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Office of Legislative Budget Review

Nassau County Legislative Chambers

Review of the Fiscal Year 2006 Budget & Multi-Year Plan

Executive Summary

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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 17, 2005

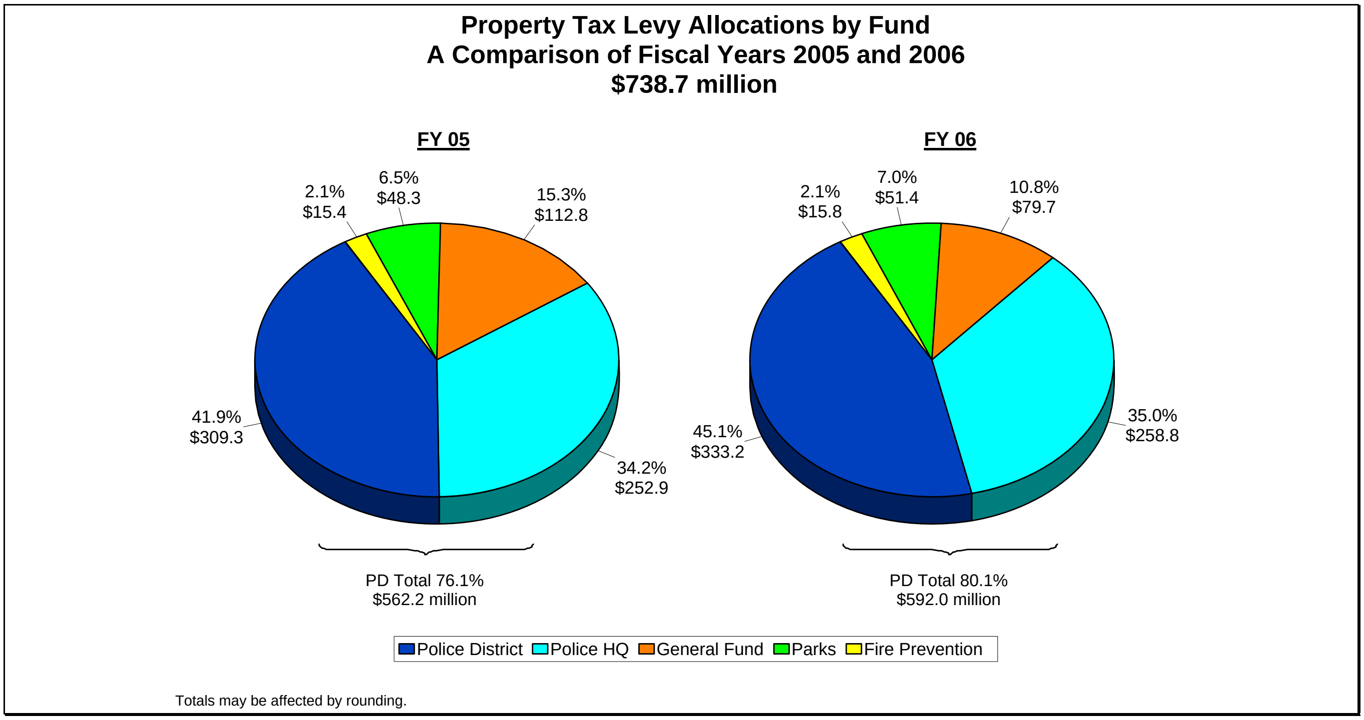
Re: Review of the FY 06 Budget and Multi-Year Plan: Executive Summary

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 Fiscal Year 2006 and Multi-Year Plan. Our report is made up of two parts: the enclosed Executive Summary, and a Departmental Analysis, which has been distributed separately.

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. This document will be made available to your constituents at www.nassaucountyny.gov/official/county/agencies/OLBR.

EXECUTIVE SUMMARY

The FY 06 Proposed Budget for the major funds is $2.4 billion, excluding inter-departmental chargebacks. This is a decrease of $12.7 million compared to the Adopted 2005 Budget. The budget fully funds all current staff, numerous vacancies, new positions, and mandated expenditures with an estimated sales tax growth of 3.2% on top of the 2.6% increase expected for FY 05. The estimated escalation 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 2006 Executive Budget is the same as the 2005 levy. The allocations for each fund have changed as illustrated below:



The share of property tax for the General Fund has decreased by $33.1 million, while funding for the police funds has increased by $29.8 million. The General Fund requires less revenue from property taxes because of savings from the Medicaid Cap, but the police funds require additional funding to cover personnel costs.

In the FY 06 budget the Administration has recognized that the expense for overtime is much greater than they have purported the last few years. The major drivers of this expense were declining headcount and contractual constraints. Uniform headcount had been steadily decreasing in 2002 and 2003, which was in accordance with the Administration's plan to reduce overall staffing in the Department. That trend was reversed in January and July 2004 when the Department hired classes of 48 and 148 recruits respectively. There is currently another class of 142 cadets scheduled to graduate in October 2005 that should have a positive impact on overtime in the latter part of 2005 and rein in some of this expense. In addition, the Department plans to hire a class of 120 cadets November 1, 2005 and 140 cadets July 1, 2006. By doing this, the Department will be over their budgeted headcount of 2,650 uniformed personnel. They will be able to fund these additions through attrition savings that will be generated during FY 06 as officers retire. In recent history, attrition savings were needed to offset the overages in termination pay and overtime. However, with the creation of the Employee Benefit Accrued Liability Reserve Fund and by having a reasonable overtime estimate the attrition savings can be used for additional hiring.

With the addition of the November 2005 and the July 2006 class, offset by a normal level of retirements (100 officers in 2006) the Department should end 2006 with a sworn force of 2,710 to 2,725 officers. There was discussion at the Public Safety hearing of increasing the number of budgeted uniform positions to 2,800. Based on the testimony of the Administration, this would not be possible even if they wanted to because they have a capacity of 150 recruits at the academy and they do not have the manpower available to hold staggered classes.

Other departments that are scheduled to have a significant addition to personnel compared to their September 2005 headcount are Assessment, Consumer Affairs, the Correctional Center, Information Technology, Probation, Public Works, Social Services and Parks. For more information regarding these additions please see the OLBR Departmental Analysis.

Part of the strategy that has put the County on the path to fiscal recovery and long-term stability has been conservative revenue and expenditure estimates, coupled with strong fiscal management. This, along with NIFA transitional aid and debt restructuring has helped the County generate operating surpluses in each of the last few years. A component of the Multi-Year Plan (MYP) is leveraging these resources in order to fund the various on-going obligations, as well as transitioning to the use of operating funds, rather than debt issuance, to pay for tax refunds. Utilizing the 2004 operating surplus the County was able to establish an Employee Benefit Accrued Liability Reserve Fund and a Reserve for the Retirement of Bonded Indebtedness, containing $28.9 million and $25.2 million respectively, and increase the County's accumulated unreserved, undesignated fund balance by $9.5 million from $81 million to $90.5 million. Lastly, by the State approving the deferment of the pension payment date in 2004, the County was able to transfer $78.5 million to a Pension Contribution Reserve Fund. Clearly, without the use of these funds over the next few years, the County would face difficult choices regarding service cuts and/or revenue enhancement.

Another element of prior multi-year plans has been fiscal relief through a State cap on the growth in the local share of Medicaid expenses. With the passage of the Medicaid Cap by the Governor and the State Legislature, the Administration has reduced its out-year baseline costs associated with Medicaid, thereby reducing the anticipated gaps. The County's Office of Management and Budget has calculated that the Cap reduces the original estimated costs by $26.1 million in FY 06, $52.4 million in FY 07, $76.7 million in FY 08 and $106.9 million in FY 09. As these savings escalate in the out-years it will be easier for the County to transition itself to PAYGO financing of tax refunds. In order to bridge the gap, the Administration has identified $90 million of one-time resources labeled PAYGO/Medicaid Cap Transitional Funds. The funds come from the following sources:

I. 840 Account - $47.3 million

The Capital Projects Fund has an account, the 840 account, into which revenues such as state and federal grants are deposited for the purpose of retiring debt or paying debt service for various General Fund projects. It is estimated that $24.9 million from the balance of the account as of December 31, 2004 will be available and that another $22.4 million will be generated from 2005 to 2008.

II. Sewer and Storm Water - $15.1 million

The County's bond counsel has advised the County that storm water costs should be borne by the Sewer and Storm Water District and not by the County. The County charged the District for storm water expenses in FY 04, FY 05 and will continue to do so in the future. However, no charges were made in 2003, with an estimated value of $15.1 million.

III Medicaid Accrual - $13.5 million

Beginning January 1, 2006, the funding structure of the New York State Medicaid program will change from the counties paying fees for various Medicaid services to a system where the counties will pay regular installment contributions to the Medicaid program, independent of actual services. As a result of this change, Nassau and most of the other counties will not have to make a year-end Medicaid accrual in FY 05. It should be noted that the County will not receive any accrued Medicaid revenues either. It is estimated that the net benefit to the County will be $13.5 million.

IV. Reserve for retirement of Bonded Indebtedness - $14.1 million

This fund, authorized by the County Legislature, contains resources that can be used to retire debt or pay debt service. The County should have $14.1 million available after 2006 planned usage.

The Administration plans to use $50 million of the Transitional Funds in FY 06. Before the close of the 2005 fiscal year, the Administration will request that $50 million in current-year surplus funds be transferred into the Capital Project Fund to fund property tax refund payments in 2006. The balance will be used to reduce the projected gaps in 2007 and 2008.

A number of other actions will help balance the FY 06 budget. These include:

- The transfer of $10.9 million from the Bonded Indebtedness Reserve Fund to the Debt Service Fund. This Reserve, authorized by the County Legislature, contains resources that can be used to retire debt or pay debt service.
- The use of $29.2 million of the Retirement Contribution Reserve Fund to help fund the FY 06 pension obligation.
- NYSHIP passing on to local municipalities a Medicare Part D subsidy from the federal government for providing prescription drug coverage. It is estimated to be worth $10.4 million in the FY 06 budget.
- The use of $13.4 million of prior years' fund balance to pay for various one-time expenses, including funding a $5 million emergency "reserve".

In addition, to the emergency reserve, the County Executive has proposed using fund balance for other initiatives including:

1) $1 million to help villages, Chambers of Commerce and other groups to work with the County to develop "visions" for downtown redevelopment and other plans consistent with "New Suburbia".
2) $1 million for the County Executive's "Common Sense for the Common Good Agenda" to fund efforts to help prevent unintended pregnancies and to support women who face unintended pregnancies.

3) $1.5 million to entice Community Based Not-for Profits to join the County's "No Wrong Door" initiative.

4) $5 million that has been allocated for the Roslyn Fine Arts Museum.

While I do think that the FY 06 budget is manageable relative to its $2.4 billion size, because of the inclusion of funded vacancies and a $5 million "reserve", there are areas of concern in the Executive Budget:

- OLBR estimates that total County utility costs in 2006 will be $36 million, $2.8 million more than that which is included in the FY 06 budget. OLBR's utility cost estimate assumes that FY 05 utility costs will exceed budget by 4% and that in 2006 the price of oil-related products will rise by 10.5% on average.
- Sales tax has been hovering at a growth rate of approximately 2% this year; will it improve in the last quarter? Will it be at 3.2% in FY 06? Conservative budgeting for sales tax in the past has provided 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 the FY 06 estimate is not overly optimistic, it does stray from the conservatism that was prevalent in the past. The risk is approximately $7 million.
- The Governor has not signed legislation that would extend the County's entertainment ticket surcharge and parking violations surcharge. These generate revenue of approximately $4.8 million.
- Legislation has not been approved for the hotel/motel tax extender or new license fees for Consumer Affairs, for a total risk of $3.2 million.
- The FY 06 budget includes $5.7 million of savings from the proposed MOA with ShOA, which was subsequently rejected by the Legislature.
- The expense budget for the Correctional Center, including overtime, is based on maintaining a stable inmate population, and would be insufficient if the population grows significantly.
- County Clerk revenues which have been understated in the past may be overstated by $1 million in FY 06 based on the rising interest rate market.
- Parks revenue has a risk of $1.5 million.

The revenue from Parks, while small relative to the total County budget, is very troubling. The actual revenue has been consistently overstated. The table below illustrates Parks revenue since 2002.

	2002	2003	2004	Projected 2005	Budget 2006
Actual	$14,734,659	$13,645,776	$14,097,339	$15,500,000	
Budget	15,858,654	18,798,975	18,546,300	20,349,350	17,106,874
Surplus/(Deficit)	($1,123,995)	($5,153,199)	($4,448,961)	($4,849,350)	

It has to be acknowledged that most of the risks listed above are not the result of bad estimates, but reflect circumstances that are out of the control of the County. The out-years gaps estimated by the Administration as illustrated in the chart below are $175.3 million in FY 07, $230.0 million in FY 08 and $272.3 million in FY 09. The multi-year plan is manageable for 2007, but requires further difficult decisions to balance 2008 and 2009.

Multi-Year Plan Projections
($'s in millions)

	2005	2006	2007	2008	2009	Average Change
Revenues						
Fund Balance	$20.0	$13.4	$0.0	$0.0	$0.0	-100.0%
Non-Tax Sources	339.9	322.9	304.9	292.2	294.0	-3.6%
Federal Aid	115.6	114.9	118.5	123.0	127.6	2.5%
State Aid	216.7	170.8	174.7	178.7	182.9	-4.1%
Sales Tax	964.7	1,001.8	1,027.7	1,060.5	1,094.5	3.2%
Property Tax	745.9	738.7	738.7	738.7	738.7	-0.2%
Other Taxes	36.5	34.8	35.0	35.1	35.3	-0.9%
Total Revenues	**$2,439.3**	**$2,397.2**	**$2,399.4**	**$2,428.2**	**$2,473.0**	**0.3%**
Expenses						
PS	$1,148.5	$1,202.8	$1,290.4	$1,342.2	$1,401.5	5.1%
OTPS	479.3	355.9	403.1	411.0	418.8	-3.3%
Direct Assistance	573.2	549.0	567.4	585.8	605.3	1.4%
Debt Service	176.7	289.5	313.8	319.2	319.6	16.0%
Total Expenses	**$2,377.8**	**$2,397.2**	**$2,574.7**	**$2,658.3**	**$2,745.3**	**3.7%**
Surplus/Gap Projection	**$61.5**	**$0.0**	**($175.3)**	**($230.0)**	**($272.3)**	

NIFA Set-Asides have been included with the Debt Service expenses
2005 Based on OMB August 31, 2005 Financial Report.
2005 property taxes includes deferred sales tax revenue and extra property tax collections.
Totals may be affected by rounding.

Over the course of the MYP, compared to current OMB projections, salaries, health insurance and pension contributions will continue to place a burden on the County's largest revenue source, sales tax.

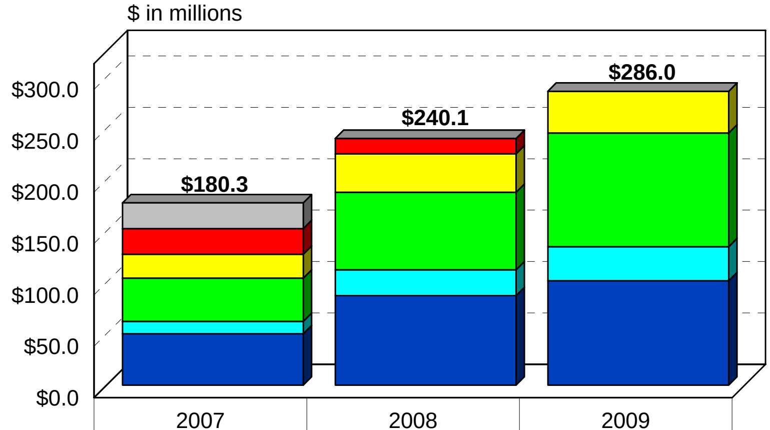
- Salaries and wages will increase by $140.6 million, from a projected amount of $796.6 million in FY 05 to an estimate of $833.2 million in FY 06 to $937.2 million in FY 09. This translates to an annual increase of 4.1%. It should be noted that each of the various labor agreements will lapse prior to the end of the MYP. The Administration has established "savings" goals for each of the various unions.

- Health insurance for active and retired employees will increase by $51.9 million, from a projected amount of $164.0 million in FY 05 to an estimate of $177.5 million in FY 06 to $215.9 million in FY 09. This is based on rates growing by a blended average of 7.1% annually. While I am comfortable with the FY 06 estimate, the out-year rates of growth are lower than the rates included in recent plans.
- Pension contributions will increase by $40.0 million, from a projected amount of $76.7 million in FY 05 to an estimate of $76.1 million in FY 06 to $116.7 million in FY 09. Salary and rate increases are partially responsible for this increase. The County's actual bill will be approximately $111.7 million in FY 05. The FY 05 projection of $76.7 million does not reflect the use of $35 million from the Retirement Contribution Reserve Fund and the FY 06 budget does not reflect the use of $29.2 million.
- The increase in OTPS expenditures of $69.3 million reflects the inclusion of $50 million annually in FY 07 – FY 09 to pay for tax refunds. The balance of the OTPS growth is an $8.4 million increase for utilities from an OMB projected amount of $32.7 million in FY 05 to $41.1 million in FY 09. In addition Local Government Assistance (sharing of sales tax) will rise by $7.9 million from $57.6 million in FY 05 to $65.6 million in FY 09.
- Sales tax will increase by $129.8 million, from a projected amount of $964.7 million in FY 05 to an estimate of $1.0 billion in FY 06 to $1.09 billion in FY 09.

The loss of revenue reflected in the Multi-Year Projection chart reflects one-time revenue in FY 05 for the FY 03 chargeback of sewer and storm water charges, the removal of tobacco proceeds after FY 07 and the loss of state aid as a result of the changes in Medicaid. Also, the FY 05 projected state aid includes the final installment of transitional assistance payable under the NIFA act, worth $7.5 million. The County has applied for these funds by certifying the existence of a deficit in the Police District Fund, which has a different tax base from the County-wide operating funds. At this time it is not known if the State will release these funds to the County.

The County Executive has proposed six major gap-closing measures to continue the County's financial recovery. These measures are illustrated in the graph on the next page:

Gap Closing Measures
2007 - 2009



	2007	2008	2009
Pension Reserve/Pre-fund Debt	$24.9	$0.0	$0.0
Paygo/Medicaid Cap	$25.0	$15.0	$0.0
Initiatives	$23.2	$37.4	$40.7
Property Tax	$42.2	$75.5	$110.7
Sales Tax Growth	$12.0	$25.0	$33.0
Labor Savings	$50.0	$87.2	$101.6

The largest component of the gap closing measures in the plan is **Property Tax,** with a value of $110.7 million in FY 09. The increase from property taxes captures the value of new construction and a CPI-related increase in the total property tax levy in each year of the Plan.

<u>Capturing the Value of New Construction</u>

The Administration proposes adjusting the base levy in the County's operating budget to capture the value of new construction, offset by any decreases, that has occurred in Nassau County since 2002. The value of this proposal is $13.3 million in FY 07, $16.6 million in FY 08 and $20.7 million in FY 09. The Administration has estimated that the value to the FY 06 budget is $10.0 million, although the total levy will remain at the same $738.7 million level it has been since FY 03. It could be argued that the County's taxable assessed valuation, upon which the annual tax levy is based, has always had a component of new construction in it.

<u>CPI- Related Property Tax Increase</u>

The FY 2005 – 08 MYP submitted by the County Executive in September 2004 had two scenarios for a property tax increase that were linked to a cap on the local share of Medicaid spending in 2006. The first scenario stated that if a cap was successful, property taxes would increase by 0% in FY 06, 1.5% in FY 07 and 1.9% in FY 08. The second scenario stated that if the cap was not granted then the property tax increase would be greater. It would require a 3.9% increase in 2006, followed by a 4.9% increase in 2007 and an additional 4.9% increase in 2008.

