Nassau County Interim Finance Authority

NIFA

REVIEW OF THE PROPOSED
MULTI-YEAR FINANCIAL PLAN
FISCAL 2009 – 2012

October 21, 2008

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I. Overview of NIFA

In response to persistent fiscal distress in Nassau County, a five-point recovery plan was prepared for the County in early 2000. The plan included:

- Creation of the Nassau County Interim Finance Authority ("NIFA" or the "Authority") as an oversight agency and highly rated borrowing mechanism to reduce the County's borrowing costs.
- Oversight of the required County four year financial plan to ensure that recurring actions are taken by the County each year to reach structural budget balance.
- Special State Transitional Aid totaling $100 million over five years, plus debt restructuring through NIFA, if the County took satisfactory action to close its structural deficit.
- Assistance of $5 million to support reforms to reduce the County's estimated $400 million backlog of property tax claims.
- Imposition of hard control mechanisms if the County failed to meet financial management standards.

The plan formed the basis of State legislation creating NIFA (the "Act"). The NIFA legislation was supported by a home rule message recommended by the Nassau County Executive and approved by a vote of the County Legislature. It was enacted with broad bipartisan support in the New York State Senate and Assembly.

The Act has been amended several times since its original enactment. The principal changes have had to do with the amounts and timing of borrowings as well as extensions of the "Interim Finance Period," as defined in the Act.

NIFA came into existence on June 23, 2000 and the first meeting of its Directors took place on June 28, 2000. NIFA's oversight responsibility will continue until NIFA no longer has bonds outstanding and other liabilities have been discharged.

When fully constituted, the Authority is governed by seven Directors; however, there is currently one vacancy. All Directors are appointed by the Governor, including one each upon the recommendation of the Majority Leader of the State Senate, the Speaker of the State Assembly and the State Comptroller. The Governor designates the chair and vice-chair of the Authority. The staff of NIFA currently consists of five individuals, down from its former complement of nine.

This Report is made pursuant to Section 3667 of the Act, which requires the County, during the Interim Finance Period, to submit a four year financial plan to NIFA and for NIFA to determine the completeness and adequacy of said plan. Subsequent to the Interim Finance Period, NIFA will continue to review and timely comment upon the County's financial plans, but will lack the legal authority to reject the plans.

II. SUMMARY OF FINDINGS AND CONCLUSIONS

NIFA has reviewed the proposed Budget and Multi-Year Plan. We find that they were in technical compliance with the NIFA Act based on the County's assumptions and projections at the time of submission; however, we now believe there is a significant risk that when implemented they could fall out of compliance with the NIFA Act, which requires operating revenues to match operating expenditures and the maintenance of adequate reserves.[1]

The proposed Budget and Plan are problematic because they:

- assume economic recovery and growth rates which may be too optimistic due to the current economic crisis affecting the County and the region;
- rely on non-recurring revenues and further depletion of reserves;
- contain few new revenue generators;
- use optimistic projections of cost saving measures;
- defer debt service payments; and,
- require State and County legislative approvals.

<u>MAJOR FINDINGS</u>

The proposed Plan:

1. Reduces sales tax estimates, but may not sufficiently reflect the impact of the current economic crisis. Recent significant negative events, subsequent to the submission of the proposed Plan, may have rendered the original estimates too optimistic.
2. Assumes annual increases of 3.9% in the property tax.
3. Erodes General Reserves, which have declined from $284 million at the start of 2005 to a projected $83 million at the end of FY 2009.

[1]After this report was completed, the County Comptroller and the Office of Legislative Budget Review issued reports on the proposed Budget and Multi-Year Plan. Their conclusions are substantially the same as those found in this report.

4. Continues the need to close large Out-Year gaps, which increase from $106 million in FY 2010 to $194 million in FY 2012. We acknowledge that the County has eventually closed similar gaps, albeit in better economic times and not always through optimal means.

5. Recycles certain previously unsuccessful gap closing measures.

6. Fails to meet its original headcount reduction goals by approximately 1,000 positions; however, it retains approximately 300 vacant, but funded positions in its proposed Budget.

7. Utilizes aggressive assumptions regarding certain revenues and savings in such areas as union concessions, health costs, and State reimbursements.

Based upon the foregoing and the detailed analysis contained herein, NIFA concludes as follows:

First Year: FY 2009

Notwithstanding technical compliance with the NIFA Act, we are extremely concerned about the successful implementation of the proposed Budget, especially in light of the recent dislocations in the credit markets. The faltering economy will affect consumer spending (and thus sales tax), and income tax revenues to the State and Federal governments (which may impact aid from those entities to the County). Consequently, NIFA requests that the County submit a contingency plan that outlines the specific and measureable steps it will take to mitigate the risks described in this report as well as the potential impact of recent economic events. The plan should be implementable on short notice and provide a series of options that could be utilized at different stages of the current or a further economic decline.

This contingency plan will be essential to NIFA in its final evaluation of the adopted Plan. Current economic conditions require NIFA and the County to be proactive and not wait for a mid-year update. NIFA will also require the County to continue its submission of comprehensive monthly variance reports in order to enable timely remedial actions.

Out-Years: FY 2010 – FY 2012

The County continues to have a significant mismatch of recurring revenues and expenses thereby creating Out-Year gaps of $106.2 million in FY 2010, $158.7 million in FY 2011, and $194.0 million in FY 2012. The use of less conservative assumptions, reliance on State and local legislation that may not be passed, and the decline of available reserves indicate that the County needs to explore alternative ways to increase revenues or decrease expenses.

* * *

If the County Legislature makes any changes to the proposed Plan to address the items outlined in this report or to address other needs or changing priorities, offsetting changes of equal value must be made to ensure that budgetary balance is maintained. NIFA staff will study their impact on the adopted Plan before making its final recommendation to the Directors.

The discussion that follows and the related transmittal letter constitute the NIFA staff's review and recommended findings regarding the County Executive's proposed Budget and proposed Plan. It is recommended that this document be adopted by NIFA's Directors and that copies of this document be transmitted to the Nassau County Executive, the Presiding Officer of the Nassau County Legislature, the Minority Leader of the Nassau County Legislature, the Nassau County Comptroller and the Clerk of the Nassau County Legislature for distribution to members of the County Legislature.

III. RISK ASSESSMENT

This section presents NIFA's analysis and conclusions regarding the proposed Budget and the major underlying initiatives designed to ensure year-end budgetary balance. This is important because the County's ability to achieve its fiscal objectives for FY 2009 is directly dependent on the actions that the County takes in the remainder of FY 2008 and its ability to fully implement its FY 2009 gap-closing actions.

Since any budget or financial plan is a set of estimates, the actual results will differ from initial expenditure and revenue projections. Risk assessment attempts to identify what these differences will be and whether they will ease or worsen budget pressures. Normally, the emergence of offsets can cover routine risks, but rigorous and timely monitoring can reduce the possibility that risks may break disproportionately and unexpectedly against the County and require significant gap-closing actions near the end of a fiscal year.

The County will be confronted with an unusually wide range of fiscal problems to solve during 2009 and in the ensuing years. Consequently it seems likely that certain baseline estimates may prove incorrect or that even reasonable gap-closing initiatives will not be achieved.

Risk assessment identifies those areas where corrections need to be made, or those areas where monitoring can allow for earlier identification of potential problems so that corrective action can be taken as soon as possible. For the purpose of NIFA's analysis, risks have been classified into two major categories.

The *first* category is the quantifiable risks that affect the proposed Budget and include items that may be:

- difficult to execute and/or may result in smaller savings or less revenue than assumed; and
- require uncertain third party action to be taken.

The *second* category of risks are those that cannot be easily quantified, but have the potential to negatively impact all years of the proposed Plan. These risks are highlighted during our discussion of the specific action or initiative.

FY 2009 Budget Risks

Listed below is NIFA's evaluation of major risks related to the proposed Budget. The County Legislature must weigh these FY 2009 risks and be prepared to enact substitute or remedial initiatives.

The County Legislature should also be prepared to enact sufficient revenue generating and/or expenditure reducing initiatives to offset any changes that it may make to the proposed Budget. These actions would serve to ensure that the proposed Budget and proposed Plan remain balanced.

	Estimated Risk ($ in millions)	Page
Proposed FY 2009 Budget Risks and Offsets		
Property tax increase	$34.4	16
Sales tax	28.0	14
Projected FY 2008 surplus (used for pensions)	23.0	9
State actions	19.9	11
Public safety overtime	15.0	23
Police termination reserve	11.0	23
Labor concessions	6.0	21
Workers' Compensation	4.5	26
Consolidation savings	4.5	11
Smart government initiatives (SGIs)	2.5	44
Subtotal	**$148.8**	
Less:		
Contingency Reserve	(13.5)	8
Potential vacancy savings	(10.0)	22
Total	**$125.3**	

The above risks are reduced by $23.5 million of contingency reserves and potential vacancy savings that can be used to offset any unforeseen events that may arise during the year.

FY 2009 – FY 2012 Financial Plan Risks

Listed below are those risks that cannot be easily quantified and primarily affect the County's ability to achieve the results projected in the Out-Years of the proposed Plan.

FY 2009 – 2012 Financial Plan Risks	Page
Sales Tax	14
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Workers' Compensation	26
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IV. PROPOSED FY 2009 - FY 2012 FINANCIAL PLAN

FY 2008 RECAP

Before examining the proposed Plan we need to discuss the projected operating results for FY 2008 because this forms the baseline for future years and affects items expected to roll over into the proposed Budget.

The proposed Plan describes a projected $23 million operating surplus in FY 2008, which the County intends to roll forward to partially fund its FY 2009 pension obligation. While our analysis indicates that the County is likely to end FY 2008 in balance, we are concerned that it may be unable to generate the full amount of the projected surplus for the reasons discussed below.

The County's projected operating result is composed of positive and negative variances to both expenditures and revenues.

Some of the larger positive variances are as follows:

- $14.6 million - ShOA accrual;
- $5.8 million - contingency reserves;
- $5.5 million - workforce management;
- $4.3 million - debt service principal reduction;
- $4.2 million - rents and recoveries; and
- $2.9 million - property tax restorations.

Some of the larger negative variances are as follows:

- $5.5 million - investment income;
- $4.7 million - salaries;
- $3.1 million - sales tax;
- $2.8 million - Workers' Compensation;
- $2.6 million - early intervention and special education;
- $2.4 million - social service caseloads; and
- $2.1 million - utility costs.

When offset against each other, these variances do not guarantee a surplus. If a surplus is not generated in FY 2008, it would result in a concomitant gap in the proposed FY 2009 Budget since the resources would be unavailable to defray the cost of the County's pension obligation in FY 2009, as planned.

Our concern stems primarily from three major factors:

1. Labor Contracts – The County is currently in arbitration with its CSEA and SOA labor unions, which have been working under expired contracts since the end of 2007. The FY 2008 Budget included $23 million in combined concession savings from these two unions. However, if new contracts are not finalized before the 2008 year-end close, the Comptroller cannot allow the desired savings to be counted in FY 2008. Even if these unions subsequently make concessions that result in retroactive savings, the budgetary relief would count in the year in which the agreement is ratified. To the extent that such concessions occur in FY 2009, then the impact of those benefits not rolling into FY 2009 will be self-correcting; however, to the extent that they occur beyond that horizon, the balance of the FY 2009 budget would be imperiled in that amount.

2. Sales Tax – Year-to-date sales tax revenue has increased by 2.1%. However, sales tax revenue grew by only 1.5% since the end of the first quarter. The County will fall short of its target should sales tax continue to grow at this rate or deteriorate further in the remainder of 2008 due to the weakening economy. For example, if sales tax revenue is flat for the remainder of 2008, the County could miss its revenue target by approximately $12 million. The holiday shopping season will ultimately be determinative, but current economic forecasts are not optimistic.

3. Interest Rate Spike – As a result of the credit crisis and general economic turmoil in the financial markets, interest rates paid out on variable rate demand bonds ("VRDBs") have rapidly risen above budgeted assumptions. While it is unclear how long the current dislocation will last, should the current rates continue through the end of 2008, the County could incur millions of dollars in higher debt service costs. The additional costs could offset savings already realized by the County from lower-than-assumed interest rates experienced through mid-September.

Any one of these events could impair the County's ability to realize the projected positive year-end result. The remaining three months will be determinative.

It is noteworthy that in order to achieve a substantially balanced budget in FY 2008, the County will likely use approximately $100 million of non-recurring resources, including:

- $24.5 million from reserves to offset pension costs;

- $23.0 million from the tobacco settlement fund;

- $18.0 million in borrowed funds to pay certiorari settlements;
- $10.0 million of 2007 surplus to fund PAYGO certiorari settlements; and
- $10.0 million in general fund balance.

The County may also be forced to draw down additional fund balance in the Police District as well as other reserves to ensure a positive year-end operating result. These actions would affect the County's ability to respond to future emergencies and exigencies.

This balancing act will continue as long as the County refuses to address its underlying structural imbalance, as illustrated on page 51 and will lead to persistent deficits in the Out-Years.

CLOSING THE FY 2009 GAP

In the May Update, the County projected a $134.3 million baseline gap for FY 2009. At that time, the County outlined $82.5 million in gap-closing actions it would use to mitigate the variance between its recurring baseline revenues and expenditures. To close the remaining $51.8 million deficit, the County proposed a separate array of options worth $83.9 million; $55.4 million of these would require State Legislative approval that has not been secured.

Table 1 summarizes the major changes since the May Update that enabled the County to present a balanced budget. As shown, the proposed Budget demonstrates that the County has increased its reliance on non-recurring revenues and draw down of reserves. The County also folded into its baseline optimistic projections of cost savings and revenue initiatives. These include an assumption of $19.9 million from the proposed installation of red light cameras and other ticket surcharge revenue, which is offset by a $19.0 million reduction in its FY 2009 sales tax forecast. It also reflects projected savings of $4.5 million from consolidation and budgetary relief generated by deferred borrowing and lower interest rate assumptions for County debt service. Finally, the County is proposing to implement the third consecutive increase in its Major Funds property tax levy.

We conclude that the County's approach has resulted in a tenuously balanced budget that is heavily reliant on short term budgeting strategies, but none that address the persistent structural deficit whereby recurring expenditures consistently exceed recurring revenues. In addition, it contains a number of significant risks that we outline in the risk tables on page 8. While the economic crisis appears to have worsened rapidly after the County crafted the proposed Budget, this does not excuse the County from having to address the repercussions. Therefore, the County must develop a comprehensive contingency plan that provides a series of specific and measureable actions which could be taken to mitigate intra-year variances as they develop.

(Table 1)
FY 2009 GAP-CLOSING ACTIONS

($ in millions)	FY 2009
Draw Down Reserves in Major Funds:	
Deplete Pension Reserve	$23.5
Use Tobacco Fund Resources	15.3
Deplete Police Termination Reserve	11.0
Use General Fund Balance	10.0
Reduce Contingency Reserve	7.6
Unsecured Initiatives:	
Labor Concessions (CSEA and SOA)	24.4
Red Light Camera and Surcharge Revenue	19.9
Overtime Savings	9.7
Defer Expenditures:	
PBA Contract Extension (Wage Deferral)	4.1
Major Changes in Assumptions:	
Debt Service Interest Expense	15.7
Departmental Revenues	7.0
Contractual Expenses	6.5
Early Intervention/Special Education	4.4
Federal Aid	(4.2)
Investment Income	(6.3)
Sales Tax Revenue	(19.0)
All Other (net)	(23.7)
Property Tax Increase:	
Increase Major Funds Property Tax Levy	28.4
Total	**$134.3**

The County intends to utilize a number of actions that, while leading to short-term budgetary balance, do not lessen the structural imbalance between its recurring revenues and expenditures. The rapid depletion of County reserves in recent years to pay for recurring expenditures has dramatically diminished the size of the County's "safety net" that should have been prudently saved for unanticipated revenue shortfalls and/or sudden spikes in expenditure outlays. As indicated in "Reserves" on page 49, the County will have violated its own "Fund Balance and Reserve Policy" by drawing down more than $200 million of General Reserves between FY 2005 and FY 2009.

REVENUES

The proposed Budget for the Major Funds projects the receipt of $2.6 billion of revenues, excluding interdepartmental transfers.[2] The County also projects that baseline revenues will be $2.6 billion in FY 2010, $2.7 billion in FY 2011, and more than $2.7 billion in FY 2012, as shown in the following table. The proposed Budget also includes approximately $180 million in fund balance and other revenues for the Sewer and Storm Water Resource District ("SSWRD") Fund.

