NASSAU COUNTY
OFFICE OF THE COMPTROLLER

REPORT ON THE COUNTY'S FINANCIAL CONDITION FOR THE FIRST SIX MONTHS OF FISCAL YEAR 2009

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Nassau County Comptroller

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REPORT ON THE COUNTY'S FINANCIAL CONDITION FOR THE FIRST SIX MONTHS OF FISCAL YEAR 2009

Executive Summary

The Nassau County Charter requires that the Comptroller report on the status of the budget for the first six months of the current fiscal year, and give an opinion concerning whether there will be a surplus or deficit at year-end (Charter §402[9]).[1]

Our analysis of revenues and expenses through the end of June, together with our forecast for the remaining six months of fiscal year (FY) 09, indicates that the County's gap closing measures have brought the County close to finishing the year in balance, but more still needs to be done to finally close the gap without dipping into savings generated in prior years ("fund balance"). We project that the County will receive $111.4 million less in revenue and expend $99.9 million less than budgeted in 2009, leaving a remaining gap to be closed of $11.5 million. Separated out by taxpayer base, we project that the Police District will show a surplus of $7.1 million, and the County-wide funds (General, Police Headquarters, Fire, Debt Service) show a gap of $18.6 million, which can be closed through the Opportunities presented in Table 1 below.

This forecast recognizes that because of the severity of the national economic recession, 2009 is a year like no other for Nassau County. Because of the economic decline, the County's 2009 budget had to be reconsidered almost from the date it was first adopted. Sales tax revenues have plummeted and, for the first time ever, will decline for two consecutive years. We predict sales tax receipts will total $960.9 million by year end. Sales tax receipts are projected at 6% below 2008 receipts, excluding the new residential energy tax. The continuing drop in sales tax is a reflection of the severe economic difficulties facing Nassau County residents. Many have lost jobs, especially in the financial sector. Others, including most County employees, have had their hours or paychecks reduced. The national decline in asset and home values has deeply affected County residents, and the national recession has left its imprint on our governmental revenues and expenditures. In April, the Comptroller's Office estimated that the County faced a $137.5 million budget gap.

County Executive Suozzi, the Legislature, and the County's unions acted responsibly to address the impact on the County's budget of the declining national and local economy. The administration's plan to adjust to the changing reality of the national recession relied on three prongs: increased federal stimulus aid to the Medicaid program, negotiated labor savings, and other reduced County expenditures and increased revenues. Substantial portions of the plan have been achieved or are on schedule to be resolved through legislative action. Significant items that have not yet been put in place are presented as Opportunities in Table 1 below.

The County's labor unions are key to achieving the necessary savings in payroll and fringe expense in 2009. The Suozzi administration successfully negotiated savings agreements

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[1] The Comptroller reports on the status of the budget for the County's primary funds: the General, Fire Safety, Debt Service, Police Headquarters and Police District Funds.

with the Civil Service Employee Association ("CSEA") and all three police unions. The Sheriff Officers Association ("ShOA") also approved a proposed agreement, which we anticipate will be approved by the County Legislature. The 2009 savings from the CSEA, ShOA, and police unions are based on a lag payroll, deferral of certain payments for the police unions, and a termination incentive. The implementation of these agreements will save the County $42.9 million in 2009, net of loss of revenue from grant funded positions and with the administration's conservative assumption that 150 CSEA positions will be backfilled. Based on the Suozzi administration's track record of strict hiring control, we have identified additional 2009 savings of $1.2 million as an "Opportunity" in Table 1 if the administration can limit replacements to 75 positions. In 2010 and beyond, the administration will have to continue its vigilance in headcount control to ensure that as many positions as possible are permanently reduced; otherwise some portion of the termination and incentive expense will have been assumed for no lasting benefit.

The collective bargaining agreements were dependent on State grant of authority to the County to bond termination and incentive payments, which was received. The County Legislature will also have to approve the bonding; this report assumes that the local legislative approval will be forthcoming as discussed in the section entitled "Labor Costs". Bonding termination pay which normally has been paid out of the operating budget will reduce operating expenses by $38.4 million. Although the administration and the Legislature have not yet announced their agreement on bonding, this report assumes the bonding will also include $19 million to cover unbudgeted termination pay for employees leaving above the normal attrition levels. In addition, this report assumes that the $9.2 million cost of the unbudgeted special incentive to departing CSEA members will be bonded.

Although most of the negotiated labor savings are not a permanent reduction in expenditure since lag payrolls must be repaid when employees leave the County and deferred payments must be made at a later date, they are an appropriate reaction to the unexpected drop in County revenues and a sacrifice by County workers who will receive less pay in 2009 because of the lag payroll and pay deferrals. Similarly, bonding termination pay will shift the expense to future taxpayers in the form of debt service, but bonding is a rational solution to an unprecedented economic decline that came on precipitously in the fall of 2008 and the extent of which was not predictable at the time the County enacted the 2009 budget.

The administration sought and received permission from the State to implement red light cameras, which will improve traffic safety and increase revenue from traffic fines. Table 1 reflects an additional $4 million in net revenue from red light cameras, which are expected to be implemented starting in August. The State has not yet granted permission to the County to adopt its other initiatives: an increase in the cigarette tax and a surcharge on traffic tickets to cover the costs of policing the Long Island Expressway, a state highway. Our projection notes these additional revenue items as "Opportunities" in Table 1 which, if enacted in the fall would provide the indicated estimated revenue to help close the gap in 2009.

The administration and Legislature have struggled to keep funding Youth Board contracts without this State approved revenue, and while funds obtained by District Attorney Rice as a settlement of the tragic Walmart incident have been used to fund Youth Board contracts, spending for this purpose has been reduced by approximately $2 million. In addition, discretionary health and human services spending has been reduced by approximately $4 million to help close the gap. Because of the dire choices imposed by the impact of the national recession on our budget, Nassau residents who depend on social services have had their opportunity to receive County funded services reduced or eliminated, impoverishing the quality of life for those who most need assistance.

