Nassau County Interim Finance Authority

NIFA

MID-YEAR REVIEW AND ANALYSIS OF THE MULTI-YEAR FINANCIAL PLAN UPDATE FISCAL 2018 – 2021

July 31, 2018

NASSAU COUNTY INTERIM FINANCE AUTHORITY

SUMMARY OF UPDATE FINDINGS

In accordance with its Charter, the County produced an update (dated, June 30, 2018) of the Nassau County Multi-Year Financial Plan for Fiscal Years 2018-2021 (the "Update").

The Update presents the County's assessment of its financial condition in FY 2018, as of April, as well as its longer-term outlook for FYs 2019, 2020 and 2021 (the "Out-Years"). The Update also contains a revised gap-closing plan, which reflects the County's latest roadmap for addressing the perpetual gap between its recurring revenues and expenditures.

The County is projecting a surplus of $9.2 million in FY 2018 and deficits of approximately $41 million in FY 2019, $84 million in FY 2020 and $81 million in FY 2021 prior to the implementation of the County's proposed gap-closing plan. Projections for FY 2019 – FY 2021 include limited payments for prospective tax certiorari claims, but exclude its exposure to the immense backlog of tax certiorari payments, and the uncertainty of several proposed gap-closing initiatives not yet approved by the Legislature.

In regard to the certiorari backlog, the County relies almost exclusively on borrowing to pay its liability, which will increase the GAAP Basis deficit above the aforementioned County projections in each year that bond proceeds are utilized for the refunds. These certiorari borrowings will also crowd out spending on capital projects as the County must contend with the higher debt burden caused by bonding these non-capital expenditures.

Predictably, our analysis of the Update is not as optimistic as the County's, with NIFA-projected risks totaling approximately $81 million in FY 2018 (which includes a risk of $40 million for what we contend are underbudgeted tax cert refunds). Our analysis indicates that the Out-Year risks/deficits keep increasing such that they reach $164 million in FY 2021 and will be higher to the extent tax certiorari refunds are paid with borrowed money.

We agree with the County that the dominant concern that needs to be considered is the County's management of its tax certiorari problem. After FY 2018, the County plans to address its tax certiorari liability by combining: (1) its limited operating income payments and the dedicated revenue stream generated by its amended Disputed Assessment Fund (the "DAF") – to pay *prospective tax certiorari claims* – with (2) the additional resources it proposes to raise through the issuance of new debt – to fund its *preexisting tax certiorari liability*. The second component needs Legislative and NIFA approvals and would increase the County's debt service burden by $2.6 million in FY 2019, $19.3 million in FY 2020, and $21.9 million in FY 2021. We have repeatedly reminded the County that use of any bond proceeds to fund its tax certiorari liability will increase the GAAP deficit by an equivalent amount, thereby prolonging the current Control Period that commenced in 2011.

Despite the progress being made by the County to reduce its certiorari-related risks, major gaps remain. For example, unbudgeted labor costs that will likely result from the next round of collective bargaining. The new agreements will succeed labor contracts that expired on December 31, 2017. The Update includes funding for only mandated step increases, which are protected – outside of a wage freeze – by the Triborough amendment to the Taylor Law.

Because of the issues that have been outlined in this Summary and the additional details provided by the remainder of this Report, we believe there is little chance of the County achieving balance on a GAAP Basis in FY 2018 through FY 2021 without an additional large infusion of recurring revenue, or a significant realignment of expenditures.

MAJOR FINDINGS

Our fiscal outlook for FY 2018 has improved since the beginning of the year. However, it is likely that the County will incur a GAAP Basis deficit that is larger than the $63.2 million deficit incurred by the County in FY 2017 without immediate implementation of (1) the revenue generating initiatives proposed by the County Executive in her March 15^{th} submission to NIFA, or (2) other alternative actions the County may take before the end of the year.

