NASSAU COUNTY
OFFICE OF THE COMPTROLLER

Comptroller's Comments On The FY 03 Budget And The Multi-Year Financial Plan For Fiscal Years 2003-2006

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Nassau County Comptroller

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I. EXECUTIVE SUMMARY

On September 17, 2002, Thomas R. Suozzi presented to the Nassau County Legislature his first budget as county executive, along with his second multi-year financial plan, as required by the Nassau Interim Finance Authority (NIFA).

In brief, the county executive's proposed fiscal year 2003 (FY 03) Budget and 2003-2006 multi-year financial plan (the Plan) assume the following:

- Increases in pension contributions, Medicaid, and health-insurance costs will raise the FY 03 baseline-budget gap by $71.8 million from $185.5 million in the April 1 multi-year financial plan to $257.3 million.

- To close the FY 03 budget gap, the county anticipates $119.4 million from a 19.4-percent increase in the county's portion of the property tax; $28 million in savings through workforce reductions; $20 million in new revenue and expenditure initiatives and other miscellaneous adjustments; $17.9 million in debt-service savings from a reduction in the county's capital program and the implementation of a variable-rate-debt program; $57 million in NIFA's debt-restructuring assistance; and $15 million in transitional state aid. Many of these initiatives were previously proposed in the April 1 multi-year financial plan.

- For the out-years, the county projects baseline-budget gaps of $386.2 million in FY 04, $579.6 million in FY 05, and $672.6 million in FY 06. Every year of the Plan is balanced, largely as a result of initiatives that will be implemented during FY 03. These actions are projected to reduce the baseline-budget gaps in the out-years to $146.4 million in FY 04, $285.2 million in FY 05, and $362.1 million in FY 06. The Plan also anticipates debt-refinancing savings from the proposed creation of a sewer-and storm-water authority; labor concessions, most notably employee and retiree contributions to cover a portion of their health benefits; and state initiatives such as capping Medicaid growth.

In accordance with our charter responsibilities, the comptroller's office analyzed the FY 03 Budget and the September multi-year financial plan. Cognizant of the county's serious financial difficulties, we have carefully scrutinized the financial calculations and underlying assumptions contained within the Plan, much as we did with the earlier plan the county executive and his team produced in the spring.

In our view, the proposed FY 03 Budget reflects an appropriate mix of spending cuts, workforce reductions and smart government-savings initiatives, coupled with an increase in the county's portion of the property tax. The proposed FY 03 Budget is the cornerstone of a long-term financial plan, laying the foundation for the county's fiscal recovery. Its assumptions are appropriately conservative in this uncertain economic climate. This will provide a cushion if economic conditions worsen. On the other hand, if the economy rebounds, Nassau County taxpayers will benefit from this prudent management strategy as the county will reap a surplus and move toward a structurally balanced budget.

The proposed FY 03 Budget is balanced, and, indeed, could result in a surplus of between $11 million and $46 million depending on the performance of the stock markets. If stock prices remain depressed at their current levels by the end of the state fiscal year, the comptroller's office projects a FY 03 surplus of $11 million. (See Table 1.) Conversely, if the stock markets recover and investment losses in the New York State Pension Plan are limited to only 10 percent, the FY 03 surplus could be as high as $46 million. In either event, this surplus would be a small percentage of the proposed FY 03 Budget; and we recommend that any such surplus resources be invested in information technology so as to foster increased efficiencies and productivity in government.

Table 1. *Revenue and Obligations Forecasts for FY 03, Major Funds, $ millions*

	FY 02 Comptroller's Forecast (a)	FY 03 Proposed Budget* (b)	FY 03 Comptroller's Office (c)	FY 03 Variance (d)=(c)-(b)
Revenues:				
Sales Tax – Unadjusted	$ 855.0	$ 873.6	$ 874.2	$ 0.6
State and Federal Aid	313.8	315.3	320.4	5.1
Inter-fund Revenues *	135.2	372.9	372.9	-
Other Revenues	319.8	318.1	308.7	(9.4)#
Non-Property Revenues	**1,623.8**	**1,879.9**	**1,876.2**	**(3.7)**
Property Tax	620.7	738.7	738.7	0
Total Revenues	**2,244.5**	**2,618.6**	**2,614.9**	**(3.7)**
Obligations:				
Payroll and Fringe Benefits	946.4	1,040.9	1,026	(14.9)
General and Contractual Expenses	216.8	216.9	217.0	0.1
Inter-fund Charges *	85.0	334.8	334.8	-
Debt Service	283.6	297.4	299.8	2.4
Social Services	431.2	459.1	459.0	(0.1)
Other	275.2	269.5	267.0	(2.5)
Total Obligations	**2,238.2**	**2,618.6**	**2,603.6**	**(15.0)**
Comptroller's Office Projected Surplus	**$ 6.3**	**$ 0.0**	**$ 11.3**	**$ 11.3**

* FY 03 includes the impact of technical corrections, separately budgeted debt-service fund, and adjustments for NIFA set-asides.

This is largely attributable to forecast differences for the category of interest penalty on taxes.

Sources: Nassau County, Nassau Integrated Financial System (NIFS), as of September 2002, the Multi-Year Financial Plan 2003-2006, and the comptroller's office.

The numbers contained for the out-years of the multi-year financial plan are less certain, subject to external factors beyond the county's control. State legislation authorizing the creation of a sewer-and storm-water authority, along with a reasonable arbitration panel's decision with respect to the contracts between the county and the police unions would go a long way to alleviating the need for cuts in human services, and in the cultural and recreational amenities that help attract and keep many families here in Nassau County. But while we are hopeful that the state will recognize the need for the authority and that the arbitration decision will be fair, legislative actions and a reasonable arbitration decision are by no means assured.

We concur with the county executive that we all must share the financial burden resulting from the past administration's mistakes and that tough remedies are needed, especially in light of the current sluggish economic climate and increased costs of federal and state mandates that must be borne by the county. A weak economy – with its attendant impact on employment and consumer spending – and skyrocketing Medicaid, health-insurance and pension-plan-contribution costs have added to the serious financial challenges Nassau County already faces. These occurrences make meeting annual budgets, let alone multi-year financial plan targets, all the more difficult and will require taking some painful steps.

The Plan contains realistic and reasonable steps to address the county's serious financial challenges. The county's budget was structurally imbalanced even during the late '90s through early 2001, when the underlying economy was more robust than it is today. During much of 2000 and 2001, Nassau County's unemployment rate was below three percent and our sales-tax revenues were relatively strong, yet the county was confronted with major budget challenges. Economic conditions have worsened since last fall, sales-tax revenues have declined and unemployment among Nassau County's residents has risen above the four-percent mark. We must regain structural balance and, obviously, we should not and cannot rely on a rebounding economy alone to fix our underlying budget problems. A rethinking of spending priorities and the means for funding them are required to put the county back on the right path toward a structurally balanced budget. Today's sluggish economy and weakening labor-market conditions make this all the more critical. The Plan's proposed adjustments in taxes and spending should help address some of our immediate financial concerns.

II. ECONOMIC OVERVIEW

Recent economic indicators have been mixed at best. Reports of strong retail sales and productivity have contrasted with revelations of weak industrial production, housing starts, consumer confidence and labor markets. To some economists, recent weaknesses in the job market raise the risk of an economic downturn. Despite concerns that the economy could "double dip" into another recession, the underlying fundamentals of the national economy remain sound.

We expect productivity gains from continued corporate downsizing and restructuring, along with advances in technology, to put a lid on unit-labor costs. This should result in higher profit margins, despite businesses' lack of pricing power. Low interest rates will continue to provide a stimulus to the economy, with the housing market being the most positively impacted. Consequently, our forecast calls for a jobless recovery, with moderate economic growth in a stable macro-economic environment of low inflation and interest rates for the remainder of the year. However, the threat of a war with Iraq, and its attendant impact on energy prices, poses a risk to this forecast.

Nassau County's economic recovery seems to have lost some of its momentum in recent months. Unemployment, while low by national standards, remains high compared with last year's levels. The pace of employment gains has slowed, while sales-tax-revenue growth has decelerated. Looking ahead, economic activities in Nassau County will be affected not only by the strength of the national and regional economic recoveries, but also by the performance of the financial, business and legal sectors. In recent years, Nassau has become increasingly dependent on the service sectors, most notably financial and business services.

A. The National Economy

As we anticipated in the comptroller's June report, the national economy slowed during the second quarter of 2002. The nation's gross domestic product (GDP) grew at an anemic rate of 1.3 percent in the second quarter, down from five percent in the first quarter. Consumer spending, which accounts for about two-thirds of GDP, posted a gain of only 1.8 percent, down from 3.1 percent during the first quarter. Another area of weakness was business investment, which shrank by 2.4 percent. Second-quarter growth was also constrained by a 22.2-percent surge in imports.

