Nassau County Interim Finance Authority

NIFA

MID-YEAR REVIEW AND ANALYSIS OF THE MULTI-YEAR FINANCIAL PLAN UPDATE FISCAL 2016 – 2019

August 11, 2016

I. SUMMARY OF UPDATE FINDINGS

In accordance with the County Charter, the County released the Update of the Nassau County Multi-Year Financial Plan for Fiscal Years 2016-2019 on June 30, 2016 ("the Update").

The first year of the Update, which contains projections for the remainder of 2016, contains significant risks and leaves little room for miscalculations by the County. After reviewing the Out-Years of the Update (FY 2017 – FY 2019), we believe there is very little chance of the County achieving a GAAP balanced budget by FY 2018, without a large infusion of recurring revenue, because they understate the baseline gaps, continue to borrow to pay tax certiorari refunds through 2017 and rely on reserves to pay judgments and settlements through the term of the Plan.

MAJOR FINDINGS

In general, the Update is disappointing and it shows a County still unwilling to forcefully confront its financial difficulties. We find that the Update, like the original Plan for FY 2016 – 2019, contains:

1) recurring expenditures, which exceed recurring revenues;

2) non-recurring savings and optimistic assumptions;

3) recycled and unsuccessful gap-closing initiatives of prior years;

4) significant projected risks in FY 2016 totaling $130 million on a GAAP Basis; and

5) prior to the implementation of the County's proposed gap-closing plan, which is highly questionable, Out-Year budget gaps that could reach $198 million in FY 2017, $234 million in FY 2018 and $276 million in FY 2019, if the projected risks identified by NIFA all break unfavorably against the County.

As a consequence of the foregoing, we believe that the Update insufficiently addresses NIFA's concerns regarding the County's ability to achieve balance by FY 2018 on a GAAP Basis (as defined herein). Consequently, we conclude that the County must act quickly to address these growing risks through the implementation of additional, recurring expenditure reductions and revenue increases.

What follows is an analysis of the Update and a related commentary on the County's fiscal health. It is intended to show you, in detail, what we considered to arrive at the foregoing conclusions. To fully understand NIFA's opinions regarding the County's financial position, this Report should be read in tandem with NIFA's October 19, and November 19, 2015, reports on the Plan.

II. DISCUSSION OF FY 2016

The Update contains the County's budget estimates as of March 31, 2016, which include some, but not all, of the major (and minor) variances that have been subsequently identified by the County and NIFA in recent months. Consequently, the following discussion contains our assessment of the County's current financial condition based on recent data rather than using projections reported by the County in the Update.

Projected GAAP Basis Deficit

Our analysis indicates that the FY 2016 Budget contains risks that, if not mitigated in the coming months, could lead to a deficit of approximately $130 million using Generally Accepted Accounting Principles and without using "other financing sources" (such as bond proceeds) to support operating expenses (referred to herein as balanced on a "GAAP Basis"). This projection exceeds by $50 million the $80 million maximum deficit permitted by the Board in FY 2016 ($130 million minus $80 million).

The projected $130 million GAAP Basis deficit is composed of $18 million in budgetary risks and approximately $112 million in known GAAP adjustments that are not permitted under the NIFA statute (e.g., using $60 million of bond proceeds for tax cert refunds, $43.8 million in excess bond premium to pay debt service, $3 million in fund balance to pay bus operating expenses, and $5.5 million in other net accounting adjustments). The deficit could be even greater to the extent that the Comptroller's actual year end accounting adjustments are greater than currently estimated.

In response to a NIFA resolution adopted on June 30th, on August 1st the County submitted a $50 million action plan ("Plan") intended to address NIFA's requirement that the 2016 GAAP Basis deficit not exceed $80 million. The Plan provides a roadmap that tenuously accomplishes this task (see Appendix). The County's assumptions are optimistic, but generally not unachievable. However, we note that the Plan could quickly fall apart if current trends are not maintained or requisite timelines followed, which would require a swift and robust response by the Board and the County.

Major Components of NIFA Projections

Our current risk (deficit) projection of $130 million is composed of a number of favorable and unfavorable variances, as shown in the table.

