

**NASSAU COUNTY
OFFICE OF THE COMPTROLLER**



**REPORT ON THE COUNTY'S FINANCIAL CONDITION
FOR THE FIRST SIX MONTHS OF FISCAL YEAR 2006**

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NASSAU COUNTY
OFFICE OF THE COMPTROLLER

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REPORT ON THE COUNTY'S FINANCIAL CONDITION FOR THE FIRST SIX MONTHS OF FISCAL YEAR 2006

Executive Summary

This report is mandated by Nassau County Charter § 402.9 as modified by Local Law 3-2003. It assesses the financial condition of the county for the first six months of the fiscal year 2006 (FY 06) 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 Nassau Interim Financial Authority (NIFA), the Office of Management and Budget, and the Office of Legislative Budget Review also report on Nassau County's financial condition, we have chosen to highlight areas of potential significant variance from the county's adopted 2006 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 06, indicates that the county will finish with a budgetary surplus for the fifth consecutive year under the Suozzi administration. We estimate the county will experience a small surplus of approximately \$16 million for its major funds (General Fund, Parks and Recreation, Fire Safety, Debt Service, Police Headquarters and Police District), which is less than one percent of the operating budget without inter-fund transfers. To the extent that \$13.4 million of fund balance appropriated in 2006 for special non-recurring initiatives is not used, additional funds will be available. However, this amount has not been included in our estimated surplus since these monies resulted from surplus funds in prior years.

TABLE 1

Revenue and Obligations Forecast for 2006*
(\$'s Millions)

	2006 Budget	2006 Projected Actual	Variance
Revenues:			
Sales Tax	\$ 1,001.8	\$ 994.9	\$ (6.9)
Property Tax	738.6	740.5	1.9
State and Federal Aid	286.3	286.0	(0.3)
Tobacco Settlement	23.0	23.0	-
Other Revenues	<u>742.3</u>	<u>707.2</u>	<u>(35.1)</u>
 Total Revenues	 <u>2,792.0</u>	 <u>2,751.6</u>	 <u>(40.4)</u>
 Obligations:			
Payroll and Fringe Benefits	1,202.0	1,177.7	24.3
Debt Service	291.6	291.0	0.6
Social Services	405.0	363.9	41.1
Other Obligations	<u>893.4</u>	<u>903.0</u>	<u>(9.6)</u>
 Total Obligations	 <u>2,792.0</u>	 <u>2,735.6</u>	 <u>56.4</u>
 Projected Surplus	 <u><u>\$ -</u></u>	 <u><u>\$ 16.0</u></u>	 <u><u>\$ 16.0</u></u>

* 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

The projected surplus is primarily the result of aggressive cost cutting by the Suozzi administration. The most significant savings estimate is in salaries where our projections indicate expenditures will be \$27.1 million under the \$832.6 million adopted budget. This favorable variance results primarily from conservative budgeting, unfilled positions and the administration's hiring freeze.

Pursuant to the NIFA Act, in 2006 the county effectively ended the practice of borrowing to pay property tax refunds. The 2006 budget utilizes a \$50 million reserve to pay refunds for successful real property assessment challenges.

