<u>Statement of the Directors of the Nassau County Interim Finance Authority in Connection with Their Conditional Approval of Nassau County's Multi-Year Plan for FY 2012 - 2015</u>

Pursuant to Sections 3667(2) and 3669(2)(a) of the N.Y. Public Authority Law, Chapter 43-A (the "NIFA Act"), the Nassau County Interim Finance Authority ("NIFA") approves the FY 2012 – 2015 Multi-Year Financial Plan ("MYP") adopted by Nassau County (the "County"), the first year of which is the County's 2012 Budget. This Statement of Approval reviews certain circumstances and reasons for NIFA's action and highlights certain conditions and caveats embodied in NIFA's approval.

The County Charter prescribes an annual budgeting cycle whereby the County Legislature adopts by October 30 an annual multi-year financial plan, the first year of which is the County's budget for the fiscal year beginning January 1. During a Control Period, as defined by the NIFA Act, NIFA must approve or disapprove the financial plan and budget adopted through the annual budget cycle. *See* NIFA Act § 3669(2)(a). The MYP currently before NIFA resulted from the first budgeting cycle since NIFA's declaration of the current Control Period on January 26, 2011. As such, this is the first occasion for NIFA to exercise its right of approval or disapproval under Section 3669(2)(a).

The economic realities of the County for Fiscal Year 2012 provide a particularly challenging backdrop for NIFA's consideration of the MYP. Although the judgment of NIFA Directors is grounded in their independent assessment of a constellation of factors, and no formula governs NIFA's analysis, the following five circumstances are worthy of elaboration.

First, even though the County and NIFA worked together for months to identify a number of opportunities for budgetary relief, the opportunities identified to date cannot close the statutory gap projected for 2012 and the out years of the MYP.

The County has taken a number of steps designed to reduce the structural imbalance in its finances and provide budgetary relief for FY 2011 and beyond. For example:

- To address its tax certiorari ("Tax Certs") problem, the County adopted legislation to end the so-called County Guaranty by 2013.
- The County laid off 128 full-time employees in June 2011.
- The County has implemented a "soft" hiring freeze reducing the number of refilled positions below historical rates.
- The County generated savings by outsourcing medical care of Correctional Center inmates.

- The County reduced its contracts budget, as well as its capital spending plan.

Still, the structural deficit remains significant in 2011 and throughout the term of the MYP. In fact, the County Comptroller recently projected a potential cash deficit in 2011 of $84.7 million, even after the use of $35.7 million in bond proceeds already on hand for Tax Certs. The outlook for FY 2012 is even more challenging, as reflected in the December 8, 2011 NIFA staff report on the MYP.

Second, transitional borrowing to help close the gap is reasonably necessary to avoid a shutdown of County government services and, concomitantly, a potentially unreasonable burden on the County citizens and workforce. The NIFA Act allows such borrowing during a control period with NIFA's approval and pursuant to a plan achieving fiscal balance by its final year.

An important consideration in NIFA's evaluation of transitional borrowing is that the County no longer claims that borrowed funds to pay Tax Certs should be counted as revenues. That is, the County acknowledges that its 2012 Budget is not balanced under the NIFA Act, requiring continuation of the Control Period. In addition, NIFA's approval of the MYP is no substitute for NIFA's independent approval of any particular borrowing transaction. Each borrowing will need to be presented to NIFA during the Control Period, and borrowing that is imprudent under all the circumstances will be rejected.

Third, NIFA is mindful that disapproval of the MYP may deprive the County of important access to the public markets to satisfy its immediate cash flow needs. The Directors voiced this significant concern at NIFA's last public meeting and embedded it in NIFA's resolution of October 6, 2011 urging remediation of the County Executive's proposed MYP. The County Legislature responded in a number of ways, including the addition of provisions in the MYP requiring recurring labor savings, achieved if necessary by layoffs, furloughs or other actions.

Fourth, in a Control Period, NIFA retains the right to revisit – and, if warranted, disapprove or even modify – an approved financial plan as the fiscal year unfolds. This significant authority allows NIFA to send the County back to the drawing board if the assumptions underlying the MYP prove unfounded. And if the County fails to remedy the deficiency to NIFA's satisfaction, then NIFA is authorized to modify the MYP on its own. Thus, NIFA's oversight during the 2012-15 period does not end with approval of the MYP. Instead, a new phase of oversight has just begun. For example, all County contracts must be consistent with the MYP, and NIFA may order County officials, as warranted, to comply with the MYP. And if actual results of County operations fail to meet projections, the MYP will be modified.

Fifth, it bears emphasis that no particular line item of the MYP is sanctioned by NIFA by its mere inclusion in the MYP. Perhaps the most important example is the wage freeze on County personnel, which the MYP projects to remain in place through the close of 2015. The current wage freeze began March 24, 2011 and, by statute, remains in force for one year. Wages will remain frozen thereafter only if NIFA, in March 2012, finds that the County remains in fiscal crisis and that continuation of the freeze is essential to the adoption of a balanced financial plan. Currently, the wage freeze is essential to the County's effort to strive for balance in Fiscal Year 2011. But NIFA does not pre-judge today the fiscal condition of the County in March 2012.

The MYP approved by NIFA today is far from perfect and contains significant risks that need close monitoring. But the drastic alternatives – a government shutdown, a cash crisis or worse – call for restraint at this stage. NIFA approves the MYP mindful of, among other things, (i) NIFA's power over the MYP during the control period, (ii) the conditions on approval set forth in the Resolution to which this Statement is annexed; and (iii) the best interests of County residents and employees in these challenging economic conditions.

Dated: December 8, 2011

By the NIFA Directors