NASSAU COUNTY

OFFICE OF THE COMPTROLLER

REPORT ON THE COUNTY'S FINANCIAL CONDITION FOR THE FIRST SIX MONTHS OF FISCAL YEAR 2008

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Nassau County Comptroller

July 31, 2008

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OFFICE OF THE COMPTROLLER

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REPORT ON THE COUNTY'S FINANCIAL CONDITION FOR THE FIRST SIX MONTHS OF FISCAL YEAR 2008

Executive Summary

The Nassau County Charter requires that the Comptroller report on the status of the budget for the first six months of the current fiscal year, and give an opinion concerning whether there will be a surplus or deficit at year-end (Charter §402[9]) [1]

Our analysis of revenues and expenses through the end of June, together with our forecast for the remaining six months of fiscal year (FY) 08, indicates that the County will finish the year with a small surplus. We project that the County will receive $46 million less in revenue and expend $11 million more than budgeted in 2008. The County can achieve a small surplus assuming it will take the Administrative Actions and select from among the Administrative Opportunities set forth in Table 1.

The County, along with all other governments, faces serious financial challenges. The slumping national economy caused by the credit crisis, the worsening housing market, the decline in asset values, increased fuel prices and the resulting general cost inflation has affected County residents and our governmental revenues and expenditures. The economic decline will make it more difficult for the County to finish the year on budget, especially if sales tax receipts weaken further. The County also faces the risk that the State, under its own fiscal pressures, will seek to shift expenses or reduce revenue to the County. The softening of the national economy will present challenges for the remainder of this year, and hard choices for the 2009 budget.

The Administration and the Legislature will have to work together quickly to bring to fruition the revenue opportunities that can still be achieved in this budget year. Out of a total of $19.6 million in budgeted revenue items that required State legislative approval, the State only approved one item: a local option to increase filing fees for County Clerk's offices. Since County legislative approval is still required before the new fees can be collected, the County is likely to realize at most four months of the increased revenue in 2008, which we have estimated at $1.8 million. Other revenue initiatives depending on action by the State Legislature are unlikely to bring budget relief in 2008, although they should still be pursued on their merits and because of their positive impact on future years' revenue. Another important County revenue initiative is based on a Parks Department advertising contract that includes a $4 million payment. The contract is still being negotiated and will need approval by the County Legislature. Our projection assumes that the Administration and Legislature will work together to ensure that these items are given full consideration so that the approximately $5.8 million in additional revenue can be received during 2008.

Sales tax is estimated to end the year at $7.4 million under budget, based on current trends continuing. The 2008 budget assumed a 2.5% growth rate in sales tax; based on receipts to-date in 2008, we project that sales tax receipts will increase by 2.1% over 2007 receipts.

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[1] The Comptroller reports on the status of the budget for the County's primary funds: the General, Fire Safety, Debt Service, Police Headquarters and Police District Funds.

Sales tax is difficult to project and there is a potential for an additional decline in receipts given the difficult economic conditions nation-wide and the drop in the housing market and in retail sales generally. Local economists are split on their predictions for the rest of the year. If sales tax receipts in the second six months of 2008 drop to the level of 2007 receipts, the County would face an additional shortfall. The projected 2008 surplus should be sufficient to cover this shortfall, but would not provide any greater cushion against a worsening economy. Looking ahead to 2009, because of the potential for a further softening of the economy, the County needs to act now to protect against the possibility that sales tax receipts will continue to drop. With the national economy worsening and New York State and New York City projecting decreases in employment and lower income tax receipts, the Administration and Legislature should implement expense reductions and revenue enhancements now so that the County receives the maximum benefit in 2009 when it is likely that the County will face increased financial pressure.

Significant expense variances to budget include overtime in the Police Department and the Correctional Center. We project that Corrections overtime will be $10.4 million over budget by year end, Police Headquarters overtime will be $4 million over budget and Police District overtime will be $3.6 million over budget. Our projections have included the impact of new classes of police and correction officers and the changes in overtime entitlements agreed to in the new Police Benevolent Association (PBA), Detectives Association Inc. (DAI) and Sheriffs Officers Association (ShOA) labor contracts. There is an opportunity to fund the Police District overtime and other over budget Police District expenses by using $8.9 million of the $12.1 available fund balance in the Police District. This funding source is listed as an Administrative Opportunity in Table 1.

