



NASSAU COUNTY LEGISLATURE

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Inter-Departmental Memo

To: Hon. Judith Jacobs, Chairperson, Budget Review Committee
All Members of the Budget Review Committee
Hon. Peter Schmitt, Presiding Officer
Hon. Diane Yatauro, Minority Leader

From: ^{SA} Steven Antonio
Office of Legislative Budget Review

Date: May 31, 2011

Re: First Quarter Budget Hearing

Since last October when the FY 11 budget was adopted, the Nassau Interim Finance Authority (NIFA) has declared a control period and a fiscal crisis. The two major budgetary consequences of those actions have been 1) to require that \$70.0 million in projected tax certiorari expense be paid with operating rather than borrowed funds and 2) a freeze of union employees' salary steps and cost of living increases, worth approximately \$10 million.

The Office of Legislative Budget Review (OLBR) currently projects an estimated gap of \$97.9 million. The major variances are detailed in the report. A variety of options exist that can reduce this deficit, many of which have been built into the projections in OMB's First Quarter Report. OLBR recognizes these items as opportunities. The table below illustrates the current gap, prior to gap closing actions, as calculated by OLBR.

Variations from Budget and OMB's Preliminary 2011 Assessment

Major Funds (in millions)			
	2011 ADP BUD	OLBR 2011 Proj	Variance
Expense	2,762.2	2,754.9	7.3
Revenue	2,762.2	2,657.0	(105.2)
Risks Prior to Gap Closers			(97.9)

** Excludes all interfund and interdepartmental transfers

OLBR's projected gap of \$97.9 million in the major funds results from a \$7.3 million surplus in expenses and a \$105.2 million deficit in revenues. The chart below details the projected operating results by the major revenue and expense categories:

OLBR Variance to Budget			
Expense	2011 Adp Budget	OLBR 2011 Proj	OLBR vs Budget
Salaries & Wages	811.9	855.1	(43.2)
Fringe Benefits	444.5	439.6	5.0
Workers Compensation	27.8	27.8	0.0
OTPS	158.2	144.4	13.8
Utility Cost	36.2	39.6	(3.4)
Debt Service	355.5	355.5	0.0
Other Expenses	129.7	129.2	0.5
Local Govt Assistance	61.5	61.5	0.0
Interfund Charges	78.8	48.0	30.7
Mass Transportation	47.9	47.9	0.0
Early Intervention	171.3	169.2	2.1
Direct Assistance	196.1	194.6	1.5
Medicaid	242.8	242.3	0.4
	2,762.2	2,754.9	7.3
Revenue	2011 Adp Budget	OLBR 2011 Proj	OLBR vs Budget
Interest Penalty on Tax	28.5	28.5	0.0
Permits & Licenses	12.8	12.8	0.0
Fines & Forfeits	95.6	58.2	(37.4)
Investment Income	7.4	3.4	(4.0)
Rents & Recoveries	82.5	73.1	(9.5)
Revenue to Offset Expense	21.4	21.0	(0.4)
Department Revenue	122.6	117.2	(5.4)
Capital Chargeback	12.7	10.1	(2.6)
Payments in Lieu of Taxes	6.8	6.8	0.0
Debt Service from Capital	6.0	6.0	0.0
OTB Profits	1.5	0.0	(1.5)
Interfund Charges	134.6	103.6	(31.0)
Federal Aid	151.8	149.5	(2.3)
State Aid	221.5	211.8	(9.7)
Sales Tax	1,023.3	1,023.3	0.0
Property Tax	800.3	800.3	0.0
OTB 5% Tax	5.0	3.6	(1.4)
Special Taxes	27.8	27.8	0.0
	2,762.2	2,657.0	(105.2)
Risks Prior to Gap Closers			(97.9)

OMB is currently projecting a small year-end surplus of approximately \$500,000, a significantly different outcome from OLBR's projected deficit of \$97.9 million. This difference is due to gap closing measures that OMB has built into their projections, but which OLBR is treating as opportunities (see Other Opportunities section at the end of this document). Such items include \$27.6 million in salary reductions from furlough savings and layoffs, increased revenue from land sales and sales tax, and the expansion, with State approval, of the red light camera initiative.

Salaries

On March 23, 2011 NIFA declared that the County faced a fiscal crisis and implemented a wage freeze for all employees, including the contractual cost of living adjustments (COLA) and steps increases for union members. The following increases that were scheduled for 2011 have been impacted:

- CSEA 3.75% as of 4/1/2011.
- PBA 1.0% for all steps below the top and 4.0% for the top step as of 4/1/2011.
- DAI 1.0% for all steps below the top and 3.75% for the top step as of 6/1/2011.
- SOA 3.45% for all steps as of 7/1/2011.
- ShOA 1.0% for all steps below the top and 3.65% for the top step as of 4/1/2011.
- CSEA employees hired after 4/12/99 and ShOA employees hired after 3/31/01 who step on their anniversary dates will not receive their incremental step increase if their anniversary date falls after March 23.

