NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Review of the Fiscal Year 2012 Budget & Multi-Year Plan

Executive Summary

OFFICE OF LEGISLATIVE
BUDGET REVIEW

NASSAU COUNTY LEGISLATURE
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Inter-Departmental Memo

To: Hon. Peter Schmitt, Presiding Officer
Hon. Diane Yatauro, Minority Leader
All members of the Nassau County Legislature

From: Steven Antonio SA
Office of Legislative Budget Review

Date: October 12, 2011

Re: Executive Summary

Pursuant to §183 of Nassau County Charter, the Office of Legislative Budget Review has prepared an analysis of the County Executive's proposed operating budget for Fiscal Year 2012 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/agencies/OLBR/reports.html.

1. EXECUTIVE SUMMARY

Introduction

On January 26 of this year, upon determining that there existed in FY 11"a substantial likelihood and imminence of the County incurring a major operating funds deficit of one percent or more," the Nassau Interim Finance Authority (NIFA), as per statute, declared a control period. Then on March 24, NIFA declared a fiscal crisis and ordered a wage freeze which suspended various salary increases scheduled in the County's collective bargaining agreements.

In July, the County Comptroller issued his mid-year report on the County's financial condition, which projected a year-end deficit of approximately $140 million should certain gap closing opportunities not be realized, and $42 million if they were. This would be greater than the imminent one percent deficit of approximately $26 million that had triggered the control period.

On September 14, in submitting his proposed budget, the County Executive identified a $310 million deficit that had to be eliminated in 2012. The factors contributing to this deficit include steeply rising pension and health insurance costs, the NIFA requirement that $70 million for property tax refund expenditures be included in the operating budget ($0 was included in the 2011 Adopted Budget), and the removal of two initiatives requiring State approval ($18.0 million net revenue for Phase II of the Red Light Camera program and $5.0 million for a surcharge for patrolling the Long Island Expressway). If not for the NIFA wage freeze (and the assumption that it will continue through 2012), the full-time salary expense for the County's union employees, at current staffing levels, would be almost $51 million higher.

Described by the County Executive in his transmittal letter as "a painful path back to fiscal health," the proposed budget includes the following measures:

- **The elimination of 1,010 full-time positions** – The 8,410 full-time positions in the current year's adopted budget are reduced to 7,400 in the FY 12 Executive Budget. Since not all of the positions in the FY 11 budget are filled, 564 employees would have to be laid off to reach the targeted level of 7,400 (based on the September 1, 2011 actual headcount). A workforce reduction savings of $51.6 million has been scheduled throughout almost every department. This savings is associated with the elimination of 724 unspecified positions, and would include vacancies.
- **Overtime Reduction** – Overtime expense for the Police and Corrections officers is budgeted at $22.2 million in the proposed FY 12 budget, which is $37.1 million lower than the adopted FY 11. Most of this decrease is related to the Police Department, which hopes to implement a number of work rule changes.
- **NIFA debt restructuring** – The $15.0 million in restructuring proceeds is expected to be completed through a restructuring of NIFA-issued debt. These revenues are all considered a risk since the result is dependent on market conditions and NIFA approval.
- **Employee Contribution to Health Insurance** – Currently, the only County employees who contribute to their health insurance costs are non-union ordinance employees hired after December 31, 2001. Those earning a salary greater than $30,000 contribute 5% of

the annual premium for single coverage and 10% for family coverage. Although none of the union agreements call for an employee contribution, the proposed budget includes health insurance savings of $69.2 million based on a 25% contribution from all active and retired employees.

- **Fringe Benefit Savings** –The County has opted to amortize a portion of its FY 12 pension expense. The proposed budget includes a reduction of $38.7 million based on the maximum amortization allowed by State law. If not for the amortization, the total pension cost would be increasing by 41.7% from $113.0 million in FY 11 to $160.2 million in FY 12.
- **Removal of funding for termination pay** – There is zero budgeted for employee termination expense, as the Administration plans to bond this cost. The FY 11 major funds budget for termination pay is $12.7 million and the estimated obligation for FY 12 is $19.5 million.
- **Removal of funding to pay education stipend** – The budget provides no funding for the employee education stipend, which is estimated at $2.5 million for 2012.
- **Strategic Sourcing** – This would seem to involve such initiatives as increasing the competition among vendors seeking County contracts and reducing administrative costs related to the purchasing process. While these goals should certainly be pursued in the interest of good government, the budgeted savings must be considered to be at risk until such time as the $15 million can be quantified.
- **Departmental Consolidations** – The Department of Human Services created under local law # 4-11, consolidates 1) the Department of Mental Health, Chemical Dependency and Developmental Disabilities Services, 2) the Department of Senior Citizens Affairs, 3) the Office for the Physically Challenged and 4) the Youth Board. Each former department will continue to operate independently and will be headed by a director who will report to the Commissioner of Human Services, who will be appointed by the County Executive. The consolidation is intended to facilitate sharing and exchange of expertise, skill and information. Each former department will keep its separate identity through separate responsibility centers within the Department of Human Services. Another consolidation was approved by Local law 5-2011, which merged the Department of Planning into the Department of Public Works.
- **Further workforce reduction and furloughs** – The proposed Fiscal 2012-2015 Multi-Year Financial Plan includes as contingencies for 2012 further workforce reduction and employee furloughs, in the event "the unions choose not to work with the Administration in realigning the labor agreements to produce the required level of savings." The layoffs would target 600 additional employees for a savings of $60 million. The furlough plan would transition "employees not working in vital health and public safety areas," to a four-day work week. It is also targeted to produce $60 million in savings.

Our analysis generally limits itself to budgetary risk, but mention must be made of the potential operational risk associated with the ongoing reduction of the County workforce. While the titles to be eliminated have not yet been specified, the loss of 564 employees must inevitably impact the delivery of services. For example, according to Newsday, the County Comptroller has stated that the proposed cuts to his office may result in delays in contract approvals and in payments to vendors and service providers. In the Medical Examiner's office a salary savings $822,619 has been targeted. This would be a cut of 14.5%, and would result in the laying off of as many as 15 of its current 56 employees. The Medical Examiner's office is a 24/7 operation and it hard to imagine that such reductions in staff would not severely impact the way the office conducts business and the services it provides to the residents of Nassau County. Such services include forensic examinations, autopsies, cause of death lab work and notifying the public of cases of suspected meningitis and flu. The Department of Health will try to manage with a reduced number of employees by implementing organizational changes. For example, the volunteer Medical Reserve Corps can be utilized to supplement emergency response personnel. For some functions the department may have to scale back to the New York State mandated minimums. Social Services is another department facing a significant reduction in staff. Will applications for Medicaid and other assistance programs be processed in a timely manner?

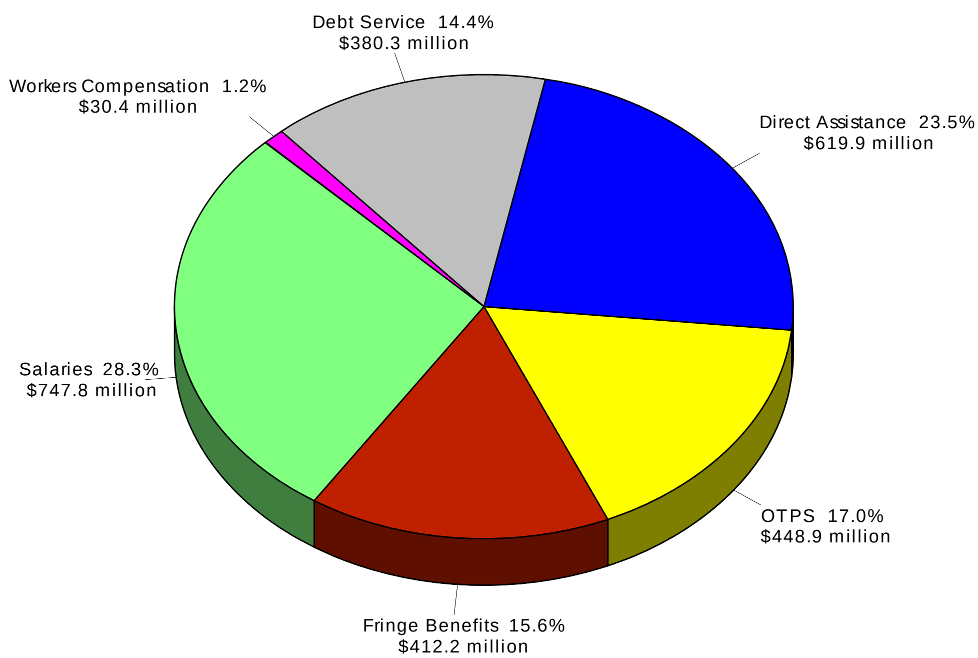
The Administration has already taken steps to maximize efficiencies through departmental consolidations and the shared services concept. These management practices will be put to the test in 2012.

As for the budgetary risk, our analysis identifies $280.9 million worth of items that may be difficult to achieve.

Proposed Expense Budget

The FY 12 proposed budget for the major funds, excluding the Sewer and Storm Water District and interdepartmental charges and debt service chargebacks, is $2.6 billion. Salaries and fringe benefits make up 43.9% of the total. The second largest component is for direct assistance at 23.5%, as illustrated in Chart 1.1.

Chart 1.1: FY 12 Major Funds' Expenses ($2.6 billion)



Data excludes inter-dept charges and debt service chargebacks.

Compared to the adopted FY 11 budget, there is a decrease of $61.2 million, or 2.3%, as shown in Table 1.1, below. The funding for salaries and fringe benefits is decreasing by $96.4 million or 7.7%, as a result of workforce reduction and the fringe benefit savings associated with the assumption of employee contributions for health insurance from both actives and retirees, and the amortization of a portion of the pension bill.

The 8,410 full-time positions in the current year's adopted budget have been reduced to 7,400 in the FY 12 Executive Budget. A workforce reduction savings of $51.6 million has been scheduled in almost every department. This savings is associated with the elimination of 724 unspecified positions, and would include vacancies. The proposed budget assumes that the NIFA wage freeze will continue for all of 2012. If not renewed by the NIFA Board, the freeze will end in March, in which case union employees would resume receiving their contractual COLA's and step increments. Overtime expense for the Police Department has been reduced from an insufficient $39.0 million in FY 11 to $7.0 million in FY 12. This savings is predicated upon the elimination of minimum manning, the realignment of precincts from eight to six, the addition of four extra work days per year for officers, and the payment of the first 48 hours of overtime for each officer as straight time. Overtime pay for Corrections officers has similarly been significantly reduced in the proposed budget, from $20.2 million to $15.1 million. Also impacting the salaries expense is the removal from the budget of approximately $19.5 million for employee termination pay and $2.5 million for the education stipend. The plan to bond the cost of termination pay will have to be approved by a supermajority of the Legislature. See the Labor section that follows for a fuller discussion of the various salaries savings components.

Table 1.1: Major Funds' Expenses 2011 vs. 2012

($'s in millions)

	2011 Adopted	2012 Proposed	Var.
Expenses			
Salaries	$811.9	$747.8	($64.1)
Fringe Benefits	444.5	412.2	(32.3)
Workers Compensation	27.8	30.4	2.6
OTPS	367.3	429.6	62.3
Interfund Charges	17.1	19.3	2.2
Direct Assistance	610.2	619.9	9.7
Debt Service	351.5	380.3	28.8
Contingency Reserve	70.3	0.0	(70.3)
Total Expenses[1]	**$2,700.6**	**$2,639.5**	**($61.2)**

1. Excludes interdepartmental charges and debt service chargebacks

Although health insurance and pension rates are rising significantly, the proposed FY 12 appropriation for fringe benefits expense is $32.3 million less than the current year's budget. This results from $69.2 million in assumed savings from the requirement of a health insurance contribution of 25% from all active and retired employees. This has not been agreed to by the County's unions. The Administration has also chosen to amortize a portion of the 2012 pension bill, thereby reducing that bill by $36.6 million.

The OTPS line in the chart above rolls up all of the other than personal services. The $62.3 million increase from budget to budget is largely due to the addition of $70 million in FY 12 to pay the cost of property tax refunds. Although the Administration had planned on issuing debt to cover the entire refund expense in FY 11, NIFA has required that operating funds be used, and the current budget has been modified to do so. The appropriation for the payment of other suits and judgments has increased by $18.0 million. Traditionally the larger settlements have been paid with bonded funds, and the appropriation has not been included in the operating budget. Although the proposed budget does include the full expense anticipated for other suits and judgments, $18.0 million in funding will come via the issuance of new debt (budgeted on the debt Service from capital line).

The OTPS funding for equipment, general expenses, and contractual services has been reduced by $23.0 million, or 4.2%, which is largely attributable to anticipated contractual services savings of $15 million resulting from the strategic sourcing initiative. While these goals should certainly be pursued in the interest of good government, the budgeted savings must be considered to be at risk until such time as the $15 million can be quantified.

Even without the strategic sourcing savings, contractual services expense is decreasing by $13.1 million in the proposed budget. The larger components of this reduction include $6.8 million for miscellaneous contractual services, $3.4 million for program agencies, and $1.7 million for software contracts. The miscellaneous contract cuts include $6.0 million in TPVA related to the scaling back of the Red Light Camera program, and $3.9 million in the Department of Social Services, offset by increases in other departments. The only contract category with a significant increase is for legal contracts, rising from $1.4 million to $3.4 million.

The County's mass transit related expense is also included in OTPS. Funding for Long Island Bus has been reduced from $9.1 million to $2.5 million. The County is currently negotiating a contract with Veolia Transportation to run the bus system starting in 2012, in place of the MTA. Veolia has agreed to maintain all routes and to keep fares constant in 2012.

The direct assistance budget, including Preschool and Early Intervention Services, is increasing by $9.7 million, or 1.6%. Medicaid is increasing compared to the FY 11 Adopted Budget by $7.2 million. The County share of Medicaid expense is capped at 2011 expenses plus three percent. OLBR is currently projecting FY 11 expenses will be on budget. The FY 12 proposed budget represents a 3.0% increase from the prior year budget.

There has been a Countywide effort to reduce expenses by cutting contracts and renegotiating rates for non-mandated services in Recipient Grants, Purchased Services and Emergency Vendor Payments. The savings are offsetting the caseload increases in the Temporary Assistance to Needy Families (TANF) and Safety Net programs. As caseloads stabilize, a modest increase of $0.9 million is budgeted for these entitlement programs. The August filings for TANF and Safety Net actually show a 0.5% decrease from the prior month in 2011.

