Nassau County Interim Finance Authority

NIFA

REVIEW OF THE ADOPTED
MULTI-YEAR FINANCIAL PLAN
FISCAL 2018 – 2021

November 9, 2017

NASSAU COUNTY
INTERIM FINANCE AUTHORITY

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OVERVIEW

On October 30, 2017, the County adopted a Multi-Year Financial Plan for FY 2018 – 2021 (the "Plan"). NIFA has reviewed the Plan and concluded that it contains an unacceptable level of risk and is not in compliance with the NIFA directives contained in its resolution (NIFA 17-689, see Appendix) of October 17, 2017 (hereinafter, "Prior NIFA Resolution") or the NIFA Act.

The Plan contains significant projected risks and deficits in each year. These risks total approximately $108.0 million in FY 2018. This number was calculated in accordance with Generally Accepted Accounting Principles and without using "other financing sources" (such as bond proceeds) to support operating expenses (hereinafter, deficit on a "GAAP Basis"). Although this amount represents a $19.9 million improvement from our previous assessment of risks contained in the budget presented to the Legislature by the County Executive in September (the "Proposed Budget"), the remaining risks remain a significant fiscal challenge to achieving a balanced Budget in 2018 and throughout the term of the Plan.

During the adoption process the Legislature removed $60 million in recurring proposed fee and fine increases from the Proposed Budget, while they maintained the existing fees for mortgage and deed recording, tax map verification, and the public safety surcharge on moving violations. The Legislature also approved a 1.6% increase in the property tax levy for the Environmental Bond and Sewer and Storm Water District Funds, which are not part of the Major Funds that the NIFA Act requires the Authority to monitor.

The Legislature maintains that the $60 million in lost revenues is offset by additional baseline revenue that the County will realize from Clerk fees, TPVA and Police violation enforcement. The Legislature also budgeted projected savings from a potential County debt refunding transaction, embraced aggressive assumptions for headcount attrition, and added a number of consolidation initiatives.

We consider most of the Legislative amendments to have execution risk, which are in addition to numerous other risks we previously identified in the Proposed Budget and which were discussed in our October staff report.

The Legislature approved five amendments that we conclude are not consistent with the Prior NIFA Resolution, or are inconsistent with the NIFA Act due to overly optimistic assumptions. The Legislature voted to:

1. count as revenue the appropriation of $9.5 million of Fund Balance to pay for operating expenses. Reflecting these resources as revenue in the Budget is contrary to GAAP. Furthermore, the resources would also be non-recurring in violation of the Prior NIFA Resolution.

2. count as revenue resources it projects will be available from $10.0 million in unspecified disencumbrances. Reflecting these resources as revenue in the Budget is contrary to GAAP. Furthermore, the resources would also be non-recurring in violation of the Prior NIFA Resolution.
3. increase the assumed growth rate for sales tax revenues from 2.0% to 2.5%, which is inconsistent with historical growth rates in Nassau County over the last 5 and 10-year periods. Furthermore, in the unlikely event of a favorable revenue variance generated by stronger sales tax activity, we believe it will be needed to mitigate the previous and new execution risks that we have identified.
4. reduce the amount budgeted for police overtime by $5 million. While police overtime usage has improved from earlier projections, we have no empirical data to convince us that the trend will continue into FY 2018. In addition, overtime usage in the Correctional Center is trending higher.
5. include $7.5 million in debt service savings from a potential County debt refunding transaction that the Administration is pursuing, but has not yet been approved by the Legislature or NIFA. However, as currently structured, the transaction is projected to yield budget relief of only $5.5 million. This would result in a savings shortfall of $2.0 million.

We acknowledge that the County's Elected Officials have a right to govern and the prerogative to make policy decisions regarding how the County will raise and spend its operating revenue, as long as these decisions are consistent with the NIFA Act. However, we conclude that the FY 2018 Budget, as adopted by the Legislature, lacks sufficient revenue to cover the approved level of spending, contains sizeable risks, and weakens an already fiscally-challenged Plan.

Our conclusion must be considered in the context of NIFA's mission under its authorizing legislation and its agreement with the County to adopt a Multi-Year Plan that could demonstrate GAAP Basis balance in FY 2018.

