,839,950.44	\$37,855,279.85	2.60%
3	Dallas	\$36,222,691.77	\$33,415,358.78	8.40%
4	Austin	\$27,937,111.87	\$28,593,087.15	-2.29%
5	Fort Worth	\$17,968,195.46	\$18,535,653.34	-3.06%
6	Arlington	\$16,926,191.91	\$14,521,365.39	16.56%
7	Frisco	\$10,468,068.94	\$11,471,207.32	-8.74%
8	El Paso	\$10,349,976.62	\$9,841,288.29	5.16%
9	Round Rock	\$9,798,720.51	\$10,793,934.12	-9.22%
10	Plano	\$8,895,406.27	\$8,820,438.62	0.84%
11	Irving	\$8,643,256.73	\$8,352,374.56	3.48%
12	Lubbock	\$8,257,076.08	\$7,754,784.91	6.47%
13	Corpus Christi	\$7,819,129.48	\$7,413,479.90	5.47%
14	Amarillo	\$7,805,727.29	\$7,930,670.92	-1.57%
15	McKinney	\$7,189,047.99	\$6,966,351.29	3.19%
16	McAllen	\$7,186,451.46	\$7,106,129.16	1.13%
17	Midland	\$6,817,040.59	\$6,904,172.62	-1.26%
18	Grand Prairie	\$6,705,563.91	\$6,586,805.11	1.80%
19	Taylor	\$5,654,662.92	\$1,743,702.27	224.29%
20	Mesquite	\$5,592,409.33	\$4,581,618.42	22.06%
21	Sugar Land	\$5,350,891.88	\$5,294,367.36	1.06%
22	Odessa	\$5,321,468.26	\$5,551,926.34	-4.15%
23	Conroe	\$5,165,385.81	\$5,375,330.27	-3.90%
24	Allen	\$5,005,508.94	\$4,327,359.40	15.67%
25	Laredo	\$4,813,608.02	\$4,711,960.04	2.15%
26	Grapevine	\$4,676,723.46	\$4,583,146.44	2.04%
27	Tyler	\$4,576,167.84	\$4,847,836.53	-5.60%
28	Brownsville	\$4,556,676.84	\$4,437,780.79	2.67%
29	Abilene	\$4,464,628.98	\$4,563,924.01	-2.17%
30	Waco	\$4,377,067.40	\$4,253,705.55	2.90%