NIFA Nassau County Interim Finance Authority

April 12, 2002

Honorable Thomas R. Suozzi
County Executive
Office of the County Executive
One West Street
Mineola, NY 11501

Dear County Executive Suozzi:

We have reviewed your four-year Plan and attached a draft report from staff. While any plan will contain risks, we believe that the level of risk contained in this Plan is not unreasonable or inconsistent with the NIFA Act. We will await adoption by the County before we issue a final report.

In the final analysis, what NIFA needs to see is a balanced financial plan. How that objective is achieved, remains the prerogative of the County. Policy decisions, as long as they are not inconsistent with the Act, remain the responsibility of those individuals elected by the voters of Nassau County.

Consequently, we have not rejected several budgetary strategies that would be questionable if this were not an extraordinary situation. Likewise, we are skeptical about the achievability of certain initiatives in the Plan, but have taken a "wait and see" attitude. We will be especially sensitive to the County backing away from unpopular cuts, or "budget busting" new initiatives. The NIFA Board will do whatever it has to do to help ensure that positive momentum is maintained.

In general, the County has presented a professional, comprehensive and well thought out Plan, which proposes solutions in key areas. The Plan spreads its initiatives into different areas and does not rely too heavily upon any single initiative that is deemed by NIFA staff to be unobtainable. Consistent with the foregoing, the Plan discounts initiatives, and provides a modest level of funding for contingencies.

The Plan also provides a cushion, in the form of a surplus, against unforeseen risks. However, it is questionable whether NIFA should provide restructuring assistance in years when the County has a surplus.

170 Old Country Road, Suite 205, Mineola, NY 11501

The findings of NIFA staff can be summarized as follows:

- FY 2002 - This year of the Plan, also known as the FY 2002 Budget, was previously adopted by NIFA. We believe that the actions proposed by the County Executive will help to ensure that the first year of the Plan remains in balance.

- FY 2003 - Based almost entirely upon the size of the proposed tax increase, scheduled assistance from NIFA, and other actions within the control of the County, FY2003 of the Plan seems achievable.

- FY 2004 and 2005 - The gaps projected for these years are within ranges deemed to be reasonable based upon the information currently available. The County's proposed solutions are aggressive and rely upon the successful implementation of major initiatives, some of which are not within the direct control of the County. The County must be assertive, but realistic in its demands from third parties.

The County should be also be made aware that actions deemed to be "reasonable" at this time may not be viewed in the same way when the FY 2003 – 2006 financial plan is presented in September. In order for the September plan to be acceptable, there needs to be greater programmatic specificity, and the Administration must be flexible enough to quickly readjust its current strategies to take into account the short term successes and failures at implementation of the Plan.

When the State responded to the request of the County that NIFA be established, it was recognized that the problems of Nassau County were severe and would take years, not months, to solve. The Plan is a good step in the right direction, but the need for NIFA oversight remains strong and over the next several years the possibility of control board intervention remains high.

Sincerely,

Frank G. Zarb
Chairman

cc: Majority Leader Judith Jacobs
Minority Leader Peter Schmitt
Howard Weitzman
NIFA Directors

Attachment

Nassau County Interim Finance Authority

NIFA

REVIEW OF PROPOSED

MULTI-YEAR FINANCIAL PLAN FOR FISCAL YEARS 2002 – 2005

April 17, 2002

NASSAU COUNTY INTERIM FINANCE AUTHORITY

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Deputy Director

I. Introduction

In response to persistent and pervasive fiscal distress in Nassau County and pursuant to a request by the County Executive and approval by the County Legislature, the State Legislature created the Nassau County Interim Finance Authority ("NIFA") in June of 2000. Among NIFA's mandates in its authorizing legislation (the "Act"), was the oversight of a four-year financial plan by the County to ensure that recurring actions are taken by the County in each year to reach structural budgetary balance.

On December 7, 2001 NIFA accepted year one of the County's four year financial plan for the years 2002 through 2005, also known as the FY 2002 Budget, but required that an acceptable plan be submitted to the Authority for years two, three, and four (the "out years") no later than April 1, 2002. This deferral of action on the out years was made to give the new Administration time to mold a plan that incorporated its own policies and visions for the future.

On April 1, 2002 the County Executive submitted to NIFA its plan for the out years together with proposed revisions to year one of the plan (collectively, the "Plan"). The Plan estimates out year gaps of $185.5 million in FY 2003, $278.9 million in FY 2004, and $427.6 million in FY 2005, but acknowledges that these estimates may be lower should certain events occur. In order to be conservative in its planning process, the County developed plans to close the high end of the projected gaps. If the actual out year gaps are less than estimated, certain proposed initiatives may not be implemented. Likewise, if the out year gaps are more than estimated, new initiatives will be required.

