NASSAU COUNTY INTERIM FINANCE AUTHORITY
MINUTES OF THE MEETING OF THE DIRECTORS
HELD ON JULY 14, 2011

Pursuant to notice dated July 11, 2011, a meeting of the Nassau County Interim Finance Authority ("NIFA") was convened at 4:00 PM at the Marriott Long Island Hotel & Conference Center located at 101 James Doolittle Blvd, Uniondale, NY 11553.

The following Directors of the Authority were present:

Ronald Stack, Chairman
George Marlin
Leonard Steinman
Thomas Stokes
Robert Wild
Christopher Wright

Also present from the Authority were Evan Cohen, Executive Director; Jeremy Wise, General Counsel; Maria Kwiatkowski, Deputy Director; Jane Cunneen, Acting Treasurer; and Laurie Boucher, Corporate Secretary.

Upon determining that a quorum was present, the Chairman called the meeting to order.

Chairman Stack then asked Executive Director Cohen to go through the items on the agenda.

Executive Director Cohen stated that the first item on the agenda was a resolution to approve the minutes of the May 2, 2011 Directors' meeting.

Upon motion duly made and seconded, the following resolution was approved unanimously:

Resolution No. 11-322

APPROVAL OF MINUTES AND RATIFICATION OF ACTIONS TAKEN AT THE MAY 2, 2011 MEETING OF THE DIRECTORS OF THE NASSAU COUNTY INTERIM FINANCE AUTHORITY

RESOLVED, that the Minutes of the meeting of the Authority held on May 2, 2011 are hereby approved and all actions taken by the Directors present at such meeting, as set forth in such Minutes, are hereby in all respects ratified and approved as actions of the Authority.

* * *

Executive Director Cohen stated that the next item on the agenda was a resolution selecting Grant Thornton to assist NIFA in reviewing County operational, structural, and financial matters as well as to provide other related advisory services on an as-needed basis. He stated that NIFA received eight responses to an RFP and Directors Stack, Marlin, Wright and Stokes independently reviewed those responses and based on a scoring sheet selected Grant Thornton.

Director Wild noted that Grant Thornton also had been previously engaged by the Board for the purpose of providing NIFA advice regarding the wage freeze and other financial matters.

Upon motion duly made and seconded, the following resolution was approved unanimously:

Resolution No. 11-323

APPOINTING A CONSULTANT TO PROVIDE AN OPERATIONAL, STRUCTURAL AND FINANCIAL REVIEW OF NASSAU COUNTY

RESOLVED, that the materials presented to this meeting (the "Materials) are ordered to be filed with the records of the Nassau County Interim Finance Authority (the "Authority); and be it further

RESOLVED, that based upon the Material presented to this meeting, the employment of Grant Thornton LLP (the "Firm") is hereby authorized substantially upon the terms outlined in the Materials; and be it further

RESOLVED, that the Chairman of the Authority or his designees(s) be, and each of them hereby is, authorized in the name and on behalf of the Authority to execute and deliver any and all documents and to take all actions as he or she may in his or her sole discretion consider necessary or proper to effectuate the foregoing and related actions; and be it further

RESOLVED, that all actions heretofore taken by the Chairman or his designee(s) to implement this resolution, including but not limited to the engaging the Firm prior to this resolution, are hereby ratified and confirmed.

* * *

Chairman Stack asked Executive Director Cohen to briefly outline staff's review of the County mid-year financial plan update.

Executive Director Cohen stated that the County's budgetary level of risk for fiscal year 2011 on a GAAP basis continues to exceed, by multiple times, the one percent threshold mandating the imposition of a control period. He stated that the County's current plan for fiscal year 2012 lacked sufficient detail for NIFA to make a favorable determination on the likelihood of avoiding a one percent deficit. He stated that the County expected to close a significant portion of the projected gap in 2012 through a public-private partnership transaction which will be difficult to execute, let alone execute in a timely manner. He also noted that it may provide limited budgetary relief under GAAP. Executive Director Cohen stated that the report of staff discussed other concerns NIFA had regarding the County's assumptions for expense reductions through departmental efficiences, labor savings, and property tax refunds. He concluded that NIFA found that the gap closing plan included in the update is unlikely to result in budgetary balance in 2011 and the out years in accordance with GAAP and therefore, recommended that the Directors disapprove the update and return it to the County for modification with special attention to 2012.

Chairman Stack stated that the resolution directs the County to prepare a new and balanced financial plan which must incorporate $225 million in adjustments for 2012 to allow for the removal of a number of items, including $150 million for a privatization project. He stated that even if the project was ready in time, it would not be allowed under GAAP. He stated that the $23 million in red light cameras should not be included unless it is passed by the State. He further stated that the $33 million in labor concessions is not specific and unacceptable, and a wage freeze which presumes the absence of other options should not be included in the Plan. He also stated that the County should revise its estimate of property tax refunds from $50 million to $70 million. Chairman Stack stated that the County must submit the updated plan by July 28th.

