Nassau County Interim Finance Authority

NIFA

REVIEW OF THE ADOPTED MULTI-YEAR FINANCIAL PLAN FISCAL 2013 – 2016

November 29, 2012

NASSAU COUNTY
INTERIM FINANCE AUTHORITY

DIRECTORS

Ronald A. Stack
Chair

John R. Buran

George J. Marlin

Leonard D. Steinman

Dermond Thomas

Christopher P. Wright

STAFF

Evan L. Cohen
Executive Director

Laurie A. Boucher
Corporate Secretary

Jane F. Cunneen
Acting Treasurer

Maria Kwiatkowski
Deputy Director

Jeremy A. Wise
General Counsel

OVERVIEW

The County's Multi-Year Plan for FY 2013 – 2016 (the "Plan") meets the legal requirements imposed by the NIFA Act. Regrettably, this is accomplished by continuation of controls and reliance on NIFA's imposition of a wage freeze for the next four years. Hence, NIFA is even more essential to the County's fiscal health in 2013 than it was at the time of its creation in 2000.

It appears that, due to the County's inability to create reserves, build infrastructure, negotiate proposed labor concessions, resolve its tax cert problem or achieve structural balance where recurring revenues meet recurring expenditures, NIFA will remain in a control period for the foreseeable future.

NIFA will help facilitate sensible solutions that arise from the County's elected representatives, but we will continue to reject initiatives that we perceive as unrealistic, short sighted or in violation of the NIFA statute.

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 recommendation.

BACKGROUND

On October 25, 2012 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 2013 – 2016 (the "Proposed Plan"). The October Report was subsequently transmitted to the County Executive and Legislature for consideration.

The October Report discussed a number of risks and concerns and concluded that the Proposed Plan would be considered for approval only if certain amendments were made during the adoption process.

Namely, the recommendation for approval was predicated on:

- The County identifying and incorporating acceptable alternatives to two Out-Year initiatives: (1) the proposed sewer financing transaction and (2) elimination of the MTA station maintenance payment.
- The County identifying and incorporating acceptable alternatives to bonding for judgments and settlements in FY 2015 and FY 2016.
- No other significant actions by the County Legislature to alter the Proposed Plan.
- A detailed explanation of the County's plan for tax certiorari settlements, including how they arrived at the projected $18 million expenditure for FY 2013 as well as an estimate of the backlog during each year of the Proposed Plan.

Subsequently, the Proposed Plan, as amended, and the 2013 Budget were passed by the Legislature on November 20, 2012 and then signed by the County Executive. Notwithstanding the risks that remain in FY 2013 and the statutory deficits projected for FY 2013 – FY 2016, we find that the Plan: (1) satisfies the requirements of the NIFA Act; and (2) was responsive to NIFA's directives.

