NASSAU COUNTY INTERIM FINANCE AUTHORITY

October 2, 2000

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

Hon. County Executive Gulotta:

Pursuant to Chapter 84 of the Laws of 2000, the Nassau County Interim Finance Authority (NIFA) has completed its review of Nassau County's Fiscal Year 2000 Budget, the proposed Fiscal Year 2001 Budget, and the Multi-Year Financial Plan For Fiscal Years 2001-2004 and submits the attached report.

Thank you and your staff for the cooperation that has been extended to the NIFA staff in assisting with the exchange of information required to complete this expedited review.

The attached report, entitled Nassau County Interim Finance Authority Review of Proposed Financial Plan – Fiscal Year 2001-2004, is an evaluation of the short- and long-term financial plans of Nassau County as proposed by the County Executive. The report constitutes an analysis of the information that has been supplied to NIFA by the County and its advisors. The report has been reviewed and adopted by the NIFA Board with the understanding that additional backup information could alter some of the report's findings.

The report speaks for itself and comments in detail on many key aspects of the proposed FY 2001 Budget and the Financial Plan. In sum, the NIFA report finds that:

(1) Nassau County is likely to achieve a balanced FY 2000 Budget;

(2) The proposed FY 2001 Budget represents an improvement over prior budgets. However, a number of risks exist that could impair the County's ability to achieve a balanced budget. These risks are explained in the report, but their existence places approximately $81.7 million in revenue projections and/or expenditure cuts in jeopardy; and

(3) The Multi-Year Financial Plan contains out-year gaps of $138.3 million in FY 2002, $275.2 million in FY 2003, and $379.6 million in FY 2004 due to risks similar to those found in the FY 2001 Budget.

At this time, NIFA is compelled to find that the Fiscal Year 2001 Nassau County Budget and Financial Plan for Fiscal Years 2001 through 2004, as proposed, are inadequate because they do not contain sufficient information to allow the Nassau County Interim Finance Authority to determine whether budgetary balance is likely to be achieved during Fiscal Years 2001 through 2004. In addition, the County needs to modify its plan for spending $5 million of targeted State assistance for tax certiorari processing reform. The current plan does not address the systemic flaws in the existing certiorari process, which means that these problems could continue into the future.

The conclusion is this: the County must produce corrective measures that will satisfy NIFA requirements with a very high level of confidence.

The NIFA report identifies the financial issues that should be addressed by the County Executive and the County Legislature. This is a time when the County's top elected leaders must stand together to implement budgetary and long-term financial planning reforms that will set a new, solid foundation for Nassau County.

Be assured that NIFA is not seeking to impose the hard controls allowed under its State mandate. We hope that the NIFA report provides the County Executive and Legislature with clear, sobering guidance regarding the tough financial and public policy decisions that must be addressed collectively over the next month.

I would add one more thought. This is a very good opportunity to resolve the fundamental structural defects in Nassau County's financial management. Bold vision, committed to real change with steady leadership can get the job done.

We stand ready to assist the County in any way possible to help it meet its fiscal goals and objectives.

Sincerely,

Frank Zarb
Chairman

cc: Presiding Officer Jacobs
Minority Leader Schmidt
NIFA Board
Richard Luke

Nassau County
Interim Finance Authority

(NIFA)

REVIEW OF PROPOSED FINANCIAL PLAN

FISCAL YEARS 2001 – 2004

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Nassau County Interim Finance Authority (NIFA)

Table of Contents

I. Introduction

For several years, concerns have been raised regarding the financial condition of Nassau County. Earlier this year, it was publicly reported that the County was facing a current year deficit of $200 million. As a result of these concerns, Governor George E. Pataki appointed Mr. Frank Zarb as a special advisor to evaluate the fiscal condition of Nassau County. On May 9, 2000, Mr. Zarb released a report on the status of Nassau County's finances. The report found that the FY 2000 County budget had a baseline gap of approximately $178 million, reduced to $117 million as a result of current year actions, most of which were non-recurring. The report projected that the out-year gaps would grow to $233 million in FY 2001, $267 million in FY 2002, and $321 million in FY 2003 unless other actions were taken.

The report found that Nassau County's financial condition had become precarious during the 1990s because of a "fiscal policy of using one shots and other financing mechanisms to balance its budget." The report also found that spending increased at a very rapid pace – 72% – between 1992 and 1998. "If Nassau's expenditures had held to the rate of inflation over the period [1992 to 1998] no budget gap would exist today," the report stated. By holding to the rate of inflation, a compounded rate of 15.7%, Nassau's expenditures would have been about $553 million lower than reported during the '92-'98 period.

The report also contained the following statements:

- Out-year budget gaps have been exacerbated by actions the County has taken in the past which have a one-year benefit, e.g., "one-shots," or non-recurring revenues;
- The County has an extremely high amount of debt – $ 2.7 billion – that amounted to a per capita debt of $2,210 in 1997. The average per capita debt for all other counties, except New York City, was $311 at that time;
- The County issues an excessive amount of debt for cash flow purposes, growing from $350 million in 1998 to an anticipated $485 million in 2000;
- Excessive debt exacerbates the budget gaps;
- The debt has become increasingly costly, as repeated downgrades in the County's credit rating mean higher interest and bond insurance rates;
- Nassau has not treated tax certiorari judgments as part of the budget. Each year the County has issued approximately $100 million to cover the judgments, plus interest on long-standing claims, resulting in over $800 million in outstanding bonds;
- Bonding tax certiorari judgments constitutes bonding operating expenses, which contributes to the budget gaps; and
- Systematic delays in resolving taxpayers' certiorari claims – the average wait is six years, some have waited 13 years – also adds to the County's ongoing budgeting imbalance.

The report advanced a five-point, multi-year plan designed to assist Nassau County's return to sound financial practices and improve its fiscal health. The plan recommended:

- Creation of the Nassau County Interim Finance Authority (NIFA) to provide a mechanism to refinance the County's massive debt and provide enhanced credit ratings, thus dramatically reducing borrowing costs;
- Oversight by NIFA of the County's four-year financial plan and borrowing proposals to ensure that the County implements a minimum of $50 million in recurring, current year actions to close the gap, take steps to reduce the level of pending property tax claims, and implement new recurring gap closing measures of $70 million in FY 2001, $70 million in FY 2002, and $80 million in FY 2003. These steps would be required to be in place each year before State aid is provided;
- Special State transitional aid totaling $100 million over five years, if the County takes action to close its structural deficit satisfactory to NIFA;
- Additional special financial assistance of $5 million and technical assistance to help the County in its efforts to reduce the estimated $400 million backlog of property tax claims. The County's failure to address these taxpayer claims in a timely manner is both unfair to the taxpayer and contributes to local fiscal instability; and
- Imposition of hard control mechanisms to restore County fiscal stability if the County does not immediately enact $50 million in recurring budget balancing actions in the current year and adopt a balanced four-year financial plan.

At the request of Nassau County, Governor Pataki proposed, and the State Legislature adopted Chapter 84 of the Laws of 2000 on June 23, 2000, establishing the Nassau County Interim Finance Authority. Following the recommendations of the Zarb Report, NIFA has two primary responsibilities:

- Oversee County finances through new financial reporting requirements, which includes reviewing and commenting on the County's budget, four-year financial plan, quarterly budget status reports and any proposed borrowing; and
- Provide short-term budgetary relief through the restructuring of County debt. In addition, NIFA can issue debt after the declaration of need by the County for any or all of the following purposes: capital costs; cash flow purposes; tax certiorari settlements and judgments; and a County deficit (if authorized by State law). NIFA is intended as a vehicle to provide enhanced credit ratings, dramatically reducing borrowing costs for the County.

If the County takes action to close its structural deficits it will receive State transitional aid of $100 million over five years through NIFA. The State will also provide technical assistance and $5 million of targeted aid to help reduce the backlog of tax certiorari claims.

On June 28, 2000, NIFA held its first meeting and constituted itself as an operating Authority. Once constituted, NIFA organized itself and adopted by-laws that govern its operations. At that time, Mr. Zarb, who was appointed Chairman of NIFA by the Governor, requested that Nassau County present its preliminary budget for Fiscal Year 2001, along with its four-year financial plan, by September 5, 2000, rather than the September 15th deadline established in the NIFA legislation. Chairman Zarb made the request to accelerate the submittal and review process.

The County Executive submitted a preliminary budget for Fiscal Year 2001 on September 5, 2000. The County Executive announced that the submittal presented a balanced budget for FY 2001, which included addressing a new $73 million budget gap that had been identified by the County only days before the preliminary budget was submitted to NIFA and the leaders of the County Legislature. The County Executive submitted a multi-year financial plan to NIFA several days later. Later in the month, Chairman Zarb, along with NIFA staff, met with the County Executive, the Presiding Officer and Minority Leader of the County Legislature, and senior staff and financial consultants to the County Executive and County Legislature, to review the preliminary FY 2001 budget submittal. The meeting was held to gain an understanding of the budget's underlying assumptions. At the same time NIFA was eager to learn about the progress being made on the four-year plan submission, and the FY 2001 Budget, which was due no later than September 15th.

On September 15th, the County Executive submitted a formal Multi-Year Financial Plan For Fiscal Years 2001-2004 to the Clerk of the County Legislature. In turn, copies of the Multi-Year Plan, along with the budget documents and ordinances needed for legislative review and action of the FY 2001 County Budget were hand delivered to NIFA.

The NIFA Directors held a public meeting on September 20th to begin the formal review of Nassau County's FY 2001 Budget and Multi-Year Plan. Later, in a working session, Chairman Zarb met with the County Executive, the leaders of the County Legislature and staff to seek more detail on the County Executive's proposals. At that time, the County was informed that NIFA would meet its 20-day statutory requirement of reviewing the proposed FY 2001 Budget and Multi-Year Plan, and would present its findings in public session on October 2, 2000.

This document and transmittal letter constitute the NIFA staff's review and recommended findings regarding the County Executive's proposed FY 2001 Budget and Multi-Year Financial Plan for Fiscal Years 2001-2004. It is proposed that this document, along with the findings contained herein, be adopted by NIFA as the Report of the Directors.

