# NASSAU COUNTY
# OFFICE OF THE COMPTROLLER

# COMPTROLLER'S COMMENTS ON THE PROPOSED NASSAU COUNTY 2005 BUDGET AND MULTI-YEAR FINANCIAL PLAN

**Howard S. Weitzman**
**Nassau County Comptroller**

**October 18, 2004**

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**NASSAU COUNTY**
**OFFICE OF THE COMPTROLLER**

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# Comptroller's Comments On The Proposed Nassau County 2005 Budget and Multi-Year Financial Plan

October 18, 2004

## Executive Summary

On September 15, 2004, Nassau County Executive Thomas R. Suozzi presented to the County Legislature his proposed Fiscal 2005 (FY 05) Budget ("proposed budget") and Multi-Year Financial Plan ("financial plan") for the years 2005 through 2008, as required by the Nassau Interim Finance Authority (NIFA).

The Comptroller's office analyzed the assumptions and financial estimates contained in the proposed budget and financial plan. Because other entities such as NIFA and the Legislative Budget Review Office also report on the county's proposed budgets, we have chosen to highlight material revenue and expenses, and areas of potential significant risk, rather than present a line-by-line review.

Consistent with the County Executive's budget submissions for 2003 and 2004, the proposed 2005 budget is balanced and incorporates conservative revenue and expense growth rates.

In our ***Report on the County's Financial Condition for the First Six Months of Fiscal Year 2004***, we reported that the county would either end 2004 within its budget or achieve a surplus equal to the unused portion of the $38.5 million reserve established in 2003 to fund a potentially extraordinary level of police (PBA) retirements during 2004. Unused monies from this reserve could be released and become available for other uses (we note that NIFA does not concur with this view).

Based on our most recent analysis, we continue to project a small 2004 surplus, after the application of $109.7 million excess funds generated in FY 04 from pension relief legislation (as described below), unused tobacco settlement proceeds and the NHCC stabilization agreement. Those funds will be used to establish reserves to pay for all or a portion of certain expenses in FY 05 and the next several years, including employee pension contributions, Family Health Plus program costs and debt service expenditures. We believe the use of reserves in this manner is fiscally sound. The financial plan also continues through 2005 the practice of bonding a significant portion of the tax certiorari settlement backlog.

The proposed budget and financial plan incorporates the use of projected 2004 pension savings of $76 million expected to result from pension relief legislation recently enacted in New York State. This legislation changed the date by which municipalities are required to make yearly New York State & Local Retirement System contributions from December 15$^{th}$ to February 1$^{st}$ of the following year. The resulting budgetary savings would be used to establish a reserve that would be drawn down during 2005, 2006 and 2008, as the county transitions to higher pension costs. Using reserves in this manner is consistent with the intent of the new legislation, but after the reserves have been used, the underlying structural budget gap remains and must be addressed.

The Governmental Accounting Standards Board (GASB) has indicated that it intends to clarify its existing guidance regarding the correct accounting treatment of the pension expense under the new state legislation. GASB's guidance in this matter may conflict with the plans of Nassau and other New York State counties to realize a benefit in 2004 from the pension relief passed by the state.

GASB prescribes Generally Accepted Accounting Principles (GAAP) for governmental financial reporting – it does not prescribe expense recognition on a budgetary basis. The county will ultimately account for 2004 pension expense based on consideration of the following: GASB's clarification; guidance by the New York State Comptroller; the advice of our independent auditors; and standard practice adopted by other municipalities in the state.

The county will record a 2004 pension liability irrespective of GASB's clarification. The question is whether or not the new legislation results in budgetary relief in 2004. If the retirement legislation does result in budgetary savings, the unused funds will be available to establish a reserve to provide budget relief over the next few years. In the event that the county cannot achieve budgetary relief and establish the reserve, the financial plan indicates the administration's intent to borrow the portion of the pension costs that otherwise would have been covered by the reserve for 2005, 2006 and 2008. Even if the pension reserve is created and used, the proposed plan includes financing a portion of pension costs during 2007.

We cannot support borrowing for pension expenses. Long-term financing should not be used to fund pension costs since these costs are clearly operating expenses, and, as such, should be paid from the operating budget. The practice of borrowing for operating expenses is largely to blame for the county's fiscal calamities in the 1990s, and has, up to now, been rejected by the current administration. We urge that, in the absence of extraordinary extenuating circumstances, operating expenses continue to be paid by a means other than bonding.

The proposed budget also incorporates the use of excess FY 04 funds to pay for other FY 05 expenses. One of these expenses is the county's share of the cost of the Family Health Plus program. New York State plans to fully fund the cost of the Family Health Plus. Nassau County must pay a 50 percent share of Family Health Plus expense during 2005, projected at $14.3 million. Since this is the last year in which the county must pay for the program, there is no ongoing structural budgetary gap impact by paying for it out of reserves.

Accordingly, the proposed budget incorporates payment of this expense from unused FY 04 tobacco settlement proceeds. Additionally, as a result of the county's conservative accounting for disputed expenses with the Nassau Health Care Corporation (NHCC) and the recently signed stabilization agreement between the county and the NHCC, the county will realize $9.8 million from freeing up reserves established to cover the county's exposure from these disputes. The proposed budget utilizes these funds to establish a reserve to pay for debt service expenses coming due in FY 05. We believe it is appropriate to use non-recurring revenues to fund non-recurring expense or reduce future debt. (For a complete analysis of the use of reserves, see schedule 16 on page 17.)

The financial plan calls for continuing the prior practice of bonding property tax grievance settlements during 2004 and 2005, which the administration has informed us will amount to approximately $200 million. In this extraordinary instance, we believe that there is no realistic alternative to financing an operating cost with borrowed funds. The administration inherited a broken system in which approximately $100 million of tax certiorari settlements were paid each year from borrowed money, resulting in the issuance of $1.7 billion of debt. We have previously reported that Nassau County had a tax certiorari backlog of $365 million as of December 31, 2003. Substantially reducing the backlog of claims is, in our judgment, necessary to help prepare the county to begin paying for these costs from the operating budget in 2006, as required under the NIFA act.

