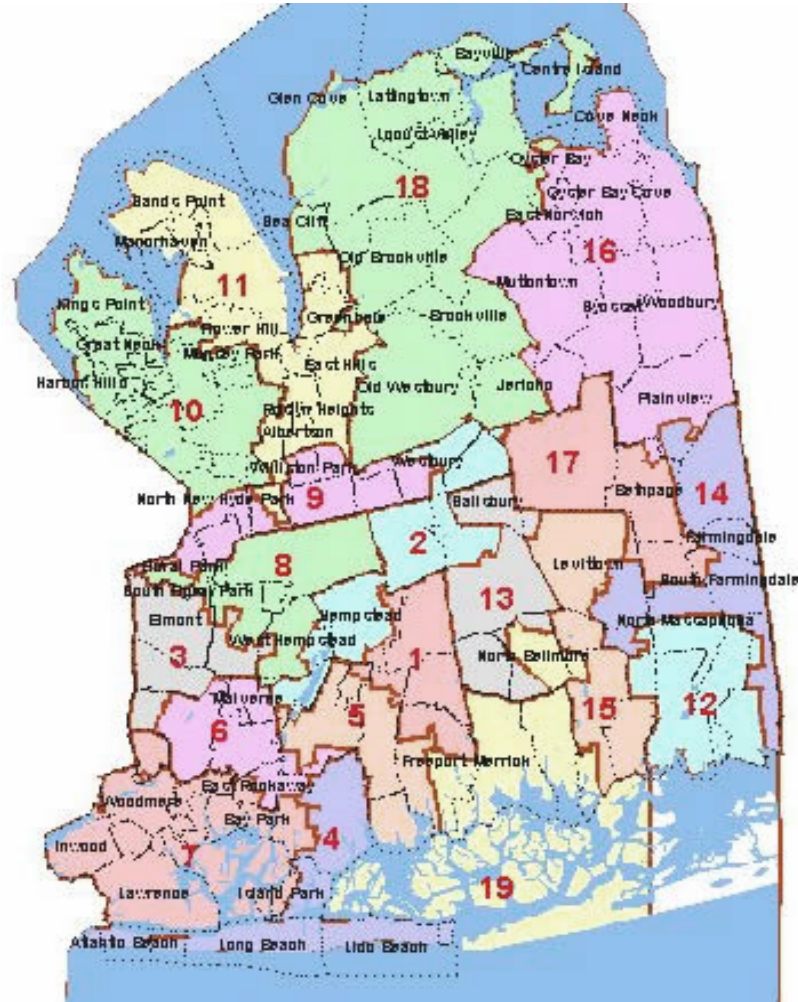




# ***NASSAU COUNTY LEGISLATURE Office of Legislative Budget Review***



## ***Review of the Fiscal Year 2005 Budget & Multi-Year Plan***

### ***Executive Summary***

***Eric C. Naughton, Director***

# *Nassau County*

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**Inter-Departmental Memo**

To: Hon. Judith Jacobs, Presiding Officer  
Hon. Peter Schmitt, Minority Leader  
All members of the Nassau County Legislature

From: Eric C. Naughton,  Director  
Office of Legislative Budget Review

Date: October 18, 2004

Re: Executive Summary

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Pursuant to §183 of Nassau County Charter, the Office of Legislative Budget Review has prepared a report on the County Executive's proposed operating budget for budget for Fiscal Year 2005 and Multi-Year Plan. The Office of Legislative Budget Review (OLBR) has prepared two documents relating to the proposed FY 05 budget and Multi-Year: an Executive Summary and a Departmental Analysis. The enclosed document provides an overview of the budget and financial plan.

I would like to thank the County Executive's financial team for their cooperation during this process. As always, my staff and I remain ready to provide whatever assistance the Legislature may require during the budget process.

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## EXECUTIVE SUMMARY

The County has been able to steadily improve its financial condition due to the increase in property taxes in prior years, solid growth in sales tax receipts and a declining headcount. In the past we have questioned if the Administration could manage its financial future while maintaining or improving levels of service to the community. The Administration has begun to recognize this need and has provided funding for additional staff.

The FY 05 Proposed Budget for the major funds is \$2.41 billion, excluding inter-departmental chargebacks. The budget fully funds all current staff, numerous vacancies, new positions, and mandated expenditures with an estimated sales tax growth of 3.0% on top of the 4.6% growth expected for FY 04, and no growth in the property taxes. The estimated growth in sales tax is below the historical norm for the County (see Sales Tax section for further discussion). The total property tax levy for the five major funds in the 2005 Executive Budget is the same as the 2004 levy. The allocations for each fund have changed as follows:

| <b>Fund</b>         | <b>2004<br/>Adopted</b> | <b>2005<br/>Proposed</b> | <b>Change</b>    |
|---------------------|-------------------------|--------------------------|------------------|
| County Parks        | 43,577,327              | 46,478,763               | 2,901,436        |
| Fire Commission     | 17,781,846              | 15,965,170               | (1,816,676)      |
| General             | 136,984,462             | 113,681,277              | (23,303,185)     |
| Police District     | 301,296,571             | 304,354,521              | 3,057,950        |
| Police Headquarters | 239,070,905             | 258,231,378              | 19,160,473       |
| <b>Subtotal</b>     | <b>738,711,111</b>      | <b>738,711,109</b>       | <b>(2)</b>       |
| Community College   | 43,117,148              | 44,798,717               | 1,681,569        |
| <b>Grand Total</b>  | <b>781,828,259</b>      | <b>783,509,826</b>       | <b>1,681,567</b> |

As previously approved, the levy for Nassau Community College has increased by \$1.7 million, or 3.9%.

Additional staffing is critical for most of the areas that the County Executive has targeted for “new investments”.

- ❖ Public Safety: Police, Corrections and Probation Staffing
- ❖ Improving Parks Services
- ❖ Health and Human Services: “No Wrong Door”
- ❖ Investments in Tax Assessment Reform

The decrease in uniformed personnel has yielded unacceptable levels of overtime in the Police Department and the Correctional Center. These departments are expected to be \$17 million and \$8 million over their overtime budgets respectively. The Police Department staffing budget has been enhanced with 280 positions, the Correctional Center 23 positions and the Probation Department 15 positions. The new hires will help to control the escalating overtime experienced in the Police Department and Correctional Center. In addition, they will help to reduce the operational concerns based on anticipated future retirements. For example, over 50% of the probation officers will be eligible

to retire by the end of 2005. Because of this, the Administration will consider hiring additional probation officers above the proposed number should the need arise and additional resources become available.

The Administration plans to hire 20 additional staff to improve parks maintenance. In order to implement “No Wrong Door” a team of “community service representatives” will be hired to conduct intake interviews and direct clients to the right location. In an effort to take advantage of borrowing to pay for tax certiorari grievances through NIFA, the County will be embarking on an aggressive effort to settle these cases over the next 15 months. This will require additional staffing for the Assessment Review Commission.

The County Executive has also developed a **Community Revitalization** investment. This investment does not focus on staffing; rather it provides additional funds for Long Island Bus and funds targeted to protecting the environment.

A major area of concern has been the financial peril of Nassau Health Care Corporation (NHCC). In recognition of this crisis, the County contracted with Manatt Phelps and Phillips to provide “an objective assessment of the current healthcare delivery system in Nassau County particularly as it relates to the provisions of health care to medically indigent recipients and to make recommendations with respect to the County’s fiscal relationship to NHCC.” In addition, NHCC’s original 1999 bond issue was recently refinanced and the County and NHCC approved a stabilization agreement. These actions remove the eminent financial danger that NHCC was facing and provides it with time to implement a new business plan (see NHCC section). However, this does not guarantee success and the operations of the hospital will have to continue to be closely monitored.

A major reason that the Administration was able to balance the budget without any major service reductions was by leveraging approximately \$26.1 million of surplus 2004 funds to defray non-recurring expenses in the Budget and Multi-Year Plan. This surplus will be used to:

1. Pre-pay the remaining \$14.3 million liability for the Family Health Plus Program that remains from the State takeover of the program over a two-year period.
2. Pre-pay \$9.3 million of debt maturing in 2005.
3. Purchase approximately 100 new police vehicles at a cost of \$2.5 million.

In addition, to making prepayments, the Administration plans to utilize two reserve funds that were recently created: the Employee Benefit Accrued Liability Reserve Fund and a Retirement Contribution Reserve Fund. It is anticipated that the Administration will seek to transfer \$21.2 million into the Benefit Fund and \$76 million into the Retirement Fund at the close of the current fiscal year. The Benefit Reserve will help protect the County from excessive termination pay. This is a sound practice that guards against circumstances which may create an unexpected surge in retirements in any year, such as September 11<sup>th</sup> or provisions in a labor settlement. However, at no time should this fund be used to supplant funding for a normal level of retirements. In the proposed budget the Administration has provided \$26.2 million of funding for police termination pay. Considering historical trends and the years of service for the members, OLBR considers a normal year to include 100 – 120 officer retirements, therefore the \$26.2 million would appear to be a reasonable assumption.

Legislation passed by the State earlier this year changed the due date for annual pension payment from December 15<sup>th</sup> to February 1<sup>st</sup> of the following year. The intent was to provide one-time relief in 2004 for municipalities that operate on a calendar fiscal year. The legislation also authorized local governments to create a pension reserve fund, which the County has done. The County plans to use the aforementioned \$76 million as follows: \$35 million in FY 05; \$30 million in FY 06; and \$11 million in FY 08. However, the Government Accounting Standards Board (GASB) may determine that all the governments will have to accrue the expense in FY 04 and as result there will not be a \$76 million surplus to transfer to the Reserve Fund (further discussion in the Fringe Benefits section). If this should happen, the County plans to amortize a portion of the pension costs, as allowed with the new legislation if no other relief option is made available by the State. The County was already planning to finance \$33.4 million in FY 07, even if there is a \$76 million pension reserve in the current year. This represents a complete policy change. Last year, under the New York State Comptroller's pension reform, the County had the option to bond over five years any contributions in excess of seven percent. In the 2004-2007 MYP, it was stated, "Nassau could borrow nearly \$40 million in 2004 to make its pension payments, thereby liberating budgeted funds to reduce non-recurring out-year costs. However, the Administration strongly opposes borrowing to finance pension contributions, seeing this idea as an absolute last resort."

With a balanced FY 05 budget, the out-years gaps are \$199.3 million in FY 06, \$302.9 million in FY 07 and \$389.7 million in FY 08. NIFA has indicated that the gaps in FY 07 and FY 08 should be restated because of understatement of pension costs of \$11 million in 2007 and \$22 million in 2008. While acknowledging the error in the pension calculation, the Administration does not intend to restate the gap. The FY 07 baseline includes a \$19.3 million discount which would sufficiently offset the \$11 million error. Furthermore, given that there likely will be numerous changes to the baseline by 2008, they will not adjust the gap.

NIFA identified the net risks to the FY 05 budget to be \$31.4 million. In general OLBR agrees with the risks identified by NIFA, which include:

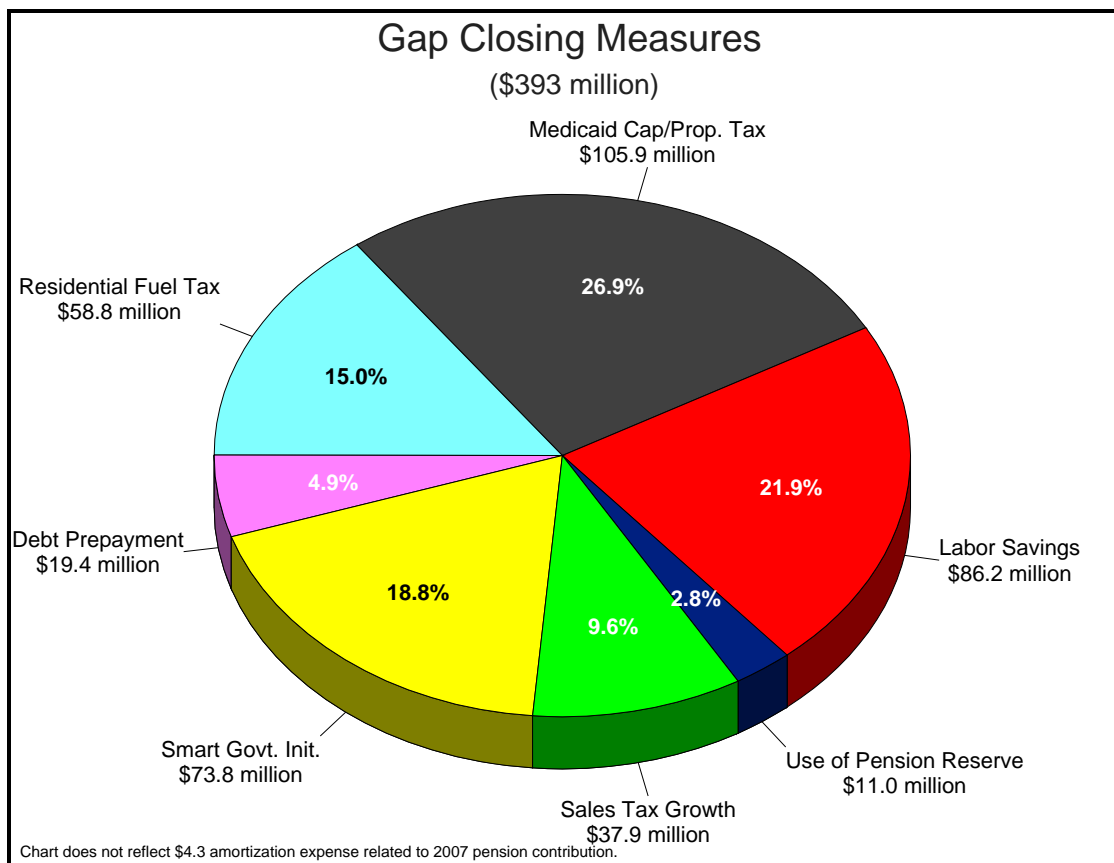
- Use of Pension Reserve - \$35 million
- Overtime - \$5 million
- Tuition Reimbursement from the three Towns and two Cities - \$2.8 million
- Worker's Compensation - \$1.1 million
- Taxi and Limousine Initiative - \$0.5 million

The total of these risks is \$44.4 million, which NIFA nets against attrition/turnover savings conservatively estimated at \$13 million. OLBR believes that there are other risks such as parks and recreation fees and traffic and parking fines, which have been consistently overstated. But the net risk may be lower because of understated federal reimbursement revenue of \$5 million and "normal" delays in hiring which will create additional savings. However, excessive delays in civilianizing the Police Department and the Correctional Center could increase the overtime risk. It should also be noted that Social Services Commissioner Robert Sherman testified at the Health Committee budget hearing that State funding for the PINS program (Persons in Need of Supervision) may be reduced by \$2.7 million.

The County Executive has delivered an FY 05 balanced budget with few risks relative to its \$2.4 billion. The multi-year plan is manageable for 2006, but requires further difficult decisions to balance 2007 and 2008. Over the course of the MYP, compared to current OMB projections, the increasing costs for Medicaid, health insurance and pension contributions will far outpace the estimated growth in sales tax.

- Medicaid (excluding IGT payments) will increase by \$133.1 million, from a projected amount of \$271.6 million in FY 04 to an estimate of \$281.7 million in FY 05 to \$404.7 million in FY 08. This is based on an average 12.9% increase in each of the out-years.
- Health insurance will increase by \$77.9 million, from a projected amount of \$152.8 million in FY 04 to an estimate of \$168.4 million in FY 05 to \$230.7 million in FY 08. This is based on rates growing by 9.5% in FY 05 and 12% in each of the out-years.
- Pension contributions will increase by \$20.4 million, from a projected amount of \$92.2 million in FY 04 to an estimate of \$111.2 million in FY 05 to \$112.6 million in FY 08. This is based on a 10% rate reduction in FY 06 and then remaining constant in FY 07 and FY 08, with salaries increasing based on the labor agreements. It should be noted that the actual FY 05 budget is only \$76.2 million, with an additional \$35 million to be paid from the previously discussed Pension Reserve Fund.
- Sales tax will increase by \$118.8 million, from a projected amount of \$936.6 million in FY 04 to an estimate of \$964.7 million in FY 05 to \$1.06 billion in FY 08.

The County Executive has proposed seven major gap-closing measures to lead the County to financial recovery. These measures are illustrated in the graph below:





The largest component of the gap closing measures in the plan is the **Medicaid Cap/Property Tax Increase** with a value of \$105.9 million in FY 08. In order to manage the structural gap caused by increasing pension and Medicaid costs, coupled with the requirement to utilize operating funds to pay tax certiorari settlements beginning in 2006 the Administration proposes two scenarios:

**Scenario 1**

The County Executive will continue to seek a cap on the local share of Medicaid spending in 2006. This would save the County an estimated \$27.1 million in 2006, \$55 million in 2007 and \$80.1 million in 2008. This scenario would also require a 1.5% property tax levy increase in 2007 worth \$11.4 million, followed by a 1.9% increase in 2008, for a cumulative impact of \$25.8 million.

**Scenario 2**

If the Administration, along with other New York counties, cannot get the State to agree to a cap on the liability of counties for future Medicaid cost growth then the property tax increase would be greater. It would require a 3.9% increase in 2006 worth \$28.8 million, followed by a 4.9% increase in 2007 and an additional 4.9% increase in 2008 for a cumulative impact of \$105.9 million.

The second largest component of the plan comes from **Labor Savings**. The Administration is estimating \$41.1 million in savings from labor concessions and \$45.1 million from workforce reductions and turnover savings, for a total labor savings of \$86.6 million. The County has existing agreements with the Civil Service Employees Association, Patrolmen's Benevolent Association (PBA), NCCFT, and Adjuncts. Sheriff Officers Association (ShOA) contract expires December 31, 2004. We have recently learned from OMB that an arbitration award was issued in September covering the collective bargaining agreement between the County and the Detectives Association Inc. (DAI) for the period 2001-2006. One aspect of the award, which has not been received by OLBR, is a retroactive 18-month wage freeze and annual 3.9% wage increases annually thereafter, which mirrors the PBA award announced in 2003. The County anticipates that the arbitration panel will soon recommend a similar wage package to the Superior Officers Association (SOA) for the period 2002-2007.

Based on limited backfilling the Administration expects to achieve workforce reduction savings. The County Executive's plan includes savings of \$38.8 million in FY 06, \$44.4 million in FY 07 and \$45.1 million in FY 08. It is estimated by the Administration that it will save \$26.2 million in FY 05, but those savings have not been included in the budget. Since the start of his Administration the County Executive has emphasized the importance of reducing headcount, however it has created operational and overtime problems which this budget tries attempts address. Based on OLBR's analysis, without an incentive program, the County will probably fall short of its target in 2006 by \$11.5 million, \$8.9 million in 2007, but achieve the target in 2008. For further discussion please see the Labor Section within the Executive Summary.

Smart Government Initiatives have a value of \$73.8 million in FY 08. While some of these initiatives are at best lofty goals, they should be pursued. The initiatives include consolidation efficiencies, energy conservation, reimbursement from police patrolling the Long Island Expressway, absentee landlord surcharge, commercial tax grievance filing fee, park and recreation revenue enhancement and various other fee increases and additional labor savings. The labor savings are \$5 million in police overtime savings starting in FY 06 and \$13.2 million from a change in the employee health coverage. The most

ambitious of the County's initiatives will require various levels of legislative approval for items that have not been favorably received in the past. Further discussion of each initiative is included with its assigned department in the OLBR Departmental Analysis document.

To assist in closing the projected 2006 gap the County will extend the 4.25% sales tax, pursuant to State enabling legislation, to residential energy costs. In the past, an energy tax between 3.5% and 4.25% was an option if the Administration was not successful in getting approval for a 0.25% increase in the County's sales tax rate. But the current MYP does not contemplate seeking the sales tax rate increase. The Plan anticipates collecting \$46.1 million in 2006 and \$58.8 million in 2008 from the **Residential Energy Tax**.

The proposed budget and Multi-Year Financial Plan conservatively assumes a 3.0% annual growth rate in sales tax revenues. Any annual sale tax growth rate greater than 3.0% would generate additional unbudgeted funds that could be used to help close the projected out-years' deficit. As a gap closing measure, it is estimated that if **Sales Tax** revenues actually grow by 4.0% in each year, the County would collect an additional \$8.8 million in 2005, \$17.9 million in 2006, \$27.5 million in 2007 and \$37.9 million in 2008. Based on the economy and historical trends, this assumption is reasonable. By conservatively budgeting for sales tax in the past, the Administration has been able to have a cushion against unforeseen expenses or revenue shortfalls, while generating budget surpluses each year that have helped the County pre-pay some of its non-recurring expenses. While this can have an impact on other policy decisions, it is a preferred practice from the prior Administration.

To the extent that the County will be able to generate surpluses each year, the plan is to Pre-Pay Debt as a gap closer. The estimated amounts are \$12.7 million in FY 06, \$11.8 in FY 07 and \$19.4 million in FY 08.

Discussed earlier as a gap closer is the use of the **Retirement Contribution Reserve Fund** and amortizing Pension costs. Other measures include **Assessment and Assessment Review Reform**.

The Multi-Year Financial Plan (MYP) assumes that the transition to paying for property tax refunds out of the operating budget, rather than through the issuance of bonds, will begin in 2006. With a billion dollars in outstanding tax refund debt, this will be a welcome change and a sure sign of Nassau's rehabilitated fiscal health. To ease the transition to pay-as-you-go financing, NIFA is authorized to finance \$15 million in certiorari refunds in 2006 and \$10 million in 2007.

Refund liability, as settlements are accelerated and the existing backlog reduced, is expected to continue rising, from \$108.8 million in 2003, to \$200.8 million in 2005. The Administration's estimated refund total for 2006 is \$65.5 million. Utilizing the NIFA financing of \$15 million will leave a balance of \$50.5 million to be paid out of that year's operating budget. The pay-as-you-go total for 2007, after deducting the final \$10 million of NIFA tax refund borrowing, is \$48.5 million. That same amount is projected for 2008. These estimates are based upon a baseline assumption of a 1.5% refund rate on an aggregate tax levy of \$4.3 billion that the County guaranteed for various jurisdictions in 2004. This would match New York City's current refund rate.

To achieve these goals will require the timely processing of the existing backlog liability of filed grievances, and a reduction in the ongoing new liability related to the revalued roll.

The Assessment Review Commission estimates that the “old liability” or backlog of commercial filings, as of the end of 2003, was approximately \$254 million. This amount does not include cases that had been settled but not yet paid, nor does it include the liability for small claims cases. In 2002 and 2003 resolutions began to outpace new filings. The MYP assumes that, starting in 2006, 100% of new liability “and no less than one-third of the remaining backlog” will be settled annually.

It is essential that the backlog is addressed during the period in which the County can issue bonds to pay the refunds. To do so the existing settlement program will be accelerated. The Treasurer’s office, which processes the payments, and ARC will have their staffing and overtime increased. The target of the accelerated processing is to reduce by \$43 million the amount that would otherwise have to be funded in the 2006 operating budget.

Should these steps prove insufficient the County will implement a unilateral refund program in which the County would issue a refund based on its settlement offer, without waiting for the property owner’s acceptance. More than 60% of Nassau’s commercial value has already been reviewed ARC. This type of refund can be processed in a quicker fashion and would be treated “as a credit against any subsequent settlement or judgment.”

The other major component of assessment process reform is controlling the new liability. With a full year to correct assessments before the roll is finalized, ARC estimates that it has prevented \$155 million in tax overpayments on the rolls for years 2002 – 2004. Due to the County guarantee of its assessment services, 75% of that amount would have been paid to the school districts, towns, and special districts that use those services.

The revalued roll, completed in 2003 and first used for the 2004 levy, added as much potential liability as the previous frozen rolls. The accuracy of this roll is expected to improve with successive annual updates. The Department of Assessment is hiring and training a professional staff to eventually take over the valuation work currently obtained from an outside contractor. In addition, the Chairman of the Board of Assessors, Harvey Levinson, is pursuing a number of strategies to enhance “the quality of the residential roll to be released in January 2005 and to make major changes to the commercial valuation process for that roll. These include:

- Addressing the backlog of building permits and shortening the response time for processing permits.
- Improving the valuation methodologies utilized by Cole, Layer, Trumble, the County’s consultant on real property appraisal services related to the annual update of the assessment roll.
- The goal of having the Department’s Field Division perform “full interior and exterior inspection of all transferred properties.”
- Utilization of ARC’s settlement data, where appropriate, to reduce assessments.
- Developing a staff to defend the County at hearings in Small Claims Assessment Review (SCAR) proceedings. This is currently administered by ARC, using appraisal consultants under the direction of Deputy County Attorneys.

