SUFFOLK COUNTY LEGISLATURE

Lance Reinheimer
Director

BUDGET REVIEW OFFICE

To: Robert Calarco, Presiding Officer
and All Suffolk County Legislators

From: Lance Reinheimer, Director
Budget Review Office

Date: March 11, 2020

Subject: Review of the 2020-2023 Multi-Year Financial Plan

On January 24, 2020, the County Executive submitted Suffolk County's first Multi-Year Financial Plan (MYP), as required by Local Law 24-2019. In accordance with that law, the Budget Review Office (BRO) reviewed the Multi-Year Plan (MYP). We projected revenues and expenditures for the General Fund and Police District for the 2020-2023 timeframe addressed in the MYP. The report that follows details the assumptions for the BRO projections.

This process serves as a starting point to identify material budgetary problems early in the year and to develop policies to mitigate their negative impact. BRO is projecting a $17.8 million General Fund deficit by year's end. However, we also project that the sales tax allocation to the Police District can be reduced by $17.1 million in 2021, which would eliminate most of the projected General Fund deficit.

Under normal circumstances, the Budget Review Office would state that there are no significant budgetary issues, assuming the budget continues to be prudently managed. Neither BRO nor the Executive factored into their budget projections the current economic environment. At this point in time, it is difficult to accurately project the financial consequences of volatile financial and oil markets along with the impact of the coronavirus (COVID-19). It is very likely that the assumptions used by both BRO and the Executive will deviate from actual experience. We expect sales tax revenue to be adversely impacted in 2020 from lower gas prices and lower consumption of consumer goods due to supply shortages and changing consumer patterns in reaction to the Coronavirus. We anticipate that the public will self-quarantine by avoiding public events and places, including restaurants, movie theaters and shopping malls. This behavior may also adversely impact 2020 General Fund OTB revenue from Jake's 58, which is $25 million.

The Budget Review Office and the Executive's Budget Office will make their annual joint budget model presentation later in the year. At that time, both offices will have updated budget projections.

The most significant difference between the Budget Review Office multi-year projections and the Executive's MYP is the 2019 year-ending General Fund deficit. The MYP uses the 2019 estimated deficit of $14.6 million, while the BRO multi-year projection updates the 2019 estimated deficit to include the 2019 actual sales tax revenue. This adjustment increases the 2019 year-end deficit by $9.2 million to $23.9 million. The 2019 actual sales tax revenue was not available prior to the MYP report date, January 24, 2020.

While there are differences between the BRO projections and the MYP on a year to year basis, when taken in total for both the General Fund and Police District over the four years (2020 – 2023), the difference between the two projections is $10 million. Both BRO and MYP project positive fund balances in 2022 and in 2023.

While there are a number of areas where BRO has made assumptions that are similar to or more optimistic than the Executive's MYP, our 2020 – 2021 General Fund projections include a $17.9 million deficit in 2020 that adversely impacts the 2021 budget.

General Fund Surplus or Deficit, by Year

Source of Projection	2020 Proj	2021 Proj	2022 Proj	2023 Proj	Total
County Executive MYP	$0	$33,817,749	$23,356,686	$11,377,172	$68,551,607
BRO Projected MYP	($17,858,854)	$9,850,636	$31,302,089	$32,238,397	$55,532,268
BRO minus CE MYP	($17,858,854)	($23,967,113)	$7,945,403	$20,861,225	($13,019,339)

Police District Surplus or Deficit, by Year					
Source of Projection	**2020 Proj**	**2021 Proj**	**2022 Proj**	**2023 Proj**	**Total**
County Executive MYP	$0	$19,696,928	$13,920,835	$6,995,403	$40,613,166
BRO Projected MYP	$1,565,023	$17,149,741	$15,047,570	$10,143,152	$43,905,487
BRO minus CE MYP	$1,565,023	($2,547,187)	$1,126,735	$3,147,749	$3,292,321

By the end of 2023, BRO's projection would yield a General Fund surplus of $55.5 million, which is $13.2 million less than the Executive's MYP and a $43.9 million surplus in the Police District, which is $3.3 million greater than the Executive's MYP. This outcome assumes all of the BRO's and the Executive's assumptions are realized. Inherent with multi-year projections are the risks associated with assumptions; it is likely that actual scenarios will deviate from the assumptions. The degree of deviation, either in a positive or negative way, will ultimately determine the accuracy of the projections and may result in lower than forecasted surpluses and/or deficits.

