NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Review of the Fiscal Year 2014 Budget & Multi-Year Plan

Executive Summary

Maurice Chalmers, Director

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Inter-Departmental Memo

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

From: Maurice Chalmers, Director
Office of Legislative Budget Review

Date: October 9, 2013

Re: Executive Summary

Pursuant to §183 of Nassau County Charter, the Office of Legislative Budget Review has prepared a preliminary analysis of the County Executive's proposed operating budget for Fiscal Year 2014 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/docs_index.html.

1. EXECUTIVE SUMMARY

Introduction

Pursuant to the County Charter, the Administration submitted its FY 2014 Proposed Budget on September 16, 2013. This budget is similar in totality to the prior year budget with a nominal $1.3 million decrease in expense and revenues. The Administration is proposing a no property tax increase budget. A portion of the pension bill, $71.5 million, was amortized over the next twelve years based on the State's Contribution Stabilization Program. However, the operating budget falls short of addressing two major budgetary matters, the wage freeze and tax certiorari expenses. After careful and thorough analysis, excluding the two items identified above whose values can't be accurately quantified as of yet, Office of Legislative Budget Review (OLBR) has determined the risk to the 2014 Proposed Budget to be approximately $31.1 million. The Administration's actions in regards to possible contract settlements and its handling of tax certiorari payments / expenses will determine the final outcome.

The economic outlook for the County continues to improve. The recovery efforts from Superstorm Sandy have positively impacted sales tax as vehicles, home improvement goods and large appliances were purchased; the current sales tax growth year over year is 8.7%. It has been the Administration's position that past labor agreements were unsustainable. In that regard, the wage freeze imposed by the Nassau Interim Finance Authority (NIFA) since 2011 has allowed the County to keep contractual labor costs flat. The wage freeze which was renewed in March of 2013, is scheduled to expire in March of 2014. The Administration has been engaged in negotiations to end the wage freeze. Any deal should be mindful of the impact to the 2014 budget of any retroactive pay and the increased base pay, since no contingencies were earmarked for that purpose.

The current tax certiorari backlog is estimated to be $335.1 million. The Proposed Budget sets aside $10.0 million in operating funds to address tax certiorari expenses. The Administration plans on borrowing $230.0 million to pay down the backlog. In FY 13, the Legislature authorized $75.0 million in borrowing, on the condition that $20.0 million in operating funds would be spent for this purpose. These payments will reduce the backlog. However, the liability that will be incurred in 2013, which is not currently known, may end up bringing that number close to the current level.

OLBR has concerns regarding the continued amortization of the County's pension liability and the usage of $10.0 million from fund balance. Including 2014, a total of $167.8 million in pension cost has been amortized over the past three years with a projected cost of $205.1 million including interest. It is in the County's best financial interest to cease this practice.

This report summarizes the proposed 2014 County budget from both an expense and revenue perspective. Significant budget items are discussed and a risk assessment is itemized. The current Multi-Year Financial Plan (MYP) is detailed and discussed along with the Administration's proposed gap closing initiatives.

- **Overtime** – The overtime expense for the Police Department and Correctional Center is budgeted at $66.2 million in the Proposed FY 14 Budget, which represents an increase of $6.0 million from the FY 13 Adopted Budget and is more realistic. However, the Police budget is approximately $12.0 million less than the current projection. Savings from other payroll areas such as vacancies and attrition may offset the overtime shortfall. A more in depth analysis is included in the Labor section of the Executive Summary.

- **Termination Pay** – The termination budget for the Major Funds is $31.2 million of which the Police Department is approximately $25.2 million. Since 2009, with the inclusion of the separation borrowing of $30.6 million, approved by the Legislature on September 23, 2013, a total of $250.8 million for termination expense County-wide has been authorized.

- **Labor** – For the third year in a row, the FY 2014 Executive Budget keeps the full-time positions at 7,395 positions. The current Major Funds full-time on board number is 7,304. The budget funds 7,495 positions at the department level which is then reduced by 100 heads for expected attrition. The reduction is centrally located in the Office of Management and Budget (OMB) since it is not know where the savings will materialize. Corresponding to the decrease of 100 heads is an expense reduction of $1.6 million.

  As illustrated below, the only payroll adjustment in FY 2014 is $6.4 million which represents CSEA wage deferrals from 2010. It is not until 2016 and 2017 that some provisions are made for union step increases, including the Sewer & Storm Water Resource District (SSW), but no Cost of Living Adjustments (COLA).

	2014	2015	2016	2017
Retroactive Pay	6,353,647	-	-	-
Payroll Adjustment	-	-	3,134,002	4,487,515
Salary Adjustment	-	-	8,200,900	4,629,631
Grand Total	**6,353,647**	**-**	**11,334,902**	**9,117,146**

- **Veolia** – The County is set up to act as a pass through for the Nassau Inter County Express (NICE) Bus system in that it will collect all revenues attributable to bus operations and pay them to NICE Bus in the form of a contractual payment.

  Excluding the County subsidy of $2.5 million, the Proposed FY 14 Budget anticipates a contractual increase in the NICE Bus system of approximately $4.0 million. This is offset by an increase in the State Transportation Operating Assistance (STOA) grant monies of $5.2 million. It is important to note that in FY 2012, the cost to the County to run the bus system was $5.9 million, or $3.4 million over the budgeted subsidy of $2.5 million.

  In addition, beginning in FY 14, the County has budgeted $7.0 million in inter-fund revenue which is meant as an offset to the Federal Transportation Authority (FTA) grant monies along with the State and County matches.

  Contingency – Included in the Proposed FY 2014 Budget is $10.0 million in General Fund contingency and $2.0 million in the Police Department. It is sound practice to include some level of contingency in the budget should unexpected shortfalls arise.

- **Other Expense** – Other expense is decreasing by $45.0 million from the prior year which is demonstrated below.

- This includes the other suits and damages which is decreasing by $30.2 million. The Treasurer's budget is decreasing by $8.0 million reflective of lower budgeted tax certiorari payments from operating funds. In addition, OMB's budget is decreasing by $18.5 million, which is reflective of the usage of capital funds to pay for suits and damages. The Police Department budget for suits & damages is also decreasing by $3.7 million.
- The decrease in NIFA Set-Asides is a function of lower principal and interest payments on NIFA debt.

Object Code OO-Other Expense	2013 Adopted	2014 Proposed	Difference
Total	**308,910,162**	**263,944,053**	**(44,966,109)**
OO Components with Major Variances			
87987-Other Suits & Damages	43,235,875	13,000,000	**(30,235,875)**
88988-Expense of Loans	4,240,000	7,185,600	**2,945,600**
88989-NIFA Set-Asides	211,394,858	193,473,026	**(17,921,832)**

- **Fringe Benefits** – The FY 14 fringe benefit budget for the Major Funds is approximately $480.4 million, which is an increase of $10.3 million due mostly to an increase in health insurance costs for active employees and pension contribution costs. Compared to the FY 13 projection, fringe benefit costs are increasing by roughly $19.8 million.

  Health insurance is increasing by $2.1 million in FY 14 due to an increase of $6.4 million in insurance costs for active employees offset by a decline of $4.3 million in insurance costs for retirees. The FY 14 budget is based on a growth rate of roughly 3.7%, which is contributing to the increase in insurance costs for active employees. The decrease in costs for retirees is due to an overstated FY 13 budget for retirees. In 2013 New York State Health Insurance Plan (NYSHIP) rates for active employees finalized close to the budgeted 8.0% growth rate, however, the average rate for Medicare eligible retirees declined from the previous year.

  FY 14 is the third year that the Administration has opted to amortize a portion of the pension bill. The Administration has chosen to amortize the maximum pension amount allowed over 12 years based on the Alternative Contribution Stabilization Program. The Alternative Program increases the maximum length of any amortizations installments from 10 years to 12 years at an interest rate that is set annually. The maximum amount allowed based on the 2014 pension invoice is $71.5 million or 33.4% of the $214.2 million total pension bill, which includes $9.8 million for the Nassau Community College, the Sewer Resource & Storm Water District and the Grant Fund. The pension liability with the amortization associated with the Major Funds is estimated to be $132.9 million. Please refer to the Fringe Benefit Section.

  Nassau County is not the only municipality that is deferring pension obligations. Many other municipalities such as Suffolk County are also choosing to amortize a portion of their pension expense. In 2014, Suffolk County is also opting into the Alternative Program to amortize a portion of the cost over 12 years.

  OLBR is concerned that while amortizing for pension obligations provides budgetary savings in the current fiscal year, balancing the out-year gap will become exacerbated by deferring the liability over the next 12 years at an additional interest cost. In August 2013, Moody's warned a local Long Island municipality (Huntington) that "the practice of deferring current operating expenses to future periods is inconsistent with our view of strong financial management." The article goes on to say that "continued amortization of annual pension payments could result in a downgrade." [1]

- **Tax Certiorari Payments** – The FY 14 expense budget includes $10.0 million in operating funds for this expense, down from a projected $20.0 million of operating funds during FY 13. The out-years of the Multi-Year Plan incorporate the following amounts to cover property tax refund payments; $30.0 million in 2015, $30.0 million in 2016 and $30.0 million in 2017.

	2014 Proposed Budget	2015 Plan	2016 Plan	2017 Plan	Total
Other Suits & Damages	10,000,000	30,000,000	30,000,000	30,000,000	100,000,000

  The proposed MYP relies on borrowing to address a portion of the tax certiorari backlog. It includes two planned borrowings in FY 14 totaling $230.0 million with no additional borrowing included in the out-years.

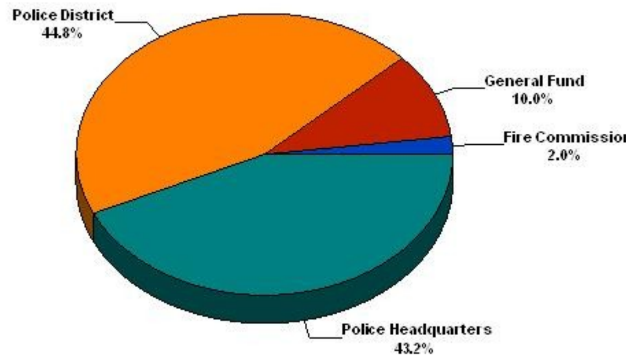
  Although the Administration has enacted reforms to tackle the problem and has been successful in resolving residential claims this year, the backlog remains at an elevated level. According to the Comptroller's 2012 Comprehensive Annual Financial Report (CAFR), as of December 31, 2012 the backlog for property tax refund payments was estimated to be $335.2 million. The FY 12 backlog includes $297.2 million of long-term liability and $38.0 million of accrued short-term liability that was previously expensed.

- **Sewers** – In FY 2014, the Administration will use the same methodology it utilized in the previous year to calculate the Operations and Maintenance Reserves (O&M) which includes applicable indirect chargeback costs within inter-fund charges. The budget also includes $12.6 million in usage fees. Additional details will be available in the Sewer departmental analysis.

