NASSAU COUNTY
OFFICE OF THE COMPTROLLER

COMPTROLLER'S COMMENTS ON THE PROPOSED NASSAU COUNTY 2008 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 2008 Budget and Multi-Year Financial Plan

Executive Summary

On September 17, 2007, County Executive Thomas R. Suozzi presented to the County Legislature his proposed Fiscal 2008 (FY 08) Budget ("proposed budget") and Multi-Year Financial Plan ("financial plan") for the years 2008 through 2011, as required by the Nassau County Charter and the Nassau County Interim Finance Authority (NIFA) Act. The Comptroller's Office analyzed the assumptions and financial estimates contained in the proposed budget and financial plan. This report highlights material revenue and expense items, and areas of potential significant risk.

The 2008 budget holds overall County tax levies flat and proposes a modest 1.9% increase in spending. County residents benefit from the County Executive's determination to minimize their tax burden as reflected by another year with no overall property tax increase, but the budget leaves little margin for error in its implementation. Critical elements in the budget will be difficult to achieve and cooperation from all parties will be necessary in order for the budget's assumptions to be realized. The budget contains revenue items that require approval by the Governor, the State Legislature, the County Legislature, or both Legislatures before they can be implemented. The County Legislature will also have to exercise especially tight restraint, so that if new expenditures are added, they are balanced with other expense reductions. The budgeted labor concessions will require that the administration and unionized work force collaborate to achieve contracts reflecting the budgeted savings. The administration will also have to continue its excellent record of careful, professional management to ensure that budget savings are achieved, and adapt if budgeted revenues do not materialize.

Schedule 1 on the next page lays out the budgetary items that in our view are at risk of not being achieved ("risks") and the budgetary items that in our view might turn out more favorably than the budget projects ("opportunities"). Assuming that the County benefits from the reduced expenditures and revenue items identified as opportunities, the proposed 2008 budget still presents a net budgetary risk of $50.6 million. This amount of budgetary risk is greater than we have recognized in previous years under this administration. The administration has demonstrated in the past that it closely monitors the County's fiscal performance throughout the year to identify when additional action is needed. If the items identified as risks fall short of projections, the administration can still achieve budgetary balance by appropriate financial management at the first sign that corrective action is needed.

Schedule 1

PROPOSED NASSAU COUNTY 2008 BUDGET
MAJOR FUNDS
SUMMARY OF RISKS and OPPORTUNITIES
($'s Millions)

Revenues		
Proposed Budget - net of interfunds	**$ 2,557.1**	
Risks		
Revenues requiring State Legislation	(15.5)	
Sales Tax	(10.0)	
Parks revenue at risk	(7.0)	
State Funding for Fashion Institute of Technology	(4.1)	
Traffic & Parking Violation revenues at risk	(4.0)	
Federal Aid for Social Services	(4.0)	
Revenue offsets to expenses	(1.7)	
Total Revenue Risk		**$ (46.3)**
Expenses		
Proposed Budget - net of interfunds	**2,557.1**	
Risks		
Labor concessions from CSEA, SOA, DAI and ShOA	(19.2)	
Police and Corrections overtime	(5.6)	
NHCC Subsidy	(4.5)	
Worker's Compensation new initiatives	(2.5)	
Worker's Compensation medical expenses	(2.0)	
Inventory management initiative	(2.4)	
Savings from new time & leave system	(1.7)	
Additional property tax refunds	not quantifiable	
Police services termination pay	*	
Total Expense Risk		**(37.9)**
Opportunities		
Open positions excluding uniformed services	11.5	
Amount budgeted for unspecified contingencies	10.0	
Attrition excluding uniformed services	6.0	
Total Opportunities		**27.5**
Estimated Budget Risk Before Technical Corrections		**(56.7)**
Technical Corrections		
Property tax on new construction (opportunity)	6.1	
Total Technical Corrections		**6.1**
Estimated Budget Risk (net)		**$ (50.6)**

* May be mitigated by the use of the Employee Accrued Liability Reserve Fund

Summary of Revenues

The budget calls for an increase in the property tax levy in the General Fund of $25 million, a decrease in the levy in the Police Headquarters Fund of $10 million and a decrease in the levy in the Sewer and Storm Water Resource District Fund of $15 million. All County residents pay General Fund and Police Headquarters taxes and approximately 85% of County residents pay taxes in the Sewer and Storm Water Resource District. In addition, all taxpayers will see an increase in the Environmental Bond Fund of $3.2 million to a total of $7.4 million, as approved by the voters in November of 2004 and 2006.

Schedule 2

Budgeted Property Tax by Fund
($ Millions)

	2007 Adopted Budget	2008 Proposed Budget
Fire Commission	$ 15.7	$ 15.5
Police Districts	331.6	332.5
Police Headquarters	287.1	276.6
General Fund	124.0	148.8
Sewer and Storm Water Resource District Fund*	118.9	103.9
Total Property Tax	$ 877.3	$ 877.3

*Because it is not included as one of the County's major funds under the NIFA Act, the activity of the Sewer and Storm Water Resource District Fund is not included in the remainder of this report, except for schedule 7 (Property Tax)

The proposed budget incorporates an assumption for sales tax growth of 2.5%, on top of the 2007 forecasted growth of 2.1%. The most recent sales tax figures indicate that the rate of growth in 2007 has been 1.4%. Sales tax comprises approximately 41% of total County revenue and because it is impossible to know with certainty, or to control, what the sales tax receipts will be for the coming year, sound budget practice dictates conservative sales tax growth forecasts. We have identified $10 million of 2008 sales tax as at risk because of the reduced rate of growth to date in 2007 and because of a technical correction to the calculation of the 2007 sales tax base.

The proposed budget includes new revenue generating initiatives for increased fees and payments by the State. Because some of these revenue initiatives are dependent upon State or local legislation which has not yet been enacted into law, these revenue items are also subject to risk.

Summary of Expenditures

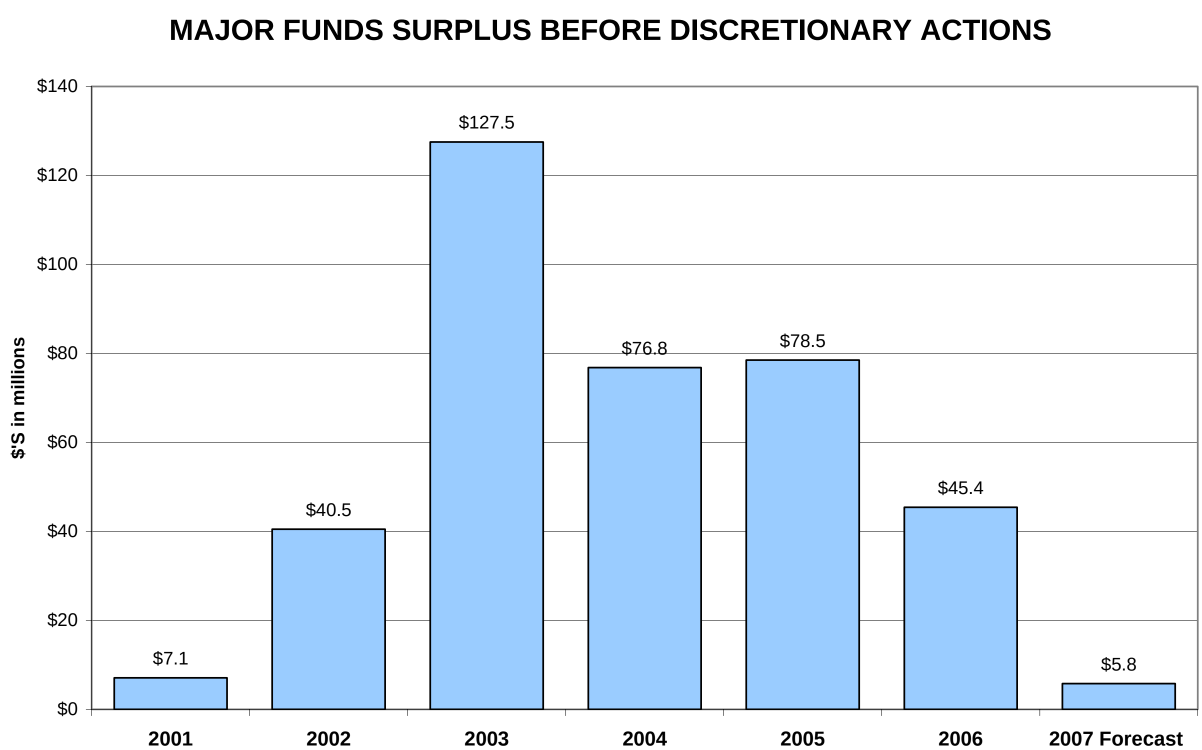
On the expense side, new cost cutting initiatives, including labor concessions, are incorporated into the budget although they have not yet been achieved. While we agree with the administration that there are opportunities for savings in negotiating labor contracts, the more conservative approach would be to budget savings after new agreements have been reached. Budgeted labor concessions depend on new County contracts with the Sheriff Officers Association (ShOA), Civil Service Employees Association (CSEA), Detectives Association Inc. (DAI), and the Superior Officers Association (SOA).

