



# NASSAU COUNTY LEGISLATURE

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Office of Legislative Budget Review

## **Review of the Fiscal Year 2007 Budget & Multi-Year Plan**

### **Executive Summary**

**Eric C. Naughton, Director**

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# *Nassau County*

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### **Inter-Departmental Memo**

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

From:  Eric C. Naughton, Director  
Office of Legislative Budget Review

Date: October 16, 2006

Re: Review of the FY 07 Budget and Multi-Year Plan: Executive Summary

Pursuant to §183 of Nassau County Charter, the Office of Legislative Budget Review has prepared a report on the County Executive's proposed operating budget for Fiscal Year 2007 and Multi-Year Plan. Our report is made up of two parts: the enclosed Executive Summary, and a Departmental Analysis, which has been distributed separately.

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/budget\\_docs.html](http://www.nassaucountyny.gov/agencies/OLBR/budget_docs.html).

**Table of Contents** ..... i

    Executive Summary ..... 1

    Sales Tax Review.....16

    Economic Report .....19

    Labor .....32

    Fringe Benefits.....37

    Debt .....50

    Charts & Graphs .....60

## **1. EXECUTIVE SUMMARY**

The review of a budget and Multi-Year Plan (MYP) is an analysis of revenue and expense assumptions of the Administration. For the legislative body it is also a review of the County Executive's policies and priorities. The Legislature is voting to determine if the cost estimates are reasonable and if they agree with the allocation of resources. One of the policy decisions in the Proposed FY 07 Budget and MYP is the use of reserves.

Part of the strategy that has put the County on the path to fiscal recovery and short-term stability has been conservative revenue and expenditure estimates, coupled with strong fiscal management. This, along with NIFA transitional aid and debt restructuring, has helped the County generate operating surpluses in each of the last few years. A component of the FY 06-09 MYP was leveraging these resources in order to fund the various on-going obligations, as well as transitioning to the use of operating funds, rather than debt issuance, to pay for tax refunds. Utilizing the 2004 operating surplus the County was able to establish an Employee Benefit Accrued Liability Reserve Fund and a Reserve for the Retirement of Bonded Indebtedness, containing \$28.9 million and \$25.0 million respectively, and increase the County's accumulated unreserved, undesignated fund balance by \$9.5 million from \$81.0 million to \$90.5 million. Lastly the State's approval of the deferment of the pension payment date in 2004 enabled the County to transfer \$79.8 million to a Pension Contribution Reserve Fund.

The FY 07 Proposed Budget for the major funds is \$2.5 billion, excluding inter-departmental chargebacks. This is an increase of nearly \$130 million or 5.5%, when compared to the Adopted 2006 Budget. Part of this increase is due to the inclusion of certain items in the FY 07 budget. The full pension costs are included in the 2007 budget, although the County is using some funds from the Retirement Contribution Reserve Fund. In FY 06 pension costs paid from the Retirement Contribution Reserve Fund were not included in the Adopted FY 06 budget. Also, the FY 07 Proposed Budget includes \$25 million for tax certiorari settlements, whereas the FY 06 budget included \$0. Table 1.1 compares FY 06 costs to FY 07 with adjustments for the full pension and tax certiorari estimates.

When looking at the adjusted expense numbers, the 2007 costs are increasing by \$70.7 million or 2.9%. The budget fully funds all current staff; probable savings from attrition are not included. Some vacant and new positions are funded for the full year, while others are funded for half a year. Salaries are decreasing due to anticipated reductions in the costs for uniformed personnel in Corrections and the Police Department, although budgeted headcount is constant.

The proposed savings are from assumed labor concessions of \$25.8 million from the Police Benevolent Association (PBA) and the Detectives Association, Inc. (DAI) and \$5.1 million from the Sheriff Officers Association (ShOA). ShOA is at an impasse and the PBA has filed for an impasse.

Some departments that are scheduled to have a significant addition to personnel compared to their September 2006 headcount are the Police Department, Consumer Affairs, the Correctional Center, District Attorney, Public Works, Social Services and TPVA. For more information regarding these additions please see the OLBR Departmental Analysis.

**Table 1.1: Major Funds' Expenses 2006 vs. 2007**  
(\$'s in millions)

	2006	2007	Var.
<b>Expenses</b>			
Salaries	\$832.8	\$826.0	(\$6.8)
Fringe <sup>1</sup>	369.2	441.3	72.1
OTPS <sup>2</sup>	361.2	399.8	38.6
Direct Assistance <sup>3</sup>	509.4	527.0	17.5
Debt Service	291.6	299.9	8.3
<b>Total Expenses<sup>4</sup></b>	<b>\$2,364.2</b>	<b>\$2,493.9</b>	<b>\$129.8</b>
<b>Offline Expenses</b>			
Pension	34.1	0.0	(34.1)
Tax Certs <sup>5</sup>	50.0	25.0	(25.0)
<b>Adj Total Expenses</b>	<b><u>\$2,448.3</u></b>	<b><u>\$2,518.9</u></b>	<b><u>\$70.7</u></b>
<p>1. \$26.4 million of pension costs in 2007 is funded from a transfer from the Retirement Contribution Reserve Fund.</p> <p>2. \$25.0 million is included in 2007 for tax certiorari settlements.</p> <p>3. Medicaid IGT excluded in FY06</p> <p>4. Excludes interdepartmental charges and debt service chargebacks</p> <p>5. Funds from prior year fund balance are used for tax certiorari settlements.</p> <p>Totals may be affected by rounding.</p>			

Fringe expenses are growing by \$38.0 million after accounting for the change in the pension funding. Most of the increase is related to health insurance and Medicare reimbursement. Health insurance is increasing by \$12.3 million for active employees and \$8.6 million for retirees. The budget for Medicare reimbursement is increasing by \$4.0 million, which is a 31% increase. For more information regarding fringe expenses please see section 5 of the Executive Summary, Fringe Benefits.

Other than Personal services (OTPS) expenses are growing by \$13.6 million excluding the \$25 million for tax certiorari settlements. Most of this increase reflects the under-funding for utilities in the FY 06 budget. Also, \$2.1 million is set aside in the Miscellaneous budget for any potential operations requirements of the Help America Vote Act (HAVA).

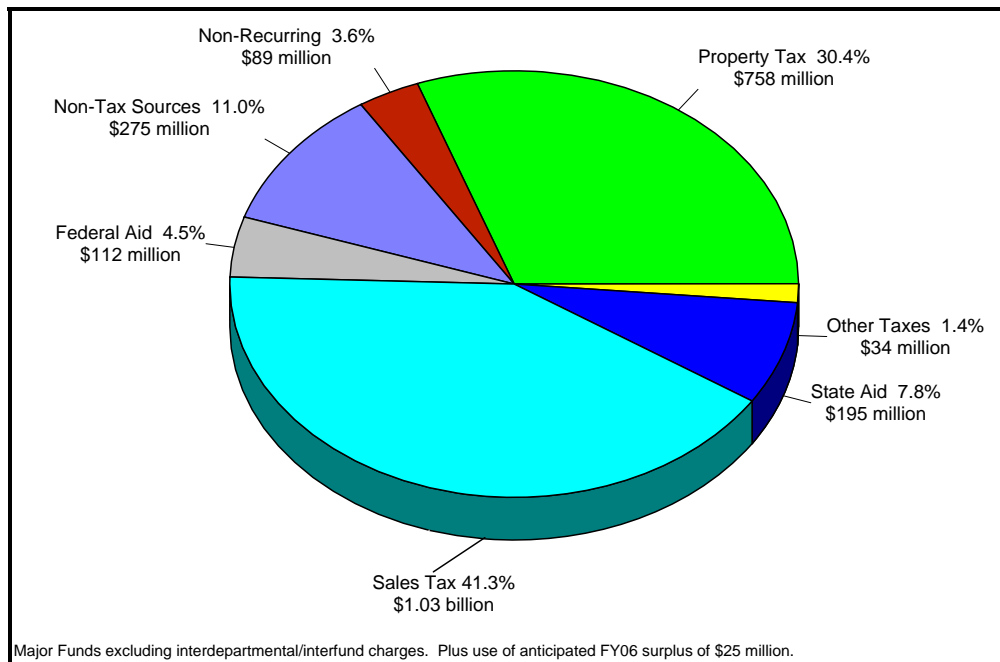
The Direct Assistance budget is increasing mostly in the area of the Health Department's Preschool Special Education Program (children ages 3 – 5). The costs for transportation and itinerant services, such as occupational therapy and physical therapy represent \$9.4 million of the \$17.5 million budget increase for direct assistance. As a result of the Medicaid cap, the budget for Medicaid is only increasing by \$3.4 million. The FY 06 budget for Medicaid is overstated by \$2.8 million, so the cost is increasing by \$6.2 million compared to projections.

Debt Service budget is growing by \$8.3 million. The FY 07 budget will be the first budget that reflects the extra debt service costs, \$4.1 million, related to the Environmental Bond Act of 2004. In addition,

funds have been provided for unforeseen borrowing needs, judgments and tax anticipation notes. This funding does not include the potential debt service cost from the proposed legislation to authorize an additional \$100 million in serial bonds, to be voted on by referendum at the general election in November 2006.

The largest revenue source for the County is sales tax as illustrated in Chart 1.1. The FY 07 budget assumes that the FY 06 budget will be achieved and that there will be an estimated sales tax growth of 3.4% on top of the 4.4% increase expected for FY 06. The estimated escalation in sales tax is within the historical norm for the County (see Sales Tax section for further discussion). If the County achieves its budget target for FY 06, it would mean that the five-year average compounded increase is 3.67%.

**Chart 1.1: FY 07 Major Funds' Revenue (\$2.5 billion)**



The total County property tax levy including funding for the Sewer and Storm Water Finance Authority and Nassau Community College in the 2007 Executive Budget is relatively the same as the 2006 levy. The levy will increase from \$924.2 million to \$929.8 million, as shown in Table 1.2, which is an increase of three-fifth's of a percent.

**Table 1.2: Property Tax Levy Comparison**

<b>Fund</b>	<b>2006</b>	<b>2007</b>	<b>Change</b>
	<b>Adopted</b>	<b>Proposed</b>	
County Parks	\$51,167,930	\$0	(\$51,167,930)
Fire Commission	15,849,710	0	(15,849,710)
General	80,016,370	143,438,000	63,421,630
Police District	333,627,100	329,699,800	(3,927,300)
Police Headquarters	258,050,000	285,233,300	27,183,300
<b>Subtotal Major Funds</b>	<b>738,711,110</b>	<b>758,371,100</b>	<b>19,659,990</b>
Sewers	138,932,309	118,932,309	(20,000,000)
Environment Bond	0	4,128,256	4,128,256
Community College <sup>1</sup>	46,545,867	48,361,156	1,815,289
<b>Grand Total</b>	<b>\$924,189,286</b>	<b>\$929,792,821</b>	<b>\$5,603,535</b>

1. College Budget was adopted July 24, 2006

The General Fund tax levy is proposed to increase by \$63.4 million because the Parks Department and the Fire Commission are proposed to be included in the General Fund in 2007. Police Headquarters is increasing by \$27.2 million because of increased costs, while the taxes for the Sewers will decrease by \$20 million. At this time it is unknown how the taxes will be adjusted within the Sewer District. The taxes for sewers are lower because of the use of its fund balance. Also, 2007 will reflect the first tax levy associated with the 2004 Environmental Program Bond Act.

Other taxes, as seen in Table 1.3 are decreasing by \$1.6 million because of a decrease in revenue from the entertainment tax and a redistribution of hotel/motel taxes to the County Grant Fund. State aid is expected to increase by \$24.2 million in FY 07. This increase is based on increased reimbursement due to new positions in Social Services. Also the County will receive additional funds in the Health department related to the increased costs for Early Intervention and the Preschool Special Education Program. In addition, the County has included \$4.1 million for reimbursement related to the County's expenditures for County residents attending the Fashion Institute of Technology. Federal aid is decreasing by \$3.6 million due mostly to fewer federal inmates housed at the Correctional Center.



**Table 1.3: Major Funds Revenue FY 06 vs. FY 07**  
(\$'s in millions)

	2006	2007	Var.
<b>Revenues</b>			
Non-Recurring Revenue	\$47.3	\$89.1	\$41.8
Non-Tax Sources	254.6	274.7	20.1
Federal Aid	115.1	111.6	(3.6)
State Aid	171.2	195.4	24.2
Sales Tax <sup>1</sup>	1,001.8	1,030.9	29.1
Property Tax	738.7	758.4	19.7
Other Taxes	35.5	33.9	(1.6)
<b>Total Revenues<sup>2</sup></b>	<b>\$2,364.2</b>	<b>\$2,493.9</b>	\$129.8
<b>Offline Revenue</b>			
Pension <sup>3</sup>	34.1	0.0	(34.1)
Tax Certs <sup>4</sup>	50.0	25.0	(25.0)
<b>Adj Total Revenue</b>	<b><u>\$2,448.3</u></b>	<b><u>\$2,518.9</u></b>	<b><u>\$70.7</u></b>
1. Each year includes deferred revenue.			
2. Excludes interdepartmental revenue & debt service chargebacks			
3. \$34.1 million of pension costs in 2006 is funded through the Retirement Contribution Reserve Fund.			
4. Prior years' surplus used for tax certiorari settlements.			

The 2007 Proposed Budget includes approximately \$89.1 million of non-recurring revenue plus the Administration plans to use \$25 million of anticipated 2006 surplus to pay for tax certiorari settlements. Based on current projections, the 2006 surplus will be insufficient, excluding the Police District Fund, to provide the \$25 million that was contemplated in the Administration's strategy. This will require the use of the County's undesignated fund balance to compensate for any shortfall from the expected 2006 surplus. The \$89.1 million consists of the following:

1. \$10 million use of fund balance for a reserve in the General Fund budget. The Proposed Budget did not isolate these funds, but following the original submission of the budget, the Administration has requested that these funds be appropriated in the Miscellaneous budget.
2. \$3.1 million from the unreserved fund balance for a one-time expenditure to fund the parks/road transfer agreement with the Town of North Hempstead.
3. \$26.4 million from the Retirement Contribution Reserve Fund.
4. \$11.2 million from the Capital Projects Fund. This amount represents the non-recurring portion of the 840 account. These are deposits of revenues such as state and federal grants for the purpose of retiring debt or paying debt service for various General Fund projects.

5. \$14.8 million will come from the Bonded Indebtedness Reserve Fund to pay for debt service.
6. \$23.6 million from the 1999 Tobacco Securitization.

The use of these funds has allowed the Administration to delay making the difficult choices regarding service cuts and/or revenue enhancement. However, the question becomes, should some of these difficult choices be made now and save some of the reserves to allow for long-term stability?

The Proposed FY 07 Budget has more risks and optimistic estimates than have been seen in recent budgets.

- ❖ OLBR calculates a salary deficit because of the assumed labor savings in the proposed FY 07 budget for the Police District Fund of about \$13.1 million and for \$12.4 million in the Headquarters Fund. This does not include new sworn personnel hires for 2007, which would add about \$4.7 million to this shortfall. It also does not include funding for the 31 vacant civilian positions. However, when factoring in the \$4.1 million contingency set aside in the Police District Fund, fringe savings (which will not be achieved without a contract), attrition savings and other possible surpluses within the funds, the total potential shortfall for both funds would be \$14.0 million (\$5.7 in Headquarters and \$8.4 in District). The potential deficit in the District Fund is especially problematic because as a special taxing district, funds cannot be transferred from the countywide General Fund or Police Headquarters Fund to offset this potential deficit.
- ❖ Interfund charges may be understated by \$6.8 million in the Police District Fund and \$1.3 million in the Police Headquarters Fund. This has no net impact on the major funds, but impacts the funding requirements for each fund.
- ❖ The FY 07 budget includes \$4.1 million in State aid reimbursement for payments the County makes to Fashion Institute of Technology in New York City (FIT) for Nassau County residents who attend the Institute. According to the State Education Law § 6305, the State is required to reimburse these payments to the County. As in previous years, it is unlikely that the County will receive FIT aid from the State in 2007. The result is a \$4.1 million risk to the County.

Suffolk County instituted proceeding under the New York Education Law, for the purpose of compelling the State to reimburse Suffolk County on behalf of Suffolk students attending FIT. However, the New York Court of Appeals ruled that state regulations precluded reimbursement when there was no budget allocation. Going forward, Nassau County, along with Suffolk intends to lobby the State for a budget appropriation, partnered with NYSAC.

- ❖ The Administration reduced the Correctional Center's budget request by \$4.5 million for costs associated with medical/psychiatric services. The current agreement with the Nassau University Medical Center includes a 21% subsidy charge for services provided to inmates. The Administration expects to enter into a new agreement with NUMC that will eliminate the charge.

- ❖ There also appears to be a shortfall in the Correctional Center's overtime budget by at least \$1.0 million based on the Administration's baseline assumptions for salary increases and depending on the success of their overtime management initiative. Overtime is based on maintaining a stable inmate population, so if the population grows significantly, this risk will increase.
- ❖ The revenue from Consumer Affairs again has an estimated risk of \$2.5 million. The premise is that with additional personnel the agency will be able to increase its revenue. These positions were unfilled in the current fiscal year and until the staffing is actually increased and trained, increased revenue based on the existing approved laws is not reasonable.
- ❖ The sales tax growth rate assumption of 3.4% is more aggressive than has been recommended in most of the past budgets. The first MYP presented by County Executive Suozzi conservatively projected sales tax to grow at 2.7%. The rationale was that it was a prudent approach. It is not unreasonable considering the 10-year and five-year growth rate averages. However, assuming the budget target in 2006 is achieved, then the two-year average would only be 2.93%. If that rate continues next year, there would be a sales tax shortfall of \$4.8 million.
- ❖ The Administration included \$1.2 million increased fees prior to seeking approval from the Legislature. The majority of those increases have subsequently been rejected in the legislative committee process.
- ❖ The MOU between the County and Lighthouse Development Group states: "Commencement of the payment by Lighthouse of the Option Payments shall be agreed upon by the parties in conjunction with the determination by the parties of the process to be employed in connection with obtaining the necessary approvals for the Project." The Administration anticipates that the first Option Payment of \$1.5 million will be received in 2007. However, since the commencement of the payments "shall be agreed upon by the parties," that decision is not entirely in the County's control and is at risk.
- ❖ In FY 06, OLBR is projecting rents and recoveries revenue for the County Attorney to be under budget by \$1.2 million. The Administration is proposing a \$2.8 million budget in FY 07 with the major component being a \$2.0 million budget allocated to recovery of workmen's compensation claims. It is questionable if the whole amount will be realized due to the uncertain nature of the recoveries, and therefore we expect a similar shortfall in revenue for FY 07.