- **Tax Levy** – The Proposed Budget includes some shifts in the property tax levy mainly from the General Fund to the Police Headquarters Fund. With that adjustment the combined Police Funds represent 88.0% of the County Major Funds total levy. The following insert illustrates what each levy represents as a percent of the total Major Funds levy:

[11] New York State Association of Counties (NYSAC), "Moody's Investor Services Warns Municipality for Amortization of Pension Costs." http://nysac.org/news/weekly-wire/weekly-wire-for-august-26- 2013/moody%E2%80%99s-investor-services-warns-municipality-for-amortization-of-pension-costs." August 26, 2013.

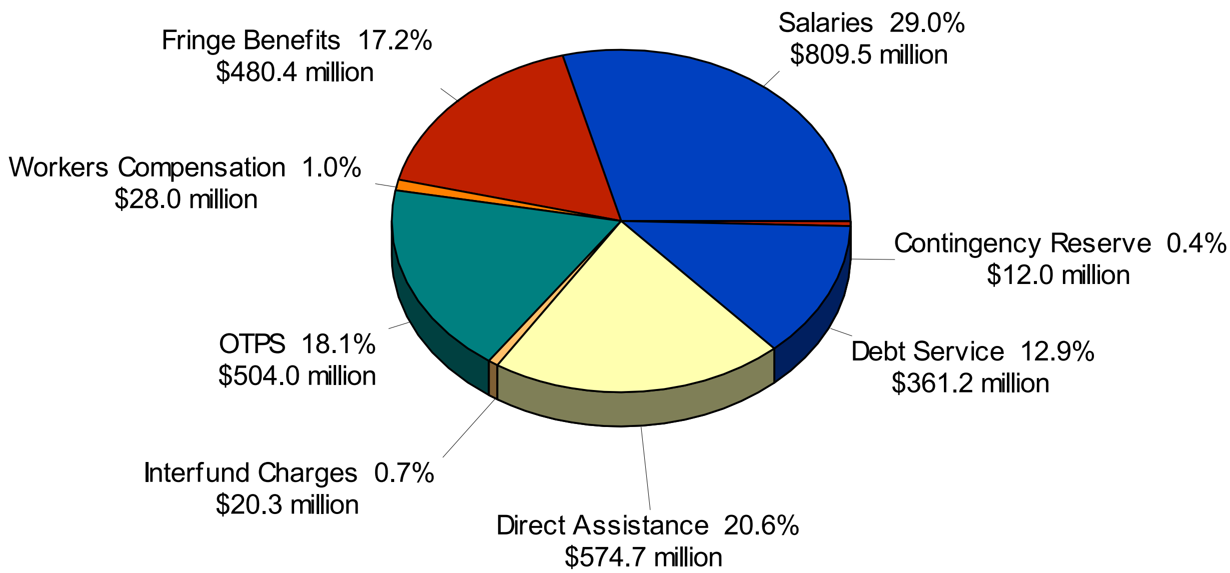
Property Tax Levy		
Fund	2014 Proposed	Percent Of Total
Fire Commission	15,944,884	2.0%
General	80,509,740	10.0%
Police District	361,727,267	44.8%
Police Headquarters	348,867,518	43.2%
Subtotal Major Funds	$807,049,409	100.00%



Proposed Expense Budget

The FY 14 Proposed Budget for the Major Funds, excluding the Sewer and Storm Water Resource District, interdepartmental charges and debt service chargebacks, is $2.8 billion. Salaries and fringe benefits make up 46.2% of the total budget. The second largest component is for direct assistance at 20.6%, as illustrated in Chart 1.1.

Chart 1.1: FY 14 Major Funds' Expenses ($2.8 billion)



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

Compared to the Adopted FY 13 Budget, total expenses are decreasing nominally by $1.3 million as shown Table 1.1 below. One of the drivers of salary and fringe benefits expenses is headcount. For the third year in a row, the FY 2014 Proposed Budget keeps the full-time positions at 7,395 positions. The current on board number is 7,304. The budget funds 7,495 positions at the department level which is reduced by 100 heads for expected attrition. That value is centrally located in the Budget Office since it is not know where the savings will materialize. Corresponding to the decrease of 100 heads is an expense reduction of $1.6 million. The General Fund and Fire Commission are each increasing by four heads and Police Department by 83 heads. The funding for salaries is increasing by $24.9 million. In FY 13, the budget only included $461,000 for Police termination as the Administration had planned on bonding that cost. The FY 2014 Proposed Budget for the Police is a realistic budget of $25.2 million, or $24.7 million more than that of FY 13. Similarly, the Major Funds overtime budget is increasing by $6.3 million, of which $6.0 million is in the Police Department. Fringe Benefits are increasing by $10.3 million, or 2.2%, mainly due to the increase in health insurance for active employees, currently budgeted to grow by 3.7%, and pension obligation expenses.

The following table depicts the FY 14 proposed expenditures by category compared to the FY 13 Adopted Budget.

Table 1.1: Major Funds' Expenses 2013 vs. 2014
($'s in millions)

	2013 Adopted	2014 Proposed	Var.
Expenses			
Salaries	$784.6	$809.5	$24.9
Fringe Benefits	470.1	480.4	10.3
Workers Compensation	25.5	28.0	2.5
OTPS	507.2	504.0	(3.2)
Interfund Charges	20.5	20.3	(0.1)
Direct Assistance	612.0	574.7	(37.3)
Debt Service	359.4	361.2	1.8
Contingency Reserve	12.1	12.0	(0.1)
Total Expenses[1]	**$2,791.4**	**$2,790.1**	**($1.3)**

1. Excludes interdepartmental charges and debt service chargebacks

The Other Than Personnel Services (OTPS) line in the chart above encompasses all of the other than personal services and is decreasing by $3.2 million. However, some of the components in that expense category have major swings, shown in the following insert, which for the most part offset one another.

	Difference
Other Suits & Damages	(30.2)
Expense of Loans	2.9
Contractual Services	16.6
Utility Costs	2.7
Local Government Asistance	2.6
Miscellaneous	2.3

The first two components were included in the Other Expense section. The FY 2014 Proposed Budget funds $16.6 million more in contractual expenses. The NICE Bus system, now budgeted in the Department of Public Works, is increasing by $4.0 million, offset by additional State Transportation Operating Assistance (STOA) grant monies. Similarly, the additional funding of $2.6 million for youth agencies and Mental Health, Chemical Dependency and Developmental Disability programs reinstated in 2013 continues in the Proposed Budget. Since the County has had success in settling residential claims prior to the tax roll being finalized, it envisions a similar program for commercial appeals and has set aside $3.5 million in the Assessment department for the program. The Traffic and Parking Violations Agency (TPVA) funds an additional $2.3 million in contractual expenses for additional cameras.

The direct assistance budget is decreasing by $37.3 million, or 6.1%. Contained within this category are Early Intervention / Special Education in the Department of Health, Recipient Grants, Purchased Services, Emergency Vendor Payments and Medicaid expenses are in the Department of Social Services. The insert below provides a visual of the components with discussions following:

Direct Assistance	2013 Adopted	2014 Proposed	Difference
Early Intervention/Special Education	169,950,000	139,500,000	**(30,450,000)**
Recipient Grants	67,165,000	64,100,000	**(3,065,000)**
Purchased Services	59,316,405	61,247,021	**1,930,616**
Emergency Vendor Payments	62,430,000	56,595,000	**(5,835,000)**
Medicaid	253,089,365	253,257,500	**168,135**

Provider Payments for Early Intervention and Pre-school expenditures are decreasing by $30.5 million to $139.5 million in the FY 14 Proposed Budget. Of this decrease, $14.0 million is due to reduced Pre-school related expenditures and $16.5 million is due to reporting changes with New York State for Early Intervention Services. The reduced Early Intervention expenditure is the result of reporting a portion of the estimated Early Intervention expenditures to New York State net of Medicaid and Third Party revenue. As of April 1, 2013, the State has revised Public Health Law to allow providers to seek reimbursement from third party payers with the remaining portion of reimbursement from the County. Prior to this reporting change, provider received full payment from the County and the department would submit for third party reimbursement.

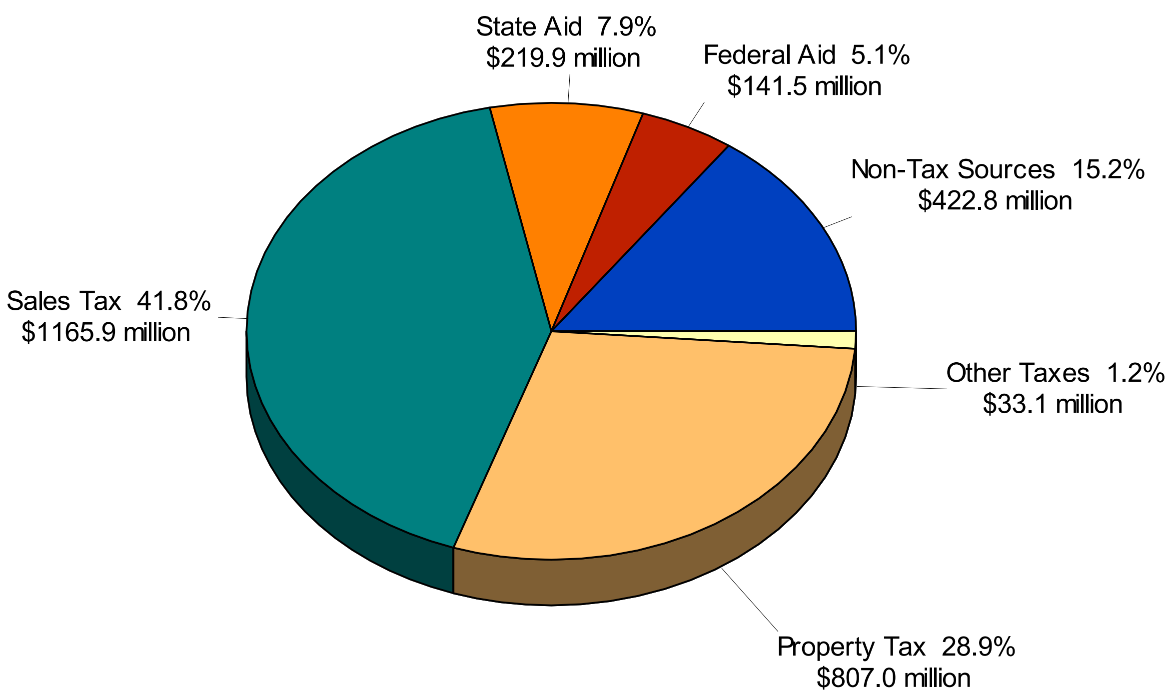
The proposed FY 14 budget for Recipient Grants is $64.1 million, down 4.6%, or $3.1 million, from the budget adopted for FY 13. Compared to the latest OLBR projection, Recipient Grant expenses are relatively flat, growing by only 1.3%, or $850,000, in the Proposed Budget. The moderation of Recipient Grant expense is a result of falling caseload numbers. Temporary Assistance for Needy Families (TANF) and Safety Net Assistance (SNA) caseloads have fallen 11.8% and 6.7%, respectively, from August 2012 to August 2013.

Purchased Services has a Proposed FY 14 Budget of $61.3 million, up 3.3%, or $1.9 million, from the Adopted FY 13 Budget. The Proposed Budget increases about 2.4%, or $1.4 million, over OLBR's current projection. Growing day care costs are contributing to the increase in this expense.

