NIFA

Nassau County Interim Finance Authority

October 17, 2006

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 - Fiscal 2007-2010 ("proposed Plan"). Our review is transmitted to you in the attached report entitled, "Nassau County Interim Finance Authority Review of the Proposed Multi-Year Financial Plan – Fiscal 2007-2010" ("Report").

The Report finds that while Nassau County clearly has made significant financial progress, recent developments raise concerns that the County may be moving away from conservative budgeting which has served the public well. We are not confident that absent State assistance and favorable revenue developments, the County is prepared to make the requisite hard fiscal decisions.

Briefly summarized, the Report finds that:

FY 2007 - The first year of the proposed Plan, also known as the proposed FY 2007 budget is less conservative and therefore more risky than in the recent past, and if not managed aggressively, could result in a possible deficit in 2007.

FY 2008 - FY 2010 (the "Out-Years") – The County continues to have significant Out-Year gaps of $164 million in FY 2008, $208.8 million in FY 2009, and $256.2 million in FY 2010. The use of less conservative assumptions and the decline of available reserves indicate that the County will have to raise taxes beyond its current projections unless it dramatically changes the way it does business.

Based on the Report and the number of serious concerns that it has identified, NIFA is reserving judgment on the proposed Plan until it is adopted by the Legislature and NIFA can assess what changes have been made. If the County makes any changes to the proposed Plan to address the items outlined in the Report or other needs, offsetting changes of equal value must be made to ensure that budgetary balance is maintained.

The NIFA Act requires that during the Interim Finance Period, which does not currently terminate until the end of 2007, a high level of oversight be maintained. We intend to follow that statutory mandate and to constructively assist in the County's recovery.

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 2007 – 2010

October 17, 2006

NASSAU COUNTY
INTERIM FINANCE AUTHORITY

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Jane F. Cunneen
Deputy Treasurer

Jeremy A. Wise
General Counsel

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I. Overview

The NIFA act mandates “enhanced budgetary and expenditure discipline” in Nassau County. That mandate was to be achieved in two ways first, by appropriating significant monetary relief to Nassau County and second, by the imposition of better budgeting practices.

The first has been fully achieved. NIFA has transmitted $105 million of State grants to the County. NIFA has also provided budgetary relief of $382.7 million by extending maturing debt, and restructuring and refinancing outstanding obligations. Nassau County has also benefited from other unexpected State assistance through such items as reductions in Medicaid obligations and forbearance of pension payments.

Although progress has proceeded, the second requires continued attention. The County was directed to live within its means by use of conservative budgeting and reasonable balancing of revenues and expenses. In the early years of NIFA, we noted significant strides toward achieving this goal by employment of conservative revenue estimates, intelligent use of assistance from NIFA, increased property taxes, and implementation of new management practices.

While Nassau County clearly has made significant financial progress, recent developments raise concerns that the County may be moving away from conservative budgeting which, to this point, has served the public well. We are not confident that absent State assistance and favorable revenue developments, the County is prepared to make the requisite hard fiscal decisions. At this point in NIFA’s tenure, the County should be doing more than merely meeting the minimum requirements of the NIFA Act.

Specifically, NIFA is disturbed by:

- Less conservative sales tax revenue estimates;
- Assumption that property tax increases will be adopted in 2007 for 2008 and beyond;
- The County’s ability to achieve significant savings from labor concessions projected to be attained in FY 2007;
- Reduction of the payments from the operating budget for certiorari settlements;
- Accelerated depletion of reserves, which should be maintained for budgetary contingencies.

Taken separately, each item may be “reasonable,” but taken as a whole, these items represent an alarming trend toward fiscal risks that are a disturbing departure from standards of appropriate financial discipline. The proposed Plan appears to be less conservative and substantially more risky than prior plans.

Findings

The 2007-2010 proposed financial plan (hereinafter, the “proposed Plan”) has weaknesses including:

1. Use of $103.2 million of non-recurring resources for recurring operating expenses and estimated risks of $57.8 million in the FY 2007 Budget.

2. Erosion of general reserves, which are projected to decline by approximately $160 million from the start of FY 2006 to the end of the Plan period.

3. Continuance of large Out-Year gaps which are closed with questionable gap-closing measures.

4. Less conservative assumptions regarding certain revenues and savings, including union givebacks, sales tax estimate, State reimbursements and rising headcounts.

5. Reliance on bond anticipation notes to finance currently bondable items thereby lowering current costs by forestalling payments of principal.

6. Limited infrastructure improvements and expenditures, except in a few areas such as building consolidation.

7. Failure to complete a revised successor agreement or use any of the $98 million that was raised through the tobacco securitization for the Nassau Health Care Corporation, which is still operating at a substantial deficit.

8. Failure to provide a four-year financial plan, as required by the NIFA Act for the Sewer and Storm Water Financing Authority, and the Sewer and Storm Water Resource District.

9. Continued use in the Out-Years of the proposed Plan of significant amounts of non-recurring resources combined with large reductions in general reserves.

Based upon the foregoing and NIFA’s detailed analysis contained herein, NIFA is making the following general findings about the proposed Plan.

FY 2007 - The first year of the proposed Plan, also known as the proposed FY 2007 budget (the “proposed Budget” or “FY 2007 Budget”) is less conservative and therefore more risky than in the recent past, and if not managed aggressively, could result in a possible deficit in 2007.

FY 2008 - FY 2010 (the “Out-Years”) – The County continues to have significant Out-Year gaps of $164 million in FY 2008, $208.8 million in FY 2009, and $256.2 million in FY 2010. The use of less conservative assumptions and the decline of available reserves indicate that the County will have to raise taxes beyond its current projections unless it dramatically changes the way it does business.

Conclusion

This Report identifies a number of serious concerns; therefore, NIFA is reserving judgment until the proposed Plan is adopted by the Legislature and NIFA can assess what changes have been made. If the County makes any changes to the proposed Plan to address the items outlined in this report or other needs, offsetting changes of equal value must be made to ensure that budgetary balance is maintained. NIFA staff will study their impact on the adopted Plan before making its final recommendation to the Directors.

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

II. Risk Assessment

This section presents NIFA's analysis and conclusions regarding the proposed FY 2007 Budget and the major underlying initiatives designed to ensure year-end budgetary balance. The County's ability to achieve its fiscal objectives for FY 2007 is directly dependent on the actions that the County takes in the remainder of FY 2006 and its ability to fully implement its FY 2007 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 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 2007 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 2007 Budget Risks

NIFA has identified a number of actions or initiatives that may be at risk and which 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. These risks are in addition to our concern about the County's use of $103.2 million of non-recurring resources to balance the FY 2007 Budget. Continued use of significant non-recurring resources will negatively affect the County's ability to balance Out-Year budgets.

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. This concept holds true for any other changes that may be made by the County Legislature. If any new programs, services or costs are added by the County Legislature, offsetting recurring actions must be identified to ensure that the proposed Budget and proposed Plan remain balanced.

FY 2007 – FY 2010 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 2007 Budget Risks	**Risks**		
	Police labor concessions	$25.8	41
	Tax certiorari – use of surplus	16.6	8
	ShOA labor savings	5.1	19
	Public safety overtime	5.0	20
	Jail subsidy	4.5	22
	Sales Tax	4.4	12
	FIT reimbursement	4.1	15
	Police termination costs	4.0	19
	Consumer Affairs	2.5	16
	Coliseum Revenue	1.4	16
	Parks Revenue	1.0	16
	Risk Management	0.2	16
	Subtotal	**$ 74.6**	
	Less Contingency Reserve	(16.6)*	5
	Total	**$ 57.8**	
FY 2008 – FY 2010 Financial Plan Risks	Sales Tax- See page 12		
	Nassau Health Care Corporation – See page 28		
	Tax Certiorari – See page 23		
	Options to Close Remaining Gap – See page 44		
	Declining reserves – See page 45		
	Smart Government Initiatives – See page 37		

* On October 11, 2006 the County proposed some technical adjustments which require legislative approval. Among these adjustments is a proposal to increase the contingency reserve. NIFA will evaluate these adjustments as part of our review of the adopted Budget and Plan.

NIFA has identified the risks set forth above, which we believe have made the proposed FY 2007 Budget less conservative, and therefore more risky than in previous years. The above risks are reduced by $16.6 million of contingency reserves that can be used to offset any unforeseen events that may arise during the year. We believe that there is a substantial risk that FY 2007 could end with a deficit, unless the County effectively manages the FY 2007 Budget. Continued use of significant amounts of non-recurring resources to support recurring expenditures, combined with the rapid decline in general reserves, make the Out-Years of the proposed Plan less conservative and riskier.

III. Proposed FY 2006 - FY 2009 Financial Plan

FY 2006 RECAP

Before discussing the proposed Plan we need to discuss the projected operating results for FY 2006 because this forms the baseline for future years. The Administration submitted a FY 2006 Budget that was reviewed by NIFA and thought to be reasonable. The County's June 30, 2006 Budget Status Report projected a positive operating result of $1.1 million. The County Comptroller's Mid-Year Budget Report projected a small positive operating result of approximately $16 million, which includes the County's use of $117.4 million of non-recurring resources to fund FY 2006 operations. The proposed FY 2007 – FY 2010 Financial Plan indicates that the County now believes that it will end FY 2006 with an operating surplus of $28.2 million. The County has not provided us with its revised detailed projections of FY 2006 operating results; however, we are aware that the County now assumes that it will achieve its budgeted projection of sales tax revenues.

The June 30, 2006 Budget Status Report described a number of projected variances that largely offset each other. The major variances from the 2006 Budget include reduced sales tax collections, salary savings, increased health insurance costs, reduced Medicaid costs, and additional recoveries. Since the County has not provided us with its detailed projections of FY 2006 results we are unable to determine what changes have occurred, other than the revised sales tax projection, which added $17.6 million in additional revenue. The FY 2006 Budget contains $117.4 million of non-recurring resources, including:

- $50 million to fund PAYGO certiorari settlements.
- $33.5 million to offset pension costs.
- $23 million from the tobacco settlement fund.
- $10.9 million to offset debt service costs.

Earlier in FY 2006 the County conservatively reduced its projected sales tax revenue by $17.6 million because actual results for FY 2005 were less than budget. Year to date collections through the October 12, 2006 adjustment check are $695.9 million, or 4.37% ahead of last year's pace, largely because of some large adjustments earlier in the year. However, since the April 12, 2006 adjustment check receipts have only grown by 1.51%. The County now believes that sales taxes will grow at a level sufficient to meet its original budget estimate of $995.8 million. In order to achieve budget the remaining payments must grow by 4.5% over last years collections. Based upon the growth rate of 1.51% since the April adjustment check, we do not believe that it is likely that the original budget will be reached. If the remaining payments grow at 1.51% (the rate of growth since the April 12th adjustment check) the County will receive $987.3 million.

Assuming that the remaining payments grow by 4.37% (the year-to-date rate of growth) the County will receive $995.5 million. Assuming that the growth of the remaining payments is actually between these two rates we have put $4.4 million at risk based upon the probably shortfall in sales tax.

The proposed FY 2007 Budget assumes that $25 million of the projected FY 2006 surplus of $28.2 million will be used to fund tax certiorari settlements. However, we estimate that the projected surplus will be $23.8 million, $4.4 million less because of the failure of the County to achieve its budgeted sales tax. Current projections indicate that approximately $15.4 million of that projected surplus will be generated by the Police District which is a different tax base, and can not be used to fund tax certiorari settlements. Therefore, of the projected surplus only $8.4 million could be available to fund certiorari payments. As a result we are putting at risk $16.6 million, the difference between the $8.4 million of available surplus and the $25 million that is planned to be used. See “Certiorari” on page 23 for a more complete discussion.

Based upon historical data, analysis to date, and discussions with various County officials, NIFA concludes that for 2006:

- The County is likely to end the year with a modest surplus. However, a minor deficit could be incurred if sales taxes do not grow sufficiently or other unexpected variances occur.