Copies of this document have been transmitted to the Nassau County Executive, the Presiding Officer of the Nassau County Legislature, the Minority Leader of the Nassau County Legislature and the Nassau County Comptroller. Multiple copies have been transmitted to the Clerk of the Nassau County Legislature, who in turn will distribute copies to the members of the County Legislature.

II. Overview

Nassau County's persistent budget gaps are not related to any major changes in the economy. Deficits of significant size will continue to reemerge for a basic and fundamental reason: expenditure growth continues to outstrip revenue growth.

For the financial plan to be successful, substantial permanent changes in spending and revenues need to be made. Recurring expenditures must be matched by recurring revenues. Structural balance can be restored only through permanent changes that make recurring revenues larger and/or grow more rapidly over time or recurring expenditures smaller and/or grow more slowly over time. Budget balancing efforts that merely slip costs into later years will not help the County attain structural balance. The need for structural changes that provide permanent relief is made more necessary as transitional borrowing, which creates spending burdens for future taxpayers, phases out.

NIFA's basic statutory mission is to determine if the budget proposed by the Nassau County Executive for FY 2001 will be in balance at the end of the fiscal year. At the same time, NIFA must also evaluate the County Executive's Multi-Year Financial Plan for Fiscal Years 2001 – 2004 and determine if it will correct the budgetary mistakes of the past and set Nassau County on a sound fiscal path for the future.

NIFA must also determine if the FY 2000 Budget will be in balance at the end of the current fiscal year, which is December 31, 2000. Should the FY 2000 Budget produce a deficit, the FY 2001 Budget and Multi-Year Financial Plan could be seriously impacted.

At risk is not only the possibility of missing the timely opportunity to restore the County's financial soundness, but the nature and quality of how the County delivers services to its citizens.

Summary of Findings

Our review has determined that:

- Nassau County is likely to achieve a balanced FY 2000 Budget. The current risks that the County faces within the gap-closing program should be controllable, with the foreseeable baseline risks offset by planned under spending, better-than-expected revenues, and budget relief provided through a substantial debt restructuring and State assistance of $30 million in transitional and targeted aid pursuant to the NIFA Act.

- The FY 2001 Budget, as proposed by the County Executive, clearly represents an improvement over prior budget submissions in both forecasting revenues and in the elimination of so called one-shot revenues.

However, the budget contains a number of risks that could impair the County's ability to achieve a balanced budget. These risks listed below may be remedied through a cooperative dialogue between the County Executive and Legislative leaders:

- Table 1 identifies $28.7 million of items that cannot be accepted as currently proposed and must be rectified before the budget is adopted.
- Table 2 identifies $40.6 million of items that require County approval. If these items are not approved, the County must substitute replacements of equal value or establish a contingency plan as part of the adopted budget.
- Table 3 identifies $12.4 million of items that require outside approval. The County should establish a contingency plan to replace the projected savings should any of these initiatives not receive final approval and therefore cannot be implemented.

- The Multi-Year Financial Plan contains out-year gaps of $138.3 million in FY 2002, $275.2 million in FY 2003 and $379.6 million in FY 2004. As proposed by the County Executive, the plan is inadequate because it does not contain sufficient information to allow us to determine whether budgetary balance is likely to be achieved during FY's 2002-2004

- The County's proposal regarding the $5 million of targeted assistance for the tax certiorari program should be modified. The proposal should include a process for revising current procedures, make recommendations for improvement of the current system, and identify legislative changes necessary to implement any recommendations.

Conclusion

The County Executive's proposed FY 2001 budget is a significant improvement over prior submissions. However, taken together, the proposed FY 2001 budget and the four-year financial plan fail to meet the requirements of the NIFA legislation. The County Executive and Legislative leaders need to address $81.7 million in revenue or expenditure items that are at risk of not being realized in the FY 2001 budget. Further action is needed to either enhance recurring revenues and/or reduce projected expenses. Failure to address these major deficiencies and provide additional details would mean that the financial plan would not meet the requirements of the NIFA legislation.

Furthermore, the County's failure to address the deficiencies discussed herein will result in budgets that will further erode the County's fiscal health and jeopardize its financial well being.

NIFA and its staff and advisors stand ready to assist the County Executive and the County Legislature with any and all assistance.

III. FY 2000 Budget

The Act requires that the County submit a quarterly report of summarized budget data within 30 days after the end of each quarter. On July 28, 2000 the County submitted its first quarterly report. The report showed that as a result of projected shortfalls in certain departmental revenues the County believed that fund balance would decline by approximately $6 million. In a letter dated August 3, 2000, the County identified several FY 2000 initiatives that were not fully factored into the projection. For example, while the full termination cost of 200 police officers was considered in the projection, salary savings were only included for those officers who had actually retired as of June 30, 2000. In addition, shortly after issuing the quarterly report it was determined that the County's annual contribution for police pensions would be $10 million less than budgeted. As a result, the County anticipates that it will not end FY 2000 with a deficit. The next quarterly report is due no later than October 30, 2000, and we continue to monitor results to date.

The current risks that the County faces within the gap-closing program should be controllable, with foreseeable baseline risks offset by planned under spending, better-than-expected revenues, and budget relief provided through a substantial debt restructuring and State assistance of $30 million. Based upon our analysis to date, and discussions with various County officials, we anticipate that the County will end FY 2000 with a surplus.

IV. FY 2001 Budget

Revenues

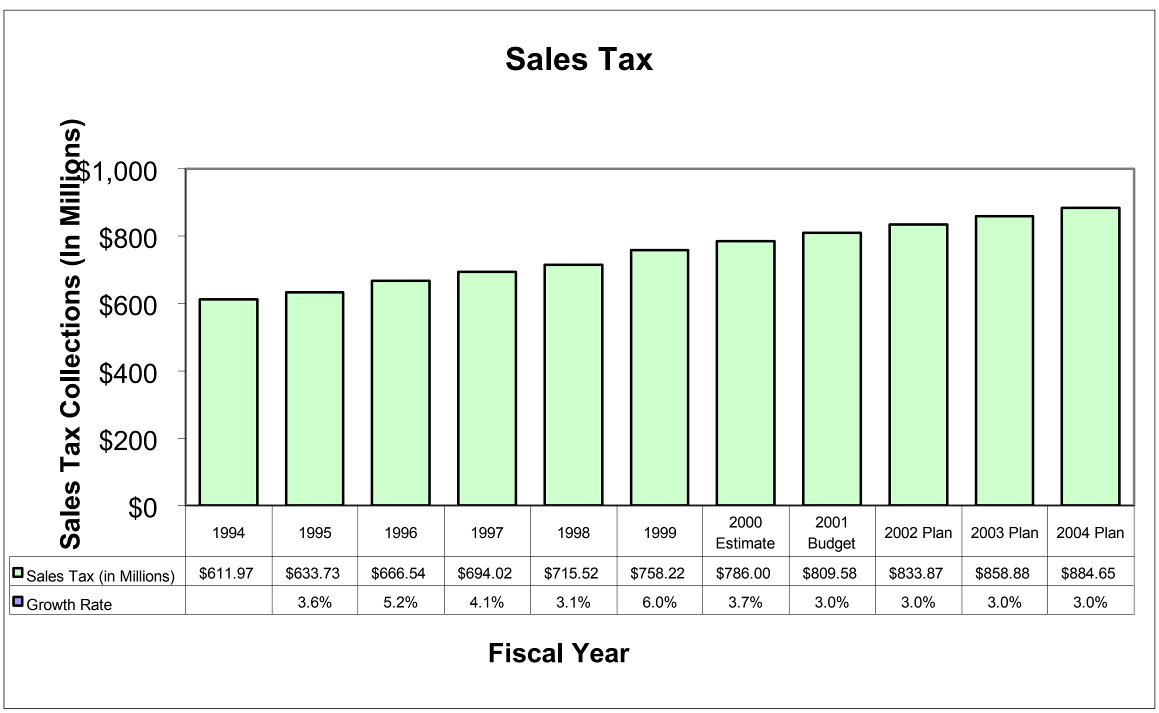
One responsibility of NIFA is to certify the revenue estimates contained in the County's financial plan. The revenue estimates for the major funds covered in the financial plan are \$2.055 billion in FY 2001 increasing to \$2.226 billion in FY 2004 exclusive of any transitional State aid. For the purpose of this analysis the revenues will be classified and reviewed by the following four major categories: Sales Tax, Property Tax, State and Federal Aid, and Other Revenues.

Sales Tax

Sales tax, the largest revenue source for the County comprising 40% of all revenues covered in this analysis, is budgeted at \$809.6 million for FY 2001. The current sales tax rate in Nassau County is 8.5%, of which 4% is the State's share, 4% is the County's share, 0.25% is allocated to the MTA, and the remaining 0.25% is distributed to the towns and cities in the County. State legislation to extend the initial local authorization (3%) by an additional 0.75% and 0.5% has been enacted every other year since 1986. The current two-year period is in effect until December 31, 2001.

Chart 1 illustrates historical sales tax growth for the County. From a reasonable projection of \$786 million for the current fiscal year, the budget for FY 2001 projects a net growth of 3%, and subsequent years in the financial plan are projected to grow by 3% annually.

