

DECEMBER 2021

Sales Tax Report

Office of Management
and Budget
Waco, Texas



Waco December 2021 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 December report reflects October actual sales tax figures.

The city collected \$3,975,155 for October 2021. This amount is above average collection for the month. This is the third collection of the fiscal year. This amount is \$548k over the budgeted amount for the month, and YTD collections are \$2M or 18.28% 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	3,975,155	548,187	3,450,354	3,343,871
Jan	3,357,207		-	3,329,482	3,157,356
Feb	4,721,890		-	4,652,710	4,704,468
Mar	3,191,527		-	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	12,984,904	2,006,400	47,154,233	40,833,255



Sales Tax Forecast

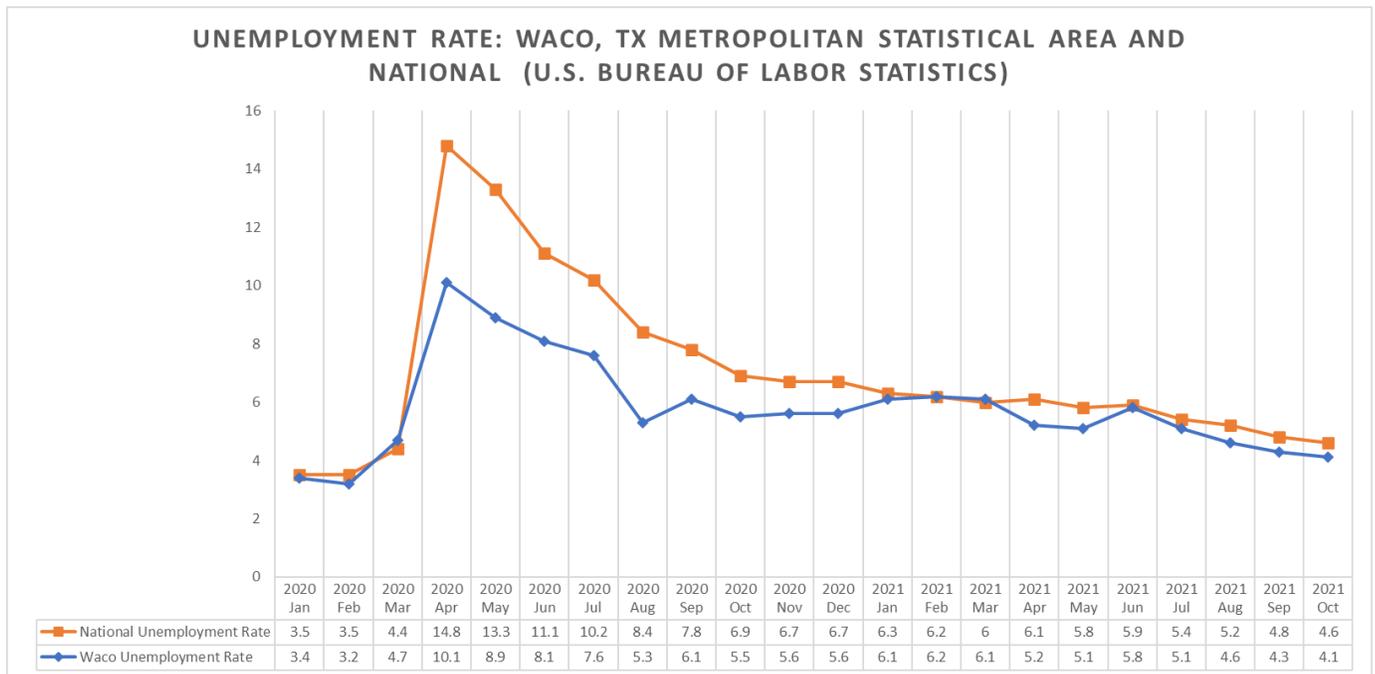
The December sales tax report is the third report of the 2022 fiscal year. The budget staff expects sales tax collections in the city to return to pre-pandemic levels, increasing 3 to 6 percent year over year as the population and number of businesses increase. As a result, the budget staff has budgeted \$43,600,094 for the 2022 fiscal year. However, the budget staff monitors sales tax collections throughout the year, to make any adjustments. The forecast is based on historical actuals and the current month collection. 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.

