NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Review of the Fiscal Year 2013 Budget & Multi-Year Plan

Executive Summary

Maurice Chalmers, Director

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Inter-Departmental Memo

To: Hon. Norma Gonsalves, Acting 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 18, 2012

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 2013 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.

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1. EXECUTIVE SUMMARY

Introduction

Pursuant to the County Charter, the Administration submitted its FY 2013 Proposed Budget on September 17, 2013. After careful and thorough analysis, OLBR has determined that in comparison to the prior year budget, the 2013 budget as presented contains less risk. The Administration has removed initiatives for which no clear execution path existed. OLBR finds that there is $64.5 million in risks in the proposed budget prior to any opportunities. This is an improvement when compared to the FY 12 projected risks assessment. However, more work remains.

The context of the proposed budget is within a recovering economy. The Administration has benefited from several positive developments which have enabled the degree of risk inherent in the budget to decline. These positive developments in 2012 include heightened sales tax collections, the continuation of the wage freeze, lower than budgeted health insurance growth rates, reduced salary and fringe costs associated with the workforce reductions and Voluntary Separation Initiative Programs (VSIP), lower debt service expenses and the amortization of the pension liability.

This budget includes less tax certiorari expenses and removes bond proceeds for such expense; only operating funds will be used to cover the $18.0 million expense. The Administration believes that the funding would be the maximum it would need to spend on money judgments should no bonding or structured settlements deal be reached. Eliminating the County Guarantee for property tax assessments is instrumental in lowering the County's future liability for property tax refunds.

OLBR has concerns regarding the continued amortization of the County's pension liability and the usage of $10.0 million from fund balance. OLBR also finds that it would have been prudent to include cost of living adjustments (COLA's) and step increases for union employees beginning in 2014 to more accurately reflect the possible gap should the freeze not be renewed. Last year's proposed Multi Year Plan (MYP) did include base line inflators.

This report summarizes the proposed 2013 County budget from both an expense and revenue perspective. Significant budget items are discussed, a risk assessment is itemized for 2013, the current Multi-Year Financial Plan is detailed and discussed along with the Administration's proposed gap closing initiatives.

- **Full-time Head Count Reduction** – Headcount in the FY 13 Executive Budget is budgeted at 7,395 and equal to the Adopted FY 12 but 30 positions lower than the current on-board. To reach the FY 13 budgeted headcount, the Administration plans to reduce the headcount at the department level by 48 positions. Out of the 48 positions identified for reduction, the Administration plans to lay-off 37 employees by November of this year. Although it is unclear what positions will be eliminated, the Administration plans on following the plan formulated in the proposed budget at the department level. Additionally, employee attrition is budgeted as a place holder in the Office of Management and Budget at 56 positions. Refer to the labor section for the department level table.

- **Overtime** – The overtime expense for the Police Department and Correctional Center is budgeted at $60.2 million in the proposed FY 13 budget, which represents an increase of $22.0 million from the FY 12 Adopted Budget and is more realistic. 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 $9.6 million of which the Police Department is $0.5 million. The Administration plans to bond for police separations in 2013. Until the bonding is approved, this constitutes a risk of approximately $18.8 million.

- **Fee increases** – The FY 13 budget also includes various fee increases in the County Clerk and the Assessment Department. Compared to the 2012 Adopted Budget, FY 13 County Clerk revenues are budgeted to increase by 25.5%. The increase is a function of raising the existing fee of $75 charged for both recording and indexing or re-indexing an instrument to $150, an Ordinance has been introduced to the Legislature for the increase. The Administration expects to collect $4.0 million from this fee increase. Also included is a new fee to make documents available online which is projected to bring in $2.0 million annually. In the Assessment department $3.0 million is budgeted from a new GIS Tax Map Verification fee.

- **NIFA debt restructuring** – The 2013 Proposed Budget and the Multi-Year Plan (MYP) includes savings from the restructuring of NIFA debt totaling $29.6 million. The refunding generates savings (budget relief) by issuing "new debt" at lower interest rates than the existing debt. There is some ability to place the savings in certain years.

	2013 Proposed Budget	2014 Plan	2015 Plan	2016 Plan	Total
NIFA Debt Refunding	(4,682,523)	(17,647,523)	(7,201,848)	(4,130)	(29,536,024)

- **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. In 2012, the County was initially budgeted to collect $103.8 million in revenues and pass them along to Veolia.

  After adoption of the 2012 budget, the County received an additional $3.4 million in Federal Transportation Authority (FTA) grants, and an additional $4.0 million in State Transportation Operating Assistance (STOA) grants. These appropriations increased the total revenues and payments to be passed on to NICE Bus to $111.1 million. The only 2012 County expense is $2.5 million which represents the two subsidy payments historically made to the bus system.

  The proposed 2013 budget maintains the NICE Bus system revenues and expenses constant at the updated 2012 levels. It assumes continued collection of both the FTA and STOA grant monies at their current levels.

- **Contingency** – Included in the proposed FY 2013 budget is $10.0 million in general contingency. It is sound budgeting to include some level of contingency in the budget should other shortfalls arise.

- **Fringe Benefit** – The FY 13 fringe benefit budget for the major funds is approximately $469.7 million, which is a decrease of $11.7 million due mostly to an overstated FY 12 health insurance budget. The health insurance growth rates were finalized at 3.2%, much lower than the 13% rate built into the FY 12 budget. Compared to the FY 12 projection, fringe benefit costs are increasing by $28.6 million.

  FY 13 is the second year that the County is choosing to amortize a portion of the pension bill over 10 years. The Administration is amortizing $57.6 million, or 30%, of the $192.2 million total pension bill which includes $11.0 million for Nassau Community College, Sewers and Grant Fund. For 2012 and 2013 a total of approximately $110.2 million in principle and interest is outstanding, of which approximately $101.9 million is estimated to be attributable to the major funds. Please refer to the Fringe Benefit Section.

  Nassau County is not the only municipality that is amortizing the pension obligations. Many other municipalities are deferring expenses. Suffolk County and towns such as East Hampton and South Hampton, as well as other public employers like Westchester Medical Center and the New York Library have opted to amortize. Suffolk County is borrowing for a third consecutive year, with amortizations of $19.0 million in 2011, $45.7 million in 2012 and $60.8 million in 2013.

- **Labor Concessions** – The proposed Fiscal 2013-2016 Multi-Year Financial Plan (MYP) includes a conservative $3.9 million in savings from initiatives in 2013. There is also $40.0 million as a gap closer in 2016. It is unclear how the latter will be achieved.

- **Tax Certiorari Payments** – The FY 13 expense budget includes $18.0 million in operating funds for this expense. The out years of the plan incorporate the following amounts to cover property tax refund payments, $36.3 million in 2014, $52.8 million in 2015, and $64.5 million in 2016.

	2013 Proposed Budget	2014 Plan	2015 Plan	2016 Plan	Total
Other Suits & Damages	18,000,000	36,273,000	52,777,550	64,512,270	171,562,820

  Although the Administration has enacted reforms to tackle the problem and has been successful in resolving all residential claims this year, the backlog continues to grow. According to the Comptroller's 2011 Comprehensive Annual Financial Report (CAFR), as of December 31, 2011 the backlog for property tax refund payments was estimated to be $222.9 million. This represents an increase of $70.6 million, or 46.4%, from the prior year. Very few payments were made.

  To cover the property tax liability the Administration currently has $43.1 million available in the form of accounts payable as well as $2.6 million available in the form of bond proceeds. This results in a total of $45.7 million available to make property tax refund payments.

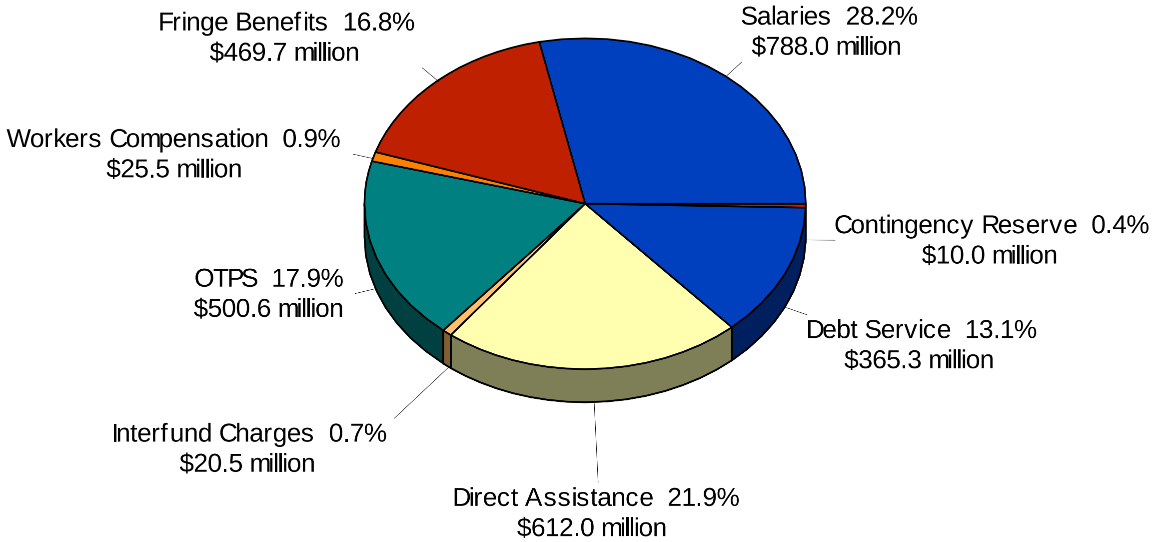
- **Sewer** – Although not part of the Major Funds, the FY 13 budget includes a new methodology for the calculation of the Operations and Maintenance reserves (O&M),

decreased departmental revenues from exempt user fees and increased fund balance usage which is further discussed in the Sewer departmental analysis.

Proposed Expense Budget

The FY 13 proposed budget for the major funds, excluding the Sewer and Storm Water District and interdepartmental charges and debt service chargebacks, is $2.8 billion. Salaries and fringe benefits make up 45.1% of the total. The second largest component is for direct assistance at 21.9%, as illustrated in Chart 1.1.

Chart 1.1: FY 13 Major Funds' Expenses ($2.8 billion)



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

Compared to the adopted FY 12 budget, total expenses are decreasing nominally by $2.0 million as shown in Table 1.1 below. The funding for salaries is increasing by $101.3 million. In FY 12, the budget included savings from initiatives of $131.6 million and no termination pay. The FY 13 budget includes a more conservative $3.9 million in savings to be achieved. Termination pay has also been budgeted sufficiently for all departments except for the Police Department. The Administration plans on bonding for the Police termination expense. Fringe Benefits are decreasing by $11.7 million, or 2.4%, mainly due to workforce reductions and from an overstated FY 12 fringe benefit budget. This is due to rates that were finalized lower at 3.2% compared to the 13% built into the current year's budget. For the second year in a row, the Administration has opted to amortize a portion of the pension bill.

The Administration's strategy for reducing salary expenses has been layoffs and Voluntary Separation Incentive Plans (VSIP). From December 2011 to as recently as August 2012, four separate incentives / extensions have been offered to the Civil Service Employees Association (CSEA). A similar incentive to the Police Department resulted in the separation of 98 sworn officers. Lastly, the Correction Officers

Benevolent Association (COBA) will lose 37 members to a VSIP. The plan to bond any termination pay cost will have to be approved by a supermajority of the Legislature.

The following table depicts the FY 13 proposed expenditures by object category compared to the FY 12 Adopted Budget.

