NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Review of the Fiscal Year 2009 Budget & Multi-Year Plan

Executive Summary

Eric C. Naughton, Director

ERIC C. NAUGHTON
DIRECTOR
OFFICE OF LEGISLATIVE
BUDGET REVIEW

NASSAU COUNTY LEGISLATURE
1550 FRANKLIN AVENUE
MINEOLA, NEW YORK 11501-4895
TEL: (516) 571-6292

Inter-Departmental Memo

To: Hon. Diane Yatauro, 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, 2008

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 2009 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

Introduction

In these times of fiscal uncertainty conservative budgeting is critical. It is important to have a budget that is based on sound recurring revenues and excludes wishful items. Shrewd revenue and expenditure estimates are the foundation of a sound budget. The County Executive's proposal to increase the property tax levy by 3.9% and to exclude the troublesome FIT reimbursement that has been a $4.1 million risk in recent budgets are prudent decisions. Nevertheless, there are problematic areas in the budget, but to a lesser degree less than we have observed in the last few years. However, given the current economic insecurity it is unclear what it will take to calm consumer, investor and lender anxiety and restore confidence. As a result, it is possible that 2009 sales tax, investment income, County Clerk fee revenues and other sources will not achieve the results anticipated in the proposed budget. Furthermore, cuts from the federal and state government are a possibility and the proposed budget does not contain sufficient contingencies to offset all of these scenarios.

The New York State Comptroller estimates that the recent financial crisis on Wall Street could result in revenue losses similar to those experienced after the tragedy of September 11, 2001:

- Up to $3.5 billion in lost taxes, mostly personal income tax revenue by March 2010.
- Up to 40,000 job losses in financial industries.
- Up to 120,000 additional job losses, under the assumption that three additional jobs will be lost in other sectors for each lost financial sector job.[1]
- A 50% decline in the Wall Street bonus pool.

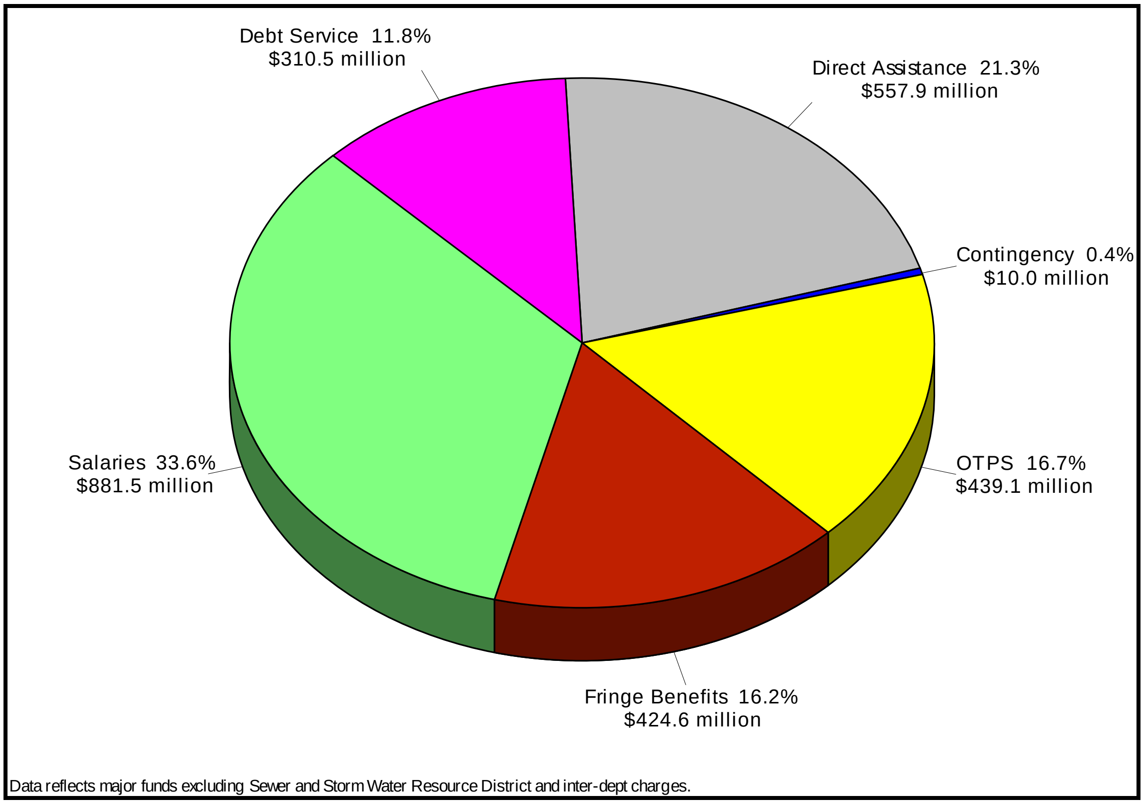
When faced with potential revenue shortfalls in the past, the Administration has responded proactively to temporarily reduce spending by limiting the hiring of non-public safety personnel and halt all non-essential purchases. The current conditions may require stronger actions. The Legislature should consider making expenditure reductions to the proposed budget now and transferring these funds to a contingency reserve. This would give the County time to develop a revised plan after it receives more information regarding sales tax collections, the impact of actions by the State and the health of the economy. The Administration would then have to request Legislative approval to transfer funds out of the contingency reserve. Given that the out-years' gaps are worse than what has been portrayed by the Administration, due to its optimistic economic recovery assumptions, the County has to decide what services it wants to provide and at what cost.

Proposed Expense Budget

The FY 09 proposed budget for the major funds, excluding the Sewer and Storm Water District and interdepartmental chargebacks, is $2.6 billion. Nearly half of the budget funds salaries and fringe benefits. The second largest component is for direct assistance at 21.3%, as illustrated in Chart 1.1.

[1] "The Financial Industry Crisis – Impact on the New York State Budget", Office of the State Comptroller, September 2008.

Chart 1.1: FY 09 Major Funds' Expenses ($2.6 billion)



The budget for the major funds, excluding sewers, is increasing by approximately $65.1 million or 2.5%, when compared to the Adopted 2008 Budget as shown in Table 1.1, on page 4. The funding for salaries is increasing by $26.5 million or 3.1%. The budget fully funds all current staff and does not include probable savings from attrition. The vacant and new positions are funded for various lengths of time. The salary budget also includes anticipated salary increases for employees in the Civil Service Employees Association (CSEA) and Superior Officers Association (SOA). Conversely labor savings from the respective unions are included in the fringe benefits budget.

The "savings" from assumed labor concessions for the unions whose agreements expired December 31, 2007 are $24.4 million. Savings are defined as reduced costs compared to the Administration's estimated baseline inflators. The savings per union are as follows:

- CSEA $14.4 million
- SOA $10.0 million

The Administration is confident that it can achieve most of these savings based on the pattern set by last year's PBA Arbitration Award. For further discussion of personnel costs please read Section 4 of the Executive Summary, Labor.

A significant initiative impacting operations is consolidation, which the Administration expects to yield the $4.5 million of expected savings in the Proposed Budget. The Administration has proposed to:

1. Place all of the "advocacy" functions – the offices of Veterans Affairs, Physically Challenged, Minority Affairs, and Coordinating Agency for Spanish Americans – under one umbrella that reports to the County Executive and give them a stronger voice in the community. This new Office of the County Advocate will share business and administrative functions, but still maintain distinct units of advocacy.
2. Almost all of the Information Technology staff in the County will be consolidated into the Department of Information Technology.
3. Fleet maintenance, building maintenance, and parks maintenance functions will be consolidated into the Department of Public Works. The result will be improved coordination, reduction in required equipment, streamlined staffing requirements, and defined professional staff development.

The savings are expected from reduced fleet maintenance overtime, civilianizing police officer positions that perform information technology functions, reduced equipment and the elimination of some vacant positions. The information technology and various maintenance consolidations are logical with clear opportunities for synergies that in the long run have the ability to yield savings for the County if managed properly. The immediate savings that the County hopes to achieve in the short term should not solely be based on eliminating vacant positions, which were not going to be filled under any scenario. The Administration must also work with each impacted department and the unions to allow for a smooth transition.

The creation of the Office of the County Advocate appears to be illogical and does not recognize the reasons why some of these offices were created. In order to determine if one office could "provide a more coordinated approach to community outreach", it should first be examined whether these departments serve similar needs and if there are duplicative services being performed. Also, it must be examined if these departments were created to serve purposes other than community outreach.

Some departments that are scheduled to have a significant addition to personnel compared to their September 2008 headcount are the Correctional Center, Public Works, Sewers, Social Services and Information Technology. Most of the increase in Public Works and Information Technology is the result of positions being transferred due to the proposed consolidations. For more information regarding these additions please see the **OLBR Departmental Analysis.**

Table 1.1: Major Funds' Expenses 2008 vs. 2009
($'s in millions)

	2008 Major Funds	2008 Major Funds & Sewers	2009 Major Funds	2009 Major Funds & Sewers	Variance Major Funds	Variance Major Funds & Sewers
Expenses						
Salaries	$855.0	$878.0	$881.5	$904.9	$26.5	$26.9
Fringe	405.4	415.5	424.6	435.3	19.2	19.8
OTPS[1]	436.0	515.0	439.1	521.7	3.1	6.7
Direct Assistance	537.4	537.4	557.9	557.9	20.5	20.5
Debt Service	314.7	360.6	310.5	345.3	(4.2)	(15.3)
Reserves	10.0	30.2	10.0	38.8	0.0	8.6
Total Expenses[2]	**$2,558.5**	**$2,736.7**	**$2,623.6**	**$2,803.9**	**$65.1**	**$67.2**
Offline Expenses						
Tax Certs[3]	10.0	10.0	0.0	0.0	($10.0)	(10.0)
Adj Total Expenses	**$2,568.5**	**$2,746.7**	**$2,623.6**	**$2,803.9**	**$55.1**	**$57.2**

1. $40.0 million is included in 2008 and $50 million in FY09 for tax ceriorari settlements.

2. Excludes interdepartmental charges and debt service chargebacks

3. Funds from prior year fund balance were planned for tax certiorai settlements.

Fringe benefit expenses are increasing by $19.2 million. This increase is comprised mostly of the following:

1. Social security budget is increasing by $4.7 million
2. Health insurance for active employees increasing by $7.4 million
3. Health insurance for retired employees increasing by $8.5 million

The increases will be partially offset by $4.9 million savings for pension costs. 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 $3.1 million. This increase reflects the additional $10.0 million for tax certiorari funding in the operating budget. The FY 08 budget included $40.0 million for tax certiorari settlements, with an additional $10.0 expected to come from appropriating fund balance. In FY 09 the total funding will be $50.0 million. In addition, the budget is increasing due to the cost of all petroleum based products. Much of this increase will be offset by decreased spending for equipment and contractual services.

The additional OTPS increase reflected when including the Sewers is directly related to County take-over of the Glen Cove sewage treatment plant. Upon assuming control of the plant, the County agreed to continue the contract of approximately $3.0 million with the current vendor, Severn Trent

Environmental Services, Inc., which maintains the operation of the plant. That contract expires in August 2012, but may be extended through 2020 at the contractor's option.

The direct assistance budget is increasing by $20.5 million. Most of the growth is in the area of Early Intervention which is increasing by $6.3 million because of increased caseloads. As of June 2008, there is an additional 7.0% number of children receiving services, with further growth expected in 2009. Partially offsetting this increase is a reduction in budget for Pre-School education because the caseload has not been as high as expected.

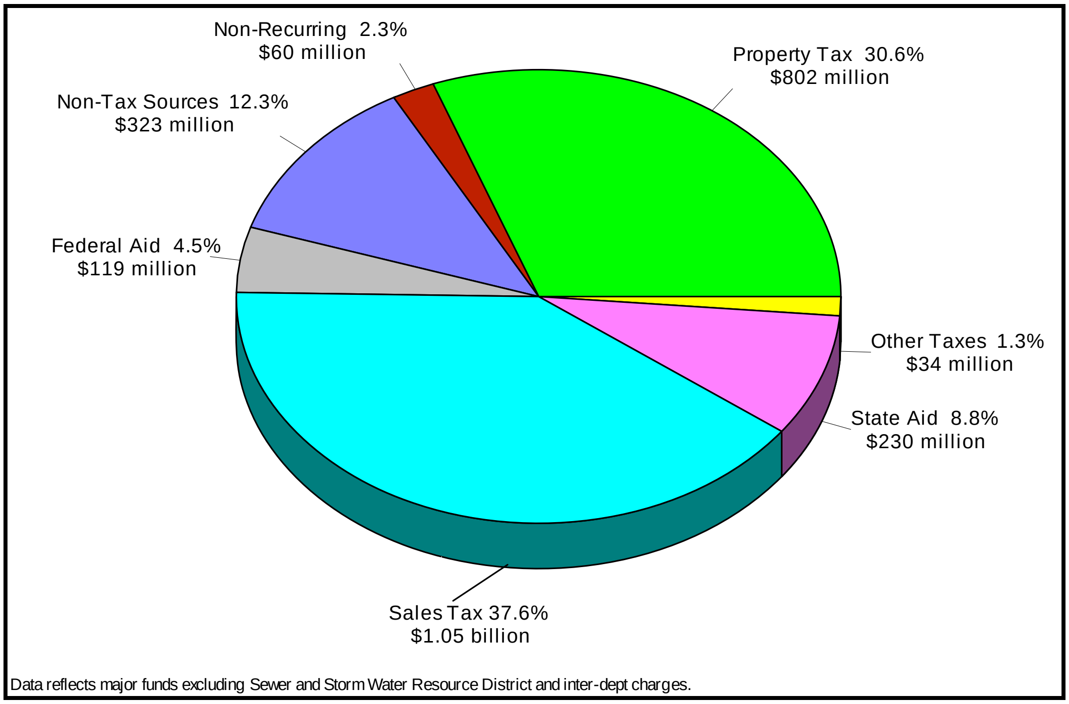
Medicaid is increasing by $5.9 million based on the cap formula. Safety Net is going up by $5.5 million and Temporary Assistance for Needy Families (TANF) is increasing by $2.4 million because of more caseloads. There will be an increase in state aid to help offset some of this expense. Further growth is also expected for increased daycare market rates and higher preventative services in the amount of $3.1 million. Preventative services includes Persons In Need of Supervision (PINS) diversion services.

The debt service budget is decreasing by $4.2 million. Consistent with recent budgets, $10.0 million is included as a contingency for any unforeseen events. In the Sewer and Storm Water Resource District, there is an allocation of $28.8 million for its Operation and Maintenance Reserve Fund. This is an increase of $8.6 million compared to the FY 08 Adopted Budget.

Proposed Revenue Budget

The largest revenue source for the County is sales tax as illustrated in Chart 1.2. The Office of Management and Budget (OMB) assumes that the collections for FY 08 will be $9.4 million below the Adopted FY 08 budget, at $1.03 billion. They then expect that there will be growth of 2.1% in FY 09 of $22.1 million for a total of $1.05 billion in FY 09. The estimated escalation in sales tax is below the historical norm for the County (see Section 2 of the Executive Summary, Sales Tax for further discussion). However, with the turmoil in the economy, it may be difficult to achieve. In order to reach OMB's current projection of $1.03 billion, collections over the remainder of the year will have to increase by 1.6% compared to the same period in FY 07. If collections continue at 2.1% in September and October, but then are flat over November and December, the year will end with an annual growth rate of 1.7% and a sales tax deficit of $11.7 million. With that reduced base, the FY 09 budget would represent 2.4% growth over the FY 08 projection.

