

MAURICE CHALMERS  
DIRECTOR  
OFFICE OF LEGISLATIVE  
BUDGET REVIEW



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

### **Inter-Departmental Memo**

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

From: Maurice Chalmers, Director  
Office of Legislative Budget Review

A handwritten signature in blue ink, appearing to be "MC", written over a circular stamp or mark.

Date: August 24, 2016

Re: Mid-Year Report - 2016 Projections

---

The Office of Legislative Budget Review (OLBR) has prepared this memo to detail its FY 2016 year-end projections. Based on our findings, some adjustments will be needed for the County to end the year on budget and opportunities to do so seem attainable. Similar to the prior year, some areas such as overtime expenses continue to add fiscal stress on County finances. With Police terminations trending lower than budgeted, the surplus if it comes to fruition will be available to offset the overtime deficit in FY 2016. A formal plan is needed to address the expenses that continuously exceed budget by millions of dollars. Another area that will need to be monitored closely is sales tax as growth swings may require additional actions from the Administration. In conjunction with the Mid-Year Report, OLBR is releasing its most recent economic trend report.

The anticipated borrowing for tax certiorari payments, \$60.0 million, has been approved by the Legislature and the Nassau Interim Finance Authority (NIFA). In addition, the County has received approximately \$43.8 million in excess bond premiums, the majority of which should be transferred to the Litigation Fund. The County plans on using \$3.0 million in fund balance to pay for bus operating expenses. NIFA will count these revenues plus an additional 5.5 million in net accounting adjustments in computing the NIFA "defined" Generally Accepted Accounting Principles (GAAP). These items add up to approximately \$112.3 million in adjustments which elevate the control board's budgetary deficit from an \$18.0 million budgetary gap to a NIFA GAAP of approximately \$130.3 million.

OLBR believes the County should be able to implement some initiatives that would offset the \$5.7 million budgetary deficit it is currently projecting. On a NIFA GAAP basis, which entails excluding revenues such as bond premiums and tax certiorari borrowing, the gap would increase to \$118.0 million.

**2016 Projections**

OLBR is currently projecting a \$5.7 million deficit in FY 2016 for the Major Operating Funds prior to opportunities. A projected expense deficit of \$22.0 million is offset by about \$16.3 million in surplus revenue. The chart below demonstrates the year-end expense and revenue projections.

<b>Major Funds (in millions) Excluding Inter-Dept. Transfers</b>			
	<b>2016 Adopted Budget</b>	<b>OLBR 2016 Projection</b>	<b>Variance</b>
Expense	2,920.6	2,942.6	(22.0)
Revenue	2,920.6	2,936.9	16.3
Projected Surplus / Deficit			(\$5.7)

**Expense Highlights**

The following chart details the expense variances by object code between OLBR’s FY 2016 projections and the FY 2016 Adopted Budget for the Major Funds. Explanations are provided following the chart:

<b>2016 OLBR Variances to Budget</b>			
<b>Expenses</b>	<b>2016 Adopted Budget</b>	<b>2016 OLBR Projections</b>	<b>OLBR vs. Budget</b>
Salaries	\$864.1	\$870.8	(\$6.7)
Fringe Benefits	515.3	511.5	3.7
Workers Compensation	31.6	31.6	0.0
OTPS	282.6	286.0	(3.4)
Utility Costs	39.3	38.5	0.8
Various Direct Expenses	5.3	5.3	0.0
Principal & Interest	188.8	183.2	5.6
Local Govt Assistance	67.0	67.2	(0.2)
Inter-Fund Charges	27.4	27.4	0.0
Mass Transportation	43.8	43.8	0.0
NCIFA Expenditures	2.0	2.0	0.0
Other Expenses	295.0	284.7	10.3
Early Intervention / Special Ed.	135.0	130.0	5.0
Direct Assistance	178.8	175.7	3.1
Medicaid	240.2	240.2	0.0
Transfer to PDH	4.5	4.5	0.0
Transfer to Litigation Fund	-	40.2	(40.2)
<b>Sub-total Expenses</b>	<b>2,920.6</b>	<b>2,942.6</b>	<b>(22.0)</b>

## **Salaries**

OLBR is currently projecting a salary deficit of \$6.7 million compared to the FY 2016 Adopted Budget. The salary budget deficit is mainly attributed to an overtime deficit of \$12.3 million, reflected on the following page.

