Fiscal 2005 First Quarter Report

NASSAU COUNTY OFFICE OF LEGISLATIVE BUDGET REVIEW

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May 11, 2005

Budget Review Committee

Agencies Scheduled to Testify:

Police Department

Correctional Center

Assessment Review Commission

NASSAU COUNTY LEGISLATURE

Judith A. Jacobs,
Presiding Officer

Peter J. Schmitt,
Minority Leader

Lisanne Altmann
Chairperson, Budget Review Committee

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Inter-Departmental Memo

To: Hon. Lisanne Altman, Chairperson
All members of the Budget Review Committee

From: Eric C. Naughton, Director
Legislative Budget Review

Date: April 29, 2005

Re: FY 05 Budget Review Committee Hearing

The following is our First Quarter Budget Review Committee Hearing Report for the meeting scheduled May 11, 2005. We will be focusing on the departments that will be testifying at the hearing, including Assessment Review Commission, Nassau County Correctional Center, Social Services, and the Police Department. Also included are overviews of 2004 year end results, a review of Nassau Health Care Corporation and what I feel are currently some of the important issues.

The agency spending portion of the report provides the following information:

- **2005 Mod. Budget** is the Adopted Budget adjusted for any approved modifications.
- **1st Qtr Actuals** is the total amount that was vouchered and encumbered as of March 31, 2005.
- **Budget Balance** is the difference between the budget and the 1st quarter actuals.
- **% Exp** is the percentage of the budget that has been vouchered and encumbered.
- **Prior Year 1st Qtr** is the total amount that was vouchered and encumbered as of March 31, 2004.
- **% Changed** is the percentage growth or reduction in expenses compared to the same period in the prior year.

The percentage of total budget expensed should be approximately 25%, but may be higher because of longevity and terminal leave payments, and the encumbering of annual contracts. The revenue section provides the modified budget, revenue recognized through March 31, 2005, the percentage of revenue recognized and for comparative purposes the revenue recognized through March 31, 2004.

If you should have any questions please let me know.

cc: Hon. Howard Weitzman, County Comptroller
David Gugerty, Majority Counsel
Mike Deegan, Minority Counsel
Mark Young, Budget Director
Richard Luke, Executive Director, NIFA
Dan McCloy, Special Assistant Minority
Dr. Sal Guajardo, Majority Finance
Ed Ward, Special Assistant to Minority
Art Gianelli, Deputy County Executive
Carol Trottere, Majority Press Secretary
Marilyn Gottlieb, Director of Legislative Affairs
Bill Geier, Clerk of the Legislature
Fran Evans, Director of Policy

FISCAL 2005 FIRST QUARTER REPORT

TABLE OF CONTENTS

Executive Summary

The County ended FY 04 with a budget surplus of $74.9 million. The budget surplus is primarily due to an excess in sales tax receipts, the release of the unused portion of the reserve for police terminations, a surplus in the Medicaid expense, the release of wage accruals, and the Stabilization Agreement with the Nassau Health Care Corporation. When factoring in anticipated transfer of surplus resources into a formal termination pay reserve fund and debt service pre-payments, the County ended 2004 with a positive operating result of $9.5 million. This increased the County's unreserved, undesignated fund balance to approximately $90.5 million, which excludes the $10 million in the Debt Service Fund.

The growth in County Fund Balance for the major operating funds between 1999 and 2004 is illustrated below.

Growth in County Fund Balance (1999-2004)
Major Operating Funds
In Millions

	1999	2002	2003	2004
Opening Fund Balance	$ (192.7)	$ 27.8	$ 68.4	$ 81.0
Current Year Contribution	220.5	40.6	12.6	9.5
Designated Fund Balance	-	-	-	-
Closing Fund Balance	$ 27.8	$ 68.4	$ 81.0	$ 90.5

Note: 2000 and 2001 are not shown because no activity took place in those years.

Highlights of 2004:

Sales Tax:

The total gross sales tax collected in FY 04 was $938.9 million, of which $6 million represents an amount overbooked for Part County sales tax. The $6 million will be used to offset future property taxes pursuant to State law. The net annual sales tax credited to the FY 04 budget was $932.9 million or $31.0 million over budget. The FY 04 total sales tax revenue represents an increase of $43.5 million or 4.9% compared to the gross FY 03 collections.[1] The following illustrates gross annual collections for the previous six years:

[1] In addition to the accounting adjustment made by the Comptroller's Office for the over-budgeted Part County sales tax, this gross amount is subject to deductions for NIFA's debt service and operating expenses.

Nassau County Sales Tax Revenue (In Millions)		
Fiscal Year	Gross Revenues	Annual Growth
1999	758.2	6.0%
2000	806.9	6.4%
2001	831.7	3.1%
2002	865.4	4.1%
2003	895.4	3.5%
2004	938.9	4.9%
2005	964.7	2.7%
Note: 2005 revenue represents adopted budget		

The proposed sales tax revenue in the FY 05 Executive Budget is $964.7 million, which is $25.8 million more than received in 2004. This estimate was based on the assumption that sales tax revenue in FY 04 would come in over budget by $34.7 million and that sales tax revenue would grow by 4.6% in FY 04.

The total through the first two months of this year is $141.9 million, a 4.5% decrease as compared to the same period in 2004. It is too early to identify, at this point, whether the sluggish collections thus far represent a trend. To achieve the budget will require a 4.0% growth rate over the 2004 March through December actuals.

<u>County Clerk Fee Revenue</u>

In 2004, County Clerk fee revenue exceeded the $12,150,000 budgeted amount by $6,380,227. The surplus may be attributed to conservative budgeting, low interest rates and a backlog of filings. Due to conservative budgeting, 2005 County Clerk fee revenue is similarly projected to exceed the budgeted amount

<u>Correctional Center</u>

Revenue in the Correctional Center was over budget in 2004 by $6.2 million, primarily due to Federal reimbursement which was over budget by $4.2 million. The 2004 budget was conservatively based on 200 federal inmates and the actual average 2004 population was 243. In addition, there was an increase in revenue received per inmate per day, from $142.32 to $165. Also received in 2004 was a $2.0 million one-time, unbudgeted, State Criminal Alien Assistance Program (SCAAP) award.

<u>Medicaid</u>

In FY 04 Medicaid was budgeted at $260.1 million. Actual expenditures totaled $247.5 million. Approximately $3.7 million of the surplus was due to greater than anticipated savings from managed care enrollment, which is now at 75% of the eligible population. In addition, there was a $7.6 million reduction in the annual State accrual, which accounts for anticipated payments at the end of each fiscal year.

Discretionary Costs

In September, 2004 the County established the Employee Benefit Accrued Liability Reserve Fund (Benefit Fund) to pay for accrued termination pay. The County administration transferred $13.1 million of unspent Police Headquarters Fund (PDH) resources to fund the Benefit Fund. In a separate proposal the County is requesting the same transfer of $15.8 million unspent Police District Fund (PDD) resources. This resolution passed through committees but still needs approval from the full legislature.

The Bond Indebtedness Reserve Fund was established by the County to deposit $23.1 million in unspent 2004 resources from the major operating funds. The resources will be used for payment of future debt service. Additionally, the administration is accruing $3.3 million to settle outstanding litigation liabilities.

Potential financial risks for 2005:

- NIFA's reconsideration of transitional State aid
- Police Department and Correctional Center's increase in overtime expenditures
- Sales tax

NIFA

According to the NIFA Act, the final $15 million in NIFA transitional State aid which was agreed to be paid in 2004 has been allocated as $7.5 million in 2004 and $7.5 million in 2005. Currently, NIFA is considering whether the County is in need of the $7.5 million balance.

