NASSAU COUNTY
OFFICE OF THE COMPTROLLER

COMPTROLLER'S COMMENTS ON THE PROPOSED NASSAU COUNTY 2010 BUDGET AND MULTI-YEAR FINANCIAL PLAN

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Nassau County Comptroller

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Comptroller's Comments On The Proposed Nassau County 2010 Budget and Multi-Year Financial Plan

Executive Summary

The Legislature must adopt Nassau County's 2010 budget while we are still in a period of unprecedented economic uncertainty. Reflecting the difficulties facing Nassau residents and businesses, sales tax receipts will drop dramatically in 2009. While sales tax represented 40% of net County revenues in 2007 and 2008, we project that in 2009 sales tax will only represent 38% of County revenues. Since sales tax comprises the largest component of County revenue, the drop in sales tax affects every policy and program choice reflected in the budget. In considering the proposed budget, we know that as sales tax revenues have plummeted, the County cannot continue to support all the worthy programs that our residents might expect in better economic times.

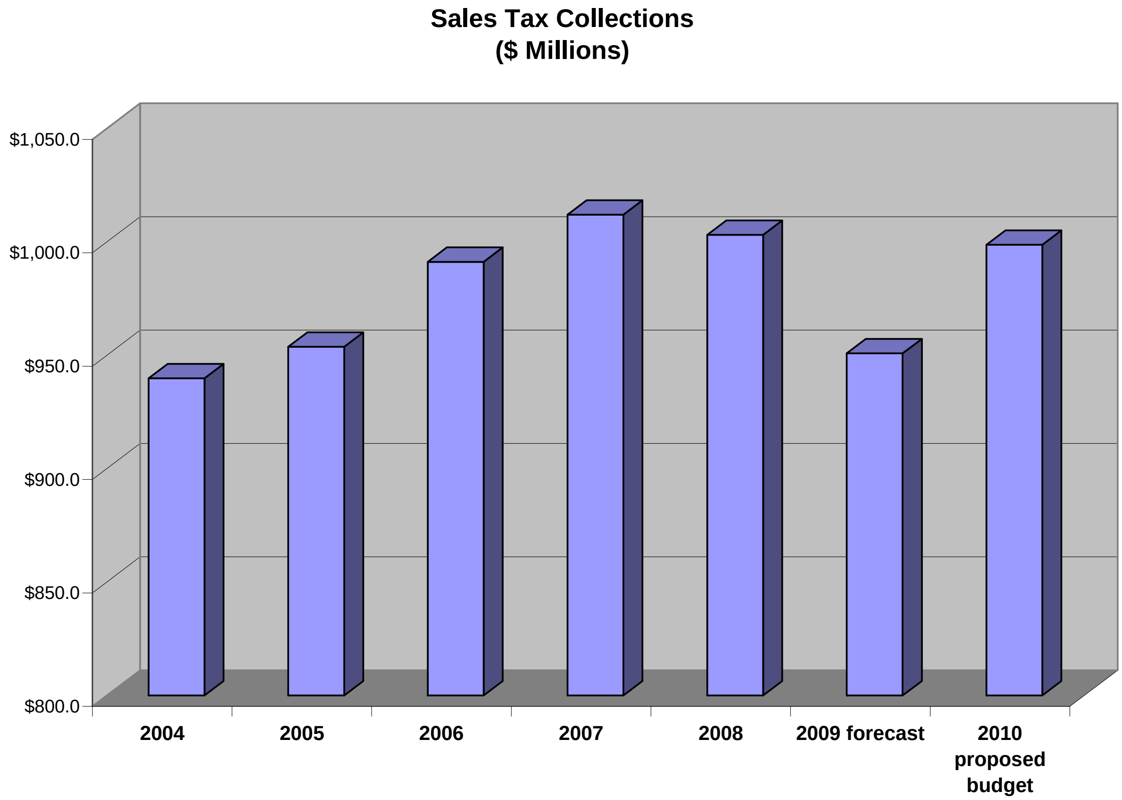
In evaluating the level of risk in the proposed 2010 (FY 10) budget, two revenue items are critical: final 2009 sales tax revenues and the proposed cigarette tax. The sales tax results are beyond the County's control and depend entirely on the economy. The cigarette tax, however, could be in place by the end of 2009 if the State provides the necessary authorization. While we have recognized the cigarette tax revenue as a risk to the proposed budget, we have also recognized that it presents an opportunity. If the State Legislature reconvenes before the end of the year and the Governor and legislative leaders support the proposed tax, the revenues would mitigate the other identified risks facing the County in 2010.

The 2009 sales tax results affect the proposed budget in two ways. First, the calculation of any increase in sales tax in 2010 is a projection over 2009 final receipts; the administration projects a conservative 1.75% increase over a 2009 base, but if the 2009 base is not achieved, the 2010 sales tax revenue may not be achieved. For this reason, we believe the FY 10 budgeted sales tax presents a risk. Second, the final 2009 sales tax revenue is the major remaining unknown issue for determining whether the County will finish 2009 with a surplus and the size of the surplus; the administration has included a general fund surplus from 2009 in the 2010 budget that we believe is at risk and a police district surplus that we believe is partially at risk.

So far in 2009, sales tax is down approximately 10% from 2008 receipts. We project that the County will finish 2009 down 7% from 2008, the administration projects a drop of 6%, based on historical collections. Assumptions concerning how much the County will receive in 2009 sales tax revenues are predicated on the fourth quarter, which represents approximately 40% of all sales tax receipts. In November 2008 through February 2009, sales tax receipts plummeted with the economy and the collapse of retail sales nation-wide. Our working assumption is that fourth quarter 2009 receipts will be flat with last year; the administration projects a slight increase. The fourth quarter receipts will not start to be known until November 5, and we will receive distributions for the 2009 fourth quarter through February 2010.

The Suozzi administration has put the interests of our hard pressed taxpayers first by not proposing an increase in the property tax levy in the 2010 budget, for the sixth time in the last seven years. We believe that the Legislature will concur that our taxpayers cannot be asked to pay more in County property taxes in 2010, especially given the inexorable rise in school district property taxes. With no increase in the property tax levy and with 2009 sales tax revenues falling to levels last seen in 2005 (see Chart 1), the best avenue to manage the risks in the 2010 budget and the general economic uncertainty facing the County is to make further spending reductions.