ADOPTED MULTI-YEAR FINANCIAL PLAN FOR FISCAL YEARS 2013-2016

MAJOR FUNDS				
EXPENDITURES				
OBJECT	**2013 Adopted Budget**	**2014 Plan**	**2015 Plan**	**2016 Plan**
AA-SALARIES, WAGES & FEES	784,644,942	819,325,654	814,801,557	827,695,600
AB-FRINGE BENEFITS	470,084,548	509,446,873	536,468,525	568,888,144
AC-WORKERS COMPENSATION	25,536,733	25,536,733	25,536,733	25,536,733
BB-EQUIPMENT	1,590,788	1,636,921	1,684,392	1,733,239
DD-GENERAL EXPENSES	32,221,435	33,274,802	34,243,052	35,111,145
DE-CONTRACTUAL SERVICES	221,181,700	228,855,812	235,109,368	241,542,431
DF-UTILITY COSTS	36,828,674	36,954,887	37,104,338	36,938,357
DG-VAR DIRECT EXPENSES	5,000,000	5,000,000	5,000,000	5,000,000
FF-INTEREST	86,103,480	102,635,578	107,460,230	111,793,426
GA-LOCAL GOVT ASST PROGRAM	66,944,894	69,572,690	72,305,597	75,147,821
GG-PRINCIPAL	61,874,999	73,750,001	82,549,999	86,615,000
HC-NHC ASSN EXP - NASSAU HEALTH CARE ASSN	13,000,000	13,000,000	0	0
HH-INTERFD CHGS - INTERFUND CHARGES	20,463,524	20,316,649	28,484,304	28,225,213
MM-MASS TRANSPORTATION	43,264,576	44,565,695	45,992,372	47,554,332
NA-NCIFA EXPENDITURES	1,776,000	1,857,000	1,735,000	1,794,000
OO-OTHER	308,910,162	292,171,362	310,437,212	314,444,007
PP-EARLY INTERVENTION/SPECIAL EDUCATION	169,950,000	173,349,000	176,815,980	180,352,300
SS-RECIPIENT GRANTS	67,165,000	68,844,125	70,565,228	72,329,359
TT-PURCHASED SERVICES	59,316,405	60,799,315	61,711,305	62,636,974
WW-EMERGENCY VENDOR PAYMENTS	62,430,000	64,302,900	65,588,958	66,244,848
XX-MEDICAID	253,089,365	255,620,259	260,203,895	255,620,259
TOTAL	**2,791,377,225**	**2,900,816,256**	**2,973,798,045**	**3,045,203,188**
REVENUES				
OBJECT	**2013 Adopted Budget**	**2014 Plan**	**2015 Plan**	**2016 Plan**
AA - FUND BALANCE	10,000,000	0	0	0
BA - INT PENALTY ON TAX	28,800,000	28,800,000	28,800,000	28,800,000
BC - PERMITS & LICENSES	13,733,768	13,733,768	13,733,768	13,733,768
BD - FINES & FORFEITS	62,539,710	69,255,710	69,255,710	69,255,710
BE - INVEST INCOME	3,074,900	3,074,900	3,074,900	3,074,900
BF - RENTS & RECOVERIES	27,554,518	21,554,518	21,554,518	21,554,518
BG - REVENUE OFFSET TO EXPENSE	11,184,418	12,055,618	13,013,938	14,068,090
BH - DEPT REVENUES	178,191,690	180,191,690	180,191,690	180,191,690
BI - CAP BACKCHARGES	2,099,910	2,099,910	2,099,910	2,099,910
BO - PAY LIEU TAX PAYMENT IN LIEU OF TAXES	9,646,819	9,453,264	9,805,942	9,105,165
BQ - D/S FROM CAP - DEBT SERVICE FROM CAPITAL	27,394,875	25,714,875	2,560,000	2,560,000
BW - INTERFD CHGS - INTERFUND CHARGES REVENUE	71,428,988	78,576,455	90,689,014	94,531,481
FA - FEDERAL AID - REIMBURSEMENT OF EXPENSES	156,116,499	157,649,468	158,891,173	160,145,295
SA - STATE AID - REIMBURSEMENT OF EXPENSES	232,408,316	234,952,143	237,388,165	239,866,787
TA - SALES TAX CO - SALES TAX COUNTYWIDE	1,031,663,514	1,077,090,055	1,120,173,657	1,164,980,603
TB - PART COUNTY - SALES TAX PART COUNTY	89,582,099	89,119,050	87,771,489	91,282,349
TL - PROPERTY TAX	804,788,915	804,788,915	804,788,915	804,788,915
TO - OTB 5% TAX	3,232,286	2,909,057	2,618,151	2,356,337
TX - SPECIAL TAXS - SPECIAL TAXES	27,936,000	27,936,000	27,936,000	27,936,000
TOTAL	**2,791,377,225**	**2,838,955,396**	**2,874,346,940**	**2,930,331,518**
SURPLUS/(DEFICIT)	**0**	**(61,860,859)**	**(99,451,105)**	**(114,871,668)**

ADOPTED PLAN COMPARED TO PROPOSED PLAN

MAJOR FUNDS				
EXPENDITURES				
OBJECT	2013 Adopted Budget	2014 Plan	2015 Plan	2016 Plan
AA-SALARIES, WAGES & FEES	(3,330,840)	(5,186,179)	(5,606,075)	(5,610,404)
AB-FRINGE BENEFITS	407,581	839,528	1,009,210	1,292,932
AC-WORKERS COMPENSATION	0	0	0	0
BB-EQUIPMENT	0	0	0	0
DD-GENERAL EXPENSES	0	0	0	0
DE-CONTRACTUAL SERVICES	2,028,355	2,087,177	2,147,706	2,209,989
DF-UTILITY COSTS	0	0	0	0
DG-VAR DIRECT EXPENSES	0	0	0	0
FF-INTEREST	0	0	0	0
GA-LOCAL GOVT ASST PROGRAM	0	0	0	0
GG-PRINCIPAL	0	0	0	0
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	838,696	(3,265,489)	4,944,745	1,978,235
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	0	0	(357,442)	0
TOTAL	**(56,208)**	**(5,524,963)**	**2,138,145**	**(129,248)**

