October 5, 2004

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

Hon. County Executive Suozzi:

Pursuant to the Nassau County Interim Finance Authority ("NIFA") Act, we have completed our review of the proposed Multi-Year Financial Plan For Fiscal Years 2005-2008 ("Plan"). Our review is transmitted to you in the attached report entitled, "Nassau County Interim Finance Authority Review of Proposed Financial Plan – Fiscal Years 2005-2008" ("Report").

The Report has been reviewed and adopted by the NIFA Directors. NIFA formally accepts the proposed Plan and finds that it is in substantial compliance with the requirements laid out in the NIFA Act.

The County Legislature will review NIFA's Report and either adopt, reject, or modify the Proposed Plan. The Plan will then be returned to NIFA for final action.

Before we summarize our Report, we wish to commend the County on achieving ratings in the "A" category from all three major rating agencies. This rating upgrade is a significant accomplishment, and both the County Executive and Legislature deserve credit for moving the County in a positive direction. The County's fiscal progress is a significant achievement and NIFA looks forward to continued success of the County as we work together in the future.

Briefly summarized, our Report finds that:

FY 2004 – NIFA concurs with the County that it should achieve a modest operating surplus even after prepaying certain expenses and funding certain reserves.

FY 2005 – The Budget for FY 2005 appears to be balanced. NIFA has identified a number of risks that the County must consider when adopting the FY 2005 Budget and the Proposed Plan, especially in regard to its accounting for pensions.

FY 2006 - FY 2008 – The County continues to have large out-year gaps, which remain largely unchanged despite substantial additional revenues and cost cutting measures that the County has put in place. We recognize that Nassau County is not alone in confronting this situation, and that other counties face similar problems. The County must deal with these issues, however, especially since NIFA transitional aid ends in 2005 and the Authority's borrowing ability substantially ends as well.

The NIFA Act requires that during the Interim Finance Period, a high level of oversight be maintained. We intend to follow that statutory mandate and to constructively assist in the County's recovery.

In the past three years, the County has submitted an update of its financial plan. NIFA believes that these updates have been useful for both NIFA and the County. Therefore, NIFA is again requesting that the County submit a financial plan update no later than June 1, 2005.

Please let us know if there is anything further we can do to be helpful.

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 PROPOSED MULTI-YEAR FINANCIAL PLAN FISCAL 2005 – 2008

October 5, 2004

NASSAU COUNTY
INTERIM FINANCE AUTHORITY

Table of Contents

I. Overview

We are pleased to report that the combination of conservative budgeting, positive actions by the County Executive and Legislature, and NIFA's assistance has resulted in significant progress toward restoring fiscal health to Nassau County. This progress has also been noted by the rating agencies recent upgrading of the County to the "A" category. The County's progress is strong and enduring.

NIFA now believes that long-term structural budgetary balance, where recurring expenses are funded by recurring revenues, is possible if the County remains focused. However, very significant challenges remain as evidenced by continuing out-year gaps of $199.3 million in 2006, $313.9 million in 2007, and $411.7 million in 2008 as restated for the understatement of pension costs in 2007 and 2008.

As of the close of 2003, the County had an undesignated fund balance of $81 million. This milestone was achieved through County initiatives along with NIFA assistance. The County's initiatives since 2002 have included: increasing property taxes by 20%; reducing the workforce; realigning the County's debt burden; and implementing Smart Government Initiatives.

NIFA, through its statute and credit rating, has also played a significant role in the County's recovery to-date. NIFA has provided $92.5 million of unrestricted State Aid; budgetary relief of $214 million by financing maturing debt; and debt service savings of $111.1 million by restructuring County debt to bring savings forward and take advantage of favorable interest rates. Much of the NIFA assistance was achieved because the County recognized that although the NIFA Act placed certain fiscal constraints on the County, it also granted certain protections and benefits. Governor George Pataki and the State Legislature, acting in a bi-partisan spirit of cooperation, created NIFA and prevented the County's financial collapse. Continued cooperation between the County and the State is essential to help resolve key issues in the years ahead. NIFA's active oversight through 2007 is critical to maintaining financial stability.

As a result of the foregoing initiatives, NIFA believes that the proposed FY 2005 – FY 2008 financial plan (the "Proposed Plan") is balanced. We are concerned, however, that the Proposed Plan defers some structural changes and relies to a greater degree on non-recurring revenues. For instance:

- The planned use of $109.4 million of pension reserves and borrowings.

- The planned use of $67.8 million of projected surplus funds to pre-pay debt and other expenses. Should these projected surplus funds not materialize, the County would need to fill these gaps.

- The planned borrowing of an additional $40 million to pay pre-2000 cert claims.

It is important to point out that the County's 2005 budget benefits from key events including:

- State legislation allowing the use of a non-recurring pension reserve in the amount of $35 million.

- Savings of $14.3 million from the State takeover of Family Health Plus.

- Debt service savings of $11 million from a NIFA advance refunding.

- Pre-payments and the use of other reserves in the amount of $26.1 million.

NIFA strongly believes that because some of these events may be non-recurring, the County should be aggressive in pursuing smart government initiatives, restructuring governmental operations and continuing its plan to reduce the workforce.

NIFA recognizes the County's proactive positions that have helped close significant budget gaps. While we do not set policy, we stand ready to work with the County in order to ensure that further tax increases should only be implemented as a last resort, after all other actions have been exhausted, especially in the areas of workforce reduction, smart government initiatives and consolidation.

We are also not convinced that the certiorari or the Nassau Health Care Corporation ("NHCC") problems have been fully resolved, although we note that progress is being made. Each of these could, in the long run, undo substantially all of the good that has already been accomplished if they are not properly managed. Continued effort and monitoring is essential to eliminate these problems.

Finally, and perhaps most importantly, the County's plan assumes that State pension legislation is advantageous as a budget balancing measure. Should the Governmental Accounting Standards Board ("GASB") rule that the full pension payment must be accrued in 2004, the County will not have available the $76 million pension reserve, thereby creating a shortfall in the Proposed Plan.

The County has clearly taken major positive actions which have helped restore fiscal stability. However, more work needs to be done. NIFA expects the County to be aggressive in carrying out their own planned initiatives sooner, rather than later, and is prepared to work with the County towards implementing their goals.

II. Risk Assessment

This section presents NIFA's analysis and conclusions regarding the proposed FY 2005 Budget and the major underlying initiatives designed to ensure year-end budgetary balance. The County's ability to achieve its fiscal objectives for FY 2005 is directly dependent on the actions that the County takes in the remainder of FY 2004 and its ability to fully implement FY 2005 gap-closing actions.

Since any budget or financial plan is a set of estimates, the actual results will differ from initial expenditure and revenue estimates. 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 against the County and require significant gap-closing actions near the end of a fiscal year. The County is to be commended for taking a conservative approach toward preparing the budget and financial plan, which help to reduce the possibility of negative variances.

The County will be confronted with a wide range of fiscal problems to solve during the next several years and there is always the possibility that baseline estimates may prove incorrect or that 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 FY 2005 Budget and include items that may be:

- difficult to execute and/or may result in fewer savings or less revenue than assumed; and
- errors or omissions that occurred during preparation of the Budget.

The *second* category of risks are those that cannot be 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 2005 Budget Risks

NIFA has identified a number of actions or initiatives that may be at risk and the County must monitor closely. The upper panel of Table 1 identifies the portion of the item that NIFA believes is unlikely to occur or is in error.

For example, if NIFA believes that a particular expense is incorrect, the amount of understatement will be identified. In those cases where NIFA believes that the full amount of a savings initiative will not be realized, NIFA will identify the amount that it believes will not be realized. In both cases, the County Legislature must weigh the risks and have substitute initiatives ready for enactment.

FY 2005 – FY 2008 Financial Plan Risks

The lower panel of Table 1 presents 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.

(Table 1)
BUDGET RISKS AND OFFSETS

		Estimated Risk ($ in millions)	Page
FY 2005 Budget Risks	**Risks**		
	Use of Pension Reserve	$35.0	18
	Overtime	5.0	16
	Tuition Reimbursement	2.8	14
	Workers' Compensation	1.1	25
	Taxi and Limousine Initiative	0.5	25
	Subtotal	**$44.4**	
	Offset for Attrition/Turnover Savings	(13.0)	36
	Total	**$31.4**	
FY 2006 – FY 2008 Financial Plan Risks	Understatement of FY 07 and FY 08 pension costs – See page 7		
	Out-year Pension Costs – See page 18		
	Nassau Health Care Corporation – See page 27		
	Tax Certiorari – See page 37		
	Workforce Reduction Sustainability – See page 36		
	Unmet Infrastructure Needs – See page 24		

While NIFA has identified certain risks, we believe that most of them are manageable within the context of a budget that exceeds $2.4 billion. The exceptions to this statement are the need to restate the out-year gaps for the pension error and the adverse impact should GASB require that local governments must fully accrue their pension obligation for FY 2005. This could preclude the County from using $35 million from the pension reserve in FY 2005, $30 million in FY 2006, and $11 million in FY 2008 and receiving budgetary relief from borrowing $33.4 million in FY 2007. The County has indicated that if GASB were to issue such a ruling that it would plan to borrow to achieve similar savings. The County needs to show whether borrowing would provide budgetary relief. NIFA is required by statute, §3668(5), to comment on "any County borrowing", within thirty days after notification of such borrowing. NIFA is concerned about the County's current plan to potentially borrow for pension costs. We will await the final outcome and the County's plan before making a more formal decision about such a borrowing. In order to minimize risks to the Proposed Plan, it is important that the County insure prompt implementation and monitoring of all proposed actions.

III. Proposed FY 2005 - FY 2008 Financial Plan

FY 2004 RECAP

Before discussing the Proposed Plan we need to discuss the projected operating results for FY 2004 since this forms the baseline for future years. The Administration submitted a FY 2004 Budget that was reviewed by NIFA and thought to be reasonable. The County is projecting a modest surplus of approximately $1.9 million. To the extent that the surplus increases, the County has a history of using these additional funds to pre-pay future expenses and fund reserves. This is supported by NIFA and represents prudent fiscal policy.

Recently enacted pension reform may provide the County with approximately $76 million of relief in FY 2004; however, the Governmental Accounting Standards Board is reviewing the proper treatment of pension obligations that have been deferred under the recently enacted pension reform legislation. If a favorable ruling is made the County has stated that it will not realize any budgetary relief in FY 2004 since it intends to place these resources into a dedicated pension reserve, which will then be tapped in future years to mitigate these expenditures. An unfavorable ruling would not negatively impact FY 2004 since the County has budgeted for its full pension liability.

The County's Quarterly Budget Report for the period ending June 30th projects a small positive operating result of $1.9 million. The Report acknowledges that this projection is based on certain conservative assumptions that could result in the realization of higher end-year balances. In total, the County projects that it will realize $47.8 million in additional revenues and incur $45.9 million in additional expenditures.

The Report describes a number of large projected positive revenue variances including $21.3 million in additional sales tax receipts, $24 million in higher State and Federal aid, and $4.3 million in additional property tax collections. Offsetting these favorable variances are projected shortfalls of $1.9 million in Parks and Recreation fees, $2.8 million in OTB profits, $4.6 million in motor vehicle registration fees and $2.4 million in other revenue.