Chart 1



The proposed budget includes items that in our view may not be achieved ("risks") and items that would benefit the County if they occur but we cannot be certain they will be achieved ("opportunities"). These key budgetary items are presented in Schedule 1 below. When netted together, we have identified approximately $39 million in total budgetary risk, less than half of what was identified in the proposed 2009 budget, but more risk than can be eliminated strictly through tight management of hiring and spending. Further, the County faces an unknown risk in 2010 because the State has not yet fully come to grips with the impact of the national recession on State spending. The County faces the threat of unpredictable new spending requirements, such as the MTA payroll tax imposed in mid-2009, or unanticipated mid-year cuts in State funding during 2010. The level of budgetary risk must also be evaluated in light of known increases in pension expense in FY 11 and further pension increases, plus additional labor expense, starting in FY 12, and the loss of Federal Medical Assistance Percentages "FMAP" funds in FY 11 (see "Multi-Year Financial Plan" below). Because expenses will substantially increase and federal stimulus revenues will not be available after 2010, the 2010 budget expenditures may need to be reduced further to help lay a path toward a sustainable level of governmental spending in the coming years.

We anticipate that it may be necessary to reduce the level of expenditures in the proposed budget by $20 million, but whether spending reductions are absolutely necessary and the scope of the necessary reductions will not be known with certainty until the start of 2010. The most conservative action the Legislature could take would be to amend the budget to reduce expenditures before adoption, similar to the difficult but fiscally prudent steps taken by the Legislature and Suozzi administration in October 2008 to reduce spending by $30 million below the proposed 2009 budget. Whether or not reductions in expenditures are made now, the Legislature and Executive must be prepared to reconvene early in 2010 to determine the level of FY 10 spending reductions that may turn out to be necessary in light of the final 2009 sales tax results and State action on the proposed cigarette tax .

In 2010, we do not anticipate the need for changes of the magnitude of the approximately $130 million plan implemented by the County Executive, the Legislature and our labor unions during 2009. Economists do not anticipate a drastic worsening of the recession through the end of 2009. However, until the outcome of the cigarette tax proposal and the entire 2009 sales tax story is known, County officials cannot be reasonably certain of what portion of the revenue items identified as at risk in the 2010 budget will be achieved. As the 2009 fourth quarter sales tax is reported and the fate of the cigarette tax proposal is determined by Albany, we will have a more reliable basis for determining the size of the necessary further expenditure reductions in 2010.

Identifying areas for additional spending cuts is not a simple task. The Suozzi administration has effectively carried out initiatives to reduce governmental spending without reducing services, for example by reducing uniformed services overtime, increasing civilianization at the Police Department, and consolidating workers who do similar jobs or departments that serve similar constituencies for more efficiencies. The County has also reduced its full time headcount in the major funds to 8,449 as of September 10, 2009. The current on board full time headcount in the major funds is 349 positions lower than it was in September 2002. The administration's tight management over hiring and spending has proven effective in the past, but total freezes on hiring or purchasing are not sufficient to eliminate the net risk identified in the budget, nor are they sustainable over the long term. The extraordinary nature of the ongoing national recession will demand additional action to ensure that we come through 2010 in a fiscally sound condition.

As in 2009, spending reductions can take the form of an across the board decrease in all county spending or scaling back targeted programs. Across the board cuts can be inefficient in departments that have already absorbed significant cuts. Targeting individual programs means losing services valued by Nassau County residents. The choice between these alternatives is difficult, but necessary in order to ensure that the County can end 2010 in sound fiscal shape. The County Executive and Legislature's priorities will determine whether service cuts can be made. This Office will continue to identify potential expense reductions and work with the County Executive and the Legislature to analyze the likely cost savings from any proposals that may be advanced.

Schedule 1

PROPOSED NASSAU COUNTY 2010 BUDGET
MAJOR FUNDS
SUMMARY OF RISKS and OPPORTUNITIES
($'s Millions)

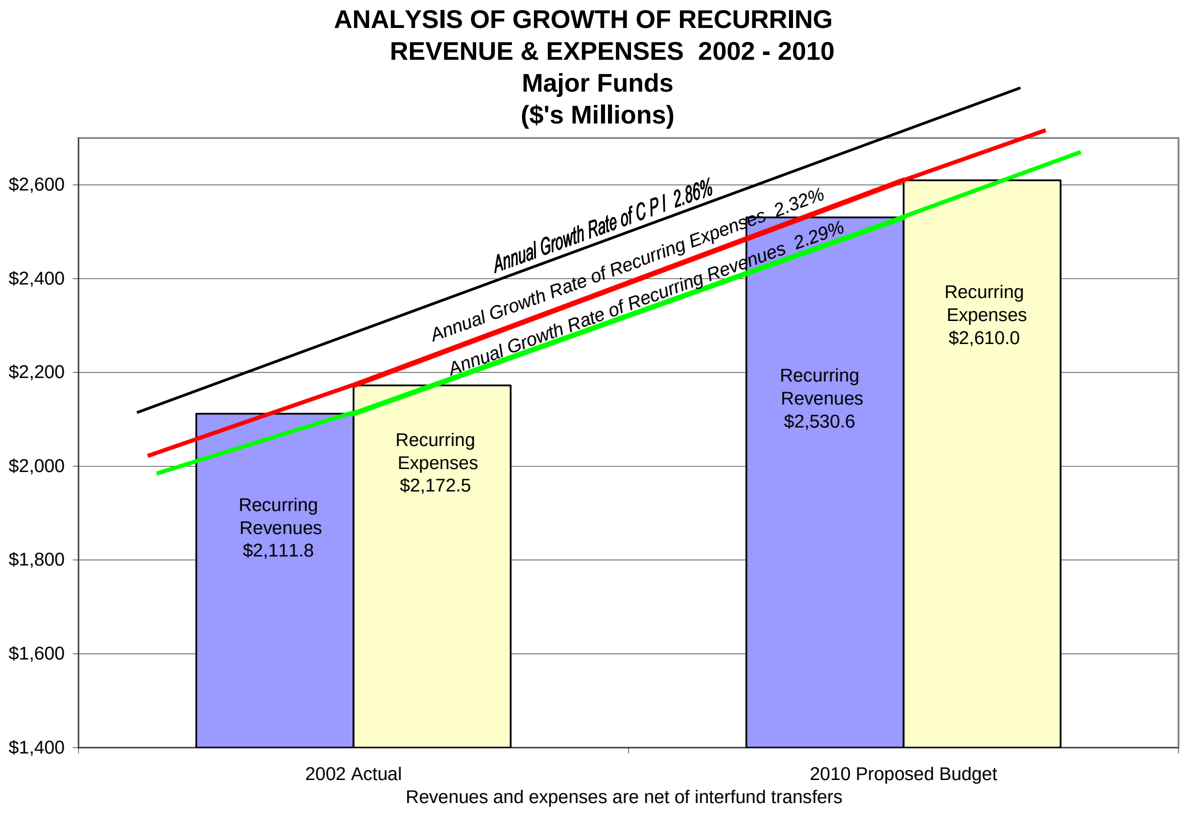
Revenues				
Proposed Budget - net of interfunds			$ 2,617.2	
Cigarette Tax requiring state legislation			(16.0)	
Use of 2009 Surplus for pension expense			(13.0)	
Sales Tax			(11.2)	
Rents & Recoveries			(7.1)	
Use of 2009 Surplus for termination expense			(3.7)	
Investment Income			(3.1)	
Parks revenue at risk			(2.5)	
Traffic & Parking Violation revenues at risk			(2.4)	
Federal Aid			(2.3)	
Ambulance Fees			(1.2)	
Other Departmental Revenue			(2.1)	
Other			(3.7)	
Total Revenue Risk				**$ (68.3)**
Expenses				
Proposed Budget - net of interfunds			**2,617.2**	
Payroll and fringe related variances (net)			(8.5)	
MTA Long Island Bus			(2.5)	
Social Service expenses			(2.0)	
Other			(0.5)	
Additional property tax refunds			no budgetary impact	
Total Expense Risk				**(13.5)**
Estimated Budget Risk excluding Potential Opportunities				**$ (81.8)**

