NASSAU COUNTY

OFFICE OF THE COMPTROLLER

REPORT ON THE COUNTY'S FINANCIAL CONDITION FOR THE FIRST SIX MONTHS OF FISCAL YEAR 2005

Howard S. Weitzman
Nassau County Comptroller

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REPORT ON THE COUNTY'S FINANCIAL CONDITION FOR THE FIRST SIX MONTHS OF FISCAL YEAR 2005

Executive Summary

This report is mandated by Article IV § 402.9 of the Nassau County Charter, as modified by Local Law 3-2003. It assesses the financial condition of the county for the first six months of the fiscal year 2005 (FY 05) and provides an opinion as to whether a surplus or deficit shall exist at year-end. It also presents comments on certain estimates included in the county's Multi-Year Financial Plan Update.

Because other entities (such as the Nassau Interim Financial Authority (NIFA), the county Office of Management and Budget, and the Legislative Budget Review Office) also report on Nassau County's financial condition, we have chosen to highlight areas of potential significant variance from the county's adopted 2005 Budget, rather than present a line-by-line review of the budget in its entirety.

Our analysis of revenues and expenses through the end of June, together with our forecast for the remaining six months of FY 05, indicates that this is the third consecutive year in which the county will finish with strong fiscal results, and in which its surplus is likely to result from recurring revenues and savings. The county will experience a surplus of between $48.1 million and $70 million for its major funds (General Fund, County Parks, Fire Safety, Debt Service, Police Headquarters and Police Districts), which is 2 to 3 percent of the operating budget.

The estimated surplus is primarily the result of conservative budgeting by the Suozzi administration and significant favorable budget variances that offset revenue shortfalls and cost overruns. Most notably, reserves for the retirement of debt in the county's Capital Projects Fund will provide $24.9 million of debt service. Also, $15.1 million of 2003 sewer and storm water personnel costs reimbursement will be charged retroactively to the newly formed Sewer and Storm Water Resource District. The adopted 2005 Budget did not include either of these extraordinary items.

Our forecasted surplus includes a $21.9 million range because of two items that require additional clarification. First, receipt of $7.5 million of NIFA transitional aid - the final transitional aid that NIFA will provide to the county - is dependent upon the county's demonstration that it expects to experience a budgetary deficit at year-end. While we project that the county will achieve a surplus in FY 05, this surplus is for its major funds in total. We are forecasting, however, a deficit of approximately $10 million in the county's Police District Fund. The Police District Fund does not serve municipalities with their own police departments. Taxpayers in those municipalities do not, therefore, contribute taxes to the District Fund, and the county's General Fund, funded by all taxpayers, does not contribute to the District Fund to eliminate its budgetary shortfalls. Without additional budget relief, the district fund will end the year with a deficit, and the NIFA aid could be used to fund the bulk of the shortfall.

The projected deficit in the district fund assumes the reallocation of $6 million of police service costs to the district fund, and supplemental appropriation of an additional $2.4 million of opening fund balance. We have repeatedly stated that certain costs included in the Police Headquarters Fund should be reallocated to the Police District Fund because they relate solely to police district services and should only be borne by taxpayers served by the county police precincts. While the administration has addressed some of the costs, such as those for police cadets, other costs have not yet been addressed. Those include costs associated with the commissioner's office, surgeons, and the personnel and accounting bureau.

Our projection that the county will receive $14.4 million of one time Medicaid savings during 2005 is also uncertain. The forecast is based on our understanding of the state's interpretation of the recent amendment to state law that establishes a cap on the local share of Medicaid costs. We have identified this budgetary benefit as uncertain because we have not yet received final direction on this issue from the State.

The year-end surplus is projected despite a number of budget shortfalls, most notably in police and corrections overtime, sales tax, parks revenues and early intervention special education. While the extraordinary items presented above are projected to generate the most significant positive budgetary variances, other substantial favorable variances are projected for salaries, health insurance, police termination pay, Medicaid, debt service, and Traffic and Parking Violation Agency fines.

