

The use of sales tax and analytics for decision making

and the shifting legislative environment

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Shifting legislative environment



Disclaimer

We don't normally like to present walls of text.

We figured some might want this presentation later and it would be easier for those people to basically have the full remarks.

Sorry...

Shifting legislative environment

Sales tax sourcing

There have been a lot of changes to the sales tax code over the past few years:

- Online sales tax
- Single Local Tax Rate
- Marketplace Providers
- Administrative code changes

Shifting legislative environment

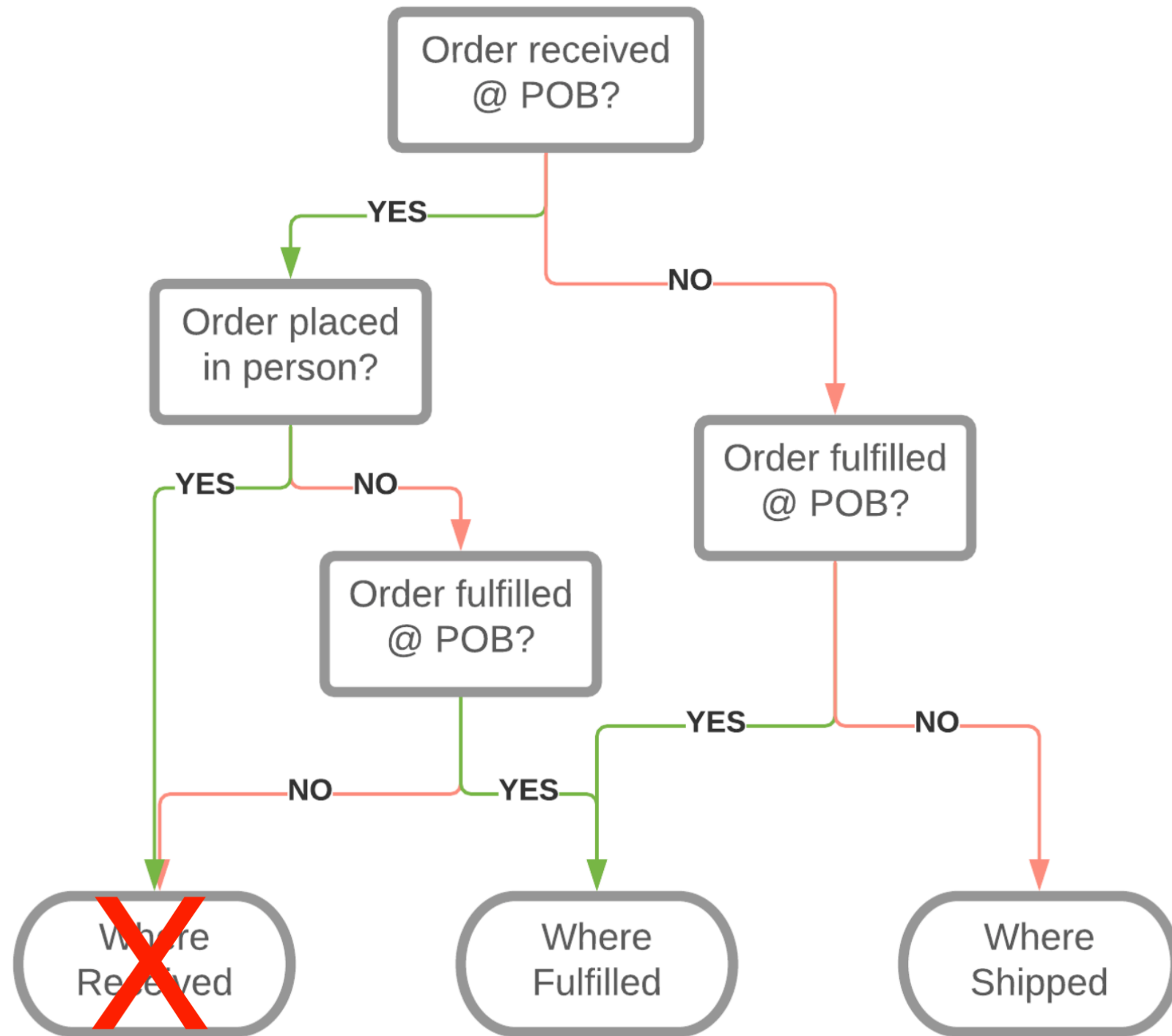
Sales tax sourcing

- Administrative code changes caused a lot of concern last year
- Impetus seems to have been due to discrepancies highlighted by new online sales tax rules
- Most changes were minor, but some could significantly impact a handful of cities

Shifting legislative environment

Sales tax sourcing

- Those changes dealt with the definition of "Place of Business"
- Sales occurring on the internet (or via an app) *no longer occur at a place of business*
- The flow to the right side of The Flow Chart tm



Shifting legislative environment

Sales tax sourcing

- Some cities have agreements with companies to receive these orders at a physical location in their city
- Sometimes it involves a sales tax reimbursement
- There is pending litigation over this at the moment

Shifting legislative environment

Sales tax sourcing

- The Legislature is looking at making changes to sourcing rules
- They recently had a Ways & Means Committee hearing to discuss it
- It doesn't seem there is an agreed upon definition of "Destination Sourcing" that we might be moving to, which makes these discussions difficult

Shifting legislative environment

Sales tax sourcing

- We have a hybrid system (on-premise, fulfillment, destination)
- "Full-on" destination sourcing would be basically unworkable
- Retail stores would need to know where you're taking the item you're buying
- Small businesses spoke in opposition

Shifting legislative environment

Sales tax sourcing

- "Full-on" destination sourcing is problematic for cities
- Almost impossible to know the full impact of any change
- That's why we're encouraging *incrementalism* (or status quo)
- Consistency is an important value

Shifting legislative environment

Sales tax sourcing

- We like the term "Change of Possession" sourcing
- Where does the good or service change ownership?
- It clarifies some of the confusion that is stemming from undefined terminology
- It doesn't solve *every* problem

Shifting legislative environment

Property tax

- If it seems like the property tax system is broken, it's because it kind of is.
- Lots of moving parts and actors
- Most of it goes to schools
- Lots of legislative tinkering to tamp down growth in residential taxes

Shifting legislative environment

Property tax

- Home ownership is the primary vehicle for wealth building in America
- Homeowners want policies that increase their home values
- Homeowners don't like when their home values translate to higher property taxes
- There is no way to square that circle

Shifting legislative environment

Property tax

- What does that mean? More tinkering, obvi
- Appraisal caps, revenue caps, expanded exemptions, etc...
- Other limits on local governments

Shifting legislative environment

Property tax

- Bottom line, it's a wealth tax... there are only so many options for keeping it from working the way it's designed to work without causing big problems
- Legislature is likely to keep tinkering (and causing unintended consequences)

Shifting legislative environment

- The biggest problem with all of this is the uncertainty
- We can (for now) make our voices heard during the legislative process
- But we don't really have a lot of control over what they do

Analytics for decision making

Much of our fiscal health/sustainability analysis is focused on a very short window.

