

*Nassau County Interim
Finance Authority*



*REVIEW OF NASSAU COUNTY'S
PROPOSED MULTI-YEAR FINANCIAL PLAN
FISCAL 2017 - 2020*

October 13, 2016

NASSAU COUNTY INTERIM FINANCE AUTHORITY

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I. OVERVIEW

On September 15, 2016, the County released its Proposed Multi-Year Financial Plan, Fiscal 2017-2020 (the “Proposed Plan”), the first year of which is the Proposed Budget for FY 2017 (the “Proposed Budget”). The following discussion reflects NIFA’s analysis of the County’s submission.

The Proposed Plan contains significant projected deficits in each year. These include approximately \$217.4 million in FY 2017 [when calculated in accordance with Generally Accepted Accounting Principles and without using “other financing sources” (such as bond proceeds and fund balance) to support operating expenses (hereinafter, deficit on a “GAAP Basis”)].

The Control Period will continue as long as there is at least a 1% deficit on a GAAP Basis in the County’s Major Funds (defined herein), or \$30.1 million based on the 2017 Budget. Not only will the Control Period continue through FY 2017, the County is extremely unlikely to fulfill its commitment to achieve GAAP balance in FY 2018 and will probably continue to remain under the Control Period. As a result, NIFA may be forced to use its powers to order widespread cutbacks of non-essential services.

A substantial portion of the projected risk could be eliminated if the Legislature approves the \$88 million in new and increased revenues that the Administration has proposed from fees, fines, permits and licenses. In addition, \$99.5 million of risk could be minimized if the County scaled back its proposed borrowings for tax certiorari refunds, judgments and settlements, and eliminated its use of fund balance to pay operating expenses. A large part of this risk could also be eliminated if, as the Administration has proposed, the Legislature added a dedicated line to the tax bill for certiorari payments. The County could utilize this line to raise sufficient operating revenue to fund its certiorari obligations.

A property tax increase up to the State-imposed cap could also raise approximately \$22.9 million in additional gap-closing revenue, but a decision to pierce the cap would require the approval of 60% of the Legislature.

The financial outlook continues to be challenging due to several reasons, including earlier decisions by the County that pushed off liabilities to “later years,” which later years have now become the current year(s), protracted weakness in its sales tax revenue, and its prior and continuing use of:

1. County borrowings for expenses that should be paid for out of operating income as is the case with other municipalities (*e.g.*, tax certiorari refunds and judgments and settlements);

2. Reserves to fund operating expenditures, which does nothing to reduce the persistent structural imbalance between recurring revenues and expenditures; and
3. Optimistic projections of certain baseline revenues, expenditures and gap-closing savings initiatives.

We acknowledge that the County has made notable progress in realigning its finances in recent years through workforce reductions, new labor agreements, public-private partnerships, tax certiorari reforms, and increases in several revenue streams. The County also agreed to stop borrowing for employee termination pay in FY 2016 and tax certiorari refunds in FY 2018. Unfortunately, these initiatives, which have often come at the urging of rating agencies or the direction of NIFA, have not and will not be enough to staunch the GAAP Basis deficits. These deficits were the reason the County asked for State legislation to create NIFA.

The following table illustrates the scope of this continuing problem:

Operating Results on a GAAP Basis								
(\$ in millions)								
FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016p	FY 2017p
(\$180.4)	(\$144.9)	(\$160.0)	(\$64.1)	(\$73.6)	(\$189.2)	(\$105.3)	(\$110.1)*	(\$217.4)

*Prior to achievement of all proposed County initiatives designed to reduce deficit to \$80 million.

The County continues to acknowledge its commitment to achieve balance on a GAAP Basis, the statutory standard by which NIFA is required to measure balance, in FY 2018. However, the projected risks remain sizeable and we question the County’s resolve. Too often the County has chosen the easier path of pushing its current obligations onto future taxpayers.

The Legislature cannot continue to be a passive player in solving the County’s fiscal problems. They need to partner with the Administration to find and help implement creative solutions to the County’s fiscal imbalance. After sixteen years of largely ineffective finger pointing and scapegoating, it is time for the County’s leaders and policy makers to work together for the County’s residents.

Consequently, we find that GAAP Basis balance is unlikely to be achieved without considerable changes to the Proposed Plan and the mindset of the County’s leaders.

II. DISCUSSION OF FY 2017

As required by the County Charter and NIFA Act, the County submitted its Proposed Multi-Year Financial Plan, Fiscal 2017-2020 (see Appendix A) the first year of which is the Proposed Budget for FY 2017.

Our analysis of the Proposed Budget indicates that the County could end FY 2017 with an operating deficit in the Major Funds (which are defined as the General Fund, the Police District Fund, the Police Headquarters Fund, the Fire Commission Fund, and the Debt Service Fund) of approximately \$217.4 million if all of the risks we have identified are not resolved. The potential deficit is calculated on a GAAP Basis, as required by the NIFA Act and recognized by the County's leaders. See "Analysis of Proposed FY 2017 Budget" in Table 1 on page 5.

The potential deficit is more than seven times the \$30.1 million deficit which would otherwise trigger a Control Period had one not already been in place since 2011. Even if all of the risks we have identified for FY 2017 are eliminated, the GAAP Basis deficit would be approximately \$99.5 million, which is higher than the transitional deficit NIFA is permitting in FY 2016. The Proposed Plan should be evidencing significant progress toward the full GAAP Basis balance requirement in FY 2018 rather than backsliding.

We recently reminded the Administration that a projected GAAP Basis deficit of this size (\$99.5 million) would be unacceptable. In response, the Administration has agreed to introduce changes to the Proposed Budget during the legislative adoption process. However, it is unclear at this time what the magnitude of those changes will be or if they will be satisfactory to NIFA or the Legislature.

The \$217.4 million of projected risks in FY 2017 includes approximately \$88 million in new revenue initiatives requiring approval by the Legislature, the largest being \$64.4 million the County projects would be generated by imposing a new \$105 Public Safety fee on all moving and parking violations.