Because of these findings, and the fact that the NIFA Act requires that the Control Period continue if there is at least a 1% deficit on a GAAP Basis in the County's Major Funds (as defined in the Act), or $29.7 million based on the adopted FY 2018 Budget, the Directors will likely need to maintain the Control Period. To improve the prospects of ending the Control Period and achieving budget balance, the Directors should consider mandating budget cuts of at least $31.5 million to replace the five gap-closing amendments discussed above.

These ordered cuts, which can be in the form of credible and recurring expenditure reductions or revenue increases, will help to ensure that operations of the County will be conducted within the resources available and ensure that future generations will not inherit a disproportionate responsibility for the actions of the current generation.

The remainder of this Report, read in conjunction with NIFA's October Report, provides both the historical context and analysis that were utilized to arrive at the preceding comments.

UPDATE OF ANALYSIS

We have reviewed the County's Plan, which incorporates several amendments and technical adjustments approved by the Legislature during the legislative adoption process. Based on this review, we list our current assessment of FY 2018 risks in Table 1.

Table 1

ANALYSIS OF FY 2018 BUDGET Surplus/(Risk) ($ in millions)			
($ in millions)	**FY 2018 Proposed**	**FY 2018 Adopted**	**Change Better/(Worse)**
Revenues:			
Fund Balance	**$0.0**	**($9.5)**	**($9.5)**
Fines and Forfeitures	**(37.3)**	**(2.2)**	**35.1**
Public Safety Fee	*(35.6)*	*(1.6)*	*34.0*
RLC	*0.4*	*0.0*	*(0.4)*
RLC Admin	*(1.8)*	*0.0*	*1.8*
TV Admin	*(0.2)*	*(0.6)*	*(0.4)*
Other	*(0.1)*	*(0.0)*	*0.1*
Rents and Recoveries	**(3.6)**	**(13.6)**	**(10.0)**
Sale of County Land	*(3.6)*	*(3.6)*	*0.0*
Disencumbrances	*0.0*	*(10.0)*	*(10.0)*
Other	*0.0*	*0.0*	*0.0*
Departmental Revenues	**(30.7)**	**(6.4)**	**24.3**
Mortgage Recording Fee	*(9.5)*	*(3.8)*	*5.7*
Deed Recording Fee	*(1.9)*	*2.6*	*4.5*
GIS Tax Map Verification Fee	*(14.1)*	*0.0*	*14.1*
Income and Expense Law	*(5.2)*	*(5.2)*	*0.0*
Other	*0.0*	*0.0*	*0.0*
OTB Profits (VLTs)	**(12.8)**	**(12.8)**	**0.0**
Sales Tax	**0.0**	**(5.0)**	**(5.0)**
Other Revenue	**(1.6)**	**(1.8)**	**(0.2)**
Total Revenues	**(86.0)**	**(51.3)**	**34.7**
Expenditures:			
Salaries and Wages	**0.0**	**(11.9)**	**(11.9)**
Overtime	*(5.0)*	*(5.0)*	*0.0*
Other	*5.0*	*(6.9)*	*(11.9)*
Debt Service	**0.0**	**(2.0)**	**(2.0)**
Tax Certiorari Payments	**(40.0)**	**(40.0)**	**0.0**
Judgments and Settlements	**0.0**	**0.0**	**0.0**
Social Services	**(1.0)**	**(1.0)**	**0.0**
Other Expenditures	**(0.9)**	**(1.8)**	**(0.9)**
Total Expenditures	**(41.9)**	**(56.7)**	**(14.8)**
Contingency Reserve	**0.0**	**0.0**	**0.0**
Projected Risks	**($127.9)**	**($108.0)**	**$19.9**

The components of risk listed in Table 1 and darkened in red are the five amendments that we conclude are not consistent with the Prior NIFA Resolution and/or the NIFA Act.

Fund Balance – The Legislature appropriated $9.5 million of resources from Fund Balance to pay for operating costs. Fund Balance resources are non-recurring and although the County refers to these resources as "revenues," they are not under GAAP. Consequently, inclusion of this budget line results in a dollar-for-dollar deficit on a GAAP Basis.