The finances of the Nassau Health Care Corporation (NHCC) continue to improve, the local share of Medicaid has been capped, and the county plans to reduce significantly the backlog of property tax refund claims. During FY 05 the administration is implementing its "refund without settlement strategy." The county historically issued long-term debt to pay property tax refunds. This new strategy is intended to maximize the amount of long-term debt issued this year, the last year in which NIFA will permit the county to issue long-term debt to finance property tax refunds.

Nassau County achieved structural budgetary balance during 2003 and 2004, and we expect it will come close in 2005. However, as with other mature suburban counties, it remains exposed to increasing structural deficits in future years as its normal growth in expenses continues to outpace its non-tax revenue growth. The Multi-Year Financial Plan Update uses the three non-recurring revenue and cost savings noted above to establish a reserve to aid the county with the transition to paying for property tax refunds from the operating budget, as opposed to financing them long-term. Establishing reserves in this manner has the effect of returning the surplus to the county's taxpayers. The county historically made the tax refund payments from borrowed funds. These historical borrowings, which amounted to over $1.8 billion, were the most significant factor contributing to the county's near fiscal collapse in 2000. Pursuant to the NIFA legislation, except for $15 million in 2006, and $10 million in 2005, all future real estate tax refunds must be made on a "pay-as-you-go" (PAYGO) basis.

The financial plan also presents a number of gap-closing measures, which include smart government initiatives, labor concessions and workforce management. While we believe that some of these initiatives may not be realized, and additional budget measures will have to be identified, the administration has a proven track record of its ability to respond to financial challenges as they arise.

Revenue and Obligations Forecast for 2005*
($ millions)

	2005 Budget	2005 Projected Actual	Variance
Revenues:			
Sales Tax	$964.7	$957.3	($7.4)
Property Tax	738.7	745.9	7.2
State and Federal Aid	350.5	342.8	(7.7)
Tobacco Settlement	23.0	23.0	0.0
Other Revenues	728.7	765.7	37.0
Total Revenues	2,805.6	2,834.7	29.1
Obligations:			
Payroll and Fringe Benefits	1,146.3	1,133.8	12.5
Debt Service	308.4	299.3	9.1
Social Services	471.0	463.3	7.7
Other Obligations	879.9	890.2	(10.3)
Total Obligations	2,805.6	2,786.6	19.0
Projected Surplus before Uncertain Items	**0.0**	**48.1**	**48.1**
NIFA Aid		7.5	
Medicaid Accrual Savings		14.4	
Total Projected Surplus		**$70.0**	

* This forecast includes the following six county funds:
General, Parks and Recreation, Police Headquarters, Police District, Debt Service, and Fire Prevention, Safety, Communication and Education

POLICE DISTRICT FUND
Revenue and Obligations Forecast for 2005
($ millions)

	2005 Budget	2005 Projected Actual	Variance
Revenues:			
Fund Balance	2.5	4.9	2.4
Property Tax	309.3	309.3	0.0
Other Revenues	6.3	6.7	0.4
Total Revenues	318.1	320.9	2.8
Obligations:			
Payroll and Fringe Benefits	288.5	295.2	(6.7)
Police Headquarters Charge-back	4.2	4.2	0.0
Other Obligations	25.4	25.7	(0.3)
Total Obligations	318.1	325.1	(7.0)
Projected Deficit	**0.0**	**(4.2)**	**(4.2)**
NIFA Aid		7.5	
Charge-back of Headquarters Costs		(6.0)	
Net Projected Deficit		**($2.7)**	

SIGNIFICANT VARIANCES - Revenues

Tax Revenues

Sales Tax

Gross sales tax receipts are projected to total $957.3 million, which is $7.4 million less than the $964.7 million adopted budget. As we indicated when we recently released the county's 2004 Comprehensive Annual Financial Report, growth in sales tax revenues began trending lower in the second quarter of 2004 and was flat for the first five months of 2005. However, based on recent economic activity, including an increase in retail sales and strong regional job growth, our estimate for the second half of the 2005 includes 3 percent growth over the same period last year.