Chairman Stack stated that he expected the County officials to produce a detailed budget on September 15 and live up to their responsibilities as elected officials by making the hard decisions that will bring the budget into balance.

Director Wild agreed with the Chairman's comments.

Director Wright agreed with the Chairman's comments and stated that this will give the County time to produce a meaningful 2012 budget.

Director Stokes stated that it is time for a clear strategy and everything must be put on the table. He stated that Mr. Sullivan's presentation was a good start and that Grant Thornton will raise some issues to discuss.

Director Marlin agreed with the Chairman and Directors and stated that he will give some expanded remarks at the conclusion of the meeting.

Upon motion duly made and seconded, the following resolution was approved unanimously:

Resolution No. 11-324

DISAPPROVING NASSAU COUNTY'S MIDYEAR FINANCIAL PLAN AND ORDERING A NEW PLAN WITH A PRESCRIBED FORMAT FOR FISCAL YEAR 2012 IN PARTICULAR

WHEREAS, on January 26, 2011, after adopting a resolution imposing a control period based on a likelihood and imminence of a major operating funds deficit of more than one percent for FY 2011, NIFA directed the County Executive to submit a financial plan that was balanced; and

WHEREAS, on March 22, 2011, shortly after withdrawing the County's lawsuit challenging the control period, the County Executive submitted to NIFA a plan of proposed revisions to the FY 2011 budget to address the deficit, including layoffs and a furlough of County personnel; and

WHEREAS, on March 24, 2011, at a public meeting, the NIFA Chairman stated that the County's budget for 2011 was still not balanced notwithstanding the March 22 revisions because of, among other reasons, the risks associated with various revenue and cost-savings initiatives; and

WHEREAS, on June 16, 2011, NIFA announced its engagement of a consultant to strategically review the County's finances and operations in order to formulate suggestions to help the County achieve structural balance in general and balance its budget for Fiscal Year 2012 in particular; and

WHEREAS, on June 24, 2011, the County Executive submitted to NIFA his Multi-Year Financial Plan (Update) Fiscal 2011-2014 (the "Midyear Plan"), which purports to reflect balance on a "budgetary basis of accounting," whereas the County is required by law to have a financial plan that is balanced according to Generally Accepted Accounting Principles ("GAAP"); and

WHEREAS, the Midyear Plan is the first four-year financial plan delivered to NIFA since the imposition of the control period, offering a strategy for Fiscal Year 2012 and beyond; and

WHEREAS, on June 29, 2011, the County Legislature approved a proposal by the County Executive for fewer layoffs than those contained in the County Executive's March 22 budgeting proposal rejected by NIFA; and

WHEREAS, the NIFA Staff has prepared a report (the "Report") reviewing the Midyear Plan, and NIFA hereby adopts the Report, which is attached to and incorporated into this Resolution; and

WHEREAS, the Report shows that the County continues on a path that will not achieve the fiscal balance required by law in Fiscal Year 2011 and the later years of the plan; and

WHEREAS, of even greater concern to NIFA, the Report shows that the County has no viable strategy to approach fiscal balance in Fiscal Year 2012, during which the County faces greater budgetary challenges than those that triggered the control period; and

WHEREAS, the NIFA Act contemplates that during a control period the County will conduct its operations in conformity with a four-year financial plan approved by NIFA, *see* NIFA Act § 3669(2)(a); and

WHEREAS, during a control period NIFA, among other things, "shall . . . prescribe the form of a financial plan and the supporting information required in connection therewith" and "exercise the rights of approval, disapproval and modification with respect to the financial plan, including but not limited to the revenue estimates contained therein," NIFA Act § 3669(2)(a)(ii) & (iii); and

WHEREAS, NIFA "shall issue, to the appropriate official of the county . . . such orders as it deems necessary to accomplish the purposes of [the NIFA Act], including, but not limited to timely and satisfactory implementation of an approved financial plan," NIFA Act § 3669(2)(f);

NOW, THEREFORE, BE IT RESOLVED, that NIFA hereby disapproves the Midyear Plan;

AND BE IT FURTHER RESOLVED, that in order to achieve timely development of an approved financial plan covering Fiscal Years 2012-2015, NIFA deems it necessary for the County to submit by July 28, 2011 a revised Midyear Plan presenting a realistic strategy for achieving the fiscal balance required by law in Fiscal Years 2011-2014;

