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Inter-Departmental Memo

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

From: Maurice Chalmers, Director
Office of Legislative Budget Review

A handwritten signature in blue ink, appearing to be "MC", is written over the "Office of Legislative Budget Review" text.

Date: August 3, 2023

Re: FY 23 Mid-Year Projections Report

The Office of Legislative Budget Review (OLBR) has prepared this memo illustrating the FY 23 year-end projections for the Legislature. There are currently growing concerns and negative trends in the economy; however, the County is well positioned to face them and remains in good fiscal standing. Earlier in the year, the County received two bond rating upgrades (Moody's and Fitch Ratings) which puts it in a more favorable position should it need to borrow money. In addition, the County ended FY 22 with a surplus for the fourth year in a row. The prior year results and decisions have enabled the County to establish/replenish many rainy-day reserves that it can tap into should the need arise, further positioning itself favorably to react to a downturn in the economy.

FY 23 started strongly, however some major revenue sources, including sales tax, which has been a cornerstone in the County's fiscal success may be seeing a decline; these will be discussed and analyzed in the revenue section of the report. These trends could dampen the current economic forecast and the Administration will need to remain vigilant. However, FY 23 is projected to end in another budgetary surplus, firming the County's fiscal health. OLBR will continue to track, adjust, and provide updates to the Legislature as actuals are recorded in the financial system and/or more data is received from County departments, as well as the Administration. In addition, changes will be reflected in the projections that are included in the upcoming FY 24 Proposed Budget documents that are sent to the Legislature.

OLBR is currently projecting a budgetary surplus of **\$110.6** million in the Major Operating Funds excluding Sewers. The current forecast will also fluctuate as the economy changes and some cost

avoidances/containments materialize. For example, depending on the actual sales tax growth rate for the remainder of the year, there can be a change in this revenue surplus; however, it is always fiscally prudent to take a conservative approach. The following table summarizes the FY 23 projection:

	Major Funds (in millions) Excluding SSW & Inter-Dept. Transfers		
	2023 Adopted Budget	2023 OLBR Projection	Variance
Expense	3,516.9	3,495.7	21.2
Revenue	3,516.9	3,606.4	89.4
Proj Budgetary Surplus			\$110.6

The Administration’s latest projections indicate that they intend to transfer \$100.0 million to reserves.

In addition, OLBR’s projections include approximately \$65.9 million in costs for possible Memorandum of Agreements (MOA) with the labor unions. Depending on the specifics of any settlement and the timing, some of these costs may not be incurred, which could change the current year-end projections. Furthermore, the details of how the \$269.5 million appropriation from the American Rescue Plan Act (ARPA) will be used, remain unclear. These two items represent approximately **\$335.4** million in **additional** opportunities (65.9 million + 269.5 million). The table below illustrates two scenarios of the impact that these funds/usage would have on the projected surplus:

Proj Budgetary Surplus	\$110.6
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Other Potential Adjustments:	If 100% Falls to Bottom Line	If 50% Falls to Bottom Line
Unused Earmarked CBA Funding	65.9	32.9
ARPA Funding to be Transferred	269.5	134.8
Restated Surplus:	\$446.0	\$278.3

The resolution of these two main items will not occur until later in the year and will surely change the current projected budgetary surplus. In addition, there will be adjustments to restate the year-end numbers to be compliant with Generally Accepted Accounting Principles (GAAP). OLBR reached out to the Nassau Interim Finance Authority (NIFA) and the Comptroller’s Office to see if they were aware of potential GAAP adjustments that would be required. The Comptroller’s Office stated that they had “some GAAP adjustments estimated other than those related to the two GASB statements, 87 & 96, which could include the \$54.0 million (Sands Payment).” Regarding the latter, the Administration doesn’t believe that this revenue will be a GAAP adjustment. The process of collecting relevant information, evaluating the application of GASB 87 and calculating the changes for all of the County leases is very complicated and will be completed for the 2023 ACFR. Adjustments can vary significantly by the end of the fiscal year since most are related to open encumbrances and expenditures not paid by December 31st.