The Administration currently estimates that real estate tax refunds will be over budget by $18 million for a total expense of $68 million. Although the estimated outstanding liability for refunds continues to drop and was reported at $101.8 million as of December 31, 2007 in the County's Comprehensive Annual Financial Report, the County has not successfully reduced annual refunds consistent with its budget. The administration has stated that it has committed substantial resources to reducing the annual payments to the extent that this is controllable. The increase in refund expense will not present a budgetary problem in 2008 since the administration still has available $38 million from a 2007 borrowing to fund property tax refunds. The use of $18 million from the 2007 borrowed funds is listed as an Administrative Action in Table 1. The Comptroller's Office has previously commented that the use of borrowed funds to pay operating expenses such as real estate tax refunds is a matter of concern and is not tenable over the long term.

If revenues and expenditures finish the year as projected, the Administration and Legislature will have to take the steps described as "Administrative Actions" in Table 1 and select from the "Administrative Opportunities" in Table 1 to finish the year with a budgetary surplus of $9.4 million. The Opportunities described as available sources of funds include fund balance in the Police District and General Fund, the remaining Tobacco Settlement Revenues, and the $20 million remaining from the 2007 borrowing for property tax refunds that will not be needed to fund the estimated $18 million shortfall in refunds. In Table 1 we project that the Administration and Legislature will agree on some combination of these Opportunities in an amount totaling $34 million out of a total of $120 million available in order to provide a small cushion to cover the possibility that sales tax receipts will decline even further than currently projected.

TABLE 1

Revenue and Obligations Forecast for 2008*

($'s millions)

	2008 Budget	2008 Projected Actual	Variance
Revenues:			
Sales Tax	$ 1,040.6	$ 1,033.2	$ (7.4)
Federal Aid	120.4	114.6	(5.8)
Departmental Revenue	95.6	85.6	(10.0)
Investment Income	23.7	18.2	(5.5)
Tobacco Settlement	23.0	23.0	
State Legislative Actions	15.5		(15.5)
Fashion Institute of Technology Reimbursement	4.1		(4.1)
Other Revenues	1,637.5	1,639.5	2.0
Total Revenues	**$ 2,960.4**	**$ 2,914.1**	**(46.3)**
Obligations:			
Payroll and Fringe Benefits	1,243.5	1,260.3	(16.8)
Negotiated Labor Savings		(14.8)	14.8
Social Services	373.4	377.6	(4.2)
Debt Service	314.7	302.6	12.1
Early Intervention/Special Education Programs	164.1	168.5	(4.4)
Utilities	42.3	47.6	(5.3)
Contingency Funds	14.0		14.0
Property Tax Refunds**	50.0	68.0	(18.0)
Other Obligations	758.4	761.6	(3.2)
Total Obligations	**$ 2,960.4**	**$ 2,971.4**	**(11.0)**
Subtotal - prior to Administrative Actions and Opportunities			**(57.3)**

Administrative Actions:	
Legislative approval of additional clerk fees	1.8
Administration's reduction in general expenditures	2.0
Additional state and federal aid reimbursement for Social Services	2.0
Parks advertising contract	4.0
Use of unspent capital proceeds	5.0
2007 bond proceeds for excess property tax refunds	18.0
Subtotal Administrative Actions	**32.8**
Subtotal - after Administrative Actions but prior to Opportunities	**(24.5)**

Administrative Opportunities Available:	Police District	Other Funds	
Available for Police District			
Undesignated Police District Fund Balance	$ 12.1		
Employee Benefit Reserve (to cover excess termination pay)	15.2		
Estimated Use* **			**8.9**
Available for Funds other than Police District			
Undesignated General Fund Balance		$ 57.6	
Unpledged Tobacco Settlement Revenues		14.9	
Balance of bond proceeds from 2007 property tax refund borrowing		20.0	
Estimated Use* **			**25.0**
Projected Surplus After Administrative Actions and Opportunities			**$ 9.4**

* This forecast includes the following five County funds: General, Police Headquarters, Police District, Debt Service, and Fire Prevention, Safety, Communication and Education

