



NASSAU COUNTY LEGISLATURE
 1550 FRANKLIN AVENUE, ROOM 126
 MINEOLA, NEW YORK 11501
 (516) 571-6292

Inter-Departmental Memo

To: Hon. Richard J. Nicoletto, Presiding Officer
 Hon. Kevan Abrahams, Minority Leader
 All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
 Office of Legislative Budget Review

Date: August 7, 2019

Re: FY 19 Mid-Year Projections Report

The Office of Legislative Budget Review (OLBR) has prepared this memo forecasting the FY 19 year-end results for the Legislature. The FY 19 Adopted Budget benefits from lowered expenses mainly associated with the current staffing levels and fringe cost savings in comparison to the budget. In contrast, there are several revenue assumptions that are not projected to come to fruition, thus reducing the expense surplus. OLBR is currently projecting a \$6.9 million budgetary surplus in the Major Operating Funds. Since 2011, the Nassau Interim Finance Authority (NIFA) has been a control board overseeing County finances and some adjustments will be needed to get to a Control Period Calculation (NIFA GAAP basis). The Authority anticipates the year-end budgetary results will require an additional \$70.2 million in adjustments which will result in a \$63.3 million NIFA GAAP deficit. The chart below shows the year-end expense and revenue projections.

	Major Funds (in millions) Excluding SSW & Inter-Dept. Transfers		
	2019 Adopted Budget	OLBR 2019 Projection	Variance
Expense	3,075.6	3,026.5	49.1
Revenue	3,075.6	3,033.4	(42.2)
	Projected Budgetary Surplus / Deficit		\$6.9
	NIFA GAAP adjustments		(\$70.2)
	Projected NIFA GAAP		(\$63.3)

It must be mentioned that \$61.3 million of the \$70.2 million anticipated NIFA adjustments is related to the payment of tax certiorari expenses in FY 19, from the \$100.0 million in borrowing that was approved by the Legislature in FY 18.

The County labor contracts all expired at the end of FY 17 and the current projections do not include any costs that may be associated with a new contract settlement. Headcount is currently at historical lows and the budget benefits from approximately 328 open funded vacant positions. OLBR has attached an Appendix to this memo detailing the vacancies by department. Although the Administration could fill some positions before the end of the year, some savings have already been realized as these positions have remained open. In tandem with the salary surplus are some fringe savings also driven by a lower headcount as well as health insurance growth rates that were finalized lower than budgeted.

On the revenue side of the budget, some revenue growth and initiatives built into the budget are negatively affecting the bottom-line projection. Many of those areas can be managed by the Administration and will require a corrective action plan to ensure that the revenues are collected, and some initiatives are achieved and/or replaced. Among the areas that are negatively affecting the projections, which will be discussed in more details in this memo, are OTB profits, Raise the Age aid and Boot and Tow as well as decreased revenues from real estate fees.

Based on the current projected year-end, it appears that revenues will need to be managed closely. The Administration will need to ensure that revenue goals are attained, otherwise, this could further exacerbate County finances and erode any financial flexibility that the decreased expenses have provided.

OLBR has also identified opportunities that could provide additional flexibility in a table at the end of the report.

Expense Highlights

The following chart details the expense variances by object code, prior to NIFA adjustments, between OLBR's FY 19 projections and the FY 19 Adopted Budget for the Major Funds. Explanations are provided following the chart:

2019 OLBR Expense Variances to Budget (Excl SSW)			
Expenses	2019 Adopted Budget	2019 OLBR Projections	OLBR vs. Budget
Salaries	\$901.3	\$868.8	\$32.5
Fringe Benefits	608.0	583.0	25.0
Workers Compensation	35.0	35.0	0.0
OTPS	307.5	313.3	(5.8)
Utility Costs	34.1	34.1	0.0
Various Direct Expenses	5.3	5.3	0.0
Principal & Interest	238.5	236.4	2.1
Local Govt Assistance	73.7	73.4	0.3
Inter-Fund Charges	23.1	23.1	0.0
Mass Transportation	44.8	44.8	0.0
NIFA Expenditures	2.5	2.5	0.0
Other Expenses	253.8	253.8	(0.0)
Early Intervention / Special Ed.	135.5	140.2	(4.7)
Direct Assistance	170.1	170.4	(0.3)
Medicaid	242.5	242.5	0.0
Sub-total Expenses	3,075.6	3,026.5	49.1
Inter Department Transfers	439.5	435.5	4.1
Expenses Including Transfers	\$3,515.1	\$3,461.9	\$53.1