Beginning on the next page, Expense and Revenue highlights are discussed.

Expense Highlights

The following chart details the expense variances by object code between OLBR’s FY 23 projections and the FY 23 Adopted Budget for the Major Funds. Explanations are provided after the table:

2023 OLBR Expense Variances to Budget (Excl SSW)			
Expenses	2023 Adopted Budget	2023 OLBR Projections	OLBR vs. Budget
Salaries	\$989.9	\$971.8	\$18.0
Fringe Benefits	679.4	659.4	20.1
Workers Compensation	37.2	37.2	0.0
OTPS	377.5	379.5	(2.0)
Utility Costs	38.5	43.5	(5.0)
Various Direct Expenses	5.4	5.4	0.0
Principal & Interest	214.9	201.4	13.5
Local Govt Assistance	91.1	93.4	(2.3)
Inter-Fund Charges	21.6	21.6	0.0
Mass Transportation	50.9	50.9	0.0
NIFA Expenditures	2.1	2.1	0.0
Other Expenses	249.2	225.3	23.9
Early Intervention / Special Ed.	150.0	162.7	(12.7)
Direct Assistance	181.1	213.5	(32.4)
Medicaid	240.1	240.1	0.0
PDH Sales Tax Transfer	165.6	165.6	0.0
Transfer to FCF Fund	22.4	22.4	0.0
Sub-total Expenses	3,516.9	3,495.7	21.2
Inter Department Transfers	365.4	354.9	10.5
Expenses Including Transfers	\$3,882.3	\$3,850.6	\$31.7

Salaries, Staffing

OLBR is currently projecting a salary surplus of \$18.0 million. The main driver of the surplus is funded vacant positions. The overall salary surplus would have been larger but is being offset by projected deficits in overtime for the Correctional Center and the Police Department. OLBR’s projected salaries also include roughly \$65.9 million in costs for possible union agreements with the County unions that have expired contracts. However, if all the appropriation is not spent, additional salary savings could be realized which would increase the projected surplus.

As of mid-year, June 2023, there were 7,185 full-time employees on board in the Major Funds. The FY 23 budget contains 7,413 full-time positions which translates into 228 open funded positions at the department level.

There are several departments that have many vacant positions. The departments with the largest open funded positions include the Police Department with 76, the Department of Social Services (DSS) with 87, the Correctional Center with 79, the Department of Public Works (DPW) in the General Fund with 48, the District Attorney with 56, the Assessment department with 30 and the Department of Health with 18. The headcount variances are depicted by department in Appendix A at the end of the memo.

The Administration continues its efforts to hire Police Officers and Correctional Officers. In the Correctional Center, a total of 49 officers were hired in FY 22. For FY 23, 17 Officers were hired in February so far. The Administration’s goal was to hire 30 additional recruits in July, but this plan did not come to fruition, and it is uncertain when another class will be hired. However, OLBR’s salary projections includes funding for 30 officers in the last quarter.

The Police Department had two classes in FY 22, with roughly 59 Police Officers in the May class and 50 Police Officers in the November class. The department hired some 50 officers in May of this year. The 2023 salary projection also includes a prorated cost for 75 Police Officers for classes planned for this November. As more officers are hired, this is expected to lower the blended overtime rate.

The Police Department’s FY 23 termination budget is \$29.8 million. The budget anticipated approximately 120 separations and based on the latest year-to-date report, the Police Department had roughly 41 separations with actual paid expenses of approximately \$12.6 million through June in the financial system. Since another 79 separations would need to occur in the Police Department before the end of the year to reach the budgeted 120, there is an opportunity for lower termination expenses if less Officers separate.

