NASSAU COUNTY
OFFICE OF THE COMPTROLLER

COMPTROLLER'S COMMENTS ON THE PROPOSED NASSAU COUNTY 2007 BUDGET AND MULTI-YEAR FINANCIAL PLAN

Howard S. Weitzman
Nassau County Comptroller

October 13, 2006

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Comptroller’s Comments On The Proposed Nassau County 2007 Budget and Multi-Year Financial Plan

October 13, 2006

Executive Summary

On September 15, County Executive Thomas R. Suozzi presented to the County Legislature his proposed Fiscal 2007 (FY 07) Budget (“proposed budget”) and Multi-Year Financial Plan (“financial plan”) for the years 2007 through 2010, as required by the Nassau County Charter and the Nassau Interim Finance Authority (NIFA) Act. The Comptroller’s Office analyzed the assumptions and financial estimates contained in the proposed budget and financial plan. This report highlights material revenue and expense items, and areas of potential significant risk.

The proposed 2007 budget marks a departure from the conservative budgeting philosophy applied to County budgets over the past four years. On both the revenue and the expense side, the budget incorporates aggressive assumptions in order to minimize the need for additional cuts to services or new revenues. These assumptions are not impossible to achieve, but the administration will need to carefully monitor actual sales tax receipts and expense reductions as the County moves into 2007. In the past, the administration has demonstrated its willingness to impose fiscal restraint to ensure the budget remains in balance should income not meet the budget targets or expenditure reductions not be achieved. If actual results under this proposed budget fall short, the administration will need to react quickly and decisively to avoid a deficit in 2007.

The Chart below lays out the budgetary items that in our view are at risk of not being achieved (“risks”) and the budgetary items that in our view might turn out more favorably than budget (“opportunities”). We believe the proposed 2007 budget presents a net budgetary risk of $34.2 million. While this amount of budgetary risk is greater than the threshold established by the NIFA Act for a control period should a deficit occur, it is also only 1.4 percent of the entire $2.5 billion dollar budget. If the items identified as risks fall short of projections, it will still be possible for the administration to achieve budgetary balance by appropriate financial management at the first sign that corrective action is needed.

Schedule 1

PROPOSED NASSAU COUNTY 2007 BUDGET
MAJOR FUNDS
SUMMARY OF RISKS and OPPORTUNITIES
($'s Millions)

Revenues		
Proposed Budget	**$ 2,494.0**	
Risks		
Sales Tax under budget	(5.3)	
State Aid for Fashion Instutute of Technology	(4.1)	
Licensing of plumbers and electricians	(2.5)	
Parks revenue under budget	(2.1)	
Worker's compensation recoveries	(2.0)	
Traffic & Parking Violation fines	(1.5)	
Coliseum rental	(1.4)	
CPI fee increases	(1.3)	
Miscellaneous revenue	(1.4)	
Total Risk		**$ (21.6)**
Expenses		
Proposed Budget	**$ 2,494.0**	
Risks		
Labor concessions from PBA, DAI and ShOA	(24.8)	
Police and Corrections overtime	(7.7)	
Fringe benefit labor concessions	(6.1)	
NHCC charges for inmates	(4.5)	
Miscellaneous expense	(1.3)	
Total Risk		**(44.4)**
Opportunities		
Health insurance - lower rates	7.0	
Fringe benefits contingency	8.6	
All other fringe benefit savings	7.4	
All other salary savings	8.8	
Total Opportunities		**31.8**
Estimated Budget Risk		**$ (34.2)**

On the revenue side, the budget increases the property tax levy in the Police Headquarters Fund by $27.2 million, and decreases the General Fund property tax levy by $3.6 million. The Police District Fund decreases by $3.9 million. The levy in the Sewer and Storm Water Resource District Fund decreases by $20 million. All County residents pay General Funds and Headquarters taxes. Approximately 80% of County residents pay Police District taxes and approximately 85% of County residents pay taxes in the Sewer and Storm Water Resource District. All taxpayers will see a new fund created as part of the Environmental Bond Act. The 2007 expense for Environmental Bond Act expenditures is $4.1 million. Property tax levies are not considered a budgetary risk in 2007.

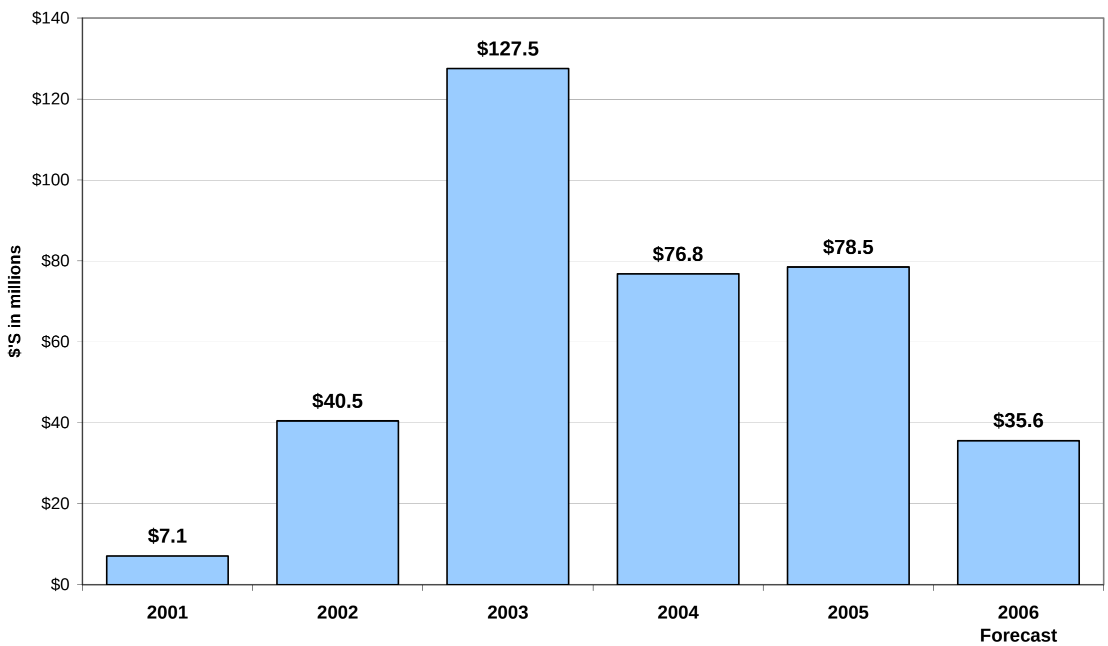
The proposed budget incorporates a slightly more aggressive assumption for sales tax growth than had been used in previous years. Sales tax comprises approximately 40% of total County revenue. Because it is impossible to know with certainty, or to control, what the sales tax receipts will be for the coming year, sound budget practice dictates conservative growth forecasts. In this budget, the administration has assumed that the County will achieve the 2006 budgeted amount for sales tax ("the base") and projects a 3.4% increase for 2007 over the base. We project that sales tax receipts for 2006 will be $5 million under the 2006 budget. Therefore, this Office has identified the use of the 2006 budgeted amount as the base for sales tax in 2007 as a $5 million risk. This potential risk will be resolved when the final 2006 sales tax amount is reported in February 2007.