		Police District	**Other Funds**	
Estimated Budget Risk by Taxpayer Base		**$ (8.7)**	**$ (73.1)**	**$ (81.8)**
Opportunities				
Contingency Reserve			12.5	
Cigarette Tax			16.0	
County Legislature can change the purpose of Employee Benefit Fund		14.4		
Approval of offset of LI Bus contribution with MTA tax			2.5	
NYSHIP - adjustment of health insurance rate to 1% increase over 2009		1.0	3.0	
Estimated Budget Surplus (Risk) - net of opportunities		**$ 6.7**	**$ (39.1)**	

Spending in the proposed 2010 budget, driven primarily by the cost of payroll and fringe benefits, would increase by 4.7% over our projected total 2009 expenditures. This percentage increase is artificially high since operating expenditures in 2009 were suppressed by labor agreements to defer pay, lag one payroll, and by the decision to bond termination pay rather than pay it out of the operating budget. Without considering those one-time labor savings, spending will increase by 2.2% in the proposed 2010 budget over our 2009 projection.

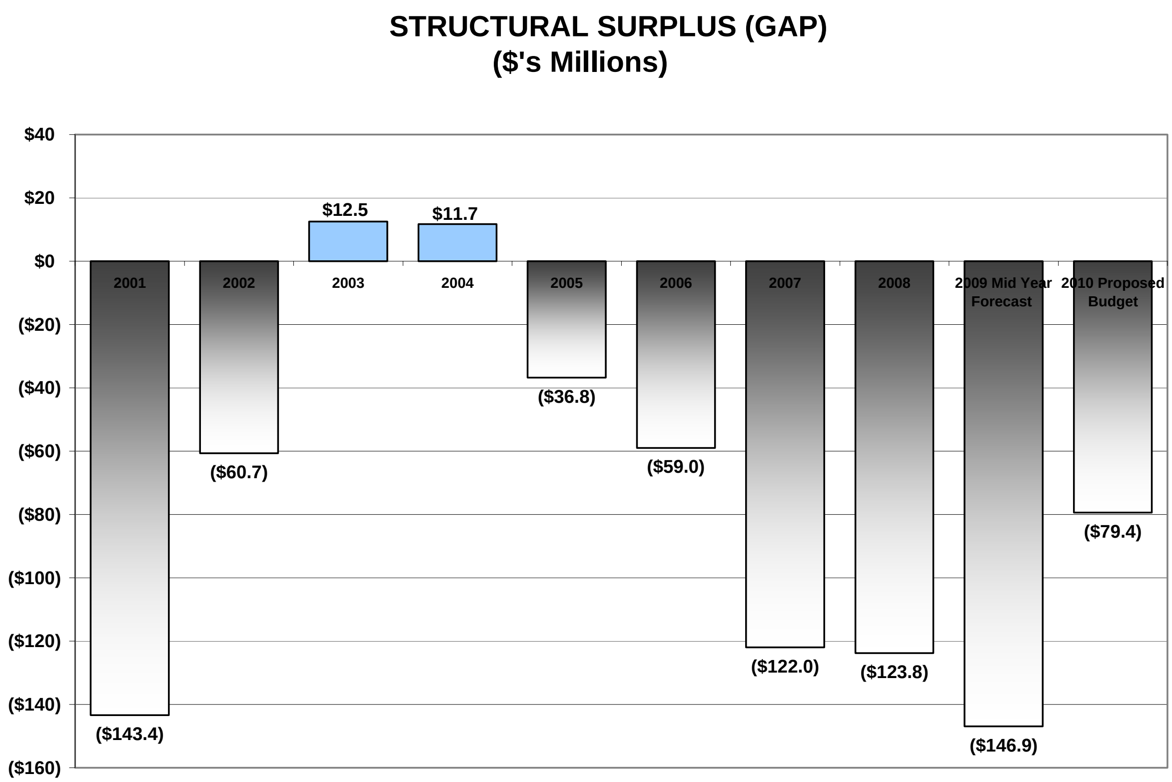
Since 2002, the Suozzi administration has tightly controlled spending increases. Recurring expenses have increased by an annual rate of 2.32%, below the 2.86% compounded rate of consumer inflation for the same period. Despite the tight control over the growth in expenditures, the County's recurring revenues have not kept pace with the growth in recurring expenses. This problem is obviously exacerbated by the drop in sales tax revenues in 2009. Moreover, after 2010, recurring expenses will rise dramatically as the County faces increased pension costs starting in 2011 and repayment of deferred labor expenses starting in 2012. (See "The Multi-Year Financial Plan" below).

Chart 2



The difference between the County's recurring expenses and our recurring revenues is our structural gap. While the County has balanced its budgets each year as required by law, it has used non-recurring revenues such as prior year surplus and reserves, or non-recurring expense reductions such as deferrals of contractual pay increases and bonding normal termination pay to bring the budget into balance. In the long run, it is important to bring recurring expenses and revenues into closer balance.

Chart 3



It has been the County's practice not to present the borrowing to pay real property tax refunds as a component of the structural gap until a portion of that expense was included in the operating budget in 2006. If borrowing to pay real estate tax refunds were counted in the structural gap for 2001, the gap would increase from $143.4 million to $293.5 million.

The non-recurring items that the County has used to balance its budgets from 2007 through the 2010 proposed budget are presented in Schedule 2. Most of these items, except fund balance, will not be available after the 2010 year.