Overtime Expenditures

The Police Department and Correctional Center continue to experience excess levels of overtime due to the decrease in uniformed personnel. These departments are expected to be $10.1 million and $6 million over their overtime budgets, respectively. In 2004, for example, the combined overtime budget for both Police District and Police Headquarters was $27.8 million. Overtime expense escalated to approximately $46.6 million or $18.8 million over budget.

Salaries and Fringe for 2005:

Total salaries are currently producing a surplus of $2.6 million for the five major funds. The current salary projection for the five funds is $778.2 million compared to the FY 05 budget of $780.8 million. Departments that are contributing to the surplus include Assessment, the Office of Consumer Affairs, the Office of Emergency Management, Mental Health, Probation, Social Services and Planning.

Departments that are presently producing deficits include the Office of Management and Budget, the County Executive Office, Real Estate Planning and Development, the Correctional Center and the Police Departments.

The surplus of $2.2 million is currently fringe projection is currently producing a surplus of $2.2 million. This majority of this surplus is being produced from health insurance, which is currently $1.4

million under budget. Other fringe categories which are producing a surplus on a smaller scale include social security, the optical plan, and dental insurance.

Grant Fund:

Nassau County's adopted budget does not currently reflect the revenues and expenditures related to programs that are grant funded. The chart below shows departments that have both grant funded and non-grant funded employees. As of April 1, 2005, there were 287 full-time and 33 part-time employees in various agencies that are "100%" grant funded.

Full Time:

Department	Grant Employees	Operating Budget CPF	GEN	Grand Total	% of Grant	% of Operating
District Attorney / Criminal Justice	1			1	100%	0%
Drug and Alcohol	31		88	119	26%	74%
Health	97		237	334	29%	71%
Housing	57		11	68	84%	16%
Mental Health	15		18	33	45%	55%
Probation	23		226	249	9%	91%
Parks	4	225		229	2%	98%
Planning	4		19	23	17%	83%
Social Services	55		867	922	6%	94%

Part Time & Seasonal:

Department	Grant Employees	Operating Budget CPF	GEN	Grand Total	% of Grant	% of Operating
Health Part Time	11		17	28	39%	61%
Health Seasonal	15			15	100%	0%
Parks Part Time	3	222		225	1%	99%
Parks Seasonal		67		67	0%	100%
C.A.S.A	4		1	5	80%	20%

The total potential termination liability to the County for the 287 full-time grant funded positions is $3.5 million. The Health Department has the largest portion of potential liability with 97 full-time employees totaling $1.1 million in possible termination payments. Termination payments greater than $5,000 are made in three annual installments starting on January 1st after an employee has retired. If there is sufficient funding available, the grant will fund the first year's termination payment. The second and third year termination payments are paid from the General Fund. The chart below provides full-time grant positions by department including their base salaries and termination liability.

Department	# of Employees	Salaries	Termination Pay
District Attorney/Criminal Justice	1	55,455	61,381
Drug and Alcohol	31	2,049,996	514,706
Health	97	5,274,991	1,099,468
Housing	57	2,811,874	246,185
Mental Health	15	880,843	269,994
Probation	23	1,326,522	618,622
Parks	4	194,684	115,393
Planning	4	233,136	109,349
Social Services	55	2,698,848	443,635
Grand Total	287	15,526,349	3,478,734

For FY 04, the County spent $31.1 million on program agencies in the operating budget. However, $39.1 million spent on program agencies in the Grant Fund in FY 04 is not reflected in the operating budget. The following chart provides FY 04 year end expenditures for program agencies in both the operating budget and Grant Fund.

General Fund	2005 Original Budget	2004 Original Budget	2004 Current YTD Obligations	Grant Fund	2004 Current YTD Obligations
Drug & Alcohol	6,132,781	6,201,291	5,504,860	Drug & Alcohol	25,618,891
Mental Health	4,625,027	3,800,027	4,546,915	Mental Health	11,860,950
Senior Citizen Affairs	10,849,077	10,551,910	10,731,282	Senior Citizens Affairs	704,542
Youth Board	7,366,394	7,110,230	7,364,861	Youth Board	732,034
Health Department	163,000	163,000	167,200		
Planning			70,000		
Social Services	759,388	2,358,074	1,509,249		
Parks	1,304,000		1,206,257		
				Probabtion	176,900
Subtotal Operating Budget	$31,199,667	$30,184,532	$31,100,624	Subtotal Grant Fund	39,093,317

The Department of Drug and Alcohol spent the largest portion, $25.6 million, on such grant funded agencies as Central Nassau Counseling Center, Port Counseling Center and Tempo Group. The Department of Mental Health spent $11.9 million on program agencies which include the Mental Health Association, South Shore Child Guidance Center, Rehabilitation Center, South Shore Association for Independent Living, North Shore Child and Family Guidance Association Inc. Probation funded $177,000 in FY 04 to the Freeport Pride, Inc for Youth Board services. Of this amount, only $45,000 has been approved as eligible to recover.

In previous budget hearings, the Office of Legislative Budget Review commented on the accounting treatment of Grant funds for salaries less than 100% reimbursable. Last year the Administration decided to transfer grant employees who are less than 100% reimbursable into the General Fund to correctly reflect their proper placement. Before the transfer, salaries less than 100% reimbursable had previously been budgeted in inter-departmental charges in the Operating Budget. These charges are now accounted for in the salary line with the corresponding reimbursement budgeted as state aid.

Placing the Grant Fund into the budget has previously been discussed as a way to improve the presentation of the budget. At the October 20, 2004 Finance Committee budget hearing, Deputy County Executive Arthur Gianelli committed to adding every fund into the Operating Budget for Fiscal Year

2006. The subject was raised up in the following exchange between Mr. Giannelli and the Director of the Office of Legislative Budget Review, Eric Naughton:

> MR. NAUGHTON: One of the problems that we have with the way the County does budgets is that we only look at essentially how much money comes from the operating funds. So when we look at the program, the budget for the Youth Board, we see that about 6.9 million dollars of County general fund that's going to these agencies, we never really see how much money is also coming from the grant funds and I think [it] will probably be beneficial because [at] some point, you get a complete picture to see the grants and the operations [i]n one document.
>
> MR. GIANNELLI: I think Eric is right on the money. We have every year tried to make improvements in the presentation of the operating budget and the capital budget, and this is something we haven't yet done. I'll commit to this committee that this is something that we will do for the next budget.
>
> In, what I want to do for the next budget is not only present the grant fund, no I, you can call me on it, I not only want to present the grant fund, I want to present every fund in the County, meaning not just the debt service fund, the Open Space fund, but the various trusts and agencies too. Every fund in the County ought to be presented in that budget and put up for adoption.
>
> Just, so everybody's aware, the way and if you read the CAFR, that's published by the Comptroller's office, the grant fund is constituted by a series of supplemental appropriations. So we need to take a step back and actually, you know tease out, what are the supplemental appropriations that constitute the grant fund. So, we're in perfect agreement with Eric, and that's something we'll do for the 2006 budget.

No Wrong Door

In February 2004, Nassau County's Legislature approved the lease of the Reckson property at 60 Charles Lindbergh Boulevard. The eight County departments that will be relocated into the building are Drug and Alcohol, Office of the Physically Challenged, Mental Health, Senior Citizens, Social Services (DSS), Veteran Services, the Youth Board and part of Health.

Recently, Senior Citizens, Mental Health and the Office of Physically Challenged have moved into the building. These three departments are currently located on the second floor and are conducting business as usual. Rent is currently being paid for only the second floor.

The Administration currently plans to move Drug and Alcohol, the Youth Board and Mental Health into the building by mid April. The Department of Social Services will likely move in the late Summer of 2005. These moving dates have changed from the original target dates. Last fall the Administration had planned to have all employees occupy the building by March 2005.

The reason for this postponement is due to various obstacles that have occurred including the reconstruction of the second floor. The original plan was to reuse the furniture from the previous tenant on the second floor, but, the unions made an issue about cubicle size, parity of size for same level workers, etc. As a result, the Administration decided to buy new furniture and redeploy the 2nd floor furniture for other County departments.