The June 2005 Multi-Year Financial Plan Update includes a revised 2005 sales tax projection of $957.7 million, which represents a decrease from the adopted budget of $7 million, and revised future estimates calculated using this new base. We believe that this conservative action, taken by the administration, is appropriate. Including additional sales tax growth presented in the financial plan's budgetary gap-closing measures, total sales tax growth in 2007 and 2008 is projected at approximately 4 percent, the historical average. The actual outcome of this assumption will have to be monitored. While the county uses conservative sales tax estimates, it will always be vulnerable to a potential sales tax shortfall, since sales tax is its single largest revenue source and actual results are subject to uncontrollable economic factors.

	JULY 1 YTD Sales Tax Collected	GROSS ANNUAL Sales Tax Collected/Projected
	($'s in millions)	
2001	$ 351.9	$ 831.9
2002	358.0	865.5
2003	362.2	895.5
2004	392.0	939.9
2005	392.1	957.3

Property Tax

Property tax revenue is projected to be $7.2 million greater than the $738.7 million adopted budget. This favorable variance is primarily the result of reclassification of $4.5 million of 2003 sales tax revenues which, pursuant to State law, is deferred as an offset to the county portion of property taxes for the county's three towns and City of Glen Cove. In addition, $2.2 million of property taxes have been generated by assessment exemptions that have terminated upon sale of the related properties.

PROPERTY TAX			
($'s in millions)			
2004 Actual	2005 Budget	2005 Forecast	Variance
$743.1	$738.7	$745.9	$7.2

Non-Tax Revenues

State Aid

In total, state aid is projected to be $6.2 million over the FY 05 adopted budget of $219.6 million. Contributions to this favorable variance include: reimbursements for Department of Mental Health preschool special education programs, which we estimate will be over budget by $3.3 million; $2.2 million for preschool transportation costs dating back to 2003; $2.5 million for reimbursement for a document scanning project at the Department of Social Services; $1.6 million for Medicaid; and the receipt of an unbudgeted $1.4 million representing reimbursement of indigent legal services program funding from the state Indigent Legal Services Fund.. A $5 million shortfall resulting from the postponement of Brownfields Environmental Redevelopment initiative projects will partially offset these favorable variances. That shortfall itself, however, will be offset by related savings in contractual obligations, as will some of the positive state aid budget variances be offset by increases in related expense. Although included in the FY 05 Budget, these environmental cleanup projects are now being forecast for years 2006 and 2007 in the Multi-Year Financial Plan Update.

Our state aid forecast includes $4.3 million of NIFA aid intended for one-time expenditures to streamline property tax refund operations. However, we note as uncertain the last portion of NIFA transitional aid, totaling $7.5 million. The county must demonstrate a potential deficit in order for it to receive this aid. While we are projecting an overall surplus in the county's major funds, we believe that there will be a deficit in the Police District Fund. Because the district fund does not serve all county taxpayers, its deficit stands alone and cannot be closed by General Fund monies. Although we would prefer to see NIFA aid deposited in the General Fund, the transitional aid could be used to close a portion of the projected police district budget gap.

STATE AID INCOME Excluding NIFA Transitional Aid				
($'s in millions)				
2004 Actual	2005 Budget	2005 YTD June	2005 Forecast	Variance
$209.9	$219.6	$12.1	$225.8	$6.2

Federal Aid

Federal Aid is projected to be under budget by approximately $6.4 million due to the reallocation of Flexible Fund for Family Services (FFFS) programs administered by the Department of Social Services.

FEDERAL AID INCOME				
($'s in millions)				
2004 Actual	2005 Budget	2005 YTD June	2005 Forecast	Variance
$126.2	$123.4	$23.3	$117.0	($6.4)

Fines and Forfeitures

We project a favorable variance for 2005 of $1.6 million against the $16.9 million budget for fines and forfeiture revenues. Based on revenues reported by the Traffic and Parking Violations Agency, fine related revenue is forecast to be over budget by $2.1 million. The amnesty program for outstanding traffic and parking tickets is the most significant factor contributing to this projected variance, coupled with fee increases for traffic and parking infractions. This favorable variance is projected to be partially offset by a $700,000 loss of revenue associated with the delay in the County Legislature's authorization of fines for taxis and limousines that lack proper registration.

