NIFA Nassau County Interim Finance Authority

June 22, 2004

Hon. Thomas Suozzi
Nassau County Executive
Office of the County Executive
One West Street
Mineola, NY 11501-4895

Hon. County Executive Suozzi:

Enclosed is NIFA's Review of the June 1, 2004 Update of the Nassau County Multi-Year Financial Plan for Fiscal Years 2004-2007. The Update was submitted at NIFA's request because of the uncertainties that NIFA saw in the Plan.

The Report comments on many key aspects of the Update. Briefly summarized, the Report finds that:

1) The County is making significant progress toward achieving structural balance, as noted by the recent upgrades received from the various rating agencies.

2 The County has shifted some of its future gap-closing efforts from smart government initiatives and certiorari reform to increases in property taxes.

3) Notwithstanding the many accomplishments of the County, the major challenges outlined by NIFA in its report on the Plan have not changed. The County continues to face uncertain resolution of key problems including: the Nassau County Health Care Corporation; elimination of the certiorari backlog; overtime costs; and deteriorating infrastructure.

4) According to the Update, the baseline gap, which is the difference between recurring revenues and expenditures, is not decreasing and has remained substantially the same in the out years of the Plan.

5) Although Medicaid and other costs are rising, they have been offset by increased sales tax collections and other actions. A proposed change in the State pension contribution could also provide a significant unbudgeted windfall for the County.

6) The County still needs NIFA's monetary assistance, which includes borrowings through 2005 (and limited borrowings in 2006 and 2007), in order to fill its structural budget gap.

7) Fund balance and other non-recurring pockets of reserves exist, but there has not been a comprehensive plan proposed for their use.

8) The County has substantially delayed, until FY 2007, any proposed initiatives that require State legislative approval.

The County has fulfilled the request of NIFA that it submit an update to the Plan. The Update demonstrates genuine progress toward resolving the County's financial difficulties in FY 2004 and FY 2005; however, the Update does not adequately address several of the concerns that were raised in our October 2003 report. These concerns include a rapidly deteriorating situation at NHCC and the failure to show significant progress in reducing the certiorari backlog.

In addition, new events have arisen since the date of the Plan, which concern us and have potentially serious fiscal consequences. These include the loss of the utilities litigation, the County's failure to advance its legislative agenda with the State, changes to the building consolidation plan, and the HUD investigation. These must be addressed in detail in the County's new Four-Year Plan due in September 2004.

Sincerely,

Ronald A. Stack
Chairman

cc: Presiding Officer Jacobs
Minority Leader Schmitt
Comptroller Weitzman
NIFA Directors
Richard Luke

Nassau County Interim Finance Authority

NIFA

REVIEW OF THE JUNE 1, 2004 UPDATE OF THE NASSAU COUNTY MULTI-YEAR FINANCIAL PLAN FOR FISCAL YEARS 2004 – 2007

June 22, 2004

NASSAU COUNTY
INTERIM FINANCE AUTHORITY

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I. Introduction

When NIFA approved the County's Multi – Year Financial Plan for Fiscal Years 2004 – 2007 (hereinafter, the "Plan"), the Directors also mandated that the County Executive submit to NIFA an update of the Plan no later than June 1, 2004 (hereinafter, the "Update"). The Update was delivered to NIFA on June 1, 2004.

What follows is a selective review and analysis of those parts of the Update that NIFA felt would be predictive of the County's future financial position. NIFA is not commenting on the level or quality of services provided by the County.

The report is divided into three sections: (1) risks and opportunities, (2) the baseline, and (3) the gap-closing plan.

Summary of Findings

1) The County is making significant progress toward achieving structural balance, as noted by the recent upgrades received from the various rating agencies.

2) The County has shifted some of its future gap-closing efforts from smart government initiatives and certiorari reform to increases in property taxes.

3) Notwithstanding the many accomplishments of the County, the major challenges outlined by NIFA in its report on the Plan have not changed. The County continues to face uncertain resolution of key problems including: the Nassau County Health Care Corporation ("NHCC"); elimination of the certiorari backlog; overtime costs; and deteriorating infrastructure.

4) According to the Update, the baseline gap, which is the difference between recurring revenues and expenditures, is not decreasing and has remained substantially the same in the out years of the Plan.

5) Although Medicaid and other costs are rising, they have been offset by increased sales tax collections and other actions. A proposed change in the State pension contribution could also provide a significant unbudgeted windfall for the County.

6) The County still needs NIFA's monetary assistance, which includes borrowings through 2005 (and limited borrowings in 2006 and 2007), in order to fill its structural budget gap.

7) Fund balance and other non-recurring pockets of reserves exist, but there has not been a comprehensive plan proposed for their use.

8) The County has substantially delayed, until FY 2007, any proposed initiatives that require State legislative approval.