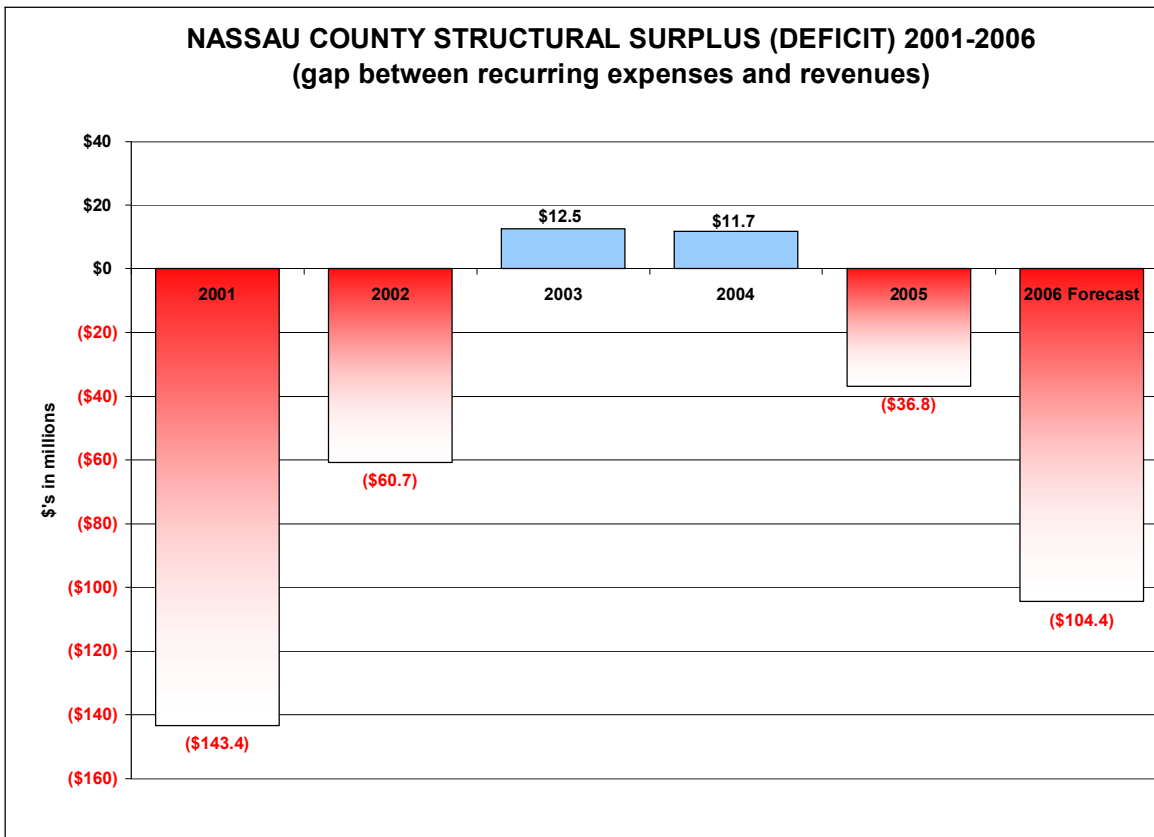
We project that the FY 06 budget will not have to absorb additional expenditures for the Nassau Health Care Corporation (NHCC). A positive resolution of state and federal reimbursement problems has improved the corporation's near-

term fiscal outlook. A “preliminary updated strategic plan” issued by NHCC management on July 24 outlines initiatives to improve the corporation’s long-term fiscal viability. NHCC has indicated that any request for the county to release tobacco settlement proceeds to provide additional subsidies to NHCC will not occur prior to completion of its capital plan.

Over the last several years the administration has been successful in improving the financial condition of Nassau County. Nassau County achieved structural budgetary balance during 2003 and 2004, and came close in 2005. However, as with other mature suburban counties, it remains exposed to increasing structural deficits in future years as growth in annual recurring expenses continues to outpace annual recurring revenues.

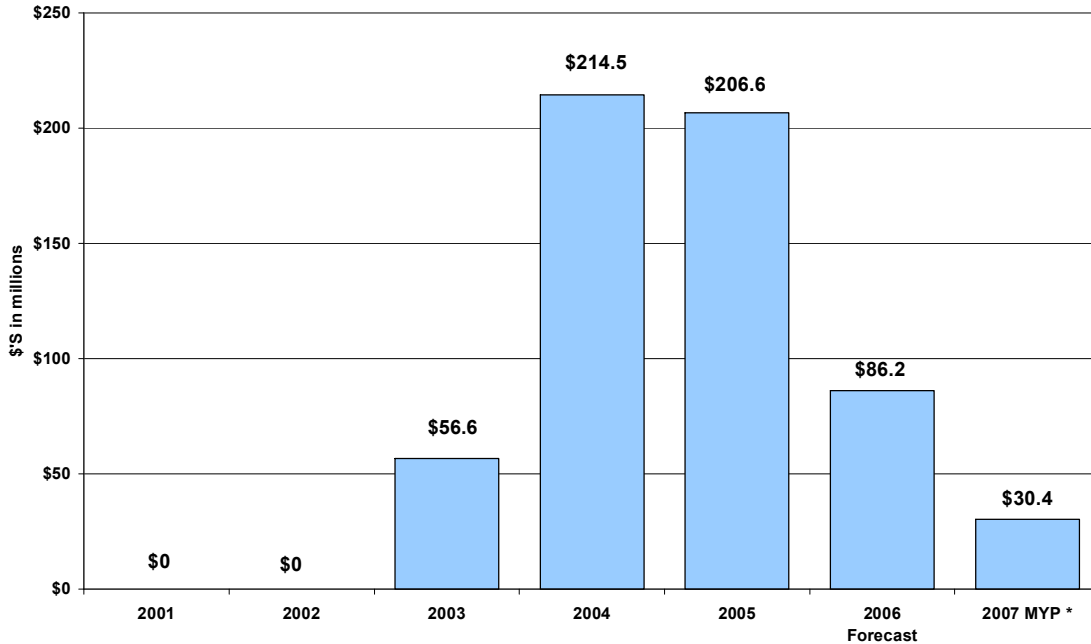
For 2006, we project a structural deficit of \$104.4 million, indicative of the growing imbalance in recurring operating revenues and expenses. (see Chart 1 below).