Basing anticipated labor concessions on historical first year settlements with the CSEA and applying the percentages in the 2007 settlement with the Police Benevolent Association (PBA) to the ShOA, DAI and SOA, we estimate that approximately $19.2 million of the labor savings incorporated in the budget is at risk.

Components of the County's Structural Gap

In our "***Report on the County's Financial Condition for the First Six Months of Fiscal Year 2007***," we projected that the County would end 2007 with a small surplus of up to $5.8 million. Based on the latest State data for sales tax growth in 2007, it appears less likely now than it did at the time of the Report that the County will achieve that level of surplus. We will determine the actual 2007 surplus as part of our year-end review, which historically has been released the following February. Chart 1 presents the major fund surplus from 2001 to our 2007 mid-year forecast.

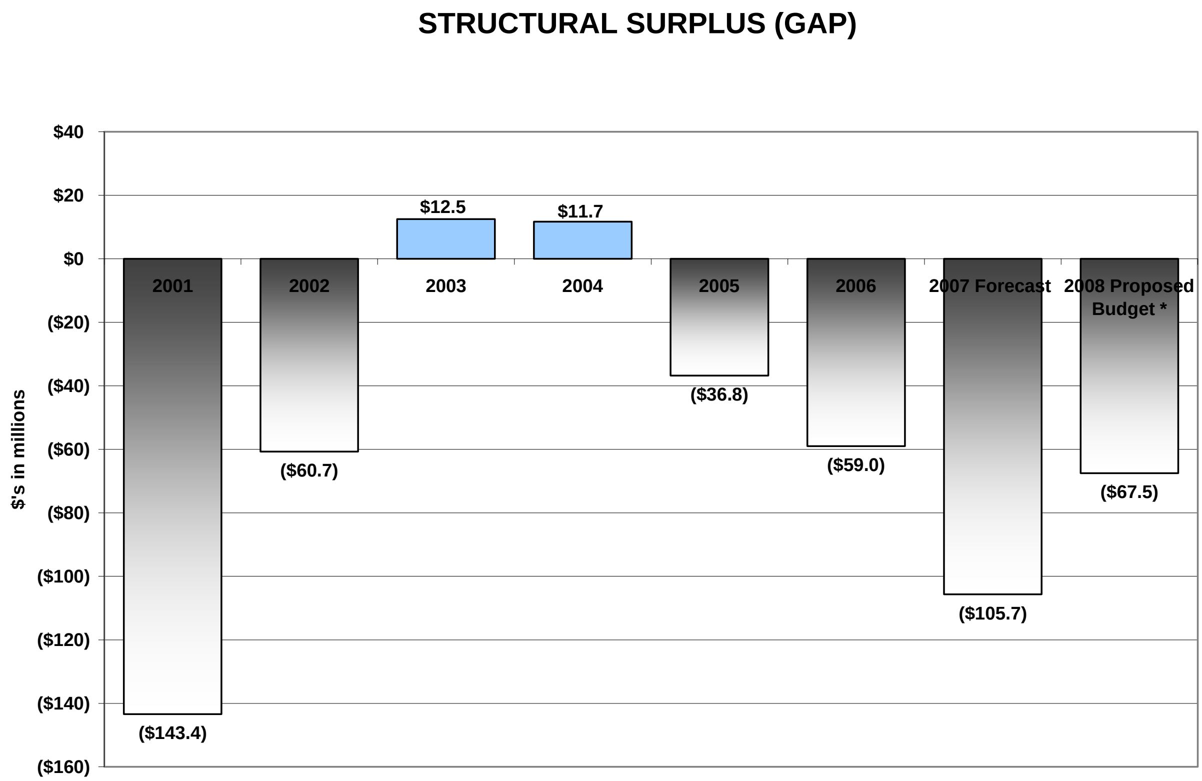
Chart 1



In our "***Report on the County's Financial Condition for the First Six Months of Fiscal Year 2007***," we indicated our concern over lower operating surpluses and the continued imbalance between recurring operating revenues and expenses. Without sufficient recurring revenues to match recurring expenses, the administration has drawn down its reserves and used fund balance to achieve a balanced budget.

The proposed 2008 budget starts to reverse the three year trend of growing structural budget gaps by increasing recurring revenues and cutting the rate of recurring expense growth. Chart 2 shows that for the major operating funds, the proposed budget uses a total of approximately $67.5 million of reserves, fund balance and operating surplus to pay for recurring expenses. This is a substantial improvement over the structural gap we forecast for FY 07 of $105.7 million. To the extent that risks materialize over the course of 2008, the administration may need to draw on additional non-recurring revenues, such as appropriating additional fund balance, to stay in balance. In that event, the 2008 structural gap will worsen.

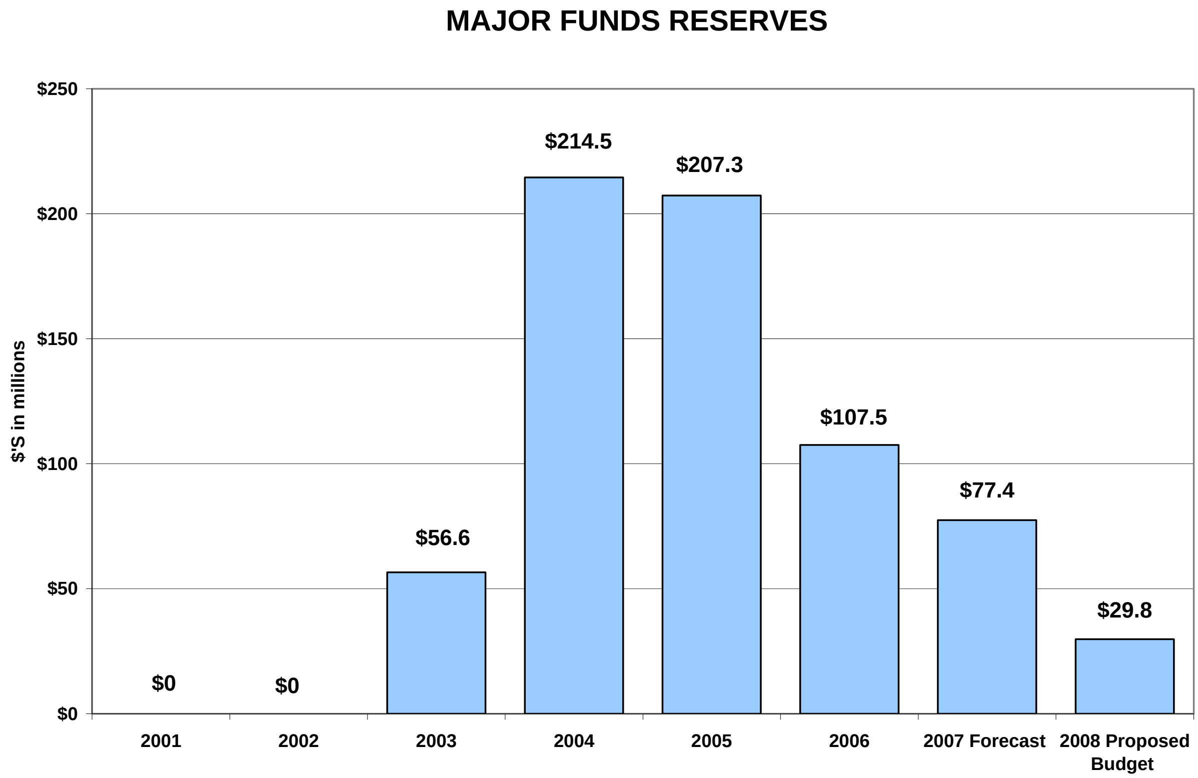
Chart 2



* assumes County can manage the 2008 budget without relying on additonal nonrecurring revenues.