1. Decrease in Unemployment

The national unemployment rate decreased from 6.9% to 4.6%, from October 2020 to October 2021. This is the lowest unemployment rate since Covid shutdowns started last March and when unemployment peaked at 14.8%.

The Waco Metro area's unemployment rate is mirroring the national trend. The local unemployment rate decreased from 5.6% to 4.1% from October 2020 to October 2021 and peaked in April 2020 at 10.1% (U.S. Bureau of Labor Statistics).¹



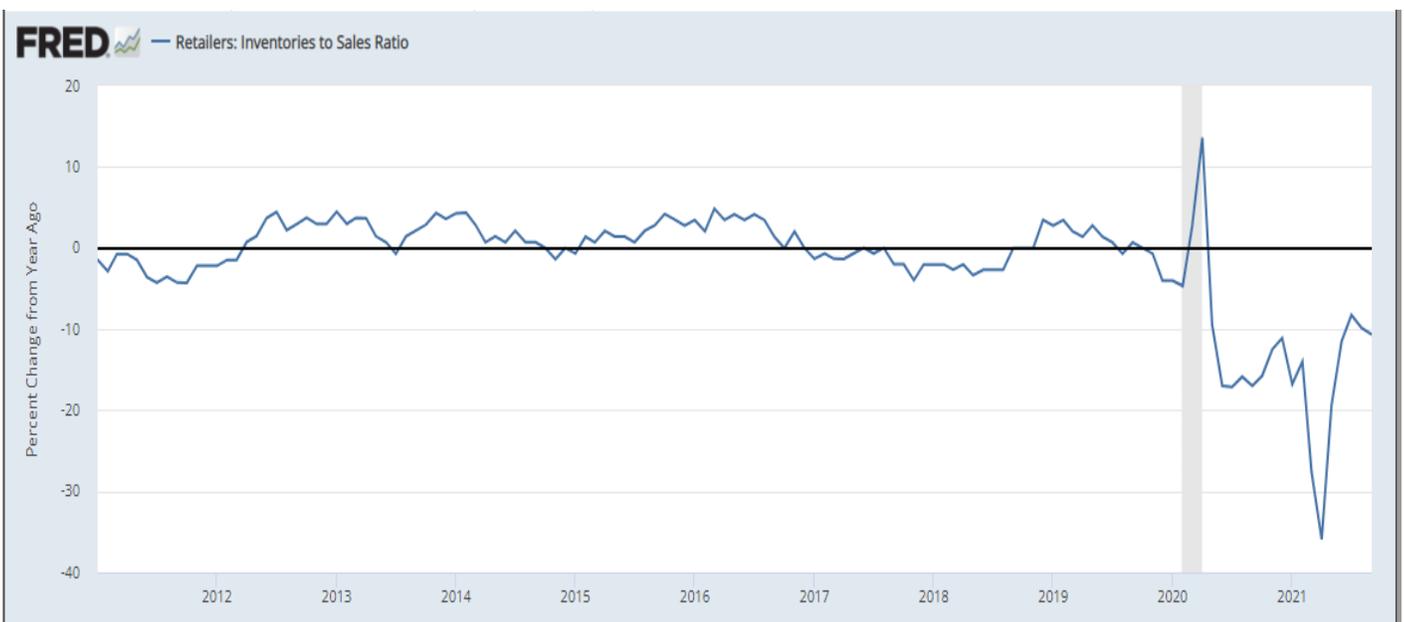
¹ Source: <https://beta.bls.gov/dataViewer/view/timeseries/LNS14000000>

2. Child Tax Credit Program

As part of the American Rescue Plan Act, families are now 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 has reached nearly 60 million children and pumps \$15 billion dollars into the US economy every month. On average, a family with eligible dependents receives an additional \$423 per month (US Treasury and Internal Revenue Service)²

3. Supply Chain issues

While Covid numbers have been reduced globally, there is still a shortage of supplies and employees to manufacture and transport them to consumers. The chart below shows the major decline in inventory year over year. There has been very little variance in inventory over the last ten years. However, the pandemic shutdowns have led to supply chain issues.³ This has created a limited supply of products across the board.