Major Projected Budgetary Risks Surplus/(Risk) ($ in millions)	
Income and Expense Law	($15.8)
OTB Profits from VLTs	(15.0)
Overtime	(10.5)
Rents & Recoveries (excluding FIT recovery)	(7.6)
FIT Prior Years' Recovery	(7.5)
Bus Fare Box Revenue	(3.8)
Contractual Services	(3.8)
Departmental Revenue	2.3
Sales Tax	2.9
Use of Fund Balance	3.0
Fines and Forfeitures	4.2
Fringe Benefits	4.6
Debt Service	5.6
State and Federal Aid	6.1
Contingency Reserve	10.1
Other (net)	7.2
Total Projected Risk on a Budgetary Basis	**($18.0)**
GAAP Basis Adjustments*	**(112.3)**
Total Projected Risk on a GAAP Basis	**($130.3)**

*Includes bond proceeds used to pay tax cert refunds and debt service (equivalent savings transferred to Litigation Fund), and fund balance used to pay other operating expenses.

Income and Expense Law

The County introduced a local law to enforce compliance of its Income and Expense law, which requires commercial property owners to timely file their income and expense statements or face a fine. However, a lawsuit against the County initially prevented the collection of these fines until June of 2015 when the State Supreme Court ruled in the County's favor.

Subsequently, the County Assessor began to enforce fines/penalties against those commercial property owners that did not file their financial statements for 2013 or 2014. The County expected to collect $15.8 million from these fines in 2016. However, before the County was able to collect any money, the State Supreme Court granted a temporary restraining order ("TRO") in December of 2015, which remains in effect. Briefs have been filed by the County and plaintiffs, but it is unclear when the Court will make a ruling.

Consequently, this revenue remains at risk until it is clear that it can withstand any further challenges and appeals.

OTB Profits

The State budget contained a provision to transfer Nassau County OTB's licenses for up to 1,000 video lottery terminals ("VLTs") to Aqueduct in return for a predetermined schedule of payments from an outside vendor named Genting. The plan was for VLT revenues to be sufficient for Genting to make annual payments to OTB of several million dollars which would increase over time. The County assumes in the Update that OTB will use the cash flows from Genting to pay the County $3 million in 2016 and 2017, $19 million in 2018 and $25 million in FY 2019.

The actual amounts that will flow into and out of OTB are fluid and will not be known with certainty until an agreement between Genting and OTB is finalized. Of particular concern is how much money, if any, will flow to the County after OTB satisfies its own obligations. For this reason we hold the entire amount at risk until an agreement is executed that guarantees the cash flow to the County.

Rents and Recoveries

A large component of this risk stems from budgeted proceeds the County expected to realize in FY 2016 from the sale of County property. The Budget included $5.1 million of revenue from this initiative, but the County now acknowledges that it will likely realize only $1.6 million this year from the sale of identified County property.

However, the County is hopeful that it can also finalize an agreement with Memorial Sloan Kettering Cancer Center to sell a 5 acre parcel of land on the site of the Nassau Coliseum for $6.5 million. The County estimates that this effort may not be complete until the end of December and has not included this potential revenue in its projections.

Other risks consist primarily of recoveries the County anticipates will be generated by the reversal of prior year appropriations, and recoveries associated with the settlement of claims brought by the County against certain defendants. We continue to hold at risk the portion of anticipated resources (not all of which will count as an offset to the GAAP Basis deficit) exceeding historical levels as we await the requisite accounting entries in the County's financial system.

Overtime

Our analysis indicates that the County's expenditures for overtime will exceed budget by $10.5 million. The primary driver continues to be unchecked Police overtime, and to a lesser extent Correctional Center overtime. The County anticipates that police overtime will be stemmed by the deployment of new police officers that have been or will be hired. Although other payroll savings (e.g., salary and fringe benefit savings resulting from vacancies) may mitigate this risk, we are concerned that operational changes made by the Police Department in response to recent local and international security threats will continue to put upward pressure on overtime usage.

