



NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Review of the Fiscal Year 2017 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

A handwritten signature in blue ink, appearing to be "MC", is written over the name "Maurice Chalmers" in the "From:" field.

Date: October 4, 2016

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 2017 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>.

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1. EXECUTIVE SUMMARY

Introduction

Pursuant to the County Charter, the Administration submitted its FY 17 Proposed Budget on September 15, 2016. Nassau County, since 2011, has remained under the oversight of the Nassau Interim Finance Authority (NIFA) as a Control Board. The FY 17 Proposed Budget was crafted in an environment of increasing expenses with diminished revenue growth options. Labor contracts negotiated by the Administration with specified increases are a main driver of the additional \$38.4 million in the Major Fund's salaries line. The plan also contends with escalating fringe benefits costs for health insurance and pension contributions, in addition to costs related to the County's practice of deferring pension cost obligations to the out years. That practice continues in FY 17 with the County once again, amortizing the maximum allowed, approximately \$29.7 million, of the pension bill which will accrue interest. In total, the County is now committed to make payments through FY 29. From the inception of the program, total deferred costs with interest are estimated to be approximately \$366.0 million for all the amortized amounts. With payment of the FY 17 pension bill, approximately \$276.1 million including interest will be outstanding. Furthermore, FY 17 will also include first time principal payments from some prior year debt issuances.

The practice of deferring expenses to alleviate current financial pressure does catch up as it is myopic in nature. However, since the liability is not erased, the County ends up paying more in the out years as interest accrues. When payments become due, other creative solutions will be needed or they will wreak havoc on County finances. Fiscal restraints may have forced the County to engage in this practice, however it should be limited and even prepaid in years that end with budgetary surpluses.

The proposed budget does not include a property tax increase. Currently, there is a cap in New York State where property taxes levied by local governments and school districts generally cannot increase by more than 2.0%, or the rate of inflation, whichever is lower. The FY 17 growth rate was finalized at a modest 0.7%. However, the law does allow local governments and school districts to levy an additional amount for certain excludable expenditures and utilize a carryover from one year to the next. It has been estimated by the Administration that the maximum that could have been generated from a tax increase would be approximately \$22.9 million. The Proposed FY 17 Budget instead raises revenues through increased fees which are more abundant and estimated to be approximately \$88.0 million.

The proposed budget includes many new fees such as a new Public Safety Fee in the Police Department of \$105 upon all traffic and parking Notices of Liability (NOL). The fee will be remitted to the Traffic and Parking Violations Agency (TPVA) and the portion attributed to the public safety fee will be booked directly to the Police Department. The fee is estimated to generate \$64.4 million in FY 17. It has been explained that one of the revenue usages would be to cover the cost of new Police recruits. Using the 150 new positions that were added to the FY 17 budget, OLBR estimates that the salary and fringe benefits for 150 new recruits would not surpass \$8.7 million. In addition, fee increases are contemplated in the Parks and Recreational Department, the County Clerk's Office, Nice Bus as well as a Boot and Tow fee in TPVA and other departments. A fee impact table will follow.

The meager sales tax growth, which remains the County's most substantial source of revenue, continues to be one of the largest uncertainties for the County. Although the August 2016 estimate for FY 17 US

Real GDP growth is 2.1% and Moody's Analytics estimate for Nassau Gross County Product (GCP) is 1.5%, the projections have not always translated into actual growth. On a year-to-date basis, sales tax receipts collected through September 12, 2016 have increased by 0.7% compared to the same period in FY 15. At the current trend, the FY 16 Office of Management and Budget (OMB) base line may end up being inflated by approximately \$7.9 million which carries into FY 17.

The FY 17 Proposed Budget includes \$60.0 million in borrowing for tax certiorari payments and \$15.0 million to be paid through operating expenses for a total of \$75.0 million. Nassau County is the only County in the State that is subject to the County guarantee, a process by which the County becomes liable for property tax refunds without having had the benefit of the tax collections. This system has burdened County finances. As shown in Chart 1.0, the backlog has grown by 207.7% from FY 10 to FY 15. A preliminary projection from the Nassau County Comptroller's Office had estimated that by year-end FY 16 the backlog could increase to \$327.4 million.

That estimate could be low as NIFA insists that the County ends FY 16 with a maximum NIFA defined GAAP of \$80.0 million, far less than the Control Board's projection of approximately \$112.3 million in revenue that it will count toward that GAAP. The FY 16 GAAP breakdown is as follows: \$60.0 million in borrowing for tax certiorari payments, \$43.8 million in excess bond premium, \$3.0 million in fund balance usage, and \$5.5 million in other net accounting adjustments. To comply, the County may have to slow tax certiorari payments for which the Legislature has already approved \$60.0 million. The Administration had estimated that approximately \$85.3 million in tax cert liability was ready to be paid as of November 2015. NIFA's imposition may have the unintended effect of growing an already increasing backlog when funds are available, approximately \$47.9 million, to make the payments and avoid incurring interest. In addition, the Control Board has signaled that it expects the County's NIFA GAAP to be significantly less in FY 17 while agreeing to \$60.0 million in tax cert borrowing that the County may not be able to use if it is to comply with the FY 17 imposition.

Cognizant of the tax certiorari problem, the County has implemented several tools with the goal of reducing the backlog liability. These tools include requiring commercial properties to file an Annual Survey of Income and Expense (ASIE) and the creation of the Disputed Assessment Fund (DAF).

The FY 16 budget included \$15.8 million which has been reduced to \$10.0 million for FY 17 in County Attorney departmental revenues to be derived from the ASIE law. A TRO/preliminary injunction is still in place as to enforcement and it is unclear if and when any revenues will be collected. Second, the Disputed Assessment Fund (DAF) went into effect with the 2016/2017 tax roll. This law mandates that class four parcels who contest their assessment, place up to 10% of their assessed value into an escrow account. Funds from that account will be used to pay commercial property tax refunds if the business wins its challenge. The goal of the DAF is a reduction in the County's class four property tax liability since the necessary funds would be available to make tax refund payments.

A question has arisen whether DAF amounts are considered as part of the County's property tax levy. According to the Administration, in consultation with the County Attorney's Office, the DAF payments are held in the trust and agency account and will not be considered to be part of the property tax levy unless and until any amounts are distributed to the County (following an unsuccessful challenge) and incorporated into County budget. In summary, amounts distributed from DAF will be considered part of

a property tax levy once included in the County budget. Chart 1.0 below illustrates the growth in tax certiorari liability.

Chart 1.0: Tax Certiorari Backlog

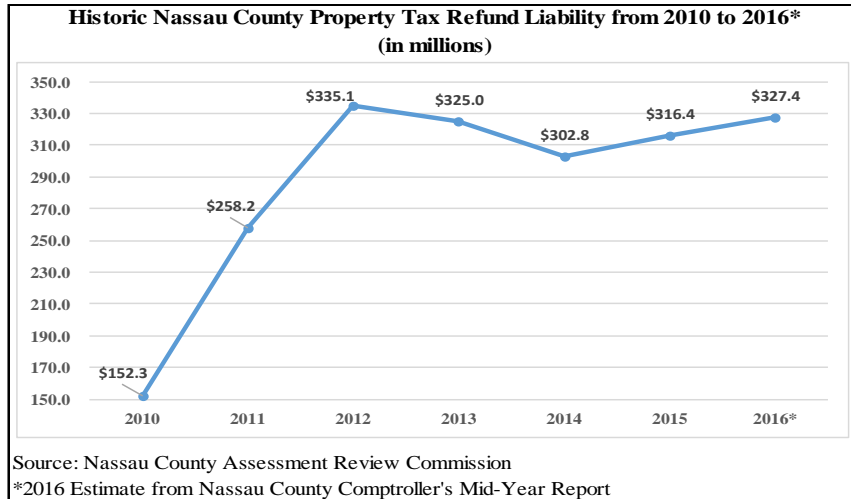
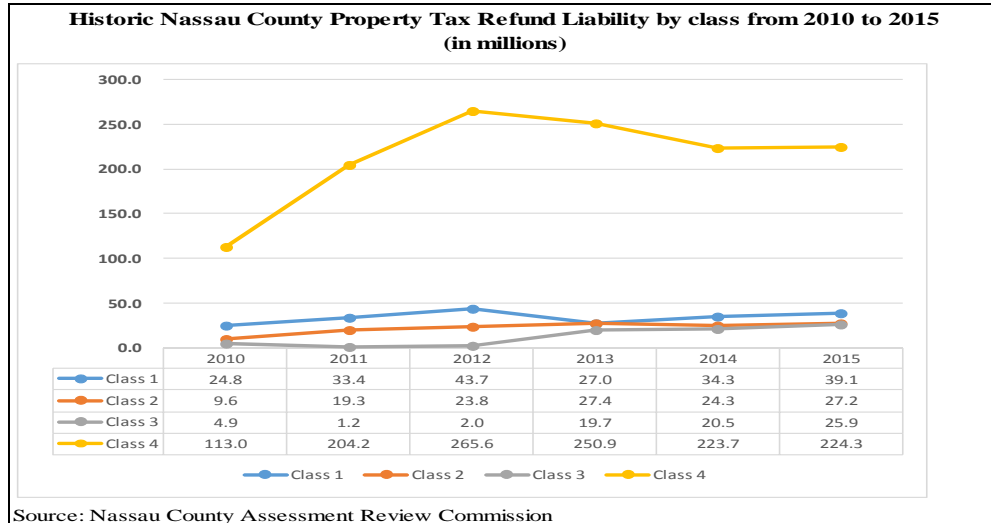


Chart 1.1 below further breaks down the backlog by class:

Chart 1.1: Tax Certiorari Backlog by Class



➤ **Fee Increases**

The Proposed FY 17 Budget includes many departments with multiple fee increases from which the Administration is projecting approximately \$88.0 million in revenue can be collected. OLBR finds the estimated value to be in line with the projections. In addition to FY 17, some proposed Ordinances for fee increases include out-year inflators which are expected to further increase the out-year revenues.

Not only are the fees being increased, the Administration has introduced legislation, which would change the mechanism used to increase certain fees from a Local Law to an Ordinance. In changing this mechanism, fiscal impact statements would no longer be required for fee changes. Moreover, there seems to be a penalty clause whereas the Local Law states that if a correlating fee setting Ordinance is not passed, many of the fees will spike. For example, if a fee setting Ordinance is not passed, the per block fee in the County Clerk’s Office would rise to \$700 until a fee setting Ordinance is passed.

The proposed fee increases are illustrated below:

Table 1.0: Fee Increases

Row Labels	2017 OMB Projected Impact
Fee Increase	
Clerk	6,000,000
DPW	2,163,065
Office of Consumer Affairs	847,050
Parks	916,559
Police Department	2,120,000
Probation	262,500
Taxi and Limousine Commission	673,565
Treasurer	3,500,000
Fee Increase Total	16,482,739
New Fee	
Board Of Elections	2,000,000
DPW	500,000
Health Department	32,000
Medical Examiner	200,000
Office of Consumer Affairs	490,000
Parks	125,000
Police Department	64,741,723
TPVA	1,974,000
Treasurer	1,500,000
New Fee Total	71,562,723
Grand Total	88,045,462

As illustrated above, the largest revenue generator is a new Public Safety Fee in the Police Department of \$105 to be imposed upon all traffic and parking Notices of Liability (NOL). The Ordinance proposes to increase the fee to \$115 by FY 20. This fee would be in addition to administrative fees already charged by TPVA. For example, for a red light camera infraction, a motorist would be liable for the \$50 fine plus the TPVA administrative fee of \$45 plus the new public safety fee of \$105 for a total cost of \$200 for that ticket.

The second largest fee increase, \$6.0 million annually, is expected to be generated from the County Clerk’s Office. In FY 16, the Administration introduced legislation to

increase the Mortgage Recording Fee from \$150 per block to \$300. For FY 17, the fee increases to \$350, thus the additional revenue. The department has made it clear that it opposes the fee increase.

In TPVA, a new \$175 fee for Boot & Tow on both traffic and parking violations is projected to generate approximately \$2.0 million.

Furthermore, the MYP includes additional revenues of \$30.0 million in FY 18, \$32.0 million in FY 19 and \$37.0 million in FY 20, to be generated from the current fees and associated increases in addition to other new initiatives. The amounts were not broken out. During the course of our review, a troubling trend emerged where departments were not made aware that their budget would include fee increases.

