NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Review of the Fiscal Year 2015 Budget & Multi-Year Plan

Executive Summary

Maurice Chalmers, Director

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Inter-Departmental Memo

To: Hon. Norma Gonsalves, Presiding Officer
Hon. Kevan Abrahams, Minority Leader
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
Office of Legislative Budget Review

Date: October 8, 2014

Re: Executive Summary

Pursuant to §183 of Nassau County Charter, the Office of Legislative Budget Review has prepared a preliminary analysis of the County Executive's proposed operating budget for Fiscal Year 2015 and Multi-Year Plan. Our report is made up of two parts: the enclosed Executive Summary and a Departmental Analysis, which will be distributed shortly.

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

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1. EXECUTIVE SUMMARY

Introduction

Pursuant to the County Charter, the Administration submitted its FY 15 Proposed Budget on September 15, 2014. The Proposed Budget is the first from the Mangano Administration to include a property tax increase. Currently, there is a cap in New York State where property taxes levied by local governments and school districts generally cannot increase by more than 2.0%, or the rate of inflation, whichever is lower. However, the law does allow local governments and school districts to levy an additional amount for certain excludable expenditures and utilize a 1.5 % carryover from one year to the next. The proposed tax increase of 3.16 % includes approximately $15.3 million, or 1.5%, of the increased levy as a carryover from the prior fiscal year, thus keeping the increase within the property tax cap. The Office of Legislative Budget Review (OLBR) finds the increase to be fiscally prudent and reasonable in addressing the County's structural imbalance. The Proposed FY 15 Budget relies on bond proceeds to cover costs such as tax certiorari expenses, suits and damages and termination obligations which may prove problematic should the Administration fail to secure all the required approvals.

The Administration has taken a number of steps to gain control over County finances. They have aggressively managed headcount, entered into public-private partnerships, and secured the implementation of a wage freeze which ended this year when the County's labor unions secured new contracts. Despite these steps, the County's fiscal challenges persist. Personnel and fringe benefit costs will continue to rise. Facing increased expenses and the need to address a revenue base from which the Residential Energy Tax estimated to bring in $40.0 million annually was repealed in 2010, the Administration has few options left and the cost of inaction could be high. The FY 15 Proposed Budget is reflective of the County's precarious fiscal condition as, even with the increased revenue, the budget is unable to meet some operating expenses without the need to borrow and defer some expenses in the out years. After careful and thorough analysis, (OLBR) has determined the net risk to the 2015 Proposed Budget to be approximately $173.6 million. If bonding is secured, and opportunities come to fruition, the risks could be reduced to $22.6 million.

Sales tax remains the County's most substantial source of revenue, but this revenue source is quite volatile. All financial indices point to an improving economy, however, this has not translated into increased sales tax revenue for the County. On a year-to-date basis, through September 12, 2014, sales tax collections are down 5.6% year over year. OLBR is currently projecting a sales tax deficit of $70.0 million this year. The year-to-date decline likely reflects that fiscal year 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 especially since neighboring municipalities are not experiencing such a drastic decrease in sales tax revenue. As of the first half of the year, Suffolk County's growth was a positive 0.5%, Westchester and New York City each recorded positive growths of 3.4% and 4.8% respectively.

The current tax certiorari backlog is estimated to be $325.0 million as of year-end 2013. The proposed budget does not set aside any operating funds to pay for tax certiorari expenses. The Administration plans on borrowing $100.0 million to fund that expense. The County recently passed legislation to create a disputed assessment fund which is intended to eliminate the County's ongoing Class four commercial property tax certiorari liability. This legislation is a major step to address the continued growth of commercial liability. The legislation will not take effect until the 2016/2017 tax roll and has yet to be signed by the Governor.

The County is amortizing approximately $60.9 million of the pension bill in FY 2015. To date, a total of $228.7 million has been amortized with a projected cost of approximately $280.5 million including interest. OLBR is concerned that while amortizing for pension obligations provides budgetary savings in the current fiscal year, balancing the out-year gap will become more difficult. Also, the County will incur an additional $51.7 million in interest from the current and prior year borrowings. Moody's warned a local municipality (Huntington) that "the practice of deferring current operating expenses to future periods is inconsistent with our view of strong financial management." The article goes on to say that "continued amortization of annual pension payments could result in a downgrade." The Administration is hedging that pension contribution rates will decrease as the stock market recovers and help defray the County's annual installment payments. Nonetheless, this practice takes potential benefits upfront which results in a ballooning pension debt. Many municipalities have participated and and continue to participate in the program. However, Suffolk is only deferring approximately $60.0 million of the $80.0 million it is allowed to amortize whereas Nassau is amortizing the maximum.

The Proposed 2015 County Budget from both an expense and revenue perspective including significant budget items is discussed below and a risk assessment is itemized. The current Multi-Year Financial Plan (MYP) is detailed and discussed along with the Administration's proposed gap closing initiatives.

- **Overtime** – The overtime expense for the Police Department and the Correctional Center is budgeted at $69.4 million in the Proposed FY 15 Budget, which represents an increase of $3.2 million from the FY 14 Adopted Budget. However, the FY 15 proposed police overtime budget is approximately $16.8 million less than the current FY 14 projection. Many steps have been taken to curb the projected police overtime deficit; the department added a new recruit class in May and expects to have these officers fully deployed in November. In addition, the Police Department expects to hire another recruit class in 2014. The budgeted Police overtime of $52.0 million is reflective of many initiatives the Administration said it would achieve through items such as changes in work rules and vacation picks which may explain the lower budgeted overtime expense. It will be incumbent upon the Police Department to implement adequate procedures in order to realize these savings and meet its budget. A more in depth analysis is included in the Labor section of the Executive Summary.

- **Termination Pay** – The Proposed Budget includes approximately $33.5 million in termination expense in the Major Funds, of which $25.0 million is in the Police Department. The Administration intends to borrow $33.0 million to pay for this expense; this will require Legislative and the Nassau Interim Finance Authority (NIFA) approval. Based on the current 2014 Police separation trend, 117 separations year to date with 12 applications pending, the budget may not be sufficient. In addition, approximately $8.0 million in non-police termination expense is also expected to be funded through debt.

- **Veolia** – The County is set up to act as a pass through for the Nassau Inter County Express (NICE) Bus system in that it will collect all revenues attributable to bus operations and pay them to NICE Bus in the form of a contractual payment. The Proposed FY 15 Budget anticipates a contractual increase in the NICE Bus system of approximately $8.7 million. This is expected to be offset by an increase in Fare Box revenues of $5.4 million and an additional $1.2 million in the State Transportation Operating Assistance (STOA) grant monies. The County will maintain its subsidy at $2.5 million.

  Contingency – The Proposed Budget includes $15.0 million in contingency, $10.0 million in the General Fund and $5.0 million in the Police District Fund. It is sound budget practice to include some level of contingency in the budget should unexpected shortfalls arise.

- **Other Expense** – Other expense is increasing by $102.2 million from the prior year which is demonstrated below.
  - This includes other suits and damages which is increasing by $108.2 million. The Treasurer's budget for tax certiorari expenses is increasing by $90.0 million, from $10.0 million in FY 14 to $100.0 million in the proposed plan. The $100.0 million is offset by a corresponding revenue line of $100.0 million from capital which is indicative of the Administration intent to borrow. Similarly, the Administration is showing $18.0 million in expenses for suits and damages which will also be offset by the issuance of debt. In FY 14, the budget did not reflect the entire anticipated expense; however, NIFA has requested that the expense be reflected for transparency purposes.
  - The decrease in NIFA set-asides is a function of lower debt service payments on NIFA debt.

Table 1.1: FY 14 vs. FY 15 Other Expenses

Object Code OO-Other Expense	2014 Adopted	2015 Proposed	Difference
Total	**264,129,711**	**366,301,231**	**102,171,520**
OO Components with Major Variances			
87987-Other Suits & Damages	13,000,000	121,200,000	**108,200,000**
88988-Expense of Loans	7,185,600	4,224,000	**(2,961,600)**
88989-NIFA Set-Asides	193,473,026	189,330,277	**(4,142,749)**
97998-Contingency Reserve	12,000,000	15,000,000	**3,000,000**

- **Fringe Benefits** – The FY 15 Fringe Benefit budget for the Major Funds is approximately $496.1 million, which is an increase of $15.6 million from the adopted FY 14 due mostly to increases in health insurance for active and retired employees, pension contribution and social security costs. Compared to the FY 14 projection, fringe benefit costs are increasing by roughly $23.3 million.

  Health insurance is increasing by 9.5 million in FY 15 due to a rise of $5.1 million in insurance costs for active employees and $4.4 million in insurance costs for retirees. The

FY 15 budget is based on a growth rate of roughly 5.5%, which is based on New York State's Health Insurance Plan (NYSHIP) best estimate projection from their Quarterly Experience Report. Compared to the FY 14 projection, health insurance costs are increasing by $19.6 million. The surplus in the current year is due to an overstated FY 14 budget for active and retiree health insurance costs.

FY 15 is the fourth consecutive year that the Administration has opted to amortize a portion of the pension bill. The Administration has chosen to amortize the maximum pension amount allowed over 12 years based on the Alternate Contribution Stabilization Program at an interest rate that is set annually. The maximum amount allowed based on the 2015 pension invoice is $60.9 million, or 29.1%, of the $209.1 million total pension bill. This includes $12.6 million for the Nassau Community College, the Sewer Resource & Storm Water District and the Grant Fund. The pension liability, including the amortization associated with the Major Funds, is estimated to be $135.6 million in the Proposed FY 15 budget. Please refer to the Fringe Benefit Section.

- **Sewers** – The FY 15 Proposed Budget for Sewers includes a property tax increase of approximately $6.0 million. The County entered into an agreement with United Water Long Island for the Operation and Maintenance of the Nassau County Sewer System. Included in the rents and recoveries budget is $10.0 million in guaranteed savings. The FY 15 budget includes $12.6 million for the exempt user fee revenue. However, due to ongoing litigation and the Temporary Restraining Order (TRO), the County has not collected any revenue related to this fee and it is unclear if any revenue will be collected in FY 15. In anticipation of a refinancing deal, the Administration will no longer budget for the Operations and Maintenance Reserves (O&M) which previously equated to 25.0% of the District's budgeted operating expenses and included applicable indirect chargeback costs within inter-fund charges. Instead, the O&M reserve will be replaced with a fully funded Debt Service Reserve Fund.

- **Tax Levy**

Using the calculation for the cap, the Proposed 2015 Budget includes a property tax increase of 3.16 percent or $31.2 million (all funds including College) which is within the Administration's calculated maximum of $34.0 million property tax cap limit. The reduction between the allowable increase of $34.0 million and the proposed increase of $31.2 million removes the value of new construction.

Other key provisions in the legislation related to calculating the tax levy limit for the coming fiscal year include:

• The ability to carryover "unused" levy limit amounts from one year into the next. If a local government or school district levies less than the levy limit in the prior fiscal year or school year, the unused portion of the prior years' tax levy limit, up to 1.5 % can be carried over into the next fiscal year.

• An adjustment for certain tax base growth, such as new construction (i.e. "tax base growth factor"). This is driven by a "quantity change factor" which is calculated by the New York State Department of Taxation and Finance and is used in determining the tax base growth factor, if any, for each local government and school district.

• Exclusions from the levy limit for which a local government or school district may levy an additional amount. These include:

A tax levy necessary for expenditures for the coming fiscal year for employer contributions to local government and school district to the New York State and Local Employees' Retirement System and the New York State and Local Police and Fire Retirement System caused by growth in the "system average actuarial contribution rate" in excess of 2%.

Table 1.2 below illustrates the property tax levy variances by fund:

Table 1.2: Proposed Property Tax Levy By Fund

	2014 Adopted Budget	2015 Proposed Budget	Difference	% Change	% of FY 15 Proposed
Fire Commission Fund	15,944,884	15,852,193	(92,691)	-0.58%	1.9%
General Fund	80,509,740	106,730,782	26,221,042	32.57%	12.8%
Police District Fund	361,727,267	367,774,960	6,047,693	1.67%	44.2%
Police Headquarter Fund	348,867,518	341,919,082	(6,948,436)	-1.99%	41.1%
Total Major Funds	807,049,409	832,277,017	25,227,608	3.13%	
Other Funds					
Sewer Finance Authority Fund	117,270,940	123,313,570	6,042,630	5.15%	
Nassau Community College	52,206,883	52,206,883	-	0.00%	
Environmental Bond	9,670,766	9,606,968	(63,798)	-0.66%	
Grand Total	986,197,998	1,017,404,438	31,206,440	3.16%	

The impact of the property tax increase has been estimated to be approximately $40.65 annually on class one homeowners for the County-wide funds and Police District Fund. However, approximately 60.9% of County households are also charged a tax for County collection and disposal services. A resident in the Sewage Collection and Disposal taxing jurisdiction will pay an additional $16.73 which represents a proposed annual total tax increase of $57.38 per household.