Other projected risks also include shifting the burden of paying current operating costs to future taxpayers through \$80 million in potential borrowings for tax certiorari refunds and other judgments and settlements. Even if the bonding requests were approved, or another source of non-operating resources were identified, the \$80 million would contribute to a GAAP Basis deficit since these non-operating resources are not revenues.

If the Legislature approves the proposed increases in fees, fines, permits and licenses, the projected deficit could be reduced to approximately \$129.4 million on a GAAP Basis, prior to the aforementioned unspecified technical adjustments. Since a deficit of this size is still more than four times the control period threshold we do not expect the Control Period to be lifted.

FY 2017 RISKS

The risks in the Proposed Budget fall into three main categories:

A. Category One Risks – **Implementation Risks** (\$50.1 million).

These are risks from actions that our analysis indicates may be difficult to execute and/or may result in fewer savings or less revenue than assumed.

For example, the County projects a more optimistic level of sales tax revenue, OTB profits from the installation of video lottery terminals (“VLTs”) on the grounds of Aqueduct Racetrack, revenue from the Income and Expense law (which subjects commercial property owners who do not file required tax returns to a fine), and proceeds from the sale of certain properties for which no contracts currently exist.

B. Category Two Risks – **Requires NIFA or County Legislative Action** (\$147.8 million).

These are risks that cannot be implemented until the County Legislature or NIFA takes a favorable action(s).

For example, the County proposes to increase certain fees, fines and permits and licenses and also bond payments for tax certiorari refunds.

C. Category Three Risks – **Resources Not Permitted by NIFA Statute, Referred to as GAAP Basis Adjustments** (\$19.5 million).

These are primarily non-operating resources the County has included in the Proposed Budget, or is intending to use, to cover operating costs, but are not considered revenue under the NIFA statute.

For example, the County has budgeted the use of \$15 million in fund balance and the Comptroller estimates that there may be approximately \$4.5 million in other required accounting adjustments. These adjustments include properly recording pension expenses and the net effect of encumbrances.

However, Category Three Risks would increase to \$99.5 million (from \$19.5 million discussed above) if the County receives approval from the Legislature and NIFA to use \$60 million in bond proceeds earmarked to pay tax certiorari refunds, and \$20 million in non-operating resources to pay judgments and settlements as is currently assumed by the County in the Proposed Budget.

Table 1 lists the major projected risks in FY 2017 prior to Legislative action.

Table 1

Analysis of Proposed FY 2017 Budget (Prior to Legislative Action)			
(\$ in millions)	FY 2017 Proposed	FY 2017 Projection	Surplus/(Risk)
Revenues:			
Permits and Licenses	\$21.3	\$18.1	(\$3.2)
Fines and Forfeitures	132.6	65.2	(67.4)
<i>Public Safety Fee</i>	64.4	0.0	(64.4)
<i>Boot and Tow</i>	2.0	0.0	(2.0)
<i>Other</i>	66.2	65.2	(1.0)
Rents and Recoveries	25.7	18.6	(7.1)
<i>Sale of County Land</i>	5.1	0.0	(5.1)
<i>BOE Chargebacks</i>	2.0	0.0	(2.0)
<i>Other</i>	18.6	18.6	0.0
Departmental Revenues	234.3	211.7	(22.6)
<i>Income and Expense Law</i>	10.0	0.0	(10.0)
<i>Other (incl. fee increases)</i>	224.3	211.7	(12.6)
Bond Proceeds for Operations	60.0	0.0	(60.0)
<i>Tax Certiorari Payments</i>	60.0	0.0	(60.0)
OTB Profits (VLTs)	3.0	0.0	(3.0)
Sales Tax	1,142.5	1,132.2	(10.3)
Other Revenue	1,389.8	1,388.5	(1.3)
Total Revenues	3,009.2	2,834.3	(174.9)
Expenditures:			
Salaries and Wages	902.5	914.5	(12.0)
<i>Overtime</i>	84.8	96.8	(12.0)
Tax Certiorari Payments	75.0	75.0	0.0
Judgments and Settlements	0.0	20.2	(20.2)
Contingency Reserve	10.0	0.0	10.0
Other Expenditures	2,021.7	2,022.5	(0.8)
Total Expenditures	3,009.2	3,032.2	(23.0)
Projected Risks on a Budgetary Basis			(\$197.9)
GAAP Basis Adjustments*			(19.5)
Projected Risks on a GAAP Basis			(\$217.4)

*Includes fund balance used to pay operating expenses and other required accounting adjustments estimated by the Comptroller.

Discussion of Major Risks Listed in Table 1

Permits and Licenses – The County has budgeted \$21.3 million in revenue from permits and licenses. We are holding \$3.2 million of this revenue at risk until the proposed new and increased charges for various permits and licenses are approved by the Legislature.

Fines and Forfeitures – The County has budgeted \$132.6 million in anticipated revenue from fines and forfeitures. We are holding \$67.4 million of this revenue at risk until the new fines and surcharges are approved by the Legislature.

The largest component of this risk comes from the County’s proposal to impose a Public Safety surcharge, in the amount of \$105 on all traffic and parking violations, which they project could generate \$64.4 million in new revenues. It is unclear if there is legislative support for this new fee. Even if approved, the large surcharge may lead to changes in driver behavior such that the number of violations decline and actual revenues come in lower than assumed.

The County also proposed a \$175 Boot and Tow surcharge, which it estimates could generate \$2.0 million if approved by the Legislature. This fee would be charged for booting and towing of vehicles with unpaid parking tickets.

Rents and Recoveries – The County has budgeted \$25.7 million in rents and recoveries, which is a category of revenue that includes the sale of County property, rental income from tenants that occupy County facilities, recoveries generated by the reversal of prior year appropriations, and recoveries associated with the settlement of claims brought by the County.

Included in this amount is a \$5.1 million “one shot” that the County expects to realize from the sale of County property in FY 2017. Although the County has had past success in selling property, there have been years when anticipated transactions did not timely close and budgeted revenues fell short. Consequently, we consider the revenue anticipated from property sales to be at risk until specific parcels and potential purchasers are identified, contractual agreements are reached, and the legislative approvals are secured.