AND BE IT FURTHER RESOLVED, that such revised Midyear Plan shall describe specifically for Fiscal Year 2012 projected revenues and expenditures and the County's plan for achieving balance in Fiscal Year 2012 in accordance with GAAP;

AND BE IT FURTHER RESOLVED, that NIFA, as a first step, hereby prescribes that the format of the revised Midyear Plan incorporate for Fiscal Year 2012 at least $225 million in budgetary relief (identifying specific revenue sources and/or expense reductions) in order to offset the following prescribed changes in projections for Fiscal Year 2012:

(i) The $150 million projection of budgetary relief from privatization of the County's wastewater system shall be eliminated because the County has not provided any documentation that this novel initiative is feasible, and only a portion of projected payments to the County from this initiative could in any event be recognized as revenue under GAAP; and

(ii) The projected $23 million in revenue from expansion of the Red Light Camera initiative shall be eliminated because the execution risk is unacceptably high; and

(iii) The projected $33 million in additional savings from union concessions, layoffs and/or continued NIFA wage freeze shall be eliminated because the County has not adequately demonstrated an ability to achieve such labor savings, and continuation of the wage freeze through the end of Fiscal Year 2012 presumes prematurely the absence of other gap-closing options; and

(iv) The cost of payment of property tax refunds shall be increased by $20 million (projected at no less than $70 million, rather than the $50 million figure in the

Midyear Plan), which more realistically reflects the County's historical liability for such refunds.

* * *

STAFF REVIEW OF THE MULTI-YEAR FINANCIAL PLAN UPDATE
FISCAL 2011 – 2014
July 14, 2011

I. Overview

On June 24, 2011 the County submitted its Multi-Year Financial Plan Update (the "Update"). The following discussion reflects the observations of staff regarding their submission.

The explanatory text in the Update is less than five pages. The Update reflects the County's proposed actions to ensure balance on a purported "budgetary basis of accounting," even though the County Executive is required by the NIFA Act to submit a plan that is balanced in accordance with Generally Accepted Accounting Principles ("GAAP"). No "budgetary basis of accounting" is recognized by any professional or regulatory agency or association. The County's budgetary level of risk for FY 2011 on a GAAP basis continues to exceed, by multiple times, the one percent threshold mandating the imposition of a Control Period.

Regrettably, the Update is not reassuring; in fact, it indicates that the County is moving in the wrong direction. Many proposed gap-closing actions have either been postponed, scaled back, or are expected to produce outsized savings in the second half of the year. The time left for the County to reverse course and aggressively mitigate these growing risks is rapidly expiring.

These obvious deficiencies are further exacerbated by the County's failure to include enough detail to allay our concerns regarding the County's likelihood of success in FY 2011. Moreover, we are extremely skeptical that the foundation laid in the current budget will be sufficient to ensure balance in the Out-Years in accordance with GAAP. In fact, the risks for FY 2012 and other Out-Years are even more significant, suggesting the need for the Control Period to continue indefinitely.

II. Discussion

The following is a focused discussion of the County's FY 2011 projections and major Out-Year risks, as well as a summary of our findings and related concerns.

The Update includes the County's revised projections for FY 2011. Based on first quarter results, the County projects a modest year-end surplus. Unfortunately, the Update continues to rely on State approvals for the expansion of the Red Light Camera program, labor savings that have not been secured, and revenues from the sale of surplus land and the securitization of Mitchel Field leases. Not only are these revenue sources tenuous, but most of the proceeds from the securitization of the Mitchel Field lease are probably not recognizable under GAAP in the period in which the transaction ultimately occurs.

Most disturbing, the Out-Year projections contained in the Update are also extremely problematic. For example, FY 2012 projections include significant savings from labor and unspecified departmental efficiencies. In addition, the County's projections include significant non-recurring revenues beginning in FY 2012 from a "public-private partnership" involving the lease of its wastewater system, totaling $375 million over three years, for which the County is not known to have either a counterparty or active efforts to achieve such a transaction.

The absence of a detailed discussion of Out-Year initiatives heightens our skepticism regarding the County's ability to timely effectuate its proposed gap-closing program. Inexplicably, the discussion in the Update is virtually identical to the one included in the adopted Plan despite the passage of more than six months. Consequently, since very little meaningful new information is available to us, we reluctantly must conclude that the Plan remains significantly out of balance.

FY 2011 Projections

On January 26, 2011, NIFA determined that the County's FY 2011 Budget reflected a substantial likelihood that it would produce an operating funds deficit in excess of one percent of the aggregate result of operations. Consequently, NIFA adopted a resolution declaring a Control Period, as defined in the NIFA Act, to be in effect. At that time, NIFA estimated that the statutory deficit was approximately $176 million.