Conclusion

The County has fulfilled the request of NIFA that it submit an update to the Plan. The Update demonstrates genuine progress toward resolving the County's financial difficulties in FY 2004 and FY 2005; however, the Update does not adequately address several of the concerns that were raised in our October 2003 report. These concerns include a rapidly deteriorating situation at NHCC and the failure to show significant progress in reducing the certiorari backlog.

In addition, new events have arisen since the date of the Plan, which concern us and have potentially serious fiscal consequences. These include the loss of the utilities litigation, the County's failure to advance its legislative agenda with the State, changes to the building consolidation plan, and the HUD investigation. These must be addressed in detail in the County's new Four-Year Plan due in September 2004.

II. Risks and Opportunities Identified in the Update

Our October 2003 report identified a number of risks. This section of the report includes a selective discussion of current risks that NIFA believes are the most significant and/or imminent, and does not restate all of the concerns raised in that report. In addition, we discuss the potential opportunity that relief may be provided by New York State regarding pension contributions.

Financial Plan Risks

Nassau Health Care Corporation

NIFA, the State Comptroller, and local County officials have all acknowledged the severity of the problems at NHCC. As discussed in Section III, the Corporation continues to lose money and a cash crisis is imminent, which may require that the County provide additional resources.

Tax Certiorari Claims

Even though NIFA acknowledges significant activity and progress by the County in satisfying its certiorari reform plan, it still has not demonstrated any significant improvement in reducing the backlog of certiorari claims or in the total amount of monetary exposure for the County. This matter is discussed in greater detail in Section IV.

Ability to Achieve Smart Government Initiatives (SGI)

The County has reduced the value of its SGI's by approximately $6.1 million in FY 2005, $26.1 million in FY 2006, and $2.2 million in FY 2007. These decreases are, in part, because the County has chosen to move any initiatives that require State legislative approval from FY 2005 and FY 2006 to FY 2007. In addition, as noted in Section IV, we question whether the County will be able to achieve the projected savings from several revised initiatives.

Financial Plan Opportunities

Pension Reform

Governor Pataki and Comptroller Hevesi have each forwarded separate pension reform proposals to the State Legislature that would, if enacted, provide significant budget relief to municipalities that participate in the Employees' Retirement System ("ERS") and the Police and Fire Retirement System ("PFRS").[1] The County estimates

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[1] The County's revised baseline contains $92.2 million in FY 2004, $115.6 million in FY 2005, $119.9 million in FY 2006, and $124.6 million in FY 2007 for estimated retirement system contribution payments it may make to the ERS and PFRS.

that each of these proposals would favorably impact the budget by approximately $82 million in FY 2004 by shifting the required FY 2004 payment into FY 2005.[2] The County also estimates that:

- the State Comptroller's proposal would result in an annual residual benefit of approximately $7 million in the out-years of the financial plan; and

- the Governor's proposal would generate between $53.8 million and $59.4 million in annual relief over the same period due to the introduction of a 6.5% cap on pension contribution rates.

The County intends to place the $82 million in potential FY 2004 budget relief realized from the State Comptroller's proposal into a pension reserve fund. The County plans to combine withdrawals from this reserve with the $7 million in annual residual relief to help balance the out-years of the financial plan, beginning in FY 2005.

In contrast, the County intends to place the $82 million in potential FY 2004 budget relief realized from the Governor's proposal into a reserve fund dedicated to the payment of judgments and settlements. The County plans to draw down $26.6 million annually, beginning in FY 2006, to pay judgments and settlements expenditures, a praiseworthy departure from its current practice of financing these costs through the issuance of new debt.

The County's plan to create reserves that could help mitigate future projected deficits is laudable. Reserves can provide short-term budget relief in a way that allows more time for deficit reduction to be orderly and consistent with budget priorities, and without the need to impose large tax increases or abrupt service cutbacks. However, we emphasize that these reserves should not be used to obfuscate the need to adjust spending levels to bring them in line with recurring revenues. We believe that the County should develop a comprehensive and formalized policy for funding and de-funding these reserves in a way that does not violate the requirements of the NIFA act that the budget be balanced with recurring revenues and expenditures.

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[2] Governor Pataki's proposal recommends changing the payment date from December 15, 2004, to January 15, 2005. Subsequent payments would be made on January 15th of each fiscal year. The State Comptroller's proposal recommends changing the payment date from December 15, 2004, to February 1, 2005. Subsequent payments would be made on February 1st of each fiscal year.

III. Baseline Projections

The County developed a multi-year "baseline" forecast to measure the imbalance between its recurring revenues and expenditures. The imbalance is known as the "structural gap." An examination of the changes in the size of the structural gap, over time, can reveal how much progress the County is making toward achieving long-term financial stability. The Update shows that the County's estimate of its structural gap remains largely unchanged and therefore continues to present a formidable challenge that must be addressed by the County in the coming years.