(Chart 1)



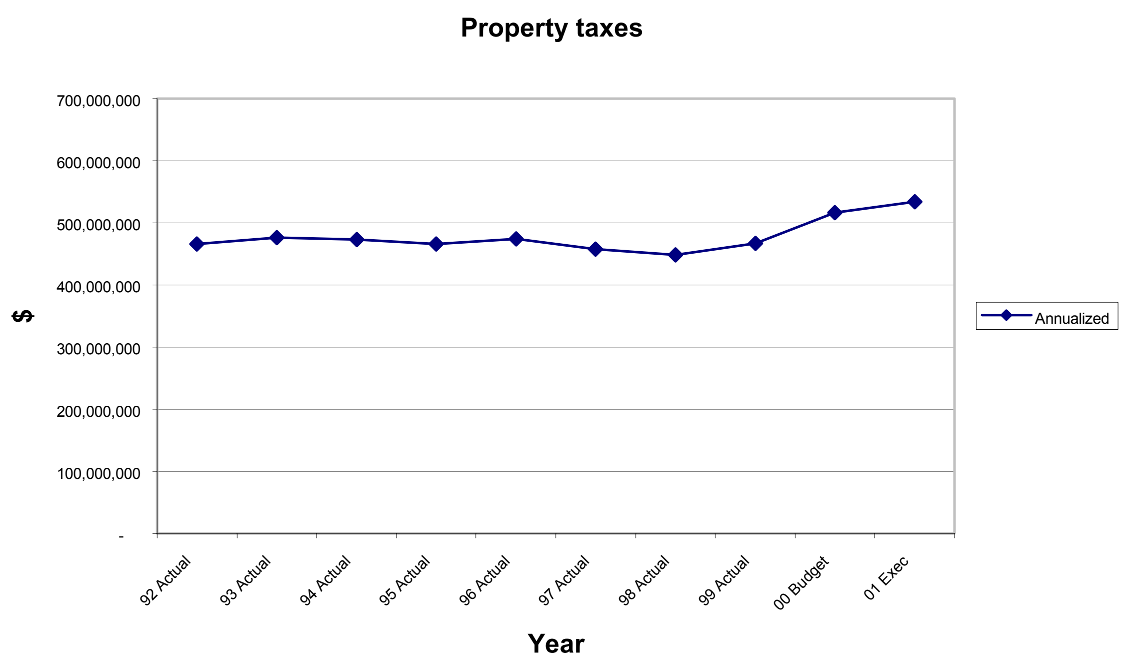
	1994	1995	1996	1997	1998	1999	2000 Estimate	2001 Budget	2002 Plan	2003 Plan	2004 Plan
Sales Tax (in Millions)	\$611.97	\$633.73	\$666.54	\$694.02	\$715.52	\$758.22	\$786.00	\$809.58	\$833.87	\$858.88	\$884.65
Growth Rate		3.6%	5.2%	4.1%	3.1%	6.0%	3.7%	3.0%	3.0%	3.0%	3.0%

The amount of future sales tax revenues to be collected depends upon various factors including the economic conditions in the County and the region. While a projected growth rate of 3% would normally be viewed as a reasonable estimate, recent State legislation to phase out the sales tax on receipts from the transmission and distribution of natural gas or electric service puts the forecast at risk. The County's economist has estimated the potential loss of sales tax revenues at $2.6 million in FY 2000, escalating to $28.7 million by FY 2004. This anticipated loss of revenue makes the sales tax forecast in the out-years of the financial plan overly optimistic. In addition, Nassau County has not opted into the exemption of sales tax on clothing and footwear under $110. Should consumers shop outside of Nassau County, further strain could be placed on the forecast.

Property Taxes

Property taxes, the second largest revenue source for the County, comprising 25% of all revenues covered in this analysis, is budgeted at $534.5 million for FY 2001. Chart 2 shows property tax growth since 1992 for all major funds.

(Chart 2)



As evidenced from the graph, revenues from property taxes were flat from FY 1992 through FY 1999. Budgeted revenues were increased by 10.5% in FY 2000, and the proposed FY 2001 budget includes an increase of 3.5%. The financial plan projects 3% increases for each of the three remaining years in the plan. A change to the tax rates requires County legislative approval for FY 2001. Until the budget is adopted there remains a certain amount of risk for implementation in FY 2001. Furthermore, while raising property taxes in the out-years is a policy decision, based on history and the sensitivity surrounding this issue, implementation is far from certain and remains a risk in the financial plan.

State and Federal Aid

State and Federal aid, comprising 15% of all revenues covered in this analysis, is budgeted at $315 million for FY 2001. This represents an increase of 6.3% from the FY 2000 budget. Out-year growth for State and Federal Aid is projected at 2.5%. While this is a reasonable growth rate, Federal and State block grants do potentially limit this growth. Virtually all of the increase from FY 2000 to FY 2001 results from a projected increase in Federal Aid. An initiative at the Correctional Center, whereby Nassau County will receive revenue from the Federal government from housing 150 Federal inmates, is slated to bring in $7 million. This initiative started in July 2000 and to date the County is housing 105 prisoners and has generated over $1 million in revenue. While there is an insufficient history to comment on the achievability of this initiative, the program is in place and functioning. The rest of the increase in Federal Aid is in the Department of Social Services and relates to reimbursable expenses that have been increasing for Day Care and Children in Institutions.

Overall, the State and Federal aid reimbursements appear more reasonable and more reflective of projected expenses than in prior years. Examples of this are the programs for Early Intervention and Education of Handicapped Children that are budgeted in the Health Department. Historically, these programs have incurred large deficits and in the current fiscal year the combined programs are projected to run over budget by approximately $5 million. For FY 2001, the budgeted expenses for these programs more accurately reflect the number of children served and the resulting revenue reimbursements appear reasonable. In contrast, reimbursable revenue for the Department of Drug and Alcohol, now merged with the Department of Health, is overstated as expenses were reduced from the Department's budget request while the revenue estimates were not changed. In this case, the revenues appear to be overstated by approximately $500,000.

Other Revenue

The remaining revenues make up 20% of the financial plan. A major component is departmental revenue, which is budgeted at $142 million in FY 2001. Of this total, $81 million relates to Medicaid reimbursements. The County's initiatives to reduce headcount will likely have a negative impact on some of the departmental revenues. An example of this is the Department of Recreation and Parks. With an approximate full-time staff of 320 employees the department will not achieve its revenue target in the current year. The department submitted and received a budget for FY 2001 containing $16 million of departmental revenue. However, this request was predicated on increasing full-time employees to 410 positions. Faced with staff reductions exceeding 100 positions through early retirements and layoffs, the revenue projection becomes speculative. Since staff reductions are an integral part of closing projected deficits in the financial plan, attention must be given to their related impact on revenue collections within the County. Sufficient attention was not given to revenue estimates in the Department of Recreation and Parks and the attainment of the budgeted departmental revenue is at risk.

Other significant areas include miscellaneous fines and taxes. Several initiatives have been implemented or are being considered to increase revenues in this area. Initiatives that are at risk due to the County having insufficient and incomplete data to support the proposal (competitively bid banking and money management services valued at $1 million) or lacking legislative approval (the initiative to levy interest charge on tax liens valued at $1.6 million) are discussed separately in this analysis.

Expenditures

The proposed FY 2001 budget consists of $2.1 billion of expenditures. As shown in the figure to the right, personal services (PS) expenditures comprise 43% of the budget and include the cost of salaries and wages as well as fringe benefits for active employees and retirees. Likewise, other-than-personal-services (OTPS) costs are expected to account for almost one-quarter of County spending. Finally, County expenses for direct assistance, debt service, and reserves comprise the remaining 33% of the budget. Most budget risks result from the County's gap-closing initiatives, as discussed in the Risk Assessment section.

Composition of Expenditures ($ in millions)		
PS	$886.0	43%
OTPS	$495.6	24%
Direct Assistance	$417.9	20%
Debt Service	$280.6	13%
Reserves	$0.1	0%
Total	**$2,080.2**	**100%**

The largest component of PS expenditures, salaries and wages, is projected to reach $684.2 million, as shown in the figure to the right. This estimate reflects the savings resulting from the County's headcount reduction initiatives, offset by salary increases owed to employees under existing contracts as well as under proposed collective bargaining agreements.

Elements of PS Spending ($ in millions)	
Salaries and Wages	$684.2
Fringe Benefits:	
Health Insurance	$107.6
Social Security	$49.8
Workers' Compensation	$11.4
Pension Contributions	$13.6
All Other	$19.4
Subtotal Fringe Benefits	$201.8
Total	**$886.0**

Fringe benefits costs are driven by County spending on health insurance benefits. Health insurance costs are expected to reach $107.6 million, of which $62.7 million pays for coverage of active employees and $44.9 million pays for coverage of retirees. Expenditures for active employees are projected to be at about the same level as they were in FY 1999, since it is estimated that anticipated health insurance premium increases offset headcount-related savings. In contrast, health insurance expenditures for retirees are projected to grow significantly, driven by both the projected rising cost of health insurance benefits and the growth in the number of retirees.

The County has budgeted $417.9 million for direct assistance expenditures. As shown in the figure to the right, these expenditures are composed of four categories of spending: Medicaid, recipient grants, purchased services, and emergency vendor payments. Our analysis indicates that the County's FY 2001 estimates of these costs are generally reasonable.

Elements of Direct Assistance ($ in millions)	
Medicaid	$274.2
Recipient Grants	$51.2
Purchased Services	$50.9
Emergency Vendor Payments	$41.6
Total	**$417.9**

Medicaid costs, which account for two-thirds of direct assistance spending, covers a wide range of services including payments for nursing homes, hospital bills, home health care, and pharmaceuticals. The County's share of these costs is $190 million, the difference primarily explained by an $81 million intergovernmental transfer.

In aggregate, the County's Medicaid costs have recently been growing at about 5.5% annually. Since Medicaid costs are driven by medical inflation, rising caseload, and usage of services, the actual costs could exceed initial estimates and must be closely monitored. In particular, the County's Medicaid estimates include an assumption of savings that could result from a transition of County Medicaid recipients from fee-for-service to managed care.

The County estimates that it will spend $51.2 million on recipient grants in FY 2001. Spending on Temporary Assistance to Needy Families (TANF) comprises 63% of total recipient grant costs, as shown in the figure to the right. Safety Net costs are expected to be $10.3 million. An additional $4.3 million is budgeted for subsidized adoptions, while spending on various other programs comprise the remaining $4.6 million.

Elements of Recipient Grants ($ in millions)	
TANF	$32.0
Safety Net	$10.3
Subsidized Adoption	$4.3
All Other	$4.6
Total	**$51.2**

County spending on emergency vendor payments is expected to be $41.6 million. As shown in the figure to the right, these costs are dominated by expenditures for children in institutions for a total of $15.7 million, while the remaining costs include spending on education for handicapped children, TANF, and other program areas.

