Nassau County Interim Finance Authority

NIFA

REVIEW OF THE ADOPTED MULTI-YEAR FINANCIAL PLAN FISCAL 2012 – 2015

December 8, 2011

NASSAU COUNTY
INTERIM FINANCE AUTHORITY

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OVERVIEW

The Directors of the Nassau County Interim Finance Authority did everything they could to avoid calling a Control Period and subsequent "Fiscal Crisis" in 2011. If conditions had improved, staff would recommend lifting the Control Period, calling an end to the Fiscal Crisis and halting the wage freeze. Unfortunately, conditions have not improved to the point where any of those actions are even remotely foreseeable. We are, however, recommending approval of the Multi-Year Plan, but subject to significant conditions.

The first condition is that County borrowings will be limited to what is absolutely necessary for a County in the midst of a fiscal crisis. Second, NIFA will demand regular, timely, and detailed written fiscal progress reports. Third, the County will need to prove that $150 million of recurring labor costs have been removed from its 2012 Budget through layoffs, furloughs or other concessions by its unions or actions by the County. Failure of the County to comply with these three conditions could result in NIFA's imposition of a new MYP on the County.

In addition, should the County realize substantial upside in revenue from any source (including, but not limited to, sales tax, intergovernmental aid or property tax receipts), the County must first reduce the amount of its borrowings. Upside in revenues will not be generally available to allow for greater spending until levels of borrowing are first addressed.

NIFA also recognizes that even with the best intentions there may be a degradation of the County's financial infrastructure. This could occur if it loses several major lawsuits or does not execute several key elements in its current MYP. We would rather hope for the best, but no one should not fool themselves into believing that the County is out of danger and in need of gap closing solutions that go beyond those already included in the MYP.

The changes that were made in the MYP after it was originally proposed by the County Executive, show that the County's leaders understood the concerns expressed in NIFA's October Report. That is a good first step, but to maintain services and its quality of life, the County must continue to spend wisely and find new sources of recurring revenues. The County also needs to be nimble enough to quickly recognize budgeted savings that may not materialize, unanticipated expenditures, or negative changes in its revenue stream.

Due to the concerns discussed in this report, if the Directors accept the County's MYP we urge them to recognize that it is merely a Plan, which will need to be adjusted and could fail. Consequently, in order to keep a close watch on the implementation of the Plan, including its possible failure, we reiterate our recommendation that it be accepted with several conditions, including the requirement that the County submit, on a timely basis, monthly detailed written progress reports, with follow-up meetings to be accommodated at the NIFA staff's request.

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 6, 2011 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 2012 – 2015 (the "Proposed Plan"). The October Report was subsequently transmitted to the County Executive and Legislature for consideration.

The October Report concluded that absent significant progress in addressing key areas of concern, the Proposed Plan would not be accepted by NIFA because of its failure to conform to the requirements of the NIFA Act. These requirements included a reasonable expectation that operating revenues would 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.

In the following weeks, the County committed to immediately impose significant recurring labor savings and make greater reductions in other non-salary expenditures. NIFA also reviewed its Act and agreed to consider allowing a full transition to GAAP balance by the last year of the Proposed Plan. Subsequently, the adopted MYP and 2012 Budget were passed by the Legislature and signed by the County Executive on November 1, 2011, notwithstanding the statutory deficits projected by the County for FY 2012, FY 2013, and FY 2014.

A detailed discussion of the MYP follows, but it is clear that two major changes have helped to mitigate its earlier risks.

The first change was NIFA's willingness to consider allowing up to $450 million in borrowing for certs, judgments and settlements, and termination expenses. Without permission to borrow and use the proceeds to fund the associated operating expenditures, these costs would have had to come out of operating income. The County acknowledges that the financing of these costs is expected to result in a statutory deficit in each year until 2015, when the County will fully fund these costs with operating revenue.

The second change was the County's willingness to impose date-certain triggers in the 2012 Budget and codify its commitment to achieve $150 million in recurring labor savings. If these saving were not voluntarily given by the unions, the County agreed to impose layoffs and/or furloughs to effectuate the requisite savings.