REVENUES				
OBJECT	2013 Adopted Budget	2014 Plan	2015 Plan	2016 Plan
AA - FUND BALANCE	0	0	0	0
BA-INT PENALTY ON TAX	0	0	0	0
BC-PERMITS & LICENSES	0	0	0	0
BD-FINES & FORFEITS	0	0	0	0
BE-INVEST INCOME	0	0	0	0
BF-RENTS & RECOVERIES	138,000	138,000	138,000	138,000
BG-REVENUE OFFSET TO EXPENSE	0	0	0	0
BH-DEPT REVENUES	1,373,315	1,373,315	1,373,315	1,373,315
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	0	0	(23,154,875)	(23,154,875)
BW-INTERFD CHGS - INTERFUND CHARGES REVENUE	720,694	217,250	731,488	858,988
FA-FEDERAL AID - REIMBURSEMENT OF EXPENSES	(2,288,217)	(2,288,217)	(2,288,217)	(2,288,217)
SA-STATE AID - REIMBURSEMENT OF EXPENSES	0	0	0	0
TA-SALES TAX CO - SALES TAX COUNTYWIDE	(4,000,000)	0	0	0
TB-PART COUNTY - SALES TAX PART COUNTY	4,000,000	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	**(56,208)**	**(559,652)**	**(23,200,289)**	**(23,072,789)**
SURPLUS/(DEFICIT)	**0**	**4,965,311**	**(25,338,434)**	**(22,943,540)**

LEGISLATIVE AMENDMENTS

This section of the report discusses the major budget amendments adopted by the Legislature on November 20, 2012.

The County made several changes to the Proposed Budget, which in aggregate, resulted in the Major Funds of the FY 2013 Budget (as defined in the Act) being decreased by $1.4 million, or only $56,208 when excluding interdepartmental transfers. The major changes are shown below.

Expenditures		Revenues	
Reductions			
Deferral Pay Correction in Police	($6.3)	Veolia (Federal aid)	($2.3)
Unemployment Benefits	(1.5)	Veolia (other revenue)	(1.3)
Revised NIFA Refunding Savings	(1.2)	Other (net)	(1.1)
Other (net)	(1.2)		
Increases			
Contingency Reserve	$2.1	Veolia (fare box revenue)	$3.6
Youth Board	2.0	Other (net)	1.0
Pension Costs	1.9		
Salary Adjustment	1.5		
Other (net)	2.6		
Total	**($0.1)**		**($0.1)**

Program Changes

The legislative amendments provide additional funding to: increase the County's contingency reserve by $2.1 million to $12.1 million; increase spending on Youth Board contracts by $2 million; cover the County's liability for pension costs which had been understated by $1.9 million; and reverse approximately $1.5 million in proposed salary savings that had been contemplated from layoffs.

The additional costs were funded by savings realized from: correcting a $6.3 million overstatement of previously deferred police wages scheduled to be repaid in 2013; reducing the County's estimate of unemployment benefits by $1.5 million; and recognizing an additional $1.2 million ($5.9 million in total) in debt service savings resulting from NIFA's recent debt refunding transaction. The refunding transaction will save the County approximately $33 million during the Plan and has generated greater savings in 2013 than assumed by the County in the Proposed Budget.

The County reapportioned its projection of revenues available to support the Nassau Inter County Express ("NICE") bus system, which is managed under contract by

Veolia Transportation Services. The County anticipates that a reduction in the level of Federal Transportation Aid ("FTA") and other operating and non-operating revenue (e.g., bus advertising) will be offset by an increase in fare box revenue that is expected to result from an MTA proposed fare increase. Since riders can use the metro-card on the NICE bus system, the County must charge the same rates as the MTA.

