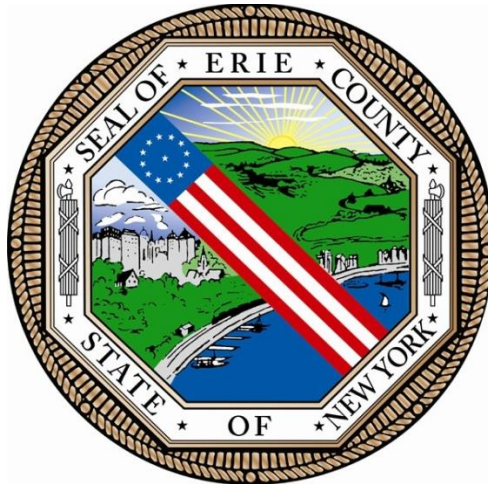


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**A Report on Sales Tax Sharing with Cities, Towns and Villages
in Erie County**



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April 16, 2017

Erie County Legislature
92 Franklin Street 4th Floor
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Dear Honorable Members:

The Erie County Comptroller's Office has completed a report on sales tax sharing with municipalities in Erie County.

Our objectives were to:

- Inform as to the amount of sales tax collected in Erie County that is shared with municipalities.
- Examine the impact of no longer sharing sales tax with municipalities.

To accomplish these objectives, we reviewed disbursements made to municipalities pursuant to New York State law and a sales tax sharing agreement entered into by Erie County in 1977.

As a result of our examination, we determined that Erie County shared \$183,687,315 in sales tax proceeds with municipalities in 2017. Depending on how sales tax proceeds are collected, ending the sharing agreement may positively or negatively impact Erie County and its three cities. It would negatively impact towns and villages in Erie County. If the agreement did not exist in 2017, revenues from sales tax to towns and villages would have been reduced by \$89,813,263. Towns and villages would have to reduce spending or increase other taxes to offset this loss of revenue.

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Sales Tax Sharing with Cities, Towns and Villages in Erie County

The directive and ability to collect sales tax is outlined in New York State Tax Law Section 1105. This section of the law requires sellers of certain items to collect a sales tax of four percent to be paid to New York State. New York State Tax Law Section 1210 permits cities and counties to collect up to an additional three percent to be paid to the city or county for their uses. Subparagraph (i)(4) authorizes Erie County to collect a further one and three-quarters percent beyond the collective seven percent already collected, for a total of eight and three-quarters percent sales tax.

An agreement entered into by representatives from Erie County, the City of Buffalo, the City of Lackawanna and the City of Tonawanda on December 30, 1977, discussed below, outlines how the additional three percent sales tax will be shared. Briefly, 35.3055% will be retained by Erie County, 29% will be distributed to school districts attended by Erie County residents, 10.0087% will be distributed to the three cities within Erie County and 25.6858% will be distributed to the three cities and the other municipalities in Erie County. As such, cities are considered for distribution of sales tax proceeds twice in the agreement. New York State Tax Law Section 1262-q describes how the one and three-quarters percent above the three percent will be distributed. It states that the first \$12.5 million collected of the additional one percent will be distributed to the cities within Erie County, with the remainder to be distributed to municipalities as described in the 1977 agreement. The further three-quarters of a percent sales tax will be collected for the sole use of Erie County.

The distribution of sales tax revenue to the towns considers both the population of the municipalities and the assessed value. For distributions for the first and third quarters of the calendar year, the distribution is based on the assessed value of property in the town. For distributions for the second and fourth quarters, it is based on population. The amount paid to cities is based on population. The amount paid to villages is based on the proportion of assessed value of the village as compared to the town it is within. Regardless, in any calendar year, the City of Tonawanda shall not receive less than \$1,172,706 and the City of Lackawanna shall not receive less than \$1,534,671.

The agreement allows for the uniform collection of sales tax throughout Erie County. By entering into the agreement, the three cities are abandoning their right to collect its own sales tax. Without the agreement, Erie County would collect sales tax revenue from the areas outside of the three cities. The cities would be allowed to collect their own three percent sales tax for city purposes. This amount would not be shared with Erie County.

Any of the four parties to the agreement can end the agreement by providing one year notice to the other three parties to the agreement. Although the towns and school districts are beneficiaries of the agreement, they are not parties to the agreement. As such, they cannot revoke the agreement. Once the agreement is nullified, state and local law would provide guidance for how to distribute sales tax proceeds. State law references to distribution of sales

tax proceeds according to the 1977 agreement would need to be removed. This may affect the 1.75% sales tax beyond the first 7% collected.

Although not part of the sales tax sharing agreement, Erie County shares an amount equal to 1/8 of one percent of sales tax with the NFTA to help fund its operations.

