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Inter-Departmental Memo

To: Hon. Howard J. Kopel, Presiding Officer
Hon. Delia DeRiggi-Whitton, Minority Leader
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director *HC for MC*
Office of Legislative Budget Review

Date: August 2, 2024

Re: FY 24 Mid-Year Projections Report

The Office of Legislative Budget Review (OLBR) has prepared this memo to provide the FY 24 year-end projections for the Legislature. FY 24 faces some expense challenges in addition to growing concerns and trends in the economy. However, the County is well positioned to face them and remains in good fiscal standing. In May of this year, the County received two bond rating upgrades (Moody's and Fitch Ratings) in addition to a change of outlook to Positive from Standard & Poor's (S&P). The upgrades put the County in a more favorable position should it need to borrow money. Furthermore, the County ended FY 23 with a surplus for the fifth year in a row. The prior year results and decisions have enabled the County to establish/replenish many rainy-day reserves that it can tap into should the need arise, further positioning itself favorably to react to a downturn in the economy.

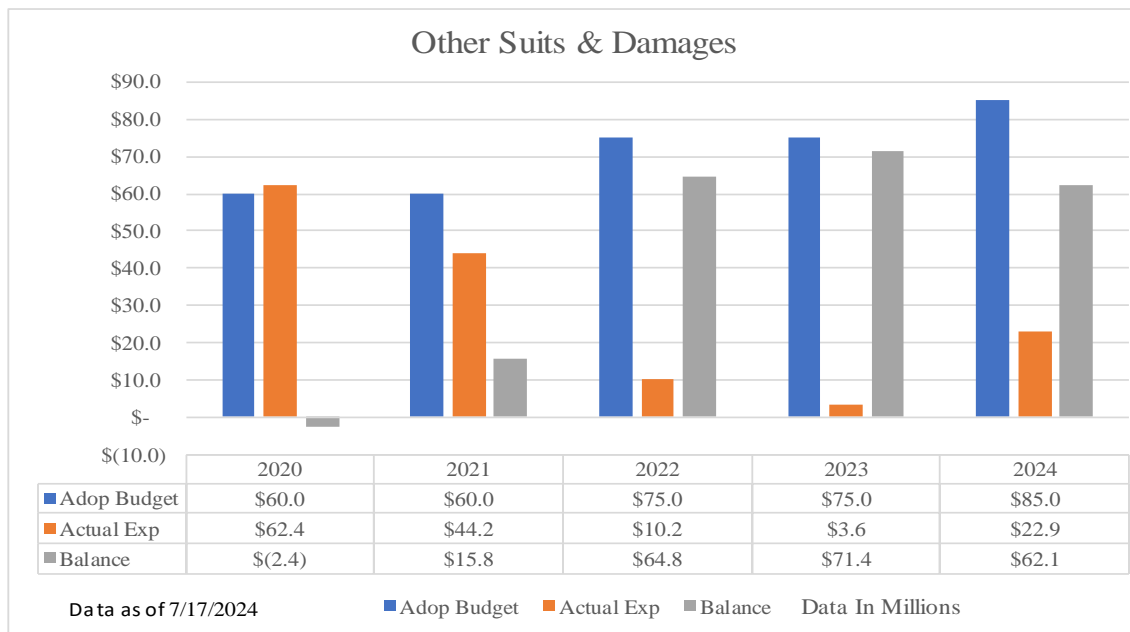
FY 24 has had to absorb some major expense variances in fringe benefits and the entitlement programs which were partially offset by the inclusion of \$39.4 million in contingency reserve. The variances will be discussed in detail later in this report. Sales tax, which has been a cornerstone in the County's fiscal success may see a decline with many of the recent checks experiencing negative growth. However, the last check was positive, and the Administration is currently projecting to be on budget. These trends could dampen the current economic forecast and the Administration will need to remain vigilant. However, FY 24 is projected to end in another budgetary surplus, firming the County's fiscal health. The budget will benefit from the transfer of approximately \$222.3 million from the American Rescue Plan Act (ARPA) funds that is currently recorded in the Financial System as an interfund transfer and has been captured in the projections. OLBR will continue to track, adjust, and provide updates to the

Legislature as actuals are recorded in the financial system and/or more data is received from County departments as well as the Administration. In addition, changes will be reflected in the projections that are included in the upcoming FY 25 Proposed Budget documents that are sent to the Legislature.

