

2025 SAFE-D Conference

Kalahari Resort and Convention Center

Kalahari

ESD Sales Tax Workshop

HdL[®] Companies

40 Years of Growing Revenue



Part 1: Sales Tax 101

- Intro to Texas Sales Tax
- Key Texas Comptroller Functions
- ESD Sales Tax Trends
- Sales Tax Estimates
- Understanding Your Sales Tax

Intro to Texas Sales Tax

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What is Taxed?

Texas imposes sales and use tax on all retail sales, leases and rentals of most goods, as well as taxable services.

Examples of taxable services include:

- Amusement services
- Cable and telecom services
- Real property services

Use links below to explore in more detail

- [Sales Tax Statutes](#)
- [Taxable Services](#)



Who Imposes Sales Tax?

- State of Texas
 - Rate of 6.25% imposed state-wide
- Local Jurisdictions
 - Cities, Counties, Transit and Special Purpose Districts (including ESD's)
 - Rates range from 0.125% to 2.0% (in .125% increments)
 - Multiple local jurisdictions can overlap
 - Maximum combined local tax is 2%



Useful Terminology

- **Taxpayers** = Businesses, Companies
- **Collections** = Sales tax collected for jurisdictions by businesses
- **Allocations** = Comptroller's payments to jurisdictions
- **Outlet** = taxpayer's physical location
(one taxpayer can have multiple outlets)

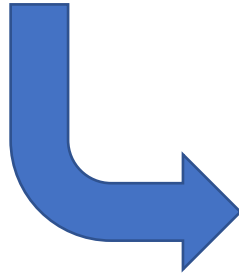


Tax Allocation Schedule

January

Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31	1	2	3	4

Businesses collect tax from customers



February

Sun	Mon	Tue	Wed	Thu	Fri	Sat
29	30	31	1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	★ 20	21	22	23	24	25
26	27	28	1	2	3	4

Sales tax returns due 20th of the month following the collection period
(can be monthly, quarterly, or annually)



March

Sun	Mon	Tue	Wed	Thu	Fri	Sat
26	27	28	1	2	3	4
5	6	7	8	9	★ 10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	1

Comptroller processes returns and allocates tax to jurisdictions no later than the second Friday of the month

Key Comptroller Functions



Key Comptroller Functions

- Receives and processes tax collections from businesses
- Allocates local sales tax to Jurisdictions
- Audits businesses
- Interprets statutes enacted by the Legislature
- Sets administrative rules and procedures
- [Link to sales tax rules](#)



Important Concepts

- Taxpayer payment information is confidential
- Audit details are confidential
- Tax wrongly received, and discovered, must be paid back
 - 4-year statute-of-limitations
 - Can create unknown liabilities
- Misallocated tax recoverable in most cases
- Businesses not liable for uncollected tax if not properly notified of a newly imposed sales tax or increased tax rate



What the Comptroller Expects of You

- Communicate your election results to the TCPA
- Use Comptroller website to its fullest extent
 - <http://comptroller.texas.gov/taxinfo/local/>
- Do own research and analysis
- Know businesses located in their jurisdiction and if they are collecting sales tax
- Know basic sales tax statutes and rules
- Check that new businesses are collecting tax
- Inform Comptroller of errors discovered



How to ask questions

- <http://comptroller.texas.gov/about/contact/>
- Sales and Use Taxes Helpline
 - 1-800-252-5555