** 2008 budget includes $10 million in a planned supplemental appropriation from 2007 fund balance

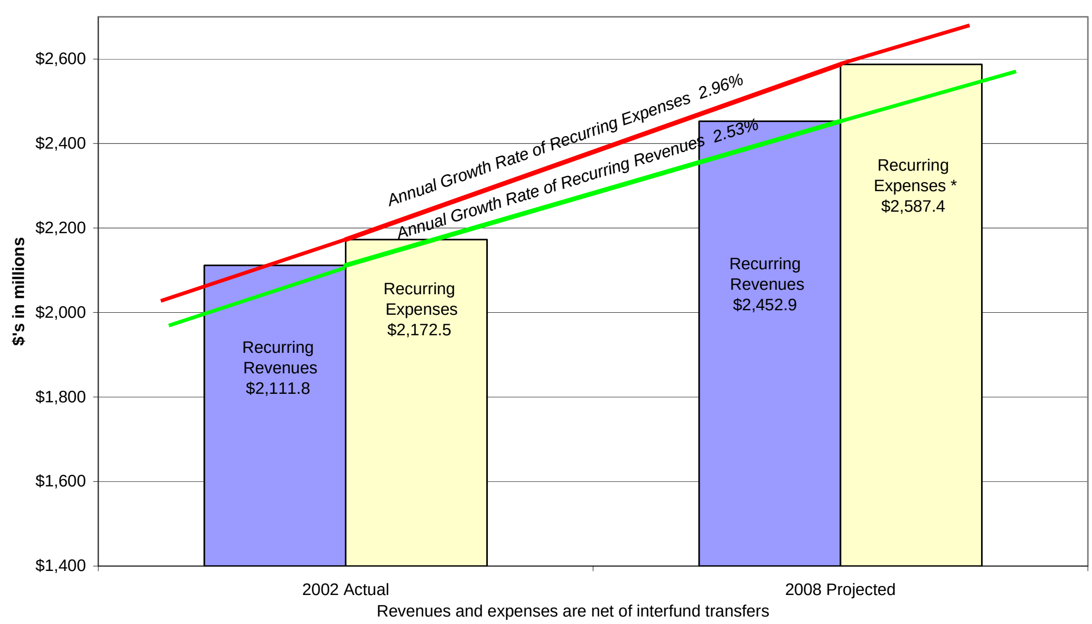
*** Less than the maximum Administrative Opportunities available

The Suozzi Administration and the Legislature have kept increases in expenditures to a projected compounded annual growth rate of 2.96% between 2002 and 2008, which is under the compounded consumer inflation rate of 3.7%. The State cap on the County share of increases in Medicaid expenditures has been a major factor in keeping the increase in the rate of spending under control. The Administration has also tackled large areas of expenditures to bring them under better management, including improved labor agreements and more effective control of workers' compensation expense.

The Administration and the PBA, DAI, and ShOA have negotiated new contracts that reduce the County's recurring labor expenses and came close to achieving the Administration's labor savings targets. It is anticipated that the Superior Officers Association (SOA) and Civil Service Employees Association (CSEA) contracts, now in binding arbitration, will also effect savings in 2008 by following the pattern of the other labor agreements. The County's workers' compensation expense, for the second straight year, is projected to decline below the previous year's expense, although workers' compensation expense will be over the 2008 budgeted amount. The Administration's ability to reduce workers' compensation expenditures shows the benefit of the decision to retain a third party administrator to manage the workers' compensation program.

These efforts have helped control the rate of increase in the County's spending without placing new demands on taxpayers. In the long term, however, despite all the steps the County has taken to control its expenditures, the County still does not generate enough recurring revenue to cover its recurring expenses. Keeping the growth in County spending to less than the growth in the consumer rate of spending is quite an achievement compared to the rates of growth of spending seen in other local governments, school districts and the state. Even at the County's low rate of expense growth, however, recurring revenues have not kept pace with recurring expenses. We project that recurring revenues will have increased at the compounded rate of 2.53% since 2002, as shown in Chart 1.

CHART 1 ANALYSIS OF GROWTH OF RECURRING REVENUE & EXPENSES 2002 - 2008 ($'s in millions)



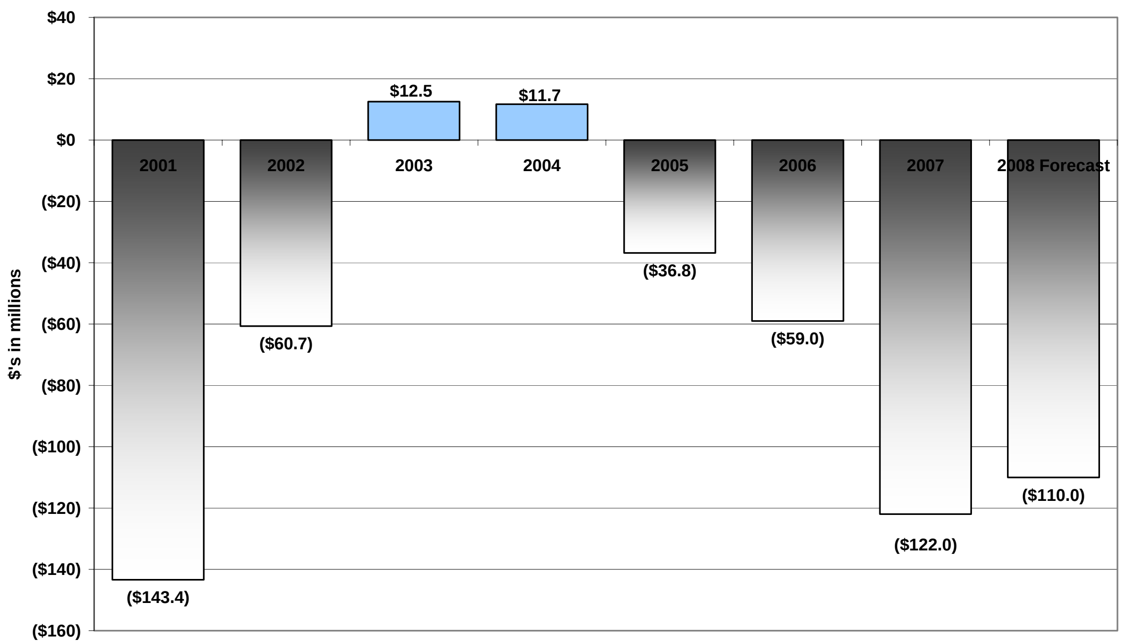
Revenues and expenses are net of interfund transfers

