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### **Inter-Departmental Memo**

To: Hon. Judith Jacobs, Chairperson Budget Review  
All members of the Budget Review Committee

From: Eric C. Naughton, Director   
Legislative Budget Review

Date: March 12, 2009

Re: January 2009 Sales Tax

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The County has now received all of the sales tax receipts that get credited to the month of January 2009. The gross amount collected is \$67.9 million, which is \$6.6 million, or 8.9%, less than the January 2008 total of \$74.5 million. If you include the electronic funds transfer payments that have already been received for February, the year-to-date decline is 8.1%.

The FY 09 sales tax budget of \$1.036 billion was based on the assumption that collections would grow by 1.9% in FY 08, and 0.5% in FY 09. (Note: the actual sales tax budget for FY 09 is \$1.038 billion, but that figure includes \$1.4 million of prior year deferred part-County sales tax.). The 2008 receipts declined by 0.9% and under the current economic conditions it is not likely that there will be any growth this year. OLBR is projecting annual collections of \$962.8 million, a decrease of 7% for the first quarter, but 4% for the year, while the Administration is projecting \$937.8 million, a decrease of 6%. Those negative rates would result in a budget shortfall of \$74 million to \$100 million.

The 8.9% decline in the January 2009 collections corresponds to that recorded during the fourth quarter of 2008. County sales tax collections are down as consumers and businesses lack both the means and motivation to make purchases.

The current drop off in purchases may be attributed to the fact that households and businesses do not have the means, requisite cash or financing streams, available to pay for commodities.

New York State Bureau of Labor Statistics figures show that in January 2009, the Long Island economy lost 23,400 non-farm jobs. Additionally, the Nassau County unemployment rate spiked up to 6.5% from December 2008's 5.6% level. Such high job loss and unemployment figures imply that individuals do not have cash on hand to make purchases and businesses do not have the cash available to keep individuals on payroll. These figures mask the true hardship in the economy since the unemployment rate does not count those who have stopped looking for work. Moreover, individuals who still have jobs but received a pay cut or experienced a furlough are not represented. Both pay cuts and furloughs will leave individuals without the means required to make purchases. According to a recent Watson Wyatt business survey, 6% of respondents plan mandatory furloughs over the next 12 months and 11% have already implemented one.<sup>1</sup>

Since home equity is dropping and the Federal Reserve is placing strict regulations on retailer financing, individuals are left with fewer financing options to make purchases.

February 2009, Multiple Listing Service of Long Island figures show that average closed prices in Nassau County are down 22.1% from the prior year. An annual decline of that magnitude implies that many household mortgages may be upside down or underwater, leaving the resident with no equity to tap. This decline will negatively impact sales tax collections since economists estimate that consumption increases eight to nine dollars for every \$100 increase in housing wealth. Consumption may be expected to decline eight to nine dollars for every \$100 decrease in home equity.<sup>2</sup>

Another byproduct of the current financial meltdown is that the Federal Reserve is seeking to impose stricter regulations on financial institutions. One of the areas coming under tighter scrutiny is that of deferred interest promotions. These financing options allowed individuals to defer the interest due on a loan for a set period of time. If the loan is paid off on time, no interest is charged. A February 11, 2009 National Retail Federation letter states that current Federal Reserve actions have effectively banned these programs, which were very popular. Furniture retailers claim that 70% of their sales were made with the assistance of deferred interest promotions.<sup>3</sup>

The heightened unemployment has caused consumers to lose their motivation for spending. Households are attempting to save and only spend when it is absolutely necessary. This may be seen in automobile sales. Auto industry sales in February 2009 fell 41.4% from the prior year. However, Hyundai sales only fell 1.5%. Hyundai's relatively strong sales were attributable to its Assurance Plan which "lets buyers miss up to three months of payments if they lose their jobs, and return the car without paying for depreciation if they still can't find work."<sup>4</sup>

Looking forward, the current decline in sales tax collections is expected to subside by year end. Several factors are expected to commence during the second half of 2009 which would positively impact collections. These include a resumption of economic activity and the Federal Stimulus bill. The "Making Work Pay" provision in the Federal Stimulus bill will decrease payroll tax

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<sup>1</sup> Mattioli, Dana, and Sara Murray, "Employers Hit Salaried Staff with Furloughs", The Wall Street Journal, February 24, 2009.

<sup>2</sup> Bartlett, Bruce, "The Harsh Impact on Consumption of Lost Home Equity", Forbes.com, February 6, 2009.

<sup>3</sup> O'Donnell, Jayne, "Fed Changes Rules on Retailers' No-Interest Offers", USAToday.com, March 3, 2009.

<sup>4</sup> Healey, James R., "U.S. Car Sales Tank to Troubling Depths", USAToday.com, March 3, 2009.

withholdings throughout 2009. Most eligible workers can expect to see an additional \$13 per week in their take-home pay.<sup>5</sup> This action will place more cash in the hands of residents. Assuming that the money is used to make taxable purchases, County sales tax collections should increase.

Economists are anticipating positive economic activity by years' end. Chart 1 details current professional forecasts for national real GDP by quarter.

Chart 1  
**Forecast for 2009 US Real GDP**

	Q1	Q2	Q3	Q4
Philadelphia Federal Reserve	-5.2%	-1.8%	1.0%	1.8%
Mortgage Banker's Assoc.	-5.8%	-1.8%	-0.6%	1.2%

As has been my practice in the January sales tax memo, a brief overview of the collection process follows.

The sales tax rate in Nassau is 8.625%, of which 4.0% is the State's share, 4.0% is the County's share, 0.375% goes to the Metropolitan Commuter Transportation District, and the remaining 0.25% is distributed to the towns and cities in the County.

New York State collects the tax and makes regular, scheduled payments to the counties. The first payments in a quarter are estimates based on the County's percentage of statewide collections for that quarter in the prior year. The state will have received actual distribution information by the time of the final quarterly payment, which is adjusted to reflect the difference between the actual collections less the estimated pro-rated payments. For this reason it is difficult to project sales tax revenue based on the monthly receipts until those receipts are corrected at the end of a quarter. The state's quarters do not correspond to the calendar quarters, but are made up as follows: December through February, March through May, June through August, and September through November.

Vendors are required to submit their quarterly returns by the 20th day of the month following the close of a State collections quarter (March 20th, June 20th, Sept 20th, December 20th). The check received by the County in the second week of the following month will include the final quarterly adjustment (April 10, July 10, October 9, and January 14th).

In addition to the quarterly corrections there are adjustments for prior periods from late filers. These have at least a six-month delay.

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

cc: Hon. Howard Weitzman, County Comptroller  
Evan Cohen, Executive Director, NIFA  
Tom Stokes, Deputy County Executive

<sup>5</sup> "Obama: People Should See Tax Cut Help by April 1", [Newsday.com](http://www.newsday.com), February 21, 2009.