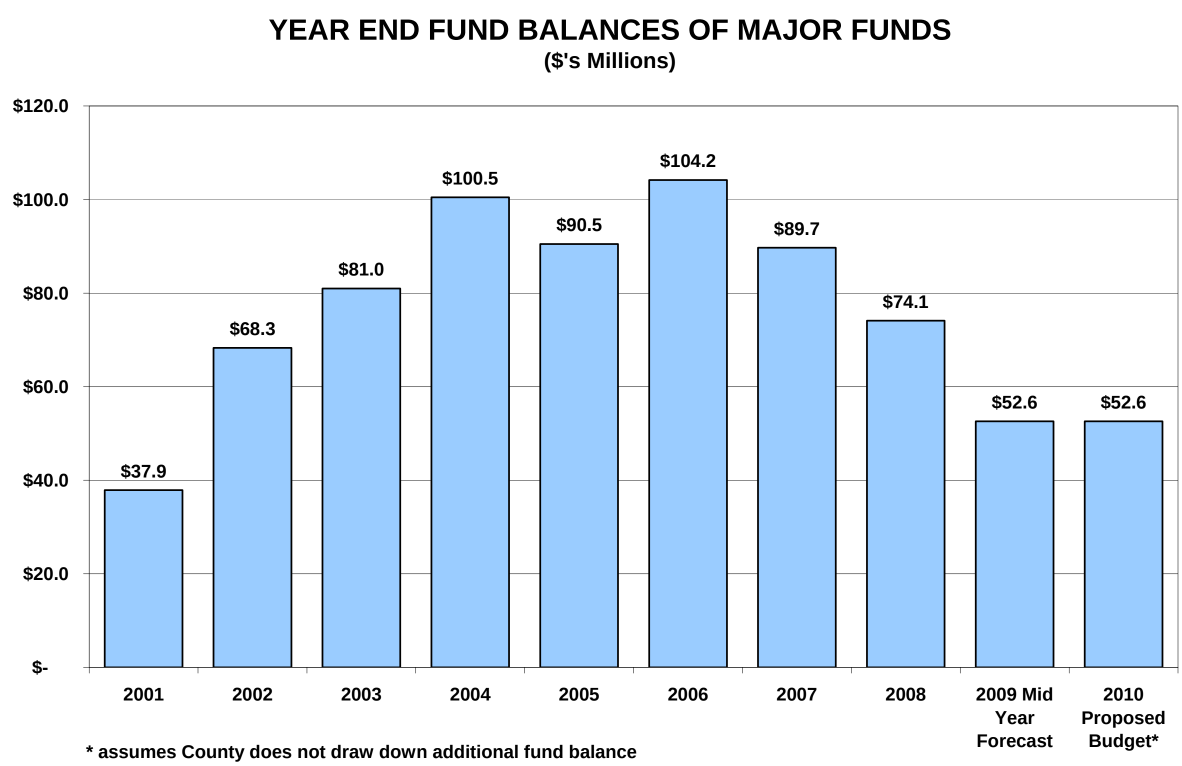
Schedule 2

Nonrecurring Revenues and Expenses
Major Funds
2007 - 2010
($ Millions)

	2007 Actual	2008 Actual	2009 Forecast	2010 Proposed Budget
Use of Reserves	$ 49.4	$ 26.4	$ 0.5	$ 24.0
Use of Fund Balance	43.4	17.9	10.0	
Tobacco Related	23.6	23.0	15.2	
Nonrecurring				
Federal Medical Assistance Percentages (FMAP)			42.0	44.1
American Recovery and Reinvestment Act Funding (ARRA)				3.7
Payroll Deferrals & Lag			29.3	7.6
Bonding for Budgeted Termination Pay			38.4	
Use of borrowed funds to pay property tax refunds in excess of budget	12.0	58.8	to be determined	
Excess cash in MTA projects	17.4			
Total	$ 145.8	$ 126.1	$ 135.4	$ 79.4

Chart 4 presents the accumulated fund balance of the County's major funds. These surplus funds from prior years present a safety cushion and can be drawn down as necessary to the extent that expenditures exceed revenues.

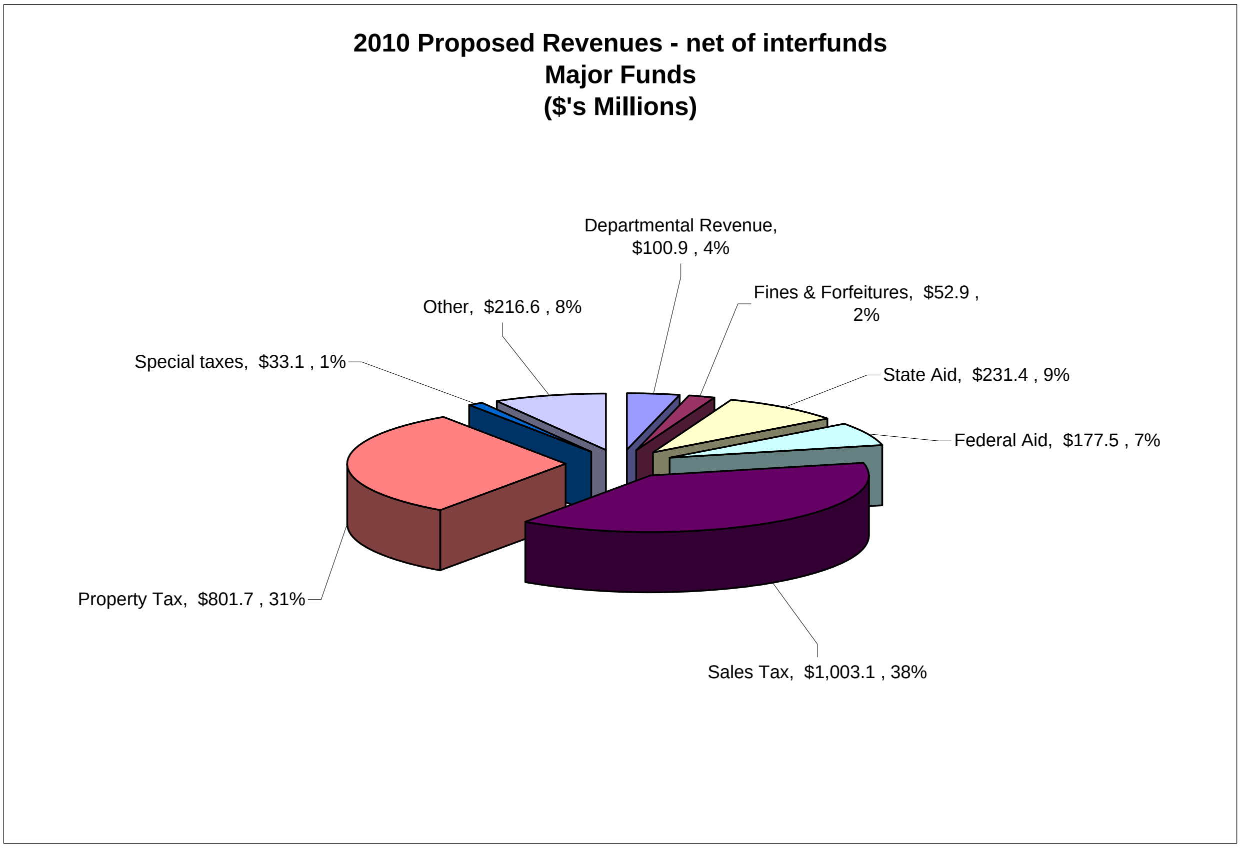
Chart 4



2010 Proposed Budget Analysis

Discussion of Revenues

Chart 5



Total Budgeted Revenue
Major Funds
($ Millions)