Elements of Emergency Vendor Payments ($ in millions)	
Children in Institutions	$15.7
Education Handicapped Children	$8.0
TANF	$6.0
All Other	$11.9
Total	**$41.6**

Risk Assessment

The proposed FY 2001 budget, which represents the first year of the County's four-year financial plan, incorporates a substantial number of new initiatives designed to ensure year-end budgetary balance. The County's ability to achieve its ambitious fiscal objectives for FY 2001 is directly dependent on the actions that the County takes in the remainder of FY 2000. The County must implement these ambitious gap-closing actions within a limited timeframe to realize their necessary full-year value.

Since any budget or financial plan is a set of estimates, it is a virtual certainty that 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 level of concern that risks may break disproportionately against the County and require the County to take special intervention with substantial gap-closing actions near the end of a fiscal year.

The County must ensure that management systems are in place to implement, monitor and report upon the large number of new initiatives that are required as part of the FY 2001 budget and financial plan. Failure to properly implement and manage these initiatives could result in the County failing to achieve the planned results.

While the County will be confronted with a wide range of fiscal problems to solve during the next several years, baseline estimate and gap-closing program risks can be classified into three major categories: Implementation, Requires County Action, and Requires Outside Approval. First, Implementation risks stem from actions that our analysis indicates may be difficult to execute and/or may result in fewer savings or less revenue than assumed. Second, Requires County Action risks include initiatives that cannot be implemented until the County legislature takes a favorable action, such as by introducing or approving changes to local law. Finally, Requires Outside Approval risks refers to initiatives that require approval from other levels of government and/or outside interested parties, such as County municipal labor unions and other levels of government.

Implementation Risks

As shown in Table 1, our analysis indicates that the FY 2001 budget contains $28.7 million of items that cannot be accepted as currently proposed and must be rectified before the budget is adopted. The bulk of the quantifiable risk stems from a possible inability of the County to implement, in full or in part, these proposed initiatives.

(Table 1)
Risks in the FYs 2001-04 Financial Plan

($ in millions)	FY 2001	FY 2002	FY 2003	FY 2004
Implementation				
Debt Service	$11.5	$0.0	$0.0	$0.0
Phase-out Sales Tax on the Transmission of Energy	0.0	15.7	23.2	28.7
Use of Fund Balance	4.4	0.0	0.0	39.5
Board of Elections	2.8	2.8	2.8	2.8
Correctional Center Overtime	2.0	2.0	2.0	2.0
NIFA Funding	1.7	1.8	1.9	2.0
Increase Parking Fines Through Automation of Pre-Suspension Notices	1.2	1.2	1.2	1.2
Competitively Bid Banking and Money Management Services	1.0	1.0	1.0	1.0
Introduce Local Vehicle and Traffic Law Legislation to Mirror State and Federal Carrier Safety Regulations	0.8	1.0	1.0	1.0
Transitional State Aid - Certiorari Reform	0.8	0.8	0.8	0.8
Reinvent False Alarm Fee Management	0.7	1.2	1.2	1.2
Transfer Parks Security to the Police Department	0.6	0.6	0.6	0.6
Department of Drug and Alcohol	0.5	0.5	0.5	0.5
Long-Term Health Care – Monitoring	0.4	1.1	1.1	1.1
Competitively Contract Out Drainage Maintenance Operations	0.3	0.6	0.8	0.8
Unspecified Expenditure Cuts and Privatization	0.0	27.0	52.0	74.5
Unspecified Out-Year Fee Increases	0.0	10.0	10.0	20.0
Risk Total	**$28.7**	**$ 67.3**	**$ 100.1**	**$ 177.7**

Debt Service

It appears that, based on the assumed NIFA issuance schedule and NIFA's legal payment structure requiring monthly sinking fund deposits out of sales tax revenues, budgeted debt service costs may have been understated by $11 million to $12 million due to timing differences between the County's and NIFA's debt payment practices, as discussed in the Debt Service section on page 31. This matter must be resolved.

Phase-out Sales Tax on the Transmission of Energy

The County's economist has advised the County that the sales tax imposed on the transmission and distribution of natural gas or electricity is being phased out. The initial stage of the phase-out took effect on September 1, 2000. The estimated impact for FY 2001 is $8.7 million, escalating to $28.7 million by FY 2004. NIFA's analysis indicates that the loss of this revenue may not have been factored into the out-years of the financial plan. If NIFA's analysis is correct, the County must revise its sales tax estimate.

Use of Fund Balance

The proposed FY 2001 budget includes the use of $4.4 million of fund balance. In FY 2003, the County is projecting a fund balance of $39.5 million, and this amount is planned to be used in FY 2004 to balance that year's budget.

Section 3667 (2) of the NIFA Act requires "that the major operating funds of the County will be balanced in accordance with generally accepted accounting principles." Under generally accepted accounting principles, the use of a fund balance is not allowable as an operating revenue. Therefore, the County cannot use the fund balance as revenue to balance its budget or financial plan.

Board of Elections (I-913)

The County plans to reduce the Board of Election's budget by $2.8 million in each of FYs 2001-04. The County contends that the Board's activity levels vary according to the election cycle with concomitant workloads and personnel needs reduced in years after a Presidential election. There are indications, however, that the Board may not be able to comply with election law mandates should County resources be reduced significantly despite the efficiencies realized from its recent computerization project. The savings from this initiative remain uncertain until the Board of Elections and the County clarifies its ability to sustain these cuts. Moreover, FY 2004 represents another Presidential election year with activity levels similar to FY 2000, clearly jeopardizing the savings projected for FY 2004. NIFA must be assured that the proposed savings can be achieved in light of the Board's need to deliver mandated services.

Correctional Center Overtime

The County projects that overtime usage in the Correctional center will grow in FY 2001, increasing from about $10.5 million in FY 2000 to $11.6 million. We believe this projection may underestimate overtime costs by about $2 million for the following reasons: the lifting of overtime restrictions ("over the cap"), the impact of proposed wage increases, and overly optimistic savings assumptions regarding the transportation of prisoners.

NIFA Funding

NIFA's operating expenses are projected to be $1.7 million in FY 2001, $1.8 million in FY 2002, $1.9 million in FY 2003, and $2.0 million in FY 2004. The County has indicated that funding for NIFA has not been provided in FY 2001 or any other year of the financial plan. Under Chapter 84, Section 3657 (5) of the Laws of 2000, tax revenues received by the Authority "….. shall be applied …. to pay the authority's operating expenses …." As such, Nassau County is required to pay the operating costs of NIFA as an offset against the County's sales tax revenue. In our analysis of sales tax revenues, the County is projecting that the FY 2001 sales taxes will grow by 3% over the estimated receipts for FY 2000. The sales tax projection for FY 2001 does not appear to contain any offset for NIFA costs.

The County has recently indicated that a technical correction will be made to the FY 2000 budget to ensure that NIFA's costs are included. In addition, it will also be necessary for the County to modify the financial plan accordingly.

Increase Parking Fines Revenue Through Pre-Suspension Notices (I-348)

Nassau County is planning to collect 10% of the fines associated with 135,000 traffic tickets currently outstanding prior to the suspension of the ticket holder's license and without having the individual appear in court. They hope to accomplish this by mailing pre-suspension notices to the ticket holders prior to the suspension date. This will notify the ticket holder of an option to pay their ticket through the mail and avoid getting their license suspended. Under a pilot program, 3,323 letters were sent to targeted ticket holders. To date, only 321 of the ticket holders who received notices, or 1% of the total, responded and paid. The response rate leaves the achievability of the full value of this initiative in doubt.

Competitively Bid Banking and Money Management Services (I-907)

The County is presuming that $1 million of additional investment income can be earned by competitively bidding the County's money management function, and that savings can be achieved by consolidating bank accounts and bidding banking services.

A key element of the County's plan to increase investment earnings is to extend the duration of its repurchase agreements to maturities of six to nine months. While we concur that savings in these areas may be possible, we are concerned that the County will not be able to provide the information that is necessary to support such a change in its cash management practices. Without the necessary systems to manage cash information the County will be unable to extend its maturities. Our concern about the County's cash flow information is based in part upon observations regarding the inadequacies of the cash flow projections in the FY's 2001-04 financial plan, as described in the Cash Flow Forecasts discussion beginning on page 35. A solid business plan which clearly demonstrates how this income will be achieved must be provided.

Legislation to Mirror State and Federal Carrier Safety Regulations (I-287)

Nassau County wishes to mirror State legislation to allow for higher County fines for overweight vehicles traveling on County roads. Currently the County retains 15% of the fines on State roads (e.g. Long Island Expressway) and the full 100% of the fines collected on County roads (e.g. Old Country Road). This initiative calls for increasing the fines to State levels. The introduction of this legislation will allow Nassau County to increase the amount collected to roughly $800,000. There is concern, however, that this legislation will not be enacted in sufficient time to reach these goals. In addition, our analysis indicated that if the number of tickets issued remains constant, the County's revenue projection may not be achieved.

Transitional State Aid – Certiorari Reform

The County plans to use approximately $800,000 of the targeted assistance earmarked for certiorari reform to fund existing County positions. The County proposes to use these resources to fund the cost of seven commissioners, a chairman, a vice chairman, a secretary, and related fringe benefits which are already funded by the County. We do not believe that this funding was intended to replace existing funding. Therefore, these costs should be funded through regular appropriations and the County should identify other appropriate uses for this aid. We requested that the County identify any other costs contained in the reform plan, which are currently funded by the County. To date we have not received a response.

Reinvent False Alarm Fee Management (I-279)

The County has implemented an $18 surcharge on every alarm permit issued in Nassau County. This revenue is cyclical due to the fact that these permits are renewed every three years, with some years having more permit applications than other years. After projecting collections of $700,000 in FY 2001, the initiative calls for recurring revenues of $1.2 million starting in FY 2002. Information has not been made available to support the revenue assumptions underlying this initiative.

Transfer Parks Security to the Police Department (I-294)

The existing contract for security at County parks will be reduced from $850,000 to $250,000. The Police Department will be taking on routine functions previously performed by the vendor. Concerns have been raised about this initiative since it is uncertain that the Police Department will undertake park security functions such as traffic control and leisure pass checkpoints. The projected savings may be offset by the cost of hiring seasonal personnel to perform certain duties that must be continued. This needs clarification.