To offset some of these risks, the County has recently received some positive news regarding health insurance rates. It now appears that the FY 07 budget is over-funded by approximately \$4.7 million for active employees and \$3.6 million for retired employees.

When the current County Executive presented his first budget in September 2002, he considered the greatest strength of his proposed budget and MYP to be extremely conservative baseline assumptions. The Administration stated:

For years the County put itself at fiscal risk by embracing lofty revenue estimates or unrealistic expense reduction targets....In fact, in virtually every case, the County has adopted either an appropriately conservative or "worst-case scenario" assumption.

During these difficult fiscal times, both locally and nationally, it is critical that the County follows this course and be able to absorb all of the negative events that could possibly be anticipated.

This is not the case with the Proposed FY 07 Budget. The risks are not of the magnitude seen from the previous Administration and can be managed if most of the assumptions materialize and staffing is maintained at current or lower levels. In 2003 the County was managed based on conservative fiscal assumptions, which allowed the County to generate positive operating results when revenue and expenses were better than estimated.

The out-year gaps estimated by the Administration as illustrated in Table 1.4 are \$164.0 million in FY 08, \$208.8 million in FY 09 and \$256.2 million in FY 10.

**Table 1.4: Multi-Year Plan Projections (Major Funds)**

(\$'s in millions)

	2007	2008	2009	2010	Average Change
<b>Revenues</b>					
Fund Balance	\$13.1	\$0.0	\$0.0	\$0.0	-100.0%
Non-Tax Sources	350.7	276.7	278.8	281.2	-7.1%
Federal Aid	111.6	115.5	119.4	123.5	3.4%
State Aid	195.4	198.7	201.9	205.2	1.6%
Sales Tax	1,030.9	1,065.8	1,103.1	1,141.7	3.5%
Property Tax	758.4	758.4	758.4	758.4	0.0%
Other Taxes	33.9	35.1	36.3	37.6	3.5%
<b>Total Revenues</b>	<b>\$2,493.9</b>	<b>\$2,450.2</b>	<b>\$2,497.9</b>	<b>\$2,547.6</b>	<b>0.7%</b>
<b>Expenses</b>					
PS	\$1,267.3	\$1,306.0	\$1,375.2	\$1,445.5	4.5%
OTPS	399.8	430.0	437.5	444.2	3.6%
Direct Assistance	527.0	547.4	566.2	585.6	3.6%
Debt Service	299.9	330.8	327.8	328.6	3.1%
<b>Total Expenses</b>	<b>\$2,493.9</b>	<b>\$2,614.2</b>	<b>\$2,706.7</b>	<b>\$2,803.8</b>	<b>4.0%</b>
<b><u>Surplus/Gap Projection</u></b>	<b><u>\$0.0</u></b>	<b><u>(\$164.0)</u></b>	<b><u>(\$208.8)</u></b>	<b><u>(\$256.2)</u></b>	

Excluding inter-departmental charges and chargebacks.

2006 Based on OMB 2nd Quarter Financial Report with an updated sales tax projection.

2005 property taxes includes deferred sales tax revenue and extra property tax collections.

Totals may be affected by rounding.

Over the course of the MYP, the growth in salaries, fringe benefits, and the inclusion of tax certiorari payments from the operating budget will outpace the County's largest revenue source, sales tax. Unlike recent years, pension costs are expected to remain relatively constant over the out-years.

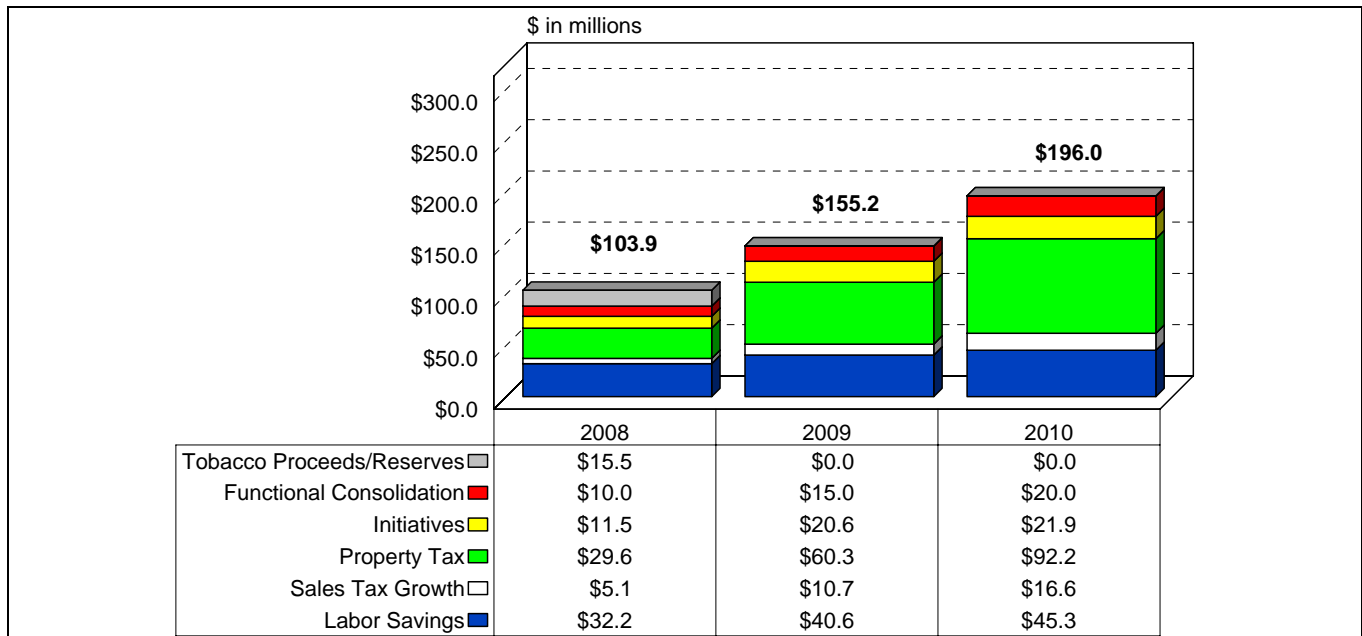
- Salaries and wages will increase by \$93.5 million, from an estimate of \$826.0 million in FY 07 to \$919.5 million in FY 10. This translates to an annual increase of 3.6%. It should be noted that each of the various labor agreements will lapse prior to the end of the MYP. The Administration has established “savings” goals for each union.

In fact, the Administration is masking the size of the out-year gaps because the estimated salary expense includes increased savings from the PBA, DAI and ShOA. The savings grow from \$30.9 million for the three unions to \$46.8 million in 2008, an increase of 51%. The savings then grow to \$48.6 million in 2009 and \$50.6 million in 2010. For more detailed information, please see Table 4.1 in the Labor section.

- Health insurance for active and retired employees will increase by \$70.0 million, from a budget of \$217.9 million in FY 07 to \$287.9 million in FY 10. This is based on rates growing by a blended average of 9.7% annually.
- The increase in OTPS expenditures of \$44.4 million reflects the inclusion of \$50 million annually in FY 08 – FY 10 to pay for tax refunds. In FY 07 this amount is \$25 million. Also, Local Government Assistance (sharing of sales tax) will rise by nearly \$6.8 million from \$62.0 million in FY 07 to \$68.8 million in FY 10 based on the estimated increase in sales tax collections.
- Direct Assistance will increase by \$58.6 million, from an estimate of \$527.0 million in FY 07 to \$585.6 million in FY 10. These funds include the County’s cost for Medicaid, Early Intervention, Pre-school Special Education Program, as well as payments to clients of the Department of Social Services.
- Debt Service will increase by \$28.7 million, from an estimate of \$299.9 million in FY 07 to \$328.6 million in FY 10.
- Sales tax will increase by \$110.8 million, from a projected amount of \$1.03 billion in FY 07 to an estimate of \$1.14 billion in FY 10.
- Most of the other revenue sources are expected to have modest growth with the exception being non-tax sources. The decline in non-tax sources reflects the County’s reduced reliance on use of its various reserves over the life of the MYP.
- The baseline assumption is that the property tax levy will stay constant from FY 07 to FY 10. It should be noted that the tax savings from the reduced sewer levy is expected to be short lived, as those taxes are assumed to increase to slightly below the FY 06 level.

The County Executive has proposed six major items to help reduce the projected out-years gap. The plan encompasses a two-pronged approach. The first part is illustrated in Chart 1.2.

Chart 1.2: Gap Closing Measures 2008 -2010



The largest component is **Property Tax**, with a value of \$92.2 million in FY 10. The increase from property taxes is based on an annual CPI-related increase of 3.9% in the total property tax levy of the Major Funds in each year of the Plan. The previous year’s MYP also included revenue from capturing the value of new construction. While this is no longer part of the Plan, the Administration will continue efforts to increase the County’s tax base.

The second largest gap closing component of the Plan comes from **Labor Savings**. The Administration is estimating \$23.4 million in savings from labor concessions and \$8.8 million from workforce management and turnover savings, for a total labor savings of \$32.2 million in FY 08. These savings escalate to \$24.3 million and \$16.3 million for a total of \$40.6 million in FY 09. In FY 10 the savings are \$25.2 million and \$20.1 million, for a total of \$45.3 million. The labor concessions do not include the \$25.8 million in savings expected from the PBA and DAI in 2007 because those savings are included in the Proposed Budget. Their existing agreements expire December 31, 2006. In addition, \$5.1 million in savings from ShOA is assumed in the Correctional Center budget. The Administration did seek approval of a proposed agreement with ShOA in September 2006, but that agreement was not approved by the Legislature. The County has existing agreements with the Civil Service Employees Association (CSEA), and the Superior Officers Association (SOA). Savings start in FY 08 for SOA and CSEA because their labor agreements do not expire until the end of 2007. Table 1.5 illustrates the targeted “savings” for the unions.

Table 1.5: Labor Concessions

Union	FY08	FY09	FY10
CSEA	\$14.0	\$14.4	\$14.8
SOA	9.4	9.9	10.4
<b>Total</b>	<b>\$23.4</b>	<b>\$24.3</b>	<b>\$25.2</b>

The Administration has previously hoped to achieve \$13.2 million of savings in FY 08 by negotiating the transfer of County employees from Core Plus to Core health insurance coverage. This is no longer part of the Plan, as the Administration will investigate receiving savings from seeking a third-party administrator for health insurance.

The Administration expects to achieve workforce management savings by “exerting control on total staffing levels.” The MYP maintains current budgeted staffing levels in all unions, and turnover savings appear achievable given historical turnover rates.

Smart Government Initiatives have an MYP adjusted value of \$21.9 million in FY 10 as shown in Table 1.6. The adjusted total is the difference between the total value of \$34.7 million and the value of the FY 07 initiatives, which is \$12.8 million. The highlighted initiatives are new to the County’s MYP. Each initiative has been reviewed in the OLBR Departmental Analyses.

**Table 1.6: Smart Government Initiatives**

Responsible Dept.	Initiative Name	2007	2008	2009	2010
Bus. Dev. Unit	New York Stae Empire Zones Program	\$0	\$2,000,000	\$4,000,000	\$6,000,000
Correctional Center	Correctional Center OT Management	1,000,000	1,000,000	1,000,000	1,000,000
County Attorney	Commercial Tax Grievance Filing Fee	0	0	3,400,000	3,400,000
County Executive	Reduction of Police Overtime	2,000,000	2,000,000	2,000,000	2,000,000
HHS Vertical	HHS Administrative Consolidation	1,546,776	2,312,776	2,746,776	2,746,776
IT	Automated Time & Leave System	0	1,700,000	1,700,000	1,700,000
OMB	Risk Management	172,800	522,800	522,800	522,800
OMB	Contractual Services Review	0	1,000,000	1,000,000	1,000,000
OMB	Revenue Options	0	1,840,254	3,431,383	3,433,096
OMB	Grants Funds Reimbursement	800,000	1,300,000	1,300,000	1,300,000
OMB	Capital Project Sponsor Expenses	1,198,666	1,008,810	500,000	250,000
OMB	Energy Efficiency	0	460,000	2,128,260	1,092,255
Parks/DPW	Advertising Market Based Revenue	1,000,000	1,500,000	2,000,000	2,500,000
Parks/Museums	Park Revenue Enhancement Plan	2,088,000	2,088,000	2,088,000	2,088,000
Police	PD Emerg Ambulance OT Reduction	500,000	500,000	500,000	500,000
Social Services	Persons in Need of Supervision (PINS)	1,006,873	1,057,216	1,110,077	1,165,581
SS/SC/YB	Program Reductions	0	1,000,000	1,000,000	1,000,000
TPVA	Ticket Processing Surcharge	0	1,500,000	1,500,000	1,500,000
TPVA	TPVA Re-engineering Operational	1,500,000	1,500,000	1,500,000	1,500,000
	<b>Total 2007 Initiatives</b>	<b>12,813,115</b>	<b>24,289,856</b>	<b>33,427,296</b>	<b>34,698,508</b>
	<b>MYP Adjusted Total</b>		<b>\$11,476,741</b>	<b>\$20,614,181</b>	<b>\$21,885,393</b>

The smart government initiatives only include two proposals that will require approval from the State. They are the commercial tax grievance filing fee and the ticket processing surcharge. It will be a challenge to receive the labor efficiency savings while also getting the full benefit expected from workforce management and labor concessions. Further discussion of each initiative is included with its responsible department in the OLBR Departmental Analysis document.

The out-years of the Multi-Year Financial Plan are predicated on a 3.5% annual growth rate in sales tax revenues. Any annual sale tax growth rate greater than 3.5% would generate additional unbudgeted funds that could be used to help close the projected out-years’ deficit. As a gap closing measure, it is estimated that if **Sales Tax** revenues actually grow by 4.0% in each year starting in 2008, the County would collect an additional \$5.1 million in 2008, \$10.7 million in 2009, and \$16.6 million in 2010. Based on the 10-year average of 4.1%, assuming budget is achieved in 2006, this would appear to be possible. However, the average for the last five years is only 3.67% and based on the projection for 2006, the average for the last two years is only 2.93%.

Furthermore, while the County may try to promote development that could stimulate the local economy and sales tax growth, most factors are outside the control of the County government. Also, the increased revenue calculation does not factor in the corresponding increase in expenses associated with the Local Government Assistance Program, which is based on a percentage of the sales tax collections.

With the Management, Budget & Finance Vertical (MB&F) reorganized to address operational and performance issues, MB&F will drive several countywide operational improvement and efficiency initiatives throughout 2007 and beyond. Efforts are expected to yield 1) improved constituent service/outcomes, 2) reduced expenditures, and/or 3) enhanced revenue. The Administration expects to yield \$10 million in FY 08, \$15 million in FY 09 and \$20 million from what it has titled **Functional Consolidation** to help close the projected gap. While it is very important to continue to seek operational efficiencies, the estimated financial benefit is difficult to quantify. Also the savings/revenue would have to be in addition to the savings that the Administration is seeking from Workforce Management, Labor Concessions and initiatives such as HHS Administrative Consolidation and Grants Fund Reimbursement.

There is probably an opportunity for some enhanced revenue as early as 2008 from revenue maximization and grant sourcing. A revenue maximization initiative has been established to identify and pursue projects to optimize revenue management and collections. As such, the Office of Management and Budget will proactively identify opportunities to draw down federal and state funding to support operations. This unit will serve as a countywide resource and knowledge base and will also provide expertise in assessing any potential changes that in the future may impact the continuity of funding.

The operational improvements will be beneficial to the long-term financial success of the County. They should reduce the need for additional employees in the future and allow the Administration to reduce the anticipated level of backfilling. The magnitude of the projected impact over the time-span of the MYP is very questionable.

There are two gap closing measures that are scheduled to impact the 2008 budget year only. The County will draw down from the balance of the **Pension Contribution Reserve Fund** \$7.5 million in 2008. In addition, \$8 million from the 1999 Tobacco Securitization is planned for 2008. After 2008, approximately \$6 million will remain from the 1999 Tobacco Securitization, which has not been included in the balance of the MYP.

The Administration will continue to use the MYP to demonstrate its commitment to gradually include the payment for ordinary judgments and settlements in the operating budget. As shown in Table 1.7, the County will allocate \$5 million in 2008, \$10 million in 2009 and \$15 million in 2010 for judgments and settlements. After this action, coupled with the gap closing measures, the County is left with a gap of \$50.1 million in 2008, \$63.6 million in 2009 and \$75.2 million in 2010. The Administration plans to address this remaining gap with the options listed in Table 1.7. Several of the options have previously been components of the County's MYP.