The Update includes the County's revised gap-closing plan for FY 2019, which is more realistic than when it was presented in the adopted the FY 2018-2021 Multi-Year Financial Plan (the "Plan"); however, there remain significant placeholders, particularly with respect to expected new tax revenue from internet sales, and savings from building consolidation and workforce management. Although we find that the Update contains $13 million in newly added contingency reserves in each of the Out-Years, it also includes:

1) projected risks in FY 2018 totaling approximately $81 million on a GAAP Basis (the County's planned use of borrowed monies to pay tax certiorari refunds will not reduce this GAAP Basis deficit);

2) recurring expenditures, which exceed recurring revenues;

3) non-recurring savings and optimistic assumptions;

4) smaller and more realistic Out-Year gap-closing initiatives, some of which have been presented, but not Legislatively approved or implemented in prior years; and

5) Out-Year budget gaps that could reach more than $91 million in FY 2019, $146 million in FY 2020 and $164 million in FY 2021 prior to implementation of the County's proposed gap-closing plan (which we conclude is highly questionable despite being more realistic than in past years), if the projected risks identified by NIFA all break unfavorably against the County.

We acknowledge that, at NIFA's urging, the County has made progress in reducing the size of the deficit since peaking in FY 2014. For example, the County has imposed increased fiscal discipline, which is evidenced in certain areas of County expenditures, including reductions in borrowings for: capital projects; termination payments; judgments and settlements; and tax certiorari refunds. The County has also continued to cooperate through workforce reductions, improved collective bargaining agreements, tax certiorari reforms and increases in several revenue streams.

Nevertheless, our analysis indicates that the County's progress may reverse in FY 2018, as indicated in the following table.

Operating Results on a GAAP Basis ($ in millions)				
FY 2014	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018p**
($189.2)	($125.3)	($83.1)	($63.2)	($80.9)

The Update insufficiently addresses NIFA's concern that FY 2018 may prove to be an inflection point wherein the County's progress toward balance in FY 2018 and the Out-Years, on a GAAP Basis (as defined herein), reverses. The County needs to act quickly to address these growing risks through the implementation of additional, recurring revenue generating and expenditure reducing initiatives.

Failure to present a plan for FY 2019 – FY 2022 that addresses the deficiencies that we have identified in the Update, may force NIFA to impose significant cuts that could negatively affect taxpayers and/or employees of Nassau County. However, decisive action by the County could still change this outcome.

What follows is an analysis of the Update and a related commentary on the County's fiscal health. Section II discusses FY 2018 and Section III discusses the Out-Years. To fully understand NIFA's opinions regarding the County's financial position, this Report should be read in tandem with NIFA's October 17, and November 9, 2017, reports on the Plan.

II. DISCUSSION OF FY 2018

The following discussion contains our assessment of the County's financial condition based on data available as of June 30, 2018.

Projected GAAP Basis Deficit

Our analysis indicates that the FY 2018 Budget contains risks that, if not mitigated in the very near future, could lead to a deficit of approximately $80.9 million using Generally Accepted Accounting Principles and without using bond proceeds to support operating expenses (referred to herein as balanced on a "GAAP Basis"). The projected operating deficit could be larger than the $63.2 million deficit incurred by the County in FY 2017 in a year when the Board expected balance. Even if revenues and expenditures break favorably in the remainder of the year, we anticipate the operating results will still show a deficit greater than the one percent deficit threshold dictating a Control Period.

Major Components of NIFA Projections

Our current projection of $80.9 million in risks (deficit) is composed of favorable and unfavorable variances, as shown in the table.

Major Projected Risks Surplus/(Risk) ($ in millions)	
Judgments and Settlements*	(43.8)
Tax Certiorari Payments	(40.0)
OTB Profits (VLTs)	(12.8)
Department Revenues	(11.7)
Contractual Services	(9.6)
Utility Costs	1.6
Fines and Forfeitures	3.2
Investment Income	3.6
Fringe Benefits	4.3
Social Services Costs (incl. Medicaid)	5.0
Sales Tax	8.0
Salaries and Wages	15.4
Other (net)	4.2
Total Projected Risk	**($72.6)**
GAAP Basis Adjustments**	**(8.3)**
Total Projected Risk on a GAAP Basis	**($80.9)**

*The County submitted a plan in March that acknowledged the variance and proposed several gap-closing initiatives to fund the Restivo judgment. These initiatives are subject to successful execution.

