

County Revenues During COVID • May 26, 2021

55th Annual County Finance School



NYSAC
— NEW YORK STATE —
ASSOCIATION OF COUNTIES

515 Broadway

Albany, 12207

www.nysac.org

518-465-1473



Jeanette Stanziano

Director of Education & Training

NYSAC

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A portrait of Dave Lucas, a middle-aged man with glasses, wearing a dark suit, a light blue striped shirt, and a red patterned tie. He is smiling slightly and looking towards the camera. The background is a blurred outdoor setting with a stone wall on the right and a building facade on the left.

Dave Lucas

Director, Finance &
Intergovernmental Affairs

NYSAC

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Agenda

- COVID Controls the Economy
- The Impact on County Tax Revenues



COVID-19 Controls the Economy

“...there is nothing fundamentally wrong with our economy...”

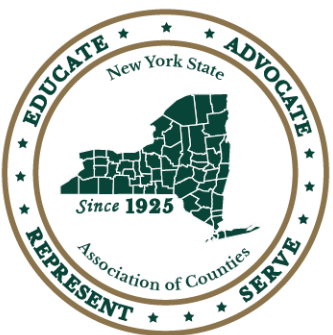
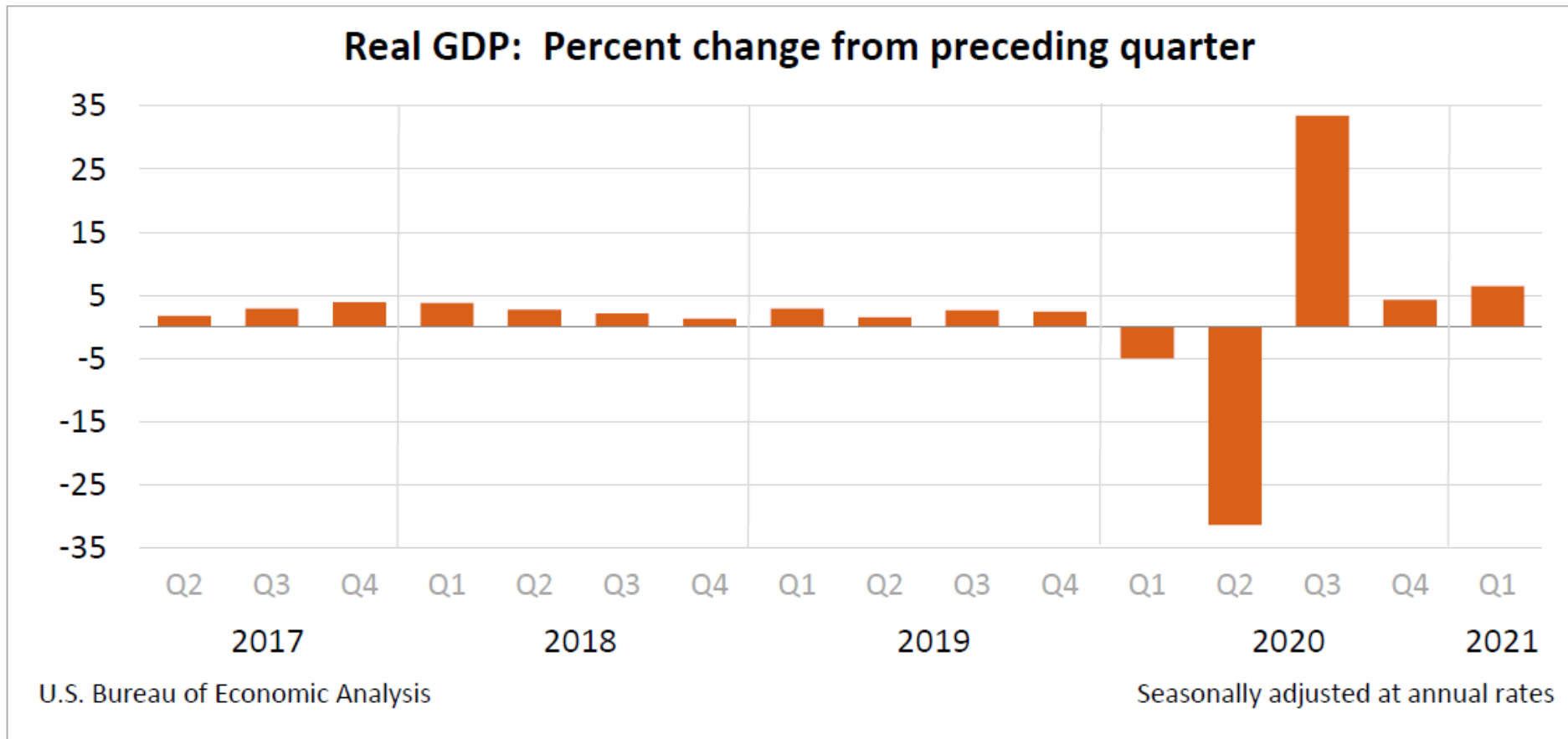
“The sooner we get through this period and get the virus under control, the sooner the recovery can come...We know that economic activity will decline probably substantially in the second quarter, but I think many expect and I would expect economic activity to resume and move back up in the second half of the year...”

- Federal Reserve Chairman Jerome Powell, March 26, 2020



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Was Powell Right about COVID & the Economy?



NYS COVID Timeline

MARCH 1, 2020

First positive COVID case in NYS

MARCH 14, 2020

First two fatalities recorded

MARCH 7, 2020

Governor declares State of Emergency

MARCH 21, 2020

Statewide stay at home order begins under NY-PAUSE.

The goal is to limit the spread of the virus through density reduction & restricting high risk activities.

Essential businesses are defined, all others must close.

Phase 1

Construction, Manufacturing, Agriculture, select retail curbside

Phase 2

Outdoor dining, hair salons, offices, auto dealers, repair services

Phase 3

Indoor dining @50% capacity, personal services

Phase 4

Low-risk outdoor and indoor

MAY 15, 2020

PAUSE density restrictions remain largely in place but a phased reopening of the economy beyond “essential” businesses begins.

Finger Lakes, North Country, Southern Tier, Central NY & Mohawk Valley



NYS COVID Timeline

JUNE 8, 2020

Phase 1 for New York City

AUGUST 2020

NY Times reports that an estimated 80,000 small businesses in NYC may never reopen. This represents one-third of all small businesses in NYC pre-pandemic.

LATE -OCTOBER 2020

Gov. Cuomo announces Micro-Cluster Strategy to place more restrictions on COVID hot spots.

MAY 19 – 27 , 2020

Phase 1 begins for Western NY, Capital Region, Hudson Valley & Long Island

JULY 10, 2020

Shopping Malls can reopen 25% capacity

OCTOBER 2020

All regions in Phase 4 reopening but restrictions on density remain and large gatherings are capped.



NYS COVID Timeline

NOVEMBER 2020

COVID case increases in NYC and other hot spots forces additional restrictions.

JANUARY 11, 2021

Vaccine age lowered to 65+

APRIL 2021

Outdoor amusement parks at 33% of capacity

Vaccine available to all 16+

MAY 19, 2021

PAUSE largely ends for all parts of state and all businesses with some restrictions for social distancing and mask wearing.

DECEMBER 21, 2020

First nursing home patient in NYS is vaccinated, health care and other essential workers soon follow.

MARCH 2021

Vaccine age lowered to 50+

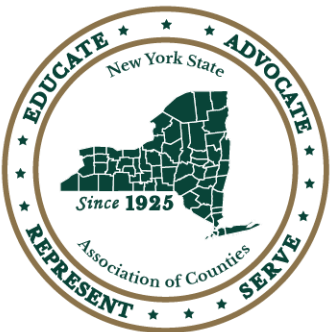
MAY 2021

Vaccine available to all 12+



Components of Economic Activity (GDP)

- Personal Consumption – **70%**
- Business Investment – **18%**
- Government – **17%** (State & Local is nearly 60% of Govt. \$)
- Net Exports – **(5%)**



COVID & Economic Activity (GDP)

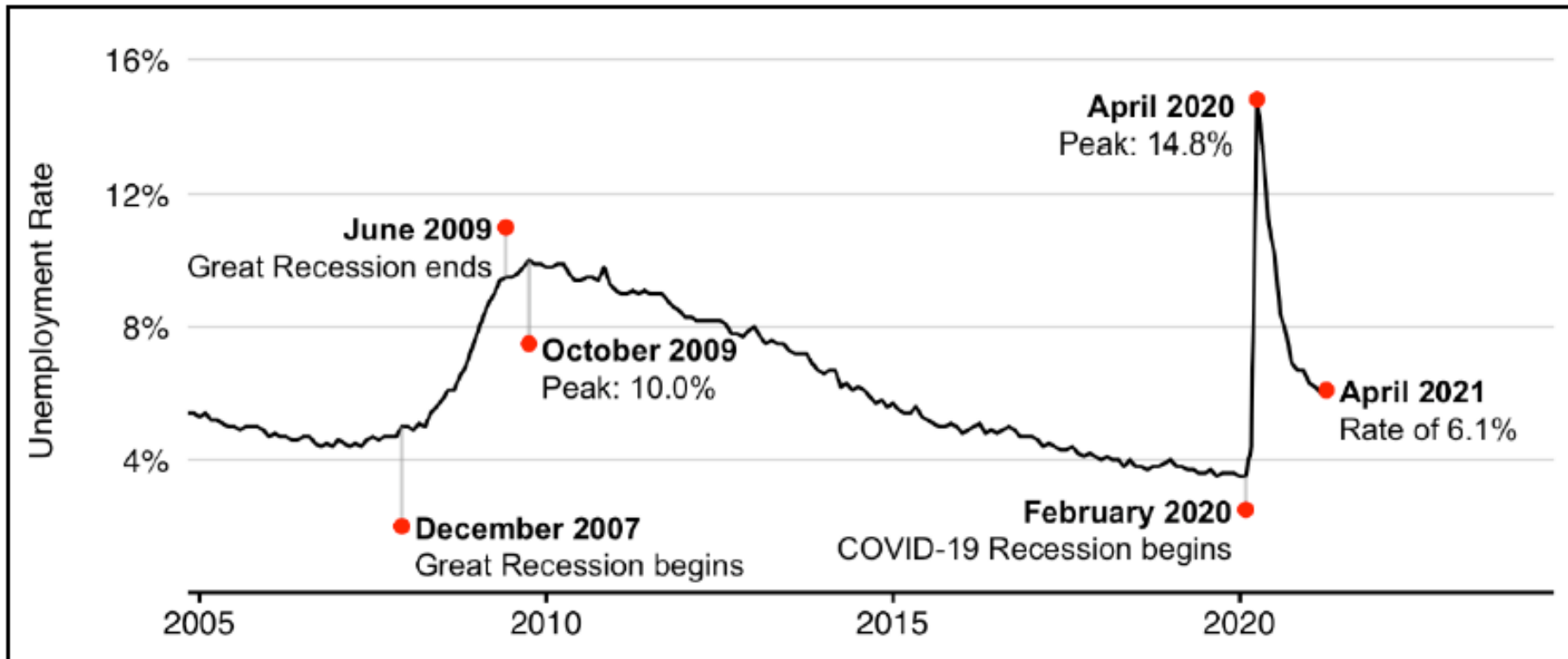
- Employment & Income are paramount for individuals
- Businesses need customers
- In-person services industries are unable to conduct business
- State & local governments are restrained by available revenue
- Federal Government is the recession counterweight



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Recent U.S. Unemployment Insurance Rate

