

SALES TAX MONTHLY REPORT



SEPTEMBER 2023

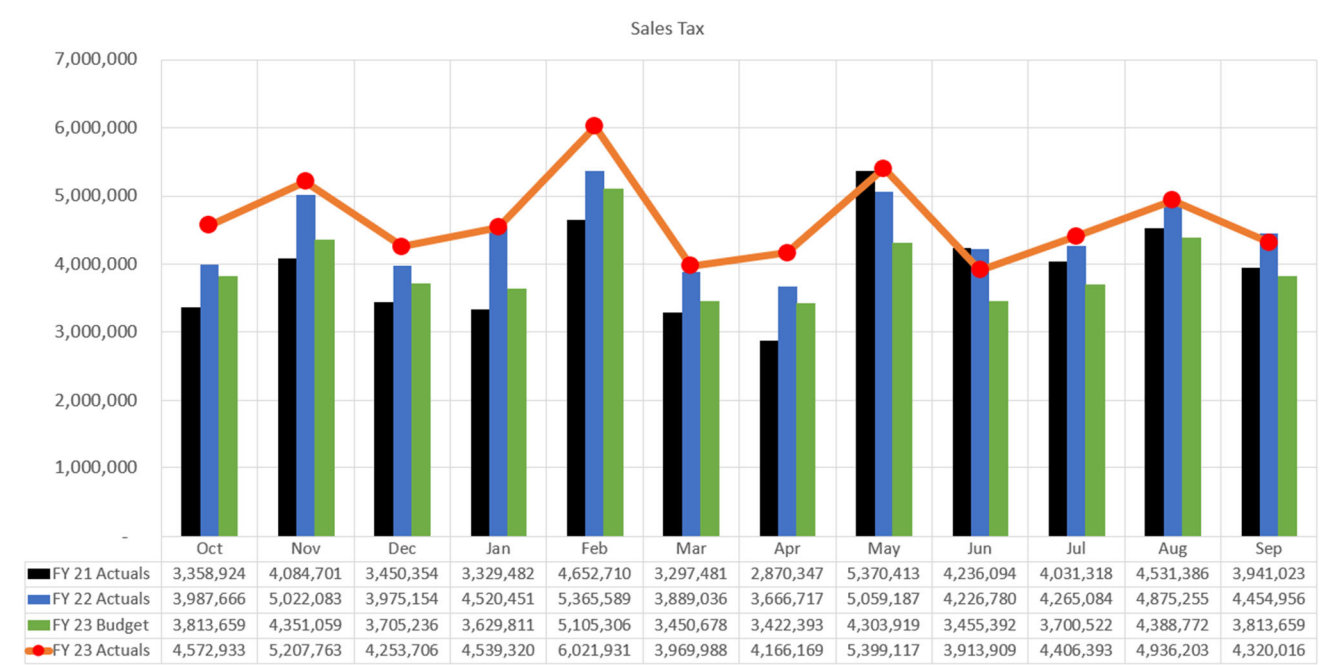
Waco September 2023 Sales Tax Report

Background

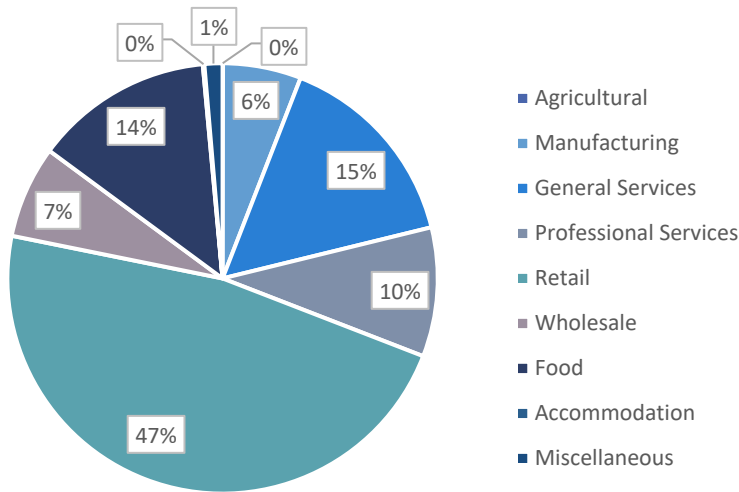
The sales tax information is provided monthly by the Texas Comptroller. The sales tax information is reported 2 months in arrears; therefore, this report reflects July actual sales tax figures.

The city collected \$4,320,016 in September 2023. This amount is \$506,357 or 13.28% over the budgeted amount for the month. September Sales Tax receipts were 3.03% lower than last year. The decrease in receipts in September (July Sales) is a real decline when compared to the inflation rate of 3.2% for July 2023.