**Assumes GAAP accounting adjustments are equal to FY 2017 CAFR amounts.

Judgments and Settlements

The $43.8 million required to pay the Restivo judgment was not appropriated in the FY 2018 Budget. Although cash had been set aside in a segregated account for this purpose in 2017, it was not expended (the resources were included in restricted fund balance at year-end 2017). Consequently, when the judgment became final in January of 2018 and subsequently paid in February, it caused a negative variance in the FY 2018 Budget. The County identified several gap-closing initiatives in March to fund this expenditure, many of which are considered risks in our analysis because they require Legislative action. These risks will be removed upon successful execution.

Tax Certiorari Payments

The County likely needs to spend at least $70 million on tax certiorari refund payments to merely keep up with challenges in FY 2018, but has only appropriated $30 million in the operating budget for this purpose. The projected $40 million risk, which may understate the actual variance if the County pays out more refunds, could be mitigated to the extent the County can legally tap its existing DAF fund (which contains approximately $200 million).

It is important to note, however, that this projected gap-opening expenditure cannot be mitigated by future bonding since borrowed resources are not revenues under GAAP. Consequently, the only way this expenditure would not negatively impact the budget is if actual spending (other than amounts charged to the DAF) on this operating cost is limited to the $30 million already appropriated in the 2018 Budget.

OTB Profits (VLTs)

The FY 2018 Budget includes $15.8 million in revenue the County expected to recognize in FY 2018 from payments OTB committed to make from gambling proceeds derived from the video lottery terminals ("VLTs") installed in Resorts World Casino at Aqueduct Racetrack. We remain concerned that the County will not realize the budgeted revenues for two reasons: (1) it is likely that unexplained delays in getting the full complement of OTB-designated devices installed (only 505 out of 1000 authorized gaming devices have been put in place as of June) will lead to a significant reduction in the intended payment; and (2) OTB's delinquent remittance of its 2017 payment resulted in the County being unable to record the payment as revenue in FY 2017 (OTB has a different interpretation of when its annual payments to the County are due). The late 2017 payment will be recorded instead as revenue in FY 2018.

For these two reasons, we are giving credit for only the $3 million payment already received in 2018, which we noted had actually slipped from FY 2017. We are not giving credit for any of the $20 million payment the County originally assumed it would receive in the beginning of 2019 (75%, or $15 million would have counted as FY 2018 revenue). We assume that the next payment, however much it is reduced to, will likewise slip one fiscal year into FY 2019.

Department Revenues

Approximately half of the projected $11.7 million risk stems from a court ruling that stayed the County's ability to enforce its Income and Expense law. That Law required commercial property owners to timely file their income and expense statements or face a fine. Although a stay remains in effect on enforcement of penalties for the litigants in this case, the County has been permitted to begin enforcement efforts against commercial property owners not party to the case ("Owners").

The County has collected almost $1.0 million from these Owners to-date; however, to be conservative the County is not recognizing or projecting any revenue in its baseline estimates until all the legal hurdles are cleared. That said, the County is including $15 million in annual fines from enforcement of its Income and Expense law in its gap-closing plan, beginning in FY 2020.

Our analysis also indicates a potential shortfall of $2.9 million in real estate related transaction fees. This is not surprising based on reports that the volume of mortgage applications and refinancings have come down from last year's levels as interest rates have risen.

Contractual Services

Our analysis indicates that the County could spend $260.9 million on contractual services, or $9.6 million more than assumed in the FY 2018 Budget. The projected overspending includes an additional $7.1 million for items restored to the NICE bus contract earlier this year and more than $1.0 million for potential inmate healthcare services, which were not addressed in the County Executive's proposed budget plan submitted to NIFA on March 15th.

Utility Costs

Utility costs are projected to be lower than budget by $1.6 million due to lower projected costs for electricity and telephone services, as well as reduced spending on energy conservation.

Fines & Forfeitures

Our analysis indicates that the County could realize $3.2 million more than budgeted from higher revenues generated primarily by fines and the County's red light camera program. Although we project Public Safety and Boot & Tow fees will meet or exceed budgeted amounts, we project that they will come in far less than the County projected in the Update. The Legislature must approve a new Boot & Tow initiative proposed by the County Executive in order to have any chance of reaching the County's revised estimates.

Investment Income

Investment income has been very strong this year due to a larger than assumed cash position and higher than anticipated interest rates. Further, the County could realize investment income in excess of the projected $3.6 million surplus if the Federal Reserve raises short-term interest rates in the coming months.

