MAURICE CHALMERS
DIRECTOR
OFFICE OF LEGISLATIVE
BUDGET REVIEW

NASSAU COUNTY LEGISLATURE
1550 FRANKLIN AVENUE, ROOM 126
MINEOLA, NEW YORK 11501
(516) 571-6292

Inter-Departmental Memo

To: Hon. Howard Kopel, Chair, Budget Review Committee
All Members of the Budget Review Committee

From: Maurice Chalmers, Director
Office of Legislative Budget Review

Date: August 20, 2014

Re: FY 2014 Projections

The Office of Legislative Budget Review (OLBR) has prepared this memo to detail its year-end projections for FY 2014. Although recent years have ended with a budgetary surplus, this should not be interpreted as an indication of the County's overall fiscal health. The recent budgetary surpluses are a reflection of several factors, including the Administration's cost containment efforts, deferral of liabilities, use of one-shot revenue sources, the continuation of the wage freeze, and a recovering economy. FY 2014 will not benefit from some of the same opportunities; the wage freeze has ended and sales tax growth is trending negatively. The County's finances remain fragile and require long-term solutions that lead to structural balance, where ongoing revenues meet ongoing expenses.

OLBR is projecting a year-end deficit of $71.6 million largely driven by revenue underperformance and unbudgeted expense deficits. The Administration will need to promptly implement corrective actions to mitigate or eliminate the projected gap. On the expense side, salary related expenditures are projected to exceed budget by $39.3 million mainly as a result of the unbudgeted union contract agreements. The Administration believes this will be offset by a variety of measures like increased fees and School Zone Speed Cameras. Economically sensitive revenues such as sales tax and mortgage recording fees are underperforming the budget by an estimated $70.0 million and $8.9 million, respectively. At this point in the fiscal year, the County is left with limited choices to fully offset this year's revenue mismatch and is expected to return to the bond market to fund termination pay and tax certiorari settlements. The major variances are explained further in the report.

2014 Projections

OLBR is currently projecting a $71.6 million deficit in FY 2014 for the Major Operating Funds. Expenses are projected to end with a $12.6 million surplus and revenue with an $84.2 million deficit (inclusive of interdepartmental transfers). The following chart demonstrates the projected deficit.

Major Funds (in millions)	2014 Adp Bud	OLBR 2014 Proj	Variance
Expense	3,207.3	3,194.7	12.6
Revenue	3,207.3	3,123.1	(84.2)
Projected Deficit			(71.6)

Expense Highlights

The following chart details the expense variances by object code between OLBR's 2014 projections and the FY 14 Adopted Budget for the Major Funds. Explanations are provided following the chart:

2014 OLBR Projected Expense Variances to the Adopted Budget

Expenses	2014 Adopted Budget	2014 OLBR Projection	OLBR vs. Budget
Salaries	809.5	848.8	(39.3)
Fringe Benefits	480.4	472.8	7.6
Workers Compensation	28.0	27.0	1.0
OTPS	272.3	277.5	(5.1)
Utility Costs	39.6	39.6	0.0
Various Direct Expenses	5.0	5.0	0.0
Principal & Interest	167.7	157.0	10.7
Local Govt Assistance	69.6	66.6	2.9
Nassau Health Care Expense	13.0	13.0	0.0
Inter-Fund Charges	20.3	20.3	0.0
Mass Transportation	43.6	43.2	0.4
NCIFA Expenditures	2.0	2.0	0.0
Other Expenses	264.1	252.1	12.1
Early Intervention / Special Ed.	139.5	135.0	4.5
Direct Assistance	181.9	179.2	2.7
Medicaid	253.3	248.7	4.5
Expense Sub-total	**2,789.8**	**2,787.6**	**2.2**
Inter Departmental Transfers	**417.5**	**407.1**	**10.4**
Expenses Including Transfers	**3,207.3**	**3,194.7**	**12.6**

Salaries

OLBR is currently projecting a total salary deficit of $39.3 million compared to the 2014 Adopted Budget. Higher overtime, additional labor costs from the recently negotiated union contracts, and police termination expenses in excess of the budget are driving the deficit. The Police Funds are projected to exceed their overtime budget by approximately $18.8 million. Many steps have been taken to curb the overtime expense; the Police Department added a new recruit class in May and expects to have these officers deployed by October. In addition, the Police Department expects to hire another recruit class in 2014, although the timing and size are unclear.

The Police Department based their budgeted termination pay on 100 anticipated separations. As of August, the department reports that approximately 121 sworn Officers have filed for separation and is expecting a total of 150 sworn officers to separate from service in 2014. The higher than anticipated number of separations will negatively impact the budget by about $11.2 million which will be partially offset by the reduced salary expense resulting from these retirements.

