MAURICE CHALMERS
DIRECTOR
OFFICE OF LEGISLATIVE
BUDGET REVIEW

NASSAU COUNTY LEGISLATURE
1550 FRANKLIN AVENUE, ROOM 126
MINEOLA, NEW YORK 11501
(516) 571-6292

Inter-Departmental Memo

To: Hon. Howard Kopel, Chair, Budget Review Committee
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
Office of Legislative Budget Review

Date: April 10, 2015

Re: 2014 Year End

The Office of Legislative Budget Review (OLBR) has prepared this memo to analyze and explain the FY 2014 year end results. In a press release dated April 6, 2015, the County Comptroller reported that the County ended fiscal year 2014 with an unaudited $10.7 million budgetary surplus. The Administration intends on using the balance to replenish the undesignated fund balance. On a budgetary basis, revenues fell short by $85.4 million; however, there was a larger expense decrease of $96.1 million which offsets the revenue shortfall by $10.7 million.

Major Funds (in millions)

	2014 Adopted Bud	2014 Year End	Variance
Expense	$3,207.3	$3,111.2	($96.1)
Revenue	3,207.3	3,121.9	(85.4)
		Year End Results	$10.7

The table on the next page illustrates the key expense and revenue variances in the major operating funds. Explanations are provided following the chart:

	2014 Adopted Budget	2014 Year End	Variance
Expenses			
Salaries, Wages & Fees	$809.5	$824.9	$15.4
Fringe Benefits	480.4	464.0	(16.4)
Worker's Compensation	28.0	25.2	(2.8)
Interest	98.5	88.6	(9.8)
Principal	69.2	62.7	(6.5)
Local Govt Asst Program	69.6	65.3	(4.3)
Debt Service Chargebacks	325.1	291.7	(33.4)
Other	264.1	237.5	(26.6)
Early Intervention/Special Education	139.5	130.3	(9.2)
Entitlements	435.2	423.8	(11.4)
Revenues			
Fund Balance	$10.0	$16.2	$6.2
Permits & Licenses	13.5	15.1	1.6
Capital Resources for Debt	7.2	15.6	8.4
Fines & Forfeits	67.9	85.8	17.9
Rents & Recoveries	22.4	48.1	25.7
Dept Revenues	165.8	157.8	(8.0)
Debt Service Chargeback Revenue	325.1	291.7	(33.4)
Federal Aid - Reimbursement Of Expenses	147.1	131.9	(15.2)
State Aid - Reimbursement Of Expenses	220.6	198.8	(21.8)
Sales Tax	1,165.9	1,095.2	(70.7)

Expenditures:

- Salaries – Wages in FY 2014 exceeded the adopted budget by $15.4 million. The County entered into new labor agreements, the costs of which were not factored into the FY 2014 budget. This required budget modifications and the use of some borrowed funds. Overtime expenses continue to be problematic; the major funds incurred a deficit of $21.4 million of which $17.8 million was in the Police Department. Police overtime expenses have averaged approximately $66.0 million in the past three years and this level of expense appears to be the new norm. Sworn employee attrition has made it difficult to rein in overtime expenses. However, when costing the labor agreements, overtime reduction targets were included in the analysis and subsequently will need to be realized for the County to successfully reduce the expense.

  Also, in FY 2014, the County issued $20.0 million in debt to pay for termination: $5.0 million for the 2014 Voluntary Separation Incentive Plan (VSIP) and $15.0 million specific to the Police Department. The County used approximately $12.9 million to alleviate the operating budget.

  The Administration was able to set aside $6.2 million in the Employee Accrued Liability Reserve Fund (EBF). In addition, an anticipated supplemental appropriation of $4.0 million from the EBF in 2014 was not used, so combined with the aforementioned $6.2 million infusion, the EBF will have $10.2 million to fund future police termination expenses. The table on the next page represents the reconciliation of police termination costs.

