



NASSAU COUNTY LEGISLATURE
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Inter-Departmental Memo

To: Hon. Vincent Muscarella, 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 "MC", next to the name Maurice Chalmers.

Date: May 12, 2021

Re: FY 21 Year to Date Sales Tax

With the receipt of the May 12, 2021 sales tax check, the County has all the monthly sales tax payments for purchases made during the first quarter of 2021.

Year-to-date sales tax collections total \$358.3 million. This is an increase of \$44.3 million, or 14.1% over the receipts through the same period last year. The chart below details the year-to-date gross sales tax payments through May 12, 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	\$313.9	\$358.3	\$44.3	14.1%

The total sales tax revenue in the FY 21 Adopted Budget, excluding the deferred piece, is \$1,022.0 million. Assuming the part-county sales tax collections equal budget, remaining checks could fall by 23.5% and the total sales tax budget would still be achieved. That scenario appears unlikely. The following chart details the fiscal sales tax results assuming different growth rates on the remaining sales tax checks.

<u>Remaining Growth</u>	<u>Result</u>
-5.0%	\$160.6
0.0%	\$204.0
5.0%	\$247.4
7.0%	\$264.7

Sales tax is the largest revenue source for the County and when COVID-19 impacted these revenues, from the second quarter to the end of FY 20, alarm bells went off and it was explained to the Legislature that having the Nassau Interim Finance Authority (NIFA) refinance/restructure debt would be an offset to the lost revenue and allow the County to recover. The refinance, from a policy perspective, front loaded the savings from the transaction in the first three years with significant costs to happen past that timeframe. Many different amortizations were available for the transaction; however, it has been explained that the final deal structure was chosen to provide the most relief to the County as it recovers from COVID-19.

Sales tax began recovering towards the end of FY 20 and continues to show positive momentum. The first quarter FY 21 robust growth is especially significant since the prior year base values reflect pre-COVID-19 shutdown levels. Future quarters are expected to record stronger growth since they will be compared to the lower COVID-19 shutdown level. In fact, the latest check which shows the EFT for April 1, 2021 to April 22, 2021 purchases, indicates an EFT increase of 21.2% from the same EFT last year.

Looking forward, Moody's Economy.com is currently forecasting 8.8% Gross County Product (GCP) growth for the Nassau County economy in 2021. The chart below details **Moody's** current Nassau County economic forecast.

2021 to 2025 Nassau County Economic Forecast					
Projected Annual Growth Rates*					
	2021	2022	2023	2024	2025
GCP	8.8%	6.9%	2.4%	2.9%	2.6%
Personal Income	1.9%	2.5%	3.8%	3.7%	3.4%
Employed	4.1%	3.2%	1.5%	0.9%	0.3%
Unemployed	-33.3%	-24.6%	-3.7%	1.7%	2.8%
Unemployment %	5.6%	4.1%	3.9%	4.0%	4.1%
Non Farm Jobs	4.6%	5.3%	2.3%	1.1%	0.4%
New Mortgages	20.1%	-7.2%	6.4%	-1.1%	2.7%
Mrt Refinances	-52.0%	-31.6%	-36.5%	-41.1%	-25.5%
Retail Sales	13.0%	3.3%	1.3%	1.0%	1.5%
Median Home Sale Price	14.5%	5.4%	3.6%	1.9%	1.5%
Regional CPI	1.8%	3.3%	3.3%	3.1%	3.1%

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

Combining Moody's current Nassau County economic forecast with several national economic forecasts, results in an average economic growth rate of 7.0% for 2021 and at that rate, the sales tax surplus would be \$264.7 million.

Current Real US GDP 2021 Forecasts, April / May 2021			
	2021	2022	2023
Fannie Mae	6.8%	3.0%	
Mrt Bkers Assn.	6.5%	2.5%	1.5%
Conferenc Board	6.0%	3.5%	
Moody's, GCP	8.8%	6.9%	2.4%
Average	7.0%	4.0%	1.9%

Currently, the Administration is projecting that the County will only meet the sales tax budget, despite the budget being \$159.7 million less than the prior year unaudited actual and current collections being 14.1% above the same time period in FY 20. The Administration should take into account the current actuals and trends in projecting a more realistic number; albeit economic conditions may require adjustments. The following chart shows that assuming a 5% growth, below the current average economic forecast, on all remaining checks, the County will achieve a \$247.4 million sales tax surplus.

2021 Recurring County Sales Tax Collections, Budget and Projections, in millions				
	Modfied Budget	March 2021 OMB Projection	5% Growth Remaining	Variance 5% Growth vs. Budget
Recurring Sales Tax Total	1,022.0	1,022.0	1,269.3	247.4

It should be mentioned that last year, the Legislature and Administration agreed to the creation of a Special Revenue Fund which restricts how surplus County sales tax revenues may be used. The local law included the following language regarding the creation and permissible uses of the special revenue fund monies.

“A Special Revenue Fund is hereby established, 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.”

“The use of this Special Revenue Fund will be to fully or partially fund tax certiorari settlements and judgments, principal and interest payments on debt issued in 2021 or later to pay tax certiorari settlements and judgments, claims against the County by the Nassau Health Care Corporation, claims relating the Fair Labor Standards Act, to fund expenses due to the loss of budgeted state aid, and to pay for unbudgeted COVID-19 response costs in the event that no federal COVID-19 assistance funds remain available to pay for such costs, and shall be restricted for any other purpose.”

The creation of the fund was birthed from a lack of confidence in the numbers that were being projected for the FY 20 sales tax and the FY 21 Budget coupled with the recognition that there was still a risk to the economy. In addition, it has since been announced that the County will get approximately \$385.0 million (1/2 in FY 21 and the other half in FY 22) in federal aid which added

with the sales tax projected trends, due to a robust recovering economy, has prompted NIFA to project a transfer of **\$352.4** million into the Special Revenue Fund, as of April 29, 2021.

Given current trends, the Office of Legislative Budget Review (OLBR), similar to NIFA, believes that the County is on track to not only achieve the FY 21 sales tax budget but to also obtain a substantial surplus. Since the FY 21 sales tax budget was extremely conservative and residents continue to be vaccinated, as well as the economy's continued reopening, the sales tax surplus is expected to continue the positive momentum. These surplus funds will have to be transferred to the Special Revenue Fund and allocated to its restricted uses according to the law. OLBR will continue to monitor and report on County sales tax collections to the Legislature.

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
Robert Conroy, Budget Research Analyst
Chris Ostuni, Majority Counsel
Peter Clines, Minority Counsel
Michele Darcy, Minority Finance Director
Michael Pulitzer, Clerk of the Legislature