OLBR is currently projecting a **budgetary** surplus of **\$220.5** million in the Major Operating Funds excluding Sewers. The current forecast will also fluctuate as the economy changes and some cost avoidances/containments materialize. For example, depending on expense trends and the actual sales tax growth rate for the remainder of the year, there may be adjustments. The budgetary surplus will be reduced by the transfer into reserves which has been a key strategy of the Administration to mitigate any future downturn in the economy. The following table summarizes the FY 24 projection:

	Major Funds (in millions) Excluding SSW & Inter-Dept. Transfers		
	2024 Adopted Budget	2024 OLBR Projection	Variance
Expense	3,689.6	3,740.1	(50.6)
Revenue	3,689.6	3,960.6	271.0
	Proj Budgetary Surplus		\$220.5

In addition, there are other strategies that the Administration has implemented in the past that could impact the projected bottom line. One such strategy has been to pay for other suits and damages from the Litigation Fund which alleviates the operating funds and at year-end transfer surplus funds to replenish reserve uses. The FY 24 budget included \$85.0 million for other suits and damages. To date, approximately \$22.9 million has been spent which would free up \$62.1 million in the Major Funds. This will be a policy decision.



Furthermore, according to the Administration, the \$54.0 million it received from Sands was placed in a Trust and Agency account until there is a resolution to the lease agreement. Clerk Item #173-24 is an Ordinance for the Las Vegas Sands to legally operate the coliseum site and is being presented to the Legislature for a vote on August 5, 2024. This item allows the County to draw down on this reserve over a three- year period. If it passes the Full Legislature, the County will be allowed to recognize \$10.0 million of the \$54.0 million in the first year. However, it is not yet clear if the amount will be prorated or fully recognized after the item is voted upon. Nonetheless, it could have a positive impact to the budgetary surplus.

In the past, there has been potential Generally Accepted Accounting Principles (GAAP) adjustments that would be required to the Budgetary Basis projection. However, adjustments can vary significantly by the end of the fiscal year since most are related to open encumbrances and expenditures not paid by December 31st. OLBR confirmed with the Comptroller’s Office that the \$222.3 million interfund transfer between the American Rescue Plan Act (ARPA) and General Fund should not be a NIFA adjustment.

Expense and Revenue highlights are discussed below:

Expense Highlights

The following chart details the expense variances by object code between OLBR’s FY 24 projections and the FY 24 Adopted Budget for the Major Funds. Explanations are provided after the table:

2024 OLBR Expense Variances to Budget (Excl SSW)			
Expenses	2024 Adopted Budget	2024 OLBR Projections	OLBR vs. Budget
Salaries	\$1,021.0	\$1,026.3	(\$5.3)
Fringe Benefits	645.8	676.2	(30.4)
Workers Compensation	38.1	38.1	0.0
OTPS	417.4	415.6	1.8
Utility Costs	42.5	42.5	0.0
Various Direct Expenses	5.3	5.3	0.0
Principal & Interest	222.9	205.2	17.7
Local Govt Assistance	94.1	94.0	0.0
Inter-Fund Charges	20.7	20.7	0.0
Mass Transportation	51.8	50.6	1.2
NIFA Expenditures	2.8	2.8	0.0
Other Expenses	294.5	255.9	38.6
Early Intervention / Special Ed.	162.8	187.0	(24.1)
Direct Assistance	216.5	261.7	(45.2)
Medicaid	245.2	249.9	(4.8)
PDH Sales Tax Transfer	185.6	185.6	0.0
Transfer to FCF Fund	22.8	22.8	0.0
Sub-total Expenses	3,689.6	3,740.1	(50.6)
Inter Department Transfers	377.7	360.7	17.0
Expenses Including Transfers	\$4,067.3	\$4,100.8	(\$33.6)

Salaries, Staffing

OLBR is currently projecting a small salary deficit of \$5.3 million. The main driver of the shortage is overtime in the Police Department and Correctional Center. OLBR is currently projecting a \$45.9 million overtime shortage, however vacant funded positions are partially offsetting this large shortage. In addition, the budget was also alleviated of some of the retroactive costs from the recent CSEA and COBA contracts, that were budgeted in FY 24 but paid from FY 23. The FY 24 Adopted Budget included roughly \$31.8 million earmarked for payroll adjustments.