OLBR is currently projecting that the Police Department will exceed its FY 2016 overtime budget of \$57.0 million by approximately \$12.0 million. In FY 2015, the Police Department budgeted \$52.0 million for overtime and the actual expenditure of \$66.4 million was equivalent to a \$14.4 million deficit. Although the department increased the budget for FY 2016 by about \$5.0 million, that number is more indicative of what the department hopes the expenses should be.

In FY 2011, which is the last complete fiscal year before Superstorm Sandy, the County spent \$48.3 million in overtime and had a sworn headcount of approximately 2,373 officers. In FY 2012, the County spent \$64.7 million in overtime, of which \$14.8 million was attributed to Super Storm Sandy. As time has revealed, that level of spending has become the new normal. The Police Department has attributed the excess overtime to lower headcount.

A total of approximately 295 recruits were hired in 2015 and 198 sworn officers retired or separated from service the same year for a net headcount increase of approximately 97 additional officers. The elevated uniform staffing levels are part of the department's strategy to curb overtime. However, the majority of sworn officers are also earning a higher wage and the desired impact on overtime has not come to fruition. The department hired 150 officers in May 2016 with the possibility of another class in the latter part of the year the number and hire date are to be determined based on FY 2016 attrition levels. The 2016 new hires are not expected to have a drastic effect on the FY 2016 overtime expense as academy training is usually seven months in duration, therefore the new officers will not be fully deployed until early 2017.

With the new hires, although not all deployed, the sworn on board officer headcount is 2,454, or 81 more than what the County had on board in FY 2011. Once these officers are deployed, it would stand to reason that the Police Department should be able to, at a minimum, lower the overtime expenses.

Termination expenses in the Police Department are trending lower than budgeted in FY 2016. The termination budget in the Police department is \$34.2 million and actual expenses are \$11.7 million to date. At this point, 49 sworn officers have separated from the County in comparison to the 135 assumed in the budget. Although the current projections are still at budget it is apparent that there could be an opportunity estimated to be approximately \$12.0 million. If the termination pay opportunity materializes then the department should be able to offset its overtime deficit.

## OVERTIME TRENDS

	2015 YE	2016 Adopted	2016 Projections	Variance
Police District	\$ 33,225,961	\$ 28,560,000	\$ 34,560,000	\$ (6,000,000)
Police Headquarter	33,197,030	28,480,000	34,480,000	(6,000,000)
Total	66,422,991	57,040,000	69,040,000	(12,000,000)
Corrections	11,210,683	13,500,000	13,500,000	-
Police & Corrections	77,633,674	70,540,000	82,540,000	(12,000,000)
Others	12,375,655	13,177,796	13,518,325	(340,529)
<b>TOTAL:</b>	<b>\$ 90,009,329</b>	<b>\$ 83,717,796</b>	<b>\$ 96,058,325</b>	<b>\$ (12,340,529)</b>

As of July 1, 2016 there were 7,422 full-time employees on-board in the Major Funds which results in 27 positions more than the 7,395 included in the FY 2016 Adopted Budget. Attrition in the second half of the year is expected to decrease the on board number to meet the budgeted headcount.

### Fringe Benefits

For the Second Quarter, OLBR is projecting a surplus of \$3.7 million for fringe benefits in the Major Funds. The majority of the surplus is in health insurance costs for active employees due to the growth rate for active employees being finalized lower than the budgeted rate. The FY 2016 health insurance growth rate for active employees was finalized by New York State Health Insurance Program (NYSHIP) at 5.5% for individual and 6.5% for family coverage which is well below the 8.9% built into the Adopted Budget. The budgetary surplus would have been greater but is diminished by health insurance costs for retirees, which is projected to significantly surpass the Adopted Budget.