		2009		2010
Total Budgeted Revenue	$	3,008.8	$	3,034.6
Less:				
Interfunds between major funds		406.8		417.4
Net Revenue	$	2,602.0	$	2,617.2

Tax Revenues

Sales Tax

The proposed budget projects that the County will receive $960.9 million in 2009 sales tax, and that sales tax will increase by 1.75% in 2010. The budgetary assumption for 2009 sales tax is that the revenue will fall by 6% from the sales tax received in 2008, calculating based on historical collections.

After discussions with leading local economists, we anticipate that sales tax may increase by as much as 2% in 2010 but anticipate that 2009 sales tax may decline as much as 7% under 2008. This difference leaves approximately $11.2 million in 2010 sales tax at risk. However, 2009 sales tax results are not yet known. Last year at this time, the State's sales tax distribution showed a slowing of growth in sales tax, but nothing like the steep drop in sales tax that occurred in the fourth quarter of 2008. That precipitate drop first manifested in the fourth quarter distribution checks, which will not be reported until November. While the State does not anticipate such wild swings this year, the County cannot know with certainty what the 2009 sales tax base will be until February of 2010.

The proposed multi-year financial plan includes annual sales tax growth of 3.9% through 2013. We believe these higher forecasts for 2011 - 2013 are subject to risk.

Schedule 3

Sales Tax Trends

($ Millions)

	GROSS ANNUAL Sales Tax Collected/Projected	$ Increase over prior year	% Increase over prior year
2002	$ 865.5	$ 33.6	4.0%
2003	895.5	30.0	3.5%
2004	939.9	44.4	5.0%
2005	953.8	13.9	1.5%
2006	991.2	37.4	3.9%
2007	1,012.0	20.8	2.1%
2008	1,003.1	(8.9)	-0.9%
2009 (projected)	932.9	(70.2)	-7.0%
Residential Energy Tax *	18.0	18.0	
Total 2009	$ 950.9	($ 52.2)	-5.6%

* Effective June 1, 2009

Schedule 4 presents sales tax collections through September 11th of years 2002 through 2009, compared to total sales tax collections each year.

Schedule 4

Comparison of YTD to Annual Gross Sales Tax Collections

($ Millions)

	SEPT 11 YTD Sales Tax Collected	% SEPT 11 YTD vs Total Collected/Projected	GROSS ANNUAL Sales Tax Collected/Projected
2002	$ 512.3	59.2%	$ 865.5
2003	528.6	59.0%	895.5
2004	562.6	59.9%	939.9
2005	572.7	60.0%	953.8
2006	596.1	60.1%	991.2
2007	608.8	60.2%	1,012.0
2008	621.9	62.0%	1,003.1
2009 (projected)	553.6	59.3%	932.9
Residential Energy Tax*	6.0		18.0
Total 2009	$ 559.6		$ 950.9

* Effective June 1, 2009

Schedule 5

Sales Tax (Gross Receipts)
(Including Residential Energy Tax)
($ Millions)

	2008 Actual	2009 Comptroller's Forecast	2010 Proposed Budget	2011 MYP	2012 MYP	2013 MYP
Sales Tax *	$ 1,003.1	$ 950.9	$ 998.8	$ 1,037.8	$ 1,078.2	$ 1,120.3

* Excludes prior year deferred portion of sales tax

Cigarette Tax

The projected $16 million from a new cigarette tax depends on State legislative authority. It is possible that the State leadership will agree to reconvene the Legislature before the end of the year because of the difficult financial choices facing the State. If so, the cigarette tax could be enacted into law before the start of 2010, and the administration advises that it is gearing up for immediate implementation of the tax should the authority be received. Because the legislation has not yet been enacted into law and, if it is, we cannot be certain it will be in effect for the full 2010 year, we consider this item at risk but have also recognized that it presents an opportunity for the County.

Non-Tax Revenues

Use of Reserves

The Administration has budgeted to use $11 million of termination reserve in the Police District and $13 million of pension reserve in the General Fund in the proposed 2010 budget. We believe that the use of these reserves is at risk. The revenues to fund these reserves are to be obtained from the Administration's anticipated 2009 surplus. If a surplus is not generated in 2009, the reserves will not be available.

In our mid-year report, we projected that it will be necessary to draw on existing fund balance to close the 2009 year for funds other than Police District. Therefore, we consider the $13 million in budgeted reserve in the General Funds at risk. In the Police District we projected a surplus of $7 million, which could be used to partially fund the budgeted amount and therefore we have identified a risk in the remaining $4 million. However, the FY 10 budget includes only $7.1 million in termination pay expense; so unless termination pay exceeds expectations, there will not be a need to draw down more than $7.1 million from the reserve funds for that purpose.

We have recognized as an opportunity in the Police District fund that the remaining $14.4 million in termination pay reserve could be directed instead, through vote of the County Legislature, to payment of pension expenses for Police District employees.

Investment Income

The County typically invests available funds in interest bearing checking accounts and bank certificates of deposit. For the proposed 2010 budget the County anticipates $8.1 million in investment income. Given the current 0.9% interest rate earned by the County and that leading local economists foresee no increase in interest rates until mid 2010, we anticipate 2010 investment income to be $5 million. Thus, we believe $3.1 million in interest income is at risk.

Schedule 6

Investment Income Major Funds ($ Millions)					
2008 Actual	**2009 Comptroller's Forecast**	**2010 Proposed Budget**	**2011 MYP**	**2012 MYP**	**2013 MYP**
$ 13.9	$ 4.0	$ 8.1	$ 20.0	$ 26.0	$ 32.5

Rents and Recoveries

Included in rents and recoveries income is the revenue generated from the reversal of money set aside ("encumbered") in prior years from current appropriations for expenditures such as contracts and purchase orders. When it is determined that the encumbered funds are no longer necessary, these expenses are reversed and the revenue is recognized as a recovery in the current year. The administration has budgeted $20.5 million in such recoveries. Based upon a review of the outstanding prior year encumbrances, we feel that $6.3 million of these revenues are at risk.