Sales tax is estimated to end the year at $75.5 million under budget. For the period January through July 31, sales tax has trended 9.9% under 2008 receipts. We assume that sales tax will continue at that level until the fourth quarter of the year, at which point we expect it will approximate 2008 receipts. This assumption is made because the economic crisis began in the fourth quarter of 2008 and was reflected in final quarter of 2008 sales tax revenues. If sales tax follows this model, we will end the year at 6% lower than 2008 receipts, not including residential energy tax receipts of $18 million. Sales tax is difficult to project and there is a potential for an additional decline in receipts given the severity of the national recession and its impact on Nassau County residents and businesses. If sales tax drops as far as 10% below 2008 receipts, there is sufficient fund balance to cover the shortfall, however the County would be left with little or no cushion in the years ahead.

In 2009 sales tax receipts will for the first time include revenue from the extension of the County sales tax to residential energy, which was enacted as a gap closing measure in 2009. By extending the sales tax to residential energy, the County joins with Suffolk and Westchester which imposed the sales tax on residential energy decades ago.

The Suozzi administration has successfully pursued initiatives to reduce personnel costs by controlling hiring throughout the year, without considering the reduction in headcount through the termination incentive offered to CSEA members. Between January 1 and June 30, 2009, the number of County employees was reduced by 104 people. The administration has also successfully implemented programs to reduce overtime within the Police Department and Department of Corrections. For the second year in a row overtime has declined from the prior year, dropping $9.1 million from 2008 spending levels to $54.9 million (projected) for 2009. While still over-budget, the reduction in spending for overtime is marked and demonstrates an instance where good management and improved collective bargaining agreements have successfully reduced unnecessary expense.

The County recognized additional savings in fringe benefit spending because Comptroller Weitzman and County Executive Suozzi spearheaded an effort to identify savings opportunities available from the New York State Health Insurance Program ("NYSHIP"), which provides health benefits for most County employees and retirees, and almost all governments and school districts on Long Island. The analysis showed NYSHIP had unnecessarily accumulated hundreds of millions of dollars from taxpayers. NYSHIP was able to use part of the funds to reduce the 2009 premium increase from an anticipated 6.6% to the average blended rates of 1.7% for active employees and 1.1% for retirees. The reduction in premium increase generated a savings of $11 million in 2009 fringe benefits for the County and an estimated $116 million in savings for all local governments that participate in NYSHIP.

The administration budgeted $50 million to pay for real estate tax refunds on the $5.1 billion in taxes levied in 2008-09 by the school districts, towns, special districts and the County, for whom the County pays all refunds. The administration anticipates that refunds will be higher than budgeted, but the difference will not impact the 2009 budget since the administration still has available $27.7 million from a 2008 borrowing to fund property tax refunds and $65 million in additional borrowing authority. While the administration is to be commended for continuing to include real estate refunds in the operating budget, the need to use borrowed funds to pay a portion of the tax refunds is a matter of concern and is not tenable over the long term.

The administration has increased its estimated outstanding liability for refunds from $101.8 million as of December 31, 2007 to $139 million as of December 31, 2008, acknowledging that real property tax refunds have continued to be higher than its liability model anticipated and the County has not successfully reduced annual refunds consistent with what its liability estimate would project.

If revenues and expenditures finish the year as projected, the Administration and Legislature will have to continue to find new expense reductions and take the steps described as Opportunities in Table 1 to complete the work of closing the 2009 budget gap and possibly finish the year with a budgetary surplus. The Opportunities include finalization of the Parks advertising contract and State approval of the County’s request to impose a cigarette tax and a surcharge on traffic tickets. In addition, the administration will have to continue to reduce personnel expenditures by exerting strict controls on hiring and overtime. If sufficient additional expenditure reductions cannot be identified, the administration will have available as a source of funds the remaining $59.1 million in General Fund fund balance.

TABLE 1

Revenue and Obligations Forecast for 2009*

($'s millions)

	2009 Budget	2009 Projected Actual	Variance
Revenues			
Sales Tax (projection includes Residential Energy Tax of $18 million)	$1,036.4	$960.9	($75.5)
Departmental Revenue	106.8	91.7	(15.1)
Investment Income	18.3	5.5	(12.8)
Reserve funds budgeted for PDD termination pay	11.0		(11.0)
Use of 2008 Surplus for pension expense	11.0		(11.0)
Red Light Cameras - net	12.0	4.0	(8.0)
Ticket Surcharge	7.9		(7.9)
Rents & Recoveries	46.9	42.3	(4.6)
Fines & Forfeitures	27.3	23.9	(3.4)
OTB Revenues	8.3	5.4	(2.9)
Federal Aid, excluding FMAP	119.3	118.1	(1.2)
Interest on Late Property Tax Payments	22.5	27.0	4.5
Federal Medicaid Assistance Percentage (FMAP)		42.0	42.0
Other	1,581.1	1,576.6	(4.5)
Total Revenue	**3,008.8**	**2,897.4**	**(111.4)**
Expenses			
Payroll and Fringes (projected amount includes MTA payroll tax of $2.3)	1,271.4	1,277.1	(5.7)
Labor savings** (net of reimbursements)		(42.9)	42.9
Savings from Bonding of Termination Payments		(38.4)	38.4
Social Service expenses	389.5	396.1	(6.6)
Worker's Compensation	16.9	23.1	(6.2)
Utilities	41.1	38.1	3.0
Contractual Expense	127.6	121.3	6.3
Local Government Assistance	62.4	56.8	5.6
Debt Service	310.5	303.5	7.0
Contingencies	12.9	0.0	12.9
Additional Property tax refunds		not quantifiable	not quantifiable
Other	776.5	774.2	2.3
Total Expense	**3,008.8**	**2,908.9**	**99.9**
Estimated Budget Risk excluding Potential Opportunities			**($11.5)**