The County has four major revenue sources: sales tax, property tax, Federal and State aid, and other revenues (primarily departmental revenues). Our discussion focuses on the Major Funds.

BASELINE REVENUES
FY 2009-2012

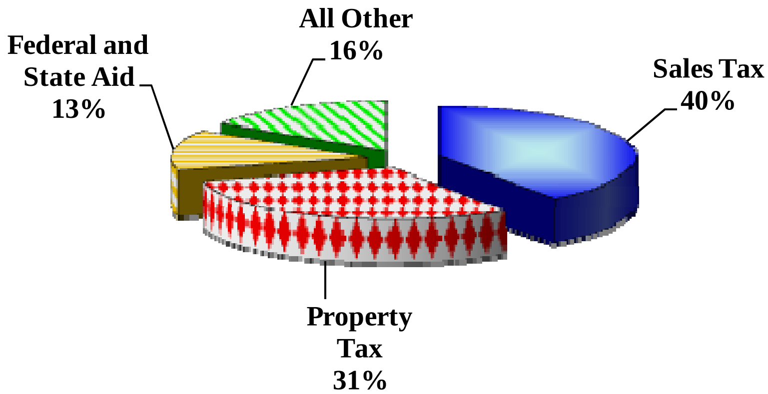
MAJOR FUNDS				
($ in millions)	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**
Sales Tax	$1,054.7	$1,086.4	$1,124.4	$1,163.8
Property Tax	801.9	801.9	801.9	801.9
Federal and State Aid	349.7	357.5	365.5	373.7
All Other	417.3*	380.2	389.1	397.5
Total	**$2,623.6**	**$2,626.0**	**$2,680.9**	**$2,736.9**

* Includes use of $10 million of fund balance.

SEWER & STORM WATER RESOURCE DISTRICT				
($ in millions)	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**
Fund Balance	$ 70.3	$ 70.9	$ 30.3	$ 0.0
Transfer from SSWFA	96.4	94.7	93.6	93.2
All Other	13.5	18.2	18.8	17.8
Total	**$180.2**	**$183.8**	**$142.7**	**$111.0**

[2] The analysis contained in this report is primarily a discussion of the four Major Funds within the Nassau County budget. These funds consist of the General Fund, Police District Fund, Police Headquarters Fund and the Fire Commission Fund. This report also includes a discussion of the Sewer and Storm Water Resource District and includes a discussion of "Net Cost" in the Appendices.

FY 2009 Composition of Revenues



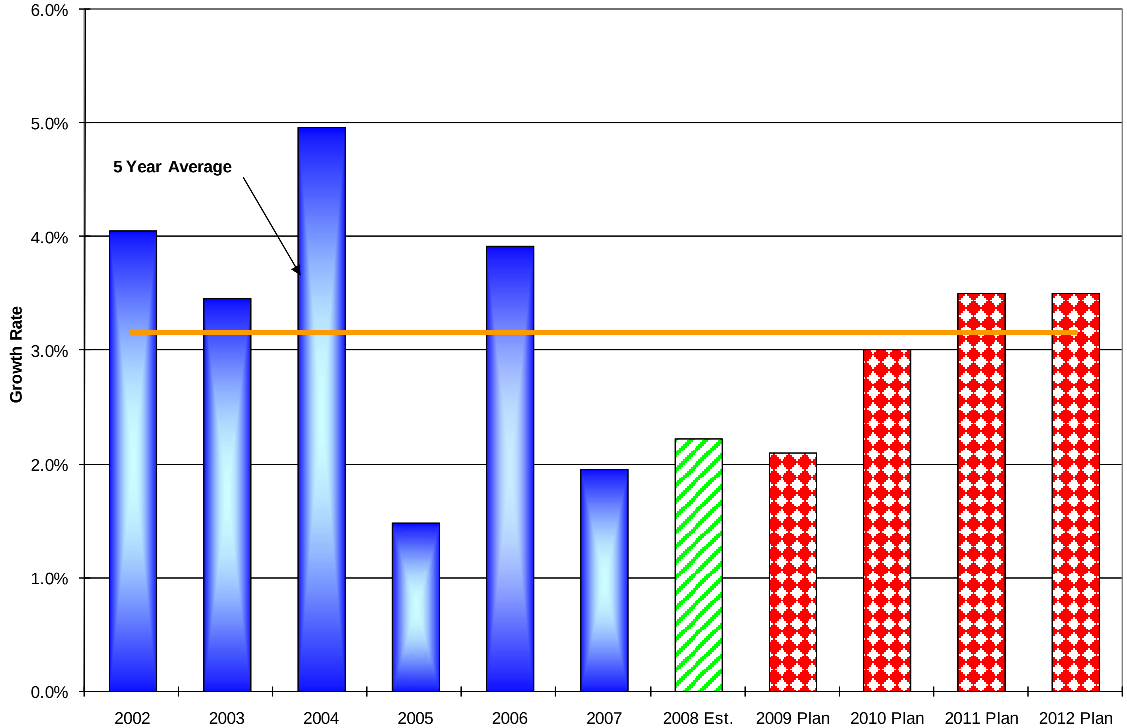
★ ***Sales Tax*** ★

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
$1,054.7	$1,086.4	$1,124.4	$1,163.8

The current sales tax rate in Nassau County is 8.625%, of which 4% is the State's share, 4% is the County's share, 0.375% is allocated to the Metropolitan Transportation Authority, and the remaining 0.25% is distributed to the towns and cities in the County. Sales tax is the largest revenue source for the County, comprising 40% of all revenues counted in this analysis, and is budgeted at $1,054.7 million for FY 2009.

The proposed Plan projects that baseline sales tax revenues will grow by 2.1% in 2009, 3.0% in FY 2010, and 3.5% in each of FY 2011 and FY 2012. These Out-Year growth rates may be consistent with growth rates experienced over the past five years – when the County benefited from a number of positive economic events such as strong jobs growth and rising housing prices – but are significantly more robust than year-to-date experience. As shown in Chart 1, sales tax revenues have grown by an annual average of 3.2% over the last 5 years. However, as discussed in the FY 2008 Recap on page 9, we are concerned that current economic weakness may negatively impact sales tax collections in FY 2008, resulting in a lower base on which to grow in subsequent years. Therefore, we believe that projected sales tax revenues may be overstated.

(Chart 1)
ANNUAL SALES TAX GROWTH HAS AVERAGED 3.2 PERCENT DURING THE LAST FIVE YEARS



This has been a turbulent year and many economists fear that the economy will continue to slow and result in flat or negative increases in sales tax collections. As a consequence, the County has reduced its FY 2008 and FY 2009 sales tax growth rate assumptions to 2.1% from 2.5% and 3.0%, respectively.

As previously discussed, even if these estimates were on target when the proposed Plan was submitted to NIFA on September 15th, the economic situation has clearly deteriorated. Bolstered by a strong first quarter, YTD sales tax revenues have grown by 2.1%. However, sales tax collections have slowed over the past six months, growing by only 1.5% compared to the same period last year. Receipts from holiday shopping will be determinative; however, we believe that sales tax revenue is highly unlikely to meet the projections in the proposed Plan.

Flat sales tax collections in the fourth quarter of FY 2008 coupled with no growth in FY 2009 could result in a potential shortfall of approximately $28 million, and for each additional one percentage point decline in sales tax revenue there would be an additional loss of $10 million. Consequently, sales tax revenue should be closely monitored and the requested contingency plan should be implemented in case shortfalls develop.

★ ***Property Tax*** ★

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
$801.9	$801.9	$801.9	$801.9

Property taxes are the second largest revenue source for the County and provide a predictable and recurring revenue stream. They comprise approximately 31% of revenues for the Major Funds and are budgeted at $801.9 million in FY 2009, which is $28.5 million, or 3.7% above FY 2008. When combined with the proposed $6.1 million increase in the Sewer and Storm Water Resource District tax levy, there is an aggregate property tax levy increase of $34.4 million, or 3.9%.

As shown in Table 2, the proposed increases bring the three year change in the County's Major Funds tax levy to $63.3 million, or 8.6% above the tax levy set in FY 2006. The County partially mitigated this increase – only for residents living within a County managed sewer district – by reducing its sewer assessments by $28.9 million over the same period. This was accomplished by using (substituting) sewer fund balance for operating revenues, as discussed in "Sewer and Storm Water Services" on page 38.

We have noted many times that the use of non-recurring revenue and reserves to support recurring expenditures is a poor fiscal practice. The use of "one shot" revenues and the depletion of reserves exacerbate the budgetary structural imbalance that has plagued the County and is a conscious decision to avoid paying for current services with current revenues.

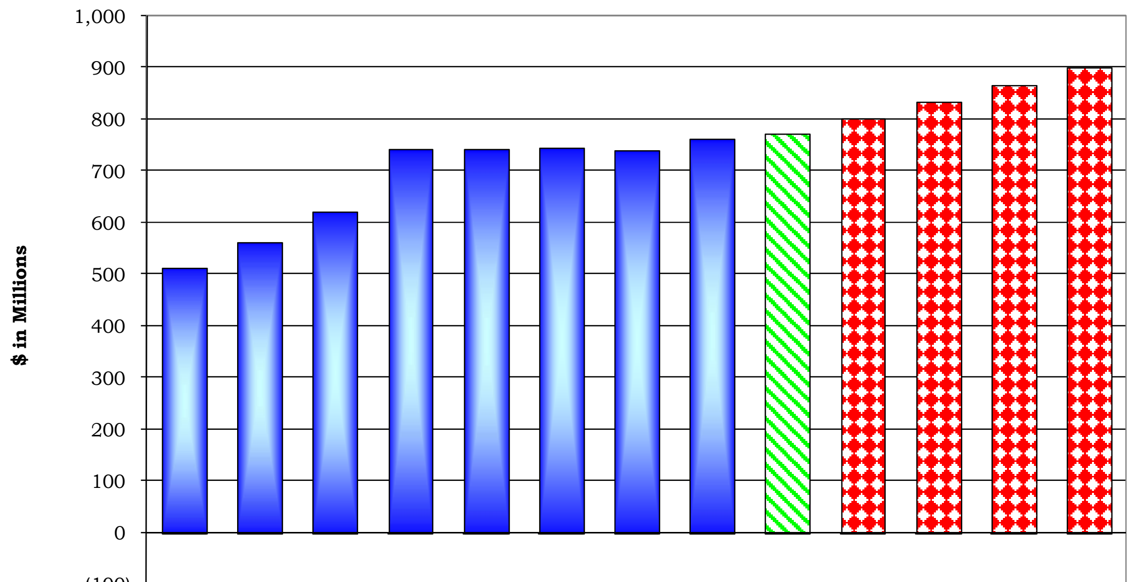
(Table 2)
THREE YEAR CHANGE IN PROPERTY TAX LEVY

($ in millions)	Adopted FY 2006	Proposed FY 2009	Change
Parks, Fire Commission and General Fund	$147.0	$182.6	$35.6
Police District	333.6	340.7	7.1
Police Headquarters	258.0	278.6	20.6
Major Operating Funds Total	**$738.6**	**$801.9**	**$63.3**
Sewer assessments	138.9	110.0	(28.9)
Total	**$877.5**	**$911.9**	**$34.4**

Chart 2 depicts the actual property tax collections of the Major Funds from FY 2000 - FY 2007 and the property tax levy from FY 2008 - FY 2012, which includes the County Executive's proposal to implement annual property tax levy increases totaling 3.9% beginning in FY 2009. If these proposed tax increases are approved, it will raise property tax revenues by $28.5 million in FY 2009, by $60.1 million in FY 2010, by

$93.0 million in FY 2011, and by $127.2 million in FY 2012. They will also result in the Major Funds annual tax levy increasing by $387.3 million, averaging 4.8% annually since FY 2000.

(Chart 2)
PROPERTY TAXES
FY 2000 – FY 2012



	00 Actual	01 Actual	02 Actual	03 Actual	04 Actual	05 Actual	06 Actual	07 Actual	08 Budget	09 Plan	10 Plan	11 Plan	12 Plan
Tax Levy	513.3	563.6	620.7	741.8	743.0	745.9	739.6	762.5	773.4	801.9	833.5	866.4	900.6
Growth Rate	9.9%	9.8%	10.1%	19.5%	0.2%	0.4%	-0.8%	3.1%	1.4%	3.7%	3.9%	3.9%	3.9%

Years

★ ***Federal and State Aid*** ★

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
$349.7	$357.5	$365.5	$373.7

Federal and State Aid ("Aid") totals $349.7 million in the proposed Budget or 13.3% of total revenues. Aid projections are developed on a program basis in conjunction with the County's operating departments. Most of the Aid is reimbursement for health and human services programs.

Aid projections in the proposed Budget are approximately $8.3 million higher than in the FY 2008 Budget, all of which stems primarily from changes in social services programs. These increases in Aid are offset, in part, by an anticipated reduction in Federal aid for housing fewer Federal inmates and detainees in the Correctional Center.

The Out-Years contain average increases of 2.3% for Aid, with these revenues growing to $357.5 million in FY 2010, $365.5 million in FY 2011, and $373.7 million in FY 2012.

★ *Other Revenue* ★

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
$417.3	$380.2	$389.1	$397.5

The remaining revenues in the proposed Budget are budgeted at $417.3 million. The other revenues included in this category are: departmental revenues; special taxes; rents and recoveries; fines and forfeitures; interest penalty on taxes; permits and licenses; investment income, and fund balance use.

Departmental revenues are budgeted at $106.3 million in FY 2009 and are expected to remain flat through the life of the proposed Plan. However, it is unclear if certain revenue targets can be achieved in light of the weakening economy and housing market. Furthermore, even if they meet their revenue targets - advertising, concession and other user fee based revenue in the Parks Department; mortgage recording fees in the County Clerk's Office; and ambulance billing revenue in the Police Department - they may be difficult to sustain.

Rents and recoveries, which are budgeted at $44.9 million in FY 2009, decrease by $15.3 million in FY 2010 and remain at that level during the remainder of the proposed Plan. The decrease is attributable to the County's use of the remaining $15.3 million of tobacco reserves as a one shot in FY 2009. Fund balance of $10 million is also used in FY 2009 as revenue, but the proposed Plan assumes that no additional fund balance will be used beyond FY 2009.

The proposed Budget also includes $2.5 million of Smart Government Initiatives ("SGIs"). Many of these SGIs have been in development, with limited progress and financial benefit, for some time. Nevertheless, they are being included in the baseline calculations for FY 2009 where the expectation is that they will generate additional revenue or reduced expenses.

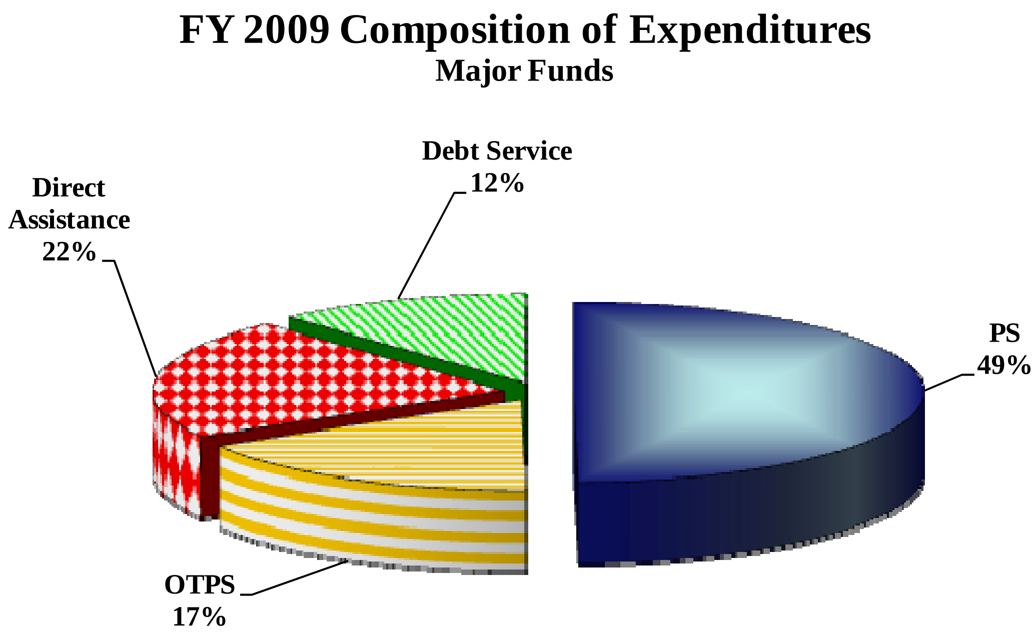
EXPENDITURES

The proposed Budget for the Major Funds consists of approximately $2.6 billion of expenditures for FY 2009, excluding interdepartmental transfers.[3] The proposed Budget also includes approximately $180 million in expenditures for the Sewer and Storm Water Resource District ("SSWRD") Fund. The expense categories identified in the tables below are discussed in more detail in the sections that follow. Our discussion focuses on the Major Funds.