Salaries

OLBR is currently projecting a salary surplus of \$32.5 million compared to the FY 19 Adopted Budget, primarily due to open funded vacancies. The salary projection takes into account some Police and Correction Officer classes as well as projected overtime shortages. The Administration has indicated that they plan to hire additional staff throughout the remainder of the year and this could impact the projected salary surplus. However, as the year progresses, the FY 19 salary impact for any new personnel will diminish.

As of August 1, 2019 there were 7,230 full-time employees on board in the Major Funds, which results in approximately 328 fewer positions than the 7,558 included in the FY 19 Adopted Budget. The Police Department has the greatest number of vacancies with 219. Some of the other departments with major vacancies include the Assessment Department with 65 open funded positions, the Correctional Center with 59, the Probation Department with 60, the Department of Social Services (DSS) with 41 and Public Works with 36. From a budgetary perspective, the open but vacant positions provide some financial flexibility to the Administration, however it is hoped that the lower headcount will not impact operations.

The Police Department's FY 19 termination budget is \$38.0 million. To date, the Police Department has experienced roughly 91 separations and actual paid expenses of \$22.3 million in the financial system. The projections anticipate staying within the budgeted 120 separations.

OLBR is currently projecting an overtime deficit of roughly \$6.9 million in FY 19, the majority of which, \$6.8 million, is attributed to the Correctional Center and is driven by low staffing levels. The headcount level for Officers remains low even with the new class of 40 recruits hired at year-end FY 18 and 25 in June of this year. According to the department, it is their intention to add another class before the end of this year.

The Police Department’s FY 19 overtime Adopted Budget is \$53.3 million, which is \$3.1 million higher than the FY 18 actuals. The Police Department has some flexibility as it can use other funds such as Grants and Asset Forfeiture to offset some overtime costs. The following chart reflects the overtime trends for the FY 18 actual, FY 19 Adopted Budget and the FY 19 projection.

OVERTIME TRENDS				
	<u>2018 Actual</u>	<u>2019 Adopted</u>	<u>2019 Projection</u>	<u>Budget Vs. Proj</u>
Police District	\$ 20,566,583	\$ 24,860,750	\$ 24,860,750	\$ -
Police Headquarters	29,722,525	28,480,000	28,480,000	-
Total	50,289,108	53,340,750	53,340,750	-
Corrections	26,716,533	20,088,012	26,870,000	6,781,988
Police & Corrections	77,005,641	73,428,762	80,210,750	6,781,988
Others	10,109,973	13,731,858	13,853,431	121,573
TOTAL:	\$ 87,115,615	\$ 87,160,620	\$ 94,064,181	\$ 6,903,561

Fringe Benefits

For the mid-year, OLBR is projecting a surplus of roughly \$25.0 million for fringe benefits in the Major Funds. The health insurance surplus is being driven by two main factors, the health insurance growth rate which finalized lower than anticipated and from the significant number of vacant positions. The FY 19 budget for health insurance was based on a growth rate of 8.0%, however the rates for active employees were 2.7% for individual and 2.8% for family respectively. Meanwhile, the final rate for Medicare eligible retirees declined by an average negative drop of -5.2%.

OTPS (Other Than Personal Services)

The Other Than Personal Services (OTPS) budget, which includes equipment, general expenses, and contractual expenses, is projected to end FY 19 with a combined shortfall of approximately \$5.8 million. Some of the variances include:

- The Correctional Center’s FY 19 contractual expense budget of \$25.1 million is projected to experience a shortfall of \$3.0 million for a total of \$28.1 million. The overage has to do with a projected increase in the inmate healthcare contract with the Nassau University Medical Center. The current contract will expire August 31, 2019.
- In addition, the Assessment Department is projected to have a \$1.5 million deficit in contractual expenses due to anticipated training cost of approximately \$1.0 million and fees associated with the on-line tax map verification credit card processing. General expenses in the Assessment Department are projected to surpass the budget by approximately \$1.0 million mainly for postage.