The State did agree to a cap on the liability of counties for future Medicaid cost growth starting in FY 06. The property tax scenario outlined last year has been altered as follows:

- FY 06 - 0% property tax increase
- FY 07 - 3.9% property tax increase worth $28.9 million
- FY 08 - 3.9% property tax increase worth an additional $30.0 million
- FY 09 - 3.9% property tax increase worth $31.1 million that year, for a three year cumulative impact of $90.0 million

The second largest gap closing component of the plan comes from **Labor Savings**. The Administration is estimating $24.6 million in savings from labor concessions and $25.4 million from workforce management and turnover savings, for a total labor savings of $50 million in FY 07. These savings escalate to $48.5 million and $38.7 million for a total of $87.2 million in FY 08. In FY 09 the savings are $50.2 million and $51.4 million, for a total of $101.6 million. The County has existing agreements with the Civil Service Employees Association (CSEA), Patrolmen's Benevolent Association (PBA), the Detectives Association Inc (DAI), and the Superior Officers Association (SOA). The Sheriff Officers Association (ShOA) contract expired December 31, 2004. The Administration did seek approval of a proposed agreement with ShOA in September 2005, but that agreement was not approved by the Legislature. However, the negotiated "savings" have been incorporated into the Administration's out-year baseline assumptions. Those "savings" are $5.7 million in FY 06, $3.0 million in FY 07, $7.1 million in FY 08 and $5.9 million in FY 09. The Administration and ShOA are currently in the process of negotiating a new agreement, but it is unknown if they will be able to develop a proposal that achieves targeted "savings", and alleviates the fear of a potential re-opener with the various police unions. The chart below illustrates the targeted "savings" for the other unions. Savings start in FY 08 for SOA and CSEA because their labor agreements do not expire until the end of 2007.

Union	FY 07	FY 08	FY 09	Total
PBA	$18.0	$18.7	$19.4	**$56.1**
DAI	6.6	6.9	7.2	**20.7**
SOA	0.0	8.9	9.2	**18.1**
CSEA	0.0	14.0	14.4	**28.4**
Total	**$24.6**	**$48.5**	**$50.2**	**$123.3**

The Administration is hoping to achieve $13.2 million of the above savings in FY 08 by negotiating the transfer of County employees from Core Plus to Core health insurance coverage.

The Administration expects to achieve workforce management savings by carefully managing the size of the workforce and limiting hiring to only critical needs. The plan is to have a steady headcount of sworn police personnel and correctional officers. This means 100 percent backfilling within these bargaining units, but for the CSEA the plan is to backfill one out of three positions that become vacant through 2009. The Administration has calculated that this will yield a headcount reduction of 560 positions compared to the expected January 1, 2006 headcount, as demonstrated in the chart on the next page.

Category	Projected Full-time Headcount Jan-06	Jan-07	Jan-08	Jan-09	Dec-09
PBA	1,803	1,803	1,803	1,803	1,803
DAI	425	425	425	425	425
SOA	422	422	422	422	422
ShOA	1,051	1,051	1,051	1,051	1,051
CSEA	4,689	4,549	4,409	4,269	4,129
Ordinance	645	645	645	645	645
Elected Officials	24	24	24	24	24
Board Members	7	7	7	7	7
Total	**9,066**	**8,926**	**8,786**	**8,646**	**8,506**

Through this workforce management plan the Administration expects to save, including fringe benefits, $25.4 million in FY 07, $38.7 million in FY 08 and $51.4 million in FY 09. For further discussion please see the Labor Section within the Executive Summary.

Smart Government Initiatives have a value of $40.7 million in FY 09. They are summarized in the table below.

Responsible Dept	Initiative Name	2007	2008	2009
Assessment Review	Absentee Landlord Surcharge	$0	$5,733,693	$5,733,693
Assessment Review	Tax Certiorari Settlement Reform	500,000	500,000	500,000
Correctional Center	Increased Federal Inmate Aid	1,500,000	1,500,000	1,500,000
County Attorney	Commercial Tax Grievance Filing Fee	0	3,375,000	3,375,000
County Executive	Nassau Coliseum Redevelopment	1,500,000	1,500,000	1,500,000
Human Resources	Automated Time and Leave System	850,000	1,700,000	1,700,000
OMB	Contractual Services Review	1,000,000	1,000,000	1,000,000
OMB	Fee Increases	2,100,000	3,600,000	5,600,000
OMB	Grant Fund Reimbursements	2,000,000	2,000,000	2,000,000
OMB	State Reimbursement for Police Training	1,500,000	1,500,000	1,500,000
Parks	Parks Revenue Enhancement	2,000,000	3,000,000	4,000,000
Parks/Public Works	Advertising Revenue	325,000	575,000	825,000
Police	Police Overtime Reductions	2,000,000	2,000,000	2,000,000
Social Services	Persons in Need of Supervision (PINS)	1,006,873	1,057,217	1,110,077
Social Services	Medicaid Cost Containment	2,600,000	2,600,000	2,600,000
Social Ser./HHS Depts.	HHS Administrative Consolidation	1,778,544	3,278,544	3,278,544
Social Ser./HHS Depts.	Program Reductions	1,000,000	1,000,000	1,000,000
TPVA	Ticket Processing Surcharge	1,500,000	1,500,000	1,500,000
Total		**$23,160,417**	**$37,419,454**	**$40,722,314**

The Administration has removed some of the initiatives that were very doubtful, such as reimbursement from police patrolling the Long Island Expressway and reduced its expectations from some of their lofty goals. Another prior MYP initiative was savings from changing health insurance coverage, which is classified as a labor savings in the proposed FY 2006 – 09 MYP. The smart government initiatives still include proposals that will require various levels of legislative approval such as an absentee landlord surcharge and a commercial tax grievance filing fee, which creates a potential risk in the out-years. Further discussion of each initiative is included with its responsible department in the OLBR Departmental Analysis document.

The Proposed Budget and Multi-Year Financial Plan assumes a 3.2% annual growth rate in sales tax revenues. Any annual sale tax growth rate greater than 3.2% 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, including additional growth in 2006, the County would collect an additional $15.0 million in 2007, $25.0 million in 2008, and $33.0 million in 2009. Based on economic indicators and recent trends, this is an optimistic assumption, but not unreasonable when viewed in a broader historical context.

The County plans to use $25 million of the PAYGO/Medicaid Transitional Funds in FY 07 and the estimated balance of $15 million in FY 08. There are two gap closing measures that are scheduled to impact the 2007 budget year only. The County will draw down $14.9 million from the **Pension Contribution Reserve Fund** in 2007. Also, $10 million of prior years' operating surplus will be used to **pre-fund a debt service payment**, thereby reducing its obligations in 2007.

Assessment and Assessment Review Reform

> *The level of tax certiorari claims is a significant financial burden on the County. This burden is exacerbated because these claims are paid through the proceeds of borrowed funds, rather than being paid through operating revenues. – Nassau Interim Finance Authority, "Review of Adopted Multi-Year Financial Plan FY 2001 – 2004"*

At the time that report was issued, in December of 2000, less than six months after NIFA's creation, a fiscal monitor could look back at the previous decade and see the staggering scope of that burden:

Property Tax Refund Payments

Year	Judgements	Small Claims	Petitions	Total Dollars
2000	$66,997,019	$9,218,644	$1,400,758	$77,616,421
1999	$64,766,223	$10,758,968	$1,531,584	$77,056,775
1998	$92,638,883	$14,115,162	$1,618,042	$108,372,087
1997	$62,712,513	$15,878,474	$7,293,870	$85,884,856
1996	$120,693,634	$11,020,756	$1,895,484	$133,609,875
1995	$166,110,973	$13,155,912	$1,427,666	$180,694,551
1994	$80,921,549	$16,100,725	$2,016,268	$99,038,542
1993	$43,991,454	$6,160,472	$252,990	$50,404,916
1992	$44,768,047	$1,173,647	$341,315	$46,283,009
1991	$25,831,739	$1,391,050	$1,105,821	$28,328,610
1990	$26,853,300	$670,610	$795,965	$28,319,876
	$796,285,335	$99,644,420	$19,679,763	$915,609,518

It was obvious that this problem would have to be addressed as part of any plan to restore the fiscal health of the County. The NIFA legislation included specific language allowing the authority to issue bonds to finance tax certiorari settlements and judgments. In 2003 the NIFA statute was amended to authorize the continued financing of the County's tax certiorari settlements through 2007. A maximum of $15 million can be issued in 2006 and $10 million in 2007. From 2001 through 2005 (projected), a total of $724.4 million in NIFA bond proceeds will have been used to finance tax refunds, although that amount may increase depending upon the success of the Refund without Settlement program. In order to manage the refund expense using operating funds and just the small amount of borrowing that will be allowed over the next two years, the County has had to reduce the substantial backlog of unsettled tax grievances that had accumulated and improve the accuracy of the assessment roll.

Improving the accuracy of the roll began with the reassessment of the entire County, completed in time for the 2004 tax levy. The roll is now updated annually to keep the valuations current. The Department of Assessment has been contracting the annual update to an outside vendor, but has been gearing up to handle the work with its own staff. The department will also use in-house staff to defend its residential assessments in small claims assessment review proceedings.

The Assessment Review Commission (ARC) also plays an important role in reducing new liability. Changes in State law enabled ARC to make corrections to the roll for a full year before the bills go out. Through such corrections, the Administration estimates that ARC has avoided $207 million in refunds since 2002. By acting before the bills go out, the County is able to avoid having to make good on the taxes of the school districts, towns, and special districts.

Another factor that contributes towards limiting future liability is the use of transitional assessments for commercial properties, which phase in increases in valuation over five years. If the new assessment is challenged, the potential refund will be a fraction of what it would have been without the incremental steps. Residential properties are capped at 6% annual growth.

The backlog was tackled through the joint efforts of ARC, the County Attorney, and the Treasurer's office. These agencies were able to coordinate their efforts and accelerate the settlement process. Refund payments hit an all-time high in FY 04 of $184.9 million, and $187 million is targeted to be paid out in the current year. To the extent that the Refund without Settlement program is successful, the payouts in 2005 are likely to exceed the targeted amount.

The County Comptroller estimated the backlog liability to be $311 million as of the end of 2004, down from $387 million as of the end of 2003. The proposed Multi-Year Financial Plan Fiscal 2006 – 2009 describes the approach that will be taken going forward regarding the backlog:

> The backlog is never zero: All assessment systems generate errors and claims…The County's goal are to achieve a stable or declining backlog that is consistent with a projected payout of $50 million annually. The County estimates that its goal can be achieved if the starting backlog as of January 2006 is $235 million or less.

The Administration feels that it is on target to achieve that goal, based on the following assumptions:

Estimated Backlog 12/31/04	$311,000,000
Planned Payout 2005	(187,000,000)
Estimated New Liability	65,000,000
Estimated Backlog 12/31/05	$189,000,000

To ensure that the planned payout for FY 05 is attained while the County is still able to utilize debt financing, the County will pay unilateral refunds as needed based on valid claims without final settlement (the "Refund without Settlement" program). These unilateral refunds will be paid to an irreversible escrow account, where the money will be held on behalf of aggrieved property owners. . Even if some of these claims end up with an additional reduction, the County will have reduced its liability and made the payment during the time it could borrow the funds.

The estimated new liability of $65 million is the amount that will need to be paid in FY 06. Limited to $15 million that can be financed through the issuance of debt, $50 million will have to be paid from the Capital Project Fund.

The plan for the Transitional Funds is to utilize $50 million in 2006, $25 million in 2007, and $15 million in 2008. As reliance on the Transitional Funds decreases, the recurring benefit of the Medicaid cap will provide the savings to complete the transition to PAYGO financing of the tax refunds. The Medicaid cap will generate savings against the 2006 baseline of $26.1 million in 2006, $52.4 million in 2007, $76.7 million in 2008, and $106.9 million in 2009.

Conclusion

OLBR's review of the County Executive's Recommended Budget and MYP finds the County on surer fiscal footing than just five years ago. There are still some issues that could cause considerable budgetary pressures, most notably declining growth in sales tax, future labor agreements and the payment of tax refunds out of the operating budget. However, with the savings from the Medicaid cap, the budget gaps do not appear as daunting as in the recent past.

SALES TAX

The largest source of revenue for the County is sales tax. The current rate in Nassau is 8.625%, of which 4.0% is the State's share, 4.0% is the County's share, 0.375% goes to the Metropolitan Commuter Transportation District, and the remaining 0.25% is distributed to the towns and cities in the County. The sales tax is collected by the State, and distributed to the County on a regular basis.

The proposed sales tax revenue in the FY 06 Executive Budget is $1.0 billion. (This includes $6.0 million of deferred part County sales tax. Since it was collected in a prior year, it is not included in the baseline or out-year projections shown in the chart below.) This estimate was based on the assumption that sales tax revenue in FY 05 will come in on budget and that sales tax revenue will grow by 3.2% in FY 06. The 2006 – 2009 Multi-Year Financial Plan projects 3.2 % growth for the out-years as well. In the event that FY 05 receipts come up short, or that the rate of growth in FY 06 is less than anticipated, the proposed budget includes a $5.0 million designation of fund balance (in Miscellaneous) to cover a deficit of up to one half percent.

Fiscal Year	Actuals	Growth
2000	806,927,520	6.4%
2001	831,699,240	3.1%
2002	865,444,257	4.1%
2003	895,373,119	3.5%
2004	939,822,695	5.0%
Fiscal Year	**MYP Projections**	**Growth**
2005	964,657,090	2.6%
2006	995,795,474	3.2%
2007	1,027,660,929	3.2%
2008	1,060,546,079	3.2%
2009	1,094,483,554	3.2%

The Multi-Year Financial Plan includes as a gap-closing measure an assumption that sales tax will grow at an annual rate in the out-years of 4.0% rather than the lower rates built into the baseline. This measure is referred to as sales tax growth in line with historic averages. The lowest rate of growth experienced in the last ten years was 3.1%, in 1998 and 2001. The average annual growth over that period was 4.4%. Under this assumption the MYP projects additional revenue of $15.0 million in 2007, $25.0 million in 2008, and $33.0 million in 2009.

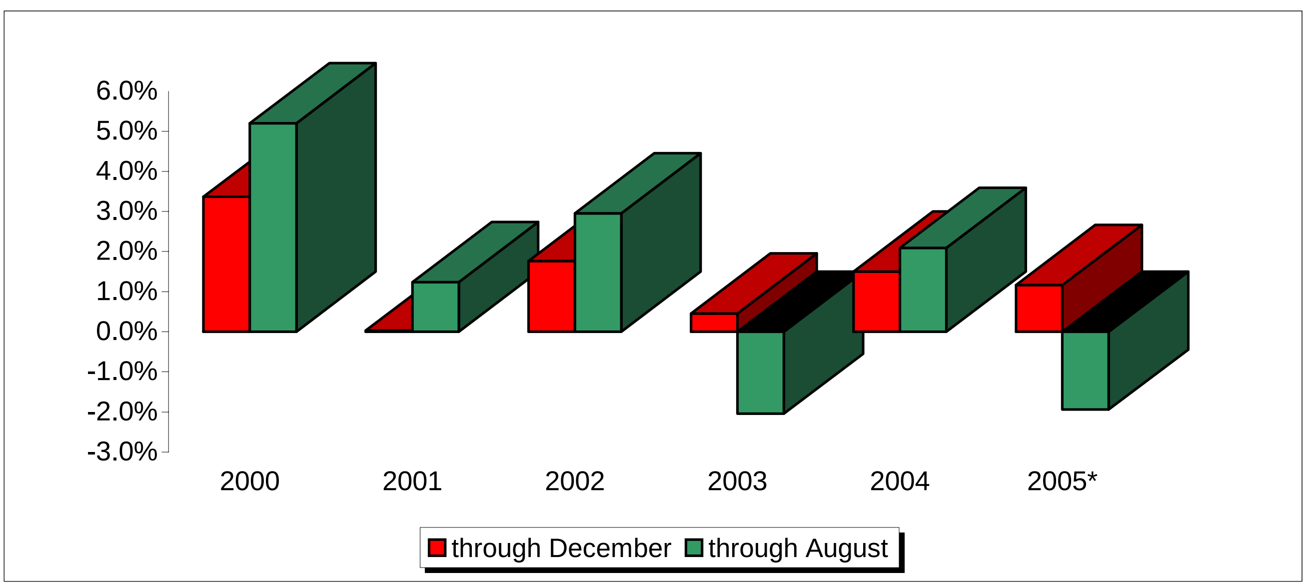
As can be seen in the chart on the following page, through August 2005 County sales tax collections are up 1.7% from the prior year. In order to reach the budgeted amount of $964.7 million, which was predicated on 2.6% growth over FY 04, collections over the next four months will have to increase by 4.4% over the same period last year. If the rate of growth continues at 1.7%, the year will end with a sales tax deficit of $8.6 million. The assumption of OMB that the FY 05 budget will be achieved may be optimistic.

Gross Sales Tax Collections

	2004	2005	$ Variance	% Variance
January	$59,925,388	$60,751,869	$826,481	1.4%
February	88,713,361	81,164,771	(7,548,590)	-8.5%
March	72,097,326	70,675,068	(1,422,258)	-2.0%
April	70,275,696	73,443,137	3,167,440	4.5%
May	89,394,448	94,821,624	5,427,177	6.1%
June	76,651,662	82,477,215	5,825,553	7.6%
July	71,640,001	73,685,916	2,045,915	2.9%
August	90,720,250	93,109,367	2,389,116	2.6%
	$619,418,132	$630,128,966	$10,710,834	1.7%

The 1.7% variance in year-to-date sales tax is based on nominal dollars. In real terms, holding prices constant in year 2000 dollars, year-to-date County sales tax collections are down 1.9%. This is not the first time that the County has experienced negative real sales tax growth through August. The chart below shows that in 2003 the County similarly recorded negative sales tax growth in real terms through August. However, in 2003, strong year-end spending enabled the County to register positive real sales tax growth by December. OLBR is expecting year-end 2005 sales to have the same impact as they did in 2003. OLBR is projecting FY 05 nominal sales tax growth of 1.9% and real sales tax growth of 1.2%. At that rate, collections will come in for the year at $957.2 million, or $7.4 million below budget. The chart below details real County sales tax collections through August and through December.

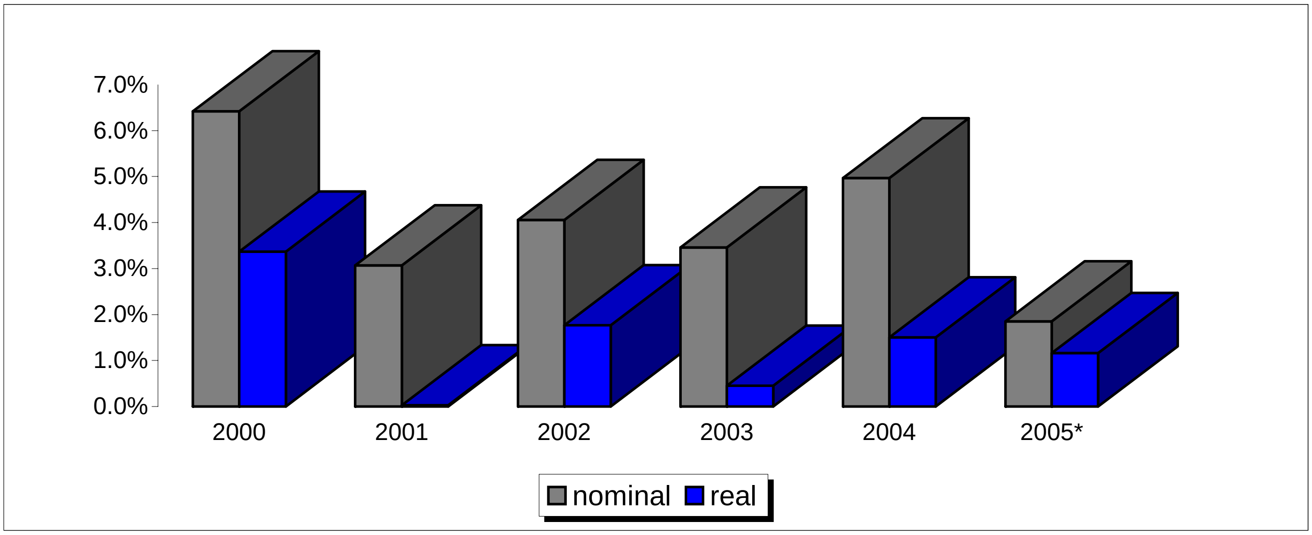
Year-To-Date through August Sales Tax Collections Compared to Year-End Sales Tax Growth, Real Terms



*2005 figure is a projection based on collections through August

As mentioned previously, OLBR is anticipating nominal FY 05 sales tax growth to be under budget by 0.75%. Starting with a lower baseline implies that nominal FY 06 sales tax growth will have to be 3.95% in order to make budget. The chart on the next page details annual County sales tax collections in both nominal, current dollar terms and real, chained dollar terms over the past six years.