Seasonally adjusted monthly data, November 2004 to April 2021



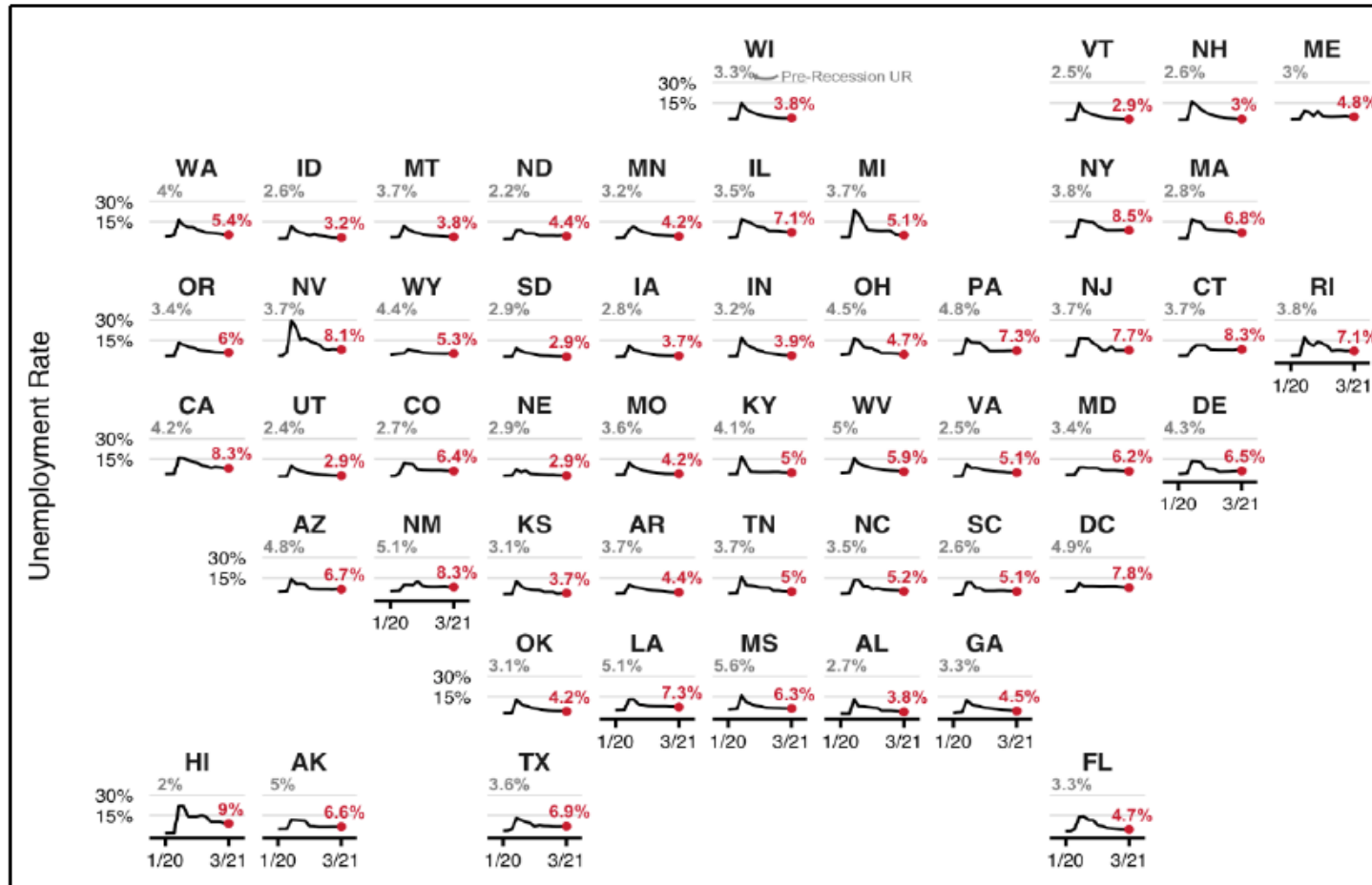
Source: Created by CRS using data from the Bureau of Labor Statistics (BLS). Extracted using the Labor Force Statistics data series at <https://www.bls.gov/data/>.



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State-by-State Unemployment Rates During COVID

Seasonally adjusted monthly data, January 2020 to March 2021



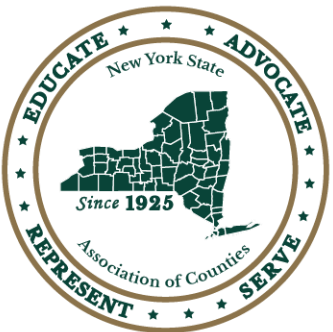
- In March of 2021, the New York State unemployment rate is 2nd highest in the country at 8.5%. Behind only Hawaii at 9%.
- The average UI rate per state is 5.6%.
- No state is below where they were pre-COVID.



Source: Created by CRS using data from the Bureau of Labor Statistics (BLS). Extracted using the Labor Force Statistics data series at <https://www.bls.gov/data/>.

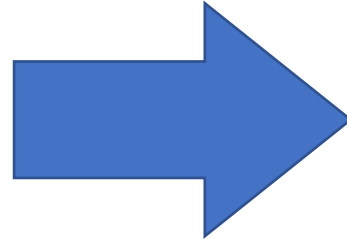
COVID & Economic Activity

With unemployment high and the virus still in control, how did the economy recover so quickly in many regions?



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COVID Shuts Down much of the Economy



Businesses closed, 33 million people lost their jobs, people were ordered to stay home

Federal Countercyclical Actions - COVID Stimulus through March 27, 2020 (\$1.9 trillion)

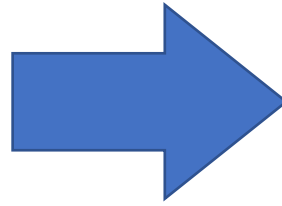
- **\$7.8 billion** for immediate health response, March 6th
- **\$192 billion** – Families First Coronavirus Relief Act, March 18th
- **\$1.7 trillion** – CARES Act, March 27th PPP (\$377B), UI benefits (\$270B), stimulus checks (\$293B), health care providers (\$100B)

When Chairman Powell made his statement about prospects for the economy on March 26th, Congress had already enacted nearly \$2 trillion in stimulus.



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More federal stimulus was enacted through 2020 and into 2021 - \$5.2 trillion in total*



Without employment, federal actions created income and most people could still pay their bills & the stock market doubled!

2020 - COVID Stimulus (\$3.3 trillion)

- **\$483 billion** – April 24th Additional PPP (\$321B) & Health care providers (\$75B)
- **\$962 billion** – December 21st COVID Supplemental Appropriations– more stimulus checks, UI, etc.

2021 – American Rescue Plan (\$1.9 trillion)

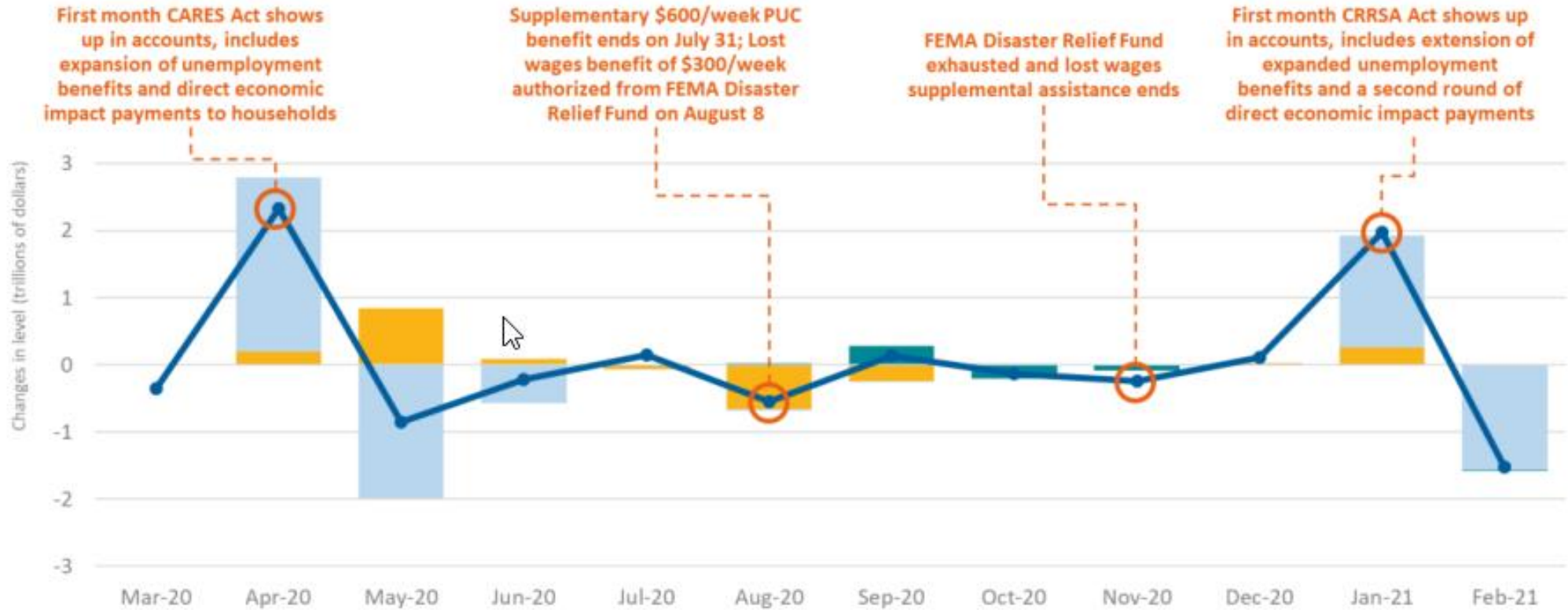
- March 11th State & local aid (\$350B), UI (\$242B), stimulus checks (\$414B), education (\$170B), Health care for individuals (\$150B), transportation (\$90B), restaurants (\$25B), rental assistance (\$40B), small business (\$25B), pension plans (\$83B)

***To put this in perspective, the entire federal budget in 2019 was \$4.4 trillion**



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Changes in Personal Income and Selected COVID-19 Legislative Impacts



U.S. Bureau of Economic Analysis

Seasonally adjusted at annual rates





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COVID Stimulus Impact on Personal Savings Rate

FRED — Personal Saving Rate



U.S. recessions are shaded; the most recent end date is undecided.

Source: U.S. Bureau of Economic Analysis

fred.stlouisfed.org

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Snapshot of County Tax COVID Impact

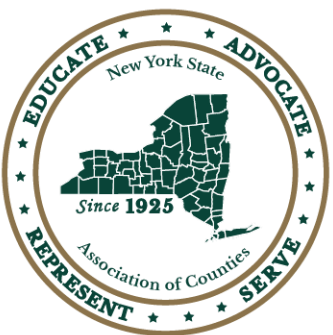
- **Property Tax** – this will be a lagging indicator based on permanent damage to the economy and time to repair
 - Due to quick actions taken at the beginning of the pandemic to control costs most counties did not find a need to breach the property tax cap for 2021
- **Sales Tax** - economic activity in many parts of the state recovered, contributing to a rebound in sales tax, but in total, sales tax was down by \$197 million for the 57 counties during the COVID months (March 2020 thru December 2020)
- **Occupancy Tax** – down 52% or \$69M
- Local fees and other receipts for all counties combined were down by tens of millions of dollars as well
- In addition to local revenue losses, counties had to manage \$306 million in state aid cuts and newly imposed mandates in the SFY 2021 budget



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Snapshot of County Tax COVID Impact

- **Casino Gaming Taxes** – down 57% or \$59M for the COVID period
- For Jan-Feb-March of 2021, the commercial gaming casinos average monthly payments have improved considerably
 - **Tioga** – 107 percent compared to same period in 2019
 - **Del Lago** – 81 percent compared to 2019 period
 - **Rivers** – 102 percent compared to 2019 period
 - **Resorts World** – 81 percent compared to 2019 period
- We do not have current data for Tribal State Compact payments, but believe they are following a similar pattern (not including Seneca's)



County Sales Tax Update – 2020 and 2021

- Sales tax is the top local revenue source for more than half of the counties
- As mentioned, for the COVID months during 2020 (March-December)
 - Counties outside NYC were down \$197 million, **-2.7%**
 - 30 counties were up – the average was +4.5%
 - 27 counties were down – the average was **-4.6%**
 - NYC was down \$1.7 billion, **-20%**
- For 2021, most counties budgeted sales tax below what they budgeted for 2020 or remain unchanged from actual collections in 2020, this is before the state diversion of \$110 million in county sales
 - **With general inflation rising (which may be transitory) and commodity prices surging (building materials and motor fuels), plus conservative sales tax budgeting by counties, we expect significant upside potential in full year sales tax receipts for counties**

