

# Sales Tax Analysis – August 2020

## Executive Summary

Sales tax is one of the most important revenue streams for the City, but it's also highly volatile and subject to risk. This analysis is intended to highlight the City's sales tax collections in comparison to its expected performance, which is the amount of recurring revenue received compared to the budget. The analysis may include some comparisons to the prior year, however, these comparisons are not necessarily an indication of expected performance. Prior year sales tax collections may contain confidential data known to the City that would be adjusted during the budget process. For this reason, the comparison of year-over-year data may not provide a complete picture of current performance.

### Key Highlights

- August Collection:
  - Total collections are \$4,438,196 which represents sales occurring in the month of June
  - This total includes approximately **\$272,867** that is related to one-time collections and audit adjustments:
    - Positive audit adjustment: \$90,870
    - One-time adjustments: \$181,997
    - Net recurring collections: **\$4,165,329**
- Recurring Sales Tax Performance
  - **Current Month**
    - Compared to Budget: Down 9.5%
    - Compared to Prior Year: Down 11.25% from \$4.69M
  - **Year-to-Date**
    - Compared to Budget: Down 4.2%
    - Compared to Prior Year: Down 6.05% from \$47.22M
- Total Sales Tax Performance (Includes one-time payments and audit adjustments)
  - **Compared to Prior Year:**
    - Current Month: Down 11.8% from \$5.02M
    - Year-to-Date: Down 4.8% from \$49.93M

## Summary of Performance

Quarter Label	Prior Actual	Original Budget	Current Actual	Audit Adjustments	One-Time Adjustments	Recurring Actual	Δ % Prior Fiscal Year	Δ % Recurring Actual/Budget	General Fund (75% of Total)	4A/4B (25% of Total)
<b>Q1</b>										
October	4,185,589	3,835,265	4,182,071	42,151	145,592	3,994,327	-0.1%	4.1%	3,136,553	1,045,518
November	4,955,867	4,370,890	4,752,350	40,049	157,277	4,555,024	-4.1%	4.2%	3,564,263	1,188,088
December	4,256,906	4,050,132	5,020,652	113,083	879,538	4,028,031	17.9%	-0.5%	3,765,489	1,255,163
<b>Total</b>	<b>13,398,362</b>	<b>12,256,287</b>	<b>13,955,073</b>	<b>195,284</b>	<b>1,182,407</b>	<b>12,577,382</b>	<b>4.2%</b>	<b>2.6%</b>	<b>10,466,305</b>	<b>3,488,768</b>
<b>Q2</b>										
January	4,264,648	4,078,965	4,409,463	14,788	234,496	4,160,179	3.4%	2.0%	3,307,097	1,102,366
February	6,094,569	5,590,981	5,856,615	7,550	133,282	5,715,783	-3.9%	2.2%	4,392,461	1,464,154
March	4,069,592	3,790,518	4,170,976	116,946	220,256	3,833,773	2.5%	1.1%	3,128,232	1,042,744
<b>Total</b>	<b>14,428,809</b>	<b>13,460,464</b>	<b>14,437,054</b>	<b>139,284</b>	<b>588,034</b>	<b>13,709,735</b>	<b>0.1%</b>	<b>1.9%</b>	<b>10,827,790</b>	<b>3,609,263</b>
<b>Q3</b>										
April	4,103,267	3,411,066	3,740,703	-5,179	90,712	3,655,170	-8.8%	7.2%	2,805,527	935,176
May	4,645,872	4,419,865	4,227,680	108,771	329,459	3,789,450	-9.0%	-14.3%	3,170,760	1,056,920
June	3,971,536	4,113,352	3,092,773	40,675	85,172	2,966,926	-22.1%	-27.9%	2,319,580	773,193
<b>Total</b>	<b>12,720,674</b>	<b>11,944,283</b>	<b>11,061,156</b>	<b>144,267</b>	<b>505,343</b>	<b>10,411,546</b>	<b>-13.0%</b>	<b>-12.8%</b>	<b>8,295,867</b>	<b>2,765,289</b>
<b>Q4</b>										
July	4,357,630	4,062,566	3,664,555	-8,732	170,468	3,502,818	-15.9%	-13.8%	2,748,416	916,139
August	5,029,607	4,604,315	4,438,196	90,870	181,997	4,165,329	-11.8%	-9.5%	3,328,647	1,109,549
<b>Total</b>	<b>9,387,237</b>	<b>8,666,881</b>	<b>8,102,751</b>	<b>82,139</b>	<b>352,465</b>	<b>7,668,148</b>	<b>-13.7%</b>	<b>-11.5%</b>	<b>6,077,063</b>	<b>2,025,688</b>
<b>Total</b>	<b>49,935,082</b>	<b>46,327,915</b>	<b>47,556,033</b>	<b>560,974</b>	<b>2,628,249</b>	<b>44,366,811</b>	<b>-4.8%</b>	<b>-4.2%</b>	<b>35,667,025</b>	<b>11,889,008</b>