Finally, the County agreed that any significant revenue upside, from any source, will be used to first reduce the amount of borrowing for these items, rather than as a source of increased spending. Increased spending from these sources would only be contemplated after related borrowing levels are first reduce to zero, allowing for budget balance on a statutory accounting (GAAP) basis perhaps sooner than 2015.

ADOPTED MULTI-YEAR FINANCIAL PLAN FOR FISCAL YEARS 2012-2015

MAJOR FUNDS

EXPENDITURES

OBJECT	2012 Adopted Budget	2013 Plan	2014 Plan	2015 Plan
AA-SALARIES, WAGES & FEES	686,673,715	713,480,980	711,098,883	713,470,083
AB-FRINGE BENEFITS	481,416,054	562,229,980	541,179,714	585,174,572
AC-WORKERS COMPENSATION	30,399,332	31,280,913	32,188,059	33,121,513
BB-EQUIPMENT	1,481,429	1,527,499	1,574,904	1,623,685
DD-GENERAL EXPENSES	30,310,790	30,119,937	30,270,392	30,674,530
DE-CONTRACTUAL SERVICES	213,612,365	217,643,566	222,492,641	228,150,699
DF-UTILITY COSTS	37,624,375	37,593,018	37,881,421	38,285,576
DG-VAR DIRECT EXPENSES	5,000,000	5,000,000	5,000,000	5,000,000
FF-INTEREST	93,863,296	103,656,097	112,043,911	118,086,942
GA-LOCAL GOVT ASST PROGRAM	62,852,361	64,704,079	66,609,498	68,570,173
GG-PRINCIPAL	69,011,202	80,045,186	84,350,624	94,941,557
HC-NHC ASSN EXP - NASSAU HEALTH CARE ASSN	13,000,000	13,000,000	13,000,000	0
HH-INTERFD CHGS - INTERFUND CHARGES	19,332,746	18,184,980	25,242,167	25,499,897
MM-MASS TRANSPORTATION	42,217,100	43,177,862	44,231,337	45,384,706
NA-NCIFA EXPENDITURES	2,025,000	1,600,000	1,675,000	1,750,000
OO-OTHER	385,837,230	383,615,371	356,341,833	314,581,270
PP-EARLY INTERVENTION/SPECIAL EDUCATION	172,975,000	177,254,250	181,652,778	186,174,070
SS-RECIPIENT GRANTS	74,645,000	76,511,125	78,423,903	80,384,501
TT-PURCHASED SERVICES	57,944,683	58,813,853	60,284,200	61,188,463
WW-EMERGENCY VENDOR PAYMENTS	64,396,824	66,972,697	68,981,878	70,361,515
XX-MEDICAID	248,838,445	251,838,445	254,838,445	257,838,445
TOTAL	**2,793,456,947**	**2,938,249,838**	**2,929,361,586**	**2,960,262,196**

