Nassau County Interim Finance Authority

NIFA

REVIEW OF THE ADOPTED
MULTI-YEAR FINANCIAL PLAN
FISCAL 2009 – 2012

December 3, 2008

NASSAU COUNTY
INTERIM FINANCE AUTHORITY

DIRECTORS

Ronald A. Stack
Chair

Stanley Kreitman

Paul J. Leventhal

Gregory J. Raphael

Robert G. Smith

Christopher P. Wright

STAFF

Evan L. Cohen
Executive Director

Jane F. Cunneen
Acting Treasurer

Maria Kwiatkowski
Deputy Director

Laurie A. Leat
Corporate Secretary

Jeremy A. Wise
General Counsel

OVERVIEW

The County's Multi-Year Financial Plan is tenuous and will require vigilant oversight, deft management, and either an improving economy or significant remedial action plans should the economy deteriorate further, especially during 2009, to ensure that budgetary balance is maintained.

The changes that were made in the FY 2009 Budget during the adoption process show that the County's leaders understood the economic changes that had occurred, took NIFA's October Report seriously, were aware of the County's financial problems and were prepared to take remedial actions. In addition, the Administration conveyed to NIFA a contingency plan. That plan included additional changes that could be made, if necessary, due to revenue shortfalls or unanticipated expenditures, to ensure budgetary balance; however, the majority of the changes will require bi-partisan support from the County Legislature to implement.

Subsequent to the adoption of the FY 2009 Budget and Plan by the County Legislature, and after the submission of the Contingency Plan to NIFA, the County announced its intention to borrow $48 million to pay for certiorari judgments and settlements.[1] Last year, after NIFA approved the County's FY 2008-2011 multi-year plan, the County borrowed for certiorari judgments and settlements over the unanimous objection of the NIFA Directors. NIFA considers this borrowing practice to be one of, if not the preeminent, reason for the original fiscal crisis of the County, which led to the creation of NIFA by the State.

One of the standards that NIFA must use in approving the Plan is that the major operating funds of the County be balanced, which means that operating revenues shall equal operating expenditures. Although the County's audited financial statements treat certiorari bond proceeds as a matching revenue for certiorari expenditures, it is tantamount to bonding out operating costs in order to avoid an operating deficit. This fiscal policy makes us further question the achievability of the County's contingency plan.

The amount of certiorari borrowing used in the 2007 audited financial statements did not equal 1% of the County's budget for its major funds. Consequently, NIFA did not have to address the question of whether the proceeds of a cert borrowing should count as revenue. In 2008, the amount of borrowed cert proceeds will probably exceed 1% of the County's budget for its major operating funds, thereby requiring NIFA to make a determination unless the County can convince NIFA that the borrowed funds

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[1] The County plans to use $7 million of bond proceeds in FY 2008 (on top of $38 million remaining from the 2007 borrowing), $25 million in FY 2009, and $16 million in FY 2010.

should count as revenue. To that end, we have invited such an opinion from the County, which we will consider in making our decision about the Plan.

To maintain services and its quality of life, the County must continue to spend wisely and also find new sources of recurring revenues. Eventually, no matter how well executed, neither creative management nor use of reserves (which is not an action we favor) will be sufficient to compensate for the County's increasing shortfalls. The County needs to be nimble enough to quickly recognize and react to budgeted savings that may not materialize, unanticipated expenditures, or negative changes in its revenue stream. If any of these occur, the County must act immediately to avoid a situation that could easily spiral out of control, thereby requiring more than minor adjustments or, alternatively, leading to a budgetary shortfall which would require NIFA to enter into a Control Period.

Due to the concerns discussed in this report, if the Directors accept the County's Multi-Year Financial Plan for FY 2009-2012, we recommend that it be conditioned on the need for the County to submit an updated Plan to us no later than May 1, 2009, and as many times thereafter as warranted under the circumstances.

Because of the gravity of the fiscal situation, we are also recommending that the County submit a series of other documents that are outlined in the conclusion to this report. In addition to the items that are specifically requested, we expect to receive frequent and timely updates informing us of issues as they arise and solutions as they are crafted. Our analysis will focus on assessing whether the remedial plans include actions that are supported by real revenue sources or expense cuts.