Since that time, our assessment of the budgetary risks has shifted slightly, but remains significantly above the one percent threshold for imposing a Control Period. Overall, our analysis indicates that the projections included in the Update for FY 2011 contains risks of approximately $81 million on a cash basis and almost $120 million on a GAAP basis. In contrast, the County projects that it will end FY 2011 with a small surplus of $457,256 on a purported (and otherwise undefined) "budgetary basis."

Listed below is NIFA's evaluation of the major risks underlying the County's revised projections contained in the Update for FY 2011. For comparative purposes, we have included in the Appendices to this report NIFA's previous analysis of the major risks underlying the adopted Budget.

FY 2011 Risks: Current Analysis of Projections in the Update ($ in millions)		
	Cash Basis	**GAAP Basis**
Revenues		
Red Light Camera Program Expansion	$8.7	$8.7
Ambulance Fees	2.0	2.0
Parks Revenue	1.0	1.0
Housing Suffolk Inmates	0.8	0.8
Investment Income	1.0	1.0
Sale of County Land	23.0	23.0
Sale of Mitchel Field Leases	0.0	37.5
Total Revenue Risk	**36.5**	**74.0**
Expenses		
Salary Adjustments/Union Concessions	37.6	37.6
Outsourcing Medical Care for Inmates	1.0	1.0
Overtime	4.0	4.0
Coliseum Referendum	2.2	2.2
Total Expense Risk	**44.8**	**44.8**
Total Statutory Deficit	**$81.3**	**$118.8**

The County's positive result is driven by the inclusion of $33 million from the anticipated sale of County land and $37.5 million from the proposed sale of Mitchel Field leases, which combined are approximately $15 million higher than originally contemplated in the FY 2011 Budget. As previously noted, the County's ability to recognize the proceeds from these transactions as revenue may be limited by the Act's requirement that the budget be balanced in accordance with GAAP as well as significant execution risk. Regardless of the accounting treatment required by the NIFA Act, to-date no transactions have closed.

Furthermore, while the County Legislature recently approved the sale of the former Grumman property for $15 million, the County will receive only $10 million in FY 2011 and $5 million in FY 2012. This amount is $8 million short of the $18 million projection for FY 2011 assumed for this transaction in the Update.

The County stated that it expects to close the land sales and lease securitization deals by the end of the third quarter. In addition to the accounting treatment risk, we believe the timetable is too optimistic and that there is execution risk related to these transactions. Overall, we currently hold at risk $23 million of the projected $33 million anticipated from land sales.

We also have significant concerns regarding budgeted labor savings and ongoing management of headcount. The County will realize significant recurring savings to the extent that it limits the number of positions that are backfilled; however, the current level of headcount may be difficult to sustain. Implementation of the proposed headcount plan will require strong managerial oversight and an acknowledgement by all stakeholders that service levels will likely decline to match the level that the County has calculated as affordable.

In FY 2011, the Update also includes projected savings from several major personnel related actions totaling $66 million, most of which did not commence before July 1, including approximately $13 million from layoffs, $15 million from furloughs, $13 million from overtime savings in the Police Department and Correctional Center, and $25 million from budgeted vacancies. All of these actions still involve significant execution risk except for vacancy savings, which can likely be realized to the extent that the County limits backfilling.

The County's decision to lay off 128 employees effective July 1 is projected to generate savings of only $3.4 million in FY 2011, which is well below the County's revised projections contained in the Update. It is unclear if the County will pursue additional layoffs since the 128 terminations and the related dollar savings were well below the number originally contemplated. It is also unclear how these savings will ultimately be impacted by the outcome of threatened litigation by the CSEA.

We consider the proposed savings of $15 million from employee furloughs to be at risk because the County has apparently backed away from implementing this initiative. Since the County has not identified any new actions that it will implement to realize the requisite budget relief, we continue to include this initiative in our analysis, but hold the projected savings at risk.

On top of baseline overtime concerns, we also continue to hold at risk the projected overtime savings the County anticipates realizing from its redeployment initiative in the Police Department. In addition to the missed opportunity to capture overtime savings caused by implementation delays, it is unclear if the County remains committed to the original scope of the redeployment initiative. Most importantly, to-date the County has not demonstrated that the Department's actions have favorably impacted actual overtime spending.

The County is projecting a current year property tax certiorari refund liability of $70 million. The County has included the entire cost of this projected liability in its revised projections, but does not contemplate the use of any bond proceeds already on hand for this purpose. It is difficult to determine the accuracy of the County's projection and we are concerned that any additional unfunded liability could end up simply being added to the tax cert backlog.