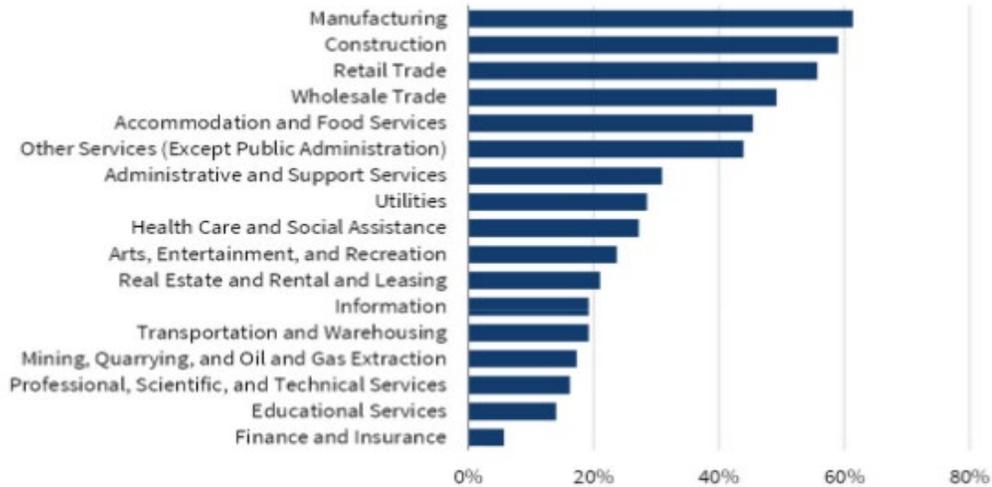


²Source: <https://home.treasury.gov/news/press-releases/Treasury-and-IRS-Announce-Families-of-Nearly-60-Million-Children-Receive-%2415-Billion-Dollars-in-First-Payments-of-Expanded-and-Newly-Advanceable-Child-Tax-Credit>

³ Source: <https://fred.stlouisfed.org/series/RETAILIRSA#0>

Figure 2. Supply-Chain Disruptions By Sector

In the last week, did this business have domestic supplier delays? (percentage saying yes)



Sources: U.S. Census Bureau; CEA Calculations.

4. Consumer Price Index (CPI)

The recent data shows an increase in demand as people return to work and see their wages and income increase; however, the supply chain issues have created a shortage of supplies for consumers. The combination of higher demand and limited supply has resulted in record inflation in the economy. This can be seen in the record increase of 5 percent in the Consumer Price index from October 2020, for the South region of the United States. The CPI is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services (U.S. Bureau of Labor Statistics).⁵