The proposed budget includes new revenue generating initiatives for increased fees and State reimbursement. Because some of these revenue initiatives are dependent upon State or local legislation which has not yet taken place, these revenue items are also subject to risk.

On the expense side, new cost cutting initiatives, including labor concessions and workforce management savings, are incorporated into the budget although they have not yet been achieved. While we agree with the administration that there are opportunities for savings in negotiating labor contracts, in the past the administration did not budget for significant savings in the current year that depend on labor agreements not yet negotiated.

In our "***Report on the County's Financial Condition for the First Six Months of Fiscal Year 2006***", we projected that the County would end 2006 with a surplus of approximately $16 million. We now estimate the 2006 surplus may be as high as $35.6 million. The increased projected surplus is a positive development, but the surplus is still less than half of the surplus produced in 2005 and 2004. The trend of lower budgetary surplus means that as the County draws down its existing reserves, it lacks the ability to replenish them. Chart 1 presents the major fund surplus from 2001 to our 2006 forecast.

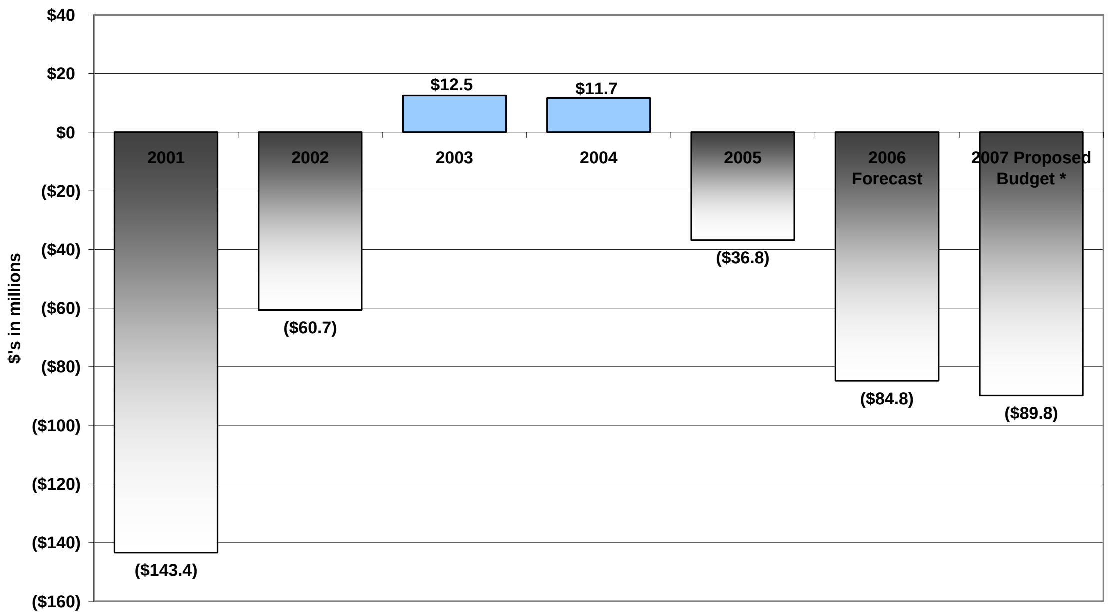
CHART 1 MAJOR FUNDS SURPLUS



The County continues to move away from structural balance, as it spends down its reserves and surpluses to pay for recurring expenses. In our "***Report on the County's Financial Condition for the First Six Months of Fiscal Year 2006***", we indicated our concern for the trend of lower reserves, lower operating surpluses, and rapidly growing structural deficits.

Chart 2 presents the trend of the County's increasing structural budget gap – the gap between the County's recurring expenses and the County's recurring revenues. For the major operating funds, the proposed budget uses a total of approximately $80.8 million of reserves and operating surplus to pay for recurring expenses. This is substantially similar to the use of non-recurring revenues in the 2006 budget. To the extent that risks materialize over the course of 2007 and the administration has to adjust with non-recurring revenues, such as appropriating additional prior year surplus, or non-recurring cuts in expenses, the structural gap may worsen.

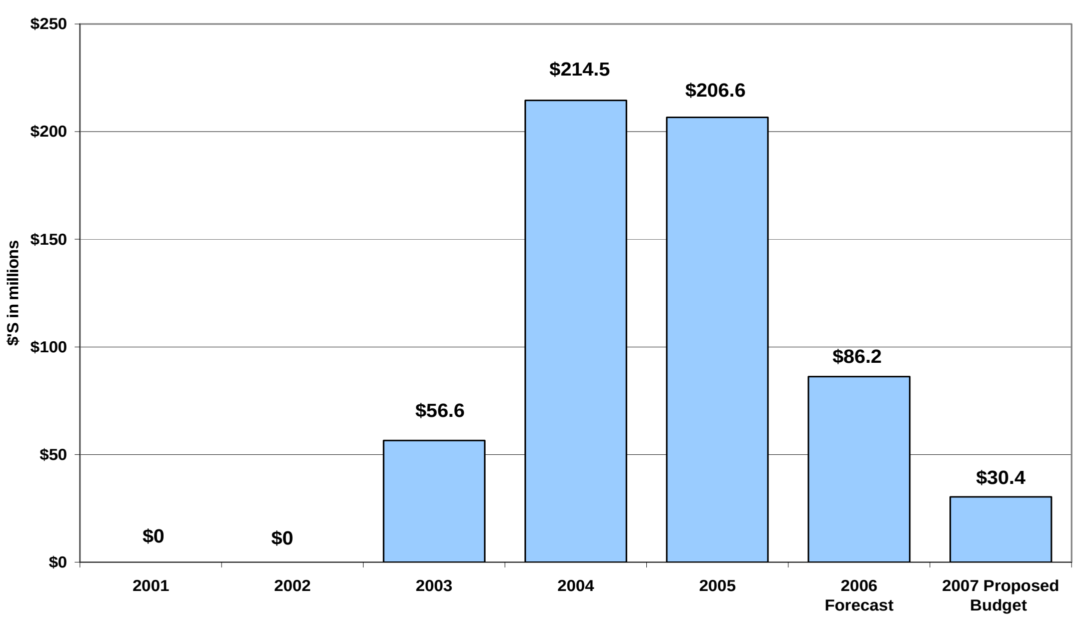
CHART 2 STRUCTURAL SURPLUS (DEFICIT)



* assumes County can manage the 2007 budget without relying on additonal nonrecurring revenues or cost savings.

Chart 3 demonstrates that the administration will have substantially exhausted existing reserves by the end of 2007. This will put increasing pressure on the budgets during the remaining years of the Plan.

CHART 3 MAJOR FUNDS RESERVES



We project that at the end of 2007, the County will have $30.4 million of reserves and $64 million of accumulated fund balance, down from 2004 balances of $214.5 million and $90.5 million respectively. These figures do not include the fund balance in the Sewer and Storm Water Resource District, which must be spent within the District, and the $143 million available from the tobacco settlement refinancing, which the administration had previously proposed spending primarily on capital needs of the NHCC. Without available reserves as a cushion, and in the absence of extraordinary spending reductions, the County Executive has predicted that a property tax increase will be likely in 2008.

