

# 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     |
|--------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| <b>FY 22</b>       |                   |                   |                    |                   |                   |
| 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         |
| <b>Grand Total</b> | <b>43,600,094</b> | <b>39,712,663</b> | <b>7,121,593</b>   | <b>47,154,233</b> | <b>40,833,255</b> |



# Sales Tax Forecast

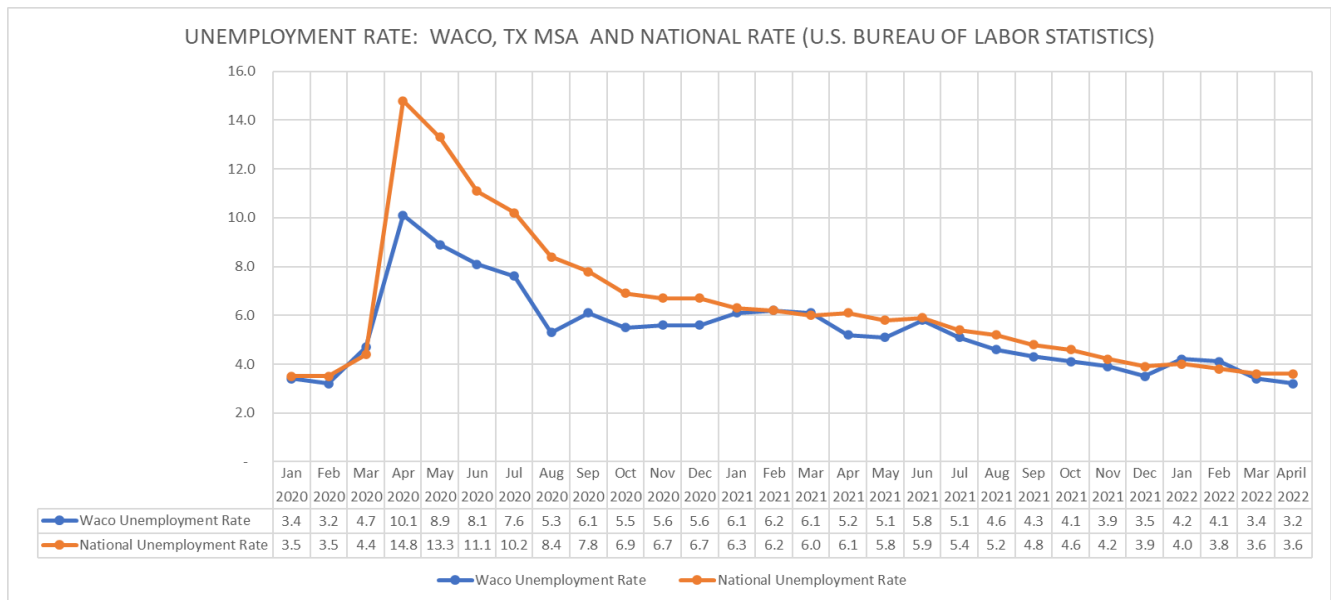
The June sales tax report is the ninth report of the 2022 fiscal year. The budget staff expects sales tax collections in the city to return to pre-pandemic levels, increasing 3 to 6 percent year over year as the population and number of businesses increase. As a result, the budget staff has budgeted \$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%.<sup>1</sup> 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).<sup>2</sup>



