NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Review of the Fiscal Year 2016 Budget & Multi-Year Plan

Executive Summary

Maurice Chalmers, Director

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Inter-Departmental Memo

To: Hon. Norma Gonsalves, Presiding Officer
Hon. Kevan Abrahams, Minority Leader
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
Office of Legislative Budget Review

Date: October 8, 2015

Re: Executive Summary

Pursuant to §183 of Nassau County Charter, the Office of Legislative Budget Review has prepared a preliminary analysis of the County Executive's proposed operating budget for Fiscal Year 2016 and Multi-Year Plan. Our report is made up of two parts: the enclosed Executive Summary and a Departmental Analysis, which will be distributed shortly.

I would like to thank the County Executive's financial team for their cooperation during this process. As always, my staff and I remain ready to provide whatever assistance the Legislature may require during the budget process. This document will be made available to your constituents at http://www.nassaucountyny.gov/1754/Documents.

1. EXECUTIVE SUMMARY

Introduction

Pursuant to the County Charter, the Administration submitted its FY 16 Proposed Budget on September 15, 2015. Nassau County remains under the oversight of the Nassau Interim Finance Authority (NIFA) Control Board. In 2011, NIFA declared a control period upon determining that there existed "a substantial likelihood and imminence of the County incurring a Major Operating Funds deficit of one percent or more". In the short term, the control period is expected to remain as the County continues to face many challenges. The Proposed FY 16 Budget includes, for the second year in a row, a property tax increase of 2.6%, or $21.6 million in the Major Funds. The County will not levy taxes for the Environmental Bond Fund in FY 16; the $9.6 million shift allows for greater increases in the Major Operating Funds. With all funds considered, the net tax levy increase is 1.2% or $12.0 million. The impact of the property tax increase on class one home owners has been estimated to be approximately $23.34 annually.

In addition to the property tax levy, the proposed budget includes three major fee increases. They are within the County Clerk's Office, the Assessment Department and the Traffic & Parking Violations Agency (TPVA). It is estimated that fee increases will generate roughly $42.7 million annually in revenue budget to budget. Unlike property taxes, fees are generally user or infraction based.

One of the most serious fiscal challenges to the County is a stagnant Sales Tax revenue growth which remains the County's most substantial source of revenue. All financial indices point to an improving economy, however this has not translated into increased sales tax revenue. Following a very disappointing 2014 year-end result, sales tax growth is 0.7% through October 5, 2015 and is projected to end the year with a deficit ranging between $37.0 and $44.0 million depending on which estimate is used. The dichotomy between overall economic growth and County sales tax collections is worrisome. It would behoove the County to thoroughly analyze the actual collections and possibly enlist the State to conduct another re-registration where vendors secure an updated certificate of authority to operate only after satisfying any outstanding liabilities. According to the State, in 2008 when this was last completed, Nassau received $9.6 million in collections over the ensuing six years.

The FY 16 Proposed Budget relies on one-shot revenue items such as the use of prior year reserves which will not reoccur in the out-years, as well as anticipated borrowing for operating expenses. These budget practices are indicative of the persistent structural imbalance that the Comptroller has warned the County about.

- The proposed budget includes the one time use of approximately $18.0 million from the Tobacco Settlement Fund. There has been an institutional understanding that these funds should be used for Health related expenses. The Administration has informed OLBR that the funds may be used for County operating expenses. In support of that position, the County Attorney's Office, through an e-mail, states it has reviewed and supports the Administration's position. The tobacco residual trust currently holds the funds and may transfer them to the County upon a majority vote of the controlling trustees in accordance with the provisions of the trust agreement. The current controlling trustees are the Deputy County Executive for Finance, the Budget Director and the

County Treasurer. The funds would then be appropriated as part of the 2016 budget. In addition, the County's tax certificate will be amended by bond counsel to reflect a change of spending for certain use of the funds from capital to working capital (operating) purposes. The County Treasurer will sign the tax certificate amendment pursuant to delegated authority.

- The FY 16 Proposed Budget includes $60.0 million in borrowing for tax certiorari payments and $32.8 million in borrowing for police termination pay. The latter, could be problematic since the amounts that were included in the Adopted FY 15 Budget, although approved by the Legislature, are still pending NIFA approval. In addition, on September 21, 2015, NIFA's chairman, Jon Kaiman, wrote a letter to the County Executive stating that the $32.8 million for Police termination pay is an item that NIFA may not accept since termination is an operational expense. The letter also highlighted that the $20.0 million in Video Lottery Terminals (VLT) revenues maybe a risk without concrete measures and commitments.

In response to NIFA's letter, the County Executive informed the control board that the Office of Management and Budget (OMB) has identified contingencies to offset the $32.8 million termination funding. Most of the savings will be generated from line items that are considered to be over funded in the current proposed budget. The contingency plan includes, but is not limited to, health insurance, vacancies, reduced overtime within the Correctional Center and debt service savings. In addition, the Administration plans on reducing other than personnel service (OTPS) costs and increase the fees within the Department of Public Works and Fire Commission.

The Administration has taken a number of steps to gain control over County expenses. The Proposed FY 16 Proposed Budget reduces Major Fund expenses, excluding interdepartmental charges and debt service chargebacks, by $33.3 million or 1.1%. The decrease is mainly a function of reduced borrowing for property tax refund payments, the elimination of the mission payment to the hospital, the shifting of suits and damages expense to the Litigation Fund and some relief from the State in the form of decreased Medicaid payments.

The FY 16 Proposed Budget continues to amortize the maximum amount of pension expenses allowed under the State's Contribution Stabilization Program. This decision will provide budgetary relief in FY 16 and defer roughly $41.1 million from the overall expense. Many municipalities in New York amortized annual pension costs in recent years; however they are doing less of it due to declining pension contribution rates as the economy improves. According to State records, in the current year, 112 local governments deferred $346.0 million of pension costs, a drop of 27.0% from 2014. The municipalities, who haven't amortized pension expenses, are now benefiting from the lower pension rates and will experience a reduction in costs without previous year debt. The plan is drawing criticism from fiscal watchdog groups who say "the program is merely deferring costs; instead of paying operating expenses, local governments are stacking themselves with debt". In addition, deferring pension costs from the State's pension fund can be viewed negatively since it lowers the pension fund's available assets, resulting in reduced investment returns.

Workforce management has been one of the Administration's key strategies in order to help achieve structural balance; as a result, headcount is at an all-time low. The Proposed FY 16 Budget funds 7,395 full-time employees, a level the Administration believes is optimal for the County. Headcount reduction has been achieved through past County layoffs and Voluntary Separation Incentive Programs (VSIP).

The recent VSIP which closed on September 15th has further reduced the workforce. The challenge at the current low headcount will be how to sustain the level of service the County has provided in the past without further impacting overtime costs. Despite these steps, the County's fiscal challenges persist. Personnel and fringe benefit costs in the Major Funds are budgeted to rise by $44.6 million compared to the FY 15 Adopted Level.

The tax cap only allows municipalities to raise taxes by a specified amount when expenses and mandates growth is substantially higher. Until there is a convergence of the two categories, fiscal woes will continue.

OLBR has identified $207.6 million in risks which are partially offset by $48.8 million in budgetary opportunities and $60.0 million in borrowing possibility for a net risk of $98.8 million. It is worth noting that the passage of the proposed fee increases, as recommended or in a reduced version, the property tax increase and revenues from VLTs could further reduce the projected risks. These items are currently valued at $84.3 million. Significant budget items in the Proposed 2016 County Budget from both an expense and revenue perspective are discussed below. The current Multi-Year Financial Plan (MYP) is detailed and discussed along with the Administration's proposed gap closing initiatives.

- **Overtime** – The Major Funds overtime expense is budgeted at $82.2 million in the Proposed FY 16 Budget which represents an increase of close to $3.0 million from the current budget. Police is increasing by $1.0 million but a $4.0 million contingency in their proposed budget can be used to offset overtime expense. However, given the current overtime trend in the Police Department, the budget may still fall short. The Correctional Center has had great success in controlling overtime costs and will probably have an opportunity based on the current FY 15 trends.
- **Transdev/Veolia** – Effective January 1, 2012, NICE Bus / Veolia / Transdev took over operation of Nassau's bus system from the Metropolitan Transportation Authority (MTA). As per the contract, Nassau County became a conduit for NICE Bus, collecting the revenues and passing them along to NICE Bus in the form of set contract fees. The chart below itemizes the FY 15 Adopted Budget, the FY 15 projection and the FY 16 Proposed Budget for the NICE Bus system.

Table 1.1: Transdev

Transdev/Veolia - NICE Bus				
	2015	2015	2016	
Sub-Object	**Adopted Budget**	**OLBR Projection**	**Proposed Budget**	**15 Projection vs. 16 Budget**
County Contractual Services Payment	123,838,517	125,322,862	125,322,802	(60)
County Direct Subsidy Payments	2,539,600	2,539,600	2,539,500	(100)
Total County Expenses	**126,378,117**	**127,862,462**	**127,862,302**	**(160)**
Total County Revenues	**121,807,204**	**120,809,131**	**121,571,367**	**762,236**
Total County Contributions	**4,570,913**	**7,053,331**	**6,290,935**	

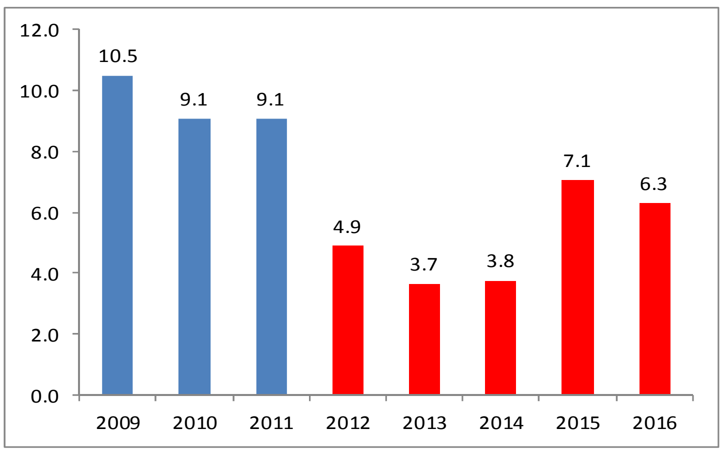
The FY 16 proposed budget holds the County's NICE Bus contractual expense pretty much constant compared to the FY 15 projected level, which is $1.5 million more than the FY 15 Adopted Budget. Revenues are increasing by $0.8 million from the current projection. The Proposed FY 16 Budget contains optimistic farebox revenues. In FY 15 farebox revenues are expected to fall short of budget by roughly $5.0 million and this is a likely scenario for the FY 16 Proposed Budget. In FY 15, the County was successful in obtaining additional State funds to cover some of the shortfall.

Additionally, NICE Bus stated that they are facing a $7.5 million funding deficit in 2016 and plans on raising fares from $2.50 to $2.75 for cash paying customers and GoMobile app users in addition to proposed service reductions. The Bus may be able to cover $4.0 million of the shortfall. However there is approximately an additional $3.5 million that the bus expects to work with County and State officials to make up.

The County's annual contributions to the bus system, despite being lower than what was provided to the MTA, have been growing. The chart below details annual County contributions to the bus system.

Chart 1.1: County Subsidy

Total County Contributions to the Bus System 2009 to 2016



2009 to 2011 contributions were made to the MTA
2012 to 2016 contributions were made to NICE Bus
Figures in millions

Should the County need to make up the anticipated farebox shortfall, its contributions to the bus may equal and or exceed contributions it was making to the MTA in 2009. To date, the State has assisted in mitigating possible exposures.

In all years, the County has spent more than the maximum allowed in the original contract presented to the Legislature, requiring contract amendments. The amount by which the actual expense exceeded the original contract allotment is estimated to be $60.8 million through 2016. These revisions were approved as a mean of keeping the bus operating without major route reductions. As stated above, the County has been fortunate in securing additional State and Federal Funds to offset the increases.

- **Contingency** – The proposed budget includes $4.0 million in contingency in the Police Headquarters Fund. It is sound budget practice to include some level of contingency in the budget should unexpected shortfalls arise.

- **Fringe Benefits** – The FY 16 Fringe Benefit budget for the Major Funds is approximately $521.8 million, which is an increase of $25.7 million from the Adopted FY 15 Budget due mostly to increases in health insurance for active and retired employees, pension contribution and social security costs. Compared to the FY 15 projection, fringe benefit costs are increasing by roughly $35.1 million.