Department of Drug and Alcohol

Programmatic expenses in the Department of Drug and Alcohol were reduced by $2 million from the Department's original budget request. The reimbursement revenue for this expense was kept constant. The Department estimates that the failure to adjust the matching revenue downward results in an overstatement of $500,000 in revenue.

Establish Long-Term Health Strategy, Including Monitoring (I-583)

The County plans to introduce a more rigorous process for monitoring the provision of its long-term care services. The County expects that a more efficient and effective use of these programs could yield savings of $426,900 in FY 2001 and $1.1 million in each of FYs 2002-04. Our analysis indicates that a reduction of programmatic spending by about 10% would likely be required to achieve these savings, a reduction we consider to be optimistic.

Competitively Contract Out Drainage Maintenance Operations (I-397)

The County is looking to outsource the maintenance of drainage operations. This is projected to save $300,000 in FY 2001 with out-year savings escalating to $750,000. The Department of Public Works indicates that funding for the outsourcing has not been provided.

Unspecified Expenditure Cuts and Privatization

The out-years of the financial plan contain unspecified expenditure cuts and privatization savings of $27 million in FY 2002, an additional $25 million in FY 2003, and $22.5 million more in FY 2004. We have requested that the County provide us with details of these savings. To date, we have not been provided with the necessary information to conclude on this initiative.

Unspecified Out-Year Fee Increase

The out-years of the financial plan contain unspecified recurring fee increases of $10 million in FY 2002, and an additional $10 million in FY 2004. We have requested that the County provide us with details of these increases, but no information has been received to date.

Requires County Action Risks

The proposed FY 2001 budget incorporates significant new budgetary savings and revenue enhancements that stem from initiatives requiring County action before they can be realized. Table 2 lists $40.6 million of the most significant gap-closing actions that require County approval. If these items are not approved, the County must identify replacements of equal value or establish a contingency plan by the time the budget is adopted.

(Table 2)
Risks in the FYs 2001-04 Financial Plan

($ in millions)	FY 2001	FY 2002	FY 2003	FY 2004
Requires County Action				
Increase Property Tax	$18.1	$18.1	$18.1	$18.1
Labor Contracts	13.5	14.9	19.9	21.2
Long Island Bus Subsidy	7.0	14.0	14.0	14.0
Levy Interest Charge on Tax Liens	1.6	1.6	1.6	1.6
Eliminate Discretionary Contracts with Social Service Agencies	0.4	0.4	0.4	0.4
Increase Property Tax by 3% Annually	0.0	16.0	32.6	49.6
Risk Total	**$40.6**	**$ 65.0**	**$ 86.6**	**$ 104.9**

Increase Property Tax (I-666)

NIFA's analysis shows the major funds (General Fund, Fire Commission, Police Headquarters and Police District) include a real property tax increase of $18.1 million, or 3.5%. A change to the tax rates requires County legislative approval. While the implementation of this initiative remains a policy decision, we hold these revenues at risk until the FY 2001 budget is adopted.

Labor Contracts

With personal services costs, including salaries and wages, comprising approximately 40% of the FY 2001 budget and financial plan, labor agreements are an integral component in achieving structural balance. At the time of this writing, the County Executive has reached agreement in principle on three collective bargaining agreements. Two of the three unions impacted are police unions, the Police Benevolent Association (PBA) representing approximately 2,000 police officers and the Detectives Association Incorporated (DAI) representing over 400 County detectives. The third is a new union, the Sheriff's Officers Association (ShOA), which represents approximately 1,000 uniformed corrections personnel. Prior to the formation of ShOA, the Civil Service Employees Association, Inc. (CSEA) represented uniformed corrections personnel.

PBA and DAI

Both of the police unions, the PBA and DAI, are currently operating under arbitration awards that will expire on December 31, 2000. Proposed wage increases and contract lengths are identical for both unions as listed below:

Term: 5 years, January 1, 2001 through December 31, 2005

Base Wages:

7/15/01	*3.75% (Payable as soon as practicable during Jan '02)*
8/15/02	*4%*
7/15/03	*4.25%*
7/15/04	*4.25%*
6/15/05	*4.25%*
	20.5% (Compounded equals 22.25%)

While base wages are rising by over 22% for this five-year period there are various savings initiatives which are credited as offsets to these costs in the County Executive's multi-year financial plan. For FY 2001, the costs of this contract are shown as zero. This was accomplished by deferring, until January 2002, the payment of approximately $4 million of salary increases that are effective July 15, 2001. A problem with many of these savings initiatives is that they are not new and are presently in effect. Examples of these kinds of savings provisions include overtime controls, elimination of Flag Day as a paid holiday and reduced starting pay for new hires. The initiative of overtime control states that the first 16 hours of legally available overtime for the PBA, and 20 hours for the DAI, performed each year shall be paid in compensatory time at the rate of time and one half. This initiative is already in place as a result of a prior Memorandum of Agreement. The proposed agreements also modify section 9.9-1 for the

PBA and section 8.6-1 for the DAI to delete Flag Day as a paid holiday. Both of the unions are presently not receiving Flag Day as a paid holiday. The settlements also propose to keep the present policy of starting new recruits at a base salary of $21,000 for the first six months.

Since these initiatives are presently in place it is difficult to view them as "give-backs." In the financial plan they are used as savings initiatives to offset the impact of base wage increases. What is clear is that they do not represent any real savings from the current operating environment while the base wage increases do represent escalation in costs. Furthermore these savings provisions are set to expire at the conclusion of these proposed agreements. Hence, at the conclusion of this contract they can again be offered up as savings initiatives to offset any prospective new wage increases.

Another savings provision is civilianization. In the draft agreements under consideration the PBA is scheduled to civilianize a total of 110 employees beyond those already civilianized pursuant to an earlier Memorandum of Agreement while the DAI proposes a total of 30 positions before continuing with any remaining number from an earlier MOA. The process of civilianization is also supposed to be done in a more expedited fashion than past efforts where implementation was slow, often occurring as a result of attrition rather than through redeployment. A question does arise as to whether civilianization is truly a "give-back." The process of civilianization entails moving police officers from desk jobs onto patrol and replacing them with lower cost civilians. The savings, once accomplished, can annualize to approximately $50,000 per position. A question arises as to why this practice was allowed to continue since it is an inefficient allocation of resources. Rather than a "give-back" it could be viewed as a management initiative.

In addition to the aforementioned base wage increases, the agreements call for some additional benefits such as increasing the number of personal days a member can accumulate from 15 to 20 days and crediting longevity in FY 2003 for time served in any other police department/police district within New York State. While the additional longevity costs have been factored into the financial plan it is not clear if the enhanced accrual benefits have been. Currently termination pay is averaging approximately $220,000 per member in the Police Department. Initiatives to increase personal day accumulations and crediting two days annually to members with perfect attendance will increase leave banks and subsequent termination costs. Even a savings initiative such as taking the first 16 or 20 hours of overtime as compensatory time instead of cash will increase leave banks as personnel use this time and save vacation days. The higher leave accruals will ultimately be paid later as officers retire and at higher rates.

ShOA

The uniformed Correctional Center personnel in the Sheriff's Officers Association (ShOA) have been without a contract since December 31, 1997. Prior to January 1, 1998 the Correctional Center uniformed personnel were members of the CSEA bargaining unit. To a large extent many of the terms and conditions in this proposed agreement reflect settlement provisions that are incorporated into the current

CSEA agreement. The CSEA agreement, covering January 1, 1998 through December 21, 2002, increases base wages by 18.5% *(not compounded)*. Over the same time period proposed wage increases for members of ShOA would be increasing by 18% as evidenced in the chart below:

Term: 7 years, January 1, 1998 through December 31, 2004

Base Wages:

7/1/99	*4%*
7/1/00	*4% (Retro pay as soon as practicable after 1/1/01)*
1/1/01	*2.25%*
7/1/01	*2.5%*
1/1/02	*2.5%*
7/1/02	*2.75%*
1/1/03	*3.75%*
1/1/04	*3.75%*
	25.5% (Compounded equals 28.5%)

It should be noted that wages are frozen for the first 18 months of the proposed ShOA settlement. In addition, the members of this union have agreed to a lag payroll, which will save approximately $2.3 million in FY 2001. In essence the base wage increases for the CSEA contract and proposed ShOA agreement are comparable with the latter "back-loading" more of the increases.

While compounded base wages are rising by over 28% for this five-year period there are various savings initiatives which are credited as offsets to these costs in the County Executive's Multi-Year Financial Plan. Like the proposed police settlements an issue arises as to whether some of the savings provisions can be classified as "give-backs." Two initiatives that fall into this category are enhanced sick leave controls, which are projected to produce annual savings of $900,000, and disability system reforms with savings scheduled at $1 million annually. Both of these areas have been problematic for the jail in the past. Sick leave usage has been recently averaging 12.7 days per year. Since the maximum usage is 13 days it is fair to say that there has been a lack of control in this area. Another savings provision concerns disability reforms authorized by the State of New York, which tighten eligibility procedures and provide a new pension option for correctional officers injured in the line of duty. These reforms are projected to reduce workers' compensation (207C) costs by approximately $1 million annually. The County has the option of unilaterally implementing this change without going through the collective bargaining process. Since this reform occurred outside the realm of contract negotiations it should not be classified as a "give-back" or concession.

Other savings initiatives are similar to those previously referenced in the Police unions. The proposed agreement gives the County the right to provide compensatory time in lieu of cash overtime for the first 16 hours worked each year and eliminates Flag Day as a paid holiday. The Multi-Year Financial Plan estimates the savings on the overtime initiative to be approximately $700,000 annually and projects that the elimination of Flag Day as a paid holiday will save more than $300,000 per year. Since the initiative to eliminate Flag Day as a paid holiday expires at the end of this contract, it should not be classified as a "give-back."

The proposed ShOA agreement also calls for the civilianization of 49 desk jobs currently filled by uniformed correctional officers. Projected savings in the financial plan grow from over $300,000 in FY 2001 to nearly $1 million in FY 2004. As with the police civilianization efforts a question arises as to why civilianization has not already occurred for these desk jobs. Moving these personnel into security posts is certainly a more efficient use of resources. Rather than a "give-back" it could be viewed as a management initiative. There is a question as to whether civilianization can be accomplished outside the collective bargaining process.