\*The recurring actual sales tax is calculated by subtracting audit adjustments and one-time payments from the current actual.

## Current Month at a Glance

The graphs below indicate that total sales tax collections are \$4.44M in August, with recurring sales tax collections of \$4.17M. As a result, the City has approximately \$0.17M less in total sales tax revenue when compared to the budgeted amount. The recurring sales tax is lower than the budget of \$4.60M by \$0.44M. One-time collections increased the revenue collected in August by \$0.27M. It is important to note that one-time collections are not concentrated in any one sector, and that their distribution can and will vary from month to month. Recurring sales tax is an important measure for the City as it sustains recurring operations. Additional recurring revenue received over budget will be allocated in the following fiscal year's budget.

### Sales Tax Performance to Budget



### Additional Funding Available

Total Over/Under Budget	<b>-0.17M</b>	\$4.44 M (Total) - \$4.60 M (Budget)
Net One-Time	<b>0.27M</b>	\$4.44 M (Total) - \$4.17 M (Recurring)
Net Recurring	<b>-0.44M</b>	\$4.17 M (Recurring) - \$4.60 M (Budget)

## Year-to-Date at a Glance

The graphs below indicate that total sales tax collections are \$47.56M for the year, with recurring sales tax collections of \$44.37M. As a result, the City has accumulated approximately \$1.23M in additional sales tax revenue over the budgeted amount. The recurring sales tax is lower than the budget of \$46.33M by \$1.96M and \$3.19M is one-time revenue from audit adjustments and one time payments. Recurring sales tax is an important measure for the City as it sustains recurring operations.

The City will accumulate and monitor excess sales tax revenue, and will develop a strategy for utilization of one time funds through the spring budget preparations. Additional recurring revenue received over budget will be built into the following fiscal year's budget in accordance with the Financial Management Policy Statements.