FINES AND FORFEITURES				
($'s in millions)				
2004 Actual	2005 Budget	2005 YTD June	2005 Forecast	Variance
$ 14.7	$16.9	$8.4	$18.5	$1.6

Departmental Revenue

During the first six months of 2005, the Department of Parks and Recreation collected $6.2 million in departmental revenue, 30.6 percent of the budgeted amount. The total budget for Parks' departmental revenue for FY 05 is $20.3 million, an increase of 44 percent over last year's actual of $14.1 million. Based on the current level of revenues, a shortfall of $4.8 million is projected for FY 05. Our analysis concludes that parks' revenue levels will remain flat through 2008; however we project the revenue to level off at $15.5 million, not the $16.6 million stated in the Financial Plan.

COUNTY PARKS FUND DEPARTMENTAL REVENUE					
($'s in millions)					
2004 YTD June	2004 Actual	2005 Budget	2005 YTD June	2005 Forecast	Variance
$ 5.5	$14.1	$20.3	$6.2	$15.5	$ (4.8)

In the General Fund**,** we project a favorable departmental revenue variance of $1.6 million against an adopted budget of $41.7 million. Mortgage recording fee revenue generated by the active refinancing market is the most significant factor contributing to this variance. Based on recent trends, we project revenue generated by the County Clerk's Office, primarily comprised of these fees, to be $16 million - $1.8 million over the $14.2 million budget, but $2 million less than 2004.

GENERAL FUND DEPARTMENT REVENUE					
($'s in millions)					
2004 YTD June	2004 Actual	2005 Budget	2005 YTD June	2005 Forecast	Variance
$17.2	$46.7	$41.7	$15.9	$43.3	$1.6

Investment Income

Investment income is projected to be $3.6 million over budget. We forecast that the Nassau Interim Finance Authority will generate $2.9 million more of investment earnings than the adopted budget, based on year-to-date earnings and increases in the amount of available cash and interest rates.

INVESTMENT INCOME					
($'s in millions)					
2004 YTD June	2004 Actual	2005 Budget	2005 YTD June	2005 Forecast	Variance
$3.0	$10.3	$9.2	$6.3	$12.8	$3.6

OTB Profits

We project a $500,000 shortfall for 2005 in Off-Track Betting Corporation profits because the state legislature failed to enact legislation authorizing video lottery terminals. As a result, construction related activities were less than projected, and the operating budget had to absorb more salaries and related expenses, which otherwise would have been capitalized.

OTB PROFITS					
($'s in millions)					
2004 YTD June	**2004 Actual**	**2005 Budget**	**2005 YTD June**	**2005 Forecast**	**Variance**
$2.1	$7.0	$7.6	$1.5	$7.1	$(0.5)

Rents and Recoveries

For 2005, we are projecting a $13.1 million favorable variance for rents and recoveries, against an adopted budget of $51.6 million. The recognition of $15.1 million in 2003 personnel costs as retroactive charges to the Sewer and Storm Water Resource District contributed to this favorable variance. Partially offsetting this variance was $2 million in restitution from the Benefit Plan Administrators (BPA) health insurance fraud case which was budgeted in 2005, but received in 2004, as part of the $3.3 million total.

RENTS AND RECOVERIES					
($'s in millions)					
2004 YTD June	**2004 Actual**	**2005 Budget**	**2005 YTD June**	**2005 Forecast**	**Variance**
$7.8	$77.9	$51.6	$9.1	$64.7	$13.1

SIGNIFICANT VARIANCES - Obligations

Labor Costs

Salaries

Significant salary savings are projected in FY 05 as a result of vacant employee positions and recently negotiated collective bargaining agreements.

The current contract with the Civil Service Employees Association (CSEA) provides raises based on the consumer price index's (CPI) percentage increase from June of one year to the next, limited to between 2.5 and 3.5 percent. The union's January 1, 2006 raise, therefore, will be 2.5 percent, because the 2005 CPI was 2.3 percent. This increase, which is substantially less than the contract cap of 3.5 percent, amounts to an annual savings of $3 million, plus fringe benefits.