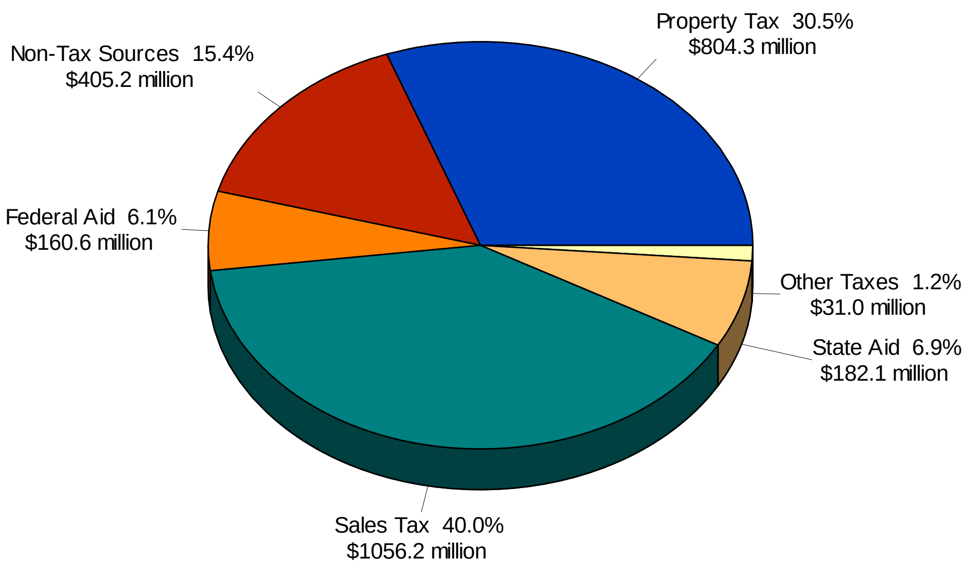
Early Intervention and Pre-School Education services are increasing by $1.7 million due to greater Pre-school education expenses resulting from a growing number of children attending Preschool center based programs. This increase is being offset by a decrease in Children's Early Intervention Services, due to a 5% rate reduction mandated by New York State.

The debt service budget is increasing by $28.8 million. In addition to its already scheduled debt for past borrowings, and any further 2011 issuances, the proposed 2012-2015 Multi-Year Plan anticipates going to market for a total of $195.0 million in new long-term debt and $550.0 million in short-term debt in 2012.

Finally, following an FY 11 budget that includes a $70.0 million contingency reserve for unforeseen events, there is no contingency reserve proposed for 2012. The plan to fund the FY 11 contingency included $30.0 million for the securitization of Mitchel Field leases, and land sales valued at $25.0 million.

Proposed Revenue Budget

Chart 1.2: FY 12 Major Funds' Revenue ($2.6 billion)



Data reflects major funds excluding Sewer and Storm Water Resource District and inter-dept charges.

The largest revenue source for the County is sales tax, making up 40.0% of all receipts, as illustrated in Chart 1.2. As can be seen in Table 1.3: Major Funds Revenue FY 11 vs. FY 12, the proposed sales tax revenue in the FY 12 Executive Budget is $1.056.2 billion, an increase of $32.9 million over the current adopted. For a further discussion of sales tax, see Section 4 of this document.

Property tax is the next most significant revenue source for the County. The 2012 proposed budget, as shown in Table 1.2, reflects an increase of $2.3 million. This increase represents the net value of new construction added to the tax rolls in 2012.

It should be mentioned that FY 12 is the first year the County property tax levy is subject to the property tax levy limit, or cap, established by Chapter 97 of the Laws 2011. The following is a summary of the legislation provided by the Office of the State Comptroller:

Under this new legislation, the property taxes levied by affected local governments and school districts generally cannot increase by more than 2 percent, or the rate of inflation, whichever is lower. However, the law does allow local governments and school districts to levy an additional amount for certain excludable expenditures. An override of the levy limit is also permitted.

Other key provisions in the legislation related to calculating the tax levy limit for the coming fiscal year include:

• Commencing with fiscal years that begin in 2013, the ability to carryover "unused" levy limit amounts from one year into the next. If a local government or school district levies less than the levy limit in the prior fiscal year or school year, the unused portion of the prior years' tax levy limit, up to 1.5 percent, can be carried over into the next fiscal year.

• An adjustment for certain tax base growth, such as new construction (i.e. "tax base growth factor"). This is driven by a "quantity change factor" which is calculated by the Department of Taxation and Finance and is used in determining the tax base growth factor, if any, for each local government and school district

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

• A tax levy necessary for expenditures for the coming fiscal year for employer contributions to local government and school district to the New York State and Local Employees' Retirement System and the New York State and Local Police and Fire Retirement System caused by growth in the "system average actuarial contribution rate" in excess of 2 percentage points.

Table 1.2: Property Tax Levy

Property Tax Levy						
Fund	2009 Adopted	2010 Adopted	2011 Adopted	2012 Proposed	$ 2012 vs 2011	% 2012 vs 2011
Fire Commission	15,465,535	15,400,795	15,654,489	14,411,433	(1,243,056)	-7.9%
General	156,498,471	162,838,578	174,506,692	194,359,334	19,852,642	11.4%
Police District	345,035,890	343,354,134	364,488,774	334,940,738	(29,548,036)	-8.1%
Police Headquarters	289,073,953	279,980,342	245,665,677	260,620,053	14,954,376	6.1%
Subtotal Major Funds	**$806,073,849**	**$801,573,849**	**$800,315,632**	**$804,331,558**	**$4,015,926**	**0.5%**
Sewers	110,031,815	116,031,815	119,031,815	117,270,940	(1,760,875)	-1.5%
Total Major Funds & Sewers	**$916,105,664**	**$917,605,664**	**$919,347,447**	**$921,602,498**	**$2,255,051**	**0.2%**
Enviromental Bond	4,850,000	9,000,000	11,250,000	11,250,000	0	0.0%
College[1]	52,206,883	52,206,883	52,206,883	52,206,883	0	0.0%
Grand Total	**$973,162,547**	**$978,812,547**	**$982,804,330**	**$985,059,381**	**$2,255,051**	**0.2%**

1. 2012 College Budget has already been adopted

The $63.6 million decrease seen in the chart below for non-tax revenue sources is made up of a number of factors, including:

- the removal of the Mitchel Field securitization for $30 million;

- the decreasing of Red Light Camera fines revenue by $32.3 million, of which $23.4 million was to have come from the state initiative to add more cameras;
- the decreasing of anticipated land sale revenue from $25.0 million to $7.3 million;
- the zeroing out of $10.6 million for recovery of prior year appropriations;
- the reduction of TPVA fines violations by $4.2 million;
- A reduction of $3.8 million for investment income on the County's cash holdings; and
- The zeroing out of $1.5 million for OTB profits.

Those reductions are partially offset by anticipated NIFA debt restructuring proceeds of $15.0 million. This would require NIFA's consent. In addition, $18.0 million in borrowed proceeds are included in the operating budget to pay for other suits and judgments. A combination of budget changes for various department revenues will result in a net increase of $4.4 million, most significantly $1.5 million for the tow truck franchise fee in the Police Department, and $1.4 million in Parks for cabana rentals.

Table 1.3: Major Funds Revenue FY 11 vs. FY 12
($'s in millions)

	2011 Adopted	2012 Proposed	Var.
Revenues			
Use of Reserves	2.0	0.0	(2.0)
Non-Tax Sources	468.9	405.2	(63.6)
Federal Aid	151.8	160.6	8.8
State Aid	221.5	182.1	(39.4)
Sales Tax	1,023.3	1,056.2	32.9
Property Tax	800.3	804.3	4.0
Other Taxes	32.8	31.0	(1.8)
Total Revenues[1]	**$2,700.6**	**$2,639.5**	**($61.2)**

1. Excludes interdepartmental revenue & debt service chargebacks

Anticipated revenue from federal aid is increasing by $8.8 million. Of this amount, $5.9 million is due to the shift in reimbursement rates between TANF and Safety Net assistance, which results in a shift between federal and state aid. The components of the DSS increase include a Federal assistance increase of $23.9 million (which will be offset by a State Aid decrease of $11.3 million) offset by the loss of $16.3 million from the American Recovery and Reinvestment Act (ARRA) which provided assistance to state and local governments in the form of an increased share of the Federal contribution towards Medicaid (FMAP). In Corrections, the SCAAP (State Criminal Alien Assistance Program) program which provides assistance for the cost related to incarcerating undocumented aliens is increasing by $3.0 million.

State aid is estimated to decrease by $39.4 million in FY 12 of which $25.3 is in Social Services. Of the DSS change, $11.3 million is attributable to the shift between federal and state aid discussed above. In addition, the reduction of expenses in the Juvenile Detention Center will lead to the loss of $4.0 million reimbursable revenue. Finally, home relief revenue is decreasing $6.8 million. A $5.0 million State initiative to collect a ticket surcharge to recover costs which Nassau County incurs in patrolling the Long Island Expressway and portions of Sunrise Highway has been removed from the proposed budget. State-aid is decreasing in the Health Department by $4.1 million due to reduced reimbursement anticipated from reduced salaries from the workforce reduction savings and from decreased expenses for children's early intervention services. Children's Early Intervention Services is declining due to a 5% rate reduction dictated by New York State. Finally, both the Medical Examiner's Office and the Police department combine for a $4.1 million decrease as the State instituted across the board cuts to local municipalities and governments.

The other taxes revenue is decreasing by $1.8 million. The OTB 5% Surcharge revenue represents collections from the 5% surcharge placed on all winning bets made at any of the six New York State OTBs on races that occur at Belmont. The decrease is largely the result of New York City OTB having declared bankruptcy, after having a budget of $1.1 million in FY 11.

The proposed budget has reduced the planned use of reserve funding from $2.0 million to zero. The planned $2.0 million usage in the current year will come from the Employee Accrued Liability fund and will be utilized in the Police District fund to cover the costs of termination pay for retiring officers.

Budget Risks and Opportunities

Any initiative that requires either New York State or Nassau County legislative approval is considered to be at risk. For certain other items, such as the employee contribution to health insurance and the elimination of the education stipend, the concern is over a question of law, namely whether the County Executive can unilaterally impose changes to the collective bargaining agreements of the County's unions. Each item listed will be detailed further in our Departmental Analysis.

The items that may be at risk in the proposed budget are listed in Table 1.4, below.

Table 1.4: Risks and Contingencies

Expenses (in millions)

Item	OLBR Surplus/Risk
Salary Initiative (Layoffs)	(35.4)
Ending of NIFA Wage Freeze	(23.6)
Employee Contribution to Health Insurance Cost (Incl. SSW)	(71.1)
Overtime (Police & Corrections)	(44.4)
Termination Pay	(19.5)
Strategic Sourcing	(15.0)
Education Stipend	(2.5)
Expense Sub Total	**(211.4)**

Revenue (in millions)

Item	OLBR Surplus/Risk
Borrowing to pay for Other Suits and Judgments	(18.0)
NIFA Debt Restructuring	(15.0)
Sales Tax	(12.9)
TPVA Fines	(3.6)
Red Light Camera Program	(3.3)
Police Revenue	(7.5)
FIT Reimbursement	(3.1)
Sale of Property	(2.5)
Correctional Center Revenue	(3.6)
Revenue Sub Total	**(69.5)**
Total Risks	**(280.9)**
Opportunities	
PPP - Sewer System Assets	150.0
Health Insurance Rate Differential	4.2
NIFA Wage Freeze	23.6

Although we have identified $280.9 million worth of budgetary items that are classified as risks, there are some offsetting opportunities that may be achievable. The most likely of these is for the NIFA wage freeze to be extended for another year, valued at $23.6 million. Health insurance presents another opportunity, as the FY 12 budget includes an increase of 13.3% for active and retiree health insurance plans. The growth rate is conservative in light of New York State's Second Quarter Experience Report which estimates health insurance rates to increase by roughly 9.7% in 2012. Based on the State's latest rate projection, OLBR projects the health insurance cost at approximately $272.7 million, which is $4.2 million less than the amount budgeted in the FY 12 budget. Finally there is public private partnership involving the county's sewer system assets. Although not included in the proposed budget, the Administration is actively seeking to implement this initiative, which could bring in significant revenue.

Multi-Year Plan

Table 1.5 below details projected expenditures and revenues through 2015. The budgetary gaps that result over that period show what could occur if no corrective actions are taken.

Table 1.5: Multi-Year Plan Projections (Major Funds)
($'s in millions)

	2012	2013	2014	2015
Revenues				
Fund Balance	$0.0	$0.0	$0.0	$0.0
Use of Reserves	$0.0	$0.0	$0.0	$0.0
Non-Tax Sources	$405.2	$388.3	$406.0	$416.2
Federal Aid	$160.6	$162.5	$164.2	$165.5
State Aid	$182.1	$185.4	$188.6	$191.7
Sales Tax	$1,056.2	$1,086.8	$1,118.3	$1,150.8
Property Tax	$804.3	$804.3	$804.3	$804.3
Other Taxes	$31.0	$30.7	$30.4	$30.4
Total Revenues	$2,639.5	$2,658.1	$2,711.8	$2,758.9
Expenses				
Salaries	$747.8	$791.1	$831.1	$877.2
Fringe	$412.2	$488.1	$461.8	$500.1
OTPS	$448.9	$455.7	$472.0	$469.4
Direct Assistance	$619.9	$632.5	$645.3	$657.0
Debt Service	$380.3	$395.8	$398.6	$396.8
Workers Compensation	$30.4	$31.3	$32.2	$33.1
Total Expenses	$2,639.5	$2,794.5	$2,840.9	$2,933.6
Surplus/Gap Projection	**$0.0**	**($136.4)**	**($129.1)**	**($174.8)**

1.Less interdepartmental charges, debt service chargebacks and Sewer & Storm Water District.

Over the course of this MYP, total expenses are projected to grow by 11.1% while revenues increase at the lower rate of 4.5%. Rising costs for salaries, fringe benefits, direct assistance and debt service will outpace the County's largest revenue source, sales tax. The County's second largest revenue source, property tax, is not projected to increase over the next four years.