The proposed FY 14 Emergency Vendor Payments budget is $56.6 million, a decrease in expenses of 9.3%, or $5.8 million, from the budget adopted for FY 13. The reduced Emergency Vendor Payment expense is a result of a departmental initiative and declining foster care caseloads. For example, fewer foster care caseloads allowed the department to shed $3.7 million in FY 14 room and board expenses. The department has budgeted $648,700 less in 2014 for motel bills as a result of the Homeless Stabilization project, an initiative that has sought to house more homeless clients in shelters rather than motels.

Proposed Revenue Budget

Chart 1.2: FY 14 Major Funds' Revenue ($2.8 billion)



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

The largest revenue source for the County is sales tax, making up 41.8% of all revenues, as illustrated in Chart 1.2. The proposed sales tax revenue in the FY 14 Executive Budget is $1.166 billion (including deferral), an increase of $44.6 million over the current adopted, as can be seen in Table 1.3. Sales tax has been integral to the County's ability to absorb shortages in other areas. 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 2014 Proposed Budget remains flat except for the adjustment for the net value of new construction added to the tax rolls in 2014. This is illustrated in Table 1.2 below. There are however, major shifts within the operating funds.

Table 1.2: Property Tax Levy

Fund	2012 Adopted	2013 Adopted	2014 Proposed	Difference 2014 vs 2013	% Of Total Levy
Fire Commission	15,250,559	15,257,655	15,944,884	687,229	2.0%
General	120,039,282	117,107,798	80,509,740	(36,598,058)	10.0%
Police District	369,984,527	358,716,376	361,727,267	3,010,891	44.8%
Police Headquarters	299,057,190	313,707,086	348,867,518	35,160,432	43.2%
Subtotal Major Funds	**$804,331,558**	**$804,788,915**	**$807,049,409**	**$2,260,494**	**100.00%**
Sewers	117,270,940	117,270,940	117,270,940	0	
Total Major Funds & Sewers	**$921,602,498**	**$922,059,855**	**$924,320,349**	**$2,260,494**	
Enviromental Bond	11,250,000	11,250,000	9,670,766	(1,579,234)	
College[1]	52,206,883	52,206,883	52,206,883	0	
Grand Total	**$985,059,381**	**$985,516,738**	**$986,197,998**	**$681,260**	

1. 2013-2014 College Budget has already been adopted

Table 1.3: Major Funds Revenue FY 13 vs. FY 14
($'s in millions)

	2013 Adopted	2014 Proposed	Var.
Revenues			
Non-Tax Sources	445.6	422.8	(22.9)
Federal Aid	156.1	141.5	(14.7)
State Aid	232.4	219.9	(12.5)
Sales Tax	1,121.2	1,165.9	44.6
Property Tax	804.8	807.0	2.3
Other Taxes	31.2	33.1	1.9
Total Revenues[1]	**$2,791.4**	**$2,790.1**	**($1.3)**

1. Excludes interdepartmental revenue & debt service chargebacks

The $22.9 million decrease seen in Table 1.3 for non-tax revenue sources is made up of a number of factors, including:

- A decrease in departmental revenue of $11.9 million, which includes:
  - The removal of a $5.0 million initiative in Corrections for housing undocumented immigrants.
  - The reduction by $ 1.5 million in Assessment from the Geographic Information System (GIS) initiative.
  - An additional $6.4 million in the Clerk's department driven by revenues from mortgage recording fees.
  - A decrease of $9.2 million in the Health Department is due to a change in New York State procedures for the Early Intervention Program where disbursements of Medicaid fees are made directly to the health care provider and no longer passed through Nassau County.
- The removal of $20.5 million in FY 2014 from bond proceeds which was budgeted in the prior year associated with a suits and damages.
- An offset from additional departmental revenues of $5.4 million, County-wide, from fines and forfeits. The Traffic and Parking Violations Agency is budgeted to generate $7.4 million more in revenue mainly from Red Light Camera (RLC) fines and fees.

Anticipated revenue from federal aid is decreasing by $14.7 million. The Department of Social Services (DSS) is decreasing by $5.8 million due to reduced reimbursement from lower salaries and expenses for TANF and Safety Net Assistance. There has been a change in the accounting methodology for federal aid that supports the NICE bus, $7.0 previously budgeted as aid from the Federal Transportation Authority (FTA) is now reflected in interfund revenue.

State aid is estimated to decrease by $12.5 million in FY 14 in correlation to decreased reimbursable expenses in Health and Social Services which combine for a total reduction of $15.8 million. In contrast, an additional $5.2 million from the STOA grant is budgeted in the Department of Public Works.

Budget Risks and Opportunities

The largest risk items to the FY 2014 Proposed Budget are the borrowing for Judgments & Settlements and overtime. It is currently unclear if the County will be given the authority to borrow. Also, given the current overtime trends, achieving $50.0 million in the Police Department will prove to be difficult. Other items subject to execution lacked a detailed implementation plan and were deemed at risk. 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 Opportunities (Major Funds)

Expenses Risks (in millions)

Item	OLBR Surplus/Risk
Overtime	(10.0)
Judgments & Settlements	(17.1)
Expense Sub Total	**(27.1)**

Revenue Risks (in millions)

Item	Surplus/Risk
Correctional Center Federal & State Aid	(1.7)
Sale of County Property	(3.0)
Police Department Revenues	(3.7)
Fines & Forfeits	(2.5)
Purchasing	(0.5)
Tax Map Verification (GIS)	(1.6)
Clerk Initiative	(1.0)
Revenue Sub Total	**(14.0)**
Total Risks	**(41.1)**
Opportunities	
Contingency	10.0
Total Opportunities	**10.0**
Net	**(31.1)**
Other Components	
Tax Certiorari Exposure	(70.0)
Wage Freeze / Contract Settlements	TBD

Although we have identified $41.1 million worth of budgetary items that are classified as risks, this is reduced to $31.1 million with an opportunity offset. It is good budget practice to include some contingency in the budget, however, if it is not used, this will represent an opportunity. As previously mentioned, the Administration's actions in regards to possible contract settlements and its handling of tax certiorari payment / expenses will determine the final outcome.

Multi-Year Plan

Table 1.5 below details the Administration's projected expenditures and revenues through 2017. 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)

	2014 Proposed	2015 Proposed	2016 Proposed	2017 Proposed
Expenses				
Salaries	$809.5	$807.6	$821.4	$823.4
Fringe Benefits	480.4	$502.3	$529.4	560.6
Workers Compensation	28.0	$28.0	$28.0	28.0
OTPS	504.0	$512.1	$518.7	525.5
Interfund Charges	20.3	$28.5	$28.2	25.0
Direct Assistance	574.7	$577.0	$580.6	584.9
Debt Service	361.2	$400.7	$402.9	398.7
Contingency Reserve	12.0	$0.0	$0.0	0.0
Total Expenses[1]	**$2,790.1**	**$2,856.2**	**$2,909.2**	**$2,946.1**

1. Excludes interdepartmental charges and debt service chargebacks

	2014 Proposed	2015 Proposed	2016 Proposed	2017 Proposed
Revenues				
Use of Reserves	0.0	0.0	0.0	0.0
Non-Tax Sources	422.8	425.4	424.9	420.7
Federal Aid	141.5	141.5	141.5	141.5
State Aid	219.9	220.9	222.5	224.1
Sales Tax	1,165.9	1,196.3	1,232.2	1,269.2
Property Tax	807.0	807.0	807.0	807.0
Other Taxes	33.1	32.8	32.6	32.4
Total Revenues[1]	**$2,790.1**	**$2,823.9**	**$2,860.7**	**$2,894.8**
Surplus/Gap Projections	**$0.0**	**($32.3)**	**($48.5)**	**($51.3)**

1. Excludes interdepartmental revenue & debt service chargebacks

Over the course of this MYP, total expenses are projected to grow by 5.6% while revenues increase at the lower rate of 3.8%. Rising costs for fringe benefits, debt service and OTPS 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 $13.9 million, from a Proposed Budget of $809.5 million in FY 14 to $823.4 million in FY 17. The increases in the out-years of $11.3 million and $9.1 million for employee steps in 2016 and 2017 seem insufficient especially given current efforts to negotiate labor contracts. This would have resulted in larger out-year gaps. The largest risk to the FY 2013 budget was termination cost; the FY 2014 and the out-year budgets remedy that risk by funding over $30.0 million County-wide each year.

- Fringe benefits will increase by $80.2 million, from an estimate of $480.4 million in the FY 14 Proposed Budget to $560.6 million in FY 17.

  - Health insurance expenses for active and retired employees are projected to increase by $45.8 million to $311.8 million in FY 17. The MYP baseline inflator used to project out-year health insurance costs is 3.57% for 2015 and 5.50% for 2016 and 2017 for active employees. The inflator for retirees is 5.05% for 2015 and 6.50% for 2016 and 2017.

  - Including the amortization amounts, pension costs increase by $8.9 million in FY 15, $8.7 million in FY 16 and $12.6 million in FY 17. The New York State Comptroller recently released the 2015 pension projections. The Administration will continue to amortize the pension expense in the out-years.

  - From the 2014 Proposed Budget, social security expenses are increasing by roughly $804,000 in FY 15 to $950,000 in FY 16, and minimally for 2017.

- Over the course of the MYP, OTPS expenditures will increase by $21.5 million, or 4.3%. The tax certiorari expenses are increasing from $10.0 million in 2014 to $30.0 million yearly from 2015 through 2017.

- Debt Service, excluding cost of loans and NIFA refunding savings, will increase by $37.5 million, from an estimate of $361.2 million in FY 14 to $398.7 million in FY 17.

- In FY 2014, Sales tax is projected to increase by $44.7 million from the FY 2013 budget which represents a growth of 4.0%. Given the recovery efforts from Superstorm Sandy and the unusual sales tax growth rate, OLBR believes basing the budget off the prior year to be a safe methodology. The MYP projects a 3.0% growth for 2015 to 2017 which appears realistic.

- The property tax levy will stay flat from FY 14 to FY 17.

Gap Closing Measures

The MYP contains various items to reduce the projected out-year gaps. These items are divided into three categories: Expense/Revenue actions, Financing Options/Asset Sales and NYS actions, as illustrated in Table 1.6.

Table 1.6: Gap Closing Measures Detail 2014 - 2017

	2014	2015	2016	2017
Current Baseline Gap		**(32.3)**	**(48.5)**	**(51.3)**
Expense/Revenue Actions				
Video Lottery Terminals		19.0	19.0	20.0
Office Consolidation		3.0	7.0	7.0
Improve Detainee to Staffr Ratio at Correctional Center		3.0	5.0	5.0
207 C Reform		2.0	2.0	2.0
Financing Options/Asset Sales				
Sale of Surplus County Property		5.0	5.0	5.0
New York State Actions				
Mandate Reform		10.0	10.0	10.0
Other NYS Initiatives (e.g. Speed Cameras, etc)		8.0	12.0	12.0
Total Gap Closing Initiatives		**$50.0**	**$60.0**	**$61.0**
Projected Baseline Gap After Gap Closing Actions		**17.7**	**11.5**	**9.7**

The Administration provided the following explanation for each item:

<u>Video Lottery Terminals (VLTs)</u> – The NYS Legislature enacting a law in 2013 to allow certain Off-Track Betting Corporations in New York State to host video lottery terminals. Under the provisions of the law, the County is now designated as a "newly eligible municipality". The MYP reflects the Administration's projected revenues beginning in 2015.