CHART 1



In 2003 - 2005 the county conservatively used annual surpluses to establish reserves that it has been drawing on to provide budget relief. We estimate the balance of these reserves will decline from \$206.6 million at the end of FY 05 to \$86.2 million at the end of FY 06. (see Chart 2 below). Based upon the Multi-Year Financial Plan Update Fiscal 2006 - 2009 this balance will be substantially exhausted at the end of 2007.

CHART 2 **PRIMARY FUNDS RESERVES**



* Per the Multi-Year Plan Update Fiscal 2006-2009, as further modified by OMB, July 2006.

The use of each type of reserve is shown on the following table:

TABLE 2					
Reserves - Primary Funds					
Source (Use)					
(\$'s Millions)					
Source of Reserve (Use of Reserve)	2003	2004	2005	2006	2007
<u>Pension Savings Reserve (major funds)</u>		\$ 78.5			
Replenish reserve			\$ 24.8		
(Payment of pension expense)			(34.4)	\$ (33.5)	\$ (26.4)
<u>Funds Reserved for Pension Bond Retirement</u>	18.1				
(Payment of pension bonds)		(9.9)	(8.2)		
<u>Reserve for future medical expense</u>					
Current year Tobacco receipts		23.6	(23.0)	(23.0)	
Balance of Tobacco funds available		37.0			(14.6)
<u>Reserve for payment of debt service</u>		10.0			
(Use of reserve)			(10.0)		
<u>Reserve for bond indebtedness</u>		25.0	0.7		
(Use of reserve)				(10.9)	(14.8)
<u>Reserve for litigation</u>		3.3	3.0		
(Use of reserve)			(3.3)	(3.0)	
<u>Funds set aside for police terminations</u>	38.5				
(Release of reserves to establish Employee Benefit Accrued Liability Reserve Fund)		(28.9)			
(Anticipated 2004 termination costs)		(7.0)			
(Purchase of additional police vehicles)		(2.3)			
(Deficit fund balance)		(0.3)			
<u>Reserve for Employee Benefit Accrued Liability Reserve Fund</u>		28.9	(7.5)		
<u>Transitional reserve</u>					
Revenue from 840 account			35.0		
Recovery of 2003 sewer charges			15.0		
(Use of reserve)	-	-	-	(50.0)	
Total source	\$ 56.6	\$ 206.3	\$ 78.5	\$ -	\$ -
Total use	-	(48.4)	(86.4)	(120.4)	(55.8)
Balance	\$ 56.6	\$ 214.5	\$ 206.6	\$ 86.2	\$ 30.4

In addition to funds designated for use in reserves, an additional fund balance of \$77.1 million is available. However, we agree with the administration's policy that it should not be used except in case of an extraordinary revenue need.

Because of the increasing structural imbalance in the county's budget and the draw down of funds previously reserved, county administrators will have to work even harder to close budgetary gaps in the coming years.

SIGNIFICANT VARIANCES - Revenues

Tax Revenues

Sales Tax

Gross sales tax receipts are projected to total \$988.9 million, which is \$6.9 million less than the \$995.8 million adopted budget. (For 2006 presentation purposes we do not include the deferred portion of the part county sales tax of \$6 million which is included in budgeted total sales tax). This estimate is based on year-to-date collections compared to the prior year's receipts, both adjusted for extraordinary items.

The Multi-Year Financial Plan Update Fiscal 2006 - 2009 includes a revised 2006 sales tax projection of \$984.2 million, which represents a decrease from the adopted budget of \$11.6 million, and revised future estimates calculated using this new base. Excluding 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 3.2 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, at 41% of budgeted revenues net of inter-fund transfers, is the county's largest revenue source and actual results are subject to uncontrollable economic factors.

	JULY 1 YTD Sales Tax Collected	% July 1 YTD vs total collected/projected	GROSS ANNUAL Sales Tax Collected/Projected*
	(\$'s in millions)		(\$'s in millions)
2001	\$351.9	42.3%	\$831.9
2002	358.0	41.4%	865.5
2003	362.2	40.4%	895.5
2004	392.0	41.7%	939.9
2005	392.1	41.1%	953.8
2006	415.6	42.0%	988.9

* 2006 projected is net of the deferred part county sales tax of \$6 million

Property Tax

Property tax revenue is projected to be \$1.9 million greater than the \$738.6 million adopted budget. This favorable variance has been generated by the expiration of assessment exemptions upon sale of properties. The FY 06 estimate is lower than FY 05 since sales tax revenues, which pursuant to State law are used as an offset to the county's

portion of property taxes for the county's three towns and City of Glen Cove, have been reclassified from property tax to sales tax revenues, beginning with the 2006 budget.