Included in the Administration's projections are various personnel initiatives that will be implemented by the County and a reduction of approximately \$10.0 million as a result of NIFA freezing the step and cost of living adjustments (COLA). The initiatives, which include layoffs and furloughs, are scheduled to take place mid-year and will further reduce salary expenses by \$27.6 million. OLBR recognizes this as an opportunity. The table below illustrates the proposed savings:

OMB 2011 Proposed Savings	
Furlough Savings	14,884,993
Union Reductions	11,413,379
Ordinance Reductions	272,212
Part Time Reductions	1,076,114
Total	27,646,698

In addition, the County has offered a Voluntary Retirement Incentive Program (VSIP), the savings from which will be quantified after the closing of the separation incentive window. The effective date of Nassau County resignation will be no later than June 29, 2011.

Headcount

The chart appended to this memo details by fund the 2011 budgeted full-time headcount, the May 1, 2011 actual headcount and the number of vacant positions. As of May 1, 2011, there were 307 unfilled full-time positions compared to the 8,410 budgeted in the major funds. The current number of

Ordinance employees on board as of May 1 is 548, a net increase of 1 position since January. Departments with a significant number of vacancies include the Police Department with 95, the Correctional Center with 47, the Department of Public Works (General Fund) with 67, the Department of Public Works (Sewer & Storm Water Fund) with 29, the County Attorney with 15, and the Department of Information Technology with 36.

Overtime

Police and the Correctional Center combined make up 90.3% of the budgeted overtime expense and are currently projected to have a deficit of approximately \$12.7 million; both departments are operating at staffing levels below 2010 and are projected to see increases in overtime expense. OMB is projecting Police overtime to be \$29.0 million and \$17.2 million in corrections which represents a variance of approximately \$25.7 million from our projections. The Administration is working on a plan to reduce overtime, the details of which have not yet been released. Any delayed implementation will result in savings not materializing especially given that overtime hours are up 32% in Police and 4% in the Correctional Center year to date.

OVERTIME RECAP					
	<u>2009 ACT</u>	<u>2010 ACT</u>	<u>2011 Adp</u>	<u>2011 Proj</u>	<u>Difference to Budget</u>
Police District	17,857,520	24,313,521	19,000,000	26,954,313	7,954,313
Police Headquarters	18,438,234	19,027,751	20,000,000	21,243,620	1,243,620
Police Total	36,295,754	43,341,272	39,000,000	48,197,933	9,197,933
Corrections	19,376,960	21,465,257	20,225,550	23,768,375	3,542,825
Police & Corrections	55,672,715	64,806,529	59,225,550	71,966,308	12,740,758

Fringe Benefits

OLBR is currently projecting a surplus of \$5.0 million to budget in fringe benefit expenses due to health insurance and pension expenses; this is \$1.3 million less than OMB. The \$2.3 million surplus in health insurance results from a surplus of \$4.3 million in active health insurance which is offset by a deficit of \$2.0 million in retiree health insurance. The deficit is attributed to a greater than anticipated number of employees participating in the 2010 early retirement incentive programs. This resulted in a shift between the number of active and retired employees. The 307 vacant full-time positions in the major funds is a key driver of the overall surplus in fringe benefits.

Mass Transportation

OMB included a cut of \$4.5 million to the Mass Transport Authority (MTA). The adopted budget was \$9.1 million of which the first half payment has been made. OLBR has added the savings as an opportunity.

Other Expenses

The Administration included \$70.3 million in general contingency reserve in the Miscellaneous Department. OLBR is currently projecting that all of these monies will be utilized. The largest usage of these funds to cover the anticipated \$70.0 million for the 2011 property tax refund liability, which is

currently reflected in the operating funds in the Treasurer's Department. OMB is still projecting a remaining \$11.6 million in reserves.

Early Intervention and Pre-school

Expenses in the Health Department for Early Intervention and Pre-school costs are projected to be \$2.1 million lower than the Adopted Budget. The reduction is due to a \$1.0 million cut in Early Intervention provider rates, which has been submitted in New York State's April 1st Budget. In addition, another \$1.0 million decrease in pre-school expenses is anticipated from a decline in transportation costs. A corresponding state aid reduction of approximately \$923,000 has also been projected. The department receives 49.0% reimbursement for early intervention services for education and 59.5% reimbursement for preschool related services. Department revenues are also projected at \$2.6 million under budget due to lower pre-school Medicaid reimbursed collections.