- NIFA is concerned that sales tax revenues will not grow at a rate sufficient to achieve the budgeted amount of $995.8 million. We believe that FY 2006 sales tax may fall short by approximately $4.4 million.

- The County will not achieve a level of surplus sufficient to fund $25 million of tax certiorari settlements in FY 2007 because $15.4 million of the projected surplus is from the Police District and can not be used to fund tax certiorari settlements, and the sales tax shortfall of $4.4 million will further reduce the projected FY 2006 surplus.

- This will be the fourth year since the creation of NIFA that the County should have an excess of revenues over expenditures without NIFA and State assistance.

CLOSING THE FY 2007 BUDGET GAP

The April Update submitted by the County projected a gap of $186.1 million in FY 2007. The proposed Plan successfully closes the gap in FY 2007, using $103.2 million of non-recurring resources, or about 55% of the gap closing measures. This includes $26.4 million from the pension reserve, $25 million of projected FY 2006 surplus, $23.6 million of tobacco funds, $14.8 million from the bonded indebtedness reserve, and $13.4 million of the fund balance.

Since the April Update, the FY 2007 gap-closing program was changed in several ways. The gap-closing program reduces the value of workforce management savings by $19 million, reduces the value of the Smart Government Initiatives by $10.5 million, and reduces the planned property tax increase of $28.9 million by $9.2 million to $19.7 million. Most of this tax increase is for Police Headquarters. In order to offset these changes and some other changes in the baseline gap, the County increased its 2007 sales tax estimate by $18.4 million, will use an additional $9.9 million from the bonded indebtedness fund, benefits from unanticipated Medicaid savings of $11 million, saves $13 million by restructuring its planned borrowings and uses approximately $20 million of additional non-recurring resources. The County needs to be cautious because a number of recurring actions were replaced with gap-closing measures that are non-recurring in nature. When combined with the use of $117.4 million of non-recurring items used to balance the FY 2006 Budget, the County will have used over $250 million of non-recurring actions to close the FY 2005, FY 2006 and FY 2007 budgets.

NIFA finds the County's excessive reliance upon non-recurring resources to be troubling since this was one of the problems that previously contributed to the County's fiscal instability. Reduced reliance upon recurring actions also means that the Out-Year gaps are not reduced as quickly as possible. This conclusion is supported by the fact that even though the County took actions necessary to close a $186.1 million gap for FY 2007, the gaps contained in the April Update were only reduced by $76 million in FY 2008, and $76 million in FY 2009.

THE OUT-YEAR GAPS – FY 2008 – FY 2010

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 had previously pointed to rising mandates such as Medicaid, health insurance, and pension contributions as the cause of its Out-Year gaps. To this list we would add headcount increases and salary costs that have grown faster than inflation. There are other uncertainties, such as NHCC and the amount of projected certiorari settlements that may significantly affect future gaps. With implementation of the Medicaid cap and the decline in pension contribution rates, these costs are more predictable and controllable in the future, leaving salary and health insurance costs as the major expense items of concern. On the revenue side, sales tax revenues continue to be subject to volatility. In fact, as sales tax continues to become a larger portion of the County's revenues and is subject to economic fluctuations, the County needs to be more conservative in its projections of sales tax revenues.

Sizing the Out-Year Gaps

The County projects gaps of $164.0 million in FY 2008, $208.8 million in FY 2009, and $256.2 million in FY 2010. These gaps were calculated based upon the growth rates set forth in Table 3. Based upon our review of the growth rates used by the County, and the underlying assumptions, we believe that the projections of Out-Year gaps are reasonable, except for the 4% sales tax growth rate which is not as conservative as in past budgets and the most recent five year experience.

When compared with the April Update, the growth rates for several significant items have been changed. For illustrative purposes the following are some of the more significant changes and their impact on FY 2008 of the proposed Plan:

- Sales tax growth rates have increased to 4% reducing the gap by $24 million.
- Pension contribution growth rates have decreased reducing the gap by $12.3 million.
- Health insurance rates for retirees increased from 5% to 10%, increasing the gap by $9.2 million.
- Special education growth rates have increased from 3.3% to 5%, increasing the gap by $8.2 million.
- Early intervention growth rates have been reduced from 3.3% to 2%, reducing the gap by $2.2 million.
- Health insurance rates for active employees increased from 9% to 9.5%, increasing the gap by $1.1 million.

(Table 2)
MULTI-YEAR PLAN GROWTH RATE ASSUMPTIONS

Expense/Revenue Category	FY 2006-09 Plan	FY2006-09 Update	FY2007-10 Plan	FY 2007- FY 2010 Plan Explanations
Expenditures				
Wages	Contracts	Variable	Variable	Terms of existing contracts
Non-Police Pension	11.7%	11.7%	9.5%	State Comptroller's effective rate
Police Pension	17.6%	17.6%	16.5%	State Comptroller's effective rate
Health Ins. – Active	8.0%	9.0%	9.5%	Higher than State optimistic estimate
Health Ins. – Retirees	5.0%	5.0%	10.0%	Higher than State optimistic estimate
OTPS	1.125%	0.0%	1.25%	Commitment to contain admin expenses
Utilities	6.2%, 3.1%, 2%	4.8%, 4.9%, 2.9%	12%, 4%, 2%	For 2008-2010, Based on historic trends
Medicaid	Capped	Capped	Capped	Based on approved State Medicaid cap
Social Services Entitlements	4.4 – 5.0%	4.4 – 5.0%	4.0%	Most current information
Early Intervention	3.3%	3.3%	2.0%	Most current information
Special Education	3.3%	3.3%	5.0%	Most current information
Revenues				
State Aid	Variable	Variable	Variable	Based upon reimbursement formula
Federal Aid	Variable	Variable	Variable	Based upon reimbursement formula
Sales Tax	4.0%	2.8% - 3.2%	4.0%	3.4% growth in 2007
Property Tax	Flat	0.0%	2.65%	2.65% only in 2007
Other Revenues	Flat			

CLOSING THE OUT-YEAR GAPS

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

- The workforce management savings have been reduced by $40.6 million in FY 2008, and $46.7 million in FY 2009, while workforce management savings of only $16.1 million are contained in the proposed FY 2007 Budget. This is the result of the County's decision to maintain the size of its workforce rather than reduce it through attrition.

- Elimination of Smart Government Initiatives valued at approximately $18.8 million in FY 2008 and $12.5 million in FY 2009.

- The Out-Year gap-closing program now assumes using $23 million of tobacco proceeds in FY 2008 and $8 million in FY 2009. This would fully deplete the remaining balance of this fund.

- A new category of savings entitled "Functional Consolidation", which is projected to reduce the Out-Year gaps by $10 million in FY 2008, $15 million in FY 2009, and $20 million in FY 2010.

After taking these major actions, gaps remain of $50.1 million in FY 2008, $63.6 million in FY 2009, and $75.2 million in FY 2010. The proposed Plan assumes that these gaps will be closed from among a number of options including certain taxes and other revenue sources. For FY 2008 these options include $20 million from video lottery terminals being installed at Belmont Racetrack, $50 million from a proposed increase in the cigarette tax, and/or $46.1 million in a new residential energy tax. The County has yet to show any willingness to increase revenues through any of these sources, and the implementation for FY 2008 is doubtful.

The value of certain gap-closing measures has been reduced and the County is using various reserves to help balance the proposed FY 2007 Budget. In particular, the County has reduced the projected savings from workforce management and smart government initiatives. The need to balance the proposed FY 2007 Budget and proposed Plan with recurring actions that provide continuing budgetary relief is essential. The County should be more aggressive in pursuing its existing smart government initiatives or creating new initiatives, restructuring government operations, and managing its workforce to achieve structural budgetary balance. Section IV discusses the major elements of the County's gap-closing program and discusses our concerns about the County's ability to achieve a number of the gap closing actions.

REVENUES

The County has four major revenue sources: sales tax, property tax, Federal and State aid, and other revenues (primarily departmental revenues). The proposed Budget estimates $2.5 billion of revenues, excluding interdepartmental transfers. The County also projects that baseline revenues will be $2.5 billion in FY 2008, $2.5 billion in FY 2009, and $2.5 billion in FY 2010, as shown in Table 3. The following section discuss the major revenue sources.

(Table 3)
BASELINE REVENUES
FY 2007-2010

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010
Sales Tax	$1,030.9	$1,065.8	$1,103.1	$1,141.7
Property Tax	758.4	758.4	758.4	758.4
Federal and State Aid	307.0	314.2	321.3	328.7
All Other	422.5*	311.8	315.2	318.8
Total	**$2,518.8**	**$2,450.2**	**$2,498.0**	**$2,547.6**

* Includes $25 million of projected FY 2006 surplus that will be used to fund tax certiorari payments in FY 2007. The use of this projected surplus is discussed in the section entitled FY 2006 Recap.

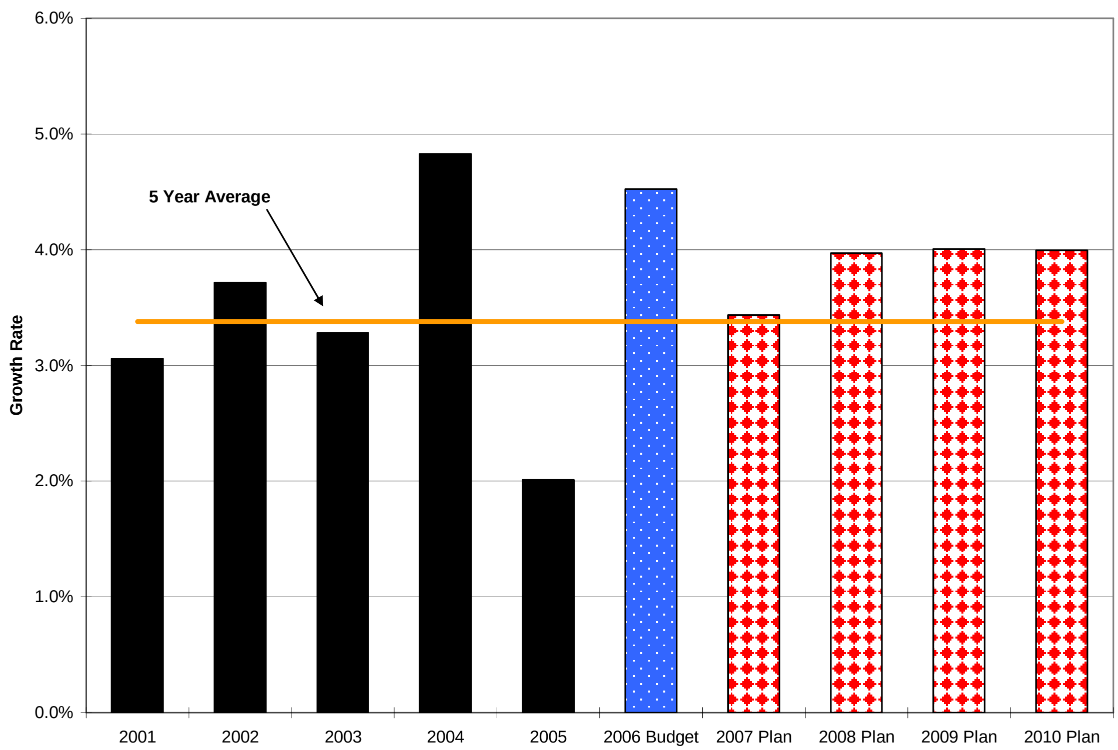
Sales Tax

The current sales tax rate in Nassau County is 8.625%, of which 4% is the State's share, 4% is the County's share, 0.375% is allocated to the Metropolitan Transportation Authority, and the remaining 0.25% is distributed to the towns and cities in the County. Sales tax is the largest revenue source for the County, comprising 41.3% of all revenues covered in this analysis, and is budgeted at $1,030.9 million for FY 2007.