- Salaries and wages will increase by $129.4 million, from a proposed budget of $747.8 million in FY 12 to $877.2 million in FY 15. The FY 12 Proposed Budget includes $51.6 million in savings from layoffs which carries to the out years. Previously deferred wages are impacting FY 12 by $7.3 million, $1.1 million in FY 13, $7.8 million in FY 14 and $8.0 million in FY 15. The Multi-Year Plan however, conservatively includes inflators for all the unions from FY 2013 through FY 2015 and the possible continuation of the freeze is included below the line as a gap closer in the FY 13 through FY 15.

- Fringe benefits will increase by $87.8 million, from an estimate of $412.2 million in FY 12 to $500.1 million in FY 15. Health insurance expenses for active and retired employees are projected to increase by $63.6 million to $340.4 million in FY 15. Pension costs are expected to decrease by $19.5 million to $135.1 million in FY 15. Social security expenses are increasing by $8.9 million to $61.1 million in FY 15.

- Over the course of the MYP, OTPS expenditures will increase by $20.5 million, or 4.6%.
- Direct Assistance will increase by $37.1 million, from an estimate of $619.9 million in FY 12 to $657.0 million in FY 15. The largest increases are for the Early Intervention/Pre-school Special Education Program ($13.2 million) and Medicaid ($9.0 million). There is a corresponding increase in state aid of $9.6 million over the same time period.
- Debt Service will increase by $16.5 million, from an estimate of $380.3 million in FY 12 to $396.8 million in FY 15.
- Sales tax is projected to increase by $94.6 million, from a projected amount of $1.056 billion in FY 12 to an estimate of $1.150 billion in FY 15. The MYP projects 2.9% growth for all years.
- Federal aid is moderately increasing by $4.9 million.
- The non-tax sources category shows an increase of $10.9 million. Two of the more significant items are an increase of $21 million in investment income, offset by a decrease of $15.0 million for NIFA debt restructuring after 2012.
- The property tax levy will stay constant from FY 12 to FY 15.
- Tax Certs are funded in the operating budget through 2015 at $70 million.

The MYP contains various items to reduce the projected out-years gap. These items are divided into two categories: expense/revenue actions and financing options/asset sales, as illustrated in Table 1.6.

Table 1.6: Gap Closing Measures Detail 2012 - 2015

	2012	2013	2014	2015
Current Baseline Gap		**(136.4)**	**(129.1)**	**(174.8)**
Financing Options/Asset Sales				
Surplus Land Sales		5.0	10.0	10.0
Public Private Partnerships	135.0	125.0	50.0	25.0
Expense/Revenue Actions				
Labor Actions (Combination of layoffs and furloughs)	120.0			
New York State Legislative Initiatives				
Elimination of MTA Station Maintenance	28.1	29.0	30.0	31.0
Red Light Camera Phase II	18.0	12.0	9.0	7.0
LIE Ticket Surcharge	5.0	5.0	5.0	5.0
Tax Certiorari Savings				
Guarantee Removal Savings		14.0	28.0	42.0
Assessment Grievance Band (addition to Guarantee removal)			6.0	12.0
Continuance of NIFA Wage Freeze		27.3	61.9	100.2
Value of New Construction		3.0	6.0	9.0
Total Gap Closing Initiatives		**$220.3**	**$205.9**	**$241.2**
Projected Baseline Gap After Gap Closing Actions		**83.9**	**76.8**	**66.4**

The MYP includes a number of significant actions that may occur in 2012. In the event "the unions choose not to work with the Administration in realigning the labor agreements to produce the required level of savings," further workforce reduction and employee furloughs are included as contingencies, shown as Labor Actions in the chart above. The layoffs would target 600 additional employees for a savings of $60 million. The furlough plan would transition "employees not working in vital health and public safety areas," to a four-day work week. It is also targeted to produce $60 million in savings.

The Administration is also moving ahead with its plans to pursue a public-private partnership "involving the assets of the County's sewer system." According to the Proposed 2012 Budget Summary, the initiative is expected to:

> generate net revenue of approximately $500 million for the County and aid in bridging the gap to achieving long-term recurring budgetary balance. Additionally, this transaction will retire approximately $500 million of Nassau's debt.

Although the MYP anticipates that the County will receive $135 million in 2012 related to the public-private partnership involving the sewer assets, the proposed FY 12 budget does not include any revenue from this source. The Administration has already begun to factor the closing of this deal into its future plans. For example, there are no planned debt issuances of Revenue Anticipation Notes for cash flow borrowings expected from 2013 to 2015. The Administration believes that the revenues received from the sewer privatization will enable the County to consolidate its normal two cash flow borrowings into one annual cash flow borrowing which will be smaller in the aggregate

There are three gap-closing initiatives requiring state approval. The Administration has included the elimination of the MTA Station Maintenance payment as an expense savings, gap closer in the 2012 to 2015 Multi Year Financial Plan, MYP. They expect to save $28.1 million in 2012, $29.0 million in 2013, $30.0 million in 2014 and $31.0 million in 2015. These savings must all be considered a risk since State enabling legislation is required to eliminate the County's liability. Pursuant to section 1277 of the Public Authorities Law, Nassau County is bound to pay for the cost of operation, maintenance and use of the Long Island Rail Road passenger stations located in the County of Nassau. The annual amount is calculated by way of a base year with an annual CPI adjustment. The payment is due by September 1 of each year.

The County will continue to pursue the expansion of the Red Light Camera program and is seeking the installation of 100 additional cameras at 50 additional intersections on state roads.

The cost incurred by the Police Department for patrolling the Long Island Expressway, a State owned highway, is borne by Nassau County. The County is seeking a surcharge of $50 per ticket for certain traffic offenses and infraction convictions as reimbursement for providing this service. Given that this proposal has not been well received in the past, it is questionable that any revenue/savings will be achieved.

The Administration has included two tax certiorari reforms as gap closers in the 2011 to 2015 Multi-Year Financial Plan. The Guarantee Removal Savings is expected to lower County expenses by $14.0 million in 2013, $28.0 million in 2014, and $42.0 million in 2015. Currently when a County resident challenges his assessment and is eligible for a refund, the County must pay back the resident for the erroneous taxes which it levied as well as the erroneous taxes levied by the Town, School, and Special Districts in which the resident lives. Since the guarantee was removed, the County will only be liable to refund the taxes which it erroneously levied, approximately 17% of the total. The Assessment Grievance Band is an initiative which will require State enabling legislation. As such all the expense savings included are considered a risk. The plan includes expense savings of $6.0 million in 2014 and $12.0 million in 2015. If implemented, an assessment grievance band would mean that a resident who challenges his or her assessment would only be eligible for a refund if he or she was found to be over-assessed by more than a specific percentage. For example, if the band is set at 10% and a resident is found to be over-assessed by 8%, then he or she would not be eligible for a refund. However, if the band is set at 10% and a resident is found to be over-assessed by 12%, then he or she would be eligible for a refund.

Surplus Land Sales would provide revenue by selling unneeded County property.

The NIFA wage freeze will expire in March of next year. The proposed FY12 budget assumes the continuance of the freeze through 2012, and the MYP assumes the continuation of the freeze through 2015.

The value of new construction, estimated at $3.0 million per year from 2013-2015, will be added to the property tax levy.

Conclusion

The proposed budget contains budgetary risk valued at $280.9 million, plus an unquantifiable operational risk that will result from significant workforce reduction. The Administration will have to manage its resources nimbly and with care to ensure that the most critical governmental functions are maintained.

2. LABOR

On March 15, 2011 the County Executive requested that the Nassau Interim Finance Authority (NIFA) declare that the County faced a fiscal crisis and to implement a wage freeze for all employees, including the contractual cost of living adjustments (COLA) and step increases for union members. The freeze will result in salary savings of $10.0 million in 2011 as the following scheduled increases are now suspended:

- CSEA 3.75% as of 4/1/2011.
- PBA 1.0% for all steps below the top and 4.0% for the top step as of 4/1/2011.
- DAI 1.0% for all steps below the top and 3.75% for the top step as of 6/1/2011.
- SOA 3.45% for all steps as of 7/1/2011.
- ShOA 1.0% for all steps below the top and 3.65% for the top step as of 4/1/2011.
- CSEA employees hired after 4/12/99 and ShOA employees hired after 3/31/01 who step on their anniversary dates will not receive their incremental step increase if their anniversary date falls after March 23.

The proposed 2012 budget assumes the continuation of the wage freeze and does not include any steps or any of the scheduled contractual wage increases. These are:

- CSEA 3.75% as of 4/1/2012.
- PBA 1.0% for all steps below the top and 4.0% for the top step as of 4/1/2012.
- DAI 1.0% for all steps below the top and 3.75% for the top step as of 6/1/2012.
- SOA 3.45% for all steps as of 7/1/2012.
- ShOA 1.0% for all steps below the top and 3.65% for the top step as of 4/1/2012.

The current freeze will expire in March 2012; should NIFA not impose a new freeze, the exposure to the budget will be approximately $23.6 million. It is not clear how the end of the wage freeze will affect salaries, there are two views as to what will occur with employee grade / steps. One is that salaries will pick-up as if employees had stepped throughout the freeze. If this proves to be a fact, it is of great significance as the County can see major increases in salaries once the freeze is lifted. On the other hand, the County feels that the implementation of the freeze has the effect of holding the steps at the point when the freeze was imposed. Currently there is no indication as to when the wage freeze will end. The Multi-Year Plan however, conservatively includes inflators for all the unions from FY 2013 through FY 2015 and the possible continuation of the freeze is included below the line as a gap closer in years FY 13 through FY 15.

Labor Contracts

In 2008 and 2009 the County was able to negotiate a number of contracts, extensions, and supplemental Memorandum of Agreements (MOA) to help achieve savings by mainly deferring expenses to the out years. As a result, all the major unions have contracts until December 31, 2015. When the labor contracts were renegotiated, the County did not expect a prolonged recession; which makes it that much more difficult to meet out year contractual obligations illustrated in table 2.1 below:

Table 2.1: FY 13 to FY 15 Union Wage Increases

Scheduled Union Wage Increase Summary									
PBA		DAI		SOA		CSEA		ShOA	
1/1/2013	3.50%	1/1/2013	3.50%	1/1/2013	3.50%	1/1/2013	3.50%	1/1/2013	3.50%
1/1/2014	3.50%	1/1/2014	3.50%	1/1/2014	3.50%	1/1/2014	3.50%	1/1/2014	3.50%
1/1/2015	3.75%	1/1/2015	3.75%	1/1/2015	3.75%	1/1/2015	3.75%	1/1/2015	3.75%

The salary obligations are not limited to employee base earnings, but include other entitlements, referred to as "salary extras" that can significantly boost the base salary. Using the 2010 full year W-2 earnings, these are illustrated in table 2.2 below:

Table 2.2: Total 2010 W-2 Salary Earnings

Major Funds Including Sewers 2010 Full Time Union Earnings (millions)									
Union	Regular Earnings	Overtime	Holiday	Longevity	Shift Diff	Term Pay	Other	Salary Extra Total	2010 W-2 Total Earnings
CSEA	256.8	16.0	2.2	6.9	4.2	9.1	8.8	47.2	304.0
SHOA	80.1	19.0	3.4	2.3	4.2	1.2	1.4	31.5	111.6
DAI	45.8	7.8	2.0	2.6	4.1	7.6	3.0	27.1	72.9
IPBA	3.5	0.4	-	0.1	0.0	0.1	0.3	0.9	4.3
PBA	164.4	27.2	7.0	8.2	13.7	16.4	5.5	78.1	242.5
SOA	53.7	6.4	2.3	2.8	3.7	18.1	4.8	38.1	91.8
Grand Total:	**604.2**	**76.8**	**17.0**	**23.0**	**29.9**	**52.5**	**23.8**	**222.9**	**827.1**

In addition, the County is obligated to pay for various salary related expenses that had been deferred in prior years. The schedule of amounts due in years 2012 – 2015 is shown in the table 2.3 below:

Table 2.3: MYP Deferral Payments (Incl. SSW)

Payments of Deferred Salaries Expense				
Union	2012	2013	2014	2015
PBA	2,944,445	-	-	-
SOA	2,985,774	1,106,085	-	-
DAI	1,329,424	-	-	-
CSEA	-	-	6,523,431	6,762,842
ShOA	-	-	1,655,093	1,705,242
Total	**7,259,643**	**1,106,085**	**8,178,524**	**8,468,084**

The overtime expense is budgeted to be $27.4 million in the proposed FY 12 budget which is $38.2 million lower than the adopted FY 11. The Police department hopes to implement some initiatives which will be discussed below and in the department write-up that will reduce cost. As illustrated in table 2.4 there is a significant risk associated with the FY 12 funding:

Table 2.4: Overtime Trends

OVERTIME TRENDS	2010 Actual	2011 Adopted	2011 Projected	2012 Proposed
Police District	24,313,521	19,000,000	26,108,859	4,038,462
Police Headquarters	19,033,148	20,000,000	22,800,936	2,961,538
Total	43,346,669	39,000,000	48,909,795	7,000,000
Corrections	21,465,257	20,225,550	18,308,217	15,153,356
Police & Corrections	64,811,926	59,225,550	67,218,012	22,153,356
Others	6,396,481	6,396,481	5,324,486	5,263,106
TOTAL:	72,309,776	65,622,031	72,542,498	27,416,462

2012 Layoffs

In June of 2011, the Administration introduced an ordinance that abolished 128 CSEA positions saving $3.4 million in 2011 and $8.9 million in 2012. Although the labor agreements discussed above included clauses that prevented layoffs, they had all expired except for PBA, which runs through 2011. With the restrictions lifted, the Administration has targeted $51.6 million in savings from the elimination of 724 budgeted positions Countywide. However, based on the current on board, a reduction of 564 in the major funds is what will be needed to achieve the headcount goal. The positions have not yet been identified at the department level; that task will be left to the commissioners. Any list will need to be vetted by the Civil Service Commission to ensure that the “bump and retreat” process, by which an employee with more seniority is allowed to return to a prior position, has taken place and a final list generated. In the meantime the targeted heads are all reflected in budget of the Office of Management and Budget (OMB). Table 2.5 illustrates that contrary to the headcount, the expense savings targets are reflected at the department level:

Table 2.5: Layoff Targets by Department

SALARY INITIATIVES AS A PERCENT OF TOTAL PAYROLL BY DEPARTMENT				
DEPARTMENT	**2012 PROP SALARIES**	**SAVINGS FROM INITIATIVES**	**SALARY PRIOR TO ADJUSTMENT**	**SAVINGS AS A % OF BUDGET**
ASSESSMENT REVIEW COMMISSION	1,800,980	(202,980)	2,003,960	-10.1%
ASSESSMENT DEPARTMENT	8,434,763	(1,396,667)	9,831,430	-14.2%
COUNTY ATTORNEY	7,786,438	(901,031)	8,687,469	-10.4%
OFFICE OF MANAGEMENT AND BUDGET	2,314,399	(250,057)	2,564,456	-9.8%
OFFICE OF CONSUMER AFFAIRS	1,690,540	(238,919)	1,929,459	-12.4%
SHERIFF/CORRECTIONAL CENTER	117,412,839	(5,631,416)	123,044,255	-4.6%
COUNTY EXECUTIVE	1,751,629	(137,500)	1,889,129	-7.3%
OFFICE OF CONSTITUENT AFFAIRS	1,703,507	(711,418)	2,414,925	-29.5%
COUNTY CLERK	5,412,219	(592,239)	6,004,458	-9.9%
COUNTY COMPTROLLER	6,410,289	(382,060)	6,792,349	-5.6%
CIVIL SERVICE	3,858,344	(788,354)	4,646,698	-17.0%
DISTRICT ATTORNEY	28,218,694	-	28,218,694	0.0%
BOARD OF ELECTIONS	12,192,047	(3,654,059)	15,846,106	-23.1%
EMERGENCY MANAGEMENT	581,771	(12,592)	594,363	-2.1%
FIRE COMMISSION	9,678,789	(615,423)	10,294,212	-6.0%
HEALTH DEPARTMENT	14,028,653	(1,852,416)	15,881,069	-11.7%
HOUSING & INTERGOVERNMENTAL AFFAIRS	82,700	(130,625)	213,325	-61.2%
COMMISSION ON HUMAN RIGHTS	270,333	(219,761)	490,094	-44.8%
DEPARTMENT OF HUMAN SERVICES	6,780,727	(421,933)	7,202,660	-5.9%
INFORMATION TECHNOLOGY	6,904,265	(346,365)	7,250,630	-4.8%
COUNTY LEGISLATURE	5,468,188	(723,143)	6,191,331	-11.7%
OFFICE OF LABOR RELATIONS	227,000	(125,000)	352,000	-35.5%
OFFICE OF MINORITY AFFAIRS	280,017	(226,125)	506,142	-44.7%
MEDICAL EXAMINER	4,836,109	(822,619)	5,658,728	-14.5%
PUBLIC ADMINISTRATOR	453,354	(62,496)	515,850	-12.1%
PROBATION	16,623,623	(2,091,293)	18,714,916	-11.2%
POLICE DEPARTMENT	386,249,996	(15,828,288)	402,078,284	-3.9%
DEPARTMENT OF HUMAN RESOURCES	708,004	(19,136)	727,140	-2.6%
PARKS, RECREATION AND MUSEUMS	13,502,466	(2,094,709)	15,597,175	-13.4%
PURCHASING DEPARTMENT	1,083,245	(135,764)	1,219,009	-11.1%
PUBLIC WORKS DEPARTMENT	26,537,741	(6,432,144)	32,969,885	-19.5%
OFFICE OF REAL ESTATE SERVICES	757,249	(80,871)	838,120	-9.6%
RECORDS MANAGEMENT	758,395	(30,307)	788,702	-3.8%
COORD AGENCY FOR SPANISH AMERICANS	250,950	(35,850)	286,800	-12.5%
SOCIAL SERVICES	47,611,546	(3,642,215)	51,253,761	-7.1%
COUNTY TREASURER	2,086,810	(268,339)	2,355,149	-11.4%
TRAFFIC & PARKING VIOLATIONS AGENCY	2,835,441	(501,639)	3,337,080	-15.0%
VETERANS SERVICES AGENCY	168,901	(22,855)	191,756	-11.9%
Grand Total	**747,752,961**	**(51,628,608)**	**799,381,569**	**-6.5%**

Further analysis indicates that should the salary amounts included as savings not come to fruition many departments will have payroll shortfalls based on their current on board salaries. It is important to note that there are pending lawsuits from the June 2011 layoffs and one can't predict what, if any, action will result if the Administration proceeds with the planned layoffs. Table 2.6 below shows the staffing comparison by department. Until the layoffs are authorized and implemented, OLBR considers the budgetary savings to be at risk. However, since 160 of the targeted positions are currently vacant only $35.4 million of the $51.6 million is in doubt.

Table 2.6: Staffing Comparison

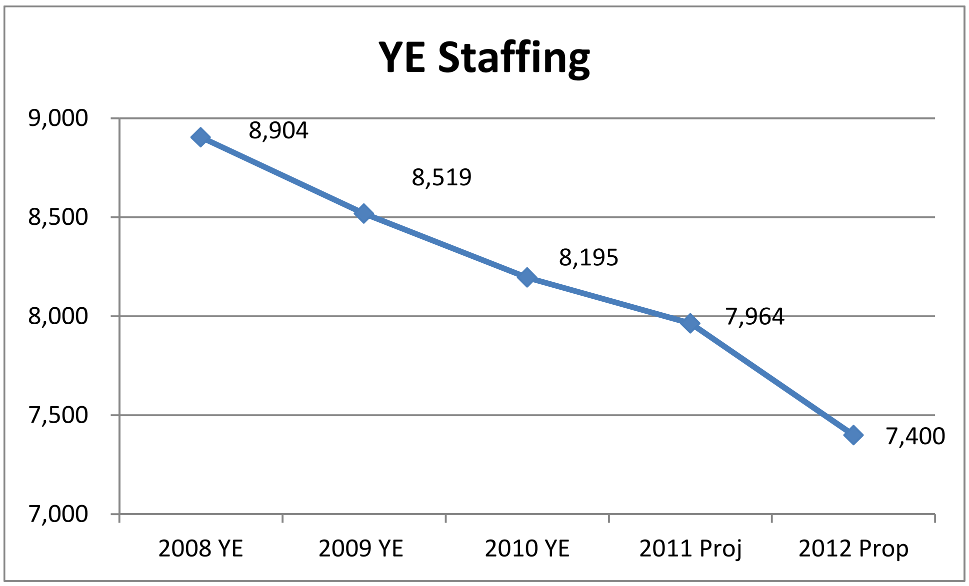
FULL TIME MAJOR FUNDS STAFFING COMPARISON

DEPARTMENT	11 ADOPTD HC	11 ADOPTED $$	2011 SEPT 8 ON BOARD HC	2011 SEPT 8 ON BOARD $$	2012 PROP HC	2012 PRO EXP
ASSESSMENT REVIEW COMMISSION	43	2,985,638	31	2,093,691	29	1,745,055
ASSESSMENT DEPARTMENT	216	12,808,478	169	9,580,201	169	8,193,902
COUNTY ATTORNEY	135	10,609,061	112	8,510,423	112	7,570,575
DEPT OF MH, CHEM DEPEND & DISABLE SVCS	62	4,924,452	50	3,936,946	-	-
OFFICE OF MANAGEMENT AND BUDGET	27	2,441,199	26	2,266,730	24	1,960,599
OFFICE OF CONSUMER AFFAIRS	33	1,890,853	32	1,800,111	32	1,561,192
SHERIFF/CORRECTIONAL CENTER	1,235	97,112,113	1,211	93,002,892	1,227	90,218,658
COUNTY EXECUTIVE	26	2,260,140	21	1,805,292	21	1,706,292
OFFICE OF CONSTITUENT AFFAIRS	44	2,365,563	43	2,236,886	43	1,573,862
COUNTY CLERK	103	5,360,004	97	4,904,339	103	4,613,577
COUNTY COMPTROLLER	88	6,939,174	74	5,565,203	87	6,115,088
CIVIL SERVICE	55	4,041,195	56	3,935,284	53	3,085,509
DISTRICT ATTORNEY	369	26,842,351	362	26,531,324	361	26,479,324
BOARD OF ELECTIONS	129	8,199,130	143	8,665,201	143	5,653,685
EMERGENCY MANAGEMENT	7	552,014	7	457,893	7	581,171
FIRE COMMISSION	107	7,455,214	94	6,619,848	101	6,408,282
HEALTH DEPARTMENT	210	14,933,960	201	14,078,570	204	12,731,639
HOUSING & INTERGOVERNMENTAL AFFAIRS	3	353,268	2	210,625	2	80,000
PHYSICALLY CHALLENGED	4	228,436	5	247,123	-	-
COMMISSION ON HUMAN RIGHTS	9	563,125	8	501,870	8	282,109
DEPARTMENT OF HUMAN SERVICES	-	-	-	-	96	6,457,029
INFORMATION TECHNOLOGY	121	9,639,365	73	6,685,847	81	6,581,286
COUNTY LEGISLATURE	95	5,959,899	82	5,060,808	94	5,242,201
OFFICE OF LABOR RELATIONS	5	358,000	5	352,000	5	227,000
OFFICE OF MINORITY AFFAIRS	6	405,642	6	405,642	7	224,517
MEDICAL EXAMINER	53	4,867,376	56	5,085,653	58	4,361,446
MISCELLANEOUS	-	-	-	-	-	-
PUBLIC ADMINISTRATOR	7	494,026	7	499,971	7	437,475
PROBATION	216	15,605,744	206	14,243,092	236	14,358,106
POLICE DEPARTMENT	3,306	317,969,900	3,192	308,169,130	3,221	297,254,069
DEPARTMENT OF HUMAN RESOURCES	9	671,240	9	671,240	9	652,104
PARKS, RECREATION AND MUSEUMS	148	8,226,714	173	8,931,108	172	6,965,673
PLANNING	22	1,687,861	22	1,626,406	-	-
PURCHASING DEPARTMENT	17	1,210,674	16	1,086,115	16	1,060,550
PUBLIC WORKS DEPARTMENT	526	32,458,487	452	27,626,988	471	22,730,421
OFFICE OF REAL ESTATE SERVICES	7	537,637	8	636,523	10	715,130
RECORDS MANAGEMENT	12	683,697	12	622,987	12	592,680
COORD AGENCY FOR SPANISH AMERICANS	4	211,800	5	286,800	5	250,950
SENIOR CITIZENS AFFAIRS	34	2,185,004	27	1,760,526	-	-
SOCIAL SERVICES	820	49,445,183	782	46,356,417	814	44,061,582
COUNTY TREASURER	37	2,419,994	34	2,204,710	35	1,961,371
TRAFFIC & PARKING VIOLATIONS AGENCY	47	2,478,031	46	2,441,933	46	1,940,294
VETERANS SERVICES AGENCY	8	465,211	3	182,843	3	159,988
NASSAU COUNTY YOUTH BOARD	5	349,801	4	320,841	-	-
UNASSIGNED LAYOFF HEAD COUNT	-	-	-	-	(724)	-
Grand Total	**8,410**	**671,196,654**	**7,964**	**632,208,032**	**7,400**	**596,794,391**

Headcount

There has been a continued effort to reduce headcount and control expenses. For the past three years, 2009, 2010 and 2011 the County and State have offered some form of Voluntary Retirement Incentive Program (VRIP) resulting in the separation of 792 full-time employees; in addition, the County also laid off 128 CSEA employees in June 2011. The 2012 Proposed budget includes consolidations and 724 additional layoffs that will bring the major funds full-time headcount to 7,400. Chart 2.1 trends full-time headcount from FY 08 to the proposed FY 12 budget:

Chart 2.1: Full Time Headcount Trend



The Planning department which shows a decrease of 22 heads has been absorbed into Public Works and Real Estate. Based on September actuals, this merger nets a decrease of 1 head. The departments of Behavioral Health, Youth Board, Senior Citizens and Physically Challenged are collapsed into the newly formed Human Services department for a net increase of 10 heads. The Administration is also proposing to merge the Department of Minority Affairs, Coordinating Agency for Spanish Americans and the Department of Human Rights into Office of Local Opportunities.

Planning → Real Estate (Transportation), Public Works

Behavioral Health, Youth Board, Senior Citizen, Physically Challenged → Human Services

As of September 8, 2011 the four major funds actual headcount is 7,964. There is a reduction of 1,010 full-time employees or 12.0% from the 2011 adopted budget to the 2012 proposed budget. Headcount in the 2012 proposed budget is at 7,400, a decrease of 564, or 7.1%, from the September headcount. Sewer and Storm Water District is increasing by 4 positions from the September actual and decreasing from the 2011 budget by 17 positions.

Included in the proposed FY 12 budget for Police is funding for 2,403 (2,397 excluding Chiefs and Deputy Commissioners) sworn officers, down 30 compared to the budget of 2,433 in FY 11 and 8 above September actuals. The department is not immune to the targeted savings imposed by the Administration; it will need to reduce payroll expenses by $15.8 million. The Administration believes this will be achieved through a menu of options including 1) The elimination of minimum manning. 2) Adding four more days to an officer’s schedule. 3) Closing two precincts. There are also talks of a reduction in the force of between 75 to 100 officers as a final option to realize the savings.

The Correctional Center full-time staffing is budgeted to increase from the September 1, 2011 actual by 16 positions. Through September the department has had success in reducing their overtime and is on track to end the year with a surplus in that category.

Other Labor Initiatives

The Administration has identified two contingency measures that it could implement should additional reductions be necessary:

- Further Workforce Reduction - $60 million: This will entail 600 additional layoffs.
- Furloughs – $60 million: this will be a transition to a four-day work week for employees not directly involved in public health and safety.

5. FRINGE BENEFITS

Fringe benefit expenditures include health insurance contributions for active employees and retirees, pension contributions for active employees and social security contributions. The FY 12 fringe benefit budget for the major funds is approximately $412.2 million, a $32.3 million decrease from the FY 11 adopted budget of $444.5 million and a decrease of $27.0 million from the FY 11 projection.

The significant decrease is due to the Administration's efforts to reduce the County's expenditures, despite escalating health insurance and pension contribution costs. The FY 12 proposed budget includes savings of $36.6 million from amortizing a portion of the pension bill and $69.2 million in health insurance contribution savings from the inclusion of a 25% contribution from all active and retired employees.