- Is our budget balanced?
- Do we have debt capacity?
- Can we pay bills?
- Five years out?

Fatal Conceit

- Thousands of people are moving to Texas every day
- Inflation is 9%
- Legislature keeps trying to limit our ability to operate
- Etm, etm, etm
- We can't plan for everything

New Framework for Financial Analysis

With special focus on

- Adaptability
- Livability

**The point of cities is to
keep on keeping on**

Cities are amazing

- They're where people live
- They're concrete representations of abstract things like states and nations
- They can be molded and shaped by their citizens

To continue existing

We have to make decisions that...

- give us the ability to adapt over time, regardless of the broader environment
- create places where people want to live

Our decision making process must...

- prioritize quicker, smaller decisions
- marry data with our experience/knowledge
- encourage *progress* toward indefinite solvency

Case Study Time

Covid-19

- Closures began March 2020
- Most cities were panicking (understandably) and projecting massive revenue losses, considering Draconian cuts
- GFOA published a "toolbox" article recommending Draconian cuts early in the pandemic
- Cities started making cuts *with no data*

Covid-19

Things we didn't know...

- How long will closures last?
- Which businesses will be impacted?
- How will people change their behavior?
- How will this affect jobs/incomes?
- What financial support will be provided by DC?

Covid-19

Things we *did* know...

- Property tax will be OK in the short term
- If property tax suffers in the mid-long term, we have bigger problems to deal with
- Online sales tax is new, and not factored into our baseline
- People will get antsy if shut in for too long (need things to do)

Covid-19

What we did

- Identify top taxpayers (ideally ~80% of revenue)
- Shrink the problem (Who is totally closed? Who is totally open? Who is in the middle?)
- Identify potential substitutions (online for in store, etc)
- Look at economic makeup of the city
- Run projections

Covid-19

What actually happened?

- Most cities saw 20-30% declines in March and April...
- Followed by nearly 2 years of double digit growth
- From a sales tax perspective, Covid-19 was a bump in the road



**Cities *should* make a
profit**



**PROFITABLE
FOR THE
DEVELOPERS**



**PROFITABLE
FOR
THE CITY**



**PROFITABLE
FOR
EVERYONE**

What does it mean for a development to be profitable for the city?

- Revenue generation covers infrastructure and service obligations
- The development is flexible enough to change over time when circumstances change

Revenue/Value per Acre

- Productivity metric
- Where are the most productive parts of my city?
- Often it's not where you might think...

Case Study



- .46 acre family Mexican food restaurant



- 28 acre shopping mall

Adaptability & Livability Glasses



- 7,300 sf building easily adapted to different uses
- Within a 10 minute walk of 53 other sales tax locations on side streets with sidewalks



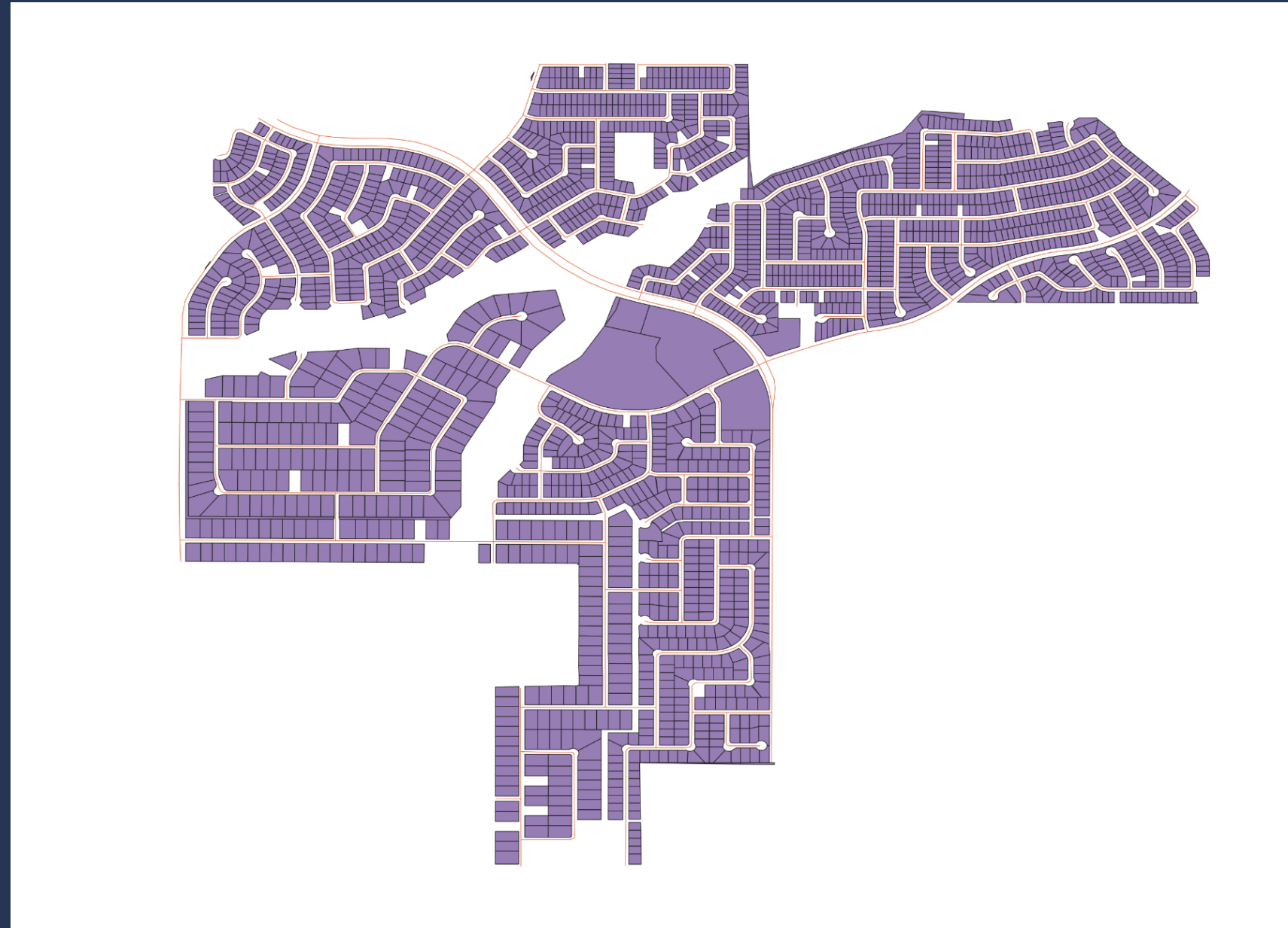
- 372k sf building not easily adapted to different uses
- Within a 10 minute walk of 33 (non-mall) sales tax locations requiring highway crossing

