Nassau County Interim Finance Authority

NIFA

MID-YEAR REVIEW AND ANALYSIS OF THE MULTI-YEAR FINANCIAL PLAN UPDATE FISCAL 2014 – 2017

August 14, 2014

NASSAU COUNTY
INTERIM FINANCE AUTHORITY

I. INTRODUCTION

At its meeting on May 2, 2014, NIFA's Directors concluded that the County's Multi–Year Financial Plan for Fiscal Years 2014–2017 (the "Plan") did not have sufficient resources to fund all of the costs projected to result from new labor agreements with certain unions in the County ("Agreements"). Consequently, the Directors adopted a resolution requiring the County to provide a modified financial plan (the "Update") within 60 days.

At a minimum, the Update was required to account for projected labor costs and savings that were purportedly embedded in the Agreements or proposed separately by the Administration. In addition, NIFA required the Update to include, as a contingency, cost reductions and/or revenue increases that would achieve aggregate cost savings of $30 million in each year of the Update.

What follows is an analysis of the Update and a related commentary on the County's fiscal health. To fully understand NIFA's opinions regarding the County's financial position, this Report should be read in tandem with NIFA's November 25, 2013 report on the Plan, which can be found on the NIFA website at www.nifa.state.ny.us.

II. SUMMARY OF FINDINGS

The County Executive submitted the Update to NIFA on June 30, 2014. The 2014 Budget, which is the first year of the Plan, contains significant risks and leaves little room for miscalculations by the County. The Out-Years understate the baseline gaps and continue the County's reliance upon borrowing for tax certiorari refunds and, in 2014, other judgments.

The Update attempts to include the impact of new labor agreements with five of the County's unions (PBA, DAI, SOA, CSEA and COBA) and incorporates the County's projections of new revenues from: school zone speed cameras; recently approved increases in various County fees; and other gap-closing strategies requiring bipartisan support in the State and County Legislatures.

After submission of the Update, the County received a notification from the State Department of Taxation and Finance indicating a significant decrease in sales tax receipts, which was greater than anticipated. Consequently, this sizeable negative variance was not included in the Update, but must be addressed.

Although sales tax receipts had been trending lower since the fourth quarter of 2013, the County had been attributing the weakness to harsh weather conditions and had been hopeful that economic activity would rebound after the bad weather abated, the underlying economy improved, and Superstorm Sandy aid was distributed.

In general, we believe that the Update insufficiently addresses NIFA's concerns regarding the County's ability to achieve balance in FY 2014 and the Out-Years in accordance with Generally Accepted Accounting Principles without using "other financing sources" (such as bond proceeds) to support operating expenses (balanced on a "GAAP Basis"). Consequently, we conclude that the Plan is out of balance and urge the County to act quickly to address its growing risks.

SUMMARY OF MAJOR FINDINGS

We find that the County has fulfilled NIFA's requirement that it submit the Update within 60 days, but it still contains:

1) non-recurring resources, optimistic assumptions, and recycled and unsuccessful initiatives of prior years;

2) recurring expenditures, which exceed recurring revenues;

3) significant risks in FY 2014 totaling approximately $133 million; and

4) Out-Year budget gaps that are projected by the County to grow from $38.6 million in FY 2015 to $52 million in FY 2017. (The gaps could reach $177 million in FY 2015 and $217 million in FY 2017, prior to the implementation of the County's

proposed gap-closing plan, if the projected risks identified by NIFA all break unfavorably against the County).

ADDITIONAL FINDINGS

The County has:

1. Insufficiently accounted for protracted weakness in certain sectors of the economy that could severely threaten its sales tax estimates.

2. Continued its assumption of long term borrowing for certiorari claims and, in 2014, other judgments, which are operating expenses. These borrowings have not been authorized by the County Legislature or NIFA.

3. Utilized assumptions regarding certain new revenue streams (*e.g.*, speed cameras) and savings in such areas as overtime that are unproven.