Annual Change in County Sales Tax Collections in Nominal and Real Terms



*2005 figure is a projection based on collections through August

Achieving 3.95% nominal growth in FY 06 seems optimistic given analysts' predictions of real GDP growth and consumer price growth in 2006.

In the Mortgage Bankers Association's (MBA) post Hurricane Katrina forecast, real GDP growth in 2005 is estimated to be 3.4%. In 2006 the MBA is anticipating real GDP growth of 3.6%. Increased economic activity translates into increased consumer and business spending and thus, sales tax revenue.

The MBA is projecting 2005 consumer prices to increase 3.8% from the prior year. In 2006, they are forecasting consumer price growth of 2.2%. Since sales tax collections are a function of the price paid, as prices increase sales tax collections increase.

Supporting the increased economic activity will be non-agricultural job growth. According to Manpower Inc.'s most recent quarterly survey of Long Island employment, just over 40% of Long Island employers plan to hire in the fourth quarter of this year. Only 7% of Long Island employers expect to reduce payrolls in the fourth quarter of 2005. Since the survey was conducted prior to Hurricane Katrina, it is possible that those percentages are overstated. Job growth reflects increased business spending and enables increased consumer spending. Both increases result in greater sales tax revenues.

The previously mentioned projections are subject to several negative risk factors, which if materialized could make the budgeted FY 06 sales tax amount more of a challenge to achieve. Any greater than expected slowdown in either business or consumer spending could cause FY 06 County sales tax collections to fall short of budget. For more detail see the National Economic Outlook section of the

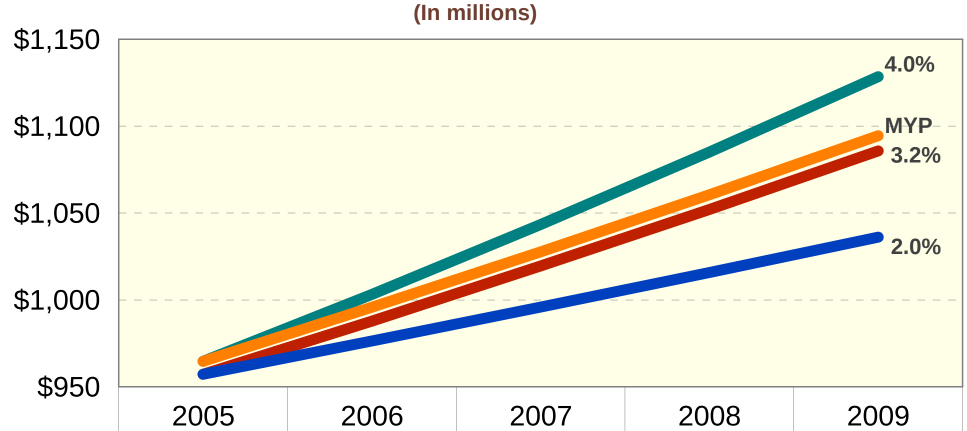
Economic Report. Additionally, approximately 20% of County sales tax revenues are collected during the holiday season, November and December. Since Internet sales remain tax exempt and have recorded explosive growth over the past few years, if Internet sales record a similar or greater increase during the 2005 holiday season, budgeted sales tax revenues could prove to be overstated. See below for an analysis of the estimated loss to the County from the Internet.

The chart below illustrates the risks and opportunities for County sales tax collections in the out-years of the financial plan. The conservative and moderate scenarios start with OLBR's FY 05 projection of $957.2 million. The out-year growth assumption for the conservative scenario is 2.0%, and for the moderate scenario, 3.2%. The Multi-Year Financial Plan scenario and the optimistic scenario start with FY 05 making budget; the MYP then grows at 3.2% in the out-years, while the optimistic scenario assumes 4.0%, as in the MYP gap closing measure discussed earlier.

Sales Tax Scenarios

FY 2005 - 2009

(In millions)



	2005	2006	2007	2008	2009
Conservative	$957	$976	$996	$1,016	$1,036
Moderate	$957	$988	$1,020	$1,052	$1,086
MYP	$965	$996	$1,028	$1,061	$1,095
Optimistic	$965	$1,003	$1,043	$1,085	$1,129

The Internet and County Revenues

This section seeks to quantify the revenue loss to the County attributable to the Internet. Online retail sales experienced double digit growth in 2004. According to Shop.Org, a private research firm, online retail sales grew 23.8% in 2004 and are forecasted to grow 22% in 2005.[1] More people are going online, spending more time online, and completing more tasks online. As of May 12, 2005, the Harris Poll estimates that 74% of American adults have Internet access. That is up from 73% in the summer of

[1] "Online Retail Sales, Profitability Continues Climb, According to Shop.Org/Forrester Research", Press Release, Shop.Org, May 24, 2005.

2004.[2] Additionally, this past holiday season e-tailers reported that total online sales jumped 25% over the same time period of the previous year.[3] Moreover, it has been found that the tax exemption applied to Internet purchases is causing more individuals to buy online. As reported by Levine (2005), one in four individuals, or 24% of the number of online buyers, would stop buying on the Web if sales were taxed similarly to those in conventional "brick and mortar" retail settings.[4] Since the Internet remains tax exempt, Nassau County continues to lose collections on several revenue sources. This section seeks to quantify the revenue loss to Nassau County stemming from the Internet. It discusses a new method utilized by the State to collect use taxes, new revenue loss estimates on taxing Internet access, and updated Census Bureau data on Internet purchases.

I. Taxing Internet Sales

Purchases made out of state, either online or via mail order, continue to be tax exempt if the business selling the item does not have a nexus, physical presence, in the purchaser's state. The revenue loss to municipalities continues to grow as more consumers obtain Internet access and choose to make purchases online.

According to the U.S. Census Bureau's most recent E-commerce Multi-sector Report, e-commerce continues to grow as a percentage of total sales. In 2003, the manufacturing sector continued to be the heaviest user of e-commerce, with 21.2% of all shipments being made through e-commerce. The merchant wholesale sector was second to the manufacturing sector with 13.1% of total sales being made via e-commerce. However, it was the sector to experience the greatest growth in terms of the dollar value of sales. The retail and service sectors also recorded increases in the usage of e-commerce. In the retail sector 1.7% of all sales were made via e-commerce and in the service sector 1.0% of total sector revenue was generated through e-commerce.[5] The chart below details the specific industries which recorded the highest volume of Internet sales as a percentage of total industry sales.

Items Most Typically Brought On-Line
*where 40% or more of total industy sales occur via the internet

Description	2003 E-commerce as a percent of Total Sales
Books and Magazines	51.5%
Transportation Equipment Manufacturing	50.1%
Office Equipment and Supplies	49.9%
Drugs, Drug Proprietaries and Druggist Sundries	49.1%
Electronics and Appliances	48.6%
Music and Videos	45.3%
Sporting Goods	44.9%
Beverage and Tobacco Product Manufacturing	44.0%
Toys, Hobby Goods, and Games	41.6%
Furniture and Home Furnishings	41.4%

Source: U.S. Census Bureau, 2003 and 2002 Annual Survey of Manufactures and 2002 Economic Census

[2] "Almost Three-Quarters of All U.S. Adults – An Estimated 163 Million – Go Online", The Harris Poll, # 40, May 12, 2005.
[3] Hanford, Desiree J., "Online Shopping During Holiday Increased 25%", The Wall Street Journal, January 4, 2005.
[4] Levine, Helisse, "Taxation and Consumer Behavior", Handbook of Public Sector Economics, Taylor & Francis Group, 2005.
[5] "2003 E-commerce Multi-sector Report", U.S. Census Bureau, May 11, 2005.

To estimate the revenue lost by Nassau County from e-commerce purchases, the Census Bureau 2003 E-Commerce percentages were applied to the dollar value of Nassau County sales done in each sector. We annualized the actual Nassau County taxable sales data by industry compiled by the New York State Department of Taxation and Finance. This data was available for the years 1995 through 1999. This provided us with historical data for both business-to-consumer sales and business-to-business sales. We found that the percentage of sales by industry has not varied greatly from year to year and thus we were able to extrapolate the taxable sales by industry data for years 2000 through 2004. Next, using the percentage of total U.S. retail, wholesale, manufacturing and service sales done via the Internet in the United States calculated by the U.S. Census Bureau, we computed the lost County sales in each industry. We then took 4.25% of the total sales to arrive at the total lost County sales tax collections. To reflect the fact that the County currently receives some sales tax revenues from remote entities that either voluntarily chose to remit payments or those with a nexus in the state, we adjusted the County sales tax loss estimate downward. A study completed by the University of Tennessee detailing lost governmental revenues due to the Internet, found that on average 30% of Internet sales are taxed. A second calculation was done assuming that 45% of all Internet sales are taxed. The higher percentage was incorporated to reflect the fact that an increasing number of businesses are collecting sales tax to allow Internet buyers to make returns and exchanges at their local store. A second adjustment was made to reflect the fact that the County collected use tax payments on some Internet purchases through individual income tax returns. These calculations yielded a Nassau County revenue loss of $17.65 million for 2004. The results of these analyses are shown at the end of this section.

Municipalities are aware of the increasing revenue loss attributable to e-commerce and many have elected to join the Streamlined Sales Tax Project that aims at simplifying sales taxes so that collecting sales tax on items brought online or through mail-order can easily be implemented. On October 1, 2005, Internet sales tax will go live in 18 states, which have passed laws simplifying and harmonizing their sales tax system. However, payment of the tax will be voluntary, and the retailer will now have the benefit of simplification and computerization.[6] New York State has joined the project but has not simplified its sales tax system. The group has selected a vendor to offer a system to collect and report taxes for businesses. The idea is to have “certified service providers” go out to individual businesses and provide the software and assistance necessary to set it up so that even a small business with no tax department could collect taxes. The project will pay for the cost of the collection software. The states will provide the certified service provider with their simplified state tax database. If there are any rate errors in the collection process, the individual businesses will not be held liable.[7]

II. Taxing Internet Access

Currently, there is a federal moratorium on tax Internet access, the charges paid to Internet service providers (ISPs). The moratorium produces an opportunity cost for the County since other revenues streams may be taxed at greater rates due to the fact that the County cannot pursue that avenue. The moratorium limits the County’s ability to diversify its tax base.

An analysis was completed to estimate the revenues that the County would collect if the moratorium on taxing Internet access was not extended or eliminated. A survey of local Internet providers found that

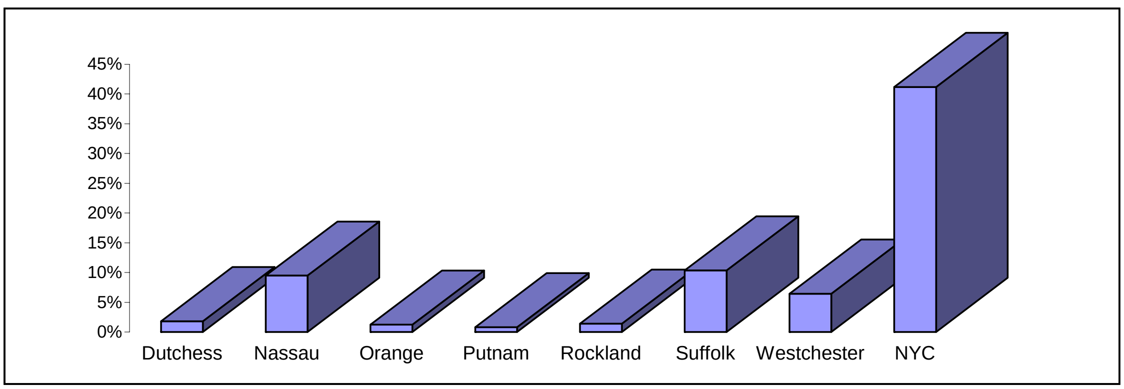
[6] “Ready for Prime Time: Internet Sales Taxes are a Giant Step Closer”, Governing, August 2005.
[7] Perlman, Ellen, “The eTax Collector Cometh”, Governing, March 2005.

the average first year cost for Internet access was $289.29.[8] Using Census Bureau Nassau County household statistics and the national percentage of online adults, it was found that there are 331,066 County households with Internet access. Multiplying that figure by the average first year cost and then by the County's 4.25% sales tax rate reveals that the County would collect $4.1 million if it was able to tax Internet access.

III. Use Tax Collections on State Income Tax Forms

In 2004 New York and California joined with 18 other states that included a line on their income tax forms requiring taxpayers to declare the use taxes they owe on out-of-state purchases. According to the New York State Department of Taxation and Finance, in 2004 Nassau County collected $992,043 in use taxes from personal income tax returns. In 2005, based on year-to-date figures, Nassau County is expected to collect $937,838.86 in use tax payment made on individual income tax returns. The chart below details use tax collections from metropolitan area. In 2005 Nassau, Suffolk and New York City are projected to represent 61% of the local share of use tax receipts collected throughout the entire state.

County/City Percentage of State-Wide Local Share of Use Tax Payments, 2005 Projection



Source: New York State Department of Taxation and Finance

In conclusion, Nassau County is losing sales tax revenue as more individuals and businesses opt to make purchases online or via mail order. We estimate the 2004 loss from this to be $17.65 million. Nassau County is also losing sales tax revenues as Internet access remains exempt from taxation. We estimate this revenue loss to be roughly $4 million in 2005. However, in order to collect these monies, State and Local governmental approval is required.

[8] Survey performed by LowerMyBills.com.

Nassau County Internet Sales Revenue Loss 1998 -2005
$ in Millions

	1998	1999	2000	2001	2002	2003	2004	2005
Nassau Taxable Sales Grand Total, actual	$16,582	$17,004	$17,913	$19,018	$20,296	$21,071	$22,113	$22,699
Nassau Total Sales Tax Collections	$716	$758	$807	$832	$865	$896	$940	$965
Percentage of Total US sales done via Internet								
Wholesale Trade	7%	7%	9%	11%	12%	13%	13%	13%
Retail Trade	0%	1%	1%	1%	1%	2%	2%	2%
Manufacturing	18%	18%	18%	18%	19%	21%	21%	21%
Services	1%	1%	1%	1%	1%	1%	1%	1%
Sector sales as a % of Total Nassau Taxable Sales								
Wholesale Trade	6%	7%	6%	6%	6%	6%	6%	6%
Retail Trade	65%	65%	63%	63%	63%	63%	63%	63%
Manufacturing	4%	4%	4%	4%	4%	4%	4%	4%
Services	13%	14%	13%	13%	13%	13%	13%	13%
Nassau County Sales by Sector								
Wholesale Trade	$1,030	$1,131	$1,122	$1,191	$1,271	$1,320	$1,385	$1,422
Retail Trade	$10,730	$10,973	$11,371	$12,073	$12,884	$13,376	$14,038	$14,409
Manufacturing	$610	$605	$680	$722	$770	$799	$839	$861
Services	$2,181	$2,299	$2,324	$2,468	$2,633	$2,734	$2,869	$2,945
Total All Sectors	$14,550	$15,008	$15,496	$16,453	$17,559	$18,229	$19,131	$19,637
Lost Nassau County Sales by Sector								
Wholesale Trade	$74	$81	$99	$126	$155	$173	$181	$186
Retail Trade	$21	$55	$102	$133	$180	$227	$239	$245
Manufacturing	$110	$110	$122	$131	$148	$169	$178	$183
Services	$13	$14	$19	$20	$21	$27	$29	$29
Total All Sectors	$219	$260	$342	$410	$504	$597	$627	$643
4.25% of lost sales	$9	$11	$15	$17	$21	$25	$27	$27
Less 45% Already Taxed	($4)	($5)	($7)	($8)	($10)	($11)	($12)	($12)
Less Use Tax Collected on Income Tax							($1)	($1)
Lost County Revenues	**$5**	**$6**	**$8**	**$10**	**$12**	**$14**	**$14**	**$14**

* Percentages are based on the Census Bureau's Multi-Sector report which included percentages through 2003; the 2003 figures were used as proxy values for 2004 and 2005.
Source: New York State Department of Taxation and Finance and the US Census Bureau

ECONOMIC REPORT

National Economic Outlook

On September 20, 2005, the Federal Reserve Bank believed that the economy was on secure enough footing that it raised the overnight lending rate to 3.75%. This was the 11th rate increase since June 2004. The Federal Reserve wrote that more measured rate increases were likely in the coming months. The Federal Reserve sees higher energy and other costs as having the potential to add to inflation pressures.[1]

Forecasters expect economic growth as measured by real GDP and unemployment to continue through the end of 2005 and throughout 2006.

In a survey completed prior to Hurricane Katrina, professional forecasters polled by the Federal Reserve Bank of Philadelphia opined that output growth will continue through the end of the year and real GDP will end 2005 up 3.7% from last year's levels. The forecasters are expecting real GDP growth in 2006 to be up 3.4%.[2] The Mortgage Bankers Association similarly expects output growth to continue throughout the year. However, since their forecast was completed post Hurricane Katrina, they are predicting slightly slower output growth for 2005. They are projecting year end 2005 real GDP to be up 3.4%. According to the Mortgage Bankers Association, FY 06 will see real GDP grow 3.6%[3]

Both surveys similarly see national unemployment declining from 2005 through 2006. According to the Federal Reserve's survey, unemployment will end 2005 at 5.1% and fall to 4.9% by the end of 2006.[4] The Mortgage Bankers Association is projecting year-end 2005 national unemployment to be 5.1%. They are forecasting year-end 2006 national unemployment to be 5.0%.[5]

However, risks are present in the economy which if realized could make those projections unobtainable. As mentioned previously, interest-rates are higher than they were last year and are expected to continue to increase through 2006. Oil prices are higher than they were last year and are also expected to continue to increase through the winter months. Both of these forces will constrain both business and consumer spending which could dampen economic growth and County revenue collections.