As of mid-year, June 2024, there were 7,235 full-time employees on board in the Major Funds. The FY 24 budget contains 7,479 full-time positions which translates into 244 open funded positions at the department level.

There are several departments that have many vacant positions. The departments with the largest open funded positions include the Correctional Center with 107, the Department of Social Services (DSS) with 101, the Assessment Department with 48, the Department of Public Works (DPW) in the General Fund with 40, the District Attorney with 36, Probation with 26 and the Board of Elections with 25. The headcount variances are depicted by department in Appendix A at the end of this memo.

The Administration continues its efforts to hire Police Officers and Correctional Officers. In the Correctional Center, a total of 16 officers were hired in FY 23. For FY 24, 28 Officers were hired in February and 17 were hired in June for a total of 45. The plan is to hire up to 80 recruits. It has yet to be determined when another class will be hired. However, OLBR's salary projections includes funding for 30 additional officers in the last quarter.

The Police Department had two classes in FY 23, with roughly 50 Police Officers in the May class and 50 Police Officers in the November class. The department hired some 102 officers in May of this year. The 2024 salary projection also includes a prorated cost for 50 additional Police Officers for a class planned for this November. As more officers are hired, this is expected to lower the blended overtime rate.

The Police Department's FY 24 termination budget is \$25.4 million. The budget anticipated approximately 120 separations and based on the latest year-to-date report, the Police Department had roughly 40 separations with actual paid expenses of approximately \$12.9 million through June in the financial system. Since another 80 separations would need to occur in the Police Department before the end of the year to reach the budgeted 120, there is an opportunity for lower termination expenses if less Officers separate.

OLBR is currently projecting an overtime deficit of roughly \$45.9 million in FY 24; the majority being within the Police Department and the Correctional Center. A significant shortfall of approximately \$22.3 million is projected within the Police Department. The Correctional Center's overtime budget of \$16.8 million is projected to experience a shortfall of approximately \$18.4 million. The current projection is \$5.3 million greater than the 2023 actual.

The chart below shows the overtime trends for the FY 23 Actual, FY 24 Adopted Budget and the FY 24 projection.

OVERTIME TRENDS				
	<u>2023 Actual</u>	<u>2024 Adopted</u>	<u>2024 Projection</u>	<u>FY24 Variance</u>
Police District	\$33,940,285	\$22,000,000	\$29,128,304	\$7,128,304
Police Headquarters	39,381,516	26,793,383	41,964,530	15,171,147
Total	73,321,801	48,793,383	71,092,834	22,299,451
Corrections	29,927,038	16,821,446	35,221,871	18,400,425
Police & Corrections	103,248,839	65,614,829	106,314,705	40,699,876
Others	17,518,270	14,920,182	20,115,557	5,195,375
TOTAL:	\$120,767,109	\$80,535,011	\$126,430,262	\$45,895,251

Fringe Benefits

OLBR is projecting a fringe benefit deficit of \$30.4 million, most of which is due to higher health insurance costs for retired employees and social security expenses. The shortage would have been greater; however, it is being partially offset by surpluses in active health insurance, dental costs and a small overage in pension expenses.

There is a significant deficit of \$30.6 million in the health insurance budget for retired employees. The FY 24 health insurance budget was based on savings from the change in coverage from switching employees from the NYSHIP Empire plan to the Excelsior Plan agreed in the recent CSEA Memorandum of Agreement (MOA). The anticipated change to the NYSHIP Excelsior plan was expected to produce large savings, however, the savings did not come to fruition when these rates were finalized in January. In addition, CSEA retirees never switched to the plan due to current litigation.

Partially offsetting the overall deficit, is a surplus in active health insurance for employees that remained in the Empire plan. Although the Empire health insurance rates grew by 9.0% for individual and 7.5% for family, the active budget absorbed the increase. Dental costs are also anticipated to have a surplus of roughly \$0.9 million, which results from vacant positions.

OTPS – Contractual Services

There is a \$2.0 million surplus in contractual services (DE) in the Department of Public Works (DPW) as the department anticipates a lower contractual service payment for NICE bus due to efficiencies obtained in the Americans with Disabilities Act mandated service to Queens and Suffolk Counties.