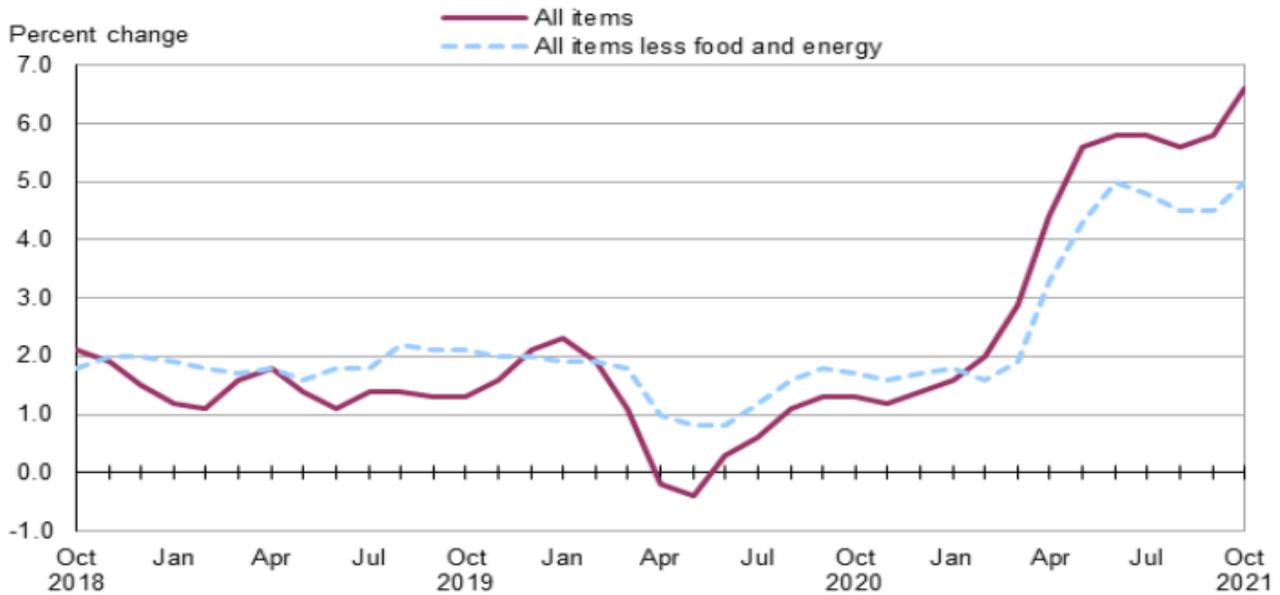
This has led to price increases on products, which has contributed to increased sales tax revenues. However, the budget staff is cautious as to whether this increase will continue to benefit the city long-term. The higher sales tax revenue does not necessarily mean a higher economic output by consumers. It could mean that consumers are paying higher prices for the same goods. The CPI increase of 5% does not account for food and energy. The CPI index increase is 6.6% when factoring in these items. Food overall has increased 5.1% from October 2020. Meats, poultry, fish, and eggs has increased 12.7% for the same period. The energy index has increased 29.3% and energy commodities (crude oil, heating oil, natural gas, and gasoline) has increased 52.9% from October 2020. Both food and energy prices are somewhat correlated to each other, as an increase in fuel cost will generally lead to an increase in food cost. Additionally, these items are considered necessities. If inflation in the overall economy continues to increase but wages do not, then spending on discretionary goods or non-essential products will

⁴ Source: <https://www.whitehouse.gov/cea/blog/2021/06/17/why-the-pandemic-has-disrupted-supply-chains/>

⁵ Source: https://www.bls.gov/regions/southeast/news-release/pdf/consumerpriceindex_south.pdf

decline. This effects the city because the city does not collect sales tax on most food and energy commodities.

Chart 1. Over-the-year percent change in CPI-U, South region, October 2018–October 2021



Source: U.S. Bureau of Labor Statistics.

In continuing to monitor these indicators throughout the year it was recently released that the November CPI increased by 6.8% in November compared to the prior year which may impact November’s Sales which translates to January collections.