MAJOR FUNDS				
($ in millions)	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**
Personal Services	$1,306.0	$1,360.9	$1,430.5	$1,486.6
Other Than Personal Services	438.6	443.3	450.2	459.7
Direct Assistance	568.6	586.5	604.7	623.4
Debt Service	310.4	341.5	354.1	361.2
Total	**$2,623.6**	**$2,732.2**	**$2,839.5**	**$2,930.9**

SEWER & STORM WATER RESOURCE DISTRICT				
($ in millions)	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**
Personal Services	$ 34.2	$ 35.6	$ 37.5	$ 39.2
Other Than Personal Services	111.3	114.7	118.7	124.0
Debt Service	34.8	33.5	32.5	34.2
Total	**$ 180.2**	**$ 183.8**	**$ 188.7**	**$ 197.4**

3 The analysis contained in this report is primarily a discussion of the four Major Funds within the Nassau County budget. These funds consist of the General Fund, Police District Fund, Police Headquarters Fund and the Fire Commission Fund. This report also includes a discussion of the Sewer and Storm Water Resource District and includes a discussion of "Net Cost" in the Appendices.



★ ***Personal Services (PS)*** ★

- Refers to all expenses related to payroll including fringe benefit costs for both current and retired employees.

The County projects that personal services expenditures for the Major Funds will be $1.3 billion in FY 2009, approximately $1.4 billion in FY 2010 and FY 2011, and almost $1.5 billion in FY 2012. The following table breaks out the key components within Personal Services for the Major Funds for each year of the proposed Plan. The narrative that follows is our analysis of the risks inherent in the County's projected funding.

The County is committed to finding ways to reduce Personal Services costs which comprise nearly 50% of total expenditures. The County can constrain the growth in these costs in two ways: slowing the increases in salary and fringe benefits, which needs to be addressed in the context of collective bargaining for most County employees, and a reduction in the number of budgeted positions.

BREAKOUT OF PERSONAL SERVICES EXPENDITURES

FY 2009 -2012

($ in millions)	FY 2009	FY 2010	FY 2011	FY 2012
Salaries and Wages:				
Headcount (HC)	$ 718.6	$ 744.8	$ 771.1	$ 799.2
Overtime (OT)	55.4	57.4	59.2	61.3
Terminal Leave	34.5	34.5	34.5	34.5
All Other Payouts	72.9	75.7	89.0	87.7
Subtotal Salaries & Wages	$ 881.4	$ 912.4	$ 953.8	$ 982.7
Fringe Benefits:				
Health Insurance	236.6	255.3	271.9	289.6
Pension Contributions	96.0	95.1	107.0	112.4
Social Security	62.7	65.2	67.7	70.3
All Other	12.3	15.3	11.7	12.3
Subtotal Fringe Benefits	$ 407.6	$ 430.9	$ 458.3	$ 484.6
Workers' Compensation	17.0	17.6	18.4	19.3
Total	**$1,306.0**	**$1,360.9**	**$1,430.5**	**$1,486.6**

Salaries and Wages

Salaries and Wages is the largest category within Personal Services and is projected to total approximately $881 million in FY 2009 and reach almost $1 billion by FY 2012. Therefore, the County will have to focus its efforts directly on finding ways to reduce these labor costs.

The County can constrain the growth in these costs in two ways: headcount management and slowing the increases in salary and fringe benefits. Notwithstanding the complexity of contract negotiations, the County established a series of ambitious labor savings targets for each of its unions and did manage to successfully achieve some savings with its PBA, ShOA and DAI contract settlements. The CSEA and SOA contracts are still outstanding and arbitration is ongoing. We believe that additional savings may be achieved if the arbitrations follow the patterns of the previous contract settlements; however, some negotiated items are unique to public safety unions and cannot be applied to CSEA. When this difference is factored in, together with a percentage of savings realized in other contracts, we feel that the County may fall short of its concession target by $6 million.

PROJECTED LABOR CONCESSIONS

FY 2009-2012

($ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	Total
Baseline Estimates					
CSEA	$ 14.4	14.8	15.3	15.8	60.3
SOA	10.0	10.4	10.8	11.2	42.4
Total Baseline Estimates	**$ 24.4**	**$ 25.2**	**$ 26.1**	**$ 27.0**	**$ 102.7**

The following sections highlight those components of Salaries and Wages in the Major Funds that we believe contain degrees of risk.

Headcount (HC)

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
$ 718.6	$ 744.8	$ 771.1	$ 799.2

Headcount is the dollar amount budgeted only for positions (excluding other payouts such as overtime, terminal leave, etc.) and the proposed Plan projections reflect a year-to-year funding growth rate of approximately 3.6%. When factored together with the small reduction in budgeted headcount, NIFA believes that this reasonably reflects the resources needed to fund salary increases.

The proposed Budget provides funding for 9,170 positions, which is 272 positions lower than it was in January 2002, but is 1,128 more than the current Administration's goal articulated in its second multi-year plan (FY 2003 – 2006).

As of mid-September 2008, the County had approximately 300 vacant, but funded, positions. While the proposed Budget eliminates approximately 50 of these vacancies, it continues to fund more than 250 positions at substantially their full value. Historically, the County keeps a sizeable number of these funded positions vacant as a hedge against uncertainties. The County can realize approximately $10 million in savings by keeping these positions vacant. Additional relief may be realized by delaying, reducing, and/or cancelling scheduled police and correction officer classes.

A 2009 headcount comparison table and a table identifying budgeted positions and their funding are included in the Appendices at the conclusion of this report.

Overtime (OT)

($ in millions)			
FY 2009	FY 2010	FY 2011	FY 2012
$55.4	$57.4	$59.2	$61.3

The County's overtime expenditures are primarily in the Police Department – consisting of the Police Headquarters ("PDH") and Police District ("PDD") – and Correctional Center ("CC") and comprise approximately 58% and 30% of the total overtime spending, respectively. The County has decreased the funding for overtime in these departments by approximately $4.5 million in the proposed Budget compared to the FY 2008 Adopted Budget. We are concerned about this decreased allocation because both current and historical spending do not support this reduction. Despite the County's continued efforts to curtail overtime costs, this has yet to become evident in the overtime spending patterns indicated below:

OVERTIME COMPARISON

CODE	DEPARTMENT	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Adopted	FY 2009 Proposed	FY 2005 thru FY 2007 3 YR AVG	COMP OF FY 2009 to 3 YR AVG % CHNGE
CC	Corrections	$22,588,439	$22,228,772	$24,931,106	$17,859,175	$16,560,000	$23,249,439	-40.40%
PDD	Police Department	28,572,697	21,393,173	23,809,043	17,886,236	15,232,384	24,591,638	-61.44%
PDH	Police Headquarters	23,956,760	22,354,321	20,425,410	16,967,033	16,730,532	22,245,497	-32.96%
	All other	4,914,524	4,439,777	8,514,606	7,246,738	6,910,243	5,956,302	13.80%
	Total OT	**$80,032,420**	**$70,416,043**	**$77,680,164**	**$59,959,182**	**$55,433,159**	**$76,042,876**	**-37.18%**

Overtime spending in FY 2008 is projected to be in line with the three year average and due to overly optimistic savings assumptions in the Adopted Budget will result in a significant overtime deficit. Consequently, further reducing the overtime funding in the proposed Budget seems unwise and unachievable. Without clearly outlining how the County intends to manage these costs, the proposed reduction in the appropriations for the Police Department and the Correctional Center will likely result in overspending of at least $15 million for FY 2009. We feel this poses a significant financial risk to the County.

Terminal Leave

($ in millions)			
FY 2009	FY 2010	FY 2011	FY 2012
$34.5	$34.5	$34.5	$34.5

Terminal Leave provides a monetary sum to employees upon termination for items such as unused vacation time and sick leave. Our analysis focuses on Police Termination because it comprises approximately 72% of the entire Terminal Leave payout per year (current and Out-Years). As in FY 2008, the proposed Plan assumes the

Police Department will experience the historical average of 100 police separations at a cost of $24.5 million. We are concerned that this time, however, the County plans to tap approximately $11.0 million from its Employee Accrued Liability Reserve Fund (Termination Reserve) to cover almost half of this recurring, but fluctuating operating expense.

The County created this Termination Reserve to provide extra resources to the Police Department in the event that it experienced an unanticipated surge in retirements. We question the fiscal prudence of budgeting resources drawn from the Termination Reserve at a time when the projected number of police retirements is in line with the historical average. We feel the County should provide sufficient funding within its operating budget to cover these ordinary levels of recurring expenditures and draw from the Termination Reserve only after it has determined that the number of police separations is actually greater than anticipated. Furthermore, we consider this action to be at risk until the County Legislature authorizes the use of these resources.

All Other (Salaries & Wages Payouts)

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
$72.9	$75.7	$89.0	$87.7

Other County payouts include, but are not limited to, such items as health insurance buybacks, auto mileage, police department special assignment pay, holiday pay and similar types of payouts. The Longevity payout, which provides supplemental wages based on years of service, is also part of this subcategory. The recent PBA Award increased the longevity payout schedule, therefore, expenditures will need to be monitored closely to determine whether funding is sufficient because there is only a modest increase in funding from the allocation in the FY 2008 Adopted Budget.

Fringe Benefits

Fringe benefit costs are projected to reach $407.6 million in FY 2009 and grow to $484.6 million in FY 2012, reflecting annual growth of approximately 5%. These projections include anticipated savings from union concessions worth approximately $18 million per year. Despite certain available reserves, our analysis indicates that these costs may be understated.

Health Insurance

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
$236.6	$255.3	$271.9	$289.6

The County assumes that health insurance costs will grow 6.75% in FY 2009 for both active employees and retirees. The New York State Department of Civil Service provides "advance" guidance of health insurance rates and these are characterized as "pessimistic," "best estimate," or "optimistic." The County has based its own projections using rates that fall somewhere between "best estimate" and "optimistic" for both active employees and retirees, but these rates will not be finalized until late November or early December.

Although the County concedes that health insurance costs for both active and retired County employees have grown by about 10% annually, they have been able to manage costs by not filling certain vacancies; therefore, the FY 2009 projections are not unreasonable. However, we are concerned that the County's Out-Year annual growth rate assumptions of 6.5% may be too low and may result in health insurance costs that exceed planned amounts.

Health insurance costs are one of the primary elements that comprise Other Post Employment Benefits ("OPEB"). While an actuarially determined valuation of the County's total liability for these benefits is estimated to be $3.7 billion, the County is currently required to fund these costs only on a pay-as-you-go basis. One of the reasons for this significant liability is that the County contributes 100% of the health insurance costs for substantially all of its employees and retirees.

Pension Contributions

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
$96.0	$95.1	$107.0	$112.4

Pension contributions are payments to both the Employees' Retirement System ("ERS") and the Police and Fire Retirement System ("PFRS") of New York State.[4] The proposed Plan reflects savings in FY 2009 and FY 2010 from lowered contribution rates that resulted from strong investment performance by the Common Retirement Fund, which invests the assets of ERS and PFRS in recent years. Unfortunately, the current economic crisis and associated stock market selloff has negatively impacted the Fund's investment performance this year and will assuredly result in higher pension costs in future years. While the Fund attempts to mitigate employer cost volatility by using, among other actuarial methods, a rolling five year smoothing algorithm to calculate required contribution rates, absent a rapid stock market turnaround, pension costs are likely to rise significantly by FY 2011.

The County's pension obligation for FY 2009 is estimated to be $96.0 million. In order to pay that bill, the County intends to use approximately $73 million of operating revenue and $23 million of projected FY 2008 surplus. If the surplus is not realized, the

[4] The County participates in the New York State and Local Employees' Retirement System, the New York State and Local Police and Fire Retirement System, and the Public Employees' Group Life Insurance Plan. The local participating employer contribution rates for each retirement system are set by the State Comptroller and are payable by the County each February 1st.

County will have a shortfall that it will need to fund from other sources, as discussed on page 9.

We are very concerned about the direction of the County's pension reserves because it was virtually exhausted at the start of FY 2008, despite the fact that it held $80 million at the beginning of FY 2005. The County has drawn down these resources each year to pay for a portion of its pension obligation despite declining pension contribution rates over the same period. We have questioned the County's practice of tapping this reserve during periods of relative stability and have advised that it be saved for periods when extraordinary increases could threaten County finances. The County will experience the full brunt of higher pension contribution rates in future years because they have used up this reserve.

<u>Workers' Compensation</u>

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
$17.0	$17.6	$18.4	$19.3

This is the second year that the County has budgeted separately for Workers' Compensation expenditures. The projections for Workers' Compensation in the proposed Plan are comparable to those in the May Update for the first two years of the proposed Plan but higher for FY 2011.

As part of its consolidation effort, the County has created the Risk Management Unit which is part of the Office of Management & Budget ("OMB"). The County maintains that this Unit will improve forecasting and provide better management to help reduce the financial impact of claims and lawsuits.

Most of the projected Workers' Compensation savings are based on an initiative to transfer the County's current permanent and partial disability claims to an insurance company, for a lump sum fee. This transaction is called a Loss Portfolio Transfer ("LPT"). The County has projected a net savings of $5 million in FY 2009, which includes the $4 million additional cost of debt service resulting from financing the LPT fee in FY 2009. Consequently, if the LPT does not occur in FY 2009, the County's projected net savings for Workers' Compensation is at risk. Furthermore, while the County has included Out-Year savings from this initiative, it has not accounted for the future debt service costs resulting from this transaction.

NIFA is concerned with the funding levels for Workers' Compensation expenditures on two fronts. First, we are concerned that a failure to effectuate the LPT would jeopardize the budgeted savings in FY 2009. Second, we note the possibility that disabled claimants who settle for lump sum payments could, once again, become a recurring cost to the County should they exhaust their settlements and become eligible for public assistance.

★ ***Other Than Personal Services ("OTPS")*** ★

- The day-to-day cost of doing business such as the purchase of office supplies and equipment, contractual services, payments for tax certiorari settlements, etc.

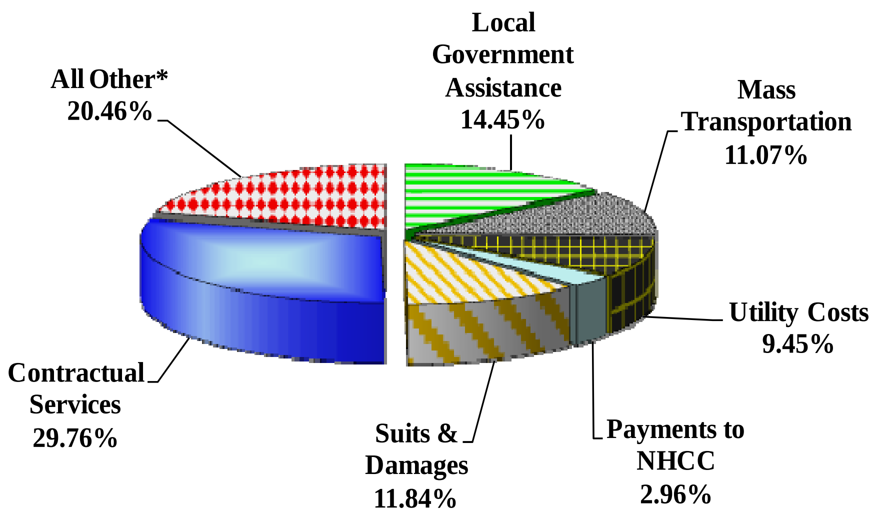
County OTPS expenditures are composed of several large categories of spending, not related to headcount costs and payouts. The following table breaks out the key components within OTPS for each year of the proposed Plan. The narrative that follows is our analysis of the risks inherent in the County's projections.