We must also note that our 2020 projection results in a $17.9 million General Fund deficit. This deficit is primarily due to sales tax revenue shortfalls in the 2019 Estimated Budget and the projected shortfall in the 2020 Adopted Budget. More details can be found in the Sales Tax Revenue section later in this report.

Economic Factors

BRO retained the services of an analytics firm to provide forecasts of various relevant economic indicators. Using that data, BRO constructed its model to forecast sales tax revenue. Our model is generally driven by the relationships between employment in Suffolk County, the Gross Domestic Product (GDP) of Suffolk County, and national GDP. We assume that using forecasts for these top-line indicators will implicitly include projections for factors such as fiscal and monetary policy, inflation, consumer spending and confidence, and growth or decline in various employment sectors. Therefore, we believe that our model is sufficiently comprehensive.

Based on forecasts as of March 2, growth in Suffolk employment is projected to essentially be flat during 2020-2023, with a peak average growth rate of 0.22% in 2020. Meanwhile, Suffolk GDP is forecasted to grow by an average of 1.6% per year from 2020-2023, with lower forecasts in 2020 and 2021. These conservative forecasts have likely begun to factor in the worldwide impact of coronavirus, a significant risk factor for our projections. It is possible that the adverse impact to global financial markets, supply chains and consumer activity may be greater than the factors implied in our forecasts.

This risk is more prominent in our forecast data for national GDP, since the most recent available forecast data was calculated on February 11. The average national GDP growth used in our forecasts is 2.21% for the 2020-2023 time period, a number that may be too optimistic given the rapidly changing global economic environment. While this optimism is tempered in our model by the conservative outlook for Suffolk County, there is still a downside risk for our sales tax projections based on the forecasts used. As noted, this risk may be further compounded as the global financial impact of coronavirus becomes known.

Sales Tax Revenue

The following table displays our projection for sales tax revenue from 2019-2023 in comparison to what the Executive has projected in the MYP.

Year	BRO Total Sales Tax	CE MYP Total Sales Tax	Delta	Sum Delta
2019 Proj	$1,511,980,733	$1,521,252,660	($9,271,927)	($9,271,927)
2020 Proj	$1,554,833,762	$1,576,741,372	($21,907,610)	($31,179,536)
2021 Proj	$1,588,258,640	$1,608,276,199	($20,017,559)	($51,197,096)
2022 Proj	$1,642,952,675	$1,640,441,723	$2,510,952	($48,686,144)
2023 Proj	$1,695,322,085	$1,673,250,558	$22,071,527	($26,614,617)

In total, our projected multi-year sales tax revenue is $26.6 million less than the Executive's multi-year projection. We have included 2019 in this analysis to account for the actual 2019 sales tax revenue, which is displayed in the previous table as the BRO figure for 2019. The Executive's MYP assumed that the 2019 estimated sales tax revenue included in the 2020 Adopted Budget was accurate, since the 2019 actual sales tax revenue was not known when the MYP was released. We now know that the County experienced a $9.27 million shortfall in 2019 sales tax revenue, which creates a General Fund deficit at the start of the 2020 budget year.

In addition to the lower starting base in 2020, our projection also assumes a lower growth rate than the MYP in 2020. Additionally, our model shows higher growth rates from 2021 through 2023, based upon the aforementioned forecasts for national GDP. Although we do not have current forecasts to statistically justify a lower projection, the current state of global economics may indicate that our projection is too optimistic. With that said, our potentially optimistic forecast is nevertheless lower than the Executive's in total dollars. The following table shows our projected sales tax growth rates in comparison to the MYP.