### Sales Tax Performance to Budget



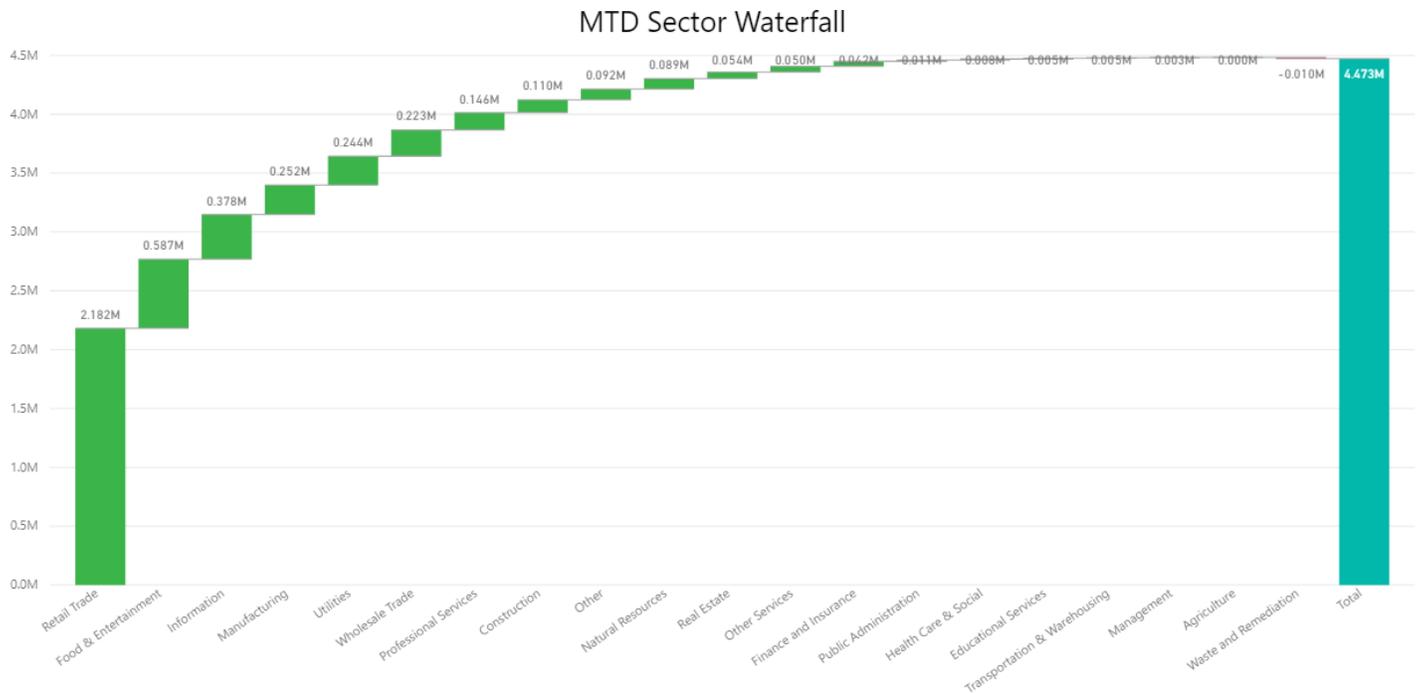
Additional Funding  
**100%**

Total Over/Under Budget	<b>1.23M</b>	\$47.56 M (Total) - \$46.33 M (Budget)
Net One-Time	<b>3.19M</b>	\$47.56 M (Total) - \$44.37 M (Recurring)
Net Recurring	<b>-1.96M</b>	\$44.37 M (Recurring) - \$46.33 M (Budget)
	<b>0%</b>	

## Monthly Payment Allocation by Sector

This chart shows the makeup of the month's payment by sectors. It does not reflect a comparison to the prior year's payment for the same period or year to date. The unadjusted total will not match the net payment allocated to the City.

**For a monthly comparison to last year by sector, please see the written analysis below the chart. \***



## Monthly Analysis Compared to Prior Year

**Retail:** The Retail sector decreased by 0.58% when compared to the same period in the prior year. The decrease within the sector is led by lower collections within the General Merchandise and Clothing subsectors as a result of COVID-19 closures and gathering restrictions. Additionally, the Miscellaneous subsector declined from the loss of collections associated with an expired incentive agreement and Electronics & Appliance saw a decrease resulting from a one-time payment in the prior year. These declines were partially offset by gains in the Non-store subsector from a major e-commerce company. Excluding one-time collections, the sector would have otherwise decreased by 2.32%. **One-time collections total \$38,291.**

**Food & Entertainment:** The Food & Entertainment sector decreased by 23.44% when compared to the same period in the prior year. The majority of the decrease in the sector is driven by a fall in collections within the Restaurant & Food and Amusement & Recreation subsectors, whose impact is spread broadly across restaurants and businesses in the City. There were no one-time adjustments for this sector this period.

