Nassau County Interim Finance Authority

NIFA

STAFF REVIEW OF THE MAY 1, 2010
NASSAU COUNTY
MULTI-YEAR FINANCIAL PLAN UPDATE
FISCAL 2010-2013

Overview

On May 3, 2010 the County submitted its Multi-Year Financial Plan Update (the "Update"). The recurring theme of the Update is that the current Administration has inherited a substantial and growing structural deficit. The existence of a significant and ongoing structural deficit is consistent with our own findings relative to past plans, reports and submissions made by the previous administration. To balance the budget in the future, the Update includes significant new borrowings for operating expenses, makes aggressive assumptions about trimming other expenses, and optimistic projections about the growth of certain revenues.

NIFA staff reviewed the Update and concluded that the submission on its own did not include enough detail to determine the County's likelihood of success. Consequently, consistent with past practice after receiving updates from the prior administration, NIFA staff, together with other County monitors, requested a meeting with the County's budgeting team. That meeting took place on May 11, 2010.

Also consistent with previous updates, our expectation was that the County's budgeting team would supply us with the supporting analyses that were used by the County to estimate the value of its gap-closing initiatives and related implementation strategies. Unfortunately, very little meaningful new information was available to us or any of the other monitors at or after the May 11th meeting.

Absent the necessary information, but based upon what has been supplied to us, we conclude that the County does not yet have a well defined roadmap to solve its budgetary problems. Consequently, we are concerned that the County may not be able to achieve the requisite savings presented in the Update. We make this conclusion even after factoring in their large borrowing program.

Discussion

The following is a summary of the County's estimated baseline gap, proposed gap-closing initiatives, and our related concerns and comments. (The baseline gap is a projection of the budgetary shortfalls that would exist if no remedial actions are taken.)

Baseline Gap

The baseline gap has been revised upward from that which was estimated by the previous Administration in the Adopted Multi-Year Plan, which as shown below was also significant.

($ in millions)	FY 2010	FY 2011	FY 2012	FY 2013
Adopted MYP	-	($127.0)	($176.1)	($213.6)
MYP Update	(133.2)	(286.5)	(330.7)	(378.3)
Change	**($133.2)**	**($159.5)**	**($154.6)**	**($164.7)**

Two major factors are cited by the Administration as the drivers of the current problems:

1. The assessment system; and
2. Labor agreements.

Other significant factors include a failure to secure State authorization for a cigarette tax, the carryover impact of a sales tax revenue shortfall in 2009, potentially large increases in health insurance costs, and an acknowledgement of the need for additional Police and Correctional Center overtime expenditures.

The decisions by the Administration to repeal the energy tax and remove from the multi-year plan annual property tax increases scheduled to begin in 2011 exacerbated the fiscal challenge. Also, despite the recent increase in sales tax receipts, the uncertainty of that revenue source remains a concern given its importance to the County's revenue base.

<u>FY 2010</u>

The County projects that the current year deficit, if no remedial actions are taken, could reach $133 million. We agree with substantially all of their conclusions regarding the extent of the deficit, which is generally consistent with the risks we identified in our October 2009 staff report.

This projected shortfall is composed of many elements, as shown below.

($ in millions)	**FY 2010**
2009 Sales tax shortfall	($12.7)
Repeal of Home Energy Tax	(19.8)
Cigarette Tax (not authorized)	(16.0)
2009 Projected Surplus (did not materialize)	(12.9)
Fringe Benefits	(8.9)
Investment Income	(4.0)
Tax Certiorari Costs	(25.0)
Public Safety Overtime	(11.0)
Other	(22.9)
Projected Gap	**($133.2)**

The County developed a series of gap-closing initiatives totaling $160.0 million, as shown below. This provides a margin of upside protection against adverse budgetary events and slippage in the implementation plan. We have grouped the 2010 initiatives into three categories: (1) expense savings (49%); (2) revenue initiatives (17%); and (3) borrowing (34%).

Revised Gap	**($133.2)**	**%**
Expense Savings		
Workforce Management	22.0	
Labor Concessions & Early Retirements	15.0	
Contingency Reserve	10.0	
Expense Reductions	9.3	
Lower than Budgeted Pre K & Early Intervention	6.5	
Discretionary Program Cuts	6.0	
OTPS Restricted to 2009 Actuals	4.5	
TPVA-Lower RLC Expense	2.2	
Utilities	2.1	
Re-estimate of Consumer Affairs	1.0	
Subtotal	**78.6**	**49%**
Revenue Initiatives		
Sales Tax (2010 @ 3.0%)	10.6	
FIT Reimbursement	5.5	
Tobacco Proceeds	5.0	
Revenue Initiatives	4.0	
ARRA Funding (FMAP)	2.0	
Subtotal	**27.1**	**17%**
Borrowing		
Severance and Early Retirement Incentive Payments: Borrowing	29.3	
Assessment Reform: Borrowing for certs	25.0	
Subtotal	**54.3**	**34%**
Surplus/(Deficit) Assuming Gap Closing Options	**$26.8**	

Although we are heartened by the recent upward trend in sales tax receipts, we are not able to conclude on an overall basis if the Administration's gap closing plan for 2010 can be achieved because we lack sufficient data from the County to make a reliable analysis. This same deficiency impedes our ability to gauge the County's likelihood of success in 2011 and the Out-Years, which is outlined in the following discussion.