Many of our neighborhoods/ developments are not profitable

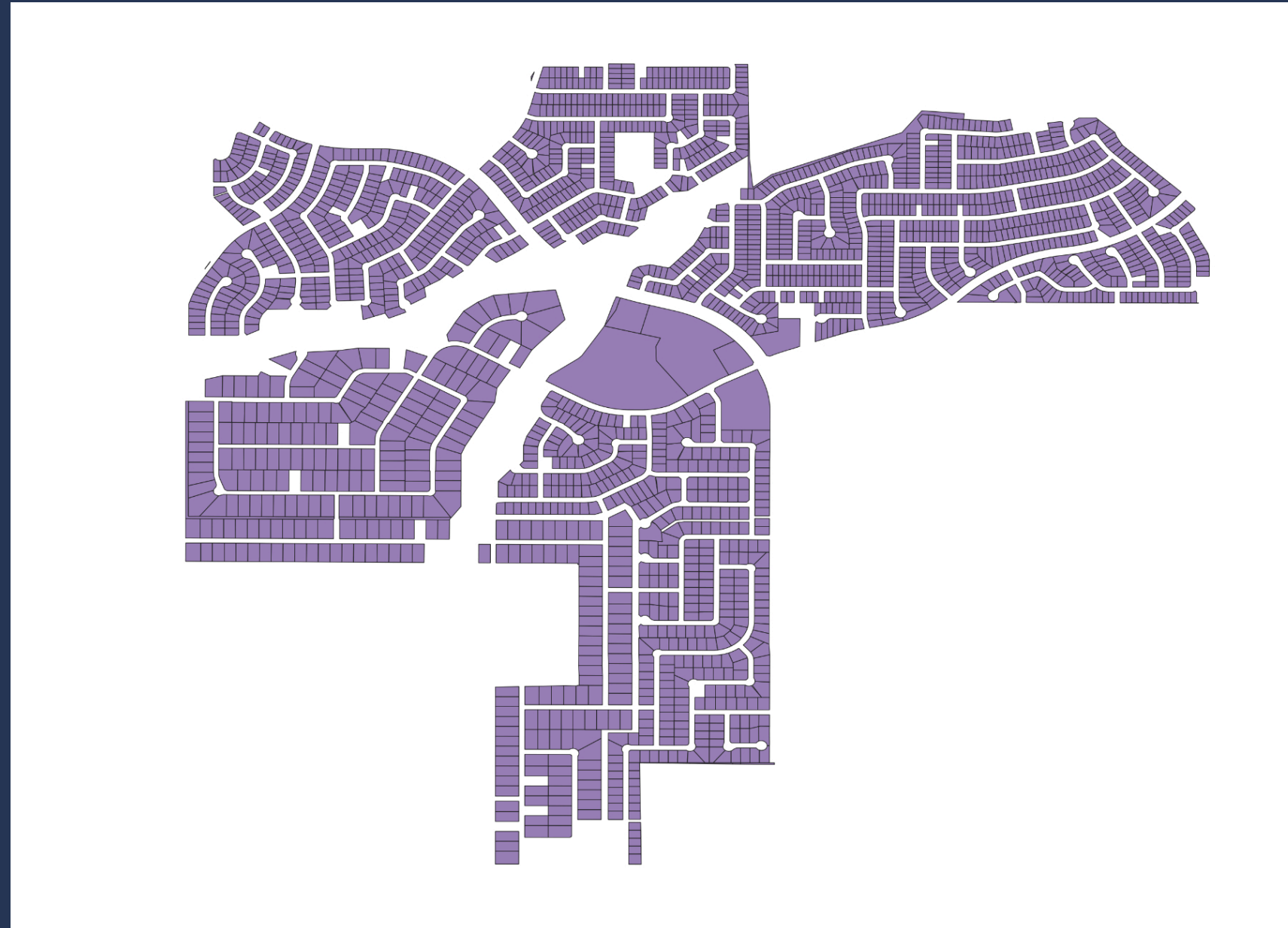
- They don't generate enough revenue to pay for basic infrastructure, let alone their service demand