OLBR is currently projecting an overtime deficit of roughly \$21.7 million in FY 23; the majority being within the Police Department and the Correctional Center. A shortfall of approximately \$9.0 million is projected within the Police Department. The Correctional Center’s overtime budget of \$15.0 million is projected to experience a shortfall of approximately \$11.2 million. Although this is higher than budgeted, this estimate is a reduction of approximately \$7.6 million from the prior year actual.

The chart below shows the overtime trends for the FY 22 Actual, FY 23 Adopted Budget and the FY 23 projection.

OVERTIME TRENDS				
	<u>2022 Act</u>	<u>2023 Adopted</u>	<u>2023 Projected</u>	<u>FY 23 Variance</u>
Police District	\$ 24,794,550	\$ 22,360,000	\$ 24,360,000	\$ 2,000,000
Police Headquarters	<u>34,894,748</u>	<u>26,800,000</u>	<u>33,800,000</u>	<u>7,000,000</u>
Total	59,689,298	49,160,000	58,160,000	9,000,000
Corrections	33,816,521	15,008,446	26,222,652	11,214,206
Police & Corrections	93,505,819	64,168,446	84,382,652	20,214,206
Others	15,485,646	15,094,932	16,537,399	1,442,467
TOTAL:	\$ 108,991,465	\$ 79,263,378	\$ 100,920,051	\$ 21,656,673

Fringe Benefits

OLBR is projecting a fringe benefit surplus of \$20.1 million, most of which is due to health insurance for active and retired employees, followed by Medicare Reimbursement, dental insurance, social security, as well as savings related to pension obligation expenses.

The surplus in the health insurance, dental budgets and social security budgets are resulting from the large number of open but funded positions as well as an overfunded Adopted Budget. The surplus for health insurance would have been larger, however there was a significant rise in the health insurance growth rate.

The health insurance growth rate for active employees increased significantly by 12.5% for the individual insurance plan and 14.9% for the family plan; much higher than the budgeted 6.7%. However, effective July 1, 2023, Empire NYSHIP implemented a mid-year rate change resulting in a decrease of approximately 2.7% for those that currently contribute to their NYSHIP premiums. This reduces the growth rate for the remaining portion of the year.

In totality, there is a net surplus for pension obligations of roughly \$7.1 million projected in FY 23. The surplus results from a greater amount of pension expense charged back to the Grant Fund than anticipated within the Major Funds. Finally, the Administration budgets a small cushion within each Fund, to avoid having to do any board transfers during the year.

Utility cost

Utility expenses are projected to have a \$5.0 million deficit due to an overall increase in energy costs.

Principal & Interest

Principal & Interest payments are forecasted to be \$13.5 million lower than budgeted mainly due to delayed and lower debt service cost than anticipated.

Local Government Assistance

New York State law requires that the County use a portion of its sales tax collections to fund a Local Government Assistance Program, (LGA) in Nassau. These funds represent the local share of the sales tax revenue allocated to the County's three towns and two cities. The County is mandated to pay out 1/17th of its sales tax collections to the towns and cities located within Nassau County. The County also opts to provide funding to the villages on this line as well. Since OLBR is projecting a surplus in sales tax collections, the LGA budget is forecasted to record an expense overrun of approximately \$2.3 million, corresponding to the share from the sales tax surplus that gets distributed.

Other Expenses

A \$23.9 million surplus is projected mainly from not using the \$25.0 million in contingency expenses that was included in the budget.

Early Intervention

OLBR is projecting a \$12.7 million deficit for Provider Payments which are solely located in the Health Department. Provider payments consist of Pre-School Education and Early Intervention services. A deficit is projected due to higher than budgeted costs associated with the Pre-School Special Education program. According to the department, expenditures are trending similarly to the FY 22 actual year-end costs.

Direct Assistance

Within the Department of Social Services (DSS), Direct Assistance is projected to incur a deficit of roughly \$32.4 million. The projections correlate to the impending economic downturn which is expected to continue throughout the remainder of the year and will be partially offset by corresponding increases in state and federal aid reimbursements.