PROPERTY TAX			
(\$'s in millions)			
2005 Actual	2006 Budget	2006 Forecast	Variance
\$745.9	\$738.6	\$740.5	\$1.9

Non-Tax Revenues

Intergovernmental Transfer From NHCC

We project that intergovernmental transfer (IGT) payments from the county to the NHCC will be \$38.5 million under budget for both revenue and expense. The county no longer receives reimbursement for IGT payments from the NHCC. Instead, the IGT payments are substituted for other county subsidies that NHCC previously paid separately. This change has no impact on the county's financial results.

INTERGOVERNMENTAL TRANSFER FROM NHCC			
(\$'s in millions)			
2005 Actual	2006 Budget	2006 Forecast	Variance
\$38.5	\$39.6	\$1.1	(\$38.5)

Investment Income

The county typically invests available funds in interest bearing checking accounts and bank certificates of deposit. Because the Federal Funds Rate has risen and the county has more available cash to invest, the county and the Nassau Interim Finance Authority, have had higher interest earnings. We forecast investment income will be \$6.7 million over the \$14 million budget.

INVESTMENT INCOME					
(\$'s in millions)					
2005 YTD June	2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
\$6.7	\$18.0	\$14.0	\$9.6	\$20.7	\$6.7

Rents and Recoveries

For 2006, we are projecting a \$6.4 million favorable variance for rents and recoveries, against an adopted budget of \$54 million. A significant contributor to this favorable variance is the recognition of \$4.1 million of prior year Medicaid mental health revenue that was not properly distributed. In 2005, the State recognized that for many years certain Chapter 621 Medicaid mental health cases had revenues incorrectly allocated to counties state-wide. Although the county had originally budgeted for the receipt of \$3.4 million, the State has recently calculated the figure to be \$7.5 million. Additionally, the county had joined what proved to be a successful class action suit against the manufacturer of defective protective vests for police officers. The recovery resulting from this lawsuit has contributed an unbudgeted settlement in the amount of \$2.2 million.

RENTS AND RECOVERIES					
(\$'s in millions)					
2005 YTD June	2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
\$9.2	\$68.4	\$54.0	\$23.9	\$60.4	\$6.4

Special Non Recurring Initiatives

The administration has budgeted \$13.4 million of prior year fund balance. We project the county will use all but \$5 million that was originally intended for unforeseen events.

Special Non Recurring Initiatives			
(\$'s in millions)			
2006 YTD June	2006 Budget	2006 Forecast	Variance
\$ 0	\$13.4	\$8.4	(\$5.0)

State Aid

In total, state aid is projected to be \$2.1 million over the FY 06 adopted budget of \$171.2 million. Reasons for this favorable variance include: \$3 million of reimbursements for Department of Health preschool special education programs; \$400 thousand for prior year police emergency equipment purchases; and \$500 thousand for increased public assistance costs and caseload. Partially offsetting this variance is a \$1.8 million reduction of aid associated with the postponement of the Coes Neck Brownfields

remediation project, located in Baldwin, which is now scheduled to begin in 2007. This reduction in state aid will be offset by a reduction in contractual expense related to the project. NIFA transitional aid ended in 2005, when the county received \$12.3 million.

STATE AID INCOME				
Excluding NIFA Transitional Aid & IGT				
(\$'s in millions)				
2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
\$194.7	\$171.2	\$57.4	\$173.3	\$2.1

Special Taxes

For FY 2006, our projections are that special taxes will be approximately \$800 thousand over the \$29 million budget. Special taxes includes: surcharges on automobile registrations; 911 phone surcharges; entertainment surcharge on tickets sold in the county; and the hotel/motel tax on room rentals. The favorable variance is primarily attributed to the hotel/motel tax. Since there was a degree of uncertainty surrounding the date that the tax would be approved by the State for 2006, the budget was conservatively calculated. Extension of the hotel/motel tax legislation occurred in June 2006. Based on 2006 actual receipts, we project that hotel/motel taxes will exceed budget.

Special Taxes					
(\$'s in millions)					
2005 YTD June	2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
\$12.2	\$29.6	\$29.0	\$12.0	\$29.8	\$.8

Revenue to Offset Expense

We are projecting an unfavorable variance of \$2.9 million against an adopted budget of \$14.3 million. The unfavorable variance pertains to the Medicare Part D retiree drug subsidy that will be received by the county. Federal legislation provides for a subsidy to employers that continue to provide prescription drug coverage that is as good as or better than the standard Medicare Part D benefit. This subsidy flows back to the

county primarily through the New York State Health Insurance Program (NYSHIP). Our calculations reflect a lower number of plan participants, than were originally budgeted, resulting in a lower projected level of reimbursement.