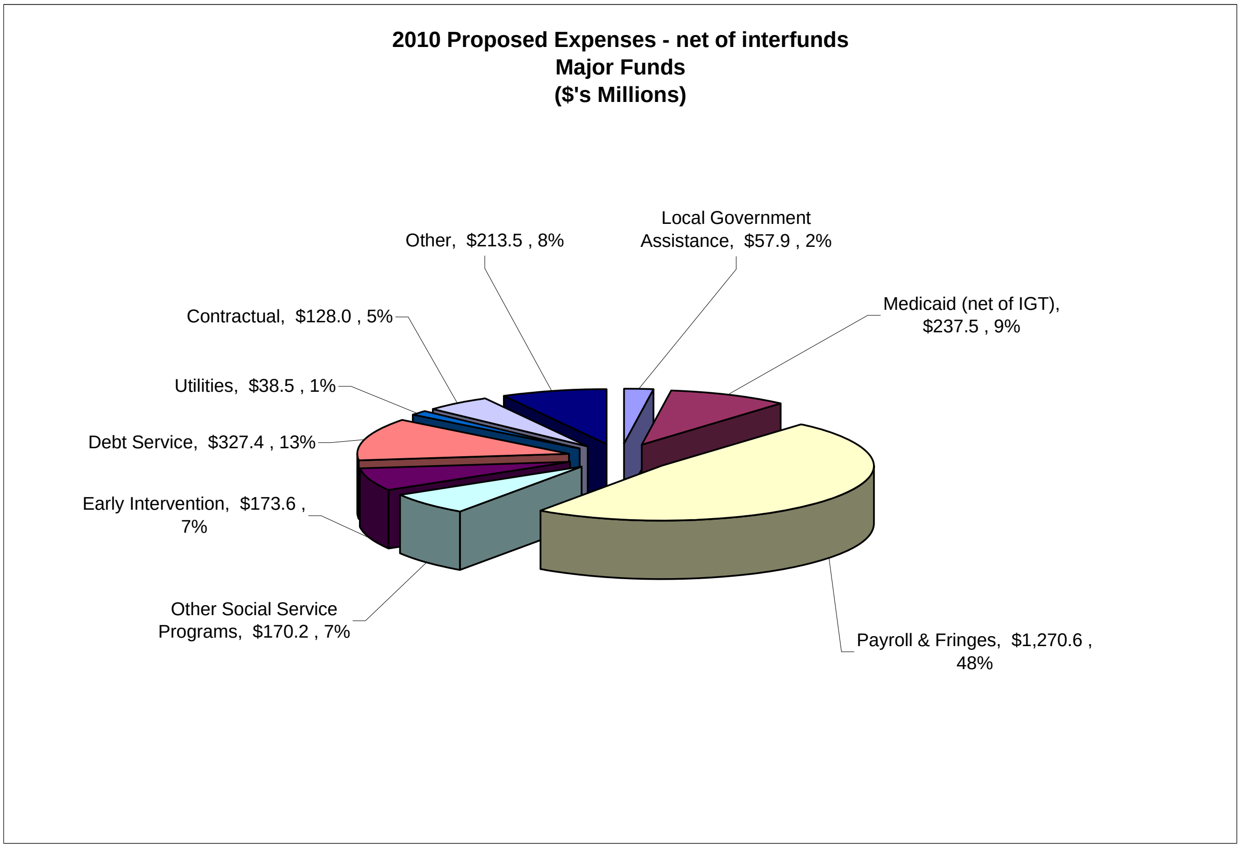
The amount budgeted for Rents and Recoveries as a whole is substantially lower than in prior years because in 2009 the County used the last remaining $15.3 million of tobacco securitization funds.

Schedule 7

Rents and Recoveries Major Funds ($ Millions)					
2008 Actual	**2009 Comptroller's Forecast**	**2010 Proposed Budget**	**2011 MYP**	**2012 MYP**	**2013 MYP**
$ 70.1	$ 42.3	$ 34.0	$ 35.5	$ 35.5	$ 35.5

Discussion of Expenses

Chart 6



Total Budgeted Expenses
Major Funds
($ Millions)

	2009	2010
Total Budgeted Expenses	$ 3,008.8	$ 3,034.6
Less Interfunds between major funds	406.8	417.4
Net Expenses	$ 2,602.0	$ 2,617.2

Salaries

Collective bargaining agreements or arbitration awards now exist with all the County unions running through the end of 2015, except the 40 member Investigators Police Benevolent Association ("IPBA"). The agreements included savings provisions that primarily benefited 2009, but will also present savings through salary and other deferrals through 2011. The savings include a 2009 incentive for CSEA bargaining members to separate; a 2009 lag payroll which deferred two weeks pay until separation of the employee; deferred salary and longevity pay increases to be paid in subsequent fiscal years. The agreements also include holiday and equipment deferrals for the police unions to be paid upon separation and education and clothing allowance deferrals for ShOA members to be paid in future years. Although the negotiated salary related deferrals create savings in the years they are implemented, they present a challenge for the years in which they must be repaid (See "Multi-Year Financial Plan" below).

The administration has achieved long term savings by permanently reducing the number of employees through their enforcement of strict head count control. Full time headcount in the major funds as of September 10 2009 was 8,449, which reflects a net on board head count reduction between January 1 and September 30 of 440 employees. This has been accomplished by limiting replacements of the 336 employees that separated as a result of a separation incentive, and by negotiating civilianization of uniformed positions in order to put more police officers back on patrol.

As a result of the negotiated labor agreements, deferral of payroll related items will amount to approximately $17 million in 2010 and the administration intends to bond the $4.6 million in incentive related termination pay costs in 2010. Although the budget includes approximately $16 million for 350 vacant positions for non-uniformed employees, the administration intends to limit hiring to 150 positions. We consider this an opportunity for savings to the extent the positions remain unfilled. Although we believe that overtime will be over budget by approximately $6.5 million (see "Overtime" below), the budgeted salaries should be sufficient to cover the shortfall in overtime and allow for hiring 150 employees to fill vacant positions.

Schedule 8

Salaries
Major Funds
($ Millions)

2008 Actual	2009 Comptroller's Forecast	2010 Proposed Budget	2011 MYP	2012 MYP	2013 MYP
$ 840.8	$ 793.4	$ 857.6	$ 895.8	$ 940.0	$ 981.4

Overtime

Schedule 9 presents our estimate of police and corrections overtime for FY 09 and the amounts in the 2010 proposed budget and financial plan. Although the administration has done excellent work in reducing overtime expense, especially in the Police Department, we project there will be more overtime expense than budgeted for the Police District, Police Headquarters and the Correctional Center in 2010.