FIT Prior Years' Recovery

The County had sought to collect (over a three year period) approximately $28 million from its three towns and two cities for their share of tuition charges paid by the County on behalf of resident students attending the Fashion Institute of Technology in 2004 and 2005. The Budget included the recovery of $7.5 million in FY 2016.

Although the County remains confident in its ability to eventually realize this revenue, North Hempstead successfully challenged the County's authority to reach back to 2004 and 2005. The County has removed the revenue (anticipated from all of the municipalities) from its FY 2016 projections while it pursues its appeal of the State Supreme Court ruling. For the same reasons, we consider the entire amount to be at risk until a favorable ruling is rendered and all legal remedies have been exhausted.

Bus Fare Box Revenue

Our analysis indicates that departmental and fare box revenue may fall below expectations. The County estimates that bus fare box revenue will be consistent with levels realized in 2015, which is $3.8 million below budget. The County plans to use additional State aid to offset this shortfall, as discussed in "State and Federal Aid."

Contractual Services

Included in the County's $243.7 million contractual services budget is an appropriation of $125.3 million for a contract with Transdev Services, Inc. to operate the County's bus system. The County projects spending $3 million more on this contract than budgeted pursuant to a proposal from the Transit Committee to increase bus service. The County plans to use fund balance to cover the unbudgeted costs. Since fund balance is not revenue, the County's use of these resources adds to the GAAP Basis deficit.

Departmental Revenue

Our analysis indicates that departmental revenues are trending $2.3 million higher than budget, primarily from deed recording and miscellaneous fees collected by the County Clerk, more than offsetting current weakness in mortgage recording fees and lost revenues caused by continued delays in implementing the County's online registration system.

Sales Tax

Our analysis indicates that stronger than assumed sales tax collections at the end of 2015, combined with strong growth in the first quarter of 2016, may result in sales tax revenues exceeding budgeted levels by approximately $2.9 million. Although far from certain, we are cautiously optimistic that this revenue can be realized since our projection is based on sales tax receipts growing by 1.4% in the remaining checks of 2016 compared to the same period last year, which is the 10 year average growth rate for this period.

Alternatively, if sales tax receipts were to grow by 2.2% in the remaining checks of 2016, which is the 5 year average growth rate for this period, the County could realize approximately $7.7 million more than budgeted.

Use of Fund Balance

The County began FY 2016 with $163.1 million in unreserved fund balance in the Major Funds. It has appropriated $3 million of the fund balance to cover the anticipated increase in its contract with Transdev Services, Inc. to operate the County's bus system. Although this action may offset unfavorable variances reported on a budgetary basis, it is not revenue and does not contribute to balance on a GAAP Basis.

Fines and Forfeitures

Our analysis indicates that the County may realize $4.2 million in higher revenues from fines and forfeitures, primarily from additional red light camera ticket and associated administrative fee revenue in the Traffic and Parking Violations Agency.

Fringe Benefits

Our analysis indicates the County will realize approximately $4.6 million in fringe benefit savings. The favorable variance results primarily from lower than budgeted headcount.

Debt Service

The $5.6 million improvement is due to a County debt refunding that produced greater than anticipated interest savings.

State and Federal Aid

The State Budget provided an increase in funding related to the State Transportation Operating Assistance Program ("STOA") in the amount of $3.8 million. The County will use the additional STOA funding to cover the projected shortfall in bus fare box revenue. This action is different than the County's use of fund balance to cover the unbudgeted operating costs of its bus system, as discussed earlier.

The County also expects to receive an additional $1 million reimbursement of certain Juvenile Delinquent Care expenses. A portion of this favorable State aid is offset by other projected State aid shortfalls and $1.5 million in sales tax revenue budgeted in State Aid that had been anticipated from the sale of medical marijuana, but is unlikely to be realized in 2016.

Contingency Reserve – The County appropriated $10.1 million in a contingency reserve in the Adopted Budget. These resources remain available to offset unfavorable budget variances.

Other – The favorable variance is composed primarily of lower projected payments for Direct Assistance programs due to lower caseloads.