Principal & Interest

A surplus is projected in the interest and principal lines of \$6.7 million and \$11.1 million respectively due to expected savings from debt defeasance completed in December 2023.

Mass Transportation

There is an expected \$1.2 million surplus in mass transportation (MM) expenses due to lower LIRR Station maintenance costs in DPW.

Other Expenses

FY 24 included a contingency reserve of \$39.4 million in OMB which is anticipated to be used to defray expenses in other categories and as such, it is projected to be zero.

Early Intervention

OLBR is projecting a \$24.1 million deficit for Provider Payments which are solely located in the Health Department. Provider payments consist of Pre-School Education and Early Intervention services. The current projection is based on last year's actual expense of \$187.0 million. Since Pre-school provider rates increased in 2023, and caseloads continue to rise, it's reasonable to expect the FY 24 Adopted Budget of \$162.8 million will fall short and expenses will be at a minimum more in line with last year actuals.

Direct Assistance

Within the Department of Social Services (DSS), Direct Assistance is projected to incur a deficit of roughly \$45.2 million. The projections correlate to the economic uncertainty which is expected to continue throughout the balance of the year and will be partially offset by corresponding increases in state and federal aid reimbursements.

- The recipient grant caseloads have increased by approximately 9.7% compared to last year driving expenses to exceed budget by \$22.7 million.
- A shortfall of \$18.1 million is projected for purchased services due to significantly higher daycare costs resulting from changes to the New York State eligibility requirements, which increased enrollment in FY 23.
- A deficit of roughly \$4.4 million for emergency vendor payments is due to anticipated higher vendor payments and educational expenses.

Medicaid

- DSS's FY 24 budget of \$245.2 million is projected to have a shortfall of \$4.8 million due to increased County share costs of \$9.7 million offset by lower indigent share expenses of \$4.9 million.

Revenue Highlights

The chart below details the revenue variances by object code between OLBR’s FY 24 projections and the FY 24 Adopted Budget for the Major Funds. Explanations are provided following the table:

2024 OLBR Revenue Variances to Budget (Excl SSW)			
Revenue	2024 Adopted Budget	2024 OLBR Projections	OLBR vs. Budget
Fund Balance	\$0.0	\$0.0	\$0.0
Interest Penalty on Tax	32.5	32.5	0.0
Permits & Licenses	18.8	18.9	0.2
Fines & Forfeits	101.7	100.0	(1.7)
Investment Income	38.9	53.0	14.0
Rents & Recoveries	31.2	49.2	18.0
Revenue Offset to Expense	23.4	23.4	0.0
Department Revenues	194.8	178.5	(16.3)
Capital Chargebacks	0.0	0.0	0.0
Payments in Lieu of Taxes	53.0	52.6	(0.4)
OTB Profits	20.0	20.0	0.0
Debt Service From Capital	19.9	21.6	1.8
Other Non Tax Source Revenue	0.0	0.8	0.8
Interfund Charge Revenue	78.4	77.5	(0.9)
Interfund Transfers	208.4	430.7	222.3
Federal Aid	188.1	200.3	12.1
State Aid	288.1	309.6	21.5
Sales Tax	1,605.3	1,604.8	(0.4)
Property Tax	755.3	755.3	0.0
OTB 5% Tax	1.6	1.6	0.0
Special Taxes	30.3	30.3	0.0
Sub-total Revenue	3,689.6	3,960.6	271.0
Inter Department Transfers	377.7	360.8	(16.9)
Revenue Including Transfers	\$4,067.3	\$4,321.4	\$254.1

Fines & Forfeitures

This revenue line is projected to miss budget by \$1.7 million which is mainly within the Traffic and Parking Violations Agency (TPVA).

- TPVA’s fines and forfeits budget for FY 24 is \$74.9 million. The revenue stream includes parking and traffic fines revenue of roughly \$23.3 million and Red Light Camera (RLC) revenue of \$48.1 million including administrative fees for both. In addition, the budget includes \$3.0 million for the School Bus Stop Arm Camera and \$0.5 million for Boot and Tow revenue. Through June 2024 approximately \$29.6 million in revenue has been collected, a 20.0% increase from the prior year

period. Based on current trends OLBR is projecting \$73.1 million, which is a shortfall of \$1.8 million against the FY 24 Adopted Budget.