Case Study Time

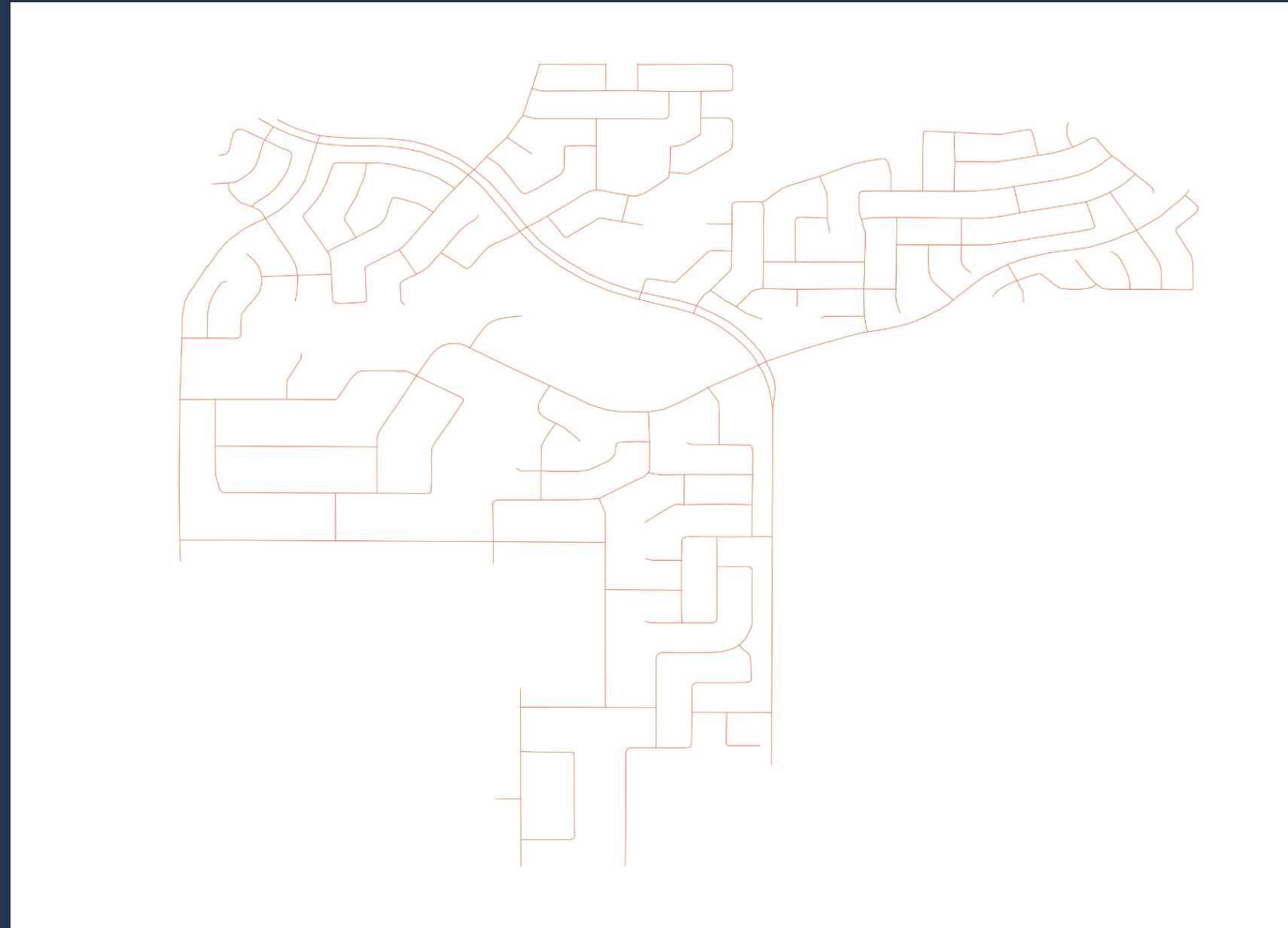
Neighborhood A

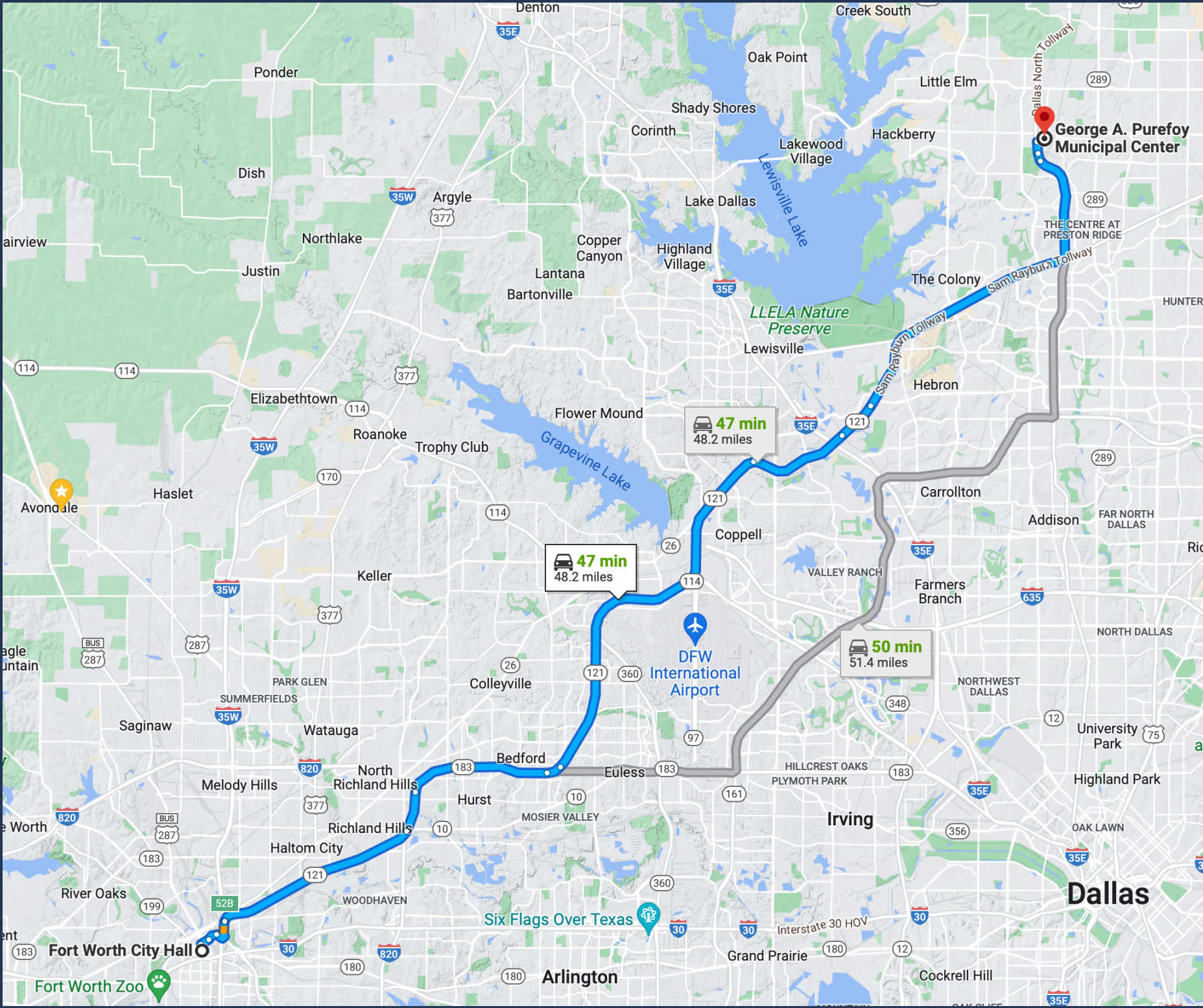


Case Study



Case Study





Case Study

- 50.32 lane miles * ~\$1m = \$50.32m
- \$4.025m annual debt service
- \$587m * [tax rate] = \$3.4m annual revenue
- 85% road cost recovery, or... \$625k annual subsidy

UNPROFITABLE NEIGHBORHOODS



EVERYWHERE!