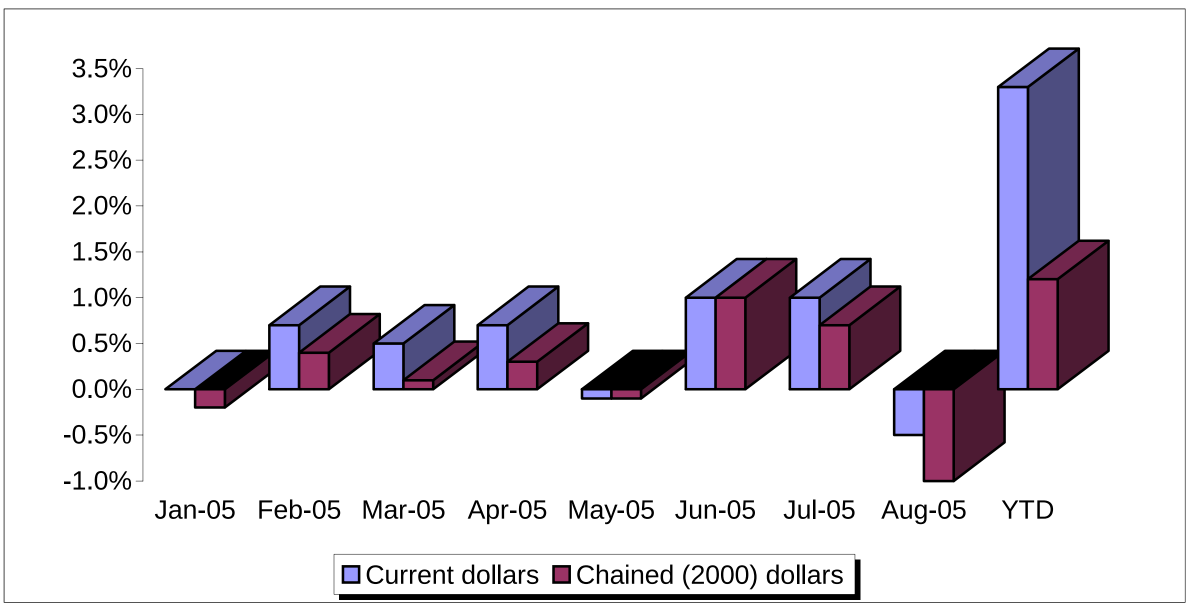
Higher interest rates impact everyone in many ways. As interest rates rise, payments on all adjustable rate loans rise. This makes it more difficult to keep up with monthly payments and to pay off the principle. The primary impact of higher interest rates is on the housing market where individuals have been using their home equity to finance many purchases. As interest rates rise, home appreciation will slow eliminating a funding source used by many. Additionally, according to the American Bankers Association, delinquencies on credit cards in the second quarter of 2005 hit a new record. The

[1] La Monica, Paul R., "Fed Raises Rates Again", CNN/Money.com, September 20, 2005.
[2] "Survey of Professional Forecasters, Forecasters See an Economy Poised for Stronger Growth", Federal Reserve Bank of Philadelphia, August 15, 2005.
[3] "MBA Economic Forecast", Mortgage Bankers Association, September 2005.
[4] "Survey of Professional Forecasters, Forecasters See an Economy Poised for Stronger Growth", Federal Reserve Bank of Philadelphia, August 15, 2005.
[5] "MBA Economic Forecast", Mortgage Bankers Association, September 2005.

association opined that high oil prices were the main force causing the record number of delinquencies; but higher interest rates do not help.[6]

High energy prices are expected to remain throughout the winter months. Just as gasoline prices are retreating, prices of natural gas and heating oil are forecasted to increase. Natural gas prices are projected to increase 64% this winter compared to last winter. Heating oil prices are expected to increase 33% compared to this time last year. The outlook for natural gas and heating oil is worse than that of gasoline since there is not much capacity for importing natural gas and heating oil from overseas.[7] Not only are higher energy prices forcing individuals into delinquencies, but also they cause individuals to reduce their discretionary spending. When individuals spend less economic activity is diminished and County sales tax collections fall. Using U.S. Bureau of Economic Analysis figures to decompose the national change seen in consumer spending reveals 36% of the 3.3% year-to-date increase seen in national personal consumption expenditures may be attributed to individuals purchasing more items. Conversely, 64% of the 3.3% year-to-date increase in national personal consumption expenditures may be attributed to higher prices. Thus, the majority of the increase in consumer spending may be attributed to higher prices. The chart below details the monthly changes seen in national personal consumption expenditures from both a nominal, (current dollar basis) and a real, (chained dollar basis).

National Personal Consumption Expenditure, Monthly Percentage Change



Source: U.S. Bureau of Economic Analysis

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 2006. However, there are reasons to assume that

[6] Sahadi, Jeanne, "Credit-Card Delinquencies Hit Record", CNN/Money.com, September 28, 2005.
[7] Isidore, Chris, "New Worry: Heating Sticker Shock Coming", CNN/Money.com, September 29, 2005.

regional growth 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. Our regional usage of heating oil and natural gas is greater than that of the nation as a whole. Additionally, as of July 27, 2005 the Nassau-Suffolk housing market was seen as having the second highest probability of a housing market decline in the nation. The ranking was compiled by the PMI Mortgage Insurance Company.[8]

Consumer Price Indexes

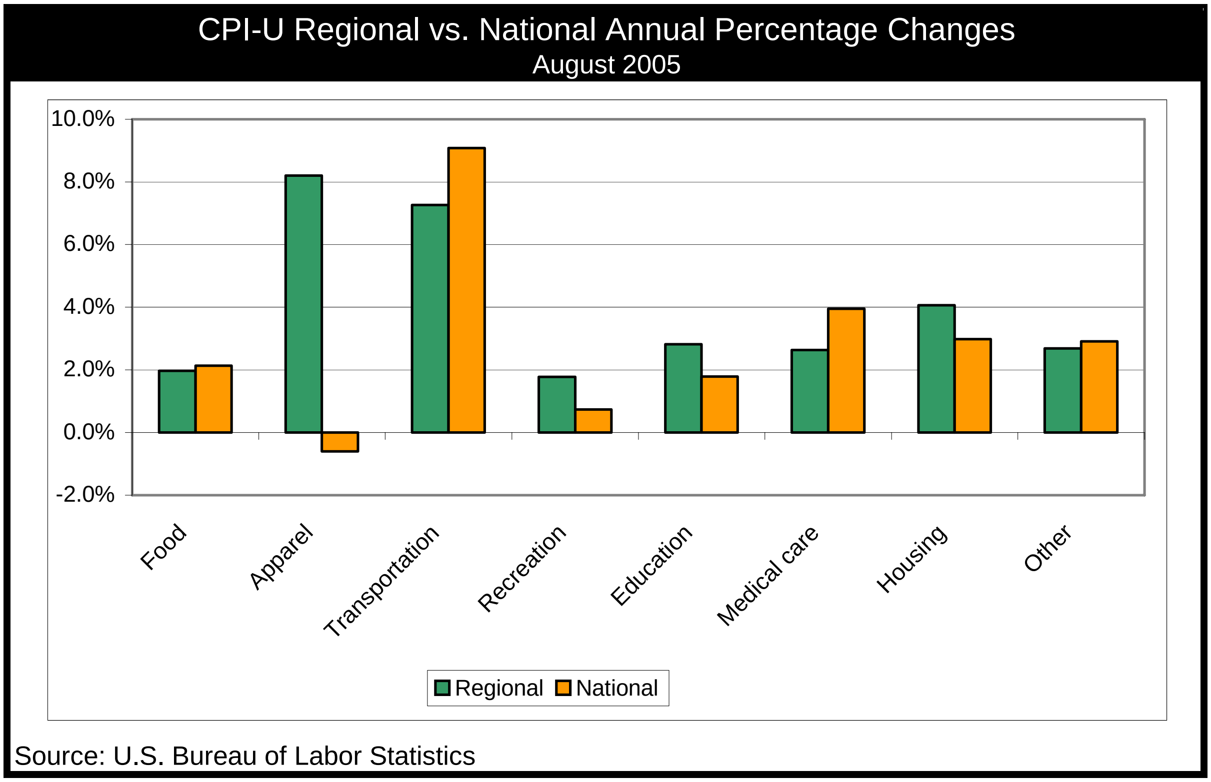
Consumer Price Indexes
New York-Northern Jersey-Long Island, NY-NJ-CT-PA region

	8/05	7/05	8/04	Change from Prior Month	Change from Prior Year
US City, CPI-U	196.4	195.4	189.5	0.5%	3.6%
Regional CPI-U	214.1	212.5	205.7	0.8%	4.1%
Core CPI-U (All Items less energy)	218.7	217.4	212.2	0.6%	3.1%
Medical	327.6	327.7	319.2	0.0%	2.6%
Housing	227.9	227.2	219.0	0.3%	4.1%
Gasoline (all types)	195.2	183.9	155.0	6.1%	25.9%

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

In August 2005, national and regional consumer prices rose from both a monthly and an annual perspective. Regional consumer price appreciation outpaced that seen nationally. From a regional perspective, the greatest consumer price appreciation was recorded in the gasoline (all types) index. At a national level, the price of gasoline escalated 31% from August 2004. High gasoline prices will be with us for the next few months as about half of the refining production lost due to hurricane Katrina has not been restored yet.[9] At a regional level, the price of gasoline increased roughly 26% from this time last year. The chart on the next page shows that apparel, recreation, education and housing prices propelled the regional index ahead of the national index.

[8] "Risky Housing Markets Becoming Riskier, According to PMI Mortgage Insurance Co.'s Summer Market Risk Index", PMI Mortgage Insurance Company, July 27, 2005.
[9] Isidore, Chris, "Rita's Economic Threat Wider than Energy", CNN/Money.com, September 23, 2005.



The chart above details the annual changes seen in the consumer price indices both nationally and regionally. Nationally, apparel prices were the only sector to record a decrease. Regionally, all sectors recorded an increase.

Consumer Confidence Index

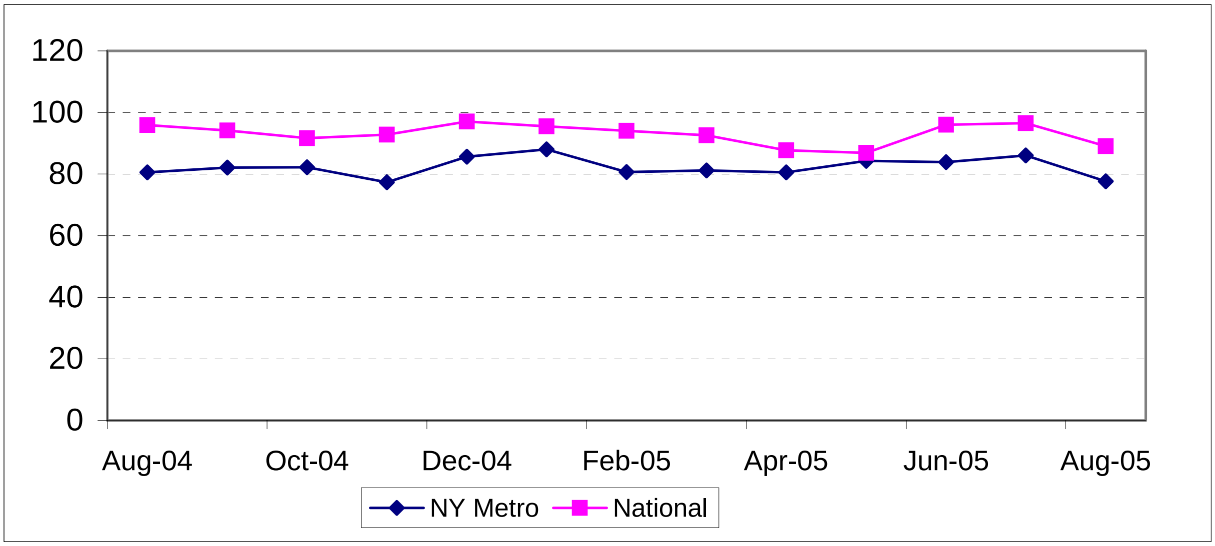
Consumer confidence hit a low in August 2005. All groups surveyed experienced a decline in consumer confidence. Dr. Douglas Lonnstrom, Director of the Siena College Research Institute, wrote "For the first time since we began tracking in 1999, Consumer Confidence is down for all groups, the nation, New York State, New York City, upstate, man, woman, young, old, high or low income, Democrat, Republican. This declining confidence is reflected in lower buying plans for the next six months. The problems in Iraq and the soaring costs of oil and gasoline leave little to be confident about".[10] The chart on the next page details the monthly changes seen in the regional and national consumer confidence indices.

[10] "New York State Sees Red: Consumer Confidence Down Absolutely Everywhere", Siena Research Institute, September 7, 2005.

Consumer Confidence Index
Metro NYC

8/05	7/05	8/04	Change from Prior Month	Change from Prior Year
77.6	86.1	80.6	-9.9%	-3.7%

100= average confidence



Sources: National, University of Michigan
Sources: Metro NYC, Siena College Research Institute

Coinciding with the drop in consumer confidence, August 2005 national retail sales fell 2.1% from the prior month. Much of the decline may be attributed to slow auto sales. Excluding sales of automobiles, the index of national retail sales rose 1%.[11]

Retail analysts are expecting sales growth to be more restrained through the end of 2005. Analysts are currently forecasting a decline in 2005 holiday retail sales growth. The National Retail Federation is projecting retail sales in the November-December 2005 time period to grow 5% compared to the last year. That is down 1.7% from 2004's holiday retail sales growth. Ernst & Young is also anticipating a slowdown in holiday retail sales growth. They see 2005 holiday retails sales growth to be in the 6 to 7 percent range, down from last year's 8.3% growth. The decline in sales growth is said to be the result of high gasoline prices and Hurricane Katrina.[12]

Local Area Employment Figures

August 2005 was a bad month on the employment front. When viewed from a monthly perspective, all areas surveyed had a decrease in both resident employment and civilian labor force. When individuals elect to leave the labor force it is seen as an indication of an unhealthy economy. Long Island's economy appears to be fairing better than that of New York City and the Nation since the civilian labor force has grown from an annual perspective on Long Island. On a positive note, the monthly declines in resident employment were not sizeable enough to erode the gains made over the past year.

[11] "Retail Sales Drop Driven by Cars", CNN/Money.com, September 14, 2005.
[12] Weber, Lauren, "Stingier Outlook for Holiday Shopping", Newsday.com, September 21, 2005.

The chart below details the changes seen in resident employment and unemployment from both a monthly and annual vantage point.

Comparison of Employment Statistics (figures in thousands)					
Nassau	**8/05**	**7/05**	**8/04**	**Change from Prior Month**	**Change from Prior Year**
Employed	678.6	682.4	671	-0.6%	1.1%
Unemployed	27.9	31.0	29.8	-10.0%	-6.4%
Unemployment rate	3.9%	4.3%	4.3%	-9.3%	-9.3%
Suffolk	**8/05**	**7/05**	**8/04**	**Change from Prior Month**	**Change from Prior Year**
Employed	756.7	761	748.2	-0.6%	1.1%
Unemployed	32.7	36.6	34.7	-10.7%	-5.8%
Unemployment rate	4.1%	4.6%	4.4%	-10.9%	-6.8%
NYC	**8/05**	**7/05**	**8/04**	**Change from Prior Month**	**Change from Prior Year**
Employed	3,529.7	3,542.4	3,478.3	-0.4%	1.5%
Unemployed	191.9	224.3	251.4	-14.4%	-23.7%
Unemployment rate	5.2%	6.0%	6.7%	-13.3%	-22.4%
Nation	**8/05**	**7/05**	**8/04**	**Change from Prior Month**	**Change from Prior Year**
Employed	143,142.0	143,283.0	140,226.0	-0.1%	2.1%
Unemployed	7,327.0	7,839.0	7,940.0	-6.5%	-7.7%
Unemployment rate	4.9%	5.2%	5.4%	-5.8%	-9.3%

Source: New York State Department of Labor and US Bureau of Labor Statistics

Nassau-Suffolk Non-agricultural Employment

Non-agricultural Employment Nassau-Suffolk Area (figures in thousands)					
	8/05	7/05	8/04	Change from Prior Month	Change from Prior Year
Natural Resources, Construction & Mining	69.1	68.4	68.6	1.0%	0.7%
Manufacturing	87.9	87.3	87.7	0.7%	0.2%
Wholesale Trade	73.0	72.7	72.9	0.4%	0.1%
Retail Trade	162.5	162.4	162.1	0.1%	0.2%
Transportation, Warehousing & Utilities	35.1	35.5	34.4	-1.1%	2.0%
Information	29.2	28.9	29.1	1.0%	0.3%
Financial Activities	84.6	85.0	84.5	-0.5%	0.1%
Professional & Business Services	161.1	161.1	157.0	0.0%	2.6%
Educational & Health Services	197.1	196.5	193.6	0.3%	1.8%
Leisure & Hospitality	109.2	110.5	107.2	-1.2%	1.9%
Other Services	51.8	52.0	51.2	-0.4%	1.2%
Government	183.6	187.7	183.8	-2.2%	-0.1%
Total	**1,244.2**	**1,248.0**	**1,232.1**	**-0.3%**	**1.0%**

Source: NYS Department of Labor

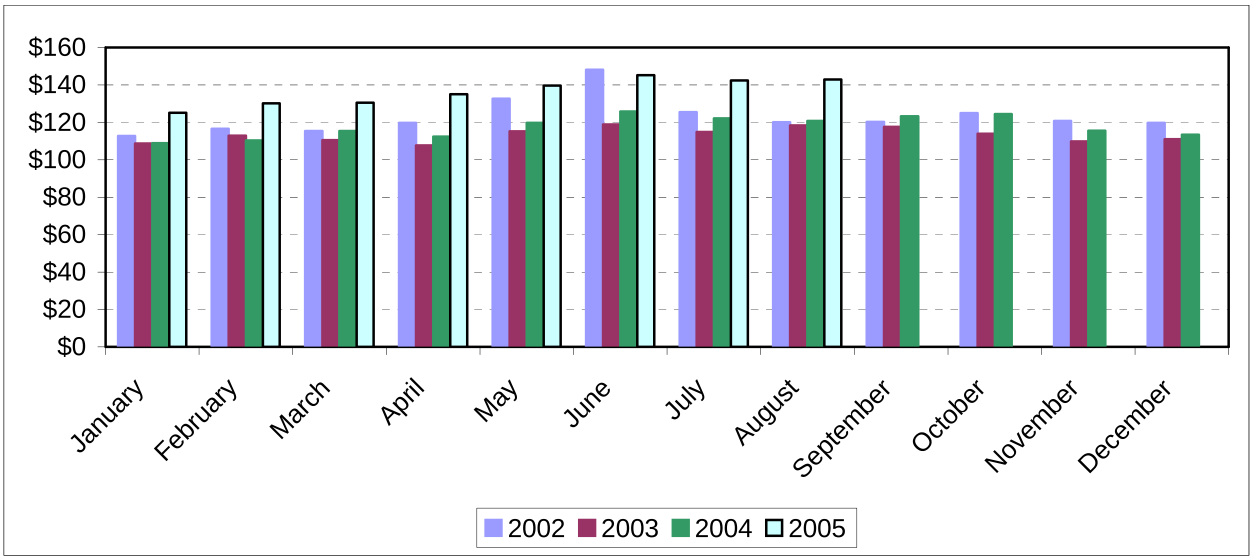
The previously mentioned slowdown on the employment front was echoed in the non-agricultural job report. From a monthly perspective, the Long Island economy lost jobs. The job losses were fairly widespread with five of the twelve sectors recording a decrease. The greatest percentage decline in jobs occurred in the Government sector. Much of the decline in the Government sector was seasonal since the largest percentage decline in the Government sector was in the Local Education sub-sector. Monthly losses of more than 1% were recorded in the Transportation, Warehousing & Utilities sector and the Leisure & Hospitality sector. The losses in the Leisure & Hospitality sector were surprising given the robust tourism demand detailed in the following Lodging Industry analysis.

The job picture is not as dim from an annual perspective. Compared to this time last year, Long Island has 1% more jobs. Not only was the annual job change positive but also well diversified with eleven of the twelve sectors surveyed registering annual job gains. Additionally, the annual job losses seen in the Government sector may be attributed to seasonality.

The Lodging Industry

Statistics depicting hotel/motel occupancy rates and average room rental rates reveal that August 2005 was a strong month for the tourism industry on Long Island. Hotel/motel occupancy rates in Nassau County increased from both a monthly and an annual perspective. Similarly, average rental rates on Long Island increased from both a monthly and an annual viewpoint.

Nassau County Average Room Rental Rate



Source: Long Island Convention & Visitors Bureau

The above chart details average room rental rates in Nassau by month over the previous four years. Nassau County's average room rental rate in August 2005 was $142.87, $0.41 higher than the prior month and $22.18 higher than the prior year.