- Improving the quality of the hearing officer panel.
- Seeking State legislation to provide for a five-year phase-in of assessment increases that occur as a result of changes in the full-market value of residential properties.
- Reclassifying illegal multi-family dwellings as commercial property for taxation purposes.

The test of a government is its ability to ensure maximum quality and minimum cost for services desired by its citizens. This is accomplished through good management and efficient use of resources. Based on the projected results of FY 04 and the proposed FY 05 budget, the fiscal principles are in place to lay the foundation for a sustained period of financial stability. Many of the solutions required to close the large projected gap in the out-years are questionable, but with the management team in place and with the partnership of the Legislature and NIFA the County will be on the right path.

## ECONOMIC REPORT

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### National Economic Outlook

On September 21, 2004, the Federal Reserve Bank believed that the economy was on secure enough footing that it raised the overnight lending rate to 1.75%. The Federal Reserve wrote,

After moderating earlier this year partly in response to the substantial rise in energy prices, output growth appears to have regained some traction, and labor market conditions have improved modestly.<sup>1</sup>

This was the third rate increase this year. The overnight lending rate is still low by historical standards, at a level that has not been in place since 1962.<sup>2</sup> Forecasters expect economic growth as measured by real GDP and job creation to continue through the end of 2004 and throughout 2005.

Professional forecasters polled by the Federal Reserve Bank of Philadelphia are expecting output growth to continue through the end of the year and real GDP to end the year up 4.6% from last year's levels.<sup>3</sup> The Mortgage Bankers Association similarly expects output growth to continue throughout the year. However, they are predicting a slightly slower output growth rate since they are projecting year end real GDP to be 4.2%.<sup>4</sup> Both organizations are predicting continued output growth in 2005, albeit at a more subdued pace. The Federal Reserve Survey predicts 2005 real GDP growth to be 3.7% and the Mortgage Bankers Association sees year-end 2005 real GDP coming in at 3.6%.

According to the National Association for Business Economics, companies will add workers at a 2% annual pace in the fourth quarter of 2004 and continue at a slightly quicker pace in 2005. That forecast is equivalent to nearly 220,000 new jobs added each month in 2005. Anthony Santomero, the President of the Federal Reserve Bank of Philadelphia, similarly expects job growth throughout 2005, but at a more subdued pace. He projects that 150,000 to 200,000 new jobs will be added each month on average through 2005.<sup>5</sup>

However, risks are present in the economy which if realized could make those projections unobtainable. Risks are present in both business spending, consumer spending and energy demand. Moreover, a decline in consumer spending could cause a decrease in business spending since consumers base their spending decisions on their confidence in the business sector and vice-versa.

The economic recovery from 2001's recession has been haphazard. The economy recorded economic gains over a few months followed by a string of losses. Uncertainty about the outcome of the election and tax policy, rising health care costs, increased energy prices, a growing federal budget deficit, interest rate increases, fluctuations in stock prices, and worries about the war in Iraq and terrorism have

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<sup>1</sup> Gongloff, Mark, "Fed Raises Again", [CNN/Money.com](#), September 21, 2004.

<sup>2</sup> Same as above.

<sup>3</sup> "Survey of Professional Forecasters, Forecasters Cut Projections for Second-Half Growth and Raise Inflation Estimates", [Federal Reserve Bank of Philadelphia](#), August 20, 2004.

<sup>4</sup> "MBA Economic Forecast", [Mortgage Bankers Association](#), September 2004.

<sup>5</sup> Hagenbaugh, Barbara, "Economists Expect Job Creation to Pick Up", [USAToday.com](#), October 5, 2004.

contributed to the erratic recovery path and have made businesses cautious about hiring.<sup>6</sup> According to John Silva, chief economist at Wachovia Securities,

The rate of spending is less than you would have expected given the typical business cycle...companies have made a lot of money, but if you look at equipment and software spending, this cycle is below the pace of the past three or four cycles.<sup>7</sup>

In 2004, consumer spending was supported by a robust housing market, tax breaks and optimism about businesses hiring. In 2005 the housing market is expected to move forward at a more moderate pace and the stimulative effect of the tax cuts will have waned, making business spending more imperative.

Consumer spending is also considered fragile. Consumers have had to deal with higher prices and interest rates amidst sluggish job and personal income growth. According to the UCLA Anderson Forecast, the U.S. economy will remain sluggish for the next couple of years and any pullback in consumer spending could trigger a recession. They view consumers as maxed out after a six-year spending spree. The report cites consumer spending as a negative risk, but projects real GDP growth to be 4.3% in 2004 and 3.3% in 2005.<sup>8</sup>

High energy prices were seen as contributing to the economic slowdown experienced during the second half of 2004. Some analysts have said that this year's rise in energy prices was not transitory, but rather an indicator of a structural shift towards higher prices in the energy market. Increased world energy demand is said to be causing the structural shift. Energy demand in China is said to be soaring. The increase in demand has a significant impact on energy prices since the world's supply of oil is fixed. The problem becomes more acute in the United States due to the fact that U.S. refining capacity fell 52% between 1980 and 2002.<sup>9</sup> The U.S. Energy Information Administration is concerned about the adequacy of supply to meet growing oil demand and as a result they do not expect the price of a barrel of oil to fall below \$40 until the end of 2005.<sup>10</sup> Any unanticipated supply shortage or demand increase could result in higher energy prices and cause the previously mentioned GDP and job growth estimates to be optimistic.

### **Long Island Economic Outlook**

The economic outlook for Long Island is similar to that of the nation. The regional economy should continue to grow for the rest of this year and through 2005. The rate of growth in 2005 is expected to be slower than that experienced in 2004. However, there are reasons to assume that regional growth in 2005 will be more subdued than that forecast for the nation. Regional consumer prices have been increasing at a faster pace than that of the nation. Additionally, regional businesses are planning to hire less people and lay off more people than businesses surveyed throughout the country. Higher regional prices coupled with more unemployed residents could constrain consumer spending and lead to a more moderate regional economic growth rate.

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<sup>6</sup> Kirchhoff, Sue and Barbara Hagenbaugh, "What's Worrying Business?", [USAToday.com](#), September 13, 2004.

<sup>7</sup> Gongloff, Mark, "Dropping the Torch", [CNN/Money.com](#), August 25, 2004.

<sup>8</sup> "Report: Consumers a Recession Risk", [CNN/Money.com](#), September 8, 2004.

<sup>9</sup> Herrick, Thaddeus, "How to Combat Higher Oil Prices", [The Wall Street Journal](#), September 29, 2004.

<sup>10</sup> "U.S. Heating Costs Soar", [CNN/Money.com](#), October 6, 2004.

**Detailed Regional Analysis**

In August and September 2004 several economic indicators analyzed softened from a monthly perspective. From a monthly perspective, the regional employment picture weakened, the number of closed residential transactions fell and regional prices were up. More data is required to determine if the sluggish employment figures and the decrease in home sales are anomalous or indicative of an emerging trend. From an annual timeframe resident employment, non-farm job and consumer confidence indicators are up. Experts are currently projecting stronger growth for the rest of the year.

**Local Area Employment Figures**

| <b>Comparison of Employment Statistics</b> |                    |                    |                    |   |  |
|--|--------------------|--------------------|--------------------|---|--|
| <b>(figures in thousands)</b>              |                    |                    |                    |   |  |
|  | <b><u>8/04</u></b> | <b><u>7/04</u></b> | <b><u>8/03</u></b> | <b><u>Change from<br/>Prior Month</u></b> | <b><u>Change from<br/>Prior Year</u></b> |
| <b><u>Nassau</u></b>                       |                    |                    |                    |   |  |
| Employed                                   | 701.3              | 708.2              | 698.6              | -1.0%                                     | 0.4%                                     |
| Unemployed                                 | 28.2               | 29.3               | 29.7               | -3.8%                                     | -5.1%                                    |
| Unemployment rate                          | 3.9%               | 4.0%               | 4.1%               | -2.5%                                     | -4.9%                                    |
| <b><u>Suffolk</u></b>                      |                    |                    |                    |   |  |
| Employed                                   | 745                | 752.4              | 742.1              | -1.0%                                     | 0.4%                                     |
| Unemployed                                 | 35.8               | 36.9               | 36.5               | -3.0%                                     | -1.9%                                    |
| Unemployment rate                          | 4.6%               | 4.7%               | 4.7%               | -2.1%                                     | -2.1%                                    |
| <b><u>NYC</u></b>                          |                    |                    |                    |   |  |
| Employed                                   | 3,455.0            | 3,465.0            | 3,371.0            | -0.3%                                     | 2.5%                                     |
| Unemployed                                 | 249.0              | 284.0              | 308.0              | -12.3%                                    | -19.2%                                   |
| Unemployment rate                          | 6.7%               | 7.6%               | 8.4%               | -11.8%                                    | -20.2%                                   |
| <b><u>Nation</u></b>                       |                    |                    |                    |   |  |
| Employed                                   | 140,226.0          | 140,700.0          | 138,137.0          | -0.3%                                     | 1.5%                                     |
| Unemployed                                 | 7,940.0            | 8,518.0            | 8,830.0            | -6.8%                                     | -10.1%                                   |
| Unemployment rate                          | 5.4%               | 5.7%               | 6.0%               | -5.3%                                     | -10.0%                                   |

Source: New York State Department of Labor

August 2004 was a slow month on the employment front. All areas surveyed recorded monthly decreases in all indicators. Much of the decline may be attributed to the fact that students return to college and elementary and high school teachers are on summer break. Both groups are no longer considered part of the labor force. The monthly employment declines were not large enough to erase the employment gains made over the previous year. From an annual perspective all areas surveyed witnessed an increase in the number of employed residents.

From an annual perspective, New York City has seen the largest percentage increase in the number of employed residents as well as the greatest percentage decrease in the number of unemployed residents. The accelerated employment growth rate seen in New York City is good since the area experienced the largest declines after September 11, 2001. Moreover, employment growth in New York City expands the employment options available for Nassau County residents.

Like New York City, employment gains were recorded throughout the nation. Throughout the nation 1.5% more residents are currently employed than at this time last year.

The current faster rates of hiring seen in New York City and the US are projected to continue through the end of 2004. According to Manpower Inc.'s most recent survey of hiring plans, 28% of firms surveyed nationwide planned to add to their workforce in the fourth quarter of 2004. That figure was 21% for New York City and 20% for Long Island. However, the Long Island region is expected to record the greatest amount of layoffs in the fourth quarter of 2004. On Long Island, 18% of firms surveyed said that they planned to reduce their workforce during the fourth quarter. That figure was 10% in New York City and 7% throughout the nation.<sup>11</sup>

| Manpower Inc., Fourth Quarter 2004 Survey on Hiring Plans |     |     |     |
|---|-----|-----|-----|
|   | LI  | NYC | US  |
| Add to Workforce  | 20% | 21% | 28% |
| Reduce Workforce  | 18% | 10% | 7%  |
| Maintain Current Workforce                                | 44% | 65% |     |

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<sup>11</sup> Marshall, Randi F., "Survey on Hiring Plans, LI Flat, City could be Up", Newsday, September 14, 2004.



**Nassau-Suffolk Nonagricultural Employment**

| <b>Non-agricultural Employment<br/>Nassau-Suffolk Area<br/>(figures in thousands)</b> |                       |                       |                       |   |  |
|---|-----------------------|-----------------------|-----------------------|---|--|
|   | <b><u>8/04</u></b>    | <b><u>7/04</u></b>    | <b><u>8/03</u></b>    | <b><u>Change from<br/>Prior Month</u></b> | <b><u>Change from<br/>Prior Year</u></b> |
| Natural Resources,<br>Construction & Mining   | 68.3                  | 68.2                  | 67.2                  | 0.1%                                      | 1.6%                                     |
| Manufacturing   | 86.0                  | 85.1                  | 87.1                  | 1.1%                                      | -1.3%                                    |
| Wholesale Trade   | 74.1                  | 74.1                  | 72.9                  | 0.0%                                      | 1.6%                                     |
| Retail Trade  | 162.8                 | 162.6                 | 161.3                 | 0.1%                                      | 0.9%                                     |
| Transportation,<br>Warehousing & Utilities  | 33.2                  | 33.6                  | 33.2                  | -1.2%                                     | 0.0%                                     |
| Information   | 27.7                  | 27.8                  | 29.5                  | -0.4%                                     | -6.1%                                    |
| Financial Activities  | 84.8                  | 84.9                  | 84.2                  | -0.1%                                     | 0.7%                                     |
| Professional & Business<br>Services   | 156.7                 | 156.6                 | 153.8                 | 0.1%                                      | 1.9%                                     |
| Educational & Health<br>Services  | 193.6                 | 194.0                 | 189.2                 | -0.2%                                     | 2.3%                                     |
| Leisure & Hospitality   | 105.1                 | 106.0                 | 102.7                 | -0.8%                                     | 2.3%                                     |
| Other Services  | 51.5                  | 51.5                  | 51.2                  | 0.0%                                      | 0.6%                                     |
| Government  | 185.9                 | 190.9                 | 183.1                 | -2.6%                                     | 1.5%                                     |
| <b>Total</b>  | <b><u>1,229.7</u></b> | <b><u>1,235.3</u></b> | <b><u>1,215.4</u></b> | <b><u>-0.5%</u></b>                       | <b><u>1.2%</u></b>                       |

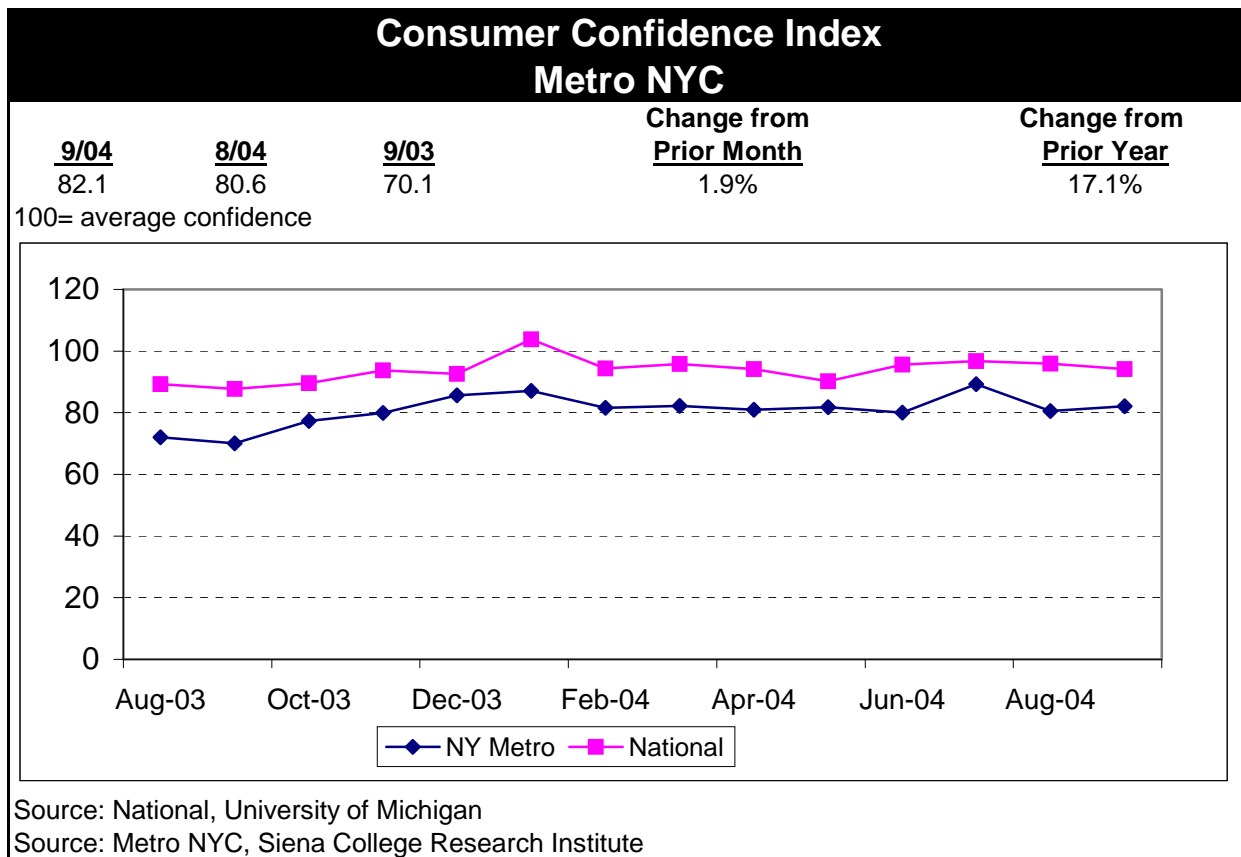
Source: NYS Department of Labor

Long Island experienced a non-agricultural job loss in August 2004 from a monthly perspective, but the losses were not sizeable enough to erase the strides made over the past year. Within the Government super sector, the Local Government Educational sector experienced the greatest monthly decline. This sector typically experiences job losses at this time of year as school is out of session and students return to college. The greatest monthly gains were recorded in the Manufacturing sector. This concurs with Manpower Inc.'s finding that on Long Island Manufacturers voiced the most optimism over fourth quarter hiring.<sup>12</sup>

<sup>12</sup> Marshall, Randi F., "Survey on Hiring Plans, LI Flat, City could be Up", *Newsday*, September 14, 2004.

From an annual perspective Long Island has 14,300 more jobs than this time last year. The employment gains were diverse. From an annual perspective 9 of the 12 super sectors studied experienced job gains. Diverse employment growth is important as it mitigates the severity and time-frame of recessions on Long Island. The greatest annual gains were in the Leisure & Hospitality, and Educational & Health Services super sectors. The greatest annual losses were in the Information super sector. The decline seen in the Information supersector may be viewed as part of a national trend. According to a study done by researchers at the University of Illinois, Chicago, the information technology industry lost 403,300 jobs between March 2001 and April 2004. The losses were attributed to business uncertainty over how much the economy is improving as well as outsourcing of these jobs to overseas companies. The study found that high-tech workers were “bearing the brunt of economic restructuring strategies”. Overall, the losses were seen as temporary. The authors believe that the high-tech market will rebound, but that the newly created jobs may require different skills.<sup>13</sup>

**Consumer Confidence Index**



September 2004 saw regional consumer confidence rise slightly. The increase followed August 2004’s sharp 9.7% decline. While the regional index increased 1.9%% from the August 2004, the national index declined 1.8%.

<sup>13</sup> “High-Tech Market Lost more than 400,000 Jobs”, [USAToday.com](http://USAToday.com), September 14, 2004.

National retail sales are mirroring regional consumer confidence. National retail sales fell 0.2% in August 2004 while regional consumer confidence declined. Then in September 2004, national retail sales rose 1.5% while regional consumer confidence rose. The primary force behind the August decline and September increase in national retail sales was changes in automobile sales.<sup>14</sup> Hopefully, the national increase in automobile sales will impact the local economy since the most recent R.L. Polk & Co. figures reveal that passenger car registrations throughout the region fell 16% during the first half of 2004. Over the same time period, there was a 3.2% increase in new regional registrations of vans, pickups and SUVs. Meanwhile, nationally registrations were unchanged. High local gas prices, a sluggish stock market and uncertainty about the economy and election were also seen as contributing to the fall.<sup>15</sup> This is a significant development for County sales tax revenues since auto dealer / gas station sales have historically represented 15% of total County sales tax collections.

**Consumer Price Indexes**

| Consumer Price Indexes<br>New York-Northern Jersey-Long Island, NY-NJ-CT-PA region |             |             |             |                                    |                                   |
|--|-------------|-------------|-------------|------------------------------------|-----------------------------------|
|  | <u>8/04</u> | <u>7/04</u> | <u>8/03</u> | <u>Change from<br/>Prior Month</u> | <u>Change from<br/>Prior Year</u> |
| US City, CPI-U   | 189.5       | 189.4       | 184.6       | 0.1%                               | 2.7%                              |
| Regional CPI-U   | 205.7       | 205.5       | 199.1       | 0.1%                               | 3.3%                              |
| Core CPI-U (All Items less energy)   | 212.2       | 211.8       | 206.7       | 0.2%                               | 2.7%                              |
| Medical  | 319.2       | 319.9       | 309.9       | -0.2%                              | 3.0%                              |
| Housing  | 219.0       | 218.5       | 210.3       | 0.2%                               | 4.1%                              |
| Gasoline (all types)   | 155.0       | 158.6       | 123.5       | -2.3%                              | 25.5%                             |

Source: Bureau of Labor Statistics, figures are not seasonally adjusted

Prices throughout the region rose at a quicker pace than that of the nation. Regional prices are up 0.1% from last month and 3.3% from last year. In contrast, national prices are up 0.1% from last month and 2.7% from last year. The regional Core CPI-U is up 0.2% from last month and 2.7% from last year. Forecasters had expected a 0.2% increase in the all-items index which was up 0.1% from the prior month.<sup>16</sup> Monthly declines in the regional cost of medical care and gasoline kept the overall index down.

Concurrent with the overall consumer price increases, the Commerce Department reported that nationally personal income rose 0.1% in July. That represented the weakest percentage gain in personal income since November 2002.<sup>17</sup> Hence consumers buying power was barely able to keep pace with the overall price level. This development may be contributing to the August drop in retail sales detailed

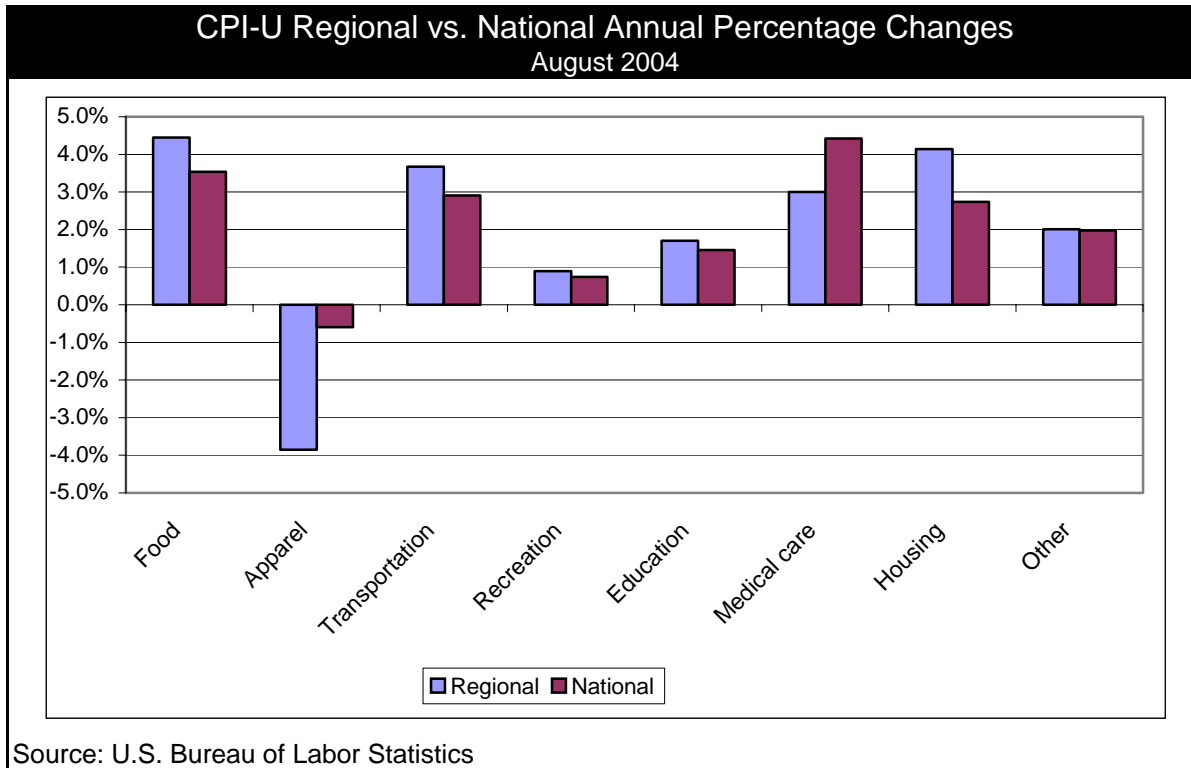
<sup>14</sup> “Retail Sales Jump in September”, [CNN/Money.com](http://CNN/Money.com), October 15, 2004.