Economic growth rebounded during the third quarter as indicated by improvements in recent months in the country's trade balance, robust automobile sales, and rising business inventories. The nation's trade gap narrowed in July to $34.5 billion, from $37.15 billion in June, as exports of American goods, fueled by a weaker dollar, jumped to $82.3 billion. Meanwhile, imports dropped to $117.78 billion, from $118.92 billion in June 2002. Fueled by new incentives, U.S. auto sales rose 13 percent in August over the same period a year ago. Business inventory rose 0.4 percent in July, following a revised growth rate of 0.3 percent in June. While inventory buildup could contribute to a slowdown in the future, if not liquidated, it will boost the current GDP because businesses have increased their spending to keep goods on their shelves. The Blue Chip

Consensus Forecast calls for a third-quarter growth of 2.7 percent, with an upward bias that could push it above three percent.

The national economy lost momentum going into the fourth quarter. Recent reports of rising claims for unemployment benefits, sluggish industrial output, rising oil prices, and weak housing starts point to economic deterioration. During the month of September, the four-week moving average of jobless claims was close to 420,000. Jobless claims in excess of 400,000 indicate that businesses are shedding jobs. While downsizing can be healthy for the corporate-bottom line, it may negatively impact consumer spending. Indeed, it might have already begun to affect the housing market, which has been one of the few pillars of strength since the onset of the recession. Housing starts dropped in August for the third month in a row. Construction on new homes fell 2.2 percent in August, after falling 2.8 percent in July. Building permits – a leading indicator of the demand for housing – also dropped 2.5 percent in August. Other areas of concern include the manufacturing sector and energy prices. Industrial production fell 0.3 percent in August, after rising for seven months in a row. Durable goods orders fell 0.6 percent in August. Meanwhile, crude oil prices jumped to a 19-month high, hovering around $30 a barrel on the New York Mercantile Exchange.

The nation's leading economic indicators appear to confirm recent reports of weaknesses. Leading economic indicators, which predict future economic activities, contracted for a third straight month in August. Worries about the economic impact of a war with Iraq, rising oil prices, accounting irregularities, and the poor performance of the stock markets have all contributed to an environment of malaise that does not bode well for economic growth in the fourth quarter.

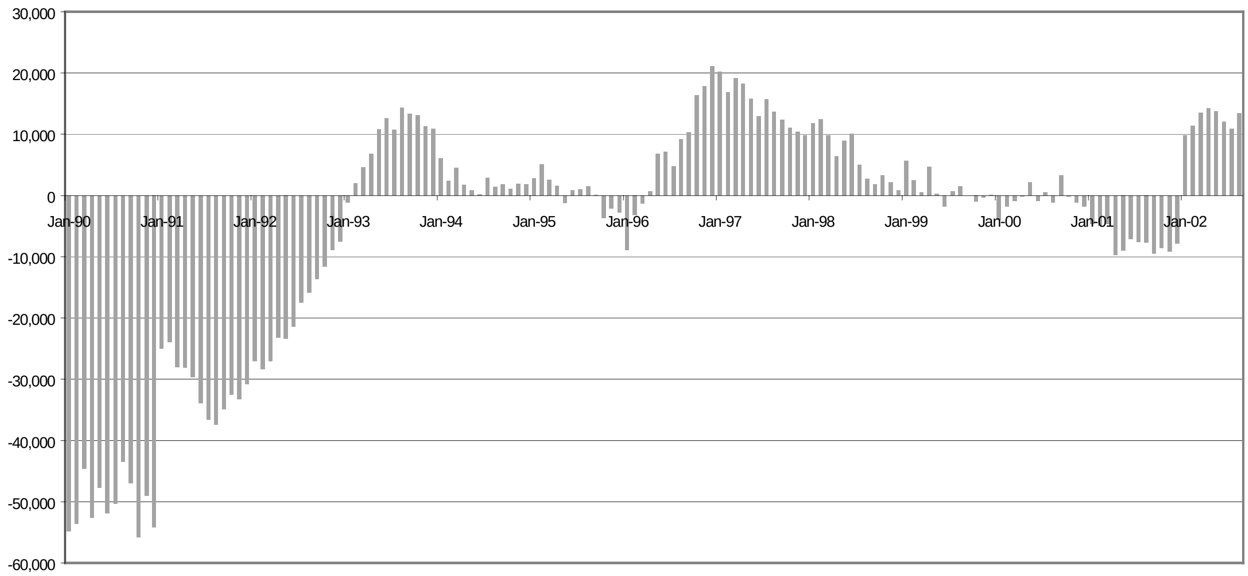
Inflation is likely to remain subdued, contained by economic weaknesses. Despite recent reports of an economic slowdown, the Federal Reserve is likely to leave interest rates unchanged for the remainder of the year. At 1.75 percent, the fed funds rate is at a 40-year low. Another interest-rate cut is not likely to do much to stimulate the weakening economy.

B. The Local Economy

Nassau County's economy slowed a bit during the second quarter. Although more of the county's residents are working this year than during the same period last year, the pace of job gains has slowed in the second quarter. The number of unemployed county residents has risen; hotel activity remained sluggish; and sales-tax growth has been lethargic.

Civilian employment, which measures the number of residents with jobs, expanded consistently every month during 2002 for the first time since the first half of 1999. The gain in civilian employment reached a peak of 14,200 in April 2002. Growth has since subsided, but employment gains remained in excess of 10,000. Signs of a labor-market rebound resurfaced during August, with the number of county residents with jobs expanding by 13,400 over the same period a year ago. (See Chart 1.)

Chart 1. *Monthly Civilian Employment Gain, Year-over-Year, 1990-2002*



Source: New York State Department of Labor.

The county's unemployment rate also improved in August. But, at 3.9 percent, it was 60 basis points above the level registered a year ago. The increase in unemployment has been largely driven by an increase in the labor-force participation that outpaces the rate of employment gain. The county's labor force has expanded by 2.7 percent since August 2001, contrasted with employment gains of only two percent. (See Table 2.)

For most of the year, the hotel industry has been sluggish. Nassau County's hotel occupancy rate – compiled by the Long Island Convention and Visitors Bureau – trailed last year's performance during the first six months of the year. The hotel occupancy rate averaged 59.2 percent during the first quarter of 2002, compared with 76.9 percent during the same period a year ago. The second-quarter average rose to 67.9 percent, largely attributable to the U.S. Open held at Bethpage State Park that boosted the occupancy rate to 73.7 percent in June 2002. Hotel occupancy rates during this year's second quarter were, however, about 16 percentage-points lower than the 2001 second-quarter, which averaged 83.8 percent.

Sales-tax collections – a proxy for Nassau County's retail sales – shrank during the second quarter of 2002, following growth of four percent during the first three months. Sales-tax collections fell nine-tenths of a percent during the April-July period, largely as the result of a 5.6-percent drop in May. (See Table 3.) For the first seven months of the year, sales-tax revenues grew by 1.5 percent, down from 8.1 percent during the same period a year ago. The county's unemployment rate reached an all-time low of 2.3 percent in April 2001, but averaged four percent during the first eight months of 2002. Since consumers react negatively to news of rising unemployment, the increase in the county's jobless rate is likely to curtail consumer spending and, hence, sales-tax revenues in coming months.

Table 2. *Nassau County's Labor-Market Indicators, Monthly, 2001-2002*

	Labor Force	Year-over-Year Change	Employed	Year-over-Year Change	Unemployment Rate
August 02	710,500	18,400	682,500	13,400	3.9%
July 02	717,300	19,300	686,300	11,300	4.3%
June 02	713,500	20,700	684,100	12,100	4.1%
May 02	700,300	23,200	673,100	13,700	3.9%
April 02	695,400	25,100	669,100	14,200	3.8%
March 02	697,200	25,400	669,200	13,500	4.0%
February 02	692,200	24,100	661,900	11,400	4.4%
January 02	690,600	20,900	661,600	9,800	4.2%
December 01	687,100	1,100	662,700	(7,800)	3.6%
November 01	684,600	(800)	659,300	(9,100)	3.7%
October 01	683,300	(2,300)	658,300	(8,600)	3.7%
September 01	678,500	(5,700)	653,900	(9,500)	3.6%
August 01	692,100	(5,000)	669,100	(7,700)	3.3%
July 01	698,000	(5,100)	675,000	(7,600)	3.3%
June 01	692,800	(6,800)	672,000	(7,100)	3.0%
May 01	677,100	(9,000)	659,400	(9,000)	2.6%
April 01	670,300	(10,000)	654,900	(9,700)	2.3%
March 01	671,800	(6,100)	655,700	(4,600)	2.4%
February 01	668,100	(7,400)	650,500	(5,000)	2.6%
January 01	669,700	(6,900)	651,800	(4,600)	2.7%

Source: New York State Department of Labor.

Table 3. *Nassau County's Sales-Tax Collections, Monthly, 2001-2002*

	FY 01	FY 02	Variance	% Change
January	$50,120,659	$55,674,895	$5,554,236	11.1
February	95,865,051	94,072,329	(1,792,722)	(1.9)
March	57,845,490	62,211,944	4,366,454	7.6
April	59,369,503	60,397,361	1,027,858	1.7
May	87,351,881	82,441,685	(4,910,196)	(5.6)
June	66,391,043	68,276,666	1,885,623	2.8
July	62,585,606	63,829,841	1,244,235	2.0
Subtotal	**$479,529,233**	**$486,904,721**	**$7,375,488**	**1.5**
August	73,086,671			
September	56,603,596			
October	62,934,350			
November	86,235,368			
December	73,465,454			
Total	**$831,854,672**			

Source: Nassau Integrated Financial System (NIFS), as of July 2002.

