NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Review of the Fiscal Year 2011 Budget & Multi-Year Plan

Executive Summary

OFFICE OF LEGISLATIVE
BUDGET REVIEW

NASSAU COUNTY LEGISLATURE
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Inter-Departmental Memo

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

SA
From: Steve Antonio
Office of Legislative Budget Review

Date: October 14, 2010

Re: Proposed FY 11 Budget - Executive Summary and Departmental Analysis

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 2011 and the FY 11-14 Multi-Year Plan. Our report is made up of two parts: an Executive Summary and a Departmental Analysis. An earlier draft of the Executive summary was distributed to the Finance committee last week. It has since been updated, particularly the sales tax section, to account for collections through October 12.

I would like to thank the County Executive's financial team for their cooperation during this process. As always, my staff and I remain ready to provide whatever assistance the Legislature may require during the budget process. This document will be made available to your constituents at http://www.nassaucountyny.gov/agencies/OLBR/reports.html.

1. EXECUTIVE SUMMARY

Introduction

A number of factors have resulted in the challenging fiscal condition facing the County. The recession that began in December of 2007 has left behind higher than normal unemployment, and contributed to rising caseloads in social services programs. It also severely impacted sales tax revenues in FY 09 which led to a number of actions that deferred personal services costs to future years. The residential energy tax, which was implemented in FY 09, has been repealed. Labor agreements with the County's major unions will provide wage increases through 2015. The enhanced Federal assistance for Medicaid that was part of the American Recovery and Reinvestment Act will be reduced in FY 11 and eliminated in FY 12. In addition, the longstanding issue of the County's burdensome property tax refund obligation continues to make demands on the financial resources of the County. The new Administration has attempted to address these problems by, among other things, implementing assessment reform and offering the second retirement incentive program to County employees in the last two years.

The proposed FY 11 budget, crafted in light of the fiscal environment outlined above, relies to a great extent on two major expense reductions. The first is the removal from the operating budget of $50 million to pay for property tax refunds. For years fiscal monitors have deplored the practice of borrowing to pay for what is considered to be an operating expense. However, due to the scope of the problem, resulting from a high level of new liability each year in conjunction with a large backlog, the County has never been able to include more than $50 million in the operating budget. Annual payments average approximately $100 million. The elimination of this expense from the proposed budget has been tied to the implementation of the Administration's assessment reform initiatives. According to the Fiscal 2010-2013 Multi-Year financial Plan (MYP) update, released this past May, "The plan envisions a financing component to transition to pay as you go basis 'PAYGO' when savings from the reform package have been realized."

Assessment reform has various components, including the implementation of a quadrennial assessment cycle, and the passage of a local law to promote settlement of claims with the Assessment Review commission before the roll goes final. The Administration has also introduced legislation to remove the County Guarantee, which requires the County to pay the cost of refunds for tax revenue levied by the towns, special districts and all but one of the school districts in Nassau County. If successful, removing the guarantee would drop the County's annual tax refund liability to roughly $18 million. The projected savings from these initiatives are reflected in the out-years of the 2011 – 2014 Multi-Year Financial Plan in the decreasing amount of new judgment and settlement borrowings planned, going from $95 million in FY 11 to $20 million in FY 14. No operating funds remain from 2011 to 2014 to cover the cost of property tax refunds.

Assuming that assessment reform is successful, there still remains an FY 11budgetary risk associated with the removal of the $50 million that had been used for tax refunds. At this time the Administration's authority to bond for tax refunds has been exhausted. Without a new bond ordinance, which requires a super-majority of the County Legislature, and with no appropriation in the proposed budget, there is no funding available to pay the refunds.

The other significant expense reduction is for labor concessions. The proposed "Taxpayer Relief Act of 2010" would authorize and direct the County Executive "to set the 2011 wages of county employees so as to be consistent with the 2011 Budget being enacted in connection herewith, and notwithstanding any labor-related agreement(s) to the contrary." The 2011 proposed budget includes a total of $61.1 million in reductions to the salaries appropriation of most departments which represents labor savings that the Administration plans on getting from the unions. All the major unions have contracts through 2015. The County Executive plans on "ordering" the savings should the unions not voluntarily make concessions. As it is currently included in the budget, the Police Department represents 74.1% of the projected savings. The entire $61.1 million has to be considered at risk until such time as the labor agreements are amended, or the likely court case is resolved in the County's favor. The savings continue throughout the MYP, with $62.3 million in 2012, $63.5 million in 2013 and $64.8 million in 2014. The table below shows the projected labor savings by fund:

Budgeted Labor Savings in Relation to Total Payroll

Fund	2011 Proposed Salary Budget	2011 Proposed Labor Saving	Savings as a % of Salary
Fire Commission Fund	10,424,014	(680,017)	-6.5%
General Fund	402,907,562	(15,138,324)	-3.8%
Police District Fund	205,572,246	(23,556,109)	-11.5%
Police Headquarters Fund	191,263,428	(21,727,899)	-11.4%
Major Funds Total	810,167,250	(61,102,349)	-7.5%

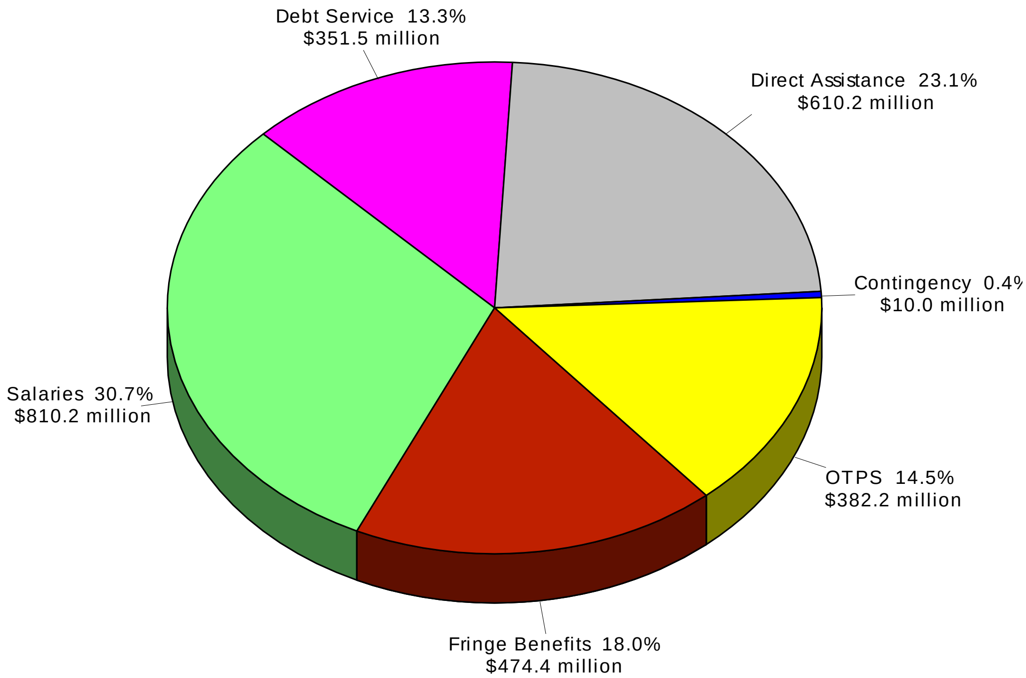
The projected savings for all departments can be found in the Labor section of this document.

OLBR has identified a total budgetary risk of $235.7 million, of which the anticipated labor savings and the tax certiorari funding make up $161.1 million.

Proposed Expense Budget

The FY 11 proposed budget for the major funds, excluding the Sewer and Storm Water District and interdepartmental chargebacks, is $2.6 billion. Nearly half of the budget funds salaries and fringe benefits. The second largest component is for direct assistance at 23.1%, as illustrated in Chart 1.1.

Chart 1.1: FY 11 Major Funds' Expenses ($2.6 billion)



Data excludes inter-dept charges and Debt Service includes NIFA Debt.

Compared to the adopted FY 10 budget, there is an increase of $21.0 million or 0.8% as shown in Table 1.2, on page 5. The funding for salaries is decreasing by $47.2 million or 5.5%. As of September 1, 2010 the five major funds headcount is 8,195. There is a reduction of 415 full-time employees or 4.7% from the 2010 Adopted Budget to the 2011 Proposed Budget. Headcount in the 2011 proposed budget is at 8,395, an increase of 200 or 2.4% from the September headcount. Sewer and Storm Water District is increasing by 55 positions from the September actual and increasing from the 2010 budget by 4 positions. The Administration included a credit to salary expenses of $61.1 million in the 2011 Executive Budget to be realized through labor savings. As a result of many labor constraints, this is a challenging undertaking. OLBR was not informed of the methodology of how the savings were calculated. From a budget perspective, OLBR considers the entire $61.1 million to be a risk. If the adjustments were not included in the budget, OLBR estimates that the salary lines are sufficiently funded. The County and State each offered an early retirement incentive; to date, 436 employees have opted into one of the programs. The annualized salary savings and projected termination cost are shown by union in the graph below

Incentive Option	Fund	Head Count	Annualized Salary	Projected 2010 Termination Liability
County				
	FCF	5	353,068	613,327
	GEN	69	4,588,440	4,784,809
	GRT	4	220,321	176,632
	PDD	68	5,107,608	14,981,135
	PDH	78	9,557,416	26,570,346
	SSW	2	109,392	121,211
County Total		226	19,936,245	47,247,459
State				
	FCF	10	805,869	657,921
	GEN	141	11,310,526	7,489,277
	GRT	11	835,880	489,057
	PDD	8	41,133	155,597
	PDH	23	1,600,691	1,080,523
	SSW	17	1,176,893	740,534
State Total		210	15,770,992	10,612,908
Grand Total		436	35,707,237	57,860,367

Local Law 10-2010 created the Department of Shared Services to provide administrative support services for multiple agencies and departments of the County. In addition to purchasing and procurement, any of the following shared functions can be performed, in whole or in part, by the Department of Shared Services: financial management functions including, payroll and personnel administration, property management, information technology support, printing and graphics functions, records maintenance, mail services, public relations and constituent affairs, secretarial and clerical services, labor relations and negotiations. The key areas identified for this consolidation are Human Resources, Accounts Payable and Accounts Receivable.

Compared to the September 1, 2010 headcount there are 200 more full-time positions in the proposed 2010 Budget, as reflected in Section 4 of the Executive Summary, Labor. Some departments that are scheduled to have a significant addition to personnel compared to their September 2010 headcount are Social Services, the Department of Public Works, Fire Commission, Correctional Center, Probation Health Department and County Attorney.

Table 1.1: Proposed FT Headcount vs. Sept. 2010

Department	September 2010 Actual	Executive 2011 Budget	Change from Exec. To Sept Actual
SOCIAL SERVICES	770	820	50
PUBLIC WORKS DEPARTMENT	504	526	22
FIRE COMMISSION	86	107	21
CORRECTIONAL CENTER	1,215	1,235	20
PROBATION	199	216	17
HEALTH DEPARTMENT	195	210	15
COUNTY ATTORNEY	125	135	10

Table 1.2: Major Funds' Expenses 2010 vs. 2011
($'s in millions)

	2010 Adopted	2011 Proposed	Var.
Expenses			
Salaries	$857.3	$810.2	($47.2)
Fringe Benefits	413.0	474.4	61.4
OTPS	432.5	382.2	(50.4)
Direct Assistance	581.3	610.2	28.9
Debt Service	321.7	351.5	29.8
Contingency	11.5	10.0	(1.5)
Total Expenses[1]	**$2,617.4**	**$2,638.4**	**$21.0**

1. Excludes interdepartmental charges and debt service chargebacks

Fringe benefit expenses, including Workers Compensation costs, are increasing by $61.4 million to $474.4 million in the FY 11 proposed budget. The increase is due to the following:

1. Health insurance for active and retired employees is increasing by $30.0 million or 13.5% from the projected FY 10 cost of $219.7 million to $249.2 million.
    a. The FY 11 budget for health insurance costs includes an increase of 13.6% for active and retiree health insurance plans. The growth rate is realistic based on New York State's Second Quarter Experience Report which estimates health insurance rates to increase by roughly 12.5% in 2011.
    b. Due to the low rates finalized in FY 09 and FY 10, the State projects a higher rate in FY 11 than the historical average.
2. Social security expenses are increasing by 5.9 million to $57.7 million. The increase is due to an underfunded FY 10 Adopted Budget.
    a. In FY 10, OLBR is projecting a deficit of $7.4 million in social security costs.
3. The FY 11 Executive Budget includes $109.4 million in total for Employee Retirement System (ERS) and Police and Fire Retirement System (PFRS) pension obligations. This is an increase of $19.9 million from FY 10 pension cost.
    a. The increased pension contribution rates in the FY 11 budget reflect the significant losses the New York State Common Retirement Fund (Fund) experienced in 2009 from the global financial crisis. The impact of this decline is being realized in SFY 2011 due to the calculation of rates that looks at the average of the investment experience over a five year period.
    b. The rate of return in 2012 will continue to increase while the 2009 loss continues to be recognized.
4. The FY11 workers' compensation budget has increased by $5.0 million, or 21.2% versus the FY10 adopted budget. The indemnity rate has increased by 23% in 2010 versus 2009 due to an increase by the New York State Workers Compensation Board. The average weekly wage was

increased to $739.83 from $600.00. Other than personal services (OTPS) expenses are decreasing by $50.4 million. The $50.0 million in the General Fund to pay property tax refunds in FY 10 has been removed from the proposed budget.