The Report also highlights a number of large projected negative expenditure variances including $16.2 million in higher police and correctional center overtime, $6.3 million in higher workers' compensation and police pension contributions, $11.5 million in higher Medicaid expenditures, and an additional $9.3 million in Early Intervention Program costs.

The County Comptroller's Mid-Year Budget Report projects a positive operating result that could range from break-even to $38 million. The high end of the range is driven by the potential availability of $38 million in reserves that had been accrued in FY 2003 to pay for police retirement termination costs in FY 2004. While we agree that some of this reserve may be unneeded in FY 2004, we consider these resources to be part of fund balance and they should not be considered part of an FY 2004 operating surplus.

Subsequent to the release of the County's June 30, 2004 budget status report, a number of positive events have occurred. Consistent with prior history, the County wisely intends to use these funds to establish reserves or pre-pay certain expenses. As a result the County should still end the year with a modest surplus. The following is a discussion of the things that have occurred along with a discussion of the planned uses.

Positive Events

- Sales taxes are projected to increase by $14 million.
- The County anticipates that the dispute with the Detectives Association ("DAI"), and Superior Officers Association ("SOA") will mirror the 2003 PBA arbitration award, yielding savings of $10 million.
- The recent stabilization agreement between the County and the Nassau Health Care Corporation will release approximately $9.8 million of prior years accruals.

Planned Uses

- Pre-pay Family Health Plus - $14.3 million.
- Transfer $9.3 million to the debt service fund to pre-pay 2005 maturing debt.
- Fund $8 million of additional overtime beyond the amount projected as of June 30, 2004.

Based upon historical data, analysis to date, and discussions with various County officials, NIFA concludes that:

- The County should end FY 2004 with a modest surplus since in virtually every case the County adopted a conservative or worst case scenario assumption.
- The County's current sales tax estimate of $936.6 million should be met, unless there is a significant negative variance in the remaining 2004 receipts.
- This should be the second year since the creation of NIFA that the County should have an operating surplus without NIFA and State assistance, if one-time payments to benefit future periods are not considered.

CLOSING THE FY 2005 BUDGET GAP

The Proposed Plan successfully closes the budget gap in FY 2005. The June Update submitted by the County projected a gap of $120.3 million, before NIFA assistance of $11.8 million. The remaining $108.5 million gap, was closed as a result of the following major items:

- Draw down of $35 million from the Retirement Contribution Reserve Fund.

- The use of $26.1 million of 2004 surplus to pre-pay $14.3 million of Family Health Plus obligations, $2.5 million to purchase police cars, and $9.3 million to pre-pay 2005 debt.

- Smart Government initiatives of $15.9 million, including participating in the 340 B program for inmate pharmaceuticals, taxi and limousine revenues, workers' compensation savings and various fee increases.

- Additional sales tax revenues of $14 million.

- The State takeover of Family Health Plus, saving $14.3 million.

- Debt service savings of $11 million from NIFA's advanced refunding / swap concluded in April 2004.

- A $10.1 million charge back of storm water personnel expenses to the Sewer and Storm Water Resources District.

The County should be cautious because a number of these items are non-recurring in nature.

THE OUT-YEAR GAPS – FY 2006 – FY 2008

This section discusses the growth rates used by the County to project revenues and expenditures in the Proposed Plan as well as the actions proposed by the County to close the projected Out-Year gaps. The County has previously pointed to rising mandates such as Medicaid, health insurance, and pension contributions as the cause of the gaps. To this list we would add salary costs that have grown faster than inflation. There are other risk factors, such as NHCC and the projected certiorari settlements that may significantly affect the gaps.

Sizing the Out-Year Gaps

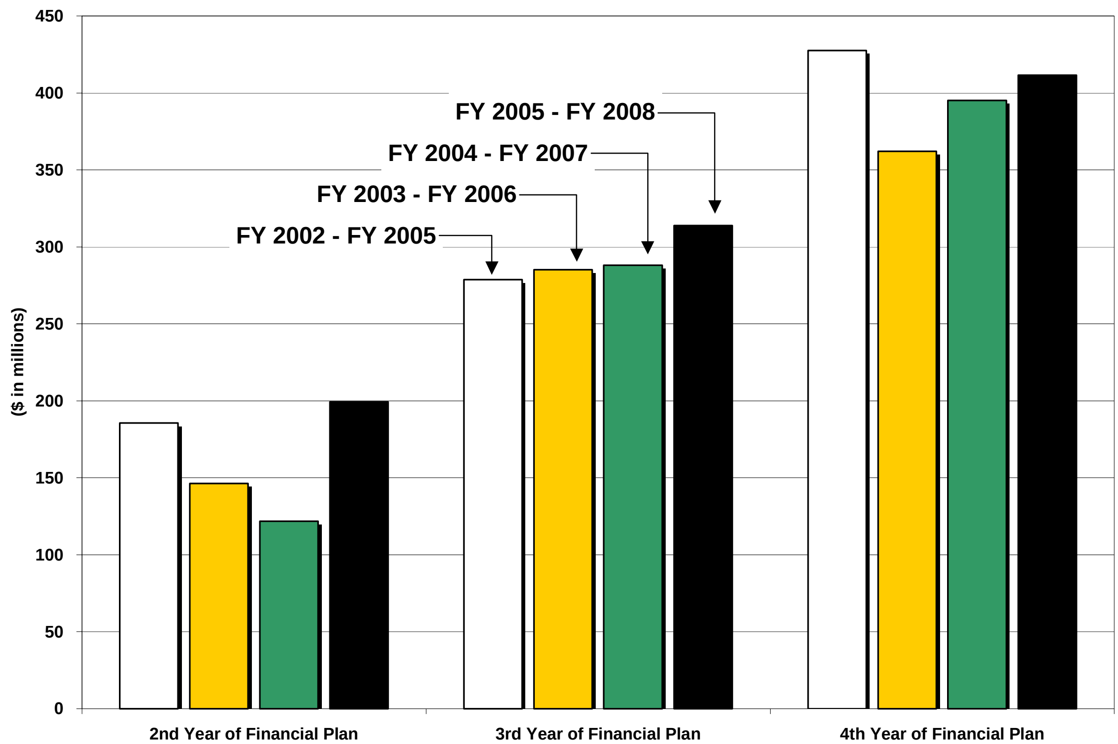
The County projects gaps of $199.3 million in FY 2006, $302.9 million in FY 2007, and $389.7 million in FY 2008. These gaps were calculated based upon the growth rates set forth in Table 2. However, because of an error in calculating pension costs, the projected FY 2007 and the FY 2008 gaps were understated by $11 million and $22 million, respectively. As a result, the restated gaps are $313.9 million in FY 2007, and $411.7 million in FY 2008. Based upon our review of the growth rates used by the County, and the underlying assumptions, we believe that, with the exception of pension costs, that the projection of out-year gaps are reasonable.

(Table 2)
MULTI-YEAR PLAN GROWTH RATE ASSUMPTIONS

Expense/Revenue Category	FY 2004-07 Plan	FY 2004-07 Update	FY 2005-08 Plan	FY 2005- FY 2008 Plan Explanations
Expenditures				
Wages	Contracts	Contracts	Contracts	Reflects terms of existing contracts
Non-Police Pension	13.2%	13.3%	13.4%	10% rate reduction starting in 2006
Police Pension	19.2%	19.2%	19.2%	10% rate reduction starting in 2006
Health Ins. – Active	15%	13.8%	12%	Higher than 9.5% for 2005
Health Ins. – Retirees	18%	15%	12%	Higher than 9.5% for 2005
OTPS	2.5%	2.5%	1.3%	Commitment to contain admin expenses
Utilities	5%	7.5%	2%	US Department of Energy estimate
Medicaid	13.5%	13.5%	12.9%	Applied to most Medicaid categories
Social Services Entitlements	4.4%	4.4%	4.5%	Most current information
Early Intervention	N/A	4.9%	4.9%	Most current information
Special Education	N/A	4%	5.5%	Most current information
Revenues				
State aid	2.45%	Variable	Variable	Based upon reimbursement formula
Federal aid	2.45%	Variable	Variable	Based upon reimbursement formula
Sales tax	2.7%	3%	3%	Less than 04 YTD experience of 6.5%
Property tax	Flat	Flat	Flat	No increase in baseline
Other revenues	Flat	Flat	Flat	
Investment Income	N/A	2%	N/A	

After examining the County's most recent baseline projections included in the Proposed Plan and comparing them side by side with previous plan submissions, NIFA concludes that while the County has implemented numerous positive actions, out-year gaps continue to be troublesome. As illustrated in Chart 1, the size of the gaps have remained largely unchanged. In fact, compared with the September 2003 Plan, the second year gap increased by $77.5 million, the third year increased by $25.7 million, and the fourth year gap increased by $16.6 million. The large increase in the second year occurs because 2006 is when the County is required to begin paying tax certiorari refunds, estimated by the County at $59.5 million, out of operations rather than borrowing.

(Chart 1)
OUT-YEAR STRUCTURAL DEFICITS REMAIN LARGELY UNCHANGED



The out-year gaps are not projected to decline even though sales tax collections have increased and the growth rates have been reduced for a number of significant items:

- Health insurance rates are projected to decline for 2005 and grow more slowly in FY's 2006 - 2008.

- The 2006 pension contribution rates are projected to decline by 10% and then remain stable.

- The County has reduced its expected growth rate for Medicaid from 13.5% to 12.9%.

- Utility costs are projected to grow by 2% rather than 7.5% as projected in the June 2004 update.

CLOSING THE OUT-YEAR GAPS

The County has chosen to modify its gap-closing program by reducing the value of certain gap closing actions. The following are some of more significant revisions:

- The workforce and turnover savings have been increased by $14.7 million in FY 2006, and $16 million in FY 2007, while the County has increased its projected FY 2005 salaries by $21 million, including approximately $12 million for overtime, since the June 1, 2004 update.

- The expected savings from smart government initiatives have been reduced by $22.9 million in FY 2006 and $42.3 million in FY 2007, even though only $13.7 million of previous smart government initiatives were incorporated into the FY 2005 budget.

In addition, the out-year gap-closing program assumes the following non-recurring actions to help balance the financial plan:

- The use of $74.4 million of pension reserves and borrowings.

- The use of $43.9 million of expected surplus funds to pre-pay debt and other expenses.

- The borrowing of an additional $40 million to pay pre-2000 certiorari claims.

We are concerned that while the out-year gaps are increasing, the value of certain gap-closing measures has been reduced, and the County is using various reserves to help balance the budget. The need to balance the Budget and Plan with recurring actions that provide continuing budgetary relief is essential. The County should be more aggressive in pursuing its smart government initiatives, restructuring government operations, and continuing its planned workforce reduction in order to achieve structural budgetary balance.