BREAK OUT OF OTHER THAN PERSONAL SERVICES EXPENDITURES

FY 2009 -2012

($ in millions)	FY 2009	FY 2010	FY 2011	FY 2012
Local Government Assistance	$ 63.4	$ 65.3	$ 67.5	$ 69.8
Mass Transportation	48.6	49.1	49.8	50.6
Utility Costs	41.5	42.6	43.6	44.6
Payments to NHCC	13.0	13.0	13.0	13.0
Suits and Damages*	51.9	52.0	52.0	52.1
Contractual Services	130.5	131.1	133.1	136.1
All Other	89.7	90.2	91.2	93.5
Total	**$ 438.6**	**$ 443.3**	**$ 450.2**	**$ 459.7**

FY 2009 Composition of OTPS
Major Funds



Local Government Assistance

($ in millions)			
FY 2009	FY 2010	FY 2011	FY 2012
$63.4	$65.3	$67.5	$69.8

The County remits sales tax revenue to towns and cities resulting from the 0.25% portion of the sales tax charged on purchases made within Nassau County and are an offset to the aggregate overall 8.625% sales tax rate the County receives. Because the remittance to towns and cities is based on a computation applied to sales tax receipts, the projected funding levels increase or decrease at the same rate as the County. Should County sales tax collections grow more slowly than assumed, these expenditures would decrease in tandem.

Mass Transportation

($ in millions)			
FY 2009	FY 2010	FY 2011	FY 2012
$48.6	$49.1	$49.8	$50.6

The $48.6 million projection for FY 2009 breaks out as follows:

($ in millions)	FY 2009
MTA LI Bus Subsidy	$ 7.5
MTA Able Ride	3.0
LIRR (station maintenance)	26.5
LIRR (operations support)	11.6
Total	**$ 48.6**

While the funding for the MTA subsidies and LIRR operational support remain constant for the Out-Years, the proposed Plan inflates the Long Island Railroad station maintenance by 2% in FY 2009 and 3% annually in the Out-Years. In spite of the continuing fiscal distress experienced by the MTA Long Island Bus, thus far the County has not been called upon to increase its subsidy in order to help mitigate shortfalls.

Utilities

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
$41.5	$42.6	$43.6	$44.6

The County's projection for utility costs for the Major Funds in FY 2009 reflects a decrease from the levels funded in the FY 2008 Adopted Budget. As indicated in the chart below, the funding for the most significant utility category of "light, power and water" demonstrates a decrease of almost $1.5 million. Similarly, the County estimates that its payments to Tri-Gen will decline by almost $400,000. As discussed below, the County will need to closely monitor its utility costs to ensure that variances are recognized immediately should energy prices and usage exceed current assumptions.

SUBOBJECT TITLE	Sum of 2008 Adopted Budget	Sum of 2009 Proposed Budget	FY 2009 to FY 2008 Inc/(Dec)
BROKERED GAS	2,425,979	2,301,619	(124,360)
CELLULAR PHONE	361,500	855,914	494,414
ENERGY CONSERVATION SAVINGS	1,164,000	1,150,264	(13,736)
FUEL	2,025,445	2,248,854	223,409
GREEN CHOICE FUEL	219,510	0	(219,510)
LIGHT,POWER, WATER	19,797,326	18,340,715	(1,456,611)
TELEPHONE	7,029,244	7,749,468	720,224
TRI-GEN NASSAU DIST ENERGY CORP.	7,724,800	7,327,299	(397,501)
WATER	1,582,539	1,478,639	(103,900)
Grand Total	**42,330,343**	**41,452,772**	**(877,571)**

Although the County has indicated that it plans to reduce fuel costs by moderating the temperatures in County buildings, we are unaware of any energy studies that support the County's estimate.

Overall, the County projects that expenditures for utilities in the Major Funds will grow by approximately 2.5% annually in the Out-Years. It is unclear if this indicates that the County has stopped pursuing energy alternatives as it has also removed its "Energy Efficiency Improvements Program" from its list of Smart Government Initiatives.

Payment to NHCC

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
$13.0	$13.0	$13.0	$13.0

The proposed Plan continues the County's "historic mission payments" of $13 million per year to the Nassau Health Care Corporation ("NHCC"). The cost of retiree health insurance and termination pay for certain employees of the County who became NHCC employees when it separated from the County, are accounted for separately in the Fringes and Salaries and Wages categories and is estimated at approximately $24.1 million for FY 2009 with approximate annual growth of 6% in the Out-Years. Eventually, after these former County employees retire, the County will no longer have any responsibility for termination pay. The County projects that the overall costs, including retiree health insurance, termination pay and other subsidies will grow to $42.0 million by FY 2012.

Suits and Damages

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
$51.9	$52.0	$52.0	$52.1

Suits and Damages includes payments out of its operating budget for certiorari refunds and other non-certiorari judgments and settlements. The County projects that in FY 2009 it will make certiorari payments of $50 million. Unlike in prior financial plans, no adjustments have been made for inflation in the Out-Years.

While the County has also discussed transitioning to paying for non-certiorari judgments and settlements in its operating budget, it has included $10 million in the capital budget to finance these costs in FY 2009, a practice which the Administration understands is not optimal.

Every municipality encounters judgments and settlements in the normal course of business. Within a limited range, these costs are predictable. Consequently, they should be budgeted as part of the normal operating budget. Only in the case of extraordinary judgments or settlements should they be funded through borrowing or from an appropriate reserve.

Certiorari

Resolution of the certiorari problem has been seen as essential to Nassau County's return to fiscal stability. The State Legislature recognized the severity of the problem and under the legislation that created NIFA in June of 2000, it was given the authority to borrow on behalf of Nassau County up to $800 million for cert settlements and judgments. The County was also given $5 million of State aid to assist it in streamlining the tax cert claims process. To those amounts, the County has also added $50 million in additional cert borrowing, a practice which NIFA had discouraged, and has promised to pay at least $50 million annually out of its operating budget.

These huge influxes of money and a concerted effort on the part of the County have helped to bring the backlog down to approximately $100 million at the end of 2007. We have been advised that the backlog may be as low as $75-$80 million at the end of 2008, including $43-$45 million of new cert claims filed in 2008 that are deemed meritorious. However, we are concerned that rapidly falling property values may lead to dislocations in the assessment process and a consequent increase in certiorari refunds.

Even assuming that the County appropriates the $50 million per year that it has repeatedly promised, and uses the remaining $20 million of bond proceeds on hand, it will take many years to pay off the current backlog out of operating revenue. Although this is not optimal and, at $50 million annually, continues to divert valuable resources that could be used to deliver County services, it appears to be a feasible plan.

Unfortunately for County residents, the annual cost of the cert problem goes beyond simply paying for successful cert appeals. For example, in addition to the $50 million that is budgeted to pay cert refunds, the County has the following expenditures budgeted in FY 2009:

- $146 million for debt service costs related to past certiorari borrowing;
- $5.6 million plus fringes to support ARC;
- $15.8 million plus fringes to support the Department of Assessment; and
- significant unspecified funds to support the County Attorney's defense of claims, the Treasury Department's payment of claims, and the new computers and other equipment utilized by the foregoing.

The County also has several large certiorari related lawsuits pending which the County has already decided it will fund from bond proceeds if there is a negative outcome.

Contractual Services

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
$130.5	$131.1	$133.1	$136.1

The County uses outside contractors for many different services. Within the Major Funds the bulk of these are in the Health and Human Services vertical and are for payments to program agencies at a cost of approximately $37.6 million per year. Another large expense is related to medical and psychiatric services in the Correctional Center, with costs averaging $21 million per year in the proposed Plan.

All Other OTPS

($ in millions)			
FY 2009	FY 2010	FY 2011	FY 2012
$89.7	$90.2	$91.2	$93.5

This subcategory contains the remaining items not previously highlighted in our discussion of OTPS. It includes such items as equipment, rent, and various office supplies. It also includes expenditures for gasoline that are projected to grow by 36% in FY 2009. We believe the County is adequately funding and monitoring these expenses.

★ *Direct Assistance* ★

- Governmental support that includes programs such as pre-school special education and early intervention, public assistance, Medicaid, day care programs, and institutional expenses.

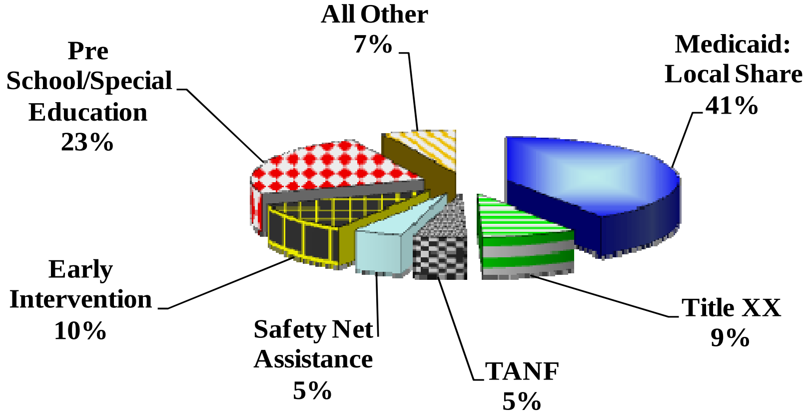
The County projects expenditures for Direct Assistance to grow by approximately 2.75% annually. These social service costs encompass entitlement benefits for clients enrolled in a variety of support programs within the County. The five major sub-categories are presented in the table below and are discussed in subsequent sections. Overall, our analysis indicates that the County has reasonably estimated these costs, but each program should be monitored closely in light of the recent economic downturn that will likely result in a greater demand for social service programs and direct assistance than projected.

DIRECT ASSISTANCE EXPENDITURES

2009-2012

($ in millions)	FY 2009	FY 2010	FY 2011	FY 2012
Medicaid: Local Share	$ 231.6	$ 238.1	$ 244.8	$ 251.7
Title XX	49.7	51.7	53.6	55.6
TANF	27.6	28.5	29.4	30.4
Safety Net Assistance	26.2	27.1	28.0	28.8
Early Intervention	60.1	62.4	64.8	67.3
Pre-School/Special Education	133.9	137.7	141.6	145.6
All Other	39.5	41.0	42.5	44.0
Total	**$ 568.6**	**$ 586.5**	**$ 604.7**	**$ 623.4**

FY 2009 Composition of Direct Assistance



<u>Early Intervention & Pre-School Special Education</u>

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
Early Intervention			
$60.1	$62.4	$64.8	$67.3
Pre-School/Special Education			
$194.0	$200.1	$206.4	$212.9

The Early Intervention Program provides specialized services to families with children under age three with developmental delays and disabilities. As children get older, they become eligible for partner components of the Program such as the Pre-School Program for ages 3-5 and the School-Age Program for ages 6 and older.

The County's growth rate assumption for Early Intervention expenditures is approximately 3.75% per year and a little over 3.0% for Pre-School/Special Education. The County has indicated that its lower growth rate assumption for Pre-School is based on a projected decrease in the number of students enrolled whereas it is projecting an increase in Early Intervention caseloads. NIFA believes that if the County's growth rate assumptions are accurate, then it cost estimates for both Early Intervention and Pre-School/Special Education are not unreasonable.

Medicaid

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
$231.6	$238.1	$244.8	$251.7

Expenditures for Medicaid recipients cover a wide range of services, including payments for nursing homes, hospitals, home health care, and pharmaceuticals. The growth in these expenditures is limited by a State-enacted cap on the local share of Medicaid spending. The cap formula will ensure that the County's share of Medicaid costs grow by no more than 3% annually. The County's funding allocation for FY 2009 and the Out-Years is consistent with this cap.

Public Assistance

($ in millions)			
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
TANF			
$27.6	$28.5	$29.4	$30.4
SNA			
$26.2	$27.1	$28.0	$28.8

The County is projecting that its expenditures for Temporary Assistance for Needy Families ("TANF") and Safety Net Assistance ("SNA") will grow by approximately 3.4% in FY 2009 and by approximately 3.0% annually thereafter. Combined, these costs are expected to increase from almost $54 million in FY 2009 to $59 million in FY 2012. These projections are based on trending information collected by the Department of Social Services.

This information shows that the average caseload for TANF is experiencing a decrease of less than 2% while SNA continues to be on the upward trend with an average caseload increase of just under 10%. This relationship is caused, in part, by the Federal government's five-year limit on TANF benefits. After exhausting their lifetime TANF benefits, many recipients switch to the SNA program requires the County to contribute twice as much. Consequently, the upward trend in the SNA caseload puts even greater pressure on the County's public assistance budget.

Although changes in public assistance caseload and expenditures are difficult to predict, we know that the demand for public assistance services is closely related to the economic climate because recipient grant demand usually increases when there is an economic downturn. Typically, there is a time lag of between 12 and 36 months before demand becomes apparent. Since the County is already beginning to see an increase in demand for these programs, it must be prepared to accommodate even greater demands for services and associated expenditures if the current economic situation worsens.

★ ***Debt Service*** ★

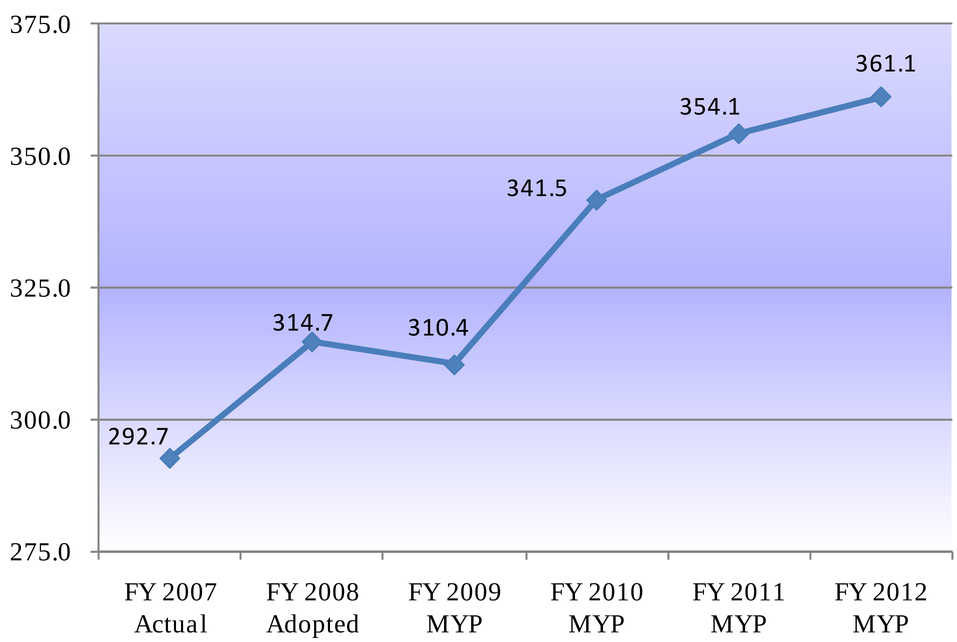
- This is the cost of paying both principal and interest on money that has been borrowed. – or is anticipated to be borrowed – by or on behalf of the County.

The County's Debt Service includes, but is not limited to principal repayment and interest costs for NIFA-issued debt, County-issued debt, County Tax Anticipation Notes ("TANs") and Revenue Anticipation Notes ("RANs").

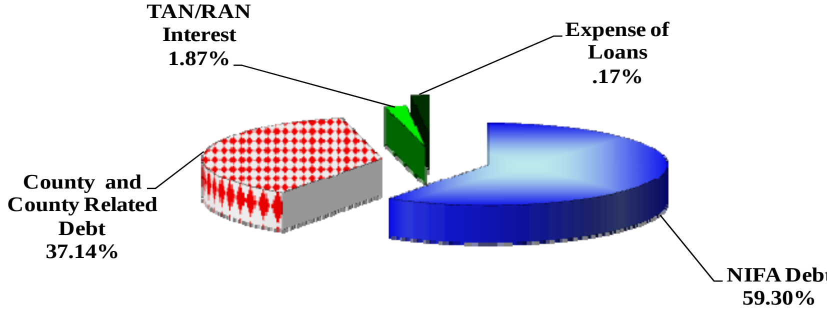
COMPOSITION OF DEBT SERVICE

($ in millions)	FY 2009	FY 2010	FY 2011	FY 2012
NIFA Debt	$ 184.1	$ 188.1	$ 201.4	$ 214.7
County and County Related Debt	115.3	139.9	139.6	133.3
TAN/RAN Interest	5.8	8.8	9.1	8.9
Expense of Loans	5.2	4.7	4.0	4.2
Total	**$ 310.4**	**$ 341.5**	**$ 354.1**	**$ 361.1**

INCREASING DEBT SERVICE EXPENDITURES



FY 2009 Composition of Debt Service
Major Funds



In general, we are seeing some strengthening of the County's borrowing and cash management practices despite lowered investment earnings and uneven financial markets. We attribute the improvements in these areas to stable and increasingly competent in-house staffing at the County level, supported and supplemented by NIFA's monitoring.