<u>Gap Closing Plan</u>

The Update outlines a series of options for narrowing the projected gaps and estimated structural deficit. The options can be sorted into four groups: (1) new revenues; (2) expenditure reductions; (3) borrowing; and (4) debt restructuring.

1. New Revenues – For the sales tax, the County revised upward its growth projection in 2010 from 1.75% to 3%. This increase is reasonable based on historical collections and the depressed level of economic activity last year. In fact, year-to-date sales tax collections are up 5.7% above the same period last year, but they must be closely monitored should the pace of economic recovery begin to slow down or reverse. The Update maintains the 3.9% annual sales tax growth rate assumption contained in the adopted Plan for 2011-2013.

The County also plans to increase the property tax levy each year to capture the value of new construction. It has also proposed a number of other uncertain revenue initiatives, such as expansion of the red light camera program, housing Suffolk inmates at the Correctional Center, and increasing Police ambulance fees. In addition, the County has proposed three initiatives that have been unsuccessfully implemented in past years: revenue from video lottery terminals, reimbursement for patrolling the LIE, and marketing efforts in the parks.

2. Expenditure Reductions – The County is seeking savings from unfilled vacancies, reducing headcount through an early retirement incentive program, capturing salary turnover savings, significant labor concessions, departmental reductions and eliminations, assessment reform, restricting OTPS purchases, and proposed cuts to discretionary programs.

3. Borrowing – The County intends to use more than $200 million of bond proceeds to fund tax cert refunds through 2013. In 2010, the Update relies on bonding $29.3 million of severance payments, which when combined with the $25 million of tax cert refund bonding, frees up an equal amount of operating resources. This represents 34% of the required budgetary relief in 2010. The severance payments include the cost of the early retirement incentive payments as well as payments for unused vacation and sick leave balances.

4. Debt "Restructuring" – The County has also identified unsubstantiated savings from debt restructuring. Although we have been given absolutely no details, the plan appears to "restructure" debt by moving payments to future years; if that approach is indeed the plan, it would be unacceptable for NIFA debt and would face severe scrutiny by the Office of the State Comptroller (OSC) for County debt.

Concerns

1. The County plans to use significant borrowing for tax cert and employee termination payments. NIFA considers this to be fiscally imprudent, unsustainable and a burden on the County and its future taxpayers. Although labeled "Assessment Reform Savings" in the summary, the Update indicated that of the proposed savings, 100%, 80%, 60% and 40%, respectively, come from bonding cert payments in each of the 2010, 2011, 2012 and 2013 years for a total of over $200 million.

	FY 2010	**FY 2011**	**FY 2012**	**FY 2013**
Borrowing				
Bond cert payments	$25.0	$80.0	$60.0	$40.0
Bond termination payments	$29.3	($3.5)	($3.5)	($3.5)

2. Assessment reforms are projected to save significant amounts of money, but we have not received any analysis indicating the basis for these savings.

	FY 2010	FY 2011	FY 2012	FY 2013
Assessment Reform savings	-	$20.0	$40.0	$60.0

3. Previously negotiated labor contracts are in place through 2015. Therefore, proposed savings from labor concessions would require voluntary contract re-openings combined with substantial give-backs, both of which we consider unlikely.

	FY 2010	FY 2011	FY 2012	FY 2013
Labor concessions and early retirement savings	$15.0	$60.0	$120.0	$120.0

4. An early retirement incentive program appears likely to be implemented; however, there is no indication of how projected savings were calculated. Moreover, since no minimum participation thresholds are contemplated we are concerned that the program will not generate additional retirements and may simply be gifting employees who would have retired anyway.

5. Unspecified expense reductions and eliminations throughout County programs and departments are unsupported by underlying analyses and the impact of these cuts on operations is not described.

	FY 2010	FY 2011	FY 2012	FY 2013
Departmental reductions and expense savings	$9.3	$38.3	$38.3	$38.3

6. Several revenue initiatives in the Out-Years of the Update are a recycling of previously unsuccessful ideas. These include: video lottery terminals, patrolling the LIE, parks marketing initiatives, and reimbursement for County resident students attending the Fashion Institute of Technology.

	FY 2010	FY 2011	FY 2012	FY 2013
Revenue initiatives	$4.0	$24.0	$38.4	$38.4

7. Savings from debt "restructuring" are unsubstantiated and appear to merely postpone debt service rather than producing savings by refunding bonds at lower rates.

	FY 2010	FY 2011	FY 2012	FY 2013
NIFA and County debt restructuring	-	$25.0	$25.0	($8.8)

8. The County needs State and local Legislative support in order to implement some of its major proposed gap-closing initiatives.

9. It is unclear how much progress the County has made in year-to-date savings.

10. There does not appear to be a detailed plan of implementation with achievable benchmarks and milestones.

Recommendations

Even though NIFA is no longer statutorily required to approve the County's Multi-Year Plan, it still retains its mission of maintaining the County's fiscal integrity. Among NIFA's statutory mandates is its right to request reports and other monitoring information from the County.

We recommend that the County be requested to provide supporting analyses for its gap closing plan. Each savings projection should be accompanied by a detailed implementation plan with benchmarks and milestones.

The County should also be required to submit the quarterly variance reports that are required by its Charter.

Used together, the implementation plan and the variance reports would enable NIFA to more clearly track the County's progress in implementing its gap closing plan.