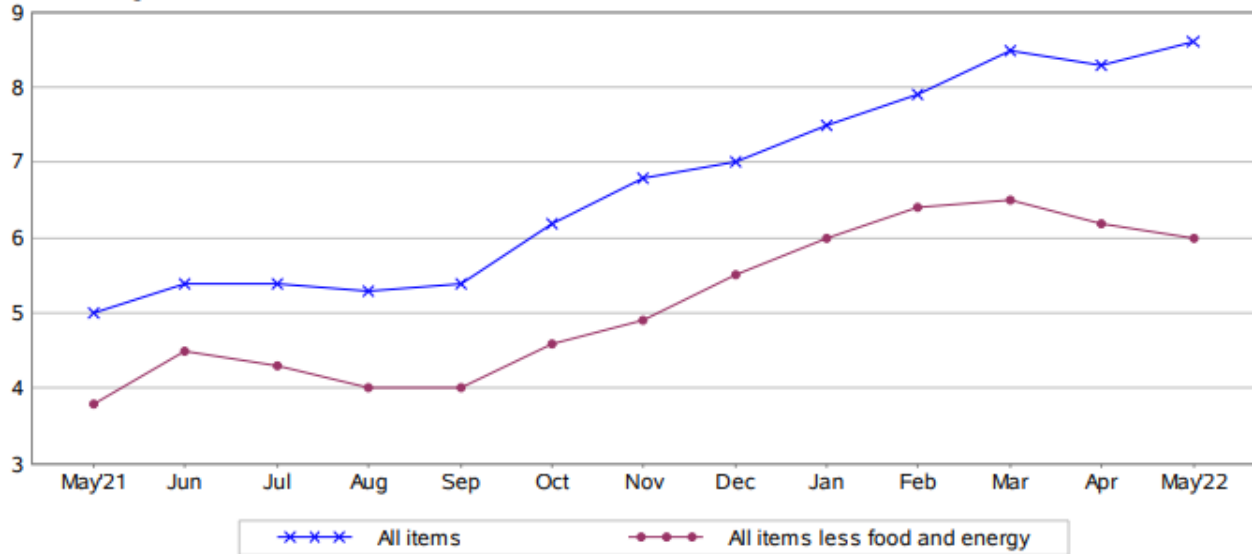
<sup>1</sup> <https://beta.bls.gov/dataViewer/view/timeseries/LNS14000000>

<sup>2</sup> [https://www.bls.gov/eag/eag.tx\\_waco\\_msa.htm](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.

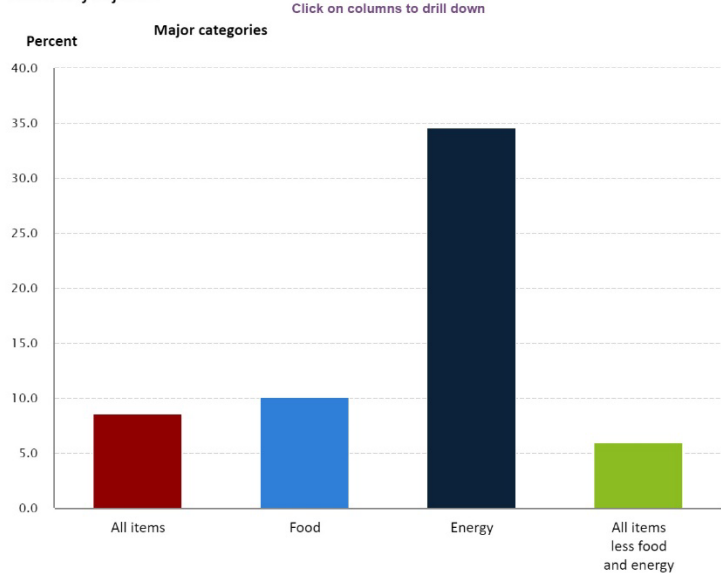
**Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, May 2021 - May 2022**  
Percent change



## 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



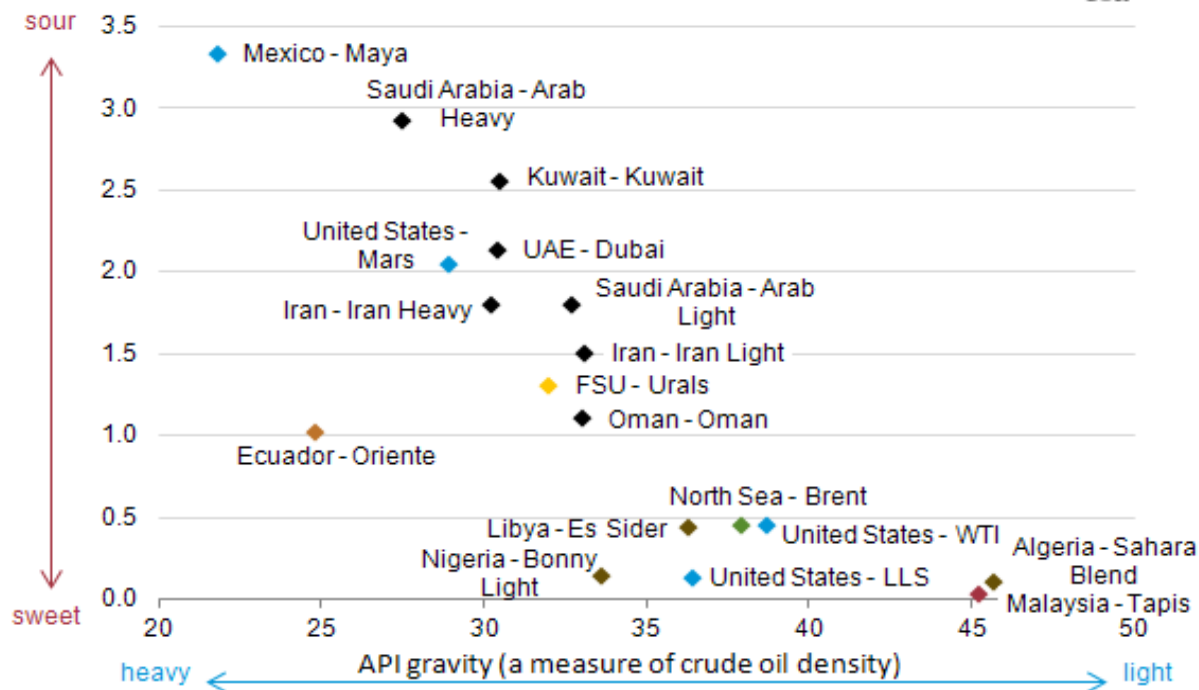
Source: U.S. Bureau of Labor Statistics.