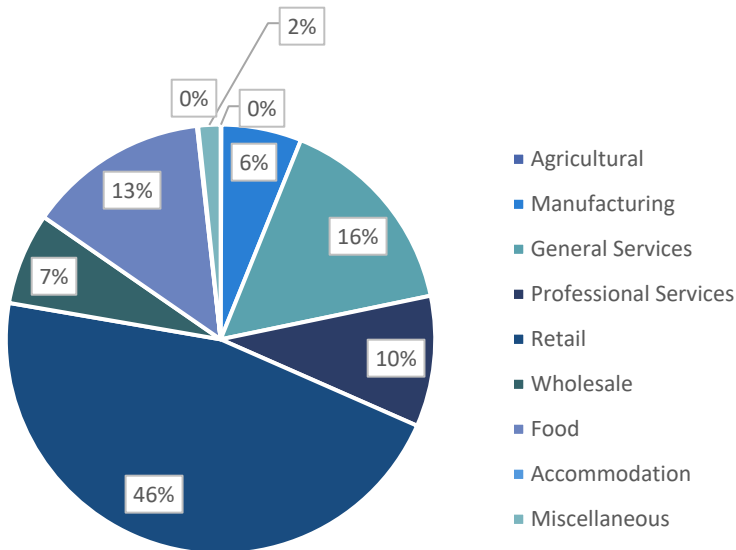
FY23	FY 23 Budget	FY 23 Actuals	Variance to Budget	FY 22 Actuals	FY 21 Actuals
Oct	3,813,659	4,572,933	759,274	3,987,666	3,358,924
Nov	4,351,059	5,207,763	856,704	5,022,083	4,084,701
Dec	3,705,236	4,253,706	548,470	3,975,154	3,450,354
Jan	3,629,811	4,539,320	909,509	4,520,451	3,329,482
Feb	5,105,306	6,021,931	916,625	5,365,589	4,652,710
Mar	3,450,678	3,969,988	519,310	3,889,036	3,297,481
Apr	3,422,393	4,166,169	743,776	3,666,717	2,870,347
May	4,303,919	5,399,117	1,095,198	5,059,187	5,370,413
Jun	3,455,392	3,913,909	458,517	4,226,780	4,236,094
Jul	3,700,522	4,406,393	705,871	4,265,084	4,031,318
Aug	4,388,772	4,936,203	547,431	4,875,255	4,531,386
Sep	3,813,659	4,320,016	506,357	4,454,956	3,941,023
Total	47,140,406	55,707,447	8,567,041	53,307,957	47,154,233



City of Waco Sales Tax by Sector - FY22
YTD through July 2022



City of Waco Sales Tax by Sector - FY23
YTD - through July 2023

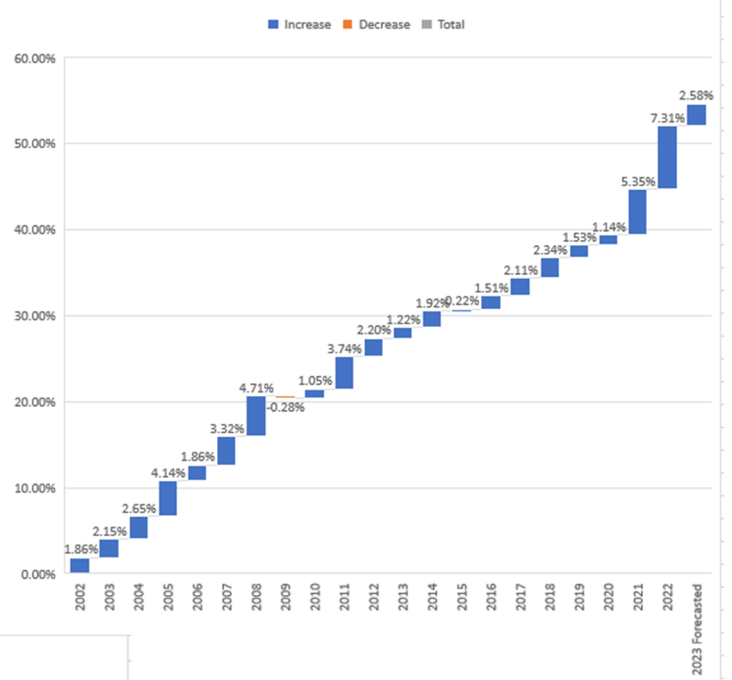


Overall, the sales tax composition by sector year over year has stayed relatively stable. Retail remains the largest component of sales tax receipts with General services as the second largest sector.

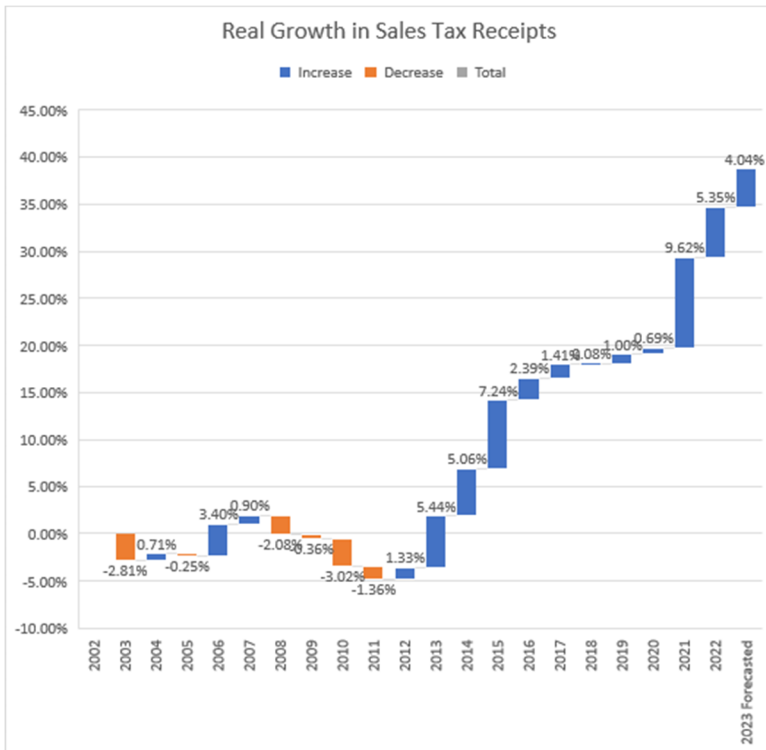
Sales Tax Factors and Forecast

The September report is the twelfth report of the 2023 fiscal year. Sales tax collections for FY 22 were significantly above the \$43.6 million budget and were the highest that the city has collected. The collection was 22.3% or \$9.7 million higher than the budget amount and 13.1% or \$6.2M higher than collected in FY 21. The record collection 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.

