Nassau County Interim Finance Authority

NIFA

REVIEW OF THE ADOPTED MULTI-YEAR FINANCIAL PLAN FISCAL YEARS 2008 – 2011

November 8, 2007

NASSAU COUNTY
INTERIM FINANCE AUTHORITY

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OVERVIEW

We recommend that the County's Multi-Year Financial Plan be accepted by the Directors. However, we remain extremely concerned with the direction in which the County appears to be heading. Fiscal discipline and deft management are essential for the County to avoid reversing the fiscal progress that has been achieved.

The County has balanced its budgets and managed its baseline expenditures, but recurring expenditures still exceed recurring revenues. Furthermore, instead of this imbalance declining in the Out-Years of the Plan, it is increasing. Eventually, no matter how well executed, neither creative management nor use of reserves will be sufficient to compensate for this shortfall.

It has become increasingly unlikely that, in the near term, budgetary relief will be provided by increased sales tax remittances or legislative actions by the State. Consequently, unless the County chooses to reduce expenditures, the solution must come from finding new sources of revenue.

The County needs to be sensitive 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.

Other entities are also facing potential revenue shortfalls. New York City and the State have recognized this problem and have already begun to make the necessary adjustments. Furthermore, while others take comfort in the fact that other entities have a similar predicament, we do not. Nassau County was provided almost $500 million in aid and assistance by the State with the expectation, as outlined in the NIFA Act, that it would help restore Nassau County to "enduring fiscal health."

We do not believe that any branch of County government fully recognizes the increasing gravity of its situation. Indeed, the risks identified in our October 10, 2007 Report, which were subsequently echoed by the Comptroller and Office of Legislative Budget Review, were not addressed by either the Executive or County Legislature in the adopted FY 2008 Budget and Multi-Year Financial Plan. In fact, the Legislature has added modestly to the Budget proposed by the County Executive.

We are recommending that the County submit a detailed update to us by May 1, 2008, as well as a series of other documents that are outlined in the conclusion to this report. However, 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 provides both the historical context and analysis that were utilized to arrive at the preceding recommendations.

BACKGROUND

On October 10, 2007 the Directors approved a staff report ("October Report"), which contained a series of analyses and findings concerning the Proposed Multi-Year Financial Plan for Fiscal Years 2008 – 2011 (the "proposed Plan"). The October Report was subsequently transmitted to the County Executive and Legislature for consideration.

The October Report concluded that the proposed Plan was acceptable, but that it contained a number of risks and concerns that should be carefully considered by the Legislature and County Executive. On October 29, the Legislature approved the Plan with certain amendments. On November 1, the Plan was signed by the County Executive and subsequently, as required by law, delivered to NIFA for final action.

Simultaneously with the delivery of the Plan, the County provided NIFA with the details of the changes to the FY 2008 budget ("FY 2008 Budget"), along with the ordinances adopting the FY 2008 Budget and Plan. They also indicated that various other documents required by the Act would be provided to NIFA within 30 days.

ANALYSIS

We have reviewed the County's submissions and changes, which did not address 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 year end balance. As shown below, we identified $56.9 million in net risks in our October Report.

To this number we now add an additional $10 million potential sales tax revenue shortfall in FY 2008. This variance assumes that sales tax receipts continue to grow at the same diminished rate as experienced to-date. The risk became more likely upon receipt and analysis of a sales tax reconciliation check that was received on October 12, after our October Report was released. Even without this additional shortfall, the October Report called for the development of a highly specific contingency plan that could be implemented quickly in response to budget variances, should they develop.

	Estimated Risk ($ in millions)
FY 2008 Budget Risks and Offsets	
Labor concessions	$18.8
State actions	15.0
Tax certiorari – use of surplus	10.0
Smart government initiatives (SGIs)	8.5
Police termination costs	6.0
Public safety overtime	6.0
Jail subsidy	4.5
FIT reimbursement	4.1
Departmental revenue (other than SGIs)	4.0
Subtotal	**$76.9**
Less:	
Contingency Reserve	(10.0)
Potential vacancy savings	(10.0)
October Report Total	**$56.9**
Sales tax	$10.0
Revised Total	**$66.9**

The Out-Years also continue to rely on questionable initiatives and optimistic assumptions. For example, the County continues to budget new revenues from legislative initiatives, at both the State and local level, for which there appears to be little support.[1] These questionable initiatives, combined with the rapid depletion of reserves, makes the identification of alternative savings more critical than in past years when the County had a greater margin for error in its operations.

[1] 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.

LEGISLATIVE CHANGES

For the purpose of completeness, we summarize below the changes made by the County Legislature to the proposed Budget. The Legislature increased the FY 2008 Budget by $1.4 million. Projected balance is maintained due to estimated increases in: (1) State and Federal aid; and (2) other departmental revenue. These modest changes, although directionally negative, should have little effect in FY 2008 or the Out-Years of the Plan.

The changes to the FY 2008 Budget include:

Program Additions

The FY 2008 Budget provides additional funding for a number of programs with a total value of almost $3.5 million, as follows:

- Social Services - $0.9 million;
- Health - $0.7 million;
- Youth Board - $0.7 million;
- Behavioral Services - $0.3 million;
- Miscellaneous - $0.3 million;
- Comptroller - $0.2 million;
- Police Department - $0.2 million;
- Fire Commission - $0.2 million; and
- Senior Citizens - $0.1 million.

The cost of these new programs was projected to be funded primarily by:

- Reductions in projected Early Intervention Program costs - $0.8 million;
- Reductions in projected Social Services costs related to Persons in Need of Supervision -$0.9 million;
- Increases in projected State and Federal Aid - $1.1 million; and
- Increases in projected departmental revenue - $0.2 million

Shifted Costs

Certain costs were shifted between departments and funds. These cost shifts are budget neutral, leaving the total tax levy the same; however, the changes do shift taxes between funds. Specifically, the tax levy in both the General Fund and Police District Fund was reduced by $2.9 million and $139,804, respectively, but was entirely offset by a $3.1 million increase in the Police Headquarters Fund tax levy.

CONCLUSION

Notwithstanding our concerns, we recommend that the County's Multi-Year Financial Plan for FY 2008-2011 be accepted by the NIFA Directors, conditioned on the need for the County to submit a revised Plan no later than May 1, 2008, and to provide additional and ongoing reporting to NIFA as outlined below.

We are concerned that, despite aggressive management of the FY 2008 Budget, recurring expenditures will continue to outpace recurring revenues. This imbalance would be further exacerbated should FY 2007 results be worse than anticipated. Consequently, we recommend that the County submit to NIFA, by January 15, 2008, a detailed contingency plan containing specific actions, including all requisite tasks and milestones, that will be implemented should revenues fall short, expenditures increase, or projected savings not materialize during 2008.

We are also recommending that the County continue to submit the following information monthly to the NIFA Directors in relation to the FY 2008 Budget:

- 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 for each gap-closing initiative that requires implementation during FY 2008 or FY 2009, together with monthly updates.
- The County's updated plan to reduce the certiorari backlog together with an accounting of certiorari payment activity, showing the outstanding unpaid balance at the start of the 2007, payments made during 2007 and 2008 and the gross number of claims added, together with the estimated County liability.
- A status report of union negotiations.

NIFA Directors should also meet with County officials in March 2008 to review FY 2007 sales tax collections and the Comptroller's projection of FY 2007 operating results. This information will help evaluate the reasonableness of various assumptions contained in the Plan.