Revenue to Offset Expense					
(\$'s in millions)					
2005 YTD June	2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
\$.7	\$3.4	\$14.3	\$.3	\$11.4	(\$2.9)

OTB Profits

We project a \$2.5 million shortfall for 2006 Off-Track Betting Corporation profits. Forecasted 2006 OTB distributed profit is expected to be \$3.2 million versus a budget of \$5.7 million. It is important to note, however, that \$870 thousand of this variance results from reclassifying a portion of OTB profit to Departmental Revenue. This \$870 thousand pertains to interest expense savings that OTB was able to recognize as a result of a Revenue Bond Support Agreement between OTB and Nassau County. This Support Agreement has allowed OTB to receive cost efficient access to capital credit markets by having the county further secure the revenue bonds. Approximately \$1 million of the total unfavorable variance is due to the inability to capitalize salary and related expenses because previously planned capital construction has not begun. This resulted in the operating budget absorbing the salary and related expense. The remaining variance can be attributed to increased pension and health insurance expenses.

OTB PROFITS					
(\$'s in millions)					
2005 YTD June	2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
\$1.5	\$5.5	\$5.7	\$0	\$3.2	(\$2.5)

Permits and Licenses

We project an unfavorable variance for 2006 of \$2.5 million against the \$12.5 million budget for permits and licenses revenue. This unfavorable variance is due to lack of state legislative approval for a licensing program for plumbers and electricians.

Permits and Licenses				
(\$'s in millions)				
2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
\$ 9.5	\$12.5	\$5.9	\$10.0	(\$2.5)

Federal Aid

Federal Aid is projected to be under budget by approximately \$2.4 million against an adopted budget of \$115.1 million. We estimate a net \$1.7 million shortfall in Flexible Fund for Family Services (FFFS) aid, resulting from the 2006 impact of changes in the allocation of aid that began in 2005, partially offset by reimbursements for an increase in the number of participants and cost of public assistance. Also contributing to the shortfall in federal aid is a reduction in the number of federal prisoners being housed at the county corrections facility. This reduction primarily results from last year's creation of a privately run local facility, near JFK International Airport, to house federal prisoners. The unfavorable financial impact of this reduction in the federal prison population is \$1 million. Contributing favorably to the variance is the \$500 thousand reimbursement of unbudgeted federal aid associated with repairs for the Stewart Avenue bus station located in Garden City.

FEDERAL AID INCOME				
(\$'s in millions)				
2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
\$114.5	\$115.1	\$20.4	\$ 112.7	(\$2.4)

Departmental Revenue

During the first six months of 2006, the Department of Parks and Recreation collected \$6.7 million in departmental revenue, 39 percent of the budgeted amount. The total budget for Parks' departmental revenue for FY 06 is \$17.1 million, an increase of 13 percent over last year's actual of \$15.1 million. Based on the current level of revenues,

we are projecting department revenue to be \$15.8 million. This represents a shortfall of \$1.3 million for FY 06.

COUNTY PARKS FUND DEPARTMENTAL REVENUE				
(\$'s in millions)				
2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
\$15.1	\$17.1	\$6.7	\$15.8	(\$1.3)

In the General Fund, we project an unfavorable departmental revenue variance of \$600 thousand, against an adopted budget of \$42.4 million. The gradual rise in interest rates has had a cooling effect on the housing market and mortgage refinancing activity. Based on recent trends, we estimate departmental revenue received by the County Clerk's Office, primarily comprised of mortgage recording fees, will total \$15 million, \$1.5 million under the \$16.5 million adopted budget. Partially offsetting this unfavorable variance is an \$870 thousand favorable reclassification of OTB debt service savings pertaining to the Revenue Bond Support Agreement between OTB and Nassau County. As discussed above in the OTB Profit section of this report, the Support Agreement has facilitated OTB's access to cost efficient capital credit markets by the county's securitization of the revenue bonds.

GENERAL FUND DEPARTMENTAL REVENUE				
(\$'s in millions)				
2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
\$46.4	\$42.4	\$17.9	\$41.8	(\$.6)

SIGNIFICANT VARIANCES - Obligations

Labor Costs

Salaries

Significant salary savings are projected in FY 06 as a result of vacant employee positions, conservative salary budget assumptions, and a hiring freeze imposed by the County Executive on all but essential hires. This variance also includes termination pay and overtime shown below.

A tentative collective bargaining agreement for the period 2005 through 2010 has not yet been reached with the Sheriffs Officers Association (ShOA). The current contract expired on December 31, 2004. Negotiations for a new ShOA contract are currently at an impasse. However, our projection for ShOA salaries includes a 2.5% half year raise for 2005, and 3.5% for 2006 based upon the proposed memorandum of agreement rejected

by the legislature. Current agreements with the Police Benevolent Association and Detectives Association Inc. expire on December 31, 2006. Agreements with the Civil Service Employees Association and Superior Officers Association expire on December 31, 2007.