**Table 1.7: Options to Close Remaining Gap**  
(\$'s in millions)

	2008	2009	2010
<b>Estimated Baseline Gap (Table 3)</b>	<b>(\$164.0)</b>	<b>(\$208.8)</b>	<b>(\$256.2)</b>
Total Gap Closing Measures (Figure 2)	118.9	155.2	196.0
PAYGO Judgments & Settlements	(5.0)	(10.0)	(15.0)
<b>Deficit After Gap Closing Measures</b>	<b>(\$50.1)</b>	<b>(\$63.6)</b>	<b>(\$75.2)</b>
<b>Options to Close Remaining Gap</b>			
Video Lottery Terminals	20.0	20.0	20.0
Cigarette Tax	50.0	50.0	50.0
3rd Party Administrator - Health Insurance	0.0	13.2	14.3
Red Light Cameras	7.0	7.0	7.0
Discretionary Programming Reductions	7.5	7.5	7.5
Residential Energy Tax	46.1	57.0	58.8
<b>Total Options</b>	<b>\$130.6</b>	<b>\$154.7</b>	<b>\$157.6</b>
<b>Surplus/(Deficit) if All Successful</b>	<b><u>\$80.5</u></b>	<b><u>\$91.1</u></b>	<b><u>\$82.4</u></b>

If all the options could be successfully implemented the County would have a surplus of \$80.5 million in 2008, \$91.1 million in 2009 and \$82.4 million in 2010. While even the Administration does not expect this to happen, it is very questionable if any of them will materialize. In the past it was understood that the amount of acceptable risk could be higher in the last two years of the MYP. The first year of the Plan, should be conservatively balanced and the second year could have moderate risks. With the precarious options that have been provided it is questionable if the County Executive has presented an acceptable Multi-Year Plan.

### **Video Lottery Terminals**

The Administration has estimated that the County could receive \$20 million annually starting in 2008 from the installation of video lottery terminals at Belmont Raceway. At this time it is unknown if this will be approved by the State and if it would generate the estimated amounts.

### **Cigarette Tax**

The Administration has included \$50 million starting in 2008 from the imposition of a \$1.50 per pack cigarette tax. This item requires State approval which the County has sought unsuccessfully in the past. Of the various municipalities in New York, only New York City has been approved for a tax, none of the counties. Therefore this option would appear to be very optimistic.

Since the State does not report Nassau County's cigarette sales revenues, we extrapolated data from various sources including the U.S. Census Bureau, New York State Comptroller's office, New York City Department of Taxation and Finance, and other cigarette tax literature to derive County consumption figures. In fiscal year 2004-2005, New York State collected \$936.2 million from its cigarette tax, a \$1.50 per pack on 624.2 million packs sold. Based on the per capita ratio of 6.9%, Nassau County's cigarette consumption rate equals 43.2 million packs of cigarettes per annum.

At the current rate of cigarette purchasing in Nassau, the additional \$1.50 per pack tax would generate revenues of approximately \$64.8 million. However, the increased cost will induce consumers to seek less expensive alternatives, such as the purchasing of tax-free cigarettes from Indian reservations, over the Internet and other out-of-County sources, which could cost the County from approximately \$16.7 million to \$24.6 million in lost revenues, based on the elasticity of consumption measure. This has important implications for Nassau since neighboring Suffolk County does not impose a county-based cigarette tax. Based on a current average per pack cost of \$5.25, it is anticipated that the County would receive approximately \$40.2 million to \$48.1 million as a result of this tax imposition as calculated in Table 1.8. An additional state imposed cigarette tax would further decrease any expectations of how much revenue would be generated by the proposed Nassau County cigarette tax as per the price elasticity of consumption.

**Table 1.8: Impact of a \$1.50 per pack Cigarette Tax**  
(\$'s in millions)

	Moderate Scenario	Conservative Scenario
Elasticity of Consumption	0.9	1.16
Change in price as a result of \$1.50 tax*	29%	29%
Change in Consumption	26%	33%
Revenues from Tax	\$64.8	\$64.8
Less Change in Consumption	(16.7)	(24.6)
<b>Estimated Revenue</b>	<b><u>\$48.1</u></b>	<b><u>\$40.2</u></b>
(*) Based on a \$5.25 per pack		

**Third Party Administrator- Health Insurance**

The Administration has estimated that the County can save \$13.2 million in FY 09, growing to \$14.3 million in FY 10 from the selection of a third-party administrator for the County’s health insurance coverage.

**Red Light Cameras**

Revenue projected for red light cameras depends directly on State authorization. This item was included as an initiative in the last MYP submitted by the previous County Executive in September 2001. Nassau County could supplement its law enforcement capacity by installing a red light camera system to identify vehicles that run red lights. New York City has had this system in operation since 1994. While revenue will decline as compliance increases, it has been suggested that a “regional center” approach be examined whereby towns and villages could participate in the contract. Costs for the system could be shared and County revenue could increase. New York City has reported that capital expense for the system is high, but one vendor has previously approached Nassau County about implementing a “performance contract” in which the vendor would bear the capital cost and be paid from resulting revenues. It should be noted that when this initiative was presented by the Administration, it was only for \$1.6 million annually.

**Discretionary Programming Reductions**

The only item that is in the sole control of the County Executive is discretionary programming reductions. Even if the Legislature was to restore funding that was reduced, the County Executive does not have to spend it.

**Residential Energy Tax**

In recent plans the Administration has suggested implementing a residential energy tax of 3.5% to 4.25% as an alternative to the County seeking State approval for a 0.25% increase in the County's sales tax rate. In the FY 05 - FY 08 MYP the Administration dropped the idea of the sales tax increase and only included the residential energy tax as a method to close the projected 2006 gap, but it was not pursued. Now, in the current proposed MYP the Administration has included as an option the residential energy tax. They have estimated the County could earn \$46.1 million in FY 08, \$57 million in FY 09 and \$58.8 million in FY 10.

**Conclusion**

The 2007 budget as currently constructed is flawed. It strays from the conservatism that was prevalent in the past. Not only is it built on aggressive revenue and labor savings, but includes drawing down a significant percentage of the County's reserves. This budget does not sufficiently provide for any unforeseen risks and the problems are magnified in the out-years, as early as 2008. The conservative budgeting practices in the past provided a cushion against unforeseen expenses or revenue shortfalls, while helping to generate budget surpluses each year. This does not mean that it cannot be managed, but the level of oversight and monitoring will have to be increased. Any hiring of personnel should be justified as important to public safety or have a long-term financial benefit.

The previous County Executive made maintaining property taxes a major focus of his administration, even though it became a detriment to the County's finances. The previous Administration would use one-shot revenues that sometimes did not materialize to "balance" the budget. The current Administration's one-shot revenues are the use of the County's reserves. While providing fiscal relief, this action does not address the underlying problems, which are centered on a widening gap between recurring revenues and expenditures. When a government has a build-up of reserves it is appropriate to provide tax relief, but the level of use should not compromise the future fiscal health of the entity. While maintaining the level of property taxes is a noble goal, it should not become an obsession that leads to fiscal tomfoolery. Property taxes are the only major revenue source that is at the discretion of the County leaders. Along with sales tax revenues, property taxes are the revenue foundation for the County. Without a fundamental change in what services are provided and how they are provided to the citizens, the County cannot continue to fund its expenses with the limited growth in revenues.

## 2. SALES TAX

The largest source of revenue for the County is sales tax. 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 share to the Town of Hempstead, Town of North Hempstead, Town of Oyster Bay, City of Glen Cove and the City of Long Beach. The sales tax is collected by the State, and distributed to the County on a regular basis.

The proposed sales tax revenue in the FY 07 Executive Budget is \$1.03 billion. This estimate is based on the assumption that sales tax revenue in FY 06 will come in on budget and that sales tax revenue will grow by 3.4% in FY 07. The 2007 – 2010 Multi-Year Financial Plan projects 3.5 % growth for years 2008 through 2010.

**Table 2.1: Annual Sales Tax Collections**

Fiscal Year	Actuals	Growth
2001	831,699,240	3.1%
2002	865,444,257	4.1%
2003	895,373,119	3.5%
2004	939,822,695	5.0%
2005	953,783,223	1.5%
Fiscal Year	Projections	Growth
2006	995,795,474	4.4%
2007	1,029,770,755	3.4%
2008	1,065,812,731	3.5%
2009	1,103,116,177	3.5%
2010	1,141,725,243	3.5%

In addition to the regular sales tax, \$1.1 million has been budgeted in FY 07 as deferred sales tax. Since this amount was received in 2005, it is not included in the baseline. Also not included is the \$6.0 million deferred sales tax credited to FY 06.

As a gap-closing measure, the Multi-Year Financial Plan includes an assumption that sales tax will grow at an annual rate in the out-years of 4.0% rather than the lower rates built into the baseline. This measure is referred to as sales tax growth in line with historic averages. Under this assumption the MYP projects additional revenue of \$5.1 million in 2008, \$10.7 million in 2009, and \$16.6 million in 2010. Assuming that the FY 06 budget is attained, then the ten-year average compounded increase for the period 1996 through 2006 would be 4.1%, with a low of 1.5% in 2005; and a the high of 6.4% in 2000. However, over the last five years of that period the average would be a more modest 3.67%.

The sales tax growth rate assumption for FY 07 of 3.4% is more aggressive than has been recommended in most of the recent budgets. It is not unreasonable considering the 10-year and five-year averages.

However, assuming the budget target in 2006 is achieved, then the two-year average for FY 04 through FY 06 would only be 2.93%. If that continues next year, then there would be a sales tax shortfall of \$4.8 million.

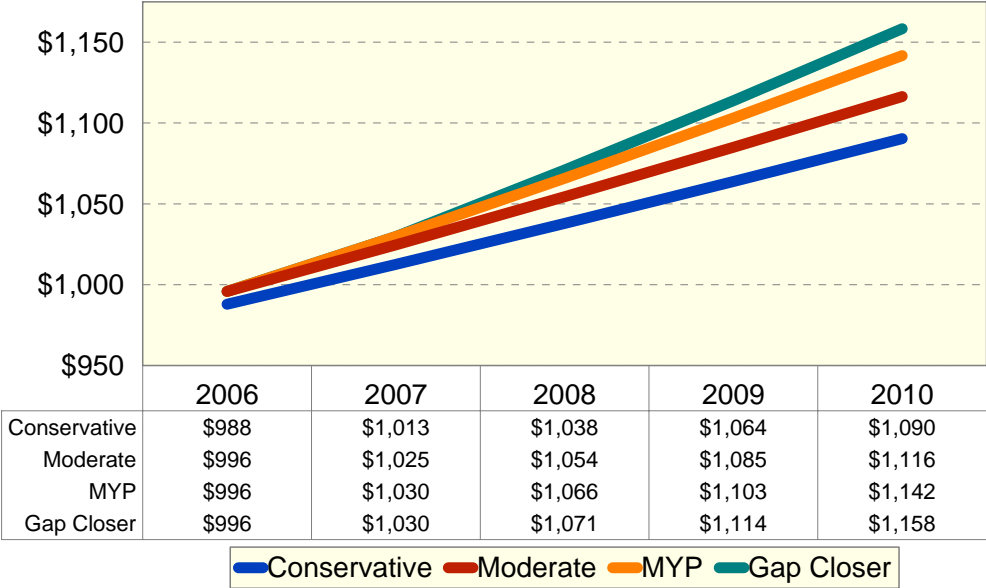
As can be seen in Table 2.2, through August 2006 County sales tax collections are up 4.65% from the prior year (there is a six week lag in monthly receipts). In order to reach the budgeted amount of \$995.8 million, collections over the next four months will have to increase by 3.9% over the same period last year. The amount collected in the final four months of 2005 grew by only a sluggish 1.0% over the 2004 receipts, setting a low base for this year's growth.

**Table 2.2: 2005 vs. 2006**

<b>Gross Sales Tax Collections</b>				
	<b>2005</b>	<b>2006</b>	<b>\$ Variance</b>	<b>% Variance</b>
January	\$60,749,589	\$68,992,852	\$8,243,263	13.6%
February	81,162,404	92,753,813	11,591,409	14.3%
March	70,668,683	73,781,279	3,112,596	4.4%
April	73,439,645	73,718,077	278,432	0.4%
May	94,819,827	97,238,529	2,418,702	2.6%
June	82,474,855	78,844,061	(3,630,795)	-4.4%
July	73,683,272	74,571,787	888,515	1.2%
August	93,107,246	99,489,527	6,382,281	6.9%
	\$630,105,522	\$659,389,926	\$29,284,403	4.65%

The chart on the following page illustrates the risks and opportunities for County sales tax collections in the out-years of the financial plan. The conservative scenario assumes that collections for the remainder of 2006 will grow at the 2005 rate of 1.49% and 2.5% annually thereafter. The moderate scenario assumes that the 2006 budget will be realized, with out-year growth of 2.9%. The Multi-Year Plan scenario and the gap-closing scenario also start with FY 06 making budget; with 3.4% growth in FY 07. The MYP then grows at 3.5% in years FY 08 through FY 10, while the gap closing scenario assumes 4.0% annual for those years. In 2010 the difference in annual collections between the moderate and MYP scenarios reaches \$26.0 million.

**Chart 2.1:**  
**Sales Tax Scenarios**  
**FY 2006 - 2010**  
 (In millions)



Achieving the FY 06 sales tax target and then realizing 3.4% growth on top of that over the next 12 months is possible. There is, however, enough risk elsewhere in the proposed budget to make preferable a more conservative estimate. Then FY 07 sales tax receipts can be part of a solution, rather than part of a problem.

The Economics Report section that follows contains a further discussion of County sales tax.

### 3. ECONOMIC REPORT

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#### National Economic Outlook

On September 20th, the Federal Reserve's policy-makers voted once again to keep the benchmark federal funds rate at 5.25%, saying inflation risks should abate as economic growth slows. Lower interest rates mean that consumers spend less on interest costs, leaving them with more of their income to spend on goods and services. Lower interest rates make it easier for people to borrow in order to buy cars and homes. Purchases of homes, in turn, increase the demand for other items, such as furniture and appliances, providing an additional boost to the economy. Also, lower interest rates make it easier for businesses to borrow to invest in equipment, inventories, and buildings. The returns that investments will produce in future years are worth more today when rates are low than when rates are high. That gives business more of an incentive to invest when rates are low. Increased business investment, in turn, makes the economy grow faster, as productivity, or output per worker, increases faster.

Triggered by a cooling housing market, the toll of recently surging energy prices and the two year string of interest rate increases, the economy is showing signs of subsiding. While most analysts do not believe the slowing economy will develop into a recession, opinion is divided as to whether the economy has slowed to the extent that the Fed will halt its rate hikes altogether or merely pause before bumping rates up another time or two. Moreover, despite the cooling economy, the latest payroll figures released on October 6<sup>th</sup> reveal the fastest pace of hourly earnings growth in more than five years, significant enough inflation risks for the Fed to continue hiking interest rates, rather than cutting.

In terms of gas prices, Chief Financial Economist for the Bank of Tokyo, Christopher Rupkey maintains that an energy price decline may actually pump up the economy in the months ahead; warning also that the Fed may raise rates in the near future. If consumers spend the cash in their wallets left over from filling their gas tanks the economy may speed up and businesses will have greater power to raise prices. That in turn, could lead to higher inflation, not lower, as some may expect, and renewed action from the Fed.<sup>1</sup> Similarly, Bernard Baumohl, executive director at the Economic Outlook Group in Princeton Junction, New Jersey believes that by next year there will be more talk of the Fed raising rates than lowering them.<sup>2</sup>

On the other hand, as energy prices decline, many economists predict that the Fed will hold interest rates steady for the rest of the year. With U.S. oil futures hitting an eight-month low of \$57.45 per barrel in October, down from a record high above \$78 in July, it would seem likely that the Fed will hold interest rates constant.

The housing markets across the nation have entered into a definitive slowdown, with sales of new and existing homes falling by 12% since peaking late last summer and expected to decline another 8% over the next year. To date, the trend shows that the labor market is not in much better shape than the housing market, suggesting that a stronger fourth-quarter GDP performance would seem unlikely. That is not good news for the holiday season, less than eight weeks away.

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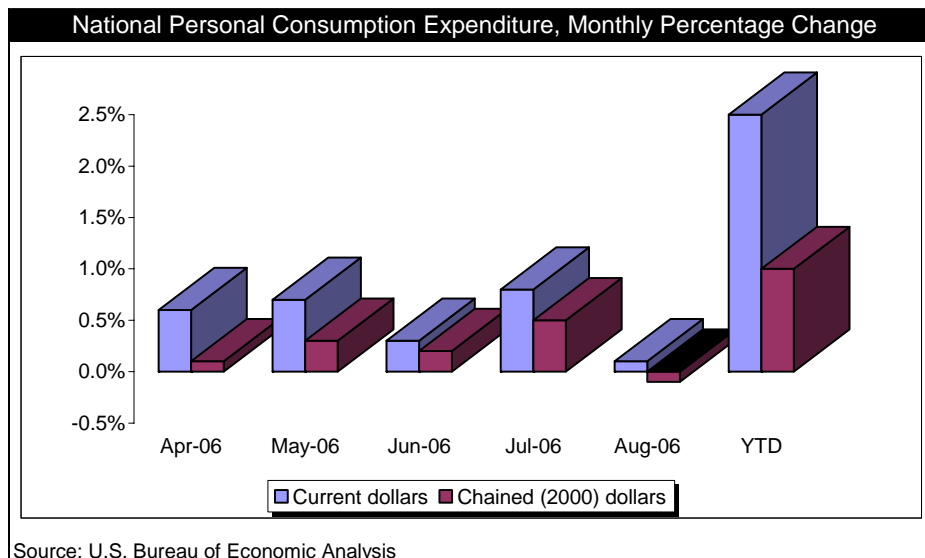
<sup>1</sup> Hagenbaugh, B. (2006). Gas price decline may spur inflation. *USAToday*. (September 18, 2006)

<sup>2</sup> October 7, 2006. Wage inflation may hit US interest rates. [www.smh.com.au](http://www.smh.com.au)

Despite the ill-health of the housing market, with gasoline prices falling rapidly, consumer attitudes have held up fairly well. After a sharp decrease in August, the Conference Board Consumer Confidence Index posted a gain in September due to a more favorable assessment of current conditions coupled with a less pessimistic short term outlook. Nonetheless, Lynn Franco, Director of the Conference Board does not believe that there will be a significant change in economic activity as we enter into the final quarter of 2006, despite the easing of consumers concerns.<sup>3</sup> It remains to be seen if the increase in consumer confidence will offset the decrease in the labor and housing markets. Given that consumer spending accounts for two thirds of total economic activity, if consumer spending continues to rise in the final months of this year, retailers may just have a decent holiday sales season after all.