**Wholesale Trade:** The Wholesale Trade sector increased by 25.56% when compared to the same period in the prior year. This increase in collections is due to a negative audit adjustment within the Non-Durable Goods subsector in the prior year. Excluding one-time collections, the sector would have otherwise increased by 11.66%. **One-time collections total \$24,672.**

**Utilities:** The Utility sector decreased by 19.72% when compared to the same period in the prior year. The decrease in the sector is the result of one-time collections in the prior year. . Excluding one-time collections from this period, the sector would have otherwise decreased by 25.05%. **One-time collections total \$16,239.**

**Manufacturing:** The Manufacturing sector increased by 51.79% when compared to the same period in the prior year. The increase within the sector is driven by a large one-time collection within the Chemical subsector. Excluding one-time collections, the sector would have otherwise increased by 7.77%. **One-time collections total \$73,143.**

**Information:** The Information sector decreased by 16.89% when compared to the same period in the prior year. This decrease is due to the timing of collections from an internet service provider within the Telecommunications subsector and the effect of movie theater closures on the Motion Picture & Sound Recording subsector. There were no one-time adjustments for this sector this period.

**Natural Resources:** The Natural Resources sector has decreased by 79.77% when compared to the same period in the prior year. This is due to lower collections within the Support Activities subsector. There were no one-time adjustments for this sector this period.

**Construction:** The Construction sector has increased by 30.48% when compared to the same period in the prior year. This increase is the result of one-time collections in the Building Construction subsector. Excluding one-time collections, the sector would have otherwise decreased by 4.69%. **One-time collections total \$29,652.**

**All Other:** All other sectors are experiencing a 19.22% decrease overall, when compared to the same period in the prior year. This is due to a decrease in collections within the Waste and Remediation sector associated with a large negative audit adjustment. There were no one-time adjustments for this sector this period.

\* The collections by sector information is directly from the Confidentiality Report received from the Texas Comptroller's Office. The numbers reflected in the Confidentiality Report are unadjusted and will not match the Net Collections that the Comptroller publishes. The Net Collections published publically include all tax payers, whereas the Confidentiality Report only includes tax payers that annually remit more than \$5,000, and does not include the other adjustments made to the Net Allocation.

***THE INFORMATION PROVIDED TO THE CITY IS CONFIDENTIAL.*** *It is not open to public inspection. A city may use the information only for the purpose of economic forecasting (Tex. Tax Code 321.3022(c)). Unauthorized distribution of confidential information is punishable by 6 months in jail and a \$1,000 fine (Tex. Govt Code sec. 552.352).*

## Comparison to Other Cities

The top twenty cities' sales tax collections are up 0.4% for the month of August and up 0.2% fiscal year to date.

Overall collections within Fort Bend County increased by 0.8%. Sugar Land's collections for the month saw a decrease of 11.8%, with the other cities in the County seeing increases this month despite local closures and restrictions on gatherings. Sugar Land accounts for the majority of collections in the county at 43.24% of all sales tax collections.

Year to date, Fort Bend County cities are up 0.9% compared to the prior year. Statewide, all Texas cities are up 5.0% for the month and up 1.8% fiscal year to date.