A tentative collective bargaining agreement for the period 2005 through 2010 has been reached with the Sheriffs Officers Association (ShOA). If approved, the contract provides for a 2.5 percent raise July 1, 2005. This cost-of-living-increase will cost over $1 million in FY 05.

Overtime

Overtime costs for the Police Department and the Correctional Center total $26.5 million through the end of June 2005. Overtime for these two departments is projected to exceed the $57.5 million adopted budget by $21.9 million. This unfavorable variance is comprised of $10.1 million in the Police District Fund, $7.4 million in the Police Headquarters Fund and $4.4 million in the Correctional Center.

The overtime estimates above include deferred police overtime. Police personnel have the option of deferring overtime earned from November through the following October, to be paid in November at the then current rate. For 2005, deferred overtime is projected to equal $5.7 million, of which $3.8 million is in the Police District Fund and $1.9 million is in the Headquarters Fund. The $5.7 million forecast is 78 percent higher than the 2004 actual of $3.2 million.

Contractually mandated minimum staffing requirements are contributing to the projected unfavorable variance in the police funds, in addition to continued under-budgeting of overtime for police and corrections services. We agree with the administration that it is fiscally prudent to incur a certain level of overtime, as opposed to increasing the workforce to perform the same amount of work, especially when the lifetime cost of health insurance for additional employees is considered. However, we believe that the budget should contain realistic, not understated, overtime amounts.

Actual overtime expense in the future will continue to be dependent on staffing levels and the effectiveness of management actions to reduce the amount incurred.

OVERTIME ($'s in millions)						
	2004 YTD June	**2004 Actual**	**2005 Budget**	**2005 YTD June**	**2005 Forecast**	**Variance**
Police District	$ 7.1	$ 26.6	$ 20.0	$ 8.3	$ 30.1	$ (10.1)
Police Headquarters	6.3	20.1	15.9	8.1	23.3	(7.4)
Correctional Center	9.7	24.8	21.6	10.1	26.0	(4.4)
Total	$ 23.1	$ 71.5	$ 57.5	$ 26.5	$ 79.4	$ (21.9)

Police Termination Pay

The Comptroller's Office estimates that 85 eligible police officers will retire during 2005, generating a positive $7.1 million positive variance since the forecast level of retirements is less than what was included in the budget. Currently, 64 police officers have either retired or have committed to retire in 2005. The budget for 2005 was 42 retirees ($11.4 million) for the Police District Fund and 58 retirees ($14.8) for the Police Headquarters Fund.

POLICE TERMINATION ($'s in millions)					
	2004 Actual*	**2005 Budget**	**YTD June 2005**	**Forecast 2005**	**Variance**
Termination Pay					
Police District	$8.5	$11.4	$2.4	$8.1	$3.3
Police Headquarters	14.7	14.8	6.4	11.0	3.8
Total Termination Pay	$23.2	$26.2	$8.8	$19.1	$7.1
Officers Retired					
Police District	65	42	14	36	6
Police Headquarters	70	58	24	49	9
Total Officers Retired	135	100	38	85	15

*2004 actual includes a $7 million reversal of a reserve established in 2003 to fund a projected extraordinary level of police retirements in 2004.

Fringe Benefits

Retirement System Contributions

During 2004, the State legislature enacted legislation proposed by the State Comptroller that changed the date by which municipalities are required to make yearly New York State & Local Retirement System contributions from December 15 to February 1 of the following year. Consistent with guidance provided by the State Comptroller, the county recognized budgetary savings, which facilitated reserving $78.5 million from its major operating funds to be used over the next several years to aid the county in paying higher pension fund contributions. The State has projected increases in pension fund contributions as a result of lower state pension fund investment earnings. During 2005, the first year in which the pension savings could be used, the county drew down $34.4 million of the reserve for use by its major funds. The financial plan indicates that the balance of the reserve will be used over the next several years.