Investment Income

A surplus of \$14.0 million is expected in investment income due to high interest rates and deposit balances. However, this surplus could change due to unexpected changes in fund balances, fund transfers and interest rates.

Rents and Recoveries

Overall, OLBR is projecting a \$18.0 million surplus in FY 24 for rents and recoveries. The largest variances are in DPW and the Department of Social Services.

- DPW is expected to end with a \$10.8 million surplus. There is a \$14.0 million surplus from prior-year recoveries, which is partially offset by a shortfall of \$4.2 million from the sale of County property. An additional \$1.0 million is being captured for the one-time upfront fixed payment for the Sands lease.
- In DSS, a surplus of \$7.1 million is being projected as the department's recovery of prior year encumbrances is approximately \$10.0 million and the budget was only \$2.9 million.

Departmental Revenues

Overall, this revenue line is expected to have a budget shortfall of \$16.3 million mainly because of housing/real estate market trends.

To combat inflation, the Federal Reserve started to increase interest rates in 2022 and continued to raise rates throughout 2023. In 2024 rates have been held steady and are expected to decrease slightly beginning in September.

In the month of June 2024, deed based revenues were down 4.8% year-over-year and mortgage based transactions were down 6.9% year-over-year. Based on the most recent trends, OLBR's current Assessment Department and County Clerk revenue forecasts factor in a decrease on future 2024 mortgage, deed, and GIS tax map filings.

Some departments with major variances include:

- The projection in the Assessment Department, with a projected deficit of \$11.2 million, which is based on the current housing market trends. OLBR's current Assessment Department revenue forecasts also incorporate the impact of the reduction in the fees for GIS tax maps, as it was reduced last year.
- The Clerk's Office with a projected deficit of \$2.7 million for the same reasons discussed above.
- DSS with a shortfall of \$3.3 million mostly due to lower revenue for other welfare receipts.
- The Police Department, specifically in the Headquarters Fund, has a shortfall of some \$1.5 million related to lower than budgeted Ambulance fees.
- Offsetting the deficits, is a \$1.5 million surplus within the Health Department due to higher than budgeted year-to-date trending related to the Medicaid revenue for the Pre-school Program.

Other Non-Tax Source Revenues

The \$0.8 million increase in other non-tax source revenues (BZ) is attributable to unbudgeted receipts of Belmont Park Arena Community Benefit Payments in DPW.

Interfund Transfers

Interfund is projected to have a surplus of approximately \$222.3 million from the transfer of American Rescue Plan Act (ARPA) funds that is currently recorded in the Financial System as an interfund transfer and captured in the projections.

Federal Aid

The County is projected to have an overall surplus of \$12.1 million in federal aid revenues. The largest variances are in:

- DSS's federal aid, higher by \$20.8 million due to increased expenses and corresponding reimbursements that the department will receive to offset additional costs it will incur in the entitlement programs.
- DPW is projecting \$8.7 million less in federal aid for the NICE Bus, which is offset by an increase in the 2024 STOA grant requiring less federal aid.

State Aid

OLBR is currently projecting a state aid surplus of approximately \$21.5 million. Of the positive variance, \$12.1 million is projected in the Health Department, \$6.0 million is forecasted in DSS and \$3.3 million in DPW.

The \$12.1 million surplus projected in the Health Department is the reimbursement surplus corresponding to the additional Provider Payment expenditures. A projected surplus of \$6.0 million in DSS is mostly driven by increased reimbursement for Safety Net offset by reduced costs for foster care and administration costs. Finally, in DPW state aid is rising by \$3.3 million due to a higher STOA grant for the NICE bus.

Sales Tax

On a year-to-date basis, with the receipt of the July 12, 2024, sales tax check, sales tax collections have increased 0.17% from this time last year. With inflation in a downward trend and interest rates stabilizing, current forecasts from Moody's show a 1.5% increase in Gross County Product (GCP). These forecasts are illustrated in the table on the next page. Although the County has historically surpassed GCP forecasts, there has been negative growth in more than half of the year-to-date sales tax checks prompting OLBR to err on the conservative side. OLBR assumed a 1.5% growth rate on all remaining sales tax checks in its current 2024 sales tax projection, resulting in a \$0.4 million deficit. A growth rate of 1.55% on the remaining checks is required to make this year's budget. However, if the current negative trends continue, there could be an additional risk.