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

BACKGROUND

On October 21, 2008 the Directors accepted a staff report ("October Report"), which contained a series of analyses and findings concerning the Proposed Multi-Year Financial Plan for Fiscal Years 2009 – 2012 (the "proposed Plan"). The October Report was subsequently transmitted to the County Executive and Legislature for consideration.

The October Report concluded that there was a significant risk that when implemented, the proposed Plan could fall out of compliance with the NIFA Act, which requires a reasonable expectation that operating revenues will match operating expenditures and the maintenance of adequate reserves. The October Report also discussed a number of risks and concerns that it recommended be carefully considered by the County Legislature and Executive.

On October 29, the Legislature approved the proposed Plan, the first year of which is the FY 2009 Budget, with certain additions and deletions. On November 3, the adopted Plan (the "Plan") was signed by the County Executive, and on November 12, delivered to NIFA for final action.

The County provided NIFA with the details of the changes to the FY 2009 Budget together with the ordinances adopting the FY 2009 Budget and Plan. The County also indicated that various other documents required by the Act would be timely provided to NIFA.

MULTI-YEAR FINANCIAL PLAN[2]
COUNTY OPERATING PROJECTIONS FOR
FISCAL YEARS 2009-2012

MAJOR FUNDS				
EXPENDITURES				
OBJECT	**2009 Adopted Budget**	**2010 Plan**	**2011 Plan**	**2012 Plan**
AA-SALARIES, WAGES & FEES	863,927,328	896,474,080	936,438,623	963,596,868
AB-FRINGE BENEFITS	407,470,578	430,848,939	458,308,752	484,624,928
AC-WORKERS COMPENSATION	16,880,193	17,304,472	17,747,846	18,211,171
BB-EQUIPMENT	4,068,887	4,119,748	4,171,245	4,223,386
CC-MATERIALS & SUPPLIES	0	0	0	0
DD-GENERAL EXPENSES	34,918,910	35,355,396	35,914,135	36,246,266
DE-CONTRACTUAL SERVICES	127,546,707	129,433,611	131,072,068	132,737,567
DF-UTILITY COSTS	41,152,772	42,297,422	43,276,864	44,285,688
DG-VAR DIRECT EXPENSES	225,000	225,000	225,000	225,000
FF-INTEREST	41,595,010	56,656,653	64,017,198	71,195,875
GA-LOCAL GOVT ASST PROGRAM	62,393,799	63,485,690	65,390,261	67,678,920
GG-PRINCIPAL	79,520,437	92,020,974	84,671,511	71,021,256
HC-NHC ASSN EXP - NASSAU HEALTH CARE ASSN	13,000,000	13,000,000	13,000,000	13,000,000
