NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Review of the Fiscal Year 2008 Budget & Multi-Year Plan

Executive Summary

Eric C. Naughton, Director

Nassau County Legislature

Judith A Jacobs, Presiding Officer
District 16

Roger Corbin, Deputy Presiding Officer
District 2

Peter J. Schmitt, Minority Leader
District 12

Kevan Abrahams
District 1

John Ciotti
District 3

Joseph Scannell
District 5

Denise Ford
District 4

Jeffrey Toback
District 7

Francis X. Becker
District 6

Lisanne Altmann
District 10

Vincent Muscarella
District 8

Wayne Wink
District 11

Richard Nicolello
District 9

David Mejias
District 14

Norma Gonsalves
District 13

Diane Yatauro
District 18

Dennis Dunne
District 15

David Denenberg
District 19

Edward Mangano
District 17

Legislative Budget Review

Eric C. Naughton
Director

Steve Antonio
Deputy Director

Stephanie Rubino
Assistant Director

Connie Tucker
Budget Analyst

Deirdre K. Calley
Budget Analyst

Helena Carlson
Senior Budget Analyst

Nadeem Shahzad
Director Information Resource

Helisse Levine, Ph.D.
Budget Analyst

Othniel Denis
Budget Analyst

Simone Petersen
Administrative Assistant

Ellie Su
Budget Analyst Intern

ERIC C. NAUGHTON
DIRECTOR
OFFICE OF LEGISLATIVE
BUDGET REVIEW

NASSAU COUNTY LEGISLATURE
ONE WEST STREET
MINEOLA, NEW YORK 11501
(516) 571-6292

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 15, 2007

Re: 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 budget for Fiscal Year 2008 and Multi-Year Plan. Our reports are 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 http://www.nassaucountyny.gov/agencies/OLBR/reports.html.

1. EXECUTIVE SUMMARY

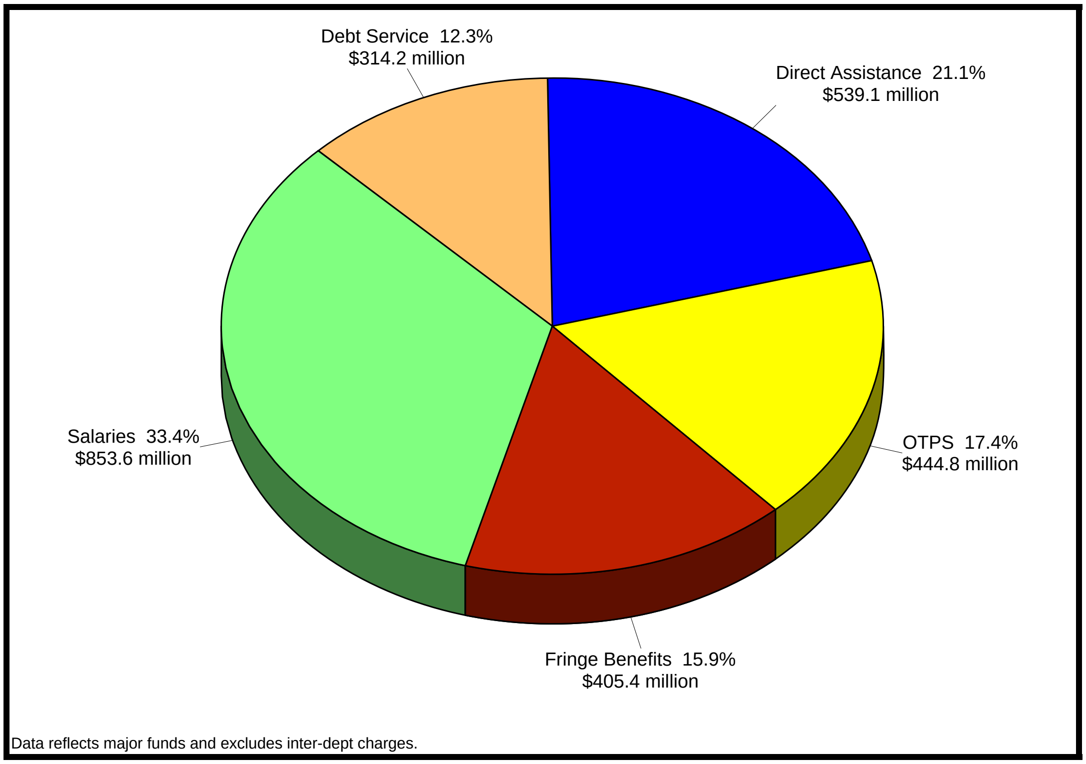
The first few budgets proposed by County Executive Suozzi showed great promise. They included minimal risks, yet plans of action for those at risk items were identified. While the County may no longer face a fiscal crisis, the need for conservative budgeting practices has not been eliminated. The underpinnings for those budgets were conservative revenue and expenditure estimates. The basic principle of solid budgeting is underestimating revenues and overestimating expenses, without overtaxing your citizens. It is a formula that yields surpluses to protect a government from downturns in the economy or catastrophes in the future. Following are some of the excerpts from OLBR's review of the FY 03 and FY 04 Proposed Budgets, the first two by County Executive Suozzi.

- Based on recent collections, this estimate [sales tax] is extremely conservative.
- The FY 03 budget is balanced with conservative revenue estimates…
- This combination should provide sufficient contingencies for an economy that may worsen…
- The Administration has conservatively and wisely not factored in any labor concession savings in FY 03. Therefore if any are achieved it will help to offset any unexpected expenses or revenue shortfalls.
- Fortunately, the County Executive has delivered a FY 04 balanced budget with limited risks and with a multi-year plan that is manageable for 2005…
- Based on the projected results of FY 03 and the proposed FY 04 budget, the fiscal principles are in place to lay the foundation for a sustained period of financial stability.

Viewed in the context of what has come before, the FY 08 Executive Budget is a disappointment. It is based upon the dubious assumption of numerous optimistic revenue estimates and labor concessions from unions without agreements. Equally troubling is the fact that the only contingencies are from vacant positions, attrition and the County's dwindling reserves. Exacerbating the problem is a downward trend in sales tax revenue, as this was one of the areas that the Administration proclaimed to be conservative. In light of recent collections, they were not conservative enough.

The FY 08 proposed budget for the major funds is $2.6 billion, excluding interdepartmental chargebacks. Nearly half of the budget is to fund salaries and fringe benefits. The second largest component is for direct assistance at 21.1% as illustrated in Chart 1.1.

Chart 1.1: FY 08 Major Funds' Expenses ($2.6 billion)



The budget is increasing by nearly $63 million or 2.5%, when compared to the Adopted 2007 Budget. Part of this increase is due to the inclusion of $40.0 million for tax certiorari settlements, whereas the FY 07 budget included $25.0 million. Previous plans expected the funding level to be $50.0 million, but the Administration has elected to use $10.0 million from excess FY 07 funds or undesignated fund balance if necessary. Table 1.1 compares FY 07 costs to FY 08 with adjustments for tax certiorari estimates.

When looking at the adjusted expense numbers, the 2008 costs are increasing by $47.7 million or 1.9%. The funding for salaries is increasing by $26.6 million or 3.2%. The budget fully funds all current staff; and probable savings from attrition are not included. The vacant and new positions are funded for half a year. The salary budget also includes anticipated salary increases for Civil Service Employees Association (CSEA), Sheriff Officers Association (ShOA), Detectives Association, Inc. (DAI) and Superior Officers Association (SOA). However, those increases are largely offset by labor savings included in the fringe benefits budget.

The "savings" from assumed labor concessions for the unions whose agreements have expired or will be expiring December 31, 2007 are $37.7 million. Savings are defined as reduced costs compared to the Administration's estimated baseline inflators. The savings per union are as follows:

- ShOA expired December 31, 2004 — $7.0 million
- DAI expired December 31, 2006 — $7.3 million
- CSEA expires December 31, 2007 — $14.0 million
- SOA expires December 31, 2007 — $9.4 million

The Administration is confident that it can achieve close to these levels of savings based on the pattern set by the recent PBA Arbitration Award. Furthermore, because ShOA and CSEA do not have binding arbitration the County does not have to agree to a contract that does not achieve their proximate goals. Also, while the Administration has not expressed a desire to implement layoffs, the no-layoff provision in the current CSEA agreement sunsets with the expiration of their agreement. In the police funds, however, with DAI expected to have an arbitration award shortly and SOA likely to have one in 2008 due in a large part to salary savings, OLBR anticipates the Police funds to be under funded by about $19.7 million. For further discussion of personnel costs please read the Labor section.

Some departments that are scheduled to have a significant addition to personnel compared to their September 2007 headcount are the Correctional Center, Police Department, Public Works, Social Services and Information Technology. For more information regarding these additions please see the OLBR Departmental Analysis.

Table 1.1: Major Funds' Expenses 2007 vs. 2008
($'s in millions)

	2007 Adopted	2008 Proposed	Var.
Expenses			
Salaries	$827.0	$853.6	$26.6
Fringe	433.4	405.4	(28.0)
OTPS[1]	407.7	444.8	37.1
Direct Assistance	527.0	539.1	12.2
Debt Service	299.4	314.2	14.8
Total Expenses[2]	**$2,494.4**	**$2,557.1**	**$62.7**
Offline Expenses			
Tax Certs[3]	25.0	10.0	(15.0)
Adj Total Expenses	**$2,519.4**	**$2,567.1**	**$47.7**

1. $25.0 million is included in 2007 and $40 million in FY08 for tax ceriorari settlements.
2. Excludes interdepartmental charges and debt service chargebacks
3. Funds from prior year fund balance are used for tax certiorai settlements.

Fringe benefit expenses are decreasing by $28.0 million. Three million of the savings is expected from workers' compensation. The County has approximately 1,000 permanent partial disability claims with some dating back to the 1970's at an annual cost of $9.5 million. The County has elected to take advantage of provisions in the workers' compensation law (section 32a) and will settle these claims by means of lump sum payments which are expected to produce an annual expense savings of five million dollars. Prudently, the Administration has included $2.0 million in the budget in case there are any delays in implementing this plan. This appears to be something worthwhile for the County to explore, but we have not seen any analysis to determine if $5.0 million in savings will be realized annually.

The remaining $25.0 million reduction in fringe benefits is a combination several items. Most of the decrease is related to the inclusion of more fringe savings and the reduction of police retirement contingency funds compared to the FY 07 budget. The fringe savings are dependent on the labor negotiations with the CSEA, ShOA, DAI and SOA.

Pension costs are projected to decrease by $8.2 million. Health insurance is increasing by $10.8 million compared to the FY 07 budget. For more information regarding fringe expenses please see Section 5 of the Executive Summary, Fringe Benefits.

Other than personal services (OTPS) expenses are growing by $37.1 million. Most of this addition reflects $16.4 million of interfund charges. These charges represent debt service charge backs to support and guarantee OTB ($2.15 million) and NHCC ($12.2 million) debt issuances. There is a corresponding interfund charge to offset the expense so there is no impact to the County.

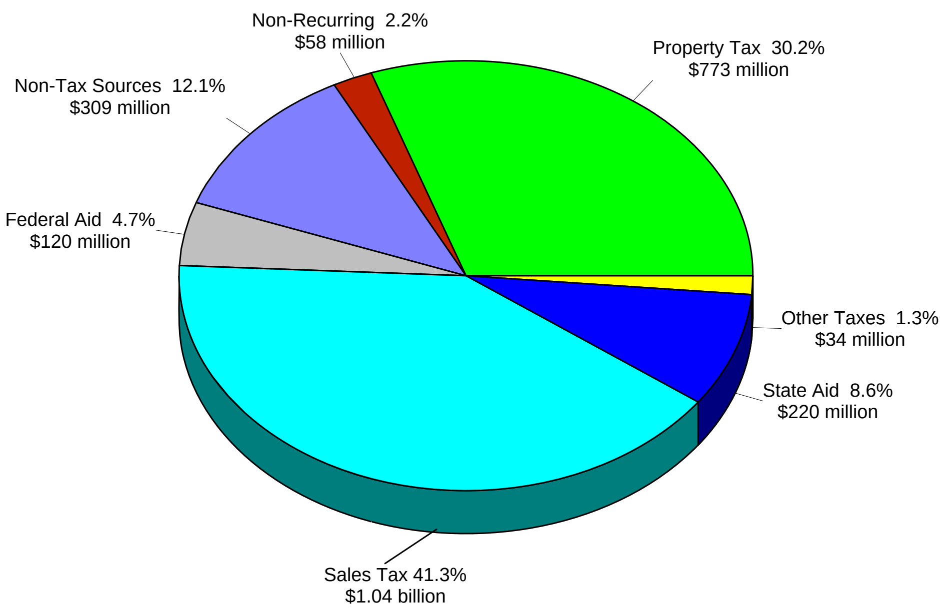
Additionally, there is the previously mentioned increase of tax certiorari funding in the operating budget. Also, the budget has increases for the Correctional Center related to the Nassau University Medical Center, funding for police cars and contingency funds.

The direct assistance budget is increasing mostly in the area of the Health Department's Preschool Special Education Program (children ages 3 – 5). The Pre-school Education budget is increasing from $107.5 million in FY 07 to $120.8 million in FY 08, an increase of $13.3 million. The budgetary increase is exaggerated by the fact that the FY 07 Adopted Budget had been underestimated. The higher costs are due to the growing number of students. The budget also reflects retroactive and current rate increases. As a result of the Medicaid cap, the budget for Medicaid is increasing by $7.7 million. Some areas of Direct Assistance are decreasing. The budget for payments made to clients receiving Temporary Assistance to Needy Families (TANF) is decreasing by $4.0 million, Early Intervention is down by $1.5 million, Persons in Need of Supervision (PINS) by $1.5 million, and Homemaking Services and Group Day Care by $1.3 million.

The debt service budget is growing by $14.8 million. The FY 08 budget includes an increase of $3.2 million in debt service costs, related to the Environmental Bond Act of 2004. The funding for debt associated with previous NIFA borrowings is increasing by $8.7 million. The budget also includes an additional $1.4 million for increased costs associated with short term borrowings. The budget provides funding of $7.5 million in costs for new Revenue Anticipation Notes (RAN's) and Bond Anticipation Notes (BAN's) the County will issue in FY 08 to finance approximately $215.0 million of cash flow borrowings. The County also intends to enter the market in 2008 to finance approximately $293.7 million in long term capital needs, including the capital needs identified by the Sewer and Storm Water Resource District. This amount is partially offset by a reduction in debt service obligations on existing County bonds. For a more detailed review please see the Debt Service section of the Departmental Analysis.

The largest revenue source for the County is sales tax as illustrated in Chart 1.2. The FY 08 budget assumes that the collections for FY 07 will be $14.7 million below budget, at $1.015 billion. It is expected that there will be growth of 2.5% in FY 08 of $25.5 million for a total of $1.041 billion. The estimated escalation in sales tax is below the historical norm for the County (see Sales Tax section for further discussion). However, it now seems that even OMB's below budget projection for FY 07 may be at risk. Through August (there is a six week lag in monthly receipts), County sales tax collections are up an anemic 1.4% from the prior year. In order to reach OMB's $1.015 billion projection, collections for the remainder of the year will have to increase by 4.4% compared to the same period in FY 06. If the September through December growth, for example, is only 2.0%, the year will end with an annual growth rate of 1.6% and a sales tax deficit of $22.6 million. With that base, the FY 08 budget would represent 3.3% growth over the FY 07 projection.

