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NASSAU COUNTY LEGISLATURE
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Inter-Departmental Memo

To: Hon. John Ferretti, Chairman of the Budget Review Committee
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
Office of Legislative Budget Review

A handwritten signature in blue ink, appearing to be "M. Chalmers", written over a circular stamp.

Date: February 22, 2022

Re: FY 21 Year-End Sales Tax Collections

With the receipt of the February 11, 2022 sales tax check, the County has received all sales tax collections for purchases made in the calendar year 2021. Annual 2021 sales tax collections total \$1,448.4 million. This is an increase of \$266.7 million, or 22.6%, over the receipts through the same period last year prior to any deductions for the Aid and Incentives for Municipalities (AIM) and Distressed Hospitals. The chart below details the gross sales tax payments attributed to purchases made through December 31, 2021 compared to the same period last year.

2021 Year-to-Date Sales Tax Receipts

(figures in millions)

	<u>2020</u>	<u>2021</u>	<u>Variance \$</u>	<u>Variance %</u>
Gross YTD Sales Tax	\$1,181.6	\$1,448.4	\$266.7	22.6%

The total sales tax revenue in the FY 21 NIFA Approved Budget, excluding the deferred piece, is \$1,022.0 million. When the 2021 budget was drafted, it was seen as being very anemic which prompted the Legislature to create a Special Revenue Fund where all sales tax revenue in excess of the budget shall be deposited. The language in the law stipulated that: "A Special Revenue Fund, to commence concurrently with the 2021 budget, to which all sales tax revenues collected by the County that are in excess of the adopted 2021 Nassau County budget shall be deposited and

to which any budgeted funds in any budget line that become surplus as a result of the receipt of federal aid to address the COVID-19 pandemic, shall be deposited”.

Based on gross collections, the FY 21 surplus compared to budget is expected to be \$426.4 million. However, not all the surplus will be received by the County as the State will be deducting for mandated AIM and Distressed Hospitals payments.

In addition, since the sales tax growth has been so strong, the Part "B" collections, which are sales tax revenues outside of Long Beach for hotel room occupancy and alcoholic beverages, will surpass the budget by \$21.3 million which the County will not be allowed to recognize until two years from now. Finally, the corresponding expenses for the Local Government Assistance, which is a percentage of sales tax revenue, will have an unanticipated overage of \$23.2 million.

Albeit, after anticipated deductions, the Administration and OLBR estimate that the amount to be deposited in the Special Revenue Fund and will not be accounted for in the operating budget, will be a net of approximately **\$362.2 million**.

The continued recovery of sales tax post the pandemic has offered great fiscal flexibility to the County, and this is expected to continue this year. The **FY 22** Budget contains \$1,375.0 million in budgeted sales tax collections which is \$73.4 million **less** than the year-end FY 21 actual collections. This is welcome news since revenues from property taxes were lowered by \$70.0 million. From a budgetary perspective, the County will have a major revenue opportunity in sales tax compared to the budget prior to any growth factor. This is illustrated below:

Year End 2021	Budget 2022	2021 YE vs. 2022 Budget
\$1,448.4	\$1,375.0	(\$73.4)

Figures in millions

To date, the County has received one sales tax check that will impact FY 22 sales tax collections. That was the electronic funds transfer (EFT) portion of the February 4, 2022 check. That piece rose 9.5% from the same piece last year and represented the electronically filed sales tax payments for purchases made from January 1, 2022 through January 22, 2022.

Professional economic forecasters anticipate positive economic growth both nationally and locally. The chart below reveals that national, average annual economic growth in 2022 is expected to be roughly 3.6%. Economic growth is expected to be stronger locally, with Moody’s projecting 2022 Nassau County Gross County Product (GCP) growth of 5.7%. Historically, especially recently, the County has outperformed these estimates and it is hoped that this will continue. However, these would be the most conservative projections that are available:

Current Real US GDP 2022 - 2024 Forecasts, January 2022			
	2022	2023	2024
Fannie Mae	3.1%	2.2%	
Mortgage Bankers Association	4.0%	2.6%	2.1%
Federal Reserve Bank - Phil.	3.9%	2.6%	2.3%
The Conference Board	3.5%	2.9%	
Average US GDP Forecast	3.6%	2.6%	2.2%
Moody's Nassau GCP Forecast	5.7%	3.0%	2.8%

The table below illustrates Moody's entire economic forecast for Nassau County as of February 2022.

2022 to 2026 Nassau County Economic Forecast					
Projected Annual Growth Rates*					
	2022	2023	2024	2025	2026
GCP	5.7%	3.0%	2.8%	2.5%	2.2%
Personal Income	3.4%	4.6%	4.0%	3.6%	3.2%
Employed	2.0%	1.6%	0.7%	0.1%	0.0%
Unemployed	-28.8%	-12.0%	-0.3%	4.2%	4.0%
Unemployment %	3.8%	3.3%	3.3%	3.4%	3.5%
Non Farm Jobs	4.4%	2.6%	1.1%	0.4%	0.1%
New Mortgages	8.3%	0.6%	-5.2%	-3.9%	-5.6%
Mrt Refinances	-48.6%	-55.2%	-45.5%	-31.6%	-12.3%
Retail Sales	8.3%	1.3%	1.1%	1.4%	1.4%
Median Home Sale Price	9.6%	3.7%	1.9%	1.4%	1.0%
Regional CPI	5.3%	2.9%	3.0%	3.0%	3.0%

*Unemployment % Details Annual Average
Source: Moody's Economy.com

Moody's is currently forecasting positive local economic growth for Nassau County from 2022 through 2026. This growth is supported by positive resident employment growth from 2022 through 2025, positive job growth from 2022 through 2026, and positive home price appreciation from 2022 through 2026.

It should be mentioned that there are some risks in the forecast, which have the potential to diminish the positive overall economic growth projection. The most significant is inflation. Moody's is anticipating regional consumer price growth (CPI) of 5.3% in FY 22 and 2.9% or greater in each year from 2023 through 2026. To combat this, the Federal Reserve is expected to increase interest rates; the January 21, 2022 Mortgage Bankers Association, Mortgage Finance Forecast is projecting 30-year rates to rise to 4.0% by the fourth quarter of 2022. Combined, these forces are expected to result in negative mortgage refinancing growth from 2022 through 2026 and a fall in real disposable income, consumer purchasing power in 2022.

Consumer purchases started strong in 2022, with the January 2022 EFT recording 9.5% annual growth. The current, positive economic momentum is expected to continue from 2022 through 2026. High inflation and expected interest rate increases have the potential to diminish this positive economic growth. However, given that year-end 2021 sales tax collections exceeded the 2022 sales tax budget by \$73.4 million prior to any growth assumption, the only risk to the budget, which is unlikely, would be a negative growth rate in sales tax.

If you should have any further questions, please don't hesitate to contact the Office.

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