The administration has spent its reserves appropriately for the purposes the reserves were established, primarily to transition to higher pension payments and fund termination payments. Chart 3 demonstrates that the administration will have substantially exhausted existing reserves by the end of 2007. Because the County will still have to fund the increased expenses in future years and no new revenues have been established to pay for them, the exhaustion of the reserves will put increasing pressure on the County's budgets during the remaining years of the Plan.

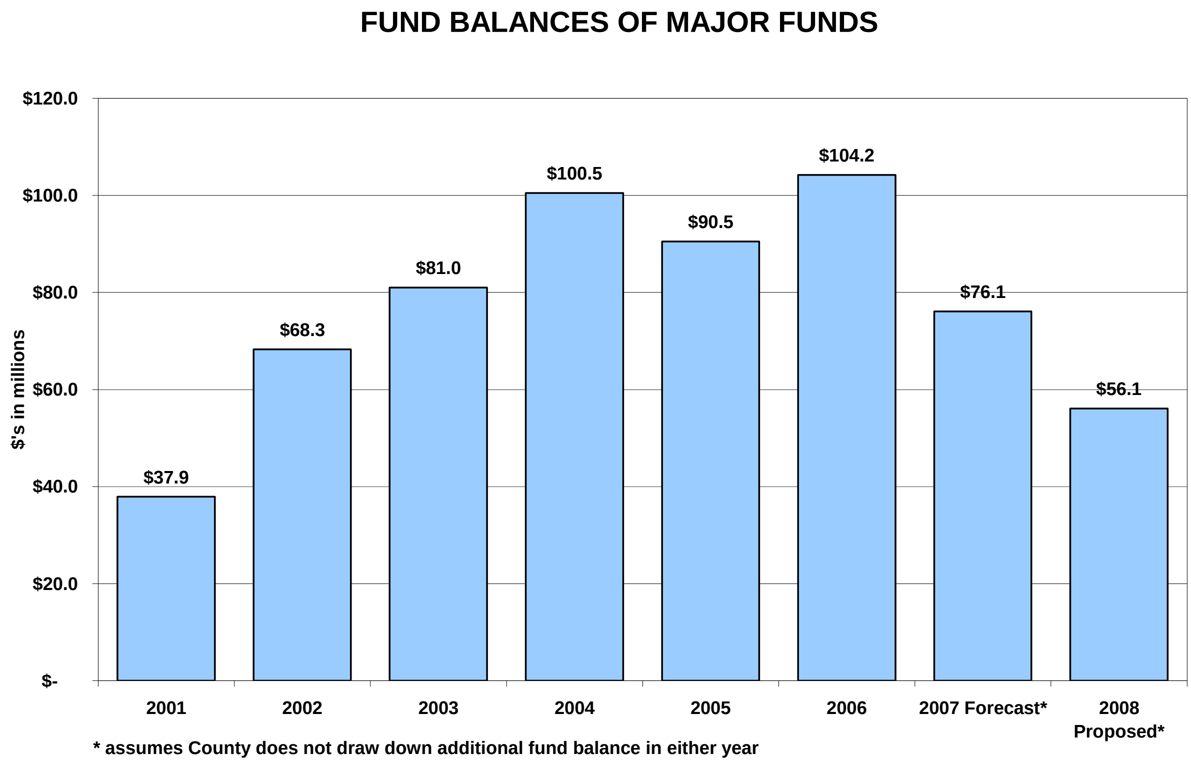
Chart 3



We project that at the end of 2008, the County will have $29.8 million of reserves and $56.1 million of accumulated fund balance, down from 2004 balances of $214.5 million and $100.5 million respectively. These figures do not include $98 million currently available from the tobacco settlement refinancing, which the administration had previously proposed spending primarily on capital needs of the Nassau Health Care Corporation (NHCC).

Chart 4 presents the accumulated fund balance of the County's major funds.

Chart 4



Transition to "PayGo" Funding of Property Tax Refunds

FY 08 is the third year of the County's transition to "pay-as-you-go" funding of property tax refunds from the operating budget, as opposed to long-term borrowing. The proposed budget continues the County's positive trend of increasing the amount of refunds paid from recurring revenues. In 2006, the administration funded this expense entirely from reserves and surpluses. In 2007, for the first time, half of the $50 million expense was funded from recurring revenues and half from FY 06 surplus. The administration has stated that it may end up paying more than the $50 million in FY 07 but has not yet identified the source of the additional funds should the need come to pass. In FY 08, $40 million will be funded from recurring revenues and $10 million from the administration's projected FY 07 surplus. This Office is concerned that the County will not end FY 07 with a surplus of $10 million, in which case the administration may need to appropriate additional fund balance to pay property tax refunds (see "Use of Fund Balance" section, page 14).

New Development Easing Property Tax Burden

The administration has supported major new building development, such as the proposed County HUB, in part on the grounds that new construction will bring new property tax revenue, relieving existing residents' tax burden. Historically, Nassau County's existing property owners benefited when new construction became part of the County's tax base. In order to give today's property taxpayers the same tax relief, the property tax levy needs to include the taxes paid on newly constructed properties.

We believe this technical correction will add $6.1 million for 2008. Because of the magnitude of the risks identified in the proposed budget, if this technical correction is made, the revenue must be set aside as a contingency against the many identified risks and not seen as a spending opportunity.

The Financial Plan

The financial plan presents projected future year budget gaps of $124.7 million in FY 09, $174.6 million in FY 10, and $197.5 million in FY 11. As the County has gained experience with multi-year plans since 2002, it has found that some of the additional revenues or expense reductions called for in the out-years did not turn out to be necessary and that budgets could in fact be balanced without all the planned actions. The currently projected gaps are significant and indicative of the County's ongoing fiscal challenges. It is common for municipalities that forecast multi-year plans to show gaps in the out-years. The issue is how the administration proposes to close the gaps and whether it can build a consensus to support the necessary measures. Although the administration has held expense growth to 3.2% over the period 2002-2007 and only 1.9% in the proposed 2008 budget, and the structural gap has started to decline, it is still significant because recurring revenues have not increased sufficiently to cover even this low rate of growth in expenses. The administration has used the County's reserves and fund balance to pay for increasing expenses without having to burden County taxpayers with an overall property tax increase. In the out-years of the plan, the reserves will have been substantially depleted and fund balance reduced by almost half since 2004. It will not be possible to balance the County's budgets in the out-years without new recurring sources of revenue or significant recurring expense reductions. It is not too early to start presenting to County residents the difficult choices that must be made in order to balance the County's budgets in the future.

For 2009, the proposed financial plan identifies a 3.8% property tax increase as one gap closing measure, and still requires $95.1 million in other new expenditure reductions and revenue initiatives, such as a home heating oil tax, an increased tobacco tax, video lottery terminals and additional labor concessions. These measures will require the support of State and local officials and the cooperation of labor leaders. They are all subject to risk until County officials can build the consensus to take the necessary steps to reach budgetary balance. Schedule 3 presents net baseline gaps, resulting from modifying the financial plan's baseline by risks and opportunities identified by our analysis.

