

NASSAU COUNTY NEW YORK

NASSAU COUNTY
OFFICE OF THE
COMPTROLLER
ELAINE PHILLIPS



2022 Mid-Year Report on Nassau County's Financial Condition

July 31, 2022

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Nassau County Comptroller



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Hon. Elaine Phillips

Nassau County Comptroller

July 31, 2022

On behalf of the Office of the Nassau County Comptroller, I am proud to present my administration's first Mid-Year report, as required by the Nassau County Charter. This report provides our projections for the 2022 fiscal year measured against the 2022 Budget adopted in 2021 and approved by the Nassau County Interim Finance Authority (NIFA). This report is a snapshot in time. Our analysis is based on current variables, factors, and known events affecting the County's finances as of mid-fiscal year 2022.

The Comptroller's financial reporting is presented in accordance with the national standard for government accounting, Generally Accepted Accounting Principles (GAAP), consistent with the reporting in the County's audited financial statements, the *Annual Comprehensive Financial Report*.

I look forward to discussing this report further as other stakeholders in Nassau County have the chance to review its findings.

Sincerely,

Elaine Phillips
Nassau County Comptroller

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EXECUTIVE SUMMARY

Purpose

According to the Nassau County Charter §402 (9) “The Comptroller shall on or before the thirty-first day of July of each year commencing July thirty-first, two thousand three, prepare a report on the status of the budget for the first six months of the current fiscal year, which shall include an opinion, for such period, as to whether a surplus or deficit shall exist.”

Financial Reporting

Fund Accounting

GAAP refers to a common set of accepted accounting principles, standards, and procedures for financial reporting. GAAP enables the County to comparatively track its performance relative to other municipalities.

A basic principle of governmental GAAP is fund accounting. Given the diverse nature of governmental operations and the numerous legal and fiscal constraints under which those operations must be conducted, it is impossible to record all governmental financial transactions and balances in a single accounting entity. Therefore, unlike a private business which is accounted for as a single entity, a governmental unit is accounted for through separate funds, each of which is a fiscal and accounting entity with a self-balancing set of accounts.

The Governmental Accounting Standards Board (GASB) issues GAAP standards for governments to follow thereby ensuring consistent reporting among municipalities and making comparisons easier.

Three Primary Operating Funds

This report analyzes the actual results for the first six months of the year and projects results for the remainder of 2022. The full year projections are compared against the 2022 Adopted Budget for the “three primary operating funds” to identify potential risks and opportunities to the fiscal year’s adopted budget. The three primary operating funds include the total General Fund¹, the Police District Fund, and the Sewer and Storm Water District Fund. In accordance with GASB Statement No. 54, several funds that had previously been reported as separate special revenues funds in the County’s financial reporting, were consolidated with the General Fund beginning in fiscal year 2011. The reconstituted General Fund is more comprehensive than the pre-2011 General Fund.²

The governmental funds that were not reviewed for this report are considered non-operating and are:

¹ According to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which was adopted by Nassau County in fiscal year 2011.

² The NIFA Control Period Calculation uses the pre-2011, pre-GASB Statement No. 54, unconsolidated General Fund.

- almost 100% funded with grant money (Grant, COVID, ARPA and FEMA Funds).
- the debt service funds and the general funds of the three blended component units (NIFA, the Sewer Finance Authority, and the Tobacco Settlement Corporation).
- the County’s capital fund which is primarily funded with bond proceeds and grant monies; and
- other non-operating funds such as:
 - the Disputed Assessment Fund, which is fully funded with the DAF charge; and
 - the Environmental Protection Fund, which is fully funded by property taxes that pay for debt service chargebacks. There is typically no other activity in this fund.

Major Budget Revenues and Expenditures

This report reviews the County’s revenue sources in the three primary operating funds, with particular focus on major revenue sources, such as, Sales Tax, State and Federal Aid, and Departmental Revenues. These categories have remained relatively constant as a percentage in relation to total revenues in recent years.

Similarly, the report reviews the County’s expenditures of the three primary operating funds, with particular focus on the largest categories of expenditures, including Payroll and Fringe Benefits, Debt Service, Contractual Services, Early Intervention, and Social Service Programs.

Projected 2022 Fiscal Year Surplus

The 2022 mid-year financial projections estimate that the County will end the current year with a \$38.2 million operating surplus in the three primary operating funds under GAAP.

STATE OF THE ECONOMY

Employment and Income

The County is considered an affluent suburban area. The median income is high, and unemployment is low, as compared to New York State and the U.S. Unemployment decreased to a very low level in Nassau County as of May 2022.³

Category	County	State	U.S.
Median Household Income (2020)	\$120,036	\$71,117	\$ 64,994
Unemployment Rate (2021)	4.5%	6.9%	5.3%
Unemployment Rate (May 2022)	2.7%	4.4%	3.6%

Gross Domestic Product (GDP)

GDP is a measure of economic output. A recession is normally determined to exist when GDP drops for two consecutive quarters. However, a recession is generally accompanied by a significant rise in the unemployment rate. Currently, U.S. employment remains strong. According to the Bureau of Economic Analysis, real GDP in the U.S, decreased at an annual rate of 1.6% in the first

³ https://www.bls.gov/eag/eag.ny_nassau_md.htm

quarter of 2022 and decreased again by 0.9%, in the second quarter of 2022, according to the “Advance Estimate”. The National Bureau of Economic Research declares recessions and expansions and is not expected to determine whether a recession has occurred for several months.

Inflation, Prices, and Spending

Inflation is the overall increase in the price of goods or services resulting from demand exceeding supply. Inflation erodes the purchasing power or the buying power of dollars over time. When inflation occurs, consumer spending habits may change as people eat out less, buy in bulk and switch brands. If the country goes into a recession, consumers will likely reduce spending.

Changes in the Consumer Price Index (CPI) is the common measure for inflation.⁴ Increased prices for gas, food and rent pushed the CPI for the 12 months ended June 2022 to 9.1%, the highest since November 1981⁵, and an increase from 8.6% in May, pressuring household spending.

Some economists, however, believe that inflation might be reaching or nearing a short-term peak. Gas prices, for example, have fallen from \$5 a gallon in mid-June to an average of \$4.66 nationwide as of mid-July, still higher than a year ago but that drop in gas prices could help slow inflation.

From April through June 2022, both consumer spending and personal income have continued to increase.

Real Estate Market

During the early months of 2022, the economy was considered strong before the reports of high inflation, raising concerns about a recession. In response to the inflation reports, the Federal Reserve raised interest rates in June 2022 by 75 basis points and again in July by 75 basis points. The Federal Reserve remains focused on attempting to curb inflation through higher interest rates. It is uncertain if the Federal Reserve can curb inflation without the U.S. economy experiencing a recession. The increase in the Federal reserve rates has caused mortgage rates to rise. Higher mortgage rates slows down the housing market and home prices are expected to soften.

In Nassau County, deeds and mortgages recorded⁶ declined in the first six months of 2022 compared to the same period in 2021, as shown in the following table.

Nassau County Deed & Mortgages	June 2022 vs June 2021
Total Deed and Mortgage Transactions YTD # change	-35,051
Total Deed and Mortgage Transactions YTD % change	-18%

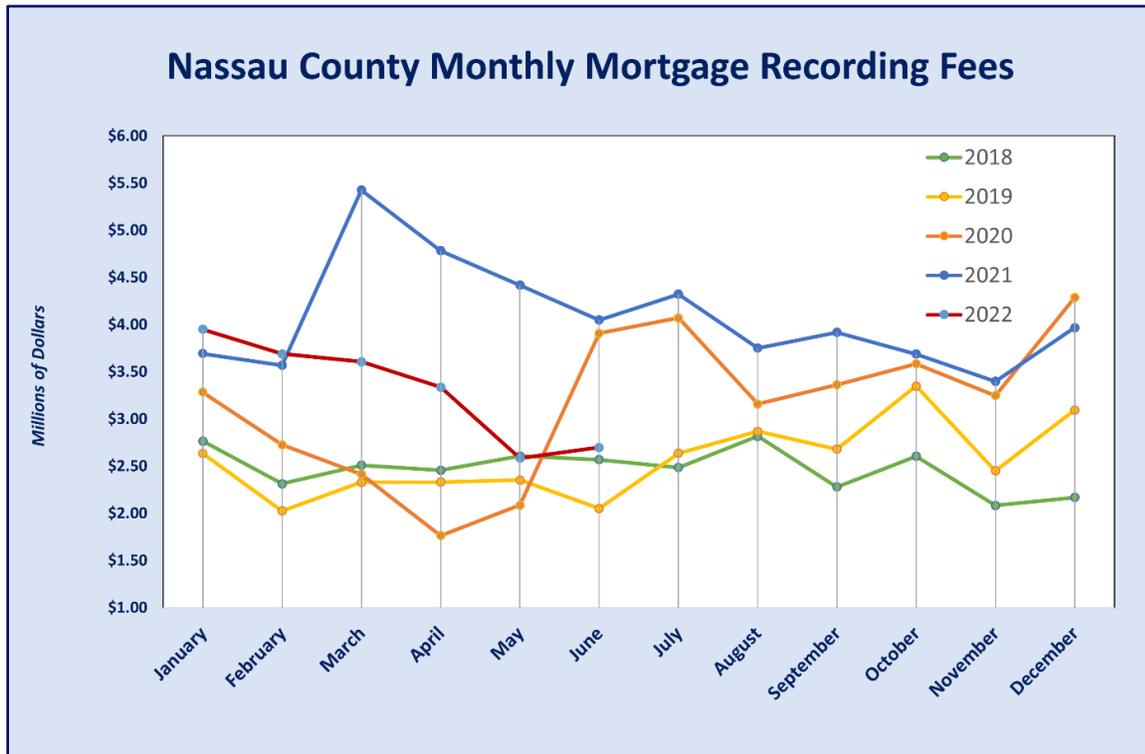
⁴ The CPI includes the following goods and services:

- Food and Beverages (breakfast cereal, milk, coffee, chicken, wine, full-service meals, snacks)
- Housing (rent of primary residence, owners' equivalent rent, fuel oil, bedroom furniture)
- Clothes (men's shirts and sweaters, women's dresses, jewelry)

⁵ [Current US Inflation Rates: 2000-2022 | US Inflation Calculator](#)

⁶ Mortgage and Deed Recording Fees are charges assessed by Nassau County for legally recording the deed, mortgage and documents related to a home loan. The residential rate is 1.05% of the total value less \$30.00, and the borrower pays 0.75% if the property is a 1-2 family residence and the loan is \$10,000 or less. The commercial rate is 1.05% of the total property sale. Other land recording fees are also assessed at the point of sale.