* Includes $24.5 million of recurring expenses paid from reserves

Like most governments, the County has an imbalance between its recurring operating revenues and expenses, known as a structural gap. While an important financial indicator, a structural gap is not the same as a budget deficit. Since 2002 the County's budget has been balanced each year, as required by law, and the County has ended every year with a budget surplus. Structural gaps can only be narrowed by reducing recurring expenses or by increasing recurring revenues. When the County balances its budget by using non-recurring revenues, such as drawing down reserves, it does not reduce the structural gap.

For 2008, we project a structural gap of $110 million. This is a decrease of $12 million from 2007, but still represents a major challenge for the County in 2009 and beyond (see Chart 2 below).

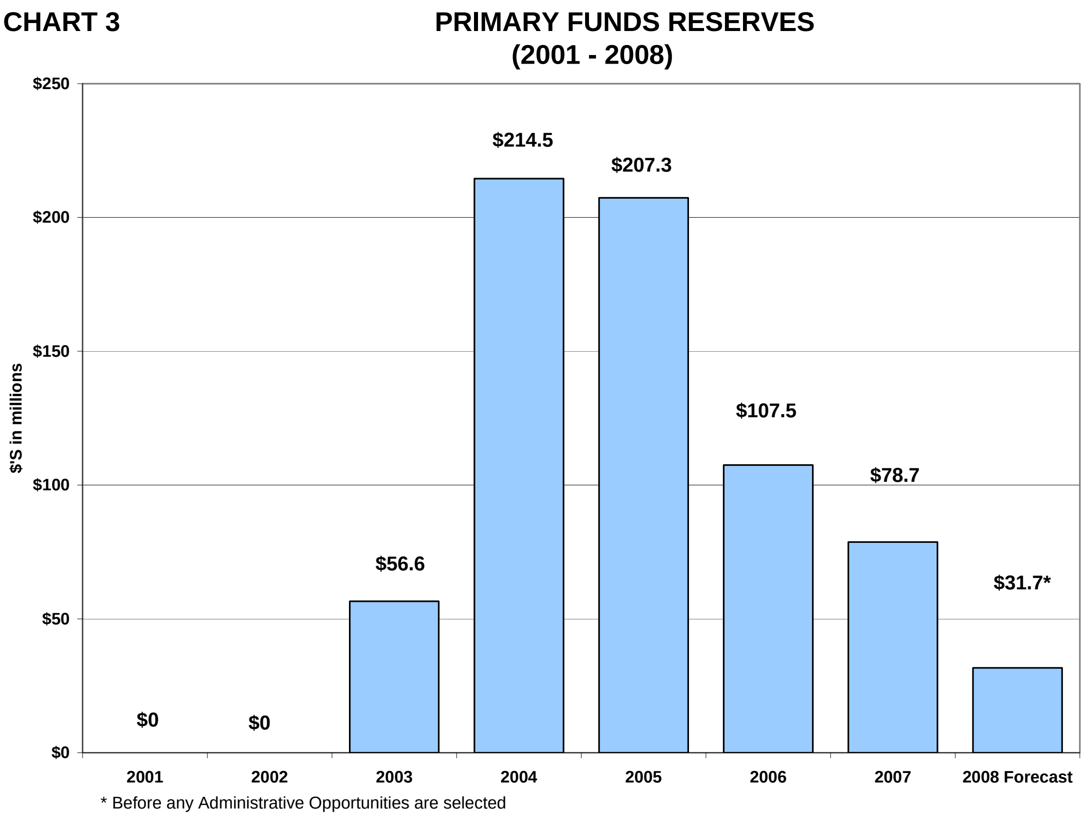
CHART 2 **STRUCTURAL SURPLUS (GAP) (2001 - 2008)**



From 2003 – 2006 the County conservatively used its annual surpluses, which totaled $328.4 million, to establish reserves that it has been drawing on to provide budget relief in subsequent years. Since the County did not generate sufficient surpluses to replenish the reserves in 2007 and is not projected to in 2008, the reserves will not be available as a substantial source of budgetary relief in future years. This may present a significant issue in 2009 and 2010 (see Chart 3 and Table 2 below).