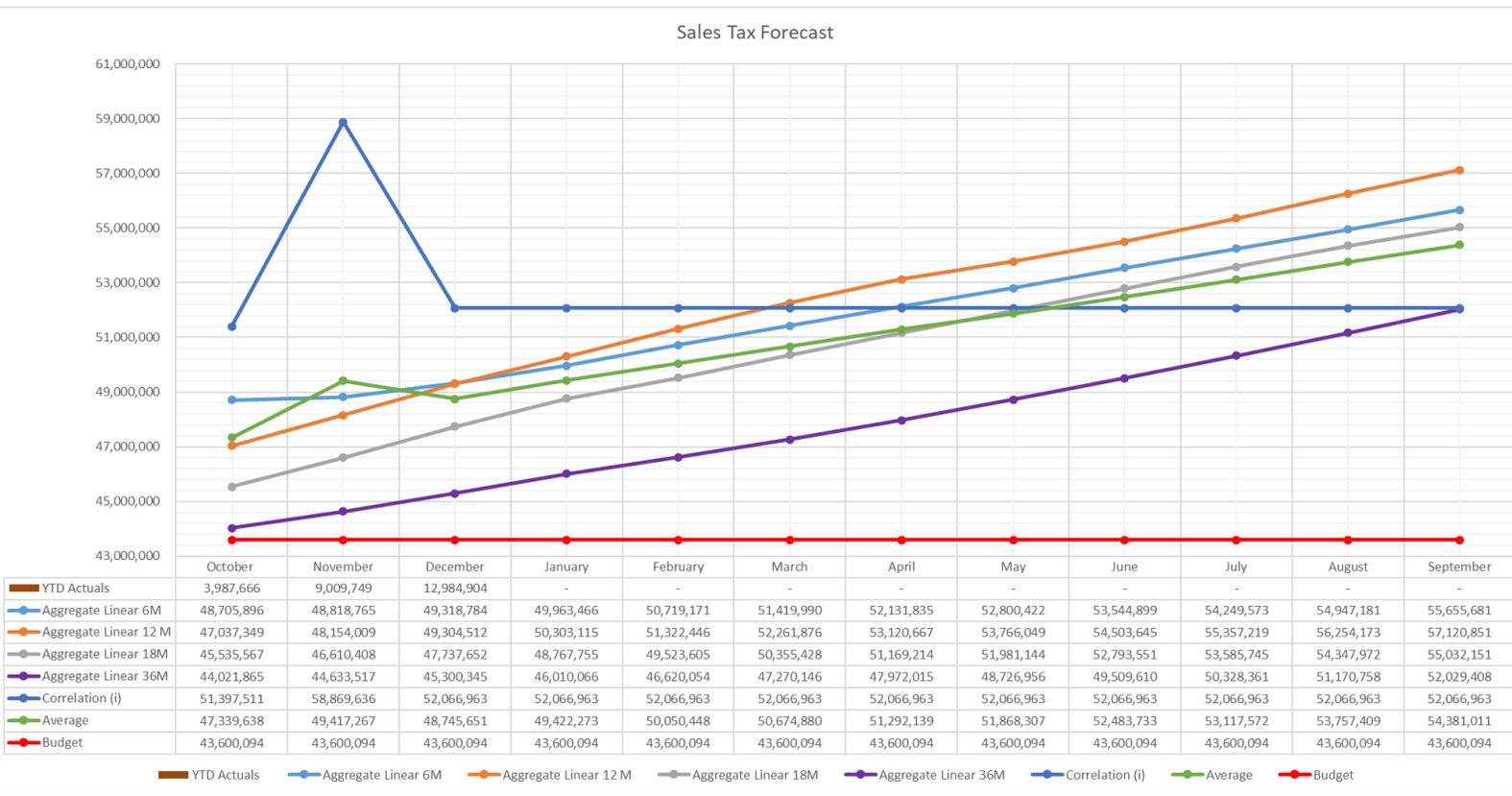
Forecast

The reported amount for December, was higher than budgeted. However, budget staff expected that higher revenues could be seen since Baylor hosted three home games and the city was also host to a variety of events that brought a large number of visitors to Waco. As a result of this and the most recent data, the forecast model is showing a significantly higher amount compared to the budget. However, the budget staff expects sale tax revenues to return to pre-pandemic levels and growth at the start of the calendar year and does not see a need to make any adjustments to the original budget of \$43.6 million at the current time. The budget staff does expect the following moving forward:

- January report (November sales): The budget staff expects sales tax revenue to be slightly above average for the month of November due to Baylor hosting two football games. In addition, the movement of holiday shopping earlier because of the supply chain issues and a desire to ensure goods should boost November sales tax numbers.