SALARIES						
(\$'s in millions)						
	2005 YTD June	2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
Salaries	\$ 360.8	\$784.3	\$ 832.6	\$ 386.8	\$ 805.5	\$27.1

Police Termination Pay

The Comptroller's Office estimates that 80 eligible police officers will retire during 2006, 20 fewer than budgeted, generating a \$5.1 million positive variance. Currently, 43 police officers have either retired or have committed to retire in 2006. The budget for 2006 was 45 retirees (\$10.2 million) in the Police District Fund and 55 retirees (\$13.1 million) in the Police Headquarters Fund.

POLICE TERMINATION					
(\$'s in millions)					
	2005 Actual *	2006 Budget	2006 YTD June	2006 Forecast	Variance
Termination Pay					
Police District	\$5.4	\$10.2	\$1.0	\$3.6	\$6.6
Police Headquarters	<u>22.0</u>	<u>13.1</u>	<u>1.4</u>	<u>14.6</u>	<u>(1.5)</u>
Total Termination Pay	<u>\$27.4</u>	<u>\$23.3</u>	<u>\$2.4</u>	<u>\$18.2</u>	<u>\$5.1</u>
Officers Retired					
Police District	37	45	13	20	25
Police Headquarters	<u>73</u>	<u>55</u>	<u>30</u>	<u>60</u>	<u>(5)</u>
Total Officers Retired	<u>110</u>	<u>100</u>	<u>43</u>	<u>80</u>	<u>20</u>

*2005 actual includes \$7.5 million paid from a reserve.

Overtime

Overtime costs for the Police Department and the Correctional Center total \$25 million through the end of June 2006. Overtime for these two departments is projected to

be under the \$67.4 million adopted budget by \$900 thousand. This variance is comprised of an unfavorable \$3.5 million variance in the Police Headquarters Fund, a favorable \$6.2 million variance in the Police District Fund and an unfavorable \$1.8 variance 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 2006, deferred overtime is projected to equal \$10.3 million, of which \$6.5 million is in the Police District Fund and \$ 3.8 million is in the Headquarters Fund. The \$10.3 million forecast is 10 percent higher than the 2005 actual of \$9.4 million.

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. In 2006 the county set aside \$250 thousand for a police staffing study. We understand that the vendor selection process is underway.

OVERTIME						
(\$'s in millions)						
	2005 YTD June	2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
Police District	\$ 8.3	\$ 28.2	\$ 27.0	\$ 7.0	\$ 20.8	\$6.2
Police Headquarters	8.1	23.8	20.4	8.2	23.9	(3.5)
Correctional Center	9.8	21.8	20.0	9.8	21.8	(1.8)
Total	<u>\$ 26.2</u>	<u>\$ 73.8</u>	<u>\$ 67.4</u>	<u>\$ 25.0</u>	<u>\$ 66.5</u>	<u>\$.9</u>

Fringe Benefits

Health Insurance

The FY 06 budget includes an estimated health insurance rate increase over 2005 of 8 percent for active employees and 5 percent for retirees. Actual rate increases were approximately 11 percent for active employees and 5 percent for retirees. The effect of the rate increase for active employees, which amounts to approximately \$3.1 million, will be partially offset by a lower than budgeted number of employees during 2006 receiving health insurance. The overall effect of these factors is projected to result in an estimated unfavorable variance of \$1.5 million.

For future years, the Multi-Year Financial Plan Update contains rate increases of 8 percent for actives, and 5 percent for retirees. Based on the most current information

available from the New York State Health Insurance Program (NYSHIP), we project rate increases of 11 percent for active employees and 12.9 percent for retirees.

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), no later than 2007. 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 current and projected new retirees. While this amount will have no direct budgetary impact, it will highlight the increasing annual payments for retiree health benefits. and bring attention to the cost of providing this fringe benefit. The county can begin to address this by implementing recommendations in the Comptroller’s recent report “Dual Health Insurance Family Coverage for County/NHCC Employees”.

HEALTH INSURANCE EXPENSE						
(\$'s in millions)						
	2005 YTD June	2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
Active employees	\$44.6	\$89.8	\$101.6	\$50.7	\$101.4	\$.2
Retired employees	37.0	74.0	77.6	39.2	78.5	(.9)
NHCC retired employees	<u>6.9</u>	<u>17.0</u>	<u>17.7</u>	<u>7.4</u>	<u>18.5</u>	<u>(.8)</u>
Total	<u>\$88.5</u>	<u>\$180.8</u>	<u>\$196.9</u>	<u>\$97.3</u>	<u>\$198.4</u>	<u>(\$1.5)</u>

Workers’ Compensation

Expenditures for workers’ compensation are projected to be \$3.9 million over the \$17.6 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 06 expenses will be \$21.5 million. Expenses for medical and

indemnity claims are projected to be over budget by approximately \$5 million due primarily to the processing of prior year's claims. Partially offsetting this increase is an anticipated savings of \$1 million on workers compensation assessments paid to the State.