Table 1.1: Major Funds' Expenses 2012 vs. 2013
($'s in millions)

	2012 Adopted	2013 Proposed	Var.
Expenses			
Salaries	$686.7	$788.0	$101.3
Fringe Benefits	481.4	469.7	(11.7)
Workers Compensation	30.4	25.5	(4.9)
OTPS	551.0	500.6	(50.4)
Interfund Charges	19.3	20.5	1.1
Direct Assistance	618.8	612.0	(6.8)
Debt Service	380.9	365.3	(15.6)
Contingency Reserve	25.0	10.0	(15.0)
Total Expenses[1]	**$2,793.5**	**$2,791.4**	**($2.0)**

1. Excludes interdepartmental charges and debt service chargebacks

The OTPS line in the chart above rolls up all of the other than personal services. The $50.4 million decrease from budget to budget is largely due to reduction of funding for tax certiorari payments. The Adopted FY 2012 budget allocated $75.0 million to fund tax certiorari payments and also included a corresponding revenue line from borrowing to fund the payments. The proposed FY 13 budget only earmarks $18.0 million for such payments and removes the revenue line from borrowing.

The funding for equipment, general expenses, and contractual services is increasing by $7.6 million. General Expenses are increasing by $1.9 million due mostly to a $1.0 million increase in the Police Department for increased gasoline and motor vehicle costs.

The contractual expenses for the County's mass transit NICE bus expense are increasing by approximately $7.3 million. The County's subsidy remains at $2.5 million. Contractual services for the Department of Human Services are decreasing significantly by $8.3 million due to program cuts of $3.9 million related to the Office of Mental Health, Chemical Dependency and Development Disabilities, $4.9 million related to Office of Youth Services, offset by an increase of $0.5 million in Office for the Aging. The County Attorney contractual service line is increasing by $2.2 million. The increase in County Attorney is due to fewer County Attorneys on board plus more litigation that requires expertise that the County does not have.

The direct assistance budget is decreasing by $6.8 million, or 1.1%. Medicaid is increasing compared to the FY 12 Adopted Budget by $4.2 million. The increase is the result of the Medicaid cap of 2% for the County share portion, partially offset by lower costs in transportation services, and health insurance premiums. The 2% Medicaid cap was implemented in the New York State 2012-2013 budget to reduce the annual escalating costs of Medicaid for counties and county property taxpayers by bringing the cap down from 3% to 2% in 2013. In 2014, the Medicaid cap will be further reduced to 1%, and 2015 the Medicaid local share cap will be flat.

Provider payments (PP) for Early Intervention and Preschool Education services are decreasing by $3.0 million, which is more consistent with the 2012 projection. The FY 13 budget for early intervention provider payments is $1.0 million less due to a net percentage rate reduction in provider payments set by New York State that went into effect in 2011. The FY 13 budget for preschool education provider payments has been reduced by $2.0 million, which is more consistent with the 2012 projection. The budget includes reductions in the school district authorized services for center based programs and transportation costs. By increasing the representation at committee meetings and educating school districts, a more appropriate level of services is being authorized by the school district, resulting in a decreased level of spending.

As the economy recovers, the caseload for Temporary Assistance to Needy Families (TANF) and Safety Net programs has declined by approximately 5.0% in FY 2012. The proposed budget represents a decrease of $7.5 million from the previous year and an increase of $2.0 million from the current projections.

Purchased Services has a budget of $59.3 million which is an increase of $1.4 million or 2.4% from the prior year budget. However, this is lower than the current projection of $65.5 million for 2012. There is a plan to revise the family income eligibility level from 275% to 200% of the poverty level. This will save approximately $4.0 million.

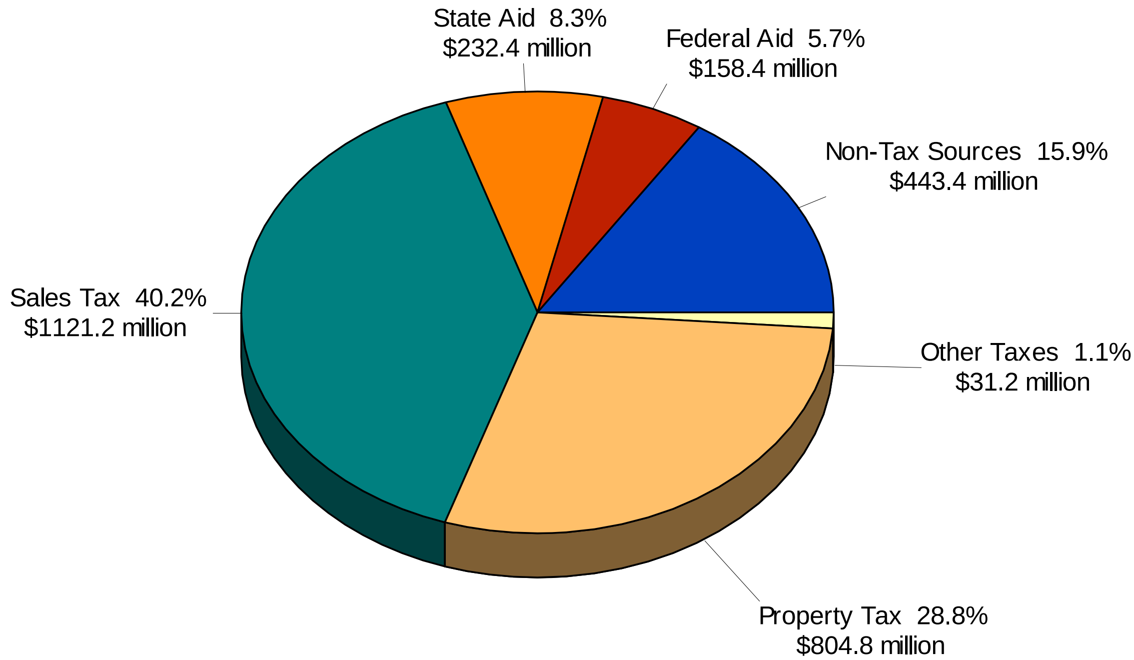
Emergency Vendor Payments are budgeted at $62.4 million, a 3.1% decrease from the 2012 adopted. This results from lower negotiated shelter rates and decreasing foster care caseloads.

Total debt payments excluding the expense of loans and NIFA refunding savings are budgeted to decrease by $15.6 million from the 2012 adopted budget. The County has issued less debt and plans to continue this in the out-years. As a result of the decreased issuances, FY 13 debt service costs are expected to decrease. The FY 13 proposed budget includes NIFA refunding savings. The refunding savings are shown as a negative $4.7 million on the NIFA refunding line. However, the actual refunding saved $6.5 million, hence the County has $1.8 million opportunity.

Finally, the proposed FY 2013 budget includes a $10.0 million contingency reserve, funded by fund balance, for unforeseen events. This is a decrease from the $25.0 million included in the FY 12 Adopted Budget. The usage of the fund balance will further reduce that reserve to low levels and should be avoided to prevent any negative impact on the County's credit rating.

Proposed Revenue Budget

Chart 1.2: FY 13 Major Funds' Revenue ($2.8 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 40.2% of all revenues, as illustrated in Chart 1.2. The proposed sales tax revenue in the FY 13 Executive Budget is $1.121 billion, an increase of $65.1 million over the current adopted, as can be seen in Table 1.3: Major Funds Revenue FY 12 vs. FY 13. 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 2013 proposed budget, as shown in Table 1.2, reflects an increase of $0.5 million. This increase represents the net value of new construction added to the tax rolls in 2013. The following chart details the Adopted Property Tax levy from 2010 – 2012 and the proposed levy for 2013.

Table 1.2: Property Tax Levy

Property Tax Levy						
Fund	2010 Adopted	2011 Adopted	2012 Adopted	2013 Proposed	$ 2013 vs 2012	% 2013 vs 2012
County Parks	$0	$0	$0	$0	$0	0.0%
Fire Commission	15,400,795	15,654,489	15,250,559	15,238,226	(12,333)	-0.1%
General	162,838,578	174,506,692	120,039,282	113,084,568	(6,954,714)	-5.8%
Police District	343,354,134	364,488,774	369,984,527	360,249,032	(9,735,495)	-2.6%
Police Headquarters	279,980,342	245,665,677	299,057,190	316,217,089	17,159,899	5.7%
Subtotal Major Funds	**$801,573,849**	**$800,315,632**	**$804,331,558**	**$804,788,915**	**$457,357**	**0.1%**
Sewers	116,031,815	119,031,815	117,270,940	117,270,940	0	0.0%
Total Major Funds & Sewers	**$917,605,664**	**$919,347,447**	**$921,602,498**	**$922,059,855**	**$457,357**	**0.0%**
Enviromental Bond	9,000,000	11,250,000	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	**$978,812,547**	**$982,804,330**	**$985,059,381**	**$985,516,738**	**$457,357**	**0.0%**

1. 2012 College Budget has already been adopted

The $58.6 million decrease seen in Table 1.3 for non-tax revenue sources is made up of a number of factors, including:

- The removal of $75.0 million in borrowing proceeds to fund tax certiorari expenses:
- Fund Balance usage of $10.0 million.
- The increase in fines and forfeits of $11.3 million. The proposed FY 2013 budget includes $8.8 million for the implementation of phase II of the red light camera program and additional fee revenues. In total, the Traffic & Parking Violations Agency revenues are increasing by $10.0 million.
- The decrease of the Medicare Part D revenues of $6.1 million is due to the elimination of this revenue source. Effective January 1, 2013, the County will no longer receive the Medicare Part D credit.
- Similarly, the Administration expects to disencumber $10.0 million from prior year recoveries.
- Permits and licenses are increasing by $1.7 million in the FY 13 budget. In the Health Department, permits and licenses are increasing by $1.6 million due to various increases in the fee Ordinance schedule approved by the Board of Health. Such fees include inspections of food establishments.

Table 1.3: Major Funds Revenue FY 12 vs. FY 13
($'s in millions)

	2012 Adopted	2013 Proposed	Var.
Revenues			
Use of Reserves	0.0	0.0	0.0
Non-Tax Sources	502.1	443.4	(58.6)
Federal Aid	165.1	158.4	(6.7)
State Aid	234.8	232.4	(2.4)
Sales Tax	1,056.2	1,121.2	65.1
Property Tax	804.3	804.8	0.5
Other Taxes	31.0	31.2	0.2
Total Revenues[1]	**$2,793.5**	**$2,791.4**	**($2.0)**

1. Excludes interdepartmental revenue & debt service chargebacks

Anticipated revenue from federal aid is decreasing by $6.7 million. The Department of Social Services (DSS) is decreasing by $8.0 million due to decreased reimbursement from lower salaries and expenses for TANF and Safety Net assistance. In the Correctional Center, the proposed budget lowers the federal inmates from 140 to 100 with a corresponding decrease in revenue of $2.4 million. In addition the SCAAP (State Criminal Alien Assistance Program) program which provides assistance for the cost related to incarcerating undocumented aliens is decreasing by $0.9 million. These decreases are being offset by $3.4 million in increased grant funding from the Federal Transportation Authority (FTA) to fund the NICE bus transit system.

State aid is estimated to decrease by $2.4 million in FY 13 due to significant reductions of $2.8 million in Human Services and $2.7 million in DSS, which is partially offset by a $4.0 million increase in the Division of Real Estate Services, now budgeted in (DPW) due to the collection of STOA grant funds. Other departments receiving less state aid include the Health Department, the Department of Information Technology and Probation.

Budget Risks and Opportunities

The largest risk item is the assumption that the County will be able to borrow for Police separation pay related to attrition in FY 13. Given the current climate, this seems unlikely for an item that should be part of the operating budget. Other initiatives 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 (in millions)

Item	OLBR Surplus/Risk
Police Termination Pay	(18.8)
Ending of NIFA Wage Freeze	(3.1)
Fringe Benefits	(3.5)
Overtime	(7.4)
Entitlement Programs (Purchased Services / Vendor Payments)	(4.2)
Expense Sub Total	**(37.0)**

Revenue (in millions)

Item	OLBR Surplus/Risk
Sales Tax	(6.5)
Sale of County Property	(6.0)
Fee Increases	(9.0)
Correctional Center Revenue Initiative	(5.0)
Police Fines & Forfeiture	(1.0)
Revenue Sub Total	**(27.5)**
Total Risks	**(64.5)**

Opportunities	
Contingency	10.0
Retro Payments	5.4
Additional NIFA Debt Refunding Savings	1.8
	17.2

Although we have identified $64.5 million worth of budgetary items that are classified as risks, there are some offsetting opportunities. The most certain of all the opportunities, is the $5.4 million resulting from the overstatement of the deferred union payments and additional refunding savings of $1.8 million. It is good budget practice to include some contingency in the budget, however if it is not used, this will represent an opportunity.