- **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 a set contract fee. The chart below itemizes the FY 16 Adopted Budget, the FY 16 projections and the FY 17 Proposed Budget for the NICE Bus system.

Table 1.1: Transdev

Transdev / Veolia /NICE Bus Budget 2016 to 2017				
	2016	July 16	2017	17 Prop vs.
	Adopted	Projection	Proposed	16 Proj.
County Contractual Service Payment	125,322,802	128,322,802	125,322,802	(3,000,000)
County Bus Subsidy Payment	1,930,000	1,930,000	1,930,000	0
County Handicapped Transit	609,500	609,500	609,500	0
Total County Expenses	127,862,302	130,862,302	127,862,302	(3,000,000)
Farebox Revenues	51,039,867	47,106,657	49,376,934	2,270,277
Non-Operating Revenue	700,000	700,000	700,000	0
County Capital Match	700,000	700,000	700,000	0
Federal Transportation Authority	5,600,000	5,600,000	5,600,000	0
Reimbursed Expense	700,000	700,000	700,000	0
STOA Grant	62,831,500	66,657,500	66,657,800	300
Total County Revenues	121,571,367	121,464,157	123,734,734	2,270,577
Net County Contribution	(6,290,935)	(9,398,145)	(4,127,568)	5,270,577

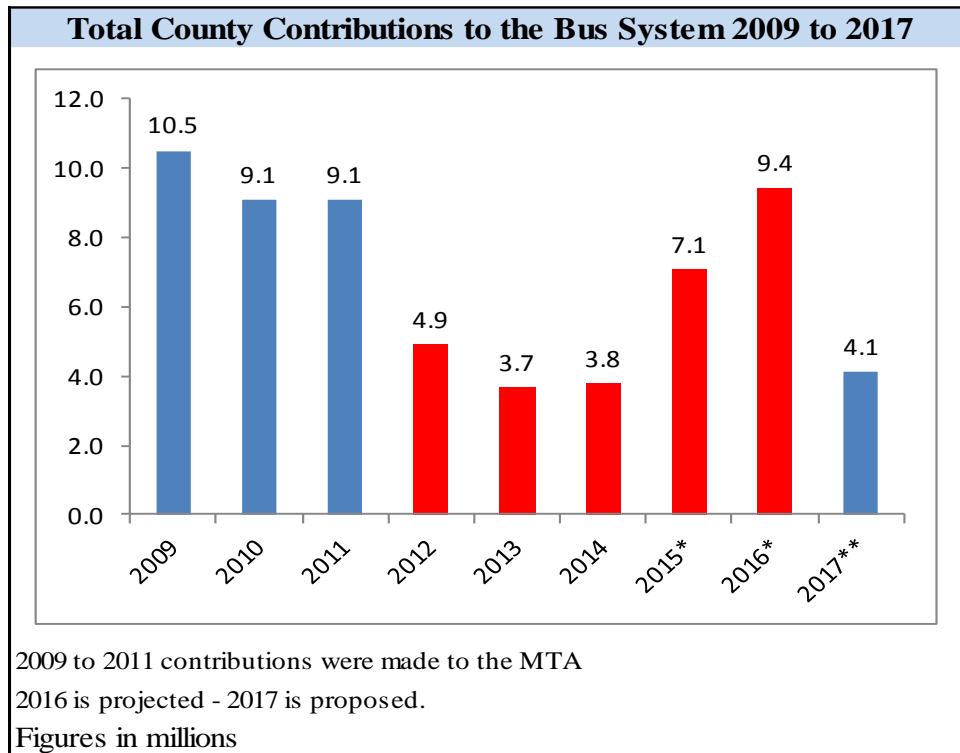
The FY 17 Proposed Budget reduces the County’s NICE Bus contractual expense by \$3.0 million from the FY 16 projection. If NICE Bus did not factor this decrease into their annual plan, it could result in service reductions or will necessitate additional funding from the County as was done in FY 16.

The FY 17 Proposed Budget has farebox revenues growing by \$2.3 million compared to the FY 16 projection. The increase will come from a proposed fare hike of \$0.50 from \$2.75 to \$3.25. Nice bus has stated that the fare hike was premature. If the revenues do not come to fruition, this could mean another \$2.3 million revenue shortage.

To avoid service reductions in FY 16, the County increased its contractual service payment to NICE Bus by \$3.0 million to \$128.3 million. This could cause the County’s

net projected contribution to grow to \$9.4 million. Currently, the Proposed FY 17 Budget estimates the County contribution to be \$4.1 million, which does not reflect the potential \$3.0 million contractual funding shortfall, nor the possibility of the fare hike not materializing. Should NICE require a similar contractual payment and the additional revenue does not occur, the County portion would could grow to \$9.4 million. Chart 1.2 details the County’s historical net contribution to the bus system with the projected FY 16 and current FY 17 Proposed Budget.

Chart 1.2: County Subsidy



- **Contingency** – The proposed budget includes \$10.0 million in general contingency. It is sound budget practice to include some level of contingency in the budget should unexpected shortfalls arise.
- **Tax Levy**
 The Proposed FY 17 Budget does not include a property tax increase. Below is a breakdown of the tax levy by fund:

Table 1.2: Proposed Property Tax Levy By Fund

Property Tax Levy				
Fund	2016 Adopted	2017 Proposed	Difference 2016 vs 2017	% Of Total Levy
Fire Commission	16,473,621	16,201,832	(271,789)	2.0%
General	30,502,492	89,413,427	58,910,935	10.9%
Police District	391,419,191	387,612,292	(3,806,899)	47.4%
Police Headquarters	366,170,221	323,766,689	(42,403,532)	39.6%
Subtotal Major Funds	\$804,565,525	\$816,994,240	\$12,428,715	100.00%
Sewers (SFA)	122,864,445	115,011,707	(7,852,738)	
Total Major Funds & Sewers	\$927,429,970	\$932,005,947	\$4,575,977	

In FY 16, it was decided that the Long Island Power Authority (LIPA) would be moved from the property tax line to the Payment in Lieu of Taxes (PILOT) line. For a full impact on the funds, it is critical to understand the reciprocal shift that happens as illustrated below:

Table 1.3: Payment in Lieu of Taxes

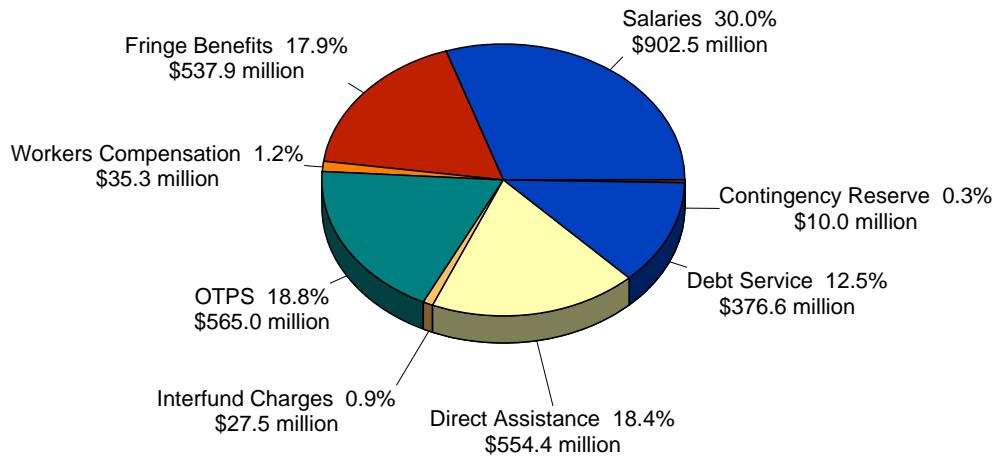
Payment In Lieu of Taxes			
Fund	2016 Adopted	2017 Proposed	Difference 2016 vs 2017
Fire Commission		404,691	404,691
General	50,777,307	16,246,085	(34,531,222)
Police District		16,758,062	16,758,062
Police Headquarters		8,937,883	8,937,883
Subtotal Major Funds	\$50,777,307	\$42,346,721	(\$8,430,586)
Sewers (SFA)		7,852,738	7,852,738
Total Major Funds & Sewers	\$50,777,307	\$50,199,459	(\$577,848)

The value of new constructions is estimated to be \$2.3 million.

Proposed Expense Budget

The FY 17 Proposed Expense Budget for the Major Funds, excluding the Sewer and Storm Water Resource District, interdepartmental charges and debt service chargebacks, is \$3.0 billion, a \$93.1 million increase in expenses. A breakdown of the budget categories reveals that salaries and fringe benefits make up approximately 47.9% of the total budget. The following chart illustrates the percentage allocations by category:

Chart 1.3: FY 17 Major Funds’ Expenses (\$3.0 Billion)



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

Further analysis reveals that the largest increases in expense are in salaries and fringes which combine for \$61.0 million of additional expenses budget to budget. The Proposed FY 17 salary budget line is increasing by \$38.4 million compared to the Adopted FY 16 Budget. In FY 14, 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). Labor contract costs have a compounding effect; as new steps and Cost of Living Adjustments (COLA) are added, there is more fiscal pressure placed on future budgets. The Proposed Budget captures the negotiated increases from the labor agreements. In addition, the Police Department has included funding of \$39.2 million in the Proposed FY 17 Budget to cover an estimated 155 separations.

OLBR is currently projecting that the Police Department will exceed its FY 16 overtime budget of \$57.0 million by approximately \$12.0 million. The Proposed FY 17 Budget of \$57.0 million appears to be similarly short, given the current trends. OLBR does not believe that the Police Department will meet the budget and as such the Office will recognize a \$12.0 million risk. A more detailed analysis of salaries and staffing is included in the Labor section of the Executive Summary.

Workforce management has been one of the Administration’s cost reduction strategies. From the FY 09 year-end, the proposed full-time budget of 7,625 represents a decrease of approximately 908 heads.

However, the Proposed Budget represents a reversal of prior year reductions, as it includes an increase of 401 heads from the Administrations all-time low in FY 14 and a departure from what was considered in prior budgets to be the optimal staffing level of 7,395 full-time headcount

Table 1.4 bellow shows the budget to budget variances by category:

Table 1.4: Major Funds’ Expenses FY 17 vs. FY 16
(\$’s in millions)

	2016 Adopted	2017 Proposed	Variance
Expenses			
Salaries	\$864.1	\$902.5	\$38.4
Fringe Benefits	515.3	537.9	22.6
Workers Compensation	31.6	35.3	3.7
OTPS	551.7	565.0	13.2
Interfund Charges	27.4	27.5	0.1
Direct Assistance	554.1	554.4	0.4
Debt Service	361.9	376.6	14.7
Contingency Reserve	10.1	10.0	(0.1)
Total Expenses¹	\$2,916.1	\$3,009.2	\$93.1
<small>1. Excludes interdepartmental charges and debt service chargebacks</small>			

The second largest expense variance is in the fringe benefits line. The FY 17 fringe benefit budget for the Major Funds is approximately \$537.9 million, which is an increase of \$22.6 million from the Adopted FY 16 Budget. This is due mostly to increases in health insurance for active and retired employees, pension contribution and social security costs.

Pension expenses are budgeted to increase by \$14.7 million, however the fringe benefit budget includes a credit of \$8.0 million from the Administration planning to pay a portion of the pension expense with \$8.0 million from the Retirement Contribution Fund (RCF).

Health insurance is increasing by \$20.2 million in FY 17 due to a rise of \$5.0 million in insurance costs for active employees and \$15.2 million in insurance costs for retirees. The FY 17 Proposed Budget is based on a projected health insurance grow rate of 7.0%. Based on inflating the current health insurance projection by the Office and Management and Budget’s (OMB) rate assumption of 7.0% and with no net change in the current headcount, the FY 17 budget is sufficient. However, with a 7.0% rate increase on the budgeted FY 17 headcount, OLBR estimates based on that scenario, there could be a projected shortfall of roughly \$2.5 million.