Fringe Benefits

The County will realize at least $4.3 million in fringe benefit savings primarily from lower than budgeted headcount that the County expects to maintain throughout the current year.

Social Services (including Medicaid)

Our analysis indicates that County expenditures for social service programs could be approximately $5.0 million lower than assumed in the FY 2018 Budget. The projected surplus results primarily from lower social service caseloads in the Temporary Assistance for Needy Families ("TANF") and Safety Net Assistance ("SNA") programs. Medicaid costs are projected to be slightly higher primarily due to lower projected payments for Indigent Care stemming from changes that were made after the State completed a reconciliation of actual County costs. There is an offsetting loss of more than $1.0 million in associated State and Federal reimbursement aid.

Sales Tax

Despite geopolitical events and stock market volatility, households remain optimistic and are using their higher incomes to support more spending and borrowing. Our analysis indicates that strong year-to-date growth in sales tax receipts, which are 4.4% higher than the same period last year, may result in sales tax revenues exceeding budgeted levels by approximately $15.0 million, of which approximately $7.0 million would not be recognized until FY 2020 (due to accounting peculiarities related to budgeted sales tax assumptions for local governments outside the City of Long Beach). We are cautiously optimistic that $8.0 million in additional net revenue can be realized since our projection is based on sales tax receipts growing by 1.7% in the remaining checks of 2018, which is an assumption that sits between the historical 5-year and 10-year average growth rates for this remaining period.

Salaries and Wages

The County currently has 350 full-time vacancies, of which 111 are in the Correctional Center and 93 are in the Police Department. If left unfilled, the vacancies will result in significant savings, which will offset projected overspending on overtime and terminal leave payments. The County should closely examine these vacancies for opportunities to permanently eliminate positions in order to provide recurring savings.

Our analysis indicates that although overtime continues to be underfunded, particularly in the Police Department and Correctional Center, substantial progress has been made in limiting overtime spending with the hiring of new classes of police and corrections officers; a trend that NIFA would like to see continue.

Potential Budget Opportunities

There are several opportunities where additional savings and revenues could be realized and available to reduce the projected deficit in FY 2018; however, we intentionally did not factor them into our current projections due to their uncertainty as of the date of this Report.

For example:

- The County would like to transfer $6.0 million of asset forfeiture funds to cover the costs for certain new police initiatives. We have been told that the desired transfer was contingent on the Legislature's approval of bonding the construction of a new Police academy, which just occurred on July 23rd. These resources can reduce the projected deficit if the County can identify permissible programs that are currently being paid with operating revenue. However, our projections exclude this offset since we have not seen a formal, written commitment from the Police Department to make this transfer.

- Revenues derived from the sale of County property could be higher than we project, which is already $1.0 million more favorable than the $3.6 million assumed in the FY 2018 Budget. For example, the County currently expects to realize $8.6 million from the sale of specific County properties in FY 2018, which is $4.0 million more than our projections. Although the County has had past success in selling property, it is unclear if the County can reach agreements to sell these properties, get requisite Legislative approvals, and close on the additional transactions before the end of the year.

- The County is negotiating with the State on a potential deal whereby the County would receive a discounted upfront payment in return for eliminating the State's long-term liability of reimbursing the County for certain categories of injured workers. Although the County estimates this one-shot to be worth at least $14.5 million (for future payouts totaling $19.0 million over a span of approximately 20 years), it is unclear if the accounting treatment would limit the recognition of this revenue in FY 2018.

- Other revenues may be higher than projected if current trends are sustained, particularly for the red-light ticket program, sales tax revenue, and investment income (especially if the Federal Reserve raises short-term interest rates in the coming months).

RECOMMENDATION

Our analysis indicates that the County may incur a deficit of approximately $81 million in FY 2018 and greater amounts in the Out-Years. These projected deficits are much greater than the one percent deficit threshold that triggers the imposition of a Control Period. Consequently, we recommend that the County seize the opportunity now to get a head start on closing projected risks in FY 2019 (and the Out-Years) by implementing gap-closing initiatives in FY 2018, which provide recurring revenues and savings beyond the current year.