The funding for equipment, general expenses, and contractual services has been reduced by $6.8 million, or 4.2%. Equipment is down $1.2 million or 44.1%. Offsetting that decrease is an increase of $7.1 million, made up of $3.7 million for local government assistance, $2.4 million for interfund charges, and $1.1 million for LIRR station maintenance which increases annually by the Consumer Price Index (CPI). Contractual expenses are decreasing by $4.9 million, of which $4.8 million is primarily associated with the Correctional Center bidding to privatize inmate healthcare. The department believes that they can achieve a savings while providing the same healthcare benefits to inmates, which in the past has been contracted to Nassau Community Medical Center (NUMC). Other departments affected by program cuts include the Department of Social Services and the Youth Board, which eliminated the Family and Children's Association (FCA) Youth and Community Development funding of $912,072. The utilities expense has been reduced by $1.8 million due to anticipated energy saving initiatives primarily in Public Works. The initiatives include LED traffic lights, solar panels being installed on the County building located at 1194 Prospect Avenue in Westbury and savings from the newly awarded Hess Corporation contract for natural gas.

The direct assistance budget, including Preschool and Early Intervention Services, is increasing by $28.9 million, or 5%. Recipient grants and emergency vendor payments are projected over budget in FY 10 because of caseload increases in the Temporary Assistance to Needy Families (TANF) and Safety Net programs as illustrated in the "Nassau County TANF and Safety Net Case Load" chart in Social Services department review. FY 11 includes a smaller increase from the current trend because of the economic recovery. Compared to the same time period in 2009, the average of the first seven months of 2010 has seen a 23.4% increase in TANF cases and a 25.5% increase in Safety Net cases. Caseloads began increasing significantly in the second half of 2008 in direct correlation with the recession. The purchased services budget for FY 11 is over the FY 10 budget by $8.7 million.

Medicaid is increasing compared to the FY 10 Adopted Budget by $5.3 million. The County share of Medicaid expense is capped at 2010 expenses plus three percent. OLBR is currently projecting a $3.2 million surplus for FY 10 based on the 2009 year end actuals. In addition there is $1.4 million in health insurance premiums and transportation payments. The total cost comes to 2.2% over the FY 10 budget.

The reduction for early intervention services is due to finalized lower than budgeted revised provider rates in FY 2010. The number of children receiving services is expected to stay even with the 2009 level.

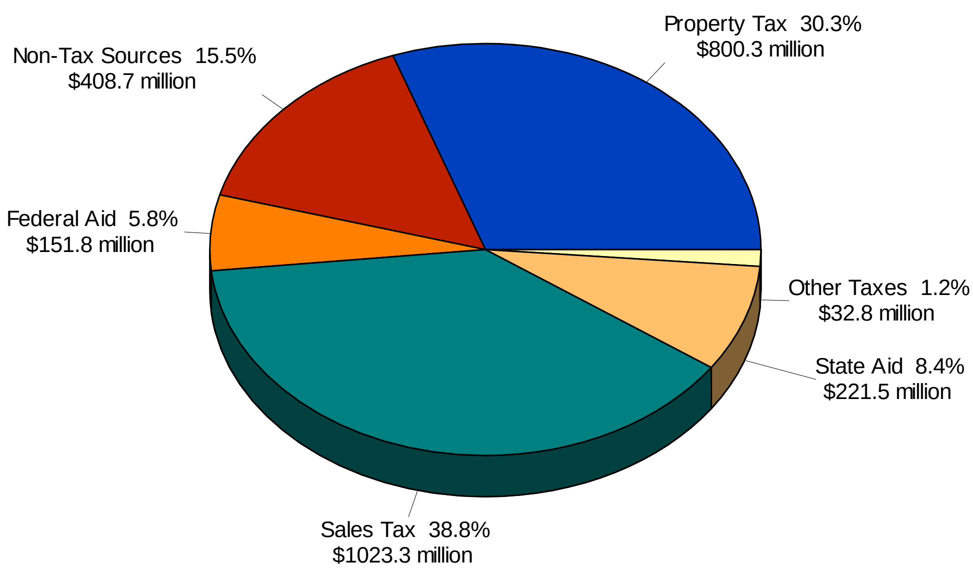
The debt service budget is increasing by $29.8 million. According to the NIFA preliminary review of the proposed MYP, the Administration included $8.0 million in 2011 in savings from the anticipated restructuring of NIFA issued debt, which "is not attainable at this time". The Administration, believing that the savings can be achieved, has requested that NIFA proceed with the restructuring.

A $10.0 million contingency for unforeseen events has been included in the proposed budget. This is $1.5 million less than the FY 10 amount.

Proposed Revenue Budget

The largest revenue source for the County is sales tax, making up 38.8% of all receipts, as illustrated in Chart 1.2. From June 1, 2009 through May 31, 2010, sales tax was expanded to include residential energy sources. Table 1.4: Major Funds Revenue FY 10 vs. FY 11 shows the energy tax decreasing in FY 11 from $39.4 million to $0. The proposed regular sales tax revenue in the FY 11 Executive Budget is $1.022 billion, an increase of $59.6 million. This estimate is based on OMB's assumption that collections, less the residential energy tax, will increase by 6.0% annually in FY 10 and then increase by 3.75% in FY 11. Based on year-to-date collections and economic forecasts for 2011, this is a reasonable assumption. For a further discussion of sales tax, see Section 2 of this document.

Chart 1.2: FY 11 Major Funds' Revenue ($2.6 billion)



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

The 2011 proposed budget, as shown in Table 1.3, reflects a property tax levy decrease for the major funds of $1.3 million. That change is offset by a $3.0 million tax addition for the Sewers, for a net tax levy increase of $1.7 million. This increase represents the value of new construction added to the tax rolls. In addition, the tax levy to fund the debt service on the voter approved environmental bonds is increasing by $2.3 million.

Table 1.3: Property Tax Levy Comparison

Property Tax Levy Comparison						
Fund	2008 Adopted	2009 Adopted	2010 Adopted	2011 Proposed	$ 2011 vs 2010	% 2011 vs 2010
Fire Commission	15,554,824	15,465,535	15,400,795	15,641,459	240,664	1.6%
General	145,858,384	156,498,471	162,838,578	173,019,722	10,181,144	6.3%
Police District	332,325,833	345,035,890	343,354,134	340,932,665	(2,421,469)	-0.7%
Police Headquarters	279,632,013	289,073,953	279,980,342	270,721,786	(9,258,556)	-3.3%
Subtotal Major Funds	**$773,371,054**	**$806,073,849**	**$801,573,849**	**$800,315,632**	**($1,258,217)**	**-0.2%**
Sewers	103,932,309	110,031,815	116,031,815	119,031,815	3,000,000	2.6%
Total Major Funds & Sewers	**$877,303,363**	**$916,105,664**	**$917,605,664**	**$919,347,447**	**$1,741,783**	**0.2%**
Enviromental Bond	7,374,561	4,850,000	9,000,000	11,250,000	2,250,000	25.0%
College[1]	50,247,241	52,206,883	52,206,883	52,206,883	0	0.0%
Grand Total	**$934,925,165**	**$973,162,547**	**$978,812,547**	**$982,804,330**	**$3,991,783**	**0.4%**

1. 2011 College Budget has been adopted

Table 1.4: Major Funds Revenue FY 10 vs. FY 11

($'s in millions)

	2010 Adopted	2011 Proposed	Var.
Revenues			
Use of Reserves	24.0	2.0	(22.0)
Non-Tax Sources	346.8	406.7	59.9
Federal Aid	177.5	151.8	(25.7)
State Aid	231.3	221.5	(9.8)
Sales Tax	963.7	1,023.3	59.6
Residential Energy Tax	39.4	0.0	(39.4)
Property Tax	801.6	800.3	(1.3)
Other Taxes	33.1	32.8	(0.3)
Total Revenues[1]	**$2,617.4**	**$2,638.4**	**$21.0**

1. Excludes interdepartmental revenue & debt service chargebacks

The proposed budget has reduced the planned use of reserve funding by $22.0 million. The $2.0 million that has been included for FY 11 will come from the Employee Accrued Liability fund and will be utilized in the Police District fund to cover the costs of termination pay for retiring officers. As this office indicated last year, the use of these funds was ideally intended to supplement the operating budget in the event of an excessive number of retirements. Following the County retirement incentive this year, which was open to police officers, retirements are anticipated to be much lower than the historic norm in 2011.

Non-tax sources is estimated to increase by $59.9 million as seen in Table 1.4: Major Funds Revenue FY 10 vs. FY 11.

Fines and Forfeits are increasing by $36.7 million over the FY 10 budget. Approximately 74% of this revenue is in the Traffic and Parking Violations Agency and is made up of two revenue streams: Parking tickets and Red Light Camera. The 2011 budget includes an additional $17.3 million for red light cameras in the unallocated revenue department which brings the budgeted increase from that initiative to $29.6 million from the 2010 Adopted Budget. This initiative requires State Approval and is considered a risk. The agency also collects fines on traffic and parking violations and historically this revenue stream has been approximately $17.0 million. The 2010 Adopted budget allocated $20.8 million for this revenue. However the FY 11 proposed budget is $28.0 million and OLBR estimates the $7.3 million increase to be a risk.

Department revenues are up $21.6 million from the FY 10 adopted budget, largely due to fee increases in various departments. The County Legislature will have to approve the new rates that have been budgeted to bring in an additional $8.3 million in County Clerk fees, $8.0 million in ambulance fees collected by the Police Department, and $2.3 million from fees charged by the Parks Department. Also included in Parks is $1.0 million of advertising revenue. This item has appeared in the budget before. It is considered a risk because there is no contract in place. The Correctional Center includes $3.5 million for housing Suffolk inmates.

Revenue from federal aid is decreasing by $25.7 million. The American Recovery and Reinvestment Act (ARRA) provided assistance to state and local governments in the form of an increased share of the Federal contribution towards Medicaid (FMAP). Nassau County expects to receive $16.3 million in FY 11, which is $27.7 million less than the $44.0 projected for FY 10 ($46.7 million in aid was provided in FY 09). Housing is down $1.0 million due to the elimination of the funding for a Brownsfield Redevelopment site, which has yet to be selected. Included in the FY 11 Debt Service budget is $3.4 million that will be received from the Federal government as credit subsidy payments on County-issued Build America Bonds.

State aid is estimated to decrease by $9.8 million in FY 11. In FY 10 there was $16.0 million included that was to have been received through the imposition of a new cigarette tax. State approval was not obtained and the revenues have been taken out of the proposed budget. A state initiative for $5.0 million has been included for FY 11 representing surcharge revenues collected as a reimbursement from NY State for the costs which Nassau County incurs in patrolling the Long Island Expressway and portions of Sunrise Highway. Both of these are State roads and therefore the State is responsible for patrolling them. The surcharge would be $50 per ticket for certain traffic offenses and infraction convictions. Reimbursement for patrolling these roads has been sought since 2004. The state aid received for reimbursable health and human services programs is increasing in DSS by $6.5 million, which represents reimbursements for higher Temporary Assistance for Needy Families and Safety Net caseloads. The $3.5 million decrease in the department of Health correlates with the decrease in expenditures for Children's Early Intervention Services.

The revenue items in the proposed budget that may be at risk are listed in Table 1.5:

Table 1.5: Revenue Risk

Revenues

Item	OLBR Surplus/(Risk)
Surcharge for Patrolling LIE	($5.0)
Parks Advertising	(1.0)
New Fees Requiring Legislative Approval	(18.3)
OTB Profits	(1.5)
Housing Suffolk Inmates	(3.4)
TPVA Fines	(11.0)
Red Light Camera Program	(29.6)
Revenue Sub Total	**($69.8)**

Any initiative that requires either New York State or Nassau County legislative approval has been labeled as a risk. Each item listed will be detailed further in our Departmental Analysis.

Table 1.6: Expense Risk and Contingencies

Expenses

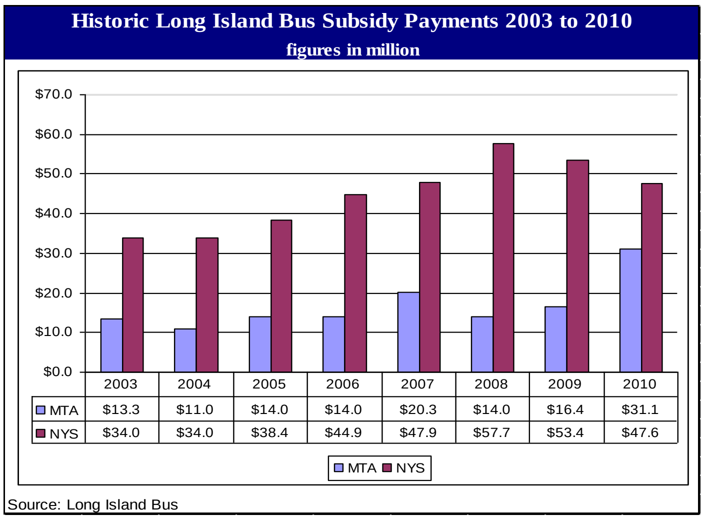
Item	Surplus/(Risk)
Tax Cert Funding	($100.0)
Labor Concessions	(61.1)
NIFA Restructuring Savings	(8.0)
Medical Care for Inmates Contract	(4.8)
Police Overtime	(2.0)
Expense Sub Total	**($175.9)**
Total Risk	**($245.7)**
Contingencies	
Contingency funds	10.0
Total Contingencies	$10.0
Budget Exposure	**($235.7)**

One other item of concern is the funding for Long Island Bus, which continues to operate with deficits. In 2010, LI Bus is forecasting a $95.4 million baseline deficit. In 2011, this baseline deficit is expected to grow to $99.4 million or 4.3%.

Farebox revenues on average cover 31.5% of total LI Bus expenditures. LI Bus is heavily dependent on subsidy payments to cover the cost of its operations. Since 2003, the MTA has provided LI Bus with subsidy payments totaling $134.1 million. Over the same time period, NYS has provided LI Bus with $357.9 million in subsidy payments. Without these payments, LI Bus could not sustain its operations.

In 2010 NYS is expected to provide LI Bus with $47.6 million in subsidy payments and the MTA is forecast to give LI Bus $31.1 million in subsidy payments.