Chart 1.2: FY 08 Major Funds' Revenue ($2.6 billion)



Major Funds excluding interdepartmental/interfund charges.

The 2008 Proposed Budget is being depicted as a no property tax increase budget. In fact in the Executive Summary it is stated, "The 2.5 billion budget holds the line on property taxes for the fifth consecutive year." While this representation is not inaccurate and does not impact the soundness of the budget, it is not consistent with the presentation of the budget, multi-year plan and the County's financial statements. The $2.5 billion budget refers to the major funds. Public Authorities Law §3651 section 10 (the NIFA Act) states:

> "Major operating funds" means the general fund, the police district fund, the police headquarters fund, the county parks fund and the fire prevention fund of the county, together with any other funds of the county or a covered organization from time to time designated by [NIFA].

As shown in Table 1.2 the tax levy for the major funds is increasing by $15.0 million. That increase is being offset by a $15.0 million decrease in the taxes for the Sewers. The sewers taxes are lower because of the use of its fund balance. The increased levy in the Environmental Bond Fund reflects the increased debt service costs associated with spending from the voter approved 2004 Environmental Bond Act.

Table 1.2: Property Tax Levy Comparison

Fund	2006 Adopted	2007 Adopted	2008 Proposed	2008 vs 2007
County Parks	$51,167,930	$0	$0	$0
Fire Commission	15,849,710	15,698,706	15,554,824	(143,882)
General	80,016,370	123,962,486	148,775,545	24,813,059
Police District	333,627,100	331,639,639	332,465,637	825,998
Police Headquarters	258,050,000	287,070,223	276,575,048	(10,495,175)
Subtotal Major Funds	**$738,711,110**	**$758,371,054**	**$773,371,054**	**$15,000,000**
Sewers	138,932,309	118,932,309	103,932,309	(15,000,000)
Enviromental Bond	0	4,128,256	7,374,561	3,246,305
College[1]	46,545,867	48,361,156	50,247,241	1,886,085
Grand Total	**$924,189,286**	**$929,792,775**	**$934,925,165**	**$5,132,390**

1. College Budget was adopted August 30, 2007

State aid is estimated to increase by $24.7 million in FY 08 as seen in Table 1.3. The bulk of the increase is $15.5 million in what the Administration describes as various State Legislative items. Nassau County is seeking State approval on numerous items that will increase County revenue, many of which are included as potential gap closers. Foremost amongst the State Legislative items is the Uniform Filing Fee bill. Currently, Assembly bill 9295 and Senate bill 6399 are under consideration of the State Legislature. If passed, Nassau County would be able to opt into the higher fee schedule. The current fee structure for the recording, entering, indexing and endorsing of real property documents is increasing from $5 to $20 and increases the per page fee from $3 to $4.

The County will receive an additional $8.0 million of state aid with the increased preschool education expenditures. The department receives 59.5% state aid reimbursement for approved services for education, related services, evaluations and transportation costs.

Revenue from federal aid is increasing by $8.5 million. Nearly half of this budgetary increase is reflected in the Correctional Center. During the adoption of the FY 07 budget the Administration believed that the federal government was going to discontinue reimbursements related to the State Criminal Alien Assistance Program. The program provides federal assistance for costs associated with incarcerating undocumented aliens. However, the program was not discontinued so it is included in the FY 08 budget for $1.7 million in reimbursements. The department also expects an increase of $2.1 million over the 2007 budget in federal revenue related to the reimbursement the County receives for housing federal inmates. The budget for federal aid is also increasing by $4.0 million for services provided by Social Services.

The category non-tax sources is increasing by $34.0 million. The largest component, $16.4 million of this increase, is due to the interfund revenue from the debt service charge backs to support and guarantee OTB and NHCC debt issuances.

The most significant activity is in the Parks Department. The Advertising, Market Based Revenue or Sponsorship and Marketing initiative spearheaded by Parks is expected to realize $4.5 million in FY 08.

The scope of this project has expanded to include bus shelters within the Planning department and buildings from DPW, to name a few. The FY 07 Budget included $1.0 million for this initiative, of which nothing has been attained to date. Please read the Parks section of the **Departmental Analysis** for further discussion.

Other items include investment income, ticket processing surcharge and the Affirmative Litigation Initiative. Investment income is increasing by $3.9 million compared to the FY 07 budget. In FY 08, the County Treasurer anticipates cash balances to remain consistent with the current year. However, since the FY 08 budget is greater than OLBR's current projection and the Federal Reserve may further reduce rates in FY 08, OLBR believes that the increase in investment income is a possible risk. The traffic and parking ticket surcharge is expected to produce $1.5 million in additional fine revenue. Due to the requirement for State approval this item is also at risk.

The Affirmative Litigation Initiative involves the County Attorney's office pursuing litigation against commercial entities that have failed but are required to submit the Annual Survey of Income and Expense (ASIE) form with the Assessor's Office. According to Section 6-30 of the Nassau County Administrative Code, such failure shall make the violator liable to a maximum penalty of $500. The Administration is assuming that it will secure fines from 4,000 violators at the maximum penalty. This item is in the proposed budget for $2.0 million.

Table 1.3: Major Funds Revenue FY 07 vs. FY 08

($'s in millions)

	2007 Adopted	2008 Proposed	Var.
Revenues			
Non-Recurring Revenue	$89.1	$57.5	($31.5)
Non-Tax Sources	275.1	309.1	34.0
Federal Aid	111.6	120.1	8.5
State Aid	195.5	220.2	24.7
Sales Tax[1]	1,030.9	1,042.6	11.6
Property Tax	758.4	773.4	15.0
Other Taxes	33.9	34.2	0.3
Total Revenues[2]	**$2,494.4**	**$2,557.1**	**$62.7**
Offline Revenue			
Tax Certs[3]	25.0	10.0	(15.0)
Adj Total Revenue	**$2,519.4**	**$2,567.1**	**$47.7**

1. Each year includes deferred revenue.

2. Excludes interdepartmental revenue & debt service chargebacks

3. Prior years' surplus used for tax ceriorari settlements.

The Administration plans to use $10.0 million of anticipated 2007 surplus to pay for tax certiorari settlements. If the 2007 surplus is insufficient, it will require the use of the County's undesignated fund balance to compensate for any shortfall. On a positive note, the use of non-recurring revenue is down by $31.5 million in the FY 08 budget to approximately $57.5 million of non-recurring revenue. The $57.5 million consists of the following:

1. $10 million use of fund balance for a contingency in the General Fund budget.
2. $24.5 million from the Retirement Contribution Reserve Fund.
3. $23.0 million of tobacco proceeds

While the use of non-recurring revenue has decreased the amount of risk has increased.

- Unless the economy and housing market dramatically improve in 2008, revenue from sales tax has the potential of being overstated by $13.3 million.
- State initiatives discussed on page 6 worth $15.5 million.
- A portion of the labor savings has to be considered a risk. The County should achieve some savings as they relate to the DAI and SOA based on the wage pattern established in the PBA Award. However, since that Award did not achieve the targeted savings, the award for DAI and SOA will probably also fall short.

  Since CSEA and ShOA do not have binding arbitration the County could choose to only offer and accept an agreement that meets its goals. Naturally, the unions do not have to accept those proposals, which would mean that the savings would not be achieved and the Comptroller would have to accrue a conservative, but reasonable expenditure level for salary increases. The risks for all the union and various payroll assumptions are $16.3 million.
- The FY 08 budget again includes $4.1 million in State aid reimbursement for payments the County makes to Fashion Institute of Technology in New York City (FIT) for Nassau County residents who attend the Institute. As in previous years, it is unlikely that the County will receive FIT aid from the State. The result is a $4.1 million risk to the FY 08 budget.
- The Advertising, Market Based Revenue or Sponsorship and Marketing Initiative is valued at $4.5 million. The County may actually realize more revenue in the future, but at this time the plans have to be further developed.
- Revenue from TPVA has a risk of $2.5 million because of the expected volume and the extra surcharge that needs approval from the State.
- Due to the lowering of interest rates, investment income could be overstated by $3.8 million.
- The budget contains increased fees for Parks ($1.1 million) and gun permits ($245,000), prior to seeking approval from the County Legislature.
- The Administration did not include $4.5 million for costs associated with inmate medical/psychiatric services. The current agreement with the Nassau University Medical Center includes a 21% subsidy charge for services provided to inmates. This was the

issue in 2007, the Administration expects to enter into a new agreement with NUMC that will eliminate the charge.

- Given the calculation change effective in 2009 for determining termination pay for PBA members the estimate of 100 police retirees in 2008 is optimistic. OLBR is stating the risk to be $5.5 million. Funds from the Employee Accrued Liability Reserve Fund may be available to help offset some of the risk.
- Public Safety overtime is estimated to be understated by $4.7 million based on the hiring of the new correctional officers and police officers. The number will grow if there is any slippage in the hiring plan.
- Based on recent health insurance rates information the funding may be understated by $3.2 million.

To offset some of these risks, there is potential funding available from the $10 million contingency reserve, vacant positions, attrition, and other miscellaneous items. After accounting for the hiring of 85 new correction officers, there is $10.0 million of funded vacant positions in the General Fund. In addition, attrition savings have a gross value of $9.9 million. The amount of attrition savings will be reduced based on the amount of back-filling that occurs during the year. Considering the fact that sales tax collections, FIT reimbursement and the State initiatives are not in the County's control, the budget is in a precarious position.

Table 1.4: Multi-Year Plan Projections (Major Funds)
($'s in millions)

	2008	2009	2010	2011	Average Change
Revenues					
Fund Balance	$10.0	$0.0	$0.0	$0.0	-100.0%
Non-Tax Sources	356.6	321.0	328.2	329.9	-2.6%
Federal Aid	120.1	122.4	125.4	128.6	2.3%
State Aid	220.2	226.3	232.5	238.9	2.8%
Sales Tax	1,042.6	1,073.8	1,111.3	1,150.1	3.3%
Property Tax	773.4	773.4	773.4	773.4	0.0%
Other Taxes	34.2	34.2	34.2	34.2	0.0%
Total Revenues	**$2,557.1**	**$2,551.1**	**$2,605.1**	**$2,655.1**	**1.3%**
Expenses					
Salaries	$853.6	$891.3	$924.7	$955.3	3.8%
Fringe	$405.4	427.7	458.4	472.2	5.2%
OTPS	444.8	471.2	487.2	489.9	3.3%
Direct Assistance	539.1	556.8	574.8	594.7	3.3%
Debt Service	314.2	328.8	334.5	340.6	2.7%
Total Expenses	**$2,557.1**	**$2,675.8**	**$2,779.7**	**$2,852.6**	**3.7%**
Surplus/Gap Projection	**$0.0**	**($124.7)**	**($174.6)**	**($197.5)**	

Over the course of the MYP, the growth in salaries, fringe benefits, and the inclusion of tax certiorari payments from the operating budget will outpace the County's largest revenue source, sales tax. Unlike recent years, pension costs are expected to remain relatively constant over the out-years.

- Salaries and wages will increase by $101.6 million, from an estimate of $853.6 million in FY 08 to $955.3 million in FY 11. This translates to an annual increase of 3.8%. It should be noted that only the Police Benevolent Association (PBA) has an agreement during the time period of the MYP. The Administration has assumed "savings" goals for each of the other unions in the estimated baselines as shown below.

Table 1.5: Labor Savings
($'s in millions)

Union	FY 09	FY 10	FY 11
CSEA	$14.4	$14.8	$15.3
ShOA	8.0	8.0	8.0
DAI	7.6	7.9	8.2
SOA	10.0	10.4	10.8
Total	**$40.0**	**$41.1**	**$42.3**

- Fringe benefits will increase by $66.8 million, from an estimate of $405.4 million in FY 08 to $472.2 million in FY 11. Health insurance for active and retired employees will increase by $57.3 million, from a budget of $220.7 million in FY 08 to $278.0 million in FY 11. This is based on rates growing by a blended average of 6.7% annually. Over the same time period pension expenses are expected to grow by $6.5 million and social security contributions by $7.5 million in relation to the growth in salaries. Partially offsetting the increase in FY 11 is $7.5 million of savings from better management of the budget.

- OTPS expenditures will increase by $45.1 million, from an estimate of $444.8 million in FY 08 to $489.9 million in FY 11. This reflects the full inclusion in the operating budget of funds to pay for tax refunds. The amount grows by $16.08 million over the four-year period. The amounts are $40.0 million in FY 08, $51.95 million in FY 09, $53.98 million in FY 10 and $56.08 million in FY 11.

  Also, Local Government Assistance (sharing of sales tax) will rise by nearly $6.4 million from $62.6 million in FY 08 to $69.0 million in FY 11 based on the estimated increase in sales tax collections. Other areas with significant growth are utilities and contractual services.

- Direct Assistance will increase by $55.6 million, from an estimate of $539.1 million in FY 08 to $594.7 million in FY 11. The largest increases are for Medicaid ($18.9 million), and Early Intervention/Pre-school Special Education Program ($19.0 million). There is a small corresponding increase in federal aid of $8.5 million and state aid of $18.7 million over the same time period.

- Debt Service will increase by $26.4 million, from an estimate of $314.2 million in FY 08 to $340.6 million in FY 11.

- Sales tax will increase by $107.6 million, from a projected amount of $1.04 billion in FY 08 to an estimate of $1.15 billion in FY 11. The MYP projects 3.0 % growth for 2009, and 3.5% in 2010 and 2011.

- Most of the other revenue sources are expected to have modest growth with the exception of non-tax sources. The decline in non-tax sources reflects the County's reduced reliance on use of its various reserves over the life of the MYP.

- The baseline assumption is that the property tax levy will stay constant from FY 08 to FY 11.

The out-year gaps estimated by the Administration as illustrated in Table 1.4 are $124.7 million in FY 09, $174.6 million in FY 10 and $197.5 million in FY 11. When the current County Executive presented his first budget in September 2002, he considered the greatest strength of his proposed budget and MYP to be extremely conservative baseline assumptions. The Administration stated:

> For years the County put itself at fiscal risk by embracing lofty revenue estimates or unrealistic expense reduction targets….In fact, in virtually every case, the County has adopted either an appropriately conservative or "worst-case scenario" assumption. During these difficult fiscal times, both locally and nationally, it is critical that the

County follows this course and be able to absorb all of the negative events that could possibly be anticipated.

This is not the case with the baseline assumption in the proposed MYP. It is OLBR's determination that the stated gaps are too low. The areas in question are sales tax, labor costs, the State initiatives and FIT reimbursement. The conservative approach would have assumed 2% growth for sales tax in the out-years, reduced labor savings and excluded very questionable items that require State action. While no one can predict the future, if managed from a conservative perspective, it is more likely that results will be positive, even if events materialize to an even lesser degree than was assumed. OLBR's adjusted gap is shown below.