<sup>15</sup> Incantalupo, Tom, “New-Vehicle Sales hit the skids locally”, [Newsday.com](http://Newsday.com), September 13, 2004.

<sup>16</sup> “Consumer Prices in Check”, [CNN/Money.com](http://CNN/Money.com), September 16, 2004.

<sup>17</sup> “U.S. Income Gains Sluggish”, [CNN/Money.com](http://CNN/Money.com), August 30, 2004.

previously. The chart below details the annual change experienced regionally and nationally by all components of the CPI.

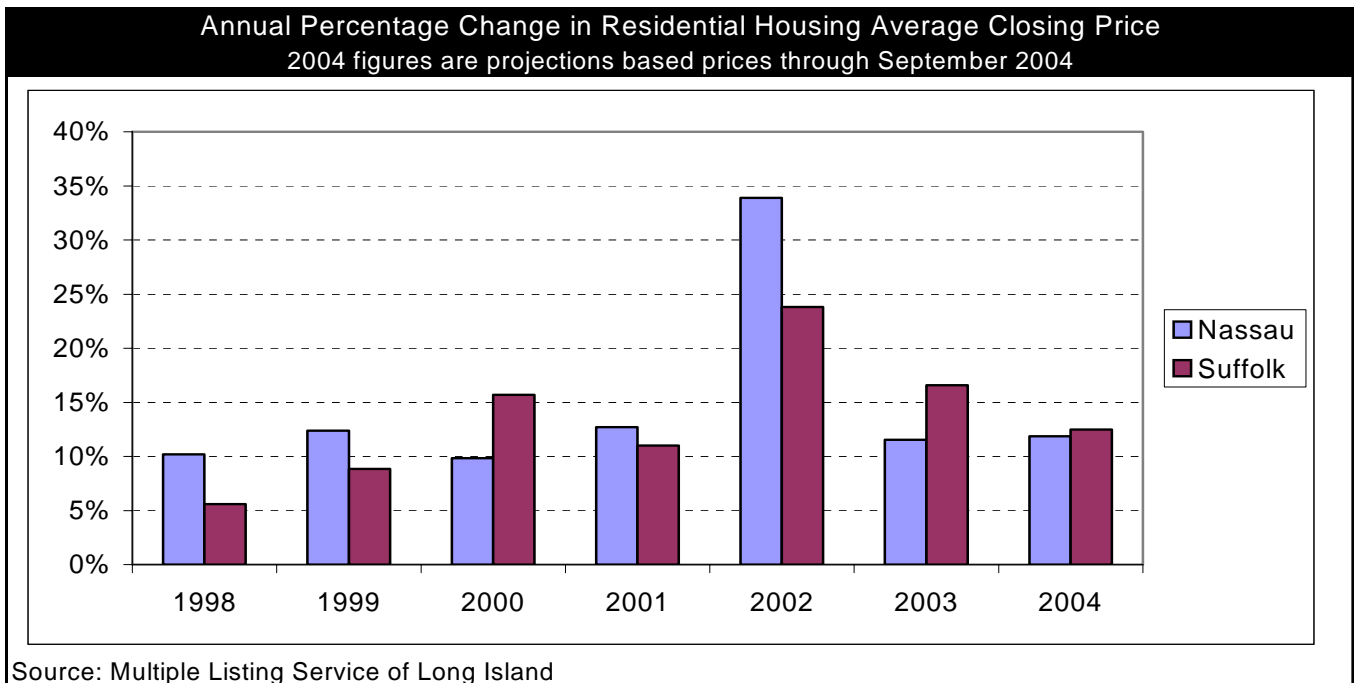


From an annual perspective, the apparel industry continues to be the only sector surveyed to experience a fall in price level. Prices throughout all the other sectors are up from this time last year. The greatest regional price escalation was in the food sector. Trailing the food sector in terms of regional price appreciation were the housing and transportation sectors. Nationally, medical care costs have recorded the largest increase since last year.

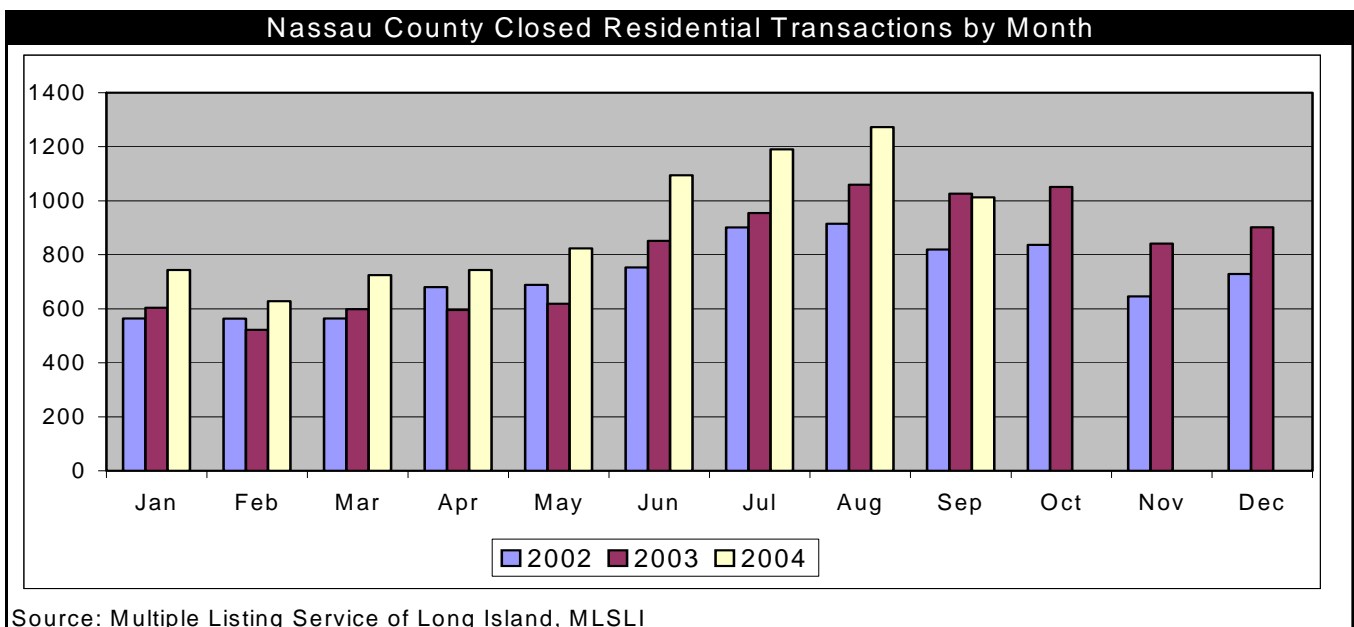
**Residential Housing Market**

Long Island’s residential housing market slowed down in September 2004. The number of closed transactions in Nassau County fell 1.3% from September 2003’s level. This was the first annual decrease recorded after 13 months of double digit growth. Residential home values continue to rise on Long Island. Average home sale prices in both Nassau and Suffolk County are above their 2003 levels. The appreciation rates have moderated from their 2002 levels, but are still considered strong.

In Nassau, the average closed residential sale price in September 2004 was \$551,400. If current trends continue, the projected annual average sale price would represent an 11.9% appreciation from 2003’s level. Suffolk County average closed residential sale prices are projected to end 2004 with a 12.5% appreciation rate. The average closed residential sale price for Suffolk County in September was \$409,300. The chart on the next page details the historical and estimated annual appreciation rates for both Nassau and Suffolk County.



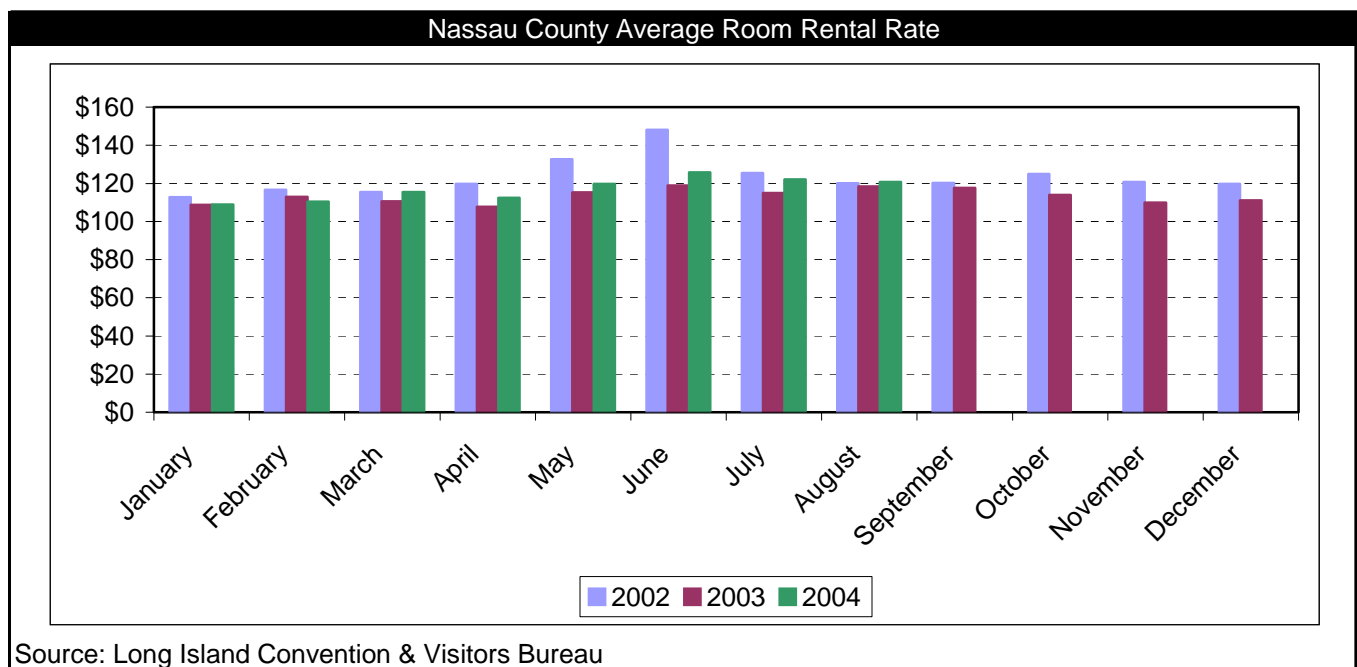
September 2004 saw 1,013 home sales close in Nassau. That is 1.3% less than the number of closed transactions in September 2003. In Suffolk County, the number of closed transactions fell by 6.8% from the prior September. More data is required to see if the decline is temporary or a trend. If current growth rates continue, Nassau County is projected to record a 20.5% increase in the number of closed real estate transactions. The number of closed real estate transactions in Suffolk County is estimated to grow 9.3% from 2003's level. The increases would represent seven year highs for both counties.



Residential inventory levels in both Nassau and Suffolk Counties are up from their 2003 levels. Currently in Nassau County residential inventory levels are up 8.2% from the prior year. Meanwhile, in Suffolk, residential inventory levels have increased 14.7% from this time last year.

**The Lodging Industry**

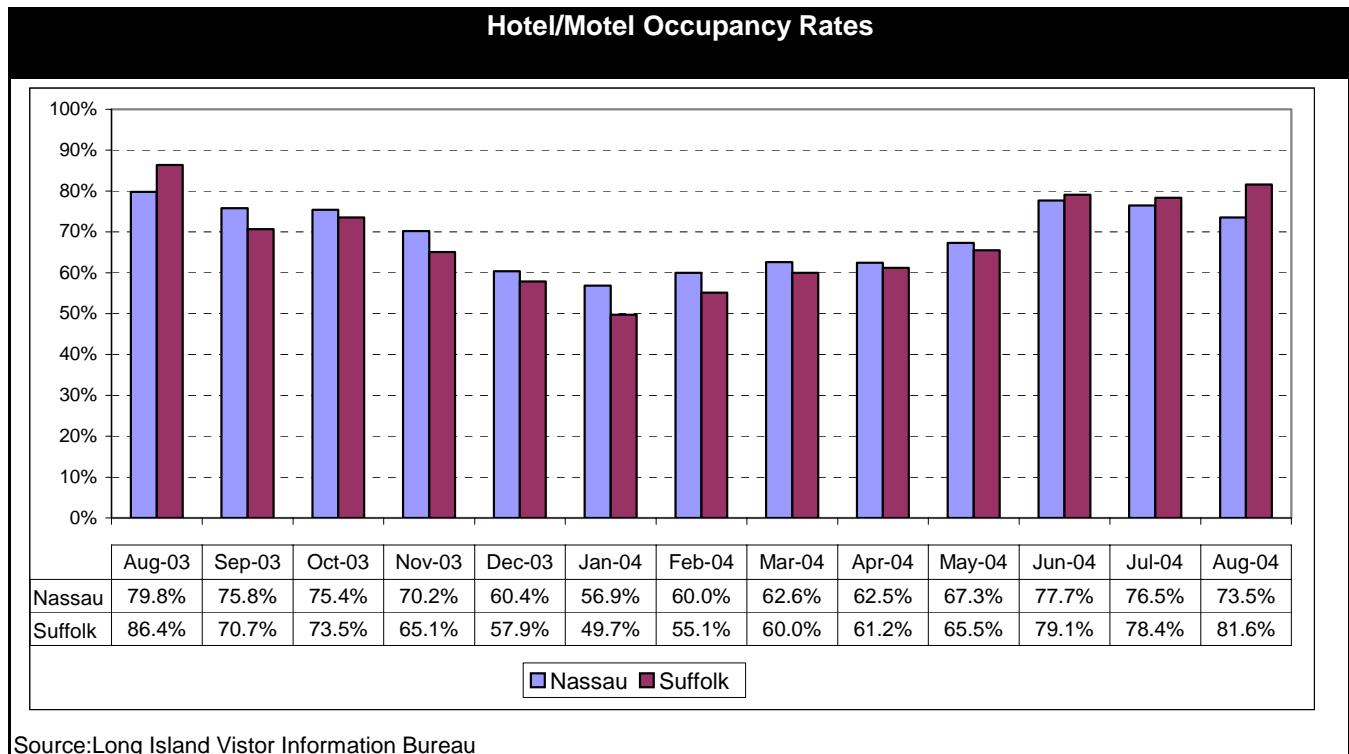
Nassau County hotel/motel tax collections are projected to be up 11.5% in FY 04 from their FY 03 level. The increase is a function of higher room rental rates as well as the sale of more room nights. Average room rental rates year-to-date in Nassau County are up 3.1%. A pick-up in demand has enabled hotels and motels to increase their room rates. Meanwhile occupancy rates year-to-date are down 6.2%. Analysts attribute the occupancy rate decline to the infusion of new hotels into the marketplace. Since 2002 Nassau County has seen the opening of one new hotel a year. Since the size of the marketplace has grown, last year's occupancy rates can't be directly compared to this year. Although, each hotel/motel is providing lodging for less people, the total number of room nights sold in all County hotels should be up. Such a scenario is likely given the significant percentage increase projected for FY 04 collections. In fact, a 6.7% appreciation rate in County hotel/motel collections would represent the largest increase recorded since the rate for the tax was raised to 3%. In 2002 collections were 5.6% greater than in 2001 and in 2003 collections fell 6.2% from 2002.



The above chart details the average room rental rates charged by Nassau County hotels and motels over the past three years. Since March 2004, the industry has been able to raise its rates above those charged in 2003. However, room rental rates remain below those recorded during 2002. Business travel demand is said to be picking up and allowing the industry to increase rates. Hotel managers report that they have seen a steady increase in the number of business travelers after falling to its lowest point in 2002. This steady increase is expected to continue throughout 2004 and into 2005. According to a survey done by the National Business Travel Association, nearly three-quarters of business travel managers surveyed said that they expect business travel to pick-up significantly in the remainder of 2004 and into 2005.<sup>18</sup> Business travel is important to Nassau County since industry analysts attribute a significant proportion

<sup>18</sup> Schepp, David, "Marriott Profits from Rise in Business Travel", [Thejournalnews.com](http://Thejournalnews.com), September 13, 2004.

of Nassau County room nights to business travel. Suffolk County occupancy rates are not as tied to business travel since the Hamptons area brings in a lot of summer tourism business.



The above chart details Nassau and Suffolk hotel/motel occupancy rates over the past twelve months. As mentioned above, occupancy rates are down from where they were at this time last year. Analysts attribute lower occupancy rates to more new hotels and motels and cool weather. The average temperature for July 2004 was 72.2 degrees, 2.4 degrees below normal.<sup>19</sup>

**Conclusion**

The September 2004 national non-farm job report revealed that the nation had a net job gain of 96,000. A survey by Briefing.com showed that experts were expecting a gain of 150,000.<sup>20</sup> The September 2004 local job creation number is not available at the time of this writing. The less than anticipated national job gains should make it more difficult to achieve the previously mentioned forecasts for annual 2004 real GDP growth. At a regional level, the forecasted economic pick-up in the second half of 2004 may prove more challenging since businesses are expecting to hire less people on Long Island than throughout the nation. Additionally, the hurricanes that hit the Gulf of Mexico in September caused oil production to cease temporarily and inventory levels to drop below normal levels.<sup>21</sup> Tight oil supplies could crimp regional economic growth especially if the region experiences a cold winter.

<sup>19</sup> Herzlich, Jamie, "Satisfactory Summer for Tourism", [Newsday.com](#), September 15, 2004.

<sup>20</sup> Isidore, Chris, "September Job Growth Weaker", [CNN/Money.com](#), October 8, 2004.

<sup>21</sup> "U.S. Heating Costs Soar", [CNN/Money.com](#), October 6, 2004.

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**SALES TAX**


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The largest source of revenue for the County is the Countywide sales tax. The current sales tax rate in the County is 8.75%, of which 4.25% is the State's share, 4% is the County's share, 0.25% to the NYS MTA, and the remaining 0.25% is distributed to the towns and cities in the County. The sales tax is collected by the State, with the County, towns and cities shares being distributed to the County on a regular basis.

The proposed sales tax revenue in the FY 05 Executive Budget is \$964.7 million. This estimate was based on the assumption that sales tax revenue in FY 04 will come in over budget by \$34.7 million and that sales tax revenue will grow by 4.6% in FY 04.

| Fiscal Year | Actuals     | Growth |
|-------------|-------------|--------|
| 1999        | 758,223,194 | 6.0%   |
| 2000        | 806,927,520 | 6.4%   |
| 2001        | 831,699,240 | 3.1%   |
| 2002        | 865,444,257 | 4.1%   |
| 2003        | 895,373,119 | 3.5%   |

| OMB         |               |        |
|-------------|---------------|--------|
| Fiscal Year | Projections   | Growth |
| 2004        | 936,560,281   | 4.6%   |
| 2005        | 964,657,090   | 3.0%   |
| 2006        | 993,982,666   | 3.0%   |
| 2007        | 1,024,199,739 | 3.0%   |
| 2008        | 1,055,335,410 | 3.0%   |

Through August 2004 County sales tax collections are up 5.6% from the prior year. Economists are expecting economic activity to grow during the third and fourth quarters of 2004, but at a slower rate than that of the first quarter 2004. Annual 2005 economic growth is projected to be less than that of 2004. Thus, the budgeted sales tax revenues seem reasonable. Recent indicators reveal that both price and quantity increases are contributing to the higher sales tax collections.

The Multi-Year Financial Plan includes as a gap-closing measure an assumption that sales tax will grow at an annual rate of 4% rather than the 3% rate built into the baseline. Under this assumption the MYP projects additional revenue of \$8.8 million in 2005, \$17.9 million in 2006, \$27.5 million in 2007, and \$37.9 million in 2008.

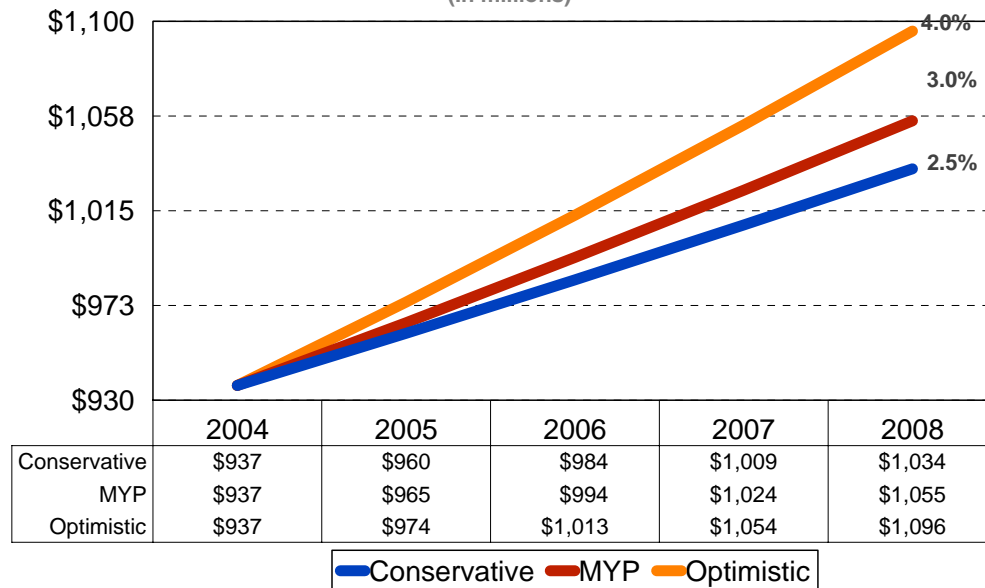
The chart on the next page illustrates the risks and opportunities for County sales tax collections in the out-years of the financial plan. Each of the three scenarios uses OMB's FY04 projected actuals as a base. The conservative scenario assumes that County sales tax collections will grow annually by 2.5% in the out-years. Under this scenario, the County would have a gap of \$5.0 million between the MYP baseline and actual collections in 2005. The gap grows to \$21.0 million in 2008.



## Sales Tax Scenarios

FY 2004 - 2008

(In millions)



The MYP scenario assumes that collections grow by 3.0% over the 2004 level, and the optimistic scenario assumes 4.0%. Under the optimistic scenario, the County has a positive variance of \$9.0 million between the baseline and actual collections in 2005. The surplus grows to \$41.0 million in 2008.

Based on historical trends and economic projections, the conservative estimate is highly unlikely. In fact, the County is more likely to realize the optimistic scenario.

Overall regional prices are up 3.3% from August 2003<sup>22</sup>. Propelling the regional all-items index upwards is the 25.5% annual increase in the price of gasoline. Auto dealer and gas station sales have historically constituted 15% of total County sales tax collections.<sup>23</sup> According to the Federal Reserve Bank of Philadelphia’s Survey of Professional Forecasters, national CPI inflation is projected to be up 3.4% in 2004.<sup>24</sup> The Mortgage Bankers Association similarly is forecasting national CPI growth throughout 2004, but at a more moderate level. They are projecting 2004 CPI growth to be 2.7%.<sup>25</sup> Our regional inflation tends to outpace that of nation by roughly 1.0%. Since sales tax collections are a function of the price paid, with all else equal, as prices increase sales tax collections increase.

Economic activity as indicated by national real gross domestic product (GDP) has been positive in 2004. Revised first quarter 2004 real GDP registered a 4.5% increase. During the second quarter 2004 the

<sup>22</sup> U.S. Bureau of Labor Statistics, NY-NJ-CT-PA CPI-U all items index.