Potential Budget Opportunities

We have identified a number of opportunities where additional savings and revenues may be realized and available to reduce the deficit; however, we intentionally did not factor them into our current projections due to their uncertainty at the year's halfway point.

The following are a few of the major opportunities, which have also been included in the County's $50 million action plan submitted to NIFA on August 1st.

Terminal leave expenditures, which are payments made to County employees for unused vacation and sick leave balances when they stop working, are expected to be far below the budgeted amounts, primarily in the Police Department.

To date, approximately 45 police officers have retired, which is approximately 33% of the amount budgeted with 66% of the year completed (retirements through August are known since retirement papers must be filed 30 days prior to separation). The County projects that about 50 fewer than anticipated police officers will retire, thereby generating $12 million in termination pay savings. Actual savings will not be known until the November cutoff for 2016 retirements. The County should consider reserving a portion of any termination pay surplus in its Employee Accrued Liability Reserve Fund so that it could be tapped if there is an unanticipated surge in retirements in a future year.

OTPS revocations announced by the County could generate $8.5 million in savings if the cuts are sustained. The County maintains that savings can be realized from lower spending on utilities and gasoline as well as from across-the-board cuts.

County land sales and an amended lease could provide $7.3 million in additional revenues if the transactions are completed in FY 2016. The largest piece stems from the sale of land at the Nassau Coliseum to Memorial Sloan Kettering Cancer Center for $6.5 million. This sale will provide $6.2 million in budget relief after accounting for the required 5% transfer of proceeds to the Open Space Fund. In addition, the County expects to realize $1.1 million in savings from the successful renegotiation of its office lease for space housing the Department of Social Services.

Early Intervention/Special Education costs may be lower than budgeted due to lower caseloads. The County estimates that these savings could be $5 million, which is consistent with year-to-date trends.

MTA accruals could be the source of $4.5 million in additional budget relief after the County accounts for the reversal of an accrual that had been established several years ago to cover the MTA's claim for contract termination costs related to the privatization of the County's bus system. The claim was litigated and the courts ruled in the County's favor. Our understanding is that the New York State Court of Appeals denied the MTA's application for an appeal, thereby making this a viable opportunity.

RECOMMENDATION

The County should craft a contingency plan to address potential slippage in its Plan to ensure that the GAAP Basis deficit does not exceed the $80 million permitted by NIFA in FY 2016. Even if the County's Plan is fully realized, the County should seize the opportunity to get a head start on closing projected risks in FY 2017 (and the Out-Years) by implementing initiatives which provide recurring savings and revenues sooner rather than later.

The contingency plan should have specificity, including identification of the critical tasks that must be accomplished in the coming weeks and the important milestone dates when they must be completed. Such a plan will help obviate the need for unplanned disruptions of services, excessive increases in taxes, or new requests to bond operating costs.

III. THE OUT-YEAR GAPS: FY 2017 – FY 2019

The County is required to submit its FY 2017-2020 Multi-Year Financial Plan to NIFA on September 15, 2016, which is one month from now. Although the proposed Plan will not be effective until January 1, 2017, the County should immediately begin to implement a credible plan that moves the FY 2017 budget closer to being balanced on a GAAP Basis, which NIFA has required for FY 2018. The Update fails to accomplish this task.

THE COUNTY'S BASELINE PROJECTIONS

In the Update, which covers fiscal years through 2019, the County made a number of changes to its baseline projections of revenues and expenditures in the Out-Years.

Overall, the County's estimates of the baseline gaps, which we believe are significantly understated, increased by $7.8 million in FY 2017, but decreased by $8.1 million in FY 2018 and $24.5 million in FY 2019 compared to the Adopted Multi-Year Plan, as shown below.

COUNTY PROJECTED BASELINE GAPS
(PLAN-TO-PLAN CHANGE)

($ in millions)	FY 2017	FY 2018	FY 2019
Adopted MYP	($79.5)	($118.4)	($150.0)
MYP Update	(87.3)	(110.3)	(125.5)
Better/(Worse)	**($7.8)**	**$8.1**	**$24.5**

Major Factors Reducing the County-Projected Baseline Gap:

- The County reduced its projection of payroll expenditures to reflect current headcount levels and associated fringe benefit costs.
- The County reduced its estimate of debt service expenditures to more accurately reflect recent borrowing costs and a slightly reduced need for cash flow borrowings.