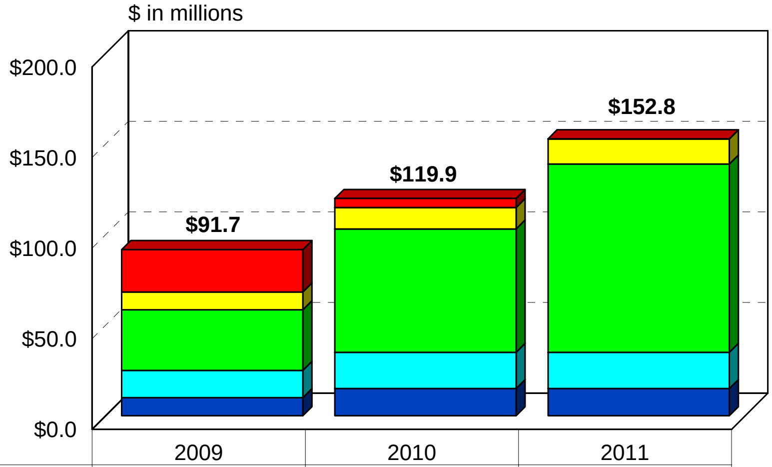
Table 1.6: OLBR Adjusted MYP Gap
($'s in millions)

	2009	2010	2011
OMB Gap	($124.7)	($174.6)	($197.5)
Sales Tax	($24.0)	($40.0)	($58.0)
State Initiatives and FIT	($19.6)	($19.6)	($19.6)
Labor	($16.7)	($17.2)	($17.7)
Adjusted OLBR Gap	($185.0)	($251.4)	($292.8)

It could easily be argued that in the spirit of determining a conservative MYP gap, more of the risky items contained in the FY 08 Executive Budget should be excluded from the Administration's baseline assumptions, and therefore further increasing the adjusted OLBR gap. However, just by making the four adjustments, the gap grows by $60.3 million in FY 09, $76.8 million in FY 10 and $93.3 million in FY 11. This is enough to demonstrate that the out-year problem is worse than what has been acknowledged by the Administration.

The County Executive has proposed several items to help reduce the Administration's projected out-years gap. The plan encompasses a two-pronged approach. The first part is illustrated in Chart 1.3.

Chart 1.3: Gap Closing Measures 2009 -2011



	2009	2010	2011
Tobacco Proceeds/Reserves	$23.4	$5.0	$0.0
Initiatives	$9.8	$11.8	$13.9
Property Tax/New Construction	$33.5	$68.1	$103.9
Health Insurance Savings	$15.0	$20.0	$20.0
Workforce Management	$10.0	$15.0	$15.0

The largest component is Property Tax/New Construction, with a value of $103.9 million in FY 11. The increase from property taxes is based on an annual CPI-related increase of 3.9% in the total property tax levy of the Major Funds in each year of the Plan worth $92.2 million in FY 11. The additional $11.7 million is the estimated value of property taxes that could be added from new construction. The 2007-2010 MYP did not include revenue from capturing the value of new construction, although prior plans did.

The Administration has stated that although they have had a property tax increase in prior plans they have not increased the taxes. However, the reality is that for the major funds, which the gap closing measures are addressing, FY 08 will be the second straight year that the levy for the major funds has been increased as demonstrated in Table 1.2: Property Tax Levy Comparison on page 6. The increases have been below the amounts required in the Plans and have been offset by corresponding decreases in sewer taxes.

The second largest gap closing component of the Plan comes from Health Insurance Savings. The County continues to seek alternatives to reduce the cost of both active employee and retiree health insurance. This item is worth $15 million in 2009, $20 million in 2010 and $20 million in 2011. The Administration has put together a work group to explore health insurance savings options. They will look at a myriad of options ranging from shared cost reductions, self-insurance and the possible benefit of a change in provider. It appears that based on the rates the County is paying there is an opportunity for savings. However, since many of the changes that the Administration is considering will require the approval of the unions and perhaps NYSHIP as well, this item is a risk.

The Administration expects to achieve Workforce Management Savings through evaluation of every hire request against performance measures established for each department. It is assumed that with attrition the County will save $10.0 million in 2009, $15 million in 2010 and $15 million in 2011. The assumptions are reasonable.

Smart Government Initiatives have a MYP adjusted value of $9.8 million in FY 09 growing to $13.9 million in FY 11 as shown in Table 1.7. The highlighted initiatives were in the County's April 2007 MYP Update. Each initiative has been reviewed in the OLBR Departmental Analysis.

Table 1.7: Smart Government Initiatives

Department	Initiative	FY09	FY10	FY11
Correctional Center	Electronic Court Appearances	$500,000	$520,000	$540,800
PD	Police Academy Adjunct Instructors	445,329	463,587	482,595
PD	Radio Tower Usage Fee	768,000	791,808	816,354
Health	Day Camp Inspection Fees	78,000	78,000	78,000
Health	Pre-Demolition Site Inspection Fees	67,000	67,000	67,000
Health	Realty Subdivision Fee	25,000	25,000	25,000
Health	Tanning Salon Fees	4,000	4,000	4,000
Physically Challenged	Lost Handicapped Permit Fee	25,000	25,000	25,000
Social Services	Persons in Need of Supervision (PINS)	52,860	52,860	52,860
OHIA	New York State Empire Zones Program	2,000,000	4,000,000	6,000,000
OMB	Risk Management	75,000	175,000	175,000
OMB	Revenue Options	1,289,795	1,651,099	1,715,614
Public Works	Energy Efficiency	1,064,130	546,128	546,128
Assessment Review	Commercial Tax Grievance Filing Fee	3,400,000	3,400,000	3,400,000
	MYP Adjusted Total	**$9,794,114**	**$11,799,482**	**$13,928,351**

The smart government initiatives only include two proposals that will require approval from the State. They are the commercial tax grievance filing fee and the lost handicapped permit fee. The commercial tax grievance filing fee has appeared in previous MYP's and continues to be considered a risk. Further discussion of each initiative is included with its responsible department in the OLBR Departmental Analysis document.

There are two gap closing measures that will further exhaust the County's reserves. The plan is to use $23.0 million in 2009 and $5.0 million from the tobacco proceeds. Also, the County will draw down the balance of $0.4 million from the Pension Contribution Reserve Fund in 2009.

The Administration will continue to use the MYP to demonstrate its commitment to gradually include the payment for ordinary judgments and settlements in the operating budget. As shown in Table 1.8, the County will allocate $5 million in 2009, $10 million in 2010 and $15 million in 2011 for judgments and settlements. After this action, coupled with the gap closing measures, the County is left with a gap of $38.0 million in 2009, $64.7 million in 2010 and $59.7 million in 2011. The Administration plans to address this remaining gap with the options listed in Table 1.8. Several of the options have previously been components of the County's MYP.

Table 1.8: Options to Close Remaining Gap
($'s in millions)

	2009	2010	2011
Estimated Baseline Gap	**($124.7)**	**($174.6)**	**($197.5)**
Total Gap Closing Measures	91.7	119.9	152.8
PAYGO Judgments & Settlements	(5.0)	(10.0)	(15.0)
Deficit After Gap Closing Measures	**($38.0)**	**($64.7)**	**($59.7)**
Options to Close Remaining Gap			
Video Lottery Terminals	20.0	20.0	20.0
Cigarette Tax	28.4	28.4	28.4
Red Light Cameras	7.0	7.0	7.0
Residential Energy Tax	21.0	21.6	22.3
Discretionary Programming Reductions	7.5	7.5	7.5
Debt Restructuring	0.0	5.0	5.0
Total Options	**$83.9**	**$89.5**	**$90.2**
Surplus/(Deficit) if All Successful	**$45.9**	**$24.8**	**$30.5**

If all the options could be successfully implemented the County would have a surplus of $45.9 million in 2009, $24.8 million in 2010 and $30.5 million in 2011. While even the Administration does not expect this to happen, it is very questionable if any of them will materialize.

Video Lottery Terminals

The Administration has estimated that the County could receive $20 million annually starting in 2009 from the installation of video lottery terminals (VLT's) at Belmont Raceway as an option to close the remaining gap. The Office of Management and Budget's revenue estimate assumes that 5,000 VLT's would be installed at Belmont Park, that the average winnings per day would be $350, that the terminals would operate 360 days a year, that the County would partner with the racino operator, and that the County would retain 3.2% of the gross revenues.

To date, Governor Spitzer has stated, "The recommendation to the legislature does not contemplate development of a VLT facility at Belmont Park".[1] The Governor signed a Memorandum of Understanding, (MOU), with the New York Racing Association, (NYRA), recommending that they be awarded the State's racing franchise to operate Aqueduct Racetrack, Belmont Park and Saratoga Race Course. The Governor plans to award a separate franchise to an experienced gaming operator to operate as many as 4,500 VLT's at Aqueduct Racetrack.[2] A letter has been released seeking interested experienced gaming operators to operate a VLT facility at Aqueduct. The proposals are due by October 15, 2007.

[1] "State Seeks Experienced Gaming Operator For VLT Facility At Aqueduct", http://www.ny.gov/governor/press/index.html, September 12, 2007.
[2] "Governor Spitzer Recommends Restructured NYRA Be Awarded Thoroughbred Racing Franchise", http://www.ny.gov/governor/press/index.html, September 4, 2007.

This item appears to be very unlikely based on the actions by the Governor. Even if the Governor changes his position on Belmont, it does not necessarily mean that any revenue would go to the County government, it could just as easily go to the school districts.

Cigarette Tax

Starting in 2009 the Administration has included $28.4 million annually from the imposition of a $2 per pack cigarette tax. This item requires State approval which the County has sought unsuccessfully in the past. Of the various municipalities in New York, only New York City has been approved for a tax, none of the counties. Therefore this option would appear to be very optimistic. Also, as consumption continues to decrease the revenue estimate should be lowered.

Red Light Cameras

Revenue projected for red light cameras depends directly on State authorization. There is a proposed bill in the State Senate (S4296) and Assembly (A7181) that would empower the County to install and operate traffic-control signal photo violation-monitoring devices at no more than 50 intersections within the County. Nassau County could supplement its law enforcement capacity by installing a red light camera system to identify vehicles that run red lights. New York City has had this system in operation since 1994. While the Administration has promoted this measure as a public safety initiative, it is estimating that the County will earn $7.0 million annually in net revenue.

Discretionary Programming Reductions

The only item that is in the sole control of the County Executive is discretionary programming reductions valued at $7.5 million annually starting in 2009.

Residential Energy Tax

In recent plans the Administration has included implementing a residential energy tax. They have estimated the County could earn $21.0 million in FY 09, $21.6 million in FY 10 and $22.3 million in FY 11. These amounts are less than half of what has been proposed in previous plans

Debt Restructuring

The Administration has included $5 million in 2010 and 2011 from savings from a possible debt restructuring in the future. Market forces at the time will dictate if this gap closing item is feasible.

Conclusion

As the County continues to use reserves to fund some of its expenditures it is coming perilously close to violating the policy the Administration established. The Fiscal 2006 – 2009 MYP included a Fund Balance and Reserve Policy, dated September 15, 2005.[3] That document was meant to provide "a framework for the accumulation of unreserved fund balance, the constitution of reserve funds, and the policy purposes for which the County ought to use these financial resources." The County will be $13.0 million short of the unreserved fund balance goal at the end of 2007 and based on the MYP the shortfall would grow to $39.3 million at the end FY 11.

The fiscal practices and policies that were established by the Administration were well thought out and the County should continue to adhere to them. The conservative budgeting practices in the past provided a cushion against unforeseen expenses or revenue shortfalls, while helping to generate budget surpluses each year. These were the things that led to fiscal recovery and numerous bond rating upgrades.

OLBR is not projecting doom and gloom at this stage, but the future is not as bright as it once appeared. In the past when the MYP gap closers were evaluated the out-year initiatives were met with skepticism, but only mild concern because it was understood that the baseline assumptions were conservative, and therefore the gap was probably overstated. Now we are faced with optimistic assumptions, which have led to understated out-year gaps. Without true structural reform the County's financial position will deteriorate. If the County is not going to get legislative assistance from the State or significantly raise revenues, then the level of service and expenditures will need to be re-examined. Three priorities that should be considered are bargaining for fair and affordable labor agreements, reducing debt service, and trying to reduce tax certiorari payments. January 2008 does offer options to the County in two areas, neither of which OLBR is advocating for. When the current CSEA contract expires December 31, 2007, so does the no-layoff provision. Also, the NIFA legislation's limitation on the County's ability to borrow for tax certiorari payments ends.

It was determined by the Administration that $50 million was the proper level to include in the operating budget each year to maintain the backlog at a reasonable level. The question that should be asked is, what steps can be done to reduce this burden on County taxpayers? This is an expenditure that provides no benefit.

Debt service is a hidden cost that usually is not discussed when capital projects are examined. Debt service is 12.3% of the County's $2.6 billion budget. It is an area that is expected to continue to grow in the out-years. When NIFA restructured some of the County's debt it provided short term debt service relief but burdened the out-years. Also, the capital program has been larger than was envisioned in the original MYP. Therefore, the capital program that is released October 15, 2007 should face the same level of scrutiny as the operating budget, because that is the only way to limit those future costs.

The 2008 Executive Budget does not sufficiently provide for unforeseen risks and the problems are magnified in the out-years. Any hiring of personnel should be justified as important to public safety or have a long-term financial benefit. As the reserves decline the County cannot afford any slippage.

[3] Fiscal 2006– 2010 Multi-Year Financial Plan, pp. 111-116

2. 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, 4.25% is the County's share, 0.375% goes to the Metropolitan Commuter Transportation District. The County distributes one seventeenth of its collections to the Town of Hempstead, Town of North Hempstead, Town of Oyster Bay, City of Glen Cove and the City of Long Beach. 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 08 Executive Budget is $1.04 billion. This estimate is based on OMB's assumption that collections will grow at 2.1% annually in FY 07 and then 2.5% in FY 08.

It should be noted that the OMB's projected 2.1% rate of growth for FY 07 is based upon FY 06 collections of $994.2 million, which is the sales tax total recorded in the County's financial system. The number is made up of the following components:

Cash collections on accrual basis - 2006	991,154,797
Current year deferred sales tax	(1,865,803)
Prior year deferred sales tax	5,995,169
Glen Cove adjustment	(45,763)
NIFA setasides for operations	(1,010,000)
Balance per NIFS 2006	**994,228,400**

Using that FY 06 balance, the $1.02 billion projected for FY 07 collections would indeed represent growth of 2.1%. However, as can be seen from the NIFS reconciliation, the financial system is accounting for various adjustments, such as prior and current year deferrals and NIFA set asides, which have nothing to do with the amount of sales tax that was collected in FY 06. The deferred sales tax represents the amount that a particular year's part county collections are over or under budget. The FY 06 prior year deferred sales tax of $6.0 million was actually received in FY 04.

The sales tax number that OLBR credits to FY 06 is made up solely of the gross collections less the Glen Cove adjustment, which the County does not retain. Using OLBR's FY 06 base, the difference between a 2.1% rate of growth in FY 07 and a 2.4% rate is approximately $3.2 million. This gap would continue into the out-years of the MYP, growing to $3.7 million in FY 11.

Table 2.1, on the following page shows annual gross sales tax collections since FY 02, OMB's projected FY 07 total, and the budgeted amounts in the 2008 – 2011 Multi-Year Financial Plan. The MYP projects 3.0 % growth for 2009, and 3.5% in 2010 and 2011.

Table 2.1: Annual Sales Tax Collections

Fiscal Year	Actuals	Growth
2002	865,444,257	4.1%
2003	895,373,119	3.5%
2004	939,822,695	5.0%
2005	953,783,223	1.5%
2006	991,109,034	3.9%
Fiscal Year	**OMB Projections**	**Growth**
2007	1,015,107,197	2.4%
2008	1,040,602,672	2.5%
2009	1,071,820,752	3.0%
2010	1,109,334,478	3.5%
2011	1,148,161,185	3.5%

Note: Table shows gross collections for each year, and does not reflect adjustments contained in the County's financial statements.