While the gap remains largely unchanged, there were several large adjustments. The County increased its projection of salaries and wages, fringe benefits, and its estimate of tax certiorari liability. These increased costs were offset by savings from NIFA's Spring 2004 borrowing, increased sales tax collections, and an increase in the assumed sales tax growth rate. In addition, Medicaid expenses in the out-years had to be increased because of an error that was acknowledged by the County after the budget was adopted, but were offset by increased State reimbursement.

In this section we also comment on the multi-year plans submitted by the Nassau Health Care Corporation and Nassau Community College.

FY 2003 Results

The County Comptroller reported that the County ended FY 2003 with an operating surplus of $25.5 million, which would have been higher – more than $127 million – if the County had not elected to apply $102 million to reduce anticipated future budget deficits.

The County's update states that the FY 2003 results were structurally balanced, with recurring revenues exceeding recurring expenditures by $6.3 million. We do not agree with this conclusion. In fact, as shown in the table below, the County would have ended the year with an operating deficit of $31 million after deducting $158.5 million of non-recurring revenues and expenditure actions.

FY 2003 Operating Surplus	**$25.5 million**
Add back Pre-Payment and Defeasances	$102.0 million
Sub-total	$127.5 million
Less Non-Recurring Items	
NIFA Assistance	$56.6 million
Pensions (Hevesi bill)	$43.1 million
Contract Disencumbrances	**$19.5 million**
Unused Salary Accruals	**$17.8 million**
Forgiveness of Medicaid advances	$15.3 million
FMAP (temporary increase)	**$6.2 million**
Sub-total	$158.5 million
FY 2003 Structural Deficit	**($31.0 million)**

NIFA recognizes that there will always be changes in accruals and other one time events. However, the dollar value of the bolded items in the above table are material and they should have been separately identified as nonrecurring and considered when calculating recurring revenues and recurring expenditures.

FY 2004 Status

The County is projecting a $5.8 million positive operating result for FY 2004. This represents a $10.2 million structural deficit between recurring revenues and recurring expenditures, before consideration of $8.5 million of NIFA restructuring and $7.5 million of transitional State aid. The County also believes that additional savings of $18.7 million could be achieved from workforce reductions/turnover, labor concessions, and increased sales tax revenues.

The County also believes that there is a possibility that either the Governor's or the State Comptroller's pension relief proposal will be adopted, providing up to $82 million of relief in FY 2004. If such relief is forthcoming, the County proposes to establish certain reserves. As discussed in Section II, should the County establish such reserves, it is important that the authorizing legislation clearly identify how and when the reserves can be used to prevent them from being used as slush funds.

FY 2005 – FY 2007 Projections

The County's new baseline forecast is derived from certain economic assumptions that we regard as conservative. The use of overly conservative estimates could result in an overstatement of the out-year gaps.

The County determined that few changes were required to the assumptions underlying the Plan when it crafted the Update. This results in nominal changes to the County's estimate of its out-year baseline gaps (decrease of $0.5 million in FY 2005, and increases of $1.7 million in FY 2006 and $13.0 million in FY 2007). The assumptions were modified in only a limited number of situations where better information became available (e.g., CPI adjustments which impact CSEA salary increases) and where the County's year-end (FY 2004) forecasts had changed, thereby resulting in different out-year projections (e.g., sales tax collections). After these changes were factored, the County projected that its baseline gaps could reach $120.3 million in FY 2005, $287.0 million in FY 2006, and $404.0 million in FY 2007 if no remedial actions were taken and without NIFA assistance.

The major expenditure and revenue changes are discussed below.

Expenditure Adjustments

Salaries and Wages

The County raised its projection of salaries and wages by $10.9 million in FY 2005, $13.3 million in FY 2006, and $16.9 million in FY 2007. These increases are driven by higher-than-planned CSEA wage increases, higher expenditures for police and correctional center overtime, and more accurate accounting of costs incurred for certain Department of Drug and Alcohol staff who have been transferred to the General Fund from the Grant Fund.

The County's labor agreement with its CSEA-represented employees provides for wage increases that are indexed to the consumer price index (CPI), ranging from a minimum increase of 2.5% to a maximum increase of 3.5%, plus steps. Since the calculated CPI for the index period is greater than originally assumed in the Plan, the County has correctly adjusted upward its projection of salary and wage increases from 3.0% to 3.5%.

The County made a number of aggressive assumptions regarding its ability to constrain overtime spending in the Plan, as discussed in our October 2003 report. Our analysis indicated that the County would significantly exceed its budgeted overtime levels in FY 2004, a forecast that is turning out to be accurate. In addition, we noted that overtime would become an increasing problem in the out-years of the Plan as attrition continues and prospective collectively bargained wage increases are implemented.