We estimate the balance of the reserves will decline from $214.5 million at the end of 2004 to $31.7 million at the end of FY 08 before any Administrative Opportunities listed in Table 1 are selected. Use of all or a portion of the remaining reserves is among the options that the Administration and Legislature may take to finish the 2008 fiscal year.

CHART 3



The balance of reserves is detailed below:

TABLE 2

YEAR END RESERVE BALANCES

($'s millions)

	2006	2007	2008 Forecast	
Pension Savings Reserve	$ 51.5	$ 25.0	$ 0.5	
Reserve for Future Medical Expense				
Unpledged Tobacco Settlement Revenues	14.7	35.3	12.8	
Interest earned on Tobacco Settlement Revenues	2.1	2.1	2.1	
Reserve for Bond Indebtedness	14.8			
Litigation Reserve	3.0	1.1	1.1	
Employee Benefit Reserve	21.4	15.2	15.2	
Total Actual/Projected Year End Reserve Balances	$ 107.5	$ 78.7	$ 31.7	*

* Before any Administrative Opportunities are selected.

The County has now faced four budgets in which it had to absorb two major recurring expenditures for which no permanent funding sources were provided: an increase of approximately $100 million per year in pension contributions beginning in 2005; and the inclusion in the operating budget of $50 million in real estate tax refunds that were previously bonded, starting in 2006. The County has used reserves specifically set aside for this purpose, fund balance and, in the case of real estate tax refunds, the $50 million borrowed for tax refunds in 2007, to help pay for these expenses. The County will have to find a permanent solution to funding these expenses within its operating budget using recurring sources.

It is possible that there will be additional pressure on the County's budget in 2008, given the extraordinary pressure on the national and state economies. The impact is likely to be more severe in 2009. The Administration and Legislature must prepare for this possibility by implementing expense reduction and revenue enhancement strategies so that the County budget receives the maximum benefit in 2009.

SIGNIFICANT VARIANCES - REVENUES

Tax Revenues

Sales Tax

Based on the current sales tax growth rate for the first 6 months of 2008 of 2.1%, gross sales tax receipts are projected to total $1.033 billion, which represents a $7.4 million negative variance to the county's adopted budget of $1.041 billion. The 2008 budget assumed an increase of 2.5% over 2007 receipts.

Sales tax, at 41% of budgeted revenues net of inter-fund transfers, is the County's largest revenue source. Sales tax receipts are subject to economic factors that the County cannot control. Given the difficult economic climate and the possibility that Nassau County residents will reduce spending as fewer homes are purchased and existing residents fear losing their jobs or suffer declines in their housing values or savings, the County is vulnerable to a sales tax decline and the Administration and Legislature should prepare now for that possibility in the second half of 2008 and for 2009.

SALES TAX ($'s in millions)			
	JULY 1 YTD Sales Tax Collected	% July 1 YTD vs total collected/projected	GROSS ANNUAL Sales Tax Collected/Projected*
	($'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	41.9%	991.2
2007	423.5	41.8%	1,012.0
2008	430.4	41.7%	1,033.2

* 2008 projected is net of the deferred part county sales tax of $2 million

Property Tax

Property tax revenue is projected to be $2.8 million more than the $773.4 million adopted budget. The amount over budget has been generated primarily by the expiration of assessment exemptions upon the sale of properties. Although the value of the assessment roll has increased, total budgeted property tax levies for all funds including the County-wide Sewer and Storm Water District have not increased since 2003 as the county has reduced its effective tax rates, keeping property tax revenues constant.

The decline in housing values and increase in foreclosures should not affect 2008 property tax collections. Even in an economic downturn, property taxes continue to be paid since they are a first lien on the real estate. A slowdown in property tax payments may affect the County's cash flow in 2009, however, since the County must make up the difference between the tax levy and collections for school districts, towns and special districts.

PROPERTY TAX (EXCLUDING SEWER DISTRICT FUND) ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$762.5	$773.4	$776.2	$776.2	$2.8

Non-Tax Revenues

Investment Income

The County typically invests available funds in interest bearing checking accounts and bank certificates of deposit. Because interest rates have declined since the budget was adopted, we forecast that investment income will be $5.5 million under the $23.7 million budget.

INVESTMENT INCOME ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$27.3	$23.7	$7.3	$18.2	($5.5)

State Aid

State aid is projected to be $600 thousand over budget. The Administration is also seeking an additional $2 million in aid primarily for reimbursement for the expense of police officers who assist in child protective services work. We have included the additional $2 million in revenue as an Administrative Action in Table 1.

