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Inter-Departmental Memo

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

From: Maurice Chalmers, Director
Office of Legislative Budget Review
HC for MC

Date: August 3, 2017

Re: Mid-Year Report – FY 2017 Projections

The Office of Legislative Budget Review (OLBR) has prepared this memo forecasting the FY 2017 year-end results for the Legislature. Since FY 2011, the Nassau Interim Finance Authority (NIFA) has been a control board and oversees County finances. FY 2017 is also the final year for the County's major labor union contracts, augmenting the atmosphere of fiscal instability with respect to expenses such as termination liability. OLBR is currently projecting a $9.5 million budgetary deficit in the Major Operating Funds, but has also identified opportunities that could help the Administration meet the FY 2017 budget. In addition, the County can implement additional measures to ensure it meets the budget. Since the County is under a control period by NIFA, the County's financial board evaluates County finances on a NIFA GAAP basis which is also reported in our results. OLBR anticipates the NIFA GAAP to be approximately $47.6 million in FY 2017.

OLBR's current projections account for some major challenges the County faces; they include the expected overages in Police Department termination pay, increased contractual expenses from inmate healthcare and the use of fund balance to pay for tax certiorari expenses. The County has had good fortune in some areas, such as sales tax and Police Department overtime. However, some benefit of the sales tax surplus will have to be deferred to FY 2019, in the amount that part-county sales tax collections exceeds budget.

Currently, the County plans on using $33.6 million in fund balance to pay for tax certiorari expenses; this amount will be added to NIFA's assessment of their gap in addition to what the board is estimating to be another $4.5 million in Comptroller adjustments for a total negative change of $38.1 million. On a NIFA GAAP basis, FY 2017 will end with a deficit of $47.6 million, which is within the $60.0 million gap goal NIFA had set for the County. OLBR believes the County should be able to implement initiatives that would offset the $9.5 million *budgetar*y deficit that is currently projected.

2017 Projections

OLBR is projecting a $9.5 million budgetary deficit in FY 2017 for the Major Operating Funds prior to opportunities. A projected revenue shortfall of $31.2 million is offset by about $21.7 million surplus in expenses. The chart below shows the year-end expense and revenue projections.

	Major Funds (in millions) Excluding Inter-Dept. Transfers		
	2017 Adopted Budget	OLBR 2017 Projection	Variance
Expense	2,971.0	2,949.3	21.7
Revenue	2,971.0	2,939.8	(31.2)
	Projected Budgetary Surplus / Deficit		($9.5)
	NIFA GAAP adjustments		
	Fund Balance Usage		(33.6)
	Accounting Adjustments		(4.5)
	NIFA GAAP		**($47.6)**

Expense Highlights

The following chart details the expense variances by object code between OLBR's FY 2017 projections and the FY 2017 Adopted Budget for the Major Funds. Explanations are provided following the chart:

2017 OLBR Variances to Budget			
Expenses	**2017 Adopted Budget**	**2017 OLBR Projections**	**OLBR vs. Budget**
Salaries	$888.1	$894.6	($6.5)
Fringe Benefits	545.9	545.3	0.6
Workers Compensation	35.3	35.3	0.0
OTPS	282.1	293.2	(11.1)
Utility Costs	38.5	35.8	2.7
Various Direct Expenses	5.0	5.0	0.0
Principal & Interest	211.0	209.9	1.1
Local Govt Assistance	67.1	67.6	(0.4)
Inter-Fund Charges	27.5	27.5	0.0
Mass Transportation	43.7	43.7	0.0
NIFA Expenditures	2.0	2.0	0.0
Other Expenses	277.9	252.3	25.6
Early Intervention / Special Ed.	134.5	134.5	0.0
Direct Assistance	175.8	167.9	7.9
Medicaid	236.6	234.7	1.9
Sub-total Expenses	**2,971.0**	**2,949.3**	**21.7**
Inter Department Transfers	**427.8**	**426.6**	**1.1**
Expenses Including Transfers	**$3,398.7**	**$3,375.9**	**$22.8**

Salaries
OLBR is currently projecting a salary deficit of $6.5 million compared to the FY 2017 Adopted Budget. The salary deficit is mainly attributed to shortfalls in Police termination and Correctional Center overtime, which is partially offset by full-time vacancy savings.