New York State implemented the Property Tax Freeze Credit as part of the 2015 State Budget. According to the New York State website, "the new law encourages local governments and school districts to generate long-term tax relief for New York State taxpayers". The law is designed to encourage governments and school districts to share services, consolidate or merge government, and to demonstrate and implement operational efficiencies. It is a two year program for local governments and begins in 2015.

Based on the 2015 Proposed Budget, Nassau County is expected to participate in the program, as the only requirement is for the County to be in compliance with the property tax levy cap. During the second year local governments must comply with both the property tax levy cap and submit a government efficiency plan.

All County residents that qualify for the STAR property tax exemption are expected to benefit from the Property Tax Freeze Credit. Essentially, homeowners with a total household income up to $500,000 are eligible to qualify for the credit. It is the Administration's position that the credit for those who qualify will offset the impact of the property tax increase. However, if the program is not renewed, there will be no offset in the out-years.

As illustrated below, the County represents approximately 17.0% of the average class one homeowner's property tax bill.

Table 1.3: % of Average Class One Tax Bill

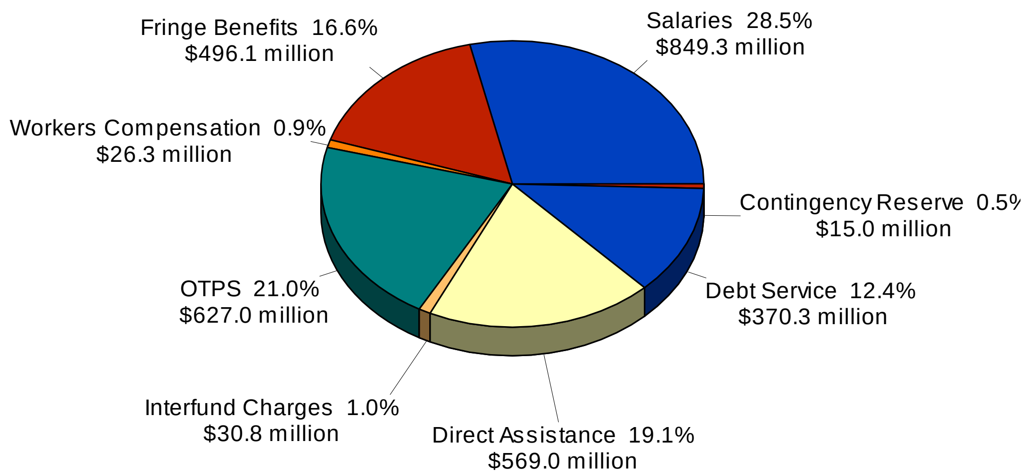
	% of Average Class One Tax bill
County	17.0%
School	69.9%
Town	13.2%

Therefore for every $1,000 a class one homeowner pays, $170 would be distributed to the County, $132 to the Town and $699 to the School District.

Proposed Expense Budget

The FY 15 Proposed Budget for the Major Funds, excluding the Sewer and Storm Water Resource District, interdepartmental charges and debt service chargebacks, is $3.0 billion. Salaries and fringe benefits make up 45.1% of the total budget. As illustrated in Chart 1.1, other large components include direct assistance at 19.1% and Other Than Personal Services (OTPS).

Chart 1.1: FY 15 Major Funds' Expenses ($3.0 Billion)



Data reflects major funds excluding Sewer and Storm Water Resource District, Debt Service Chargebacks and Inter-Dept Charges.

Compared to the Adopted FY 14 Budget, total expenses are increasing by $193.8 million as shown Table 1.4 below. Salary and fringe benefits expenses are increasing by $55.4 million. The County entered into new labor agreements with the Police Benevolent Association (PBA), the Detectives

Association Inc. (DAI), the Civil Service Employees Association (CSEA), the Superior Officers Association (SOA) and the Correction Officers Benevolent Association (COBA), formerly known as ShOA (Sheriff Officers Association) which ended the wage freeze. The Collective Bargaining Agreements (CBA) lay out terms between the County and the unions through 2017. The Proposed Budget reflects the increased salaries from these agreements. For the fourth year in a row, the FY 2015 Executive Budget keeps the full-time headcount at 7,395 positions for the Major Operating Funds versus the current on-board headcount of 7,230. Centrally located in the Budget Office is a reduction of 27 heads with a corresponding savings of $1.1 million for anticipated attritions. The challenge at the current low headcount will be how to sustain the level of service the County has provided in the past. The Administration believes that 7,395 full time headcount is the optimal level for the County.

The following table depicts the FY 15 Proposed Budget expenditures by category compared to the FY 14 Adopted Budget.

Table 1.4: Major Funds' Expenses 2014 vs. 2015

($'s in millions)

	2014 Adopted	2015 Proposed	Var.
Expenses			
Salaries	$809.5	$849.3	$39.7
Fringe Benefits	480.4	496.1	15.6
Workers Compensation	28.0	26.3	(1.7)
OTPS	503.7	627.0	123.3
Interfund Charges	20.3	30.8	10.5
Direct Assistance	574.7	569.0	(5.7)
Debt Service	361.2	370.3	9.2
Contingency Reserve	12.0	15.0	3.0
Total Expenses[1]	**$2,789.8**	**$2,983.7**	**$193.8**

1. Excludes interdepartmental charges and debt service chargebacks

The OTPS rollup shows an increase of $123.3 million mainly due to an additional $90.0 million more for tax certiorari expenses and $18.2 million more for judgments and settlements. The County intends to borrow for both expenses. In addition, the contractual line reflects an increase of $17.0 million. The Proposed Budget includes $40.3 million in revenue from the School Zone Speed Safety Program. That figure does not include the vendor's contractual cost. The County is expected to pay American Traffic Solutions (ATS) approximately $9.6 million in FY 15, as ATS is contractually entitled to 38% of the ticket proceeds. A growth of $9.7 million in contractual expenses is proposed in the Department of Public Works of which $8.7 million is an increase in the Veolia contract.

The direct assistance budget is decreasing by $5.7 million, or 1.0%. Contained within this category are Early Intervention and Preschool Education in the Department of Health. Recipient grants, purchased services, emergency vendor payments and Medicaid expenses are in the Department of Social Services. The insert below provides a visual of the categories with discussions following:

Table 1.5: Direct Assistance FY 14 vs. FY 15

Direct Assistance	2014 Adopted	2015 Proposed	Difference
Early Intervention/Pre School Education	139,500,000	135,000,000	**(4,500,000)**
Recipient Grants	64,100,000	60,550,000	**(3,550,000)**
Purchased Services	61,247,021	68,402,576	**7,155,555**
Emergency Vendor Payments	56,595,000	52,755,000	**(3,840,000)**
Medicaid	253,257,500	252,255,731	**(1,001,769)**

Provider Payments (PP) for Early Intervention and Pre-school expenditures are decreasing by $4.5 million to $135.0 million in the FY 15 Proposed Budget. The $4.5 million decrease results from a $4.0 million reduction in Pre-school Education Services and a $500,000 reduction in Children's Early Intervention Services. In the Pre-school 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. The $500,000 decrease in Children's Early Intervention Services is a result of a higher number of children receiving Medicaid reimbursements.

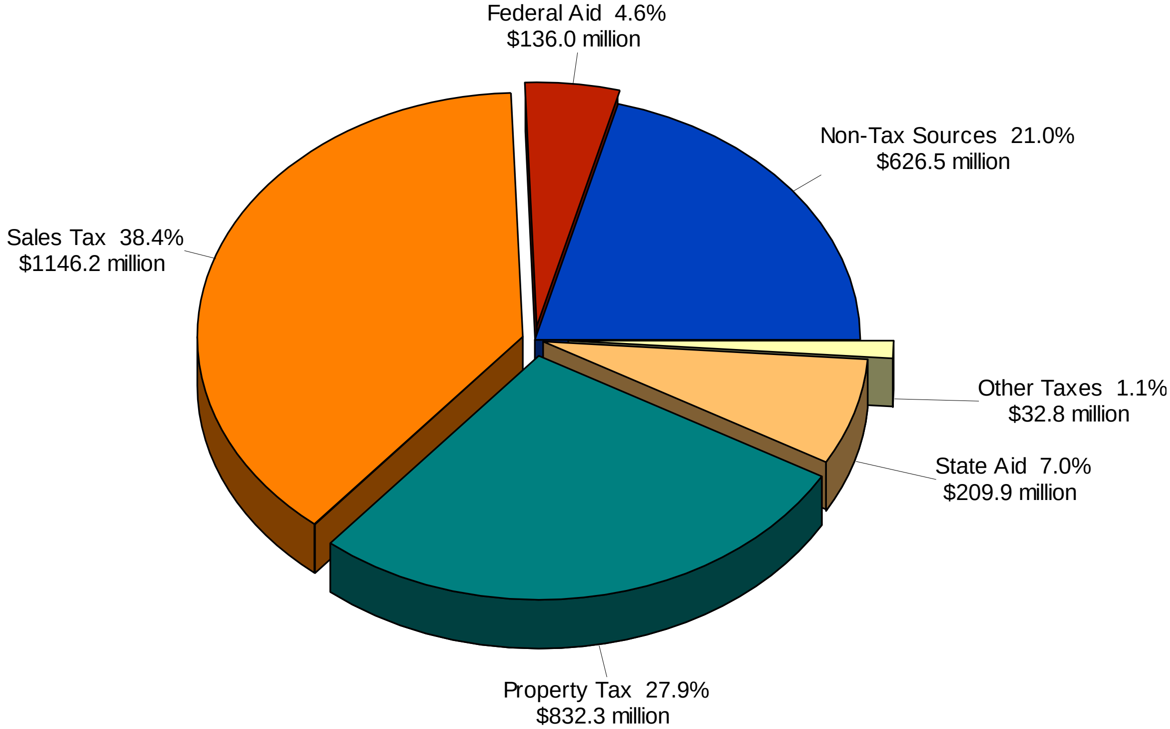
Recipient Grant expenses in the FY 15 budget are down 5.5%, or $3.6 million, from the budget adopted for FY 14. Safety Net (SNA) caseloads are down 0.9% from August 2013 to August 2014, while Temporary Assistance to Needy Families (TANF) caseloads have declined about 5.6% during this time. The Administration expects TANF cases to remain flat next year, if not continue their decline. SNA caseloads are expected to increase as DSS clients transition from TANF to State assistance. The proposed budget represents a growth of $1.7 million compared to the latest OLBR projection of $58.9 million.

There is 11.7% or $7.2 million more funding for purchased services in the Proposed FY 15 Budget than the Adopted FY 14 Budget. The proposed budget for purchased services is an increase of $1.9 million over OLBR's current projection of $66.5 million. Rising demand for day care services has led to the need for a higher budget. The department believes that the increase in the Purchased Services budget should be sufficient to meet demand.

Emergency vendor payments fall by 6.8%, or $3.8 million, in the Proposed FY 15 Budget from the budget adopted for FY 14. Compared to OLBR's current projection of $49.6 million, emergency vendor payments are budgeted to increase by 6.3%, or $3.1 million, in the proposed budget. The reduced emergency vendor payments expense is a result of declining caseloads.

Proposed Revenue Budget

Chart 1.2: FY 15 Major Funds Revenue ($3.0 Billion)



Data reflects major funds excluding Sewer and Storm Water Resource District, Debt Service Chargebacks and Inter-Dept Charges.

The largest revenue source for the County is sales tax, making up 38.4% of all revenues, as illustrated in Chart 1.2. The proposed sales tax revenue in the FY 15 Executive Budget is $1,146.2 million (including deferral), a decrease of $19.7 million over the current adopted budget as can be seen in Table 1.3. On a year-to-date basis, through September 12, 2014, sales tax collections are down 5.6% year over year. The Office of Management and Budget (OMB) is currently projecting a $51.5 million deficit in FY 14. The proposed sales tax revenue in the FY 15 Executive Budget, excluding the deferred piece, is $1,143.3 million which assumes a 3.0% growth from OMB's current projections. OLBR is currently projecting a deficit of $70.0 million this year and the Nassau County Comptroller estimates a $90.0 million deficit. For a further discussion of sales tax, see Section 4 of this document.