III. THE OUT-YEAR GAPS: FY 2019 – FY 2021

The County is required to submit its FY 2019-2022 Multi-Year Financial Plan to NIFA on September 15, 2018, which is a little more than one month from now. Although the proposed Plan will not be effective until January 1, 2019, the County should immediately begin to construct a credible plan that moves the FY 2019 Budget closer to being balanced on a GAAP Basis. The Update reflects progress toward that requirement; however, we question its viability due to the lack of specificity in its gap-closing plan.

THE COUNTY'S BASELINE PROJECTIONS

In the Update, which covers fiscal years 2018 through 2021, the County made a number of changes to its baseline projections of Out-Year revenues and expenditures.

The Projected Baseline Gaps are Understated

Our analysis indicates that the County's baseline gap projections are understated each year by between \$50.5 and \$82.9 million, as shown below. For example, the County projects that its FY 2019 expenditures will exceed available revenues by \$40.9 million; however, we estimate that the baseline gap could reach \$91.4 million prior to the implementation of any new gap-closing initiatives or additional labor costs, beginning in FY 2018, that would likely result if the County enters into new collective bargaining agreements with its unions. The County's projections optimistically assume that union concessions will fully offset negotiated raises.

PROJECTED BASELINE GAPS: COUNTY vs. NIFA

($ in millions)	FY 2019	FY 2020	FY 2021
MYP Update	($40.9)	($83.8)	($81.3)
NIFA Estimate	($91.4)	($146.5)	($164.2)
Better/(Worse)	**($50.5)**	**($62.7)**	**($82.9)**

Major Components of Understatement

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

- Overestimated revenues from fines and forfeitures, including \$8 million in budgeted, annual revenue from a new Boot & Tow initiative that has been proposed for implementation in FY 2018, but not approved by the Legislature.
- Uncertain annual revenue expected from OTB's video lottery terminals.
- Uncertain revenue from the annual sale of County property.

- Overestimated revenue from real estate related transactions (e.g., mortgage recording and GIS tax map fees), which the County assumes will either grow or be sustained at current levels, respectively.

Tax Certiorari Refunds

The County will be greatly assisted in the Out-Years by the recent passage of the revised DAF Legislation, which provides a more flexible framework than the previous DAF for raising monies to fund Class 4 (commercial properties) tax certiorari refunds. These refunds constitute the majority of existing certiorari liability and are consequently the largest impediment to achieving GAAP Balance.

The Update also provides in the operating budget the County's estimate of funding necessary to pay tax certiorari refunds to owners of Class 1, 2, and 3 properties, amounts we conclude are not unreasonable. Accordingly, we have removed our Out-Year tax certiorari risk projection, which had been $40 million in FY 2019, FY 2020 and FY 2021. However, we continue to project a $40 million risk in FY 2018 since the amended DAF will not become effective until FY 2019 and the County has not identified a plan to pay these costs with operating revenue.

The County anticipates that its annual liability will decline after the reassessment project is completed; however, the County must resolve a tremendous backlog of tax certiorari claims. The Comptroller estimated the long-term tax certiorari liability (in the 2017 CAFR) to be approximately $569 million, as of December 31, 2017. This estimate includes approximately $200 million in claims made by LIPA. The County is hopeful that it will reach a settlement with LIPA that would eliminate claims for overpayment of taxes in the past.

The Update reflects the County's intention to borrow a total of $300 million to pay most, if not all, of the backlog ($100 million in 2018 and $200 million in 2019). As noted many times, this approach will not reduce the projected GAAP Basis deficits since bond proceeds are not revenues. Consequently, NIFA's Control Period Calculation is likely to show a significant deficit on a GAAP Basis in FY 2018 even if the requisite authorizations to issue the tax certiorari bonds are granted and the risks we continue to identify (which are discussed throughout this Report) are resolved. Similar accounting concerns apply to FY 2019 and beyond because the resulting GAAP Basis deficit from using bond proceeds to pay operating costs is reflected in the year the expenditures are made, not the year the money is borrowed.

Sales Tax Revenue

The County is assuming that sales tax revenues will grow by 2.0% in FY 2019, 2.0% in FY 2020 and 2.0% in FY 2021. Our analysis indicates that these growth rates are reasonably conservative, albeit slightly above the 1.5% average growth rate experienced by the County over the past 10 years. As discussed earlier, the first half strength of sales tax collections in 2018, which currently exceeds 4.4%, positions the County well to reach its revised FY 2018 target. The County appropriately extrapolated the additional $8.0 million it expects to realize in FY 2018 into its baseline projections for the Out-Years. Should current sales tax strength be sustained for the rest of FY 2018, the ensuing better-than-assumed revenues in FY 2018 would likely translate into additional revenue in each of the Out-Years, assuming that the County's assumption of 2% annual growth in the Out-Years is achieved.