In addition to the regular sales tax, $2.0 million has been budgeted in FY 08 as deferred sales tax. Since this amount was received in 2006, it is not included in the 2008 total shown in the chart above. Also not included is the $1.1 million deferred sales tax credited to FY 07.

If OMB's FY 07 projection is attained, then the ten-year average compounded increase for the period 1997 through 2007 would be 3.88%, with a low of 1.5% in 2005; and a the high of 6.4% in 2000. Over the last five years of that period the average would be a more modest 3.24%. The sales tax growth rate assumption for FY 08 of 2.5% is not unreasonable considering the 10-year and 5-year averages. The out-year rates included in the MYP also fall within the ten-year range, but the FY 10 and FY 11 rate of 3.5% is higher than the five-year average.

However, it now seems that even OMB's projection of a $14.6 million shortfall on the FY 07 budget of $1.029 billion may be at risk. As can be seen in the chart below, through August 2007 County sales tax collections are up an anemic 1.4% from the prior year (there is a six week lag in monthly receipts). In order to reach OMB's $1.015 billion, collections over the remainder of the year will have to increase by 4.4% compared to the same period in FY 06. If the September through December growth, for example, is only 2.0%, the year will end with an annual growth rate of 1.6% and a sales tax deficit of $22.6 million. With that base, the FY 08 budget would represent 3.3% growth over the FY 07 projection.

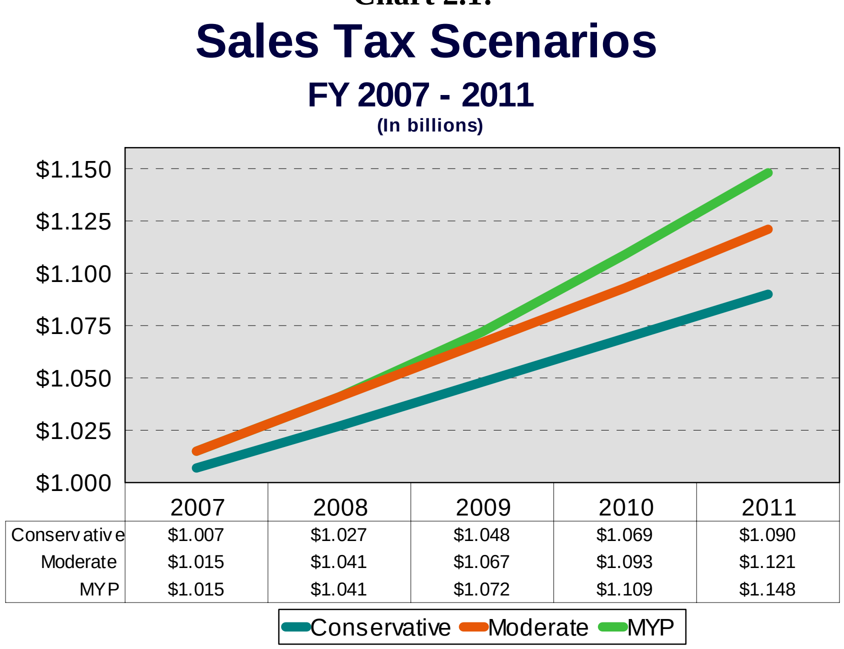
Table 2.2: 2006 vs. 2007

Gross Sales Tax Collections

	2006	2007	$ Variance	% Variance
January	$68,992,852	$73,284,391	$4,291,539	6.2%
February	92,748,766	88,802,661	(3,946,105)	-4.3%
March	73,777,091	74,308,780	531,689	0.7%
April	73,713,154	74,988,828	1,275,674	1.7%
May	97,238,461	101,347,015	4,108,554	4.2%
June	78,844,061	80,866,951	2,022,890	2.6%
July	74,571,787	78,022,147	3,450,360	4.6%
August	99,489,527	97,174,746	(2,314,782)	-2.3%
	$659,375,700	$668,795,520	$9,419,819	1.4%

The chart on the following page illustrates the risks and opportunities for County sales tax collections in the out-years of the financial plan. The conservative scenario assumes that collections for the remainder of 2007 will grow at a rate of only 2.0% and then 2.0% annually thereafter. The moderate scenario assumes that OMB's FY 07 projection will be realized, with out-year growth of 2.5%. The final, optimistic scenario uses the sales tax numbers in the proposed Multi-Year Plan. In 2011 the difference in annual collections between the moderate and MYP scenarios reaches $27.0 million.

Chart 2.1:

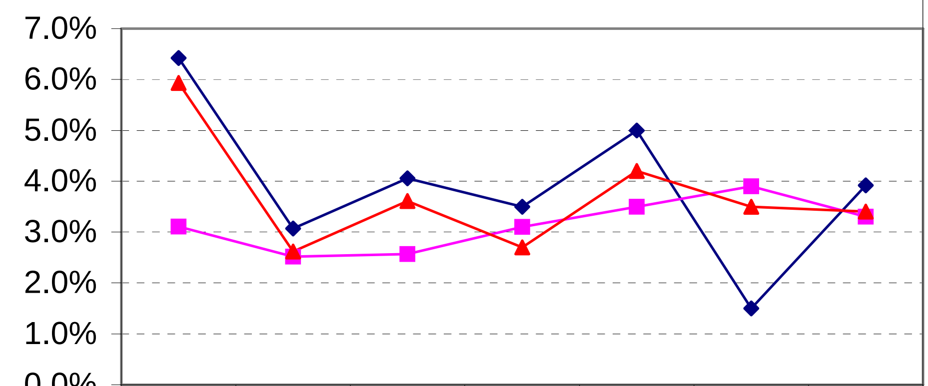


In previous years the Multi-Year Financial Plan has included a gap-closing measure referred to as sales tax growth in line with historic averages. This measure assumed that sales tax would grow at an annual rate of 4.0% in the out-years rather than the lower rates built into the baseline. The proposed FY 08 – FY 11 MYP does not utilize sales tax as a gap closer.

There is one sales tax related item that does appear in the MYP which we feel is incorrect. In years FY 09 through FY 11 there is $2.0 million included for deferred sales tax collected in excess of budget. As mentioned previously, this revenue represents the amount that part county sales tax receipts come in over or under budget. Since there is a two year recording lag, the deferral for FY 08, for example, is determined by the FY 06 collections. Knowing, at this time, the FY 06 results, and therefore the deferral amount, it is proper to budget that revenue in FY 08. However, the FY 09 deferred amount will be linked to the FY 07 results, FY 10 to FY 08, and so on. To budget for this line in the out-years, then, is to plan for a deferral of revenue which has not yet been received. In addition, it is possible for the part county collections in any given year to finish below budget, in which case there would not be any revenue to defer.

Historically, regional consumer price (CPI) percentage growth and national real gross domestic product (GDP) percentage growth have provided a good indication of the annual percentage growth in County sales tax collections. Indeed, in six of the past seven years, County sales tax percentage growth has marginally surpassed the annual percentage growth rate seen in both CPI and GDP. The chart below details the annual percentage growth rates seen in regional CPI, national GDP and County sales tax collections.

Annual Percentage Change



	2000	2001	2002	2003	2004	2005	2006
Sales Tax Collections	6.4%	3.1%	4.1%	3.5%	5.0%	1.5%	3.9%
Reg. CPI-U	3.1%	2.5%	2.6%	3.1%	3.5%	3.9%	3.3%
US GDP	5.9%	2.6%	3.6%	2.7%	4.2%	3.5%	3.4%

Sources: U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis

The 2.5% proposed budget growth rate seems achievable from both a historical perspective and based upon the current forecasts of professional economists. The chart on the following page details the current forecast for the national CPI and GDP.

Professional Forecasts for United States Real GDP and CPI 2008 Annual Percentage Growth				
	MBAA	**Federal Reserve**	**Moody's**	**Average Forecast**
GDP	2.4%	2.8%	2.3%	2.5%
CPI	2.1%	2.2%	1.9%	2.1%

However, given the current status of the economy, it is possible that the previously detailed forecasts are optimistic. Moody's economist Mark Zandi now opines that there is a 40% chance that the economy will fall into a recession[1], and that foreclosure filings in Nassau County increased 27.4% from the second quarter 2007 to the third quarter 2007. In September 2007 there were 352 foreclosure-related filings. Additionally, the foreclosure market seems to be caught in a deflationary spiral. Industry experts state that investors are walking away from purchases. Investors are adopting a wait-and-see approach to purchasing – why buy now when the property will be cheaper a month from now? This investment approach can be detrimental for an economy, especially if it seeps into all sectors. The wait-and-see approach can result in a cessation of consumer spending. Since consumer spending accounts for two-thirds of all economic activity, a deflationary attitude towards spending can severely curtail economic activity.[2] For more information regarding the status of the regional economy, see the Economics section.

[1] Aversa, Jeannine, "Fed Interest Rate Cut Seen This Week", Newsday.com, September 17, 2007.
[2] Yan, Ellen, "Long Island Foreclosures Rise,, and No One Wants the Houses", Newsday.com, October 11, 2007.

3. ECONOMIC REPORT

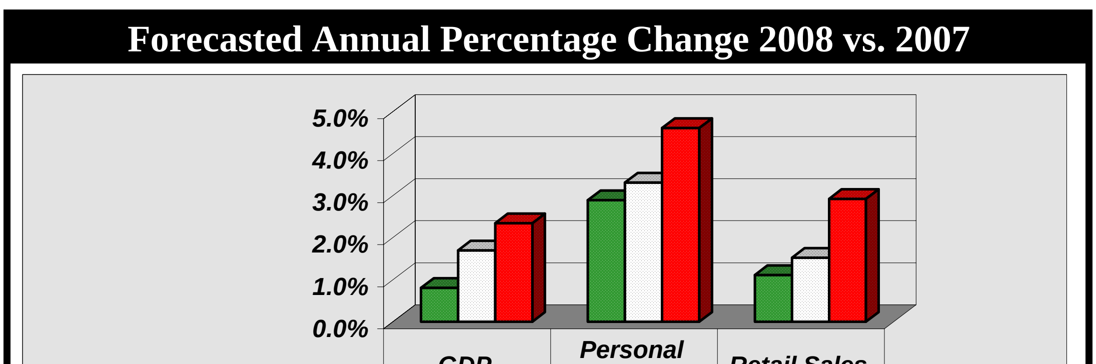
National and Regional Economic Outlook

On September 18, 2007, responding to signs of a weakening economy, the Federal Reserve cut its federal funds rate by half of a percent.[1] It was hoped that this action would induce more spending and investment, thereby stimulating overall economic activity. It is imperative that this goal is accomplished, especially since the 2008 Nassau County economic forecast detailed below reveals sluggish economic growth coupled with significant declines in the regional housing market. Any negative occurrences could result in negative overall economic growth.

Consumption

Chart 3.1 details the current forecast for annual growth in both regional and national GDP, personal income and retail sales. Despite a negative local housing and employment forecast, no recession is expected in 2008. Netting out the projected increase for regional consumer prices, the forecasted increase for real Nassau personal income growth is 1.3%. The 2.3% predicted US annual growth for GDP and 2.9% projected US annual growth for retail sales make 2.5% growth in County sales tax collections appear achievable. Moreover, the most recent indicator of actual consumer spending shows resilience on the part of consumers. The Commerce Department's September 2007 consumer spending index rose by 0.6% from the prior month, surpassing market expectations of a 0.2% increase.[2] Preliminary indicators reveal that consumer resilience may soften towards the end of 2007. According to Ken Perkins, President of Retail Metrics, LLC, a Massachusetts based research company, September sales are softening. The combination of abnormally warm weather, high food and energy prices, a sluggish housing market and tightening credit standards lessened retail sales in September.[3]

Chart 3.1: National and Regional Consumption



	GDP	Personal Income	Retail Sales
Nassau	0.8%	2.9%	1.1%
Suffolk	1.7%	3.3%	1.5%
United States	2.3%	4.6%	2.9%

Source: Moody's Economy.com

[1] "Fed Cuts Rates by a Half Point", CNN/Money.com, September 18, 2007.
[2] Kavilanz, Parija B., "Retail Sales Beat Forecasts", CNN/Money.com, October 12, 2007.
[3] D'Innocenzio, Anne, "Retailers Report Sluggish September Sales", Newsday.com, October 11, 2007.

Housing

The slowdown in the housing market coupled with the simultaneous credit crunch has placed significant downward pressure on both the regional and national economies. Most sectors of the economy have attributed recent sub-par results to ripple effects of the housing market crisis. Whether the effects are real or imagined, the resulting decline in consumer confidence could cause consumers to rein in their spending. The most recent Siena Research Institute regional consumer confidence survey found that consumer confidence throughout the New York City region has fallen 9.2% from the prior month and 0.5% from this time last year. Moreover, a recent National Association of Business Economics poll found that the risk of massive defaults on sub prime mortgages and heavy debts now pose a bigger threat to U.S. economic prosperity than terrorism.[4]

The housing slowdown and simultaneous credit crunch had a direct impact on the new construction housing market and housing sector employment. According to the Long Island Builders Institute, Long Island suffered a $525 million loss in housing construction for the first six months of 2007 compared to the same time in 2006.[5] Additionally, regional housing sector employment has declined. The crisis in the housing market forced the American Home Mortgage Investment Corp. into bankruptcy. This caused 1,400 Long Island residents to lose their jobs.[6]

Some of the indirect, ripple impacts of the housing market crisis are detailed below.

1) The rental market is said to be experiencing greater competition and higher rental rates as current renters are unable to qualify for mortgages and prior homeowners must bid on a fixed apartment supply. Rents are expected to rise 4.0% through 2008.[7]

2) Government budgets throughout the country have had to implement cost saving initiatives as rising defaults and lower home sale prices have placed downward pressure on real estate taxes and fees as well as sales taxes.[8]

3) Auto dealers have begun to offer generous buyer incentives to counter what they see as the negative impact of the housing slowdown. Industry experts opine that total U.S. auto sales could fall below 16 million vehicles, the lowest amount seen in a decade.[9] During the 2000 through 2004 time period, gas station and motor vehicle & parts sales constituted 17.9% of Nassau County taxable sales.[10]

4) According to Bill Hornbarger, fixed income strategist at A.G. Edwards, companies are having a more difficult time finding buyers for their debt.[11]

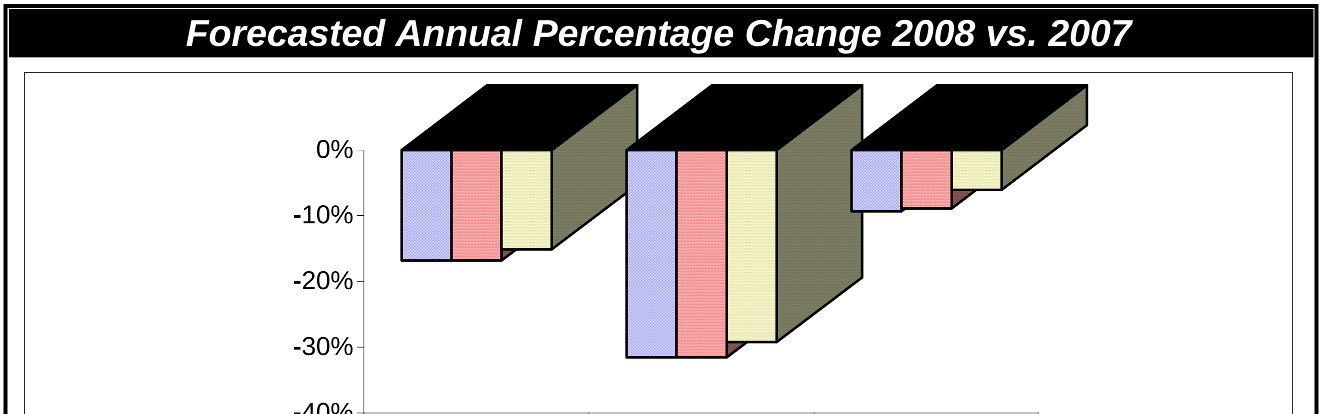
---

[4] "Poll: Subprime Big Threat to Economy", CNN/Money.com, August 27, 2007.
[5] Freedman, Mitchell, "Home Building Slump May Forge New Planning for LI", Newsday.com, October 3, 2007.
[6] Mason-Draffen, Carrie, "Mortgage Turmoil Hurts Long Island Job Market", Newsday.com, September 20, 2007.
[7] Knox, Noelle, "Turmoil in Mortgage Market Hits Renters in the Wallet", USAToday.com, August 30, 2007.
[8] Merrick, Amy, "Housing Slump Strains Budgets of States, Cities", Wall Street Journal, September 5, 2007.
[9] Welsh, Jonathan, "Auto Makers Pile on Buyer Incentives", Wall Street Journal, September 11, 2007.
[10] New York State Department of Taxation and Finance, Taxable Sales by County Figures.
[11] Shell, Adam, "Corporations Have Trouble Borrowing", USAToday.com, July 23, 2007.