Earlier in FY 2006 the County conservatively reduced its projected sales tax revenue by $17.6 million because actual results for FY 2005 were less than budget. Year to date collections through the October 12, 2006 adjustment check are $695.9 million, or 4.37% ahead of last year's pace, largely because of some large adjustments earlier in the year. However, since the April 12, 2006 adjustment check receipts have only grown by 1.51%. The County now believes that sales taxes will grow at a level sufficient to meet its original budget estimate of $995.8 million. In order to achieve budget the remaining payments must grow by 4.5% over last years collections. Based upon the growth rate of 1.51% since the April adjustment check, we do not believe that it is likely that the original budget will be reached. If the remaining payments grow at 1.51% (the rate of growth since the April 12th adjustment check) the County will receive $987.3 million. Assuming that the remaining payments grow by 4.37% (the year-to-date rate of growth) the County will receive $995.5 million. Assuming that the growth of the remaining payments is actually between these two rates we have put $4.4 million at risk based upon the probably shortfall in sales tax.

The proposed Plan projects that baseline sales tax revenues of $995.8 million will grow by 3.4% in 2007. Since the FY 2006 budgeted sales tax may not be achieved, we believe that the FY 2007 sales tax estimate may be overstated by $4.4 million. In addition, the County's gap-closing program assumes that sales tax growth will reach historic levels of 4%, generating additional sales tax of $5.1 million in 2008, $10.7 million in 2009 and $16.6 million in 2010, beyond the amounts contained in the baseline. Because the FY 2006 estimated sales tax may not be achieved, the County should consider reducing its Out-Year sales tax projections, and return to its previous policy of budgeting more conservatively for sales tax revenues. As shown in Chart 1, sales tax revenues have actually grown by an annual average of 3.4% over the last 5 years. While 4% is not unreasonable based upon long-term historical experience, it is above the most recent 5 year average, and less conservative than previous growth rate assumptions.

(Chart 1)
ANNUAL SALES TAX GROWTH HAS AVERAGED 3.4 PERCENT DURING THE LAST FIVE YEARS



In recent years the County has benefited from a number of positive economic events such as strong jobs growth and rising housing prices. However, 2006 has been a challenging year from an economic perspective, with homes prices leveling off and in some cases declining. Sales tax growth in 2006 has lagged prior years, as evidenced by the fact that year to date sale tax collections are only ahead of last year by 1.51% since the April 2006 adjustment check. In addition, recent economic indicators appear to point to a slowing of the economy. Because sales taxes are such an economically sensitive revenue they should be budgeted more conservatively to avoid the necessity of taking drastic remedial action should the economy level off or decline.

Property Taxes

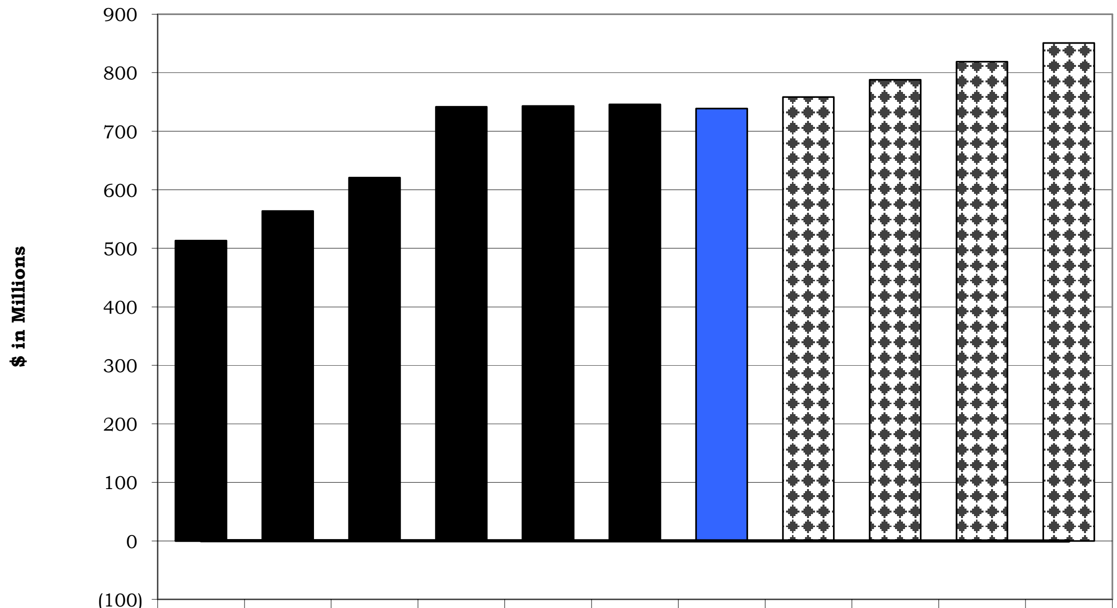
Property taxes are the second largest revenue source for the County. They comprise nearly 31% of total revenues for the five major operating funds and are budgeted at $758.3 million in FY 2007, an increase of $19.7 million, or 2.65%. For the first year since the establishment of NIFA, the County has decided to include sewer assessments as part of its discussion of "property tax levy." In addition, the Parks and Fire Commission Funds have been incorporated into the General Fund. These funds are specifically defined in the NIFA Act but the County made this change without consulting NIFA. The April Update assumed a 3.9% property tax increase for FY 2007, however the proposed Plan does not include this increase. Table 4 shows the proposed change in tax levies from FY 2006 to FY 2007.

(Table 4)
CHANGE IN PROPERTY TAX LEVY

($ in millions)	**Actual FY 2006**	**Proposed FY 2007**	**Change (decrease)**
Parks, Fire Commission and General Fund	$147.0	$143.4	($3.6)
Police District	333.6	329.7	(3.9)
Police Headquarters	258.0	285.2	27.2
Major Operating Funds Total	**$738.6**	**$758.3**	**$19.7**
Sewer assessments	138.9	118.9	(20.0)
Total	**$877.5**	**$877.2**	**($0.3)**

To offset the increase in the tax levy of the five major operating funds, the County has reduced sewer assessments by $20 million in FY 2007. This reduction was accomplished by a one-time use of an additional $20 million of sewer fund balance, and eliminating a number of funded but vacant positions. As a result, this relief is only for one year and sewer assessments are projected to increase by $16.0 million (13.5%) in 2008. Chart 2 depicts the property tax collections of the five major operating funds from FY 2000 - FY 2005 and the property tax levy from FY 2006 - FY 2010, which includes the County Executive's intention to implement annual property tax increases of 3.9% beginning in FY 2008. These increases will raise property tax revenues by $29.6 million in FY 2008, by $59.3 million in FY 2009, and by $91.2 million in FY 2010. This course of action would increase the annual tax levy by $337.3 million (65.7%) in the five major operating funds since FY 2000. In light of public statements regarding future property tax increases, we question the assumption that a property tax increase will be approved in FY 2007 for FY 2008 and beyond.

(Chart 2)
PROPERTY TAXES
FY 2000 – FY 2009



	00 Actual	01 Actual	02 Actual	03 Actual	04 Actual	05 Actual	06 Budget	07 Plan	08 Plan	09 Plan	10 Plan
Annualized	513.3	563.6	620.7	741.8	743.0	745.9	738.7	758.4	788.0	818.7	850.6
Growth Rate	9.9%	9.8%	10.1%	19.5%	0.2%	0.4%	-1.0%	2.7%	3.9%	3.9%	3.9%

Years

Federal and State Aid

Combined Federal and State Aid totals $307.0 million in the proposed FY 2007 Budget, which comprises 12.3% of total revenues. The lion's share of Federal and State aid serves as reimbursement for health and human services programs. Federal and State aid projections are developed on a program basis in conjunction with the County's operating departments. The proposed FY 2007 Budget represents an increase of approximately $24 million, because of reimbursement associated with higher pre-school special education costs and additional reimbursements for Social Service costs. The Out-Years of the proposed Plan contain average increases of 2.3% for Federal and State aid, with such revenues growing to $314.2 million in FY 2008, $321.3 million in FY 2009, and $328.7 million in FY 2010.

The proposed Plan assumes that starting in FY 2007 the State will begin reimbursing the County approximately $4.1 million for tuition charges of Nassau County residents that attend the Fashion Institute of Technology (FIT). The County assumes that the State will begin appropriating these funds in its for FY 2007-08.

It is our understanding that for a number of years the State has had a statute which provides that the State will reimburse counties for tuition charges of their residents attending FIT. However, the State has not yet appropriated the funds necessary to make these payments. We were informed that Suffolk County sued the State of New York for reimbursement. The Courts ruled that while there was a State statute requiring this reimbursement, there must be a valid appropriation in the State budget before the counties can be reimbursed. Absent this appropriation the State is under no obligation to make these payments.

Therefore, NIFA believes that it is risky to assume that these funds will be included in the State budget for FY 2007 – FY 2008. As such we are putting this $4.1 million at risk.

Other Revenue

The remaining revenues are budgeted at $422.5 million in FY 2007 (which includes $25 million of projected FY 2006 surplus used to fund certiorari payments, and represent approximately 15.9% of County revenues. The revenues included in this category are: departmental revenues; special taxes; rents and recoveries; fines and forfeits; interest and penalty on taxes; permits and forfeits; investment income, fund balance use. Three major components of this revenue source are departmental revenues, which are budgeted at $87.9 million, rents and recoveries which are budgeted at $51.4 million, and $13.1 million of Fund Balance appropriation in FY 2007. Departmental revenues are expected to remain flat through the life of the proposed Plan. Rents and recoveries are expected to decrease by $23 million in FY 2008 because of the depletion of the tobacco reserve fund, and then remain essentially unchanged at $29 million in the Out-Years. The proposed Plan assumes that no fund balance will be used beyond FY 2007. Other than the major changes highlighted above, the County assumes that these revenue sources will grow approximately 4% in the Out-Years of the proposed Plan. These increases are due in part to the County's plan to periodically adjust certain fees and charges to be consistent with inflationary cost increases.

In the past NIFA has recommended that the County periodically review all of its fees and charges to determine whether they should be adjusted. The County should be complimented for developing a revenue manual, which is a consolidated statement of its revenues. The revenue manual contains detailed descriptions, legislative authorizations, financial data and rate schedules for each revenue generated by the County. The manual should prove to be a useful resource to assist it in reviewing and assessing the myriad of revenue sources to ensure that they reflect the cost of providing various services.

In addition, the proposed Budget includes $12.8 million of Smart Government Initiatives, a number of which are expected to generate additional revenue. There are concerns as to whether these will be realized in 2007. As a result, the Parks Revenue Enhancement Plan and the Risk Management Reform initiatives, are being classified as risks in this report.

In the past, several unsuccessful attempts have been made to generate advertising revenue in the Parks Department, none of which have come to fruition. As a result, we remain skeptical that this goal can be attained. Therefore, we are putting $1 million at risk.

Although a Risk Management Program appears to be a positive goal, we are surprised that this function does not already exist. The County is already utilizing a third party consultant for workers compensation risk management, the area from which most savings would result. This was implemented in FY 2006 and while it appears to be a worthwhile program, it has not been clearly demonstrated how a safety program will reduce costs in this area. Therefore, we are putting $0.2 million at risk.

The proposed Budget for the Office of Consumer Affairs include fee increases for the licensing of electricians and plumbers. However, this initiative has not received the required legislative approval and we are risking $2.5 million until a consensus is established.

The proposed Budget for the Department of Real Estate Planning and Development assumes that a new Coliseum redevelopment lease will be executed by the end of the first quarter of FY 2007. We question whether all necessary zoning approvals will be received within this time frame and we are risking the $1.4 million in revenue proposed for the Coliseum project.