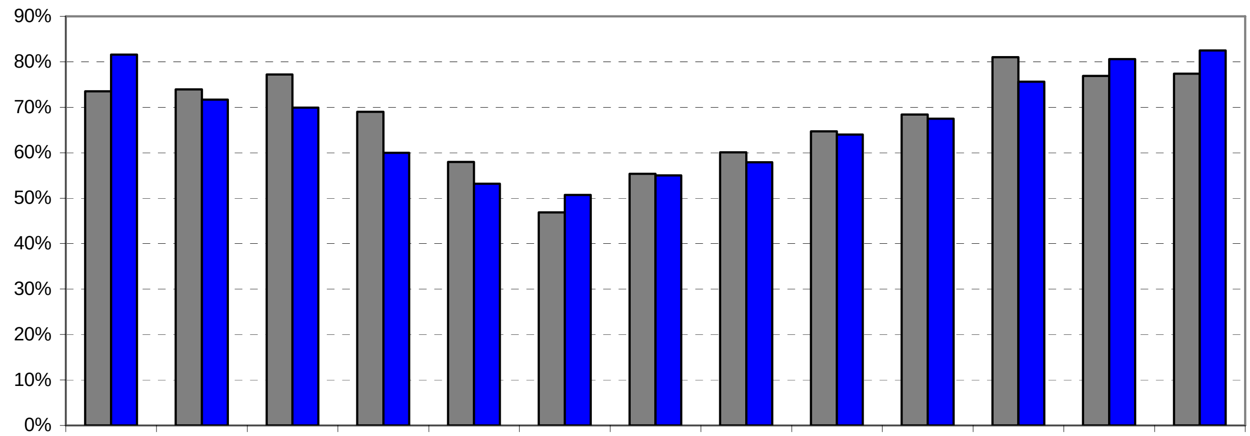
Nassau County
Hotel / Motel Occupancy Rate

	8/05	7/05	8/04	Change from Prior Month	Change from Prior Year
Occupancy Rate	77.4%	76.9%	73.5%	0.7%	5.3%

Source: Long Island Convention and Visitors Bureau

The chart above details hotel/motel occupancy rates in Nassau County from a monthly and an annual perspective. The chart on the next page records Nassau and Suffolk County occupancy rates by month over the past year. Both Nassau and Suffolk Counties recorded monthly and annual increases in occupancy rates. Annual increases in occupancy rates reveal robust tourism demand since several new hotels and motels have been built over this time period and since average room rental rates have risen.

Hotel/Motel Occupancy Rates



	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05
Nassau	73.5%	73.9%	77.2%	69.0%	58.0%	46.9%	55.4%	60.1%	64.7%	68.4%	81.0%	76.9%	77.4%
Suffolk	81.6%	71.7%	69.9%	60.0%	53.2%	50.7%	55.0%	57.90%	64.0%	67.5%	75.6%	80.6%	82.5%

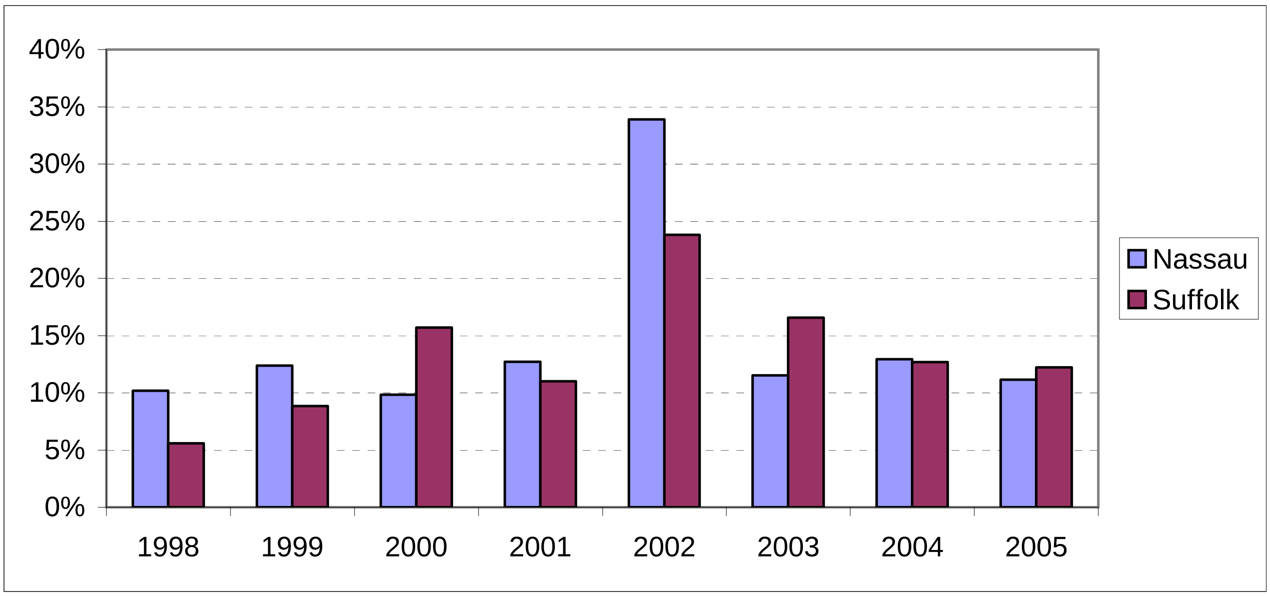
Nassau Suffolk

Source: Long Island Vistor Information Bureau

Residential Housing

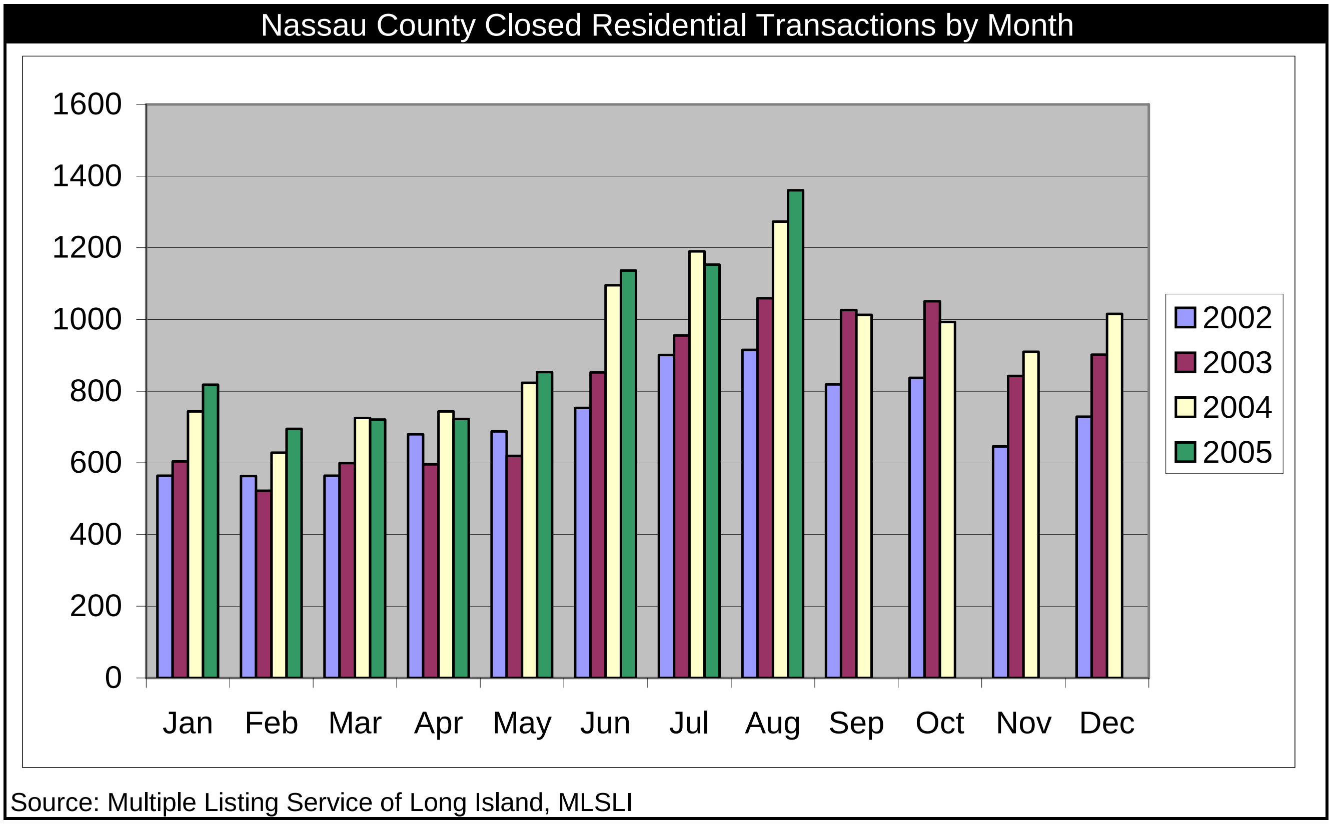
Long Island's residential housing market was strong in August 2005. Increases were seen in average closed prices and closed transactions. Higher interest rates seem to be constraining housing price appreciation rates. Slower growth rates were recorded in average closing prices and the number of closed transactions.

Annual Percentage Change in Residential Housing Average Closing Price
2005 figures are projections based prices through August 2005



Source: Multiple Listing Service of Long Island

The chart above details the annual appreciation rates recorded in Nassau and Suffolk average closing prices. Long Island appreciation rates are strong, but moderating. If current trends continue, Nassau County residential real estate will appreciate 11.2%, down from last year's 12.9% appreciation rate. If current trends continue, Suffolk County residential real estate will appreciate 12.2%, down from last year's 12.7% appreciation rate.



The chart above details the number of closed residential transactions in Nassau County by month. August 2005's 1,360 closed transactions represented a four-year high. However, the rate of increase seen in the number of closed residential transactions is declining. August 2005's annual growth rate was 6.8%, down from August 2004's 20.2% growth rate.

Experts are expecting housing growth rates to continue to slow as interest rates continue to rise. They see low interest rates and cheap mortgages as sustaining the real estate market.[13] Some are going further and projecting a housing market decline. According to Paul Krugman, the housing market will burst by the spring of next year.[14]

Conclusion

Future annual GDP growth should be positive but subdued. The Long Island regional economy took a step backwards in August in terms of consumer confidence, monthly job creation, and resident employment. Additionally, high energy prices and interest rates have the potential to curtail future consumer spending.

[13] Christie, Les, "Real Estate: When Booms Go Bust…", CNN/Money.com, September 19, 2005.
[14] "Economist Says Housing Bubble will Burst", CNN/Money.com, August 25, 2005.

Labor Reductions & Concessions

As personal services makes up about 50% of the total expense budget for all major operating funds, it is essential that the County continues to monitor and maintain reasonable headcount targets, investigates and utilizes safe and reasonable efficiencies, budgets for realistic labor concessions and prepares for contingencies. The County Executive's plan includes workforce reduction and turnover savings of $25.4 million in FY 07, $38.7 million in savings by FY 08, and $51.4 million by FY 09. Labor concession savings are $24.6 million for FY 07, $48.5 million for FY 07, and $50.2 million for FY 09. The September 1, 2005 five major fund headcount is 8,708.

Headcount is budgeted at 9,077 in 2006, an increase of 369 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 2006 by 36 from the September 1, 2005 actual of 2,614 and remain steady at 2,650. ShOA headcount will also increase in 2005 by 18 from the September 1, 2005 actual of 1,033. Attrition savings from CSEA employees in the out-years are based on assumed rates from 4.5% in 2006 to 5.1% in 2008. The Administration anticipates only one third backfilling of CSEA employees, with savings based on a reduction of 140 positions each year. The following indicates the plan for CSEA headcount.

	Actual September 2005	Projected for January 2006	Projected for January 2007	Projected for January 2008	Projected for January 2009	Projected for December 2009
	4,377	4,689	4,549	4,409	4,269	4,129
Change from prior period		312	(140)	(140)	(140)	(140)

It is questionable whether the CSEA headcount reductions can be maintained at a level lower than the September 2005 actual. Why would the administration feel the need to hire an additional 312 employees in 2006 that it feels it can do without in future years? Will the County be able to sustain key initiatives and service at a CSEA headcount level that will be 5.7% below the current level by the end of 2009?

The following chart demonstrates where the majority of the increases are budgeted to take place.

FULL-TIME HEADCOUNT - MAJOR VARIANCES

Department	Adopted 2005 Budget	Sept. 2005 Actual	Executive 2006 Budget	Change from 2005 to Executive	% Change from 2005 to Executive	Change from Executive to Sept Actual	% of Change Sept Actual
Assessment	228	202	247	19	8.3%	45	22.3%
Correctional Center, Nassau County	1,240	1,203	1,252	12	1.0%	49	4.1%
Information Technology	104	96	119	15	14.4%	23	24.0%
Probation	244	237	261	17	7.0%	24	10.1%
Public Works Dept. (General Fund)	567	529	543	(24)	-4.2%	14	2.6%
Social Services	852	842	873	21	2.5%	31	3.7%
Parks, Recreation and Museums	263	248	269	6	2.3%	21	8.5%
Police District	1,697	1,756	1,764	67	3.9%	8	0.5%
Police Headquarters	1,780	1,648	1,748	(32)	-1.8%	100	6.1%

Assessment is increasing by 19 full-time positions from the 2005 budget and by 45 positions from the September actual. The department has been seeking to hire and train a staff capable of performing the annual updating of the assessment roll in-house. Since September 2004, actual headcount has grown by 49 full-time positions. The Correctional Center has also been staffing up and by the end of the year, it expects to be at the 2006 budgeted headcount for Correction Officers. Of the current vacancies, 19 are for civilian positions, many of which will probably remain vacant during 2006 due to the difficulty the department has in hiring civilians. The additional 12 positions from the 2005 budget are for Deputy Undersheriffs. These positions were cut in prior years as they attrited out, but the Administration feels they are needed and has added them back. Information Technology is also budgeted to add back positions it has lost through attrition. Of the new positions, 15 will be charged back to capital projects.

Public Works' budgeted headcount is decreasing from the prior year due to a transfer of 17 positions to Police that were budgeted in Public Works in 2005. Social Services is increasing full-time positions to offset the part-time positions being eliminated. Parks is increasing headcount in order to improve services at the parks. The Police Headquarters is increasing by the Public Works employees previously mentioned but decreasing uniform headcount by 66. The Police District is increasing by 64 uniform headcount in keeping with the goal of 2,650 officers. There are also additional civilian positions included that are not filled yet due to the anticipated civilianization effort underway in 2006.

The Probation department is budgeted to hire an additional 24 full-time positions over the September 2005 actual and an additional 17 positions over the 2005 budget. The additional positions are in response to a new State mandate which requires the County to provide diversion services to youth at risk of becoming the subject of a PINS petition. As a result it is anticipated that many of these people will avoid costly residential placement. In addition, there is no longer a time limit on diversion services which will likely increase the amount of time spent on each case. Although these services will increase salary expenses, the Multi-Year Plan includes an initiative for Social Services to reduce expenses in this area due to the increased reimbursements received by Social Services. The department believes the budgeted headcount will be sufficient as long as 100% backfilling occurs in a timely manner. However, the Administration has stated that once the department staffs up to budget, they will be subject to the one in three backfilling ratio. About 40% of the Probation Officers and Supervisors will be eligible to retire by the end of 2006 since Probation Officers are eligible to retire after 25 years of service regardless of age. Additionally, it takes two years for a probation officer to complete training and maintain a full case load.

Since the majority of these positions are CSEA and the Administration has identified specific needs for them, will they just be attrited out again in the next few years?

The 2003 PBA Arbitration Award and the 2005 DAI Arbitration that allowed for concessions in minimum manning, extra hours worked, denominator changes in calculating shift differential, termination pay and overtime, and civilianization have provided the Department with the tools to manage more efficiently in reducing the potential for even greater overtime costs. The Administration has estimated savings associated with extra hours worked has generated approximately $6.6 million to date, from both police officers and detectives. In addition, the Department recently completed civilianizing the first 50 positions contractually agreed upon by the PBA and the County. Of those, approximately 27 were positions formerly held by uniform personnel who were deployed to patrol. The remaining positions that were filled were left vacant by retirees. The Department has signed a memorandum of understanding for 41 civilian positions for the second phase of civilianization but a final agreement has not been reached between the PBA and the Department on the last nine. However, the Department has begun hiring civilians, at last count, 14, that will backfill positions left vacant by retirees or reassignments that will be part of the 2005 civilianization number. The full benefit of this concession has yet to be realized and its impact will be deferred to a later time once agreement on all positions has been achieved. In addition to the failure to reach an agreement between the Department and the PBA on civilianizing the last 50 positions, the PBA has won a decision regarding the arbitrator's interpretation of a clause in the PBA contract as to the amount of personal days a precinct may receive per tour, regardless of its impact on overtime. It is estimated that the interpretation will have a $2 million negative impact through the remainder of 2005 and approximately $4 million annually thereafter.

The Correctional Center is also trying to civilianize and the 2006 budget includes 18 non-officer positions over the September 2005 actual. The department has difficulty hiring civilians, however, and to date, 20 civilians have been hired, returning ten officers back to security positions.

These efforts plus hiring new Police and Correctional Officers are expected to decrease overtime usage which has been escalating rapidly in both departments in recent years. In the Correctional Center the overtime has been declining in recent months primarily due to the closing of two floors made possible by a declining population. Saving efforts could be at risk here if the population goes up again, a favorable contract is not arrived at or if the department is not able to maintain the 1,054 officer headcount due to attrition or a delay in future classes.

No attrition or turnover savings are included in 2006 but the out-year savings are cumulative starting in 2006 so these targets will need to be achieved in order to get the cumulative savings identified in the multi-year plan. If the Administration can achieve the one in three backfill for CSEA employees, OLBR is in agreement with OMB's savings estimate.

The CSEA contract provides for COLA increases on 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 2006 will be 2.5%. A step increase of 1% is included which may be low due to recent hiring. OLBR estimates a step increase of about 1.7%. The PBA and Detectives Association Inc. (DAI) contracts call for 3.9% increases on July 1, 2006. Both of these contracts expire on December 31, 2006. The Superior Officers Association (SOA) contract calls for 3.9% increases on July 1, 2006 and July 1, 2007. Their contract expires on December 31, 2007.

One unknown factor in the FY 06 budget is the outcome of ShOA contract negotiations. Their contract expired December 31, 2004. A proposed agreement was recently negotiated by the County Executive and ShOA but it was voted down by the Legislature. Although the cost of the contract appeared to fit into the Multi-Year plan, a reopener clause in the police unions arbitration awards created risk. In an August 19, 2005 letter to Deputy County Executive Anthony M. Cancelleri, Proskauer Rose LLP, the County's outside counsel reports that the reopener clause in question is stated as follows:

> In the event the County and any of its law enforcement bargaining units, SOA, DAI or SHOA, agree to, or an interest arbitration panel awards, a change in any of the following

terms and conditions of employment during the period 2000-2006, other than the changes awarded by this panel in this proceeding, the PBA shall be entitled to reopen negotiations over the terms and conditions of employment, including the right to return to this panel for interest arbitration. The potential reopener items are as follows:

a) wages including step placement
b) longevity
c) shift differential
d) termination pay
e) other compensation issues increasing employee take home pay
f) hours worked, or work schedule

It is the opinion of Neil Abramson of Proskauer Rose that the County should have the better of the argument under the PBA reopener language. He also adds that the PBA panel may be inclined to refuse the reopener and leave the existing PBA contract in place through its term. This is because the panel reasonably assumes that the PBA will be able to rely on the changes that take place in the ShOA Memorandum of Agreement (MOA) following 2006 to secure similar changes at the bargaining table or in a subsequent arbitration for the PBA during those years.

The 2006 budget incorporates the proposed ShOA MOA that was recently voted down by the Legislature. If an agreement similar to the one proposed is passed, the 2006 budget will be sufficient. About $3.3 million of anticipated savings were in overtime, provided by a change in the denominator and the first 24 hours of worked overtime to be paid at straight time. Without these savings the overtime budget of $20.0 million will be difficult to achieve. Hiring new officers may also become more expensive. A class of 14 recruits began in April and a class of 23 recruits began in August at the start step of $25,000 as provided in the old contract. However, the language in the old contract is unclear as to whether or not this can continue "…the initial salary step for new hires shall be $25,000, which shall be frozen for the life of this Agreement." If the County cannot use the old contract and the start steps it provided, $25,000 for the first six months and $28,000 for the second six months, new officers would begin at $35,360. Although COLA increases can be paid retroactively, overtime savings and new hire savings cannot be achieved for the time period prior to passing a contract.