FY 07 is the second year of the County's transition to "pay-as-you-go" funding of $50 million for property tax refunds from the operating budget, as opposed to long-term borrowings. In 2006, the administration funded this expense entirely from reserves and surpluses. In 2007, for the first time, half of the expense will be funded from recurring revenues and the proposed budget uses $25 million of projected FY 06 surplus to fund the other half of the expense. This Office supports the use of prior year surplus to ease the transition during 2007 but has a concern about the source of the surplus, see section "Use of Fund Balance". Recognizing the historical importance of property tax refunds on County finances, the Comptroller's Office will continue to monitor the year-end estimate of property tax refund liability.

In past financial plans, the administration has proposed allowing the property tax levy to increase automatically by the amount of taxes attributable to new construction. This new construction increase was not included in the proposed 2007 budget. In addition, the financial plan omits property tax revenue growth from new construction. The administration has supported major new building development, such as the proposed county HUB, in part on the ground that new construction will bring new property tax revenue. The financial plan should be revised to include increases in property tax receipts from new construction projects.

The financial plan presents projected future year budget gaps of $164 million in FY 08, $208.8 million in FY 09, and $256.2 million in FY 10. While sound fiscal management has resulted in declining estimated gaps with each new financial plan, the currently projected gaps are still significant and indicative of the County's ongoing fiscal challenges. All municipalities that forecast multi-year plans show gaps in the out years. The issue is how the administration is proposing to close the gaps and whether it can build a consensus to support the necessary measures.

For 2008, the proposed financial plan identifies a 3.9% property tax increase as one gap closing measure, and still requires at least $134.4 million in other new expenditure reductions and revenue initiatives, such as a home heating oil tax, an increased tobacco tax, video lottery terminals and additional labor concessions. These measures will require the support of State and local officials and the cooperation of labor leaders. They are all subject to risk until County officials can build the consensus to take the necessary steps to reach budgetary balance. Schedule 2 presents higher baseline deficits, resulting from modifying the financial plans projected baseline gaps by risks and opportunities identified by our analysis.

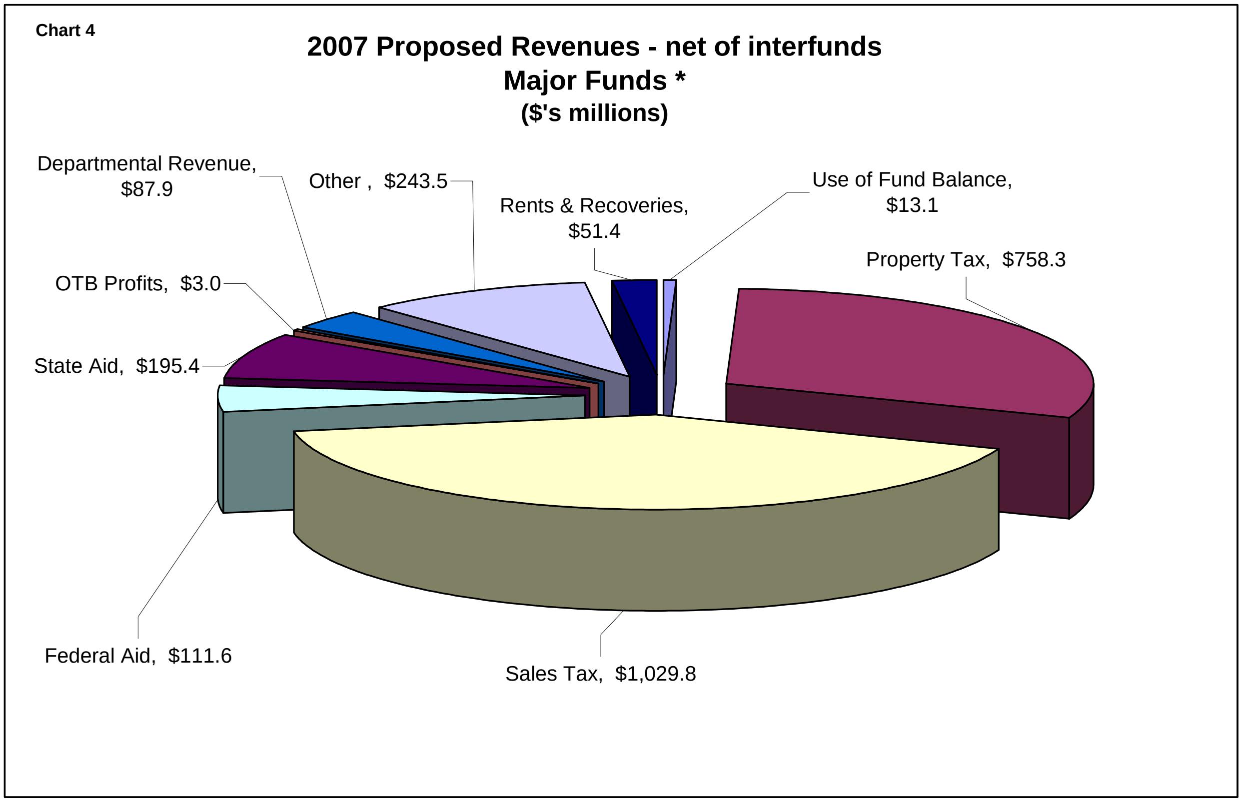
Schedule 2

PROPOSED NASSAU COUNTY 2007-2010
MULTI-YEAR FINANCIAL PLAN
MAJOR FUNDS
SUMMARY OF FUTURE YEAR RISKS and OPPORTUNITIES
($'s Millions)

	2008	2009	2010
Baseline Gap per Financial Plan (before Gap Closing Measures)	**$ (164.0)**	**$ (208.8)**	**$ (256.2)**
Included in Baseline Gap			
Risk - Labor and Fringe Savings	(46.7)	(48.6)	(50.5)
Opportunity - Police Retirement Contingency (may not be needed)	16.6	16.6	16.6
Net Baseline Gap (before Gap Closing Measures)	**$ (194.1)**	**$ (240.8)**	**$ (290.1)**

	2008	2009	2010
Gap Closing Measures at Risk			
Revenue			
Proposed cigarette tax	$ 50.0	$ 50.0	$ 50.0
Residential energy tax	46.1	57.0	58.8
Property tax CPI increase	29.6	60.3	92.2
Use of Remaining Tobacco Proceeds	23.0	8.0	0.0
Video lottery terminals	20.0	20.0	20.0
Red light cameras	7.0	7.0	7.0
Sales tax growth in line with historic averages	5.1	10.7	16.6
Sub-Total	180.8	213.0	244.6
Expense			
Labor concessions from CSEA and SOA	23.4	24.3	25.2
Smart Government Initiatives	11.5	20.6	21.9
Workforce management	8.8	16.3	20.1
Functional consolidation	10.0	15.0	20.0
Health insurance third party administrator		13.2	14.3
Program reductions	7.5	7.5	7.5
Sub-Total	61.2	96.9	109.0
Total Gap Closing Measures at Risk	**$ 242.0**	**$ 309.9**	**$ 353.6**

Discussion of Revenues



Total Budgeted Revenue
Major Funds *
($ Millions)

Total Budgeted Revenue	$	2,838.9
Less:		
Interfunds between major funds		344.9
Proposed revenues above	$	2,494.0

* Sewer and Storm Water Resource District Fund revenues of $172.2 million not included.