According to the Bureau of Economic Analysis, of the 2.5% increase in personal consumption since April 2006, 40% may be attributed to individuals purchasing more items. The remaining 60% of the increase may be attributed to higher prices, remaining relatively stable since last August. National personal consumption expenditures from a nominal, or current dollar basis, and a real, chained dollar basis, are detailed below.

**Chart 3.1: National Personal Consumption**



Finally, even though the economy may be slowing enough to keep the Fed on hold at least for now, forecasters suggest that economic growth is holding up relatively well, with real GDP growth averaging around a 2 ½% pace for the next four quarters. Considering that the national index of real GDP is closely monitored by the Federal Reserve and is crucial in adjusting interest rates, going forward, if the nation’s GDP rises at a weaker than expected rate, it is likely that interest rates will not be adjusted upward anytime soon.

**Regional Economic Outlook**

Although indicators point to a slowing national economy, the regional economy has remained on a steady, but tepid course over the past year. Nassau County’s measure of consumer confidence decreased by 4.3% on a monthly basis, but at a lesser rate, 1.3% over the past year. Both resident employment and

<sup>3</sup> September 2006 *Consumer Confidence Index*, The Conference Board



hotel occupancy rates decreased marginally, by 0.8% and 0.1% from July 2006 respectively. Similarly, the closed median home price decreased by 2.0% decrease from July 2006. From an annual perspective, hotel occupancy rates were slightly greater by 1% in comparison to the same time last year, and the number of Nassau residents employed also increased marginally by 0.8% since last year. Comparing last year’s statistics, the median price of closings decreased by 4.0%, or \$20,000, from \$500,000 in September 2005, to \$480,000 in September, 2006. In line with the shift away from a sellers market, the 887 units under contract in September 2006 correspond to a 17.3% decrease from August 2006, and a 4.2% decline from the same time in 2005. The U.S. Market Risk Index which ranks the likelihood of home price declines for the nation’s 50 largest metropolitan statistical areas, reports that Nassau County ranked fifth in the nation.<sup>4</sup>

According to the Mortgage Bankers Association long term forecast, interest rates will remain relatively stable as we enter into 2007. However, if the Fed believes that inflation risks become too high rates will need to go up. If the economy slows too much, rates will need to drop. The Mortgage Bankers Association expects interest rates to reach 6.7% by the end of 2007.

**Table 3.1: Mortgage Interest Rates**

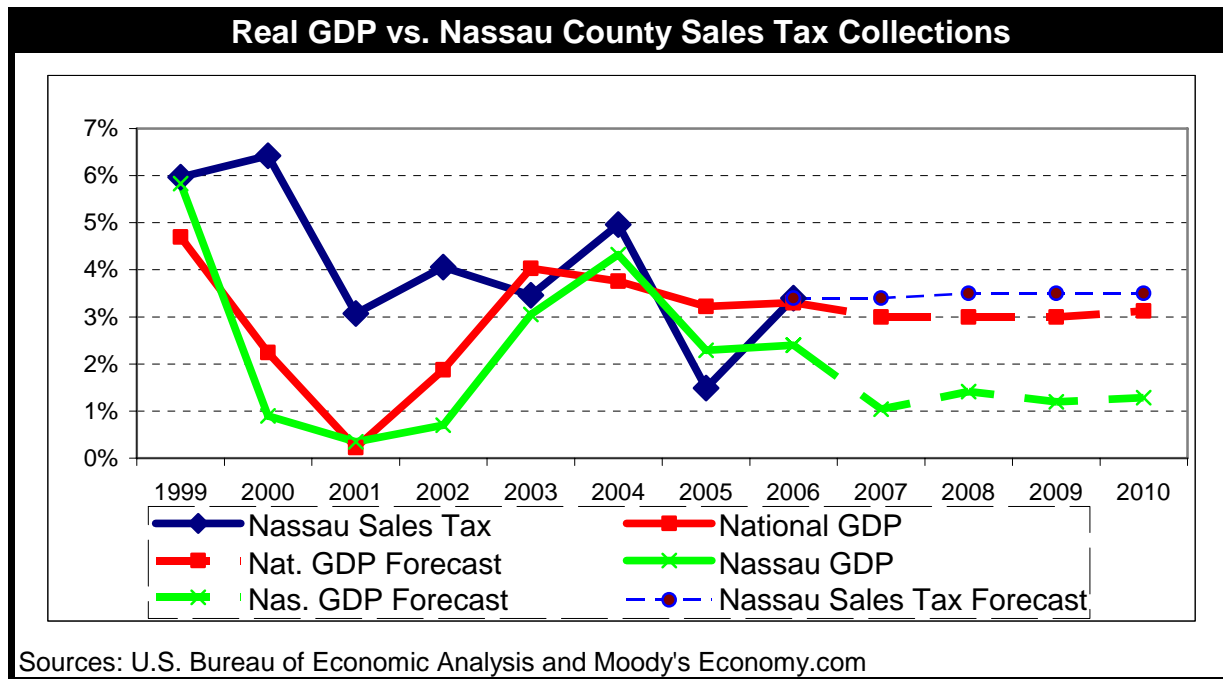
Mortgage Bankers Association Long-Term Mortgage Finance Forecast	
Interest-Rate 30-Year Fixed Rate Mortgage	
Q 1 2006	6.2%
Q 2 2006	6.6%
Q 3 2006	6.5%
Q 4 2006	6.4%
Q 1 2007	6.5%
Q 2 2007	6.5%
Q 3 2007	6.6%
Q 4 2007	6.7%

**Gross Domestic Product**

Gross domestic product, or GDP, is the official measure of total output of goods and services produced in a region in a given year. An increase in regional GDP suggests an increase in the number of non-agricultural jobs in the County. As more individuals are working and economic activity increases, there should be a corresponding increase in County sales tax collections. Similarly, the reverse should occur. When regional GDP decreases; the number of employed decreases, economic activity decreases and sales tax should follow in a downward motion. As shown in the graph below, the growth rate recorded in County sales tax collections has paralleled the growth rate seen in the national GDP more times than not.

<sup>4</sup> Milner, J. (Fall, 2006). Understanding a Changing Market. *PMI: Economic Real Estate Trends.*, PMI Mortgage Insurance Company

Chart 3.2: Real GDP vs. Sales Tax



**Forecast**

The table below details the forecasted growth rates for year-end 2006 and annual 2007 GDP for Nassau County. The forecasted 2007 annual growth rates are positive, but not robust by historical standards.

Table 3.2: GDP Growth Forecast 1

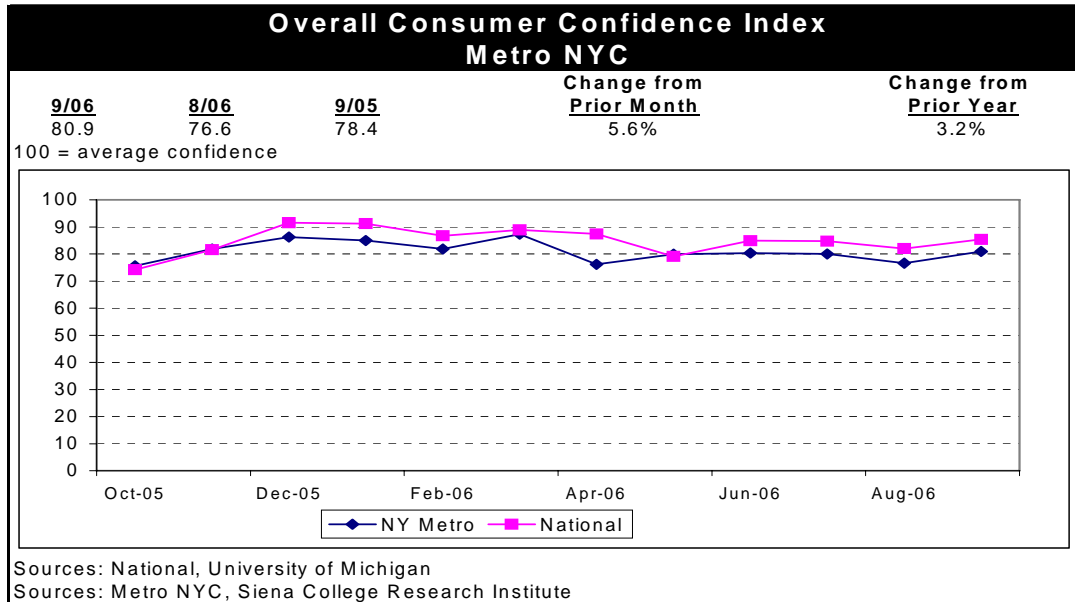
	Gross Domestic Product Forecast	
	Year End	Annual
	2006	2007
Nassau County	2.4%	1.0%
Suffolk County	3.6%	2.4%
United States	3.3%	3.0%

Sources: Moody's Economy.com

**Consumer Confidence Index**

In September 2006, consumer confidence increased by 5.6%. Annually the index grew by 3.2%. The chart below details the monthly changes recorded by the national and regional consumer confidence indices over the prior year.

**Chart 3.3: Consumer Confidence Index 1**



According to Dr. Douglas Lonnstrom, Director of the Siena College Research Institute, “The good news is that, with the drop in gas prices, consumer confidence is up across the board, the bad news is that, with the increase in interest rates, buying plans are down across the board for major ticket items.” The table below details consumer confidence by its two component parts, current and future confidence. Both of these indices combine to produce the overall index detailed in the chart above.

**Table 3.3: Detailed Consumer Confidence**

Detailed Consumer Confidence Indices Metro NYC					
	9/06	8/06	9/05	Change from Prior Month	Change from Prior Year
Current Consumer Confidence	83.7	82.6	82.2	1.3%	1.8%
Future Consumer Confidence	79.1	72.7	75.9	8.8%	4.2%

Source: Metro NYC, Siena College Research Institute

Current consumer confidence is based upon how consumers view the economy at the present time. The future consumer confidence index asks consumers where they see the economy and their personal finances over the next five years. The annual change in the current and future index is positive. As seen in Table 3.3, the annual increase in the current and future confidence indices are 1.8% and 4.2%, respectively.

On a national level, consumer confidence improved in September and is projected stronger over the next six months. Big declines in gasoline costs are contributing to the future rise in consumer confidence. According to a preliminary report from the University of Michigan, consumer confidence rises sharply in October to 92.3, up from 85.4 in September. The rise in confidence should translate into solid consumer spending during the upcoming holiday sales season and help keep the nation from stumbling into a recession.<sup>5</sup>

**Forecast**

Table 3.4 displays year-end 2006 and annual 2007 growth projections for retail sales and personal income. The year-end 2006 projection also includes the future consumer confidence index. Through August, Nassau County has collected \$659.3 million in sales tax. That means consumers have spent \$15.5 billion to date on taxable sales in Nassau County. To project the future path of County sales tax collections, retail sales, personal income and consumer confidence were forecasted. According to the forecast, all areas surveyed will record marginal, positive growth through the end of 2006 in retail sales and personal income.

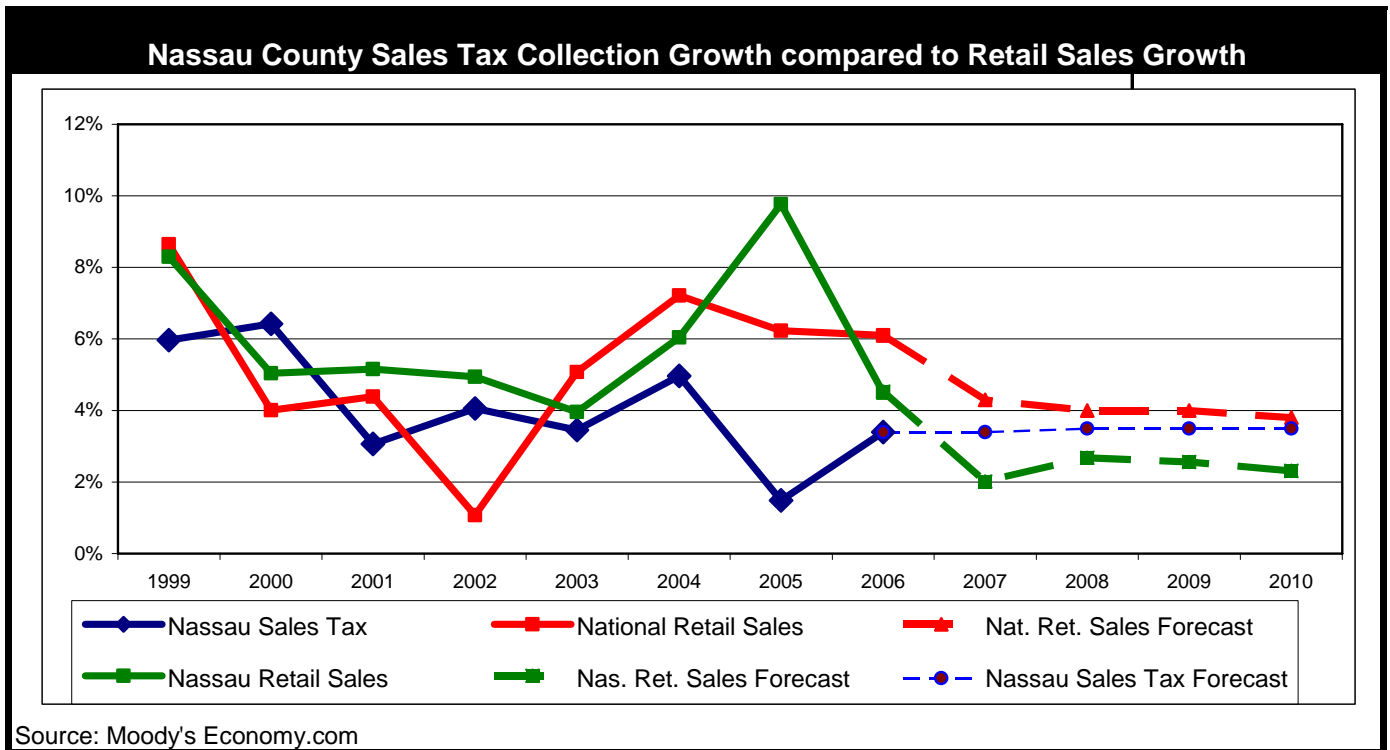
**Table 3.4: Personal Consumption Forecast**

<b>Growth Forecast for Local and National Personal Consumption</b>			
	<b>Year-end 2006 Growth Projections</b>		
	<b>Retail Sales</b>	<b>Personal Income</b>	<b>Future Regional CCI</b>
<b>Nassau County</b>	4.5%	4.1%	-2.9%
<b>Suffolk County</b>	5.3%	4.9%	-2.9%
<b>United States</b>	6.1%	6.7%	-0.9%
	<b>Annual 2007 Growth Projections</b>		
	<b>Retail Sales</b>	<b>Personal Income</b>	
<b>Nassau County</b>	2.0%	3.3%	
<b>Suffolk County</b>	2.2%	3.4%	
<b>United States</b>	4.3%	5.4%	
<b>Sources: Moody's Economy.com; Siena College Research Institute</b>			

Since retail sales have historically represented 63% of Nassau County sales tax collections, projected Nassau County retail sales may be used as a gauge for future County sales tax collections. Since individuals require income to make purchases, as personal income grows so should County sales tax collections. In theory, consumers will purchase more if they are confident in the future of the economy. Hence, growth in consumer confidence should be aligned with growth in sales tax collections.

<sup>5</sup> Crutsinger, Martin. "Retail Sales Fall; Inventories Rise." Newsday.com, October 13, 2006.

Chart 3.4: Sales Tax and Retail Sales



As shown in Chart 3.4 above, retail sales have historically outpaced Nassau County sales. Based on Moody's Economy.com the retail sales forecast for year-end 2006 to 2010 is projected to be lower than Nassau County Sales Tax. This trend is being experienced nationwide as retail sales dipped by a bigger than expected 0.4%, according to the Commerce Department. Contributing to the drop is a decline in sales at gas stations. If gasoline sales are excluded retail sales actually grew by 0.6%. The September retail sales report showed that sales at gas stations dropped by a record 9.3%. Prices at the pump plummeted 13% during the month.<sup>6</sup>

<sup>6</sup> Crustsinger, Martin, "Retail Sales Fall; Inventories Rise." Newsday.com. October 13, 2006.