EXPENDITURES

The proposed Budget consists of $2.5 billion of expenditures, excluding interdepartmental transfers.[1] The County projects that baseline spending will grow to $2.6 billion in FY 2008, $2.7 billion in FY 2009, and $2.8 billion in FY 2010. As shown in Table 5, 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, payments for tax certiorari settlements, utility costs, local government assistance, mass transportation, and payments to the Nassau Health Care Corporation; Direct Assistance includes payments for pre-school special education and early intervention, 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.

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

(Table 5)
COMPOSITION OF EXPENDITURES
FY 2007-2010

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010
PS	$1,267.3	$1,306.0	$1,375.2	$1,445.4
OTPS	424.7*	429.8	437.4	444.0
Direct Assistance	526.9	547.4	566.2	585.6
Debt Service	299.9	330.8	327.8	328.6
Total	**$2,518.8**	**$2,614.0**	**$2,706.6**	**$2,803.6**

*Includes $25 million for proposed off-budget payment of tax certiorari settlements in FY 2007

Personal Services

The County projects that personal services expenditures will be almost $1.3 billion in FY 2007, $1.3 billion in FY 2008, almost $1.4 billion in FY 2009, and more than $1.4 billion in FY 2010, as shown in Table 6. 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 6)
PERSONAL SERVICES EXPENDITURES
FY 2007-2010

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010
Salaries and Wages	$826.0	$847.0	$882.5	$919.5
Fringe Benefits:				
Health Insurance	217.9	239.1	262.4	287.9
Pension Contributions	109.1	100.3	105.1	106.8
Social Security	58.2	60.7	63.3	66.1
Workers' Compensation	20.0	21.1	22.3	23.5
All Other	36.1	37.8	39.6	41.6
Subtotal Fringe Benefits	441.3	459.0	492.7	525.9
Total	**$1,267.3**	**$1,306.0**	**$1,375.2**	**$1,445.4**

Salaries and Wages

Salaries and wages, the largest component of PS expenditures, are projected to total $826 million in FY 2007 and reach $919.5 million in FY 2010. These projections are $34.6 million less than had been projected for FY 2007, and almost $50 million less than had been projected for the Out-Years, in the April Update. The County states that its revised estimate reflects the funding of all on-board employees and additional resources to cover new hiring needs identified in select departments, such as Behavioral Services, Corrections, Public Works, Police, and Social Services. These costs are driven down by the inclusion of projected overtime savings in the Police Department and significant salary savings from not-yet-negotiated labor concessions. The County projects that its salary-related labor concession savings will grow from $24.8 million in FY 2007 to $44.4 million in FY 2010, a concern we discuss in "Labor Concessions" on page 41.[2]

The County estimates that it will realize baseline salary savings of $5.1 million in FY 2007, $7.3 million in FY 2008, $7.7 million in FY 2008, and $8.0 million in FY 2010 through a new contract with the Sheriff's Officers' Association ("ShOA"), whose members have been working under an expired contract since December 31, 2004. We are concerned that these savings may not materialize in FY 2007 since these targets must be attained through collective bargaining and a tentative settlement was already rejected by the Legislature.

Likewise, the County estimates that it will realize baseline salary savings of $19.7 million in FY 2007, $33.4 million in FY 2008, $34.9 million in FY 2009, and $36.4 million in FY 2010 through labor concessions it must negotiate with its police unions, the Police Benevolent Association ("PBA") and the Detectives' Association, Inc. ("DAI"). We question both the County's ability to realize these savings and its ability to conclude agreements during FY 2007 with the police unions in order to provide the requisite budgetary relief. The County's collective bargaining track record suggests a strong likelihood that successor police contracts will be determined through the arbitration process, which could prolong the timing of a settlement or award beyond FY 2007, thereby creating a hole in the FY 2007 budget.

The County's baseline assumptions that call for historical wage increases for members of its other unions is not unreasonable. In fact, the County could realize salary and wage savings in FY 2007 should it not fill all of its funded, though currently vacant, positions. The proposed Budget includes approximately $15 million to fund these vacant positions, of which approximately half are in the Police Department. In addition, the gap-closing program assumes savings through the normal attrition/replacement hiring cycle. In contrast, we are less sanguine concerning gap-closing savings the County expects to realize from the Civil Service Employees Association ("CSEA") and Superior Officers' Association ("SOA"), as discussed in "Labor Concessions" on page 41.

Police Termination

We question the County's decision to become less conservative in its projection of expenditures for police termination costs. The proposed Plan contains resources to fund approximately 84 separations annually, which is a downward revision from 100 positions assumed in the April Update. The new assumption provides almost $4 million in annual gap-closing relief. We are concerned that the County may be underbudgeting this expenditure based on our analysis of recent historical attrition patterns. While the County has noted that its Employee Accrued Liability Reserve Fund is available to cover shortfalls associated with unbudgeted termination costs should attrition exceed projected levels, we maintain that this reserve was established solely to provide resources for

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[2] The County assumes that it will realize an additional $6.1 million in labor concessions from fringe benefit savings, which brings the total labor savings target in FY 2007 to $30.9 million.

unanticipated attrition or extraordinary payouts. We do not consider historical attrition rates, while higher than the current year, to be extraordinary in nature.

While year-to-date attrition in the Police Department totals only 59 officers (47 separations and 12 filed but not separated), the Department experienced a loss of 100 officers in FY 2003, 146 officers in FY 2004, and 111 officers in FY 2005. Furthermore, although a surge in retirements in FY 2004 may be characterized as an anomalous event driven by new terms contained in the last contract, we believe it may be premature to conclude from the County's partial-year experience in FY 2006 that a new, lower trend has emerged. Therefore, we believe that an additional $4 million should be budgeted in FY 2007 so that termination costs are more consistent with historic levels.

Overtime Control

A significant portion of the County's overtime expenditures occurs in the Police Department and Correctional Center. These costs had been growing largely unchecked and were chronically above budget until FY 2006, when a combination of more realistic budgeting, increased staffing, and better management appears to have resulted in closer adherence to appropriated levels. While the County deserves credit for beginning to rein in overtime spending, we note that overtime spending remains near historical highs.

Our analysis indicates that, despite better County control of these costs, proposed reductions in the appropriations for overtime in the Correctional Center and Police Department will result in overspending by approximately $1 million in the Correctional Center and $4 million in the Police Department, if significant new controls are not immediately implemented. Moreover, contractual raises and employee step increases will exert upward pressure on overtime costs in future years. The County should monitor these expenditures closely and continue its efforts to develop and implement new overtime control strategies.

Fringe Benefits

Fringe benefits costs are projected to reach $441.3 million in FY 2007 and grow to $525.9 million in FY 2010. These projections include $6.1 million in fringe benefit savings associated with the County's labor concession targets. The County revised upward its estimate of these costs by $19.1 million in FY 2007, $13.2 million in FY 2008, and $21.9 million in FY 2009 compared to the April Update, while incorporating a $16.6 million reserve for unforeseen events. The County deserves credit for funding this contingency appropriation, which is an explicit acknowledgment that certain assumptions contained in the proposed Plan lack the conservatism that may have existed in past submissions; however, we question whether this reserve is of sufficient size to cover known risks in addition to unforeseen events.

Health Insurance

The County assumes that health insurance costs for active employees and retirees will grow annually by 9.5% and 10.0%, respectively. We are more comfortable with these assumptions compared with those underlying the April Update, wherein the County assumed a 9.0% growth rate for active employees and only a 5.0% growth rate for retirees. This results in an additional $48.0 million in unplanned costs between FY 2007 and FY 2009 and $70.0 million in higher costs in FY 2010 compared with FY 2007.

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 remain fairly constant during the proposed Plan after declining in FY 2008.[2] The County has reasonably budgeted these expenditures at $109.1 million in FY 2007, $100.3 million in FY 2008, $105.1 million in FY 2009, and $106.8 million in FY 2010.[3] However, should weak year-to-date pension investment performance continue, pension contribution rates may increase in future years, which would result in pension contribution payments exceeding planned assumptions. It is noteworthy that, despite falling pension contribution rates in recent years, County pension costs have risen due to increased headcount levels, collectively bargained raises, and increased overtime costs.

Other Than Personal Services

County OTPS expenditures are composed of several large categories of spending, as shown in Table 7. These categories include: local government assistance, mass transportation, utility costs, payments to the Nassau Health Care Corporation, suits and damages, including tax certiorari settlements, and contractual services.

(Table 7)
OTHER THAN PERSONAL SERVICES EXPENDITURES
FY 2007-2010

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010
Local Government Assistance	$62.0	$64.2	$66.5	$68.8
Mass Transportation	46.9	47.7	48.5	49.4
Utility Costs	43.1	47.3	49.0	49.7
Payments to NHCC	13.0	13.0	13.0	13.0
Suits and Damages	56.4*	56.5	56.6	56.7
Contractual Services	131.7	129.3	130.9	132.5
All Other	71.6	71.8	72.9	73.9
Total	**$ 399.7**	**$ 429.8**	**$ 437.4**	**$ 444.0**

* Includes $25 million for proposed off-budget payment of tax certiorari settlements in FY 2007

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[2] The County participates in the New York State and Local Employees' Retirement System, the New York State and Local Police and Fire Retirement System, and the Public Employees' Group Life Insurance Plan. The local participating employer contribution rates for each retirement system are set by the State Comptroller and are 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, 2008, and they are slightly lower than the rates used to calculate the pension payment due February 1, 2007.

[3] The County estimates that its FY 2007 pension bill payment will be approximately $109.1 million. The County proposes to fund $26.4 million of this payment with resources drawn from the pension reserve the County established in FY 2004. The County plans to use $7.5 million of the remaining $9.1 million held in the pension reserve to mitigate pension costs in FY 2008.

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 $62.0 million in FY 2007, $64.2 million in FY 2008, $66.5 million in FY 2009, and $68.8 million in FY 2010 are an expenditure offset to the sales tax revenue collected by the County from its aggregate 8.625% sales tax rate.

The County projects that it will spend $46.9 million on mass transportation in FY 2007. 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. In addition, the County is providing $24.8 million in payments for Long Island Railroad station maintenance and $11.6 million for Long Island Railroad operating assistance. The proposed Plan inflates the Long Island Railroad station maintenance by 3.2% annually in the Out-Years while holding its other subsidies and assistance expenditures flat.

The County has budgeted $43.1 million for utility costs in FY 2007, or almost 30% more than was included in the FY 2006 Budget due to the relative rise in electricity, fuel and heating costs. The proposed Plan reflects the County's assumption that these costs will grow by almost 9.7% in FY 2008, 3.6% in FY 2009, and 1.4% in FY 2010. NIFA believes that while the County's projections of these costs are not unreasonable, they need to be monitored closely since they are subject to the volatility of world energy prices.

The County estimates that its FY 2007 payments to the NHCC will be $39.3 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. The cost of retiree health insurance and termination pay is accounted for in fringe benefits and salaries and wages, respectively. The County projects that these costs will grow to $47.1 million in FY 2010.

The County projects that it will spend approximately $130 million annually on contractual services. There are myriad contracts, of which the largest are related to medical and psychiatric services in the correctional center, funding for program agencies, and miscellaneous spending on such programs as community health centers, brownfield redevelopment, and medical and public assistance. The proposed Plan maintains a $4.5 million unilateral reduction in the County's payment to NHCC for certain medical and psychiatric services the hospital provides on behalf of inmates held at the Correctional Center. The reduction remains unresolved and is currently being negotiated as part of the new successor agreement between the County and NHCC, as discussed in "Nassau Health Care Corporation" on page 28. Depending on the outcome of these negotiations, either the County or NHCC will have a $4.5 million budgetary hole to fill.

The County continues to squeeze OTPS spending by applying an annual inflator of only 1.25% on certain administrative expenditures. While this assumption is more reasonable than the freeze placed on these expenditures in the April Update, if inflation exceeds 1.25% it will translate 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 2007 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 proposed Plan delays the County's required transition to funding certiorari refunds out of its operating budget. In a departure from the timeline presented by the County in its April Update, which noted that this transition would be completed in FY 2007, the County has stretched out the transition until FY 2008. The County now proposes to use $25 million in projected FY 2006 surplus operating resources to augment $25 million in budgeted resources to make its annual property tax refund payments of $50 million.