The County now acknowledges the magnitude of this risk and has raised its estimate of overtime spending in all years of the financial plan by more than $16 million. While these revised overtime projections are reasonable, we believe that the County must effectively change the way it manages these costs in order to avoid continued, uncontrolled growth.

Finally, the County raised its projection of salaries and wages in its General Fund to reflect the "additional" cost of certain Drug and Alcohol employees that had been previously accounted for in the County's Grant Fund. While this change adds more than $3 million annually in new General Fund expenditures, it is accompanied by an offsetting reduction made in the size of the County's interfund charges, thereby rendering this budget change neutral.

Fringe Benefits

The County raised its projection of baseline fringe benefits costs by $12.1 million in FY 2005, $11.5 million in FY 2006, and $11.2 million in FY 2007. These changes are driven primarily by increased pension contribution payments to be made by the County on behalf of members of the Police and Fire Retirement System ("PFRS"), higher social security payroll taxes, and a revised estimate of the cost of the County's workers' compensation program. These increases are partially offset by lower projected costs for employee and retiree health insurance needs.

The County projects that its annual contribution payments to the PFRS will be higher than planned by $4.5 million in each of FY 2004 and FY 2005, $3.8 million in FY 2006, and almost $3 million in FY 2007 due to higher-than-anticipated wage levels, including increased overtime. The County's original projections were understated, in part, because of its failure to acknowledge the developing overtime variance we had highlighted before it submitted the Plan and its decision to hire additional police officers.

The County also increased its projection of social security payroll taxes by $5.7 million in FY 2005, $6.4 million in FY 2006, and $7.2 million in FY 2007 to mirror the revised salaries and wages projections in those years, as discussed above. Our analysis indicates that the County may not have fully accounted for the social security payroll tax cap, which should limit the County's social security tax liability incurred on behalf of its more highly compensated employees, such as police officers. Therefore, this expense may be overstated.

The County increased its projection of spending on workers' compensation by approximately $2.6 million in FY 2004, to $16.9 million. The Update reasonably accounts for the recurring nature of most of these costs, which reached $17.5 million in FY 2003. The County has a gap-closing initiative designed to slow the growth of these costs, but implementation progress to date has been slow.

The County reduced its projection of employee and retiree health insurance costs by $4.8 million in FY 2005, $6.6 million in FY 2006, and $8.9 million in FY 2007. These reductions are driven by two main factors: recognition of lower-than-budgeted retiree health insurance costs in FY 2004 and a reduction in the County's assumed employee health insurance growth rate from 15.0% to 13.8%. We concur with the County's position that this lower rate is more consistent with recent trends.

Utilities

The County raised its projection of utility costs by $2.5 million in FY 2004 and increased its out-year growth rate assumption from 5.0% to 7.5% due to the rapidly rising cost of fuel and electricity purchases. This expenditure category must be closely watched since the underlying elements are subject to extreme volatility, particularly from higher oil and natural gas prices.

Debt Service and Other Expenses

In April 2004 NIFA undertook a borrowing to restructure almost $470 million of County and NIFA debt. The County will realize savings of approximately $11 million in FY 2005 and $11 million FY 2006 from this borrowing.

In addition, the Plan presumed that operating payouts for certs would be in the range of $40 million to $50 million. As a precaution, the Update has increased the baseline operating payout to $59.5 million. In light of the County's slow progress in reducing the level of certiorari claims we believe it prudent to increase the level of projected payments.

As explained in Section IV, NIFA remains concerned that the failure to eliminate the backlog remains a major obstacle to the County's recovery.

Medicaid

The County raised its projection of the local share of Medicaid expenditures by $17.1 million in FY 2005, $23.7 million in FY 2006, and $29.7 million in FY 2007. These increases stem from technical changes rather than from changes in the County's assumptions for caseload and benefit levels. The County corrected an error it had made in the Plan in calculating its projected out-year Medicaid expenditures, which should have been based on the recurring costs associated with existing caseload adjusted upward for the County's backlog of unprocessed Medicaid applications in FY 2003. In addition, the revised calculations more accurately treat certain non-recurring adjustments, such as prior-year accruals and Federal medical assistance percentage ("FMAP") enhancements that expire in FY 2004. While we noted this error in our October 2003 report, our analysis indicated that the baseline projections were reasonable nonetheless, since the assumed out-year growth rate of 13.5% exceeded the County's recent experience of less than 10%. Our current analysis indicates that the County's revised baseline, which now grows by 14.9% in FY 2006 and 14.3% in FY 2007, is very conservative and, if Medicaid growth remains at historical rates, may result in substantial unanticipated out-year financial plan relief.