Chart 1.2: FY 09 Major Funds' Revenue ($2.6 billion)



The 2009 Proposed Budget, as shown in Table 1.2, includes a property tax levy raise for the major funds of $28.5 million. That change, coupled with the $6.1 million tax addition for the Sewers, represents a 3.9% property tax levy increase.

Table 1.2: Property Tax Levy Comparison

Property Tax Levy Comparison						
Fund	**2006 Adopted**	**2007 Adopted**	**2008 Adopteed**	**2009 Proposed**	**$ 2009 vs 2008**	**% 2009 vs 2008**
County Parks	$51,167,930	$0	$0	$0	$0	0.0%
Fire Commission	15,849,710	15,698,706	15,554,824	15,565,535	10,711	0.1%
General	80,016,370	123,962,486	145,858,384	167,006,550	21,148,166	14.5%
Police District	333,627,100	331,639,639	332,325,833	340,742,224	8,416,391	2.5%
Police Headquarters	258,050,000	287,070,223	279,632,013	278,561,593	(1,070,420)	-0.4%
Subtotal Major Funds	**$738,711,110**	**$758,371,054**	**$773,371,054**	**$801,875,902**	**$28,504,848**	**3.7%**
Sewers	138,932,309	118,932,309	103,932,309	110,031,815	6,099,506	5.9%
Total Major Funds & Sewers	**$877,643,419**	**$877,303,363**	**$877,303,363**	**$911,907,717**	**$34,604,354**	**3.9%**
Enviromental Bond	0	4,128,256	7,374,561	4,850,000	(2,524,561)	-34.2%
College[1]	46,545,867	48,361,156	50,247,241	52,206,883	1,959,642	3.9%
Grand Total	**$924,189,286**	**$929,792,775**	**$934,925,165**	**$968,964,600**	**$34,039,435**	**3.6%**

1. College Budget was adopted June 23, 2008

Table 1.3: Major Funds Revenue FY 08 vs. FY 09
($'s in millions)

	2008		2009		Variance	
	Major Funds	Major Funds & Sewers	Major Funds	Major Funds & Sewers	Major Funds	Major Funds & Sewers
Revenues						
Non-Recurring Revenu	$57.5	$110.7	$60.4	$130.7	$2.9	$20.0
Non-Tax Sources	309.4	434.4	323.0	433.0	13.6	(1.4)
Federal Aid	120.4	120.4	119.3	119.3	(1.1)	(1.1)
State Aid	221.0	221.0	230.3	230.3	9.3	9.3
Sales Tax[1]	1,042.6	1,042.6	1,054.7	1,054.7	12.1	12.1
Property Tax	773.4	773.4	801.9	801.9	28.5	28.5
Other Taxes	34.2	34.2	34.0	34.0	(0.2)	(0.2)
Total Revenues[2]	**$2,558.5**	**$2,736.7**	**$2,623.6**	**$2,803.9**	**$65.1**	**$67.2**
Offline Revenue						
Tax Certs[3]	10.0	10.0	0.0	0.0	($10.0)	(10.0)
Adj Total Revenue	**$2,568.5**	**$2,746.7**	**$2,623.6**	**$2,803.9**	**$55.1**	**$57.2**

1. Each year includes deferred revenue.
2. Excludes interdepartmental revenue & debt service chargebacks
3. Prior years' surplus was planned for tax ceriorari settlements.

Non-tax sources is estimated to increase by $13.6 million as seen in Table 1.3. The largest portion of this increase, $7.1 million is from proceeds raised from the sale of County owned real estate. This funding will be used to pay debt service related to the building consolidation capital project. Another significant portion of this increase is from the revenue that the County will receive from the new County Clerk uniform filing fee. Also, the Police Department is anticipating additional ambulance fees from adding two ambulance posts and improved billing.

State aid is estimated to increase by $9.3 million in FY 09. The bulk of the escalation is from the $19.9 million to be raised from what the Administration describes as State Legislative items. Nassau County is seeking State approval for red light cameras and a ticket surcharge for infractions on the Long Island Expressway. Also, the County will receive additional aid related to the direct assistance expenses that are increasing.

Revenue from federal aid is decreasing by $1.1 million. The HEAP, or home energy assistance program, has decreased by $1.5 million because the State has taken over part of the program. The County is 100% reimbursed for this program so there is a corresponding decrease in federal aid with a net impact of zero.

The use of non-recurring revenue is $60.4 million in the FY 09 budget. The sources are the following:

1. $10 million use of fund balance for a contingency in the General Fund budget.
2. $23.5 million from the Retirement Contribution Reserve Fund.
3. $15.3 million of tobacco proceeds
4. $11.6 million from the Employees Accrued Liability Reserve Fund

The Administration plans to use $23.0 million of anticipated 2008 surplus to be transferred to the Retirement Contribution Reserve Fund. Those funds will then be used in 2009 to help fund the County's pension expense. If the 2008 surplus is insufficient, it will require the use of the County's undesignated fund balance to compensate for any shortfall. In light of the recent turmoil in the financial industry, the decision to exhaust the fund should be questioned. It is possible that pension contribution rates may increase in the out-years, which will further burden the County in the future.

The Administration plans to use $11.0 million of the $15.2 million balance in the Employees Accrued Liability Reserve Fund to fund budgeted termination payouts in FY 09. The budget currently shows a use of $11.6 million, but we have been informed by OMB that only $11.0 million, which matches the expense appropriation in District, will be utilized, and that a technical correction will be requested. The property tax in District could have been higher if not for the use of these funds.

When the reserve was first established, its purpose was to provide funding for an excessive number of retirements and unbudgeted termination expense. The planned use of this money in FY 09 for the 100 retirements projected may run counter to that intent. It should not be utilized to pay for a typical level of terminations. In addition, the upcoming SOA arbitration award will probably provide incentive for those members to retire in 2010 and widens the structural gap in the near future.

The difference in non-recurring revenue between the major funds variance and the major funds with sewers is from the utilization of $17.1 million more in fund balance in the Sewer and Storm Water District.

Significant items in the proposed budget that may be at risk include the following:

- Revenue from sales tax has the potential of being overstated by $9.0 to $14.0 million. unless the economy and housing market dramatically improve in 2009.
- State initiatives discussed on page 7 worth $19.9 million.
- Revenue from TPVA of $2.8 million because of the expected volume and the extra surcharge that needs approval from the State.
- Revenue from increased usage of the Parks facilities of $1.5 million.
- Savings of $4.0 million related to the timely execution of the Loss Portfolio transfer (LPT) in 2008. The initial bids were below expectations in part due to factors dictated by the economy. Final bids will be submitted by the vendors.
- Correctional Center overtime is estimated to be understated by $6.0 million depending on the staffing and inmate population.

- Police Department overtime is expected to decrease in FY 09, but the amount is too optimistic. It is estimated to be understated by $5.0 to $7.0 million.
- Revenue from the proposed High Volume Water Usage Surcharge of approximately $4.0 million in FY 09 included in the Sewer budget because it requires County legislative approval.

Although difficult to quantify, the continued downturn in the economy could result in increased tax certiorari, TANF and Safety Net payments. To offset some of the stated risks, there is potential funding available from the $10 million contingency reserve, vacant positions, attrition and other miscellaneous items. The amount of attrition savings is estimated to be $8.4 million assuming that there will be limited back-filling that occurs during the year. Considering the fact that sales tax collections and the State initiatives are not in the County's control, the budget is in an insecure position.

Multi-Year Plan

Over the course of the MYP, the growth in salaries, fringe benefits, direct assistance and debt payments will outpace the County's largest revenue source, sales tax.

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

	2009	2010	2011	2012
Revenues				
Fund Balance	$10.0	$0.0	$0.0	$0.0
Non-Tax Sources	373.4	346.1	355.0	363.2
Federal Aid	119.3	122.0	124.8	127.6
State Aid	230.3	235.5	240.8	246.2
Sales Tax	1,054.7	1,086.4	1,124.4	1,163.8
Property Tax	801.9	801.9	801.9	801.9
Other Taxes	34.0	34.1	34.1	34.2
Total Revenues	**$2,623.6**	**$2,626.0**	**$2,681.0**	**$2,736.9**
Expenses				
Salaries	$881.5	$912.4	$953.8	$982.7
Fringe	424.6	448.5	476.8	503.9
OTPS	439.1	444.3	451.6	461.4
Direct Assistance	557.9	575.6	593.4	611.7
Debt Service	310.5	341.4	354.1	361.2
Reserves	10.0	10.0	10.0	10.0
Total Expenses	**$2,623.6**	**$2,732.2**	**$2,839.7**	**$2,930.9**
Surplus/Gap Projection	**$0.0**	**($106.2)**	**($158.7)**	**($194.0)**

Less inter-depart. charges, debt service chargebacks and the Sewer and Storm Water District.

- Salaries and wages will increase by $101.2 million, from an estimate of $881.5 million in FY 09 to $982.7 million in FY 12. This translates to an annual increase of 3.7%. It should be noted that the CSEA and SOA currently have expired agreements. The Administration has assumed "savings" goals for these unions in the estimated baselines as shown below.

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

Union	FY 10	FY 11	FY 12
CSEA	$14.8	$15.3	$15.8
SOA	10.4	10.8	11.2
Total	$25.2	$26.1	$27.0

- Fringe benefits will increase by $79.3 million, from an estimate of $424.6 million in FY 09 to $503.9 million in FY 12.

  - The MYP baseline inflator used to project out-year health insurance costs is 8% in FY 10 and 6.5% in FY 11 and FY 12 for both active and retiree health insurance. The Administration has lowered the out-year health insurance growth rate in anticipation of reducing costs with New York State Health Insurance Plan (NYSHIP) or transferring the health insurance program to a new vendor.

  - The State Comptroller has warned about possible increases in the future if current economic conditions result in continued investment performance below their actuarial assumptions. By SFY 2012 and beyond, contribution rates are projected to continue to rise towards the long-term expected rates.[2] The State Comptroller's precautionary warning of long term contribution rates was announced in September 2008, before the collapse of the financial markets on Wall Street.

- OTPS expenditures will increase by $22.3 million, from an estimate of $439.1 million in FY 09 to $461.4 million in FY 12. This increase is less than what would be expected with normal inflation.

  - Utilities are expected to increase by 3%, with other expenses increasing by 1.25%

- Direct Assistance will increase by $53.8 million, from an estimate of $557.9 million in FY 09 to $611.7 million in FY 12. The largest increases are for Medicaid ($20.1 million), and Early Intervention/Pre-school Special Education Program ($16.0 million). There is a small corresponding increase in federal aid of $8.3 million and state aid of $15.9 million over the same time period.

- Debt Service will increase by $50.7 million, from an estimate of $310.5 million in FY 09 to $361.2 million in FY 12.

- Sales tax will increase by $109.1 million, from a projected amount of $1.05 billion in FY 09 to an estimate of $1.16 billion in FY 12. The MYP projects 2.5% growth for 2009, 3.0% in 2010 and 3.5% in 2011 and 2012.

[2] Ibid.

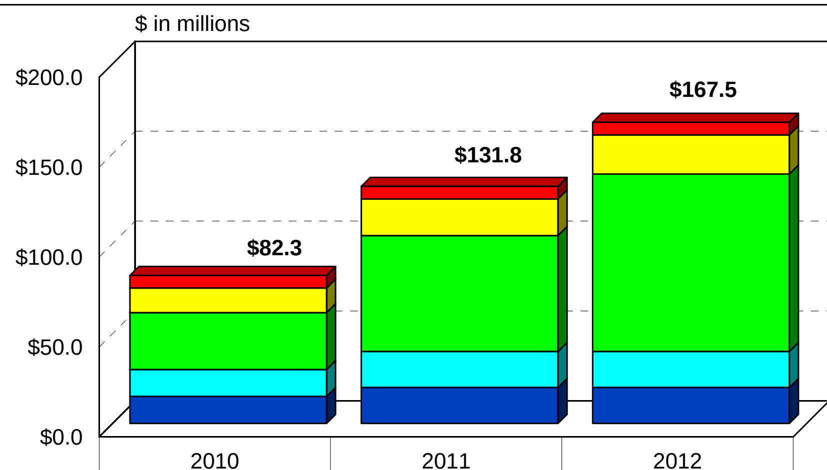
- Most of the other revenue sources are expected to have modest growth with the exception of non-tax sources. The decline in non-tax sources reflects the County's reduced reliance on use of its various reserves over the life of the MYP.
  - However, investment income is projected to increase from $18.0 million in FY 09 to $39.6 million in FY 12. This is based on interest rates increasing by 1.0% each year of the Plan.
- The baseline assumption is that the property tax levy will stay constant from FY 09 to FY 12.

The out-year gaps estimated by the Administration as illustrated in Over the course of the MYP, the growth in salaries, fringe benefits, direct assistance and debt payments will outpace the County's largest revenue source, sales tax.

Table 1.4 are $106.2 million in FY 10, $158.7 million in FY 11 and $194.0 million in FY 12. It is OLBR's determination that the stated gaps are too low. The areas in question are sales tax, labor costs, investment income, the State initiatives and pension costs in FY 11 and FY 12. In the spirit of determining a conservative MYP gap, the Administration should not have assumed economic recovery, which would allow for the increased revenue from sales tax and investment income. It is understood that the baseline assumptions should not be unrealistically pessimistic, but the level of optimism of some of the assumptions is questionable.

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 2010 - 2012



	2010	2011	2012
Red Light Cameras	$7.0	$7.0	$7.0
Initiatives	$13.7	$20.3	$21.8
Property Tax	$31.6	$64.5	$98.7
Health Insurance Savings	$15.0	$20.0	$20.0
Workforce Management	$15.0	$20.0	$20.0

The largest component is Property Tax, with a value of $98.7 million in FY 12. This amount is based on an annual CPI-related increase of 3.9% in the total property tax levy in each year of the Plan. The proposed MYP does not include revenue from capturing the value of new construction, although some prior plans did.

Revenue projected for red light cameras depends directly on State authorization. The $7.0 million included as a gap closing measure is in addition to the $12.0 million anticipated as a State Legislative item. Considering the difficulty that Nassau has had in getting this approved, to assume more in a second year of operation is risky.

A significant 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 $15.0 million in 2010, $20.0 million in 2011 and $20.0 million in 2012. The Administration has acknowledged that is restricted in its ability to manage employee health and ultimately reduce healthcare costs. It has put together a work group to explore health insurance savings options. They will look at a myriad of options ranging from the use of generic drugs, implementation of electronic medical records, expansion of pricing classes, subrogation opportunities and the introduction of managed health and wellness programs. The pursuit of these savings is laudable, 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. Also, this would have to be additional savings on top of the lower growth rates assumed in the MYP.

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 $15.0 million in 2010, $20 million in 2011 and $20 million in 2012. The assumptions are reasonable.

Smart Government Initiatives have a MYP adjusted value of $13.7 million in FY 10 growing to $21.8 million in FY 12 as shown in Table 1.6. The highlighted initiatives were in the County's May 2008 MYP Update. Each initiative has been reviewed in the OLBR Departmental Analysis.

Table 1.6: Smart Government Initiatives

Department	Initiative	FY10	FY11	FY12
Correctional Center	Electronic Court Appearances	$500,000	$500,000	$500,000
Correctional Center	Housing Non-County Inmates	1,500,000	2,500,000	3,500,000
Various	Program Reductions	1,000,000	1,000,000	1,000,000
OMB	Risk Management	1,100,000	1,700,000	2,000,000
OMB	Revenue Options	1,200,000	1,200,000	1,441,000
Information Technology	Enterprise Resource Planning System	5,000,000	10,000,000	10,000,000
Assessment Review	Commercial Tax Grievance Filing Fee	3,400,000	3,400,000	3,400,000
	MYP Total	**$13,700,000**	**$20,300,000**	**$21,841,000**

The smart government initiatives only include one proposal that will require State approval, the commercial tax grievance filing 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.