<u>Health Insurance Costs</u>

Our analysis indicates that health insurance costs are conservatively budgeted in FY 2019, but that retiree health insurance costs may be understated by approximately $6 million in FY 2020, and $13 million in FY 2021 if growth rates do not materially decline from current estimates. The County is assuming that retiree health insurance costs will grow by 4.21% in these years, which is significantly below the 8.5% growth rate it assumed in FY 2019. Although health insurance growth rates have moderated in recent years, we think the County should be more conservative in its Out-Year assumptions.

<u>Labor Costs</u>

Contracts with all the County's labor unions expired on December 31, 2017. The only additional labor costs included in the County's baseline projections relate to step increases that are granted to employees eligible to advance to the next step in their respective salary schedules. In the absence of successor agreements, these step increases are protected – outside of a wage freeze – under the Triborough Amendment to the Taylor Law.

Since the County has made no provision in the Update for wage increases beyond legally-required step increments, the County's next round of collective bargaining must result in contracts that are otherwise cost neutral. Although we are skeptical that this strategy will be accomplished, we have not quantified any labor risks in FY 2019, FY 2020, and FY 2021. Consequently, any raises granted to County employees that are not offset by concessions will exacerbate the deficit.

<u>Litigation</u>

The County has made no provision for the payment of certain future liabilities that may result from the multitude of lawsuits the County is currently litigating, including proceedings referred to as the "Utilities Litigations." The Comptroller estimated the County's potential exposure to these non-certiorari lawsuits (in the 2017 CAFR) to be approximately $391.5 million, as of December 31, 2017. The payment of this liability is not factored into our Out-Year risk assessment, except for the $30 million budgeted in FY 2019 through FY 2021 for non-certiorari judgments and settlements. We note that this fiscal cloud hanging over the County could one day add significant expenditures that would need to be funded.

GAP-CLOSING PLAN

The County's gap-closing plan, which is meant to provide a roadmap for closing the Out-Year gaps projected for FY 2019, FY 2020 and FY 2021, has changed dramatically from the adopted 2018-2021 Plan. Some of the initiatives that have been listed in the gap-closing plan for a number of years have been removed and replaced with significant, new revenue initiatives. We still question the County's ability to implement these initiatives or realize full savings.

Compared to the adopted Plan, the County reduced the projected value of its gap-closing plan by a net $15.5 million in FY 2019, $38.1 million in FY 2020 and $41.8 million in FY 2021. Specifically, the County removed nine initiatives ($46.9 million, $89.6 million, $91.4 million), revised eight initiatives (up $5.6 million, down $8.8 million, and down $12.2 million), and added nine new initiatives ($25.5 million, $60.3 million, $61.8 million).

Most notably, the County removed the $20 million per year in projected savings from its proposed Public-Private Partnership ("P3") sewer initiative that had been previously included for FY 2020 and FY 2021. It is unclear if the Curran Administration has abandoned the proposal or just put it on the back burner.

We support the County's apparent acknowledgement that many of these initiatives have gained little traction; however, the County offset the missing savings with other uncertain measures. This situation is unsettling because the major options provided by the County to close the projected gaps are unlikely to be timely implemented or remain speculative.

COUNTY GAP-CLOSING PLAN

($ in millions)	FY 2019	FY 2020	FY 2021
Expense/Revenue Actions			
Workforce Management Savings	$8.8	$8.9	$9.0
Asset Forfeiture Funding	6.0	6.0	6.0
Building Consolidation	5.0	5.0	5.0
Probation/Corrections Savings	4.5	4.6	4.7
Suez Water Long Island Inc. Synergy Savings	3.0	4.0	4.0
EBF PDD Reserve	2.0	3.0	3.0
Technology	2.0	2.0	2.0
Health Insurance Contribution	1.0	2.0	3.0
Hotel Motel Tax	1.0	2.0	3.0
ERP Implementation	1.0	2.0	2.0
County's District Energy Facility	1.0	2.0	1.5
Workers' Comp Savings	1.0	1.0	1.0
Income and Expense		15.0	15.0
Other Actions		10.0	10.0
Belmont Arena and Hub Sales Tax Benefit		7.5	7.7
NYS Actions			
Internet Sales	11.0	11.2	11.4
E-911 Reimbursement	1.0	1.0	1.0
Total Gap-Closing Options	**$48.3**	**$87.2**	**$89.3**