Property tax is the next most significant revenue source for the County. The 2015 Proposed Budget includes a 3.16% property tax increase in all funds.

Table 1.6: Major Funds Revenue FY 14 vs. FY 15
($'s in millions)

	2014 Adopted	2015 Proposed	Var.
Revenues			
Non-Tax Sources	416.2	626.5	210.4
Federal Aid	147.1	136.0	(11.1)
State Aid	220.6	209.9	(10.7)
Sales Tax	1,165.9	1,146.2	(19.7)
Property Tax	807.0	832.3	25.2
Other Taxes	33.1	32.8	(0.3)
Total Revenues[1]	**$2,789.8**	**$2,983.7**	**$193.8**

1. Excludes interdepartmental revenue & debt service chargebacks

The $210.4 million increase seen in Table 1.6 for non-tax revenue sources is made up of a number of items, including:

- Budgeted fund balance usage of $15.0 million in FY 15 which represents an increase of $5.0 million.
- Fines and Forfeits which are increasing by $35.9 million year over year. The Speed Camera program, which did not exist when the FY 14 budget was adopted, is estimated to bring in $40.3 million in gross revenue in FY 15. The additional revenue is offset by decreases in fines from Red Light Camera Program, reducing the increased revenue in the Traffic and Parking Violations Agency to $36.3 million.
- A $115.0 million increase in debt service revenue from capital, which includes:
  - $100.0 million in anticipated revenue in Treasurer's department to fund tax certiorari expenses. This represents an increase of $90.0 million from FY 14.
  - $18.0 million in the OMB to fund suits and damages.
- An additional $35.9 million in interfund charge revenues. The County plans on borrowing $33.0 million to pay for employee termination expenses.
- $9.0 million for Video Lottery Terminals.

Anticipated revenue from federal aid is decreasing by $11.1 million. DSS is decreasing by $5.0 million due to reduced reimbursement from lower salaries and expenses for TANF and SNA. The Correctional Center is decreasing by $5.8 million primarily due to the elimination of federal aid for inpatient medical costs, the reduction of SCAAP (State Criminal Alien Assistance Program) reimbursement and a lower federal inmate population. The FY 14 allocation was based on 85 inmates and the Proposed FY 15 Budget is based on 40 inmates.

State aid is estimated to decrease by $10.7 million of which the Department of Health makes up $9.9 million of the reduction. The decrease in state aid in the Health Department is due to lower overall expenditures receiving reimbursement. There has also been a reduction in state aid received from the Children's Early Intervention Program due to a change in New York State payment procedures, which no longer requires the County to receive third party reimbursement prior to disbursing provider funds. Finally, the State has adjusted prior year revenue related to the Pre-school Education Program, which has resulted in a reduction of revenue as previous years may have been overstated.

Budget Risks and Opportunities

The largest risk items to the FY 15 are borrowing for judgments & settlements, termination pay and tax certiorari expenses of $151.0 million. It is currently unclear if the County will be given the authority to borrow for these expenses. The FY 15 sales tax assumes a reasonable growth rate of 3.0% from OMB's projected $51.5 million deficit. OLBR is projecting that the current deficit will be near $70.0 million. Using this deficit as a base, instead of the $51.5 million yields a risk of $22.9 million.

The Administration included $9.0 million from Video Lottery Terminals. There are uncertainties on when and where this initiative will be implemented. Of the $98.7 million budgeted in revenues in the TPVA, $2.0 million is estimated to be at risk. The Administration is very optimistic with the initial revenue being generated from the School Zone Speed Cameras which suggests the budget will be met. However no data has been provided from which an accurate projection can be made. Based on the current overtime trend; meeting the police overtime budget maybe challenging.

The items that may be at risk, or prove to be an opportunity, in the Proposed Budget are listed in Table 1.7, below and continue on the next page.

Table 1.7: Risks and Opportunities (Major Funds)

Expenses Risks (in millions)

Item	OLBR Surplus/Risk
Overtime	(13.0)
Additional Police Termination	(5.5)
Expense Sub Total	**(18.5)**

Revenue Risks (in millions)

Item	Surplus/Risk
Tax Cert Bond Proceeds	(100.0)
Termination Bond Proceeds	(33.0)
Suits & Damages Bond Proceeds	(18.0)
Sub Total Bond Proceeds	(151.0)
Sales Tax	(22.9)
Video Lottery Terminals	(9.0)
Parking & Traffic Violations	(2.0)
Tax Map Verification (GIS)	(3.1)
Police Revenue	(1.5)
Revenue Sub Total	**(189.5)**
Total Risks	**(208.0)**

Opportunities

Contingency	15.0
Health Insurance	5.0
NUMC Mission Payment	13.0
Local Government Assistance	1.4
Total Opportunities	**34.4**
Net Risks	**(173.6)**

Multi-Year Plan (MYP)

Table 1.8 below details the Administration's projected expenditures and revenues through 2018. 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)

	2015 Proposed	2016 Proposed	2017 Proposed	2018 Proposed
Expenses				
Salaries	$849.3	$875.5	$903.2	$909.8
Fringe Benefits	496.1	$515.7	$533.4	553.7
Workers Compensation	26.3	$26.3	$26.3	26.3
OTPS	627.0	$621.4	$627.9	634.9
Interfund Charges	30.8	$30.6	$30.3	30.1
Direct Assistance	569.0	$573.5	$578.4	587.1
Debt Service	370.3	$387.6	$398.5	408.9
Contingency Reserve	15.0	$0.0	$0.0	0.0
Total Expenses[1]	**$2,983.7**	**$3,030.5**	**$3,098.0**	**$3,150.8**

1. Excludes interdepartmental charges and debt service chargebacks

	2015 Proposed	2016 Proposed	2017 Proposed	2018 Proposed
Revenues				
Use of Reserves	0.0	0.0	0.0	0.0
Non-Tax Sources	626.5	594.3	604.2	606.0
Federal Aid	136.0	138.2	140.5	140.5
State Aid	209.9	212.4	215.0	216.5
Sales Tax	1,146.2	1,171.9	1,201.2	1,231.2
Property Tax	832.3	832.3	832.3	832.3
Other Taxes	32.8	31.5	32.3	32.1
Total Revenues[1]	**$2,983.7**	**$2,980.6**	**$3,025.4**	**$3,058.6**
Surplus/Gap Projections	**$0.0**	**($49.8)**	**($72.6)**	**($92.3)**

1. Excludes interdepartmental revenue & debt service chargebacks

Over the course of this MYP, total expenses are projected to grow by 5.6% while revenues increase at a lower rate of 2.5%. Rising costs for salaries, fringe benefits, debt service, direct assistance and OTPS will outpace the County's revenue sources. 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 $60.5 million, from a Proposed Budget of $849.3 million in FY 15 to $909.8 million in FY 18. Overtime cost will remain challenging in the out-years and will have to be managed by the Police Department. The out-years correctly reflect attrition savings.

  - Fringe Benefit expenses will increase by $57.7 million, from an estimate of $496.1 million in the FY 15 Proposed Budget to $553.7 million in FY 18.

  - Health insurance expenses for active and retired employees are projected to increase by $31.7 million to $307.1 million in FY 18. The MYP baseline inflator used to project out-year health insurance costs is 4.46% from 2016 through 2018 for actives. The inflator for retirees is 4.33% from 2016 through 2018.

  - Including the amortization amounts, pension costs for the Employee Retirement System (ERS) and the Police and Fire Retirement System (PFRS) are increasing by $19.4 million to $155.0 by FY 18. The New York State Comptroller announced this month that the rates for SFY15-16 are projected to decrease due to strong returns from stocks and other investments of the pension fund. However, out-year costs are still projected to increase due to increasing salaries from the newly negotiated union contracts. In addition, the County is responsible to pay the annual installment liability associated with amortizing pension payments from the current year and prior years.

  - From the 2015 Proposed Budget, social security expenses are increasing by roughly $1.8 million in FY 16 to $2.0 million in FY 17, and minimally by $671,128 for 2018. The MYP budgets an annual increase in salaries due to the new negotiated union contracts, as a result social security is also expected to rise.

- Debt service is projected to increase by $38.6 million, from an estimate of $370.3 million in FY 15 to $408.9 million in FY 18.

- Non-tax revenues are projected to decline by $20.5 million through the MYP. Fund balance usage of $15.0 million is only in FY 2015, the out-years have zero. Interfund charges are decreasing by $28.9 million mostly to reflect the reduction in borrowing for termination pay in the 2015 Proposed Budget. This will be offset by an increase in projected revenues of $16.0 million from the Video Lottery Terminals from $9.0 million in FY 2015 to $25.0 million in FY 2018.

- The Administration is projecting a sales tax deficit of approximately $51.5 million in the current year. Sales tax revenue increases by 3.0% in the Proposed 2015 Budget and by 2.50% from 2016 thru 2018 in the MYP. These growth rates seem reasonable. However, since FY 14 is the basis for the out-year calculations, if the deficit is closer to the current $70.0 million projected deficit, this may create a shortfall in the MYP.

- The property tax levy will stay flat from FY 15 to FY 18.

Gap Closing Measures

The Administration included in the MYP various items that may reduce the projected out-year gaps. These items are divided into three categories: Expense/Revenue actions, Financing Options/Asset Sales and NYS actions, as illustrated in Table 1.9.

Table 1.9: Gap Closing Measures Detail 2015 - 2018

	2015	2016	2017	2018
Current Baseline Gap		**(49.8)**	**(72.6)**	**(92.3)**
Expense/Revenue Actions				
Suez Energy NA (TRIGEN)			10.0	20.0
Health Insurance Cost Reductions		1.0	10.9	11.3
Workforce Management		10.4	10.8	11.2
United Water Synergy Savings		8.7	9.0	9.2
Advertising Revenue		6.0	8.0	8.0
Office Consolidation		2.0	3.0	4.0
Taxi Limousine Commission		2.0	2.0	2.0
Strategic Sourcing		2.0	2.0	2.0
Board of Election (BOE) Reimbursement		2.0	2.0	2.0
ERP Implementation			2.0	2.0
Financing Options/Asset Sales				
Sale of Surplus County Property		5.0	5.0	5.0
New York State Actions				
Mandate Reform		10.0	10.0	10.0
LIE Surcharge		5.7	5.7	5.7
Total Gap Closing Initiatives		**$54.8**	**$80.4**	**$92.4**
Projected Baseline Gap After Gap Closing Actions		**5.0**	**7.8**	**0.1**

The following are explanations provided by the Administration:

TRIGEN Privatization – The County will explore other options for the TRIGEN facility when the County's agreement with Suez Energy NA expires in 2016. The Administration believes there are several alternative uses for the facility that could generate revenue for the County.

Health Insurance Cost Reduction – The Administration will leverage the recent labor contracts and the Affordable Care Act (ACA) in order to reduce the County's health insurance premium costs.

Workforce Management – The Administration plans to continue its approach to workforce management. The County will be judicious in its treatment of vacancies as they materialize. If the County cannot eliminate vacancies, the Administration will delay hiring or backfill with lower paid workers.

United Water Synergy Savings – The Administration plans to reassign sewer fund employees who are displaced by the United Water agreement throughout the County. The Administration expects that these reassignments could produce a number of financial benefits, such as reducing the use and cost of overtime and in-sourcing County work from third-party contractors.

Advertising Revenue – The County will look to sell advertising space on some of its assets (i.e. roadways).

Office Consolidation – The County will look to streamline office space due to reduced headcount.

Taxi and Limousine Commission – The County will look to extend Taxi and Limousine Commission (TLC) oversight to the owners and operators of other for-hire vehicles and taxicabs (i.e. commuter vans, taxicab brokers and agents, livery passenger enhancement vendors, etc.).

Board of Elections (BOE) Reimbursement – The Administration plans to enforce a section of State Election law that allows County BOE's to seek reimbursement from other municipalities (i.e. cities, towns, villages). If implemented, Nassau's BOE would be able to charge back a city, town, or village, for any cost associated with holding an election in a time period other than the fall primary or general election.