Overtime expense has been reduced through contractual changes with the PBA, DAI and ShOA, and discretionary actions taken by the Police Department management such as redeployment of personnel and consolidation of units. Although overtime remains over budget in 2009, we project 2009 overtime expense (net of the $1.3 million retroactive payment to ShOA members) to be 14% lower than overtime expense in 2008. We anticipate a negative variance of $7.5 million in 2009 overtime costs, including the retroactive ShOA payment.

In 2010, taking into account the contractual changes achieved in the County's labor agreements and discretionary actions taken by management to achieve overtime savings for the police and corrections departments, we project that overtime for the uniformed forces' will reach $54.8 million and that the overtime will be over budget in 2010 by approximately $7.5 million. In addition, we project non-uniformed employees' overtime will be under budget by $1 million, bringing the total overtime risk to $6.5 million.

Schedule 9

Overtime *
($ Millions)

	2008 Actual	2009 Comptroller's Forecast	2010 Proposed Budget	2011 MYP	2012 MYP	2013 MYP
Correctional Center**	$ 23.7	$ 20.7	$ 15.4	$ 15.9	$ 16.8	$ 17.4
Police Headquarters	19.5	18.0	16.7	17.8	18.4	19.4
Police Districts	20.8	17.4	15.2	16.2	16.8	17.7
Total Expense	$ 64.0	$ 56.1	$ 47.3	$ 49.9	$ 52.0	$ 54.5

* Overtime amounts included in salaries schedule

** 2009 forecast includes $1.3 million of retroactive pay

Fringe Benefits

Schedule 10

Fringe Benefits
Major Funds
($ Millions)

	2008 Actual	2009 Comptroller's Forecast	2010 Proposed Budget	2011 MYP	2012 MYP	2013 MYP
FICA Expense	$ 58.2	$ 56.8	$ 51.7	$ 54.1	$ 57.8	$ 60.9
Health Insurance	216.4	216.1	219.4	227.1	235.1	243.3
Other	118.8	123.8	118.1	158.9	174.5	185.7
Total Expense	$ 393.4	$ 396.7	$ 389.2	$ 440.1	$ 467.4	$ 489.9

FICA Expense

The proposed budget includes $51.7 million in FICA expense. The calculation for FICA expense depends upon the total earnings for each individual, base wages, and any supplemental pay items such as overtime, holiday or differential pay. It also depends on the wage base limit which is established by the Federal government each fall. Since the total amount per individual and the wage limit is unknown at the time the budget is prepared, we forecast the amount of expense based upon the prior year's actual amounts. Using this methodology, we believe that the budgeted amount is understated and that $5.2 million is at risk.

2010 marks the first full year that the County will benefit from the Comptroller's initiative to end the practice of paying FICA on wages paid to employees out on long term disability leave and applying for the FICA to be refunded in subsequent years.

Employee Health Benefits

Health benefit expense is budgeted to increase annually 3 % for active employees and retirees, based in part on the State's representation that NYSHIP rates would not increase more than 3.5% in 2010, We agree with the administration that NYSHIP should be able to bring its rate increase to 3% or less.

Comptroller Weitzman and County Executive Suozzi convinced NYSHIP and State budget officials in 2008 that NYSHIP had overcollected premiums for years. Some of the accumulated funds were used to keep the premium increase in 2009 to 1.9%. The County's discussions on this issue with the State are continuing and, as State Comptroller DiNapoli recently reported in an audit released in September 2009, there are sufficient over-collected funds remaining to bring premium increases below NYSHIP's announced 3.5% cap without threatening rate stability in future years. The Comptroller and County Executives' staff have presented the State with an analysis showing that the 2010 rate increase could safely be held to 1%. Accordingly, we have

recognized the difference between a 3% rate increase and a 1% rate increase as an opportunity on Table 1.
Long term, the administration must identify realistic ways to reduce spending while continuing to provide quality health insurance to employees. While the extension of all major union contracts to 2015 without including any employee contribution to the cost of health insurance will make obtaining significant health benefit cost savings more difficult, opportunities still remain. The Comptroller's Audit Advisory Committee issued a July 2007 report titled ***Providing Affordable Health Benefits for County Employees and Retirees: Some Suggested Solutions***, which proposes additional initiatives to reduce health care spending. One of the proposals, increasing the buy back amount, has been approved by the Legislature for ordinance employees and could present a 2010 savings opportunity if it is successfully negotiated with the unionized workforce.

Schedule 11

Health Insurance
Major Funds
($ Millions)

	2008 Actual	2009 Comptroller's Forecast	2010 Proposed Budget	2011 MYP	2012 MYP	2013 MYP
Employees	$ 113.4	$ 112.2	$ 111.8	$ 115.7	$ 119.8	$ 124.0
Retirees	102.9	103.9	107.6	111.4	115.2	119.3
Total Expense	$ 216.3	$ 216.1	$ 219.4	$ 227.1	$ 235.0	$ 243.3

Property Tax Refunds

The proposed 2010 budget includes $50 million to pay real property tax refunds. While refunds are expected to cost more than $50 million, given recent experience with refunds and the drop in real estate values, the administration projects that it will use existing borrowed funds and borrowing authority of $65 million to pay for any amount over the budgeted appropriation. Since any additional refunds will not be paid through operating funds, property tax refunds do not present a budgetary risk.

The Multi-Year Financial Plan

The Legislature enacted a requirement in 2004 that the administration present a multi-year plan along with its budget once the County was no longer required by the NIFA Act to present a three year plan for NIFA's approval. Long term financial planning is particularly difficult in the face of the national recession and difficult choices will have to be made in the years ahead. All governments that present multi-year plans show structural gaps in the out-years. While this administration has shown that it can close gaps and present balanced budgets, the current economic crisis will present greater difficulties to develop a balanced budget in 2011 and beyond.

The County faces the loss of important revenues and the addition of significant new expenses starting with FY 11. The County will not have the benefit of the FMAP revenue which contributed in excess of $40 million in 2009 and 2010. Starting with the 2010 budget, and continuing in all years of the financial plan, the County will no longer have the benefit of tobacco securitization funds to provide an operating subsidy to the Nassau Health Care Corporation (see NHCC section, below). In 2009, $15.3 million from tobacco securitization funds was included in the operating budget.

New York State Comptroller DiNapoli's office has advised Nassau County that pension contributions will increase by almost 45% between 2010 and 2011, an increase of approximately $44 million in 2011, and an additional projected $14.7 million in 2012. It will not be simple for the County to absorb an additional expense of almost $60 million in pension expense in two years, but since all New York State governments are facing similar increases it is possible that the State will enact pension reform, such as the proposed Tier 5, which at least would reduce pension costs for new employees.