As previously stated, the strength of the national and regional economic recoveries will determine, to a great extent, the future of economic activities in Nassau County. In recent months, labor-market conditions in both the New York City and Long Island regions have stabilized. The city's unemployment rate fell to 7.6 percent in August, from a high of 8 percent in May; the rate of private-sector job losses has subsided, with the city's private sector actually adding 100 jobs in August. The Nassau-Suffolk area's unemployment rate was 4.3 percent in August 2002. This is up from 3.6 percent in August 2001, but down from 4.5 percent in July. Similarly, the nation's unemployment rate declined in August to 5.7 percent, from 5.9 percent in July.

This improvement notwithstanding, initial-jobless-claims reports paint a picture that is not favorable for future labor-market conditions. Nassau County has been spared thus far from the worst effects of the national recession that has hit hardest the nation's manufacturing sector. If the stock markets remain weak, and the recession becomes long and protracted, the impact on business and financial services will be extensive. This will have far-reaching implications for Nassau County, since it has relied heavily on these sectors in recent years for job growth.[1]

[1] For an analysis of the structural shift of the county's economy, see *Nassau County's Competitive Position and its Long-Term Employment Trends, 1980-2000,* July 2002. Published by the Nassau County Comptroller's Office, it is available online at www.co.nassau.ny.us/comptroller.

III. RISK ANALYSIS

This section reviews the assumptions contained in the proposed FY 03 Budget and the September Plan. Some of the Plan's assumptions are conservative, and accordingly, the county may end FY 03 with a budget surplus. Many of the remedial measures envisioned in the Plan, however, cannot be implemented without steps being taken by entities outside of the county and are, thus, not without risk.

A. FY 03 Budget

In the proposed FY 03 Budget, the county projects a baseline-budget gap in its six major county funds[1] of $257.3 million. The gap is $71.8 million higher than that assumed in the previous Plan's estimate, primarily the result of increased Medicaid and employee-health-insurance costs and the effect of stock-market losses on pension expenditures.

To close the projected budget gap, the county proposes $185.3 million of recurring revenue and cost-reduction measures and anticipates $57 million of non-recurring debt-restructuring assistance and $15 million in transitional state aid from NIFA. Recurring action is the preferred solution to restoring the county's financial health since it results in ongoing, year-to-year, structural budgetary relief. The recurring actions identified in the Plan to close the FY 03 budget gap include $28 million in workforce reductions; $17.5 million in "smart government" initiatives; $17.9 million in savings from debt reduction; and a 19.4-percent increase in the county portion of the property tax that will yield $119.4 million in FY 03.

Based on the comptroller's office's projections, the proposed budget contains excess appropriations for salaries and fringe benefits that may result in a favorable variance of $11 million. If the economy rebounds, and the stock market recovers, the surplus could reach $46 million.

1. Budget Assumptions

The FY 03 Budget assumes that, due to current economic conditions, sales-tax revenues will grow by merely 2.5 percent. The budget assumptions are also conservative with respect to estimated cost increases. Pension expenditures for police officers are projected to grow to 11.4 percent of salaries from 2.9 percent in FY 02, while pension expenditures for non-police personnel are projected to rise to 7.3 percent of salaries from 1.3percent in FY 02. Health-insurance costs for employees and retirees are expected to grow by 15 percent, Medicaid expenditures by 13 percent, and other non-personnel costs by 2.5 percent.

a. Risks

Potential risks to the budget include the effect of a long and protracted stock-market correction on pension costs and the impact of historic workforce reductions on the county's overtime budget. At this time, pension costs appear to present the most significant risk to the budget.

[1] The six major funds consist of the General Fund, the Parks Fund, the Fire Commission Fund, the Police District Fund, the Police Headquarters Fund, and the Debt Service Fund.

Pension Contributions

Nassau County is a participant of the New York State and Local Retirement Systems. As such, the county's retirement funds are managed by the state. The retirement fund consists of a mixture of equities and international equities and fixed income assets. The stock markets have performed dismally this year. During the state fiscal year that began April 1, 2002, the Russell 3000 index, which measures the stock performance of the 3000 largest publicly traded U.S. companies, is down 30 percent. The state pension systems assume pension-fund-investment returns of eight percent for the year in order to determine the funding that is necessary to meet its obligations. Although the bond market has performed relatively well in recent months, the bond-market gain cannot make up for the losses experienced in the stock markets. Equities account for 70 percent of the retirement system portfolio. Therefore, stock-market losses are likely to require an increase in the county's contributions to the retirement systems if stock prices remain depressed at the end of the current fiscal year. For example, if the retirement systems earn zero percent this year, the county will have to increase contributions by $5.5 million in FY 03. If the systems experience a loss of 10 percent at the end of the state fiscal year, the county's contributions would increase by $29.2 million in 2003. The FY 03 Budget assumes investment losses of 10 percent. Since investment gains and losses are phased-in over a five-year period, this year's loss, if any, would put upward pressures on pension contributions in every year of the Plan. Table 4 presents the impact of various investment-earnings assumptions on the FY 03 Budget. The estimated costs are adjusted for the county's FY 03 three-month prepayment into the police and non-police retirement systems.

Table 4. *Impact on FY 03 Pension Expense of Investment Performance, $ in Millions*

Rate of Return	FY 03 Budget	FY 03 Estimates	Variance
Panel A. Non-Police Personnel			
9%	$29.7	$10.7	$19.0
0%	29.7	13.4	16.3
-10%	29.7	21.8	7.9
-20%	29.7	30.2	(.5)
-30%	29.7	38.5	(8.8)
Panel B. Police and Fire			
9%	$33.3	$17.4	$15.9
0%	33.3	18.5	14.8
-10%	33.3	27.3	6.0
-20%	33.3	36.1	(2.8)
-30%	33.3	44.8	(11.5)

Source: Office of the State Comptroller

Workforce Reductions

The September Plan assumes a net workforce reduction of 1,400 – an increase of 200 from the April Plan. However, the September Plan acknowledges that the county may not be able to sustain the reduced workforce levels, and this could result in increased overtime and other unforeseen costs. The workforce-reduction is well under way. By the end of the current fiscal year, the administration projects that the county's full time workforce will be reduced by approximately 950 employees, including over 100 contract employees. In many instances, the distribution of the separation among the departments does not coincide with the county's April net workforce reduction plan. Consequently, the county may have to hire workers in areas that were hardest hit, such as the health department (which is losing 35 employees) and the probation department (which is losing more than twice the number of employees anticipated in the April Plan). An evaluation of the effectiveness of the county's operations at the current workforce level should be performed before any further workforce-reduction programs are instituted. If it is then determined that the county can operate effectively with less employees, the county should consider offering an early retirement incentive in 2003 (if offered by the state). Otherwise, layoffs may be required to reach the workforce target. The loss of large numbers of employees with institutional knowledge may pose a risk to the county's ongoing operations.

Information Technology

The Plan assumes that information technology will enhance productivity and generate cost savings. Yet, paradoxically, there is no funding earmarked in 2003 for investment in technology. Modernization of the county's information technology must be given the highest priority. While the county has taken some steps toward e-government, with a sufficient initial investment, the opportunities to generate efficiencies and cost savings would be immeasurable. The county should move towards the implementation of fully integrated information databases, and computerized personnel and vendor-payment systems to cite a few examples, with functional web sites that enable vendors to bid and file invoices online. Some of the smart-government savings may be at risk if the requisite investment in technology is not forthcoming.

2. Resources

The county has a number of potential resources that are not yet incorporated into the proposed FY 03 Budget, but are not certain as of this date. Among them are FY 02 ending general-fund balance, the FY 03 three-month pre-payment of pension contributions, and Medicaid advances. These resources should be used to modernize the county's operations and invest in technology.

FY 02 Ending General Fund Balance

The FY 02 ending balance may be higher-than-anticipated because a preliminary desk review by the comptroller's office of the grant-fund balances within the Nassau County Department of Drug & Alcohol Addiction has uncovered nearly $9 million in county funds that had been overlooked due to accounting errors made in prior years. The Suozzi Administration had included $4 million of this amount as part of its initiatives to reduce the 2002 budget deficit. Moreover, if the labor unions and the county reach an agreement that offers wage increases that are lower than anticipated in the baseline budget, the FY 02 fund balance will be higher than we expect. Wage increases previously accrued on the county's books would be reversed, effectively freeing up resources for FY03.

Pension Pre-Payment

As stated previously, the county assumes investment losses of 10 percent in FY 02. Based on the 10-percent loss in FY 02, we believe that the county's pension contributions are overestimated by $12.3 million. Apparently, the FY 03 Budget does not consider the expense adjustment for FY 03's three-month pre-payment.

Medicaid Advances

The Department of Social Services overstated certain prior-years state revenue. These revenues were Medicaid advances that should have been recorded as liabilities, with no effect on the county's revenues. Instead these resources were recorded as revenues, effectively overstating revenues and the fund balances for FY 96 through FY 01. In June, the comptroller's office took appropriate actions to correct the county's 2001 financial statements. The Governor has proposed legislation that, if passed, will result in the reversal of the accrual from 2001 effectively providing the county budgetary relief of $15 million in FY 02 or FY 03, depending upon when the legislation is signed into law.