Besides the adjustments to base wages there are other costs to the County in this proposed agreement. Most of them mirror benefits obtained by the CSEA in their last contract settlement. The major items falling into this category are listed below:

- An employee who receives compensatory time for overtime may re-convert said compensatory time to cash;
- The extension of fully paid health benefits for the life of the contract plus one year (2005);
- The consolidation of the Graded Service Plan to an 11 step plan;
- Increasing the sick leave cap from 190 to 200 days;
- Increasing vacation leave day accumulations from 80 to 90 days;
- Paying longevity after 11 years of service (was previously 15 years); and
- Elimination of the overtime cap.

An issue arises as to whether or not these costs have been adequately factored into the financial plan. Increasing leave accruals will increase termination pay-outs when an employee leaves County service and the consolidation of the Graded Service Plan from 15 steps to 11 will enable employees to reach their top step in less time. The cap on overtime has been an essential ingredient in controlling overtime costs for FY 2000 and lifting it could have major cost implications. Coinciding with the recent lifting of the overtime cap at the Correctional Center recent payrolls have exhibited increases. While there is not enough of data to establish a trend lifting the cap on overtime does exert pressure on the budget and financial plan.

It should also be noted that all three proposed labor agreements (PBA, DAI and ShOA) contain a similar provision that allows for the cancellation of any savings. It states that if any compensation or benefit owed to the members of these unions is not paid approximately when due, then the savings provided for shall cease 30 days after the aforementioned compensation and benefits are not paid, credited or provided. This clause could prove troublesome and needs clarification as it opens the door for the cancellation of projected savings through a myriad of technicalities. Furthermore, it serves to tie the County's hands should the imposition of hard control mechanisms to restore fiscal stability be needed.

Finally, it is uncertain that any of these contracts, as currently constituted, have the support needed for passage by a majority of the members of the County Legislature.

Long Island Bus Subsidy (I-919)

The County proposes to freeze its subsidy to the MTA Long Island Bus at its FY 2000 level, generating $7 million in FY 2001 budget relief. Moreover, the financial plan calls for an additional $7 million reduction in this subsidy, or $14 million annually, beginning in FY 2002. This would represent a complete elimination of the County subsidy to LI Bus, with the exception of para-transit aid. The County Legislature has expressed concern over these reductions, and has requested an assessment of the service impact of this reduction, or the identification of replacement funding from other sources. In FY 2000, the State stepped forward to fund the lost resources to avoid significant service cuts and layoffs. While the implementation of this initiative remains a policy decision, we hold these savings at risk pending legislative action.

Levy Interest Charge on Tax Liens (I-242)

On tax liens to be sold at auction, the County wishes to impose a 10% interest rate for each six-month period the lien is outstanding. The recurring financial impact is estimated to be $1.6 million. County legislation is required to implement this initiative.

Eliminate Discretionary Contracts with Social Service Agencies (I-909)

The Department of Social Services will eliminate $449,230 in contracts for FY 2001. The majority of this reduction will be a $275,000 employment assistance contract with the towns of Oyster Bay and Hempstead. The amount is being held at risk due to the fact that the County Legislature has expressed concern about the impact of these cuts, and that County legislative approval is required.

Increase Property Tax by 3% Annually

The County proposes that the real property tax rate be increased annually by 3% in each of FY's 2002-04. The County estimates that this will result in an additional $16 million in property tax revenue beginning in FY 2002, $33 million in FY 2003, and almost $50 million in FY 2004. Since a change to the tax rates requires County legislative approval, we hold these gap-closing revenues at risk until the appropriate actions are taken in each of the respective out-years, or the increases are committed to in advance by all parties.

Requires Outside Approval Risks

Table 3 contains $12.4 million of gap-closing initiatives in FY 2000 that cannot be implemented unilaterally by the County. Since these initiatives require some degree of approval from other levels of government and cooperation of County labor unions, the savings and revenue estimates carry some level of risk until the desired outcome becomes more certain. The County should establish a contingency plan to replace the projected savings should any of these initiatives not receive final approval and therefore they cannot be implemented.

(Table 3)
Risks to the FYs 2001-04 Financial Plan

($ in millions)	FY 2001	FY 2002	FY 2003	FY 2004
Requires Outside Approval				
Repayment of Lag Payroll	$8.0	$0.0	$0.0	$0.0
Medicaid Managed Care	2.9	2.9	2.9	2.9
Increase Moving Violations to NY State Maximum	1.1	1.1	1.1	1.1
Long-Term Health Care - Rate Adjustment	.4	.4	.4	.4
Out-Year Union Savings	0.0	0.0	25.0	25.0
Lease Revenue	0.0	1.6	1.6	1.6
Government Revenue Sharing	0.0	0.0	50.5	52.0
State Reimbursement for LIE Patrols	0.0	0.0	7.0	7.0
Certiorari Reform Debt Service	0.0	0.0	0.0	7.0
Risk Total	**$12.4**	**$ 6.0**	**$ 88.5**	**$ 97.0**

Repayment of Lag Payroll

The County is obligated to return gap-closing resources that have been realized from a series of lag payroll agreements previously negotiated with each of its labor unions upon the involuntary separation of County workers. The County has stated that its obligation is limited to the repayment of funds owed to employees of the affected bargaining units rather than to all participants in the lag payroll initiative. The County's position, supported by two legal opinions, assumes that the proposed CSEA layoffs will necessitate the repayment of $9 million in FY 2001 to CSEA members. The County has budgeted for the repayment of these funds. However, CSEA leadership contends that the County will become obligated to repay approximately $17 million realized from all union members even if municipal layoffs are limited to CSEA-represented employees. We will hold the remaining $8 million at risk until the County's legal obligation is known with certainty.

Medicaid Managed Care

The County plans to transition its Medicaid recipient population from fee-for-service to managed care. The County intends to begin a mandatory enrollment process by the end of calendar year 2000, and expects to complete the phase-in of its targeted population by the end of FY 2001. The County projects that this schedule will generate savings of $2.9 million in FY 2001 and conservatively assumes only $2.9 million in recurring savings over the term of the financial plan. Several steps must be taken before the County can move forward with this initiative, including passing readiness and site reviews.

The State Department of Health conducted a readiness review on September 21st and 22nd. The results of this review are not yet known. Following a successful evaluation, the Health Care Financing Administration (HCFA) is scheduled to perform a final site review in early November. Only after passing these crucial steps can the County commence its mandatory Medicaid managed care initiative. Until these milestones have been achieved, the level of savings remains uncertain.

Increase Moving Violation Fines to NY State Maximum (I-626)

The County is seeking an increase in the fines associated with moving violations issued within its borders. The County made a request to the Board of Judges for these changes and is awaiting a decision to be rendered. Since this matter has not been ruled on favorably, we hold this initiative at risk.

Establish Long-Term Health Strategy, Including Rate Adjustment (I-636)

The County plans to introduce a uniform rate payment system for its Personal Care Attendant program (PCA). A consultant study indicated that the County could realize up to $711,750 in savings by using a weighted uniform rate. The financial plan reflects a more conservative cost savings estimate of approximately $427,000. The County plans to implement this initiative by the end of the first quarter of FY 2001. However, before this change can be made, the County must seek an exemption from the State's cost-based rate setting methodology and submit the exemption application annually. Until these milestones have been achieved, the savings target remains uncertain.

Out-Year Union Savings

The financial plan contains $25 million in recurring savings beginning in FY 2003 from unspecified union concessions. The County expects to realize these gap-closing resources from contractual changes negotiated with members of the CSEA. While the CSEA contract expires in December 2002, successor agreements are subject to collective bargaining and therefore the anticipated labor savings are uncertain. Until a new contract is ratified by the CSEA containing the appropriate changes, these savings remain at risk.

Lease Revenue

The County proposes to lease certain property and generate separate lease revenue of $1.6 million starting in FY 2002. There have been indications that a portion of the lease revenue will be derived from the Grumman property, currently owned by the U.S. Navy. We understand that negotiations are underway to transfer title to this property from the U.S. Navy to Nassau County. However, the County does not have title to this property at present. NIFA is awaiting a list of County properties that could be leased.

Eliminate Government Revenue Sharing

The County proposes to eliminate the distribution of the ¼ % sales tax currently paid to the three towns and two cities within Nassau. This is estimated to save the County $50.5 million in FY 2003, and $52 million in FY 2004. Such a change requires action by the County and State legislatures. Because of concerns raised by legislative leaders, this initiative is at risk.

State Reimbursement for LIE Patrols

Nassau County is seeking to charge New York State for services it performs while patrolling the Long Island Expressway, which is a State road. This initiative is projecting an annual reimbursement of $7.0 million starting in FY 2003. The implementation of this initiative requires State approval and as such it is currently being held at risk.

Certiorari Reform Debt Service

While written details have not been provided, County officials have indicated that they will seek County and State legislative authorization to require that other local governments and school districts be charged for their share of certiorari claims that are paid by the County. This is projected to save $7 million in FY 2004. Because of concerns raised by legislative leaders, this initiative is at risk.

Other Significant Issues

The County recognizes that its operating expenditures have grown beyond the available resources. Since over 40% of the County's projected expenditures are for personal services, headcount reduction is a critical tool within the County's control through which expenditures can be cut. The financial plan contains a significant headcount reduction program, restraint on overtime spending, and plans to reorganize departments that provide duplicative services or services that could be delivered more efficiently and less expensively.

Headcount Reductions

Significant savings are anticipated from a substantial reduction in personal services spending following the implementation of the County's headcount reduction program. The County began to implement its headcount reduction program in FY 2000. The program was built upon four major workforce reduction strategies. First, the County offered a severance program which provided for a lump sum payment of $6,000 to employees with 6-10 years of service and $8,500 for employees with 10 years of service or longer as an incentive to voluntarily resign from their County positions by the end of August. The County has stated that 59 employees have separated from County employment under this program.

Second, the County elected to participate in the State's early retirement incentive program, which provided for added pension service credit of up to 36 months to encourage an acceleration of voluntary retirements in FY 2000. Employees leaving under the early retirement incentive program are required to separate from County employment by October 15th. The County has stated that, as of September 26th, 506 employees have filed for retirement under this incentive. However, since employees reserve the right to pull back their retirement papers prior to October 15th, the final number of early retirees remains uncertain at this time.