PENSION CONTRIBUTION ($'s in millions)			
2005 Actual	**2005 Budget**	**Use of Pension Reserve**	**Variance**
$110.9	$76.3	$34.4	($0.2)

Health Insurance

The FY 05 budget includes an estimated health insurance rate increase over 2004 of 9.5 percent for both active employees and retirees. Actual rate increases were approximately 9.5 percent for employees and a composite 4.0 percent for retirees. The difference in the rate increase for retirees, coupled with less than budgeted active employees, results in an estimated favorable variance of $9.9 million.

For future years, the Multi-Year Financial Plan Update contains rate increases of 9.9 percent for actives, and 11.2 percent for retirees. Based on the most current information available from the New York State Health Insurance Program (NYSHIP), we project rate increases of 10.2 percent for both active and retired employees.

The county currently pays more for health insurance for retirees than it does for active employees. Working in conjunction with the administration, the Comptroller's Office plans to implement Governmental Accounting Standards Board Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), during 2005. As a result, for the first time, the county's Comprehensive Annual Financial Report will include a valuation of the total liability for health insurance for retired county workers, calculated based on the estimated lives of those and projected new retirees. While this amount will have no budgetary impact, it will significantly increase the county's net asset deficit and bring attention to the financial burden of providing this fringe benefit.

HEALTH INSURANCE EXPENSE ($'s in millions)						
	2004 YTD June	**2004 Actual**	**2005 Budget**	**2005 YTD June**	**2005 Forecast**	**Variance**
Active employees	$40.0	$80.5	$93.4	$44.6	$89.3	$4.1
Retired employees	35.8	71.4	78.1	37.0	74.1	4.0
NHCC retired employees	7.2	16.7	18.1	6.9	16.3	1.8
Total	$83.0	$168.6	$189.6	$88.5	$179.7	$9.9

Workers' Compensation

Expenditures for workers' compensation are projected to be $3.5 million over the $15.8 million adopted budget. During 2005 the county contracted with a third party administrator to review and audit all worker's compensation indemnity and medical claims. We believe FY 05 expenses will be $19.3 million, equivalent to 2004 expenses.

WORKERS' COMPENSATION EXPENSE ($'s in millions)						
	2004 YTD June	**2004 Actual**	**2005 Budget**	**2005 YTD June**	**2005 Forecast**	**Variance**
Workers' Compensation	$10.2	$19.2	$15.8	$11.5	$19.3	$(3.5)

Debt Service

In total, we project debt service to be $9.1 million under the adopted $308.4 million budget. The administration's utilization of an $8.2 million reserve to pay for pension bonds contributed to this favorable variance. This reserve was originally established, and charged to the budget, in 2003. Also adding to the favorable variance was an unbudgeted December 2004 NIFA borrowing, which contained both restructuring and refunding of county debt. These borrowings occurred after the 2005 budget was prepared, and resulted in approximately an $8 million positive variance. This $8 million positive variance is substantially offset by $7.4 million of unbudgeted issuance costs related to the same borrowing.

The debt service budget will also benefit from $24.9 million in the county's Capital Fund. These monies have accumulated from unbudgeted sources, and include federal and state aid, and funding other localities. These monies are available to be used to retire debt, as long as they are not needed for current capital project liabilities.

DEBT SERVICE*			
($'s in millions)			
2004 Actual	2005 Budget	2005 Forecast	Variance
$ 325.6	$ 308.4	$ 299.3	$ 9.1

* Debt service totals do not include the $24.9 million of capital reserves presented above which, for accounting purposes, will appear as a transfer from the Capital Fund.

Social Services

The county may be able to gain $14.4 million of savings generated by the one time reduction of Medicaid expense. The forecasted savings is based on our understanding of the state's interpretation of the cap legislation. These savings have been presented as uncertain since we have not yet received final direction from the State.

In addition to the potential Medicaid accrual reversal savings, we are projecting a positive variance of $7.7 million for FY 05 Medicaid expenses. This results primarily from a slower rate of growth than budgeted, and the provision in the State's 2005-6 budget that accelerates the full takeover of the Family Health Plus (FHP) from January 1, 2006 to October 2005.

