



Memorandum

Date: March 14, 2016

To: Bruce D. Glasscock, City Manager

From: Karen Rhodes-Whitley, Budget Director

Subject: Sales Tax Cap/Model Discussion

During last August's Budget Worksession, the City Council requested a review of possible sales tax models for inclusion in the budget process. A presentation regarding our sales tax cap policy and sales tax models developed by Plano's Internal Audit Department is scheduled for this evening's City Council Worksession.

As you are aware, the City of Plano has operated under a sales tax cap since 2008 for budget projections each year. The cap serves to stabilize the volatility of this revenue source during periods of declining sales tax such as the current period. Sales tax collections have declined in five out of the last seven months. At present, current projections for sales tax collections are based on a three-year sales tax collection average after removing audit adjustments. This year's cap is projected at \$72.8M and has been included in the City's budget projections. Current policy states any amount collected over the cap can be transferred to the Capital Reserve Fund, Economic Development Incentive Fund, used for one-time expenditures or kept in the fund to offset the following year's budget.

A sub-committee was formed to review the possible alternatives from staff in Plano's Budget, Accounting and Internal Audit Departments. Internal Audit took the lead and developed four different prediction models using economic modeling theory that account for a variety of individual factors that affect sales tax such as population growth, building permits, leading economic indicators and the Dow Jones Industrial Average. These model parameters were then tested against historical data to determine the probability of a model, described in terms of percentages, and then assigned a description. For example, the 75% Above/25% Below model produces a \$72.7M projection with a description of Conservative. This means there is a 75% chance that Plano's sales tax collections will end up above \$72.7M and a 25% chance collections will end below \$72.7M for FY 2015-16.

A discussion regarding the models and recommendations by the sub-committee will be presented at tonight's meeting. Attached you will find a copy of the sales tax presentation. Please let me know if you have any questions.

Sales Tax Cap Policy/Models

March 14, 2016

Presented by Karen Rhodes-Whitley,
Budget Director



Discussion Points

- Last August, the City Council requested the City to review possible sales tax models for inclusion in the budget process.
- Subcommittee formed to review possible alternatives consisting of Budget, Finance and Internal Audit.
- Internal Audit developed a series of models that can be used to monitor our sales tax forecast in addition to our current three-year sales tax cap model and MuniServices Forecasting Model.



Sales Tax Cap History

- In 2008, a cap was placed on sales tax projections at \$57 million.
- In 2012, the cap was changed to a three-year average.
- Due to the economic downturn, the cap was placed on sales tax projections in order to limit the amount of collections to be used to support existing operating expenditures.
- The policy states that any amount collected over the sales tax cap could be transferred to the Capital Reserve Fund and /or the Economic Development Incentive Fund, could be used to fund one-time expenditures or kept in the fund balance to offset the following year's budget.
- The cap serves to stabilize the volatility of the revenue source during periods of declining sales tax such as the current period.



Sales Tax Collections since August 2015

- Sales tax collections have declined five out of the last seven months
 - Total loss of \$2.5M since August
 - December sales tax declined \$1.0M
 - Most of the decline came from Technology Sector
 - Loss to on-line sales contributed to the decline
- Notified that a Network Infrastructure company is relocating to another city
 - Projected annual sales tax loss of \$1.5M



Annual Sales Tax Receipt Percentage Changes From Prior Year Actual



Sales Tax Collections and Audit Adjustments

FY 2008-09 to Present

Fiscal Year	Audit Adjustments	380 Agreements	Collections
2008-09	(\$911,250)	\$838,730	\$56,487,233
2009-10	\$288,727	\$589,640	\$57,992,069
2010-11	\$377,316	\$691,692	\$62,630,791
2011-12	\$3,444,408	\$723,235	\$69,868,331
2012-13	\$175,529	\$710,325	\$68,723,680
2013-14	\$912,207	\$771,142	\$73,976,157
2014-15	\$1,856,197	\$895,372	\$76,829,245
2015-16 YTD	\$126,410	\$275,238	\$32,642,153



Sales Tax Cap Policy – Funding Initiatives since 2008

- Provided an additional \$13.1 million to the Capital Reserve Fund
 - Capital Reserve now funded at 68% of annual depreciation - goal 75%
- Provided an additional \$6.6 million to the Economic Development Incentive Fund
- \$1M for Salt & Sand Storage – One-time
- \$500K for one-time expenditures at Oak Point Nature Preserve



Sales Tax Assumptions

- Actual FY 2014-15 was \$76,829,245
 - Net sales tax agreements of \$895,372
- Revised 3-year average per City Council policy-net audit adjustments is \$72,781,478
 - Projected for FY 15-16 Re-estimate & FY 16-17 Budget
- First five month collections (since Oct.1) for 2015-16 sales tax is down \$1.1 million as compared to last year.



Sales Tax Prediction Models

- Four sales tax prediction models developed:
 - Created using economic modeling theory
 - Analyzes 15 years of past collections plus current year-to-date information
 - Tests individual factors affecting sales tax such as population growth, building permits, Dow Jones Industrial Average.
 - Percentage of projected actual collections.
- 380 Agreements are not excluded from the models



Sales Tax Model Projection

2016 Based on Fiscal YTD	Actual Above/Below	Description
\$79,080,490	10% Above / 90% Below	Optimistic
\$75,420,648	50% Above / 50% Below	Most Likely
\$71,082,976	90% Above / 10% Below	Pessimistic
\$72,709,603	75% Above / 25% Below	Conservative

Three-Year Average - \$72,781,478



Recommendation

- Continue with the three-year average cap policy.
 - \$72.8M is close to the 75%/25% model level
- Monitor sales tax prediction models on a monthly basis for trend information and changes in economic condition.
- Present to Council in March and July of each year updated details regarding sales tax collections for forecasting purposes and inclusion in the annual budget.
- An additional slide will be added to the monthly financial report presented to Council to sales tax trends.



QUESTIONS??

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