The chart below details the annual NYS and MTA subsidy payments to LI Bus from 2003 to 2010.



MTA budget documents reveal that the agency is in poor fiscal health. State budget cuts and deteriorating tax revenues have forced the agency to reduce payroll, freeze salaries and reduce service levels.

The MTA has stated that it would like Nassau County to step up its subsidy payments to LI Bus. According to the 1973 agreement between the MTA and Nassau County, the County is responsible for funding LI Bus's operating deficit. The MTA states that it will not continue to subsidize LI Bus if Nassau does not increase its subsidy payment, but will assist Nassau in the privatization process.

Based on the proposed 2011 budget, the County does not intend to step up its subsidy payments to LI Bus. The FY 11 proposed budget includes $9.1 million in subsidy payments from LI Bus. That subsidy amount is unchanged from the 2010 adopted levels. The subsidy payment is broken into two parts: the fixed route, Metropolitan Suburban Bus Authority subsidy of $6.9 million and the para-transit, Handicapped Transportation System subsidy of $2.2 million.

Nassau County is seeking to privatize its bus service and has issued a request for proposals (RFP) asking companies to submit bids for assuming the current service. The RFP expects the privatization to occur by 2011. As per the RFP, the winning company will not be able to raise fares more than 20%, will not receive any subsidy payments from Nassau County and will pay a percentage of its gross revenues to Nassau County.

It is unclear how the financial standoff with the MTA will be resolved.

Finally, though not associated with the major operating funds, there is the proposed new fee on not-for-profit organizations (with the exception of houses of worship) that are part of the County's sewer and storm water system. The rationale for charging this fee, based on water usage, is that since the sewer system is currently funded via a tax levy, from which the not-for-profits are exempt, those organizations are not contributing to the system. The amount of $19.0 million included in the FY 11 budget assumes half a year's collections. The Multi-Year Plan projects revenue for this initiative to grow to $38.0 million in years FY 12 through FY 14. As with the other proposed fee increases, these revenues must be considered at risk until the County Legislature votes in favor of imposing the fee.

Multi-Year Plan

Table 1.7 below details projected expenditures and revenues through 2014. The budgetary gaps that result over that period show what could occur if no corrective actions are taken.

Table 1.8: Multi-Year Plan Projections (Major Funds)
($'s in millions)

	2011	2012	2013	2014
Revenues				
Fund Balance	$0.0	$0.0	$0.0	$0.0
Use of Reserves	2.0	2.0	2.0	2.0
Non-Tax Sources	406.7	396.6	398.1	417.0
Federal Aid	151.8	137.1	138.5	139.6
State Aid	221.5	225.2	228.8	232.1
Sales Tax	1,023.3	1,061.7	1,101.5	1,142.8
Property Tax	800.3	800.3	800.3	800.3
Other Taxes	32.8	32.8	32.8	32.8
Total Revenues	**$2,638.4**	**$2,655.7**	**$2,701.9**	**$2,766.6**
Expenses				
Salaries	$810.2	$883.1	$913.0	$964.1
Fringe	474.4	529.7	562.9	596.0
OTPS	382.2	392.0	397.2	410.1
Direct Assistance	610.2	624.0	635.1	645.4
Debt Service	351.5	375.9	400.5	408.9
Contingency	10.0	10.0	10.0	10.0
Total Expenses	**$2,638.4**	**$2,814.7**	**$2,918.9**	**$3,034.5**
Surplus/Gap Projection	**($0.0)**	**($159.0)**	**($217.0)**	**($267.8)**

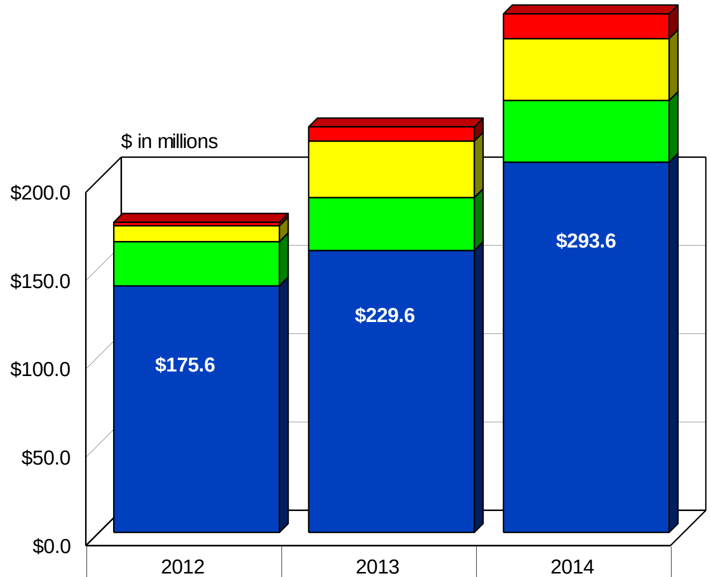
1.Less interdepartmental charges, debt service chargebacks and Sewer & Storm Water District.

Over the course of the MYP, total expenses are projected to grow by 4.6% annually, while revenues increase at the lower rate of 1.6%. Rising costs for salaries, fringe benefits, direct assistance and debt service will outpace the County's largest revenue source, sales tax. The County's second largest revenue source, property tax, is not projected to increase over the next four years.

- Salaries and wages will increase by $153.9 million, from a proposed budget of $810.2 million in FY 11 to $964.1 million in FY 14. The anticipated labor concessions being sought by the Administration are included in each year of the MYP, averaging $52.6 million. The five major unions have contracts through 2015.
- Fringe benefits will increase by $121.5 million, from an estimate of $474.4 million in FY 11 to $596.0 million in FY 14. Health insurance expenses for active and retired employees are projected to increase by $69.1 million to $318.4 million. Pension costs are expected to grow by $44.3 million to $153.7 million. Social security expenses are increasing by $6.9 million to $64.6 million in FY 14.
- OTPS expenditures will increase by $28.0 million, or 2.4% annually.
- Direct Assistance will increase by $35.2 million, from an estimate of $610.2 million in FY 11 to $645.4 million in FY 14. The largest increases are for the Early Intervention/Pre-school Special Education Program ($13.2 million) and Medicaid ($9.0 million). There is a corresponding increase in state aid of $10.6 million over the same time period.
- Debt Service will increase by $57.4 million, from an estimate of $351.5 million in FY 11 to $409.9 million in FY 14.
- Sales tax is projected to increase by $119.5 million, from a projected amount of $1.023 billion in FY 11 to an estimate of $1.143 billion in FY 14. The MYP projects 3.75% growth for all years.
- Federal aid is decreasing due to the end of the additional FMAP funding after FY 11.
- The non-tax sources category shows an increase of $10.3 million. Two of the more significant items are investment income, increasing by $21 million, and red light camera revenue, which is expected to decline by $25.4 million, from $55.6 million in FY 11 to $23.9 million in FY 14. It is anticipated that red light camera violations will decrease as drivers become aware of the camera locations. The MYP includes a $7.0 million increase in investment income in all out years. Given the current weak status of the economy, OLBR believes that a conservative approach should be taken on interest rate increases.
- The property tax levy will stay constant from FY 11 to FY 14.

The MYP contains various items to reduce the projected out-years gap. These items are divided into four categories: assessment reform, revenue initiatives, expense reductions, and financing options/asset sales, as illustrated in Chart 1.3

Chart 1.3: Gap Closing Measures 2012 - 2014



	2012	2013	2014
Assessment Reform	$2.0	$8.0	$14.0
Revenue Initiatives	$9.0	$32.0	$35.0
Expense Reductions	$25.0	$30.0	$35.0
Financing Options/Asset Sales	$139.6	$159.6	$209.6

The following chart provides the detail within each category of gap-closing measures:

Chart 1.4: Gap Closing Measures Detail 2012 - 2014

	2012	2013	2014
Financing Options/Asset Sales			
Public Private Partnerships	125.0	125.0	125.0
Privatization of LI Bus	9.6	9.6	9.6
Debt Restructuring	5.0	5.0	5.0
Surplus Land Sales		20.0	30.0
Securitization of Mitchel Field Leases			40.0
Expense Reductions			
Department Efficiencies	20.0	20.0	20.0
Headcount Reductions	5.0	10.0	15.0
Revenue Initiatives			
Increased Departmental Revenues	3.0	3.0	3.0
Shared Services - Improved Accounts Receivable	3.0	3.0	3.0
Hub Revenues		20.0	20.0
Value of New Construction	3.0	6.0	9.0
Assessment Reform			
Debt Service on Assessment Reform	2.0	8.0	14.0
Total Gap Closing Initiatives	**$175.6**	**$229.6**	**$293.6**

The Privatization of Long Island Bus has been previously discussed.

As described in the MYP, Public Private Partnerships will be undertaken in which the County will lease certain assets to a private sector operator while retaining ownership and operating restrictions, also commonly known as a Concession Agreement. The County could receive an upfront payment and/or steady income stream from the private operator. Surplus Land Sales would provide revenue by selling parcels in order to generate cash flow.

Expense Reductions and Department Efficiencies will be sought through the use of the shared service concept.

Hub Revenues are related to the redevelopment of the Nassau Coliseum and its surrounding area. The possibility of a casino has been mentioned.

Securitization of Mitchel Field Leases: Although this item appears as a 2014 gap closer, the Administration has already received proposals on the securitization of the rental streams associated with 18 of the 24 Mitchel Field leases. The leases are land or ground leases, for a term of 99 years (initial terms of 33 years and two additional 33 year renewal options). The County would receive a one-time, upfront payment in exchange for the right to collect the monthly rental payments associated with the 18 leases. The County would continue to own the land under the properties and would resume monthly rental collections as of January 2041. Currently, the County collects $3.6 million a year in rental payments on these properties. OLBR estimates that over the 30 year time horizon, the total, undiscounted rental payments would total $114.4 million. There are no County expenses associated with the leases. The item shown in the MYP with a value of $40.0 million. From a budgetary perspective, to the extent that the forgone recurring revenues are not offset by either an equal amount of recurring expense cuts or additional recurring revenue, the securitization would have the effect of increasing the County operating budget's structural gap.

Conclusion

The proposed budget and multi-year plan contain a greater degree of risk than has been seen in recent years. This makes it essential that all revenues and expenses be closely monitored. The moment a potential risk becomes an inevitable reality must be anticipated and the deficit addressed. At that point, difficult options regarding service cuts and/or revenue enhancement must be on the table.

The regional economy is in a positive, but fragile position. All economic indicators appear to be moving forward, albeit at a slow rate. Gross County Product, retail sales, employed resident, regional prices, new mortgage origination, non-farm jobs, and personal income are all expected to register positive growth rates from 2011 through 2014. However, many of the positive growth rates would be described as marginal. It does not appear that the County can count on the economy to provide a quick fix. If the proposed FY 11 sales tax budget is achieved, after collections have been growing at a surprisingly good rate in FY 10, with further growth of 3.75% for next year, the total will only be approximately $10 million more than was received in FY 07.

The Administration can also achieve savings, if needed, by limiting capital spending and altering the borrowing amounts and schedule. In addition, delays in hiring and reducing the planned hires will yield further savings.

2. SALES TAX

The largest source of revenue for the County is sales tax. The sales tax is collected by the State, and distributed to the County on a regular basis. The current rate in Nassau is 8.625%, of which 4.0% is the State's share, 4.25% is the County's share, 0.375% goes to the Metropolitan Commuter Transportation District. The County distributes one seventeenth of its collections to the Town of Hempstead, Town of North Hempstead, Town of Oyster Bay, City of Glen Cove and the City of Long Beach. In 2011 the incorporated villages will be allocated a lump sum amount of $1,250,000 to be divided on a per capita basis. That amount is unchanged from the current year.

Starting in June of 2009, Nassau County ceased to exempt energy sources and services from sales and compensating use taxes. From that date, natural gas, propane sold in containers of 100 pounds or more, electricity, steam, gas, electric and steam services, fuel oil (except diesel motor fuel), coal, and wood (for heating purposes only) was taxed at 2.5%. The County Legislature voted to restore the sales tax exemption on residential energy as of June 1, 2010. During the twelve months that the tax was imposed, $39.4 million was collected.

The proposed sales tax revenue in the FY 11 Executive Budget is $1.022 billion. This estimate is based on OMB's assumption that collections will increase by 6.0% annually in FY 10 and then increase by 3.75% in FY 11.

Table 2.1, below, shows annual gross sales tax collections since FY 05, OMB's projected FY 10 total, and the budgeted amounts in the proposed 2011 – 2014 Multi-Year Financial Plan. The MYP projects 3.75% growth for years 2012 through 2014.

Table 2.1: Annual Sales Tax Collections

Less Residential Energy Tax (in millions)

Fiscal Year	Actuals	Growth
2005	953.8	1.5%
2006	991.1	3.9%
2007	1,011.9	2.1%
2008	1,003.0	-0.9%
2009	929.4	-7.3%
Fiscal Year	**OMB Projections**	**Growth**
2010	984.8	6.0%
2011	1,021.7	3.75%
2012	1,060.0	3.75%
2013	1,099.8	3.75%
2014	1,141.0	3.75%

Note: Table shows gross collections for each year, and does not reflect adjustments contained in the County's financial statements.

In addition to the regular sales tax, $1.6 million has been budgeted in FY 11 as deferred sales tax. That represents the amount that part-county sales tax collections in FY 08 surpassed budget. The deferred sales tax is not included in any of the annual totals shown in the Table 2.1.

As can be seen in the chart below, sales tax receipts collected through October 12, 2010, less the residential energy tax, have come in 5.7% greater than in the same period in 2009. This most recent check completes the quarterly adjustment for the period June 1 through August 31.