Cost Growth October 2001 to August 2023



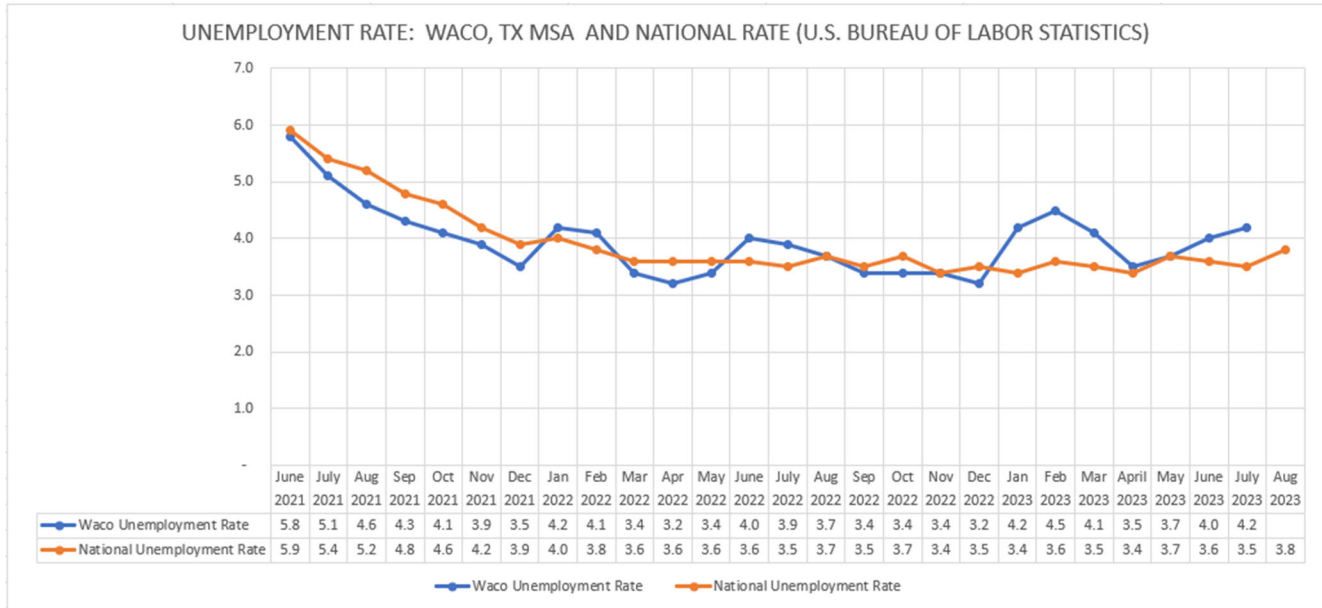
Real Growth in Sales Tax Receipts



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. However, due to the abnormal economic factors the budget staff set a conservative sales tax budget of \$47,140,406 for the 2023 fiscal year. Ten out of twelve collections this year have 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

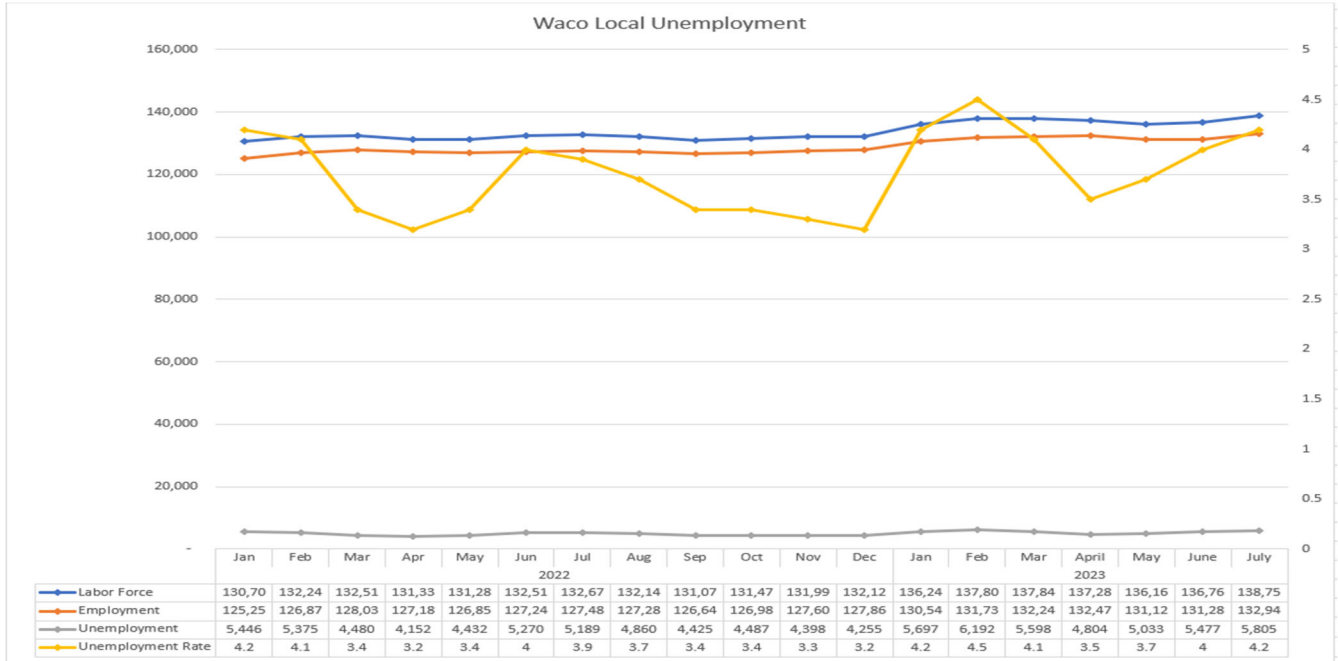
The national unemployment rate increased from 3.7% to 3.8%, from August 2022 to August 2023. This is close to the lowest unemployment rate since COVID shutdowns started in March 2020 and when unemployment peaked at 14.8%.¹ The national unemployment rate has returned to pre-pandemic levels.