A major obstacle to the relocation is the ongoing occupancy of the current tenants, Aetna and Healthplex. The Administration is confident that both will relocate in a short period of time, although, no specific exit dates have been identified. The lease allows Aetna to occupy the building until 2007.

Another issue which has yet to be resolved is the location of the bus stop, which is currently situated on the other side of a major five lane road opposite the building. The crosswalk over this road can pose a problem for handicapped individuals. The current plan is to move the bus stop so it can drop off employees and clients closer to the building, but space would need to be set aside to enable the bus to turn around and return to the road. This would require the removal of more than 60 parking spots from the existing parking lot.

The Administration has received approval from the Department of Interior to use additional land next to the building to construct an adjacent parking lot. The design of the lot has already been completed by the Department of Public Works. The design consists of three lots of 250 spaces for a total of 750, along with necessary lighting and drainage. The design has been sent out to bid and the department is currently waiting for responses in the upcoming week. The department anticipates construction to start in mid April. The lot will be completed in 250 space increments to match when people are moved in. It should be in functional condition for the summertime usage and completed in September 2005.

The document imaging project has begun with the Department of Social Services. The plan is to complete the imaging for the DSS before scanning documents belonging to the other agencies. The departments that are currently in the building, Mental Health, Senior Citizens and the Office of Physically Challenged have stored their documents at the Reckson building. The status of the scanning project is reported to be on schedule.

Finally, the Administration is developing a comprehensive integrated Case Management and Tracking System. The software has been customized to immediately identify and track the clients who visit the facility and will be utilized by the Health and Human Services staff. The workers rely on a software tool that has been written and designed in-house. This case management tool integrates both New York State, County and Local Vertical Data. It allows workers to see their most useful data at a single glance and includes electronic case notes, activities and recently imaged case folders. Additionally, workers' names and phone numbers are available from a small Human Resource database. This database is available to staff and also is integrated to the building security system controlling door and building access. Software access is defined through a comprehensive security component which ensures both HIPAA and confidentiality compliance.

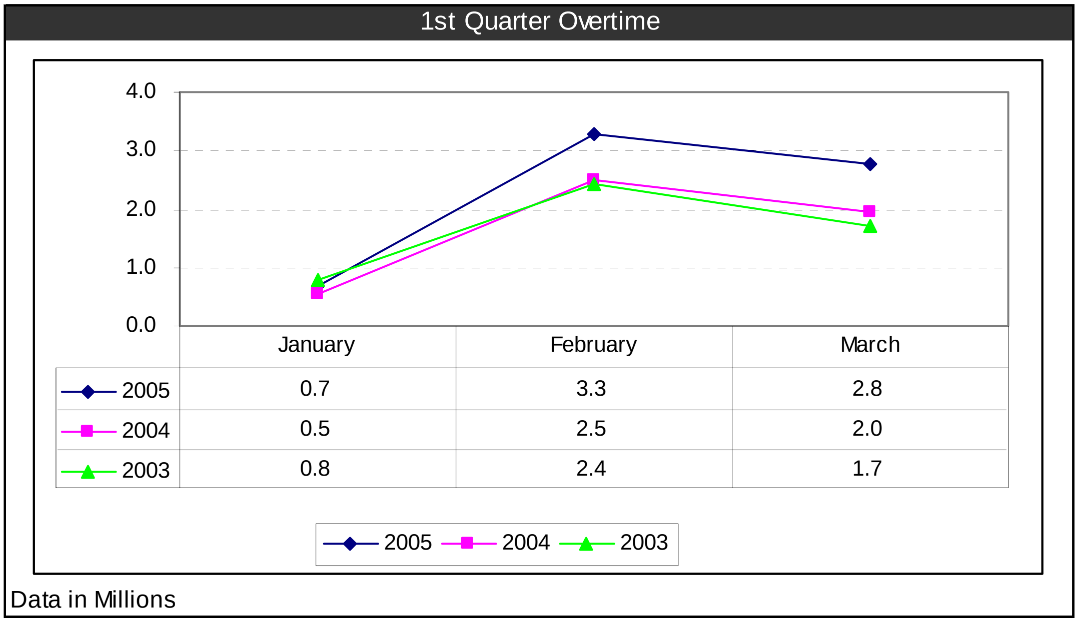
At the present time the software is being tested at the Department of Social Services. Visitors who enter the building will be recorded into the computers by Welcome Desk staff. The HHS staff are able to select from drop down lists the activity which appropriately indicates the reason for this visit. From this point the visitor will be routed to a program or the waiting area. The software enables the Health and

Human Services staff to track the visitors' activities on their PC desktop. The staff can then identify the order in which to see clients and complete the specific task.

The software also allows employees to sign in and out of the building with their identification badges. It is a beneficial management tool as it allows staff and supervisors to see scheduled appointments. This provides an opportunity to reassign and cover counseling appointments in the cases of a workers absence.

Police Department

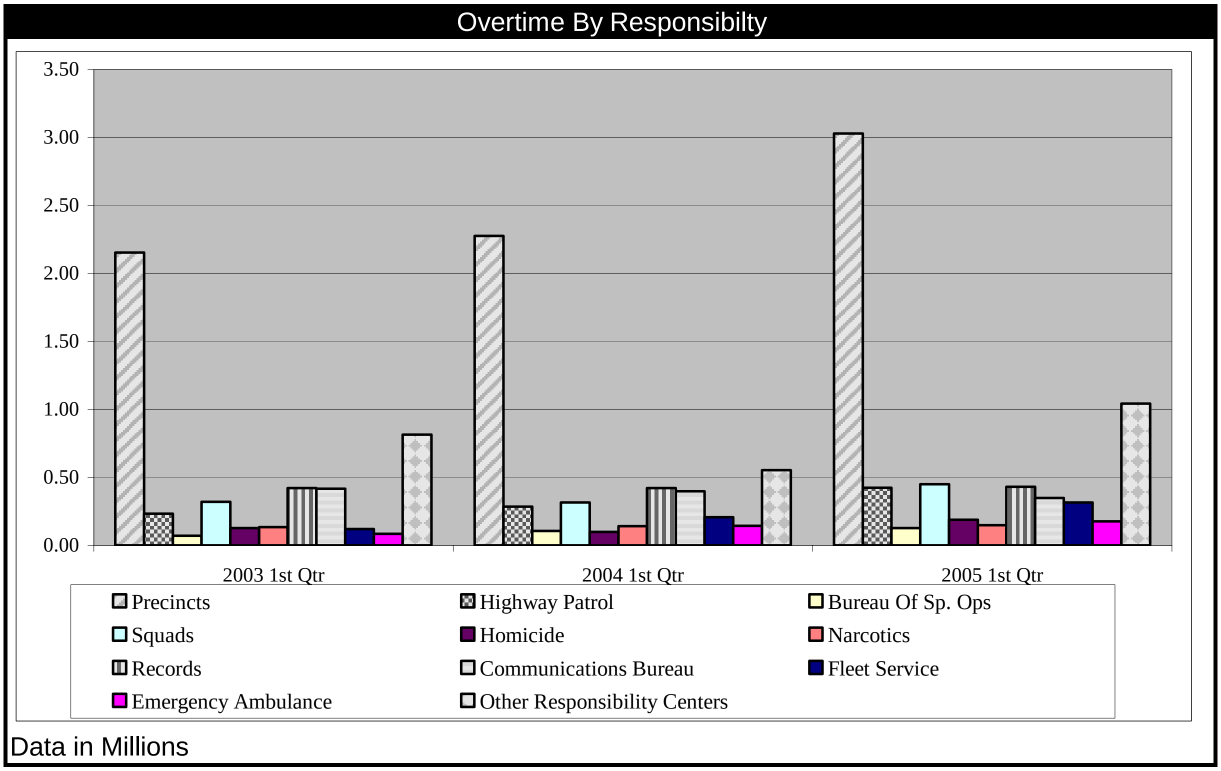
For the past several years, declining headcount in the Police Department has resulted in increased overtime costs. Overtime in 2002 and 2003 was $24.4 million and $40.8 million respectively. The actuals for 2004 show that overtime expense escalated to approximately $46.6 million, or an estimated $19 million over budget. Although the Administration had achieved the planned estimated $6 million to $7 million savings provided by the PBA Arbitration Award, it was insufficient to offset the effects of the declining headcount. In addition, the class of 43 recruits did not hit the streets until July 2004, and that coupled with the limited class size, had minimal impact on overtime expense.



