Nassau County Interim Finance Authority

NIFA

REVIEW OF NASSAU COUNTY'S PROPOSED MULTI-YEAR FINANCIAL PLAN FISCAL 2019 - 2022

October 16, 2018

NASSAU COUNTY
INTERIM FINANCE AUTHORITY

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I. OVERVIEW

On September 17, 2018, the Administration released its Proposed Multi-Year Financial Plan, Fiscal 2019-2022 (the "Proposed Plan"), the first year of which is the Proposed Budget for FY 2019 (the "Proposed Budget"). The following discussion reflects the analysis of NIFA staff regarding the Administration's submission.

The Proposed Plan is more straightforward than in the recent past and we favorably acknowledge the County's efforts in that regard. However, our analysis indicates that the County's finances continue to have a mismatch between recurring revenues and expenditures throughout the Proposed Plan. If budgetary risks are not resolved, the mismatch could lead to a year-end deficit of $59.1 million in FY 2019 and higher amounts in the Out-Years. For perspective, the Control Period will continue if there occurs, or there is a substantial likelihood of a 1% deficit on a GAAP Basis in the County's Major Funds (defined herein), or $30.7 million based on the 2019 Proposed Budget.

Since FY 2014, there has been demonstrable progress in lowering the County's operating deficit. In fact, the projected deficit for FY 2018 would have reflected a continued progression toward balance if not for the payment of the $43.8 million Restivo judgment, which was an action not originally funded in the FY 2018 Budget. Nevertheless, we are concerned that the County's fiscal progress may plateau, as noted in the following chart:

Control Period Calculation of Operating Results ($ in millions)					
FY 2014	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018p**	**FY 2019p**
($189.2)	($125.3)	($83.1)	($63.2)	($70.2)*	($59.1)*

*Projections assume no bond proceeds are used to pay certiorari refunds, which would increase the deficit dollar-for-dollar.

Regrettably, the Proposed Plan recognizes, but does not adequately resolve the large potential deficits in each year. We estimate these deficits could reach approximately $59.1 million in FY 2019, $104.5 million in FY 2020, $130.5 million in FY 2021, and $162.8 million in FY 2022 {when revenues and expenditures are calculated in accordance with the NIFA statute, which mandates using Generally Accepted Accounting Principles ("GAAP") and precludes using "other financing sources" (such as bond proceeds) to support operating expenses (hereinafter, deficit on a "GAAP Basis")}.

Furthermore, we have not increased our deficit projections to account for additional costs that are likely to result from new collective bargaining agreements that will ultimately replace expired labor agreements (most union contracts expired on December 31, 2017). In addition, the County proposes to use bond proceeds in the amount of $100.0 million in

FY 2018 and $200.0 million in FY 2019 to pay tax certiorari refunds. If the requisite approvals are secured, these actions would add to the deficit, as calculated in accordance with the NIFA statute.

A substantial portion of the projected risk could be eliminated if Nassau Off-Track Betting Corporation ("OTB") timely makes its $20.0 million payment obligation, and the County: closes transactions for the sale of $8.0 million in County properties; substantiates $6.0 million in new police initiatives that qualify for reimbursement with asset forfeiture resources; and approves the proposed $8.0 million "Boot and Tow" initiative.

The financial outlook will remain unhealthy until the County's Budget realistically ensures that the growth rate of recurring expenditures equals the growth rate of recurring revenues. Other municipalities with fewer resources, such as Buffalo, Washington D.C. and Detroit, have moved beyond the tight control of their oversight monitors and it seems incongruous that Nassau County, one of the wealthiest counties in the Country, is unable to do the same.

We remain available and ready to help point out where fiscal practices could be improved; however, it remains the County's elected officials' responsibility to make the difficult, but necessary decisions. We hope that the County will use the findings in this Report that highlight areas of potential weakness where remedial steps would be helpful.

II. Discussion of FY 2019

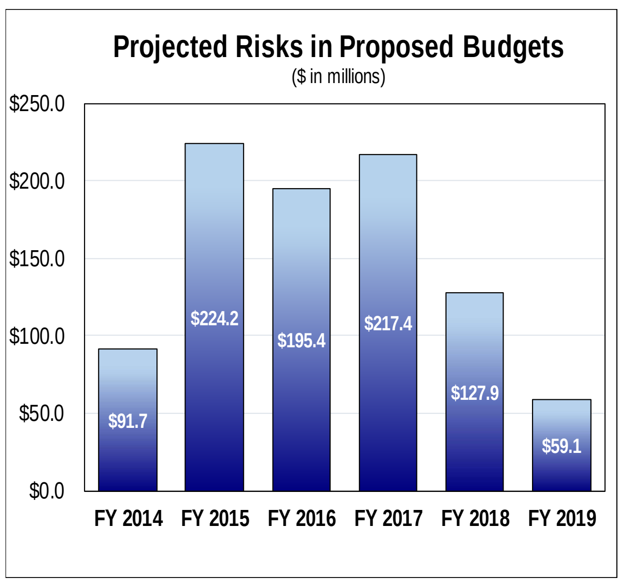
As required by the County Charter and NIFA Act, the County submitted its Proposed Plan (see Appendix A), the first year of which is the Proposed Budget.

Our analysis of the Proposed Budget indicates that the County could end FY 2019 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 $59.1 million on a GAAP Basis if all the risks we have identified are not resolved. See "Analysis of Proposed FY 2019 Budget" in Table 1.

The $59.1 million projection includes risks totaling $41.6 million for revenues whose receipt is possible, but uncertain. For example: OTB's required payment of Genting revenue ($10.0 million out of $20.0 million); a new "Boot and Tow" initiative requiring Legislative approval ($7.1 million out of $8.0 million); Public Safety fees ($4.6 million); sale of County property ($8.0 million); and asset forfeiture resources ($6.0 million).

It is also noteworthy that the Sewer and Storm Water Resources District ("SSWRD") (not part of the Major Funds or included in our risk projection, but discussed later in this Report) is projected by the County to have a $10.5 million deficit in FY 2019, which will deplete SSWRD Fund Balance.