The following graph shows monthly revenues received by Nassau County for Mortgage Recording Fees from 2018 to June 2022. The decline in 2022 is due to higher mortgage rates, higher home prices and lower supply.



RATING AGENCY UPGRADES

S&P and Moody’s upgraded the County’s ratings in May 2021 to AA- and A1, respectively.

The County’s Long-Term Debt Ratings				
	Dec-21		May-22	
	Rating	Outlook	Rating	Outlook
S&P Global Ratings	A+	Stable	AA-	Stable
Moody’s Investors Services	A2	Positive	A1	Positive

These upgrades are a result of the County’s efforts to address the prior rating agency concerns:

- **Improved liquidity and financial reserves** – With the \$479.5 million surplus in Governmental Funds in 2021, the County increased reserves for various purposes with the goal of reducing liabilities, which was mentioned as a contributing factor to the rating upgrades.
- **Pension deferrals** – In fiscal years 2011 to 2019, the County elected to defer mandatory pension contributions under a special program allowed by State Law. The County has not elected to defer contributions beginning with the 2021 fiscal year. As of December 31, 2021, the County’s liability to the retirement systems for the deferral of annual pension expense totaled \$165.8 million. The County paid the full balance of the February 2022 pension invoice (75% and 25% attributed to 2021 and 2022 fiscal years, respectively) to the State retirement system, opting not to defer any

portion of the invoice, and thus avoiding an increase in the liability to the State. The County also paid back \$122.9 million, representing the majority of the outstanding liability, leaving approximately \$34.3 million (as of February 2022) still outstanding and expected to be paid in 2023.

- **Sales tax revenues** –The rating agencies consider sales tax less reliable than property tax. However, the following table and graph below indicate that sales tax revenues have been reliable as a source of revenue for many years and reduce the amount of property tax levy needed.

Sales Tax - \$ Millions	
2021	\$1,319
2020	\$1,082
2019	\$1,136
2018	\$1,099
2017	\$1,063
2016	\$1,038
2015	\$1,016
2014	\$1,006
2013	\$1,054
2012	\$993
Net of preempted sales tax in lieu of property taxes.	



- **Tax Certiorari Issues** - To pay remaining tax certiorari liabilities, the County transferred \$208 million from the Excess Sales Tax Fund to the Litigation Fund. In March 2022, the County settled a \$255 million outstanding tax certiorari claim with the Long Island Power Authority and National Grid that required no outlay of funds and no material impact on revenue. As a result of this settlement, the long-term tax certiorari liability as of fiscal year-end is expected to decline by an estimated \$255 million. With the additional funding regularly allocated in the Disputed Assessment Fund (DAF) and the General Fund, a large portion of the backlog is expected to be addressed in 2022.
- **The Nassau Health Care Corporation (NHCC)** is a New York State public benefit corporation. NHCC’s continuing financial problems present an ongoing concern for the rating agencies. However, the County-guaranteed debt of NHCC is a limited, manageable financial liability of \$132 million as of December 31, 2021, with scheduled repayments of no more than \$23 million in any year through 2029.

PROJECTIONS TO 2022 ADOPTED BUDGET

2022 Revenues and Obligations Forecast – Budgetary Basis & GAAP Summary

The Comptroller projects an estimated surplus of \$38.2 million for fiscal year 2022 on the GAAP Basis for operating funds.

Revenue and Obligations Risks and Opportunities 2022 Mid-Year Report							
	2022 Adopted Budget	2022 Projected GEN*	2022 Projected PDD	2022 Projected SSW	2022 Projected Total		Variance
Revenues							
Sales Tax	\$1,375.00	\$1,460.80	\$ -	\$ -	\$1,460.80		\$85.80
Use of Fund Balance**	12.9	362.2			362.2		349.3
Interest Penalty on Tax	34.8	42.9			42.9		8.1
Permits and Licenses	19.1	13.6	4.4	1.0	19.0		(0.1)
Revenue Offset to Expenditu	20.5	19.3			19.3		(1.2)
Departmental Revenue							
Assessment - GIS Tax Map	50.0	41.3			41.3	(8.7)	
County Clerk - Mortgage a	48.9	45.4			45.4	(3.5)	
Other Departmental Reve	147.7	123.5	2.3	1.3	127.1	(20.6)	(32.8)
Fines and Forfeitures							
Boot and Tow Fees	2.3	0.6			0.6	(1.7)	
Red Light Camera and Adm	48.1	44.5			44.5	(3.6)	
Public Safety Fees	23.5	22.0			22.0	(1.5)	
Other Fines and Forfeiture	32.6	19.3	1.0		20.3	(12.3)	(19.1)
Investment Income	2.4	2.5		0.2	2.7		0.3
Rents and Recoveries							
Sale of County Property	5.6	3.8			3.8	(1.8)	
Recoveries of Prior Year A	9.8	6.7			6.7	(3.1)	
Workers' Compensation S							
Other Rents and Recoverie	29.0	15.8		0.8	16.6	(12.4)	(17.3)
Federal Aid	156.8	152.2			152.2		(4.6)
State Aid	225.1	255.6			255.6		30.5
Capital Resources for Debt	1.5	1.5			1.5		
Property Taxes	755.3	345.5	409.8		755.3		
Payment in Lieu of Taxes	55.2	38.5	16.8		55.3		0.1
OTB Profits	20.0	20.0			20.0		
Interfund Revenue	74.9	74.9			74.9		
Interfund Revenue (eliminat	242.1	218.9			218.9		(23.2)
Interfund Transfers (Other Fi	256.4	362.2		144.9	507.1		250.7
Special Taxes	28.1	31.6			31.6		3.5
Other (includes rounding)	1.5	16.0			16.0		14.5
Total Revenue	\$3,679.10	\$3,741.10	\$434.30	\$148.20	\$4,323.60		\$644.50
Obligations							
Payroll	943.2	696.1	237.5	7.3	940.9		2.3
Fringe	787.5	602.1	147.7	9.8	759.6		27.9
Workers' Compensation	34.8	26.6	9.2		35.8		-1
Social Services	419.0	391.0			391.0		28
Early Intervention	144.8	155.8			155.8		-11
Debt service	195.3	158.1		11.1	169.2		26.1
Contractual Expense	373.5	307.3	1.3	72.5	381.1		-7.6
Utilities	44.4	34.2	1.9	8.7	44.8		-0.4
Judgments & Settlements	50.4	51.0		5.4	56.4		-6
Property Tax Refunds	30.0	118.6			118.6		(88.6)
Equipment	5.9	5.1	0.8		5.9		0
General Expenditures	45.0	42.8	4.4	1.3	48.5		(3.5)
Direct Expenses	5.3	5.3			5.3		0
Local Government Assistance	84.8	88.6			88.6		(3.8)
Interfund Charges	63.1	23.0		40.1	63.1		0
Interfund Charges (eliminati	242.1	195.6	23.3		218.9		23.2
Transfers Out (Other Financi	111.5	362.2			362.2		-250.7
Transportation	46.8	48.0			48.0		(1.2)
Rent Expense	14.8	14.8			14.8		0
Other (includes rounding)	36.9	36.0		0.3	36.3		0.6
Total Obligations	\$3,679.10	\$3,362.20	\$426.10	\$156.50	\$3,944.80		(\$265.70)
Estimated Results on a Budgetary Basis for t							
		\$378.90	\$8.20	(\$4.90)			\$378.80
Estimated GAAP Adjustments							
		(\$334.00)	(\$4.90)	(\$1.70)			(\$340.60)
Estimated Results on a GAAP Basis for oper							
		\$44.90	\$3.30	(\$10.00)			\$38.20
* Includes: General Fund, Police Headquarters Fund, Fire Communication Fund, Debt Service Fund, Litigation Fund, Employee Accrued Benefits Liability Reserve Fund, Retirement Contribution Reserve Fund, Bond Indebtedness Reserve Fund, Open Space Fund, Technology Fund, Excess Sales Tax Fund and Opioid Litigation Settlement Fund.							
**Use of Fund Balance is included to balance to the 2022 Adopted Budget.							

2022 Projected Budgetary Basis to GAAP Reconciliation

2022 Estimated GAAP Adjustments * (\$'s in millions)	General Fund	Police District Fund	Sewer and Storm Water Fund	Total Operating Funds
Projected Results on a Budgetary Basis	\$378.9	\$8.2	(\$8.3)	\$378.8
Period of availability adjustments	(\$4.0)	\$0.0	(\$3.2)	(\$7.2)
Pension expenditure adjustment	\$15.9	\$0.1	\$0.3	\$16.3
Use of Fund Balance	(\$362.2)	\$0.0	\$0.0	(\$362.2)
Sale of Mitchel Field Leases	\$1.3			\$1.3
NCC adjustment for termination pay	(\$0.8)			(\$0.8)
Effect of encumbrances adjustment	\$5.8	\$0.0	\$1.2	\$7.0
Other GAAP adjustments	\$5.0	(\$5.0)		\$0.0
Reversal of prior year GAAP adjustments for timing	\$5.0			\$5.0
NET CHANGE IN FUND BALANCE (DEFICIT)	\$44.9	\$3.3	(\$10.0)	\$38.2