Revenue Adjustments

Sales Tax

The major change to the County's revenue estimates comes from sales tax. The Update bases its sales tax projections on FY 2003 actual sales tax revenues, which were approximately $17 million higher than anticipated at the time the budget was adopted, and year-to-date collections for FY 2004 which are up 8% as of today. The Update also increases the annual baseline growth rate for sales tax to 3%, 0.3% greater than the 2.7% inflator used in the Plan.

These two factors result in a $20 million increase in the sales tax estimate in the current year to $921.9 million, which climbs to an additional $30 million by FY 2007. Based on the positive year-end results in FY 2003 and the sales tax receipts that have been experienced in FY 2004, NIFA believes this change is reasonable.

The County also proposes that sales tax could increase 3.5% annually and lists the additional 0.5% favorable change in the growth rate as a gap-closing measure. While NIFA notes that a 3.5% annual growth factor is consistent with historical trends, it does not believe a favorable economic assumption should be classified as a gap-closing measure. Gap-closing measures are actions and policy choices that are taken to favorably impact the Plan. Since the County does not directly control the economy, changing to a more favorable economic assumption is not a gap closing measure. If the County decides that a 3.5% growth in sales tax is reasonable, it should be factored into the baseline.

Property Taxes

Property taxes are the second largest revenue source for the County. The baseline assumptions for property taxes remain unchanged from the Plan with no property tax increase in the baseline. However, the Update proposes that nearly half of the FY 2007 projected deficit, which totals $404 million, will be addressed through increases in property taxes.

The Plan contained increases in property tax collections of $68.8 million in FY 2006 and $139.6 million in FY 2007. The Update, prior to any pension reform scenario, contemplates property tax increases of $124.1 million in FY 2006 (16.8%) that escalate to $195.5 million in FY 2007 (26.5%).

The Administration indicates that these property tax increases will be used to cover the costs for growth in health insurance premiums and the local share of Medicaid, pay-as-you-go property tax refunds, growth in the cost of police services, and capturing the value of new construction. While NIFA recognizes the difficulty of achieving structural balance, it is dismayed that the County has increased its reliance on property taxes as gap-closing measures.

The increased reliance on property taxes results from significant reduction in two other gap-closing measures: Assessment Reform, and Smart Government Initiatives. The Plan contained gap-closing measures totaling $47 million attributable to increased effectiveness in Assessment and Assessment Review. The Update reduced this gap-closing measure to $6.1 million.

The County Comptroller's office recently completed the first phase of its audit of the Assessment Review Commission. It estimated Nassau County's real estate tax refund liability at $365 million, $40 million higher than the $325 million figure cited by the County Attorney and included in the Comprehensive Annual Financial Report of the Comptroller (CAFR) for FY 2002. The Comptroller indicated that the increase resulted primarily from the impact of the 2003 reassessment on residential properties. In recognition of this problem, the County's legislative program seeks to extend the ability of NIFA to issue debt to pay real estate tax certiorari refunds significantly greater than the levels now available for FY 2006.

The County incorporates Smart Government Initiatives totaling $159.3 million in FYs 2005-07. The County defines Smart Government Initiatives as new and improved ways of doing business that promote efficiency, reduce spending or generate non-tax revenue. The Plan contained Smart Government Initiatives totaling $193.8 million in FYs 2005-07. The County attributes the decline of $34.5 million in savings from Smart Government Initiatives to their assumption that they will not achieve any initiatives in FY 2005 or FY 2006 that require State approval. The combined loss of savings from Smart Government Initiatives and reform in Assessment and Assessment Review shifts the burden to an increased reliance on higher property taxes.

Other Revenues

Certain other revenues changed in the Update from the Plan. Primary among them is State Aid, which increased by nearly $40 million by FY 2007. This results from better than anticipated results in FY 2003 State Aid actuals, and a recalculation of Medicaid reimbursements that were under-estimated in the Plan.

Revenue estimates for Parks and Recreation and OTB profits were adjusted downward in the Update to better reflect actual year-end results from FY 2003 and FY 2004. NIFA in the past has noted the overly optimistic projections for Parks revenue and concurs with this downward adjustment.

OTB profits came in nearly $4 million under budget in FY 2003. Most of this reduction in profits results from rising pension and health insurance costs. It is hopeful that the recent opening of the Race Palace will generate profits to somewhat offset these losses. NIFA believes the reduction of the estimate for OTB profits to be prudent at this time.

Nassau Health Care Corporation

The Update submitted by the Nassau Health Care Corporation ("NHCC") projects an operating loss of $6.1 million in FY 2004 and surpluses of $3.8 million in FY 2005, $6.2 million in FY 2006, and $2.9 million in FY 2007. NIFA views these projections as overly optimistic. Since its creation, NHCC has incurred annual operating deficits. NIFA has continually expressed concerns about the financial outlook of NHCC and its subsequent impact on the County.