### OTPS (Other Than Personnel Services)

The Other Than Personnel Services (OTPS) budget, which includes equipment, general expenses, and contractual expenses, is projected to end in a deficit of approximately \$3.4 million.

- Contractual expenses are projected to have a \$3.6 million deficit which is the result of a \$3.0 million deficit in the Department of Public Works (DPW) for the County's contract with Transdev International to operate the Nassau Inter-County Express (NICE Bus). The Traffic and Parking Violations Agency (TPVA) will exceed their contractual budget by \$1.3 million for payments to American Traffic Solutions (ATS) who runs the Red Light Camera Program. However, the excess cost in TPVA will be more than offset with the additional revenue generated through the program. In addition, surpluses are projected in the Office of the County Attorney of \$500,000 and \$150,000 in the Office of Management and Budget (OMB).

### Principal and Interest

OLBR agrees with the Administration's projection of a \$5.6 million surplus as a result of debt refinancing and delayed borrowing.

### Other Expenses

The \$10.3 million surplus in other expenses mostly reflects the usage of the budgeted contingency in FY 2016.

The County budgets for tax certiorari expenses in the Other Expense line. The FY 2016 budget is \$70.0 million of which \$10.0 million will be from operating expenses and the balance of \$60.0 million will be borrowed. This borrowing has been approved by the Legislature and NIFA in accordance to the budget. To date approximately \$10.2 million has been expensed in operating funds.

**Early Intervention**

Provider Payment expenditures in the Health Department for Early Intervention and Pre-school program costs are projected to be \$5.0 million lower than the FY 2016 Adopted Budget. The surplus is primarily due to a lower number of Pre-school caseloads.

**Direct Assistance**

Entitlement programs are on track to end FY 2016 with a \$3.1 million surplus. The projected surplus is tied to an overall decline in recipient grants caseloads in programs such as Temporary Assistance to Needy Families (TANF) and Safety Net Assistance (SNA). Through June, TANF cases are down 19.4% year over year, while SNA cases have declined about 15.3% during this same time period. The Department of Social Services (DSS) is projected to return a \$2.0 million surplus in recipient grants as a result of the lower spending. In addition, a greater than expected decline in state operated facility placements is at the root of a projected surplus in emergency vendor payments. However, a projected \$0.9 million shortfall in purchased services, attributable to an unanticipated increase in the daycare caseload, reduces the overall direct assistance surplus.

**Revenue Highlights**

The chart below details the revenue variances by object code between OLBR’s FY 2016 projections and the FY 2016 Adopted Budget for the Major Funds. Explanations are provided following the chart:

<b>2016 OLBR Variances to Budget</b>			
<b>Revenue</b>	<b>2016 Adopted Budget</b>	<b>2016 OLBR Projections</b>	<b>OLBR vs. Budget</b>
Authorized Capital Borrowing	\$0.0	\$0.1	\$0.1
Fund Balance	\$0.0	\$3.0	\$3.0
Interest Penalty on Tax	31.9	31.9	\$0.0
Permits & Licenses	17.6	17.9	\$0.3
Fines & Forfeits	65.5	69.0	\$3.4
Investment Income	1.0	1.1	\$0.1
Rents & Recoveries	57.2	44.4	(\$12.8)
Revenue Offset to Expense	13.4	13.4	\$0.0
Department Revenues	230.3	217.9	(\$12.4)
Capital Chargebacks	0.0	0.0	\$0.0
Payments in Lieu of Taxes	50.8	40.6	(\$10.1)
OTB Profits	15.0	0.0	(\$15.0)
Debt Service From Capital	64.5	107.4	\$42.9
Interfund Charge Revenue	72.3	72.4	\$0.1
Intefund Transfers	4.5	4.5	\$0.0
Federal Aid	135.0	136.9	\$1.9
State Aid	211.8	211.3	(\$0.6)
Sales Tax	1,113.6	1,117.0	\$3.4
Property Tax	804.6	816.5	\$11.9
OTB 5% Tax	2.4	2.4	\$0.0
Special Taxes	29.2	29.2	\$0.1
<b>Sub-total Revenue</b>	<b>2,920.6</b>	<b>2,936.9</b>	<b>16.3</b>

**Fund Balance**

Current projections reflect the use of \$3.0 million from the fund balance to cover the costs associated with NICE bus service.