NIFA'S RESPONSIBILITY

NIFA's statutory responsibility is to determine if the Plan is complete and complies with the requirements of the Act. Among other requirements, the Plan must:

- "contain projections of revenues and expenditures that are based on reasonable and appropriate assumptions and methods of estimation;" and

- "provide that operations of the county and covered organizations will be conducted within the cash resources available according to the authority's estimates."

Policy decisions, as long as they are not inconsistent with the Act, remain the responsibility of those individuals elected by the voters of Nassau County.

DISCUSSION

In general, the County Executive has presented a professional, comprehensive and well thought out Plan, which proposes solutions in several key areas. The Plan includes initiatives in several areas (e.g., revenues, workforce reductions, labor concessions, etc.) and does not rely too heavily upon any single initiative. NIFA staff believes that the variety of initiatives allows for obtainable goals even if several will not ultimately occur. Consistent with the foregoing, the Plan discounts initiatives, and provides a modest level of funding for contingencies.

The following are the major corrective actions in the Plan submitted by the County Executive and the challenges that the County faces in implementing the Plan.

Corrective Actions

- The plan provides recurring property tax revenues of $115 million, with no further increases proposed.
- The plan proposes to reduce the size of government through an aggressive attrition based workforce reduction program, eliminating 1,200 jobs.
- The plan attempts to control labor costs by reaching agreements with the County's labor unions. If the projected savings are not achieved through collective bargaining, corresponding savings will be achieved through additional staff reductions.
- A comprehensive plan to reform the tax certiorari process.
- Thoughtful, in-depth analysis, detailed strategy, and ongoing performance measures all mark a significant positive change in the way the County manages its debt.
- The plan includes a number of actions designed to help the County operate more efficiently as the workforce is being reduced.
- The plan includes a proposal to require that an arbitrator consider the County's financial plan when making any awards.

Challenges

- The plan relies in part upon the successful attainment of labor concessions. If these concessions are not obtained, the County plans to further reduce its workforce.
- If the workforce reduction plan is not managed effectively, it could lead to unacceptable declines in service delivery.

- Required pension contributions made on behalf of County employees may rise faster than assumed by the County in the plan due to lower than expected returns by the Common Retirement Fund in recent years.

- Successful reform of the certiorari process, and elimination of the backlog, is heavily dependent upon the recruitment and training of competent staff.

- The County has reduced its planned level of capital borrowing over the next several years, which will make it more difficult to upgrade its deteriorated infrastructure.

- A number of the savings require action by the State Legislature, for example, creating the Sewer and Storm Water Authority, and increasing NIFA's borrowing caps. If these proposals do not receive legislative approval, the financial plan would be negatively impacted.

- While some elements of the debt program, such as the reduction in total issuance, help bring the County towards structural balance, other elements do not.

- The plan does not recognize the possibility that the County may have to provide additional financial support to the Nassau Health Care Corporation.

The Plan provides a cushion, in the form of a surplus, against unforeseen risks. However, it remains to be seen whether NIFA should provide restructuring assistance in years when the County has a surplus.

The findings of NIFA staff can be summarized as follows:

FY 2002 - This year of the Plan, also known as the FY 2002 Budget, was previously accepted by NIFA. We believe that the actions proposed by the County Executive will help ensure that the first year of the Plan remains in balance.

FY 2003 - Based almost entirely upon the size of the proposed tax increase, scheduled assistance from NIFA, and other actions within the control of the County, FY2003 of the Plan seems achievable.

FY 2004 and 2005 - The gaps projected for these years are within ranges deemed to be reasonable based upon the information currently available. The County's proposed solutions are aggressive and rely upon the successful implementation of major initiatives, some of which are not within the direct control of the County. The County must be assertive, but realistic in its demands from third parties.

RECOMMENDATION

While any plan will contain risks, we believe that the level of risk contained in this Plan is not unreasonable or inconsistent with the Act. If the County Legislature modifies the Plan, they must replace the actions that have been removed with other actions whose certainty of implementation and dollar value are at least equal to those that have been removed.

The County should also know that actions deemed to be "reasonable" at this time may not be viewed in the same way when the FY 2003 – 2006 financial plan is presented in September. In order for the September plan to be acceptable, there needs to be greater programmatic specificity, and the Administration must be flexible enough to quickly readjust its current strategies to take into account the short term successes and failures in implementation of the Plan. NIFA will carefully review the progress of key initiatives when evaluating FY 2003-2006 plan.