Grant-Thornton Report Initiatives – The Administration will continue its pursuit of efficiencies and savings identified in the Grant Thornton Report commissioned by NIFA. The County is currently engaged in implementing two of Grant Thornton's recommendations, the Enterprise Resource Planning (ERP) system and the strategic sourcing plan. According to the Administration, the ERP system is designed to streamline core business practices, while strategic sourcing plan is a procurement approach designed to produce efficiencies and cost savings.

Long Island Expressway (LIE) Surcharge - The Police Department currently patrols all State highways within Nassau County. The Administration plans to pursue legislation that would reimburse the County for the cost of providing this service to the State.

Mandate Reform – The County believes that cost containment opportunities exist within pre-school special education programs and other New York State mandated programs such as public assistance.

Sale of Surplus County Property – The sale of unneeded County property and consolidating offices would generate revenue.

Conclusion

The FY 15 Proposed Budget represents the first budget from the Mangano Administration with a property tax increase. County finances remain delicate and require long-term solutions that lead to structural balance, where ongoing revenues meet recurring expenses. For this reason, OLBR finds the proposed property tax increase to be fiscally responsible as expenditures continue to outpace revenue growth. That said, the success of the proposed budget is contingent on the Administration securing $151.0 million in anticipated bond proceeds that is built into the budget. Failure to do so could create a fairly sizeable gap in the budget.

OLBR has identified $173.6 million in risks in the proposed budget. The risks are reduced to $22.6 million if the $34.4 million in budget opportunities materialize and the Administration is successful in enacting its borrowing plan.

2. LABOR

The most significant Labor event in the County has been the lifting of the three year wage freeze imposed by the Nassau County Finance Authority (NIFA) which had been in effect since March 2011. Initially, NIFA, the Administration and four Unions: the Police Benevolent Association (PBA), the Detectives Association Inc. (DAI), the Civil Service Employees Association (CSEA) and the Superior Officers Association (SOA) reached a deal that led to the lifting of the freeze for these Unions. An agreement with the Correction Officers Benevolent Association (COBA), formerly known as ShOA (Sheriff Officers Association) did follow and was approved by NIFA on September 10, 2014. This marked the end of the wage freeze for the Unions including Ordinance employees. The wage freeze allowed the Administration to keep labor costs stagnant by avoiding salary expense increases. Despite these savings, it was unrealistic to expect that the freeze would have continued indefinitely. The agreements preserve the Unions' right to seek lost wages for prior year freezes, mainly 2011 and 2012. It is the Administration's position that the new labor agreements will provide structural savings in the future while mitigating the County's exposure should the Unions prevail in their Court cases for lost wages.

Labor Contracts

The terms negotiated with each Union vary and will be illustrated separately below. However, all the Collective Bargaining Agreements (CBA) lay out terms between the County and the Unions through 2017. Some agreements call for retroactive pay backdating to April of this year. The County currently projects salary deficits in 2014 which mainly are a result of increased termination pay, overtime costs and the additional costs associated with the new CBAs which were not incorporated in the Adopted 2014 Budget. The proposed labor contract costs have a compounding effect; as new steps and Cost of Living Adjustments (COLA) are added, there will be more fiscal pressure placed on future budgets. To cover the costs, the Administration has implemented a School Zone Speed Camera program and increased fees all of which are needed to address a stagnant revenue base.

2014 PBA Agreement

	Timeline	Award
2014	4/1/2014	Jan. 1, 2012 Step
	4/1/2014	3.5% COLA for all PBA members hired before March 1, 2014
	9/1/2014	Jan. 1, 2013 Step
2015	1/1/2015	Jan. 1, 2014 Step
	9/1/2015	3.75% COLA
	9/1/2015	All PBA members hired during Calendar year 2008 not in Step 9 are placed on top step.
2016	9/1/2016	3.5% COLA
2017	1/1/2017	2.0% COLA

2014 DAI Agreement

	Timeline	Award
2014	4/1/2014	All DAI members step
	4/1/2014	3.5% COLA
	9/1/2014	All DAI members step
2015	1/1/2015	All DAI members step
	9/1/2015	3.75% COLA
	9/1/2015	Any DAI member hired as a PO during calendar year 2008 who has not reached Step 9 shall be placed at Step 9.
2016	9/1/2016	3.50% COLA
2017	1/1/2017	2.0% COLA

2014 CSEA Agreement

	Timeline	Award
2014	4/1/2014	CSEA members step
	4/1/2014	3.5% COLA
	9/1/2014	CSEA members step
2015	7/1/2015	3.75% COLA
	9/1/2015	CSEA members step
2016	7/1/2016	3.5% COLA
	9/1/2016	CSEA members step
2017	7/1/2017	2.0% COLA
	9/1/2017	CSEA members step

2014 SOA Agreement

	Timeline	Award
2014	4/1/2014	SOA members step
	4/1/2014	3.5% COLA
	9/1/2014	*SOA Members Step
2015	1/1/2015	SOA members step
	9/1/2015	3.75% COLA
2016	9/1/2016	3.5% COLA
2017	1/1/2017	2.0% COLA

* All SOA members promoted during 2009 or 2010 receive a step.
* All members promoted in 2012 receive a step on their anniversary date in 2014, 2015 and 2016.

2014 COBA Agreement

Year	Timeline	Award
2013		No COLA
2014	6/1/2014	All COBA members hired on or before Dec. 31, 2012 will receive a step.
	6/1/2014	3.5% COLA
	12/1/2014	All COBA members hired on or before Dec. 31, 2013 will receive a step.
2015	6/1/2015	All COBA members with the exception of those hired during 2013 calendar year will receive a step.
	9/1/2015	3.75% COLA
	12/1/2015	All COBA members hired on or before Dec. 31, 2010 with the exception of those members hired between January 1, 2008 and March 23, 2008 will receive a step.
2016	1/1/2016	All COBA members hired on or before Dec. 31, 2013 will step on their anniversary date of hire. There will be no step movement for members hired between January 1, 2014 and May 31, 2014.
	9/1/2016	3.50% COLA
2017	1/1/2017	All COBA members move to the next step on their anniversary date of hire.
	7/1/2017	2% COLA

Some of the negotiated concessions are expected to generate savings and help reduce the financial impact on the County. Some represent structural changes that will continue to garner savings past the timeframe covered by the CBAs. Examples of the structural changes include a 15% health insurance contribution and revised salary plans with lower salary scales for new employees. However, items such as a Police civilianization are highly contingent upon management enforcement and execution. It will be incumbent upon the Administration to implement adequate procedures in order to realize these savings. Failure to achieve these savings will expose the County to significant and compounding costs. Should there be a downturn in the economy, the County will no longer be able to rely on the imposition of a wage freeze as NIFA gave up its authority to implement a wage freeze by including in the agreements the following clause: "This agreement shall not be effective unless NIFA adopts a resolution certifying that the Agreement is an instrument in writing that is an acceptable and appropriate contribution toward alleviating the fiscal crisis of the County pursuant to section 3669(3)(B) of the NIFA ACT and that NIFA will abide by the terms of the Agreement and will not impose a wage freeze through December 31, 2017, as long as this Agreement, in whole or in part, is in effect".

The Proposed 2015 Budget includes approximately $14.1 million from Attrition and other savings as illustrated below:

Table 2.1: Proposed Salary Savings

Unions	2015 Proposed Savings Budget
COBA	(622,302)
CSEA	(6,762,711)
PBA	(6,693,847)
DAI	-
SOA	-
Total	(14,078,860)

It is the Administration's position that the savings were budgeted in PBA although as a place holder they will happen throughout all law enforcement Unions.

In an effort to further reduce salary obligations, the Administration offered a Voluntary Separation Incentive Plan (VSIP) to CSEA employees who opt to leave County employment. Departing employees would receive, in addition to their leave obligations, $1000.00 in incentive pay per year of service. Data provided by the Administration shows approximately 198 employees opted into the program with a projected separation cost of approximately $13.0 million. Not all employees have separated from County employment. As of September 12, 2014 the number of employees that remain on payroll is 83 with 115 personnel no longer on payroll. This is illustrated below:

Table 2.2: September CSEA VSIP

	# of Employees	Salary	Total Liability
Employees Off of Payroll	115	6,042,656	6,065,594
Employees Still On Payroll	83	6,753,281	6,927,699
Grand Total	**198**	**12,795,937**	**12,993,293**

The Legislature approved $5.0 million in bonding to cover the VSIP termination expenses. The Administration also committed to cover the separation cost for the first 75 separations from the operating budget. With the average termination cost estimated to be $65,622 the $5.0 million in bonding authorization would cover approximately 76 employees.

The proposed termination pay budget for the major funds is $33.5 million of which $25.0 million is in the Police Funds. This represents a countywide increase of $2.3 million from the previous year budget. The Administration expects to borrow for this expense in 2015. Based on the current Police separation trends, 117 sworn separations year to date with 12 applications pending, the Police budget may not be sufficient.

The salary obligations are not limited to employee base earnings, but include other entitlements, referred to as “salary extras” that can significantly boost the base salary. Using the 2013 full year W-2 earnings, these are illustrated in the table below:

Table 2.3: 2013 W-2 Salary Earnings

Major Funds Including Sewers 2013 Full Time Earnings (millions)

Union	Regular Earnings	Overtime	Holiday	Longevity	Shift Diff	Term Pay	Other	Salary Extra Total	2013 W-2 Total Earnings
CSEA	229.5	23.4	2.2	6.2	4.2	6.6	4.7	47.3	276.7
DAI	42.8	11.1	2.7	2.5	4.1	4.6	1.1	26.0	68.9
IPBA	4.9	0.4	-	0.1	0.0	0.0	3.3	3.8	8.7
ORDINANCE	43.7	0.0	0.0	0.0	0.0	1.5	0.9	2.5	46.2
PBA	148.6	46.3	9.0	7.6	14.5	9.9	2.0	89.2	237.9
SHOA	71.2	14.3	2.5	1.9	3.7	3.2	2.6	28.1	99.3
SOA	44.9	10.0	2.8	2.3	3.5	3.8	2.1	24.5	69.4
Grand Total	585.6	105.5	19.3	20.5	30.0	29.7	16.6	221.5	807.1

The Major Funds overtime expense is budgeted at $79.3 million in the Proposed FY 15 budget which represents an increase of $4.9 million from the current budget. Police is increasing by $2.0 million. However, given the current overtime trend in the Police Department, the budget may still fall short. The Office of Management and Budget currently projects Police FY 2014 overtime at $65.0 million and OLBR projects $68.8 million. The difference can be attributed to entries made to charge overtime to the grant fund.

Table 2.4: Major Funds Overtime Trends

OVERTIME TRENDS

	2013 YE	2014 Adopted	2014 Projections	2014 Variance to Budget	2015 Proposed
Police District	36,737,386	25,000,000	36,707,729	11,707,729	28,000,000
Police Headquarter	30,604,807	25,000,000	32,087,156	7,087,156	24,000,000
Total	67,342,193	50,000,000	68,794,885	18,794,885	52,000,000
Corrections	16,328,204	16,153,356	16,153,356	-	17,400,000
Police & Corrections	83,670,397	66,153,356	84,948,241	18,794,885	69,400,000
Others	12,041,091	8,247,112	11,471,188	3,224,076	9,868,799
TOTAL:	95,711,488	74,400,468	96,419,429	22,018,961	79,268,799

Many steps have been taken to curb the projected Police overtime deficit; the Department added a new recruit class in May and expects to have these officers deployed by October. In addition, the Police Department expects to boost their staffing by year end. The County expects to further reduce Police overtime costs by $1.0 million through the implementation of management initiatives such as special event chargebacks. The budgeted overtime is reflective of many initiatives the Administration said it would achieve through items such as changes in work rules and vacation picks which may explain the lower budgeted overtime expense. It will be incumbent upon the Police Department to implement adequate procedures in order to realize these savings and meet its budget.

Headcount

For the fourth year in a row, the FY 2015 Executive Budget keeps the full-time positions at 7,395 for the Major Operating Funds versus the current on-board headcount of 7,230.