We continue to be concerned about the county's ability to produce accurate assessments and reduce the liability resulting from successful property assessment challenges. Property tax assessments need to be more accurate and, where appropriate, corrected on a timely basis to minimize the amount of refunds. The financial plan calls for annual property tax refund payments from operations of $59.5 million in 2006 through 2008. Further, the county needs to demonstrate its ability to reduce the backlog by the end of 2005, when the ability to borrow for this purpose, for all intent and purposes, expires.

The proposed budget incorporates estimated savings from the recently announced settlement with the Detectives Association Inc. (DAI) and the anticipated agreement for Superior Officers Association (SOA) and contains sufficient appropriations to increase staff in a number of important areas such as the Police Department, Correctional Center, Probation and Parks Department. It also restores the county's subsidy to Long Island Bus.

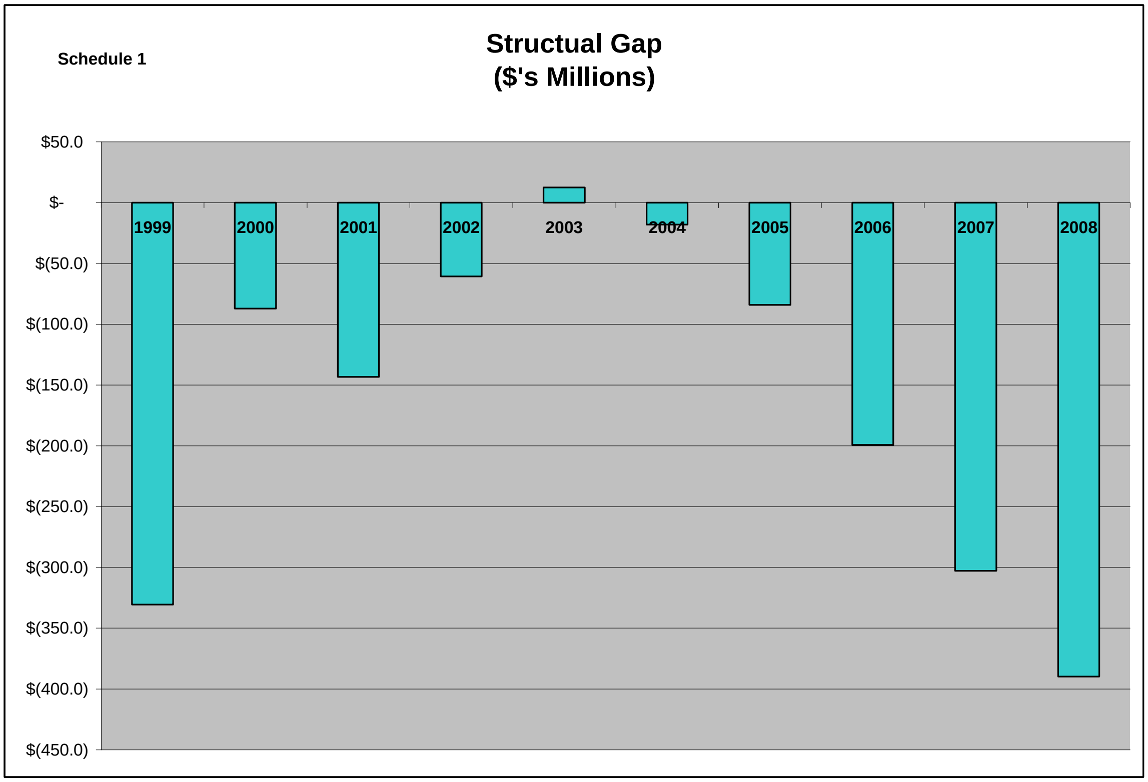
The proposed budget does not completely address certain misallocations of existing costs between the Police Headquarters and the Police District Funds. We have pointed out these misallocations in the past, and as a result, charges for police academy cadets of more than $2 million in 2004 have been appropriately reclassified to the Police District Fund. However, we believe there are other costs of approximately $6 million – such as those related to the Commissioner's office, surgeons, and personnel and accounting units, that should also be reallocated. We understand that the administration has already decided to make a technical adjustment to the budget that allocates police costs incurred in the newly created Fleet Management Services department (dependent upon future status of the department). In addition, any excess funds or reserves generated by Police District operations must be used for the sole purpose of funding expenses incurred by the Police District fund.

We continue to be very concerned about structural imbalances in the future. The financial plan indicates that growth of recurring expenses will significantly outpace the growth of recurring revenues. The plan indicates that budget gaps are to be closed with a combination of property tax increases and revenue generating and cost-cutting initiatives.

Regarding property taxes, the financial plan presents two alternatives. If the state grants Medicaid relief consistent with the capping measure introduced by Assemblyman Robert Sweeney (D-Lindenhurst) and supported by the New York State Association of Counties (NYSAC), there is no property tax increase in FY 06, and the FY 07 and FY 08 increases are significantly smaller than those presented without state relief. In the absence of Medicaid relief from New York State, however, budget gaps are closed with property tax increases in each of the years 2006 through 2008. We recognize that, for the moment, this is just a plan, one which will most likely be modified in the future.

Sizeable future structural deficits are inevitable unless the state provides some relief to the financial demands it places on counties in the form of mandated expenses, primarily Medicaid. These expenses continue to grow in double-digits, as do employee pension costs, and employee and retiree health insurance. We can not project structural balance as long as the growth in these expenses continues to outstrip the growth in available revenue sources.