<u>Office Consolidation</u> – The County will look to streamline office space due to reduced headcount.

<u>Improve Detainee to Staff Ratio</u> – The County hopes to achieve savings from improving the detainee to staff ratio through a review of service levels provided to inmates, an analysis of the physical layout of the Correctional Center, and a study of staff deployment.

<u>207 C Reform</u> – The savings are expected to come from the County partnering with its third party administrator to seek ways to achieve additional savings.

<u>Surplus of Surplus County Property</u> – The sale of unneeded County property and consolidating offices would generate revenue.

<u>Mandate Reform</u> – The County believes that cost containment opportunities exist within preschool special education programs and other NYS mandated programs such as public assistance.

<u>Various NYS Initiatives</u> – The County will pursue NYS approval for <u>Speed Cameras</u> at school locations. This initiative would generate $8.0 million in 2015, $12.0 million in 2016, and $12.0 million in 2017.

Conclusion

The FY 14 Proposed Budget benefits from sales tax growth, diminished headcount, the continuation of the wage freeze, and the deferral of pension costs. Some measures lie within the County's control such as headcount, while others do not (i.e. sales tax receipt growth). There are internal considerations that could imperil the Proposed FY 14 Budget. To avoid budgetary gaps, the County will need to secure bonding for suits and damages, tax certiorari expenses above the budgeted $10.0 million and draft a plan for any labor negotiations / settlements. There is no contingency included in the budget in the event that the wage freeze is not renewed for another year. Tax certiorari expenses, similar to FY 13, will require bipartisan cooperation for the County to address the current backlog.

In the event that there is no increase in payroll and a compromise to tax certiorari expenses is reached, the budget could be managed within its current boundaries. The Administration should be proactive in developing action plans that address these impending risks.

2. LABOR

The labor landscape in Nassau County has been affected by a series of events in FY 2013. In February, the United States District Court ruled that the Nassau Interim Finance Authority's ability to impose a wage freeze had expired and ruled the wage freeze to be illegal. The District Court stayed its ruling pending appeal. As recently as September 20, 2013 the United States Court of Appeals for the Second Circuit unanimously overruled the lower Federal Court's decision favoring the unions in their wage freeze litigation against NIFA. Since 2011, the County has benefited from the wage freeze. It shielded the Administration from having to budget for the effect of any contractual wage increases. In March 2013, NIFA renewed the County-wide wage freeze it first implemented on March 15, 2011. This action froze employee wages and will continue to do so through March 2014, including contractual cost of living adjustments (COLA) and step increases for union members. The Proposed 2014 Budget correctly includes termination pay for police, which OLBR flagged as a risk in FY 13, but does not include any steps or any contractual wage increases. These would be:

- CSEA 3.50% as of 1/1/2014.
- PBA 3.50% as of 1/1/2014.
- DAI 3.50% as of 1/1/2014.
- SOA 3.50% as of 1/1/2014.
- COBA 3.50% as of 1/1/2014.

The current freeze will expire in March 2014 unless the County negotiates new contracts with the unions and NIFA signs off on these agreements. It is clear that the current Proposed 2014 Budget may not be able to absorb any retroactive pay or increase in base pay as no provisions / reserves were included in consideration of any settlements. Attrition savings can be used to offset other salary shortfalls such as overtime. The out-years 2016 and 2017 do include some funding for employee step increases which will be discussed later. Since all COLA increases are scheduled to begin in January, and should NIFA not impose a new freeze, the exposure to the budget will be limited to steps occurring after March.

It is not known how the end of the wage freeze will affect out-year salaries. There are two views as to what will occur with employee grade / steps. The first is that salaries will pick up as if employees had stepped throughout the freeze. If this occurs, it is of great significance as the County can see major increases in salaries once the freeze is lifted, including back pay liabilities. On the other hand, it is the County's position 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, except for step adjustments of $11.3 million in 2016 and $9.1 million in 2017, does not include COLA or inflators for the union salaries. Given the Administration's intent to settle the wage freeze, some contingencies to absorb potential salary increases should have been made especially in the current Proposed Budget.

Labor Contracts

In 2008 and 2009 contract extensions and supplemental Memorandum of Agreements (MOA) helped achieve savings by mainly deferring expenses to the out-years. All the major unions have contracts until December 31, 2015. When the labor contracts were renegotiated, the County did not expect a recession. The current Administration has argued that the labor contracts were unsustainable and were it not for the freeze, it would have been difficult to meet out-year contractual obligations illustrated in table 2.1 below:

Table 2.1: FY 14 to FY 15 Union Wage Increases

Scheduled Union Wage Increase Summary				
PBA	DAI	SOA	CSEA	COBA
1/1/2014 3.50% 1/1/2015 3.75%	1/1/2014 3.50% 1/1/2015 3.75%	1/1/2014 3.50% 1/1/2015 3.75%	1/1/2014 3.50% 1/1/2015 3.75%	1/1/2014 3.50% 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 2012 full year W-2 earnings, these are illustrated in table 2.2 below:

Table 2.2: 2012 Union W-2 Salary Earnings

Major Funds Including Sewers 2012 Union Earnings (millions)									
Union	Regular Earnings	Overtime	Holiday	Longevity	Shift Diff	Term Pay	Other	Salary Extra Total	2012 W-2 Total Earnings
CSEA	232.6	20.3	2.8	7.0	4.1	11.7	16.7	62.6	295.1
DAI	42.7	10.9	2.7	2.6	4.0	7.9	2.7	30.8	73.4
IPBA	3.6	0.4	0.0	0.1	0.0	0.1	0.2	0.8	4.4
PBA	156.0	39.6	9.4	8.3	14.1	12.7	5.9	90.1	246.1
COBA	76.7	13.9	2.8	2.0	3.9	1.9	1.4	25.8	102.6
SOA	47.7	10.4	3.0	2.4	3.7	16.4	5.7	41.6	89.4
Grand Total	559.3	95.5	20.8	22.5	29.8	50.7	32.5	251.6	810.9

In addition, the County is obligated to pay for various salary related expenses that had been deferred in prior years in the form of retroactive pay. As evident below, deferrals can be considered a savings in the year they are pushed out of but will eventually become a cost in the year they become due. Also, the amounts included for step increases in the years 2016 and 2017 are reflected as adjustments in table 2.3 below:

Table 2.3: MYP Deferral and Step Budget (Incl. SSW)

	2014	2015	2016	2017
Retroactive Pay	6,353,647	-	-	-
Payroll Adjustment	-	-	3,134,002	4,487,515
Salary Adjustment	-	-	8,200,900	4,629,631
Grand Total	6,353,647	-	11,334,902	9,117,146

The overall Major Funds overtime expense is budgeted at $74.4 million in the Proposed FY 14 Budget which represents an increase of $6.3 million from the current budget. Police is increasing by $6.0 million. However, given the current overtime trend in the Police Department, the budget may still fall short. The Office of Management and Budget currently projects Police FY 2013 overtime at $60.0 million and OLBR projects $62.4 million. The immediate plan is to add some positions which are currently vacant and maintain sworn staffing at 2,270. Further discussions will be included at the department level in the Police Department review. Table 2.4 illustrates historical results, adopted, projected and proposed numbers:

Table 2.4: Overtime Trends

OVERTIME TRENDS	2012 Actual	2013 Adopted	2013 Projected	2014 Proposed
Police District	33,165,680	24,000,000	36,125,000	25,000,000
Police Headquarters	31,488,225	20,000,000	26,225,000	25,000,000
Total	64,653,905	44,000,000	62,350,000	50,000,000
Corrections	15,693,183	16,153,356	16,153,356	16,153,356
Police & Corrections	80,347,088	60,153,356	78,503,356	66,153,356
Others	10,764,951	7,976,979	9,775,501	8,247,112
TOTAL:	91,112,039	68,130,335	88,278,857	74,400,468
Police FEMA credit	(14,781,832)			
Other Department FEMA credit	(3,556,667)			
	(18,338,499)			
	72,773,540			

2014 Savings

For the third year in a row, the FY 2014 Executive Budget keeps the full-time positions at 7,395. The current on-board headcount is 7,304. The budget funds 7,495 positions at the department level which is reduced by 100 heads for expected attrition. That value is centrally located in the Budget Office since it is not know where the savings will materialize. Corresponding to the decrease of 100 heads is an expense reduction of $1.6 million.

Should any deal to settle the wage freeze be reached, it will be important to consider not only the impact to the base pay but also any additional retroactive monies to be paid.

The table on the next page illustrates the full-time headcount:

Table 2.5: Staffing Comparison

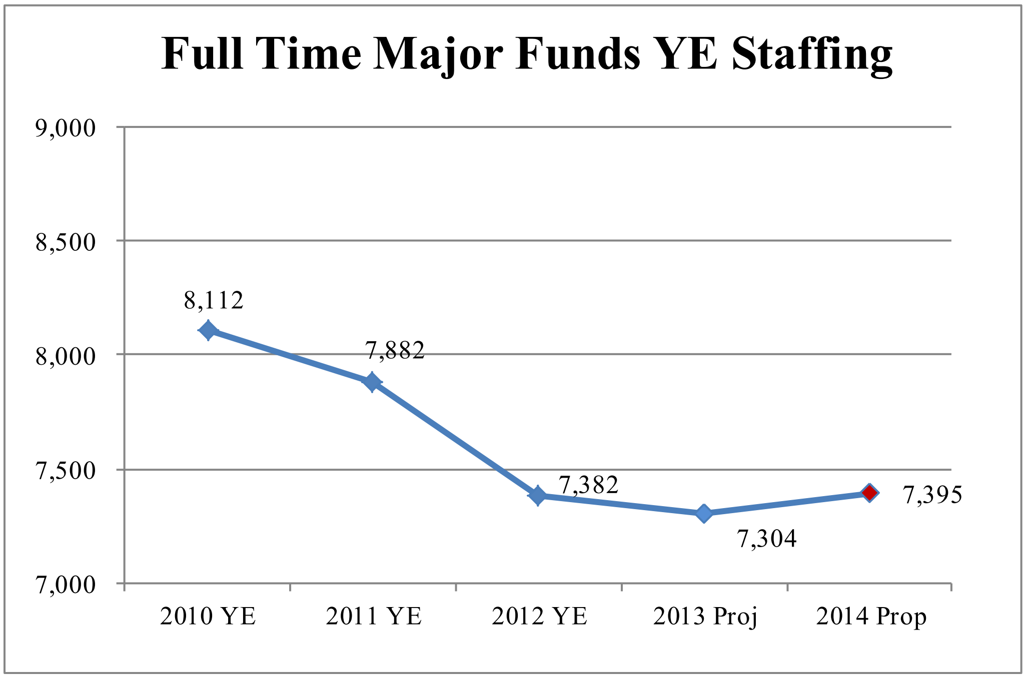
Full Time Major Funds Staffing Comparison