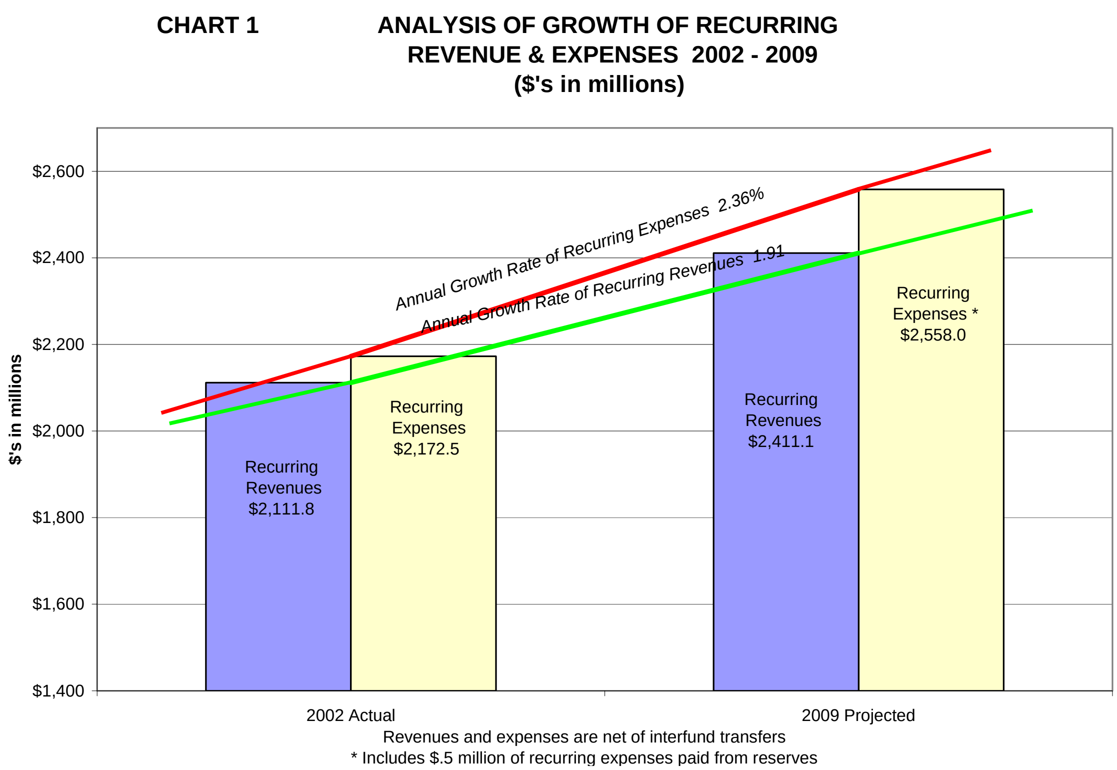
	Police District	Other Funds	
Estimated Budget Risk by Taxpayer Base	**$7.1**	**($18.6)**	**($11.5)**

Potential Opportunities for funds other than Police District	
Undesignated General Fund Balance	$59.1
Parks Advertising Contract	4.0
Cigarette Tax	2.0
Additional Headcount Control	1.2
Additional Rents & Recoveries	1.0
Ticket Surcharge	1.0
Total Available	**$68.3**

*This forecast includes the following five County funds:
General, Police Headquarters, Police District,
Debt Service, and Fire Prevention, Safety, Communication and Education

**Savings from headcount control included in “Payroll and Fringes”

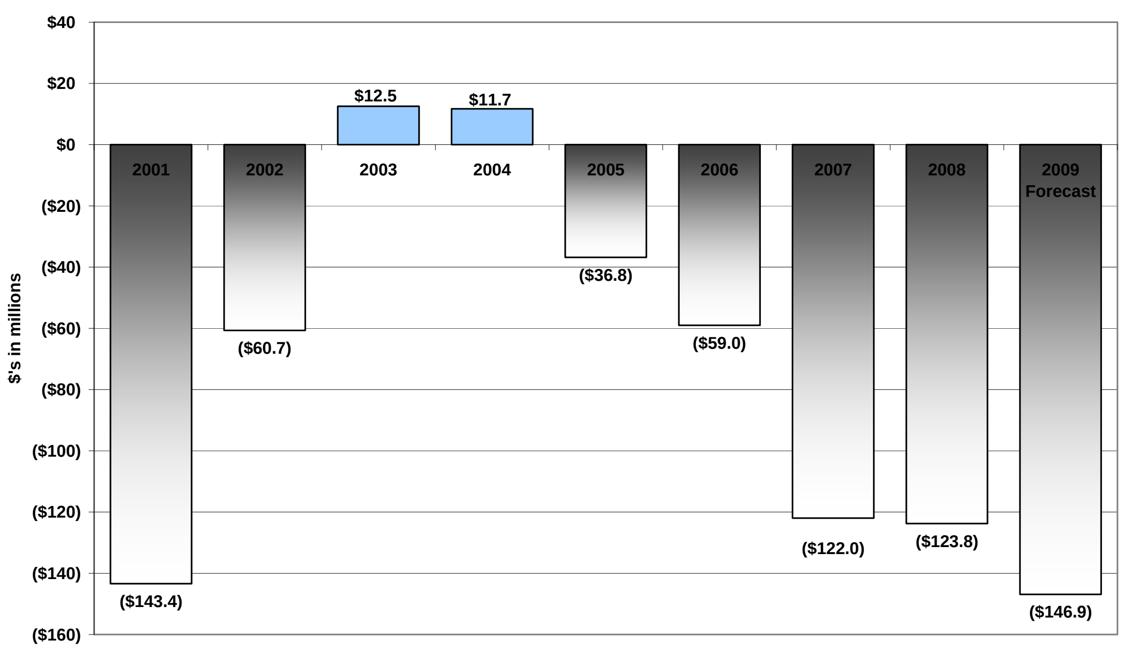
The Suozzi Administration and the Legislature have made great strides to control the rate of increase in the County's spending in order to minimize the burden on hard pressed County taxpayers. We project the level of increase in recurring expenditures will show a projected compounded annual growth rate of 2.36% between 2002 and 2009, significantly less than the compounded consumer inflation rate of 3.1%. The low rate of expense growth is due primarily to reductions in labor costs contained in recent collective bargaining agreements, reduction in overall headcount, and the State cap on the County share of increases in Medicaid expenditures. Keeping the growth in County spending to less than the growth in the consumer rate of spending is quite an achievement compared to the rates of growth of spending seen in other local governments, school districts and the State. Even at the County's low rate of expense growth, however, recurring revenues have not kept pace with recurring expenses. Despite all the steps the County has taken to control its expenditures, the County still does not generate enough recurring revenue to cover its recurring expenses. After 5 years of no property tax increase, the County raised the property tax in all funds by a combined 3.9% in 2009 (excluding property taxes from new construction) and extended the sales tax to residential energy in 2009. Even with these additional revenues, the estimated compounded rate of growth in revenues from 2002 – 2009 is 1.91%, lower than the growth rate in expenditures. Because our taxpayers are already overburdened and the County has had no new large developments adding to its property tax base and because sales tax has plummeted with the economic slowdown, the County must do even more to bring expenditures into line with revenues over the long term.



