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Inter-Departmental Memo

To: Hon. Vincent Muscarella, Chairman of the Budget Review Committee
All Members of the Budget Review Committee

From: Maurice Chalmers, Director
Office of Legislative Budget Review

HC for MC

Date: July 12, 2018

Re: FY 18 Year to Date Sales Tax

With the receipt of the July 12, 2018 sales tax check, the County has received the quarterly adjustment through May 31, 2018. Year to date sales tax collections total \$532.0 million. This is an increase of \$22.6 million, or 4.4%, over the receipts through the same period last year. The chart below details the year to date gross sales tax payments through July 12, 2018 compared to the same period last year.

2018 Year-to-Date Sales Tax Receipts
(figures in millions, includes residential energy collections)

	2017	2018	Variance \$	Variance %
Gross YTD Sales Tax	\$509.4	\$532.0	\$22.6	4.4%

The total sales tax revenue in the FY 18 Adopted Budget, excluding the deferred piece, is \$1,183.3 million. Assuming the part-county sales tax collections equal budget, remaining checks could fall by 0.3% and the sales tax budget would be achieved. Positive sales tax growth is supported by regional economic momentum and forecasts of annual real US Gross Domestic Product (GDP).

A review of current local economic indicators reveals support for continued positive economic growth and a projected year end FY 18 sales tax surplus.

- May 2018 New York State Department of Labor figures reveal that Long Island had a record number of employed residents and its unemployment rate is nearing record low levels. In Nassau County, the unemployment rate dropped 0.5 percentage points to 3.4%.¹
- Long Island construction jobs recorded positive growth in May 2018. According to the Associated General Contractors of America, from an annual perspective Long Island gained about 4,400 construction jobs, a 5.0% increase.²
- According to the Commerce Department, in May 2018 consumers were confident enough to increase their purchases, resulting in an 0.8 percent increase in U.S. retail sales. This was the largest increase recorded in six months.³
- U.S. Bureau of Labor Statistics figures show that in May 2018, regional consumer prices increased 2.3% from a yearly perspective. This should positively impact County sales tax collections which rise in tandem with consumer price increases.⁴

Looking forward, the positive economic trend is expected to continue throughout 2018. A survey of current 2018 economic forecasts reveals that throughout the US, economic growth is expected to average 2.8%. The chart below illustrates the forecast real US GDP 2018 growth rates.

US GDP 2018 and 2019 Forecasts, as of 2nd Quarter 2018

	2018	2019
Fannie Mae	2.7%	2.3%
Mortgage Bankers Assn.	2.9%	2.3%
Federal Reserve Bank	2.8%	2.7%
Average	2.8%	2.4%

Thus, the County appears to be on track to reach and exceed the sales tax budget. The following chart depicts the resultant sales tax variances for various annual growth rates on the remaining checks, assuming the part-county collections equal budget.

¹ Solnik, Claude, “Long Island Unemployment Rate Reaching Record Low”, LIBN.com, June 19, 2018.

² Winzelberg, David, “LI Adds More Construction Jobs in May”, LIBN.com, June 26, 2018.

³ The Associated Press, “US Retail Sales Climb by most in 6 Months”, LIBN.com, June 14, 2018.

⁴ Mutikani, Lucia and Andrea Ricci, “U.S. Consumer Inflation Rises, Core PCE Price Index Hits 2 Percent”, Reuters.com, June 29, 2018.

Forecast Sales Tax Growth and Resultant Annual Impact

Remaining Growth	Sales Tax Surplus / (Deficit)
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0.0%	\$2.2
0.5%	\$5.5
1.0%	\$8.8
1.5%	\$12.0
2.0%	\$15.3
2.5%	\$18.6
3.0%	\$21.8

However, assuming 2.5% growth for the remainder of the year, the part-county sales tax portion is projected to exceed budget by roughly \$7.6 million, that amount will have to be subtracted from the above detailed surpluses and deferred until FY 19 for budgetary purposes. The County can't recognize a surplus in its part-county collections; since the surplus funds must be deferred and not recognized until two years later. For example, if remaining checks were to grow by 2.5%, the County would experience an \$18.6 million surplus. It could not recognize \$7.6 million of the surplus in FY 18, hence the FY 18 budgetary sales tax surplus would be \$11.0 million.

The County has projected an \$8.0 million surplus for its FY 18 sales tax collections. OLBR is cautiously optimistic that the projected surplus will be achieved, given current collections and trends. However, a final number will not be confirmed until year end.

If you should have any further questions, please let me know.

cc: Mark Page, Deputy County Executive for Finance
 Andrew Persich, Budget Director, OMB
 Evan Cohen, Executive Director, NIFA
 Dan McCloy, Director of Law, Finance & Operations
 Chris Ostuni, Majority Counsel
 Peter Clines, Minority Counsel
 Michele Darcy, Minority Finance Director
 Michael Pulitzer, Clerk of the Legislature