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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

MC for MC

Date: January 11, 2019

Re: FY 18 Year to Date Sales Tax

With the receipt of the January 11, 2019 sales tax check, the County has received the quarterly adjustment for the period of September 1, 2018 through November 30, 2018. Year to date sales tax collections total \$1,145.1 million. This is an increase of \$38.1 million, or 3.4%, over the receipts through the same period last year. The chart below details the year to date gross sales tax payments through January 11, 2019 compared to the same period last year.

2018 Year-to-Date Sales Tax Receipts (figures in millions, includes residential energy collections)

	2017	2018	Variance \$	Variance %
Gross YTD Sales Tax	\$1,107.0	\$1,145.1	\$38.1	3.4%

The total sales tax revenue in the FY 18 NIFA Conformed Budget, excluding the deferred piece, is \$1,183.3 million. The County is on track to surpass the FY 18 budget even with the deferral of some of the part-county portion of the sales tax. The following chart depicts the resultant sales tax variances for several annual growth rates on the remaining checks, prior to the part-county deferral.

Forecast Sales Tax Growth and Resultant Annual Impact	
Remaining Growth	Sales Tax Surplus / (Deficit)
0.0%	\$17.8
0.5%	\$18.1
1.0%	\$18.3
1.5%	\$18.6
2.0%	\$18.9
2.5%	\$19.2
3.0%	\$19.5

Assuming a 2.5% growth for the remainder of the year, the part-county sales tax portion is projected to exceed budget by roughly \$6.9 million; that amount will have to be subtracted from the above detailed surpluses and deferred until FY 20 for budgetary purposes. The County can't recognize a surplus in its part-county collections since the funds must be deferred and not recognized until two years later. For example, if remaining checks were to grow by 2.5%, the County would experience a \$19.2 million surplus compared to budget. It could not recognize \$6.9 million of the surplus in FY 18, hence the FY 18 budgetary sales tax surplus would be \$12.3 million.

The FY 19 NIFA Conformed budget excluding all deferred pieces is \$1,231.3 million. If there was no growth on the remaining FY 18 sales tax checks, a 2.5% sales tax growth in FY 19 would be required to attain the budgeted amount. However, if all remaining FY 18 sales tax checks grow by 2.5%, then only a 2.4% sales tax growth in FY 19 would be required to attain the budgeted amount.

A review of current economic forecasts and local economic indicators show the expected growth throughout FY 19.

US GDP 2018 and 2019 Forecasts, as of 4th Quarter 2018		
	2018	2019
Fannie Mae	3.1%	2.3%
Mortgage Bankers Assn.	3.1%	2.1%
Federal Reserve Bank	2.9%	2.7%
Average	3.0%	2.4%

The current average forecast for real US GDP is 3.0% in FY 18 and 2.4% in FY 19. Moreover, low unemployment, increasing real County wages and high metropolitan area consumer confidences provide further credence to the previously detailed economic growth forecasts.

- In November 2018, the New York State Department of Labor found that Nassau County's unemployment rate fell to 2.9%. Moreover, the combined Long Island rate was found to be the region's lowest in more than 20 years.¹

¹ Winzelberg, David, "Nassau Unemployment Rate Dips Below 3 Percent", LIBN.com, December 27, 2018.

- The Bureau of Labor Statistics found that average weekly Nassau County wages rose 2.5% last year from an annual perspective. That was small, but still 0.5% above the rate of inflation.²
- The Siena College Research Institute found that consumer confidence throughout the New York Metropolitan area hit a new high in December 2018. It surpassed a ten year high attained in September 2018.³

However, since the proposed FY 19 budget relies heavily on sales tax growth, this continues to be an area which must be closely monitored and may warrant changes should economic conditions change. There are several areas which require careful attention as they could potentially dampen Nassau County sales tax collections in FY 19.

Current sales tax collections reflect purchases made through November 30, 2018. According to a Mastercard report, FY 18 U.S. holiday sales increased 5.1% in 2018. However, much of the growth was attributed to online sales. They found that online holiday sales increased 19.1%. Additionally, they found that holiday sales at department stores fell 1.3% largely due to store closures.⁴ Since NYS has not passed legislation required for the County to collect sales tax on all online sales, current online sales growth may dampen County sales tax collections. Moreover, the effect of store closures could further limit County sales tax collections.

According to Multiple Listing Service of Long Island figures, FY 18 Long Island home sales were virtually flat with the prior year. Moreover, the number of pending Long Island home sales fell in December FY 18.⁵ Rising interest rates and income tax changes could constrain Nassau County home sales and sales tax collections in FY 19.

Overall, OLBR remains cautiously optimistic that the FY 19 annual sales tax growth rate seems reasonable and can be achieved. As previously mentioned, it is an area of the budget that will need to be closely monitored for changes.

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

cc: Raymond Orlando, Deputy County Executive for Finance
 Andrew Persich, Budget Director, OMB
 Evan Cohen, Executive Director, NIFA
 Chris Ostuni, Majority Counsel
 Meredith Hughes, Deputy Majority Counsel, Policy Director
 Peter Clines, Minority Counsel
 Michele Darcy, Minority Finance Director
 Michael Pulitzer, Clerk of the Legislature

² Mason-Draffen, Carrie, “Long Island Wage Increases Barely Keep Ahead of Inflation”, [Newsday.com](#), January 8, 2019.

³ Madore, James T., ”Metro Area Consumer Confidence Hits New High, Poll Finds”, [Newsday.com](#), January 8, 2019.

⁴ “Holiday Shopping Season Sales the Highest in Six Years: Report”, [NYPost.com](#), December 26, 2018.

⁵ Winzelberg, David, “Long Island Home Sales in Decline”, [LIBN.com](#), January 8, 2019.