As shown in the chart below, the actual structural budget gap shrinks from a high of $330.6 million in 1999, to balance in 2003, back to projected significant gaps in the near future. Such gaps are projected in the absence of significant relief requested from New York State by all of its counties and supported by NYSAC.




Actuals through 2003; projected 2004 to 2008

Schedule 2 presents risks to the proposed budget and financial plan. Each of these risks is described in the body of our report. We believe that the administration has demonstrated an ability to achieve budget surpluses in the past in the face of projected, quantifiable risks of this magnitude and should be able to make the necessary adjustments if they materialize.

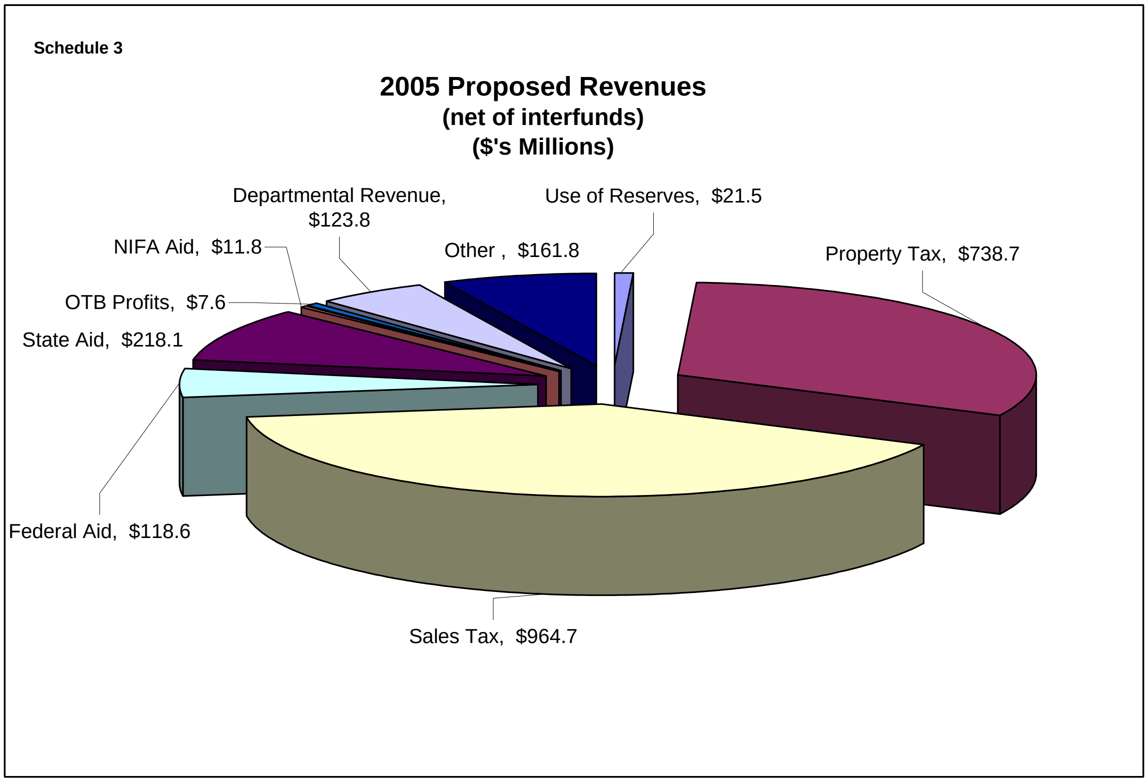
**Schedule 2**

**PROPOSED NASSAU COUNTY 2005 BUDGET**
**and MULTI-YEAR FINANCIAL PLAN**
**SUMMARY OF RISKS**
**($'s Millions)**

| | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| **Quantified Risks** | | | | |
| Residential fuel tax | | $ 46.1 | $ 57.0 | $ 58.8 |
| Draw from pension contribution reserve fund | $ 35.0 | 30.0 | | 11.0 |
| Reduction in health insurance coverage | | | | 13.2 |
| LIE reimbursement | | | | 9.8 |
| HHS administrative consolidation | | 3.0 | 7.0 | 7.0 |
| Parks not achieving current revenue targets | 4.0 | 4.0 | 4.0 | 4.0 |
| Parks revenue enhancement plan | | 2.7 | 4.5 | 6.3 |
| Absentee landlord surcharge | | | 5.7 | 5.7 |
| Overtime costs exceeding projection | 5.0 | 5.0 | 5.0 | 5.0 |
| e-Government revenues | | 0.6 | 2.0 | 4.4 |
| Commercial tax grievance filing fee | | | 3.4 | 3.4 |
| Total | $ 44.0 | $ 91.4 | $ 88.6 | $ 128.6 |

**Risks not quantified**
Assessment and assessment review reform
Increase in utility costs
1% increase in sales tax collection
Workforce reduction and turnover savings
Labor concessions

# Revenues




## Tax Revenues

### Sales Tax

We conclude that projected sales tax revenues for 2004 will exceed the $902 million budget. Collections through midyear were approximately 7 percent over the same period in 2003. While this trend is beginning to decline, we project that year-end results will be $33 million to $35 million over budget.

The financial plan assumes a growth of 3 percent for each year. It also includes, as a gap closing measure, an additional 1 percent growth per year. Over the last three years, gross receipts of sales tax have increased an average of slightly more than 4 percent. The administration is moving away from overly conservative sales tax forecasts to ones that are more realistic and, as a result, subject to greater risk.

As a gap-closing measure, the financial plan also incorporates opting into the state-authorized 4.25 percent residential energy tax, as has Suffolk County. Such an action, which is estimated to generate $46.1 million in 2006, $57 million in 2007, and $58.8 million in 2008, would require approval by the County Legislature, which historically has been loath to raise taxes. As a result, this measure is subject to risk.