Tax Revenues

Sales Tax

The proposed 2007 budget assumes sales tax growth of 3.4 percent over the 2006 budget. Sales tax revenues account for over $1 billion of the $2.5 billion operating budget. Each one percent of growth represents approximately $10 million of additional revenue. Due to the number of variables that affect consumer spending, it is not possible to forecast actual receipts with one hundred percent certainty.

Our analysis indicates that 2007 sales tax receipts may be $5.3 million lower than budget. The difference is primarily because this Office believes the base for the sales tax, final FY 06 sales tax receipts, will be $5 million under the 2006 sales tax budgeted amount. The administration assumed that the base will be the 2006 budgeted amount. We will know definitively what the base should have been by February 2007, when the final 2006 sales tax receipts are reported. This Office accepts the administration's adoption of a 3.4 percent increase since sales tax growth has averaged 3.3 percent since 2002 but there is no clear trend (See Schedule 3). The outside economists we consulted projected a lower rate of increase in sales tax receipts for 2007, but they did not have the advantage of seeing the recent positive sales tax receipt figures. Because the rate of growth for 2007 is a projection, it will have to be monitored as the year progresses. Schedule 4 presents sales tax collections through October 13th of years 2001 through 2006, compared to total sales tax collections each year.

The proposed financial plan includes annual sales tax growth of 3.5 percent for 2008 through 2010, plus an additional ½ percent as a gap closing measure that brings total projected growth in those years to 4 percent. We believe these aggressive forecasts are subject to risk.

Schedule 3

Sales Tax Trends
($ Millions)

	GROSS ANNUAL Sales Tax Collected/Projected	$ Increase over prior year	% Increase over prior year
2003	$ 895.5	$ 30.0	3.5%
2004	939.9	44.4	5.0%
2005	953.8	13.9	1.5%
2006	990.8	37.0	3.9%

Schedule 4

YTD October 13 Sales Tax
($ Millions)

	OCT 13 YTD Sales Tax Collected	% OCT 13 YTD vs total collected/projected	GROSS ANNUAL Sales Tax Collected/Projected
2001	$ 576.8	69.3%	$ 831.9
2002	609.9	70.5%	865.5
2003	616.7	68.9%	895.5
2004	653.3	69.5%	939.9
2005	666.8	69.9%	953.8
2006	695.9	70.2%	990.8

Schedule 5

Sales Tax (Gross Receipts)
($ Millions)

	2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
Sales Tax	$ 953.8	$ 990.8	$ 1,029.8	$ 1,065.8	$ 1,103.1	$ 1,141.7
Additional sales tax revenue based upon higher annual growth	-	-	-	5.1	10.7	16.6
Sales Tax including Gap Closing Measures	$ 953.8	$ 990.8	$ 1,029.8	$ 1,070.9	$ 1,113.8	$ 1,158.3

Property Taxes

In the proposed 2007 budget, property taxes in Police Headquarters increase by $27.2 million, decrease $3.6 million in the General Fund and decrease $3.9 million in the Police District. The administration has also announced a decrease in taxes in the Sewer and Storm Water Resource District of $20 million. The Sewer and Storm Water Resource District tax amounts will fluctuate as the County brings the taxes into harmony county-wide pursuant to the requirements of the rate stabilization plan in the State law creating the District. The proposed property tax levy changes may have to be modified at the fund level to balance revenue and expense changes included in OMB's technical corrections to the budget, released October 11.

The budget also includes $4.1 million of property taxes associated with the Environmental Bond Act, which provides funding to acquire open space, expand and improve parks, implement clean water projects and remediate Brownfields sites. The budget for this initiative is included in a new fund, separate from the County's major funds.

The proposed financial plan includes property tax increases for 2008 through 2010 related to the estimated growth in the consumer price index of approximately 3.9 percent annually. These increases amount to $29.6 million in 2008, an additional $30.7 million in 2009, and an additional $31.9 million in 2010. The budget and financial plan omit property tax revenue growth from new construction. If the County is to benefit from new building development such as the proposed HUB, the budget and financial plan should also include property tax increases due to construction of new properties, which is estimated at $4 million annually.

Schedule 6

Property Tax
Major Funds
($ Millions)

	2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
Property Tax	$ 745.9	$ 740.5	$ 758.3	$ 758.3	$ 758.3	$ 758.3
Gap Closing Measures - CPI increase	-	-	-	29.6	60.3	92.2
Property Tax including Gap Closing Measures	$ 745.9	$ 740.5	$ 758.3	$ 787.9	$ 818.6	$ 850.5

Non-Tax Revenues

Use of Fund Balance

Including technical corrections, the administration has used $13.1 million of accumulated fund balance as revenue in the General Fund. Of the total, $10 million is intended for contingencies and $3.1 million is for a parks/road transfer agreement with the Town of North Hempstead.

The budget also includes the use of $25 million of a projected FY 06 surplus for pay-as-you-go (PAYGO) financing of property tax refunds. This Office supports the use of fund balance in FY 07 to help the County transition to funding this expense exclusively from the operating budget. We currently are projecting a $ 35.6 million FY 06 surplus, however $22.3 million of the estimated surplus is in the Police Districts Fund, a separate taxing jurisdiction. Since Police District monies cannot be used to pay General Fund expenses, there may be insufficient funding to create the $25 million PAYGO reserve.

The plan deviates from the County's fund balance policy, adopted by the Legislature in 2005. This Office supported the fund balance policy, and recommends that the policy be reviewed and amended if the County needs to change it.

Schedule 7

Fund Balance
Primary Funds
Source (Use)
($'s Millions)

Source (Use)	2003	2004	2005	2006	2007	2008	2009	2010	net bal
General Fund Balance	$ 76.1	$ 9.5							
(Payment of expenses)				$ (13.4)	$ (13.1)				$ 59.1
Police District Fund Balance	4.9								
(Payment of expenses)									4.9
Total source	$ 81.0	$ 9.5	$ -	$ -	$ -	$ -	$ -	$ -	
Total use	$ -	$ -	$ -	$ (13.4)	$ (13.1)	$ -	$ -	$ -	
									$ 64.0
Cumulative source	81.0	90.5	90.5	90.5	90.5	90.5	90.5	90.5	
Cumulative use				(13.4)	(26.5)	(26.5)	(26.5)	(26.5)	
Remaining balance		90.5	90.5	77.1	64.0	64.0	64.0	64.0	

State Aid

The proposed budget includes $4.1 million of reimbursement aid associated with County residents attending the Fashion Institute of Technology. We understand that these funds are not presently included in the State budget, and accordingly, we believe they are at risk

State aid related to the County's Health Department and Behavioral Health and Disabilities Services Department account for slightly more than 50 percent of the total state aid revenues received annually by the County ($98.2 million of $195.4 million in FY 07). Estimated increases associated with these two departments are essentially flat over the financial plan period, while associated expenses increase approximately 3.8 percent annually. Consequently, we believe related state aid may be understated in the financial plan.

Schedule 8

State Aid
Major Funds
($ Millions)

2005 * Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 194.7	$ 180.5	$ 195.4	$ 198.7	$ 201.9	$ 205.2

* 2005 is last year of NIFA aid

Federal Aid

As shown in Schedule 9, the financial plan includes Federal aid estimates that increase at an average annual rate of approximately 3.4 percent during the period 2007 to 2010, from $111.6 million to $123.5 million. The increases closely track projected increases in reimbursable expenditures during the same fiscal periods. The two largest sources of Federal aid, comprising 94 percent of the $111.6 million FY 07 total, are for costs incurred at the Department of Social Services and the Correctional Center. We believe the estimates in the financial plan are reasonable.