The County also proposes to charge its cities, towns and villages for certain special election expenses incurred by the Board of Elections, such as for an election outside of the normal election cycle, which historically have been paid by the County. We hold this \$2.0 million initiative at risk since it requires approval by the Legislature.

Departmental Revenues – The County has budgeted \$234.3 million in departmental revenue, of which we project \$22.6 million to be at risk. Most of this risk stems from approximately \$12 million in various proposed fee increases that must be approved by the Legislature. Moreover, it has been reported that the County Executive

already rescinded his proposed increase in bus fares, which had been budgeted at \$2.2 million, without addressing how the concomitant shortfall would be covered.

The County also budgeted the receipt of \$10 million from enforcing the Income and Expense law, which subjects commercial property owners who do not file required tax returns to a fine. The law is currently under a Temporary Restraining Order while the case is more thoroughly reviewed by the Court. Regardless of the outcome, there will be appeals and it may take years to finally implement this initiative - even if the County ultimately prevails.

Bond Proceeds for Operations – The County assumes that it will receive bonding authority for \$60 million (from the Legislature and NIFA) to pay tax certiorari refunds, which are operating costs. This is the last tranche of transitional tax certiorari bonding that had been contemplated by the County in previous financial plans. If approved, the budgetary risk would be eliminated, but the use of the bond proceeds would add to the GAAP deficit on a dollar for dollar basis.

OTB Profits – The County is assuming that OTB will pay it \$3 million in FY 2017 now that its agreement with Genting to operate up to 1,000 VLTs on the grounds of Aqueduct Racetrack has been approved by the State Gaming Commission. Although OTB has stated its commitment to remit the \$3 million to the County, no binding agreement exists between OTB and the County guaranteeing this payment. Consequently, we continue to hold these revenues at risk.

Sales Tax – Sales tax is the largest revenue source for the County, comprising approximately 38% of all revenues in the Major Funds, and is budgeted at approximately \$1.142 billion in FY 2017. Our analysis indicates that FY 2017 sales tax revenue may be overstated by approximately \$10.3 million.

The risk stems from our more conservative estimate of sales tax revenue that will be collected in FY 2016, thereby lowering the base from which sales taxes will grow in FY 2017. Consequently, although our FY 2017 growth rate assumption of 1.5% is consistent with the County's, the lower projected base in FY 2016 results in the projected FY 2017 variance.

Our lower base for FY 2016 arises because we are assuming that sales tax receipts in the remaining months of FY 2016 will grow by 1.5% over the same period in FY 2015. This is the average growth rate for this period over the last 10 years. In contrast, the County is assuming a 3.8% growth rate for this period, which is aggressive considering the year-to-date growth of 0.75% through September 12, 2016.

The next quarterly reconciliation of sales tax revenue will be distributed by the State Department of Taxation and Finance in mid-October and will be instructive since it will provide a more accurate assessment of sales tax activity in the County through August 31st. Although too late to be incorporated in this report, the results could impact our risk projections up or down. The County must be prepared to quickly mitigate shortfalls that

would materialize if the current weakness in sales tax collections continues through the end of FY 2016.

Salaries and Wages – The County projects that salaries and wages will total \$902.5 million. In contrast, our analysis indicates that salaries and wages may be underfunded by approximately \$12.0 million. The projected risk is attributed primarily to overtime expenditures within the Police Department which, although historically overspent, are funded at the same level as the FY 2016 budget even though overtime is expected to exceed budgeted amounts by at least \$12 million in FY 2016.

Every year the County projects that there will be a decrease in overtime spending and every year the County fails to achieve these savings. This year they said the decrease would arise due to the hiring of sworn officers. We remain skeptical that FY 2017 will be different considering the Department’s track record and ongoing security threats requiring an increased rather than a decreased police presence.

The Department of Corrections expends the second most on overtime in the County. In FY 2015, the Department experienced an inexplicable and substantial surplus in overtime. For equally unknown reasons, this progress reversed itself in FY 2016. Therefore, it is difficult to predict if the modest bump in funding (less than \$1 million) for the Department of Corrections will be sufficient.

Headcount – The Proposed Budget increases headcount (“HC”) from the FY 2016 Adopted Budget of 7,395 full-time positions to 7,721 (see Appendix B) for an increase of 230 full-time positions. The County’s on-board HC as of early September was 7,433, or 38 positions *above* the budgeted HC.

We believe it is important to note that the County, as in past years, has budgeted a centralized “unallocated HC reduction,” which the County has struggled to achieve. The County should allocate this reduction to the specific departments it is looking to downsize.

For example, the County has indicated that it intends to hire 135 police officers and 40 Corrections officers to shore up staffing levels in those departments. In order for the County to add these positions and meet its overall headcount target, it should notify the departments where offsetting staff reductions will need to be made. The County must be mindful when making these adjustments such that revenue generating positions are maintained.

Tax Certiorari Payments – The County Comptroller estimated the long-term tax certiorari liability (“backlog”) to be \$303 million at the end of FY 2015 and it is probable that figure will be higher at the end of FY 2016. The County projects that it will pay \$75 million in tax certiorari refunds in FY 2017 by using \$60 million in bond proceeds and only \$15 million of operating revenue. We are not projecting a risk in FY 2017.

However, in the Out-Years, the County contends that it will fund this liability out of operating income, but only commits a total of \$90 million in FY 2018, FY 2019 and FY

2020. We believe that the County is continuing to underfund this liability and is not committing sufficient funds in the Out-Years to meaningfully reduce this obligation even if the County's new Disputed Assessment Fund ("DAF") is successful in funding new commercial liability.

State legislation created the DAF, by which commercial property owners will, in essence, self-fund refunds that are due for contested property assessments. We acknowledge this as a major accomplishment; however, we are concerned that its implementation will be delayed for a long time by litigation likely to be brought by commercial property owners. In the meantime, old cases will languish and new cases will arise.