REVENUES

OBJECT	2012 Adopted Budget	2013 Plan	2014 Plan	2015 Plan
BA - INT PENALTY ON TAX	28,500,000	28,500,000	28,500,000	28,500,000
BC - PERMITS & LICENSES	12,029,332	12,029,332	12,029,332	12,029,332
BD - FINES & FORFEITS	51,249,708	51,249,708	51,249,708	51,249,708
BE - INVEST INCOME	3,626,400	10,626,400	17,626,400	24,626,400
BF - RENTS & RECOVERIES	16,894,401	14,894,401	14,894,401	14,894,401
BG - REVENUE OFFSET TO EXPENSE	21,984,354	21,984,354	35,484,354	42,284,354
BH - DEPT REVENUES	171,941,513	177,724,764	179,233,514	181,456,236
BI - CAP BACKCHARGES	9,887,864	10,233,939	10,592,127	10,962,852
BO	8,661,865	8,661,865	8,661,865	8,661,865
BQ - D/S FROM CAP - DEBT SERVICE FROM CAPITAL	103,138,378	86,226,711	60,239,521	2,436,000
BW - INTERFD CHGS - INTERFUND CHARGES REVENUE	74,139,205	76,899,899	87,544,250	90,552,011
FA - FEDERAL AID - REIMBURSEMENT OF EXPENSES	165,063,957	167,014,317	168,663,997	170,000,237
SA - STATE AID - REIMBURSEMENT OF EXPENSES	234,814,429	238,082,797	241,271,910	244,377,547
TA - SALES TAX CO - SALES TAX COUNTYWIDE	970,802,675	998,955,953	1,027,925,675	1,057,735,520
TB - PART COUNTY - SALES TAX PART COUNTY	85,385,709	87,861,895	90,409,890	93,031,776
TL - PROPERTY TAX	804,331,558	804,331,558	804,331,558	804,331,558
TO - OTB 5% TAX	3,229,600	2,906,433	2,615,791	2,615,791
TX - SPECIAL TAXS - SPECIAL TAXES	27,776,000	27,776,000	27,776,000	27,776,000
TOTAL	**2,793,456,947**	**2,825,960,325**	**2,869,050,293**	**2,867,521,588**
SURPLUS/(DEFICIT)	**(0)**	**(112,289,512)**	**(60,311,293)**	**(92,740,608)**

ADOPTED PLAN COMPARED TO PROPOSED PLAN

MAJOR FUNDS				
EXPENDITURES				
OBJECT	2012 Adopted Budget	2013 Plan	2014 Plan	2015 Plan
AA-SALARIES, WAGES & FEES	(61,079,246)	(77,662,300)	(119,967,934)	(163,692,028)
AB-FRINGE BENEFITS	69,201,355	74,133,811	79,427,778	85,110,429
AC-WORKERS COMPENSATION	0	(0)	0	0
BB-EQUIPMENT	(290,941)	(296,270)	(301,754)	(307,396)
DD-GENERAL EXPENSES	(3,628,156)	(3,631,746)	(3,635,439)	(3,639,241)
DE-CONTRACTUAL SERVICES	114,111,689	114,894,940	116,403,690	118,626,412
DF-UTILITY COSTS	1,611,635	1,633,767	1,668,475	1,703,877
DG-VAR DIRECT EXPENSES	0	0	0	0
FF-INTEREST	(829,500)	(426,294)	485,663	(1,025,725)
GA-LOCAL GOVT ASST PROGRAM	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
GG-PRINCIPAL	1,405,000	5,535,000	6,310,000	7,270,000
HC-NHC ASSN EXP - NASSAU HEALTH CARE ASSN	0	0	0	0
HH-INTERFD CHGS - INTERFUND CHARGES	0	0	0	0
MM-MASS TRANSPORTATION	0	0	0	0
NA-NCIFA EXPENDITURES	0	0	0	0
OO-OTHER	35,584,190	31,658,300	10,180,003	(15,317,002)
PP-EARLY INTERVENTION/SPECIAL EDUCATION	0	0	0	0
SS-RECIPIENT GRANTS	0	0	0	0
TT-PURCHASED SERVICES	0	0	0	0
WW-EMERGENCY VENDOR PAYMENTS	0	0	0	0
XX-MEDICAID	(1,100,000)	(1,100,000)	(1,100,000)	(1,100,000)
TOTAL	**153,986,026**	**143,739,207**	**88,470,481**	**26,629,326**
REVENUES				
OBJECT	2012 Adopted Budget	2013 Plan	2014 Plan	2015 Plan
BA-INT PENALTY ON TAX	0	0	0	0
BC-PERMITS & LICENSES	0	0	0	0
BD-FINES & FORFEITS	(8,055,718)	(3,055,718)	(3,055,718)	(3,055,718)
BE-INVEST INCOME	0	0	0	0
BF-RENTS & RECOVERIES	(2,250,000)	(2,250,000)	(2,250,000)	(2,250,000)
BG-REVENUE OFFSET TO EXPENSE	0	0	13,500,000	20,300,000
BH-DEPT REVENUES	44,972,116	50,755,367	52,264,117	54,486,839
BI-CAP BACKCHARGES	0	0	0	0
BO-PAY LIEU TAX - PAYMENT IN LIEU OF TAXES	0	0	0	0
BQ-D/S FROM CAP - DEBT SERVICE FROM CAPITAL	62,138,378	65,266,711	39,599,521	(18,000,000)
BW-INTERFD CHGS - INTERFUND CHARGES REVENUE	0	0	0	0
FA-FEDERAL AID - REIMBURSEMENT OF EXPENSES	4,508,250	4,508,250	4,508,250	4,508,250
SA-STATE AID - REIMBURSEMENT OF EXPENSES	52,673,000	52,673,000	52,673,000	52,673,000
TA-SALES TAX CO - SALES TAX COUNTYWIDE	0	0	0	0
TB-PART COUNTY - SALES TAX PART COUNTY	0	0	0	0
TL-PROPERTY TAX	0	0	0	0
TO-OTB 5% TAX	0	0	0	0
TX-SPECIAL TAXS - SPECIAL TAXES	0	0	0	0
TOTAL	**153,986,026**	**167,897,610**	**157,239,170**	**108,662,372**
SURPLUS/(DEFICIT)	**(0)**	**24,158,403**	**68,768,689**	**82,033,046**