Health-Insurance Costs

Estimated health-insurance costs, in the proposed FY 03 Budget, appear to be overstated. The county assumes a growth rate of 15 percent in such costs for both active and retired employees. This equates to a FY 03 cost of $69.8 million for employees and $73.9 million for retirees. The comptroller's office envisions health-insurance costs to rise by 13.4 percent for employees and 17.4 percent for retirees, which would result in health-insurance costs of $136.8 million, $6.9 million lower than assumed in the FY 03 Budget.

B. Out-Years of the Plan

On the revenue side, the Plan forecasts sales-tax growth of 2.7 percent for the out-years. The comptroller's office forecast for the out-years of the Plan averages three percent. However, since we are projecting from a higher FY 02 base, our sales-tax-revenue forecasts are slightly higher than those assumed in the Plan. The county revised downward its FY 02 forecast of sales-tax revenue to $851.9 million, while ours remains unchanged from the FY 02 Adopted Budget of $855 million.

The Plan relies on $111 million (before discounting) in debt-service and personnel savings from the creation of a sewer- and storm-water authority. This initiative is risky since it requires state legislative approval. The Plan also relies on capping Medicaid growth, reimbursement for police patrols on the Long Island and Seaford-Oyster Bay expressways, and a 10-percent health-care contribution from employees and retirees. Because these initiatives require state and union approval, they may not materialize.

If the economy does not improve, the Plan contemplates the creation of a residential energy-sales tax and a ¼-cent sales-tax increase. A cigarette-tax also is cited as a contingency measure within the Plan. Such a tax is projected to generate annual revenues of $28.4 million.

The comptroller's office expects the county's financial position to be slightly better than assumed in the Plan. Though appropriate, the county's sales-tax-revenues forecasts in the out-years are conservative. Similarly, the county's wages and fringe-benefit forecasts are conservative. In our view, the resumption of economic growth in the out-years of the Plan should produce additional sales tax revenues. The reassessment project, which should link the county's property-tax base to market values, should also generate more revenues than anticipated in the Plan. As the values of properties rise, property-tax collections should also increase assuming tax rates remain unchanged.

On the expenditure side, the Plan holds constant, at $37.3 million, the county's payments to the Nassau Health Care Corporation (NHCC) for its "mission payments" and benefits for NHCC's workers previously employed by the county. This forecast does not include growth in retiree health-insurance rates and participants and the county's share of severance payments for retiring NHCC workers. Adjusting for these factors, the comptroller's office expects these payments to rise to $40.9 million in FY 04, $44.4 million in FY 05, and $47.1 million in FY 06.

Balanced against these potential risks, the county's obligations may be overstated, in particular if there are agreements that result in lower wage increases and more concessions from the unionized workforce. In addition, the Plan assumes a 13-percent growth in non-IGT (intergovernmental transfers) Medicaid expenditures. Our forecast calls for growth of 10.5 percent on the assumption that the share of county-funded programs will be lower than anticipated in the Plan. Our lower forecasts would result in reduced expenditures of $3.6 million in FY 04, $7.1 million in FY 05, and $9.8 million in FY 06. Consequently, we expect the budget gaps projected in the out-years of the Plan to be smaller than anticipated.

IV. REVENUES

During the first eight months of 2002, the county recorded revenues of $1,295.6 million for its six major funds. This is a 7.8-percent increase over revenues during the same period a year ago. (See Table 5.) The following sections describe revenue-collection patterns during the first eight months of FY 02 and present the projections for FY 03.

A. Tax Revenues

Non-property-tax collections during the first eight months of the year grew at a rate of 5.9 percent over the same period a year ago. As depicted in Table 5, miscellaneous revenues account for more of this positive performance.

1. Sales Tax

The sales tax is the county's largest source of revenue, accounting for nearly 38 percent of all general-fund revenues. Sales-tax revenues are linked to economic activities. The economy weakened during 2001; consequently, sales-tax growth slowed to three percent. Economic conditions worsened following the tragic events of September 11, 2001. Through August 2002, sales-tax collections grew by only 1.5 percent on a gross, unadjusted accrual basis. Based on year-to-date collections and the current state of the economy, the county's office of management and budgets recently revised downward its FY 02 estimate to $851.9 million, from an Adopted Budget of $855 million.

The FY 03 baseline sales-tax growth projection was also revised downward from 2.7 percent in the April Plan to 2.5 percent. For the out-years, the plan assumes an average growth rate of 2.7 percent. If sales-tax growth falls short of expectations, the county executive mentions the possibility of raising the sales-tax rate, from 8.5 percent to 8.75 percent. Based on the Plan's projected sales-tax growth, this initiative could generate $52.8 million in FY 04, $54.6 million in FY 05, and $55.7 million in FY 06.

Consistent with recent developments in the economy, the comptroller's office projects a growth rate of 2.25 percent. Our lower growth rate is applied to a higher FY 02 sales-tax base. \which results in a FY 03 forecast that is in line with that assumed in the FY 03 budget. (See Table 5.) For the out-years of the Plan, we expect growth to average three percent as the local economy slowly recovers.

2. Property Tax

At the beginning of FY 02, the county recorded the entire property tax levy for the year. In FY 02, the county recorded $620.7 million, up from $564.5 million in FY 01. For FY 03, property-tax revenue is expected to total $738.7 million; this represents almost 29 percent of the total FY 03 Budget for the county's six major funds. The FY 03 Budget anticipates an increase in the county portion of the property-tax levy that will yield an additional $119.4 million.

The 19.4-percent increase in the county's portion of the property tax will impose a burden of $224 on the average homeowner. However, most taxpayers will actually pay closer to the median cost of $182. (See Table 6.)

Property-tax revenues are projected to remain static until FY 06, when the Plan assumes

Table 5. *Revenues, Six Major Funds, $ Millions*

	FY 01 Jan-August Actual	FY 02 Jan-August Actual	Variance	FY 03 Budget	Comptroller's FY 03 Projections	FY 03 Variance
	(a)	(b)	(c)=(b)-(a)	(d)	(e)	(f)=(e)–(d)
Interest Penalty on Tax	$13.3	$14.2	$0.9	$22.3	$18.0	($4.3)
Permits & Licenses	4.7	5.0	0.3	7.7	7.5	(0.2)
Fines & Forfeitures	7.2	8.4	1.2	14.2	13.6	(0.6)
Investment Income	15.2	6.7	(8.5)	8.5	11.4	2.9
Rents & Recoveries	10.0	12.3	2.3	46.4	44.1	(2.3)
Revenue, Offset to Expense				0.8	0.8	0.0
Departmental Revenue	33.1	65.2	32.1	146.6	144.4	(2.2)
Capital Charge-backs	(0.4)	0.0	0.4	4.4	4.4	0.0
Interdepartmental Revenue	1.5	1.4	(0.1)	24.1	24.5	0.4
Payment in Lieu of Taxes	1.8	0.2	(1.6)	3.9	3.9	0.0
Debt Service from Capital Fund	1.2	0.9	(0.3)	0.0	0.0	0.0
OTB Profits	6.5	6.2	(0.3)	13.2	12.4	(0.8)
Inter-fund Revenue	1.0	0.8	(0.2)	372.9	372.9	0.0
Federal Aid	32.1	42.2	10.1	112.6	111.8	(0.8)
State Aid	55.0	49.2	(5.8)	202.7	208.6	5.9
Sales Tax	441.4	448.0	6.6	873.6	874.2	0.6
Property Tax	564.5	620.7	56.2	738.7	738.7	0.0
OTB 5% Tax	3.6	3.7	0.1	7.5	7.5	0.0
Special Taxes	9.8	10.5	0.7	18.5	16.2	(2.3)
Total Revenues	**$1,201.5**	**$1,295.6**	**$94.1**	**$2,618.6**	**$2,614.9**	**($3.7)**

Sources: NIFS, as of August 2002; the Multi-year Financial Plan, 2003-2006, and the comptroller's office.

an increase of $18.5 million from the implementation of an initiative that would automatically tie annual property-tax increases to the rate of inflation. Property-tax forecasts in the Plan appear conservative since increases in market values are supposed to be reflected in annual reassessments following the successful implementation of the re-assessment project. Property-tax collections should increase without any additional increases to the tax rates, unless the housing market completely levels off. The comptroller's office does not anticipate such a scenario. Consequently, we expect property-tax revenues to be higher than assumed in the out-years of the Plan.

The risk to our forecast is the county's ongoing property-revaluation project. The revaluation is intended to establish equitable assessment values for commercial and residential properties in Nassau County. When combined with recently enacted assessment-review-process reforms, the reassessment, if done properly, should greatly limit the county's exposure to future assessment challenges. If the reassessment is flawed, however, the exposure could be significantly greater than anticipated in the Plan.