Table 2.5: Staffing Comparison

Full Time Major Funds Staffing Comparison

Department	2014 Adopted Headcount	2014 Sept Onboard Headcount	2014 Sept Onboard Salaries	2015 Proposed Headcount	2015 Proposed Salaries
Assessment	158	149	8,722,517	148	9,125,208
Assessment Review Commission	29	28	1,981,770	30	2,129,850
Board of Elections	139	169	9,876,539	169	10,555,580
C.A.S.A.	4	4	222,500	4	235,000
Civil Service	51	54	3,862,651	51	3,997,689
Comptroller	86	74	5,586,945	83	6,686,842
Constituent Affairs	38	37	1,943,879	38	2,005,372
Consumer Affairs	27	25	1,485,385	25	1,549,728
Correctional Center	1,134	1,041	77,868,264	1,072	86,555,895
County Attorney	107	93	7,101,826	98	7,561,111
County Clerk	84	84	4,525,166	84	4,788,305
County Executive	18	15	1,450,792	18	1,610,792
District Attorney	375	368	27,741,853	373	28,866,894
Emergency Management	9	10	814,069	11	913,277
Health	173	171	12,618,766	170	13,214,514
Housing & Intergovernmental Affairs	12	14	817,500	14	817,500
Human Resources	9	9	670,000	9	670,000
Human Rights	8	8	525,197	8	535,823
Human Services	77	70	5,067,071	70	5,289,082
Information Technology	79	77	6,568,352	82	7,166,124
Labor Relations	5	5	365,000	4	315,000
Legislature	102	85	5,085,027	95	5,759,441
Medical Examiner	72	69	5,891,973	75	6,560,064
Office of Minority Affairs	6	6	405,642	6	405,642
Office of Management and Budget	25	24	2,231,007	25	2,260,906
Parks, Recreation and Museums	151	149	8,089,312	156	8,909,127
Probation	200	190	14,220,939	190	14,945,178
Public Administrator	6	6	459,054	6	463,720
Public Works Department	418	411	26,971,662	401	27,654,005
Shared Services	11	11	879,845	9	844,789
Records Management	14	12	589,762	12	671,242
Social Services	640	617	39,373,943	616	41,253,044
Traffic & Parking Violations	43	47	2,589,094	47	2,677,166
Treasurer	32	28	1,805,155	31	1,978,645
Veterans' Services Agency	7	7	391,930	7	442,479
Anticipated Attrition	(101)	0	0	(27)	(1,139,497)
General Fund Total	**4,248**	**4,167**	**288,800,387**	**4,210**	**308,275,537**
Fire Commission	95	93	6,488,008	93	6,968,882
Police District	1,422	1,428	141,324,863	1,508	152,949,874
Police Headquarters	1,630	1,542	146,281,453	1,584	156,139,923
Total Major Funds	**7,395**	**7,230**	**582,894,711**	**7,395**	**624,334,216**
Sewer & Storm Water (SSW)	306	288	15,222,994	273	14,487,669
Total including Sewers	**7,701**	**7,518**	**598,117,705**	**7,668**	**638,821,885**

The Administrations has reduced headcount to historically low levels and as a result has garnered salary and fringe savings. Of the 165 funded vacant positions, 153 are in public safety. The Police department will add 122 positions and the Correctional Center 31; these are essential positions that are projected to have positive overtime impact.

The challenge at the current low headcount will be how to sustain the level of service the County has provided in the past. The Administration feels that 7,395 full time headcount is the optimal level for the County. Chart 2.1 trends full-time headcount from FY 10 to the Proposed FY 15 Budget:

Chart 2.1: Full Time Headcount Trend

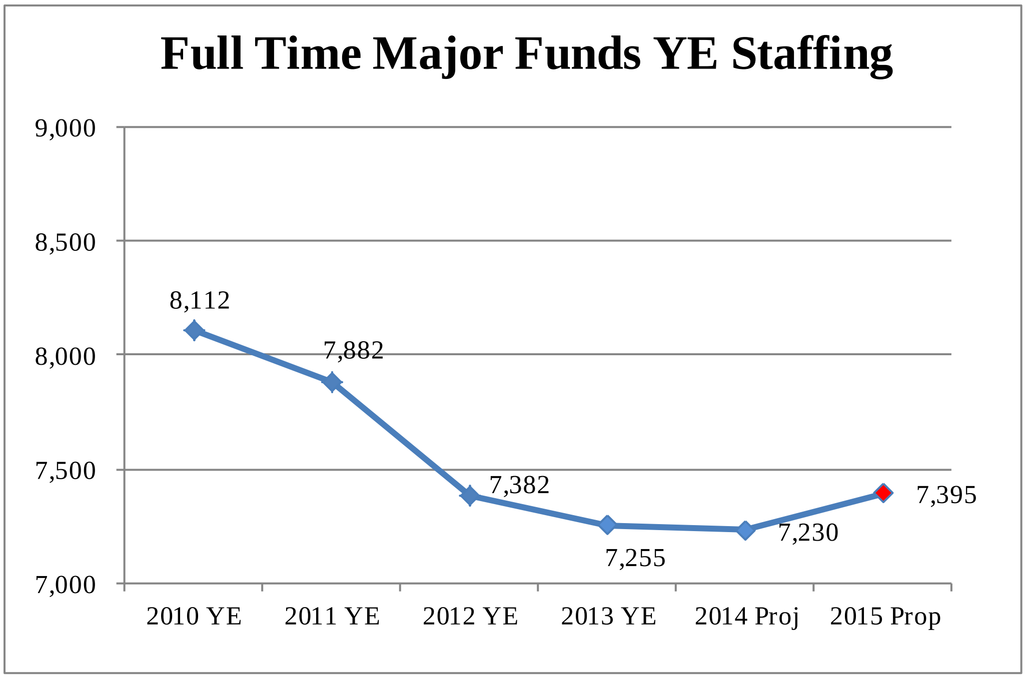


Table 2.5 below illustrates the multiyear salary plan for the Major Funds:

Table 2.6: Major Funds Salary Plan

Major Funds Multi Year Salary Plan				
Department	**2015 Proposed**	**2016 Plan**	**2017 Plan**	**2018 Plan**
Assessment Review Commission	2,201,912	2,283,364	2,353,530	2,373,344
Assessment Department	9,441,592	9,831,355	10,167,197	10,262,446
County Attorney	7,995,875	8,085,945	8,163,937	8,187,873
Office of Management And Budget	3,829,431	3,870,222	3,911,828	3,954,267
Office of Consumer Affairs	1,703,556	1,767,357	1,822,573	1,839,375
Nc Sheriff/Correctional Center	118,676,716	124,782,615	129,852,488	129,712,787
County Executive	1,908,129	1,909,068	1,910,026	1,911,004
Office of Constituent Affairs	2,281,479	2,344,640	2,399,367	2,416,334
County Clerk	5,652,866	5,826,547	5,976,439	6,020,080
County Comptroller	7,102,179	7,349,542	7,563,114	7,625,728
Civil Service	4,857,725	5,029,063	5,176,775	5,219,034
District Attorney	31,152,944	31,539,105	31,878,773	32,007,969
Board of Elections	14,866,695	15,153,838	15,382,478	15,395,429
Emergency Management	1,036,253	1,045,354	1,053,293	1,056,006
Fire Commission	10,947,125	11,322,221	11,655,212	11,796,074
Health Department	14,726,942	15,325,132	15,843,026	16,001,561
Housing & Intergovernmental Affairs	819,500	819,500	819,500	819,500
Commission on Human Rights	577,668	594,583	609,149	613,237
Department of Human Services	5,157,263	5,368,449	5,551,148	5,606,419
Information Technology	7,175,062	7,492,188	7,767,028	7,852,496
County Legislature	6,304,544	6,313,991	6,322,603	6,327,279
Office of Labor Relations	403,858	403,988	404,120	404,255
Office of Minority Affairs	520,160	520,194	520,229	520,264
Medical Examiner	7,289,637	7,568,610	7,809,529	7,880,412
Public Administrator	475,249	486,585	496,358	499,156
Probation	17,239,141	17,937,184	18,542,361	18,731,559
Police Department	461,813,531	473,485,566	488,912,554	493,310,731
Department of Human Resources	863,328	863,344	863,360	863,377
Parks, Recreation and Museums	16,206,084	16,601,160	16,944,037	17,052,931
Shared Services	915,209	947,089	974,620	982,715
Public Works Department	31,173,048	32,505,061	33,668,186	34,071,026
Records Management	888,915	919,486	945,878	953,602
Coord Agency For Spanish Americans	264,731	264,731	264,731	264,731
Social Services	45,865,399	47,759,970	49,397,184	49,883,998
County Treasurer	2,145,051	2,223,826	2,291,749	2,311,236
Traffic & Parking Violations Agency	4,318,830	4,427,738	4,523,054	4,557,083
Veterans Services Agency	471,048	483,318	493,889	496,878
Grand Total	**849,268,675**	**875,451,927**	**903,231,324**	**909,782,197**

3. FRINGE BENEFITS

Fringe benefit expenditures include health insurance and pension contributions for active and retired employees as well as social security contributions. Escalating health insurance and pension contribution costs continue to place a heavy burden on the County's budget. The Administration has decided to amortize a portion of the pension bill for the fourth consecutive year. This decision will provide budgetary relief in FY 15 and save roughly $60.9 million from the overall expense. OLBR is still concerned that this practice of amortizing the pension obligation creates more of a financial strain when balancing the out-year gaps. Including this year's amortization, approximately $228.7 million has been pushed to the out years since FY 12. It would be fiscally prudent to cease that practice. The additional interest cost from amortizing the bill over the past four years is projected to be approximately $51.7 million.

The FY 15 Fringe Benefit budget for the major funds is $496.1 million, which is an increase of $15.6 million from FY 14 due mostly to an increase health insurance, pension contribution and social security costs. Compared to the FY 14 projection, fringe benefit costs are increasing by roughly $23.3 million. The surplus in the current year is due to a higher FY 14 budget for active and retiree health insurance expenses.

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

Table 3.1: Fringe Budget by Major Fund

Fund	Department	Adopted FY 14 Budget	OLBR FY 14 Projection	FY 15 Executive Budget	Variance Exec. vs FY 14 Adopted	Variance Executive vs FY 14 Proj.
Fire Commission	Fringe Benefits	5,041,677	$4,761,607	5,150,492	$108,815	$388,885
General Fund	Courts	1,545,938	1,515,873	1,518,003	(27,935)	2,130
	Fringe Benefits	202,495,618	199,565,800	213,408,489	10,912,871	13,842,689
	OMB	27,558,580	27,566,437	25,232,436	(2,326,144)	(2,334,001)
Police District	Fringe Benefits	118,243,742	115,451,034	117,993,102	(250,640)	2,542,068
Police Headquarters	Fringe Benefits	125,532,917	123,910,075	132,762,921	7,230,004	8,852,846
Total		**480,418,472**	**$472,770,826**	**496,065,443**	**$15,646,971**	**$23,294,617**

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

Table 3.2: Fringe Budget by Sub-object

SubObject & Description	Adopted FY 14 Budget	OLBR FY 14 Projection	FY 15 Executive Budget	Variance Execcutive vs Adopted FY 14	Variance Executive vs FY 14 Proj.
08F - NYS Police Retirement	74,031,627	74,012,325	75,188,978	1,157,351	1,176,653
11F - State Retirement Systems	58,859,743	59,342,299	60,460,639	1,600,896	1,118,340
13F - Social Security Contribution	54,507,600	54,515,197	57,772,941	3,265,341	3,257,744
14F - Health Insurance	132,762,286	125,208,933	137,822,034	5,059,748	12,613,101
17F - Optical Plan	847,320	799,717	816,518	(30,802)	16,801
19F - NYS Unemployment	1,802,718	1,492,566	823,111	(979,607)	(669,455)
20F - Dental Insurance	4,286,468	4,036,899	4,148,751	(137,717)	111,852
22F - Medicare Reimbursement	16,451,670	16,450,182	17,368,847	917,177	918,665
22S - Medicare Reimbursement Surcharge	546,989	541,894	330,815	(216,174)	(211,079)
26F - Flex Benefits	2,100,000	2,100,000	2,100,000	0	0
35F - MTA Mobility Tax	2,767,557	2,767,557	2,904,039	136,482	136,482
40F - CSEA Legal Plan	579,500	579,500	546,375	(33,125)	(33,125)
41F - COBA Legal Plan	120,750	120,750	110,750	(10,000)	(10,000)
45F - Disability Insurance	53,000	53,000	53,000	0	0
75F - Health Insurance For Retirees	133,202,806	130,655,598	137,593,488	4,390,682	6,937,890
76F - Employees Optical - Retirees	551,778	529,834	570,658	18,880	40,824
98G - Fringes Allocable to Grants	(517,996)	(517,996)	(624,639)	(106,643)	(106,643)
ZZF - Fringe Savings	0	0	(170,627)	(170,627)	(170,627)
ZZO - Capital Backcharge OT Fringes	(94,689)	(94,689)	(170,556)	(75,867)	(75,867)
ZZS - Capital Backcharge ST Time fringes	(2,440,655)	(2,000,000)	(1,579,679)	860,976	420,321
Union Adjustments	0	2,177,260	0	0	(2,177,260)
Grand Total	**480,418,472**	**472,770,826**	**496,065,443**	**15,646,971**	**23,294,617**

08F State Pension for the Police and Fire Retirement System & 11F State Pension for the Employee Retirement System

The New York State Retirement System is a program designed to help employees and family members maintain financial stability during retirement or in the event of disability or death. The annual bill covers the period from April 1st of the previous year to the ensuing March 31st. The pension payment date for participating employers is February 1st, but local municipalities have the option to make the payment on December 1st at a discounted amount.