CONCLUSION

Nassau County is still in the midst of fiscal crisis, which calls for creative thinking, and we intend to support the creative aspects of the Plan. Consequently, we have not rejected several budgetary strategies that would be questionable if this were not an extraordinary situation. Likewise, we are skeptical about the achievability of certain initiatives in the Plan, but have taken a "wait and see" attitude. In the final analysis, what NIFA needs to see is a balanced financial plan. How that objective is achieved, remains the prerogative of the County.

When the State responded to the request of the County Legislature that NIFA be established, it was recognized that the problems of Nassau County were severe and would take years, not months, to solve. The Plan is a critical step in the right direction, and the County Executive is clearly committed to bringing the County back to fiscal health, however, the need for NIFA oversight remains strong and over the next several years the possibility of control board intervention remains high.

The balance of this report provides background information and presents, in more detail, the findings and recommendation of staff. The report is separated into the following major sections:

- The County's plan to ensure that the FY 2002 budget remains balanced.
- Our comments on the County's projections for FY 2003 – 2005.
- Our assessment of the County's plan to close the out year gaps for FY 2003 – 2005.
- Covered organizations.

II. FY 2002 Projected Gap

On December 7, 2001 NIFA approved the first year of the Plan, which was subsequently adopted by the County Legislature and became the FY 2002 Budget. Shortly after taking office on January 1, 2002, the County Executive indicated that notwithstanding the fact that the FY 2002 Budget had been adopted, he estimated that the County could end the current fiscal year with an operating deficit of $29.9 million. Consequently, he felt the need to budget for this possibility. (Of this projected gap, $9 million was based upon the County's decision not to use prior year fund balance that had been programmed into the FY 2002 Budget for the payment of debt service costs).

The County has identified a number of actions that will help maintain budgetary balance throughout the year. The following are the more significant actions and developments:

- Workforce reductions that will save $9.68 million.

  The County anticipates that approximately 473 additional employees will leave County service through normal attrition and an early retirement incentive program. The County estimates that this will save $9.68 million after accounting for new hiring needs and the timing of attrition.

- Restore the use of $9 million of fund balance

  The County has reversed its earlier decision and will use the $9 million of fund balance that was originally programmed to pay debt service during FY 2002.

- Debt reduction and restructuring of $8.3 million

  The debt service amounts in the multi-year plan do not entirely reflect the adopted budget for FY 2002. We have requested, and are awaiting, information from the County before we can complete our analysis of this action. Should these savings not be fully realized, we do not believe that they would significantly impact the County's ability to maintain budgetary balance.

- Departmental initiatives designed to save $5 million

  During the remainder of FY 2002 the County plans to implement initiatives designed to save at least $5 million. The initiatives have merit and many of them detail actions that are long overdue; however, it is unlikely that they will be implemented in enough time to meet the projected 2002 savings targets. These initiatives are discussed later in this report.

- Sales tax revenues

The County believes that economic growth will be stronger than projected in the adopted 2002 Budget. The FY 2002 Adopted Budget estimated sales tax at $855 million, which represents growth of 2.8% from the FY 2001 actual receipts. The Administration is now predicting growth of 3.9%, which results in revising FY 2002 sales tax estimates upward by approximately $9 million to $863.8 million.

- Transitional State Aid to Eliminate Certiorari Backlog

The County removed from its Plan $4 million of State aid that was part of the 2002 Budget that NIFA approved. These funds are available through NIFA to help reduce the backlog in certiorari claims. The County indicates that this revenue was removed to provide the County with an opportunity to negotiate with NIFA for the use of these funds. Based upon the proposals in the Plan, NIFA is optimistic that it will be able to provide these funds to the County and believes that reserving for them is unnecessary.

Conclusion

The actions proposed by the County Executive to prevent an unanticipated deficit in the 2002 Budget are reasonable and should help to ensure that the FY 2002 Budget remains balanced throughout the year. Our only significant concern relates to pension contributions to the New York State Common Retirement Fund.

Due to the recent poor performance of the stock market we are concerned that pension contributions may begin rising, starting with the 2002 fiscal year. In June of each year, the State provides the County with an estimate of its December 15th payment. Should the estimated payment exceed the budget, the County must take appropriate action to maintain budgetary balance for the year.

III. Financial Projections for FY 2003 - FY 2005

This section discusses the growth rates that were used by the County for revenues and expenditures in the Plan. The growth rates used are prior to the implementation of any major policy changes and out year initiatives contained in the Plan. NIFA's analysis is based upon the information contained in the formal submission, along with other information provided by the County.