  Health insurance is increasing by $12.1 million in FY 16 due to a rise of $7.8 million in insurance costs for active employees and $4.3 million in insurance costs for retirees. The FY 16 Proposed Budget is based on a health insurance premium growth rate of roughly 8.9%. Based on verbal communication between the State and OLBR that occurred during the budget process, the State is currently estimating the rate to be roughly 8.0%. OLBR estimates that there is currently a savings opportunity of roughly $5.2 million to budget.

- **Sewers** – The FY 16 Proposed Budget for Sewers contains $137.0 million in revenues and expenses, which is $11.9 million lower than the FY 15 Adopted Budget. It will be the second year of the Nassau County and United Water's agreement for the Operation and Maintenance of the sewer system. Included in the FY 16 rents and recoveries budget is $10.0 million in guaranteed savings from the contract. The FY 16 budget includes $12.6 million for the exempt user fee revenue. However, due to ongoing litigation and the Temporary Restraining Order (TRO), the County has not collected any revenue related to this fee and it is unclear if any revenue will be collected in FY 16.

- **Tax Levy**

  The 1.2% overall property tax increase is a function of a 2.6% or $21.6 million increase in the Major Funds, offset by the decrease of the levy in the Environmental Bond Fund for a net increase of 1.2% or $12.0 million (all funds including College). This is within the Administration's calculated maximum property tax cap limit.

  In 2016, the expenses associated with the Environmental Bond Fund are estimated at $9.5 million. Historically, a property tax levy has been utilized to cover the Environmental Bond debt service costs. However, according to the Administration, the fund has been over taxed and a fund balance has accumulated. As of September 16, 2015 the fund balance in the Environmental Bond Fund was $19.5 million.

  In the FY 16 Proposed Budget, the Administration plans to cover all Environmental Bond debt service expenses with the fund balance in the Environmental Bond Fund. The Multi-Year Plan assumes the continued usage of fund balance in FY 17 at which point, except for a $0.7 million projected balance; the fund balance would have been depleted. In 2018, the Administration plans to re-institute a property tax levy to the Environmental Bond Fund. The shift may be masking a larger fiscal problem as it is unclear how the Major Funds will be able to relinquish the levy while covering the growing expenses and remaining within the tax cap. Table 1.2 below illustrates the property tax levy variances by fund:

Table 1.2: Proposed Property Tax Levy By Fund

	2015 Adopted Budget	2016 Proposed Budget	Difference	% Change	% of FY 16 Proposed
Fire Commission Fund	15,852,193	17,572,908	1,720,715	10.9%	2.1%
General Fund	106,380,782	102,207,745	(4,173,037)	-3.9%	12.0%
Police District Fund	367,974,960	381,095,442	13,120,482	3.6%	44.6%
Police Headquarter Fund	342,069,082	353,037,433	10,968,351	3.2%	41.3%
Total Major Funds	832,277,017	853,913,528	21,636,511	2.6%	
Other Funds					
Sewer Finance Authority Fund	123,313,570	123,313,571	1	0.0%	
Nassau Community College	52,206,883	52,206,883	-	0.0%	
Environmental Bond	9,606,968	-	(9,606,968)	-100.0%	
Grand Total	1,017,404,438	1,029,433,982	12,029,544	1.2%	

The Administration calculated the maximum 2016 property tax increase according to the property tax cap legislation. Key provisions in the legislation related to calculating the tax levy limit for the coming fiscal year include:

• The ability to carryover "unused" levy limit amounts from one year into the next. If a local government or school district levies less than the levy limit in the prior fiscal year or school year, the unused portion of the prior years' tax levy limit, up to 1.5% can be carried over into the next fiscal year.

• An adjustment for certain tax base increases, such as new construction by calculating a quantity change factor as well as a levy growth factor based upon the annual growth in the national consumer price index. For 2016 according to the New York State Comptroller, the allowable tax levy growth factor will be 0.7%.

There are exclusions from the levy limit for which a local government or school district may levy an additional amount. These include:

• A tax levy necessary for expenditures for the coming fiscal year for employer contributions to local government and school district to the New York State and Local Employees' Retirement System and the New York State and Local Police and Fire Retirement System caused by growth in the "system average actuarial contribution rate" in excess of 2.0%.

Similar to the tax increase in FY 15 which included a recapture amount from FY 14, the Proposed FY 16 Budget also includes a carryover of $2.8 million from the prior year (FY 15).

New York State implemented the Property Tax Freeze Credit as part of the FY 14 - 15 State Budget. According to the New York State website, "the new law encourages local governments and school districts to generate long-term tax relief for New York State taxpayers". The law is designed to encourage governments and school districts to share services, consolidate or merge government, and to demonstrate and implement operational efficiencies. It is a two year program for local governments and began in 2015.

Nassau County participated in the program in 2015, when the only requirement was for the County to be in compliance with the property tax levy cap. Rebate checks from the County being in compliance with the 2015 property tax cap will be sent out in the fall of 2015.

In 2016, the second year of the program, local governments must comply with both the property tax levy cap and submit a government efficiency plan. Based upon the Proposed 2016 budget, the County is expected to again participate in the program and checks based upon the 2016 compliance will be received in the fall of 2016.

All County residents that qualify for the STAR property tax exemption are expected to benefit from the Property Tax Freeze Credit. Essentially, homeowners with a total household income of up to $500,000 are eligible to qualify for the credit. Regardless of whether the County raised taxes or not, homeowners would get the credit. The only time that homeowners would be impacted is when a taxing jurisdiction pierced the cap. It is the Administration's position that the credit for those who qualify will offset the impact of the property tax increase. However, if the program is not renewed, there will be no offset in the out-years.

- **Fee Increases**

According to the Administration, the three fee increases for the FY 16 Proposed Budget, which are illustrated below, are expected to have approximately a $43.0 million budgetary impact. The table below illustrates the increases:

Table 1.3: Fee Increases

Description	Current Fee	Proposed Fee	New Fee as a % of Old	Budgeted Additional Revenue (Millions)
GIS Tax Map Verification Fee	$ 75	$ 225	300%	$ 19.6
Mtge. Recording Fees - County Clerk	150	300	200%	16.0
Traffic Fines and RLC Administrative Fees	30	45	150%	7.1
				$ 42.7

In the Assessment Department, the Administration has introduced legislation to increase the GIS Tax Map Verification fee from $75 to $225. The increase is projected to increase revenues by an additional $19.6 million budget to budget. The proposed legislation will be effective immediately upon passage by the Legislature, and if that is done in 2015, there can also be a positive budgetary impact in the current year. Suffolk County currently charges $60 for their GIS Tax Map Verification fee but is proposing an increase to $150 in their FY 16 Proposed Budget.

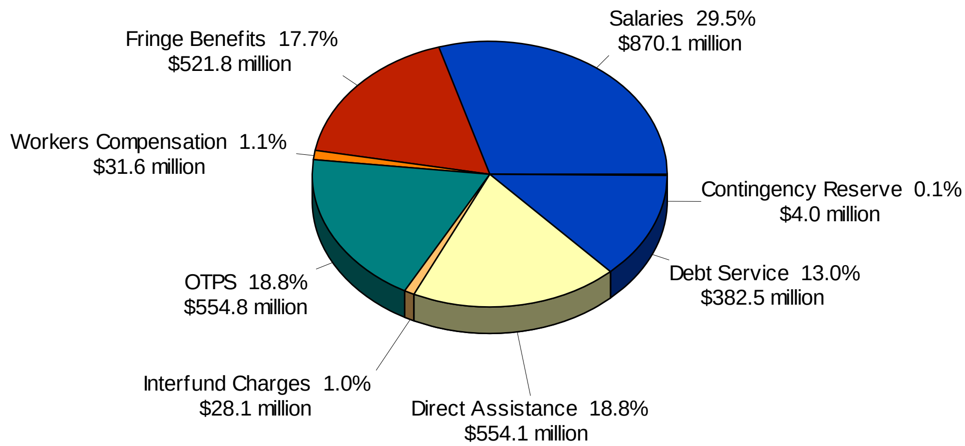
In the County Clerk's Office, the Administration has introduced legislation to increase the Mortgage Recording Fee from $150 per block fee to $300. The budget to budget increase is an additional $16.0 million annually. Suffolk County does not charge a per block fee when registering a deed or a mortgage. It has become increasingly more expensive to record real estate transaction documents in Nassau. The County Clerk has expressed that she is not in support of the fee increase.

In the Traffic and Parking Violation Agency, the Administration has introduced legislation to increase the administrative fee from $30 to $45 per ticket both for Red Light Camera and Fines. The net increase for this revenue source is expected to be an additional $7.1 million. Suffolk County's Administrative fee is currently $30 per ticket for Red Light Camera violations and Traffic and Parking violations are $55 per ticket. The proposed legislation will be effective immediately upon passage by the Legislature, and if that is done in 2015, there can also be a positive budgetary impact in the current year.

Proposed Expense Budget

The FY 16 Proposed Budget for the Major Funds, excluding the Sewer and Storm Water Resource District, interdepartmental charges and debt service chargebacks, is $2.9 billion. Salaries and fringe benefits make up 47.2% of the total budget. As illustrated in Chart 1.2, other large components include direct assistance and Other Than Personal Services (OTPS) both at 18.8% each.

Chart 1.2: FY 16 Major Funds' Expenses ($2.9 Billion)



Data reflects major funds excluding Sewer and Storm Water Resource District, Debt Service Chargebacks and Inter-Dept Charges.

Compared to the Adopted FY 15 Budget, total expenses are decreasing by $33.3 million as shown Table 1.4 on the next page. Expense categories that are increasing include salary and fringe benefits growing by a combined $44.6 million and debt service costs increasing by $18.7 million budget to budget. In 2014, the County entered into labor agreements with all unions. The proposed labor contract costs have a compounding effect; as new steps and Cost of Living Adjustments (COLA) are added, there will be more fiscal pressure placed on future budgets. The Collective Bargaining Agreements (CBAs) lay out terms between the County and the unions through 2017. The labor section of the Executive summary offers a more detailed analysis of salaries and contractually negotiated labor agreements. Offsetting the increases are lower budgeted amounts in Direct Assistance, Contingency Reserve and OTPS. The latter offers a true insight as to why the budget is decreasing year over year.

The FY 16 Executive Budget keeps the full-time headcount at 7,395 positions for the Major Operating Funds versus the current on-board headcount of 7,291 or 104 more positions than the current on board. The recent VSIP which closed on September 15th is expected to further reduce the workforce. Based on data submitted by the Administration, 171 Major Fund and Sewer employees opted into the program. There is a reasonable expectation that some positions will be backfilled, however it is doubtful that all the positions will be filled.

The following table depicts the FY 16 Proposed Budget expenditures by category compared to the FY 15 Adopted Budget.

Table 1.4: Major Funds' Expenses 2016 vs. 2015
($'s in millions)

	2015 Adopted	2016 Proposed	Variance
Expenses			
Salaries	$851.1	$870.1	$18.9
Fringe Benefits	496.1	521.8	25.7
Workers Compensation	27.0	31.6	4.6
OTPS	627.5	554.8	(72.7)
Interfund Charges	30.8	28.1	(2.7)
Direct Assistance	569.0	554.1	(14.9)
Debt Service	363.8	382.5	18.7
Contingency Reserve	15.0	4.0	(11.0)
Total Expenses[1]	**$2,980.3**	**$2,946.9**	**($33.3)**

1. Excludes interdepartmental charges and debt service chargebacks

The OTPS rollup shows a decrease of $72.7 million. The proposed budget lowers tax certiorari expenses by $30.0 million, removes from the budget $13.0 million in mission payment to the Hospital which although was budgeted in FY 15 will not be paid, and moves $20.2 million in suits and damages from the Budget Office to the Litigation Fund. Total contractual expenses are also decreasing by $8.8 million. The largest decrease in that category is in TPVA with $11.8 million less in expected costs mainly as a result of the repeal of the School Zone Speed Safety Program.

The Debt Service increase in the FY 16 Proposed Budget is driven by the amortization schedule of the existing debt coupled with the cost assumed for future obligations. OLBR believes that the plan is on the high side and that there is a budgetary opportunity as evidenced in the Administration's reply to NIFA on how it can mitigate the impact of not bonding for termination costs.