The local unemployment rate increased from 3.9% to 4.2% from July 2022 to July 2023 and peaked in April 2020 at 9.7% (U.S. Bureau of Labor Statistics).² 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. Local data is currently unavailable for August.

¹ <https://beta.bls.gov/dataViewer/view/timeseries/LNS1400000>

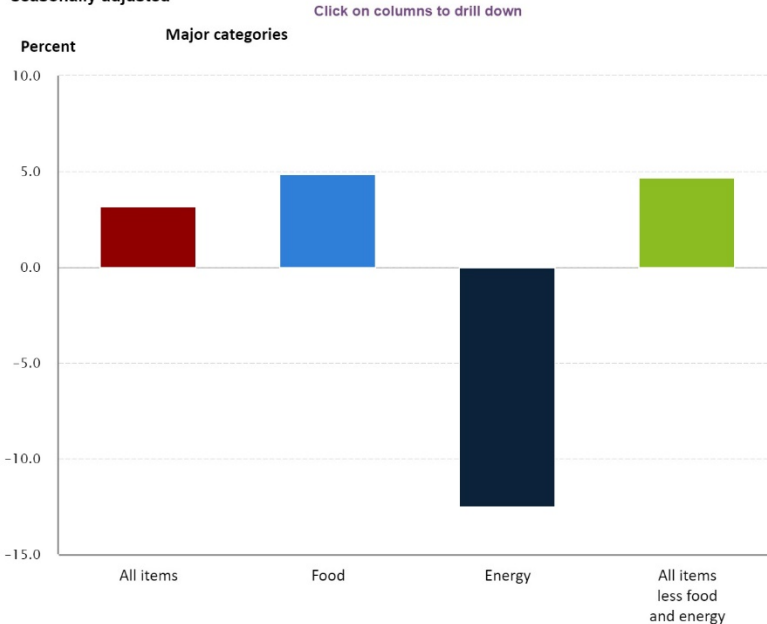
² https://www.bls.gov/eag/eag.tx_waco_msa.htm



2. Inflation

The all-items index increased 3.2 percent for the 12 months ending July 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 4.7 percent over the last 12 months. The energy index decreased 12.5 percent for the 12 months ending in July 2023, the food index increased 4.9 percent over the last year.³

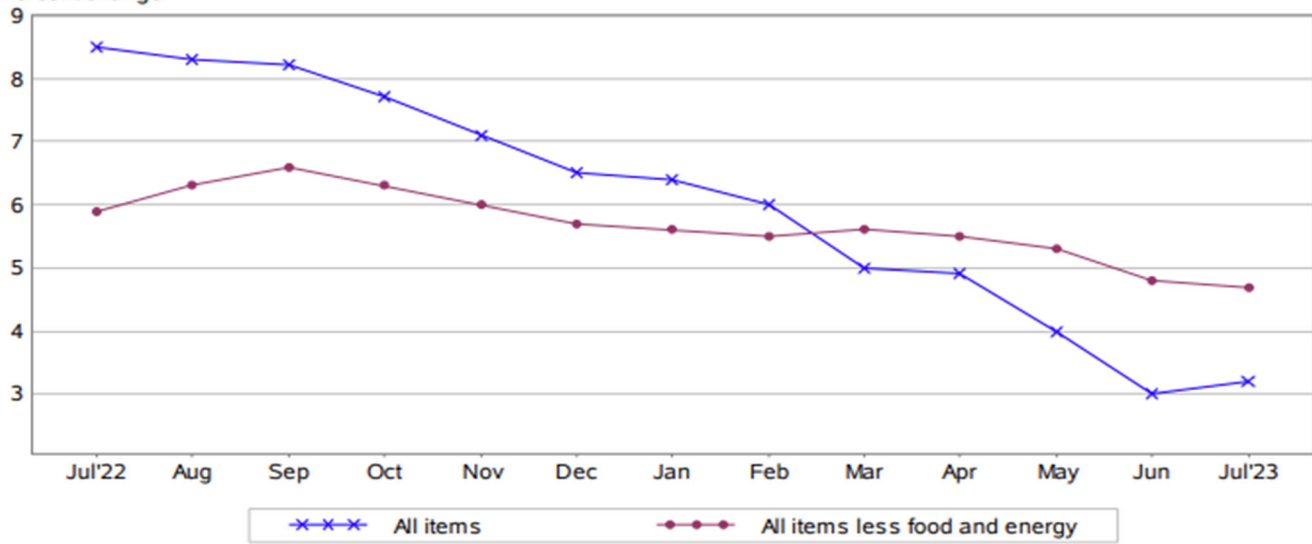
12-month percentage change, Consumer Price Index, selected categories, July 2023, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.