Certiorari

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 the problem and under the legislation that created NIFA in June of 2000, Nassau County was given the authority 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.

The County appears to have utilized substantially all of the State's aid and we share the County's enthusiasm at its progress. However, we note the following:

1. The Continuing Cost of Certs Another generation of Nassau County residents will continue to be straddled with the hundreds of million dollars in debt as it comes due over the next few decades. In addition, the County acknowledges that it needs to spend at least $50 million per year to maintain its current backlog, plus approximately $20 million per annum to support an assessment and review infrastructure.

   These expenditures take away resources that could be used for other pressing County needs. That is one of the reasons why we continue to closely monitor this area and why we believe that the County must not allow its vigilance to diminish now that the State assistance has been substantially completed.

2. $50 Million Payment for Certs from the Operating Budget On numerous occasions the County has committed to pay at least $50 million per year out of its operating budget for certiorari claims. The proposed Budget only uses $25 million from its operating budget. The second $25 million is supposed to be paid from a projected 2006 Budget surplus. This accounting violates the spirit of the County's commitment and although such a surplus may arise, unexpected expenses could cause a shortfall. We expect, however, that if such a shortfall does arise, other operating revenues will be used to fill the void.

3. Annual Payments for Cert Claims are Actually Diminishing Because of inflation and increased property taxes, the $50 million that the County has guaranteed to

pay each year for cert claims, will constitute an increasingly smaller part of the County's exposure. Unless the County believes that there will be a concomitant drop in yearly cert claims, which they have not shown, the County should increase its yearly commitment by the anticipated increase in County-wide property taxes and inflation over the same period. As matters stand now, by leaving their refund liability at $50 million per year during the proposed Plan, the County is actually lowering its commitment to pay cert claims and reduce the backlog.

4. Internal Controls There is still no discussion in the proposed Plan of internal controls, a topic which we have repeatedly emphasized. Other than a preliminary audit by the Comptroller, no one has assured NIFA that the expenditure of nearly $800 million in taxpayer dollars has been properly managed and that there is sufficient oversight of expenditures going forward. In addition, it is noteworthy that the County's Department of Investigations continues to be allotted the paltry sum of $467,093 in the proposed Budget for 2007, which is a reduction from 2006, and that its main mission appears to lie with other departments.

5. Legislative Agenda There continues to be no legislative agenda for the two biggest questions connected with certiorari: (1) unclaimed tenant refunds escheating to the County, and (2) the law requiring the County to indemnify the municipalities. While we recognize that earlier attempts to introduce these measures did not gain traction, that is no reason to abandon them in perpetuity.

6. Assessment Department The County continues to take credit for "addressing the problem of new liability through annual revaluations producing incrementally more accurate rolls each year." Hence we would have thought that the number of personnel might decrease in ARC, if not in the Assessor's Department. We note, however, that the cost keeps rising in each of the Out-Years of the proposed Plan.

7. Technology Every year we ask for the County to describe its efforts at improving technology in ARC and we receive little or no information. This year is no exception, but we hope to see some clarification of this area in the County's capital budget that is due to be released later in October.

The certiorari problem has diminished, but it has not gone away. At best, the problem appears to have stabilized at an unacceptably high level. We hope that it actually has stabilized and that when the Comptroller does his audit, he will confirm both the size of the backlog and the sufficiency of the County's currently budgeted yearly payout. If the backlog has increased, we assume that the County will increase its yearly payout in order to keep the backlog stable.

In the meantime, this is not the time for complacency; rather, we hope that the suggestions enumerated in this section will help to keep the County focused on this ongoing issue.

Direct Assistance

The County projects that spending on direct assistance will grow from $526.9 million in FY 2007 to $585.6 million in FY 2010. These costs cover social service entitlement benefits for clients enrolled in a variety of support programs within the County. As shown in Table 8, these expenditures are made within five major categories: Medicaid, Title XX, Temporary Assistance to Needy Families ("TANF"), Safety Net Assistance ("SNA"), and Pre-School Special Education and Early Intervention services. 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 8)
DIRECT ASSISTANCE EXPENDITURES
FY 2007-2010

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010
Medicaid: Local Share	$218.0	$225.9	$231.7	$237.4
Title XX	$47.9	$49.8	$51.8	$53.8
TANF	$29.5	$30.7	$31.9	$33.2
Safety Net Assistance	$21.0	$21.8	$22.7	$23.6
Special Education/Early Intervention	$153.5	$159.8	$166.4	$173.3
All Other	$57.0	$59.4	$61.7	$64.3
Total	**$ 526.9**	**$ 547.4**	**$ 566.2**	**$ 585.6**

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

The County projects that these costs will grow by 4.1% annually, which will increase expenditures for Pre-School Special Education from $107.5 million in FY 2007 to $124.5 million in FY 2010. Similarly, the County projects that expenditures for Early Intervention Services will increase from $46.0 million in FY 2007 to $48.8 million in FY 2010. While the County lowered its growth rate assumption for Early Intervention expenditures from 3.3% to 2.0%, it raised its assumption for Pre-School Special Education expenditures from 3.3% to 5.0%, compared with the April Update. NIFA believes that these estimates are not unreasonable, although it requires the vigilance of screening evaluators to ensure that services are provided only to those children who actually need them. The County should closely monitor these costs to identify changing trends and concomitant variances in a timely manner.

Medicaid

Expenditures for Medicaid recipients 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 increase from \$218.0 million in FY 2007 to \$237.4 million in FY 2010. The growth in these expenditures is limited by a State-enacted cap on the local share of Medicaid spending. The cap formula will ensure that the County's share of Medicaid costs grow in FY 2007 by no more than 3.25% over FY 2006 levels and by no more than 3% annually thereafter.

Public Assistance

The County is projecting that its expenditures for Temporary Assistance for Needy Families ("TANF") and Safety Net Assistance ("SNA") will grow by approximately 4% annually in the proposed Plan. Combined, these costs are expected to increase from \$50.5 million in FY 2007 to \$56.8 million in FY 2010, driven higher by projected growth in caseloads, which have been rising after a long period of contraction. While TANF caseload has been fairly steady at around 2,500 for the past few years, SNA caseload has doubled to an average of 2,375 after hitting a low of 1,184 in 2001.

Our analysis indicates that the County's 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 assistance caseloads and associated costs closely to ensure that variances are accounted for in its model.

Debt Service

The County projects that debt service will increase from \$299.9 million in FY 2007 to \$328.6 million in FY 2010, as shown in Table 9. This includes principal repayment and interest costs for NIFA-issued debt, County-issued debt, anticipated County Tax Anticipated Notes ("TANs") borrowings, and miscellaneous County expenses for future debt issuances.

(Table 9)
COMPOSITION OF DEBT SERVICE
FY 2007-2010

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010
NIFA Debt	\$174.5	\$184.2	\$186.2	\$186.6
County Debt	118.8	137.3	131.3	131.4
TAN Interest	6.1	8.8	9.8	10.1
Expense of Loans	0.5	0.5	0.5	0.5
Total	**\$ 299.9**	**\$ 330.8**	**\$ 327.8**	**\$ 328.6**

NIFA's active borrowing is at or near its conclusion, but NIFA still has over two billion dollars ($2 billion) of outstanding debt that was incurred on behalf of the County. For presentation purposes, this shifting of debt service to NIFA makes it appear as though the County debt burden has decreased. In fact, the County's debt service is increasing even though the County, as discussed below, intends to use bond anticipation notes ("BANs") to forestall payments of principal.

In general, we do not see the "strengthening of the County's borrowing and cash management practices" that the County Executive outlines in his proposed Budget. In fact, County control of its borrowing and debt service is not where it should be. We are also not confident that we have a reliable schedule since some of the deadlines for borrowings in the proposed Plan have already passed, cannot be achieved in the timeline indicated, or have been described to NIFA staff as "uncertain." In fact, on October 11, 2006 the County requested NIFA's comments on two proposed borrowings, neither of which were consistent with the proposed Plan.

Based on the foregoing, we are fairly confident that the County will not do any long term borrowings in 2006. They did complete a tobacco securitization, which was achieved independently of the County's underlying ratings and the proceeds of which have remained untouched since April. NIFA opposed this borrowing. The Nassau Health Care Corporation has indicated that they will not even be requesting use of any of the tobacco funds until 2007 and the proposed Plan does not indicate where or when the funds that were reserved for the County will be used. Unless the County can earn the arbitrage yield on the funds that resulted from the sale of these bonds, this transaction is costing Nassau County residents and has shown no tangible results.

In fact, throughout 2006 the County was still using the money that it requested NIFA to raise for capital through its 2004 and 2005 borrowings. These over-issuances in 2004 and 2005, as well as the premature tobacco borrowing in 2006, indicate an inability of the County to accurately forecast its needs. Furthermore, the County may have to pay a penalty to the Internal Revenue Service for borrowing prematurely.

Now the County wants to begin its capital borrowing in by issuing BANS, ostensibly until they can figure out exactly how much money they need, but no explanation is given in the proposed Plan. Issuance of BANs is not a return to the long term capital markets and they should not be used as a substitute for proper planning.

Using BANs instead of bonds appears to NIFA to not only show poor planning, but is a technique that allows the County to borrow money while paying only the interest. Even though the County has conservatively estimated the amounts that it will have to pay for interest from issuance of its BANs, we are disturbed that most of the interest on the BANs will not mature until early in 2008; thereby, avoiding interest payments in 2007. It is yet another indication that they are deviating from best fiscal practices.

In addition, TANs were reinstituted last year at $120 million and increase in the County's proposed Plan as follows: $150 million for 2006; $175.8 million for 2007; $187.5 million for 2008; $193.7 million for 2009 and $192.6 million in 2010. Not only does the increasing amount of money raised through cash flow borrowings show the lack of County reserves, but the interest paid on the borrowed money represents an increasing drain on the County's operating budget.

NASSAU HEALTH CARE CORPORATION

The financial health of the Nassau Health Care Corporation ("NHCC" or "Corporation") and its potential impact on Nassau County continues to be a major source of concern for NIFA. Calendar year 2006 brought about major NHCC leadership changes in areas of management and governance with the additions of a new Board Chair and an Acting President and CEO. While the new management has a proven track record of success and expertise, the organization itself, does not.

The fiscal results and cash position of the medical center have improved as a result of State budget restorations and Department of Health ("DOH") status approvals, however, the projected baseline gaps for FY 2006-2010 prior to any gap-closing measures, range from a net deficit of $6.8 million in 2006 to $42.3 million in 2010. As of August 31, 2006, the nursing home loss of $2.4 million continues to drain resources from the combined institution. As shown in the following table, prior year actual and forecast operating results before Program's to Eliminate the Gap ("PEG's") are negatively trending, which causes concern as to whether a surplus or "break even" results can be attained. It should also be noted that NHCC management has projected a net loss of $5-7 million for FY 2006, including investment earnings and an unbudgeted litigation settlement.

Net Operating Results-Actual and Projected *Before PEG's* *(in thousands)*

2003	2004	2005	2006	2007	2008	2009	2010
($26,661)	($23,295)	($14,291)	($8,338)	($14,725)	($22,856)	(41,173)	($44,027)

Net Operating Results Projected *After PEG's* *(in thousands)*

2006	2007	2008	2009	2010
($4,050)	$37	$5,505	($5,243)*	$218

* Excludes $50 million of non-recurring revenue from sale of Uniondale property. See page

It should be noted that there are many PEG's included in the baseline as well as in the gap-closing plan which require regulatory approvals, that have not yet been received. There are also others which require extensive implementation, do not yet have dollar values assigned, require potential resources yet to be identified, and may not in fact be realizable, due to a variety of both internal and external factors.