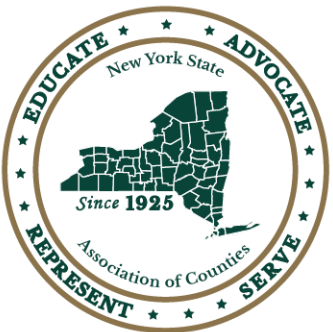
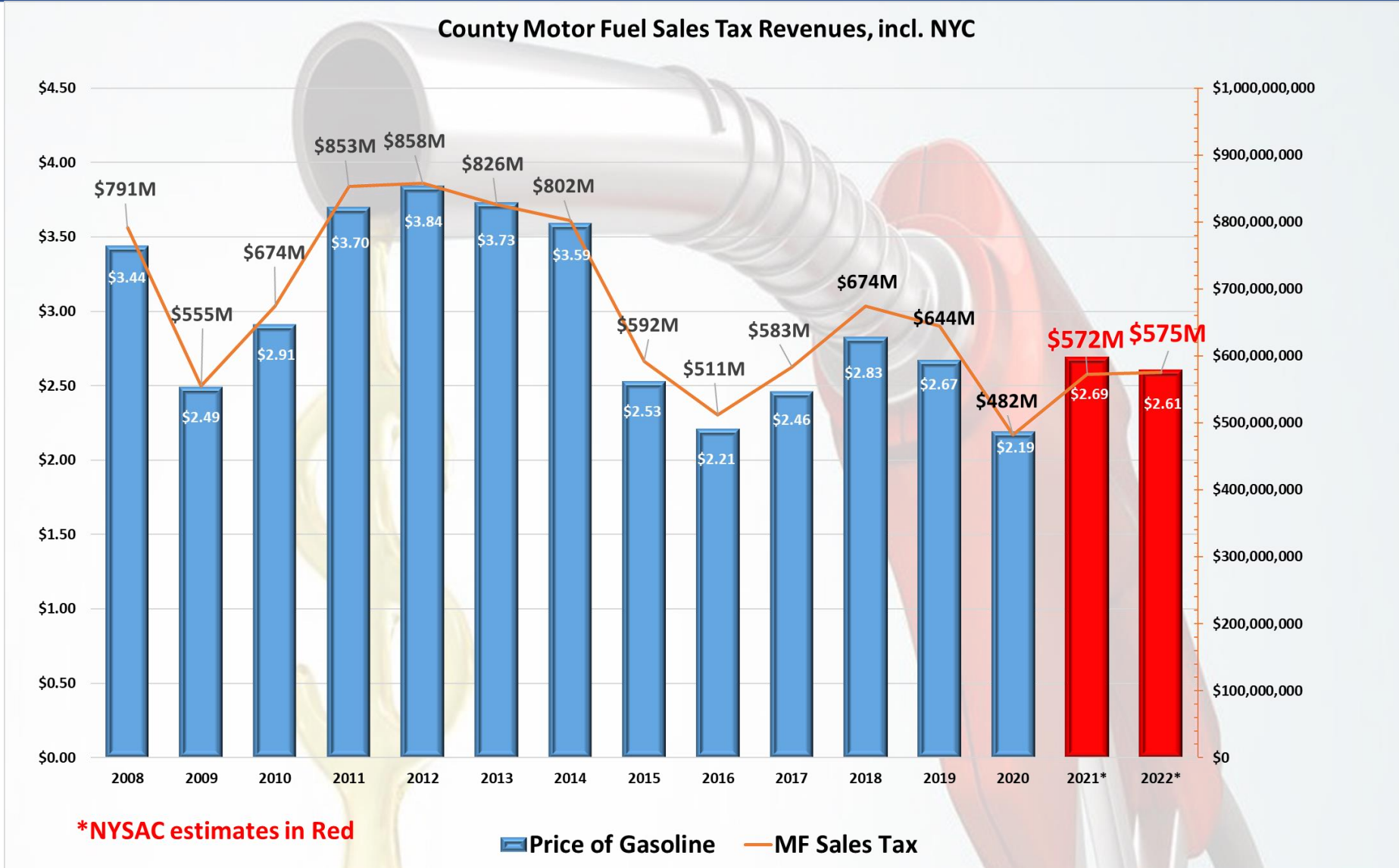


Motor Fuel Sales Tax Update – 2020 and 2021

- Due to COVID restrictions and an oil price war, gasoline prices fell through much of the first half of 2020
- This was in conjunction with a 20 percent consumption decline in Q2, which resulted in a 10 percent decline in consumption for all of 2020, based on EIA & NYSAC estimates
- The first quarter of 2021 saw a decline in motor fuel sales tax collections as most of the first quarter of 2020 experienced higher prices and strong economic growth
- By the second quarter of 2021 prices outstripped the prior year by wide margins (+33%) and consumption (+20%) was significantly higher
 - Estimates from the EIA assume these trends continue through 2021 resulting in higher gasoline prices and consumption year over year
 - Prices are currently projected to moderate in 2022, but consumption is expected to continue to grow in 2022 over 2021

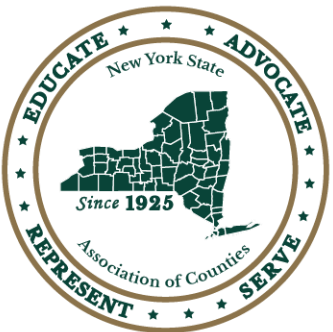


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COVID Impact on Taxable Sales

- The impact across the state has varied dramatically county by county, and as we move further away from the first COVID case diagnosed in New York, the impact on sales tax activity has declined.
- The impact across different industries has also been very apparent with tourism and similar service industries devastated, while others saw increased activity because they were deemed essential, or they facilitated social distancing (internet-based retail).
- For the State of New York, New York City and about half the counties, taxable sales are still below expectations and far below the trajectory most counties were experiencing in the months leading up to the start of the pandemic. In the pre-pandemic months of late 2019 and early 2020, the average county saw monthly growth in sales tax approaching 7 percent year over year (N-D-J-F)

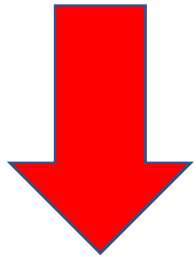


COVID Impact on Taxable Sales

- NYSAC estimates that state taxable sales were down \$42 billion for the 12 months ending February 2021, or **-13 percent**
- New York City taxable sales were down the most of any municipality by nearly 24 percent for this period, representing nearly \$2 billion in lost sales tax
- Consistent with early modeling, industries most impacted by social distancing included tourism, personal services, restaurants, clothing and department stores
- Some industry sectors bounced by more quickly than anticipated and others benefitted from being designated “essential businesses” or could facilitate socially distant transactions (internet-based retail).

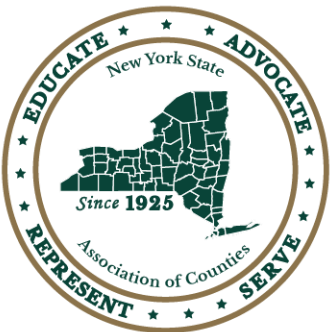
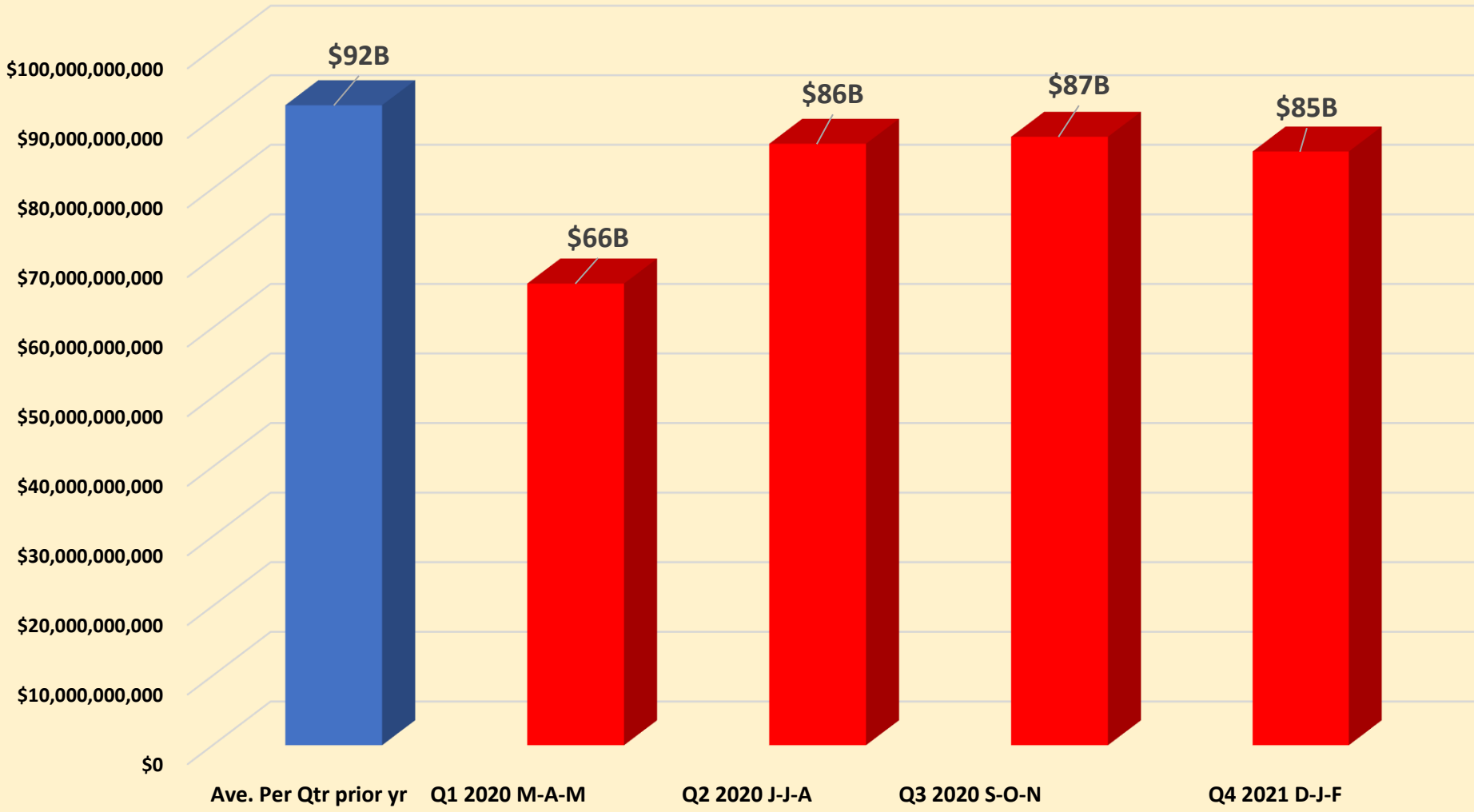


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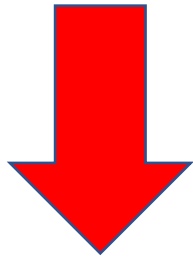