The projected deficit in the Major Funds – if all the identified risks are not resolved – is almost twice the $30.7 million deficit needed to maintain the Control Period that commenced in 2011. Although the $59.1 million is the lowest assessment of risk projected by NIFA in several years, the projected deficit excludes potential, unbudgeted labor costs, which could add to the deficit approximately $8.0 million for each percentage point increase granted to union members (even more if retroactive to 2018) through collective bargaining, and the use of bond proceeds to pay down the tax certiorari backlog.



The County proposes to use bond proceeds in the amount of $100.0 million in FY 2018 and $200.0 million in FY 2019 to pay tax certiorari refunds. If carried out, this would add to the GAAP Basis deficit on a dollar-for-dollar basis in each of these years. Even if all the risks we have identified for FY 2019 are eliminated, the GAAP Basis deficit continues to grow in FY 2020 – FY 2022 (the "Out-Years").

FY 2019 RISKS

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

1. Category One Risks – **Implementation Risks** ($38.2 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 the timely receipt of $20.0 million in payments that OTB is required to make and $8.0 million in proceeds annually from the sale of certain County properties for which no contracts currently exist.

2. Category Two Risks – **Requires Legislative Action** ($7.1 million).

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

For example, the County proposes to implement a new "Boot and Tow" initiative to capture $8.0 million in fines annually from drivers with delinquent parking tickets. Our analysis indicates that baseline revenues may be slightly higher than the County projects, thereby offsetting approximately $900,000 of this risk. (Although the sale of County property for $8.0 million requires Legislative approval, we include this initiative in Category One Risks due to the historical challenge of realizing the revenues for reasons other than Legislative).

3. Category Three Risks – **GAAP Adjustments** ($13.8 million).

These "risks" relate to several accounting adjustments the Comptroller makes to the operating results to ensure that they are calculated properly in accordance with GAAP. For example, there are specific adjustments to record pension expenses on a modified accrual basis, reflect cash receipts outside the period of availability, and remove the effect of encumbrances and disencumbrances that might otherwise distort the operating results if left unadjusted. The actual size of the adjustments will not be certain until the fiscal year ends and final entries are made by the Comptroller.

Table 1 lists the major projected risks in FY 2019 prior to Legislative action.

Table 1

Analysis of Proposed FY 2019 Budget (Prior to Legislative Action)			
($ in millions)	**FY 2019 Proposed**	**FY 2019 Projection**	**Surplus/(Risk)**
Revenues:			
Fines and Forfeitures	**$118.6**	**$107.0**	**($11.6)**
Public Safety Fee	*34.7*	*29.8*	*(4.9)*
Boot & Tow	*9.1*	*2.0*	*(7.1)*
Other	*74.8*	*75.2*	*0.4*
Rents and Recoveries	**34.4**	**26.4**	**(8.0)**
Sale of County Land	*8.0*	*0.0*	*(8.0)*
Other	*26.4*	*26.4*	*0.0*
Departmental Revenues	**232.3**	**227.4**	**(4.9)**
Mortgage Recording Fee	*32.4*	*30.9*	*(1.5)*
Deed Recording Fee	*9.4*	*9.8*	*0.4*
GIS Tax Map Verification Fee	*42.6*	*39.4*	*(3.2)*
Park Fees	*23.4*	*22.5*	*(0.9)*
Other	*124.5*	*124.8*	*0.3*
OTB Payments	**20.0**	**10.0**	**(10.0)**
Asset Forfeiture Resources	**6.0**	**0.0**	**(6.0)**
Sales Tax	**1,243.8**	**1,243.8**	**0.0**
Other Revenue	**1,419.8**	**1,418.8**	**(1.0)**
Total Revenues	**$3,074.9**	**$3,033.4**	**($41.5)**
Expenditures:			
Salaries and Wages	**$900.2**	**$907.2**	**($7.0)**
Overtime	*87.0*	*94.0*	*(7.0)*
Other	*813.2*	*813.2*	*0.0*
Fringe Benefits	**609.2**	**603.5**	**5.7**
Health Insurance (actives)	*172.3*	*164.6*	*7.7*
Health Insurance (retirees)	*165.5*	*172.8*	*(7.3)*
Other	*271.4*	*266.1*	*5.3*
Contractual Services	**271.1**	**272.5**	**(1.4)**
Tax Certiorari Payments	**30.0**	**30.0**	**0.0**
Judgments and Settlements	**30.0**	**30.0**	**0.0**
Other Expenditures	**1,234.4**	**1,235.5**	**(1.1)**
Total Expenditures	**$3,074.9**	**$3,078.7**	**($3.8)**
Subtotal Risks			**($45.3)**
GAAP Basis Adjustments*			**($13.8)**
Total Risks			**($59.1)**

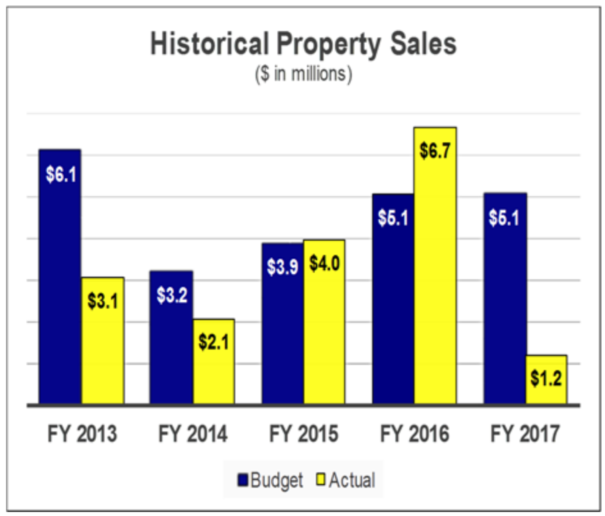
*Comptroller estimated accounting adjustments.

Discussion of Major Risks Listed in Table 1

Fines and Forfeitures – The County has budgeted $118.6 million in anticipated revenue from fines and forfeitures. We are holding $11.6 million of this amount at risk, of which $7.1 million will remain at risk until the proposed "Boot and Tow" initiative is approved by the Legislature. We also project a shortfall of approximately $4.9 million in Public Safety fee revenue based on current trends and a 5% discount factor to account for potential improvement in driver behavior.

Rents and Recoveries – The County has budgeted $34.4 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 an $8.0 million "one shot" that the County expects to realize from the sale of County property in FY 2019. Although the County has had past success in selling property, there have been years when anticipated transactions closed later than expected (or not at all) and budgeted revenues fell short. Consequently, we consider the revenue anticipated from property sales to be at risk until specific parcels are identified, potential purchasers are located, contractual agreements are reached, and the Legislative approvals are secured.