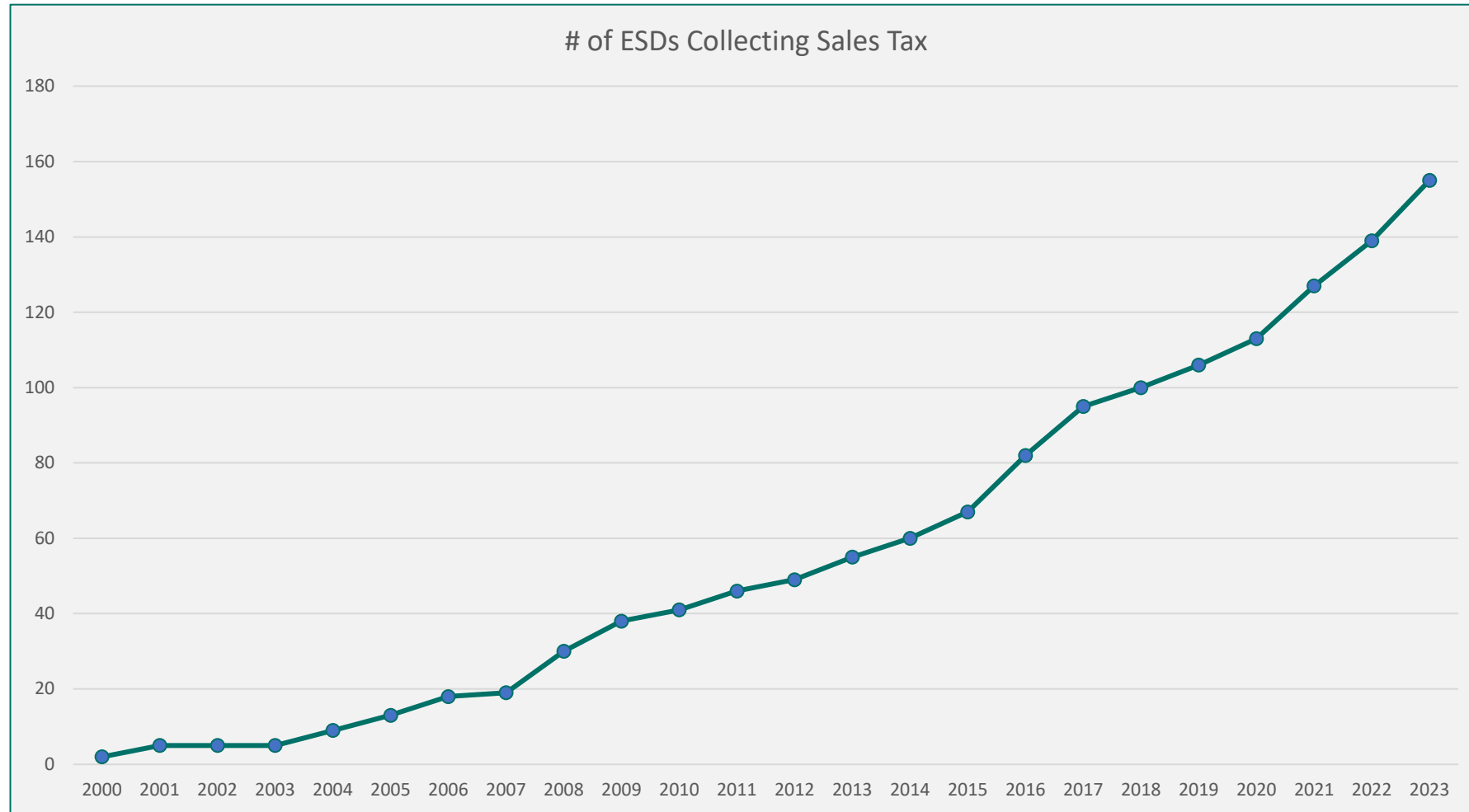
Reports Available

- List of Sales and Use Tax Taxpayers Paid Up
- List of Delinquent Sales and Use Tax Taxpayers
- List of Businesses by ZIP Code or Jurisdiction
- List of New Sales Tax Permit Holders with Local Information
- Sales Tax Area Report
- Confidential Detail Report