Schedule 9

Federal Aid
Major Funds
($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 114.5	$ 112.7	$ 111.6	$ 115.4	$ 119.4	$ 123.5

Departmental Revenue

The proposed 2007 budget includes $20.6 million of departmental revenue for parks. This estimate represents a 20 percent increase over our FY 06 forecast. The increase is based on a new Parks Revenue Enhancement Program. Based on historic revenue levels and the administration's history of aggressive estimates associated with the parks initiatives, we forecast that 2007 revenues may be as much as $2.1 million under the proposed budget.

The proposed budget for mortgage recording fees received by the County Clerk's Office is $2.5 million lower than the FY 06 budget. This estimate is consistent with our $15 million projection for 2006.

Schedule 10

Departmental Revenue
($ Millions)

	2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
County Parks & Recreation	$ 15.1	$ 17.1	$ 20.6	$ 20.6	$ 20.6	$ 20.6
All other Departmental Revenue	69.6	65.3	67.3	66.4	66.4	66.4
Total	$ 84.7	$ 82.4	$ 87.9	$ 87.0	$ 87.0	$ 87.0

Rents and Recoveries

The proposed 2007 budget includes projected revenue increases of approximately $1.4 million for the Nassau Coliseum, and also includes $2 million of workers' compensation claim recoveries. We cannot determine the outcome of these items at this time and believe they are subject to risk.

The significant reduction in estimated rents and recoveries beginning in 2008 results from the end of tobacco securitization receipts in 2007.

Schedule 11

Rents and Recoveries
Major Funds
($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 68.2	$ 59.1	$ 51.4	$ 29.0	$ 29.3	$ 29.7

Fines and Forfeitures

The proposed 2007 budget includes estimated FY 07 fines totaling $24.6 million, 8 percent more than the 2006 budget. The Traffic and Parking Violations Agency is expected to enhance productivity and create organizational efficiencies, including increased processing of delinquent judgments. This initiative is projected to generate $1.5 million of revenue annually. Since it has not yet been implemented, we cannot determine if it will be successful, and consequently consider it subject to risk.

An additional $1.5 million initiative, for ticket surcharges, is included as a gap closing measure in the future years of the financial plan. This initiative requires State and County approval and consequently is subject to risk.

Schedule 12

Fines and Forfeitures
Major Funds
($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 21.2	$ 23.4	$ 24.6	$ 24.6	$ 24.6	$ 24.6

Revenue Offsets to Expense

In addition to Federal and State aid, the County receives a number of miscellaneous payments that offset expenses that it initially pays. These revenues are classified under the "revenue offsets to expense" category.

The proposed budget and financial plan reflect Medicare Part D subsidy estimates that are lower than those included in the 2006 budget. These revised estimates are consistent with our 2006 forecast, which we project will be $2.9 million under budget, resulting from fewer plan participants than initially budgeted.

Schedule 13

Revenue Offsets to Expense
Major Funds
($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 3.4	$ 11.4	$ 10.7	$ 10.6	$ 10.6	$ 10.6

Permits and Licenses

The proposed 2007 budget of $13.5 million includes revenue from two initiatives that require legislative approval. The first initiative requires plumbers and electricians to be licensed by the County. This proposal requires both State and County Legislature approval and is budgeted to generate $2.5 million. The second initiative, requiring County approval, requires certain licensing fees to be adjusted bi-annually by the Consumer Price Index and is budgeted to generate $1.3 million. The approval of these initiatives is not known at this time, and consequently, we conclude they are at risk.

Schedule 14

Permits and Licences
Major Funds
($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 9.5	$ 9.8	$ 13.5	$ 13.5	$ 13.5	$ 13.5

OTB Profits

Based on increasing employee benefit costs, regulatory fees on wagering, and debt payments, we believe projected Off-Track Betting Corporation (OTB) profit distributions included in the proposed budget and financial plan are reasonable.

During 2007 OTB is required to implement Governmental Accounting Standards Board Statement No. 45 – *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* (GASB 45). Recognition of this liability will reduce OTB's profit, which could negatively impact the County's revenue share. We understand the County Attorney is reviewing this issue.

Schedule 15						
Off Track Betting ($ Millions)						
	2005 Actual	**2006 Comptroller's Forecast**	**2007 Proposed Budget**	**2008 MYP**	**2009 MYP**	**2010 MYP**
Profits	$ 5.5	$ 3.2	$ 3.0	$ 2.8	$ 2.3	$ 1.9
Surcharge	6.9	6.5	6.5	6.5	6.5	6.5
Total Revenue	$ 12.4	$ 9.7	$ 9.5	$ 9.3	$ 8.8	$ 8.4

Interfund Revenue

The proposed FY 07 interfund transfer budget is significantly higher than the adopted FY 06 budget. This increase is fully offset by expense increases elsewhere in the budget. It includes the use of $26.4 million of pension reserve funds, which previously were presented as a direct reduction to fringe benefits. Also included are $4.1 million of transfers associated with the Environmental Bond Act. Additionally, the budget includes transfers from reserves in the Bond Indebtedness Fund that are $3.9 million higher than 2006.

The decrease in interfund transfers in 2008 results from a reduction in the balance of available reserves, discussed in a separate section of this report. We believe the forecasts included in the plan are reasonable.

Schedule 16

Interfund Revenue Major Funds ($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 52.3	$ 50.0	$ 83.6	$ 43.4	$ 45.0	$ 46.4

Interdepartmental Revenue

The $104.2 million proposed interdepartmental revenue budget represents reimbursements for services performed by one County department for the benefit of another. Interdepartmental revenues and expenses for workers compensation charges from the General Fund to the Police District Fund are undervalued by $2.4 million and overstated in Police Headquarters by $2.7 million. Although these variances are offset in total within the County’s major funds, the Police District is a separate taxing jurisdiction and cannot receive budget transfers from other funds to cover these estimated shortfalls.

In addition, the proposed budget understates the costs that should be charged to the Police Districts. We have repeatedly called for the correction of cost allocations between the Police Headquarters and Police District Funds. The budget does not completely address certain misallocations. Charges for police academy cadets, surgeons, personnel and accounting have been appropriately reclassified to the Police District Fund. However, approximately $6.5 million of annual expenses related to the Commissioner’s office, fringe benefits, and overhead, should also be reallocated. We believe that the administration should consider implementing these changes and estimate that they would result in $6.5 million additional headquarters revenue and related districts expense.

The sharp reduction in revenue from 2005 to 2006 is due to reclassifying, for presentation purposes, charges for debt service payments to Debt Service Chargeback Revenue.