The plan assumes $24.6 million in labor concessions in 2007, $48.5 million in savings for 2008, and $50.2 million in savings for 2009. Not included are the savings from the ShOA contract, which are included in the out-years baseline assumptions based on the previously mentioned proposed contract. This includes $3.0 million in 2007, $7.1 million in 2008 and $5.9 million in 2009. In 2007, the $24.6 million target is for savings anticipated from the PBA and DAI unions. In 2008, $22.9 million of $48.5 in savings is attributable to the SOA and CSEA. 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.

In 2008, $13.2 million of the labor concession savings is coming from the transfer of County employees from Core Plus to Core health insurance coverage. Core Plus includes medical and psychiatric enhancements that are not available under the Core Plan. The difference in rates between the two plans is 8% for individual and family, 3% for Individual MediPrime, 6% for Family 1 MediPrime and 4% for

Family 2 MediPrime. The chart below displays the 2008 projected rates based off the assumption of the Multi-Year Plan for Core Only and Core Plus.

Projected Health Insurance Rates for Core Vs. Core Plus

Empire Plan Monthly Rates	Non-Medicare Individual	Family	Medicare Individual	Family 1	Family 2
2008 Core Only	565.16	1,194.62	374.92	969.90	810.61
2008 Core Plus	609.27	1,291.04	386.72	1,031.18	842.00
2008 % Change	8%	8%	3%	6%	4%

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.

For the five major funds, the FY 05 budget increases headcount over the September 2005 actual by 369 positions. The Administration has stated that although each department will be allowed to hire up to budget, each request will be evaluated individually, so it is likely many of these positions will remain vacant.

The 2006 salary budget is solid and contains funding for a 4.1% increase in headcount from the September actual. Overtime estimates are more reasonable than in the past. 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 plan may be unattainable. The Administration has included headcount increases in the 2006 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 2006 budget is solid, if the attrition and turnover savings are not realized in 2006, 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 06 fringe benefit budget for the five major funds is approximately $326.9 million[1], which is a $1.3 million increase from the FY 05 budget of $325.6 million. The following chart displays the fringe benefit budgets of the five major funds.

FRINGE BUDGET BY FUND

Fund	Adopted FY 05 Budget	OLBR FY 05 Projection	FY 06 Exec. Budget	Variance Exec. vs Adopted 05
Parks & Recreation	$10,064,998	$9,366,502	$10,263,153	$198,155
Fire Commission	3,068,870	3,043,355	3,167,138	98,268
General Fund	144,321,980	139,973,516	150,063,611	5,741,631
Police District	84,907,496	82,181,652	85,646,523	739,027
Police Headquarters	83,208,069	72,954,283	77,743,090	(5,464,979)
Total	**$325,571,413**	**$307,519,308**	**$326,883,515**	**$1,312,102**

The following chart breaks out fringe benefit costs by object code:

EXPENSE BUDGET BY OBJECT CLASS

SubObject & Description	Adopted FY 05 Budget	OLBR FY 05 Projection	FY 06 Exec. Budget	Variance Exec. vs Adopted 05	Variance Exec. vs FY 05 Proj.
04F - Retirement Debt Service	$0	$202,860	$0	$0	($202,860)
08F - NYS Police Retirement	41,304,571	41,001,990	39,337,656	(1,966,915)	(1,664,334)
11F - State Retirement Systems	34,971,648	35,531,530	36,754,639	1,782,991	1,223,109
13F - Social Security Contribution	53,460,245	54,103,512	56,488,841	3,028,596	2,385,329
14F - Health Insurance	93,163,980	89,470,499	101,741,639	8,577,659	12,271,140
17F - Optical Plan	1,069,935	963,540	1,091,618	21,683	128,078
19F - NYS Unemployment	350,000	461,430	500,000	150,000	38,570
20F - Dental Insurance	4,886,176	4,589,910	4,957,318	71,142	367,408
22F - Medicare Reimbursement	8,782,745	8,605,152	9,946,807	1,164,062	1,341,655
75F - Health Insurance For Retirees	76,095,610	72,297,789	75,771,033	(324,577)	3,473,244
76F - Employees Optical - Retirees	272,225	291,096	293,964	21,739	2,868
81F - Police Retirement Contingency	9,572,721	0	0	(9,572,721)	0
82F - Reg Retirement Contingency	1,641,557	0	0	(1,641,557)	0
Grand Total	**$325,571,413**	**$307,519,308**	**$326,883,515**	**$1,312,102**	**$19,364,207**

[1]This number excludes worker's compensation.

The following chart displays out-year fringe benefit costs under the Multi-Year Plan:

EXPENSE BUDGET BY OBJECT CLASS

SubObject & Description	2007 Plan	2008 Plan	2009 Plan
08F - NYS Police Retirement	$57,695,814	$58,666,668	$60,169,042
11F - State Retirement Systems	51,543,063	53,904,269	56,485,357
13F - Social Security Contribution	58,635,417	60,863,563	63,176,378
14F - Health Insurance	109,880,970	118,671,448	128,165,164
17F - Optical Plan	1,091,618	1,091,618	1,091,618
19F - NYS Unemployment	500,000	500,000	500,000
20F - Dental Insurance	4,957,318	4,957,318	4,957,318
22F - Medicare Reimbursement	10,444,147	10,966,355	11,514,672
75F - Health Insurance For Retirees	79,559,585	83,537,564	87,714,442
76F - Employees Optical - Retirees	293,964	293,964	293,964
Grand Total	$374,601,896	$393,452,766	$414,067,955

The following is the FY 06 revenue budget for fringe benefits:

REVENUE BUDGET BY OBJECT CLASS

SubObject & Description	Adopted FY 05 Budget	OLBR FY 05 Projection	FY 06 Exec. Budget	Variance Exec. vs Adopted 05	Variance Exec. vs FY 05 Proj.
R2010 - Insurance Recoveries	$0	$0	$8,153,600	$8,153,600	$8,153,600

The revenue budget for FY 06 includes the reimbursement for Medicare Part D. Under the program, patients will be billed a monthly premium that can cost as little as $20 a month. On top of the premium, enrollees will be charged a co-pay of roughly 25% of the price of drugs. In addition to the co-pay there is a standard $250 annual deductible on covered drugs. The program is designed to cover the first $2,250 of prescription drugs. After the $2,250 limit is reached, the beneficiary has to pick up 100% of the tab for the next $2,850 in prescription drugs. This coverage gap is known as the donut hole. However, coverage kicks back in after a patient's total out-of-pocket expenses for prescription drugs reach an annual threshold of $3,600.

Beginning January 1, 2006, NYSHIP will receive a Medicare Part D subsidy from the federal government for providing prescription drug coverage that is comparable to or better than the Medicare Par D benefit for Medicare-eligible retirees through its Empire Plan. This subsidy will be passed on to local municipalities. The Harbridge Consulting Group, health care advisors to the New York State Association of Counties, estimated Nassau's subsidy at a rate of $500. The revenue budget is based on a reimbursement rate of $500 for 13,456 retired enrollees.

Senate Republicans have recently announced a proposal that would delay the Medicare prescription drug benefit for one year. The intent is to use the funding for Hurricane Katrina recovery efforts. According to the Daily Health Policy Report "The 110-member House Republican Study Committee released a list of proposed spending reductions to offset hurricane recovery costs that include a proposal to delay the launch of the new Medicare prescription drug benefit by one year."[2] Other reports propose delaying the Medicare benefit by two years. This announcement places the Medicare Part-D subsidy at risk.

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. The annual bill covers the period from the previous April 1st to the ensuing March 31st.

In July 2004, the New York Senate and Assembly approved legislation that provided additional constructive financing options that can be used by counties to ease the transition to rising pension rates. The bill changed the manner in which annual employer contributions are calculated and billed in New York State and Local Retirement System by:

- Changes the payment date for participating employers from December 15th to February 1st, beginning fiscal year 2004-05.
- Enables employers to amortize or bond a portion of their bill for the next two years.
- Extends the amortization repayment schedule from a five year term to a ten year term, making the first payment due in fiscal year 2005-06 instead of fiscal year 2004-05
- For employers that choose to amortize, the interest rate will be established by the Comptroller using a rate that more closely approximates a market rate of return on taxable securities.
- Allows employers who elect to offer Section 384e to members to bond the past service cost associated with this plan.
- Allows for the creation and use of reserve funds for the purpose of refinancing retirement contributions in the future.

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). This change in the payment date provided local governments operating on a calendar fiscal year (such as Nassau County) with an opportunity for a one-time cash deferment in FY 04.

The new February 1st payment date results in a higher net bill in FY 05 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 1st payment date, rather than a December 15th date, there will be less of a discount, resulting in a higher local bill.

[2] The Kaisernetwork, Daily Health Policy Report. "Medicare/Some Senate Republicans Propose Two-Year Delay of Medicare Prescription Drug Benefit to Offset Hurricane Costs."

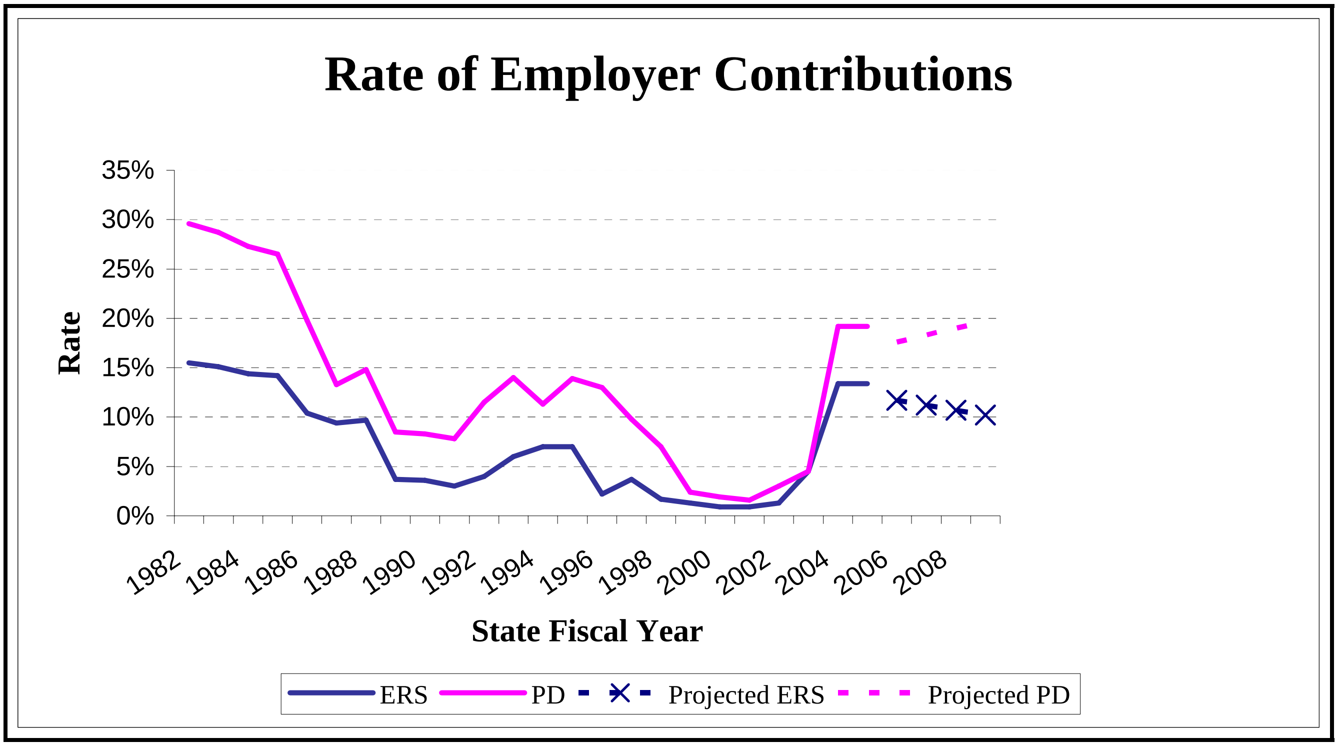
The modifications in the annual amortization payments provide localities the option to bond or amortize pension costs that are in excess of seven percent of payroll for a period of ten years. In addition, localities are allowed to bond or amortize for up to a period of ten years all pension costs for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

The FY 06 proposed budget for SFY 05-06, includes $76.0 million in total for ERS and PFRS pension obligations. The FY 06 budget is $36.7 million and $39.3 million for ERS and FPRS respectively, which is a decrease of $184,000 from the FY 05 budget.

The February 2006 estimate for ERS and PFRS is $105.3 million, plus an additional $6.3 million for the adjustment of FY 05 salaries. Of this total cost, $29.2 will be drawn from the County's pension reserve. Last year, the Administration chose to utilize the reserve option by setting aside the 2004 pension surplus of $78.5 million into a Retirement Contribution Reserve fund. The reserve allocates $35 million for payments due in SFY2004-05, $29.2 million in SFY2005-06, and $14.9 million in SFY2007-08, which the Administration expects to have available at that time.

The average contribution rate for ERS is 11.7% of pensionable salaries for the State's fiscal year from April 1, 2004 through March 31, 2005. The average contribution rate for PFRS is 17.6% of pensionable rates. The rates range from 10.3% - 19.5% depending on different tiers for ERS and from 14.2% - 28.2% depending on different tiers for PFRS.

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



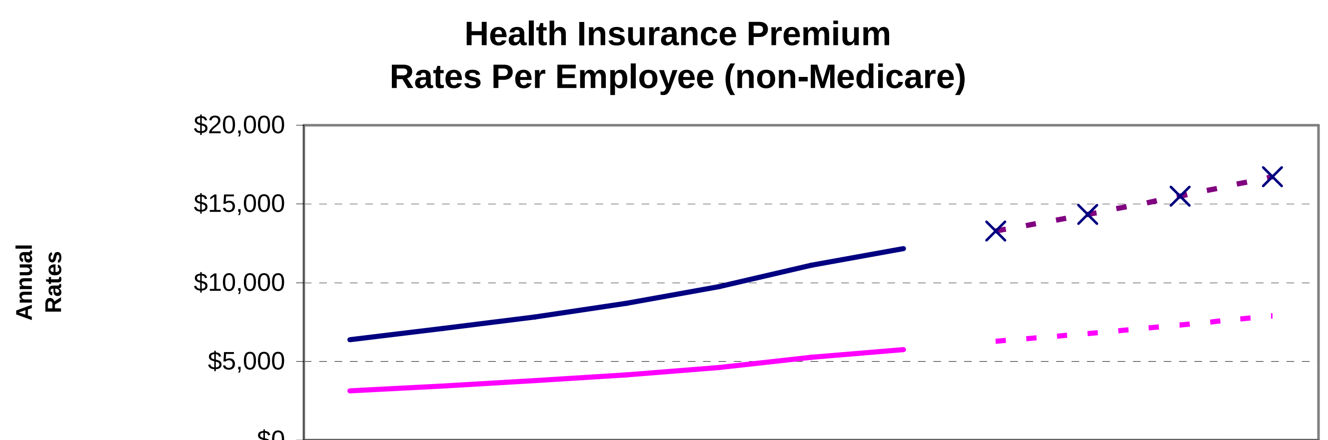
Source: NYS Comptroller

The New York State Comptroller has provided rates for SFY2006-07 which ranges from 9.8% - 19.0% depending on different tiers for ERS and rates ranging from 17.1% - 28.9% depending on different tiers for PFRS. The Multi-Year plan assumes pension contribution rates decreasing at a 0.5% rate reduction to 11.2% for ERS and increasing at 0.7% increase to 18.3% for PFRS. ERS contribution costs are projected to grow to $56.5 million in FY 09 and PFRS contribution costs are projected to grow to $60.2 million.

<u>14F & 75F Health Insurance for Current and Retired Employees</u>

At 9.2% increase, the national rate of growth projected is declining for the second straight year. This compares to double-digit increases in health insurance years from the 1999-2004. 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 conducts an annual national survey to provide current information about employer-provided health benefits. The results published in a report titled "Employer Health Benefits, 2005 Summary of Finding" found that employer sponsored health insurance rose 9.2%, lower than the 11.2% increase in 2004 and the 13.9% increase in 2003. The survey also reports that premiums continued to increase much faster than overall inflation (3.5%) and wage gains (2.7%). "Since 2001, premiums for family coverage have increased by 73%, compared with inflation growth of 14% and wage growth of 15%."[3] The following graph displays how health insurance rates have been progressively increasing over the past eight years in Nassau County.



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Individual	$3,134	$3,438	$3,771	$4,136	$4,619	$5,258	$5,742				
Family	$6,383	$7,082	$7,813	$8,688	$9,737	$11,097	$12,164				
Projected Individual								$6,268	$6,770	$7,311	$7,896
Projected Family								$13,282	$14,345	$15,492	$16,732

Costs in the FY 06 budget include a blended rate increase of 8% for individual and family health insurance plans. This rate is lower than New York State's Second Quarter Empire Plan Experience Report best estimate projection, but higher than the optimistic projection. This report presents the

[3] The Kaiser Family Foundation and Health Research and Education Trust, "Employer Benefits 2004 Summary of Findings."

projected 2006 Empire Plan premium rates. The report's best estimate projects health insurance rates increasing at 9.2% for individual and family premiums. The optimistic scenario projects rates increasing by 6.7% for individual and family premiums.

The FY 06 budget for health insurance for retirees projects a blended 5% increase. The 5% appears optimistic based on the Empire Report. Empire Report's best estimate projects MediPrime retiree insurance increasing at 5.7% for individual MediPrime, 7.9% for family 1 MediPrime coverage and 6% for family 2 MediPrime coverage. The optimistic scenario projects 5.7% growth increase for individual MediPrime, 7.9% for Family 1 MediPrime and 6% for Family 2 MediPrime.

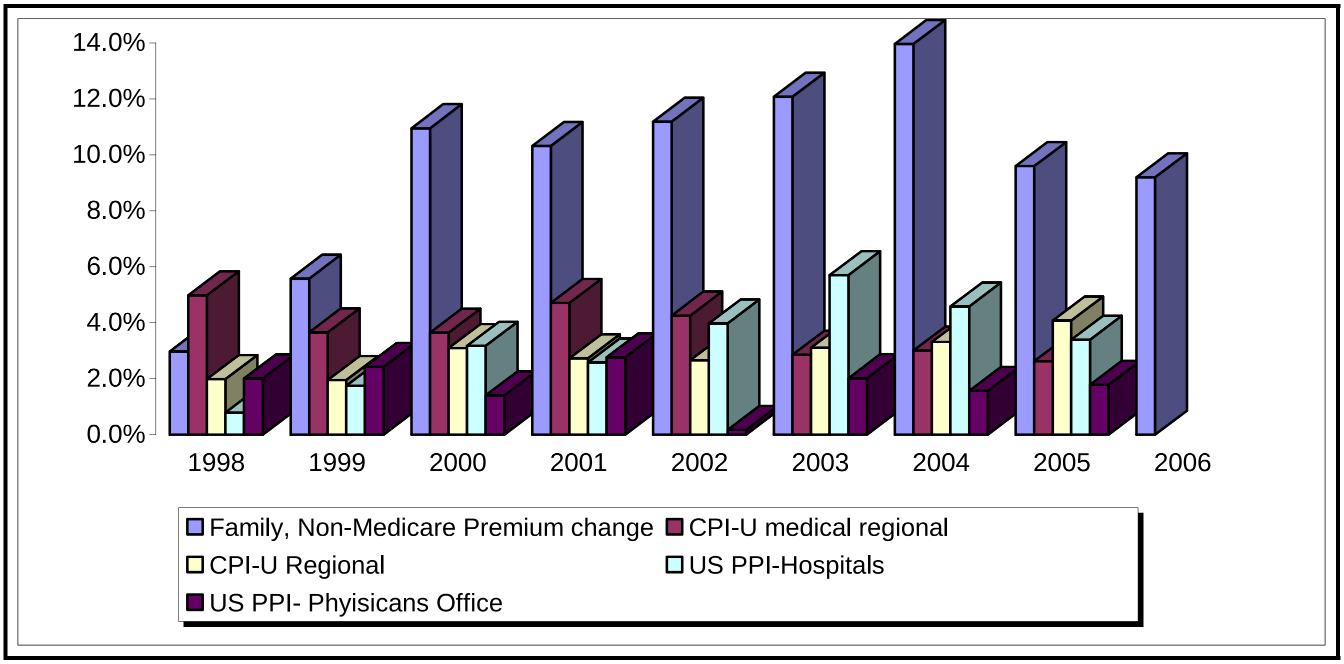
The chart below displays non-Medicare and Medicare rates for 2005 and projected 2006 with best, optimistic and pessimistic estimates.