LEGISLATIVE AMENDMENTS

This section of the report discusses the major budget amendments adopted by the Legislature on October 30, 2011.

The County made a number of changes to the Proposed Budget, which in aggregate, resulted in the FY 2012 Budget being increased by $160.3 million, or $154 million when excluding interdepartmental transfers. The major changes are shown below.

Expenditures		Revenues	
Reductions			
Contractual Services	($4.7)	Restructuring Proceeds	($15.0)
General Expenses	(3.6)	Fines & Forfeitures (RLC/fines)	(8.1)
Local Government Assistance	(1.0)	Ambulance Fees	(5.2)
Medicaid	(1.1)	Sale of Police Precincts	(2.3)
Other (net)	(6.9)	Parks (advertising/cabanas)	(2.0)
		Other (net)	(2.2)
Increases			
Veolia Contract	$103.8	LI Bus (fare box/State/Federal)	$103.8
Contingency Reserve	24.3	Cert Bond Proceeds	75.0
Overtime Funding	17.1	Suffolk County/Federal Inmates	6.3
Eliminate Strategic Sourcing	15.0	Non-Cert Bond Proceeds	3.7
Cert Refunds (incr. to $75M)	5.0		
Non-Cert Judgments (incr. $25M)	4.5		
Utility Costs	1.6		
Total	**$154.0**		**$154.0**

Gap Opening Changes

The County Legislature adopted a number of amendments that make the FY 2012 Budget more conservative – less risky – than the Proposed Budget, but which in the absence of the offsetting reductions discussed below would have increased the gap. These changes include increasing appropriations for certain expenditures that were previously underfunded as well as reducing projections of certain revenues that were previously overestimated.

Expenditure Increases

The County, seeking to sever its relationship with the MTA and, instead, privatize the operation of the LI Bus, has included $103.8 million for the projected cost of operations under a proposed contract with Veolia Transportation. This is in addition to the $2.5 million County subsidy previously included for this purpose in the Proposed Budget. The contract is slated to begin January 1, 2012. Although this may be an accurate estimate of the County's cost for operating the bus system in FY 2012, we were not provided any information which supports the County's projection. It is also unclear what exposure, if any, the County may have to certain operational cost overruns, related to Federal Transit Act Section 13(c) which could obligate the County to maintain comparable wages, pensions and benefits for six years even if the system is run by a private operator. Whether or not "13C" is enforceable under these circumstances is a question that remains unanswered. The contract must be submitted to the Legislature for approval and then forwarded to NIFA for final consideration.

The Budget now prudently includes a $24.3 million contingency reserve and adds $17.1 million to cover anticipated overtime needs, mostly in the Police Department. However, as noted in "Analysis of FY 2012," our analysis indicates that overtime needs may still exceed budgeted amounts by approximately $34 million. Furthermore, as we have repeatedly stated, the County's non-budgeted reserves remain woefully inadequate to mitigate significant unanticipated events.

