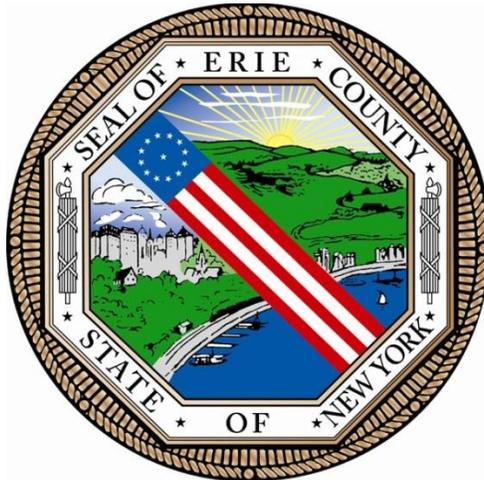


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**A Report on Likely Reduced
Sales Tax Collections in Erie County**



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Dear Honorable Members:

The Erie County budget relies significantly on revenue collected from sales tax. With rising unemployment, business shutdowns and decreasing consumer sentiment, it is anticipated that sales tax revenue will decrease. This decrease in revenue is not limited to Erie County. Communities across New York State, as well as New York State itself, have begun preparations to adjust to decreased sales tax revenue. What is not yet known is the scale of the decrease of this important revenue.

While speculating about the scale of the decrease, it is helpful and informative to understand how consumers have spent money on taxable goods in Erie County. Further, it is important to consider consumer sentiment and behaviors.

The purpose of this report is to provide information to legislators who are tasked with making budgetary adjustments to maintain a balanced budget for the taxpayers of Erie County. While predictions as to future spending may be made relying on many different sources of information, no predictions should be made without considering the information herein.

Further, there are discussions at the federal level regarding lost revenue realized by state and local governments. These may, or may not, result in a fifth financial assistance package from the federal government. Such a package may provide cash to local governments, or it may allow previous COVID-19 assistance for local governments to be used to replace lost revenue, or something else, or nothing at all.

As a result of this report, we reiterate our past recommendations to immediately plan for reduced sales tax revenue at various levels.

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Background

Sales tax accounts for a significant amount of the revenue which Erie County uses to fund its spending decisions. In the 2020 budget, Erie County anticipated county use share of sales tax revenue to be \$456,973, 574. This is separate from the \$372,320,855 that the county anticipated sharing with cities, villages, towns, school districts and the Niagara Frontier Transportation Authority (NFTA). By way of comparison, the Erie County budget anticipated \$305,272,912 in property tax revenue.

The Erie County budget was approved by the Legislature on December 5, 2019 and the County Executive notified the legislature of his acceptance of the budget as amended on December 12, 2019, weeks before news of COVID-19 began spreading outside of China. Since then, worldwide events have occurred with devastating physical, fiscal and operational consequences. Parts of the world remain closed for business, including many sectors in New York State. Each day of closure impacts the revenue projections upon which the Erie County budget relies.

The federal government has recognized that individuals, businesses, health care facilities, non-profits, schools and governments have been, and will continue to be, impacted by the COVID-19. To date, they have passed four major spending bills to assist with addressing the impact of COVID-19. The most widely known is what is commonly referred to as the “Coronavirus Aid, Relief and Economic Security” (CARES) Act. In its \$2.2 trillion in allocations, the act resulted in Erie County receiving approximately \$160 million in aid to compensate for expenses directly related to COVID-19.

However, other than trickle down relief in the form of \$1,200 to individuals and \$500 per child rebates on taxes, as well as increased unemployment benefits, there has not yet been assistance passed which would assist local governments to reduce expected shortfalls in revenue. In Erie County, the most pressing shortfall in revenue, unanticipated at the time of passage of the budget, is sales tax. Although there is discussion of additional federal spending to provide further COVID-19 relief, it is not at this time known if action will be taken and what form relief will take.

Previously, we have recommended that the Legislature be aware of potential impacts to revenue necessary to keep the Erie County budget balanced. This report serves to provide additional and continuing information to assist the Legislature in its actions to maintain a balanced budget. WE RECOMMEND that the legislature consider this information, as well as other information in the public domain, to take steps to create multiple plans accounting for various degrees of decreased revenue and maintain a balanced budget.

Top 20 Taxable Categories

New York State provides information regarding sales tax collections by counties categorized into areas as defined by the North American Industry Classification System (NAICS). NAICS is a system whereby production activities are categorized and sub-categorized. It is used in a number of different contexts. In the case of Erie County, we can use it to determine from which categories purchases are made.