**Fines and Forfeitures**

A \$3.4 million surplus is projected in fines and forfeits. TPVA is estimated to end with a \$3.3 million surplus due to the department’s Red Light Camera revenue coming in higher than expected.

**Rents and Recoveries**

Driving the anticipated shortfall of \$12.8 million are lower tuition recoveries and revenues from the unrealized sale of property. The Administration had included \$5.0 million in budgeted revenue that it expected to achieve through the sale of properties located in Freeport, Roslyn and Westbury. To date, there has only been a Request For Proposal (RFP) issued and it is unclear if the sales will materialize in FY 2016.

## **Departmental Revenues**

OLBR is currently projecting a \$12.4 million deficit in overall department revenues. Some of the major variances include:

- The Annual Survey of Income and Expense (ASIE) Fee / Fine is budgeted at \$15.8 million in the County Attorney's departmental revenues. The law anticipates that each year, income producing property owners would receive an ASIE form which the Assessment Department uses to accurately value commercial properties. If a property owner fails to file the form, then the County charges the owner an ASIE fine. The fine is a percentage of the properties' fair market value and increases with time. According to the County Attorney's Office, an application by commercial taxpayers seeking a Temporary Restraining Order (TRO) against the enforcement of penalties for failure to provide ASIE statements was granted in January 2016. The TRO/preliminary injunction is still in place and the County moved to dismiss the injunction.

On April 13<sup>th</sup> at the last status conference, the Court indicated that it was considering modifying the TRO/preliminary injunction. Such a modified order could permit the County to enforce the penalties consistent with the law and even collect the penalties if the commercial taxpayer is willing to voluntarily pay the penalty rather than litigate it.

- The current FY 2016 budget for County Clerk's department revenues is \$50.0 million. It includes \$37.5 for mortgage recording fees, \$4.5 million for deed recording fees, \$4.5 for miscellaneous fees, \$1.0 million from an online registration initiative, and \$2.5 million from other revenue sources.

In FY 2016, the mortgage recording fee line was revised upward to reflect an increase from \$150 per block fee to \$300. Current mortgage recording fee collections are on track to make the \$37.5 million budget appropriation. OLBR will be tracking these revenues closely and will adjust its projection if warranted. In addition, the per block fee increase legislation was drafted so that the increase impacted both the deed and mortgage recording lines. Since the current FY 2016 budget did not include the fee escalation in the deed recording line, a surplus is expected on that revenue line. Overall, OLBR is forecasting a \$7.3 million revenue surplus in clerk revenues.

- In DPW, a \$4.2 million fare box revenue shortage is anticipated which is mostly offset by additional State Transportation Operating Assistance (STOA) grant revenues.

## **Property Tax and PILOT Revenues**

A Major Funds deficit of \$10.1 million is currently projected in the Payment in Lieu of Taxes (PILOTs) line which is offset by a corresponding increase in the property tax line. The change is due to a reallocation of funds in the budget to the Sewer and College Funds.

## **Debt Service from Capital**

The \$42.9 million surplus is the result of bond premium revenue. The Administration plans to transfer this surplus to the Litigation Fund.

### **OTB Profits**

The current FY 2016 budget includes \$15.0 million in revenue attributable to Video Lottery Terminals (VLTs) or Video Gaming Machines (VGMs). OLBR is projecting that the County will not collect any of this revenue in 2016.

As part of the New York State budget, it was agreed that Nassau OTB would transfer its authority to install 1,000 video slot machines to Aqueduct Racetrack in Queens in exchange for \$43.0 million in annual payments over the next three years. The revenue stream will be \$9.0 million in 2016, \$9.0 million in 2017 and \$25.0 million in 2018. Future amounts are to be adjusted for inflation. Genting New York LLC (Aqueduct's operator) is to pay Nassau OTB directly.<sup>1</sup> Any profit that Nassau OTB accrues would be paid to Nassau County.