FY 15 is the fourth year that the Administration has chosen to amortize a portion of the pension expense. The Employer Contribution Stabilization Program, signed into law on August 11, 2010 as Chapter 57 of the Laws of 2010, gives municipalities the option to amortize a portion of the total annual pension cost. Legislation passed as part of the State 2014 budget (Chapter 57, Part BB, Laws of 2013) established an alternative to the Original Contribution Stabilization Program enacted in 2010. The Alternative Program increases the maximum length of any amortizations installments from 10 years to 12 years at an interest rate that is set annually. Once the 12 year program is elected, you cannot return to the Original 10 year program, however it is required that payments continue on any existing amortizations from the Original

Program.[1] The interest rate for the maximum amortization of contributions in 2014 is 3.76%. The interest rate for the 2015 amortization is 3.5%.

In 2012 and 2013, the Administration amortized the pension for the 10 year borrowing period under the Original Contribution Program. Last year the Administration opted into the Alternate Program to borrow over the 12 year term. Since the State does not allow you to return to the Original Program, the 2015 maximum amortization must be borrowed over another 12 year term. The maximum amount allowed based on the 2015 pension invoice is $60.9 million or 29.1% of the $209.1 million total pension bill which includes $12.6 million for the Nassau Community College, the Sewer Resource & Storm Water District and the Grant Fund. Table 3.3 provides the FY 15 pension expenses billed by the State for Employee Retirement System (ERS) and Police and Fire Retirement System (PFRS).

Table 3.3: FY14-FY15 Pension Invoices (Includes Nassau Community College, Sewer & Storm Water Resource District & the Grant Fund)

	2015 Invoice
December Without Amortization	
ERS	113,845,000
PFRS	95,246,759
	209,091,759
December Using Maximum Amortizion	
ERS	73,017,945
PFRS	75,188,979
	148,206,924
December Savings from Maximum Amortization	**60,884,835**

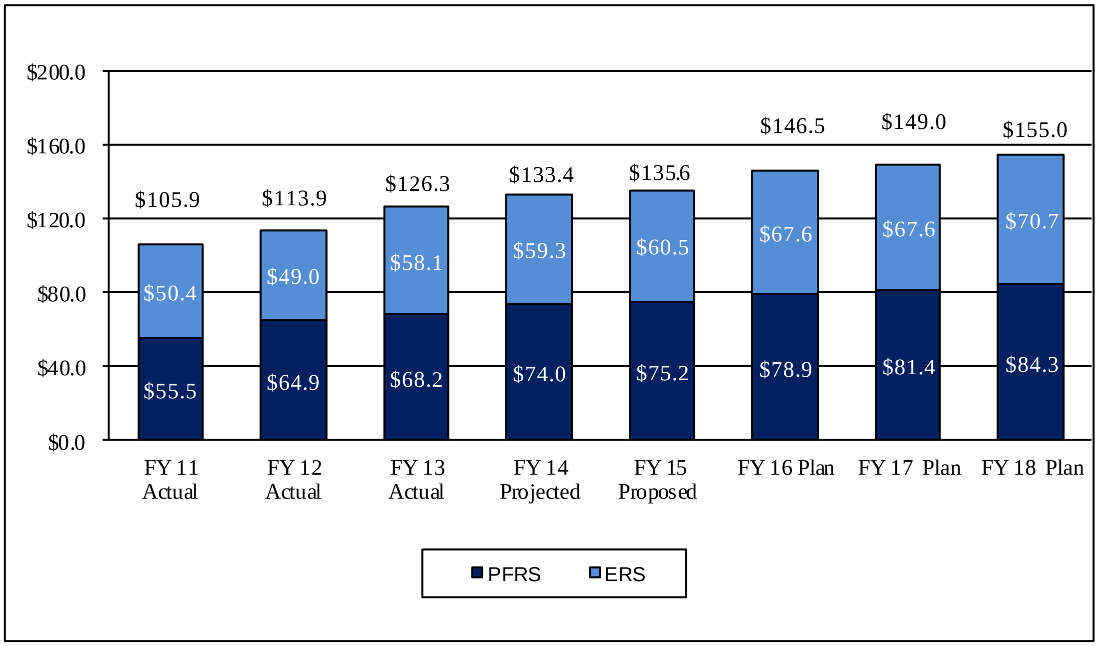
* The Invoices includes SSW Fund, Nassau Community College and the

The table above provides the Employee Retirement System (ERS) and the Police and Fire Retirement System (PFRS) disbursements based on paying the bill on the December 15, 2014 date. The early December payment date will result in a savings of $1.8 million. As mentioned above, the amortization of the maximum amount allowed, reduces the pension expense by $60.9 million from $209.1 million to $148.2 million. The December invoice of $209.1 million includes $113.9 million billed for (ERS) and $95.2 million billed for (PFRS).

Chart 3.1 details the historical pension obligations from FY 11 to FY 13 and the projected costs from FY 14 to FY 18 for the **Major Funds** based on the amortization of the expense. The Administration's FY 15 Proposed Budget includes the pension expense of $60.5 million for ERS and $75.2 million for PFRS for a total budget of $135.6 million. The figures in the chart on the next page include the major funds and do not include the Nassau Community College, the Sewer & Storm Water Resource District and the Grant Fund.

[1] Office of the New York State Comptroller New York State and Local Retirement System. "Alternative Contribution Stabilization Program." http://www.osc.state.ny.us/retire/employers/alt_contribution_stabilization.php.

Chart 3.1: FY 11 to FY 18 Pension Costs for the Major Funds (in millions)



As reflected in chart 3.1, pension costs are projected to continue to increase through FY 18. The FY 15 Executive Budget includes $135.6 million for ERS and PFRS pension obligations for the five major funds. The Administration's Multi-Year Plan projects pension costs to continue to increase to $146.5 million in FY 16, $149.0 million in FY 17 and $155.0 million in FY 18.

The first payment from the 2015 amortization will impact the 2016 bill by an additional $6.3 million (this is based on the first installment provided on the projected 2016 pension bill). This is in addition to the annual installments the County continues to pay from the 2012, 2013 and 2014 amortization borrowings. The 2015 pension bill reflects the annual installment of $7.5 million from the 2014 borrowing, $6.8 million from the 2013 deferral, and $4.7 million from the 2012 deferral. These are ongoing liabilities on the County's out-year pension obligations. After deducting the current installments that have been paid to date (including the deduction of the first 2014 installment of $7.5 million from the 2015 bill), OLBR estimates the total outstanding liability with interest to roughly be $245.3 million. Table 3.4 details the outstanding liability from the four years of borrowing.

Table 3.4: Amortization Liability

Year	Maximum Amortization From December Bill	December Liability with Interest	February Liability with Interest
2012 Amortization Liabilty	38,784,738	47,224,820	47,442,620
2013 Amortization Liabilty	57,583,796	67,505,770	67,755,674
2014 Amortization Liabilty	71,471,700	90,117,552	90,534,240
2015 Amortization Liabilty	60,884,835	75,607,236 *	75,607,236 *
Subtotal Amortization 2012-2015	**228,725,069**	**280,455,378**	**281,339,770**
Total Liability After Paid Installments	**193,546,677**	**245,276,986**	**246,011,328**

*OLBR Estimates the 2015 liability based on the projected installment payment of $6.3 million recurring annually over 12 years.

As pension costs soared in recent years, many local governments, as well as New York State have increased their amortization from the State's pension fund to pay retirement costs. In 2014, 133 New York State municipalities (including Suffolk and Westchester County) deferred $472 million in retirement costs, an increase of 22% from a year earlier.[2] New York State has been the largest pension borrower, deferring $937 million in the current fiscal year.[3] New York State implemented this program to make it possible for governments in New York to "smooth" their annual pension contributions to get through a prolonged period of market volatility. However, this practice has been cited by critics as pushing pension costs down the road. In addition, borrowing from the State's pension fund lowers the pension fund's available assets, resulting in reduced investment returns.

In FY 15, Suffolk County is opting to amortize approximately $60.0 million or roughly 24.3% of their $246.6 million pension obligation over the 12 year term under the Alternative Contribution Stabilization Program. The $60.0 million is less than the maximum amortization amount of $80.0 million that Suffolk is allowed to amortize. Based on the State's projected installment payments, Nassau County's 2015 amortized liability with interest over the next 12 years is estimated to be $75.6 million.

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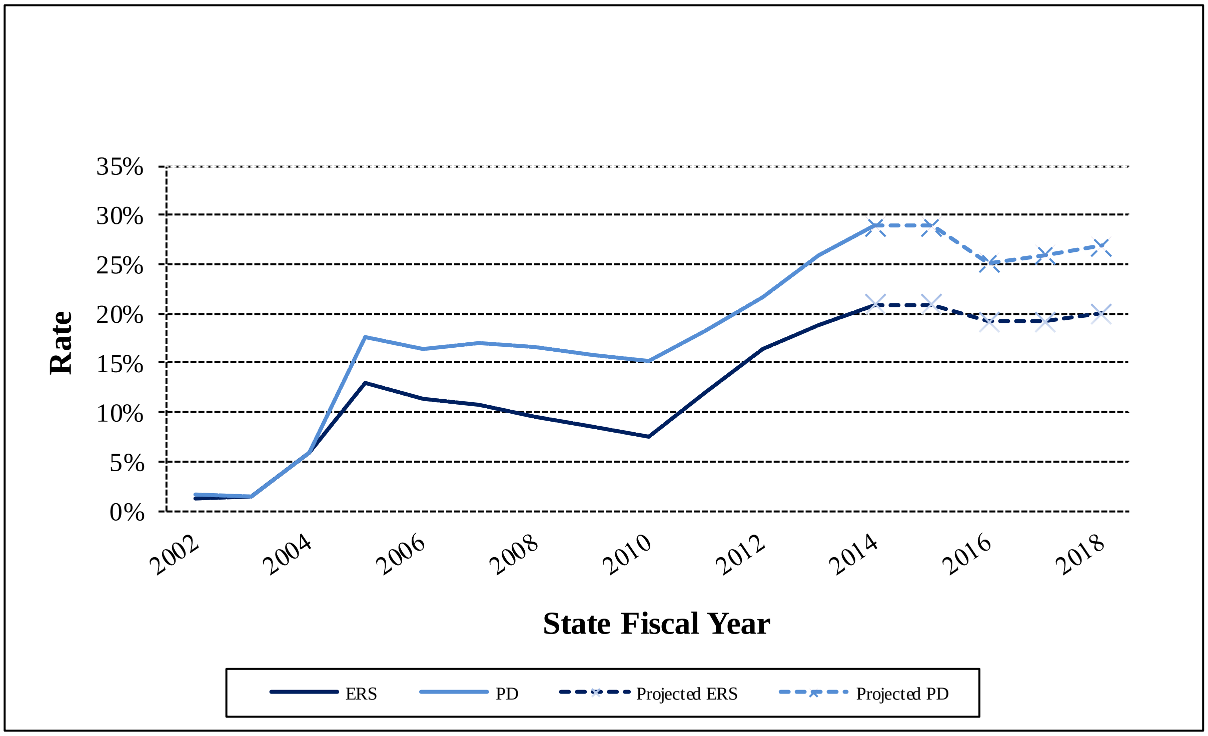
[2] The Garnett News Service, "Westcheser Borrowes $43 Million from State for Pension Tab." The Empire Center. April 16, 2014.
[3] Ibid.

Chart 3.2 depicts the annual historical pension contribution rates for ERS and PFRS from 2002 to projected 2018.