2022 PROJECTED ENDING GAAP FUND BALANCE

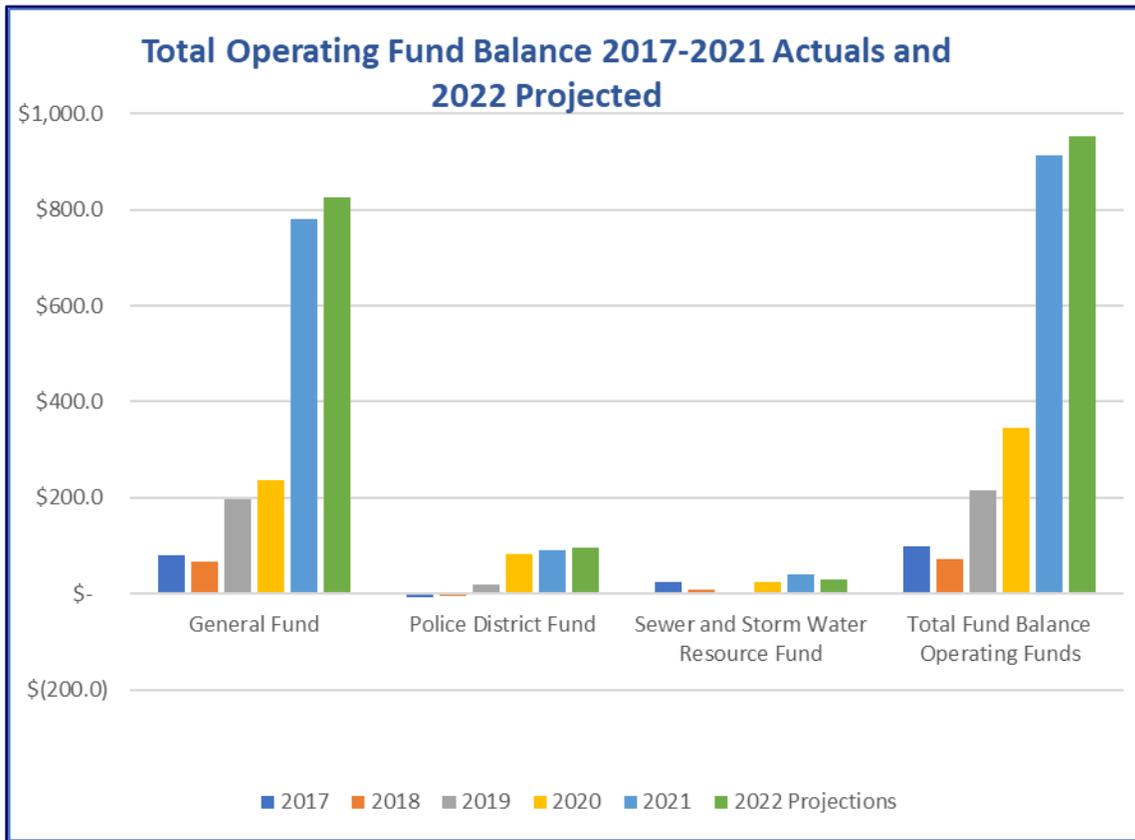
The County's three operating funds ended fiscal year 2021 with a GAAP fund balance of \$913.5 million as reported in the County's *2021 Annual Comprehensive Financial Report*. The GAAP fund balance for the three operating funds is projected to increase to \$951.7 million as of December 31, 2022.

The table below illustrates the projected changes in fund balance for the fiscal year-end 2022. The ending GAAP fund balance for the three operating funds is expected to increase by \$38.2 million. GAAP adjustments, which are estimated to arrive at a projected ending GAAP fund balance, can vary significantly at year-end primarily due to the effect that encumbrances have on the County's financial results. (For more information on the effect of encumbrances, see Appendix A, page 35.)

2022 Projected Ending GAAP Fund Balance

2022 Projected Total Ending GAAP Fund Balance (\$'s in millions)	General Fund	Police District Fund	Sewer and Storm Water Fund	Total Operating Funds
<i>2022 Ending Fund Balance</i>				
Total Fund Balance (Deficit) as of 12/31/2021	\$779.9	\$92.4	\$41.2	\$913.5
Total Projected Change in Fund Balance (Deficit) FY 2022	\$44.9	\$3.3	(\$10.0)	\$38.2
<i>2022 Projected Ending Fund Balance</i>				
Total Projected Fund Balance at 12/31/2022	\$824.8	\$95.7	\$31.2	\$951.7

Historical GAAP Fund Balance 2017-2021 and 2022 (Projected)



Key Variance Drivers (of \$10 million or more) – Budgetary Basis

Key Highlights: 2022 Projections to 2022 Adopted Budget Variance Drivers		
Drivers Impacting Nassau County’s Three Primary Operating Funds		
<i>Positive Opportunity Key Drivers</i>		
Sales Tax	+ \$85.8 million	Strong year to date actuals plus projected flat to 2021 for remainder of the fiscal year.
State Aid	+ \$30.5 million	Higher state aid primarily due to the STOA grant for bus operations.
Payroll and Fringe Savings	+ \$30.2 million	Primarily savings from open positions countywide and lower health insurance costs, offset by higher overtime in the Correctional Center and police funds.
Social Services	+ \$28.0 Million	Savings primarily in recipient grants of \$6.4 million and Medicaid \$21.6 million.
Debt Service	+ \$26.1 million	Savings primarily due to the refinancing that took place in 2021 and the delay in the issuance of new bonds in 2021.
Other	+ \$14.5 million	Primarily due to unbudgeted revenues received from various opioid litigation settlements.
<i>Unfavorable Risk Key Drivers</i>		
Property Tax Refunds	-\$88.6 million	Primarily due to the projection of \$100 million to be paid out of the tax certiorari reserve, which was not included in the 2022 adopted budget, although, fully funded from the 2021 Excess Sales Tax Fund.
Departmental Revenues	-\$32.8 million	Primarily the result of lower projections for real estate fees and Parks Department revenues
Fines and Forfeitures	-\$19.1 million	Primarily the result of lower red-light camera, public safety, and other traffic violation fines.
Rent and Recoveries	-\$17.3 million	Primary drivers are risks to capital closeouts revenue budgeted at \$10 million, sale of County property (\$1.8 million), and lower recovery of prior year appropriations (\$3.1 million). ⁷
Early Intervention	-\$11.0 million	Primarily due to the higher caseloads than budgeted and an increase in New York State rates.

⁷ Recovery of prior year appropriations resulting from disencumbrances are removed in the computation of GAAP results.

REVENUE VARIANCES

Sales Tax

Sales tax is the largest source of revenue for the County, historically 40% of all operating revenues.

The Comptroller's Office is projecting 2022 sales tax revenues of \$1,460.8 million, \$85.8 million or 6.2% higher than budgeted. The projection is based on the year-to-date sales tax collections through July 2022, with 2021 actual results for the 5 months from August through December of 2021 (or flat to 2021).

Possible Sales Tax Scenarios							
<i>in \$ millions</i>							
2022 Sales Tax Scenarios	Actual -10%	Actual -5%	Actual -2.5%	Actual Flat to 2021	Actual +2.5%	Actual +5%	Actual +10%
2022 Budget	1,375.0	1,375.0	1,375.0	1,375.0	1,375.0	1,375.0	1,375.0
Projected Total Sales Tax	1,386.6	1,423.7	1,442.2	1,460.8	1,479.3	1,497.9	1,534.9
Difference from Budget \$	11.6	48.7	67.2	85.8	104.3	122.9	159.9
% Difference from Budget	0.8%	3.5%	4.9%	6.2%	7.6%	8.9%	11.6%

The table above provides the projected 2022 results and six alternative scenarios with the impact compared to the 2022 Adopted Budget. The six scenarios are:

- 10%, 5% and 2.5% lower than the remaining five months of 2021 checks (on the left side of the table) and
- 10%, 5% and 2.5% higher than the remaining five months of 2021 checks (on the right side of the table).

The 2022 projection considered the impact of:

- strong employment;
- continued positive consumer economic data;
- increased inflation;
- potential for a recession;
- supply chain issues;
- the war in Ukraine;

- the Gas Sales Tax Holiday; and
- Payments are no longer withheld from County sales tax collections starting in 2022 for Distressed Provider Assistance (DPA) and starting in the second quarter of 2022 for Aid and Incentives for Municipalities (AIM). \$3.9 million was withheld for AIM in the first quarter of 2022. Those payments were \$7.3 million and \$11.4 million, respectively in 2021. (for a description of AIM and DPA, see Appendix B: Sales Tax Terminology on page 35).

While the COVID pandemic continues into 2022, with the surge of infections related to more contagious variants, the impact on the local economy is not expected to be as severe as the impact that resulted from the shutdowns in 2020.

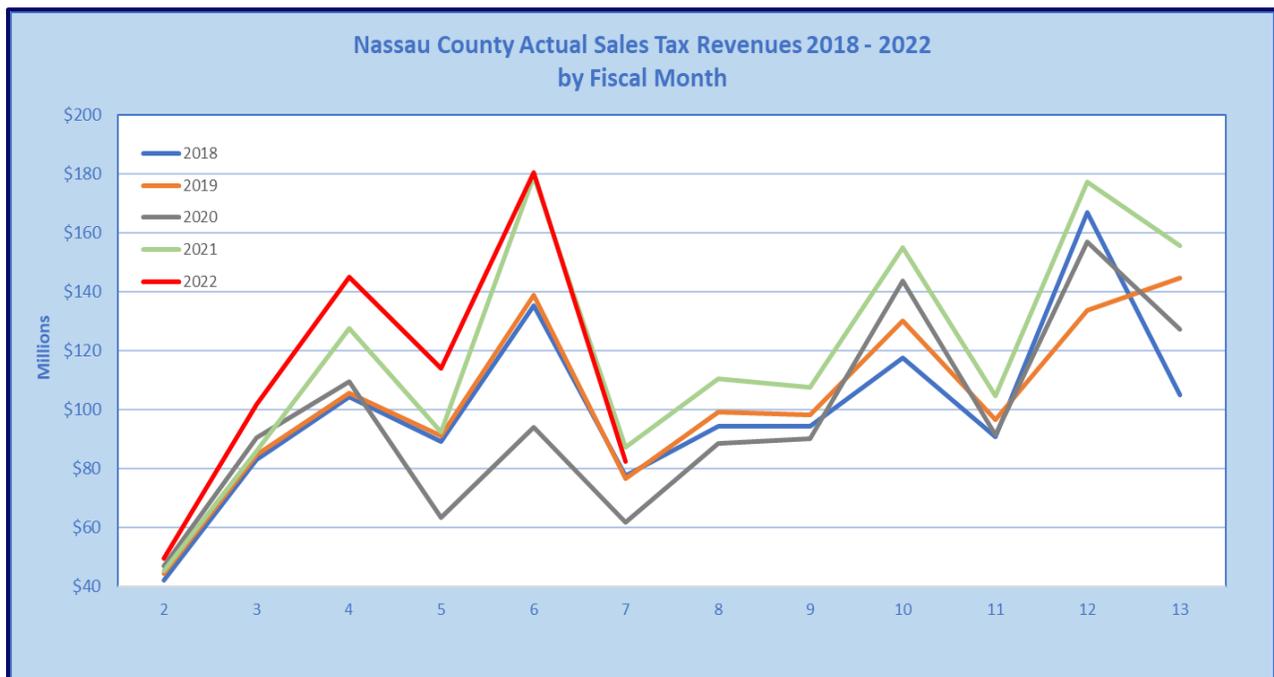
In the following table, sales taxes are reported as County wide Sales Tax and Part County Sales Tax. Part County Sales Tax, or Preempted Sales Tax In Lieu of Property Taxes, is explained in the Appendix B of this report. The 2022 Adopted Budget Sales Tax budgeted was 34% higher than the conservative estimate for sales tax in the 2021 Adopted Budget, but 3.8% less than the actual 2021 collections.