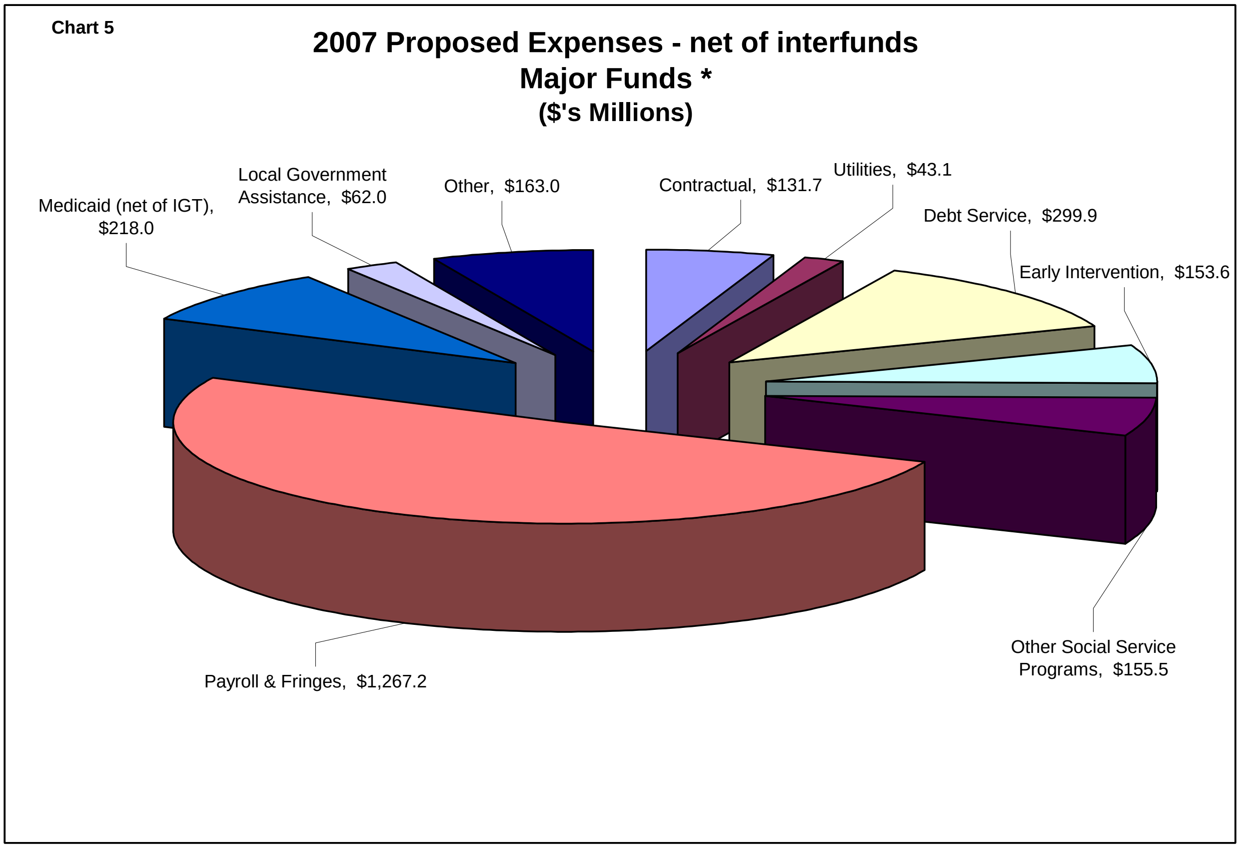
Schedule 17

Interdepartmental Revenue
Major Funds
($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget*	2008 MYP	2009 MYP	2010 MYP
$ 377.1	$ 106.6	$ 104.2	$ 87.0	$ 87.0	$ 87.0

*included techincal corrections amount received October 11, 2006

Discussion of Expenses



Total Budgeted Expenses
Major Funds *
($ Millions)

Total Budgeted Expenses	$	2,838.9
Less Interfunds between major funds		344.9
Proposed expenses above	$	2,494.0

* Sewer and Storm Water Resource District Fund expenses of $172.2 million not included.

Salaries

A collective bargaining agreement has not been reached with the Sheriffs Officers Association (ShOA). The current contract expired on December 31, 2004. Current labor agreements with the Police Benevolent Association (PBA) and Detectives Association Inc. (DAI) expire on December 31, 2006. Agreements with the Civil Service Employees Association and Superior Officers Association (SOA) expire on December 31, 2007. The proposed salary budget includes $19.7 million labor concessions from labor negotiations with the PBA and DAI, and $5.1 million from ShOA. The estimated savings are dependent upon labor agreements that are not in place, and consequently, are subject to risk. The proposed financial plan includes similar labor concessions for the agreements that expire at the end of 2007. These savings are also subject to risk.

The financial plan includes estimated future baseline expenses between $847.1 million in FY 08 and $919.5 million in FY 10.

Schedule 18

Salaries
Major Funds
($ Millions)

	2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
Salaries	$ 784.3	$ 798.1	$ 825.9	$ 847.1	$ 882.5	$ 919.5
Gap Closing Measures:						
Workforce Management*	-	-	-	(8.8)	(16.3)	(20.1)
Labor Concessions*	-	-	-	(23.4)	(24.3)	(25.2)
Total Gap Closing Measures	-	-	-	(32.2)	(40.6)	(45.3)
Total Personal Services with Gap Closing Measures	$ 784.3	$ 798.1	$ 825.9	$ 814.9	$ 841.9	$ 874.2

* an undetermined portion of the gap closing measures will offset fringe benefit expense

Overtime

Schedule 19 presents our FY 06 estimate of police and corrections overtime, along with future amounts in the proposed budget and financial plan. They include estimated savings from the proposed Sheriff Officers Association (ShOA) labor agreement which was not approved by the Legislature. Our analysis indicates that FY 07 overtime may be understated by $5.6 million in Police Headquarters and $2 million in the Correctional Center, and we conclude future estimates are subject to risk.

Schedule 19

Overtime *
($ Millions)

	2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
Correctional Center	$ 21.8	$ 21.3	$ 20.1	$ 21.0	$ 21.9	$ 22.9
Police Headquarters	23.8	22.4	17.7	18.5	19.3	20.2
Police Districts	28.2	21.8	22.5	23.5	24.6	25.7
Total Expense	$ 73.8	$ 65.5	$ 60.3	$ 63.0	$ 65.8	$ 68.8

* Overtime amounts included in salaries presented above.

Fringe Benefits

Employee Health Insurance

In the proposed budget and financial plan, health insurance expense is forecast to increase annually 9.5 percent for active employees and 10 percent for retirees. These increases are based on the administration's assessment of projected rate increases from the ***Empire Plan Second Quarterly Experience Report*** provided by the New York State Health Insurance Program (NYSHIP). Based on more current information provided by NYSHIP after issuance of the proposed budget, we project lower annual rate of increases of 7.9 percent for employees and 4.3 percent for retirees. We project health insurance will cost $210.8 million in 2007, $7 million under the proposed budget.

Long term, the administration must identify realistic ways to reduce spending while providing health insurance to employees. In our June 2006 report, ***Dual Health Insurance Family Coverage for County / NHCC Employees,*** we projected that eliminating duplicate health insurance for married couples both employed by the county could save $28.8 million over five years. We are pleased that recently enacted legislation eliminated duplicate coverage for non-union employees and we hope this wasteful practice for union employees ends as the result of future negotiations. Our January 2003 report, ***Providing Affordable Health Insurance for County Employees and Retirees in the Midst of a Fiscal Crisis,*** proposed an initiative to change the county's health insurance from the Empire Plan Core Plus Enhancements to the basic Core plan. We estimate potential savings of $20 million, without materially changing the level of health benefits. While this initiative was included in past Multi-Year Financial Plans, it is not specifically referenced in the proposed financial plan.