Chart 3.2: Historical Pension Contribution Rates



Source: NYS Comptroller

As reflected in Chart 3.2, pension contribution rates spike in State Fiscal Year (SFY) 2014-15 and budgeted by the Administration to decline thereafter. The SFY2015-16 rates include 19.6% for ERS and 25.10% for PFRS, based on the blended rate in New York State's projected 2016 pension bill. The SFY2016-17 and SFY2017-18 rates are based on the rates that have been built into the Administration's Multi-Year Plan (MYP). The Multi-Year Plan includes ERS rates to increase by 0.0% in 2017 and 4.62% in 2018. For PFRS, rates in the MYP are projected to increase by 3.27% for 2017 and 3.52% for 2018.

The climb from SFY2009-10 through the current year reflects the impact from the 2009 recession. The pension system smoothes the impact of the market decline so that it isn't felt at once but spread over a multi-year period. The State Comptroller recently provided projected rates for SFY2015-16 and has announced that rates are projected to decrease due to strong returns from the stocks and other investments of the pension fund.[4] The New York State Common Retirement Fund returned an estimated 13.02% for the fiscal year ending March 31, 2014, which reflects the Fund's highest rate of return.[5]

[4] Office of the New York State Comptroller, "Pension Contribution Rates to Decrease for Fiscal Year 2015-2016." September 2, 2014.
[5] Office of the New York State Comptroller, "State Pension Fund Reaches Record High of $176.2 Billion," May 12, 2014.

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

In 2014, the national average premium for employer sponsored family coverage is 3.0% higher than the 2013 average premium. The New York State Health Insurance Plan (NYSHIP) Empire family plan, which consists of most County workers increased by 5.5%. The 2015 Proposed Budget is based on this same rate of 5.5%. The 2015 Proposed Budget for active and retiree health insurance is increasing by $9.5 million compared to the FY 14 Adopted Budget and by $19.6 million compared to the FY 14 projection.

Chart 3.3: FY 11 to FY 18 Health Insurance Costs (in Millions)

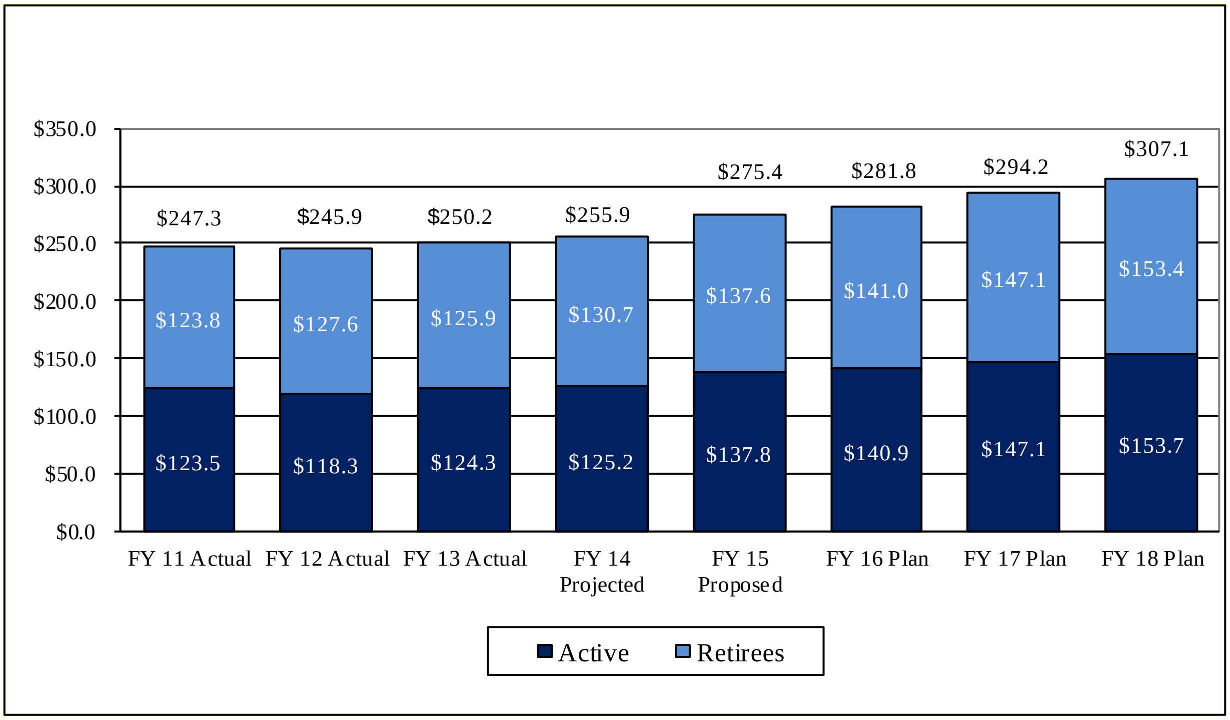
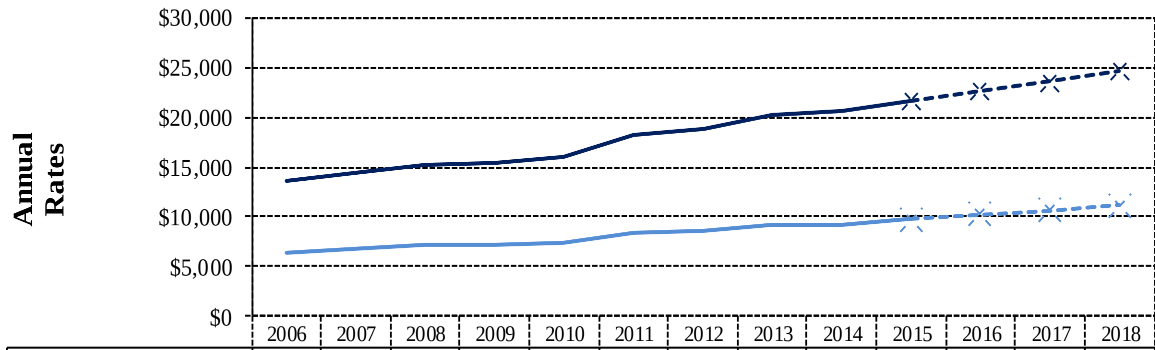


Chart 3.3 displays actual and projected health insurance costs for active and retired employees from FY 11 through FY 18 in the Multi-Year Plan. As shown above, health insurance costs increase significantly in each year. The FY 15 budget for health insurance includes $137.8 million for active employees and $137.6 million for retired employees for a total cost of $275.4 million. The Multi-Year Plan projects health insurance costs to increase to $307.1 million by FY 18.

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



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Individual	$6,357	$6,778	$7,109	$7,188	$7,348	$8,327	$8,553	$9,216	$9,258	9,761			
Family	$13,514	$14,377	$15,105	$15,386	$15,971	$18,167	$18,754	$20,239	$20,570	21,696			
Projected Individual										$9,761	$10,197	$10,651	$11,126
Projected Family										$21,696	$22,635	$23,615	$24,638

Chart 3.4 above displays how the health insurance rates paid by Nassau County continue to steadily increase. The rates in the above chart reflect an increase in FY 15 based on New Yorks State's best estimate projection from the Empire Plan Quarterly Experience Report. The out-year rates rise by the MYP baseline inflator for active employees by 4.46% from 2016 through 2018. The retiree's baseline inflates by 4.33% from 2016 through 2018.

The New York State Department of Employee Benefits is currently projecting a 2015 best estimate projection growth rate of 5.4% for individual and 5.5% for family coverage. Table 3.5 below displays the projected 2015 annual health insurance rates based on the State's best, optimistic and pessimistic projections:

Table 3.5: Health Insurance Premium Rates

	Best Estimate			Optimistic		Pessimistic	
Rates	2014	2015	% Change	2015	% Change	2015	% Change
Plan Premium							
Individual	9,258	9,761	5.4%	9,553	3.2%	9,969	7.7%
Family	20,570	21,696	5.5%	21,238	3.2%	22,153	7.7%
MediPrime							
Individual	4,905	5,180	5.6%	5,039	2.7%	5,321	8.5%
Family-1	16,217	17,115	5.5%	16,724	3.1%	17,506	7.9%
Family-2	11,864	12,533	5.6%	12,209	2.9%	12,858	8.4%

Compared to the FY 14 projection, the FY 15 budget is increasing by $12.6 million for active employees and $6.9 million for retired employees. Based on inflating the current health insurance projection by the Office of Management and Budget's (OMB) growth rate assumption of 5.5% and the FY 15 budgeted headcount, OLBR estimates that there is currently a $5.0 million cushion in the FY 15 budget for health insurance.

National premiums have increased less quickly over the last five years (2009 to 2014), than the preceding five year period (2004 to 2009).[6] The modest health insurance growth rates in recent years have been attributed to more employees contributing to their health care expenses. Due to the growth in healthcare costs, workers nation-wide are paying a larger portion of health insurance costs as more businesses shift the burden to their employees. Besides contributing towards their health insurance premiums, employees are responsible for a variety of cost sharing, such as insurance deductibles, copayments, coinsurance, additional costs for hospital admissions and prescription drug coverage. On a positive note, more employers continue to offer programs to help employees identify issues with their health and engage in healthier behavior. Virtually all large employers and most smaller employers offer at least one wellness program, such as weigh loss programs, gym membership discounts or onsite exercise facilities, biometric screening, smoking cessation programs, personal health coaching, classes in nutrition, or healthy living, flu shots or vaccinations, or wellness newsletters.[7]

More changes may be expected in the next two years as the employer shared responsibility provision in the Affordable Care Act (ACA) takes effect for larger employers. The employer mandate originally set to begin in 2014, will be delayed to 2015 through 2016. This provision requires firms with more than 100 full time equivalent employees (FTEs) in 2015 and more than 50 FTEs in 2016 to provide coverage to their FTE's or possibly pay a penalty if workers seek subsidized coverage in health care exchanges. While most large employers provide coverage to workers, not all do and not all cover all of their full-time workers.[8] If the insurance is not provided, the employer will be responsible to pay a per month "Employer Shared Responsibility Payment" on their federal tax return.[9]

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 $117,000 a change of $3,300 from 2013. Medicare has no maximum. The total OASDI tax on the current maximum wage base is roughly $7,254. The Social Security Administration has projected that the wage base will increase from $117,000 to 119,100 for 2015.

The FY 15 Proposed Budget for social security is increasing by $3.3 million or 6.0% compared to the FY 14 Adopted Budget. With an increase in FY 15 budgeted salaries, social security is also expected to rise. Salaries are increasing as a result of the recently negotiated union contracts for the Police Benevolent Association (PBA), the Detectives Association Inc. (DAI), the Civil Service Employees

[6] Kaiser Family Foundation, "2014 Summary of Findings Employer Health Benefits." The Kaiser Family Foundation and Health Research & Educational Trust.
[7] Ibid.
[8] Ibid.
[9] ObamaCare Employer Mandate/Employer Penalty Delayed until 2015," "Obama Care Facts, http://obamacarefacts.com/obamacare-employer-mandate.php.

Association (CSEA), the Superior Officers Association (SOA) and Correction Officers Benevolent Association (COBA). As a result of the new contracts, all union members are entitled to Cost of Living Adjustments (COLA) and steps increases from 2014 through 2017.

17F Optical Plan

This benefit provides optical insurance to full-time County employees. The annual per capita premium has decreased from $115 to $110.40. The FY 15 budget is decreasing by $30,802 compared to the FY 14 budget, however compared to the 2014 projection there is an increase of $16,801.

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 15 budget is decreasing by $979,607 or 54.3%. The decrease may be attributed to the expiration of unemployment payments from prior County layoffs. In addition, the FY 14 budget was overstated.

20F Dental Insurance

This benefit provides dental insurance to full-time employees. The current contract with Healthplex extends through December 31, 2014. The renewal term for FY 2015 commences January 1, 2015 and ends December 31, 2015. Under the contract, the annual premium per capita remains unchanged at $561. The FY 15 budget for dental costs is decreasing by $137,717 compared to the FY 14 budget. Based on the FY 15 budgeted headcount, the budget appears sufficient.

22F Medicare Reimbursement

The County provides quarterly payments to cover premium costs related to Medicare coverage for retired employees. The proposed FY 15 budget is increasing by $917,177 to $17.4 million. According to the federal government, the 2013 standard Medicare Part B premium is $104.90 for salaries up to $85,000 and $146.90 per month for salaries ranging from $85,001 - $107,000. Greater salaries will incur higher premiums. Under the Medicare program, eligible retirees are responsible for 25% of the total cost of Part B, with the federal government subsidizing the remaining 75%.