The direct assistance budget is decreasing by $14.9 million, or 2.6%. Contained within this category are Provider Payments for Early Intervention and Preschool Education in the Department of Health. Recipient grants, purchased services, emergency vendor payments and Medicaid expenses are in the Department of Social Services. The insert below provides a visual of the categories with discussions following:

Table 1.5: Direct Assistance FY 15 vs. FY 16

Direct Assistance	2015 Adopted	2016 Proposed	Difference
Early Intervention/Pre School Education	135,000,000	135,000,000	**-**
Recipient Grants	60,550,000	62,000,000	**1,450,000**
Purchased Services	68,402,576	65,851,121	**(2,551,455)**
Emergency Vendor Payments	52,755,000	50,980,000	**(1,775,000)**
Medicaid	252,255,731	240,233,215	**(12,022,516)**

Recipient grant expenses in the FY 16 proposal are up 2.4%, or $1.5 million, from not only the FY 15 budget but also OLBR's current projection. The increase is to accommodate the expected growth in the State's Safety Net Assistance (SNA) program. SNA is a state program for individuals in need of assistance whose eligibility for federal Temporary Assistance to Needy Families (TANF) has expired. SNA caseloads are up 1.5% in August 2015 compared to the same time last year; the County's TANF caseload has declined 4.1% during the same time.

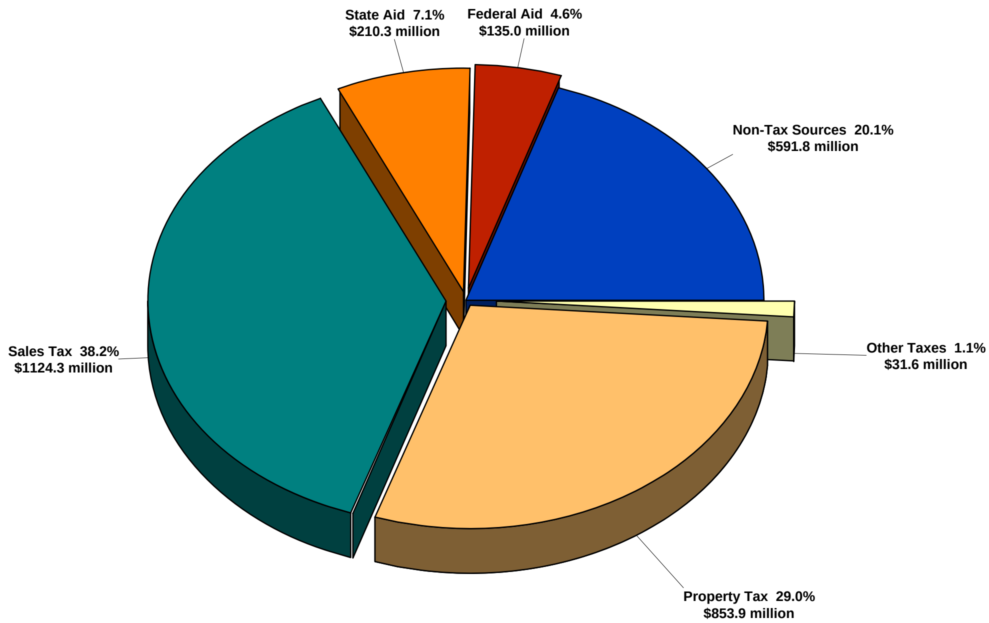
The proposed FY 16 purchased services budget is 3.7%, or $2.6 million, lower than the budget adopted for FY 15. The Proposed Budget is based on the Department of Social Services anticipating it will be able to decrease Day Care caseload recertifications. Additionally, the County is assuming service delivery of the Preventive Services Program from the Family and Children's Association, a private service provider. As a result, funding for the Preventive Mandated Project is reduced by $1.2 million or 25.5% budget to budget. The proposed purchased services budget is 1.5%, or $1.0 million, lower than the latest projection.

Funding for emergency vendor payments is down 3.4%, or $1.8 million, in the Proposed FY 16 Budget from the budget adopted for FY 15. According to the Administration, the decreased funding is tied to a reduction in room and board costs in the People in Need of Supervision (PINS) program. According to the department, PINS and other Institutional caseloads were down 35% and 31.7% respectively in June 2015 when compared to January 2014. The department will carefully monitor program expenses to meet the FY 16 spending plan. Compared to OLBR's current projection, there is 3.2%, or $1.6 million, more funding for emergency vendor payments in the proposal. The growth in the proposal is attributable to additional funding for special education and shelter care.

The proposed Medicaid budget is 4.8%, or $12.0 million less than the Medicaid budget adopted for FY 15. The State's FY 15-16 budget had two provisions that saved the County about $16.0 million on Medicaid costs in FY 15. First, the State reduced the County's quarterly indigent care payments for an annual savings of $1.7 million. Second, the State reduced the County's weekly Medicaid cap share payment for an annual savings of $14.3 million. In FY 16, the County will continue to make its quarterly indigent care payments at the same rate as in FY 15 but will see its weekly Medicaid cap share rise slightly. As a result, the County will actually see Medicaid costs rise 1.7%, or $4.0 million compared to OLBR's most recent projection. However, the benefit of the lower payments translates into decreased expenses of $12.0 million budget to budget.

Proposed Revenue Budget

Chart 1.3: FY 16 Major Funds Revenue ($2.9 Billion)



Data reflects major funds excluding Sewer and Storm Water Resource District, Debt Service Chargebacks and Inter-Dept Charges.

The largest revenue source for the County is sales tax, making up 38.2% of all revenues, as illustrated in Chart 1.3 above. The proposed sales tax revenue in the FY 16 Executive Budget is $1,124.3 million (including deferral), a decrease of $21.9 million over the current adopted budget as can be seen in Table 1.7 on the next page. The Administration is currently projecting that sales tax in FY 15 will grow by 1.4% over the previous year which translates into a FY 15 budgetary deficit of approximately $37.0 million. Year to date, sales tax growth is 0.7% and the remaining checks would need to grow by 3.0% to ensure that the projected $37.0 million gap does not worsen.

OLBR is currently projecting a 1.0% growth on all remaining sales tax checks which results in a $44.0 million 2015 budget to actual sales tax deficit. Using OLBR's 2015 forecast as a base implies that a 2.7% growth will be required from the current year estimate to achieve the proposed FY 16 Proposed Budget. This is different from the 2.0% growth that the Administration is projecting will be needed since their year-end sales tax assumes $7.0 million more will be collected in FY 15. The MYP projects a 2.5% growth rate in 2017, 3.0% in 2018, and 3.0% in 2019. This is illustrated below:

Table 1.6: Sales Tax Growth (excluding deferral)

	2015 Budget	OMB 2015 Projections	OMB 2015 Variance	2016 Budget	2017 Budget	2018 Budget	2019 Budget
Projected Sales Tax	1,143.3	1,106.3	(37.0)	1,128.4	1,156.6	1,191.3	1,227.1
OMB % Growth Needed				2.0%	2.5%	3.0%	3.0%

	OLBR 2015 Projections	OLBR 2015 Variance	
OLBR % Growth Needed	1,099.3	(44.0)	2.7%

Property tax is the next most significant revenue source for the County and has been discussed in details in the introduction. The FY 16 Proposed Budget includes a 2.6% property tax increase in the Major Funds or 1.2% when all funds are considered.

Table 1.7: Major Funds Revenue FY 16 vs. FY 15
($'s in millions)

	2015 Adopted	2016 Proposed	Variance
Revenues			
Non-Tax Sources	623.1	591.8	(31.3)
Federal Aid	136.0	135.0	(1.0)
State Aid	209.9	210.3	0.4
Sales Tax	1,146.2	1,124.3	(21.9)
Property Tax	832.3	853.9	21.6
Other Taxes	32.8	31.6	(1.2)
Total Revenues[1]	**$2,980.3**	**$2,946.9**	**($33.3)**

1. Excludes interdepartmental revenue & debt service chargebacks

The $31.3 million decrease seen in Table 1.7 for non-tax revenue sources is made up of a number of items. The largest decreases in revenue include:

- Budgeted fund balance usage of $15.0 million in FY 15 which is eliminated in the FY 16 Proposed Budget.
- Fines and Forfeits which are declining by $37.1 million budget to budget. In TPVA the FY 16 Proposed Budget removes $40.3 million in revenue due to the repeal of the Speed Camera program. This is partially offset by additional revenues anticipated from raising the administrative fee from $30 to $45.
- A $57.7 million decrease in debt service revenue from capital (borrowing) of which there is:
  - $40.0 million less in anticipated borrowing revenue in the Treasurer's Department to fund tax certiorari expenses. The County had anticipated borrowing $100.0 million in FY 15 and has lowered the borrowing to $60.0 million in the FY 16 Proposed Budget.
  - $18.0 million less in OMB to fund suits and damages as this expense is now reflected in the Litigation Fund.

Major increases include:

- Departmental revenues surging by $42.7 million mainly as a result of fee increases in the Assessment and County Clerk Departments.

- $28.3 million more in rent and recoveries of which approximately $18.0 million will be from the use of Tobacco Settlement Revenue and $7.5 million from FIT prior year recoveries.

Budget Risks and Opportunities

The largest risk items to the FY 16 Proposed Budget are borrowing for tax certiorari expenses and termination pay, fee increases, VLTs and a property tax increase. It is currently unclear if the County will be given the authority to borrow for expenses and whether the proposed fee and tax increases will be passed or modified by the Legislature. The Administration also included $20.0 million from VLTs; there are uncertainties on when and where this initiative will be implemented.

NIFA in a letter dated September 21, 2015 to the County Executive, stressed its concerns regarding the VLT implementation and their position regarding termination pay borrowing. The County Executive responded by identifying budget and contingency items that would offset the $32.8 million in termination pay borrowing. OLBR agrees with the Administration that opportunities to offset the termination pay borrowing exist and estimates budgetary opportunities to be roughly $48.8 million.

Furthermore, OLBR has identified other areas outside of the budget that could and should be considered in order to generate additional revenues. For example, the Income and Expense law passed by the Legislature allows the County to assess a penalty to income producing property owners who do not submit an annual survey of income and expense (ASIE). It is estimated that enforcing this law could generate millions in revenue. Moreover, it would be incumbent on the Administration to implement all fees passed by the Legislature that have not fully been executed.

The items that may be at risk, or prove to be an opportunity, in the Proposed Budget are listed in Table 1.8, on the next page:

Table 1.8: Major Funds Risks and Opportunities (Millions)

Expenses Risks

Item	OLBR Surplus/Risk
Overtime	9.0
Expense Sub Total	**9.0**

Revenue Risks

Item	Surplus/Risk
Tax Cert Bond Proceeds	60.0
Termination Bond Proceeds	32.8
Sub Total Bond Proceeds	92.8
Sale of County Property	5.0
Sales Tax (based on Current actual)	7.0
Video Lottery Terminals	20.0
Fines & Forfeits	3.5
Fee Increases	42.7
Property Taxes	21.6
Departmental Revenue	6.0
Revenue Sub Total	**198.6**
Total Risks	**207.6**

Opportunities

Budgetary:	
Contingency	4.0
Health Insurance	5.2
Vacant Positions & Seasonal	10.9
Correctional Center Overtime	2.0
OTPS Spending	6.6
Debt Service	11.4
Tow Truck Franchise fees	1.2
Prior Year recoveries	7.5
Borrowing:	
Tax Cert Bond Proceeds	60.0
	-
Total Opportunities	**108.8**
Net Risks	**98.8**

Additionally, the passage of a property tax, fees either as proposed or in reduced versions coupled with other possible budgeted revenues, such as the $20.0 million for VLTs, could further mitigate the net FY 16 risks.

Multi-Year Plan (MYP)

Table 1.9 below details the Administration's projected expenditures and revenues through 2019. The budgetary gaps that result over that period show what could occur if no corrective actions are taken.

Table 1.9: Multi-Year Plan Projections (Major Funds)

($'s in millions)

	2016 Proposed	2017 Proposed	2018 Proposed	2019 Proposed
Expenses				
Salaries	$870.1	$918.4	$936.9	$949.1
Fringe Benefits	521.8	$543.8	$569.0	596.7
Workers Compensation	31.6	$31.6	$31.6	31.6
OTPS	554.8	$564.5	$525.3	529.9
Interfund Charges	28.1	$28.1	$27.9	27.8
Direct Assistance	554.1	$569.6	$579.6	579.2
Debt Service	382.5	$400.6	$402.5	419.7
Contingency Reserve	4.0	$0.0	$0.0	0.0
Total Expenses[1]	**$2,946.9**	**$3,056.5**	**$3,072.8**	**$3,134.0**

1. Excludes interdepartmental charges and debt service chargebacks

	2016 Proposed	2017 Proposed	2018 Proposed	2019 Proposed
Revenues				
Non-Tax Sources	591.8	579.7	531.0	523.8
Federal Aid	135.0	136.1	136.1	136.1
State Aid	210.3	211.9	213.6	215.2
Sales Tax	1,124.3	1,153.7	1,191.3	1,227.1
Property Tax	853.9	853.5	845.1	844.4
Other Taxes	31.6	32.3	32.1	32.0
Total Revenues[1]	**$2,946.9**	**$2,967.3**	**$2,949.2**	**$2,978.5**
Surplus/Gap Projections	**$0.0**	**($89.3)**	**($123.6)**	**($155.5)**

1. Excludes interdepartmental revenue & debt service chargebacks

Over the course of this MYP, total expenses are projected to grow by 6.3% while revenues increase at a lower rate of 1.1%. Rising costs for salaries, fringe benefits, debt service, direct assistance and OTPS will outpace the County's revenue sources. This essentially will increase the structural gap and highlights the need for long term solutions including recurring revenues.

