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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

A handwritten signature in blue ink, appearing to be "M. Chalmers", next to the name in the "From:" field.

Date: January 6, 2020

Re: FY 19 Year to Date Sales Tax

With the receipt of the December 31, 2019 sales tax check, the County has received the quarterly adjustment for the period of September 1, 2019 through November 30, 2019 and the electronic funds transfer (EFT) for December 1, 2019 through December 22, 2019. Year to date sales tax collections total \$1,148.2 million. That amount reflects the reduction of \$7.6 million in Aid and Incentive for Municipalities (AIM) that the County is now required to make in exchange for collecting Internet sales tax. This is an increase of \$39.8 million, or 3.6%, over the receipts through the same period last year. The chart below details the year to date gross sales tax payments through December 31, 2019 compared to the same period last year.

2019 Year-to-Date Sales Tax Receipts (figures in millions)

	2018	2019	Variance \$	Variance %
Gross YTD Sales Tax	\$1,108.4	\$1,148.2	\$39.8	3.6%

The total sales tax revenue in the FY 19 Adopted Budget, excluding the deferred piece, is \$1,231.3 million. Assuming the part-county sales tax collections equal budget, remaining checks could fall by 10.7% and the sales tax budget would be achieved. 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.

Forecast Sales Tax Growth and Resultant Annual Impact	
Remaining Growth	Sales Tax Surplus / (Deficit)
0.0%	\$10.0
0.5%	\$10.4
1.0%	\$10.9
1.5%	\$11.4
2.0%	\$11.8
2.5%	\$12.3
3.0%	\$12.8

Based on recent collections, the County is on track to achieve a budgetary sales tax revenue surplus. The final surplus number may require some adjustments. Assuming a 2.5% growth for the remainder of the year, the part-county sales tax portion is projected to exceed budget by roughly \$2.2 million, that amount will have to be subtracted from the above detailed surpluses and deferred until FY 21 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 a \$12.3 million surplus. It could not recognize \$2.2 million of the surplus in FY 19, hence the FY 19 budgetary sales tax surplus would still be \$10.1 million.

The FY 20 Proposed budget included \$14.6 million in new internet sales tax collections **net** of Aid and Incentives for Municipalities (AIM) payments and 1.9% for economic growth.

Internet sales tax collections appear to have had a positive fiscal impact for the County. Since all sales tax collections are lumped together, an exact impact can not be ascertained. However, the collection of these taxes took effect on purchases made on or after June 1, 2019.¹ Hence, these collections were incorporated into checks received by the County on June 28, 2019 and after. The average check to check increase prior to the internet collections was 2.1%; the average check to check increase after the imposition was 4.2%. Thus, sales tax growth rates on average have increased after the collection of internet sales tax.

A review of current national and local economic indicators supports the continued positive economic growth for the remainder of FY 19 and throughout FY 20.

- The Federal Reserve showed confidence in the current status of the U.S. economy by leaving its benchmark interest rate unchanged on December 11, 2019 and stating that it expects to keep rates unchanged through next year.²

¹ Steinbuch, Yaron, "Online Shoppers Will Soon Have to Pay Sales Tax in New York", [NYPPost.com](http://nypost.com), April 4, 2019.

² The Associated Press, "Fed Leaves Low Rates Alone and Foresees No Moves in 2020", [LIBN.com](http://libn.com), December 11, 2019.

- Consumers revealed their confidence in the economy by increasing holiday retail sales 3.4% from November 1, 2019 through December 24, 2019. Moreover, online sales rose 18.8% over the same time period.³
- Nassau County’s unemployment rate was 3.2% in November 2019; up 0.2 percentage points from the prior year. Analysts viewed this as a positive sign that discouraged workers were re-entering the job market; that there is hiring activity in pretty much every industry and pretty much every skill level.⁴
- The Nassau County housing market is moving forward, but some market segments are showing cautionary signs. Overall, year-over-year figures show closed prices have risen 1.7% and closed home sales have fallen 4.6%. Looking forward, year-over-year pending sales have increased by 5.4%. Analysts state that the rental market and the market for homes priced under \$600,000 are strong. It is the market for homes priced over \$850,000 that is starting to shift into a buyer’s market.⁵

Given current trends, OLBR is optimistic that the current budget will be surpassed and that the County will end the year with a sales tax surplus. Assuming 2.5% growth in the remaining checks, the County would obtain a \$10.1 million budgetary overage after adjusting for the projected part-county sales tax collection surplus in FY 19.

If you should have any further questions, please contact our office.

cc: Raymond Orlando, Deputy County Executive for Finance
 Andrew Persich, Budget Director, OMB
 Evan Cohen, Executive Director, NIFA
 Robert Conroy, Budget Research Analyst
 Chris Ostuni, Majority Counsel
 Peter Clines, Minority Counsel
 Michele Darcy, Minority Finance Director
 Michael Pulitzer, Clerk of the Legislature

³ The Associated Press, “Online Sales Make Up a Larger Portion of Overall Sales Again”, [LIBN.com](#), December 26, 2019.

⁴ Schachter, Ken, “Official – LI Jobless Rate Up in November, But Still Close to Full Employment”, [Newsday.com](#), December 26, 2019.

⁵ McDermott, Maura, “LI Home Sales Cool but Prices Keep Rising, Data Show”, [Newsday.com](#), December 17, 2019.