Results (11 primarily residential only)

- Recovery ranged from 35% - 94%
- Overall recovery: 67%
- Total value needed: \$1.49 billion

**What can these
analytics teach us?**

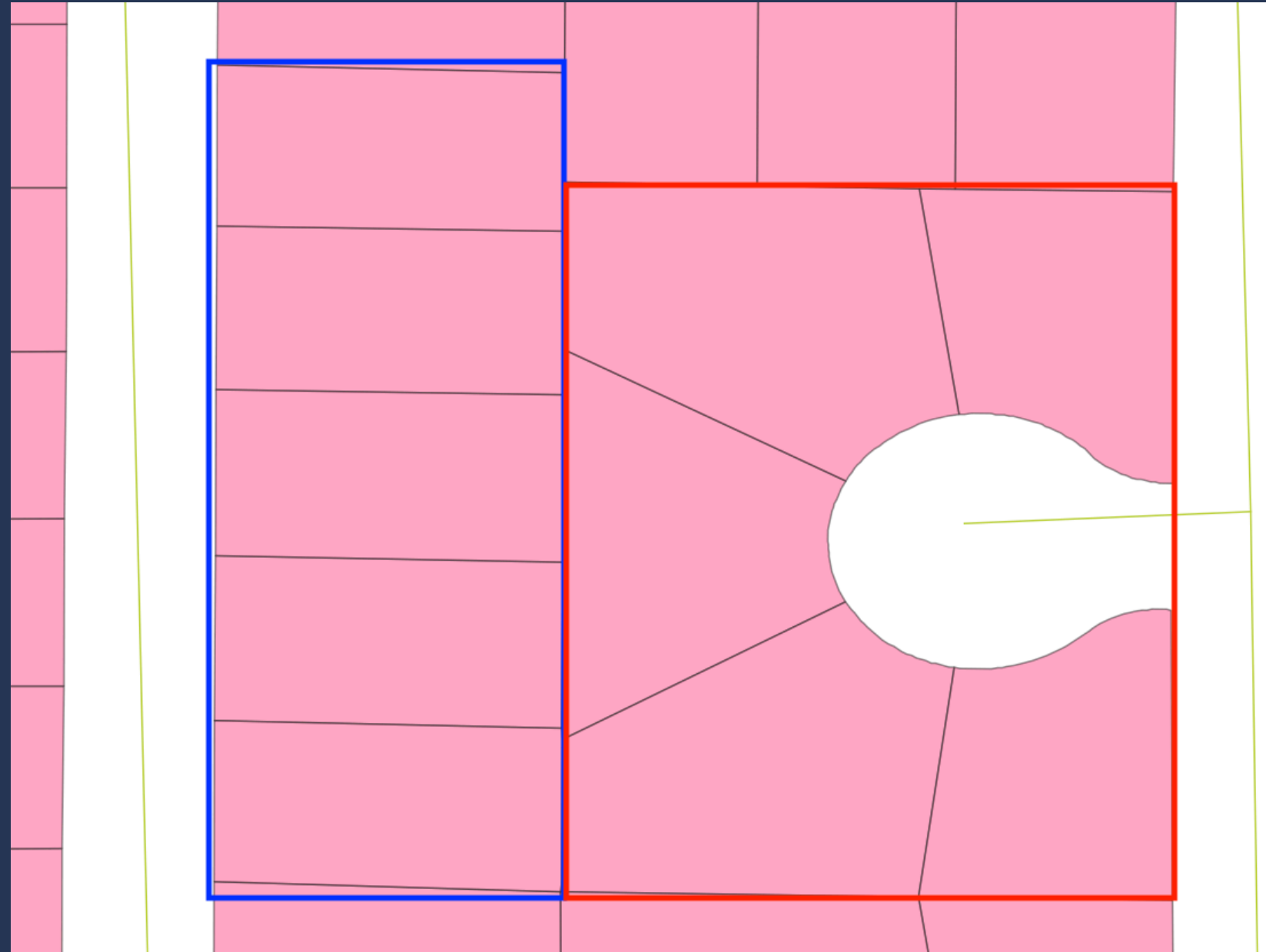
1. These charts are not exactly accurate...



2. Roads are expensive

- A presidential commission found that the primary reason for large increases in local taxes from 1913-1930 was due to cities trying to retrofit infrastructure for cars
- Engineers overdesign roads because of industry standards
- Our beloved quiet cul-de-sacs are a financial drain