Table 6. *Proposed 2003 County Property Tax Increase by School District*

School District	Average Residential Assessment	Average Household Cost	Median Residential Assessment	Median Household Cost
Baldwin	$5,542	$174	$5,400	$170
Bayville	7,004	220	6,450	203
Bellmore	6,456	203	6,130	193
Bethpage	6,021	189	5,930	186
Brookville	30,785	968	26,570	835
Carle Place	6,057	190	5,970	188
Cold Spring Harbor	21,298	669	18,500	581
East Meadow	5,626	177	5,480	172
East Rockaway	4,985	157	5,100	160
East Williston	13,175	414	10,350	325
Elmont	5,024	158	5,050	159
Farmingdale	5,575	175	5,500	173
Floral Park-Bellerose	5,856	184	5,809	183
Franklin Square	5,531	174	5,450	171
Freeport	4,944	155	4,800	151
Garden City	10,404	327	9,050	284
Glen Cove	5,742	180	5,600	176
Great Neck	13,088	411	10,750	338
Hempstead	4,554	143	4,300	135
Herricks	8,659	272	7,650	240
Hewlett-Woodmere	9,299	292	7,840	246
Hicksville	5,341	168	5,650	178
Island Park	5,732	180	5,710	179
Island Trees	5,036	158	4,950	156
Jericho	14,078	443	10,853	341
Lawrence	8,699	273	8,000	251
Levittown	4,937	155	4,800	151
Locust Valley	10,047	316	8,160	256
Long Beach	6,015	189	5,780	182
Lynbrook	6,413	202	5,800	182
Malverne	5,238	165	5,200	163
Manhasset	13,680	430	11,950	376
Massapequa	6,627	208	6,080	191
Merrick	7,297	229	7,200	226
Mineola	5,440	171	5,250	165
New Hyde Pk Garden City Pk	5,637	177	5,492	173
North Bellmore	5,620	177	5,680	179
North Merrick	5,604	176	5,600	176
North Shore CSD	9,721	306	7,808	245
Oceanside	6,160	194	6,000	189
Oyster Bay East Norwich	13,699	431	8,897	280
Plainedge	5,669	178	5,650	178
Plainview-Old Bethpage	6,859	216	6,832	215
Port Washington	10,623	334	8,200	258
Rockville Centre	8,179	257	7,760	244
Roosevelt	4,203	132	4,100	129
Roslyn	11,694	368	11,575	364
Sea Cliff	6,636	209	6,000	189
Seaford	5,786	182	5,700	179
Syosset CSD	10,312	324	8,643	272
Uniondale	4,688	147	4,600	145
Valley Stream	5,162	162	5,050	159
Valley Stream # 30	5,249	165	5,200	163
Valley Stream #13	5,765	181	5,680	179
Wantagh	6,049	190	5,990	188
West Hempstead	5,636	177	5,500	173
Westbury	5,994	188	5,098	160
Nassau County Average	$7,113	$224	$5,800	$182

Cost per $1,000 of Assessed Valuation equals $31.43, based on 2002. Based on 2002 Assessed valuation.
Source: comptroller’s office.

B. Miscellaneous Revenues

Miscellaneous revenues includes departmental revenues, interdepartmental revenues, rents and recoveries, investment income, fines and forfeitures, debt service from capital fund, interest penalty on tax, payment in lieu of taxes, permits and licenses, revenue to offset expense, OTB profits and five-percent tax and special taxes. Through August, miscellaneous revenues totaled $134.7 million, up $26.8 million during the same period last year. The proposed FY 03 Budget assumes $313.7 million for the miscellaneous revenues listed above, which represents a 5.6-percent increase over the FY 02 Adopted Budget.

1. Fines and Forfeitures

During the first eight months of FY 02, the county collected $8.4 million in fines and forfeiture revenue, which represents a 16.7-percent increase over the same period a year ago. The most notable gain was at the county's traffic and parking violations agency, where increased fines and efforts to reduce the backlog of unprocessed tickets resulted in a six-percent revenue increase over last year.

In the FY 03 Budget, the county expects fines and forfeitures to total $14.2 million – an increase of 4.4 percent over FY 02. For the out-years, fines and forfeitures are projected at $14.2 million in each of FY 04, FY 05, and FY 06. The comptroller's office forecasts are consistent with those assumed in the Plan.

2. Investment Income

During the first eight months of 2002, the county earned $6.7 million in interest income – a 55.9-percent drop from last year. This is the result of declining interest rates and a reduction in the level of the county's cash balances as a result of a reduction in its long- and short-term borrowings. The FY 03 Budget anticipates $8.5 million in investment income. The comptroller's office expects investment income of $11.4 million in FY 03 as a result of better-than-anticipated daily cash-balances stemming from the increase in property taxes. In FY 05 and FY 06, our forecasts are below the county's forecasts. Our forecasts call for lower cash balances as the county reduces its capital borrowings.

3. Rents and Recoveries

Rents and recovery revenues during the first eight months of FY 02 totaled $12.3 million, a 23-percent increase over the same period a year ago. The most substantial portion of the increase is attributable to recoveries of prior-year appropriations, which are generated by writing off prior-year payables. This is basically a timing issue; encumbrance balances were reviewed and released earlier in the fiscal year than were done in the past. The proposed FY 03 Budget includes $46.4 million for rents and recoveries, $5.9 million more than anticipated in the Adopted FY 02 Budget. The comptroller's office expects rents and recoveries to total $47.5 in FY 02 and $44.1 million in FY 03. Our forecasts for the FY 05-06 period are more than $18 million below those assumed in the Plan each year. This results primarily from an end to the tobacco-settlement revenues, other than the residual amount.

4. Departmental Revenue

Departmental revenue totaled $65.2 million during the first eight months of 2002, which is $32.1 million more than collected during the same time period a year ago. This increase is largely the result of timing difference. The county received $26.7 million in intergovernmental transfers of federal funds for the benefit of health-care facilities earlier in the fiscal year than in 2001. The FY 03 Budget for departmental revenues is raised to $146.6 million, from $144.3 million in the FY 02 Adopted Budget. For the out-years, the Plan projects departmental revenue will remain at 146.6 million through FY 06.

5. State and Federal Aid

For the first eight months of the year, the county experienced a positive variance of $4.3 million for state and federal aid. This amount is comprised of a positive federal aid variance of $10.1 million, partially offset by a negative state aid variance of $5.8 million. The increase in federal aid is primarily the result of increased reimbursement for an unanticipated increase in the federal inmate population at the Nassau County Correctional Center. The decrease in state aid is the result of declining reimbursements related to a drop in caseloads at the county's departments of social services, health, and mental health.

The proposed FY 03 Budget includes $202.7 million for state aid and $112.6 million for federal aid, as compared with $218 million and $110.2 million, respectively, in FY 02. For the out-years of the Plan, state aid remains flat at $202.7 million and federal aid remains unchanged at $112.6 million in FY 04-06. The comptroller's office assumes a growth rate of four percent in the out years, resulting in higher amounts of federal and state aid.

In the Plan, the county assumes that the state will pick up in FY 06 the cost of patrolling the Long Island and Seaford-Oyster Bay expressways. This initiative requires state approval and is, therefore, risky. Another initiative that also requires state approval is the proposed cap on Medicaid growth.

V. OBLIGATIONS

Nassau County's obligations for the six major funds totaled $1,368 million through August. This represents a 6.9-percent increase over the same period a year ago. The increase in obligations is largely driven by the following factors: salary expenditures, up 4.9 percent, primarily attributable to increased termination pay resulting from the significant rise in employees leaving Nassau County employment and scheduled step and cost-of-living adjustments paid to county workers pursuant to collective-bargaining agreements; fringe benefits, up 12.9 percent, from increases in health-insurance coverage for employees and retirees; timing differences associated with the acceleration of processing contractual encumbrances and the payment of the county's share of costs at the Nassau Health Care Corporation; and Medicaid costs, up 29.6 percent, that primarily relates to an intergovernmental transfer for health-care facilities being made a month earlier than in the prior year. (See Table 7.)

The FY 03 Budget assumes obligations will rise by 18.5 percent, from $2,210.4 million to $2,618.6 million. After adjusting for inter-fund transfers of debt-service expenditures, the proposed FY 03 Budget includes total appropriations of $2,320.6 million for its major funds. This represents an increase of $110.2 million, or five percent, over the FY 02 Adopted Budget.

A. Personnel Services Expenditures

The FY 03 Budget allocates $1,040.9 million for salaries and fringe benefits. This represents a 10.4-percent increase over the FY 02 Adopted Budget of $943 million.

1. Payroll Expenditures

Total payroll expenditures during the first eight months of FY 02 totaled $471.2 million, representing a 4.9-percent increase over the same period a year ago. The General Fund experienced an increase of $10.5 million; the Parks Fund grew by $1.4 million; and the Fire Commission Fund by $300,000. The Police District Fund posted a 5.5-percent increase, from $122 million to $128.7 million. During the same time period, payroll expenditures in the Police Headquarters Fund grew by 2.7 percent, from $115.8 million to $118.9 million. The increase in the police funds reflects the unusually high number of police terminations during FY 02. This is the result of enhanced retirement benefits for many police officers as a result of overtime earned after the September 11th attack on the World Trade Center and uncertainty related to unresolved labor agreements.

For FY 03, the comptroller's office projects salaries of $717.6 million; this is $18.6 million more than assumed in the FY 03 Budget. Our forecast assumes wage increases that are commensurate with the past and reflects a lower headcount level than implied by the salary forecasts contained in the FY 03 Budget. Our payroll estimates are based on the headcount levels presented in the proposed multi-year plan.