Third, the County has chosen to augment these voluntary reductions with layoffs, proposing the involuntary separation of more than 400 employees, the majority of which belong to the Civil Service Employees Association (CSEA). Department heads have been asked to develop and submit layoff plans for both union and non-union positions in order to realize their respective budgetary savings targets. In aggregate, the FY 2001 budget assumes these layoffs will generate budgetary savings of $11.1 million and $5.4 million, respectively, after the affected employees are terminated.

Finally, the County implemented a strict hiring freeze that will restrict department managers from replacing more than one out of every ten employees that separate from County service. The County anticipates that the current hiring freeze will generate $15.9 million in recurring budget relief.

Managing Attrition

Our attention is focused on the County's ability to meet its headcount reduction objectives, its capacity to realize its savings targets, and the extent to which County services or revenue collections are impacted or realized. The County Legislature questions if municipal services can be sustained at current levels in light of the County's severance and early retirement incentive programs, proposed layoffs, and strict hiring freeze. In the absence of an articulated policy, the size and scope of County services will be shaped by the arbitrary and random nature of an across-the-board attrition program. Decisions must be made for FY 2001 on which services to continue, which services to scale back, and which services to eliminate entirely based on a need to reduce staffing levels and costs in County government.

As a first step, the County has proposed a series of departmental consolidations, in part, to help mitigate the potentially adverse impact on services caused by these headcount reductions. We remain concerned, however, whether the management processes are in place to effectuate the necessary savings. Achieving goals and objectives through attrition requires significant managerial sophistication, skill, and effort. The County assumes that 90% of the attritted positions will remain vacant, thus allowing for only a 10% replacement rate. This replacement rate is extremely aggressive and will severely constrain management's ability to ensure that services are delivered unimpaired.

Quality of services issues notwithstanding, the County must safeguard its revenue generating functions so that the resulting consequences of headcount reductions do not impinge upon its ability to meet budgeted revenue targets. For example, the County must ensure that reductions proposed for the Department of Recreation and Parks do not jeopardize its capacity for generating the $16 million in departmental revenue underlying the County's revenue forecasts.

Role of Layoffs

Since under any hiring freeze, separations occur randomly across time, at some point, matching programs targeted for reduction and the separation schedule cannot be achieved. The seeming contradiction of layoffs in one program while hiring is occurring in another program may be the only feasible way to achieve fiscal targets while maintaining program priorities. While the County has proposed to augment its attrition-based downsizing efforts with the layoffs, the County Legislature has expressed its opposition to this headcount reduction method. However, failure to accomplish the planned layoffs in a timely fashion could result in the County incurring unplanned expenses. The County must ensure that layoffs commence on schedule and in their entirety unless alternative actions are taken to realize similar levels of budget relief. For example, to the extent that the County's earlier programs to reduce its workforce through attrition exceed budgeted assumptions, the County could choose to moderate its layoff plan.

Civil service "bumping" rights can result in the termination of lower paid junior workers as more highly paid senior employees retreat to their previous civil service titles, further jeopardizing management's ability to meet the operational mandates of their departments while meeting fiscal objectives. Therefore, a concerted effort among the Departments of Personnel, Management and Budgets, and the Office of Labor Relations is needed to ensure that the correct titles are targeted and to allow for County departments to plan appropriately.

Overtime Control

Police and Correctional Center overtime costs account for a significant portion of the County's overtime expenditures. Historically, these costs have grown largely unchecked, as the County's attempts to control overtime in these departments have mostly failed. In fact, year-end overtime expenditures have often exceeded adopted appropriation levels.

In contrast, the County's efforts in FY 2000 to control overtime spending have produced some extremely positive results. For example, the Police Department projects its FY 2000 overtime expenditures to be $15.8 million, or more than $11.6 million lower than the Department expended in FY 1999. The Department accomplished this 42% reduction through better staffing practices, reassignment of certain personnel into patrol duties, civilianization efforts, and a labor-management agreement involving payback time. Similarly, the Correctional Center is on target to reduce its overtime costs by 33%, from $15.8 million in FY 1999 to $10.5 million in FY 2000. The Department's FY 2000 overtime reduction efforts included enforcement of a contractual restriction on "over-the-cap" overtime earnings, streamlining and consolidating inmate housing units based on reduced inmate census, and certain modifications to its transportation unit schedules.

In FY 2001, the County seeks to maintain control of overtime usage in the Police Department and the Correctional Center through a continuation of its FY 2000 overtime control initiatives as well as the introduction of a number of new initiatives. Included among the various proposed overtime reduction initiatives are a series of new civilianization efforts. The utilization of uniformed officers for administrative duties could potentially reduce enforcement strength levels or increase personal services expenditure costs, since officers generally have higher salary and fringe benefit costs than civilians. Therefore, civilianization is a cost-effective method to either ensure that uniformed personnel are deployed to maximize enforcement strength or minimize personal services costs given a fixed level of enforcement strength.

The County should be commended for its efforts to streamline operations and enhance police officer and correction officer deployment through civilianization. However, we must emphasize that savings cannot be realized until uniformed personnel are actually redeployed. Savings are anticipated from replacing uniformed officer attrition and various targeted functions with officers redeployed from administrative posts instead of new recruits, postponing the need for new police classes as well as offsetting the use of both correctional center and police overtime needs to staff fixed posts and meet minimum staffing requirements. The County states that vacant administrative posts will be filled by civilian hires without compromising the level of public safety that the County has achieved.

Public Benefit Corporation

Chapter 9 of the Laws of 1997 added Article 10-C to the Public Authorities Law creating a new public benefit corporation to be known as the Nassau Health Care Corporation (NHCC). On September 29, 1999 the acquisition agreement between the NHCC and Nassau County was signed. In this agreement the Nassau Health Care Corporation paid $82 million to the County. In exchange the NHCC took over possession and operation of the County's principle health care facilities. The main components transferred were the Nassau County Medical Center, the A. Holly Patterson Geriatric Center and the Community Health Centers. This agreement also provided that the County would supply various subsidies to NHCC. Among them were payments to subsidize the cost of uncompensated care and payments in consideration of the Corporation providing certain contractual services for some of which the County can receive State reimbursement. Services to be provided include tuberculosis clinical evaluation, family planning, and sexually transmitted disease testing and treatment.

To finance the acquisition and operation of the health care system NHCC issued 30-year revenue bonds in the amount of $256 million. These bonds were used to provide working capital, make payment to the County for the purchase of the health care assets, fund an operating reserve account, and cover the costs of issuance. As part of the

Acquisition Agreement the County is responsible for providing credit support for the Corporation's bonds in the following manner:

> The Corporation shall maintain an Operating Reserve Account containing an amount at least equal to 10% of the aggregate principal amount of all bonds and notes issued under the General Resolution (approximately $26 million). Included within this account is the Debt Service Reserve Account, which is required to contain an amount equal to the current year's principal and interest due on all bonds and notes outstanding under the General Resolution (averaging approximately $18.6 million). If by August 5th of each year the amount on deposit in the Debt Service Reserve Account is less than required, the Corporation shall issue a Notice of Deficiency to the County Executive, which shall set forth the amount necessary to make up the deficiency.
>
> Upon receipt of such notice, the County Executive shall include in the County budget for the next fiscal year an amount at least equal to the Deficiency Amount. Upon approval of the budget by the legislature, the County agrees to transfer to the Corporation, from the funds appropriated therefore, no later than January 15th of such fiscal year, monies equal to the Deficiency Amount. These funds shall be a general obligation of the Corporation and shall be subject to repayment in accordance with one or more unsecured promissory note(s) bearing an interest rate of zero percent (0%), and be payable only after all Corporation bonds issued under the General Resolution have been fully paid or provided for.
>
> In addition, the County guarantees the full and prompt payment of any principal or interest due on the Bonds of the Corporation when and to the extent monies on deposit in the Debt Service Reserve Account are insufficient, therefore, there has been a payment made by the Bond Insurer under the municipal bond insurance policy guaranteeing payment of principal and interest on the bonds. Provisions shall be made annually by appropriation by the County for the payment of its obligations under this Guaranty. If at any time the governing body of the County shall fail to make such appropriations, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purpose.

Since no notice of deficiency has been filed with the County Executive, the County is not at risk for providing any credit support in FY 2001. However, the prospect of mandatory Medicaid managed care has potential serious implications to the Corporation's revenues. The County reports that mandatory Medicaid managed care will reduce the County's share of Medicaid by up to $3.7 million. What is a potential savings for the County is a major loss of revenue to the Nassau Health Care Corporation. Since the County share represents on average 18.9% of total Medicaid payments, a savings of $3.7 million for the County translates into a $20 million potential loss of revenue for the Corporation. In discussions with NHCC it was indicated that this loss in revenue could not be absorbed. The County needs to evaluate its exposure to the potential need of providing credit support.

Debt Service

The County currently pays debt service on three types of obligations: Tax-supported long-term General Obligation ("G.O.") bonds; bonds issued on behalf of the sewer and collection districts (including borrowings from State revolving funds), which are primarily self-supporting from sewer levies and fees and State aid; and annual cash flow borrowings, usually both Revenue Anticipation Notes ("RANs"), which are associated with sales tax revenue flows, and Tax Anticipation Notes ("TANs") issued in anticipation of property tax revenues. This analysis will focus on the G.O. bonds and the various notes.

The financial plan summary shows debt service of $346.2 million, $358.8 million and $384.1 million in FY's 2002-04, respectively. The County's financial consultants provided an "assumptions" schedule of anticipated NIFA borrowings on behalf of the County from FY's 2002-04 that was used in forecasting debt service. This shows a total of $827 million in non-sewer G.O. borrowing and $950 million in tax certiorari and certiorari backlog borrowing (which is $150 million higher than authorized by the NIFA statute). Debt service on this total $1.78 billion would be over $200 million per year when fully issued. NIFA's revenue stream can accommodate this issuance level, but the cost needs to be reflected in the County's forecasts. According to the County's financial consultants, the budget and forecast numbers are composed of the following.