4. Continued its plan to eliminate the historical $13 million mission payment to the Nassau Health Care Corporation ("NHCC"), which is no longer legally required to be made after FY 2014, even though NHCC has major financial problems.

5. Reduced the size of its cash flow borrowing in FY 2014 from earlier projections.

6. Reduced the size of its Bond Anticipation Note ("BAN") borrowing in FY 2014 from earlier projections.

7. Reduced its projection of debt service costs due to delayed and reduced borrowings, as well as lower interest rates.

8. Secured State Legislative approval for its new plan to fund its commercial tax certiorari liability, beginning in 2017. The legislation needs to be approved by the Governor.

III. DISCUSSION OF FY 2014

Based on first quarter results, the County projects in the Update that it will end FY 2014 with a modest surplus, on a budgetary basis, in its five major operating funds. However, subsequent to the release of the Update, certain negative variances came to the County's attention and it now projects a deficit of $41.6 million, on a budgetary basis, in the County's June Budget Report ("County's Subsequent Estimate"), prior to the implementation of any remedial actions.

In contrast, our current analysis indicates that FY 2014 contains approximately $133 million in projected risks, prior to the implementation of any remedial actions. This projection is higher than NIFA's $92 million assessment at the time the Plan was adopted and $92 million higher than the County's Subsequent Estimate. It is noteworthy that all of NIFA's estimates indicate a potential deficit significantly above the one percent threshold for imposing (maintaining) a Control Period, on both a budgetary basis and a GAAP Basis.

The County's projections in the Update are composed of several offsetting variances in revenues and expenditures.

The County's major projected unfavorable variances include:

- $27 million in increased salaries and wages primarily due to costs associated with unbudgeted overtime and new labor agreements, including COBA;
- $19 million in unbudgeted overtime costs, including $15 million for police;
- $17.0 million in sales tax revenue shortfalls;
- $15.6 million in lower State and Federal reimbursements associated with reduced spending on social service costs and the elimination of funding for certain services provided by the Correctional Center and Sheriff's Department; and
- $4.3 million in higher contractual expenditures primarily due to vendor costs associated with the implementation of the speed camera initiative.

The County's major projected favorable variances include:

- $18.6 million in higher revenue from fines due to the planned implementation of the speed camera initiative;
- $14.1 million in higher Rents and Recoveries primarily due to the recovery of prior year appropriations of unused Foster Care expenses;
- $10.7 million in lower debt service costs due to delayed and reduced borrowings, as well as lower interest rates;
- $9.9 million in net reductions in social service and Medicaid expenditures, which have been driven down by lower than anticipated caseloads and Medicaid cap relief enacted in the State budget;
- $6.5 million in lower fringe benefits costs primarily due to smaller than anticipated increases in health insurance premiums;

- $2.0 million in reduced appropriations for contingency reserves to fund police overtime; and
- $1.0 million in reduced expenditures for the Local Government Assistance Program due to projected shortfalls in sales tax collections.

In contrast, our analysis indicates that the major projected risks are larger than the offsets projected by the County. The differences include:

- $65.0 million in unbudgeted tax certiorari refunds in FY 2014 (which does not include any reduction in the certiorari backlog of over $300 million);
- $51.0 million in sales tax revenue shortfalls ($34 million larger than the Update, but acknowledged in the County's Subsequent Estimate);
- $43.2 million in higher salaries and wages primarily due to costs associated with unbudgeted overtime and termination payments, and new labor agreements, including COBA ($18.8 million more than the Update, but only $9.8 million more than the County's Subsequent Estimate);
- $20.7 million in unbudgeted overtime costs, including $17 million for police, and $11.3 million in additional police termination payments;
- $17.0 million in unbudgeted judgments and settlements;
- $9.2 million in departmental revenue shortfalls ($10.1 million larger than the Update, but only $3.7 million larger than the County's Subsequent Estimate);
- $3.1 million in lower expenditures for the Local Government Assistance Program ($2.1 million lower than the Update, but the same as the County's Subsequent Estimate);
- $4.4 million in higher spending on contractual services ($0.4 million more than the Update, but the same as the County's Subsequent Estimate); and
- $1.9 million in revenue shortfalls from fines ($20.6 million larger than the Update, but still $19.6 million larger than the County's Subsequent Estimate).