WORKERS' COMPENSATION EXPENSE				
(\$'s in millions)				
	2005 Actual	2006 Budget	2006 Forecast	Variance
Workers' Compensation	\$18.9	\$17.6	\$21.5	(\$3.9)

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. Based upon better investment returns, at this time we believe that next year's contribution rate will remain relatively stable. During 2005, the first year in which the pension savings could be used, the county drew down \$34.4 million of the reserve for pension payments. In 2006 the county utilized \$33.5 million of the reserve for pension payments. The Multi-Year Financial Plan Update Fiscal 2006 – 2009 indicates that the balance of the reserve will be substantially exhausted by the end of 2007.

PENSION CONTRIBUTION			
(\$'s in millions)			
2006 Forecast	2006 Budget	Use of Pension Reserve	Variance
\$110.5	\$76.1	\$33.5	(\$.9)

Social Services

Intergovernmental Transfer Program

We project that intergovernmental transfer (IGT) payments from the county to the NHCC will be \$38.5 million under budget for both revenue and expense. Further explanation of IGT is provided in the Intergovernmental Transfer From NHCC revenue section of this report (see page 8).

Intergovernmental Transfer Program			
(\$'s in millions)			
2005 Actual	2006 Budget	2006 Forecast	Variance
\$41.0	\$39.6	\$1.1	\$38.5

Medicaid

Fiscal year 2006 is the first year that the county is operating under the new State Medicaid Cap provision. The current year's Medicaid expense is based on a formula that uses actual 2005 Medicaid expense as a starting point, net of revenues and certain other additions and deductions. Since all the components of the formula were not finalized at the time of the 2006 budget adoption, subsequent Medicaid Cap modifications have resulted in a potential benefit to the county in the amount of \$2.8 million against the original budget of \$214.6 million. This favorable variance is based on our forecast of the 2006 cap being \$211.8 million. For presentation purposes, we have increased the original budget of \$214.6 million by a \$2.5 million Medicaid reserve budgeted in "other expenses". Since we believe it is unlikely that the reserve will be utilized, we are projecting an additional favorable variance of \$2.5 million.

The 2005 cap formula has now been finalized, and it will be used in calculating future years' Medicaid Cap. Using the 2005 Medicaid Cap as a baseline, future years' expense will be derived by increasing 2005's cap expense by 3.5 percent for 2006, 6.75 percent for 2007, and 9.75 percent for 2008. This calculated figure is then adjusted to reflect the difference in the fiscal years between the county and State. After 2008, the county has an option of paying an annual Medicaid increase of 3% per year. In lieu of this option, the county could elect to provide the State with a calculated percentage of

sales tax revenue. This second option would only prove financially desirable if future sales tax revenue increased at less than 3 percent per year. The county has until September 2007 to elect one of the future funding alternatives.

MEDICAID EXPENSE				
(net of IGT)				
(\$'s in millions)				
	2005 Actual	2006 Budget	2006 Forecast	Variance
Medicaid	\$238.9	\$214.6	\$211.8	\$2.8
Medicaid Reserve	<u>0</u>	<u>2.5</u>	<u>0</u>	<u>2.5</u>
Total	\$238.9	\$217.1	\$211.8	\$5.3

Early Intervention / Pre-School Special Education

The early intervention / pre-school special education programs administered by the Department of Health are projected to be over budget by approximately \$5.5 million. This is the result of the continued growth in both the number of children receiving services, as well as, the number of services provided per child. Also contributing to this variance are retroactive rate increases, granted by New York State, to the county's various service providers. The increase in this expense will be partially offset by approximately \$3 million of state aid.

EARLY INTERVENTION / PRE-SCHOOL EDUCATION					
(\$'s in millions)					
2005 YTD June	2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
\$122.9	\$146.4	\$144.1	\$139.2	\$149.6	(\$5.5)

Recipient Grants

We are projecting an unfavorable recipient grants variance of \$700 thousand versus a 2006 budget of \$51.7 million. Recipient grants consist of such programs as: Temporary Assistance to Needy Families (TANF); Safety Net Assistance (formerly

known as Home Relief); Subsidized Adoptions; Children in Foster Homes; and Home Energy Assistance. The principal factor negatively impacting recipient grants is an increased case load level in Safety Net, TANF and Subsidized Adoptions.