If the first group of gap closing actions are successful, the County is left with a gap of $23.9 million in 2010, $26.9 million in 2011 and $26.5 million in 2012. The Administration plans to address this remaining gap with the options listed in Table 1.7. Several of the options have previously been components of the County's MYP.

Table 1.7: Options to Close Remaining Gap
($'s in millions)

	2010	2011	2012
Estimated Baseline Gap	**($106.2)**	**($158.7)**	**($194.0)**
Total Gap Closing Measures	82.3	131.8	167.5
Deficit After Gap Closing Measures	**($23.9)**	**($26.9)**	**($26.5)**
Options to Close Remaining Gap			
Video Lottery Terminals	20.0	20.0	20.0
Cigarette Tax	28.4	28.4	28.4
FIT Reimbursement	4.1	4.1	4.1
Residential Energy Tax	45.0	46.4	48.0
Fast Food Tax	11.8	11.8	11.8
Discretionary Program Reductions	7.5	7.5	7.5
Debt Restructuring	0.0	5.0	5.0
Total Options	**$116.8**	**$123.2**	**$124.8**
Surplus/(Deficit) if All Successful	**$92.9**	**$96.3**	**$98.3**

If all the options could be successfully implemented the County would have a surplus of $92.9 million in 2010, $96.3 million in 2011 and $98.3 million in 2012. 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. Former Governor Spitzer stated that, "The recommendation to the legislature does not contemplate development of a VLT facility at Belmont Park".[3] He 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.

There have not been any actions since then to suggest that anything will change in the near future. Even if the State leaders change their 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

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

[3] "State Seeks Experienced Gaming Operator For VLT Facility At Aqueduct", http://www.ny.gov/governor/press/index.html, September 12, 2007.

counties. Therefore this option would appear to be very optimistic. Also, as consumption continues to decrease the revenue estimate should be lowered.

FIT Reimbursement

In recent budgets the County has included $4.1 million for reimbursement related to the County's expenditures for County residents attending the Fashion Institute of Technology. According to the State Education Law § 6305, the State is required to reimburse these payments to the County. However, the New York Court of Appeals ruled that state regulations precluded reimbursement when there was no budget allocation. The inclusion in the County budget was a high level risk. Including the funding as a possible gap closing option in the out-years is more appropriate.

Residential Energy Tax

In recent plans the Administration has included implementing a residential energy tax. They have estimated the County could earn $45.0 million in FY 10, $46.4 million in FY 11 and $48.0 million in FY 12. These estimates are more than double the amounts that were included in the May 2008 MYP Update. Members of the County Legislature have expressed displeasure with this item in the past and this proposal will probably continue to face great resistance.

Fast Food Tax

The fast food tax is a new option contemplated by the Administration. It is valued at $11.8 million annually starting in 2010. The basis for the calculation assumes a 2% tax on fast food purchases made in Nassau County. The estimate is based upon Nassau County food services taxable sales of $1.7 billion for the year period March 2005 through February 2006. Based on employment figures, it was determined that 34.4% of all food services taxable sales were made at fast food restaurants. Using a 2% tax rate results in $11.8 million in County fast food tax collections.

These collections are considered a risk since State Legislative approval is required. Many view fast food taxes as regressive since they disproportionately impact some of the lowest income groups.[4] Furthermore, OLBR calculates that a 2% tax rate yields $5.0 million in annual collections from the implementation of a fast food tax, based on the Assessment Department's Fast Food Annual Survey of Income and Expense.

Discretionary Program Reductions

The only item that is in the sole control of the County Executive is discretionary program reductions valued at $7.5 million annually starting in 2010. The Legislature could seek to include the funding in the budget, but it can not compel the County Executive to spend the funds.

Debt Restructuring

The Administration has included $5.0 million in 2011 and 2012 from savings from a possible debt restructuring in the future. Market forces at the time will dictate if this gap closing item is feasible.

[4] Hester Jr., Tom, "A Fast Food Tax to Help NJ Hospitals? Corzine Open to Idea", **Phillyburbs.com**, April 29, 2008.

Conclusion

The 2009 Executive Budget does not sufficiently provide for unforeseen risks and the problems are magnified in the out-years. As the reserves decline the County cannot afford any shortfalls. The County's ability to impact its largest expense, personnel is soon going to be limited. Each labor union will soon have an agreement with guaranteed increases through 2012 and for the PBA 2015. Obviously as was done with the PBA the County can seek to renegotiate these contracts, but it needs a willing partner. Also, it may not be sensible to increase costs in the out-years for an immediate savings.

If the County is not going to get legislative assistance from the State or significantly raise revenues, then the level of service and expenditures must be re-examined. A careful review of the upcoming Capital Plan would be a good start, as that impacts the level of debt service payments in the operating budget. Debt service is a hidden cost that usually is not discussed when capital projects are examined. Debt service is 11.8% of the County's $2.6 billion budget. It is an area that is expected to continue to grow in the out-years.

New York State has already altered its current budget once this year and may do so again next month in order to reduce expenditures this fiscal year and to prepare for next year's State budget. The County would be wise to similarly seek to improve the proposed budget even after it is approved by the Legislature. This could best be done by moving a portion of the budget to contingency as discussed earlier. Without true structural reform the County's financial position will decline.

2. SALES TAX

The largest source of revenue for the County is sales tax. The sales tax is collected by the State, and distributed to the County on a regular basis. 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. In 2009 the incorporated villages will be allocated a lump sum amount of $1,250,000 to be divided on a per capita basis.

The proposed sales tax revenue in the FY 09 Executive Budget is $1.05 billion. This estimate is based on OMB's assumption that collections will grow at 1.9% annually in FY 08 and then 2.1% in FY 09.

Table 2.1, below, shows annual gross sales tax collections since FY 03, OMB's projected FY 08 total, and the budgeted amounts in the 2009 – 2012 Multi-Year Financial Plan. The MYP projects 3.1 % growth for 2009, and 3.5% in 2010 and 2011.

Table 2.1: Annual Sales Tax Collections

Fiscal Year	Actuals	Growth
2003	895,373,119	3.5%
2004	939,822,695	5.0%
2005	953,783,223	1.5%
2006	991,109,034	3.9%
2007	1,011,868,760	2.1%
Fiscal Year	**OMB Projections**	**Growth**
2008	1,031,162,851	1.9%
2009	1,053,292,292	2.1%
2010	1,086,377,494	3.1%
2011	1,124,400,706	3.5%
2012	1,163,754,731	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, $1.4 million has been budgeted in FY 09 as deferred sales tax. Since this amount was received in 2007, it is not included in the 2008 total shown in the chart above. Also not included is the $2.0 million deferred sales tax credited to FY 08.

If OMB's FY 08 projection is attained, the ten-year average compounded increase for the period 1998 through 2008 would be 3.72%, 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 2.86%. Under normal circumstance, the sales tax growth rate assumptions for FY 08 and FY 09 would not be unreasonable, considering the 10-year and 5-year averages. However, with the turmoil in the economy, they may be difficult to achieve. The out-year rates included in the MYP also fall within the ten-year range, but all exceed the five-year average.

A significant amount of layoffs, high inflation, and limited credit is causing consumers to feel pinched financially and reluctant to spend. Cognizant of this, retailers have started talking about Christmas discounts, ordering less merchandise, cutting back on extended hours and hiring fewer seasonal workers.[1] Current industry holiday sales projections fall in the -4.0% to 2.1% range.[2] For a more detailed discussion of current economic conditions see Section 3 of the Executive Summary, Economic Report.

As can be seen in Table 2.2, through August 2008 County sales tax collections are up 2.1% from the prior year (there is a six week lag in monthly receipts). In order to reach OMB's current projection of $1.03 billion, collections over the remainder of the year will have to increase by 1.6% compared to the same period in FY 07. If collections continue at 2.1% in September and October, but then are flat over November and December, the year will end with an annual growth rate of 1.7% and a sales tax deficit of $11.7 million. With that reduced base, the FY 09 budget would represent 2.4% growth over the FY 08 projection.

Table 2.2

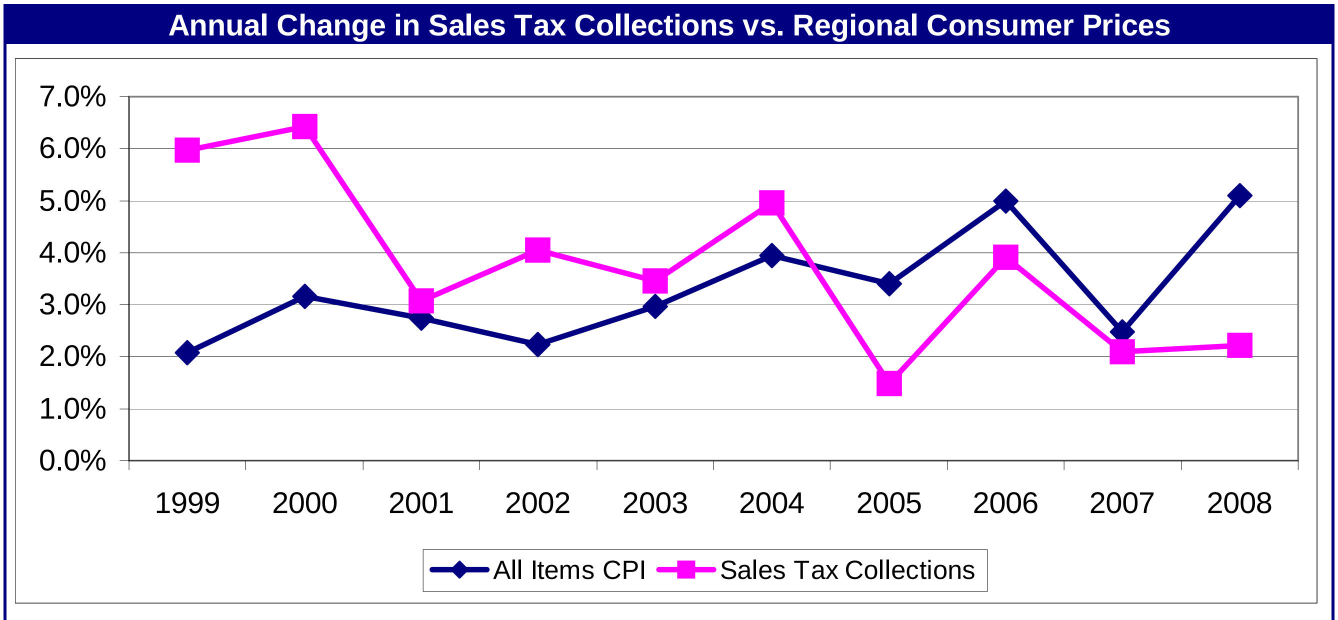
Gross Sales Tax Collections
2007 vs. 2008

	2007	2008	$ Variance	% Variance
January	$73,268,469	$74,530,454	$1,261,985	1.7%
February	88,798,041	93,213,050	4,415,009	5.0%
March	74,300,284	76,286,676	1,986,392	2.7%
April	74,986,385	76,193,093	1,206,708	1.6%
May	101,317,039	102,991,455	1,674,416	1.7%
June	80,864,101	79,173,366	(1,690,735)	-2.1%
July	78,020,326	81,551,633	3,531,307	4.5%
August	97,172,859	98,665,766	1,492,907	1.5%
	$668,727,502	$682,605,491	$13,877,989	2.1%

[1] Kavilanz, Parija, "Credit Crunch: Not so Happy Holidays", CNN/Money.com, October 3, 2008.
[2] Same as above.

Traditionally the annual growth recorded in County sales tax collections has best been forecast by the annual growth predicted for Regional Consumer Prices, CPI. Chart 2.1 below records the historic growth rates exhibited between these variables.

Chart 2.1



Source: US Bureau of Labor Statistics

Chart 2.1 reveals that over the 1999 to 2004 timeframe, the annual growth recorded for County sales tax collections exceeded that recorded for by the Regional CPI. Post 2004, the relationship between the two variables changed. From 2005 to the present, County sales tax collections have not kept pace with regional inflation. Part of the change could be due to an increase in individuals making more purchases in a tax exempt way, online for example. Additionally, the change could also be a result of individuals purchasing less as prices escalate.

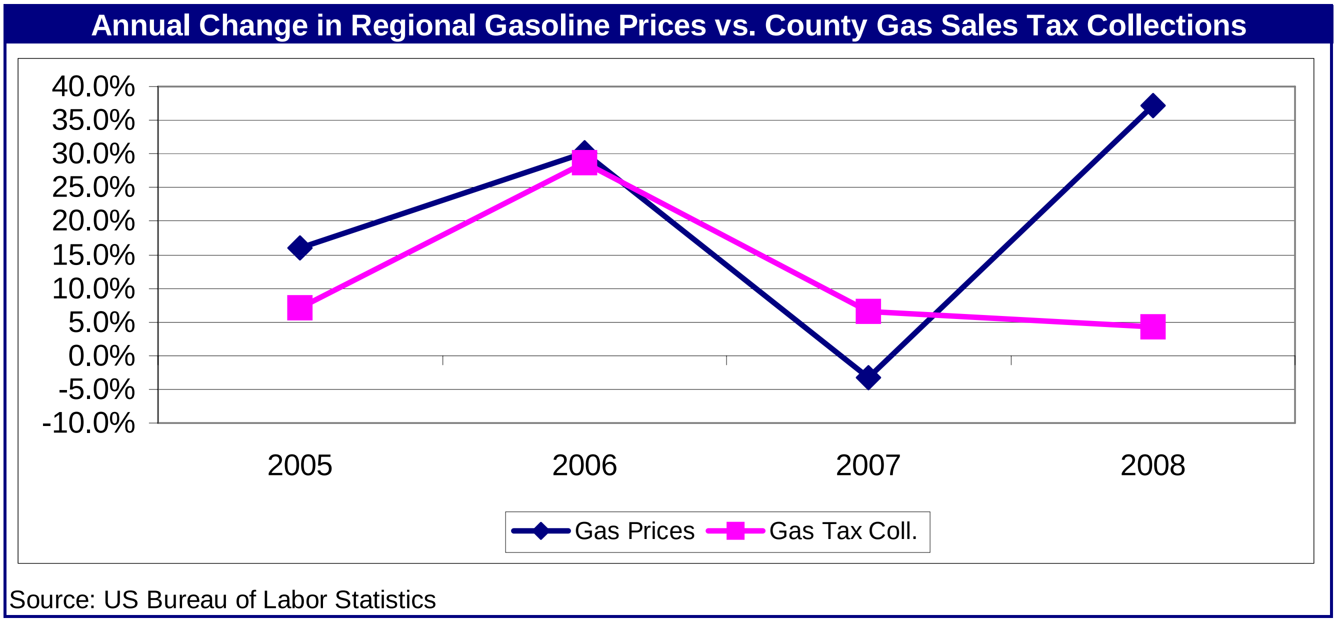
Currently, purchases made out of state, either online or via mail order, are tax exempt if the business selling the item does not have either a nexus, physical presence, in the purchaser's state or does not mix media by allowing Internet buyers to make returns, exchanges and pick-ups at their local store. Since the Internet sales have been registering double digit growth, County sales tax collections have been diminished as individuals and businesses opt to make more purchases online. According to Forrester Research, in 2007, online sales grew 21%. Online growth is expected to be positive albeit at a lower rate from 2008 through 2012.[3] OLBR currently estimates the sales tax loss to Nassau County from online purchases to be $9.0 million.