HH-INTERFD CHGS - INTERFUND CHARGES	14,506,947	14,764,624	14,618,156	16,822,777
JA-CONTINGENCIES RESERVE	0	0	0	0
LB-TRANS TO GENERAL FUND	0	0	0	0
MM-MASS TRANSPORTATION	48,565,563	49,095,198	49,824,506	50,628,987
NA-NCIFA EXPENDITURES	700,000	775,000	850,000	925,000
OO-OTHER	287,652,588	289,142,142	302,793,456	317,335,075
PP-EARLY INTERVENTION/SPECIAL EDUCATION	168,430,000	173,627,610	178,991,555	184,527,367
SS-RECIPIENT GRANTS	53,800,000	55,683,000	57,353,490	59,074,095
TT-PURCHASED SERVICES	49,700,000	51,688,000	53,626,300	55,637,286
WW-EMERGENCY VENDOR PAYMENTS	54,380,000	56,555,200	58,676,020	60,876,371
XX-MEDICAID	231,588,243	238,096,099	244,799,191	251,703,376
TOTAL	**2,602,022,962**	**2,710,648,859**	**2,815,766,177**	**2,904,577,260**
REVENUES				
OBJECT	**2009 Adopted Budget**	**2010 Plan**	**2011 Plan**	**2012 Plan**
AA-FUND BALANCE	10,000,000	0	0	0
BA-INT PENALTY ON TAX	22,500,000	22,500,000	22,500,000	22,500,000
BC-PERMITS & LICENSES	12,430,247	12,430,247	12,430,247	12,430,247
BD-FINES & FORFEITS	27,348,435	27,348,435	27,348,435	27,348,435
BE-INVEST INCOME	18,309,650	25,596,262	32,904,094	40,235,559
BF-RENTS & RECOVERIES	46,836,554	31,886,554	31,886,554	31,886,554
BG-REVENUE OFFSET TO EXPENSE	11,873,105	11,873,105	11,873,105	11,873,105
BH-DEPT REVENUES	106,782,732	106,384,732	106,384,732	106,384,732
BI-CAP BACKCHARGES	12,047,920	11,997,789	12,077,197	12,499,899
BO-PAY LIEU TAX - PAYMENT IN LIEU OF TAXES	6,130,000	6,130,000	6,130,000	6,130,000
BQ-D/S FROM CAP - DEBT SERVICE FROM CAPITAL	16,962,751	17,041,722	15,813,663	15,579,510
BS-OTB PROFITS	1,990,000	2,040,000	2,090,000	2,140,000
BW-INTERFD CHGS - INTERFUND CHARGES REVENUE	81,258,238	75,619,317	78,101,675	78,810,955
FA-FEDERAL AID - REIMBURSEMENT OF EXPENSES	119,325,281	121,998,521	124,774,908	127,568,379
IF-INTERFD TSFS - INTERFUND TRANSFERS	0	0	0	0
SA-STATE AID - REIMBURSEMENT OF EXPENSES	230,340,743	235,475,341	240,689,755	245,997,264
TA-SALES TAX CO - SALES TAX COUNTYWIDE	974,155,439	991,203,159	1,020,939,254	1,056,672,128
TB-PART COUNTY - SALES TAX PART COUNTY	63,623,274	64,736,681	66,678,782	69,012,539
TL-PROPERTY TAX	806,073,849	806,073,849	806,073,849	806,073,849
TO-OTB 5% TAX	6,300,000	6,300,000	6,300,000	6,300,000
TX-SPECIAL TAXS - SPECIAL TAXES	27,734,745	27,734,745	27,734,745	27,734,745
TOTAL	**2,602,022,962**	**2,604,370,459**	**2,652,730,994**	**2,707,177,899**
SURPLUS/(DEFICIT)	**0**	**(106,278,400)**	**(163,035,183)**	**(197,399,360)**