Schedule 20

Health Insurance
Major Funds
($ Millions)

	2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
Employees	$ 89.7	$ 101.5	$ 114.0	$ 124.8	$ 136.7	$ 149.6
Retirees	91.0	96.2	103.9	114.3	125.7	138.3
Total Expense	$ 180.7	$ 197.7	$ 217.9	$ 239.1	$ 262.4	$ 287.9

Employee Pension Costs

Based upon better investment returns, we believe that next year's pension contribution rates will remain relatively stable. We estimate that 2007 pension expense, net of the retirement reserve, will total $82.2 million. Spending has increased over 2006 primarily because the 2007 budget will use $7.1 million less from the pension reserve.

The proposed budget includes a $8.6 million retirement contingency. We believe retirement expense is fully funded without the contingency and so have categorized this expense as an opportunity in evaluating the proposed 2007 budget.

We project that pension contributions will increase moderately throughout the remainder of the plan period as a result of contractual salary increases. The financial plan includes the use of $7.5 million of the pension reserve in FY 08, leaving a remaining balance in the reserve of only $1.5 million.

Schedule 21

Pension Expense
Major Funds
($ Millions)

	2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
Expense without pension reserve	$ 110.7	$ 110.5	$ 109.1	$ 100.3	$ 105.1	$ 106.8
Pension reserve	(28.2)	(33.5)	(26.4)	(7.5)	-	-
Expense with pension reserve	$ 82.5	$ 77.0	$ 82.7	$ 92.8	$ 105.1	$ 106.8

Workers' Compensation

Projected workers' compensation expenses grow from $20 million in the proposed budget to $23.5 million in year 2010 of the financial plan. We understand a portion of the increase is associated with costs related to prior years. Our analysis indicates that estimated costs may be overstated in each year of the financial plan by between $2.5 million and $3 million annually.

Schedule 22

Workers Compensation
Major Funds
($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 18.9	$ 20.2	$ 20.0	$ 21.1	$ 22.3	$ 23.5

Medicaid

Using the initial Medicaid Cap calculated with 2005 as a baseline, future years' expenses are limited to a cap derived by annual increases of approximately 3 percent. After 2008, the County can elect to pay 3 percent increases or give the State a percentage of its sales tax revenues. The second option would be financially prudent only if future sales tax receipts increased less than 3 percent each year. The choice must be made by September 2007.

The Medicaid Cap provides recurring budgetary relief that grows each year of the financial plan. Based on the cap formula we believe the forecast Medicaid expenses, which range from $218 million in FY 07 to $237.4 million in FY 10, are reasonable**.**

Schedule 23

Medicaid net of IGT
($ Millions)

	2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
Medicaid Expense net of IGT	$ 238.9	$ 211.8	$ 218.0	$ 225.9	$ 231.7	$ 237.4

Other Social Service Expenses

The administration projects expenses for recipient grants, purchased services, and emergency vendor payments to grow approximately 3.9 percent annually, from a estimated $155.5 million in 2007 to $174.8 million in 2010. These social service administered programs include Family Assistance, Day Care, Food Stamps, and other services designed to aid children and adults in need. While these expenses are projected to grow 5.8 percent during 2006, the administration plans to implement initiatives that will limit future growth. Estimates included in the financial plan appear reasonable depending upon the success of associated initiatives.

Schedule 24

Other Social Services
Major Funds
($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 142.6	$ 151.0	$ 155.5	$ 161.6	$ 168.2	$ 174.8

Early Intervention / Pre-School Special Education

The proposed budget and financial plan include appropriations for early intervention/ pre-school special education programs administered by the Department of Health which increase at an average annual rate of approximately 4.1 percent, from $153.6 million in 2007 to $173.3 million in 2010. The projected growth in this mandated expense results from estimated increases in the number of children served, the authorized number of services provided per child, and transportation costs. We believe the forecasts are reasonable**.**

Schedule 25

Early Intervention / Pre-School Special Education
Major Funds
($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 146.4	$ 149.6	$ 153.6	$ 159.8	$ 166.4	$ 173.3

Contractual Obligations

We understand the County is negotiating with the Nassau Health Care Corporation for a new agreement to provide medical services to inmates at the Nassau County Correctional Center and has assumed the eventual contract will save the County $4.5 million. The proposed FY 07 budget contains the anticipated $4.5 million savings. Since this reduction requires agreement with the NHCC, which itself is under financial pressure, we believe it is at risk and have not included the savings in our forecast.

Schedule 26

Contractual Expenses
Major Funds
($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 121.9	$ 136.2	$ 131.7	$ 129.3	$ 130.9	$ 132.5

Local Government Assistance

The county provides one quarter of one percent of sales tax receipts to local towns and cities to assist with the treatment and disposal of municipal solid waste, in addition to providing aid to villages. The proposed financial plan includes annual local government assistance increases consistent with the financial plan’s estimated 3.5 percent growth in sales tax, before the additional sales tax growth identified as a gap closing measure.

Schedule 27

Local Government Assistance
Major Funds
($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 56.9	$ 58.0	$ 62.0	$ 64.2	$ 66.5	$ 68.8

Use of Reserves

As presented in Schedule 28, the proposed budget incorporates the use of $80.8 million of reserves. We believe this use of reserves is appropriate and has the effect of returning surplus funds to the County's taxpayers. For purposes of this analysis, we have not included $90.9 million of fund balance in the Sewer and Storm Water Resource District Fund, since it is a separate taxing district whose monies cannot be used in other County funds, and $143 million of tobacco settlement refinancing proceeds, since the administration has previously proposed that these monies be used primarily to fund capital repairs at the NHCC.

Schedule 28

Reserves
Primary Funds
Source (Use)
($'s Millions)

Source of Reserve (Use of Reserve)	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**net bal**
Opening balance		**$ 56.6**	**$ 214.5**	**$ 206.6**	**$ 86.2**	**$ 30.4**	**$ 22.9**	**$ 22.9**	
Pension Savings Reserve (major funds)		78.5							
This reserve is in RCF and, at the end of 2005, $33.5 is netted in each of the primary funds against the prepaid pension expense account.									
Replenish reserve			6.2						
Add to reserve			18.6						
(Payment of pension expense)			(34.4)	(33.5)	(26.4)	$ (7.5)			1.5
Funds Reserved for Pension Bond Retirement	18.1								
(Payment of pension bonds)		(9.9)	(8.2)						
Tobacco Securitization Receipts		23.6							
Establish reserve for future medical expense		(23.6)		-	-				
Reserve for future medical expense									
Current year Tobacco receipts		23.6	(23.0)	(23.0)	(14.6)				
Balance of Tobacco funds available		37.0							
Reserve for payment of debt service		10.0							
(Use of reserve)			(10.0)						
Reserve for bond indebtedness		25.0	0.7						
(Use of reserve)				(10.9)	(14.8)				
Reserve for litigation		3.3	3.0						
(Use of reserve)			(3.3)	(3.0)					
Funds setasides for police terminations	38.5								
(Release of reserves to establish Employee Benefit Accrued Liability Reserve Fund)		(28.9)							
(Anticipated 2004 termination costs)		(7.0)							
(Purchase of additional police vehicles)		(2.3)							
(Deficit fund balance)		(0.3)							
Reserve for Employee Benefit Accrued Liability Reserve Fund		28.9	(7.5)						21.4
Transitional reserve*									
Revenue from 840 account			35.0						
Recovery of 2003 sewer charges			15.0						
(Use of reserve)				(50.0)					
Total source	$ 56.6	$ 229.9	$ 78.5	$ -	$ -	$ -	$ -	$ -	
Total use	$ -	$ (72.0)	$ (86.4)	$ (120.4)	$ (55.8)	$ (7.5)	$ -	$ -	
Ending balance	**$ 56.6**	**$ 214.5**	**$ 206.6**	**$ 86.2**	**$ 30.4**	**$ 22.9**	**$ 22.9**	**$ 22.9**	**$ 22.9**

* Does not include $25 million of Paygo Reserve established from projected 2006 surplus pursuant to our concerns presented in the "Use of Fund Balance" section.