The following is a synopsis of only the actions that the County projects have the highest potential monetary impact. While some initiatives may come to fruition, there are no detailed plans of implementation for us to evaluate.

Expense/Revenue Actions

Workforce Management – The County claims that it can continue to provide operations and services with fewer positions than budgeted, and in certain targeted areas we agree. However, as the County has repeatedly noted, it has already substantially reduced budgeted headcount and we question whether it can, or has the will to, target non-essential positions without inadvertently reducing more essential services. The County increased by almost $3 million the amount of savings it expects to realize annually compared to the adopted Plan.

Asset Forfeiture – The County will be fully bonding construction of the new Police Academy, thereby freeing up a projected $6 million per year that can be used for Police Department programs and initiatives that meet the Asset Forfeiture statute requirements. At this time, our projections exclude this offset since we have not seen a formal, written commitment from the Police Department to make this transfer annually.

Building Consolidation – The County is optimistically projecting a $5 million per year savings as a result of centralization, downsizing, enhanced lease renewal terms, sale of excess property and associated utility and maintenance savings. Although there may be some achievable savings from this initiative, the amount is questionable and may be negligible compared to projections.

Probation/Corrections Savings – The Probation Department is introducing an initiative to utilize electronic monitoring of a specific population of inmates to lower the costs of housing these individuals. The County has provided its underlying assumption for this projected savings estimated at approximately $4.5 million per year. The savings may be achievable, but only if the initiative proves implementable.

Suez Water Long Island Inc. Synergy Savings – Suez Energy North America took over management of the County's sewer system and is acting as a private operator. The current contract promised a minimum of $10 million in savings. The County continues to maintain that additional savings may be achieved ("synergy savings"), although it hasn't provided a roadmap to make this happen. Although the County has reduced its savings projections to a more reasonable level of $3.0 million in FY 2019 and $4.0 million in FY's 2020 and 2021, we remain skeptical that these savings will be realized.

Income and Expense – The County continues to project revenues from the Income and Expense law, which subjects commercial property owners who do not file required tax returns to a fine. The law continues to be legally challenged. Should the decision stand in the County's favor, additional revenues could be realized. However, the projection of $15 million for FY 2020 and FY 2021 remains questionable until the number of delinquent filings is accurately assessed and there is greater confidence that the initiative can withstand any further challenges and appeals.

Other Actions – The $10 million in combined revenue and expenditure savings that the County projects as gap-closing initiatives for each FY 2020 and FY 2021 cannot be seriously considered without the provision of any information as to what comprises the estimate or how it was calculated.

Belmont Arena and Hub Sales Tax Benefit – The County anticipates receiving $7.5 and $7.7 million in FY 2020 and FY 2021, respectively, of incremental sales tax revenue The estimated completion date for the Belmont Arena is 2021 and no plans have been finalized for Nassau County's Hub development.

New York State Actions

Among the initiatives are two proposals that would require State approval before they could be advanced.

Internet Sales – The U.S. Supreme Court ruling in South Dakota v. Wayfair, Inc. removed the physical presence requirement for vendors to collect sales taxes on purchases by state residents that was established in Quill Corp. v. North Dakota. The County projects that it could realize approximately $11.0 million per year if the State were to pass legislation to require marketplace providers to collect sales taxes on taxable sales made by third-party vendors. However, it is unclear if support for the requisite legislation exists in the State Legislature despite the fact that this action would boost sales tax collections for the County and the State (as a base-broadener), and make more level the playing field on which "brick and mortar" stores compete with internet-based merchants.

E-911 Reimbursement – The State approved an amendment to County law that increased the surcharge related to the provision of its enhanced 911 emergency telephone system. The viability of collecting the estimated $1 million per year may be achievable but cannot be determined until reviewing a full fiscal year of collections.