Nassau OTB is in a perilous financial position. In March 2016 it failed to make a \$3.0 million principal and interest payment on a cash-flow bond. Nassau OTB's FY 2015 operating deficit is estimated to be \$7.0 million. Additionally, Nassau OTB expects to use some of Genting's revenues to pay down its existing \$12.0 million of agency debt.<sup>2</sup> Since OLBR expects a similar FY 2016 Nassau OTB operating deficit to FY 2015, OLBR doesn't expect to receive any OTB profit revenues this year.

The Administration has however mentioned that there is an agreement with OTB in which the County would receive approximately \$3.0 million in FY 2016. As such, OLBR will show this \$3.0 million opportunity below the line.

### **Federal Aid**

A \$1.9 million surplus is anticipated mainly as a result of a projected overage of roughly \$2.1 million in the DSS. The State has awarded the County \$5.0 million in federal childcare grant money, a development primarily driving the projected surplus. The award was made on the State's fiscal calendar, so the County will receive \$4.3 million in FY 2016 and the remainder next year. DSS would have faced a deficit of at least \$2.0 million if this award was not granted. TANF cases are down nearly 20% in the first six months of FY 2016 compared to the first six months of FY 2015.

### **Sales Tax**

The proposed sales tax revenue in the current FY 2016 budget, excluding the deferred piece, is \$1,117.7 million. Year-to-date sales tax collections, through the August 12, 2016 sales tax check, total \$584.6 million. This is an increase of \$7.1 million, or 1.2%, over the receipts through the same period last year. To reach budget, a growth of only 1.3% on all remaining checks is required.

OLBR is currently forecasting 1.9% growth on all remaining checks. This results in a projected annual sales tax surplus of \$3.4 million. However these projections may need to be revised downward if the most recent trends continue. The following chart provides the projected sales tax results (surplus/deficits) based on various growth rate scenarios.

---

<sup>1</sup> Roy, Yancey, and Robert Brodsky, "Nassau County to Transfer Casino Authority to Aqueduct", [Newsday.com](#), March 30, 2016.

<sup>2</sup> Brodsky, Robert, "Nassau Off-Track Betting Misses \$3.0 Million Note Payment", [Newsday.com](#), April 6, 2016.



**Forecast Sales Tax Growth and Resultant Annual Impact**

<b>Year To Date Growth</b>	<b>Sales Tax Surplus / (Deficit)</b>
0.5%	(\$4.1)
1.0%	(\$1.5)
1.5%	\$1.1
2.0%	\$3.8
2.5%	\$6.4

**Opportunities**

Below is a list of items that OLBR is highlighting as opportunities:

<b>Budget Opportunities</b>	
Projected YE Results Prior to Opportunities	(\$5.7)
Police Department Termination Pay	12.0
VLT revenue	3.0
Annual Survey revenue	15.8
<b>Total Opportunities</b>	<b>30.8</b>
<b>Net:</b>	<b>\$ 25.1</b>

**Conclusion**

Although OLBR projects a deficit, the Administration will more than likely achieve the budget through corrective actions combined with some revenue opportunities coming to fruition. Addressing areas that persistently add fiscal stress such as overtime will need to be a focus for management. Current budgetary flexibilities may not always materialize which will leave little room to react to unforeseen circumstances.

- cc: Hon. George Maragos, Nassau County Comptroller  
 James Garner, Nassau County Chief Deputy Comptroller  
 Eric Naughton, Deputy County Executive  
 Roseann D'Alleva, Budget Director, OMB  
 Evan Cohen, Executive Director, NIFA  
 Dan McCloy, Director of Law, Finance & Operations  
 Chris Ostuni, Majority Counsel  
 William Biamonte, Director of Legislative Affairs  
 Michele Darcy, Minority Director of Finance  
 Francis X. Becker, Program Coordinator  
 Samantha Goetz, Deputy County Attorney  
 Michael Pulitzer, Clerk of the Legislature