Although we have been informed that the County will continue its efforts to implement a strategic sourcing initiative to lower its procurement costs, the Legislature has removed the $15 million in contractual services savings previously budgeted and considered by NIFA to be at risk.

The County increased its projections of payments for tax certiorari refunds and non-certiorari judgments and settlements by $5.0 million and $4.5 million, respectively. These changes raise the budgeted estimates of these costs to $75 million for tax certs and $25 million for non-cert judgments and settlements. As discussed below, the County plans to cover these operating expenses with borrowed funds. The County has acknowledged that these actions will result in a statutory operating deficit under GAAP in each year (until the County transitions to GAAP balance in FY 2015) since the use of bond proceeds cannot be counted as operating revenue.

The County also plans to use borrowed funds to pay all termination costs resulting from layoffs that it may impose in order to realize the $150 million in budgeted labor savings in FY 2012. The County estimates that these costs, which are primarily payments to separating employees for accrued vacation and sick leave, could reach $80 million, but did not include these costs or the offsetting bond proceeds in the Budget. The County indicated that it would reflect the costs and use of bond proceeds in a future budget modification after the actual amount is determined. It is noteworthy that the County has appropriated no funds for terminations that occur in the normal course outside of the $150 million labor savings referenced above.

Finally, the County increased its appropriation for utility costs by $1.6 million in recognition of rising energy costs.

Revenue Decreases

The County removed $15 million in budgetary relief it had been seeking from a proposed "restructuring" of outstanding NIFA debt. The proposed restructuring, as contemplated by the County, was purported to provide upfront savings, but resulted in increased long term costs, as it merely sought to extend and defer payment terms on interest-bearing debt. NIFA had expressly prohibited the inclusion of these "savings" in the Budget, as they weren't actually savings at all.

The County reduced its projection of revenue from red light camera violations and other traffic fines by a combined $8.1 million and from ambulance fees by $5.2 million to more conservatively reflect current experience. NIFA noted its concerns regarding these programs in the October Report.

While the County still plans to move forward with its police consolidation initiatives, it has eliminated the $2.3 million in projected revenue it hoped to realize from the sale of certain properties after the its closure of two police precincts in 2012. The County will be in a better position to assess the value of these properties after a final determination is made on which precincts will be shuttered.

Finally, the County reduced its projection of advertising revenues and cabana fees by $2.0 million in the Department of Parks, Recreation and Museums. These revenues were previously considered by NIFA to be at risk.

Gap Closing Changes

The County Legislature adopted a number of other amendments to close the gap created by the amendments discussed above. These offsetting changes primarily involve the use of bond proceeds to pay tax certiorari refunds and non-cert judgments and settlements, but also include additional reductions in County spending.

Revenue Increases

The County included $103.8 million in revenue it projects will be realized from the operation of LI Bus. This projection includes $45.4 million in fare box revenue, $52.4 million in State reimbursement, and $6.0 million in Federal reimbursement. The projected revenues are consistent with historical collections reported by the bus system when it was operated by the MTA. The risk may be limited to public policy rather than financial if Veolia has the discretion to cut bus routes to ensure that spending is kept in line with available revenues.

The Budget reflects the County's plan to use a significant amount of bond proceeds to pay both its tax certiorari and non-certiorari judgments and settlements liability. The amendments increased the amount of budgeted proceeds to $75 million for tax cert refunds and $21.7 million for non-cert judgments and settlements. As stated above, it is noteworthy that the County has acknowledged that these actions will result in a statutory operating deficit each year until the County transitions to GAAP balance in FY 2015 since the use of bond proceeds cannot be counted as operating revenue.

The County also increased its projection of revenue in the Correctional Center by $6.3 million due to its expectation that it will house an additional 120 Suffolk County and 20 Federal inmates. The reimbursement rate is $125 per day for each Suffolk County inmate and $165 per day for each Federal inmate held at the Correctional Center.