Rates:	**2005**	**2006**	**% Change**
Plan Prime			
Individual			
Optimistic	478.49	510.49	6.7%
Best Estimate	478.49	522.35	9.2%
Pessimistic	478.49	543.32	13.5%
Family			
Optimistic	1,013.68	1,081.79	6.7%
Best Estimate	1,013.68	1,106.86	9.2%
Pessimistic	1,013.68	1,151.38	13.6%
MediPrime			
Individual			
Optimistic	331.93	344.78	3.9%
Best Estimate	331.93	350.77	5.7%
Pessimistic	331.93	359.73	8.4%
Family-1			
Optimistic	867.09	916.09	5.7%
Best Estimate	867.09	935.31	7.9%
Pessimistic	867.09	967.82	11.6%
Family-2			
Optimistic	720.53	750.38	4.1%
Best Estimate	720.53	763.72	6.0%
Pessimistic	720.53	784.22	8.8%

Source: New York State Empire Plan 2004 Second Quarter Experience Report

The FY 06 budget estimate of 8% is reasonable. For the past three years, rates have been finalized at a lower rate than the best estimate projection in the Empire Quarterly Report. For 2005, rates were finalized at an increase of 9.2% for individual and family non-Medicare compared to the 12% projected growth. The reduction in finalized rates is currently producing an overall surplus of $7.5 million for FY 05. Of this surplus, $3.7 million is produced from active employees and $3.8 from retiree insurance. The current projected health insurance cost for FY 05 is approximately $161.6 million compared to the budget of $169.3 million. The FY 05 budget projections are $89.4 million for active employee's health insurance and $72.2 million for retired employee's health insurance

The rate increases Nassau County is experiencing are part of a nation-wide trend as reported in the Kaiser Foundation report. 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.



Health insurance premiums started outpacing all other indicators by 1999. As shown above, 2005 marks the first year the family premium rate of increase has declined 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 an 8% rate for active insurance and 5% for retiree insurance from FY 06 through FY 08. At this rate, active health insurance is projected to grow from $101.8 million in FY 06 to $128.2 million in FY 09. Health insurance for retirees is projected to grow from $75.8 million in FY 06 to $87.7 million in FY 09. The increased costs will continue to place a 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 employee cost sharing, fewer HMO's, more customized plans, more utilization of disease management programs, and high deductible health plans. Employee cost sharing requires workers to make deductible and co-payments when they use health care services in addition to their premium contribution. 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 Preferred Provider Organization (PPO) choice. PPO's continue to be the most common plan in 2005, enrolling 61% of employees with health coverage, up from 55% in 2004. HMO enrollment fell to 21% of covered workers down from 25% in 2004. Disease management programs help companies to improve productivity and reduce health care costs. Employers are requiring increased consumer responsibility and high cost sharing as strategies for reducing the growth in health care costs.

Due to the increased cost of health insurance, some employers have ceased to offer the benefit. According to the Kaiser Family Foundation, the percentage of all firms offering health benefits to their employees has fallen significantly from 69% to 60% over the last five years.

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 $90,000. Medicare has no maximum. The Social Security Administration has not yet announced the wage base increase for 2006, however last year reflected a 2.4% increase in the base. If increased by 2.4%, the 2005 maximum wage contribution would be roughly $92,160. The total OASDI tax on this maximum wage projection would be approximately $5,714.

The FY 06 budget is increasing by 6% from $53.5 million in FY 05 to $56.5 million. With an increase in FY 06 budgeted salaries, social security is also expected to rise. The FY 06 salary budget includes a CSEA contractual increase of 2.5% as of January 1, 2005, plus step increase. The budget also includes a headcount increase of 369 positions from the current staffing level. The FY 05 projection currently reflects a deficit of $643,000.

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 06 budget is increasing by $21,700 from FY 05. The FY 06 budget is sufficient to cover the increase in headcount.

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 06 budget is increasing by $150,000 to $500,000. The FY 05 budget is currently projected to have a deficit of $39,000. The increase in the FY 06 budget should be sufficient.

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 06 budget is increasing by $71,000 to $5.0 million. The FY 05 projection is currently producing a surplus of $296,000. The FY 06 budget is sufficient to cover the increase in headcount.

22F Medicare Reimbursement

The County provides quarterly payments to cover premium costs related to Medicare coverage for retired employees. The budget is increasing by $1.2 million in FY 06 from $8.8 million in FY 05 to $9.9 million. The Federal Government announced that Part B premiums are expected to increase by 13.2% in 2005. The national premium is $78.20 monthly, an increase from $66.60 in 2004 and $58.70

in 2003. Under federal law, Medicare Part B premiums must cover 25% of Part B costs, while taxpayers pay the remaining 75%. This increase is attributed to rapid growth in physician office visits, use of laboratory tests and other medical services and hospital outpatient services.

76F Employees Optical for Retirees

This benefit provides optical coverage for retired County employees. The County's cost to provide optical insurance coverage to retired employees is the same as the cost to provide insurance for current employees, which is $115 per person. The FY 06 budget is increasing by 8.0%, to $294,000. The budget may be under funded by $15,000. The FY 05 projection is currently $19,000 over the FY 05 budget.

NASSAU HEALTH CARE CORPORATION

The Office of Legislative Budget Review, along with the County's other oversight fiscal monitors, has expressed concern over the financial crisis at Nassau Health Care Corporation (NHCC) in the past. In 2005 the Corporation anticipates losing about $6.4 million, $100,000 less than budgeted, and a breakeven plan has been presented starting in 2006. While this is a significant improvement over previous years, there are still serious issues that need to be addressed and a consistent breakeven rate will be difficult to achieve. Some issues include a possible cash crisis, the difficulty of growing a revenue base which has historically been a challenge for NHCC, and escalating costs in an environment of constrained revenues.

As of August 31, 2005 the Nassau Health Care Corporation reported that the cash and cash equivalent balance was $14.5 million. With a run rate of about $1.3 million per month the Corporation will run out of cash when the next pension payment of about $20 million comes due on February 1, 2006. The primary reason for this is that the Corporation has not received its IGT (Intergovernmental transfer) or SLIPA payment from the State. The IGT payment, which was expected in September, is worth about $7.5 million and the Supplemental Low Income Patient Adjustment (SLIPA) payments, which were expected in August and October, are worth about $13.2 million. The State Medicaid plan is currently up for renewal and it is expected that these payments will be received when the plan is approved. The IGT payment system is currently under review by the Federal government and there is the possibility that the hospital could receive more money from this source in the future. If the IGT payment is not received in time, the Corporation may have to put off making its pension payment until February 2006 instead of December, which would cost the Corporation an additional $500,000.

As stated in the Multi-Year Plan and demonstrated on the chart on the next page, the baseline gap for NHCC will be $9.9 million in 2005, $17.1 million in 2006, $21.6 million in 2007, $28.8 million in 2008 and $31.2 million in 2009. Initiatives are projected to close the gap by $3.5 million in 2005, $17.3 million in 2006, $26.6 million in 2007, $31.5 million in 2008 and $32.3 million in 2009. Including these measures, the Multi-Year Plan projects the Corporation to lose $6.4 million in 2005 with a turnaround in 2005 bringing NHCC a net income of $155,000 in 2006, $5.0 million in 2007, $2.7 million in 2008 and $1.1 million in 2009.

Nassau Health Care Corporation Multi-Year Plan (in millions)						
	Adopted 2005 Budget	**Projected 2005**	**Projected 2006**	**Projected 2007**	**Projected 2008**	**Projected 2009**
Operating Revenue	461.1	452.2	461.3	473.9	486.9	500.4
Total Operating Expense	469.1	463.6	479.9	497.1	517.3	533.1
Salaries	201.2	203.1	210.1	217.9	228.6	234.5
Fringe	67.7	73.9	77.9	81.9	86.1	90.3
Non-Personnel Expenses	200.2	186.7	191.9	197.2	202.6	208.3
Gain (Loss) from Operations	(8.0)	(11.4)	(18.7)	(23.2)	(30.4)	(32.7)
Non-Operating Gain (Loss)	1.5	1.5	1.5	1.5	1.5	1.5
Net Income (Loss)	**(6.5)**	**(9.9)**	**(17.1)**	**(21.6)**	**(28.8)**	**(31.2)**
Gap Closing Measures	**-**	**3.5**	**17.3**	**26.6**	**31.5**	**32.3**
Revised Net Income (Loss)	**(6.5)**	**(6.4)**	**0.2**	**5.0**	**2.7**	**1.1**

The Plan includes increasing revenues by 2.0% in 2006 from the 2005 projected and by about 2.8% in the out-years before any revenue initiatives are considered. This may be optimistic, however, since there is a 1% projected decrease in total operating revenue for 2005 from 2004 and there was a 6.3% decrease in revenue for 2004 from 2003. Actual revenue for 2005 is lagging behind the previous year by $683,000. There is a revenue cycle initiative to better capture data that is projected to bring in an additional $2.5 million for 2005 but the Corporation would still be behind 2004 revenue by $2.1 million. The primary reason for the lagging revenue is A. Holly Patterson, which is $5.6 million (14.9%) under in revenue from the prior year and $1.5 million (4.5%) under budget as of August month end. The average daily census is likewise under budget. Year to date, at 573, the census is under the prior year by 41 or 6.7% and under budget by 17 or 2.9%. The census has been increasing recently and was at 584 as of August 2005 largely due to an initiative which brought in a group of about 52 specialty unit residents. The Multi-Year Plan gap closing initiatives include $1.5 million per year beginning in 2006 to increase the census by 20 patients in this specialty unit.

The hospital is doing better on the revenue side with $252.8 million year to date, meeting budget and surpassing the prior year with a 1.3% increase. At 372, the census is also increasing over the prior year and budget by 1.9%. The Hospital's image may also be improving with its recent affiliation agreement with North Shore-Long Island Jewish Health System (NS/LIJ). The arrangement could help NUMC with such things as management, recruitment of doctors, the operation of its community health centers, and improved training for its graduate students.

Total expenses are projected to increase by 3.5% in 2006; 3.6% in 2007; 4.1% in 2008; and 3.0% in 2009. Fringes are responsible for most of this growth, increasing by 5.5% in 2006; 5.1% in 2007; 5.1% in 2008; and 4.9% in 2009 primarily for pension and health insurances. Pension expenses are projected at 10.7% of payroll expenses 2005 through 2009 and the annual growth of health insurance is expected to be 12% per year. The health insurance inflator may be high since the State is estimating a best guess at 9.2%. Salaries are increasing by 3.5% in 2006; 3.7% in 2007; 4.9% in 2008; and 2.6% in 2009. The salary budget includes a 2.5% COLA increase, which is accurate for 2006, but may be low for the out-years. The memorandum of understanding (MOU) with the CSEA union provides for COLA increases equal to the change in the New York Metropolitan Area All Urban Index for the period June through June of the previous year.

The salary budget does not include staffing reductions other than those already made. There is also a job preservation clause in the CSEA contract that states there will be no layoffs unless NHCC's net revenue decreases five percent or more over a quarter from the prior quarter. The Corporation still intends attrition reductions, which includes reducing the FTEs per adjusted occupied bed ratio to the industry standard of between 4.6 and 4.8 from the August 2005 Nassau University Medical Center (NUMC) ratio of 4.99, in their gap closing measures. This measure, a reduction of 40 FTE's, is projected to save $2.3 million in 2006 and between $2.4 million a $2.6 million in the out-years. There is also an effort to reduce overtime, which will bring this ratio down. A. Holly Patterson (AHP) is at industry standards currently and no cutbacks are anticipated there.

The budget and Multi-Year Plan assume the combined Nassau County Historical Mission Payment and Article 6 Services payment will remain at $18 million. This is dependant on the outcome of the successor agreement which is currently being discussed and is expected to be finalized early in 2006.

The gap closing measures, while not unreasonable, do pose some risks. Many of these initiatives require the approval of the State Department of Health (DOH). The Corporation is continuing discussions with DOH to get "bed-hold" reimbursement for A. Holy Patterson, which should be obtained when the licensed capacity is reduced. This allows the nursing home to continue to be reimbursed while a resident is in the hospital and is anticipated to be worth $1.7 million per year beginning in 2006. They are also seeking hospital based status for the nursing home which is projected to bring in about $5.0 million per year starting in 2007. This may not be received until the nursing home is moved to the hospital.

The Corporation has received approval to add an additional 35 adult and 13 adolescent psychiatric beds, but these units will not be opened until construction has been completed and the DOH and the Office of Mental Health do final inspections. The adult beds, expected to be open September 2006, are projected to bring in $1.5 million in 2006 and about $4.6 million each year thereafter. The adolescent beds, expected to be available April 2006, are projected to bring in between $1.7 and $1.9 million each year starting in 2006. NHCC also received approval for a 30 bed Chemical Dependency Rehabilitation Program at NUMC. This unit also requires construction and final inspection by the State. Expected to open May 2006, an income of $800,000 in 2006 and about $1.3 million in the out-years was included in the Multi-Year Plan for the rehabilitation program. In 2006 an expanded dialysis unit is budgeted to bring in $375,000, which will double in the out-years. This unit is currently approved for 29 beds but uses only 13. A certificate of need (CON) will be submitted for the construction of the dialysis unit by early 2006 and the additional beds are expected to be opened by the third quarter of 2006.

Some gap closing measures that are planned to be implemented in 2005 and are more within the immediate control of the Corporation, are improved revenue cycle, a pharmacy supply chain initiative and a group purchasing organization (GPO) initiative. As a result of a consultant (Navigant) review, through improved data collection and billing, the Hospital Administration believes it can capture an additional $2.5 million in revenue in 2005 and between $4.5 and $5.0 million in the out-years. Another project Navigant was involved with is improved purchasing and materials management. This includes the use of GPOs, State contracts, and shared services with Affiliated Health Systems. The pharmacy initiative is to expand the use of the current 340B pharmaceutical discount program. Both supply chain initiatives are expected to save $500,000 each in 2005 and between $1.5 million and $1.6 million each in the out-years.

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. 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. This process is pending a package deal being worked out between the Corporation and the State.

The Corporation has made significant strides in the past couple of years. With the cooperation of the Hospital's management team, the County and the State, a new CEO, the help of the County's consultant, refinancing their bond debt and the successor agreement, the Corporation has gone from losses of $23.7 million in 2003 (audited) and $13.8 million in 2004 (unaudited) to a projected loss of $6.5 million in 2005 and a plan to break even in 2006. Due to the difficult environment in which the Corporation operates and years of mismanagement, NHCC still has a very challenging road ahead and a break even run rate is far from a sure thing. Some of the outstanding items that will have a significant impact on the Hospital in the future include the successor agreement between the County and the Corporation, the Federal and State governments' decisions regarding the IGT and SLIPA funds, the sale of A. Holly Patterson and the outcome of negotiations with the State. Additionally, it is imperative that management be able to root out inefficiencies and capitalize on its advantages including its affiliation with NS/LIJ.

A BEST PRACTICES APPROACH:
NASSAU COUNTY'S DEBT SERVICE POLICY

The Government Finance Officers Association (GFOA) and other organizations dedicated to examining and promoting best practices (i.e. the National Association of State Budget Officers (NASBO); the National Advisory Council on State and Local Budgeting (NACSLB); and the International City Management Association (ICMA)) have made ongoing efforts to improve outcome measures and develop ideal policy guidelines for governments to formulate and follow in order to accurately evaluate the consequences of funding decisions.[1]

A key objective of a debt service policy is to ensure the least cost of borrowing. Borrowing costs, or the interest costs of buying money today, vary widely across government levels, with local governments often facing an interest premium relative to higher levels of governments. Therefore, it has also been recognized that debt management policies are critical in achieving lower borrowing costs as evidence to credit rating agencies that the jurisdiction can meet its capital needs, which is regarded positively in evaluating the state's creditworthiness[2] (Ammar et al, 2001; Larkin & Joseph, 1991).[3] Identifying best practices and benchmarking general obligation ratios provide the County with a policy tool to manage its debt program in line with available resources.

Debt servicing is defined as semiannual payment of coupon interest and maturing principal on municipal bonds issued to investors to finance projects identified in the County's four-year capital plan. The debt service principal and interest payments for all of the County's borrowing appear in the Debt Service Fund, which is one of the six Major Operating Funds. The FY 06 Executive Budget provides for debt service expenditures of $290 million, which include present and future interest and principal payments on tax-supported General Obligation bonds (bonds that do not provide a self-supporting revenue stream).

Borrowed funds are planned primarily for projects related to the four-year capital plan, open space, building consolidation, tax certiorari, and judgments and settlements. In addition, the appropriation for debt service costs assumes expenses related to existing and future Nassau Interim Finance Authority (NIFA) sales tax set-asides. The County also remains flexible throughout the year to borrow for cash flow purposes as necessary.

In 2006, the Administration intends to fund tax grievances out of pay-as-you-go funds, (PAYGO) rather than long-term debt. Shifting to PAYGO financing supports the conventional theory in public finance of matching current revenues to spending on current services and borrowing to support capital spending in

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[1] See for example, Joseph, J. (1994). *Debt Issuance and Management: A Guide for Smaller Governments.* Chicago, IL: Government Finance Officer's Association.

[2] This is an important factor as one basis point is equal to one one-hundredth of one percent (1/100 of 1%, or .01%). For example, for a bond with a par value of $10 million, a 10 to 15 basis point differential is a substantial savings of $10,000-$15,000, respectively. In the bond market, the smallest measure used for quantifying yields (interest) is a basis point.

[3] Ammar, S., Duncombe, Y. & Wright, R. (2001). Evaluating City Financial Management Using Fuzzy Rule-Based Systems. *Public Budgeting & Finance*, (Winter): 70-90; Larkin, R. & Joseph, J. (1991). Developing Formal Debt Policies. *Government Finance Review, 7*(4): 11-15

order to maintain the net worth of the public sector (Mikesell, 2003; Ramsey & Hackbart, 1996).[4] It will cost the County $50 million beginning in 2006 to execute this transition to PAYGO. The Administration will utilize one-time surplus resources to enable this transition.

Shifting to PAYGO to fund tax grievances is likely to have a cost savings impact on the County as it is an indication to credit ratings that the County is not relying on debt for operating expenditures – an indication of the County's fiscal health. A municipal debt rating is a qualitative indicator of the credit worthiness of a government with respect to specific payment obligations on its debt. Although GO debt is backed by the full faith and credit of the state issuer, there is still some risk associated with this debt. This risk refers to uncertainty with regard to repayment of principal and interest and from uncertainty associated with the investor's ability to resell the bond in the secondary market at a good price (Moon & Stotsky, 1991).[5]

The three major credit rating agencies are Moody's Investor Services, Inc., Standard & Poor's Corporation and Fitch Ratings. The credit rating is an assessment by the rating agency of the bond issuer's ability and willingness to repay the debt and is grouped in four general classifications: economic, financial, administration and debt (Lovesick & Crowley, 1990; Moon & Stotsky, 1991).[6] Most bond market observers ascertain that these factors have a decisive impact on borrowing costs (Cantor & Packer, 1996).[7]

The following defines and outlines Nassau County's debt policies and practices as they relate to industry standards established by GFOA, Standard & Poor's and other organizations. Included in this comparison are three essential variables relating to "best practice" debt policies: 1) debt affordability, 2) method of sale and 3) debt structure. These components are reflective of, though not exhaustive of the best practices that are considered by rating agencies in their assessment of government jurisdiction credit ratings.