ESD Sales Tax Trends

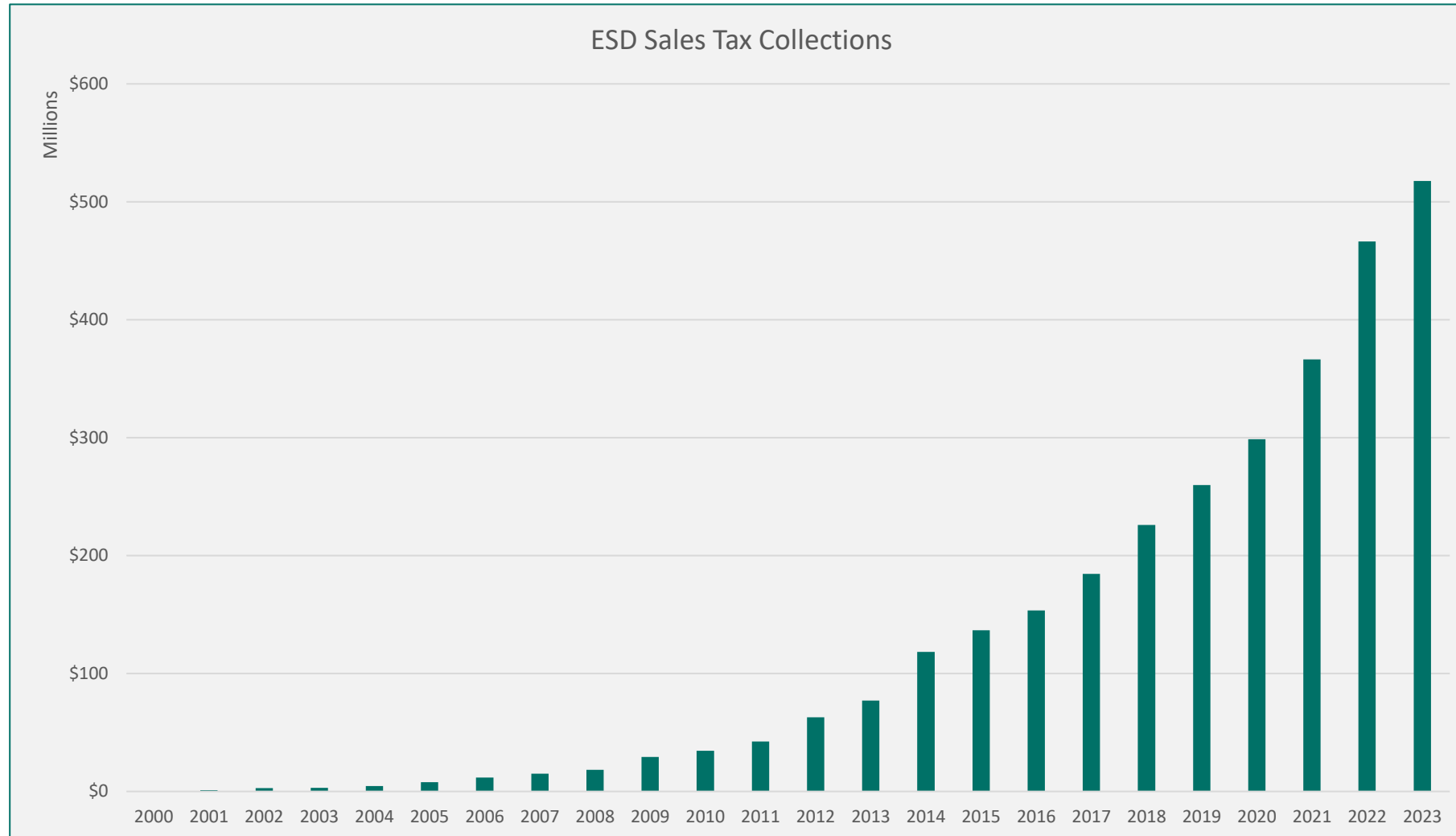


ESDs Imposing Sales Tax





ESD Sales Tax Growth



Sales Tax Estimates

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Estimate Basics

- Good way to understand what sales tax revenues might be available if your District was to pass a sales tax election or sales tax rate increase
- Can be done on your own or with the help of a consultant
- Requires an understanding of your District's boundaries and what other jurisdiction(s) may already impose sales tax
 - Reliable mapping is extremely important
 - REMINDER: Property tax area DOES NOT equal sales tax area



DIY Estimate Steps: Part 1

1. Contact Aubrey Mashburn at Comptroller's office:
 - aubrey.mashburn@cpa.texas.gov
 - (512) 463-9634
2. Request an estimate for possible new sales tax
3. Provide your contact information
4. You will be asked to provide a list of zip codes in your District
 - Be sure to include all zip codes that are even slightly in your District
5. Comptroller will return a list of all businesses in the provided zip codes



DIY Estimate Steps: Part 2

6. You must edit the list to include only those in your potential sales tax boundary
 - Requires an understanding of other jurisdictions in your area that already impose sales tax
7. Once edited, you return the list to the Comptroller's office
8. They will then provide a 12-month total for those businesses included in the list
 - Based on taxable sales reported
9. 12-month total provided should be multiplied by the planned tax rate and adjusted for Comptroller fees



Limitations of Estimates

- Comptroller does not estimate tax collected from businesses located outside the District
- Businesses in the District who are list filers are excluded
- Businesses can frequently open, close, or change permit numbers
- Submitted list of businesses can be inaccurate
- Economic environment can change quickly

Understanding Your Sales Tax

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Allocation Payment Detail

Sample County ESD 1
Local Code: 5XXXXXX

Allocation Period: Sep 2023	
(A) Total Collections (=B+C+D+E+F+G):	2,094,615.45
(B) Prior Period Collections:	49,677.51
(C) Current Period Collections:	1,991,878.75
(D) Future Period Collections:	1,499.85
(E) Audit Collections:	50,252.70
(F) Unidentified Collections:	1,306.64
(G) Single Local Rate Collections:	3,201.74
(H) Service Fee (2% of A):	41,892.31
(I) Current Retained (2% of A):	41,054.46
(J) Prior Retained (2% Prior month A):	49,182.54
(K) Net Payment (A-H-I+J):	2,064,052.96



Remember the Allocation Schedule

Tax Collected	January	February	March	April	May	June	July	August	September	October	November	December
	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
Paid to the TCPA	February	March	April	May	June	July	August	September	October	November	December	January
	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓	↓
Allocated to Jurisdictions	March	April	May*	June	July	August*	September	October	November*	December	January	February**