26F Flex Benefits Plan

All Nassau County employees have the option of contributing a portion of their salary to a flexible spending account. This allows the employee to use pre-tax dollars on health care costs such as co-pays and deductibles. The FY 15 budget has remained unchanged at $2.1 million. The FY 15 budget includes corresponding revenue to offset the expense for the same budgeted amount, which is located in the Office of Management and Budget department.

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). The tax is equivalent to 0.34% of Nassau County's payroll expenses. The FY 15 budget includes $2.9 million which is an increase of $136,482 compared to the FY 14 budget.

40F CSEA Legal Plan

The FY 15 budget includes $546,375 for the CSEA legal plan which is a reduction of $33,125 compared to the Adopted 2014 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 COBA Legal Plan

The FY 15 budget includes $110,750 for the Correctional Officer Benevolent Association (COBA) legal plan as per the COBA contract agreement.

45F Disability Insurance

The FY 15 budget includes $53,000 for providing New York State disability insurance to CSEA unit members, however this provision has ceased per the newly negotiated CSEA Memorandum of Agreement.

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 $110.4 per person. The FY 15 proposed budget is increasing by $18,880 from the FY 14 budget and $40,824 compared to the FY 14 projection.

98G Fringes Allocable to Grants

The FY 15 budget includes a credit of ($624,639), which is the corresponding fringe benefit expense to the salaries that are chargebacks to the Grant Fund. This is a decrease of $106,643 compared to the prior year's budgeted credit.

ZZO Capital Backcharges OT Fringes

The FY 15 budget includes a negative adjustment of ($170,556) which is the corresponding fringe benefit charge related to overtime salary chargeback within the Department of Public Works (DPW).

ZZS Capital Backcharges to Fringes

The FY 15 negative adjustment of ($1.6 million) is the corresponding fringe benefit charge related to the salary chargeback within Department of Public Works (DPW) and Information Technology.

Multi-Year Plan

Table 3.7: FY 14 Multi-Year Plan

SubObject & Description	2015 Proposed Budget	2016 Plan	2017 Plan	2018 Plan
AB08F - NYS Police Retirement	75,188,978	78,858,323	81,436,990	84,303,572
AB11F - State Retirement Systems	60,460,639	67,594,421	67,594,421	70,717,283
AB13F - Social Security Contributions	57,772,941	59,523,783	61,527,540	62,198,668
AB14F - Health Insurance	137,822,034	140,866,128	147,148,757	153,711,592
AB17F - Optical Plan	816,518	816,518	816,518	816,518
AB19F - New York State Unemployment	823,111	864,267	907,480	952,854
AB20F - Dental Insurance	4,148,751	4,148,751	4,148,751	4,148,751
AB22F - Medicare Reimbursement	17,368,847	17,938,545	18,526,929	19,134,613
AB22S - Medicare Reimbursement Surcharge	330,815	341,666	352,872	364,447
AB26F - Flex Benefits Plan	2,100,000	2,100,000	2,100,000	2,100,000
AB35F - MTA Mobility Tax	2,904,039	2,989,795	3,089,840	3,122,991
AB40F - CSEA Legal Plan	546,375	546,375	546,375	546,375
AB41F - SHOA Legal Plan	110,750	110,750	110,750	110,750
AB45F - Disability Insurance	53,000	53,000	53,000	53,000
AB75F - Health Insurance for Retirees	137,593,488	140,960,415	147,064,001	153,431,872
AB76F - Employees Optical for Retirees	570,658	570,658	570,658	570,658
AB98G - Fringes Allocable to Grant	(624,639)	(624,639)	(624,639)	(624,639)
ABZZF - Fringe Savings	(170,627)	(170,627)	(170,627)	(170,627)
ABZZO - Captial Backcharge OT Fringes	(170,556)	(170,556)	(170,556)	(170,556)
ABZZS - Capital Backcharges Fringes	(1,579,679)	(1,579,679)	(1,579,679)	(1,579,679)
Grand Total	**496,065,443**	**$515,737,893**	**$533,449,382**	**$553,738,442**

Fringe benefits will increase by $57.7 million, from an estimate of $496.1 million in the FY 15 Proposed Budget to $553.7 million in FY 18.

Health insurance expenses for active and retired employees are projected to increase by $31.7 million to $307.1 million in FY 18. The MYP baseline inflator used to project out-year health insurance costs is 4.46% from 2016 through 2018 for actives. The inflator for retirees is 4.33% from 2016 through 2018. The MYP growth rates are lower than the average health insurance growth rate over the past five years which was 6.1% for family.

Including the amortization amounts, pension costs are increasing by $19.4 million to $155.0 million by FY 18. The New York State Comptroller announced this month that projected rates for SFY15-16 projected to decrease due to strong returns from the stocks and other investments of the pension fund. However, out-year costs are still projected to increase due to increasing salaries and from the annual installment liability associated with amortizing pension payments from the current year and previous years.

From the 2015 Proposed Budget, social security expenses are increasing by roughly $1.8 million in FY 16 to $2.0 million in FY 16, and minimally by $671,128 for 2018. The MYP budgets an annual increase in salaries due to the new negotiated union contracts, as a result social security is also expected to rise.

4. SALES TAX

The largest single source of revenue for the County is sales tax. 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 and 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 2015 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.

Historically, the current year-end projection has been used to forecast the succeeding year's budget. The collection rate in both FY 13 and FY 14 were atypical and made the recent growth activity more volatile. As a result, developing the FY 15 projection is more difficult. The Office of Legislative Budget Review (OLBR) believes that the FY 14 collection decline likely reflects the return to more normalized sales activity as Fiscal 2013 sales tax receipts were artificially inflated due to the rebuilding efforts immediately following Superstorm Sandy. The abnormally severe winter weather in the First Quarter of FY 14 also likely depressed sales activity. The FY 14 Adopted Budget assumed that growth would continue off the FY 13 collection rate; this is not expected to occur.

The proposed sales tax revenue in the FY 15 Executive Budget, excluding the deferred piece, is $1,143.3 million. This estimate assumes 3.0% growth based on the Office of Management and Budget's (OMB) revised collections for FY 14. Currently, OMB is projecting that sales tax collections will come in lower than the FY 14 Adopted Budget by $51.5 million or a 4.4% reduction.

Table 4.1 below, shows the annual gross sales tax collections through FY 13, the OMB revised 2014 projection and the proposed budgets for FY 2015 through 2018. The MYP projects a 2.5% growth rate for each year from 2016 through 2018.

Table 4.1: Annual Sales Tax Collections

Fiscal Year	Actuals	Growth
2008	1,003.0	-0.9%
2009*	951.3	-5.2%
2010*	1,009.3	6.1%
2011*	1,027.5	1.8%
2012	1,070.4	4.2%
2013	1,138.2	6.3%
Fiscal Year	**Projections**	**Growth**
2014	1,110.0	-2.5%
2015	1,143.3	3.0%
2016	1,171.9	2.5%
2017	1,201.2	2.5%
2018	1,231.2	2.5%

* Includes Residential Energy Tax collections, effective June 1, 2009 through May 31, 2010.

In addition to the regular sales tax, $2.9 million has been budgeted in FY 15 as deferred sales tax. That represents the amount that part-county sales tax collections in FY 13 exceeded what was budgeted. For accounting purposes, the County is not able to book such revenue until two years after it has been received. In Table 4.1, the gross sales tax collections for each year are shown, including any excess over budget in the part-county portion. For that reason, neither the historical actuals nor the projections include the prior year deferred collections.

OLBR projects that FY 14 sales tax collections will come in under budget by $70.0 million. This would result in a total collection of $1,091.5 million, net of the deferral. Compared to OLBR's year-end FY 14 expectations, the FY 15 Executive Budget represents an aggressive increase of 4.7% to meet budget. The 5-year annual average growth rate (2013-2009) for sales tax was 2.7%. If FY 15 sales tax grew by the 5-year annual average from the OLBR FY 14 projected year-end, the County would miss budget by approximately $22.9 million.

As can be seen in the chart below, sales tax receipts collected through September 12, 2014 have decreased by 5.6% compared to the same period in 2013.

Sales Tax Receipts

(Payments Distributed Through September 12, 2014 in millions)

	2013	2014	Variance $	Variance %
Gross YTD Sales Tax	$697.6	$658.5	-$39.1	-5.6%

The County may need to adjust the FY 15 projection early in the year as the actual FY 14 collections are determined. Moody's Economy.com's current forecast for Nassau County has declined slightly when compared to the same forecast last year.

2015 to 2018 Nassau County Economic Forecast
Forecast Annual Growth Rates*

	2015	2016	2017	2018
GCP	4.0%	3.0%	2.2%	1.6%
Personal Income	5.4%	6.2%	5.1%	4.2%
Retail Sales	4.9%	4.4%	4.4%	3.2%
Average	**4.8%**	**4.5%**	**3.9%**	**3.0%**

Source: Moody's Economy.com

5. FUND BALANCE AND RESERVES

Table 5.1 shows the unreserved fund balance and the balances of the formal reserve funds at year-end FY 11 through FY 13, along with the projected year-end balances for 2014 and 2015.

Table 5.1: Total Reserves (Projected Year-End 2014-2015)

Item	Year-End 2011	Year-End 2012	Year-End 2013	Projected 2014	Projected 2015
Undesignated	$ 40.5	$ 82.0	$ 126.6	$ 135.9	$ 120.9
Employee Accrued Liab. Fund	14.4	4.0	4.0	0.0	0.0
Tobacco Settlement Fund	18.4	17.9	17.9	17.9	17.9
Sub-total	**$ 73.3**	**$ 103.9**	**$ 148.5**	**$ 153.8**	**$ 138.8**
Sewer/Storm Water Fund Bal.	81.3	71.5	45.9	7.1	7.1
Total Reserves & Fund Bal.	**$ 154.6**	**$ 175.4**	**$ 194.4**	**$ 160.9**	**$ 145.9**

The above chart uses the Administrations' projected 2014 year-end figures. The 2015 projection uses the 2014 projection as a starting point then subtracts the planned uses incorporated in the FY 15 Proposed Budget.

The Adopted FY 14 Budget included the usage of $10.0 million in fund balance in the Office of Management and Budget (OMB). Based on OMB's August year-end projections, an approximate $39.9 million deficit is expected. However, after implementing various gap closing measures totaling $49.2 million, the Administration is projecting fund balance to increase by $9.3 million. The gap closing measures include $24.1 million in anticipated bond proceeds to fund termination pay. Other gap closing measures may prove difficult to achieve and if not achieved could result in declining fund balance. Projections from the Office of Legislative Budget Review (OLBR) and the Comptroller's Office estimate the County is currently facing a budgetary deficit of over $70.0 million. Even the partial realization of a budgetary deficit would result in further diminished fund balance.

The Proposed FY 15 Budget includes the usage of $10.0 million of fund balance in OMB and $5.0 million in the Police Department. The appropriation is offset by a budgeted contingency reserve in the same amounts. According to the Administration, they do not anticipate using the budgeted fund balance in FY 15, although it is budgeted, which would result in the same ending balance in FY 15 as the FY 14. OLBR adjusted the projected 2015 fund balance for the budgeted use.

The Adopted FY 14 Budget for Sewer and Storm Water Resource District (SSW) included the usage of $56.7 million in fund balance. Based on the OMB August year-end projection, an approximate $38.8 million deficit is expected and reserves would be expected to decline by a like amount. If the Administration is able to obtain the necessary approvals to restructure SSW debt, the reserves would only decline by an approximate $28.8 million or approximately $10.0 million less in fund balance usage than the current projections. The projected FY 14 year-end figure does not at this time assume the restructuring will occur as all approvals have not been obtained.

The proposed FY 15 Sewer and Storm Water Resource District (SSW) budget does not appropriate any fund balance. The property tax levy supporting the SSW is increasing by $6.0 million. The Proposed Budget also assumes that the Administration will obtain the necessary approvals to restructure related debt in the current year. As a result, the County did not fund the Operations and Management Reserve. If approvals are not obtained, fund balance could decline further. In addition, several factors could impact the 2014 and 2015 year-end projections. These include the actual sewer fee collections in the Sewer and Storm Water Resource District Fund. The Temporary Restraining Order (TRO) on the implementation of a not-for-profit usage fee is still in place. As such, the FY 2015 budgeted $12.6 million from this fee may have to be covered using any and possibly all of the SSW fund balance.