	January	February	March
2005	0.7	3.3	2.8
2004	0.5	2.5	2.0
2003	0.8	2.4	1.7

The chart above illustrates that 2005's first quarter overtime costs, approximately $6.7 million, are $1.7 million ahead of the nearly $5 million for the first quarter of 2004, and it would appear that 2005's overtime expense may parallel, if not exceed, that of 2003 and 2004. Based on past and current trends, and the fact that there is $3.1 million in deferred overtime, which will continue to grow until October 31st, 2005 Police Department overtime may approach in the range of $45 million to $50 million. Although the 43 recruits that graduated in July 2004 and the 139 cadets that came out of the Academy in March 2005 have not yet had much impact on these costs, the net effect of their hires on sworn headcount with the 146 uniform terminations in 2004 is 36. The 146 terminations in 2004 included 124 routine retirements (those that had the most impact on overtime), 14 resignations (many from the Police Academy's two classes) and eight disability retirements. The impact of new hires should be more noticeable during the summer months when vacation time is at its highest. An additional class of 142 recruits that entered the Academy in March 2005, will be in training for seven months and will not have an impact on overtime until late 2005. Additionally there are a projected 100 terminations for 2005, which currently stand at 14 retirements, five who filed papers, five disability retirements and one resignation. The current, or soon to occur, retirements have diminished the net effect of the new hires. However, overtime worked by new police officers is paid at a much lower rate and new police officers are contractually bound to work extra hours, which should help to reduce some of the escalating overtime costs.

The chart below illustrates where most of the overtime costs are spent within the Police Department.



Due to the contractual constraints of minimum manning, a majority of overtime is at the precinct level as a result of light role call. Light role call, which made up approximately 42% of 2004 overtime hours, occurs when an insufficient amount of patrol officers report for duty, which is in violation of minimum manning requirements. The 2003 PBA Arbitration Award relaxed some minimum manning restrictions by freeing up a sector car in each of the eight precincts and although this and other provisions of the Award has had a positive impact on overall overtime, the chart illustrates overtime is steadily climbing. A portion of the increase could be attributed to salary increases associated with the recent union contract settlements. The Administration's combined efforts that were targeted to reduce overtime, including the aforementioned PBA provisions, the additional hours to be worked by all police officers and the new hires have undoubtedly generated overtime savings. However, the steady increase in overtime at the precinct level underscores the correlation between headcount and overtime expense.

1st Quarter Headcount

	2003	2004	2005	2005 Budget
PBA	1,778	1,677 *	1,693 **	1,805
SOA	381	429	423	422
DAI	379	384	388	425
Total	**2,538**	**2,490**	**2,504**	**2,652**

1,677* and 1,693** includes the 139 cadets that had little impact on overtime.
Note: 2005 does not include the 142 recruits hired in March.

In addition to 2004's retirements the chart on the previous page reflects the 26 recent designations to detective (DAI) from police officer (PBA) which further dilutes the impact the newly graduated recruits will have on overtime. The much needed addition to the detective ranks, currently at 388, 37 below the 2005 budgeted headcount of 425, should work towards reducing overtime at the Squad level, another responsibility center with a high amount of overtime. It appears that while this shifting of personnel to different designations is helpful in one section, it creates a shortfall in another vital area, sort of like robbing Peter to pay Paul. In the end, something gets shortchanged and the overall objective, in this case, overtime reduction, becomes difficult to achieve.

In spite of the escalating overtime costs, the Headquarters fund expense budget should be on target for 2005 due to the surplus in other object codes which will offset the estimated $1.5 million deficit in the salaries line. Revenue in this fund should also achieve budgeted goals.

Police Headquarters
1st Quarter Expenses

Object	2005 Modified Budget	1st Qtr Actuals	Budget Balance	% Exp.	Prior Year 1st Qtr	% Change
AA - Salaries	$181,157,692	$45,168,657	$135,989,035	24.9%	$39,830,708	13.4%
BB - Equipment	2,700,000	1,925,709	774,291	71.3%	47,130	3986.0%
CC - Materials & Supplies	1,428,101	406,260	1,021,841	28.4%	642,288	-36.7%
DD - General Expenses	1,610,576	282,097	1,328,479	17.5%	438,878	-35.7%
DE - Contractual Services	6,374,120	1,343,321	5,030,799	21.1%	2,402,693	-44.1%
HD - Debt Service Chargebacks	5,217,906	0	5,217,906	0.0%	0	0.0%
HF - Inter-Depart Charges	18,517,431	0	18,517,431	0.0%	0	0.0%
HH - Interfund Charges	0	0	0	0.0%	0	0.0%
OO - Other	410,000	58,232	351,768	14.2%	40,633	43.3%
Total	**$217,415,826**	**$49,184,276**	**$168,231,550**	**22.6%**	**$43,402,330**	**13.3%**

It is anticipated that the Police Department's 2005 budgeted revenue will be achieved since first quarter actuals are on pace with, and in one case, exceeds, that of 2004. The $16.2 million budgeted for motor vehicle registration fees will most likely be reached, unlike last year when there was a shortfall of $3.2 million, due to late implementation of the surcharge. Based on actuals of almost $3.0 million and $2.0 million, respectively, ambulance billing fees, budgeted at $13 million and the E-911 surcharge, budgeted at $6.3 million, are both on track to achieve budget targets

Police Headquarters 1st Quarter Revenue						
Object	**2005 Modified Budget**	**1st Qtr Actuals**	**Budget Balance**	**% Recognized**	**Prior Year 1st Qtr**	**% Change**
BC - Permits & Licenses	$325,000	$59,830	$265,170	18.4%	$69,815	-14.3%
BD - Fines & Forfeits	0	0	0	0.0%	0	0.0%
BE - Invest Income	86,258	117,527	(31,269)	136.3%	14,338	719.7%
BF - Rents & Recoveries	200,000	29,063	170,937	14.5%	24,470	18.8%
BH - Dept Revenues	13,679,000	3,111,058	10,567,942	22.7%	3,341,915	-6.9%
BJ - Inderdept Revenues	10,664,812	0	10,664,812	0.0%	0	0.0%
FA - Federal Aid Reimburse	334,000	17,330	316,670	5.2%	3,573	385.0%
SA - State Aid Reimburse	589,435	162,873	426,562	27.6%	0	****
TL - Property Tax	252,897,540	252,897,540	0	100.0%	239,070,905	5.8%
TX - Special Taxes	22,453,495	4,415,994	18,037,501	19.7%	2,671,185	65.3%
Total	**$301,229,540**	**$256,395,221**	**$44,834,319**	**85.1%**	**$242,525,016**	**5.7%**

Overtime expense in the District fund, will create a $3.1 million hole in the expense budget. Additionally the budget had assumed the entire cost for the recruits would be paid from the Headquarters fund but the actual expense comes out of District.