Although the County will still benefit from previously negotiated contractual deferrals for salary and salary related items in 2011, the administration will also have to begin to absorb the labor cost of prior years deferrals of wage and fringe expense for the PBA and DAI, which are scheduled to begin to be paid back in 2011. In 2012, all of the bargaining units' contractual deferrals will have finished, and substantial payments due from prior years deferrals will need to be made each year through 2015. The administration's agreement not to furlough or lay off workers through 2011 will give the County less flexibility in meeting any unexpected drops in revenues or spikes in expenses.

As the economy recovers from the present recession, we are likely to see sales tax rebound somewhat, but we project that it is unlikely to reach 2007 levels until 2013. Similarly, we project that all types of County revenues will recover from the recession during the plan years, and will reach 2007 levels by the end of the three year plan.

The administration's financial plan is consistent with these projections and includes estimated budget baseline gaps of between $126.6 million in 2011, $173.9 million in 2012, and $211.5 million in 2013. The plan presents more initiatives than necessary to close the projected gaps; however, we believe as shown on Schedule 12, the majority of these initiatives are subject to risk.

Schedule 12

PROPOSED NASSAU COUNTY 2011-2013
MULTI-YEAR FINANCIAL PLAN
MAJOR FUNDS
SUMMARY OF FUTURE YEAR RISKS and OPPORTUNITIES
($'s Millions)

	2011	2012	2013
Baseline Gap per Financial Plan (before Gap Closing Measures)	**$ (126.6)**	**$ (173.9)**	**$ (211.5)**
Items included in Baseline Gap that are at risk			
Sales Tax receipts	(30.5)	(50.7)	(72.3)
Cigarette Tax	(16.0)	(16.0)	(16.0)
Investment Income	(13.0)	(17.0)	(21.9)
Gap closing measures			
Value of New Construction	5.0	10.0	15.0
Discretionary Program Cuts	5.0	5.0	5.0
Debt Restructuring	5.0	5.0	5.0
Net Baseline Gap	**$ (171.1)**	**$ (237.6)**	**$ (296.7)**

	2011	2012	2013
Additional Gap Closing Measures Considered at Risk			
Revenue			
Property Tax Increase (3.9%)	$ 31.3	$ 64.5	$ 98.7
Video Lottery Terminals (VLT)	21.4	21.4	21.4
American Recovery and Reinvestment Act Funding (ARRA)	20.0		
Troubled Asset Relief Program Recoveries (TARP)	17.0		
Red Light Camera Phase 2	12.0	12.0	12.0
Patrolling of the Long Island Expressway	8.0	8.0	8.0
Parks Marketing Initiative	4.0	4.0	4.0
Lighthouse - Coliseum Lease	1.5	1.5	1.5
Fasion Institute of Technology (FIT)		4.1	4.1
Sub-Total Revenue	115.2	115.5	149.7
Expense			
Workforce management	20.0	25.0	30.0
Smart Government Initiatives	10.8	11.8	17.2
MTA Regionalization of Long Island Bus	7.7	7.7	7.7
Sub-Total Expense	38.5	44.5	54.9
Total Gap Closing Measures at Risk	**$ 153.7**	**$ 160.0**	**$ 204.6**

We believe the out-year gaps are larger than stated in the multi-year financial plan because of the uncertainty of State approval of the cigarette tax and our projection that the economy will not recover in time to generate the anticipated sales tax and investment income. Of the gap closing measures, we consider at risk those items that are not within the administration's control but depend on State approvals, such as the VLT, federal action, such as ARRA funding, or Town of Hempstead approval for the Lighthouse project. These items may be achieved, but the administration cannot ensure that they will happen and for this reason, they must be considered at risk. Finally, the management initiatives proposed to close the gaps are not likely to generate savings on the scale anticipated in the plan and therefore are recognized as risks; however, experience has shown that the administration's "smart government initiatives" present goals for savings opportunities that can be achieved over time.

Fund Balance Policy

The County's fund balance policy was adopted by the Legislature in 2005 and is re-submitted to the Legislature as part of the 2010 – 2013 multi-year plan. The fund balance policy provides that the County will maintain unreserved fund balance of between 4% and 5% of normal prior year expenditures of the general fund and County-Wide Special Revenue Funds (fire prevention fund and police headquarters fund) and all financial resources at a level of between 5% and 7.5% of prior year expenditures. If unreserved fund balance falls below that level for two years, the policy provides that the County will replenish the fund balance over the next four years. The fund balance policy includes in its definition of all financial resources the amounts in the Employee Accrual Liability Reserve Fund, Retirement Contribution Reserve Fund and Tobacco Settlement Fund. We calculate that under the proposed budget, the County's fund balance will drop below both measures established in its policy by the close of 2010, even if it is assumed that the County will not need to draw on additional fund balance during the year. Fund balance provides taxpayers with a cushion against unexpected negative events. This Office supports the fund balance policy, and is concerned that we have fallen below the 4% threshold.

Schedule 13

Fund Balance
Major Funds
Source (Use)
($'s Millions)

Source (Use)	2003	2004	2005	2006	2007	2008	2009 Mid Year Forecast	2010 Proposed Budget*	Cumulative Fund Balance
General Fund Balance	$ 76.1	$ 9.5		$ 15.9	$ 27.6	$ 1.5	$ (18.6)		
(Payment of expenses)				(13.4)	(38.1)	(10.0)	(10.0)		$ 40.5
Police District Fund Balance	4.9			11.2	1.3	0.8	7.1		
(Payment of expenses)					(5.3)	(7.9)			12.1
Debt Service Fund Balance		10.0							
(Payment of expenses)			(10.0)						
Total cumulative fund balance	$ 81.0	$ 100.5	$ 90.5	$ 104.2	$ 89.7	$ 74.1	$ 52.6	$ 52.6	$ 52.6

* Based on 2009 Mid Year Forecast and assumes County does not draw down additonal fund balance

Other Entities

Nassau Health Care Corporation

The financial stability of the Nassau Health Care Corporation (NHCC) is important so that it can continue to operate as a health care safety net for the County's uninsured. In addition, the County is dependent upon the NHCC's ability to repay its outstanding indebtedness of $262 million, which is guaranteed by the County. Of this debt approximately $245 million is tied to variable rates.

NHCC continues to face significant financial challenges and the County will need to monitor its fiscal health closely. NHCC is expected to end 2009 with a small surplus due to the anticipated receipt of an additional $30 million of Intergovernmental Transfer Payments. The Corporation's 2010 budget anticipates an $8.5 million shortfall, after $11.1 million of gap closing measures. The NHCC also faces the possibility that the State will cut aid or reimbursement formulas in light of the national recession and need to close the State's budget gap.