As mentioned previously, consumer behavior has modified the traditional relationship between County sales tax collections and Regional CPI. Nowhere is the drop off in sales volume due to higher prices more apparent than in the market for gasoline. Numerous economic surveys have shown that as the price of gas rises, individuals chose to conserve and buy less gas. Chart 2.2 shows that while the

[3] Rosencrance, Linda, "E-commerce Sales to Boom for Next 5 Years", Computerworld.com, February 5, 2008.

regional cost of gasoline has risen 80% since July 2004, the County's sales tax collections attributable to sales of gasoline have risen 47%.

Chart 2.2



Additionally, the high cost of gas coupled with the uncertain economy, has resulted in fewer automobile sales. Nationwide auto dealers are experiencing such a difficult time that 600 dealerships are expected to close or consolidate this year. That represents a 39.5% increase from last year.[4] According to New York State Department of Taxation and Finance figures, motor vehicle and parts sales have historically constituted 14% of all taxable sales in Nassau County.

Although the 2.1% growth assumed in the FY 09 Executive Budget falls below the regional CPI projection, given current economic conditions it may be difficult to achieve the 1.6% rate necessary over the next four months to make the FY 08 target.

[4] Incantalupo, Tom, "LI Auto Dealers Squeezed by Tightening Credit", Newsday.com, October 2, 2008.

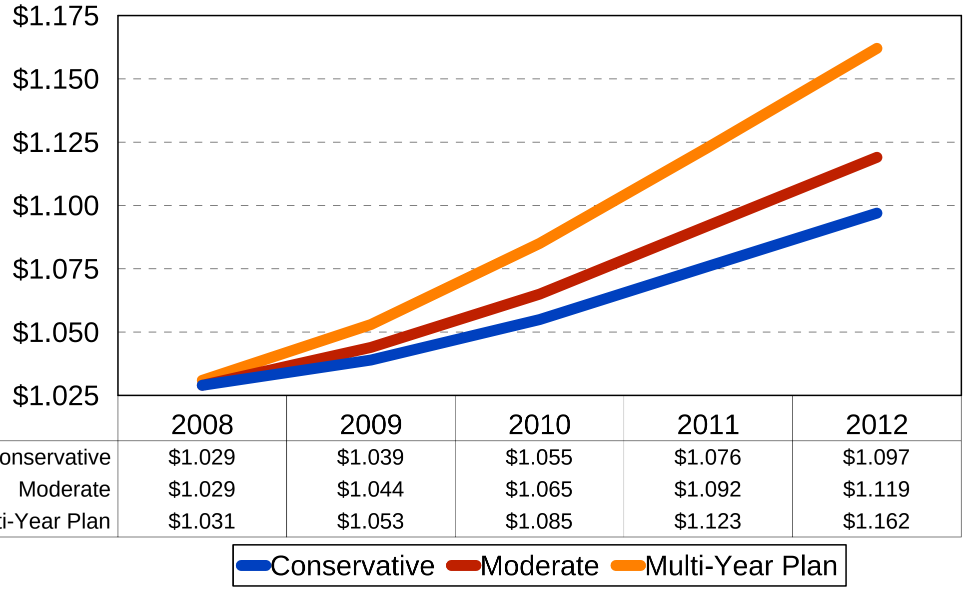
Chart 2.3 illustrates the risks and opportunities for County sales tax collections in the out-years by comparing two alternate scenarios to the amounts in the Multi-Year Plan. Both scenarios assume that collections for the remainder of 2008 will grow by 2.1% through October, and remain flat in November and December, ending the year with an annual growth of 1.7%. The conservative scenario then projects out-year growth of 1% in FY 09, 1.5% in FY 10, and 2% in FY11 and FY 12. The moderate scenario projects 1.5% in FY 09, 2% in FY 10, and 2.5% in FY11 and FY 12. The MYP stands in for our optimistic scenario. In 2012 the difference in annual collections between the moderate and MYP scenarios reaches $65 million.

Chart 2.3:

Sales Tax Scenarios

FY 2008 - 2012

(In billions)



	2008	2009	2010	2011	2012
Conservative	$1.029	$1.039	$1.055	$1.076	$1.097
Moderate	$1.029	$1.044	$1.065	$1.092	$1.119
Multi-Year Plan	$1.031	$1.053	$1.085	$1.123	$1.162

There is one sales tax related item that does appear in the MYP which we feel is incorrect. In years FY 10 through FY 12 there is approximately $1.5 million included for deferred sales tax collected in excess of budget. 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 09, for example, is determined by the FY 07 collections. Knowing, at this time, the FY 07 results, and therefore the deferral amount, it is proper to budget that revenue in FY 09. However, the FY 10 deferred amount will be linked to the FY 08 results, FY 11 to FY 09, 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.

3. ECONOMIC REPORT

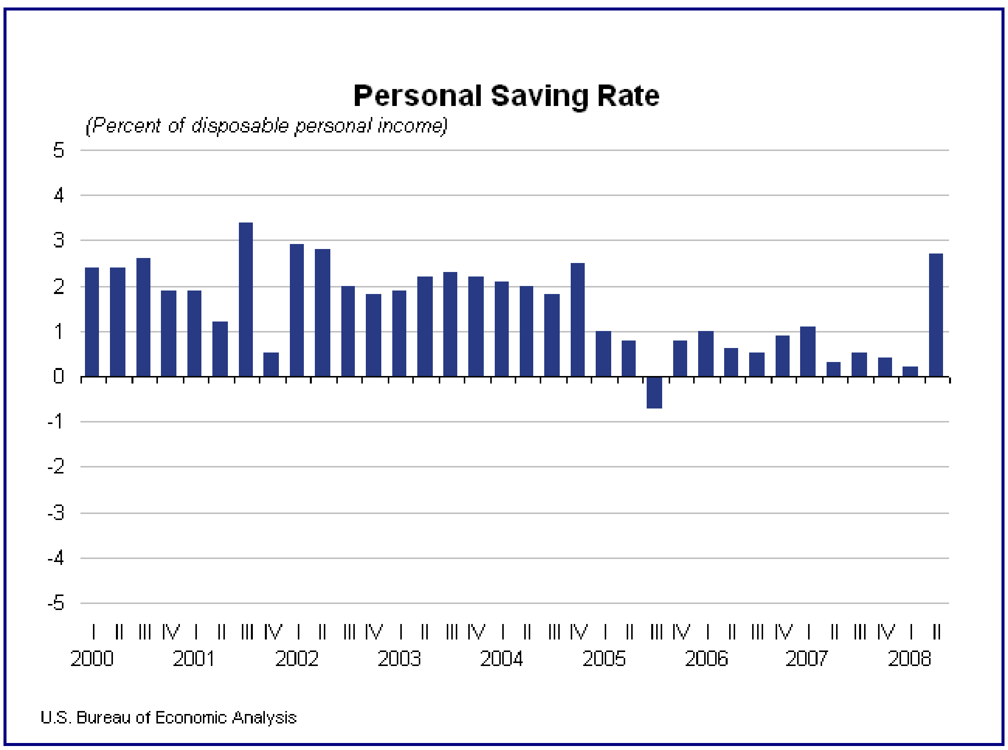
National Economic Conditions

The global, national and regional economies are in a state of emergency. On October 8, 2008, the U.S. Federal Reserve, European Central Bank, Swiss Central Bank, Canadian Central Bank and Swedish Central Bank all coordinated emergency interest rate cuts. The interest rate cuts were implemented with the hope of stimulating the global economy.[1] Former Federal Reserve Chairman Alan Greenspan called the current financial situation a "once-in-a-century" crisis.[2]

The current Federal Reserve Survey of Professional Forecasters has put the risk of a negative GDP growth quarter occurring in the fourth quarter of 2008 at 46.6%. The quarterly risk percentages for the first three quarters of 2009 are 32.9%, 22.4% and 17.4% respectively.[3] A recent opinion poll found that consumers are even more pessimistic, as 21% of Americans feel a depression is very likely and 38% feel a depression is somewhat likely.[4] The viewpoint of the consumer is critical since consumer purchases comprise two-thirds of economic activity.

What started out as a slowdown in the housing sector has ballooned into a credit freeze with businesses, consumers and governments finding it difficult to secure financing. The crisis itself has become self-reinforcing with businesses opting not to lend and consumers opting not to spend. Chart 3.1 below details the national personal savings rate on a quarterly basis. The national savings rate increased precipitously in the second quarter 2008 as fearful consumers chose to save.

Chart 3.1: Personal Savings Rate



---

[1] Isidore, Chris, "Fed: Emergency Cut", CNN/Money.com, October 8, 2008.
[2] "Greenspan: Economy in "once-in-a-century"Crisis", CNN/Money.com, September 14, 2008.
[3] "Third Quarter of 2008: Survey of Professional Forecasters", Federal Reserve Bank of Philadelphia, August 12, 2008.
[4] Isidore, Chris, "Poll: 60% Say Depression "Likely"", CNN/Money.com, October 6, 2008.

Businesses

Without financing, businesses have had to raise prices, cut costs or shut down. These measures have led to consumer price inflation, higher unemployment and decreased consumer spending.

According to US Bureau of Labor Statistics figures, annual regional consumer price growth in August 2008 was 5.4%. That was the largest annual consumer price increase recorded in 2008.

US Bureau of Labor Statistics figures also revealed that the national unemployment rate surged to 6.1% in August 2008, a five-year high, as the US economy lost 605,000 jobs. Economists stressed that the unemployment rate does not accurately show how difficult it is to find a job since it does not include discouraged workers who have stopped actively looking for work. Moreover, the unemployment rate does not capture underemployed workers, individuals who would like a full-time job but can only find a part-time one.[5]

Additionally, for those businesses which have been fortunate enough to secure financing, the current uncertainty in the market has caused the costs of borrowing to escalate. Companies with lower credit ratings are paying 10.8 percentage points above treasuries.[6] Some businesses will not be able to cover these costs.

Consumers

Faced with no credit, higher prices and unemployment, households have stopped spending and started using coupons. In August 2008, according to US Commerce Department figures, national retail sales dropped 0.3%. The August drop followed a July 2008 decline of 0.5%.[7] Additionally, according to MaryAnn Rivers, CEO of Entertainment Publications which publishes community-based coupon books and web sites, there has been an153% increase in the use of coupons for day to day necessities and an 198% increase in the use of coupons for casual or "quick-serve" meals since last year.[8]

Consumer spending is a vital force in the economy since two-thirds of economic growth may be attributed to purchases made by the consumer. Consumer spending may be supported by either income or a debt instrument. Since nationwide income has not kept pace with inflation and since housing costs comprise a significant amount of household's monthly budget, paying cash for items has become increasingly difficult. This makes credit availability a major ingredient for economic growth. Recent developments pose a threat to credit availability and therefore consumer spending and economic growth.

- Banks and investment houses have begun to review home equity lines of credit and close or reduce them in areas where a perceived decline in equity has occurred.[9]
- Auto dealers report that they are having a difficult time arranging financing for customers. This is even more critical since home equity loans have typically been used to purchase cars.[10] Nationwide auto dealers are experiencing such a difficult time that 600 dealerships are expected to close or consolidate this year. That represents a 39.5% increase from last year.[11]

---

[5] Isidore, Chris, "Jobless Rate Soars to 6.1%", CNN/Money.com, September 5, 2008.
[6] Krantz, Matt, "Loan Costs Soar as Access Tightens", USAToday.com, September 29, 2008.
[7] Homan, Timothy R., "Retail Sales in U.S. Unexpectedly Dropped in August", Bloomberg.com, September 12, 2008.
[8] Grinberg, Emanuella, "Economic Shock Gives Rise to Coupon Cutting", CNN/Money.com, October 9, 2008.
[9] Brubaker, Harold, "Wachovia Cutting Home-Equity Credit Lines", Philly.com, August 27, 2008.
[10] Vales-Dapena, Peter, "The Squeeze on Getting a Car Loan", CNN/Money.com, September 23, 2008.
[11] Incantalupo, Tom, "LI Auto Dealers Squeezed by Tightening Credit", Newsday.com, October 2, 2008.

- According to New York State Department of Taxation and Finance figures, motor vehicle and parts sales have historically constituted 14% of all taxable sales in Nassau County.

Government

The government is also highly dependent upon financing to cover both the cost of capital projects and its cash flow needs. Recently, municipalities have been unable to raise the amount of capital that they require.

- The state of Oregon had to cancel a $21 million sale of bonds for the state university system and several other planned issues. The state treasurer stated that "there's really no market, there's no buyers out there".[12]
- The state of Massachusetts had a similar experience recently when they attempted to complete a commercial paper transaction for $800 million. They were only able to issue roughly $600 million. The State has had to tap its cash on hand as well as its rainy day fund to meet immediate obligations.[13]
- As a result of the market turmoil, California Governor Arnold Schwarzenegger wrote a letter to the U.S. Treasury opining that "states may be forced to turn to the federal treasury for short-term financing if the crisis doesn't ease."[14]

Regional Economic Conditions

The previously detailed economic forces should impact Long Island since a high percentage of residents work in the financial sector.[15] This implies less income and less credit availability.

Already the fiscal crisis is impacting resident's ability to pay their monthly bills. According to LIPA, the number of customers paying their LIPA bills late hit an all-time high of 219,171 in August. LIPA's total arrears are currently $155 million.[16]

Additionally, according to a New York State Comptroller estimate, the recent financial crisis on Wall Street could result in revenue losses similar to those experienced after the tragedy of September 11, 2001:

- Up to $3.5 billion in lost taxes, mostly personal income tax revenue by March 2010.
- Up to 40,000 job losses in financial industries.
- A 50% decline in the Wall Street bonus pool.
- Up to 120,000 additional job losses, under the assumption that three additional jobs will be lost in other sectors for each lost financial sector job.[17]

A significant percentage of these unemployed workers reside on Long Island. This will decrease the already constrained amount of disposable income on Long Island. On Long Island real income growth has stagnated and it was found that more than one in five households spends more than half of their income on housing. This makes purchasing items with cash difficult and having access to credit

[12] Lanman, Scott, and John Brinsley, "Fed May See Companies, States as Next Crisis Fronts", Bloomberg.com, October 6, 2008.
[13] Temple-West, Patrick and Michelle Kaske, "Fed's CP Plan Draws Interest of States", bondbuyer.com, October 8, 2008.
[14] Same as above.
[15] Gordon, Craig, "LI Pols Anxious Over Stalled Wall Street Bailout", Newsday.com, September 26, 2008.
[16] Harrington, Mark, "Record Number of LIPA Customers Making Late Payments", Newsday.com, October 8, 2008.
[17] "The Financial Industry Crisis – Impact on the New York State Budget", Office of the State Comptroller, September 2008.

critical.[18] This will impact holiday sales tax collections. According to Britt Beemer, a retail analyst and chairman of America's Research Group, as much as 87% of consumers use some form of credit for their Christmas shopping.[19]

Local businesses are suffering also. Local businesses report that even businesses with solid balance sheets are being turned down for loans. According to Phil Dorsinvil, owner of Fleet Doc, an Islip-based fleet management and truck repair business, credit availability will tighten in the future with many vendors reducing credit limits or doing away with them altogether.[20]

Initiatives

Government Responses

The government is pursuing several initiatives aimed at stimulating the credit market.

