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Inter-Departmental Memo

To: Hon. Howard J. Kopel, Chairman of the Budget Review Committee
All Members of the Budget Review Committee

From: Maurice Chalmers, Director
Office of Legislative Budget Review

A handwritten signature in blue ink, appearing to be "MC", enclosed in a blue circular scribble.

Date: April 10, 2015

Re: FY 2015 Sales Tax

With the receipt of the April 10, 2015 sales tax check, the County has received the quarterly adjustment for the period of December 1, 2014 through February 28, 2015. Year-to-date sales tax collections total \$209.0 million. This is an increase of \$6.0 million, or 3.0%, over the receipts through the same period last year. The chart below details the year to date gross sales tax payments through April 10, 2015 compared to the same period last year.

2015 Year-to-Date Sales Tax Receipts

(figures in millions)

	2014	2015	Variance \$	Variance %
Gross YTD Sales Tax	\$203.0	\$209.0	\$6.0	3.0%

The FY 2015 sales tax budget, excluding the deferred piece, is \$1,143.3 million. The FY 2015 sales tax budget was based on a 3.0% growth over the FY 14 year end projection, with the expectation that 2014 would result in a deficit of approximately \$51.5 million. However, the final year end FY 2014 sales tax deficit was \$70.7 million. Thus, County sales tax collections now must overcome the approximate \$20.0 million shortfall created by the lower than expected base upon which the FY 2015 was calculated. A growth of 5.2% in the remaining checks is required to achieve the FY 2015 sales tax budget.

Corrective budget actions will need to be implemented as the requisite 5.2% positive growth could be a daunting task. Sales tax collections would fall \$46.4 million below budget if the remaining sales tax checks contain no growth compared to 2014. Although it is early in the year, it is always prudent to err on the side of caution as February 2015 economic trends did not exhibit positive growth and may be seen as revealing a change in consumer psychology.

- New York State Department of Labor figures for Nassau County recorded an annual decline of 2,200 employed residents in February 2015.
- New York State Department of Labor figures show Nassau’s labor force declined 1.2% from the prior year and 0.7% from the prior month. The February 2015 labor force figure was the lowest it has been since 2001. Analysts attributed this to not only discouraged workers, but retiring baby boomers.¹ Retired individuals living on fixed budgets are inclined to make fewer purchases.
- Individuals were said to be using the lower gas prices as a way to boost savings. The U.S. savings rate rose to 5.8% in February 2015, the highest level seen since December 2012.²

Throughout the nation, 2015 real US GDP growth is expected to be 2.7% on average. The table below details several current forecasts of real 2015 US GDP growth.

Current Forecasts of US 2015 Real GDP Growth	
Company	2015%
Mortgage Bankers Association	2.7%
Fannie Mae	2.8%
Freddie Mac	2.6%
Average	2.7%

If the remaining checks grow by 2.0%, the County would experience a sales tax shortfall of \$28.7 million compared to the budget. If the remaining checks contain a 3.0% growth, the County would experience a sales tax shortfall of \$19.8 million. The table on the following page depicts the resultant sales tax deficit for various annual growth rates on the remaining checks.

¹ Mason-Draffen, Carrie, “Long Island Labor Force Drops to Lowest Level in More than a Decade”, [Newsday.com](http://www.newsday.com), March 31, 2015.

² Mutikani, Lucia, “U.S. Consumer Spending Tepid; Savings at Two-Year High”, [Reuters.com](http://www.reuters.com), March 30, 2015.

Forecast Sales Tax Growth and Resultant Annual Impact

Annual Growth	Sales Tax Deficit
1.0%	(\$37.6)
1.5%	(\$33.1)
2.0%	(\$28.7)
2.5%	(\$24.2)
3.0%	(\$19.8)
3.5%	(\$15.4)
4.0%	(\$10.9)
5.0%	(\$2.0)

It appears that the challenge will be overcoming the \$20.0 million created by the lower base used to calculate the 2015 budget. OLBR will be updating the committee as the year progresses and additional remittances are received. If you should have any further questions, please let me know.

cc: Hon. George Maragos, Nassau County Comptroller
Eric Naughton, Deputy County Executive
Roseann D'Alleva, Budget Director, OMB
Evan Cohen, Executive Director, NIFA
William Biamonte, Minority Chief of Staff
Michele Darcy, Minority Finance
Dan McCloy, Director of Law, Finance & Operations
Concetta Petrucci, Director of Legislative Affairs
William Muller, Clerk of the Legislature