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Inter-Departmental Memo

To: Hon. Howard Kopel, Chair, Budget Review Committee
All Members of the Budget Review Committee

From: Maurice Chalmers, Director
Office of Legislative Budget Review

Date: August 4, 2015

Re: Mid-Year Report - 2015 Projections

The Office of Legislative Budget Review (OLBR) has prepared this memo to detail its FY 2015 year-end projections. The FY 2015 Adopted Budget was built on borrowing for tax certiorari payments, termination expenses and other suits & damages. The budget included borrowing revenues of $100.0 million for property tax refunds, $33.0 million for termination expenses and $18.0 million for other suits and damages, all of which were flagged as risks. It was known at the time the budget was adopted, that if the borrowings were not secured, there would be major fiscal stress as the budget would be out of balance without the inclusion of these revenues.

The Administration, the Legislature and the Nassau Interim Finance Authority (NIFA) have approved $60.0 million for tax cert payments. Bond premium revenue surplus is expected to offset the budgeted borrowing for suits and damages. The Legislature has approved, albeit a lower than budgeted number, termination pay borrowing of $25.0 million for Police. It is currently unclear if NIFA will allow any borrowing for termination pay and that uncertainty is a major driver in OLBR's $56.7 million projected deficit. To date, there is approximately $33.5 million ($25.0 million approved in June 2015 plus $8.5 million remaining from a previous authorization) approved for termination pay borrowing which is pending NIFA approval. Should NIFA approve the $25.0 million authorized borrowing, OLBR's current projected budgetary shortfall would be reduced to $31.7 million.

Since the adoption of the FY 2015 budget, several fiscal challenges have emerged. These include the loss of $30.7 million in revenue from the repeal of the School Zone Speed Camera Program, the loss of $9.0 million revenue from the delayed implementation of Video Lottery Terminals (VLTs), and a $36.7 million projected deficit from underperforming sales tax collections.

Some challenges were offset by measures including the elimination of the $13.0 million mission payment to NuHealth Hospital, the implementation of the Geographic Information System (GIS) map verification fee, the usage of $15.0 million from the contingency reserve, and debt service cost savings.

In addition, Fringe Benefits costs are projected to be under budget by $9.1 million due to lower than budgeted health insurance costs and Medicaid expenses are expected to end in a $16.0 million surplus due to the State's reduction of the County's weekly Medicaid Cap share payments. Below are some of the major challenges that emerged and the counter balances within the FY 2015 budget:

Major 2015 Budgtary Challenges	
School Zone Speed Camera Program	($30.7)
Delayed Video Lottery Terminals	($9.0)
Underperfoming Sales Tax	($36.7)
Major 2015 Budgetary Gains	
Eliminate NuHealth Mission Payment	$13.0
Contingency	$15.0
Fringe Benefit Surplus	$9.1
Debt Service Surplus	$10.3
Implement GIS verification map fee	$4.5
Medicaid Surplus	$16.0

2015 Projections

OLBR is currently projecting a $56.7 million deficit in FY 2015 for the Major Operating Funds. Expenses are projected to end with a $66.9 million surplus which will be erased by a projected revenue shortfall of $123.5 million. The chart below demonstrates the year-end expense and revenue projection.

	Major Funds (in millions) Excluding Inter-Dept. Transfers		
	2015 Adopted Budget	OLBR 2015 Projection	Variance
Expense	2,980.3	2,913.4	66.9
Revenue	2,980.3	2,856.7	(123.5)
	Projected Deficit		($56.7)

Expense Highlights

The following chart details the expense variances by object code between OLBR's 2015 projections and the FY 2015 Adopted Budget for the Major Funds. Explanations are provided following the chart:

2015 OLBR Variances to Budget

Expenses	2015 Adopted Budget	2015 OLBR Projection	OLBR vs. Budget
Salaries	$851.1	$859.6	($8.4)
Fringe Benefits	496.1	487.0	9.1
Workers Compensation	27.0	27.6	(0.6)
OTPS	291.5	285.8	5.8
Utility Costs	41.7	41.2	0.5
Various Direct Expenses	5.0	5.3	(0.3)
Principal & Interest	174.5	164.2	10.3
Local Govt Assistance	68.5	66.3	2.2
Nassau Health Care Expense	13.0	0.0	13.0
Inter-Fund Charges	30.8	30.8	0.0
Mass Transportation	43.4	43.4	0.0
NCIFA Expenditures	1.9	1.9	0.0
Other Expenses	366.8	350.8	16.1
Early Intervention / Special Ed.	135.0	135.0	0.0
Direct Assistance	181.7	178.5	3.3
Medicaid	252.3	236.2	16.0
Sub-total Expenses	**2,980.3**	**2,913.4**	**66.9**
Inter Department Transfers	**422.4**	**394.4**	**28.0**
Expenses Including Transfers	**$3,402.6**	**$3,307.8**	**$94.9**

Salaries

OLBR is currently projecting a total salary deficit of $8.4 million compared to the adopted budget. The salary budget benefits from open vacant positions and attrition savings which are surpassed by higher than budgeted overtime and termination costs associated with employee separations. To date, approximately 113 sworn personnel have separated from the Police department and an additional 21 are pending. OLBR is currently projecting that Police termination could total approximately $41.2 million in FY 2015. Adjustments to the current projections may be necessary depending on year-end separations trends and whether bonding is authorized by the Nassau Interim Finance Authority (NIFA). The FY 2015 Budget had been built on the assumption that the Administration would secure bonding of $33.0 million for termination pay for all unions. However, only $25.0 million was approved by the Legislature in a Special Meeting held on June 1, 2015 to address Police termination. NIFA will need to consider the recent $25.0 million in addition to a balance of $8.5 million previously approved by the Legislature.

If NIFA does not approve any bonding, the County could use $10.2 million it currently has set aside in the Employee Accrued Liability Reserve Fund to mitigate the impact to the operating funds. OLBR's projected deficit is based on the fact that NIFA has not yet approved the bonding passed by the Legislature. However, should NIFA approve the $33.5 million in borrowing that is pending, there would be a positive impact to the current projections. Furthermore, the Police Department will garner additional separation savings that could also be used to mitigate salary overages.

Overtime is still a concern. Police overtime budget is $52.0 million for FY 2015 and OLBR is projecting approximately $65.0 million for this expense or a $13.0 million deficit. The department has taken actions to reduce overtime, however they continue to lose employees at a high rate. The approximately 200 officers hired in 2014 are now fully deployed and work overtime at lower rates than veteran officers. Additionally, approximately 60 recruits hired in February 2015 will be on patrol by late summer and their impact on overtime will be positive. Sixty more recruits came on board in April 2015 but their training won't be completed until the fall, so they'll have no impact on summer 2015 overtime. The Police Department is planning to hire an additional class in the second half of the year, the size of which has yet to be determined. The goal of the department is to bring approximately 150 recruits on board by year end. In addition to backfilling vacancies created by retiring police officers, hiring new officers should gradually affect the high cost of overtime as new officers work overtime at lower rates. In 2012, the Police department incurred $14.8 million in Sandy related overtime and what was supposed to be an anomaly remains the new normal as Police overtime has consistently remained in the mid $60 million.

OVERTIME TRENDS

	2014 YE	2015 Adopted	2015 Projected
Police District	**$ 35,858,263**	**$ 28,000,000**	**$ 32,753,992**
Police Headquarter	**31,892,147**	**24,000,000**	**32,263,169**
Total	**67,750,410**	**52,000,000**	**65,017,161**
Corrections	**14,884,392**	**17,400,000**	**14,400,000**
Police & Corrections	**82,634,802**	**69,400,000**	**79,417,161**
Others	**13,159,092**	**9,868,799**	**10,620,664**
TOTAL:	**$ 95,793,894**	**$ 79,268,799**	**$ 90,037,825**

The Correctional Center has been successful in controlling overtime. OLBR's projection includes a surplus of $3.0 million in overtime at the Correctional Center. Given that overtime averaged $20.5 million annually from 2009 to 2011, the Correctional Center is an example of a department effectively managing staff to inmate ratios and delivering overtime savings.

As of July 1, 2015 there were 7,480 full-time employees on-board in the Major Funds including the Sewer Fund which results in 188 vacant positions compared to the 7,668 included in the FY 2015 Adopted Budget.