Police District 1st Quarter Expenses						
Object	**2005 Modified Budget**	**1st Qtr Actuals**	**Budget Balance**	**% Exp.**	**Prior Year 1st Qtr**	**% Change**
AA - Salaries	$203,638,864	$49,684,555	153,954,309	24.4%	$46,052,985	7.9%
BB - Equipment	875,000	160,208	714,792	18.3%	-2,919	-5588.5%
CC - Materials & Supplies	2,683,468	393,998	2,289,470	14.7%	664,463	-40.7%
DD - General Expenses	1,064,588	162,948	901,640	15.3%	385,224	-57.7%
DE - Contractual Services	800,000	294,120	505,880	36.8%	245,094	20.0%
DF - Utility Costs	985,275	496,552	488,723	50.4%	223,229	122.4%
HD - Debt Service Chargebacks	845,394	0	845,394	0.0%	0	0.0%
HF - Inter-Depart Charges	19,390,267	0	19,390,267	0.0%	0	0.0%
OO - Other	2,900,000	110,390	2,789,610	0.0%	174,007	-36.6%
Total	**$233,182,856**	**$51,302,771**	**$181,880,085**	**28.2%**	**$47,568,076**	**7.9%**

Police District 1st Quarter Revenue						
Object	**2005 Modified Budget**	**1st Qtr Actuals**	**Budget Balance**	**% Recognized**	**Prior Year 1st Qtr**	**% Change**
BC - Permits & Licenses	1,800,000	354,715	1,445,285	19.7%	561,594	-36.8%
BD - Fines & Forfeits	200,000	36,306	163,694	18.2%	42,325	-14.2%
BE - Invest Income	65,134	111,560	(46,426)	171.3%	65,134	71.3%
BF - Rents & Recoveries	150,000	10,711	139,289	7.1%	45,320	-76.4%
BH - Dept Revenues	3,167,011	2,698,384	468,627	85.2%	1,221,819	120.8%
BJ - Inderdept Revenues	901,426	0	901,426	0.0%	0	0.0%
TL - Property Tax	309,306,781	309,306,781	0	100.0%	301,296,571	2.7%
Total	**$315,590,352**	**$312,518,457**	**$3,071,895**	**99.0%**	**$303,232,763**	**3.1%**

First quarter actuals for departmental revenues in the District fund reflect first quarter payments for police services from the villages of Plandome, Laurel Hollow and Bellerose.

CORRECTIONAL CENTER

The Correctional Center ended 2004 over budget in expenses by $11.9 million, but also over budget in revenue by $6.2 million. The excessive expenditure in 2004 was primarily due to overtime cost, which at $24.8 million, was over budget by $10.0 million. Overtime was budgeted for in 2004 assuming headcount would be at budgeted levels and civilianization would bring officers back to security positions. Hiring has been difficult in part due to the use of old hiring lists, which included candidates that were no longer interested or were not able to pass the physical. The current Sheriffs' Officers' Association (ShOA) contract calls for civilianizing 55 non-security positions. Although 16 civilian positions have been filled so far, only 8 officers were able to return to security positions as many of these civilian new hires were filling vacant slots. Hiring for civilian positions has been difficult due to competition from other departments and entities using the civil service lists.

Correctional Center
1st Quarter Expenses

Object	2005 Mod. Budget	1st Qtr Actuals	Budget Balance	% Exp.	Prior Year 1st Qtr	% Changed
CC 10 - Correctional Center						
AA - Salaries	$109,784,831	$26,636,175	$83,148,656	24.3%	$23,309,063	14.3%
BB - Equipment	60,750	26,671	34,079	43.9%	56,024	-52.4%
CC - Materials & Supplies	4,017,770	849,908	3,167,862	21.2%	804,492	5.6%
DD - General Expenses	383,821	164,769	219,052	42.9%	154,056	7.0%
DE - Contractual Services	20,832,344	198,155	20,634,189	1.0%	19,250,008	-99.0%
DF - Utility Costs	620,275	133,137	487,138	21.5%	218,209	-39.0%
HF - Inter-depart Charges	3,113,074	0	3,113,074	0.0%	0	*****
Correctional Center Total	**$138,812,865**	**$28,008,815**	**$110,804,050**	**20.2%**	**$43,791,852**	**-36.0%**

Overtime is also expected to be significantly over the $21.6 million budget in 2005 with the best case overtime scenario costing $25.0 million and possibly escalating to $28.0 million despite the authorized hiring of 25 officers in 2004 and another 25 in 2005. As the charts on the next page demonstrate, total uniform personnel has been decreasing the past couple of years despite recent hiring efforts, and overtime usage continues to grow. Correctional Center uniform headcount has decreased from this time last year by 4 officers, although 21 officers were hired in November 2004. Another class of about 14 officers is anticipated to being the end of April. It has been difficult hiring from the current list since it is from 2002, increasing the likelihood that candidates will no longer be interested in the position. The department is experiencing about an 80% dropout rate from the candidates on this list. Another test was given March 19th but this list will not be available for use until next year. Also, the officers from this class will probably just cover attrition and it will be a few months before this class can impact overtime since there is a 13 week training requirement. In 2003, 32 officers left employment, and another 25 separated in 2004. In the meantime, another class may begin by the end of 2005, but these candidates will again be from the 2002 list and they will not start in time to impact overtime. The overtime overage is expected to be partially offset by vacant positions as demonstrated in the chart below. There are 46 vacant positions in the Correctional Center including 26 uniform positions and 20 Civilian positions.

Nassau County Correctional Center
Staffing Analysis

CC		FY 2005 Budget	Jan. 1, 2005	April 1, 2005	April 1, 2004
CC	**Full-time Staffing**				
10	Correctional Center				
	Uniform	1,052	1,030	1,026	1,030
	Civilian	133	112	114	107
	Sub-total Full-Time	1,185	1,142	1,140	1,137
20	Sheriff				
	Uniform	39	39	39	41
	Civilian	13	12	12	13
	Sub-total Full-Time	52	51	51	54
Total Full-time		**1,237**	**1,193**	**1,191**	**1,191**
CC	**Part-time and Seasonal**				
10	Correctional Center	6	8	8	8

Contractual Services were over the FY 04 adopted budget of $21.7 million by $4.5 million due to payments made to the Medical Center, including a $4.6 million accrual made by the Comptroller's office for all outstanding claims in 2004, including disputed items. In accordance with the Stabilization Agreement between the County and the Nassau Heath Care Corporation (NHCC), an RFP for a third party reviewer has been drafted and approved by the County Attorney's office and a copy has been sent to the Medical Center for review. The Stabilization Agreement allows for "the establishment of patient care standards and binding dispute resolution for corrections bills for services commencing January 1, 2004, in accordance with agreed-to inmate patient care standards, conducted by a third-party reviewer which will be procured by the County." A more detailed agreement between the County and the Hospital is expected to be completed later this year.

The contractual cost at the Correctional Center was $24.0 million in FY 03. In FY 02 the actual expense was $26.9 million, part of which should have been allocated to the prior year, and the FY 01 expense was $19.0 million. As discussed, the actual expense in 2004 was $26.1 million (including the $4.6 million accrual). Although there have been some initiatives in the past to try to reduce this expense, very little if any impact has been seen. The Correctional Center is hopeful that these expenses will begin to decline as the new controls allowed for in the Agreement begin to have an impact. The contractual services budget for 2005 is $20.8 million.

Sheriff 1st Quarter Expenses						
Object	**2005 Mod. Budget**	**1st Qtr Actuals**	**Budget Balance**	**% Exp.**	**Prior Year 1st Qtr**	**% Changed**
CC 20 - Sheriff						
AA - Salaries	$4,598,492	$1,199,833	$3,398,659	26.1%	$1,244,857	-3.6%
BB - Equipment	2,025	173	1,852	8.5%	0	*****
CC - Materials & Supplies	23,488	0	23,488	0.0%	173	-100.0%
DD - General Expenses	19,388	9,137	10,251	47.1%	18,971	-51.8%
HF - Inter-depart Charges	668,163	0	668,163	0.0%	0	*****
Sheriff Total	**$5,311,556**	**$1,209,143**	**$4,102,413**	**22.8%**	**$1,264,001**	**-4.3%**

The Sheriff's expenses, which were combined with the Correctional Center in 2005 and are shown here as a separate control center, are expected to be on budget. Salaries are under last year by 3.6% due to two fewer positions than last year.