5) In the market for commercial real estate, industry experts state that deals in contract are bogging down, with buyers invoking clauses in the fine print to opt out, or demanding and getting a price cut. Other properties are being taken off of the market.[12]

The slowdown is expected to continue in 2008. According to former Federal Reserve Chairman Alan Greenspan, we are not through this yet, there could be an "Act II" in which falling house prices feed into slower consumer spending.[13] The chart below details the 2008 projections for regional and national mortgage originations, refinancings and sale prices. All areas surveyed are expected to decline for all variables. Nassau County is projected to record the greatest home price decrease of all areas surveyed. Nassau and Suffolk are forecast to record greater declines in both mortgage originations and refinances than that experienced throughout the nation.

Chart 3.2: National and Regional Housing Markets



	Originations	Refinances	Median Sale Price
Nassau	-16.8%	-31.6%	-9.3%
Suffolk	-16.8%	-31.6%	-8.9%
United States	-15.1%	-29.2%	-6.1%

Source: Moody's Economy.com

Employment

In August 2007, from an annual view point, the Long Island employment market increased by 7,700 jobs, the equivalent of 0.7% job growth. That 0.7% annual growth rate was below the 1.0% mark indicative of a healthy economy. Not only did Long Island experience sluggish job growth, but its unemployment rate increased slightly to 3.9%.

The areas which recorded the strongest job growth were the professional and business services, education and health services and trade, transportation and utilities. The financial-activities sector, which incorporates real-estate professionals, lost 2,700 jobs over the past twelve months.[14]

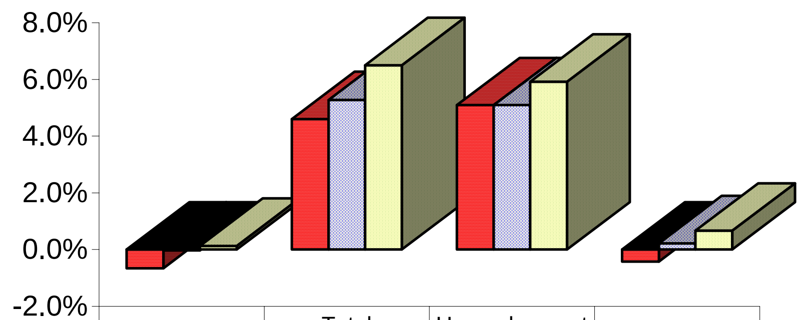
The sluggish job growth is expected to continue through 2008. The chart on the following page details the current total employed, total unemployed, unemployment rate and non-farm job growth forecast for

[12] Moore, Elizabeth, "LI Commercial Real Estate Deals Elude Closing", Newsday.com, September 26, 2007.
[13] "Greenspan: Subprime Loans Not the Problem", CNN/Money.com, October 2, 2007.
[14] Mason-Draffen, Carrie, "Mortgage Turmoil Hurts Long Island Job Market", Newsday.com, September 20, 2007.

Nassau, Suffolk and United States. The chart reveals that Nassau County is the only area surveyed which is expected to record a decrease in the number of employed residents and the number of non-farm jobs.

Chart 3.3: National and Regional Employment

Forecasted Annual Percentage Change 2008 vs. 2007



	Total Employed	Total Unemployed	Unemployment Rate	Non Farm Jobs
Nassau	-0.7%	4.6%	5.1%	-0.4%
Suffolk	0.0%	5.3%	5.1%	0.2%
United States	0.1%	6.5%	5.9%	0.7%

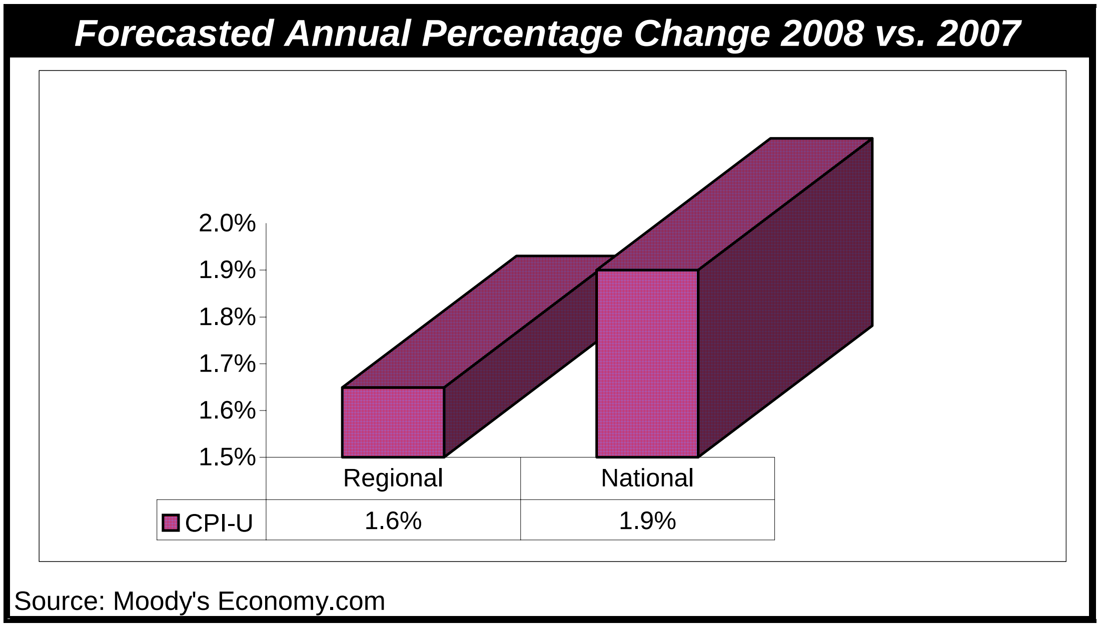
Source: Moody's Economy.com

Consumer Prices

As of August 2007, regional consumer prices have risen 1.9% from the prior year. Nationally, consumer prices have escalated 2.0%. The August annual growth rates were the lowest recorded in 2007. The transportation and energy sectors recorded the greatest annual percentage price declines.

The forecast annual consumer price percentage growth rates for 2008 are in line with the current price increases according to Moody's economy.com. However, slightly higher inflation amounts are predicted by the Mortgage Bankers Association and the Federal Reserve Survey of Professional Forecasters. Those organizations see national consumer prices rising 2.1% and 2.2% respectively in 2008. Chart 3.4 on the following page depicts the current 2008 forecast for regional and national consumer price annual percentage growth.

Chart 3.4: National and Regional Consumer Prices



Tourism

The tourism industry in Nassau County has been recording robust growth in 2007. As of August 2007 average room rental rates have increased to $138.90 from $133.92 in August 2006. That represents a 3.7% annual growth rate. Although economic theory posits an inverse relationship between price and quantity, heightened average room rental rates in Nassau County have occurred in tandem with higher occupancy rates. From August 2006 to August 2007, Nassau County hotels and motels recorded an 8.7% increase in occupancy rates. Additionally, throughout 2007, occupancy rates have averaged 75%. In 2006, occupancy rates averaged 72.6% through August.

The robust growth seen in Nassau County's tourism industry will help stimulate the overall economy of the County. This additional catalyst is essential, especially since job, employment, consumer confidence and home sales are expected to experience slow to negative annual percentage growth rates. The tourism growth will result in increased hotel / motel tax collections.

Conclusion

The regional and national economies are in a precarious position. The housing slowdown and resultant credit crunch have put tremendous stress on economic activity. The Commerce Department revised second quarter 2007 national real GDP down to 3.8% from its initial 4.0% reading.[15] Experts have forecasted third and fourth quarter 2007 national real GDP readings to come in below the 3.8% recorded in the second quarter of 2007. In light of the economic uncertainty, it is positive that the proposed 2008 budget estimated reduced growth in both sales tax and County Clerk revenues. Additionally, the 2008 budget includes additional hotel /motel tax collections. This increase seems reasonable given the current strong growth recorded in average room rental rates and occupancy rates.

[15] "GDP Revised Down to 3.8% Annual Growth Rate", USAToday.com, September 27, 2007.

4. LABOR

Labor Reductions & Concessions

As personal services makes up about 49% 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. In 2007 an award was granted for the PBA union. While there are aspects of the Award that the Administration can claim as a success, the Administration fell short of its goals. In fact, the problem in the out-years is further exacerbated because some of the increased costs associated with 2007 and 2008 are deferred until 2009 and 2010, respectively. The DAI contract expired December 31, 2006 and the SOA contract will expire December 31, 2007. The Administration has not demonstrated how it intends to achieve these savings, although the DAI and SOA contracts generally follow the lead of the PBA union. There is some concern that although savings have been achieved with the PBA award, as a percentage of total cost, the DAI and SOA budgeted savings are significantly higher than the excessive PBA targets. In addition, there are operational differences between the PBA and the DAI and SOA that may make concessions more challenging.

Table 4.1 shows all savings figured into the baseline for the DAI, SOA, CSEA and ShOA unions. These savings grow by 6.1% in 2009, 2.8% in 2010 and 2.9% in 2011. CSEA's contract expires on December 31, 2007 and ShOA has been without a contract since December 31, 2004. Contractual savings budgeted for the four unions without a contract in 2008 is $37.7 million in FY 08.

Table 4.1: Out-Year Plan Savings

($'s in millions)

Union	FY 08	FY 09	FY 10	FY 11
CSEA	$14.0	$14.4	$14.8	$15.3
ShOA	7.0	8.0	8.0	8.0
DAI	7.3	7.6	7.9	8.2
SOA	9.4	10.0	10.4	10.8
Total	**$37.7**	**$40.0**	**$41.1**	**$42.3**

OLBR anticipates a possible shortfall in the police funds of about $19.7 million. This is dependent on the timing of promotions and transfer of personnel between departments. There are resources within the budget that can be used if the savings fall short of budget.

Table 4.2 shows how contractual savings are allocated among the funds.

Table 4.2: Out-Year Plan Savings
($'s in millions)

Fund	Department	2008 Budget	2009 Budget	2010 Budget	2011 Budget
Police District					
	Police Department	$3.2	$3.5	$3.6	$3.8
	Fringe Benefits	1.2	1.3	1.3	1.4
District Total		**4.4**	**4.8**	**4.9**	**5.2**
Police Headquarters					
	Police Department	$9.0	$9.4	$9.8	$10.1
	Fringe Benefits	3.3	3.4	3.6	3.7
Headquarters Total		**12.3**	**12.8**	**13.4**	**13.8**
Police Total		16.7	17.6	18.3	19.0
General					
	Correctional Center	5.3	6.0	6.0	6.0
	Fringe Benefits*	15.7	16.4	16.8	17.3
Total General Fund		**21.0**	**22.4**	**22.8**	**23.3**
Total Contract Savings in the Baseline		**$37.7**	**$40.0**	**$41.1**	**$42.3**

* In 2008 $1.7 million is for ShOA and $14 million for CSEA savings.

The County Executive's Multi-Year Plan includes workforce management or turnover savings of $10 million in FY 09 and $15 million in FY 10 and FY 11. OLBR considers these savings to be conservative and easily achieved. No turnover savings were included in the FY 08 Budget.

Vacancies

In the General Fund there are 251 vacancies when comparing the September 1, 2007 actual with the 2008 Proposed Budget. Whether or not funding is available to fill these vacancies will depend largely on the extent to which contractual savings are realized. Also at issue is to what extent positions are backfilled. For instance, if no positions were backfilled a savings of about $24.8 million could be realized. Of course this would probably have serious ramifications on the services provided and it will be up to the Administration to manage the proper balance between cost savings and services. Another area that will need to be managed is overtime. Even when considering union concessions and the hiring of new Correction Officers and Police Officers, OLBR estimates a risk of about $2.7 million in the General Fund and $2.0 million in the police funds. The Fire Commission Fund is projected to be at budget with the current headcount, leaving no funds for the eight vacant positions. Police District is projected to have $1.1 million available including the costs for the January and November 2008 classes. When attrition is factored in, Police District appears to be sufficiently funded. Police Headquarters, on the other hand, is projected to have a deficit of $6.8 million, primarily due to contractual savings included in the budget as previously discussed.

General Fund Salaries

In the General Fund, salaries will be sufficient given the current on-board headcount only if significant contractual savings are achieved. Most of the ShOA contractual savings are located in the Correctional Center, but CSEA contractual savings are located in the Fringe Benefits Department, reducing this budget by $14.0 million. It should noted that at some point during the year, money will probably need to be transferred to make up for this reduction. On the positive side, since the Administration did not include turnover savings for 2008, there is also some room for savings.

Headcount

Headcount is budgeted at 9,249 in 2008, an increase of 419 from the September headcount. The Police Department is anticipating having a class of 99 in November 2007 and another class in January 2008. Police sworn headcount was at 2,607 on September 1, 2007, which is 143 less than the 2007 and 2008 budget. The Police Commissioner has stated that the January class would be large enough to bring the headcount to 2,750, but there may be some issues with the clearance rate of applicants which could limit the class to 70. The Commissioner has also said that he intends to have another class in the fall of 2008 to bring the department back to the 2,750 number. The size of this class will depend on the attrition rate in 2008.

The September 1, 2007 five major funds headcount is 8,830. Headcount is budgeted at 9,249 in 2008, an increase of 419 from the September headcount. Police unions will increase in 2008 by 143 from the September 1, 2007 actual of 2,607 and remain even with the 2007 budget of 2,750. ShOA headcount will also increase in 2008 with an anticipated class of 85 in January. Even with this class the department's actual headcount will be short of the budget since the September 1, 2007 actual headcount is 1,041 compared to a budgeted headcount of 1,131.

Table 4.3 demonstrates the departments where the major increases or decreases are budgeted.