Gross Sales Tax Receipts 2010 vs. 2009
(Payments Through October 12, in millions)

	2009	2010	Variance $	Variance %
Sales Tax	$654.3	$691.9	$37.5	5.7%
Residential Energy Tax	7.8	17.6	9.8	
Gross Sales Tax YTD	$662.1	$709.4	$47.3	7.1%

Based upon the year-to-date results, OLBR views the Administration's assumption of 6.0% sales tax growth for 2010 as reasonable. However, to achieve this result, over 6% annual growth is required for the remainder of 2010. Until the most recent check, year-to-date collections had been above the 6.0% rate. A strong holiday season will now be necessary to reach the 2010 target. The National Retail Federation is currently forecasting 2.3% growth for U.S. holiday sales in November and December.[1]

The proposed FY 11 budget includes 3.75% sales tax growth on top of its current 2010 projected base. This growth rate seems reasonable given Moodys Economy.coms' 4.41% 2011 forecast growth rate for Nassau County retail sales. Historically, New York State Department of Taxation and Finance figures show that retail sales have represented approximately 54% of total sales tax collections. In addition, Moody's is forecasting for 2011 a growth rate of 2.24% in regional consumer prices and 3.88% for Nassau County personal income growth, providing further support for the 3.75% rate required to achieve the FY 11 budgeted sales tax amount.

If the current 2010 projected base is not collected, a growth rate higher greater than 3.75% in 2011 will be required to attain the 2011 sales tax budget.

In the out-years, the MYP includes sales tax growth of 3.75%. This growth rate seems achievable given the current average out-year forecast for Nassau County GCP, personal income, retail sales and regional consumer prices. The table below details Moodys Economy.com's current forecast for these variables.

2010 to 2014 Nassau County Economic Forecast
Forecast Annual Growth Rates

	2010	2011	2012	2013	2014
GCP	0.14%	1.88%	3.10%	2.05%	1.44%
Personal Income	2.27%	3.88%	5.99%	6.50%	5.68%
Retail Sales	5.02%	4.41%	5.41%	4.55%	3.42%
Regional CPI	2.06%	2.24%	3.26%	3.59%	2.98%
Average	**2.37%**	**3.10%**	**4.44%**	**4.17%**	**3.38%**

Source: Moody's Economy.com

[1] "NRF Forecasts Holiday Sales Increase of 2.3 Percent", The National Retail Federation, October 6, 2010.

3. ECONOMIC REPORT

Current and Projected National Economic Conditions

According to the National Bureau of Economic Research the recession that commenced in December 2007 officially came to an end in June 2009.[1] Since June 2009 the United States has been in a recovery. On September 30, 2010, the US Commerce Department upwardly revised it measure of real GDP growth to 1.7% for the second quarter of 2010.[2] The revised estimate is still considered too low to prompt businesses to start hiring again. Economists opine that real GDP growth of 2% or more is necessary to induce businesses to add to payroll.[3]

All current economic forecasts expect the national economic recovery to continue for the remainder of 2010 and through 2013. Table 3.1 below reveals that on average the rate of national economic growth will increase until 2012. After 2013 national economic growth will remain positive, albeit at a lower rate.

Table 3.1

US Real GDP Forecasts 2009 through 2012				
	2010	**2011**	**2012**	**2013**
The Conference Board	2.60%	1.60%	NA	NA
Moody's Economy.com	2.69%	3.08%	4.97%	4.24%
Fed. Reserve Bank of Philadelphia	2.90%	2.70%	3.60%	2.60%
Mortgage Bankers Association	2.30%	2.40%	3.00%	NA
Average Forecast	**2.62%**	**2.44%**	**3.86%**	**3.42%**

However, the National Bureau of Economic Research cautioned that the current economic recovery is weak and there is a chance that another economic downturn could occur. They stated that “any future downturn of the economy would be a new recession and not a continuation of the recession.”[4] A recent CNN/Money.com survey of top economists found that the probability of a second recession occurring is 25%. That was up from six months ago when the probability of a double dip recession was 15%.[5]

Projected Regional Economic Conditions

Regionally, the economy continues to recover. The current recovery is expected to continue through 2014. Over the next four years, Nassau County’s Gross County Product (GCP), personal income and number of employed residents are expected to register continued positive growth. Table 3.2 on the following page details the current forecast for eleven Nassau County economic variables.

The market for mortgage refinancing is projected to be the weakest link in Nassau’s economy through 2011. This market has been a significant economic engine for Nassau County. During the height of the housing boom, cash-out refinancings provided a means for households to finance their purchases and generate demand. As the County went through the recession, refinancing mortgages to lower interest rates and accelerating payments enabled households to cut debt levels and remain in their homes.

[1] “Recession Ended in June 2009”, The Wall Street Journal, September 20, 2010.
[2] Censky, Annalyn, “GDP Report: Economic Growth Slightly Faster”, CNN/Money.com, September 30, 2010.
[3] Same as above.
[4] “Recession Ended in June 2009”, The Wall Street Journal, September 20, 2010.
[5] Same as above.

Since mortgage interest rates are forecast to increase throughout 2011 and 2012, refinancing will not be a financially viable option for many households. Moreover, tight credit standards coupled with sluggish home price growth are contributing to the 54.2% forecast decline in 2011 mortgage refinancings.

Table 3.2

2010 to 2014 Nassau County Economic Forecast Forecast Annual Growth Rates					
	2010	**2011**	**2012**	**2013**	**2014**
GCP	0.14%	1.88%	3.10%	2.05%	1.44%
Personal Income	2.27%	3.88%	5.99%	6.50%	5.68%
Employed	0.26%	0.61%	1.38%	1.65%	1.15%
Unemployed	-0.43%	6.16%	-12.30%	-19.32%	-14.73%
Unemployment %	6.87%	7.22%	6.31%	5.07%	4.31%
Non Farm Jobs	0.37%	0.52%	2.02%	2.36%	1.86%
New Mortgages	-1.91%	19.65%	15.96%	6.91%	7.24%
Mrt Refinances	-28.48%	-54.20%	1.55%	37.34%	17.13%
Retail Sales	5.02%	4.41%	5.41%	4.55%	3.42%
Median Home Sale Price	-0.81%	-9.69%	4.76%	4.56%	2.44%
Regional CPI	2.06%	2.24%	3.26%	3.59%	2.98%
Source: Moody's Economy.com					

Nassau County's unemployment rate is expected to peak in 2011 and decline in all of the out years. The sections below provide a detailed analysis of the various sectors of the regional economy.

Resident Employment

From a monthly perspective, in August 2010 Nassau County's labor force declined. The region lost both employed residents as well as unemployed residents. These trends combined caused Nassau County's unemployment rate to drop to 6.8%

From an annual viewpoint, in August 2010, not only did Nassau's labor force grow, but there were enough employment opportunities available to cause the number of employed residents to grow while the number of unemployed residents declined. These trends are expected to continue for the remainder of 2010 and through 2011.

According to Moody's Economy.com's September 2010 forecast, Nassau County will continue to register growth in the number of employed residents. However, the current growth rate is expected to decline. Nassau County's unemployment rate is expected to start to rise again in the fourth quarter of 2010 through the third quarter of 2011. Table 3.3 below details these projections.

Table 3.3

Nassau Labor Market by Quarter, 2010 and 2011				
2010				
	Q1	**Q2**	**Q3**	**Q4**
Total Employed	0.29%	0.38%	0.29%	0.13%
Total Unemployed	-2.60%	-2.53%	-0.27%	2.45%
Unemployment %	7.0%	6.8%	6.8%	6.9%
2011				
	Q1	**Q2**	**Q3**	**Q4**
Total Employed	0.05%	0.07%	0.17%	0.30%
Total Unemployed	3.42%	2.63%	0.39%	-2.22%
Unemployment %	7.1%	7.3%	7.3%	7.1%
Source: Moody's Economy.com				

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

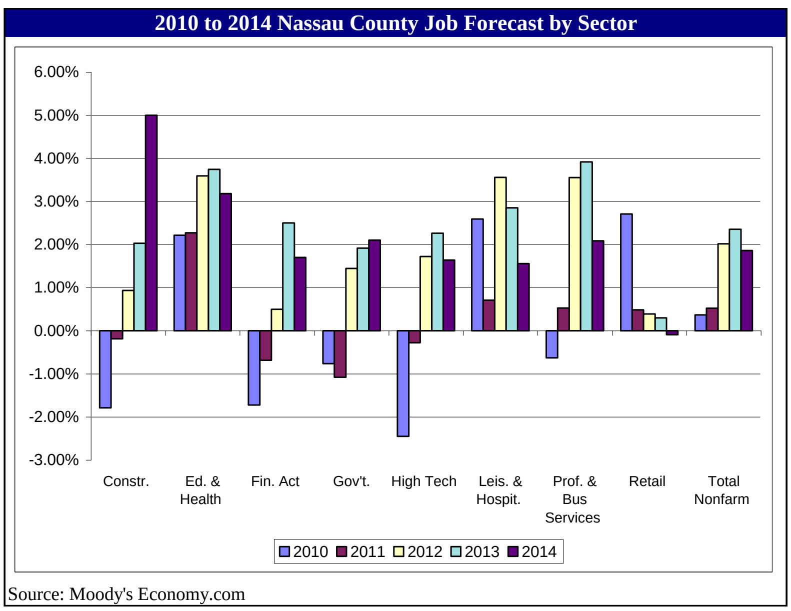
Jobs

From an annual perspective, in August 2010 total non-farm job growth had increased 0.7%. However, the job growth was not broad based. Although the County gained 8,800 new jobs, thirteen sectors shed jobs from both a monthly and an annual vantage point.

Similar trends are forecast through 2014. Total non-farm job growth is expected to be positive throughout 2014. Job growth above the 1% mark indicative of a healthy economy is forecast for 2012, 2013, and 2014.

However, not all sectors are expected to record this type of growth. In 2011, the construction, financial activities, government, and high tech sectors are projected to see a decrease in jobs. Chart 3.1 below details the current overall job growth forecast as well as the job growth forecast for eight sectors from 2010 to 2014.

Chart 3.1



Consumers Spending

According to the US Commerce Department, August 2010 national retail sales increased 0.4% from the prior month and 3.5% from the prior year. Aggressive retail promotions coupled with improved household financial positions were seen as the impetus behind the positive retail sale growth.[6] Retail experts, while encouraged by the positive results, opined that the growth rate is not robust. Individuals

[6] Grannis, Kathy, "August Retail Sales Increase Still Reflects Cautious Consumer", National Retail Federation, September 14, 2010.

are still seen as limiting their spending. High unemployment, negative equity and a desire to pay down debt are seen as factors dampening consumer spending.[7]

Table 3.4 below details the 2010 and 2011 forecast for Nassau County GCP and retail sales. Both indicators are forecast to register positive growth throughout 2010 and 2011. Nassau's GCP growth rate is expected to steadily increase over the detailed time frame. The projected positive quarterly retail sales growth rates are expected to decline through 2010 and increase throughout 2011.

Table 3.4

Nassau County Consumption Growth By Quarter				
2010				
	Q1	**Q2**	**Q3**	**Q4**
GCP	0.12%	0.26%	0.32%	0.36%
Retail Sales	1.81%	1.90%	1.55%	1.08%
2011				
	Q1	**Q2**	**Q3**	**Q4**
GCP	0.43%	0.53%	0.69%	0.82%
Retail Sales	0.82%	0.82%	1.05%	1.34%
Source: Moody's Economy.com				

Regional consumer confidence when used as a barometer for regional consumer spending, reveals that the current sluggish growth rates may remain for a while. Siena College's September 2010 Consumer Confidence Index for the metropolitan region declined from both a monthly and an annual perspective.

Tourism

The Nassau County tourism industry has been stymied by the weak economy. Nassau County's lodging industry is heavily influenced by business traveling. Until business spending picks up, the local lodging industry will remain sluggish. Long Island Convention and Visitor's Bureau figures reveal that as of August 2010, a 0.9% decrease in average rental rates coincided with a 10.5% increase in occupancy rates.

Looking forward, using forecast job growth as an indicator of tourism demand, the leisure and hospitality sector is expected to record positive growth from 2010 through 2014. Table 3.5 shown below details the projected annual growth rates.

Table 3.5

2010 to 2014 Forecast Job Growth for the Nassau County Leisure & Hospitality Sector					
	2010	**2011**	**2012**	**2013**	**2014**
Leisure and Hospitality	2.6%	0.7%	3.6%	2.9%	1.6%
Source: Moody's Economy.com					

Residential Real Estate

The residential real estate market in Nassau County is in a recovery mode. As of August 2010, the median sold home sale price had increased 6.7% compared to the prior year. Over the same time frame, average closed home sale prices have risen 17.7%. The August 2010 average closed home sale price was $610,942; this represents the first time in twelve months that the average closed home sale price was above $600,000.

[7] Censky, Annalyn, "Retail Sales Boosted by Back-to-School Shoppers", CNN/Money.com, September 14, 2010.

Not only are home sale prices up from an annual vantage point, but the number of closed transactions has also increased. Some of the increase seen in the year-to-date number of closed transactions may be attributed to the federal housing credit which was in effect during the first quarter of 2010.

Looking forward, home sale prices are expected to continue to decrease throughout the remainder of 2010. However, on an annual basis, 2010 home sale prices are expected to drop 0.81%. In 2011, median home sale prices are expected to decline through the fourth quarter. From an annual perspective, 2011 median home prices are forecast to decrease 9.69%. These annual growth rates may be viewed in Table 3.2 The increasing unemployment forecast for 2011 may be seen as dampening the 2011 housing market forecast.

The declining home sale prices are expected to induce greater home sales. The forecast for new mortgages is increasing from the third quarter 2010 to the fourth quarter of 2011. The number of new mortgages is expected to grow 19.65% in 2011 from 2010.

As previously mentioned, the number of mortgage refinancings is expected to decline throughout 2010 and 2011.

Table 3.6 below details the quarterly forecast for Nassau County's residential housing market.

