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Comptroller warns counties of overreliance on sales tax

By Ariel Zangla

Every time a road is plowed, a 911 call is answered or a local election is held, your tax dollars are being spent.

Traditionally, county governments have relied mostly on property taxes to pay for the services residents enjoy. But according to a report issued last month by state Comptroller Thomas DiNapoli, sales taxes now account for a bigger percentage of revenue. In 2005, DiNapoli said, sales tax revenue accounted for 26 percent, or \$4.6 billion, of all county revenues statewide, compared to property tax revenue at 25 percent, or \$4.4 billion.

"There's been a shift in New York State," DiNapoli said. "Counties are relying more heavily on sales taxes than property taxes. Keeping property tax increases under control is a good thing. But county and local governments should understand that sales tax revenues are tied to the health of the economy. If the economy turns downward, counties won't generate the sales tax revenues they're counting on."

In Ulster, Dutchess and Greene counties, sales taxes do make up a large portion of budget revenues, but officials said they do not rely on that money and try to conservatively estimate receipts.

"We are very conservative with our sales tax estimates," Ulster County Administrator Michael Hein said. He said the county relies on that revenue, but tries to accurately anticipate how much will actually be received each year.

Prior to his administration, Hein said, the county did run into trouble with overestimating its sales tax revenue, coming up about \$700,000 short in 2006. As a result, money had to be taken from the county's fund balance to cover the deficit, he said.

This year, the county has been able to hold the line on spending, but property taxes increased 7 percent. Hein said if the levels of state and federal aid decline and sales tax revenue remains unchanged, then property taxes must be increased to fund services.

"We continue to work towards stabilizing Ulster County's economy after a long term of instability," Hein said. He said the county is fortunate to have a diversified economic base rather than relying on just one type of business to generate sales taxes.

In his report, DiNapoli said county sales tax revenue statewide increased by about 84 percent between 1995 and 2005, driven in part by local sales tax rate increases in most counties. Fifty-one of the 57 counties outside of New York City have received state legislative approval for local sales tax rates that exceed the 3 percent allowed by law.

Even so, in Ulster County, the growth trend has been in property taxes. In 2002, the county's total budget, then \$252.6 million, included 12.9 percent of revenues from property taxes and 27.9 percent from sales taxes. In 2005, with a total budget of \$293.1 million, about 16 percent was raised by property taxes and 27.8 percent from sales taxes. In 2006, 21.6 percent of the \$300.24 million budget was raised in property taxes and 27.8 percent in sales taxes. This year, with a total budget of \$315.64 million, the county expects to receive 22.1 percent of its revenue in property taxes and 27.3 percent in sales taxes.

Hein noted that while it looks like the county's budget increased by \$14.62 million from 2006 to 2007, that is a misperception. He said the state changed its accounting rules requiring counties to show the full amount of sales tax revenue received, rather than just the portion it retains.

Ulster County shares its sales taxes with the city of Kingston and the county's 20 towns, Hein said. The city receives 11.5 percent of the county sales tax revenue, while the towns divide 3 percent. The county has maintained a local sales tax rate of 4 percent since Sept. 1, 2002. With the state sales tax rate of 4 percent, the total rate in Ulster County is 8 percent.

In Dutchess County, sales taxes account for about 32 percent of spending, County Executive William Steinhaus said. He said the property tax percentage of the budget is significantly smaller, but figures were not immediately available.

Steinhaus said the issue of counties relying more on sales tax revenues isn't new; county officials have been dealing with the issue for more than two decades. The issue, he said, relates to challenges counties face in paying for services, including those mandated by the state, without large spikes in property taxes or cutting programs. He said Dutchess County tries to keep its property tax rates as low as possible.

"There are reasons that sales tax has an appeal to many county leaders across the state," Steinhaus said.

Dutchess County has a local sales tax rate of 3.75 percent, and shares a portion of the revenues with the city of Poughkeepsie and the county's towns. An additional three-eighths of 1 percent tax supports the Metropolitan Transportation Authority.

If the sales tax revenue from the county were taken out of the city's budget, the impact from property taxes on residents would be extraordinary, Steinhaus said.

The county does not, however, overrely on sales tax revenues, Steinhaus said. He said sales taxes are a component of a larger, more complicated financial plan.

"Dutchess has a very strong economy," Steinhaus added. He said the county benefits from sales taxes generated by the economy and from tourism. With vibrant tourism, visitors to the area are in effect paying for the services that local residents enjoy, Steinhaus said.

Robert Ward, deputy director of the Rockefeller Institute of Government, said that, for more than a decade, the sales tax has been seen as a more politically palatable tax to increase than property taxes.

"There's a broad perception that property taxes are at the point of political unacceptability," Ward said. He said that is due more to school taxes than county taxes, but it could account for more reliance on sales tax revenues.

Ward said sales taxes are a more volatile revenue source because if they spike one year, they cannot be counted on to do so the next year.

The sales tax is considered regressive because everyone pays the same amount, no matter what their income, Ward said. He said the income tax is the most progressive, because it rises along with wages. The property tax, he said, is somewhere in between.

Greene County Treasurer Willis Vermilyea said the state comptroller is concerned with some counties overestimating their sales tax revenues to lower property taxes. In Greene County, he said, there is a thorough budgetary process and lawmakers have been conservative in estimating sales tax revenues.

The local tax in Greene has been at 4 percent since March 1993.

"There has been, in Greene County, a shift where the sales tax is a higher percentage than the property taxes," Vermilyea said. He said the county has always raised more in sales tax than property tax, but the difference separating the two revenues has gotten larger. Property taxes have gone down, while sales taxes have continued to grow, Vermilyea said.

In 1995, Greene County's budget totaled \$56.9 million. Of that total, 20.86 percent was raised by property taxes and 24.25 percent from sales taxes. In 2000, with a budget of \$62.22 million, 19.84 percent was from property taxes and 24.91 percent from sales taxes. In 2005, with a budget of \$86.66 million, 20.89 percent of the budget revenue was from property taxes and 25.39 percent from sales taxes.

This year, with a budget of \$94.5 million, 16.95 percent of revenue is expected from property taxes and 29.1 percent from sales taxes.

Earlier in the year, sales tax revenues in Greene County fell behind expectations because of the poor winter season cutting business at the local ski resorts. Since that time, sales tax revenues have increased and the county is now on target to meet its anticipated sales tax total.

That is due in part to new sales tax revenues generated by the Lowe's Home Improvement and Wal-Mart stores in the Catskill Commons, which opened this year, Vermilyea said.

"I think the economy is very strong," Vermilyea said.

Vermilyea said a proposed third business park in New Baltimore being developed by the Greene County Industrial Development Agency could generate enough sales tax to eliminate county property taxes. He said sales tax revenues from tourism and from gas sales at the New Baltimore service area on the state Thruway benefit local residents.

"I thank them and I think the residents of Greene County thank them," Vermilyea said of visitors to the area.

Vermilyea added that with new homes being built the county's overall assessment is increasing. He said it also means there are weekenders who visit second homes in the area, generating sales taxes on purchases, but not using all of the county's services.

Matthew Maguire, director of communications for the Business Council of New York State, said members of his group have identified the overall tax burden as the top policy priority. He said the council believes it is the overall size of the tax burden that matters more than its distribution among different types of taxes.

"New York's tax burden is the nation's heaviest and that weakens our economy substantially," Maguire said. He said the long-term solution is to reduce spending and lower taxes to sustain job growth.