Like most governments, the County has an imbalance between its recurring operating revenues and expenses, known as a structural gap. While an important financial indicator, a structural gap is not the same as a budget deficit. Since 2002 the County's budget has been balanced each year, as required by law, and the County has ended every year with a budget surplus. Structural gaps can only be narrowed by reducing recurring expenses or by increasing recurring revenues. When the County balances its budget by using non-recurring revenues, such as drawing down reserves, it does not reduce the structural gap.

Because of the extraordinary measures the County will take to close its budget gap in 2009 the structural gap has increased. One time revenues, such as the federal stimulus aid for Medicaid, and one time expense reductions such as bonding normal levels of termination pay, will help balance the 2009 budget but are not recurring solutions that will be available for long into the future. At this point in mid-year, we project a 2009 structural gap of $146.9 million. The structural gap will increase to the extent the County uses borrowed funds to pay real estate tax refunds, but that amount is not known as of this date. The structural gap represents a major challenge for the County in 2010 and beyond (see Chart 2 below).

CHART 2 **STRUCTURAL SURPLUS (GAP)**
(2001 - 2009)

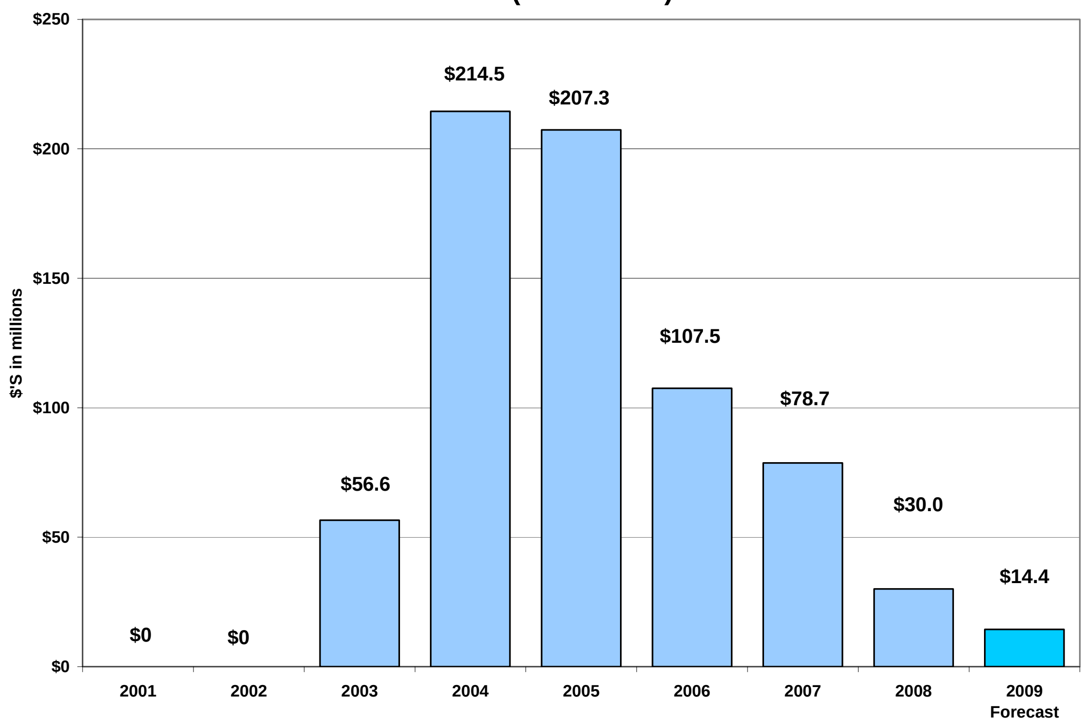


Borrowing to pay real estate tax refunds was first counted in the structural gap in 2007, when the County started funding part of the expense in the operating budget. For comparison purposes, if real estate tax refund borrowings had been included in calculating the 2001 structural gap, it would have been $293.6 million and the 2002 structural gap would have been $157.7 million.

From 2003 – 2006 the County conservatively used its annual surpluses, which totaled $328.2 million, to establish reserves that it drew on to provide budget relief in subsequent years. The County did not generate sufficient surpluses to replenish the reserves in 2007 and 2008, and we do not anticipate a surplus sufficient to replenish reserve funds in 2009. If the administration and Legislature agree to bond all components of termination pay as this report assumes, $11 million from the employee benefit reserve fund, which had been included in the 2009 budget, will remain as a reserve for use in future years (see Chart 3 and Table 2 below).

We estimate the balance of the reserves will decline from $214.5 million at the end of 2004 to $14.4 million at the end of FY 09.