Multi-Year Plan

Table 1.5 below details the Administration's projected expenditures and revenues through 2016. 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)

	2013	2014	2015	2016
Revenues				
Use of Reserves	$0.0	$0.0	$0.0	$0.0
Non-Tax Sources	$443.4	$442.8	$455.7	$459.8
Federal Aid	$158.4	$159.9	$161.2	$162.4
State Aid	$232.4	$235.0	$237.4	$239.9
Sales Tax	$1,121.2	$1,166.2	$1,207.9	$1,256.3
Property Tax	$804.8	$804.8	$804.8	$804.8
Other Taxes	$31.2	$30.8	$30.6	$30.3
Total Revenues	$2,791.4	$2,839.5	$2,897.5	$2,953.4
Expenses				
Salaries	$788.0	$824.5	$820.4	$833.3
Fringe	$469.7	$508.6	$535.5	$567.6
OTPS	$500.6	$519.0	$546.5	$579.2
Direct Assistance	$612.0	$622.9	$635.2	$637.2
Debt Service	$365.3	$385.4	$380.0	$374.2
Workers Compensation	$25.5	$25.5	$25.5	$25.5
Interfund	$20.5	$20.3	$28.5	$28.2
Contingencies	$10.0	$0.0	$0.0	$0.0
Total Expenses	$2,791.4	$2,906.3	$2,971.7	$3,045.3
Surplus/Gap Projection	**$0.0**	**($66.8)**	**($74.1)**	**($91.9)**

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 9.1% while revenues increase at the lower rate of 5.7%. Rising costs for fringe benefits 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 $45.3 million, from a proposed budget of $788.0 million in FY 13 to $833.3 million in FY 16. The FY 13 Proposed Budget includes $3.9 million in savings from layoffs and attrition. The budget for termination does not appropriately fund police termination in 2013 as the Administration plans to bond for that expense. However, 2014 includes $25.5 million, 2015 includes $26.0 million and 2016 $26.5 million for Police termination.
  - The Administration did not include COLA or steps increase for any union employees from 2013 to 2015. The only year with an increase for COLA is 2016 in the amount of $9.0 million. It is the Administration's position that there will be no increases until that time. OLBR finds that it would have been prudent to include COLAs and steps for

Union employees beginning in 2014 to more accurately reflect the possible gap should the freeze not be renewed or the court case settled. Last year's proposed MYP did in fact include base line inflators.

The budget includes deferred payments that are reflected below:

	2013	2014	2015	2016
Total Deferrals and Steps IN MYP	7,259,644	15,573,969	7,683,607	16,720,095

When compared to the amounts that are due, the budget appears overstated in all years. Upon correction there will be an opportunity of $5.4 million in 2013, $7.3 million in 2014, $7.7 million in 2015 and $7.7 million in 2016; this adds up to $28.0 million.

- Fringe benefits will increase by $97.9 million, from an estimate of $469.7 million in FY 13 to $567.6 million in FY 16.

  - Health insurance expenses for active and retired employees are projected to increase by $52.8 million to $316.6 million in FY 16. The MYP baseline inflator used to project out-year health insurance costs is 4.54% for actives and 7.82% for retirees in FY 13 through FY 16. These rates appear low considering that the average health insurance growth rate over the past five years was is 6.9% for family.

- Over the course of the MYP, OTPS expenditures will increase by $78.7 million, or 15.7%. The tax certiorari expenses are increasing from $18.0 million in 2013 to $36.3 million in 2014, then $52.8 million in 2015 and finally $64.5 million in 2016.

- Direct Assistance will increase by $25.2 million, from an estimate of $612.0 million in FY 13 to $637.2 million in FY 16. The largest increases are for the Early Intervention/Pre-school Special Education Program ($10.4 million) and Recipient Grants ($5.2 million).

- Debt Service, excluding cost of loans and NIFA refunding savings, will increase by $9.0 million, from an estimate of $365.3 million in FY 13 to $374.2 million in FY 16.

- Sales tax is projected to increase by $135.0 million, from a projected amount of $1,121.2 billion in FY 13 to an estimate of $1,256.3 billion in FY 16. The MYP projects an optimistic 4.0% growth; a 3.5% growth is more conservative. OLBR has included sales tax risk in its out-year risk assessment.

- Federal aid is decreasing by $6.7 million to $158.4 million in 2013. In the out-years, federal aid is increasing minimally by $2.5 million to $162.4 million in 2016.

- The non-tax sources category shows an increase of $16.3 million.

  - Interest penalty on taxes throughout the MYP appears reasonable and remains unchanged from the Proposed FY 13 budget through FY 16 at $28.8 million.

  - The MYP does not include any increases for permits and licenses in the MYP and remains constant at $13.7 million through 2016.

  - Fines and forfeits is increasing by $6.7 million in FY 14 to $69.3 million and remains constant at $69.3 million throughout FY 16. The increase in FY 14 is due to increased revenues associated with implementing the second phase of the Red Light Camera Programs.

- Rent and recoveries are decreasing by $6.0 million to $21.4 million in 2014 through 2016. The MYP eliminates revenue from selling property in the out-years.
- Interfund Charge Revenue is increasing by $23.1 million from FY 13 to $93.7 million in FY 16. The increase is due to $15.2 million in additional chargeback revenue from increased Sewer and Storm Water Resource District debt issuances and $7.9 million in chargebacks from NuHealth debt.

➢ The property tax levy will stay constant from FY 13 to FY 16.

Gap Closing Measures

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 2013 - 2016

	2013	2014	2015	2016
Current Baseline Gap		**(66.8)**	**(74.1)**	**(91.9)**
Financing Options/Asset Sales				
Public Private Partnerships (Sewer System)		40.0	40.0	0.0
Public Private Partnerships (Estimated Savings from Debt Defeasance)				20.0
Surplus Land Sales		5.0	5.0	5.0
Expense/Revenue Actions				
Labor Concessions				40.0
Strategic Sourcing		12.0	12.0	12.0
Increase in Ticket Fines				8.0
Elimination of MTA Payroll Tax		3.0	3.0	3.0
Value of New Construction		2.0	4.0	6.0
New York State Actions				
Elimination of MTA Station Maintenance		30.0	31.0	32.0
Speed Cameras at Schools & RLC Locations		8.0	12.0	12.0
Efficiencies in Early Intervention/Special Education		10.0	10.0	10.0
Total Gap Closing Initiatives		**$110.0**	**$117.0**	**$148.0**
Projected Baseline Gap After Gap Closing Actions		**43.2**	**42.9**	**56.1**

The MYP includes a number of significant actions that may occur in 2013. The Administration intends on moving ahead with its plans to pursue a public-private partnership involving the assets of the County's sewer system.

Surplus Land Sales would provide revenue by selling unneeded County property. All land sales must be viewed as a risk since, no locations or valuations have been identified in the out years. Additionally, with the sluggish status of the economy, no assessment of real property can be completely accurate.

Labor Concessions of $40.0 million are projected from the County capitalizing on the expiration of labor contracts and realizing significant concessions.

Strategic Sourcing savings of $12.0 million is targeted from the implementation of the Enterprise Resource Planning (ERP) and efficiencies. Until back up is provided by the Administration, it is difficult to quantify if the savings can be realized.

Elimination of the MTA Payroll Tax the County could save approximately $3.0 million annually. The state Supreme Court recently ruled that the payroll tax is unconstitutional. However, the MTA has vowed to quickly appeal the ruling and as such, the tax will continue to be collected until a final decision is rendered. The FY 13 budget includes funding of $2.8 million for this expense.

The value of new construction, estimated at $2.0 million per year from 2014-2016, will be added to the property tax levy.

There are three gap-closing initiatives requiring New York state approval. The Administration has included the elimination of the MTA Station Maintenance payment as an expense savings, gap closer in the 2014 to 2016 Multi Year Financial Plan, MYP. They expect to save $30.0 million in 2014, $31.0 million in 2015, and $32.0 million in 2016. 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 pursue NYS approval for Speed Cameras at school locations. This initiative would generate $8.0 million in 2014, $12.0 million in 2015, and $12.0 million in 2016.

The County through audit and cost containment is targeting a reduction of $10.0 million annually in Early Intervention / Special Education.

Conclusion

The proposed budget is lean and leaves little room for error. The budget benefits from sales tax growth, diminished headcount, the continuation of the wage freeze, deferral of pension costs, lower than expected health insurance growth rates and reduced borrowing costs. To achieve their goal, the Administration will need to manage its resources, execute some initiatives, react to changing conditions and implement solutions to address risks.

2. LABOR

In March 2012, the Nassau Interim Finance Authority (NIFA) renewed the countywide wage freeze it first implemented on March 15, 2011 at the request of the County Executive. This action freezes employee wages through March 2013, including the contractual cost of living adjustments (COLA) and step increases for union members. Consequently, the proposed 2013 budget does not include any steps or any of the scheduled contractual wage increases. These would be:

- CSEA 3.50% as of 1/1/2013.
- PBA 3.50% for all steps as of 1/1/2013.
- DAI 3.50% for all steps as of 1/1/2013.
- SOA 3.50% for all steps as of 1/1/2013.
- ShOA 3.50% for all steps as of 1/1/2013.

The current freeze will expire in March 2013. 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 and would be approximately $3.1 million. It is not clear 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 a $9.0 million adjustment for COLA in 2016, does not include inflators for the union salaries. Their inclusion would have been conservative as the increases can average approximately $28.0 million a year and widen the budget gap.

<u>Labor Contracts</u>

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. In addition, all the major unions have contracts until December 31, 2015. When the labor contracts were renegotiated, the County did not expect a prolonged recession. 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 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 2011 full year W-2 earnings, these are illustrated in table 2.2 below:

Table 2.2: Total 2011 W-2 Salary Earnings

Major Funds Including Sewers 2011 Full Time Union Earnings (millions)									
Union	Regular Earnings	Overtime	Holiday	Longevity	Shift Diff	Term Pay	Other	Salary Extra Total	2011 W-2 Total Earnings
CSEA	257.4	19.6	2.1	6.0	4.2	9.0	7.5	48.4	305.9
DAI	44.9	8.2	1.9	2.8	4.0	2.0	2.3	21.3	66.1
IPBA	3.6	0.4	-	0.1	0.0	0.1	0.3	0.9	4.5
PBA	165.6	31.5	7.1	8.8	14.4	5.3	7.4	74.5	240.1
SHOA	80.2	18.5	3.7	2.1	4.1	1.8	0.9	31.1	111.3
SOA	50.1	6.7	2.1	2.6	3.6	1.3	1.8	18.1	68.2
Grand Total	**601.8**	**84.9**	**16.9**	**22.3**	**30.3**	**19.5**	**20.3**	**194.3**	**796.1**

In addition, the County is obligated to pay for various salary related expenses that had been deferred in prior years. The schedule of amounts included in the years 2013 – 2016 is shown in the table 2.3 below:

Table 2.3: MYP Deferral Payments (Incl. SSW)

	2013	2014	2015	2016
Total Deferrals and Steps In MYP	7,259,644	15,573,969	7,683,607	16,720,095

When compared to the amounts that are due, the budget above is overstated. Upon correction this will create an opportunity of $5.4 million in 2013, $7.3 million in 2014, $7.7 million in 2015 and $7.7 million in 2016; this adds up to $28.0 million.