OUT YEAR REVENUE GROWTH

For purposes of projecting revenues in the out years of the financial plan (FY 2003 – FY 2005) the County used the following growth rates in their baseline assumptions for the following major revenue areas:

- Property taxes were held constant with no growth when the County estimated their gap. In the County's Multi-Year Plan property taxes are projected to grow by 19.4% in FY 2003 with no further increases anticipated in the remaining years. The plan also calls for a senior citizen tax exemption, expected to save $5 million, which requires approval by the State legislature.

- Sales taxes were projected at an average growth of 2.4% from FY 2001 actuals when the baseline was established. The Multi-Year Plan assumes growth of 3.9% annually.

- State Aid is projected to grow 1.1% annually.

- Federal Aid is projected to grow 2.5% annually.

- Departmental Revenues are essentially being held flat (growth of 0.3%).

- Interest Penalty on Taxes grow by 6% a year.

- Rents and Recoveries, after remaining relatively stable through FY 2004, decline 24.5% by FY 2005 as proceeds from the tobacco securitization are exhausted.

OUT YEAR EXPENDITURE GROWTH

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

Personal Services Costs

Personal Services ("PS") expenditures comprise more than 40% of the budget and include the cost of salaries and wages as well as fringe benefits for active employees and retirees.

Salaries and Wages

Salaries and wages represent the single largest expenditure category in the financial plan. The County is projecting baseline growth averaging 5.2% in the Multi-Year Plan. More than one-third of the projected gap closing actions are projected to be realized in the reduction of salaries and wages through workforce reduction and labor concessions

Fringe Benefits

The County projects that baseline fringe benefit costs will grow by an average of 9% annually during the financial plan period and accelerate from 7.2% in FY 2003 to 9.8% in FY 2004 and 10.3% in FY 2005. These projections translate into $69.6 million in additional fringe benefit expenditures that must be accommodated in the financial plan by FY 2005, as shown in Table 1.

(Table 1)
GROWTH IN FRINGE BENEFITS
FY 2002- FY 2005

($ in millions)	FY 2002	FY 2005	Change
Health Insurance	$122.4	$177.5	$55.1
Social Security	50.4	60.5	10.1
Workers' Compensation	11.1	12.8	1.7
Pension Contributions	16.8	19.8	3.0
Other Fringe Benefits	32.8	32.5	(0.3)
Total Fringe Benefits	**$233.5**	**$303.1**	**$69.6**

Health Insurance

The largest and fastest growing element of fringe benefits is spending on health insurance. Over the past 17 years, health insurance costs have grown annually by approximately 11%. During the financial plan period, the County projects that health insurance costs will grow by 13% annually, a rate that we find to be reasonable. The County must closely monitor this fast growing element, seek creative ways to control theses expenditures and/or identify equally sized revenue sources that grow in unison to ensure budgetary balance.

Social Security

The County assumes that growth in Social Security costs will closely track growth in employee wages. The County has no control over the level or growth in these expenditures outside of its ability to limit collective bargaining increases and manage workforce levels, as discussed in “Workforce Reduction” beginning on page 16 and “Labor Concessions” beginning on page 20.

