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NASSAU COUNTY LEGISLATURE  
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### Inter-Departmental Memo

To: Hon. Howard J. Kopel, 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 "MC", is placed over the "From" field.

Date: February 10, 2017

Re: FY 16 Year-End Sales Tax

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Now that the final payment of FY 16 sales tax has been received, the County will end the year with total collections of \$1,129.6 million, which is an increase of 2.3%, from the FY 15 receipts. This translates into \$25.7 million more in sales tax in 2016 than in 2015.

**Table 1**  
2016 Year-End Sales Tax Receipts  
(figures in millions, includes residential energy collections)

	2015	2016	Variance \$	Variance %
Gross YTD Sales Tax	\$1,103.8	\$1,129.6	\$25.7	2.3%

Relative to budget, the County could have ended FY 2016 with an \$11.9 million surplus. However, since the part County portion has not *been finalized yet*, the Administration is projecting that it may have to defer between \$4.0 million to 5.0 million which is the part County portion above what was budgeted for FY 2016; a final budgetary surplus of between \$7.9 to \$6.9 million would then be recognized as the year-end result. The proposed sales tax revenue in the FY 17 Executive Budget, excluding the deferred piece, is \$1,141.5 million. By ending FY 2016 with a surplus, the County will be in a better position to achieve the FY 2017 budget as only a

1.1% growth would be required in 2017 from the 2016 year-end to reach budget. That rate of growth seems achievable according to current national economic forecasts, shown on Table 2.

**Table 2**  
**Forecast Real US Gross Domestic Product, GDP, 2015 to 2018**

<b>Source</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Mortgage Bankers Association	1.9%	2.1%	1.9%
Fannie Mae	1.9%	2.0%	1.9%
Average	1.9%	2.1%	1.9%

Assuming that a 2.0% economic growth is achieved in 2017, the County would realize approximately a \$10.6 million 2017 sales tax surplus. OLBR is cautiously optimistic that this can occur; however, first quarter 2017 sales tax checks will be more indicative of the likelihood of such a surplus.

In addition, to assess the probability of the County achieving the requisite growth to reach the 2017 sales tax budget, it is helpful to identify the primary economic drivers of 2016 sales tax growth and determine if current trends will continue in 2017. Table 3 depicts the annual growth of Nassau’s primary economic engines.

**Table 3**  
**National and Regional Economic Indicator Annual Growth Rates**

<b>Indicator</b>	<b>15-Dec</b>	<b>16-Dec</b>	<b>%</b>	<b>Source</b>
US Mrt Refinancings (Avg. estimate)	792.00	911.50	<b>15.1%</b>	Mortgage Bankers Association & Fannie Mae
Nassau Closed Home Sales (annual)	12,011.00	12,948.00	<b>7.8%</b>	Multiple Listing Service of Long Island
Regional Consumer Prices	259.94	265.42	<b>2.1%</b>	US Census Bureau
LI Non Farm Jobs	1,324.80	1,342.10	<b>1.3%</b>	New York State Department of Labor
Nassau Employed Residents (annual avg.)	665.81	673.29	<b>1.1%</b>	New York State Department of Labor
LI Consumer Confidence (4th Quarter)	89.30	89.50	<b>0.2%</b>	Siena College Research Institute
NYS All Private Worker Weekly Earnings	978.31	978.87	<b>0.1%</b>	Multiple Listing Service of Long Island

A robust housing market was the primary economic engine for Nassau County in 2016.

**Mortgage Refinancings**

The strongest annual growth was seen in the mortgage refinancing market. Throughout the nation, mortgage refinancings are estimated to have grown 15.1% in 2016 compared to 2015. In order to refinance, two factors are deemed necessary, low interest rates and sufficient equity. Both of those factors were favorable to Nassau County residents in 2016. According to professional surveys, 30 year fixed mortgage interest rates fell in 2016 compared to 2015. These results are shown in Table 4 below.

**Table 4**  
**U.S. 30 Year Fixed Mortgage Interest Rates, Actual and Forecast 2015 to 2018**

<b>30 Year Fixed Mortgage Rate</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Mortgage Bankers Association	3.9%	3.7%	4.5%	4.9%
Fannie Mae	4.5%	3.6%	4.2%	4.3%
Average	4.2%	3.7%	4.4%	4.6%

Moreover, home prices have risen over the past six-years such that as of the fourth quarter 2016, only 5.5% of Nassau County homes are estimated to have negative equity. These estimates are shown in Table 5.

**Table 5**  
**Percentage of Nassau County Houses with Negative Equity**

Year	%
2011	15.5%
2012	15.7%
2013	11.3%
2014	8.4%
2015	6.5%
2016	5.5%

Source: Zillow.com

This growth is especially significant for sales tax as cash-out refinancings provide home owners with a revenue stream to make purchases. However, looking forward, refinancings may not be as a significant source of growth in 2017 as mortgage interest rates are expected to rise approximately 0.7% points in 2017 compared to 2016.

### **Closed Home Sales**

An increase in housing market transactions has a positive impact on County sales tax collections as sellers make purchases to make their houses ready to market and to move their belongings. Likewise, purchasers spend money to move their belongings and complete sales to improve their new home. Table 6 shows that home sales increased 7.8% in 2016 compared to 2015.

**Table 6**

		Number of Closed Sales					
County	Month	2012	2013	2014	2015	2016	16 vs. 15
Nassau	Jan	631	659	797	801	882	10.1%
	Feb	580	616	640	692	852	23.1%
	Mar	645	666	620	747	967	29.5%
	Apr	616	788	662	730	836	14.5%
	May	830	886	799	850	901	6.0%
	Jun	958	1,026	1,023	1,047	1,282	22.4%
	Jul	954	1,219	1,143	1,301	1,258	-3.3%
	Aug	1,115	1,346	1,188	1,426	1,509	5.8%
	Sep	870	1,034	1,111	1,228	1,247	1.5%
	Oct	812	1,147	1,043	1,174	1,111	-5.4%
	Nov	637	947	840	918	1,032	12.4%
	Dec	834	1,008	973	1,097	1,071	-2.4%
Nassau Total		9,482	11,342	10,839	12,011	12,948	7.8%

Source: Multiple Listing Service of Long Island

Looking forward, higher interest rates in 2017 may dampen home sale growth. Although this will have to be closely monitored, 2017 housing sale growth is still expected to be positive supported by positive number of jobs, employment and wage growth.

In conclusion, the 2016 positive sales tax growth was supported by positive economic growth in several areas which overcame the loss of sales to the internet. The most robust growth was recorded in the housing sector and especially in the area of mortgage refinancings. Looking forward, OLBR is cautiously optimistic that economic growth should support the 1.1% sales tax growth required to make the 2017 sales tax budget. Despite increasing interest rates, forecasted positive wages and job and employment growths are expected to provide consumers with the means to complete sales. The 2016 sales tax results are a bit of good news for the County's 2017 forecast which may not be as great of a risk as previously estimated.

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

cc: Eric Naughton, Deputy County Executive  
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