The 2005-6 State Budget also includes a provision to cap Medicaid at the county level beginning in 2006, based on a formula that uses actual 2005 Medicaid expense, net of Medicaid revenues and certain other additions and deductions including intergovernmental transfer (IGT) expenses. The specific components of the formula are not final, and there are ongoing discussions between the State and New York State Association of Counties (NYSAC) members.

The State, however, has provided a preliminary calculation of the county's 2005 cap, which amounts to $216.7 million. The actual 2005 cap will be used in calculating future years' caps, but will have no impact on 2005 expenses. The 2005 cap amount will be updated as more current Medicaid expense information becomes available. The State will finalize it in June 2006. This cap will then be used to determine capped expense for future years, with each year calculated by adding 3.5 percent for 2006, 6.75 percent for 2007, and 9.75 percent for 2008. State aid previously received for Medicaid costs will be netted against the related expense in the calculation of the cap.

MEDICAID EXPENSE (net of IGT)			
($'s in millions)			
2004 Actual	**2005 Budget**	**2005 Forecast**	**Variance**
$ 247.5	$ 281.7	$ 274.0	$ 7.7

Education of Handicapped Children

The early intervention special education programs administered by the Departments of Health and Mental Health are projected to be over budget by approximately $5 million. This is the result of retroactive provider rate increases granted by the State. The increase in this expense will be partially offset by $3.3 million of state aid. We project that FY 05 expense will be $145 million, against an adopted budget of $140 million.

EARLY INTERVENTION EXPENSE					
($'s in millions)					
2004 YTD June	**2004 Actual**	**2005 Budget**	**2005 YTD June**	**2005 Forecast**	**Variance**
$ 62.4	$133.8	$140.0	$122.9	$145.0	$ (5.0)

Utilities

We are projecting a negative variance of approximately $2.1 million from the adopted budget for utilities. This unfavorable variance is a result of the increases in the county's oil and electric utility costs caused primarily by the increases in world market oil prices.

UTILITY COSTS ($'s in millions)					
2004 YTD June	**2004 Actual**	**2005 Budget**	**2005 YTD June**	**2005 Forecast**	**Variance**
$20.4	$30.2	$31.4	$21.4	$33.5	($2.1)

Contractual Obligations

Contractual obligations are projected to be $800,000 more than the $120.4 million adopted budget. Although this is relatively an insignificant amount, it is comprised of a number of larger offsetting variances. An unbudgeted contract extension for the county's consultant on matters relating to the Nassau Health Care Corporation, the law firm of Manatt, Phelps & Phillips, is projected to result in an unfavorable variance of $2 million. In addition, a charge from the Nassau Health Care Corporation, for previously disputed medical infirmary services to the County's corrections facility, will result in an unfavorable variance of $4 million. These variances are substantially offset by a favorable variance of $5.0 million associated with a delay in implementing Brownfields environmental cleanup projects.

CONTRACTUAL EXPENSE ($'s in millions)					
2004 YTD June	**2004 Actual**	**2005 Budget**	**2005 YTD June**	**2005 Forecast**	**Variance**
$132.3	$159.6	$120.4	$86.2	$121.2	($0.8)

Other Issues - Nassau Health Care Corporation (NHCC)

Working with the county and its healthcare consultants, the NHCC has made much progress in dealing with the corporation's ongoing financial difficulties. This marks a dramatic change in the financial stability and direction of the corporation. Nevertheless, a deficit of $6.5 million is budgeted for 2005.

A review of the NHCC's un-audited June financial statements indicates that the budgeted shortfall may be worse. The year-to-date loss is $5.9 million. Key indicators, such as discharges and ambulatory visits are below the prior year, and only 74 percent of available beds are being filled. However, the NHCC believes the projected $6.5 million loss is realistic, based on capital funding that is to be received from the county pursuant to the stabilization agreement, and improvements to be made in patient billing and the purchasing supply chain. The ongoing impact of these factors will have to be monitored.