Congress recently passed the Federal bailout, the Emergency Economic Stabilization Act of 2008. This will enable the Federal government to purchase and insure the troubled assets securitized against mortgages. Once confidence is restored, hopefully, the credit freeze will sub-side. If the bailout is unsuccessful and the credit markets remain frozen, economists opine that the national unemployment rate could rise to somewhere in the 7 to 12% range, half of the worst rate recorded during the great depression.[21]

Additionally, the Federal government announced a plan to temporarily buy short-term debt, known as commercial paper. This will enable businesses to raise the money they need to finance day to day operations.[22]

Business Programs

Not only is the government taking steps to ease the credit freeze, private banks are similarly attempting to stop the crisis by thwarting foreclosures.

Bank of America is implementing an aggressive foreclosure prevention effort. The bank will cut monthly housing payments, including mortgage, property taxes and insurance to no more than 34% of gross income. That percentage is lower than IndyMac's foreclosure prevention program which limited payments to 38% of gross income. Payments will be lowered by either freezing or lowering a loan's interest rate or cutting the principal loan balance. The new foreclosure prevention program is estimated to cost $8.4 billion, much less than the estimated cost of the repossession and reselling process.[23]

---

[18] Sainz, Adrian and Alan Zibel, "Cash-Strapped Homeowners: No Money to Spend", TheMorningCall.com, September 23, 2008.
[19] Kavilanz, Parija, "Credit Crunch: Not so Happy Holidays", CNN/Money.com, October 3, 2008.
[20] Bernstein, James and Joie Tyrrell, "Local Small Businesses Finding Bank Loans Harder to Get", Newsday.com, September 30, 2008.
[21] Isidore, Chris, "Poll: 60% Say Depression "Likely"", CNN/Money.com, October 6, 2008.
[22] Aversa, Jeannine, "Fed will Fund Short-Term Business Loans", USAToday.com, October 7, 2008.
[23] Christie, Les, "Bank of America to Slash Mortgage Payments", CNN/Money.com, October 6, 2008.

National and Regional Economic Forecast

Consumption

Chart 3.2 below details the current forecast for annual growth in both regional and national GDP, personal income and retail sales. Despite a negative local retail sales, housing, employment and tourism forecast, no recession is expected in 2008 or 2009 for either Nassau or Suffolk County. Table 3.1 itemizes the projected quarterly percentage change for regional and national GDP. The table reveals that at the national level a recession, two consecutive quarters of negative GDP growth, is expected for the fourth quarter 2008 and the first quarter 2009. National GDP is expected to turn positive by the second quarter of 2009.

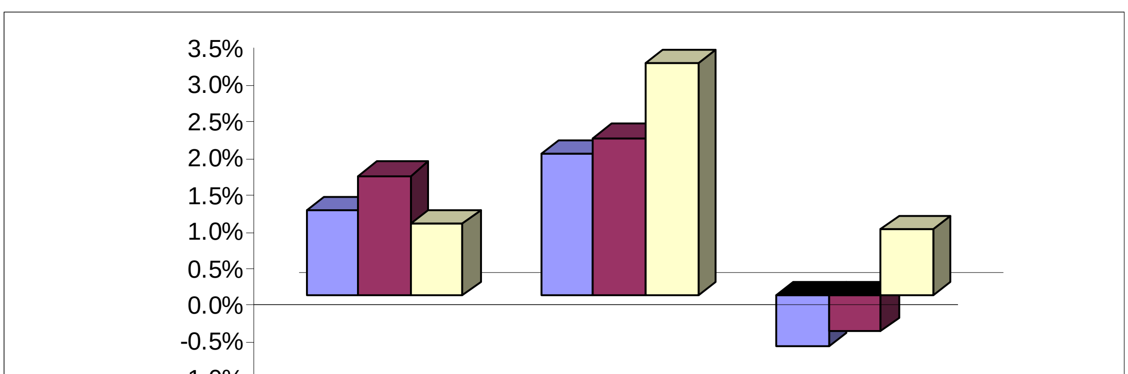
Table3.1: Gross Domestic Product

Forecasted Quarterly Change				
Year	**Quarter**	**Nassau**	**Suffolk**	**US**
2008	4th	0.20%	0.32%	-0.06%
2009	1st	0.30%	0.35%	-0.04%
2009	2nd	0.38%	0.44%	0.44%
2009	3rd	0.47%	0.57%	0.70%
2009	4th	0.47%	0.57%	0.70%
Moody's	Moody's Economy.com			

Netting out the projected increase for regional consumer prices, the forecasted increase for real Nassau personal income growth is negative. The 1.16% predicted Nassau annual growth for GDP and -0.7% projected Nassau annual growth for retail sales makes the budgeted 2.1% annual growth in County sales tax collections appear ambitious.

Chart 3.2: National and Regional Consumption

Forecasted Annual Percentage Change 2009 vs 2008



	GDP	Personal Income	Retail Sales
Nassau	1.16%	1.94%	-0.70%
Suffolk	1.63%	2.14%	-0.49%
US	0.97%	3.15%	0.91%

Source: Moody's Economy.com

The projected decline in regional retail sales correlates with the most recent Siena College consumer confidence poll which found that regional consumer confidence has fallen 21.3% from the prior year.

The consumer confidence decline is expected to continue since the future regional confidence index was down 15.2% and since the interviews on which the poll is based were conducted prior to the September fiscal crisis.[24]

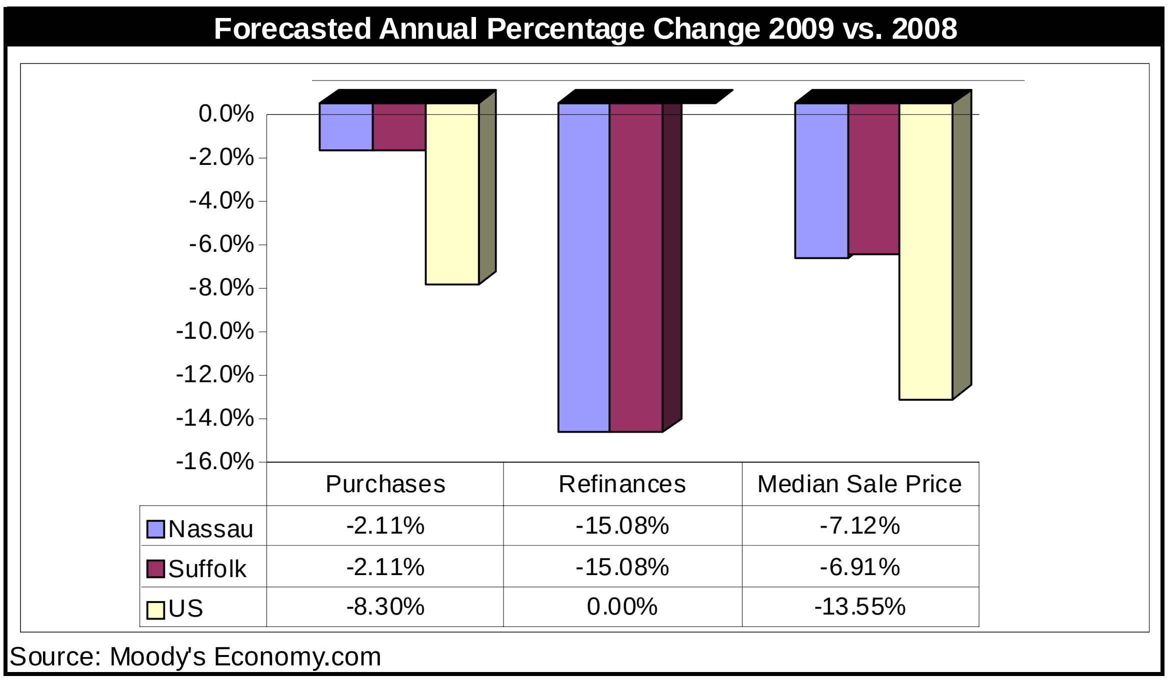
Housing

Both the regional and national housing markets are expected to soften for the remainder of 2008 and into 2009. Chart 3.3 below details the forecast declines for regional and national mortgage purchases, mortgage refinances and median home sale prices. Both Nassau and Suffolk have a similar forecast with purchases falling 2.11%, refinances falling 15.08% and median sale prices declining roughly 7%. At a national level the declines in purchases and median prices are projected to be greater. Surprisingly, no change in national refinances is anticipated.

According to the current economic forecast, both national and regional median home sales prices will not turn around until 2011. However, all areas surveyed are expected to experience a rise in the number of homes purchased in 2010.

These projected 2008 and 2009 housing market declines will negatively impact sales tax and County Clerk fee collections.

Chart 3.3: National and Regional Housing Markets



Employment

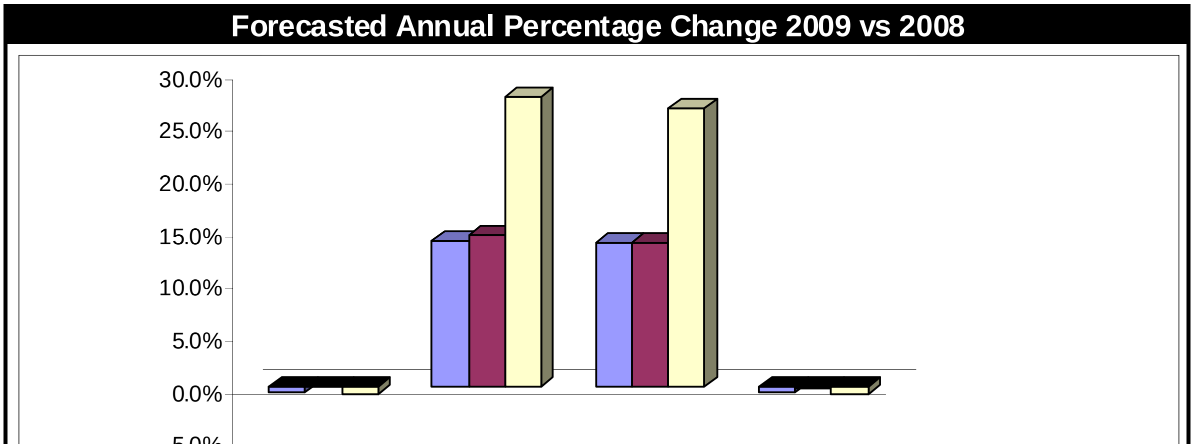
In August 2008, from an annual view point, the Long Island employment market increased by 7,900 jobs, the equivalent of 0.6% job growth. That 0.6% annual growth rate was below the 1.0% mark indicative of a healthy economy. Not only did Long Island experience sluggish job growth, but its unemployment rate increased slightly to 5.0%, the highest rate seen since March 2004.

[24] Lonnstrom, Douglas, "Monthly New York State Consumer Confidence Index including Gas and Food Analysis", Siena College Research Institute, October 10, 2008.

Concurrent with the annual unemployment rate increase was an annual decrease in the number of residents employed, and annual increases in both the number of unemployed residents and the labor force.

The sluggish job growth is expected to continue through 2009. Chart 3.4 below details the current total employed, total unemployed, unemployment rate and non-farm job growth forecast for Nassau, Suffolk and United States. All areas surveyed are expected to record annual declines in total employment and non-farm jobs as well as increases in both the number of unemployed residents and the unemployment rate. According to the forecast, Nassau County's year end 2009 unemployment rate will be 5.7%.

Chart 3.4: National and Regional Employment



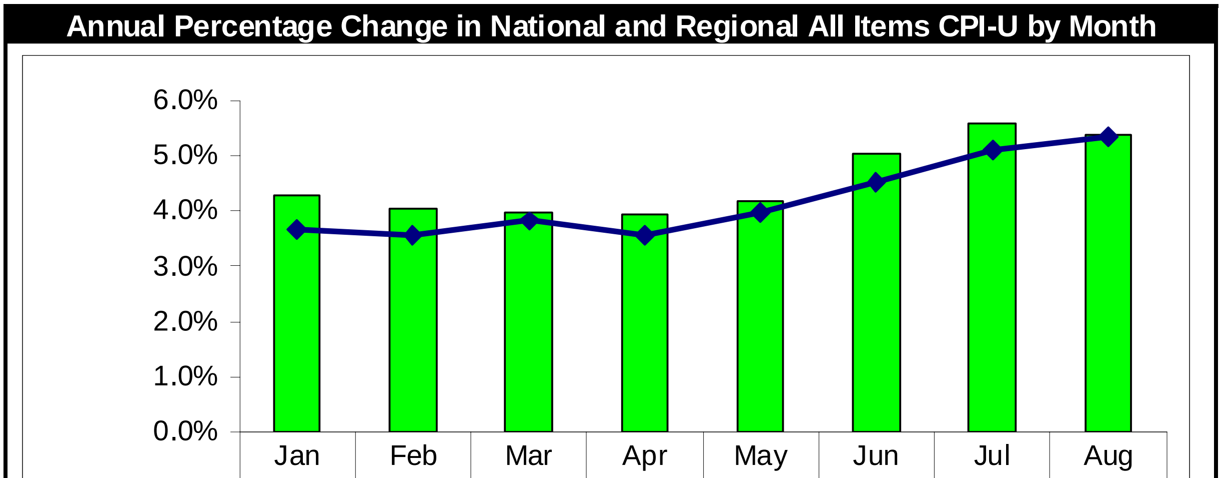
	Total Employed	Total Unemployed	Unemployment Rate	Non Farm Jobs
Nassau	-0.55%	13.85%	13.72%	-0.63%
Suffolk	-0.07%	14.44%	13.72%	-0.11%
US	-0.68%	27.71%	26.53%	-0.66%

Source: Moody's Economy.com

Consumer Prices

As of August 2008, regional consumer prices have risen 5.4% from the prior year. Nationally, consumer prices have escalated 5.4%. Over the past eight months, the increases seen in the regional CPI have averaged 4.2%. Nationally, the increases have averaged 4.5%. Chart 3.5 on the following page details the monthly changes recorded in both national and regional consumer prices.

Chart 3.5: National and Regional Consumer Prices



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
National	4.3%	4.0%	4.0%	3.9%	4.2%	5.0%	5.6%	5.4%
Regional	3.7%	3.6%	3.8%	3.6%	4.0%	4.5%	5.1%	5.4%

Source: US Bureau of Labor Statistics

Tourism

The increased unemployment and decreased consumer confidence have led businesses and consumers to cut back on tourism spending. This is evident in Nassau County hotel/motel occupancy rates which were down 5.2% in August 2008. Occupancy rates have fallen every month since May 2008. This is especially harmful to the industry since those months are typically the busiest months of the year. As demand has waned, hotels and motels have increased their prices. In August 2008, average room rental rates were up 4.9%. This increase should put further downward pressure on occupancy rates.

The lackluster demand is evident in County hotel/motel tax collections which have fallen 6.4% on a year-to-date basis. Looking forward, the downward trend should continue until business and consumer confidence and buying power returns.

Conclusion

The economy is caught in a tailspin. Until the Federal Government elected to directly buy shares in banks, all the maneuvers taken by both the Federal Government and private industry were not working. In fact the stock market declined each day since the Emergency Economic Stabilization Act of 2008 was passed until the Federal Government announced it is buying stock in banks.[25] It is unclear whether the October 13, 2008 rebound in the stock market is proof that consumer, investor and lender confidence has been restored, or a just a temporary gain. Given the current economic uncertainty, it is possible that significant FY 09 revenue items, such as sales tax, investment income, hotel/motel tax and County Clerk fees are at risk. Moreover, debt service costs may increase precipitously. The current crisis also casts doubt on the multi-year plan assumptions of higher sales tax growth and investment income in the out years.