CHART 3 **PRIMARY FUNDS RESERVES (2001 - 2009)**



The balance of reserves is detailed below:

TABLE 2

YEAR END RESERVE BALANCES
($'s millions)

	2006	2007	2008	2009 Forecast
Pension Savings Reserve	$ 51.5	$ 25.0	$ 0.5	$
Reserve for Future Medical Expense				
Unpledged Tobacco Settlement Revenues	14.7	35.3	13.0	
Interest earned on Tobacco Settlement Revenues	2.1	2.1	2.1	
Reserve for Bond Indebtedness	14.8			
Litigation Reserve	3.0	1.1		
Employee Benefit Reserve	21.4	15.2	14.4	14.4
Total Actual/Projected Year End Reserve Balances	$ 107.5	$ 78.7	$ 30.0	$ 14.4

Looking ahead to 2010, the County will again receive federal stimulus aid in the form of additional Medicaid funding and terminations should be below normal levels given the number of employees leaving the workforce in 2009. The County may have the advantage of the remaining $14.4 million reserve in the Police District to help fund police terminations, should the administration and legislature agree to bond that expense instead of drawing down the reserve in 2009. Police District fund balance is projected to increase by $7.1 million should all the bonding anticipated by this report occur. Local economists predict that sales tax will start to increase in 2010. Nonetheless, given the continuing gap between the County's recurring expenses and recurring revenues, the County will have to make serious and difficult choices when preparing the balanced 2010 budget as required by law.

In 2011, the County will face severe budgetary pressure even if the national economy continues to recover. The federal stimulus aid will be completed and pension contributions are forecast to increase by approximately 42% percent over the 2009 amount to an estimated additional $41 million. Labor costs will increase because although the County has an agreement to defer seven months of the negotiated CSEA raise in 2011, police union deferrals from 2007 and 2008 are scheduled to be paid out in 2011. In crafting a 2011 budget, the administration and the Legislature will have to engage in a realistic review of programs that cannot be funded without putting additional burdens on our hard pressed County taxpayers.

As part of its multi-year planning, the County adopted a fund balance policy in 2005 that provided that the County would maintain a level of unreserved fund balance of no less than 4% and no more than 5% of normal prior year expenditures from the General fund and the County-Wide Special Revenue Funds. Fund balance is in effect a rainy day fund that can be drawn on in emergencies when budgeted revenues drop for unpredictable reasons or budgeted expenses rise in ways that could not have been either predicted or controlled. In recent years, as the County has expended its reserves and used fund balance to avoid raising County taxes on our hard pressed taxpayers, the available fund balance has shrunk. The County is now coming out of compliance with its fund balance policy and the pressures caused by the national recession may increase the demand to draw down fund balance. The administration and Legislature will have to decide whether it is appropriate to change the fund balance policy and operate with less of a cushion, or identify spending cuts or increased revenues that can be used to replenish fund balance.

SIGNIFICANT VARIANCES - REVENUES

Tax Revenues

Sales Tax

Based on sales tax collections for the first 6 months of 2009 gross sales tax receipts are projected to total $960.9 million. This sales tax total includes the projection that the County will receive $18 million from the new sales and use tax on residential energy. If the receipts from the residential energy tax are excluded, we project sales tax will be $93.5 million less than the County's adopted budget of $1.036 billion, a 6.0% decrease from 2008 collections. The 2009 budget assumed an increase of 0.5% over projected 2008 receipts.

Sales tax, at approximately 40% of budgeted revenues net of inter-fund transfers, is the County's largest revenue source. The decline in sales tax receipts is unprecedented, and beyond the County's control. 2009 will mark the first time that sales tax receipts have declined for two consecutive years.

As of June 1, 2009 the County adopted a local sales and use tax on the sale of energy sources and services for residential purposes. Sales of residential energy sources and services in Nassau County (outside the Glen Cove School District and the Long Beach School District) are now taxed at the rate of 2.5%. We have accepted the administration's projection that collections from this tax will total $18 million for 2009.

SALES TAX ($'s in millions)			
	JULY 1 YTD Sales Tax Collected	% July 1 YTD vs total collected/projected	GROSS ANNUAL Sales Tax Collected/Projected*
	($'s in millions)		($'s in millions)
2001	$351.9	42.3%	$831.9
2002	358.0	41.4%	865.5
2003	362.2	40.4%	895.5
2004	392.0	41.7%	939.9
2005	392.1	41.1%	953.8
2006	415.6	41.9%	991.2
2007	423.5	41.8%	1,012.0
2008	430.4	42.9%	1,003.1
2009	387.8	40.4%	960.9

* 2009 projected is net of the deferred part county sales tax of $1.4 million but includes a 2.5% residential energy tax (implemented June 1, 2009) of $18 million.

Property Tax

Property tax revenue is projected to be $2.8 million more than the $806.1 million adopted budget. The increase is generated primarily by the expiration of property tax exemptions upon the sale of properties. The value of the assessment roll has increased due to an increase in new construction. The total budgeted property tax levies for all funds, including the County-wide Sewer and Storm Water District in the 2009 Budget, includes a 3.9% increase (excluding property taxes on new construction) – the first increase in six years.

The decline in housing values and increase in foreclosures should not affect 2009 property tax collections. Even in an economic downturn, property taxes continue to be paid since they are a first lien on the real estate. A slowdown in property tax payments may affect the County's cash flow in 2009, however, since the County must make up the difference between the tax levy and collections for school districts, towns and special districts.

PROPERTY TAX (EXCLUDING SEWER DISTRICT FUND) ($'s in millions)				
2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
$776.2	$806.1	$0.0	$808.9	$2.8

Non-Tax Revenues

Departmental Revenue

Parks Department revenues are currently running at about the same level as last year, and we project the revenues will be $7.6 million under the 2009 budget. The Department's revenue initiatives include $4.4 million budgeted for an advertising contract that we consider at risk since the contract has not yet received final approval. The advertising contract is included as an Opportunity in Table 1.

The continued slow housing market has led to a drop in County Clerk fee revenue despite an increase in certain fees enacted in 2008. These revenues are in line with the previous year's collections, adjusted for a full year at the increased fee amounts. We estimate the Clerk revenues will be $4.7 million under budget. In addition, a revenue initiative by the County Attorney's Office – collecting penalties from commercial property owners who do not submit income and expense statements to the Department of Assessment – budgeted for $1 million, is projected at $800,000 under budget based on year-to-date revenues collected.