- Salaries and wages will increase by $79.1 million, from a Proposed Budget of $870.1 million in FY 16 to $949.1 million in FY 19. Reining in overtime costs has been challenging, however with the growing number of new hires, the Police Department should be able to reduce this expense from the high numbers it has incurred in the past three years.

- Fringe Benefit expenses will increase by $74.9 million, from an estimate of $521.8 million in the FY 16 Proposed Budget to $596.7 million in FY 19.

  Health insurance expenses for active and retired employees are projected to increase by $42.3 million to $329.9 million in FY 19. According to page 63 of the MYP, the baseline inflator used to project out-year health insurance costs is 5.48% from 2017 through 2019 for actives. The inflator for retirees is 4.44% from 2017 through 2019. The MYP growth rates are lower than the average health insurance growth rate over the past five years which was 6.4% for family.

- Including the amortization amounts, pension costs are increasing by $22.4 million to $169.4 million by FY 19. The New York State Comptroller recently announced that projected rates for SFY16-17 are expected to decrease for the third year in a row due to solid investment returns of the pension fund. However, out-year costs are still projected to grow due to increasing salaries and the additional installment payments from the previous years' amortization that continue to be added to the annual pension bill.

- From the 2016 Proposed Budget, social security expenses are increasing by roughly $2.0 million in FY 17, by $2.0 million in FY 18, and by $2.1 million for FY 19. With an increase in salaries, social security is also expected to rise. The current Collective Bargaining Agreement (CBA) includes Cost of Living Adjustments and step increases for union employees through 2017.

- Debt service is projected to increase by $37.2 million, from an estimate of $382.5 million in FY 16 to $419.7 million in FY 19.

- Non-tax revenues are projected to decline by $68.0 million through the MYP. Approximately $18.0 million from the usage of the Tobacco Settlement Fund in FY 16 will not reoccur in the out years. In addition, capital borrowings for tax certiorari expenses are budgeted to transition from $60.0 million in borrowing to $18.0 million in pay-go.

- The Administration is projecting a sales tax deficit of approximately $37.0 million in the current year. The FY 16 Proposed Budget is based on a 2.0% growth from OMB's FY 15 projections. In addition, the MYP projects a 2.5% growth rate in 2017, 3.0% in 2018, and 3.0% in 2019.

Gap Closing Measures

The Administration included in the MYP various items that may reduce the projected out-year gaps. These items are divided into three categories: Expense/Revenue actions and NYS actions, as illustrated in Table 1.10.

Table 1.10: Gap Closing Measures Detail 2017 - 2019

	2016	2017	2018	2019
Current Baseline Gap		**(89.3)**	**(123.6)**	**(155.5)**
Expense/Revenue Actions				
Benefits from Public Private Partnership (P3)		10.0	20.0	30.0
Revenue Initiatives		20.0	20.0	25.0
Workforce Management		10.0	12.0	15.0
Nassau County District Energy		10.0	10.0	10.0
Health Insurance Cost Reduction		10.0	10.5	11.0
United Water Synergy Savings		4.0	9.0	9.2
Advertising Revenue		6.0	6.5	7.0
Program/OTPS Reduction		5.0	6.0	7.0
eGovernment Revenues		1.0	2.0	4.0
Building Consolidation Efficiencies			1.0	4.0
On-line Tax Lien Auction		2.0	2.0	2.0
BOE Reimbursement		2.0	2.0	2.0
Strategic Sourcing		2.0	3.0	4.0
ERP Implementation		1.0	2.0	3.0
New York State Actions				
Mandate Reform		10.0	10.0	10.0
E-911 Surcharge		6.9	6.9	6.9
NYS Highway Traffic Offense Surcharge		5.7	5.7	5.7
Total Gap Closing Initiatives		**$105.6**	**$128.6**	**$155.8**
Projected Baseline Gap After Gap Closing Actions		**16.3**	**5.0**	**0.3**

The following are explanations provided by the Administration:

Public Private Partnership (P3) – The County goals of the P3 are to provide for continued County ownership and oversight of the sewer system, improve safety and environmental performance, transfer compliance risk, guaranteed performance and service levels. For the resident, the goals are improved customer service, greater accountability, consistent operations and a stable and transparent rate structure. Financially, the County seeks to retire sewer debt, reduce overall County debt, improve cash flow and transfer long term capital investment risk to the concessionaire.

Revenue Initiatives – The County plans to review the various fees it charges to determine if they reflect increased costs. Also, it will pursue cost saving/revenue generating initiatives that would offset the growth of recurring expenses.

Workforce Management – The Administration plans to continue its approach to workforce management. The County will be judicious in its treatment of vacancies as they materialize. If the County cannot eliminate vacancies, the Administration will delay hiring or backfill with lower paid workers.

Nassau County District Energy – The County will explore other options for the TRIGEN facility when the County's agreement with Suez Energy NA expires in 2016. The Administration believes there are several alternative uses for the facility that could generate revenue for the County.

Health Insurance Cost Reduction – The Administration will explore various options to reduce future health premium costs. An RFP was issued in August 2015 for a lower-cost premium plan.

United Water Synergy Savings – The Administration plans to reassign sewer fund employees who are displaced by the United Water agreement throughout the County. The Administration expects that these reassignments could produce a number of financial benefits, such as reducing the use and cost of overtime and in-sourcing County work from third-party contractors.

Advertising Revenue – The County has a contract in place that will look to sell advertising space on some of its assets (i.e. roadways). It will also explore corporate sponsorship and other marketing programs.

Program/OTPS Reduction – The Administration continues to develop creative ways to reduce costs. The County will continue to explore public-private partnerships, consolidate departments, and renegotiate contracts to achieve savings.

eGovernment – The County is exploring opportunities to develop and utilize internet-based technologies to improve resident and business interaction with County government. It is hoped that these improvements will enhance customer service, reduce costs, improve productivity, and increase revenues.

Builiding Consolidation Efficiencies – The County will look to streamline office space due to reduced headcount. The County has hired Smith & DeGroat Real Estate to review the County's real estate assets for potential sale of excess property, consolidation of office space, lease renewal terms, etc. The County will continue to reduce overall rental costs and generate new revenues through sales.

On-Line Tax Lien Auction - The County Treasurer is seeking to modernize and improve the County's tax lien procedures in order to maximize the collection of unpaid property taxes and promote fairness and transparency. The County will take advantage of modern technology and auction tax liens over the internet. If a tax lien does not sell online the Treasurer is also permitted to sell it at an in-person auction.

Board of Elections (BOE) Reimbursement – The Administration plans to enforce a section of State Election law that allows County BOE's to seek reimbursement from other municipalities (i.e. cities, towns, villages). If implemented, Nassau's BOE would be able to charge back a city, town, or village, for any cost associated with holding an election in a time period other than the fall primary or general election.

Strategic Sourcing – The County continues to pursue efficiencies and savings through strategic sourcing as recommended by Grant Thornton LLP in its NIFA commissioned report. The County has retained a vendor and has already garnered savings.

ERP Implementation – The new enterprise resource planning (ERP) system will streamline core business processes, that will lead to efficiencies and savings. This initiative recommended by Grant Thornton is currently underway.

Mandate Reform – The County believes that cost containment opportunities exist within pre-school special education programs and other New York State mandated programs such as public assistance.

E-911 Surcharge – The County will seek State approval to amend current County law and increase the surcharge on certain telecommunication equipment and telephone service supplier customers in relation to providing an enhanced 911 (E911) emergency telephone system in the County. This would enable the County to raise revenue needed to cover costs associated with providing this technology.

NYS Highway Traffic Offense Surcharge – The County will seek approval of State Legislation providing a mandatory surcharge for traffic offenses for incidents occurring on the Long Island Expressway, the Seaford-Oyster Bay Expressway or Sunrise Highway. The surcharge will reimburse the County for NCPD costs associated with patrolling State roadways.

Conclusion

The FY 16 Proposed Budget represents a bold attempt by the Administration to address a stagnant revenue base which could not support the current expense obligations. The fact of the matter is that the growth in salaries, fringe benefits, and debt service costs, for example, will outpace the County's ability to raise revenues. Some of the expense growth stems from factors that are within the County's control while others are not and until there is a convergence of the two categories, expenses and revenues, fiscal woes will continue.

The State property tax cap levy growth factor has been set at 0.73% thus limiting the amount by which property taxes can increase. The Administration has proposed a $12.0 million property tax increase (all funds) which is within the property tax cap; one-shot revenues of roughly $25.5 million; borrowing of $32.8 million to cover termination pay; $20.0 million VLT revenue, an initiative which failed in the past and $42.7 million in fee increases which can only be raised so high before they become prohibitive. Several of these items have been flagged as budgetary risks. In total, OLBR finds a net risk exposure of $98.8 million which could further be mitigated with the passage of fees either as proposed or in reduced versions coupled with other possible budgeted revenues.

There has been some accomplishments by the Administration in reining in expenses. Headcount is at an all-time low and some aspects of the labor agreements will generate savings beyond the terms of the contracts. It will be incumbent upon the County to take advantage of all revenue generating tools that have not yet been implemented and deliver on expense reduction promises made, as some have not come to fruition. Moreover, by FY 15 year-end, the County will deplete its technology fund balance and the FY 16 Proposed Budget will exhaust the Tobacco Fund balance and reduce by approximately half the Environmental Bond Fund balance. Based on the projected budgetary gaps in the MYP, there is much more work to be done.

2. LABOR

In 2014, the County entered into labor agreements with the Police Benevolent Association (PBA), the Detectives Association Inc. (DAI), the Civil Service Employees Association (CSEA), the Superior Officers Association (SOA) and the Correction Officers Benevolent Association (COBA), formerly known as ShOA (Sheriff Officers Association). The proposed labor contract costs have a compounding effect; as new steps and Cost of Living Adjustments (COLA) are added, there will be more fiscal pressure placed on future budgets. When contractual increases are proposed, they generally include in the calculations of many initiatives (soft savings) that is claimed will lower contractual costs (hard costs). Post agreements is the time when the Administration must hold the departments accountable to realize these savings; failure to do so could eventually lead to future assertions that the agreements are unsustainable. As evidenced in the multiyear plan, by FY 2019, the salary line grows by $79.1 million from the proposed FY 2016 budget and sustaining the expenses will require corresponding revenues and/or the realization of initiatives and synergy savings, some of which have not come to fruition, in order to mitigate the cost increases. The terms negotiated by each union and the corresponding increases are illustrated below:

Table 2.0: CBAs

2014 PBA Agreement

	Timeline	Award
2016	9/1/2016	3.5% COLA
2017	1/1/2017	2.0% COLA

2014 DAI Agreement

	Timeline	Award
2016	9/1/2016	3.5% COLA
2017	1/1/2017	2.0% COLA

2014 CSEA Agreement

	Timeline	Award
2016	7/1/2016	3.5% COLA
	9/1/2016	CSEA members step
2017	7/1/2017	2.0% COLA
	9/1/2017	CSEA members step

2014 SOA Agreement

	Timeline	Award
2016	9/1/2016	3.5% COLA
2017	1/1/2017	2.0% COLA

* All members promoted after April 1, 2014 receive their step increases on their anniversary date.