Major Factors Increasing the County-Projected Baseline Gap:

- The County removed the dollars previously anticipated from the recovery of prior years' FIT reimbursement from its three towns and two cities. This action was taken in response to an adverse court ruling regarding the County's ability to seek reimbursement for tuition payments made by County dating back to 2004 and 2005. Since the County is appealing this decision, it moved the expected recoveries into the gap-closing program for FY 2017 and FY 2018.
- The County reduced its projection of the revenue that it may receive from OTB's video lottery terminal initiative ("VLT") to $3 million in FY 2016,

$3 million in FY 2017, $19 million in FY 2018 and $25 million in FY 2019. The actual amounts received each year may differ from these projections since, at this time, there is no executed agreement between the Genting and OTB that guarantees any cash flows.

- The County increased its overall projection of social service costs.

The Projected Baseline Gaps are Understated

Our analysis indicates that the County's baseline gap projections are significantly understated by more than $100 million in each year, as shown below. For example, the County projects that its FY 2017 expenditures will exceed available revenues by $87.3 million; however, we estimate that the baseline gap could reach $198.3 million prior to the implementation of any new gap-closing initiatives.

PROJECTED BASELINE GAPS: COUNTY vs. NIFA

($ in millions)	FY 2017	FY 2018	FY 2019
MYP Update	($87.3)	($110.3)	($125.5)
NIFA Estimate	($198.3)	($233.6)	($275.7)
Better/(Worse)	**($111.0)**	**($123.3)**	**($150.2)**

Major Components of Understatement

The major components contributing to the understated baseline gaps consist of:

- Borrowed money used to pay tax certiorari refunds in FY 2017 is followed by underestimated tax certiorari refund liabilities thereafter, which are likely to persist as the County pays down the accumulated backlog.
- Unbudgeted expenditures for judgments and settlements due to the County's assumption that these costs will be funded by the Litigation Fund, which is likely to be depleted by FY 2018 or sooner.
- Overestimated sales tax revenue from optimistic growth rate assumptions exceeding historical experience.
- Underestimated expenditures on overtime.
- Underestimated health insurance costs from sustained optimistic growth rate assumptions.

Tax Certiorari Refunds

Resolution of the certiorari problem has been seen as essential to Nassau County's return to fiscal stability. The State's passage of property tax certiorari legislation reform provides the County the opportunity to greatly reduce its commercial certiorari liability beginning in FY 2017. However, the new procedures will likely be challenged in Court, which may delay implementation. Consequently, the County should prepare a credible backup plan for funding new tax certiorari liability.

Furthermore, the County has to resolve a tremendous backlog (the Comptroller estimates the long-term liability to be $303 million at the beginning of 2016) and likely growing liability in 2016 and 2017. Absent extensive borrowing for these expenses, which has not been authorized by the County Legislature or NIFA (and which will exacerbate the GAAP Basis deficit), the County has shown very little indication of any willingness to pay for this liability in the operating budget, as shown below. Furthermore, we assume that tax certiorari refunds could remain at $70 million in FY 2018 and FY 2019 which, if correct, is $40 million more than assumed by the County in the Update.

PROJECTED ANNUAL LIABILITY FOR CERTIORARI CLAIMS

($ in millions)	FY 2016	FY 2017	FY 2018	FY 2019
Expenditures	$70.0	$75.0	$30.0	$30.0
Use of Bond Proceeds	$60.0	$60.0	$0.0	$0.0
Net Operating Dollars	**$10.0**	**$15.0**	**$30.0**	**$30.0**

<u>Judgments and Settlements</u>

The County has not budgeted for the amount of judgments and settlements that it pays, which have averaged $16 million per year over the last five years. The County plans to use resources held in the Litigation Fund, which were derived from excess bond proceeds, to pay these costs; however, it is likely that this fund will be depleted by FY 2018 or sooner. Moreover, the County has other potentially significant liabilities in certain known cases, which have been lost, but are being appealed by the County.

