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**Inter-Departmental Memo**

To: Hon. Judy Jacobs, Chairperson  
 Budget Review Committee

From: Eric C. Naughton, Director  
 Legislative Budget Review

*EM*

Date: July 14, 2009

Re: Year-to-Date Sales Tax

The County has begun to receive payments for the sales tax on residential energy. This 2.5% tax on all residential energy sources became effective June 1, 2009. Included with the June 30 check was \$1,165,112 in revenues attributable to the residential energy tax. Without these additional revenues the total sales tax collections would be down 10.1%. The residential energy tax collections were apportioned to Nassau by the State based upon 22 days of collections out of a three month estimated total. The estimate was based upon historic Suffolk County collections and adjusted to account for Nassau's higher percentage of multi-family dwellings and greater usage of natural gas. The actual amount collected for the period of June through August will not be known until the next quarterly adjustment in October. OLBR originally estimated that approximately \$21 million would be received from this source in FY 09. Energy prices and weather are factors that will affect the final total.

**Sales Tax Receipts With Residential Energy Tax**

(Checks Received Through July)

|                            | 2008          | 2009          | Variance \$    | Variance % |
|----------------------------|---------------|---------------|----------------|------------|
| Sales Tax less RET         | \$460,469,481 | \$413,942,634 | (\$46,526,848) | -10.1%     |
| Residential Energy Tax YTD | 0             | 1,165,112     | 1,165,112      |            |
| Gross Sales Tax YTD        | \$460,469,481 | \$415,107,746 | (\$45,361,735) | -9.9%      |

The Office of Management and Budget has estimated that in 2010 a full year of residential energy tax receipts will bring in \$39.4 million, while OLBR has projected \$42.0 million. This new revenue stream will be useful in addressing the budgetary gap that has resulted from the current recession, particularly since there are limited options available to reduce expenditures. The March 30, 2009 Stipulation of Agreement with the CSEA eliminates two of the cost-cutting measures that were threatened in the current year:

There shall be no layoff of bargaining unit members through December 31, 2011, unless the Nassau Interim Finance Authority (or any successor organization) institutes a control act period.

The County may not unilaterally cut an employees pay through closings or furloughs (i.e., relieving employees from duty/cutting hours) through December 31, 2011, or unless the Nassau Interim Finance Authority (or any successor organization) institutes a control act period.

The annual revenues anticipated from the residential energy tax are the equivalent of a property tax increase of approximately 4.5%.

Earlier in the year OLBR estimated that sales tax revenue would decrease by from four to eight percent in 2009. In our memo dated February 20 regarding the budget gap, we went with the low end of that range in the expectation that the turnaround in the economy would begin towards the end of the year as the Federal stimulus kicked in. We assumed a rate of -7.0% for the first quarter, -5.0% for the second quarter, -3.0% for the third quarter, and a flat fourth quarter.

At this time, however, economic indicators point to a continued decline in sales tax collections. Unemployment has not yet peaked, retail sales will continue to be sluggish, and the housing market's sales and prices remain down from this time last year. Additionally, a local economist believes that the stimulus money will not have a real impact for at least a year and will not be sufficient to turn the housing industry around.<sup>1</sup> It now appears that positive GDP may not resume until 2010. Based on these factors, we are now projecting a decline of 8.0% in FY 09 sales tax collections. That would increase the budget gap estimated by OMB by \$13.6 million.

For a further discussion of the economy's impact on County sales tax, see OLBR's soon to be distributed report "Regional and National Economic and Fiscal Forecast.". If you should have any further questions, please let me know.

cc: Hon. Howard Weitzman, County Comptroller  
John O'Neill, Director, OMB  
Evan Cohen, Executive Director, NIFA  
David Gugerty, Policy Director  
Dan McCloy, Special Assistant Minority  
Tom Stokes, Deputy County Executive  
Charo Ezdrin, Director of Legislative Affairs  
Chumi Diamond, Clerk of the Legislature  
Edgar Campbell, Chief of Staff  
Roseann D'Alleva, Majority Finance

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<sup>1</sup> Glasser, Laura, "Economists: LI Recovery Still Years Away", Long Island Business News, July, 2, 2009.