Schedule 4

**Sales Tax**
**($ Millions)**

| 2003 Actual | 2004 Comptroller's Forecast | 2005 Proposed Budget | 2006 MYP | 2007 MYP | 2008 MYP |
|---|---|---|---|---|---|
| $ 895.5 | $ 936.9 | $ 964.7 | $ 994.0 | $ 1,024.2 | $ 1,055.4 |

### Property Taxes

The proposed 2005 budget contains no county property tax increase, but the multi-year plan includes property tax increases, related to the estimated growth in the consumer price index, of $28.8 million in 2006, an additional $37.6 million in 2007, and an additional $39.5 million in 2008. In the event that New York State institutes a cap on the Medicaid local share consistent with the measure introduced by Assemblyman Robert Sweeney (D-Lindenhurst) and supported by NYSAC, the financial plan incorporates no property tax increase in 2006 and smaller property tax increases in 2007 and 2008.

### Other Taxes

We project that motor vehicle registration revenues recorded in the Police Headquarters Fund will be $4.6 million under the FY 04 budget. This shortfall reflects the delay in enacting the surcharge until May 2004.

We project that in 2005, these other tax revenues in the Police Headquarters Fund will exceed 2004 levels, since the automobile registration surcharge will be in effect for the entire fiscal year. Revenues should meet the proposed 2005 budget amount of $22.5 million. The financial plan includes projections that revenues in this area will remain flat through 2008; we concur with this assumption.

Schedule 5

**Other Taxes**
**Police Department Headquarters Fund**
**($ Millions)**

| | 2003 Actual | 2004 Comptroller's Forecast | 2005 Proposed Budget | 2006 MYP | 2007 MYP | 2008 MYP |
|---|---|---|---|---|---|---|
| 911 Land Line Phone Surcharges | $ 2.9 | $ 4.0 | $ 4.8 | $ 4.8 | $ 4.8 | $ 4.8 |
| 911 Cell Phone Surcharges | 2.4 | 2.2 | 1.5 | 1.5 | 1.5 | 1.5 |
| DMV Registration Fees | 6.9 | 11.6 | 16.2 | 16.2 | 16.2 | 16.2 |
| Total Revenue | $ 9.3 | $ 13.8 | $ 17.7 | $ 17.7 | $ 17.7 | $ 17.7 |

**Non-Tax Revenues**

**State Aid**

The proposed budget and financial plan include growth in state aid that appears to be understated when compared to projected increases in associated reimbursable expenditures. This inconsistency is related to the underlying assumption that New York State will decide to place a cap on future social services overburden aid.

In the plan, state aid is projected to increase by an average of just under 2 percent during the period 2005 to 2008. The estimate grows from $218.1 million in FY 05 to $229 million in FY 08. The proposed budget also includes the final payment of NIFA aid in the amount of $11.8 million.

State aid related to the county's Health and Mental Health departments account for slightly over a third of the state aid revenues received annually by the county ($83 million in 2005). The average increase in expenditures in these departments is approximately 5 percent per year. Additionally, during the period 2005 to 2008, projected gross Medicaid expenditures are increasing at an average rate of approximately 12.9 percent per year. State overburden aid, related to mentally disabled individuals receiving Medicaid benefits, would normally be expected to increase in line with expenditures. However, based on information from the State, OMB has conservatively budgeted overburden aid to remain flat over the same period of time. This decision results in a lower estimate of future State aid revenues, since the lack of growth partially offsets the total growth in the other areas mentioned above. The administration's forecast of State aid is appropriately conservative. If increases in overburden aid are granted, additional funds may be available for other uses by the county.

Schedule 6

**State Aid**
**Primary Funds**
**($ Millions)**

| 2003 Actual | 2004 Comptroller's Forecast | 2005 Proposed Budget | 2006 MYP | 2007 MYP | 2008 MYP |
|---|---|---|---|---|---|
| $ 198.2 | $ 211.0 | $ 218.1 | $ 221.4 | $ 225.1 | $ 229.2 |

**Federal Aid**

As shown in Schedule 7, the financial plan includes federal aid estimates that increase at an average annual rate of approximately 3 percent during the period 2005 to 2008, from $118.7 million to $131.8 million. The increase in federal aid closely tracks projected increases in related expenditures during the same fiscal period. The two largest sources of federal aid, comprising 94 percent of the total, are reimbursements for costs incurred at the Social Services and Correctional Center departments. We concur with the financial plan's estimates of federal aid revenue.

Schedule 7

**Federal Aid**
**Primary Funds**
**($ Millions)**

| 2003 Actual | 2004 Comptroller's Forecast | 2005 Proposed Budget | 2006 MYP | 2007 MYP | 2008 MYP |
|---|---|---|---|---|---|
| $ 107.6 | $ 117.7 | $ 118.7 | $ 122.9 | $ 127.3 | $ 131.8 |

### Departmental Revenue

The proposed budget includes $20.3 million of departmental revenues for the Department of Recreation and Parks, as a result of increased charges for various services, such as greens fees and cabana rentals. Although these increases will generate additional revenue, this estimate represents an increase of 10 percent over the adopted 2004 budget and 35 percent over our 2004 forecast. Based on our analysis, as well as past performance relative to budget, we estimate that 2005 departmental revenue for the parks may be as much as $4 million under the proposed budget, and is at risk. This source of revenue has finished under budget in each of the last 3 years by an average of 16 percent.