³ <https://www.bls.gov/opub/ted/2022/consumer-prices-up-9-1-percent-over-the-year-ended-june-2022-largest-increase-in-40-years.htm>

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, July 2022 - July 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.⁴

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.⁵

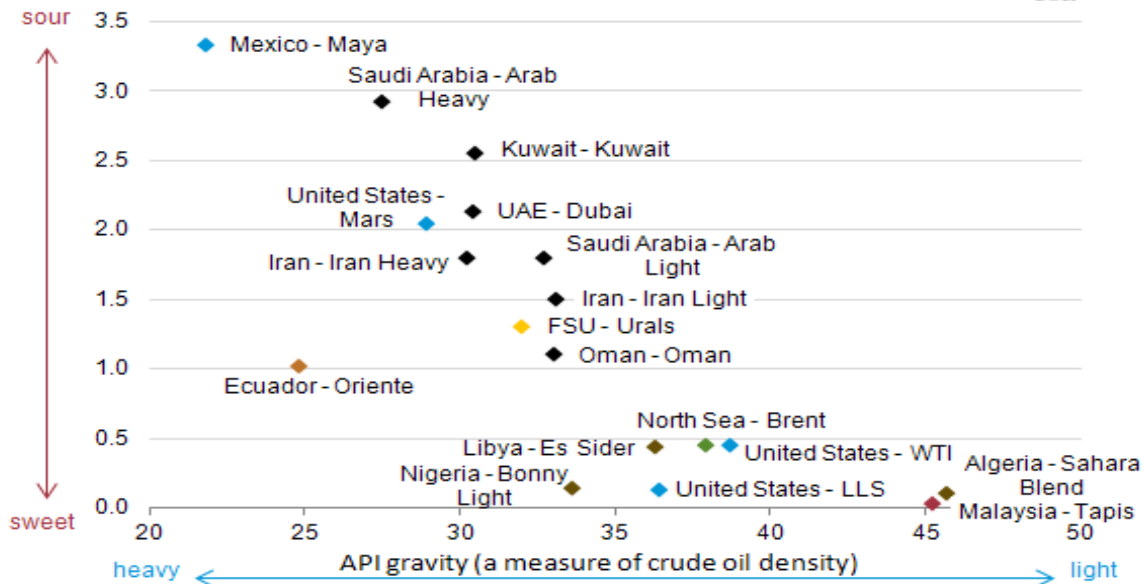
⁴ <https://ec.europa.eu/eurostat/cache/infographs/energy/bloc-2c.html#carouselControls?lang=en>

⁵ <https://www.eia.gov/todayinenergy/detail.php?id=7110>

The major events listed above have drastically affected supply and demand in the global oil markets and may lead to significantly higher gas prices. The energy index decreased 12.5 percent over the past 12 months. The gasoline index decreased 19.9 percent over the same time span and the fuel oil index decreased 26.5 percent. The index for electricity rose 3.0 percent over the last 12 months, and the index for natural gas decreased 13.7 percent over the same period.

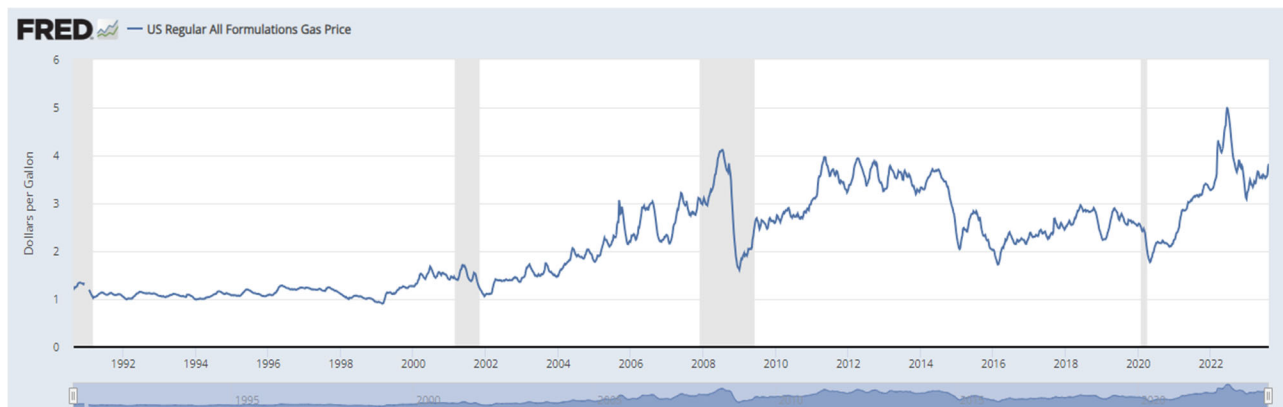
Crude oils have different quality characteristics