Further, it is important to understand that because Fund balance is calculated by subtracting the County's liabilities from its assets, it does not represent actual monies held in a bank account. While the size of this calculation is impacted by how favorable or unfavorable the County's operating results were at year-end, it has grown in recent years primarily due to County borrowings that were undertaken to pay for operating costs.

Consequently, in addition to the fact that most of the County's current Fund Balance is considered either nonspendable (e.g., prepaid pension bill) or restricted for specific purposes, it would be misleading to use the overall size of the County's Fund Balance as a barometer of the County's fiscal health.

Disencumbrances – When a decision is made to stop funding a project for which funds had been encumbered in a previous period, this is called, a "disencumbrance." The Legislature approved a $10 million increase in the budgeted assumption for disencumbrances. The funds that are released from a disencumbrance are reflected as "revenue" when reporting results on a "budgetary basis" of accounting; however, these resources are not considered "revenue" under GAAP. Consequently, inclusion of this budget line results in a dollar-for-dollar deficit on a GAAP Basis.

Sales Tax – The Legislature added $5.0 million in additional sales tax revenue by raising the budgeted growth rate assumption from 2.0% to 2.5%. The additional revenue is net of required distributions to local governments under the Local Government Assistance Program.

Although it is possible that actual sales tax growth may equal or exceed the revised assumption, this growth rate is well above the 1.38% average growth rate in Nassau County over the past 10 years and above the 1.97% average growth rate over the past 5 years. Consequently, we consider this revenue to be questionable and, based on the other risks that may need to be covered by potential favorable variances, not available to help balance the Budget.

Overtime – The Legislature reduced the Police overtime budget by $5.0 million. Although the County has showed modest improvement in controlling Police overtime in the current year; it is unclear if this success can be sustained. The County is currently exceeding its overtime budget, and promises of "management controls and initiatives" have in past years been only marginally successful. Moreover, in the event there was reduced spending on police overtime, the excess funds would probably be needed at the Correctional Center, which has been exceeding budgeted levels all year and which are expected to continue to trend higher in the new year. Therefore, the proposed Legislative reduction of $5.0 million within the Police Department is rejected as being unachievable.

Debt Service – The Legislature incorporated $7.5 million in projected debt service savings from a potential transaction to “advance” refund County debt. Although the Administration is currently pursuing a transaction to take advantage of favorable borrowing rates, they have estimated that the transaction would yield approximately $5.5 million of savings in FY 2018. Consequently, we are concluding that $2.0 million of the Legislature’s amendment is unachievable.