ANALYSIS OF FY 2013

We have reviewed the adopted amendments and note that the County addressed some of the issues and risks raised in our October Report. However, several major risks remain, including NIFA approval of the County's plan to borrow for unbudgeted police termination costs.

While the projected deficit, as measured in accordance with GAAP (the statutory standard by which NIFA is required to measure balance) continues to exceed the trigger point for continuation of a control period, we conclude that the Plan and its FY 2013 Budget comply with the basic requirements of the NIFA Act. Nevertheless, we remain concerned whether the County can aggressively manage the 2013 Budget to ensure that a budgetary basis deficit does not occur. We also note again that the County's non-budgeted reserves remain woefully inadequate to mitigate significant unanticipated events.

Although some economists anticipate a favorable pickup in sales tax revenue from the increased economic activity and associated rebuilding efforts related to Superstorm Sandy, we are concerned that the County may have incurred sizeable non-reimbursable costs in the aftermath of the storm, including overtime and other cleanup activities. The level of FEMA reimbursement for these storm-related costs has not been finalized, but could range from 75% to 90%. The County is hopeful that the difference, which normally would be split between the State and County, will be covered entirely by the State. It is unclear how much of these costs the State will absorb given the State's current fiscal condition.

The County has not established a contingency plan to address the potential fiscal impact of any unreimbursed costs on the County's budget and will need to act quickly to develop cost cutting initiatives to ensure balance, on a budgetary basis, if these costs are not fully reimbursed or if other revenues do not materialize.

As discussed, the Plan contains a number of significant risks that will need to be aggressively managed to ensure budgetary basis balance in FY 2013 and throughout the Plan. As shown in the chart that follows, we previously identified $56.4 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 2013 Budget to $48.5 million. This risk is approximately $123 million on a GAAP basis.

As noted, the largest risk relates to the County's decision to not provide funding for any police termination costs in FY 2013. These costs, which are primarily payments to separating employees for accrued vacation and sick leave, could reach at least $16.9 million depending on how many police officers separate and the amount of their individual terminal leave accruals. While NIFA had approved the limited use of bonding to fund the termination costs resulting from layoffs and voluntary separation incentive programs that were used to achieve recurring labor savings beginning in FY 2012, the County had been told that it cannot issue new debt to finance its terminal leave liability from prospective attrition or attrition otherwise unrelated to the current cost-cutting initiatives.

The link between any new termination costs and new labor savings initiatives will be NIFA's sole determination, and likely a key factor in whether NIFA's Board will approve such borrowing.

ANALYSIS OF FY 2013 BUDGET RISKS **Surplus/(Risk)** **($ in millions)**		
	Proposed Budget	**Adopted Budget**
Revenues		
Rents and Recoveries	**($6.1)**	**($6.1)**
Sale of County Land	*(6.1)*	*(6.1)*
Department Revenues	**(16.4)**	**(7.4)**
GIS Tax Map Fee	*(3.0)*	*0.0*
Clerk Initiative	*(6.0)*	*0.0*
Federal Inmates	*(5.0)*	*(5.0)*
Other	*(2.4)*	*(2.4)*
Sales Tax	**(5.3)**	**(5.3)**
Other Revenue	**(2.8)**	**(2.8)**
Total Revenues	**($30.6)**	**($21.6)**
Expenditures:		
Salaries and Wages	**($22.0)**	**($26.0)**
Layoffs/other actions	*(3.9)*	*(2.5)*
Overtime	*(6.6)*	*(6.6)*
Deferral Payback	*5.4*	*0.0*
Terminal Leave Bonding	*(16.9)*	*(16.9)*
Fringe Benefits	**(6.4)**	**(4.4)**
Workers' Compensation	**(2.7)**	**(2.7)**
Other Expenditures	**(4.7)**	**(4.7)**
Total Expenditures	**($35.8)**	**($39.0)**
Subtotal of Risks	**(66.4)**	**(60.6)**
Contingency	**$10.0**	**$12.1**
Total	**($56.4)**	**($48.5)**

The Plan maintains the County's projection of only $18 million for property tax refund payments in 2013. We repeat our concern that based on historical data and the growing backlog, the $18 million will be insufficient to cover ongoing claims or prevent the tax certiorari backlog from growing further. In fact, as recently as last week, the Administration unsuccessfully sought legislative authorization to borrow $165 million to fund property tax refunds.

