

Sales Tax Analysis – June 2019

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

- June Collection:
 - Total collections are \$3,971,536 which represents sales occurring in the month of April
 - This total includes approximately **(\$221,590)** that is related to one-time collections and audit adjustments:
 - Negative audit adjustment: \$312,682
 - One-time adjustments: \$91,092
 - Net recurring collections: \$4,193,126
- Recurring Sales Tax Performance **Compared to Budget**
 - Current month: Up 5.0%
 - Year to date: Up 3.3%
- **Year-over-Year** Total Sales Tax Performance
 - Compared to prior year: Up 4.2% (total including one-time and audit adjustments)
 - FY19 includes \$2,156,417 in one-time payments and audit adjustments.

Summary of Performance

Period	Prior Actual	Original Budget	Current Actual	Audit Adjustments	One-Time Adjustments	Incentive Agreement	Recurring Actual	Δ % Prior Fiscal Year	Δ % Recurring Actual/Budget	General Fund (75% of Total)	4A/4B (25% of Total)
Q1											
October	3,607,162	3,985,492	4,185,589	23,034	252,910	47,596	3,909,645	16.0%	-1.9%	3,139,192	1,046,397
November	4,327,779	4,264,501	4,955,867	121,844	378,364	76,899	4,455,659	14.5%	4.5%	3,716,900	1,238,967
December	4,366,267	3,585,686	4,256,906	7,206	121,020	72,168	4,128,680	-2.5%	15.1%	3,192,680	1,064,227
Total	12,301,208	11,835,679	13,398,362	152,084	752,294	196,663	12,493,984	8.9%	5.6%	10,048,772	3,349,591
Q2											
January	4,020,946	3,925,914	4,264,648	-31,080	137,656	113,556	4,158,072	6.1%	5.9%	3,198,486	1,066,162
February	5,751,630	5,440,475	6,094,569	100,060	295,097	94,984	5,699,412	6.0%	4.8%	4,570,927	1,523,642
March	3,907,240	3,544,454	4,069,592	31,005	174,556	61,452	3,864,031	4.2%	9.0%	3,052,194	1,017,398
Total	13,679,816	12,910,843	14,428,809	99,985	607,309	269,992	13,721,514	5.5%	6.3%	10,821,606	3,607,202
Q3											
April	4,000,781	3,729,199	4,103,267	294,328	331,719	69,964	3,477,220	2.6%	-6.8%	3,077,450	1,025,817
May	4,863,050	4,692,624	4,645,872	55,015	85,273	102,886	4,505,583	-4.5%	-4.0%	3,484,404	1,161,468
June	4,084,568	3,994,457	3,971,536	-312,682	91,092	93,757	4,193,126	-2.8%	5.0%	2,978,652	992,884
Total	12,948,399	12,416,280	12,720,674	36,661	508,084	266,606	12,175,929	-1.8%	-1.9%	9,540,505	3,180,168
Total	38,929,423	37,162,802	40,547,845	288,730	1,867,687	733,262	38,391,428	4.2%	3.3%	30,410,884	10,136,961

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

*The year-to-date collections for an expiring incentive agreement are highlighted here, and are included in the recurring actual. For more information, please see the related section in the Sales Tax Background at the end of this report.

Current Month at a Glance

The graphs below indicate that total sales tax collections are \$3.97M in June, with recurring sales tax collections of \$4.19M. As a result, the City has approximately \$0.02M less total sales tax revenue when compared to the budgeted amount. The recurring sales tax is higher than the budget of \$3.99M by \$0.20M. One-time collections increased the revenue collected in June by \$0.09M. The net one-time collections shown below also includes a negative audit adjustment of \$0.31M. 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. The City will accumulate and monitor excess sales tax revenue, and will develop a strategy for utilization through the spring budget preparations. 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	-0.02M	\$3.97 M (Total) - \$3.99 M (Budget)
Net One-Time	-0.22M	\$3.97 M (Total) - \$4.19 M (Recurring)
Net Recurring	0.20M	\$4.19 M (Recurring) - \$3.99 M (Budget)

Total Collections

3,971,536

Budget

3,994,457

Year-to-Date at a Glance

The graphs below indicate that total sales tax collections are \$40.55M for the year, with recurring sales tax collections of \$38.39M. As a result, the City has accumulated approximately \$3.39M in additional sales tax revenue over the budgeted amount. The recurring sales tax is greater than the budget of \$37.16M by \$1.23M and \$2.16M 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	3.39M	\$40.55 M (Total) - \$37.16 M (Budget)
Net One-Time	2.16M	\$40.55 M (Total) - \$38.39 M (Recurring)
Net Recurring	1.23M	\$38.39 M (Recurring) - \$37.16M (Budget)