Our analysis also reflects a $12.7 million larger offset (more favorable variance) in Rents and Recoveries than the County. The Governor recently announced that the County will receive these resources from the Community Development Block Grant Disaster Recovery Program to fund Superstorm Sandy repair costs not covered by the Federal government.

Discussion of Projected Risks

NIFA's risks include the projected use of $82 million from proposed borrowings in 2014 to pay unbudgeted tax certiorari refunds ($65 million) and other judgments and settlements ($17 million). The proposed borrowings, which are required by NIFA to cease after FY 2014, need Legislative and NIFA approval. It is unclear if the County can garner the requisite support even though it now has a Legislatively approved plan that identifies a source of recurring funding for these expenses, beginning in FY 2017. Regardless, the potential GAAP Basis deficit will not be reduced if these expenses are funded with bond proceeds.

Our analysis indicates that sales tax revenue could fall at least $51 million below the FY 2014 Budget (acknowledged in the County's Subsequent Estimate), or $34 million lower than the County assumes in the Update. In fairness to the County, the entire data set used to project this unusually large variance was not available at the time of the Update; however, it must still be addressed.

To maintain the negative variance of $51 million, the County's sales tax revenue will still need to grow in the remaining months of 2014 by 3.0%, which is the average rate of growth for this period over the past four years. This would be a sharp upturn from the 7.0% decline experienced to date. If sales tax revenue remains flat (no growth compared to the same period in 2013) during the remaining months, the shortfall would reach $66 million, or $49 million larger than the amount assumed in the Update

Salaries and wages may exceed the FY 2014 Budget by $43.2 million, including almost $21 million for unbudgeted overtime (up to $17 million in the Police Department and $3.3 million in Public Works). Additional costs are projected to result from unanticipated police attrition and wage increases negotiated by the County and paid after the freeze was lifted at the beginning of May.

The Police Department currently expects significant unanticipated attrition during the rest of the year. Although the extra retirements would generate budget relief, and new police officers could be hired under new more favorable contractual terms, it is likely that the additional $11.3 million in projected termination costs would exceed the salary savings in FY 2014. While our analysis includes the additional termination costs now projected by the County, it does not reflect the County's latest proposal to bond these operating expenditures.

The $9.2 million risk in departmental revenue is driven by projected shortfalls in fees collected by the Departments of Assessment, Parks, and County Clerk. The largest variance stems from projected shortfalls in mortgage recording fees, which have exhibited considerable weakness during the first half of the year. This is consistent with reports that the number of home sales and mortgage refinancing transactions in Nassau County are down in 2014. Although these transactions have slowed, the County is hopeful that the related revenue from fees will rebound when the economy strengthens.

Expenditures for the Local Government Assistance Program are based on a percentage of the County's sales tax receipts. Consequently, we project distributions to local governments under this program to be $3.1 million lower than budgeted, which is consistent with our projection of weaker sales tax revenue.

We are concerned that revenues derived from speed camera fines may fall short of County projections. The financial success of the new program could be compromised by delays in rolling out the program or by variances in the average number of violations issued per camera. The County maintains that its estimates are conservative since they have already been significantly discounted from the levels projected by a consultant (American Traffic Solutions) it engaged to conduct speed studies earlier this year. This revenue risk would be partially mitigated by a concomitant reduction in projected fees that would be paid to the speed camera vendor, as discussed below. The County recently reported that the initial, limited rollout of speed cameras has generated significantly more violations than was assumed. The County believes that the results from the first 10 days show that its speed camera revenue targets can be achieved. We will have more clarity on the revenue potential of the speed camera program over the next several months.

Expenditures for contractual services are projected to be higher than the FY 2014 Budget primarily due to the additional costs needed to run the new school zone speed camera program and an increase in the County subsidy for the Veolia-operated bus system. We project the variance attributed to the speed camera program to be smaller than the County since the vendor's fees are based on a percentage of gross revenue realized from speed camera violations. Lower speed camera revenue translates into lower vendor fees.