Year	BRO Sales Tax Growth Rate	CE MYP Sales Tax Growth Rate	Delta
2019 Proj	3.98%	4.62%	-0.64%
2020 Proj	2.83%	3.65%	-0.82%
2021 Proj	2.15%	2.00%	0.15%
2022 Proj	3.44%	2.00%	1.44%
2023 Proj	3.19%	2.00%	1.19%

Our model also assumes that the County will realize an additional $10 million in sales tax revenue in the first half of 2020 due to increased collections of internet-based sales tax, the same as the Executive. We assume that any further internet-based sales tax revenue in 2020 and beyond is implicitly forecasted within the parameters of our projection.

For comparison purposes to the Executive's MYP, BRO used the same sales tax allocation in the Police District, which assumes that the allocation will increase by 2% each year. The allocation of sales tax to the Police District is discretionary and can be set to any amount between zero and three-eighths of one percent. If the Police District is projected to have a surplus, the sales tax allocation can be reduced, which would provide additional revenue for the General Fund.

Property Tax Revenue

BRO projection includes the MYP assumption that budgeted property tax in the General Fund will remain constant at $49 million annually, with a $7 million allowance for uncollected property tax revenue each year. This approach ensures that the County can still be "on budget" for property tax if it collects at least $42 million of the $49 million tax warrant, after all other taxing jurisdictions are "made whole" as required by the Suffolk County Tax Act.

For the Police District, the MYP assumes a growth rate of 1.81% per year in property tax revenue, based on the allowable tax levy growth factor for school districts recently released by the State Comptroller. While this is not the only factor included as part of the New York State property tax cap law, the assumption used by the Executive is reasonable and may even be conservative. In February 2020, the State Comptroller released the allowable tax levy growth factor for counties, which was capped at the 2% maximum. For reference, the allowable levy growth factor for the County was 2% in 2019 as well, which yielded a maximum allowable property tax cap increase of 2.85% in 2020.

We used the Executive's conservative assumption of an annual 1.81% Police District property tax increase for our projections, since the Executive can choose to raise property taxes by a lower amount than the allowable increase under the cap. If the allowable increase is greater than 1.81% and the Executive wishes to raise taxes up to that higher amount, that represents potential revenue upside beyond the property tax revenue projections in the MYP.

OTB Revenue

Additional revenue generated by video lottery terminals (VLTs) at Jake's 58 is a key reason that the County is projected to be able to generate surpluses during the 2020-2023 timeframe. As noted in the MYP, the Suffolk Regional Off-Track Betting Corporation (SROTB) filed for Chapter 9 bankruptcy and established a plan to pay back creditors. In recent months, the VLTs at Jake's 58 have generated far greater revenue per machine than previously anticipated, allowing SROTB to accelerate its debt repayment schedule. Once the debts are fully paid later this year, the County will be entitled to a higher portion of revenue from VLTs.

The MYP assumes that the County will receive $25 million in VLT revenue in 2020 and $33 million per year from 2021 to 2023. We agree with the 2020 projection of $25 million; however, our projection for 2021-2023 is $30 million in VLT revenue per year. Our projection is based on the information provided in the May 2019 presentation by OTB that detailed the status of VLTs at Jake's 58. While it is possible that the Executive has received a more recent projection, we prefer to be slightly more conservative in light of the economic uncertainty on the horizon.

State and Federal Aid

Our revenue projections for General Fund state aid and federal aid assume the reimbursement rates would remain the same and revenue would increase annually as expenditures increased. During the period 2020 through 2023 we project state aid to increase by approximately 2.5% annually, while the County Executive projects annual increases of less than 2%. This variance accounts for a $19.7 million difference over the 4 years. We assume federal aid will increase by less than one percent annually, which is similar to the County Executive. During the 4-year period on revenue totaling $806 million, our federal aid projection is $2.7 million greater than the County Executive's projection.

Personal Services

To project permanent salaries (obj 1100) we used the February 9, 2020 biweekly payroll as a base. All salaries were increased for steps and collective bargaining agreements where applicable. For bargaining units without a contract, we made realistic assumptions based upon recent collective bargaining agreements. We assumed the same number of retirements and hires each year as the County experienced in 2019 with adjustments for criminal justice reform. Those adjustments include filling new positions in the District Attorney's Office and the Medical Examiner's Office for changes in discovery, and omitting the 2020

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Correction Officer class due to bail reform. To calculate terminal pay, we multiplied the number of retirements by the bargaining unit average in the 2019 W-2 report and adjusted it for contractual raises. All other salaries (excluding permanent salaries and terminal pay) were calculated based on a four-year average of the ratio of these expenses to permanent salaries. Lastly, we adjusted our projections for chargebacks to the Grants Management Fund.