Down \$42B
-13%

Total Taxable Sales by Quarter - New York State, COVID Impact



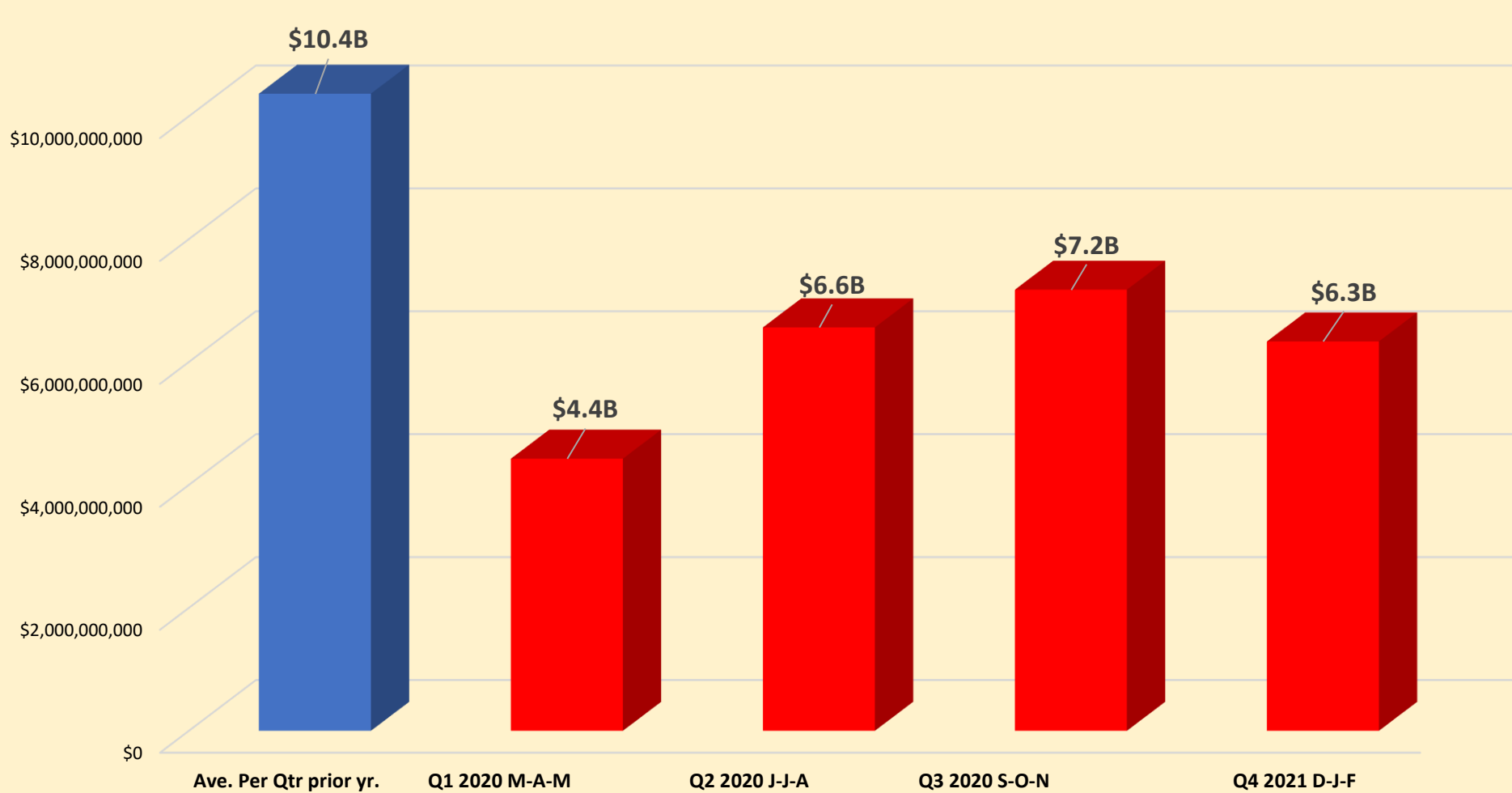
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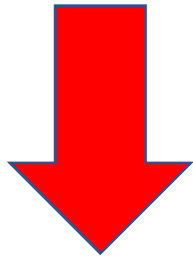
Down \$17B
-41%



Restaurants (1) - NYS Taxable Sales, COVID Impact



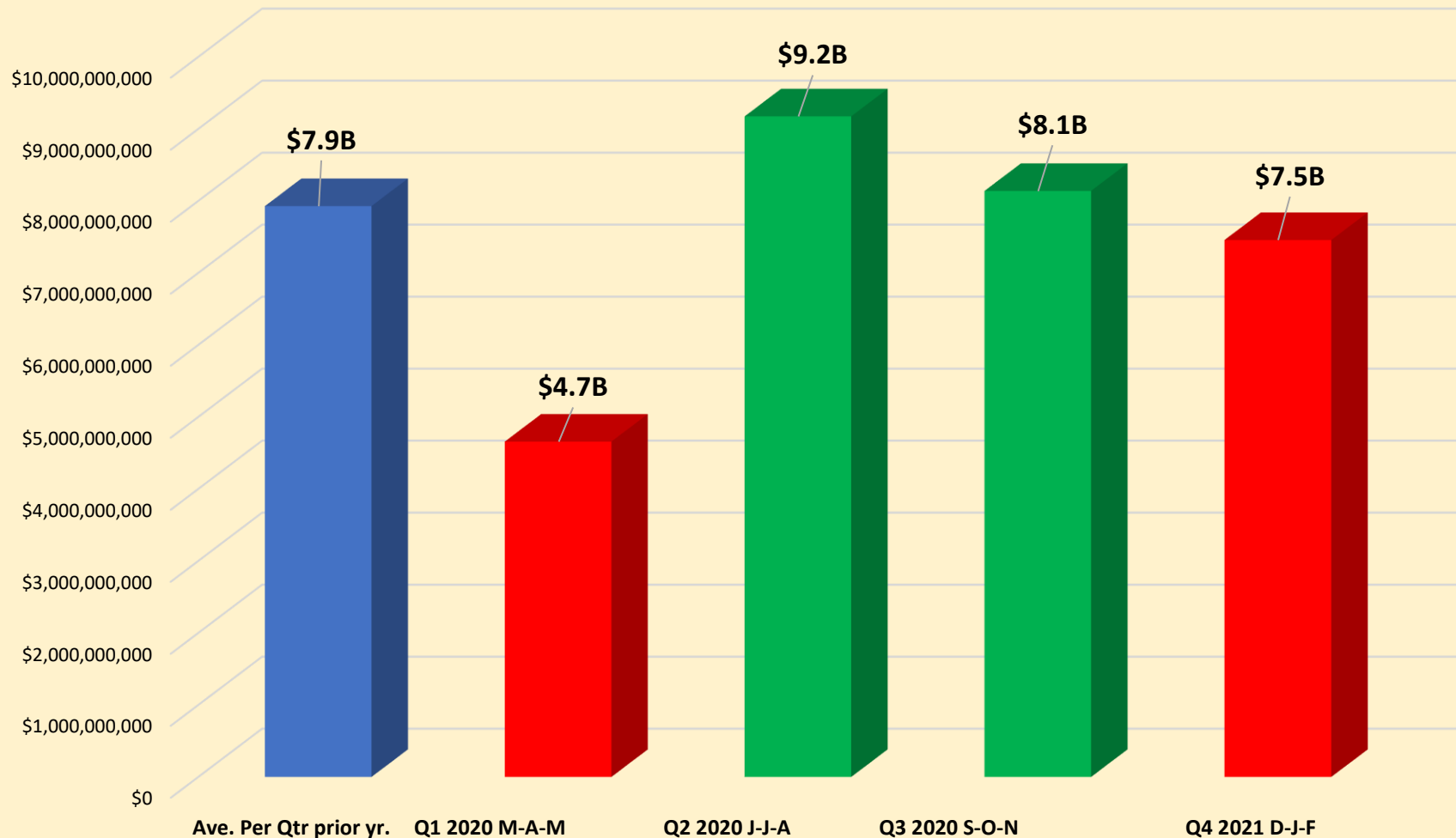
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Down \$2.3B
-7%



Auto Dealers (2) - NYS Taxable Sales, COVID Impact



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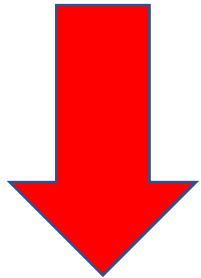
Up \$1.7B
+12%



Building Materials Dealers (3) - NYS Taxable Sales, COVID Impact

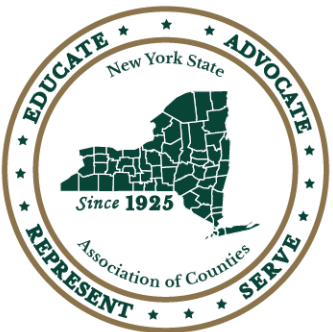
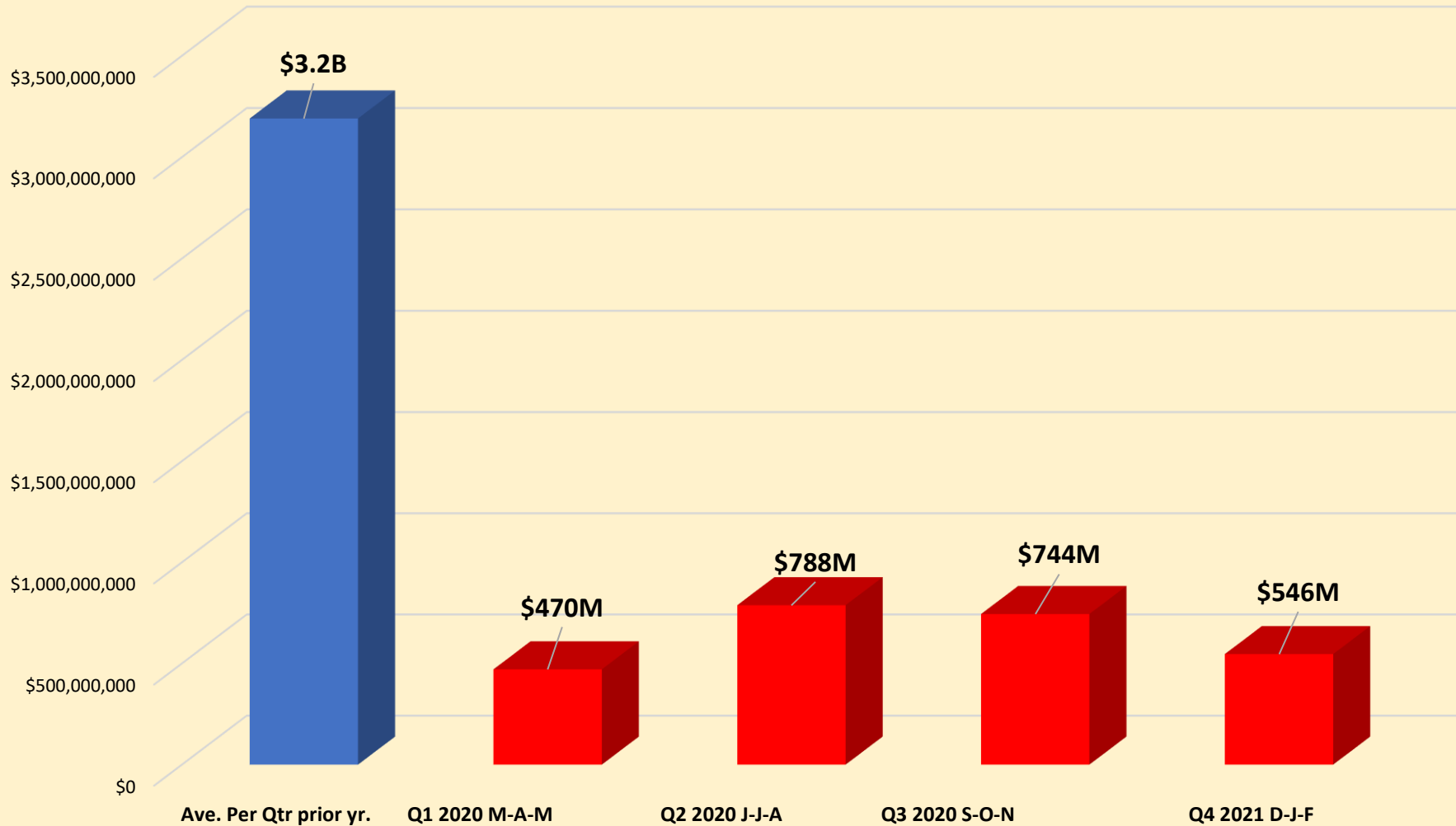