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

Table 3.1: Fringe Budget by Major Fund

Fund	Department	Adopted FY 11 Budget	OLBR FY 11 Projection	FY 12 Exec. Budget	Variance Exec. vs Adopted 11	Variance Executive vs FY 11 Proj.
Fire Commission	Fringe Benefits	4,158,734	$4,160,080	4,010,023	($148,711)	($150,057)
General Fund	Courts	2,117,499	1,770,634	1,390,381	(727,118)	(380,253)
	Fringe Benefits	200,351,921	198,085,343	182,153,320	(18,198,601)	(15,932,023)
	OMB/Miscellaneous	25,947,755	25,968,709	21,897,810	(4,049,945)	(4,070,899)
Police District	Fringe Benefits	108,763,657	107,909,317	105,170,157	(3,593,500)	(2,739,160)
Police Headquarters	Fringe Benefits	103,205,471	101,357,602	97,593,008	(5,612,463)	(3,764,594)
Total		**$444,545,037**	**$439,251,685**	412,214,699	**($32,330,338)**	**($27,036,986)**

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

Table 3.2: Fringe Budget by Sub-object

SubObject & Description	Adopted FY 11 Budget	OLBR FY 11 Projection	FY 12 Exec. Budget	Variance Exec. vs Adopted 11	Variance Executive vs FY 11 Proj.
08F - NYS Police Retirement	56,346,678	55,765,471	80,782,674	$24,435,996	25,017,203
10F - Fringe Benefits	0	15,842	0	$0	(15,842)
11F - State Retirement Systems	52,002,901	50,323,773	73,823,350	$21,820,449	23,499,577
13F - Social Security Contribution	57,650,129	57,495,285	52,204,635	($5,445,494)	(5,290,650)
14C - Employee Contributions	0	0	(32,937,362)	($32,937,362)	(32,937,362)
14F - Health Insurance	126,428,169	121,800,162	131,749,443	$5,321,274	9,949,281
17F - Optical Plan	1,016,570	889,723	951,940	($64,630)	62,217
19F - NYS Unemployment	1,076,953	1,816,604	6,141,621	$5,064,668	4,325,017
20F - Dental Insurance	4,963,275	4,240,274	4,876,590	($86,685)	636,316
22F - Medicare Reimbursement	15,259,350	15,056,679	15,711,200	$451,850	654,521
22S - Medicare Reimbursement Surcharge	0	584,427	200,754	$200,754	(383,673)
24F - Fringe Savings	0	0	(36,635,304)	($36,635,304)	(36,635,304)
26F - Flex Benefits	2,800,000	2,800,000	2,409,504	($390,496)	(390,496)
35F - MTA Mobility Tax	2,914,261	2,723,137	2,836,507	($77,754)	113,370
40F - CSEA Legal Plan	560,750	824,643	593,125	$32,375	(231,518)
41F - SHOA Legal Plan	132,000	128,750	129,250	($2,750)	500
45F - Disability Insurance	51,604	51,604	54,000	$2,396	2,396
75C - Employee Contributions for Retirees	0	0	(36,263,993)	($36,263,993)	(36,263,993)
75F - Health Insurance For Retirees	122,816,167	124,248,091	145,055,971	$22,239,804	20,807,880
76F - Employees Optical - Retirees	526,230	487,220	530,794	$4,564	43,574
Grand Total	**444,545,037**	**439,251,685**	**412,214,699**	**(32,330,338)**	**(27,036,986)**

08F & 11F State Pension for Police and Fire Retirement & 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 disability or death. The annual bill covers the period from April 1 of the previous year to the ensuing March 31. The pension payment date for participating employers is February 1, but local municipalities have the option to make the payment on December 1 at a discounted amount.

In FY 12, the Administration has decided to amortize a portion of the pension bill. The Employer Contribution Stabilization Program, signed into law on August 11, 2010 as Chapter 57 of the Laws of 2010, gives municipalities the option to amortize a portion of the total annual pension cost. Amortizations are paid in equal installments over a ten-year period at an interest rate that is set annually. The interest rate for the 2012 amortization is 3.75 percent. Once an employer elects to participate in the program and amortize an amount, they cannot withdraw from the program, although they will not be required to amortize every year. Employers who opt into the program will make higher payments when the rates are low. These excess payments will first be applied to any existing amortizations and, once amortizations are paid in full, are deposited into a reserve account fund to offset future rate increases.[1]

Table 3.3 below provides the FY 11 and FY 12 pension expenses billed by the State for Employee Retirement System (ERS) and Police and Fire Retirement System (PFRS). The amounts below include

[1] Office of the New York State Comptroller. "Letter to Employers of the Employee Retirement System and Police & Fire Retirement System," August 2011.

the Nassau Community College, the Sewer and Storm Water Resource District and the Grant Fund. The table also provides the lowered FY 12 expense that will be paid due to the amortized amount.

Table 3.3: FY11-FY12 Pension Invoices

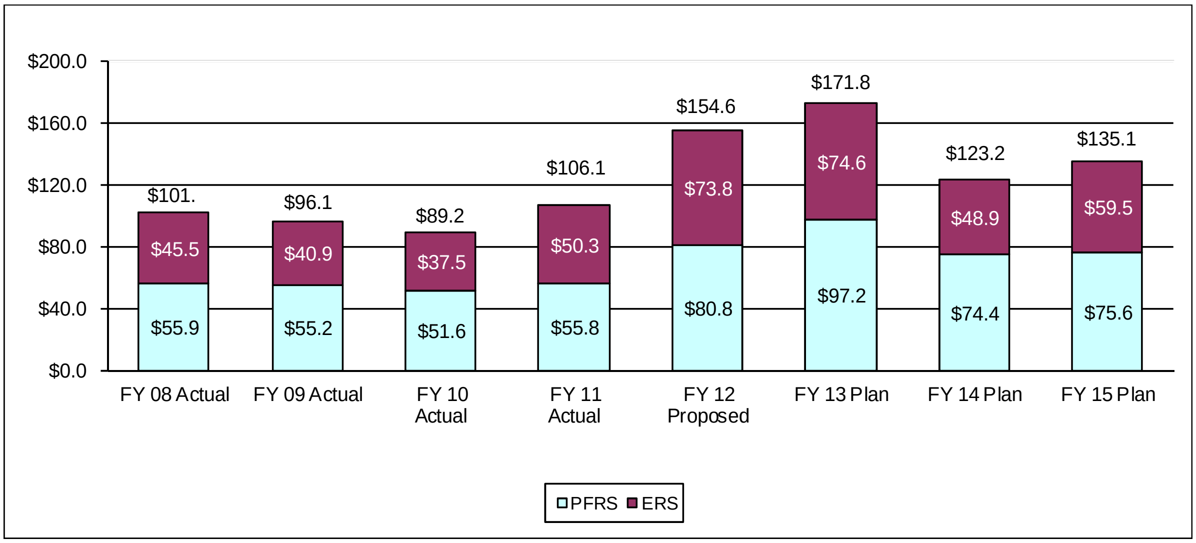
	2011 Actual	2012 Proposed	2012 vs. 2011
December			
ERS	57,212,363	80,138,262	22,925,899
PFRS	55,807,190	80,052,842	24,245,652
	113,019,553	**160,191,104**	**47,171,551**
December Payment With Amortization		**121,406,366**	
February			
ERS	57,765,435	80,864,114	23,098,679
PFRS	56,346,678	80,782,674	24,435,996
	114,112,113	**161,646,788**	**47,534,675**
February Payment With Amortization		**122,862,050**	
Savings From December Pre-payment	**1,092,560**	**1,455,684**	**363,124**
Pension Reduction Resulting From Amortization	**-**	**(38,784,738)**	**-**

The FY 12 proposed budget for pension costs is based on paying the pension bill on December 15, 2011. The early payment date will result in a savings of $1.5 million as shown in the chart above. The February 1 payment due date results in a higher net bill due to the corresponding change in the discount applied to the bill. The retirement system discounts the local bill at the statutory interest rate (8% annually) based on a payment date that falls prior to the end of the fiscal year.

Amortizing a portion of the bill reduces the pension expense to $121.4 million from $160.2 million (based on a December 15 payment date). The FY 12 budget includes a reduction of $38.7 million based on the maximum amortization allowed by the State. If not for the amortization, the total pension cost would be increasing by 42% from $113.0 million in FY 11 to $160.2 million in FY 12. The December payment of $160.2 million includes $80.1 million billed for Employee Retirement System (ERS) and $80.1 million billed for Police and Fire Retirement System (PFRS).

Chart 3.1 details the historical pension obligations from FY 08 to FY 11 and the projected costs from FY12 to FY 15. The chart below does not reflect the amortized portion of the pension bill but instead depicts the total gross amount. Additionally the figures below include the major funds and do not include the Nassau Community College, the Sewer & Storm Water Resource District and the Grant Fund.

Chart 3.1: FY 08 to FY 15 Pension Costs for the Major Funds (in Millions)

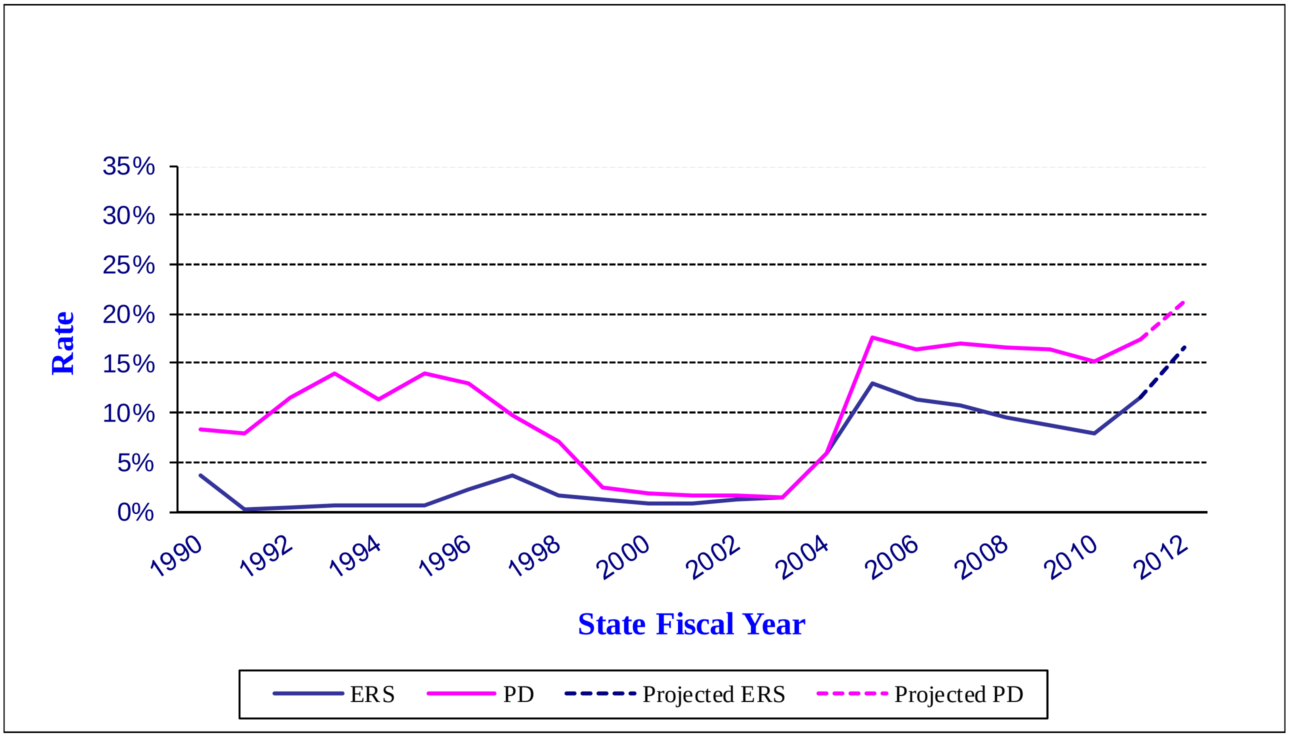


As reflected in the chart above, pension costs are projected to peak in FY 13. Pension contribution rates are still realizing the impact of the staggering stock market losses from the 2008 financial crisis. The New York State Common Retirement Fund experienced a negative 26% rate of return for the fiscal year ending 2009. When pension funds take a hit, it can take years for taxpayers to replenish them, even when the market is rebounding.

The FY 12 Executive Budget includes $154.6 million for ERS and PFRS pension obligations for the five major funds. This is an increase of $48.5 million from the FY 11 pension cost. The Multi-Year Plan projects pension costs to continue to increase in FY 13 to $171.8 million, and decrease to $123.2 million in FY 14 and increase to $135.1 million in FY 15.

Chart 3.2 depicts the annual blended average historical pension contribution rates for ERS and PFRS from 1990 to FY 2012.

Chart 3.2: Historical Pension Contribution Rates



Source: NYS Comptroller

As reflected in Chart 3.2, pension contribution rates spike in SFY (State Fiscal Year) 2011 and SFY 2012. In 2012, the State average pension contribution rate will rise from 16.3% to 18.9% of payroll for ERS and the PFRS will increase from 21.6% to 25.8%. Because of the recession, the New York State Common Retirement Fund rate of return continues to absorb the impact of the 2009 recession. The pension system smoothes the impact of a market decline so that it isn't felt at once but instead is spread over a multi-year period. The rate setting methodology spreads or smoothes unexpected equity investment performance over a five year period to lessen the volatility of the impact upon employer contribution rates.[2]

As the Fund experiences positive growth, the impact of the loss will start to wane, resulting in projected rate decreases for FY 14 and FY 15. The Fund has experienced positive growth over the past two consecutive years. The Fund earned a 14.6% rate of return for the fiscal year ending March 31, 2011. The estimated value of the Fund is larger than it has been since the steep downturn of the 2008-2009 fiscal year and about $6 billion higher than it was at the end of 2010.[3] The State Comptroller's Office provides estimated rates for SFY 2011, SFY 2012 and projected long term rates. The rates provided by the State Comptroller continue to increase in 2013, but the long term rates are projected to be lower than the 2012 estimated rates.

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[2]. Office of the New York State Comptroller. "Letter to Employers of the Employee Retirement System and Police & Fire Retirement System," August 2011.