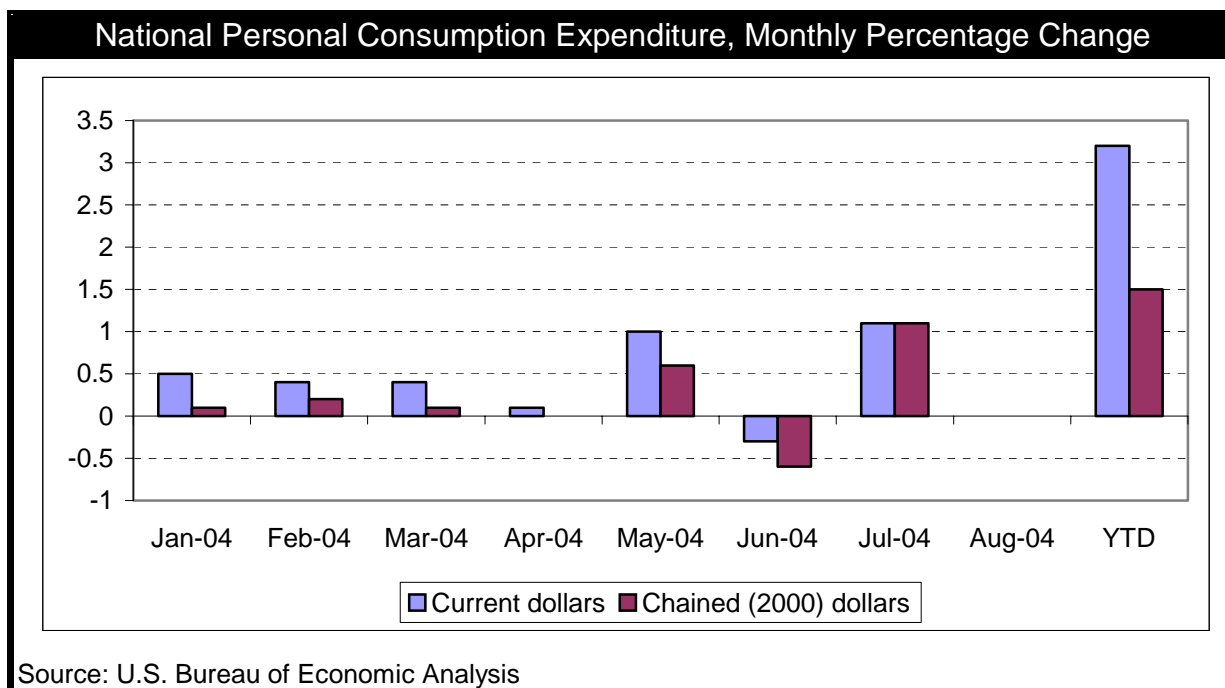
<sup>23</sup> New York State Department of Taxation and Finance.

<sup>24</sup> “Survey of Professional Forecasters, Third Quarter 2004”, Federal Reserve Bank of Philadelphia, August 20, 2004.

<sup>25</sup> “Economic Forecast”, Mortgage Bankers Association, September 2004.

economy hit a soft patch, recording a 3.3% increase in real GDP.<sup>26</sup> Economists are expecting a pick-up in economic activity during the third and fourth quarters of 2004. The Federal Reserve Bank of Philadelphia’s survey is projecting annual 2004 real GDP to be 4.3%.<sup>27</sup> The Mortgage Bankers Association is projecting annual 2004 real GDP to be 4.2%.<sup>28</sup> Increased economic activity translates into increased consumer and business spending and thus, sales tax revenue.

According to the U.S. Bureau of Economic Analysis, nominal or current dollars year-to-date national Personal Consumption Expenditures are up 3.0% from the end of December 2003. Approximately 53.1% of this growth in consumer spending may be attributed to higher prices. This is due to the fact that personal consumption expenditures when measured using the chain rule method, are up only 1.4%. The chain rule method of calculating the dollar value of consumer expenditures holds prices constant in the base year, thereby enabling one to view the change in spending that is the result of a change in quantity. Thus, 46.9% of the growth seen in consumer spending is a result of an increase in the quantity of items purchased. The chart on the next page details the monthly changes seen in national personal consumption expenditures. The data is shown in both nominal, current dollars and real, chained dollars.



Funding the increased economic activity has been the non-agricultural job growth. As of August 2004, the Long Island region added 14,300 non-agricultural jobs from this time last year. The job gains were widespread with only two of the ten sectors experiencing an annual decline in jobs.<sup>29</sup> Job growth reflects increased business spending and enables increased consumer spending. Both increases result in greater sales tax revenues.

<sup>26</sup> “GDP Revised Higher”, [CNN/Money.com](http://CNN/Money.com), September 29, 2004.

<sup>27</sup> “Survey of Professional Forecasters, Third Quarter 2004”, Federal Reserve Bank of Philadelphia, August 20, 2004.

<sup>28</sup> “Economic Forecast”, [Mortgage Bankers Association](http://Mortgage Bankers Association), September 2004.

<sup>29</sup> New York State Department of Labor.

The previously mentioned projections are subject to several negative risk factors, which if materialized could make the budgeted FY05 sales tax amount optimistic. Any greater than expected slowdown in either business or consumer spending could cause FY05 County sales tax collections to fall short of budget. For more detail see the National Economic Outlook section of the Economic Report. Additionally, approximately 20% of County sales tax revenues are collected during the holiday season, November and December. Collections during November and December of 2003 were inflated which could make it difficult to match or improve upon them in 2004. Further compounding the problem is the fact that Internet sales remain tax exempt and they have recorded explosive growth over the past few years. During the 2003 holiday season, Internet sales rose 30%.<sup>30</sup> If Internet sales record a similar or greater increase during the 2004 holiday season, budgeted sales tax revenues could prove optimistic.

| <b>Nassau County Internet Sales Revenue Loss 1998 -2003</b>   |               |               |                |                |                |                |
|---|---------------|---------------|----------------|----------------|----------------|----------------|
| \$ in Millions  |               |               |                |                |                |                |
|   | <u>1998</u>   | <u>1999</u>   | <u>2000</u>    | <u>2001</u>    | <u>2002</u>    | <u>2003</u>    |
| Nassau Taxable Sales Grand Total, actual  | \$16,581.76   | \$17,003.74   | \$17,913.01    | \$19,018.30    | \$20,296.47    | \$21,070.59    |
| Nassau Total Sales Tax Collections  | \$694.37      | \$716.20      | \$761.30       | \$808.28       | \$862.60       | \$895.50       |
| Percentage of Total US sales done via Internet  |               |               |                |                |                |                |
| Wholesale Trade   | 7.20%         | 7.20%         | 8.80%          | 10.60%         | 11.70%         | 11.70%         |
| Retail Trade  | 0.20%         | 0.50%         | 0.90%          | 1.10%          | 1.40%          | 1.40%          |
| Manufacturing   | 18.10%        | 18.10%        | 18.00%         | 18.20%         | 19.60%         | 19.60%         |
| Services  | 0.60%         | 0.60%         | 0.80%          | 0.80%          | 0.90%          | 0.90%          |
| Sector sales as a % of Total Nassau Taxable Sales   |               |               |                |                |                |                |
| Wholesale Trade   | 6.21%         | 6.65%         | 6.26%          | 6.26%          | 6.26%          | 6.26%          |
| Retail Trade  | 64.71%        | 64.53%        | 63.48%         | 63.48%         | 63.48%         | 63.48%         |
| Manufacturing   | 3.68%         | 3.56%         | 3.79%          | 3.79%          | 3.79%          | 3.79%          |
| Services  | 13.15%        | 13.52%        | 12.98%         | 12.98%         | 12.98%         | 12.98%         |
| Nassau County Sales by Sector   |               |               |                |                |                |                |
| Wholesale Trade   | \$1,029.65    | \$1,131.26    | \$1,122.01     | \$1,191.25     | \$1,271.31     | \$1,319.80     |
| Retail Trade  | \$10,729.78   | \$10,972.65   | \$11,370.54    | \$12,072.82    | \$12,884.20    | \$13,375.61    |
| Manufacturing   | \$609.88      | \$605.28      | \$679.68       | \$721.62       | \$770.12       | \$799.49       |
| Services  | \$2,180.81    | \$2,298.99    | \$2,324.23     | \$2,467.64     | \$2,633.49     | \$2,733.93     |
| Total All Sectors   | \$14,550.12   | \$15,008.18   | \$15,496.47    | \$16,453.33    | \$17,559.11    | \$18,228.83    |
| Lost Nassau County Sales by Sector  |               |               |                |                |                |                |
| Wholesale Trade   | \$74.13       | \$81.45       | \$98.74        | \$126.27       | \$148.74       | \$154.42       |
| Retail Trade  | \$21.46       | \$54.86       | \$102.33       | \$132.80       | \$180.38       | \$187.26       |
| Manufacturing   | \$110.39      | \$109.56      | \$122.34       | \$131.34       | \$150.94       | \$156.70       |
| Services  | \$13.08       | \$13.79       | \$18.59        | \$19.74        | \$23.70        | \$24.61        |
| Total All Sectors   | \$219.07      | \$259.66      | \$342.01       | \$410.15       | \$503.77       | \$522.98       |
| 4.25% of lost sales   | \$9.31        | \$11.04       | \$14.54        | \$17.43        | \$21.41        | \$22.23        |
| Less 30% Already Taxed  | (\$2.79)      | (\$3.31)      | (\$4.36)       | (\$5.23)       | (\$6.42)       | (\$6.67)       |
| <b>Lost County Revenues</b>   | <b>\$6.52</b> | <b>\$7.73</b> | <b>\$10.17</b> | <b>\$12.20</b> | <b>\$14.99</b> | <b>\$15.56</b> |
| * Percentages are based on the Census Bureau's Multi-Sector report which included percentages for 2001 and 2002; the 2002 figures were used as proxy values for 2003. |               |               |                |                |                |                |
| Source: New York State Department of Taxation and Finance and the US Census Bureau  |               |               |                |                |                |                |

Online retail sales could impact sales tax collection throughout the year, not just during the holiday season. Online retail sales experienced double digit growth in 2003. According to Shop.Org, a private research firm, online retail sales grew 51% in 2003 and are forecasted to grow 27% in 2004. In 2003, Internet sales represented 5.4% of total retail sales and are projected to comprise 6.6% of total 2004

<sup>30</sup> "Holiday Online Sales Surge", [CNN/Money.com](http://CNN/Money.com), January 5, 2004.

retail sales.<sup>31</sup> The chart below details the historical loss in County sales tax collections attributable to untaxed Internet sales. The historical Nassau County total sales tax collections used in the chart below come from a report put out by the New York State Department of Taxation and Finance which allocates taxable sales on a liability basis. The figures differ from the historic County sales tax figures reported previously that are recorded on a collection basis.

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<sup>31</sup> “Slower Online Sales Growth Seen”, [CNN/Money.com](http://CNN/Money.com), May 25, 2004.

## LABOR REDUCTIONS & CONCESSIONS

As personal services makes up about 47% of the total expense budget for all major operating funds, it is essential that the County continue to monitor and maintain reasonable headcount targets, investigate and utilize safe and reasonable efficiencies, budget for realistic labor concessions and prepare for contingencies. The County Executive's plan includes workforce reduction and turnover savings of \$38.8 million in FY 06, \$44.4 million in savings by FY 07, and \$45.1 million by FY 08. Labor concession savings are \$5.0 million for FY 05, \$5.2 million for FY 06, \$30.0 million for FY 07 and \$41.1 million for FY 08. The September 1, 2004 five major fund headcount is 8,475, not including contract positions. Headcount is budgeted at 8,847 in 2005, an increase of 372 from the September headcount. There are no reductions in the out-years anticipated for any of the unions except CSEA. Police unions will increase in 2005 from the September 1, 2004 actual of 2,588 and remain steady at 2,650. ShOA headcount will also increase in 2005 from the September 1, 2004 actual of 1,020. Although the 2005 budget contains funding for 1,051 ShOA positions, the Multi-Year Plan assumes the number of correctional officers remaining steady at 1,026. The following chart demonstrates where the majority of the increases are budgeted to take place.

| DEPARTMENT                         | Adopted        |                          |                          | Change<br>from<br>2004 to<br>Executive | % Change<br>from<br>2004 to<br>Executive | Change<br>from Sept.<br>Actual to<br>Executive | % Change<br>from<br>Sept Actual |
|------------------------------------|----------------|--------------------------|--------------------------|--|--|--|---------------------------------|
|                                    | 2004<br>Budget | September<br>2004 Actual | Executive<br>2005 Budget |  |  |  |                                 |
| Assessment Review Commission       | 32             | 27                       | 37                       | 5                                      | 15.6%                                    | 10   | 37.0%                           |
| Assessment                         | 194            | 153                      | 178                      | (16)                                   | -8.2%                                    | 25   | 16.3%                           |
| Correctional Center, Nassau County | 1,222          | 1,179                    | 1,237                    | 15                                     | 1.2%                                     | 58   | 4.9%                            |
| County Clerk                       | 102            | 90                       | 102                      | 0                                      | 0.0%                                     | 12   | 13.3%                           |
| Information Technology             | 88             | 94                       | 104                      | 16                                     | 18.2%                                    | 10   | 10.6%                           |
| Legislature                        | 87             | 83                       | 96                       | 9                                      | 10.3%                                    | 13   | 15.7%                           |
| Probation                          | 229            | 218                      | 244                      | 15                                     | 6.6%                                     | 26   | 11.9%                           |
| Parks, Recreation and Museums      | 223            | 219                      | 260                      | 37                                     | 16.6%                                    | 41   | 18.7%                           |
| Police                             | 3,214          | 3,316                    | 3,403                    | 189                                    | 5.9%                                     | 87   | 2.6%                            |

Attrition savings from CSEA employees in the out-years are based on assumed rates from 5.3% in 2006 to 5.7% in 2008 with everyone leaving as of the beginning of the year, but the annualized actual attrition rate is 3.6% for 2004 and was 3.9% in 2003 assuming an even distribution of employees leaving. The Administration anticipates only one third backfilling of CSEA employees, with savings based on a reduction of 143 positions each year. This seems unachievable given the high attrition rate assumed but there are about 280 vacant CSEA positions funded in the 2005 budget, and to the extent that the departments do not hire up, lost attrition savings can be made up here. There are areas the Administration has expressed an intention to hire up in the Summary of the Fiscal 2005 Proposed Budget. Civilianization is anticipated in the Police Department with 50 civilians authorized in 2004 and another 50 authorized in 2005. The Correctional Center is also trying to civilianize and the 2005 budget includes 28 non-officer positions over the September 2004 actual.

These efforts are expected to decrease overtime usage which has been escalating rapidly in both departments in recent years. It is questionable, however if the desired result will be achieved, as previous efforts have not been successful. In the Police Department many officers whose positions are

being filled with civilians are either retiring, transferring or the positions have already been vacated. In some instances this will add to attrition savings, but in many cases, with officers not being redeployed, no overtime savings will be realized. The Correctional Center will also have challenges meeting their goals if attrition escalates or if new officer time is not managed to achieve 100% overtime relief. It must be noted that the civilianization of 55 non-security positions was granted in the 2001 labor agreement, but only recently has there been any progress.

The Probation department is budgeted to hire an additional 26 positions over the September actual and the Administration will consider hiring additional officers if necessary and if the funds become available. In an effort to improve parks services, the 2005 budget includes the hiring of an additional 20 positions. Social Services' 2005 budget includes eight Community Service Representatives as part of the "No Wrong Door" policy. The Administration also stated that they intend to allow staffing increases in the Assessment Review Commission and the Office of the Treasurer in an effort to settle as many claims as possible before the County must pay for tax certiorari grievances out of the operating budget rather than through borrowing, which begins January 1, 2006.

Workforce turnover savings assumes terminations and new hires to occur as of the beginning of the year. As this is unlikely and a mid year projection would be more reasonable these savings should be reduced accordingly. No attrition or turnover savings are included in 2005 but the out-year savings are cumulative starting in 2004 so these targets will need to be achieved in order to get the cumulative savings identified in the multi-year plan. In OLBR's analysis we assumed attrition and new hires occurring throughout the year for ShOA and CSEA. For police unions it is assumed that new hires will occur at the beginning of the year except in 2005 when there will be two classes with one of them beginning mid-year. Police union attritions are assumed to occur during the year. We did not give any credit for ordinance employee turnover as there is no reason to believe replacement positions will be hired at lower salaries and recent history has shown that average increases received do not support turnover savings. In total, OLBR's estimates of workforce reductions and turnover savings is lower than OMB's by \$11.5 million in 2006 and by \$8.9 million in 2007. In 2008 OLBR is in agreement with OMB's savings estimate.

The CSEA contract provides for COLA increases January 1st from 2005 through 2007, which is a percentage equal to the change in the New York Metropolitan Area All Urban Index (NY CPI-U) for the one-year period ending June of the prior year. This increase is not to be lower than 2.5% and not greater than 3.5%. The actual increase for 2005 will be 3.5% and the MYP assumes COLA increases of 3.5% through 2007. The PBA contract calls for 3.9% increases on July 1, 2005 and 3.9% on January 1, 2006. Ordinance employee salaries are budgeted to increase in 2005 by 5.5% and are increasing in the out-years by 4.6% each year through 2008.

One unknown factor in the FY 05 budget is the outcome of three union contract negotiations. The Detectives Association Inc. (DAI) and Superior Officers Association (SOA) have been without a contract since December 31, 2000 and December 31, 2001 respectively. The County is currently in binding interest arbitration with these unions and the Administration anticipates contract "savings" similar to those provided in the recent PBA contract. In their Fiscal 2005 – 2008 Multi-Year Financial Plan the following components anticipated for these contracts are listed:

- 18-month wage freeze and 3.9% COLAs thereafter

- Denominator changes to reduce the hourly calculation of termination, holiday, overtime, and shift differential pay
- Additional hours worked
- Elimination of Flag Day as a paid holiday
- Elimination of travel time
- Ability to adjust workcharts and scheduling procedures

Other provisions, included in the PBA contract that the DAI and SOA unions can expect to receive, will offset these savings. These include the adoption of the longevity chart that mirrors Suffolk's longevity and the education pay. If all of these provisions are included, OLBR concurs that there will be sufficient savings to meet the funding in the FY 05 budget.

While the assumption that the SOA and DAI contracts will mirror the PBA's is based on past contract awards, there are some concessions that would be unique to the PBA. Inclusive in the PBA agreement is relaxing minimum manning mandates, which maintain a certain amount of police officers per precinct. This provision has had an impact on overtime expense of approximately \$2.4 million thus far in 2004 and is projected to achieve overtime savings of \$3 million, \$3.1 million and \$3.2 million in 2004, 2005 and 2006 respectively for a three year total of approximately \$9.4 million. The superior officers and detectives do not have minimum manning requirements so the savings achieved from this provision would not be included in any agreements negotiated by either union. The savings associated with this provision would have to be derived from other areas within the DAI and SOA agreements. Another savings provision included in the PBA award is a new salary schedule and lower start pay for new recruits. Compared to the old start step of \$40,000, the PBA agreement provided for a new recruit to receive a starting salary of \$21,000. Based on the hiring of 192 new recruits in 2004, the County will realize a savings of approximately \$3.2 million, and if the Police Department hires 150 recruits in 2005 and 100 in 2006, the County could potentially save \$12.7 million over the three year period, compared to the \$40,000 start pay. The estimated savings from this provision will not be included in either the DAI or SOA awards since neither union has new hires.

Civilianization is an initiative where civilians replace higher paid police officers in positions that are not unique to an officer's police training. The idea is to redeploy these officers into patrol thereby reducing overtime costs. It is estimated that this PBA provision could save approximately \$3.2 million in overtime expense in 2005. While there are positions currently filled by superior officers that might be civilianized thereby generating savings in overtime, there are no such titles in the detective ranks. The DAI will not be able to include this concession in their negotiation and the savings will have to be derived elsewhere.

The Sheriffs' Officers' Association (ShOA) union's contract expires December 31, 2004 and the multi-year plan assumes \$5.0 million in labor savings in FY 05 from the new contract. It is unclear how these savings will be achieved if the new contract follows the CSEA MOA. With a six month freeze, a 3.5% COLA increase in July 2005 will cost about \$1.7 million. No other significant savings were realized in the CSEA contract. New concessions will have to be realized to justify the \$5.0 million anticipated savings for the ShOA contract in 2005. Even if these savings are not realized it will have no impact on the FY 05 budget as these savings are not reflected in the budget.

The plan assumes \$30.0 million in labor concessions in 2007 and \$41.1 million in savings for 2008. In 2008 \$5.6 million of this is attributable to the ShOA contract but the remainder, about \$24.6 million in 2007 and \$35.5 million in 2008 reflect savings from other contracts that expire in those years. The PBA contract expires December 31, 2006 and the CSEA contracts expire December 31, 2007. The DAI contract is assumed to expire December 31, 2006 and the SOA contract is assumed to expire December 31, 2007. The Administration arrived at these estimates assuming concessions that continue the pattern established with the previous contracts. It may be difficult, however, to continue to receive these concessions as the current contracts may be closer to what the arbitrators perceive as being reasonable.

For the five major funds, the FY 05 budget increases headcount over the September 2004 actual by 372 positions. Since most of the unions will be held constant with 62 positions added for Police unions, 31 positions added for ShOA and CSEA positions being filled only in a few areas with 33% backfilling attrition, most of these additional positions will likely remain vacant. Although the County could function under this scenario, some initiatives may be in jeopardy. Information Technology is budgeted to increase headcount by ten employees with seven of them necessary to support the e-government initiative and other functions. Assessment is budgeted to increase by 25 positions from the actual with 20 of these positions already in the pipeline. This increase is to cover Small Claims Assessment Review (SCAR) cases, which Assessment is taking back from the Assessment Review Commission. The Administration is also planning a transfer of \$1.6 million in Assessment's FY 05 budget from contractual services to salaries to fund the hiring of 50 additional employees and reduce their reliance on Cole Layer Trumble (CLT).

The 2005 salary budget is solid and contains funding for a 4.4% increase in headcount from the September actual. Overtime estimates are more reasonable than in the past and additional money has been reserved for contingencies. If some of the assumptions including union concessions are not achieved there should be enough funding in other areas of the budget to cover these risks. However, some components of the out-year salary budget may be unattainable. The CSEA headcount attrition appears unrealistic given the variance between planned and actual attrition. Although the shortfall here can be picked up by the funded vacancies, these positions will have to be managed carefully. The Administration has a number departments with headcount increases included in the budget to achieve reductions in overtime, reduce reliance on outside vendors, increase and improve technology, and improve park services. It is doubtful that all of these goals can be realized while still maintaining the savings needed in the out-years. Although the 2005 budget is solid, if the attrition and turnover savings are not realized in 2005, the out-years may be at risk. In addition, relying on uncertain union concessions in the future also necessitates the presence of a contingency plan.