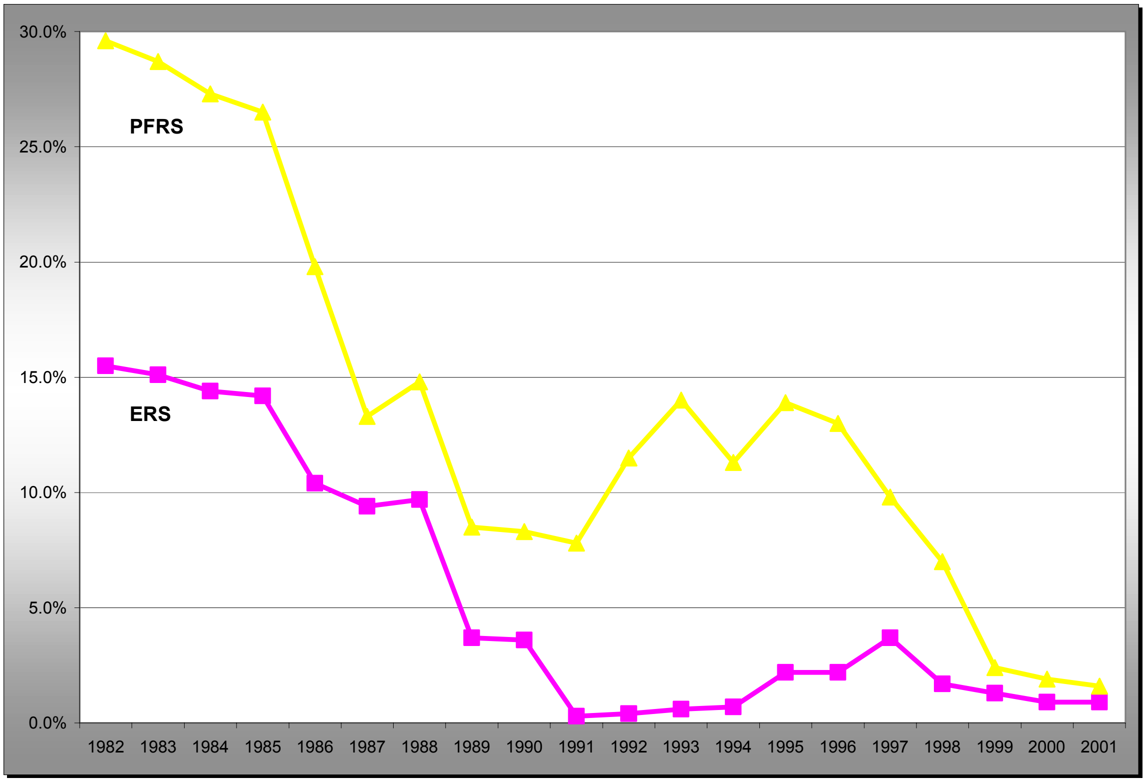
Workers’ Compensation

Workers’ Compensation is projected to grow by 5% annually over the term of the financial plan. The County believes that it can reduce these costs by implementing a series of reforms in its Workers’ Compensation program, as discussed on page 36.

Pensions

The County participates in the New York State and Local Employees' Retirement System (“ERS”), the New York State and Local Police and Fire Retirement System (“PFRS”), and the Public Employees' Group Life Insurance Plan. The local participating employer contribution rates for each retirement system are set by the State Comptroller and billed to the County each December. The County’s baseline projections assume that these rates will remain stable between FYs 2002-05, with contributions increasing only to reflect the impact of historical wage increases. However, NIFA staff remains concerned that after years of declining costs due, in part, to favorable pension investment earnings, the County's contribution rates to both the ERS and PFRS will rise in the coming years as the impact of recent declines in the stock market permeate State actuarial calculations. As shown in Chart 1, the statewide average annual employer payments, as a percentage of salary for ERS, was 3.7% as recently as 1997, or more than 4 times as high as it was in 2001. Similarly, the statewide average annual contribution rates for PFRS reached as high as 13.9% in 1995, or more than 8 times as high as it was in 2001.

(Chart 1)
ANNUAL EMPLOYER PAYMENTS AS A PERCENTAGE OF SALARY



NIFA believes that the County's assumptions for future pension costs are not sufficiently conservative to mitigate the additional costs that might stem from recent investment volatility and potential economic and demographic changes that may be considered by the retirement systems during the Plan period. While investment gains and losses are actuarially phased in over 5 years to smooth out volatility, recent experience has reduced the average return of 11.6% experienced over the last 10 years to 5.4% experienced over the most recent 3 years.[1] These averages will decrease further after factoring in the investment performance experienced in State FY 2002, a year in which the retirement systems' equity investments were held virtually flat. In contrast, the County's calculations assume that the State Common Retirement Fund's investments grow by more than 8% annually, since future investment performance must more than offset recent declines and underperformance to maintain contribution rates at current levels. Should the State retirement systems' investments merely realize the assumed actuarial rates of return, requisite pension contributions could significantly exceed planned levels between FYs 2003-2005.[2]

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[1] The State Comptroller reported these investment results in the New York State and Local Retirement Systems 2001 Annual Report.

[2] The State Actuary indicated that contribution rates could increase by 1.5% for ERS and 2.5% for PFRS in each year of the Plan rather than remaining flat in each of FYs 2002-05 as assumed by the County.

Other Fringe Benefits

The County assumes that its remaining fringe benefit costs, in aggregate, remain virtually flat. These expenditures include spending on items such as the employer Medicare tax and unemployment, dental, and optical benefits. Our analysis indicates the County has underestimated these costs since, at the very least, the Medicare tax is based on employee wages, which the County's baseline assumptions project will grow by more than 16% by FY 2005.

Other than Personal Services Costs

The County projects that baseline other-than-personal services (OTPS) expenditures will grow from $446.3 million in FY 2002 to $545.1 million in FY 2005, or average 6.9% annual growth during the financial plan period. As shown in Table 2, $57.7 million of the projected $98.8 million in additional spending is driven by the projected cost of funding property tax refunds in the operating budget beginning in FY 2005 on a pay-as-you-go basis instead of financing these costs with additional certiorari debt.