- The recipient grant caseloads have increased by approximately 9.1% compared to last year driving expenses to exceed budget by \$6.8 million.

- A shortfall of \$25.0 million is projected for purchased services due to significantly higher costs for daycare. According to the Department, New York State has changed the eligibility requirements to increase enrollment, which is a mandated program.
- A deficit of roughly \$0.6 million for emergency vendor payments is due to anticipated higher educational expenses and other emergency expenses.

Revenue Highlights

The chart below details the revenue variances by object code between OLBR's FY 23 projections and the FY 23 Adopted Budget for the Major Funds. Explanations are provided following the table:

2023 OLBR Revenue Variances to Budget (Excl SSW)			
Revenue	2023 Adopted Budget	2023 OLBR Projections	OLBR vs. Budget
Fund Balance	\$0.0	\$0.0	\$0.0
Interest Penalty on Tax	34.8	35.1	\$0.3
Permits & Licenses	18.4	18.4	\$0.0
Fines & Forfeits	106.1	77.3	(\$28.9)
Investment Income	6.1	38.1	\$32.0
Rents & Recoveries	33.9	90.2	\$56.4
Revenue Offset to Expense	20.5	20.5	\$0.0
Department Revenues	222.1	177.6	(\$44.5)
Capital Chargebacks	0.0	0.0	\$0.0
Payments in Lieu of Taxes	53.4	52.1	(\$1.3)
OTB Profits	20.0	20.0	\$0.0
Debt Service From Capital	1.1	2.1	\$1.1
Interfund Charge Revenue	75.9	73.0	(\$2.9)
Intefund Transfers	188.0	188.0	\$0.0
Federal Aid	161.1	165.5	\$4.3
State Aid	261.5	280.3	\$18.8
Sales Tax	1,527.3	1,578.9	\$51.6
Property Tax	755.3	757.9	\$2.6
OTB 5% Tax	1.6	1.6	\$0.0
Special Taxes	29.8	29.8	\$0.0
Sub-total Revenue	3,516.9	3,606.4	89.4
Inter Department Transfers	365.4	354.9	(10.5)
Revenue Including Transfers	\$3,882.3	\$3,961.3	\$79.0

Fines & Forfeitures

This revenue line is projected to miss budget by \$28.9 million. The two biggest shortfalls are mainly within TPVA and the Police Department.

- TPVA's fines and forfeits budget for FY 23 is \$78.2 million. The revenue stream includes parking and traffic fines revenue of roughly \$24.2 million and Red Light Camera (RLC) revenue of \$48.1 million including administrative fees for both. In addition, the budget includes \$3.0 million each for the Boot and Tow and the School Bus Stop Arm Camera revenues. Through June 2023 approximately \$24.7 million has been collected and OLBR's projection for FY 23 is about \$52.1 million, which is a shortfall of \$26.2 million from the Adopted Budget. OLBR will continue to monitor TPVA's total revenue impact and make projection adjustments as needed.

The shortfall in TPVA's RLC and School Bus Stop Arm Camera revenue will be offset by an approximately \$2.3 million surplus in contractual services, which is correlated to the budgeted 35% and 33% vendor share of revenue collection for both programs.

- The Police Department deficit of \$2.2 million is primarily due to lower than anticipated public safety fees and alarm permit fines.

Investment Income

Investment income in the Treasurer's Office is forecasted to be \$32.0 million above the budgeted amount of \$6.1 million due to higher interest rates and the high cash balances the County currently holds. This is a conservative projection and could possibly increase.

Rents and Recoveries

Overall, OLBR is projecting a \$56.4 million surplus in FY 23 for rents and recoveries. The largest variances are in DPW, the Department of Social Services and the Office of Management and Budget (OMB).