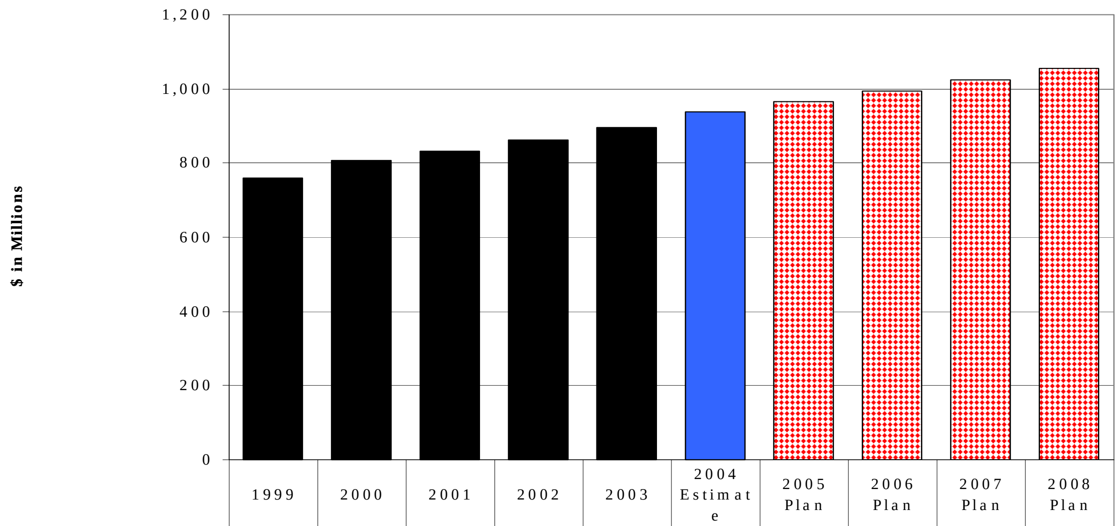
REVENUES

Sales Tax

Sales tax is the largest revenue source for the County, comprising 40% of all revenues covered in this analysis, and is budgeted at $964.7 million for FY 2005. The current sales tax rate in Nassau County is 8.75%, of which 4.25% is the State's share, 4% is the County's share, 0.25% is allocated to the Metropolitan Transportation Authority, and the remaining 0.25% is distributed to the towns and cities in the County.

Chart 2 illustrates historical sales tax growth for the County.

(Chart 2)
SALES TAX
FY 1999 – FY 2008



	1999	2000	2001	2002	2003	2004 Estimate	2005 Plan	2006 Plan	2007 Plan	2008 Plan
Sales Tax Revenue	758.2	807.0	831.7	862.6	895.4	936.6	964.7	994.0	1,024.2	1,055.3
Growth Rate	6.0%	6.4%	3.1%	3.7%	3.8%	4.6%	3.0%	3.0%	3.0%	3.0%

Years

Sales tax receipts through October 5, 2004 total \$628.7 million. This is \$37.7 million, or 6.4%, ahead of last year's pace. The County anticipates 1.1% growth for the remainder of FY 2004, which will result in total receipts of \$936.6 million, an increase of 4.6% from FY 2003. Subsequent years in the Proposed Plan are projected to grow by 3.0%.

As evidenced by the chart, a projected sales tax growth of 3% is reasonable. The County's recent conservative forecasting of sales tax has yielded significant benefits towards the closure of projected gaps. When the Administration released the FY 2004 – 2007 Plan on September 15, 2003, a budget gap of \$121.8 million was forecasted for FY 2005. That Plan projected sales tax revenues of \$926.2 million in FY 2005. The Proposed Plan now forecasts sales tax revenue of \$964.7 million in FY 2005, an increase of \$38.5 million. Hence, nearly one-third of the projected gap for FY 2005 was closed due to greater than anticipated sales tax collections. In fact, the sales tax projection for the current year, FY 2004, is \$10 million greater than what had previously been forecasted for FY 2005.

The positive growth in Nassau's economy is a testament to its evolution from an economy dependent upon the defense industry to a more varied economic engine. The Long Island region gained almost 15,000 jobs in the twelve months ending in June 2004, double the number of jobs generated in 2003. However, there are reasons for concern. Home prices have been rising at a much more rapid pace than incomes for a long period of time creating a potential housing bubble. Consumer spending has also been increasing more rapidly than income levels, which leads to greater consumer debt. A rising interest rate environment could lead to softness in the housing market and a slowdown in consumer spending, which could negatively impact economic growth.

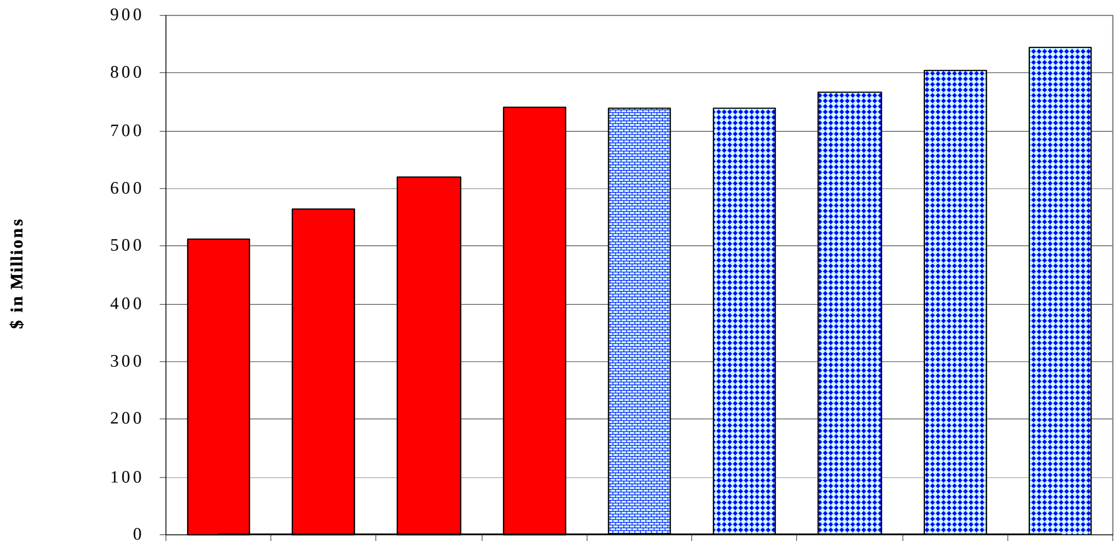
The County utilizes sales tax revenues to help close projected gaps in the out-years. One gap closing measure anticipates 4% growth in sales tax. This one point increase over the County's baseline estimates yields additional revenue of $37.9 million by FY 2008. Based on historical growth rates this gap closing measure is reasonable.

As part of its gap-closing program the County assumes the imposition of sales tax on residential energy beginning on March 1, 2006. The County estimates that this would bring in additional revenue of $46.1 million in FY 2006, $57 million in FY 2007, and $58.8 million in FY 2008. The implementation of this tax has been contemplated in previous plan submissions, and the County has managed to avoid this tax through various initiatives and workforce reduction. NIFA agrees with the County Executive that the County is already heavily taxed, and urges the acceleration of out-year savings initiatives as a budget offset.

Property Taxes

Property taxes are the second largest revenue source for the County. They comprise nearly 31% of total revenues and are budgeted at $738.7 million in FY 2005. This represents the second consecutive year that there has been no increase in the property tax levy. Chart 3 depicts the property tax levy from FY 2000 through the FY 2008 projection.

(Chart 3)
PROPERTY TAXES
FY 2000 – FY 2008



	00 Actual	01 Actual	02 Actual	03 Actual	04 Budget	05 Plan	06 Plan	07 Plan	08 Plan
Annualized	513.3	563.6	620.7	741.8	738.7	738.7	767.5	805.1	844.6
Growth Rate	9.9%	9.8%	10.1%	19.5%	-0.4%	0.0%	3.9%	4.9%	4.9%

Years

Absent a cap on the local share of Medicaid spending, the County plans additional tax levy increases of $28.8 million (3.9%) in FY 2006, $37.6 million (4.9%) in FY 2007, and $39.5 million (4.9%) in FY 2008. This course of action would result in tax levy increases of $331 million (64.5%) since FY 2000.

While NIFA recognizes the need for structural balance, it views property tax increases as a last resort. NIFA urges the County to carefully review previously intended workforce reductions and smart government initiatives and to implement them where feasible, thus using further tax increases only as a last resort.

State and Federal Aid

Combined State and Federal Aid totals $336.8 million in the FY 2005 budget, which comprises 14% of total revenues. The lion's share of State and Federal aid serves as reimbursements for health and human services programs. There is virtually no growth contemplated in the FY 2005 budget from FY 2004 projections on State and Federal aid. State and Federal aid are projected to exceed budget in FY 2004 due to an additional $4.4 million in Federal aid reimbursement for the care of Federal inmates, and an additional $15 million of State overburden aid that is provided to offset the cost of Medicaid. The out-years of the Plan contain average increases of 2.3% for State and Federal aid.

State and Federal aid projections are developed on a program basis in conjunction with the County's operating departments. Salaries and wages are slated to grow on average in excess of 5% over the Plan from FY 2004 projections. This is nearly double the rate of anticipated State and Federal aid reimbursements and reflects conservative budgeting by the County.

It also should be noted that FY 2005 is the final year of NIFA assistance. It is budgeted at $11.8 million ($7.5 million for transitional aid and $4.3 million for tax certiorari reform).

Other Revenue

The remaining revenues make up approximately 15% of the Plan. A major component is departmental revenue, which is budgeted at $82.8 million in FY 2005. This represents an increase of $6.2 million (8%) from the FY 2004 budget and projected actual receipts of $76.6 million.

The change results primarily from anticipated enhanced fee collections by the County Clerk for transfer and mortgage taxes ($2 million), unspecified fee increases in Parks and Recreation ($1.8 million) and the Fire Commission ($486,000), fee increases and improved collections in Consumer Affairs ($1 million), and enhanced fee collections for ambulance billings ($500,000). While transfer and mortgage taxes are greatly exceeding budget in FY 2004, rising interest rates may negatively impact future collections. It should also be noted that fee increases require timely approval by the County Legislature in order to achieve budgeted targets, and that OMB anticipates that Parks and Recreation will fall $2 million short of current revenue targets in FY 2004.

The County has also boosted its budgeted revenue for fines in the Traffic and Parking Violations Agency by over $2 million from projected receipts in FY 2004. This results from approval of higher fines by their Board of Judges, and improved collections.

The County also is proposing in the FY 2005 Proposed Budget to allocate, to the town or city of residence, the cost of Nassau residents who attend community colleges outside of Nassau County. The FY 2005 Proposed Budget charges back these costs ($2.8 million) to the towns/cities, other than those related to the Fashion Institute of Technology. While State law permits this chargeback, prior to FY 2004 it had been the County’s policy to absorb this expense. This action represents a shifting of costs between levels of government and does not provide any relief to County residents. NIFA is not certain if the necessary concurrence has been reached to enable the County to realize this revenue. Our concern is evidenced by the fact that the County anticipated $2 million of reimbursement for these expenses in FY 2004, and nothing has been received to date. As a result, we risk the entire amount of this estimated revenue.

The County in the near future expects to publish a revenue manual, which will be a consolidated statement of its revenues. The revenue manual will contain detailed descriptions, legislative authorizations, financial data and rate schedules for each revenue generated by the County. While this will prove a useful document for the County to review and assess their myriad revenue collections, the County has chosen to conservatively budget no increases in departmental revenue in the out-years of the Plan.