Department	2013 Adopted Headcount	2013 Sept Onboard Headcount	2013 Sept Onboard Salaries	2014 Proposed Headcount	2014 Proposed Salaries
Assessment	160	156	8,791,879	158	8,880,319
Assessment Review Commission	29	28	1,943,589	29	1,988,589
Board of Elections	139	154	9,230,244	139	9,406,244
C.A.S.A.	4	4	226,800	4	226,800
Civil Service	53	52	3,628,594	51	3,734,941
Comptroller	86	76	5,417,541	86	6,181,847
Constituent Affairs	39	38	1,980,244	38	1,985,242
Consumer Affairs	27	26	1,488,500	27	1,484,072
Correctional Center	1,152	1,093	82,512,561	1,134	85,423,983
County Attorney	106	106	8,245,226	107	8,485,935
County Clerk	84	83	4,240,906	84	4,289,125
County Executive	20	18	1,640,792	18	1,640,792
District Attorney	375	361	27,368,964	375	27,705,877
Emergency Management	10	9	679,893	9	769,893
Health	169	169	12,021,038	173	12,345,284
Housing & Intergovernmental Affairs	12	12	727,500	12	737,500
Human Resources	9	9	654,500	9	654,500
Human Rights	8	8	501,870	8	501,870
Human Services	80	74	5,262,284	77	5,379,881
Information Technology	85	75	6,375,084	79	6,797,287
Labor Relations	4	4	265,000	5	315,000
Legislature	97	88	5,264,404	102	5,815,697
Medical Examiner	74	68	5,623,565	72	5,943,224
Office of Minority Affairs	5	6	405,642	6	405,642
Office of Management and Budget	25	21	1,874,906	25	2,246,906
Parks, Recreation and Museums	151	153	7,869,930	151	7,784,646
Probation	198	193	13,839,709	200	14,391,363
Public Administrator	6	6	452,530	6	452,530
Public Works Department	422	410	25,768,462	417	26,451,661
Shared Services	11	11	840,121	11	840,121
Records Management	14	12	578,117	14	698,692
Social Services	644	641	38,228,143	640	38,760,336
Traffic & Parking Violations	43	43	2,250,834	43	2,250,834
Treasurer	33	30	1,863,740	32	1,977,482
Veterans' Services Agency	6	7	375,383	7	375,383
Anticipated Attrition	(107)	0	0	(100)	(1,636,246)
General Fund Total	**4,273**	**4,244**	**288,438,495**	**4,248**	**295,693,252**
Fire Commission	97	91	6,270,209	95	6,476,082
Police District	1,445	1,386	134,681,999	1,422	135,165,020
Police Headquarters	1,580	1,583	146,092,292	1,630	150,968,480
Total Major Funds	**7,395**	**7,304**	**575,482,995**	**7,395**	**588,302,834**
Sewer & Storm Water (SSW)	306	270	13,959,184	306	15,242,906
Total including Sewers	**7,701**	**7,574**	**589,442,179**	**7,701**	**603,545,740**

Headcount

The present Administration has endeavored to control salary expense by reducing headcount. The County is, however, currently operating at very low headcount levels and may not be able to sustain the level of service it has provided in the past. Since 2009 there have been retirement incentives or layoffs and even a combination of both some years. As a result headcount is historically low. Chart 2.1 trends full-time headcount from FY 10 to the Proposed FY 14 Budget:

Chart 2.1: Full Time Headcount Trend



As of September 2013, the total headcount in the Major Funds was 7,304. The General Fund and Fire Commission are each increasing by four heads and Police by 83 heads in FY 14.

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

Table 2.6: Major Fund Salary Plan

Major Funds Multi Year Salary Plan				
Department	**2014 Proposed**	**2015 Plan**	**2016 Plan**	**2017 Plan**
Assessment Review Commission	2,137,456	2,103,835	2,105,309	2,106,812
Assessment Department	9,414,467	9,248,082	9,252,429	9,256,863
County Attorney	9,020,570	8,986,914	8,991,686	8,996,553
Office Of Management And Budget	3,373,184	5,061,544	8,432,841	7,020,378
Office Of Consumer Affairs	1,687,265	1,661,456	1,664,010	1,666,616
Sheriff/Correctional Center	117,264,859	115,251,320	117,479,783	117,569,687
County Executive	1,733,129	1,734,116	1,735,124	1,736,151
Office Of Constituent Affairs	2,311,072	2,283,435	2,285,940	2,288,495
County Clerk	5,169,609	5,103,139	5,105,349	5,107,603
County Comptroller	6,244,805	6,183,031	6,186,286	6,189,605
Civil Service	4,568,725	4,497,283	4,497,993	4,498,717
District Attorney	29,054,886	28,949,552	29,518,048	29,054,807
Board Of Elections	14,529,299	14,427,845	14,443,017	14,458,492
Emergency Management	827,773	825,791	826,557	827,338
Fire Commission	10,196,409	10,245,998	10,414,476	10,457,468
Health Department	13,874,046	13,559,551	13,572,208	13,585,119
Housing & Intergovernmental Affairs	748,800	749,026	749,257	749,492
Commission On Human Rights	548,518	537,562	537,611	537,661
Department Of Human Services	5,500,889	5,387,455	5,392,707	5,398,064
Information Technology	7,102,898	6,971,782	6,983,344	6,995,137
County Legislature	6,248,334	6,251,147	6,254,016	6,256,942
Office Of Labor Relations	315,000	315,000	315,000	315,000
Office Of Minority Affairs	474,667	474,741	474,816	474,893
Medical Examiner	6,687,325	6,611,616	6,614,819	6,618,087
Public Administrator	506,013	502,193	503,034	503,891
Probation	16,751,515	16,520,224	16,540,524	16,561,231
Police Department	437,235,286	438,528,208	445,749,462	449,277,007
Department Of Human Resources	739,354	739,563	739,776	739,994
Parks, Recreation And Museums	15,799,646	15,714,316	15,734,817	15,755,729
Shared Services	877,769	863,495	863,568	863,643
Public Works Department	27,757,713	27,262,425	27,337,650	27,414,380
Records Management	879,484	877,777	878,107	878,445
Coord Agency For Spanish Americans	226,800	226,800	226,800	226,800
Social Services	44,157,561	43,428,041	43,464,633	43,501,957
County Treasurer	2,160,515	2,130,461	2,131,123	2,131,798
Traffic & Parking Violations Agency	3,019,815	2,984,283	2,987,230	2,990,237
Veterans Services Agency	385,877	382,534	382,582	382,630
Grand Total	**809,531,333**	**807,581,541**	**821,371,932**	**823,393,722**

3. FRINGE BENEFITS

Fringe benefit expenditures include health insurance and pension contributions for active and retired employees as well as social security contributions. Escalating health insurance and pension contribution costs continue to place a heavy burden on the County's budget. The Administration's decision to amortize a portion of the pension expense will continue to provide budgetary relief in FY 14 and save roughly $71.5 million from the overall expense. However, OLBR is concerned that while amortizing for pension obligations provides budgetary savings in the current fiscal year, balancing the out-year gap will become more exacerbated by deferring the liability over the next twelve years at an additional interest cost.

The FY 14 fringe benefit budget for the Major Funds is approximately $480.4 million, which is an increase of $10.3 million from FY 13 due mostly to an increase health insurance for active employees and pension contribution costs. Compared to the FY 13 projection, fringe benefit costs are increasing by roughly $19.8 million. The surplus in the current year is due to an overstated FY 13 budget for retiree health insurance rates.

Table 3.1 displays the fringe benefit appropriations for the Major Funds.

Table 3.1: Fringe Budget by Major Fund

Fund	Department	Adopted FY 13 Budget	OLBR FY 13 Projection	FY 14 Executive Budget	Variance Exec. vs FY 13 Adopted	Variance Executive vs FY 13 Proj.
Fire Commission	Fringe Benefits	4,811,786	$4,757,557	5,041,677	$229,891	$284,120
General Fund	Courts	1,794,516	1,487,448	1,545,938	(248,578)	58,490
	Fringe Benefits	200,643,618	197,378,774	202,495,618	1,852,000	5,116,844
	OMB	26,968,963	26,984,156	27,558,580	589,617	574,424
Police District	Fringe Benefits	116,615,526	113,324,719	118,243,742	1,628,216	4,919,023
Police Headquarters	Fringe Benefits	119,250,139	116,697,584	125,532,917	6,282,778	8,835,333
Total		**$470,084,548**	**$460,630,239**	480,418,472	**$10,333,924**	**$19,788,233**

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

Table 3.2: Fringe Budget by Sub-object

SubObject & Description	Adopted FY 13 Budget	OLBR FY 13 Projection	FY 14 Executive Budget	Variance Execcutive vs Adopted FY 14	Variance Executive vs FY 14 Proj.
04F - Retirement Debt Service	0	(611)	0	-	611
08F - NYS Police Retirement	68,328,664	68,265,565	74,031,627	5,702,963	5,766,062
11F - State Retirement Systems	57,206,374	57,771,454	58,859,743	1,653,369	1,088,289
13F - Social Security Contribution	53,204,337	54,396,820	54,507,600	1,303,263	110,780
14F - Health Insurance	126,372,488	124,595,961	132,762,286	6,389,798	8,166,325
17F - Optical Plan	864,652	814,744	847,320	(17,332)	32,576
19F - NYS Unemployment	2,602,743	2,602,743	1,802,718	(800,025)	(800,025)
20F - Dental Insurance	4,370,279	4,034,988	4,286,468	(83,811)	251,480
22F - Medicare Reimbursement	16,088,711	16,076,392	16,451,670	362,959	375,278
22S - Medicare Reimbursement Surcharge	213,627	297,224	546,989	333,362	249,765
26F - Flex Benefits	2,400,000	2,400,000	2,100,000	(300,000)	(300,000)
28F - Transit Check	0	7,184	0	-	(7,184)
35F - MTA Mobility Tax	2,756,276	2,749,973	2,767,557	11,281	17,584
40F - CSEA Legal Plan	587,250	797,769	579,500	(7,750)	(218,269)
41F - COBA Legal Plan	127,250	117,625	120,750	(6,500)	3,125
45F - Disability Insurance	53,400	53,400	53,000	(400)	(400)
75F - Health Insurance For Retirees	137,454,658	128,190,982	133,202,806	(4,251,852)	5,011,824
76F - Employees Optical - Retirees	533,383	537,569	551,778	18,395	14,209
98G - Fringes Allocable to Grants	(347,242)	(347,242)	(517,996)	(170,754)	(170,754)
ZZO - Capital Backcharge OT Fringes	(77,650)	(77,650)	(94,689)	(17,039)	(17,039)
ZZS - Capital Backcharge ST Time fringes	(2,654,652)	(2,654,652)	(2,440,655)	213,997	213,997
Grand Total	**470,084,548**	**460,630,239**	**480,418,472**	**10,333,924**	**19,788,233**

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.