The County expects to reduce Police overtime costs by the implementation of management initiatives included in the new union contract and by the deployment of Police recruits.

OVERTIME TRENDS

	2012 Actual	2013 Unaudited YE	2014 Adopted	2014 Projections	2014 Variance to Budget
Police District	**33,165,680**	**36,737,386**	**25,000,000**	**36,707,729**	**11,707,729**
Police Headquarters	**31,488,225**	**30,604,807**	**25,000,000**	**32,087,156**	**7,087,156**
Total	**64,653,905**	**67,342,193**	**50,000,000**	**68,794,885**	**18,794,885**
Corrections	**15,693,183**	**16,328,204**	**16,153,356**	**16,153,356**	**-**
Police & Corrections	**80,347,088**	**83,670,397**	**66,153,356**	**84,948,241**	**18,794,885**
Others	**10,764,951**	**12,041,091**	**8,247,112**	**11,471,188**	**3,224,076**
TOTAL:	**91,112,039**	**95,711,488**	**74,400,468**	**96,419,429**	**22,018,961**
Police FEMA credit	(14,781,832)				
Other Department FEMA credit	(3,556,667)				
	(18,338,499)				
	72,773,540				

Headcount

As of August 1, 2014 there were approximately 7,247 full-time employees on board in the Major Operating Funds. Compared to the budget of 7,395 full time employees, this equates to 148 vacant positions. Based on the current projected payroll deficit, any savings associated with these vacant positions have been offset by the recently negotiated labor contracts.

Fringe Benefits

OLBR is projecting a surplus of $7.6 million in the Major Funds for Fringe Benefits. This is primarily driven by lower than budgeted health insurance costs for Active and Retired employees. The 2014 budget was based on a projected health insurance cost increase of 3.7%; however, New York State Health Insurance Program (NYSHIP) individual rates were finalized at 0.5% for individual and 1.6% for family rates. In addition, the current headcount is lower than budget resulting in a reduced number of employees receiving health insurance benefits.

OTPS

The Other Than Personal Services (OTPS), which includes equipment, general expenses and contractual expenses, has a shortfall of $5.1 million. This is mainly attributable to an additional $3.4 million in contractual costs associated with the Nassau Inter County Express (NICE) bus which will be partially offset by $1.2 million in State Operating Assistance (STOA) grant revenue. The County has begun to implement the School Zone Speed Camera initiative which is expected to cost approximately $2.9 million in contractual expenses or 38% of the program's revenue. The Department of Public Works will also surpass their general expense budget by $1.4 million due to higher than budgeted snow removal expenses.

The Assessment department no longer expects to use $3.5 million in budgeted contractual services to implement a commercial settlement program. The Administration reports this is due to the passage of the disputed assessment fund legislation

Principal and Interest

A surplus of $10.7 million is expected due to delayed and/or reduced borrowing.

Other Expenses

The Other Expense line is currently projected to have a surplus of approximately $12.1 million. The surplus largely consists of $1.0 million less in rent expense resulting from real estate consolidation and the use of $12.0 million in budgeted contingencies.

The Other Expense category in the Treasurer's department was budgeted at $10.0 million for tax certiorari payments. A risk of approximately $70.0 million could arise should bonding not be secured. The current backlog is estimated to be $325.0 million as of year-end 2013.

The County recently passed legislation to create a disputed assessment fund which is intended to eliminate the County's ongoing Class 4 commercial property tax certiorari liability. This legislation is a major step to address the continued growth of commercial liability. This will have no impact on FY 2014 as the initiative will not take effect until the 2016/2017 tax roll. That legislation has yet to be signed by the Governor.

Preschool and Early Intervention

Provider Payment expenditures in the Health Department for Early Intervention and Preschool program costs are projected to be $4.5 million lower than the FY 14 Adopted Budget. The surplus results from a change in the mix of services that are being provided through the Pre-school Education and the Early Intervention programs. In the Preschool Education program, children are receiving fewer high cost services such as Special Education Itinerant Teachers (SEIT) services; these savings are being offset by additional caseloads in lower cost services such as speech and physical therapy. In the Early Intervention program, the caseload remains the same but there is an increase in the number of children receiving Medicaid reimbursement in lieu of County funds.

Direct Assistance

OLBR is projecting a $2.7 million surplus in Direct Assistance which consists of Emergency Vendor Payments, Purchased Services, and Recipient Grants. Rising daycare costs associated with a surge in caseloads are expected to cause a $5.3 million shortfall in purchased services. The deficit in purchased services is expected to be offset by a combined surplus of $8.0 million in recipient grants and emergency vendor payments. The projected surplus is related to a decline in Foster Care, Temporary Assistance to Needy Families (TANF), and Safety Net program caseloads, among others.