EXPENDITURES

The Proposed Budget consists of $2.4 billion of expenditures, excluding interdepartmental transfers.[1] The County projects that baseline spending will grow to $2.5 billion in FY 2006, $2.6 billion in FY 2007, and $2.8 billion in FY 2008. These expenditures are composed of the following categories of spending: Personal Services ("PS") expenditures include the cost of salaries and wages as well as fringe benefits for employees and retirees; Other-than-Personal-Services ("OTPS") expenditures include charges for contractual services, pre-school special education, early intervention, utility costs, local government assistance, mass transportation, and payments to the Nassau Health Care Corporation; Direct Assistance includes payments for public assistance, Medicaid, day care programs, and institutional expenses; and Debt Service refers to both principal and interest costs for County and NIFA issued debt, including debt that will be reimbursed by the Sewer and Storm Water District Fund.

Personal Services

The County projects that personal services expenditures will exceed $1.1 billion in FY 2005 and $1.2 billion in FY 2006, and will reach almost $1.3 billion in FY 2007 and $1.4 billion in FY 2008, as shown in Table 3. These expenditures are driven by changes in the size of the workforce, changes in contractual salaries, and changes in the underlying cost of providing employee benefits.

(Table 3)
PERSONAL SERVICES EXPENDITURES
FYS 2005-2008

($ in millions)	FY 2005	FY 2006	FY 2007	FY 2008
Salaries and Wages	$774.0	$807.2	$842.9	$880.3
Fringe Benefits:				
Health Insurance	$170.6	$191.1	$214.0	$239.7
Pension Contributions	$76.3	$104.0	$97.1	$90.6
Social Security	$53.3	$55.7	$58.2	$60.8
Workers' Compensation	$15.8	$17.5	$19.3	$21.4
All Other	$48.4	$52.3	$56.8	$61.7
Subtotal Fringe Benefits	$364.4	$420.6	$445.4	$474.2
Total	**$1,138.4**	**$1,227.8**	**$1,288.4**	**$1,354.5**

[1] The analysis contained in this report is limited to the five major operating funds within the Nassau County budget. These funds consist of the General Fund, Police Headquarters Fund, Police District Fund, Fire Commission Fund, and County Parks Fund. In FY 2003 the County created a Debt Service Fund to clarify the presentation of debt service expenses.

Salaries and Wages

Salaries and wages, the largest component of PS expenditures, are projected to total $774 million in FY 2005, or $21.1 million more than had been projected in the June Update. The County states that its revised estimate reflects the funding of all on-board employees, recognition of overtime needs in the Correctional Center and Police Department, and additional resources to cover new hiring needs identified in select departments, such as the Correctional Center, Police Department, and Parks Department. Out-year growth in salaries and wages also reflects the terms of existing contracts and an assumption that successor labor agreements, negotiated upon expiration, will contain similar terms and conditions.

Our analysis indicates that the County's revised projections continue the level of baseline conservatism already assumed in the June Update and will likely result in substantial budgetary savings should the County not fill all of its funded, though vacant positions before the end of FY 2004. Furthermore, while the County has fully funded its "commitment to a stabilized workforce" in the out-years of its baseline plan, it has articulated and quantified a gap-closing initiative that calls for headcount-related savings to be realized from the turnover of its workforce and through carefully managed attrition of its CSEA-represented headcount. The County did not reflect these planned savings in the Proposed Budget, nor did the County capture the salary savings it would realize in FY 2005 if its expectation of a surge in Police retirements during the 4th quarter of FY 2004 materializes.

Overtime Control

A significant portion of the County's overtime expenditures occurs in the Police Department and Correctional Center. These costs have grown largely unchecked, as the County's attempts to control overtime in these departments have mostly failed. It is clear that this disconcerting trend has continued in FY 2004, as NIFA projects that year-end overtime expenditures will exceed adopted levels by more than $8 million in the Correctional Center and more than $16 million in the Police Department.

In hindsight, the County attributes the rapid growth in these costs, in part, to its decision to let these departments shrink through attrition in recent years. The County's growing reliance on overtime has been exacerbated by its inability to implement its civilianization initiatives, a management prerogative granted explicitly in its collective bargaining agreements negotiated with both the PBA and ShOA membership.

The County is proposing to attack this problem in FY 2005 by increasing the number of uniformed and civilian employees in the Correctional Center and Police Department. NIFA commends the County for its desire to streamline operations and enhance police officer and correction officer deployment through civilianization. It is a cost-effective method to either ensure that uniformed personnel are deployed to maximize enforcement strength or minimize personal services costs given a fixed level of enforcement strength. Unfortunately, the County's track record in recruiting civilians into these titles has been disappointing. Moreover, hiring civilians into the departments is not enough since savings cannot be realized until uniformed personnel are actually redeployed, a task that the County has been largely unable to perform since NIFA was created.

Our analysis indicates that the County's assumption of $22 million for Correctional Center overtime in FY 2005 is reasonable. The additional 25 officers that are authorized to start in January, combined with hiring that already took place in FY 2004, should help facilitate the slight reduction in overtime spending from the almost $24 million level we project will be spent in FY 2004. However, NIFA is less sanguine concerning the County's assumption of $34.6 million for Police Department overtime in FY 2005 since this would require a reduction of almost $10 million from projected current year levels. Clearly, the hiring of new police officers can mitigate the department's use of short roll call and other operations-based overtime. However, it is unclear if the scheduled classes will be of sufficient size to offset police officer attrition considering the County's expectation of a surge in police retirements at the end of FY 2004. We believe that adjustments to the size of future police classes will have minimal impact in the short-term because of the approximately six-month lag between appointment and graduation from the academy. Additionally, since contractual raises and step increases awarded to police officers in FY 2005 will continue to exert upward pressure on overtime costs, we believe that up to $5 million may be at risk. The County should monitor these costs closely and continue its efforts to develop new overtime control strategies.

Fringe Benefits

Fringe benefits costs are projected to reach $364.4 million in FY 2005 and grow to $474.2 million in FY 2008. While it is clear that these expenditures continue to exert upward pressure on County spending in the Proposed Plan, the revised projections are actually lower than those contained in the June Update by almost $28 million in FY 2005, $7 million in FY 2006, and $22 million in FY 2007. These reductions stem primarily from favorable changes in the County's estimate of pension costs as well as from lower-than-planned pension contribution rates in 2006 and a miscalculation of its obligations in FY 2007 and FY 2008. Downwardly revised health insurance growth rates provide additional recurring financial plan relief.

Health Insurance

The County assumes that health insurance costs for active employees and retirees will grow by 9.5% in FY 2005 and by 12% annually thereafter. These assumptions are lower than the 13.8% growth rate used for active employees and 15% growth rate used for retirees in the June Update. The County's revised assumptions are now based on the optimistic end of a range of Civil Service expectations, which is a notable departure from its past practice of budgeting for the worst-case scenario. While this new practice has inherent risk, Civil Service "advance" guidance has traditionally proven to be more conservative than final rate increases have been. Consequently, NIFA believes that these funding levels and assumptions are not unreasonable.

The County must be prepared to deal with the consequences of higher-than-assumed rate increases should the actual rates be higher than anticipated. Conversely, the County may realize greater savings to the extent that replacement hiring is delayed, and/or greater attrition occurs for non-retirement reasons. Savings accrue under this last scenario since there are no ongoing County obligations for health insurance coverage for individuals who leave County employment but do not retire.

Pension Contributions

The County's contribution rates to both the Employees' Retirement System ("ERS") and the Police and Fire Retirement System ("PFRS") are expected to decline by approximately 10% in FY 2006 and then remain constant in FY 2007 and FY 2008.[2] The County has appropriately budgeted these expenditures at $111 million in FY 2005 and $104 million in FY 2006.[3] However, our analysis indicates that the County's projection of only $97 million in FY 2007 and $91 million in FY 2008 understates these costs by approximately $11 million and $22 million, respectively. NIFA has confirmed with the County that the Proposed Plan erroneously includes contribution rate reductions of 10% in FY 2006 and FY 2007. In addition, should weak year-to-date pension investment performance continue, pension contribution rates may actually increase in those years. While the final contribution rates for FY 2007 and FY 2008 will not be known for some time, NIFA feels strongly that, all else being equal, the pension projections should be made consistent with the County's baseline assumptions before the Proposed Plan is adopted by the Legislature.

The State adopted pension reform legislation earlier this year that included among its provisions, a change in the due date for employer pension payments from December 15th to February 1st. This change was designed to provide one-time relief in 2004 to municipalities operating on a calendar fiscal year. The legislation also authorized local governments to create a pension reserve fund to capture these unexpended 2004 resources. Finally, the legislation gave the ability for local governments to borrow for all pension costs that exceed 7% in 2005, 9.5% in 2006, and 10.5% in 2007, with payments amortized over a ten-year period.

The County wants to avail itself of these new fiscal relief opportunities despite its laudable endeavor to fully fund these recurring costs in previous financial plan submissions, including the June Update. The Proposed Plan calls for the County to

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2 The County participates in the New York State and Local Employees' Retirement System ("ERS"), the New York State and Local Police and Fire Retirement System ("PFRS"), 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 now payable by the County each February 1st. The State Comptroller recently released the rates that will be used to determine the pension payment due February 1, 2006, and they are approximately 10 percent lower than the rates used to calculate the pension payment due February 1, 2005.

3 The County estimates that its FY 2005 pension bill payment will be approximately $111 million, of which $76 million is accounted for in the Proposed Budget and $35 million will be drawn from the pension reserve the County plans to establish in FY 2004.

reserve approximately $76 million in FY 2004 resources that had been appropriated to pay for pension costs in FY 2004 and use these monies to fund pension costs during FYs 2005, 2006, and 2008. In fact, the Proposed Budget assumes that the County will use $35 million of this off-budget reserve to mitigate its $111 million pension obligation in FY 2005 since it appropriates only $76 million for this expenditure. Similarly, the gap-closing program assumes that the County will draw down an additional $30 million from this reserve in FY 2006 and the remaining $11 million in FY 2008 to supplant pension expenditures included in its financial plan baseline. It should be noted that the gap-closing program also reflects the County's intent to finance a portion of its out-year pension obligation to provide $33.4 million in relief in FY 2007, even though this is inconsistent with text written in the Proposed Plan that suggests this action would be undertaken only as a contingency in the event of an adverse ruling by GASB, as discussed below.

NIFA is concerned about the fiscal prudence of bonding these operating costs and depleting fund balance reserves to provide non-recurring relief to support recurring expenditures. NIFA recommends that the County look to close its future projected gaps through actions that are recurring in nature on a permanent basis.

The County acknowledges that the GASB will issue a clarifying statement on its position regarding the proper treatment of pension contributions in the form of a Technical Bulletin, which may require that these costs be fully accrued in the year that the liability is incurred. GASB is expected to issue its Technical Bulletin by the end of January 2005. It is our understanding that an exposure draft may be released before the end of October 2004 for a public comment period of 30 days. If GASB's guidance precludes local governments from reserving these resources as planned, the County intends to close the resulting budgetary hole by borrowing the amount needed to fulfill its statutory obligations above the allowable thresholds, which have been set at 7% in 2005, 9.5% in 2006, and 10.5% in 2007. However, while a decision to amortize these costs over a ten-year period would provide immediate cash relief, NIFA questions whether the full accrual of pension obligations under this scenario would provide financial plan relief through borrowing. Therefore, since an adverse GASB ruling will likely result in significant financial plan shortfalls beginning in FY 2005, the County needs to develop a contingency plan for how to maintain budgetary balance. NIFA will review any proposed borrowing for pension costs as is required by our statute. At the current time we are concerned whether such a borrowing is prudent.

