



NASSAU COUNTY LEGISLATURE
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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", enclosed in a blue circular scribble.

Date: May 12, 2020

Re: FY 20 Year to Date Sales Tax

According to the New York State Schedule of Payments, with the receipt of the May 12, 2020 sales tax check, the County has received both the final non-Electronic Funds Transfer (EFT) and EFT monthly payments for March 1, 2020 through March 31, 2020.

Year-to-date sales tax collections total \$313.9 million. This is a decrease of \$11.8 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 May 12, 2020 compared to the same period last year.

2020 Year-to-Date Sales Tax Receipts (figures in millions)

	2019	2020	Variance \$	Variance %
Gross YTD Sales Tax	\$325.7	\$313.9	(\$11.8)	-3.6%

As will be seen, the year-to-date numbers include the benefit of the beginning of the year when sales tax was up, however this is no longer the case. The total sales tax revenue in the FY 20 Adopted Budget, excluding the deferred piece, is \$1,269.7 million. Assuming the part-county sales tax collections equal budget, a growth rate of 4.1% on all remaining checks is required to

reach the total sales tax budget. This appears unlikely. The Coronavirus continues to have a significant impact on County sales tax collections. Taxable purchases have declined precipitously since the stay home orders have been implemented.

Nationally, the U.S. economy shrank at a 4.8% annual rate in the first quarter of 2020, as the coronavirus pandemic shutdown much of the country and began triggering a recession. The January-March quarter decline is considered a precursor of a far grimmer report to come on the current April-June period, with business shutdowns and layoffs striking with devastating force. With much of the economy paralyzed, the Congressional Budget Office has estimated that economic activity will plunge this quarter at a 40% annual rate.¹

Cognizant of this, the Federal Reserve Bank has held two emergency meetings in which it cut interest rates to the zero to 0.25% range and announced nine new lending programs intended to support businesses and municipalities. The Federal Reserve stated that it will not begin to raise rates until it is confident that the economy is on a road to recovery; and this is not expected for many months.²

Locally, Department of Labor statistics show that initial unemployment claims for the week ending April 25, 2020 were up 1,161% from the prior year on Long Island.³ Moreover, a recent Federal Reserve Bank of New York Supplemental Survey itemized the payroll declines by industry. They found that as of the end of April 2020, service sector business payrolls were down just over 20.0% from their March 2020 level. During that same time period, manufacturing payrolls declined 11.0%. Contract worker payroll decreases were noted to be steeper; and the leisure & hospitality sector reported the most widespread and adverse impact. In their open comments, businesses stated that they could weather the shutdown for about two months; however, they were increasingly concerned if it took significantly longer for businesses to return to something approaching normal.⁴

Additionally, the leisure & hospitality sector, (the food services, restaurants and accommodations industry) was put into phase three for reopening according to the Governor's plan. This implies that many of these firms could miss their peak season. According to one firm in the industry, if their industry is not moved up to phase one of the reopening plan and they can't open by Memorial Day, they may not be able to remain in business.⁵

Actual sales tax data reveals that the initial March 2020's EFT payment was down **6.1%** from the prior year and the May 6th check was down **23.9%** of which the initial April 2020 **EFT** payment portion was down 21.9% from the prior year. Moreover, the most recent sales tax check was down **35.3%** from the same check last year. It should be mentioned that April 2020 represents a full month under a stay home order which is still ongoing. The decline has been precipitous, and as

¹ The Associated Press, "US Economy Shrank 4.8% Last Quarter", [LIBN.com](#), April 29, 2020.

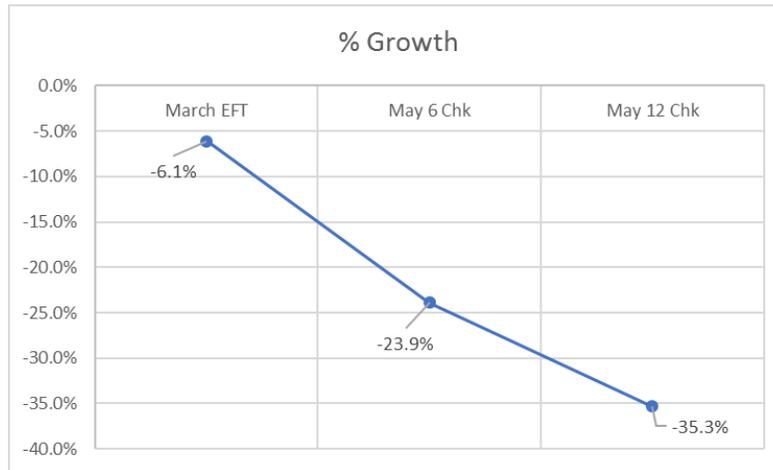
² The Associated Press, "Fed Signals it will Likely Hold Rates Near Zero for Months", [LIBN.com](#), April 29, 2020.

³ Rizzo, Dr. John A., "LIA Monthly Economic Report", [thelongislandassociation.org](#), May 2020.

⁴ Federal Reserve Bank of New York, "Supplemental Survey Business Report Extensive Fallout from Coronavirus", [newyorkfed.org](#), April 2020.

⁵ Genn, Adina, "Salvaging Long Island's Lost Summer", [LIBN.com](#), May 8, 2020.

mentioned above, this is further concerning since final sales tax revenues for the month of April and May have not been received yet. The chart below illustrates the downward trend:



The following chart details the fiscal sales tax net relative to the budget assuming different rates of decline on remaining sales tax checks. The total includes Nassau’s hospital fund deduction.

Forecast Sales Tax Growth and Resultant Annual Impact	
Assume remaining checks fall by:	
Remaining %	Grand Total (With NYS Hospital Withholding)
-1.0%	(\$52.0)
-2.0%	(\$61.2)
-3.0%	(\$70.3)
-4.0%	(\$79.5)
-5.0%	(\$88.7)
-6.0%	(\$97.9)
-7.0%	(\$107.1)
-8.0%	(\$116.3)
-9.0%	(\$125.5)
-10.0%	(\$134.6)
-11.0%	(\$143.8)
-12.0%	(\$153.0)

Until the economy reopens, the drop in sales tax revenues is expected to persist and there may not be enough time for a recovery to positively impact the FY 20 Budget. Although not illustrated in the chart above, a **-20.0%** decrease would impact the budget by approximately **-\$226.5** million which would be a tall order for the County to overcome. With the FY 2020 budget heavily leveraged on the continued sales tax growth, the Administration will need to formulate a plan to address the impending economic crisis which may include evaluating expenses and implementing other strategies.

If you should have any further questions, please do not hesitate to contact the Office.

cc: Raymond Orlando, Deputy County Executive for Finance

Andrew Persich, Budget Director, OMB
Evan Cohen, Executive Director, NIFA
Chris Ostuni, Majority Counsel
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Peter Clines, Minority Counsel
Michele Darcy, Minority Finance Director
Michael Pulitzer, Clerk of the Legislature