The overtime expense is budgeted to be $67.6 million in the proposed FY 13 budget which is more realistic than the prior year. OLBR has been tracking overtime in the Police Department. The first six months of 2012, overtime increased by approximately $3.5 million; however July to August remained flat. Per the Administration, to achieve the 2013 budget, two posts in the Communication Bureau and the motorcycle patrol will be eliminated and there will be a reduction of minimum staffing in the Ambulance Bureau. The Correctional Center is trending positively from the 2011 year-end actual. This is projected to result in savings year over year, but fall short of a very aggressive budget, which is kept flat in 2013. Further discussions will be included at the department level for Police and Corrections.

Table 2.4: Overtime Trends

OVERTIME TRENDS	2011 Actual	2012 Projected	2012 Adopted	2013 Proposed
Police District	25,278,760	25,680,409	19,038,462	24,000,000
Police Headquarters	23,015,967	24,555,013	2,961,538	20,000,000
Total	48,294,727	50,235,422	22,000,000	44,000,000
Corrections	20,676,780	17,453,768	16,153,356	16,153,356
Police & Corrections	68,971,507	67,689,190	38,153,356	60,153,356
Others	8,645,099	5,903,687	6,374,371	7,476,979
TOTAL:	77,616,606	73,592,877	44,527,727	67,630,335

2013 Layoffs

The FY 13 Executive Budget keeps the full-time positions at the same levels as the previous year at 7,395 positions. This will be achieved by reducing the head count at the department level by 48 positions and employee attrition, which is budgeted as a place holder in the Office of Management and Budget at 56 positions. The Administration plans to layoff 37 employees by November of this year. Although it is unclear what positions will be eliminated, the Administration plans on following the roadmap formulated in the proposed budget by department. OLBR believes the targeted savings to be achievable. Table 2.5 illustrates the layoffs and attrition targets at the department level:

Table 2.5: Layoff Targets by Department

Department	2013 Proposed Head Count	2013 Proposed Expense
Assessment Review Commission	(1)	(45,000)
Assessment Department	(5)	(219,624)
Office Of Management And Budget	(56)	(1,125,000)
Office Of Constituent Affairs	(2)	(155,701)
Health Department	(3)	(170,897)
Commission On Human Rights	(1)	(41,052)
Office Of Labor Relations	(1)	(40,000)
Medical Examiner	(3)	(141,445)
Public Administrator	(1)	(71,606)
Probation	(5)	(322,155)
Purchasing Department	(3)	(213,152)
Public Works Department	(13)	(659,340)
Social Services	(10)	(708,488)
EXP Total	(104)	(3,913,460)

The proposed 2013 budget funds the full time positions in line with the current onboard. The proposed layoffs and normal attrition will allow some room, although little, for any shortfalls that may arise. The FY 2013 budget is a very tight budget.

Table 2.6: Staffing Comparison

Full Time Major Funds Staffing Comparison

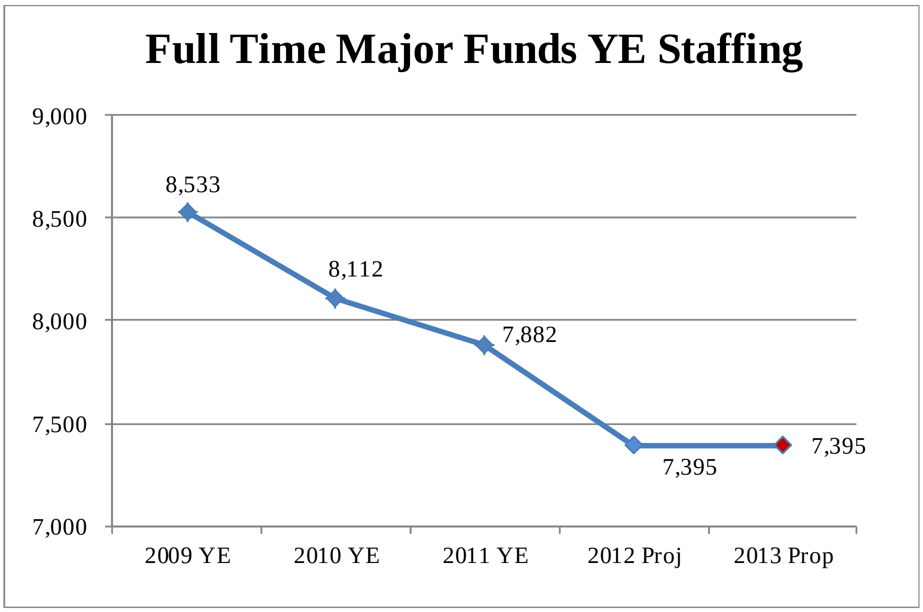
Department	2012 Adopted HC	2012 Sept on Board HC	2012 Sept on Board Salaries	2013 Proposed HC	2013 Proposed Salaries
Assessment Review Commission	29	29	1,988,589	28	1,943,589
Assessment Department	169	159	8,955,326	155	8,775,590
County Attorney	112	106	8,317,435	106	8,267,935
Office Of Management And Budget	24	23	2,055,906	25	2,249,656
Office Of Consumer Affairs	32	27	1,539,021	27	1,539,021
Sheriff/Correctional Center	1,227	1,153	88,211,006	1,160	87,518,370
County Executive	21	20	1,687,792	20	1,687,792
Office Of Constituent Affairs	43	39	2,052,727	37	1,897,026
County Clerk	103	81	4,197,050	89	4,441,050
County Comptroller	87	74	5,565,655	78	5,744,818
Civil Service	53	54	3,725,194	51	3,719,500
District Attorney	361	375	26,603,612	375	26,869,410
Board Of Elections	143	140	8,592,228	139	9,168,100
Emergency Management	7	8	569,893	10	739,893
Health Department	203	167	11,996,177	166	11,996,455
Housing & Intergovernmental Affairs	2	12	720,000	12	720,000
Commission On Human Rights	8	8	501,870	7	460,818
Department Of Human Services	96	79	5,651,445	80	5,762,626
Information Technology	81	71	6,017,784	85	6,903,653
County Legislature	94	90	5,396,475	97	5,775,390
Office Of Labor Relations	5	4	297,000	3	230,000
Office Of Minority Affairs	7	5	355,642	5	355,642
Medical Examiner	58	63	5,304,083	71	5,851,571
Public Administrator	7	6	452,530	5	380,924
Probation	236	198	14,247,726	193	13,894,399
Department Of Human Resources	9	8	530,620	8	530,620
Parks, Recreation And Museums	172	151	7,671,781	151	7,751,488
Purchasing Department	16	11	809,179	8	632,140
Public Works Department	471	419	26,217,359	409	25,550,443
Office Of Real Estate Services	10	0	0	0	0
Records Management	12	9	537,983	9	537,983
Coord Agency For Spanish Americans	5	5	301,800	4	226,800
Social Services	816	631	38,095,290	634	38,479,728
County Treasurer	35	29	1,767,746	33	2,098,371
Traffic & Parking Violations A	46	43	2,248,538	43	2,248,538
Veterans Services Agency	3	5	250,203	6	325,203
Workforce Reduction	(725)	0	0	(56)	(1,125,000)
General Fund Total	**4,078**	**4,302**	**293,432,665**	**4,273**	**294,149,542**
Fire Commission	101	97	6,696,731	97	6,597,805
Police District	1,545	1,460	143,994,643	1,445	145,740,320
Police Headquarters	1,671	1,566	145,802,208	1,580	147,071,495
Total Major Funds	**7,395**	**7,425**	**589,926,247**	**7,395**	**593,559,162**

** 2012 On Board & 2013 correctly classifies District Attorney Law Assistant as Full Time.*

Headcount

The County is currently operating at very low headcount levels and may not be able to sustain the level of service it has provided in the past. Reducing headcount and controlling the salary expense has been a cornerstone of this Administration. To achieve the targeted savings included in the FY 2012 budget, an incentive was offered to the CSEA employees coupled with layoffs in December 2011. In March 2012, an extension to the CSEA incentive was offered, then another in July and lastly, in August of 2012. Over 500 CSEA employees separated from County service. In addition, the County also offered an incentive to Police Officers; as a result, 98 sworn members left the force. Lastly, 37 ShOA employees opted into an incentive specifically offered in September 2012 to that union. Little will be needed to achieve the 2013 proposed budgeted headcount. Chart 2.1 trends full-time headcount from FY 09 to the proposed FY 13 budget:

Chart 2.1: Full Time Headcount Trend



As of September 2012 the four major funds actual headcount is 7,425 which includes the correct reclassification of District Attorney Law Assistant as full time. A reduction of 30 heads is all that is needed for the County to reach the FY 2013 target even without the normal attrition that occurs during any year. As such, some revenue and service oriented departments should be spared.

The proposed Police Department 2013 budget includes funding for 2,259 (2,254 excluding Chiefs and Deputy Commissioners) sworn officers, down 143 compared to the budget of 2,402 in FY 12 and 3 below September actuals.

3. FRINGE BENEFITS

Fringe benefit expenditures include health insurance and pension contributions for active and retired employees as well as social security contributions. The FY 13 fringe benefit budget for the major funds is approximately $469.7 million, which is a decrease of $11.7 million due mostly to an overstated FY 12 health insurance budget. The health insurance growth rates were finalized at 3.2%, much lower than the 13% rate built into the FY 12 budget. Compared to the FY 12 projection, fringe benefit costs are increasing by $28.6 million.

Despite the Administration's efforts to reduce County expenditures through workforce reductions, 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 help to provide budgetary relief in FY 13 and save roughly $57.6 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 ten years at an additional interest cost.

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

Table 3.1: Fringe Budget by Major Fund

Fund	Department	Adopted FY 12 Budget	OLBR FY 12 Projection	FY 13 Exec. Budget	Variance Exec. vs Adopted FY 12	Variance Executive vs FY 12 Proj.
Fire Commission	Fringe Benefits	4,676,084	$4,333,253	4,790,247	$114,163	$456,994
General Fund	Courts	1,755,698	1,388,338	1,794,516	38,818	406,178
	Fringe Benefits	214,195,431	189,504,643	200,414,963	(13,780,468)	10,910,320
	OMB	27,306,963	25,981,352	26,968,963	(338,000)	987,611
Police District	Fringe Benefits	120,142,218	112,828,351	116,615,526	(3,526,692)	3,787,175
Police Headquarters	Fringe Benefits	113,339,660	107,065,810	119,092,752	5,753,092	12,026,942
Total		**$481,416,054**	**$441,101,747**	469,676,967	**($11,739,087)**	**$28,575,220**

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

Table 3.2: Fringe Budget by Sub-object

SubObject & Description	Adopted FY 12 Budget	OLBR FY 12 Projection	FY 13 Exec. Budget	Variance Exec. vs Adopted FY 12	Variance Executive vs FY 12 Proj.
08F - NYS Police Retirement	80,782,674	65,129,689	68,328,664	(12,454,010)	3,198,975
11F - State Retirement Systems	73,823,350	47,520,078	55,292,736	(18,530,614)	7,772,658
13F - Social Security Contribution	52,204,635	55,781,195	53,204,337	999,702	(2,576,858)
14F - Health Insurance	131,749,443	118,395,311	126,372,488	(5,376,955)	7,977,177
17F - Optical Plan	951,940	839,752	864,652	(87,288)	24,900
19F - NYS Unemployment	6,141,621	6,141,621	4,108,800	(2,032,821)	(2,032,821)
20F - Dental Insurance	4,876,590	4,248,428	4,370,279	(506,311)	121,851
22F - Medicare Reimbursement	15,711,200	15,269,116	16,088,711	377,511	819,595
22S - Medicare Reimbursement Surcharge	200,754	295,063	213,627	12,873	(81,436)
24F - Fringe Savings	(36,635,304)	(588,000)	0	36,635,304	588,000
26F - Flex Benefits	2,409,504	2,000,000	2,400,000	(9,504)	400,000
35F - MTA Mobility Tax	2,836,507	2,763,985	2,756,276	(80,231)	(7,709)
40F - CSEA Legal Plan	593,125	769,300	587,250	(5,875)	(182,050)
41F - SHOA Legal Plan	129,250	127,250	127,250	(2,000)	-
45F - Disability Insurance	54,000	54,000	53,400	(600)	(600)
75F - Health Insurance For Retirees	145,055,971	129,148,261	137,454,658	(7,601,313)	8,306,397
75G - Medicare Part D Reimbursement	0	(7,306,200)	0	0	7,306,200
76F - Employees Optical - Retirees	530,794	512,898	533,383	2,589	20,485
98G - Fringes Allocable to Grants	0	0	(347,242)	(347,242)	(347,242)
ZZO - Capital Backcharge OT Fringes	0	0	(77,650)	(77,650)	(77,650)
ZZS - Capital Backcharge ST Time fringes	0	0	(2,654,652)	(2,654,652)	(2,654,652)
Grand Total	**481,416,054**	**441,101,747**	**469,676,967**	**(11,739,087)**	**28,575,220**

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 13 is the second year that the Administration opted 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. Amortizations are paid in equal installments over a ten-year period at an interest rate that is set annually. The interest rate for the amortization of contributions for the last fiscal year was 3.75%. The interest rate for the 2013 amortization is 3.00%.[1]

[1] Office of the New York State Comptroller. "Letter to Employers of the Employee Retirement System and Police & Fire Retirement System," August 2012.