The County has proposed a plan to leverage the $18 million by using a private third-party to purchase the interest of taxpayers in their refunds. The third party would then enter into stipulations of settlement with the County for each taxpayer claim they acquired, which would be paid back over time at a set interest rate. In the alternative, the County would enter into stipulations of settlement directly with each taxpayer upon similar terms.

While no debt is directly issued by the County under this plan, the result is similar to a borrowing in that it merely defers the repayment into future years, but does not eliminate the long term liability.

ANALYSIS OF FY 2014 – FY 2016

This section discusses the projected Out-Year gaps and the County's plan for ensuring balance on a budgetary basis.

Pursuant to NIFA's directive, the County removed from the Plan three gap-closing initiatives: (1) the proposed sewer financing transaction; (2) elimination of the MTA station maintenance payment; and (3) bonding for judgments and settlements after FY 2014. The County substituted a number of alternatives for these three actions, including upwardly revised projections for some previously proposed initiatives and accelerated implementation of others.

Due, in part, to the lack of available specificity, we remain unconvinced that the adopted out-year gap-closing plan can be fully implemented and we expect that the County will be compelled to revise its menu of options in the coming years.

Sizing the Out-Year Gaps – The County projects that baseline gaps of $61.9 million in FY 2014, $99.4 million in FY 2015, and $114.9 million in FY 2016 will remain in the Out-Years even if it can successfully implement its entire 2013 gap-closing plan, which has been fully incorporated into the FY 2013 Budget. However, NIFA's analysis indicates that the County's projections of Out-Year gaps may be understated by approximately $50 million in FY 2014, $85 million in FY 2015, and $106 million in FY 2016. Furthermore, the risks would be considerably greater if calculated on a GAAP basis, as required by the NIFA Act, and if the risks we identified in FY 2013 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 RISKS IN FY 2014 – FY 2016 Surplus/(Risk) ($ in millions)			
	FY 2014	**FY 2015**	**FY 2016**
County Projected Baseline Gap:	**($61.9)**	**($99.5)**	**($114.9)**
Revenue Risks	(25.0)	(31.4)	(38.1)
Expenditure Risks	(25.1)	(53.7)	(68.2)
Subtotal Risks:	(50.1)	(85.1)	(106.3)
NIFA Projected Baseline Gap:	**($112.0)**	**($184.6)**	**($221.2)**

The revenue and expenditure risks include the County achieving its sales tax revenue forecast, aggressive assumptions for out-year health insurance costs and elimination of its mission payment to the Nassau Health Care Corporation after FY 2014. However, the risks do not include a potential adverse ruling in the unions' legal challenge to the NIFA imposed wage freeze or in other major litigation currently proceeding against the County.

For example, we estimate that sales tax may be overstated by approximately $11 million in FY 2014, $17 million in FY 2015, and $24 million in FY 2016 if sales tax growth rates approximate 3.5% annually. As noted earlier, the impact of Superstorm Sandy on the short and long-term economic activity in the County and the resultant level of sales tax collections is unclear. Consequently, the County must be prepared to act quickly to mitigate any negative variances that may develop.

Similarly, we estimate that health insurance costs for current employees and retirees may be understated by approximately $10 million in FY 2014, $15 million in FY 2015, and $21 million in FY 2016 if costs grow at 8% annually for both groups rather than the 4.5% and 7.8%, respectively, assumed by the County.

We are also concerned that the County may feel compelled 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 out-year 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.

County Gap Closing Plan			
($ in millions)	**FY 2014**	**FY 2015**	**FY 2016**
Baseline Gap:	**($61.9)**	**($99.4)**	**($114.9)**
Gap Closing Options			
Financing Options/Asset Sales			
Sale of Surplus County Property	5.0	5.0	5.0
Expense/Revenue Actions			
Labor Concessions/Workforce Reduction	10.0	25.0	40.0
ERP Implementation	10.0	10.0	10.0
Social Innovation Bonds	7.0	7.0	7.0
Strategic Sourcing	5.0	7.0	7.0
Office Consolidation	5.0	7.0	7.0
Improve Detainee to Staff Ratio at Correctional Center	5.0	5.0	5.0
Elimination of MTA Payroll Tax	3.0	3.0	3.0
207C Reform	2.0	2.0	2.0
Increase in Ticket Fines		8.0	8.0
NYS Actions			
Efficiencies in Early Intervention/Special Education	10.0	10.0	10.0
State Initiatives (e.g., assessment reforms, speed cameras at school intersections)	10.0	14.0	16.0
Total Gap Closing Options	**$72.0**	**$103.0**	**$120.0**
	$10.1	**$3.6**	**$5.1**