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[2] The County submitted a revised plan that reflects the proposed use of borrowed funds to pay certiorari judgments and settlements in the amount of $25 million in FY 2009 and $16 million in FY 2010.

CHANGES TO MULTI-YEAR FINANCIAL PLAN FOR FISCAL YEARS 2009-2012
ADOPTED PLAN COMPARED TO PROPOSED PLAN

MAJOR FUNDS				
EXPENDITURES				
OBJECT	2009 Adopted Budget	2010 Plan	2011 Plan	2012 Plan
AA-SALARIES, WAGES & FEES	(17,532,496)	(15,899,264)	(17,357,232)	(19,108,225)
AB-FRINGE BENEFITS	(253,589)	(47,531)	(39,376)	(30,280)
AC-WORKERS COMPENSATION	0	(335,511)	(683,747)	(1,051,935)
BB-EQUIPMENT	(29,700)	(30,071)	(30,447)	(30,828)
CC-MATERIALS & SUPPLIES	0	0	0	0
DD-GENERAL EXPENSES	(1,107,461)	(766,929)	(1,130,891)	(790,652)
DE-CONTRACTUAL SERVICES	(2,997,485)	(1,661,059)	(2,029,328)	(3,313,604)
DF-UTILITY COSTS	(300,000)	(300,000)	(300,000)	(300,000)
DG-VAR DIRECT EXPENSES	0	0	0	0
FF-INTEREST	0	0	0	0
GA-LOCAL GOVT ASST PROGRAM	(1,000,446)	(1,772,882)	(2,108,611)	(2,138,663)
GG-PRINCIPAL	0	0	0	0
HC-NHC ASSN EXP - NASSAU HEALTH CARE ASSN	0	0	0	0
HH-INTERFD CHGS - INTERFUND CHARGES	(565,000)	(565,000)	(565,000)	(565,000)
JA-CONTINGENCIES RESERVE	0	0	0	0
LB-TRANS TO GENERAL FUND	0	0	0	0
MM-MASS TRANSPORTATION	0	0	0	0
NA-NCIFA EXPENDITURES	(700,000)	(700,000)	(700,000)	(700,000)
OO-OTHER	2,879,290	490,121	1,033,383	1,595,668
PP-EARLY INTERVENTION/SPECIAL EDUCATION	0	40,000	81,600	124,864
SS-RECIPIENT GRANTS	0	0	0	0
TT-PURCHASED SERVICES	0	0	0	0
WW-EMERGENCY VENDOR PAYMENTS	0	0	0	0
XX-MEDICAID	0	0	0	0
TOTAL	**(21,606,887)**	**(21,548,127)**	**(23,829,649)**	**(26,308,655)**
REVENUES				
OBJECT	2009 Adopted Budget	2010 Plan	2011 Plan	2012 Plan
AA-FUND BALANCE	0	0	0	0
BA-INT PENALTY ON TAX	0	0	0	0
BC-PERMITS & LICENSES	78,000	78,000	78,000	78,000
BD-FINES & FORFEITS	1,200,000	1,200,000	1,200,000	1,200,000
BE-INVEST INCOME	0	75,000	168,375	282,215
BF-RENTS & RECOVERIES	1,913,884	3,238,884	3,063,884	2,888,884
BG-REVENUE OFFSET TO EXPENSE	0	0	0	0
BH-DEPT REVENUES	510,000	612,000	612,000	612,000
BI-CAP BACKCHARGES	0	11,515	11,918	12,335
BO-PAY LIEU TAX - PAYMENT IN LIEU OF TAXES	0	0	0	0
BQ-D/S FROM CAP - DEBT SERVICE FROM CAPITAL	0	0	0	0
BS-OTB PROFITS	0	0	0	0
BW-INTERFD CHGS - INTERFUND CHARGES REVENUE	(12,565,000)	(565,000)	(565,000)	(565,000)
FA-FEDERAL AID - REIMBURSEMENT OF EXPENSES	10,000	10,275	10,558	10,848
IF-INTERFD TSFS - INTERFUND TRANSFERS	0	0	0	0
SA-STATE AID - REIMBURSEMENT OF EXPENSES	5,000	12,751	(80,897)	(179,232)
TA-SALES TAX CO - SALES TAX COUNTYWIDE	(15,939,315)	(28,594,437)	(34,551,259)	(35,760,553)
TB-PART COUNTY - SALES TAX PART COUNTY	(1,017,403)	(1,843,216)	(2,231,412)	(2,309,511)
TL-PROPERTY TAX	4,197,947	4,197,947	4,197,947	4,197,947
TO-OTB 5% TAX	0	(50,000)	(100,000)	(150,000)
TX-SPECIAL TAXS - SPECIAL TAXES	0	0	0	0
TOTAL	**(21,606,887)**	**(21,616,281)**	**(28,185,886)**	**(29,682,067)**
SURPLUS/(DEFICIT)	**0**	**(68,154)**	**(4,356,238)**	**(3,373,412)**

ANALYSIS

We have reviewed the County's Plan and note that the County did not address – or fully or adequately address - many of the issues raised in our October Report. Consequently, we reiterate the same concerns.

The Plan still contains a number of significant risks that will need to be aggressively managed to ensure FY 2009 year-end balance and throughout the Plan. As shown below, we identified $125.3 million in net risks in our October Report. Subsequent actions taken by the County Legislature during the adoption process have potentially reduced the level of net risk contained in the FY 2009 Budget to $53.4 million.