(Table 2)
GROWTH IN OTPS
FY 2002- FY 2005

($ in millions)	FY 2002	FY 2005	Change
Property Tax Refunds	$0.0	$57.7	$57.7
Contractual Expenses	156.7	178.4	21.7
Other Expenses	125.2	130.7	5.5
Local Government Assistance	50.2	54.4	4.2
Mass Transportation	43.1	46.6	3.5
Utilities	27.8	29.9	2.1
Other OTPS	43.3	47.4	4.1
Total OTPS	**$446.3**	**$545.1**	**$98.8**

The County's baseline growth projections for its other categories of OTPS spending vary from 1.4% annually for Other Expenses to 4.4% annually for Contractual Expenses. Local Government Assistance payments represent the portion of sales tax revenue remitted to the towns and cities resulting from the 0.25% portion of the sales tax charged on purchases made within Nassau County borders. Growth in this payment mirrors the projected growth in aggregate sales tax revenue, as discussed in "Sales Tax," beginning on page 52. Baseline growth in utilities is projected to be a modest 2.5% annually, approximating the rate of inflation.

Direct Assistance

The County's baseline deficit projections assume that it will spend $527.1 million on direct assistance programs in FY 2005, or $83.5 million more than it anticipates spending in FY 2002. This results from projected growth of 5.2% in FY 2003, 6.2% in FY 2004, and 6.4% in FY 2005. The County breaks these expenditures into four categories: Medicaid, purchased services, emergency vendor payments, and recipient grants, as shown in Table 3. While Medicaid is clearly driving spending on direct assistance, the County expects modest growth in the other major social service program areas, including public assistance, foster care, children in institutions, and Title XX services, the costs of which are spread among the other elements of direct assistance.

(Table 3)
GROWTH IN DIRECT ASSISTANCE
FY 2002- FY 2005

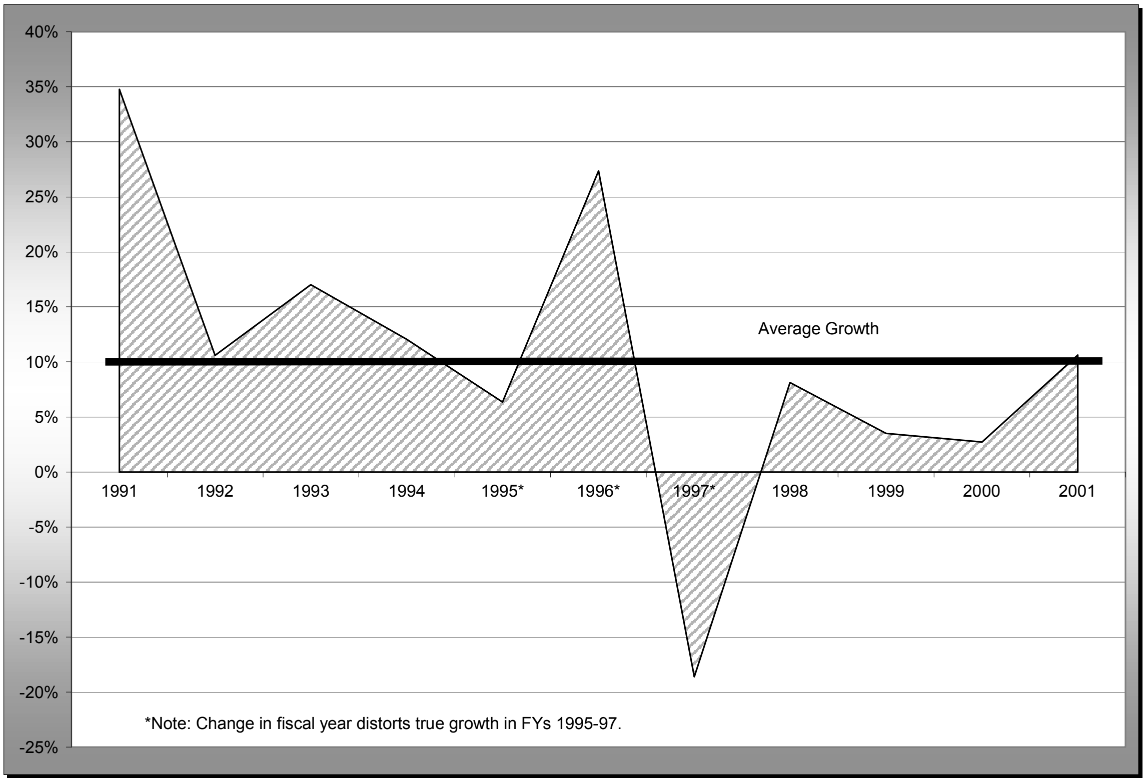
($ in millions)	FY 2002	FY 2005	Change
Medicaid	$299.0	$371.4	$72.4
Purchased Services	49.8	53.6	3.8
Emergency Vendor Payments	48.7	52.4	3.7
Recipient Grants	46.1	49.7	3.6
Total Direct Assistance	**$443.6**	**$527.1**	**$83.5**

NIFA's analysis of these projections indicates that the County's baseline estimates of these rising costs are not unreasonable, but should be monitored closely should a deterioration of the local economy result in increased demand for social service programs and direct assistance spending beyond levels contemplated in the Plan.