## FRINGE BENEFITS

The total FY 05 fringe benefit budget for the five major funds is approximately \$324.3 million<sup>32</sup>, which is a 3.7% increase from the FY 04 budget of \$312.8 million. The following chart displays the fringe benefit budgets of the five major funds.

| <b>FRINGE BUDGET<br/>BY FUND</b> |                                     |                                      |                                   |   |
|----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|---|
| <b>Fund</b>                      | <b>Adopted<br/>FY 04<br/>Budget</b> | <b>OLBR<br/>FY 04<br/>Projection</b> | <b>FY 05<br/>Exec.<br/>Budget</b> | <b>Variance<br/>Exec. vs<br/>Adopted 04</b> |
| General                          | \$137,949,939                       | \$137,287,041                        | \$144,440,542                     | \$6,490,603                                 |
| Parks & Recreation               | \$9,456,283                         | \$9,420,637                          | \$9,980,312                       | \$524,029                                   |
| Fire Commission                  | \$2,933,176                         | \$2,974,212                          | \$3,066,062                       | \$132,886                                   |
| Police Headquarters              | \$81,067,312                        | \$74,902,653                         | \$82,268,334                      | \$1,201,022                                 |
| Police District                  | \$81,482,103                        | \$80,681,650                         | \$84,516,983                      | \$3,034,880                                 |
| <b>Total</b>                     | <b>\$312,888,813</b>                | <b>\$305,266,193</b>                 | <b>\$324,272,233</b>              | <b>\$11,383,420</b>                         |

The following chart breaks out fringe costs by object code:

| <b>EXPENSE BUDGET<br/>BY OBJECT CLASS</b> |                                     |                                      |                                   |   |  |
|---|-------------------------------------|--------------------------------------|-----------------------------------|---|--|
| <b>SubObject &amp; Description</b>        | <b>Adopted<br/>FY 04<br/>Budget</b> | <b>OLBR<br/>FY 04<br/>Projection</b> | <b>FY 05<br/>Exec.<br/>Budget</b> | <b>Variance<br/>Exec. vs<br/>Adopted 04</b> | <b>Variance<br/>Exec. vs<br/>FY 04 Proj.</b> |
| 08F - NYS Police Retirement               | \$45,304,328                        | \$48,641,833                         | \$41,304,571                      | (\$3,999,757)                               | (\$7,337,262)                                |
| 11F - State Retirement Systems            | \$42,510,090                        | \$43,243,754                         | \$34,971,648                      | (\$7,538,442)                               | (\$8,272,106)                                |
| 13F - Social Security Contribution        | \$49,823,863                        | \$50,193,251                         | \$53,290,131                      | \$3,466,268                                 | \$3,096,880                                  |
| 14F - Health Insurance                    | \$78,552,973                        | \$80,194,233                         | \$92,275,717                      | \$13,722,744                                | \$12,081,484                                 |
| 17F - Optical Plan                        | \$1,014,870                         | \$975,400                            | \$1,060,620                       | \$45,750                                    | \$85,220                                     |
| 19F - NYS Unemployment                    | \$350,000                           | \$302,556                            | \$350,000                         | \$0   | \$47,444                                     |
| 20F - Dental Insurance                    | \$4,627,245                         | \$4,467,584                          | \$4,843,651                       | \$216,406                                   | \$376,067                                    |
| 22F - Medicare Reimbursement              | \$7,374,787                         | \$7,335,831                          | \$8,782,745                       | \$1,407,958                                 | \$1,446,914                                  |
| 75F - Health Insurance For Retirees       | \$73,443,338                        | \$69,641,266                         | \$76,095,610                      | \$2,652,272                                 | \$6,454,344                                  |
| 76F - Employees Optical - Retirees        | \$256,716                           | \$270,485                            | \$272,225                         | \$15,509                                    | \$1,740                                      |
| 81F - Police Retirement Contingency       | \$9,630,604                         | \$0                                  | \$9,572,721                       | (\$57,883)                                  | \$9,572,721                                  |
| 82F - Reg Retirement Contingency          | \$0                                 | \$0                                  | \$1,452,594                       | \$1,452,594                                 | \$1,452,594                                  |
| <b>Grand Total</b>                        | <b>312,888,814</b>                  | <b>305,266,193</b>                   | <b>324,272,233</b>                | <b>11,383,419</b>                           | <b>19,006,040</b>                            |

### **08F & 11F State Pension for Police and Fire Retirement & Employee Retirement System**

The New York State Retirement System is a program designed to help employees and family members maintain financial stability at the time of retirement or in the event of disability or death. Up until 2005,

<sup>32</sup>This number excludes worker's compensation and fringe contingency funds.

payments by the County to the New York State Retirement System were made annually each December 15th. The bill covers the period from the previous April 1<sup>st</sup> to the ensuing March 31<sup>st</sup>.

In July 2004, the New York Senate and Assembly approved a bill which provides local governments with payment flexibility. The purpose of the bill is to provide additional constructive financing options that can be used by counties to ease the transition to the higher pension rates. The bill changes the manner in which annual employer contributions are calculated and billed in New York State and Local Retirement System by:

- Changing the payment date for participating employers from December 15<sup>th</sup> to February 1<sup>st</sup> (one and one-half months later) beginning in fiscal year 2004-05.
- Modifying the annual amortization payments due for the fiscal year 2004-05 by a) changing the 5 year term to a ten-year term b) making the first payment due in fiscal year 2005-06 instead of fiscal year 2004-05 and c) allowing the interest rate to be changed from 8% to a rate more closely approximating comparable taxable fixed rate securities.
- Allowing for a ten year amortization of a portion of the fiscal year ending 2005-06 and 2006-07 bills for participating employers. In addition, the bill allows for the creation and use of reserve funds by localities in paying off certain enhanced benefit payments to bond such payments.

Chapter 260 of the Laws of 2004 changes the annual payment due date for employers who participate in the New York State and Local Employees Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS). The change in the payment date provides local governments operating on a calendar fiscal year (such as Nassau County) with an opportunity for a one-time cash deferment. However, the new February 1<sup>st</sup> payment date will result in a higher net bill to the county due to the corresponding change in the discount applied to the bill. The discount is a reflection of the pension system operating on a state fiscal year (April through March). The retirement system discounts the local bill at the statutory interest rate (8% annually) based on a payment date that falls prior to the end of the fiscal year. Since the retirement system will be calculating the bills on a February 1<sup>st</sup> payment date, rather than a December 15<sup>th</sup> date, there will be less of a discount, resulting in a higher local bill.

The modifications in the annual amortization payments provide localities the option to bond or amortize pension costs for SFY2004-05 that are in excess of seven percent of payroll for a period of ten years. In addition, localities will be allowed to bond or amortize for up to a period of ten years all pension costs for SFY2005-06 over 9.5% of employees' payroll and all pension costs for SFY2006-07 over 10.5% of employees' payroll.

The accounting treatment for the change in the payment due date for pension contributions has been at the center of controversy in recent months due to the State Comptroller's interpretation of GASB (Governmental Accounting Standards Board) Statement 27. The State Comptroller relied on an interpretation of GASB Statement 27 to permit governments that employ modified accrual accounting and operate on a calendar year to set aside monies for pension contributions in 2004 and transfer these funds to a Retirement Contribution Reserve Fund.

The FY 04 adopted budget included \$45.3 million in ERS and \$42.5 million in PFRS. As a result of the law, Nassau County may not be required to recognize a fund expenditure or accrue a fund liability in its

governmental funds at fiscal year-end December 31, 2004. Therefore, in FY 04 the County may only be responsible for paying the first three months (January – March 2004). Last December the County pre-paid \$4.6 million in ERS and \$4.7 million in PFRS in the 2003 bill. The remaining FY 04 budget (net of appropriations) will be set aside in the reserve fund to pay the pension obligation in FY 05, FY 06 and FY 08.

The Administration's plan is to utilize the reserve option by setting aside the 2004 pension surplus of \$76 million into a Retirement Contribution Reserve fund. The intent is to allocate \$35 million for payments due in SFY2004-05, \$30 million in SFY2005-06, and \$11 million in SFY2007-08. For FY 07, the Administration plans to amortize \$33.4 million of the pension cost.

It has come to the attention of the County that GASB will issue a written clarification of Statement 27, and it is possible that GASB will come out in opposition to the accounting treatment recommended by the State Comptroller.

Fitch Ratings has issued a report regarding the pension reform called "Pension reform equals problem prolonged – rating implications of Chapter 260 for New York Local Governments." The report makes note of the importance of providing structural balance to the long term plan. According to Fitch: "Since Fitch's ratings are long term, a one time benefit or exposure, depending on its magnitude, often does not cause a rating action. The important point is that the long-term plan provides for structural balance."<sup>33</sup>

However, municipalities that continue to rely on a one-time benefit or often rely on deferring payments are more prone to weaker credit ratings. The report states "the changes offered under the law, while providing some needed relief for local governments, somewhat weaken an important credit trait recognized by Fitch for New York local government credits - a fully funded pension system ... Fitch does not consider the practice of pushing a current payment date into another fiscal year as prudent and while it does exist, those issuers that continually defer pension payments typically carry lower ratings."<sup>34</sup> As pension costs have continued to skyrocket in recent years, Nassau County was one of few localities that chose not to defer pension obligations. Nassau County paid 100% of their pension costs in prior years and was acknowledged for their prudent practices.

The Fitch report further explains how credit ratings are derived on many factors including "debt, finances, economy, and management ... The more important question from a rating perspective is not how issuers choose to implement the changes authorized under the law, but how these changes might affect the issuer's ongoing ability, over multiple years, to meet both its current and long-term payment obligations."<sup>35</sup>

Due to the change in payment dates, the rates applied to the County's FY 05 bill remain unchanged from the rates used to project nine months of the FY 04 budget. Rates for SFY2004-05 have been finalized based on the State's pension equity portfolio as of April 1, 2003. The portfolio performance requires contribution rates ranging from 11.0% - 21.8% depending on different tiers for ERS and rates ranging from 17.5% - 29.4% depending on different tiers for PFRS.

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<sup>33</sup> FitchRatings, "Pension Reform Equals Problem Prolonged." [www.fitchratings.com](http://www.fitchratings.com).

<sup>34</sup>FitchRatings, "Pension Reform Equals Problem Prolonged." [www.fitchratings.com](http://www.fitchratings.com).

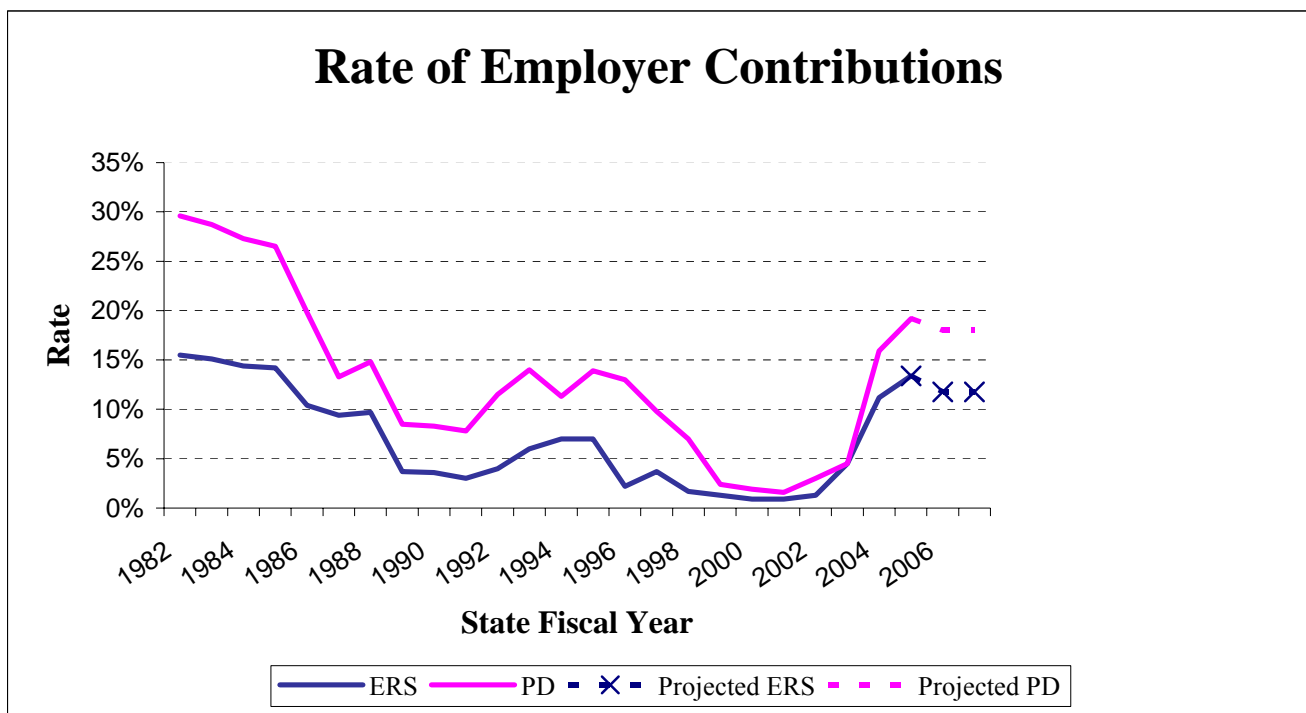
<sup>35</sup>FitchRatings, "Pension Reform Equals Problem Prolonged." [www.fitchratings.com](http://www.fitchratings.com).

The average contribution rate for ERS is 13.2% of pensionable salaries for the State’s fiscal year from April 1, 2004 through March 31, 2005. For PFRS the average contribution rate is 19.2% of payroll for the State’s fiscal year. Prior to the change in law the County would receive a three-month benefit from the lower contribution rates because the State’s fiscal year overlaps the County’s fiscal year.

The FY 05 proposed budget includes \$111 million in total for ERS and PFRS pension obligations. The \$111 million includes \$76.3 million budgeted for ERS and PFRS plus \$35 million to come from the pension reserve. The FY 05 budget is \$35.0 million and \$41.3 million for ERS and PFRS respectively, which is a decrease of \$11.5 from the FY 04 budget. The costs are lower due to the reserve fund.

If GASB rules against the State Comptroller’s interpretation, the Administration will not have funds available for the pension reserve. The Administration’s backup plan to cover pension obligations in FY 05 as well in the out-years includes amortizing a portion of pension obligations.

The following graph depicts the changes in annual employer payments (as a percentage of salary) starting from 1982 and projecting to 2008.



Source: NYS Comptroller

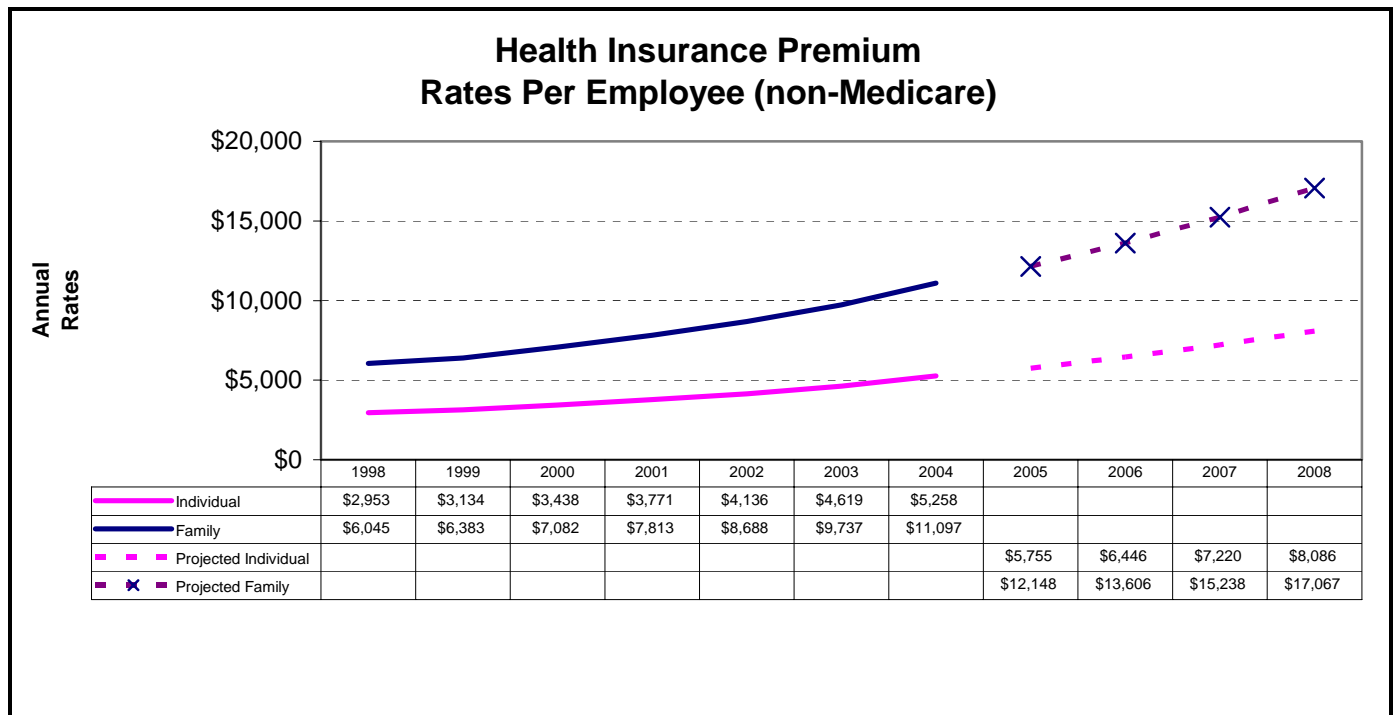
As shown in the chart above, the contribution rate for SFY2005-06 experiences a one-time decrease and remains constant in years thereafter. The New York State Comptroller has provided rates for SFY2005-06 which ranges from 9.9% - 19.3% depending on different tiers for ERS and rates ranging from 16.3% - 28.2% depending on different tiers for PFRS. Based on projected salaries for April 1 2005 – March 31, 2006, the average contribution rate for FY 06 is 11.8% and 18.0% for ERS and PFRS respectively.

The Multi-Year plan assumes pension contribution rates decreasing at a 10% rate reduction from FY 06 and thereafter. However, it is unlikely rates will decrease at a 10% reduction for FY 07 and FY 08.

**14F & 75F Health Insurance for Current and Retired Employees**

The projection for health insurance rates in FY 05 reflects the first significant decline from annual double digit increases in more than five years. Even though this rate of growth has decelerated, health insurance premiums continue to be a major area of concern.

The Kaiser Foundation and Health Research and Educational Trust conducted a national survey to provide current information about employer-provided health benefits. The results published in a report titled “Employer Health Benefits, 2004 Summary of Finding” showed premiums continued to increase much faster than overall inflation (2.3%) and wage gains (2.2%). “Since 2001, premiums for family coverage have increased by 59%, compared with inflation growth of 9.7% and wage growth of 12.3%.”<sup>36</sup> The following graph displays how health insurance rates have been progressively increasing over the past eight years in Nassau County.



Costs in the FY 05 budget include rate increases of 9.5% for individual and family health insurance plans. This estimate is based on New York State’s Second Quarter Empire Plan Experience Report best estimate projection. This report presents the projected 2005 Empire Plan premium rates. The report projects health insurance rates for MediPrime increasing at 9.2% for individual MediPrime, 9.4% for family 1 MediPrime coverage and 9.2% for family 2 MediPrime coverage. The Multi-Year plan assumes 12% growth for active and retired employees after FY 05.

<sup>36</sup> The Kaiser Family Foundation and Health Research and Education Trust, “Employer Benefits 2004 Summary of Findings.”

The FY 05 budget projections are \$92.3 million for active employee’s health insurance and \$76.1 million for retired employee’s health insurance, which is a total of \$168.4 million. This is an increase of \$16.5 million compared to the FY 04 total health insurance budget of \$151.9 million. Based on the average rate increase of 9.5% and approximately 200 new police recruits, the FY 05 budget for active and retiree health insurance costs for FY 05 appears to be under-funded, depending on the number of new recruits hired in FY 05.

The chart below displays non-Medicare and Medicare rates for 2004 and projected 2005 with best, optimistic and pessimistic estimates.

| <b>Rates:</b>  | <b>2004</b> | <b>2005</b> | <b>% Change</b> |
|--|-------------|-------------|-----------------|
| <b><u>Plan Prime</u></b>   |             |             |                 |
| <i>Individual</i>  |             |             |                 |
| Optimistic   | 438.15      | 472.55      | 7.85%           |
| Best Estimate  | 438.15      | 479.62      | 9.46%           |
| Pessimistic  | 438.15      | 501.65      | 14.49%          |
| <i>Family</i>  |             |             |                 |
| Optimistic   | 924.74      | 996.98      | 7.81%           |
| Best Estimate  | 924.74      | 1,012.32    | 9.47%           |
| Pessimistic  | 924.74      | 1,058.55    | 14.47%          |
| <b><u>MediPrime</u></b>  |             |             |                 |
| <i>Individual</i>  |             |             |                 |
| Optimistic   | 334.22      | 361.05      | 8.03%           |
| Best Estimate  | 334.22      | 364.90      | 9.18%           |
| Pessimistic  | 334.22      | 373.62      | 11.79%          |
| <i>Family-1</i>  |             |             |                 |
| Optimistic   | 820.82      | 885.52      | 7.88%           |
| Best Estimate  | 820.82      | 897.65      | 9.36%           |
| Pessimistic  | 820.82      | 930.56      | 13.37%          |
| <i>Family-2</i>  |             |             |                 |
| Optimistic   | 716.88      | 774.04      | 7.97%           |
| Best Estimate  | 716.88      | 782.92      | 9.21%           |
| Pessimistic  | 716.88      | 802.55      | 11.95%          |
| Source: New York State Empire Plan 2004 Second Quarter Experience Report |             |             |                 |

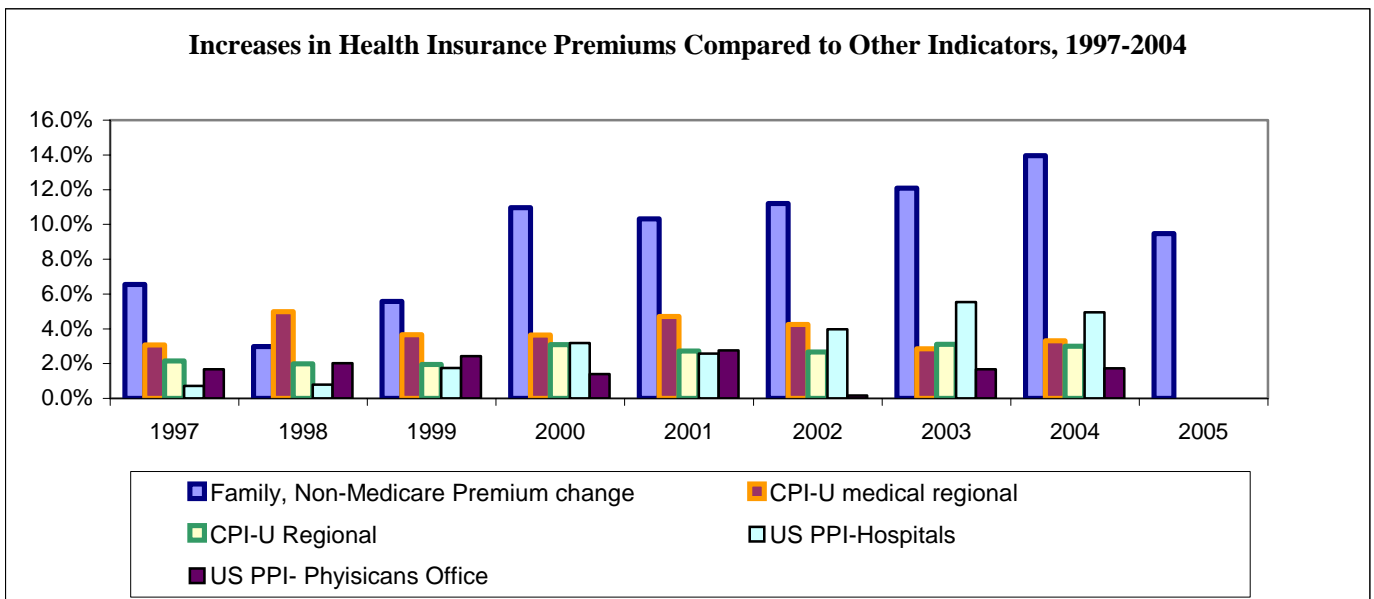
It is reasonable to believe that rates could be finalized closer to the optimistic estimate of 7.9%. For the past two years, rates have been finalized at a lower rate than originally projected in the Empire Quarterly Report. For FY 03, the Executive budget projected health insurance growth of 15% for active health insurance and 18% for retiree health insurance, however rates were finalized at a blended rate of 12% for active health insurance and 17% for MediPrime.

For 2004, rates were finalized at an increase of 13.8% and 14% for individual and family non-Medicare compared to the 15% projected growth. The reduction in finalized rates is currently producing an overall surplus of \$2.16 million for FY 04. This surplus is the net result of a \$1.6 million deficit in costs for active employees plus a \$3.8 million surplus in cost for retiree insurance. The current projected health insurance cost for FY 04 is approximately \$149.8 million compared to the budget of \$151.9 million.

The rate increases Nassau County is experiencing are part of a nation-wide trend. The Kaiser Foundation report finds that between the spring of 2003 and 2004, premiums for employer-sponsored health insurance rose by 11.2%, lower than the 13.9% increase in 2003, but still the fourth consecutive year of double-digit growth.

According to a report issued by Towers Perrin titled, "Towers Perrin Projects an 8% Increase in Employer Sponsored Health Care Costs for 2005," contributors to this increase include more prescriptions of heavily marketed drugs; increases in hospital prices; more expensive diagnostic tests and an increase in visits to specialists thanks to a shift from more restrictive health maintenance organizations.

The following chart displays rate increases for Nassau County family coverage, the regional consumer price index, the medical regional consumer price index, physician's office producer price index and hospital producer price index.



As shown in the graph, health insurance premiums started outpacing all other indicators by 1999. Projected rate increases for family health insurance premiums in FY 05 have been added to the chart. Projected rates were not available for the other indices. As shown above, 2005 marks the first year the family premium rate increase has decreased in the past four years. The decline can be attributed to firms instituting various initiatives in previous years to combat the soaring rates.

The Multi-Year plan projects health insurance costs to increase at a 12% rate from FY 06 through FY 08. Based on these rates the Administration has budgeted costs at \$168.3 million in FY 05, growing to \$230.7 million in FY 08. This rate of growth will continue to place a tremendous burden on the County's finances.