Finally, it is noteworthy that the backlog does not include other property tax litigation, which the County estimates could be as high as \$345 million, that may be payable under the "utilities" lawsuits.

Judgments and Settlements – The County has not budgeted any operating revenue to cover the costs of non-certiorari judgments and settlements under the assumption that the County's Litigation Fund will have sufficient resources to cover its annual liability. However, the County estimates that of the \$37.2 million it has budgeted in the Litigation Fund in FY 2017, only \$17 million will come from funds that will remain at the end of FY 2016. Consequently, we are holding at risk the County-estimated liability of \$20.2 million for which no funding has been identified.

Apparently, the County plans to transfer an additional \$20.2 million of non-operating resources into the Litigation Fund in FY 2017 (and again in FY 2018, FY 2019 and FY 2020). These resources are likely to result from yet-to-be announced new borrowings or additional appropriations of fund balance, each of which would contribute to the GAAP Basis deficit on a dollar for dollar basis.

As we have stated in the past, only in the case of extraordinary judgments or settlements should the County consider borrowing for these expenditures since it merely shifts the impact of existing liabilities onto future taxpayers.

Contingency Reserve – The Proposed Budget allocates \$15 million for contingencies, although \$5 million is already allocated to termination pay in the Police Department. Consequently, we apply only \$10 million as an offset to the aforementioned risks.

In light of the magnitude of the foregoing projected risks, the amount appropriated for contingencies is inadequate to cover such potential shortfalls as lower revenues from sales taxes, red light camera violations, mortgage recording fees, overtime costs or other revenue and expenditure categories. Further, the County's decision to not maintain any reserve for contingencies in the Out-Years is irresponsible and fiscally imprudent.

Other Major Concerns

In addition to the risks described above, we continue to have other concerns which could hinder the County's ability to achieve and maintain balance on a GAAP Basis.

Fringe Benefits – For the sixth consecutive year, the County is taking advantage of a State authorized program that allows the County to amortize certain pension costs over several years. The original program, which was called the “Contribution Stabilization Program,” allowed the deferred portion to span ten years. Beginning in 2014, the County began to use the “Alternate Contribution Stabilization Program,” which allowed the amortization period to be extended by two years to 12 years.

By deferring a portion of its current pension liability, the County will “save” approximately \$29.7 million in FY 2017, but it will increase its cumulative deferred pension liability to almost \$260 million. As we have repeatedly warned in past years, while the use of this program will yield considerable short term budget relief, the effect of the amortization is to merely extend current liabilities into the future. Stated differently, the County has avoided paying almost \$260 million in current liabilities and passed that expense onto future taxpayers through FY 2029.

Contractual Services – The County uses outside contractors for many different services. Within the Major Funds, the Transdev North America contract costs approximately \$125.3 million for the provision of bus transportation services. The County also spends \$33.9 million per year on Health and Human Services and Social Services programs. Additionally, the County uses an outside vendor to provide medical and psychiatric services to inmates at the Correctional Center with costs averaging \$16.0 million per year. The Traffic and Parking Violations Agency is projected to spend approximately \$10.1 million, a majority of which is for the provision of red light camera monitoring and enforcement.

The Transdev contract is being funded at the same level as the FY 2016 Adopted Budget, which would have required the elimination of certain bus routes had the County not provide an additional \$3 million after the year commenced. The additional \$3 million in funding was not sustained in the Proposed Budget.

The beleaguered Armor contract, which provides medical services to inmates at the Correctional Center, is expiring and will be rebid. It is unclear how these services will be provided, and at what cost, if Armor chooses to walk away from the contract before it expires in May of 2017. Likewise, it is unclear if the County can find a new provider at the same cost.

Sewer and Storm Water Resource District – Although the Sewer and Storm Water Resource District (“SSWRD”) is not one of the five Major Funds, as defined in the NIFA Act, we have concerns regarding the sustainability of its business model. Simply stated, projected baseline revenues are insufficient to support projected baseline

expenditures and, absent other gap-closing measures and the depletion of remaining fund balance, will likely necessitate future increases in the sewer tax levy.

The County projects that the SSWRD will have a deficit of \$23.2 million in FY 2017, which it will plug with virtually all of the remaining sewer fund balance. The County projects ongoing baseline deficits of \$30.4 million in FY 2018, \$36.1 million in FY 2019 and \$39.6 million in FY 2020. The County's efforts to charge non-profit institutions for sewer and storm water services remain blocked by a Court injunction, robbing it of an estimated \$12.6 million annually.

The County's answer to these concerns is the proposed Public-Private Partnership ("P3") initiative, which is briefly discussed on page 17. The County will use proceeds raised from the P3 transaction to pay off outstanding sewer debt, which in turn will provide debt service savings that, combined with assumed sewer rate increases, the County estimates will be sufficient to close the projected deficits.

III. THE OUT-YEAR GAPS: FY 2018 – FY 2020

This section of the report discusses the projected Out-Year gaps and the County’s plan for ensuring balance in these years.

Sizing the Out-Year Gaps – Even if it can successfully implement its entire 2017 gap-closing plan, the County projects (on a budgetary basis) that baseline gaps of \$57.0 million in FY 2018, \$62.6 million in FY 2019, and \$68.7 million in FY 2020 will occur prior to implementing new gap-closing initiatives.

However, our analysis indicates that if the risks we identified in FY 2017 are not satisfactorily addressed with recurring solutions, the County’s projections of Out-Year gaps may be understated by approximately \$210.0 million in FY 2018, \$226.4 million in FY 2019, and \$238.9 million in FY 2020. Combined, we project that the baseline gap can reach \$267.0 million in FY 2018, \$289.0 million in FY 2019 and \$307.6 million in FY 2020, as shown in Table 2.