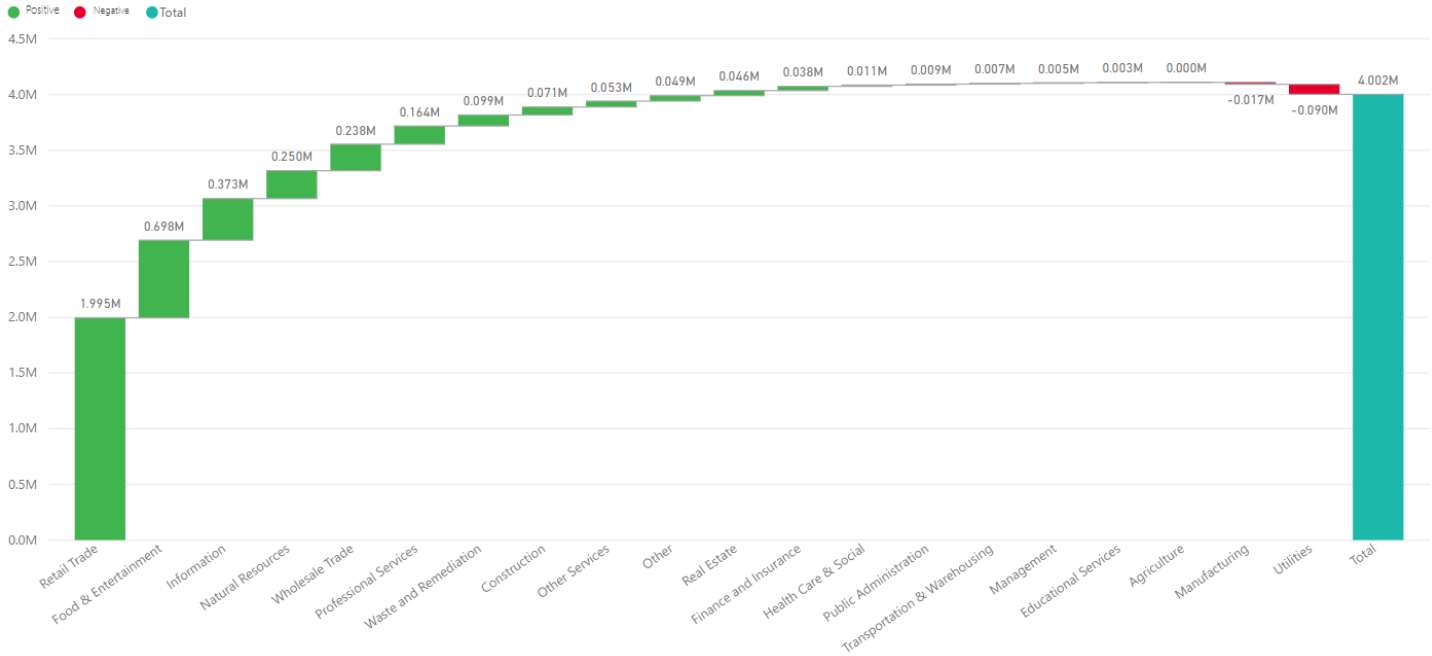
36.3%

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.*

MTD Sector Waterfall



Monthly Analysis Compared to Prior Year

Retail: The Retail sector increased by 4.95% when compared to the same period in the prior year. The increase within this sector is driven by collections within the Electronics & Appliance, Miscellaneous and General Merchandise subsectors. Excluding one-time collections, the sector's growth would have otherwise increased by 1.06%. **One-time collections total \$73,826.**

Food & Entertainment: The Food & Entertainment sector increased by 2.28% when compared to the same period in the prior year. This increase is driven by collections within the Restaurants & Food Services and Amusement & Recreation subsectors. There were no one-time adjustments for this sector.

Wholesale Trade: The Wholesale Trade sector increased by 14.72% when compared to the same period in the prior year. This increase is a result of collections within the Non-durable Goods and Electronics Market subsectors. There were no one-time adjustments for this sector.

Utilities: The Utility sector decreased by 151.70% when compared to the same period in the prior year. The decrease in this sector is driven by a large audit adjustment associated with an electric retail company this month. There were no one-time adjustments for this sector.

Manufacturing: The Manufacturing sector decreased by 116.05% when compared to the same period in the prior year. The decrease within the sector is driven by the Printing and Electrical Equipment subsectors. There were no one-time adjustments for this sector.

Information: The Information sector increased by 2.46% when compared to the same period in the prior year. The increase is driven by collections within the Motion Picture & Sound Recording subsector. Excluding one-time collections, the sector's growth would have otherwise increased by 0.90%. **One-time collections total \$5,677.**

Natural Resources: The Natural Resources sector has increased by 192.59% when compared to the same period in the prior year. This is due to a decrease in collections from a major oil company within the Support Activities subsector. There were no one-time adjustments for this sector.