<u>Sales Tax Revenue</u>

The County is assuming that sales tax revenues will grow by 3.5% in FY 2017, 3% in FY 2018 and 3% in FY 2019. Although these growth rates may not sound excessive, they are far above the 1.5% average growth rate experienced over the past 10 years. Should sales tax grow at the historical rate, the revenue shortfall would be approximately $16 million in FY 2017, $23 million in FY 2018 and $28 million in FY 2019.

<u>Overtime Expenditures</u>

We are cautious in our assessment of the County's ability to control overtime in the Out-Years of the Update. FY 2015 marked a successful period of County restraint on overtime spending in the Correctional Center and plans to hire hundreds of new police officers, combined with better staffing practices and improved management flexibility gained in the most recent round of collective bargaining, provided hope that the Police Department would soon follow.

However, FY 2016 has marked a return to the uncontrolled spending habits of the past. Correctional Center overtime usage has climbed and, despite the Police Department's efforts and planned hiring, NIFA's analysis of current spending trends and employee salary and step increases in the Out-Years indicates that overtime may be understated by more than $13 million in each year of the Plan. Further, the Police Department's response to local and worldwide security threats will likely maintain upward pressure on overtime usage.

Health Insurance Costs

Our analysis indicates that health insurance costs may be understated by approximately $14 million in FY 2018 and $30 million in FY 2019 if growth rates do not materially decline from growth rates anticipated by the County in FY 2017. The County is assuming that health insurance costs will grow by 3.2% in FY 2018 and FY 2019 after growing by 7.4% in FY 2017. Although health insurance growth rates have been constrained in recent years, we think the County ought to be more conservative and assume that growth continues at FY 2017 assumed levels.

Labor Costs

Contracts with all of the County's labor unions expire on December 31, 2017. The County's current negotiating position is that the next round of collective bargaining must result in contracts that are cost neutral. Although we are skeptical that this will be accomplished, we have not quantified any risks for potentially unbudgeted labor costs in FY 2018 and FY 2019 that could exacerbate the projected deficit.

The only additional labor costs included in the County's baseline projections relate to step increases granted to employees eligible to advance to the next step in their respective salary schedules. These step increases are protected under the Taylor Law in the absence of successor agreements.

GAP-CLOSING PROGRAM

Despite many flawed and overly optimistic assumptions that NIFA highlighted in its October 2015 Report, the County's gap-closing program remains substantially unchanged from the adopted Plan. Many of the initiatives have been included for a number of years with only moderate success and some have experienced repeated delays in various stages of implementation.

Even if all of the proposed gap-closing actions are successful, gaps of $91.8 million in FY 2017, $52.4 million in FY 2018, and $76.8 million in FY 2019 could remain if the projected risks identified by NIFA all break unfavorably against the County, as shown below.

This situation is unsettling because the major options provided by the County to close the projected gaps, which have not changed from prior years, are unlikely to be timely implemented or remain speculative. In general, some require State legislative approval, which to date has not been forthcoming, but are now essential to the submission of a balanced FY 2017 Budget in September.