Table 2

Projected Out-Year Gaps are Understated			
(\$ in millions)	FY 2018	FY 2019	FY 2020
County Estimated Baseline Gap*	(\$57.0)	(\$62.6)	(\$68.7)
NIFA Risks	(210.0)	(226.4)	(238.9)
NIFA Estimated Baseline Gap	(\$267.0)	(\$289.0)	(\$307.6)

*The baseline gaps were calculated by the County using growth rate assumptions listed in Appendix C.

Most of these risks are carried forward from our analysis of projected revenues and expenditures in FY 2017, which are described in detail earlier in this report, beginning on page 6. However, there are a few Out-Year risks that are either new or require closer examination, as discussed below.

OTB Profits – The County is assuming that OTB will pay it \$19 million in FY 2018 and \$25 million annually thereafter, from the proceeds OTB expects to receive from Genting for operating 1,000 VLTs on the grounds of Aqueduct Racetrack. These amounts are significantly greater than the \$3 million the County has been “promised” in FY 2017 and we do not have sufficient information to figure out how they were generated. As we noted on page 7, no binding agreement exists between OTB and the County guaranteeing these payments. Consequently, we continue to hold these revenues at risk.

Salaries and Wages – The County’s major labor agreements expire at the end of FY 2017 as well as NIFA’s commitment not to re-impose a wage freeze. Although the County has budgeted for the additional costs in the Out-Years associated with step increases that will be provided to eligible employees, it did not include any funding for cost of living adjustments (“COLAs”), which have been provided in previous contracts.

The County's presumption is that all increases will be self-funded by concessions agreed to by its unions. This has never occurred in the past and we are skeptical that cost-neutral agreements will be successfully negotiated in the future. The County and its unions both need to consider its distressed finances before commencing any negotiations, which in the past have exacerbated the structural imbalance in the County. NIFA has no current intention of re-imposing a wage freeze simply because the County is unwilling to live within its means.

Health Insurance - Our analysis indicates that the County's projections for health insurance costs may be understated in the Out-Years if the premiums were to rise more rapidly than assumed resulting in risks of approximately \$8 million in FY 2018, \$16 million in FY 2019, and \$25 million in FY 2020. We recommend that the County use more conservative growth rate assumptions to project the Out-Year costs of this fringe benefit, over which it has limited control for current employees and retirees.

Tax Certiorari Refunds - Our analysis indicates that the County's projections for tax certiorari refunds are woefully understated in the Out-Years, assuming it has any intention of diligently working down the existing backlog. The County Comptroller estimated the long-term liability to be \$303 million at the end of FY 2015. Consequently, we find that funding only \$30 million per year to cover these payments as well as new, successful property assessment grievances is inappropriate when considering the size of the problem. Moreover, the Proposed Plan assumes that the County's plan to use its Disputed Assessment Fund to fund commercial property tax refunds goes unchallenged, which we think is unrealistic.

The backlog arose because of the County's unique obligation for paying 100% of the required refunds on successful property assessment challenges despite it having received less than 20% of the property taxes in the first instance (they also refund the portion that relate to school and town taxes originally received by these other entities). Efforts by the County to change the burdensome State law imposing the "County Guarantee" have been unsuccessful.

We estimate that the County will need to spend at least \$70 million annually, or \$40 million more than budgeted, on tax certiorari refunds to bring down its existing backlog and pay for new liability in a reasonable amount of time. Also, the County's projections do not appear to account for the new liability currently being generated annually by owners of expensive homes and small condominiums who challenge their assessments.

Judgments and Settlements - The County is looking to use the litigation fund to pay \$20.2 million in non-certiorari judgments and settlements in FY 2018, FY 2019 and FY 2020. Although the County did not specifically address how it would raise the proceeds to transfer into the litigation fund, our presumption is that the County expects to use some form of non-operating resources (*e.g.*, bond proceeds or fund balance) to pay this operating expense. Consequently, we are holding the \$20.2 million at risk in each of the Out-Years.

Contingency Reserve - We advise the County to fund contingency reserves in each of the Out-Years with at least \$10 million in operating revenues as it has done in FY 2017. Reasonable contingency reserves are part of any well-constructed budget because of the probability that certain assumptions will break unfavorably in any year. Even a modest contingency reserve could buffer the otherwise disruptive impact on operations caused by unforeseen increases in expenditures or unanticipated shortfalls in revenues.

The following discussion describes the County’s plan to close the baseline gaps it has projected. However, as discussed above and illustrated in “Projected Out-Year Gaps on a Budgetary Basis” in Table 2 on page 13, our analysis indicates that the County’s projections of baseline gaps are understated.

Closing the Out-Year Gaps – Our analysis indicates that the projected value of the County’s gap-closing plan will be insufficient to close NIFA’s estimates of baseline gaps (NIFA’s projected risks plus the County’s estimate of baseline gaps) even if fully implemented. As shown in Table 3, even after fully implementing the County’s gap-closing plan, the projected gaps would still be \$147.6 million in FY 2018, \$135.4 million in FY 2019 and \$136.3 million in FY 2020. Moreover, we think it is unlikely that the full savings from the proposed gap-closing initiatives can be realized.

Table 3

County Gap-Closing Plan			
(\$ in millions)	FY 2018	FY 2019	FY 2020
NIFA Estimated Baseline Gap	(\$267.0)	(\$289.0)	(\$307.6)
County Gap-Closing Options			
Expense/Revenue Actions			
Revenue Initiatives	\$30.0	\$32.0	\$37.0
Workforce Management	10.0	12.0	15.0
Program/OTPS Reduction	6.0	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
eGovernment Revenues	1.0	2.0	4.0
ERP Implementation	1.0	2.0	3.0
Public Private Partnership (P3)	20.0	20.0	20.0
County District Energy Facility	-	10.0	10.0
Strategic Sourcing	-	3.0	4.0
Building Consolidation Efficiencies	-	1.0	4.0
NYS Actions			
Mandate Reform	28.7	28.7	28.7
Other NYS Legislative Actions	5.0	5.0	5.0
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
Total Gap-Closing Options	\$119.4	\$153.6	\$171.3
Remaining Surplus/(Deficit)	(\$147.6)	(\$135.4)	(\$136.3)

Discussion of County Gap-Closing Initiatives Listed in Table 3

Expense/Revenue Actions – The County has referenced several initiatives that it is pursuing and that it projects could generate additional revenue or reduce expenditures in the Out-Years. While theoretically this may be true, the plans for implementation and subsequent meetings to discuss these initiatives has generated little confidence, in most instances, that the projections are achievable.

