

**MEMORANDUM**

**TO:** NIFA Directors  
**FROM:** Richard L. Luke  
**RE:** Review of Adopted FY 07 – FY 10 Financial Plan  
**DATE:** November 3, 2006

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**Introduction**

On October 17, 2006 the Directors voted to reserve judgment on the County Executive's Proposed Multi-Year Financial Plan for Fiscal Years 2007 – 2010 (the "proposed Plan") until the proposed Plan was adopted and any changes made by the Legislature could be assessed. This action was necessary because the proposed Plan contained a number of risks and concerns, particularly as it related to FY 08 – FY 10 or the Out-Years. Consistent with the NIFA Act ("Act"), the County Executive submitted the Adopted Financial Plan ("Plan") to NIFA after its final enactment on October 26, 2006.

The County provided NIFA with the details of the changes to the FY 2007 budget ("2007 Budget"), along with the ordinances adopting the 2007 Budget and Plan and indicated that various other documents required by the Act would be provided to NIFA within 30 days. We have reviewed the County's submissions and based upon the factors discussed below, we remain concerned about the Plan, since no changes were made to address the concerns raised in our report.

The Legislature did not make any significant improvements or modifications to the Plan; therefore, it still contains a number of risks that will need to be aggressively managed to ensure year end balance. In addition, the Out-Years remain more risky than previous years, because of less conservative assumptions and a gap closing program that contains proposed revenue increases for which there appears to be little legislative support.

Notwithstanding our concerns, we are recommending that the Plan be accepted by the Board. However, we are also recommending that the County submit a revised Plan no later than April 1, 2007, and provide additional and ongoing reporting to NIFA.

The comments contained in this Memorandum need to be read in conjunction with our October 17, 2006 report which sets forth our concerns and identifies a number of risks.

**Legislative Changes**

The Legislature made several changes to the FY 2007 Budget; however, the Out-Years of the Plan remain unchanged. The net affect of these changes is that the 2007 Budget remains balanced. The changes to the 2007 Budget include:

- Program Additions

The 2007 Budget adds some new programs and restores other programs with a total value of approximately \$4.1 million, including additional funds for: Youth Board - \$1 million; Behavioral Services, including Mental Health and Drug and Alcohol - \$1 million; LI Bus study - \$0.3 million; Legal Services - \$0.3 million; and Social Services - \$0.2 million. The cost of these new programs was funded by targeted reductions in equipment and general expenses in the amount of \$3.4 million and a non-recurring revenue increase of \$0.4 million. The most significant change is a \$2 million reduction of the amount that is budgeted to pay the Town of North Hempstead for the transfer of certain park and road responsibilities. This change is consistent with the agreement to pay the Town of North Hempstead \$3 million, in \$1 million installments over three years.

- Increased Reserves

The contingency reserve was increased by \$8 million. This was accomplished by reducing projected fringe benefit costs because of a lower assumed rate for health insurance contributions. Since final insurance rates have not been established, the County needs to closely monitor this expense and make appropriate adjustments should they be higher than budgeted.

- Shifted Indirect Costs

Indirect costs were shifted between a number of funds and departments. These cost shifts are neutral, leaving the total tax levy the same, however, the changes do shift taxes between several funds. The \$3.7 million reduction in the General Fund levy was offset by increased tax levies of \$1.9 million in the Police District, and \$1.8 million in the Police Headquarters.

- Re-established the Fire Fund

The Legislature also re-established the Fire Fund which was consolidated with the General Fund in the proposed Plan. This change has no net impact upon the 2007 Budget or Plan, however, it does transfer \$15.7 million of the General Fund tax levy to the Fire Fund.

## Conclusion

We recommend that the Plan be accepted by NIFA, conditioned on the need for the County to submit a revised Plan no later than April 1, 2007 with more conservative and realistic assumptions. In addition, we remain concerned whether the County can aggressively manage the 2007 Budget to ensure that a deficit does not occur. Therefore, we are also recommending that the County submit the following information to the NIFA Directors in relation to the 2007 Budget:

- A report of sales tax collections, along with a projection of year end results and the justification for the projection. This report should be submitted monthly starting on March 15, 2007.
- A report showing, by department, funded positions, filled positions, separations, transfers in/out, and new hires. This report should be submitted monthly starting on January 15, 2007.

- A contingency plan for a reasonable reserve comprised of realistic actions to be implemented assuming revenues fall short, expenditures increase or projected savings do not materialize. This contingency plan should be submitted no later than January 15, 2007.
- A copy of the County's proposed State legislative agenda, with sponsor and bill numbers for each gap closing initiative that requires implementation during FY 2007 or FY 2008, together with monthly updates. This should be submitted no later than the opening of the New York State Legislature and on the 15<sup>th</sup> of each subsequent month.
- An accounting of certiorari payments made in FY 2006, showing the outstanding unpaid balance at the start of the 2006, payments made during 2006 and the gross number of claims added, together with the estimated County liability. This report should be submitted on January 15, 2007. In addition, starting February 15, 2007 the County shall provide monthly updates of 2007 certiorari activity.
- A status report of union negotiations. This report should be provided monthly starting December 15, 2006.

NIFA will also schedule a special Leaders' meeting for early March 2007 to review FY 2006 sales tax collections and the Comptroller's projection of FY 2006 operating results. This information will help evaluate the reasonableness of various assumptions contained in the Plan.