In addition, the budgeted 7.0% growth rate, which appears reasonable for retirees, seems optimistic for active employees. As a result, the projected deficit could be higher if the rates for active employees finalize closer to the optimistic and best estimate scenario projections in New York State Health Insurance Program (NYSHIP)’s Second Quarter 2016 Experience Report. NYSHIP’s Optimistic scenario includes an 8.7% projected rate increase and the Best Estimate scenario includes an 11.0% increase for active employees. If the growth rates finalize closer to these scenarios, OLBR projects the health insurance deficit could range from \$4.8 million to \$8.0 million.

The OTPS rollup shows an increase of \$13.2 million. The Proposed FY 17 Budget adds \$5.0 million budget to budget for tax certiorari expenses to be paid from the operating fund. In addition, contractual services are also increasing by \$7.3 million of which \$4.2 million is in Department of Information Technology (IT) primarily due to the consolidation of software and programming contractual costs from other departments to IT in addition to new Microsoft license agreement increases.

Total debt service expenses, including NIFA set-asides, are budgeted to increase by 4.1% or \$14.7 million from the FY 16 Adopted Budget. A \$25.6 million budget to budget increase in principal and interest costs on County issued debt is being offset by a \$10.9 million budget to budget decrease in NIFA set-asides.

The direct assistance budget is increasing by \$0.4 million, or 0.1%. Contained within this category are Provider Payments for Children’s 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 16 vs. FY 17

Direct Assistance	2016 Adopted	2017 Proposed	Difference
Early Intervention/Pre School Education	135,000,000	135,000,000	-
Recipient Grants	62,000,000	61,100,000	(900,000)
Purchased Services	65,851,121	67,583,171	1,732,050
Emergency Vendor Payments	50,980,000	48,775,000	(2,205,000)
Medicaid	240,233,215	241,985,035	1,751,820
Net Change			378,870

The proposed recipient grant budget is \$0.9 million below the Adopted FY 16 Budget. Recipient grant funding is used to make payments to DSS clients eligible for TANF and SNA benefits. As of August 31, 2016, TANF cases were down 19.6% compared to August 31, 2015, while SNA cases have declined 15.3% during this time. The budget to budget decrease reflects the precipitous drop in SNA and TANF cases.

Compared to the Adopted FY 16 Budget, there is \$1.7 million, or 2.6%, more funding for purchased services in the Proposed FY 17 Budget. This variance is connected to a \$1.8 million increase in daycare funding. A number of factors have driven recent growth in daycare costs, including the state instituting an incremental increase in the rate paid to providers, an overall increase in volume, and the County’s policy to provide every eligible child with care.

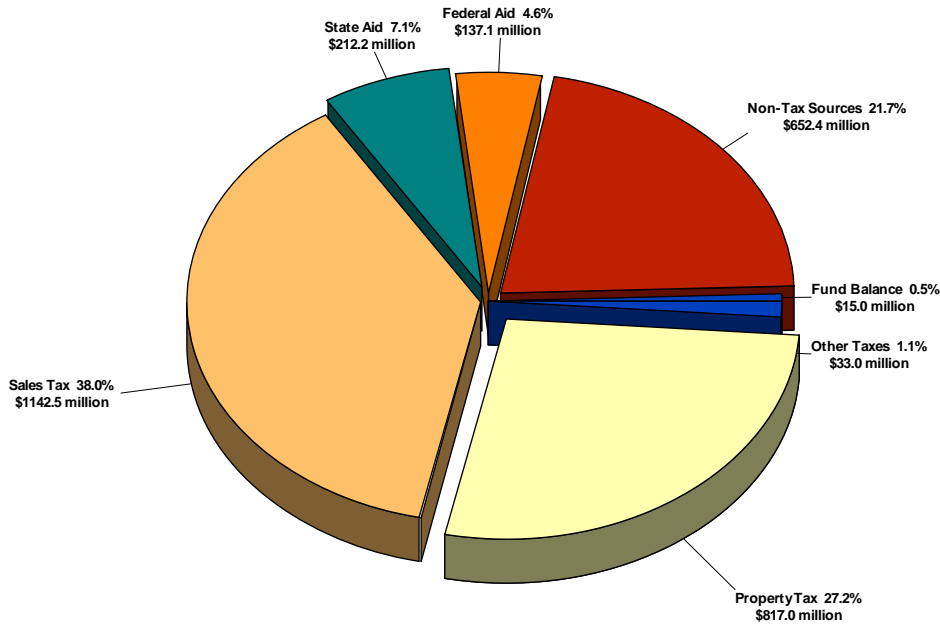
In the Proposed FY 17 Budget, emergency vendor payments fall by 4.3%, or \$2.2 million from the Budget Adopted for FY 16. The department has observed a dramatic decrease in the number of children remanded to state training schools. As a result, the proposal eliminates \$3.1 million in room and board costs from the emergency vendor payment budget. Offsetting room and board savings in part is a proposed \$1.8 million increase to the shelter care (UNMO) budget. The department states that this increase is intended to accommodate the growing cost of housing the County’s homeless population. Utilities charges within that object code are decreasing by approximately \$1.0 million budget to budget.

Proposed Medicaid costs are up \$1.8 million budget to budget. In FY 15 and FY 16, the State had reduced the County's quarterly indigent care adjustment (ICA) payment for \$1.7 million in annual savings each year. The proposal also eliminates \$2.9 million in program savings tied to the Medicaid Mandate Relief Program. The State has not indicated whether it will include these relief programs in its FY 17-FY 18 Budget.

Proposed Revenue Budget

The FY 17 Proposed Revenue Budget for the Major Funds, excluding the Sewer and Storm Water Resource District, interdepartmental charges and debt service chargebacks, is \$3.0 billion, a \$93.1 million increase. The following chart illustrates the percentage allocations by category:

Chart 1.4: FY 17 Major Funds Revenue (\$3.0 Billion)



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

The largest single source of revenue for the County is sales tax which makes up 38.0% of all revenues. 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. Given the significance of this revenue source, section four of this executive summary focusses solely on sales taxes and some economic indices.

The proposed sales tax revenue in the FY 17 Executive Budget, excluding the deferred piece, is \$1,141.5 million. The Administration is currently projecting that sales tax, excluding the deferred piece, in FY 16 will exceed budget by \$7.9 million. Year-to-date, sales tax growth is 0.7% and the remaining checks would need to grow by approximately 2.0% to achieve the budget.

OLBR is currently projecting the County will be on budget, which as stated above will necessitate a 2.0% growth on all remaining checks. Using OLBR’s 2016 forecast as a base, implies that a 2.1% growth will be required from the current year estimate to achieve the Proposed FY 17 Budget. Table 1.6 illustrates the growth needed from both OMB and OLBR’s projections:

Table 1.6: Sales Tax Growth (excluding deferral)

	2016 Budget	OMB 2016 Projections	OMB 2016 Variance	2017 Budget	2018 Budget	2019 Budget	2020 Budget
Projected Sales Tax	1,117.7	1,125.6	7.9	1,141.5	1,170.1	1,199.3	1,229.3
OMB % Growth Needed				1.4%	2.5%	2.5%	2.5%

	OLBR 2016 Projections	OLBR 2016 Variance	
OLBR % Growth Needed	1,117.7	-	2.1%

As shown above, the MYP projects a 2.5% growth rate from FY 18 to FY 20.

Table 1.7 below shows the revenue sources from a year to year perspective and the corresponding variances.

Table 1.7: Major Funds Revenue FY 17 vs. FY 16
(\$'s in millions)

	2016 Adopted	2017 Proposed	Variance
Revenues			
Fund Balance	0.0	15.0	15.0
Non-Tax Sources	619.6	652.4	32.9
Federal Aid	135.0	137.1	2.1
State Aid	211.8	212.2	0.4
Sales Tax	1,113.6	1,142.5	28.9
Property Tax	804.6	817.0	12.4
Other Taxes	31.6	33.0	1.4
Total Revenues¹	\$2,916.1	\$3,009.2	\$93.1

1. Excludes interdepartmental revenue & debt service chargebacks

The Proposed FY 17 Budget anticipates \$15.0 million in fund balance usage. Non-tax revenue sources represent the revenue category with the largest surge, approximately \$32.9 million. Included in that group are:

- Fines and forfeits which are surging by \$67.1 million budget to budget. In TPVA \$2.1 million more in revenue is anticipated of which \$2.0 million is from a new \$175 Boot & Tow fee initiative. The Police Department is projecting \$64.4 million in revenue from the \$105 Public safety fee.
- Rents and recoveries are seeing a year over year decrease of approximately \$31.5 million. Table 1.8 details the major variances.

Table 1.8: Rent and Recoveries Revenue FY 17 vs. FY 16

Direct Assistance	2016 Adopted	2017 Proposed	Difference
Fit Prior Years' Recovery	7,452,862	-	(7,452,862)
Recvry Prior Yr Appr	15,466,140	4,866,140	(10,600,000)
Tobacco Settlement Revenue	17,966,112	-	(17,966,112)
Coliseum Rental	-	3,420,000	3,420,000

Sales and property taxes were discussed earlier in the report.

Budget Risks and Opportunities

OLBR has identified \$195.2 million in risks which are partially offset by \$10.0 million in budgetary opportunities for a net risk of \$185.2 million. The budget includes three items that make up \$151.5 million of the risks. These items will necessitate Legislative and or NIFA approval. They are the pending fee increases for approximately \$88.0 million, the tax certiorari borrowing for \$60.0 million and the bond premium at \$3.5 million. Some other areas with risks include Police overtime, sales tax and other items as illustrated in the table below:

Table 1.9: Major Funds Risks and Opportunities (Millions)

Expense Risks (in millions)

<u>Item</u>	<u>OLBR Surplus/Risk</u>
Overtime	12.0
Fringe Benefits (between \$2.5M & \$8.0M)	4.5
Dental Insurance Savings	1.4
Expense Sub Total	17.9

Revenue Risks (in millions)

<u>Item</u>	<u>Surplus/Risk</u>
Fee Increases	88.0
Tax Cert Bond Proceeds	60.0
Bond Premium	3.5
Sales Tax	7.9
Annual Survey of Income & Expense	10.0
Video Lottery Terminals	3.0
Sale of County Property	5.0
Revenue Sub Total	177.3

Total Risks	195.2
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Opportunities

Contingency	(10.0)
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Total Opportunities	(10.0)
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Net Risks	185.2
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OLBR has also identified areas that although not fully captured in the budget, could be used to either lower expenses or add revenues. Some are common practices in times of budgetary need. They include possible additional disencumbrances, attrition savings and capital project closeouts, amongst others.

Multi-Year Plan (MYP)

Table 1.10 below details the Administration’s projected expenditures and revenues through FY 20. The budgetary gaps that result over that period show what could occur if no corrective actions are taken.

Table 1.10: Multi-Year Plan Projections (Major Funds)
(\$’s in millions)

	2017	2018	2019	2020
	Proposed	Proposed	Proposed	Proposed
Expenses				
Salaries	\$902.5	\$911.8	\$916.5	\$921.1
Fringe Benefits	537.9	\$567.2	\$593.0	618.8
Workers Compensation	35.3	\$35.3	\$35.3	35.3
OTPS	565.0	\$525.3	\$531.3	536.7
Interfund Charges	27.5	\$27.2	\$24.5	24.2
Direct Assistance	554.4	\$572.3	\$573.5	578.7
Debt Service	376.6	\$388.1	\$395.0	393.7
Contingency Reserve	10.0	\$0.0	\$0.0	0.0
Total Expenses¹	\$3,009.2	\$3,027.3	\$3,069.1	\$3,108.5
1. Excludes interdepartmental charges and debt service chargebacks				
Revenues				
Use of Reserves	15.0	0.0	0.0	0.0
Non-Tax Sources	652.4	607.3	613.4	614.4
Federal Aid	137.1	138.2	139.3	140.5
State Aid	212.2	213.7	215.2	216.7
Sales Tax	1,142.5	1,170.1	1,199.3	1,229.3
Property Tax	817.0	808.2	806.6	806.3
Other Taxes	33.0	32.8	32.7	32.6
Total Revenues¹	\$3,009.2	\$2,970.3	\$3,006.5	\$3,039.7
1. Excludes interdepartmental revenue & debt service chargebacks				
Surplus/Gap Projections	\$0.0	(\$57.0)	(\$62.6)	(\$68.7)

Over the course of this MYP, total expenses are projected to grow by 3.3% while revenues increase at a lower rate of 1.0%. Rising costs for salaries, fringe benefits, debt service, and direct assistance 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 \$18.7 million, from a Proposed Budget of \$902.5 million in FY 17 to \$921.1 million in FY 20. The growth only takes into consideration

the step increases in the out years, since the current labor agreements expire by year-end 2017, and could be severely impacted once a new agreement is in place. Reining in overtime costs has been challenging, however with the growing number of new hires, the Police Department hopes to be able to reduce this expense from the high numbers it has incurred in the past few years. However, the MYP budget appears underfunded by a minimum of \$12.0 million per year.