Sales Tax - Millions of Dollars					
Category	2021 Actual	2022 Budget	2022 YTD June*	2022 Forecast	Variance
Countywide Sales Tax	\$1,319.2	\$1,280.2	\$624.4	\$1,366.0	\$85.8
Part County Sales Tax Receipts	\$109.3	\$94.8	\$49.0	\$118.2	\$23.4
Subtotal before deferrals	\$1,428.5	\$1,375.0	\$673.4	\$1,484.2	\$109.2
Net Deferred Part County Sales Tax	(\$19.3)	\$0.0	\$0.0	(\$23.4)	(\$23.4)
Total Sales Tax	\$1,409.2	\$1,375.0	\$673.4	\$1,460.8	\$85.8
<i>*Excludes NIFA year to date adjustments</i>					

Actual sales tax collections were above the collections in 2021 for the first six months of 2022, but the growth rate over the prior year has slowed in May-July, as illustrated in the following table.⁸

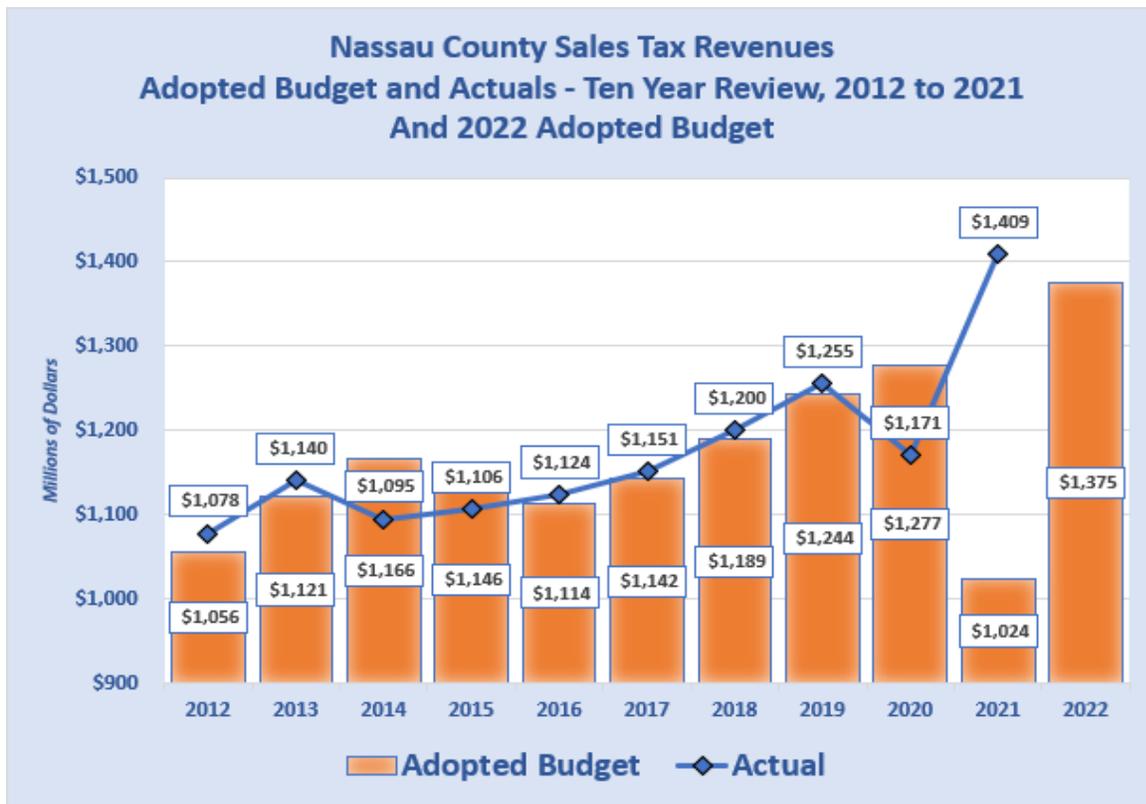
Sales Tax Collections										
in million \$										
Reporting Month	2022			2021			Increase/Decrease			
	County-wide	Part County	Total	County-wide	Part County	Total	County-wide	Part County	Total \$	Total %
February-April	278.9	17.6	296.5	244.9	14.0	258.9	34.0	3.6	37.6	14.5%
May-July	345.5	31.4	376.9	332.8	26.1	358.9	12.7	5.3	18.0	5.0%
Total	624.4	49.0	673.4	577.7	40.1	617.8	46.7	8.9	55.6	9.0%
<i>percentage increase/(decrease)</i>							8.1%	22.2%	9.0%	

As illustrated by the following graph, there was a spike in sales tax revenues from fiscal month 5 to 6 for all years, followed by a decline from month 6 to 7 in all years, followed by a general increase to month 12.



With the exception of the impact of shutdowns in reaction to COVID in 2020, sales tax collections generally continue to increase, due in part to the June 2019 “Enhanced Internet Sales Tax” enacted by New York State, which requires/allows online sellers to charge sales tax to buyers in other tax districts.

⁸ The table excludes NIFA set-asides and prior year/current year part county deferrals.



Departmental Revenue

Departmental Revenue is projected to be under budget by \$32.8 million. This decline is attributed to various shortfalls described below.

- Fees related to real estate transactions are projected to be lower than budget due to the slowing of the real estate market.
 - GIS map verification fees in the County Department of Assessment are projected to be lower than budget (\$8.7 million).
 - Mortgage and deed recording fees in the County Clerk’s Office are projected to be lower than budget (\$3.5 million), primarily due to slowing of mortgage refinancing and home purchasing environment fueled by higher interest rates set by the Federal Reserve.
- Farebox revenues from the NICE bus system are projected to be \$2.9 million less than budgeted due to reduced ridership/collections.
- Examination fees in the County Department of Civil Service are projected to be lower than budget (\$2.8 million) due to a lack of offering some civil service examinations.
- Ambulance fees are projected to be slightly lower than budget (\$2.8 million).
- The projections do not include any revenue from the Income and Expense Law, which was budgeted at \$5.0 million. Lawsuits filed challenging the implementation of penalties for failure to file an Income and Expense Statement are still pending.
- The remaining shortfall is comprised of various department related fees due to year-to-date collection trends.

Departmental Revenue - Millions of Dollars					
Category	2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
GIS Tax Map Verification Fees	\$57.5	\$50.0	\$19.0	\$41.3	(\$8.7)
Mortgage & Deed Recording Fees	\$60.6	\$48.9	\$21.9	\$45.4	(\$3.5)
Bus Farebox	\$24.4	\$31.9	\$6.1	\$29.0	(\$2.9)
Revenue from Income and Expense Law	\$0.0	\$5.0	\$0.0	\$0.0	(\$5.0)
Examination Fees	\$0.2	\$3.2	\$0.3	\$0.4	(\$2.8)
Ambulance Fees	\$20.3	\$24.8	\$10.3	\$22.0	(\$2.8)
Other Departmental Revenue	\$80.8	\$82.8	\$29.5	\$75.7	(\$7.1)
Total Departmental Revenue	\$243.8	\$246.6	\$87.1	\$213.8	(\$32.8)

Fines and Forfeitures

Fines and Forfeitures are projected to be under budget by \$19.1 million.

- Based on the trending year-to-date collections, we are projecting the combined revenues for Red Light Camera and Red-Light Camera Administrative Fees will have a risk of \$3.6 million.
- Police Department public safety fees are projected to have a shortfall of \$1.5 million from the Adopted Budget.
- We are risking the full \$2.0 million for the School Bus Camera Program as the County is in the process of working with various school districts to design and implement the program.
- At the time of this report, per the Traffic and Parking Violations Agency (TPVA), the Boot and Tow program is expected to restart in September 2022 (this restart requires the County Executive to rescind the previous Executive Order that halted the program), therefore, based on the pre-pandemic historical trend, we are projecting a risk of \$1.7 million.
- We project all other fines and forfeitures to have a shortfall to the budget of \$10.3 million, primarily in other Traffic and Parking Violations Bureau revenues based on historical trends.

Fines and Forfeitures - Millions of Dollars					
Category	2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
Boot and Tow Fees	-	\$2.3	-	\$0.6	(\$1.7)
School Bus Stop Camera	-	\$2.0	-	-	(\$2.0)
PD Public Safety Fees	\$23.4	\$23.5	\$8.9	\$22.0	(\$1.5)
Red Light Camera and Administrative Fees	\$35.9	\$48.1	\$19.3	\$44.5	(\$3.6)
Other Fines and Forfeitures	13.0	\$30.7	\$3.9	\$20.4	(\$10.3)
Total Fines and Forfeitures	\$72.3	\$106.6	\$32.1	\$87.5	(\$19.1)

Revenue Offset to Expense

A \$1.2 million risk is projected in the Revenue Offset to Expense category primarily in college tuition reimbursements.⁹ At the time of this report, new reimbursement chargeback details were not available, however with schools returning to pre-pandemic methods of learning, a shortfall of \$0.8 million is projected against the 2022 Adopted Budget. Additionally, based on historical trends, we are projecting the revenues for the flex benefit program will have a shortfall of \$0.4 million from 2022 Adopted Budget. Note: all risks and opportunities related to college tuition reimbursements have offsetting risks and opportunities in Other Expenditures.

Revenue Offset to Expense - Millions of Dollars				
2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
\$18.4	\$20.5	\$5.1	\$19.3	(\$1.2)

Federal Aid

Federal Aid is projected to be under budget by \$4.6 million. The shortfall in Federal Aid is primarily due to a lower projected State Criminal Alien Assistance Program (SCAAP) funding reimbursement in the Correctional Center and lower reimbursements in the Department of Social Services in the area of Temporary Assistance to Needy Families (TANF). As a result of this

⁹ County residents may attend community colleges (including the Fashion Institute of Technology) in other counties. Those counties will charge Nassau County for that resident. Nassau County will in turn charge other counties if their residents attend Nassau Community College. The cost for County residents and the income the County earns for non-County residents are shown grossed up but are equally offsetting because the County passes the charges to the Towns.

decrease in TANF reimbursements, there is a direct decrease in associated expense which is reflected in this report.