Departmental Revenues – The County has budgeted $232.3 million in departmental revenue, of which we project $4.9 million to be at risk. Most of this risk stems from a projected slackening in GIS tax map verification fees ($3.2 million) and mortgage recording fees ($1.5 million), which we assume will continue from FY 2018 into FY 2019. We also project a shortfall in Parks Department revenues ($0.9 million). These risks are offset by an expected surplus of $0.4 million in deed recording fees and $0.3 million in other revenues.

OTB Payments – The County is expecting OTB to pay it $20.0 million in 2019 (and each year thereafter) from proceeds it expects to realize from its agreement with Genting, who operates Resorts World Casino at Aqueduct Racetrack. The required payment must be received within 60 days of the end of 2019 for any of it to be recognized as revenue in FY 2019.

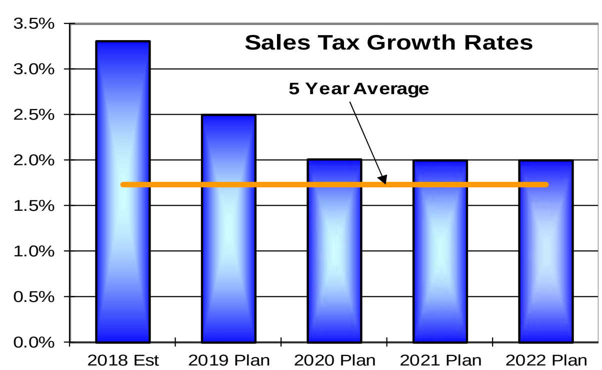
We have been informed that the Administration made a request to OTB that it remit its payment to the County on a quarterly basis rather than as a single payment at the end of the State fiscal year. The revised arrangement would ensure that more of the money could be recognized in the proper County fiscal year (the last quarterly payment would still fall outside the 60-day period of availability for the County's fiscal year). OTB has not yet agreed to these new payment terms.

Although OTB remitted $3.0 million to the County in 2016, it did not remit its 2017 payment until May 2018, resulting in no recognition of revenue in FY 2017. The delayed payment of $3.0 million will instead be recognized as revenue in FY 2018. Consequently, we are holding $10.0 million at risk because we are not yet convinced that OTB has prioritized its obligation to make its full payment on time, notwithstanding other expenses that may arise.

Asset Forfeiture Resources – The Proposed Budget includes the usage of $6.0 million in asset forfeiture funds, which will be transferred from the Police Department. This revenue will be used as an offset to overtime expenses. The asset forfeiture guidelines allow for the usage of these funds only if the expense incurred is for a new initiative or a specialized program (e.g., school safety, opioid abuse or gang violence). We are risking these revenues since there is no clear indication of what initiatives will qualify under such strict guidelines.

Sales Tax – Sales tax is the largest revenue source for the County, comprising approximately 40% of all revenues in the Major Funds, and is budgeted at approximately $1.244 billion in FY 2019. The County assumes that sales tax revenues will grow by 2.5% in FY 2019 and then by 2.0% in each Out-Year of the Proposed Plan. Our analysis indicates that the County's assumptions are reasonable, but not conservative.

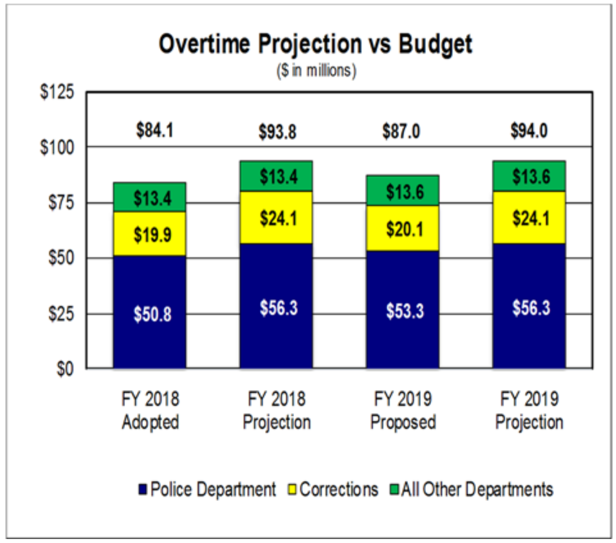
Although we are cautiously optimistic that these growth rates are achievable (current economic strength must continue), we note that the County has averaged annual growth of only 1.7% over the past 5 years and 1.5% over the past 10 years. Therefore, while we are comfortable with the County's assumptions, history shows they may not be realized.



Salaries and Wages – The County projects that salaries and wages will total $900.2 million in FY 2019. Our analysis indicates that the County's assumptions for salaries and wages are reasonable except for its estimate of overtime costs, which may be under budgeted by approximately $7.0 million (mostly in the Police Department and Correctional Center).

The Police Department has the largest overtime budget at $53.3 million in FY 2019. We project that the Department will continue to spend in FY 2019 at the same pace as FY 2018, which will exceed the Proposed Budget by $3.0 million.

The County expects to schedule two classes of police officers (120 new officers) during FY 2019 to address the upward pressure on overtime spending; however, we are hesitant about recognizing the anticipated positive impact on overtime costs until we see evidence of success.



The Correctional Center has the second largest overtime budget at $20.1 million in FY 2019. Our analysis indicates that the Correctional Center will also continue to spend in FY 2019 at the same pace as FY 2018, which will exceed the Proposed Budget by $4.0 million.

Overtime spending has been increasing each year since FY 2016, even though the average census of prisoners has declined. The overtime trend has worsened in FY 2018 purportedly due to delays in hiring correction officers to backfill vacancies. Therefore, although the County plans to schedule a class of correction officers (20 new officers), we don't know if it will be sufficient to reverse this trend.

Although we project an overtime risk based on historical overspending in the Police Department and the upward trend of overtime spending in the Department of Corrections, we believe that new leadership, workforce management and savings from vacancies and attrition could mitigate some of this risk. We will continue to closely monitor spending to determine if more critical measures need to be taken.