APPENDIX

2018 ADOPTED BUDGET COMPARED TO 2018 PROPOSED BUDGET

OBJECT	ALL FUNDS FY 2018 PROPOSED BUDGET	ALL FUNDS FY 2018 ADOPTED BUDGET	VARIANCE ADOPTED TO PROPOSED
EXPENDITURES			
AA - SALARIES, WAGES & FEES	887,501,979	871,431,513	(16,070,466)
AB - FRINGE BENEFITS	577,969,228	577,969,228	0
AC - WORKERS COMPENSATION	35,411,398	34,299,182	(1,112,216)
BB - EQUIPMENT	2,450,286	2,450,286	0
DD - GENERAL EXPENSES	33,335,871	32,215,871	(1,120,000)
DE - CONTRACTUAL SERVICES	266,734,499	266,254,499	(480,000)
DF - UTILITY COSTS	36,746,634	35,556,634	(1,190,000)
DG - VAR DIRECT EXPENSES	5,000,000	5,000,000	0
FF - INTEREST	127,407,030	122,907,030	(4,500,000)
GA - LOCAL GOVT ASST PROGRAM	70,543,549	70,856,049	312,500
GG - PRINCIPAL	101,380,169	98,380,169	(3,000,000)
HH - INTERFD CHGS - INTERFUND CHARGES	24,719,916	24,719,916	0
MM - MASS TRANSPORTATION	44,170,818	44,170,818	0
NA - NCIFA EXPENDITURES	2,025,000	2,025,000	0
OO - OTHER EXPENSE	241,454,445	243,254,445	1,800,000
PP - EARLY INTERVENTION/SPECIAL EDUCATION	134,500,000	134,500,000	0
SS - RECIPIENT GRANTS	55,650,000	55,650,000	0
TT - PURCHASED SERVICES	67,583,171	67,583,171	0
WW - EMERGENCY VENDOR PAYMENTS	47,025,000	47,025,000	0
XX - MEDICAID	237,685,256	237,685,256	0
SUBTOTAL EXPENDITURES	**2,999,294,249**	**2,973,934,067**	**(25,360,182)**
REVENUES			
AA - FUND BALANCE	0	9,500,000	9,500,000
BA - INT PENALTY ON TAX	34,850,000	34,850,000	0
BC - PERMITS & LICENSES	18,485,093	18,485,093	0
BD - FINES & FORFEITS	133,410,574	101,910,574	(31,500,000)
BE - INVEST INCOME	1,953,235	1,953,235	0
BF - RENTS & RECOVERIES	25,064,596	35,064,596	10,000,000
BG - REVENUE OFFSET TO EXPENSE	14,400,000	17,312,216	2,912,216
BH - DEPT REVENUES	256,880,578	237,100,578	(19,780,000)
BO - PAY LIEU TAX PAYMENT IN LIEU OF TAXES	45,621,235	45,621,235	0
BQ - D/S FROM CAP - DEBT SERVICE FROM CAPITAL	2,604,750	2,604,750	0
BS - OTB NON-TAX REVENUE	15,750,000	15,750,000	0
BW - INTERFD CHGS - INTERFUND CHARGES REVENUE	70,269,277	69,157,061	(1,112,216)
FA - FEDERAL AID - REIMBURSEMENT OF EXPENSES	134,593,732	134,593,732	0
IF - INTERFUND TRANSFERS	3,609,039	2,912,422	(696,617)
SA - STATE AID - REIMBURSEMENT OF EXPENSES	211,574,980	211,574,980	0
TA - SALES TAX CO - SALES TAX COUNTYWIDE	1,082,870,598	1,088,183,098	5,312,500
TB - PART COUNTY - SALES TAX PART COUNTY	100,617,346	100,617,346	0
TL - PROPERTY TAX	814,697,669	814,701,604	3,935
TO - OTB 5% TAX	2,100,000	2,100,000	0
TX - SPECIAL TAXS - SPECIAL TAXES	29,941,547	29,941,547	0
SUBTOTAL REVENUES	**2,999,294,249**	**2,973,934,067**	**(25,360,182)**
SURPLUS/DEFICIT	**0**	**0**	**0**

NASSAU COUNTY INTERIM FINANCE AUTHORITY

RESOLUTION NO. 17-689

RESOLUTION OUTLINING NIFA'S EXPECTATIONS REGARDING NASSAU COUNTY'S ADOPTION OF ITS FY2018 – FY2021 MULTI-YEAR FINANCIAL PLAN

WHEREAS, the NIFA Act was passed by the State Legislature in June of 2000, after receiving a home rule message from a unanimous County Legislature, because the County was at the precipice of financial ruin; and

WHEREAS, in 2011 the County's finances had reached a point where NIFA was compelled to declare a fiscal emergency which was a prerequisite to its ultimate declaration of a "Control Period," as defined under the NIFA Act; and

WHEREAS, said Control Period is still in effect because, among other conditions, the County continues to have a GAAP deficit greater than 1% thereby still requiring ongoing increased oversight, including NIFA's approval of the County's multi-year plans, borrowings and contracts; and

WHEREAS, the County Executive has submitted his proposed Multi-Year Plan for FY 2018 – FY 2021 ("Proposed Plan"), which NIFA has reviewed and commented upon in a Staff Report dated October 17, 2017;

NOW, THEREFORE, BE IT RESOLVED, that the County Legislature must adopt the necessary ordinances to effectuate the Proposed Plan or a modified plan; and be it further

RESOLVED, that NIFA will not accept modifications to the Proposed Plan unless the Legislature's changes include equivalent and recurring revenue increases or expenditure savings; and be it further

RESOLVED, that NIFA believes that it is the responsibility of the elected officials to make those decisions as to where to reduce expenses or increase revenues in order to balance the budget; and be it further

RESOLVED, that only if the County fails to balance its budget will NIFA use its statutory authority to make the necessary adjustments to accomplish this task.

/s/
Adam Barsky
Chairperson

October 17, 2017