[25] "$250 of Bailout Headed to Banks", Newsday.com, October 14, 2008.

4. LABOR

Labor Reductions & Concessions

The SOA and CSEA contracts expired on December 31, 2007. Both unions are currently in arbitration. In 2009, the Administration has included $14.4 million in savings for CSEA and $10.0 million for SOA. although the SOA contract generally follows the lead of the PBA union. There is some concern that there are operational differences between the PBA and the SOA that may make concessions more challenging. In addition, while the pending awards might have minimal impact in the near term, they may prove to be very costly in the out-years. Savings may be achieved with low or no increases in the first years of the contract or COLA payments may be deferred. In light of the current economy and the problems faced in the out-years we would hope that the County is able to maintain the flexibility to adjust headcount as necessary which means avoiding a no-layoff clause.

Table 4.1 shows all savings figured into the baseline for the SOA and CSEA unions. These savings grow by 3.3% in 2010, 3.6% in 2011 and 3.4% in 2012. Contractual savings budgeted for both unions without a contract in 2009 is $24.4 million.

Table 4.1: MYP Plan Savings

($'s in millions)

Union	FY 09	FY 10	FY 11	FY 12
CSEA	$14.4	$14.8	$15.3	$15.8
SOA	10.0	10.4	10.8	11.2
Total	**$24.4**	**$25.2**	**$26.1**	**$27.0**

The County Executive's Multi-Year Plan includes workforce management or turnover savings of $15 million in FY 10 and $20 million in FY 11 and FY 12. OLBR considers these savings to be achievable. No turnover savings were included in the FY 09 Budget.

As personal services makes up about 50% of the total expense budget for the 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.

On October 6, 2008 the Legislature approved a contract extension until December 31, 2015 between the County and the PBA union. The major terms of the agreement include 3.5% COLA increases for all members on January 1st of 2013, 2014, and 2015. In return the union has agreed to civilianization of up to 50 positions. Perhaps the most troubling term of the contract is the deferral of the deferrals set forth in the 2007 award and an additional deferral of increases earned April 1, 2009 through September 30, 2009. The deferrals in the 2007 award that were to be paid in 2009 will be paid in 2011 and the 2009 deferral will be paid in 2012. This does not create any cash savings but only puts off paying what should be paid at the time the expense is incurred. While it is understood that 2009 is a difficult budget, there is no reason to believe the out-years will be any better, especially with the near depletion of the reserves. The total amount to be deferred from 2009 is $8.4 million.

In addition, all officers hired between January 1, 2004 and July 31, 2008 will receive a jump step which eliminates their second to last step providing an additional increase of between 18 and 25% depending on the year. The administration has estimated that the total cost of this over the term of the contract to be $18.8 million. There will be some savings from the elimination of the benefit fund but the county has limited its ability to obtain health insurance contributions or have layoffs from 2013 though 2015. Anything that ties the County's hands that far into the future in these uncertain economic times is cause for concern. Also included are some longevity increases and managerial changes.

Consolidations

County Advocate

In the Proposed FY 09 Budget the offices of the Coordinating Agency for Spanish Americans (CASA), Minority Affairs, Physically Challenged and Veterans Services are being consolidated. In the Budget Summary it states, "The Office of the County Advocate will provide a more coordinated approach to community outreach, improve service delivery, be a strong advocate for the constituencies being served, and result in more effective, efficient operations." But can this be achieved more effectively with the departments combined into one or would simply putting the departments under a single Deputy County Executive be better?

The first question to be asked is if each of these agencies were created to be advocacy agencies or do they just function that way. At least for the Office of Minority Affairs, the responsibilities are mostly regulatory, not advocacy. It also needs to be examined whether these departments serve similar needs and if there are duplicative services being performed.

Synergies may be realized with the coordinating of these departments and it is a good idea to have all of them reporting to the same Deputy County Executive who can then coordinate service and realize possible savings. However, collapsing these departments into one is not necessary for this to happen, only good management. With the consolidation fiscal transparency will be lost and the Legislature will lose some control of the finances of the departments. Currently the Legislature approves transfers between departments and control centers. With the consolidation, funds can be reallocated between these agencies within the proposed department without legislative approval. It will also be difficult to track funding changes between agencies.

Although each department services a sector of the community that needs to be empowered or receive additional services, each one of these sectors are very different. The most effective outreach to each of these groups would be accomplished in different ways which can best be determined by each department. The needs of each group are complex, changing, and require a great deal of understanding and leadership from each of these communities. The County Charter acknowledges these complexities with the provisions of both the Minority Affairs Council and the advisory board to CASA. It seems clear that the intent of the Commission on Government Revision is that these departments not function only as a service to the County Executive but with the direction and interests of the communities they serve.

There may be some synergies to be realized with regards to educating and ensuring conformity to County policies within County departments. This may be accomplished through the sharing of a Deputy County Executive and the coordination of educational and monitoring efforts.

Public Works
The proposed FY 09 budget incorporates the consolidation of the Parks Department's Grounds and Maintenance divisions and the Police Department's Fleet, Building Maintenance (BMU), and Custodian units into the Department of Public Works. The goal of the Administration's consolidation efforts is to "merge various functions which will result in more efficient and effective delivery of services at reduced cost."

The 92 full-time employees of the two Parks divisions, currently responsible for maintaining all County parks, museums and preserves, will be transferred to DPW, as will 113 full-time civilian employees now working for the Police Department. The transfer also includes 28 part-time and 28 seasonal budgeted positions, all but one seasonal related to parks maintenance.

Information Technology
On May 16, 2008, through Executive Order, information technology functions in Social Services, the Health Department and Public Works were consolidated within the Department of Information Technology (DoIT). DoIT is now overseeing an additional 36 positions from Social Services, 4 positions from the Health Department, and 1 position from Public Works. They are now in the process of adding 8 civilians from the Nassau County Police department. This consolidation may have a negative effect, should the State not maintain its current level of reimbursement because it determines that staff is not performing services exclusively for HHS. If properly managed, however, there could be a number of benefits from consolidation, including operational efficiencies, information integration and coordination, and improved communication and service throughout the County. The consolidation should be monitored to ensure services to HHS departments and their clients do not suffer as a result.

Overtime
For overtime OLBR estimates a risk of about $6.0 million for Corrections in the General Fund depending on hiring and inmate population. Funding for Police FY 09 overtime is budgeted at $32.0 million but current FY 08 actuals indicate that overtime will be approximately $41 to $43 million. The estimated risk for FY 09 is $5.0 to 7.0 million. Although overtime savings are to be achieved by initiatives such as civilianization and merging departments into the Department of Public Works and Information Technology, it seems optimistic to expect savings on such a dramatic scale.

General Fund Salaries
In the General Fund, salaries will be sufficient given the current on-board headcount only if significant contractual savings are achieved. CSEA contractual savings are located in the Fringe Benefits Department, reducing this budget by $14.4 million. It should be noted that at some point during the year, funds 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 2009, there is also some room for savings.

Headcount
In the General Fund there are 316 vacancies when comparing the September 1, 2008 actual with the 2009 Proposed Budget. Whether or not funding is available to fill these vacancies will depend largely on the extent to which contractual savings are realized and overtime initiatives are achieved. Also at issue is to what extent positions are backfilled.

The September 1, 2008 five major funds headcount is 8,970. Headcount in the 2009 Proposed Budget is at 9,194 in 2009, an increase of 224 or 2.5% from the September headcount. The 2009 Proposed Budgeted headcount is decreasing slightly from the 2008 Adopted headcount by 84 positions. This is primarily due to the 133 decrease in the police funds. Sewer and Storm Water District is increasing by 44 positions from the September actual but decreasing from the 2008 Budget by 14 positions, reducing the number of vacancies. It should be noted that there are also 302 full-time positions in the Grant Fund.

Police unions will decrease in 2009 by 89 from the September 1, 2008 actual of 2,741 and decrease from the 2008 budget of 2,750 by 98. The reduction is expected to occur through civilianization and the reduction of some non-minimum manning posts. Some areas in which civilianization is expected to occur are the records bureau, personnel and accounting, the property bureau, the communications bureau, the ambulance bureau, the scientific investigations bureau, and administration. One area non-minimum manning posts will be eliminated is problem oriented policing (POP). Detective ranks are decreasing by 21 when comparing budget to budget and are going down by 11 from September actuals. Many detectives will be taken from special task forces and sent to precinct squads to reduce overtime. The total amount of civilians transferring from the Police Department into other departments is 121 which is offset by the Administration's plan to hire an additional 60 police service aids (PSA), or whatever title is appropriate, to help with the civilianization efforts.

The Correctional Center headcount is budgeted to increase from the September 1, 2008 actual by 54 positions. In mid October to November 2008, the department is expecting a new academy class of 34 sworn officers to come on board and to be deployed in March 2009. The department has stated that the goal is to achieve and maintain headcount at budgeted levels in 2009 and another class is anticipated to begin sometime in 2009 to keep up with attrition. Even with the new class in 2008, the department will not be up to the 2009 budget and with anticipated attrition the department will be even more under budget. This could have a significant impact on overtime.

Table 4.3 demonstrates the headcount variances on a departmental level.

Table 4.3: Full-Time Headcount

Department	Adopted 2008 Budget	Sept 2008 Actual	Executive 2009 Budget	Change from 2008 to Exec.	% Change from 2008 to Exec.	Change from Exec. to Sept Actual	% of Change Sept Actual
Assessment	261	249	255	(6)	-2.3%	6	2.4%
Assessment Review Commission	48	46	48	0	0.0%	2	4.3%
Behavioral Services	88	82	86	(2)	-2.3%	4	4.9%
CASA	8	8	0	(8)	-100.0%	(8)	-100.0%
Civil Service	65	61	64	(1)	-1.5%	3	4.9%
Constituent Affairs	57	50	53	(4)	-7.0%	3	6.0%
Consumer Affairs, Office of	43	41	44	1	2.3%	3	7.3%
Correctional Center	1,329	1,263	1,317	(12)	-0.9%	54	4.3%
County Advocate	0	0	31	31	-	31	-

Department	Adopted 2008 Budget	Sept 2008 Actual	Executive 2009 Budget	Change from 2008 to Exec.	% Change from 2008 to Exec.	Change from Exec. to Sept Actual	% of Change Sept Actual
County Attorney	155	155	155	0	0.0%	0	0.0%
County Clerk	106	99	106	0	0.0%	7	7.1%
County Comptroller	100	90	99	(1)	-1.0%	9	10.0%
County Executive	38	34	35	(3)	-7.9%	1	2.9%
District Attorney	385	375	389	4	1.0%	14	3.7%
Elections, Board of	110	115	115	5	4.5%	0	0.0%
Emergency Management	7	6	6	(1)	-14.3%	0	0.0%
Health Department	240	230	239	(1)	-0.4%	9	3.9%
Housing & Intergovernmental Aff.	10	6	6	(4)	-40.0%	0	0.0%
Human Resources	15	17	17	2	13.3%	0	0.0%
Human Rights, Commission of	10	9	10	0	0.0%	1	11.1%
Information Technology	112	139	158	46	41.1%	19	13.7%
Investigations	3	2	2	(1)	-33.3%	0	0.0%
Labor Relations	7	7	6	(1)	-14.3%	(1)	-14.3%
Legislature	98	92	97	(1)	-1.0%	5	5.4%
Management and Bud., Office of	44	41	41	(3)	-6.8%	0	0.0%
Medical Examiner	51	52	50	(1)	-2.0%	(2)	-3.8%
Minority Affairs	9	8	0	(9)	-100.0%	(8)	-100.0%
Parks, Recreation and Museums	265	257	173	(92)	-34.7%	(84)	-32.7%
Physically Challenged	7	7	0	(7)	-100.0%	(7)	-100.0%
Planning	24	19	21	(3)	-12.5%	2	10.5%
Probation	240	235	239	(1)	-0.4%	4	1.7%
Public Administrator	7	7	7	0	0.0%	0	0.0%
Public Works Dept. (Gen. Fund)	541	490	706	165	30.5%	216	44.1%
Purchasing	25	23	24	(1)	-4.0%	1	4.3%
Real Estate	9	9	9	0	0.0%	0	0.0%
Records Management	13	13	13	0	0.0%	0	0.0%
Senior Citizens Affairs	39	37	39	0	0.0%	2	5.4%
Social Services	897	832	869	(28)	-3.1%	37	4.4%
Traffic & Parking Violations Agncy	41	38	38	(3)	-7.3%	0	0.0%
Treasurer	41	42	42	1	2.4%	0	0.0%
Veterans Services Agency	9	8	0	(9)	-100.0%	(8)	-100.0%
Youth Board	7	6	7	0	0.0%	1	16.7%
Total General Fund	5,564	5,300	5,616	52	0.9%	316	6.0%
Fire Commision	115	110	112	(3)	-2.6%	2	1.8%
Police District	1,827	1,882	1,864	37	2.0%	(18)	-1.0%
Police Headquarters	1,772	1,678	1,602	(170)	-9.6%	(76)	-4.5%
Total Major Funds	9,278	8,970	9,194	(84)	-0.9%	224	2.5%
Sewer and Storm Water District	348	290	334	(14)	-4.0%	44	15.2%
Total All Funds	9,626	9,260	9,528	(98)	-1.0%	268	2.9%

5. FRINGE BENEFITS

Fringe benefit 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 09 fringe benefit budget for the major funds is approximately $407.7 million, which is a $19.3 million increase from the FY 08 Adopted Budget of $388.4 million and an increase of $6.0 million from the FY 08 projection. Most of the increase is due to growing health insurance and social security costs.

Although pension costs are projected to decrease in the FY 09 Proposed Budget and in 2010, the New York State Comptroller strongly cautions employers that rates in the future years will increase if current economic conditions result in continued investment performance below actuarial assumptions.[1] Due to the recent Wall Street financial market crises, the Office of Legislative Budget Review (OLBR) predicts future pension rates to substantially rise starting in FY 12, increasing the County's pension obligations in the out-years. This will further hinder the County's ability to balance the budget in the future.

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

Table 5.1: Fringe Budget by Major Fund

Fund	Department	Adopted FY 08 Budget	OLBR FY 08 Projection	FY 09 Exec. Budget	Variance Exec. vs Adopted 08	Variance Executive vs FY 08 Proj.
Fire Commission	Fringe Benefits	$3,663,915	$4,392,928	$3,733,004	$69,089	($659,924)
General Fund	Courts	2,181,579	2,030,765	2,111,364	(70,215)	80,599
	Fringe Benefits	165,279,494	176,994,527	175,805,564	10,526,070	(1,188,963)
	Miscellaneous	24,692,599	23,638,397	24,307,978	(384,621)	669,581
Police District	Fringe Benefits	96,725,424	98,186,440	104,710,366	7,984,942	6,523,926
Police Headquarters	Fringe Benefits	95,855,203	96,478,816	97,055,891	1,200,688	577,075
Total		**$388,398,214**	**$401,721,873**	**$407,724,167**	**$19,325,953**	**$6,002,294**

[1] Office of the New York State Comptroller. Letter to Employers of the Employee Retirement System, September 2008.