The Administration is choosing to amortize the maximum pension amount allowed which is $57.6 or 30% of the $192.2 million total pension bill which includes $11.0 million for the Nassau Community College, the Sewer Resource & Storm Water District and the Grant Fund. Table 3.3 provides the FY 12 and FY 13 pension expenses billed by the State for Employee Retirement System (ERS) and Police and Fire Retirement System (PFRS). The amounts below in Table 3.3 include the Nassau Community College, the Sewer and Storm Water Resource District and the Grant Fund.

Table 3.3: FY12-FY13 Pension Invoices

	2012 Invoice	2013 Invoice	2013 vs. 2012
December Without Amortization			
ERS	80,138,262	106,653,251	26,514,989
PFRS	80,052,842	85,535,613	5,482,771
	160,191,104	**192,188,864**	**31,997,760**
December Using Maximum Amortizion			
ERS	56,161,586	66,276,404	10,114,818
PFRS	65,244,780	68,328,664	3,083,884
	121,406,366	**134,605,068**	**13,198,702**
December Savings from Maximum Amortization	**38,784,738**	**57,583,796**	
February Without Amortization			
ERS	80,864,114	107,608,763	26,744,649
PFRS	80,782,674	86,304,304	5,521,630
	161,646,788	**193,913,067**	**32,266,279**
February Using Maximum Amortization			
ERS	56,887,438	67,231,916	10,344,478
PFRS	65,974,612	69,097,355	3,122,743
	122,862,050	**136,329,271**	**13,467,221**
February Using Savings from Maximum Amortization	**38,784,738**	**57,583,796**	
Savings From December Pre-payment	**1,455,684**	**1,724,203**	

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

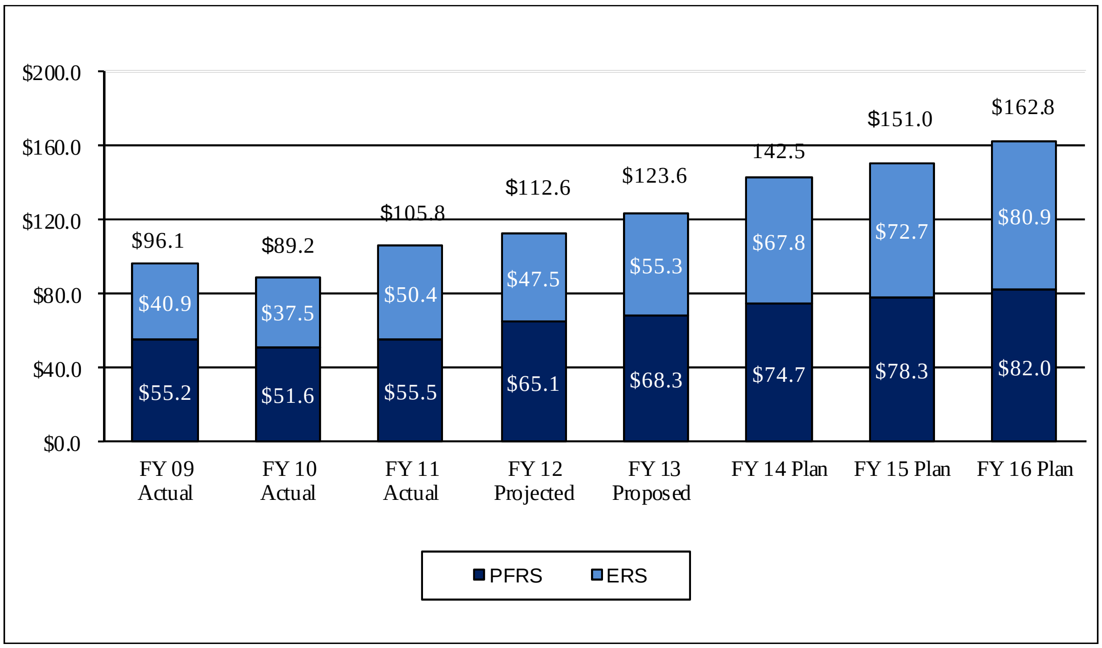
The County has the option of paying the pension bill on the due date on February 1 or at a discount if paid early on December 15, 2012. The chart above also provides the ERS and PFRS payments based on paying the bill December 1 and February 15. The FY 13 proposed budget for pension costs is based on paying the pension bill on December 15, 2011. The early payment date will result in a savings of $1.7 million as shown in the chart above.

Furthermore, amortizing a portion of the bill reduces the pension expense from $192.2 to $134.6 million (for all funds based on a December 15 payment date). The FY 13 budget includes a reduction of $57.6 million based on the maximum amortization allowed by the State. If not for the amortization, the total pension cost would be roughly 30% higher. The December invoice of $192.2 million includes $106.6 million billed for (ERS) and $85.5 million billed for (PFRS), which includes $11.0 million for the

College, Sewers and the Grant Fund. The pension liability with amortization associated with the five funds is $123.6 million.

Chart 3.1 details the historical pension obligations from FY 09 to FY 11 and the projected costs from FY 12 to FY 16 for the major funds. For the FY 12 projected through the FY 16 plan the chart below reflects the pension figures based on the amortization of the expense. The FY 13 Adopted Budget includes the pension expense of $55.3 million for ERS and $68.3 million for PFRS for a total budget of $123.6 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 08 to FY 15 Pension Costs for the Major Funds (in Millions)



As reflected in the chart above, pension costs are projected to continue to spike through FY 16. The FY 13 Executive Budget includes $123.6 million for ERS and PFRS pension obligations for the five major funds. This is an increase of $11.0 million from the FY 12 pension cost. The Multi-Year Plan projects pension costs to continue to increase in FY 14 to $142.5 million, $151.0 million in FY 15 and $162.8 million in FY 16.

While amortizing the pension bill provides budgetary relief to the FY 13 budget and throughout the Multi-Year plans, the on-going liability becomes a fiscal problem in the out-years. According to the State, the $57.6 million in 2013 amortization liability with interest is estimated to be approximately $67.5 million over the next ten years. The first payment from the 2013 amortization will include an additional $6.8 million in the 2014 pension bill, which is in addition to the 2012 first installment of $4.7 million from last year’s amortization. Therefore, the 2014 bill will include an additional $11.5 million from amortizing previous year pension obligations of $4.7 million from 2012 and $6.8 million from 2013. This will be an on-going liability on the out-year pension obligations. After the first installment of the 2012 liability is deducted (which will be paid in 2013 and is included in the current 2013 pension bill), the total outstanding liability with interest is estimated to cost roughly $110.2 million. Of this amount, OLBR estimates that approximately $101.9 million is attributed to the five funds. Table 3.4

details the outstanding liability from the past two years of borrowing. The figures in the table are based on 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

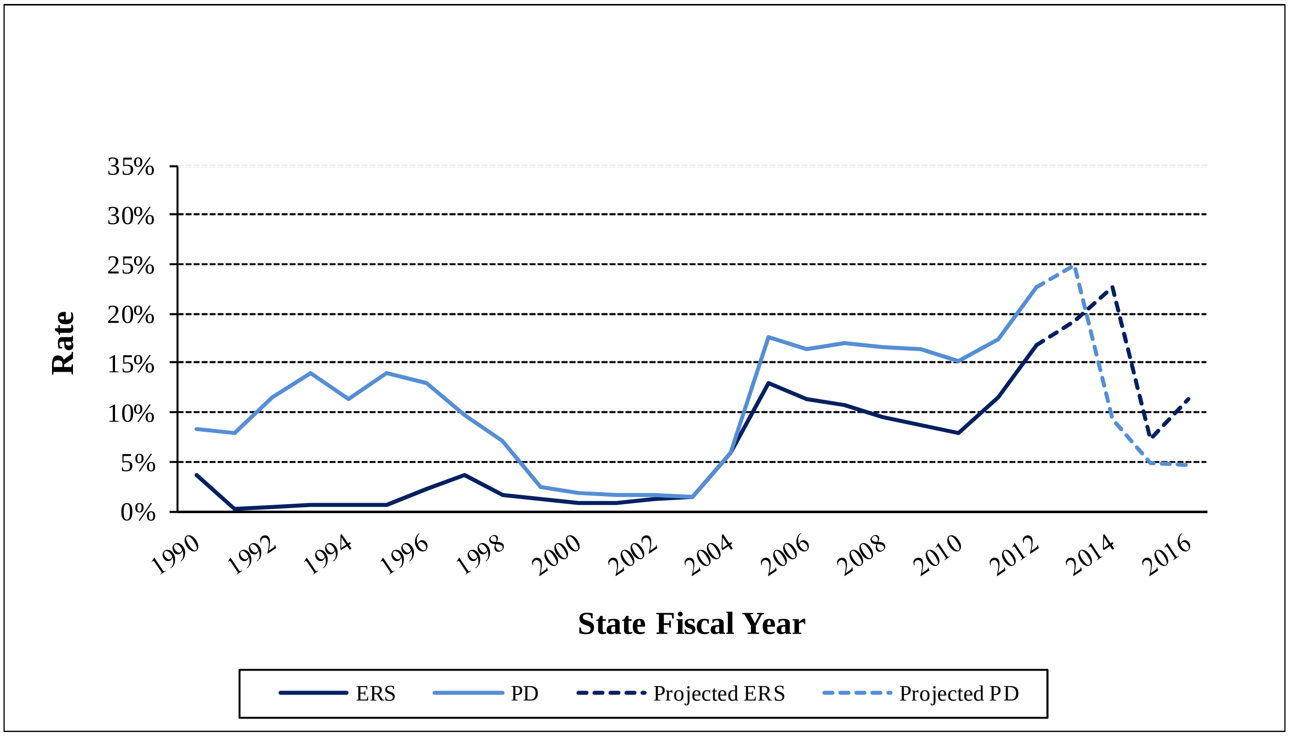
Year	Maximum Amortization From Bill	10 Year Liability with Interest
2012 Amortization Liability	38,784,738	47,442,615
2013 Amortization Liability	57,583,796	67,505,774
Subtotal Amortization	96,368,534	114,948,389
2012 1st Year Installment	4,744,262	4,744,262
Liability after 1st Installment	91,624,272	110,204,127

* These amounts include Nassau Community College, SSW and the Grant Fund.

Nassau County is not the only municipality that is deferring pension obligations. Many other municipalities are also choosing to amortize a portion of their pension expense. Suffolk County and towns such as East Hampton and South Hampton, as well as other public employers like Westchester Medical Center and the New York Library are doing the same. Suffolk County is amortizing for a third consecutive year, the County borrowed $19.0 million in 2011, $45.7 million in 2012 and $60.8 million in 2013.

Chart 3.2 depicts the annual blended average historical pension contribution rates for ERS and PFRS from 1990 to FY 2016.