Erie County collects sales tax in the amount of 4.75% for local purposes beyond the 4% reserved for New York State. The distribution of that 4.75% is governed by New York State law and a sales tax agreement entered into by Erie County and its three cities. If the agreement is dissolved, Erie County would no longer share sales tax revenues with municipalities and school districts. Sales tax would likely be reduced from 8.75% to 7%, due to reliance of the law on the existence of the sales tax sharing agreement. Cities would likely impose their own sales tax. Erie County revenue would no longer include a percentage of sales occurring within the boundaries of the cities. Municipalities and school districts would likely seek to replace sales tax revenue with property tax revenue in the form of a property tax increase. Further, such a move might also impact Erie County in that bonds for the benefit of Erie County entered into by the Erie County Fiscal Stability Authority rely on the existence of a sales tax sharing agreement. The amount shared with the NFTA may also be affected as a result of the aforementioned actions.

Sales Tax Amounts Shared with Municipalities

Buffalo (City):

Approximate Population: 261,310

Total City Tax: \$69,277,242

Sales Tax Revenue (City Distribution):\$45,688,493

Sales Tax Revenue (City, Town and Village Distribution): \$37,583,098

Sales Tax Revenue from County in 2017: \$83,271,591

Lackawanna (City):

Approximate Population: 18,141

Total City Tax: \$10,427,941

Sales Tax Revenue (City Distribution): \$3,171,846

Sales Tax Revenue (City, Town and Village Distribution): \$2,609,142

Sales Tax Revenue from County in 2017: \$5,780,988

Tonawanda (City):

Approximate Population: 15,130

Total City Tax: \$11,321,293

Sales Tax Revenue (City Distribution):\$2,645,390

Sales Tax Revenue (City, Town and Village Distribution): \$2,176,083

Sales Tax Revenue from County in 2017: \$4,821,473

Alden:

Assessed Value: \$583,592,069

Approximate Population: 10,865

Total Town Tax: \$659,383

Sales Tax Revenue from County in 2017: \$1,004,554

Amherst:

Assessed Value: \$9,701,418,623

Approximate Population: 122,366

Total Town Tax: \$35,394,210

Sales Tax Revenue from County in 2017: \$17,671,593

Aurora:

Assessed Value: \$1,415,957,484

Approximate Population: 13,782

Total Town Tax: \$3,059,751

Sales Tax Revenue from County in 2017: \$1,452,459

Boston:

Assessed Value: \$594,435,768

Approximate Population: 8,023

Total Town Tax: \$936,902

Sales Tax Revenue from County in 2017: \$1,165,745

Brant:

Assessed Value: \$147,254,485

Approximate Population: 3,502

Total Town Tax: \$498,765

Sales Tax Revenue from County in 2017: \$352,470

Cheektowaga:

Assessed Value: \$4,637,554,259

Approximate Population: 88,226

Total Town Tax: \$42,565,293

Sales Tax Revenue from County in 2017: \$9,430,977

Clarence:

Assessed Value: \$3,573,445,213

Approximate Population: 30,673

Total Town Tax: \$6,868,628

Sales Tax Revenue from County in 2017: \$5,840,005

Colden:

Assessed Value: \$278,815,125

Approximate Population: 3,265
Total Town Tax: \$536,125
Sales Tax Revenue from County in 2017: \$513,649

Collins:
Assessed Value: \$222,706,449
Approximate Population: 6,997
Total Town Tax: \$739,354
Sales Tax Revenue from County in 2017: \$599,226

Concord:
Assessed Value: \$566,859,275
Approximate Population: 8,494
Total Town Tax: \$989,170
Sales Tax Revenue from County in 2017: \$694,658

Eden:
Assessed Value: \$520,100,605
Approximate Population: 7,688
Total Town Tax: \$2,096,519
Sales Tax Revenue from County in 2017: \$1,064,420

Elma:
Assessed Value: \$1,288,796,886
Approximate Population: 11,317
Total Town Tax: \$279,391
Sales Tax Revenue from County in 2017: \$2,123,181

Evans:
Assessed Value: \$936,119,156
Approximate Population: 16,356
Total Town Tax: \$9,053,095
Sales Tax Revenue from County in 2017: \$1,898,774

Grand Island:
Assessed Value: \$1,671,845,628
Approximate Population: 20,374
Total Town Tax: \$5,067,304
Sales Tax Revenue from County in 2017: \$3,132,934

Hamburg:
Assessed Value: \$4,076,981,658
Approximate Population: 59,936
Total Town Tax: \$20,934,130

Sales Tax Revenue from County in 2017: \$6,671,419

Holland:

Assessed Value: \$241,227,591

Approximate Population: 3,401

Total Town Tax: \$1,059,971

Sales Tax Revenue from County in 2017: \$482,728

Lancaster:

Assessed Value: \$3,033,124,502

Approximate Population: 41,604

Total Town Tax: \$14,763,029

Sales Tax Revenue from County in 2017: \$4,440,839

Marilla:

Assessed Value: \$418,636,923

Approximate Population: 5,327

Total Town Tax: \$116,000

Sales Tax Revenue from County in 2017: \$799,484

Newstead:

Assessed Value: \$587,016,488

Approximate Population: 8,628

Total Town Tax: \$804,983

Sales Tax Revenue from County in 2017: \$910,440

North Collins:

Assessed Value: \$194,228,621

Approximate Population: 3,523

Total Town Tax: \$882,347

Sales Tax Revenue from County in 2017: \$342,886

Orchard Park:

Assessed Value: \$2,913,882,686

Approximate Population: 29,054

Total Town Tax: \$9,849,333

Sales Tax Revenue from County in 2017: \$4,561,443

Sardinia:

Assessed Value: \$226,912,957

Approximate Population: 2,775

Total Town Tax: \$0

Sales Tax Revenue from County in 2017: \$425,867

Tonawanda:

Assessed Value: \$4,300,736,859

Approximate Population: 73,567

Total Town Tax: \$31,524,254

Sales Tax Revenue from County in 2017: \$7,943,379

Wales:

Assessed Value: \$293,545,033

Approximate Population: 3,005

Total Town Tax: \$93,650

Sales Tax Revenue from County in 2017: \$512,017

West Seneca:

Assessed Value: \$2,975,831,110

Approximate Population: 44,711

Total Town Tax: \$22,656,599

Sales Tax Revenue from County in 2017: \$6,138,324

Akron (Village):

Assessed Value: \$138,826,540

Total Village Tax: \$879,530

Sales Tax Revenue from County in 2017: \$287,660

Alden (Village):

Assessed Value: \$147,153,173

Total Village Tax: \$884,085

Sales Tax Revenue from County in 2017: \$338,703

Angola (Village):

Assessed Value: \$77,132,257

Total Village Tax: \$457,896

Sales Tax Revenue from County in 2017: \$184,580

Blasdell (Village):

Assessed Value: \$65,754,406

Total Village Tax: \$1,328,052

Sales Tax Revenue from County in 2017: \$247,169

Depew (Village):

Assessed Value: \$768,325,291

Total Village Tax: \$9,144,001

Sales Tax Revenue from County in 2017: \$1,717,347

East Aurora (Village):

Assessed Value: \$215,438,162

Total Village Tax: \$3,725,143

Sales Tax Revenue from County in 2017: \$969,901

Farnham (Village):

Assessed Value: \$11,485,985

Total Village Tax: \$118,137

Sales Tax Revenue from County in 2017: \$37,053

Gowanda (Village):

Assessed Value: \$19,273,633

Total Village Tax: \$391,936

Sales Tax Revenue from County in 2017: \$103,005

Hamburg (Village):

Assessed Value: \$320,244,527

Total Village Tax: \$6,619,244

Sales Tax Revenue from County in 2017: \$1,203,788

Kenmore (Village):

Assessed Value: \$280,256,294

Total Village Tax: \$9,306,680

Sales Tax Revenue from County in 2017: \$1,523,173

Lancaster (Village):

Assessed Value: \$457,451,833

Total Village Tax: \$4,646,904

Sales Tax Revenue from County in 2017: \$951,360

North Collins (Village):

Assessed Value: \$37,123,533

Total Village Tax: \$499,976

Sales Tax Revenue from County in 2017: \$97,982

Orchard Park (Village):

Assessed Value: \$145,495,506

Total Village Tax: \$587,915

Sales Tax Revenue from County in 2017: \$469,545

Sloan (Village):

Assessed Value: \$105,938,804

Total Village Tax: \$1,132,800

Sales Tax Revenue from County in 2017: \$246,707

Springville (Village):

Assessed Value: \$101,047,468

Total Village Tax: \$1,702,456

Sales Tax Revenue from County in 2017: \$473,095

Williamsville (Village):

Assessed Value: \$377,044,528

Total Village Tax: \$1,681,778

Sales Tax Revenue from County in 2017: \$788,721

Conclusion

The three cities in Erie County shared \$93,874,052 as their share of the sales tax collected in Erie County in 2017. Towns shared \$80,173,474. Villages shared \$9,639,789. These amounts represent a significant share of resources for cities, towns and villages, especially when compared to the total tax for each municipality.

If Erie County ceased to share sales tax with cities, towns and villages, the impact on cities is unclear. Each city would have the option to charge its own three percent sales tax. This may result in greater or reduced revenue for the city, depending upon the amount of sales tax ultimately collected within the city limits.

Towns and villages do not have the option to collect such a tax. As such, those municipalities would have to either reduce spending to offset the loss in revenue, or increase property tax or other fees. The same impact would occur on school districts, who also receive revenue as part of the sales tax sharing agreement.

The impact on Erie County is also unknown. The county would no longer collect sales tax on sales made within the city limits of cities within the county. Further, the extension of the 1.75% sales tax may be jeopardized due to a revocation of the agreement.

Erie County's reliance on sales tax is often mentioned as a concern, because the amount is volatile and can be influenced by many factors throughout the year. However, sales tax does offer Erie County, its cities, towns, villages, and school districts the opportunity to tax individuals who may not reside in Erie County for using its infrastructure and services. Shifting from sales tax to property tax would increase the burden on Erie County residents and decrease the burden on visitors to the county.