GAP-CLOSING PLAN

($ in millions)	FY 2017	FY 2018	FY 2019
County Projected Baseline Gap	**($87.3)**	**($110.3)**	**($125.5)**
NIFA Projected Baseline Risks	($111.0)	($123.3)	($150.2)
Combined Potential Out-Year Gaps	**($198.3)**	**($233.6)**	**($275.7)**
Expense/Revenue Actions			
Revenue Initiatives	$26.0	$32.0	$37.0
Workforce Management	10.0	12.0	15.0
FIT Prior Years Recovery	8.9	12.0	0.0
Program/OTPS Reduction	5.0	6.0	7.0
Health Insurance Cost Reduction	5.0	5.5	7.0
Suez Water Long Island Inc. Synergy Savings	4.0	9.0	9.2
On-line Tax Lien Auction	2.0	2.0	2.0
BOE Reimbursement	2.0	2.0	2.0
eGovernment Revenues	1.0	2.0	4.0
ERP Implementation	1.0	2.0	3.0
Public Private Partnership (P3)		20.0	30.0
County's District Energy Facility		10.0	10.0
Advertising Revenue		6.0	6.5
Strategic Sourcing		3.0	4.0
Building Consolidation Efficiencies		1.0	4.0
NYS Actions			
Mandate Reform	29.3	33.7	33.7
State Reimbursement Indigent & Legal Services	2.6	4.6	6.1
E-911 Surcharge	3.5	6.9	6.9
NYS Highway Traffic Offense Surcharge	2.9	5.7	5.7
Hotel Motel Tax Rate Increase	2.4	4.8	4.8
OEM Grant for Fire Training	1.0	1.0	1.0
Total Gap-Closing Options	**$106.5**	**$181.2**	**$198.9**
Potential Remaining Gap	**($91.8)**	**($52.4)**	**($76.8)**

The County has outlined several initiatives that it is pursuing and that it projects could generate additional revenue or reduce expenditures in the Out-Years. While some may come to fruition, the County "discussion" of each initiative is minimal, often no more than a few sentences, and there are no detailed plans of implementation for us to evaluate. The following is a synopsis of the actions that have the highest potential monetary impact.

Expense/Revenue Actions

Revenue Initiatives – The County did not provide an informative description for this initiative, which it estimates would generate revenues of $26 million in FY 2017 increasing to as much as $37 million by FY 2019. In absence of anything of substance, such as specific planned measures supported by an analysis of how these revenues were calculated and projected, NIFA has no choice than to risk these amounts as highly unachievable.

Workforce Management – The County claims that it can continue to provide operations and services with fewer positions than budgeted. As the County noted, however, it has already substantially reduced budgetary headcount and the question remains as to whether it can continue to provide the proposed level of services without a reduction in quality. This is also a highly suspect initiative in light of the fact that, as of this writing, the headcount actually exceeds budget. Moreover, concerns have been raised calling for more police coverage in response to current events, which may lead to pressure to increase hiring.

Fashion Institute of Technology (FIT) Prior Year Recovery – The gap-closing plan includes the recovery of prior years' FIT reimbursement from its three towns and two cities for payments the County made on their behalf to FIT in 2004 and 2005. These revenues were originally included in the County's baseline projections, but removed for all municipalities after the State Supreme Court ruled the County could not recoup these funds for the specified time period from the Town of North Hempstead. The County is including these monies in its gap-closing plan because it is appealing the ruling. We consider the recovery of this money to be at risk.

Program/OTPS Reduction – Each year, the County maintains it will explore options to reduce costs by means of consolidation, contract renegotiation and private partnerships. Further information will be necessary to support the County's projections of savings.

Health Insurance Cost Reduction – The County has projected that it will realize savings after exploring options to reduce health premium costs by approximately $5 million in FY 2017 and FY 2018 and $7 million in FY 2019. The County's more recent labor agreements require new employees to pay 15% toward the cost of their health insurance coverage. Savings from this concession are already accounted for in the County's baseline expenditure projections. Our analysis indicates that health insurance costs may exceed the amounts included by the County in its baseline projections, as discussed earlier. Consequently, NIFA can only acknowledge these savings when new programs are identified and implemented.

Public-Private Partnership ("P3") – The County has proposed a Public-Private Partnership for the sewer system that would allow the County to retain public ownership of the system with the vendor acting as "concessionaire." The County projects that the agreement could produce savings in the General Fund (above amounts projected to be saved in the Sewer Fund) of $20 million in FY 2018 and $30 million in FY 2019. The proposed savings are expected to come from reduced debt service while ensuring other benefits such as performance level guarantees, risk transfer for environmental compliance and improvements in service levels and customer service.

The County has already entered into a separate agreement with Suez Energy North America (formerly "United Water") to run its operations, with the expectation that the work could be performed less expensively than it was when managed directly by the County.