In addition, gap-closing plans, open DOH Approvals, plans for the A. Holly Patterson nursing home, cash flow, revenue cycle and receivables management, successor agreements and (going concern) opinions from the external auditor all remain areas in which substantial further work needs to be done. Unless significant operational and structural, and more importantly, "execution management" challenges are addressed and improvements implemented, the Corporation will continue to incur significant operating losses. The County has continued to retain the consulting firm of Manatt, Phelps, and Phillips, LLP ("Manatt") who, along with the new acting CEO, released a Preliminary Updated Strategic Plan dated July 24, 2006 recommending the best future course of action for NHCC.

Strategic Plan 2006

The new strategic plan includes many features of the original 2004 plan with the following additions and/or changes:

1. Establishment of qualitative standards and internal review to address the recent Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") survey which ultimately granted the medical center with "Conditional Accreditation".

2. Development and implementation of meaningful managerial reporting including an "executive dashboard" type system to capture all important and high level financial and performance indicators on a regular basis.

3. Emphasis on execution management, clinical service fiscal performance and Programs to Eliminate the Gap ("PEG") accountability.

4. Completion of Inter-Governmental Transfer ("IGT") funding, AHP hospital based status, restoration of Medicaid cuts and further approval for bed hold reimbursement, expansion and approval of clinic ambulatory services.

5. Multi-year Capital Plan budget development to obtain the County's approval for an allocation from the Tobacco Re-Securitization Proceeds.

6. Marketing, service delivery and operational plan to restore community confidence and credibility in NHCC services.

7. Strengthening of the board governance function and NHCC senior management team.

Execution, Accountability and Project Management

Although NHCC has developed a potentially viable and updated Strategic Plan as a road map, past experience in the areas of management, governance, project execution and accountability appear to be the greatest risk to the entity, barring any reversals in government funding, regulatory changes, or significant reductions in patient volumes.

While the PEG's and new management team are all impressive, past performance has shown that project execution, monitoring, responsibility and accountability and attainment of goal dates have been a major obstacles in a successful turnaround. NIFA notes that while plans are in place to establish new management financial and non-financial information reporting and an executive dashboard, these are currently works in progress. While drafts of certain reports contain voluminous amounts of data , often they do not include performance standards, benchmarks, historical performance, or industry/competitive data needed for comparative purposes. Many of the new PEG's contained within the Strategic Plan do not yet have performance measures assigned to them, dollar values to determine the level of appropriate resources which would be required for implementation, nor specific executive ownership and management of the internal monitoring process. While it is hoped that a new culture and management can correct these problems, it does not escape notice that the organization has gone through several management consultants and Chief Executive Officers in recent years without successful implementation of turn-around plans or an adequate emphasis on this key deficiency.

Recent Events

2006 Cash Flow Projections

In July 2006, the organization benefited from receipt of $35 million in IGT payments and favorable resolution of Medicaid reimbursement issues. The July 19th payment of approximately $14.7 million resolved any near term cash flow problems for NHCC. Because of this and increased Medicaid reimbursement, the County Comptroller suspended its monthly cash reviews. The Corporation is projecting to have a cash balance of $1.4 million at FY 2006 year end, net of a $10 million captive loan, and should be able to meet all of its current fiscal obligations. Recent budget meetings with the County's Office of Management and Budget disclosed that the County was in discussions with hospital management to reduce its subsidy for Correction Center medical services. However, this subsidy was planned to be used as part of the County match for State IGT payments. It remains an open issue as of this writing as to whether this subsidy will now be reduced or where the County's IGT matching funds would come from, if this should occur.

Revenue and Utilization Challenges

A review of net patient revenue and utilization rates indicates a downward trend in patient services over the past few years. Although the strategic plan includes initiatives and expansion of services, a comprehensive marketing plan has yet to be developed, upon which the successful turnaround will largely depend. As shown in the following chart, revenue decreased during the preceding 2004 thru 2006 period, yet is being forecast to increase 1.5% annually in the Out-Years. It should also be noted that while patient revenue and volumes have decreased year to year, this decrease is net of an annual Medicaid and Medicare CPI increase of approximately 3% annually. This would appear to be "at risk" based on historical experience.

Patient Revenue-Actual and Projections

	2004	2005	2006	2007	2008	2009	2010
Revenue	$424,334	$409,397	$383,083	$388,830	$394,663	$400,583	$406,593
% Change	(-2.49%)	(-3.52%)	(-6.43%)	1.5%	1.5%	1.5%	1.5%

Joint Commission on Accreditation of Healthcare Organizations Report 2006-

The Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") conducted its triennial survey of NHCC the week of May 8th, 2006. The initial recommendation was to deny accreditation based on the preliminary adverse finding of 24 Requirements for Improvement ("RFI's"). A subsequent JCAHO review reduced this number below the threshold of 20 findings to 19, and Nassau University Medical Center ("NUMC") received an upgraded "conditional accreditation". Based on the additional clarification submitted by NUMC, four additional RFI's have been removed; however, the "conditional accreditation" status remains unchanged. Had the preliminary denial stood, the resulting fiscal implications would have been devastating to the organization. Although we are aware that a 45 day corrective action was submitted and is being worked on, it is likely that further surveys and monitoring can be expected and that stronger emphasis should be placed on continuing correction of this problem, so that future likelihood of reoccurrence is remote.

Successor Agreements

NIFA was advised that negotiations to conclude a successor agreement are ongoing and that a term sheet is undergoing discussions as of this writing. Items requiring resolution are the amount of mission payments and the subsidy that the County will provide to NHCC in return for receiving prison health services, County capital budget provision, and the level of County oversight. We were advised that this agreement was expected to be completed by December 2005 but is now deferred until December 2006. If there is an agreement to provide additional resources to NHCC, the County should identify an equal amount of recurring savings to maintain budgetary balance.

This agreement should also include the status and disposition of the April 2006 Tobacco borrowing which continues to be held and invested by the County pending agreement as to their use and disbursement conditions. It has also been communicated that the County does not wish to continue a $4.5 million correctional center services subsidy in conjunction with release of the Tobacco Bond Proceeds. This would further impair the fiscal turnaround for the NUMC and it does not appear that this decrease in revenue is anticipated in NHCC's financial plan. Absent an agreement between the County and NHCC, NIFA is risking this projected savings of $4.5 million in the proposed FY 2007 County budget.

Strategic Gap-Closing Plan 2006

As previously noted, a successful turn around of the finances of NHCC relies primarily on successful execution and implementation of a laundry list of PEG's which currently number 91, and is likely to grow, as shown in the recently detailed Strategic Plan. This would be an onerous undertaking even for an organization that has not had a troubled execution and project management legacy. As shown below, significant and material losses would result if the Corporation only successfully achieves half of the current punch list of projects under consideration. If that were to occur, we can see that losses ranging from $6.7 to $21.0 million in the Out-Years could result.

Baseline Gap Projections "Risking" 50% of PEG's

	2007	2008	2009	2010
Baseline Gap before Peg's	($13,158)	($21,270)	($39,553)	($42,344)
100% Peg's	$13,195	$26,775	$34,310	$42,562
Less: Sale of AHP Property*	0	0	($50,000)	0
Projected Net Income (Loss) After Peg's	$37	$5,505	($5,243) *	$218
50% Adjustment to Successful Peg Execution	($6,597)	($13,387)	($17,155)	($21,281)
Loss If Only 50% of Peg's Occur**	($6,634)	($7,782)	($22,398)	($21,063)

* Note: The FY2009 projected surplus of $44.7 million has been adjusted downward by $50 million pending determination as to proper use of NHCC's one-time windfall from the sale of its Uniondale property. Originally NHCC indicated that these proceeds would be used to pay down debt, however, now they are considering other options for these funds.

** Excludes any future government funding or external regulatory changes that are currently unknown at this time.

This exhibit highlights that NHCC remains at a potentially critical juncture. Plan execution and timely implementation has been a past weakness. Unless improvement in this area quickly moves forward, material losses could be sustained in the Out-Years, despite progress and successful restoration of recent Medicaid funding and resolution of several DOH appeals.

Many of the gap-closing calculations contained within the plan rest on a net patient income growth of 1.5% annually which we question in light of past trends. A critical step remains requiring development of a successful marketing and expanded service delivery plan which will yield measurable and significant census and utilization increases in all areas. While the Psych PEG's which were included in NUMC budgeted revenue will not come on line for FY 2006, expenses were not lower than the budgeted amounts even though budgeted psych program start up and operating expenditures were not incurred.

Updated Plans for the A. Holly Patterson nursing home

The plan to replace the home continues, while net patient service revenue losses continue to run unfavorably to budget and were negative 6.4% or $0.3 million under budget expectations for the month of August 2006. For the most recently available month, census was unfavorable to budget by 1,431 days. While the corporation has successfully negotiated a bed hold reimbursement with DOH, reimbursement is pending and will not commence until official decertification of 300 beds, although the DOH has granted a hospital-based rate for the home. As of this writing, the certificate of need (CON) has not yet been submitted to the Department of Health (DOH) for construction of a new facility, although verbal discussions have taken place. It is noted that the new Strategic Plan calls for retaining a smaller facility on the current site, although relocation to the main NHCC campus had previously been a consideration. This original plan was met with substantial community opposition related to the potential loss of local jobs as well as the concern that low income housing at the site would have further burdened the school district. NHCC management indicates that the new plan to remain in Uniondale, along with addition of a separately and likely outsourced skilled nursing and assisted living facilities is more likely to move forward in an expedient manner and obtain necessary rezoning approvals. However, plans for disposition of potential proceeds estimated to be in the area of $50 million remain an open issue.

While the financial plan displays this “one time” windfall as a FY 2009 gap-closing initiative as working capital, the Strategic Plan characterizes this money as available to either pay down debt for the Corporation or to be designated as an endowed investment fund, for the purpose of generating financial resources through investment returns. It is strongly recommended that a cash flow analysis be performed which compares the cost/benefits from each of these various courses of action in order to determine what plan will bring the most financial benefit to the Corporation. However, should either option in the Strategic Plan be ultimately adopted, it does not appear that this $50 million should be shown as a gap-closing initiative and that FY 2009 still shows a loss of $5.2 million after all planned gap-closing measures are implemented, and the FY 2009 financial plan needs to be revisited.

NIFA recommends that hospital management and the County’s consultant continue to revisit this request with DOH at its earliest opportunity and develop or confirm a plan that will meet with approval.

Minority Health Disparities Institute

The NHCC has decided to pursue grant and private funding for expanding and improving services to underserved populations. It would place an emphasis on the divergent minority population it increasingly serves as a result of the changing LI demographic. While it is obvious that reconfiguring services to address and correct minority health disparities is critical, we urge the corporation not to lose sight of its overall mission.

As discussed in the Strategic Plan, it is noteworthy that various funding opportunities exist at both the government (federal and state), and private foundation levels for the purpose of addressing minority healthcare needs. However, it should be cautioned that the grant application and government funding process is a highly competitive one and one in which NHCC has had limited experience. The fundraising environment is very competitive and professionals with expertise and foundation contacts are in high demand. Success will largely depend on NHCC's ability to successfully attract and retain leadership in this area. Aggressive pursuit of this goal can also potentially place the corporation in competition with its affiliated partners, including the North Shore/LIJ Health System.

The Corporation provided $40.7 million and $41.6 million in charity care respectively in FY's 2005 and 2004, representing approximately 10% of patient revenue. This is an important fact that is not currently well known. It is recommended that this charitable service information be more widely publicized as part of a strategic fundraising plan, similar to what is done at other comparable healthcare organizations.