Chart 3.5: Sales Tax and Personal Income

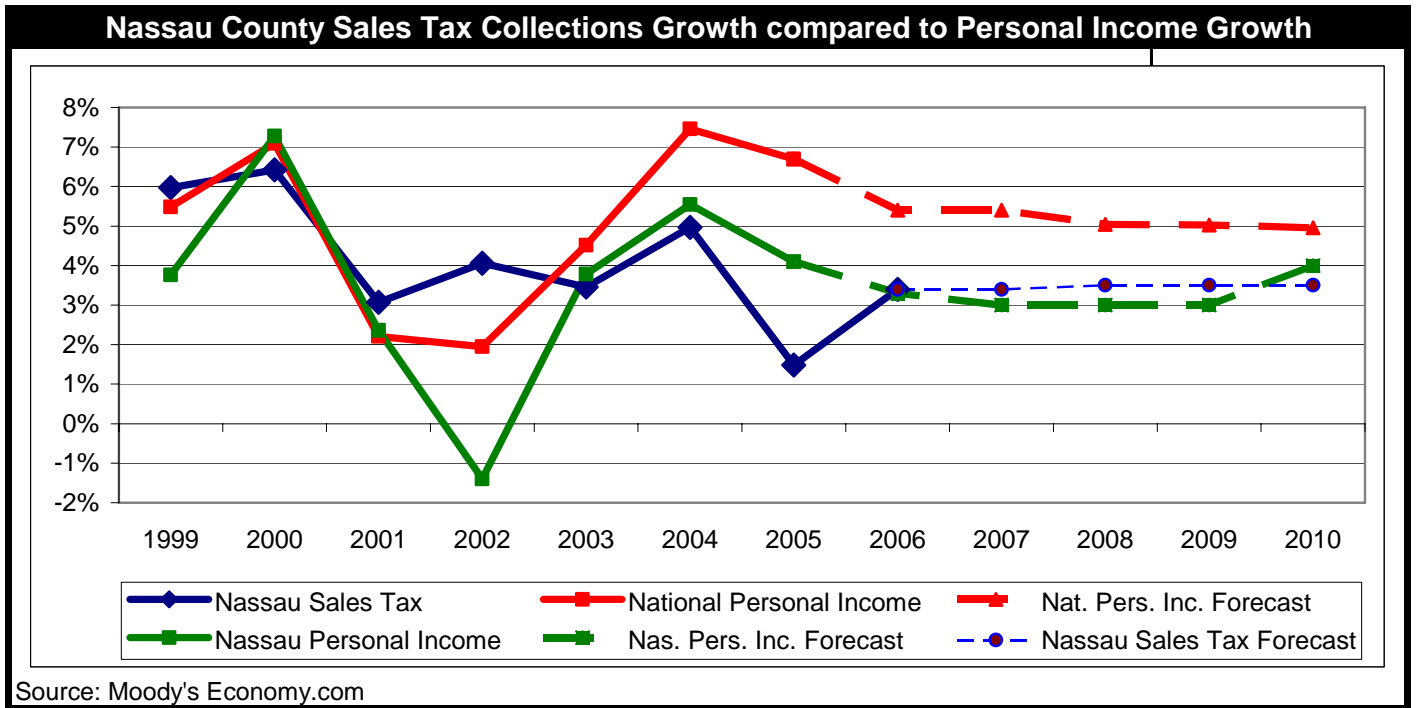
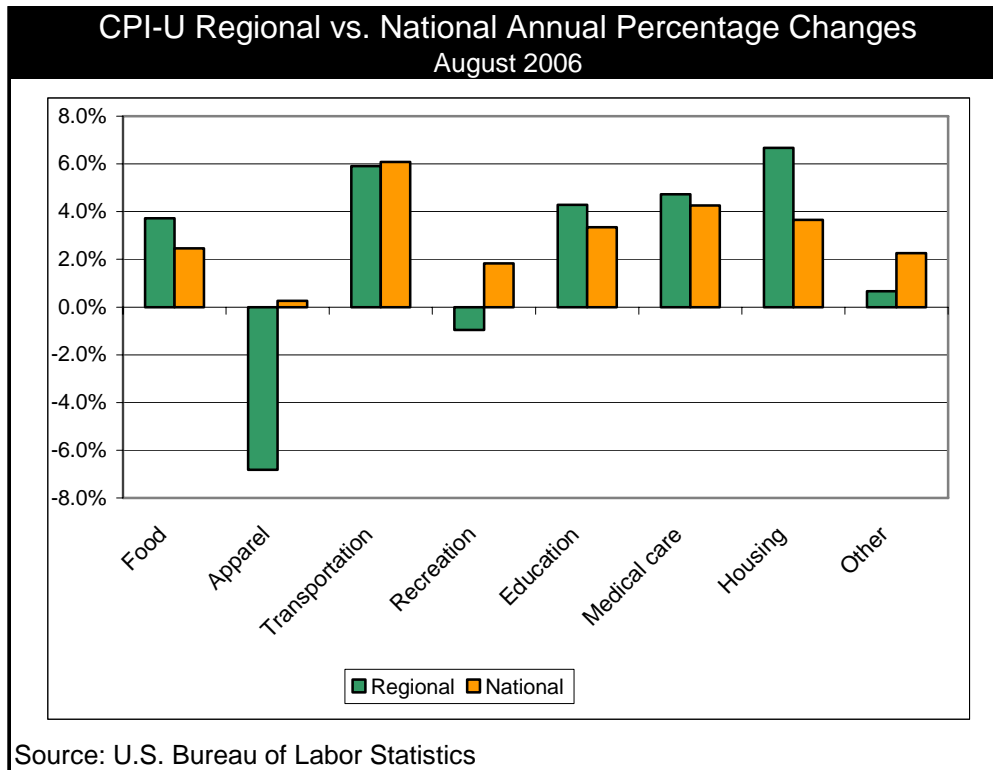


Chart 3.5 above graphs Nassau sales tax, Nassau personal income and national personal income. As shown in the above chart, Nassau sales tax rises and falls correspondingly with changes in personal income. The out-year forecast for Nassau Sales tax is projected to be 3.5%, higher than Nassau’s personal income projection of 3.0% and lower than the national personal income projection of 5.0%.

**Consumer Price Indexes**

**Chart 3.6: Consumer Price Index**



The chart above details the annual changes seen in the consumer price indices both nationally and regionally. Regionally, apparel and recreation prices were the only sectors to record a decrease. Nationally, all sectors recorded an increase. Overall, national consumer prices excluding food and energy rose a modest 0.2% for the month. The August reading follows four straight months of more worrisome 0.3% increases.<sup>7</sup>

In August, Transportation and Housing produced the strongest increases both nationally and regionally. Gasoline prices peaked on August 11 during the height of the summer driving season at \$3.02.<sup>8</sup> Meanwhile, Apparel prices decreased by 6.8% regionally, this is in sharp contrast to a modest 0.3% national gain.

Going forward the price index for Transportation and Gasoline should soften. U.S. oil futures have dropped to an eight-month low of \$57.45 per barrel in October, down from a record high above \$78 in July. Gasoline prices are down almost 75 cents in two months. Gasoline prices have eased due to the end of the U.S. summer driving seasons and a surprising jump in gasoline inventories.<sup>9</sup> The national average price for a gallon of midgrade gasoline is currently \$2.40.

<sup>7</sup> “Key Inflation gauge tiptoes higher.” CNN Money. September 15, 2006.

<sup>8</sup> Benton, Joe, “Oil Production Up, Gas Prices Down.” Consumeraffairs.com, October 10, 2006.

<sup>9</sup> Ellis, David, “Oil falls back near \$67 on BP comments.” CNN Money, September 7, 2006.

**Table 3.5: Consumer Price Indexes**

<b>Consumer Price Indexes</b>					
<b>New York-Northern Jersey-Long Island, NY-NJ-CT-PA region</b>					
	<u>8/06</u>	<u>7/06</u>	<u>8/05</u>	<u>Change from</u> <u>Prior Month</u>	<u>Change from</u> <u>Prior Year</u>
US City, CPI-U	203.9	203.5	196.4	0.2%	3.8%
Regional CPI-U	224.1	223.1	214.1	0.4%	4.7%
Core CPI-U (All Items less energy)	226.9	225.9	218.7	0.4%	3.7%
Medical	343.1	342.1	327.6	0.3%	4.7%
Housing	243.1	242.1	227.9	0.4%	6.7%
Gasoline (all types)	236.7	239.3	195.2	-1.1%	21.3%

Source: Bureau of Labor Statistics, figures are not seasonally adjusted

**Local Area Employment**

Private sector jobs on Long Island increased over the year by 5,400, or 0.5 percent, to 1,058,400 in August 2006, a new record for the month. Gains were largest in professional and business services, increasing by 2,400, educational and health services by 2,300, natural resources, mining and construction by 1,300, leisure and hospitality by 1,000, and other services by 500. There were also job gains in information by 300, and trade, transportation and utilities of 100. Employment declined over the year in manufacturing (-1,500) and financial activities (-1,000). The August 2006 unemployment rate of 4.0% was unchanged from August 2005.

In August 2006, the number of employed Nassau residents decreased marginally, by 0.8% from last month, but bumped up by the same amount per annum. When viewed from a monthly perspective, all areas surveyed had a decrease in both resident employment and civilian labor force. When individuals elect to leave the labor force it is seen as an indication of an unhealthy economy. Long Island’s economy appears to be fairing better than that of New York City and the Nation since the civilian labor force has grown from an annual perspective on Long Island. On a positive note, the monthly declines in resident employment continued to not be sizeable enough to erode the gains made over the past year.

The table below details the changes seen in resident employment and unemployment from both a monthly and annual perspective.



**Table 3.6: Employment Statistics**

<b>Comparison of Employment Statistics</b> (figures in thousands)					
	<u>8/06</u>	<u>7/06</u>	<u>8/05</u>	<u>Change from</u> <u>Prior Month</u>	<u>Change from</u> <u>Prior Year</u>
<b><u>Nassau</u></b>					
Employed	684.5	689.9	678.8	-0.8%	0.8%
Unemployed	28.1	31.1	27.5	-9.6%	2.2%
Unemployment rate	3.9%	4.3%	3.9%	-9.3%	0.0%
				<b><u>Change from</u></b>	<b><u>Change from</u></b>
<b><u>Suffolk</u></b>	<b><u>8/06</u></b>	<b><u>7/06</u></b>	<b><u>8/05</u></b>	<b><u>Prior Month</u></b>	<b><u>Prior Year</u></b>
Employed	767.1	773.2	760.8	-0.8%	0.8%
Unemployed	32.5	36.2	32.2	-10.2%	0.9%
Unemployment rate	4.1%	4.5%	4.1%	-8.9%	0.0%
				<b><u>Change from</u></b>	<b><u>Change from</u></b>
<b><u>NYC</u></b>	<b><u>8/06</u></b>	<b><u>7/06</u></b>	<b><u>8/05</u></b>	<b><u>Prior Month</u></b>	<b><u>Prior Year</u></b>
Employed	3,589.2	3,596.2	3,545.2	-0.2%	1.2%
Unemployed	191.3	229.9	206.7	-16.8%	-7.5%
Unemployment rate	5.1%	6.0%	5.5%	-15.0%	-7.3%

**Forecast**

From a monthly perspective, the Long Island economy showed a loss in the job market. From an annual perspective both Nassau and Suffolk counties have 0.8% more jobs. Looking at both the 2006 year-end and annual 2007 growth forecasts, it is projected that Nassau County’s unemployment rate will decrease by 1.4% and increase by 0.5%, respectively.

**Table 3.7: Employment Market Forecast**

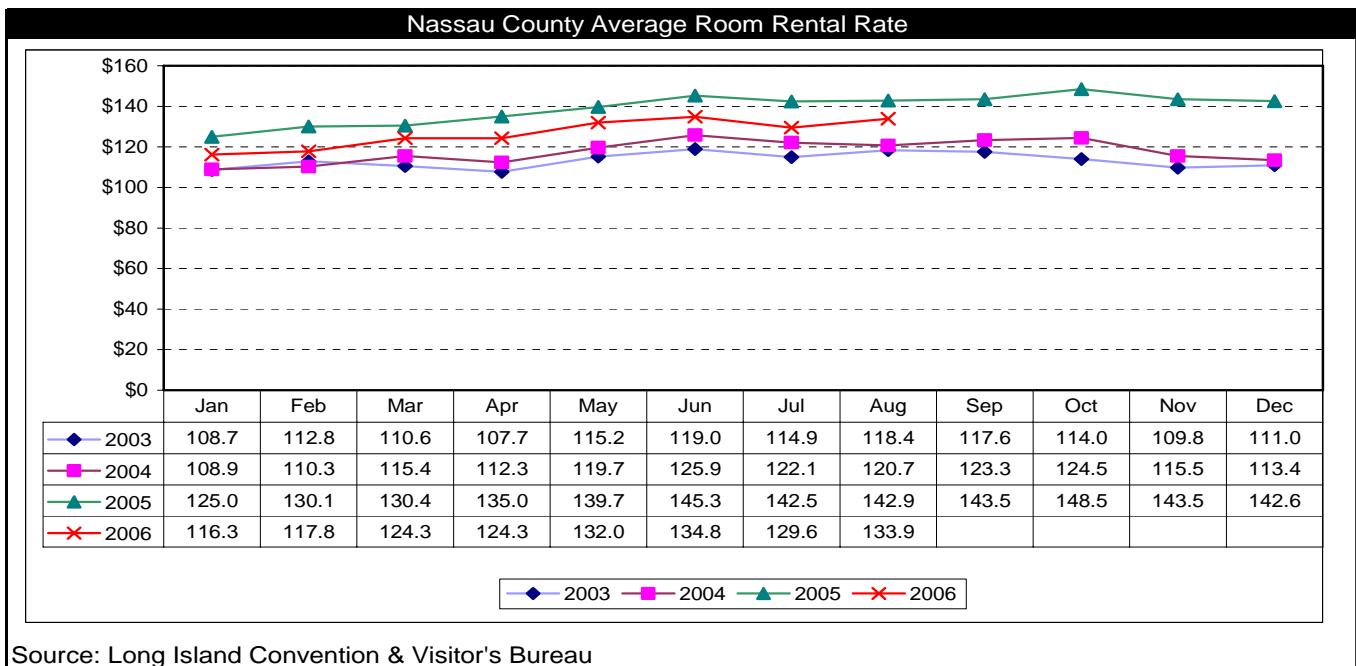
<b>Growth Forecast for the Local and National Employment Market</b>				
<b>Year-end 2006 Growth Projections</b>				
	<b>Employed Residents</b>	<b>Unemployed Residents</b>	<b>Unemployment Rate</b>	<b>Non-Farm Employment</b>
<b>Nassau County</b>	0.2%	-3.5%	-1.4%	0.5%
<b>Suffolk County</b>	1.1%	-0.7%	-1.7%	1.1%
<b>United States</b>	1.4%	-2.2%	-2.7%	1.2%
<b>Annual 2007 Growth Projections</b>				
	<b>Employed Residents</b>	<b>Unemployed Residents</b>	<b>Unemployment Rate</b>	<b>Non-Farm Employment</b>
<b>Nassau County</b>	-0.3%	3.8%	0.5%	0.3%
<b>Suffolk County</b>	0.4%	1.0%	0.6%	1.1%
<b>United States</b>	0.7%	2.8%	2.0%	0.9%

**Source: Moody's Economy.com**

**The Lodging Industry**

Through August 2006, Long Island lodging statistics evidence an annual decline in both occupancy and average room rental rates by 3.6% and 1.4%, respectively. In Nassau County, occupancy rates were greater by 1% in comparison to the same time last year, and declining marginally, by 0.1% on a monthly basis. In terms of average room rental rates, Nassau’s rental rates increased by 3.4% on a monthly basis, from \$133.9 in August 2006, compared to \$129.6 in July 2006. However, from a yearly perspective, rental rates have declined by 6.3%.

**Chart 3.7: Average Room Rental Rates**



Source: Long Island Convention & Visitor's Bureau

The above chart details average room rental rates in Nassau by month over the previous four years. Nassau County's average room rental rate in August 2006 was \$133.9, \$4.40 higher than the prior month and \$9.00 lower than the prior year. Hotel/motel occupancy rate in Nassau County are illustrated below from a monthly and an annual perspective. Overall, occupancy rates have remained relatively flat from last month and increasing by 1% over the past year.

**Table 3.8: Hotel/Motel Occupancy Rates**

<b>Hotel / Motel Occupancy Rate</b>					
	<u>8/06</u>	<u>7/06</u>	<u>8/05</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Occupancy Rate	78.2%	78.3%	77.4%	-0.1%	1.0%

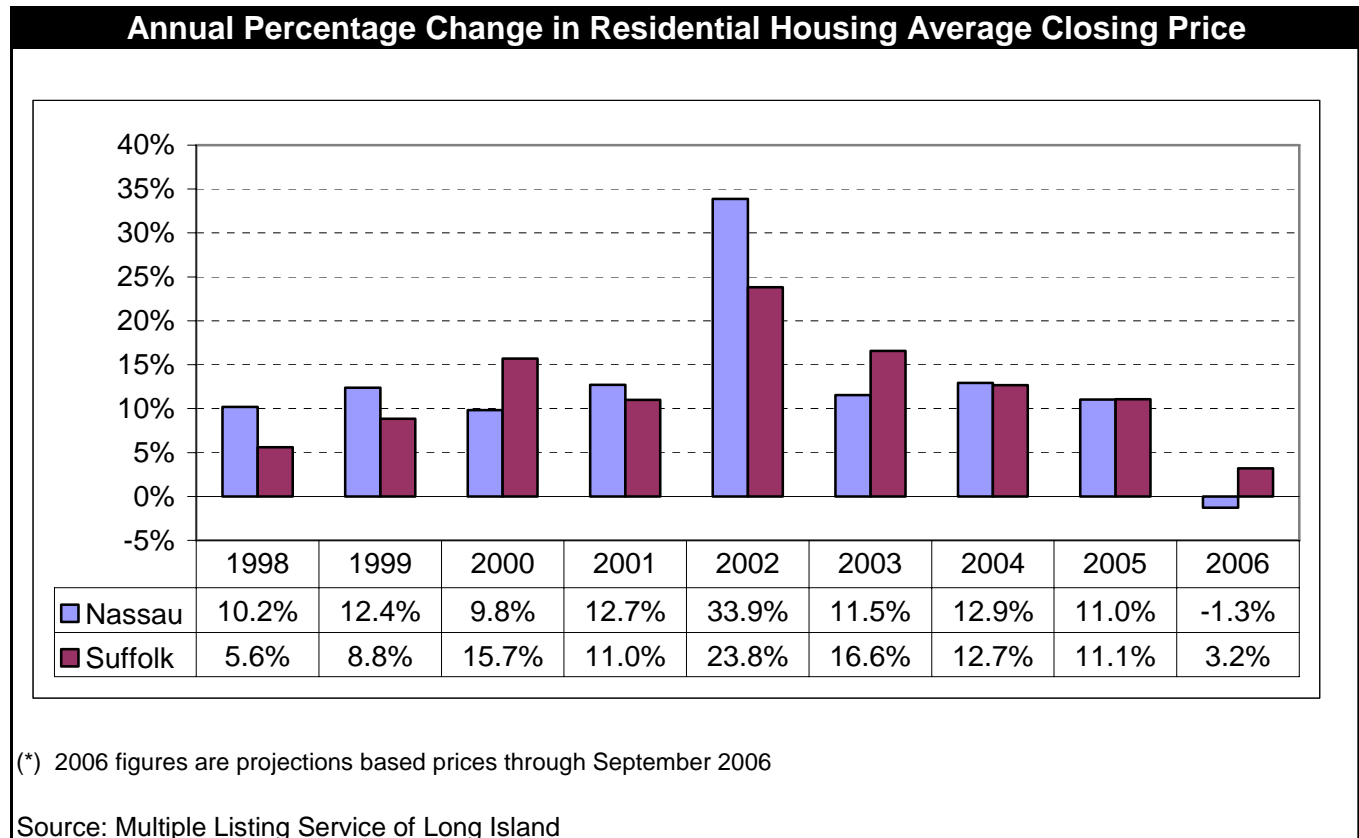
Source: Long Island Convention and Visitors Bureau

**Residential Housing Market**

As the number of houses for sale on the market begins to take a downward turn, the residential real estate market across Long Island appears to be in a state of transition, shifting from a predominantly sellers market to a buyers market. With respect to pricing, the ratio of supply and demand has shifted in the favor of the buyer. As a result closed median home prices have declined by \$15,000 from August 2006. The latest housing data also show that the \$480,000 median closing price in September 2006 is down by \$5,000, or 4% from September 2005.