We also note that most labor agreements expired at the end of FY 2017. Although the County budgeted for the additional costs of step increases that will be provided to eligible employees in 2019, it did not include any funding for cost of living adjustments ("COLAs"), which have typically been provided in previous contracts. The unfunded impact of providing COLAs is not quantified as a risk in Table 1; however, COLAs could cost almost $8.0 million per year for each one percent increase given to union members. The financial impact on FY 2019 will be compounded if the County negotiates COLAs which are made effective retroactively to FY 2018.

The County's presumption in the Proposed Plan is that all salary increases will be self-funded by savings from union concessions. This has never occurred in the past and we are skeptical that cost-neutral agreements will be successfully negotiated in the future even though there appears to be room for savings without jeopardizing public safety or service delivery.

Headcount – The Proposed Budget contains 7,558 full-time positions, which is 108 positions higher than the FY 2018 Adopted Budget (see Appendix B) and 459 positions higher than the County's August 31st on-board headcount of 7,099. The Proposed Budget also includes an unallocated attrition factor of 100 heads.

The significant increase in the proposed headcount is attributable to funding positions needed to deliver current services as well as to support new initiatives such as: an increase in the Assessment Department and Assessment Review Commission; and increases in the Probation Department and the Office of the County Attorney to comply with the NYS mandate of Raise the Age. The Raise the Age initiative, which raises the age of criminal responsibility to 18 years of age (diverts young non-violent offenders to age-appropriate housing and programming instead of sending them to jail), is due to start in October of 2018 and is supposed to be 100% funded by the State. The County is also providing funding, for the first time, for the Office of the Inspector General, which has not yet been staffed.

Fringe Benefits – Our analysis indicates that fringe benefits may be overfunded by $5.7 million, most of which stems from an apparent overbudgeting of payments that the County expected to make to the Police retirement system. Although our analysis indicates that total health insurance expenditures have been adequately funded (net projected surplus of $0.4 million), we project a $7.7 million favorable variance in the amount budgeted for active employees and a $7.3 million negative variance in the amount budgeted for retirees. The projected surplus and shortfall stems largely from uncorrected variances carried over from FY 2018 and from newer estimates of health insurance growth rates that were recently released by the Employee Benefits Division of the New York State Department of Civil Service.

Contractual Services – The County uses outside contractors for many different services, some of which are referenced below.

The Transdev Services, Inc. (formerly Veolia) contract is the largest County contract and is budgeted at $131.3 million for the provision of bus transportation services, which is $10.8 million more than the Adopted FY 2018 Budget, but in line with projected expenditures after a budgeted cut was restored in March.

The County also plans to spend approximately $35.8 million per year on Health and Human Services and Social Services programs, which is also $3.2 million more than budgeted in 2018, and $2.1 million more than the levels of restorations that were also made in March.

In contrast, the cost to the County for the provision of medical and psychiatric services to inmates at the Correctional Center is budgeted at $23.8 million per year. These services are provided under contract by the Nassau University Medical Center ("NUMC").

However, unlike the aforementioned services, this amount is still approximately $1.4 million below the amount originally proposed in FY 2018 before a late cut was imposed in the FY 2018 Budget. The cut was never restored; consequently, we consider the $1.4 million to be at risk in FY 2019 until a reconciliation of actual, billable expenses is provided by NUMC to the County at the end of this year.

Tax Certiorari Payments – We respect the existing and new professionals that the County is using to try to solve its tax certiorari problem. Likewise, we acknowledge several major accomplishments that have taken place during the new Administration. We are not, however, ready to endorse the proposal in the Proposed Plan that calls for "eliminating" the backlog by borrowing $300.0 million ($100.0 million in FY 2018 and $200.0 million in FY 2019).

The Proposed Budget appropriates $30.0 million to pay refunds to owners of non-commercial properties (Class I, II, and III). The County expects to pay refunds to commercial property owners (Class IV) using $40.0 million of "new" Disputed Assessment Fund ("DAF") resources and an unquantified amount of "old" DAF resources. However, the Proposed Budget does not provide new (non-borrowed) funding to pay down old claims that comprise the County's outstanding long-term tax certiorari liability, which the Comptroller estimated at $330.2 million at the end of FY 2017. It is the outstanding tax certiorari liability that the County wants to pay with bond proceeds.

Regrettably, they still have not presented a complete plan that outlines how they will administer the program and keep the backlog from growing again. Admittedly, the new DAF Legislation is designed to take care of Class IV property grievances. The reassessment, if it is ever implemented, will also help. However, we still need to know more about the County's implementation plans for its entire cert program before we are prepared to consider a bonding request.

Finally, it is noteworthy that the backlog does not include other property tax litigation, which the County estimates could be as high as $280.0 million, that may be payable under utilities-related lawsuits.

Judgments and Settlements – The County has budgeted $30.0 million annually to cover the costs of non-certiorari judgments and settlements. Based on historical spending, our analysis indicates that $30.0 million is a reasonable projection of expenditures. Although it is impossible to predict with certainty the likelihood or magnitude of future litigation, we think a prudent measure would be for the provision of a contingency reserve, as discussed below, to mitigate the fiscal impact of unanticipated litigation costs.

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.

Contingency Reserve –The Proposed Budget does not allocate funding for contingencies. Although our analysis indicates that the Proposed Budget contains fewer risks than in recent years, other than proposed revenue increases, unanticipated shortfalls could emerge in FY 2019. For example, from lower sales tax revenues and higher expenditures for overtime, tax certiorari refunds, and judgments and settlements. The County's decision to not maintain any reserve for contingencies in the Out-Years is equally disconcerting and not consistent with recommended budgeting practices.

Fringe Benefits – For the eighth 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 $15.2 million in FY 2019, but it will add to the cumulative deferred pension liability, which the Comptroller estimates will be $226.4 million at the end of FY 2018. 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 approximately $226.8 million in current liabilities and passed that expense onto future taxpayers through FY 2031.

In addition, the County has a significant unfunded liability for certain benefits owed to retirees (unrelated to pensions) referred to as Other Post-Employment Benefits ("OPEB"). The County's OPEB liability is estimated to be $6.4 billion as of December 31, 2017. The County is not required by law to provide funding for post-employment retirement benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries, which have been budgeted. However, OPEB is a liability that will eventually have to be paid and has been noted repeatedly as a negative to Nassau County by the various rating agencies.