Schedule 3

PROPOSED NASSAU COUNTY 2009-2011
MULTI-YEAR FINANCIAL PLAN
MAJOR FUNDS
SUMMARY OF FUTURE YEAR RISKS and OPPORTUNITIES
($'s Millions)

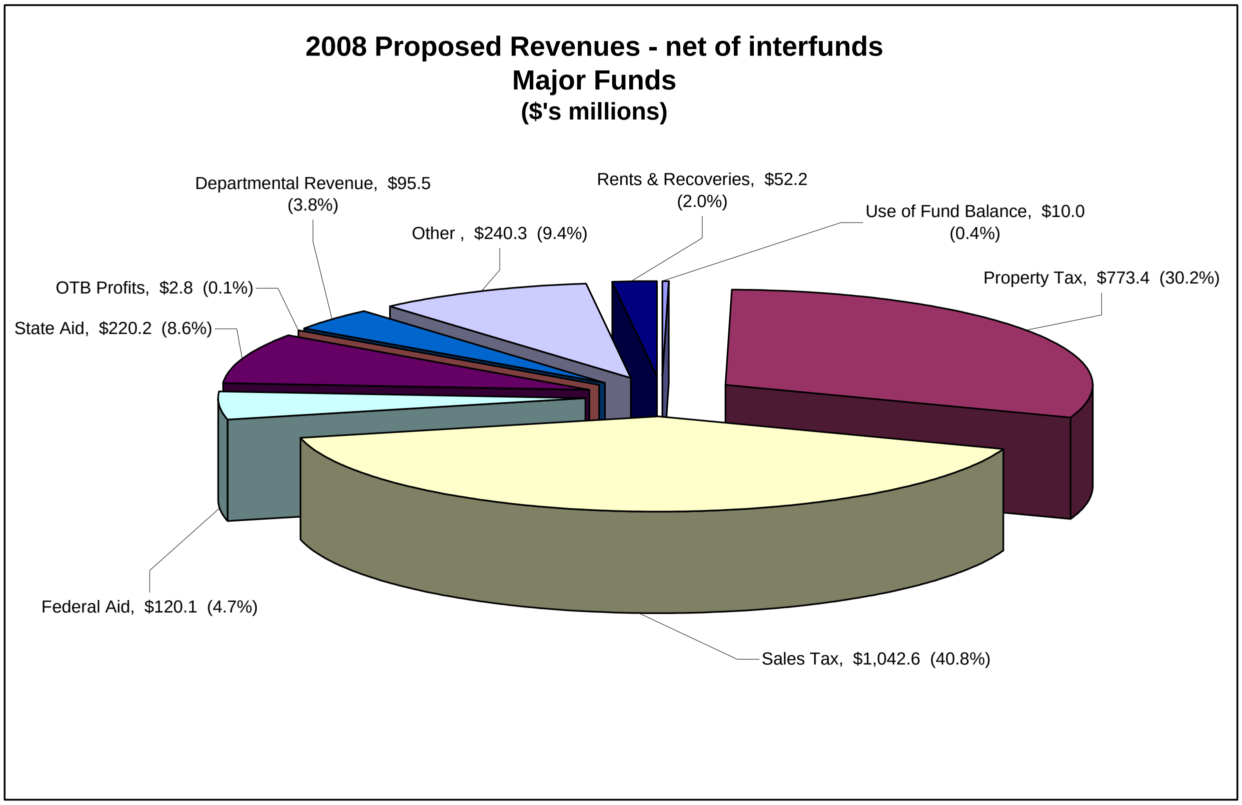
	2009	2010	2011
Baseline Gap per Financial Plan (before Gap Closing Measures)	**$ (124.7)**	**$ (174.6)**	**$ (197.5)**
Items included in Baseline Gap that are at risk			
Labor and Fringe Savings - discounted	(26.6)	(27.4)	(28.1)
Opportunity - Police Retirement Contingency (may not be needed)	6.1	10.2	3.4
Sales Tax receipts	(12.7)	(13.1)	(13.5)
Gap closing measures			
Use of remaining Tobacco Proceeds	23.0	5.0	0.0
Value of new construction (includes 2008 technical correction)	10.0	13.9	17.8
Program reductions	7.5	7.5	7.5
Debt restructuring		5.0	5.0
Pension reserve	0.4		
Bonding of suits and judgments	(5.0)	(10.0)	(15.0)
Net Baseline Gap	**$ (122.0)**	**$ (183.5)**	**$ (220.4)**

	2009	2010	2011
Additional Gap Closing Measures Considered at Risk			
Revenue			
Annual property tax CPI increase	$ 29.6	$ 60.3	$ 92.2
Proposed cigarette tax	28.4	28.4	28.4
Residential energy tax	21.0	21.6	22.3
Video lottery terminals	20.0	20.0	20.0
Red light cameras	7.0	7.0	7.0
Sub-Total Revenue	106.0	137.3	169.9
Expense			
Health insurance cost reductions	15.0	20.0	20.0
Workforce management	10.0	15.0	15.0
Smart Government Initiatives	9.8	11.8	13.9
Sub-Total Expense	34.8	46.8	48.9
Total Gap Closing Measures at Risk	**$ 140.8**	**$ 184.1**	**$ 218.8**

2008 Proposed Budget Analysis

Discussion of Revenues

Chart 5



Total Budgeted Revenue
Major Funds
($ Millions)

Total Budgeted Revenue	$	2,955.6
Less:		
Interfunds between major funds		398.5
Proposed revenues above	$	2,557.1

Tax Revenues

Sales Tax

The proposed 2008 budget assumes sales tax growth of 2.5 percent over the 2007 projected year end results. Although we agree with the administration's use of a 2.5 percent rate of increase for 2008, which is substantially below historical averages, the 2007 sales tax receipts to date have grown at a rate of 1.4 percent, below the administration's forecast for the year. Sales tax revenues account for over $1 billion of the $2.6 billion operating budget. Each one percent of growth represents approximately $10 million of additional revenue. The administration's assumed rate of growth in sales tax for 2008 is generally in line with the predictions of independent economists who monitor the County's economy. Due to the number of variables that affect spending, it is not possible to forecast actual receipts with one hundred percent certainty. As shown in Schedule 4 there has been no clear trend in sales tax growth over the most recent six years. In addition, the present uncertainty of the economy makes accurate sales tax forecasting all the more difficult. With the current slump in housing and automobile sales and the subprime mortgage-lending crisis, there is an even greater risk that sales tax collections will not meet expectations even though unemployment remains low. Schedule 5 presents sales tax collections through October 13th of years 2002 through 2007, compared to total sales tax collections each year.

Because the actual sales tax growth rate is below the administration's forecast for 2007 and because of a technical error in the calculation of the expected 2007 sales tax, we find $10 million of the sales tax budgeted for 2008 is at risk.

The proposed multi-year financial plan includes annual sales tax growth of 3.0% to 3.5% through 2011. We believe these higher forecasts for 2009 - 2011 are subject to risk.

Schedule 4

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	1,005.0	13.8	1.4%

Schedule 5

YTD October 13 Sales Tax
($ Millions)

	OCT 13 YTD Sales Tax Collected	% OCT 13 YTD vs Total Collected/Projected	GROSS ANNUAL Sales Tax Collected/Projected
2002	$ 609.9	70.5%	$ 865.5
2003	616.7	68.9%	895.5
2004	653.3	69.5%	939.9
2005	666.8	69.9%	953.8
2006	695.9	70.2%	991.2
2007	706.0	70.2%	1,005.0

Schedule 6

	2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
Sales Tax *	$ 991.2	$ 1,005.0	$ 1,040.6	$ 1,071.8	$ 1,109.3	$ 1,148.1

Sales Tax (Gross Receipts)
($ Millions)

* Excludes prior year deferred portion of sales tax

Property Taxes

The proposed 2008 budget increases the property tax levy in the General Fund by $25 million and decreases the levies in both the Police Headquarters Fund and in the Sewer and Storm Water Resource District by $10 million and $15 million, respectively. All County residents pay General Funds and Police Headquarters taxes and approximately 85% of County residents pay taxes in the Sewer and Storm Water Resource District. The administration has supported major new building development, such as the proposed County HUB, in part on the grounds that new construction will bring new property tax revenue, relieving the tax burden on existing residents. In order to give Nassau County residents this tax relief, the property tax levy needs to include the taxes paid on newly constructed properties. We believe that there should be a technical correction of $6.1 million to the calculation of the County's tax levies in 2008. Because of the magnitude of the over $50 million in risks in the proposed budget, the heretofore unbudgeted revenue should be set aside as a contingency and not seen as a spending opportunity.