Now, the County has begun the process of further exploring this opportunity by issuing an RFP for a consultant to provide guidance in the evaluation of a potential concessionaire and has selected a vendor, however the contract has not yet been presented to the County Legislature for approval, or to NIFA. For this reason, until the proposed P3 concessionaire agreement can be vetted and possibly implemented, NIFA must put the County's primary gap-closing measure at risk.

Suez Water Long Island Inc. Synergy Savings – Suez Energy North America took over management of the County's sewer system and is acting as a private operator. The current contract promised a minimum of $10 million in savings. The County continues to maintain that additional savings may be achieved ("synergy savings"), although it has reduced its projections to a more reasonable level of $4 million in FY 2017 and approximately $9 million in FY 2018 and FY 2019. NIFA remains skeptical that these savings will be realized.

County's District Energy Facility – The County's agreement with Suez Energy NA, who currently provides electric power and thermal energy to various County buildings and institutions, was set to expire in 2016 and will now be extended to May 2018. Therefore, the County indicates that it has additional time to explore options to generate revenue by reimagining the use of the facility. Yet again, the County is short on specifics that explain the projected revenue of $10 million for FY 2018 and FY 2019. Until the County can provide a detailed plan of use with supporting analysis, we cannot affirm the viability of generating this amount of revenue.

Advertising Revenue – The County has acquired a contract to allow various assets to be used for advertising and will also explore marketing and sponsorship programs to generate revenue. Again, short on specifics and supporting analysis, NIFA remains skeptical that approximately $6 million can be realized in FY 2018 and FY 2019.

New York State Actions

Among the initiatives are six proposals that would require State approval before they could be advanced. Some have been proposed in the past, disappeared and then reappeared as options.

Mandate Reform – The County noted in the Update that recent audits conducted by the State Comptroller highlighted high costs and fraud within pre-school special education programs throughout the State. The County considers expenditures for these programs, as well as for public assistance and Medicaid, opportunities for cost containment initiatives to be implemented at the State level. Proposed savings that approximate nearly $30 million per out-year are beyond a level of optimism, exceeding even past projections of no more than $10 million. No explanation is provided for the substantially increased projection and NIFA remains dubious these savings can be realized.

E-911 Surcharge – The County is seeking approval to increase the surcharge related to the provision of its enhanced 911 emergency telephone system. The County has stated that the increase would enable it to raise revenue needed to cover the actual costs associated with providing this technology. Until the approval is granted, these revenues remain at risk.

State Reimbursement of Indigent & Legal Services – Because New York State has passed legislation to reform the indigent legal service program to provide mandate relief to its counties, this initiative may provide some budgetary relief to the County beginning in FY 2017 and thereafter. Our understanding is this bill is awaiting the Governor's signature.

Other initiatives proposed that require State action include requesting approval for a surcharge for traffic offenses that occur on various Long Island highways and expressways and approval of an increase to the Hotel/Motel Tax rate from 3% to 5.875%. The final initiative suggests that tuition assistance and grants will be provided for firefighter training and services. Until funding materializes for each or any of these initiatives, NIFA must hold the projected savings and revenues at risk.

III. Appendix

County Action Plan to Offset NIFA Projected GAAP Deficit Exceeding $80 million ($ in millions)	
Salaries and Wages lower than expected police terminations, payment transfer to Litigation Fund & Fringe Benefits	$13.0
Other Than Personal Service revocation (targeting lower spending in utilities, general expenses such as gas, as well as other across the board cuts	8.5
Higher than expected Rents & Recoveries	7.3
Lower than expected caseload in Early Intervention/Pre School Education	5.0
Reversal of MTA accrual no longer required	4.5
FEMA recovery of 10% local match	3.4
Higher than expected Interest & Penalties on Taxes	2.4
Mortgage recording, deed & other real estate transaction fees	2.2
Social Service lower caseloads resulting in less program spending (TANF & Safety Net)	1.7
Higher than expected TPVA NOLS revenues (RLC & Administrative)	1.0
Higher than expected GIS Tax Map Verification fee, Parks Revenue	1.3
Total Action Plan	**$50.3**