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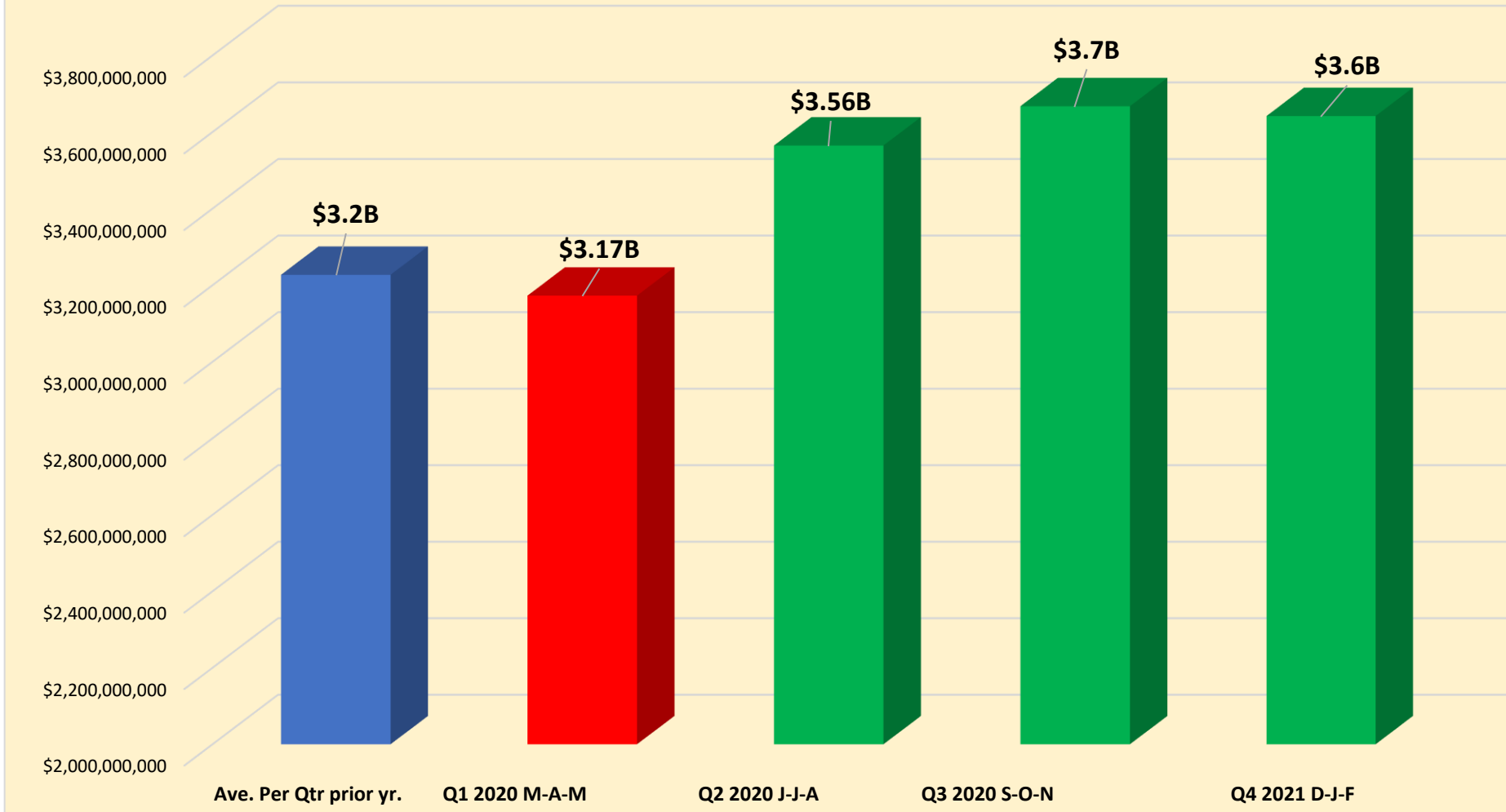
Down \$10.2B
-80%

Traveler Accommodation (4) - NYS Taxable Sales, COVID Impact

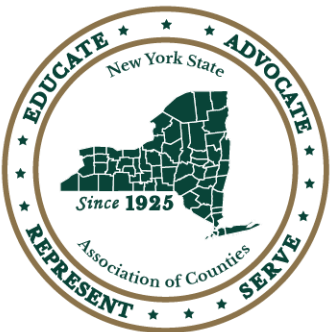
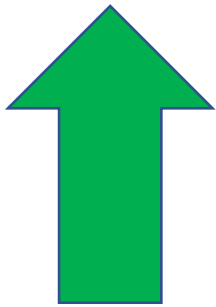


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Gen. Merch. Stores (5) - NYS Taxable Sales, COVID Impact

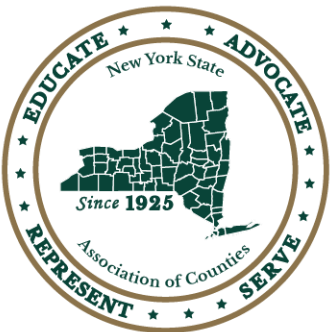
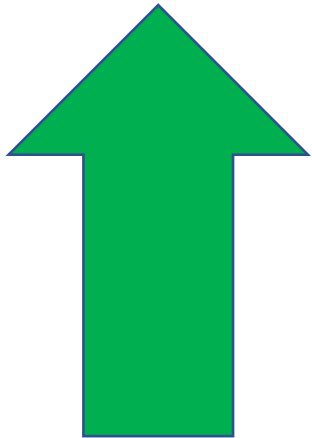


Up \$1.1B
+9%

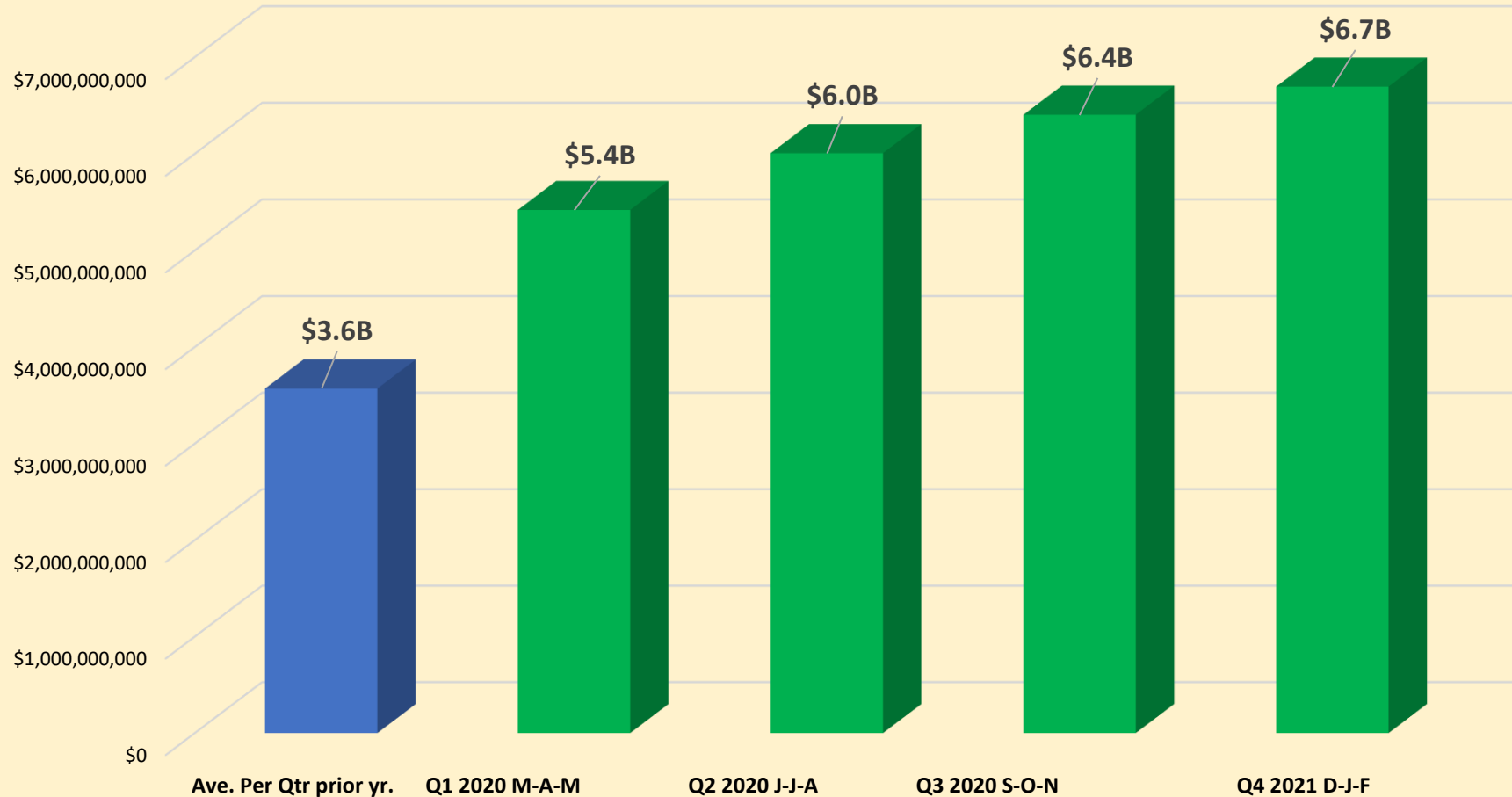


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Up \$10.2B
+72%

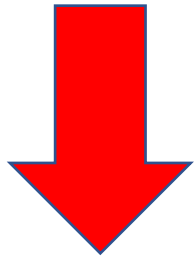


Electronic Shopping (8) - NYS Taxable Sales, COVID Impact

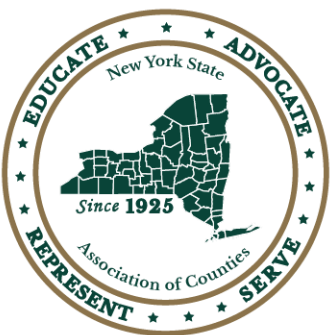


* June 1, 2019 NYS required Marketplace providers to collect sales tax on retail transactions on their platforms as a result of *Wayfair v. South Dakota*

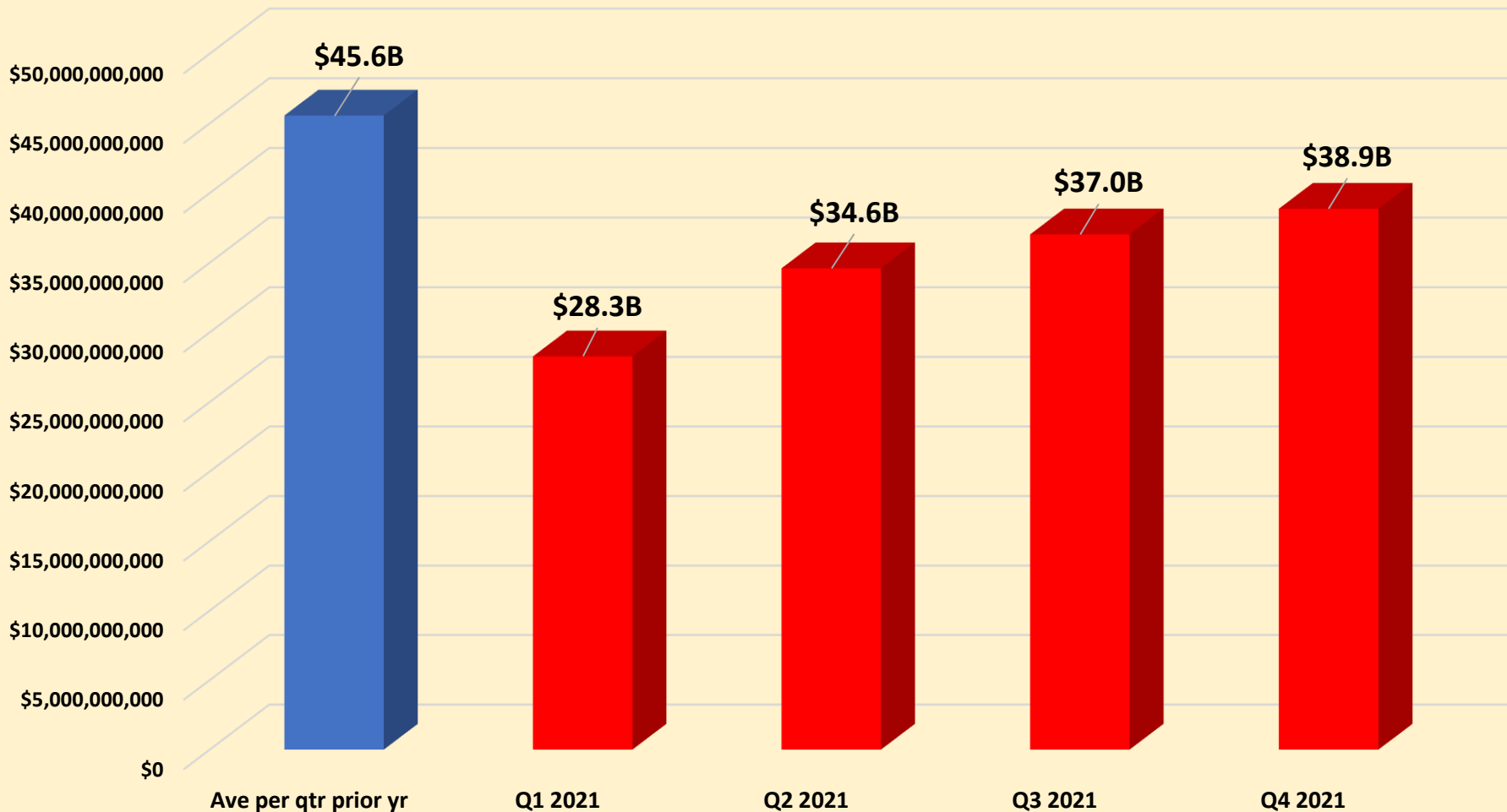
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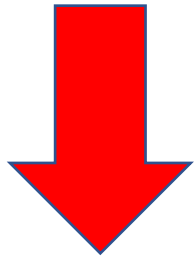
Down \$43B
-24%