Expenditure Reductions

The County has identified $17.3 million in savings that would be realized by means of reductions within various Other-Than-Personal-Services (OTPS) categories. A brief discussion of each follows.

Contractual services have been reduced by $4.7 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.

The reduction of $3.6 million within the category of general expenses seems feasible. A decrease in spending for travel, supplies, small equipment and other items that fall within this category are within the realm of departmental control.

The $1 million funding for Supplemental Aid to Villages under Local Government Assistance was a new funding allocation within the FY 2012 Proposed Budget. This additional assistance had not been issued to villages in the past and has been eliminated.

The County maintains that it can achieve a reduction of $1.1 million in the County share portion of Medicaid. We have not received any back-up to either support or dispute this estimate.

Finally, the County has incorporated $6.9 million in other net expenditure reductions in the FY 2012 Budget.

Proposed Borrowing Plan

As previously noted, NIFA's consideration of the County MYP was predicated on the County's agreement to phase out its borrowings for tax certiorari refunds, judgments and settlements, and termination benefits by FY 2015. The maximum amounts that NIFA will consider to allow for these purposes is shown in the following table.

County Borrowing Schedule: FY 2011 – FY 2015 ($ in millions)					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Tax Certiorari Refunds	$95.0	$85.0	$75.0	$50.0	
Judgments & Settlements	25.0	21.7	12.1	6.2	
Termination Payments	80.0				
Total	**$200.0**	**$106.7**	**$87.1**	**$56.2**	**$0.0**

These amounts are in addition to the County's borrowings for cash flow, capital, Environmental Bond Act as well as Sewer and Storm Water Authority purposes. Total debt service will be carefully monitored by NIFA as well as the detailed backup for each borrowing before NIFA approvals will be granted.

ANALYSIS OF FY 2012

We have reviewed the adopted amendments and note that the County addressed many of the issues and risks raised in our October Report. However, several risks remain, as noted below, with the largest of the remaining fiscal threats dependent upon the County's ability to implement $150 million in recurring labor savings and maintain control of its overtime expenditures.

The Plan still contains a number of significant risks that will need to be aggressively managed to ensure balance in FY 2012 and throughout the Plan. As shown below, we previously identified $282.9 million in net risks in our October Report. However, subsequent actions taken by the County Legislature during the adoption process have reduced the level of net risk contained in the FY 2012 Budget to $181.1 million, including $150 million in budgeted, but not yet attained labor savings.

The Budget and Plan include recurring labor savings of $150 million, beginning in FY 2012. The County has stated that it is prepared to realize these savings through a combination of layoffs and/or unpaid furloughs, but is hopeful that it can minimize these actions through equivalent savings from union concessions. In furtherance of this goal, the County committed itself to identifying and implementing $75 million in annualized recurring savings by December 15, 2011 and an additional $75 million in annualized recurring savings by February 1, 2012 ("Trigger Dates").

We note that these Trigger Dates were approved by the County Legislature along with a commitment to impose furloughs and/or layoffs to effectuate these savings if the union concessions are not forthcoming. The County Legislature must take further action to approve the layoffs.

We note that Civil Service rules and contractual provisions that dictate employee seniority and bumping rights add significant complexity to the County's 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.

We have also identified a new departmental revenue risk in the Correctional Center. The County now expects to realize $6.3 million in new revenue from housing additional Suffolk County and Federal inmates. The County expects to receive these funds primarily by payments from Suffolk County, which has lost waivers that it had previously received for housing its overcrowded jail population. These new revenues are subject to execution risk as the amount of revenue is dependent on actual inmate census.

Finally, the County has not provided funding for any termination payments it will make in FY 2012. While it plans to bond the costs related to any layoffs that may be required to achieve its recurring labor savings target in FY 2012, the County has been told that it cannot issue new debt to finance its liability from past years, which is estimated to be $6.5 million in FY 2012, or from prospective attrition or attrition otherwise unrelated to the current cost-cutting initiative. The satisfaction of NIFA's information requests and evaluation of the link between any termination costs and the current initiative will be NIFA's sole determination, and likely a key factor in whether or not NIFA's board will approve such borrowing when the costs are incurred and the borrowing is requested (borrowing will likely not be approved in advance of the receipt of such satisfactory analysis).