A Consumer Affairs internet advertising initiative budgeted in 2009 has just gotten underway and represents a $500,000 risk. There is also $800,000 at risk for an initiative to collect fees for antennas installed on County property.

DEPARTMENTAL REVENUE ($'s in millions)				
2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
$87.0	$106.8	$39.9	$91.7	($15.1)

Investment Income

The County typically invests available funds in interest bearing checking accounts and bank certificates of deposit. Because interest rates have declined since the budget was adopted, we forecast that investment income will be $12.8 million under the $18.3 million budget. The drop in interest rates has also saved the County interest expense on variable rate debt as discussed in "Debt Service".

INVESTMENT INCOME ($'s in millions)				
2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
$13.9	$18.3	$1.7	$5.5	($12.8)

State Legislative Actions

We project that $15.9 million in new revenue items that required approval by the State Legislature are at risk in 2009. The only item that was approved by the State was the red light camera program which we project will yield $4 million in net revenue in 2009 as compared to the $12 million in the budget. The $7.9 million budgeted for ticket surcharges is also at risk since the initiative that has not yet been approved by the State. If the surcharge is approved in September we estimate it would yield $1 million through the end of the year and have listed that revenue as an Opportunity in Table 1.

STATE LEGISLATIVE ACTIONS ($'s in millions)					
Item	2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
Red light cameras - net	$0.0	$12.0	$0.0	$4.0	($8.0)
Ticket Surcharge	0.0	7.9	0.0	0.0	(7.9)
Total	$0.0	$19.9	$0.0	$4.0	($15.9)

Rents and Recoveries

Rents and Recoveries are projected to be under budget. In previous years, the administration disencumbered funds that were no longer needed to be set aside for contracts. Because so many disencumbrances have been eliminated, this revenue source will be lower than last year. In 2009 the remaining Tobacco Securitization receipts are $8 million less than in 2008. We have identified an additional $1 million from this category as an Opportunity in Table 1, reflecting potential additional disencumbrances or audit recoveries.

RENTS AND RECOVERIES ($'s in millions)				
2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
$70.1	$46.9	$26.2	$42.3	($4.6)

Fines and Forfeitures

We project that Traffic and Parking Violations Agency (TPVA) will receive more revenue in 2009 than was received 2008, but assuming revenues continue through the end of the year at current levels, they will fall short of the 2009 budget by $4.8 million. This does not consider $12 million in revenue from red light camera fines, which were budgeted in State Aid, discussed above in the State Legislative Actions section.

FINES AND FORFEITURES ($'s in millions)				
2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
$22.0	$27.3	$9.4	$23.9	($3.4)

OTB Revenues

OTB revenues are projected to be $2.9 million under budget. OTB shares its net profit with the County. It projects an overall loss in 2009 caused by increases in expenses such as regulatory fees and employee benefits combined with decreased handle. The OTB 5% surcharge revenue is projected to be 10% less than 2008. These collections are down because of a decrease in wagering subject to the surcharge.

OTB REVENUES ($'s in millions)				
2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
$6.1	$8.3	$1.2	$5.4	($2.9)

Federal Aid

Federal Aid is projected to be $40.8 million over the $119.3 million adopted budget. The positive variance is due to $42 million in Federal Medicaid Assistance Percentage (FMAP) stimulus aid. The federal stimulus aid is partially offset by a projection that the Correctional Center will have a shortfall of $1.7 million due to a reduction in the number of federal inmates.

FEDERAL AID (includes FMAP) ($'s in millions)				
2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
$110.1	$119.3	$7.9	$160.1	$40.8

Interest on Late Property Tax Payments

Delinquent property taxpayers are charged interest, which is paid to the County. We project that this revenue category will be $4.5 million over the 2009 budget. Collections continue to exceed budget for the second consecutive year due to the impact of the recession on Nassau County residents.

INTEREST ON LATE PROPERTY TAX PAYMENTS ($'s in millions)				
2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
$26.4	$22.5	$14.7	$27.0	$4.5

Use of Reserves

The 2009 budget includes a transfer from the Retirement Contribution Reserve Fund to partially offset retirement expenses in 2009. These reserve funds, which were to be generated by a 2008 surplus, were not established and are therefore not available to be used in 2009. This results in a negative variance of $11 million.

The 2009 budget also includes a transfer from the Employee Benefit Reserve Fund that was to be used to offset termination pay expenses in the Police District Fund. Assuming the administration and Legislature decide to bond this expense instead of drawing down the reserve, this budgeted revenue will have a negative variance of $11 million. See Labor Costs following this section for discussion of termination pay.

SIGNIFICANT VARIANCES - OBLIGATIONS

Labor Costs

Faced with a significant budget gap in light of declining sales tax revenues and the national recession, the administration negotiated modifications to the collective bargaining agreements with the county's unions to avoid layoffs and department closings. Agreements with the Civil Service Employees Association (CSEA), Police Benevolent Association (PBA), Detective Association Incorporated (DAI), Superior Officers Association (SOA) and Sheriffs Officers Association (ShOA) have been completed; this report assumes the ShOA agreement will receive final approval from the County Legislature. Since we have not received the ShOA agreement in time to analyze the savings it will generate, this report assumes that the cost savings will be the stated target of $4 million in 2009.

For the CSEA and police unions, the negotiated labor savings include a two week payroll deferral of $21.4 million, raise deferrals, deferrals of holiday and equipment pay for the police unions, and reduction of 336 CSEA employees by mid year through a separation incentive bonus. In addition, almost all ordinance employees' wages will be lagged on the same basis as the unionized workforce. Total labor savings from these changes in pay to County employees are projected at $42.9 million. In addition to negotiating labor cost savings, contract amendments for the PBA and DAI provided contract extensions to 2015. The agreements with the CSEA, approved in 2008, and the SOA, approved in 2009, do not expire until 2015. The ShOA agreement runs through 2012.