Federal Aid - Millions of Dollars				
2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
\$136.1	\$156.8	\$21.9	\$152.2	(\$4.6)

State Aid

State Aid is projected to be over budget by \$30.5 million. An opportunity of \$26.0 million is primarily due to higher than budgeted State Operating Assistance (STOA) reimbursements. An additional opportunity of \$6.0 million is identified under Early Intervention/Pre-School services due to the projected increase in expenditures (the County is reimbursed by the State for a portion of the expenditures incurred), which is offset by a risk of \$1.5 million for Safety Net Assistance (SNA) due to lower-than-expected caseloads.

State Aid - Millions of Dollars				
2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
\$234.2	\$225.1	\$54.7	\$255.6	\$30.5

Rents and Recoveries

Rents and Recoveries revenue is projected to be under budget by \$17.3 million. The primary driver of this variance is the \$10.0 million of capital project closeouts, which we continue to risk. Capital closeouts occur when a capital project is complete but there are unspent bond proceeds in that project. Since NYS Local Finance Law only permits those unspent bond proceeds to be used to pay debt service, unspent bond proceeds are transferred to the Debt Service Fund (a component of the General Fund) when a project is closed.

The recovery of prior year disencumbrances is projected to be lower than budgeted (\$3.1 million). Recoveries of prior year encumbrances have the effect of generating revenue on a budgetary basis; however, under GAAP, encumbrances are not actual expenditures, and these revenues are removed from the GAAP results when converting from budgetary reporting to GAAP reporting.

A negative \$1.8 million is projected for the sale of County property. We have included what has been closed and recorded year-to-date (\$3.6 million in the General Fund and \$0.2 million in the Open Space Fund). Although three easement agreements totaling \$0.3 million have been approved by the Legislature, the closing has not yet occurred, thus we are conservatively not including these sales in the projection. To the best of our knowledge, no other sales have as yet been approved. We also project Other Rent and Recoveries to be under budget by \$2.4 million. This variance is based on trending year-to-date collections.

Rents and Recoveries - Millions of Dollars					
Category	2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
Sale of County Property	\$0.0	\$5.6	\$3.8	\$3.8	(\$1.8)
Recovery of Prior Year Appropriation:					
Disencumbrances	\$15.5	\$9.8	\$3.3	\$6.7	(\$3.1)
Capital Projects Closeouts	\$0.0	\$10.8	\$0.0	\$0.8	(\$10.0)
Other Rents and Recoveries	\$23.9	\$18.2	\$8.3	\$15.8	(\$2.4)
Total Rents and Recoveries	\$39.4	\$44.4	\$15.4	\$27.1	(\$17.3)

Interest and Penalties on Taxes

Interest and penalties on late or delinquent property taxes are projected to be over budget by \$8.1 million. The main revenue source for this category is the various penalties, interest, advertisement, and listing fees charged for the late payment of general and school taxes. Taxes are collected by the three towns in Nassau, who then transfer the delinquent taxes to the County, where the County imposes a six percent penalty and adds a \$210 listing fee. An additional \$90 advertising fee is added in December of that year.

The County sells all open taxes to investors, which begins on the third Tuesday in February of each year. Due to the postponement of the annual lien sale in 2021, the year-to-date revenue includes an additional receipt of approximately \$6.9 million attributable to the sale of the 2020 tax liens, which was not reflected in the 2022 Adopted Budget. The remainder of \$1.2 million is based on the trending year-to-date collection for listing and advertisement fees primarily due to the delay in the prior year annual lien sales.

Interest and Penalty on Taxes - Millions of Dollars				
2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
\$35.1	\$34.8	\$30.0	\$42.9	\$8.1

Interfund Transfers In

Interfund Transfers In are projected to have a positive variance of \$250.7 million. The 2022 Adopted Budget does not include a \$362.2 million transfer from the Excess Sales Tax Fund into the Litigation Fund (both are components of the General Fund). Since this transfer has occurred, it is included in the forecast amount. However, the 2022 Adopted Budget also includes a transfer into the Police Headquarters Fund (PDH) from the General Fund of \$111.5 million that has not

been included in our projections because it has not yet occurred, and for reporting purposes, the transfer would be eliminated since the General Fund and PDH are reported as one fund (the General Fund). There is a corresponding and offsetting negative \$250.7 million variance in the Interfund Transfers Out section. The Interfund Transfers In and Interfund Transfers Out categories offset but are included in this report to reconcile to the 2022 Adopted Budget.

Interfund Transfers In – Millions of Dollars				
2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
\$292.5	\$256.4	\$428.2	\$507.1	\$250.7

Other Revenue Categories

Special taxes, which include entertainment tax, hotel/motel tax and motor vehicle tax, are projected to have a surplus of \$3.5 million based on year-to-date collections. The positive variance is based on trending year-to-date collections from hotel/motel, motor vehicle registrations and entertainment taxes that are trending above budget. The County collects entertainment tax on various ticket sales, such as events at the NYCB Live Nassau Coliseum (Coliseum), Northwell Health at Jones Beach Theater (Jones Beach Theater), USB Arena and the NYCB Theatre at Westbury.

Beginning in 2021, the County received funds as settlements from the opioid litigation brought against drug manufacturers. The County joined lawsuits brought against pharmaceutical companies and distributors. In total, the County expects to receive nearly \$155 million dollars through the structured settlements with payments being made to the County over the course of 18 years.

Most of the funds are restricted to approved uses under the Opioid Settlement Sharing Agreement and State Finances Law 99-nn and Local Law No. 14-2021. The approved uses in the Settlement Sharing Agreement focus on three general areas: (1) treatment; (2) prevention; and (3) other strategies. While the State and Local Law have similar restrictions, a portion of the funds may only be subject to allowed uses under these laws,

Interfund Revenues (eliminating) are expected to have a shortfall of \$23.2 million, however, Interfund Charges (eliminating) are expected to have an offsetting savings. Included in this category are debt service chargebacks reported as revenue in the General Fund with the offsetting charges reported in various funds. These categories are included to be able to reconcile to the 2022 Adopted Budget published by the Administration.

Other Revenue Categories					
Millions of Dollars					
Category	2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
Special Taxes	\$30.1	\$28.1	\$11.7	\$31.6	\$3.5
Opioid Litigation Settlement Revenues	\$55.9	\$0.0	\$2.9	\$14.3	\$14.3
Interfund Revenues (eliminating)*	\$190.3	\$242.1	\$5.6	\$218.9	(\$23.2)

*This variance is offset equally by the variance in the Interfund charges (eliminating)

OBLIGATIONS VARIANCES¹⁰

This section discusses the expenditure items with variances from the 2022 Adopted Budget as identified in the 2022 Revenues and Obligations Forecast-Budgetary Basis & GAAP Summary.

Salaries, Fringe Benefits and Workers' Compensation

Salaries, fringe benefits, and workers' compensation expenditures are projected to have a combined positive variance of \$29.2 million when compared to the 2022 Adopted Budget.

The 2022 Adopted Budget includes a total of \$1,765.5 million for salaries, fringe benefits and workers' compensation and variances as follows.

Salaries, Fringe Benefits and Workers' Compensation		
\$ Million	Budget	Variance
Salaries (not including overtime and Termination Pay)	815.1	27.2
Overtime	87.1	(22.5)
Termination Pay	41.0	(2.4)
Net Salary Budget & Variance	943.2	2.3
Fringe Benefits	787.5	27.9
Worker's Compensation	34.8	(1.0)
Total	\$1,765.5	\$29.2

¹⁰ Obligations refer to expenditures and encumbrances

Salaries

The Comptroller's Office forecast of salaries and wages is projected to total \$940.9 million by the end of fiscal year 2022, a net opportunity of \$2.3 million. Driving this potential savings are funded vacant positions and savings identified in the funding for part-time and seasonal employees, based on current trends and anticipated increases in headcount. Savings are offset by underfunding of overtime and termination pay.

Salaries (including overtime and termination pay)					
Millions of Dollars					
Fund	2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
<u>General Fund</u>					
General Fund	\$390.2	\$435.9	\$189.4	\$401.6	\$34.3
Police Headquarters Fund	\$233.6	\$242.1	\$111.8	\$246.0	(\$3.9)
Fire Commission Fund	\$10.3	\$11.9	\$5.2	\$11.2	\$0.7
Litigation Fund			\$32.2	\$35.7	(\$35.7)
TOTAL GENERAL FUND	\$634.1	\$689.9	\$338.6	\$694.5	(\$4.6)
Police District Fund	\$231.2	\$245.0	\$99.4	\$238.8	\$6.2
Sewer & Storm Water Fund	\$8.1	\$8.3	\$3.5	\$7.6	\$0.7
Total	\$873.4	\$943.2	\$441.5	\$940.9	\$2.3

The Adopted Budget assumes a total full-time headcount of 7,420 employees for 2022. This forecast is developed using the County's on-board headcount of 7,209 employees as of the end of June, adding the projected police and correctional classes for the second half of 2022, and subtracting anticipated police separations from service.

The increase in budgeted headcount year-over-year includes funding for additional staffing primarily in areas of Public Safety, which include the Sheriff's Department, the Police, Correctional and Probation Departments. Classes of new police and correctional officers are included to offset attrition, assist in mitigating future overtime costs, and manage the impact of Criminal Justice Reform passed by New York State on the County. Other areas requiring increases in headcount include Social Services, Health Department and Human Services due to the increase of these services resulting from the pandemic.

The County entered into new labor agreements with the Police Detectives Association (DAI) in December 2019 and the Superior Officers Association (SOA) in November of 2020, which cover the years 2018-2026 (2018 being retroactive). All related contractual wage increases, retroactive payments, non-recurring lump sum payments and cost of living adjustments have been included in our 2022 salary forecast.

The County's collective bargaining agreements with the remaining labor unions, Civil Service Employees Association (CSEA), Police Benevolent Association (PBA), Correction Officers Benevolent Association (COBA) and the Investigators Police Benevolent Association (IPBA) have expired as of December 31, 2017, and new agreements are currently in negotiations.

No estimates for future negotiations have been included in these forecasts.