[3] Seiler, Casey, "DiNapoli: Pension fund posts best showing since 2008." Capital Confidence

The State Comptroller has implemented some actions to help municipalities manage the increased pension costs. In 2009, the Governor signed into law a new tier of pension benefits (Tier 5) which significantly changes the benefits for future public employees. Recently, the State Governor proposed a pension reform that establishes a new Tier 6. The bill provides the following changes for workers entering the system:

- Raises the retirement age from 62 to 65 and ends early retirement options.
- Requires new employees to contribute 6% of their salary for the duration of their career.
- Provides a 1.67% annual pension multiplier (currently after 20 years, the multiplier raises to 2%).
- Excludes overtime from the final average salary.
- Uses a five year average salary calculation with an 8% anti-spiking cap.
- Excludes wages above the Governor's salary of $179,000 from the final average salary calculation.
- Eliminates lump sum payouts from unused vacation leave from the final average salary calculation.
- Prohibits the use of unused sick leave for additional credit at retirement.

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

The national rate of growth for health insurance continues to increase, placing a heavy burden on the County's finances. In 2012, the national average growth rate for family health insurance increased 9%, significantly higher than the 3% growth rate in 2010.

Chart 3.3: FY 08 to FY 15 Health Insurance Costs (in Millions)

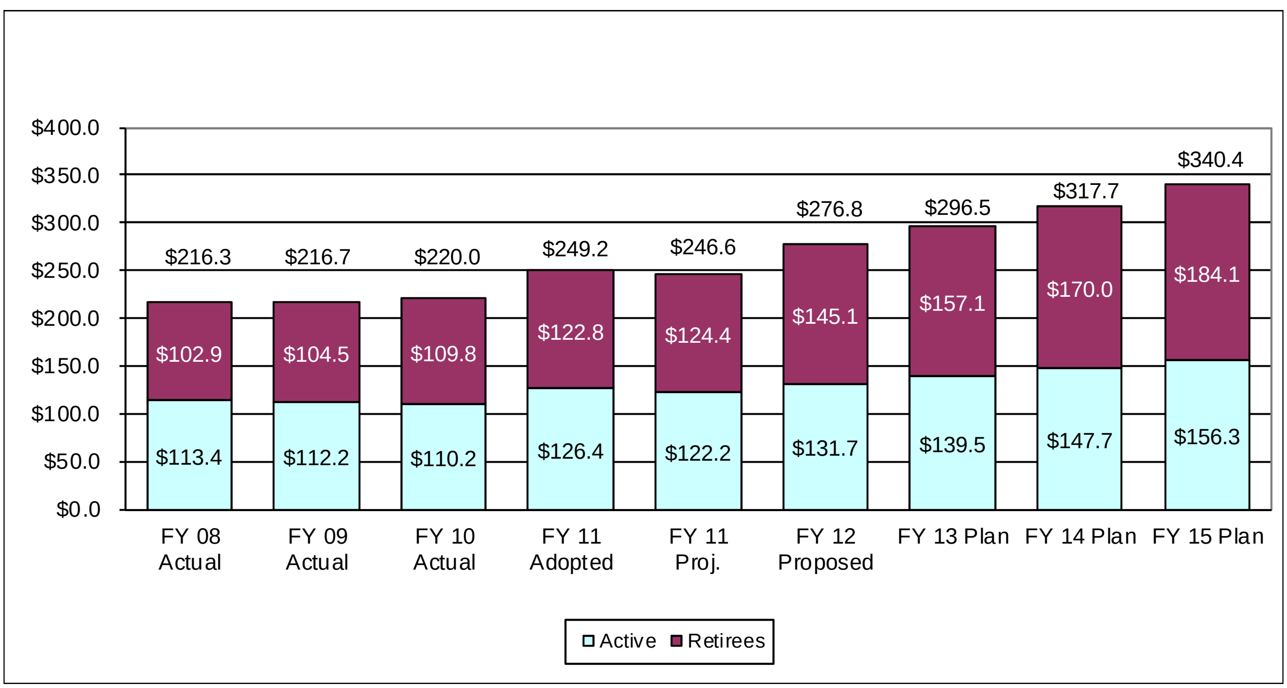
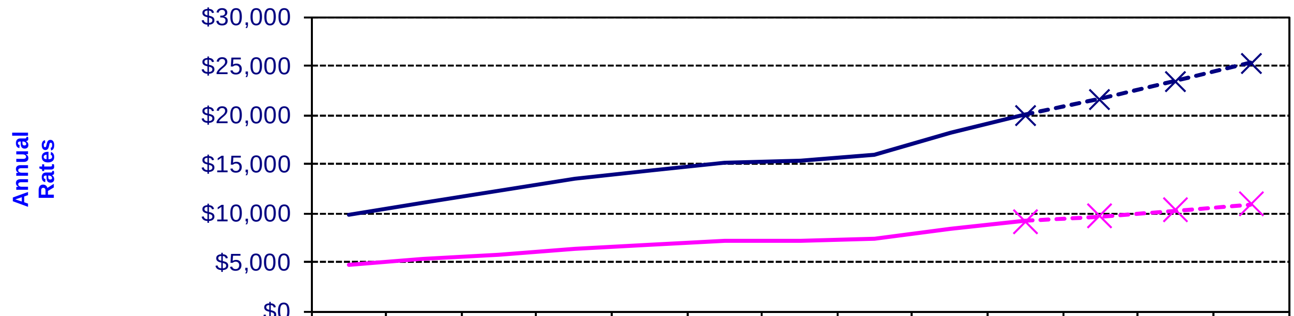


Chart 3.3 displays actual and projected health insurance costs for active and retired employees from FY 08 through FY 15 in the Multi-Year Plan. As shown above, health insurance costs increase significantly in each year. The FY 12 budget for health insurance includes $131.7 million for active employees and $145.1 million for retired employees for a total cost of $276.8 million. This is an increase of roughly $30.0 million or 12.2% from the projected FY 11 cost of $246.6 million. The Multi-Year Plan projects health insurance costs to increase to $340.4 million in FY 15.

Chart 3.4: NYSHIP Historical Health Insurance Premium (Non-Medicare) Rates



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Individual	$4,619	$5,258	$5,742	$6,357	$6,778	$7,109	$7,188	$7,348	$8,327	$9,137			
Family	$9,737	$11,097	$12,164	$13,514	$14,377	$15,105	$15,386	$15,971	$18,167	$19,936			
Projected Individual										9,137	$9,673	$10,241	$10,842
Projected Family										19,936	$21,585	$23,370	$25,303

Chart 3.4 above displays how the health insurance rates paid by Nassau County have been progressively increasing. The Kaiser Foundation and Health Research and Educational Trust conducts an annual national survey to provide current information about employer-provided health benefits. The results, published in a report titled "Employer Health Benefits, 2011 Summary of Finding," showed that employer sponsored health insurance rose 8% higher for single coverage and 9% for family coverage. Since 2001, average premiums for family coverage have increased 113%.[4]

The FY 12 budget for health insurance includes an increase of 13.3% for active and retiree health insurance plans. The growth rate is conservative based on New York State's Second Quarter Experience Report which estimates health insurance rates to increase by roughly 9.7% in 2012. Table 3.4 on the next page displays the projected 2012 annual health insurance rates for New York State:

[4] "Employer Health Benefits, 2011 Summary of Findings", The Kaiser Family Foundation – And – Health Research & Educational Trust.

Table 3.4: Health Insurance Premium Rates

Rates	2011	2012	% Change
Plan Premium			
Individual	8,327	9,137	9.73%
Family	18,167	19,936	9.74%
MediPrime			
Individual	4,868	5,461	12.18%
Family-1	14,707	16,260	10.56%
Family-2	11,248	12,584	11.88%

Based on the State's latest rate projection, OLBR projects the health insurance cost at approximately $272.7 million which is $4.2 million less than the amount budgeted in the FY 12 budget. The FY 12 budget adjusts for a shift from active to retiree costs due to the anticipated layoffs.

The MYP baseline inflator used to project out-year health insurance costs is 5.87% for actives and 8.27% for retirees in FY 13 through FY 15. These out-year rates reflect the impact from the layoffs. The expense amounts projected by the Administration are reflected in Table 5.6: Multi-Year Plan by sub-object. As a result, the Administration estimates health insurance to increase by $63.6 million by FY 15 to $340.4 million.

Due to the growth in healthcare costs, workers are paying a larger portion of health insurance costs as more businesses shift the burden to their employees. "Most covered workers face additional costs when they use health care services."[5] Besides contributing towards their health insurance premiums, employees are responsible for some sort of cost sharing such as insurance deductibles, copayments, coinsurance, additional costs for hospital admissions and/or outpatient surgeries, and/or contributing a percentage of their prescription drug coverage.

14C and 75C Employee Contributions

The Administration has included health insurance savings of $69.2 million based on all active and retired employees contributing 25% of the premium. The following chart details the individual impact of the contribution cost for active and retired employees by Empire plan.

[5] Ibid.

Table 3.5: Insurance Contribution Amounts

	Active		
	Individual	Family	
2012 Annual Cost	9,137	19,936	
25% Contribution	2,284	4,984	
	Retirees		
	Individual	Family 1	Family 2
2012 Annual Cost	5,461	16,260	12,584
25% Contribution	1,365	4,065	3,146

As reflected in Table 3.5 above, a 25% contribution would require an active employee with family insurance to pay an additional $4,984 each year and a retired employee with family coverage would pay $3,146 or $4,065 per year (depending on their spouse's insurance coverage). This cost is lower than the average annual contribution in 2011 of $921 for single coverage and $4,129 for family coverage. According to the Kaiser Family Foundation, "covered workers contribute on average 18% of the premium for single coverage and 28% of the premium for family coverage."[6]

13F Social Security

Social Security tax is comprised of two components: Old-age, Survivors and Disability Insurance (OASDI) and Medicare tax. The employer's contribution rate is 6.2% for OASDI and 1.45% for Medicare, which equals a combined rate of 7.65%. For the current year the OASDI portion is applied to salaries up to $106,800 unchanged from 2010. Medicare has no maximum. The Social Security Administration has not yet announced the wage base increase for 2012. The total OASDI tax on the current maximum wage base is roughly $6,621.60.

The FY 12 budget for social security is decreasing by $5.4 million or 9.4% compared to the FY 11 budget. The decrease is due to the Administration anticipating expense savings through layoffs. The decrease compared to the FY 11 projection can be attributed to lowered total salaries from the reduced headcount in the proposed budget, which is going from 7,964 on board currently to 7,400.

17F Optical Plan

This benefit provides optical insurance to full-time County employees. The annual per capita premium is remaining at $115. The FY 12 budget is decreasing by $64,630 to $951,940 compared to FY 11. The FY 12 budget is more than sufficient to cover the budgeted 7,400 full-time positions in the major funds.

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 12 budget is increasing by $5.1 million to $6.1 million due to the Administration's workforce reduction plan.

[6] Employer Health Benefits, 2011 Summary of Findings", The Kaiser Family Foundation – And – Health Research & Educational Trust.

20F Dental Insurance

This benefit provides dental insurance to full-time employees. The current contract with Healthplex was due to expire in 2010, however the contract was extended through 2011 and the County is in the process of submitting a Request for Proposal (RFP). Under this contract, the current annual premium per capita is $561. The FY 12 budget for dental costs is decreasing by $86,685 compared to the FY 11 budget. The FY 12 budget is more than sufficient to cover the budgeted 7,400 full-time positions in the major funds.

22F Medicare Reimbursement

The County provides quarterly payments to cover premium costs related to Medicare coverage for retired employees. The proposed FY 12 budget is increasing by $451,850 to $15.7 million. Compared to the FY 11 projection, the proposed budget is increasing by $654,521.

In 2011, most beneficiaries will continue to pay the same $96.40 or $110.50 of the monthly premium amount. Beneficiaries who currently have the Social Security Administration (SSA) withhold their Part B premium and have incomes of $85,000 or less (or $170,000 or less for joint filers) will not have an increase in their Part B premium for 2010. For all others, the standard Medicare Part B monthly premium will be $115.40 in 2011, which is a 4.4% increase over the 2010 premium. The Medicare Part B premium is increasing in 2011 due to possible increases in Part B costs. For individuals whose income is above $85,000 (single) or $170,000 (married), the Medicare Part B premium may be higher than $115.40 per month.[7]

24F Fringe Savings

The FY 12 budget includes $36.6 million in fringe benefits savings reductions. This is the amortized portion of the pension bill that the County is deferring. The County will receive a payment plan consisting of ten annual installments that may be prepaid at any time.

26F Flex Benefits Plan

All Nassau County employees may contribute 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 12 budget is decreasing by $390,496 compared to the FY 11 Adopted Budget and the FY 11 projection. The FY 12 budget includes corresponding revenue to offset the expense for the same budgeted amount of $2.4 million.

35F MTA Mobility Tax

In May 2009, the New York State Legislature approved a new regional payroll/mobility tax to fund the Metropolitan Transportation Authority, MTA. This tax applies to employers within the Metropolitan Commuter Transportation District whose wages and payroll expenses exceed $2,500 in any calendar quarter. The tax is equivalent to 0.34% of an employer's payroll expenses. The FY 12 budget includes $2.8 million which is a decrease of $77,754 compared to the FY 11 budget.

[7] "Will my Medicare Part B premium increase in 2010?" The Official U.S. Government Site for Medicare." September 19, 2011.

40F CSEA Legal Plan

The FY 12 budget includes $593,125 for the CSEA legal plan which is an increase of $32,375 compared to last year's budget. As per the CSEA agreement, effective January 1, 2009, the County has to contribute the sum of $125 annually per each full and part-time employee.

41F ShOA Legal Plan

The FY 12 budget includes $129,250 for the ShOA legal plan as per the ShOA contract agreement.

45F Disability Insurance

The FY 12 budget includes $54,000 for disability insurance as per the current CSEA agreement. Effective January 1, 2010, the County shall provide New York State Disability Insurance to all CSEA bargaining unit employees. The employees shall pay their portion of the New York State Disability Insurance. If the County's cost of this benefit exceeds $800,000 annually, the County may return to the Panel to have this benefit adjusted. The County and the Union shall mutually agree on up to ten (10) people to serve as a panel of arbitrators. Each person selected must be a labor arbitration panel member of the American Arbitration Association or the New York State Public Employment Relations Board panel of arbitrators

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 $115 per person. The FY 12 proposed budget is increasing by a marginal $4,564 from the FY 11 budget and $43,574 compared to the FY 11 projection. The FY 12 proposed budget is sufficient to cover the current number of retirees receiving this benefit.