Construction: The Construction sector has increased by 38.62% when compared to the same period in the prior year. This increase is the result of a one-time collection within the Building Construction subsector. Excluding one-time collections, the sector would have otherwise increased 16.14%. **One-time collections total \$11,589.**

All Other: All other sectors are experiencing an 18.45% decrease overall, when compared to the same period in the prior year. There were no one-time adjustments for these sectors.

* 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 8.6% for the month of June and 5.7% fiscal year to date.

In the month of June, overall collections within Fort Bend County saw an increase by 0.4%. Sugar Land's collections for the month saw a decrease of 2.8%, with Meadows Place seeing the highest decline this month of 11.7%. Sugar Land accounts for the majority of collections in the county at 46.72% of all sales tax collections.

Year to date, Fort Bend County cities are up 4.1% compared to the prior year. Statewide, all Texas cities are up 9.2% for the month and 6.1% fiscal year to date.

Sales Tax Summary and Category Overview						
City	Current MTD	Prior MTD	Δ % MTD	Current Fiscal YTD	Prior YTD T20	Δ % YTD
Houston	56,216,540	54,219,160	3.7%	516,523,973	503,552,195	2.6%
San Antonio	30,075,073	26,907,076	11.8%	273,360,086	258,504,498	5.7%
Dallas	25,670,998	23,400,361	9.7%	236,344,037	226,166,474	4.5%
Austin	20,348,453	17,753,741	14.6%	176,701,678	163,408,359	8.1%
Fort Worth	13,330,827	12,269,565	8.6%	122,619,231	115,238,235	6.4%
Arlington	10,553,159	9,072,080	16.3%	87,797,328	80,988,577	8.4%
El Paso	7,727,934	7,080,317	9.1%	69,584,500	66,453,855	4.7%
Plano	6,485,856	6,364,601	1.9%	65,629,731	64,932,664	1.1%
Frisco	6,882,169	6,808,910	1.1%	65,676,467	64,153,641	2.4%
Round Rock	7,025,229	6,952,393	1.0%	63,438,820	59,141,032	7.3%
Corpus Christi	6,695,670	6,244,981	7.2%	61,179,354	58,525,768	4.5%
Amarillo	6,290,098	5,691,422	10.5%	58,138,619	56,565,039	2.8%
Lubbock	6,048,342	5,157,192	17.3%	55,674,335	51,690,082	7.7%
Irving	5,535,546	5,328,859	3.9%	55,807,584	49,441,980	12.9%
Midland	5,878,671	5,102,299	15.2%	55,795,750	48,076,708	16.1%
Odessa	6,158,503	5,545,957	11.0%	55,439,761	47,381,350	17.0%
McAllen	5,463,329	4,513,525	21.0%	51,465,806	45,532,276	13.0%
Grand Prairie	4,837,113	4,384,855	10.3%	44,040,648	41,604,984	5.9%
Sugar Land	3,971,536	4,084,568	-2.8%	40,547,846	38,929,423	4.2%
McKinney	4,681,773	4,031,313	16.1%	37,221,811	34,888,588	6.7%
Total	239,876,818	220,913,175	8.6%	2,192,987,365	2,075,175,727	5.7%

All Texas Cities						
All Texas Cities	All Current MTD	All Prior MTD	All Δ % MTD	All Current YTD	All Prior YTD	All Δ % YTD
	498,994,881	456,955,590	9.2%	4,557,064,572	4,296,820,519	6.1%

Fort Bend County Major Cities						
Fort Bend Cities	All Current MTD	All Prior MTD	All Δ % MTD	All Current YTD	All Prior YTD	All Δ % YTD
Sugar Land	3,971,536	4,084,568	-2.8%	40,547,846	38,929,423	4.2%
Rosenberg	1,630,084	1,620,226	0.6%	14,865,791	14,540,507	2.2%
Stafford	1,376,569	1,282,245	7.4%	12,786,553	12,282,471	4.1%
Missouri City	835,887	779,778	7.2%	7,638,313	6,999,666	9.1%
Richmond	591,217	593,377	-0.4%	4,832,485	4,726,226	2.2%
Meadows Place	96,085	108,757	-11.7%	1,076,444	1,034,945	4.0%
Total	8,501,378	8,468,950	0.4%	81,747,431	78,513,238	4.1%

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.

Expiring Incentive Agreement

In 2009, the City entered into a sales tax incentive agreement with an internet sales business unit for a term of 10 years. This agreement ends on July 31, 2019, after which the City will no longer receive sales tax revenue from online sales. The year-to-date collections from this business are called out in the summary table from the recurring sales tax to emphasize the potential effect on future revenues. This agreement required the City to make two annual incentive payments, calculated as 37.5% of received sales tax collections, which will end after the final payment for received revenue is made. As a result, the decrease in revenue is offset by a decrease in expenditures related to the incentive payments.