The 2022 Adopted Budget includes funding for the estimated impact of the open collective bargaining agreements. The budget states that the estimated impact is consistent with the pattern established under the two ratified agreements (DAI and SOA) and includes adjustments retroactive to the expiration of the previous contracts. The Comptroller's forecast includes only scheduled employee step increases and does not include any cost-of-living adjustments or retroactive payments since labor contracts are still in negotiations and the timing and terms may vary. Any signed contract would require both County Legislative and NIFA approvals before becoming effective.

The 2022 Adopted Budget for the primary operating funds includes \$49.9 million for additional contractual expenses related to the three union contracts still in negotiations. If no agreement is reached in 2022, it is recommended to reserve this funding for when the contracts are executed in the near future.

In April 2022, the Nassau County Legislature approved a Memorandum of Agreement and Stipulation of Settlement (Settlement) by and between the County and the following unions: COBA, CSEA, DAI, PBA and SOA. This agreement is to pay an agreed upon amount to current and former employees who were eligible for longevity payments between 2018-2021. The Settlement also agreed to replace the then existing contractual longevity schedule with a new one effective January 1, 2022.

To date, \$34.7 million of retroactive longevity payments, including related FICA expenses, have been made by the County in 2022. Our projected forecast estimates up to \$35.7 million in total 2022 longevity payouts and \$8.1 million in related FICA expense, which are included in the fringe benefits section below. These amounts are included in the General Fund actuals and 2022 forecast as the Litigation Fund is reported as a component within the General Fund in the chart above.

Fringe Benefits

This analysis projects that we expect to end the year with a positive variance of \$27.9 million in fringe benefits when compared to the 2022 Adopted Budget of \$787.5 million for this expenditure category. This surplus is composed of variances in several categories. Based on current trends, major variances include \$28.4 million associated with health insurance costs for both active and retired employees combined, currently trending in line with 2021 amounts, \$10.2 million in Medicare reimbursement costs and lower than budgeted pension costs of \$5.3 million.

Offsetting these potential fringe savings are \$4.0 million of potential additional expenses related to pending labor arbitration if settled in 2022 and \$22.6 million in potential contractual fringe benefit savings as it pertains to the labor agreements currently under negotiations based on a 2%

employee contribution to health insurance beginning in 2022. Both of these potential costs and savings have not been included in the Comptroller’s forecast for 2022 as none of the agreements have been approved. All agreements require both County Legislative and NIFA approvals.

Included in the County’s 2022 pension expense is \$122.9 million related to both the Employee’s Retirement System (ERS) and the Police and Fire Retirement System (PFRS). This amount was a partial payment of the deferred pension amortization with the intention of paying off the remaining balance in 2023 to eliminate the annual installment payments of the pension amortization deferred by the County beginning in 2011. The County has not elected to defer pension contributions beginning with the 2021 fiscal year.

The forecast for fringe benefits also includes the FICA paid and remaining to be paid related to the longevity agreement reached in 2022, as described above in the Salaries section.

Fringes - Millions of Dollars					
Fund	2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
GENERAL FUND					
General Fund	\$267.4	\$403.8	\$252.1	\$366.1	\$37.7
Police Headquarters Fund	\$157.8	\$213.2	\$162.9	\$214.0	(\$0.8)
Fire Commission Fund	\$6.0	\$9.3	\$6.6	\$8.8	\$0.5
Litigation Fund			\$2.5	\$8.1	(\$8.1)
TOTAL GENERAL FUND	\$431.2	\$626.3	\$424.1	\$597.0	\$29.3
Police District Fund	\$138.6	\$149.0	\$106.4	\$152.8	(\$3.8)
Sewer & Storm Water Fund	\$7.3	\$12.2	\$6.9	\$9.8	\$2.4
Total	\$577.1	\$787.5	\$537.4	\$759.6	\$27.9

Workers’ Compensation

Our analysis indicates that workers’ compensation may be underfunded by \$1.0 million when compared to the 2022 Adopted Budget due to an increase in workers’ compensation rates in 2022 and cases within the Police District. Maximum weekly indemnity payment rates have increased by more than 8% when compared to prior year.

In 2019, the County received \$15 million from New York State as a discounted upfront payment of its estimated liability if the County agreed to assume that long-term liability, which was established to pay the injured employees over a span of approximately 20 years. Although these funds are specific to certain categories of injured workers claiming a second injury, the funds from the Second Injury Fund settlement are available to be used by the County to alleviate the projected

deficit in this expense category. The County can also use a portion of these proceeds to settle an additional number of long-term claims at a reduced cost. A total of \$14.8 million is still available for use by the Administration to manage workers' compensation expense in 2022 and in future years.

Workers' Compensation - Millions of Dollars					
Fund	2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
General Fund	\$24.5	\$25.6	\$10.2	\$25.6	\$0.0
Police District Fund	\$10.2	\$9.2	\$5.4	\$10.2	(\$1.0)
Sewer & Storm Water Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total	\$34.7	\$34.8	\$15.6	\$35.8	(\$1.0)

Termination Pay

The potential budgetary shortage is projected to be \$0.4 million for termination pay within the police funds. The 2022 Adopted Budget funded termination pay of approximately \$29.5 million for both the Police District and Police Headquarters Funds. A total of 58 sworn officers have retired to date in fiscal year 2022 with actual expenditures of \$12.0 million. Our forecast estimates up to a total of 100 police officers retiring from both Police District and Police Headquarters in 2022, with an estimated cost up to \$29.9 million.

The 2022 projected total termination pay for the County could reach up to \$43.4 million for the primary operating funds and is projected to be underfunded by \$2.4 million when compared to the 2022 Adopted Budget. The County has funded a reserve in the Employee Benefit Accrued Liability Reserve Fund of \$13.4 million to address possible shortages in termination pay specific to the Police District Fund.

Termination Pay - Millions of Dollars					
Category	2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
Police District	\$14.1	\$9.5	\$4.1	\$11.0	(\$1.5)
Police Headquarters	\$15.0	\$20.0	\$7.9	\$18.9	\$1.1
Other	\$12.5	\$11.5	\$8.0	\$13.5	(\$2.0)
Total	\$41.6	\$41.0	\$20.0	\$43.4	(\$2.4)

Overtime

Based on current expenditure trends, overtime costs for the operating funds are expected to be underfunded by \$22.5 million when compared to the 2022 budget of \$87.1 million. The projected

deficit is primarily comprised of \$6.1 million in the Police District, \$5.6 million for Police Headquarters and \$11.7 million for the Correctional Center. Projected overtime deficits are expected to be funded by savings from other salary line items.

Overtime - Millions of Dollars					
	2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
Police District	\$33.8	\$23.2	\$5.2	\$29.3	(\$6.1)
Police Headquarters	\$33.2	\$26.8	\$11.5	\$32.4	(\$5.6)
Correctional Center	\$31.9	\$21.5	\$14.6	\$33.2	(\$11.7)
Other	\$14.0	\$15.6	\$7.2	\$14.7	\$0.9
Total	\$112.9	\$87.1	\$38.5	\$109.6	(\$22.5)

Our 2022 projections are forecasting a combined deficit of up to \$11.7 million when compared to the combined adopted budget of \$50.0 million for the Police District and Police Headquarters. In the Police Department, a class of 59 new police officers began the Police Academy in June 2022. An additional class of 75 officers is expected sometime in the second half of 2022 and has been funded in the 2022 Adopted Budget. While overtime costs in the future may be mitigated with the additional officers hired in 2022 at a lower average salary, overtime is still trending high in 2022 for both the Police District and Police Headquarters Funds.

The Correctional Center continues to experience a decline in the inmate population due to the 2020 NYS Criminal Justice Reform and the Raise the Age mandate which took effect in 2019. The impact of Raise the Age has created an increase in the volume in the detention of juveniles at the County Juvenile Detention Center. As a result of the decreased inmate population for the Correctional Center, the County’s administration has discussed during its last two budget cycles the implementation of a jail building consolidation plan, which it expects to assist in managing the department’s high overtime costs. At this time, the Comptroller’s Office is unaware of the status of this initiative.

Despite the Correctional Center overtime benefiting from the reduced inmate population, down over 20% when compared to 2019, and with additional officers hired, our forecast still projects a shortfall in this category of \$11.7 million for this department. To date in 2022, the Correctional Center was able to hire a class of 26 new officers with a possible second class planned for September 2022. Funding for this anticipated additional class has been included in the adopted budget.

General Expense and Contractual Expense

Expenditures in the categories of General Expense and Contractual Expense are projected to exceed the original 2022 Adopted Budget by \$11.1 million as illustrated below.

We are projecting \$3.5 million in expenditures over the 2022 Adopted Budget for the General Expense category. This is primarily due to the increase in nationwide gasoline prices, resulting in a projected deficit of \$2.7 million, and higher than budgeted vehicle repair costs of \$0.8 million in the Police Department.

We are projecting a \$7.6 million deficit over the Adopted Budget in contractual expenditures. The primary factor for the deficit is the need for an additional \$9.4 million for the bus service contract with Transdev; this amount represents the difference between the projected budget for the annual cost of the bus service and the actual 2022 budget for the service, which is typically set in April of each fiscal year. According to Public Works, the increase is fully funded with NYS and Federal funds and the money will be encumbered into the current bus operating Transdev contract.

The increase to contractual expenditures for the bus contract is offset by projected savings in Red Light camera contractual expenditures of \$1.6 million, and other categories for a combined increase of \$0.4 million in the General Fund, and an increase in the Fire Commission Fund of \$0.2 million, offset by projected savings of \$0.8 million in the Sewer and Storm Water Fund.

General Expense and Contractual Expense - Millions of Dollars					
Category	2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
General Expense	\$35.0	\$45.0	\$24.9	\$48.5	(\$3.5)
Contractual Expense	\$348.3	\$373.5	\$290.3	\$381.1	(\$7.6)
Total	\$383.3	\$418.5	\$315.2	\$429.6	(\$11.1)

Utilities

We are projecting a \$0.4 million negative variance in the category of Utilities. Deficits are projected in both the Police Headquarters and Police District Funds, and the Sewer and the Storm Water Fund due to higher projected expenditures in fuel, light, power, and water usage than what was budgeted.