Current Real US GDP 2024 - 2026 Forecasts			
	2024	2025	2026
Fannie Mae	1.6%	1.9%	N/A
Mortgage Bankers Association	1.3%	1.4%	1.5%
Federal Reserve Bank - Phil.	2.5%	1.9%	1.9%
The Conference Board	2.0%	1.5%	1.7%
Wells Fargo	2.3%	1.9%	N/A
Average US GDP Forecast	1.9%	1.7%	1.7%
Moody's GCP Forecast	1.5%	1.7%	1.9%

Sales tax is a critical source of revenue for the County and as such should be watched carefully. The predicted threat of a recession has been looming for some time, but the economy has been resilient, and this revenue source has surpassed expectations in recent years. However, that trend appears to be nearing an end and could warrant an increasingly cautious approach.

Conclusion

The FY 24 budget has contended with some unexpected expenses, several of which were the result of litigation and others were unforeseen due to economic trends. However, the projections are that the budget will be able to absorb these negative trends as it included contingencies and funded adjustments that will mitigate the impact on the budget. For five consecutive years, the County has ended with budgetary surpluses and is expected to end FY 24 with a projected surplus of **\$220.5** million prior to transferring funds to reserves.

In addition, the Administration has at its disposal strategies it can implement should the economy continue to spiral downward and/or the County is faced with additional expenses. Moreover, based on the prior year results, the County has been able to replenish and establish healthy reserves it can tap into should the need arise.

Even with the positive outlook, the budget will nonetheless require continued monitoring by the Administration as the current year results are often a springboard into future years. For now, the County’s fiscal health, enforced by another expected surplus in addition to many rainy-day reserves, is on firm fiscal standing. This was affirmed in May by two bond rating upgrades (Moody’s and Fitch Ratings) in addition to a change of outlook to Positive from Standard & Poor’s (S&P).

- cc: Arthur Walsh, Chief Deputy County Executive
- Elaine Phillips, County Comptroller
- Andrew Persich, Budget Director, OMB
- Evan Cohen, Executive Director, NIFA
- Chris Ostuni, Majority Counsel
- Michele Darcy, Minority Finance Director
- Michael Pulitzer, Clerk of the Legislature

APPENDIX A

Full-Time Headcount Analysis (as of the first pay period of month)			
Department	2024 Budgeted Headcount	June Headcount	Variance Budget vs. Current Headcount
Asian American Affairs	6	3	3
Assessment Review Commission	62	62	0
Assessment	164	116	48
County Attorney	89	81	8
Office of Management and Budget (10)	25	22	3
Consumer Affairs	25	22	3
Correctional Center	940	833	107
County Executive	13	11	2
Constituent Affairs	12	11	1
County Clerk	90	78	12
Comptroller	95	81	14
Civil Service	46	42	4
Office of Crime Victims Advocate	5	2	3
District Attorney	460	424	36
Board of Elections	160	135	25
Emergency Management	8	6	2
Health	281	261	20
Housing and Intergovernmental Affairs	15	10	5
Human Rights	7	6	1
Human Services	61	57	4
Information Technology	121	112	9
Legislature	94	90	4
Labor Relations	6	4	2
Minority Affairs, Office of	13	13	0
Public Administrator	6	6	0
Probation	221	195	26
Human Resources	9	8	1
Parks, Recreation and Museums	151	137	14
Shared Services	14	13	1
Public Works Department	415	375	40
Records Management	10	5	5
Office of Hispanic Affairs	6	4	2
Social Services	566	465	101
Treasurer	26	24	2
Traffic & Parking Violations	46	42	4
Veterans' Services Agency	9	8	1
Anticipated Attrition	(305)	0	(305)
General Fund Total	3,972	3,764	208
Fire Commission	115	98	17
Police District	1,738	1795	(57)
Police Headquarters	1,654	1578	76
Total Major Funds	7,479	7,235	244
Sewer & Storm Water	79	65	14
Total Including Sewers	7558	7300	258