ANALYSIS OF FY 2012 BUDGET **Surplus/(Risk)** **($ in millions)**		
	Proposed Budget	**Adopted Budget**
Revenues		
Fines and Forfeitures	**($11.9)**	**($3.1)**
Red Light Camera	*(4.1)*	*1.5*
Other	*(7.8)*	*(4.6)*
Investment Income	**(1.3)**	**(1.3)**
Rents and Recoveries	**(2.4)**	**0.0**
Sale of County Land	*(2.4)*	*0.0*
Other	*0.0*	*0.0*
Department Revenues	**(14.7)**	**(10.5)**
Ambulance Fees	*(10.2)*	*(2.3)*
Advertising Fees	*(1.0)*	*0.0*
Suffolk/Federal Inmates	*0.0*	*(6.3)*
Other	*(3.5)*	*(1.9)*
OTB Revenue	**0.0**	**0.0**
Sales Tax	**(2.2)**	**0.0**
Other Revenue	**(33.0)**	**0.0**
Total Revenues	**(65.4)**	**(14.9)**
Expenditures:		
Salaries and Wages	**(131.6)**	**(190.5)**
Salaries and Wages	*(81.6)*	*(156.5)*
Overtime	*(50.0)*	*(34.0)*
Fringe Benefits	**(67.6)**	**1.6**
Contractual Services	(15.0)	0.0
Tax Certiorari Payments	**0.0**	**0.0**
Contingency Reserve	**0.0**	**24.3**
Other Expenditures	**(3.3)**	**(1.6)**
Total Expenditures	**(217.5)**	**(166.2)**
Total	**($282.9)**	**($181.1)**

ANALYSIS OF FY 2013 – FY 2015

This section of our report discusses the projected Out-Year gaps and the County's plan for ensuring balance.

Sizing the Out-Year Gaps – The County projects that baseline gaps of $112.3 million in FY 2013, $60.3 million in FY 2014, and $92.7 million in FY 2015 will remain in the Out-Years even if it can successfully implement its entire 2012 gap-closing plan, which has been fully incorporated into the FY 2012 Budget. However, NIFA's analysis indicates that the County's projections of Out-Year gaps may be understated by approximately $191 million in FY 2013, $246 million in FY 2014, and $253 million in FY 2015, if the risks we identified in FY 2012 are not satisfactorily addressed with recurring solutions which fix the baseline revenues and expenditures in a way which creates the possibility of future statutory balance.

ANALYSIS OF FY 2013 – FY 2015 **Surplus/(Risk)** **($ in millions)**			
	FY 2013	**FY 2014**	**FY 2015**
County Projected Baseline Gap:	**($112.3)**	**($60.3)**	**($92.7)**
Revenue Risks	(25.6)	(31.9)	(38.9)
Expenditure Risks	(189.5)	(238.1)	(252.8)
Contingency Reserve Offset	24.3	24.3	24.3
Net Risks:	**(190.8)**	**(245.7)**	**(252.8)**
NIFA Projected Baseline Gap:	**($303.1)**	**($306.0)**	**($345.5)**

The revenue and expenditure risks include the County maintaining its ambitious and recurring $150 million labor savings target, and aggressive assumptions for Out-Year investment income revenue and health insurance costs, but does not include a potential adverse ruling in the union's legal challenge to the NIFA imposed wage freeze. For example, we estimate that investment income may be overstated by up to $8 million in FY 2013, $15 million in FY 2014, and $22 million in FY 2015 if interest rates do not materially rise from current levels. Similarly, we estimate that health insurance costs for current employees and retirees may be understated by approximately $4 million in FY 2013, $8 million in FY 2014, and $13 million in FY 2015 if costs grow at 8.5% annually for both groups rather than the 5.9% and 8.3%, respectively, assumed by the County.