I) **Police Termination Pay Reconciliation**

		In millions	
Legislature approved Bonding		$30.0	**Excluding cost of issuance
	NIFA authorization I	(6.5)	
	NIFA authorization II	(15.0)	
Bonding Capacity Available on Bond Ordinance		8.5	**Requires NIFA approval

II)

Employee Accrued Liability Reserves Fund	4.0	
Additions	6.2	
	10.2	

Total Accessible Police Term Pay	**$18.7**

In addition to police, discussed above, capital project "9T100" for termination pay has a balance of $4.1 million. This additional funding includes separation liabilities that will be paid in three installments.

- Fringe Benefits – A surplus of $16.4 million in FY 2014 is primarily driven by lower than budgeted health insurance costs for active and retired employees. The 2014 budget was based on a projected health insurance cost increase of 3.7%; however, New York State Health Insurance Program (NYSHIP) rate increases finalized at 0.5% for individual and 1.6% for family plans. In addition, the 2014 year end headcount was lower than budget resulting in a reduced number of employees receiving benefits for health, dental and optical insurance. Finally, lower than budgeted unemployment insurance costs and flex benefit spending also contributed to the year-end surplus.

- Worker's Compensation – The $2.8 million surplus is a result of lower indemnity payments and assessments.

- Debt Service – The Debt Service Fund, which includes interest and principal, had a surplus of $28.9 million. This was due to lower than budgeted debt issuances and interest rates.

- The Local Government Assistance Program represents the local share of the sales tax revenue allocated to the County's towns, cities and incorporated villages. Hence, the decline in the local government assistance program corresponds to the decline in sales tax revenue.

- Other Expenses – This category ended the year with $26.6 million less in expenditures. The major variances are:

  - Within the Office of Management and Budget, the County budgeted for contingencies of $10.0 million, which was transferred during the course of the year to cover other areas with shortfalls. Offsetting this line item savings is an unanticipated additional $1.9 million over the budget for the Fashion Institute of Technology (FIT) resident tuition.

  - In the Treasurer's Office, the Administration budgeted $10.0 million in operating funds for tax certiorari expenses. The Treasurer ended the year with a net $4.0 million in operating expenses which resulted in a $6.0 million surplus. The Legislature approved $125.0 million in capital borrowing for tax certiorari payments in late 2014. There is currently $13.6 million balance in the tax certiorari capital project that can be used to pay for these expenses. The adopted FY 2015 budget includes $100.0 million in expenses to be funded by capital borrowing. The Administration is only seeking $60.0 million in capital funds to pay for 2015 tax certiorari expenses. The backlog is currently estimated to be approximately $302.8 million.

  - Lower than expected NIFA set aside costs ($8.1million) contributed to the $12.6 million surplus in the Debt Service Department.

- The Health Department ended the year with a surplus of $9.2 million in provider payments for Children's Early Intervention Services and Pre-school Education program expenditures. The surplus in Pre-school Education results from fewer children authorized to receive services by school districts as well as less services being recommended by the Committee on Pre-school Special Education (CPSE). In addition, children are also receiving fewer high cost services such as Special Education Itinerant Teachers (SEIT) services, which is being offset by additional caseloads in lower cost services such as speech and physical therapy.

- In FY 2014, the County realized an $11.4 million surplus in entitlement program spending. Below is a summary of each program:

  - Within the $4.6 million surplus in Recipient Grants, Temporary Assistance for Needy Families (TANF) recorded a $3.8 million surplus; Payments to Foster Parents were $0.3 million less than budgeted, Adoption Subsidies $0.4 million less and the Home Energy Assistance Program (HEAP) $0.3 million less than the $0.5 million budget.
  - Purchased Services exceeded the budget by $4.5 million due to increased demand for daycare services.
  - Emergency Vendor Payments had a $6.3 million surplus due to a decline in foster care cases.
  - Federal and State Medicaid rule changes helped the County realize a $5.0 million Medicaid surplus in FY 2014. The County's overall Medicaid obligation was reduced when the Federal government increased the amount of the County share it matches. The State reduced the County's weekly Medicaid payment as part of the FY 14-15 Budget passed on April 1, 2014.

