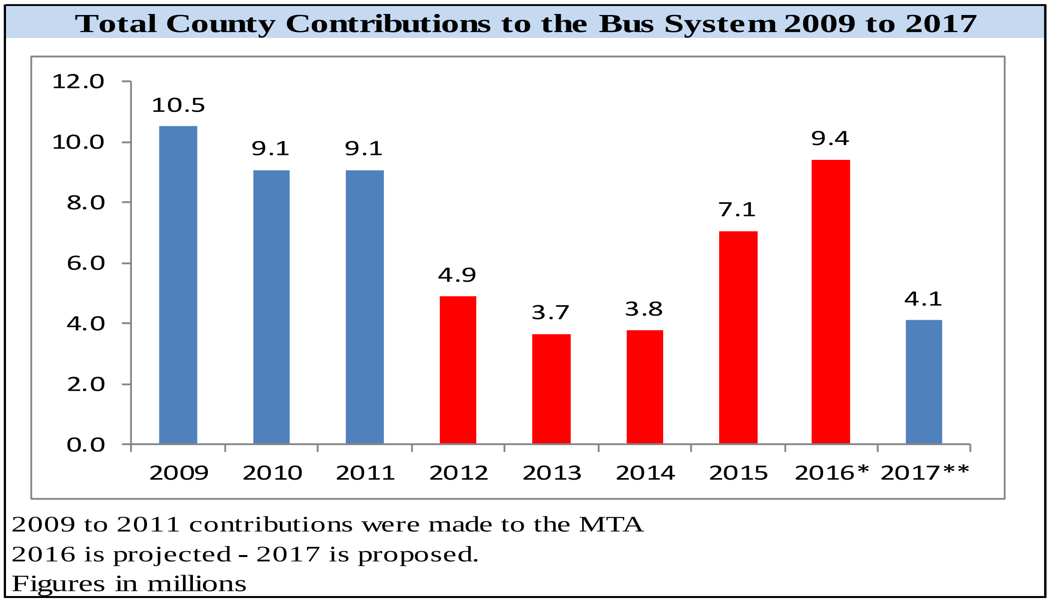
net projected contribution to grow to $9.4 million. Currently, the Proposed FY 17 Budget estimates the County contribution to be $4.1 million, which does not reflect the potential $3.0 million contractual funding shortfall, nor the possibility of the fare hike not materializing. Should NICE require a similar contractual payment and the additional revenue does not occur, the County portion would could grow to $9.4 million. Chart 1.2 details the County's historical net contribution to the bus system with the projected FY 16 and current FY 17 Proposed Budget.

Chart 1.2: County Subsidy



- **<u>Contingency</u>** – The proposed budget includes $10.0 million in general contingency. It is sound budget practice to include some level of contingency in the budget should unexpected shortfalls arise.

- **<u>Tax Levy</u>**

  The Proposed FY 17 Budget does not include a property tax increase. Below is a breakdown of the tax levy by fund:

Table 1.2: Proposed Property Tax Levy By Fund

Property Tax Levy				
Fund	2016 Adopted	2017 Proposed	Difference 2016 vs 2017	% Of Total Levy
Fire Commission	16,473,621	16,201,832	(271,789)	2.0%
General	30,502,492	89,413,427	58,910,935	10.9%
Police District	391,419,191	387,612,292	(3,806,899)	47.4%
Police Headquarters	366,170,221	323,766,689	(42,403,532)	39.6%
Subtotal Major Funds	**$804,565,525**	**$816,994,240**	**$12,428,715**	**100.00%**
Sewers (SFA)	122,864,445	115,011,707	(7,852,738)	
Total Major Funds & Sewers	**$927,429,970**	**$932,005,947**	**$4,575,977**	

In FY 16, it was decided that the Long Island Power Authority (LIPA) would be moved from the property tax line to the Payment in Lieu of Taxes (PILOT) line. For a full impact on the funds, it is critical to understand the reciprocal shift that happens as illustrated below:

Table 1.3: Payment in Lieu of Taxes

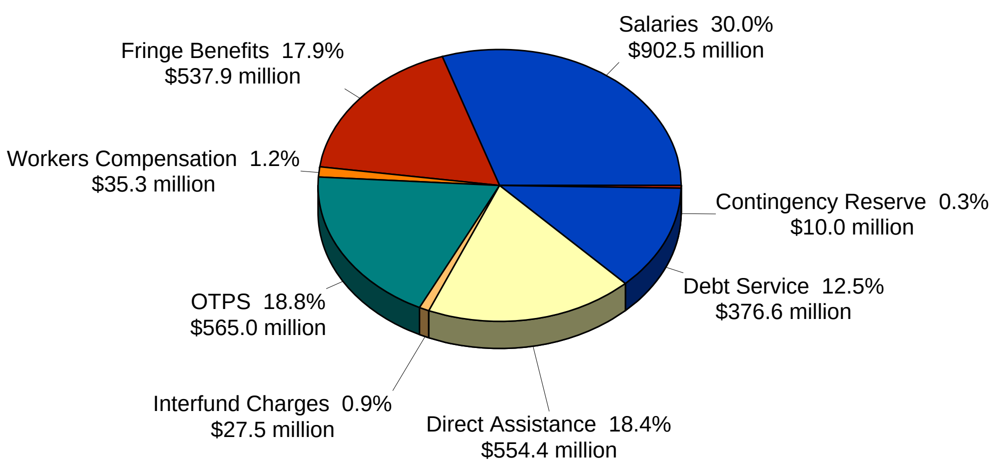
Payment In Lieu of Taxes			
Fund	2016 Adopted	2017 Proposed	Difference 2016 vs 2017
Fire Commission		404,691	404,691
General	50,777,307	16,246,085	(34,531,222)
Police District		16,758,062	16,758,062
Police Headquarters		8,937,883	8,937,883
Subtotal Major Funds	**$50,777,307**	**$42,346,721**	**($8,430,586)**
Sewers (SFA)		7,852,738	7,852,738
Total Major Funds & Sewers	**$50,777,307**	**$50,199,459**	**($577,848)**

The value of new constructions is estimated to be $2.3 million.

Proposed Expense Budget

The FY 17 Proposed Expense Budget for the Major Funds, excluding the Sewer and Storm Water Resource District, interdepartmental charges and debt service chargebacks, is $3.0 billion, a $93.1 million increase in expenses. A breakdown of the budget categories reveals that salaries and fringe benefits make up approximately 47.9% of the total budget. The following chart illustrates the percentage allocations by category:

Chart 1.3: FY 17 Major Funds' Expenses ($3.0 Billion)



Data reflects major funds excluding Sewer and Storm Water Resource District, Debt Service Chargebacks and Inter-Dept Charges.

Further analysis reveals that the largest increases in expense are in salaries and fringes which combine for $61.0 million of additional expenses budget to budget. The Proposed FY 17 salary budget line is increasing by $38.4 million compared to the Adopted FY 16 Budget. In FY 14, the County entered into labor agreements with the Police Benevolent Association (PBA), the Detectives Association Inc. (DAI), the Civil Service Employees Association (CSEA), the Superior Officers Association (SOA) and the Correction Officers Benevolent Association (COBA). Labor contract costs have a compounding effect; as new steps and Cost of Living Adjustments (COLA) are added, there is more fiscal pressure placed on future budgets. The Proposed Budget captures the negotiated increases from the labor agreements. In addition, the Police Department has included funding of $39.2 million in the Proposed FY 17 Budget to cover an estimated 155 separations.

OLBR is currently projecting that the Police Department will exceed its FY 16 overtime budget of $57.0 million by approximately $12.0 million. The Proposed FY 17 Budget of $57.0 million appears to be similarly short, given the current trends. OLBR does not believe that the Police Department will meet the budget and as such the Office will recognize a $12.0 million risk. A more detailed analysis of salaries and staffing is included in the Labor section of the Executive Summary.

Workforce management has been one of the Administration's cost reduction strategies. From the FY 09 year-end, the proposed full-time budget of 7,625 represents a decrease of approximately 908 heads.

However, the Proposed Budget represents a reversal of prior year reductions, as it includes an increase of 401 heads from the Administrations all-time low in FY 14 and a departure from what was considered in prior budgets to be the optimal staffing level of 7,395 full-time headcount

Table 1.4 bellow shows the budget to budget variances by category:

Table 1.4: Major Funds' Expenses FY 17 vs. FY 16

($'s in millions)

	2016 Adopted	2017 Proposed	Variance
Expenses			
Salaries	$864.1	$902.5	$38.4
Fringe Benefits	515.3	537.9	22.6
Workers Compensation	31.6	35.3	3.7
OTPS	551.7	565.0	13.2
Interfund Charges	27.4	27.5	0.1
Direct Assistance	554.1	554.4	0.4
Debt Service	361.9	376.6	14.7
Contingency Reserve	10.1	10.0	(0.1)
Total Expenses[1]	**$2,916.1**	**$3,009.2**	**$93.1**

1. Excludes interdepartmental charges and debt service chargebacks

The second largest expense variance is in the fringe benefits line. The FY 17 fringe benefit budget for the Major Funds is approximately $537.9 million, which is an increase of $22.6 million from the Adopted FY 16 Budget. This is due mostly to increases in health insurance for active and retired employees, pension contribution and social security costs.

