



**ERIE COUNTY COMPTROLLER
HON. STEFAN I. MYCHAJLIW**

March 9, 2016

The Honorable
Erie County Legislature
92 Franklin Street – 4th Floor
Buffalo, New York 14202

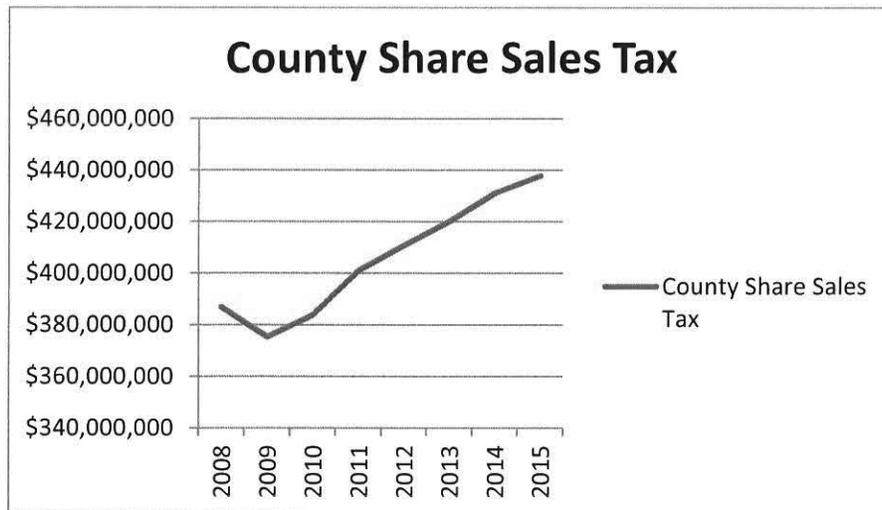
RE: Report on Sales Tax Collections Correlation with Gasoline Prices

Dear Honorable Members:

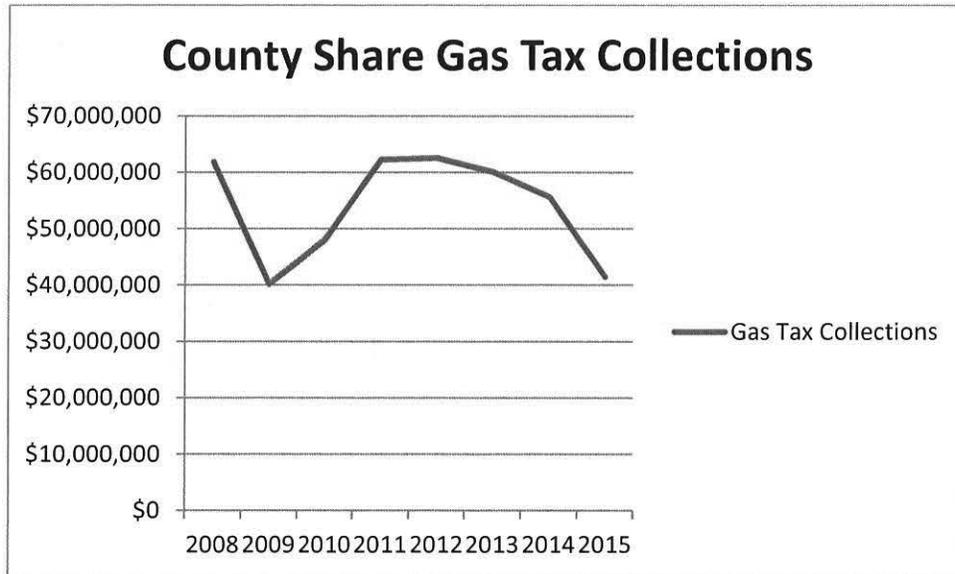
I am writing to report that our sales tax revenue, which we are incredibly reliant on, has not risen as robustly as anticipated. Much of the blame for this has been assigned to lower sales tax collections associated with lower gasoline prices. In actuality, the lower gasoline prices we have been enjoying have a relatively smaller impact on overall sales tax collections than other factors.