Revenue Initiatives – The County provides a two-sentence description of this initiative that is estimated at \$30 million in FY 2018, \$32 million in FY 2019 and \$37 million in FY 2020. In the absence of anything of substance, such as specific planned measures supported by an analysis of how these revenues were calculated and projected, NIFA must risk the entire initiative.

Workforce Management – The County claims that savings can be derived from eliminating vacant positions and filling other vacancies with employees earning lower salaries. Our analysis indicates that these savings have already been incorporated into the County’s baseline projections. It is unclear if the County is proposing to contract part of its workforce, which could provide additional savings not yet budgeted.

Program/OTPS Reduction – The County said it will continue to 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 stated that it is exploring options to reduce health premium costs by between \$5 and \$7 million annually from FY 2018 to FY 2020. They assert that savings will be sought in the next round of collective bargaining (current contracts expire at the end of 2017) and in the selection process for a dental provider. NIFA can only acknowledge these savings when programs are selected, offered and implemented.

SUEZ Water Long Island Inc. Synergy Savings – The County anticipates, for the third consecutive year, that it can generate additional revenue and cost savings by utilizing displaced Sewer and Storm Water employees in revenue-generating tasks and to assist in workforce productivity. To date, the County has not been as successful as planned in this application and it seems these employees are more of a cost burden than savings or revenue enhancers. Consequently, the projected synergy savings targets of \$4 million beginning in FY 2018, \$9 million in FY 2019 and \$9.2 million in FY 2020 are placed at risk.

eGovernment Revenues – To generate revenue, the County is exploring on-line payment and internet-based technologies to enhance customer service and ease-of-payment options. With little information, and no supporting analysis or forecasting models, the projected revenues of \$1.0 million in FY 2018, \$2.0 million in 2019 and to \$4.0 million in FY 2020 are unlikely.

ERP Implementation – The County intends to pursue efficiencies and savings by streamlining core business processes and claims that the first phase involving personnel and payroll will be implemented in the first quarter of 2017. It's unclear how these savings will be realized without a reduction in headcount. No further details are disclosed.

Public-Private Partnership (“P3”) – The County has proposed a Public-Private Partnership for the wastewater sewer system that would allow the County to retain public ownership with the vendor acting as a long term lessor or “concessionaire.” The County projects that by using proceeds of the lease, in excess of the amount needed to pay off sewer debt, to pay off outstanding County debt, the debt service savings to the Major Funds would be \$20 million in FY 2018, \$20 million in FY 2019 and \$20 million in FY 2020. They assert that the benefits of the P3 would include performance level guarantees, risk transfer for environmental compliance and improvements in service levels and customer service.

At this time, it is unclear how much excess money (above the amount needed to pay off outstanding sewer debt), if any, can be raised from this transaction. We note that any “excess” funds will be generated only if the concessionaire is confident of an acceptable return on its investment. That would mean higher user fees than those deemed acceptable to merely retire outstanding sewer debt.

We question the political will for this project, especially if it is used as a means to raise extra funding for non-sewer related projects. For these reasons, until the proposed P3 concessionaire agreement can be vetted and possibly implemented, NIFA must put this gap-closing measure at risk.

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 extended through May, 2018. The County indicates that it is exploring a public-private partnership that could involve a “sale, lease, or private operation” of the district energy facility and had issued a request for proposals in January, 2016. The County is short on specifics that explain the projected revenue of \$10 million per year in 2019 and 2020; therefore, we cannot affirm the viability or time parameters of generating this amount of revenue.

Strategic Sourcing – The County intends to continue pursuing efficiencies and savings through this initiative. They claim, without substantiation, that savings have already been realized and intend to expand this initiative in upcoming years.

Building Consolidation Efficiencies – The County claims that reductions in its workforce during the past few years have provided opportunities for reduction of office space and centralization of its staff. They also state that they have lagged in consolidation efforts, which they claim will generate savings. We question whether there would be significant savings without the transfer of employees out of leased space to County-owned facilities.

New York State Actions

Among the initiatives are five proposals that would require State approval before they could be advanced: (1) mandate reform; (2) other New York State Legislative actions; (3) E-911 Surcharge; (4) NYS Highway Traffic Offense surcharge; and (5) Hotel/Motel tax rate increase.

Mandate Reform – The County believes that fraud and inefficiencies exist within certain State-mandated programs and it asserts that it will uncover those frauds and eliminate the inefficiencies. It is unclear if the County has specific cost containment initiatives that it could implement to generate these savings or if it is simply hopeful that the State will implement reforms that result in lower costs for these services.

NYS Legislative Initiatives – The County claims that it may seek NYS legislation for revisions on registration fees for non-commercial and commercial vehicles.

E-911 Surcharge – The County intends to amend current County law and seek New York State approval to increase surcharges on telecommunication equipment and telephone service supplier customers. The County would use this revenue to cover the cost technology needed to make enhancements to the 911 (E911) emergency telephone system.

NYS Highway Traffic Offense Surcharge – The County intends to seek permission from New York State to provide a mandatory surcharge for traffic incidents that occur on the Long Island Expressway, the Seaford-Oyster Bay Expressway or Sunrise Highway in order to generate revenues that would be used to reimburse the County for its share of the cost of patrolling State roadways. This is a slight variation on previous “LIE Surcharge” initiatives that have been repeatedly rejected in the past.

Hotel/Motel Tax Rate Increase – The County intends to seek approval from the State to increase the Hotel/Motel tax rate from 3 percent to 5.875 percent, which is the current rate allowed in New York City.