Revenue Cycle and Receivables Management

As of August 2006, patient receivables have decreased by $0.76 million since December 2005 and other receivables have decreased by $3.6 million, contributing to the improvement in cash flow. At the same time, net patient revenue is down by $2.6 million and bad debt expense is $1.2 million less than August of the previous year and $0.146 million favorable to budget as of August 2006. The County Comptroller had requested that his audit staff review this receivable and the related reserve calculations to determine if the bad debt reserves are properly stated. The hospital has never filled its Revenue Cycle management position, which has been open for several years, although this is one of the most critical and key revenue producing management positions. In addition, the hospital is now working with its second successive consultant at considerable expense, savings have yet to be fully realized, and in-house expertise still has to be developed, in order to eliminate the need for outside revenue cycle and receivables management consultants.

Patient Accounts Receivable (in thousands)

	2003 Actual	**2004 Actual**	**2005 Actual**	**2006 Projection**
Receivable	$95,196	$88,402	$92,263	$91,508
% Change	23.09%	(7.14%)	4.37%	(.82%)

Certified Audit Opinions

The Nassau Health Care Corporation received a "Going Concern" audit opinion for FY 2005 by its outside public accounting firm, Ernst and Young. This opinion potentially negatively impacts the NHCC's ability to borrow, issue debt and obtain low cost rates for capital expansion and construction projects. As a result, it is likely that it would be unable to borrow on its own, without the County's financial guarantees. The FY 2005 certified audit for the NHCC, Ltd. , incorporated in 1999 under Cayman Island law as a Class "B" insurer and wholly owned subsidiary of NHCC, also has a "going concern" opinion and was cited for having a net asset deficiency of $1.2 million as of December 31, 2005. As of August 31, 2006, the company had a loss from operations of $0.3 million. NHCC Ltd. also has a loan receivable from NHCC in the amount of $10 million, for which there is currently no repayment plan. NIFA has been advised that FY 2006 claims experience has been reasonably low, however, that actuarial estimates have been relatively consistent at approximately $8 million per year. However, a recently settled claim will exceed its established reserve amount by $2 million, with the unbudgeted cost absorbed by NHCC in FY 2006.

Conclusion

Now that the NHCC and County have engaged new leadership, we are hopeful that substantial progress can be made to resolve the issues discussed above and meet these ongoing challenges. The Corporation needs to address several key areas (plan execution, monitoring, patient volumes) in order to ensure that it is not necessary for the County to provide additional resources.

NASSAU COMMUNITY COLLEGE

The proposed Plan for the Community College contains annual budget growth rates in excess of 5% to address salary costs, related fringe benefits, and other projected cost increases. Annual increases in tuition and property taxes are contemplated in order to support this projected growth.

Salary and fringe benefit costs account for approximately 87% of total expenses. The two teaching unions, the Nassau Community College Federation of Teachers ("NCCFT"), and the Adjunct Faculty Association ("AFA") both have long term contracts that were recently settled and expire on August 31, 2008, and September 30, 2010 respectively. 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 $2,450 per full-time equivalent student (FTE), for FY 2007, which is based upon the amount contained in the adopted State budget. The Out-Years of the proposed Plan assume that State aid will increase $50 a year starting in FY 2008.

Tuition in each year of the proposed Plan is scheduled to increase from the base year FY 2007 rate of $3,402, by no more than 10% depending on actual enrollment levels and State aid provided in future years. The Community College has indicated that SUNY has recently raised concerns regarding the level of tuition rate increases. Restrictions on tuition increases could inhibit the College's ability to raise adequate funding, and could require other adjustments to the proposed Plan.

In order to be conservative, the proposed Plan assumes that student enrollment will be flat. While enrollment in the plan is flat, actual FY 2007 enrollment is up almost 2% from FY 2006. If future enrollment is less than projected, or if restrictions are placed on tuition increases, the College will have to identify actions that will maintain budgetary balance throughout the period of the proposed Plan.

SEWER AND STORM WATER SERVICES

In September 2003, at the request of Nassau County, the New York State Legislature created the Nassau County Sewer and Storm Water Finance Authority ("SSWFA") and a consolidated County-wide Sewer and Storm Water Resource District, which is called the Sewer and Storm Water Resource District Fund ("SSWRD").

The proposed FY 2007 Budget and the proposed Plan did not contain budget or financial plan information regarding the SSWFA even though it is a "Covered Organization" and is required bv State legislation to be submitted as part of the County's plan. On October 6, 2006 the County finally provided us with information regarding the SSWFA and the SSWRD.

The County is reducing the total SSWRD assessments from $138.9 million in FY 2006 to $118.9 million in FY 2007. This reduction was possible because the County is no longer funding a number of positions that have remained vacant for several years, and the one-time use of an additional $20 million of fund balance. As a result, this relief is only for one year and sewer assessments are projected to increase by $16 million (13.5%) in 2008. NIFA is concerned that use of fund balance to reduce assessments will adversely affect the County's plan for rate stabilization and harmonization.

IV. Gap-Closing Program

This section of our report discusses the major elements of the County's gap-closing program including: Smart Government Initiatives; Labor Concessions; Workforce Management; Functional Consolidation; and Options to Close Remaining Gap. Two other Out-Year initiatives – sales tax growth and annual CPI property tax growth – are discussed earlier in our report.

SMART GOVERNMENT INITIATIVES

NIFA continues to be concerned with the County's ability to achieve some of these initiatives, many of which are again being pushed to the Out-Years of the proposed Plan with reduced savings.

Since the April Update the County has eliminated Smart Government Initiatives ("SGI's") valued at approximately $10.5 million (45.1%) in FY 2007, $18.8 million (43.6%) in FY 2008 and $12.5 million (27.2%) in FY 2009. These decreases are, in part, because the County has again chosen to move those initiatives that require State Legislative approval into the Out-Years of the proposed Plan and to eliminate or reduce estimates for several others. We continue to question the County's ability to achieve many of these initiatives that have appeared year after year and still have yet to be implemented. We also question the County's ability to monitor many of the projects since they lack performance indicators.

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 or eliminated them entirely and those that require State legislative approval and have all been moved to the Out-Years.

Where NIFA is in agreement with the various initiative revisions that have been made by the County, no additional comments are noted. However, with respect to the items discussed below, more aggressive implementation and timely monitoring are necessary if the County is to achieve its projected savings.

Revised and Eliminated Initiatives

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

- The following initiatives are now removed which appeared in the April Update:
    - Absentee Landlords
    - State Reimbursement for Police Training

- Federal Inmate Aid

- The following initiatives have been modified:

Grant Funds

In the April Update, this initiative was projected to begin generating revenue of $3 million annually, for a total of $9 million for FY 2007-2009. The proposed Budget assumes Grant Fund revenue maximization efforts resulting in $0.8 million and increased revenue projections for FY 2008-2010 total $3.9 million. This is significantly less than initial projections and the implementation has been further delayed. As a result, we are skeptical whether these revenues can be realized.

2008	2009	2010
$1,300,000	$1,300,000	$1,300,000

HHS Administrative Consolidation

In the April Update, savings for FY 2007-2009 were projected at $8.3 million. The proposed Budget assumes savings of $1.5 million and additional Out-Year savings as set forth below. This initiative appears overstated based on prior year savings estimates and the methodology employed, which utilized the experience of similar initiatives at other counties instead of actual County cost structures.

2008	2009	2010
$2,312,776	$2,746,776	$2,746,776

Parks Advertising and Revenue Enhancement Plan

In the June 2005 Update, Revenue Enhancement for FY 2006-2008 was reduced from the 2004 projected income amount of $15 million to $12.6 million. In the April Update it was further reduced to $5 million for this same period and no savings were included in the FY 2006 Budget. For FY 2007, an SGI in the amount of $2.1 million is now included and a total of $6.3 million is shown in the Out-Years of the proposed Plan. The County's consultant has completed its revenue review plan and the next step needs to be successful execution and implementation of the changes which are recommended. It must be noted that, by its own admission, the County has not been successful in attaining these goals in the past so we remain skeptical as to their success.

2008	2009	2010
$2,088,000	$2,088,000	$2,088,000

With regards to Parks advertising revenue, there is $1.0 million included in the proposed Budget which increases annually to $2.5 million in FY 2010. Again, this is a prior year initiative which has not been successfully implemented, so we consider this to be a potential risk in the proposed Plan.

2008	2009	2010
$1,500,000	$2,000,000	$2,500,000

Revenue Options/Fee Increases

The proposed Plan includes an initiative for approval of pending legislation to automatically increase certain fees based on a CPI factor calculation every two years, however increases are not included in the proposed FY 2007 Budget, pending approval and implementation plan development.

2008	2009	2010
$1,300,000	$1,300,000	$1,300,000

Police Overtime

This initiative, which appears on an annual basis, is again included although the baseline already includes new savings. We question whether any further savings can be realized based on current usage and the County's past inability to civilianize administrative positions.

2008	2009	2010
$2,000,000	$2,000,000	$2,000,000

Automated Time and Leave

This initiative has again been pushed back from the original implementation date of FY 2006 to FY 2008. This is the third year it has been pushed back. We are surprised that this is being pushed back again in light of the recently discovered problems and improprieties regarding time and attendance internal controls in a number of departments, as well as management of overtime usage.

2008	2009	2010
$1,700,000	$1,700,000	$1,700,000

<u>Initiatives Requiring State Legislative Approval</u>

The County has moved all initiatives requiring State legislative approval out of FY 2007 and into the later years of the proposed Plan, as was previously done in FY 2006's Plan. The initiatives included in this revision are:

- Ticket Processing Surcharge

- Commercial Tax Grievance Filing Fee

<u>New Initiatives</u>

NYS Empire Zones

While this new initiative appears to be helpful to businesses in Nassau County, it is uncertain that any additional revenue will be generated for the County as a result. New home purchases described in this SGI appear to be homes that currently exist and are now occupied. It also does not appear that sales tax would be significantly be impacted since new hires would most likely come from current County residents.

2008	2009	2010
$2,000,000	$4,000,000	$6,000,000

Risk Management

While we agree that management of the workers compensation program is a priority, we are aware that this was outsourced during FY 2006 and is currently administered by a third party consultant. It is unclear as to whether this new department would result in duplicative costs to the County. In addition, while safety programs are always a good idea, it is not obvious that any material cost savings can be directly tied to such a program.

2008	2009	2010
$522,800	$522,800	$522,800

Contractual Services

It is our understanding that County contracts have always been reviewed in the past by the County Attorney's Office and that monitoring was in place to ensure that terms were abided by. It is unclear that any cost savings can be realized by streamlining procedures. Annual savings of $1.0 million per year are included in the plan but the source of these planned savings is not obvious.

2008	2009	2010
$1,000,000	$1,000,000	$1,000,000

LABOR CONCESSIONS

We remain guarded in our assessment of the County's ability to successfully negotiate contracts with its unionized workforce that will generate the significant level of savings targeted in the proposed Plan. While we believe that solving the County's long-term fiscal outlook will certainly require a multi-faceted approach that includes reducing the growth rate of labor costs, it is unclear if the County can effectuate both the magnitude and timing of the projected labor savings.

The County projects in the proposed Plan that it will secure total labor concessions worth $30.9 million in FY 2007, $70.2 million in FY 2008, $73 million in FY 2009, and $75.7 million in FY 2010. As shown in Table 10, the County already included in its baseline estimates savings it expects to realize from still-to-be-negotiated collective bargaining agreements with the PBA, DAI, and ShOA. The County assumes that concessions from these unions will provide recurring baseline budgetary relief of $30.9 million in FY 2007, $46.8 million in FY 2008, $48.7 million in FY 2009, and $50.5 million in FY 2010. The County plans to secure the remaining gap-closing plan savings from successor labor agreements with the SOA and CSEA beginning in FY 2008.