Schedule 8

**Parks Departmental Revenue**
**($ Millions)**

| 2003 Actual | 2004 Comptroller's Forecast | 2005 Proposed Budget | 2006 MYP | 2007 MYP | 2008 MYP |
|---|---|---|---|---|---|
| $ 13.6 | $ 15.0 | $ 20.3 | $ 20.3 | $ 20.3 | $ 20.3 |

### OTB Profits

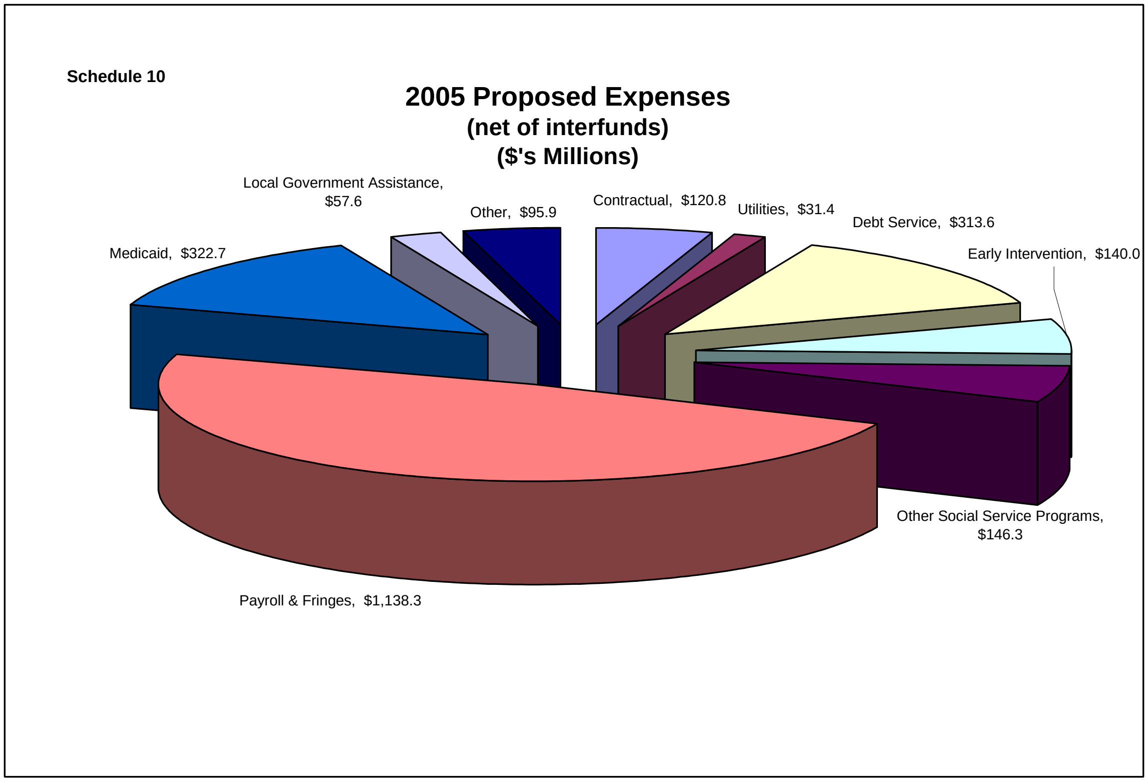
Based on information provided by Off-Track Betting Corporation (OTB) officials, current estimates of profits average approximately $7.4 million per year. This amount is approximately $5 million less than recent results due to an unanticipated .39 percent regulatory fee levied by the NYS Racing and Wagering Board against total OTB wagering, a reduction in Nassau County's revenue share from 11.5 percent to 9.4 percent of total wagering, and increases in employee pension expense. The reduction in the county's portion of profits was imposed by the state wagering board in order to ensure a certain level of profitability for OTB. We believe the county's projection of revenues from OTB is reasonable.

**Schedule 9**

## Off Track Betting
**($ Millions)**

| | 2003 Actual | 2004 Comptroller's Forecast | 2005 Proposed Budget | 2006 MYP | 2007 MYP | 2008 MYP |
|---|---|---|---|---|---|---|
| Profits | $ 9.2 | $ 7.6 | $ 7.6 | $ 7.2 | $ 7.5 | $ 7.2 |
| Surcharge | 7.3 | 7.0 | 6.9 | 6.9 | 6.9 | 6.9 |
| Total Revenue | $ 16.5 | $ 14.6 | $ 14.5 | $ 14.1 | $ 14.4 | $ 14.1 |

## Expenses




### Property Assessment Grievances

Pursuant to modification of the legislation that created the Nassau Interim Finance Authority (NIFA), the county must transition to paying for refunds for successful property assessment challenges from its operating budget beginning in 2006. Historically, these costs have been financed with long-term borrowings, which averaged approximately $100 million per year. In accordance with the legislation, the county will be permitted to bond only $15 million of these expenditures during 2006, $10 million in 2007, and none going forward.

As of December 31, 2003, we estimated the liability for the backlog of tax certiorari claims at $365 million. In the proposed financial plan, the administration has presented a strategy to reduce the backlog and position the county to be able to pay for these expenses from the operating budget. The administration has informed us that during 2004 and 2005 it intends to borrow approximately $200 million to finance a substantial portion of the property tax backlog. As we have previously pointed out, a faulty assessment system is responsible for annual refund payments in excess of $100 million per year, and the issuance of $1.7 billion of debt. The financial plan calls for annual property tax refund payments from operations of $59.5 million in 2006 through 2008. There is an inherent risk unless the county can assess accurately, settle in a timely manner, and reduce backlogs rapidly.

**Fringe Benefits**

**Employee Pension Costs**

The proposed budget and financial plan incorporates the use of projected 2004 pension savings of $76 million expected to result from pension relief legislation recently enacted in New York State. This legislation changed the date by which municipalities are required to make yearly New York State & Local Retirement System contributions from December 15th to February 1st of the following year. The resulting budgetary savings would be used to establish a reserve that would be drawn down during 2005, 2006 and 2008, as the county transitions to higher pension costs. Using reserves in this manner is consistent with the intent of the new legislation, but after the reserves have been used, the underlying structural budget gap remains and must be addressed.