Recommendation

The County should craft and immediately implement a comprehensive gap-closing plan to close likely budget variances in FY 2014. Doing so will also provide a head start on mitigating projected risks in FY 2015 and the Out-Years. The gap-closing plan should specifically identify the critical tasks that must be accomplished in the coming weeks and the important milestone dates when they must be completed. Such a "roadmap" will help obviate the need for unplanned disruptions of services, excessive increases in taxes, or bonding of operating costs.

V. THE OUT-YEAR GAPS: FY 2015 – FY 2017

The County is required to submit its FY 2015-2018 Multi-Year Plan to NIFA on September 15, 2014, which is one month from now. Even before that date, the County should craft, and begin to implement, a credible plan that is balanced on a GAAP Basis. The Update fails to accomplish this task.

THE BASELINE

In the Update, but before receiving the bad news concerning sales tax collections, the County made a number of changes to its baseline projections of revenues and expenditures in the Out-Years. The revisions, which basically offset each other, were extrapolated from the County's projections for FY 2014, which were discussed in the previous section of the report.

Overall, the County's estimates of the baseline gaps have declined since it issued the Plan. The projected gaps in the Update have decreased by $10.1 million in FY 2015, $13.4 million in FY 2016, and $11.6 million in FY 2017, as shown below.

PROJECTED BASELINE GAPS: PLAN-TO-PLAN CHANGE

($ in millions)	FY 2015	FY 2016	FY 2017
Adopted MYP	($48.7)	($62.8)	($63.5)
MYP Update	(38.6)	(49.5)	(51.9)
Change	**$10.1**	**$13.4**	**$11.6**

While the County projects a modest improvement in the projected gaps since November of 2013, our analysis indicates that the gaps are (remain) significantly understated, as shown below.

PROJECTED BASELINE GAPS: COUNTY vs. NIFA

($ in millions)	FY 2015	FY 2016	FY 2017
MYP Update	(38.6)	(49.5)	(51.9)
NIFA Estimate	($177.0)	($199.5)	($216.9)
Difference	**$138.4**	**$150.0**	**$165.0**

Major Components of Understatement

Sales tax revenue is projected to fall well short of budgeted assumptions and the County's tax certiorari refund liability continues to grow. The Nassau Health Care Corporation faces enormous fiscal challenges and we question whether the County will be able to totally extricate itself from any financial responsibility. Labor costs are projected to exceed previous estimates and overtime needs continue to thwart the County's attempts to restrain spending, although additional hiring and new work rule changes are expected to yield increasing overtime savings if they are implemented and effectively managed.

Finally, we remain cautious in our assessment of the new school zone speed camera initiative, which the County is depending on to create a sizeable revenue stream to fund increased labor costs. Although it is unclear if the average number of violations issued per camera will match the County's assumptions, it is imperative that the County adhere to its aggressive implementation schedule since this is within their control and critical to the financial success of the program.

Sales Tax

Sales tax revenue comprises more than 40% of the County's total revenue stream, which makes this an area that both the County and NIFA need to continue to monitor carefully. The County has reduced its FY 2014 sales tax forecast in the Update by $17 million (by $51 million in the County's Subsequent Estimate). Sales tax would have to grow by more than 9% during the rest of 2014, compared with the same period in 2013, in order to reach the assumptions made in the Update. This growth rate is significantly higher than the growth rate assumed by the County in the 2014 Budget and exceeds the 3.0% growth rate actually experienced for this period during the past four years.

If the remaining sales tax checks were to grow at the 3.0% historical rate, total sales tax receipts would fall approximately $51 million below budget in 2014, or $34 million below the levels assumed in the Update. We remain concerned whether the current economic environment will be robust enough to generate the necessary growth to even hit this mark. For illustrative purposes, if the remaining checks were to show no growth, the shortfall would reach $66 million. Clearly, the sales tax shortfall will be much greater than the $17 million assumed by the County in the Update.