Pension expenses are budgeted to increase by $14.7 million, however the fringe benefit budget includes a credit of $8.0 million from the Administration planning to pay a portion of the pension expense with $8.0 million from the Retirement Contribution Fund (RCF).

Health insurance is increasing by $20.2 million in FY 17 due to a rise of $5.0 million in insurance costs for active employees and $15.2 million in insurance costs for retirees. The FY 17 Proposed Budget is based on a projected health insurance grow rate of 7.0%. Based on inflating the current health insurance projection by the Office and Management and Budget's (OMB) rate assumption of 7.0% and with no net change in the current headcount, the FY 17 budget is sufficient. However, with a 7.0% rate increase on the budgeted FY 17 headcount, OLBR estimates based on that scenario, there could be a projected shortfall of roughly $2.5 million.

In addition, the budgeted 7.0% growth rate, which appears reasonable for retirees, seems optimistic for active employees. As a result, the projected deficit could be higher if the rates for active employees finalize closer to the optimistic and best estimate scenario projections in New York State Health Insurance Program (NYSHIP)'s Second Quarter 2016 Experience Report. NYSHIP's Optimistic scenario includes an 8.7% projected rate increase and the Best Estimate scenario includes an 11.0% increase for active employees. If the growth rates finalize closer to these scenarios, OLBR projects the health insurance deficit could range from $4.8 million to $8.0 million.

The OTPS rollup shows an increase of $13.2 million. The Proposed FY 17 Budget adds $5.0 million budget to budget for tax certiorari expenses to be paid from the operating fund. In addition, contractual services are also increasing by $7.3 million of which $4.2 million is in Department of Information Technology (IT) primarily due to the consolidation of software and programming contractual costs from other departments to IT in addition to new Microsoft license agreement increases.

Total debt service expenses, including NIFA set-asides, are budgeted to increase by 4.1% or $14.7 million from the FY 16 Adopted Budget. A $25.6 million budget to budget increase in principal and interest costs on County issued debt is being offset by a $10.9 million budget to budget decrease in NIFA set-asides.

The direct assistance budget is increasing by $0.4 million, or 0.1%. Contained within this category are Provider Payments for Children's Early Intervention and Preschool Education in the Department of Health. Recipient grants, purchased services, emergency vendor payments and Medicaid expenses are in the Department of Social Services. The insert below provides a visual of the categories with discussions following:

Table 1.5: Direct Assistance FY 16 vs. FY 17

Direct Assistance	2016 Adopted	2017 Proposed	Difference
Early Intervention/Pre School Education	135,000,000	135,000,000	-
Recipient Grants	62,000,000	61,100,000	**(900,000)**
Purchased Services	65,851,121	67,583,171	**1,732,050**
Emergency Vendor Payments	50,980,000	48,775,000	**(2,205,000)**
Medicaid	240,233,215	241,985,035	**1,751,820**
		Net Change	**378,870**

The proposed recipient grant budget is $0.9 million below the Adopted FY 16 Budget. Recipient grant funding is used to make payments to DSS clients eligible for TANF and SNA benefits. As of August 31, 2016, TANF cases were down 19.6% compared to August 31, 2015, while SNA cases have declined 15.3% during this time. The budget to budget decrease reflects the precipitous drop in SNA and TANF cases.

Compared to the Adopted FY 16 Budget, there is $1.7 million, or 2.6%, more funding for purchased services in the Proposed FY 17 Budget. This variance is connected to a $1.8 million increase in daycare funding. A number of factors have driven recent growth in daycare costs, including the state instituting an incremental increase in the rate paid to providers, an overall increase in volume, and the County's policy to provide every eligible child with care.

In the Proposed FY 17 Budget, emergency vendor payments fall by 4.3%, or $2.2 million from the Budget Adopted for FY 16. The department has observed a dramatic decrease in the number of children remanded to state training schools. As a result, the proposal eliminates $3.1 million in room and board costs from the emergency vendor payment budget. Offsetting room and board savings in part is a proposed $1.8 million increase to the shelter care (UNMO) budget. The department states that this increase is intended to accommodate the growing cost of housing the County's homeless population. Utilities charges within that object code are decreasing by approximately $1.0 million budget to budget.

Proposed Medicaid costs are up $1.8 million budget to budget. In FY 15 and FY 16, the State had reduced the County's quarterly indigent care adjustment (ICA) payment for $1.7 million in annual savings each year. The proposal also eliminates $2.9 million in program savings tied to the Medicaid Mandate Relief Program. The State has not indicated whether it will include these relief programs in its FY 17-FY 18 Budget.