The budget also includes $7.4 million of property taxes associated with the Environmental Bond Act, as approved by the voters. The environmental bond act revenue is included in a new fund, separate from the County's major funds.

The proposed financial plan includes property tax increases for 2009 through 2011 related to the estimated growth in the consumer price index of approximately 3.8 percent annually. These increases amount to $29.6 million in 2009, an additional $30.7 million in 2010, and an additional $31.9 million in 2011.

Schedule 7

Property Tax - Includes Levy for the Sewer and Storm Water Resource District Fund
($ Millions)

	2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
Property Tax per budget	$ 877.6	$ 877.3	$ 877.3	$ 877.3	$ 877.3	$ 877.3
Restored taxes collected	0.9	3.4				
Gap Closing Measures:						
New Construction	-	-	-	3.9	7.8	11.7
CPI increase	-	-	-	29.6	60.3	92.2
Property Tax including Gap Closing Measures	$ 878.5	$ 880.7	$ 877.3	$ 910.8	$ 945.4	$ 981.2

Non-Tax Revenues

Use of Fund Balance

The administration has used $10 million of accumulated fund balance as revenue in the General Fund for contingencies.

The budget also includes the use of $10 million of a projected FY 07 surplus for pay-as-you-go financing of property tax refunds. This is at risk. In our mid-year report, we projected a $5.8 million surplus for 2007. Because of the lowered rate of increase in 2007 sales tax receipts, it is not likely the County will end 2007 with a surplus of that size. Should the $10 million budgeted surplus not materialize, the administration may be forced to draw on additional unrestricted fund balance to the extent of any shortfall.

The County has drawn on its fund balance to budget contingencies and transition to paying for property tax refunds and judgments and settlements out of recurring revenues. These uses are consistent with the County's fund balance policy, which was adopted as part of the County's 2006 – 2009 multi-year financial plan by the Legislature in 2005 and re-submitted to the Legislature as part of the 2008 – 2011 plan. The fund balance policy provides that the County will maintain unreserved fund balance of between 4 and 5% of normal prior year general fund 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. We calculate that under the proposed budget, the County's fund balance will drop to approximately 2% of expenditures by the close of 2008, even if it is assumed that the County will not need to draw on additional fund balance during the year. This ratio of fund balance to spending is well below the threshold established in the fund balance policy. Fund balance provides taxpayers with a cushion against unexpected negative events. This Office supported the original fund balance policy, and recommends that the administration review the policy in consultation with the Legislature and amend it if necessary.

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Schedule 8

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

Source (Use)	2003	2004	2005	2006	2007	2008	Cumulative Fund Balance
General Fund Balance	$ 76.1	$ 9.5		$ 15.9	$ 10.0		
(Payment of expenses)				(13.4)	(38.1)	$ (20.0)	$ 40.0
Police District Fund Balance	4.9			11.2			
(Payment of expenses)							$ 16.1
Debt Service Fund Balance		10.0					
(Payment of expenses)			(10.0)				$ -
Total cumulative fund balance	$ 81.0	$ 100.5	$ 90.5	$ 104.2	$ 76.1	$ 56.1	

State Revenues

The proposed budget includes $4.1 million of reimbursement associated with County residents attending the Fashion Institute of Technology. We understand that these funds must be budgeted by the State and were not included in the current State budget. Accordingly, we believe they are at risk.

State authorization is required to increase revenues for unspecified actions totaling $15.5 million. If the State Legislature reconvenes in October, it may address these revenue generating items at the special session before the start of the County's fiscal year. Since the special session will occur before the budget vote, the County Legislature will have time to consider potential changes to the budget should the State Legislature fail to meet or take the necessary actions. In this report, we have identified the revenues that need State legislative authorization as at risk.

Schedule 9

State Aid
Major Funds
($ Millions)

2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
$ 187.8	$ 194.1	$ 220.2	$ 226.3	$ 232.5	$ 238.9

Federal Aid

The proposed 2008 budget includes an increase of $8.5 million over the 2007 budget, primarily from an increase of $4.1 million for the housing of federal inmates and undocumented criminal aliens at the Correctional Center, and an increase of $4 million for Social Services programs. We believe the increase of federal aid at the Correctional Center is achievable based on the current federal prisoner population. We find the increase of 4.2% in budgeted federal aid at Social Services over the 2007 adopted budget at risk when compared to the budgeted reimbursable expenses for the same programs, which are held flat over the prior year expense.

Schedule 10

Federal Aid
Major Funds
($ Millions)

2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
$ 115.2	$ 109.2	$ 120.1	$ 122.4	$ 125.4	$ 128.6

Departmental Revenue

The proposed 2008 budget includes $25.1 million of departmental revenue for parks. This amount includes both an advertising initiative for the Parks department and a new Parks Revenue Enhancement Program which requires action by the Legislature. However, based on historic revenue levels and the Legislature's past reluctance to increase fees, we believe that as much as $4 million of budgeted increases in fees for 2008 is at risk, as well as $3 million from 2007

Schedule 11

Departmental Revenue
($ Millions)

	2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
County Parks & Recreation	$ 15.8	$ 16.0	$ 25.1	$ 25.1	$ 25.1	$ 25.1
All other Departmental Revenue	68.6	70.3	70.4	69.4	69.4	69.4
Total	$ 84.4	$ 86.3	$ 95.5	$ 94.5	$ 94.5	$ 94.5

Rents and Recoveries

The decrease in the 2008 proposed budget from our 2007 forecast relates primarily to $10.5 million in funds that were transferred in 2007 from the Tobacco Corporation to the NHCC for capital projects.

The significant reduction in estimated rents and recoveries, beginning in 2009, is the result of the absence of tobacco securitization receipts. The proposed budget and financial plan amounts appear to be reasonable.

Schedule 12

Rents and Recoveries
Major Funds
($ Millions)

2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
$ 78.8	$ 63.7	$ 52.2	$ 29.2	$ 29.2	$ 29.2

Fines and Forfeitures

We estimate that the Traffic and Parking Violations Agency revenues are overstated by $4 million. Our forecast is based on actual trends of receipts. This figure represents the combined total of an anticipated $2 million shortfall in 2007, along with the 2008 increase of $2 million over the 2007 budget. Since it appears that the 2007 revenue targets will not be achieved, we believe the increased 2008 target is at risk.

Schedule 13

Fines and Forfeitures
Major Funds
($ Millions)

2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
$ 23.0	$ 22.5	$ 27.1	$ 27.1	$ 27.1	$ 27.1

Revenue Offsets to Expenses

In addition to Federal and State aid, the County receives a number of miscellaneous payments that offset expenses that it incurs. These revenues are classified under the "revenue offsets to expenses" category.

The proposed budget and financial plan reflect a Medicare Part D subsidy estimate that is $1.7 million over budget based on our estimate of 2007 receipts and, as such, is at risk.

Schedule 14

Revenue Offsets to Expense
Major Funds
($ Millions)

2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
$ 3.3	$ 10.4	$ 12.0	$ 12.0	$ 12.0	$ 12.0

Interfund Revenue

The proposed FY 08 interfund transfer budget is significantly higher than the adopted FY 07 budget. This increase is fully offset by expense increases elsewhere in the budget. It includes increases relating to transfers associated with the Environmental Bond Act. Additionally, the budget includes transfers in 2008 from the NHCC and OTB to pay debt service.

The decrease in interfund transfers in 2009 results from a reduction in the balance of available reserves, discussed in a separate section of this report. We believe the forecasts included in the plan are reasonable.

Schedule 15

Interfund Revenue
Major Funds
($ Millions)

2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
$ 47.7	$ 77.4	$ 88.5	$ 76.4	$ 82.8	$ 84.7

Interdepartmental Revenue

The $107.7 million proposed interdepartmental revenue budget represents reimbursements for services performed by one County department for the benefit of another.