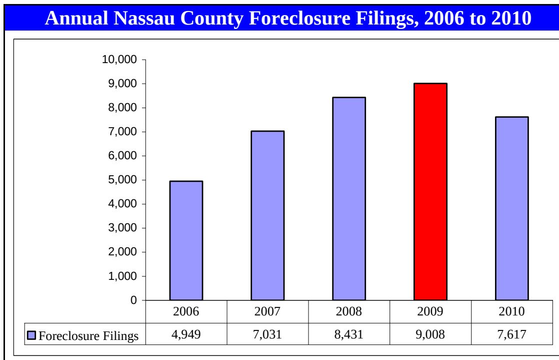
Table 3.6

Nassau County Housing Forecast By Quarter				
2010				
	Q1	**Q2**	**Q3**	**Q4**
New Mortgages	-2.25%	-1.29%	1.35%	4.33%
Mrt. Refinances	-10.35%	-15.11%	-18.31%	-19.92%
Med. Sale Price	1.04%	0.30%	-1.45%	-3.23%
2011				
	Q1	**Q2**	**Q3**	**Q4**
New Mortgages	5.95%	6.28%	5.69%	4.68%
Mrt. Refinances	-20.18%	-18.43%	-13.16%	-4.45%
Med. Sale Price	-3.91%	-3.35%	-1.47%	0.83%
Source: Moody's Economy.com				

The market for foreclosed properties may also have reached its bottom and be in a recovery mode. County Clerk foreclosure filings reveal that the number of foreclosure filings peaked in July 2009. If current trends continue, 2010 foreclosure filings are expected to decline 15.4% from the 2009 level and 9.7% from the 2008 level. Chart 3.5 below details the annual number of foreclosure filings from 2006 to 2010.

Chart 3.5

Annual Nassau County Foreclosure Filings, 2006 to 2010



Note: 2010 is a projection.
Source: Nassau County, County Clerk's Office

Recent RealtyTrac data similarly suggests that the floor may have been reached in the foreclosure market. They find that home sale prices on properties taken back by banks or in the process of being foreclosed have been rising. Not only have these properties been selling for more, but there are fewer of these properties available.[8] In theory, sale prices for foreclosed properties weigh down sale prices on all properties. If prices on foreclosed properties increase, then prices on all properties should follow suit.

Consumer Prices

As of August 2010, US Bureau of Labor Statistics figures show that regional consumer prices have increased 1.4% from the prior year and 0.2% from the prior month. Regional consumer prices have risen from both a monthly and an annual perspective since March 2010.

Looking forward, according to Moody's Economy.com, regional consumer prices are expected to continue to increase from both a quarterly and an annual perspective from the third quarter 2010 through 2014. A similar trend is projected for the nation. Table 3.7 below details this forecast.

Chart 3.7

Regional Consumer Price Forecast By Quarter				
	Q1	**Q2**	**Q3**	**Q4**
2010	0.60%	-0.29%	0.60%	0.54%
2011	0.62%	0.58%	0.68%	0.76%
2012	0.83%	0.87%	0.92%	0.93%
2013	0.94%	0.85%	0.80%	0.77%
2014	0.72%	0.69%	0.68%	0.70%
Source: Moody's Economy.com				

Conclusion

The regional economy is in a positive, but fragile position. All economic indicators appear to be moving forward, albeit at a slow rate. Gross County Product, retail sales, employed resident, regional prices, new mortgage origination, non-farm jobs, and personal income are all expected to register positive growth rates from 2011 through 2014. However, many of the positive growth rates would be described as marginal. Therefore, it would not be difficult for one of the previously mentioned variables to fall off course and register a negative growth rate. The Federal Reserve Bank of Philadelphia's Third Quarter 2010 Survey of Professional Forecasters puts the national chance of such a detour occurring at 14.0% for the third quarter of 2010, 16.8% for the fourth quarter of 2010, 16.5% for the first quarter of 2011, 15% for the second quarter of 2011, and 14.9% for the third quarter of 2011.

[8] Yan, Ellen, "Prices on Foreclosure Sales Rise on Long Island", Newsday.com, September 29, 2010.

4. LABOR

VOLUNTARY RETIREMENT INCENTIVE

In June of 2010, the County offered a Voluntary Early Retirement Incentive program (VRIP) to the Civil Service Employees Association (CSEA), Sheriff Officers' Association (ShOA), and the three police unions, Police Benevolent Association (PBA), Detectives' Association, Inc. (DAI), and Superior Officers' Association (SOA). One of the stipulations for PBA, SOA and DAI is that the members would need to leave by November 1, 2010. The separation deadlines have passed for CSEA and ShOA which were August 2, 2010 and September 1, 2010 respectively. Shortly after the County announced the VRIP, the State offered its own early retirement program, which was available to all employees, except police unions. The program consists of two parts, A & B. Under Part A, CSEA employees could opt into the program 21 days prior to the August 20th must-leave-by date; ShOA and Ordinance had to file 21 days prior to the October 2nd must-leave-by date. Under Part B, CSEA, ShOA and Ordinance employees must file 21 days prior to leaving during the open period which is between October 1, 2010 and December 29th, 2010. With deadline dates extending into the following months, the incentive is still ongoing and additional separations may occur.

The retirement program seeks to provide immediate relief to the budget by encouraging seasoned, higher paid employees to retire and replacing them with lower paid workers or leaving the positions vacant which decreases salary expenses; it also avoids layoffs and may increase productivity. The 2010 budget also included $26.8 million in operating funds for termination pay which will now be bonded in connection with the program. It is also important to note that $11.0 million of the FY 10 budgeted expense for Police District was to be funded through the Employee Accrued Liability Reserve which will no longer be used and will remain as a reserve. To date, 436 employees have opted into the programs; the annualized salary savings and projected termination cost are shown by union in the graph below:

Early Retirement Incentive Recap as of September 26th 2010

Incentive Option	Union	Head Count	Annualized Salary	Projected 2010 Termination Liability
County				
	CSEA	103	4,788,034	6,963,971
	DAI	23	2,792,734	7,931,943
	IPBA	1	99,767	87,628
	PBA	46	4,974,072	13,718,412
	SHOA	9	812,478	835,457
	SOA	44	6,469,160	17,710,048
County Total		**226**	**19,936,245**	**47,247,459**
State				
	CSEA	182	13,341,551	9,265,135
	ORD	10	850,862	474,046
	SHOA	18	1,578,579	873,727
State Total		**210**	**15,770,992**	**10,612,908**
Grand Total		**436**	**35,707,237**	**57,860,367**

Although the retirement program does provide immediate relief to the budget, the benefits are diminished as new hire salaries increase by contractual steps and COLAs; the true measure of success will be in the Administration's ability to keep spending down by backfilling only essential positions.

Labor Contracts

In 2008 and 2009 the County was able to negotiate a number of contracts, extensions, and supplemental Memorandum of Agreements (MOA) to help it achieve savings. As a result, all the major unions have contracts until December 31, 2015. In addition, the labor contracts include clauses that prevent layoffs in PBA and CSEA through 2011. With no furlough provisions, the County has little ability to garner savings in the future. While the awards might have had minimal impact at implementation; they will prove to be very costly in the out-years as deferrals will come due. It is imperative that the Administration restructure and cut costs on a permanent basis in order to prepare for the years when the agreements not only increase salaries but require the County to pay deferred raises as well.
Table 2 provides a comparison of the wage increases and deferrals for each union.

Table 2: Union Contract Wage Agreements

Wage Increase				
PBA	**DAI**	**SOA**	**CSEA**	**ShOA**
4/1/2008 1% / 4% 4/1/2009 1% / 4% 4/1/2010 1% / 4% 4/1/2011 1% / 4% 4/1/2012 1% / 4% 1/1/2013 3.50% 1/1/2014 3.50% 1/1/2015 3.75%	7/1/2008 1% / 3.75% 7/1/2009 1% / 3.75% 6/1/2010 1% / 3.75% 6/1/2011 1% / 3.75% 6/1/2012 1% / 3.75% 1/1/2013 3.50% 1/1/2014 3.50% 1/1/2015 3.75%	4/1/2008 3.45% 4/1/2009 3.45% 7/1/2010 3.45% 7/1/2011 3.45% 7/1/2012 3.45% 1/1/2013 3.50% 1/1/2014 3.50% 1/1/2015 3.75%	1/1/2008 0% 1/1/2009 3.65% 4/1/2010 3.65% 4/1/2011 3.75% 4/1/2012 3.75% 1/1/2013 3.50% 1/1/2014 3.50% 1/1/2015 3.75%	4/1/2008 1% / 3.65% 4/1/2009 1% / 3.65% 4/1/2010 1% / 3.65% 4/1/2011 1% / 3.65% 4/1/2012 1% / 3.65% 1/1/2013 3.50% 1/1/2014 3.50% 1/1/2015 3.75%
Wage and longevity for 04/01/07 to 09/30/07 paid in 2011 Wage and longevity for 04/01/08 to 08/31/08 paid 01/01/11. Wage and longevity for 04/01/09 to 09/30/09 paid in 01/01/12.	Wage and longevity for 07/01/07 to 12/31/07 paid in 2011. Wage and longevity for 07/01/08 to 10/31/08 paid 01/01/11. Wage and longevity for 07/01/09 to 12/31/09 paid in 2012.	Wage and longevity for 04/01/08 to 12/31/08 paid in 2012. Wage and longevity for 04/01/09 to 12/31/09 paid in 2012. Wage and longevity for 07/01/10 to 12/31/10 paid in 2013.	Wage increases for 4/1/10 to 11/1/10 paid in 2014. Wage increases for 4/1/11 to 11/1/11 paid in 2015.	Wages increases from 4/1/10 - 11/1/10 paid in 2014. Wages increases from 4/1/11 - 11/1/11 paid in 2015.

The Multi-Year Plan (MYP) includes retroactive pay and deferrals of $7.0 million in 2011, $23.8 million in 2012, $12.3 million in 2013 and $15.6 million in 2014. Offsetting these expenses is an anticipated labor savings credit of $61.1 million in 2011 which grows to $62.3 million in 2012, $63.5 million in 2013 and $64.8 million in 2014. These savings will be discussed in detail in the next section.

2011 Budgeted Labor Savings

The Administration included a credit to salary expenses of $61.1 million in the 2011 executive budget to be realized through labor savings. As a result of the many labor constraints discussed above, this is a challenging undertaking. OLBR has been informed of ongoing negotiations that the Administration could not discuss for fear it would jeopardize the outcome. This office was also unsuccessful in receiving the methodology of how the savings were calculated. From a budget perspective, the Office of Legislative Budget Review considers the entire $61.1 million to be a risk. If the adjustments were not included in the budget, OLBR estimates that the salary lines are sufficiently funded.

Table 3 illustrates the expected salary savings as a percent of total payroll by fund and department:

Table 3: Labor Savings

Budgeted Labor Savings in Relation to Total Payroll

Fund	Department	2011 Proposed Salary Budget	2011 Proposed Labor Saving	Savings as a % of Salary
FCF				
	FIRE COMMISSION	10,424,014	(680,017)	-6.5%
FCF Total		**10,424,014**	**(680,017)**	**-6.5%**
GEN				
	DEPARTMENT OF INVESTIGATIONS	6,770	-	0.0%
	ASSESSMENT REVIEW COMMISSION	3,228,127	(51,501)	-1.6%
	ASSESSMENT DEPARTMENT	13,027,860	(302,063)	-2.3%
	COUNTY ATTORNEY	11,116,061	(141,400)	-1.3%
	DEPT OF MH, CHEM DEPEND & DISABLE SVCS	5,087,307	(232,367)	-4.6%
	OFFICE OF MANAGEMENT AND BUDGET	2,696,391	-	0.0%
	OFFICE OF CONSUMER AFFAIRS	2,119,399	(34,171)	-1.6%
	SHERIFF/CORRECTIONAL CENTER	123,608,029	(6,989,975)	-5.7%
	COUNTY EXECUTIVE	2,564,265	-	0.0%
	OFFICE OF CONSTITUENT AFFAIRS	2,646,654	(75,200)	-2.8%
	COUNTY CLERK	6,139,024	(158,119)	-2.6%
	COUNTY COMPTROLLER	6,356,294	(168,455)	-2.7%
	CIVIL SERVICE	4,760,368	(129,985)	-2.7%
	DISTRICT ATTORNEY	28,571,992	(334,268)	-1.2%
	BOARD OF ELECTIONS	12,370,492	(145,910)	-1.2%
	EMERGENCY MANAGEMENT	556,199	-	0.0%
	HEALTH DEPARTMENT	15,958,839	(603,975)	-3.8%
	HOUSING & INTERGOVERNMENTAL AFFAIRS	316,137	(60,000)	-19.0%
	PHYSICALLY CHALLENGED	304,637	-	0.0%
	COMMISSION ON HUMAN RIGHTS	612,555	(7,162)	-1.2%
	INFORMATION TECHNOLOGY	10,218,932	(430,555)	-4.2%
	COUNTY LEGISLATURE	6,278,015	-	0.0%
	OFFICE OF LABOR RELATIONS	395,842	-	0.0%
	OFFICE OF MINORITY AFFAIRS	408,742	-	0.0%
	MEDICAL EXAMINER	5,415,064	(111,212)	-2.1%
	MISCELLANEOUS	1,726,000	-	0.0%
	PUBLIC ADMINISTRATOR	501,638	(8,244)	-1.6%
	PROBATION	17,554,733	(450,879)	-2.6%
	DEPARTMENT OF HUMAN RESOURCES	780,940	-	0.0%
	PARKS, RECREATION AND MUSEUMS	13,883,431	(608,821)	-4.4%
	PLANNING	1,708,386	(49,746)	-2.9%
	PURCHASING DEPARTMENT	1,260,698	(32,888)	-2.6%
	PUBLIC WORKS DEPARTMENT	36,262,487	(1,742,454)	-4.8%
	OFFICE OF REAL ESTATE SERVICES	567,580	(11,226)	-2.0%
	RECORDS MANAGEMENT	862,697	(32,448)	-3.8%
	COORD AGENCY FOR SPANISH AMERICANS	212,800	-	0.0%
	SENIOR CITIZENS AFFAIRS	2,439,725	(68,057)	-2.8%
	SOCIAL SERVICES	53,373,665	(1,968,055)	-3.7%
	COUNTY TREASURER	2,683,259	(77,283)	-2.9%
	TRAFFIC & PARKING VIOLATIONS AGENCY	3,442,006	(90,982)	-2.6%
	VETERANS SERVICES AGENCY	492,358	(11,216)	-2.3%
	NASSAU COUNTY YOUTH BOARD	391,164	(9,707)	-2.5%
GEN Total		**402,907,562**	**(15,138,324)**	**-3.8%**

Fund	Department	2011 Proposed Salary Budget	2011 Proposed Labor Saving	Savings as a % of Salary
PDD				
	POLICE DISTRICT	205,572,246	(23,556,109)	-11.5%
PDD Total		**205,572,246**	**(23,556,109)**	**-11.5%**
PDH				
	POLICE HEADQUARTERS	191,263,428	(21,727,899)	-11.4%
PDH Total		**191,263,428**	**(21,727,899)**	**-11.4%**
Total For Major Operating Funds		**810,167,250**	**(61,102,349)**	**-7.5%**

**The amounts for Consumer Affairs and Assessment review are coded to overtime and will be fixed by a technical adjustment for the adopted budget.