Direct Assistance

Direct assistance includes Recipient Grants, Purchased Services and Emergency Vendor Payments. Recipient grants include Safety Net and Temporary Assistance for Needy Families (TANF) and are projected to be close to budget. Purchased Services are costs associated with day care and homemaking; a \$1.5 million surplus is projected as a result of cut back measures implemented by the County. Finally, Emergency Vendor payments made up of cost for various programs including training schools, education of handicapped children and Persons in Need (PINS) is projected to be on budget. The table below illustrates the projected expenses:

Direct Assistance			
Object And Name	2011 Budget	OLBR	
		Projections	Difference
Recipient Grants	73,050,000	73,065,000	(15,000)
Purchased Services	59,273,651	57,773,651	1,500,000
Emergency Vendor Payments	63,808,000	63,808,000	-
Total	196,131,651	194,646,651	1,485,000

Fines and Forfeits

The majority or 93.7% of the Fines and Forfeits budget is attributed to the Traffic and Parking Violations Agency (TPVA). The total \$89.6 million in TPVA revenue includes \$61.6 million for the Red Light Camera (RLC) program and \$28.0 million for other violations in the FY 11 budget. The Red Light Camera revenue is based on two components; \$38.3 million for 150 completely implemented cameras, known as Part One, and \$23.4 million for an additional 100 cameras that are pending State approval, known as Part Two. Of the latter, OMB included \$11.5 million in revenue for the State initiative. The table below illustrates the variance.

Revenue (millions)	2011		OLBR	Bud. vs.
	Camera	Budget	Projection	OLBR Variance
General RLC	150	38.3	30.9	(7.3)
State RLC Initiative	100	23.4	0.0	(23.4)
Sub Total		61.6	30.9	(30.7)
Fines		28.0	21.2	(6.8)
Grand Total		89.6	52.1	(37.5)

Rents and Recoveries

OLBR is projecting a deficit of \$9.5 million in Rents and Recoveries to budget and a \$23.6 million difference from OMB. The budgeted revenue included \$30.0 million to be realized from the securitization of Mitchell Field leases and \$25.1 million in sale of County property. The County recently completed the securitization agreement with RXR Realty on 18 of the 27 properties at Mitchell Field. As a result, the County will receive \$37.5 million from this agreement which is \$7.5 million above the \$30.0 million budget. However, it will lose roughly \$1.8 million in rental income on the securitized leases. Combining that with the \$2.5 in non-securitized rental income, results in a pick-up of approximately \$5.7 million.

Also included in the 2011 operating budget is \$25.0 million in land sales. According to a recent Long Island Business News Article, County Officials have identified about a dozen properties to be put up for sale to close the budget gap. Additionally, the County wants to sell 105 acres of former U.S. Navy property in Bethpage and 11 acres between Ring Road and Clinton Avenue. Without actual sale documents, the accuracy of this estimate is uncertain. As of May 2011, the County has collected \$172,920 in revenue from the sale of County owned properties. If the estimated value of sale properties currently in the pipeline (RFP issued or seeking Legislative approval) is included, the County has the potential of collecting \$10.4 million. Since only 95% of the proceeds may be placed in the General Fund, it is estimated that the County should have use of \$9.8 million shortly. OLBR included the \$10.0 million in the projections in contrast to OMB which is projecting \$33.4 million; this is an increase of \$8.3 million from the original budget of \$25.0 million.

Department Revenues

The Parks Department included a \$1.0 million marketing initiative in 2011 which is still considered a risk. In addition, the revenues were reduced by \$1.6 million to reflect the aquatic center pool closing and other shortfalls. The Health Department similarly is projecting a shortfall of \$2.6 million due to pre-school Medicaid reimbursed collections. The 2011 Adopted Budget included \$1.5 million for Medicaid pre-school reimbursement that is in jeopardy due to new retroactive state requirements that impedes the County's ability to collect this revenue. As a result, the County has filed an Article 78 legal action suit against the State.

Federal Aid

The OLBR projections reflect a shortfall \$2.3 million from the 2011 Adopted Budget. The largest decreases are in Social Services as a result of lower reimbursed expenses and Police due to the elimination of federal stimulus money. These are offset by \$3.3 million in FEMA funds to Public Works.