Other Than Personal Services

County OTPS expenditures are composed of several large categories of spending: pre-school special education, local government assistance, early intervention services, payments to the Nassau Health Care Corporation, mass transportation, and utility costs.

The County stated its commitment to contain spending on certain OTPS categories, such as materials and supplies and general expenses. In fact, the Proposed Plan limits growth in these expenditures to 1.3% annually, or almost half as slow as assumed in the June Update. In general, the County has reasonably estimated these costs in FY 2005, although even in a low inflationary environment, limited nominal growth translates into real cuts in the out-years of the Proposed Plan. It is unclear if the County can sustain the limitations it has placed on these expenditures. The County should closely monitor spending during FY 2005 to ensure that resources are not being depleted more rapidly than assumed and/or that operations are not being impaired by a failure to procure necessary goods and services.

The Early Intervention program, administered by the Department of Health, 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, the Pre-School Program for ages 3-5, administered by the Department of Mental Health, and the School-Age Program of the Department of Social Services for ages six and older.

The Proposed Budget includes an additional $15.6 million for Pre-School Special Education in FY 2005 compared with the FY 2004 Budget, and $6.3 million more than the County's current year projection. These increases, which were not anticipated until the second quarter of FY 2004 due to a lag in available billing data, are being driven by increased caseload and evaluations, rate increases, and a new transportation contract, which the County indicated will cost approximately $2.8 million annually before CPI-based increases are applied. The County projects that these costs will grow by 5% annually, which will increase expenditures for Pre-School Special Education from almost $95 million in FY 2005 to $110.2 million in FY 2008. NIFA believes that these estimates are reasonable.

In contrast, the County reduced its projection of spending on Early Intervention Services in FY 2005 by $400,000 compared with the FY 2004 Budget due to caseload growth increasing at a slower rate than anticipated. The County assumes that these expenditures will begin to grow again in FY 2006 and has conservatively included in the Proposed Plan $47.2 million in FY 2006, $49.5 million in FY 2007, and $51.9 million in FY 2008 to account for the anticipated 4.9% annual growth.

The County remits to the towns and cities sales tax revenue resulting from the 0.25% portion of the sales tax charged on purchases made within Nassau County borders. The payments to these local governments, projected to be $57.6 million in FY 2005, $59.3 million in FY 2006, $61.1 million in FY 2007, and $62.9 million in FY 2008 are an expenditure offset to the sales tax revenue collected by the County from its aggregate 8.75% sales tax rate.

The County estimates that its FY 2005 payments to the NHCC will be $38.1 million, including $13 million in historic mission payments as well as the cost of retiree health insurance and termination pay for certain employees of the NHCC. This is slightly lower than the $40.3 million budgeted in FY 2004. County savings result from terms negotiated in the recently signed Stabilization Agreement, which requires the NHCC to make longevity payments to its employees beginning in FY 2005.

The County projects that it will spend $45.1 million on mass transportation in FY 2005, or $5.2 million more than included in the FY 2004 Budget. These expenditures are composed of $10.5 million in subsidies to the MTA Long Island Bus, including $3 million for Able Ride, its transportation service for the handicapped. The County increased its subsidy by $4.5 million, partially reversing subsidy reductions imposed by the County in previous years. In addition, the County is providing $23.0 million in payments for Long Island Railroad station maintenance, which includes a $0.7 million increase, and $11.6 million for MTA operating assistance, which remains unchanged.

The County has budgeted $31.4 million for utility costs in FY 2005, or 13% more than included in the FY 2004 Budget due to the rapid rise in fuel and heating costs. The Proposed Plan reflects the County's assumption that these costs will grow by 2% annually in the out-years. NIFA believes that these costs are reasonably projected, although portions of the County's utility costs are subject to the volatility of world energy prices and must be monitored closely.

Direct Assistance

The County projects that spending on direct assistance will grow from $471.0 million in FY 2005 to $574.5 million in FY 2008, consuming one out of every five dollars appropriated in the Proposed Plan. These costs cover social service entitlement benefits for clients enrolled in a variety of support programs within the County. As shown in Table 4, these expenditures are made within four major categories: Medicaid, Title XX, Temporary Assistance to Needy Families ("TANF"), and Safety Net Assistance ("SNA"). The remaining expenditures, grouped in "All Other", consist of spending on the County's other major social service program areas, including foster care, children in institutions, education for handicapped children, and juvenile delinquents. NIFA's analysis indicates that the County has reasonably estimated these costs, but that each program should be monitored closely to ascertain if the impact of a weakened local economy results in a greater than assumed demand for social service programs and direct assistance spending.

(Table 4)
DIRECT ASSISTANCE EXPENDITURES
FYS 2005-2008

($ in millions)	FY 2005	FY 2006	FY 2007	FY 2008
Medicaid: Local Share	$281.7	$319.8	$359.8	$404.7
IGT	$41.0	$41.0	$0.0	$0.0
Title XX	$45.9	$47.9	$50.0	$52.2
TANF	$30.0	$31.5	$33.1	$34.7
Safety Net Assistance	$17.5	$18.3	$19.2	$20.2
All Other	$54.9	$57.5	$60.0	$62.7
Total	**$471.0**	**$516.0**	**$522.1**	**$574.5**

Medical Assistance

Medical Assistance ("MA") expenditures have been growing steadily in recent years. These costs, which account for 70% of direct assistance spending, cover a wide range of services, including payments for nursing homes, hospitals, home health care, and pharmaceuticals. The County assumes that the cost of its local share of these expenditures will grow by 12.9% annually, increasing from $281.7 million in FY 2005 to $404.7 million in FY 2008, before the application of other savings that are presented separately in the gap-closing program. NIFA believes that the County's assumptions are reasonable, although it continues to be cautious in its assessment of the County's Medicaid utilization initiative, which the County anticipates will incrementally grow by an additional $5 million to $10 million, beginning in FY 2005.

While the County's projections of MA expenditures are substantial, they are significantly below the levels that were assumed in the June Update and do not reflect the County's expectation of State Aid reimbursement of certain MA costs (i.e. overburden aid) for $61 million, which is carried separately in the revenue budget. The baseline projections now reflect significant savings resulting from the State's decision to take over the cost of the Family Health Plus program. The County estimates that this initiative will result in savings of $29 million in FY 2005, $36 million in FY 2006, $46 million in FY 2007, and $59 million in FY 2008.[4]

The Proposed Plan also includes an ambitious County proposal that calls for a State cap on Medicaid expenditures beginning in FY 2006, potentially saving the County $27.1 million in FY 2006 and $55.0 million in FY 2007, and $58.8 million in FY 2008. NIFA has previously noted that this initiative is highly speculative. However, in the Proposed Plan, the County Executive states that he is prepared to impose property tax increases to raise an equivalent amount of revenue beginning in FY 2006 to ensure financial plan savings targets are achieved should this initiative fail, as discussed in "Property Taxes" beginning on page 12.

Public Assistance

The County is projecting that its expenditures for TANF and SNA will grow by approximately 5% annually in the Proposed Plan. Combined, these costs are expected to increase from $47.5 million in FY 2005 to $54.9 million in FY 2008, driven higher by growing caseloads, which have reversed course after a long period of contraction. Our analysis indicates that these estimates are reasonable. However, NIFA notes that changes in public assistance caseload and associated costs are difficult to predict since the linkage between fluctuations in the local economy and recipient grant demand may often be lagged by between 12 and 36 months. Compounding the complexity of this forecast is the Federal five-year limit on TANF benefits that results in many recipients switching into the SNA program at twice the cost. The County must continue to monitor its public

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4 The State takeover of the Family Health Plus program is scheduled over a two-year period. The County intends to "pre-pay" its remaining $14.3 million liability projected for FY 2005 in FY 2004.

assistance caseloads and associated costs closely to ensure that variances are accounted for in its model.

Debt Service

The County deserves credit for achieving ratings in the "A" category from all three major rating agencies for the first time in twelve years. These upgrades reduce the County's cost of issuance and help position the County for a complete return to the capital markets under its own credit – one of NIFA's principal goals. We also note that the County has eliminated a cash flow borrowing in the Fall 2004 and made the decision to begin a modest shift to pay for judgments out of current revenues in 2007 and 2008.

The County has been critically assisted in its march toward self-sufficiency by NIFA's continuing presence including its issuance in April of $603.4 million of bonds for the County. The issuance consisted of a $447.1 million refunding; a $9.2 million extension of 2004 County debt service; and $147.1 million of new money. The refunding generated a present value savings of $37.7 million or 8.9% of the refunded bonds. Of the $37.7 million, $24.5 million was concentrated in years 2004 through 2006 with the remainder spread over the 20-year restructuring.

The County also continues to benefit from NIFA's 2002 Series A and B variable rate bonds, which carried an average interest rate of 1.0359% for the first nine months of 2004.

In order to fully evaluate the County's projected debt service, NIFA needs: (1) a detailed debt issuance schedule; (2) an explanation of why large amounts of money were being raised for capital, including the building consolidation plan; (3) a description of the financial affairs of the Sewer and Storm Water Finance Authority ("SSWFA"), which is a covered organization under the NIFA Act; and (4) a rationale for borrowing additional monies for cert claims that arose prior to June 1, 2000.

(1) Debt Issuance – The Proposed Plan appears to take full advantage of NIFA's borrowing capacity before it substantially sunsets in 2005. Notably, debt issuance in 2005 is increased because of the County's desire to use the remainder of NIFA's cert authorization. However, total debt service over the FY 2005 – FY 2008 is largely consistent with levels previously approved by NIFA.

Projected Total NIFA and County Debt Service ($ millions)

FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
$ 321.464	$313.614	$307.570	$317.373	$316.170

(2) Capital/Building Consolidation Needs - The County, aided by its legal and financial advisors, have taken major steps to improve record keeping and ensure compliance with Federal tax law. However, the County still needs to accurately estimate

its capital spending schedule, which for these purposes also includes the building consolidation plan.

(a) Capital borrowing, other than building consolidation, is stable in 2005 and 2006 at $70 million and increases by very minor amounts in the out-years.

NIFA remains concerned because even the limited amounts of capital that have been previously borrowed have not been fully utilized. Thus far less than a third of the amount borrowed for FY 2004 on behalf of the County has been drawn down. A backlog of deferred infrastructure projects poses significant long-term risks for the County.

(b) County Building Consolidation Program. The Proposed Plan provides only skeletal information on the County's program to reconfigure and upgrade County offices and court facilities.

Projected Total NIFA and County borrowing ($ millions)

FY 2004	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
$42.425 Notes	$8.806 Notes	$13.676 Notes $64.908 Bonds	$61.573 Notes	$9.562 Notes

We cannot comment on these borrowings until the County provides NIFA with a revised building consolidation plan. We anticipate that the revised building consolidation plan will still pay for itself though the sale of surplus property and cost efficiencies.

(3) Sewer and Storm Water Finance Authority (SSWFA). The SSWFA is a covered organization.