Table 4.3: Full-Time Headcount – Major Variances

Department	Adopted 2007 Budget	Sept 2007 Actual	Executive 2008 Budget	Change from 2007 to Executive	% Change from 2007 to Executive	Chg from Executive to Sept Actual	% of Change Sept Actual
Correctional Center, Nassau County	1,246	1,230	1,329	83	6.7%	99	8.0%
Health Department	249	227	231	(18)	-7.2%	4	1.8%
Information Technology	104	97	112	8	7.7%	15	15.5%
Parks, Recreation and Museums	280	265	265	(15)	-5.4%	0	0.0%
Probation	247	234	240	(7)	-2.8%	6	2.6%
Public Works Department (Gen. Fund)	533	510	556	23	4.3%	46	9.0%
Social Services	915	860	884	(31)	-3.4%	24	2.8%
Police District	1,838	1,704	1,827	(11)	-0.6%	123	7.2%
Police Headquarters	1,769	1,718	1,757	(12)	-0.7%	39	2.3%

Correctional Center

OLBR projects the department will have a shortfall in the 2008 salary budget of about $7.4 million. The projection does not include the $5.3 million budgeted for ShOA contract savings (total savings is $7.0

million with $1.7 million in fringe) but it does include a net $3.1 million in overtime savings from the hiring of 85 officers in 2008. Even with these savings, overtime is projected to be $2.5 million over the 2008 budget. If an agreement that provides savings when compared to the accrued cost is passed in 2007 or early 2008, some of the savings could be realized in FY 08. However, as time goes on, saving becomes more difficult as many of the items that produce savings (i.e. overtime denominator) can not be retroactive while the costs like COLA increases can be retroactive.

Fire Commission

The FY 08 budget eliminates two vacant Fire Marshal positions from FY 07. Since 2001, the Fire Commission has continued to lose Fire Marshals. As of October 1, 2007, there are 59 Fire Marshal's on board which is a decline of 11 positions since January 1st 2001. The department continues to stress that the loss of personnel; particularly Fire Marshals will have a negative impact on the Commission's ability to act as a Public Safety enforcement agency and their ability to generate revenue. The Commission generates additional revenue from such items as emergency light testing. Due to the current staffing, the Fire Commission is performing approximately 5% of the emergency light tests that are required by the New York State Uniform Fire Prevention and Building code and the Nassau County Fire Prevention Ordinance. According to the department, the lost revenue from one Fire Marshal who usually performs three lightening tests in one day is approximately $108,000.

In addition, the department continues to operate with a staff that has significant years of service, many of whom are close to retirement. According to the department, within the next five years, at least 25 employees will be eligible for retirement, of which 14 are Fire Marshalls.

Health Department

The FY 08 budget is decreasing by 18 fulltime positions and one part time position from the FY 07 budget. However, it is four positions greater than the current staffing level. Vacant positions that were eliminated include a Deputy Commissioner of Health, an Environmental Health Biologist, Medical Technician, Registered Nurse, Epidemiologist, Public Health Educator, Programmer Analyst, Medical Social Worker, various clerical titles and Sanitarians. A technical adjustment will be proposed by the Administration to add three Sanitarians and their associated salaries that are currently on board but were erroneously removed from the proposed budget. These Sanitarian trainees will become Sanitarian I's in FY 08.

Information Technology

The FY 08 budget includes 112 full time positions, an increase of eight full time positions from the FY 07 budget. The department requested 112 full-time positions, all of which were granted by the Administration. This increase of 15 employees, as compared to the current actual headcount as of September 1, 2007, will allow DoIT to add some project/program management positions.

Parks, Recreation, and Museums

The proposed budget authorizes 265 full time positions, a total which is equal to current staffing levels. This represents a decrease of fifteen positions from the FY 07 Adopted Budget. Two positions were taken away from the Technical Service staff, nine from Museums and four from Golf Operations. Unfilled positions were eliminated from the budget. Part-time and seasonal positions were increased by 33, to 791. The dollars associated with seasonal help are increasing by $530,475 to $3.6 million. Part-time dollars are increasing by $218,500. These increases are partially offset by a reduction of $470,001 in full time salaries.

Probation

In FY 07, OLBR is projecting a $0.6 million surplus in the department's budget. This is mainly due to the 13 full-time vacant positions, which result in lower salary costs. The FY 08 proposed budget includes a $1.6 million increase to our projection with $1.5 million coming from higher salaries. The growth in the 2008 salary budget is due to CSEA COLA increases, greater overtime ($183,000), increased termination pay ($218,293), and the addition of six full-time positions. The acting Commissioner testified at the Public Safety Committee on Tuesday October 9, 2007 that he has been told a training class will be held in the beginning of next year. He also said that the reduced headcount, which is 22 fewer than the September 1, 2006 headcount, has begun to affect the oversight provided to the probationers. Although he believes a desirable caseload for probation officers with probationers in need of intensive supervision is at about 35 cases per officer, the actual caseload is at about 50-60. In addition, officers are not doing as much as they used to be able to and he believes they could do more if allowed to hire up to budget. He does believe that if allowed to hire up to budget and if he can sustain that headcount, the budget will be sufficient. Overtime is increasing due to the expansion of electronic monitoring and analytical testing of those convicted of breaking DWI laws.

About 42% of Probation Officers and Supervisors will be eligible to retire by the end of 2007 since Probation Officers are eligible to retire after 25 years of service regardless of age. The Department's administration believes any attrition over 10 annually (the historical average) will be problematic since it takes two years for a probation officer to complete training and maintain a full case load.

Public Works Department (General Fund)

The increased staffing of DPW largely results from the consolidation of the Traffic Safety Board and the transfer of the Police Department's Building Maintenance Unit (BMU). Full-time staffing in the proposed budget is increasing by 23 positions from 533 in the FY 07 budget to 556. The 15 Building Maintenance unit employees (5 carpenters, 3 electricians, 4 painters, a plumber, a mechanic, and a clerk typist) and the 2 Traffic Safety staffers (a Traffic Safety Educator, and an Assistant/Executive Secretary of Traffic Safety Board) that are transferring into DPW account for most of the full-time increase.

The 556 budgeted full-time positions would be 46 more than were on board on September 1, 2007. The significant number of vacant positions has been an ongoing issue for DPW. Unfilled positions as of September 1, 2007 include six laborers, four equipment operators, two maintenance carpenters, two stationary engineers, three clerk stenos, four civil engineers, four construction inspectors, two traffic signal inspectors. The department will continue to backfill critical vacancies. Candidates for new hires and promotions are identified by canvassing existing civil service lists, and by posting non-competitive vacancies.

Social Services

The $3.5 million, or 6.8% payroll increase from the 2007 projected will accommodate the salary increase assumed for CSEA employees plus normal step increases. Although the current budget reflects budgeted headcount growing from the September 1, 2007 actual by 24 full-time employees, it is anticipated that 13 additional positions will be requested by the Administration as a technical adjustment. These additional positions are expected to cost $329,599 net of state and federal aid reimbursement. For its non-Medicaid administrative costs, the department receives an average 75%

reimbursement up to the state aid cap. Certain preventive services are reimbursed at 65%, but are not capped. Foster care placements and PINS are two such programs. With the implementation of the Medicaid cap, Medicaid administrative expenses, which have been built into the County's base rate, are reimbursed at 100%. It is unclear why the positions that remained vacant in 2007 are necessary in 2008.

Sewer and Storm Water District

Personal services, budgeted at $33.1 million in FY 08, are decreasing by $1.3 million or 4.0% from $34.5 million in FY 07 Adopted Budget. However, when compared to projected FY 07, personnel costs are increasing by 12.8%. These expenses are for sewer related personnel costs and do not include salaries that are charged back to the General Fund for Public Works employees who are assigned to storm water functions. Since 2003, on average, approximately 60 vacant positions continue to be budgeted, even though actual headcount has remained on average, at 298 over this period. The significant number of vacant positions has been an ongoing issue for DPW in general and the District specifically.

The District's full-time staffing is decreasing by 36 positions from the FY 07 Adopted Budget of 384 positions to 348. Although the District has eliminated some of the vacant position for FY 08, nearly 60 vacancies remain. The District has continued to operate with a significant number of vacant positions. In light of the restructuring of several units associated with the District, the Department of Public Works is currently working on assessing the impact of sewer consolidation on staffing levels.

Police Department

Although the Administration had begun to address staffing issues in relation to the hiring of new classes, it had underestimated the amount of retirements in 2007. Termination expense was budgeted for $19.6 million in FY 07 and assumed 84 separations. As of September 1, 2007 there were 112 sworn officers that have retired or filed papers of intent. OLBR is projecting a total of 125 retirements in FY 07 at a cost of $28.6 million or $9.0 million above budget. The FY 08 budget assumes 100 retirements and funds $22.0 million for termination expense. Given the calculation change effective in 2009 for determining termination pay for PBA members the estimate of 100 police retirees in 2008 is optimistic. OLBR thinks that termination pay is understated by $4.8 million. While the new classes will offset attrition levels, there seems to be a continual struggle to maintain detective and superior officer budgeted headcounts of 425 and 422, respectively.

Although there are some risks associated with contractual savings, the 2008 salary budget should be attainable with the exception of Police Headquarters. Since the Administration did not include turnover savings in 2008, if headcount is closely monitored and managed, there should be enough funding in the 2008 budget to fund the deficit anticipated in headquarters. Of course, with four of the major unions being without a contract in 2008, one of which is in the process of binding arbitration and another which will probably turn to binding arbitration in 2008, there is a great deal of uncertainty in 2008. The Administration has included headcount increases in the 2006 budget to achieve reductions in overtime, reduce reliance on outside vendors, and increase and improve technology. It is doubtful that all of these goals can be realized while still maintaining the savings needed in the out-years. In addition, relying on uncertain union concessions in the future also necessitates the presence of a contingency plan.

5. FRINGE BENEFITS

Fringe benefits expenditures include health insurance contributions for active employees and retirees, pension contributions for active employees and social security contributions. Escalating growth in these expenses continue to place a heavy burden on the County's budget. The FY 08 fringe benefit budget for the major funds is approximately $388.4 million[1], which is a $25.0 million decrease from the FY 07 budget of $413.4 million and a decrease of $7.7 million from the FY 07 projection. Most of the decrease is related to the inclusion of more fringe savings and the reduction of police retirement contingency funds compared to the FY 07 budget. The fringe savings are dependent on the labor negotiations with the CSEA, ShOA, DAI and SOA.

The $388.4 million in FY 08 fringe costs does not include $17.0 million budgeted in workers' compensation costs. The costs for workers' compensation have been isolated into its own object class and transferred from the County Attorney's budget, into the Office of Management and Budget, the Correctional Center, Public Works and the Police Department. Workers' compensation is decreasing from $20.0 million in FY 07 to $17.0 million in FY 08. For more information regarding workers' compensation expenses please refer to the Office of Legislative Budget Review's (OLBR) departmental review of the Office of Management and Budget.

Table 5.1 displays the fringe benefit budgets of the major funds.

Table 5.1: Fringe Budget by Major Fund

Fund	Department	Adopted FY 07 Budget	OLBR FY 07 Projection	FY 08 Exec. Budget	Variance Exec. vs Adopted 07	Variance Executive vs FY 07 Proj.
Fire Commission	Fringe Benefits	3,350,838	3,537,479	3,663,915	313,077	126,436
General Fund	Courts	2,129,235	2,090,686	2,181,579	52,344	90,893
	Fringe Benefits	179,925,154	175,018,684	165,279,494	(14,645,660)	(9,739,190)
	Miscellaneous	22,372,723	22,900,707	24,692,599	2,319,876	1,791,892
Police District	Fringe Benefits	106,585,232	98,063,708	96,725,424	(9,859,808)	(1,338,284)
Police Headquarters	Fringe Benefits	99,025,452	94,523,844	95,855,203	(3,170,249)	1,331,359
Total		**$413,388,634**	**$396,135,108**	**$388,398,214**	**($24,990,420)**	**($7,736,894)**

[1]This number excludes workers' compensation.

Table 5.2 breaks out fringe benefit costs by object code:

Table 5.2: Fringe Budget by Sub-object

SubObject & Description	Adopted FY 07 Budget	OLBR FY 07 Projection	FY 08 Exec. Budget	Variance Exec. vs Adopted 07	Variance Exec. vs FY 07 Proj.
08F - NYS Police Retirement	$59,866,829	$59,917,829	$56,033,492	($3,833,337)	($3,884,337)
11F - State Retirement Systems	49,262,885	48,298,193	44,868,014	(4,394,871)	(3,430,179)
13F - Social Security Contribution	58,301,335	59,570,495	58,027,493	(273,842)	(1,543,002)
14F - Health Insurance	111,901,916	108,486,187	119,322,241	7,420,325	10,836,054
17F - Optical Plan	1,114,936	1,041,434	1,109,677	(5,259)	68,243
19F - NYS Unemployment	430,393	649,822	502,000	71,607	(147,822)
20F - Dental Insurance	5,423,319	5,066,318	5,390,963	(32,356)	324,645
22F - Medicare Reimbursement	16,987,367	14,109,533	17,654,250	666,883	3,544,717
26F - Flex Benefits	1,250,000	1,650,000	2,100,000	850,000	450,000
28F - Transit Check Plan	74,000	74,000	100,000	26,000	26,000
75F - Health Insurance For Retirees	97,962,213	96,959,430	101,336,921	3,374,708	4,377,491
76F - Employees Optical - Retirees	325,709	311,868	353,163	27,454	41,295
Subtotal	**$402,900,902**	**$396,135,108**	**$406,798,214**	**$3,897,312**	**$10,663,106**
24F - Fringe Savings	(2,223,179)	0	0	2,223,179	0
ZZF - Fringe Savings	(6,122,812)	0	(20,200,000)	(14,077,188)	(20,200,000)
81F - Police Ret. Contingency	16,610,544	0	1,800,000	(14,810,544)	1,800,000
84F - Police Sworn Cola	2,223,179	0	0	(2,223,179)	0
Grand Total	**$413,388,634**	**$396,135,108**	**$388,398,214**	**($24,990,420)**	**($7,736,894)**

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 during retirement or in the event of disability or death. The annual bill covers the period from the previous April 1 to the ensuing March 31.

In July 2004, the New York Legislature approved legislation that changed the manner in which annual employer contributions are calculated and billed in the New York State and Local Retirement System. The legislation changed the payment date for participating employers from December 15 to February 1. With the State approving the deferment of the pension payment date in 2004, the County was able to transfer $79.8 million to a Pension Contribution Reserve Fund.

Table 5.3 details the use of the pension reserve from the beginning balance in FY 05 to the projected use in FY 08:

Table 5.3: Pension Contribution Reserve Fund

Beginning Balance:	$79,825,941	
2005 Draw Down	(35,000,000)	
Increase Reserve	24,788,165	
Balance:		69,614,106
2006 Draw Down	(34,123,351)	
Increase Reserve	16,000,000	
Balance:		51,490,755
2007 Draw Down	(26,472,193)	
Balance:		25,018,562
2008 Projected Use	(24,500,000)	
Balance:		518,562

The Administration increased the reserve by an additional $24.8 million in 2005 and $16.0 million in 2006 with surplus funds. The reserve allocates $35.0 million for payments due in State Fiscal Year (SFY) 2004-05, $34.1 million in SFY2005-06, $26.5 million in SFY2007-08, and a projected use of $24.5 million in SFY2008-2009. The Administration plans to use $400,000 of the remaining pension reserve in FY 09.