* indicates allocation month that includes quarterly filing taxpayers

** indicates allocation month that includes quarterly and annually filing taxpayers



Current Period Collections

- Doesn't include anomalies
ex: Audits, Prior Period Payments
- More accurate representation
of current economic activity

Allocation Period: Sep 2023	
Total Collections:	2,094,615.45
Prior Period Collections:	49,677.51
Current Period Collections:	1,991,878.75
Future Period Collections:	1,499.85
Audit Collections:	50,252.70
Unidentified Collections:	1,306.64
Single Local Rate Collections:	3,201.74
Service Fee:	41,892.31
Current Retained:	41,054.46
Prior Retained:	49,182.54
Net Payment:	2,064,052.96



Identifying Anomalies

	Simple Example	
(A)	Total Collections:	159,985.64
(B)	Prior Period Collections:	5,431.36
(C)	Current Period Collections:	154,230.10
(D)	Future Period Collections:	446.05
(E)	Audit Collections:	-1,083.87
(F)	Unidentified Collections:	25.12
(G)	Single Local Rate Collections:	936.88
(H)	Service Fee:	3,199.71
(I)	Current Retained:	3,135.72
(J)	Prior Retained:	2,546.80
(K)	Net Payment:	156,197.01

	Complex Example	
(A)	Total Collections:	954,584.68
(B)	Prior Period Collections:	458,158.95
(C)	Current Period Collections:	483,197.36
(D)	Future Period Collections:	1,578.67
(E)	Audit Collections:	5,909.49
(F)	Unidentified Collections:	149.93
(G)	Single Local Rate Collections:	5,590.28
(H)	Service Fee:	19,091.69
(I)	Current Retained:	18,709.86
(J)	Prior Retained:	6,743.50
(K)	Net Payment:	923,526.63

Be sure to look deeper! Prior Period Collections and Audits can produce large amounts of sales tax that are likely not to be repeated in future periods.



How to Know More

Request your Confidential Detail Report!

- Must be requested each month by an authorized personnel
- Is strictly for the use of forecasting and internal auditing
- Provides taxpayer level detail that can answer questions like:
 - Who are your top taxpayers?
 - Are you receiving tax from businesses you shouldn't be?

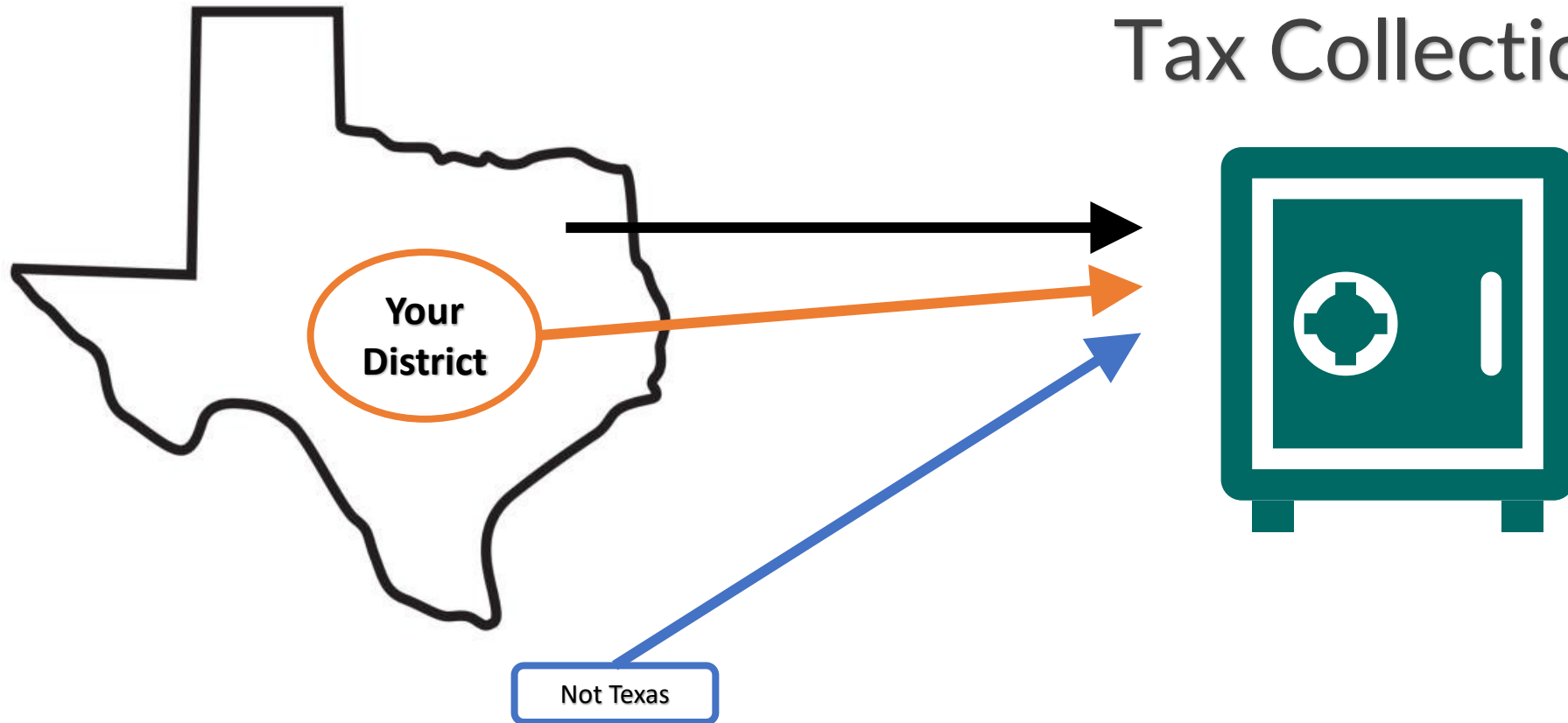
Requires some level of skill to
organize & generate insights