Based on earlier discussions and drafts of a preliminary Official Statement for the second SSFWA financing, it appears that the County's SSWFA debt issuance plan calls for a series of small SSWFA bond issues each year, 2004 through 2008. These issuances will advance refund County bonds or refund bonds that are maturing or are currently callable. These issuances provide current year budget relief, but stretch the cost out over 20 years.

At this point, it appears that the financings provide little or no present value benefit. In addition, there is no mention of assistance from the Environmental Facilities Corporation to assist in any subsidized funding of the Authority's bonds. This was purportedly one of the main advantages to setting up the Authority.

It should be noted that the County intends to charge back to the SSFWA the salaries of County employees that do work for the SSFWA, thereby creating a $10.1 million benefit to the County's General Fund.

(4) Certiorari Borrowing. The County's Proposed Plan calls for a County borrowing of $20 million in FY04 and FY05 to assist in the payment of cert claims that arose prior to June 1, 2000. The reason for this borrowing is apparently that the County

believes the $400 million of borrowing that the NIFA Act permits for this period is inadequate.

We will not comment here on the propriety of the proposed borrowings because we suspect that the County may have remaining NIFA authorization to borrow for certs that arose prior to June 1, 2000. This is based on two elements: (1) NIFA has never seen a detailed allocation of funds spent for both pre and post 2000 cert claims (each of which has a limit of $400 million); and (2) a preliminary review of County data indicates that the County may have used the amount of proceeds received from bond issuances, rather than the par amount of bonds. Because premium bonds were issued, this may be a significant difference. We have informed the County of our concerns and we will work with them to see if we can jointly solve this problem.

INITIATIVES

The FY 2005 Proposed Budget contains "Smart Government Initiatives" totaling $15.9 million. Of these initiatives, NIFA believes that several are at risk. We are providing detailed explanations of only those FY 2005 initiatives that will impact the 2005 Budget by $500,000 or more. The Smart Government initiatives are as follows:

Taxi and Limousine Initiative

The County plans to register and regulate the usage of for-hire vehicles through the Consumer Affairs Department, Taxi and Limousine Commission. The enabling state legislation was passed in November 2003; they are modeling the TLC after the City of New York commission. A Commissioner was hired in June of 2004. There are administrative issues including appointment of staffing and obtaining legislative approval of a fee structure. NIFA questions whether this initiative will generate such an ambitious income level. NIFA is risking this initiative for $0.5 million.

Workers' Compensation

The County has been plagued by the Workers' Compensation Bureau backlog for several years. The Office of the State Comptroller conducted an audit in 2004. The audit results indicated,

> "the Worker's Compensation Bureau had significant deficiencies in the procedures used to account for investigate and manage workers' compensation costs and claims. Numerous deficiencies were noted in investigating and managing Workers' Compensation claims. Investigations of initial claims are not thorough, and not conducted timely. Payment to claimants deemed eligible by the State Board are often late, resulting in penalties to the County, and the Bureau does not investigate whether lump sum settlements would be advantageous. Payments for medical services are not audited by personnel with the medical expertise necessary to determine if the services provided are appropriate and associated with the work related injury or illness. In addition, follow up and

monitoring of claimants who are being paid benefits is not adequate to provide reasonable assurance that they continue to be eligible for the benefits. The Bureau does not use up to date methods of maintaining its accounting records and case files. These records and case files are neither comprehensive nor detailed enough to provide useful information for managing workers' compensation costs. In addition, case files are stored off-site from the Bureau's office, making access time consuming and therefore costly to the Bureau."[5]

The County has engaged a Third Party Administrator to process all new claims. While we applaud this action, the County has not addressed the State Comptroller's concern regarding the remaining backlog of claims.

It remains to be seen whether the County will devote the required resources to this reform effort, and whether the effort will produce the promised savings as quickly as projected. NIFA is risking this initiative for $1.1 million.

Fee Increases

The Plan indicated that OMB and the County Legislature are in the process of collaboratively developing a revenue manual. The revenue manual would enhance the process of reviewing the fee-based revenues and help evaluate whether incremental increases are appropriate. The County has included fee increases in the FY 2005 Budget of $3.8 million. If the County is to achieve this initiative, the fees need to be in place well before the start of fiscal year so that collections can begin timely. If these fee increases are not approved by the Legislature, the County must provide substitute savings of an equal amount.

Capital Project Charge Backs

The Department of Public Works manages the capital planning and project implementation process involving County-owned roads, buildings, etc. Most capital projects create an asset value with a useful life beyond one year. As such, departmental costs related to this process are re-allocated and charged back to the various funding sources in order to match the useful lives of the assets with cost (debt) on an ongoing, long-term basis. The Department, in the past, incurred between $4 million and $5 million for this purpose on an annual basis. This initiative anticipates enhancing tracking of Department costs and services. While the County was on course to meet the initiative from an implementation standpoint in FY 2002, there has been no visible progress in FY 2004. We put this initiative at risk for the FY 2005 savings of $0.7 million.

[5] Office of the New York State Comptroller Division of Local Government Services and Economic Development Report of Examination 2003M-115 Nassau County Workers' Compensation Bureau Review of Procedures and Expenditures

NASSAU HEALTH CARE CORPORATION

The financial health of the Nassau Health Care Corporation ("NHCC" or "Corporation") and its potential impact on Nassau County has been a major concern for NIFA since its inception. Cash balances have been dropping steadily since the County transferred the health facilities to the Corporation on September 29, 1999. The initial debt issuance of $259 million provided NHCC with unrestricted cash of $135 million. The County Comptroller reported that on September 15, 2004 NHCC had cash and cash equivalents of less than $20 million and has warned that a cash crisis is imminent.

The County retained the consulting firm of Manatt, Phelps, and Phillips, LLP ("Manatt") to provide a report recommending the best course of action for NHCC. The report, released in January 2004, called for a modification of the NHCC Enabling Statute and a total restructuring of NHCC. The Manatt report was critical of NHCC's vision and stated "NHCC has failed to implement a strategic business financial plan based on a realistic assessment of its market position. NHCC has pursued costly, and ultimately unaffordable, initiatives based upon a vision of becoming a full service tertiary care hospital, when in reality it should have structured its operations and programs based upon the goal of becoming a first class community hospital."[6]

The Manatt report maintains that in its role of a first class community hospital NHCC functions as a "safety net" provider to the County's medically indigent. Its primary mission "is as a provider of basic inpatient, emergency and outpatient care to Nassau County residents, particularly those covered by Medicaid or without insurance coverage".[7]

On September 8, 2004 the County and NHCC announced a five-point plan, as set forth below, to implement recommendations contained in the Manatt report:

1. Operational improvements designed to reduce costs, rightsize staffing consistent with industry standards, introduce affiliation agreements with neighboring hospitals, and improve the Corporation's revenue collection;

2. Rate changes approved by the New York State Department of Health as part of a comprehensive relief package;

3. Relocation of the nursing home to the NUMC campus, disposition of the Uniondale property, the sale of 300 excess beds at the nursing home, and the use of sale proceeds from the disposition of the property to reduce outstanding Corporation debt;

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6 Manatt, Phelps and Phillips, LLP, *A Study of the Role of the Nassau Health Care Corporation in the Delivery of Health Care to the Residents of Nassau County*, January 27, 2004, p.2.

7 Ibid., p. 2.

4. The refunding of the Corporation's outstanding debt; and

5. An interim stabilization agreement between the County and the NHCC intended to provide the Corporation with cash flow relief through the end of 2005, resolve disputed charges, override certain unworkable language in existing agreements between the County and NHCC, and identify the principles to govern more comprehensive successor arrangements.

Recently the County has taken steps to begin to implement Manatt's five-point plan. The Corporation has recently hired a new Chief Executive Officer, who has extensive experience in hospital and health care administration, to lead its implementation. A refinancing of NHCC's debt, estimated at approximately $300 million, is also scheduled to close in early to mid-October, 2004. The refinancing serves to avert an impending cash crisis and provides breathing room for the Corporation to implement the Manatt recommendations. Due to a County direct-pay guarantee it frees $19.8 million in proceeds from a debt service reserve fund that was established when NHCC's 1999 bonds were issued. However, it should be noted that even after realizing the benefits of the refinancing, NHCC anticipates ending FY 2004 with a cash balance of $30 million, approximately $5 million less than the prior year.

The County has represented that NHCC, under its enabling statute, has the ability to enter into interest rate exchange agreements to hedge its floating rate debt exposure. It is anticipated that approximately $210 million of the proposed refinancing will be synthetic fixed rate bonds, which will generate the lion's share of the anticipated $20 million in net present value savings. NHCC intends to upfront these expected savings over the next four years, FY 2005 – FY 2008, since the Corporation is not subject to the constraints of the New York State Local Finance Law.

NIFA believes that the refinancing bolsters the near-term finances of NHCC and provides a window of opportunity for the Corporation to reengineer and implement operational improvements guided by the recommendations contained in the Manatt report, with the aim of achieving financial stability and self-sufficiency. While NIFA views the financing as justifiable as part of a reorganization, it cautions that market conditions are volatile and need to be monitored to be sure that the financing remains economically viable.

In addition to the refinancing, NHCC's Board and the Nassau County Legislature have approved Stabilization and Regulatory agreements. The Stabilization and Regulatory agreements supercede the Acquisition agreement from September 29, 1999 and redefine the relationship between the County and NHCC. The Stabilization agreement settles many long-standing disputes between the County and NHCC on items such as Correctional Center bills, and claims relating to longevity and early retirement. The Stabilization Agreement also limits certain potential exposures to the County (e.g., potential subsidy increases through arbitration and various capital obligations).

The Regulatory Agreement enhances management accountability at NHCC and provides a framework for the recommendations contained in the Manatt report to be implemented. The Agreement establishes various reporting requirements for the Corporation and puts forward policies whereby timely business plans must be submitted to address financial shortfalls. It also establishes standards of conduct for the members of the Board of Directors at NHCC, including attendance standards, disclosure of interests and avoidance of conflicts of interest.

The Regulatory Agreement also recognizes NIFA's statutory role with respect to NHCC as a covered organization. NIFA is to receive quarterly reporting and is to be copied on all documents, reports or notices that are specifically required under the Stabilization and Regulatory agreements. NIFA has been calling for and supports the aggressive monitoring of NHCC. The controls outlined in the Stabilization and Regulatory agreements provide enhanced oversight for the County, NIFA and other fiscal monitors.

NIFA supports the enhanced oversight of NHCC and believes that the refinancing provides a window of opportunity for the Corporation to reengineer along the guidelines of the Manatt report. However, the key issue will be to what extent NHCC will be able to successfully incorporate the recommendations contained in the Manatt report.

It should be noted that three years ago NHCC retained a leading health care consulting firm to review its operations and provide a framework for a rapid improvement. Many of the recommendations contained in the Manatt report were also part of the effort to turnaround NHCC at that point in time. The earlier recommendations included staff reductions, improved revenue collection, maximization of potential reimbursements, affiliation agreements with other health care providers, reduced physician staffing, bed decertification at the nursing home, and union labor concessions.

It is also worth noting that NHCC was successful in implementing some of these recommendations (e.g., staff reductions, affiliation agreements, and reduced physician staffing), but was unable to achieve a balanced budget. Several factors, notably volume losses and increased pension costs, occurred which further exacerbated the financial difficulties at NHCC.

