NIFA
Nassau County Interim Finance Authority

March 7, 2006

Mr. Thomas R. Suozzi
Nassau County Executive
One West Street
Mineola, New York 11501

Dear Tom:

On March 6, 2006 the Nassau County Legislature approved your proposal for a restructuring and a new money financing by the Nassau County Tobacco Corporation. Attached is a statement regarding this planned financing by the Board of NIFA.

Please contact me if you have any questions.

Sincerely,

Ronald A. Stack
Chair

Attachment

cc: NIFA Directors
Judy Jacobs, Presiding Officer
Peter Schmitt, Minority Leader
Howard Weitzman, County Comptroller

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STATEMENT OF THE BOARD OF THE NASSAU COUNTY INTERIM FINANCE AUTHORITY (NIFA)

The Nassau County Legislature has approved by a vote of 18 to 1 a new approximately $456 million financing by the Nassau County Tobacco Settlement Corporation (NCTSC) as proposed by the County Executive. NIFA has reviewed the financing as part of our overall oversight obligations of the fiscal affairs of the County with a full understanding that the decision whether to proceed with any financing is solely within the province of the County and its elected officials.

The first part of the financing will restructure and refinance existing debt of the NCTSC in order to take advantage of advantageous market conditions. This refinancing and restructuring would allow the County access to the $16 million in funds that are currently held in an escrow account -- i.e. "trapped" -- pursuant to provisions of the resolution of the original bond issue. Investors in bonds issued by comparable entities today no longer require a "trapping" account as pledged security and it is expected that the new financing resolution will not include a new "trapping" account.

NIFA has reviewed the proposed restructuring and believes that this first part of the financing is reasonable with financial and structural benefits that somewhat mitigate the $7 million in anticipated present value losses that will accrue from the refinancing.

In addition, the second part of the financing will securitize additional Tobacco Settlement Revenues (TSRs) that are due the County and the NCTSC under the Tobacco Master Settlement Agreement (MSA) of 1998.

Approximately $120 million in proceeds from this new borrowing are to be used for working capital needs both of the Nassau Health Care Corporation (NHCC) and the County. The plan of the County Executive as presented to NIFA would direct that the money be used for some NHCC debt service relief ($50 million), NHCC capital fund ($30 million), a possible early retirement program if enacted by the State ($12 million), health education ($10 million), a housing initiative ($10 million), minority health care ($6 million), a small business initiative ($1.2 million) and a veteran's clinic ($1.0 million).

NIFA does not believe the second part of the financing for new money is prudent or advisable for two major reasons: First, the County is borrowing and leveraging the remainder of the TSR money to fund on-going operating expenses, some for the NHCC and some for a variety of programs, violating the basic finance principle that long-term borrowing should be reserved for long-term capital needs. Second, the County is using virtually all of the expected TSRs by securitizing all of the cash flow from these revenues through 2037 with a bond structure that actually pledges additional TSRs from 2007 to 2060. NIFA does not believe that a full securitization and borrowing of future TSRs is a reasonable use of future County resources.

In addition, NIFA believes that an operational need, however legitimate, does not justify long-term borrowing. Regrettably, Nassau County in the past issued long-term debt for operating expenses. Indeed, the original $294 million issued by the NCTSC was used by the County for operating expenses. To start again down the path of borrowing for current expenses is not the fiscal direction that NIFA believes the County should proceed.

Finally, we are concerned that the NHCC has not yet submitted a credible plan to achieve fiscal balance. Indeed, the borrowing as approved by the County Legislature does not appear to include a clear delineation as to the expenditure of the bond proceeds.

Thus, the County will be borrowing $120 million for operating expenses, which is not appropriate or acceptable, and without specificity as to their ultimate use, which is disturbing and distressing.

Nevertheless, NIFA's role is not one of approval or disapproval, which is beyond our statutory authority. The County and its elected officials have and will continue to make policy for the County, including whether to proceed with this tobacco financing.

NIFA looks forward to continue our working relationship with the County in the days ahead and we urge County officials to consider NIFA’s concerns in their ongoing deliberations on the proposed borrowing.

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