The Governmental Accounting Standards Board (GASB) has indicated that it intends to clarify its existing guidance regarding the correct accounting treatment of the pension expense under the new state legislation. GASB's guidance in this matter may conflict with the plans of Nassau and other New York State counties to realize a benefit in 2004 from the pension relief passed by the state.

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The county will record a 2004 pension liability irrespective of GASB's clarification. The question is whether or not the new legislation results in budgetary relief in 2004. If the retirement legislation does result in budgetary savings, the unused funds will be available to establish a reserve to provide budget relief over the next few years. In the event that the county cannot achieve budgetary relief and establish the reserve, the financial plan indicates the administration's intent to borrow the portion of the pension costs that otherwise would have been covered by the reserve for 2005, 2006 and 2008. Even if the pension reserve is created and used, the proposed plan includes financing a portion of pension costs during 2007.

We cannot support borrowing for pension expenses. Long-term financing should not be used to fund pension costs since these costs are clearly operating expenses, and, as such, should be paid from the operating budget. The practice of borrowing for operating expenses is largely to blame for the county's fiscal calamities in the 1990s, and has, up to now, been rejected by the current administration. We urge that, in the absence of extraordinary extenuating circumstances, operating expenses continue to be paid by a means other than bonding.

Schedule 11 below presents estimated employee pension expense for the county's primary funds (General, Police Headquarters, Police Districts, Parks and Fire Safety), with and without the 2004 pension surplus (reserve). With pension relief, our estimate for pension expense is higher than the amount included in the financial plan, by $7 million in FY 07 and $17 million in FY 08.

**Schedule 11**

**Pension Expense**
**Primary Funds**
**($ Millions)**

| | 2003 Actual | 2004 Comptroller's Forecast | 2005 Proposed Budget | 2006 MYP | 2007 MYP | 2008 MYP |
|---|---|---|---|---|---|---|
| Expense without pension relief | $ 49.8 | $ 87.7 | $ 111.3 | $ 104.1 | $ 97.1 | $ 90.5 |
| Pension relief | - | (78.4) | (35.0) | (30.0) | - | (11.0) |
| Expense with pension relief | $ 49.8 | $ 9.3 | $ 76.3 | $ 74.1 | $ 97.1 | $ 79.5 |

### Employee Health Insurance

In the last Multi-Year Financial Plan, health insurance expenses were projected to grow 15 percent annually for active employees and 18 percent for retirees. The New York State Health Insurance Plan (NYSHIP) recently estimated that the increase for 2005 will be approximately 9.5 percent for both active employees and retirees. While we project this to be a $16.3 million increase for the year, it is substantially less than had been initially expected. In the proposed financial plan, future year health insurance is budgeted at an increased 12.5 percent for all participants. At this time there is no basis to expect the decrease projected for 2005 will continue during 2006 through 2008. We believe health insurance forecasts are responsibly conservative in the proposed budget and financial plan.

Schedule 12 presents estimated health insurance expense for the county's primary funds. Total costs are forecast to increase from approximately $169 million in fiscal 2004 to $265 million in 2008, an increase of 57 percent. As shown in the schedule, the county pays more for health insurance for retirees than it does for employees.

Schedule 12

**Health Insurance**
**Primary Funds**
**($ Millions)**

| | 2003 Actual | 2004 Comptroller's Forecast | 2005 Proposed Budget | 2006 MYP | 2007 MYP | 2008 MYP |
|---|---|---|---|---|---|---|
| Employees | $ 69.9 | $ 80.5 | $ 92.5 | $ 103.6 | $ 116.1 | $ 130.0 |
| Retirees | 79.0 | 88.8 | 96.2 | 107.8 | 120.7 | 135.2 |
| Total Expense | $ 148.9 | $ 169.3 | $ 188.7 | $ 211.4 | $ 236.8 | $ 265.2 |

One of the most significant initiatives is the proposal to change the county's health insurance coverage for employees from the Empire Plan Core Plus Enhancements to the basic Core plan. The financial plan estimates that this change will result in a savings of $13.2 million in FY 08. This initiative was first raised in our report, ***"Providing Affordable Health Insurance for County Employees and Retirees In the Midst of a Fiscal Crisis,"*** issued January 2003, as an area in which the county can achieve significant savings, without materially changing the level of health benefits. The estimated Core rates for 2005 are approximately 5.65 percent lower than the Core Plus Enhancement rates. Based on our estimate of $262.2 million for health benefits for 2008, saving could be $14.8 million, slightly more than projected by the financial plan. In addition, there are many other non-contributory cost savings included in our report that are not contemplated by the financial plan. This savings from switching to the basic Core Plan, however, is contingent upon the county's labor unions agreeing to this change in health coverage in 2007, placing the achievement of these savings at risk.

**Overtime**

In the Comptroller's ***Report on the County's Financial Condition for the First Six Months of Fiscal Year 2004***, we reported that overtime in the Police Department and Correctional Center would significantly surpass the adopted 2004 budget. Schedule 13 presents our current FY 04 estimate of police and corrections overtime, along with future overtime amounts included in the proposed financial plan.

The administration believes that anticipated hiring in 2004 and 2005 will result in overtime costs that are $9.1 million less than our projection for 2004 of $65 million. We believe that the estimate contained in the budget is based on full-year availability of new hires, and consequently, may be understated by as much as $5 million.

| Schedule 13 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Overtime ($ Millions)** | | | | | | | |
| | 2003 Actual | 2004 Budget | 2004 Comptroller's Forecast | 2005 Proposed Budget | 2006 MYP | 2007 MYP | 2008 MYP |
| Correctional Center | $ 20.1 | $ 14.8 | $ 23.1 | $ 21.6 | $ 22.5 | $ 23.5 | $ 24.5 |
| Police Headquarters | 16.1 | 14.6 | 16.1 | 15.0 | 15.7 | 16.4 | 17.2 |
| Police Districts | 24.7 | 13.2 | 26.1 | 19.6 | 20.5 | 21.4 | 22.4 |
| Total Expense | $ 60.9 | $ 42.6 | $ 65.3 | $ 56.2 | $ 58.7 | $ 61.3 | $ 64.1 |

### Medicaid

New York State's adopted budget includes a provision that reduces the county's share of Family Health Plus program costs by 50 percent in 2005 and eliminates it entirely in 2006. As a result, the county's estimated expense for 2005 is $14.3 million. The financial plan calls for setting aside a reserve in this amount from non-utilized FY 04 tobacco securitization proceeds. The financial plan incorporates the assumption that Family Health Plus will continue to be paid in full by the state for years 2007 and 2008. We concur with the use of this reserve since it will not add to the structural gap.