<u>Medicaid</u>

The County's expenditures for Medicaid have risen steadily in recent years. The County currently projects that, after growing by almost 11% in FY 2002, its local share of Medicaid expenditures will grow by 8% in FY 2003 and 10% in each of FYs 2004-05. The County assumes that FY 2002 growth will spike due to State legislative changes included in the Health Care Reform Act of 2002 and greater utilization of Family Health Plus, a new State program that extends Medicaid coverage to certain individuals who do not have health insurance through their employers, yet have income that disqualifies them from Medicaid. These assumptions appear reasonable on the basis that they are generally consistent with the average annual growth rate of 10% experienced by the County between FY 1990 and FY 2001. However, as shown in Chart 2, changes in Medicaid spending can be quite volatile and experience significant deviations from the arithmetic average. This volatility clearly demonstrates the difficulty in accurately projecting Medicaid costs in any fiscal year, let alone over the entire four-year financial plan period. Therefore, the County must closely monitor Medicaid expenditures to continually evaluate changes in local caseload and service utilization to ensure that potentially adverse changes in growth rates are recognized immediately and are properly accommodated in the Plan.

(Chart 2)
ANNUAL GROWTH IN MEDICAID EXPENDITURES
FYS 1990-2001



The County projects that its local share of Medicaid expenditures will grow by $87 million over the next four years, rising from $194 million in FY 2001 to $281 million in FY 2005, as shown in Chart 3.[3] Rising Medicaid costs will continue to exert great upward pressure on the budget and consequently shape policy to the extent that other programmatic choices must be prioritized to accommodate this large and growing mandated expense. Since the County lacks the authority to unilaterally limit Medicaid coverage provisions and associated costs, it must aggressively pursue all measures designed to increase efficiencies and curb growth in these expenditures.

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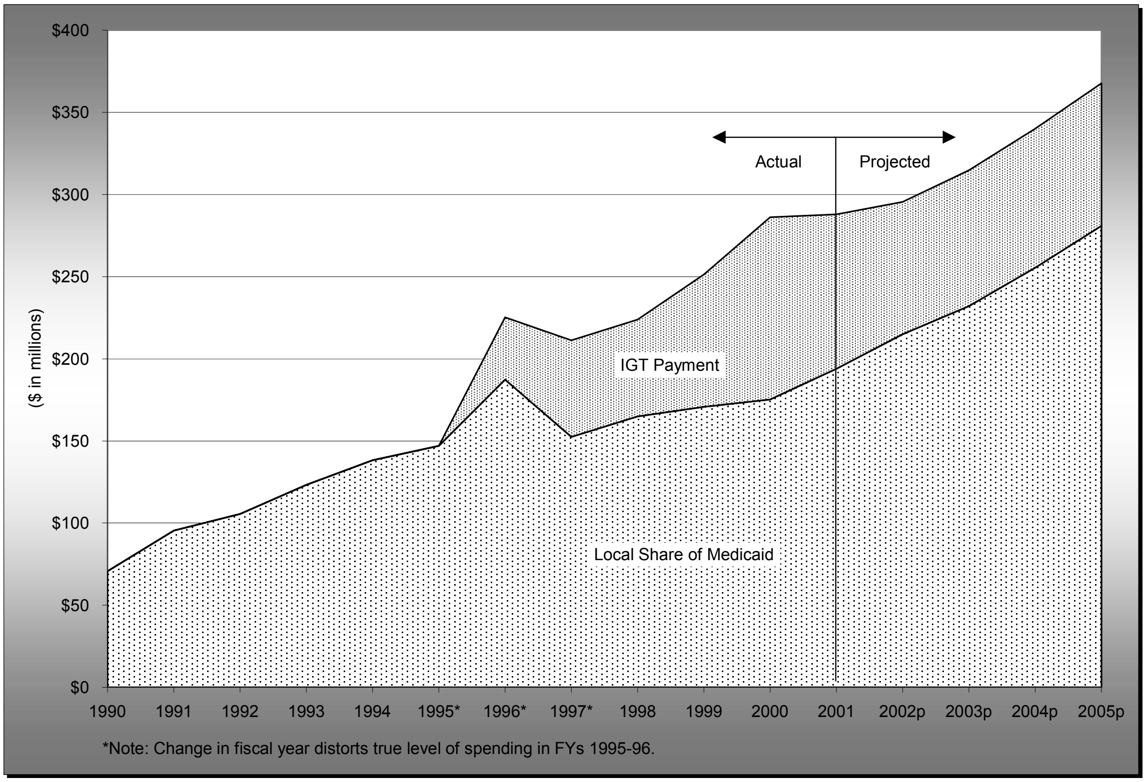
[3] Total Medicaid expenditures include the County's local share of Medicaid and an intergovernmental transfer payment (IGT) to the State. The County assumes that the IGT payment will grow from $81 million in FY 2002 to $87 million in FY 2005. The IGT expenditure is actually a pass-through payment, which is fully recaptured through a reimbursement made to the County by the Nassau Health Care Corporation.