Due to the recent rises in rates many employers have started looking for alternatives to their health plans which include more consumer driven health plans, fewer HMO's, more customized plans, more disease management programs, mandatory enrollment and spousal surcharges. Consumer driven health plans typically offer lower premiums in exchange for a high deductible. Companies have started to back away from offering multiple HMO's because it is expensive to offer several different plans and instead are offering more PPO choice. Providing customized plans can allow employers to lower premiums by including higher co-payments or offering a smaller network of providers. Disease management programs help companies to improve productivity and reduce health care costs. Mandatory enrollment requires workers to enroll in their health plans even if they intend to continue in the same plan next year. Those who fail to re-enroll will automatically be funneled into a high deductible plan. Finally, some employers have added fees for spousal health benefits.

A practice some firms have instituted to discourage workers from enrolling in health benefit plans is to offer additional compensation or benefits to employees who decline health coverage all together. Another option includes employee contribution, however on a whole companies aren't shifting as many costs to employees as they have in recent years. That is largely because most employers are letting their workers digest the higher premiums, deductibles and co-payments implemented this year and last.

According to the Kaiser Family Foundation, the percentage of workers receiving health insurance coverage from their employer fell from 65% in 2001 to 61% in 2004. The decline in the percentage of workers receiving health insurance from their employer would have been greater had the number of employer's familiar with and offering consumer directed health plan arrangements not increased.

**Out-year Initiative**

| ID#    | NAME                      | FY 2005 | FY 2006 | FY 2007 | FY 2008      |
|--------|---------------------------|---------|---------|---------|--------------|
| BFFB01 | Health Insurance Coverage | \$0     | \$0     | \$0     | \$13,181,859 |

The initiative for **health insurance coverage** anticipates savings up to \$13.2 million in FY 08 by switching health insurance coverage from Core Plus Enhancements to the Core Plan. Core Plus includes medical and psychiatric enhancements that are not available under the Core Plan. The difference in rates between the two plans is 6% for individual and family, 2% for Individual MediPrime, 5% for Family 1 MediPrime and 3% for Family 2 MediPrime. The chart on the next page, shows the 2008 projected rates based off the assumption of the Multi-Year Plan for Core Only and Core Plus.



| <b>Projected Health Insurance Rates for Core Vs. Core Plus</b> |                                    |               |                                |                 |                 |
|--|------------------------------------|---------------|--------------------------------|-----------------|-----------------|
| <b>Empire Plan<br/>Monthly Rates</b>                           | <b>Non-Medicare<br/>Individual</b> | <b>Family</b> | <b>Medicare<br/>Individual</b> | <b>Family 1</b> | <b>Family 2</b> |
| <b>2008 Core Only</b>  | 635.83                             | 1,339.81      | 500.74                         | 1,204.81        | 1,069.75        |
| <b>2008 Core Plus</b>  | 673.83                             | 1,422.24      | 512.66                         | 1,261.13        | 1,099.95        |
| <b>2008 % Change</b>   | 6%                                 | 6%            | 2%                             | 5%              | 3%              |

The Administration intends to negotiate the change in health coverage with the various unions in time to include the decreased cost of health insurance in the proposed 2008 budget. If the Administration can successfully negotiate this change with the unions, the anticipated \$13.2 million is an accurate savings amount.

**13F Social Security**

Social Security tax is comprised of two components: Old-age, Survivors and Disability Insurance (OASDI) and Medicare tax. The 2004 employer’s contribution rate for OASDI is 6.2% and the Medicare piece is 1.45%, which equals a combined rate of 7.65%. The OASDI portion is applied to salaries, up to \$87,900. Medicare has no maximum. The Social Security Administration has not yet announced the wage base increase for 2005, however last year reflected a 1% increase in the base. If increased by 1%, the 2005 maximum wage contribution would be roughly \$88,800. The total OASDI tax on this maximum wage projection would be approximately \$5,505.

The FY 05 budget is increasing by less than 1% from \$49.8 million in FY 04 to \$50.2 million. With an increase in FY 05 budgeted salaries, social security is also expected to rise. The FY 05 salary budget includes a CSEA COLA increase of 3.5% as of January 1, 2005. The FY 05 budget may fall short.

**17F Optical Plan**

This benefit provides optical insurance to full-time County employees. The annual per capita cost of optical insurance is remaining at \$115. The FY 05 budget is increasing by \$45,750 from FY 04. At the current headcount level, the budget should be more than sufficient.

**19F New York State Unemployment**

The County is required to reimburse the State for all unemployment claims paid to former employees. The County provides quarterly payments to the State. The FY 05 budget remains unchanged from FY 04. Since the FY 04 projection is currently producing a surplus the budget seems reasonable.

**20F Dental Insurance**

This benefit provides dental insurance to full-time employees. The annual cost of dental insurance for each employee remains at \$525. The FY 05 budget is increasing by \$216,406 to \$4.8 million. At the current headcount levels, the FY 05 budget should be more than sufficient. The budget appears to be over funded by \$314,000.

**22F Medicare Reimbursement**

The County provides quarterly payments to cover premium costs related to Medicare coverage for retired employees. The budget is increasing by \$1.4 million or 19% in FY 05 from \$7.4 million in FY 04 to \$8.8 million. On Labor Day weekend, the Federal Government announced that Part B premiums are expected to increase by 17% in 2005, which is the largest annual dollar increase in the 40

year history of the Medicare program. The Part B premiums cover doctor visits, outpatient and hospital emergency room care and specified home health care and equipment. There has been much speculation and debate over the reasons contributing to the increase which include 1) soaring health care costs that are growing double the overall inflation rate, 2) the administrators and trustees of the Medicare Trust Fund have been eager to bolster the fund as a growing number of seniors spend more for medical care, and 3) increased Medicare payments to doctors and drug companies that have masked the growing cost of the prescription drug coverage approved by Congress last year.

**76F Employees Optical for Retirees**

This benefit provides optical coverage for retired County employees. The County's cost to provide health insurance coverage to retired employees is the same as the cost to provide insurance for current employees, which is \$115 per person. The FY 05 budget is increasing by 6.0%, to \$272,225. The budget may be under funded by \$10,000. The FY 04 projection is currently \$14,000 over the FY 04 budget.

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## Nassau Health Care Corporation

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The Office of Legislative Budget Review, along with the County's other oversight boards has expressed concern over the financial crisis at Nassau Health Care Corporation (NHCC). As of September 15, 2004 the County Comptroller reported that the cash and cash equivalent balance was \$20.7 million. With a run rate of about \$1.3 million per month it has been recognized by the Corporation that they would run out of cash when the next pension payment came due on February 1, 2005. The Administration, in response to this crisis, has contracted with Manatt Phelps and Phillips (Manatt) to provide a market analysis of healthcare in Nassau County and NHCC's position in it, especially as it relates to the Corporation's mission to provide medical care to the indigent population. In addition Manatt was to recommend improvements that could be made to the financial relationship between the County and NHCC. As a result the Manatt report indicated that NHCC was improperly trying to position itself as a full service tertiary care hospital rather than the first class community hospital it should be.

As stated in the multi-year plan and demonstrated on the chart on the next page the baseline gap for NHCC will be \$25.9 million in 2004, \$36.1 million in 2005, \$41.6 million in 2006, \$49.6 million in 2007 and \$52.0 million in 2008. Included in this baseline are initiatives already implemented, which are made up primarily of workforce reductions. Also included is the Public Health Service Act 340B program which provides pharmaceutical discounts for out-patient drugs. Those gap closing measures not already implemented including those suggested by the Manatt report and those already implemented by the Corporation, will be used to address the baseline gap. These initiatives are projected to close the gap by \$12.0 million in 2004 with the benefits of these measures growing to \$58.2 million in 2008. Including these measures, the multi-year plan projects the Corporation to lose \$13.9 million in 2004 with a turnaround in 2005 bringing NHCC a net income of \$3.3 million in 2005, \$784,000 in 2006, \$2.8 million in 2007 and \$6.2 million in 2008.

**Nassau Health Care Corporation  
Multi-Year Plan**

(in millions)

|                                  | Adopted 2004<br>Budget | Projected 2004<br>Budget | Projected 2005 | Projected 2006 | Projected 2007 | Projected 2008 |
|----------------------------------|------------------------|--------------------------|----------------|----------------|----------------|----------------|
| Operating Revenue                | 486.4                  | 455.4                    | 464.1          | 474.1          | 487.4          | 501.1          |
| Total Operating Expense          | 489.3                  | 483.9                    | 502.4          | 517.9          | 539.1          | 555.2          |
| Salaries                         | 217.5                  | 209.6                    | 217.2          | 224.8          | 235.2          | 240.8          |
| Fringe                           | 65.1                   | 68.4                     | 72.8           | 74.9           | 79.8           | 84.8           |
| Non-Personnel Expenses           | 206.7                  | 205.9                    | 212.4          | 218.2          | 224.2          | 229.5          |
| Gain (Loss) from Operations      | (3.0)                  | (28.5)                   | (38.4)         | (43.8)         | (51.7)         | (54.0)         |
| Non-Operating Gain (Loss)        | 3.0                    | 2.6                      | 2.3            | 2.2            | 2.1            | 2.0            |
| <b>Net Income (Loss)</b>         | <b>0.1</b>             | <b>(25.9)</b>            | <b>(36.1)</b>  | <b>(41.6)</b>  | <b>(49.6)</b>  | <b>(52.0)</b>  |
| <b>Gap Closing Measures</b>      | <b>-</b>               | <b>12.0</b>              | <b>39.4</b>    | <b>42.4</b>    | <b>52.5</b>    | <b>58.2</b>    |
| <b>Revised Net Income (Loss)</b> | <b>0.1</b>             | <b>(13.9)</b>            | <b>3.3</b>     | <b>0.8</b>     | <b>2.8</b>     | <b>6.2</b>     |

The Plan includes increasing revenues by 1.9% in 2005 from the 2004 projected and between 2% and 3% in the out-years before any revenue initiatives are considered. This may be optimistic, however, since prior to FY 03, which had a 3.6% unaudited increase over FY 02, revenue has only been increasing by about 1.5% a year since 2000 and the August 2004 year to date revenue has actually decreased from the same time last year by 0.7%. It may also be difficult to increase volume considering the negative publicity the Hospital and Nursing Home have received recently. Total expenses are projected to increase by 3.8%, 3.1%, 4.1% and 3.0% in 2005, 2006, 2007, and 2008 respectively. Fringes are responsible for most of this growth, increasing by 6.4%, 2.8%, 6.6% and 6.3% in 2005, 2006, 2007 and 2008 primarily for pension and health insurances. Salaries are increasing by 3.6%, 3.5%, 4.6% and 2.4% in 2005, 2006, 2007, and 2008 respectively. The salary budget does not include staffing reductions other than those already made. The Corporation has included intended reductions, which include reducing the FTEs per adjusted occupied bed ratio to the industry standard of between 4.6 and 4.8 from the August 2004 Nassau University Medical Center (NUMC) ratio of 5.77, in their gap closing measures. A. Holly Patterson (AHP) is at industry standards currently and no cut backs are anticipated there.

The gap closing measures, while not unreasonable, do pose some risks. The most significant risk and also the largest gap closer are the contract concessions and labor reductions to meet industry standards. The contract concessions will need to be significantly greater than those reached by the County's CSEA union. The plan's salary cost currently include a 1.25% step increase each year, a 0% wage increase in 2003, \$750/FTE cash payment in 2004, and 2.5% increases in wages, and on the 2004 cash payment, in 2005 through 2008. In contrast, the County's CSEA contract contained only a 6-month COLA freeze with a 2.5% increase in the second six months and between 2.5% and 3.5% each January 1<sup>st</sup> through 2007 which will mirror the New York Metropolitan Area All Urban Index (CPI). For January 2005 the COLA increase will be 3.5%. Other concessions being sought as stated in the Fiscal 2005-2008 Multi-Year Financial Plan include a two-year wage freeze, a reduction of up to three paid holidays, the ability

to treat six holidays as floating holidays and the requirement to pay overtime only after 40 hours of work a week. NHCC is also trying to change the medical benefits from Empire “Core” and “Core Plus” to “Core” benefits only.

Labor reductions will need to be made carefully so as not to reduce services or impact patient volume. August year to date patient volume has gone down from the same time period in 2003 with discharges decreasing 2.9%. Another labor based initiative is the reduction of physician staffing and/or modification of physician financial arrangements to match the clinical volumes in each clinical department, utilizing appropriate productivity and compensation standards. This measure is projected to save \$771,000 in 2004 and \$3.1 million in each of the out-years. Again, caution must be taken to avoid negative consequences. It would make sense to assume with fewer doctors there would be less volume, but there are also efficiencies that can be identified and the hospital administration will need to be careful to make cuts in areas that will not have a negative impact on revenues which are so vital to the future viability of the Corporation.

In August 2004 Manatt did provide a review of all clinical departments and teaching programs at the Hospital with a list of departments that were oversized given current volumes, departments that should be expanded, departments whose faculty mix ought to be reviewed, and departments that should be considered for affiliation agreements with other hospitals. Manatt has also drafted an RFP for affiliation agreements with other hospitals and for potential shared services agreements. In addition, Daniel Kane, the Acting Chief Executive Officer for NHCC, has expressed an interest in focusing on revenue growth and has said he would only cut expenses where they would not affect revenues.

One initiative that has repeatedly failed is the pursuit of regulatory approval to expand HIV beds from 20 to 42. This initiative is included in the gap closing initiatives for \$863,000 in 2004, and between \$2.1 million and \$2.2 million in the out-years. On the positive side the Department of Health has verbally approved the 2002 volume adjustment worth \$8.8 million in 2004 (a retroactive payment will be received), \$9.1 million for 2005, \$9.4 million in 2006, \$9.7 million in 2007, and \$10.0 million in 2008. The Department of Health has also indicated to County and Hospital Administration that it intends to provide a relief package that is “substantially consistent” with the one proposed by the Corporation. These include the 2003 volume adjustment worth between \$2.9 and \$3.2 million in the out-years, an appeal of 2003 BDCC need calculation worth \$1.5 million in 2004, the rebasing of NUMC Medicaid rate to the group price worth between \$5.0 and \$5.5 million in the out-years, the decertification of beds and bed-hold reimbursement at AHP worth between \$1.4 and \$1.6 million in the out-years, and seeking hospital-based status for the Nursing Home worth \$5.0 million in 2007 and 2008.

Also included in the gap closing measures are the restructuring of the out-patient departments as part of the Diagnostic and Treatment Centers (DTC) and shifting NUMC out-patients to DTC for increased revenue of \$2.3 million in each of the out-years. The refunding of \$256 million debt and reissuing of \$303 million in bonds, net of the loss of interest income on the debt service reserve is included as are the sale of AHP and the defeasance of some of the bonds.

Offsetting some the risks identified are a number of initiatives not incorporated into the multi-year plan. These include improvements to the revenue cycle, affiliations with other hospitals, additional operational improvements, and obtaining Federally Qualified Health Center (FQHC) look-a-like or grantee status for the health centers.

In July of 2004 the Board of Directors, with the approval of the County Executive, appointed Daniel Kane as the Acting Chief Executive Officer. Mr. Kane has extensive experience in the hospital industry and appears to be working in a cooperative manner with the County to implement the changes recommended by the Manatt report. On August 23, 2004 the NHCC Board of Directors adopted a resolution approving the Stabilization agreement, the Manatt Report, as a guide, and the refunding of the NHCC bonds. They also gave the Acting Chief Executive Officer, the authority to implement the recommendations in the Manatt Report. On September 8, 2004 the County and NHCC announced a five-point plan which summarizes these recommendations:

- Operational improvements to reduce costs, increase revenue collection, and introduce affiliation agreements with neighboring hospitals.
- New York State Department of Health relief.
- Relocation of the nursing home to the NUMC campus, sale of 300 excess beds, sale of the Uniondale property and use of the proceeds to reduce outstanding debt.
- Refunding of the Corporation's debt.
- An interim stabilization agreement between the County and NHCC, which will override the current transfer agreement and provide the groundwork for a more workable relationship while also providing financial relief and benefits to both the County and the Corporation.

The sale and relocation of AHP to the East Meadow campus is a key component in the fiscal recovery of the Corporation. The Manatt report stated the sale value of the property to be between \$30.0 and \$70.0 million. Per the Stabilization Agreement, proceeds of the sale of the Uniondale property will be placed in a restricted account from which disbursements can only be made with the written consent of the County Executive. Unless otherwise agreed, these proceeds will be used to retire the existing NHCC bonds or the refunding bonds. Manatt is currently seeking approval from the Department of Health to sell 300 excess nursing home beds. Revenue from the sale will also be placed in a restricted account and can only be spent with the written consent of the County Executive. An RFP has been issued to nursing home operators in Nassau County with regards to the transfer of some of the patients currently at AHP and the purchase of the AHP's excess beds. Another RFP has been issued for the sale of the Uniondale property.

The County and NHCC are currently in the process of issuing about \$303.0 million to refinance the 1999 bond issue. The refunding of the Corporation's debt frees up \$19.8 million for NHCC in proceeds from a debt service reserve fund due to a County direct-pay guarantee. Under the Stabilization Agreement the County will make all payments due in connection with the refunding bonds out of any payments due NHCC, which presently total about \$52.0 million. An additional \$20.0 to \$22.0 million in net present value savings will be up fronted with over \$6.0 million in cash savings realized in 2005 through 2008. An additional cash savings of \$1.9 million will be realized in 2009 and about \$200,000 per year thereafter. These savings are partially offset by reduced interest reimbursements from the Department of Health and about \$1.2 million in annual investment earnings previously received from the \$19.8 million in the debt service reserve. Per the Stabilization Agreement, all proceeds of the refunding bonds and of the released debt service reserve fund will be deposited in a restricted sale proceeds account, the use of which will require the County Executive's written consent.

In consideration of the refinancing the Corporation has also agreed to a Regulatory Agreement. This agreement requires NHCC to promptly reimburse the County for any payments made under the guarantee that exceeds payments owed to the Corporation. In order to secure this obligation, NHCC grants the County “a lien on, and security interest in all of NHCC’s right, title and interest in all of the assets of NHCC, including all real and personal property, now owned or hereafter acquired, as well as all proceeds thereof.” It also places certain operational and financial standards on the Corporation that must be followed and provides that it take the steps necessary to implement improvements guided by the recommendations in the Manatt report. The Corporation must also provide various reports and business plans and the County may require the Corporation to hire an independent consultant under certain financial and reporting conditions. It also imposes standards of attendance and disclosure of interest on the Board of Directors.

The Stabilization Agreement resolves many disputed items between the County and NHCC while also providing the Corporation with the cash needed to stabilize until it can implement the Manatt recommendations. Among the disputed items resolved and not yet mentioned are the payments made for longevity and early retirement, with the County responsible for costs incurred prior to 2004 and the Corporation assuming responsibility after 2004. Disputed items related to the Correctional Center including bills, rent and indirect utility charges have been settled. Future patient care and billing disputes between the Correctional Center and the Corporation should be resolved through a separate agreement to be executed no later than January 1, 2005. It also provides NHCC with a stable cash flow through 2005 with the County paying monthly and quarterly advances for services provided to the County. Arbitration provisions that “purported to delegate legislative functions and which would have perpetuated unreasonable standards for determining County subsidy and service payment levels” have been removed and a reasonable cost basis for County payments for services will be established.

In total, NHCC will be paid about \$15.9 million for disputed items, but the County had already accrued for the entire claim, giving the County a one time savings of \$9.8 million. The total recurring annual benefit to the County’s operating budget is \$3.8 million for \$1.1 million related to Correctional Center items and \$2.7 million for longevity. The County will pay up to \$500,000 to cover the costs of implementing the recommendations made in the Manatt report. It will also include \$5.0 million for NHCC in its FY 05-FY 08 capital plan to address life safety and capital items required for NHCC accreditation and patient needs.

Although the Corporation has gained some time with the one shot release of the debt service reserve fund and the periodical advanced payments for the next 15 months, there are many improvements and obstacles the Corporation must overcome before it can be considered stable. NHCC’s outlook has brightened with the hiring of Daniel Kane as Acting Chief Executive Officer, the adoption of the Manatt recommendations, and the improved relationship with the County. The refinancing and monetary provisions in the Stabilization Agreement have brought the Corporation time, but drastic operational and financial changes will need to be made in the next year if NHCC is to be viable in the long run. Many of the changes necessary are not completely within the control of the Corporation including workforce concessions and items requiring Department of Health approval. The successful selling of beds at AHP and the moving of the nursing home will also be necessary. Improved revenue and volume are also difficult to foster and the Hospital has not been successful at this in the past. NHCC has been set on a better path with many opportunities but there are also many pitfalls along the way and it will take a great deal of cooperation between all concerned parties and superior managerial guidance for the Corporation to succeed.

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## NIFA

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The Nassau Interim Finance Authority was created by the New York State Legislature in June of 2000. Its mission is to oversee the County's finances and to provide budgetary relief through the restructuring of County debt and the administering of transitional State aid.

### **Powers of the Nassau County Interim Finance Authority**

The Authority shall have the power to sue and be sued, to make and execute contracts, to borrow money and issue bonds, to invest funds, to appoint officers and employees as it may require for the performance of its duties, to retain or employ counsel, auditors, and financial consultants and other services on a contract basis, and to do any and all things necessary to carry out its purposes and exercise the powers granted in the legislation. The Authority shall continue until its oversight, control or other responsibilities, and all its liabilities have been met or otherwise discharged. The Authority is administered by seven directors appointed by the governor.

### **Oversight and Assistance**

Except during a control period, the Authority shall (i) conduct meetings at least annually, (ii) obtain from the County all information required, (iii) recommend to the County measures to improve management and efficiency, (iv) consult in the preparation of the budget of the County, (v) review the terms and comment within 30 days, on the prudence of each proposed issuance of bonds by the County, (vi) determine whether to make transitional state aid available based on compliance with this title, and (vii) perform such audits and reviews as it deems necessary.

The County Executive is required to submit to the Authority a four-year financial plan. Such financial plan shall contain actions sufficient to ensure with respect to the major operating funds (GEN, PDD, PDH, CPF, FCF, together with any other funds of the County or a covered organization from time to time designated by NIFA) for each fiscal year of the plan that current operating expenses shall not exceed current operating revenues. "Covered Organizations" means the Nassau Health Care Corporation and any other governmental agency, public authority, or public benefit corporation which receives or may receive money directly or indirectly from the County, excluding NIFA. For purposes of determining current operating revenues in the fiscal years ending December 31, 2001 - 2005, such plan may assume (i) borrowings by the County or the Authority to finance tax certiorari judgements or settlements in annual amounts not exceeding \$100 million, and (ii) receipt by the County of NIFA assistance (debt restructuring savings) and transitional state aid in the following collective amounts for each respective fiscal year:

| <u>Amount</u> | <u>Fiscal Year</u> |
|---------------|--------------------|
| \$25 million  | 2000               |
| \$25 million  | 2001               |
| \$20 million  | 2002               |
| \$15 million  | 2003               |
| \$15 million  | 2004               |

Note: The final \$15 million of NIFA assistance is to be paid one half in 2004 and one half in 2005.



Each year during the interim finance period or during a control period, the County shall develop, and may from time to time modify, a four-year financial plan covering the County and the covered organizations. Each such plan shall provide that the major operating funds of the County will be balanced in accordance with generally accepted accounting principles, and be in accordance with the following procedures:

- (i) The County Executive shall prepare and submit to the Authority and the Legislature, a revised financial plan covering the four year period beginning with the ensuing fiscal year, together with the proposed budget for the ensuing fiscal year, not later than September 15 of each year. On such dates, the County Executive shall also submit to the Authority a certificate stating that such budget is consistent with the financial plan submitted therewith and that operation within the budgets is feasible.
- (ii) Not more than 20 days after submission of a financial plan or more than 15 days after submission of a modification, the Authority shall determine whether the plan or modification is complete and complies with the requirements of this title.
- (iii) If the Authority disagrees with elements of the financial plan (e.g. if it is incomplete, or uses unreasonable assumptions and estimates, or fails to provide that operations of the County and the covered organizations will be conducted within the cash resources available according to the Authority's revenue estimates, or if it fails to comply with the provisions of this title or other requirements of law) it shall provide notice thereof to the County Executive, the Legislature, and the County Comptroller, with copies to the State Budget Director, the State Comptroller, the chair of the Assembly Ways and Means committee, and the chair of the Senate finance committee.
- (iv) After the initial adoption of the financial plan, the revenue estimates certified by the Authority shall be regularly re-examined by the Authority in consultation with the County and the covered organizations, and the County Executive shall provide a modified financial plan in such detail and within such time periods as the Authority may require. In the event of reductions in such revenue estimates, or in the event that the County or covered organization shall expend funds at a rate that would exceed the aggregate expenditure limitation for the County or covered organization prior to the expiration of the fiscal year, the County Executive shall submit a financial plan modification to effect such adjustments in revenue estimates and expense reductions as may be necessary to conform to such revised estimates and expenditure limitations.
- (v) If within a time period specified by the Authority, the County fails to make such modifications, the Authority shall adopt a resolution so finding.
- (vi) Upon approval by the County of a budget in accordance with the provisions of the County Charter and approval of the financial plan by the Legislature, the County Executive shall certify to the Authority that such budget is consistent with the financial plan to be submitted to the Authority. If the County Executive is unable to make such a certification, the County shall amend its budget or shall submit a financial plan modification for the approval of the Authority such that the County's budget and the financial

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plan shall be consistent. In no event shall the County operate under a budget that is inconsistent with an approved financial plan.