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.<sup>3</sup>

## 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.

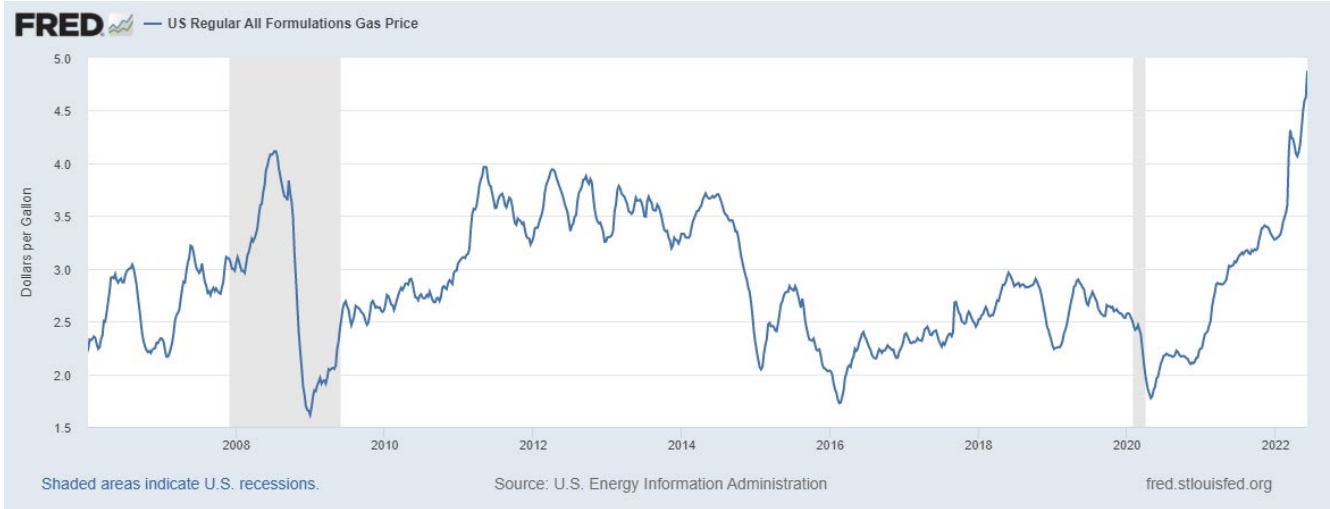
Notes: Points on the graph are labeled by country and benchmark name and are color coded to correspond with regions in the map below. The graph does not indicate price or volume output values. United States-Mars is an offshore drilling site in the Gulf of Mexico. WTI = West Texas Intermediate; LLS = 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.<sup>4</sup> As of June 6, 2022, the average price for gas is \$4.86 per gallon in the United States.<sup>5</sup> 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.