Table 5.4 details the historical pension obligations from FY 04 to the proposed FY 08 Executive Budget:

Table 5.4: Historical Pension Costs

Historical Expenditures						
	FY 04 Actual	FY 05 Actual	FY 06 Actual	FY 07 Projected	FY 08 Exec.	% Change Proj./Exec.
08F - NYS Police Retirement	$4,701,246	$58,804,572	$56,261,344	$59,917,829	$56,033,492	-6.5%
11F - State Ret. System	4,561,727	51,943,633	54,236,809	48,298,193	44,868,014	-7.1%
Total	**$9,262,973**	**$110,748,205**	**$110,498,153**	**$108,216,022**	**$100,901,506**	**-6.8%**

The significant rise in FY 05 results from the one-time cash deferment in FY 04 from the change in payment date. The decline in pension costs from projected FY 05 to the proposed FY 08 budget is due to a reduction in pension contribution rates.

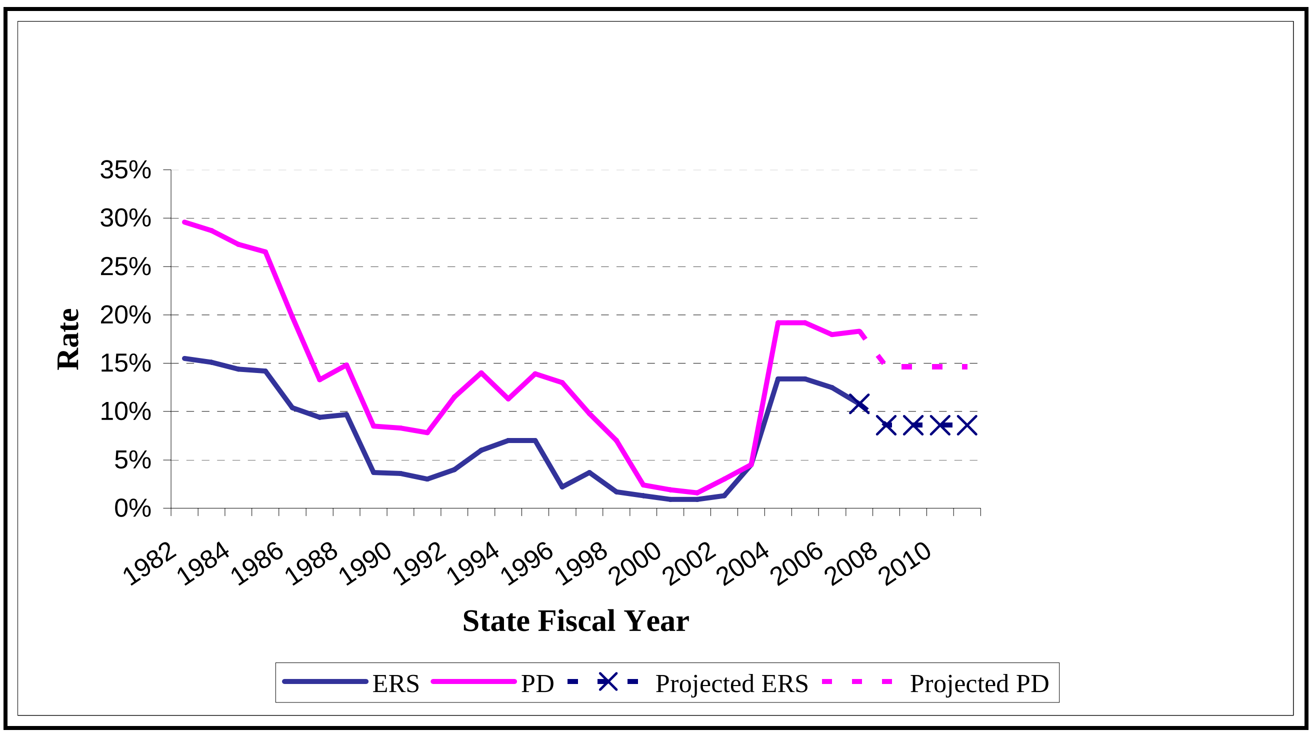
The FY 08 proposed budget for SFY 06-07, includes $100.9 million in total for the Employee Retirement System (ERS) and the Police and Fire Retirement System (PFRS) pension obligations. The FY 08 proposed budget is $56.0 million and $44.9 million for ERS and FPRS respectively, which is a decrease of $7.3 million from the FY 07 pension payment.

The February 2008 estimated bill from the New York State Comptroller for ERS and PFRS is $107.2 million if the bill is paid on February 1, 2008 and $106.2 million if the bill is paid on December 15, 2007. The February 1 payment due date results in a higher net bill 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.

The County's FY 08 budget is based on paying the pension bill on December 15, 2007. This includes $50.2 million billed for ERS and $56.0 million billed for PFRS. The ERS billed amount of $50.2 million includes the pension costs for Nassau Community College and the Sewer and Storm Water Resource District. These costs are reflected in their funds, not in Table 5.2. The pension rates range from 8.9% - 17.8% of pensionable salaries depending on the tier the employee is in for ERS and 14.7% to 18% of pensionable salaries depending on tier the employee is in for PFRS.

Chart 5.1 depicts the annual blended average historical pension contribution rates for ERS and PFRS from 1982 to projected 2011.

Chart 5.1: Historical Pension Contribution Rates



Source: NYS Comptroller

The New York State Comptroller's press release on September 4, 2007, announced the State Comptroller's decision to lower employer contribution rates in 2009 for ERS and PFRS. Based on the Comptroller's announcement, the Multi-Year plan assumes pension rates of 8.6% for ERS and 14.6% for PFRS to hold steady from FY 09 through FY 11. Based on these rates, contribution costs are projected to grow to $47.0 million for ERS in FY 11 and PFRS contribution costs are projected to grow to $60.4 million in FY 11 as reflected in Table 5.8: Multi-Year Plan by Sub-object on page 43.

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

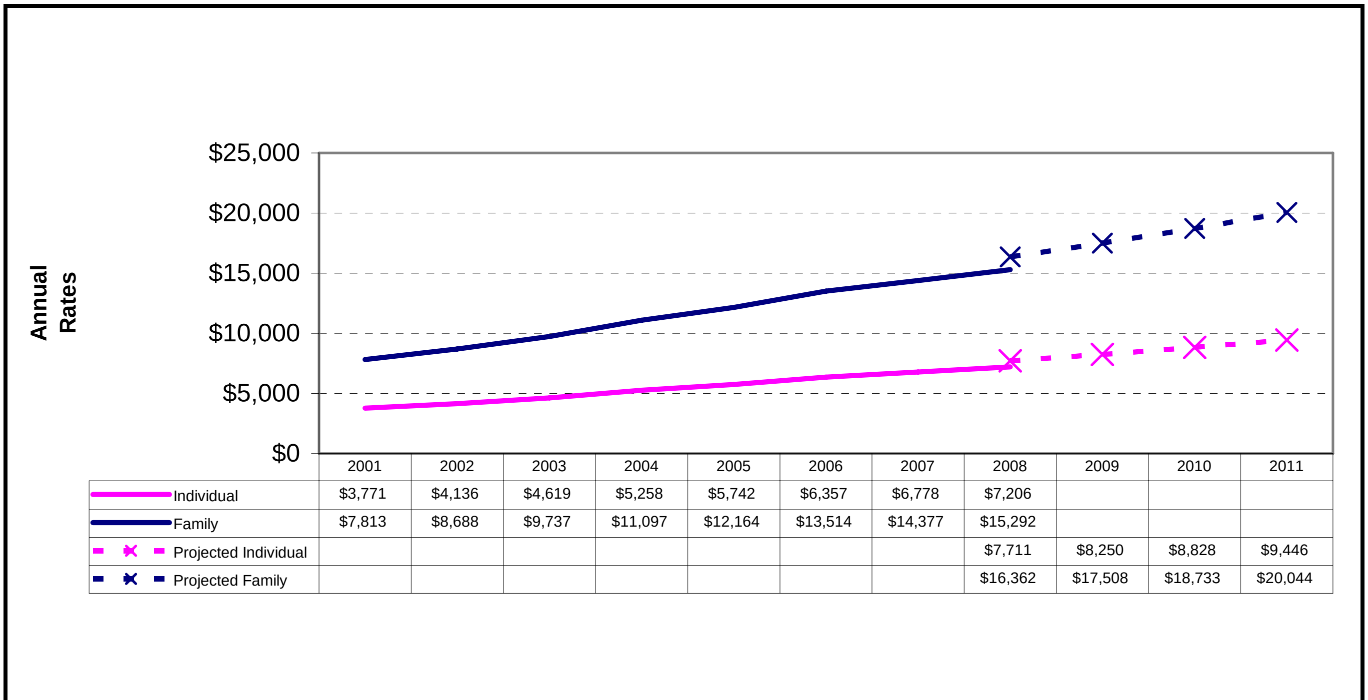
The national rate of growth for health insurance is projected to decline for the fourth straight year and reflects the lowest rate increase since 1999. This compares to double-digit increases in health insurance costs from 1999-2004. Even though the rate of growth has decelerated, health insurance premiums continue to grow significantly and be a major area of concern.

Table 5.5: Historical Health Insurance Costs

Historical Expenditures						
	FY 04 Actual	FY 05 Actual	FY 06 Actual	FY 07 Projected	FY 08 Exec.	% Change Proj./Exec.
14F - Health Insurance	$80,455,061	$89,777,755	$101,479,559	$108,486,187	$119,322,241	10.0%
75F - Health Ins. for Retirees	71,383,570	90,992,635	96,089,548	96,959,430	101,336,921	4.5%
Total	**$151,838,631**	**$180,770,390**	**$197,569,107**	**$205,445,617**	**$220,659,162**	**7.4%**

Table 5.5 above displays health insurance costs for active and retired employees from FY 04 to the FY 08 proposed budget. As shown above health insurance costs increased significantly each year. The FY 08 budget for health insurance costs includes $119.3 million for active employees and $101.3 million for retired employees for a total cost of $220.7 million. This is an increase of $15.2 million or 7.4% from the projected FY 07 cost of $205.4 million.

Chart 5.2: Historical Health Insurance Premium (Non-Medicare) Rates



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, 2007 Summary of Finding" found that employer sponsored health insurance rose 6.1%, a slower rate than the 7.1% increase in 2006 and the lowest rate of growth since 1999, when premiums increased 5.3%.[2] The survey also reports that premiums continued to increase faster than overall inflation (2.6%) and wage gains (3.7%). displays how health insurance rates have been progressively increasing over the past eight years in Nassau County.

The FY 08 budget for health insurance costs includes an increase of 7.0% for individual and family health insurance plans. The growth rate assumption is higher than New York State's most recent health insurance optimistic rate projection of 6.2% for individual and 6.5% for family. The FY 08 budget for health insurance for retirees projects a blended 5.25% increase. Based on the optimistic scenario, New York State is currently projecting 8.8% growth increase for individual MediPrime, 7.4% for Family 1 MediPrime and 8.9% for Family 2 MediPrime. It should be noted that the rate for some of the County's retirees is the same as the actives because of their age.

Table 5.6 below displays non-Medicare and Medicare rates for 2007 and projected 2008:

Table 5.6: NYS Health Insurance Monthly Rates

Rates:	**2007**	**2008**	**% Change**
Plan Prime			
Individual	$564.84	$600.09	6.2%
Family	1,198.07	1,275.36	6.5%
MediPrime			
Individual	333.18	362.48	8.8%
Family-1	966.44	1,037.77	7.4%
Family-2	734.81	800.19	8.9%

Source: New York State

Based on the State's recent rate projection, the FY 08 budget is under-funded by approximately $3.2 million for active and retiree health insurance costs. The deficit results from a $4.2 million under-funded budget for retired employees, which has been slightly offset by a $954,000 surplus for active health insurance. For FY 07 rates were finalized at an increase of 6.6% for individual and 6.4% for family non-Medicare compared to the projected 9.5% for individual and 10% for family. Due to the lower finalized premium rates, OLBR projects a surplus of $4.4 million for FY 07 health insurance costs.

The MYP baseline inflator used to project out-year health insurance costs is 8.0% for both active and retiree health insurance. Based on the State's current rates, the deficit could grow to approximately $8.2 million for retiree employees by FY 11 which will be offset by a $7.5 million surplus for active employees by FY 11. The result is a total health insurance deficit of $745,000 in FY 11 for active and retiree health insurance. The amounts projected by the Administration are reflected in Table 5.7: Multi-Year Plan by Sub-object on page 43.

[2] The Kaiser Family Foundation and Health Research and Education Trust, "Employer Benefits 2007Summary of Findings."

Due to the annual high rate of growth in healthcare costs, many employers have started looking for alternatives to their health plans which include employee cost sharing, fewer HMO's, 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. In addition, more firms are requiring employees to contribute to the annual premium. Over 80% of covered workers with single coverage and over 94% of covered workers with family coverage make a contribution toward the total premium for their coverage.[3] Based on Kaiser's employer survey, a large percentage of firms report that next year they are very or somewhat likely to increase the amount workers contribute to premiums, increase deductible amounts, increase office visit sharing or increase the amount that employees pay for prescription drugs.[4]

The recent moderation in premium cost growth has not reversed the declining percentage of employers offering health benefits. According to the Kaiser Family Foundation, the percentage of all firms offering health benefits to their employees has fallen significantly from 69% in 2000 to 60% today.[5]

To help counteract rising health insurance costs, the County Administration has put together a work group to explore health insurance savings options. The Committee includes representatives from the outside consultant Manatt, Phelps and Phillips LLC. In addition, the recent Police Arbitration Award directs the County to set aside $100,000 to be used by the Health Insurance Cost Containment Committee (HICCC) to attain the necessary experts and advisors and to pay the costs of the HICCC.

As a result, the Multi-Year plan includes Health Insurance Cost Reductions of $15.0 million in FY 09, $20.0 million in FY 10 and $20.0 million in FY 11. The working group will look at a myriad of options including shared cost reductions, self-insurance and an alternate provider. Since the health insurance savings of $15.0 million is a small percentage, at 6.8%, of total FY 08 health insurance costs, the savings may be achievable due to the resources that the County is currently utilizing to search for alternative health insurance options. However, since many of the changes that the Administration is considering will require the approval of the unions and perhaps NYSHIP, this item is a risk.

New York City currently experiences much lower premium rates than Nassau County and offers a variety of different health insurance plans ranging from the basic GHI/ Empire Blue Cross plan to other carriers that offer supplementary services. The City achieves the lower rate by offering their employees the basic health plan with no additional riders. The employee is required to pay the additional cost for optional riders such as prescription drugs, mental health services or a more sophisticated health plan.

13F Social Security

Social Security tax is comprised of two components: Old-age, Survivors and Disability Insurance (OASDI) and Medicare tax. The employer's contribution rate for OASDI is 6.2% and the Medicare piece is 1.45%, which equals a combined rate of 7.65%. For the current year the OASDI portion is applied to salaries up to $94,200. Medicare has no maximum. The Social Security Administration has not yet announced the wage base increase for 2008, however, this year reflected a 4.7% increase in the

[3] The Kaiser Family Foundation and Health Research and Education Trust, "Employer Benefits 2007 Summary of Findings."
[4] ibid
[5] ibid

base. If increased by the same percentage, the 2008 maximum wage contribution would be roughly $98,600. The total OASDI tax on this maximum wage projection would be approximately $7,542.