Table 5.2: breaks out fringe benefit costs by sub-object code:

Table 5.2: Fringe Budget by Sub-object

SubObject & Description	Adopted FY 08 Budget	OLBR FY 08 Projection	FY 09 Exec. Budget	Variance Exec. vs Adopted 08	Variance Exec. vs FY 08 Proj.
08F - NYS Police Retirement	$56,033,492	$56,042,448	$55,347,222	($686,270)	($695,226)
11F - State Retirement Systems	44,868,014	45,430,534	40,702,177	(4,165,837)	(4,728,357)
13F - Social Security Contribution	58,027,493	59,741,258	62,709,269	4,681,776	2,968,011
14F - Health Insurance	119,322,241	113,463,640	126,740,691	7,418,450	13,277,051
17F - Optical Plan	1,109,677	1,096,082	1,111,724	2,047	15,642
19F - NYS Unemployment	502,000	534,248	502,000	0	(32,248)
20F - Dental Insurance	5,390,963	5,083,652	5,397,459	6,496	313,807
22F - Medicare Reimbursement	17,654,250	15,872,243	16,232,548	(1,421,702)	360,305
26F - Flex Benefits	2,100,000	2,100,000	2,205,000	105,000	105,000
28F - Transit Check Plan	100,000	100,000	100,000	0	0
75F - Health Insurance For Retirees	101,336,921	101,864,029	109,885,329	8,548,408	8,021,300
76F - Employees Optical - Retirees	353,163	393,739	390,748	37,585	(2,991)
Subtotal	**$406,798,214**	**$401,721,873**	**$421,324,167**	**$14,525,953**	**$19,602,294**
ZZF - Fringe Savings	(20,200,000)	0	(17,100,000)	3,100,000	(17,100,000)
81F - Police Ret. Contingency	1,800,000	0	3,500,000	1,700,000	3,500,000
Grand Total	**$388,398,214**	**$401,721,873**	**$407,724,167**	**$19,325,953**	**$6,002,294**

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 moved 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 09:

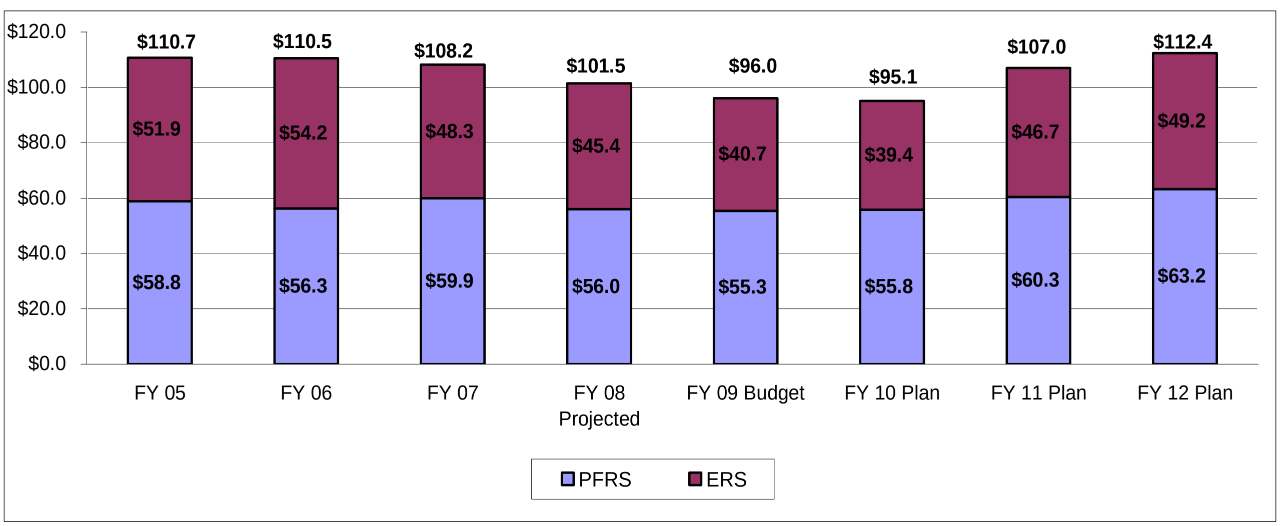
Table 5.3: Pension Contribution Reserve Fund

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 Draw Down	(24,500,000)	
Increase Reserve	23,000,000	
Balance:		23,518,562
2009 Draw Down	(23,500,000)	
2009 Ending Balance:		18,562

Since the creation of the reserve, the Administration increased the reserve by an additional $24.8 million in FY 05 and $16.0 million in FY 06 with surplus funds. At the end of FY 08, the Administration plans to transfer $23.0 million from FY 08 surplus funds, assuming funds are available. After the infusion of FY 08 surplus funds, approximately $23.5 million will be available to help fund pension obligations in FY 09.

Chart 5.1 details the historical pension obligations from FY 05 to projected costs in FY 12 from the Multi-Year Plan:

Chart 5.1: FY 05 to FY 12 Pension Costs (in Millions)



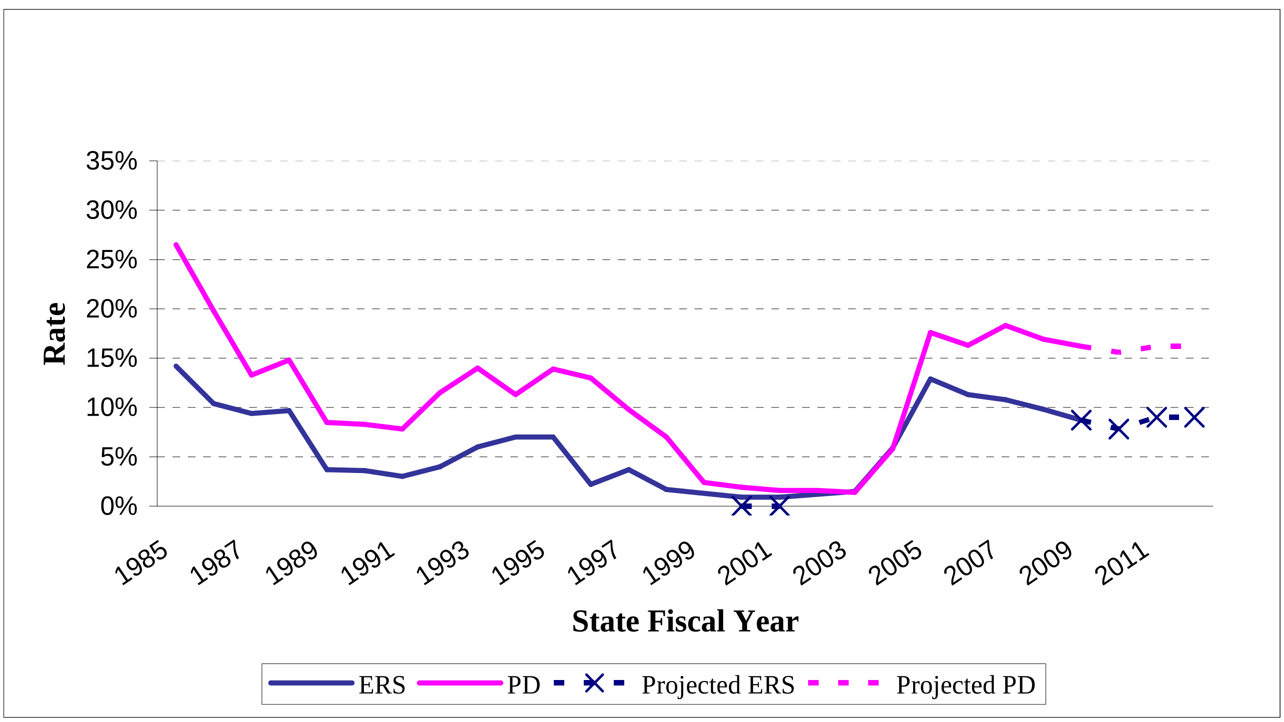
The FY 09 Proposed Budget for pension costs represents the lowest cost since FY 05 due to reduced pension contribution rates. The FY 09 Proposed Budget includes $96.0 million in total for Employee Retirement System (ERS) and Police and Fire Retirement System (PFRS) pension obligations. This is a decrease of $14.7 million from FY 05. The Multi-Year Plan projects pension costs to decrease in FY 10 to $95.1 million, and then to increase to $107.0 million in FY 11 and $112.4 million in FY 12.

The FY 09 budget of $96.0 million for SFY 2008-09 is made up of $40.7 million for Employee Retirement System (ERS) and $55.3 million for the Police and Fire Retirement System (PFRS). The FY 09 proposed budget is a decrease of $10.1 million from the FY 08 pension payment. The February 2009 estimated bill from the New York State Comptroller for ERS and PFRS is $102.2 million if the bill is paid on February 1, 2009 and $101.2 million if the bill is paid on December 15, 2008. 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 09 budget is based on paying the pension bill on December 15, 2008. This includes $45.9 million billed for ERS and $55.3 million billed for PFRS. The ERS billed amount of $45.9 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 on page 35. The pension rates range from 8.0% - 16.3% of pensionable salaries for ERS and 10.7% to 25.0% of pensionable salaries in PFRS depending on the tier of the employee.

Chart 5.2 depicts the annual blended average historical pension contribution rates for ERS and PFRS from 1985 to projected FY 12.

Chart 5.2: Historical Pension Contribution Rates



Source: NYS Comptroller

As reflected in Chart 5.2, pension contribution rates plummeted to an all time low in State Fiscal Year (SFY) 2001. Since that time, rates have steadily increased and peaked through SFY 2005. Since SFY 2005 rates have started to slowly decline and are projected to continue to decrease through SFY 2010. The New York State Comptroller's Office has provided finalized rates for SFY 2010 and projected long-term expected rates. SFY 2010 pension rates are less than the SFY 2009 rates and represent the fifth consecutive annual decrease. The recent decline is due to the calculation of rates using an investment smoothing technique that looks at the average of the investment experience over a five year period that includes periods of significant gains.[2] The five-year smoothing technique is applied to non-bonded equities and alternative investments, assuming a 7% rate of expected appreciation. This method recognizes regular investment income (interest and dividends) while phasing in unexpected appreciation /depreciation over a five year period.[3] The equities that employ the smoothing technique represent approximately 70% of the State's entire investment portfolio. The five-year smoothing technique is not applied to domestic bonds or mortgages.

The State Comptroller's long term expected contribution rates are based on an 8% annual rate of return on investments, as opposed to the 7% smoothing rate applied to actual returns. Therefore if the Fund averages more than 8% over an extended period of time, the employer should expect contribution rates to be less than the long term expected rate. If the Fund earns less than 8% over an extended period of time, the contribution rates would be higher than long-term expected rates. More recently, because the Fund's returns have averaged more than the expected 8% over the past few years, employer rates have declined.[4] The long-term expected rate for Tier 3 and Tier 4 members of Article 14, the plan most employees and almost all new members are covered in, is 11% of payroll. Therefore on a long-term basis employers should expect to pay 11% of their payroll to the Retirement System yearly, as long as investment results average 8% annually.[5]

After SFY 10, the State Comptroller has warned about possible increases. According to the New York State Comptroller's letter to participating employers of the Employees' Retirement System, employers are strongly cautioned regarding rates in the future years, if current economic conditions result in continued investment performance below the 8% actuarial assumption in SFY 2009. The Comptroller advises participating employers to be prepared for contribution rates to rise to the SFY 2009 levels. By SFY 2012 and beyond, contribution rates are projected to continue to rise towards the long-term expected rates.[6]

The Multi-Year Plan assumes ERS pension rates of 7.8% in FY 10, 9.0% in FY 11, and 9.0% in FY 12. For PFRS, the Multi-Year Plan assumes 15.6% in FY 10, 16.2% in FY 11 and 16.1% in FY 12. The State Comptroller's precautionary warning of long term contribution rates was announced in September 2008, before the collapse of the financial markets on Wall Street. Based on the recent economic conditions, which can be referred to in Section 3 of the Executive Summary, Economic Analysis, OLBR predicts out-year pension expenditures to become problematic, placing a heavier burden on the County's finances in the future.

[2] Office of the New York State Comptroller. Letter to Employers of the Employee Retirement System, September 2008.
[3] Office of the New York State Comptroller. 2006 Comprehensive Annual Financial Report.
[4] Office of the New York State Comptroller, letter to Employers of the Employee Retirement System, September 2008.
[5] Ibid.
[6] Ibid.

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

The national rate of growth for health insurance is projected to decline for the fifth straight year and reflects the lowest rate increase since 1999. Even though the rate of growth has decelerated, health insurance premiums continue to grow significantly and be a major area of concern.

Chart 5.3: FY 05 to FY 12 Health Insurance Costs (in Millions)

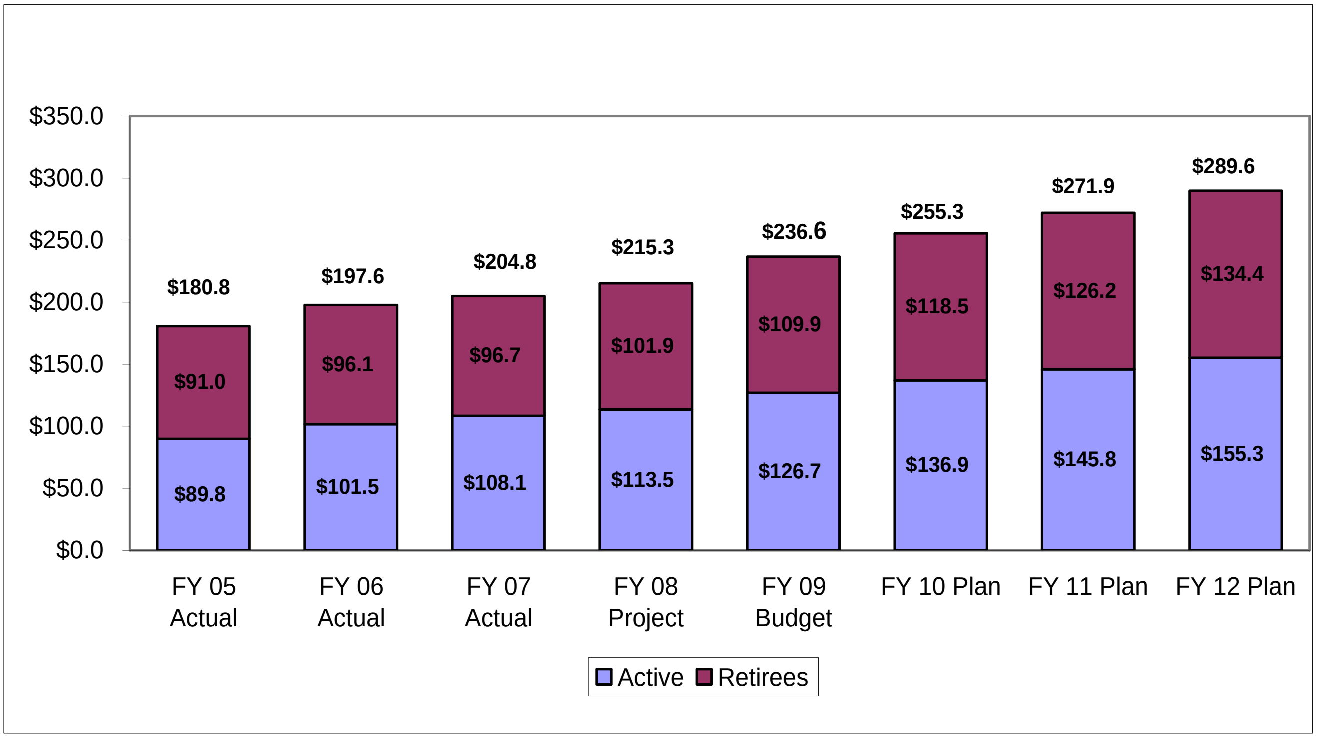
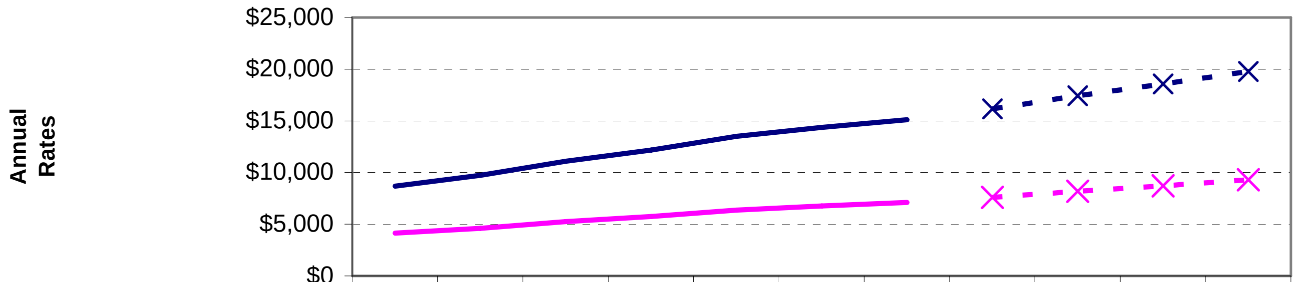


Chart 5.3 above, displays health insurance costs for active and retired employees from FY 05 to projected costs through FY 12 in the Multi-Year Plan. As shown above health insurance costs increases significantly in each year. The FY 09 budget for health insurance costs includes $126.7 million for active employees and $109.9 million for retired employees for a total cost of $236.6 million. This is an increase of $21.3 million or 9.9% from the projected FY 08 cost of $215.3 million. The Multi-Year Plan projects health insurance costs to increase to $289.6 million in FY 12.