As the chart below demonstrates, cash balances have been dropping steadily since the health facilities were transferred by the County to the Corporation on September 29, 1999.

Unrestricted Cash Balances
($ in millions)

09/30/99	$135.0
12/31/00	$116.3
12/31/01	$69.9
12/31/02	$56.4
12/31/03	$36.3
04/30/04	$24.9

In the past, officials at NHCC have stated that a level of unrestricted cash less than $30 million, a level that has already been breached, could create serious problems. Certain outstanding issues could further exacerbate this already tenuous cash situation.

NHCC failed to pay $6.4 million of their 2003 pension contribution to the State. New York State is currently charging NHCC 8% interest on this amount, and could take the amount owed out of Medicaid revenue due to the Corporation. Furthermore, the CSEA union, which represents the majority of the workforce at NHCC, has been without a contract since December 31, 2002. A retroactive increase of 2.5% for FY 2003 would cost the Corporation approximately $6 million annually, negatively impacting its cash position and year-end operating results.

Nassau County recognizes that the continued deterioration of the finances of the Corporation threatens the fiscal recovery of the County. It recently retained the firm of Manatt, Phelps, & Phillips LLP, under the leadership of George Kalkines. Their study of the role of NHCC in the delivery of health care to residents of Nassau County was released in January 2004. The report found that NHCC and the County must move quickly to rethink and restructure the Corporation's strategy, operations and finances**,** while taking immediate action to stabilize the Corporation's cash position and move closer to a break-even scenario.

The issues that have to be addressed immediately include:

- Right-sizing of the labor force.
- Managing operations in the most cost efficient manner.
- Reducing physician staffing and/or modifying physician financial arrangements to match the volumes in each clinical department.
- Billing and collecting for all services provided.
- Settling outstanding collective bargaining issues to achieve cost certainty.
- Instituting governance changes to make NHCC more accountable to Nassau County elected and appointed officials.
- Restructuring the Corporation's $256 million outstanding indebtedness when market conditions are financially advantageous.
- Organizing and managing each of the three NHCC enterprises more effectively.
- The future of the A. Holly Patterson Home.

Many of the recommendations contained in the Kalkines study require a reshaping of the Corporation's operations that will take time to implement. However, it is not clear whether the County and NHCC agree on these long-term concepts. These initiatives revolve around the restructuring of the Medical Center into a first class community hospital and the disposition of the nursing home.

Futhermore, a leadership vacuum exists with the recent resignation of NHCC's President/CEO and several vacancies on the Board of Directors. These vacancies need to be filled as soon as possible in order to facilitate the Corporation's fiscal recovery.

Two major issues that continue to confront NHCC are staffing levels and census. Specifically, the Kalkines study cited overstaffing at the Medical Center. The report indicated that the hospital should be staffed between 4.6 and 4.8 FTE's per occupied bed. The Corporation's financial statements for April 2004 show that the hospital has 5.81 FTE's per adjusted occupied bed. Right sizing staffing at the Medical Center remains a problem even though the Corporation has 600 fewer employees than it did as recently as in the year 2000.

The average daily census at the A. Holly Patterson Geriatric Center has declined precipitously over the past few years. As recently as the year 2000 the average daily census was 836 beds. The most recent data, April 2004, indicates the severity of the problem as the census showed only 618 occupied beds, a decline of 26% from 2000.

The County acknowledges that it is unclear if the Kalkines report identifies sufficient initiatives, in the short term, to reverse the Corporation's monthly cash losses. The Corporation has shed over 400 FTE positions since the beginning of FY 2004, including 100 positions that were announced on May 25, 2004. Even with these workforce reductions the Corporation will not achieve a break-even run rate in FY 2004.

Should the Corporation's cash position need to be bolstered, the Update points to a $60 million reserve of tobacco securitization proceeds as a source of potential subsidy; however, this is not a permanent solution. Because of this rapid deterioration, NIFA continues to urge the leaders of the Corporation and the County to act immediately to implement the necessary short-term remedial actions and agree upon a long-term vision/strategic direction for the Corporation.

Nassau Community College

The major change reflected in the Update reflects a decline in student enrollment. Whereas the Plan was predicated on student enrollment increasing 1% each year, the College actually experienced a 2% decrease in enrollment. The College is now projecting enrollment to remain flat, from this lower base, over the life of the Plan. This drop negatively impacts student revenues (i.e., tuition) and revenue in lieu of sponsor share (i.e., reimbursements for out-of-County students).

The Plan contained annual increases of $125 in tuition. To adjust for the lower than anticipated enrollment the College is increasing tuition $250 for FY 2005, with planned subsequent increases of $200 in FY 2006 and FY 2007.