FY 14 makes the third year that the Administration has chosen to amortize a portion of the pension expense. 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. However, legislation passed as part of the State 2014 budget (Chapter 57, Part BB, Laws of 2013) established an alternative to the original Contribution Stabilization Program enacted in 2010. The Alternative Program increases the maximum length of any amortizations installments from 10 years to 12 years at an interest rate that is set annually. Once this program is elected, you cannot return to the original program, however it is required that payments continue on any existing amortizations from the original program.[1] The interest rate for the amortization of contributions for the last fiscal year was 3.00%. The interest rate for the 2013 amortization is 3.75%.

For 2014, the Administration is choosing to amortize the maximum pension amount over 12 years based on the Alternative Program. The maximum amount allowed based on the 2014 pension invoice is $71.5 million or 33.4% of the $214.2 million total pension bill which includes $9.8 million for the Nassau Community College, the Sewer & Storm Water Resource District and the Grant Fund. Table 3.3 provides the FY 13 and FY 14 pension expenses billed by the State for Employee Retirement System (ERS) and Police and Fire Retirement System (PFRS).

Table 3.3: FY13-FY14 Pension Invoices

	2013 Invoice	2014 Invoice	2014 vs. 2013
December Without Amortization			
ERS	106,653,251	105,923,219	(730,032)
PFRS	85,535,613	108,265,405	22,729,792
	192,188,864	**214,188,624**	**21,999,760**
December Using Maximum Amortizion			
ERS	66,276,404	68,685,297	2,408,893
PFRS	68,328,664	74,031,627	5,702,963
	134,605,068	**142,716,924**	**8,111,856**
December Savings from Maximum Amortization	**57,583,796**	**71,471,700**	
February Without Amortization			
ERS	107,608,763	106,846,640	(762,123)
PFRS	86,304,304	109,229,655	22,925,351
	193,913,067	**216,076,295**	**22,163,228**
February Using Maximum Amortization			
ERS	67,231,916	69,608,718	2,376,802
PFRS	69,097,355	74,995,877	5,898,522
	136,329,271	**144,604,595**	**8,275,324**
February Savings from Maximum Amortization	**57,583,796**	**71,471,700**	
Savings From December Pre-payment	**1,724,203**	**1,887,671**	

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

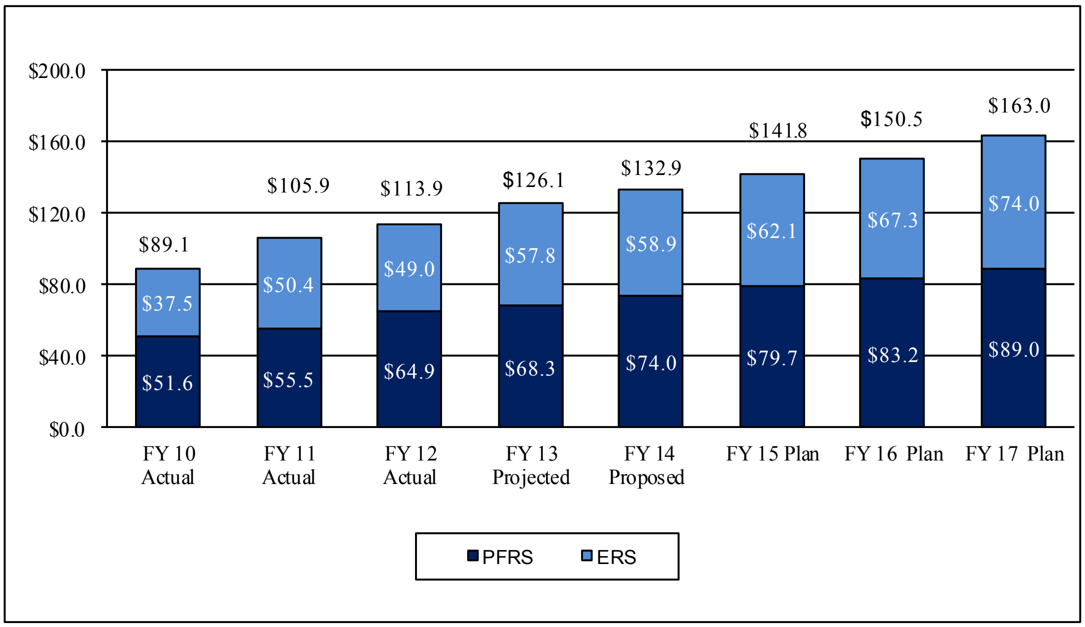
The County has the option of paying the pension bill on the due date of February 1 or at a discount if paid by December 15, 2013. The table above provides the ERS and PFRS disbursements based on paying the bill on the dates depicted. The FY 14 Proposed Budget for pension expenditures is based on paying the bill on the December 15 payment date. The early payment date will result in a savings of $1.9 million as shown in the table.

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

Furthermore, amortizing a portion of the bill reduces the pension expense from $214.2 million to $142.7 million. The FY 14 budget includes a reduction of $71.5 million due to the maximum amortization allowed by the State. If not for the amortization, the total pension cost would be 33.4% higher. The December invoice of $214.2 million includes $105.9 million billed for (ERS) and $108.3 million billed for (PFRS). The pension liability with amortization associated with the Major Funds is estimated to be $132.9 million

Chart 3.1 details the historical pension obligations from FY 10 to FY 12 and the projected costs from FY 13 to FY 17 for the Major Funds. For the FY 12 projected through the FY 17 plan the chart below reflects the pension figures based on the amortization of the expense. The FY 14 Proposed Budget includes the pension expense of $58.9 million for ERS and $74.0 million for PFRS for a total budget of $132.9 million. 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 10 to FY 17 Pension Costs for the Major Funds (in millions)



As reflected in chart 3.1, pension costs are projected to continue to spike through FY 17. The FY 14 Executive Budget includes $132.9 million for ERS and PFRS pension obligations for the five Major Funds. This is an increase of $6.8 million from the FY 13 pension cost. The Multi-Year Plan projects pension costs to continue to increase to $141.8 million in FY 15, $150.5 million in FY 16 and $163.0 million in FY 17.

While amortizing the pension bill provides budgetary relief to the FY 14 budget and throughout the Multi-Year plans, the on-going liability becomes a fiscal problem in the out-years. Based on the State's projected installment payments, the amortized liability with interest over the next 12 years is estimated to be $90.1 million.

The first payment from the 2014 amortization will impact the 2015 bill by an additional $7.5 million. This is in addition to the annual installment of $6.8 million from the 2013 borrowing and the annual installment of $4.7 million from the 2012 borrowing (included in the current 2014 bill). These are ongoing liabilities on the County's out-year pension obligations. After deducting the current installments that have been paid to date, OLBR estimates the total outstanding liability with interest to cost roughly $188.8 million. Table 3.4 details the outstanding liability from the three years of borrowing. The figures in the table represent the total bill including the Nassau Community College (NCC), the Sewer and Storm Water Resource District and the Grant Fund.

Table 3.4: Amortization Liability

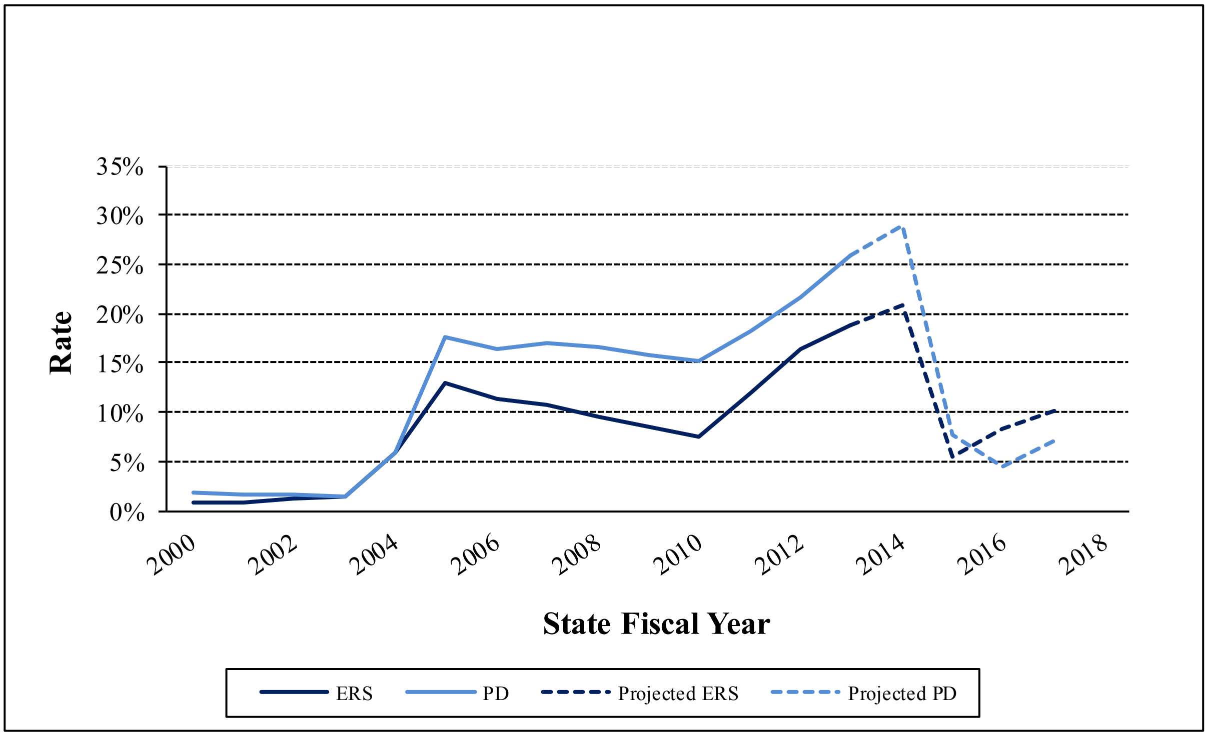
Year	Maximum Amortization From Bill	Liability with Interest	
2012 Amortization Liabilty	38,784,738	47,442,615	
2013 Amortization Liabilty	57,583,796	67,505,774	
2014 Amortization Liabilty	71,471,700	90,117,528	*
Subtotal Amortization	167,840,234	205,065,917	
2012 1st Installment	4,744,262	4,744,262	
2012 2nd Installment	4,744,262	4,744,262	
2013 1st Installment	6,775,568	6,775,568	
Total Liability After Paid Installments	151,576,142	188,801,825	

*OLBR estimates this liability based on the first 2015 installment payment of $7.5 million recurring annually over 12 years.

Nassau County is not the only municipality that is amortizing pension obligations. Many other municipalities such as Suffolk County are also choosing to amortize a portion of their pension expense. In 2014, Suffolk County is also opting into the alternative program to amortize a portion of the cost over 12 years.

Chart 3.2 depicts the annual blended average historical pension contribution rates for ERS and PFRS from 2000 to 2017.