The Police Department's FY 2017 termination budget is $34.2 million. As of July 24, 2017, termination actuals are $34.8 million and include roughly 120 sworn members that were paid and 9 resignations without payout. An additional 16 officers have filed papers of intent to separate. The Administration is projecting termination expenses of $51.6 million by the end of FY 2017. The higher amount is included in OLBR's current projections. However, with all three of the current police contracts set to expire on December 31, 2017, this may trigger more officers to retire. The Administration is planning to transfer additional funds from the FY 2016 surplus into the Police District Employee Benefit Accrued Liability Reserve Fund to be used for additional termination expenses.

OLBR is currently projecting an overtime deficit of roughly $5.7 million, which is mainly related to the Correctional Center. Meanwhile, OLBR is projecting that the Police Department will meet its FY 2017 overtime budget of $55.8 million if current trends hold. In FY 2016, the Police Department budgeted $57.0 million for overtime and the actual expenditure was $71.8 million which equated to a $14.8 million deficit. An additional 162 recruits started in June 2017; although their impact on overtime will not be evident until FY 2018. The year-to-date actual expense of $19.7 million indicates that the beefed up sworn staffing has had a positive impact on overtime. If this trend continues, a slight surplus may be achieved for this expense. Overtime hours in the Police Department have decreased by 38.0%. The Administration included approximately $4.5 million of Police overtime surplus in their projection. Should the decreased expenses come to fruition, the surplus will offset a large portion of the current payroll deficit.

OVERTIME TRENDS

	2016 YE	2017 Adopted	2017 Projection	2017 Proj Vs 2017 Bud Variance
Police District	$ 33,333,118	$ 27,360,750	$ 27,360,750	$ -
Police Headquarter	38,499,094	28,480,000	28,480,000	-
Total	71,832,212	55,840,750	55,840,750	-
Corrections	16,332,236	14,366,306	19,907,135	5,540,829
Police & Corrections	88,164,448	70,207,056	75,747,885	5,540,829
Others	12,114,509	13,481,112	13,598,966	117,854
TOTAL:	$ 100,278,957	$ 83,688,168	$ 89,346,851	$ 5,658,683

As of July 1, 2017 there were 7,218 full-time employees on-board in the Major Funds which results in 387 fewer positions than the 7,605 included in the FY 2017 Adopted Budget. The departments with major vacancies are the Police Department with 235 open funded positions, the Correctional Center with 93 positions and the Department of Public Works (DPW) with 39 positions.

Fringe Benefits

For the mid-year, OLBR is projecting a surplus of roughly $588,000 for fringe benefits in the Major Funds. The surplus is in health insurance costs for retirees, which is partially being offset by a deficit in health insurance costs for active employees and in pension costs. The FY 2017 budget for health insurance was based on a growth rate assumption of 7.0%, however the rates for active employees were finalized higher than budgeted, at 11.2% for individual and 12.2% for family. Meanwhile, the final rate for Medicare eligible retirees, declined by an average negative drop of 0.5%, which is contributing to a surplus in the retiree budget.

The fringe benefit budget also includes $3.3 million in chargebacks to capital and $333,000 in chargebacks to the Grant Fund, which is included in the projection. If the $3.6 million in chargebacks are not achieved, the surplus can be eroded by this amount, creating a deficit.

OTPS (Other Than Personnel Services)

The Other Than Personnel Services (OTPS) budget, which includes equipment, general expenses, and contractual expenses, is projected to end FY 2017 with a combined deficit of approximately $11.1 million.