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 September 4, 2023, the average price for gas is \$3.82 per gallon in the United States down from the peak of \$5.00 on June 13, 2022.⁶ In comparison, the price the City of Waco last paid for unleaded fuel was \$2.81 and diesel fuel was \$3.18. The instability in the oil market will persist as long as the conflict in Ukraine continues, 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, to help lower the soaring inflation.⁷ 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.⁸

⁶ <https://fred.stlouisfed.org/series/GASREGW>

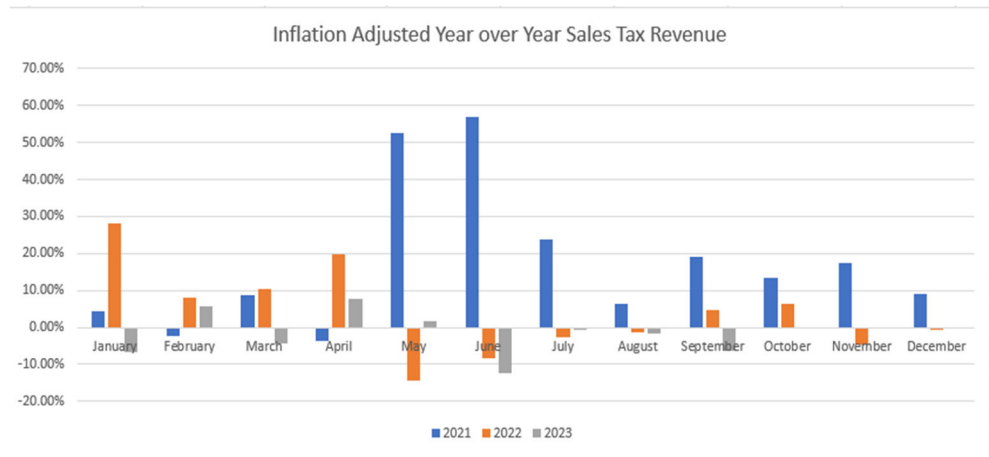
⁷ <https://tradingeconomics.com/united-states/interest-rate#:~:text=Interest%20Rate%20in%20the%20United,percent%20in%20December%20of%202008.>

⁸ <https://www.c-span.org/video/?522707-1/fed-chair-jerome-powell-discusses-monetary-policy>

Forecast

The reported amount for September was higher than budget for the twelfth straight month of this fiscal year and each month has also exceeded the prior year collections except for June and September. 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 in the long term. The higher sales tax revenue is not necessarily the result of higher economic output by consumers. In certain periods, it is the result of increased costs from inflation as the growth in sales tax has not always kept up with the rate of inflation year over year.

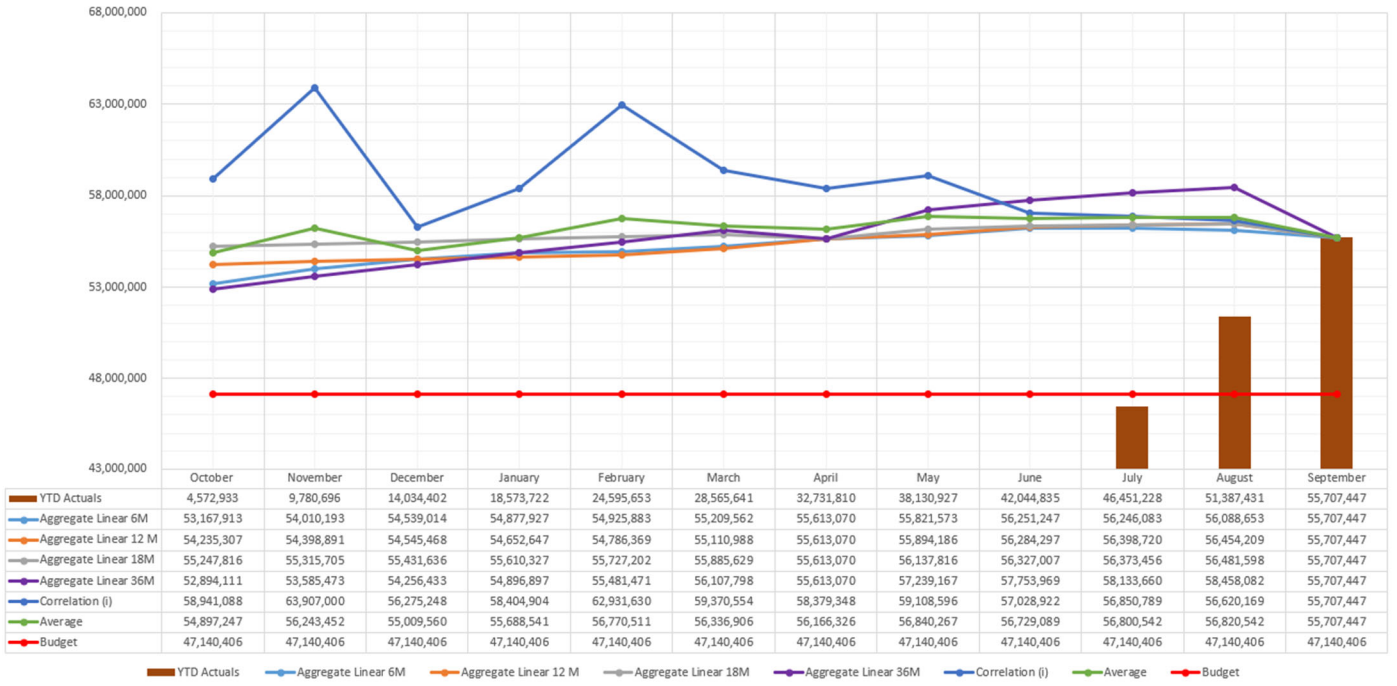
As the conflict continues with Russia and Ukraine, gas prices may continue their volatility along with other factors such as OPEC+ production decisions. This could have an impact on tourism with lower revenues for enterprise funds as well as sales tax revenues.