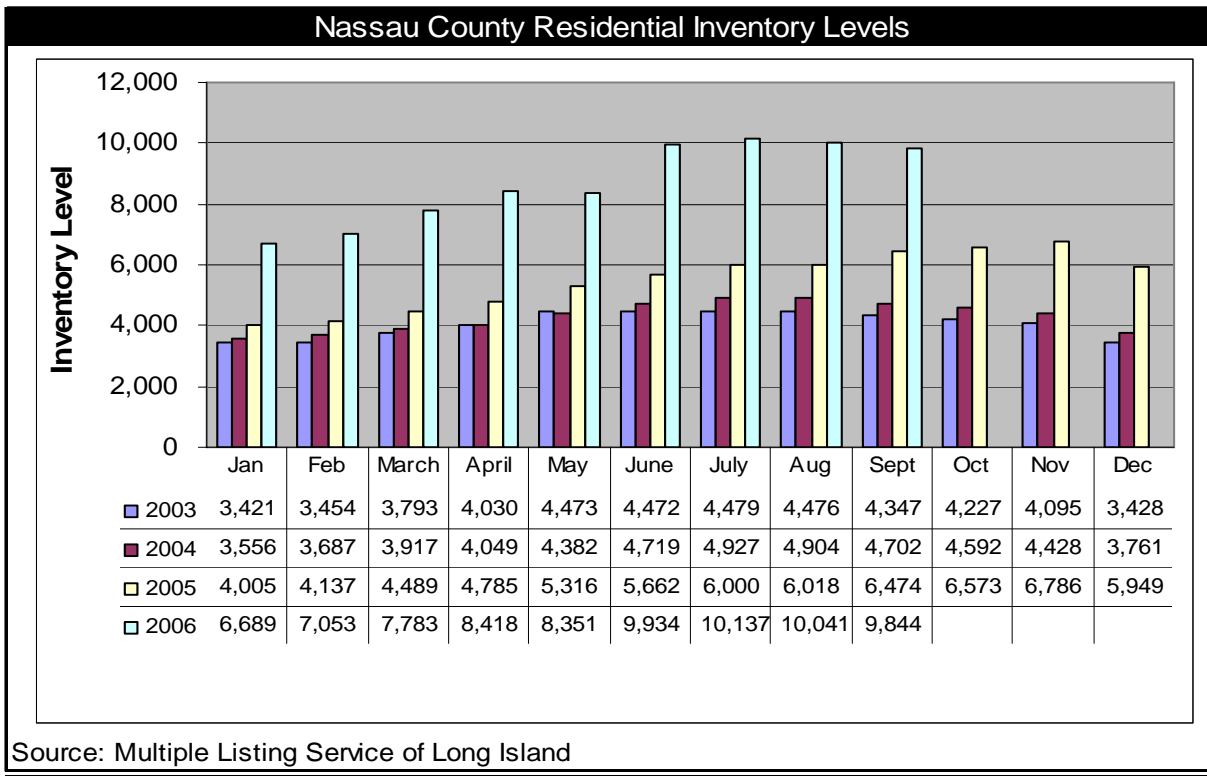
Ideally, homebuyers would like to buy when rates bottom out, and just before they move up again. Higher interest rates can lead to a slow down in home sales, as homebuyers find it harder to qualify. Lower interest rates, on the other hand, tend to stimulate sales activity. The September slowdown is forecast to continue into 2007, especially if the Fed decides to increase rates throughout the end of 2006. The following chart shows the annual percentage changes in the average closing price through September 2006.

**Chart 3.8: Residential Housing**



The following chart detailing inventory levels in Nassau County shows a decrease of available residential inventory of approximately 2% since August 2006. However, since last year at this time, the data show a 4,023 increase in residential inventory, or a rise of 52%.

Chart 3.9: Residential Inventory Levels



**Forecast**

The table on the following page details both the year-end 2006 and annual 2007 forecast for mortgage purchases, mortgage refinancing and median home sale prices in Nassau County, Suffolk County and the United States. Throughout 2006 and 2007 Nassau County is expected to see a decreases in most areas surveyed. The forecasted declines will have an immediate and direct impact on Nassau County Clerk fee revenues which are closely aligned with mortgage refinancings and the number of closed transactions. OLBR is currently forecasting 2006 County Clerk fee revenue to come in at \$14.8 million, \$1.7 million less than the 2006 budget of \$16.5 million.

The forecasted mortgage refinancing decline is also expected to have an impact on County sales tax collections. County sales tax revenues could fall as the number of housing-related jobs diminishes and residents have less home equity to tap. Residents have been utilizing their home equity to finance major purchases. As home equity declines individuals will make fewer purchases and the County will collect less sales tax revenue.

**Table 3.9: Housing Market Forecast**

	<b>Year-end 2006 Growth Projections</b>		
	<b>Mortgage Purchase</b>	<b>Originations Refinance</b>	<b>Median Home Sale Price</b>
<b>Nassau County</b>	-9.6%	-28.5%	-1.0%
<b>Suffolk County</b>	-9.9%	-27.4%	-0.2%
<b>United States</b>	8.0%	-14.2%	-3.9%
	<b>Annual 2007 Growth Projections</b>		
	<b>Mortgage Purchase</b>	<b>Originations Refinance</b>	<b>Median Home Sale Price</b>
<b>Nassau County</b>	-9.2%	-16.4%	-3.6%
<b>Suffolk County</b>	-9.1%	-17.0%	-3.4%
<b>United States</b>	-6.5%	-27.5%	-1.5%
<b>Source: Moody's Economy.com</b>			

**Conclusion**

The three factors that could impact the economic forecasts underlying tax revenue projections are 1) interest rates, 2) oil prices and 3) the housing market. If the Fed decides to increase interest rates, economic growth could slow, re-enforcing the slowdown already anticipated for next year. If interest rates stay at their current level, or oil prices rise, these could similarly hold the economy back and spur inflation. A further downturn in the housing market could also have a significant impact on the real estate and construction industries, and a decline in housing values could dampen consumer activity that has been driven by the sharp rise in housing equity. If that develops right in the middle of the holiday season, retailers may scramble and start discounting even before the Thanksgiving weekend. This scenario might have been even more pessimistic had it not been for the drop in gasoline prices. Most analysts believe that those prices will go lower, at least for a short while. However, the economy and the labor market going forward may not amount to an optimistic forecast.

The big question for the economy is whether the slowdown in housing will be more severe than expected. Although Fed policy is in neutral range, expectations are that the economy will continue to slow in 2007 to a range of 3.0-3.5% GDP growth. Inflation is expected to recede only very slowly and remain in a 2.0% - 2.25% range for the core measure of consumer inflation. Of particular interest, Americans' savings rate was recorded at a minus 0.5%, compared to a minus 0.7% in July, marking the seventeenth month that the savings rate has been in negative territory. That means that Americans are spending all of their after-tax incomes and dipping into savings or borrowing to finance their purchases. Going forward, the Fed will need to keep the economy slow enough to keep inflation under control, but not so much that the country tumbles into recession. As mentioned, if the Fed believes that inflation risks become too high rates will need to go up. If the economy slows too much, rates will need to drop. Nonetheless, there are concerns already that the recent decline in oil prices could be short-lived as officials from oil-producing countries have begun to talk about cutting production. It has recently been

reported that OPEC will take one million barrels of oil a day off oversupplied world markets as soon as possible with its first output cut in more than two years, sending oil prices back above \$60.<sup>10</sup>

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<sup>10</sup> October 5, 2006. *OPEC slashing production by 1M barrels a day.* CNNMoney.com

## 4. LABOR

### Labor Reductions & Concessions

Although in recent history the Administration has demonstrated conservative budgeting practices, the 2007 budget has shown a return to the more aggressive strategies of past administrations. The Administration has proposed a budget for 2007 with \$25.8 million for the PBA and the DAI labor concessions and \$5.1 million for ShOA savings. ShOA is at an impasse and the PBA has filed for an impasse. The Sheriff Officers Association and the Administration have agreed on a negotiator but because the union does not have binding arbitration, any agreement the negotiator proposed can be rejected by either party. Although the PBA and DAI do have binding arbitration, the process can be lengthy and it is questionable if a contract or arbitration award will be produced in 2007.

As the County Executive likes to point out, the police unions have binding arbitration, so why would they want to negotiate a contract that has recurring labor savings of \$25.8 (PBA 18.9 and DAI 6.9) million next year? As an isolated item, these savings are a risk, but the Administration did include funds for anticipated raises and did not make any adjustments for attrition, which could partially offset this risk. Proper accounting will require the County to book a raise based on historic norms in 2007 even if there is not a contract in place by February 2008 (close of books for 2007). However, concessions cannot be booked unless there is some sort of signed MOA. It is possible that when a contract is finally implemented the union may take a 0% raise for 2007 or offer some other concession, but it is improbable that they would agree to this concession during 2007. Therefore the savings would not be recognized until the out-years although they may be retroactive to 2007.

OLBR calculates a salary deficit in the proposed FY 07 budget for the Police District Fund of about \$13.1 million and in the Headquarters Fund of about \$12.4 million. This does not include new sworn personnel hires for 2007, which would add about \$4.7 million to this shortfall. It also does not include funding for the 31 vacant civilian positions. However, when factoring in \$4.1 million set asides in the Police District Fund, fringe savings (which will not be achieved without a contract), attrition savings and other possible surpluses within the funds, the total potential shortfall for both funds would be \$14.0 million (\$5.7 in Headquarters and \$8.3 in District). The potential deficit in the District Fund is especially problematic because as a special taxing district, funds cannot be transferred from the countywide General Fund or Police Headquarters Fund to offset this potential deficit.

In addition, because these savings are built into the out-years, there will be a growing risk if these goals are not realized.



**Table 4.1: Out-Year Plan Savings**

(\$'s in millions)

Fund	Department	2007 Budget	2008 Plan	2009 Plan	2010 Plan
Police District					
	Police Department	\$14.8	\$25.0	\$26.1	\$27.3
	Fringe Benefits	4.6	4.6	4.6	4.6
	District Total	19.4	29.6	30.7	31.9
Police Headquarters					
	Police Department	4.9	8.3	8.7	9.1
	Fringe Benefits	1.5	1.5	1.5	1.5
	Headquarters Total	6.5	9.9	10.2	10.6
Police Total		25.8	39.5	41.0	42.6
General					
	Correctional Center	5.1	7.3	7.7	8.0
Total Contract Savings in the Baseline		<b>\$30.9</b>	<b>\$46.8</b>	<b>\$48.6</b>	<b>\$50.6</b>

Table 4.1 shows all savings figured into the baseline for the PBA, DAI and ShOA unions. All savings in the baseline grow substantially in the out-years. At \$46.8 million savings from these contracts are expected to jump 51% in 2008. The savings then grow to \$48.6 million in 2009 and \$50.6 million in 2010. It is difficult to see how this level of savings could be assumed in the baseline assumptions.

**Table 4.2: Labor Concessions by Union – Gap Closing Item**

(\$'s in millions)

Union	2008 Plan	2009 Plan	2010 Plan
CSEA	\$14.0	\$14.4	\$14.8
SOA	9.4	9.9	10.4
	<b>\$23.4</b>	<b>\$24.3</b>	<b>\$25.2</b>

Table 4.2 depicts the savings anticipated from CSEA and SOA, which are part of the Administration's strategies to reduce the projected out-year gap. Labor concession savings are \$23.4 million for FY 08, \$24.3 million for FY 09, and \$25.2 million for FY 10. Both contracts expire at the end of 2007. The Administration has not demonstrated how it intends to achieve these savings, although the SOA contracts generally follow the lead of the PBA and DAI unions.

On the positive side, although the Administration originally planned to have 100 officers begin a class in November 2006, the class will be delayed until January 2007. OLBR sent a memo out August 22, 2006 demonstrating the savings provided by hiring officers in January 2007 vs. November 2006. Based on the methodology used in the memo, by hiring 100 officers in 2007 the County would save \$3.2 million

in 2007 alone. This reflects the difference in salary of an officer receiving \$34,000 for a year if hired in 2007 vs. receiving \$44,360 for six months and \$64,865 for six months if hired in 2006. Although the officer hired on November 1, 2006 starts at \$23,000, without a new agreement in place, the salary would jump to \$44,360 on January 1, 2007. The analysis also includes related overtime, holiday, differential, FICA and pension costs. Through 2010 the total savings is \$6.1 million. Table 4.3 shows these savings.

**Table 4.3: Financial Effect of Two Month Hiring Delay**

Based on hiring 100 Officers					
	2007	2008	2009	2010	Total
<b>Hire Date November 1, 2006</b>					
Base Salary	\$54,613 *	\$75,722	\$84,597	\$95,015	
Total Base Salary	5,531,937	7,572,192	8,459,724	9,501,459	
Overtime, Holiday, & Differential	991,316	1,809,754	2,106,471	2,365,863	
FICA & Pension	1,614,394	2,368,941	2,667,964	2,996,499	
<b>Total Cost</b>	<b>\$8,137,647</b>	<b>\$11,750,887</b>	<b>\$13,234,160</b>	<b>\$14,863,821</b>	<b>\$47,986,515</b>
<b>Hire Date January 1, 2007</b>					
Base Salary	\$34,000	\$70,023	\$78,675	\$87,897	
Total Base Salary	3,400,000	7,002,313	7,867,508	8,789,653	
Overtime, Holiday, & Differential	552,500	1,673,553	1,959,009	2,188,624	
FICA & Pension	998,006	2,190,656	2,481,196	2,772,015	
<b>Total Cost</b>	<b>\$4,950,506</b>	<b>\$10,866,522</b>	<b>\$12,307,713</b>	<b>\$13,750,292</b>	<b>\$41,875,033</b>
<b>Variance</b>	<b>\$3,187,141</b>	<b>\$884,366</b>	<b>\$926,447</b>	<b>\$1,113,529</b>	<b>\$6,111,483</b>
* Includes six months at \$44,360 and six months at \$64,865					

**General Fund Salaries**

In the General Fund, salaries appear to be sufficient given the current on-board headcount. There may be some shortfall when new positions are included, but since the Administration did not include turnover savings for 2007, the budget should be adequate. CSEA contractual increases of 3.5% have been included as are step increases.

**Headcount**

The County Executive’s gap-closing plan includes workforce management savings of \$8.8 million in FY 08, \$16.3 million in savings by FY 09, and \$20.1 million by FY 10. OLBR believes these savings are reasonable and can be achieved through attrition. The September 1, 2006 five major funds headcount is 8,850. Headcount is budgeted at 9,174 in 2007, an increase of 324 from the September headcount. All out-year headcount assumptions are at the 2007 budgeted level anticipating full backfill for all unions. Police unions will increase in 2007 by 109 from the September 1, 2006 actual of 2,641

and remain even with the 2006 budget of 2,750. ShOA headcount will also increase in 2006 by 11 from the September 1, 2006 actual of 1,040. The Administration anticipates full backfilling each year to maintain headcount levels at the 2007 budgeted level.

Table 4.4 demonstrates the departments where the major increases or decreases are budgeted.

**Table 4.4: Full-Time Headcount – Major Variances**

**Full-Time Headcount - Major Variances**

<b>Department</b>	<b>Adopted 2006 Budget</b>	<b>September 2006 Actual</b>	<b>Executive 2007 Budget</b>	<b>Change from 2006 to Executive</b>	<b>% Change from 2006 to Executive</b>	<b>Change from Exec. to Sept Actual</b>	<b>% of Change Sept Actual</b>
Consumer Affairs, Office of	49	37	48	(1)	-2.0%	11	29.7%
District Attorney	351	343	356	5	1.4%	13	3.8%
Probation	261	256	247	(14)	-5.4%	(9)	-3.5%
Public Works Dept. (General Fund)	540	506	533	(7)	-1.3%	27	5.3%
Social Services	873	867	915	42	4.8%	48	5.5%
Sewer and Storm Water District	461	288	384	(77)	-16.7%	96	33.3%
Police District	1,863	1,761	1,838	(25)	-1.3%	77	4.4%
Police Headquarters	1,744	1,703	1,766	22	1.3%	63	3.7%

**Office of Consumer Affairs**

The Office of Consumer Affairs currently has 11 vacant positions in the department. Budgeted full-time and part-time/seasonal staffing in the Office of Consumer Affairs is decreasing from FY 06 as per the proposed FY 07 budget by one full time hire. The office has hired one investigator with another investigator being hired imminently. Four other positions are in the process of being filled. The remaining five vacancies, (three investigators and two clerical) will be filled once the department gets the approval from the State to license Plumbers and Electricians. Although the department has been advised that filling the vacant positions will be staggered throughout the year the FY 07 budget will not be sufficient to fully fund these positions.