Sewer and Storm Water Resources District Fund – Although the Sewer and Storm Water Resources 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.

The County projects that the SSWRD will have a deficit of $10.5 million in FY 2019 even after accounting for $5.5 million in additional property tax revenue it will raise through a proposed 4.4% increase in the sewer tax levy. The County plans to plug this deficit with the remaining sewer fund balance. The tax increase requires approval by the Legislature, which is an action that we are unsure will take place.

The County projects ongoing baseline deficits of $28.3 million in FY 2020, $32.2 million in FY 2021 and $37.1 million in FY 2022. To close these projected deficits, the Proposed Plan reflects proposed increases in the sewer tax levy of 21.7% in FY 2020, 2.5% in FY 2021, and 3.0% in FY 2022.

The County has apparently decided not to seek privatization of its sewer system, but we are skeptical that there is support for the current approach to funding the County's sewer system. Further, a lower Court recently ruled unfavorably against the County's efforts to charge non-profit institutions for sewer and storm water services, thereby eliminating the use of an estimated $12.6 million annually which could have been used to mitigate a high percentage of the proposed increases. This initiative should not be abandoned and the County should find a way, along with almost every other municipality in the nation, to charge for this service.

III. THE OUT-YEAR GAPS: FY 2020 – FY 2022

This section of the Report discusses the projected Out-Year (FY 2020 – FY 2022 gaps and the County's plan for ensuring balance in these years.

Sizing the Out-Year Gaps – The County assumes that even if it can mitigate all risks in FY 2019, projected baseline gaps between recurring revenues and expenditures will emerge in the Out-Years totaling $61.8 million in FY 2020, $55.3 million in FY 2021, and $82.3 million in FY 2022 (prior to implementing newly proposed gap-closing initiatives).

However, our analysis indicates that if the risks we identified in FY 2019 are not satisfactorily addressed with recurring solutions, the County's projections of Out-Year gaps may be understated by approximately $42.7 million in FY 2020, $75.2 million in FY 2021, and $80.5 million in FY 2022. Stated differently, we project that the baseline gap could reach $104.5 million in FY 2020, $130.5 million in FY 2021 and $162.8 million in FY 2022, as shown in Table 2.

Table 2

Projected Out-Year Gaps are Understated			
($ in millions)	**FY 2020**	**FY 2021**	**FY 2022**
County Estimated Baseline Gap*	**($61.8)**	**($55.3)**	**($82.3)**
NIFA Risks	**(42.7)**	**(75.2)**	**(80.5)**
NIFA Estimated Baseline Gap	**($104.5)**	**($130.5)**	**($162.8)**

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

Most of these risks are extrapolated from our analysis of projected revenues and expenditures in FY 2019, which are described in detail earlier in this Report. However, there are a few Out-Year risks that are either new or require closer examination, as discussed below.

OTB Payments – As previously discussed, the County is counting on OTB to begin paying it $20.0 million per year (increased from $3.0 million per year), beginning in State fiscal year 2019, which ends on March 31, 2020. The resources are supposed to come from the proceeds OTB expects to receive from Genting, who operates Resorts World Casino at Aqueduct Racetrack. Although Genting's payments to OTB will no longer be contingent on the number of machines in operation after March 31, 2019, we are holding $10 million at risk in each of the Out-Years until we see evidence that OTB is adhering to its commitment to timely remit its $20 million payment each year.

Salaries and Wages – At the end of FY 2017, the County's major labor agreements expired, as well as NIFA's commitment not to re-impose a wage freeze. As we discussed earlier in this Report, the County has budgeted for the additional costs of step increases that will be provided to eligible employees in the Out-Years; however, it did not include any funding for cost of living adjustments ("COLAs"), which have typically been provided in previous contracts. The unfunded impact of providing COLAs is not quantified as a risk in Table 2; however, COLAs could cost almost $8.0 million per year for each one percent increase given to union members – even more if they are made retroactive to FY 2018.

County leaders should not assume that NIFA will find that the necessary prerequisites exist to re-impose a wage freeze. Furthermore, even if implemented, the wage freeze would save significantly less money if changes to the NIFA statute, which were approved by the State Legislature, are submitted to and signed by the Governor.

We expect the Administration and its unions to be mindful of NIFA's concerns and the County's distressed finances during any negotiations. In addition, NIFA has repeatedly stated that as a prerequisite to NIFA's review of any proposed labor agreements, the County and each of its unions must-have completed the preparation and execution of consolidated contracts.

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 by approximately 8.0% annually, which is more rapidly than assumed in the Multi-Year Financial Plan. The County anticipates increases of 8.5% in 2020, but projects increases of only 6.1% for current employees and 4.2% for retirees (blended growth of 5.2%) in 2021 and 2022. The differing assumptions results in potential risks of approximately $10.2 million in FY 2021 and $21.8 million in FY 2022. We recommend that the County use more conservative growth rate assumptions to project the Out-Year costs of health insurance, over which it has limited control for current employees and retirees.

Tax Certiorari Refunds – The County should be commended for taking steps to fund its annual tax certiorari obligations with operating revenue and resources accumulated in its Disputed Assessment Fund. While it appears the County's assessment reforms could take care of this operating burden prospectively, it does not solve the backlog which has amassed in prior years. The County proposes to borrow $300.0 million to pay down the backlog, which the Comptroller estimates to be approximately $330.0 million as of December 31, 2017 (excluding approximately $239.1 million related to the reassessment of LIPA properties). This is also discussed earlier in this Report.

Judgments and Settlements - The County should also be commended for taking steps to fund its annual, non-certiorari judgments and settlements with operating revenue. After relying for years on bond proceeds to make these payments or, as it did in FY 2017, tap resources held in its Litigation Reserve Fund to fund to these obligations, the County proposes to appropriate $30.0 million in the operating budget for non-certiorari judgments and settlements in FY 2019 and in each of the Out-Years. Our analysis indicates that this is a reasonable amount based on average historical spending, assuming no large judgments are rendered or settlements reached in FY 2019 or Out-Years.

Regrettably, the County is a defendant in several other major lawsuits for which no funds have been reserved. The County Comptroller reported that the County has potential liabilities of $391.5 million for non-certiorari litigation and $227.7 million for Workers' Compensation claims as of December 31, 2017. Consequently, resolution of these potential liabilities will likely result in actual costs far exceeding budgeted amounts, necessitating a significant restructuring of other County spending unless a new revenue stream is identified.