2014 COBA Agreement

Year	Timeline	Award
2016	1/1/2016	All COBA members hired on or before Dec. 31, 2013 will step on their anniversary date of hire. There will be no step movement for members hired between January 1, 2014 and May 31, 2014.
	9/1/2016	3.5% COLA
2017	1/1/2017	All COBA members move to the next step on their anniversary date of hire.
	7/1/2017	2% COLA

In addition, PBA members hired on or after May 1, 2013 shall progress through their applicable salary schedule (move up to their next steps) pursuant to the Collective Bargaining Agreement (CBAs). It must however be mentioned that there are aspects of the CBAs that will generate savings compared to the prior ones. Some represent structural changes that will continue to garner savings past the timeframe covered by the CBAs. Examples of the structural changes include a 15% health insurance contribution and revised salary plans with lower salary scales for new employees. The Proposed 2016 Budget includes approximately $27.7 million from attrition and other savings as illustrated below:

Table 2.1: Proposed Salary Savings

Fund	2016 Propossed Savings
Fire Commission	(132,155)
General	(6,536,517)
Police District	(9,146,647)
Police Geadquarter	(11,859,314)
	(27,674,633)

Workforce management has been one of the Administration's key strategies in order to help achieve structural balance; as a result, headcount is at all-time low. The reduction is primarily the result of past County layoffs and Voluntary Separation Incentive Programs (VSIP). The recent VSIP which closed on September 15th is expected to further reduce the workforce. Based on data submitted by the Administration, approximately 171 employees from the Major Operating Funds including Sewers have opted into the program with annualized salaries of approximately $11.8 million. This is illustrated below:

Table 2.2: September 2015 CSEA VSIP

	# of Employees	Salary
Separations	171	11,815,732

The Administration has stated that it will cover the termination cost, the final cost of which is not yet calculated, with operating funds. This will be a tall order as the Administration also seeks to borrow for 2015 sworn separations and NIFA has given no indication whether it will approve any of the approximately $33.5 million approved by the Legislature that is currently pending its approval. Even considering the control board's position, the Administration has included $32.8 million in anticipated revenues to cover Police termination expenses in the proposed FY 2016 budget. Regarding the latter, NIFA has clearly indicated that it will not allow the borrowing. The Proposed Budget funds headcount at the same level as the prior year budget. However, the onboard headcount which is expected to decrease from the current level is much lower and there is a general concern that government services will be affected. OLBR can't speak to department operations as the Commissioners and department heads are the closest to their departmental process; however some departments which are key overtime and service drivers have requested but received less heads. This is reflected below:

Table 2.3: Full-Time Departmental Request

	Dept. Request	2016 Proposed HC	Difference
Public Works	469	458	(11)
Information Technology	99	82	(17)
Correctional Center	1,084	1,049	(35)
Social Services	651	613	(38)
Police Department	3,271	3,105	(166)

Headcount

The FY 2016 Executive Budget keeps the full-time positions at 7,395 for the Major Operating Funds versus the on-board headcount of 7,291 as of September 1, 2015:

Table 2.4: Staffing Comparison

Full Time Major Funds Staffing Comparison					
Department	2015 Sept Onboard Headcount	2015 Sept Onboard Salaries	2016 Proposed Headcount	2016 Proposed Salaries	Variance 2016 Proposed vs. 2015 Sept Onboard
Assessment	145	8,974,702	142	9,212,863	(3)
Assessment Review Commission	30	2,152,469	29	2,189,689	(1)
Board of Elections	164	10,600,231	163	10,635,496	(1)
C.A.S.A.	4	252,231	4	252,231	0
Civil Service	55	4,142,645	51	4,207,432	(4)
Comptroller	72	5,755,641	85	6,613,713	13
Constituent Affairs	35	1,904,044	34	1,839,289	(1)
Consumer Affairs	25	1,593,952	25	1,649,115	0
Correctional Center	1,027	80,539,707	1,049	86,269,525	22
County Attorney	94	7,309,493	94	7,402,920	0
County Clerk	76	4,455,379	81	4,767,214	5
County Executive	15	1,664,939	18	1,834,939	3
District Attorney	358	29,171,265	371	30,456,179	13
Emergency Management	10	923,058	12	1,164,159	2
Health	172	13,050,891	175	13,795,196	3
Housing & Intergovernmental Affairs	16	975,076	16	968,076	0
Human Resources	9	729,738	9	729,738	0
Human Rights	7	450,437	7	490,088	0
Human Services	63	5,064,498	62	4,817,322	(1)
Information Technology	83	7,496,816	82	7,408,158	(1)
Labor Relations	4	330,345	5	380,345	1
Legislature	85	5,468,142	92	5,876,361	7
Medical Examiner	70	6,348,581	71	6,368,355	1
Office of Minority Affairs	6	429,763	6	429,763	0
Office of Management and Budget	26	2,515,735	26	2,515,735	0
Parks, Recreation and Museums	152	8,555,179	154	9,066,089	2
Probation	184	14,181,153	189	15,000,450	5
Public Administrator	6	468,280	6	474,248	0
Public Works Department	479	31,547,839	458	30,614,268	(21)
Shared Services	10	668,586	10	710,465	0
Records Management	11	638,258	12	714,501	1
Social Services	604	40,555,059	613	42,789,339	9
Taxi and Limousine Commission	2	160,000	9	397,524	7
Traffic & Parking Violations	47	2,745,864	47	2,893,351	0
Treasurer	27	1,804,737	27	1,953,568	0
Veterans' Services Agency	7	430,222	7	447,989	0
Savings from Initiative & Adjustment	0	0	(47)	(498,026)	(47)
General Fund Total*	**4,180**	**304,054,955**	**4,194**	**316,837,667**	**14**
Fire Commission	97	6,959,651	96	7,173,834	(1)
Police District	1,432	135,783,453	1,601	154,810,745	169
Police Headquarters	1,582	152,008,061	1,504	148,748,377	(78)
Total Major Funds	**7,291**	**598,806,120**	**7,395**	**627,570,623**	**104**
Sewer & Storm Water (SSW)	157	9,105,338	171	10,891,806	14
Total including Sewers	**7,448**	**607,911,458**	**7,566**	**638,462,429**	**118**

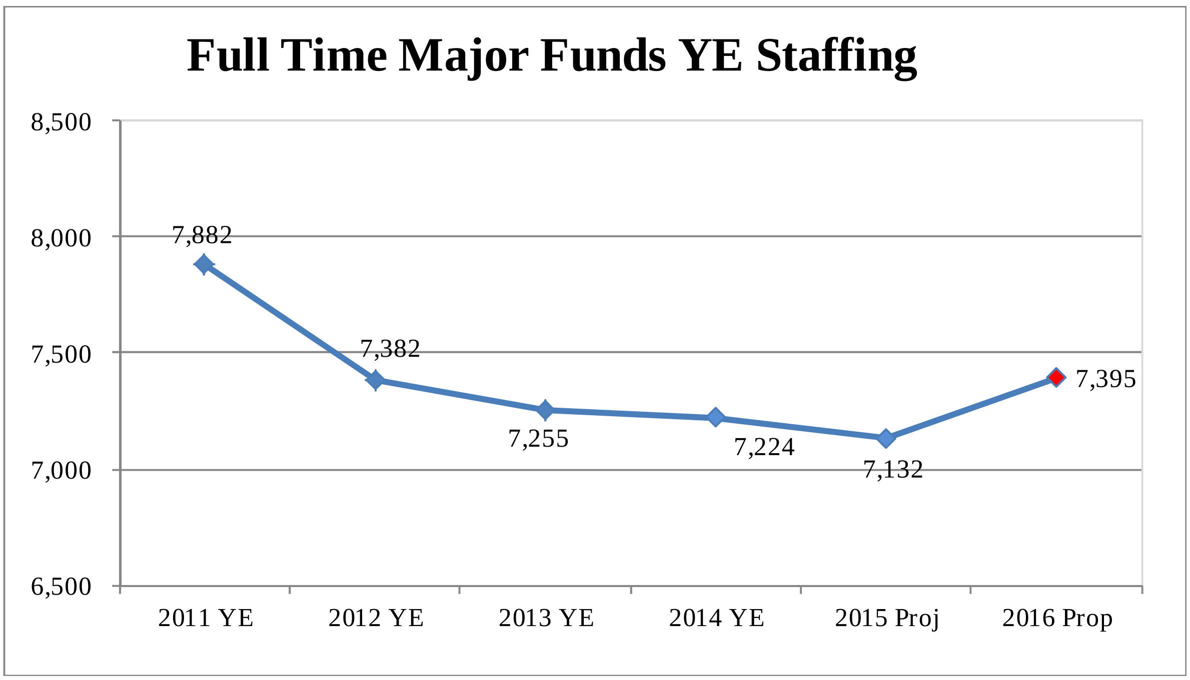
* The General Fund reflects an adjustment due to a miscoding of four positions in the September onboard headcount.

Compared to the current on board, excluding sewers, the Proposed Budget funds 104 more positions. In the General Fund, OLBR does not find a corresponding dollar amount in opportunity to coincide with the additional heads. The Police Funds could have an opportunity of approximately $7.7 million, however the impact of removing these positions could far out way the benefit as overtime could be further impacted.

OLBR does however, find that there will be a payroll savings opportunity with the employees that opted into the VSIP. These employees will lower the on board headcount in the table above to approximately 7,132 prior to backfilling in the Major Funds. While analyzing the departments with the largest decreases, it is important to note that the Department of Social Services shifted positions to the grant funds and the Correctional Center adjusted staffing as the inmate population decreased; these departments did request more heads in their 2016 submissions.

As previously stated, the challenge at the current low headcount will be how to sustain the level of service the County has provided in the past while not further negatively impacting overtime costs. The Administration continues to feel that 7,395 full-time headcount is the optimal level for the County. Chart 2.1 trends full-time headcount from FY 11 to the Proposed FY 16 Budget:

Chart 2.1: Full Time Headcount Trend



The Major Funds overtime expense is budgeted at $82.2 million in the Proposed FY 16 budget which represents an increase of close to $3.0 million from the current budget. Police is increasing by $1.0 million but also built a $4.0 million contingency in its Proposed Budget that can be used to offset overtime expense. However, given the current overtime trend in the Police Department, the budget may still fall short. The Correctional Center, has had great success in controlling overtime cost and will probably have an opportunity based on the current FY 2015 trends.

Table 2.5: Major Funds Overtime Trends

OVERTIME TRENDS	2014 YE	2015 Adopted	2015 Projected	2016 Proposed
Police District	$ 35,858,263	$ 28,000,000	$ 32,753,992	$ 28,560,000
Police Headquarter	31,892,147	24,000,000	32,263,169	24,480,000
Total	67,750,410	52,000,000	65,017,161	53,040,000
Corrections	14,884,392	17,400,000	14,400,000	16,000,000
Police & Corrections	82,634,802	69,400,000	79,417,161	69,040,000
Others	13,159,092	9,868,799	10,620,664	13,177,796
TOTAL:	$ 95,793,894	$ 79,268,799	$ 90,037,825	$ 82,217,796

Many steps have been taken to curb the projected Police overtime deficit; the department added new recruit classes of 60 and 62 in February and April 2015, respectively, and is scheduled to bring on an additional 150 in October of FY 15. The County expects to further reduce police overtime costs through the implementation of management initiatives, the utilization of Asset Forfeiture funds and the pursuit of grants to offset targeted police initiative. The budgeted overtime is reflective of many initiatives the Administration said it would achieve through items such as changes in work rules, vacation picks and the new hires.

Table 2.6 below illustrates the multiyear salary plan for the Major Funds:

Table 2.6: MYP Major Funds Salary Plan

Major Funds Multi Year Salary Plan				
Department	**2016 Proposed**	**2017 Plan**	**2018 Plan**	**2019 Plan**
Assessment	9,562,345	9,983,875	10,222,075	10,321,357
Assessment Review Commission	2,256,699	2,349,546	2,402,024	2,423,912
Board of Elections	15,177,233	15,587,492	15,823,795	15,928,332
C.A.S.A.	258,508	258,634	258,762	258,892
Civil Service	4,493,832	4,685,328	4,793,607	4,838,829
Comptroller	7,154,640	7,436,920	7,598,383	7,668,317
Constituent Affairs	2,039,319	2,099,207	2,133,869	2,149,427
Consumer Affairs	1,744,752	1,814,665	1,854,528	1,871,625
Correctional Center	118,106,026	121,262,713	122,656,591	122,031,955
County Attorney	7,911,211	8,006,862	8,062,584	8,088,068
County Clerk	5,672,791	5,861,469	5,968,795	6,014,483
County Executive	1,908,129	1,908,333	1,908,541	1,908,753
District Attorney	33,627,171	34,074,678	34,352,318	34,501,526
Emergency Management	831,941	842,269	848,442	851,470
Fire Commission	11,415,782	11,826,161	12,088,054	12,237,778
Health	15,177,951	15,835,291	16,211,503	16,374,745
Housing & Intergovernmental Affairs	972,076	972,076	972,076	972,076
Human Resources	822,638	822,654	822,670	822,687
Human Rights	518,285	533,767	542,665	546,577
Human Services	4,375,567	4,568,405	4,677,817	4,724,017
Information Technology	7,538,669	7,902,206	8,120,458	8,228,767
Labor Relations	389,696	389,883	390,074	390,268
Legislature	6,346,919	6,348,360	6,349,830	6,351,329
Medical Examiner	7,138,429	7,441,934	7,616,146	7,692,418
Office of Management and Budget	3,994,440	4,826,844	4,856,005	4,885,748
Office of Minority Affairs	515,826	516,256	516,695	517,142
Parks, Recreation and Museums	21,230,509	21,665,013	21,920,863	22,041,455
Police Department	468,903,511	503,929,100	515,575,676	525,842,894
Probation	17,307,483	18,055,759	18,489,349	18,684,608
Public Administrator	485,777	498,265	505,323	508,266
Public Works Department	35,560,130	37,141,189	38,092,124	38,566,243
Records Management	933,480	967,877	987,430	995,736
Shared Services	881,815	911,468	929,103	937,642
Social Services	47,857,892	49,894,239	51,083,166	51,600,400
Taxi and Limousine Commission	397,524	408,806	415,151	417,753
Traffic & Parking Violations	3,928,770	4,055,291	4,128,353	4,160,924
Treasurer	2,170,443	2,250,433	2,295,925	2,315,279
Veterans' Services Agency	455,847	468,148	475,087	477,963
Grand Total	**870,064,056**	**918,401,415**	**936,945,857**	**949,149,663**

3. FRINGE BENEFITS

Fringe benefit expenditures include health insurance and pension contributions for active and retired employees, as well as social security contributions. Escalating health insurance and pension contribution costs continue to place a heavy burden on the County's budget. The Administration has chosen to amortize the maximum amount of pension expenses allowed under the State's Contribution Stabilization Program for the fifth consecutive year. This decision will provide budgetary relief in FY 16 and defer roughly $41.1 million from the overall expenses. OLBR still cautions that this practice of amortizing the pension obligation creates more of a financial strain when balancing the out-year gaps. Including this year's amortization, approximately $269.9 million has been deferred since FY 12. It would be fiscally prudent to cease that practice as the additional interest cost from amortizing the bill is projected to be approximately $61.1 million from five years of amortization.