- Fringe benefits will increase by \$80.9 million, from an estimate of \$537.9 million in the FY 17 Proposed Budget to \$618.8 million by FY 20.
 - Health insurance expenses for active and retired employees are projected to increase by \$53.8 million to \$351.0 million in FY 20. The MYP baseline inflator used to project out-year health insurance costs is 5.38% from FY 18 through FY 20 for actives. The inflator for retirees is 6.0% from FY 18 through FY 20. The MYP growth rates are higher than the average health insurance growth rate over the past five years which was 5.0% for family. Depending on the FY 17 health insurance finalized rate, OLBR cautions that the out-year budget for health insurance could be underfunded annually by an amount between \$2.5 million to \$9.3 million depending on the scenario that materializes.
 - Including the amortization amounts, pension costs are increasing by \$17.0 million to \$178.7 million by FY 20. The New York State Comptroller announced this month that employer “contribution rates will stay virtually the same for SFY 17-18, compared to the current year”. 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.
- Debt service is projected to increase by \$17.1 million, from an estimate of \$376.6 million in FY 17 to \$393.7 million in FY 20. The increase would have been greater if it were not for the NIFA set-asides decreasing by \$31.3 million over the MYP.
- Direct Assistance is projected to increase by \$24.2 million over the MYP or 4.4%. Depending on future trends the budget will be able to accommodate a growth which is a conservative approach, however since the current caseloads have been declining there may be an opportunity.
- OTPS expenses show a decrease of \$28.3 million throughout the plan mainly due to a \$45.0 million decrease in tax certiorari expenses offset by multiple small increase in many areas such as equipment, contractual expenses and mass transportation.
- There is no use of the undesignated fund balance from FY 18 to FY 20.
- Non-tax revenues are projected to decline by \$38.1 million through the MYP. Capital borrowings for tax certiorari expenses budgeted at \$60.0 million in FY 17 will cease past that year. The plan also assumes that OTB profits will rise from the FY 17 proposed plan of \$3.0 million to \$25.0 million. It is not currently known how this will be achieved.
- The Administration is projecting a sales tax surplus of \$7.9 in the current year. The FY 17 Proposed Budget is based on a 1.4% growth from OMB’s FY 16 projections. In addition, the MYP projects 2.5% growth rates from FY 18 to FY 20.

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 1.11.

Table 1.11: Gap Closing Measures Detail FY 18 – FY 20

	2017	2018	2019	2020
Current Baseline Gap		(57.0)	(62.6)	(68.7)
<u>Expense/Revenue Actions</u>				
Revenue Initiatives		30.0	32.0	37.0
Workforce Management		10.0	12.0	15.0
Program/OTPS Reduction		6.0	6.0	7.0
Health Insurance Cost Reduction		5.0	5.5	7.0
Suez Water Long Island		4.0	9.0	9.2
eGovernment Revenues		1.0	2.0	4.0
ERP Implementation		1.0	2.0	3.0
Public Private Partnerships		20.0	20.0	20.0
Nassau County District Energy			10.0	10.0
Strategic Sourcing			3.0	4.0
Building Consolidation Efficiencies			1.0	4.0
<u>New York State Actions</u>				
Mandate Reform		28.7	28.7	28.7
Other NYS Legislative Actions		5.0	5.0	5.0
E-911 Surcharge		3.5	6.9	6.9
NYS Highway Traffic Offense Surcharge		2.9	5.7	5.7
Hotel Motel Tax Rate Increase		2.4	4.8	4.8
Total Gap Closing Initiatives		\$119.4	\$153.6	\$171.3
Projected Baseline Gap After Gap Closing Actions		62.4	91.0	102.6

The following are explanations most of which were included in the Administration's MYP:

Revenue Initiatives:

In addition to the FY 17 fee increases some of which are inflated in the MYP, the plans on reviewing other various fees it charges for services to determine if they reflect increased costs. In addition, the Administration is committed to cost saving/revenue generating initiatives that would offset the growth of recurring expenses.

Workforce Management:

This gap closer essentially will analyze each vacancy as it materializes and determine the need to replace the position. The savings can come from eliminating vacant positions, backfilling at lower salaries, or delayed hiring.

Program/OTPS Reduction:

The Administration plans to continue developing creative ways to reduce costs through public-private partnerships, consolidating departments, and renegotiating contracts to achieve savings.

Health Insurance Cost Reduction:

The County is exploring various options to reduce health premium costs. Aetna Inc. was selected to provide an insurance plan at a cost that is fifteen percent lower than the NYSHIP Base Plan for employees hired after April 1, 2014. The Administration continues to explore other premium cost saving options and will seek savings as collective bargaining contracts sunset at the end of 2017. Additional opportunities exist for savings in both dental and optical plans as the County is in the selection process for a dental provider.

SUEZ Water Long Island Inc. Synergy Savings:

The savings are anticipated from County employees not being utilized by SUEZ Water Long Island Inc. and instead being utilized to optimize workforce productivity in areas of County operations that can substantially reduce the use and cost of overtime, generate revenues, or decrease payments for services performed by contracted vendors.

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 enhancements will enhance customer service, reduce costs, improve productivity, and increase revenue.

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 LLP, is currently underway and the first phase (Personnel and Payroll) is anticipated to be operational by the end of the first quarter of 2017.

Public-Private Partnership (“P3”):

One of the largest components of the gap closing measures is a P3 for the sewer system. The County is currently in the process of selecting a financial advisor to explore a Public-Private Partnership (P3). The County’s financial advisor for the potential sewer P3 is essential as the complexity and importance of a well thought-out and executed process will determine the success of the overall project.

County’s District Energy Facility:

The extension agreement between Nassau County and Suez Energy allows Nassau County to explore opportunities in depth that leverage and reimagine the use of the facility as an important clean and sustainable power resource and economic development tool.

The County is currently exploring a potential public-private partnership that could result in the sale, lease, or private operation of the County’s district energy facility. The plant consists of a combined heat and power facility and central utility plant that provides thermal and electrical energy to the marketplace. The request for proposals was issued in January of 2016 and the responses are being reviewed.

Strategic Sourcing:

The County continues to pursue efficiencies and savings through strategic sourcing as recommended by Grant Thornton LLP in its NIFA-commissioned report.

Building Consolidation Efficiencies:

The County hopes to centralize and downsize of office space as headcount decreases. 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 Administration plans to continue to reduce overall rental costs and generate new revenues through sales.

Mandate Reform:

The County believes that numerous cost containment opportunities exist within some State and other mandated programs.

NYS Legislative Initiatives:

The County could be seeking New York State legislation for revisions on Department of Motor Vehicles Registration Fees provided in the New York Tax Law section 1202(e) and VTL 401(6)(d)(ii) for non-commercial vehicles 3,500 lbs. or less, non-commercial vehicles in excess of 3,500 lbs., and for commercial vehicles

E-911 Reimbursement:

The County will seek State approval to amend current County law and increase the reimbursement 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 within the County.

NYS Highway Traffic Offense Reimbursement:

The County will seek approval of State legislation providing a mandatory reimbursement for traffic offenses for incidents occurring on the Long Island Expressway, the Seaford-Oyster Bay Expressway or Sunrise Highway. This will reimburse the County for NCPD costs associated with patrolling State roadways.

Hotel/Motel Tax Rate Increase:

The County will seek approval of State legislation to provide for an increase in the Hotel/Motel Tax rate within the county from 3.0 percent to 5.875 percent, which is the tax rate allowed within the City of New York.

Conclusion

Nassau County continues to face fiscal challenges as increasing expenses outpace revenue growth. Embedded in the proposed budget are the inherent difficulties involved in raising revenues, growing expenses and the amount of mandated services which are often unfunded. For FY 17, the Administration opted not to increase property taxes, which could have yielded \$22.9 million. The FY 16 Adopted budget included fee increases with an estimated value of \$42.7 million. Similarly, the Proposed FY 17 Budget relies heavily on fee increases which have been budgeted in many departments and estimated to generate approximately \$88.0 million. Many departments were surprised to learn that fee increases were included in their department budgets and do not support them.

The FY 17 Proposed Executive Budget continues the practice of deferring expenses into the out-years, approximately \$29.7 million in pension obligations will be deferred over the next 12 years. The County may be very limited in its options in how to pay off this mounting debt that has accumulated from its

practice of not paying the full pension bill. OLBR has for many years warned against that practice, as it has been deemed by fiscal watchdogs to be merely deferring costs, instead of paying operating expenses. The interest rate for the maximum amortization of pension contributions under the Alternate Program in FY 16 is 3.31%. The State also indicated that the interest rate for the FY 17 amortization has been reduced to 2.63%. Should the County elect to borrow to pay this liability, it would hopefully be at a lower interest rate.

OLBR estimates that the proposed budget includes a net of \$185.2 million in risks of which a large percentage is from the proposed fee increases. Since the fees constitute a big portion of the risks, more creative solutions will be required should the Legislature deem the fees to be excessive.

2. LABOR

The Proposed FY 17 Major Funds salary budget line is increasing by \$38.4 million compared to the Adopter FY 16 Budget. 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). Labor contract costs have a compounding effect; as new steps and Cost of Living Adjustments (COLA) are added, there is more fiscal pressure placed on future budgets. The current agreements expire in FY 17 and as such no COLA increases were factored from FY 18 to FY 20. The County will probably negotiate agreements in the near future. The FY 17 terms negotiated by each union and the corresponding percent increases are illustrated below:

Table 2.0: CBAs

2017 Scheduled Union Agreement Increases		
<u>Timeline</u>		<u>Award</u>
<u>PBA Agreement</u>		
1/1/2017		2.0% COLA
<u>DAI Agreement</u>		
1/1/2017		2.0% COLA
<u>SOA Agreement</u>		
1/1/2017		2.0% COLA
<u>COBA Agreement</u>		
1/1/2017	All COBA members move to the next step on their anniversary date of hire.	
7/1/2017		2.0% COLA
<u>CSEA Agreement</u>		
7/1/2017		2.0% COLA
9/1/2017		CSEA members step

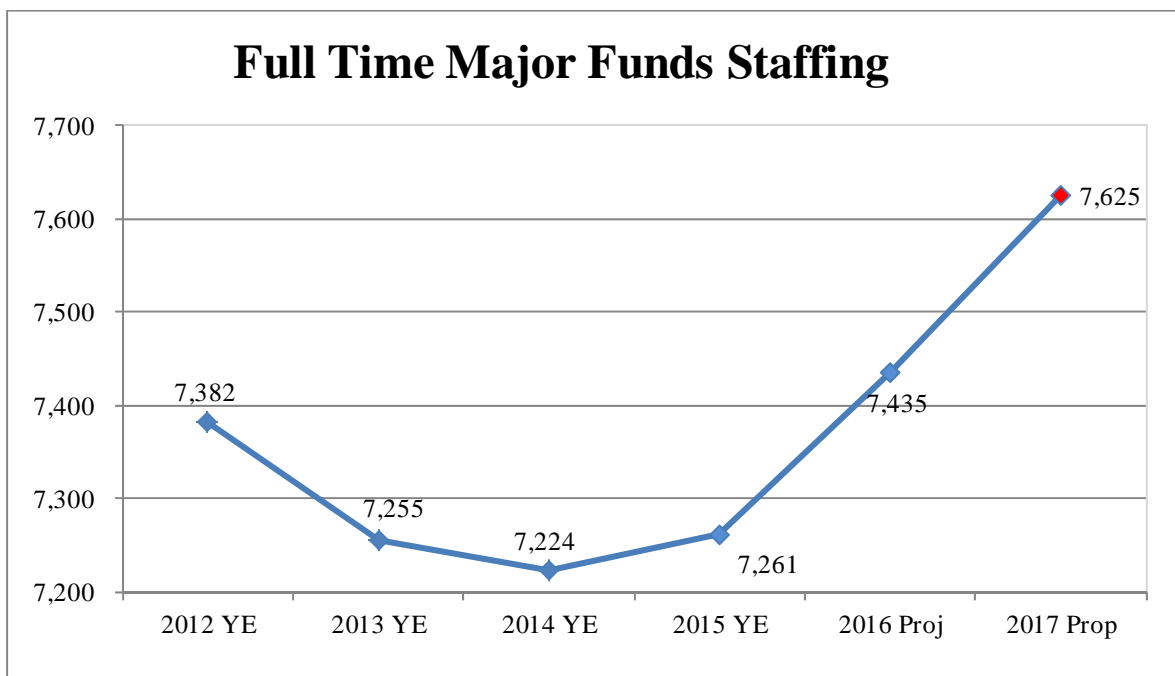
It must be mentioned that there are aspects of the CBAs that will generate savings compared to the prior ones. Some represent structural changes that will continue to garner savings past the timeframe covered by the CBAs. Examples of the structural changes include a 15% health insurance contribution and revised salary plans with lower salary scales for new employees. However, the soft savings were overly optimistic. The Proposed FY 17 Budget includes approximately \$24.3 million less in attrition and other savings as illustrated below:

Table 2.1: Proposed Salary Savings

Fund	2016 Included Savings	2017 Proposed Savings
Fire Commission	(145,729)	-
General	(13,410,484)	(1,814,504)
Police District	(9,146,647)	(4,850,372)
Police Headquarter	(11,979,991)	(3,760,161)
	(34,682,851)	(10,425,037)

Workforce management has been one of the Administration’s cost reduction strategies. From the FY 09 year-end, the proposed full time budget of 7,625 represents a decrease of approximately 908 heads. However, the proposed budget represents a reversal of prior year reductions, as it includes an increase of 401 heads from the Administrations all-time low in FY 14 and a departure from what was considered in prior budgets to be the optimal staffing level of 7,395 full-time headcount. Chart 2.0 trends full-time headcount from FY 12 to the Proposed FY 17 Budget:

Chart 2.0: Full Time Headcount Trend



Headcount

In Table 2.2 on the next page, the FY 2017 Major Operating Funds Executive Budget for full-time positions is compared to the current on board headcount of 7,435:

Table 2.2: Staffing Comparison

Full Time Major Funds Staffing Comparison					
Department	2016 Sept Onboard Headcount	2016 Sept Onboard Salaries	2017 Proposed Headcount	2017 Proposed Salaries	Variance 2017 Proposed vs. 2016 Sept Onboard
Assessment	131	8,695,905	137	9,315,689	6
Assessment Review Commission	29	2,233,746	30	2,288,207	1
Board of Elections	164	11,097,201	164	11,329,718	0
C.A.S.A.	4	249,989	4	249,989	0
Civil Service	53	4,268,425	52	4,487,210	(1)
Comptroller	73	5,989,166	87	7,008,772	14
Constituent Affairs	34	2,052,155	35	2,129,861	1
Consumer Affairs	25	1,677,852	26	1,761,898	1
Correctional Center	992	80,572,333	1,047	86,182,217	55
County Attorney	92	7,569,652	98	7,827,550	6
County Clerk	69	4,332,290	82	4,934,426	13
County Executive	17	1,885,079	17	1,885,079	0
District Attorney	356	30,570,641	371	32,856,974	15
Emergency Management	10	939,683	8	801,297	(2)
Health	178	14,300,249	185	15,329,516	7
Housing & Intergovernmental Affairs	14	832,632	14	832,636	0
Human Resources	8	690,073	8	693,141	0
Human Rights	7	512,011	7	498,906	0
Human Services	60	4,829,933	65	5,267,355	5
Information Technology	84	7,520,982	88	8,071,899	4
Investigations	1	150,000	3	228,835	2
Labor Relations	4	341,907	4	341,907	0
Legislature	86	5,689,299	95	6,323,949	9
Medical Examiner	72	6,429,347	74	6,853,178	2
Office of Minority Affairs	5	367,610	5	367,430	0
Office of Management and Budget	26	2,643,923	26	2,558,923	0
Parks, Recreation and Museums	152	8,927,837	154	9,368,452	2
Probation	186	14,698,602	191	14,996,551	5
Public Administrator	6	481,976	6	522,396	0
Public Works Department	471	31,948,910	469	31,809,356	(2)
Shared Services	9	583,142	12	944,526	3
Records Management	11	604,847	12	738,968	1
Social Services	601	42,042,476	624	44,327,652	23
Taxi and Limousine Commission	9	389,779	10	464,043	1
Traffic & Parking Violations	46	2,955,061	46	3,000,794	0
Treasurer	26	1,819,305	27	1,921,597	1
Veterans' Services Agency	7	447,825	7	464,727	0
Savings from Initiative & Adjustment	0	0	(96)	(1,864,504)	(96)
General Fund Total*	4,118	311,341,843	4,194	327,121,120	76
Fire Commission	92	6,894,654	96	7,313,794	4
Police District	1,644	143,242,149	1,700	158,966,839	56
Police Headquarters	1,581	157,851,924	1,635	162,944,632	54
Total Major Funds	7,435	619,330,570	7,625	656,346,385	190
Sewer & Storm Water (SSW)	126	7,826,295	146	9,903,979	20
Total including Sewers	7,561	627,156,865	7,771	666,250,364	210

The Major Funds overtime expense is budgeted at \$84.8 million in the Proposed FY 17 Budget which represents a marginal increase from the current budget. However, given the current overtime trend in the Police Department, the budget is expected to fall short.

Table 2.3: Major Funds Overtime Trends

OVERTIME TRENDS				
	<u>2015 YE</u>	<u>2016 Projections</u>	<u>2017 Proposed</u>	<u>2016 Proj Vs 2017 Prop Variance</u>
Police District	\$ 33,225,961	\$ 34,560,000	\$ 28,560,000	\$ (6,000,000)
Police Headquarter	<u>33,201,796</u>	<u>34,480,000</u>	<u>28,480,000</u>	<u>(6,000,000)</u>
Total	66,427,757	69,040,000	57,040,000	(12,000,000)
Corrections	11,210,683	13,500,000	14,366,306	866,306
Police & Corrections	77,638,440	82,540,000	71,406,306	(11,133,694)
Others	12,370,889	13,518,325	13,401,112	(117,213)
TOTAL:	\$ 90,009,329	\$ 96,058,325	\$ 84,807,418	\$ (11,250,907)

Many steps have been taken to curb Police overtime deficits to no avail, yet the proposed budgets do not reflect current realities.

OLBR is currently projecting that the Police Department will exceed its FY 2016 overtime budget of \$57.0 million by approximately \$12.0 million. The Proposed FY 2017 Budget is \$12.0 million short from current projections.

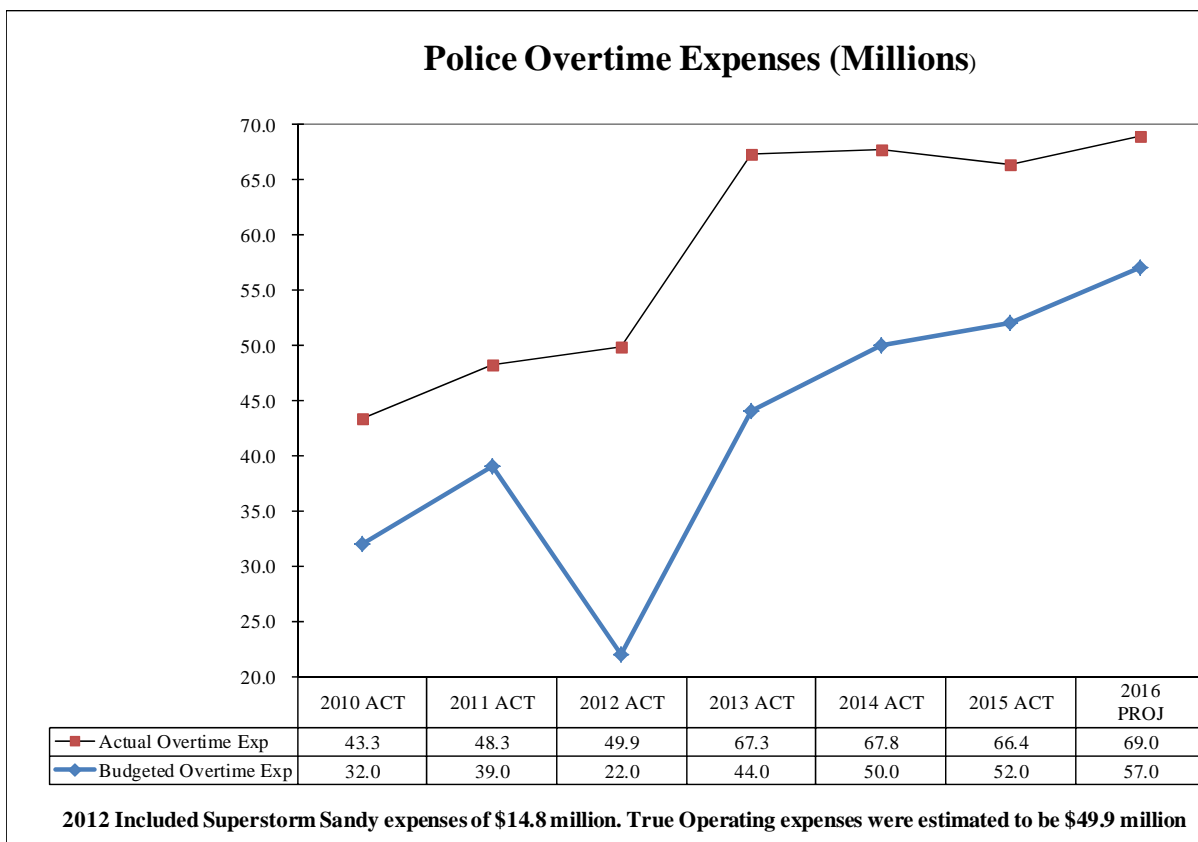
In FY 11, which is the last complete fiscal year before Superstorm Sandy, the County spent \$48.3 million in overtime and had a sworn headcount of approximately 2,373 officers. In FY 12, the County spent \$64.7 million in overtime, of which \$14.8 million was attributed to Super Storm Sandy. As time has revealed, that level of spending has become the new normal. The Police Department has attributed the excess overtime to lower headcount.

The department hired 151 officers early June 2016 and anticipates hiring an additional 78 Police Officers in October 2016 based on attrition levels. The 2016 new hires are not expected to have an effect on the FY 16 overtime expense as academy training is usually seven months in duration, therefore the new officers will not be fully deployed until early 2017. Also, the FY 17 Proposed Budget assumes the hiring of an additional 150 officers. However, the majority of sworn officers are also earning a higher wage and the desired impact on overtime has not come to fruition.

With the FY 2016 new hires, although not all deployed, the current sworn onboard officer headcount is 2,454, or 81 more than what the County had onboard in FY 11. Once these officers are deployed, and additional hires occur in FY 17 to offset departures, it would stand to reason that the Police Department should be able to, at a minimum, lower the overtime expenses.

Termination expense in the Police Department is trending lower than budgeted in FY 16 and the unused funding, currently estimated to be approximately \$12.0 million, is expected to offset the overtime overages. The Department has included funding of \$39.2 million in the Proposed FY 2017 Budget to cover an estimated 155 separations.

Chart 2.1: Police Overtime Budget to Actual Comparison



As illustrated in the table above, Police overtime has consistently exceeded the budget and yet past and current budgets have ignored current realities and have relied on funds in other areas that can be moved to offset the overages.