STATE AID ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$193.7	$201.5	$44.8	$202.1	$0.6

State Legislative Actions

We project that $15.5 million in new revenue items that required approval by the State Legislature are at risk in 2008. The only item that was approved by the State, increased Clerk filing fees at local option, will require enactment by the County Legislature. We have included the $1.8 million realizable from increased Clerk fees in 2008 as an Administrative Action in Table 1.

STATE LEGISLATIVE ACTIONS ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$0.0	$15.5	$0.0	$0.0	($15.5)

FIT Reimbursement

$4.1 million of budgeted reimbursement for Fashion Institute of Technology payments will not be received since it was not included in the current New York State budget.

FIT REIMBURSEMENT ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$0.0	$4.1	$0.0	$0.0	($4.1)

Departmental Revenue

We project that revenue in the Parks Department will be $6.6 million under budget. The budget provided for a 28% increase in collections over 2007 revenues. Although Parks revenues are running higher than last year due to an increase in fees, we project that they will still fall short of budget. The Parks Department also has budgeted $4 million from a new advertising contract that is being negotiated and must be approved by the County Legislature. We have included the $4 million from the advertising contract as an Administrative Action in Table 1.

The slowing housing market has led to lower collections of planning department subdivision fees, public works subdivision plan fees, and County Clerk fees. These revenues are down from the previous year for the same 6 month period and we anticipate a shortfall of $2.5 million from budget.

In addition, a revenue initiative by the County Attorney's Office – collecting penalties from commercial property owners who do not submit income and expense statements to the Department of Assessment – budgeted for $2 million, is projected at $2 million under budget as year-to-date no revenues have been collected.

DEPARTMENTAL REVENUE ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$92.0	$95.6	$37.2	$85.6	($10.0)

Fines and Forfeitures

The Administration established an aggressive revenue target for the Traffic and Parking Violations Agency (TPVA) in the 2008 budget, which we project will fall short by $3.9 million. Although recent changes in fines may increase revenue by $600,000 annually, we do not include any portion of this amount in our projections.

FINES AND FORFEITURES ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$22.3	$27.1	$9.8	$22.9	($4.2)

Rents and Recoveries

Rents and Recoveries are projected to be over budget as a result of a $2.3 million recovery resulting from settlement of the ShOA lag payroll lawsuit.

RENTS AND RECOVERIES ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$74.1	$52.4	$35.7	$54.7	$2.3

Federal Aid

Federal Aid is projected to be $5.8 million under the $120 million adopted budget. We estimate that reimbursements for social services direct assistance will be $4 million under budget. The Correctional Center will have a shortfall of $2.3 million due to a reduction in the number of federal inmates. The Correctional Center is projecting receipt of $1 million more than anticipated from the State Criminal Alien Assistance Program (SCAAP), following the March, 2008 audit by the Comptroller's Office, which provided guidance to the Correctional Center in how to increase reimbursement of the County's expenses under the SCAAP program.

FEDERAL AID ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$112.1	$120.4	($4.7)	$114.6	($5.8)

Bond and Note Premium

We forecast that there will be unbudgeted revenue of $5.2 million for selling bonds and notes at a premium to face value. This variance is included in Table 1 as "other revenue."

BOND and NOTE PREMIUM, included in OTHER REVENUES ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$1.1	$0.0	$3.9	$5.2	$5.2

SIGNIFICANT VARIANCES - OBLIGATIONS

Labor Costs

Payroll and fringe benefit expenditures are projected to be approximately $2 million over the adopted $1.2 billion FY 08 budget. Our analysis is based on actual headcount on board as of June 30, 2008. Overtime in the Police Department and Correctional Center is projected to be $18 million over budget. The expense in the General Fund will be offset primarily by negotiated labor savings of $14.8 million, as shown in Table 1. The $3.6 million Police District overtime expense and other Police District cost overruns can be funded by appropriating $8.9 million in Police District fund balance, shown as a potential Administrative Opportunity in Table 1.

Labor contracts with the PBA, DAI, and ShOA have been settled through 2012. The previous ShOA contract expired on December 31, 2004 and the new contract covers the period from January 1, 2005 to December 31, 2012. The Comptroller's Office estimates that the Administration came close to achieving its labor savings targets in these contracts.

The CSEA and the SOA have both entered binding arbitration for their new contracts. The last contract for both the CSEA and SOA expired on December 31, 2007. We anticipate that the new SOA contract will follow the trend of the PBA and DAI contracts and that the new CSEA contract will be consistent with previous CSEA agreements.