We consider it a positive sign that the County successfully re-entered the long term bond market in late 2007 and mid-2008. These financings helped fulfill a goal of the NIFA Act to return the County to the capital markets. We are also note that the County finally entered into an agreement with NHCC for distribution of the proceeds from the April 2006 securitization of tobacco proceeds.

The County has reduced the amount that it budgeted for debt service in FY 2009 due to lowered interest rate assumptions, deferred borrowings in FY 2008, and its refunding in FY 2008. Recent dislocations in the variable rate demand market and higher long term borrowing rates will probably mean that the County's interest rate assumptions are too low. Consequently, the County will need to adjust its borrowing plans accordingly, increase its appropriation for debt service, or potentially be forced to utilize its dwindling reserves.

Regardless of whether FY 2009 estimates are on target, it is clear that in FY 2010 debt service payments will rise dramatically. The increase, currently estimated at $30 million, will have to be funded from operating revenue, which is increasingly being stressed.

The $30 million increase in the 2010 debt service is the result of the County's practice of refunding debt and extending its debt service payments to the maximum time allowed by law. This practice is continuing as evidenced by the proposed SSWFA financing which is discussed on page 38. This is unfortunate because one of the positive comments that the rating agencies previously made about the County was its practice of quickly paying down its debt.

With regard to the County's rebate liability to the Federal government, NIFA has been informed that the County has reduced its accrual for this liability to $1.5 million, although we have no analysis that can confirm the rationale for this reduction. Rebate resolution is a continuing responsibility that this Administration's consultants have not been able to complete in a timely manner despite considerable expenditures and the passage of significant time.

The County is continuing its cash flow borrowings, which it recommenced in FY 2005. The borrowings have increased steadily such that they are budgeted for approximately $250 million in FY 2009. These cash flow borrowings are not uncommon for entities that lack sufficient operating funds to finance on-going operations. In the case of Nassau County, they reflect the County's weakened cash position brought about by its accelerating use of reserves and its uneven timing of receipts and expenditures. It should be noted that even if these financings can be accomplished without resorting to commercial lenders, they will probably be more expensive than budgeted because of rising interest rates on short term debt.

CAPITAL SPENDING IMPACT ON OPERATING BUDGET

The National Advisory Council on State and Local Budgeting ("NACSLB") encourages state and local governments to look to its recommended budget practice statements as a model for improving their budget processes. The Government Finance Officers Association ("GFOA") endorses these recommended budget practices and incorporates them into its criteria for its GFOA Distinguished Budget Presentation Award.

As such, the criteria stipulate the following:

Capital Improvements. Entities are required to define capital expenditures in their budget documents. They must also include the total dollar amount of capital expenditures, as well as a description of significant nonrecurring capital projects and the associated dollar amounts.

Capital Impact on Operations. The extent to which capital projects affect the operating budget should now be described. The most common method is to quantify the operating impact through either savings or additional costs.

The County provides a section in the proposed Budget that fulfills the first budget practice criteria by including a summary of its Capital Improvement Program in the Proposed Operating Budget. Unfortunately, the presentation is off by one year since the proposed Budget and Plan is submitted a month before the Capital Budget. This means that the "Capital Fund" discussion in the FY 2009 Proposed Operating Budget relates to FY 2008 rather than FY 2009.

Because of this mismatch, the second budget practice criteria is not met. Moreover, the impact of the FY 2009 Capital Plan is not reflected in proposed Plan. Although the County tends to highlight the positive aspects of smart government initiatives and capital improvement projects, it rarely provides detailed information regarding the relative cost of capital spending in the proposed Plan. For example, an initiative to increase efficiencies utilizing the latest technology may have a recurring cost that impacts the first year of the proposed Plan as well as the Out-Years. These costs may include expenditures for new employees, maintenance contracts, system upgrades, licensing rights and increased utility costs.

We encourage the County to comply with the NACSLB recommendation to present the CIP's impact on the operating budget in its next multi-year plan submission to allow for the consideration of these costs as possible budget stressors.

SEWER AND STORM WATER SERVICES

In 2003, at the request of Nassau County, the New York State Legislature created the Nassau County Sewer and Storm Water Finance Authority ("SSWFA") and a consolidated County-wide Sewer and Storm Water Resource District ("SSWRD"). As a result of the consolidation, fund balance from 27 collection and 3 disposal districts became available to the County. This windfall has helped the County balance its budget.

For example, the proposed Plan calls for the use of up to $70.3 million of SSWRD fund balance in FY 2009. The County plans to use $41 million of the SSWRD fund balance in the proposed Budget as a non-recurring infusion of cash. The County will use $6 million to replace operating income that will be lost in FY 2009, and $35 million will replace income that was lost when sewer assessments were lowered in FY 2007 and FY 2008. The $35 million in reductions are what allowed the County to claim that it did not increase property taxes in FY 2007 and in FY 2008. In fact, the $20 million decrease in FY 2007 and the $15 million decrease in FY 2008 were offset by corresponding tax increases in the County's Major Funds, as discussed on page 16.

The remaining $29.3 million of the $70.3 million of SSWRD fund balance that is being budgeted for FY 2009 is earmarked for emergency operations or repairs in the SSWRD. The County asserts that any part of the earmarked funds that are not needed will be returned to SSWRD fund balance and be available to mitigate projected Out-Year deficits. Nevertheless, based upon the County's current projections, the SSWRD will have a baseline deficit of over $86 million in FY 2012 and SSWRD fund balance will be substantially exhausted by the end of the same year.

The County has also decided to restructure maturing debt of the SSWFA so that it matures over a longer period of time. This is estimated to save $18 million in FY 2009, $15 million in FY 2010 and $13 million in FY 2011. Of course, the savings are near term because the total principal will have to be paid back, but over a longer number of years than originally anticipated.

Finally, the proposed Plan includes approximately $4 million in additional revenue from imposing a surcharge on high volume users. This revenue is at risk until the surcharge is approved by the Legislature, implemented, and realized by the SSWRD.

We have continually urged the County to make the relationship between the SSWFA, the SSWRD, and the County more transparent. A major step toward accomplishing this goal would be to assign a single person to be in charge of coordination among the entities. In our opinion, this would increase accountability and help alleviate the unforeseen disconnects among certain departments including, but not limited to legal, debt issuance, treasury, public works, planning, and personnel.

NASSAU HEALTH CARE CORPORATION

Additional support for the Nassau Health Care Corporation ("NHCC" or "Corporation") is not mentioned or accounted for in either the proposed Budget or proposed Plan, even though NHCC continues to have serious financial problems that have the potential to negatively impact County finances in FY 2009 and beyond.

NHCC had a baseline gap of more than $12 million in FY 2008, which it claimed would be closed through various actions. Despite repeated assurances that it was on track, NHCC is currently projecting a year-end deficit of $4.8 million in FY 2008 and $8.6 million in FY 2009.

These projected deficits are especially troublesome since they were made before the current economic crisis and despite the fact that NHCC has improved it operations in recent years. For example, discharges, patient days, and average daily census have increased, while full time equivalents ("FTEs") and length of patient stays have gone down. Unfortunately, these have not offset increased personnel and litigation costs, as well as increases in supplies and decreases in State assistance.

As previously indicated, NHCC hopes to trim its FY 2009 baseline gap of $30.9 million to $8.6 million, through certain ambitious gap closing initiatives. For example, it expects to realize $8 million from expanded services and $6 million for reimbursement appeals and other rate enhancements. While NHCC can justify its optimism by pointing to many successfully implemented initiatives in recent years, there is an equally discouraging history of its failure to achieve budgeted targets during the past eight years.

In addition to its own internal efforts, NHCC still receives substantial County support. For example, the County annually gives (and intends to continue giving) $13 million to NHCC for "Mission Payments". The County has also given/pledged $115 million of tobacco bond proceeds and assists by guarantying all of NHCC $296 million in outstanding debt.

These significant deficits indicate that the NHCC model, which assumes that it will provide a certain core of services, may not be feasible despite efforts by NHCC and existing County support. As a result, the County may be forced to provide additional support to NHCC or watch its mission become imperiled. This concern is heightened by NHCC's large exposure to variable rate debt and its precarious unrestricted cash position, which if left unaddressed, is projected to go negative in January 2009.

The aforementioned structural deficit, combined with a very ambitious set of gap closing initiatives and less than two weeks of operating cash on hand, are the reasons that we believe NHCC will likely need further County assistance in FY 2009. NHCC has already requested that the County provide a loan or guarantee a line of credit that it could use in a cash crunch. If the County agrees to either of these requests, they should be presented to the Legislature before a crisis arises. However, we are concerned about an intergovernmental loan from the County to NHCC, given the possibility that the loan would need to be forgiven rather than repaid.

Even if NHCC can manage its way through an additional year, the Out-Years have even more risk. In addition to the anticipated shortfalls, NHCC may be unable to draw down certain available Federal funds – disproportionate share hospital ("DSH") payments provided to hospitals that treat a disproportionate share of indigent patients – after FY 2010 since it requires a local match, which has not been budgeted by the County.

NASSAU COMMUNITY COLLEGE

Nassau Community College ("NCC") or ("College") is a "Covered Organization" under the NIFA Act, which requires that NIFA annually review its finances. However, it should be noted that the County's financial support is primarily limited to the Legislature's authority to levy a property tax on behalf of NCC. In the NCC Budget for FY 2009 the property tax levy accounts for 27% of the College's budget or $52.2 million. The remainder of the revenue is primarily derived from student revenues and State aid.

NCC's FY 2009 property tax levy, which was increased by 3.9%, has already been approved by the County Legislature. NCC's multi-year plan indicates that it will request additional increases of 4.9% in FY 2010, FY 2011 and FY 2012 to ensure balance should it be unable to realize additional revenue and cost savings beyond those amounts already built into the proposed Plan.

NCC's projections assume that student revenues will increase by 5.8% in FY 2009, 4.9% in FY 2010 and FY 2011 and 3.9% in FY 2012. This growth is expected to come from increased tuition and student enrollment. For example, the College is projecting enrollment to grow from 18,313 full-time equivalent student (FTE) in FY 2009 to 18,681 in FY 2011 and then remain level. Similarly, the College projects annual tuition increases of 4% which will increase the FY 2009 base rate of $3,552 to $3,984 in FY 2012.

They plan to accomplish this enrollment growth through the following initiatives:

- substantially enhancing their marketing budget;
- increased student retention efforts;
- weekend college emphasis; and
- newly focused ideas on expansion of distance learning programs.

Interestingly, the College's enrollment may also increase as a result of the current economic crisis because prospective students may consider NCC to be a cost-effective alternative to a four year institution.

NCC also projects State aid per FTE student to remain unchanged from 2008 at $2,675 in FY 2009. However, the College assumes that State aid will increase $100 in 2010, $150 in 2011 and $200 in 2012 per FTE. Any changes in the State budget may have a significant adverse impact on these numbers.

The following variables could also impact NCC's ability to maintain Out-Year balance if:

- property tax increases are not approved by the County Legislature;
- future enrollment is less than projected;
- restrictions are placed on tuition increases; or
- State aid is not increased

If all or some of these actions occur, the College will have to identify alternative actions that will maintain budgetary balance throughout the period of the Plan.

V. GAP-CLOSING PROGRAM

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

THE OUT-YEAR GAPS: FY 2009 – FY 2012

The County has continually pointed to rising State and Federal mandates such as Medicaid, health insurance, and pension contributions as the principal cause of its Out-Year gaps. The baseline gap has also increased for other reasons including increases in headcount and associated salary costs that have grown faster than its revenue sources.

With implementation of the Medicaid cap and the decline in pension contribution rates Out-Year costs became more predictable thereby leaving salary and health insurance costs as the major items of concern. However, significant declines in investments will probably translate into increased pension contribution rates in the Out-Years, as described in the section on Pensions on page 25. On the revenue side, sales tax collections, which provide a growing proportion of total County revenue, continue to be subject to downward pressure.

Sizing the Out-Year Gaps

The County projects gaps of $106.2 million in FY 2010, $158.7 million in FY 2011, and $194.0 million in FY 2012. These gaps were calculated using growth rate assumptions listed on page 64 in the Appendices. Based upon our review of the growth rates used by the County and their underlying assumptions, we believe that the projections of Out-Year gaps may be understated, particularly for health insurance, pension costs, sales tax revenue and public safety overtime expenditures. We also believe that wages may be understated due to ambitious labor savings targets built into the County's baseline projections, as discussed in "Labor Concessions" on page 21.

CLOSING THE OUT-YEAR GAPS

The County repeats many of the same gap-closing measures proposed in earlier financial plan submissions. As shown below, the gap-closing program includes projected savings from health insurance program cost reductions, annual property tax increases, an expansion of the County's red light camera initiative slated for initial implementation during FY 2009, a new round of Smart Government Initiatives, and workforce management. With the exception of Smart Government Initiatives, these actions are discussed throughout this report.

GAP-CLOSING PLAN

($ in millions)	FY 2010	FY 2011	FY 2012
Health Insurance	$15.0	$20.0	$20.0
Property Tax Increase	31.6	64.5	98.7
Red Light Cameras (phase II)	7.0	7.0	7.0
SGIs	13.7	20.3	21.8
Workforce Management	15.0	20.0	20.0
Total	**$82.3**	**$131.8**	**$167.5**

SMART GOVERNMENT INITIATIVES

The Administration created Smart Government Initiatives, ("SGIs") to help identify government waste and develop new and improved ways of doing business to enhance efficiency, reduce spending or generate non-tax revenue. SGIs were originally introduced as a gap-closing measure in FY 2002. SGIs, some new and some old have continued to be introduced by the Administration. NIFA has evaluated the SGIs when submitted for reasonableness, valuation, and achievability.

In the FY 2008 Multi-Year Plan, the County proposed an aggressive plan to achieve $9.8 million worth of savings in FY 2009. In NIFA's October 10, 2007 report on the Plan, we held $8.5 million worth of these initiatives at risk. In the May Update, the SGI's were revised downward and valued at $5.4 million. These reductions occurred primarily within two initiatives: (1) Electronic Court Appearance, an SGI within the Correctional Center; and (2) Persons in Need of Assistance ("PINS"), an HHS Social Services SGI. The County has further reduced the value of SGIs contained in the proposed Plan to $2.5 million, which is a 77% reduction from the original target proposed for FY 2009, as shown in the chart below.

Smart Government Initiatives	Value of SGI's for FY 2009 as Presented in: FY 2008-2011 Plan	May 2008 Update	Proposed FY 2009 Budget	Change from Plan
Revenue Options	$1,972,795	$942,557	$942,556	($1,030,239)
Radio Towers	768,000	768,000	768,000	-
Adjunct Professors	445,329	445,329	445,329	-
Energy Efficiency	1,064,130	1,064,130	137,222	(926,908)
Risk Management	295,000	75,000	75,000	(220,000)
Tanning Salon	4,000	4,000	9,000	5,000
Pre-demolition Sit Inspections	67,000	67,000	105,000	38,000
Subtotal	**$ 4,616,254.00**	**$ 3,366,016.00**	**$ 2,482,107.00**	**$(2,134,147.00)**
Electronic Court Appearances	500,000	-	-	(500,000)
Day Camp Inspection Fees	78,000	78,000	-	(78,000)
Realty Subdivision Fee	25,000	25,000	-	(25,000)
Lost Handicap Permit Fees	25,000	25,000	-	(25,000)
Persons in Need of Supervision	103,204	-	-	(103,204)
NYS Empire Zone	2,000,000	2,000,000	-	(2,000,000)
Commercial Grievance Filing Fee	3,400,000	-	-	(3,400,000)
TOTAL	**$ 10,747,458**	**$ 5,494,016**	**$ 2,482,107**	**$ (8,265,351)**

The proposed Plan assumes that the County will achieve $13.7 million worth of new initiatives savings in FY 2010, $20.3 million in FY 2011 and $21.8 million in FY 2012. NIFA supports the County's efforts to enhance efficiencies and reduce spending, but remains concerned that certain planned savings and revenues may not be realized.

NIFA is concerned with the following SGIs:

- **Risk Management**

This initiative plans to target subrogation opportunities at the time of incidents for all County activities through the development of subrogation policies and procedures. Subrogation issues arise in Workers' Compensation cases when someone from outside the employment relationship causes all or part of an employee's work-related accident or injury. The presence of a third party does not excuse the employer from its obligation to pay Workers' Compensation benefits if the injury occurred in the course and scope of the employee's work related duties, nor does it guarantee that the third party will make payment; however, the County intends to be more aggressive in pursuing these claims. We believe that the County's expectations of significant recoveries may be overstated in this initiative.