The County eliminated its projection of revenue from its LIE ticket surcharge initiative and reduced its revenue forecast in other areas, including investment income, OTB, and Red Light Cameras; however, the County is still counting on State approval of Phase II of the Red Light Camera Program in time to implement the expanded program for the final four months of 2011. We feel there is significant execution risk with the Red Light Camera program even if the County secures approval by the State Legislature.

Finally, the County makes no provision for the projected $2.2 million cost of the special referendum on August 1st.

Major Out-Year Risks

The County is required to submit its FY 2012-2015 Multi-Year Plan to NIFA on September 15, 2011, which is only two months from now. By then, the County will have to craft a credible plan that is balanced in accordance with GAAP. The Update fails to accomplish this task.

The County's current plan for FY 2012, as outlined in the Update, lacks sufficient detail for us to make a favorable determination on the likelihood of avoiding a one percent deficit. In fact, considering the impact of the inclusion of the "public private partnerships," it appears likely that a deficit which is a multiple of the requisite threshold would occur in each of the three years. The County currently projects a baseline gap for FY 2012 – which is a projection of the budgetary shortfalls that would exist if no remedial actions were taken – of $213.6 million.

What follows is a discussion of our concerns related to the County's proposed gap-closing plan, which is detailed below. For comparative purposes, we have included in the Appendices the County's gap-closing plan from the adopted Multi-Year Plan.

FY 2011-14 Gap-Closing Plan	2012 Plan	2013 Plan	2014 Plan
County Projected Baseline Gap **($ in millions)**	**($213.6)**	**($244.5)**	**($271.8)**
Financing Options/Asset Sales			
Public-Private Partnerships	150.0	125.0	100.0
Surplus Land Sales	5.0	10.0	10.0
Expense Reductions			
Department Efficiencies	20.0	25.0	30.0
Union Concessions/Layoffs/NIFA Wage Freeze	43.1	75.5	110.0
Revenue Initiatives			
Value of New Construction	3.0	6.0	9.0
Increased Departmental Revenues	3.0	3.0	3.0
Shared Services – Improved Accounts Receivable	3.0	3.0	3.0
Cedar Creek Driving ranges	3.0	3.0	3.0
Hub Revenues		5.0	5.0
GIS Map Usage		10.0	10.0
Surplus/(Gap)	**$16.5**	**$21.0**	**$11.2**

Public-Private Partnership

The largest Out-Year initiative is the privatization of the County's wastewater system through a public-private partnership or P3. The County is proposing to enter into a public-private partnership with a private entity to lease, on a long-term basis, its wastewater system. The transaction would be governed by a concession agreement (GASB standards refer to it as a "Service Concession Arrangement"). The County would retain ownership of the asset(s) with a right to reclaim the asset(s) if the standards established in the agreement are not met (or presumably at the end of the term of the agreement). Certain risks and responsibilities would transfer to the private entity.

The County believes that this asset could generate budgetary relief of $375 million over a three year period. However, based on our understanding of the County's proposal, the entire amount received in cash would not, under GAAP, be considered "revenue," but must be amortized over the life of the financing. We also believe that any proceeds from a privatization should be used for capital purposes or to reduce planned borrowings and not for operating expenses, which would perpetuate the structural deficit in the same amount.

Furthermore, notwithstanding the accounting treatment of a public-private partnership for wastewater treatment, the County has a long way to go to demonstrate that this initiative is even feasible. P3 deals are complicated and expensive to orchestrate. Among other costs would be the assistance of professional advisors to ensure the protection of the County's interests. A P3 deal from inception to signing can take more than a year to complete and we see little movement on the part of the County to take the steps necessary to find counterparties and effect such a transaction. Indeed, the County states "A typical Public-Private Partnership would take approximately 12-18 months to complete…." NIFA believes even this 12-18 month estimate is overly optimistic.

Surplus Land Sales

The Update reflects the County's plan to sell surplus land in each of FY 2012, FY 2013, and FY 2014 for $5 million, $10 million, and $10 million, respectively. While it may be prudent to dispose of assets the County no longer needs, we remain concerned that these sales are not based on long-term strategic planning and are being used solely for one shot cash infusions.

Expense Reductions through Department Efficiencies

The Update includes significant savings the County expects to realize from expense reductions and unspecified departmental efficiencies. While we recognize that the County will realize recurring savings from its recent round of layoffs, expenditure reductions resulting from departmental efficiencies will necessitate a further contraction of the workforce. We consider these projected savings to be at risk since the County has not identified the departments involved or explained how these savings can be realized.