- Contractual expenses are expected to have a $10.9 million shortfall. Two of the main factors causing the shortfall are a $5.1 million overage in the Correctional Center for the inmate healthcare contract and $2.8 million deficit for additional contract costs with Transdev International to operate the Nassau Inter-County Express (NICE Bus). In addition, the Traffic and Parking Violations Agency (TPVA) will exceed their contractual budget by $2.3 million for payments to American Traffic Solutions (ATS), the Red Light Camera Program contractor/vendor. The excess cost in TPVA will be more than offset by the additional revenue generated through the program.

Interest

The Administration's projection of $1.1 million in interest expense savings is mainly due to not borrowing to pay property tax refunds and seems reasonable.

Other Expenses

The Administration plans to pay off the budgeted $75.0 million of tax certiorari liability in FY 2017. However, since the Administration plans on using approximately $23.6 million of the 2016 property tax refund accrual to fund some of these payments, a $25.6 million FY 2017 budget surplus exists on the other expenses line.

Direct Assistance

Entitlement programs, which include Recipient Grants, Purchased Services and Emergency Vendor Payments, are on track to end FY 2017 with a $7.9 million surplus. The projected surplus is tied to an overall decline in public assistance caseloads, such as Temporary Assistance to Needy Families (TANF) and Safety Net Assistance (SNA). Through June, TANF cases are down 15.8% year over year, while SNA cases have declined about 14.4% during this same time period. DSS projects a $6.6 million surplus in recipient grants not only as a result of the TANF and SNA downturn but also because of a slight dip in foster care cases. A $1.2 million surplus is expected in emergency vendor payments as fewer DSS clients have been placed into state operated facilities.

Revenue Highlights

The chart below details the revenue variances by object code between OLBR's FY 2017 projections and the FY 2017 Adopted Budget for the Major Funds. Explanations are provided following the chart:

2017 OLBR Variances to Budget			
Revenue	**2017 Adopted Budget**	**2017 OLBR Projections**	**OLBR vs. Budget**
Fund Balance	$0.0	$33.6	$33.6
Interest Penalty on Tax	35.2	35.2	$0.0
Permits & Licenses	20.2	20.2	$0.0
Fines & Forfeits	96.2	96.8	$0.6
Investment Income	1.0	2.1	$1.1
Rents & Recoveries	23.7	20.4	($3.4)
Revenue Offset to Expense	14.4	14.6	$0.2
Department Revenues	242.6	236.0	($6.7)
Capital Chargebacks	0.0	0.0	$0.0
Payments in Lieu of Taxes	42.3	42.3	$0.0
OTB Profits	3.0	2.3	($0.8)
Debt Service From Capital	63.5	3.5	($60.0)
Interfund Charge Revenue	80.1	79.3	($0.8)
Intefund Transfers	8.0	8.0	$0.0
Federal Aid	137.1	134.6	($2.5)
State Aid	212.0	210.6	($1.4)
Sales Tax	1,142.5	1,149.8	$7.3
Property Tax	817.0	818.5	$1.5
OTB 5% Tax	2.5	2.5	$0.0
Special Taxes	29.6	29.6	$0.0
Sub-total Revenue	**2,971.0**	**2,939.8**	**(31.2)**
Inter Department Transfers	**427.8**	**426.6**	**(1.1)**
Revenue Including Transfers	**$3,398.7**	**$3,366.4**	**($32.3)**

Fund Balance

The Administration is planning on using $33.6 million from the 2016 year-end results to fund tax certiorari payments in FY 2017. This amount will be counted towards the NIFA gap.

Fines and Forfeitures

There are some major parts driving the overall $0.6 million surplus projected in fines and forfeits. TPVA is estimated to end with a $5.6 million surplus due to the department's Red Light Camera revenue coming in higher than expected in addition to a $950,000 surplus in the Taxi and Limousine Commission (TLC). Those surpluses are expected to be offset by $6.0 million less from Public Safety fees.