(Table 10)
PROJECTED LABOR CONCESSIONS
FYS 2007-2010

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010
Baseline Estimates				
PBA and DAI				
Salaries and Wages	$19.7	$33.4	$34.9	$36.4
Fringe Benefits	6.1	6.1	6.1	6.1
Subtotal PBA and DAI	**$25.8**	**$39.5**	**$41.0**	**$42.5**
ShOA	5.1	7.3	7.7	8.0
Total Baseline Estimates	**$30.9**	**$46.8**	**$48.7**	**$50.5**
Gap Closing Plan				
CSEA and SOA	$0.0	$23.4	$24.3	$25.2
Total Labor Concessions	**$30.9**	**$70.2**	**$73.0**	**$75.7**

Salary and wage savings can be realized, relative to baseline assumptions contained in the proposed Plan, by negotiating contracts that keep annual increases below historical levels. While the County has demonstrated modest success with this approach in recent years, it has had little success with extracting long-term savings from modifications to its employee fringe benefits package. The County already attempted to realize savings from a reduction of benefits and/or introduction of employee contributions to health insurance premiums. For example, 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.

The County's collective bargaining track record suggests that, particularly with its uniformed unions, even if it could secure salary and wage and/or fringe benefits concessions from its unions, it is unlikely that the County will have in place ratified contracts during FY 2007. While we understand the County's objective of reducing personnel costs through labor concessions, we believe that there is a substantial risk that savings will not be achieved in FY 2007.

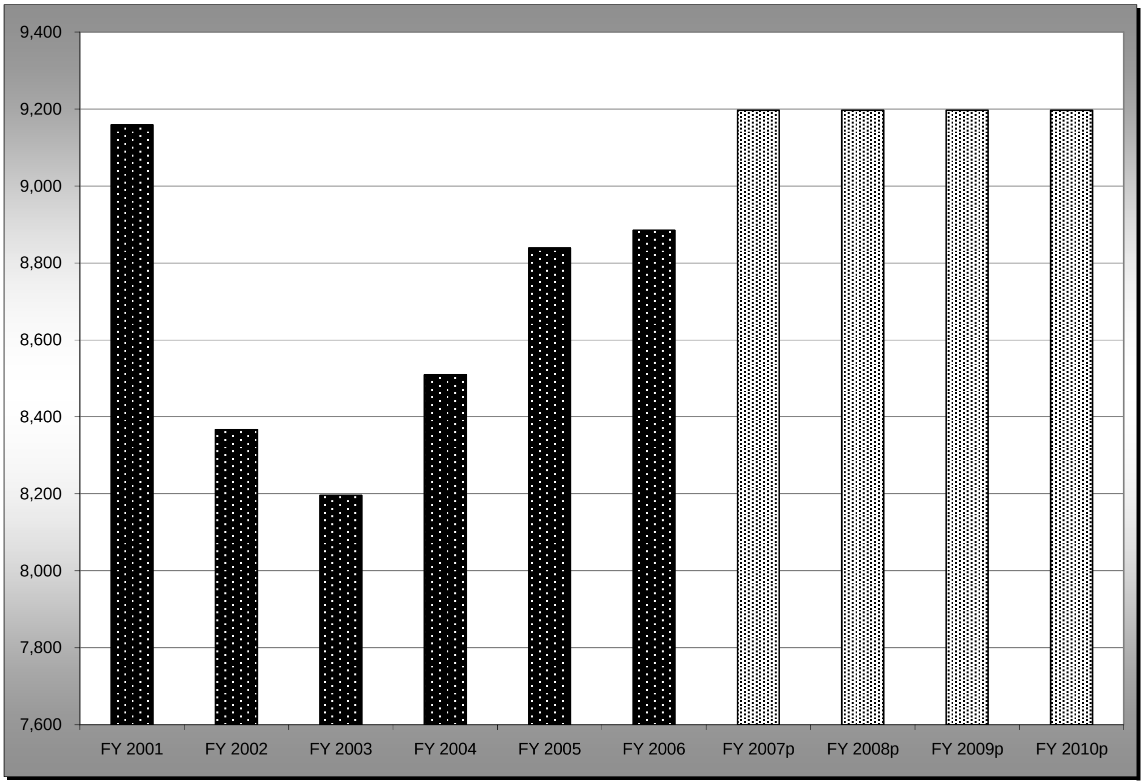
Typically, protracted negotiations between the County and its police unions have been followed by declarations of impasse and subsequent interest arbitration proceedings. In the event that these protracted steps push a settlement or arbitration award beyond FY 2007 for the PBA and DAI, and beyond FY 2008 for the SOA, it would create significant budgetary holes in those years. This would follow from past practice by the Comptroller's Office to accrue reasonable estimates of prospective salary and wage increases during the County's year-end close. Therefore, while no cash payments would be made to employees during FY 2007 for "prospective" raises, it would nevertheless remain a budgetary hit. In contrast, we are unaware of any accounting provisions that would allow for the accrual of mitigating savings from unsecured labor concessions.

WORKFORCE MANAGEMENT

The County no longer anticipates significant savings in personal services expenditures through reductions in its planned full-time headcount, which formerly was a cornerstone of its fiscal recovery plan. In a departure from previous plans, the gap-closing program no longer contemplates Out-Year headcount reductions and only contains projected turnover savings of $8.8 million in FY 2008, $16.3 million in FY 2009, and $20.1 million in FY 2010 from backfilling higher paid employees with lower paid new hires as attrition occurs. While we recognize that the County has sole discretion in determining the size of its workforce, outside of collective bargaining, workforce management is the only major tool the County has available to control its PS costs.

As shown in Chart 3, after successfully reducing the County's workforce from 9,159 full-time positions in FY 2001 to 8,196 full-time positions by the end of FY 2003, the County added back almost 700 employees during the subsequent three years. Among the notable increases, was net hiring that took place in Assessment (104), Correctional Center (28), Probation (40), Social Services (65), and Police (335). Although the County's current headcount is 337 full-time positions below its proposed FY 2007 headcount level of 9,197, the County has stated its intention to fill critical vacancies and then maintain these new higher levels by backfilling attrition at 100 percent. The departmental vacancies include openings at the Correctional Center (21), Public Works (27), Social Services (48), and Police Department (143). The County could realize approximately $15 million in savings in FY 2007, and greater amounts in the out-years, by leaving unfilled these funded vacancies.

(Chart 3)
PROJECTED HEADCOUNT TO SURPASS FY 2001 LEVELS



FUNCTIONAL CONSOLIDATION

The Out-Years of the proposed Plan includes functional consolidation and organizational realignment, merging the department of Drug and Alcohol Addiction and Department of Mental Health, Mental Retardation and Developmental Disabilities into a newly created Department of Behavioral Health and Developmental Disabilities. Although the budget indicates that this change would eliminate administrative and programmatic duplication, no details of actual planned changes or cost savings have been provided.

The proposed Plan also assumes the transfer of the Office of Grants Management into the Office of Management and Budget. While this change also seems like a logical realignment, there is no obvious basis for revenue generation or cost savings related to this change.

The proposed Plan assumes savings of $10 million in FY 2008, $15 million in FY 2009 and $20 million in FY 2010. Because the County has not provided any details of these savings we are skeptical of the County's ability to achieve these savings.

OPTIONS TO CLOSE REMAINING GAP

After taking the above major gap closing actions, gaps remain of $50.1 million in FY 2008, $63.6 million in FY 2009, and $75.2 million in FY 2010. The proposed Plan assumes that these gaps will be closed from among a number of options to increase certain taxes and other revenue sources. For FY 2008 the more significant of these options include $20 million from video lottery terminals being installed at Belmont Racetrack, $50 million from a proposed increase in the cigarette tax, and/or $46.1 million in a new residential energy tax. The Plan assumes that these revenues would remain flat through the Plan period, except for the residential energy tax which would grow by 23.6% in FY 2009, and 3.1% in FY 2010. The County has yet to show any willingness to increase revenues through any of these sources, and the implementation for FY 2008 is doubtful. As such we question the County's ability to implement any of these options.

V. Reserves

Reserves

Section 3667 (4) (c) of the NIFA Act requires that the financial plan include adequate reserves to maintain essential programs in the event that revenues have been overstated or expenditures underestimated for any period. Over the last several years the County has created a number of reserves that can be used to help mitigate unforeseen events, fund non-recurring actions or provide long term relief. The County currently has established the following general reserves: a reserve for retirement of indebtedness; a pension contribution reserve; and an employee accrued liability reserve. In addition, the County has established the Tobacco Trust Fund and has unreserved fund balance that can also be used in the same manner. Such 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 abruptly curtail services. However, we caution that these reserves should not be used to adjust spending levels below the amount necessary to fully fund current needs.

The County also has two other sources of funds which they have called reserves, both of which are restricted in nature. The first is the proceeds of the recent tobacco borrowing of which approximately $98 million has been designated to provide capital funds to the Nassau Health Care Corporation and the balance of $28 million to fund the capital portion of several new County initiatives. Since these are borrowed funds, it is not appropriate that they be used to fund normal operating costs. The second restricted reserve is committed to fund sewer and storm water related activities, including rate stabilization and harmonization.

Chart 4 is a summary of the County's reserves, separated into general reserves and restricted reserves. As shown on the chart the County had general reserves totaling $244.8 million at the beginning of FY 2006. The County has used, and plans to use, a substantial portion of these reserves to offset current operating costs. Based upon the County's planned uses of these reserves they will decline by $157.8 million to $87 million at the end of FY 2008. Of the remaining $87 million, $21.4 million is for the employee accrued liability reserve which is for unexpected police retirements, leaving only $65.6 million of general reserves available to offset any unforeseen events. The rapid reduction of available reserves makes the proposed Plan less conservative and more risky, thereby endangering the Out-Years.

(Chart 4)
Summary of County Reserves

	General Reserves						Restricted Reserves			
Year	Retirement Contribution	Bonded Indebtedness	Employee Accrued	Unreserved Fund Balance	Tobacco Settlement	Sub-Total	Tobacco Borrowing	SSWRD	SSWFA	Total
YE 2004	$79.8	$25.0	$28.9	$90.5	$60.6	$284.8		$32.4	$60.9	$378.1
2005 Uses	($35.0)	$0.0	($7.5)	$0.0	($23.0)	($65.5)		$0.0	($11.5)	($77.0)
2005 Contributions	$24.8	$0.7	$0.0	$0.0	$0.0	$25.5		$30.5	$0.0	$56.0
YE 2005	$69.6	$25.7	$21.4	$90.5	$37.6	$244.8	$0.0	$62.9	$49.4	$357.1
2006 Uses	($34.1)	($10.9)	$0.0	($13.4)	($23.0)	($81.4)		($68.4)	($39.3)	($189.1)
2006 Contributions	$0.0	$0.0	$0.0	$0.0	$17.0	$17.0	$126.0	$96.4	$27.3	$266.7
YE 2006	$35.5	$14.8	$21.4	$77.1	$31.6	$180.4	$126.0	$90.9	$37.4	$434.7
2007 Uses	($26.4)	($14.8)	$0.0	($13.1)	($23.6)	($77.9)		($13.2)	($25.6)	($116.7)
2007 Contributions	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		$0.0	$0.0	$0.0
YE 2007	$9.1	($0.0)	$21.4	$64.0	$8.0	$102.5	$126.0	$77.7	$11.8	$318.0
2008 Uses	($7.5)	$0.0	$0.0	$0.0	($8.0)	($15.5)		$2.8	($11.8)	($24.5)
2008 Contributions	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		$0.0	$0.0	$0.0
YE 2008	$1.6	($0.0)	$21.4	$64.0	$0.0	$87.0	$126.0	$80.5	$0.0	$293.5
2009 Uses	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		($27.2)	$0.0	($27.2)
2009 Contributions	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		$0.0	$0.0	$0.0
YE 2009	$1.6	($0.0)	$21.4	$64.0	$0.0	$87.0	$126.0	$53.3	$0.0	$266.3
2010 Uses	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		($23.0)	$0.0	($23.0)
2010 Contributions	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		$0.0	$0.0	$0.0
YE 2010	$1.6	($0.0)	$21.4	$64.0	$0.0	$87.0	$126.0	$30.3	$0.0	$243.3