Sale of Surplus County Property – Commencing in FY 2014, the County is counting on the receipt of $5 million in each of the Out-Years of the Plan from sales of unidentified County property. While there may be immediate value from the sale of land as a gap-closing initiative, it is a one-shot cash infusion that bridges the deficit between recurring revenues and expenditures but does nothing to address the persistent structural imbalance.

Labor Concessions – The County projects savings of $10 million in FY 2014 and $25 million in FY 2015 from unspecified actions, which would likely involve reductions in the workforce below current levels. The County projects savings from labor concessions will increase to $40 million in FY 2016 when, as it stated in the Proposed Budget, it will pursue "employee contributions to health insurance" after the current labor contracts expire in FY 2015. We question the achievability of these out-year savings since, despite the County's efforts to negotiate labor concessions to-date, very little progress has been made.

Strategic Sourcing and ERP Implementation – The County has hired a consultant to help implement some of the savings initiatives identified in a report issued by Grant Thornton in September of 2011. In the Proposed Plan, this was presented as a single initiative while in the Plan it has been listed separately and increased by $3 million in FY 2014 and $5 million in FY 2015 – FY 2016. While we agree with the inclusion of these initiatives, it is difficult to know what the achievable results will be on an annualized basis nor do we have any County analysis or data to support the increased projection of savings.

Social Innovation Bonds – The County projects annual savings of $7 million from this new initiative. Currently, we have not been provided with information or details regarding this initiative. Research of similar proposals such as "Social Impact Bonds" or "Social Innovation Financing" reveals a concept to fund government programs using "pay-for-success contracts" and partnerships with third parties who assume the risk if a program does not produce results. Until we have a better understanding of what this is and how the savings has been calculated, we must hold the proposed savings at risk.

Elimination of the MTA Payroll Tax – This initiative is unchanged from the Proposed Plan. The County presented its case to the Nassau County Supreme Court arguing that the MTA Payroll Tax is unconstitutional and the Court ruled in its favor, thus, the County has calculated its savings to be $3 million per year for each of the Out-Years of the Plan.

Although the County has won the case, the Judge did not order the State to stop collecting the tax. Moreover, the MTA has expressed its will to continue to appeal the verdict. Because the tax is being levied in spite of the verdict and the likelihood of the length of the appeals process, we are unable to know with any certainty whether the County will eventually be able to realize these savings.

207 C Reform – The County projects savings of $2 million in each of the Out-Years. In the Proposed Budget, the County had reduced funding in its operating budget for Workers' Compensation stating that it believes it can institute measures to "manage workers' compensation obligations better." NIFA placed this item at risk. It appears that the County has moved the projected savings "below the line" in the Out-Years. We have no basis to judge whether the County may realize these savings.

Increase in Parking Ticket Fines – The County projects an additional $8 million in parking ticket revenue that would be generated by an increase in the per ticket fine amount beginning in FY 2015. The Plan accelerates the implementation of this initiative by one year. This fee increase only requires local legislative approval.

New York State Actions

Among the initiatives are two proposals that would require State approval before they could be advanced: (1) installation of speed cameras at school crossings and red light camera locations; and (2) cost containment strategies within the Early Intervention/Special Education programs. These initiatives are placed at risk because they require State review and passage in order to be implemented.

CONCLUSION

Notwithstanding our concerns, if the Directors accept the County's MYP, including its Budget for FY 2013, 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 2013 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 approved a contract or received 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 any "transitional cert borrowing" in FY 2012 – 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.

POINT FOUR

NIFA's approval of any borrowings for non-cert judgments and settlements must be predicated on the understanding that the proceeds will be used only during FY 2012- 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 continue to 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 2013 and FY 2014, together with monthly updates.
- An accounting of certiorari payment activity.