In general, BRO projects annual personnel costs (1000s) to be less than in the Executive's MYP. While the assumptions affecting the projection are multivariate, our model is sensitive to the number of retirements, which have been historically high in recent years, particularly for public safety employees. BRO projects that the trend of replacing a larger amount of higher-paid senior employees with entry-level employees will continue to mitigate costs going forward. If workforce attrition is 20% less than our projections, BRO's combined General Fund and Police District costs, which may vary from the MYP on a year-to-year basis, are substantially similar to the MYP over the four-year period.

BRO					
Fund	**2020 Proj**	**2021 Proj**	**2022 Proj**	**2023 Proj**	**Total**
001	$590,393,015	$593,533,926	$600,532,163	$613,978,273	$2,398,437,377
115	$374,132,926	$370,354,929	$374,876,223	$382,088,107	$1,501,452,185
Total	**$964,525,942**	**$963,888,855**	**$975,408,386**	**$996,066,379**	**$3,899,889,562**

MYP					
Fund	**2020 Proj**	**2021 Proj**	**2022 Proj**	**2023 Proj**	**Total**
001	$603,552,009	$609,178,264	$613,247,658	$619,089,375	$2,445,067,306
115	$372,727,039	$373,144,892	$378,341,435	$383,745,872	$1,507,959,238
Total	**$976,279,048**	**$982,323,156**	**$991,589,093**	**$1,002,835,247**	**$3,953,026,544**

BRO-MYP					
Fund	**2020 Proj**	**2021 Proj**	**2022 Proj**	**2023 Proj**	**Total**
001	($13,158,994)	($15,644,338)	($12,715,495)	($5,111,102)	($46,629,929)
115	$1,405,887	($2,789,963)	($3,465,212)	($1,657,765)	($6,507,053)
Total	**($11,753,106)**	**($18,434,301)**	**($16,180,707)**	**($6,768,868)**	**($53,136,982)**

Pension Costs

The County's pension costs have grown significantly during the past several years. This situation required the County to amortize portions of the pension costs over several years as allowed by the NYS Retirement Systems. The amortization programs offered by the State helped to mitigate the impact of the large spikes in required contribution levels. During the period 2011 – 2018, the County amortized

$384.4 million in contribution payments for total debt with interest of $471.4 million. This obligation must be repaid in full no later than February 2030. The final payment of the County's first amortization (2011) of $19.1 million will occur in 2021. The County paid its full pension obligation in both 2019 and 2020. The County Executive's MYP assumes that the County will continue to pay its pension obligation in full going forward. The New York State Local Retirement System projects a slight increase in contribution rates between 2020 and 2021, primarily attributed to a change in the assumed internal rate of return from 7.0% to 6.8%. However, long term contribution rates are projected to decline, mostly explained by less lucrative benefits for new tier 6 members and changes to actuarial mortality assumptions.

The BRO pension cost projections are slightly higher than the Executive's MYP, as illustrated in the following table.

Suffolk County Pension Expense Estimates				
Source of Projection	**2020 Proj**	**2021 Proj**	**2022 Proj**	**2023 Proj**
BRO Projected MYP	$242,418,338	$248,565,948	$246,328,329	$243,081,957
County Executive MYP	$236,000,000	$236,000,000	$234,000,000	$229,000,000
BRO minus CE MYP	$6,418,338	$12,565,948	$12,328,329	$14,081,957

The BRO 2020 estimate is $6.4 million greater than the MYP. Our projection is based upon the 2020 invoice provided by the NYS Retirement Systems and the actual pension expenditures of $242,414,080 per the Feb 1, 2020 County financial system (IFMS). The BRO 2021 pension expense estimate, which is $12.5 million greater than the MYP, reflects the NYS Retirement Systems' estimated pension expense for Suffolk. Both BRO and the Executive project the 2022 pension expense to decrease by approximately $2 million. In 2023, BRO projects a conservative decrease of slightly more than $3 million while the Executive projects a $5 million pension reduction.