Revenue:

- The year end revenue results include the usage of $16.2 million in fund balance. Without the latter, the County would have incurred a budgetary deficit of $5.5 million. Per the Administration, the deficit would have been remedied by not setting aside $6.2 million in the Employee Accrued Liability Reserve Fund resulting in a final $0.7 million surplus.

	2014 YE (millions)
Current Surplus	$10.7
Fund Balance Usage	(16.2)
Year End results without Fund Balance Usage	(5.5)
Reversal of contribution to EBF reserve	6.2
Final Year End balance	**$0.7**

- Permits and Licenses – The overall result was a surplus of $1.6 million. The Police Department experienced an increase over the budget of $1.7 million in alarm permits which was offset by a $0.4 million shortfall in pistol permits.

- Capital Resources for Debt – A revenue surplus of $8.4 million was mainly derived from the closeout of capital projects. The list provided by the Administration is not complete, however the following are a few of the projects from which funds were recouped:

  - MTA / LIB $2.2 million.
  - Park and County road tree replacements $1.1 million.
  - Acquisition and upgrade, King Kullen $0.9 million.
  - Jail kitchen retrofit, fire alarm and sprinkler system $0.4 million

- Fines and Forfeits – The County finished the year with a $17.9 million surplus. The Traffic and Violations Agency's (TPVA) $19.6 million revenue surplus is attributed to $28.1 million received for the Speed Camera Program offset by deficits associated with the Red Light Camera and parking and traffic fines revenues of $4.2 million and $4.3 million, respectively. The Speed Camera revenue was not included in the budget and was instrumental in helping the County overcome other budgeted revenue shortfalls.

- Rents and Recoveries – A total surplus of $25.7 million was generated of which $9.7 million was in the Health Department mainly from disencumbrances of prior period contracts and provider payments as well as purchase orders in connection with the Pre-school Education program. Similarly, the Department of Social Services (DSS) finished FY 2014 with a $13.9 million surplus by disencumbering two large service contracts as a result of declining foster care caseloads.

- Department Revenues – The year end operating result was a combined deficit of $8.0 million. Some departments with major variances included the County Clerk, Police and Parks Departments.

  - The Parks Department fell short of the 2014 budget by $1.8 million due to unrealized greens fees and golf operations of approximately $1.0 million. The Aquatic Center also recorded a $0.5 million shortfall.
  - The County Clerk departmental revenues missed target by $5.9 million. The deficit was a function of shortfalls in mortgage recording fee and clerk initiative revenues. Mortgage recording fee revenues were $9.2 million short of target due to an overly optimistic 2014

budget. Also contributing to the deficit was the inclusion of $1.0 million in clerk initiative revenues which were not implemented. The County Clerk had anticipated collecting revenues from making documents available online. Offsetting the shortfalls were $4.4 million of above budget deed and miscellaneous fee revenues.
    - Police Department revenues missed the target by $2.5 million. Tow truck franchise fees and ambulance fee collections combined for $2.1 million of the total deficit.
    - In contrast, DSS ended the year with a $1.9 million surplus driven by an increase in Committee on Special Education payments and a rise in Medicaid related recoveries.

- Federal Aid – Revenue targets were $15.2 million less than budgeted Countywide. The major variances can be found in the following departments:

    - The Correctional Center experienced a shortfall of $6.8 million. This was attributed to many factors such as a lower than budgeted inmate population, the termination of the funding that provided inpatient mental health services to inmates who are Medicaid recipients and a reduction in the SCAAP (State Criminal Alien Assistant Program) award.
    - DSS missed its federal aid budget by $7.7 million. The deficit resulted from a decline in caseloads in programs eligible for federal reimbursement. For example, TANF caseloads were down 3.9% from FY 2013 to FY 2014.