Sales Tax Summary and Category Overview						
City	Current_MTD	Prior_MTD	Δ % MTD	Current Fiscal YTD	Prior YTD	Δ % YTD
HOUSTON	60,064,719	62,812,116	-4.4%	627,109,466	636,234,305	-1.4%
SAN ANTONIO	34,896,464	34,342,196	1.6%	333,744,131	336,544,046	-0.8%
DALLAS	27,809,729	29,298,758	-5.1%	284,015,934	291,261,625	-2.5%
AUSTIN	20,938,159	20,756,831	0.9%	219,601,094	217,068,107	1.2%
FORT WORTH	15,945,470	14,975,149	6.5%	152,433,428	150,548,023	1.3%
ARLINGTON	11,248,036	10,925,129	3.0%	109,181,091	108,336,404	0.8%
EL PASO	8,907,540	8,495,973	4.8%	89,411,103	85,659,061	4.4%
FRISCO	8,832,115	8,048,707	9.7%	83,221,651	80,782,945	3.0%
PLANO	8,397,066	8,324,101	0.9%	79,712,856	81,042,010	-1.6%
AMARILLO	8,009,786	7,494,726	6.9%	72,988,604	71,977,733	1.4%
CORPUS CHRISTI	7,825,824	7,564,731	3.5%	73,640,105	75,294,525	-2.2%
ROUND ROCK	7,667,070	7,791,694	-1.6%	80,514,852	77,803,348	3.5%
LUBBOCK	7,583,994	6,849,565	10.7%	71,318,771	68,423,979	4.2%
IRVING	6,906,024	6,690,394	3.2%	70,398,223	68,075,331	3.4%
GRAND PRAIRIE	6,394,786	7,054,190	-9.3%	56,965,852	55,900,342	1.9%
MCALLEN	6,154,667	6,095,057	1.0%	61,394,435	63,087,071	-2.7%
MCKINNEY	6,048,026	5,226,781	15.7%	57,659,958	50,977,063	13.1%
MIDLAND	5,370,876	6,795,857	-21.0%	60,687,030	68,802,273	-11.8%
CONROE	4,972,729	5,029,683	-1.1%	45,766,268	44,303,427	3.3%
SAN MARCOS	4,946,200	3,236,637	52.8%	42,645,059	34,174,794	24.8%
<b>Total</b>	<b>268,919,279</b>	<b>267,808,273</b>	<b>0.4%</b>	<b>2,672,409,910</b>	<b>2,666,296,411</b>	<b>0.2%</b>
All Texas Cities						
All Texas Cities	All Current MTD	Prior_MTD	Δ % MTD	Current Fiscal YTD	Prior YTD	Δ % YTD
	595,953,387	567,765,901	5.0%	5,716,578,882	5,613,748,830	1.8%
Fort Bend County Major Cities						
Fort Bend Cities	All Current MTD	Prior_MTD	Δ % MTD	Current Fiscal YTD	Prior YTD	Δ % YTD
Sugar Land	4,438,196	5,029,607	-11.8%	47,556,033	49,935,083	-4.8%
Rosenberg	1,970,828	1,867,444	5.5%	18,726,301	18,307,530	2.3%
Stafford	1,935,033	1,629,214	18.8%	17,353,357	15,861,138	9.4%
Missouri City	1,067,127	952,200	12.1%	9,945,618	9,376,591	6.1%
Richmond	707,921	588,859	20.2%	6,636,925	5,947,465	11.6%
Meadows Place	145,143	112,728	28.8%	1,367,204	1,292,424	5.8%
<b>Total</b>	<b>10,264,248</b>	<b>10,180,052</b>	<b>0.8%</b>	<b>101,585,437</b>	<b>100,720,231</b>	<b>0.9%</b>

## Sales Tax Background

Understanding how the City develops the sales tax forecast is an important part of this publication. This year the sales tax forecast utilized a more conservative approach to forecasting. This method involves taking the current year's recurring collections through July, which is then annualized using the prior year's historical collection percentage. This year, the total recurring projection for year-end was set, with no increase, and assumes that the City will not receive any one-time collections.

Once developed, the sales tax budget is distributed across the months based on the percentage of collections that month would historically receive. It's important to understand that there are factors that can cause peaks and valleys in this distribution. These peaks and valleys are a direct result of the extremely volatile nature of actual collections. Actual historical collections can and do change as a result of the timing of the collection (i.e. when the business makes payment), the receipt of one-time collections, and audit adjustments, which can increase or decrease the actual collection. It's this volatility of the collections that make the comparison on a monthly basis a challenge. While sustained high or low monthly collections may signal a change in the trend, the individual monthly comparison will not provide a complete picture, and for this reason greater attention should be paid to the year-to-date collections and budget.

Because sales tax is such an important and volatile revenue stream for the City it is closely monitored and analyzed. When significant changes and trends are detected they are reported to management and City Council quickly. One of the most important indicators for sales tax performance is the total recurring sales tax collected compared to the budget. Recurring sales tax is a more stable revenue stream than total sales tax. The total sales tax received during the month is composed of both one-time, and recurring sources. By separating the two components the City is better able to compare performance, budget for the next year, and understand how much one-time funding will be available to support non-recurring needs.

## Single Local Use Tax Rate

During the 86<sup>th</sup> Legislative session, Texas adopted House Bill 2153 relating to the Single Local Use Tax Rate. The bill went into effect as of October 1, 2019 and allows for out-of-state sellers to collect a single local use tax rate rather than the 1,500 plus rates that exist in Texas.