SALARIES and FRINGES ($'s in millions)					
	2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
Salaries	$850.6	$855.0	$427.3	$861.7	($6.7)
Fringes	403.8	388.5	252.9	398.6	(10.1)
subtotal	1,254.4	1,243.5	680.2	1,260.3	(16.8)
Negotiated Labor Savings				(14.8)	14.8
Total Salaries and Fringes	$1,254.4	$1,243.5	$680.2	$1,245.5	($2.0)

Termination Pay

Based on the number of police officers retiring in 2008 to date, it appears that the number of separations will be in line with the administration's budget projections. Because of changes in the methodology for calculation of termination pay effective for the DAI in June 2009, we project that separations by detectives will increase next year and, assuming the SOA contract follows the DAI pattern, superior officer separations will increase in 2010. The County will find it difficult to absorb the increased DAI termination pay expense since the portion of the termination pay reserve designated for use in the Police Headquarters Fund has already been used for that purpose. The Employee Benefit Reserve still contains $15.2 million for use in the Police District Fund. These funds could be used to help make termination payments to the approximately 55% of SOA members who are paid from the Police District.

POLICE TERMINATION ($'s in millions)					
	2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
Termination Pay					
Police District	$9.4	$11.0	$5.2	$9.3	$1.7
Police Headquarters	12.8	11.0	7.1	14.5	(3.5)
Total Termination Pay	$22.2	$22.0	$12.3	$23.8	($1.8)
Officers Retired					
Police District	34	50	29	42	8
Police Headquarters	75	50	37	58	(8)
Total Officers Retired	109	100	66	100	0

Overtime

Overtime costs for the Police Department and the Correctional Center are projected to be $18 million over the $52.8 million budget, which was $16.3 million lower than the 2007 expense of $69.1 million. The shortfall is comprised of $4 million in the Police Headquarters Fund, $10.4 million in the Correctional Center, and $3.6 million for the Police District Fund. (These overtime estimates are included in the total salary amounts presented above.) The PBA, DAI and ShOA contracts revised the overtime pay calculations. This should generate savings in overtime costs. Overtime needs to be more tightly managed in the future, so that the expense can be reduced.

OVERTIME ($'s in millions)					
	2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
Police District	$23.8	$17.9	$6.1	$21.5	($3.6)
Police Headquarters	20.4	17.0	7.7	21.0	(4.0)
Correctional Center	24.9	17.9	11.7	28.3	(10.4)
Total	$69.1	$52.8	$25.5	$70.8	($18.0)

Fringe Benefits

Health Benefits

The 2008 budget assumed health benefit rates would increase by 7% for active employees and 5.2% for retirees. The actual rate increases were approximately 5% for active employees and 7.5% for retirees. The lower rate of increase for active employees saved the County $5.9 million, which offsets a negative variance of $1.3 million for retirees. As a result, we project that health benefits costs will be $4.6 million under budget.

Health benefit expenses are also increasing at a slightly lower rate because of the positive impact of eliminating duplicate health benefit coverage for married County workers. This change, originally effected for non-union employees and retirees in 2006, has been included in the PBA, DAI and ShOA labor agreements and we anticipate that it will be included in the SOA contract. The CSEA contract, which already bans some duplicate coverage, will likely be revised to include the same comprehensive prohibition as the other collective bargaining agreements. Additional savings would be available if the College were to adopt a similar prohibition, as recommended in our report "***Dual Health Insurance Family Coverage for County / NHCC Employees***".[2]

The County's Comprehensive Annual Financial Report for 2007 included an estimate of the cost of health benefits for retired County workers as required by Governmental Accounting Standards Board Statement No. 45 – ***Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*** (GASB 45), for 2007. The total estimated liability of $3.4 billion, a calculation based on the estimated lives of current and projected new retirees, highlights the importance of controlling this expense for County taxpayers while providing quality health care to County employees and retirees.

In order to reduce future County health benefit expenses, the Comptroller has proposed strengthening the requirements before an employee becomes entitled to retiree health benefits. Currently non-union County employees are entitled to lifetime retiree health benefits after five years of government employment, and only one year with the County. The Comptroller has proposed a change in law to require that non-union employees work for the government for 10 years, 5 of which would be with the County, before vesting the right to lifetime retiree health benefits. This proposal is now pending before the County Legislature. This and other options for health benefit savings are presented in the Comptroller's Audit Advisory Committee report "***Providing Affordable Health Benefits for County Employees and Retirees***".[3]

HEALTH INSURANCE EXPENSE ($'s in millions)					
	2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
Active employees	$108.1	$119.3	$56.7	$113.4	$5.9
Retired employees	79.4	83.6	42.5	84.9	(1.3)
NHCC retired employees	17.2	17.7	5.8	17.7	0.0
Total	$204.7	$220.6	$105.0	$216.0	$4.6

Workers' Compensation

Expenditures are projected to be $18 million, $1 million over the $17 million budget. We anticipate that for the second year in a row, total workers' compensation expense will be below the previous year's actual expense, which is indicative of the value of the County's decision to move administration of the program to a professional third party administrator.