RISKS AND OFFSETS TO THE FY 2009 BUDGET ($ in millions)		
	Proposed	**Adopted**
Property tax increase	$34.4	$-
Sales tax	28.0	12.0
Projected FY 2008 surplus (used for pensions)	23.0	11.0
State actions	19.9	19.9
Public safety overtime	15.0	15.0
Police termination reserve	11.0	-
Labor concessions	6.0	6.0
Additional labor concessions	-	6.0
Workers' Compensation	4.5	4.5
Consolidation savings	4.5	-
Smart government initiatives (SGIs)	2.5	2.5
Other overtime	-	1.0
Subtotal	**$148.8**	**$77.9**
Less:		
Contingency reserve	(13.5)	(13.5)
Potential vacancy savings	(10.0)	(10.0)
Miscellaneous budget	-	(1.0)
Total	**$125.3**	**$53.4**

Except for the sales tax and 2008 budget surplus projections, the risks identified by NIFA and outlined in the foregoing table arose for reasons unrelated to the economic collapse. Nonetheless, the unstable economy is continuing to threaten all levels of government and remains a formidable threat moving forward. Economists may debate how deep and protracted the downturn will be, but many believe that it will be worse than predicted and worse than its present state.

NIFA has identified, but not quantified, a number of other risks that could threaten budgetary balance in FY 2009.[3] For example, as discussed in our October Report, we question if the County can achieve certain departmental revenue targets in light of the weakening economy and housing market. Furthermore, even if the departments can initially meet their revenue targets – e.g., advertising, concession, and other user fee based revenue in the Parks Department; mortgage recording fees in the County Clerk's Office; and ambulance billing revenue in the Police Department – they may be difficult to sustain.

Likewise, the State is working to close its own projected deficit and is examining a wide array of initiatives that could reduce State reimbursement for a range of programs and services provided by the County. The State has not acted on any of the initiatives, but the magnitude of the State's projected deficit will likely require State budgetary changes that negatively impact the County.

NIFA also remains concerned about the fiscal condition of the Nassau Health Care Corporation ("NHCC"). Additional support for NHCC is not mentioned or accounted for in the Plan, even though NHCC continues to have serious financial problems that have the potential to negatively impact County finances in FY 2009 and beyond. Furthermore, while the State Legislature has not agreed to the Governor's proposed gap-closing initiatives, the State's final recovery plan will likely include cuts to healthcare programs, including Medicaid reimbursement for hospitals and nursing homes. NHCC, which is already in a precarious financial position, has estimated the proposed cuts could impact its revenues by more than $16 million through March 2010.

The Plan also continues to include questionable initiatives and optimistic assumptions in the Out-Years. For example, our analysis indicates that the County has likely understated its Out-Year pension liability, beginning in FY 2011. The current economic crisis and associated stock and capital market downturn has negatively impacted the investment performance of the New York State Common Retirement Fund ("CRF"). The CRF provides pension benefits to members of the Employees' Retirement System and the Police and Fire Retirement System. Investment shortfalls are compensated for by future increases in the employer's annual contribution rates. While contribution rates have been established for FY 2009 and FY 2010, absent a rapid stock market turnaround, pension costs are likely to rise significantly beginning in FY 2011.

Additionally, the County continues to budget new revenues from future legislative initiatives, at both the State and local level, most of which appear to have little support.[4] These questionable initiatives, combined with the rapid depletion of reserves, makes the

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[3] The Legislature also assumed changes in NIFA's costs which by State statute are not determined by the County and thus should not have been included in the County's calculations.

[4] The State Senate passed Bill S4296, which authorizes the County to establish a demonstration program to monitor compliance with traffic control indications ("Red Light Cameras"). The Assembly has not yet passed corresponding legislation.

identification of alternative savings more critical than in past years when the County had a greater margin for error in its operations.

Contingency Plan

At its meeting on October 21, 2008, NIFA asked the County to submit a contingency plan at the same time it submitted the Plan to NIFA for review and approval. It was expected that the contingency plan would contain, and describe in requisite detail, initiatives that could be implemented on short notice to mitigate negative variances during FY 2009. In response, the County submitted the following contingency plan, totaling $77.5 million.

CONTINGENCY PLAN FOR FY 2009 ($ in millions)	
Layoff Plan	$20.0
Discretionary Programs	7.5
Energy Tax	45.0
Health Insurance Rate Reduction	5.0
Total	**$77.5**

We are concerned that even if the County's estimates are correct and could be fully implemented, only $27.5 million of the $77.5 million could be unilaterally implemented by the Administration and would take considerable time and planning. The energy tax requires County Legislative approval and the health insurance rate reduction requires State action.[5]

Furthermore, we assume that the $27.5 million in savings projected to be realized from employee layoffs and cuts to discretionary programs will impact County services. However, the contingency plan does not articulate which services will be scaled back, trigger events, or a proposed timetable for implementation, all of which call into question the ability to achieve such savings entirely within 2009.