IV. Gap-Closing Program

The County has reviewed and modified its gap-closing program. The major elements of the County's gap-closing program remain substantially unchanged. However, the County has moved those Smart Government Initiatives that require approval by the State Legislature from FY's 2005 and 2006 to FY 2007. The County also anticipates that a larger portion of the gap will be closed with property tax increases, which now comprise nearly half of the FY 2007 gap-closing program, or $196 million, compared with 35%, or $140 million, in the Plan.

The next portions of this section discuss the more significant changes to the existing gap-closing program, and comments upon the reasonableness of these changes. While this report does comment upon changes to the gap-closing program, it does not reiterate discussions of ongoing concerns, which were addressed in our October 2003 report, regarding the sustainability of the County's workforce reduction objectives, the County's ability to extract labor concessions from the remaining unions, and some of the County's large, but speculative out-year gap-closing initiatives that remain unchanged.

The County will need to consider these concerns as well as other risks identified throughout this report during its preparation of the September 2004 plan.

Smart Government Initiatives

The County has reduced the value of its SGI's by approximately $6.1 million in FY 2005, $26.1 million in FY 2006, and $2.2 million in FY 2007. These decreases are, in part, because the County has chosen to move any initiatives that require State Legislative approval from FY 2005 and FY 2006 to FY 2007. The balance of this section discusses the changes that have been made to the Smart Government Initiatives. A number of the changes have been grouped into two major areas: those where the County has made a downward revision in the value of the savings, and those that require State legislative approval and have all been moved to FY 2007. In addition, we comment upon three specific initiatives that have also changed, but for which we continue to have concerns.

Revised Initiatives

The County has reviewed and scaled back the projected savings from the following initiatives to reflect savings recognized as part of the baseline projections or reductions in projected savings:

- Fraud Hotline - reduced by $750,000 each year
- Mail/Print Shop - reduced by $50,000 each year
- Telecommunications -eliminated
- Automated Time and Leave - reduced by $1.7 million in FY 2004
- Ambulance Billing- reduced by $2.1 million each year, included in baseline
- Night Simulcasting of Racing – reduced by $1.2 million each year, included in baseline

- Expand availability of GIS data – eliminated

Initiatives Requiring State Legislative Approval

The County has moved all initiatives requiring State legislative approval from FY 2005 and FY 2006 to FY 2007. This action impacts FY 2006 hardest where savings from Smart Government Initiatives have been reduced by $22 million. The initiatives included in this revision are:

- Ticket Processing Surcharge
- LIE Reimbursement
- Accident Report Fee
- Coliseum Service Charge
- Commercial Tax Grievance Filing Fee
- Absentee Landlord Surcharge

NIFA is in agreement with the revisions that have been made by the County and in fact many of the adjustments are consistent with concerns that NIFA raised in our October 2003 report. However we continue to question the Automated Time and Leave goal of saving $1.7 million in FY 2006 and FY 2007.

Fee Increases

The Plan indicated that OMB and the County Legislature were in the process of collaboratively developing a revenue manual. The revenue manual would enhance the process of annually reviewing the fee-based revenues and help evaluate whether incremental increases are appropriate. In contrast, the Update indicates that the collaborative process of developing the manual has been delayed to late 2004. NIFA questions whether a consensus exists to raise fees to generate income at the projected levels. If the County is to achieve this initiative, the fees need to be in place well before the start of FY 2005 so that collections can begin timely.

2005	$4,000,000
2006	$4,000,000
2007	$6,500,000

eGovernment Revenue

The County reduced its revenue projection for this initiative by $2.5 million in 2006. The milestones for design and installation have also been moved to late 2004. We acknowledge that a two-year phase-in of the impact of this initiative is practical. NIFA agrees with the County that this initiative will improve customer service for those individuals who prefer to access and pay fees via the Internet, however, we remain skeptical regarding the County's ability to achieve its revenue goals.

Backcharges to Technology Fund

This initiative proposes that $1.7 million, or approximately 20% of departmental salaries and fringe costs for technical staff, will be charged to the Technology Fund. The County included this initiative in the Proposed Plan. NIFA questioned the validity of this initiative, and the County subsequently withdrew it from the Plan. NIFA believes that the salary and fringe expenses associated with the development of technology in the County are an operating expense and therefore is inconsistent with the purpose of the Technology Fund. This initiative should be removed from the gap-closing program when the County submits its new financial plan in September.

2005	$1,700,000
2006	$1,700,000
2007	$1,700,000

Labor Concessions

The County has not made any changes in the Update regarding anticipated savings to be achieved through labor concessions. Over the four year life of the Plan, FY 2004 through FY2007, the County anticipates achieving labor concessions totaling $83 million.