Union Concessions/Wage Freeze

The County projects that it will realize significant recurring savings in its Out-Year labor costs. While the County continues to pursue concessions from its labor unions, we remain skeptical that large negotiated concessions will be forthcoming since it has been unsuccessful in negotiating any substantive savings to-date. More likely, the County will look to achieve substantial salary savings in the Out-Years by continuing to implement the wage freeze that was imposed by NIFA in 2011 at the County's request. This, of course, requires that NIFA each year determine that the County is continuing to experience a fiscal crisis necessitating the imposition of a wage freeze.

Revenue Initiatives

The Update reflects the County's intention to increase the size of the property tax levy by $3 million each year to capture the projected value of new construction. If implemented, this action will generate $9 million in recurring gap-closing relief by 2014. This revenue target is achievable to the extent that the Legislature approves the proposed annual increases in the property tax levy.

The County maintains that it will realize $3 million in additional departmental revenues beginning in FY 2012. The Update does not describe the actions the County will take in order to enhance its departmental reimbursements or expand its revenue streams. Consequently, we assume that this action will involve increases in County-assessed user fees, which will require Legislative approval. The County assumes that it will realize $3 million annually in additional revenue from improved accounts receivable processing and $3 million annually from the opening of a driving range at Cedar Creek Park. It is unclear if the County can achieve these targets since it did not provide any backup for these projections.

Other Concerns

Although the Update uses a more conservative growth rate than the adopted Multi-Year Plan to project employee and retiree health insurance expenditures in FY 2012, we believe that the County may be understating these costs, beginning in FY 2013, after reducing the Out-Year growth rate assumptions to 3.9% for active employees and 6.2% for retirees.

The Update assumes that pension contribution rates will stabilize after FY 2012. These costs are a function of the investment returns posted by the State Common Retirement Fund.

The County eliminated its $10 million contingency reserve previously budgeted in each of the Out-Years. While this gap-closing action provides certain budgetary relief, it reduces the available options the County can utilize to cushion unfavorable variances during the year.

The County has also eliminated the "County Guarantee" of property tax refunds after 2012 by shifting most of these costs to other levels of government. However, even if this highly controversial initiative survives all legal hurdles, the Update assumes that these operating costs will be $50 million in FY 2012, $40 million in FY 2013, and $30 million in FY 2014. We believe that the amounts budgeted may be too low based on the level of refund payments in recent years. Even after the County Guarantee ends, the County is liable for the tax certiorari backlog, which currently is estimated by the Comptroller to be $152 million. In any case, this initiative continues to have significant litigation risk.

III. Conclusion

We find that the gap-closing plan included in the Update is unlikely to result in budgetary balance in FY 2011 and the Out-Years in accordance with GAAP.

The County's submission of its FY 2012 Proposed Budget and FY 2012-2015 Multi-Year Plan is approximately two months away. We advise the County to use this time to review and expand the list of available actions – within its control – that can be taken to bring its recurring expenditures in line with its recurring revenues. The County must identify sufficient new actions that will reduce recurring expenditures, raise recurring revenues, or effect a combination of the two. Most importantly, the County should remove from the financial plan consideration of non-recurring initiatives that are either speculative or not consistent with the NIFA Act.

In sum, we recommend to the NIFA Directors that the revised FY 2011-2014 Multi-Year Plan be disapproved and returned to the County for modification with special attention to FY 2012 and the removal of the revenues we have outlined as not attainable due to significant risk and unacceptable treatment as revenue under GAAP.

IV. Appendices

APPENDIX A

FY 2011 Risks: NIFA's January 25, 2011 Analysis of the Adopted Budget
($ in millions)

	Cash Basis	GAAP Basis
Revenues		
Red Light Camera Program Expansion	$17.0	$17.0
LIE Ticket Surcharge	5.0	5.0
Ambulance Fees	4.0	4.0
County Clerk Fees	4.0	4.0
Parks Revenue	1.0	1.0
Housing Suffolk Inmates	1.5	1.5
FIT Reimbursement	6.0	6.0
Investment Income	4.0	1.0
OTB Profits	1.5	1.5
Total Revenue Risk	**44.0**	**44.0**

Expenses		
Salary Adjustments/Union Concessions	61.0	61.0
Outsourcing Medical Care for Inmates	4.5	4.5
NIFA Restructure Savings	8.0	8.0
Overtime	2.0	2.0
Total Expense Risk	**75.5**	**75.5**
Assessed Risk before Bonding Items	**119.5**	**119.5**
"High Probability" Offsets	(70.5)	(43.5)
Bonding of Property Tax Refunds		100.0
Total Statutory Deficit	**$49.0**	**$176.0**