NIFA believes that the refinancing bolsters the near-term finances of NHCC and provides a window of opportunity for the Corporation to reengineer and implement operational improvements guided by the recommendations contained in the Manatt report, with the aim to achieve financial stability and self-sufficiency. However, the economics of health care are extremely dynamic. A blueprint for providing health care to Nassau residents has been established, but drafting a plan alone will not cure the financial ills confronting NHCC. It is imperative that management at NHCC and the County continually monitor the progress of implementing the Manatt guidelines and stand ready to modify the course of action as needed.

NASSAU COMMUNITY COLLEGE

The Proposed Plan for the Community College contains annual budget growth rates in excess of 4% to address anticipated contractual salary increases and related fringe benefit costs. Annual increases in tuition and property taxes are contemplated in order to support this projected growth. NIFA cautions that projected tuition increases of $200 per year may be difficult to achieve, thereby injecting some fiscal stress. On a positive note, enrollment for FY 2005 is 2% greater than anticipated. This increase in students, should it be maintained in the out-years of the Proposed Plan, will provide an additional funding source to provide budgetary balance.

Salary and fringe benefit costs account for 87% of total expenses. The two teaching unions, the Nassau Community College Federation of Teachers ("NCCFT"), and the Adjunct Faculty Association ("AFA") are both settled into contracts through the fall of FY 2005 and CSEA employees are in a long-term contract through December 31, 2007. This provides relative cost certainty for the initial year of the Proposed Plan and the College has allocated similar increases for the out-years of the Proposed Plan. Fringe benefit inflators for major items such as health insurance and pension contributions are in line with what the County has budgeted, and the estimates are reasonable.

Revenue for the College comes from three major sources: tuition, state aid, and funding from the County through property taxes. These three funding sources account for 87% of total revenues for the College. Property taxes in each year of the Proposed Plan increase by 3.9%. While this increase is always subject to County approval, recent history indicates a commitment to this funding source.

The College projected State Aid at $2,300 per full-time equivalent student (FTE), for FY 2005, with $50 increases slated for each subsequent year of the Proposed Plan. The State budget, absent any legislative overrides, has currently allocated State Aid at $2,235 in FY 2005. The impact of this shortfall, estimated at $1.2 million, has been offset by a 2% increase in enrollment for FY 2005. However, should future enrollment decline, a potential risk exists for the College in the out-years of the Proposed Plan as State Aid may fall short of expectations.

Tuition in each year of the Proposed Plan is scheduled to increase by $200 from the base year FY 2005 rate of $2,900. This represents annual tuition hikes in excess of 6%, an aggressive target that may be difficult to achieve.

The College has expressed the need to maintain and improve its infrastructure and upgrade technology. The Proposed Plan does not provide sufficient resources to address these needs.

IV. Gap Closing Program

SMART GOVERNMENT INITIATIVES

NIFA is concerned with the County's ability to achieve a number of its proposed initiatives, some of which have been proposed since 2002. These initiatives are being pushed to the out-years of the County's Plans with reduced savings goals, indicating little confidence in their ultimate success.

The County has reduced the overall value of its SGI's by approximately $49.1 million in FY 2006, and $44.5 million in FY 2007 from the proposed September 2003 plan. These decreases are, in part, because the County has chosen to move those initiatives that require State Legislative approval from FY 2006 to FY 2007 and FY 2008 and eliminate several others. The value of the initiatives eliminated is $3.1 million in 2006 and $16.5 million in 2007.

The balance of this section discusses some of the specific changes that have been made to the Smart Government Initiatives. The major initiatives have been grouped as follows: those where the County has made a downward revision in the value of the savings; those that require State legislative approval and have all been moved to FY 2007 and FY 2008; and a new initiative.

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, prompt implementation and timely monitoring are necessary if the County is to achieve its projected savings.

Revised Initiatives

The County has reviewed and scaled back the projected savings from the following initiatives:

- eGovernment Revenues – reduced by $3.4 million in the out-years.
- Park Revenue Enhancement Plan – reduced by $6.2 million in the out-years.
- Fee Increases – reduced by $8 million in FY 2006 and FY 2007.
- Cash and receivables management – reduced by $3 million in the out-years.
- Energy Conservation – reduced by $1 million in FY 2006.

eGovernment Revenues

This initiative was originally introduced in the 2003 Multi Year Plan with estimated revenue in excess of $11.2 million over a three-year period. The County has reduced its revenue projection for this initiative in the Proposed Plan and the estimated revenue is now projected to be $7.8 million over the life of the Proposed Plan. The milestones for design and installation have also been moved to late 2004 and mid-2005. We agree that a two-year phase-in 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.

2006	$750,000
2007	$2,250,000
2008	$4,850,000

Parks Revenue Enhancement Plan

This initiative was originally introduced in the 2004 Multi Year Plan with increased program income of $21.2 million over a three-year period**.** The estimated revenue is now projected to be $15 million over the life of the Proposed Plan. To accomplish this the County will focus on improving business processes such as accepting credit cards, actively soliciting grants, corporate sponsorships for events and engaging in target marketing to a wider audience. The County has identified facilities where it seeks to create partnerships with the general public, civic groups, other municipalities, recreation industry professionals and employee unions to maximize utilization and performance of selected park facilities. The County has issued Requests for Expressions of Interest some of which will be converted to Requests for Proposals (RFPs). Based on the milestones currently established, the RFP responses will be evaluated in 2005-2006. The County has been enthusiastic and creative in the development of this initiative. The Authority believes the projected FY 2006 savings may be overstated because of the lead-time necessary to implement these types of changes.

2006	$3,000,000
2007	$5,000,000
2008	$7,000,000

Fee Increases

This initiative was originally introduced in the 2004 Multi Year Plan with estimated revenue in excess of $10 million over a three-year period. The Proposed Plan indicated that OMB and the County Legislature are 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. NIFA questions whether a consensus exists to raise fees to generate income at the projected levels. The County has included fee increases in the FY 2005 Budget of $3.8 million. If the County is to achieve this initiative, the fees need to be in place well before the start of fiscal year so that collections can begin timely.

2006	None
2007	$2,500,000
2008	$2,000,000

Cash and Receivables Management

This initiative was originally introduced in the 2002 Multi Year Plan with estimated revenue in excess of $4.5 million over a three-year period**.** The estimated savings are now projected to be $1.5 million over the life of the Proposed Plan. This initiative proposed that the County Treasurer would coordinate the collection of receivables associated with ambulance fees. A milestone remains to have the County Legislature approve the selected vendor contract. The Treasurer will monitor the performance of the selected agencies and award additional work based on prior performance. Estimates using historical data indicate there is an un-booked receivable of at least $1.5 million. Based on the information upon which this initiative was developed, there is a significant amount of duplication focused on ambulance billing. The Authority feels that this initiative overstates the possible savings. However, there may be areas where the County can improve collections, but further review is needed to determine an appropriate value.

2006	$500,000
2007	$500,000
2008	$500,000

Energy Conservation

This initiative was originally introduced in the 2002 Multi Year Plan with estimated savings in excess of $11 million over a three-year period. The estimated savings are now projected to be $5 million over the life of the Proposed Plan. This initiative involves conservation to save on the County's $22 million annual bill for public utilities and develop an energy conservation plan in recognition of the fact that availability, reliability and affordable energy is essential to the operation of the County government. The work on this initiative has not yet begun. While the County has reduced its savings projections for this initiative since the September 2003 Plan, we find even this reduced projection to be overly optimistic.

2006	$1,000,000
2007	$2,000,000
2008	$2,000,000

Initiatives Requiring State Legislative Approval

The County has moved all initiatives requiring State legislative approval out of FY 2006 and into FY 2007 and FY 2008. This action has the greatest impact in FY 2006 where savings from Smart Government Initiatives have been reduced by $20.4 million. The initiatives included in this revision are:

- Ticket Processing Surcharge
- LIE Reimbursement
- Commercial Tax Grievance Filing Fee
- Absentee Landlord Surcharge

New Initiative - Health Insurance Coverage

The County offers employees and retirees health insurance known as Core Plus Enhancements, which includes certain enhancements that are rarely used, but represent a significant cost to the County. By changing the plan to Core Plus the County believes there will be minimal adverse effects to the insured. The Administration intends to negotiate this change in the health insurance coverage with the various unions in time to include the decreased cost to health insurance in the proposed 2008 budget. In the settlement with the CSEA in 2003 the County agreed to review health insurance cost savings options with union officials, however, no progress has been made even though there is a provision to share any cost savings between the County and CSEA. The County needs to determine to what extent revisions to retiree health insurance are permissible. This initiative is scheduled to provide savings in 2008 and the negotiations with the unions involved will be a formidable challenge.

2006	None
2007	None
2008	$13,181,859

LABOR CONCESSIONS

In FY 2003 the County entered into labor agreements with the Policeman's Benevolent Association (PBA) and the Civil Service Employees Association (CSEA). The County has indicated their pleasure with these agreements and anticipates that they will serve as benchmarks for subsequent labor contracts.

Two police unions, the Detectives Association, Inc. (DAI), and the Superior Officers Association (SOA) have been working without contracts. The most recent DAI contract expired on December 31, 2000 and the SOA's expired on December 31, 2001. One arbitration panel is hearing arguments for both of these unions and the County has indicated that they expect a settlement in the near future.

The FY 2005 Budget and out-years of the Proposed Plan assumes that the terms for the DAI and SOA will mirror the terms reached in the current PBA settlement. As such they will be six-year agreements with compounded increases totaling 21.1%. The County's baseline contained annual increases of 4.1%, compounding to a planned increase in excess of 27% over the six-year life of each contract. As a result the County realizes significant salary savings from its baseline assumptions.

In addition to projected salary savings the County anticipates that mirroring the PBA settlement will provide savings through the following:

- Altering the schedule for shift differential (eliminating shift differential between 8am and 3:30 pm).
- The elimination of Flag Day as a paid holiday.
- The reduction of the hourly rate of pay used to calculate holiday pay, overtime, shift differential and termination pay, and
- The elimination of travel time.

The County also projects that it will be able to secure another provision contained in the earlier PBA agreement that adds another 48 hours of work per year for each member of the DAI and SOA. The extra hours will be paid at straight time in addition to current base salaries. This will increase an officer's annual salary by an additional 2.5%. The County acknowledges this cost, but believes that the additional hours worked will provide overtime savings to offset the increased costs. NIFA cautions that this savings provision, as outlined in the prior PBA settlement, contained certain restrictions that may reduce the level of savings. The PBA agreement required one tour per quarter, which prevents the County from a full utilization of the 48 hours during the peak summer season, when overtime is at its highest. It also contained a provision whereby an officer must receive 14 days notice before assignment of an additional tour. This reduces the benefit for covering an assignment when an officer is sick.

While overall the proposed initiatives if achieved will yield savings, the level of savings will be greatly determined by management's ability to effectively implement and monitor the contract provisions. We know from the prior PBA agreement that civilianization efforts have been significantly delayed, thereby reducing levels of savings that were initially represented. Similarly, the success of management in effectively scheduling the additional 48 hours of duty will ultimately determine its success.