Total Taxable Sales by Quarter - New York City, COVID Impact



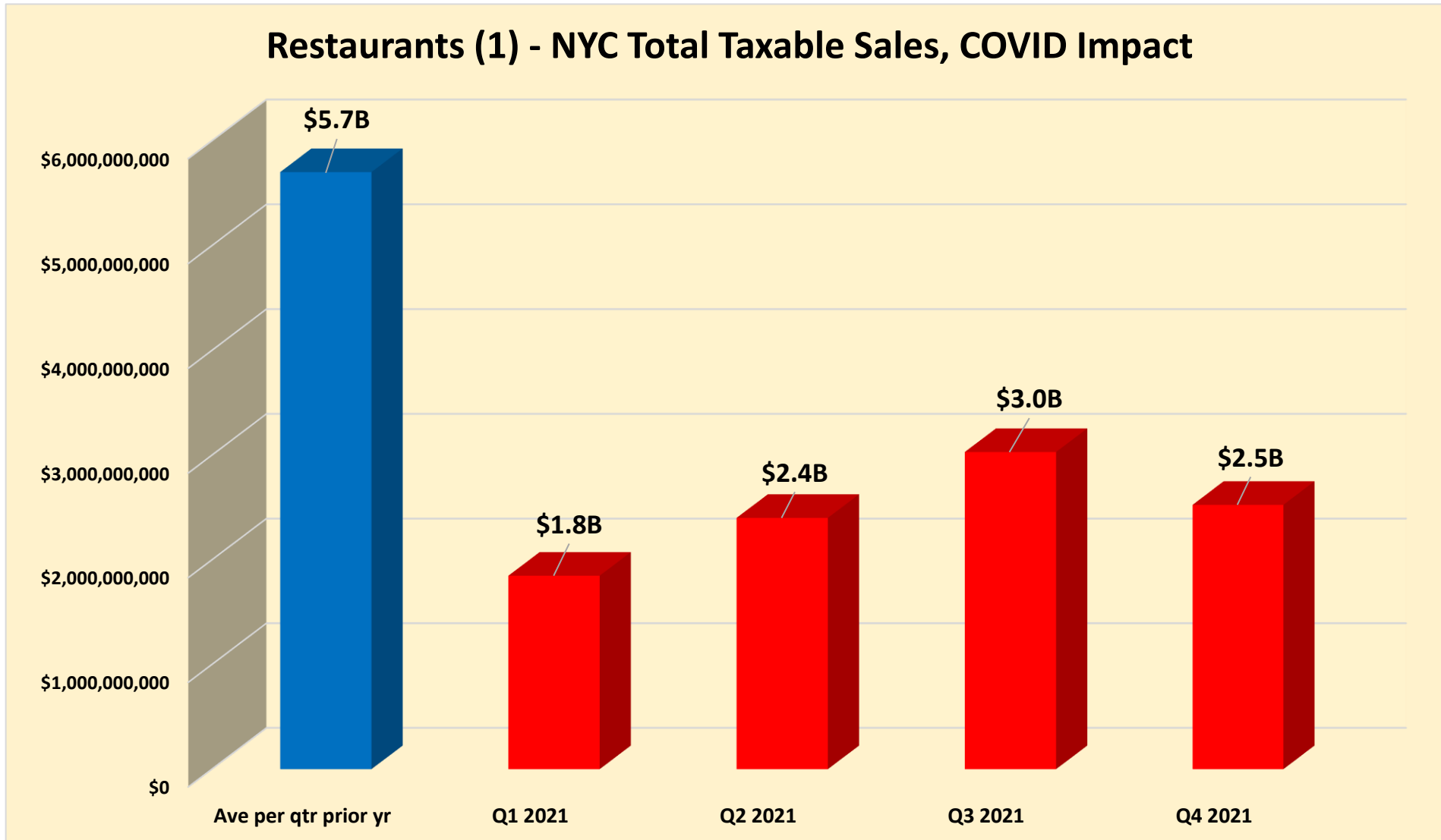
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Down \$13B
-57%



Restaurants (1) - NYC Total Taxable Sales, COVID Impact

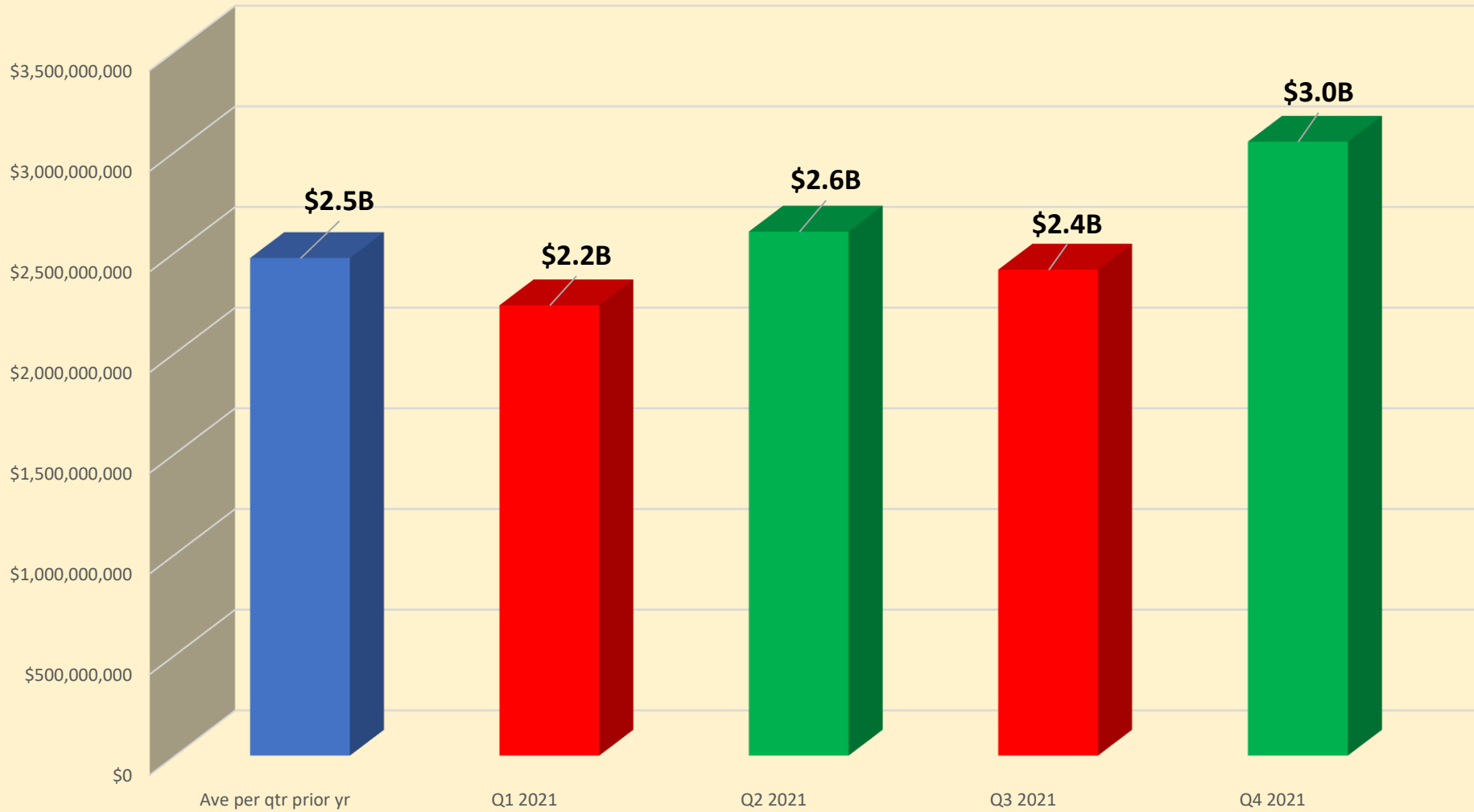


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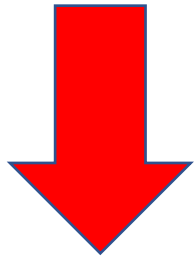
Up \$2.9B
+29%



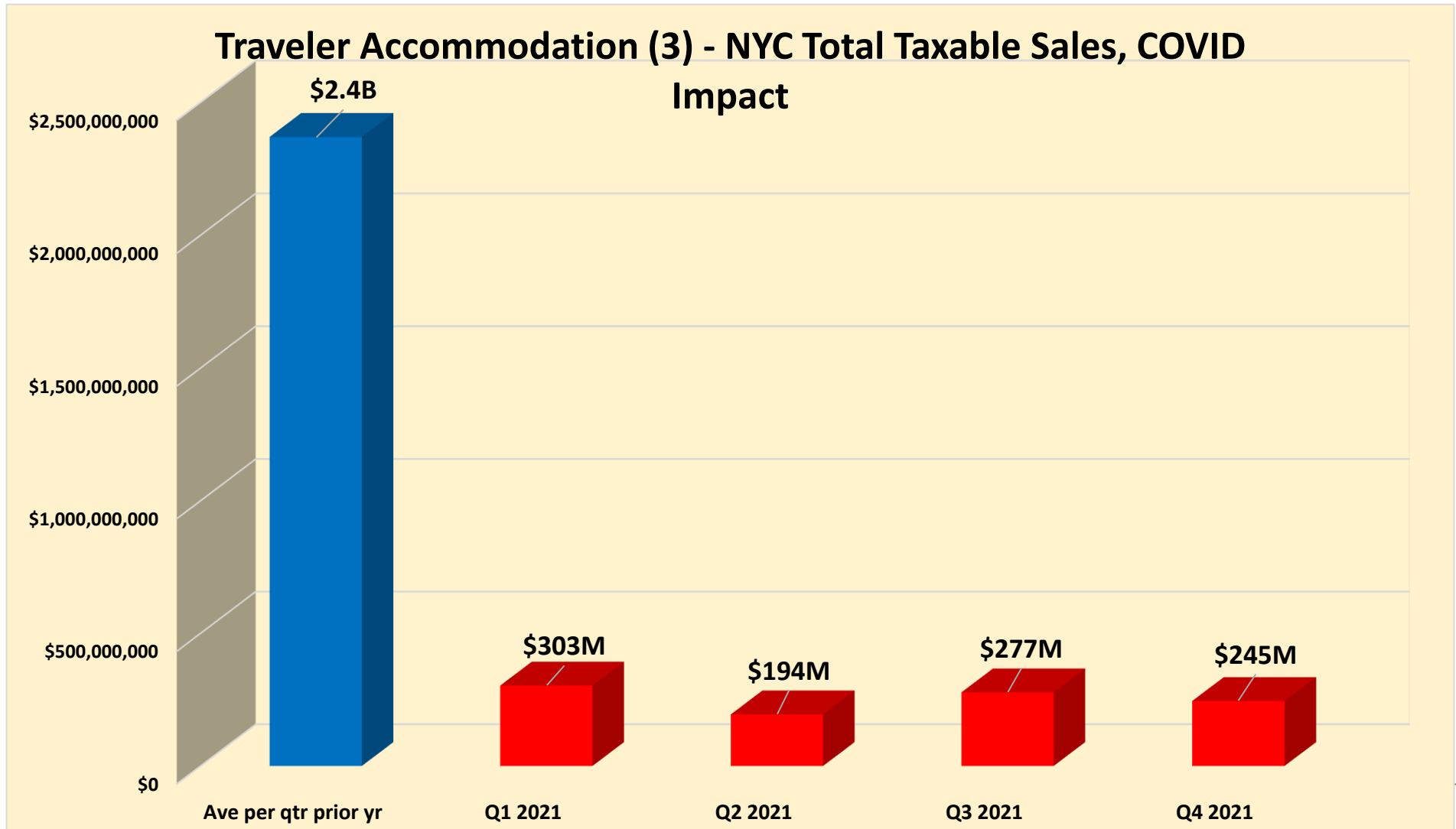
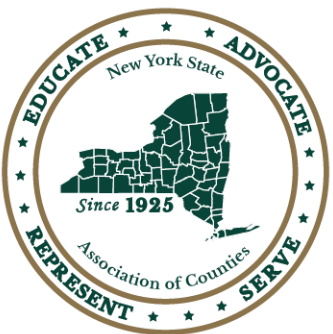
Electric Power Gen./Trans./Dist. (2) - NYC Total Taxable Sales, COVID Impact