- State Aid – Of the total $21.8 million deficit, $20.8 million was in the Department of Health due to lower reimbursable expenses in connection with Children's Early Intervention and Pre-school Education services. In addition, the State has been making prior year adjustments related to the Pre-school Education program, resulting in a reduction in revenue that may have been overstated from prior years. Prior year adjustments are being recorded to more accurately reflect finalized Pre-school Education figures.

- Sales Tax – The collections fell short of budget by $70.7 million. In an attempt to understand the root cause, OLBR analyzed the New York State Department of Taxation and Finance taxable sales by industry figures. The analysis reveals the primary reasons for the 2014 sales tax deficit were a fall in Sandy related spending and a drop in utility industry sales tax revenue. The first half of 2013 was when most of the Sandy rebuilding effort occurred, and when compared to 2014, this would be a contributing factor for the decline. This drop may be seen in the rental and leasing, construction, wholesale, retail trade, accommodation and utility sectors. Those sectors are the ones assumed to assist in rebuilding and replacing homes and vehicles.

  Excluding the utility sector, the average decline for the sectors impacted by Sandy from March through May, 2014 versus 2013, was 8.5%. In contrast, over the same time period the drop in the utility industry was 42.2%. According to the Administration, the abnormally high decrease in the utility industry may partially be attributable to a major vendor exercising its tax exempt status. Therefore, the decline was not entirely Sandy recovery related in that industry. The sales tax remittance files are considered to be proprietary in nature and OLBR has very limited access to information contained in them. However, since they are provided to the Administration, the data should be reviewed and audited to ensure the accuracy of vendor payments.

Sewer:

- In 2014, the Sewer and Storm Water (SSW) expenses were $133.5 million and revenues $130.8 million. The shortfall of $2.7 million will be covered by the Sewer fund balance. The anticipated usage of $2.7 million is far less than the $56.7 million anticipated in the adopted budget and would leave the SSW fund in a better fiscal standing.

  Expenses, excluding the Operation and Management Reserves, were $17.3 million less than budget. Also, $12.6 million in anticipated user fees did not come to fruition due to ongoing litigation and a Temporary Restraining Order (TRO). To make up for that unrealized revenue, the Administration took the following corrective actions:
  - Disencumbered $11.1 million in funds. It is currently unclear how much additional opportunities exist.
  - Used $5.3 million in capital project closeouts of which $4.2 million originated from grant recoveries and $1.1 million of capital project closeout cash.

The operating agreement with United Water commenced in January 2015 and will be evaluated in OLBR's first quarter 2015 projections report.

Conclusion:

In FY 2014 the County had to overcome many budget hurdles including underperforming sales tax revenue and unbudgeted additional personnel costs from negotiated labor contracts with the County unions. Amid these challenges, the Comptroller reported that the County ended FY 2014 with a $10.7 million unaudited surplus. The year end results were produced by actions both within and outside County control. The County issued less debt than was included in the adopted budget, incurred less fringe benefits costs due to lower health insurance rates and vacancies, and utilized contingencies it had built into the budget. Furthermore, the County used fund balance and was able to cover some operating expenses with borrowed funds. The structural gap reported by the Comptroller has increased from $99.1 million to $191.2 million or 93%. Although it is not the greatest structural gap in County history, it is evidence of the County's continued reliance on one shot budgetary solutions. Eventually, the County may not be able to rely on these budgetary solutions to address future deficits. Looking forward, innovative thinking is needed now more than ever to set the County on course for a balanced fiscal future.

cc: Hon. George Maragos, Nassau County Comptroller
Eric Naughton, Deputy County Executive
Roseann D'Alleva, Budget Director, OMB
Evan Cohen, Executive Director, NIFA
Chris Ostuni, Majority Counsel
Peter Clines, Minority Counsel
Michele Darcy, Minority Director of Finance
William Biamonte, Minority Chief of Staff
Dan McCloy, Director of Law, Finance & Operations
Concetta Petrucci, Director of Legislative Affairs
William Muller, Clerk of the Legislature