Contingency Reserve - We advise the County to fund a non-earmarked contingency reserve in each of the Out-Years with at least $10.0 million in operating revenues. Reasonable contingency reserves are expected by bond rating agencies and 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.

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The following discussion describes the County's plan to close the baseline gaps it has projected, as shown in the center section of Table 3. However, as discussed above (and illustrated in Table 2), our analysis indicates that the County's projections of baseline gaps are understated (delineated on the top line of Table 3).

Table 3

County Gap-Closing Plan			
($ in millions)	**FY 2020**	**FY 2021**	**FY 2022**
NIFA Estimated Baseline Gap	**($104.5)**	**($130.5)**	**($162.8)**
County Gap-Closing Options			
Expense/Revenue Actions			
Workforce Management	8.8	8.9	9.0
Asset Forfeiture Funding	6.0	6.0	6.0
Building Consolidation	5.0	5.0	5.0
Probation/Correction Savings	2.0	3.0	4.0
SUEZ Water Long Island, Inc. Synergy Savings	3.0	4.0	4.0
Technology	2.0	2.0	2.0
Health Insurance Contribution	2.0	4.0	6.0
ERP Implementation	1.0	2.0	2.0
County District Energy Facility	1.0	2.0	1.5
Income and Expense	15.0	15.0	15.0
Other Actions	7.0	10.0	10.0
Belmont Arena and Hub Sales Tax Benefit	7.5	7.7	7.8
NYS Actions			
Internet Sales	11.0	11.2	11.4
E-911 Reimbursement	1.0	1.0	1.0
Sports Betting	5.0	5.0	5.0
Total Gap-Closing Options	**$77.3**	**$86.8**	**$89.7**
Remaining Surplus/(Deficit)	**($27.2)**	**($43.7)**	**($73.1)**

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). As shown in Table 3, even after fully implementing the County's proposed gap-closing plan, the projected gaps would still be $27.2 million in FY 2020, $43.7 million in FY 2021 and $73.1 million in FY 2022. Moreover, we think it is unlikely that the full savings from the proposed gap-closing initiatives can be realized. For example, as discussed below, the gap-closing savings from the Asset Forfeiture Funding initiative has already been incorporated into the County's baseline projections.

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, in most instances our discussions and review of the plans for implementation of these initiatives have generated little confidence that the projections are achievable.

Workforce Management – The County claims that savings can be derived by running County operations with fewer employees and without a detrimental impact on services. Currently, there are 459 funded vacancies; however, the County plans to fill these positions as it staffs up the Assessment Review Commission, Department of Assessment, County Attorney, Correctional Center, Probation, Police Department, and the new Department of the Inspector General. The elimination of programs and a reduction in certain services seems possible, but we remain doubtful that the County can realize additional workforce savings of $8.8 million to $9.0 million in the Out-Years.

Asset Forfeiture Funding – The County claims that savings will now be available because the County plans to borrow, subject to NIFA approval, for the construction of the new Police Academy instead of using resources held in the Asset Forfeiture Fund. The County maintains that the funds now "freed up" can be used to address new policing programs that meet the Asset Forfeiture statute requirements. However, in addition to the strict rules limiting their usage, these resources are already incorporated in the County's baseline projections.

Building Consolidation – 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. It has hired a vendor to assist with the process of finding opportunities within this framework. We have no additional information and question whether there would be significant savings without the transfer of employees out of leased space to County-owned facilities.

Probation/Correction Savings – The County has stated that it will use electronic monitoring bracelets that enable Probation officers to monitor individuals who cannot afford to pay their court ordered bail in lieu of housing them in jail and incurring the related costs related to housing inmates.

SUEZ Water Long Island Inc. Synergy Savings – The County suggests that it can generate additional revenue and cost savings by utilizing displaced Sewer and Storm Water employees for revenue-generating tasks and to assist in workforce productivity. To date, the County has had limited success in this initiative. It appears that these employees are more of a cost burden than the source of either savings or revenue enhancements. Consequently, the projected synergy savings targets of $3.0 million beginning in FY 2020 and $4.0 million in FY 2021 and FY 2022 are placed at risk.

Technology – The County claims that it is exploring various internet-based technologies to reduce costs and increase revenue. With little information, and no supporting analysis or forecasting models, the projected annual revenues of $2.0 million are unlikely.

Health Insurance Contribution – The County expects to derive savings in health insurance costs from staff turnover because new employees are required to contribute 15% toward their premiums or instead can opt for an alternative lower cost plan, which generates the same savings to the County. Although we agree that savings will grow as its workforce turns over, we believe that this policy should be reflected in the County's baseline health insurance projections.

ERP Implementation – The County is hopeful that its new Enterprise Resource Planning ("ERP") system will facilitate its pursuit of efficiencies and savings by streamlining core business processes. The initiative is underway and the County claims that the first phase involving personnel and payroll will be operational by the end of 2018, although the completion of this phase has slipped more than once. It's unclear how these savings will be realized considering that few details are disclosed.

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, has again been extended. The County has previously indicated that among the options it is evaluating is a public-private partnership that could involve a "sale, lease, or private operation" of the district energy facility. The County is short on specifics that explain the projected revenue of between $1.0 million and $2.0 million in the Out-Years; therefore, we cannot confirm the viability or time parameters of generating this amount of revenue.

Income and Expense – The County anticipates that the New York Court of Appeals will rule in favor of the Income and Expense Law, which requires commercial property owners to provide income statements for properties that charge commercial rent. Property owners who do not comply will be subject to a fine, which will produce a minimum of $15.0 million per year in gap-closing revenue, beginning in 2020. While the outcome of the County's appeal to the lawsuit challenging the law, which had been decided in favor of the property owners, is uncertain, the income estimates are based upon the property owners' defiance of the law. The financial impact of the property owners complying with the law, if the Court reverses the previous decision, is unknown.

Other Actions – The County proposes evaluating revenue generating and expense reduction initiatives, not mentioned elsewhere, that would result in net savings of between $7.5 million and $10.0 million per year in 2020, 2021 and 2022. Without specifics, it is difficult to imagine that savings of this magnitude would be realized in such a short time span.