### **Financial Plan**

The financial plan shall be in such form and shall contain such information for each year as the Authority may specify, and shall include the County and all covered organizations, and shall include (i) statements of all estimated revenues and expenditures and cash flow projections, (ii) a report on the status of efforts to reform and streamline the tax certiorari claims process and eliminate the need for the County to borrow to finance such claims, including an accounting of the expenditure of any transitional state aid for such purposes, and (iii) an accounting of the expenditure of any remaining transitional state aid available to the County for each year of the plan.

The plan shall include any information which the Authority may request to satisfy itself that (i) projected employment levels, collective bargaining agreements, and other actions relating to employee costs, capital construction, and such other matters as the Authority may specify are consistent with the provisions made for such obligations in the plan, (ii) the County is taking whatever action is necessary with respect to programs mandated by state and federal law to ensure that expenditures are limited to and covered by the expenditures stated in the financial plan, (iii) adequate reserves are provided to maintain essential programs in the event revenues have been overestimated or expenditures underestimated, and (iv) the county has adequate cash resources to meet its obligations. In addition, for each fiscal year during the interim finance period, or while bonds issued pursuant to this title are outstanding, the County Executive shall prepare a quarterly report of summarized budget data depicting overall trends of actual revenues and expenditures for the entire budget rather than individual line items and updated quarterly cash flow projections of receipts and disbursements. Such reports shall compare revenue estimates and appropriations as set forth in such budget with the actual revenues and expenditures made to date. All quarterly reports shall be accompanied by recommendations from the County Executive to the Legislature setting forth any remedial action necessary to resolve unfavorable variances. These reports shall be completed within 30 days after the end of each quarter and shall be submitted to the Legislature, the Authority, the State Budget Director, and the State Comptroller. Except during a control period, for each fiscal year during the time NIFA bonds are outstanding, the County Executive shall submit a proposed budget or revision thereto to the Authority concurrent with submission to the Legislature, and shall submit the adopted budget to the Authority immediately upon its adoption.

### **Control Period**

The Authority shall impose a control period upon its determination any time that any of the following events has occurred or is likely to occur: (i) the County shall have failed to pay the principal or interest on any of its bonds or notes when due, (ii) the County shall have incurred a major operating funds deficit of one percent or more in the results of operations during its fiscal year assuming all revenues and expenditures are reported in accordance with generally accepted accounting principles, (iii) the County shall have otherwise violated any provision of this title and such violation substantially impairs the marketability of the County's bonds or notes, (iv) the County Treasurer shall certify at any time that on the basis of facts existing such officer could not make the certification described in the definition of

"interim finance period" below, or (v) the Authority makes the finding that the County has failed to modify its financial plan to reflect altered revenue and expense estimates.

The Authority shall terminate a control period when it determines that none of the conditions, which would permit the Authority to impose a control period, exists. In no event shall any control period continue beyond the later of January 1, 2030, or the date when all the bonds of the Authority are refunded, discharged, or otherwise defeased.

During the control period:

(i) The Authority shall consult with the County in the preparation of the financial plan, and certify the revenue estimates therein, prescribe the form of the financial plan, exercise the rights of approval, disapproval and modification, and formulate and adopt its modifications to the financial plan, such modifications to become effective on their adoption by the Authority.

(ii) The Authority shall review the operations of the County and covered organizations and make reports thereon, audit compliance with the financial plan, recommend to the County measures to reduce costs and improve services, and obtain information on the financial condition and needs of the County and the covered organizations.

(iii) All contracts entered into by the County or any covered organization must be consistent with the provisions of this title and must comply with the requirements of the financial plan as approved by the Authority. The Authority can disapprove any contract that would be inconsistent with the financial plan.

(iv) The Authority shall review the terms of each proposed long-term and short-term borrowing by the County and any covered organization to be effected during any control period, and no such borrowing shall be made during any control period unless it is approved by the Authority.

(v) The Authority is authorized to and shall withhold any transitional state aid and not pay such moneys to the County.

(vi) Upon a finding by the Authority that a wage freeze is essential to the adoption or maintenance of a County budget or a financial plan that is in compliance with this title, the Authority may declare a fiscal crisis. Upon making such a declaration, the Authority shall be empowered to order that all increases in salary or wages of employees of the County and employees of covered organizations after the date of the order pursuant to collective bargaining agreements, now in existence or hereafter entered into, requiring salary increases as of any date thereafter are suspended. Such order may also provide that all increased payments for holiday and vacation differentials, shift differentials, salary adjustments according to plan and step-ups or increments are also suspended. This subdivision shall not be applicable to employees who have agreed to a deferment of salary or wage increase (which deferment may be included as part of compensation for computing the pension base).

*Note: The law was amended in 2002 to allow NIFA to issue an additional \$790 million of bonds to pay financeable costs, and to extend NIFA's authorization to issue bonds until December 31, 2005. In 2003 the NIFA statute law was further amended to define the interim finance period as "the period of time*

*from the effective date of this title until the date when (a) the authority shall determine, based on annual audit reports...that for each fiscal year, through and including fiscal year 2007, that the county has adopted and adhered to budgets covering all expenditures the results of which did not show a major operating funds deficit when reported in accordance with generally accepted accounting principles.” In addition, NIFA was authorized to continue financing the County’s tax certiorari settlements through 2007. No more than \$15 million of this financing may be counted as operating revenue in FY 06, and no more than \$10 million may be counted in FY 07. Finally, the legislation that created the Sewer Authority specified that it would be a “covered organization” pursuant to the NIFA statute.*

## NASSAU COUNTY 2005 BUDGET

### FULL-TIME HEADCOUNT

| Department                                | Adopted 2004 |            | September   |            | Executive   |            | Change                       | % Change                     | Change                              | % of Change |
|---|--------------|------------|-------------|------------|-------------|------------|------------------------------|------------------------------|-------------------------------------|-------------|
|   | Budget       | % of Total | 2004 Actual | % of Total | 2005 Budget | % of Total | from<br>2004 to<br>Executive | from<br>2004 to<br>Executive | from<br>Executive to<br>Sept Actual | Sept Actual |
| Assessment                                | 194          | 2.3%       | 153         | 1.8%       | 178         | 2.0%       | (16)                         | -8.2%                        | 25                                  | 16.3%       |
| Assessment Review Commission              | 32           | 0.4%       | 27          | 0.3%       | 37          | 0.4%       | 5                            | 15.6%                        | 10                                  | 37.0%       |
| Civil Service                             | 58           | 0.7%       | 62          | 0.7%       | 61          | 0.7%       | 3                            | 5.2%                         | (1)                                 | -1.6%       |
| Constituent Affairs                       | 54           | 0.6%       | 55          | 0.6%       | 58          | 0.7%       | 4                            | 7.4%                         | 3                                   | 5.5%        |
| Consumer Affairs, Office of               | 33           | 0.4%       | 34          | 0.4%       | 38          | 0.4%       | 5                            | 15.2%                        | 4                                   | 11.8%       |
| Coord Agency for Spanish Americans (CASA) | 6            | 0.1%       | 6           | 0.1%       | 6           | 0.1%       | 0                            | 0.0%                         | 0                                   | 0.0%        |
| Correctional Center, Nassau County        | 1,165        | 13.9%      | 1,127       | 13.3%      | 1,237       | 14.0%      | 72                           | 6.2%                         | 110                                 | 9.8%        |
| County Attorney                           | 147          | 1.7%       | 152         | 1.8%       | 150         | 1.7%       | 3                            | 2.0%                         | (2)                                 | -1.3%       |
| County Clerk                              | 102          | 1.2%       | 90          | 1.1%       | 102         | 1.2%       | 0                            | 0.0%                         | 12                                  | 13.3%       |
| County Comptroller                        | 81           | 1.0%       | 80          | 0.9%       | 87          | 1.0%       | 6                            | 7.4%                         | 7                                   | 8.8%        |
| County Executive                          | 8            | 0.1%       | 37          | 0.4%       | 34          | 0.4%       | 26                           | 325.0%                       | (3)                                 | -8.1%       |
| District Attorney                         | 333          | 4.0%       | 354         | 4.2%       | 335         | 3.8%       | 2                            | 0.6%                         | (19)                                | -5.4%       |
| Drug & Alcohol                            | 32           | 0.4%       | 92          | 1.1%       | 89          | 1.0%       | 57                           | 178.1%                       | (3)                                 | -3.3%       |
| Elections, Board of                       | 109          | 1.3%       | 105         | 1.2%       | 106         | 1.2%       | (3)                          | -2.8%                        | 1                                   | 1.0%        |
| Emergency Management                      | 6            | 0.1%       | 3           | 0.0%       | 7           | 0.1%       | 1                            | 16.7%                        | 4                                   | 133.3%      |
| Fleet Management                          | 0            | 0.0%       | 0           | 0.0%       | 121         | 1.4%       | 121                          | *****                        | 121                                 | *****       |
| Health Department                         | 246          | 2.9%       | 239         | 2.8%       | 241         | 2.7%       | (5)                          | -2.0%                        | 2                                   | 0.8%        |
| Housing & Intergovernmental Affairs       | 0            | 0.0%       | 11          | 0.1%       | 11          | 0.1%       | 11                           | *****                        | 0                                   | 0.0%        |
| Human Resources                           | 8            | 0.1%       | 8           | 0.1%       | 11          | 0.1%       | 3                            | 37.5%                        | 3                                   | 37.5%       |
| Human Rights, Commission of               | 10           | 0.1%       | 10          | 0.1%       | 9           | 0.1%       | (1)                          | -10.0%                       | (1)                                 | -10.0%      |
| Information Technology                    | 88           | 1.0%       | 94          | 1.1%       | 104         | 1.2%       | 16                           | 18.2%                        | 10                                  | 10.6%       |
| Investigations                            | 4            | 0.0%       | 4           | 0.0%       | 4           | 0.0%       | 0                            | 0.0%                         | 0                                   | 0.0%        |
| Labor Relations                           | 4            | 0.0%       | 4           | 0.0%       | 4           | 0.0%       | 0                            | 0.0%                         | 0                                   | 0.0%        |
| Legislature                               | 87           | 1.0%       | 83          | 1.0%       | 96          | 1.1%       | 9                            | 10.3%                        | 13                                  | 15.7%       |
| Management and Budget, Office of          | 46           | 0.5%       | 42          | 0.5%       | 32          | 0.4%       | (14)                         | -30.4%                       | (10)                                | -23.8%      |
| Medical Examiner                          | 52           | 0.6%       | 49          | 0.6%       | 50          | 0.6%       | (2)                          | -3.8%                        | 1                                   | 2.0%        |
| Mental Health                             | 20           | 0.2%       | 18          | 0.2%       | 20          | 0.2%       | 0                            | 0.0%                         | 2                                   | 11.1%       |
| Minority Affairs, Office of               | 6            | 0.1%       | 6           | 0.1%       | 8           | 0.1%       | 2                            | 33.3%                        | 2                                   | 33.3%       |
| Physically Challenged                     | 6            | 0.1%       | 6           | 0.1%       | 6           | 0.1%       | 0                            | 0.0%                         | 0                                   | 0.0%        |
| Planning                                  | 24           | 0.3%       | 17          | 0.2%       | 21          | 0.2%       | (3)                          | -12.5%                       | 4                                   | 23.5%       |
| Probation                                 | 229          | 2.7%       | 218         | 2.6%       | 244         | 2.8%       | 15                           | 6.6%                         | 26                                  | 11.9%       |
| Public Administrator                      | 7            | 0.1%       | 7           | 0.1%       | 7           | 0.1%       | 0                            | 0.0%                         | 0                                   | 0.0%        |
| Public Works Department (General Fund)    | 581          | 6.9%       | 552         | 6.5%       | 528         | 6.0%       | (53)                         | -9.1%                        | (24)                                | -4.3%       |
| Purchasing                                | 23           | 0.3%       | 23          | 0.3%       | 23          | 0.3%       | 0                            | 0.0%                         | 0                                   | 0.0%        |
| Real Estate                               | 11           | 0.1%       | 12          | 0.1%       | 12          | 0.1%       | 1                            | 9.1%                         | 0                                   | 0.0%        |

## NASSAU COUNTY 2005 BUDGET

### FULL-TIME HEADCOUNT

| Department                          | Adopted 2004 |            | September   |            | Executive   |            | Change from 2004 to Executive | % Change from 2004 to Executive | Change from Executive to Sept Actual | % of Change Sept Actual |
|-------------------------------------|--------------|------------|-------------|------------|-------------|------------|-------------------------------|---------------------------------|--------------------------------------|-------------------------|
|                                     | Budget       | % of Total | 2004 Actual | % of Total | 2005 Budget | % of Total |                               |                                 |                                      |                         |
| Records Managements                 | 9            | 0.1%       | 9           | 0.1%       | 10          | 0.1%       | 1                             | 11.1%                           | 1                                    | 11.1%                   |
| Senior Citizens Affairs             | 35           | 0.4%       | 35          | 0.4%       | 35          | 0.4%       | 0                             | 0.0%                            | 0                                    | 0.0%                    |
| Sheriff                             | 57           | 0.7%       | 52          | 0.6%       | 0           | 0.0%       | (57)                          | -100.0%                         | (52)                                 | -100.0%                 |
| Social Services                     | 845          | 10.0%      | 856         | 10.1%      | 852         | 9.6%       | 7                             | 0.8%                            | (4)                                  | -0.5%                   |
| Traffic & Parking Violations Agency | 35           | 0.4%       | 32          | 0.4%       | 35          | 0.4%       | 0                             | 0.0%                            | 3                                    | 9.4%                    |
| Traffic Safety Board                | 3            | 0.0%       | 3           | 0.0%       | 3           | 0.0%       | 0                             | 0.0%                            | 0                                    | 0.0%                    |
| Treasurer                           | 46           | 0.5%       | 44          | 0.5%       | 44          | 0.5%       | (2)                           | -4.3%                           | 0                                    | 0.0%                    |
| Veterans Services Agency            | 9            | 0.1%       | 8           | 0.1%       | 9           | 0.1%       | 0                             | 0.0%                            | 1                                    | 12.5%                   |
| Youth Board                         | 7            | 0.1%       | 7           | 0.1%       | 7           | 0.1%       | 0                             | 0.0%                            | 0                                    | 0.0%                    |
|                                     | 4,858        | 57.8%      | 4,826       | 56.9%      | 5,072       | 57.3%      | 214                           | 4.4%                            | 246                                  | 5.1%                    |
| Parks, Recreation and Museums       | 223          | 2.7%       | 219         | 2.6%       | 260         | 2.9%       | 37                            | 16.6%                           | 41                                   | 18.7%                   |
| Fire Commision                      | 113          | 1.3%       | 114         | 1.3%       | 113         | 1.3%       | 0                             | 0.0%                            | (1)                                  | -0.9%                   |
| Police District                     | 1,618        | 19.2%      | 1,707       | 20.1%      | 1,675       | 18.9%      | 57                            | 3.5%                            | (32)                                 | -1.9%                   |
| Police Headquarters                 | 1,596        | 19.0%      | 1,609       | 19.0%      | 1,728       | 19.5%      | 132                           | 8.3%                            | 119                                  | 7.4%                    |
|                                     | 8,408        | 100.0%     | 8,475       | 100.0%     | 8,848       | 100.0%     | 440                           | 5.2%                            | 373                                  | 4.4%                    |
| Nassau Community College            | 1,228        |            | 1,182       |            | 1,204       |            | (24)                          | -2.0%                           | 22                                   | 1.9%                    |
| Sewer and Storm Water District      | 829          |            | 297         |            | 392         |            | (437)                         | -52.7%                          | 95                                   | 32.0%                   |
|                                     | 10,465       |            | 9,954       |            | 10,444      |            | (21)                          | -0.20%                          | 490                                  | 4.92%                   |

## NASSAU COUNTY 2005 BUDGET

### REVENUE

| Department                                       | 2004 Adopted | % of Total | 2005 Executive<br>Budget | % of Total | Change from<br>2004 to<br>Executive | % Change<br>from<br>2004 to<br>Executive |
|--|--------------|------------|--------------------------|------------|-------------------------------------|--|
| Assessment                                       | 1,048,718    | 0.0%       | 909,000                  | 0.0%       | (139,718)                           | -13.3%                                   |
| Assessment Review Commission                     | 1,818,000    | 0.1%       | 4,309,000                | 0.2%       | 2,491,000                           | 137.0%                                   |
| Civil Service                                    | 2,079,000    | 0.1%       | 2,476,483                | 0.1%       | 397,483                             | 19.1%                                    |
| Constiuent Affairs                               | 12,350,000   | 0.5%       | 14,350,000               | 0.6%       | 2,000,000                           | 16.2%                                    |
| Consumer Affairs, Office Of                      | 2,745,100    | 0.1%       | 3,994,543                | 0.2%       | 1,249,443                           | 45.5%                                    |
| Coord Agency for Spanish Americans (CASA)        | 83,000       | 0.0%       | 30,000                   | 0.0%       | (53,000)                            | -63.9%                                   |
| Correctional Center, Nassau County               | 14,765,640   | 0.6%       | 19,240,986               | 0.8%       | 4,475,346                           | 30.3%                                    |
| County Attorney                                  | 3,195,000    | 0.1%       | 5,445,000                | 0.2%       | 2,250,000                           | 70.4%                                    |
| County Clerk                                     | 1,307,600    | 0.1%       | 293,850                  | 0.0%       | (1,013,750)                         | -77.5%                                   |
| County Comptroller                               | 155,800      | 0.0%       | 200,800                  | 0.0%       | 45,000                              | 28.9%                                    |
| Courts   | 1,349,135    | 0.1%       | 1,288,243                | 0.1%       | (60,892)                            | -4.5%                                    |
| District Attorney                                | 3,382,133    | 0.1%       | 3,414,407                | 0.1%       | 32,274                              | 1.0%                                     |
| Elections, Board of                              | 155,000      | 0.0%       | 155,000                  | 0.0%       | 0                                   | 0.0%                                     |
| Emergency Management                             | 168,735      | 0.0%       | 168,736                  | 0.0%       | 1                                   | 0.0%                                     |
| Health, Department of                            | 37,752,250   | 1.6%       | 38,511,484               | 1.6%       | 759,234                             | 2.0%                                     |
| Housing and InterGovernmental Affairs, Office of | 0            | 0.0%       | 6,505,657                | 0.3%       | 6,505,657                           | *****                                    |
| Information Technology                           | 4,690,000    | 0.2%       | 1,337,618                | 0.1%       | (3,352,382)                         | -71.5%                                   |
| Investigations                                   | 0            | 0.0%       | 500,000                  | 0.0%       | 500,000                             | *****                                    |
| Management and Budgets, Office of                | 226,875      | 0.0%       | 0                        | 0.0%       | (226,875)                           | -100.0%                                  |
| Medical Examiner                                 | 1,510,908    | 0.1%       | 1,531,908                | 0.1%       | 21,000                              | 1.4%                                     |
| Mental Health                                    | 49,860,810   | 2.1%       | 57,098,486               | 2.4%       | 7,237,676                           | 14.5%                                    |
| Miscellaneous                                    | 25,143,000   | 1.0%       | 27,500,933               | 1.1%       | 2,357,933                           | 9.4%                                     |
| Physically Challenged                            | 30,000       | 0.0%       | 30,000                   | 0.0%       | 0                                   | 0.0%                                     |
| Planning   | 2,150,000    | 0.1%       | 1,385,500                | 0.1%       | (764,500)                           | -35.6%                                   |
| Probation  | 5,488,324    | 0.2%       | 5,436,658                | 0.2%       | (51,666)                            | -0.9%                                    |
| Public Administrator                             | 260,000      | 0.0%       | 285,000                  | 0.0%       | 25,000                              | 9.6%                                     |
| Public Works Department (General Fund)           | 17,808,827   | 0.7%       | 12,329,320               | 0.5%       | (5,479,507)                         | -30.8%                                   |
| Purchasing                                       | 30,100       | 0.0%       | 283,783                  | 0.0%       | 253,683                             | 842.8%                                   |

## NASSAU COUNTY 2005 BUDGET

### REVENUE

| Department                            | 2004 Adopted         | % of Total   | 2005 Executive<br>Budget | % of Total    | Change from<br>2004 to<br>Executive | % Change<br>from<br>2004 to<br>Executive |
|---------------------------------------|----------------------|--------------|--------------------------|---------------|-------------------------------------|--|
| Real Estate                           | 7,841,353            | 0.3%         | 8,344,033                | 0.3%          | 502,680                             | 6.4%                                     |
| Reserves                              | 12,500,000           | 0.5%         | 12,500,000               | 0.5%          | 0                                   | 0.0%                                     |
| Unallocated Revenue                   | 1,089,812,822        | 45.3%        | 1,123,874,113            | 46.7%         | 34,061,291                          | 3.1%                                     |
| Senior Citizens Affairs               | 8,964,533            | 0.4%         | 9,188,271                | 0.4%          | 223,738                             | 2.5%                                     |
| Sheriff                               | 1,730,000            | 0.1%         | 0                        | 0.0%          | (1,730,000)                         | -100.0%                                  |
| Social Services                       | 253,854,234          | 10.5%        | 256,627,233              | 10.7%         | 2,772,999                           | 1.1%                                     |
| Traffic and Parking Violations Agency | 13,500,000           | 0.6%         | 12,900,000               | 0.5%          | (600,000)                           | -4.4%                                    |
| Traffic Safety Board                  | 183,000              | 0.0%         | 160,000                  | 0.0%          | (23,000)                            | -12.6%                                   |
| Treasurer                             | 37,642,000           | 1.6%         | 44,017,000               | 1.8%          | 6,375,000                           | 16.9%                                    |
| Veterans' Services Agency             | 90,170               | 0.0%         | 66,355                   | 0.0%          | (23,815)                            | -26.4%                                   |
| Youth Board                           | 1,759,430            | 0.1%         | 1,599,310                | 0.1%          | (160,120)                           | -9.1%                                    |
| <b>Subtotal General Fund</b>          | <b>1,617,431,497</b> | <b>67.2%</b> | <b>1,678,288,710</b>     | <b>69.7%</b>  | <b>60,857,213</b>                   | <b>3.8%</b>                              |
| <b>Interfund Revenues</b>             |                      |              |                          |               |                                     |  |
| <b>Interdepartmental Revenues</b>     | <b>92,032,413</b>    | <b>3.8%</b>  | <b>120,040,072</b>       | <b>5.0%</b>   | <b>28,007,659</b>                   | <b>30.4%</b>                             |
| <b>Total General Fund</b>             | <b>1,709,463,910</b> | <b>71.0%</b> | <b>1,798,328,782</b>     | <b>74.7%</b>  | <b>88,864,872</b>                   | <b>5.2%</b>                              |
| Debt Service                          | 10,311,594           | 0.4%         | 30,982,677               | 1.3%          | 20,671,083                          | *****                                    |
| Fire Commission                       | 21,245,846           | 0.9%         | 19,915,170               | 0.8%          | (1,330,676)                         | -6.3%                                    |
| Police District                       | 305,773,582          | 12.7%        | 312,236,666              | 13.0%         | 6,463,084                           | 2.1%                                     |
| Police Headquarters                   | 275,123,795          | 11.4%        | 295,898,566              | 12.3%         | 20,774,771                          | 7.6%                                     |
| Recreation, Parks and Museums         | 63,835,627           | 2.7%         | 69,588,113               | 2.9%          | 5,752,486                           | 9.0%                                     |
| <b>Major Funds Subtotal</b>           | <b>2,293,721,941</b> | <b>95.3%</b> | <b>2,406,909,902</b>     | <b>100.0%</b> | <b>113,187,961</b>                  | <b>4.9%</b>                              |