Chart 3.2: Historical Pension Contribution Rates



Source: NYS Comptroller

As reflected in Chart 3.2, pension contribution rates continue to spike in SFY (State Fiscal Year) 2013 and SFY 2014. The rates in the out-years are based on the Administration's Multi- Year Plan (MYP). The MYP includes ERS rates of 22.57% for 2014, 7.23% for 2015 and 11.28% for 2016. The rates for PFRS are 9.33% for 2013, 4.83% for 2014 and 4.65% for 2016. 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 Fund's overall rate of return for the first quarter ending June 30, 2012, was -0.92%, according to the State Comptroller.[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. The new Tier implements the following changes:

- It raises retirement plan contributions by a sliding scale, ranging from 3 percent for employees who earn up to $45,000 a year to 6 percent for those with annual salaries of at least $100,000.
- 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.

[2] The Office of the State Comptroller, NYS Common Retirement Fund Announces First Quarter Results. http://www.osc.state.ny.us/press/release/aug12/081712.htm.

- Caps overtime at $15,000.[3]

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

In 2012 there were modest increases in the average single and family insurance premiums. The national average premium for employer sponsored family coverage increased by 4%[4]. The NYSHIP Empire family plan, which consists of the most County workers increased by 3.2%. Since the 2012 Adopted Budget was based on an average growth rate of 13.3%. A surplus of $23.7 million is currently projected in FY12 for health insurance costs. Due to the overstated budget in FY 12, the 2013 Adopted Budget for active and retiree health insurance is decreasing by $13.0 million compared to FY 12.

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

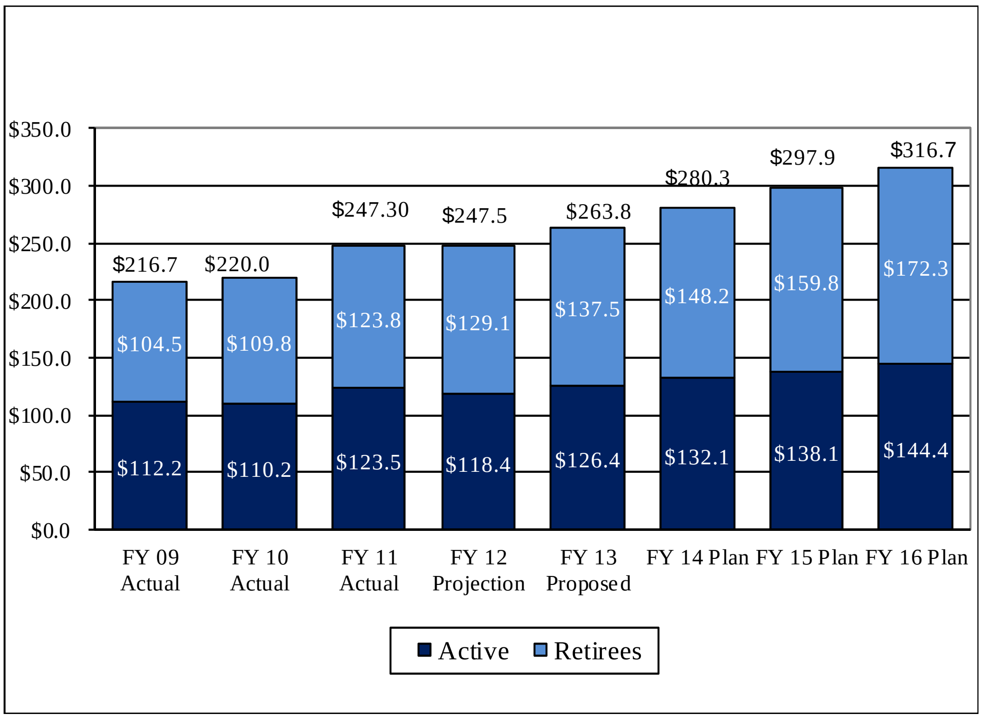
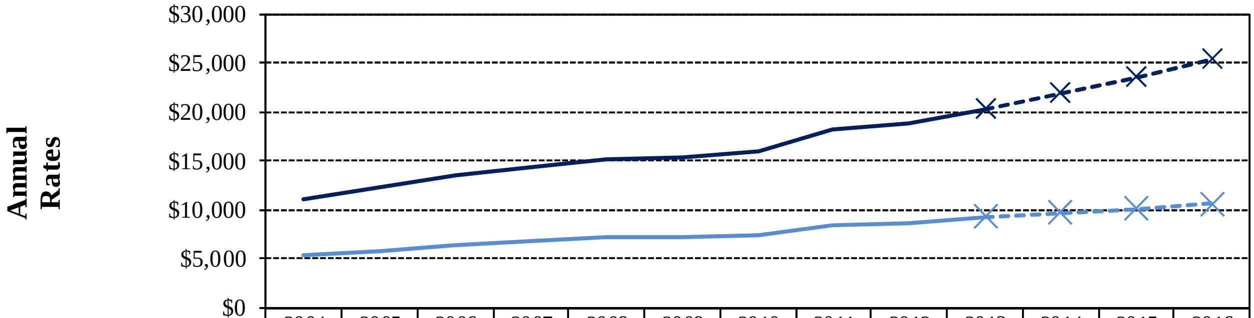


Chart 3.3 display actual and projected health insurance costs for active and retired employees from FY 09 through FY 16 in the Multi-Year Plan. As shown above, health insurance costs increase significantly in each year. The FY 13 budget for health insurance includes $126.4 million for active employees and $137.5 million for retired employees for a total cost of $263.8 million. The FY 13 budget is $16.3 million greater compared to the current projection. The Multi-Year Plan projects health insurance costs to increase to $316.7 million in FY 16.

[3] Gralla, Joan and Burns, Dan "New York Cuts Pension Benefits for Public Workers" Reuters. March 2012
[4] Kaiser Family Foundation, "2012 Summary of Findings Employer Health Benefits" The Kaiser Family Foundation and Health Research & Educational Trust.

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



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Individual	$5,258	$5,742	$6,357	$6,778	$7,109	$7,188	$7,348	$8,327	$8,553	$9,237			
Family	$11,097	$12,164	$13,514	$14,377	$15,105	$15,386	$15,971	$18,167	$18,754	$20,254			
Projected Individual										$9,237	$9,657	$10,095	$10,553
Projected Family										$20,254	$21,838	$23,545	$25,387

Chart 3.4 above displays how the health insurance rates paid by Nassau County have been progressively increasing. The rates in the above chart reflect a 8.0% increase in FY 13 and rises by the MYP baseline inflator of 4.54% for actives and 7.82% for retirees in FY 14 through FY 16. The New York State Department of Employee Benefits is currently projecting a 2013 growth rate between 8.0% to 11%. Table 3.5 below displays the projected 2013 annual health insurance rates based on an 8.0% growth rate:

Table 3.5: Health Insurance Premium Rates

Rates	2012	2013
Plan Premium		
Individual	8,553	9,237
Family	18,754	20,254
MediPrime		
Individual	5,031	5,433
Family-1	15,231	16,450
Family-2	11,709	12,646

Compared to the FY 12 projection, the FY 13 budget is increasing by $7.9 million for active employees and $8.3 million for retired employees. Based on inflating the current health insurance projection by 8%, OLBR estimates that there is currently a $3.5 million risk in the FY 13 budget for health insurance.

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. "Most covered workers face additional costs when they use health care services."[5] Besides

[5] Ibid.

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.

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 $110,100 unchanged from 2011. Medicare has no maximum. The Social Security Administration has not yet announced the wage base increase for 2013. The total OASDI tax on the current maximum wage base is roughly $6,826.20.

The FY 13 budget for social security is increasing by $999,702 or 1.9% compared to the FY 12 budget but is decreasing by $2.6 million compared to the FY 12 projection. The decrease compared to the projection can be attributed to lowered total salaries from County layoffs and employees participating in the VSIP.

17F Optical Plan

This benefit provides optical insurance to full-time County employees. The annual per capita premium is remaining at $115. The FY 13 budget is decreasing by $87,288 compared to FY 12. The FY 13 budget is consistent with the FY 12 projected spending.

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 13 budget is decreasing by $2.0 million to $4.1 million. It is reasonable that the FY 13 budget is lower since the FY 12 budged properly funded the significant County layoffs that occurred in FY 12. The unemployment budget appears very conservative since the majority of layoffs occurred last year.

20F Dental Insurance

This benefit provides dental insurance to full-time employees. The current contract with Healthplex was recently 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 13 budget for dental costs is decreasing by $506,311 compared to the FY 12 budget. The FY 13 budget is more than sufficient to cover the budgeted 7,395 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 13 budget is increasing by $377,511 to $16.1 million. Compared to the FY 12 projection, the proposed budget is increasing by $819,595.

The federal government has announced that the standard Medicare Part B premium for 2012 will be $99.90 per month. 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%. [6].

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 13 budget remains unchanged to the FY 12 Adopted Budget. The FY 13 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 13 budget includes $2.8 million which is a decrease of $80,231 compared to the FY 12 budget. The state Supreme Court recently ruled that the payroll tax is unconstitutional. However, the MTA has vowed to quickly appeal the ruling and as such, the tax will continue to be collected until a final decision is rendered.

40F CSEA Legal Plan

The FY 13 budget includes $587,250 for the CSEA legal plan which is a decrease of $5,875 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 13 budget includes $127,250 for the ShOA legal plan as per the ShOA contract agreement.

45F Disability Insurance

The FY 13 budget includes $53,400 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 13 proposed budget is increasing by a marginal $2,589 from the FY 12 budget and $20,485 compared to the FY 12 projection.

[6]"2012 Medicare Part B Rates Annnounced." Mass Retirees. Http://www.massretirees.com/article/issues /medicare/ 2012 medicare-part-b-rates announced.

98F Fringes Allocable to Grants

The FY 13 budget is made of $347,242, which is the corresponding fringe benefit expense to the salaries that are chargeback to the Grant Fund.

ZZO Capital Backcharges OT Fringes

The FY 13 budget of $77,650 is the corresponding charge related to overtime salary chargeback of $1.0 million within the Department of Public Works (DPW).

ZZS Capital Backcharges to Fringes

The FY 13 budget of $2.6 million is the corresponding charge related to the salary chargeback within the Department of Public Works (DPW). The $2.6 million appears to be high considering the salary chargeback is roughly $3.6 million.

Revenue Budget

Table 3.6 compares the FY 13 proposed budgeted revenue to the FY 12 projected revenue and the FY 13 Adopted Budgeted revenue for fringe benefits:

Table 3.6: FY 13 Revenue Budget

SubObject & Description	Adopted FY 12 Budget	OLBR FY 12 Projection	FY 13 Exec. Budget	Variance Exec. vs Adopted 12	Variance Executive vs FY 12 Proj.
R2010 - Insurance Recoveries	7,306,200	7,306,200	0	(7,306,200)	(7,306,200)
Total	**$7,306,200**	**$7,306,200**	**$0**	**($7,306,200)**	**($7,306,200)**

In Table 3.6 above, 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. In FY 13, this revenue has been eliminated. Effective January 1, 2013, the County will no longer receive the Medicare Part D credit. NYSHIP will implement a Medicare Prescription Drug Plan (PDP) under an Employer Group Waiver Plan, or EGWP. This plan will replace the current prescription drug benefit for Medicare primary enrollers. The establishment of the EGWP means NYSHIP is no longer eligible to receive distributions, therefore participating employers such as the County will no longer will receive a subsidy. However, savings from the new plan may result in overall lower premiums for participating employers such as the County.