FY 2010	FY 2011	FY 2012
$1,100,000	$1,700,000	$2,000,000

- **Enterprise Resource Planning System**

An "ERP" system is based on a common database software design. The common database will allow every County department to store and retrieve information in real-time. Although the County has planned the installation of this program over a four year period they will need to continue the maintenance of the current system. A portion of the savings will be achieved as the old system is retired. Additional savings are anticipated from cost reductions and avoidance once a paperless environment is implemented. NIFA believes the potential savings from this ambitious initiative may be highly overstated and, in the current economic environment, be at risk should the County need to make spending cuts.

FY 2010	FY 2011	FY 2012
$5,000,000	$10,000,000	$10,000,000

- **Program Reduction**

This initiative proposes to reduce contract expenses in Youth Board, Senior Citizens and Social Services, but would require County legislative support to be achieved. As the County stated in its SGI description "the administration has never had to realize these reductions" and the lack of legislative support for this reduction would impede the SGI as a gap-closing initiative.

FY 2010	FY 2011	FY 2012
$1,000,000	$1,000,000	$1,000,000

- **Revenue Options**

The proposed Plan also includes an "initiative" to increase revenues in Consumer Affairs, the County Attorney, Fire Commission, Police Department, Public Works, EMS and Treasurer. Although the concept of increasing revenues in these departments may make sense, the County has only proposed general targets without supporting plans. The methodology and specific sources are unclear.

FY 2010	FY 2011	FY 2012
$1,200,000	$1,200,000	$1,441,000

- **Commercial Tax Grievance Filing Fee**

This initiative was originally introduced in FY 2003. The County formerly sought a $225 per parcel grievance filing fee, but has reconfigured the fee to a four level program encouraging electronic filing by taxpayers or their representatives. The initiative recognizes that based upon the volume of 135,000 tax grievances filed in the County each year, there was an opportunity to increase revenue. This initiative requires the approval of the State Legislature. The likelihood of the implementation of this initiative is questionable since the County has not managed to get a consensus from the State Legislature in the past six years.

FY 2010	FY 2011	FY 2012
$3,400,000	$3,400,000	$3,400,000

OPTIONS TO CLOSE REMAINING OUT-YEAR GAPS

Even if the County were able to implement the major actions described above, projected gaps of $23.9 million in FY 2010, $26.9 million in FY 2011, and $26.5 million in FY 2012 still remain. The proposed Plan assumes that these gaps will be closed from among a number of options which have been suggested in prior multi-year plans, but have not received the County or State legislative support necessary for enactment. There is no reason to believe that they will be any more successful this time than they were when originally introduced.

OPTIONS TO CLOSE REMAINING GAP

($ in millions)	FY 2010	FY 2011	FY 2012
Energy Tax	$45.0	$46.4	$48.0
Cigarette Tax	28.4	28.4	28.4
Video Lottery Terminals	20.0	20.0	20.0
Fast Food Tax	11.8	11.8	11.8
Discretionary Program Cuts	7.5	7.5	7.5
FIT	4.1	4.1	4.1
Debt Restructuring	0.0	5.0	5.0
Total	**$82.3**	**$131.8**	**$167.5**

For FY 2010, the more significant of these options include $45.0 million from the imposition of a new residential energy tax, $28.4 million from a proposed increase in the cigarette tax, $20 million from a proposal to install video lottery terminals at Belmont Park, and $11.8 million from the imposition of a new fast food tax. The proposed Plan assumes that these revenues would remain flat through the proposed Plan period, except for the residential energy tax which would grow to $48.0 million in FY 2012.

It appears that there is little State legislative support for most of these initiatives. Moreover, the new 25 year franchise agreement signed between the State and the New York Racing Association ("NYRA") earlier this year does not provide for the installation of video lottery terminals at Belmont Park.

To a lesser degree, the “Remaining Gaps” are also to be closed by discretionary program reductions and debt restructuring totaling $7.5 million and $5 million, respectively. While the savings from debt restructuring are not expected until FY 2011, neither of these initiatives have any substantiation nor can we begin to predict how they would be achieved. Finally, the County is again pursuing State reimbursement for paying $4.1 million in non-resident tuition to the Fashion Institute of Technology, an initiative that has repeatedly failed in prior years.

VI. USE OF RESERVES

Section 3667 (4) (c) of the NIFA Act requires that the financial plan include "adequate reserves …to maintain essential programs in the event revenues have been overestimated or expenditures underestimated for any period." The legislative intent was that monies be made available for unplanned or extraordinary events which might arise and were not planned for in the County's budgets or multi-year plans.

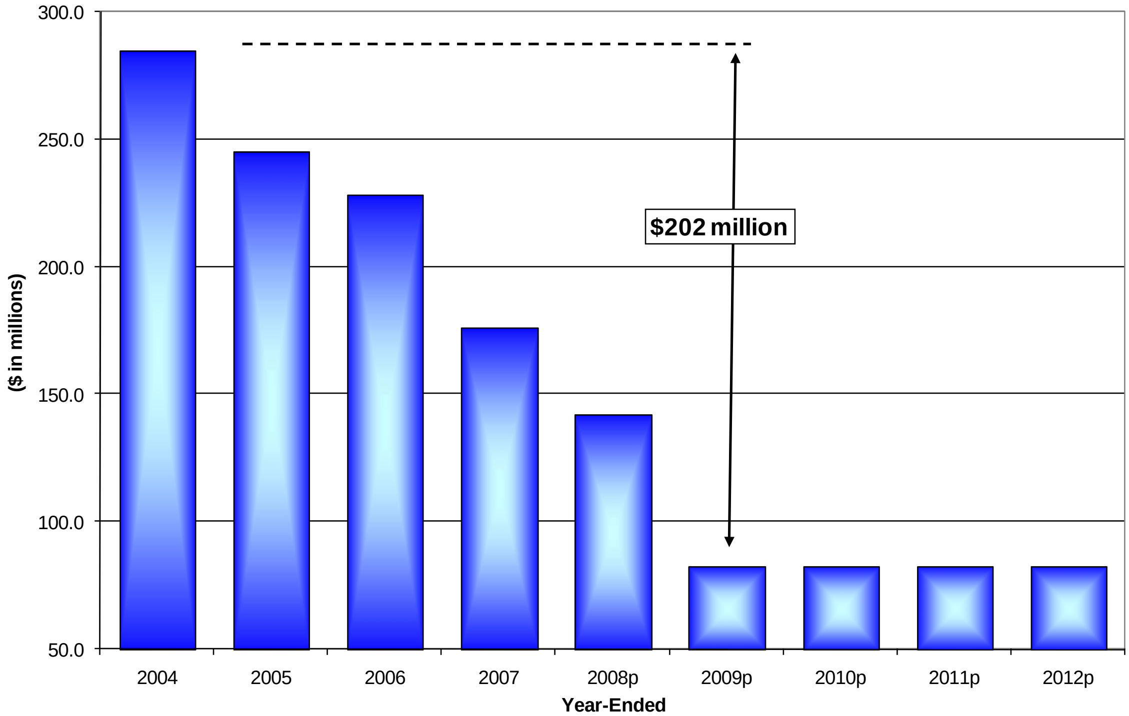
The County understands and has accepted the wisdom of maintaining reserves. In fact, the County attributes its past success at securing a series of bond ratings upgrades, in part, to "the accumulation of a growing unreserved undesignated fund balance." Those reserves were what gave rating agencies comfort that the County was protected against an economic downturn such as the one we are now experiencing.

For purposes of this discussion, we have divided the County's reserves into "General Reserves" and "Restricted Reserves." (See Appendices for a detailed breakdown of the amount in each of the reserve funds which we have combined into General and Restricted Reserves).

Looking at the concept of General Reserves from the most inclusive perspective, they consist of any monies that are held in reserve by the County and could be used to fill unanticipated gaps anywhere in the budget. For presentation purposes we have taken those resources which most closely follow this definition and combined them into what we have labeled, General Reserves. Those reserve funds are as follows: Retirement Contribution, Bonded Indebtedness, Employee Accrued Liability, Unreserved Fund Balance, and Tobacco Settlement.

As shown in Chart 3, the County's General Reserves are projected to fall from $284.8 million by the end of FY 2004 to $82.8 million at the end of FY 2009, illustrating the County's notable use of $202 million in non-recurring reserves to pay for recurring expenditures over the five year period since FY 2004.

(Chart 3)
STATUS OF GENERAL RESERVES

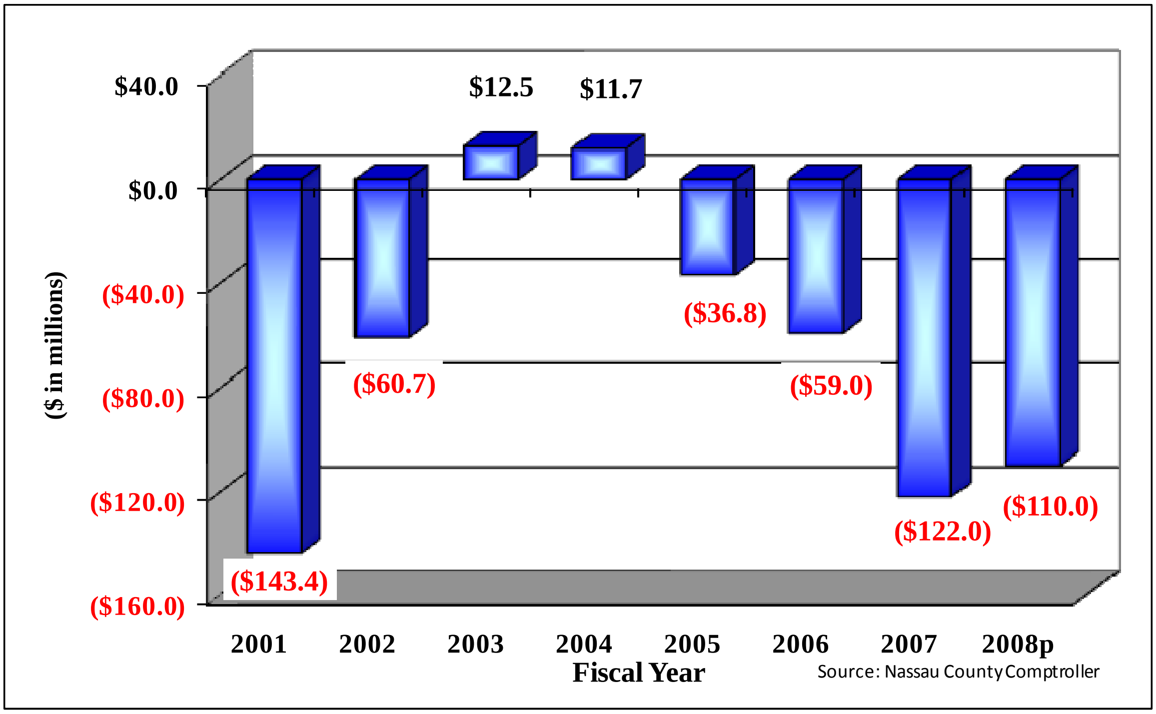


The County will not add to its reserves in FY 2008, unless there is a budget surplus, in which case it will partially replenish the Retirement Contribution Reserve. However, even if that reserve is replenished at the end of FY 2008, it is scheduled to be drawn down to only $1.6 million in early 2009.

The effect of the current economic crisis would not have been as severe for the County if it had not substantially exhausted its General Reserves during normal economic times, diminishing their availability to cushion the blow during a true “rainy day.” As soon as possible the County should begin to replenish these reserves. In fact, the County’s proposed Fund Balance and Reserve Policy calls for the replenishment of its unreserved fund balance by direct appropriation in the event that for two successive years, the County’s level of unreserved fund balance falls below 4% of normal expenditures made from its General Fund and the County-wide Special Revenue Funds.

Chart 4 illustrates how the County’s use of its reserves, combined with its continued dependence on other non-recurring resources to ensure short-term balance, has undermined the County’s progress in attaining long-term structural balance. In fact, NIFA is disappointed to note that the County’s fiscal actions began a dramatic reversal in its long-term fiscal outlook even during a period (FY 2005 – FY 2007) of relative economic strength. The structural deficit - the difference between recurring revenues and expenditures - has grown in each of the last four years from $36.8 million in FY 2005 to a projected $110.0 million in FY 2008. This means that the projected structural deficit in FY 2008 remains larger than at any time since FY 2001.

(Chart 4)
PROGRESS TOWARD STRUCTURAL BALANCE HAS REVERSED



VII. APPENDICES

GLOSSARY

May Update – Multi-Year Financial Plan Update submitted May 1, 2008

Fund Balance – The excess of the assets of the fund over its liabilities, reserves and carryover.

General Reserves – any monies that are held in reserve by the County and could be used to fill unanticipated budget gaps.

Major Fund – is the term the County uses to refer to the departments that comprise its General Fund, Fire Commission Fund, Police District Fund, Police Head Quarters Fund.

Multi-Year Financial Plan (the Plan) – The County's four-year projection of baseline operating revenues and expenses and its plan for closing any projected gaps.

Out-Years – FY 2010-2012

Pay-as-you-go – A term used describe a financial policy where capital outlays are financed from current revenues to avoid incurring costly debt financing or issuing new debt.

proposed Budget – Fiscal Year 2009 proposed Budget submitted September 15, 2008

proposed Plan – Multi-Year Financial Plan submitted September 15, 2008

Restricted Reserves – monies held in separate accounts and usually restricted by law as to their use.

Tax Certiorari (certs) – Grievances filed by Nassau County property owners contesting the assessment of their properties.

ACRONYMS

AFA – Adjunct Faculty Association

AHP -A. Holly Patterson

ARC -Assessment Review Commission

Authority - Nassau County Interim Finance Authority

CON -Certificate of Need

CSEA -Civil Service Employees Association

COLA -Cost-of-Living Adjustment

CPI - Consumer Price Index

DAI - Detectives' Association Inc.

District -Sewer and Storm Water Resource District

DOH -Department of Health

DSH – Disproportionate share hospital

ERS – Employee Retirement System

FY -Fiscal Year

FTE -Full-time Equivalent

GFOA – Government Finance Officers Association

HEAL - Healthcare Efficiency and Affordability Law

ICR - Institutional Cost Report

LIRR – Long Island Railroad

LPT – Loss Portfolio Transfer

MTA – Metropolitan Transit Authority

MYP – Multi-year plan

NACSLB – National Advisory Council on State & Local Budgeting

NHCC - Nassau Health Care Corporation

NUMC - Nassau University Medical Center

NCC - Nassau Community College

NCCFT - Nassau Community College Federation of Teachers

NIFA - Nassau County Interim Finance Authority

NYRA – New York Racing Association

OMB - Office of Management & Budget

OTPS - Other than Personal Services

PAYGO – Pay-as-you-go

PBA - Police Benevolent Association

PINS – Persons in Need of Supervision

PFRS – Police & Fire Retirement System

RANS – Revenue Anticipation Notes

SGIs - Smart Government Initiatives

ShOA - Sheriff Officers Association

SOA - Superior Officers Association

SNA - Safety Net Assistance

SSWFA - Sewer and Storm Water Finance Authority

SSWRD – Sewer and Storm Water Resource District

TANF -Temporary Assistance for Needy Families

TANS -Tax Anticipation Notes

VRDB – Variable Rate Demand Bonds

DETERMINING SERVICE COSTS

The County's proposed Budget contains approximately $2.6 billion of expenditures and revenues, excluding interdepartmental charges and revenues. The following table and graph present a summary of the County's expenditures, revenues, headcount and relative net cost for its Major Funds in a format that is consistent with the County's approach to managing its operations by vertical. Although the County provides financial information sorted by vertical in the proposed Budget Summary book, it does not aggregate the departmental level data into total expenditures and revenues for each vertical. Considering that the County continues to emphasize the value of management by vertical, beginning with the current Administration's submission of its first multi-year financial plan, we feel this approach is an important final step to assess the effectiveness and efficiency of each vertical and the coordinated efforts of inter-related programs and departments.

From an analytical perspective, it is critical to weigh the costs of providing services and programs prior to the commitment of resources. To facilitate this type of decision making process we have introduced the concept of net cost and incorporated it into the County's budgetary presentation of its verticals and reporting departments.