Utilities

Electricity is estimated at $22.1 million in the proposed budget and fuel oil is estimated at $1.8 million. Recognizing the rising trend in utility costs during the past year, the administration has increased the utility budget by approximately 28 percent over last year's budgeted amount, which we believe is appropriate.

Schedule 29

Utilities
Major Funds
($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 37.3	$ 39.6	$ 43.1	$ 47.2	$ 49.0	$ 49.7

Equipment

Equipment costs in the proposed budget and future years of the financial plan increase to and remain just over $5 million, which may be insufficient to maintain a reasonable level of police car replacement. The proposed financial plan allows for replacement of approximately 10 percent of the Police District fleet each year and makes no provision for replacement of the headquarters fleet. We believe this expense presents a risk to the plan.

Schedule 30

Equipment
Major Funds
($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 8.1	$ 4.5	$ 5.1	$ 5.1	$ 5.3	$ 5.3

Debt Service

The 2007 proposed budget reflects a $14.4 million reduction in projected expense compared to the last *Multi-Year Financial Plan Update Fiscal 2006-2009*. This reduction results from a delay in planned long-term borrowings, which were temporarily replaced with the issuance of bond anticipation notes. We previously projected that FY 06 will be $1.1 million under budget as a result of the delay, and future debt service payments will return to higher levels once the long-term financing takes place.

Schedule 31

Debt Service
Major Funds
($ Millions)

2005 Actual	2006 Comptroller's Forecast	2007 Proposed Budget	2008 MYP	2009 MYP	2010 MYP
$ 305.0	$ 290.5	$ 299.9	$ 330.8	$ 327.8	$ 328.6

The Financial Plan's Remaining Years

The proposed financial plan includes estimated budget baseline gaps of between $164 million in 2008 and $256.2 million in 2010. The plan presents more initiatives than necessary to close the projected gaps; however, as shown on Schedule 2, the majority of these initiatives are subject to risk.

The plan for 2008 assumes large increases in recurring revenues on top of a 3.9% property tax increase, and large decreases in recurring expenditures. Assuming the administration is able to build support for these measures, it will be able to close the gap in 2008 and the gaps in the succeeding years should be manageable. However, if the administration increases the structural gap in 2008 by budgeting large amounts of one time revenue sources such as fund balance or the refinanced tobacco funds, it will be very difficult for the County to achieve budgetary balance in 2009 and 2010.

Labor Concessions and Workforce Management

The financial plan includes additional projected labor concessions to close estimated future baseline budget gaps. The administration believes it will generate concessions in agreements negotiated the unions as their agreements expire. The value of the concessions for Civil Service Employees Association and Superior Officers Association is estimated to be between $23.4 million in 2008 and $25.2 million in 2010. The value of workforce management is estimated to be between $8.8 million in 2008 and $20.1 million in 2010. We believe the projected savings from labor concessions and workforce management is subject to risk.

Functional Consolidation

The financial plan includes savings achieved from implementing various operational improvements and efficiencies. Initiatives such as organizational realignments, process improvements/ re-engineering and revenue maximization are projected to yield: $10 million in 2008, $15 million in 2009, and $20 million in 2010. While these are laudable initiatives, we cannot reasonably assess the actual savings that may result.

Sales Tax Growth In Line With Historic Averages

The proposed budget and financial plan includes a 3.4 percent increase in 2007 and 3.5 percent annual increases in years 2008 through 2010. Additional growth, identified as a gap closing measure, brings total projected annual sales tax growth to 4 percent for the future years of the plan. We believe this estimate is aggressive and subject to risk.

Other Revenue Options to Close Remaining Gap

The financial plan includes additional gap closing measures including a residential energy tax which ranges from $46.1 million to $58.8 million, $50 million from a cigarette tax, $20 million from video lottery terminals, and $7 million from red light cameras. These initiatives require State and/ or County legislative approval, and consequently are subject to risk.

Smart Government Initiatives

The proposed budget and financial plan includes new "smart government initiatives". For the future years of the plan, these initiatives are valued at $11.5 million in 2008, $20.6 million in 2009, and $21.9 million in 2010, discounted from $24.3 million, $33.4 million, and $34.7 million respectively. A number of these initiatives are subject to uncertainty and risk. Presented with their corresponding three-year estimated value, they include:

- $12.3 million of additional revenue from parks revenue enhancement programs to sell advertising and maximize facility utilization;

- $12 million of tax revenue pertaining to participation in the New York State Empire Zone Program, intended to increase investment and job creation;

- $10.5 million overtime reduction associated with the Police, Correctional Center, and the Emergency Ambulance Bureau;

- $9 million from a ticket processing surcharge and streamlining the operations of the Traffic and Parking Violations Agency;

- $7.8 million of savings from Health and Human Services department consolidation;

- $6.8 million from a commercial property tax grievance filing fee;

- $5.1 million of savings from a new automated employee time and leave system;

- $3.7 million of utility savings resulting from an Energy Efficiency Improvement Program;

- $3.4 million of cost reductions resulting from alternatives to PINS (Persons In Need of Supervision) placements.

Other Entities

Sewer and Storm Water Resource District Fund

Since the Sewer and Storm Water Resource District Fund is not one of the County's primary funds, we have chosen not to combine it with the other funds presented in the main body of this report. The fund, established in 2003, represents the county's consolidated sewer and storm water services, previously reported under 27 collection and 3 disposal districts. The proposed 2007 sewer district budget reduces property taxes by $20 million in the sewer district fund and appropriates $13.2 million of the $90.9 million total of accumulated fund balance. The sewer district fund surpluses cannot be used to pay for the operations of the County's General Fund.

NHCC

The financial stability of the Nassau Health Care Corporation is essential so that it can continue to operate as a health care safety net for the county's uninsured. In addition, the county is dependent upon the NHCC's financial ability to repay its outstanding indebtedness of $301 million, which is guaranteed by the County.

A positive resolution of state and federal reimbursement problems has improved the corporation's near-term fiscal outlook. A "preliminary updated strategic plan" issued by NHCC management on July 24 outlines initiatives to improve the corporation's long-term fiscal viability. NHCC has indicated that any request for the County to release tobacco settlement proceeds to provide additional subsidies to NHCC will not occur prior to completion of its capital plan. We understand work is currently underway on the corporation's 2007 budget, and multi-year financial, business and capital plans, and an update as to progress on achieving goals set forth in the strategic plan.