Recipient Grants					
(\$'s in millions)					
2005 YTD June	2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
\$24.6	\$47.9	\$51.7	\$26.8	\$52.4	(\$.7)

Other Obligations

Other Expenses

We estimate other expenses to be \$5.3 million under the 2006 budget of \$36.3 million. The principal reason for this variance pertains to the existence of a \$5 million reserve appropriation intended for unforeseen events. The amount of this reserve has been presented as a favorable variance - if it is used it will offset an unfavorable variance presented elsewhere in this report.

Other Expenses					
(\$'s in millions)					
2005 YTD June	2005 Actual	2006 Budget **	2006 YTD June	2006 Forecast	Variance
\$16.7	\$47.4	\$36.3	\$17.7	\$31.0	\$5.3

** Note: For presentation purposes, the 2006 budget has been reduced by \$2.5 million to exclude the Medicaid contingency reserve which has been reflected in the Social Services Medicaid budget presented elsewhere in this report.

General Expenses

A previously anticipated shortfall in sales tax receipts for 2006 has resulted in the County Executive implementing a purchasing freeze on all but essential/emergency other-than-personal services (OTPS) spending. This measure is expected to produce a

favorable variance of approximately \$1.4 million out of the \$33.4 million general expense budget.

GENERAL EXPENSES					
(\$'s in millions)					
2005 YTD June	2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
\$17.0	\$29.8	\$33.4	\$17.6	\$32.0	\$1.4

Debt Service

In total, we project debt service to be \$600 thousand under the adopted budget of \$291.6 million. Contributing to this favorable variance is \$500 thousand resulting from the reduced size of the NIFA fall borrowing program and lower than budgeted interest rates on tax anticipation notes.

DEBT SERVICE			
(\$'s in millions)			
2005 Actual	2006 Budget	2006 Forecast	Variance
\$304.9	\$291.6	\$291.0	\$.6

Utilities

We are projecting a negative variance of approximately \$7.5 million from the adopted budget of \$33.2 million for utilities. Although the 2006 budget was increased by 6 percent over 2005 budget, this was not sufficient to cover the increase that has taken place during 2006. This unfavorable increase in the county's oil and electric utility costs is being driven primarily by the increase in energy prices.

UTILITY COSTS			
(\$'s in millions)			
2005 Actual	2006 Budget	2006 Forecast	Variance
\$37.3	\$33.2	\$40.7	(\$7.5)

Contractual Obligations

Contractual obligations are projected to be \$4.1 million more than the \$130.9 million adopted budget. Based on our analysis, Nassau Health Care Corporation charges for medical services for Correctional Center inmates, will be \$4 million over budget. Also contributing to the unfavorable variance is a \$1.9 million one year contract extension for the law firm of Manatt, Phelps & Phillips, which was not included in the budget. This law firm is the county's consultant on matters relating to the Nassau Health Care Corporation. Partially offsetting this unfavorable variance is a \$2 million reduction in expense related to the postponement of the Coes Neck remediation project. The Coes Neck initiative is a Brownfields redevelopment project that covers a 35 acre tract of land in Baldwin, which is owned by Nassau County. The primary objective of a Brownfields project is to facilitate the cleanup of sites that contain known or suspected environmental contamination. This reduction in contractual obligation will be offset by a loss of state aid of approximately \$1.8 million.

CONTRACTUAL EXPENSE					
(\$'s in millions)					
2005 YTD June	2005 Actual	2006 Budget	2006 YTD June	2006 Forecast	Variance
\$86.2	\$121.8	\$130.9	\$81.8	\$135.0	(\$4.1)

Property Tax Refunds

Under the NIFA Act, in fiscal year 2006 the county must begin to pay property tax refunds from its operating budget. In accordance with the legislation, the county will be permitted to issue debt to fund only \$15 million of property tax refund expenditures during 2006, \$10 million in 2007, and none thereafter. This shift to the pay- as-you-go (PAYGO) financing of property tax refunds is projected to initially result in \$50 million of additional operating costs. Historically, property tax refunds have been financed with long-term debt, which has averaged over \$100 million per year. The administration has indicated that the amount set aside in the 2006 budget will be sufficient to pay claims in 2006.

Other Issues – Nassau Health Care Corporation (NHCC)

The financial stability of the Nassau Health Care Corporation is essential 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 financial ability to repay its outstanding indebtedness of \$301 million, which is guaranteed by the county.

A positive resolution of state and federal reimbursement problems has improved the corporation's near-term fiscal outlook. A "preliminary updated strategic plan" issued by NHCC management on July 24 outlines initiatives to improve the corporation's long-term fiscal viability. NHCC has indicated that any request for the county to release tobacco settlement proceeds to provide additional subsidies to NHCC will not occur prior to completion of its capital plan.