Utilities - Millions of Dollars				
2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
\$39.3	\$44.4	\$20.2	\$44.8	(\$0.4)

Judgments and Settlements

We are projecting tax certiorari refunds and other judgments and settlements to be over the Adopted Budget. A new special revenue fund, the Excess Sales Tax Fund (EST) was established

in 2020 pursuant to Local Law 12-2020 and was funded in 2021 with sales tax revenues in excess of the budget (adjusted for Part County deferrals and funds needed to pay for the shortage in Local Government Assistance). Funds transferred to this special revenue fund could be used to fully or partially pay tax certiorari settlements and, other claims and judgments. Of the \$362.2 million in the EST Fund as of fiscal year-end 2021, \$208 million was transferred from the EST Fund to the Litigation Fund (LIT) to pay for tax certiorari payments and \$104.2 million was transferred for litigation costs (\$84.2 million for general litigation and \$20 million for police district litigation). Both the EST and LIT funds are reported as part of the General Fund.

While payments are projected for property tax refunds, and other judgments and settlements to be higher than the Adopted Budget, there is adequate funding in the LIT Fund to cover the projected expenditures for 2022. According to the County’s Office of Management and Budget (OMB), tax certiorari payments in 2022 from the LIT Fund are expected to range between \$100 million and \$150 million, therefore we are projecting \$100 million. It is expected that the funds in the LIT fund will be used to pay residential property owners. We are also projecting an additional \$18.6 million to be paid from the General Fund, representing what has been paid year-to-date from the General Fund plus \$2.0 million estimated for the DAF excess payments.

Judgments and Settlements - Millions of Dollars					
Category	2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
Property Tax Refunds	\$9.1	\$30.0	\$28.6	\$118.6	(\$88.6)
Other Judgments and Settlements	\$35.1	\$50.4	\$6.8	\$56.4	(\$6.0)

Debt Service

We are projecting a positive variance of \$26.1 million in debt service costs. The \$26.1 million is comprised of:

- \$15.6 million in interest savings,
- \$7.6 million in principal savings, and
- \$2.9 million in sewer debt service savings.

Debt Service – Millions of Dollars				
2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
\$158.2	\$195.3	\$58.5	\$169.2	\$26.1

The County issued \$268.4 million in bonds in June 2022. The County anticipates additional bonding of \$125.0 million in 2022 as follows:

- \$100.0 million for general capital improvements; and
- \$25.0 million for sewer system improvements.

In March 2021, the County entered into a Bond Anticipation Note (BAN) with the New York State Environmental Facilities Corporation (EFC) in the amounts of \$225.0 million with a maturity date of March 18, 2026; \$26.8 million with a maturity date of March 18, 2024; and a remaining \$261.9 million in additional note and grants. This is for the Bay Park Conveyance project, which is estimated to cost approximately \$513.7 million. The County has received \$156.5 million to date from EFC. When EFC notes mature, they are converted to long-term bonds payable to EFC. Debt service for EFC bonds is paid from the Sewer and Storm Water Fund. The County also received \$67.3 million from the NYS Division of Homeland Security & Emergency Services Hazard Mitigation programs. These grants proceeds were used to pay down EFC loans.

Social Services Programs

We are forecasting a surplus of \$28.0 million in expenditures related to Social Services programs. The primary components of this variance are a projected surplus of \$6.4 million in Recipient Grants and \$21.6 million in Medicaid. The surplus for Medicaid is projected due to the lower-than-expected payments for indigent cost and County share payments towards Medicaid claims.

The savings in Recipient Grants is primarily due to lower Temporary Assistance for Needy Families (TANF) and Safety Net Assistance (SNA) caseloads. According to the April 2022 NYS Temporary & Disability Assistance Statistics report, the year-over-year change in caseloads for Nassau County is showing a decline of 5% from 2021.

Recipient Grants and Purchased Services - Millions of Dollars					
Category	2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
Recipient Grants	\$34.3	\$50.9	\$19.7	\$44.5	\$6.4
Purchased Services	\$64.8	\$70.5	\$41.0	\$70.5	\$0.0
Medicaid	\$205.2	\$236.5	\$99.7	\$214.9	\$21.6
Emergency Vendor Payments	\$59.1	\$61.1	\$38.3	\$61.1	\$0.0
Total	\$363.4	\$419.0	\$198.7	\$391.0	\$28.0

Early Intervention

We project expenditures for Early Intervention will be \$155.8 million, which is \$11.0 million over budget. This negative variance is related to increase in caseloads resulting in higher than budgeted expenditures for Pre-school (3-5 Years) and Pre-school related services. Also, the State Education Department's recent update indicates that effective July 1, 2022, there is a 11% increase in rates which will be paid to agencies providing pre-school and early intervention services, resulting in higher expenditures for this category for the remainder of the year.

Early Intervention - Millions of Dollars				
2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
\$137.4	\$144.8	\$98.6	\$155.8	(\$11.0)

Mass Transportation

We project expenditures for Mass Transportation to be over \$1.2 million from the 2022 Adopted Budget. This increase is due to the higher than budgeted expenditures towards the maintenance for the Long Island Railroad Stations.

Mass Transportation - Millions of Dollars				
2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
\$45.8	\$46.8	\$5.4	\$48.0	(\$1.2)

Local Government Assistance

We project that the Local Government Assistance Program will have a shortfall of \$3.8 million due to the higher sales tax projection for 2022. The County shares a portion of sales tax with the County's three towns and two cities, and the villages within the County.

Nassau County is required by New York State Tax Law to distribute sales tax collections to the towns and cities within the County. The County makes these distributions through the Local Government Assistant Program.

Local Government Assistance - Millions of Dollars				
2021 Actual	2022 Budget	202 YTD June	2022 Forecast	Variance
\$85.6	\$84.8	\$21.0	\$88.6	(\$3.8)

Interfund Transfers Out

Interfund Transfers Out are projected to be over the 2022 Adopted Budget by \$250.7 million. The 2022 Adopted Budget does not include the \$362.2 million transfer out of the Excess Sales Tax Fund to the Litigation Fund (both are components of the General Fund). Since this transfer has already occurred, it is included in the forecasted amount. However, the budget includes a transfer out of the General Fund to the Police Headquarters Fund of \$111.5 million that is not included in the forecast because it has not yet occurred, and the two funds are considered one for reporting purposes, thus the transaction would be eliminated for reporting. There is a corresponding and offsetting positive \$250.7 million variance in the Interfund Transfers In section. The Interfund Transfers In and Interfund Transfers Out categories offset but are included in this report to reconcile to the 2022 Adopted Budget.

Interfund Transfers Out				
2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
\$125.5	\$111.5	\$362.2	\$362.2	(\$250.7)

Other Expenditure Categories

We project a surplus on this line of approximately \$23.2 million. This surplus offsets the \$23.2 million deficit projected in Interfund Revenues (eliminating). Interfund Charges (eliminating) are primarily comprised of the debt service chargebacks received from the Debt Service Fund (part of the General Fund for reporting purposes) to allocate the debt service expenditures reported in the Debt Service Fund among other governmental funds of the County. Due to the savings projected in debt service costs we project a savings in the Interfund charges (eliminating).

Other Expenditure Categories					
Millions of Dollars					
Category	2021 Actual	2022 Budget	2022 YTD June	2022 Forecast	Variance
Interfund Charges (eliminating)	\$197.0	\$242.1	\$5.5	\$218.9	\$23.2

DEBT

Through July 2022, the County issued \$268.4 million in bonds to fund various public purposes, including capital projects, and to pay costs of issuance. At this time, the County does not anticipate issuing Revenue Anticipation Notes (RANs) and Tax Anticipation Notes (TANs) in 2022.

The County anticipates bonding \$125 million in the second half of the year to pay for capital projects as well as various sewer system improvements. The County may issue BANs to initially finance the capital plan. Projects issued for sewer related improvements may be funded through borrowing by either the County, NYS Environmental Facilities Corporation (EFC) or the Nassau County Sewer and Storm Water Finance Authority (SFA). The table below details projected new

long-term debt issued by the County (including borrowings for Nassau Community College, and Sewer and Storm Water Capital Projects).

At 2021 fiscal year-end, the total of the County’s general obligation bonds and its component units’ long-term serial bonds outstanding were approximately \$3.3 billion (including serial bonds and accreted interest of the Nassau County Tobacco Settlement Corporation (NCTS) to which the County has no recourse. The 2022 actual borrowings, along with projected borrowings for the remainder of the year and projected reductions from maturing debt, will increase the total long-term bonds outstanding by approximately \$354.7 million.

Total Projected Long-Term Borrowings

Total Projected Long-Term Borrowings (\$'s in millions)				
	As of Dec 31, 2021 Actual	Projected Additions	Projected Reductions	As of December 31, 2022 Estimated
County w/SSW (a)(b)	\$ 1,610.8	\$393.4	\$34.0	\$ 1,970.2
NIFA	1,148.2	-	0.5	1,147.7
Sewer and Storm Water Finance Authority (SFA)	87.4	-	12.9	74.5
Tobacco Settlement Corp (c)	491.3	8.7	-	500.0
Total	\$ 3,337.7	\$402.1	\$47.4	\$3,692.4

- (a) Beginning in 2014, the County implemented a change in accounting principle to include the NCC debt as part of the County debt.
 (b) Includes \$50.0 million of bonds projected to be issued in 2022 to be used for Sewer and Storm Water projects.
 (c) December 31, 2021 includes accumulated accreted interest of \$102.9 million.

NASSAU COUNTY INTERIM FINANCE AUTHORITY (“NIFA”) ACT

Since its enactment in 2000, the Nassau County Interim Finance Authority (“NIFA”) provides State oversight of the County’s finances. NIFA was created pursuant to the NIFA Act (the Act) codified as Title I of Article 10-D of the New York State Public Authorities Law. Under the NIFA Act, the County is prohibited from filing any petition for the composition or adjustment of municipal indebtedness without the approval of NIFA and the New York State Comptroller and no such petition may be filed while NIFA bonds or notes remain outstanding. NIFA currently has bonds outstanding through 2035. The NIFA Act was amended on April 3, 2020, as part of New York State’s 2021 budget, which was passed on April 3, 2021. Included in the legislation for the State’s budget for the 2021 fiscal year were modifications to the NIFA Statute that allowed it to issue up to an additional \$400 million of bonds for tax certiorari refunds and an unlimited amount of bonds for other financeable costs through December 31, 2021, allowing any bonds issued by NIFA to mature no later than January 31, 2051.