Multi-Year Plan

Table 3.7: FY 13 Multi-Year Plan

SubObject & Description	2013 Proposed Budget	2014 Plan	2015 Plan	2016 Plan
AB08F - NYS Police Retirement	68,328,664	74,704,808	78,313,050	81,954,607
AB11F - State Retirement Systems	55,292,736	67,773,391	72,676,122	80,873,988
AB13F - Social Security Contributions	53,204,337	56,092,259	56,264,973	57,158,830
AB14F - Health Insurance	126,372,488	132,109,799	138,107,584	144,377,668
AB17F - Optical Plan	864,652	864,652	864,652	864,652
AB19F - New York State Unemployment	4,108,800	4,108,800	4,108,800	4,108,800
AB20F - Dental Insurance	4,370,279	4,370,279	4,370,279	4,370,279
AB22F - Medicare Reimbursement	16,088,711	16,634,118	17,198,015	17,781,028
AB22S - Medicare Reimbursement Surcharge	213,627	220,869	228,356	236,098
AB26F - Flex Benefits Plan	2,400,000	2,400,000	2,400,000	2,400,000
AB35F - MTA Mobility Tax	2,756,276	2,903,018	2,912,610	2,958,566
AB40F - CSEA Legal Plan	587,250	587,250	587,250	587,250
AB41F - SHOA Legal Plan	127,250	127,250	127,250	127,250
AB45F - Disability Insurance	53,400	53,400	53,400	53,400
AB75F - Health Insurance for Retirees	137,454,658	148,203,612	159,793,135	172,288,958
AB76F - Employees Optical for Retirees	533,383	533,383	533,383	533,383
AB98G - Fringes Allocable to Grant	(347,242)	(347,242)	(347,242)	(347,242)
ABZZO - Captial Backcharge OT Fringes	(77,650)	(77,650)	(77,650)	(77,650)
ABZZS - Capital Backcharges Fringes	(2,654,652)	(2,654,652)	(2,654,652)	(2,654,652)
Grand Total	**469,676,967**	**$508,607,345**	**$535,459,315**	**$567,595,212**

Health insurance expenses for active and retired employees are projected to increase by $52.8 million to $316.6 million in FY 1.3. The MYP baseline inflator used to project out-year health insurance costs is 4.54% for actives and 7.82% for retirees in FY 13 through FY 16. These rates appear low considering that the average health insurance growth rate over the past five years was 6.9% for family.

Including the amortization amounts, pension costs increase in FY 13 from the FY 12 projection by $11.0 million, and continue to grow by $18.9 million in FY 14, $8.5 million in FY 15 and $11.8 million in FY 16. The New York State Comptroller recently released the 2014 pension projections. The Administration plans to continue to amortize a portion of the pension expense in the out-years.

Social security expenses are increasing by $2.9 million in FY 14 to $3.1 million in FY 15, and increasing minimally for the out-years. Since the social security tax is a function of the salary expense, the out-year budget appears reasonable.

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 2013 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 13 Executive Budget, excluding the deferred piece, is $1,116.8 billion. This estimate is based on OMB's assumption that collections will increase by 4.0% annually in FY 12 and then increase by 4.5% in FY 13.

Table 4.1, below, shows annual gross sales tax collections since FY 07, OMB's projected FY 12 total, and the budgeted amounts in the proposed 2013 – 2016 Multi-Year Financial Plan. The MYP projects 4.0% growth for years 2014 through 2016.

Table 4.1: Annual Sales Tax Collections

Fiscal Year	Actuals	Growth
2007	1,011.9	2.1%
2008	1,003.0	-0.9%
2009*	951.3	-5.2%
2010*	1,009.3	6.1%
2011*	1,027.6	1.8%
Fiscal Year	**OMB Projections**	**Growth**
2012*	1,069.2	4.0%
2013	1,116.8	4.5%
2014	1,161.5	4.0%
2015	1,207.9	4.0%
2016	1,256.3	4.0%

* 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 13 as deferred sales tax. That represents the amount that part-county sales tax collections in FY 11 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, 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 12, 2012, have come in 4.9% greater than in the same period in 2011.

Sales Tax Receipts

(Payments Through October 12, 2012 in millions)

	2011	2012	Variance $	Variance %
Gross YTD Sales Tax	$709.4	$744.1	$34.7	4.9%

Based upon the year-to-date results and the fragile state of the economy, OLBR believes that there is risk inherent in the proposed sales tax budget. OLBR believes that a more conservative growth rate for 2013 through 2016 would have been 3.5% years. These growth rates are in line with Moody's Economy.com's current forecast for Nassau County retail sales. For additional information regarding 2013 economic growth rates, see the economics report, of the Executive Summary. Thus, OLBR is including $6.5 million in sales tax risk in its risk assessment of the proposed 2013 budget.

2012 to 2016 Nassau County Economic Forecast
Forecast Annual Growth Rates*

	2012	2013	2014	2015	2016
GCP	0.8%	2.3%	3.2%	3.5%	2.7%
Personal Income	2.5%	2.8%	5.6%	5.5%	4.9%
Retail Sales	3.4%	3.5%	4.1%	3.4%	3.1%
Regional CPI	2.1%	2.6%	3.3%	3.2%	2.9%
Average	**2.2%**	**2.8%**	**4.0%**	**3.9%**	**3.4%**

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 07 through FY 11, along with the projected year-end balances for 2012 and 2013.

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

Item	Year-End 2007	Year-End 2008	Year-End 2009	Year-End 2010	Year-End 2011	Projected Year 2012	Projected Year 2013
Undesignated Fund Balance	$89.8	$74.1	$65.3	$92.2	$41.8	$41.8	$31.8
Retirement Contribution Fund	25.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee Accrued Liab. Fund	15.2	14.4	14.4	14.4	14.4	4.0	4.0
Tobacco Settlement Fund	147.3	76.0	17.6	17.6	18.4	18.5	18.5
Sub-total	**$277.3**	**$164.5**	**$97.3**	**$124.2**	**$74.6**	**$64.3**	**$54.3**
Sewer/Storm Water Fund Bal.	161.9	134.7	106.2	90.5	80.0	67.4	18.1
Sewer Fin. Auth. Fund Bal.	19.1	0.0	0.0	0.0	0.0	0.0	0.0
Total Reserves & Fund Bal.	**$458.3**	**$299.2**	**$203.5**	**$214.7**	**$154.6**	**$131.7**	**$72.4**

The above chart uses the Administrations' projected 2012 year-end figures. The 2013 projection uses the 2012 projection as a starting point and then subtracts the planned uses incorporated in the FY 13 proposed operating budget.

The proposed FY 13 budget includes the usage of $10 million in fund balance in the Office of Management and Budget as a contingency reserve. Additionally, the proposed FY 13 Sewer and Storm Water Resource District budget appropriates $49.3 of fund balance. These planned uses have been subtracted from the undesignated fund balance and sewer/storm water fund balance lines to calculate the FY 13 year-end reserve and fund balance level.

Several factors could impact the 2012 and 2013 projections. These include the actual sewer fee collections in the Sewers. The Legislature approved the implementation of two sewer fees, a high water usage and a not-for-profit fee. Since a temporary restraining order exists, these fees have not been collected. Currently the Administration expects to draw down $12.6 million in fund balance in the Sewers in 2012, if fees are collected, then less fund balance usage may be required.

6. ECONOMIC REPORT

Current and Projected National Economic Conditions

According to the U.S. Commerce Department, the U.S. economy grew 1.3% in the second quarter of 2012. The 1.3% mark was lower than the previously estimated 1.7% rate of growth. It is below the first quarter 2012's 2% growth rate and below the 3% needed to reduce unemployment significantly.[1]

The dismal growth has prompted the Federal Reserve to initiate unprecedented measures. On September 13, 2012, the Federal Reserve implemented a program known as quantitative easing 3 or QE3, whereby the Federal Reserve will buy $40 billion in mortgage-backed securities each month until the labor market improves substantially. It also pledged to keep rates low until mid-2015. The goal of these policies is to keep rates low, thereby fueling more spending and eventually more hiring.[2]

All current economic forecasts, shown in Table 6.1, expect the national economic recovery to continue for the remainder of 2012 and through 2015.

Table 6.1

US Real GDP Forecasts 2012 through 2016				
	2012	**2013**	**2014**	**2015**
The Conference Board	2.20%	2.20%	NA	NA
Moody's Economy.com	2.32%	2.39%	4.16%	4.11%
Fed. Reserve Bank of Philadelphia	2.20%	2.10%	2.70%	3.10%
Mortgage Bankers Association	1.80%	2.20%	NA	NA
Average Forecast	**2.13%**	**2.22%**	**3.43%**	**3.61%**

It should be noted that economists surveyed by the Federal Reserve believe that there are downside risks to the current U.S. economic outlook. As such, they have increased their assessed risk probability of a negative quarter of real U.S. gross domestic product, (GDP). Table 6.2 displays the current and previous estimates, from the third quarter of 2012, for the risk of a negative quarter.

Table 6.2

Risk of Negative Growth in US GDP			
Year	**Quarter**	**Prior %**	**Current %**
2012	Q3	12.2%	13.8%
2012	Q4	14.5%	17.0%
2013	Q1	17.3%	21.2%
2013	Q2	17.8%	21.0%
2013	Q3	NA	19.1%
Source: Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters			

Projected Regional Economic Conditions

Regionally, the economy continues to recover. Table 6.3 details the current forecast for eleven Nassau County economic variables. The current recovery is expected to continue through 2016. From 2012 to

[1] The Associated Press, "US Economy Grew 1.3 Percent in Second Quarter", Long Island Business News, September 27, 2012.
[2] Censky, Annalyn, "Federal Reserve Launches QE3", CNN/Money.com, September 13, 2012.

2016, Nassau County's Gross County Product (GCP) is expected to register positive growth. However, growth is expected to be tepid and no increase in employed residents is expected for 2012.

Several forces may be seen as constraining growth. Relatively high unemployment is limiting consumer spending not just for the unemployed but also the employed. That is persistent unemployment is said to be keeping existent workers from getting salary increases.[3] Thus, all households may be seen as buying less which leads to less job creation.

Additionally, the threat of unemployment, lack of appreciation in earnings and high credit standards are placing downward pressure on home prices causing an increase in underwater mortgages and the extinction of cash out refinancing. On Long Island in the second quarter of 2012, 9% of all homeowners were underwater on their mortgages. That is up from the second quarter 2011's 8.4%.[4] At the height of the housing market boom, households would use the equity in their homes to make purchases. That financing source is no longer available. Second quarter 2012 Freddie Mac figures show that less than one in five refinanced mortgages were for a cash-out loan. After adjusting for inflation, that is the lowest level since the second quarter of 1995.[5]

Table 6.3

2012 to 2016 Nassau County Economic Forecast
Forecast Annual Growth Rates*

	2012	2013	2014	2015	2016
GCP	0.8%	2.3%	3.2%	3.5%	2.7%
Personal Income	2.5%	2.8%	5.6%	5.5%	4.9%
Employed	0.0%	0.7%	1.4%	1.0%	0.5%
Unemployed	7.3%	-4.2%	-14.3%	-17.9%	-13.0%
Unemployment %	7.2%	6.8%	5.8%	4.8%	4.2%
Non Farm Jobs	0.9%	0.9%	1.8%	2.3%	1.8%
New Mortgages	5.1%	15.0%	24.1%	8.9%	3.6%
Mrt Refinances	50.8%	-55.1%	-68.6%	-11.3%	33.0%
Retail Sales	3.4%	3.5%	4.1%	3.4%	3.1%
Median Home Sale Price	1.7%	-1.4%	4.3%	4.5%	3.0%
Regional CPI	2.1%	2.6%	3.3%	3.2%	2.9%

*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. It should be mentioned that the current forecast assumes that personal income growth will exceed the growth in regional consumer prices which should enable households to keep up with inflation. The sections following provide a detailed analysis of the various sectors of the regional economy.

[3] Hargreaves, Steve, "Why Wages aren't Rising", CNN/Money.com, September 11, 2012.
[4] McDermott, Maura, "More "Underwater" LI Mortgages this Year", Newsday, September 12, 2012.
[5] LIBN Staff, "Cash-Out Home Refinancing All But Vanished", Long Island Business News, August 15, 2012.