Schedule 14 presents projected Medicaid expense included in the financial plan. As shown by the schedule, the county's gross share of Medicaid is partially offset by state overburden aid, and other state and federal aid. Overburden aid reimburses the county for a portion of its local share of expenses associated with eligible mentally disabled individuals. Net Medicaid expenses are projected to grow dramatically, by as much as $45 million in 2008. We believe the county's estimates are reasonable.

| Schedule 14 | | | | | | |
|---|---|---|---|---|---|---|
| **Medicaid net of IGT and State and Federal Reimbursements ($ Millions)** | | | | | | |
| | 2003 Actual | 2004 Comptroller's Forecast | 2005 Proposed Budget | 2006 MYP | 2007 MYP | 2008 MYP |
| Medicaid Expense net of IGT | $ 228.3 | $ 260.6 | $ 281.7 | $ 319.8 | $ 359.8 | $ 404.7 |
| Less: | | | | | | |
| Overburden Aid | 46.8 | 50.0 | 51.0 | 51.0 | 51.0 | 51.0 |
| Other State and Federal Aid | 15.9 | 9.0 | 12.5 | 12.6 | 12.7 | 12.8 |
| Net Medicaid Expense | $ 165.6 | $ 201.6 | $ 218.2 | $ 256.2 | $ 296.1 | $ 340.9 |

### Other Social Service Expenses

The administration projects expenses for Recipient Grants, Purchased Services, and Emergency Vendor Payments to grow at a rate of 4.5 percent a year, from a projected total of $140.8 in 2004 to an estimated $169.8 in 2008. These expenses are for social service programs such as Family Assistance, Day Care, and Food Stamps, and for other services designed to aid children and adults in need. We believe that the county's projections for the proposed budget and financial plan are reasonable.

## Early Intervention / Pre-School Special Education

In the proposed plan, expenditures for combined early intervention and pre-school special education are increasing at an average annual compounded rate of approximately 5 percent per year, from $140 million in 2005 to $162 million in 2008. The projected growth in these mandated expenses results from estimated increases in transportation costs and increases in the authorized number of services per child. We believe the forecasts included in the proposed budget and financial plan are reasonable.

**Schedule 15**

**Early Intervention/Pre-School Special Education**
**Primary Funds**
**($ Millions)**

| | 2003 Actual* | 2004 Comptroller's Forecast | 2005 Proposed Budget | 2006 MYP | 2007 MYP | 2008 MYP |
|---|---|---|---|---|---|---|
| Early Intervention (under 3yrs old) | $ 42.8 | $ 43.5 | $ 45.0 | $ 47.2 | $ 49.5 | $ 51.9 |
| Pre-School Services (3 - 5yrs old) | 73.5 | 73.6 | 77.8 | 80.8 | 85.2 | 90.0 |
| Transportation | 13.2 | 15.0 | 17.2 | 18.2 | 19.2 | 20.2 |
| Total Expense | $ 129.5 | $ 132.1 | $ 140.0 | $ 146.2 | $ 153.9 | $ 162.1 |

* 2003 Pre-School Services include unaccrued prior year costs

## Local Government Assistance

The county provides a quarter of one percent of sales tax collected by the county to the local towns and cities to assist with expenses incurred for the treatment and disposal of municipal solid waste. Since 2001, the county has also provided aid to the county's villages, and has included an increase from the $500 thousand budgeted in 2004 to $750 thousand in 2005 and each of the years included in the financial plan. Since local government assistance is directly tied to sales tax revenue (other than the village sales tax appropriation), we believe the administration's forecast is appropriate, assuming the budgeted amount of sales tax is realized.

## Use of Reserves

As presented in Schedule 16, the financial plan incorporates the use of certain excess funds from FY 03 and FY 04 to pay for approximately $70 million of expenses in 2005. We believe this use of reserves, taking one-time revenues and using them for non-recurring expenses, is appropriate.

Schedule 16

**Reserves and Fund Balance**
**Primary Funds**
**Source (Use)**
**($'s Millions)**

| Source of Reserve (Use of Reserve) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Pension Savings Reserve | | $ 76.0 | | | | |
| (Payment of pension expense) | | | $ (35.0) | $ (30.0) | | $ (11.0) |
| Police District Fund Balance | $ 4.8 | | | | | |
| (Purchase of additional police vehicles) | | (2.3) | | | | |
| (Targeted Public Safety Initiative) | | | (2.5) | | | |
| Funds Reserved for Pension Bond Retirement | 18.4 | | | | | |
| (Payment of pension bonds) | | (9.9) | (8.5) | | | |
| Release of reserves estimated for NHCC liabilities | | 9.8 | | | | |
| (Payment of debt) | | | (9.8) | | | |
| Non utilization of Tobacco Securitization Proceeds | | 23.9 | | | | |
| (Payment of Family Health Plus) | | | (14.3) | | | |
| (HHS consultant for consolidation (net of reimbursement)) | | | (0.2) | | | |
| Funds setasides for police terminations | 38.5 | | | | | |
| (Release of reserves to establish Employee Benefit Accrued Liability Reserve Fund) | | (21.2) | | | | |
| (Anticipated 2004 termination costs) | | (12.3) | | | | |
| (Non-recurring public safety investments) | - | (5.0) | - | - | - | - |
| Total source | $ 61.7 | $ 109.7 | $ - | $ - | $ - | $ - |
| Total use | $ - | $ (50.7) | $ (70.3) | $ (30.0) | $ - | $ (11.0) |