Table 2.4 below illustrates the multiyear salary plan for the Major Funds:

Table 2.4: MYP Major Funds Salary Plan

Major Funds Multi Year Salary Plan				
Department	2017 Proposed	2018 Plan	2019 Plan	2020 Plan
Assessment	9,668,586	9,888,598	9,995,638	10,093,140
Assessment Review Commission	2,390,050	2,440,241	2,464,544	2,486,658
Board Of Elections	15,804,335	16,052,132	16,179,779	16,297,531
C.A.S.A.	271,266	271,266	271,266	271,266
Civil Service	5,362,298	5,470,295	5,522,610	5,570,216
Clerk	5,810,211	5,908,133	5,955,746	5,999,111
Commission On Human Rights	540,233	551,039	556,275	561,040
Comptroller	7,463,469	7,604,405	7,673,168	7,735,845
Consumer Affairs	1,951,835	1,992,545	2,012,307	2,030,299
Correctional Center	115,469,556	116,795,616	117,491,223	118,510,077
County Attorney	8,379,442	8,432,575	8,458,698	8,482,550
County Executive	2,009,333	2,009,333	2,009,333	2,009,333
County Legislature	6,945,796	7,421,045	7,421,298	7,421,557
District Attorney	36,636,064	38,891,900	39,026,306	39,150,809
Emergency Management	797,073	800,648	802,489	804,187
Fire Commission	11,421,422	11,678,968	11,813,216	11,937,368
Health	16,800,680	17,188,866	17,379,777	17,554,104
Housing & Intergovernmental Affairs	839,590	839,590	839,590	839,590
Human Resources	823,041	823,057	823,073	823,090
Human Services	4,805,162	4,914,923	4,968,339	5,016,999
Information Technology	7,626,153	7,830,458	7,930,771	8,022,336
Investigations	228,835	229,688	230,100	230,476
Medical Examiner	7,734,460	7,898,757	7,979,588	8,053,404
Minority Affairs	468,258	468,282	468,306	468,331
Office Of Constituent Affairs	2,353,022	2,390,339	2,408,652	2,425,366
Office Of Labor Relations	347,222	347,222	347,222	347,222
Office Of Management And Budget	2,627,548	4,492,052	4,492,052	4,492,052
Parks, Recreation And Museums	21,746,827	21,998,628	22,125,221	22,241,386
Police Department	493,289,484	491,663,915	493,032,690	494,275,318
Probation	17,230,542	17,620,958	17,815,249	17,993,135
Public Administrator	593,925	600,799	604,127	607,155
Public Works Department	35,223,794	36,152,020	36,609,152	37,026,704
Records Management	972,098	991,440	1,000,919	1,009,568
Shared Services	1,142,693	1,159,703	1,167,944	1,175,444
Social Services	49,449,639	50,601,551	51,165,151	51,679,192
Taxi & Limousine Commission	480,543	488,199	492,024	495,528
Traffic & Parking Violations Agency	4,089,440	4,155,741	4,188,472	4,218,385
Treasurer	2,196,192	2,238,773	2,259,413	2,278,197
Veterans Services Agency	485,054	491,977	495,329	498,378
Grand Total	902,475,171	911,795,678	916,477,061	921,132,348

3. FRINGE BENEFITS

Fringe benefit expenditures include health insurance contributions for active and retired employees, as well as pension and 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 sixth consecutive year. While this will provide budgetary relief in FY 17 and defer roughly \$29.7 million from the overall expenses, OLBR continues to caution 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 \$299.6 million has been deferred since FY 12 of which approximately \$234.6 million will remain outstanding. It would be fiscally prudent to cease that practice as the additional interest cost from amortizing the bill is projected to be approximately \$66.4 million from six years of amortization.

The FY 17 Fringe Benefit budget for the major funds is \$537.9 million, which is an increase of \$22.6 million from the FY 16 Adopted Budget due mostly to an increase in health insurance, pension contribution and social security costs. This increase would have been higher but for an \$8.0 million credit to the overall fringe benefit expense to be paid from the Retirement Contribution Fund (RCF).

Table 3.0 displays the fringe benefit appropriations for the major funds.

Table 3.0: Fringe Budget by Major Fund

Fund	Department	Adopted FY 16 Budget	OLBR FY 16 Projection	FY 17 Executive Budget	Variance Exec. vs FY 16 Adopted	Variance Executive vs FY 16 Proj.
Fire Commission	Fringe Benefits	5,658,253	\$5,519,201	5,864,055	\$205,802	\$344,854
General Fund	Courts	1,321,305	1,159,775	1,251,891	(69,414)	92,116
	Fringe Benefits	223,561,714	220,011,380	224,321,460	759,746	4,310,080
	OMB	25,272,304	24,759,147	25,321,272	48,968	562,125
Police District	Fringe Benefits	123,341,178	124,229,313	132,253,973	8,912,795	8,024,660
Police Headquarters	Fringe Benefits	136,103,077	135,869,794	148,871,528	12,768,451	13,001,734
Total		515,257,831	\$511,548,610	537,884,179	\$22,626,348	\$26,335,569

Table 3.1: itemizes fringe benefit costs by sub-object code:

Table 3.1: Fringe Budget by Sub-object for the Major Funds

SubObject & Description	Adopted FY 16 Budget	OLBR FY 16 Projection	FY 17 Executive Budget	Variance Exec. vs FY 16 Adopted	Variance Executive vs FY 16 Proj.
08F - NYS Police Retirement	77,959,372	77,955,598	87,828,932	9,869,560	9,873,334
10F - Other Fringe	4,000,000	0	0	(4,000,000)	-
11F - State Retirement Systems	69,036,126	69,712,763	73,874,164	4,838,038	4,161,401
13F - Social Security Contribution	58,990,628	58,756,820	60,652,726	1,662,098	1,895,906
14F - Health Insurance	140,495,321	135,329,689	145,542,566	5,047,245	10,212,877
17F - Optical Plan	816,409	800,549	840,366	23,957	39,817
19F - NYS Unemployment	816,702	738,546	754,229	(62,473)	15,683
20F - Dental Insurance	4,148,354	4,041,180	2,719,404	(1,428,950)	(1,321,776)
22F - Medicare Reimbursement	18,692,688	17,852,230	18,396,892	(295,796)	544,662
22S - Medicare Reimbursement Surcharge	677,893	665,464	747,656	69,763	82,192
26F - Flex Benefits	2,100,000	1,600,000	2,100,000	0	500,000
35F - MTA Mobility Tax	2,962,604	2,874,922	3,050,990	88,386	176,068
40F - CSEA Legal Plan	571,375	757,125	576,000	4,625	(181,125)
41F - COBA Legal Plan	112,500	105,750	111,250	(1,250)	5,500
45F - Disability Insurance	53,000	53,000	53,000	0	0
75F - Health Insurance For Retirees	136,492,446	142,954,263	151,672,090	15,179,644	8,717,827
76F - Employees Optical - Retirees	604,109	622,407	629,832	25,723	7,425
98G - Fringes Allocable to Grants	(624,639)	(624,639)	(333,000)	291,639	291,639
ZZF - Fringe Savings	-	0	(8,000,000)	(8,000,000)	(8,000,000)
ZZO - Capital Backcharge OT Fringes	(491,787)	(491,787)	(417,596)	74,191	74,191
ZZS - Capital Backcharge ST Time fringes	(2,155,270)	(2,155,270)	(2,915,322)	(760,052)	(760,052)
Grand Total	515,257,831	511,548,610	537,884,179	22,626,348	26,335,569

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 17 budget is based on paying the pension obligation as of the December payment date.

The FY 17 Proposed 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 amortization 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 under the Alternate Program in FY 16 is 3.31%. The interest rate for the FY 17 amortization has been reduced to 2.63%.

In FY 12 and FY 13, the Administration amortized the pension for the 10 year period under the Original Contribution program. In FY 14, the Administration opted into the Alternate Program to amortize over the 12 year term. The Proposed Budget for FY 17 continues this practice.

As shown in the chart below, the maximum amount allowed based on the FY 17 pension invoice is \$29.7 million or 14.7% of the \$202.1 million total pension bill. The bill includes an estimated \$10.7 million for the Nassau Community College (NCC), the Sewer and Storm Water Resource District (SSWRD) and the Grant Fund. Table 3.2 provides the FY 17 and FY 16 pension expenses billed by the State for Employee Retirement System (ERS) and Police and Fire Retirement System (PFRS).

Table 3.2: FY16-FY17 Pension Invoices

Pension Payments Based on December Schedule			
	2016 Invoice	2017 Invoice	2017 vs. 2016
<u>Total Pension Bill Excluding Amortization</u>			
ERS	107,393,504	101,599,622	(5,793,882)
PFRS	91,374,836	100,543,619	9,168,783
	\$198,768,340	\$202,143,241	\$3,374,901
<u>Amount Using Maximum Amortization</u>			
ERS	79,679,088	84,576,962	4,897,874
PFRS	77,955,598	87,828,932	9,873,334
	\$157,634,686	\$172,405,894	\$14,771,208
Amount Allowed to be Amortized	\$41,133,654	\$29,737,347	-\$11,396,307

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

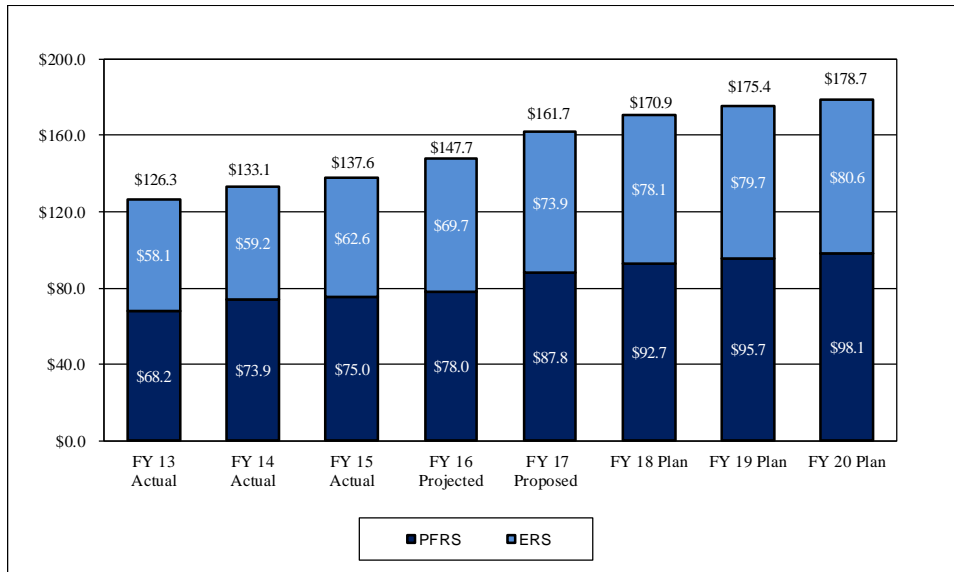
The table above provides the ERS and the PFRS disbursements based on paying the bill on the December 15, 2016 date. The early December payment date will result in a savings of \$1.6 million. The December invoice of \$202.1 million includes \$101.6 million billed for (ERS) and \$100.5 million billed for (PFRS). As mentioned above, the amortization of the maximum amount allowed, reduces the pension expense payment by \$29.7 million from \$202.1 million to \$172.4 million.

While the total bill is increasing by \$3.4 million, the County is still obligated to pay a higher amount, \$14.8 million, since the maximum amortization allowed is decreasing by \$11.4 million from \$41.1 million or 20.7% of the total pension bill to \$29.7 million, or 14.7% of the bill. As a result, the minimum amount due under the Stabilization program results in a higher amount due compared to last year. The reduction in the maximum amortization allowed, as well as the cumulative annual installments from the prior year deferrals have offset any potential savings from the recent decline in pension rates.

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.

Chart 3.0 details the historical pension obligations from FY 13 to FY 15 and the projected costs from FY 16 to FY 20 for the **Major Funds**. The Administration’s FY 17 Proposed Budget includes the pension expense of \$73.9 million for ERS and \$87.8 million for PFRS for a total budget of \$161.7 million. The figures in the chart below include the major funds and exclude the pension obligations for NCC, SSWRD and the Grant Fund.

Chart 3.0: FY 13 to FY 20 Pension Costs for the Major Funds (in millions)



Depicted in the above chart, pension costs are projected to continue to rise through FY 20. The Administration’s Multi-Year Plan projects pension costs to continue to rise to \$170.9 million in FY 18, \$175.4 million in FY 19 and \$178.7 million in FY 20.