Chart 3.2: Historical Pension Contribution Rates



Source: NYS Comptroller

As reflected in Chart 3.2, pension contribution rates continue to spike in State Fiscal Year (SFY) 2013-14. The rates in the out-years are based on the Administration's Multi- Year Plan. The MYP includes ERS rates of 5.47% for 2015, 8.34% for 2016 and 10.02% for 2017. The rates for PFRS are 7.62% for 2015, 4.37% for 2016 and 7.06% for 2017. 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 the market decline so that it isn't felt at once but spread over a multi-year period. The Fund's strong gain in more recent years has helped mitigate the impact of the financial collapse of 2008-2009. The State Comptroller is projecting rates to decline slightly in Fiscal Year 2014-15. According to the Comptroller, "strong investment performance, along with a revision in actuarial smoothing, has lowered the employer contribution rate for SFY 2014-15."[2]

The State Comptroller has implemented some actions to help municipalities manage the increased pension costs. On March 16, 2012, Chapter 18 was signed into law creating Tier 6. The bill requires new employees to contribute more to their pensions. New members who join either ERS or PFRS on or after April 1, 2012 will be in Tier 6.

From April 2012 through March 2013, Tier 6 members have been contributing 3% of their reportable salary. Beginning April 1, 2013, the contribution rate for Tier 6 members will depend on their annual

[2] Office of the New York State Comptroller. "Employer Pension Contribution Rates Announced For Fiscal Year 2014-2015." http://www. osc.state.ny.us/press/releases/aug13/082713a.htm. August 27, 2013.

wages. It raises the retirement plan contributions by a sliding scale ranging from 3% for employees who earn up to $45,000 a year to 6% for employees earning annual salaries of a least $100,000.

There are some exceptions to the contribution, PFRS members that are covered by a collective bargaining agreement requiring the employer to offer a non-contributory plan that was in effect on January 9, 2010 and is still in effect on the date of membership, may not contribute.

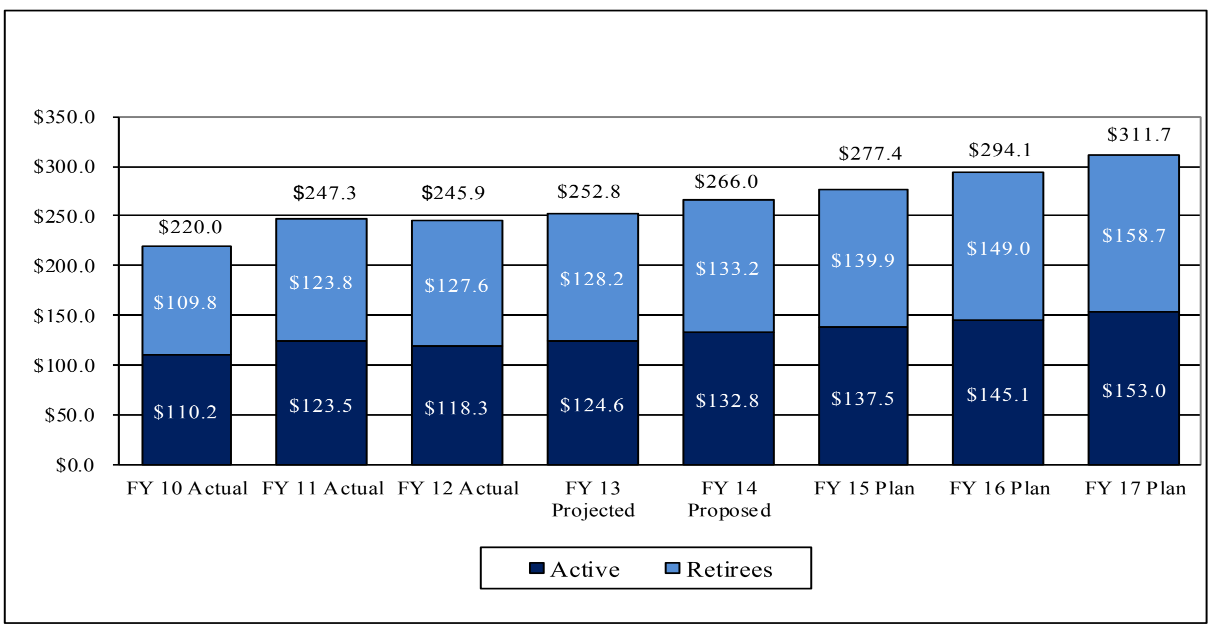
The Tier 6 legislation also further implements the following changes:

- Raises the retirement age one year to 63. Workers who retire early will collect pensions that are 6.5 percent lower.
- Calculates benefits based on the last five years of employment instead of the last three years.
- Caps overtime at $15,000.[3]

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

In 2013, the national average premium for employer sponsored family coverage is 4% higher than the 2012 average premium.[4] The New York State Health Insurance Plan (NYSHIP) Empire family plan, which consists of most County workers increased by 7.9%. The 2014 Proposed Budget is based on an average growth rate of 3.7%. The 2014 Proposed Budget for active and retiree health insurance is increasing by $2.1 million compared to the FY 13 Adopted Budget and by $13.2 million compared to the FY 13 projection.

Chart 3.3: FY 10 to FY 17 Health Insurance Costs (in Millions)

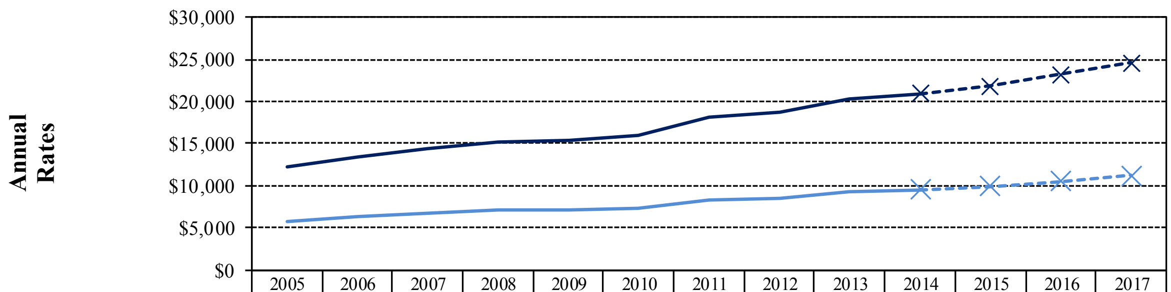


[3] Gralla, Joan and Burns, Dan "New York Cuts Pension Benefits for Public Workers." Reuters. March 2012

[4] Kaiser Family Foundation, "2013 Summary of Findings Employer Health Benefits." The Kaiser Family Foundation and Health Research & Educational Trust.

Chart 3.3 displays actual and projected health insurance costs for active and retired employees from FY 10 through FY 17 in the Multi-Year Plan. As shown above, health insurance costs increase significantly in each year. The FY 14 budget for health insurance includes $132.8 million for active employees and $133.2 million for retired employees for a total cost of $266.0 million. The FY 14 budget is $13.2 million greater compared to the current projection. The Multi-Year Plan projects health insurance costs to increase to $311.8 million by FY 17.

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



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Individual	$5,742	$6,357	$6,778	$7,109	$7,188	$7,348	$8,327	$8,553	$9,216	$9,536			
Family	$12,164	$13,514	$14,377	$15,105	$15,386	$15,971	$18,167	$18,754	$20,239	$20,970			
Projected Individual										$9,536	$9,947	$10,543	$11,176
Projected Family										$20,970	$21,874	$23,186	$24,578

Chart 3.4 above displays how the health insurance rates paid by Nassau County have been steadily increasing. The rates in the above chart reflect an increase in FY 14 based on New Yorks State's best estimate projection. The out-year rates rise by the MYP baseline inflator for active employees by 3.57% in 2015 and 5.50% for both 2016 and 2017. The retiree's baseline inflates by 5.05% in 2015 and 6.50% for 2016 and 2017.

The New York State Department of Employee Benefits is currently projecting a 2014 best estimate projection growth rate of 3.5% for individual and 3.6% for family coverage. Table 3.5 below displays the projected 2014 annual health insurance rates based on the State's best, optimistic and pessimistic projections:

Table 3.5: Health Insurance Premium Rates

		Best Estimate		Optimistic		Pessimistic	
Rates	2013	2014	% Change	2014	% Change	2014	% Change
Plan Premium							
Individual	9,216	9,536	3.5%	9,254	0.4%	9,817	6.5%
Family	20,239	20,970	3.6%	20,348	0.5%	21,592	6.7%
MediPrime							
Individual	4,792	4,989	4.1%	4,838	1.0%	5,140	7.3%
Family-1	15,815	16,424	3.8%	15,932	0.7%	16,915	7.0%
Family-2	11,391	11,877	4.3%	11,517	1.1%	12,238	7.4%

Compared to the FY 13 projection, the FY 14 budget is increasing by $8.2 million for active employees and $5.0 million for retired employees. Based on inflating the current health insurance projection by the Office of Management and Budget's (OMB) growth rate assumption of 3.7%, OLBR estimates that there is currently a $3.8 million cushion in the FY 14 budget for health insurance. However, if the rate were to finalize closer to the State's pessimistic projection of roughly 6.7%, the budget would be insufficient.

On a national level, the modest health insurance growth rates in recent years can be attributed to more employees contributing to their health care expenses. Due to the growth in healthcare costs, workers nation-wide are paying a larger portion of health insurance costs as more businesses shift the burden to their employees. Besides contributing towards their health insurance premiums, employees are responsible for a variety of cost sharing, such as insurance deductibles, copayments, coinsurance, additional costs for hospital admissions and prescription drug coverage.

More changes are expected over the next several years as more of the far reaching provisions of the health reform law take effect. While several provisions affecting some larger employers have been delayed, most notably the requirement to offer coverage to all full-time employees by 2014, employers may begin adapting benefits and contributions to prepare to meet this requirement in 2015. The reform act also establishes another kind of insurance plan called a health insurance exchange. Basically, the new healthcare reform law provides federal funding for states to establish American Health Benefit Exchanges and Small Business Health Options Program (SHOP) Exchanges.[5] Through an exchange, an employer can provide employees with a larger number and type of health options. In addition, the adoption of new federal rules for employee wellness programs, which permit employers to have larger financial rewards for employees who participate in wellness programs may encourage employers to modify or extend their wellness approaches.[6]

[5] Health Reform 2014: Mandated Coverage, Insurance Exchanges and Employer Requirements." Dummies.com "http://dummies.com/bhow-to/content/healthcare-reform-2014-mandated-coverage-insurance.html.
[6] Kaiser Family Foundation, "2013 Summary of Findings Employer Health Benefits." The Kaiser Family Foundation and Health Research & Educational Trust.

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 $113,700 a change of $3,600 from 2012. Medicare has no maximum. The total OASDI tax on the current maximum wage base is roughly $7,049.40. The Social Security Administration has projected that the wage base will increase from $113,700 to 115,500 for 2014.

The FY 14 Proposed Budget for social security is increasing by $1.3 million or 2.5% compared to the FY 13 Adopted Budget and $111,816 related to the FY 13 projection. With an increase in FY 14 budgeted salaries, social security is also expected to rise. The FY 14 budget is consistent with the 2013 projection.

17F Optical Plan

This benefit provides optical insurance to full-time County employees. The annual per capita premium is remaining at $115. The FY 14 budget is decreasing by a marginal $17,332 compared to FY 13 budget, however compared to the 2013 projection there is an increase of $32,576.

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 14 budget is decreasing by $800,025 or 30.7%. The decrease may be attributed to the expiration of unemployment payments from prior County layoffs.