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Down \$8.5B
-89%

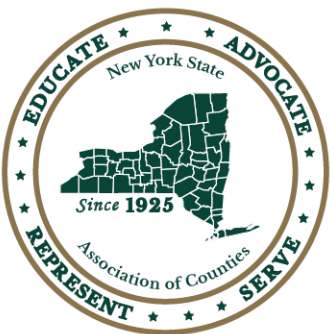
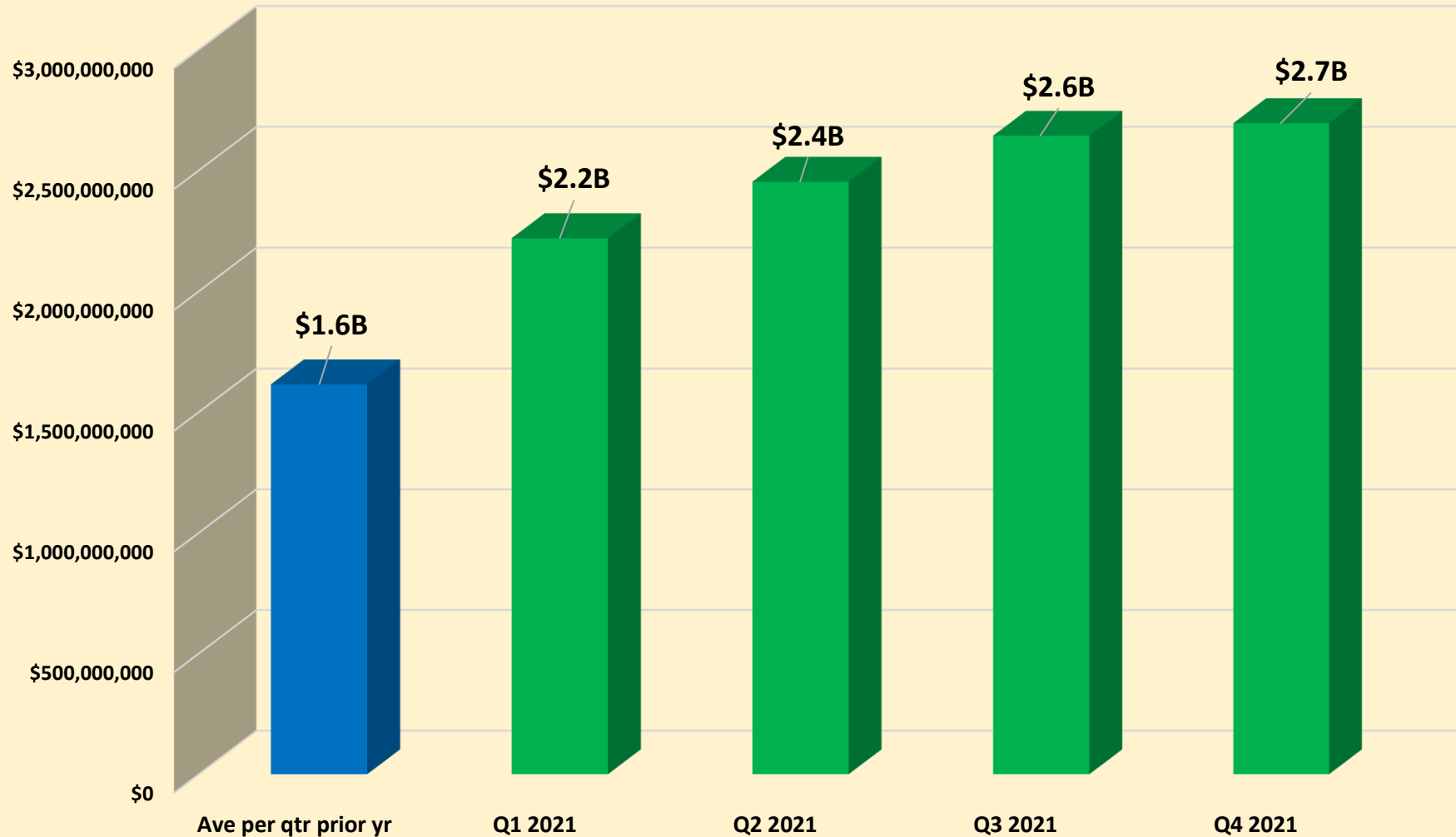


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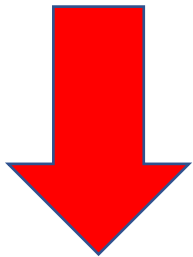
Up \$3.5B
+55%



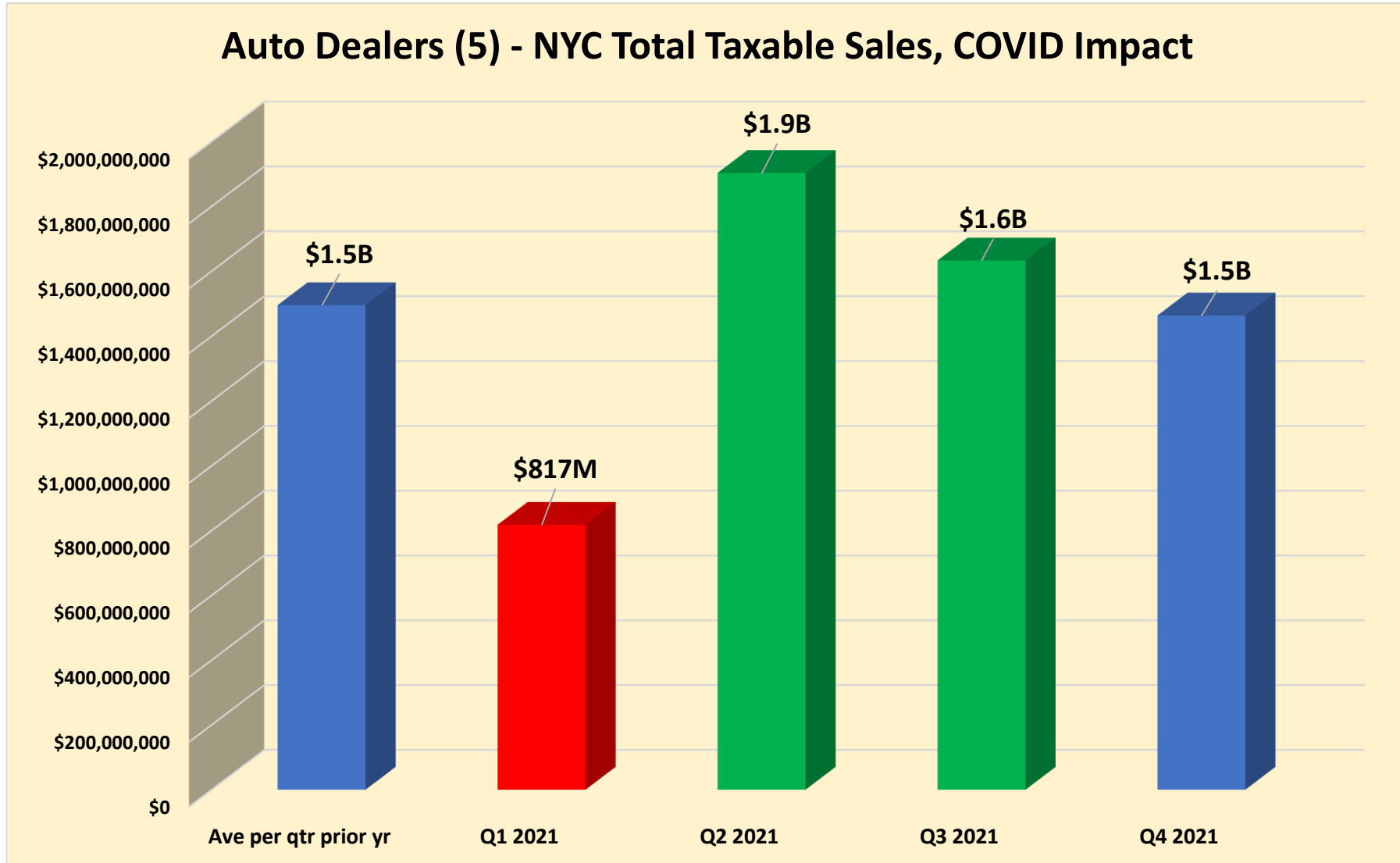
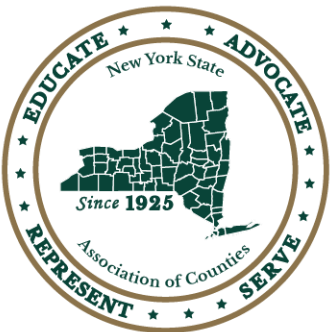
Electronic Shopping (4) - NYC Total Taxable Sales, COVID Impact



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**Down
\$163M
-3%**



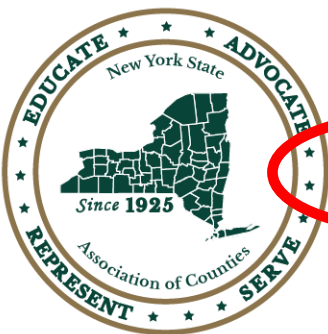
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COVID Impact on Electronic Shopping

- *Wayfair* Decision changed this dynamic, but COVID did as well
- The transition to online purchases increased in Q2 2020 during lockdown, settled slightly, but remains elevated from the prior trend line

Estimated Quarterly U.S. Retail Sales: Total and E-Commerce*

Adjusted	Retail Sales (Millions of Dollars)		E-commerce as % of Total	% Change from prior qtr		% Change from same qtr one year ago	
	Total Retail	E-commerce		Total Retail	E-commerce	Total Retail	E-commerce
Q1 2021	\$1,581,424	\$215,035	13.6%	7.8%	7.7%	16.8%	39.1%
Q4 2020	\$1,467,245	\$199,665	13.6%	0.6%	-0.9%	7.0%	32.0%
Q3 2020	\$1,458,670	\$201,382	13.8%	12.1%	1.2%	7.0%	36.1%
Q2 2020	\$1,301,259	\$203,796	15.7%	-3.9%	31.8%	-3.6%	43.8%
Q1 2020	\$1,354,477	\$154,575	11.4%	-1.2%	2.2%	2.2%	14.0%

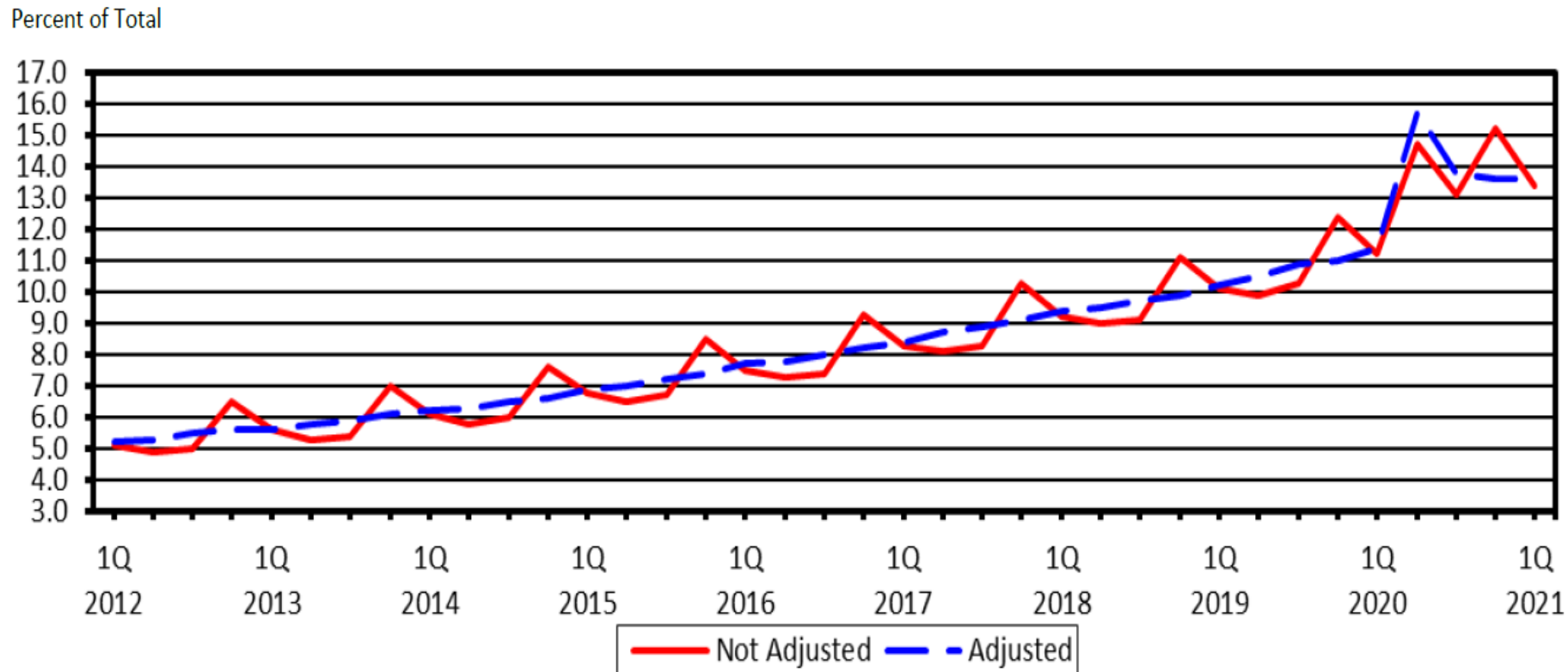




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COVID Impact on Electronic Shopping