The County assumes that the economic weakness will abate and translate into underlying sales tax growth of 4.0% in each of FY 2015, FY 2016 and FY 2017. Although we consider these growth rates to be optimistic, they are not unreasonable. Sales tax revenues grew by an average annual rate of 5.2% between 2009 and 2013. However, even if these growth rates can be achieved, future growth will be calculated off a significantly lower 2014 base than assumed by the County, thereby leading to sizeable shortfalls in sales tax revenue in each year of the Update, as shown below.

PROJECTED SALES TAX REVENUE

($ in millions)	FY 2014	FY 2015	FY 2016	FY 2017
MYP Update	$1,148.8	$1,193.2	$1,237.9	$1,287.4
NIFA Estimate	$1,114.8	$1,152.0	$1,189.3	$1,231.0
Difference	**($34.0)**	**($41.2)**	**($48.6)**	**($56.4)**

Tax Certiorari

Resolution of the certiorari problem has been seen as essential to Nassau County's return to fiscal stability. The passage of recent legislation by the State, if approved by the Governor, will provide the County the opportunity to greatly reduce its commercial certiorari liability beginning in FY 2017. However, in the meantime, the County has to deal with a tremendous backlog (currently estimated at over $300 million) and growing liability in 2014, 2015 and 2016. Absent extensive borrowing for these expenses, which has not been authorized by the County Legislature or NIFA, the County has shown very little indication of any willingness to pay for this liability, as shown below.

PROJECTED LIABILITY FOR CERTIORARI CLAIMS

($ in millions)	FY 2014	FY 2015	FY 2016	FY 2017
MYP Update	$10.0	$30.0	$30.0	$30.0
NIFA Estimate	$75.0	$75.0	$75.0	$75.0
Difference	**($65.0)**	**($45.0)**	**($45.0)**	**($45.0)**

Nassau Health Care Corporation

The financial health of the Nassau Health Care Corporation ("NHCC") and its potential impact on Nassau County has been a major concern for NIFA since its inception. Perennial operating losses and the concomitant erosion of cash balances have been difficult to counteract. It is unclear how NHCC will be able to absorb the planned elimination of the $13 million mission payment. Consequently, despite the lack of a legal requirement to continue this payment after FY 2014, we remain guarded in our assessment of this gap-closing action, as shown below. This risk goes away if the County Legislature adopts a budget which eliminates this payment; however, the County remains liable for any non-performance of NHCC servicing its own debt.

PROJECTED HISTORICAL MISSION PAYMENT

($ in millions)	FY 2014	FY 2015	FY 2016	FY 2017
MYP Update	$13.0	$0.0	$0.0	$0.0
NIFA Estimate	$13.0	$13.0	$13.0	$13.0
Difference	**$0.0**	**($13.0)**	**($13.0)**	**($13.0)**

School Zone Speed Cameras

At the request of the County, the State enacted legislation authorizing 56 speed camera zones, one per school district. The County expects to generate significant revenue from speed violations. The County amended its contract with American Traffic Solutions ("ATS"), which already existed for the red light camera program, to include the speed camera program.

The County expects the rollout to commence in July and projects net revenues of $14.2 million in FY 2014 and $30 million annually for the period 2015-2017. The County notes that these projections are conservative based on two limited speed studies conducted in the County by ATS in February and March.

We are concerned with the County's ability to timely implement the speed cameras in all locations and question the County's assumptions for the average number of violations issued per camera. Our estimates are more conservative and consistent with the County's experience with rolling out the red light camera program, as shown below.

There could be significant upside to these projections if the actual number of speed violators match the measurements made by ATS. It is unclear how quickly, and by how much, the number of speed violations will decrease as driving behaviors are modified. We will have a better idea of the potential value of this program over the next several months.