★ ***Net Cost*** ★

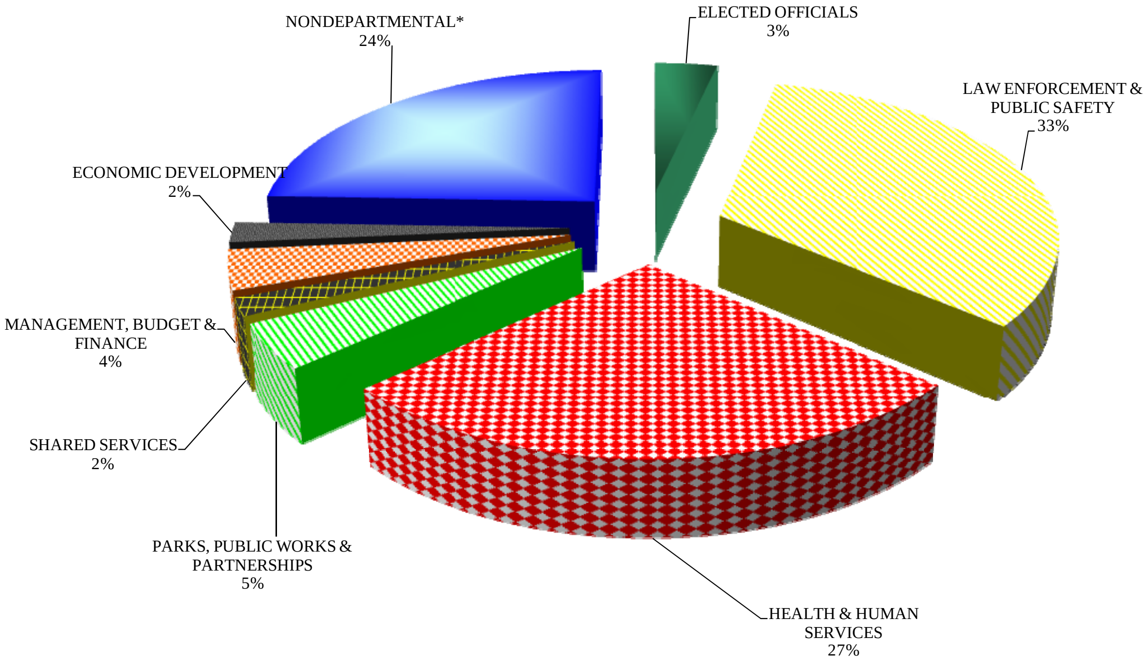
- Net Cost is a term used in government to identify the difference between the total expenses the government incurs and the total revenue it receives in a given year.

The net cost format highlights the extent to which each department and vertical directly consumes the government's revenues or is financed by fees, contributions, or other revenues. Of course, not every department is going to generate revenue as many provide oversight and/or support of and to other County departments, but it is prudent to ascertain which operations and programs are revenue producing when considering service cuts in a tight budget year. Although our analysis of revenues and expenditures follows NIFA's historical presentation by category, we make no recommendations as to specific cuts to programs or services. We have, however, identified potential risks and opportunities that the County should consider as it continues to manage by vertical and focuses on contingency planning to fulfill its commitment to "do more with less."

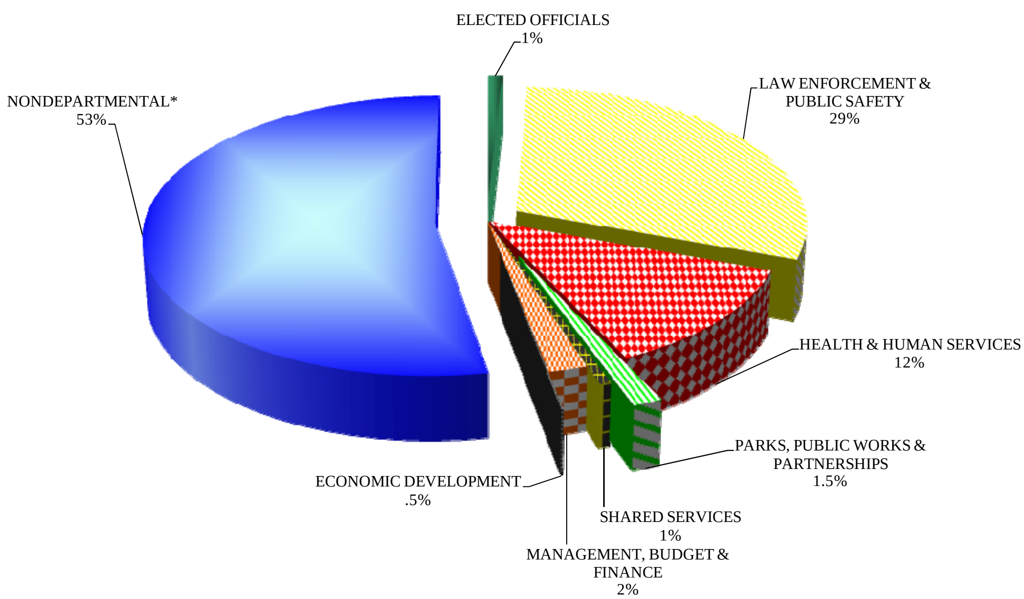
NASSAU COUNTY FY09 PROPOSED BUDGET
APPROPRIATIONS, REVENUES AND HC
EXCLUDES INTERDEPARTMENTAL TRANSFERS AND CHARGEBACKS

FUNDS AND AGENCY TITLES		TOTAL EXPENDITURES	TOTAL REVENUES	NET COST	HC
ELECTED OFFICIALS					
AS	Department of Assessment	16,263,530	1,209,863	15,053,667	255
CE	Office of the County Executive	3,822,779	0	3,822,779	35
CL	Office of the County Clerk	7,246,773	17,961,600	(10,714,827)	106
CO	Office of the County Comptroller	8,842,150	517,300	8,324,850	99
DA	Office of the District Attorney	32,426,098	2,073,166	30,352,932	375
EL	Board of Elections	12,720,058	155,000	12,565,058	115
LE	Office of the County Legislature	9,598,614	0	9,598,614	97
RM	Records Management	1,292,406	0	1,292,406	12
Subtotal	**EO**	92,212,408	21,916,929	70,295,479	1,094
LAW ENFORCEMENT & PUBLIC SAFETY					
CA	Consumer Affairs	2,874,330	5,316,100	(2,441,770)	44
CC	Sheriff/Correctional Center	155,679,677	19,764,050	135,915,627	1,317
EM	Office of Emergency Management	1,544,769	350,000	1,194,769	6
FC	Fire Commisssion	18,871,730	21,639,010	(2,767,280)	112
ME	Office of the Medical Examiner	5,987,182	2,688,907	3,298,275	50
PA	Public Administrator	535,123	327,854	207,269	7
PB	Probation	21,257,272	5,443,000	15,814,272	239
PD	Police District	338,534,811	360,217,139	(21,682,328)	1,864
PD	Police Headquarters	315,440,802	330,537,831	(15,097,029)	1,602
TV	NC District Court& Traffic & Parking Violations Agency	4,831,300	21,753,318	(16,922,018)	38
Subtotal	**PS**	865,556,996	768,037,209	97,519,787	5,279
HEALTH & HUMAN SERVICES					
BH	Mental Health, Chemical Dependency & Developmental Disabilities Services	20,556,509	8,864,000	11,692,509	86
HE	Health	195,719,114	113,072,434	82,646,680	239
SC	Senior Citizen Affairs	18,652,467	12,426,871	6,225,596	39
SS	Social Services	461,901,199	187,166,187	274,735,012	869
YB	Youth Board	8,517,627	1,654,626	6,863,001	7
Subtotal	**HHS**	705,346,916	323,184,118	382,162,798	1,240
PARKS, PUBLIC WORKS & PARTNERSHIPS					
PK	Parks, Recreation & Museums	18,883,549	27,513,926	(8,630,377)	173
PW	Public Works	99,590,528	11,522,719	88,067,809	706
Subtotal	**Parks & DPW**	118,474,077	39,036,645	79,437,432	879
SHARED SERVICES					
AC	Investigations	249,209	0	249,209	2
AD	Office of the County Advocate	2,100,591	99,475	2,001,116	31
AT	County Attorney	15,730,060	3,533,443	12,196,617	155
CF	Constituent Affairs	4,921,791	0	4,921,791	53
CS	Civil Service Commission	5,542,080	280,550	5,261,530	61
HR	Human Rights Commission	830,589	50,000	780,589	10
LR	Labor Relations	1,142,861	0	1,142,861	6
PE	Human Resources	1,216,241	784,853	431,388	17
RE	Real Estate Planning & Development	15,507,682	9,983,381	5,524,301	9
Subtotal	**Shared Svcs.**	47,241,104	14,731,702	32,509,402	344
MANAGEMENT, BUDGET & FINANCE					
AR	Assessment Review Commission	5,621,993	93,914	5,528,079	42
BU	Management & Budget	15,823,286	2,556,087	13,267,199	41
IT	Information Technology	28,622,971	4,174,725	24,448,246	158
PR	Purchasing	1,718,613	370,500	1,348,113	24
TR	Office of the Treasurer	53,233,322	44,667,117	8,566,205	42
Subtotal	**M, B & F**	105,020,185	51,862,343	53,157,842	307
ECONOMIC DEVELOPMENT					
HI	Housing & Intergovernmental Affairs	2,051,258	1,621,124	430,134	6
PL	Planning	50,954,025	1,462,189	49,491,836	21
Subtotal	**Economic**	53,005,283	3,083,313	49,921,970	27
TOTAL GENERAL COUNTY AGENCIES		1,986,856,969	1,221,852,259	765,004,710	9,170
NONDEPARTMENTAL*					
Courts		2,111,364	1,956,018	155,346	0
Fringe Benefits		175,805,564	26,301,713	149,503,851	0
Debt Service		310,467,051	31,949,288	278,517,763	0
Debt Service Chargebacks		0	0	0	0
Reserves		0	12,000,000	(12,000,000)	0
GF Unallocated Revenue		0	1,281,526,140	(1,281,526,140)	0
Other miscellaneous & Non-departmental		148,388,901	48,044,432	100,344,469	0
TOTAL NONDEPARTMENTAL	**Non Dpt.**	636,772,880	1,401,777,591	(765,004,711)	0
TOTAL NASSAU COUNTY (excluding SD)		**2,623,629,849**	**2,623,629,849**	**0**	**9,170**
SEWER FUNDS					
Sewer & Storm Water Finance Authority		110,531,815	110,531,815	0	0
Sewer & Storm Water Resource District		180,227,067	180,227,067	0	334
TOTAL SEWER FUNDS		**290,758,882**	**290,758,882**	**0**	**334**

FY 2009 EXPENDITURES
Major Funds



FY 2009 REVENUES
Major Funds



FY 2009 PROPOSED BUDGET HEADCOUNT AND HC FUNDING ALLOCATION

MAJOR FUNDS								
VERTICAL/DEPARTMENT	**FT (HC)**	**FT DOLLARS**	**PT (HC)**	**PT DOLLARS**	**SE (HC)**	**SE DOLLARS**	**Grand Total**	**Grand Total DOLLARS**
Elected Officials								
AS Department of Assessment	255	14,494,166	3	40,000	0	0	258	14,534,166
CE Office of the County Executive	35	3,382,518	1	27,000	0	0	36	3,409,518
CL Office of the County Clerk	106	5,519,169	60	431,474	40	198,866	206	6,149,509
CO Office of the County Comptroller	99	7,666,512	4	50,000	10	40,000	113	7,756,512
DA Office of the District Attorney	375	27,649,599	0		14	349,919	389	27,999,518
EL Board of Elections	115	8,113,133	50	430,000	20	2,097,466	185	10,640,599
LE Office of the County Legislature	97	6,238,383	2	44,367	45	126,390	144	6,409,140
RM Records Management	12	678,856	14	188,392	8	66,819	34	934,067
Subtotal	1,094	73,742,336	134	1,211,233	137	2,879,460	1,365	77,833,029
Law Enforcement & Public Safety								
CA Consumer Affairs	44	2,533,925	4	34,687	8	60,000	56	2,628,612
CC Sheriff/Correctional Center	1,317	97,007,319	12	185,400	0	0	1,329	97,192,719
EM Office of Emergency Management	6	492,576	0	0	0	0	6	492,576
FC Fire Commisssion	112	8,102,681	27	297,231	0	0	139	8,399,912
ME Office of the Medical Examiner	50	4,902,051	6	120,393	0	0	56	5,022,444
PA Public Administrator	7	485,029	0	0	0	0	7	485,029
PB Probation	239	17,438,344	13	466,749	3	7,500	255	17,912,593
PD Police District	1,864	163,739,504	433	8,754,877	0	0	2,297	172,494,381
PD Police Headquarters	1,602	142,718,560	56	1,408,152	8	49,491	1,666	144,176,203
TV Traffic & Parking Violations	38	2,004,113	34	618,246	0	0	72	2,622,359
Subtotal	5,279	439,424,102	585	11,885,735	19	116,991	5,883	451,426,828
Health & Human Services								
BH Behavioral Health Services	86	6,628,101	2	47,046	0	0	88	6,675,147
HE Health	239	16,982,493	23	255,101	14	80,000	276	17,317,594
SC Senior Citizen Affairs	39	2,573,824	8	79,431	0	0	47	2,653,255
SS Social Services	869	50,825,638	126	1,801,799	0	0	995	52,627,437
YB Youth Board	7	486,765	0	0	0	0	7	486,765
Subtotal	1,240	77,496,821	159	2,183,377	14	80,000	1,413	79,760,198
Parks, Public Works & Partnerships								
PK Parks, Recreation & Museums	173	9,830,593	218	802,121	540	2,608,560	931	13,241,274
PW Public Works	706	44,093,719	61	638,461	52	354,600	819	45,086,780
Subtotal	879	53,924,312	279	1,440,582	592	2,963,160	1,750	58,328,054
Shared Services								
AC Investigations	2	187,809	0	0	0	0	2	187,809
AD Office of the County Advocate	31	1,952,286	4	68,730		0	35	2,021,016
AT County Attorney	155	11,555,723	1	16,200	5	225,000	161	11,796,923
CF Constituent Affairs	53	2,856,413	4	82,992	0	0	57	2,939,405
CS Civil Service Commission	61	4,237,150	45	569,798	0	0	106	4,806,948
HR Human Rights Commission	10	641,277	1	18,720	54	125,000	65	784,997
LR Labor Relations	6	504,817	0	0	0	0	6	504,817
PE Human Resources	17	1,045,441	1	24,000	1	28,600	19	1,098,041
RE Real Estate Services	9	757,504	0	0	1	27,405	10	784,909
Subtotal	344	23,738,420	56	780,440	61	406,005	461	24,924,865
Management, Budget & Finance								
AR Assessment Review Commission	42	3,276,583	12	176,700	0	0	54	3,453,283
BU Management & Budget	41	3,447,939	3	70,850	0	0	44	3,518,789
IT Information Technology	158	12,651,152	6	76,624	0	0	164	12,727,776
PR Purchasing	24	1,658,043	0	0	0	0	24	1,658,043
TR Office of the Treasurer	42	2,625,946	1	10,500	0	0	43	2,636,446
Subtotal	307	23,659,663	22	334,674	0	0	329	23,994,337
Economic Development								
HI Housing & Intergovernmental Affairs	6	605,439	0	0	0	0	6	605,439
PL Planning	21	1,656,641	10	61,197	0	0	31	1,717,838
Subtotal	27	2,262,080	10	61,197	0	0	37	2,323,277
GRAND TOTAL*	**9,170**	**694,247,734**	**1,245**	**17,897,238**	**823**	**6,445,616**	**11,238**	**718,590,588**
SEWER & STORM WATER FINANCE AUTHORITY								
SSWFA								
PW Department of Public Works	334	19,338,448	0	0	13	57,000	347	19,395,448
GRAND TOTAL*	**334**	**19,338,448**	**0**	**0**	**13**	**57,000**	**347**	**19,395,448**