Medicaid

OLBR is projecting a $4.5 million Medicaid surplus as a result of lower weekly payments to the State. The State lowered the County's weekly Medicaid payments as part of the FY 2014-2015 New York State Budget that was passed April 1st.

Revenue Highlights

The chart below details the revenue variances by object code between OLBR's 2014 projections and the FY 14 Adopted Budget for the Major Funds. Explanations are provided following the chart:

2014 OLBR Projected Revenue Variances to the Adopted Budget

Revenue	2014 Adopted Budget	2014 OLBR Projection	OLBR vs. Budget
Fund Balance	10.0	10.0	0.0
Interest Penalty on Tax	29.1	29.1	0.0
Permits & Licenses	13.5	13.8	0.3
Fines & Forfeits	67.9	71.3	3.4
Investment Income	2.1	2.1	0.0
Rents & Recoveries	22.4	36.7	14.3
Revenue Offset to Expense	11.2	11.2	0.0
Department Revenues	165.8	152.9	(12.9)
Capital Chargebacks	0.1	0.1	(0.0)
Payments in Lieu of Taxes	9.4	10.0	0.6
Debt Service From Capital	7.2	8.1	0.9
Due From Other Governments	0.0	0.0	0.0
Interfund Charge Revenue	77.5	77.2	(0.3)
Federal Aid	147.1	133.5	(13.5)
State Aid	220.6	224.0	3.5
Sales Tax	1,165.9	1,095.9	(70.0)
Property Tax	807.0	807.0	0.0
OTB 5% Tax	3.0	3.0	0.0
Special Taxes	30.1	30.1	0.0
Revenue Sub-total	**2,789.8**	**2,716.0**	**(73.8)**
Inter Transfers	**417.5**	**407.1**	**(10.4)**
Expenses Including Transfers	**3,207.3**	**3,123.1**	**(84.2)**

Fund Balance

The 2014 projections include the use of $10.0 million from fund balance. The overall undesignated fund balance is currently estimated to be approximately $126.5 million as of year-end 2013.

Fines and Forfeitures

OLBR is projecting a $3.4 million surplus for fines and forfeitures. The Police Department is expected to have a shortfall of $1.0 million due to lower alarm permit fines. The Traffic and Parking Violations Agency (TPVA) is projected to have a $4.4 million surplus. A shortfall of $3.4 million from the Department's traffic and parking violations fine revenue could be offset by School Zone Speed Camera revenue of approximately $7.8 million. The program commenced in July and as additional cameras are installed and a definitive trend appears, OLBR will include that data in its FY 2015 budget review document.

Rents and Recoveries

The majority of the projected $14.3 million surplus is in Social Services where the $13.2 million positive variance is attributable to the liquidation of two large foster care encumbrances. Similarly, in the Department of Health, a $2.9 million projected surplus is from cancelling prior year encumbrances in connection with the Preschool Education Program.

Departmental Revenues

OLBR is currently projecting a $12.9 million deficit in departmental revenue, of which $10.1 million is related to County Clerk revenue. Lower mortgage recording fees will negatively impact the budget by $8.9 million and a budgeted $1.0 million initiative to make documents available on-line never came to fruition. The County also included $1.5 million revenue in the Assessment Department from the implementation of a Tax Map fee which has been delayed until January 2015.

Federal Aid

Federal Aid is expected to be under budget by $13.5 million. Shortfalls are expected in the Correctional Center and the Department of Social Services.

The Correctional Center is budgeted at $10.7 million for FY 14, of which $5.1 million is designated revenue for housing federal inmates at the Correctional Center. OLBR is projecting a shortfall of $2.7 million attributable to a lower than budgeted federal inmate population. Additionally, the Department will experience a deficit of $2.0 million due to the elimination of New York State reimbursement for inpatient medical costs for housed inmates.

In the Department of Social Services, caseloads for Temporary Assistance to Needy Families (TANF) and Safety Net (SNA) have declined 3.4% from FY 2013 levels. As a result, Social Services is expected to have an $8.5 million shortfall in Federal Aid reimbursement.

State Aid

A surplus of $3.5 million is projected. OLBR included in the State Aid line $12.7 million in revenue which the County expects to receive from the State, related to Federal Emergency Management Agency (FEMA) reimbursement. The County recorded that amount as its share of the 10% cost associated with Superstorm Sandy. However, the Governor announced that funds will be made available to the County to cover the 10% match. This represents an unbudgeted one time pickup.