APPENDIX B

FY 2011-14 Gap-Closing Plan (Adopted MYP)	**2012 Plan**	**2013 Plan**	**2014 Plan**
County Projected Baseline Gap **($ in millions)**	**($162.2)**	**($220.1)**	**($271.0)**
Financing Options/Asset Sales			
Public-Private Partnerships	125.0	125.0	125.0
Privatization of LI Bus	9.6	9.6	9.6
Debt Restructuring	5.0	5.0	10.0
Surplus Land Sales		10.0	15.0
Expense Reductions			
Department Efficiencies	20.0	25.0	30.0
Headcount Reductions	5.0	10.0	20.0
Workers' Compensation	3.0	3.0	4.0
Revenue Initiatives			
Value of New Construction	3.0	6.0	9.0
Increased Departmental Revenues	3.0	3.0	3.0
Shared Services – Improved Accounts Receivable	3.0	3.0	3.0
Cedar Creek Driving ranges	3.0	3.0	3.0
Hub Revenues		20.0	30.0
GIS Map Usage		10.0	10.0

Assessment Reform			
Debt Service on Assessment Reform	2.0	8.0	14.0
Surplus/(Gap)	**$19.4**	**$20.5**	**$14.6**

* * *

Chairman Stack stated that the next item on the agenda was a resolution related to the redevelopment of the Hub. He stated that many people have asked what will NIFA do. He stated that it would be improper for NIFA as a public entity to enter the public fray at this time and had no opinion or position on the referendum. He further stated that if the referendum is passed and then later passed by two thirds of the legislature, NIFA would then review it. He stated that NIFA would review the project in the context of the County's fiscal situation as well as the specific economics of the project. Chairman Stack stated that NIFA would be distributing a fact sheet that it put together regarding the Hub which contains some of the major factors that would be important for the public to know.

Director Wild stated that the fact sheet is focused on financial issues and does not presume to analyze every term of the lease.

Director Wright stated that NIFA will evaluate the Hub lease only in the context of the 2012 budget and the multi-year plan, if it is included in the plan. He stated that NIFA is focused strictly on the financial matters that come before NIFA.

Director Steinman stated that the approval of the referendum by the County's residents will result in a property tax increase of 3.5 to 4 percent. He stated that NIFA will be watching closely to see if Nassau County residents have an appetite for property tax increases.

Upon motion duly made and seconded, the following resolution was approved unanimously:

Resolution No. 11-325

SUMMARIZING FINANCIAL FACTORS RELATING TO PROPOSED REDEVELOPMENT OF THE HUB AND LEASING OF A NEW ARENA

WHEREAS, on May 11, 2011, the County Executive and Charles Wang, principal owner of the New York Islanders, jointly announced a proposal to redevelop the "Hub area" surrounding the Nassau Coliseum, including a newly constructed arena (the "New Arena") for the Islanders and a new minor league ballpark; and

WHEREAS, on May 11, 2011, NIFA issued a statement expressing deep concern about the County Executive's proposal and requesting underlying data; and

WHEREAS, on May 31, 2011, the County Legislature passed, and the County Executive signed legislation that would, if approved at a referendum, authorize the County to create a new property tax levy and issue $400 million in general obligation bonds for public funding of the redevelopment project; and

WHEREAS, on June 23, 2011, one day after public announcement of a lease agreement (the "Lease") for the New Arena and surrounding acreage, the County provided a copy of the Lease to NIFA; and

WHEREAS, on July 11, 2011, the County Executive announced the choice of an organization to operate a minor league team at the ballpark, while NIFA to date has received no financial information (costs or revenues) relating to a ballpark;

NOW, THEREFORE, BE IT RESOLVED, that NIFA, having evaluated the Lease and currently available information regarding the proposed public funding of redevelopment, summarizes below, for the benefit of the County and its citizens, salient financial factors relating to the project.

* * *

Summary of Financial Factors Relating to Proposed Redevelopment and Leasing of the Hub

1. Total Cost. The total redevelopment cost to the County would exceed $800 million. This includes not only the repayment of $400 million in new County debt for the New Arena and ballpark (increasing County debt by 13 to 15%), but also interest payments for 30 years.

2. Taxpayer Burden. The entire cost will be paid through a property tax increase of 3.5 to 4%, and this new tax will remain in effect to pay debt service for the next 30 years regardless of revenues from the project.

3. Potential Future Borrowing. Constructing the New Arena and parking lot will cost $350 to $375 million. At best, only $25 to $50 million will be left to redevelop the rest of the Hub, including the ballpark and other amenities. Completing the proposed redevelopment may require more borrowing.

4. Identity of "Tenant." The lease-signing Tenant for the New Arena is not the Islanders, but rather "Arenaco SPE LLC," a limited liability company that appears to have little or no assets. After two hockey seasons, the Tenant may assign the Lease to a new owner of the Islanders.