PROJECTED SCHOOL ZONE SPEED CAMERA REVENUE

($ in millions)	FY 2014	FY 2015	FY 2016	FY 2017
MYP Update	$14.2	$30.0	$30.0	$30.0
NIFA Estimate	$2.4	$6.5	$11.6	$11.6
Difference	**($11.8)**	**($23.5)**	**($18.4)**	**($18.4)**

GAP-CLOSING PROGRAM

Despite many flawed and overly optimistic assumptions that NIFA highlighted in its November 2013 Report, the County's gap-closing program remains substantially unchanged from the adopted Plan. Many of the initiatives have been included for a number of years with only moderate success and some have experienced repeated delays in various stages of implementation.

Even if all of the proposed gap-closing actions are successful, gaps of $125.3 million in FY 2015, $134.8 million in FY 2016, and $147.2 million in FY 2017 could remain if the projected risks identified by NIFA all break unfavorably against the County, as shown below.

This situation is unsettling because the major options provided by the County to close the projected gaps, which options have also not changed, are unlikely to be timely implemented or remain speculative. In general some require State legislative approval, which to date, has not been forthcoming.

What were originally considered by the County and NIFA to be merely "aggressive place-holders" in the Out-Years of the Plan have now become essential to the submission of a balanced FY 2015 Budget, which will be submitted to NIFA and the County Legislature in one month.

The need to balance the Out-Years of the Plan with recurring actions that provide continuing budgetary relief is essential. We are not convinced that, despite the County's best intentions, we should accept undocumented or vague promises of aggressive management of the FY 2014 and FY 2015 budgets. Instead, the County should be more specific when crafting new initiatives, restructuring government operations, and managing its workforce to achieve structural and GAAP Basis balance.

GAP-CLOSING PLAN

($ in millions)	FY 2015	FY 2016	FY 2017
County Projected Baseline Gap	**($38.6)**	**($49.5)**	**($51.9)**
NIFA Projected Baseline Risks	($138.4)	($150.0)	($165.0)
Combined Potential Out-Year Gaps	**($177.0)**	**($199.5)**	**($216.9)**
Expense/Revenue Actions			
Video Lottery Terminals	$19.0	$22.0	$25.0
Office Consolidation	3.0	4.0	4.0
Improve Detainee to Staff Ratio at Correctional Center	3.0	5.0	5.0
Strategic Sourcing	2.0	5.0	5.0
207c Reform	2.0	2.0	2.0
ERP Implementation	-	2.0	2.0
Improved Violation Issuance	2.0	4.0	6.0
Capital Project Closeouts	-	-	-
New Departmental Fees	-	-	-
Financing Options/Asset Sales			
Sale of Surplus County Property	5.0	5.0	5.0
NYS Actions			
Mandate Reform	10.0	10.0	10.0
LIE Surcharge	5.7	5.7	5.7
Gap Opener			
COBA Proposed Agreement* (reflected in NIFA risks)	-	-	-
Total Gap-Closing Options	**$51.7**	**$64.7**	**$69.7**
Potential Remaining Gap	**($125.3)**	**($134.8)**	**($147.2)**

The County has outlined several initiatives that it is pursuing and that it projects could generate additional revenue or reduce expenditures in the Out-Years. While these initiatives may come to fruition, there are no detailed plans of implementation for us to evaluate.

Expense/Revenue Actions

Video Lottery Terminals – On July 30, 2013 Governor Cuomo signed a law allowing Nassau County to install up to 1,000 video lottery terminals ("VLT's"). The net revenue, after distributions for education, lottery administration, marketing, and New York Racing Association initiatives, is to be used to subsidize operations at the gaming facility. Any remainder is to be remitted to Nassau County to "defray property costs."

Based on data from operating casinos, net revenue to the County is estimated to be $19 million per year after the aforementioned distributions/subsidies. However, since the County doesn't think this will be operational until the beginning of the second quarter of 2015, we believe that the County may only be able to realize up to $14 million in FY 2015.

Office Consolidation – The County claims that reductions in its workforce have provided opportunities for a reduction of office space and centralization of its staff. It is difficult to evaluate the likelihood of these savings, especially since there has been a surplus of County owned office space for several years. Savings will be highly dependent on the amount of County leased space that can be terminated.