Belmont Arena and Hub Sales Tax Benefit – The County expects to realize additional sales tax revenue during and after construction of the new Belmont Arena and the Hub development project surrounding the Nassau Coliseum. These incremental amounts are $7.5 million in 2020, $7.7 million in 2021 and $7.8 million in 2022. Construction of the Belmont Arena is expected to be complete in 2021 and plans for the Hub have yet to be completed. Consequently, we question the assumptions behind significant sales tax revenue increments before the end of 2021.

New York State Actions

Among the initiatives are three proposals that the County says that it intends to pursue, but which would require State approval before they could be advanced: (1) Internet Sales; (2) E-911 Reimbursement; and (3) Sports Betting.

Internet Sales – The County anticipates new revenue with passage of necessary implementing legislation by New York State after the United State Supreme Court ruled in June that states can collect local sales tax on products delivered in that locality.

E-911 Reimbursement – The Administration recommends that the County amend current County law and seek State approval to increase surcharges on telecommunication equipment and telephone service supplier customers. The County would use this revenue to cover the cost of technology needed to make enhancements to the 911 (E-911) emergency telephone system.

Sports Betting – The United States Supreme Court ruled in June that states can initiate and control sports betting. The County anticipates $5.0 million in new annual revenue after necessary legislation is implemented by New York State. It is unclear how they arrived at this estimate and how much revenue would flow to the County if it is first funneled through OTB.

IV. CONCLUSION

The County will remain fiscally challenged in FY 2019 even if the proposed Boot and Tow initiative is approved by the Legislature and other risks are resolved. Significant obstacles include the lack of an approved funding stream to pay down the County's tax certiorari backlog and potentially new, unbudgeted labor costs resulting from the next round of collective bargaining. Furthermore, Out-Year deficits could worsen if the current strength in sales tax growth begins to wane because of future weakness in the local economy.

Our analysis indicates that the County will likely remain in a control period for an extended period, especially if the County uses bond proceeds to pay tax certiorari refunds. If bonding is not approved, the payments made to bring down the County's long-term tax certiorari liability would likely add to the operating budget, which is already overextended.

As we have stated many times, the recipe for exiting the Control Period is well known. 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 so that they match its available recurring revenues. A reasonable course of action would combine both approaches.

The County's 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 current taxpayers. However, this short-sighted philosophy has improperly allocated costs and inequitably burdened future taxpayers with the inflated costs for not addressing its 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 services. We have refrained from this approach for most of our tenure, which has now reached 18 years, seven 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 foreclosing any of our options.

V. APPENDICES

Appendix A
Proposed Multi-Year Financial Plan, Fiscal 2019-2022

MAJOR FUNDS				
EXPENDITURES				
OBJECT	2019 Proposed	2020 Proposed	2021 Proposed	2022 Proposed
AA-SALARIES, WAGES & FEES	900,178,092	912,834,734	924,583,246	933,648,817
AB-FRINGE BENEFITS	609,150,163	640,217,298	665,906,332	696,072,993
AC-WORKERS COMPENSATION	35,177,349	35,177,349	35,177,349	35,177,349
BB-EQUIPMENT	2,399,909	2,399,909	2,399,909	2,399,909
DD-GENERAL EXPENSES	33,879,535	34,422,206	34,715,143	34,876,289
DE-CONTRACTUAL SERVICES	271,122,615	271,122,615	271,122,615	271,122,615
DF-UTILITY COSTS	34,085,187	35,762,050	35,870,519	36,334,832
DG-VAR DIRECT EXPENSES	5,000,000	5,000,000	5,000,000	5,000,000
FF-INTEREST	132,208,523	150,102,384	149,495,498	150,799,481
GA-LOCAL GOVT ASST PROGRAM	73,681,618	75,130,250	76,607,855	78,115,012
GG-PRINCIPAL	106,280,000	131,270,000	149,375,000	164,995,000
HH-INTERFD CHGS - INTERFUND CHARGES	23,095,916	23,095,916	23,095,916	23,095,916
MM-MASS TRANSPORTATION	44,792,592	46,016,047	47,274,982	48,570,425
NA-NCIFA EXPENDITURES	1,975,000	2,025,000	2,060,000	2,075,000
OO-OTHER	253,795,521	237,137,186	207,235,496	190,559,981
PP-EARLY INTERVENTION/SPECIAL EDUCATION	135,500,000	138,210,000	140,974,200	143,793,684
SS-RECIPIENT GRANTS	52,130,000	52,130,000	52,130,000	52,651,300
TT-PURCHASED SERVICES	68,587,875	69,273,754	69,966,491	70,666,156
WW-EMERGENCY VENDOR PAYMENTS	49,360,000	49,853,600	50,352,136	50,855,657
XX-MEDICAID	242,521,767	242,521,767	242,521,767	242,521,767
TOTAL	**3,074,921,662**	**3,153,702,064**	**3,185,864,454**	**3,233,332,185**
REVENUES				
OBJECT	2019 Proposed	2020 Proposed	2021 Proposed	2022 Proposed
AA - FUND BALANCE	0	0	0	0
BA - INT PENALTY ON TAX	34,612,500	34,612,500	34,612,500	34,612,500
BC - PERMITS & LICENSES	19,584,142	13,547,857	15,547,857	13,547,857
BD - FINES & FORFEITS	118,586,980	116,311,296	116,311,296	116,311,296
BE - INVEST INCOME	9,680,000	9,680,000	9,680,000	9,680,000
BF - RENTS & RECOVERIES	34,416,504	34,416,504	34,416,504	34,416,504
BG - REVENUE OFFSET TO EXPENSE	17,461,599	17,463,099	17,462,599	17,464,974
BH - DEPT REVENUES	232,281,280	232,281,280	232,281,304	232,281,304
BO - PAY LIEU TAX PAYMENT IN LIEU OF TAXES	45,983,681	45,983,681	45,983,681	45,983,681
BQ - D/S FROM CAP - DEBT SERVICE FROM CAPITAL	3,540,000	2,340,000	2,340,000	2,340,000
BS - OTB NON-TAX REVENUE	20,000,000	20,000,000	20,000,000	20,000,000
BW - INTERFD CHGS - INTERFUND CHARGES REVENUE	81,054,482	94,768,590	98,399,523	101,837,133
FA - FEDERAL AID - REIMBURSEMENT OF EXPENSES	140,001,929	139,960,037	138,445,048	138,391,361
IF - INTERFUND TRANSFERS	696,617	0	0	0
SA - STATE AID - REIMBURSEMENT OF EXPENSES	224,574,869	225,969,792	227,392,612	228,843,890
TA - SALES TAX CO - SALES TAX COUNTYWIDE	1,124,968,823	1,147,468,199	1,170,417,563	1,193,825,915
TB - PART COUNTY - SALES TAX PART COUNTY	118,856,752	108,496,063	118,665,984	112,879,304
TL - PROPERTY TAX	816,011,222	816,011,222	816,011,222	816,011,222
TO - OTB 5% TAX	2,100,000	2,100,000	2,100,000	2,100,000
TX - SPECIAL TAXS - SPECIAL TAXES	30,510,282	30,510,282	30,510,282	30,510,282
TOTAL	**3,074,921,662**	**3,091,920,401**	**3,130,577,976**	**3,151,037,222**
SURPLUS/(DEFICIT)	**0**	**(61,781,662)**	**(55,286,478)**	**(82,294,963)**