In Erie County, the top 20 categories from where sales tax revenue was derived from March, 2018 through February, 2019 is as follows:

Rank	Description	Taxable Sales	% of Total Taxable Sales
1	Automobile Dealers	\$1,953,646,012	11.7%
2	Restaurants and Other Eating Places	\$1,656,788,437	10.0%
3	Gen. Merch. Stores, incl. Warehouse Clubs & Supercenters	\$840,063,102	5.0%
4	Grocery Stores	\$761,653,633	4.6%
5	Building Material and Supplies Dealers	\$745,664,583	4.5%
6	Gasoline Stations	\$611,157,198	3.7%
7	Electric Power Generation, Transmission and Distribution	\$556,276,424	3.3%
8	Automotive Repair and Maintenance	\$485,669,684	2.9%
9	Clothing Stores	\$481,963,270	2.9%
10	Wired and Wireless Telecommunications Carriers	\$389,174,339	2.3%
11	Electronic Shopping and Mail-Order Houses	\$387,356,138	2.3%
12	Department Stores	\$371,601,654	2.2%
13	Natural Gas Distribution	\$357,533,660	2.1%
14	Other Miscellaneous Store Retailers	\$342,989,383	2.1%
15	Automotive Parts, Accessories, and Tire Stores	\$277,771,637	1.7%
16	Traveler Accommodation	\$270,298,547	1.6%
17	Electronics and Appliance Stores	\$234,784,979	1.4%
18	Services to Buildings and Dwellings	\$222,510,853	1.3%
19	Beer, Wine, and Liquor Stores	\$220,402,965	1.3%
20	Automotive Equipment Rental and Leasing	\$202,614,360	1.2%
Subtotal Top 20		\$11,369,920,858	68.3%

From this list, areas that have been deemed essential and non-essential appear. Both the total amount of taxable sales and the percentage of taxable sales which comprises that amount are listed. The top two categories, automobile dealers and restaurants and other eating places, have been significantly and negatively impacted by the social distancing shutdowns. Those two categories alone comprised 21.7% of total taxable sales for the period listed. Information such as this is used to attempt to predict the impact of social distancing on sales tax revenue for governments.

It is important to reiterate that this anticipated revenue shortfall is independent of revenue decreases speculated as the result of sales tax revenue decreases and other revenue sources. Given the Governor's anticipation of a 10% to 15% revenue shortfall announced upon passage of the New York State budget, Erie County could see a decrease in revenue from New York State in the range of \$18,253,994 to \$27,380,991. The most recent estimate of revenue shortfall for the state was 14%, although this figure seems to fluctuate frequently.

United States Consumer Sentiment

Consumer sentiment is a measurement that considers an individual's feelings toward his or her financial health, the health of the economy in the near-term and prospects for long-term economic growth. This information is then distilled into a number that is considered an economic indicator, based on consumer opinion. Consumer sentiment is considered a leading economic indicator, because it may indicate how willing consumers are to spend in the future. Consumer spending comprises 70% of the United States' Gross Domestic Product.

Consumer sentiment was first measured in 1952, and has been measured monthly since. The lowest measurement was 51.7 in May, 1980. The highest measurement was 111.4 in January, 2000. Consumer sentiment was 100.9 in February, 2020. This was a bit less than the 16 year high of 101.4, recorded in March, 2018.

Consumer sentiment in the United States in April was measured at 71. This was a significant drop from the 89.1 measurement in March. In fact, it was the largest month-to-month drop ever recorded. It is also the lowest measurement since December, 2011. Declines were seen for current conditions, expectations of future conditions and expectations regarding inflation over the next year. Sentiment regarding five year inflation growth actually increased, with consumers expecting 2.5% inflation in five years. The data seems to suggest that consumer sentiments were based on the expectation that infection and death rates from COVID-19 would soon peak, and the economy would soon restart. This expectation may be based on hope, rather than truth. This data is national in scope and was compiled before the New York Policy that Assures Uniform Safety for Everyone (NY PAUSE) was extended until at least May 15, 2020.

The sharp decline in consumer sentiment may indicate upcoming forbearance or cancellation of spending decisions. Decreases in spending will likely have an impact on sales tax revenue. Sales tax revenue is a significant component of a balanced Erie County budget.

United States Retail Sales

The United States Census Bureau compiles data regarding sales based on NAICS categories. They have compiled estimated statistics for March, based on the Advance Monthly Retail Trade Survey, Monthly Retail Trade Survey, and administrative records.

Retail sales in the United States dropped 8.7% in March. This is the largest month-to-month drop since such statistics began to be recorded in 1953. This surpasses the previous record decline, which was 3.9% in November, 2008. That decline occurred during what is frequently called the “Great Recession.” The decline even exceeded expectations, which was an 8% decline. The 8.7% decline follows a 0.4% decline in February.