The proposed budget understates the costs that should be charged to the Police District. We have repeatedly called for the correction of cost allocations between the Police Headquarters and Police District Funds. The budget does not completely address certain misallocations. Charges for police academy cadets, surgeons, personnel and accounting have been appropriately reclassified to the Police District Fund. However, approximately $6.5 million of annual expenses related to the Commissioner's office, fringe benefits, and overhead, should also be reallocated. We believe that the administration should consider implementing these changes and estimate that they would result in $6.5 million additional Headquarters revenue and related District expense.

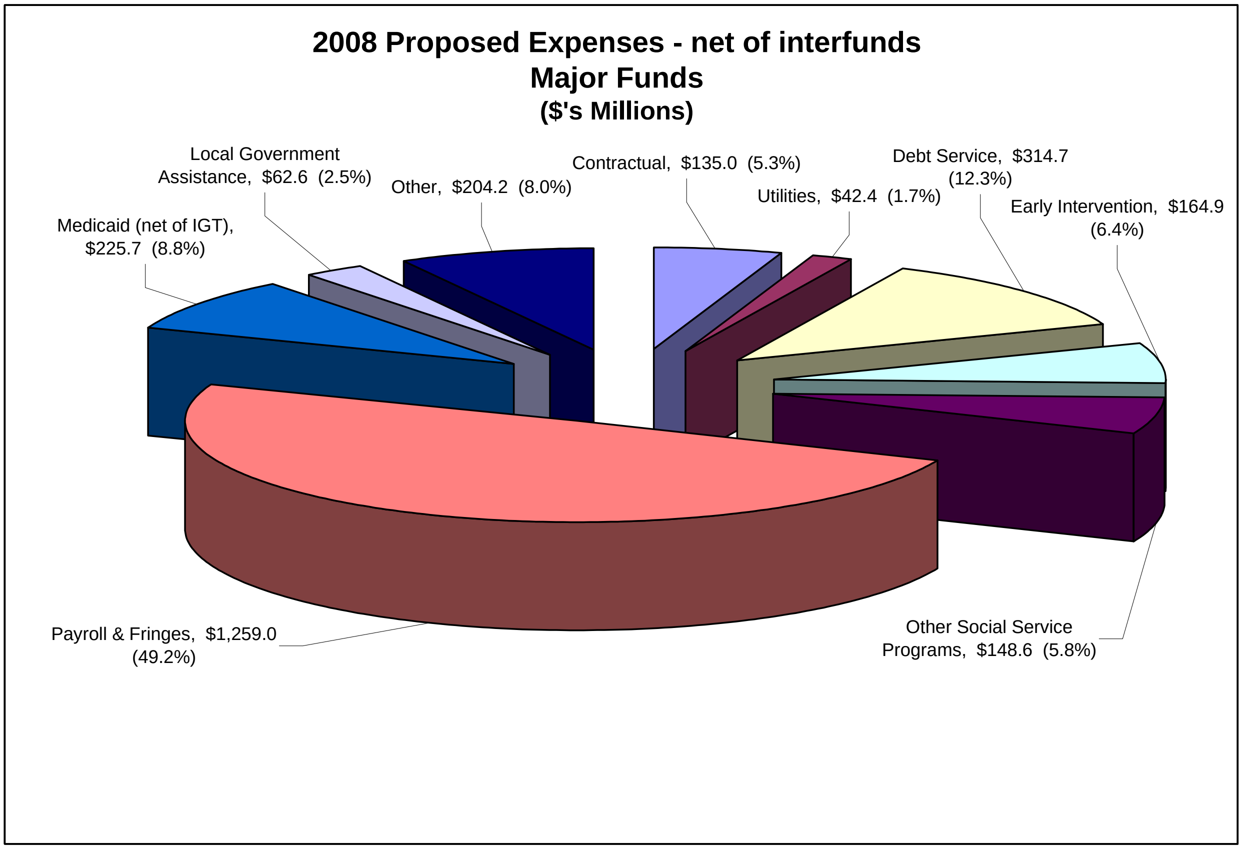
Schedule 16

Interdepartmental Revenue
Major Funds
($ Millions)

2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
$ 101.0	$ 106.8	$ 107.7	$ 107.7	$ 107.7	$ 107.7

Discussion of Expenses

Chart 6



Total Budgeted Expenses Major Funds ($ Millions)		
Total Budgeted Expenses	$	2,955.6
Less Interfunds between major funds		398.5
Proposed expenses above	$	2,557.1

Salaries

A collective bargaining agreement has been reached with the Police Benevolent Association (PBA) with savings of approximately $18.3 million incorporated into the budget. However an agreement has not been reached with the Sheriff Officers Association (ShOA), whose contract expired on December 31, 2004. Also unsettled is an agreement with the Detectives Association Inc. (DAI) whose contract expired on December 31, 2006. Agreements with the Civil Service Employees Association (CSEA) and Superior Officers Association (SOA) expire on December 31, 2007. The proposed salary budget includes $37.7 million in labor concessions from labor negotiations with the ShOA, DAI, CSEA, and SOA. The estimated savings are dependent upon labor agreements that are not in place, and consequently, are subject to a risk which we estimate to be approximately $19.2 million in 2008. Our calculation of the amount at risk uses the first year overall percentage increase of the PBA agreement as a basis for the uniformed bargaining units – the DAI, SOA, and ShOA – and considers that historically the CSEA agreement settles at percentages lower than those unions.

In addition, the 2008 proposed budget includes approximately 142 vacant positions for non-uniformed employees with a related salary budget of $11.5 million. The vacancies for non-reimbursable employees represent an opportunity for savings that is available to the administration.

The budget, anticipating that 100 sworn members will retire, includes $22 million for termination pay for both police funds. The PBA bargaining agreement limits the termination payout for PBA members to twice their salary beginning in 2009, which may result in an increase in the number of PBA terminations in FY 08. If termination pay exceeds the budget in either of the police funds, balances in the Employee Benefit Reserve fund may be used to offset the shortfalls, assuming a balance remains after any use of the reserve in 2007.

An opportunity exists for the County by limiting or delaying the backfilling of CSEA and ordinance positions as they are vacated. The discounted value of this opportunity using 2006 trends of attrition is $6 million, assuming 30% replacement.

Schedule 17

Salaries
Major Funds
($ Millions)

	2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
Salaries *	$ 801.5	$ 859.1	$ 853.6	$ 891.3	$ 924.7	$ 955.3
Gap Closing Measures - Workforce Management**	-	-	-	(10.0)	(15.0)	(15.0)
Total Personnel Services with Gap Closing Measures	$ 801.5	$ 859.1	$ 853.6	$ 881.3	$ 909.7	$ 940.3
*** includes Labor Concessions**	-	-	($ 37.7)	($ 40.0)	($ 41.2)	($ 42.3)

**** an undetermined portion of the gap closing measures will offset fringe benefit expense**

Overtime

Schedule 18 presents our FY 07 estimate of police and corrections overtime, along with future amounts in the proposed budget and financial plan. The budget includes savings from the Correctional Center of over $5 million that will result from the hiring of 85 correctional officers. In addition, a reorganization of police management is underway, which is expected to result in overtime savings. The 2008 proposed budget for overtime for the police funds represents an 18% decrease from our 2007 forecast. While we believe that some of the budgeted savings are achievable, the extent of these savings is contingent upon the implementation and success of the reorganization, which we have discounted by approximately 50%. This initiative can also be at risk if job terminations exceed the expected number and a full complement of officers is not maintained to adequately staff all posts.

Schedule 18

Overtime *
($ Millions)

	2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
Correctional Center	$ 22.2	$ 23.4	$ 17.9	$ 18.6	$ 19.3	$ 20.1
Police Headquarters	22.4	20.9	16.9	17.6	18.2	19.0
Police Districts	21.4	22.0	17.9	18.6	19.3	20.1
Total Expense	$ 66.0	$ 66.3	$ 52.7	$ 54.8	$ 56.8	$ 59.2

*** Overtime amounts included in salaries presented above.**

Fringe Benefits

Employee Health Insurance

In the proposed budget health insurance expense is forecast to increase annually 7 percent for active employees and 5.25 percent for retirees, with increases of 8 percent in each year of the financial plan. These increases are based on the administration's assessment of projected rate increases from the ***Empire Plan Second Quarterly Experience Report*** provided by the New York State Health Insurance Program (NYSHIP). We believe that these forecasted rate increases are reasonable.