Table 7. *Obligations, Six Major Funds, $ Millions*

	FY 01	FY 02	Variance	FY 03	FY 03	FY 03
	Jan-August Actual	Jan-August Actual		Proposed Budget	Comptroller's Office Projections	Variance
	(a)	(b)	(c)=(b)-(a)	(d)	(e)	f=(d)-(e)
Payroll	$449.2	$471.2	$22.0	$699.0	$717.6	($18.6)
Fringe Benefits	123.7	139.6	15.9	341.9	308.4	33.5
Equipment	1.1	1.5	0.4	4.7	4.7	
Materials & Supplies	4.9	3.9	(1.0)	17.5	17.5	
General Expense	17.8	14.2	(3.6)	15.6	15.6	
Contractual Expense	98.5	115.2	16.7	152.2	152.2	
Utilities	16.9	15.2	(1.7)	26.4	26.4	
Direct Expenses	0.4	0.2	(0.2)	0.5	0.5	
Local Government Assistance	24.8	13.3	(11.5)	51.6	51.4	0.2
PBC Costs	12.9	28.4	15.5	37.3	37.4	(0.1)
Inter-fund Charges	0.9	(1.5)	(2.4)	334.8	334.8	
Debt Service	190.6	182.6	(8.0)	226.3	226.9	(0.6)
NIFA Set-Asides	11.3	19.7	8.4	71.1	72.9	(1.8)
Reserves	0.1		(0.1)			
Subsidy				43.1	43.1	
MSBA	7.9	5.9	(2.0)	3.8	3.8	
LIRR-Station Maintenance	20.5	20.9	0.4	21.5	21.5	
MTA-LIRR Operations Assistance	8.7	5.8	(2.9)	11.6	11.6	
Handicap Transportation	3.5	4.5	1.0	4.5	4.5	
Other	10.5	11.8	1.3	22.0	21.9	0.1
Recipient Grants	27.2	28.2	1.0	46.4	45.3	1.1
Purchased Services	31.4	32.9	1.5	40.4	41.9	(1.5)
Emergency Vendor Payments	35.2	36.2	1.0	50.8	50.4	0.4
Medicaid	121.1	157.0	35.9	321.5	321.4	0.1
Education Handicapped Children	60.8	61.3	0.5	73.9	71.7	2.2
Suits & Damages	0.1		(0.1)	0.2	0.2	
Total Obligations	**$1,280.0**	**$1,368.0**	**$88.0**	**$2,618.6**	**$2,603.6**	**$15.0**

Sources: NIFS, as of August 2002; the Multi-year Financial Plan, 2003-2006, and the comptroller's office.

Police officers and other personnel represented by the county's three-police unions are currently working without labor agreements. The contracts with the Police Benevolent Association (PBA) and the Detectives Association (DAI) expired on December 31, 2000, while the Superior Officers Association (SOA) agreement expired on December 31, 2001. The county and the PBA recently agreed to move forward to binding arbitration. Table 8 depicts the potential impact on the county's finances of each one-percent raise granted to the police unions.

Table 8. *Impact of Each One Percent Wage Increase Granted to Police, $ millions*

	Base Increase From FY 01 Raise	Base Increase From FY 02 Raise	FY 03 Raise	Total
Police Headquarters				
PBA	0.49	0.49	0.50	1.48
DAI	0.51	0.52	0.52	1.55
SOA	0.00	0.37	0.37	0.74
Subtotal	1.00	1.38	1.39	3.77
Police Districts				
PBA	1.46	1.47	1.47	4.40
SOA	0.00	0.34	0.34	0.68
Subtotal	1.46	1.81	1.81	5.08
Total	**2.46**	**3.19**	**3.20**	**8.85**

Source: comptroller's office

2. Overtime

Through August 2002, overtime in the Police District Fund was $1.8 million, or 39 percent higher than the same period a year ago. The District's overtime budget has been negatively impacted by a greater-than-anticipated increase in the number of retirements during the year, minimum staffing requirements, as well as several notable crimes that required significant police responses.

Overtime expenditures in the Police Headquarters Fund declined $700,000, or 9.9 percent for the first eight months of the year. At the County Correctional Center, overtime was $2.2 million lower than during the same period last year, marking a 21.2-percent decrease. The FY 03 Budget includes overtime allocations as follow: $13.5 million for the Police District Fund, up from the $8.1 million assumed in the FY 02 Adopted Budget; $11.7 million for Police Headquarters, up from $9.8 million; and a $600,000 decrease, from $21.7 million to $21.1 million, for the General, Parks and Fire Commission Funds. The police overtime budget may be understated in light of the significant number of police retirements.

3. Fringe Benefits

Fringe benefits through August totaled $139.6 million for the six major funds. This is $15.9 million, or 12.9 percent, higher than last year. The county allocates $341.9 million for fringe benefits for FY 03. This is a 48-percent increase over the FY 02 budgeted amount that is largely driven by increased pension and health-benefit costs.

Pension costs are impacted to a great extent by the performance of the pension-systems' investments. For years, costs were low as a result of the substantial gains in stock-market investments. Stock prices have fallen; since the beginning of the state fiscal year, the Russell 3000 index is down 30 percent, and pension costs are assumed to be returning to levels not seen in years. In the FY 03 Budget, the county assumes that the pension systems will be down 10 percent for the FY 02 state fiscal year. For FY 03, the county estimates the cost of funding pensions at $28.1 million for ERS employees and $33.3 million for PFRS employees. These represent increases over the comptroller's office FY 02 forecasts of $23.1 million and $25 million, respectively. If the systems' performance is worst than expected, pension costs may be higher than anticipated. Gains and losses are phased-in over a five-year period in order to reduce the impact of short-term market fluctuations on pension contributions. Hence, this year's loss, if any, would exert upward pressures on contributions through 2007. It should be noted, however, the impact of this year's stock-market loss can be partly mitigated by gains in the bond markets and by future gains in excess of the actuarial rate of eight percent assumed by the state.

Health-insurance costs are also rising. The FY 03 Budget assumes a 15-percent increase in health-insurance-premium costs, for a six major fund total of $69.7 million for active employees and $73.9 million for retirees. By FY 06, the baseline total is projected to reach $218.5 million. The comptroller's office estimates that health insurance will cost $210.3 million in FY 06. In that year, the Plan projects a negotiated 10-percent contribution from plan participants.

The comptroller's office projects fringe benefits in FY 03 to be $308.4 million. This is $33.5 million less than assumed in the proposed budget. The FY 03 Budget includes wage increases in the fringe-benefit category instead of the payroll line. In addition, our forecast of health-insurance costs for retirees is lower because we are forecasting from a lower FY 02 base.

B. Other-Than-Personnel Services Expenditures

Other-Than-Personnel Services Expenditures (OTPS) grew by 1.9 percent in the first eight months of the year. The FY 03 Budget projects a decline of 3.0 percent, while the Plan calls for an average out-year growth of 4 percent. In the Plan, the county proposes to reduce OTPS expenditures through a number of initiatives. Among the most prominent are: (1) an energy conservation initiative, including usage reduction and installation of monitoring equipment, that is estimated to save the county 20 percent on its utility costs; (2) implementation of a comprehensive plan for the management of the vehicle fleet, which is calculated to generate escalating savings; and (3) savings from risk mitigation and workers' compensation monitoring.

The 20-percent energy-use reduction is based on the premise that instead of 24-hour energy usage, more energy efficiencies will be instituted. Adjustments in temperature control alone will not yield a 20-percent cost reduction, and centralized heating and cooling cannot and should not be completely shut off. Centralized monitoring of heating equipment and electrical usage will require a capital investment not accounted for in the savings. However, the planned building consolidation will help to achieve energy savings.

Although the fleet-management policy has merit, the projected savings will be more than offset by the cost of replacing antiquated vehicles. Before the savings from the efficiencies of the proposed fleet-management initiative can be realized, these vehicles need to be replaced. It does not appear that the replacement cost has been budgeted.

The savings from risk mitigation and workers' compensation appear to overlap. The comptroller's office has evaluated the processing of workers-compensation claims and determined that savings can be achieved through streamlining the process; better reviewing claims; post-review of medical claims; and paying one-time settlements, rather than biweekly payments for life. These efficiencies would save approximately $900,000 in FY 04 and FY 05. Workers' compensation savings have been accounted for in both initiatives; they should appear only once. Ultimately, however, we believe that risk mitigation should produce at least as great, if not greater, savings than suggested in the Plan.

Overall, we believe the initiatives are a good initial plan for re-engineering county government. While the actual potential for implementing many of them is uncertain, the risks for the initiatives quantified are cushioned by the Plan's discounting and the volume of other revenue- and expense-initiative possibilities.

VI. OTHER ISSUES

This section reviews a number of issues that can potentially impact the Plan, including debt reform, labor concessions, the building-consolidation plan, and the financial health of the Nassau Health Care Corporation.

A. Debt Reform

The Plan appropriately addresses debt reform as one of its six major gap-closing initiatives. The program is projected to save $213.3 million (discounted to $126.5 million) over the four-year period from 2003 through 2006.