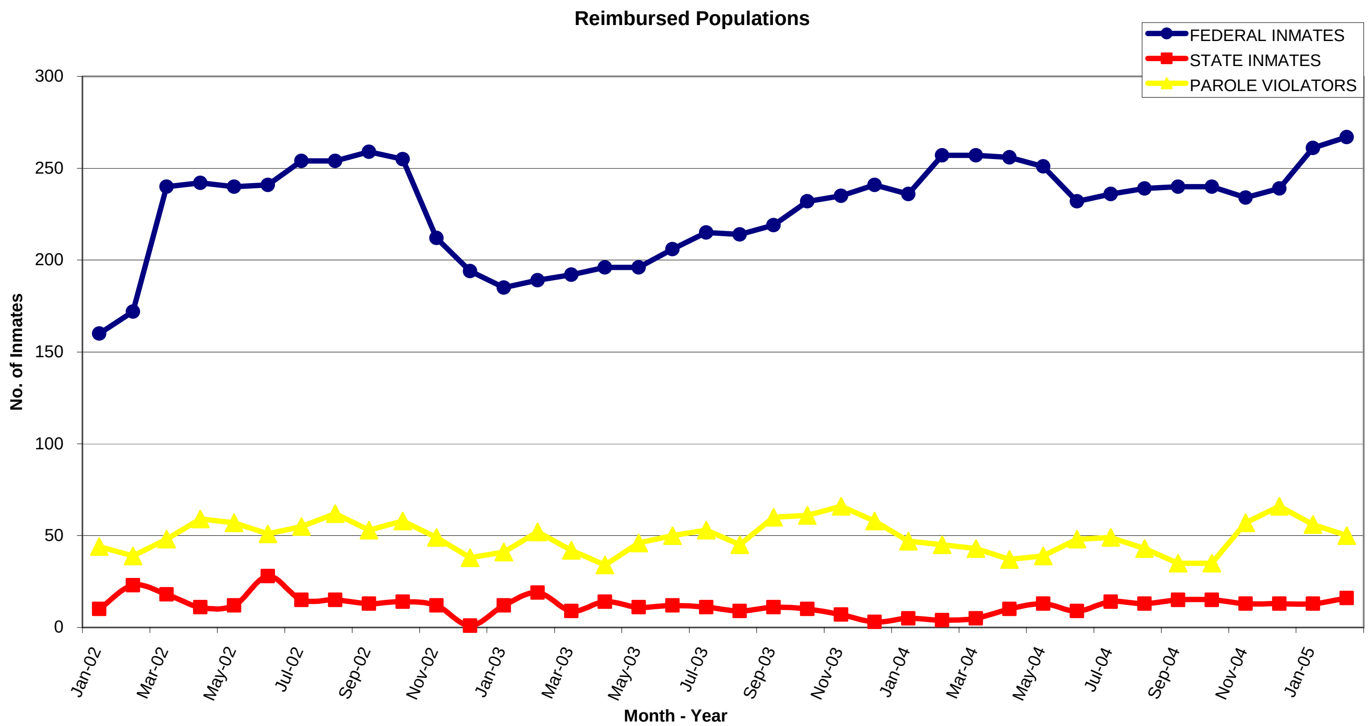
Correctional Center 1st Quarter Revenue						
Revenue Class	**2005 Mod. Budget**	**1st Qtr Actuals**	**Budget Balance**	**% Recognized**	**Prior Year 1st Qtr**	**% Changed**
CC 10 - Correctional Center						
BD - Fines & Forfeitures	$50,000	$15,651	$34,349	31.3%	$7,158	118.7%
BF - Rents & Recoveries	0	0	0	*****	3,088	-100.0%
BH - Dept Revenues	242,000	33,554	208,446	13.9%	31,885	5.2%
BJ - Interdept Revenues	387,360	0	387,360	0.0%	0	*****
FA - Federal Aid	16,426,986	2,560,469	13,866,517	15.6%	2,450,927	4.5%
SA - State Aid	792,000	5,471	786,529	0.7%	4,769	14.7%
Correctional Center Total	**$17,898,346**	**$2,615,145**	**$15,283,201**	**14.6%**	**$2,497,827**	**4.7%**

Revenue was over budget in 2004 due to the increase in Federal inmates. The 2004 budget was conservatively based on 200 federal inmates and the actual average 2004 population was 243. There was also an increase in revenue received per inmate per day, from $142.32 to $165. Also received in 2004 was a $2.0 million one-time, unbudgeted, State Criminal Alien Assistance Program (SCAAP) award. The largest source of revenue for the Correctional Center is the income received for housing federal inmates and although it is early to project revenue for 2005, the first quarter federal inmate population is 258 compared to the 235 inmates anticipated in the 2005 budget.

As seen in the following charts, the average population has increased slightly from the average of the prior year. Federal inmates, the major part of the revenue-producing population, have increased by 15 or 6.2% in the first quarter of 2005, with March 2005 at 247. State inmates have increased by four and parole violators have increased by eight over the average of the prior year.

POPULATION

	AVG. THRU FEB. 2005	2004 AVERAGE	2003 AVERAGE
TOTAL POPULATION	1,659	1,647	1,687
FEDERAL INMATES	264	243	210
STATE INMATES	15	11	11
PAROLE VIOLATORS	53	45	51



Correctional Center 1st Quarter Revenue						
Revenue Class	2005 Mod. Budget	1st Qtr Actuals	Budget Balance	% Recognized	Prior Year 1st Qtr	% Changed
CC 20 - Sheriff						
BH - Dept Revenues	980,000	275,634	704,366	28.1%	248,480	10.9%
BJ - Interdept Revenues	0	22,353	(22,353)	*****	0	*****
FA - Federal Aid	600,000	0	600,000	0.0%	(497,377)	-100.0%
SA - State Aid	150,000	0	150,000	0.0%	(32,300)	-100.0%
Sheriff Total	**$1,730,000**	**$297,987**	**$1,432,013**	**17.2%**	**($281,197)**	**-206.0%**

Department revenue is received from the 5% collection fee charged to enforce orders and judgments. State and Federal Aid is received for the Aid to Dependant Children Program.

ASSESSMENT REVIEW COMMISSION

Although ARC's departmental budget is not a matter of fiscal concern for the current quarterly hearing, the Commission's work of reviewing property assessments upon application by taxpayers is a critical element in the County's financial planning.

The Multi-Year Financial Plan (MYP) assumes that the transition to paying for property tax refunds out of the operating budget, rather than through the issuance of bonds, will begin in 2006. In order to ease the transition to pay-as-you-go financing, NIFA is authorized to finance $15 million in certiorari refunds in 2006 and $10 million in 2007.

The Administration's estimated refund for 2006 is $65.5 million. Utilizing the NIFA financing of $15 million will leave a balance of $50.5 million to be paid out of that year's operating budget. The pay-as-you-go total for 2007, after deducting the final $10 million of NIFA tax refund borrowing, is $48.5 million. That same amount is projected for 2008.

To achieve these goals will require the timely processing of the existing backlog liability of filed grievances and a reduction in the ongoing new liability related to the revalued roll. It will be necessary to process approximately $180-$200 million in refunds in the current year in order to bring the FY 06 liability down to the projected level. Through March, the total of judgments, petitions, and small claims paid is $30.7 million. For the same period in FY 04, $35.0 million was paid out of the total annual amount of $185 million.