I. DEBT AFFORDABILITY

Measured in terms of total debt outstanding relative to economic resources available to support repayment, and as a burden of repayment on the County's budget, debt affordability is defined as whether a municipality can afford to service its existing debt, based on legal, financial or public policy limits. Debt limits reflect policies to limit debt service or limit authorized debt to a specified dollar amount, or percentage of income or revenues. Miranda, Picur & Staley (1997)[8] indicate that ideal policies should limit debt service expenditures to some definition of resources available. Larkin & Joseph (1991)[9] and the National Association of State Budget Office (1994)[10] maintain that a debt policy

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[4] Mikesell, J. (2003). *Fiscal Administration: Analysis and Application for the Public Sector.* Belmont, CA: Wadsworth; Ramsey & Hackbart (1996). State and Local Debt Management Policy. In G.J. Miller (Ed.), *Handbook of Debt Management:* 255: 275. New York, NY: Marcel Dekker

[5] Moon, C. & Stotsky, J. (1991). Municipal bond rating analysis. *Regional Science and Urban Economics, (23),* 29-50

[6] Loviscek, A. & Crowley, F. (1990). What is in a Municipal Bond Rating? *The Financial Review, 25,* (1), 25:53; Loviscek, A. & Crowley F. (1996). Municipal Bond Ratings and Municipal Debt Management. In G. Miller (Ed.), *Handbook of Debt Management,* 475:514

[7] Cantor, R. & Packer, F. (1996). Determinants and Impacts of Sovereign Ratings. *FRBNY Economic Policy Review,* (October), 37:54

[8] Miranda, R., Picur, R. & Straley, D. (1997). Elements of a Comprehensive Local Government Debt Policy. Government Finance Review, 13(5): 9-13

[9] Larkin, R. & Joseph, J. (1991). Developing Formal Debt Policies. *Government Finance Review, 7*(4): 11-15

with targets or ceilings on each type of obligation demonstrates evidence of intention to keep debt manageable. Targets for debt per capita and debt service as a percentage of expenditures follow:

General Obligation Debt per Capita
A municipality's general obligation debt, when expressed as an amount per resident, is used to measure the reasonableness of its debt. This ratio is considered a basic benchmark, which measures the burden of debt placed on the size of the population supporting the debt and is widely used by analysts as a gauge of an issuers' ability to repay debt. Generally, per capita debt of around $600 is considered low and greater than $2,500 is considered high. In 2003, the debt per capita for AAA rated counties were Average - $1,969; Median - $2,057; High - $4,509 and Low - $215.

General Debt Service as Percent of Expenditures
If annual debt service expenditures get too high, the municipality's expenditure flexibility is reduced. Debt service is a fixed cost and its increase can indicate excessive debt and produce fiscal strain. If the ratio exceeds 15%, it is considered a potential problem. Ten percent is considered good.

Nassau County: Debt Affordability Ratios

Measurement	Low	Medium	High	NASSAU COUNTY
Per capita debt	**<1,000**	**$1,000-$2,500**	**>$2,500**	**$1,937**
Debt service/ expenditures	**<5%**	**10%**	**>15%**	**12.61%**

II. DEBT ISSUANCE:
Debt Issuance policies are defined as criteria related to method of sale (identified as how bonds will be sold through either competitive or negotiated bond issues). The decision to underwrite a bond sale using a competitive or negotiated sale is a contentious topic among academics and practitioners as there currently is disagreement in the industry regarding which type of sale results in the lowest costs (Leonard, 1996; Bland, 1995; Kriz, 2003).[11]

On the one hand, some argue that a competitive sale method results in lower rates due to the bidding process (the issuer, with the help of a financial advisor conducts all necessary tasks and then publishes a notice of sale requesting bids from underwriters, awarding the bid to the underwriting syndicate that submitted the best bid, in terms of lowest interest cost). Others are convinced that the negotiated sale is most efficient because underwriters who are selected by issuers have the flexibility with respect to sale

[10] National Association of State Budget Officers (1994). *Debt Management Practices in the States*, (April), Washington, D.C.
[11] Leonard, P. (1996). An Empirical Analysis of Competitive Bid and Negotiated Offerings of Municipal Bonds. *Municipal Finance Journal, 17,* (Spring): 37-67; Bland, R. (1985). The Interest Cost Savings From Experiences in the Municipal Bond Market. *Public Administration Review, 45,* 234:235; Kriz, K. (2003). Comparative costs of negotiated versus competitive bond sales: new evidence from state general obligation bonds. *The Quarterly Review of Economics and Finance, 43,* 191:211

date and bond issue structure which may impact borrowing costs. By selecting issuers upfront who are able to engage in intensive pre-marketing efforts prior to the bond sale, the sale of complex bonds is more easily accomplished.

The GFOA perceives that despite the advantages and disadvantages of each issuance strategy, because of the perception of openness and its inherent competitiveness, competitive sale is superior to negotiated sale. Other studies (e.g. Simonsen & Robbins, 1996)[12] conclude that on average, competitive sales result in lower interest costs compared to negotiated sales.

Nassau County Policy: The County's method of sale of bond issuance is determined on a case-by-base basis

III. DEBT STRUCTURE

Debt structure policies guide the pace at which the issuer wants to retire the bonds, which includes the use of Equal (Level) Principal versus Level Debt Service repayment patterns. Robbins, Simonsen & Jump, Jr., (2000) assert that debt structure is a viable tool for state and local governments for several reasons. One, governments can structure their debt issue so as to achieve the most favorable cost of capital. Second, debt service structure is another means for governments to merit a superior credit rating by evidencing that debt is being retired sufficiently. Debt service structure can also provide flexibility for governments to offset fiscal pressure of having to move expenditures from current year budgets to future year budgets by deferring payments for longer periods. According to Article VIII, Section 2, of the New York State Constitution, which is implemented by the Local Finance Law, the County's indebtedness is paid in annual installments commencing not more than two years after the debt was contracted. No installment shall be more than 50% in excess of the smallest prior installment unless the governing body of the County provides for substantially level or declining debt service payments.

The debt service schedule also has implications for the credit quality of the issue that should be evaluated. Moody's demonstrates that the rate of debt repayment is a key analytic issue when determining ratings. The statistic measures the rate of principal retirement (payout) within a given period of time and can be indicative of an issuer's willingness to pay. If retirement is rapid, the issuer may be viewed as very willing to draw upon its resources to pay its obligations. Conversely, if debt is structured for a very slow payout, the opposite may be true. This decision will determine the amount of the budget that must be devoted to debt service, how quickly debt capacity available for new projects is recovered, and the total interest cost of borrowing.

The structure of debt is a key component in the decision-making process of bond issuance that a government must evaluate. Debt maturity structure may be viewed as either:

- Level principal (equal principal amortization) maturity schedule, where equal amounts of the par value of the issuer mature each year, or

[12] Simonsen, W. & Robbins, M. (1996). Does it make any difference anymore? Competitive versus negotiated municipal bond issuance. *Public Administration Review, 5*6 (1), 57-64

- Level debt service (equal payments) schedule, whereby the amount of annual principal maturities is set so that the total annual debt service requirements, including both principal and interest, are approximately equal for each year.

With a level debt service, early payments primarily cover interest costs, and principal repayment increases over the life of the bond. With the level principal schedule, on the other hand, total debt service (principal and interest) is highest in the first year and decreases in subsequent years. This structure produces a more rapid repayment of the outstanding debt. Robbins, Simonsen & Jump (2000)[13] find that all else being equal (i.e. whether the issue is sold at a premium or a discount), although the level debt service structure promotes flexibility by having lower debt service payments in the early years of the issue's life, the higher back-end payments of such a structure result in a higher interest cost than a level principal structure.

Nassau County Bond Structure: All capital improvements financed through the issuance of County debt will be financed for a period not to exceed the useful life of the improvements. Debt issuance will be planned to achieve relatively level debt service while matching debt services to the useful life of the facilities

Credit Rating

The County's credit rating is an overall indicator of financial condition, quality of financial management, and local economic factors. Nassau County's credit ratings have been upgraded from each of these agencies and is now ranked in the A category by each of them. As of September, 2005 the County's ratings are:

A+	Fitch
A-	Standard & Poor's
A3	Moody's Investors Services.

[13] Robbins M., Simonsen, W. & Jump, Jr., B. (2000). Maturity Structure and Borrowing Costs: The Implications of Level Debt Service. *Municipal Finance Journal, 21*(Summer): 40-60

The following chart reflects bond ratings for the three major credit rating agencies, Moody's, Fitch, and Standard & Poor's.

Credit Ratings

Credit Risk	***Moody's***	***Standard & Poor's***	***Fitch IBCA***
		Investment Grade	
Highest quality	Aaa	AAA	AAA
High quality (very strong)	Aa	AA	AA
Upper medium grade (strong)	A	A	A
Medium grade	Baa	BBB	BBB
		Below Investment Grade	
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	C	C
In default	C	D	

U.S. TAX EXEMPT MUNICIPALS – DEBT RATINGS

1. Moody's Rating

There are nine basic rating categories for long-term obligations. They range from Aaa (highest quality), Aa, A, Baa, Ba, B, to Caa, Ca, C (lowest quality). Moody's applies numerical modifiers 1, 2 and 3 in each generic ratings classification from Aa to Caa. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic category.

2. Standard & Poor's Rating

Issue credit ratings range from AAA, AA, A, BBB, BB, B, CCC, CC, C and D (in payment default). Plus (+) or minus (-) is added to the ratings from AA to CCC to show relative standing within the major categories.

3. Fitch Ratings

Issue credit ratings range from AAA, AA, A, BBB, BB, B, CCC, CC, C and DDD, DD, D (entities rated in the D category have defaulted on some or all of their obligations). Plus (+) or minus (-) is added to the ratings from AA to CCC to show relative standing within the major categories.

N I F A

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, initially for the years ending December 31, 2001 - 2004, together with the proposed budget for fiscal year 2001. Such financial plan shall contain actions sufficient to ensure with respect to the major operating funds (General, Police District, Police Headquarters, County Parks, Fire Commission, 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.

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:

- 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.

- 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.
- 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.
- 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.
- If within a time period specified by the Authority, the County fails to make such modifications, the Authority shall adopt a resolution so finding.
- 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 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.

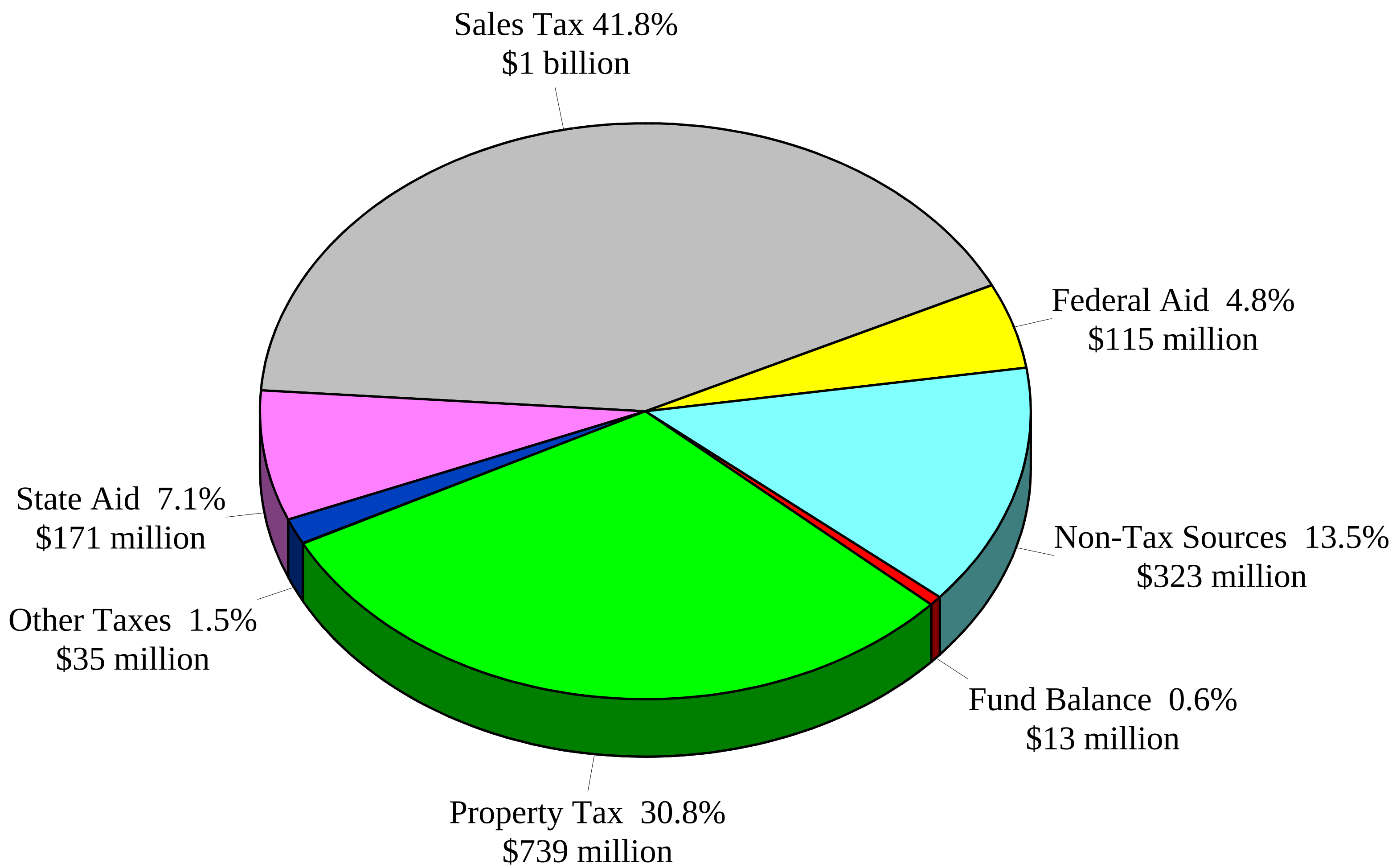
(iii) All contracts entered into by the County or any covered organization must be consistent with the provisions of this title and must comply with the requirements of the financial plan as approved by the Authority. The Authority can disapprove any contract that would be inconsistent with the financial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

FY 06 Revenue Budget By Category

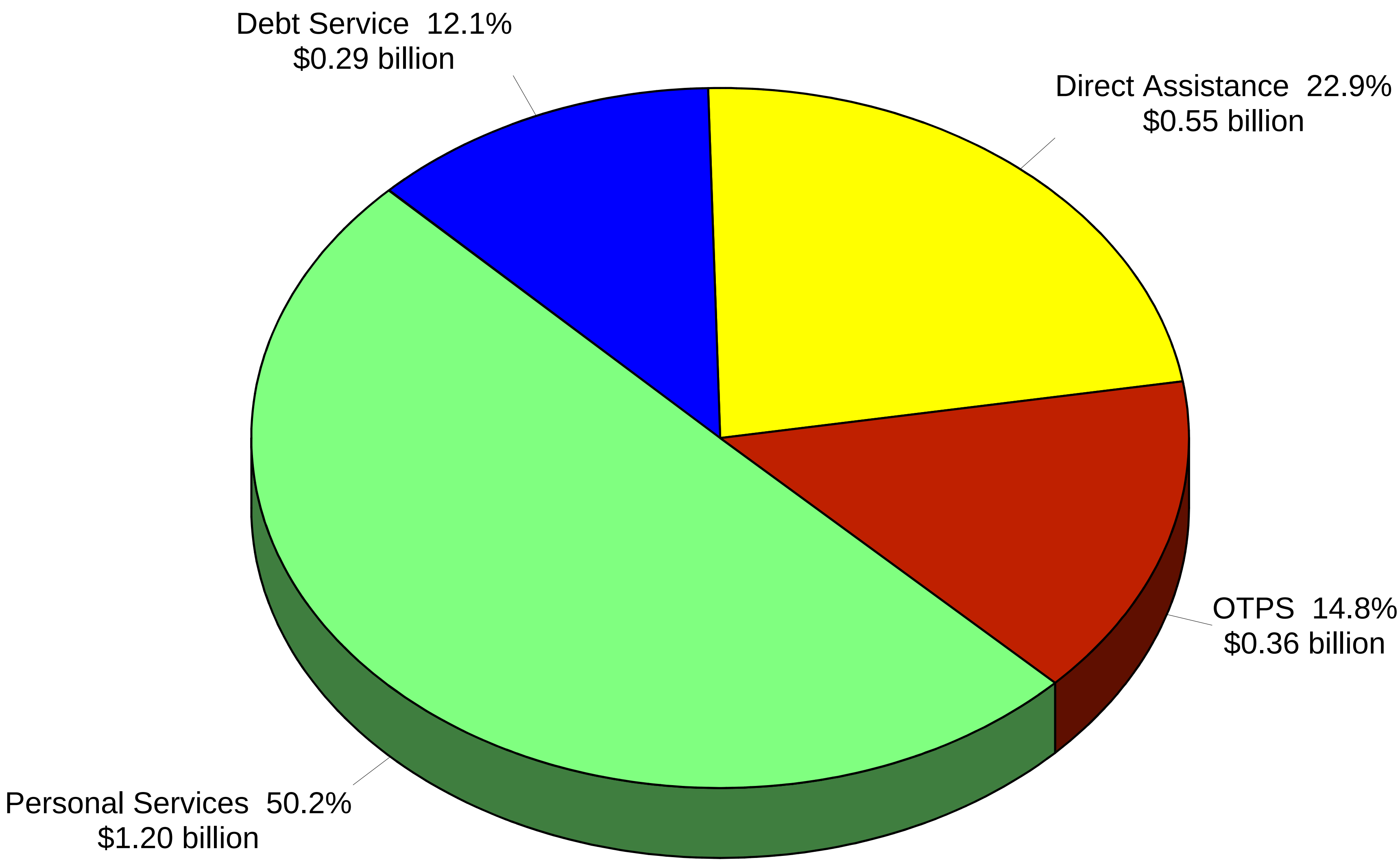
($2.4 Billion)



Data reflects major funds and excludes inter-dept revenues.

FY 06 Expense Budget By Category

($2.4 Billion)



Data reflects major funds and excludes inter-dept charges.

FY 06 Proposed Budget

Revenue	General Fund	Parks	Fire	Police Headquarters	Police District	Debt Service	Total
Fund Balance	8,367,000	5,000,000					13,367,000
Non-Tax Sources	258,289,601	19,284,534	4,329,449	17,796,013	6,676,714	16,487,191	322,863,502
Federal Aid	114,529,445			330,000			114,859,445
State Aid	170,130,466		120,000	589,000			170,839,466
Sales Tax	1,001,790,643						1,001,790,643
Property Tax	79,690,076	51,167,929	15,849,706	258,778,043	333,225,300		738,711,054
Other Taxes	10,960,000	975,000		22,853,495			34,788,495
Sub-total	1,643,757,231	76,427,463	20,299,155	300,346,551	339,902,014	16,487,191	2,397,219,605
Debt Service Chargebacks						273,540,064	273,540,064
Interdepartmental Revenues	93,121,386		107,759	13,977,076	935,835		108,142,056
Total	1,736,878,617	76,427,463	20,406,914	314,323,627	340,837,849	290,027,255	2,778,901,725

Expenses	General Fund	Parks	Fire	Police Headquarters	Police District	Debt Service	Total
PS	573,442,976	29,705,387	12,579,924	278,021,995	309,053,919		1,202,804,201
OTPS	319,045,051	11,088,300	4,772,665	12,559,743	7,927,490	500,000	355,893,249
Direct Assistance	548,994,900						548,994,900
Debt Service						289,527,255	289,527,255
Sub-total	1,441,482,927	40,793,687	17,352,589	290,581,738	316,981,409	290,027,255	2,397,219,605
Debt Service Chargebacks	251,155,963	17,736,093	768,252	3,134,003	745,754		273,540,065
Interdepartmental Transfers	44,239,727	17,897,683	2,286,073	20,607,886	23,110,686		108,142,055
Total	1,736,878,617	76,427,463	20,406,914	314,323,627	340,837,849	290,027,255	2,778,901,725

NIFA Set-Asides have been included with the Debt Service expenses