The administration also stringently managed headcount throughout the County as part of its gap closing efforts. We project salaries and fringe benefits savings of at least $13.4 million under the 2009 budget because the administration did not fill all budgeted positions. In addition, the administration reduced net onboard headcount between January 1 and June 30, 2009 by another 104 employees, comprising 14 non-union (ordinance) employees, 12 CSEA employees, 15 ShOA employees and 63 police personnel. This reduction in personnel is without consideration of the employees who left the County payroll because of the termination incentive.

In the absence of the revised collective bargaining agreements and the authorization to bond termination pay, we project that payroll and fringe benefit expenditures would have been approximately $6 million over the adopted $1.3 billion FY 09 budget, including the unbudgeted MTA payroll tax, which will increase fringe benefit expenses by $2.3 million.

SALARIES and FRINGES
($'s in millions)

	2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
Salaries	$840.8	$863.9	$427.1	$877.2	($13.3)
Fringes	393.4	407.5	245.7	399.9	7.6
subtotal	1,234.2	1,271.4	672.8	1,277.1	(5.7)
Labor Savings*				(42.9)	42.9
Bonding of Termination Pay for Normal Attrition**				(38.4)	38.4
Total Salaries and Fringes	$1,234.2	$1,271.4	$672.8	$1,195.8	$75.6

* Does not includes savings from headcount control
** Subject to the approval of the administration and County Legislature

Termination pay is projected to be $22.9 million over the 2009 budget of $34.5 million. This negative variance is primarily a result of the negotiated incentive pay for CSEA members to leave the workforce. 336 CSEA members took the incentive and will leave in 2009; normally terminations for CSEA average 100 per year. Additionally, due to a change in the methodology for calculating termination pay for police unions, which took effect July 1, 2009 for SOA and DAI members, we project approximately 30 retirements more than usual in the police funds. With the State authority to bond termination pay, we assume the County will see operational savings of $34.5 million from budgeted termination pay for 2009. In addition, we assume the County will bond the unbudgeted separation incentive offered to CSEA members totaling $9.2 million, and the unbudgeted $19 million in termination pay for the extra terminations occurring in 2009. Finally, we also assume the County will bond the termination pay attributable to normal levels of terminations that exceeded the 2009 budget amount, which we project at $3.9 million. The exact scope of the bonding will be determined through agreement between the administration and County Legislature, after the date of this report. It may include expenses that are incurred in 2009 but paid in later years; CSEA and ordinance employees normally receive termination pay in the three years following termination. For purposes of this report, we assume that the borrowing will cover all 2009 termination and incentive expense for a total of $66.6 million.

Combining the savings negotiated with the labor unions and the savings from bonding normal levels of termination pay, the 2009 budget will see an $81.3 million reduction in payroll and fringe benefit expenditure. The portion of the table below presenting savings from the labor agreements is based on the administration's conservative assumption that no more than 150 positions for essential CSEA personnel will be backfilled in 2009. An additional $1.2 million in 2009 savings from even more stringent headcount control is recognized as an Opportunity in Table 1. No savings are assumed from elimination of grant funded employees.

LABOR SAVINGS and BONDING OF TERMINATION PAY
($'s in millions)

Negotiated Labor Savings:		
Benefit of 10 day deferral		
CSEA, Police unions & ordinance	$ 21.4	
Salary & fringe savings from terminations - net		
CSEA, Police unions & ordinance	9.6	
Cost of terminations		
CSEA & Police unions	(19.0)	
bonding of termination pay	19.0	
Cost of CSEA Incentive	(9.2)	
bonding of incentive	9.2	
Other negotiated savings - Police unions	7.9	
Labor Savings - ShOA	4.0	$ 42.9
Bonding of Termination Pay for Normal Attrition		
Budgeted termination pay	34.5	
Termination pay in excess of budget	3.9	38.4
Total Labor Savings and Bonding of Termination Pay		**$ 81.3**

Overtime

Overtime costs for the Police Department and the Correctional Center are projected to be $6.4 million over the $48.5 million budget. The shortfall is comprised of $.5 million in the Police Headquarters Fund, $4.0 million in the Correctional Center, and $1.9 million for the Police District Fund. Even though overtime remains over budget, significant progress has been made to reduce overtime costs in the Police Department and the Correctional Center. The $54.9 projected total overtime for 2009 is $9.1 million less than 2008 actual overtime of $64 million. This cost containment is the result of better management of overtime, negotiated changes to overtime denominators, and personnel redeployments in the Police Department.

OVERTIME
($'s in millions)

	2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
Police District	$20.8	$15.2	$4.5	$17.1	($1.9)
Police Headquarters	19.5	16.7	6.2	17.2	(0.5)
Correctional Center	23.7	16.6	7.6	20.6	(4.0)
Total	$64.0	$48.5	$18.3	$54.9	($6.4)

Fringe Benefits

Health Benefits

The 2009 budget assumed health benefit rates would increase by 7.5% for active employees and 7.5% for retirees. The actual rate increases were approximately 1.7% for active employees and 1.1% for retirees. As a result, we project that health benefits costs will be $18.9 million under budget. The lower rates of increase were a result of Comptroller Weitzman and County Executive Suozzi's successful effort to identify and recoup $540 million in excess premiums paid to the New York State Health Insurance Program (NYSHIP).

Health benefit expenses are also increasing at a slightly lower rate because of the positive impact of eliminating duplicate health benefit coverage for married County workers. This change, originally effected for non-union employees and retirees in 2006, is now included in the PBA, DAI, SOA, ShOA and CSEA labor agreements. Comptroller Weitzman has also recommended that the County reduce health benefit expense by amending current collective bargaining agreements to increase the buyback amount as an incentive for employees who have other health benefits to decline coverage.

The County's Comprehensive Annual Financial Report for 2008 included an estimate of the cost of health benefits for retired County workers as required by Governmental Accounting Standards Board Statement No. 45 – ***Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*** (GASB 45), for 2007. The total estimated liability of $3.5 billion, a calculation based on the estimated lives of current and projected new retirees, highlights the importance of controlling this expense for County taxpayers while providing quality health care to County employees and retirees.