We also believe that the County may have significantly underestimated the size of its projected contributions to the retirement system in FY 2014 and FY 2015. While the County has based its Out-Year projections on the State Comptroller's long-term guidance on expected contribution rates, it did not heed the accompanying warning that "absent significant increases in the rate of return over the next two years, employer contribution rates will continue to increase while the full FYE 2009 loss is being recognized."

Consequently, if pension contribution rates do not fall as assumed by the County, we estimate that the County's pension liability could be higher than projected by $49 million in FY 2014 and $37 million in FY 2015. Actual costs will be driven largely by the investment performance of the retirement system over the next few years.

We are also concerned that the County may be compelled (politically or otherwise) to continue funding its $13 million historical mission payment to the Nassau Health Care Corporation in FY 2015 after the expiration of the "Mission Payments Contract" on December 31, 2014.

Closing the Out-Year Gaps – The County's gap closing plan repeats many of the same initiatives already proposed in earlier financial plan submissions, almost all of which contain considerable risk or require outside approval.

The Plan counts on actions which require State approval and which appear to have little support, such as elimination of MTA station maintenance, expansion of the red light camera program, and imposition of a LIE ticket surcharge. These concerns were discussed in our October Report.

County Gap Closing Plan			
($ in millions)	**FY 2013**	**FY 2014**	**FY 2015**
Baseline Gap:	**($112.3)**	**($60.3)**	**($92.7)**
Gap Closing Options			
Surplus Land Sales	5.0	5.0	5.0
Value of New Construction	3.0	6.0	9.0
New Recurring Initiatives			15.0
NYS Actions			
Elimination of MTA Station Maintenance	29.0	30.0	31.0
Red Light Camera Phase II	12.0	9.0	7.0
LIE Ticket Surcharge	5.0	5.0	5.0
Public Private Partnership (Sewer System)			
Public Private Partnership (savings from debt defeasance)	75.0	40.0	
			21.9
Total Gap Closing Options	**$129.0**	**$95.0**	**$93.9**
	$16.7	**$34.7**	**$1.2**

CONCLUSION

Notwithstanding our concerns, if the Directors accept the County's MYP, including its Budget for FY 2012, we recommend that it be conditioned on the following:

POINT ONE

Unanticipated savings or revenues that are not directly used to offset negative variances in line items in the 2012 Budget or MYP must be disclosed to NIFA before they are committed. The County and NIFA will then consult as to their highest and best use including, but not limited to (but with a bias toward), the reduction of County debt service or debt issuance. In addition, all other significant variances and their resolution must be disclosed to NIFA on a timely/real time basis and through written reports referenced in Point Five below.

POINT TWO

No funds shall be borrowed until NIFA has detailed reports on the proposed uses of the funds. Those uses must conform to the MYP and the County's promise to achieve a GAAP balanced budget in FY 2015.

POINT THREE

NIFA's approval of "transitional cert borrowing" in FY 2011 – 2014 is predicated on the understanding that the proceeds will be used to pay down new liability as well as the backlog so that in FY 2015 the County would be in a position to fund both the backlog and new liability with operating funds. Consequently, the County must agree to the following backlog reduction goals before the commencement of the transitional cert borrowing:

By the conclusion of FY 2012	$128 million
By the conclusion of FY 2013	$103 million
By the conclusion of FY 2014	$78 million

POINT FOUR

NIFA's approval of $65 million in borrowings for non-cert judgments and settlements should be predicated on the understanding that the proceeds will be used only during FY 2011- 2014 and that beginning in 2015 all non cert judgments and settlements will be funded through operating revenues. The only exception shall be for large and unanticipated judgments, the determination of which will be subject to NIFA approval. Yearly progress in this regard must be presented to NIFA at the time when the multi-year plan and budget are presented to the County Legislature.

POINT FIVE

The County will be required within 21 days after the end of every month to submit a report to NIFA that follows the same format as the "Quarterly County Budget Report." Receipt of these reports will be a condition to approval of any additional borrowing and each report should include all budget variances including, but not limited to:

- 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 20012 and FY 2013, together with monthly updates.
- An accounting of certiorari payment activity.