- A surplus of \$50.5 million in DPW is driven by the anticipated \$54.0 million one-time payment from Las Vegas Sands, offset by a \$3.5 million decline in the sale of County property. The Administration's position is that the one-time, non-refundable payment of \$54.0 million is a one-time revenue in exchange for the termination of the prior lessee's property interest and for the right to demolish the County's asset, the Nassau Veteran's Memorial Coliseum. For these reasons, they view the payment as not subject to GASB 87.
- OMB included in their 2023 Adopted Budget \$12.3 million from cash, prior year, and worker's compensation recoveries. The \$5.0 million from cash recoveries are not materializing and driving the projected shortage of \$6.3 million.
- In DSS, a surplus of \$6.0 million is being projected as the department's recovery of prior year encumbrances is approximately \$6.8 million and the budget was only \$0.8 million.
- In Human Services, a surplus of \$2.3 million is projected to match the actual prior year recoveries that already occurred.

Departmental Revenues

Overall, this revenue line is expected to have a budget shortfall of \$44.5 million mainly because of housing/real-estate market trends. To combat inflation, the Federal Reserve started to increase interest rates in 2022 and has continued to raise rates into 2023. These rate increases combined with a shortage of housing across most of the country are a major reason why on a year-to-date basis, through June 2023, the County Clerk's Office combined mortgage and deed filings are down 46%.

In the most recent month of June 2023, Deed based transactions were down 20.5% year-over-year and Mortgage based transactions were down 39.6% year-over-year. Based on the most recent trends, OLBR's current Assessment Department and County Clerk revenue forecasts factor in a 25.0% decline on future 2023 mortgage, deed, and GIS tax map filings. The GIS tax map filing fee projections also incorporate a reduction in the average fee as it was reduced earlier this year. The projection of a 25.0% decline in Mortgage and Deed transactions in the County Clerk for the remainder of FY 23 is mainly due

to the comparable months of July-December 2022 having a significantly lower base of comparison than January-June 2022. Some departments with major variances include:

- The Assessment Department with a projected deficit of \$31.0 million which is based on the most recent housing market trends. OLBR's current Assessment Department revenue forecasts also incorporate the impact of the reduction in the fee for GIS tax maps.
- The County Clerk's office estimated to experience an \$11.9 million deficit also due to the housing market trends explained above.
- The Police Department with a deficit of \$2.6 million due to lower than expected ambulances fees.
- Offsetting the deficits, is a \$3.8 million surplus within the Health Department due to higher than budgeted Medicaid revenue related to the Pre-school Program.

Federal Aid

The County is projected to have an overall surplus of \$4.3 million in federal aid revenues. The largest variances are in:

- DSS's federal aid higher by \$18.5 million due to increased expenses and corresponding reimbursements the department will receive to offset costs such as TANF, foster care, and daycare.
- DPW which is currently projecting a deficit of \$14.1 million. The department intends to use the Federal Transportation Authority funding in the out-years instead of FY 23, as it anticipates an increase in STOA Grant this year and will not need to use the awarded federal aid. The department has the ability to distribute CARES 2 funds anyway it sees fit through FY 26 based on its needs, and since additional state aid is expected this year, the deferral is a better strategy.

State Aid

OLBR is currently projecting a state aid surplus of approximately \$18.8 million. Of the positive variance, \$8.8 million is forecasted in DPW, \$4.7 million in DSS and \$4.6 million in the Health Department.

The DPW surplus of \$8.8 million is due to an increase in the STOA grant for the NICE bus. A projected surplus of \$4.7 million in DSS is driven by increased reimbursement for TANF, Safety Net, daycare and for children in foster care. Finally, in the Health Department there is a \$4.6 million state aid surplus corresponding to reimbursement related to the additional Provider Payment expenditures.