Improve Detainee to Staff Ratio at Correctional Center – As previously described in the Plan, the County is seeking savings through a review of service levels provided to inmates, an analysis of the physical layout of the Correctional Center and a study of staff deployment.

207c Reform – As previously described in the Plan, the County will continue to partner with its third party administrator to seek ways to achieve additional savings.

ERP Implementation – The County expects the new enterprise resource planning ("ERP") system to lead to efficiencies and savings. The initiative has been underway for a long time and is expected to be complete in the fall of 2014. The initiative should result in savings; however, there have been repeated delays and any savings will be dependent on the County's ability to manage the efficiencies.

Improved Violation Issuance – The level of ticket issuances is running below historical levels. The County anticipates that new management controls, which have not been delineated, and the settlement of the wage freeze will result in an increase in ticket issuances to prior levels. It is unclear if the County can realize the year over year revenue growth reflected in the Update.

Capital Project Closeouts – The County projects that it will have a modest level of unspent capital project proceeds that it plans to use to make debt service payments in 2014. This is permissible under the local finance law; however, this action amounts to bonding an operating expense.

New Departmental Fees – The County Legislature approved a series of fee increases in June. The County expects to realize additional revenue in the Departments of Assessment, Parks, Public Works and the Traffic and Parking Violations Agency.

Financing Options/Asset Sales

Sale of Surplus County Property – Commencing in FY 2015, the County is counting on the receipt of revenue from sales of unidentified County property. While there may be immediate value from the sale of land as a gap-closing initiative, it is a one-shot cash infusion that bridges the deficit between recurring revenues and expenditures, but does nothing to address the persistent structural imbalance.

New York State Actions

Among the initiatives are two proposals that would require State approval before they could be advanced: (1) mandate reform; and (2) LIE surcharge. The County is hopeful that unspecified "mandates" can be reformed to yield $10 million in recurring savings.

The Update noted that recent audits conducted by the State Comptroller highlighted high costs and fraud within pre-school special education programs throughout the State. The County considers expenditures for these programs, as well as for public assistance and Medicaid, opportunities for cost containment initiatives to be implemented at the State level.

The County is seeking State legislation to provide reimbursement for the cost of patrolling State highways within its borders. These include the Long Island Expressway and Sunrise Highway. The County has unsuccessfully sought this type of reimbursement for several years.

CONTINGENCY PLAN

Regrettably, the Contingency Plan contained in the Update does little to help balance FY 2014 or the Out Years. The plan consists of only two broad strategies, which the County estimates could generate budgetary relief of approximately $52 million in FY 2015, $67 million in FY 2016, and $42 million in FY 2017, as shown below.

CONTINGENCY PLAN

($ in millions)	FY 2014	FY 2015	FY 2016	FY 2017
Debt Refunding and Restructuring	$1.2	$33.9	$50.4	$25.4
Bond Premium		17.8	16.4	16.4
Total Plan	**$1.2**	**$51.7**	**$66.8**	**$41.8**

The debt refunding and restructuring initiative is not spelled out in any detail, would need to clear significant legal thresholds, and may require State legislation. We are also skeptical of its fiscal wisdom even if it is legal because we believe that the desired budget relief results primarily from postponing the payment of debt rather than from borrowing at more favorable interest rates.

In regard to premiums on bonds and notes, the County already issues bonds and notes with premiums. The proposal in the Update seeks authorization to borrow extra proceeds (via premiums) for projects and use the extra borrowed money to substitute for payments normally made from operating income. Although the County maintains that the use of bond premiums in this fashion is common in other municipalities and had been a practice at the County in prior years, it remains fiscally imprudent.

We repeat our advice that the County needs a comprehensive contingency plan that lays out specific “alternative” gap-closing initiatives that can be implemented to close likely budget variances. The contingency plan should identify the critical tasks that must be accomplished and the important milestone dates when they must be completed. Such a “roadmap” will help obviate the need for unplanned disruptions of services, excessive increases in taxes, or bonding of operating costs.