Employee Medical Health Plan

The Suffolk County Employee Medical Health Plan (EMHP) accounts for 14.2% ($456.7 million) of the County's 2020 $3.2 billion Adopted Operating Budget. The major cost components of this County-funded self-insured plan in 2020 are: major medical claims ($138.1 M), hospital claims ($150.5 M), prescription drug claims ($136.0 M), and Medicare Reimbursement claims for retirees ($19.8 M). The County and the unions have negotiated Plan modifications within the 2019 EMHP memorandum of agreement (MOA) in order to mitigate rapidly rising healthcare costs. Additionally, for the first time ever, the MOA requires all active employees to contribute towards the cost of their health insurance benefits. There are provisions in the MOA that could generate $13 million in additional savings annually beginning in 2021, which would also positively impact the overall growth trend.

We project EMHP expenditures to increase 6% annually during the next four years. This rate is consistent with the Plan's average actual annual growth during the past five years (2014-2018) of 6% and is one-half percent higher than the Plan's average actual annual growth during the last ten years (2009-2018) of 5.5%. The MYP assumes an average annual growth rate of 6.89% during 2021-2023. The following table illustrates EMHP cost projections for 2020-2023 in which BRO projections differ from those of the Executive by as little as -0.2% to as much as 1.8% depending upon the assumptions employed.

EMHP Expense Estimates					
Source of Projection	2020 Proj	2021 Proj	2022 Proj	2023 Proj	Total
BRO Projected MYP	$461,676,090	$489,379,835	$518,742,626	$549,867,183	$2,019,665,734
BRO Projection with $13 M recurring savings	$461,676,090	$476,379,835	$504,962,626	$535,260,383	$1,978,278,934
County Executive MYP	$457,000,000	$481,000,000	$519,000,000	$558,000,000	$2,015,000,000
BRO minus CE MYP	$4,676,090	$8,379,835	($257,374)	($8,132,817)	$4,665,734
BRO with $13 M savings minus CE MYP	$4,676,090	($4,620,165)	($14,037,374)	($22,739,617)	($36,721,066)

Equipment and Supplies

The MYP includes an annual 2% increase in expenditures for equipment, supplies and materials each year, with the exception of 2021 in the General Fund, which is essentially flat. After reviewing the actual expenditures of the past five years, we find the Executive's assumption of 2% to be reasonable. There was significant variation in year-to-year spending at times; however, these fluctuations were mostly attributable to storm migration and grants relating to homeland security. As a result, we have assumed an annual increase of 2% for these categories from 2021-2023.

Contractual Expenses

Contractual Expenses include the following major components; fees for services, utilities, and contracted agencies. The 2020 Adopted Budget includes $982 million in this category. The Budget Review Office projects contractual expenses to be $37.5 million greater than the County Executive's projection through 2023. This difference is attributable to our assumption that the Medicaid Cap Payment will increase 2% annually, while the County Executive anticipates no increases through 2023. Our projection assumes that the 2020 Adopted Budget's Medicaid Cap Payment of $235.6 million will increase by $20 million in 2023 to $255 million.

Aside from the Medicaid Cap Payment, the County Executive's contractual expense projections are reasonable.