Appendix B
FY 2019 Proposed Budget Full-time Headcount (HC) Comparison Table

Department	2018 Adopted HC	2019 Proposed HC	Inc/(Dec) 2019 vs. 2018	On-Board August 31, 2018	Inc/(Dec) Proposed vs. On-Board
AC - DEPARTMENT OF INVESTIGATIONS	4	0	(4)	0	0
AR - ASSESSMENT REVIEW COMMISSION	29	51	22	31	20
AS - ASSESSMENT DEPARTMENT	117	203	86	113	90
AT - COUNTY ATTORNEY	85	96	11	78	18
BU - OFFICE OF MANAGEMENT AND BUDGET	25	23	(2)	19	4
CA - OFFICE OF CONSUMER AFFAIRS	33	30	(3)	28	2
CC - NC SHERIFF/CORRECTIONAL CENTER	1,039	976	(63)	950	26
CE - COUNTY EXECUTIVE	14	14	0	14	0
CF - OFFICE OF CONSTITUENT AFFAIRS	34	37	3	37	0
CL - COUNTY CLERK	82	87	5	81	6
CO - COUNTY COMPTROLLER	85	84	(1)	72	12
CS - CIVIL SERVICE	49	46	(3)	46	0
DA - DISTRICT ATTORNEY	375	385	10	378	7
EL - BOARD OF ELECTIONS	157	155	(2)	153	2
EM - EMERGENCY MANAGEMENT	9	8	(1)	6	2
FC - FIRE COMMISSION	96	88	(8)	84	4
HE - HEALTH DEPARTMENT	171	175	4	155	20
HI - HOUSING & INTERGOVERNMENTAL AFFAIRS	14	13	(1)	13	0
HR - COMMISSION ON HUMAN RIGHTS	7	6	(1)	6	0
HS - DEPARTMENT OF HUMAN SERVICES	59	56	(3)	53	3
IT - INFORMATION TECHNOLOGY	84	91	7	86	5
LE - COUNTY LEGISLATURE	90	96	6	85	11
LR - OFFICE OF LABOR RELATIONS	4	8	4	6	2
MA - OFFICE OF MINORITY AFFAIRS	5	6	1	3	3
ME - MEDICAL EXAMINER	83	97	14	73	24
PA - PUBLIC ADMINISTRATOR	5	6	1	6	0
PB - PROBATION	184	234	50	166	68
PD - POLICE DEPARTMENT	3,259	3,296	37	3,145	151
PE - DEPARTMENT OF HUMAN RESOURCES	8	7	(1)	7	0
PK - PARKS, RECREATION AND MUSEUMS	143	143	0	137	6
PR - PURCHASING DEPARTMENT	10	11	1	11	0
PW - PUBLIC WORKS DEPARTMENT	440	424	(16)	387	37
RM - RECORDS MANAGEMENT	11	13	2	11	2
SA - COORD AGENCY FOR SPANISH AMERICANS	4	4	0	3	1
SS - SOCIAL SERVICES	594	601	7	577	24
TR - COUNTY TREASURER	26	30	4	26	4
TV - TRAFFIC & PARKING VIOLATIONS AGENCY	46	48	2	46	2
VS - VETERANS SERVICES AGENCY	7	10	3	7	3
SubTotal	**7,487**	**7,658**	**171**	**7,099**	**559**
Unallocated HC Reduction	**(37)**	**(100)**	**(63)**		
Grand Total	**7,450**	**7,558**	**108**	**7,099**	**459**

Appendix C
Multi-Year Plan Baseline Inflators

Category	2020, 2021, 2022	Inflator Explanation
Expenditures		
Wages:		
Non-Police Pension	NYSERS	Estimates provided by the NYS Retirement System
Police Pension	NYSPFRS	Estimates provided by the NYS Retirement System
Health Ins. – Active	8.5%, 6.13%,6.13%	Highest average increase over last 3, 5, or 9 years
Health Ins. – Retirees	8.5%, 4.21%,4.21%	Highest average increase over last 3, 5, or 9 years
Other Than Personal Services	Flat, Flat, Flat	
Utilities:		
Light and Power	6.4%, -2.2%, 0.2%	EIA (DOE) 2018 Annual Energy Outlook Price Projection for Mid-Atlantic Region Commercial Customers (Reference case).
Brokered Gas	4.6%, 3.1%, 3.1%	
Trigen	3.7%, 2.6%, 2.7%	Blended (2/3 weighting for natural gas & 1/3 weighting for the ten-year avg. CPI [2.43%]).
Fuel	16.4%, 5.7%, 1.7%	EIA (DOE) 2018 Annual Energy Outlook Price Projection for Mid-Atlantic Region Commercial Customers (Reference case).
Water	4.2%, 4.2%, 4.2%	Derived from the NY Public Service Commission's 2015 Five Year Book, Percent Increase in Average Annual Bill per Customer, and weighted equally with the CPI.
Telephone	1.7%, 1.7%, 1.7%	Assumes increases consistent with the ten-year average growth in the CPI – All Urban Consumers (New York-Northern New Jersey-Long Island, NY-NY-CT-PA).
Medicaid	Flat, 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	2.0%, 2.0%, 2.0%	