The FY 16 Fringe Benefit budget for the major funds is $521.8 million, which is an increase of $25.7 million from the FY 15 budget due mostly to an increase in health insurance, pension contribution and social security costs. Compared to the FY 15 projection, fringe benefit costs are increasing by roughly $35.1 million. The surplus in the current year is due to a favorable FY 15 budget for active and retiree health insurance expenses.

Table 3.1 displays the fringe benefit appropriations for the major funds.

Table 3.1: Fringe Budget by Major Fund

Fund	Department	Adopted FY 15 Budget	OLBR FY 15 Projection	FY 16 Executive Budget	Variance Exec. vs FY 15 Adopted	Variance Executive vs FY 15 Proj.
Fire Commission	Fringe Benefits	5,150,492	$5,056,312	5,743,966	$593,474	$687,654
General Fund	Courts	1,518,003	1,270,724	1,321,305	(196,698)	50,581
	Fringe Benefits	213,408,489	208,854,353	225,749,384	12,340,895	16,895,031
	OMB	25,232,436	25,248,058	25,827,010	594,574	578,952
Police District	Fringe Benefits	117,993,102	120,092,162	125,056,955	7,063,853	4,964,793
Police Headquarters	Fringe Benefits	132,762,921	126,154,094	138,097,084	5,334,163	11,942,990
Total		**496,065,443**	**$486,675,703**	**521,795,704**	**$25,730,261**	**$35,120,001**

Table 3.2: itemizes fringe benefit costs by sub-object code:

Table 3.2: Fringe Budget by Sub-object for the Major Funds

SubObject & Description	Adopted FY 15 Budget	OLBR FY 15 Projection	FY 16 Executive Budget	Variance Execcutive vs Adopted FY 15	Variance Executive vs FY 15 Proj.
08F - NYS Police Retirement	75,188,978	75,141,324	77,959,372	2,770,394	2,818,048
11F - State Retirement Systems	60,460,639	62,777,314	69,036,126	8,575,487	6,258,812
13F - Social Security Contribution	57,772,941	57,772,941	58,990,628	1,217,687	1,217,687
14F - Health Insurance	137,822,034	130,772,165	145,597,237	7,775,203	14,825,072
17F - Optical Plan	816,518	800,364	816,409	(109)	16,045
19F - NYS Unemployment	823,111	723,726	816,702	(6,409)	92,976
20F - Dental Insurance	4,148,751	4,046,603	4,148,354	(397)	101,751
22F - Medicare Reimbursement	17,368,847	17,368,847	18,692,688	1,323,841	1,323,841
22S - Medicare Reimbursement Surcharge	330,815	535,492	677,893	347,078	142,401
26F - Flex Benefits	2,100,000	2,100,000	2,100,000	0	0
35F - MTA Mobility Tax	2,904,039	2,904,039	2,962,604	58,565	58,565
40F - CSEA Legal Plan	546,375	773,751	571,375	25,000	(202,376)
41F - COBA Legal Plan	110,750	111,875	112,500	1,750	625
45F - Disability Insurance	53,000	53,000	53,000	0	0
75F - Health Insurance For Retirees	137,593,488	130,637,109	141,928,403	4,334,915	11,291,294
76F - Employees Optical - Retirees	570,658	591,168	604,109	33,451	12,941
98G - Fringes Allocable to Grants	(624,639)	0	(624,639)	-	(624,639)
ZZF - Fringe Savings	(170,627)	0	0	170,627	-
ZZO - Capital Backcharge OT Fringes	(170,556)	(124,193)	(491,787)	(321,231)	(367,594)
ZZS - Capital Backcharge ST Time fringes	(1,579,679)	(309,822)	(2,155,270)	(575,591)	(1,845,448)
Grand Total	**496,065,443**	**486,675,703**	**521,795,704**	**25,730,261**	**35,120,001**

08F State Pension for the Police and Fire Retirement System & 11F Employee Retirement System

The New York State Retirement System is a program designed to help employees and family members maintain financial stability during retirement or in the event of a disability or death. The annual bill covers the period from April 1st of the previous year to the ensuing March 31st. The pension payment date for participating employers is February 1st, but local municipalities have the option to make the payment on December 1st at a discounted amount. The FY 2016 budget is based on paying the pension obligation as of the December payment date.

The FY 2016 budget is based on amortizing the maximum amount of pension expenses allowed under the State's Contribution Stabilization Program. This program was signed into law in 2010 and authorized participating employers to defer a portion of their annual pension costs over 10 years. Legislation passed as part of the State 2014 budget established an alternative to the Original Contribution Stabilization Program. The Alternative Program increased the maximum length of any amortizations installments from 10 years to 12 years at an interest rate that is set annually. Once the 12 year program is elected, you cannot return to the Original 10 year program, however it is required that payments continue on any existing amortizations from the Original Program.[1] The interest rate for the maximum amortization of contributions in 2015 is 3.15%. The interest rate for the 2016 amortization is 3.31%.

In 2012 and 2013, the Administration amortized the pension for the 10 year period under the Original Contribution Program. In 2014, the Administration opted into the Alternate Program to amortize over the 12 year term. Since the State does not allow you to return to the Original 10 year Program, the 2016 maximum amortization must be deferred over another 12 years. The maximum amount allowed based on the 2016 pension invoice is $41.1 million or 20.7% of the $198.7 million total pension bill which includes an estimated $10.6 million for the Nassau Community College, the Sewer Resource & Storm Water District and the Grant Fund. Table 3.3 provides the FY 16 and FY 15 pension expenses billed by the State for Employee Retirement System (ERS) and Police and Fire Retirement System (PFRS).

Table 3.3: FY14-FY15 Pension Invoices

(Includes Nassau Community College, Sewer & Storm Water Resource District & the Grant Fund)

Pension Liability With Maximum Amortization

	2015 Invoice	2016 Invoice	2016 vs. 2015
Total Pension Bill Before Amortization (Dec. Payment)			
ERS	113,845,000	107,393,504	(6,451,496)
PFRS	95,246,759	91,378,610	(3,868,149)
	209,091,759	**198,772,114**	**(10,319,645)**
Using Maximum Amortizion (Dec. Payment)			
ERS	73,017,945	79,679,088	6,661,143
PFRS	75,188,979	77,959,372	2,770,393
	148,206,924	**157,638,460**	**9,431,536**
Savings from Maximum Amortization (Dec Payment)	**60,884,835**	**41,133,654**	**(19,751,181)**

* The Invoices includes SSW Fund, Nassau Community College and the Grant Fund.

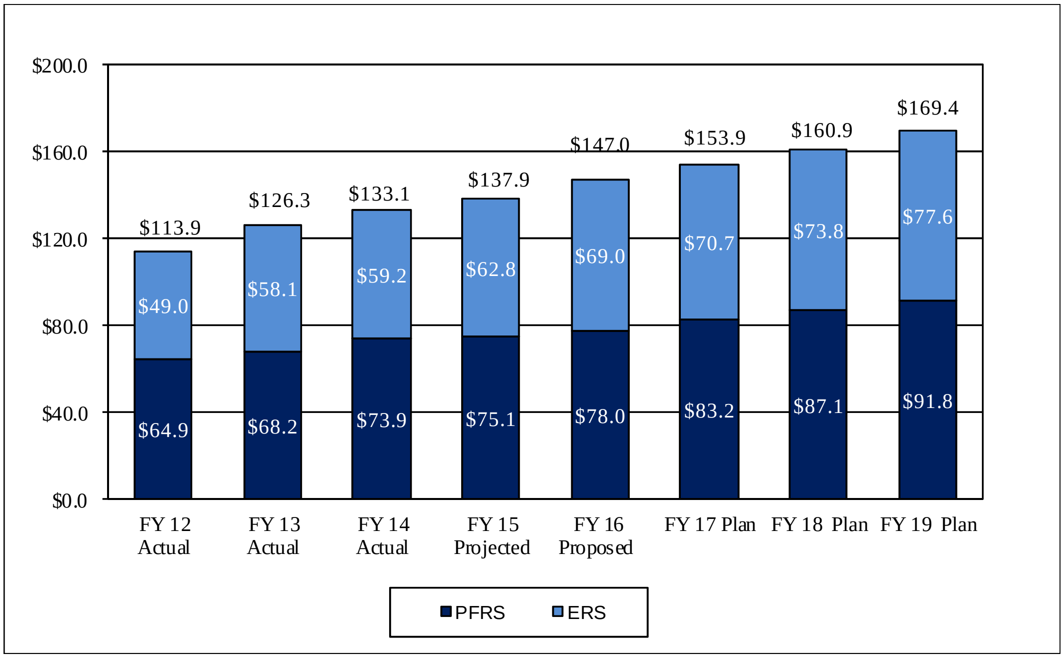
The table above provides the ERS and the PFRS disbursements based on paying the bill on the December 15, 2015 date. The early December payment date will result in a savings of $1.7 million. As mentioned above, the amortization of the maximum amount allowed, reduces the pension expense payment by $41.1 million from $198.8 million to $157.6 million. The December invoice of $198.8 million includes $107.4 million billed for (ERS) and $91.4 million billed for (PFRS). While the total bill is decreasing by $10.3 million, the County is obligated to pay more compared to last year since the maximum amortization allowed is decreasing by $19.8 million from 29.1% to 20.7% of the total pension bill. As a result, the minimum amount due under the Stabilization program is $157.6 million or an increase of $9.4 million, compared to the prior year.

Chart 3.1 details the historical pension obligations from FY 12 to FY 14 and the projected costs from FY 15 to FY 19 for the **Major Funds.** The Administration's FY 16 Proposed Budget includes the

[1] Office of the New York State Comptroller New York State and Local Retirement System. "Alternative Contribution Stabilization Program." http://www.osc.state.ny.us/retire/employers/alt_contribution_stabilization.php.

pension expense of $69.0 million for ERS and $78.0 million for PFRS for a total budget of $147.0 million. The figures in the chart include the major funds and do not include the Nassau Community College, the Sewer & Storm Water Resource District and the Grant Fund.

Chart 3.1: FY 12 to FY 19 Pension Costs for the Major Funds (in millions**)**



As reflected in the above chart, pension costs are projected to continue to increase through FY 19. The Administration's Multi-Year Plan projects pension costs to continue to rise to $153.9 million in FY 17, $160.9 million in FY 18 and $169.4 million in FY 19 in the Major Funds.

The Multi-Year Plan is also based on the assumption that a portion of the pension expense will be amortized in the out-years. The first payment from the 2016 amortization will impact the 2017 bill by an estimated additional $4.2 million; this projection is based on the first installment from the projected 2017 pension bill. This is in addition to the annual installments the County continues to pay from the 2012-2015 amortizations. The 2016 pension bill includes the annual installment of $6.3 million from the 2015 deferral, $7.5 million from 2014, $6.8 million from 2013, and $4.7 million from 2012. After deducting the current installments that have been paid to date, OLBR estimates the total outstanding liability with interest to roughly be $270.5 million. Table 3.4 on the following page details the outstanding liability from the five years of deferring theses expenses.