Chart 5.4: Historical Health Insurance Premium (Non-Medicare) Rates



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Individual	$4,136	$4,619	$5,258	$5,742	$6,357	$6,778	$7,109				
Family	$8,688	$9,737	$11,097	$12,164	$13,514	$14,377	$15,105				
Projected Individual								$7,587	$8,194	$8,726	$9,294
Projected Family								$16,151	$17,443	$18,576	$19,784

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, 2008 Summary of Finding,” showed that employer sponsored health insurance rose 5%, from 2007 average premiums.[7] The survey also reports that average premiums for family coverage have increased 119% since 1999. Chart 5.4 displays how health insurance rates have been progressively increasing in Nassau County.

The FY 09 budget for health insurance costs includes an increase of 7.75% for active and retiree health insurance plans. The growth rate assumption is higher than New York State’s most recent health preliminary health insurance rate projection of 6.7% for individual and 6.9% for family. For retiree health insurance, New York State is currently projecting 5.5% growth increase for individual MediPrime, 6.5% for Family 1 MediPrime and 5.9% for Family 2 MediPrime.

[7] The Kaiser Family Foundation and Health Research and Education Trust, “Employer Benefits 2008 Summary of Findings.”

Table 5.4 below displays non-Medicare and Medicare rates for 2008 and projected 2009:

Table 5.4: NYS Health Insurance Monthly Rates

Rates:	2008	2009	% Change
Plan Prime			
Individual	$592.38	$632.23	6.7%
Family	1,258.78	1,345.80	6.9%
MediPrime			
Individual	360.41	380.13	5.5%
Family-1	1,026.86	1,093.79	6.5%
Family-2	794.94	841.67	5.9%

Source: New York State

Based on the State's recent preliminary rate projection for FY 09, the FY 09 budget appears to be overfunded by $554,000 million. In FY 08, rates were finalized at an increase of 4.9% for individual and 5.1% for family compared to a budgeted rate assumption of 7.0% for individual and family. Due to lower than budgeted finalized health insurance rates, the FY 08 projection is producing a surplus of $5.3 million. The surplus results from $5.8 million overage in active health insurance offset by $527,000 deficit in retiree health insurance.

The MYP baseline inflator used to project out-year health insurance costs is 8% in FY 10 and 6.5% in FY 11 and FY 12 for both active and retiree health insurance. Based on the State's current rates, the projected surplus could grow to a total surplus of $6.6 million by FY 12. The amounts projected by the Administration are reflected in Table 5.5: Multi-Year Plan by Sub-object on page 44.

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. The Administration and the County Comptroller are currently working with NYSHIP to explore options to reduce future health insurance costs, such as reforming the current NYSHIP plan or switching to an alternative plan. As a result, the out-year growth rate has been reduced.

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 is 6.2% for OASDI and 1.45% for Medicare, which equals a combined rate of 7.65%. For the current year the OASDI portion is applied to salaries up to $102,000. Medicare has no maximum. The Social Security Administration has not yet announced the wage base increase for 2009, however, this year reflected a 4.6% increase in the base. If increased by the same percentage, the 2009 maximum wage contribution would be roughly $106,700. The total OASDI tax on this maximum wage projection would be approximately $6,615.

The FY 09 budget for social security is increasing by $4.7 million or 8.1% compared to the FY 08 budget, which was under-funded and $3.0 million or 5.0% compared to the FY 08 projection. With an increase in FY 09 budgeted salaries, social security is also expected to rise.

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 09 budget remains unchanged at $1.1 million from FY 08. The FY 09 budget is sufficient to cover the current staffing level and the increased headcount in FY 09.

19F New York State Unemployment

The County is required to reimburse the State for all unemployment claims paid to former employees. The County provides quarterly payments to the State. The FY 09 budget remains unchanged at $502,000. Based on the projected FY 08 costs, the FY 09 budget may be understated by $32,000.

20F Dental Insurance

This benefit provides dental insurance to full-time employees. The County renewed the dental contract with Healthplex in 2008, which extends the contract through 2010. Under the new contract the current annual premium per capita remains unchanged at $561.

The FY 09 budget for dental costs remains unchanged at $5.4 million. The FY 08 projection is currently producing a surplus of $314,000, for a cost of $5.1 million in FY 08. The FY 09 budget is sufficient to cover the current staffing level and the increased headcount in FY 09.

22F Medicare Reimbursement

The County provides quarterly payments to cover premium costs related to Medicare coverage for retired employees. The proposed FY 09 budget is decreasing by $1.4 million from the FY 08 Adopted Budget to $16.2 million. Compared to the FY 08 projection, the proposed budget is increasing by $360,000. In FY 09, the standard Medicare Part B monthly premium will remain at $96.40, the same premium rate in FY 08. This is the first year since 2000 that there was no increase in the standard premium over the prior year and only the fifth time since 1976. Part B premiums will increase only for single beneficiaries with annual incomes greater than $85,000 and couples with incomes greater than $170,000. This monthly premium paid by beneficiaries enrolled in Medicare Part B covers a portion of the costs of physicians' services, outpatient hospital services, certain home health services, durable medical equipment and other items.[8] According to the Kaiser Family Foundation "Kaiser Daily Policy Report," health care costs increased compared to inflation this year, but other atypical factors led to static premiums. Hospice payments that mistakenly were taken from the outpatient benefit fund from 2005 to 2007 were returned to Part B, helping offset premium increases. In addition, the Part B premiums have increased in recent years in part because Medicare was building reserves to offset changes made to physician payments, but those reserves are now complete.[9]

---

[8] CMS/ Centers for Medicare & Medicaid Services. "CMS Announces Medicare Premiums, Deductibles for 2009." http://www.cms.hhs.gov/apps/media/press /factsheet.asp?Counter=3272.html.

[9] The Kaiser Family Foundation. The Kaiser Daily Health Policy Report. "Medicare Part B Premiums in 2009 Will Not Increase for Most Beneficiaries." http://www.kaisernetwork.org/daily_reports.html.

The FY 08 projection of $15.9 million for Medicare Part B will result in a surplus of $1.8 million due to an inflated FY 08 budget. Since the monthly premium rate remains unchanged and the FY 09 Proposed Budget is more aligned with the FY 08 projection, the FY 09 budget appears sufficient.

26F Flex Benefits Plan

All Nassau County employees may contribute up to a portion of their salary to their flexible spending account. This allows the employee to use tax free dollars on health insurance costs such as copays and deductibles. On January 1, 2008, the County switched the flexible plan administrator to Aetna.

The FY 09 budget is increasing $105,000 compared to the FY 08 Adopted Budget and the FY 08 projection to $2.2 million. The minor increase can be attributed to increased participants in the flexible benefits plan. The FY 09 budget includes corresponding revenue to offset the expense for the same budgeted amount of $2.2 million.

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 09 budget remains unchanged at $100,000 compared to the FY 08 Adopted Budget and FY 08 projection. The plan allows employees to deduct up to $115 a month or $1,260 per year for mass transit and an additional $220 a month or $2,400 a year for commuter parking. The FY 09 budget includes corresponding revenue to offset the expense for the same budgeted amount of $100,000.

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 09 Proposed Budget is increasing by $37,600 to roughly $391,000. The proposed budget is the same amount as the FY 08 projection, and therefore may fall short depending on the number of retired employees in FY 09 with the optical plan.

ZZF, 81F Fringe Savings and Police Retirement Contingency

The FY 09 budget contains $17.1 million in fringe savings and $3.5 million in police retirement contingency funds, labeled as ZZF and 81F in Table 5.2. The fringe savings are dependent on the labor negotiations with Civil Service Employee Association (CSEA).

Table 5.5 displays out-year fringe benefit costs under the Multi-Year Plan:

Table 5.5: Multi-Year Plan by Sub-object

SubObject & Description	2009 Proposed Budget	2010 Plan	2011 Plan	2012 Plan
08F - NYS Police Retirement	$55,347,222	$55,764,983	$60,347,443	$63,182,369
11F - State Retirement Systems	40,702,177	39,352,571	46,666,348	49,219,903
13F - Social Security Contribution	62,709,269	65,154,930	67,695,973	70,336,116
14F - Health Insurance	126,740,691	136,878,216	145,776,226	155,252,671
17F - Optical Plan	1,111,724	1,111,724	1,111,724	1,111,724
19F - NYS Unemployment	502,000	502,000	502,000	502,000
20F - Dental Insurance	5,397,459	5,397,459	5,397,459	5,397,459
22F - Medicare Reimbursement	16,232,548	17,368,826	18,584,644	19,885,569
26F - Flex Benefits Plan	2,205,000	2,205,000	2,205,000	2,205,000
28F - Transit Check Plan	100,000	100,000	100,000	100,000
75F - Health Insurance For Retirees	109,885,329	118,470,012	126,170,563	134,371,650
76F - Employees Optical - Retirees	390,748	390,748	390,748	390,748
Subtotal	**421,324,167**	**442,696,470**	**474,948,128**	**501,955,209**
81F - Police Ret. Contingency	3,500,000	5,800,000	1,600,000	1,600,000
ZZF - Fringe Savings	(17,100,000)	(17,600,000)	(18,200,000)	(18,900,000)
Grand Total	**$407,724,167**	**$430,896,470**	**$458,348,128**	**$484,655,209**

Revenue Budget

Table 5.6 compares the FY 09 revenue budget to the FY 08 projected revenue and the proposed FY 09 revenue budget for fringe benefits:

Table 5.6: FY 09 Revenue Budget

SubObject & Description	Adopted FY 08 Budget	OLBR FY 08 Projection	FY 09 Exec. Budget	Variance Exec. vs Adopted 08	Variance Exec. vs FY 08 Proj.
R1115 - Interfund Revenue	$24,500,001	$24,500,001	$23,493,966	($1,006,035)	($1,006,035)
R2010 - Insurance Recoveries	5,726,104	6,287,156	5,600,820	(125,284)	(686,336)
Total	**$30,226,105**	**$30,787,157**	**$29,094,786**	**($1,131,319)**	**($1,692,371)**

The revenue budget for FY 09 includes the utilization of 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 09 budget for Medicare Part-D remains is decreasing by $125,000 from the FY 08 Adopted Budget to $5.6 million. Starting January 1, 2006, Medicare began a new drug benefit plan called Medicare Part D that helps seniors pay for their prescription drugs. The New York State Health Insurance Plan (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 credits are received retroactively and sporadically. The revenue budget for Medicare Part D appears conservative based on FY 07 collection of $7.3 million (which includes all funds). In FY 08 the County has collected $1.6 million which covers the January through March time period.

The FY 09 revenue budget for inter-fund revenue of $23.5 million represents use of the pension reserve. The Administration plans to increase the reserve in FY 09 from FY 08 surplus funds to pay pension costs in FY 09. Please refer to table 5.3 on page 36 for use of the pension reserve.

6. FUND BALANCE AND RESERVES

The County ended FY 04 with an unreserved fund balance of $90.5 million. In addition reserve funds were established for the retirement of bonded indebtedness, an employee accrued liability reserve fund to cover termination payments, particularly for sworn officers, and a pension contribution reserve fund. The proceeds that remained from the securitization of the tobacco settlement payments were transferred to a trust and agency fund to be used for certain working capital purposes, particularly health related ones. Finally, there was accumulated fund balance available for the operations of the Sewer and Storm Water Resource District (SSW) and the Sewer and Storm Water Finance Authority (SFA). Table 6.Table 6.1 shows the unreserved fund balance and the balances of the formal reserve funds at year-end FY 04 through FY 07, with OMB's projected amounts for years ending FY 08 through FY 12.

Table 6.1: Total Reserves (Projected Year-End 2008-2012)

Total Reserves (Projected Year-End 2008-2012)
$'s in millions

Item	Year End 2004	Year End 2005	Year End 2006	Year End 2007	Projected 2008	2009	2010	2011	2012
Unreserved Fund Balance	$90.5	$90.5	$104.1	$89.8	$79.8	$69.8	$69.8	$69.8	$69.8
Retirement Contribution Fund	79.8	69.6	51.4	25.0	23.5	0.0	0.0	0.0	0.0
Employee Accrued Liab. Fund	28.9	21.4	21.4	15.2	15.2	4.2	4.2	4.2	4.2
Bonded Indebtedness Fund	25.0	25.7	14.8	0.0	0.0	0.0	0.0	0.0	0.0
Tobacco Settlement Fund	60.6	37.6	149.3	128.9	72.9	22.6	11.9	0.0	0.0
Sub-total	**$284.8**	**$244.8**	**$341.0**	**$258.9**	**$191.4**	**$96.6**	**$85.9**	**$74.0**	**$74.0**
Sewer/Storm Water Fund Bal.	32.4	62.9	121.7	170.5	145.4	104.4	64.0	19.6	0.0
Sewer Fin. Auth. Fund Bal.	60.9	49.4	19.8	0.0	0.0	0.0	0.0	0.0	0.0
Total Reserves & Fund Bal.	**$378.1**	**$357.1**	**$482.5**	**$429.4**	**$336.8**	**$201.0**	**$149.9**	**$93.6**	**$74.0**

The Bonded Indebtedness Fund and the SFA fund balance were exhausted by the end of FY 07. The SFA transfers any funding not required to pay debt or operating expenses for the Authority to the SSW. According to the proposed Multi-Year Plan, by 2012 the only reserves available will be $69.8 million of unreserved fund balance and $4.2 million in the Employee Accrued Liability Fund. 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.

Planned uses of reserves in FY 09 are as follows:

- $23.5 million from the Retirement Contribution Fund to cover pension costs.
- $10.0 million of unreserved fund balance set aside for contingencies in the Miscellaneous department.
- $11.0 million for termination costs in Police District Fund.
- $50.3 million from the Tobacco Settlement Fund, of which $15.3 million is reflected in the operating budget and the balance, is for payments to the Nassau Health Care Corporation related to the County's obligations under the Successor Agreement.