There are two police unions that currently do not have contracts, the Detectives Association (DAI), and the Superior Officers Association (SOA). The County is currently in binding interest arbitration with these two unions and is hoping for settlements by September 2004. Going forward, the County has indicated that they plan to enter into negotiations with the Sheriff Officers Association prior to the expiration of its labor contract on December 31, 2004. In addition, the County has not completed Phase II of its settlement with the Police Benevolent Association (PBA).

For these three public safety unions the County is seeking labor concessions similar to those stated in the agreement reached with the Police Benevolent Association (PBA). The County has represented that the agreement reached with the PBA increased total compensation by an average annual rate of 1.75% over the six year life of the agreement. In its October 2003 report, NIFA indicated that a police officer's compensation would increase on average 3.6% annually. It noted that the average annual increase could be lower if savings from civilianization, minimum manning, and the additional tours to be work are realized.

The County anticipated civilianizing 50 positions in FY 2004 and an additional 50 positions in FY 2005 to save approximately $5 million annually. To date the civilianization efforts have been unsuccessful, which makes NIFA question the County's ability to achieve its projected savings.

While the County claims that savings from minimum staffing and the additional tours are being achieved, it recognizes in its FY 2004 first quarter report that overtime is basically unchanged from last year. In recognition of this likely deficit, the County has increased its estimate of police overtime by $12 million to approximately $40 million.

NIFA also notes that certain types of savings (e.g., civilianization, and minimum manning) are more closely aligned with the PBA and are unlikely to translate into savings for the DAI and SOA. As such, the County will have to find alternative savings proposals if the anticipated labor concessions are not achieved.

Workforce Management

The County updated its workforce reduction initiative and salary turnover savings targets included in its gap-closing program. The County projects that it will save $2.8 million in FY 2004, $15.5 million in FY 2005, $24.1 million in FY 2006, and $28.4 million in FY 2007, relative to its baseline estimates, from further reductions in its full-time headcount through attrition. The revised savings targets, which are not significantly different from previous estimates, were modified to account for year-to-date headcount-related savings already included in its revised FY 2004 baseline and were also fine-tuned to reflect the County's most recent workforce attrition experience.

The County projects that its full-time workforce will decline from the 8,344 employee level it had on April 1, 2004, to 8,306 in FY 2005, 8,204 in FY 2006, and 8,102 in FY 2007. If successful, this would represent a cumulative reduction of 1,057 full-time employees from January 1, 2002.[3] This represents a planned net reduction of only 242 full-time employees, or less than 3%, by FY 2007. We remain skeptical of the County's ability to achieve these reductions, particularly because of the County's plan to hire additional police officers and the no-layoff provision contained in the CSEA contract. Since these reductions are almost exclusively in CSEA-represented titles, the imputed net attrition rate approaches 8%, a rate that may be difficult to sustain. A large proportion of these titles are held by employees working for departments that have maintained or added staff in recent months, including Health and Human Services, District Attorney, Assessment, and Assessment Review Commission.

Tax Certiorari And Assessment Review

From the outset, resolution of the certiorari ("cert") problem has been seen as essential to Nassau County's return to fiscal stability. The State Legislature recognized the severity of this problem. Under the legislation that created NIFA in June of 2000, Nassau County was given the ability, until December 31, 2004, to borrow 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.

[3] The County maintains that it has reduced its level of contract employees in Health and Human Services by 204 since January 1, 2002. This reduction, when combined with the County's planned full-time headcount reduction initiative, may result in a cumulative reduction of 1,261 employees by the end of FY 2007.

On two occasions, the State Legislature has extended the County's ability to borrow for tax cert liability through NIFA and include the proceeds as revenue in balancing its budget. In the first instance, the County's right to borrow was extended from 2004 to 2005. In the second instance, the County was permitted to borrow $15 million for certs in 2006 and $10 million in 2007. It now appears that Albany will not be granting any more extensions. Hence, the time to act decisively is upon us.

The County has spent considerable amounts of money, has had numerous successes, and seems committed to solving this problem. However, NIFA remains concerned with the bottom line - will the cert backlog be eliminated in a timely manner? Current indications are that the backlog will not be substantially eliminated before NIFA's borrowing capacity lapses.

At this time we note that: (1) the backlog remains substantially the same as it was two years ago; (2) $47 million in estimated savings that were in the Plan for "Increased ARC Effectiveness" have now been reduced to $6 million; and (3) few of NIFA's suggestions in its October 2003 report, including our suggestion that the Comptroller audit ARC, have been followed or implemented.

The cert problem has proven to be even more intractable than the County had anticipated. To the credit of the County, they continue to pour resources into this effort. Furthermore, their new candor in acknowledging their problems is refreshing.

NIFA intends to help in whatever ways we can, but note that failure to eliminate the backlog remains a major obstacle to the County's recovery.