Item	FY 2001	FY 2002	FY 2003	FY 2004
Debt Service on Existing County Bonds*	$338,446,313	$302,552,746	$278,606,109	$262,246,208
June 2000 RAN Interest Cost	11,024,167	N/A	N/A	N/A
Future TAN or Ran Interest ** (Projected)	7,833,333	16,792,000	16,792,000	16,792,000
Subtotal	$357,303,813	$319,344,746	$295,398,109	$279,038,208
Allowance for New Debt Service	11,333,720	26,888,857	63,381,079	105,067,122
Total Debt Service	**$368,637,533**	**$346,233,603**	**$358,779,188**	**$384,105,330**

* General Fund-supported only; sewer-related not included.

** FY 2001, figure is for December 2000 TAN or RAN. FY's 2002-04 figures are lump sum estimates.

It appears that, based on the assumed NIFA issuance schedule and NIFA's legal payment structure requiring monthly sinking fund deposits out of sales tax revenues, budgeted debt service costs may be understated by $11 million to $12 million due to timing differences between the County's and NIFA's debt payment practices.

There is not sufficient information in the proposed FY 2001 budget and financial plan to independently verify the debt service figures. The County's financial consultants have developed a County debt service database that provided a basis for the budgeted and forecasted amounts. The County should maintain a current schedule of all debt service payments on all outstanding bonds and notes, through maturity, to form the basis for annual budgeting.

Contingency Planning

Risk management seeks to address and resolve problems that could jeopardize budgetary balance. Contingency planning is part of risk management.

While uncertainty in the gap-closing program is acceptable, risks of the magnitude we describe require the County to position itself to recognize slippage quickly and to have contingencies available for immediate substitution and implementation. However, the financial plan currently fails to provide the County with any alternative initiatives or ample reserves should slippage in revenue forecasts or expenditure projections occur.

The financial plan incorporates two reserve funds: a reserve for contingencies and a reserve for uncollected taxes. While it is important that these reserve mechanisms exist, we find the reserves to be under funded. In fact, the County contemplates reducing these reserves from \$800,000 in FY 2000 to \$110,000 in FY 2001. Given the size of the budget and the level of projected risks, the cushion the reserves are designed to provide becomes negligible.

When risks materialize in the midst of a fiscal year, the primary brakes that the County can apply are on hiring and purchasing. A contingency plan is a series of budget cutting actions crafted before the need for implementation exists. The advantage of preparing a contingency plan in advance is that it provides time to design a corrective action that produces the necessary budget savings while preserving long-term policy goals and sustaining fundamental services as well as possible. Of course, establishment and adequate advance funding of a stabilization reserve is a longer-term form of contingency planning that is an important supplement to shorter-term budget cutting plans.

V. FY's 2001-2004 Financial Plan

This section discusses the variety of growth rates that were used by the County for revenues and expenditures in constructing the multi-year financial plan. The growth rates used are prior to any major policy changes contained in the Program to Eliminate the Gap (e.g., future property tax increases, phase out of Long Island Bus subsidy). In addition, we also discuss the actions that the County proposes to close the out-year gaps.

Revenue Growth

For purposes of projecting out year revenues, sales taxes are projected to grow by 3%, and most other revenues are projected to grow 2.5% in each of the out-years. The following revenues were projected to have no growth in the financial plan: property taxes; interest penalty on taxes; investment income; and OTB profits and surcharge. Based upon historical data, the County revenue projections appear to be reasonable. While a 3% growth rate for sales taxes appears reasonable, it appears that the County has not factored in the phase out of the sales tax on the transmission and distribution of natural gas and electricity in the out-years. The County's economist has forecasted that, because of this phase out, the County will lose sales tax revenues of $15.7 million in FY 2002, $23.2 million in FY 2003, and $28.7 million in FY 2004.

Expenditure Growth

The following is a discussion of growth rates used in each of the out years for some of the more significant expenditure categories.

Salaries and wages represent the single largest expenditure category in the budget. Salaries are projected to grow by 5% in each year of the financial plan. This reflects salary increases for existing contracts including scheduled step increases, and negotiated wage increases of approximately 4% for major bargaining units, partially offset by savings contained in proposed labor agreements.

Fringe benefits are projected to increase by approximately 6% annually. This presumes that health care cost growth will return to 8% following higher adjustments in FY 2001, and pension costs will increase at a rate of 3%.

Medicaid costs are projected to grow by 7% in each of the out years. Other contracted services are projected to grow at an average rate of 7%, based upon a general cost escalation of 2.5%, adjusted upward to reflect higher historical growth in certain mandated social services programs, such as Childhood Early Intervention.

Most other expenditures are projected to grow by 2.5% in each of the out years. Included in this category are the following items: equipment; supplies; general and other expenses; utilities; purchased services, and emergency vendors. In light of recent energy cost increases, a 2.5% annual increase in future energy costs may not be sufficient.

Out-Year Gap-Closing Actions

Based upon the growth rates discussed above, the County plans to implement additional recurring actions of $61.6 in FY 2002, $124 million in FY 2003, and $56.5 million in FY 2004, after consideration of NIFA debt restructuring and transitional state aid.

The out-year gap-closing actions proposed by the County must be realistic, achievable, and part of a coherent effort to resolve the County's structural imbalance between revenues and expenditures. However, the County has provided limited details of the out-year actions. On September 20, 2000, Chairman Zarb requested that the County provide NIFA with details of the out-year gap-closing actions. NIFA is awaiting receipt of this information.

The gap-closing measures also contain several actions that may be difficult to achieve. These actions include elimination of the sharing of certain sales tax revenues currently paid to the three towns and two cities within Nassau ($50 million in FY 2003, and $52 million in FY 2004), and legislative changes requiring that other local governments be charged for their share of certiorari claims paid by the County ($7 million in FY 2004).

The multi-year plan, as proposed by the County Executive, is unacceptable because it does not contain sufficient information to allow us to determine whether budgetary balance is likely to be achieved during FY's 2002-04.

VI. Cash Flow Forecasts

Subsection 3667(3) of the Act requires the County to "include (a) …. cash flow projections of the county…." This would mean that the cash flow statements should include the major operating funds. However, the cash flow projections contained in Section D of the financial plan are only for the general fund. In addition, the cash flow statements appear to be incomplete and/or inaccurate.

The cash flow forecasts do not reconcile with the financial plan. For FY 2001 the cash flow projection shows total revenue of $1.5 billion, while the financial plan shows revenues of $2.1 billion. For expenditures, the cash flow projection shows expenditures of $1.3 billion, while the financial plan shows expenditures of $2.1 billion (net of $88 million of budgetary relief from debt restructuring). The FY 2001 cash flow projection indicates that the County will receive only 83.9% of its budgeted revenues, with many revenue sources projected to achieve only 77.5% of their budgeted amount. The cash flow projections for each of the out-years raise similar concerns, with total receipts projected to be approximately 84% of the budget, and disbursements projected to be approximately 94% of budgeted expenditures.

Other representative problems that have been identified include:

- currently outstanding, and projected cash flow borrowing (TAN, RAN) borrowings are not reflected in the cash flow projections. Further, the monthly deficits projected are much smaller than would justify the short term borrowings (RAN, TAN) normally undertaken by the County each year;
- no sales tax receipts are projected during January and February of 2001 even though sales taxes are disbursed by the State of New York on a monthly basis;
- debt service projections for FY 2001 show disbursements of $368.6 million, and do not reflect the $88 million of budgetary relief that will be provided through NIFA's restructuring of county debt; and
- retirement disbursements are shown to be paid throughout the year even though the bill is paid annually in December.

We have discussed our concerns with the County and requested that revised and complete cash flow projections be provided to NIFA for all of the major operating funds as soon as possible. Without such information we are unable to evaluate the County's cash flow projections.

The County's financial consultant has indicated that cash flow information is not available for any funds other then the general fund. It is apparent that the County does not have the capacity to prepare cash flow forecasts. We understand that efforts have been made to develop a comprehensive cash flow projection model, and we believe such a system should be developed as soon as possible to allow the County to more effectively manage its cash resources.

VII. Other Items

Eliminate the Backlog of Pending Certiorari Cases

The County provided us with their plan to reduce the backlog of tax certiorari cases. Based upon our review of the plan we have the following observations:

- The plan states that a key objective will be to correct all substantially incorrect assessments by April 1, 2001. Without being provided with a detailed timeline for completing the project it is difficult to evaluate this target date. NIFA questions whether it may be too ambitious. In addition, it is uncertain if the County will be able to identify those substantially incorrect assessments in a timely manner because most records are kept manually. In addition, it will probably require significant lead time to retain qualified legal counsel.
- The plan does not appear to make provision to review current procedures and make recommendations for improvement. While it is important to reduce the backlog of cases, it is equally important that operating procedures be changed to reduce the possibility that the backlog will grow again. Consistent with this concern the County also needs to make a commitment to provide sufficient resources going forward to ensure that the backlog does not grow in the future. The County has not provided such resources in the past.
- An integral part of the plan should be to identify and seek legislative changes (both at the County or State level) that will improve the process. NIFA understands that there have been discussion of such changes, but we believe that such suggestions should be made a part of the overall plan to reduce the backlog.
- It appears that the County plans to use approximately $800,000 of this aid to fund existing County positions. The plan proposes to fund the cost of seven commissioners, a chairman, a vice chairman, a secretary, and related fringe benefits. We do not believe that this funding was intended to replace existing funding, therefore other appropriate uses for these funds should be identified.

Accounting of General and Special Transitional State Aid Expenditures

The financial plan documents the specific budgetary items that will be financed with the $5 million of targeted aid to eliminate the backlog of certiorari cases. In the previous section, we commented upon our concerns that the County plans to use some of these funds to replace existing funding. We do not believe that this is an appropriate use of this funding.

The financial plan also discusses the County's proposed use of the $25 million of transitional State aid to assist the County to fund non-recurring expenditures resulting from employee separations. We concur with the County's approach to using these funds since they are transitional in nature and will not longer be available to the County after FY 2004. However, we are concerned that taxpayer inequity may occur because $9.1 million is being allocated to the Police District Fund, which does not have the same tax base as the General Fund.