The Administration budgeted savings from converting all its lifetime payment obligations to lump sum payments, which would be funded by paying an insurer to assume all the payment obligations. This initiative has recently been approved by the State.

[2] http://www.nassaucountyny.gov/agencies/Comptroller/NewsRelease/2006/06-05-06.html
[3] http://www.nassaucountyny.gov/agencies/Comptroller/Docs/PDF/Cost_Saving_Initiatives121306.pdf

Since the approvals were not immediately forthcoming, in 2008 the Administration negotiated individual settlements on a case by case basis. Therefore, significant savings from this initiative are not expected to materialize in 2008.

WORKERS' COMPENSATION EXPENSE ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$19.7	$17.0	$8.2	$18.0	($1.0)

Social Services

Medicaid

The State cap on growth in the County's share of Medicaid expenses has provided substantial budgetary relief compared to previous years. Because of the cap, Medicaid expenses are now more easily predictable and we project the County will be on budget.

MEDICAID EXPENSE ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$219.0	$225.7	$110.3	$225.7	$0.0

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 $4.4 million. This is primarily the result of an increase in the number of children found eligible. The increase in this expense will be partially offset by state aid up to a maximum of 50%.

EARLY INTERVENTION / PRE-SCHOOL EDUCATION ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$158.3	$164.1	$135.6	$168.5	($4.4)

Direct Assistance

We project that direct assistance programs administered by the Department of Social Services will be $4.2 million over the $147.7 million budget. Our estimate is based on an increase in Safety Net cases and an increase in the State mandated day care provider rates, which were not included in the 2008 budget.

DIRECT ASSISTANCE ($'s in millions)					
	2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
Recipient Grants	$ 49.6	$ 48.9	$ 24.7	$ 50.8	$ (1.9)
Purchased Services	45.6	46.6	37.4	48.5	(1.9)
Vendor Payments	50.9	52.2	41.4	52.6	(0.4)
Total Direct Assistance	$ 146.1	$ 147.7	$ 103.5	$ 151.9	$ (4.2)

Utilities

We estimate that utility costs will be higher than budget because of increased fuel oil and natural gas costs and an expected LIPA rate increase. While the Administration planned for an increase in utility costs by budgeting 11.6% more than was spent in 2007, the actual expenditures are projected to be 12.5% over budget and 25.6% over the 2007 actual expense. While the County is fortunate that utility costs are not a material part of the budget, rising costs for fuel and utilities are likely to have an impact in the cost of other goods that the County purchases.

UTILITY COSTS ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$37.9	$42.3	$24.2	$47.6	($5.3)

Debt Service

Interest and principal expense is projected to be $16.2 million less than budget. This will be offset by debt issuance costs of $4.1 million in excess of budget. The amount budgeted for 2008 was based upon projected mid 2007 borrowings of $200 million that did not occur and assumed higher interest rates for variable rate debt than actually occurred.

The County paid an additional $8 million for auction rate securities (ARS) issued by NIFA following the collapse of the market in ARS. There will be no 2008 budget impact from this additional expense because the additional cost was restructured when NIFA issued approximately $728 million in debt to replace its ARS instruments.

DEBT SERVICE ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$292.7	$314.7	$64.1	$302.6	$12.1

Property Tax Refunds

The 2008 budget provided for $50 million to pay real property tax refunds. The Administration has advised that the 2008 refund expense will be approximately $68 million. The additional expense will be funded by use of $18 million from the money borrowed in 2007 for real estate tax refunds, as presented on Table 1.

PROPERTY TAX REFUNDS ($'s in millions)				
2007 Actual	2008 Budget	2008 YTD June	2008 Forecast	Variance
$87.1	$50.0	$42.4	$68.0	($18.0)

Other concerns - Nassau Health Care Corporation

The financial stability of the Nassau Health Care Corporation (NHCC) is essential so that it can continue to operate as a health care safety net for the County's uninsured. In 2008 the County and the NHCC entered into a new set of agreements to clarify their relationship and provide mechanisms for the continued County subsidy of health care costs for the poor and uninsured.

The County guaranteed the NHCC's outstanding indebtedness of $296 million and the institution's continued ability to repay its bonds is of fiscal importance to the County. The NHCC is now forecasting that its loss for 2008 will exceed budget and the institution may end the year in a negative cash position. The NHCC is discussing cash flow options with the County. The failure to achieve a positive cash position is troubling and requires continued monitoring.