State Aid

The adopted 2011 budget included \$5.0 million for patrolling the LIE which has been removed from all projections. An additional \$2.0 million deficit will be incurred in Police as a result of decreased grant related reimbursements. Similarly, the Youth Board will be impacted by a New York State funding cut of roughly 25% of the \$1.2 million budget. In total, the State Aid deficit is projected to be \$9.7 million from budget.

Sales Tax

The FY 11 sales tax budget of \$1.02 billion was based on the assumption that receipts, less the residential energy tax (RET), would grow by 6.0% in FY 10, and then increase by 3.75% in FY 11. Since the 2010 receipts, less the discontinued residential energy tax, did better than anticipated, growing by 6.74%, growth of 3.0% will now be required to reach budget.

Year to date collections received through May 12 total \$277.4 million, a 4.5% increase over FY 10. At this time we are projecting that sales tax revenues will make budget, and an opportunity appears likely that receipts will surpass the budget. OMB is currently projecting a \$5.5 million surplus in sales tax, based upon achieving the budgeted growth rate of 3.75% on the higher FY 10 base.

Other Opportunities

Below is a list of items that, if implemented, will constitute opportunities for the Administration:

- Salaries and Wages: The employee layoffs and furlough contemplated by the Administration, if implemented, are targeted to bring \$27.6 million in payroll savings.
- Mass Transportation: OMB projects \$4.5 million in savings from not paying half of the annual subsidy to Long Island Bus.
- Sales of additional properties: The Administration has included \$33.4 million in property sales of which OLBR recognizes \$9.8 million based on current backup. As additional details are provided the additional \$23.6 million can be recognized.
- Bond Proceeds: The County currently has approximately \$28.0 million from remaining bond proceeds that can be used to fund tax certiorari. In addition, the County has \$10.2 million in proceeds from the prior bonding of termination pay.
- Sales Tax: Based on current trends, the \$5.5 million surplus that OMB is projecting, is reasonable, and an even higher amount is possible.

cc: Hon. George Maragos, Nassau County Comptroller
Frank Moroney, Nassau County Chief Deputy Comptroller
John Mastromarino, Nassau County Treasurer
Jeff Nogid, Director, OMB
Evan Cohen, Executive Director, NIFA
David Gugerty, Policy Director
Dan McCloy, Director of Law, Finance & Operations
Tim Sullivan, Deputy County Executive
Gregory May, Director of Legislative Affairs
William Muller, Clerk of the Legislature
Edgar Campbell, Minority Chief of Staff

Full Time May 2011 Staffing Analysis

Department	2011			Variance May Heads vs Budget
	Budgeted Headcount	January Heads	May Heads	
Assessment	216	212	208	(8)
Assessment Review Commission	43	43	43	0
Behavioral Services	62	63	57	(5)
Board of Elections	129	131	140	11
C.A.S.A.	4	4	5	1
Civil Service	55	55	55	0
Comptroller	88	75	75	(13)
Constituent Affairs	44	41	42	(2)
Consumer Affairs	33	32	32	(1)
Correctional Center	1,235	1,190	1,188	(47)
County Attorney	135	124	120	(15)
County Clerk	103	102	103	0
County Executive	26	21	20	(6)
District Attorney	369	369	368	(1)
Emergency Management	7	8	8	1
Fire Commission	107	89	95	(12)
Health	210	198	202	(8)
Housing and Intergovernmental Affairs	3	3	2	(1)
Human Resources	9	9	9	0
Human Rights	9	9	8	(1)
Information Technology	121	116	85	(36)
Investigations	0	0	0	0
Labor Relations	5	5	5	0
Legislature	95	85	84	(11)
Medical Examiner	53	49	51	(2)
Minority Affairs, Office of	6	6	6	0
Miscellaneous	0	0	0	0
Office of Management and Budget	27	27	26	(1)
Parks, Recreation and Museums	148	146	191	43
Physically Challenged	4	4	5	1
Planning	22	17	22	0
Police District	1,680	1,689	1,678	(2)
Police Headquarters	1,626	1,528	1,533	(93)
Probation	216	201	207	(9)
Public Administrator	7	7	7	0
Public Works Department	526	503	459	(67)
Purchasing	17	16	16	(1)
Real Estate	7	7	7	0
Records Management	12	13	12	0
Senior Citizens Affairs	34	30	30	(4)
Social Services	820	794	808	(12)
Traffic & Parking Violations	47	45	46	(1)
Treasurer	37	35	35	(2)
Veterans' Services Agency	8	7	6	(2)
Youth Board	5	4	4	(1)
				0
	8,410	8,112	8,103	(307)
Sewer and Storm Water Fund	294	248	265	(29)
	8,704	8,360	8,368	(336)