The FY 08 budget is decreasing by $273,000 from $58.3 million in FY 07 to $58.0 million in FY 08 due to expected salary savings in Police District and Police Headquarters.

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 08 budget is remains unchanged at $1.1 million from FY 07. The FY 08 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. Based on the projected FY 07 costs, the FY 08 budget may be understated by $148,000, despite the budget increase of $71,600.

20F Dental Insurance

This benefit provides dental insurance to full-time employees. In FY 06, the dental premium rate increased from $525 to $561 per person. The County's current contract with Healthplex expired on December 31, 2006, however, due to ongoing negotiations, the County has continued to extend the Healthplex contract for six month intervals. The Administration has been working with union officials to negotiate a new dental plan with a new vendor Aetna or renew with Healthplex. Under Aetna's proposal, the current premium of $561 would be secured for the first 18 months of service. After the first 18 months the premium could increase by no more than 5%. Under the Healthplex plan the current premium of $561. There are many other factors beside the premium rate that need to be considered in the County's selection process.

The FY 08 budget for dental costs is decreasing by $32,000 to $5.4 million. The FY 07 projection is currently producing a surplus of $281,000, for a cost of $5.1 million in FY 07. The FY 08 budget appears sufficient to cover the additional 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 $667,000 in FY 08 from $17.0 million in FY 07 to $17.7 million. In FY 08, the standard Medicare Part B monthly premium will be $96.40, an increase of $2.90, or 3.1%, from the $93.50 Part B premium for 2007. The 2008 amount is the smallest percentage increase in the Part B premium since 2001 and is $2.10 less than the increase in the premium for 2007. Several factors account for the 3.1% increase in the premium such as growth in certain areas of Medicare's fee-for-service program, including growth in home health services, physician-administered drugs, ambulatory surgical center services, durable medical equipment, independent lab and physician's office lab services, and increases in the Medicare Advantage program.[6] All beneficiaries currently pay the same basic premium amount for Medicare Part B, which is set annually at a level that covers 25% of the estimated Part B program costs for the year. The Government has subsidized the remaining 75

[6] "CMS Announces Medicare Premium, Deductibles for 2008." The Senior Journal. "http: theseniojournal.com/news./Medicare/2007/7-10-02-MedicarePartB.htl

percent for all beneficiaries. This 75-percent subsidy will decrease for those making over $80,000 a year beginning in FY 07. As a result of the new Medicare law, the Part B monthly premiums for some beneficiaries will be greater beginning in 2007, depending on a beneficiary's or married couple's modified adjusted gross income. [7]

The FY 07 projection of $14.1 million for Medicare Part B will result in a surplus of $2.9 million. The actual premium rate in FY 07 of $93.50 finalized lower than the rate built in the FY 07 budget.

26F Flex Benefits Plan

All Nassau County employees may contribute up to $5,000 to their flexible spending account. This allows the employee to use tax free dollars on health insurance costs such as copays and deductibles. The FY 08 budget is increasing by $850,000 to $2.1 million due to increased participants in the flexible benefits plan.

28F Transit Check Plan

Nassau County's transit check plan allows employees who use mass transportation to allocate pre-tax dollars into transit check plan. The FY 08 budget is increasing by $26,000 to $100,000 in FY 08. The plan allows employees to deduct up to $105 a month or $1,260 per year for mass transit and an additional $200 a month or $2,400 a year for commuter parking.

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 08 budget is increasing by $26,000 to roughly $353,000. The FY 08 budget appears sufficient.

ZZF, 81F Fringe Savings and Police Retirement Contingency

The $28.9 million reduction is related to the inclusion of more fringe savings and the reduction of police retirement contingency funds compared to the FY 07 budget. The fringe savings are dependent on the labor negotiations with the CSEA, ShOA, DAI and SOA.

[7] "Medicare Part B Premiums to Increase in 2007." United States Railroad Retirement Board. http:www.rrb.gov/opa/pr/pr0607.asp. December 2006.

Table 5.7 displays out-year fringe benefit costs under the Multi-Year Plan:

Table 5.7: Multi-Year Plan by Sub-object

SubObject & Description	2009 Plan	2010 Plan	2011 Plan
08F - NYS Police Retirement	$55,666,909	$57,805,450	$60,360,657
11F - State Retirement Systems	42,574,343	44,711,915	47,048,226
13F - Social Security Contribution	60,440,553	62,954,611	65,573,908
14F - Health Insurance	128,868,020	139,177,462	150,311,659
17F - Optical Plan	1,109,677	1,109,677	1,109,677
19F - NYS Unemployment	502,000	502,000	502,000
20F - Dental Insurance	5,390,963	5,390,963	5,390,963
22F - Medicare Reimbursement	19,066,590	20,591,917	22,239,271
26F - Flex Benefits Plan	2,100,000	2,100,000	2,100,000
28F - Transit Check Plan	100,000	100,000	100,000
75F - Health Insurance For Retirees	109,443,875	118,199,385	127,655,335
76F - Employees Optical - Retirees	353,163	353,163	353,163
Subtotal	**$425,616,093**	**$452,996,543**	**$482,744,859**
81F - Police Ret. Contingency	6,100,000	10,200,000	3,350,000
90F - ERS Pension Reserve Expense	$0	$0	($7,500,000)
ZZF - Fringe Savings	($21,100,000)	($21,800,000)	($22,400,000)
Grand Total	**$410,616,093**	**$441,396,543**	**$456,194,859**

Revenue Budget

Table 5.8 compares the FY 07 revenue budget to the proposed FY 08 revenue budget for fringe benefits:

Table 5.8: FY 08 Revenue Budget

REVENUE BUDGET BY OBJECT CLASS					
SubObject & Description	**Adopted FY 07 Budget**	**OLBR FY 07 Projection**	**FY 08 Exec. Budget**	**Variance Exec. vs Adopted 07**	**Variance Exec. vs FY 07 Proj.**
R1115 - Interfund Revenue	$26,400,000	$26,400,000	$24,500,001	($1,899,999)	($1,899,999)
R2010 - Insurance Recoveries	5,704,124	5,729,072	5,726,104	21,980	(2,968)
Total	**$32,104,124**	**$32,129,072**	**$30,226,105**	**($1,878,019)**	**($1,902,967)**

The revenue budget for FY 08 includes the pension reserve and reimbursement for Medicare Part D. In Table 5.8, reimbursement for Medicare Part D is labeled as insurance recoveries and the pension reserve is labeled above as interfund revenue.

The FY 08 budget for Medicare Part-D remains unchanged at $5.7 million. Starting January 1, 2006, Medicare began a new drug benefit plan called Medicare Part D that helps seniors pay for their prescription drugs. Under the Medicare Part D program, patients are billed a monthly premium that can cost as little as $20 a month. On top of the premium, enrollees are 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.

NYSHIP receives an employer subsidy from the federal government and passes on the County's share as a credit to the County's health insurance bill. The credit that appears on the most recent health insurance bill is retroactive and sporadic. The revenue budget for Medicare Part D appears realistic based on last year's collection of $6.5 million (which includes all funds). In FY 07 the County has collected $3.1 million which covers the January through May time period.

The FY 07 revenue budget for inter-fund revenue of $24.5 million represents use of the pension reserve. Please refer to table 5.4 above for use of the pension reserve.

6. FUND BALANCE AND RESERVE POLICY

When combined with other financial policies and with the Multi-Year Financial Plan, the County's fund balance and reserve policy sets a standard of performance and accountability for this administration, and it institutionalizes sound financial management practices for the future.

The Fiscal 2006 – 2009 Multi-Year Financial Plan included a Fund Balance and Reserve Policy, dated September 15, 2005.[1] This document was meant to provide "a framework for the accumulation of unreserved fund balance, the constitution of reserve funds, and the policy purposes for which the County ought to use these financial resources."

The policy differentiates between reserved and unreserved fund balance:

> Reserved fund balance captures those financial assets that are not available to the government to spend in the subsequent year's budget, such as long-term receivables, encumbered contracts and purchase orders, resources that have already been spent, such as prepaid expenses, or assets which are legally constrained in their use and, therefore, not available for spending on fund-related purposes.
>
> Unreserved fund balance, in turn, captures all remaining financial resources which are currently available for appropriation into the subsequent year's budget. Unreserved fund balance may either be designated or undesignated. Unreserved fund balance may be designated in a subsequent budget, representing senior management's planned future use, for a particular purpose, of currently available resources. Unreserved, undesignated fund balance represents those currently available resources which are neither reserved nor designated for a particular purpose in the budget for the subsequent fiscal year.

The use of unreserved fund balance is addressed as follows:

> However, to the extent that the County utilizes its unreserved fund balance, its policy shall be to use these funds either for (i) non-recurring expenditures that promote important policy objectives; or (ii) extraordinary operating and capital purposes that could not be anticipated and which otherwise cannot be financed with current revenues in the annual operating budget. Such purposes include financing emergency capital repairs, offsetting an unexpected economic downturn, covering an unanticipated or excessive shortfall in revenues or a spike in expenses, or providing necessary resources for emergency situations, such as a terrorist attack or a natural disaster.

The County has also created formal reserve funds, pursuant to New York State General Municipal Law:

> The County has established a reserve for the retirement of bonded indebtedness, an employee accrued liability reserve fund, and a pension contribution reserve fund. These reserve funds permit the County to accumulate resources to retire debt or pay debt service, to cover termination payments, particularly for sworn officers, that substantially exceed normal budgetary authority, and to smooth out future increases in contributions to both the New York State and Local Employees' Retirement System and the New York State and Local Police and Fire Retirement System.
>
> Additionally, the County has transferred the proceeds that remain from the securitization of its tobacco settlement payments to a trust and agency fund ("Tobacco Trust Fund"). The proceeds

1 Fiscal 2006– 2010 Multi-Year Financial Plan, pp. 111-116

from this transaction can be used for certain working capital purposes, particularly health-related working capital purposes, but any expenditures for working capital purposes will be subject to the "gross proceeds last spent" rule promulgated by the United States Treasury. The "gross proceeds last spent" rule provides that proceeds from a tax-exempt financing can be allocated to working capital expenditures only if these expenditures exceed other "available amounts" to cover the shortfall. As with formal reserve funds created under the GML, the County Legislature will have to approve the utilization of the proceeds in the Tobacco Trust Fund in the event that these resources are required by the County to balance future operations. The County's policy shall be to request that the County Legislature approve expenditures from the Tobacco Trust Fund only if the County has demonstrated, in accordance with Treasury regulations, that it will have no available amounts to make such expenditures, in order to ensure that it will comply with the gross-proceeds-spent-last rule.

Table 6.1 shows the unreserved fund balance and the balances of the formal reserve funds at year-end FY 04 through FY 06, with OMB's projected amounts for years ending FY 07 through FY 11.

Table 6.1: Total Reserves (Projected Year-End 2007-2011)

$'s in millions

Item	Year End 2004	Year End 2005	Year End 2006	2007	2008	2009	2010	2011
Unreserved Fund Balance	$90.5	$90.5	$104.1	$66.0	$56.0	$56.0	$56.0	$56.0
Retirement Contribution Fund	79.8	69.6	51.4	24.9	0.4	0.0	0.0	0.0
Employee Accrued Liability Fund	28.9	21.4	21.4	12.8	12.8	12.8	12.8	12.8
Bonded Indebtedness Fund	25.0	25.7	14.8	0.0	0.0	0.0	0.0	0.0
Tobacco Settlement Fund	60.6	37.6	149.3	39.0	28.0	5.0	0.0	0.0
Sub-total	**$284.8**	**$244.8**	**$341.0**	**$142.7**	**$97.2**	**$73.8**	**$68.8**	**$68.8**
Sewer & Storm Water Dist Fund Bal.	32.4	62.9	121.7	117.7	85.2	50.1	77.2	54.2
Sewer Fin. Auth. Fund Balance	60.9	49.4	19.8	0.0	0.0	0.0	0.0	0.0
Total Reserves and Fund Balance	**$378.1**	**$357.1**	**$482.5**	**$260.4**	**$182.4**	**$123.9**	**$146.0**	**$123.0**

Projections provided by OMB

The policy establishes two targets for the desired level of its reserve funding:

1. The County shall maintain a level of unreserved fund balance of no less than 4% and no more than 5% of normal prior year expenditures made from its general fund and the County-Wide Special Revenue Funds.
2. Nassau County shall maintain a combined level of financial resources in its unreserved fund balance, its reserve funds, and its Tobacco Trust Fund of no less than 5% of normal prior year expenditures made from its general fund and the County-Wide Special Revenue Funds. The County shall target a combined level of 7.5% of normal prior-year expenditures. The resources in the reserve funds and the Tobacco Trust Fund shall be used generally for budget stabilization, but specifically for the purposes identified above.

Table 6.2 compares prior year expenditures with end of year reserves balances. The 2007 column shows actual FY 06 expenditures, 2008 used the FY 07 projected expenses from OMB's Mid-Year Report, and 2009 through 2011 used the proposed FY 08 budget and MYP assumptions. In none of the years does the County's percentage of unreserved fund balance to the prior year expense for the general fund and County-wide special revenue funds (Fire and Police Headquarters) achieve the 4% goal. The County will be $13.0 million short of the goal at the end of 2007 and based on the MYP the shortfall would grow to $39.3 million at the end of FY 11.

The total of reserved and unreserved funds, less the Sewer District and Sewer Finance Authority, would exceed the 5% minimum in FY 07, but fall short of the 7.5% target. In the ensuing years, the minimum is not attained. If the County continues to run surpluses in its operating budget, the unreserved fund balance would be greater than the amounts shown in the chart.

Table 6.2: Projected Reserve Percentage

($'s in millions)

	2007	2008	2009	2010	2011
Major Funds Prior Year Exp. (less Inter-dept.)	$1,976.1	$2,153.3	$2,205.9	$2,298.7	$2,382.4
Unreserved Fund Balance	66.0	56.0	56.0	56.0	56.0
% of Unreserved Fund Balance	3.3%	2.6%	2.5%	2.4%	2.4%
$'s From 4% Goal	($13.0)	($30.1)	($32.2)	($35.9)	($39.3)
Total Reserved and Unreserved Funds Less Sewer	$142.7	$97.2	$73.8	$68.8	$68.8
% of Total Reserve and Unreserved Funds	7.2%	4.5%	3.3%	3.0%	2.9%
$'s From 5% Minimum	$43.9	($10.5)	($36.5)	($46.1)	($50.3)

The policy calls for the replenishment of the unreserved fund balance if for two successive years it falls below 4% of the normal expenditures in the prior year. In that case:

> the County shall replenish its unreserved fund balance by direct appropriation beginning with the next operating budget. In this budget, and in the three subsequent operating budget submissions, the County shall appropriate 25% of the difference between its current level of unreserved fund balance and the minimum amount required under the Policy, such that the minimum level of unreserved fund balance can be attained over a four year period. To the extent that a direct appropriation in this amount is not possible in any particular fiscal year, the County shall appropriate a lesser amount and develop a revised strategy and timeframe for replenishing its unreserved fund balance so as to reach, at a minimum, the 4% threshold. The Policy does not have a replenishment requirement for the County's reserve funds or its Tobacco Trust Fund.

If the unreserved fund balance does not increase beyond the current projected levels, the policy of replenishment may have to be addressed.