It is essential to address the backlog during the period in which the County can issue bonds to pay the refunds. To do so the existing settlement program will be accelerated. Both the Treasurer's office, which processes the payments, and ARC have had their staffing and overtime authorization increased. In FY 04, overtime expended by the Treasurer's office was approximately $80,000, while Arc spent $193,000. In FY 05, the Treasurer budgeted $510,000 for overtime, and ARC budgeted $300,000.

Should these steps prove insufficient, a unilateral refund program will be implemented in which the County would issue a refund based on its settlement offer without waiting for the property owner's acceptance. ARC has already reviewed more than 60% of Nassau's commercial value. This type of refund can be processed in a quicker fashion and would be treated "as a credit against any subsequent settlement or judgment." At mid-year, the Administration will assess the steps needed to achieve the targeted payment amounts.

As of the end of the first quarter, the expenditures of the Assessment Review Commission are on target to make budget.

1st Quarter Expenses						
Object	2005 Mod. Budget	1st Qtr Actuals	Budget Balance	% Exp.	Prior Year 1st Qtr	% Changed
AA - Salaries, Wages & Fees	$2,734,993	$538,233	$2,196,760	20%	$513,119	5%
BB - Equipment	50,000	0	50,000	0%	0	*****
CC - Materials & Supplies	5,000	0	5,000	0%	0	*****
DD - General Expenses	111,375	74,610	36,765	67%	17,254	332%
DE - Contractual Services	1,133,000	908,239	224,761	80%	75,000	1111%
HF - Inter-Departmental Charges	876,067	0	876,067	0%	0	*****
Total	**$4,910,435**	**$1,521,082**	**$3,389,353**	**31%**	**$605,373**	**151%**

Salaries, which is the largest category of expenses, has expended 20% of its budget through 25% of the year.

Headcount	FY 2005 Budget	Jan. 1, 2005	March 31, 2005	March 31, 2004
Full-time	37	31	33	31
Part-time	14	8	8	8

The first quarter ended with four full-time and six part-time vacancies. Three of the full-time vacancies were for the position of Commercial-Industrial Appraiser-Assessor II. It is the intention of ARC to fill these positions.

Assessment Review Commission 1st Quarter Revenue						
Revenue Class	2005 Mod. Budget	1st Qtr Actuals	Budget Balance	% Recognized	Prior Year 1st Qtr	% Changed
BH - Dept Revenues	$9,000	$0	$9,000	0%	$4,500	-100%
NA - NIFA Aid	4,300,000	0	4,300,000	0%	0	0%
Total	**$4,309,000**	**$0**	**$4,309,000**	**0%**	**$4,500**	**-100%**

NIFA Aid is funding that New York State has made available to offset costs associated with the County's efforts to streamline the assessment review process and reduce the County's reliance on issuing debt to pay for property tax refunds. The State originally authorized $5 million for this purpose. To date, the department has no definite plans for the available NIFA aid. Contractual expenses for IT development and overtime are the most likely items for which the aid may be requested.

DEPARTMENT OF SOCIAL SERVICES

At the end of the first quarter, the budget of the Department of Social Services appears to be on target. The expenses for Medicaid (XX) are overstated because it includes $23.7 million that should be shown as Medicaid IGT.

Department of Social Services
1st Quarter Expenses

Object	2005 Mod. Budget	1st Qtr Actuals	Budget Balance	% Exp.	Prior Year 1st Qtr	% Changed
AA - Salaries, Wages & Fees	$48,488,480	$12,301,477	$36,187,003	25%	$11,747,375	5%
BB - Equipment	126,532	16,615	109,917	13%	(494)	-3463%
CC - Materials & Supplies	48,000	10,911	37,089	23%	3,329	228%
DD - General Expenses	1,103,795	478,246	625,549	43%	257,230	86%
DE - Contractual Services	11,811,461	8,331,569	3,479,892	71%	2,237,509	272%
DF - Utility Costs	400	0	400	0%	1,692	-100%
HF - Inter-Departmental Charges	10,663,208	128,645	10,534,563	1%	(248,122)	-152%
SS - Recipient Grants	51,604,600	12,826,928	38,777,672	25%	13,505,102	-5%
TT - Purchased Services	45,886,814	28,607,766	17,279,048	62%	27,712,806	3%
WW - Emergency Vendor Payments	50,824,000	37,586,104	13,237,896	74%	38,666,552	-3%
XX - Medicaid Local Share	281,748,167	92,281,817	189,466,350	33%	59,067,827	56%
XY - Medicaid IGT	40,973,706	0	40,973,706	0%	0	0%
Total	**$543,279,163**	**$192,570,078**	**$350,709,085**	**35%**	**$152,950,806**	**26%**

The headcount chart below shows 15 full-time positions over the budgeted headcount. Authorization had been given to DSS to hire additional welfare examiners in anticipation of the normal attrition of employees in that title. By doing so the department had time to train the new examiners so that they could take over the duties of the individuals they were replacing without a long lead time. Even with the additional hires, DSS is operating well within its salaries budget, and a surplus is projected.

Headcount	FY 2005 Budget	Jan. 1, 2005	March 31, 2005	March 31, 2004
Full-time	852	856	867	840
Part-time	195	169	163	193

Department of Social Services 1st Quarter Revenue						
Revenue Class	**2005 Mod. Budget**	**1st Qtr Actuals**	**Budget Balance**	**% Recognized**	**Prior Year 1st Qtr**	**% Changed**
BF - Rents and Recoveries	$0	$10,327	($10,327)	*****	$37,023	-72%
BH - Dept Revenues	$10,878,900	$2,502,169	$8,376,731	23%	($171,638)	-1558%
BX - Medicaid IGT Reimb.	$40,973,706	$15,828,992	$25,144,714	39%	$0	*****
FA - Federal Aid	$99,777,642	$21,669,776	$78,107,866	22%	($2,224,528)	-1074%
SA - State Aid	106,876,231	26,953,254	79,922,977	25%	($20,224,230)	-233%
Total	**$258,506,479**	**$66,964,518**	**$191,541,961**	**26%**	**($22,583,373)**	**-397%**

The department receives reimbursement for much of its operating costs. To the extent that the previously mentioned salary surplus materializes, a related reduction in state and federal aid will occur. The difference between the current year and the prior year is because of timing.

<u>Medicaid</u>

The FY05 budget for Medicaid is $281.7 million. This amount does not include the $14.3 million that represents the County's estimated expense of 50% of the Family Health Plus (FHP) program. New York State is taking over half the cost of FHP in FY 05 and all costs in FY 06. The County had originally planned to pre-pay the FY 05 expense with surplus FY 04 funds, and for that reason FHP was not included in the current budget.

OMB and DSS are now projecting that actual expenditures, including the 50% cost of FHP, will total $274.7 million. This amount is based upon more complete data than were available when the DSS budget was determined. There were also some items in last year's State budget, which were adopted subsequent to the County budget, that had a favorable impact of $3.1 million. In addition, the State's current budget includes the acceleration of the takeover of FHP from January 1, 2006 to October 1, 2005. This would save the County approximately $2.2 million in the current year

The most significant news affecting Medicaid is the State's adoption of the "soft cap," using 2005 as the base year. As described by the New York State Association of Counties:

> Under the plan, local Medicaid expenses would be limited to an annual growth factor of 3.5% in 2006, 3.25% in 2007, and 3% in 2008 and years thereafter. In 2008, the state would assume all local Medicaid costs into the state budget, but counties would still be required to provide an annual payment to the state which, at the county's option, would be based on the "capped" local contribution methodology (base payment adjusted by 3.0 percent annually) or a fixed percentage of local sales tax revenue to be intercepted from county sales tax payments on a monthly basis.

As can be seen in the chart on the following page, substantial savings would be achieved in the out-years as compared to the MYP, which is projecting double digit annual growth through 2008.