The Plan calls for:

1. Reducing the county's capital-improvement program;
2. Introducing a variable-rate-debt program;
3. Reducing the size of the county's cash-flow borrowings;
4. Reducing tax certiorari-related borrowing and shifting to pay-as-you-go financing of property-tax refunds beginning in FY 2006; and
5. Implementing various other initiatives and continuing the use of NIFA restructuring assistance through the end of FY 04 to achieve targeted levels of annual debt-service payments.

The management policies include prioritizing projects; competing for grants to offset capital-project costs; transitioning costs of judgments and settlements to the operating budget; funding shorter-lived or lower-cost improvements through the operating budget; transferring financial responsibility for water-related projects to a new authority; improving the accuracy of cost estimates, and using in-house expertise to design and construct projects.

A portion of the debt-reform package is dependent upon outside approval. State legislation is required to create a sewer and storm water resource authority, which is needed to restructure and re-organize sewer indebtedness.

The Plan proposes that pay-as-you-go financing be delayed from FY 05 to FY 06 and that NIFA debt be structured so that the first principal payment for debt issued in FY 03 and FY 04 be made in FY 07. These procedures shift expenditures to future years.

B. Labor Concessions

For years, wage increases for each of the county's employee-bargaining units have consistently outpaced inflation, adding significantly to the county's poor financial situation. Therefore, the outcome of labor negotiations will play a significant role in determining whether the county can fiscally recover.

The Plan assumes that individual employee costs, as well as the number of employees, must be reduced and contained. It also assumes that labor unions will partner with the county in an effort to resolve the county's fiscal crisis.

The Plan assumes wage- and fringe-benefit savings from five of the county's seven unions that total an undiscounted $65 million in FY 04 and FY 05, growing to $79 million in FY 06.

Table 9. *Discounted Impact of Labor Concessions Requested By the County*

	FY 03	FY 04	FY 05	FY 06
CSEA	$0	$12.5	$21.3	$29.0
PBA	0	15.0	25.5	35.0
Sheriff	0	1.5	2.6	6.5
Superior Officers	0	2.5	4.2	6.0
Detectives	0	1.0	1.7	2.5
Total	$0	$32.5	$55.3	$79.0

Source: comptroller's office

The three police unions are entitled to seek binding arbitration before the New York State Public Employment Relations Board (PERB). The county's previous attempts to control costs have been hampered by PERB's arbitration awards and "prior practice" decisions. In response to these concerns, the April Plan contained a proposed amendment to the NIFA Act that would have required PERB arbitration awards to be consistent with a NIFA-approved plan. Unfortunately, the legislation did not pass. In September, the county and the PBA (the county's largest police union) agreed to arbitration.

The arbitration award may result in increases in police wages and fringe benefits greater than assumed those in the Plan. Like the county executive, the comptroller's office believes the county must restructure its labor contracts. The current contract dispute with the Police Benevolent Association needs to be resolved in a way that is fair to police officers, while taking into account the county's precarious financial conditions. It is essential that the labor unions must partner with the county to help resolve the county's fiscal crisis.

The $65 million in net negotiated labor concessions contained within the Plan should be attainable in the context of the costs included in the baseline projections. Nevertheless, particularly in view of the availability of binding arbitration for police officers, we cannot be certain collective bargaining will, in every case, produce the projected results. We believe that the county's labor leaders understand the necessity of working together and of accepting reasonable labor agreements in light of the county's fiscal situation.

C. Sewer Funds

The proposed FY 03 Budget contains no appropriations for the use of the 2002 cumulative-fund balance in the county's sewer funds. The combined ending unreserved-fund balance – which was $19.6 million at the end of 2000 and $35.1 million at the end of 2001 – could reach $25 million at the close of 2002.

Consistent with efforts to achieve structural budgetary balance, the administration believes that these surpluses should be used to fund a rate-stabilization account, finance sewer-capital projects and fund cash-flow needs. This strategy can result in a reduction of outstanding long- and short-term debt and decreased principal and interest payments.

The sewer funds are comprised of 30 distinct taxing jurisdictions. Any use of surplus funds must be equitable to the separate taxpayers in each sewer district in which a surplus was generated.

D. Building Consolidation Plan

The Plan envisions the development of five government complexes through a building consolidation plan funded by the sale of county properties, federal and state funding, and private donations. Through the consolidation of offices, the sale of vacated properties may provide seed money to initiate this project. However, substantial reductions in capital borrowings will limit the construction of large buildings, improvements of roadways and parkland, the modernization of an aging infrastructure and the acquisition of expensive information-technology equipment and applications. The Plan limits capital borrowing to $18.6 million in 2002, $94.7 million in 2003, $70 million in FY 04 through FY 06 and $100 million in FY 07 through FY 13. The county's need to borrow more than is recognized in the Plan may impact ongoing debt-service costs.

E. Financing of Assets With Short Lives

In the Plan, the county proposes to purchase assets with short lives and finance low-cost improvements through the operating budget. This is a financially sound initiative. However, funding shorter-lived and lower-cost improvements through the operating budget is dependent on the availability of a contingency fund. Contingency funds are established for unexpected emergencies. Resources should be provided for in the operating budget to fund these expenditures. The total amount required for items such as information technology, police vehicles, payments of judgments and other ongoing operational costs need to be addressed.

F. Nassau Health Care Corporation

The Nassau Health Care Corporation acquired the Nassau University Medical Center, A. Holly Patterson Extended Care Facility, and other treatment facilities from the county in 1999. The transfer agreement between the county and the corporation stipulates the county's ongoing financial responsibilities with respect to medical care for the poor and indigent provided by the corporation, employee benefits for transferred county personnel, and the guarantee of $256 million of bonds issued in connection with the creation of the corporation and its purchase of county assets. While the county's legal exposure to a bond default is minimal since corporation revenues must first be deposited into a reserve account established for retiring the debt, the county would be drawn into a crisis if the corporation was to falter.

The Plan correctly identifies the financial health of the corporation as a risk to its success. As with other governmental and quasi-governmental entities statewide, the corporation's precarious financial position is further threatened by increased employee-health-insurance costs and pension costs.

VII. APPENDIX

Table A1. *Obligations, General Fund, January - August 2002, $ Millions*

	Jan - August 2001 Actual (a)	Jan - August 2002 Actual (b)	Increase/ Decrease (c) = (b) - (a)	Proposed Budget 2003	Comptroller's Projection 2003	variance
Payroll	$193.0	$203.5	$10.5	$321.4	$303.4	$18.0
Fringes	62.7	74.1	11.4	161.8	147.3	14.5
Equipment	0.3	0.2	(0.1)	2.0	2.0	
Materials & Supplies	4.0	3.2	(0.8)	9.4	9.4	
General Expense	9.2	7.2	(2.0)	10.9	10.9	
Contractual Expense	89.8	106.9	17.1	138.7	138.7	
Utilities	15.1	13.3	(1.8)	22.3	22.3	
Direct Expense	0.4	0.2	(0.2)	0.5	0.5	
Local Government Assistance	24.8	13.3	(11.5)	51.6	51.4	0.2
PBC Costs	12.9	28.4	15.5	37.3	37.4	(0.1)
Interfund Charges	0.7	(1.1)	(1.8)	260.6	260.6	
Debt Service	190.6	182.6	(8.0)	226.3	226.9	(0.6)
NIFA Setasides	11.3	19.7	8.4	71.1	72.9	(1.8)
Reserves	0.1		(0.1)			
Subsidy				43.1	43.1	
MSBA	7.9	5.9	(2.0)	3.8	3.8	
LIRR-Station Maintenance	20.5	20.9	0.4	21.5	21.5	
MTA-LIRR Operation Assistance	8.7	5.8	(2.9)	11.6	11.6	
Handicap Transportation	3.5	4.5	1.0	4.5	4.5	
Other	10.5	11.8	1.3	21.8	21.8	
Recipient Grants	27.2	28.2	1.0	46.4	45.3	1.1
Purchased Services	31.4	32.9	1.5	40.4	41.9	(1.5)
Emergency Vendor Payments	35.2	36.2	1.0	50.8	50.4	0.4
Medicaid	121.1	157.0	35.9	321.5	321.4	0.1
Education Handicapped Children	60.8	61.3	0.5	73.9	71.7	2.2
Total Obligations	**$941.7**	**$1,016.0**	**$74.3**	**$1,953.2**	**$1,920.8**	**$32.4**

Sources: NIFS, as of August 2002; the Multi-year Financial Plan 2003-2006, and the comptroller's office.

