



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

Date: February 10, 2023

Re: FY 22 Year-End Sales Tax Collections

With the receipt of the final sales tax check, on February 10, 2023, the County has received all sales tax collections for the calendar year 2022. FY 22 sales tax collections totaled \$1,535.4 million and were \$87.1 million, or 6.0% higher than FY 21 sales tax collections. The following chart illustrates the gross sales tax receipts for the period ending December 31, 2022, as compared to the same period last year.

2022 Year-to-Date Sales Tax Receipts

(figures in millions)

	2021	2022	Variance \$	Variance %
Gross YTD Sales Tax	\$1,448.4	\$1,535.4	\$87.1	6.0%

Gross collections have resulted in a FY 22 surplus compared to budget of \$160.4 million. This total represents gross receipts which is more indicative of economic growth and is prior to

deductions made for mandated Aid & Incentives for Municipalities (AIM) and Distressed Hospitals payments in the respective years.

In addition, due to strong sales tax growth, the Part” B” collections, which are sales tax revenues outside of Long Beach for hotel room occupancy and alcoholic beverages, is projected to exceed the budget by approximately \$27.2 million, which the County will not be allowed to recognize until FY 24. This will further reduce the total cash collections the County has available.

The continued growth of sales tax post-pandemic continues to be resilient and has offered fiscal flexibility to the County; this is likely to continue this year. The FY 23 Budget comprises \$1,527.3 million in budgeted sales tax collections, which is \$8.1 million less than the year-end FY 22 collections.

Year End 2022	Budget 2023	2022 YE vs. 2023 Budget
\$1,535.4	\$1,527.3	\$8.1

Figures in millions

The County has received one sales tax check that will impact FY 23 sales tax collections as of the date of this memo. That was the Electronic Funds Transfer (EFT) portion of the February 6, 2023, check. This portion rose 19.1% year-over-year and represents the electronically filed sales tax payments for purchases made from January 1, 2023, through January 22, 2023.

Economic forecasters are predicting modest GDP growth in FY 23. The following chart illustrates that the average national economic growth in FY 23 is anticipated to be 0.2%. Locally, economic growth is expected to be 1.9%.

Current Real US GDP 2023 - 2025 Forecasts			
	2023	2024	2025
Fannie Mae	-0.6%	1.9%	
Mortgage Bankers Association	0.1%	1.9%	1.8%
Federal Reserve Bank - Phil.	0.7%	1.8%	2.2%
The Conference Board	0.2%	1.7%	1.7%
Wells Fargo	0.5%	0.3%	
Average US GDP Forecast	0.2%	1.5%	1.9%
Moody's Nassau GCP Forecast	1.9%	2.1%	2.2%

The table on the next page illustrates Moody’s entire economic forecast for Nassau County as of February 2023.

2023 to 2027 Nassau County Economic Forecast					
Projected Annual Growth Rates*					
	2023	2024	2025	2026	2027
GCP	1.9%	2.1%	2.2%	2.2%	2.1%
Personal Income	4.5%	3.7%	3.3%	3.4%	3.0%
Employed	1.3%	0.4%	0.2%	0.0%	0.1%
Unemployed	6.4%	6.0%	-0.6%	5.7%	2.6%
Unemployment %	3.3%	3.4%	3.4%	3.6%	3.7%
Non Farm Jobs	1.6%	1.0%	0.7%	0.1%	0.1%
New Mortgages	-3.5%	19.2%	2.8%	4.4%	11.5%
Mrt Refinances	-89.6%	124.1%	70.8%	10.5%	37.7%
Retail Sales	1.9%	1.5%	1.9%	1.6%	1.7%
Median Home Sale Price	-1.5%	-1.6%	1.5%	5.2%	5.9%
Regional CPI	4.3%	3.1%	2.8%	2.8%	2.8%
*Unemployment % Details Annual Average					
Source: Moody's Economy.com					

Moody's is forecasting positive local economic growth for Nassau County from FY 23-FY 27. This growth is buoyed by strong local job and wage growth during the same timeframe. According to the NYS Department of Labor, in FY 22, the Nassau-Suffolk region created 22,400 jobs or an increase of 1.7% year-over-year. Moody's is forecasting similar job growth of 1.6% for Nassau County in FY 23.

There appear to be competing forces in the economy, on one side there is an overwhelming risk of a recession, but consumers seem to be sustaining high levels of spending. Nassau County sales tax receipts have been strong, surpassing economic forecasts. However, this continued level of spending may not be sustainable in the long run.