Fiscal Year	Projected Expense	Soft Cap	Multi-Year Plan	Cap Savings vs MYP
2005	$274,700,000			
2006	------------------	$284,314,500	$319,828,357	$35,513,857
2007	------------------	$293,554,721	$359,827,577	$66,272,856
2008	------------------	$302,361,363	$404,675,822	$102,314,459

The Governor took the position that a cap would only be possible if accompanied by reductions in Medicaid spending. Also contingent upon cost containment is $1.5 billion in promised Medicaid relief from the federal government. NYSC described these “additional reforms” that have been enacted as follows:

• Increased investments in community-based programs, including a two-year $25 million increase in the Expanded In-home Services for the Elderly Program (EISEP) and a new $10 million "Access to Home" program,
• Establishment of a preferred drug program to control the rising cost of prescription drugs,
• A .35% assessment on Hospital revenues,
• An increased assessment on nursing home revenues from 5% to 6.5%,
• New co-payment requirements for people enrolled in the Family Health Plus program, including $1 to $3 for generic drugs, $3 to $6 for brand-name drugs and $3 to $5 for visits to health clinics and physicians. Participants will also be required to pay $5 for dental visits and be limited to one pair of eyeglasses every two years,
• Implementation of a demonstration program that will allow the state to negotiate rates with hospitals for selected specialty services, and
• Caps and reduces Medicaid managed care, Family Health Plus, and Child Health Plus premiums.

Without seeing the details of these initiatives, their effect on the County cannot yet be determined.

NASSAU HEALTH CARE CORPORATION

Although the Nassau Health Care Corporation (NHCC) was budgeted to break even in 2004 a net loss of $13.8 million was incurred. The Hospital (NUMC) accounts for $9.1 million of this loss and the Nursing Home accounts for $4.9 million. The Community Health Centers offset the loss somewhat with a $160,000 net income. The Corporation is budgeted to incur a $6.5 million loss in 2005 but it plans on achieving a break-even rate by the fourth quarter of this year. The cash flow situation was temporarily improved by the resolution of disputed claims between the County and the Corporation as provided in the Stabilization Agreement and the release of $28.0 million from the debt service reserve fund which occurred as a result of the refinancing. Of the $28 million about $26 million was used on December 15th, for the 2004 pension expenses (these amounts were not included in the cash balances below as its use was restricted). The refinancing provides for a debt service payment of about $13.3 million due each year from 2005 through 2008. In 2009 it jumps to about $17.7 million and in 2010 it jumps again to about $19.6 million. These amounts may vary somewhat depending on the variable interest rates. The February 28th cash balance is about $27 million.

Consolidated Statement
December 2004 Year to Date and 2005 Budget
($ in millions)

	Actual 2003	Actual 2004	$ Inc.(Dec.) 2004 Act. vs. 2003 Actual	Budget 2005	$ Inc.(Dec.) 2004 Act. vs. 2005 Budget
Operating Revenue	468.77	456.84	1.73	461.10	(7.91)
Total Operating Expense	486.25	473.20	0.50	469.10	(2.81)
Salaries & Fringe	288.52	274.32	(4.35)	268.94	(1.52)
Non-Personnel Expense	197.73	198.87	4.85	200.16	(1.28)
Gain (Loss) from Operations	(17.48)	(16.36)	1.23	(8.00)	(5.11)
Non-Operating Gain (Loss)	3.02	2.53	(0.23)	1.48	(0.14)
Net Income (Loss)	**(14.46)**	**(13.83)**	**1.00**	**(6.52)**	**(5.25)**

Unrestricted Cash Balance
($ in thousands)

	Actual
09/30/99	135,000
12/31/00	116,280
12/31/01	69,850
12/31/02	56,354
12/31/03	35,050
12/31/04	30,159

As the above chart demonstrates, cash balances have been dropping steadily since the inception of the Public Benefit Corporation. The Corporation ended December with a cash and cash equivalents balance of $30.2 million, down from December 31, 2004 by $4.9 million.

Nassau Health Care Corporation Statistics

	Actual December 2003	Actual December 2004	% Increase (Decrease) Frm Prior Yr	2005 Budget	% Increase (Decrease) Frm Budget
Average Daily Census	399.4	362.0	-9.4%	364.6	0.7%
Patient Days	145,785	132,516	-9.1%	133,093	0.4%
Discharges	24,043	22,728	-5.5%	22,742	0.1%
Average Length of Stay	6.06	5.83	-3.8%	5.85	0.3%
Case Mix Index	1.24	1.25	0.8%	1.26	0.8%
% Occupancy	79.96	72.54	-9.3%	73.06	0.7%
Bad Debt as a % of Patient Revenue	13.10	15.43	17.8%	14.70	-4.7%
AHPGC Avg. Daily Census	669	603	-9.9%	590	-2.2%
AHPGC Resident Days	224,157	220,438	-1.7%	215,350	-2.3%

The Nassau University Medical Center lost $9.1 million primarily due to a shortfall in revenue of $21.5 million. Discharges for 2004 were 5.0% under budget and 5.5% less than last year's actual. The average daily census has been declining significantly, and ended 2004 8.4% under budget and 9.4% under 2003. Patient days have likewise been declining and ended the year 9.1% down from last year. The 2005 budget is anticipating volume to be similar to 2004. A. Holly Patterson's average daily census continues to decline steadily and was at 571 in December (the chart on the previous page reflects the annual average) compared to a budget of 700 and a prior year census of 650. The budget for 2005 is at 590, a 3.3% increase over the December actual, which may be optimistic.

In the Corporation's favor is the settlement of the CSEA union contract. The memorandum of understanding (MOU), which runs from January 1, 2003 through December 31, 2009, calls for no wage increases in 2003 or 2004. This was essential as no increase was anticipated or accrued for in 2003. The 2004 wage freeze is a savings as a 2.5% increase was budgeted for. A bonus has been granted to all union members to equal a sum of $1.8 million, but this is not to be added to the base salaries. Similar to the County's CSEA agreement, increases equal to the change in the New York Metropolitan Area All Urban Index (NY CPI-U) for the year ending June of the previous year, were granted on January 1st of each year from 2005 through 2009. These increases are not to be less than 2.5% and not more than 3.5%. The union also agreed that no overtime would be received until 40 hours per week of productive work has been completed (currently overtime is granted after 35 hours which may include sick or other non-productive hours), a reduction of one holiday and converting two holidays into floating holidays, and, for new employees, a 15% contribution to health insurance for the first five years of employment.

The MOU also includes a job preservation clause which states that no layoffs of full-time employees will occur unless NHCC's net revenue decreases 5% or more over a quarter from the prior quarter. Net revenue is defined as NHCC's total operating revenue less any bad debt expense. About 160 FTEs (167 people) were laid off January 19th, before this agreement went into effect.

A number of issues have been identified that will affect the Corporation's ability to sustain itself until it is able to achieve a break-even run-rate. The Manatt Phelps & Phillips consultants (Manatt) continue to make progress, but there are still a number of improvements that need to be made. Department of Heath relief has been achieved to some extent including volume adjustment relief, but many reimbursement improvements continue to be sought including hospital-based status for the Nursing Home, and increasing capacity in areas such as psychiatric and chemical rehabilitation care. The sale of A. Holly Patterson needs to be accomplished in a timely and effective manner. The Nursing Home continues to seek "hospital-based" status and bed hold reimbursement, which is dependent on the sale or closing of beds. An RFP was issued for the sale of 300 excess beds but the initial response was inadequate and a second round of bids is now being reviewed. Negotiations are also taking place with the highest initial bidder. An RFP for the sale of A. Holly Patterson is expected to be issued in April. At this time it is not known what effect the state budget will have. The worst case scenario would be a negative impact on the Corporation of about $20.0 million, but most experts agree, the impact will probably be about $4.0 to $6.0 million in 2005.