NASSAU COUNTY FY 2009 HEADCOUNT COMPARSION TABLE

MAJOR FUNDS	2005 ADOPTED	2006 ADOPTED	2007 ADOPTED	2008 ADOPTED	2009 PROPOSED	(09 Prop to 08 Adop) INC/DEC	% INC/DEC	2008* ON-BOARD	(09 Prop to 08 on Board) INC/DEC	% INC/DEC
ELECTED OFFICIALS										
AS Department of Assessment	228	247	251	258	255	(3)	-1.16%	246	9	3.53%
CE Office of the County Executive	34	43	44	38	35	(3)	-7.89%	34	1	2.86%
CL Office of the County Clerk	102	102	102	106	106	0	0.00%	99	7	6.60%
CO Office of the County Comptroller	90	93	98	100	99	(1)	-1.00%	90	9	9.09%
DA Office of the District Attorney	352	357	377	350	375	25	7.14%	374	1	0.27%
EL Board of Elections	106	106	109	110	115	5	4.55%	115	0	0.00%
LE Office of the County Legislature	97	93	94	98	97	(1)	-1.02%	92	5	5.15%
RM Records Management	10	10	13	13	12	(1)	-7.69%	13	(1)	-8.33%
	1,019	1,051	1,088	1,073	1,094	21	1.96%	1,063	31	2.83%
LAW ENFORCEMENT & PUBLIC SAFETY										
CA Consumer Affairs	44	49	48	43	44	1	2.33%	41	3	6.82%
CC Sheriff/Correctional Center	1,240	1,252	1,246	1,329	1,317	(12)	-0.90%	1,263	54	4.10%
EM Office of Emergency Management	7	6	5	7	6	(1)	-14.29%	6	0	0.00%
FC Fire Commisssion	113	112	115	115	112	(3)	-2.61%	110	2	1.79%
ME Office of the Medical Examiner	50	55	55	51	50	(1)	-1.96%	49	1	2.00%
PA Public Administrator	7	7	7	7	7	0	0.00%	7	0	0.00%
PB Probation	244	261	247	240	239	(1)	-0.42%	235	4	1.67%
PD Police District	1,697	1,863	1,838	1,827	1,864	37	2.03%	1,837	27	1.45%
PD Police Headquarters	1,780	1,744	1,769	1,772	1,602	(170)	-9.59%	1,681	(79)	-4.93%
TS Traffic & Safety Board	3	2	2	0	0	0	0.00%	0	0	0.00%
TV Traffic & Parking Violations Agency	35	45	40	41	38	(3)	-7.32%	38	0	0.00%
	5,220	5,396	5,372	5,432	5,279	(153)	-2.82%	5,267	12	0.23%
HEALTH & HUMAN SERVICES										
BH Behavioral Health Services	0	0	92	88	86	(2)	-2.27%	82	4	4.65%
DR Drug & Alcohol	90	79	0	0	0	0	0.00%	0	0	0.00%
HE Health	241	250	249	240	239	(1)	-0.42%	231	8	3.35%
HP Office for the Physically Challenged	6	7	7	7	0	(7)	0.00%	7	(7)	0.00%
MH Mental Health	20	10	0	0	0	0	0.00%	0	0	0.00%
SC Senior Citizen Affairs	35	38	40	39	39	0	0.00%	37	2	5.13%
SS Social Services	852	873	915	897	869	(28)	-3.12%	832	37	4.26%
VS Office of Veterans Services	9	9	10	9	0	(9)	0.00%	8	(8)	0.00%
YB Youth Board	7	7	8	7	7	0	0.00%	6	1	14.29%
	1,260	1,273	1,321	1,287	1,240	(47)	-3.65%	1,203	37	2.98%
PARKS, PUBLIC WORKS & PARTNERSHIPS										
PK Parks, Recreation & Museums	263	269	280	265	173	(92)	-34.72%	257	(84)	-48.55%
PW Public Works	567	540	533	541	706	165	30.50%	490	216	30.59%
	830	809	813	806	879	73	9.06%	747	132	15.02%
SHARED SERVICES										
AC Investigations	4	6	5	3	2	(1)	-33.33%	2	0	0.00%
AD Office of the County Advocate	0	0	0	0	31	31	0.00%	0	31	0.00%
AT County Attorney	150	158	148	155	155	0	0.00%	156	(1)	-0.65%
CF Constituent Affairs	58	57	57	57	53	(4)	-7.02%	50	3	5.66%
CS Civil Service Commission	61	62	62	62	61	(1)	-1.61%	58	3	4.92%
HR Human Rights Commission	10	10	10	10	10	0	0.00%	9	1	10.00%
LR Labor Relations	4	6	6	7	6	(1)	-14.29%	7	(1)	-16.67%
MA Minority Affairs	11	11	10	9	0	(9)	0.00%	8	(8)	0.00%
PE Human Resources	11	12	14	15	17	2	13.33%	17	0	0.00%
RE Real Estate Services	12	11	11	9	9	0	0.00%	9	0	0.00%
SA Coordinating Agency for Spanish Americans	6	8	8	8	0	(8)	0.00%	8	(8)	0.00%
	327	341	331	335	344	9	2.69%	324	20	5.81%
MANAGEMENT, BUDGET & FINANCE										
AR Assessment Review Commission	37	43	43	42	42	0	0.00%	41	1	2.38%
BU Management & Budget	35	33	38	44	41	(3)	-6.82%	41	0	0.00%
IT Information Technology	104	118	104	112	158	46	41.07%	139	19	12.03%
PR Purchasing	23	24	24	25	24	(1)	-4.00%	23	1	4.17%
TR Office of the Treasurer	45	47	45	41	42	1	2.44%	42	0	0.00%
	244	265	254	264	307	43	16.29%	286	21	6.84%
ECONOMIC DEVELOPMENT										
HI Housing & Intergovernmental Affairs	11	13	11	10	6	(4)	-40.00%	6	0	0.00%
PL Planning	21	21	24	24	21	(3)	-12.50%	19	2	9.52%
	32	34	35	34	27	(7)	-20.59%	25	2	7.41%
TOTAL HC MAJOR FUNDS	**8,932**	**9,169**	**9,214**	**9,231**	**9,170**	**(61)**	**-0.66%**	**8,915**	**255**	**2.78%**
SEWER & STORM WATER RESOURCE DISTRICT FUND										
SSW										
PW Department of Public Works	392	461	384	348	334	(14)	-4.02%	287	47	14.07%
TOTAL SSW FUND	**392**	**461**	**384**	**348**	**334**	**(14)**	**-4.02%**	**287**	**47**	**14.07%**

* On-board as of 9-11-2008

CONTRACTUAL SERVICES BY VERTICAL AND DEPARTMENT
FY 2008-2011

CODE	VERTICAL/DEPARTMENT	FY 2009	FY 2010	FY 2011	FY 2012
ELECTED OFFICIALS					
AS	ASSESSMENT DEPARTMENT	371,000	375,638	380,333	385,087
CE	COUNTY EXECUTIVE	100,361	101,616	102,886	104,172
CL	COUNTY CLERK	300,000	303,750	307,547	311,391
CO	CO-COUNTY COMPTROLLER	380,000	384,750	389,559	394,429
DA	DISTRICT ATTORNEY	916,000	927,450	939,043	950,781
EL	BOARD OF ELECTIONS	549,000	555,863	562,811	569,846
LE	COUNTY LEGISLATURE	1,229,000	1,244,363	1,259,917	1,275,666
RM	RECORDS MANAGEMENT	101,589	102,859	104,145	105,446
	Subtotal	3,946,950	3,996,287	4,046,240	4,096,818
LAW ENFORCEMENT & PUBLIC SAFETY					
CA	OFFICE OF CONSUMER AFFAIRS	20,000	20,250	20,503	20,759
CC	NC SHERIFF/CORRECTIONAL CENTER	22,079,457	22,611,981	23,157,576	23,716,564
EM	EMERGENCY MANAGEMENT	976,173	988,375	1,000,730	1,013,239
FC	FIRE COMMISSION	4,164,273	4,217,167	4,270,744	4,325,012
ME	MEDICAL EXAMINER	73,805	75,434	77,101	78,807
PA	PUBLIC ADMINISTRATOR	13,600	13,770	13,942	14,116
PB	PROBATION	308,500	312,356	316,261	320,214
PD	POLICE DEPARTMENT	9,175,090	8,581,029	8,992,041	10,116,942
TV	TRAFFIC & PARKING VIOLATIONS	1,626,400	1,115,168	1,129,107	1,143,221
	Subtotal	38,437,298	37,935,530	38,978,005	40,748,874
HEALTH & HUMAN SERVICES					
BH	MH, CHEM DEPEND & DISABLE SVCS	12,826,995	12,990,646	13,156,426	13,324,363
HE	HEALTH DEPARTMENT	7,045,517	7,133,586	7,222,756	7,313,040
SC	SENIOR CITIZENS AFFAIRS	15,836,548	16,034,505	16,234,936	16,437,873
SS	SOCIAL SERVICES	15,132,632	15,321,790	15,513,312	15,707,229
YP	NASSAU COUNTY YOUTH BOARD	7,988,196	8,088,048	8,189,149	8,291,513
	Subtotal	58,829,888	59,568,575	60,316,579	61,074,018
PARKS, PUBLIC WORKS & PARTNERSHIPS					
PK	PARKS, RECREATION AND MUSEUMS	2,611,500	2,644,144	2,677,196	2,710,660
PW	PUBLIC WORKS DEPARTMENT	8,865,894	8,977,126	9,089,759	9,203,811
	Subtotal	11,477,394	11,621,270	11,766,955	11,914,471
SHARED SERVICES					
AC	DEPARTMENT OF INVESTIGATIONS	35,000	35,438	35,880	36,329
AD	OFFICE OF THE COUNTY ADVOCATE	141,200	142,965	144,752	146,561
AT	COUNTY ATTORNEY	2,878,729	2,914,713	2,951,147	2,988,036
CF	OFFICE OF CONSTITUENT AFFAIRS	3,000	3,038	3,075	3,114
CS	CIVIL SERVICE	25,000	25,625	26,266	26,922
HR	COMMISSION ON HUMAN RIGHTS	18,000	18,225	18,453	18,683
LR	OFFICE OF LABOR RELATIONS	610,589	618,221	625,949	633,773
PE	DEPARTMENT OF HUMAN RESOURCES	65,000	65,813	66,635	67,468
RE	OFFICE OF REAL ESTATE SERVICES	107,640	7,736	(194,668)	(197,101)
	Subtotal	3,884,158	3,831,772	3,677,490	3,723,787
MANAGEMENT, BUDGET & FINANCE					
AR	ASSESSMENT REVIEW COMMISSION	1,780,000	1,802,250	1,824,778	1,847,588
BU	OFFICE OF MANAGEMENT AND BUDGET	1,286,124	1,300,326	1,314,705	1,329,263
IT	INFORMATION TECHNOLOGY	9,338,761	9,455,496	9,573,689	9,693,360
PR	PURCHASING DEPARTMENT	1,500	1,519	1,538	1,557
TR	COUNTY TREASURER	50,969	51,606	52,251	52,904
	Subtotal	12,457,354	12,611,196	12,766,961	12,924,673
ECONOMIC DEVELOPMENT					
HI	HOUSING & INTERGOVERNMENTAL AFFAIRS	1,282,500	1,298,531	1,314,763	1,331,197
PL	PLANNING	228,650	231,508	234,402	237,332
	Subtotal	1,511,150	1,530,039	1,549,165	1,568,529
	GRAND TOTAL	**130,544,192**	**131,094,671**	**133,101,395**	**136,051,171**

SUMMARY OF COUNTY RESERVES

	General Reserves						Restricted Reserves				
Year	Retirement Contribution	Bonded Indebtedness	Employee Accrued	Unreserved Fund Balance	Tobacco Settlement	Sub-Total	Tobacco Borrowing	SSWRD	SSWFA	Sub-Total	Total
YE 2004	$79.8	$25.0	$28.9	$90.5	$60.6	$284.8	$0.0	$32.4	$60.9	$93.3	$378.1
2005 Uses	($35.0)	$0.0	($7.5)	$0.0	($22.3)	($64.8)	$0.0	$0.0	($11.5)	($11.5)	($76.3)
2005 Contributions	$24.8	$0.7	$0.0	$0.0	$0.0	$25.5	$0.0	$30.5	$0.0	$30.5	$56.0
YE 2005	$69.6	$25.7	$21.4	$90.5	$38.3	$245.5	$0.0	$62.9	$49.4	$112.3	$357.8
2006 Uses	($34.2)	($10.9)	($1.3)	($13.4)	($23.0)	($82.8)	($10.3)	$0.0	($53.3)	($63.6)	($146.4)
2006 Contributions	$16.0	$0.0	$1.3	$27.0	$21.2	$65.5	$125.9	$58.8	$23.7	$208.4	$273.9
YE 2006	$51.4	$14.8	$21.4	$104.1	$36.5	$228.2	$115.6	$121.7	$19.8	$257.1	$485.3
2007 Uses	($26.4)	($14.8)	($6.3)	($38.1)	($23.6)	($109.2)	($10.5)	$0.0	($0.7)	($11.2)	($120.4)
2007 Contributions	$1.6	$0.0	$7.3	$23.8	$24.6	$57.3	$4.7	$40.2	$0.0	$44.9	$102.2
YE 2007	$26.6	($0.0)	$22.4	$89.8	$37.5	$176.3	$109.8	$161.9	$19.1	$290.8	$467.1
2008 Uses	($24.5)	$0.0	$0.0	($10.0)	($23.0)	($57.5)	($33.4)	($25.1)	($8.9)	($67.4)	($124.9)
2008 Contributions	$23.0	$0.0	$0.0	$0.0	$0.5	$23.5	$1.6	$0.0	$0.0	$1.6	$25.1
YE 2008	$25.1	($0.0)	$22.4	$79.8	$15.0	$142.3	$78.0	$136.8	$10.2	$225.0	$367.3
2009 Uses	($23.5)	$0.0	($11.0)	($10.0)	($15.3)	($59.8)	($36.0)	($41.0)	($5.4)	($82.4)	($142.2)
2009 Contributions	$0.0	$0.0	$0.0	$0.0	$0.3	$0.3	$1.0	$0.0	$0.0	$1.0	$1.3
YE 2009	$1.6	($0.0)	$11.4	$69.8	($0.0)	$82.8	$43.0	$95.8	$4.8	$143.6	$226.4
2010 Uses	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	($16.7)	($40.4)	$0.0	($57.1)	($57.1)
2010 Contributions	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1.1	$1.1	$1.1
YE 2010	$1.6	($0.0)	$11.4	$69.8	($0.0)	$82.8	$26.3	$55.4	$5.9	$87.6	$170.4
2011 Uses	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	($12.9)	($44.4)	$0.0	($57.3)	($57.3)
2011 Contributions	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1.0	$1.0	$1.0
YE 2011	$1.6	($0.0)	$11.4	$69.8	($0.0)	$82.8	$13.4	$11.0	$6.9	$31.3	$114.1
2012 Uses	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	($13.4)	($10.0)	$0.0	($23.4)	($23.4)
2012 Contributions	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$2.0	$2.0	$2.0
YE 2012	$1.6	($0.0)	$11.4	$69.8	($0.0)	$82.8	$0.0	$1.0	$8.9	$9.9	$92.7

GROWTH RATE ASSUMPTIONS IN MAJOR FUNDS

Expense/Revenue Category	FY 2008-11 Plan	FY 2008-11 Update	FY 2009-12 Plan	FY 2009- FY 2012 Plan Explanations
Expenditures				
Wages	Variable	Variable	Variable	Terms of existing contracts
Non-Police Pension	8.6%	7.6%	7.8%, 9%,9%	State Comptroller's effective rate
Police Pension	14.6%	16.0%	15.6, 16.2%,16.1%	State Comptroller's effective rate
Health Ins. – Active	7.0%	7%,8%,8%	8%,6.5%,6.5%	State Comptroller's effective rate
Health Ins. – Retirees	5.25%	7%,8%,8%	8%,6.5%,6.5%	State Comptroller's effective rate
OTPS	1.25%	1.25%	1.25%	Commitment to contain admin expenses
Utilities	3.5%, 3.5%, 3.5%	3.6%, 3.6%	3%, 3%, 3%	For 2010-2012, based on U.S. Department of Energy estimates
Medicaid	Capped	Capped	Capped	Based on approved State Medicaid cap
Social Services Entitlements	3.5%, 4.0%	3.5%, 4.0%	2.8%	Most current caseload information
Special Education	5.0%	5.0%	2.7%	Most current caseload information
Revenues				
State Aid	Variable	Variable	Variable	Based upon reimbursement formula
Federal Aid	Variable	Variable	Variable	Based upon reimbursement formula
Sales Tax	2.5%-3.5%	2.5%-3.5%	2.5%-3.5%	2.1% in '09, 3% in '10, 3.5% in '11-'12
Property Tax	2.0% in 2008, 0% in 2009-11	2.0% in 2008, 0% in 2009-11	3.7% in 2009, 0% in 2010-12	3.9% in 2009, including increased sewer assessments