Broken down into categories, the estimated changes in retail sales in March were:

Description	March 2020 Advance Compared to -	
	February 2020	March 2019
Motor Vehicle & Parts Dealers	-25.6	-23.7
Furniture & Home Furnishing Stores	-26.8	-24.6
Electronics & Appliance Stores	-15.1	-15.9
Building Material & Garden Equipment & Supplies Dealers	1.3	7.6
Food & Beverage Stores	25.6	28
Health & Personal Care Stores	4.3	4.3
Gasoline Stations	-17.1	-18
Clothing & Clothing Accessories Stores	-50.5	-50.7
Sporting Goods, Hobby, Musical Instrument & Book Stores	-23.3	-22.7
General Merchandise Stores	6.4	7.5
Miscellaneous Store Retailers	-14.3	-4.9
Nonstore Retailers	3.1	9.7
Food Services & Drinking Places	-26.5	-23
Total - Retail & Food Sales	-8.7	-6.2

It is important to note that these statistics are gathered from across the United States, including areas that may not have had the same timing and breadth of imposed social distancing mandates as New York State.

One area that saw a notable increase was grocery store sales, which increased by nearly 26%. While certainly a boost for grocery stores and their employees, many of these sales were not subject to New York State sales tax. Because these statistics consider merely the retail sales, and not the taxable status of items sold, it cannot be assumed that the amount of decrease in retail sales will approximate a sales tax revenue decrease.

These statistics are strongly suggestive of decreased sales tax numbers for March. The decrease will likely result in a sales tax revenue not just less than budgetary forecasts, but also when compared to March, 2019.

Lost Sales Tax Revenue

Discussions concerning sales tax revenue have mainly focused on the drop in revenue from previous known collection periods. This is an important comparison when determining economic trends and impacts. However, for budgeting purposes, it is useful to compare sales tax revenue decreases compared to budgeted amount. The budget anticipated sales tax growth of .17% from 2019. While seemingly a small percentage, the amount is significant when expressed in actual dollars.

It is difficult to determine a month-by-month attribution for increased sales tax revenue. However, attributing a static percentage each month will give an adequate approximation. Anticipating a .17% increase in sales tax revenue for Erie County purposes would have resulted in revenue as follows:

March 2020	\$35,924,557
April 2020	\$35,890,946
May 2020	\$49,125,780
June 2020	\$39,244,854

These numbers provide a basis for determining lost anticipated revenue. For the four-month period, budgeted revenue for county purposes was \$269,768 greater than 2019.

Given the anticipated sales revenue for Erie County purposes, a 15% decrease in sales tax revenue would result in lost revenue as follows:

Lost Revenue for Erie County Purposes - 15% Decline				
	2019 Revenue	Budgeted 2020	Revised 2020	Lost Revenue
March	\$35,864,057	\$35,924,557	\$30,484,448	\$5,440,109
April	\$35,830,502	\$35,890,946	\$30,455,927	\$5,435,019
May	\$49,043,047	\$49,125,780	\$41,686,590	\$7,439,190
June	\$39,178,762	\$39,244,854	\$33,301,948	\$5,942,906
		Total Lost Revenue with 15% Decline		\$24,257,224

Given the anticipated sales revenue for Erie County purposes, a 35% decrease in sales tax revenue would result in lost revenue as follows:

Lost Revenue for Erie County Purposes - 35% Decline				
	2019 Revenue	Budgeted 2020	Revised 2020	Lost Revenue
March	\$35,864,057	\$35,924,557	\$23,311,637	\$12,612,920
April	\$35,830,502	\$35,890,946	\$23,289,826	\$12,601,120
May	\$49,043,047	\$49,125,780	\$31,877,981	\$17,247,799
June	\$39,178,762	\$39,244,854	\$25,466,195	\$13,778,659

Total Lost Revenue with 35% Decline **\$56,240,498**

Given the anticipated sales revenue for Erie County purposes, a 55% decrease in sales tax revenue would result in lost revenue as follows:

Lost Revenue for Erie County Purposes - 55% Decline

	2019 Revenue	Budgeted 2020	Revised 2020	Lost Revenue
March	\$35,864,057	\$35,924,557	\$16,138,826	\$19,785,731
April	\$35,830,502	\$35,890,946	\$16,123,726	\$19,767,220
May	\$49,043,047	\$49,125,780	\$22,069,371	\$27,056,409
June	\$39,178,762	\$39,244,854	\$17,630,443	\$21,614,411
			Total Lost Revenue with 55% Decline	\$88,223,771

Given the anticipated sales revenue for Erie County purposes, a 75% decrease in sales tax revenue would result in lost revenue as follows:

Lost Revenue for Erie County Purposes - 75% Decline

	2019 Revenue	Budgeted 2020	Revised 2020	Lost Revenue
March	\$35,864,057	\$35,924,557	\$8,966,014	\$26,958,543
April	\$35,830,502	\$35,890,946	\$8,957,626	\$26,933,321
May	\$49,043,047	\$49,125,780	\$12,260,762	\$36,865,018
June	\$39,178,762	\$39,244,854	\$9,794,691	\$29,450,164
			Total Lost Revenue with 75% Decline	\$120,207,045

It is not possible to determine the amount of lost revenue for any given month with certainty. The situation regarding social distancing and phased in reopening is dependent on myriad factors, any of which could have an impact on sales tax revenue. As such, the above information may be useful to determine the revenue impact of different percentage decreases for different months.

Any percentage sales tax decrease from 2019 will result in less than anticipated revenue for Erie County government. Sales tax information should be closely monitored to determine the impact that decreases will have on the Erie County budget. Adjustments should be made considering all revenue sources and spending priorities.

Other Revenue Sources

As discussed in a separate report from this office, the New York State 2021 budget allocates over \$100 billion in expenditures. Included in the budget are significant expenditures to assist local governments. The budget was passed with a built-in revenue shortfall. Upon passage of the budget, it was announced that the state anticipated revenue to be \$10 billion to \$15 billion less than necessary to fund the expenditures. As such, the budget includes a provision giving the budget director authority to make uniform cuts in expenditures, with certain areas excluded from

the cuts. This means that state assistance to Erie County could be cut 10% to 15%. Erie County anticipated state funding of \$182,539,939 in operational aid, as well as additional capital and grant aid. A 10% to 15% reduction could result in a revenue shortfall of at least \$18.25 million to \$27.38 million. A 20% reduction in state operational aid would result in a revenue shortfall of \$32,507,988 to General Fund. This revenue loss would be applied to programs allowed to be cut, so it would mean that certain funding sources would see funding cuts greater than 10% to 15%, while others may see no cuts at all.

Another revenue source that will almost certainly be impacted is hotel occupancy tax. Erie County anticipated \$11,600,000 in revenue from this tax. However, canceled events due to social distancing mandates have resulted in canceled bookings. Social distancing requirements may continue for some time, even after the economy “re-opens for business.” This will likely result in severely reduced bookings for hotels, as well as a corresponding decrease in hotel occupancy tax revenue for Erie County.

There are also other possible revenue decreases which may impact the Erie County budget. Although the impacts may be to a less significant degree, the impacts of the decreases should not be ignored.

Conclusion

The COVID-19 worldwide pandemic has hit the United States particularly hard. New York is an epicenter of the virus in the United States. Erie County has suffered a significant amount of both physical and fiscal pain as a result of this virus. Budgets that may have been balanced when passed may no longer be balanced. Given federal assistance to local governments to pay for direct costs associated with COVID-19, expenses are not likely the cause of the imbalance. If unbalanced, a likely reason for the imbalance is decreased revenue due to decreased economic activity.

As stated above, expenses are not the primary cause of any deficit in the budget. However, sound budgeting practices may necessitate the reduction of expenses to overcome unanticipated revenue shortfalls.

While unrealized sales tax revenue is certainly a cause for concern, it is not the only cause for concern. Other revenue may also be realized at amounts lower than the budgeted amount. One example of anticipated revenue shortfall is hotel occupancy tax. The 2020 Erie County budget was based on, in part, \$11,600,000 in hotel occupancy tax. Given canceled events and social distancing measures, it is expected that hotel occupancy tax revenue will drop severely.

Of course, it is not yet possible to quantify revenue shortfalls. Further, it is not yet known if a fifth assistance package will be implemented by the federal government and what form it will take. If a package is approved that merely allows previous COVID-19 funds approved for municipalities

to be used to address lost revenue, it is important to carefully monitor lost revenue from all sources as well as monitor available funds remaining after direct COVID-19 expenditures.

It is also conceivable that state assistance may be forthcoming. However, such aid is highly dubious given statements made upon New York State's budget passage that the state anticipated a 10% - 15% revenue shortfall. The shortfall will result in decreased aid to counties and municipalities. Given that certain categories of expenditures are exempt from cuts, such as certain social benefits funding and constitutionally mandated items, the impact on these discretionary funds will be greater than 10% to 15%.

As such, WE RECOMMEND that the Legislature consider this information, as well as other information in the public domain, to take steps to create multiple plans accounting for various degrees of decreased revenue to maintain a balanced budget. Further, WE RECOMMEND that cities, villages, towns and school districts make similar plans to account for possible decreased sales tax revenue from Erie County.