The Multi-Year Plan is based on the assumption that a portion of the pension expense will continue to be amortized in the out-years. The first payment from FY 17 amortization will impact the FY 18 bill by an estimated additional \$2.9 million (this projection is based on the first installment from the projected FY 18 bill). This is in addition to the \$29.5 million in annual installments the County is currently obligated to make from the FY 12 through FY 16 amortizations.

The practice of amortizing the pension bill will subject the County in deferred liability payments through FY 29. Future budgets will be exacerbated to an amount in the tens of millions of dollars. The FY 18 through FY 22 County budgets will include, at a minimum, an additional \$32.4 million each year from the prior and current pension deferments. This amount could potentially grow if the pension bill continues to be amortized in the out-years.

Table 3.3 below details the outstanding liability from the six years of deferring these expenses.

Table 3.3: Amortization

Amounts Amortized by Year (in millions)		
Year	Without Interest	With Interest
2012 Amortization Liability	38.8	47.2
2013 Amortization Liability	57.6	67.5
2014 Amortization Liability	71.5	90.1
2015 Amortization Liability	60.9	75.6
2016 Amortization Liability	41.1	50.5
2017 Amortization Liability	29.7	35.1 [*]
Subtotal Amortization 2012-2017	299.6	366.0
Remaining Liability After Paid Installments	234.6	276.1
*OLBR Estimates the 2017 liability based on the projected February installment payment of \$2.9 million recurring annually over 12 years.		

As can be seen in the table, the County has deferred a total of \$299.6 million through FY 17. However, with interest the total deferred amount could accumulate to \$366.0 million. After deducting the installments paid to date, OLBR estimates the total outstanding liability with interest to be roughly \$276.1 million.

Many municipalities in New York who deferred pension costs in prior years are continuing to cut back as the economy improves. According to state records, in the current State Fiscal Year, 76 local governments amortized a portion of their pension obligations, compared to 112 municipalities in the prior year. This represents a decline of 32.1% employers. The largest Counties that have amortized include Albany, Monroe, Rockland, Suffolk and Westchester. Counties such as Schenectady and Broome deferred expenses in 2014 but did not in the current year. Unlike Nassau County, for the municipalities who haven't amortized a portion of pension expenses, they continue to reap 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."² However, the plan does draw 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.

For State Fiscal Year (SFY)15-16 the New York State Common Retirement Fund earned its lowest investment return, 0.19%, since 2009. Even though the rate was positive, it has been reported as it's worse showing since the end of the US recession. The Fund's value dropped for the first time in seven years to \$178.1 billion during the fiscal year that ended March 31. New York State Comptroller Thomas DiNapoli said that "despite weak equity markets, the fund's diversified portfolio and investment

²Spector, 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>.

team delivered a positive return.”³ The Fund has performed stronger for the first quarter of SFY16-17, with a reported positive 2% and was valued at \$181.0 billion as of June 30, 2016.⁴

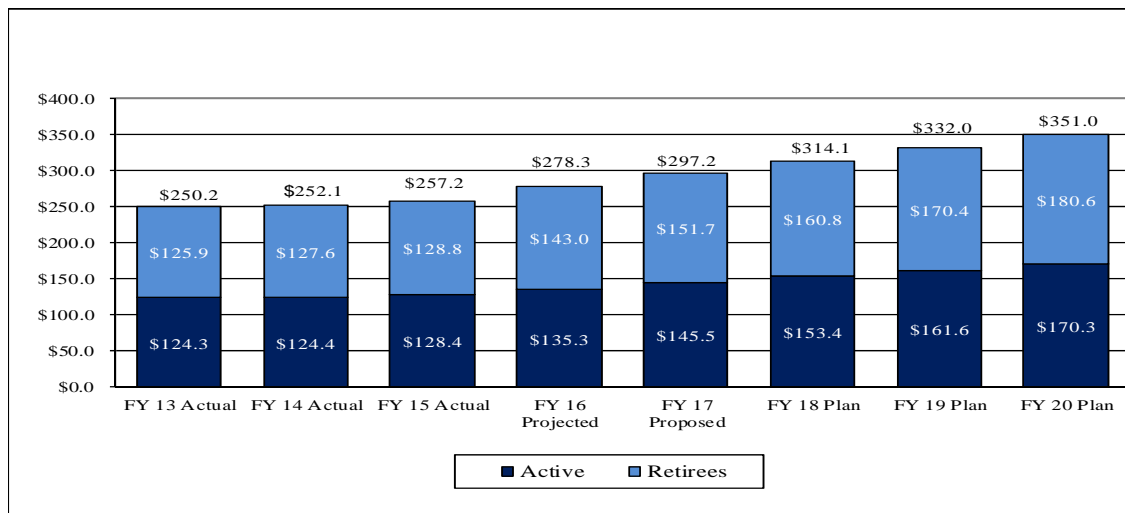
Pension contribution rates spiked in the State Fiscal Year (SFY)13-14 and have continued to decline thereafter through the current year. SFY16-17 pension rates reflected a decrease for the third consecutive year in a row. On September 1, 2016, the State Comptroller announced that “employer contribution rates will stay virtually the same for SFY17-18, compared to SFY16-17.” According to the State Comptroller “the average contribution rate for the Employees’ Retirement System (ERS) will decrease from 15.5% of payroll to 15.3% of payroll. The average contribution rate for the Police and Fire Retirement System (PFRS) will increase to 24.4% from 24.3% of payroll”.⁵

While pension rates have dropped over recent years, 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.

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

In FY 16, the average family premium rose 3.0% over the 2015 average premium, meanwhile the increases in the premium for single coverage was not statistically significant.⁶ The New York State Health Insurance Plan (NYSHIP) Empire family plan, which consists of most County workers increased by 6.5%. The FY 17 Proposed Budget is based on a growth increase of 7.0%. The FY 17 Proposed Budget for active and retiree health insurance is increasing by \$20.2 million compared to the FY 16 Adopted Budget and by \$18.9 million compared to the FY 16 projection.

Chart 3.1: FY 13 to FY 20 Health Insurance Costs (in Millions)



³ Carroll, Roy, “New York State’s pension fund posts lowest return since 2009”, CNBC, <http://www.cnbc.com/2016/06/13/reuters-america-new-york-states-pension-fund-posts-lowest-return-since-2009.com>

⁴ “DiNapoli: State Pension Fund Value \$178.1 Billion,” Office of the New York State Comptroller. June 13, 2016

⁵ “DiNapoli: Pension Contribution Rates Remain Stable for Fiscal Year 2017-18” Office of the New York State Comptroller. September 1, 2016.

⁶ “Employer Health Benefits, 2016 Summary of Findings.” The Kaiser Family Foundation and Health Research & Educational Trust. September 2016.

The FY 17 Proposed Budget includes \$297.2 million for active and retiree health insurance costs. Compared to the FY 16 projection, the FY 17 budget is increasing by \$10.2 million for active employees and \$8.7 million for retired employees, for a total of \$18.9 million.

Based on inflating the current health insurance projection by the Office and Management and Budget’s (OMB) rate assumption of 7.0% and with no net change in the current headcount, the FY 17 budget appears sufficient. However, with a 7.0% rate increase on the budgeted FY 17 headcount, OLBR estimates that there could be a projected shortfall of roughly \$2.5 million.

In addition, this projected deficit could be higher if the rates for active employees in the individual and family plans finalize closer to the optimistic and best estimate scenario projections in New York State Health Insurance Program (NYSHIP)’s 2nd Quarter 2016 Experience Report. NYSHIP’s Optimistic scenario includes a 8.7% projected rate increase and the Best Estimate scenario includes a 11.0% increase for active employees. If the rates finalize closer to these scenarios, OLBR projects the health insurance deficit could range from \$4.8 million to \$8.0 million.

Table 3.4 below depicts OLBR’s projected FY 17 deficit for active and retiree costs based on the various scenarios mentioned above:

Table 3.4: Projected Health Insurance Deficit

SubObject Description	Based on 7% & Budgeted Headcount	Based on State's Optimistic	Based on State's Best Estimate
Total Projected Deficit	(2,499,027)	(4,820,059)	(7,960,278)

Nationally, FY 16 represents the fifth year of relatively low premium growth (family coverage growing between 3 and 4% points each year)⁷. The modest growth can be attributed to employees contributing to their health care expenses, such as copayments and annual deductibles. Over the past five years, the percentage of covered workers facing a general annual deductible has grown from 74% to 83%.⁸ More participation in health wellness programs have also made a positive impact. Employers are showing interest in programs that encourage employees to identify health issues and to take steps to improve their health. A large share now offer health screening programs including health risk assessments, which are questionnaires asking employees about lifestyle, stress or physical health and in-person examinations such as biometric screenings. In addition, many employers have incentive programs that reward or penalize employees for completing assessments, participating in wellness programs or meeting biometric outcomes.⁹

The continuing implementation of the Affordable HealthCare Act (ACA) has not been reported as causing major disruptions in the employer market. The employer responsibility provision was fully implemented in FY 16, with mostly all employers, with 50 or more FTEs, reporting that they offer

⁷ Employer Health Benefits, 2016 Summary of Findings.” The Kaiser Family Foundation and Health Research & Educational Trust. September 2016.

⁸ Ibid.

⁹ Ibid

coverage to all employees that meet affordability and minimum value standards. Looking forward by FY 20, employer health plans will be subject to an excise tax of 40% on the cost of health coverage that exceeds certain annual limits. This tax is being referred to as the Cadillac Tax.

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%. Also, individuals with earned income of more than \$200,000 (\$250,000 for married couples filing jointly) pay an additional 0.9% in Medicare taxes. For the current year the OASDI portion is applied to salaries up to \$118,500, which is unchanged from 2015. Medicare has no maximum. The total OASDI tax on the current maximum wage base is roughly \$7,347. Early projections indicate that the Social Security wage base will increase to \$126,000 in FY 17.¹⁰

The FY 17 Proposed Budget for social security is increasing by \$1.7 million or 2.8% compared to the FY 16 Adopted Budget. With an increase in FY 17 budgeted salaries, social security is also expected to rise. Salaries are increasing as a result of the FY 17 cost of living adjustment (COLA) and step increase in the current Collective Bargaining Agreements.

17F Optical Plan

This benefit provides optical insurance to full-time County employees. The annual per capita premium is currently \$110.40. The FY 17 Proposed Budget is increasing by \$23,957, compared to the FY 16 Adopted Budget and by \$39,817 compared to the FY 16 projection. Based on the FY 17 budgeted headcount of 7,625, the budget appears to be sufficient.

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 17 Proposed Budget is decreasing by \$62,473, or 7.6% compared to the FY 16 Adopted Budget and increasing minimally compared to the projection. The budget appears to be sufficient.

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. The County has issued a Request for Proposal (RFP) and has solicited a Committee to review the responses and select the provider for the upcoming year.

Under the current contract through FY 16, the annual premium per capita remains unchanged at \$561. The FY 17 Proposed Budget is decreasing by \$1.4 million, or 34.4%, compared to the current Adopted Budget and by \$1.3 million, or 32.7% compared to OLBR's projection. The reduction in the Proposed Budget reflects the savings that the Administration anticipates could be achieved from selecting a new vendor.

¹⁰ "Social Security Wage Base Expected to Increase in 2017", <http://www.occapa.com/2016/07/social-security-wage-base-expected-to-increase-in-2017>. The American Payroll Association" July 20, 2016.

22F Medicare Reimbursement

The County provides quarterly payments to cover premium costs related to Medicare coverage for retired employees. The Proposed FY 17 Budget is decreasing by \$295,796 or 1.6% to \$18.4 million. According to the federal government, the 2016 standard Medicare Part B premium remains unchanged at \$121.80 for salaries up to \$85,000 and \$170.50 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 17 budget remains flat at \$2.1 million. The FY 17 budget includes corresponding revenue to offset the expense for the same budgeted amount, which is located in the Office of Management and Budget department.

35F MTA Mobility Tax

The Metropolitan Commuter Transportation Mobility Tax (MCTD) is a tax imposed on certain employers and self-employed individuals engaging in business within the metropolitan commuter transportation district (MCTD). For employers with payroll expenses above \$437,500, the tax is equivalent to 0.34% of payroll expenses. The FY 17 budget is \$3.1 million, a marginal increase of \$88,386, or 3.0% compared to the FY 16 Adopted Budget.