Total Sales Tax Collections Continue to Rise

Erie County’s share of sales tax has grown every year since 2009. The median rate of sales tax growth since 2008 is 2.24%. The growth rate in 2015 was 1.54%, which is less than the median rate increase. In 2016, the County Executive anticipated the growth in sales tax to be about 1.53%.



Year-over-year, gasoline sales tax collections have declined four times and increased three times since 2008. These changes are largely attributed to price, and not consumption of gasoline.



Changes in total sales tax collections are at best loosely correlated to the amount of gasoline tax collected. Although collection of gasoline tax may affect overall sales tax collections to a degree, other factors are also at play.

Savings on Gasoline are Spent Elsewhere

In order to surmise that a decrease in gasoline prices results in a corresponding decrease in sales tax revenue, it must be assumed that individuals do not spend the savings on other taxable goods. This is simply not true.

In 2008, in an attempt to stimulate the economy, the federal government distributed a \$600 economic stimulus check to families across the country. This amount was a “pre-bate” on taxes not yet paid, and was an attempt to spur individuals to purchase consumer goods. There was a concern that many people would use the lump sum to pay down debt and not the intended purpose. While many people did use a portion of the funds to pay down some debt, most spent the money as the government had anticipated. The amount of the check, \$600, was not enough to incentivize savings, so most people spent the money. Additionally, many of those who did initially save spent the money within two years.

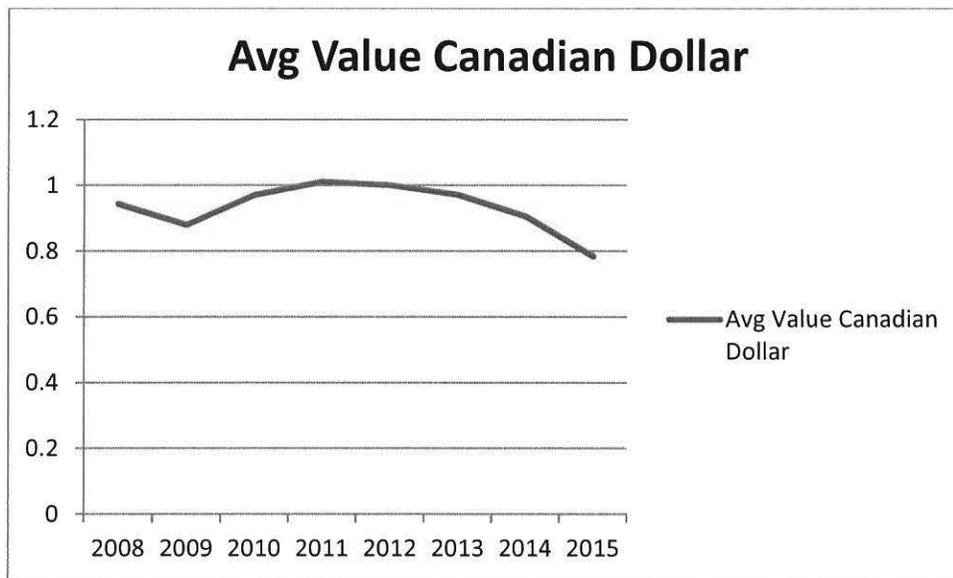
In 2015, the average American household saved \$700 in gasoline spending due to lower prices. This is similar in amount to the \$600 distributed by the federal government in 2008, but it is realized in smaller increments on a typically weekly basis. The question remaining is what individuals did with the savings.

Due to the convenience of pump-side readers, most individuals pay for gasoline with credit cards. As such, credit card companies can track gasoline purchases, as well as other spending habits. JPMorgan Chase tracked gasoline spending and other consumer spending in 2015. It determined that individuals spent 80% of their savings from gasoline on other goods. If spending follows the trends from 2008, this number may increase.