Cul-de-sucks

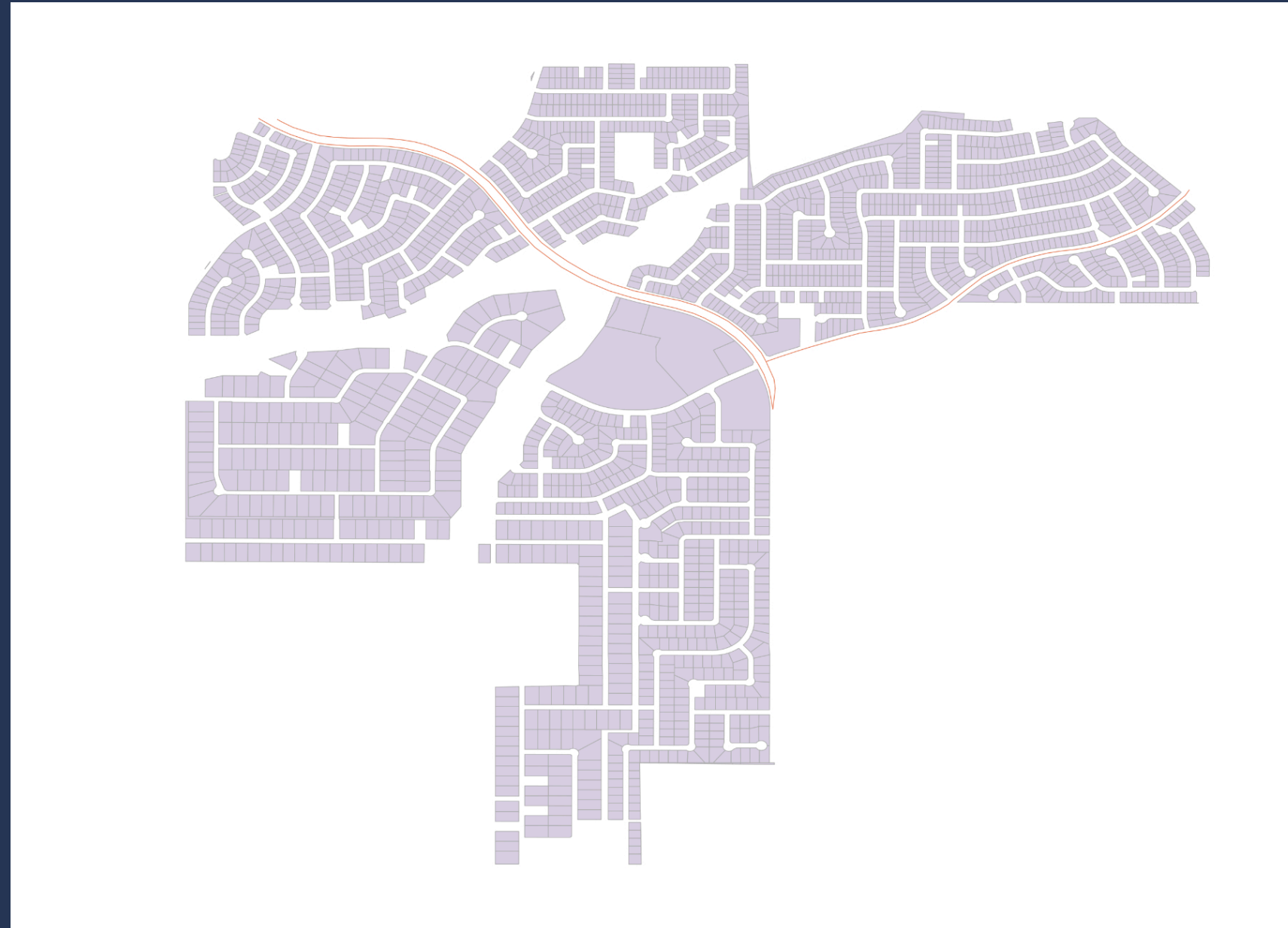


3. Profitability is correlated with...

- Mixing of uses
- Less infrastructure per dwelling unit
- Development that offers non-car transportation options (i.e., cheaper infrastructure, less parking requirements)

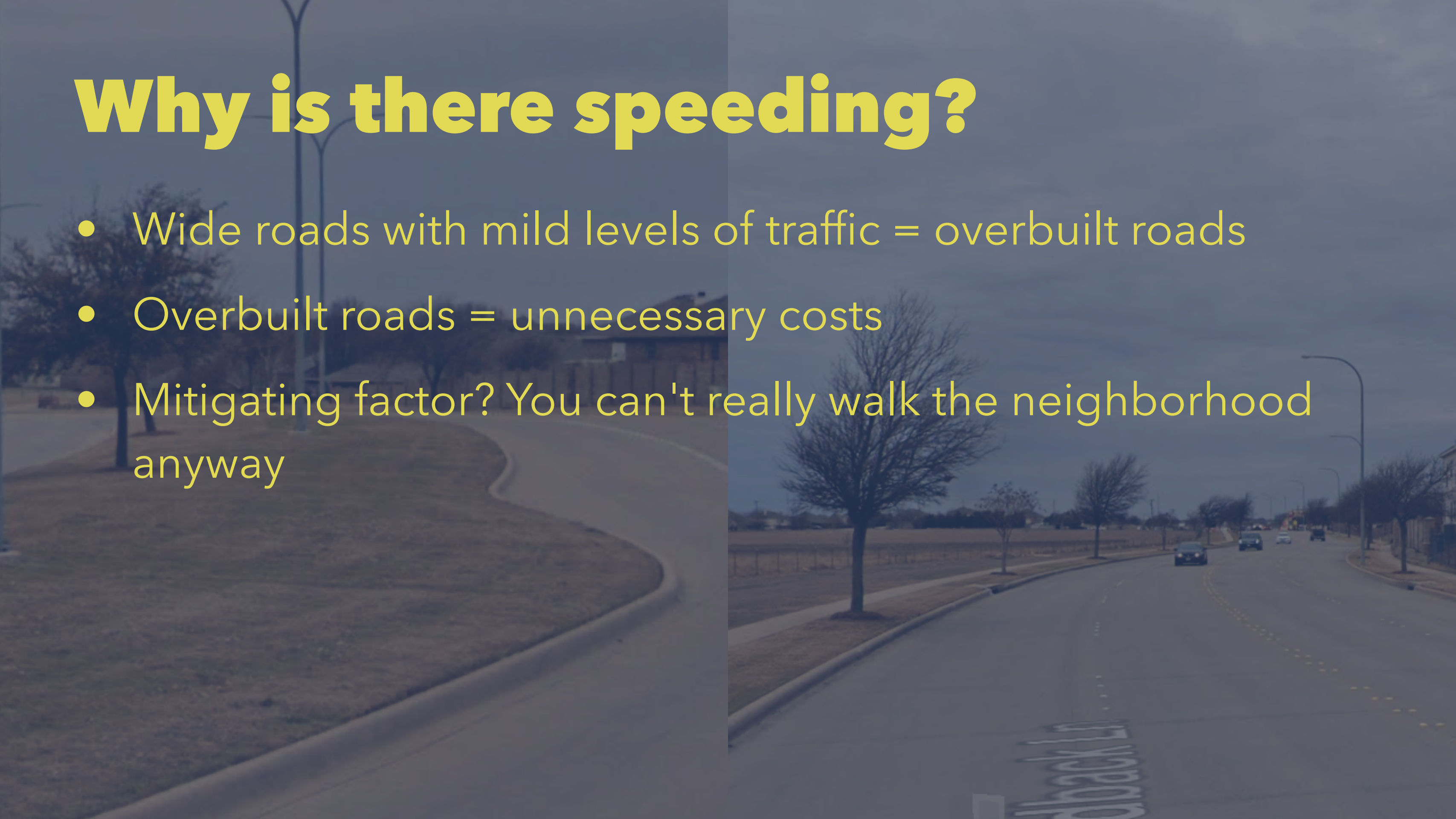
Not only is this development pattern fiscally unproductive, it has knock on effects