Control Period Calculation

NIFA has certain powers under the Act to monitor and oversee the County's finances and upon the declaration of a "control period," additional oversight authority. On January 26, 2011, NIFA adopted a resolution which imposed a control period on the County pursuant to the Act. It determined that the County's proposed fiscal 2011 budget reflected a substantial likelihood that the budget would produce a deficit in excess of one percent of the aggregate result of operations in the major operating funds.

During a control period, NIFA has the authority to:

- Withhold transitional State Aid,
- Approve or disapprove proposed contracts and borrowings by the County,
- Approve, disapprove, or modify the County's financial plan,
- Issue binding orders to the appropriate local officials,
- Impose a wage freeze, and
- Terminate the control period upon finding that no condition exists which would permit imposition of a control period.

The Control Period Calculation requirement was agreed to by NIFA and the County in 2011. The agreement requires the budgetary results of the County's "major operating funds" include the General Fund¹¹, Fire Commission Fund, Police Headquarters Fund, Police District Fund, and Debt Service Fund. All revenues and expenditures are converted to GAAP results. Then, adjustments are made to remove the effect of other financing sources that are derived from the issuance of bonds. These include bond proceeds and premiums used to pay for operational expenditures. The projected Control Period Calculation for the 2022 fiscal year is \$178.3 million.

The chart below presents the Control Period Calculation that is used by NIFA to determine whether a deficit of more than one percent of the aggregate result of operations in the five major funds (as defined above) exists, thereby triggering a NIFA Control Period.

¹¹ NIFA uses the pre GASB Statement 54 definition of General Fund. GASB Statement 54 was effective for Nassau County in 2011.

Control Period Calculation

Revenue and Obligations Risks/Opportunities - 2022 Mid-Year Report Reconciled to the Control Period Calculation*	
(\$'s millions)	
Estimated Results on a Budgetary Basis *	\$160.0
Adjustments to reconcile to Modified Accrual Basis	
Net adjustments to remove the effect of encumbrances	5.8
Use of Fund Balance	-
Net adjustment to record pension expense on a modified accrual basis	16.0
Adjustment for cash receipts outside period of availability	(4.0)
Sale of Mitchel Field Leases	1.3
Reversal of prior year on-top GAAP adjustments	5.0
Other Estimated GAAP Adjustments	(5.8)
Net Change in Fund Balance on a Modified Accrual Basis	178.3
Less: adjustments included in other financing sources	
Premium on bonds	-
Transfer of revenue from other funds to offset debt expense	-
Operating expense paid with bond proceeds	-
Control Period Calculation Results	<u>\$178.3</u>
* Includes: General Fund, Police Headquarters Fund, Police District Fund, Fire Commission Fund, & Debt Service Fund (not including sewer debt)	

Historical Control Period Calculation and Projected 2022

Control Period Calculation 2018 - 2022 (projected) updated					
	2022 (projected)	2021	2020	2019	2018
Net Change in Fund Balance - modified accrual basis*	\$178.3	\$27.2	\$103.1	\$138.9	(\$17.4)
Less: adjustments included in other financing sources					
Premium on bonds					2.0
Borrowed funds to pay Property Tax Refunds				61.1	38.5
Borrowed funds to pay Other Judgments					
Borrowed funds to pay Termination Pay					
Borrowed funds to pay Other Operating Costs				0.2	3.1
Transfer of revenue from other funds to offset debt expense					
	0.0	0.0	12.5	0.8	0.2
Total other financing sources/uses to be eliminated	0.0	0.0	12.5	62.1	43.8
Control Period Calculation Results	\$178.3	\$27.2	\$90.6	\$76.8	(\$61.2)

* Includes: General Fund, Police Headquarters Fund, Police District Fund, Fire Commission Fund, & Debt Service Fund (not including sewer debt)

Appendix A: GAAP Adjustments and the Effect of Encumbrances

GAAP adjustments, which are estimated to arrive at a projected ending GAAP fund balance, can vary significantly at year-end primarily due to the effect that encumbrances have on the County's financial results. Encumbrances are a budgeting control tool which allows governments to set aside budgeted appropriations for obligations that have not yet been spent. This ensures that appropriations authorized by the government's governing board (the County Legislature in the case of the County) are not exceeded. Since unspent encumbrances are not actual expenditures, unspent encumbrances are added back to budgetary results because they have been included when computing those results. Further, expenditures that are paid subsequent to year-end but were part of the unspent encumbrances, are added back as expenditures to arrive at the GAAP results. Encumbrances that are no longer needed prior to year-end are disencumbered; those that originated in a prior fiscal year generate a budgetary revenue because it is the recovery of a prior year's appropriation that was included in a previous year's budgetary surplus or deficit. Disencumbrances that result in a budgetary revenue are excluded from GAAP results. At the time of the Mid-Year Report, these GAAP adjustments have been estimated based on the information available at this time, based on averages computed using prior year balances or using balances from the prior year. Therefore, these estimates can significantly change depending on how many encumbrances remain unspent and how many encumbrances are spent in the ensuing fiscal year.

Appendix B: Sales Tax Terminology

There are several variables other than economic conditions and some specific to Nassau County that are considered in Nassau County's sales tax forecasts. The section below provides a summary of these factors for informational purposes.

NIFA Set-Aside

- The Nassau County Interim Finance Authority (NIFA) intercepts and withholds a portion of the County's sales tax collections in an amount equal to the NIFA operating costs and the debt service costs it pays on its debt. The County reports its sales tax collections on a gross basis with the offset, the amount withheld by NIFA, reported as debt service on a budgetary basis.
- Due to timing issues with the receipt of sales tax and NIFA's due dates for debt service payments, the amounts withheld from sales tax may differ from the debt service reported by NIFA in the financial statements.

Part County Sales Tax

- For 2022, Part County sales tax is estimated to be higher than budgeted. It is likely the County did not provide enough of a credit to the City and towns' property tax levies. This amount will be reflected in the calculation of the County's 2024 property tax levies.
- New York State Tax Law §1262(d), provides cities and towns a share of certain sales taxes related to hotel occupancy, restaurants, and other retail establishments. This law gives cities a choice to receive their share of sales tax revenues directly or to receive them as a credit to their County property tax levies. The towns may only receive the revenues via a credit to the property tax levies.

- Nassau County contains two cities and three towns. The City of Glen Cove elected to receive their share of sales taxes as a credit to their property tax levies, while the City of Long Beach receives a direct distribution of these sales taxes from New York State. All three towns (Hempstead, North Hempstead and Oyster Bay) receive the revenues via a credit to their property tax levies.
- The portion of sales tax revenues that the three towns and the City of Glen Cove are entitled to, are budgeted and recorded separately from other sales taxes and are referred to as “Part County” sales tax. This segregation ensures that the property tax bills for the three towns and the City of Glen Cove properly reflect an equal reduction in what otherwise would have been County property taxes owed.
- As Part County sales taxes offset the payment of County property taxes by the three towns and the City of Glen Cove, actual collections can only be recognized up to the amount budgeted each year.
- Variances of actual sales tax received as compared to what is included in the annual adopted budget must be either credited or collected in a subsequent year. Because of the timing of when the operating budget is adopted and when the County’s books are closed, any variance to budget for Part County Sales Tax is delayed for two years. This is called a “Prior Year Deferral.”
- If the actual amount of sales tax collected is *greater* than budgeted, the County effectively collected too much in property taxes from the City and towns. The County must credit this difference through the Prior Year Deferral.
- If the actual amount of sales tax collected is *less* than budgeted, the County effectively collected too little in property taxes from the City and towns. The County must collect this difference from the City and towns.
- The amount of the Prior Year Deferral varies each year based on the year-end results of sales tax collections.
- For 2021, because Part County sales tax received was higher than budgeted, the City of Glen Cove and three towns did not receive enough credit on their property tax levies. This amount of \$21.3 million will be reflected in the calculation of the County’s 2023 tax levies.

Aid and Incentives for Municipalities (“AIM”)

- In the 2022-2023 Enacted New York State Budget, AIM-Related payments would continue to the cities and villages, however, the funding for those payments would no longer be withheld from County sales tax collections.
- As a result of these changes, the County will report \$7.5 million more of sales tax collections in 2022 than in the prior year.
- The Aid and Incentives for Municipalities (AIM) program provides State aid to all of New York’s cities (other than New York City), and 141 towns and villages.
- The 2019-20 Enacted New York State Budget established that AIM-Related payments would be made by the Office of the State Comptroller (OSC) by withholding certain County sales tax revenues, paid in December and May each year, pursuant to Chapter 59 of the Laws of 2019.

- In accordance with State law, AIM was withheld from County collections for the fiscal years 2019 (\$7.6 million), 2020 (\$11.4 million), 2021 (\$11.4 million) and the first quarter (County fiscal year) of 2022 (\$3.9 million).

Distressed Provider Assistance (“DPA”)

- These funds will be used to provide support to financially distressed hospitals and nursing homes throughout the State.
- In accordance with State law, DPA withholdings expired and are no longer withheld from County sales tax collections, resulting in an additional \$7.3 million of sales tax revenue to the County in 2022.

Gas Sales Tax Holiday

- The NYS Legislature and the County Legislature both enacted sales tax “holidays” to help alleviate the burden on residents of rising gasoline prices. Effective June 1st, taxes on motor fuel and diesel fuel in Nassau County will be suspended.
- As a result of the legislation passed by the State, the County Legislature approved a 6-month sales tax holiday, which would suspend the collection of County sales tax on gasoline or diesel fuel purchases that exceed \$3.00 a gallon, regardless of the price per gallon. The holiday is set to expire on December 31, 2022.
- NYS excise and state sales tax on motor fuel or diesel fuel will not be collected.

NYS Tax Law enacted to allow local governments the ability to suspend collection of sales tax on motor fuel and diesel fuel authorizes counties and cities to change their percentage rate sales tax to a cents-per-gallon method or stay with a percentage rate method. Effective June 1, 2022, Nassau County elected to change its method of computing local sales tax on motor fuel, highway diesel motor fuel, and B20 biodiesel sold as qualified fuel. Beginning June 1 through December 31, the County’s local sales tax on fuel will no longer be computed using a percentage rate method and will instead be computed on a cents-per-gallon basis.¹²

The County’s administration estimated that the loss of sales tax to the County as a result of the sales tax holiday would amount to \$8.0 million to \$10.0 million for the fiscal year 2022.

¹² <https://www.tax.ny.gov/pdf/publications/sales/pub718f.pdf>