Where Your Sales Tax Originates

Where the business is located

Your District's Sales
Tax Collections





In-District Businesses

Not all businesses will generate sales tax

Businesses that typically report to the District in which they are located include:

- Retail stores
- Restaurants
- Building materials sellers
- Real property services (lawncare, pest control, janitorial services)



Out-of-District Businesses

You should expect to receive tax from the following types of businesses located outside of your District:

- Internet retailers delivering to customers in your District
ex: Amazon, eBay, Walmart.com
- Businesses providing services to customers in your District
 - Cable and streaming services
 - Waste collection
 - Commercial real property repair



Part 2: Advanced Topics

- Determining a “Place of Business”
- Understanding Your Sales Tax
- Budgeting and Forecasting

Determining a “Place of Business”



Nuances of Texas Sales Tax

What is a “place of business” as defined by Comptroller?

- A location operated for the purpose of selling taxable items.
 - Taxable items include tangible personal property and taxable services.
- Receives 3 or more orders per year
 - Presence of sales personnel required
 - Does NOT include online orders



Nuances of Texas Sales Tax

Are these examples of a “place of business”?

NO	Maybe?	YES
Website	Distribution Center	Retail Store
	Manufacturing Facility	Restaurant
	Home Office	



Nuances of Texas Sales Tax

Texas employs a hybrid model of determining where local sales tax is due

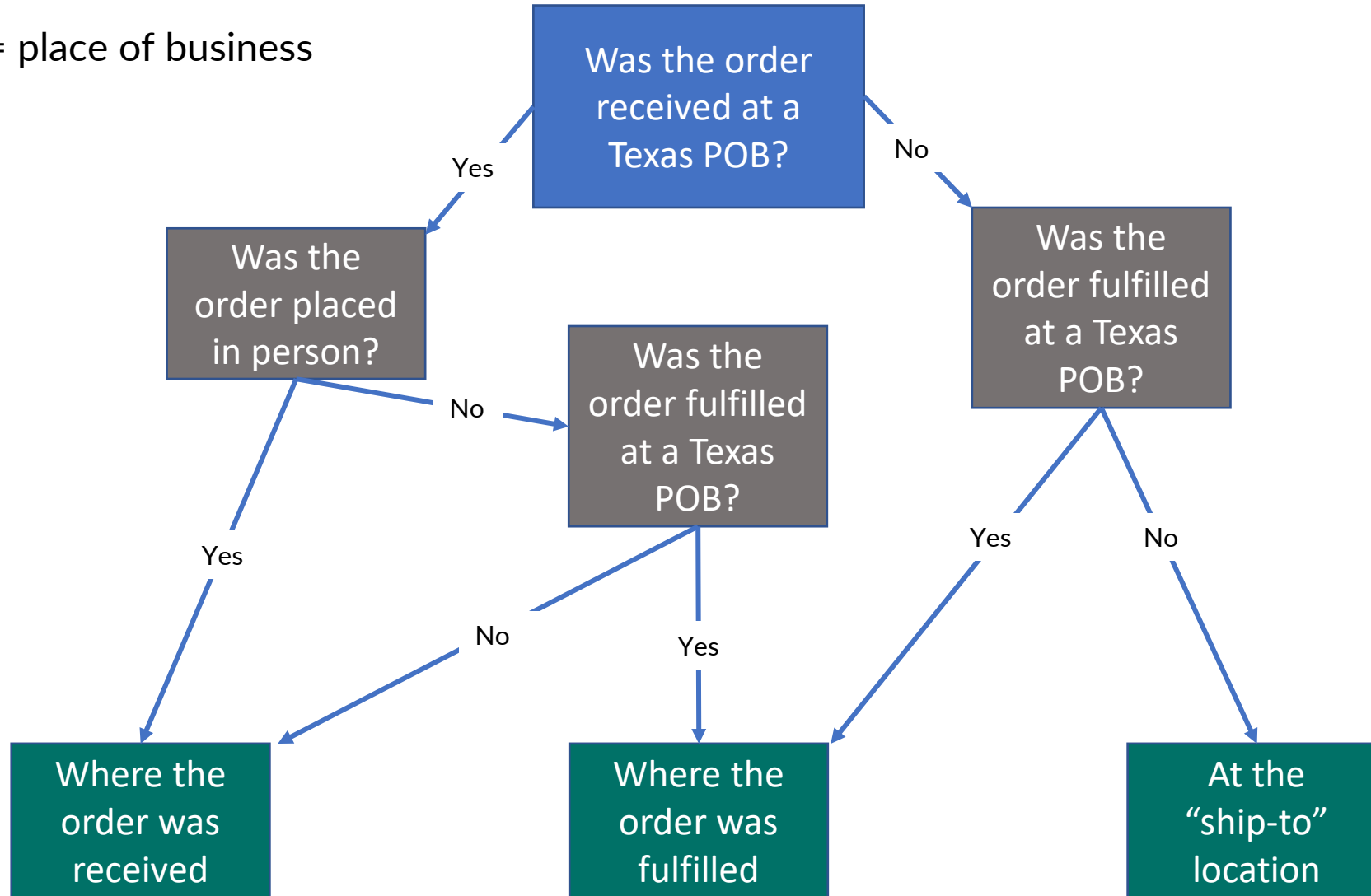
Local sales tax can be sourced based on 1 of 3 possible locations:

1. Place of business where the order was received
2. Place of business where the order was fulfilled
3. At the “ship-to” location



Nuances of Texas Sales Tax

POB = place of business



Sales Tax due:



Nuances of Texas Sales Tax

Example: Lumber

Situation 1: Customer buys lumber in person at hardware store A

Outcome: Tax is due based on the location of hardware store A

Situation 2: Customer orders lumber (not in person) from hardware store A and product is delivered from hardware store B

Outcome: Tax is due based on the location of hardware store B

Situation 3: Customer orders lumber online, and it is delivered to the customer directly from out of state

Outcome: Tax is due based on the address where the lumber is delivered

Understanding Your Sales Tax

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How to Know More

Request your Confidential Detail Report!

- Must be requested each month by an authorized personnel
- Is strictly for the use of forecasting and internal auditing
- Provides taxpayer level detail

Requires some skill to
organize & generate insights



Interpreting Your Data

Example Confidential Information Report

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
1	TP NO	NAME	ADDRESS	SPD	STATE	ZIP CODE	NAICS NO	OUTLET NC	OUTLET NA	OUTLET AD	OUTLET CI	OUTLET ST	OUTLET ZIF	OUTLET NA	ALLOC MO	TOTAL PAID	OBLIG TYPE	PRD BEGIN	PRD END	TAX PAID	TAX
2	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202111	202111	0.17	26
3	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202201	0.17					
4	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202112	202112	0.88	26
5	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202202	0.88					
6	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202201	202201	0.75	26
7	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202203	0.75					
8	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202202	202202	1.5	26
9	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202204	1.5					
10	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202203	202203	2.97	26
11	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202205	2.97					
12	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202205	202205	0.92	26
13	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202207	0.92					
14	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202207	202207	0.15	26
15	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202209	0.15					
16	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202208	202208	0.94	26
17	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202210	0.94					
18	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202209	202209	0.82	26
19	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202211	0.82					
20	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202210	202210	0.28	26
21	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202212	0.28					
22	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202212	202212	0.09	26
23	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202302	0.09					
24	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202301	202301	1.64	26
25	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202303	1.64					
26	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202302	202302	0.93	26
27	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202304	0.93					
28	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202303	202303	0.19	26
29	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202305	0.19					
30	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202304	202304	0.92	26
31	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202306	0.92					
32	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202305	202305	0.55	26
33	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202307	0.55					
34	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110										R	202306	202306	0.94	26
35	1.011E+10	DEPT STOR 111	1ST AV ESD A		TX	4976	455110								202308	0.94					
36	1.01E+10	RESTAURAI 222	2ND ST ESD A		TX	3943	722511										R	202112	202112	0.78	26
37	1.01E+10	RESTAURAI 222	2ND ST ESD A		TX	3943	722511								202202	0.78					
38	1.01E+10	RESTAURAI 222	2ND ST ESD A		TX	3943	722511										R	202209	202209	0.74	26
39	1.01E+10	RESTAURAI 222	2ND ST ESD A		TX	3943	722511								202211	0.74					



How does it apply to your District

Understand your District's sales tax profile

- Who are your key players?
- How diverse and sustainable is your sales tax base?
- Budget sales tax with greater clarity



Who Are Your Key Players?