Headcount

Due to the ongoing retirement incentive program, there has been a significant shift in staffing. Although the County deadlines for ShOA and CSEA employees to separate have passed, there will be additional movement in Police due to the separation deadline of November 1, 2010. Part B of the State plan extends through December 29th, 2010 and employees who opted into the program will separate at a later date. As of September 1, 2010 the four major funds headcount is 8,195. There is a reduction of 415 full-time employees or 4.7% from the 2010 adopted budget to the 2011 proposed budget. Headcount in the 2011 proposed budget is at 8,395 an increase of 200 or 2.4% from the September headcount. Sewer and Storm Water District is increasing by 55 positions from the September actual and increasing from the 2010 budget by 4 positions.

In the general fund there are 199 funded vacancies when comparing the September 1, 2010 actual with the 2011 proposed budget. These positions represent a combination of backfilling pre and post incentive vacancies. The largest increases will be in the Department of Social Services with 50 positions, Public Works 22, the Correctional Center 20, and Probation with 17.

Included in the proposed FY 11 budget for Police is funding for 2,433 (2,428 excluding Chiefs and Deputy Commissioners) sworn officers, down 123 compared to the budget of 2,556 in FY 10 and 112 below September actuals, which does not reflect the entire 113 future sworn separations in FY 10. The department is continuing efforts to civilianize sworn positions. Some of the positions that were once occupied by uniform personnel include the following: five in Property Bureau, three in Special Units and two in Applicant Investigations and Communications Bureau among others. Additionally, the department faces serious budget risks if the $45.3 million in labor concessions does not come to fruition. Most importantly, without a board transfer, this includes the inability to meet their payroll.

The Department of Social Services continues to face challenges in meeting the increased demands for assistance. Prior to the incentive the department maintained an average of 23 open funded positions and began the process of hiring new employees. The Voluntary Retirement Incentive Program has created more of a need to fill these positions so that they can continue to provide quality and timely services to residents. The FY 11 proposed budget funds 50 additional heads from the September staffing level and the department expects to be at full headcount by year end.

The Correctional Center full-time staffing is budgeted to increase from the September 1, 2010 actual by 20 positions. The vacancies are attributed to 36 employees taking advantage of the early retirement incentive, which the department plans to backfill. The department has stated that their goal is to achieve and maintain headcount at the budgeted levels for 2011. They also anticipate a class of 25 to begin in November or December of 2010 and are currently in the process of working with the Police Department and Civil Service on a list of candidates.

Table 4 demonstrates the headcount variances on a departmental level.

Table 4: Full-Time Headcount

Department	Adopted 2010 Budget	September 2010 Actual	Executive 2011 Budget	Change from 2010 to Exec.	% Change from 2010 to Exec.	Change from Exec. To Sept Actual	% Change from Exec. To Sept Actual
DEPARTMENT OF INVESTIGATIONS	1	-	-	(1)	-100.0%	-	0.0%
ASSESSMENT REVIEW COMMISSION	42	42	43	1	2.4%	1	2.4%
ASSESSMENT DEPARTMENT	232	214	215	(17)	-7.3%	1	0.5%
COUNTY ATTORNEY	157	125	135	(22)	-14.0%	10	8.0%
DEPT OF MH, CHEM DEPEND & DISABLE SVCS	74	64	62	(12)	-16.2%	(2)	-3.1%
OFFICE OF MANAGEMENT AND BUDGET	34	25	27	(7)	-20.6%	2	8.0%
OFFICE OF CONSUMER AFFAIRS	36	32	33	(3)	-8.3%	1	3.1%
CORRECTIONAL CENTER	1,281	1,215	1,235	(46)	-3.6%	20	1.6%
COUNTY EXECUTIVE	35	20	26	(9)	-25.7%	6	30.0%
OFFICE OF CONSTITUENT AFFAIRS	47	45	44	(3)	-6.4%	(1)	-2.2%
COUNTY CLERK	106	100	103	(3)	-2.8%	3	3.0%
COUNTY COMPTROLLER	92	74	80	(12)	-13.0%	6	8.1%
CIVIL SERVICE	57	55	55	(2)	-3.5%	-	0.0%
DISTRICT ATTORNEY	371	361	363	(8)	-2.2%	2	0.6%
BOARD OF ELECTIONS	126	127	129	3	2.4%	2	1.6%
EMERGENCY MANAGEMENT	7	7	7	-	0.0%	-	0.0%
HEALTH DEPARTMENT	220	195	210	(10)	-4.5%	15	7.7%
HOUSING & INTERGOVERNMENTAL AFFAIRS	7	3	3	(4)	-57.1%	-	0.0%
PHYSICALLY CHALLENGED	5	4	4	(1)	-20.0%	-	0.0%
COMMISSION ON HUMAN RIGHTS	9	9	9	-	0.0%	-	0.0%
INFORMATION TECHNOLOGY	133	113	121	(12)	-9.0%	8	7.1%
COUNTY LEGISLATURE	95	87	95	-	0.0%	8	9.2%
OFFICE OF LABOR RELATIONS	5	5	5	-	0.0%	-	0.0%
OFFICE OF MINORITY AFFAIRS	6	6	6	-	0.0%	-	0.0%
MEDICAL EXAMINER	46	47	53	7	15.2%	6	12.8%
PUBLIC ADMINISTRATOR	7	7	7	-	0.0%	-	0.0%
PROBATION	215	199	216	1	0.5%	17	8.5%
DEPARTMENT OF HUMAN RESOURCES	16	9	9	(7)	-43.8%	-	0.0%
PARKS, RECREATION AND MUSEUMS	151	145	148	(3)	-2.0%	3	2.1%
PLANNING	23	17	22	(1)	-4.3%	5	29.4%
PURCHASING DEPARTMENT	21	16	17	(4)	-19.0%	1	6.3%
PUBLIC WORKS DEPARTMENT	634	504	526	(108)	-17.0%	22	4.4%
OFFICE OF REAL ESTATE SERVICES	9	7	7	(2)	-22.2%	-	0.0%
RECORDS MANAGEMENT	13	12	12	(1)	-7.7%	-	0.0%
COORD AGENCY FOR SPANISH AMERICANS	8	4	4	(4)	-50.0%	-	0.0%
SENIOR CITIZENS AFFAIRS	31	29	34	3	9.7%	5	17.2%
SOCIAL SERVICES	829	770	820	(9)	-1.1%	50	6.5%
COUNTY TREASURER	41	35	37	(4)	-9.8%	2	5.7%
TRAFFIC & PARKING VIOLATIONS AGENCY	45	43	47	2	4.4%	4	9.3%
VETERANS SERVICES AGENCY	8	7	8	-	0.0%	1	14.3%
YOUTH BOARD	5	4	5	-	0.0%	1	25.0%
TOTAL GENERAL FUND	**5,280**	**4,783**	**4,982**	**(298)**	**-5.6%**	**199**	**4.2%**
FC-FIRE COMMISSION	110	86	107	(3)	-2.7%	21	24.4%
POLICE DISTRICT	1,771	1,719	1,680	(91)	-5.1%	(39)	-2.3%
POLICE HEADQUARTERS	1,649	1,607	1,626	(23)	-1.4%	19	1.2%
Total Major Funds	**8,810**	**8,195**	**8,395**	**(415)**	**-4.7%**	**200**	**2.4%**
SEWER and STORM WATER DISTRICT	290	239	294	4	1.4%	55	23.0%
Total ALL Funds	**9,100**	**8,434**	**8,689**	**(411)**	**-4.5%**	**255**	**3.0%**

5. FRINGE BENEFITS

Fringe benefit expenditures include health insurance contributions for active employees and retirees, pension contributions for active employees and social security contributions. The FY 11 fringe benefit budget for the major funds is approximately $445.6 million, a $56.4 million increase from the FY 10 Adopted Budget of $389.3 million and an increase of $48.8 million from the FY 10 projection.

Table 5.1 displays the fringe benefit budgets of the major funds.

Table 5.1: Fringe Budget by Major Fund

Fund	Department	Adopted FY 10 Budget	OLBR FY 10 Projection	FY 11 Exec. Budget	Variance Exec. vs Adopted 10	Variance Executive vs FY 10 Proj.
Fire Commission	Fringe Benefits	$3,512,885	$3,569,421	$4,158,734	$645,849	$589,313
General Fund	Courts	1,925,236	1,928,532	2,117,499	192,263	188,967
	Fringe Benefits	169,952,962	174,801,184	201,434,827	31,481,865	26,633,643
	Miscellaneous	23,719,623	22,555,690	25,947,755	2,228,132	3,392,065
Police District	Fringe Benefits	98,458,293	100,585,203	108,763,657	10,305,364	8,178,454
Police Headquarters	Fringe Benefits	91,681,609	93,437,298	103,205,471	11,523,862	9,768,173
Total		**$389,250,608**	**$396,877,329**	**$445,627,943**	**$56,377,335**	**$48,750,614**

Table 5.2: itemizes fringe benefit costs by sub-object code:

Table 5.2: Fringe Budget by Sub-object

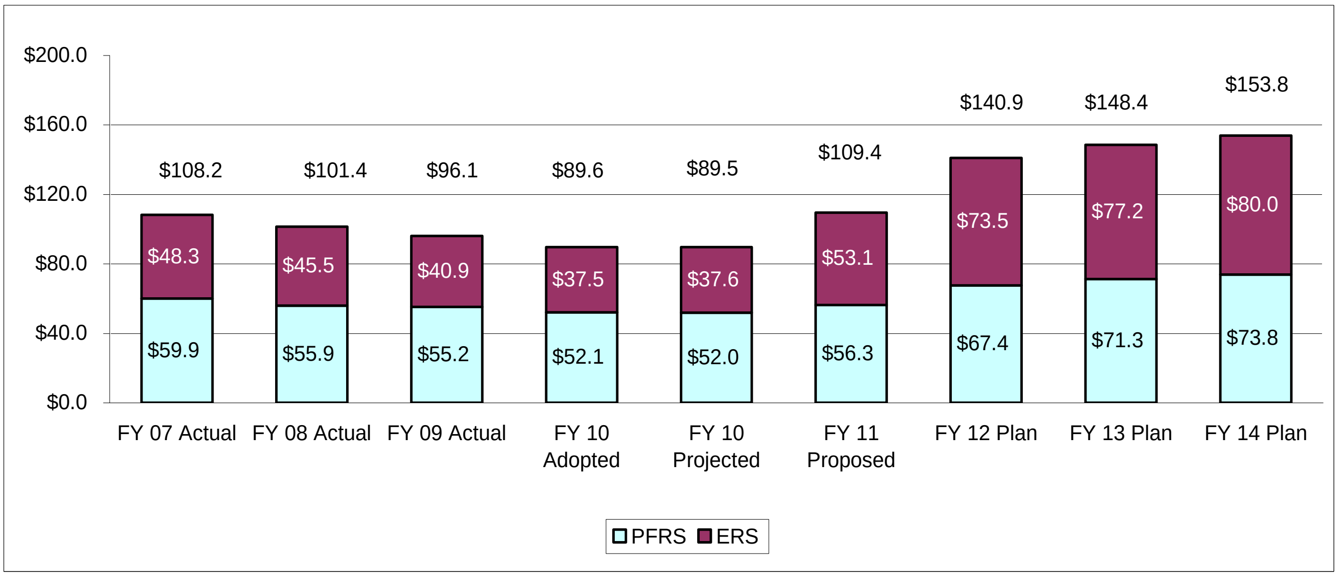
SubObject & Description	Adopted FY 10 Budget	OLBR FY 10 Projection	FY 11 Exec. Budget	Variance Exec. vs Adopted 10	Variance Exec. vs FY 10 Proj.
08F - NYS Police Retirement	$52,051,802	$51,954,558	$56,346,678	$4,294,876	$4,392,120
11F - State Retirement Systems	37,522,512	37,583,172	53,085,807	15,563,295	15,502,635
13F - Social Security Contribution	51,729,832	59,143,452	57,650,129	5,920,297	(1,493,323)
14F - Health Insurance	111,814,091	110,731,285	126,428,169	14,614,078	15,696,884
17F - Optical Plan	962,346	958,151	1,016,570	54,224	58,419
19F - NYS Unemployment	575,000	1,990,338	1,076,953	501,953	(913,385)
20F - Dental Insurance	5,087,780	4,672,588	4,963,275	(124,505)	290,687
22F - Medicare Reimbursement	15,449,499	14,028,896	15,259,350	(190,149)	1,230,454
22S - Medicare Reimbursement Surcharge	0	174,767	0	0	(174,767)
26F - Flex Benefits	2,650,000	2,650,000	2,800,000	150,000	150,000
28F - Transit Check Plan	200,000	0	0	(200,000)	0
35F - MTA Mobility Tax	2,472,977	2,797,291	2,914,261	441,284	116,970
40F - CSEA Legal Plan	509,000	629,640	560,750	51,750	(68,890)
41F - SHOA Legal Plan	133,500	134,500	132,000	(1,500)	(2,500)
45F - Disability Insurance	51,604	51,604	51,604	0	0
75F - Health Insurance For Retirees	107,600,710	108,909,211	122,816,167	15,215,457	13,906,956
76F - Employees Optical - Retirees	439,955	467,876	526,230	86,275	58,354
Grand Total	**$389,250,608**	**$396,877,329**	**$445,627,943**	**$56,377,335**	**$48,750,614**

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 to the ensuing March 31. New York State legislation enacted in 2004, moved the pension payment date for participating employers from December 15 to February 1. Local municipalities still have the option to make the payments on December 1 at a discounted amount.