In our opinion, a full and complete contingency plan should delineate both the major actions to be taken as well as the milestone dates by which they must be completed to effectuate the projected savings. For example, a decision to implement a new tax on home heating fuel, which would require County Legislative approval, might yield considerably less revenue in FY 2009 if enacted after the heating season has ended, and is also subject to variability as oil and gas prices continue, on their present path, to go down. This level of detail has not been provided.

[5] We have been informed that the County may realize budgetary relief from increases in its FY 2009 health insurance premiums that are lower than assumed. However, the rates, which are established by the New York State Department of Civil Service, have not been finalized.

Civil Service rules and contractual provisions that dictate employee seniority and bumping rights also add significant complexity to the calculation of potential savings from a County layoff initiative. These issues, which can be operationally disruptive, take time to implement, and savings are typically realized from the lowest paid workers. The County must also be mindful of savings from headcount reductions that may be partially offset by reductions in reimbursable aid for certain titles.

LEGISLATIVE CHANGES

The County Legislature made a number of changes to the proposed Budget which, in aggregate, resulted in the FY 2009 Budget being reduced by $21.6 million. The changes are shown below.

Expenditures		Revenues	
Reductions			
Potential Attrition Savings	($ 7.5)	Sales Tax – Countywide	($16.0)
Desired Salary Givebacks	(6.0)	Sales Tax – Part County	(1.0)
Other Salary Savings	(4.0)	Use of Pension Reserve	(12.0)
Contractual Services	(3.0)		
General Expenses	(1.1)		
Local Government Assistance	(1.0)		
Other (net)	(1.9)		
Increases			
Miscellaneous Budget	$2.9	Increase Property Tax Levy	$4.2
		Rents and Recoveries	1.9
		TPVA Scofflaw Collection Fee	1.2
		Other (net)	0.1
Total	**($21.6)**		**($21.6)**

Gap Opening Changes

The County Legislature adopted a number of changes that serve to make FY 2009 – FY 2011 more conservative than what was assumed in the proposed Plan. For example, the Plan scales back the County's projected sales tax growth rate assumption in FY 2009 from 2.1% to 0.5%, lowering anticipated Countywide sales tax revenues by $16 million.[6] The Out-Year growth rates have also been modestly revised downward in FY 2010 and FY 2011, resulting in less projected sales tax revenue as shown below.

	FY 2009	FY 2010	FY 2011	FY 2012
Proposed Assumption	2.10%	3.00%	3.50%	3.50%
Adopted Assumption	0.50%	1.75%	3.00%	3.50%
Budgetary Impact	$15.9 million	$28.6 million	$34.6 million	$35.8 million

6 The revised sales tax forecast also results in the loss of $1 million in "Part County" collections, which represent taxes collected by restaurants and hotels in the Towns of Hempstead, Oyster Bay, North Hempstead, and the Cities of Glen Cove and Long Beach. There is an offsetting $1 million decrease in appropriations earmarked for local government assistance.

While the County's sales tax growth rate assumptions are more conservative than originally proposed, we remain concerned that the worsening economic environment may result in sales tax revenue falling short of these revised targets, perhaps even being lower in 2009 than in 2008. Flat sales tax collections during the remainder of 2008 coupled with no growth in 2009 could result in a shortfall of approximately $12 million, and for each additional one percentage point decline in sales tax revenue, there would be an additional loss of $10 million.

The Plan also reflects the County's $12 million downward revision to its estimated FY 2008 year-end surplus, which it currently projects at $11 million. These surplus resources are earmarked to partially fund the County's FY 2009 pension obligation. To the extent that the County's FY 2008 surplus is less than $11 million, there will be a corresponding budgetary hole created in FY 2009, an event that will be known at the outset of the year and which will require immediate remedial action.

Gap Closing Changes

In response to weaker sales tax revenue forecasts and the County's downwardly revised projection of available surplus rolling from FY 2008 into FY 2009, the Legislature maintained projected budgetary balance by proposing certain cuts in expenditures and increases in revenues.