## Police Costs

The proposed budget does not completely address certain misallocations of existing costs between the Police Headquarters and Police District Funds. Charges for police academy cadets of more than $2 million in 2004 have been appropriately reclassified to the Police District, and the administration has informed us that the budget will be corrected to allocate police costs incurred in the newly created Fleet Management Services department (dependent upon the future status of the department). However, expenses related to the Commissioner’s office, surgeons, and personnel and accounting units totaling $6 million annually should also be reallocated. In addition, any excess funds or reserves generated by Police District operations, such as from the police termination pay reserve, must be used for the sole purpose of funding expenses incurred by the Police District fund.

## Utilities

The current volatile condition of world oil markets presents a potential financial issue to the county. Both our electric costs, estimated at $16.3 million for 2005, and fuel oil costs, estimated at $2.9 million, are subject to the influence of fluctuating oil prices. The county may want to investigate consolidating fuel purchases with other local governments in order to mitigate our exposure to increasing fuel oil prices. We believe the county’s estimate of utility costs is reasonable, but at risk; the amount of risk is difficult to quantify due to the county’s vulnerability to world oil price fluctuations.

**Schedule 17**

## Utilities
## Primary Funds
**($ Millions)**

| | 2003 Actual | 2004 Comptroller's Forecast | 2005 Proposed Budget | 2006 MYP | 2007 MYP | 2008 MYP |
|---|---|---|---|---|---|---|
| Fuel | $ 2.8 | $ 2.8 | $ 2.9 | $ 3.0 | $ 3.0 | $ 3.1 |
| Light and Power | 15.9 | 16.1 | 16.3 | 16.6 | 17.0 | 17.3 |
| Telephone | 6.0 | 4.8 | 5.8 | 5.9 | 6.0 | 6.2 |
| Water | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Steam | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Tri-Gen Nassau Dist. Energy Corp. | 4.0 | 5.0 | 5.1 | 5.2 | 5.3 | 5.4 |
| Total Expense | $ 29.9 | $ 30.0 | $ 31.4 | $ 32.0 | $ 32.6 | $ 33.3 |

# Other Gap Closing Measures

## Workforce Reduction and Turnover Savings

Although it establishes headcount levels to be maintained during the years 2005 through 2008 for all bargaining units other than the Civil Service Employees Association (CSEA), the administration's plan for workforce reduction reduces the full-time workforce headcount below the levels originally submitted in the September 2002 Multi-Year Financial Plan by over 100 employees. The proposed plan projects a reduction in the CSEA headcount of 618 full-time employees by 2008, which equates to a reduction of 15 percent of the total CSEA workforce from those on the payroll as of August 15, 2004. This is to be accomplished by backfilling only one-third of all positions vacated each year through 2008. All other bargaining units are expected to remain at the same headcount level as included in the 2005 budget, for each year of the financial plan.

The workforce reduction plan calls for 214 CSEA separations per year, replacing 71 employees in each of the years 2005 through 2008. These employee levels may not be achievable. Certain county departments are currently in the process of increasing staff, and others, critical to fulfilling mandated requirements, may not be subject to the reduction. This will leave fewer departments able to contribute to the workforce reduction goal. Estimates included in the financial plan are based on full-year 2004 savings from the separation of 82 CSEA positions that are to occur between August 15 and year-end, and the savings generated by all future year reductions and replacements are unrealistically calculated on a full year basis. At this time it is impossible to quantify the risk associated with the reduction in workforce.

## Labor Concessions

The financial plan assumes a new round of labor concessions will help close the budget gap. These are to be generated from negotiated agreements with each of the bargaining unions, as current contracts expire. The value of the concessions is estimated to be between $5 million in 2005 to $54.3 million in 2008. Given the significant labor concessions already achieved, the aggressive concession targets included in the financial plan may be difficult to achieve and are subject to risk. We cannot project the value of concessions that will actually be achieved.

## Smart Government Initiatives

The financial plan includes new "smart government initiatives" valued at $73.8 million by FY 08. A number of these initiatives are subject to uncertainty and risk. They include:

- $10 million of annual savings associated with Health and Human Services administrative consolidation;

- $9.8 million of additional revenue from obtaining NYS Legislative approval for permission to charge the state for Long Island Expressway patrols by the county Police Department. This has been a long-sought goal by Nassau County;

- $7 million of additional revenue from Parks Department programs to maximize facility utilization and performance;

- $4.9 million of e-Government generated revenue and cost-saving initiatives associated with enhanced customer service, reduced costs and productivity improvements;

- $5.7 million surcharge on residential property taxes related to residences that are not owner-occupied;

- $3.4 million of revenue pertaining to a new commercial property tax grievance filing fee.

## NHCC

Over the course of the past year, the Comptroller's Office has raised many concerns regarding the deterioration of the Nassau Health Care Corporation's financial condition and its declining cash position. We have repeatedly called for management reform and the authority for the County Comptroller to audit NHCC's financial books and records.

The county's recently adopted five-point plan is a significant step in the right direction. It provides $60 million of financial relief to the NHCC and grants the requested audit authority and increased oversight to the administration, County Comptroller, and NIFA. We must emphasize however, that the financial relief provided is temporary; it is intended to give the NHCC time to implement the recommendations of the Manatt, Phelps, & Phillips, LLP report. While financial reforms have been put into place, there have been no indications that the corporation's patient volumes have stabilized, or that operational savings have been achieved to the point where the NHCC can meet its long-term goals.