MEMORANDUM

TO: NIFA Directors

FROM: Richard Luke

RE: Review of Adopted Financial Plan

DATE: November 8, 2004

Introduction

On October 5, 2004 the Directors unanimously accepted the proposed Multi – Year Financial Plan for Fiscal Years 2005 - 2008 (the "Plan") submitted to NIFA by the County Executive and authorized the distribution of a staff report concerning the Plan. At that time the Directors also required that upon approval of the Plan and Fiscal Year 2005 Budget by the Legislature, the County Executive resubmit them to NIFA together with the other information required by the NIFA Act ("Act"). The Directors also required that the County Executive submit an updated Plan to the Directors no later than June 1, 2005.

In a letter dated, November 5, 2004 the County provided NIFA with details of the changes to the FY 2005 budget, along with the ordinances adopting the budget and Plan. The letter also indicated that, preferably within 30 days, they would provide us with a modified financial plan based upon the changes to the FY 2005 budget, the quarterly spending and revenue plan by department, and the cash flow projections. We have reviewed this submission and based upon the factors discussed below, we recommend that you take the final actions and make the necessary findings required by the Act to approve the Plan. The comments contained in this Memorandum need to be read in conjunction with our October 5, 2004 report.

Legislative Changes

On October 25, 2004 the County Legislature took action to modify the proposed FY 2005 budget, the first year of the Plan. The budget was unanimously approved (19 – 0). The changes to the budget satisfy the majority of the risks identified in our October 5th report. The risk remains however, that the Governmental Accounting Standards Board (GASB) will require that local governments accrue pension costs to the year that salaries are earned. The Legislature added costs of approximately $7.1 million that were funded through reduced estimates of debt service costs, and increased estimates of federal and state aid. The Legislature approved the Plan along party lines, 10 – 9, even though some of the changes to the adopted budget have out year impacts, and the out year gaps in the proposed financial plan were understated by $11 million in FY 2007, and $22 million in 2008.

The following tables present the major expenditure and revenue changes made by the Legislature to the FY 2005 budget. The net effect is to increase the budget by approximately $1.9 million, exclusive of interfund charges and revenues.

Major Changes from Proposed Budget to Adopted Budget

	Expenditure Changes	Amount (in millions)	
	Fund CSEA grievance – salary and fringe benefits	$3.4	
	Staffing increases – salary and fringe benefits	1.7	
	Increased Legislative appropriations	1.1	
	Program increases- senior citizens and youth programs	0.9	
	Debt service savings	(5.2)	
	Total expenditure changes	$1.9	

	Revenue Changes	Amount (in millions)	
	State aid reductions (PINS and Foster Care)	$ (3.8)	
	Increase indirect cost reimbursement –Federal and State aid	5.7	
	Total revenue changes	$1.9	

The Legislature did not make any changes to deal with the possibility that the GASB would require that local governments accrue pension costs to the year that salaries are earned. Since there is still uncertainty about how this issue will ultimately be resolved, we recognize why the Legislature did not make any changes for this potential issue.

We also wish to comment upon the following changes that the Legislature made to the FY 05 budget:

- Fleet Management - The County had originally proposed to create a Fleet Management function that would centralize vehicle maintenance. The Legislature returned these costs, approximately $15 million, back to the departments that originally performed these functions. These changes have no net affect upon the budget.
- Assessment Staffing - The Legislature added $1,600,000 in salary costs to allow the Department of Assessment to do future annual updates of the assessment roll without outside assistance. In order to fund these costs, the Legislature transferred $1,600,000 from the Department's contractual services budget. This transfer will have an impact upon the out-years of the financial plan. We were told that the out-years of the plan did not contain costs to fund outside assistance.

Staff Recommendation

Based upon the Legislative changes that have been made and our analysis of the key areas described above, we recommend that the Directors approve the adopted Financial Plan, contingent upon receipt within 30 days of a modified financial plan that is consistent with the modifications made to the FY2005 budget. This submission is in addition to the NIFA Directors' request for an updated financial plan no later than June 1, 2005. The County has indicated that the June 1, 2005 update will also make adjustments for the understatement of pension costs of $11 million in FY 2007 and $22 million in FY 2008.

We continue to have concerns about the external risks identified in our October 5, 2004 report particularly as it relates to the long-term financial viability of the Nassau Health Care Corporation, the level of future certiorari claims, and the possibility that GASB will require that local governments accrue pension costs in the year that salaries are earned. Should GASB reach such a decision, the County will have to address the impact of the GASB decision on the financial plan. NIFA has also expressed the concern that it is fiscally imprudent for the County to borrow, or amortize through the State Comptroller, to pay for certain pension costs, since these costs are regular recurring operating expenses. The County Comptroller has also expressed similar concerns about borrowing to pay for operating expenses. NIFA will continue to closely monitor these issues.

The County has clearly made significant progress in addressing its fiscal ills. NIFA is prepared to continue to work with the County to address the various challenges and to try and accelerate out-year initiatives as a way to reduce, to the extent possible, future tax increases.