Fringe Benefits

For the Second Quarter, OLBR is projecting a surplus of $9.1 million for Fringe Benefits in the Major Funds. Lower than budgeted health insurance growth rates and reduced headcount are contributing to this surplus. The 2015 health insurance growth rate for active employees was finalized by New York State Health Insurance Program (NYSHIP) at 4.3% for individual and 5.5% for family coverage. Family coverage rates are consistent with the budgeted growth rate of 5.5%. However, the growth rates for Medicare eligible retirees were finalized at an average of 1.2%, which is lower than the budgeted 5.5% and is producing savings. The lower than budgeted onboard headcount is similarly contributing to the surplus for active employee health insurance costs. The FY 2015 Adopted Budget for active employee health insurance costs was crafted based on the aforementioned full-time headcount of 7,668 which is greater than the current onboard figure. OLBR's projected surplus includes a pro-rated health insurance cost for anticipated hiring of police recruits. The overage from health insurance costs is being slightly offset by higher than budgeted pension costs.

OTPS (Other Than Personnel Services)

The Other Than Personal Services (OTPS), which includes equipment, general expenses and contractual expenses, will experience a surplus of approximately $5.8 million. A $9.6 million surplus is projected in the Traffic and Parking Violations Agency due to the repeal of the School Zone Speed Camera Program. The surplus is partially offset by higher costs for the County's contract with Transdev International to operate the Nassau Inter-County Express (NICE Bus), and higher general expense costs for snow removal and road maintenance costs in DPW from the harsh winter snow storms.

Principal and Interest

The Administration is currently projecting approximately $10.3 million in debt service savings as a result of delayed and/or reduced borrowing.

Nassau Health Care Association Charges

The $13.0 million Nassau Health Care Association expense represents mission payment made in previous years by the County to NuHealth Hospital. The Mission Payments Contract of the Successor Agreement, which obligates the County to make the payment terminated on December 31, 2014. As a result a $13.0 million pickup will occur.

Other Expenses

The Other Expense line is currently projected to have a surplus of approximately $16.1 million. The projections mainly reflect the usage of $15.0 million in contingency reserve included in the budget, $10.0 million in the Office of Management and Budget and $5.0 million in the Police Department.

Direct Assistance

The County's direct assistance programs include emergency vendor payments, purchased services, and recipient grants. OLBR expects these programs to return a $3.3 million surplus in FY 2015. Day care costs have trended up over the last few years due to an increase in demand for day care programs. The Department of Social Services (DSS) had increased its purchased services budget to accommodate continued growth in demand for day care services. However, DSS reports that costs have leveled off and expects to deliver a $2.4 million surplus at year's end. The department also projects a $0.9 million surplus in emergency vendor payments as a result of a decline in the County's foster care caseload and related expenses.

Medicaid

The DSS projects a $16.0 million surplus in FY 2015. The County saved about $2.9 million on Medicaid payments made in the first quarter of the County's fiscal year, as the State reduced the Nassau's weekly Medicaid Cap share payments as part of the FY 14-15 State Budget. On April 1, 2015, the State lowered the County's Medicaid Cap share payment even further as part of the FY 15-16 State Budget. The new weekly cap share payments will save the County an additional $11.4 million in FY 2015. The State also reduced the County's quarterly Indigent Care payment by $432,806, yielding $1.7 million in annual savings.

Revenue Highlights

The chart below details the revenue variances by object code between OLBR's 2015 projections and the FY 2015 Adopted Budget for the Major Funds. Explanations are provided following the chart:

2015 OLBR Variances to Budget

Revenue	2015 Adopted Budget	2015 OLBR Projection	OLBR vs. Budget
Fund Balance	$15.0	$15.0	$0.0
Interest Penalty on Tax	29.1	29.9	$0.8
Permits & Licenses	16.3	15.6	($0.7)
Fines & Forfeits	103.7	53.7	($50.1)
Investment Income	2.1	2.1	$0.0
Rents & Recoveries	19.3	30.8	$11.6
Revenue Offset to Expense	11.4	11.4	$0.0
Department Revenues	170.8	166.3	($4.5)
Capital Chargebacks	0.0	0.0	$0.0
Payments in Lieu of Taxes	11.7	12.5	$0.8
OTB Profits	9.0	0.0	($9.0)
Debt Service From Capital	122.2	122.0	($0.3)
Due From Other Governments	0.0	0.0	$0.0
Interfund Charge Revenue	112.4	79.5	($32.9)
Intefund Transfers	0.0	0.0	$0.0
Federal Aid	136.0	133.4	($2.6)
State Aid	209.9	209.9	($0.0)
Sales Tax	1,146.2	1,109.5	($36.7)
Property Tax	832.3	832.3	$0.0
OTB 5% Tax	2.6	2.6	$0.0
Special Taxes	30.2	30.2	$0.0
Sub-total Revenue	**2,980.3**	**2,856.7**	**(123.5)**
Inter Department Transfers	**422.4**	**394.4**	**(28.0)**
Revenue Including Transfers	**$3,402.6**	**$3,251.1**	**($151.5)**

Fines and Forfeitures

OLBR is projecting a shortfall of $50.1 million for fines and forfeitures. The major driver of this deficit is in the Traffic and Parking Violations Agency (TPVA) which is projected to have a $49.7 million shortfall due to the repeal of the School Zone Speed Camera Program and a projected shortfall in the Red Light Camera (RLC) program. However, to date the County has received approximately $3.0 million in outstanding tickets from the Speed Camera Program.

Rents and Recoveries

OLBR is projecting a revenue surplus of $11.6 million in rents and recoveries. The Health Department is projected to have a $7.5 million surplus from the dis-encumbrance of provider payment contracts related to the Pre-school Education program from FY 2014. The Department of Public Works (DPW) is anticipating a surplus $3.5 million to be generated from the sale of the County garage located in Inwood.

Departmental Revenues

OLBR is currently projecting a revenue shortfall of $4.5 million in departmental revenues. This is the net result of a $4.5 million overage in the Assessment Department, a $1.6 million surplus in the Department of Health, offset by various shortfalls that include $3.8 million in the Department of Public Works, $2.8 million in the Police Department and $2.8 million deficit in the Department of Parks and $1.0 million in the County Clerks's Office.

The 2015 Adopted Budget for the Assessment Department includes $3.1 million in GIS map verification fees. The budget was based upon collections not commencing until the fourth quarter of 2015. However, the Assessor's Department started collecting this fee March 1, 2015 and as of the end of June 2015 close to $2.0 million has posted to the County's financial system. Using historic mortgage recording data and three months of actual collections, the expedited implementation date is expected to yield an additional $4.5 million above the 2015 budgeted amount. In the out-years of the plan, the revenue source is budgeted to generate $9.1 million annually.

The Department of Health is projecting a surplus of $1.6 million due to increased Medicaid reimbursement from children receiving early intervention and pre-school education services. When the County provides services for the programs, the department will receive a percentage of cost reimbursement through either Medicaid, third party insurance carriers or state aid. The increase in Medicaid reimbursement is being offset with a corresponding projected decrease in state aid.

Within DPW, there is a $3.8 million shortfall, which results from a $4.2 million NICE bus farebox revenue shortage that is partially offset by other various overages. The 2015 NICE bus farebox budget is $51.4 million based on the expected $0.25 regular fare ticket increase. As of February 2015, NICE Bus is expecting $47.2 million in farebox revenues, creating a $4.2 million shortfall.

The 2015 Adopted Budget for County Clerk department revenues had included $1.0 million from an online registration initiative. The goal of the initiative was to make documents available online. To date no revenues have been collected from this initiative. Moreover, no collections were obtained in 2014 when this initiative was also included in the budget. Thus, these revenues have been excluded from OLBR's 2015 projection.

The $2.8 million deficit in the Police Department is due the delay in finalizing a contract with tow truck companies to collect franchise fees and lower than budgeted ambulance fees.

Finally, OLBR is projecting a deficit of $2.8 million in the Department of Parks for departmental revenue as a result of the harsh winter weather which has negatively impacted Parks revenues.