Provider Payments

There is a \$4.7 million deficit for Pre-School Education and Early Intervention services within the Health Department. This is related to an expense in FY 18 that was under accrued and the actual expense was higher than the accrual and therefore will be recognized in FY 19.

Revenue Highlights

The chart below details the revenue variances by object code, prior to NIFA adjustments, between OLBR’s FY 19 projections and the FY 19 Adopted Budget for the Major Funds. Explanations are provided following the chart:

2019 OLBR Revenue Variances to Budget (Excl SSW)			
Revenue	2019 Adopted Budget	2019 OLBR Projections	OLBR vs. Budget
Fund Balance	\$0.0	\$0.0	\$0.0
Interest Penalty on Tax	34.6	34.6	\$0.0
Permits & Licenses	19.6	19.4	(\$0.2)
Fines & Forfeits	118.6	110.9	(\$7.7)
Investment Income	10.2	11.2	\$1.0
Rents & Recoveries	34.4	36.1	\$1.7
Revenue Offset to Expense	17.5	17.5	\$0.0
Department Revenues	232.5	224.1	(\$8.4)
Capital Chargebacks	0.0	0.0	\$0.0
Payments in Lieu of Taxes	46.0	46.0	\$0.0
OTB Profits	20.0	3.0	(\$17.0)
Debt Service From Capital	3.5	3.5	\$0.0
Interfund Charge Revenue	81.1	81.0	(\$0.0)
Intefund Transfers	0.7	0.7	\$0.0
Federal Aid	140.0	137.3	(\$2.8)
State Aid	224.4	219.7	(\$4.8)
Sales Tax	1,243.8	1,237.8	(\$6.0)
Property Tax	816.0	818.0	\$2.0
OTB 5% Tax	2.1	2.1	\$0.0
Special Taxes	30.5	30.5	\$0.0
Sub-total Revenue	3,075.6	3,033.4	(42.2)
Inter Department Transfers	439.5	435.5	(4.1)
Revenue Including Transfers	\$3,515.1	\$3,468.8	(\$46.2)

Fines & Forfeitures

Currently, OLBR is projecting an overall \$7.7 million deficit in FY 19. The Traffic and Parking Violations Agency’s (TPVA) budget included an \$8.0 million Boot and Tow revenue initiative that is not projected to come to fruition.

Rents and Recoveries

Overall, OLBR is projecting a \$1.7 million surplus in FY 19. In DPW, a deficit of \$4.8 million is expected from the budgeted \$8.0 million to be generated from the Sale of County Property. This shortfall is offset by a surplus of \$2.7 million in the County Attorney from cash recoveries, and a surplus of \$1.1 million and \$1.3 million in DSS and Human Services respectively from recoveries.

Departmental Revenues

OLBR is currently projecting a \$8.4 million overall deficit in department revenues. Some of the major variances include:

- In the Police Department, a projected revenue shortfall of approximately \$1.5 million is primarily due to lower than budgeted ambulance fee revenues in Police Headquarters. In FY 18 a total of \$23.9 million was collected and the FY 19 budget was \$25.5 million. In addition, the budgeted ambulance fee collections revenue of \$150,000 is not anticipated to be received. To date, no revenue has been received.
- OLBR is currently projecting FY 19 County Clerk Departmental Revenues to miss budget by roughly \$4.0 million. On a year to date basis, Multiple Listing Service of Long Island figures show that Nassau County home sales are down; this is impacting County Clerk Department revenues which are heavily home sale driven.
- The year to date sluggish home sales are similarly impacting the Assessment Department GIS revenues which OLBR is expecting to fall short of budget by \$2.9 million.

OTB profits

OLBR is currently anticipating a \$17.0 million shortfall on the OTB Profits line. Currently the County has collected \$3.0 million in FY 19, which equals its FY 18 collections. In addition, the Administration has not provided convincing documentation that they will collect additional funds. This is one of the revenues sources that may represent a significant opportunity for the County if the revenue collections are submitted by OTB.

Federal Aid

Federal aid is projected to have a shortfall of roughly \$2.8 million. Most of the deficit is anticipated in DSS mainly because of the decline in reimbursable expenses for entitlement programs.