- February report (December sales): The budget staff expects sales tax revenue to be one of the highest amounts for the year in the month of December, due to the culmination of the holiday season.
- March report (January sales): The budget staff expects sales tax revenue to return to its new normal starting with the January sales, if the current child tax credit program ends at the end of the calendar year.
- May report (March sales): The budget staff expects the collection for the month of March will see a decrease from 2020, 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.
- Lastly, if inflation continues at higher-than-expected rates, and wage rates don't increase correspondingly, consumers will reduce spending on taxable (discretionary) items which will lead to lower revenues collected by the city.

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.



Texas at a Glance



- The State of Texas total net payments for this Period: \$ 596,783,538.14 comparable Payment Prior Year: \$ 510,721,711.14; Percent Change: 16.85%.
- The State of Texas total payments YTD: \$ 7,137,261,063.12; total prior year payment YTD: \$6,225,241,462.83; percent change: 14.65%.

The top 35 cities except Coppel saw an increase in the period.

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

Rank	City	Net Payment This Period	Comparable Payment Prior Year	% Change
1	Houston	\$63,556,807.68	\$52,998,978.41	19.92%
2	San Antonio	\$36,397,266.12	\$30,786,117.00	18.22%
3	Dallas	\$30,610,321.90	\$25,524,181.04	19.92%
4	Austin	\$25,075,521.29	\$19,981,694.50	25.49%
5	Fort Worth	\$16,196,843.01	\$13,723,846.74	18.01%
6	Arlington	\$14,152,521.59	\$10,023,431.16	41.19%
7	Round Rock	\$9,719,441.43	\$7,744,713.86	25.49%
8	Frisco	\$9,538,613.94	\$8,019,758.24	18.93%
9	El Paso	\$9,516,270.02	\$8,151,892.91	16.73%
10	Plano	\$8,137,175.51	\$6,966,038.14	16.81%
11	Amarillo	\$7,694,090.33	\$6,480,450.76	18.72%
12	Irving	\$7,250,522.84	\$5,679,878.10	27.65%
13	Lubbock	\$7,239,658.53	\$6,063,844.09	19.39%
14	Corpus Christi	\$6,682,863.12	\$6,535,791.66	2.25%
15	McKinney	\$6,482,917.94	\$5,330,461.06	21.62%
16	McAllen	\$6,404,474.12	\$5,551,220.22	15.37%
17	Grand Prairie	\$6,126,452.34	\$5,155,130.28	18.84%
18	Midland	\$5,067,734.02	\$4,216,436.34	20.18%
19	Conroe	\$4,991,182.23	\$4,084,060.95	22.21%
20	Sugar Land	\$4,687,012.42	\$4,162,611.41	12.59%
21	Odessa	\$4,497,974.56	\$3,832,867.20	17.35%
22	Tyler	\$4,426,909.70	\$3,836,417.06	15.39%
23	Grapevine	\$4,315,971.57	\$3,032,185.05	42.33%
24	Abilene	\$4,234,964.97	\$4,167,642.70	1.61%
25	Mesquite	\$4,196,058.18	\$3,552,202.29	18.12%
26	Allen	\$4,084,457.49	\$3,514,815.85	16.20%
27	Laredo	\$4,079,340.17	\$3,465,567.94	17.71%
28	Richardson	\$4,073,180.15	\$3,582,211.46	13.70%
29	Lewisville	\$4,067,979.75	\$3,348,632.67	21.48%
30	Brownsville	\$4,000,694.79	\$3,301,032.72	21.19%
31	The Colony	\$3,975,227.63	\$3,400,779.34	16.89%
32	Waco	\$3,975,154.59	\$3,450,353.86	15.21%
33	Coppel	\$3,963,729.89	\$4,056,593.18	-2.28%
34	Carrollton	\$3,733,305.25	\$3,167,000.36	17.88%
35	Denton	\$3,676,800.81	\$3,174,573.31	15.82%