OTB Profits

The 2015 Adopted Budget and Multi-Year Plan, included expected revenues from the installation of video lottery terminals (VLTs) or video gaming machines (VGMs).

OTB officials had selected the vacant Fortunoff building on Old Country Road as the location for the proposed VLT parlor. However, they have subsequently abandoned their pursuit of this location and are currently seeking alternatives. Due to delays in locating a suitable venue to house the machines, no revenues are expected from this source in 2015, creating a $9.0 million revenue shortfall. The current update to the 2015 to 2018 MYP assumes a delayed opening in 2016 with $9.0 million revenue included in 2016. A full year of revenue is included in 2017 ($22.0 million) and 2018 ($25.0 million).

Interfund Revenue

The deficit of $32.9 million is mainly a result of budgeted revenues from borrowing for termination which is still pending.

Federal Aid

OLBR is projecting a shortfall in federal aid of roughly $2.6 million in the Department of Social Services (DSS). Caseloads in DSS programs eligible for federal reimbursement have plateaued and current reimbursement projections are in line with historical trends.

State Aid

The County is projected to be on budget with state aid. A surplus of $3.8 million in the DPW is being offset with a shortfall of $3.3 million in the Department of Health. The additional state aid reimbursement in DPW is for NICE Bus transportation preventative maintenance costs. The State funds will offset a projected farebox revenue shortfall. The 2015 New York State Budget included an additional $3.8 million in capital funds for Nassau County. In the Department of Health, a reduction in state aid is offset by department revenues. In addition, the state has been implementing adjustments reducing reimbursement that the County received in prior years from pre-school education program services.

Sales Tax

Year to date sales tax growth is currently 1.4% over the same prior year period. OLBR is currently projecting a deficit of $36.7 million in sales tax revenue based on the remaining checks growing 1.5% over the prior year. The chart below details the resultant sales tax deficit for various rates of growth on the remaining checks.

Forecast Sales Tax Growth and Resultant Annual Impact

Year To Date Growth	Sales Tax Deficit
1.0%	($39.7)
1.5%	($36.7)
2.0%	($33.7)
2.5%	($30.6)
3.0%	($27.6)

Opportunities

Below is a list of items that OLBR is highlighting as additional opportunities:

- NIFA's full or partial approval of $33.5 million for termination pay.
- The Adopted 2015 expense budget included $20.2 million in the Budget Office's other expense category to cover the cost of other suits and damages. To the extent that these funds are not utilized, OLBR's envisions an expense saving opportunity.

- In the Treasurer's Office, year to date interest penalty on tax collections have been strong, if current trends continue, OLBR sees an opportunity for an additional $2.0 million in revenue.
- There is currently $10.2 million available in the Employee Accrued Liability Reserve Fund (EBF) that can be used to offset termination costs in Police.
- Among other options being considered is the closeout of capital projects.
- The disencumbrance of funds.
- The Administration has included $10.0 million in corrective actions for Other Than Personnel Services (OTPS) expense reductions.

Conclusion

In its October 2014 review of the proposed FY 2015 budget, OLBR stated that "the success of the proposed budget is contingent on the Administration securing $151.0 million in anticipated bond proceeds that is built into the budget. Failure to do so could create a fairly sizeable gap in the budget". That assessment still holds true.

As with any budget, adjustments are needed during the course of the year to address risks and modifications. Such were the case with the repeal of the School Zone Speed Camera Program and the delayed implementation of Video Lottery Terminals (VLTs). The Administration, the Legislature and NIFA worked together to find alternatives to remedy these shortfalls. Other circumstances have allowed the County to mitigate deficits in different areas; these include reduced borrowing costs, lower than expected health insurance rates and open vacant positions. The County's good fortune did not occur in sales tax growth or from securing some of the borrowing upon which this budget was built. To date only, $60.0 million of the budgeted $151.0 million has been authorized by NIFA. Borrowing for operating expenses is not the most fiscally prudent practice; however the County may not be able to address the projected deficit without some level of borrowing, which the budget was built upon and approved by the control board. Further actions will be needed by the Administration to ensure the County does not end the year with a deficit.

cc: Hon. George Maragos, Nassau County Comptroller
James Garner, Nassau County Chief Deputy Comptroller
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