BRO Projection				
001 - General Fund				
Revenue	**2020 Projected**	**2021 Projected**	**2022 Projected**	**2023 Projected**
Real Property Taxes	$49,036,632	$49,036,632	$49,036,632	$49,036,632
Non Property Taxes	$1,460,181,955	$1,496,067,387	$1,547,003,131	$1,595,732,913
Real Property Tax Items	$49,804,647	$49,804,647	$49,804,647	$49,804,647
Departmental Income	$149,322,607	$149,322,607	$149,322,607	$149,322,607
Charges to Other Governments	$15,777,701	$15,777,701	$15,777,701	$15,777,701
Uses of Money & Property	$22,894,480	$22,894,480	$22,894,480	$22,894,480
Capital Fund Earnings	$988,000	$988,000	$988,000	$988,000
State Aid	$281,568,922	$288,533,513	$295,776,609	$303,311,029
Federal Aid	$200,627,238	$200,806,954	$202,750,238	$204,714,516
Interfund Revenue	$62,473,932	$63,083,236	$64,080,256	$65,034,901
Total Revenue	**$2,292,676,114**	**$2,336,315,157**	**$2,397,434,302**	**$2,456,617,426**
Expenditures	**2020 Projected**	**2021 Projected**	**2022 Projected**	**2023 Projected**
Personal Services	$590,393,015	$593,533,926	$600,532,163	$613,978,273
Equipment	$1,268,331	$1,293,698	$1,319,572	$1,345,963
Supplies, Materials & Other Expenses	$35,922,087	$36,640,529	$37,373,339	$38,120,806
Contractual Expenses	$986,839,442	$1,004,396,221	$1,019,834,483	$1,040,013,997
Other	$7,000,000	$7,000,000	$7,000,000	$7,000,000
Principal on Debt	$91,269,015	$90,948,362	$97,465,208	$105,770,462
Interest on Indebtedness	$43,312,168	$44,006,789	$43,322,704	$43,034,000
Employee Benefits	$178,803,068	$181,529,026	$179,523,065	$178,672,532
Interfund Transfers	$351,806,498	$367,115,970	$379,761,679	$396,442,996
Total Expenditures	**$2,286,613,625**	**$2,326,464,521**	**$2,366,132,212**	**$2,424,379,029**
Operating Surplus/(Deficit)	$6,062,490	$9,850,636	$31,302,089	$32,238,397
Opening Fund Balance	($23,921,344)	($17,858,854)	($8,008,218)	$0
Transfer to Contingency Fund and/or Reserves	$0	$0	$23,293,871	$32,238,397
Ending Fund Balance	**($17,858,854)**	**($8,008,218)**	**$0**	**$0**

BRO Projection				
115 - Police District				
Revenue	**2020 Projected**	**2021 Projected**	**2022 Projected**	**2023 Projected**
Real Property Taxes	$607,963,890	$618,968,036	$630,171,358	$641,577,459
Non Property Taxes	$32,212,733	$32,856,988	$33,514,127	$34,184,410
Real Property Tax Items	$10,846,328	$10,846,328	$10,846,328	$10,846,328
Departmental Income	$3,142,340	$3,142,340	$3,142,340	$3,142,340
Charges to Other Governments	$115,000	$115,000	$115,000	$115,000
Uses of Money & Property	$2,874,871	$2,874,871	$2,874,871	$2,874,871
State Aid	$200,000	$200,000	$200,000	$200,000
Interfund Revenue	$38,428,396	$38,074,564	$36,718,658	$33,372,092
Total Revenue	**$695,783,558**	**$707,078,127**	**$717,582,682**	**$726,312,500**
Expenditures	**2020 Projected**	**2021 Projected**	**2022 Projected**	**2023 Projected**
Personal Services	$374,132,926	$370,354,929	$374,876,223	$382,088,107
Equipment	$49,410	$50,398	$51,406	$52,434
Supplies, Materials & Other Expenses	$3,025,818	$3,086,334	$3,148,061	$3,211,022
Contractual Expenses	$12,109,450	$12,159,015	$12,209,572	$12,261,139
Principal on Debt	$4,489,307	$4,804,851	$5,265,309	$3,996,170
Interest on Indebtedness	$1,311,734	$1,398,378	$1,498,227	$1,611,693
Employee Benefits	$123,590,784	$127,876,754	$129,582,349	$129,487,022
Interfund Transfers	$164,312,409	$170,197,726	$175,903,964	$183,461,761
Total Expenditures	**$683,021,838**	**$689,928,386**	**$702,535,112**	**$716,169,348**
Operating Surplus/(Deficit)	$12,761,720	$17,149,741	$15,047,570	$10,143,152
Opening Fund Balance	($11,196,697)	$0	$0	$0
Transfer to Contingency Fund and/or Reserves	$1,565,023	$17,149,741	$15,047,570	$10,143,152
Ending Fund Balance	**$0**	**$0**	**$0**	**$0**