**District Attorney**

The 2007 Proposed Budget reflects funding for 356 full-time positions and 21 part-time positions. According to the department, the 21 part-time positions are actually full-time staff. In the past, from April through August, the department would hire recent law school graduates for a month of training. After the training period would expire, the new attorneys would leave County service until a position opened within the department. The new proposed policy is to retain these new attorneys after their training to avoid any loss of what they learned during training. More importantly, these attorneys are needed to staff the new bureaus. In 2007, a \$2.6 million rise in salaries is included in the budget to fund the additional 20 full-time assistant district attorney positions needed for the newly created bureaus. The new departments include an enhanced DWI Bureau, a Public Corruption Bureau and an Early Case Assessment Bureau in which cases are analyzed at the time of arrest. This screening process should reduce police overtime by requiring the police officer to exchange information with the assistant district attorney at the time of arrest instead of at arraignment when a police officer might be on overtime.

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**Probation**

The Probation Department's headcount is decreasing by 14 from the 2006 budget and by 9 from the September actual. This is the result of the transfer of the second phase of the PINS diversion effort. In 2005 it was expected that Probation would provide all of the services related to this mandate, charging Social Services for the salaries where the State will reimburse the County for 65% of the cost. If the salaries were left in the Probation department, only about 20% would be reimbursable. It has since been decided that Social Services should perform Phase II services and Probation would continue to provide expanded intake services. Although the reduction in headcount was 14 from prior year's budget, the Department never hired up to budget. The Department's administration believes the reduction of nine positions from the September actual is about four more positions than they are comfortable with and may result in higher investigation caseloads and more overtime utilization.

The Office of Management and Budget has stated that they expect to hold headcount at the 2006 level in the out-years with 100% backfilling. About 40% of the Probation Officers and Supervisors will be eligible to retire by the end of 2006 since Probation Officers are eligible to retire after 25 years of service regardless of age. The Department's administration believes any attrition over 10 annually (the historical average) will be problematic since it takes two years for a probation officer to complete training and maintain a full case load. A large attrition rate is anticipated if an early retirement incentive is offered next year. However, the Department is at its highest staffing level since 2002.

**Public Works Department (General Fund)**

Full-time staffing in Public Works is decreasing by 7 positions from 540 in the FY 06 budget to 533 in FY 07. The proposed FY 07 Budget includes 27 positions more than the September 1<sup>st</sup> headcount level. Significant vacancy titles include 7 Equipment Operators and 6 Boiler Room Helpers. Since September 1, 2006 the Department has hired two Equipment Operators and a Secretary to the Commissioner. Each year the number of employees eligible to retire increases. Out of the current 506 full-time headcount, 15% of employees are eligible to retire in 2006, 18% in 2007, 22.1% in 2008, 27.1% in 2009 and 29.6% in 2010. The Department plans on hiring entry level engineers shortly to soften the impact of the anticipated attritions.

**Social Services**

Of the 42 added full-time positions, DSS will receive 100% reimbursement for 25 Social Welfare Examiner I's, 3 Social Welfare Examiner I, Bi-Lingual and 5 Caseworker I's. The examiners are associated with the Medicaid program, and the caseworkers with Child Protective Services. Since the September 1st report, 11 vacancies have been filled and the department anticipates more to be filled shortly. The remaining four examiners will be paid with New York State TANF funding. The caseworkers will be utilized in the Child Protective Services and Services to Children divisions.

**Sewer and Storm Water District**

Full-time staffing is decreasing by 77 positions from the FY 06 adopted budget of 461 positions to 384 positions in the Sewer and Storm Water District. This budget is an increase of 96 positions over the current staffing level. The Administration has identified critical hiring needs for the Wastewater Treatment Plants and the Sewer Maintenance Plant. Vacant positions with significant openings include 15 Plant Maintenance Mechanic Trainees and 27 Equipment Operators. The Department has had difficulty hiring due to low starting salaries and residency requirements. The decrease in full-time staffing from the FY 06 budget results from the removal of storm water personnel. The General Fund

charges the Sewer and Storm Water Resource District for storm water related personnel and indirect costs. This expense will continue to be reflected as an interfund charge. The General Fund shows the actual expenses in the Public Works responsibility centers from the General Fund in Wastewater Engineering, Groundwater Remediation, Storm Water and Drain Maintenance (or Water Supply), Mosquito Control and Construction.

### **Police Department**

The 2007 Police Department union headcount is remaining flat with 2006 adopted numbers. When compared to September actuals all unions are increasing. Uniform headcount is up 4%, or 109, over September 2006 actuals. In 2006, the Department established a Gang Activity Unit to answer a growing gang problem and staffed it with 13 detectives and four supervisors. September actuals show that the detective division is down by about 8%, or 31 detectives, from both 2006 and 2007 budgeted headcounts. However, the Department has designated 33 detectives on September 25, 2006 and has promoted 10 police officers to sergeant. Of the 33 detectives, 29 came out of the District fund and four from Headquarter. The makeup of the new sergeants is as follows: five patrol officers from District, two patrol officers from Headquarters and three detectives from Headquarters. This will bring uniform headcount more in line with the budget. When the Administration hires the proposed 100 recruits in early 2007 sworn personnel will meet budgeted numbers. However, during the year, attrition will eventually create a shortfall from budgeted headcount.

The 2007 salary budget contains many risks. Three unions, the PBA, DAI and ShOA, have expired contracts and it is unlikely that the budgeted savings will occur in 2007. The potential for a \$14.0 million shortfall in the police funds require a contingency, especially in District where funds can not be transferred. While the Administration does not have to hire new officers, not doing so may create an overtime issue. Not only are the savings at risk in 2007 but they grow over 50% in 2008. The headcount in 2007 includes over 300 positions from the current headcount. Funding for additional personnel is for six months. Some of the shortfall may be made up by not hiring vacant positions and through attrition savings. However, attrition savings are utilized in the out-years as a gap closing measure removing it as an offset for ambitious union concession assumptions. Relying on uncertain and aggressive union concessions in the out-years necessitates the presence of a contingency plan.

## 5. FRINGE BENEFITS

Fringe benefits expenditures include health insurance contributions for active employees and retirees, pension contributions for active employees and social security contributions. Escalating growth in these expenses continue to place a heavy burden on the County's budget. The FY 07 fringe benefit budget for the major funds is approximately \$395.6 million<sup>1</sup>, which is a \$69.1 million increase from the FY 06 budget of \$326.5 million. Table 5.1 displays the fringe benefit budgets of the major funds.

**Table 5.1: Fringe Budget by Major Fund**

<b>Fund</b>	<b>Adopted FY 06 Budget</b>	<b>OLBR FY 06 Projection</b>	<b>FY 07 Exec. Budget</b>	<b>Variance Exec. vs Adopted 06</b>	<b>Variance Executive vs FY 06 Proj.</b>
Parks & Recreation	\$10,263,153	\$10,317,393	\$0	(\$10,263,153)	(\$10,317,393)
Fire Commission	3,167,138	3,250,460	0	(3,167,138)	(3,250,460)
General Fund	149,605,973	149,850,741	186,397,820	36,791,847	36,547,079
Police District	85,784,188	86,432,948	108,216,266	22,432,078	21,783,318
Police Headquarters	77,680,690	79,631,628	101,000,364	23,319,674	21,368,736
<b>Total</b>	<b>\$326,501,142</b>	<b>\$329,483,170</b>	<b>\$395,614,450</b>	<b>\$69,113,308</b>	<b>\$66,131,280</b>

Table 5.2 breaks out fringe benefit costs by object code:

**Table 5.2: Fringe Budget by Sub-object**

<b>SubObject &amp; Description</b>	<b>Adopted FY 06 Budget</b>	<b>OLBR FY 06 Projection</b>	<b>FY 07 Exec. Budget</b>	<b>Variance Exec. vs Adopted 06</b>	<b>Variance Exec. vs FY 06 Proj.</b>
08F - NYS Police Retirement	\$39,337,656	\$39,681,403	\$59,917,829	\$20,580,173	\$20,236,426
11F - State Retirement Systems	36,754,639	37,405,441	49,210,817	12,456,178	11,805,376
13F - Social Security Contribution	56,488,841	57,842,633	57,897,962	1,409,121	55,329
14F - Health Insurance	101,359,266	101,237,317	113,955,717	12,596,451	12,718,400
17F - Optical Plan	1,091,618	1,035,067	1,114,718	23,100	79,651
19F - NYS Unemployment	500,000	563,902	430,000	(70,000)	(133,902)
20F - Dental Insurance	4,957,318	5,012,546	5,411,976	454,658	399,430
22F - Medicare Reimbursement	9,946,807	9,801,701	13,375,292	3,428,485	3,573,591
75F - Health Insurance For Retirees	75,771,033	76,591,583	83,498,091	7,727,058	6,906,508
76F - Employees Optical - Retirees	293,964	311,577	314,316	20,352	2,739
Misc. Fringe Expenses	0	0	10,487,732	10,487,732	10,487,732
<b>Grand Total</b>	<b>\$326,501,142</b>	<b>\$329,483,170</b>	<b>\$395,614,450</b>	<b>\$69,113,308</b>	<b>\$66,131,280</b>

<sup>1</sup>This number excludes worker's compensation, miscellaneous expense and Courts.

Table 5.3 displays out-year fringe benefit costs under the Multi-Year Plan:

**Table 5.3: Multi-Year Plan by Sub-object**

<b>SubObject &amp; Description</b>	<b>2008 Plan</b>	<b>2009 Plan</b>	<b>2010 Plan</b>
08F - NYS Police Retirement	\$52,925,347	\$55,530,699	\$54,760,828
11F - State Retirement Systems	47,371,890	49,573,769	51,994,795
13F - Social Security Contribution	60,387,574	62,984,240	65,692,562
14F - Health Insurance	124,781,510	136,635,754	149,616,150
17F - Optical Plan	1,114,718	1,114,718	1,114,718
19F - NYS Unemployment	430,000	430,000	430,000
20F - Dental Insurance	5,411,976	5,411,976	5,411,976
22F - Medicare Reimbursement	14,712,821	16,184,103	17,802,514
75F - Health Insurance For Retirees	91,847,900	101,032,690	111,135,959
76F - Employees Optical - Retirees	314,316	314,316	314,316
Misc. Fringe Expenses	10,487,732	10,487,732	10,487,732
<b>Grand Total</b>	<b>\$409,785,785</b>	<b>\$439,699,997</b>	<b>\$468,761,550</b>

**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 the previous April 1<sup>st</sup> to the ensuing March 31<sup>st</sup>.

In July 2004, the New York Legislature approved legislation that provided additional constructive financing options that can be used by counties to ease the transition to rising pension rates. The bill changed the manner in which annual employer contributions are calculated and billed in the New York State and Local Retirement System by:

- Changing the payment date for participating employers from December 15<sup>th</sup> to February 1<sup>st</sup>, beginning fiscal year 2004-05.
- Allowing for the creation and use of reserve funds for the purpose of refinancing retirement contributions in the future.
- Extending the amortization repayment schedule from a five year term to a ten year term, making the first payment due in fiscal year 2005-06 instead of fiscal year 2004-05.
- If employers choose to amortize, the interest rate will be established by the Comptroller using a rate that more closely approximates a market rate of return on taxable securities.
- Allowing employers who elect to offer a Section 384e plan to members to bond the past service cost associated with this plan.

With the State approving the deferment of the pension payment date in 2004, the County was able to transfer \$79.8 million to a Pension Contribution Reserve Fund. Table 5.4 details the use of the pension reserve from the beginning balance in FY 05 to the projected use in FY 08:

**Table 5.4: Pension Contribution Reserve Fund**

<b>Beginning Balance:</b>	<u>\$79,825,941</u>
2005 Draw Down	(35,000,000)
Increase Reserve	24,788,165
<b>Balance:</b>	69,614,106
2006 Draw Down	(34,123,351)
<b>Balance:</b>	35,490,755
2007 Projected Use	(26,400,000)
<b>Balance:</b>	9,090,755
2008 Projected Use	(7,500,000)
<b>Balance:</b>	<u>1,590,755</u>

The Administration increased the reserve by an additional \$24.8 million, with 2005 surplus funds. The reserve allocates \$35.0 million for payments due in SFY2004-05, \$34.1 million in SFY2005-06, \$26.4 million in SFY2007-08, and \$7.5 million in SFY2008-2009.

Table 5.5 details the historical pension obligations from FY 03 to the proposed FY 07 budget:

**Table 5.5: Historical Pension Costs**

	Historical Expenditures					% Change Proj./Exec.
	FY 03 Actual	FY 04 Actual	FY 05 Actual	FY 06 Projected	FY 07 Exec.	
08F - NYS Police Retirement	19,457,359	4,701,246	58,804,572	39,681,403	59,917,829	51.0%
11F - State Ret. System	35,500,249	4,564,511	51,943,633	37,405,441	49,210,817	31.6%
<b>Total</b>	<b>\$54,957,608</b>	<b>\$9,265,757</b>	<b>\$110,748,205</b>	<b>\$77,086,844</b>	<b>\$109,128,646</b>	<b>41.6%</b>

Historically pension costs have increased overall from \$55.0 million in FY 03 to an estimated \$109.1 million in FY 07, due to increased pension rates. The significant decrease in FY 04 results from the one-time cash deferment in FY 04 from the change in payment date. The dip in FY 06 from FY 05 is due to a credit from the Pension Contribution Reserve Fund of \$35.0 million as shown in Table 5.4.

The FY 07 proposed budget for SFY 05-06, includes \$109.1 million in total for ERS and PFRS pension obligations. The FY 07 budget is \$59.9 million and \$49.2 million for ERS and FPRS respectively, which is an increase of \$32.0 million from the FY 06 budget.

This is not an accurate variance because the FY 06 projected amount does not include the full expense. In FY 06, the use of reserves was treated as a credit to the expense, while in FY 07 the use of reserves is treated as revenue. Therefore, the full cost is reflected in the FY 07 budget. The FY 07 budget for the pension reserve has been budgeted separately under inter-fund revenues. Table 5.6 compares the FY 06 and FY 07 costs, disregarding the use of reserves in either year.



**Table 5.6: Full Pension Costs**

<b>Compare Costs excluding Reserve 2006 vs 2007</b>	<b>FY 06 Budget</b>	<b>FY 07 Budget</b>	<b>Variance Executive vs Adopted</b>
08F - NYS Police Retirement	\$55,917,597	\$59,917,829	\$4,000,232
11F - State Retirement Systems	\$53,633,288	\$49,210,817	(\$4,422,471)
	\$109,550,885	\$109,128,646	(\$422,239)

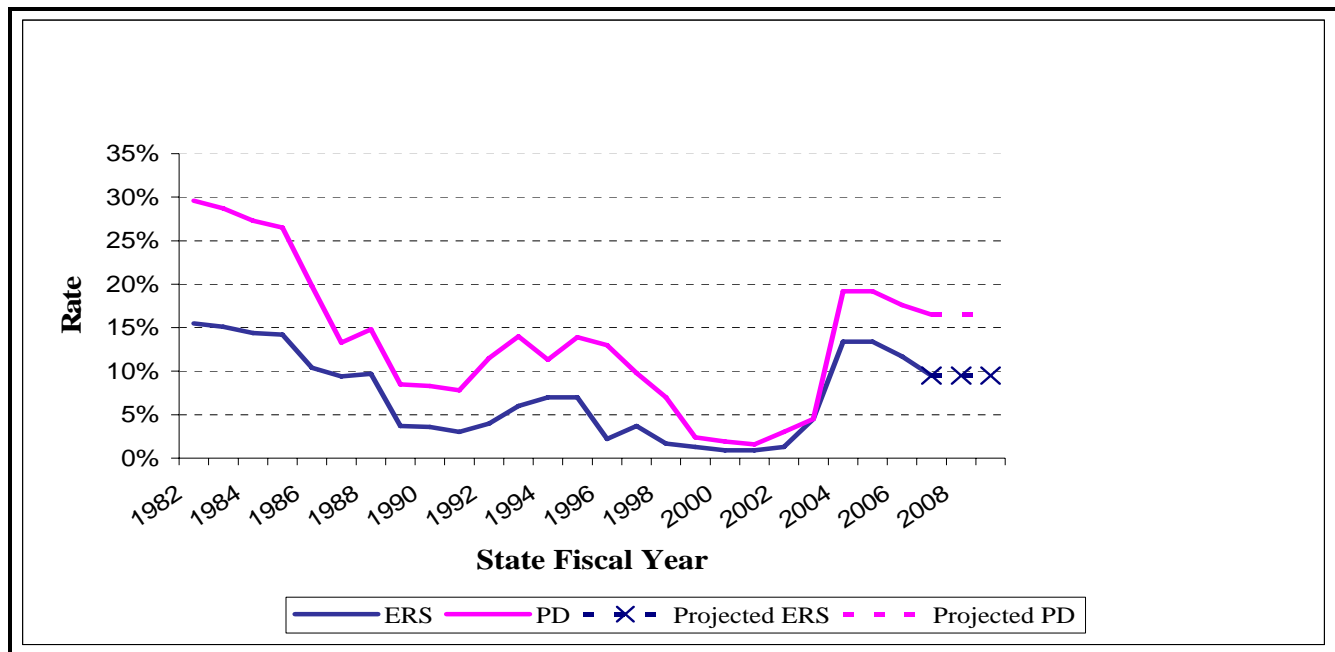
The FY 07 budget for full pension costs is decreasing \$422,000 from \$109.5 million in FY 06 to \$109.1 million in FY 07. The FY 07 budget for pension costs includes \$49.2 million for ERS and \$59.9 million for PFRS.