Livability Issues: Speeding



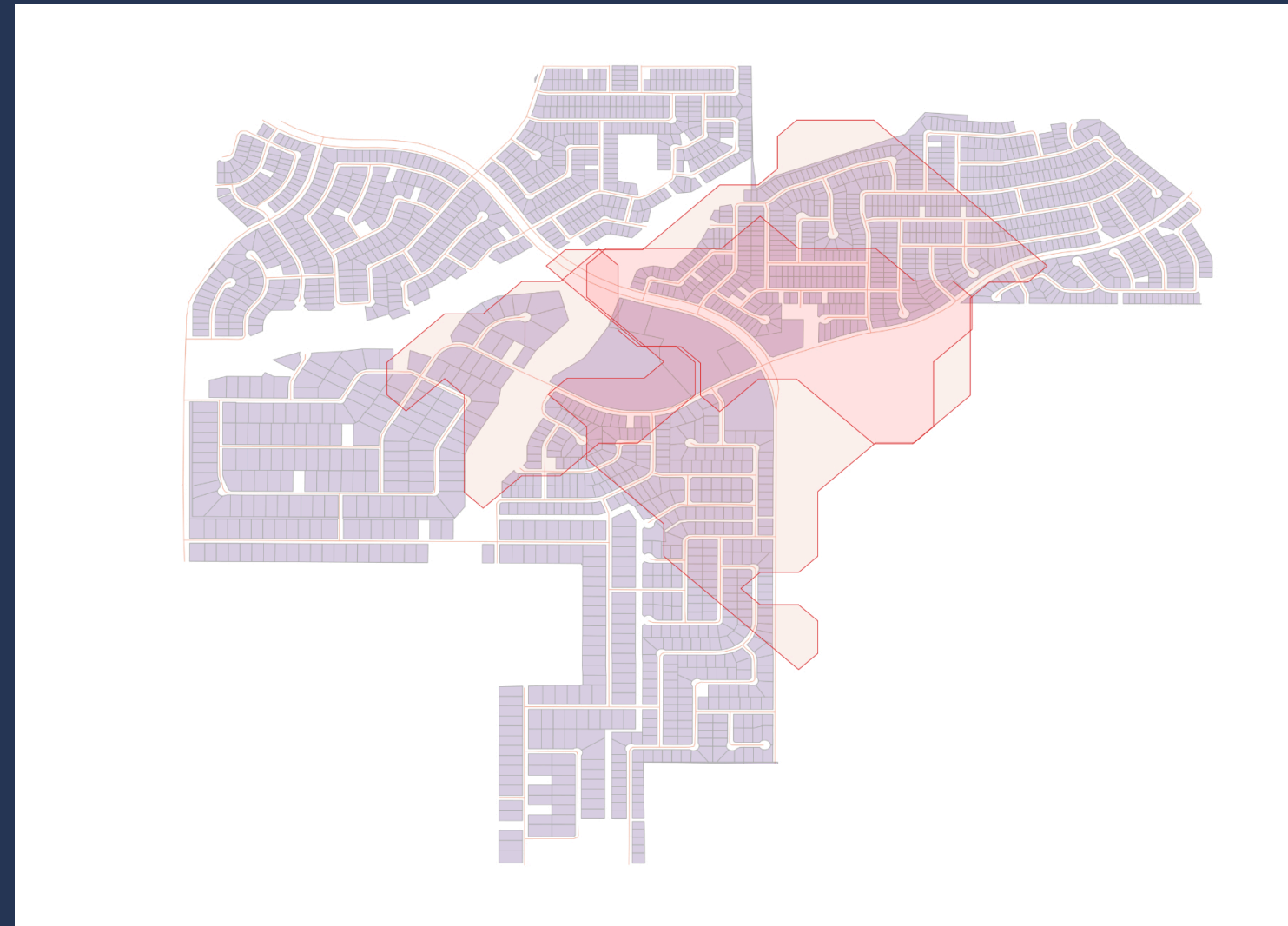
Why is there speeding?

- Wide roads with mild levels of traffic = overbuilt roads
- Overbuilt roads = unnecessary costs
- Mitigating factor? You can't really walk the neighborhood anyway



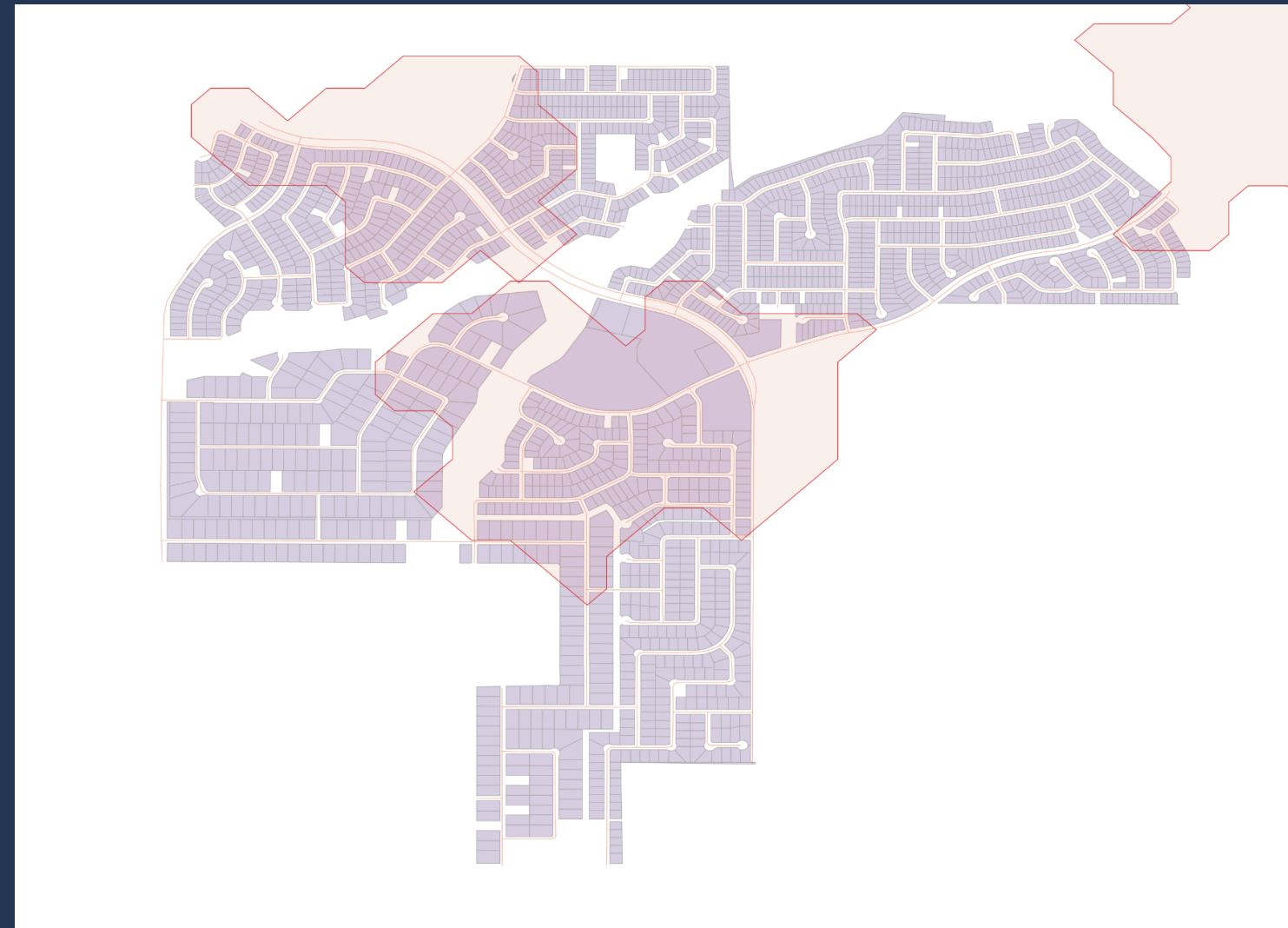
Livability Issue:

Sidewalks to nowhere (parks)



Livability Issue:

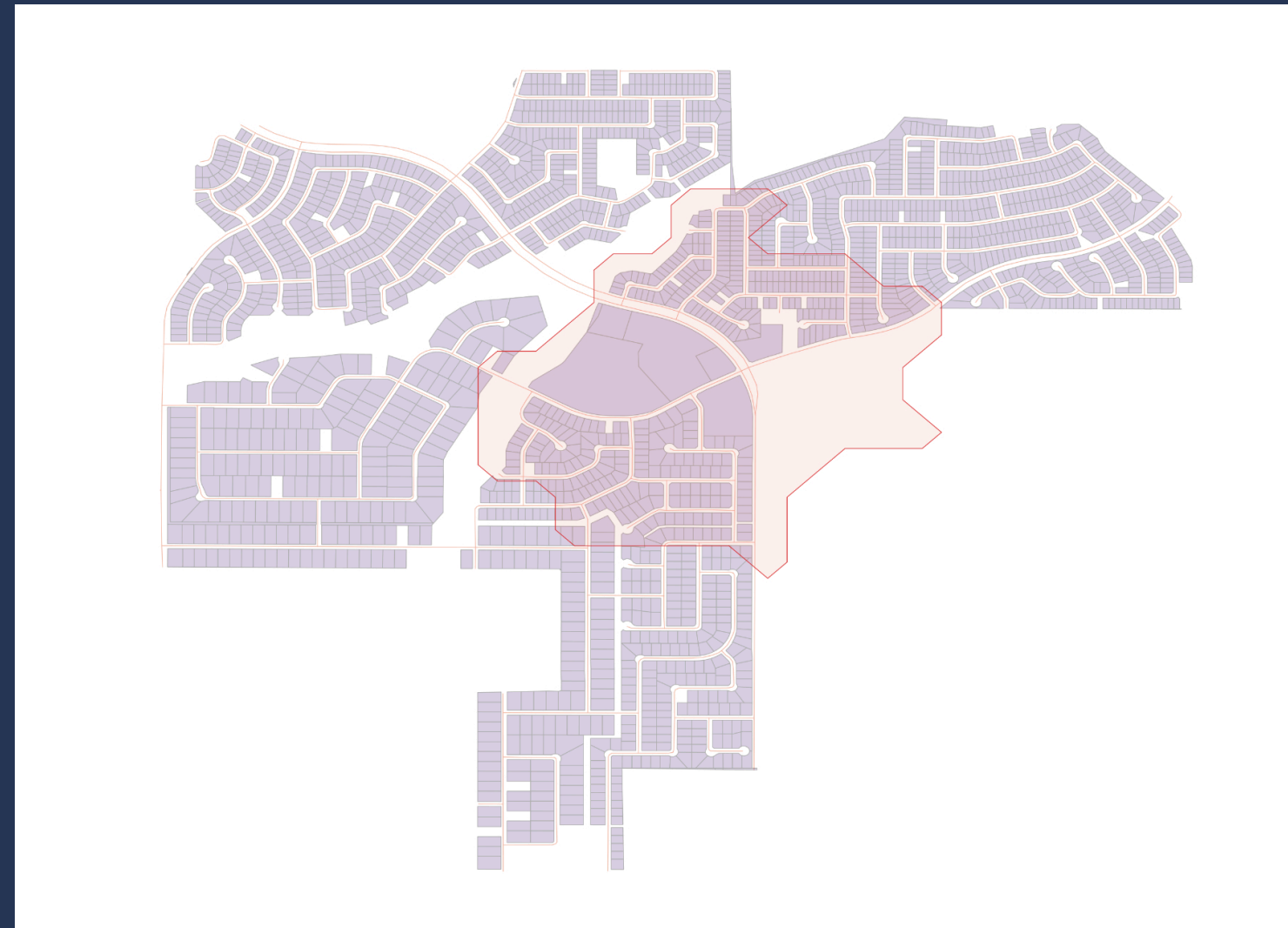
Sidewalks to nowhere (schools)





It would take an average 12 year old 23 seconds to walk the 106' crosswalk

Livability Issue:
Sidewalks to nowhere (stores)



Summary

Overbuilt roads (extraneous costs) +
Lack of diversity of use (lower adaptability) +
Lack of walkability (extraneous infrastructure) =
Unproductive, unadaptable developments

Steps toward profitability

1. Evaluate your existing neighborhood profitability
2. Require a "City Pro Forma" for new development
3. Finance/Budget needs a seat at the table
4. Make incremental changes when the opportunity arises

1. Existing Profitability

- Full review of existing development patterns
- How profitable is what you've done historically?
- Set a baseline for future needs

2. City Pro Forma

- Evaluates profitability from the City's perspective
- Requires profitable development patterns for approval

3. Seat at the table

- Our hope for today is to empower this group with information to make a strong case for better development
- This is the group that has the financial intelligence to make this argument when planning and transportation are unable
- Already happening with some of our friends in larger cities

4. Incremental changes

- Swap road materials
- Road diets
- Invest in the public realm (make places people want to live)
- Allow neighborhoods to change over time (including different uses)
- Infill

[recap]

Our decision making process must...

- prioritize quicker, smaller decisions
- marry data with our experience/knowledge
- encourage *progress* toward indefinite solvency

Contact us for questions/ comments

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