Table 3.4: Amortization Liability

Year	Maximum Amortization From Bill	Estimated December Liability with Interest	
2012 Amortization Liabilty	38,784,738	47,224,816	
2013 Amortization Liabilty	57,583,796	67,505,774	
2014 Amortization Liabilty	71,471,718	90,117,546	
2015 Amortization Liabilty	60,885,642	75,608,234	
2016 Amortization Liabilty	41,133,654	50,510,556	*
Subtotal Amortization 2012-2016	**269,859,548**	**330,966,926**	
Total Liability After Paid Installments	**226,511,774**	**270,504,988**	

*OLBR Estimates the 2016 liability based on the projected February installment payment of $4.2 million recurring annually over 12 years.

Many municipalities in New York who deferred pension costs in recent years are cutting back. According to state records, in the current year, 112 local governments amortized $346.0 million of pension costs, a drop of 27% from 2014.[2] The largest Counties that have amortized a portion of their pension expenses in the State include Monroe, Rockland, and Westchester.[3] As the economy improves and contribution rates are declining fewer employers are opting into the program. Local governments, such as the City of Rochester and Putnam County deferred expenses in 2014 but did not do so this year. And for the municipalities, who haven't amortized a portion of pension expenses, they are now reaping the benefits of the lower pension rates without the debt from previous years.

New York State implemented this program to make it possible for governments in New York to "smooth" their annual pension contributions to get through a prolonged period of market volatility. According to a spokesman from the New York State Budget Division, "amortization takes volatility out of the state's pension contribution costs and helps maintain stability. [4] However, the plan is drawing criticism from fiscal watchdog groups who say the program is merely deferring costs; instead of paying operating expenses, local governments are stacking themselves with debt. In addition, deferring pension costs from the State's pension fund can be viewed negatively since it lowers the pension fund's available assets, resulting in reduced investment returns.

Pension contribution rates spiked in the State Fiscal Year (SFY) 2013-14 and decline thereafter through SFY 2016-17. The climb from SFY 2009-10 through SFY 2013-14 reflects the impact from the 2008 recession. The impact of the recession caused contribution rates to increase over a four year period. The pension system smoothes the impact of the market decline so that it isn't felt at once but spread over a multi-year period. However, there is a decline in contribution rates from SFY 2013-14 through SFY

[2] Spector, Joseph, "New York Municipalities Borrow Less for Pension," www.pressconnects.com, May 3, 2015, "http://www.pressconnects.com/story/news/local/new-york/2015/05/03/municipal-pension-borrowing/26841003.

[3] Ibid.

[4] Ibid.

2016-17 as a result of an improving economy. The rates for SFY 2016-17 are based the State's Comptroller's projected rates for ERS and PFRS.

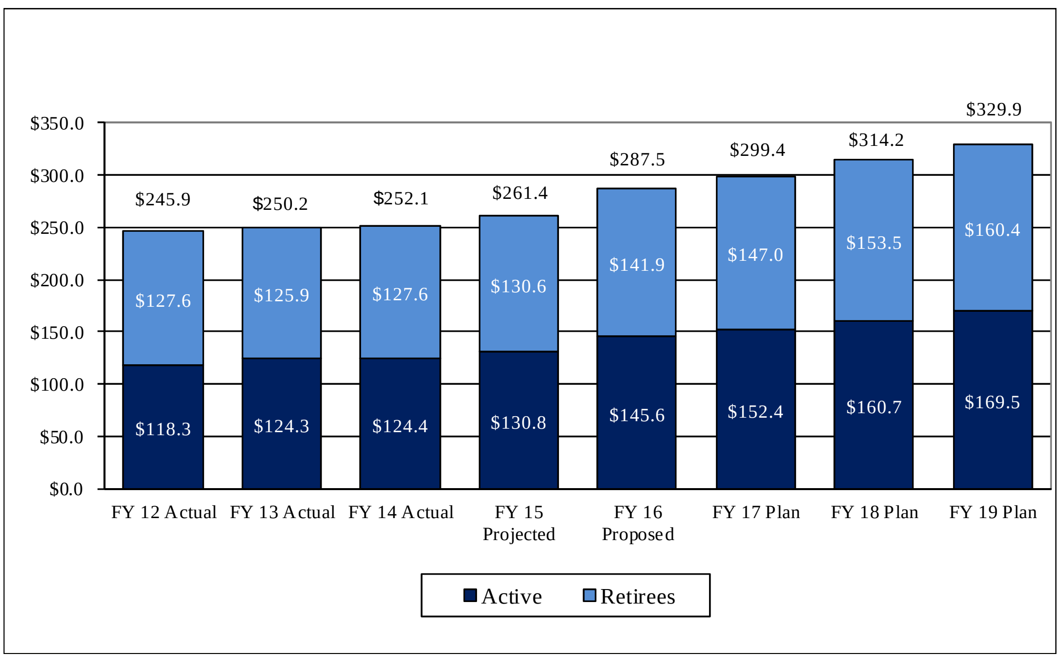
The State Comptroller recently announced "that as a result of solid investments to the Fund, there will be a decline in pension contribution rates in SFY 2016-17 for a third year in a row."[5] According to the State Comptroller, the average contribution rate for ERS will decrease to 15.5% of an employer's payroll from 18.2% and average contribution rate for PFRS will decrease from 24.7% to 24.3%.[6]

Although pension rates are declining, Nassau County is not reaping the benefits of this decrease as Nassau County's minimum amount due under the Stabilization program is projected to increase compared to last year. This is due to the additional installment payments from the previous year's deferment that continue to be added to the annual pension bill and from a reduction in the maximum amortization allowed. The maximum amortization allowed is decreasing from 29.1% in SFY 2014-15 to 20.7% of the total pension bill in SFY 2015-16, as previously mentioned.

14F & 75F Health Insurance for Current and Retired Employees

In 2015, the national average premium for employer sponsored single and family coverage is 4.0% higher than the 2014 average premium.[7] The New York State Health Insurance Plan (NYSHIP) Empire family plan, which consists of most County workers increased by 5.5%. The 2016 Proposed Budget is based on a growth rate increase of 8.9%. The 2016 Proposed Budget for active and retiree health insurance is increasing by $12.1 million compared to the FY 15 Adopted Budget and by $26.1 million compared to the FY 15 projection.

Chart 3.2: FY 12 to FY 19 Health Insurance Costs (in Millions)



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[5] "DiNapoli Announces Decrease in Pension Contribution Rates for FY 2016-17; Lowers Assumed Rate of Return," Office of the New York State Comptroller, September 4, 2015.
[6] "Ibid.
[7] "Employer Health Benefits, 2015 Summary of Findings." Kaiser Family Foundation and Health Research & Educational Trust, September 2015.

The FY 2016 Proposed Budget includes $287.5 for active and retiree health insurance costs. Compared to the FY 15 budget, the FY 16 budget is increasing by $7.8 million for active employees and $4.3 million for retired employees, for a total of $12.1 million. Based on inflating the current health insurance projection by the State's current rate assumption of 8.0% and the FY 16 budgeted headcount, OLBR estimates that there is currently a cushion of $3.2 million for health insurance costs. If the headcount were to remain at the current level of 7,291, the surplus could be as high as $5.2 million. Table 3.5 below depicts OLBR's projected surplus for active and retiree costs:

Table 3.5: Projected Health Insurance Surplus

	Based on Budgeted Headcount	Based on Current Headcount
Total Projected Surplus	3,184,576	5,203,624

National premiums for family coverage increased 27% during the last five years, the same rate they grew between 2005 and 2010 but significantly less than the 69% increase that occurred between 2000 to 2005.[8] The modest growth in rates in recent years may be attributed to more employees contributing to their health care expenses. Covered workers' average dollar contribution to family coverage has increased 83% since 2005 and 24% since 2010. In addition, most covered workers face additional out-of pocket costs when they use health care services.[9] Eighty-one percent of covered workers in 2015 have general annual deductibles for coverage that must be met before most services are paid for by the plan.[10] Other types of cost sharing that workers face includes copayments, coinsurance, additional costs for office visits and hospital admissions, and prescription drug coverage.

The continuing implementation of the Affordable HealthCare Act has brought about a number of changes for employer-based coverage, such as the requirement for large employers to offer coverage to their full-time workers. On January 1, 2015, employers with 100 or more full-time equivalent employees that do not offer health insurance to their full-time employees and dependents or does not provide minimum value, may be required to pay an assessment.[11] The assessment penalty will apply if at least one employee receives a premium tax credit to purchase coverage in the new individual Marketplace.[12] The requirement applies to employers with 50 or more FTEs beginning in 2016.

13F Social Security

Social Security tax is comprised of two components: Old-age, Survivors and Disability Insurance (OASDI) and Medicare tax. The employer's contribution rate is 6.2% for OASDI and 1.45% for Medicare, which equals a combined rate of 7.65%. For the current year the OASDI portion is applied to salaries up to $118,500 a change of $1,500 from 2014. Medicare has no maximum. The total OASDI tax on the current maximum wage base is roughly $7,347. The Social Security Administration will officially announce the changes for 2016 in October. Early projections indicate that there will be no

[8] Ibid.
[9] Ibid
[10] Ibid.
[11] "Key Provisions Under the Affordable Care Act for Employers with 50 or More Employers," U.S. Small Business Administration." https://www.sba.gov/content/employers-50-or-more-employees
[12] Ibid.

Social Security cost of living adjustment (COLA) increase and that the base for 2016 will remain the same, at $118,500[13]

The FY 16 Proposed Budget for social security is increasing by $1.2 million or 2.1% compared to the FY 15 Adopted Budget and FY 15 projection. With an increase in FY 15 budgeted salaries, social security is also expected to rise. Salaries are increasing as a result of the current Collective Bargaining Agreements. The FY 2016 budget for social security appears sufficient to cover the increase in salaries.

17F Optical Plan

This benefit provides optical insurance to full-time County employees. The annual per capita premium is currently $110.40. The FY 16 budget remains constant with the 2015 Adopted Budget, however compared to the 2015 projection there is an increase of $16,045.

19F New York State Unemployment

The County is required to reimburse the State for all unemployment claims paid to former employees. The County provides quarterly payments to the State. The FY 16 budget is increasing by $92,976, or 12.8% compared to OLBR projections and decreasing minimally budget to budget.

20F Dental Insurance

This benefit provides dental insurance to full-time employees. The current contract with Healthplex extends through December 31, 2015. The renewal term FY 16 commences January 1, 2016 and ends December 31, 2016. Under the contract, the annual premium per capita remains unchanged at $561. The FY 16 budget is flat compared to the prior year adopted budget but reflects an increase of $101,751 or 2.5% when measured against the OLBR projection. Based on the FY 16 budgeted headcount, the budget appears sufficient.

22F Medicare Reimbursement

The County provides quarterly payments to cover premium costs related to Medicare coverage for retired employees. The proposed FY 16 budget is increasing by $1.3 million to 7.6% to $18.7 million. According to the federal government, the 2015 standard Medicare Part B premium remains unchanged at $104.90 for salaries up to $85,000 and $146.90 per month for salaries ranging from $85,001 - $107,000. Greater salaries will incur higher premiums. Under the Medicare program, eligible retirees are responsible for 25% of the total cost of Part B, with the federal government subsidizing the remaining 75%.

26F Flex Benefits Plan

All Nassau County employees have the option of contributing a portion of their salary to a flexible spending account. This allows the employee to use pre-tax dollars on health care costs such as co-pays and deductibles. The FY 16 budget remains flat at $2.1 million. The FY 16 budget includes corresponding revenue to offset the expense for the same budgeted amount, which is located in the Office of Management and Budget department.

[13] Wasserman, Brad, "Social Security Benefits, Medicare Premiums and Payroll Taxes: 2016 Projections," Wasserman Wealth Management. September 4, 2015.

35F MTA Mobility Tax

In May 2009, the New York State Legislature approved a new regional payroll/mobility tax to fund the Metropolitan Transportation Authority (MTA). For employers with payroll expenses above $437,500, the tax is equivalent to 0.34% of payroll expenses. The FY 16 budget is $3.0 million, a marginal increase of $58,565, or 2.0% compared to the FY 15 budget and projection.

40F CSEA Legal Plan

The FY 16 budget includes $571,375 for the CSEA legal plan which is a nominal growth of $25,000 budget to budget, however is a reduction of $202,376 compared to the current projection. As per the CSEA agreement, effective January 1, 2009, the County shall pay for each full and regular part time employee the sum of $125 annually. The FY 2016 budget may be overstated since the current FY 15 projection is $227,376 greater than the FY 15 budget.

41F COBA Legal Plan

The FY 16 budget includes $112,500 for the Correctional Officer Benevolent Association (COBA) legal plan as per the COBA contract agreement, which is a small increase of 1,750 or 1.6% from the FY 2015 Adopted Budget.