In a recent survey conducted by Marcum LLP and Hofstra University's Frank G. Zarb School of Business 72.1% of CEOs said inflation is impacting their business, while 36.8% said they are passing increased costs onto their customers. Furthermore, 90% of CEOs are at least somewhat concerned about the possibility of a recession in FY 23.¹ Additionally, according to a recent Bloomberg survey, 70% of economists are forecasting that the US economy will go into a recession this year.² Adding to these concerns, on January 1st the gas tax holiday expired and is estimated to increase the average price of gasoline by 16 cents per gallon.³ This could potentially have a negative impact on consumer spending.

The job market has remained resilient despite ongoing economic headwinds. For the month ending December 31, 2022, the economy added 517,000 jobs.⁴ The Job market is structurally unbalanced, with 11.0 million job openings as of December 2022, while there are 5.7 million unemployed persons.⁵ The state of the job market adds to inflation pressures and the fears of a wage-price

1Genn, Adina, "CEOs say they are passing cost of inflation to customers: report." LIBN.com, 29 Dec. 2022.

2 Golle, Vince & Yoo, Kyungjin "Economists Place 70% Chance for US Recession in 2023 - Bloomberg." Bloomberg.com, 20 Dec. 2022.

3 News 12 Staff, "Gas tax holiday for New York state, Nassau County ends." News12.com, 01 Jan. 2023.

4 "U.S. adds a surprisingly strong 517,000 jobs despite Fed hikes" The Associated Press, 3 Feb. 2023.

5 U.S. Bureau of Labor statistics [bls.gov](https://www.bls.gov), 3 Feb. 2023.

spiral. In order for the Federal Reserve to return inflation to its longer run goal of 2%, the job market will need to find better balance between the number of job openings and the number of unemployed persons.

One of the most reliable indicators of a recession, which has successfully predicted all recessions in recent years without error, is the inversion of the 3-month treasury bill to the 10-year treasury bond yield curve. Typically, in a healthy economy, longer term debt has a higher yield than shorter term debt. Historically, when the 3-month to 10-year yield curve inverts, a recession occurs within 6-18 months. The yield curve most recently inverted on October 18, 2022, indicating a recession is likely to occur sometime in 2023.⁶

Further risks to this forecast include, but are not limited to, the outlook and the response of the Federal Reserve towards inflation. According to the Federal Reserve Summary of Economic Projections released at the conclusion of the December Federal Open Market Committee (FOMC) meeting, the Committee expects PCE (Personal Consumption Expenditures), the Federal Reserves preferred measure of inflation, to decrease from 5.6% in FY 22 to 3.1% in FY 23 and eventually return to its longer run goal of 2.0% sometime after 2025.⁷ After the December FOMC meeting additional PCE data was released on January 27, 2023, showing that inflation cooled further to 5.0% year-over-year for the month ending December 2022.⁸ In addition, the committee expects to further raise the Federal Funds rate to a peak of approximately 5.1% in 2023.⁹ A significant enough deviation in the expected path of inflation could cause the Federal Reserve to increase or decrease their anticipated peak Federal Funds rate from their current target of 5.1%. The preceding expectations represent significant uncertainties, that can meaningfully impact the likelihood of a recession. As many County revenue sources are economically sensitive, a recession could negatively impact sales tax receipts, and the severity of a recession, could affect the degree to which sales tax receipts are impacted.

Consumer spending remained strong to start FY 23, with the January 2023 EFT portion of sales tax receipts recording 19.1% annual growth. Even with a highly uncertain economic outlook, FY 22 sales tax receipts would exceed the FY 23 sales tax budget by \$8.1 million in a zero-growth scenario. The only risk to the FY 23 budget would be negative sales tax growth, however, this is unlikely in part due to high inflation, which results in higher sales tax receipts, due to the increased cost of goods and services. Given the economic forces at play, the County needs to remain vigilant and be ready to address any economic downturn. Our Office will continue to monitor sales tax receipts as they are received and will keep all relevant parties apprised of any deviation from expectations.

6 "The Yield Curve, A Reliable Recession Indicator, Just Sounded An Alarm." Forbes.com, 19 Oct. 2022.

7 Board of Governors of the Federal Reserve System, Federalreserve.gov, 14 Dec. 2022.

8 Bureau of Economic Analysis, bea.gov, 27 Jan, 2023.

9 Board of Governors of the Federal Reserve System, Federalreserve.gov, 14 Dec. 2022.

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

cc: Andrew Persich, Budget Director, OMB
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