<u>Revenue Increases</u>

The Legislature approved an additional $4.2 million increase in the Major Funds property tax levy. When combined with the increase already included in the proposed Plan – including an increase in the County's sewer assessment – the adopted Budget raises the FY 2009 property tax levy by $38.8 million, or 4.4% above the FY 2008 levy. The Legislature maintains that the additional increase approximates the estimated value of new construction that has occurred and can be captured without affecting the amount of County property tax paid by existing property owners.

The Plan also calls for $1.2 million in increased revenue in the Traffic and Parking Violations Agency ("TPVA") from the imposition of a scofflaw collection fee for unpaid tickets.

Finally, while we question the receipt of $1.9 million in additional Rents and Recovery revenue, we believe that the additional appropriation of $2.9 million in the Miscellaneous Budget may not be needed. Consequently, we have included the $1 million net difference as a potential offset to our assessment of risk.

<u>Expenditure Reductions</u>

The Legislature projects that the County will achieve approximately $7.5 million in savings through attrition, which means that positions that become vacant due to retirement, resignation or other forms of separation will not be filled. While we have not included this initiative in our table of risks, we do question the degree to which this amount is fully achievable or even reliably calculable for budgetary purposes. Attrition savings can be difficult to predict under normal economic conditions; however, under the current economic environment, the actual level of attrition may be reduced as employees' choices may be more limited regarding retirement or alternative career opportunities. Additionally, savings may be partially offset since attrition occurs randomly across departments, and vacancies in critical positions may require backfilling and a loss in State and Federal aid for certain reimbursable titles. Furthermore, although savings through attrition may be preferable to employee layoffs, it is unclear how the reduced workforce will affect operations and the delivery of services since the County has not identified specific programs that will be proportionally scaled back or eliminated.

The Legislature proposed $6 million in salary savings which it anticipates could be achieved by requiring a 1% salary "give-back" from the County's unionized workforce. All but two of the County's unions have multi-year contracts in place; therefore, we question the likelihood of realizing this savings target. The CSEA and SOA contracts are still outstanding and arbitration is ongoing; however, the Plan already includes $24.4 million in combined labor concessions from these unions in FY 2009. Consequently, we feel that the entire "give-back" is at risk.

The Plan includes $4 million in other salary savings from cuts to School Crossing Guard work schedules and extends a wage freeze to certain additional ordinance employees.

Contractual services have been reduced by $3.3 million. While we do not debate that the County has the ability to reduce and/or eliminate the budgeted amount needed for outside vendors and service providers, the impact on County services is unclear, especially since operations hardest hit by this reduction appear to be in the Health and Human Services and Public Safety verticals.

CONCLUSION

Notwithstanding our concerns, if the Directors accept the County's Multi-Year Financial Plan for FY 2009-2012, we recommend that it be conditioned on the need for the County to submit a revised Plan no later than May 1, 2009, and to provide additional and ongoing reporting to NIFA as outlined below.

We are concerned that, despite aggressive management of the FY 2009 Budget, recurring expenditures will continue to outpace recurring revenues. This imbalance would be further exacerbated should FY 2008 results be worse than anticipated. Consequently, we recommend that the Directors require the County to submit the following information monthly to the NIFA Directors in relation to the FY 2009 Budget:

- A report that follows the same format as the "Monthly County Budget Report," last submitted to NIFA on August 4, 2008 for the period ending June 30, 2008.
- A report of sales tax collections, together with a projection of year end results and the justification for the projection.
- A report showing, by department, funded positions, filled positions, separations, transfers in/out, and new hires.
- A copy of the County's proposed State legislative agenda, with sponsor and bill numbers, and committee assignments, for each gap-closing initiative that requires implementation during FY 2009 and FY 2010, together with monthly updates.
- An accounting of certiorari payment activity, showing the outstanding unpaid balance at the start of the 2008, payments made during 2008 and 2009 and the gross number of claims added, together with the estimated County liability. This accounting should identify the amount paid from bond proceeds.
- A status report of union negotiations.

NIFA Directors should also continue to meet regularly with County officials to review sales tax collections and operating results. This information will help evaluate the reasonableness of various assumptions contained in the Plan and assure a continuing dialogue on issues as they arise.