Do you know who your number one taxpayer is?

What percentage of your sales tax originates from this taxpayer?

Are this taxpayer's sales tax collections stable? Reliable?

What about your top ten taxpayers? Top 100?



Who Are Your Key Players?

Number of Taxpayers	ESD A	ESD B	ESD C
#1	5.4%	37.1%	17.4%
Top 10	18.3%	46.6%	44.8%
Top 100	51.6%	68.8%	82.6%



In Jurisdiction vs. Out of Jurisdiction

Type	ESD A	ESD B	ESD C
In Jurisdiction	67.1%	85.4%	55.6%
Out of Jurisdiction	32.9%	14.6%	44.4%



Business Groups

Statewide*	Business Group	ESD A	ESD B	ESD C
26%	Construction and Manufacturing	21%	54%	25%
9%	Internet Retail	9%	3%	6%
24%	General Retail	25%	19%	25%
11%	Utilities and Other Taxable Services	13%	6%	12%
9%	Professional and Financial	7%	3%	2%
6%	Grocery Stores and Pharmacy	9%	4%	12%
13%	Restaurants and Entertainment	15%	10%	17%
2%	Unclassified	1%	1%	1%

* Based on HdL client data



Understanding Your Sales Tax

- **Identifying Characteristics of Your Revenue Sources**
 - Recurring vs. One-Time
 - Sustainable vs. Vulnerable



Assess Recurring vs. One-Time Revenue

- **Recurring Revenue** – sales that that, based on its nature, is likely to continue. These tax dollars can more confidently be considered in long-term budget forecasting.
- **One-Time Revenue** – sales tax that, based on its nature, may not continue. These tax dollars are realized only one time or for a short period of time and should therefore not be considered when budgeting future sales tax.



Example Characteristics

Recurring	One-Time
Sales made at location within your jurisdiction	Project-based sales tax
Online sales	Boom-bust cycle businesses
Residence-based sales tax	New businesses



Recurring vs. One-Time

Revenue Type	ESD A	ESD B	ESD C
Recurring	85%	95%	75%
One-Time	15%	5%	25%



Assess Sustainability vs Vulnerability

- **Sustainable** – businesses that have a stable demand and are less likely to relocate. These sales tax revenue sources are more dependable to incorporate into your organization's long-term budget forecast.
- **Vulnerable** – businesses that can more easily relocate and are more sensitive to changes in economic conditions. These sales tax revenue sources are less dependable, and you should be aware when incorporating them into your organization's long-term budget forecast.



Example Characteristics

Sustainable	Vulnerable
Site Dependent	Not Site Dependent
Diverse Customer Base	Highly Competitive
Stable Demand	Sensitive to Economic Fluctuations

Budgeting and Forecasting



How to Budget Sales Tax

Baseline



Expected Growth Rate



Budget

Baseline Options:

- Net Payment
- Current Period Collections
- Confidential Detail Report

Allocation Period: Sep 2023

Total Collections:	2,094,615.45
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Budget Sales Tax Smarter

Key Considerations:

- Month-over-month sales tax is not a flat trend line
 - Same month year-over-year comparisons optimal
- Quarterly allocation spikes due to quarterly tax filings
 - February, May, August, November
- February allocation typically highest of year
 - Confluence of quarterly and annual reports with holiday retail season
- District-specific nuances
 - Seasonality
 - Annual events



Part 3: Leveraging Your Knowledge

- Recognize Sales Tax Opportunities
- Monitor the Sales Tax Landscape
- Incorporating Sales Tax Into Your Overall Plan



Leveraging Your Sales Tax Knowledge

Using your newly gained sales tax expertise you can:

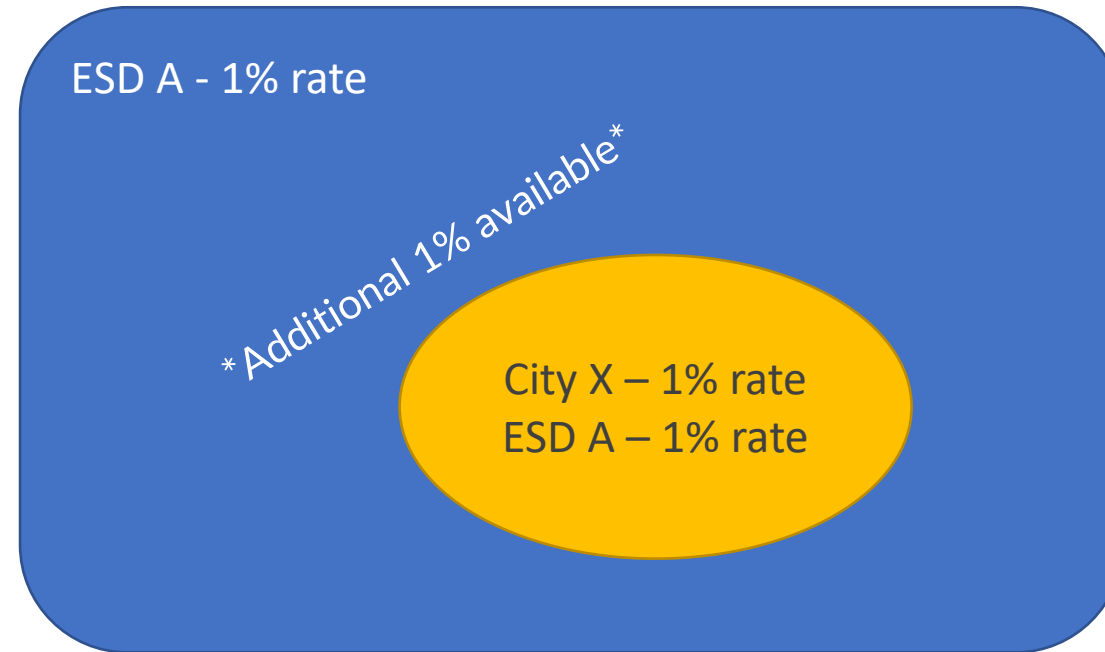
- Recognize Sales Tax Opportunities
 - Maximize your rate
 - Sales tax sharing
 - Building strong relationships with businesses and other government entities
- Monitor the sales tax landscape
 - Understand Annexations
 - Keep up with relevant legislative discussions

Recognize Sales Tax Opportunities



Maximize Your Rate

- Do you have the ability to capture more sales tax?
- Rate increase requires election





Sales Tax Sharing

Why Consider Sharing Sales Tax?

- Promote inter-agency cooperation
- Help other agencies understand and champion District's message
- Raise District's community profile
- Lend voice to economic development discussions

Agreements can be Comptroller-administered or self-administered



Methods of Sharing Sales Tax

Comptroller administered sharing agreements

- Sharing agreements prompted by annexation
- Creates “combined sales tax areas”
- Tax allocated monthly by TCPA just like normal

Self-administered agreements

- Sharing agreements not necessarily prompted by annexation
- Taxpayer-specific or area-specific sharing agreements
- Sharing with other special districts not authorized to levy sales tax
- Challenges with self-administered sharing
 - Data limitations
 - Managing expectations to avoid downstream issues

Monitor the Sales Tax Landscape



Understanding Annexations

Not all annexations are created equal

Full Purpose Annexations

- District loses sales tax
- Annexing city is responsible for providing all services
- If city is unprepared to provide full services city may pursue service agreements with other qualified agencies

Limited Purpose Annexations

- District retains sales tax
- District continues to provide services
- Annexing city may or may not also collect sales tax



Legislation to Monitor

Current pending legislation between group of cities and the Comptroller over specific language related to the definition of “place of business of the seller”

- The core disagreement is regarding what it means to “receive” an order and whether warehouses that fulfill online orders should qualify as places of business
- Comptroller maintains that online orders are not “received” at fulfillment warehouses and therefore should be taxed based on the point of delivery

Incorporating Sales Tax Into Your Overall Plan



Planning Process

You can incorporate sales tax into your overall planning process by:

- Understanding your demographic profile and its impact on tax revenues
 - Property Tax Revenue
 - Sales Tax Revenue
- Shaping your strategic goals
 - Infrastructure and Services
 - Financial Sustainability & Revenue Optimization
 - Community Engagement



Planning Process

Understanding Your Demographic Profile

- Population Characteristics
 - Age Distribution
 - Household Composition
 - Income Levels
- Growth Trends
- Education and Employment
 - Educational Attainment
 - Industry Sectors
- Additional Factors



Planning Process

Strategic Goals

- Infrastructure & Services
 - Facilities, equipment, and personnel
 - Emergency response capabilities
 - Training programs
- Financial Sustainability & Revenue Optimization
 - Balanced budget for long-term financial health
 - Collaborative efforts
- Community Engagement
 - Awareness of ESD functions and priorities
 - Importance of property and sales tax

HdL[®] Companies

Thanks for listening!

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