Applying these consumer spending behaviors to consumers in Erie County, it could be anticipated that lower gasoline prices resulted in a sales tax revenue decrease of approximately \$1.4 million toward the Erie County budget. This amount is considerably less than the sales tax budgetary shortfall of \$8,824,131.70 in 2015.

Weaker Canadian Dollar Impacts Western New York Economy

That said, gasoline prices are having a significant indirect impact on sales tax revenues in Erie County. Erie County is blessed geographically by shoppers coming across the border to shop in our malls. Due to technological advances allowing Canada to produce oil, the value of the Canadian Dollar increased to being on par with and even more valuable than the American Dollar from 2010- 2013. Decreasing oil prices have eroded the value of the Canadian dollar to \$0.78 in 2015 and \$0.75 today.



The weakening Canadian Dollar is having an impact on consumer spending, and thus sales tax collections, in Erie County. Surveys have indicated that Canadian shoppers come to Erie County for a better selection and for price. A weaker Canadian Dollar reduces the incentive to make the trip to shop in Erie County. The number of Canadians returning to Canada from the United States in an automobile fell 14% in 2015, while the number of Americans traveling to Canada increased 7.7%. In 2012, three Canadians crossed the border to the United States for every American crossing into Canada. That ratio fell to 2.4 to 1 in 2015 and continues to fall. Applying this ratio to the decline in cross border trips, the trends suggest that less Canadian shoppers are coming to Erie County to purchase goods, as well as a possible increase in the number of Americans traveling to Canada to purchase certain goods.

These factors have caused Bank of Montreal chief economist Douglas Porter to state “The casual cross-border shopper has been knocked out of the game. As long as the currency stays at around these levels or lower, I really think the casual cross-border shopping is done.” This may not be entirely true. At this time, certain products remain much more affordable in the United States. Due to regulations limiting supply, meat, dairy and gasoline remain considerably cheaper in the United States. However,

while a significant number of Canadians continue to cross the border to shop for these products, it should be noted that most groceries are not subject to sales tax. As such, with the exception of gasoline purchases, these purchases would not bolster sales tax revenue.

Canadian shoppers provide a small but significant boost to Erie County's sales tax numbers. A weaker Canadian dollar could further erode sales tax receipts in Erie County. It could also provide an incentive for Erie County shoppers to make purchases in Canada, thus not paying sales tax in Erie County. As stated above, the Canadian dollar is currently weaker than the average for 2015. As such, there may be an impact on sales tax revenues for 2016.

Unlike the motorist who saves money on gasoline and spends the money on other consumer products in Erie County, the Canadian shopper who does not shop in Erie County due to a weaker Canadian dollar does not spend the money in Erie County at all. That revenue is never realized. Further, American shoppers who head to Canada to purchase products instead of Erie County also cause a small reduction in Erie County sales tax revenue upon which the county had previously relied.

Conclusion

Sales tax revenue continued to increase through 2015. Declining sales tax revenue due to lower gasoline taxes had a small impact on slowing the growth of sales tax revenue. Much of the savings from lower gasoline prices were spent on other consumer products. Gasoline prices are not expected to fall much from current levels. In fact, they are expected to increase somewhat for 2016. As such, sales tax revenue for 2016 should not be impacted due to gasoline prices. If gasoline prices rise, and thus gasoline sales tax revenue increases, it could be anticipated that spending in other areas would decrease.

The Canadian Dollar is currently at levels lower than the average for 2015. This could have a small but significant effect on Erie County sales tax revenue. If the value of the Canadian Dollar increases, it could be expected that this would result in a positive impact on sales tax revenue in Erie County, due to both Canadian shoppers coming to Erie County and to fewer American shoppers going to Canada.

As always, should you have any questions regarding this analysis, my staff and I will be available at a future meeting of your Finance and Management Committee.

Sincerely,

A handwritten signature in black ink, appearing to read 'Stefan I. Mychajliw', written over a horizontal line.

STEFAN I. MYCHAJLIW
Erie County Comptroller