Chart 5.1 details the historical pension obligations from FY 07 to FY 09 and the projected costs from FY10 to FY 14:

Chart 5.1: FY 07 to FY 14 Pension Costs (in Millions)



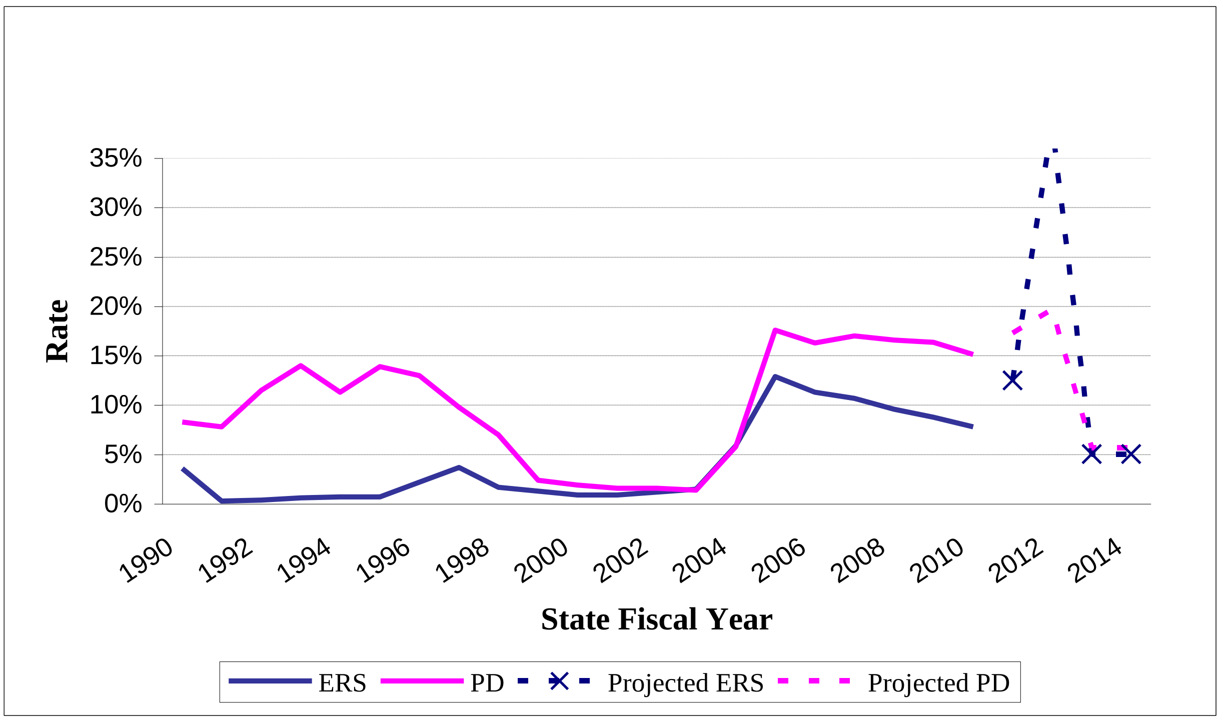
As reflected in the above chart, the FY 10 pension expense represents the lowest cost since FY 07 due to reduced pension contribution rates. The rates in FY 10 do not reflect the significant losses the New York State Common Retirement Fund (Fund) experienced in 2009 from the global economic crisis. The increase from FY 10 to FY 11 represents the impact of the financial crisis. The FY 11 Executive Budget includes $109.4 million in total for Employee Retirement System (ERS) and Police and Fire Retirement System (PFRS) pension obligations. This is an increase of $19.9 million from FY 10 pension cost. The Multi-Year Plan projects pension costs to continue to increase in FY 12 to $140.9 million, and to $148.4 million in FY 13 and $153.8 million in FY 14.

The proposed budget of $109.4 million for SFY 2010-11 is made up of $53.1 million for Employee Retirement System (ERS) and $56.3 million for the Police and Fire Retirement System (PFRS). The February 2011 estimated bill from the New York State Comptroller for ERS and PFRS is $114.1 million if the bill is paid on February 1, 2010 and $113.0 million if the bill is paid on December 15, 2009. The February 1 payment due date results in a higher net bill due to the corresponding change in the discount applied to the bill. The retirement system discounts the local bill at the statutory interest rate (8% annually) based on a payment date that falls prior to the end of the fiscal year.

The FY 11 proposed budget for pension costs is based on paying the pension bill on December 15, 2010. This includes $57.2 million billed for ERS and $55.8 million billed for PFRS. The ERS billed amount of $57.2 million includes the pension costs for Nassau Community College and the Sewer and Storm Water Resource District. These costs are reflected in their funds, not in the above charts which represents the major funds. The pension rates range from 9.1% - 21.6% of pensionable salaries for ERS and 16.8% to 27.6% of pensionable salaries in PFRS depending on the tier of the employee.

Chart 5.2 depicts the annual blended average historical pension contribution rates for ERS and PFRS from 1990 to projected FY 14 in the Multi-Year Plan.

Chart 5.2: Historical Pension Contribution Rates



Source: NYS Comptroller

As reflected in Chart 5.2, SFY 2011 represents the first annual increase in contribution rates after five consecutive annual decreases. Because of the recession, the rate of return of the New York State Common Retirement Fund, for the fiscal year ending March 31, 2009, was a negative 26.0%. The impact of this decline is being realized in SFY 2011 due to the calculation of rates that looks at the average of the investment experience over a five year period. The rate setting methodology spreads or smoothes unexpected equity investment performance over a five year period to lessen the volatility of the impact upon employer contribution rates.[1] However, even with the smoothing the rate impact of the 2009, the economic downturn is clearly significant in FY 11. In addition the rate of return over the next

[1] Office of the New York State Comptroller. "Letter to Employers of the Employee Retirement System, September 2010."

three years should continue to increase while the FYE 2009 loss continues to be recognized. On a positive note the fund posted a 25.9% rate or return for the fiscal year ended March 31, 2010.

The Multi-Year Plan assumes ERS pension rates of 38.4% in FY 13, 5.05% in FY 14, and 5.05% in FY 14. For PFRS, the Multi-Year Plan assumes 17.3% in FY 13, 5.66% in FY 13 and 5.66% in FY 14. The New York State Comptroller's Office provides estimated rates for SFY 2011, SFY 2012 and projected long-term expected rates. The rates provided by the State Comptroller continue to increase in 2012 as the impact of the 2009 loss continues to be reflected. The long term rates provided are projected to be lower than the 2012 estimated rates. The State Comptroller's long term expected contribution rates are based on an 8% annual rate of return on investments. If the Fund averages more than 8% over an extended period of time, the employer should expect contribution rates to be less than the long term expected rate. If the Fund earns less than 8% over an extended period of time, the contribution rates would be higher than long-term expected rates[2].

The State Comptroller has implemented some actions to help municipalities manage the increased pension costs. The State Comptroller recently signed into law the Employer Contribution Stabilization Program which allows employers the option to amortize a portion of the annual pension costs over ten years. The Comptroller has also announced that he will be accepting the Retirement System actuary's recommendation to lower the assumed investment rate return from 8.0% to 7.5%.

Finally, the Governor last year signed into law the creation of a new tier of pension benefits (Tier 5) which significantly changes the benefits for future public employees. On December 10, 2009, the State Governor signed a bill that amended Articles 14, 15 and 19 and created Article 22 of the Retirement and Social Security Law (RSSL). ERS members joining on or after January 1, 2010 and PFRS members who joined on or after January 9, 2010 may be affected by this change. The ERS retirement plans and disability and death benefits for Tier 5 members are the same as the current Article 15 (Tier 4) benefits with the following exceptions:

- Members contribute 3% of their salary for all their years of public service.
- Members must have ten years of service credit to be vested and eligible for retirement.
- Early retirement reductions for members retiring prior to age 62 are greater.
- Retirement benefits of members retiring between age 52 and 62 will be reduced for early retirement even if they have 30 years of service credit.
- Tier 5 contributions are tax-deferred until they are distributed under the Internal Revenue Code Section 414(h).
- Overtime pay in excess of an annual cap is not included in a final average salary calculation. The overtime cap for the calendar year is $15,000. The maximum reportable overtime increases by 3 percent each calendar year.

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

In 2010, the national rate of growth for health insurance continues to increase but not as significantly as in the past. Even though the rate of growth has decelerated, health insurance premiums continue to grow considerably and be a major concern.

[2] Office of the New York State Comptroller. "Letter to Employers of the Employee Retirement System, September 2010."

Chart 5.3: FY 06 to FY 13 Health Insurance Costs (in Millions)

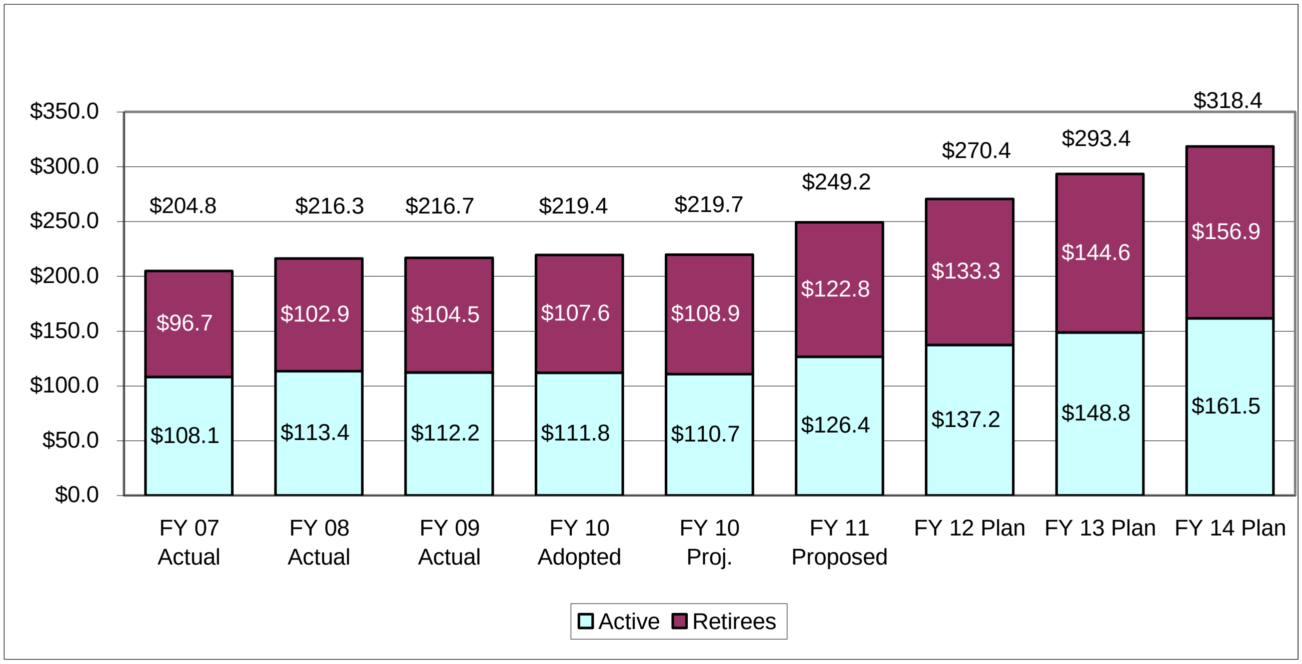
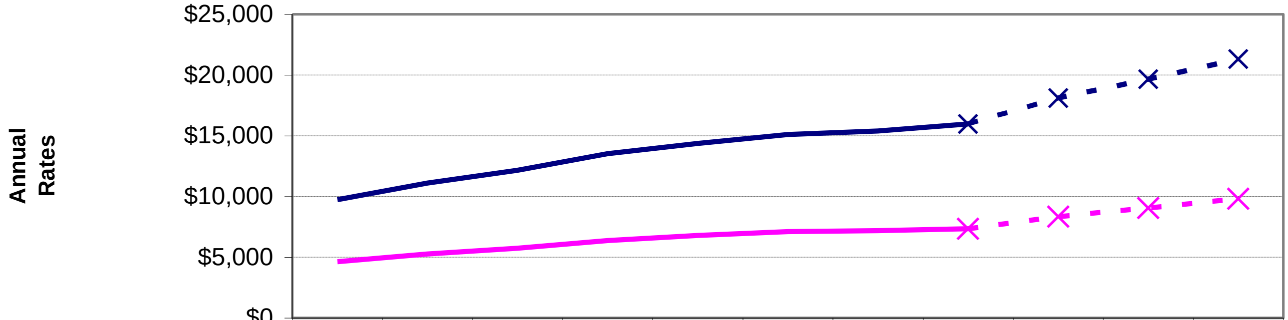


Chart 5.3 above, displays health insurance costs for active and retired employees from FY 07 to projected costs through FY 14 in the Multi-Year Plan. As shown above, health insurance costs increase significantly in each year. The FY 11 budget for health insurance costs includes $126.4 million for active employees and $122.8 million for retired employees for a total cost of $249.2 million. This is an increase of roughly $30.0 million or 13.5% from the projected FY 10 cost of $219.7 million. The Multi-Year Plan projects health insurance costs to increase to $318.4 million in FY 14.