## NASSAU COUNTY 2005 BUDGET

### REVENUE

| Department                     | 2004 Adopted         | % of Total | 2005 Executive<br>Budget | % of Total | Change from<br>2004 to<br>Executive | % Change<br>from<br>2004 to<br>Executive |
|--------------------------------|----------------------|------------|--------------------------|------------|-------------------------------------|--|
| <b>Interfund Revenues</b>      |                      |            |                          |            |                                     |  |
| Interdepartmental Revenues     | 321,340,388          | 13.4%      | 295,252,565              | 12.3%      | (26,087,823)                        | -8.1%                                    |
| <b>Total Major Funds</b>       | <b>2,707,094,742</b> |            | <b>2,822,202,539</b>     |            | <b>115,107,797</b>                  | <b>4.3%</b>                              |
| Information Technology         | 19,900,000           |            | 0                        |            | (19,900,000)                        | 0  |
| Nassau Community College       | 158,054,712          |            | 162,458,848              |            | 4,404,136                           | 2.8%                                     |
| Sewer and Storm Water District | 373,256,706          |            | 302,649,406              |            | (70,607,300)                        | -18.9%                                   |
| <b>All Funds Total</b>         | <b>3,258,306,160</b> |            | <b>3,287,310,793</b>     |            | <b>29,004,633</b>                   | <b>0.9%</b>                              |

## NASSAU COUNTY 2005 BUDGET

### EXPENSES

| Department                                       | 2004 Adopted | % of<br>Total | 2005<br>Executive<br>Budget | % of<br>Total | Change from<br>2004 to<br>Executive | % Change<br>from<br>2004 to<br>Executive |
|--|--------------|---------------|-----------------------------|---------------|-------------------------------------|--|
| Assessment                                       | 15,501,554   | 0.6%          | 15,360,603                  | 0.6%          | (140,951)                           | -0.9%                                    |
| Assessment Review Commission                     | 4,073,779    | 0.2%          | 4,034,368                   | 0.2%          | (39,411)                            | -1.0%                                    |
| Civil Service                                    | 4,536,283    | 0.2%          | 4,906,693                   | 0.2%          | 370,410                             | 8.2%                                     |
| Constiuent Affairs                               | 4,979,664    | 0.2%          | 4,979,624                   | 0.2%          | (40)                                | 0.0%                                     |
| Consumer Affairs, Office Of                      | 1,869,276    | 0.1%          | 2,299,924                   | 0.1%          | 430,648                             | 23.0%                                    |
| Coord Agency for Spanish Americans (CASA)        | 348,859      | 0.0%          | 387,999                     | 0.0%          | 39,140                              | 11.2%                                    |
| Correctional Center, Nassau County               | 125,769,244  | 5.2%          | 140,010,372                 | 5.8%          | 14,241,128                          | 11.3%                                    |
| County Attorney                                  | 28,467,300   | 1.2%          | 31,154,774                  | 1.3%          | 2,687,474                           | 9.4%                                     |
| County Clerk                                     | 4,620,690    | 0.2%          | 5,261,205                   | 0.2%          | 640,515                             | 13.9%                                    |
| County Comptroller                               | 6,351,801    | 0.3%          | 6,891,651                   | 0.3%          | 539,850                             | 8.5%                                     |
| County Executive                                 | 893,522      | 0.0%          | 3,300,617                   | 0.1%          | 2,407,095                           | 269.4%                                   |
| Courts   | 2,326,655    | 0.1%          | 2,608,649                   | 0.1%          | 281,994                             | 12.1%                                    |
| District Attorney                                | 24,315,676   | 1.0%          | 25,820,917                  | 1.1%          | 1,505,241                           | 6.2%                                     |
| Drug & Alcohol                                   | 13,258,377   | 0.6%          | 12,292,607                  | 0.5%          | (965,770)                           | -7.3%                                    |
| Elections, Board of                              | 10,434,726   | 0.4%          | 9,302,726                   | 0.4%          | (1,132,000)                         | -10.8%                                   |
| Emergency Management                             | 572,468      | 0.0%          | 693,284                     | 0.0%          | 120,816                             | 21.1%                                    |
| Fleet Management, Office of                      | 0            | 0.0%          | 15,085,785                  | 0.6%          | 15,085,785                          | *****                                    |
| Fringe Benefits                                  | 137,949,939  | 5.7%          | 144,440,542                 | 6.0%          | 6,490,603                           | 4.7%                                     |
| Health, Department of                            | 68,533,672   | 2.8%          | 68,928,685                  | 2.9%          | 395,013                             | 0.6%                                     |
| Housing and InterGovernmental Affairs, Office of | 0            | 0.0%          | 6,987,808                   | 0.3%          | 6,987,808                           | *****                                    |
| Human Resources                                  | 624,126      | 0.0%          | 911,014                     | 0.0%          | 286,888                             | 46.0%                                    |
| Human Rights, Commission of                      | 662,318      | 0.0%          | 639,375                     | 0.0%          | (22,943)                            | -3.5%                                    |
| Information Technology                           | 17,864,172   | 0.7%          | 22,277,724                  | 0.9%          | 4,413,552                           | 24.7%                                    |
| Investigations                                   | 575,747      | 0.0%          | 451,607                     | 0.0%          | (124,140)                           | -21.6%                                   |
| Labor Relations                                  | 320,800      | 0.0%          | 330,864                     | 0.0%          | 10,064                              | 3.1%                                     |
| Legislature                                      | 4,961,015    | 0.2%          | 6,248,806                   | 0.3%          | 1,287,791                           | 26.0%                                    |
| Management and Budgets, Office of                | 3,780,061    | 0.2%          | 2,839,011                   | 0.1%          | (941,050)                           | -24.9%                                   |
| Medical Examiner                                 | 5,242,775    | 0.2%          | 5,293,503                   | 0.2%          | 50,728                              | 1.0%                                     |
| Mental Health                                    | 87,584,158   | 3.6%          | 103,236,997                 | 4.3%          | 15,652,839                          | 17.9%                                    |
| Minority Affairs, Office of                      | 467,598      | 0.0%          | 598,285                     | 0.0%          | 130,687                             | 27.9%                                    |
| Miscellaneous                                    | 110,752,437  | 4.6%          | 114,620,593                 | 4.8%          | 3,868,156                           | 3.5%                                     |

## NASSAU COUNTY 2005 BUDGET

### EXPENSES

| Department   | 2004 Adopted         | % of<br>Total | 2005<br>Executive<br>Budget | % of<br>Total | Change from<br>2004 to<br>Executive | % Change<br>from<br>2004 to<br>Executive |
|--|----------------------|---------------|-----------------------------|---------------|-------------------------------------|--|
| Physically Challenged  | 296,856              | 0.0%          | 330,675                     | 0.0%          | 33,819                              | 11.4%                                    |
| Planning   | 43,096,317           | 1.8%          | 47,534,076                  | 2.0%          | 4,437,759                           | 10.3%                                    |
| Probation  | 17,117,639           | 0.7%          | 18,587,556                  | 0.8%          | 1,469,917                           | 8.6%                                     |
| Public Administrator   | 428,763              | 0.0%          | 427,639                     | 0.0%          | (1,124)                             | -0.3%                                    |
| Public Works Department (General Fund)                                     | 72,663,879           | 3.0%          | 71,105,973                  | 3.0%          | (1,557,906)                         | -2.1%                                    |
| Purchasing   | 1,295,465            | 0.1%          | 1,340,077                   | 0.1%          | 44,612                              | 3.4%                                     |
| Real Estate  | 5,787,375            | 0.2%          | 14,877,485                  | 0.6%          | 9,090,110                           | 157.1%                                   |
| Records Management   | 742,599              | 0.0%          | 1,245,649                   | 0.1%          | 503,050                             | 67.7%                                    |
| Senior Citizens Affairs  | 12,884,379           | 0.5%          | 12,827,246                  | 0.5%          | (57,133)                            | -0.4%                                    |
| Sheriff  | 4,772,548            | 0.2%          | 0                           | 0.0%          | (4,772,548)                         | -100.0%                                  |
| Social Services  | 517,133,984          | 21.5%         | 532,615,955                 | 22.1%         | 15,481,971                          | 3.0%                                     |
| Traffic and Parking Violations Agency                                      | 2,772,660            | 0.1%          | 2,783,843                   | 0.1%          | 11,183                              | 0.4%                                     |
| Traffic Safety Board   | 204,092              | 0.0%          | 216,792                     | 0.0%          | 12,700                              | 6.2%                                     |
| Treasurer  | 3,238,792            | 0.1%          | 3,734,972                   | 0.2%          | 496,180                             | 15.3%                                    |
| Veterans' Services Agency  | 544,925              | 0.0%          | 557,313                     | 0.0%          | 12,388                              | 2.3%                                     |
| Youth Board  | 7,641,174            | 0.3%          | 7,422,605                   | 0.3%          | (218,569)                           | -2.9%                                    |
| <b>Subtotal General Fund</b>   | <b>1,378,260,139</b> | <b>57.3%</b>  | <b>1,477,804,468</b>        | <b>61.4%</b>  | <b>99,544,329</b>                   | <b>7.2%</b>                              |
| <b>Interfund Charges (2003) &amp; Interdepartmental<br/>Charges (2004)</b> | <b>47,544,511</b>    | <b>2.0%</b>   | <b>63,172,167</b>           | <b>2.6%</b>   | <b>15,627,656</b>                   | <b>32.9%</b>                             |
| <b>Debt Service</b>  | <b>283,659,260</b>   | <b>11.8%</b>  | <b>257,352,147</b>          | <b>10.7%</b>  | <b>(26,307,113)</b>                 | <b>-9.3%</b>                             |
| <b>Total General Fund</b>  | <b>1,709,463,910</b> | <b>71%</b>    | <b>1,798,328,782</b>        | <b>75%</b>    | <b>88,864,872</b>                   | <b>5.2%</b>                              |

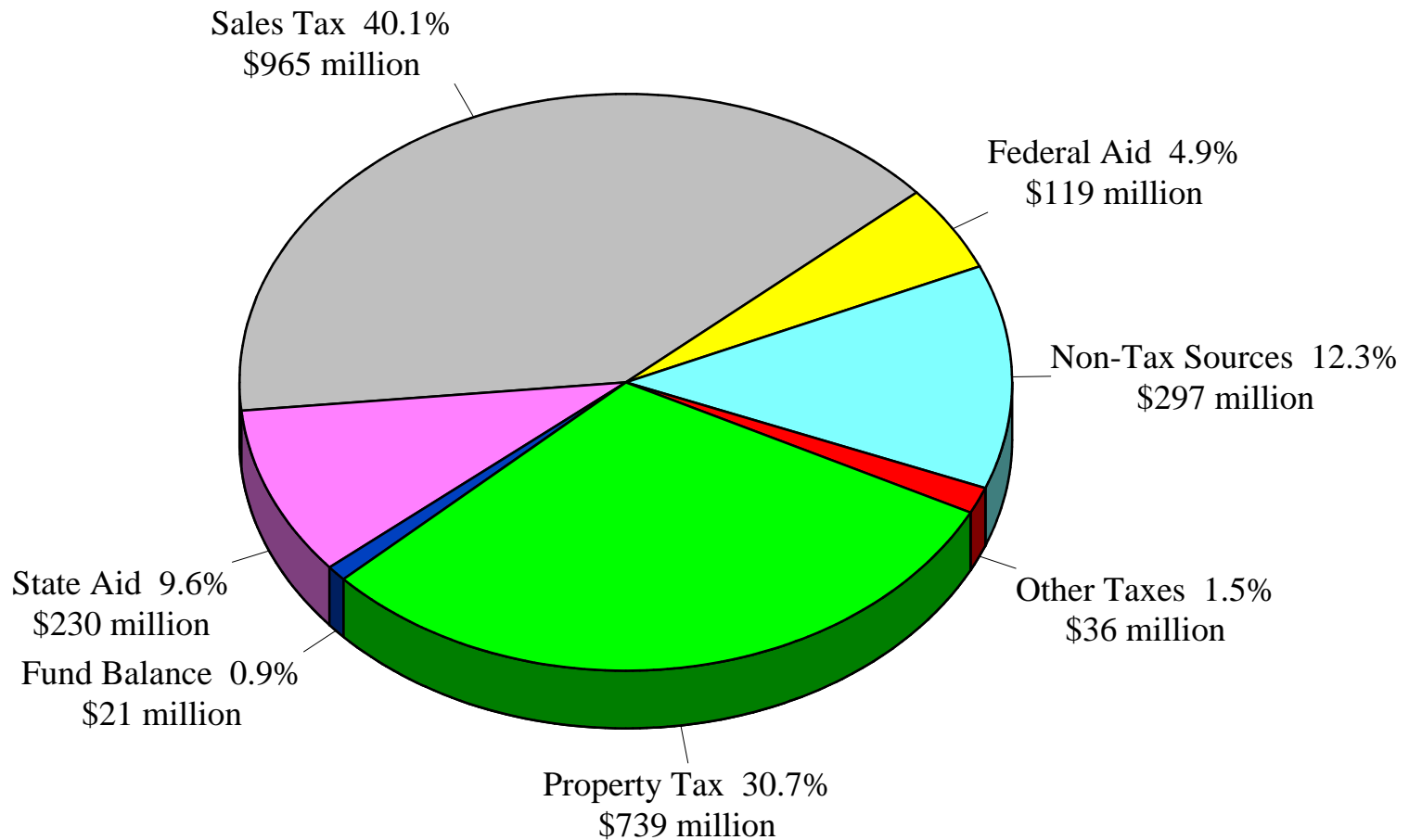
## NASSAU COUNTY 2005 BUDGET

### EXPENSES

| Department   | 2004 Adopted         | % of<br>Total | 2005<br>Executive<br>Budget | % of<br>Total | Change from<br>2004 to<br>Executive | % Change<br>from<br>2004 to<br>Executive |
|--|----------------------|---------------|-----------------------------|---------------|-------------------------------------|--|
| Debt Service   | 322,115,786          | 13.4%         | 313,613,630                 | 13.0%         | (8,502,156)                         | -2.6%                                    |
| Fire Commission  | 16,448,959           | 0.7%          | 17,091,391                  | 0.7%          | 642,432                             | 3.9%                                     |
| Police District  | 285,687,929          | 11.9%         | 293,728,401                 | 12.2%         | 8,040,472                           | 2.8%                                     |
| Police Headquarters  | 260,998,158          | 10.8%         | 268,592,854                 | 11.2%         | 7,594,696                           | 2.9%                                     |
| Recreation, Parks and Museums  | 30,210,968           | 1.3%          | 36,079,159                  | 1.5%          | 5,868,191                           | 19.4%                                    |
| <b>Major Funds Subtotal</b>  | <b>2,293,721,939</b> | <b>95.3%</b>  | <b>2,406,909,903</b>        | <b>100.0%</b> | <b>113,187,964</b>                  | <b>4.9%</b>                              |
| <b>Interfund Charges (2003) &amp; Interdepartmental<br/>Charges (2004)</b> | <b>54,024,099</b>    |               | <b>69,489,517</b>           |               | <b>15,465,418</b>                   | <b>28.6%</b>                             |
| <b>Debt Service</b>  | <b>28,144,933</b>    |               | <b>25,278,805</b>           |               | <b>(2,866,128)</b>                  | <b>-10.2%</b>                            |
| <b>Total Major Funds</b>   | <b>2,707,094,742</b> |               | <b>2,822,202,539</b>        |               | <b>115,107,797</b>                  | <b>4.3%</b>                              |
| Information Technology   | 19,900,000           |               | 0                           |               | (19,900,000)                        | 0  |
| Nassau Community College   | 158,054,712          |               | 162,458,848                 |               | 4,404,136                           | 2.8%                                     |
| Sewer and Storm Water District   | 373,256,706          |               | 302,649,406                 |               | (70,607,300)                        | -18.9%                                   |
| <b>All Funds Total</b>   | <b>3,258,306,160</b> |               | <b>3,287,310,793</b>        |               | <b>29,004,633</b>                   | <b>0.9%</b>                              |

# FY 05 Revenue Budget By Category

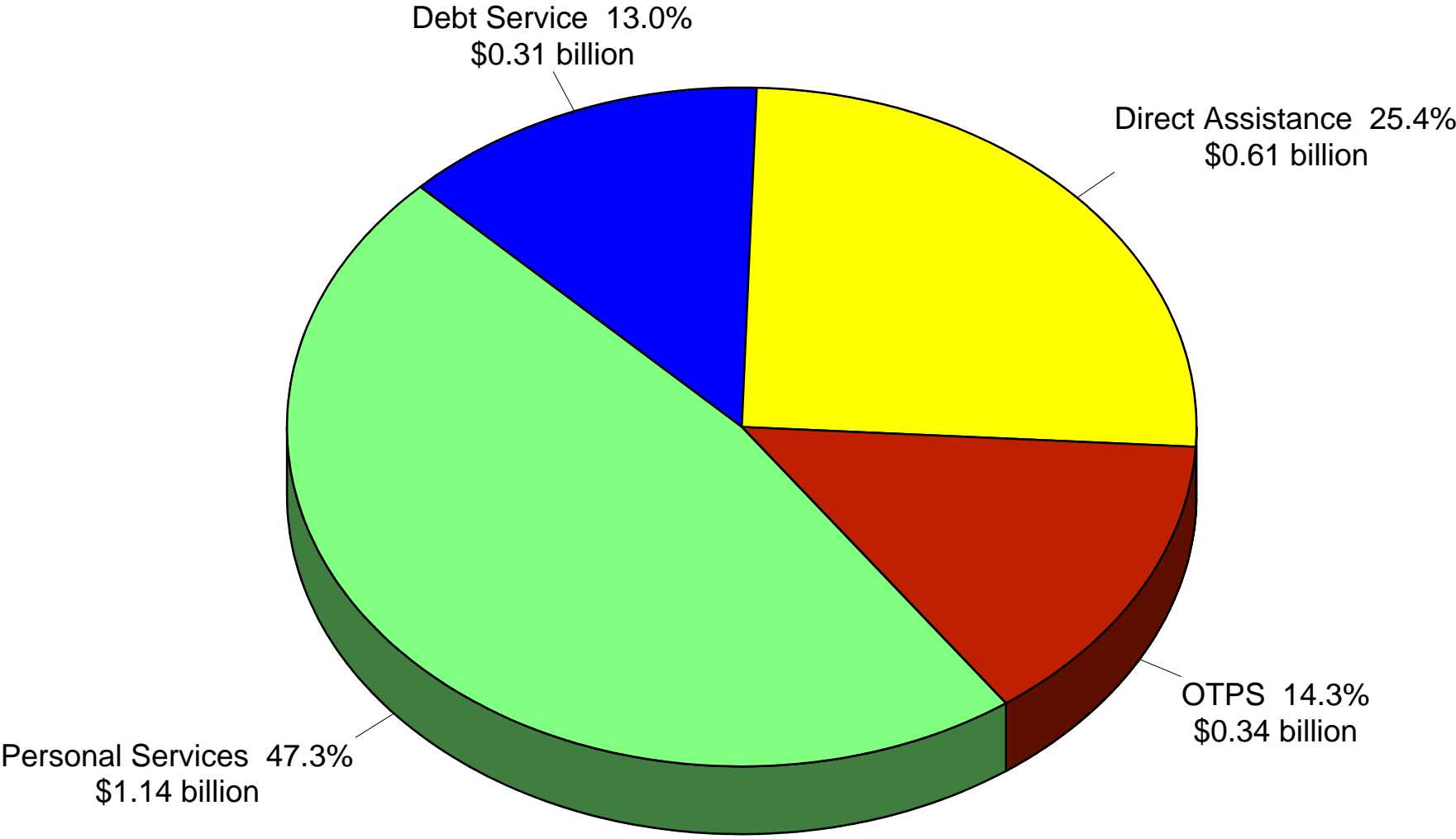
(\$2.4 Billion)



Data reflects major funds and excludes inter-dept revenues.

# FY 05 Expense Budget By Category

(\$2.4 Billion)



Data reflects major funds and excludes inter-dept charges.

# FY 05 Proposed Budget

| <b>Revenue</b>             | <i>General Fund</i>  | <i>Parks</i>      | <i>Fire</i>       | <i>Police Headquarters</i> | <i>Police District</i> | <i>Debt Service</i> | <i>Total</i>         |
|----------------------------|----------------------|-------------------|-------------------|----------------------------|------------------------|---------------------|----------------------|
| <b>Fund Balance</b>        |                      |                   |                   |                            | 2,500,000              | 18,979,706          | <b>21,479,706</b>    |
| <b>Non-Tax Sources</b>     | 239,516,944          | 22,134,350        | 3,850,000         | 14,290,258                 | 5,382,145              | 12,002,971          | <b>297,176,668</b>   |
| <b>Federal Aid</b>         | 118,362,866          |                   |                   | 334,000                    |                        |                     | <b>118,696,866</b>   |
| <b>State Aid</b>           | 229,200,533          |                   | 100,000           | 589,435                    |                        |                     | <b>229,889,968</b>   |
| <b>Sales Tax</b>           | 964,657,090          |                   |                   |                            |                        |                     | <b>964,657,090</b>   |
| <b>Property Tax</b>        | 113,681,277          | 46,478,763        | 15,965,170        | 258,231,378                | 304,354,521            |                     | <b>738,711,109</b>   |
| <b>Other Taxes</b>         | 12,870,000           | 975,000           |                   | 22,453,495                 |                        |                     | <b>36,298,495</b>    |
| <b>Sub-total</b>           | <b>1,678,288,710</b> | <b>69,588,113</b> | <b>19,915,170</b> | <b>295,898,566</b>         | <b>312,236,666</b>     | <b>30,982,677</b>   | <b>2,406,909,902</b> |
| <b>Inter-Dept Revenues</b> | 120,040,072          |                   |                   | 11,720,186                 | 901,426                | 282,630,953         | <b>415,292,637</b>   |
| <b>Total</b>               | <b>1,798,328,782</b> | <b>69,588,113</b> | <b>19,915,170</b> | <b>307,618,752</b>         | <b>313,138,092</b>     | <b>313,613,630</b>  | <b>2,822,202,539</b> |

| <b>Expenses</b>                     | <i>General Fund</i>  | <i>Parks</i>      | <i>Fire</i>       | <i>Police Headquarters</i> | <i>Police District</i> | <i>Debt Service</i> | <i>Total</i>         |
|-------------------------------------|----------------------|-------------------|-------------------|----------------------------|------------------------|---------------------|----------------------|
| <b>PS</b>                           | 553,367,978          | 28,308,759        | 12,119,920        | 258,213,341                | 286,371,658            |                     | <b>1,138,381,656</b> |
| <b>OTPS</b>                         | 313,439,803          | 7,770,400         | 4,971,471         | 10,379,513                 | 7,356,743              | 500,000             | <b>344,417,930</b>   |
| <b>Direct Assistance</b>            | 610,996,687          |                   |                   |                            |                        |                     | <b>610,996,687</b>   |
| <b>Debt Service/NIFA Set Asides</b> |                      |                   |                   |                            |                        | 313,113,630         | <b>313,113,630</b>   |
| <b>Sub-total</b>                    | <b>1,477,804,468</b> | <b>36,079,159</b> | <b>17,091,391</b> | <b>268,592,854</b>         | <b>293,728,401</b>     | <b>313,613,630</b>  | <b>2,406,909,903</b> |
| <b>Debt Service Chargebacks</b>     | 257,352,147          | 18,349,426        | 866,079           | 5,217,906                  | 845,394                |                     | <b>282,630,952</b>   |
| <b>Inter-Dept Charges</b>           | 63,172,167           | 15,159,528        | 1,957,700         | 33,807,992                 | 18,564,297             |                     | <b>132,661,684</b>   |
| <b>Total</b>                        | <b>1,798,328,782</b> | <b>69,588,113</b> | <b>19,915,170</b> | <b>307,618,752</b>         | <b>313,138,092</b>     | <b>313,613,630</b>  | <b>2,822,202,539</b> |