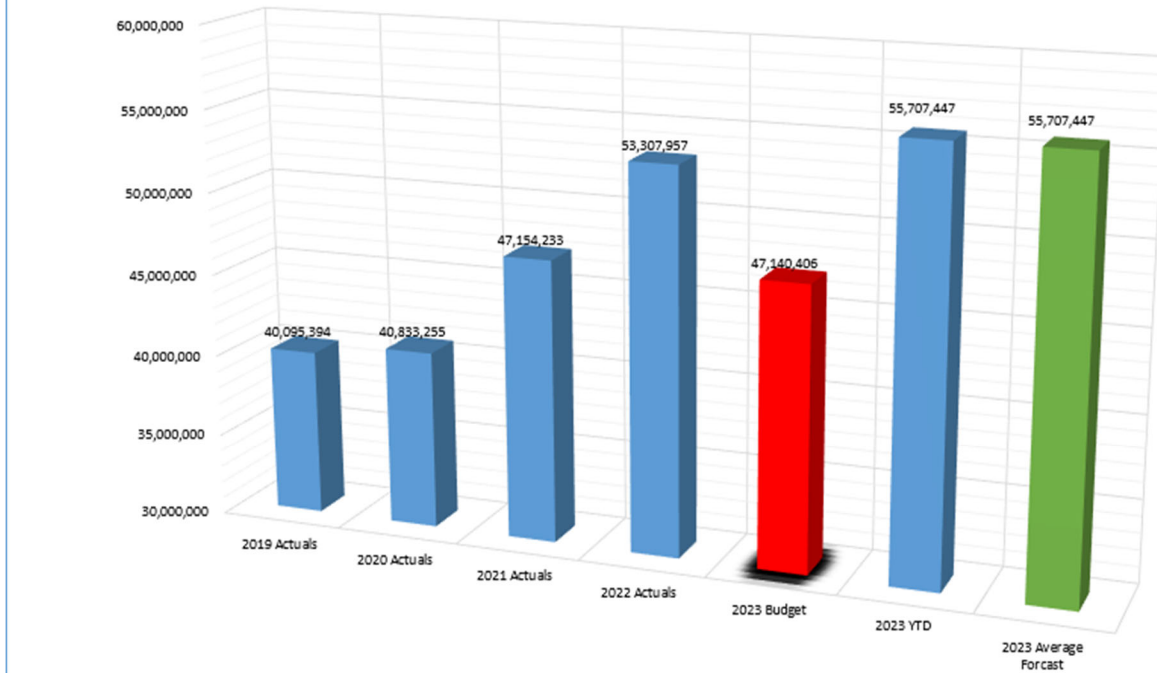
Furthermore, if inflation in the overall economy continues to stay elevated but wages do not increase, then spending on discretionary goods or non-essential products will decline. The city does not collect sales tax on most food and energy commodities, which are considered necessities. If prices continue 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, sales tax revenue is significantly higher compared to the budget for FY23 year-end.