Resident Employment

From a monthly perspective, New York State Department of Labor statistics show that in July 2012 Nassau County's labor force growth prompted an increase in the County's unemployment rate since the number of employed residents was unchanged. Typically, labor force growth is seen as a positive development since it implies that out of the workforce individuals were lured back to the labor force as a result of improved job prospects.

From an annual viewpoint, in July 2012, Nassau's labor force grew 0.9%. Out of the labor force growth 17.2% of the entrants were successful in obtaining employment. This caused the number of employed residents to grow by 1,100.

According to Moody's Economy.com's September 2012 forecast, Nassau County will experience marginal, positive growth in employed residents throughout 2012 and 2013. The number of unemployed residents is not expected to decrease until the fourth quarter of 2012. Lastly, Nassau County's unemployment rate is forecast to remain above 7% for 2012. Table 6.4 below details these projections.

Table 6.4

Nassau Labor Market By Quarter, 2012 and 2013				
2012	**Q1**	**Q2**	**Q3**	**Q4**
Total Employed	0.01%	0.06%	0.09%	0.12%
Total Unemployed	2.85%	2.45%	1.26%	-0.18%
Average Unemployment %	7.01%	7.16%	7.24%	7.22%
2013	**Q1**	**Q2**	**Q3**	**Q4**
Total Employed	0.16%	0.22%	0.29%	0.36%
Total Unemployed	-1.35%	-2.23%	-2.91%	-3.43%
Average Unemployment %	7.12%	6.96%	6.75%	6.51%

*Unemployment % Details Annual Average

Source: Moody's Economy.com

It should be mentioned that the projected unemployment rates may be seen as discounting the true amount of unemployment since they do not include people who want to work but haven't looked in the past four weeks or those who are working part-time since no full-time work was available.[6] According to US Bureau of Labor Statistics figures, once those two populations are accounted for, a second quarter 2012 unemployment rate for New York State of 14.6% emerges.

Jobs

From an annual perspective, in July 2012 total non-farm job growth declined 1.7% from a monthly perspective and grew 0.6% from an annual perspective. The job losses were widespread with only the Professional and Business Services sector recording both monthly and annual job gains. All totaled, the Long Island region lost 21,500 jobs from a monthly perspective and gained 7,500 jobs from an annual perspective. Analysts opined that the construction sector was the biggest drag on job growth, the sector lost 5,100 jobs compared to last year.[7]

[6] Shah, Neil, "States' Hidden Jobless Woes", The Wall Street Journal, July 30, 2012.
[7] Mason-Draffen, Carrie, "State: LI Jobs Growth Continues, but Slowly", Newsday, August 16, 2012.

Looking forward, total non-farm job growth is expected to be marginally positive throughout 2013. From 2014 to 2016 job growth above the 1% mark indicative of a healthy economy is expected. In 2012 and 2013, the Construction and Government sectors are forecast to record job losses. In 2015, all sectors are projected to experience positive job growth.

Table 6.5 details the current overall job growth forecast as well as the job growth forecast for eight Nassau County job sectors from 2012 to 2016.

Table 6.5

Nassau County Annual Job Growth By Sector, 2012 to 2016					
	2012	**2013**	**2014**	**2015**	**2016**
Construction	-7.6%	-1.0%	5.4%	4.8%	4.2%
Educ &Health	2.0%	2.2%	3.4%	3.5%	2.9%
Fin Activities	4.1%	0.4%	-0.1%	2.3%	1.9%
Prof and Bus	4.0%	3.0%	2.8%	3.6%	2.9%
Retail Trade	0.4%	0.7%	-0.3%	0.0%	-0.1%
Government	-0.5%	-0.2%	1.1%	1.2%	0.5%
Leis and Hospt	0.2%	0.1%	2.6%	2.5%	2.0%
High Tech	1.2%	1.7%	2.5%	3.0%	2.4%
Total Jobs	**0.9%**	**0.9%**	**1.8%**	**2.3%**	**1.8%**

Consumers Spending

According to the US Commerce Department, July 2012 national retail sales rose 0.8% from the prior month, the largest increase recorded in five months. All major categories experienced increased spending.[8] Economists were hesitant to declare a new trend. Some opined that the increase was more a function of an inordinately weak June rather than a change in consumer buying behavior.[9] According to Wal-Mart's chief financial officer, customers are still very concerned about employment, gas prices and food inflation.[10]

The most recent Siena College consumer confidence survey found that throughout the metropolitan region, consumer confidence is up 1.0% from the prior month and 22.7% from the prior year. Looking forward, the index of future economic expectations was up 1.5% from the previous month and 26.6% from the previous year.

Table 6.6 on the following page details the 2012 and 2013 forecast for Nassau County GCP, retail sales, and total personal income. All indicators are forecast to register positive growth throughout 2012 and 2013.

[8] The Associated Press, "US Retail Sales Rose Solid 0.8 Percent in July", Long Island Business News, August 14, 2012.
[9] Russolillo, Steven, "Positive Retail Sales Report Isn't Winning Over Skeptics", Wall Street Journal, August 14, 2012.
[10] Clifford, Stephanie, "Wal-Mart's Earnings Suggest Strained Shoppers", The New York Times, August 16, 2012.

Table 6.6

Nassau County Consumption Growth by Quarter				
2012				
	Q1	**Q2**	**Q3**	**Q4**
GCP	0.27%	0.42%	0.50%	0.54%
Retail Sales	0.77%	0.71%	0.73%	0.78%
Total Personal Income	1.13%	1.19%	1.19%	1.17%
2013				
	Q1	**Q2**	**Q3**	**Q4**
GCP	0.58%	0.62%	0.68%	0.74%
Retail Sales	0.83%	0.90%	1.00%	1.07%
Total Personal Income	1.20%	1.30%	1.48%	1.66%
Source: Moody's Economy.com				

Tourism

The Nassau County tourism industry had a difficult year. From an annual perspective, the leisure and hospitality industry on Long Island lost 0.9% of its jobs. Moreover, demand was not sufficient to enable the industry to raise rental rates without experiencing a decline in occupancy rates. According to Long Island Convention and Visitors Bureau statistics, average rental rates have increased 1.5% from the prior year. However, the price increased coincided with a 0.5% decline in occupancy rates.

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 2016. Table 6.7 shown below details the projected annual growth rates.

Table 6.7

2012 to 2016 Forecast Job Growth for the Nassau County Leisure & Hospitality Sector					
	2012	**2013**	**2014**	**2015**	**2016**
Annual Growth	0.19%	0.13%	2.58%	2.49%	1.98%
Source: Moody's Economy.com					

Residential Real Estate

The Nassau County residential real estate market is slowly recovering. Current Multiple Listings Service of Long Island figures reveal that from both a monthly and an annual vantage point, both the number of homes sold and the median sold price has increased.

Using contract or pending statistics as a guide to where the residential home market is going shows growth in the number of houses sold from an annual perspective. However, the median contract home price is declining from both a monthly and an annual view.

Table 6.8 on the next page details these figures.

Table 6.8

Nassau County Housing Forecast by Quarter					
2012 Current					
	Aug-11	**Jul-12**	**Aug-12**	**Mthly %**	**Yrly %**
Home Sales	944	938	1,059	12.9%	12.2%
Median Sale Price	415,000	405,000	435,000	7.4%	4.8%
2012 Pending					
	Aug-11	**Jul-12**	**Aug-12**	**Mthly %**	**Yrly %**
Contract Sales	832	1,057	1,024	-3.1%	23.1%
Median Contract Price	391,000	400,000	389,170	-2.7%	-0.5%
Source: Multiple Listing Service of Long Island					

Table 6.9 below details Moody's Economy.com's current forecast for Nassau's residential housing market. From the fourth quarter 2012 through the second quarter 2013, they forecast increasing home sales coupled with decreasing median sale prices. For the second half of 2013 they envision rising home sales and median sale prices.

Analysts are hesitant to label current trends a recovery. The claim that the recent increase in prices and sales is not evidence of a demand surge, rather a depletion of inventory is the primary force behind the current uptick. They opine that a bottom may have been reached, but a sustaining recovery is far off. Three forces are inhibiting a recovery, millions remain underwater on their mortgages and can't afford to sell, banks are being stingy with credit, and job and wage growth aren't fast enough to sustain big rises in home prices.[11]

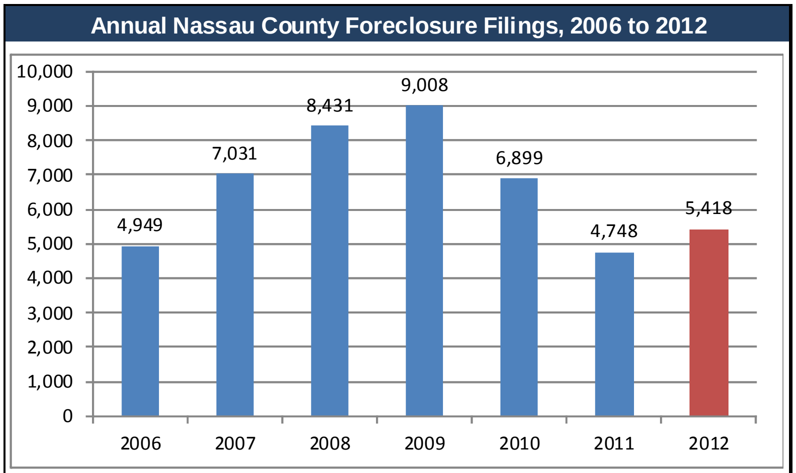
Table 6.9

Nassau County Housing Forecast by Quarter				
2012				
	Q1	**Q2**	**Q3**	**Q4**
New Mortgages	-1.10%	-1.68%	-0.24%	2.16%
Refinances	15.91%	7.41%	-2.92%	-13.15%
Median Sale Price	1.12%	0.94%	0.19%	-0.61%
2013				
	Q1	**Q2**	**Q3**	**Q4**
New Mortgages	4.11%	5.48%	6.37%	6.62%
Refinances	-21.42%	-28.29%	-32.30%	-31.32%
Median Sale Price	-0.92%	-0.70%	0.02%	0.88%
Source: Moody's Economy.com				

Contributing to the projected decline in median home sale prices, is the forecast increase in foreclosure filings. Extrapolating on current County Clerk statistics, reveals that foreclosure filings in Nassau County are projected to be higher in 2012 than in 2011. 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. Chart 6.1 on the following page details historical Nassau County Clerk Foreclosure filings from 2006 through 2012. The 2012 figure represents OLBR's forecast.

[11] Timiraos, Nick, "Housing on Mend, but Full Recovery is Far Off", The Wall Street Journal, September 10, 2012.

Chart 6.1



Source: Nassau County Clerk's Office

*2012 is a projection.

Consumer Prices

As of August 2012, US Bureau of Labor Statistics figures show that regional consumer prices have increased 1.4% from the prior year and 0.6% 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 2012 through 2016. The annual regional consumer price growth forecast may be viewed in Table 6.3. In 2012 regional consumer prices are expected to increase 2.1%. That figure for 2013 is 2.6% and 3.3% for 2014. Table 7.0 below details the quarterly consumer price growth forecast.

Table 7.0

Regional Consumer Price Forecast by Quarter				
	Q1	**Q2**	**Q3**	**Q4**
2012	0.59%	0.70%	0.87%	0.51%
2013	0.57%	-0.10%	0.68%	0.80%
2014	0.82%	0.65%	0.79%	0.82%
2015	0.82%	0.82%	0.83%	0.81%
2016	0.71%	0.78%	0.77%	0.74%
Source: Moody's Economy.com				

Conclusion

Both the national and regional economies are in precarious positions. All forecasts currently expect the economy to continue to experience positive growth. However, the threats to the baseline forecast are substantial. Not only has the Federal Reserve increased its risk of a negative quarter, but it has taken unprecedented steps to decrease unemployment.

Regionally, the job market is moving forward. The labor force has grown in response to perceived greater job offerings. However, the annual job growth has been marginal, not significant enough to substantially reduce unemployment. Since no other sector is expected to experience robust activity. economic activity in 2013 should continue to be positive, albeit slow.