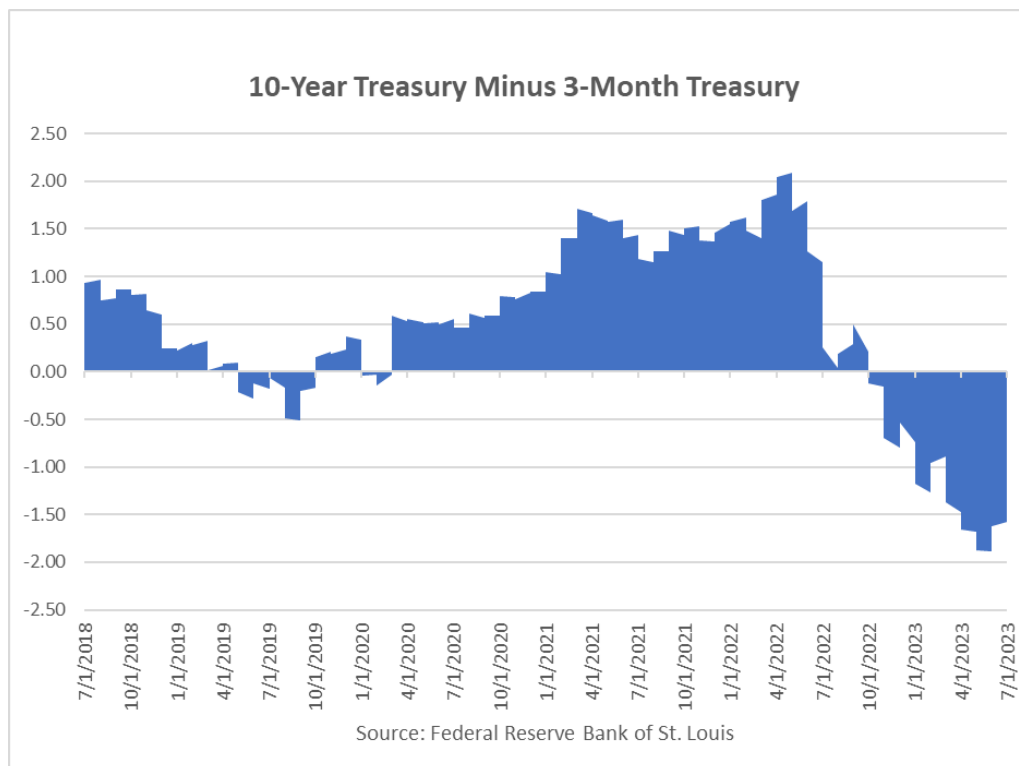
Sales Tax

On a year-to-date basis, with the receipt of the July 12, 2023, sales tax check, sales tax collections have increased 3.6% from this time last year. With inflation in a downward trend and interest rates starting to level off, current forecasts from Moody's show a 1.9% increase in GCP. These forecasts are illustrated in the table on the next page. Although the County has historically surpassed GCP forecasts, there has been negative growth in several recent sales tax checks prompting OLBR to err on the conservative side. OLBR assumed a 0.9% growth rate on all remaining sales tax checks in its current 2023 sales tax projection, resulting in a \$51.6 million surplus. However, if the current trends continue, there could be an additional opportunity.

Current Real US GDP 2023 - 2025 Forecasts			
	2023	2024	2025
Fannie Mae	0.1%	0.8%	N/A
Mortgage Bankers Association	0.1%	1.5%	1.8%
Federal Reserve Bank - Phil.	1.3%	1.0%	2.4%
The Conference Board	1.3%	0.1%	1.7%
Wells Fargo	1.7%	0.1%	N/A
Average US GDP Forecast	0.9%	0.7%	2.0%
Moody's GCP Forecast	1.9%	1.4%	1.8%

Sales tax is a critical source of revenue for the County and as such should be watched carefully. The threat of a recession has been looming for some time, but the economy has been resilient, and this revenue source has surpassed expectations to date. However, recent negative checks may indicate that a cautious approach is warranted.