IV. CONCLUSION

The County will be fiscally challenged in FY 2017 even if all of the proposed borrowings and increases in fees, fines, permits and licenses are approved. Weak sales tax revenues, a Temporary Restraining Order on imposing fines on certain commercial property owners, unbudgeted overtime costs, and insufficient funding for judgments and settlements remain fiscal obstacles.

Most importantly, our analysis indicates that the County will be unable to close the projected GAAP Basis deficit (the statutory standard by which NIFA is required to measure balance) in FY 2017 and will likely continue to be well in excess of the trigger point for the continuation of a control period for every year of the Proposed Plan.

The recipe for exiting the Control Period is well known and requires straightforward ingredients. The County must adopt measures that significantly raise the level of recurring revenue sufficient to fund its current obligations and desired level of services. In the alternative, the County must radically cut the level of its recurring expenditures sufficient to be sustained by its available recurring revenues. A reasonable course of action would combine both approaches.

Many proposals by the Administration to help match the County's recurring expenditures with recurring revenues have been foiled by the County's elected officials who have clearly endeavored to avoid making the difficult, but prudent decisions needed to address this persistent imbalance. Their preferred approach has been to defer current obligations to future years, in part by bonding certain operating costs under the pretense of protecting the County's taxpayers.

In actuality, their past decisions have inequitably burdened current taxpayers, and their recent decisions have inequitably burdened future taxpayers with the inflated costs for cleaning up current financial problems.

NIFA's statutory powers preclude it from imposing revenue enhancing initiatives, which leaves it with the unpopular alternative of trimming spending with resultant cutbacks in service. We have refrained from this approach for most of our tenure, which has now reached 16 years, five of which have been in a Control Period. While it remains the responsibility of County leaders to solve their own fiscal problems, we recognize our statutory mandate and are not taking any of our options off the table.

V. APPENDICES

Appendix A Proposed Multi-Year Financial Plan, Fiscal 2017-2020

MAJOR FUNDS				
EXPENDITURES				
OBJECT	2017 Proposed	2018 Plan	2019 Plan	2020 Plan
AA-SALARIES, WAGES & FEES	902,475,171	911,795,678	916,477,061	921,132,348
AB-FRINGE BENEFITS	537,884,179	567,227,327	593,046,912	618,824,468
AC-WORKERS COMPENSATION	35,305,186	35,305,186	35,305,186	35,305,186
BB-EQUIPMENT	2,049,460	2,066,471	2,066,471	2,066,471
DD-GENERAL EXPENSES	38,062,550	38,635,668	39,068,982	39,320,866
DE-CONTRACTUAL SERVICES	251,057,237	252,062,160	252,471,591	252,891,259
DF-UTILITY COSTS	38,454,203	39,171,297	40,937,522	42,166,172
DG-VAR DIRECT EXPENSES	5,250,000	5,250,000	5,250,000	5,250,000
FF-INTEREST	120,149,010	131,853,579	129,588,458	132,293,749
GA-LOCAL GOVT ASST PROGRAM	68,399,582	70,078,322	71,799,030	73,562,755
GG-PRINCIPAL	94,230,001	107,700,170	119,024,999	130,395,000
HH-INTERFD CHGS - INTERFUND CHARGES	27,484,271	27,243,188	24,479,896	24,197,064
MM-MASS TRANSPORTATION	43,699,392	44,891,144	46,117,457	47,379,332
NA-NCIFA EXPENDITURES	2,000,000	1,925,000	1,975,000	2,025,000
OO-OTHER	288,242,454	219,784,693	218,032,821	202,986,417
PP-EARLY INTERVENTION/SPECIAL EDUCATION	135,000,000	137,700,000	140,454,000	143,263,080
SS-RECIPIENT GRANTS	61,100,000	61,711,000	62,636,665	63,576,215
TT-PURCHASED SERVICES	67,583,171	68,934,834	71,002,879	72,422,937
WW-EMERGENCY VENDOR PAYMENTS	48,775,000	48,287,250	48,287,250	48,287,250
XX-MEDICAID	241,985,035	255,665,874	251,121,349	251,121,349
TOTAL	3,009,185,902	3,027,288,839	3,069,143,527	3,108,466,917
REVENUES				
OBJECT	2017 Proposed	2018 Plan	2019 Plan	2020 Plan
AA - FUND BALANCE	15,000,000	0	0	0
BA - INT PENALTY ON TAX	35,200,000	35,200,000	35,200,000	35,200,000
BC - PERMITS & LICENSES	21,277,800	20,277,800	21,277,800	20,277,800
BD - FINES & FORFEITS	132,614,036	130,908,704	130,908,704	130,908,704
BE - INVEST INCOME	979,000	979,000	979,000	979,000
BF - RENTS & RECOVERIES	25,733,780	26,713,780	26,713,780	26,713,780
BG - REVENUE OFFSET TO EXPENSE	14,441,790	14,441,790	14,441,790	14,441,790
BH - DEPT REVENUES	234,265,470	229,465,470	229,465,470	229,465,470
BO - PAY LIEU TAX PAYMENT IN LIEU OF TAXES	42,346,721	42,289,884	41,017,919	40,426,882
BQ - D/S FROM CAP - DEBT SERVICE FROM CAPITAL	63,450,000	3,243,795	3,243,795	3,243,795
BS - OTB NON-TAX REVENUE	3,000,000	19,000,000	25,000,000	25,000,000
BW - INTERFD CHGS - INTERFUND CHARGES REVENUE	79,118,426	84,764,250	85,117,893	87,696,509
FA - FEDERAL AID - REIMBURSEMENT OF EXPENSES	137,083,311	138,219,832	139,347,703	140,465,175
SA - STATE AID - REIMBURSEMENT OF EXPENSES	212,238,590	213,693,120	215,175,678	216,686,813
TA - SALES TAX CO - SALES TAX COUNTYWIDE	1,054,394,190	1,080,754,045	1,107,772,896	1,135,467,218
TB - PART COUNTY - SALES TAX PART COUNTY	88,097,286	89,327,421	91,560,606	93,849,621
TL - PROPERTY TAX	816,994,240	808,203,589	806,579,408	806,305,368
TO - OTB 5% TAX	2,511,262	2,392,034	2,279,302	2,172,712
TX - SPECIAL TAXES - SPECIAL TAXES	30,440,000	30,440,000	30,440,000	30,440,000
TOTAL	3,009,185,902	2,970,314,513	3,006,521,744	3,039,740,638
SURPLUS/(DEFICIT)	0	(56,974,325)	(62,621,784)	(68,726,279)