Table A2. *Revenues, General Fund, January - August 2002, $ Millions*

	Jan - August 2001 Actual (a)	Jan - August 2002 Actual (b)	Increase/ Decrease (c) = (b) - (a)	Proposed Budget 2003	Comptroller's Projection 2003	variance
Interest Penalty on Tax	$13.3	$14.2	$0.9	$22.3	$18.0	($4.3)
Permits & Licenses	3.0	3.4	0.4	5.2	5.0	(0.2)
Fines & Forfeitures	7.1	7.7	0.6	13.9	12.9	(1.0)
Investment Income	22.4	6.7	(15.7)	8.5	11.4	2.9
Rents & Recoveries	9.1	11.1	2.0	42.2	42.6	0.4
Departmental Revenue	17.6	46.5	28.9	115.0	116.2	1.2
Revenue offset to Expense				0.8	0.8	
Capital Chargebacks	(0.4)		0.4	4.4	4.4	
Interdepartmental Revenue	1.2	1.1	(0.1)	23.8	23.8	
Payment in Lieu of Taxes	1.8	0.2	(1.6)	3.9	3.9	
Debt Service from Capital Fund	1.2	0.9	(0.3)			
OTB Profits	6.5	6.2	(0.3)	13.2	12.4	(0.8)
Interfund Revenue	1.0	0.8	(0.2)	326.4	326.4	
Federal Aid	31.8	42.0	10.2	112.3	111.5	(0.8)
State Aid	54.9	49.1	(5.8)	202.6	208.5	5.9
Sales Tax	441.4	448.0	6.6	873.6	874.2	0.6
Property Tax	146.0	110.5	(35.5)	170.9	170.9	
OTB 5% Tax	3.6	3.7	0.1	7.5	7.5	
Special Tax	3.4	4.1	0.7	6.7	5.9	(0.8)
Total Revenues	**$764.9**	**$756.2**	**($8.7)**	**$1,953.2**	**$1,956.3**	**$3.1**

Sources: NIFS, as of August 2002; the Multi-year Financial Plan 2003-2006, and the comptroller's office.

Table A3. *Revenues, County Parks Fund, January - August 2002, $ Millions*

	Jan - August 2001 Actual (a)	Jan - August 2002 Actual (b)	Increase/ Decrease (c) = (b) - (a)	Proposed Budget 2003	Comptroller's Projection 2003	variance
Rents & Recoveries	$0.4	$0.4		$0.7	$0.7	
Departmental Revenue	9.4	10.6	1.2	17.6	16.1	(1.5)
Special Taxes	0.1	0.1		0.3	0.3	
Transfer from General Fund				43.1	43.1	
Total Revenues	**$9.9**	**$11.1**	**$1.2**	**$61.7**	**$60.2**	**($1.5)**

Sources: NIFS, as of August 2002; the Multi-year Financial Plan 2003-2006, and the comptroller's office.

Table A4. *Obligations, County Parks Fund, January - August 2002, $ Millions*

	Jan - August 2001 Actual (a)	Jan - August 2002 Actual (b)	Increase/ Decrease (c) = (b) - (a)	Proposed Budget 2003	Comptroller's Projection 2003	variance
Payroll	$13.2	$14.6	$1.4	$18.3	$19.5	($1.2)
Fringes	4.5	5.2	0.7	9.6	10.3	-0.7
Equipment	0.1	0.1		0.2	0.2	
Supplies	0.9	0.7	(0.2)	1.2	1.2	
General Expense	1.3	1.0	(0.3)	1.5	1.5	
Contractual Expense	2.3	2.1	(0.2)	2.5	2.5	
Utilities	1.5	1.5		3.2	3.2	
Interfund Charges		(0.4)	(0.4)	25.2	25.2	
Total Obligations	**$23.8**	**$24.8**	**$1.0**	**$61.7**	**$63.6**	**($1.9)**

Sources: NIFS, as of August 2002; the Multi-year Financial Plan 2003-2006, and the comptroller's office.

Table A5. *Revenues, Fire Commission Fund, January - August 2002, $ Millions*

	Jan - August 2001 Actual (a)	Jan - August 2002 Actual (b)	Increase/ Decrease (c) = (b) - (a)	Proposed Budget 2003	Comptroller's Projection 2003	variance
Departmental Revenue	$1.5	$2.1	$0.6	$2.8	$3.5	$0.7
Rents and Recoveries				2.8		(2.8)
Federal Aid		0.1	0.1			
State Aid	0.1	0.1		0.1	0.1	
Property Tax	14.9	14.2	(0.7)	14.3	14.3	
Total Revenues	**$16.5**	**$16.5**	**($0.0)**	**$20.0**	**$17.9**	**($2.1)**

Sources: NIFS, as of August 2002; the Multi-year Financial Plan 2003-2006, and the comptroller's office.

Table A6. *Obligations, Fire Commission Fund, January - August 2002, $ Millions*

	Jan - August 2001 Actual (a)	Jan - August 2002 Actual (b)	Increase/ Decrease (c) = (b) - (a)	Proposed Budget 2003	Comptroller's Projection 2003	variance
Payroll	$5.2	$5.5	$0.3	$8.5	$8.4	$0.1
Fringes	1.1	1.2	0.1	2.5	2.8	(0.3)
Equipment				0.2	0.2	
Materials and Supplies				0.1	0.1	
General Expense	0.1	0.1		0.2	0.2	
Contractual Expense	3.1	2.7	(0.4)	4.2	4.2	
Interfund Expense		0.1	0.1	4.3	4.3	
Total Obligations	**$9.5**	**$9.6**	**$0.1**	**$20.0**	**$20.2**	**($0.2)**

Sources: NIFS, as of August 2002; the Multi-year Financial Plan 2003-2006, and the comptroller's office.

Table A7. *Revenues, Police District Fund, January - August 2002, $ Millions*

	Jan - August 2001 Actual (a)	Jan - August 2002 Actual (b)	Increase/ Decrease (c) = (b) - (a)	Proposed Budget 2003	Comptroller's Projection 2003	variance
Permits & Licenses	$1.0	$0.8	($0.2)	$1.2	$1.3	$0.1
Rents & Recoveries	0.2	0.3	0.1	0.4	0.3	(0.1)
Departmental Revenue	1.6	1.9	0.3	2.3	2.4	0.1
Interdepartmental Revenue	0.2	0.1	(0.1)		0.3	0.3
Property Tax	272.5	270.6	(1.9)	301.1	301.1	
Total Revenues	**$275.5**	**$273.7**	**($1.8)**	**$305.0**	**$305.4**	**$0.4**

Sources: NIFS, as of August 2002; the Multi-year Financial Plan 2003-2006, and the comptroller's office.

Table A8. *Obligations, Police District Fund, January - August 2002, $ Millions*

	Jan - August 2001 Actual (a)	Jan - August 2002 Actual (b)	Increase/ Decrease (c) = (b) - (a)	Proposed Budget 2003	Comptroller's Projection 2003	variance
Payroll	$122.0	$128.7	$6.7	$188.9	$208.2	($19.3)
Fringes	28.3	30.4	2.1	89.2	78.6	10.6
Equipment	0.3	1.0	0.7	1.5	1.5	
Materials and Supplies				3.3	3.3	
General	3.9	3.5	(0.4)	1.5	1.5	
Contractual	0.4	0.2	(0.2)	0.6	0.6	
Utilities	0.3	0.4	0.1	0.9	0.9	
Interfund Charges	0.1	(0.1)	(0.2)	18.9	18.9	
Suits & Damages	0.1	0.1	(0.0)	0.2		0.2
Total Obligations	**$155.4**	**$164.2**	**$8.8**	**$305.0**	**$313.5**	**($8.7)**

Sources: NIFS, as of August 2002; the Multi-year Financial Plan 2003-2006, and the comptroller's office.

Table A9. *Revenues, Police Headquarters Fund, January - August 2002, $ Millions*

	Jan - August 2001 Actual (a)	Jan - August 2002 Actual (b)	Increase/ Decrease (c) = (b) - (a)	Proposed Budget 2003	Comptroller's Projection 2003	variance
Permits & Licenses	$0.7	$0.8	$0.1	$1.3	$1.2	($0.1)
Fines & Forfeitures	0.1	0.7	0.6	0.3	0.7	0.4
Rents & Recoveries	0.3	0.5	0.2	0.3	0.5	0.2
Departmental Revenues	3.0	4.1	1.1	8.9	6.2	(2.7)
Interdepartmental Revenues	0.1	0.2	0.1	0.3	0.4	0.1
Transfer from PDD				3.4	3.4	
Federal Aid	0.3	0.1	(0.2)	0.3	0.3	
Property Tax	131.1	225.4	94.3	252.4	252.4	
Special Taxes	6.3	6.3		11.5	10.0	(1.5)
Total Revenues	**$141.9**	**$238.1**	**$96.2**	**$278.7**	**$275.1**	**($3.6)**

Sources: NIFS, as of August 2002; the Multi-year Financial Plan 2003-2006, and the comptroller's office.

Table A10. *Obligations, Police Headquarters Fund, January - August 2002, $ Millions*

	Jan - August 2001 Actual (a)	Jan - August 2002 Actual (b)	Increase/ Decrease (c) = (b) - (a)	Proposed Budget 2003	Comptroller's Projection 2003	variance
Payroll	$115.8	$118.9	$3.1	$161.9	$178.1	($16.2)
Fringes	27.1	28.7	1.6	78.8	69.4	9.4
Equipment	0.4	0.2	(0.2)	0.8	0.8	
Material and Supplies				3.5	3.5	
General Expenses	3.3	2.4	(0.9)	1.5	1.5	
Contractual Expenses	2.9	3.3	0.4	6.2	6.2	
Interfund Charges	0.1		(0.1)	25.8	25.8	
Malpractice, Suits & Damages		0.2	0.2	0.2	0.2	
Total Obligations	**$149.6**	**$153.7**	**$4.1**	**$278.7**	**$285.5**	**($6.8)**

Sources: NIFS, as of August 2002; the Multi-year Financial Plan 2003-2006, and the comptroller's office.