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

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

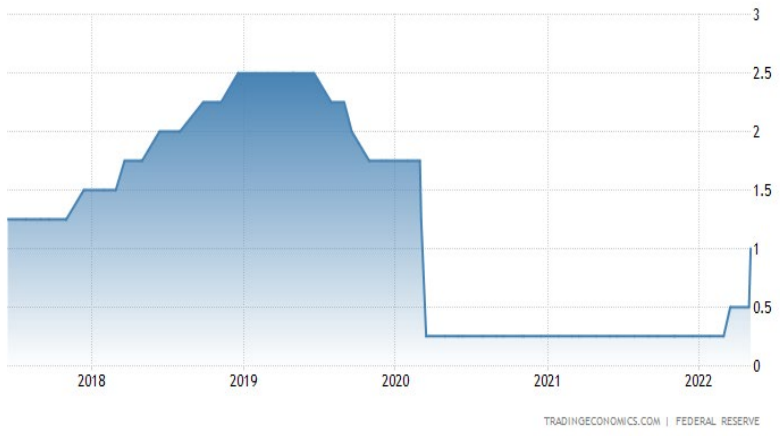
<sup>5</sup> <https://fred.stlouisfed.org/series/GASREGW>



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. <sup>6</sup>



<sup>6</sup> <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.

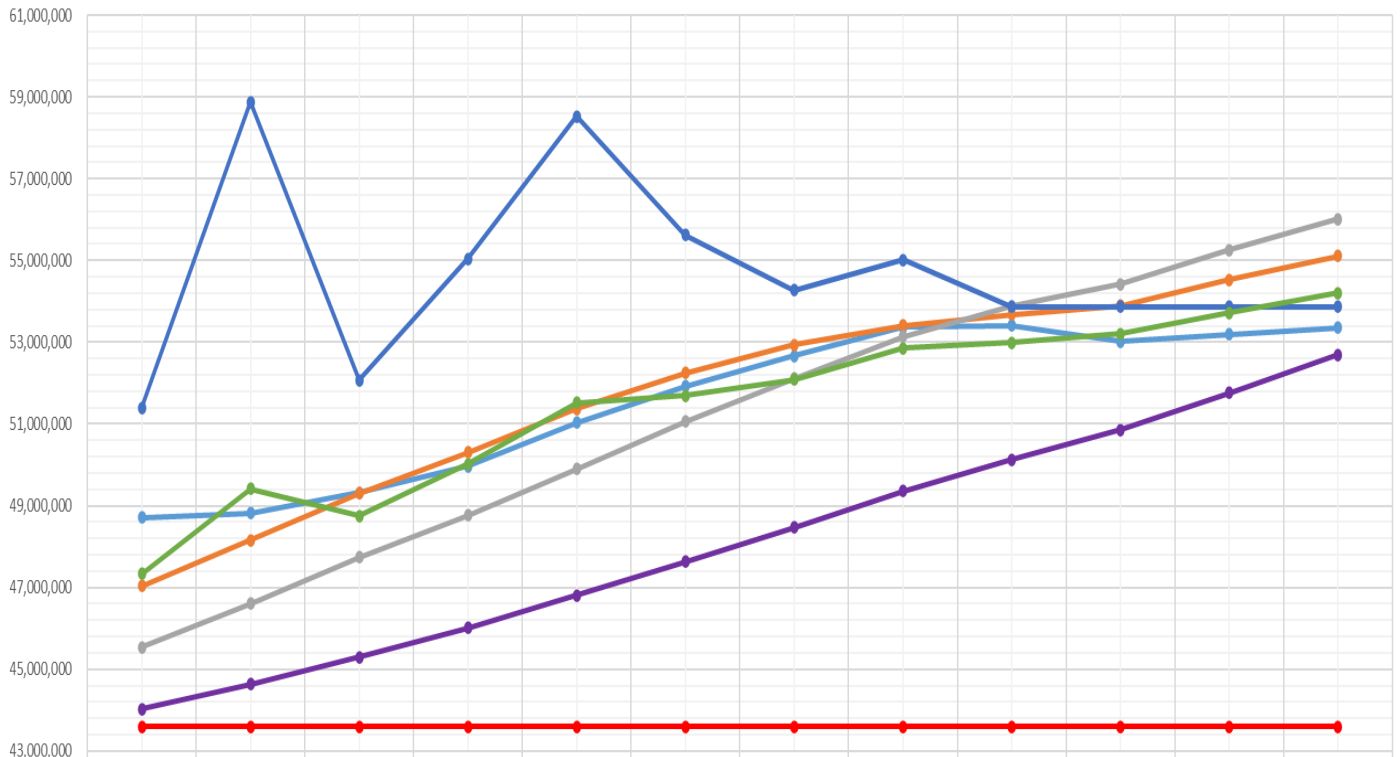
Furthermore, if inflation in the overall economy continues to increase but wages do not, then spending on discretionary goods or non-essential products will decline. The city does not collect sales tax on most food and energy commodities, which are considered necessities.

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 29<sup>th</sup> 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%   |