In order to reduce future County health benefit expenses, the County has increased the requirements before non-union employees are entitled to retiree health benefits. Previously, non-union County employees were entitled to lifetime retiree health benefits after five years of government employment, and only one year with the County. The change in law, proposed by Comptroller Weitzman, now requires that non-union employees work for the government for 10 years, 5 of which would be with the County, before vesting the right to lifetime retiree health benefits. CSEA members hired subsequent to the ratification of the 2003-2007 CSEA agreement negotiated by the Suozzi administration in 2004 are required to complete 10 years of County service to qualify for fully paid health insurance benefits upon retirement. Extending this requirement to other unions and other options for health benefit savings are presented in the Comptroller's Audit Advisory Committee report "***Providing Affordable Health Benefits for County Employees and Retirees***".[2]

HEALTH INSURANCE EXPENSE ($'s in millions)					
	2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
Active employees	$113.4	$126.9	$57.4	$114.7	$12.2
Retired employees	84.9	91.3	42.8	85.6	5.7
NHCC retired employees	18.0	18.6	5.5	17.6	1.0
Total	$216.3	$236.8	$105.7	$217.9	$18.9

Social Services - Direct Assistance

We project that direct assistance programs administered by the Department of Social Services will be $6.6 million over the $157.9 million budget. Our estimate is based on a higher than expected increase in Safety Net and TANF cases. As a result of the national recession, more people need aid and this reality has been reflected in the increasing caseload level for Social Service assistance programs.

DIRECT ASSISTANCE ($'s in millions)					
	2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
Recipient Grants	$ 49.1	$ 53.8	$ 29.1	$ 58.8	$ (5.0)
Purchased Services	48.6	49.7	40.9	49.7	-
Vendor Payments	53.1	54.4	46.0	56.0	(1.6)
Total Direct Assistance	$ 150.8	$ 157.9	$ 116.0	$ 164.5	$ (6.6)

[2] http://www.nassaucountyny.gov/agencies/Comptroller/Docs/PDF/Cost_Saving_Initiatives121306.pdf

Workers' Compensation

Expenditures are projected to be $23.1 million, $6.2 million over the $16.9 million budget. The primary reason the program is over budget is the administration's inability to carry out in the current economic climate an initiative to settle permanent disability claims with lump sum payments funded by paying an insurer to assume the obligations. The program was projected to save approximately $5 million in the operating budget. Some savings will be achieved by settling these cases for a lump sum payment on a case by case basis.

WORKERS' COMPENSATION EXPENSE ($'s in millions)				
2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
$22.0	$16.9	$10.1	$23.1	($6.2)

Utilities

We estimate that utility costs will be lower than budget due to a fairly stable fuel oil and natural gas market; costs are lower than they were at this time in 2008 and are not expected to increase significantly throughout 2009. The favorable variance is also due in part to the recent rate decreases announced by LIPA and National Grid. We are projecting a $3 million favorable variance for the year.

UTILITY COSTS ($'s in millions)				
2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
$39.6	$41.1	$23.5	$38.1	$3.0

Property Tax Refunds

The 2009 budget provides for $50 million to pay real property tax refunds. The administration has indicated that the 2009 expense will be more, but the additional expense will not have a budget impact since the administration has available $27.7 million in unused 2008 borrowings and an additional $65 million in borrowing capacity for this purpose.

PROPERTY TAX REFUNDS ($'s in millions)				
2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
$98.8	$50.0	$41.0	not quantifiable	not quantifiable

Contractual Expense

Contractual expense is expected to be $6.3 million under the budget of $127.6 million mostly due to the administration's gap closing effort to reduce discretionary Health and Human Services contract expenditures. These contracts are expected to be under budget by $6.0 million.

Contractual Expense ($'s in millions)				
2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
$121.9	$127.6	$92.0	$121.3	$6.3

Local Government Assistance

The County is required by State law to provide 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, the County has opted to provide aid to villages. Local government assistance is budgeted as a percentage of sales tax revenue and, as such, when sales tax receipts decrease this expense will decline. Due to our projection of a shortfall in sales tax, we are projecting an offsetting positive variance of $5.6 million in Local Government Assistance.

LOCAL GOVERNMENT ASSISTANCE ($'s in millions)				
2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
$60.5	$62.4	$0.0	$56.8	$5.6

Debt Service

Debt service expense is projected to be $7 million less than budget. The amount budgeted for 2009 was based upon borrowings planned early in 2009 that did not occur. In addition, declining interest rates have meant that the County saved on interest expense for variable rate debt.

DEBT SERVICE ($'s in millions)				
2008 Actual	2009 Budget	2009 YTD June	2009 Forecast	Variance
$292.0	$310.5	$64.0	$303.5	$7.0

Other concerns - Nassau Health Care Corporation

The financial stability of the Nassau Health Care Corporation (NHCC) is essential so that it can continue to operate as a health care safety net for the County's uninsured. Last year, the County and the NHCC entered into a new set of agreements to clarify their relationship and provide mechanisms for the continued County subsidy of health care costs for the poor and uninsured.

The County guaranteed the NHCC's outstanding indebtedness of $262 million and the institution's continued ability to repay its bonds is of fiscal importance to the County. The NHCC is now forecasting that its loss for 2009 will exceed budget.

The national recession will increase pressure on the NHCC in a time of great uncertainty in the area of health care and its funding. New York State has not yet fully confronted the impact of the drop in State revenue that it will face in the current State fiscal year. There may be significant cutbacks to funding streams that the NHCC relies on. An even greater uncertainty, and opportunity, is presented by the work being done in Washington D.C. on health care reform. Assuming the United States adopts some form of health care reform legislation, the demands for service placed on NHCC, its funding streams and the historic models its uses to develop its programs may have to be radically altered. These changes will require monitoring by the County and the NHCC to ensure that services can be offered where needed without additional demands on County taxpayers.