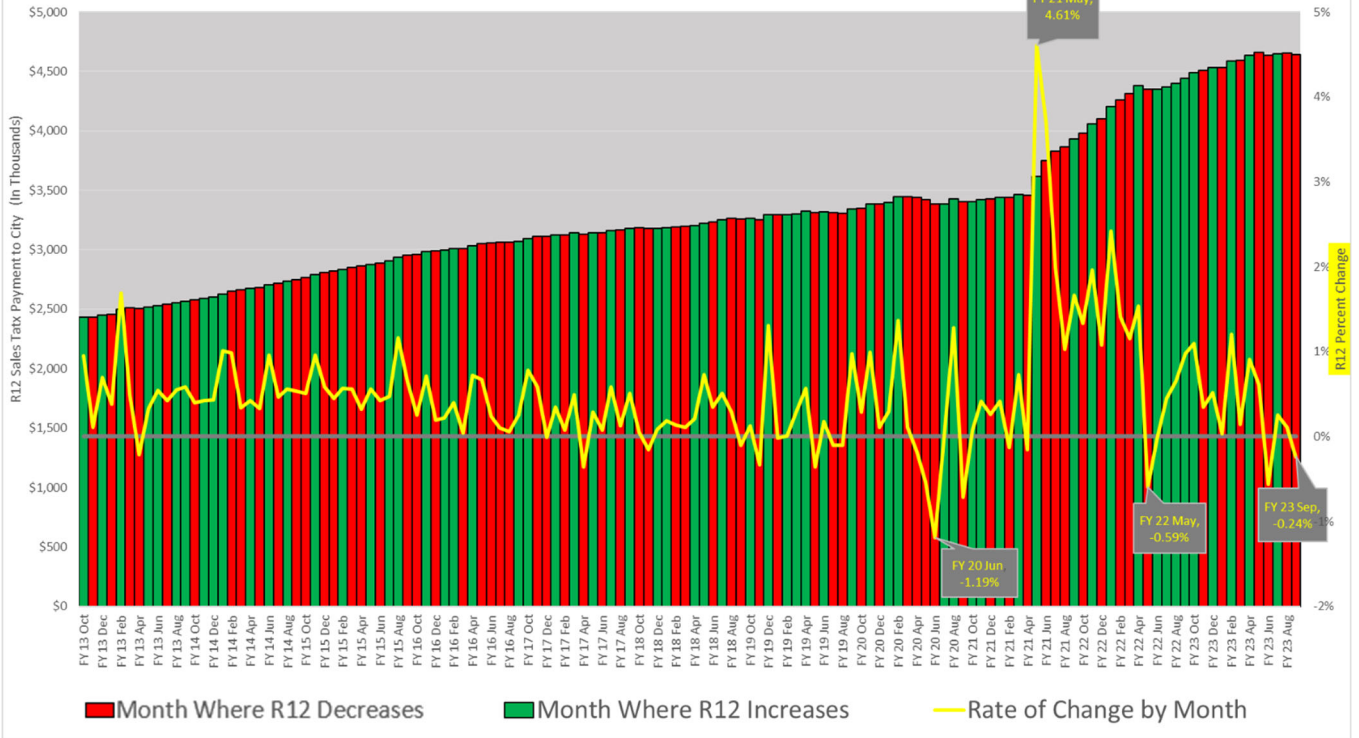
Sales Tax Forecast



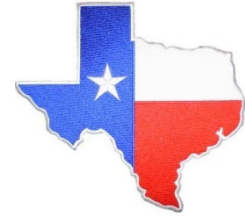
Sales Tax history



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



Texas at a Glance



- The State of Texas total net payments for this Period: \$ 687,611,920.15; Comparable Payment Prior Year: \$ 665,700,950.01; Percent Change: 3.29%.

Nine (9) of the top 35 cities saw a decrease in the period compared to the prior year. Twenty-six (26) of the top 35 saw increases.

The City of Waco ranked 31st in the state for the September net sales tax payment report. The City of Waco’s growth was less than the overall state growth of 3.29% year over year for the month.

Rank	City	Net Payment This Period	Comparable Payment Prior Year	% Change
1	Houston	\$72,418,451.71	\$70,567,881.65	2.62%
2	San Antonio	\$37,947,417.06	\$36,812,006.71	3.08%
3	Dallas	\$33,135,263.11	\$32,515,863.31	1.90%
4	Austin	\$27,193,833.85	\$28,340,471.24	-4.04%
5	Fort Worth	\$18,238,029.20	\$17,694,876.30	3.06%
6	Arlington	\$17,292,794.91	\$15,640,792.99	10.56%
7	Frisco	\$11,050,767.40	\$11,603,127.13	-4.76%
8	El Paso	\$10,738,491.66	\$10,462,542.37	2.63%
9	Round Rock	\$10,194,844.98	\$14,091,351.72	-27.65%
10	Plano	\$9,468,742.98	\$9,059,928.37	4.51%
11	Irving	\$9,068,763.68	\$8,575,830.21	5.74%
12	Amarillo	\$8,278,179.79	\$8,078,158.87	2.47%
13	Corpus Christi	\$8,162,065.92	\$7,922,168.25	3.02%
14	Lubbock	\$8,140,562.82	\$7,759,982.18	4.90%
15	McKinney	\$7,814,459.31	\$7,257,980.80	7.66%
16	McAllen	\$7,369,591.38	\$7,072,063.52	4.20%
17	Grand Prairie	\$6,821,888.49	\$6,767,521.73	0.80%
18	Midland	\$6,643,954.97	\$6,515,059.77	1.97%
19	Odessa	\$5,913,306.55	\$5,427,931.66	8.94%
20	Conroe	\$5,895,026.92	\$5,515,372.92	6.88%
21	Tyler	\$5,117,988.34	\$4,716,198.62	8.51%
22	Laredo	\$5,044,381.21	\$4,567,608.60	10.43%
23	Grapevine	\$4,887,472.79	\$4,703,811.40	3.90%
24	Mesquite	\$4,836,782.61	\$4,538,092.05	6.58%
25	Abilene	\$4,783,093.40	\$4,727,181.28	1.18%
26	Allen	\$4,742,272.02	\$4,746,653.32	-0.09%
27	Sugar Land	\$4,735,312.75	\$5,163,323.86	-8.28%
28	Brownsville	\$4,619,855.43	\$4,152,484.58	11.25%
29	Richardson	\$4,563,609.69	\$3,858,191.33	18.28%
30	Denton	\$4,346,789.37	\$4,424,148.62	-1.74%
31	Waco	\$4,320,015.61	\$4,454,955.56	-3.02%
32	Lewisville	\$4,178,984.80	\$4,350,201.17	-3.93%
33	The Colony	\$4,166,459.34	\$3,289,794.75	26.64%
34	New Braunfels	\$4,067,190.32	\$3,838,719.23	5.95%
35	Georgetown	\$4,051,095.16	\$4,146,247.17	-2.29%