Appendix B

FY 2017 PROPOSED BUDGET FULL-TIME HEADCOUNT (HC) COMPARISON TABLE

Department	Sum of 2016 Adopted HC	Sum of 2017 Proposed HC	Inc/Dec	On-Board Sept 1, 2016	Inc/Dec
AC - DEPARTMENT OF INVESTIGATIONS	0	3	3	1	(2)
AR - ASSESSMENT REVIEW COMMISSION	29	30	1	29	(1)
AS - ASSESSMENT DEPARTMENT	142	137	(5)	131	(6)
AT - COUNTY ATTORNEY	94	98	4	92	(6)
BU - OFFICE OF MANAGEMENT AND BUDGET	26	26	0	26	0
CA - OFFICE OF CONSUMER AFFAIRS	25	26	1	25	(1)
CC - NC SHERIFF/CORRECTIONAL CENTER	1,049	1,047	(2)	992	(55)
CE - COUNTY EXECUTIVE	18	17	(1)	17	0
CF - OFFICE OF CONSTITUENT AFFAIRS	34	35	1	34	(1)
CL - COUNTY CLERK	81	82	1	69	(13)
CO - COUNTY COMPTROLLER	85	87	2	73	(14)
CS - CIVIL SERVICE	51	52	1	50	(2)
DA - DISTRICT ATTORNEY	371	371	0	359	(12)
EL - BOARD OF ELECTIONS	163	164	1	164	0
EM - EMERGENCY MANAGEMENT	12	8	(4)	10	2
FC - FIRE COMMISSION	96	96	0	92	(4)
HE - HEALTH DEPARTMENT	175	185	10	178	(7)
HI - HOUSING & INTERGOVERNMENTAL AFFAIRS	16	14	(2)	14	0
HR - COMMISSION ON HUMAN RIGHTS	7	7	0	7	0
HS - DEPARTMENT OF HUMAN SERVICES	62	65	3	60	(5)
IT - INFORMATION TECHNOLOGY	82	88	6	84	(4)
LE - COUNTY LEGISLATURE	92	95	3	86	(9)
LR - OFFICE OF LABOR RELATIONS	5	4	(1)	4	0
MA - OFFICE OF MINORITY AFFAIRS	6	5	(1)	5	0
ME - MEDICAL EXAMINER	71	74	3	72	(2)
PA - PUBLIC ADMINISTRATOR	6	6	0	6	0
PB - PROBATION	189	191	2	186	(5)
PD - POLICE DEPARTMENT	3,105	3,335	230	3,225	(110)
PE - DEPARTMENT OF HUMAN RESOURCES	9	8	(1)	8	0
PK - PARKS, RECREATION AND MUSEUMS	154	154	0	152	(2)
PR - PURCHASING DEPARTMENT	10	12	2	9	(3)
PW - PUBLIC WORKS DEPARTMENT	458	469	11	469	0
RM - RECORDS MANAGEMENT	12	12	0	11	(1)
SA - COORD AGENCY FOR SPANISH AMERICANS	4	4	0	4	0
SS - SOCIAL SERVICES	613	624	11	601	(23)
TC - TAXI & LIMOUSINE COMMISSION	9	10	1	9	(1)
TR - COUNTY TREASURER	27	27	0	26	(1)
TV - TRAFFIC & PARKING VIOLATIONS AGENCY	47	46	(1)	46	0
VS - VETERANS SERVICES AGENCY	7	7	0	7	0
Sub Total	7,442	7,721	279	7,433	(288)
Unallocated HC Reduction	(47)	(96)	(49)	0	
Grand Total	7,395	7,625	230	7,433	(192)

Appendix C
Multi-Year Plan Baseline Inflat

Category	2018, 2019, 2020	Inflator Explanation
Expenditures		
Wages:		
Non-Police Pension	NYSERS, 2.07%, 1.13%	Estimates provided by the NYS Retirement System
Police Pension	NYSERS, 3.15%, 2.55%	Estimates provided by the NYS Retirement System
Health Ins. – Active	5.38%, 5.38%, 5.38%	Highest average increase over last 3, 5, or 9 years
Health Ins. – Retirees	6.0%, 6.0%, 6.0%	Highest average increase over last 3, 5, or 9 years
Other Than Personal Services	0.83%, 1.0%, 1.0%	
Utilities:		
Light and Power	1.14%, 5.61%, 3.31%	EIA (DOE) 2015 Annual Energy Outlook Price Projection for Mid-Atlantic Region Commercial Customers (June 2015) (Base reference case)
Brokered Gas	1.87%, 4.43%, 3.80%	
Trigen	1.93%, 3.65%, 3.22%	Blended (2/3 weighting for natural gas for electric power [EIA 2015 AEO] & 1/3 weighting for the 10 yr. avg. CPI [2.65%])
Fuel	9.38%, 12.13%, 6.04%	EIA (DOE) 2015 Annual Energy Outlook Price Projection for Mid-Atlantic Region Commercial Customers (June 2015) (Base reference case)
Water	2.5%, 2.5%, 2.5%	
Telephone	2.06%, 2.06%, 2.06%	Historical Trend
Medicaid	Flat +1, Flat, Flat	2017 goes back to Original Weekly Medicaid Cap prior to relief
Social Services Entitlements	Variable	Reflects most current caseload information
Special Education Program	Variable	Reflects most current caseload information
Revenues		
State Aid	Variable	Variable based upon reimbursement formula
Federal Aid	Variable	Variable based upon reimbursement formula
Sales Tax	2.5%, 2.5%, 2.5%	