45F Disability Insurance

The FY 16 budget includes $53,000 for providing New York State disability insurance to CSEA unit members, however this provision has ceased per the current CSEA Collective Bargaining Agreement. It is unclear why the FY 2016 Adopted Budget includes a cost for this provision.

76F Employees Optical for Retirees

This benefit provides optical coverage for retired County employees. The County’s cost to provide optical insurance coverage to retired employees is the same as the cost to provide insurance for current employees, which is $110.4 per person. The FY 16 proposed budget is increasing by $33,451 from the FY 15 budget and $12,941 compared to the FY 15 projection.

98G Fringes Allocable to Grants

The FY 16 budget includes a credit of ($624,639), which is the corresponding fringe benefit expense to the salaries that are chargebacks to the Grant Fund. The budget remains constant with the prior year’s budgeted credit.

ZZO Capital Backcharges OT Fringes

The FY 16 budget includes a credit of ($491,787) which is the corresponding fringe benefit charge related to overtime salary chargeback within the General Fund.

ZZS Capital Backcharges to Fringes

The FY 16 credit of ($2.2 million) is the corresponding fringe benefit charge associated with the salary chargeback within the General Fund.

Multi-Year Plan

Table 3.6: FY 2016-2019 Multi-Year Plan

SubObject & Description	2016 Proposed Budget	2017 Plan	2018 Plan	2019 Plan
AB08F - NYS Police Retirement	77,959,372	83,151,466	87,142,737	91,761,302
AB11F - State Retirement Systems	69,036,126	70,734,415	73,754,774	77,626,900
AB13F - Social Security Contributions	58,990,628	60,966,814	63,009,202	65,120,011
AB14F - Health Insurance	145,597,237	152,350,360	160,699,160	169,505,474
AB17F - Optical Plan	816,409	816,409	816,409	816,409
AB19F - New York State Unemployment	816,702	886,367	961,974	1,044,030
AB20F - Dental Insurance	4,148,354	4,148,354	4,148,354	4,148,354
AB22F - Medicare Reimbursement	18,692,688	19,756,302	20,880,436	22,068,532
AB22S - Medicare Reimbursement Surcharge	677,893	716,465	757,232	800,318
AB26F - Flex Benefits Plan	2,100,000	2,100,000	2,100,000	2,100,000
AB35F - MTA Mobility Tax	2,962,604	3,061,851	3,164,423	3,270,431
AB40F - CSEA Legal Plan	571,375	571,375	571,375	571,375
AB41F - SHOA Legal Plan	112,500	112,500	112,500	112,500
AB45F - Disability Insurance	53,000	53,000	53,000	53,000
AB75F - Health Insurance for Retirees	141,928,403	147,016,573	153,544,109	160,361,467
AB76F - Employees Optical for Retirees	604,109	604,109	604,109	604,109
AB98G - Fringes Allocable to Grant	(624,639)	(624,639)	(624,639)	(624,639)
ABZZF - Fringe Savings	0	0	0	0
ABZZO - Captial Backcharge OT Fringes	(491,787)	(491,787)	(491,787)	(491,787)
ABZZS - Capital Backcharges Fringes	(2,155,270)	(2,155,270)	(2,155,270)	(2,155,270)
Grand Total	**521,795,704**	**$543,774,664**	**$569,048,097**	**$596,692,517**

Fringe benefits will increase by $74.9 million, from an estimate of $521.8 million in the FY 16 Proposed Budget to $596.7 million in FY 19.

Health insurance expenses for active and retired employees are projected to increase by $42.3 million to $329.9 million in FY 19. The MYP baseline inflator used to project out-year health insurance costs is 5.48% from 2017 through 2019 for actives. The inflator for retirees is 4.44% from 2017 through 2019. The MYP growth rates are lower than the average health insurance growth rate over the past five years which was 6.4% for family.

Including the amortization amounts, pension costs are increasing by $22.4 million to $169.4 million by FY 19. The New York State Comptroller announced this month that projected rates for SFY16-17 projected to decrease for the third year in a row due to solid investment returns of the pension fund. However, out-year costs are still projected to increase due to increasing salaries and from the annual installment liabilities associated with amortizing pension payments from previous years.

From the 2016 Proposed Budget, social security expenses are increasing by roughly $2.0 million in FY 17, by $2.0 million in FY 18, and by $2.1 million for FY 19. With an increase in salaries, social security is also expected to rise since these costs are a function of salaries.

4. SALES TAX

The largest single source of revenue for the County is sales tax. Sales tax is collected by the State, and distributed to the County on a regular basis. The current rate in Nassau is 8.625%, of which 4.0% is the State's share, 4.25% is the County's share and 0.375% goes to the Metropolitan Commuter Transportation District. The County distributes one seventeenth of its collections to the Town of Hempstead, the Town of North Hempstead, the Town of Oyster Bay, the City of Glen Cove and the City of Long Beach. In 2016 the incorporated villages will be allocated a lump sum amount of $1,250,000 to be divided on a per capita basis. That amount is unchanged from the current year.

The proposed sales tax revenue in the FY 2016 Executive Budget, excluding the deferred piece, is $1,128.4 million. The Administration is currently projecting that sales tax in FY 2015 will grow by 1.4% over the previous year which translates into a FY 2015 budgetary deficit of approximately $37.0 million. Year-to-date, sales tax growth is 0.7% and the remaining checks would need to grow by 2.96% to ensure that the projected gap does not worsen.

OLBR is currently projecting a 1.0% growth on all remaining sales tax checks which results in a $44.0 million 2015 budget sales tax deficit. Using OLBR's 2015 forecast as a base, implies that a 2.7% growth will be required from the current year estimates to achieve the proposed FY 2016 budget. This is slightly different from the 2.0% growth that the Administration is projecting will be needed since their year-end sales tax projection assumes $7.0 million more will be collected. Table 4.1 below illustrates the growth needed from both OMB and OLBR's projections:

Table 4.1: Sales Tax Growth Scenarios

	2015 Budget	OMB 2015 Projections	OMB 2015 Variance	2016 Budget	2017 Budget	2018 Budget	2019 Budget
Projected Sales Tax	1,143.3	1,106.3	(37.0)	1,128.4	1,156.6	1,191.3	1,227.1
OMB % Growth Needed				2.0%	2.5%	3.0%	3.0%
		OLBR 2015 Projections	**OLBR 2015 Variance**				
OLBR % Growth Needed		1,099.3	(44.0)	2.7%			

Table 4.2 on the next page, shows the annual gross sales tax collections through FY 14, the OMB 2015 projection and the proposed budgets for FY 2016 through 2019. The MYP projects a 2.5% growth rate in 2017, 3.0% in 2018, and 3.0% in 2019.

Table 4.2: Annual Sales Tax Collections

Fiscal Year	Actuals	Growth
2008	1,003.0	-0.9%
2009*	951.3	-5.2%
2010*	1,009.3	6.1%
2011*	1,027.5	1.8%
2012	1,070.4	4.2%
2013	1,138.2	6.3%
2014	1,090.8	-4.2%
Fiscal Year	**Projections**	**Growth**
2015	1,106.3	1.4%
2016	1,128.4	2.0%
2017	1,156.6	2.5%
2018	1,191.3	3.0%
2019	1,227.1	3.0%

* Includes Residential Energy Tax collections, effective June 1, 2009 through May 31, 2010.

In addition to the regular sales tax, a $4.1 million reduction has been budgeted in FY 16 for deferred sales tax. That represents the amount by which part-county sales tax collections in FY 14 fell short of the budget. For accounting purposes, the County is not able to book such revenue until two years after it has been received. In Table 4.1, the gross sales tax collections for each year are shown, including any excess over budget in the part-county portion. For that reason, neither the historical actuals nor the projections include the prior year deferred collections.

As can be seen in the chart below, sales tax receipts collected through October 5, 2015 have increased by 0.7% compared to the same period in 2014.

Table 4.3: YTD Sales Tax Collections

Sales Tax Receipts

(Payments Distributed Through October 5, 2015 in millions)

	2014	2015	Variance $	Variance %
Gross YTD Sales Tax	$732.7	$737.6	$4.9	0.7%

Moreover, the above gross sales tax collections incorporate certain non-recurring collections that are not indicative of current consumer purchases. These include prior period adjustments, special assessments and late filing fees. To deduce actual current consumer spending, these collections could be subtracted from the gross collections. This reveals that the actual growth net of the adjustments is 0.1% which is cause for concern. This implies that consumer spending is not growing at a robust rate. If this rate of spending was to continue, it would make achieving the proposed FY 16 sales tax budget more difficult.

The FY 16 sales tax budget appears to be is in line with the average estimate for FY 2016 US Real GDP projected growth of 2.7% and Moody's Analytics estimate for Nassau Gross County Product (GCP) of 2.5%.

However, that assumes that the heightened economic activity leads to higher wages, more jobs and greater income to households. Households then need to choose to spend the extra income. To date, as shown by the net sales tax collections, this has not been the case. Households have instead increased their savings and paid off debt since the recession. Federal Reserve Bank of St. Louis data shows that throughout the nation, before the recession in 2005, the average annual personal savings rate was 2.6%. After the recession that rate rose to a high of 7.6% in 2012. The current 2015 average is 5.0%, almost double the pre-recession rate. Additionally, Federal Reserve Board data shows that household debt service payments as a percentage of disposable income have declined to 9.9% in 2015 from 12.6% in 2005 and a high of 13.0% in 2007.

On October 9, 2015, the County will receive the final check completing the third quarter collections. The quarterly check is significant since it is a true up in that the County will receive payment for all actual sales through the third quarter. The prior checks were estimated payments based upon Nassau's prior year percentage of total collections for that time period. OLBR will release an updated sales tax report based upon the year-to-date actuals when the third quarter check is received.

5. FUND BALANCE AND RESERVES

Table 5.1 shows the unreserved Fund Balance and the balances of the formal reserve funds at year-end FY 12 through FY 14, along with the projected year-end balances for 2015 and 2016.

Table 5.1: Total Reserves (Projected Year-End 2015-2016)

Item	Year-End 2012	Year-End 2013	Year-End 2014	Projected 2015	Projected 2016
Undesignated & Police District Fund	$ 82.0	$ 126.6	$ 121.0	$ 106.0	$ 106.0
Employee Accrued Liab. Fund	4.0	4.0	10.2	10.2	10.2
Technology Fund	1.9	1.9	1.9	0.0	0.0
Open Space Fund	0.9	1.1	1.2	1.2	1.2
Environmental Bond Fund	17.1	19.4	19.5	19.5	10.0
Tobacco Settlement Fund	17.9	17.9	17.9	17.9	0.0
Sub-total	**$ 123.8**	**$ 170.9**	**$ 171.7**	**$ 154.8**	**$ 127.3**
Sewer/Storm Water Fund Bal.	71.5	45.9	43.2	30.7	28.7
Total Reserves & Fund Bal.	**$ 195.3**	**$ 216.8**	**$ 214.9**	**$ 185.4**	**$ 156.0**

The projections in the above table take the 2014 year-end as a starting point and then subtract the planned and/or projected uses in the FY 15 Adopted Budget and the FY 16 Proposed Budget. Depending on budget trends, there is a possibility that some of the planned uses may not be necessary. The Proposed FY 16 Budget includes $20.2 million in the Litigation Fund that will be financed through a potential budgetary surplus, should there be one. The balance in the Litigation Fund is to be used to pay judgments and settlements with operating funds rather than bonded funds.

Based on current projections, including sewers, the County may use approximately $29.4 million of Fund Balance in FY 15. Out of that total, $10.0 million is being used in the Undesignated Reserve Fund, $5.0 million is being used from the Police District Fund, $1.9 million in the Technology Fund and $12.5 million may be needed in the Sewer Fund.

In FY 16, the Administration is planning on using all remaining $17.9 million in the Tobacco Fund. In addition, the proposed budget includes the use of $9.5 million of the current balance in the Environmental Bond Fund to cover the debt service costs associated with the Environmental Bonds. In 2017, the Administration also expects to continue to pay the Environmental Bond debt service costs out of the fund balance which will more than likely deplete that reserve. In 2018, the property tax levy will be re-instituted.

Moreover, the FY 16 Proposed Budget includes a $2.0 million reduction in the Sewer Fund balance and no fund balance is budgeted for the out-years of the plan. However, the FY 16 Proposed Budget includes the collection of Sewer and Storm Water Resource District (SSW) exempt user fee revenues which there is a Temporary Restraining Order (TRO) on. Hence, if those revenues are not collected, the SSW FY 16 fund balance usage could be higher unless other measures are taken.