State Aid

State aid revenue is expected to miss budget by a combined \$4.8 million. The variances include:

- The Correctional Center's state aid budget of \$3.3 million for FY 19 is projected to have a shortfall of \$3.0 million. The department included a new initiative that anticipated eligible inmates housed at the jail to receive Medicaid reimbursements for healthcare services, however this plan does not appear to be on track to be achieved.
- The Administration is projecting a deficit of roughly \$5.2 million in FY 19 which is attributed to lower reimbursements from the Raise the Age (RTA) initiative. The majority of this revenue is located in the Probation department and the Fringe Benefit budget.
- Within the Health department there is a \$2.9 million state aid surplus. This is corresponding reimbursement related to the additional Provider Payment expenditure.

Sales Tax

Year to date through the August 5th check, sales tax growth is 2.1% more than the same time period last year. To achieve the budgeted amount, a 2.9% growth is required on all remaining checks. This growth rate is higher than the current national economic forecasts which are anticipating a FY 19 real GDP growth of 2.2%. The Administration is currently projecting approximately \$6.0 million sales tax deficit in FY 19 and this appears conservative until a better understanding of the impact of the internet sales tax collections becomes clear. However, since the FY 19 budget was heavily leveraged on achieving additional sales tax revenue, it is very important that the County continues to monitor sales tax collections and adjust the projections accordingly.

Opportunities

Below is a list of items that could be considered opportunities:

Opportunities	
OTB Profits	\$15.0
Capital Proceeds	\$2.0
Sale of County Property	\$4.8
State Aid in Corrections	\$3.0
Total	\$24.8

The Administration is of the belief that there's a high probability of success in achieving some of the items listed above. In fact, they have included OTB revenues at \$20.0 million and \$2.0 million from capital proceeds in their projections. However, these revenues have not been collected and are currently seen as opportunities.

Conclusion

The FY 19 budget is a tale of major expense surpluses covering revenue shortfalls. On a budget basis, the County seems on track to meeting obligations and ending the year with a \$6.9 million projected budgetary basis surplus. However, on a Control Period calculation, the projection is a \$63.3 million deficit.

The County will need to actively implement corrective actions geared towards collecting some of the revenues it budgeted as initiatives and this can drastically change the current projections and afford some fiscal flexibility with other endeavors that the County may undertake.

cc: Ray Orlando, Deputy County Executive for Finance
Andrew Persich, Budget Director, OMB
Chris Ostuni, Majority Counsel
Bob Conroy, Budget Research Analyst
Peter Clines, Minority Counsel
Michele Darcy, Minority Finance Director
Evan Cohen, Executive Director, NIFA
Jack Schnirman, County Comptroller
Anthony Dalessio, Deputy Comptroller
Michael Pulitzer, Clerk of the Legislature

Full-Time FY19 Staffing Analysis

Department	2019 Budgeted Headcount	August 1 Headcount	Variance Budget vs. August 1 Headcount
Assessment	203	138	65
Assessment Review Commission	56	52	4
Board of Elections	155	153	2
C.A.S.A.	4	5	(1)
Civil Service	46	46	0
Comptroller	85	70	15
Constituent Affairs	37	37	0
Consumer Affairs	30	26	4
Correctional Center	1,031	972	59
County Attorney	96	86	10
County Clerk	87	83	4
County Executive	14	13	1
District Attorney	385	396	(11)
Emergency Management	8	8	0
Health	175	158	17
Housing and Intergovernmental Affairs	13	13	0
Human Resources	7	7	0
Human Rights	6	5	1
Human Services	56	56	0
Information Technology	91	94	(3)
Labor Relations	8	7	1
Legislature	96	93	3
Medical Examiner	97	76	21
Minority Affairs, Office of	6	4	2
Office of Management and Budget (10)	23	26	(3)
Parks, Recreation and Museums	143	146	(3)
Probation	239	179	60
Public Administrator	6	6	0
Public Works Department	424	388	36
Shared Services	11	12	(1)
Records Management	13	9	4
Social Services	601	560	41
Traffic & Parking Violations	48	47	1
Treasurer	30	26	4
Veterans' Services Agency	10	7	3
Anticipated Attrition	(222)	0	(222)
General Fund Total	4,118	4,004	114
Fire Commission	88	93	(5)
Police District	1,738	1,680	58
Police Headquarters	1,614	1,453	161
Total Major Funds	7,558	7,230	328
Sewer & Storm Water (SSW)	113	97	16
Total including Sewers	7,671	7,327	344