Rents and Recoveries

A $3.4 million deficit is expected in rents and recoveries. In the Department of Public Works, a shortfall of approximately $3.8 million is primarily attributable to lower anticipated revenue from the sale of County property, which is currently budgeted at $5.0 million.

Departmental Revenues

OLBR is currently projecting a $6.7 million deficit in overall department revenues. Some of the major variances include:

- Approximately $9.4 million shortfall in the County Attorney's Office. This is related primarily to the Annual Survey of Income and Expense (ASIE) revenues. The FY 2017 budget had included $10.0 million in ASIE revenues; year-to-date the County has collected $813,400. The temporary restraining order (TRO) on these revenues has been lifted so that the County may cash checks from non-litigants. Should additional funds be collected, this could represent a plus for County finances.

- County Clerk department revenues are partially offsetting the ASIE shortfall. Based upon currently housing market trends, OLBR is projecting a $5.0 million surplus on County Clerk mortgage, deed and miscellaneous fee revenues. OLBR sees the potential for additional opportunities on these lines.

- DPW is currently estimating a shortfall of $1.8 million in department revenues primarily due to lower fare box revenue, which is being offset by additional State Transportation Operating Assistance (STOA) grant revenues.

Debt Service from Capital

The $60.0 million deficit is the result of the Administration's anticipation to not issue debt to fund tax certiorari expenses.

Federal Aid

A $2.5 million deficit is anticipated in the Department of Social Services (DSS) mainly as a result of the lower than expected entitlement program caseloads. The deficit would be more severe but the federal government made a $1.7 million daycare grant award to the County.

Sales Tax

The total sales tax revenue in the FY 2017 Adopted Budget, excluding the deferred piece, is $1,141.5 million. Year-to-date sales tax collections, through the July 12, 2017 sales tax check, total $509.4 million. This is an increase of $12.8 million, or 2.6%, over the receipts through the same period last year. Assuming the part-county sales tax collections equal budget, remaining checks could fall by 0.1% and the sales tax budget would be achieved.

OLBR is currently projecting a $7.3 million *recognizable* 2017 surplus on sales tax collections. This assumes a 2.0% growth rate on all remaining checks as well as a two-year deferral of $6.2 million on the part-county sales tax overage that the County will not be able to recognize in FY 2017. The following chart depicts the resultant sales tax variances for various annual growth rates on the remaining checks, assuming the part-county collections equal budget:

Forecast Sales Tax Growth and Resultant Annual Impact

Remaining Growth	Sales Tax Surplus / (Deficit)
0.0%	$0.8
0.5%	$4.0
1.0%	$7.2
1.5%	$10.3
2.0%	$13.5
2.5%	$16.7
3.0%	$19.8

Opportunities

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

Department	Object	Description	Amount
AS - Assessment	BH - Departmental Revenues	Above Budget GIS Map Fees, Estimate based on current trends and increased rate (from 225 to 355)	$ 1.8
CL - County Clerk	BH - Departmental Revenues	Above Budget Mortgage, Deed and Actual Collection of online- reg fees, estimate based upon trends	3.0
BU- OMB	BO - LIPA PILOT R1311	According to Administration, surplus is due to a delay in finalizing the calculation of PILOTS associated with the Long Island Power Authority (LIPA)	4.1
TR - Treasurer	BE - Investment Income	Above Budget interest as rates have risen	0.7
		Total Opportunities	$ 9.6

Conclusion

OLBR is currently projecting a small budgetary deficit that it appears can be overcome by the County with some corrective actions combined with some revenue opportunities coming to fruition. Current budgetary flexibilities may not always materialize which will leave little room to react to unforeseen circumstances. In addition, areas such as tax certiorari expenses will need a more definitive solution that will not add to the fiscal stress the County faces.

cc: Hon. George Maragos, Nassau County Comptroller
James Garner, Nassau County Chief Deputy Comptroller
Eric Naughton, Deputy County Executive
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