20F Dental Insurance

This benefit provides dental insurance to full-time employees. The current contract with Healthplex was renewed in 2011 through a Request For Proposal (RFP). The renewed term of the contract is from January 1, 2012 through January 31, 2014. Under this contract, the current annual premium per capita remains unchanged at $561. The FY 14 budget for dental costs is decreasing by $83,811 compared to the FY 13 budget. Based on the current headcount and projection, the FY 14 appears more than sufficient.

22F Medicare Reimbursement

The County provides quarterly payments to cover premium costs related to Medicare coverage for retired employees. The proposed FY 14 budget is increasing by $362,959 to $16.5 million. Compared to the FY 13 projection, the proposed budget is increasing by $375,278. According to the federal government, the 2013 standard Medicare Part B premium is $104.90 for salaries $85,000 and $123.10 per month for salaries ranging from $85,001 - $107,000. Greater salaries will incur higher premiums.[7] Under the Medicare program, eligible retirees are responsible for 25% of the total cost of Part B, with the federal government subsidizing the remaining 75%.

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[7] "Medicare Premiums and Deductibles for 2014." Medicare.Com. Http://my.medicare.com/medicare-coverage-basics/medicare-premiums –and-deductibles-for-20122013.html."

26F Flex Benefits Plan

All Nassau County employees have the option of contributing a portion of their salary to a flexible spending account. This allows the employee to use pre-tax dollars on health care costs such as co-pays and deductibles. The FY 14 budget has decreased by $300,000 compared to the FY 13 Adopted Budget. The FY 14 budget includes corresponding revenue to offset the expense for the same budgeted amount of $2.1 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 14 budget includes $2.8 million which is a marginal increase of $11,281 compared to the FY 13 budget. As of July 11, 2013, a state appellate court overturned the 2012 ruling that found a tax to fund MTA to be unconstitutional.

40F CSEA Legal Plan

The FY 14 budget includes $579,500 for the CSEA legal plan which is a nominal decrease of $7,750 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 COBA Legal Plan

The FY 14 budget includes $120,750 for the Correctional Officer Benevolent Association (COBA) legal plan as per the COBA contract agreement.

45F Disability Insurance

The FY 14 budget includes $53,000 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 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 14 Proposed Budget is increasing by $18,395 from the FY 13 budget and $14,209 compared to the FY 13 projection.

98G Fringes Allocable to Grants

The FY 14 budget includes a credit of ($517,996), which is the corresponding fringe benefit expense to the salaries that are chargeback to the Grant Fund. This is an increase of $170,754 compared to the prior year's budgeted credit.

ZZO Capital Backcharges OT Fringes

The FY 14 budget includes a negative adjustment of ($94,689) which is the corresponding charge related to overtime salary chargeback within the Department of Public Works (DPW).

ZZS Capital Backcharges to Fringes

The FY 14 budget of ($2.4 million) is the credit to the corresponding charge related to the salary chargeback within the Department of Human Resources, DPW, OMB, the Comptroller's Office and Information Technology.

Multi-Year Plan

Table 3.7: FY 14 Multi-Year Plan

SubObject & Description	2014 Proposed Budget	2015 Plan	2016 Plan	2017 Plan
AB08F - NYS Police Retirement	74,031,627	79,672,837	83,154,540	89,025,250
AB11F - State Retirement Systems	58,859,743	62,079,371	67,256,790	73,995,921
AB13F - Social Security Contributions	54,507,600	55,311,973	56,264,262	56,367,646
AB14F - Health Insurance	132,762,286	137,501,900	145,064,504	153,043,052
AB17F - Optical Plan	847,320	847,320	847,320	847,320
AB19F - New York State Unemployment	1,802,718	1,802,718	1,802,718	1,802,718
AB20F - Dental Insurance	4,286,468	4,286,468	4,286,468	4,286,468
AB22F - Medicare Reimbursement	16,451,670	17,165,672	17,910,663	18,687,985
AB22S - Medicare Reimbursement Surcharge	546,989	570,728	595,498	621,343
AB26F - Flex Benefits Plan	2,100,000	2,100,000	2,100,000	2,100,000
AB28F - Transit Check	0	0	1	2
AB35F - MTA Mobility Tax	2,767,557	2,805,642	2,853,650	2,860,184
AB40F - CSEA Legal Plan	579,500	579,500	579,500	579,500
AB41F - SHOA Legal Plan	120,750	120,750	120,750	120,750
AB45F - Disability Insurance	53,000	53,000	53,000	53,000
AB75F - Health Insurance for Retirees	133,202,806	139,929,548	149,024,968	158,711,591
AB75G - Medicare Part D Reimbursement	0	0	1	2
AB76F - Employees Optical for Retirees	551,778	551,778	551,778	551,778
AB98G - Fringes Allocable to Grant	(517,996)	(517,996)	(517,996)	(517,996)
ABZZO - Captial Backcharge OT Fringes	(94,689)	(94,689)	(94,689)	(94,689)
ABZZS - Capital Backcharges Fringes	(2,440,655)	(2,440,655)	(2,440,655)	(2,440,655)
Grand Total	**480,418,472**	**$502,325,865**	**$529,413,071**	**$560,601,170**

Fringe benefits will increase by $80.2 million, from an estimate of $480.4 million in the FY 14 Proposed Budget to $560.6 million in FY 17.

Health insurance expenses for active and retired employees are projected to increase by $45.8 million to $311.8 million in FY 17. The MYP baseline inflator used to project out-year health insurance costs is 3.57% for 2015 and 5.50% for 2016 and 2017 for actives. The inflator for retirees is 5.05% for 2015 and 6.50% for 2016 and 2017. The later year growth rates are lower than the average health insurance growth rate over the past five years which was 6.1% for family.

Including the amortization amounts, pension costs are increasing by $8.9 million in FY 15, $8.7 million in FY 16 and $12.6 million in FY 17. The New York State Comptroller recently released the 2015 pension projections. The Administration will continue to amortize the pension expense in the out years.

From the 2014 Proposed Budget, social security expenses are increasing by roughly $804,000 in FY 15 to $950,000 in FY 16, and minimally for 2017.

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 and 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 2014 the incorporated villages will be allocated a lump sum amount of $1,250,000 to be divided on a per capita basis. That amount is unchanged from the current year.

The proposed sales tax revenue in the FY 14 Executive Budget, excluding the deferred piece, is $1,161.5 million. This estimate is based on the Office of Management and Budget's assumption that collections will increase by 4.0% compared to the FY 13 Adopted Budget. Historically, the current year projection has been used to forecast the succeeding year's budget. However, given the high growth trend in FY 2013 which includes recovery spending from Superstorm Sandy, it would have been difficult to segregate storm spending from economic recovery spending. Therefore, a more conservative approach is to compare the proposed budget to FY 2013's budget.

Table 4.1 below, shows the annual gross sales tax collections through FY 12, the Adopted 2013 Budget and the proposed budgets for FY 2014 through 2017. The MYP projects a 3.0% growth for years 2015 through 2017.

Table 4.1: Annual Sales Tax Collections

Fiscal Year	Actuals	Growth
2008	1,003.0	-0.9%
2009*	951.3	-5.2%
2010*	1,009.3	6.1%
2011*	1,027.6	1.8%
2012	1,070.4	4.2%
Fiscal Year	**Projections**	**Growth**
2013	1,116.8	4.3%
2014	1,161.5	4.0%
2015	1,196.3	3.0%
2016	1,232.2	3.0%
2017	1,269.2	3.0%

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

In addition to the regular sales tax, $4.4 million has been budgeted in FY 14 as deferred sales tax. That represents the amount that part-county sales tax collections in FY 12 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 4.1, the gross sales tax collections for each year are shown, including any excess over budget in the part-county portion. For that reason, neither the historical actuals nor the projections include the prior year deferred collections.

OLBR is currently projecting a surplus of $23.2 million in FY 13 for sales tax. Compared to the 2013 current year projection, the FY 14 Executive Budget represents an increase of 1.9%. FY 13 is an unusually high year for sales tax collections due to Superstorm Sandy purchases. As can be seen in the chart below, sales tax receipts collected through October 5, 2013 have increased by 8.7% compared to the same period in 2012.

Sales Tax Receipts

(Payments Through October 5, 2013 in millions)

	2012	2013	Variance $	Variance %
Gross YTD Sales Tax	$710.2	$772.3	$62.1	8.7%

OLBR believes the current growth rates are reasonable. They are in line with Moody's Economy.com's current key forecast for Nassau County.

2014 to 2017 Nassau County Economic Forecast
Forecast Annual Growth Rates*

	2014	2015	2016	2017
GCP	2.5%	4.2%	3.0%	2.3%
Personal Income	5.6%	7.0%	6.6%	4.8%
Retail Sales	3.5%	4.9%	4.1%	3.7%
Average	**3.9%**	**5.4%**	**4.6%**	**3.6%**

Source: Moody's Economy.com

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 10 through FY 12, along with the projected year-end balances for 2013 and 2014.

Table 5.1: Total Reserves (Projected Year-End 2013-2014)

Item	Year-End 2010	Year-End 2011	Year-End 2012	Projected 2013	Projected 2014
Unreserved Fund Balance	$90.9	$40.5	$82.0	$82.0	$72.0
Employee Accrued Liab. Fund	14.4	14.4	4.0	4.0	4.0
Tobacco Settlement Fund	17.6	18.4	18.4	18.4	18.4
Sub-total	**$122.9**	**$73.3**	**$104.4**	**$104.4**	**$94.4**
Sewer/Storm Water Fund Bal.	91.8	81.3	71.5	45.1	15.2
Sewer Fin. Auth. Fund Bal.	0.0	0.0	0.0	0.0	0.0
Total Reserves & Fund Bal.	**$214.7**	**$154.6**	**$175.9**	**$149.5**	**$109.6**

The above chart uses the Administrations' projected 2013 year-end figures. The 2014 projection uses the 2013 projection as a starting point and then subtracts the planned uses incorporated in the FY 14 Proposed Budget.

The Adopted FY 13 Budget included the usage of $10.0 million in fund balance in the Office of Management and Budget as a contingency reserve, however, based on the projected surplus in FY 13 it is not expected to be utilized. Any budgetary surplus that is realized in 2013 would increase the Undesignated Fund Balance.

The Proposed FY 14 Budget includes the usage of $10.0 million in fund balance in the Office of Management and Budget. The proposed FY 14 Sewer and Storm Water Resource District budget appropriates $56.9 million of fund balance. However, should the County not fund the Operations and Management Reserve of $27 million, Fund Balance usage would be lower than currently projected.

Several factors could impact the 2013 and 2014 year-end projections. These include the actual sewer fee collections in the Sewer and Storm Water Resource District Fund. The Temporary Restraining Order (TRO) on the Legislature's approved implementation of a not-for-profit usage fee is still in place. As such, the budgeted $12.6 million from this fee is not included in the FY 13 projected year-end Fund Balance usage. However, in the event this litigation is settled in favor of the County prior to the end of the year, fund balance would increase in tandem with receipt of revenues. The projected FY 14 reserves assume the County does collect these revenues, in the event the revenues are not collected, we would expect the reserve level to decline an additional $12.6 million in FY 14.