Chart 5.4: Historical Health Insurance Premium (Non-Medicare) Rates



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Individual	$4,619	$5,258	$5,742	$6,357	$6,778	$7,109	$7,188	7,348			
Family	$9,737	$11,097	$12,164	$13,514	$14,377	$15,105	$15,386	15,971			
Projected Individual								7,348	$8,333	$9,041	$9,809
Projected Family								15,971	$18,111	$19,651	$21,321

Chart 5.4 displays how health insurance rates have been progressively increasing in Nassau County. 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, 2010 Summary of Finding," showed that employer sponsored health insurance rose 5% higher for single coverage and 3% for family coverage. Since 2000, average premiums for family coverage have increased 114%.[3]

The FY 11 budget for health insurance costs includes an increase of 13.4% for active and retiree health insurance plans. The growth rate is realistic based on New York State's Second Quarter Experience Report which estimates health insurance rates to increase by roughly 12.5% in 2011. Table 5.3 displays the projected 2011 annual health insurance rates for New York State:

[3] The Kaiser Family Foundation and Health Research and Education Trust, "Employer Benefits 2010 Summary of Findings." September 2010.

Table 5.3: Health Insurance Premium Rates

Rates	2010	2011	% Change
Plan Premium			
Individual	7,348	8,333	13.4%
Family	15,971	18,111	13.4%
MediPrime			
Individual	4,408	4,999	13.4%
Family-1	13,031	14,777	13.4%
Family-2	10,092	11,444	13.4%

The previous two fiscal years resulted in lower than average finalized health insurance rates. In FY 10, health insurance rates were finalized at an increase of 2.2% for individual and 3.8% for family. In FY 09, rates were finalized at 1.1% for single and 1.9% for family insurance. The smaller than usual rate increase in FY 10 is due to a larger than normal dividend application from New York State Health Insurance Plan (NYSHIP). In FY 09, County officials were able to convince NYSHIP and State budget officials that NYSHIP had been over-collecting premiums for years. Due to the low rates finalized in FY 09 and FY 10, the State projects a higher rate than the historical average of 8.5% in FY 11. The MYP baseline inflator used to project out-year health insurance costs is 8.5% in FY 12 through FY 14. The amounts projected by the Administration are reflected in Table 5.4: Multi-Year Plan by Sub-object.

Due to the growth in healthcare costs, workers are paying a larger portion of health insurance costs as businesses shift more of the burden to their employees. "The average employee contribution toward premiums for family coverage climbed 14% this year to nearly $4,000." Researchers found that businesses still pay at least 70% of the total premium, on average, for their workers but they are asking workers to chip in more which goes beyond increasing the premium contribution.[4] The Kaiser Foundation asked employees about changes they made to their health benefits in response to the poor economy. This year 30% of employers responded that they reduced the scope of health benefits and 23% said that they increased the share of premium a worker has to pay.[5]

13F Social Security

Social Security tax is comprised of two components: Old-age, Survivors and Disability Insurance (OASDI) and Medicare tax. The employer's contribution rate is 6.2% for OASDI and 1.45% for Medicare, which equals a combined rate of 7.65%. For the current year the OASDI portion is applied to salaries up to $106,800 unchanged from 2009. Medicare has no maximum. The Social Security Administration has not yet announced the wage base increase for 2011. The total OASDI tax on the current maximum wage base is roughly $6,932.84.

The FY 11 budget for social security is increasing by $5.9 million or 11.4% compared to the FY 10 budget. Compared to the FY 10 projection, social security expenses are decreasing by $1.5 million. The increase is due to an underfunded FY 10 Adopted Budget. The decrease compared to the FY 10 projection can be attributed to lowered total salaries from the reduced headcount in the proposed budget.

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[4] Murphy, Tom "Workers bear larger share of health premium costs." The Associated Press. September 2, 2010.
[5] The Kaiser Family Foundation and Health Research and Education Trust, "Employer Benefits 2010 Summary of Findings." September 2010.

In 2010, 436 full-time employees opted into either one of the early retirement incentives offered this year.

17F Optical Plan

This benefit provides optical insurance to full-time County employees. The annual per capita premium is remaining at $115. The FY 11 budget is increasing by $54,224 to $1.0 million compared to FY 10. The FY 11 budget is sufficient to cover the budgeted 8,395 full-time positions in the major funds.

19F New York State Unemployment

The County is required to reimburse the State for all unemployment claims paid to former employees. The County provides quarterly payments to the State. The FY 11 budget is increasing by $501,953 to $1.1 million. There is a projected deficit of $1.4 million in FY 10 due to a higher than usual number of terminations resulting from the change in the Administration.

20F Dental Insurance

This benefit provides dental insurance to full-time employees. The current contract with Healthplex will expire on December 31, 2010. Under this contract, the current annual premium per capita is $561. The FY 11 budget for dental costs is decreasing by $124,505 compared to the FY 10 budget. The FY 11 budget is sufficient to cover the budgeted 8,395 full-time positions in the major funds.

22F Medicare Reimbursement

The County provides quarterly payments to cover premium costs related to Medicare coverage for retired employees. The proposed FY 11 budget is decreasing by $190,149 to $15.3 million. Compared to the FY 10 projection, the proposed budget is increasing by $1.2 million.

In 2010, most people will continue to pay the 2009 Part B monthly premium of $96.40, even though the 2010 standard monthly Part B premium is $110.50. Beneficiaries who currently have the Social Security Administration (SSA) withhold their Part B premium and have incomes of $85,000 or less (or $170,000 or less for joint filers) will not have an increase in their Part B premium for 2010. For all others, the standard Medicare Part B monthly premium will be $110.50 in 2010, which is a 15% increase over the 2009 premium. For individuals whose income is above $85,000 (single) or $170,000 (married), the Medicare Part B premium may be higher than $110.50 per month.[6]

26F Flex Benefits Plan

All Nassau County employees may contribute a portion of their salary to a flexible spending account. This allows the employee to use tax free dollars on health care costs such as co-pays and deductibles. The FY 11 budget is increasing by $150,000 compared to the FY 10 Adopted Budget and the FY 10 projection. The FY 11 budget includes corresponding revenue to offset the expense in Miscellaneous of $2.8 million.

[6] "Will my Medicare Part B premium increase in 2010?" The Official U.S. Government Site for Medicare." October 19, 2009.

28F Transit Check Plan

Nassau County's transit check plan allowed employees who used mass transportation to allocate pre-tax dollars into the transit check plan. In FY 10 the County decided to eliminate this program. There is no budget in FY 11 for the transit check plan.

35F MTA Mobility Tax

In May 2009, the New York State Legislature approved a new regional payroll/mobility tax to fund the Metropolitan Transportation Authority, MTA. This tax applies to employers within the Metropolitan Commuter Transportation District whose wages and payroll expenses exceed $2,500 in any calendar quarter. The tax is equivalent to 0.34% of an employer's payroll expenses. The FY 11 budget includes $2.9 million which is an increase of $441,284 compared to the FY 10 budget.

40F CSEA Legal Plan

The FY 11 budget includes 560,750 for the CSEA legal plan which is an increase of $51,750 compared to last year's budget. As per the CSEA agreement, effective January 1, 2009, the County has to contribute the sum of $125 annually per each full and part-time employee.

41F ShOA Legal Plan

The FY 11 budget includes $132,000 for the ShOA legal plan as per the ShOA contract agreement.

45F Disability Insurance

The FY 11 budget includes $51,604 for disability insurance as per the current CSEA agreement. Effective January 1, 2010, the County shall provide New York State Disability Insurance to all CSEA bargaining unit employees. The employees shall pay their portion of the New York State Disability Insurance. If the County's cost of this benefit exceeds $800,000 annually, the County may return to the Panel to have this benefit adjusted.

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 11 proposed budget is increasing by $86,275 from the FY 10 budget and $58,354 compared to the FY 10 projection. The FY 11 Proposed Budget is sufficient to cover the current number of retirees receiving this benefit.

Table 5.4 displays out-year fringe benefit costs under the Multi-Year Plan:

Table 5.4: Multi-Year Plan by Sub-object

SubObject & Description	2011 Proposed Budget	2012 Plan	2013 Plan	2014 Plan
08F - NYS Police Retirement	$56,346,678	$67,446,974	$71,264,472	$73,758,729
11F - State Retirement Systems	53,085,807	73,470,757	77,181,030	79,982,702
13F - Social Security Contribution	57,650,129	59,875,424	62,186,615	64,587,019
14F - Health Insurance	126,428,169	137,174,563	148,834,401	161,485,325
17F - Optical Plan	1,016,570	1,016,570	1,016,570	1,016,570
19F - NYS Unemployment	1,076,953	1,076,953	1,076,953	1,076,953
20F - Dental Insurance	4,963,275	4,963,275	4,963,275	4,963,275
22F - Medicare Reimbursement	15,259,350	15,640,834	16,031,855	16,432,651
26F - Flex Benefits Plan	2,800,000	2,800,000	2,800,000	2,800,000
28F - Transit Check Plan	0	0	0	0
35F - MTA Mobility Tax	2,914,261	2,914,261	2,914,261	2,914,261
40F - CSEA Legal Plan	560,750	560,750	560,750	560,750
41F - Shoa Legal Plan	132,000	132,000	132,000	132,000
45F - Disability Insurance	51,604	51,604	51,604	51,604
75F - Health Insurance For Retirees	122,816,167	133,255,541	144,582,262	156,871,754
76F - Employees Optical - Retirees	526,230	526,230	526,230	526,230
Grand Total	**$445,627,943**	**$500,905,736**	**$534,122,279**	**$567,159,823**

Revenue Budget

Table 5.5 compares the FY 11 proposed budgeted revenue to the FY 10 projected revenue and the FY 10 Adopted Budgeted revenue for fringe benefits:

Table 5.5: FY 11 Revenue Budget

SubObject & Description	Adopted FY 10 Budget	OLBR FY 10 Projection	FY 11 Exec. Budget	Variance Exec. vs Adopted 10	Variance Exec. vs FY 10 Proj.
R1115 - Interfund Revenue	$13,000,000	$0	$0	($13,000,000)	$0
R2010 - Insurance Recoveries	5,911,276	6,004,323	6,088,615	177,339	84,292
Total	**$18,911,276**	**$6,004,323**	**$6,088,615**	**($12,822,661)**	**$84,292**

The revenue budget for FY 11 includes $6.0 million for Medicare Part D. In Table 5.5, reimbursement for Medicare Part D is labeled as insurance recoveries. Medicare Part D is a drug benefit plan that helps seniors pay for their prescription drugs. NYSHIP receives an employer subsidy from the federal government and passes on the County's share as a credit to the County's health insurance bill. The credits are received retroactively and sporadically. The Part D deductible is not going up for 2011. Part D plans can include up to a $310 annual deductible. Not all plans have a deductible, but many do in order to help keep premiums lower. Freezing the deductible at the 2010 level represents the first time the deductible has not increased since plans were introduced in 2006.[7]

The FY 10 revenue budget for interfund charges included $13.0 to be generated from the FY 09 year end surplus. However this never materialized creating a gap in the current year.

[7] Forbes, David, "AARP Medicare Part D Enrollment for 2011." AffordableMedicarePlan. August 17, 2010.

Table 5.6 displays out-year fringe benefit revenue amounts under the Multi-Year Plan:

Table 5.6: Multi-Year Plan by Revenue Source:

SubObject & Description	2011 Proposed Budget	2012 Plan	2013 Plan	2014 Plan
R2010 - Insurance Recoveries	6,088,614	6,088,614	6,088,614	6,088,614
Grand Total	**$6,088,614**	**$6,088,614**	**$6,088,614**	**$6,088,614**

6. FUND BALANCE AND RESERVES

Table 6.1 shows the unreserved fund balance and the balances of the formal reserve funds at year-end FY 06 through FY 09, with OMB's projected amounts for years ending FY 10 through FY 14.

Table 6.1: Total Reserves (Projected Year-End 2010-2014)

Item	Year End 2006	Year End 2007	Year End 2008	Year End 2009	Projected Year End 2010	2011	2012	2013	2014
Unreserved Fund Balance	$104.1	$89.8	$74.1	$65.3	$65.3	$65.3	$65.3	$65.3	$65.3
Retirement Contribution Fund	51.4	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employee Accrued Liab. Fund	21.4	15.2	14.4	14.4	14.4	12.4	10.4	8.4	6.4
Bonded Indebtedness Fund	14.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tobacco Settlement Fund	152.1	147.3	76.0	17.6	12.6	12.6	12.6	12.6	12.6
Sub-total	**$343.8**	**$277.3**	**$164.5**	**$97.3**	**$92.3**	**$90.3**	**$88.3**	**$86.3**	**$84.3**
Sewer/Storm Water Fund Bal.	121.7	161.9	134.7	101.0	73.1	58.2	58.2	55.5	47.9
Sewer Fin. Auth. Fund Bal.	19.8	19.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Reserves & Fund Bal.	**$485.3**	**$458.3**	**$299.2**	**$198.3**	**$165.4**	**$148.5**	**$146.5**	**$141.8**	**$132.2**

Projections provided by OMB

Planned uses of reserves in FY 11 are as follows:

- $2 million from the Employee Accrued Liability Fund to pay for termination expense in the Police District Fund. The $2 million annual usage is expected to continue through 2014, at which time the reserve will be exhausted if there is no replenishment.
- There is no planned use of the General Fund undesignated fund balance in the proposed FY 11 budget.
- $14.9 million for sewer and storm water related expenses from the Sewer and Storm Water Resource District fund balance.