The February 2007 estimated bill from the New York State Comptroller for ERS and PFRS is \$115.0 million. This includes \$54.5 million billed for ERS and \$60.5 million billed for PFRS. The ERS billed amount of \$54.5 million includes the pension costs for the Nassau County Community College and the Sewer and Storm Water Resource District. These costs are reflected in their funds, not in Table 5.2. The FY 07 budget of \$59.9 million for PFRS is lower than the bill amount of \$60.5 million because the County plans to pay the retirement bill in December. The February 1<sup>st</sup> payment due date results in a higher net bill due to the corresponding change in the discount applied to the bill. The discount is a reflection of the pension system operating on a state fiscal year (April through March). The retirement system discounts the local bill at the statutory interest rate (8% annually) based on a payment date that falls prior to the end of the fiscal year. Since the retirement system will be calculating the bills on a February 1<sup>st</sup> payment date, rather than a December 15<sup>th</sup> date, there will be less of a discount, resulting in a higher local bill.

The Administration budgets an average contribution rate for ERS of 9.5% of pensionable salaries for the State’s fiscal year from April 1, 2005 through March 31, 2006. The average contribution rate budgeted for PFRS is 16.5% of pensionable rates. The rates range from 9.8% - 17.5% depending on different tiers for ERS and from 15.0% - 28.9% depending on different tiers for PFRS.

Chart 5.1 depicts the changes in annual employer payments (as a percentage of salary) starting from 1982 and projecting to 2008.

Chart 5.1: Historical Pension Contribution Rates



Source: NYS Comptroller

The New York State Comptroller has provided rates for SFY2008-09 which ranges from 8.9% - 16.1% depending on different tiers for ERS and rates ranging from 13.4% - 24.1% depending on different tiers for PFRS. The Multi-Year plan assumes pension contribution rates will hold steady at 9.5% for ERS and 16.5% for PFRS. However, On August 31, 2006, the New York State Comptroller announced pension rates will decline in 2008 for the third year in a row. ERS contribution costs are projected to grow to \$52.0 million in FY 10 and PFRS contribution costs are projected to grow to \$54.8 million.

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

With an increase of 7.7%, the national rate of growth for health insurance is projected to decline for the third straight year. This compares to double-digit increases in health insurance costs from 1999-2004. Even though this rate of growth has decelerated, health insurance premiums continue to grow significantly and be a major area of concern.

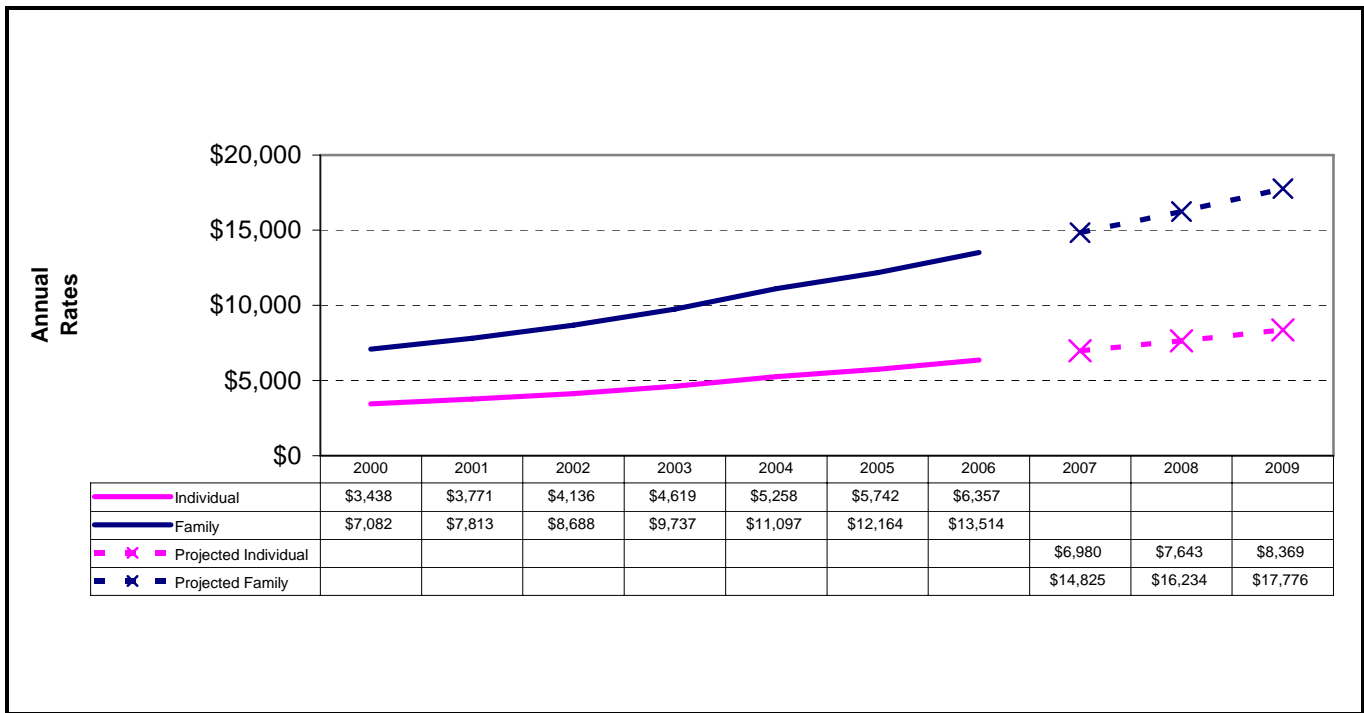
Table 5.7: Historical Health Insurance Costs

	FY 03 Actual	FY 04 Actual	FY 05 Actual	FY 06 Projected	FY 07 Exec.	% Change Proj./Exec.
14F - Health Insurance	69,716,795	80,217,357	89,534,080	101,237,317	113,955,717	12.6%
75F - Health Ins. for Retirees	62,095,677	69,551,882	72,274,349	76,591,583	83,498,091	9.0%
<b>Total</b>	<b>\$131,812,472</b>	<b>\$149,769,239</b>	<b>\$161,808,429</b>	<b>\$177,828,900</b>	<b>\$197,453,808</b>	<b>11.0%</b>

Table 5.7 above displays health insurance costs for active and retired employees from FY 03 to estimated FY 07. As shown above health insurance costs increased significantly each year. The FY 07 budget for health insurance costs includes \$114.0 million for active employees and \$83.5 million for retired employees for a total cost of \$197.5 million. This is an increase of \$32.0 million or 11.0% from the FY 06 budget of \$177.8 million.

The Kaiser Foundation and Health Research and Educational Trust conducts an annual national survey to provide current information about employer-provided health benefits. The results published in a report titled “Employer Health Benefits, 2006 Summary of Finding” found that employer sponsored health insurance rose 7.7%, lower than the 9.2% increase in 2005 and the 11.2% increase in 2004. The survey also reports that premiums continued to increase much faster than overall inflation (3.5%) and wage gains (3.8%). “Premiums for family coverage have increased by 87% since the year 2000.”<sup>2</sup> Chart 5.2 displays how health insurance rates have been progressively increasing over the past eight years in Nassau County.

**Chart 5.2: Historical Health Insurance Premium (Non-Medicare) Rates**



The FY 07 budget for health insurance costs includes an increase of 9.0% for individual and family health insurance plans. This rate is high compared to New York State’s most recent health insurance rate projection. New York State is currently projecting health insurance rates to increase by 8.2% for individual and 7.9% for family.

The FY 07 budget for health insurance for retirees projects a blended 9.5% increase. The 9.5% is also much greater than Empire’s current health insurance rate projection. New York State is currently projecting 1.5% growth increase for individual MediPrime, 5.4% for Family 1 MediPrime and 1.7% for Family 2 MediPrime. It should be noted that the rate for some of the County’s retirees is the same as the actives because of their age.

Table 5.8 below displays non-Medicare and Medicare rates for 2006 and projected 2007.

<sup>2</sup> The Kaiser Family Foundation and Health Research and Education Trust, “Employer Benefits 2006 Summary of Findings.”

**Table 5.8: NYS Health Insurance Projections**

<b>Rates:</b>	<b>2006</b>	<b>2007</b>	<b>% Change</b>
<b>Plan Prime</b>			
<i>Individual</i>	529.76	573.07	8.2%
<i>Family</i>	1,126.19	1,215.10	7.9%
<b>MediPrime</b>			
<i>Individual</i>	338.88	344.00	1.5%
<i>Family-1</i>	935.32	986.03	5.4%
<i>Family-2</i>	744.45	756.94	1.7%
Source: New York State			

The FY 07 budget estimate of 9.0% for active employees and 9.5% for retired employees is conservative compared to New York State. Based on the State's recent rates, the FY 07 budget is over-funded by approximately \$4.7 million for active employees and \$3.6 million for retired employees. For 2006, rates were finalized at an increase of 10.1% for individual and 11.1% for family non-Medicare compared to the 8% projected growth. The higher than budget finalized rates is currently producing an overall deficit of \$700,000 for FY 06. Of this deficit, \$821,000 is related to retired employees, which has been offset by a surplus of \$122,000 for active employees. The current projected health insurance cost for FY 06 is approximately \$177.8 million compared to the budget of \$177.1 million. Fortunately the budget anticipated a higher number of active employees than the actual number, which helps reduce the deficit created by the rate.

The Multi-Year Plan projects health insurance costs to increase at 9.5% for active employees and 10.0% for retirees from FY 07 through FY 10. At this rate, active health insurance is projected to grow from \$124.8 million in FY 08 to \$149.6 million in FY 10. Health insurance for retirees is projected to grow from \$91.8 million in FY 08 to \$111.1 million in FY 10. The increasing costs will continue to place a burden on the County's finances.

Due to the recent rises in rates many employers have started looking for alternatives to their health plans which include employee cost sharing, fewer HMO's, more utilization of disease management programs, and high deductible health plans. Employee cost sharing requires workers to make deductible and co-payments when they use health care services in addition to their premium contribution. More than three in four workers with single coverage and more than nine in ten workers with family coverage face cost sharing such as deductibles, co-payments, and/or coinsurance for physician office visits, hospital care and prescription drugs. In addition, more firms are requiring employees to contribute to the annual premium. Over 75% of covered workers with single coverage and over 90% of covered workers with family coverage make a contribution toward the total premium for their coverage.<sup>3</sup>

Companies have started to back away from offering multiple HMO's because it is expensive to offer several different plans and instead are offering more PPO Preferred Provider Organization (PPO) choices. PPO's continue to be the most common plan enrolling 60% of employees with health coverage

<sup>3</sup> The Kaiser Family Foundation and Health Research and Education Trust, "Employer Benefits 2006 Summary of Findings."

compared to HMO's covering 20%, POS plans covering 13%, high deductible health plans associated with a savings option HDHP/SO covering 4% and conventional plans covering 3%.<sup>4</sup>

Disease management programs help companies to improve productivity and reduce health care costs. Twenty-six percent of employers offering health benefits include one or more disease management programs in their health plans, with large firms being more likely than smaller firms to do so. Twenty-seven percent of employers offering health benefits offer one or more wellness programs to their employees, 19% offering an injury prevention program, 10% offering a fitness program, and 9% offering a weight loss program.<sup>5</sup>

High deductible health plans associated with savings options have become an alternative to high health costs. Average premiums by employers are lower for both single and family coverage in these types of plans.<sup>6</sup>

Due to the increased cost of health insurance, some employers have ceased to offer the benefit. According to the Kaiser Family Foundation, the percentage of all firms offering health benefits to their employees has fallen significantly from 69% in 2000 to 60% today.<sup>7</sup>

To help counteract rising health insurance costs, the Administration is exploring the option of selecting a third party administrator for the County's health insurance coverage. This is part of the Administration's optional gap-closing measures in 2009 and 2010 for \$13.2 million and \$14.3 million respectively.

### **13F Social Security**

Social Security tax is comprised of two components: Old-age, Survivors and Disability Insurance (OASDI) and Medicare tax. The 2004 employer's contribution rate for OASDI is 6.2% and the Medicare piece is 1.45%, which equals a combined rate of 7.65%. For the current year the OASDI portion is applied to salaries up to \$94,200. Medicare has no maximum. The Social Security Administration has not yet announced the wage base increase for 2006, however last year reflected a 4.1% increase in the base. If increased by the same percentage, the 2007 maximum wage contribution would be roughly \$98,000. The total OASDI tax on this maximum wage projection would be approximately \$6,080.

The FY 07 budget is increasing by \$1.4 million from \$56.5 million in FY 06 to \$57.9 million. With an increase in FY 06 budgeted salaries, social security is also expected to rise. The FY 07 salary budget includes a CSEA contractual increase of 3.5% as of January 1, 2007, plus step increase. Due to the current projected deficit in FY 06 of \$1.4 million, it is likely the FY 07 budget is under-funded.

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<sup>4</sup> *ibid*

<sup>5</sup> *ibid*

<sup>6</sup> *ibid*

<sup>7</sup> *ibid*

**17F Optical Plan**

This benefit provides optical insurance to full-time County employees. The annual per capita cost of optical insurance is remaining at \$115. The FY 07 budget is increasing by \$23,100 from FY 06. The FY 07 budget is sufficient to cover the increase in headcount. In March 2006, the County issued a Request for Proposal for a vision insurance plan for County employees. The proposal was awarded to Davis Vision to continue the service.

**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 06 budget is currently projected to have a deficit of \$64,000. Since the FY 07 budget is decreasing by \$70,000, to \$430,000, it may be insufficient.

**20F Dental Insurance**

This benefit provides dental insurance to full-time employees. Last December, the County extended the contract with Healthplex for an additional year through December 2006. Under the amendment the dental cost increased from \$525 to \$561 per person. A new vendor, Aetna, has been selected by the Administration for the period January 2007 through 2009; this change has not come before the Legislature for approval. In addition, it is possible that the union will grieve the selection. If the contract is approved, the annual cost will remain at \$561 per person.

The FY 07 budget is increasing by \$455,000 to \$5.4 million. The FY 06 projection is currently producing a deficit of \$55,000. The FY 07 budget appears under-funded by a deficit of approximately \$40,000 depending on hiring.

**22F Medicare Reimbursement**

The County provides quarterly payments to cover premium costs related to Medicare coverage for retired employees. The budget is increasing by \$3.4 million in FY 07 from \$9.9 million in FY 06 to \$13.4 million. The Federal Government announced that Part B premiums are expected to increase by 13.2% in 2006. The national premium will be \$88.50 in 2006, an increase of \$10.30 from the current \$78.20 premium. Under federal law, Medicare Part B premiums must cover 25% of Part B costs, while taxpayers pay the remaining 75%. Though premiums are rising, most Medicare beneficiaries will see significantly lower out-of-pocket health care costs in 2006 because of the savings in drug costs from the new Medicare prescription drug benefit.<sup>8</sup> The rate increase of \$10 results in an additional \$120 annually per retiree. Based on 14,000 retirees, the result is \$1.7 million; therefore the increase in budget of \$3.4 million appears over-funded.

**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 07 budget is increasing by \$20,000 to roughly \$314,000. The budget may be under funded by \$7,000. The FY 06 projection is currently \$17,613 over the FY 06 budget.

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<sup>8</sup> "Medicare Premiums and Deductibles for 2006." Center for Medicare & Medicaid Services. September 16, 2005.

**Revenue Budget**

Table 5.9 is the FY 07 revenue budget for fringe benefits:

**Table 5.9: FY 07 Revenue Budget**

<b>SubObject &amp; Description</b>	<b>Adopted FY 06 Budget</b>	<b>OLBR FY 06 Projection</b>	<b>FY 07 Exec. Budget</b>	<b>Variance Exec. vs Adopted 06</b>	<b>Variance Exec. vs FY 06 Proj.</b>
R1115 - Interfund Revenue	\$0	\$0	\$26,400,000	\$26,400,000	\$26,400,000
R2010 - Insurance Recoveries	8,153,600	8,153,600	5,704,124	(2,449,476)	(2,449,476)
<b>Total</b>	<b>\$8,153,600</b>	<b>\$8,153,600</b>	<b>\$32,104,124</b>	<b>\$23,950,524</b>	<b>\$23,950,524</b>

The revenue budget for FY 07 includes the pension reserve and reimbursement for Medicare Part D. In Table 5.9, reimbursement for Medicare Part D is labeled as insurance recoveries and the pension reserve is labeled above as interfund revenue.

The FY 07 budget for Medicare Part-D is \$5.7 million which is a decrease of nearly \$2.5 million from the FY 06 budget. Starting January 1, 2006, Medicare began a new drug benefit plan called Medicare Part D that helps seniors pay for their prescription drugs. Under the Medicare Part D program, patients are billed a monthly premium that can cost as little as \$20 a month. On top of the premium, enrollees are charged a co-pay of roughly 25% of the price of drugs. In addition to the co-pay there is a standard \$250 annual deductible on covered drugs. The program is designed to cover the first \$2,250 of prescription drugs. After the \$2,250 limit is reached, the beneficiary has to pick up 100% of the tab for the next \$2,850 in prescription drugs. This coverage gap is known as the donut hole. However, coverage kicks back in after a patient's total out-of-pocket expenses for prescription drugs reach an annual threshold of \$3,600.

NYSHIP applied for and received an estimated one time Employer Subsidy from the federal government for the first quarter of 2006. NYSHIP passed on the County's share of this subsidy as a credit to the September billing statement. The County received a credit of approximately \$1.6 million to the health insurance bill.

The FY 07 revenue budget for inter-fund revenue of \$26.4 million represents use of the pension reserve.