Estimated Quarterly U.S. Retail E-commerce Sales as a Percent of Total Quarterly Retail Sales:
1st Quarter 2012 – 1st Quarter 2021

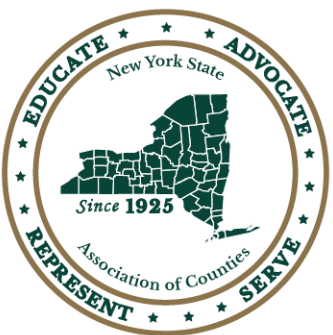


E-commerce experienced two years of growth in one year.

By the 1st quarter of 2021, E-commerce had captured the same share of the total retail market it was not expected to achieve until the end of 2022, based on the pre-COVID timeline.

Wayfair Impact on Electronic Shopping

- While Electronic Shopping ranked #8 as a source of sales tax for the State of New York, for the 39 counties (incl. NYC) NYSAC has checked so far, Electronic Shopping is in the top 5 for all but 2 counties (#6), and often #2 or #3
- The Wayfair Decision does add another layer to the growth in Electronic Shopping
- NYS T & F has been tracking vendors that have newly enrolled to collect sales tax because of *Wayfair* administrative changes and the Marketplace statutory changes requiring major internet platforms to collect sales tax for all of its' third-party vendors selling into NYS if their annual sales exceed \$500k
 - **These changes are responsible for a sizable portion of the increase in internet-based retail sales tax the last couple of years**



Wayfair Impact on Electronic Shopping

- For SFY 2021, *Wayfair*/Marketplace changes added \$16.2 billion to counties/NYC total taxable sales
 - The estimated sales tax generated from *Wayfair* was \$686 million in SFY 2021
 - Original budget estimates from DOB was \$390 million annually for local governments in new sales tax with SFY 2018 as the base year
 - Those budget assumptions assumed 16% annual growth – when trended forward to SFY 2021 that would equal about \$608M
- On average, about 68 percent of all Electronic Shopping taxable sales are generated from *Wayfair* according to T&F, ranging from 57 percent to 85 percent
- For the average county, Electronic Shopping now accounts for about 7.4 percent of TTS, up from about 2 percent just five years ago



Key Factors for Sales Tax

- The impact varies widely. A handful of counties' sales tax recovered in the summer of 2020 and by the end of 2020 about half the counties collected more sales tax than they did in 2019
- Counties experienced strong headwinds on sales tax if they had a strong reliance on, with some exceptions:
 - tourism and hospitality sectors (traveler accommodation),
 - restaurants
 - foot traffic from a workforce that commutes into your county
 - college students at school (not remote learning)
 - Unique, or regional shopping destinations
 - regional entertainment/attraction/venues



County Revenues During COVID • May 26, 2021

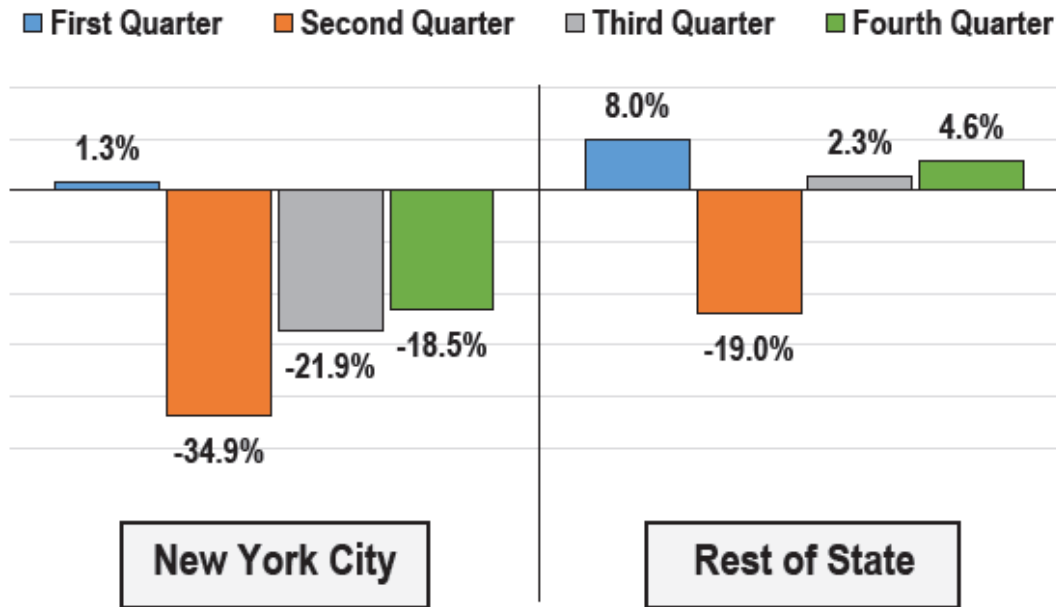
Sales Tax in 2020

This OSC chart show the difference between NYC and ROS on a quarterly basis.



Figure 2

Quarterly Year-Over-Year Change in Local Sales Tax Collections, Calendar Year 2020



Source: Tax and Finance, with calculations by OSC.

Notes: "Rest of State" includes all counties and cities located outside of New York City.

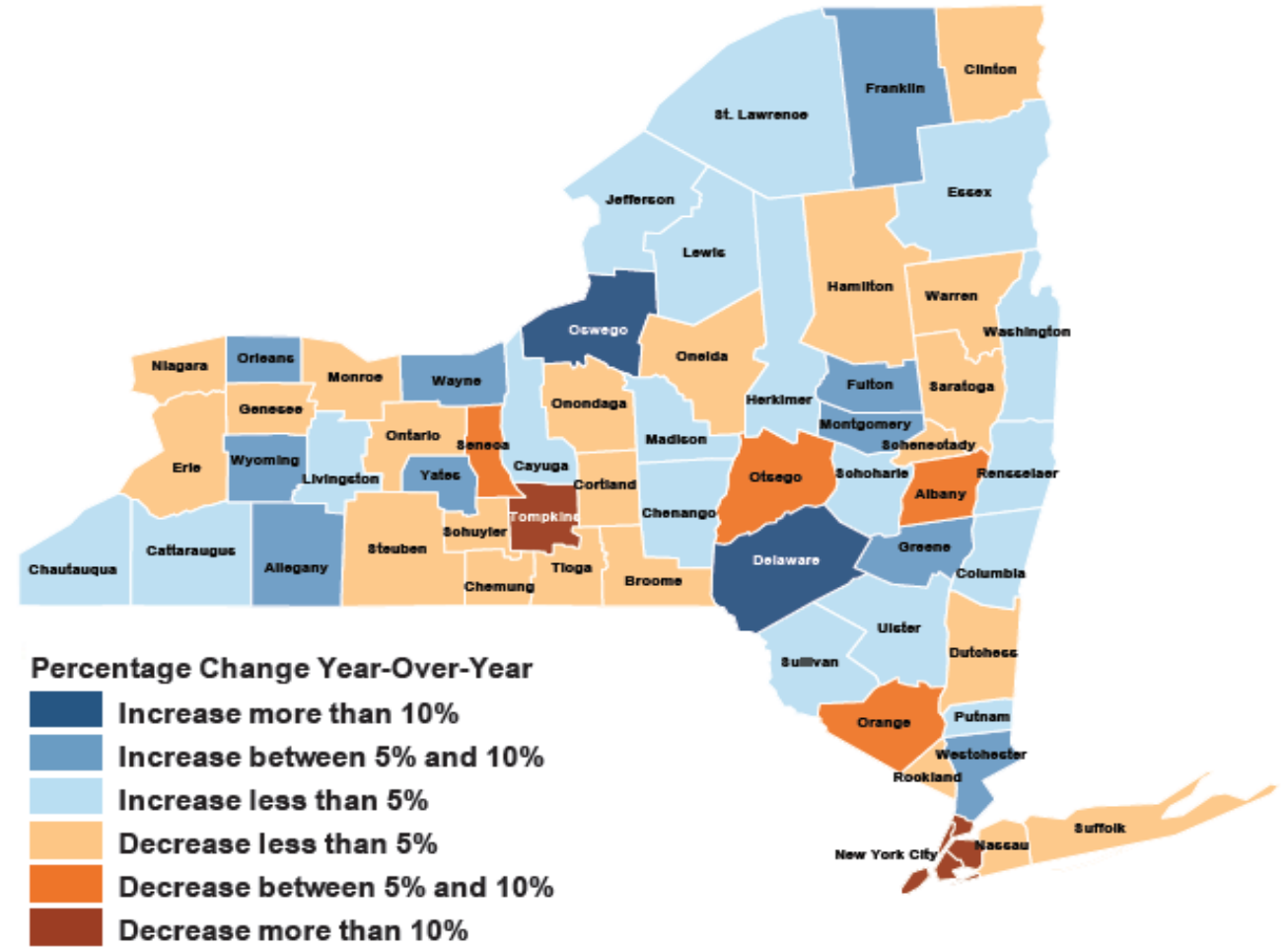
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Sales Tax in 2020

This OSC chart shows the regional variation in how county sales tax accrued in 2020.

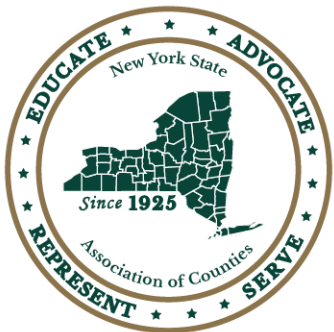
Figure 3

Change in County Sales Tax Collections, Calendar Year 2019 to 2020



Source: Tax and Finance, with calculations by OSC.

Notes: Includes county and New York City collections.



Key Factors for Sales Tax

- In 2020, historical sales tax distribution factors skewed monthly sales tax cash receipts and much of 2020 saw wide redistributions of sales tax between localities, mainly NYC to most other counties
- NYC was still burdened by social distancing restrictions and low workforce commuter traffic for the March to May (SFY 2022 Q1 sales tax quarter), there could be one more big redistribution, but unclear
- NYS T & F is trying to make adjustments to the monthly distributions to limit these large reconciliation swings in 2021 and the first big test will be the July payments



Sales Tax Cash in 2021

- **Jan-Feb-March-April**

- New York State = \$4.6 billion, \$281 million more than last year, +6.4%
- New York City = \$2.4 billion, \$77 million less than last year, **-3.1%**
- 57 Counties = \$2.9 billion, \$361 million more than last year, +14.2%



Questions?



New York State Association of Counties

Dave Lucas

Director, Finance & Governmental Affairs

dlucas@nysac.org

518.465-1473 ext. 222

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Venesky and Company

Doug Venesky, General Manager

6114 State Route 31

Cicero, NY 13039

www.venesky.com

(315) 698-2442

vgroup@venesky.com



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