Long term, the administration must identify realistic ways to reduce spending while continuing to provide quality health insurance to employees. In our June 2006 report, *Dual Health Insurance Family Coverage for County / NHCC Employees,* we projected that eliminating duplicate health insurance for married couples both employed by the County could save $28.8 million over five years. The County has enacted legislation eliminating this wasteful practice for non-union employees and the PBA arbitration award eliminated duplicate coverage for PBA members, which will save $900 thousand in 2008. The Comptroller's Audit Advisory Committee issued a July 2007 report titled ***Providing Affordable Health Benefits for County Employees and Retirees: Some Suggested Solutions***, proposing other initiatives to reduce health care spending including changing the health benefits offered by the County from NYSHIP's Core Plus coverage to the basic benefits package at an estimated savings of $27.8 million in 2008 if applied to all County employees and retirees. While this initiative was included in past Multi-Year Financial Plans, it is not specifically referenced in the proposed financial plan**.**

Schedule 19

	2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
Health Insurance Major Funds ($ Millions)						
Employees	$ 101.5	$ 108.5	$ 119.3	$ 128.9	$ 139.2	$ 150.3
Retirees	96.1	96.6	101.3	109.4	118.2	127.7
Total Expense	$ 197.6	$ 205.1	$ 220.6	$ 238.3	$ 257.4	$ 278.0

Employee Pension Costs

Based upon investment returns realized by the New York State and Local Retirement System, next year's pension contribution rates will drop. As a result, the 2008 pension expense, net of the retirement reserve, will be slightly less than 2007.

We project that pension contributions will increase moderately throughout the remainder of the plan period as a result of contractual salary increases. It should be noted that the pension reserve established to transition to higher pension expense in 2004 will essentially be exhausted at the end of 2008.

Schedule 20

	2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
Pension Expense Major Funds ($ Millions)						
Expense without pension reserve	$ 110.5	$ 108.2	$ 100.9	$ 98.2	$ 102.5	$ 107.4
Pension reserve	(33.5)	(26.4)	(24.5)	(0.4)	-	-
Expense with pension reserve	$ 77.0	$ 81.8	$ 76.4	$ 97.8	$ 102.5	$ 107.4

Workers' Compensation

The Fiscal 2008 proposed budget includes a major initiative to reduce overall workers' compensation costs by taking advantage of a provision in the workers compensation law to settle permanent disability claims by means of lump sum payments. The successful implementation of this initiative is projected to result in a budgeted projected savings of approximately $5 million. Although the administration has discounted the 2008 savings from this initiative, we believe it may be difficult to complete the program in time to achieve the entire budgeted savings.

Therefore, we consider half the anticipated savings to be at risk. Also, we believe that workers' compensation medical expenses are under-budgeted in total in 2008 by $2 million.

In past budgets, workers' compensation expense has principally been budgeted in the General Fund and charged back to the individual funds based on expenses incurred. In 2008 the related workers compensation expenses will be budgeted directly to the Police District and Police Headquarters Funds, as well as to the Correctional Center and Public Works in the General Fund. The Police District Fund workers' compensation expense appears to be under budget by approximately $2.9 million based on 2007 projections. The Police District Fund is a separate taxing jurisdiction and cannot receive budget transfers from other funds to cover the estimated shortfall. We understand that the administration will be correcting this as a technical adjustment.

Schedule 21

Workers Compensation
Major Funds
($ Millions)

2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
$ 21.2	$ 23.3	$ 17.0	$ 17.1	$ 17.0	$ 16.0

Medicaid

As a result of the State legislation limiting the growth in the County's Medicaid expenditure, future years' expenses are capped at annual increases of approximately 3 percent calculated with 2005 as a baseline. The County had the option of electing between the 3 percent cap and sharing a percentage of the increase in sales tax revenues. In 2007, the administration elected to stay with the 3 percent cap on increases in Medicaid costs. The Medicaid cap provides recurring budgetary relief that grows each year of the financial plan. Based on the cap formula, we believe the forecasted Medicaid expenses, which range from $225.7 million in FY 08 to $244.6 million in FY 11, are reasonable**.**

Schedule 22

Medicaid net of IGT
($ Millions)

	2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
Medicaid Expense net of IGT	$ 212.6	$ 218.0	$ 225.7	$ 231.7	$ 237.4	$ 244.6

Other Social Service Expenses

The administration projects expenses for recipient grants, purchased services, and emergency vendor payments to grow approximately 3.8 percent annually, from an estimated $148.6 million in 2008 to $166.3 million in 2011. These social service-administered programs include Family Assistance, Day

Care, Food Stamps, and other services designed to aid children and adults in need. These expenses are projected to grow at only .6 percent during 2007, as most increases were offset by decreases in Temporary Assistance to Families (TANF). TANF caseloads are dropping as recipients reach the five year federal limit on TANF assistance. The 2008 proposed budget for these expenses appears reasonable as decreases in TANF caseloads will offset the increases for other programs.

Schedule 23

Other Social Services
Major Funds
($ Millions)

2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
$ 143.3	$ 144.1	$ 148.6	$ 154.3	$ 160.2	$ 166.3

Early Intervention / Pre-School Special Education

The proposed budget and financial plan include appropriations for early intervention/pre-school special education programs administered by the Department of Health which increase at an average annual rate of approximately 3.7 percent, from $164.9 million in 2008 to $183.8 million in 2011. The projected growth in this mandated expense results from estimated increases in the number of children served. We believe the forecasts are reasonable**.**

Schedule 24

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

2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
$ 154.9	$ 159.0	$ 164.9	$ 170.9	$ 177.2	$ 183.8

Contractual Obligations

The County is negotiating with the Nassau Health Care Corporation for a new agreement to provide medical services to inmates at the Nassau County Correctional Center and has assumed the eventual contract will save the County $4.5 million each year. The proposed FY 08 budget reflects the anticipated $4.5 million savings. Since this reduction requires agreement with the NHCC, which included the revenue in its 2008 budget, we believe it is at risk of not being achieved.

Schedule 25

Contractual Expenses
Major Funds
($ Millions)

2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
$ 134.5	$ 137.1	$ 135.0	$ 135.2	$ 136.6	$ 138.6

Local Government Assistance

The County provides one quarter of one percent of sales tax receipts to local towns and cities to assist with the treatment and disposal of municipal solid waste, in addition to providing aid to villages. The proposed financial plan includes annual local government assistance increases consistent with the financial plan's estimated 3.5 percent growth in sales tax, before the additional sales tax growth identified as a gap closing measure. Local government assistance is budgeted as a percentage of sales tax revenue and, as such, a positive variance in this expense category may partially offset a negative variance in sales tax revenue in each plan year.

Schedule 26

Local Government Assistance
Major Funds
($ Millions)

2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
$ 59.7	$ 61.0	$ 62.6	$ 64.5	$ 66.7	$ 69.0

Use of Reserves

As presented in Schedule 27, the proposed budget incorporates the use of $57.6 million of reserves. We believe this use of reserves is appropriate as the expenditures are for the purpose for which the funds were set aside and spending the reserves has the effect of returning surplus funds to the County's taxpayers. However, use of these reserves is a major contributor to the County's structural gap. For purposes of this analysis, we have not included $98 million of tobacco settlement refinancing proceeds, since the administration has previously proposed that these monies be used primarily to fund capital repairs at the NHCC.