Without that pickup, there would have been a shortage of $9.2 million in State Aid. A $7.6 million shortfall within the Health Department is due to lower reimbursable expenses in connection with Early Intervention and Pre-school Education services. In addition, the State has adjusted prior year revenue related to the Pre-school Education program within the Health Department. These adjustments have resulted in a reduction of revenue as previous years may have been overstated. Prior year adjustments are being recorded to more accurately reflect finalized Pre-school Education figures. The Department of Social Services is also projecting a shortfall of $1.8 million from lower reimbursements in connection with decreased salary expenses and caseloads.

Sales Tax

The FY 14 sales tax budget, less deferrals, is $1.161 billion. On a year-to-date basis through August 12, 2014, sales tax collections are down 7.0% year over year. OLBR is currently projecting a deficit of $70.0 million. The year to date decline likely reflects that Fiscal 2013 sales tax receipts were artificially inflated due to the rebuilding efforts immediately following Superstorm Sandy. In addition, the abnormally cold and snowy winter weather may have depressed sales activity during the First Quarter of 2014. Sales tax activity related to the rebuilding efforts following Superstorm Sandy likely subsided in the second half of 2013, which may have resulted in more normal growth in the second half of FY 2013. As a result, the last two quarters of 2014 may experience better year over year performance. However, the current trend is cause for concern.

Should the negative trend in sales tax continue, revenues may further deteriorate. The table below offers different growth scenarios for the remaining checks and their budgetary impact:

Year over Year Growth Rate	Budget Impact (millions)
-5.00%	$ (92.50)
-4.00%	$ (87.30)
-3.00%	$ (82.00)
-2.00%	$ (76.80)
-1.00%	$ (71.50)
0.00%	$ (66.30)
1.00%	$ (61.10)
2.00%	$ (55.80)
3.00%	$ (50.60)
4.00%	$ (45.30)
5.00%	$ (40.10)

Risks

Below is a list of items that OLBR is highlighting as risks:

- If the County is unable to secure bonding approval for tax certiorari settlements, it risks incurring additional expense of approximately $70.0 million.
- Sales Tax performance which depends on the growth of the remaining disbursement checks.

Opportunities

Below is a list of items that OLBR is highlighting as opportunities:

- The County School Zone Speed Camera Safety program kicked off July 25th. The Office of Management and Budget (OMB) currently projects net revenues of $14.2 million. The initial months of operation will more than likely be very productive with a more normalized output in the future as driver behavior changes. When additional cameras are installed and a definitive trend appears, the Office will update the projections accordingly.

- The Legislature previously approved bonding authorization of $30.6 million for Police termination; however, the Nassau Interim Finance Authority (NIFA) only approved usage of $6.5 million. The County hopes NIFA will approve usage of the remaining balance of $24.1 million for Police terminations in 2014 which will help close the overall payroll deficit.
- Among other options being considered is the closeout of capital projects.

Conclusion

County finances are at a cross road. In the past, the Administration had relied on a number of methods to lower expenses; it amortized pension costs, implemented cost containment initiatives, borrowed to meet expense obligations and benefited from the employee wage freeze.

Earlier this year, the Administration agreed to new labor contracts. The personnel cost increases in the labor deals were not included in the FY 14 budget. To offset the increased costs associated with the new contracts, the County sought to raise revenue by implementing fee increases and instituting the School Zone Speed Camera program.

The additional personnel costs coupled with underperforming sales tax revenue has left the County facing a projected $71.6 million deficit for FY 14. This does not include the annual tax certiorari liability. The County has lost its financial flexibility to absorb uncertainties, such as the projected decline in sales tax revenue. The Administration will be hard pressed to implement any and all revenue initiatives passed by the Legislature. It is incumbent upon the Administration to hold department heads accountable for cost savings initiatives that were negotiated as part of the labor contracts. In order to regain financial flexibility, the County must implement long-term solutions that lead to a structurally balanced budget. Failure to do so will further exacerbate the County's ongoing fiscal uncertainty. Chief among the long-term solutions should be less reliance on pension amortization and borrowing for operational expenditures.

cc: Hon. George Maragos, Nassau County Comptroller
Steve Labriola, Nassau County Chief Deputy Comptroller
Tim Sullivan, Deputy County Executive
Roseann D'Alleva, Budget Director, OMB
Eric Naughton, Fiscal Advisor
Evan Cohen, Executive Director, NIFA
David Gugerty, Minority Chief of Staff
Dan McCloy, Director of Law, Finance & Operations
Gregory May, Director of Legislative Affairs
William Muller, Clerk of the Legislature