40F CSEA Legal Plan

The FY 17 budget includes \$576,000 for the CSEA legal plan which is a nominal growth of 0.8% budget to budget, however it is a reduction of \$181,125 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 17 budget may be understated since the current FY 16 projection is \$185,750 greater than the FY 16 budget.

41F COBA Legal Plan

The FY 17 budget includes \$111,250 for the Correctional Officer Benevolent Association (COBA) legal plan as per the COBA contract agreement, which is a minimal decrease of 1,250 or 1.1% from the FY 16 Adopted Budget.

45F Disability Insurance

The FY 17 Proposed Budget includes \$53,000 for providing New York State disability insurance to CSEA unit members; the budget remains unchanged compared to last year.

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 17 proposed budget is increasing by \$25,723 from the FY 16 budget and \$7,425 compared to the FY 16 projection. Based on the number of retired employees that currently receive this benefit, the budget appears to be sufficient.

98G Fringes Allocable to Grants

The FY 17 Proposed Budget includes a credit of (\$333,000), which is the corresponding fringe benefit expense to the salaries that are chargebacks to the Grant Fund.

ZZF- Fringe Savings

The FY 17 Proposed Budget includes a credit of \$8.0 million which is the amount the Administration is transferring from the Retirement Contribution Fund to pay a portion of the pension expense.

ZZO Capital Backcharges OT Fringes

The FY 17 Proposed Budget includes a credit of (\$417,596) which is the corresponding fringe benefit charge related to overtime salary chargeback.

ZZS Capital Backcharges to Fringes

The FY 17 credit of (\$2.9 million) is the corresponding fringe benefit charge associated with the salary chargeback.

Multi-Year Plan

Table 3.5: FY 17-2020 Multi-Year Plan

SubObject & Description	2017 Proposed Budget	2018 Plan	2019 Plan	2020 Plan
AB08F - NYS Police Retirement	87,828,932	92,738,569	95,659,834	98,099,160
AB11F - State Retirement Systems	73,874,164	78,121,928	79,739,052	80,640,104
AB13F - Social Security Contributions	60,652,726	62,884,746	65,198,905	67,598,225
AB14F - Health Insurance	145,542,566	153,372,756	161,624,210	170,319,593
AB17F - Optical Plan	840,366	840,366	840,366	840,366
AB19F - New York State Unemployment	754,229	776,856	800,162	824,166
AB20F - Dental Insurance	2,719,404	2,719,404	2,719,404	2,719,404
AB22F - Medicare Reimbursement	18,396,892	19,250,508	20,143,731	21,078,400
AB22S - Medicare Reimbursement Surcharge	747,656	782,347	818,648	856,633
AB26F - Flex Benefits Plan	2,100,000	2,100,000	2,100,000	2,100,000
AB35F - MTA Mobility Tax	3,050,990	3,163,266	3,279,675	3,400,367
AB40F - CSEA Legal Plan	576,000	576,000	576,000	576,000
AB41F - SHOA Legal Plan	111,250	111,250	111,250	111,250
AB45F - Disability Insurance	53,000	53,000	53,000	53,000
AB75F - Health Insurance for Retirees	151,672,090	160,772,415	170,418,760	180,643,886
AB76F - Employees Optical for Retirees	629,832	629,832	629,832	629,832
AB98G - Fringes Allocable to Grant	(333,000)	(333,000)	(333,000)	(333,000)
ABZZF - Fringe Savings	(8,000,000)	(8,000,000)	(8,000,000)	(8,000,000)
ABZZO - Capital Backcharge OT Fringes	(417,596)	(417,596)	(417,596)	(417,596)
ABZZS - Capital Backcharges Fringes	(2,915,322)	(2,915,322)	(2,915,322)	(2,915,322)
Grand Total	537,884,179	\$567,227,327	\$593,046,912	\$618,824,468

Fringe benefits will increase by \$80.9 million, from \$537.9 million in the FY 17 Proposed Budget to \$618.8 million in FY 20. The MYP includes an annually recurring budget credit of \$8.0 million to offset a portion of the pension expense. It is our understanding that this amount should only apply to the Proposed FY 17 and will be eliminated in the out-years through a technical adjustment. After this

adjustment occurs, the new variance from the FY 17 Adopted Budget is \$88.9 million with a total fringe benefit budget of \$626.8 million in FY 20.

Health insurance expenses for active and retired employees from FY 17 to FY 20 are projected to increase by \$53.7 million to \$351.0 million in FY 20. The MYP baseline inflator used to project out-year health insurance costs is 5.38% from FY 18 through FY 20 for actives. The inflator for retirees is 6.0%. The MYP growth rates are higher than the average health insurance growth rate over the past five years which was 5.0% for family. Depending on the FY 17 health insurance finalized rate, OLBR cautions that the out-year budget for health insurance could be underfunded annually by an amount between \$2.5 million to \$9.3 million.

Including the amortization amounts, pension costs are increasing by \$17.0 million to \$178.7 million by FY 20. The New York State Comptroller announced this month that employer “contribution rates will stay virtually the same for SFY17-18, compared to the current year”.¹¹ 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 FY 17 Proposed Budget, social security expenses are increasing by roughly \$2.2 million in FY 18, by \$2.3 million in FY 19, and by \$2.4 million in FY 20. With an increase in salaries, social security is also expected to rise since these costs are a function of salaries.

¹¹ “DiNapoli: Pension Contribution Rates Remain Stable for Fiscal Year 2017-18” Office of the New York State Comptroller. September 1, 2016.

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 2017 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 17 Executive Budget, excluding the deferred piece, is \$1,141.5 million. The Administration is currently projecting that sales tax, excluding the deferred piece, in FY 16 will exceed budget by \$7.9 million. Year-to-date, sales tax growth is 0.7% and the remaining checks would need to grow by approximately 2.0% to achieve the budget.

OLBR is currently projecting the County will be on budget, which as stated above will necessitate a 2.0% growth on all remaining checks. Using OLBR's FY 16 forecast as a base, implies that 2.1% growth will be required from the current year estimate to achieve the Proposed FY 17 Budget. Table 4.0 below illustrates the growth needed from both OMB and OLBR's projections:

Table 4.0: Proposed Sales Tax Growth

	2016 Budget	OMB 2016 Projections	OMB 2016 Variance	2017 Budget	2018 Budget	2019 Budget	2020 Budget
Projected Sales Tax	1,117.7	1,125.6	7.9	1,141.5	1,170.1	1,199.3	1,229.3
OMB % Growth Needed				1.4%	2.5%	2.5%	2.5%

	OLBR 2016 Projections	OLBR 2016 Variance	
OLBR % Growth Needed	1,117.7	-	2.1%

Table 4.1 on the next page, shows the annual gross sales tax collections through FY 15, the OMB FY 16 projection and the proposed budgets for FY 17 through FY 20. The MYP projects a 2.5% growth rate from FY 18 to FY 20.

Table 4.1: Annual Sales Tax Collections

Fiscal Year	Actuals	Growth
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%
2015	1,103.8	1.2%
Fiscal Year	Projections	Growth
2016	1,125.6	2.0%
2017	1,141.5	1.4%
2018	1,170.1	2.5%
2019	1,199.3	2.5%
2020	1,229.3	2.5%
2016 Figure Represents OMB's Projection		
* Includes Residential Energy Tax collections, effective June 1, 2009 through May 31, 2010.		

In addition to the regular sales tax, a \$0.95 million addition has been budgeted in FY 17 for deferred sales tax. That represents the amount by which part-county sales tax collections in FY 15 exceeded the budget. For accounting purposes, the County is not able to book such revenue until two years after it has been received. In Tables 4.0 and 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 September 12, 2016 have increased by 0.7% compared to the same period in 2015.

Table 4.2: YTD Sales Tax Collections
2016 Year-to-Date Sales Tax Receipts
(figures in millions, includes residential energy collections)

	<u>2015</u>	<u>2016</u>	<u>Variance \$</u>	<u>Variance %</u>
Gross YTD Sales Tax	\$663.8	\$668.8	\$5.0	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 1.4%. If this rate of spending was to continue, the County would miss budget.

Although the FY 17 sales tax budget appears to be in line with the average August 2016 estimate for FY 17 US Real GDP projected growth of 2.1% and Moody's Analytics estimate for Nassau Gross County Product (GCP) of 1.5%, the projections have not always translated into actual growth. At the current trend, the FY 16 base line may end up being inflated by approximately \$7.9 million which carries into FY 17.

On October 12, 2016, 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. 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 5.0 shows the unreserved Fund Balance and the balances of the formal reserve funds at year-end FY 13 through FY 15, along with the projected year-end balances for FY 16 and FY 17.

Table 5.0: Total Reserves 2013 to 2015 & Projected Year-End 2016-2017

Item	Year-End	Year-End	Year-End	Projected	
	2013	2014	2015	2016	2017
Undesignated Fund Balance	\$99.1	\$100.2	\$141.3	\$138.3	\$128.3
Technology Fund	1.9	1.9	0.1	0.1	0.1
Open Space Fund	1.1	1.2	1.4	1.4	1.4
Litigation Fund	0.0	0.0	20.2	37.6	0.0
Police District Fund	27.5	20.8	21.7	21.7	16.7
Retirement Contribution Reserve Fund	0.0	0.0	8.0	8.0	0.0
Employee Accrued Liab. Fund	4.0	10.2	0.0	0.0	0.0
Environmental Bond Fund	19.4	19.5	19.5	10.0	0.8
Tobacco Settlement Fund	17.9	17.9	17.9	0.0	0.0
Sub-total	\$ 170.9	\$ 171.7	\$ 230.1	\$ 217.0	\$ 147.2
Sewer/Storm Water Fund Bal.	45.9	42.3	44.4	29.2	6.0
Total Reserves & Fund Bal.	\$ 216.8	\$ 214.0	\$ 274.5	\$ 246.2	\$ 153.2

The projections in the above table take the FY 15 year-end as a starting point and then subtract possible FY 16 changes included in OMB's projections and the FY 17 projected uses incorporated in the proposed budget. Depending on budget trends, there is a possibility that some of the planned uses may not be necessary.

At a macro level, in FY 15, the County added \$87.5 million and subtracted \$27.0 million, to increase its reserves by \$60.5 million. In FY 16, it may diminish its reserves by a net of \$28.2 million or 10.3%. In FY 17, the budget anticipates decreasing the reserves by a net of \$93.0 million or 37.8%.

In FY 15, the County used its budgetary surplus to create a new fund and appropriate monies to existent funds. The net appropriations included \$41.1 million to the Undesignated Fund Balance, \$0.2 to the Open Space Fund, \$20.2 million to the Litigation Fund, \$0.9 million to the Police District Fund, \$2.1 million to the Sewer / Storm Water Fund, and \$8.0 million to the Retirement Contribution Reserve Fund. The County also used \$10.2 million from the Employee Accrued Liability Fund and \$1.8 million from the Technology Fund.

In FY 16, the County expects to use a net of \$28.3 million of reserve fund. To pay NICE Bus expenses, the County will use \$3.0 million from the Undesignated Fund Balance. After paying judgments and settlements, the balance in the Litigation fund is expected to rise by \$17.4 million. To operate the sewer system, the County expects to draw down the Sewer / Storm Water Fund Balance by \$15.2 million. To pay environmental bond debt service costs, the County expects to utilize \$9.5 million from the Environmental Bond Fund. The County anticipates using all remaining Tobacco Settlement Funds.

The Proposed FY 17 Budget projects the use of \$93.0 million of reserve funds. To fund general contingencies, the County intends to use \$10.0 million from the Undesignated Fund Balance. The

County plans to deplete the Litigation Fund by using \$37.6 million to pay judgments and settlements. The County budgets using \$5.0 million from the Police District Fund. To operate the sewer system, the County expects to draw down the Sewer / Storm Water Fund Balance by \$23.2 million. To cover a portion of the FY 17 pension expense, the County plans to use the current \$8.0 million balance in the Retirement Contribution Reserve Fund. To pay environmental bond debt service costs, the County expects to utilize \$9.2 million from the Environmental Bond Fund. This will eliminate the environmental reserve fund balance and the Multi-Year Plan shows an \$8.8 million environmental bond tax levy in FY 18, \$10.4 million in FY 19 and \$10.7 million in FY 20 to cover environmental bond debt service costs.