Revenue Budget

Table 3.6 compares the FY 12 proposed budgeted revenue to the FY 11 projected revenue and the FY 11 Adopted Budgeted revenue for fringe benefits:

Table 3.6: FY 11 Revenue Budget

SubObject & Description	Adopted FY 11 Budget	OLBR FY 11 Projection	FY 12 Exec. Budget	Variance Exec. vs Adopted 11	Variance Executive vs FY 11 Proj.
R2010 - Insurance Recoveries	6,088,615	6,088,615	$7,306,200	1,217,585	1,217,585
Total	**$6,088,615**	**$6,088,615**	**$7,306,200**	**$1,217,585**	**$1,217,585**

The revenue budget for FY 12 is made up of $7.3 million for Medicare Part D. In Table 5.6, reimbursement for Medicare Part D is labeled as insurance recoveries. Medicare Part D is a drug benefit plan that helps seniors pay for their prescription drugs. NYSHIP receives an employer subsidy from the federal government and passes on the County's share as a credit to the County's health insurance bill. The credits are received retroactively and sporadically.

Multi-Year Plan

Table 3.7 displays out-year fringe benefit costs under the Multi-Year Plan:

Table 3.7: Multi-Year Plan by Sub-object

SubObject & Description	2012 Proposed Budget	2013 Plan	2014 Plan	2015 Plan
AB08F - NYS POLICE RETIREMENT	80,782,674	97,204,153	74,374,019	75,579,037
AB11F - STATE RET SYSTEMS	73,823,350	74,601,572	48,869,824	59,547,364
AB13F - SOCIAL SECURITY CONT	52,204,635	56,088,660	57,962,021	61,080,378
AB14C - EMPLOYEE CONTRIBUTIONS	(32,937,362)	(34,870,785)	(36,917,700)	(39,084,769)
AB14F - HEALTH INSURANCE	131,749,443	139,483,135	147,670,795	156,339,071
AB17F - OPTICAL PLAN	951,940	951,940	951,940	951,940
AB19F - NEW YORK STATE UNEMPLOYMENT	6,141,621	8,849,462	12,751,189	18,373,189
AB20F - DENTAL INSURANCE	4,876,590	4,876,590	4,876,590	4,876,590
AB22F - MEDICARE REIMBURSEMENT	15,711,200	16,157,398	16,616,268	17,088,170
AB22S - MEDICARE REIMBURSEMENT SURCHARGE	200,754	200,754	200,754	200,754
AB24F - FRINGE SAVINGS	(36,635,304)	-	-	-
AB26F - FLEX BENEFITS PLAN	2,409,504	2,409,504	2,409,504	2,409,504
AB35F - MTA MOBILITY TAX	2,836,507	3,047,543	3,149,331	3,318,765
AB40F - CSEA LEGAL PLAN	593,125	593,125	593,125	593,125
AB41F - SHOA LEGAL PLAN	129,250	129,250	129,250	129,250
AB45F - DISABILITY INSURANCE	54,000	54,000	54,000	54,000
AB75C - EMPLOYEES CONTRIBUTIONS FOR RETIREES	(36,263,993)	(39,263,025)	(42,510,077)	(46,025,661)
AB75F - HEALTH INSURANCE FOR RETIREES	145,055,971	157,052,100	170,040,308	184,102,642
AB76F - EMPLOYEES OPTICAL - RETIREES	530,794	530,794	530,794	530,794
Grand Total	**412,214,699**	**$488,096,169**	**$461,751,936**	**$500,064,143**

Health insurance expenses for active and retired employees are projected to increase by $63.6 million to $340.4 million in FY 15. The MYP baseline inflator used to project out-year health insurance costs is 5.87% for actives and 8.27% for retirees in FY 13 through FY 15. These out-year rates reflect the impact from the layoffs. Health insurance costs continue to be offset by the inclusion of a 25% contribution cost from all active and retired employees. The 25% contribution offset rises in the out-years at the same percentage as the increased health insurance expense.

Pension costs increase in FY 13 by $17.2 million, and subsequently decrease by $48.6 million in FY 14 and $36.7 million in FY 15. The rates provided by the State Comptroller continue to increase in 2013, but the long term rates are projected to be lower than the 2012 estimated rates. Accordingly, the Administration applied a 44.0% aggregate increase between ERS and PFRS in FY 13. In 2014, the Administration applied an aggregate decrease of 28.0% due to the decrease in the long term state rate projection. In FY 15, the pension cost is projected to increase an additional 15.0% due to a higher salary base in that year. The Administration does not plan to amortize a portion of the pension expense in the out-years and therefore does not offset the pension cost in the Multi-Year Plan.

Social security expenses are increasing by $8.9 million to $61.1 million in FY 15, due to increased salaries in the out-years. Although NIFA placed a wage freeze on all union contracts, the Administration conservatively inflated salaries for cost of living adjustments (COLA) and step increases in the Multi-Year Plan.

Table 3.8 displays out-year fringe benefit revenue amounts under the Multi-Year Plan:

Table 3.8: Multi-Year Plan by Revenue Source:

SubObject & Description	2012 Proposed Budget	2013 Plan	2014 Plan	2015 Plan
R2010 - Insurance Recoveries	7,306,200	7,306,200	7,306,200	7,306,200
Grand Total	**7,306,200**	**$7,306,200**	**$7,306,200**	**$7,306,200**

The revenue budget in the Multi-Year Plan consists entirely of reimbursement for Medicare Part D. The revenue estimate remains flat at $7.3 million from FY 12-FY 15.

4. SALES TAX

The largest source of revenue for the County is sales tax. The 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, 0.375% goes to the Metropolitan Commuter Transportation District. The County distributes one seventeenth of its collections to the Town of Hempstead, Town of North Hempstead, Town of Oyster Bay, City of Glen Cove and the City of Long Beach. In 2012 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. In addition, $1.0 million of supplemental has been added for the villages of Hempstead Village and the village of Freeport.

For the period June 1, 2009 through May 31, 2010, Nassau County collected a 2.5% sales tax on residential energy sources and services (RET). During the twelve months that the tax was imposed, $39.2 million was collected, $21.9 million in 2009 and $17.3 million in 2010.

The proposed sales tax revenue in the FY 12 Executive Budget is $1.044 billion. This estimate is based on OMB's assumption that collections will increase by 0.2% annually in FY 11 and then increase by 3.24% in FY 12. Excluding the residential energy tax from the 2010 total, the projected year-to-year growth in FY 11 comes to 1.96%.

Table 4.1, below, shows annual gross sales tax collections since FY 06, OMB's projected FY 11 total, and the budgeted amounts in the proposed 2012 – 2015 Multi-Year Financial Plan. The MYP projects 2.9% growth for years 2013 through 2015.

Table 4.1: Annual Sales Tax Collections

Fiscal Year	Actuals	Growth
2006	991.1	3.9%
2007	1,011.9	2.1%
2008	1,003.0	-0.9%
2009*	951.3	-5.2%
2010*	1,009.3	6.1%
Fiscal Year	**OMB Projections**	**Growth**
2011	1,011.4	0.2%
2012	1,044.1	3.24%
2013	1,074.4	2.90%
2014	1,105.5	2.90%
2015	1,137.6	2.90%

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

In addition to the regular sales tax, $12.1 million has been budgeted in FY 12 as deferred sales tax. That represents the amount that part-county sales tax collections in FY 10 exceeded what was budgeted. For accounting purposes, the County is not able to book such revenue until two years after it has been received. In Table 2.1, above, the gross sales tax collections for each year are shown, including any excess over budget in the part-county portion. For that reason, neither the historical actuals nor the projections include the prior year deferred collections.

As can be seen in the chart below, sales tax receipts collected through October 5, 2011, have come in 1.9% greater than in the same period in 2010, less the residential energy tax. This most recent check contains a portion of the quarterly adjustment for the period June 1 through August 31. The adjustment will be completed with the receipt of the October 12 check.

Gross Sales Tax Receipts 2011 vs. 2010
(Payments Through Oct. 5, in millions)

	2010	2011	Variance $	Variance %
Sales Tax	$664.2	$677.1	$12.9	1.9%
Residential Energy Tax	17.5	0.1	(17.5)	
Gross Sales Tax YTD	$681.7	$677.2	($4.5)	-0.7%

Based upon the year-to-date results, OLBR views the Administration's assumption of 1.96% sales tax growth for 2011, less the residential energy tax, as reasonable. This rate is in line with current forecasts for the 2011 holiday season. For the November through December 2011 time frame, ShopperTrak is forecasting 3% growth in national retail sales, Kantar Retail is projecting 2.8% growth in national retail sales and the International Council of Shopping Centers is anticipating 2.2% growth in national retail sales.[1]

In the event that the 2011 projected base is not collected, a growth rate higher greater than 3.24% in 2012 will be required to attain the 2012 sales tax budget. This could prove challenging especially since the Federal Reserve has raised their risk assessment of negative quarter of national real GDP. See the economics report, Section 6 of the Executive Summary.

If 2012 sales tax growth is in line with Moody's current forecast of 1.97% for 2012 Nassau County Gross County Product, or is in line with 2011's projected sales tax growth rate of 1.96%, then Nassau County sales tax collections would fall short of budget by $12.9 million. Based on this, OLBR is currently including $12.9 million in sales tax risk in its risk assessment of the 2012 budget.

In the out-years, the MYP includes sales tax growth of 2.90%. This growth rate seems achievable given the current average out-year forecast for Nassau County GCP, personal income, retail sales and regional consumer prices. The table on the following page details Moody's Economy.com's current forecast for these variables.

2011 to 2015 Nassau County Economic Forecast
Forecast Annual Growth Rates

	2011	2012	2013	2014	2015
GCP	2.47%	1.97%	2.60%	2.40%	3.03%
Personal Income	3.14%	5.94%	6.30%	5.77%	5.09%
Retail Sales	4.51%	3.22%	4.39%	3.35%	3.06%
Regional CPI	2.91%	2.81%	3.53%	3.31%	2.75%
Average	**3.26%**	**3.48%**	**4.20%**	**3.71%**	**3.48%**

[1] Berk, Christina Cheddar, "Deloitte's Holiday Sales Forecast: A Note of Caution, A Ray of Hope", CNBC.com, September 28, 2011.

5. FUND BALANCE AND RESERVES

Table 5.1 shows the unreserved fund balance and the balances of the formal reserve funds at year-end FY 07 through FY 10, with OMB's projected amounts for years ending FY 11 through FY 15.

Table 5.1: Total Reserves (Projected Year-End 2011-2015)

Item	Year End 2007	Year End 2008	Year End 2009	Year End 2010	Projected Year End 2011	2012	2013	2014	2015
Undesignated Fund Balance	$89.8	$74.1	$65.3	$92.2	$92.2	$92.2	$92.2	$92.2	$92.2
Retirement Contribution Fund	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee Accrued Liab. Fund	15.2	14.4	14.4	14.4	12.4	12.4	12.4	12.4	12.4
Tobacco Settlement Fund	147.3	76.0	17.6	17.6	17.6	17.6	17.6	17.6	17.6
Sub-total	**$277.3**	**$164.5**	**$97.3**	**$124.2**	**$122.2**	**$122.2**	**$122.2**	**$122.2**	**$122.2**
Sewer/Storm Water Fund Bal.	161.9	134.7	106.2	90.2	73.8	73.8	73.8	70.0	61.7
Sewer Fin. Auth. Fund Bal.	19.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Reserves & Fund Bal.	**$458.3**	**$299.2**	**$203.5**	**$214.4**	**$196.0**	**$196.0**	**$196.0**	**$192.2**	**$183.9**

The only planned use of reserves in the proposed FY 12 budget and 2012-2015 Multi-Year Financial Plan is from the Sewer and Storm Water Resource District fund balance, scheduled as follows: $3.8 million in 2014 and $8.3 million in 2015.

6. ECONOMIC REPORT

Current and Projected National Economic Conditions

According to the Commerce Department, the US economy grew 1.3% in the second quarter of 2011. The 1.3% mark was greater than the previously estimated 1.0% rate of growth. Consumer and construction spending were seen as the main drivers of the positive revision.[1] Combining the latest revision with the first quarter 2011's 0.4% economic growth yields 0.9% economic growth for the first half of 2011. Despite being positive, this is the weakest six-month growth period since the recession officially ended.[2]

Although no one is currently projecting another recession, many feel that growth will remain subdued and will be insufficient to significantly reduce the unemployment rate.[3]

All current economic forecasts, shown in Table 6.1, expect the national economic recovery to continue for the remainder of 2011 and through 2014.

Table 6.1

US Real GDP Forecasts 2011 through 2014				
	2011	2012	2013	2014
The Conference Board	1.50%	1.40%	NA	NA
Moody's Economy.com	1.63%	2.72%	3.53%	3.82%
Fed. Reserve Bank of Philadelphia	1.70%	2.60%	2.90%	3.10%
PMI Mortgage Insurance Co.	1.50%	3.70%	4.10%	NA
Mortgage Bankers Association	1.30%	2.20%	NA	NA
Average Forecast	**1.53%**	**2.52%**	**3.51%**	**3.46%**

It should be noted that the Federal Reserve believes that there are "significant downside risks" to the current US economic outlook.[4] As such they have increased their risk probability of a negative quarter. Table 6.2 displays the current and previous estimates, from the second quarter of 2011, for the risk of a negative quarter.

Table 6.2

Risk of Negative Growth in US GDP			
Year	Quarter	Prior %	Current %
2011	Q3	8.50%	17.20%
2011	Q4	10.20%	20.90%
2012	Q1	12.20%	20.80%
2012	Q2	12.10%	19.40%
2012	Q3	NA	19.00%
Source: Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters			

[1] Robb, Greg, "Second-Quarter GDP Revised Up to Show 1.3% Growth", Marketwatch.com, September 29, 2011.
[2] The Associated Press, "Economic Gains Not Enough to Cut Unemployment", Long Island Business News, September 29, 2011.
[3] Same as above.
[4] Robb, Greg, "Second-Quarter GDP Revised Up to Show 1.3% Growth", Marketwatch.com, September 29, 2011.

Projected Regional Economic Conditions

Regionally, the economy continues to recover. The current recovery is expected to continue through 2015. From 2012 to 2015, Nassau County's Gross County Product (GCP), personal income and number of employed residents are expected to register continued positive growth. Table 6.3 below details the current forecast for eleven Nassau County economic variables.