Schedule 27

Reserves
Primary Funds
Source (Use)
($'s Millions)

Source of Reserve (Use of Reserve)	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**net bal**
Opening balance	$ -	**$ 56.6**	**$ 214.5**	**$ 207.3**	**$ 107.5**	**$ 77.4**	**$ 29.8**	**$ 29.8**	**$ 29.8**	
Pension Savings Reserve (major funds)		78.5								
This reserve is in RCF and, at the end of 2005, $33.5 is netted in each of the primary funds against the prepaid pension expense account.										
Replenish reserve			6.2							
Add to reserve			18.6	16.0						
(Payment of pension expense)			(34.4)	(33.5)	(26.5)	(24.6)				0.3
Funds Reserved for Pension Bond Retirement	18.1									
(Payment of pension bonds)		(9.9)	(8.2)							
Tobacco Securitization Receipts		23.6								
Establish reserve for future medical expense		(23.6)								
Reserve for future medical expense										
Unpledged TSR's and Settlement Interest			0.7	1.6	43.4					
Current year Tobacco receipts		23.6	(23.0)	(23.0)	(23.6)	(23.0)				
Balance of Tobacco funds available		37.0								13.7
Reserve for payment of debt service		10.0								
(Use of reserve)			(10.0)							
Reserve for bond indebtedness		25.0	0.7							
(Use of reserve)				(10.9)	(14.8)					
Reserve for litigation		3.3	3.0							
(Use of reserve)			(3.3)							3.0
Funds setasides for police terminations	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)								
Reserve for Employee Benefit Accrued Liability Reserve Fund		28.9	(7.5)		(8.6)					12.8
Transitional reserve										
2006 fund surplus					25.0					
2007 fund surplus						10.0				
Revenue from 840 account			35.0							
Recovery of 2003 sewer charges			15.0							
(Use of reserve)				(50.0)	(25.0)	(10.0)				
Total source	$ 56.6	$ 229.9	$ 79.2	$ 17.6	$ 68.4	$ 10.0	$ -	$ -	$ -	
Total use	$ -	$ (72.0)	$ (86.4)	$ (117.4)	$ (98.5)	$ (57.6)	$ -	$ -	$ -	
Ending balance	**$ 56.6**	**$ 214.5**	**$ 207.3**	**$ 107.5**	**$ 77.4**	**$ 29.8**	**$ 29.8**	**$ 29.8**	**$ 29.8**	**$ 29.8**

Utilities

We believe the proposed budget for utilities, which incorporates a 10% increase in expense, should be sufficient to cover the cost of utilities for 2008. In 2007 the Community College began paying for electric bills directly thereby reducing the 2007 forecasted expenses as compared to 2006. The financial plan assumes increases of 4% per year thereafter for 2009 through 2011. While we feel costs may increase at a higher rate, we do not believe this presents a significant risk.

Schedule 28

Utilities
Major Funds
($ Millions)

2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
$ 39.2	$ 38.6	$ 42.4	$ 43.9	$ 45.4	$ 47.1

Equipment

The 2008 proposed budget includes $1.8 million budgeted in the Police Department District and Police Department Headquarter funds for the replacement of police vehicles. This should be sufficient to replace approximately 20% of police vehicles and should meet the department's 2008 needs. The 2009 to 2011 multiyear plan includes approximately $2 million per year. This expense could be at risk if more than 20% of vehicles need to be replaced in any one year. Even though the 20% replacement calculation is enough for 2008, we note that historically one-third of police vehicles have required replacement each year.

Schedule 29

Equipment
Major Funds
($ Millions)

2006 Actual	2007 Comptroller's Forecast	2008 Proposed Budget	2009 MYP	2010 MYP	2011 MYP
$ 6.6	$ 3.8	$ 5.3	$ 5.6	$ 5.6	$ 5.7

Property Tax Refunds

The proposed 2008 budget includes $50 million to pay real property tax refunds. For 2007 the expense will be comprised of the amount actually paid out during the year adjusted by the changes in the year-end accrual. At the end of 2006, the County accrued $19.5 million for the current portion of unpaid refund claims. The County has paid out $29.7 million for the first seven months of 2007. The administration has advised that, due to the current court calendar with cases involving large potential refunds and increased efficiencies in processing refund payments, it is possible that the County may incur more expenses than the $50 million included in the FY 07 budget. This may also hold true for 2008. Therefore the amount budgeted for property tax refunds may be at risk but has not yet been quantified.

Recognizing the historical importance of property tax refunds on County finances, the administration prepares an annual estimate of property tax refund liability, which this Office has monitored. The administration may need to re-visit its methodology for calculation of the refund liability if property tax refund payments exceed projections.

Non-Property Tax Judgments and Settlements

The proposed 2008 budget continues the current policy of borrowing for the routine payment of judgments and settlements. In its proposed financial plan, the administration states it may lower the dollar threshold for the borrowing. We are concerned about the change, which is contrary to previous financial plans and the administration's fund balance policy.

The Financial Plan's Remaining Years

The proposed financial plan includes estimated budget baseline gaps of between $124.7 million in 2009 and $197.5 million in 2011. The projected gaps for 2009 and 2010 are lower than the gaps projected in 2007 for those years, reflecting that the administration's 2008 budget reduces the County's structural gap. The plan presents more initiatives than necessary to close the projected gaps; however, as shown on Schedule 3, the majority of these initiatives are subject to risk.

The plan for 2009 assumes large increases in recurring revenues on top of a 3.8% property tax increase, and large decreases in recurring expenditures. Assuming the administration is able to build support for these measures, it will be able to close the budget gap in 2009, and the gaps in the succeeding years should be manageable. However, if the administration budgets large amounts of one time revenue sources such as fund balance in 2009, it will be harder for the County to close the gaps in 2010 and 2011.

Workforce Management

The financial plan includes workforce management savings to close estimated future baseline budget gaps. The administration has estimated the value of workforce management to be between $10 million in 2009 and $15 million in both 2010 and 2011. We believe the projected savings from workforce management is subject to risk.

Health Insurance Cost Reductions

The financial plan includes savings achieved from reducing the cost of health insurance for active employees and retirees by seeking less expensive options with comparable coverage. The plan shows a savings of $15 million in 2009 and $20 million in both 2010 and 2011. The Comptroller's Audit Advisory Committee's July 2007 report, ***Providing Affordable Health Benefits for County Employees and Retirees: Some Suggested Solutions*** offers cost savings proposals that could reduce spending by the financial plan's targets. Most health benefit cost reductions are subject to collective bargaining and therefore we cannot reasonably determine if there is a potential for this savings.

Value of New Construction

The proposed financial plan for 2009 - 2011 includes increases to the County's tax base as a result of new construction. This is projected to result in additional property tax revenue of $3.9 million in 2009, $7.8 million in 2010 and $11.7 million in 2011. We believe that these estimates are reasonable to achieve but have recommended that this correction to the tax levy be made starting with the 2008 budget.

Other Revenue Options to Close Remaining Gap

The financial plan incorporates additional gap closing measures including a residential energy tax which ranges from $21 million to $22.3 million per year, $28.4 million per year from a cigarette tax, $20 million each year from video lottery terminals, and $7 million a year from red light cameras. These initiatives require State and/or County legislative approval, and consequently are subject to risk.

Smart Government Initiatives

The proposed budget and financial plan includes "smart government initiatives." For the future years of the plan, these initiatives are valued at $9.8 million in 2009, $11.8 million in 2010, and $13.9 million in 2011, discounted from $10.7 million, $12.8 million, and $14.9 million respectively. A number of these initiatives are subject to uncertainty and risk. Presented with their corresponding three-year estimated value, they include:

- $12 million of tax revenue pertaining to participation in the New York State Empire Zone Program, intended to increase investment and job creation;

- $10.2 million from a commercial property tax grievance filing fee;

- $2.4 million from radio tower usage fees;

- $2.2 million of utility savings resulting from an Energy Efficiency Improvement Program;

- $1.6 million of savings from electronic court appearances;

- $1.4 million of cost reductions resulting from using adjunct instructors in the Police Academy.

Other Entities

NHCC

The financial stability of the Nassau Health Care Corporation 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 $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. The corporation approved a break-even budget for 2008 and is intending to implement the Updated Strategic Plan, the Community Health Center Reform Plan and the $240 Million Modernization Program. The administration and NHCC have been negotiating a new agreement including the level of expected County subsidy in future years.