5. Surrounding Acreage to Tenant. Extensive acreage surrounding the New Arena would be leased to the Tenant, which would exercise control of development of the Hub.

6. Rent Not Guaranteed to Cover Debt Service. The Tenant will owe minimum annual rent to the County of $14 million. This is $12 million less than the estimated annual cost to taxpayers ($26 million) for debt service. Achieving higher rent requires ticket sales and concessions to meet aggressive targets.

7. Tax Break to Tenant. The Tenant would be exempt from property taxes on the New Arena and surrounding acreage. New taxes on tickets or parking automatically will reduce the Tenant's rent obligation dollar-for-dollar.

8. Other Benefits to Tenant. The Tenant pays no rent until construction is complete. The Lease provides that construction may take up to five years.

9. Risk of Bankruptcy. If the Tenant files bankruptcy, the County would remain responsible for all construction costs of the New Arena, even without anyone paying rent.

NOTE: **Additional Required Approvals.** In the event the August 1, 2011 referendum approves the new borrowing and increased property taxes, any bond ordinance authorizing new borrowing will require approval by two-thirds (13 members) of the County Legislature. If so approved by the

County Legislature, New York State law requires that NIFA must approve or disapprove such County borrowing.

* * *

Chairman Stack stated that the next item on the agenda is a resolution regarding contracts approved by NIFA. He asked Director Wright to discuss this matter.

Director Wright stated that the resolution was a revision of NIFA's contract guidelines. He stated that NIFA receives contracts from the County after they have been approved by the County Attorney, County Legislature, the County Comptroller and the Budget Office. He stated that NIFA reviews the contract strictly for financial matters and has returned them to the County in approximately three days, when staff reviewed them, and five days when Board approval was required. He stated that as of the morning of July 13 NIFA had received 106 contracts and an additional 53 contracts later that afternoon. He further stated that many of these contracts bore signatures from the beginning of the year and some from 2010. Director Wright stated that many not-for-profit contracts have been delayed over at the County and NIFA has attended meetings to try to facilitate their ability to get paid and focus on their mission. Director Wright stated that NIFA has asked the County for a backlog of contracts which is important in determining what the outbound cash flow is for the County. He suggested that if the backlog is not received then NIFA may want to take steps to enforce the order with all the necessary steps allowed or required by its statute.

Chairman Stack stated that NIFA had not delayed or held up any contract that was presented by the County and to say otherwise was an absolute lie.

Director Cohen presented recommended changes to the previously adopted Contract Guidelines. He stated that the revision would exempt some contracts from requiring NIFA approval and in the process would help to expedite contracts going forward.

Upon motion duly made and seconded, the following resolutions were approved unanimously:

Resolution No. 11-326

ADOPTION OF REVISED GUIDELINES FOR THE REVIEW OF NASSAU COUNTY CONTRACTS AND THE TAKING OF RELATED ACTIONS

RESOLVED, that the materials presented to this meeting of the Directors (the "Materials") are ordered to be filed with the records of the Nassau County Interim Finance Authority (the "Authority") and are incorporated into this Resolution by reference; and be it further

RESOLVED, that the Authority hereby approves the staff recommendations in the Materials, which exclude certain types of County contracts from the review of the Authority; and be it further

RESOLVED, that Authority staff may take all actions and do all things that they deem necessary to carry out the intent of this resolution.

* * *

Director Marlin stated that he is gravely disappointed by the County's fiscal and managerial behavior. He stated that the contracts have not been properly forwarded to NIFA. He stated that the County's plan is unacceptable. He stated that he hoped the County abandons delusions of fiscal balance, would drop its amateur political public relations campaign and finally agree to wage a genuine reform campaign to prevent fiscal catastrophe and restore taxpayer confidence.

Director Stokes stated that the County needs to have a clear multi-year strategic plan that will bring all the relevant parties together to close the gap and provide for transparency and accountability to perform to the plan's expectations.

Director Wright encouraged the County to take the time now to work with professionals and staff to make the necessary changes so that an acceptable budget will be submitted to NIFA.

Director Wild requested that the County expedite any payments on behalf of agencies supported by the United Way and all not-for-profits. He also requested that the County be candid with the public regarding the Coliseum. He stated that if the County wants to partner with NIFA as it stated in its statement in the newspaper, NIFA is willing to partner but that means transparency, honesty and no blaming.

Director Steinman stated that cooperating with NIFA was more than just holding a news conference stating that the County wanted to cooperate.

The Chairman then entertained a motion to adjourn. Upon motion duly made and seconded, the Directors voted unanimously to adjourn the meeting at 4:40 PM.

Respectfully submitted,

Laurie A. Boucher
Corporate Secretary