One of the most reliable indicators of a recession, which has successfully predicted all recessions in recent years without error, is the inversion of the 3-month treasury bill to the 10-year treasury bond yield curve. Typically, in a healthy economy, longer term debt has a higher yield than shorter term debt. Historically, when the 3-month to 10-year yield curve inverts, a recession occurs within 6-18 months. The yield curve most recently inverted on October 18, 2022, indicating a recession is likely to occur sometime in 2023.¹ This is illustrated below:



¹The Yield Curve, A Reliable Recession Indicator, Just Sounded An Alarm." Forbes.com, 19 Oct. 2022.

Furthermore, the article from July 26, 2023, by the Associated Press states that the Federal Reserve raised its key interest rate for the 11th time in 17 months, a streak of hikes that are intended to curb inflation but that also carry the risk of going too far and triggering a recession.² Some economists are encouraged by the economy's direction, though they still expect a downturn later this year.

Conclusion

There are many outside factors, beyond the County's control, that are threatening to dampen current economic growth. Should that happen, a continued steady handling of County finances should ensure that the County maintains its fiscal health. For four consecutive years, the County has ended with surpluses and although there are some concerns based on recent economic forecasts, the County is on track to end FY 23 with a sizable surplus of **\$110.6** million which could grow to a much higher result depending on the outcome of some expense items and the usage of funds.

In addition, the establishment/replenishment of many reserves should further allow the County to face fiscal challenges if they arise. Even with the positive outlook for FY 23, the budget will nonetheless require continued monitoring by the Administration as the current year results are often a springboard into future years. For now, the County's fiscal health which relies on another expected surplus in addition to many rainy day reserves is on firm fiscal standing.

cc: Arthur Walsh, Chief Deputy County Executive
Elaine Phillips, County Comptroller
Andrew Persich, Budget Director, OMB
Evan Cohen, Executive Director, NIFA
Chris Ostuni, Majority Counsel
Michele Darcy, Minority Finance Director
Michael Pulitzer, Clerk of the Legislature

² Federal Reserve raises its key rate for 11th time by a quarter-point in its drive to slow inflation", [The Associated Press](#), July 26, 2023.

APPENDIX A

Full-Time Headcount Analysis			
Department	2023 Budgeted Headcount	June Headcount	Vacancies Budget vs. Current Headcount
Asian American Affairs	6	2	4
Assessment Review Commission	67	62	5
Assessment	164	134	30
County Attorney	89	88	1
Office of Management and Budget (10)	27	22	5
Consumer Affairs	26	19	7
Correctional Center	940	861	79
County Executive	13	10	3
Constituent Affairs	12	12	0
County Clerk	90	80	10
Comptroller	91	75	16
Civil Service	46	46	0
Office of Crime Victims Advocate	4	5	(1)
District Attorney	468	412	56
Board of Elections	160	143	17
Emergency Management	8	8	0
Health	181	163	18
Housing and Intergovernmental Affairs	15	16	(1)
Human Rights	6	6	0
Human Services	60	57	3
Information Technology	118	109	9
Legislature	96	87	9
Labor Relations	6	6	0
Minority Affairs, Office of	12	13	(1)
Medical Examiner	93	82	11
Public Administrator	6	6	0
Probation	209	196	13
Human Resources	9	7	2
Parks, Recreation and Museums	148	143	5
Shared Services	14	12	2
Public Works Department	417	369	48
Records Management	10	6	4
Office of Hispanic Affairs	6	4	2
Social Services	559	472	87
Treasurer	27	24	3
Traffic & Parking Violations	45	42	3
Veterans' Services Agency	9	8	1
Anticipated Attrition	(314)	0	(314)
General Fund Total	3,943	3,807	136
Fire Commission	113	97	16
Police District	1,730	1761	(31)
Police Headquarters	1,627	1520	107
Total Major Funds	7,413	7,185	228
Sewer & Storm Water (SSW)	83	69	14
Total Including Sewers	7496	7254	242