Certain provisions that the County anticipates reaching in the DAI and SOA agreements will add costs. Primary among them are:

- A change in the longevity schedule that increases base pay; and
- The institution of an education stipend in FY 2005 that increases pay for a detective and a superior officer by $550 and $650 respectively.

The agreement with the Sheriff Officers' Association (ShOA) is expiring on December 31, 2004, while the current CSEA agreement runs through December 31,

2007. As such there is a great deal more cost certainty with respect to projecting salary costs for CSEA members.

The County projects in the Proposed Plan that it will secure $5 million in labor savings from ShOA in FY 2005, rising to $5.6 million by FY 2008. Negotiations with ShOA are not as far along as those with the above-mentioned police unions. As such specific details on how these savings are to materialize are not clearly defined. NIFA cautions that the prior agreement with ShOA, expiring in three months, was for seven years and that planned savings from civilianization have still not materialized.

The Proposed Plan also contains an initiative that discusses savings of $13.2 million through a change in health insurance coverage. It is anticipated that this would be a labor concession obtained through a reduction of benefits County employees currently have under Core Plus Enhancements. This initiative is discussed further in this report on page@. The concept of achieving savings through a reduction of benefits, or employee contributions to health insurance premiums, is not new to the County. The current CSEA Memorandum of Agreement, FY 2003-2007, provided for the establishment of a committee to study alternative health insurance concepts. Even though the County has agreed that one-quarter of any cost savings resulting from implementation of the committee's recommendations will be shared with the CSEA, to date no savings have been identified. NIFA realizes that these savings are difficult to achieve, but urges the County to focus on the hard choices in the present rather than pushing them off to the final year of the Proposed Plan.

WORKFORCE REDUCTION

The County's ability to attain long-term structural balance depends on its capacity for bringing its recurring expenditures in line with its recurring revenues. The County acknowledges that headcount reduction remains a critical tool within the County's control through which expenditure cuts can be made. While the Proposed Plan calls for hiring in select agencies, it also reflects the County's larger effort to further shrink its aggregate full-time workforce through attrition, although at a pace that is more measured than in previous financial plan submissions. The County plans to reduce its full-time headcount from 8,475 employees as of September 1st to 7,910 by the end of FY 2008, a targeted level that has already been pushed back twice, from FY 2003 and again from FY 2007. The County projects that this initiative, when combined with normal turnover savings, will generate financial plan relief of $38.8 million in FY 2006, $44.4 million in FY 2007, and $45.1 million in FY 2008. The County did not budget any savings from this initiative in FY 2005, which the County values at $26.2 million. Our analysis indicates that these projected savings may be overstated due to the County's assumption that headcount separations will occur on the first day of the year rather than evenly throughout the year. Notwithstanding our assessment of the potential value of this gap-closing initiative, which may yield savings of approximately $13 million, we hope that the decision to ignore all relief from this effort in FY 2005 is not a precursor of further slippage in the workforce reduction initiative and is instead an approach to conservatively provide downside protection against unforeseen costs and revenue shortfalls.

The County plans to achieve its planned workforce reduction targets by adhering to a strict hiring control process which limits replacement hiring to only one out of every three separating CSEA-represented employees. If successfully implemented, this would reduce the CSEA-represented ranks by an additional 15% by FY 2008, a target that may be unachievable given the hiring priorities articulated by the County Executive. For example, the Proposed Plan calls for increasing the number of civilians in the Police Department and Correctional Center, in addition to the planned expansion of the uniformed headcount in these departments, to address operational needs, realize trumpeted civilianization savings contained in its labor agreements, and positively impact the County's rapidly rising dependence on overtime used to deliver services. Additionally, the County identified hiring needs in the Department of Assessment, Assessment Review Commission, Probation, and the Department of Parks, Recreation and Museums to name a few, and recently addressed staffing shortfalls in the Department of Social Services that had led to a surging backlog of pending Medicaid applications in FY 2004.

Since the County did not specify in the Proposed Plan how its headcount reduction targets would be allocated, we remain cautious in our assessment of the County's ability to maintain its workforce reduction objectives, its capacity to realize its concomitant out-year savings targets, and the extent to which services or revenue collections may be impacted.

Without a four-year departmental headcount plan, it is difficult to decipher what long-term policy choices have been made. NIFA has previously encouraged the County to develop department-level headcount plans in order to enumerate its long-term strategic vision. The planning process should include proactive and explicit County Executive decisions concerning which services to continue, scale back, and/or eliminate immediately and in the future. The level of authorized staffing and resources provided in each year of the financial plan should then be made consistent with these decisions. NIFA hopes that the County's soon-to-be-released program budget begins to address these concerns by laying out the County's programmatic vision, at least for the budget year. NIFA encourages the County to extend this logic to the multi-year planning process and related documentation.

CERTIORARI

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.

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.

As always, the cert section of the Proposed Plan is earnest, well thought-out, and full of elaborate tables which predict that the County can solve its problem if it stays on schedule. This is a mantra that we have heard before and been disappointed. While we applaud the County's optimism, results are the coin of the realm. We continue to assert - that the backlog is huge and largely unchanged.

We would like to believe that the latest approaches will work as we have all committed considerable time and resources toward finding a solution. Unfortunately, we are still not convinced that absent an even larger infusion of money or a change in the underlying State legislation that created this problem, it can be equitably and fully resolved. Even such dramatic changes could not come fast enough to help the County out of its current morass.

Accomplishments:

The County deserves credit for its past accomplishments, including:

- legislative reforms;
- annual updates of the assessment roll;
- correction of many assessments by ARC before they were appealed;
- settlement of more new cases;
- hiring of significant numbers of qualified staff; and
- not bowing to pressure to settle cases for more than they believe is their value.

Increased Recognition by the County of its Problem:

We also think that the County has properly identified several of its problem areas, including:

- the "bottleneck" of unpaid refunds;
- the need for better internal controls;
- the need for better use of technology; and
- the unusually large backlog of residential cases.

Solutions:

The County has presented several ways to ameliorate the problem including:

- unilateral refunds;
- hiring of additional part time staff;
- maximum use of NIFA's bonding authority before it expires; and
- imposition of a commercial filing fees in FY 07.

Why We Are Still Concerned:

- The County wants to place cert refund money, raised through bonds issued in 2005 by NIFA, in an account for use in 2006. Under narrow constraints, we are willing to accept this action as legal under the NIFA Act. However, this is merely an additional postponement of a problem which was supposed to have been solved by 2004, was granted a State legislative extension until 2005, and now will carry over into 2006.

  In addition, although unilateral refunds to limit liability may be a good short-term way to lower the County's exposure to cert appeals, they still do not fully resolve an appeal. They leave many unanswered questions which the cert bar is likely to turn to its favor.

- As noted in the debt section of this Report, the County appears to have substantially exhausted its capacity under the NIFA Act to borrow for cert claims that arose prior to June 1, 2000. We suspect that we can find additional authorization for NIFA to borrow for this period without reaching the question of the County's ability to borrow the $40 million which it has proposed.

  If we were to endorse the County's right to borrow for certs prior to June 1, 2000, in excess of the $400 million that we have/will raise, there is the possibility that the County would eventually allocate large amounts of refunds to this period. We recognize that the Proposed Plan does not call for such borrowing, but history indicates that solutions to the cert problem have unexpectedly changed every year.

  Pre-2000 cert borrowing by the County would undermine the spirit, if not the letter, of the NIFA statute. However, we are willing to revisit this issue at a later data once we have had the time and analysis necessary to accurately estimate the size of the pre-June 1, 2000 backlog.

- The County minimizes the liability of small claims cases. We disagree. By its own admission, there has been a surge in filings. Instead of assigning responsibility to a single entity, it appears that 2003 through 2005 cases will be the shared responsibility of the Assessor, ARC and the County Attorney. We see this as an artifice to guarantee that no one can be blamed when the backlog is not promptly settled. Eventually, the Assessor plans to take over the process, but admittedly is not even remotely ready for that responsibility.

- Although recognizing the need for internal controls, we are very concerned when the County states, “These needs are known to ARC’s management but cannot be fully accommodated within its current staff and technology resources.” We do not understand why the Comptroller and County have not made this a top priority since we have continually brought it to their attention and in excess of $450 million has already been spent on cert refunds.

- The County still has not challenged many of the special interest groups that profit from and perpetuate the cert problem. We do note with satisfaction, however, their proposal to impose a filing fee in 2007 for commercial appeals. Now that the County recognizes that this fee is appropriate, they should incorporate the proposal into their 2005 State legislative program so that it can be implemented in 2005 and not 2007. The County, by its own admission states that the fee would raise over $3 million from commercial appeals.

  Likewise, we continue to urge the County to ask for escheatment of funds not returned by property owners to their tenants.

  The equity of both of these suggestions is obvious and a strong County effort to secure their passage would show the kind of political courage that the Administration has requested of others.

- $4.7 million of NIFA aid is still available for the County to use in solving its cert problem, assuming that the $1.8 million previously budgeted for 2004 is not used. We note, however, that this is a one time revenue and should be accounted for as such from both a record keeping and planning perspective.

- Technology is essential to the continued success of the County’s efforts to resolve its cert problem. The County agrees and asserts that it “has acquired major technical resources” for this purpose. We have been asking for a detailed description of these new resources for three years. We remain skeptical, especially since the ARC budget had a negligible amount of money allocated to equipment.

ASSESSMENT

The Assessor's Office and the ARC have apparently begun a regular dialogue which is a positive development. We also see that the new Assessor is pursuing a wide range of initiatives which we hope will be successful.

As previously noted, for unexplained reasons, the Small Claims Assessment Review "SCAR" proceedings have been returned to the Assessor's Department. We believe that this is where they belonged and should never have been moved. The temporary transfer of SCAR proceedings out of the Assessment Department was obviously not successful and impeded the County's progress in handling its cert problem. The new Assessor is in the unenviable position of inheriting the problem, but without the necessary staff.

V. Other

Cash Flows

Accurate cash flow modeling and reporting permits the County to plan for spending and investment, and to better manage its cash flow borrowings. Since 2000, cash flow modeling and forecasting had been handled by the County's outside financial advisor. The County has recently taken over the management of cash flow modeling. Over this period, the County has developed a greater understanding of factors affecting the timing of disbursements and receipts, and has better information about actual cash balances. This knowledge has, in turn, contributed to a reduction in annual cash flow borrowings, and with the deferral of the pension payments due date from December 15th to February 1st, the County will not need to issue a cash flow note at all in 2004.

The County is required to submit cash flow statements as part of the financial plan. The County has not yet submitted the cash flow statements to NIFA, nor indicated when they plan to submit them.

Reserves

The County's plan to create reserves that would help mitigate unforeseen events and potential deficits is laudable. The County plans to establish a Pension Contribution Reserve Fund, and an Employee Benefit Liability Reserve Fund. 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, without the need to impose large tax increases or abrupt service cutbacks. However, we emphasize that these reserves should not obfuscate the need to adjust spending levels to bring them in line with recurring revenues – the basic concept of structural budgetary balance. We believe that the County should develop a comprehensive and formalized policy for funding and de-funding any reserves, in a way that is consistent with the NIFA Act.

NIFA Funding

The County failed to provide funding for NIFA in 2008. NIFA will continue to exist until all of its bonds are redeemed.