The housing market is expected to be the weakest link in 2011 for the Nassau economy. However, in 2012 the market for purchases is expected to jump start. Moody's Economy.com is currently forecasting Nassau County new mortgage growth to be 47.93% in 2012.

Since mortgage interest rates are forecast to increase throughout 2011 and 2013, refinancing will not be a financially viable option for many households. The PMI Mortgage Insurance Company currently expects the interest rates charged for 30 year fixed rate mortgages to average 4.52% in 2011, 4.73% in 2012, and 5.75% in 2013. Moreover, tight credit standards coupled with sluggish home price growth are contributing to the 42.77% forecast decline in 2012 mortgage refinancings.

Table 6.3

2011 to 2015 Nassau County Economic Forecast Forecast Annual Growth Rates*					
	2011	**2012**	**2013**	**2014**	**2015**
GCP	2.47%	1.97%	2.60%	2.40%	3.03%
Personal Income	3.14%	5.94%	6.30%	5.77%	5.09%
Employed	-0.50%	0.24%	0.65%	1.55%	1.08%
Unemployed	-3.22%	2.84%	-3.93%	-18.60%	-15.74%
Unemployment %	6.96%	7.13%	6.83%	5.55%	4.67%
Non Farm Jobs	-0.01%	0.36%	0.62%	2.14%	2.45%
New Mortgages	-19.00%	47.93%	23.60%	6.12%	4.78%
Mrt Refinances	-18.64%	-42.77%	-8.22%	22.77%	24.95%
Retail Sales	4.51%	3.22%	4.39%	3.35%	3.06%
Median Home Sale Price	-3.91%	-1.83%	1.08%	5.56%	3.45%
Regional CPI	2.91%	2.81%	3.53%	3.31%	2.75%

*Unemployment % Details Annual Average
Source: Moody's Economy.com

Nassau County's average annual unemployment rate is expected to peak in 2012 and decline in all of the out years. Nassau County is projected to record sluggish, but increasing positive annual growth in the number of employed residents and non-farm job growth. The sections below provide a detailed analysis of the various sectors of the regional economy.

Resident Employment

From a monthly perspective, in August 2011 Nassau County's labor force declined. The region saw a decrease in both employed residents as well as unemployed residents. These trends combined caused Nassau County's unemployment rate to drop to 6.5% from 6.8% in July 2011.

From an annual viewpoint, in August 2011, Nassau's labor force also shrank. The number of employed residents fell 1.78% while the number of unemployed residents decreased 9.39%. Analysts opined that both the labor force decline as well as the decline in unemployed residents were a sign of a weak economy. It indicated that more unemployed people are finding work off the Island or have given up looking for work. Nationally, in August 2011 there were 977,000 discouraged workers, workers who had given up looking for work. That is up from December 2007's 363,000 level.[5]

According to Moody's Economy.com's September 2011 forecast, Nassau County will continue to experience a decline in the number of employed residents through the third quarter of 2011. However, the current loss rate is expected to decline. Nassau County's unemployment rate is expected to start to rise in both the third and fourth quarters of 2011 and throughout 2012. Table 6.4 below details these projections. It should be noted that the FY 12 proposed budget includes a workforce reduction of 724 positions. These layoffs are not incorporated in Moody's current forecast and would exacerbate the dismal state of Nassau's labor market.

Table 6.4

Nassau Labor Market By Quarter, 2011 and 2012				
2011				
	Q1	**Q2**	**Q3**	**Q4**
Total Employed	-0.23%	-0.21%	-0.10%	0.04%
Total Unemployed	-0.69%	-0.04%	0.45%	0.78%
Average Unemployment %	-0.44%	0.14%	0.50%	0.69%
2012				
	Q1	**Q2**	**Q3**	**Q4**
Total Employed	0.12%	0.15%	0.12%	0.09%
Total Unemployed	0.93%	0.90%	0.71%	0.25%
Average Unemployment %	0.75%	0.70%	0.55%	0.14%
Source: Moody's Economy.com				

Growth in the number of unemployed is not necessarily a negative trend. Often unemployment peaks after the economy begins to improve as individuals previously out of the workforce are enticed to re-enter as a result of greater job opportunities. The key factor to watch is the rate of job growth. For unemployment to decrease, the rate of job growth has to be sufficient to provide opportunities for the unemployed. Locally, job growth of 1% or more is seen as an indicator of healthy job growth.

Jobs

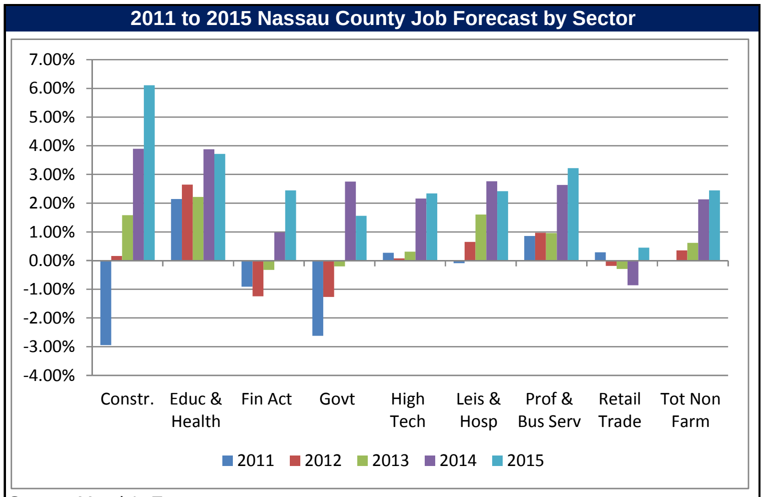
From an annual perspective, in August 2011 total non-farm job growth declined 1.1%. The job losses were spread out with only three sectors, the wholesale trade, professional and business services, and education and health services, registering positive job growth. All totaled, the Long Island region lost 11,000 jobs from a monthly perspective and 13,000 jobs from an annual perspective. Long Island's job losses were the worst of any metropolitan area tracked by the State.[6]

Looking forward, total non-farm job growth is expected to be marginally positive throughout 2013. In 2014 and 2015 job growth above the 1% mark indicative of a healthy economy is expected. In 2012, only the education and health services sector is forecast to register job growth greater than 1%. In 2013, the education and health services, construction, and leisure and hospitality sectors are projected to record job growth above 1%.

Chart 6.1 on the following page details the current overall job growth forecast as well as the job growth forecast for eight Nassau County job sectors from 2011 to 2015.

[5] Mason-Draffen, Carrie, "LI Unemployment Decline's Not Good News", Newsday.com, September 20, 2011.
[6] Mason-Draffen, Carrie, "LI Unemployment Decline's Not Good News", Newsday.com, September 20, 2011.

Chart 6.1



Source: Moody's Economy.com

Consumers Spending

According to the US Commerce Department, August 2011 national retail sales were unchanged and July 2011's percentage was revised downward. Declines in auto and clothing sales contributed to the flat growth.[7] Many, including the Federal Reserve Chairmen, Ben Bernake, were puzzled by the weak consumer spending. In a recent speech, Bernake said, "Even taking into account the many financial pressures they face, households seem exceptionally cautious".[8] It is very important to monitor household's willingness to spend since 70% of GDP is associated with consumer spending.

Table 6.5 below details the 2011 and 2012 forecast for Nassau County GCP, retail sales, and total personal income. All indicators are forecast to register positive growth throughout 2011 and 2012.

Table 6.5

Nassau County Consumption Growth by Quarter				
2011				
	Q1	**Q2**	**Q3**	**Q4**
GCP	0.49%	0.37%	0.37%	0.42%
Retail Sales	0.89%	0.64%	0.60%	0.67%
Total Personal Income	0.39%	0.45%	0.86%	1.36%
2012				
	Q1	**Q2**	**Q3**	**Q4**
GCP	0.48%	0.54%	0.62%	0.68%
Retail Sales	0.76%	0.88%	1.02%	1.14%
Total Personal Income	1.66%	1.76%	1.71%	1.59%
Source: Moody's Economy.com				

Regional consumer confidence, when used as a barometer for regional consumer spending, reveals that the current sluggish growth rates may remain for a while. Siena College's August 2011 Overall

[7] The Associated Press, "Retail Sales Flat in August, Auto Demand Declined", Long Island Business News, September 14, 2011.
[8] The Associated Press, "Bernake Puzzled by Weak Consumer Spending", Long Island Business News, September 8, 2011.

Consumer Confidence Index for the metropolitan region declined from 3.03% both a monthly and an annual perspective. Moreover, the future index showed that confidence was down 5.74% from the prior month and 5.04% from the previous year.

Tourism

The Nassau County tourism industry has been experiencing an uptick in 2011. Long Island Convention and Visitor's Bureau figures reveal that as of August 2011, a 4.7% annual increase in average rental rates coincided with an annual 10.3% increase in occupancy rates.

The relative strength seen in Nassau's tourism industry is also evident in JetBlue Airways recent performance statistics. In August 2011, JetBlue reported that traffic rose 5.8% and passenger revenue per available seat mile increased 7% from an annual perspective. The airline expects passenger revenue per available seat mile to increase 6% for the July 2011 to September 2011 time frame.[9]

Looking forward, using forecast job growth as an indicator of tourism demand, the leisure and hospitality sector is expected to record positive growth from 2012 through 2015. Table 6.6 shown below details the projected annual growth rates.

Table 6.6

2011 to 2015 Forecast Job Growth for the Nassau County Leisure & Hospitality Sector					
	2011	2012	2013	2014	2015
Leisure and Hospitality	-0.09%	0.65%	1.60%	2.76%	2.42%
Source: Moody's Economy.com					

Residential Real Estate

It is hard to decipher the current status of Nassau's residential housing market. The first-time home buyer credit was implemented in 2010. To receive this credit one had to have brought or entered into a binding contract to buy a principal residence in the US on or before April 30, 2010. These homes would have closed approximately three months later. This disrupted typical seasonal buying patterns and is making annual comparisons appear dismal.

As of August 2011, the median sold home sale price had increased 1.2% compared to the prior month. Over the same time frame, median home contract prices fell 4.65%. The August 2011 median closed home sale price was $420,000.

On a year-to-date basis through August 2011, 5,765 homes have sold in Nassau County. That represents a decrease of 10.66% from this time last year.

Looking forward, home sales are expected to register strong growth during the third and fourth quarters of 2011. However, on an annual basis, 2011 home sales are expected to drop 19.0% in 2011. In 2012, home sales are expected to see strong positive growth in all quarters.

The anticipated strong sales are expected to occur in tandem with a continuing drop in home sale prices. From an annual growth perspective, home sale prices are not expected to record positive growth until 2013.

As previously mentioned, the number of mortgage refinancings is expected to decline from 2011 to 2013. The combination of rising interest rates, declining home equity and tight credit standards will make refinancing difficult.

[9] The Associated Press, "JetBlue's August Traffic Rises 5.8 Percent", Long Island Business News, September 14, 2011.

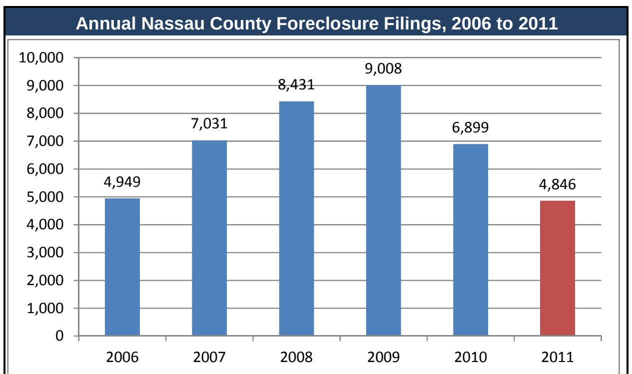
Table 6.7 below details the quarterly forecast for Nassau County's residential housing market.

Table 6.7

Nassau County Housing Forecast by Quarter				
2011	**Q1**	**Q2**	**Q3**	**Q4**
New Mortgages	-5.68%	0.96%	7.45%	11.81%
Refinances	-1.37%	-2.32%	-6.85%	-12.58%
Median Sale Price	-1.60%	-1.72%	-1.30%	-0.66%
2012	**Q1**	**Q2**	**Q3**	**Q4**
New Mortgages	12.93%	11.78%	9.48%	7.05%
Refinances	-16.66%	-18.02%	-14.45%	-6.27%
Median Sale Price	-0.20%	-0.01%	-0.04%	-0.10%
Source: Moody's Economy.com				

The market for foreclosed properties may also have reached its bottom and be in a recovery mode. County Clerk foreclosure filings reveal that the number of foreclosure filings peaked in July 2009. If current trends continue, 2011 foreclosure filings are expected to decline 46.2% from the 2009 level and 42.5% from the 2008 level. Chart 6.2 below details the annual number of foreclosure filings from 2006 to 2011.

Chart 6.2



Source: Nassau County Clerk's Office

*2011 is a projection.

In theory, sale prices for foreclosed properties weigh down sale prices on all properties. If prices on foreclosed properties increase, then prices on all properties should follow suit.

<u>Consumer Prices</u>

As of August 2011, US Bureau of Labor Statistics figures show that regional consumer prices have increased 3.51% from the prior year and 0.3.6% from the prior month.

Looking forward, according to Moody's Economy.com, regional consumer prices are expected to continue to increase from both a quarterly and an annual perspective from the third quarter 2011 through 2015. The annual regional consumer price growth forecast may be viewed in Table 6.3. Table 6.8 on the following page details the quarterly consumer price growth forecast.

Table 6.8

Regional Consumer Price Forecast by Quarter				
	Q1	**Q2**	**Q3**	**Q4**
2011	1.17%	0.78%	0.53%	0.49%
2012	0.74%	0.76%	0.85%	0.89%
2013	0.91%	0.86%	0.86%	0.87%
2014	0.82%	0.78%	0.76%	0.72%
2015	0.67%	0.63%	0.62%	0.63%
Source: Moody's Economy.com				

Conclusion

The regional economy is in a fragile condition. Recent data reveals that both the national and regional economies hit a soft patch in August 2011. The Long Island region recorded poor performance in job growth, resident employment, and consumer spending. At a national level, the Federal Reserve has increased their assessed probability of the risk of a negative quarter of real GDP. However, all forecasts currently expect to avoid a recession and to experience greater economic momentum in the future.