(Chart 3)

LOCAL MEDICAID COSTS
FY 1990 – FY 2005



New York State and its Counties have been coping with rapidly growing Medicaid costs for many years. Programmatic expansion has exacerbated the underlying escalating costs of providing services to the medically impoverished. However, while tightening eligibility requirements and contracting coverage of services may yield short-term benefits, it is likely that in the long run the disqualified applicants would regain eligibility as their higher medical costs eventually deplete their resources until they once again qualify. A corollary might be that utilization of emergency room services may result as a lack of medical insurance keeps disqualified applicants out of physicians' offices.

The County is making progress in one major area to control local Medicaid costs. The County began to implement a mandatory Medicaid managed care program in October 2001. Mandatory managed care for the Medicaid population is an attempt to control these costs without the pitfalls of tightening eligibility or shrinking services. This cost containment effort relies primarily on capitated rates which are lower than the traditional fee-for-service rates currently being reimbursed by the County through its local share of the Medicaid program. From the time mandatory enrollment replaced voluntary enrollment, the County enrolled an additional 6,416 eligibles into one of six managed care providers. In total, the County currently has 16,090 eligibles enrolled in the managed care program, already penetrating 47% of the targeted population.[4]

The County proposes to augment the managed care savings, which are already factored into the baseline assumptions, with a new initiative designed to reduce Medicaid utilization and associated costs by $2 million in FY 2003, $5 million in FY 2004, and $10 million in FY 2005, as discussed in Initiative 26 on page 31. If successfully implemented, these savings would reduce the growth rate of the County's local share of Medicaid to 7.1% in FY 2003, 8.8% in FY 2004, and 8.2% in FY 2005.

[4] New York State began voluntary enrollment of Medicaid recipients into managed care programs in 1991. Key exceptions from managed care enrollment goals are residents of nursing homes, psychiatric centers, intermediate-care facilities for mentally disabled people, and recipients eligible for nursing home placement who are receiving home care or community-based services.

IV. Plan to Close the Out Year Gaps – FY 2003 – FY 2005

Based upon the growth rates discussed in the prior section, the County has identified out year gaps of $185.5 million in FY 2003, $278.9 million in FY 2004, and $427.6 million in FY 2005.

These projections are reasonable but the County acknowledges that these estimates may be lower should certain events occur. The County's plan to close the gap has been divided into the following major categories:

- Workforce reductions,
- Concessions from labor organizations,
- Managerial initiatives,
- Debt Reform,
- Revenue actions, and
- Contingencies.

Each of these categories is more fully discussed below. As part of our discussion we identify any concerns that we have. The County's plan identifies numerous actions to close these projected gaps. In order to be conservative the actions have been discounted, recognizing that some of them may not achieve their full value because of a variety of unanticipated reasons. Many of the actions discussed below will require additional action by the County Administration, and passage of enabling legislation by the County and/or New York State Legislature. Over the next several months we will monitor the actions taken by the County to implement the financial plan. If sufficient progress is not made by the time that the FY 2003 – FY 2006 Financial Plan is submitted in September 2002, the County must replace any initiatives that are unlikely to achieve their targeted savings.

Two key elements of the multi-year gap-closing program require a significant contraction in the size of the County's workforce and a substantial amount of labor concessions to reduce personal services costs on a recurring basis.[5] Since these costs currently comprise more than 40% of County spending, any meaningful attempt to control and/or reduce these expenditures necessitates negotiated concessions from its labor unions, collectively bargained wage increases below historical rates, and reductions in the size of the County workforce.

WORKFORCE REDUCTION

The County proposes to reduce its full-time workforce by 1,200 positions by September 2003, prior to backfilling critical vacancies, and reportedly save $101 million

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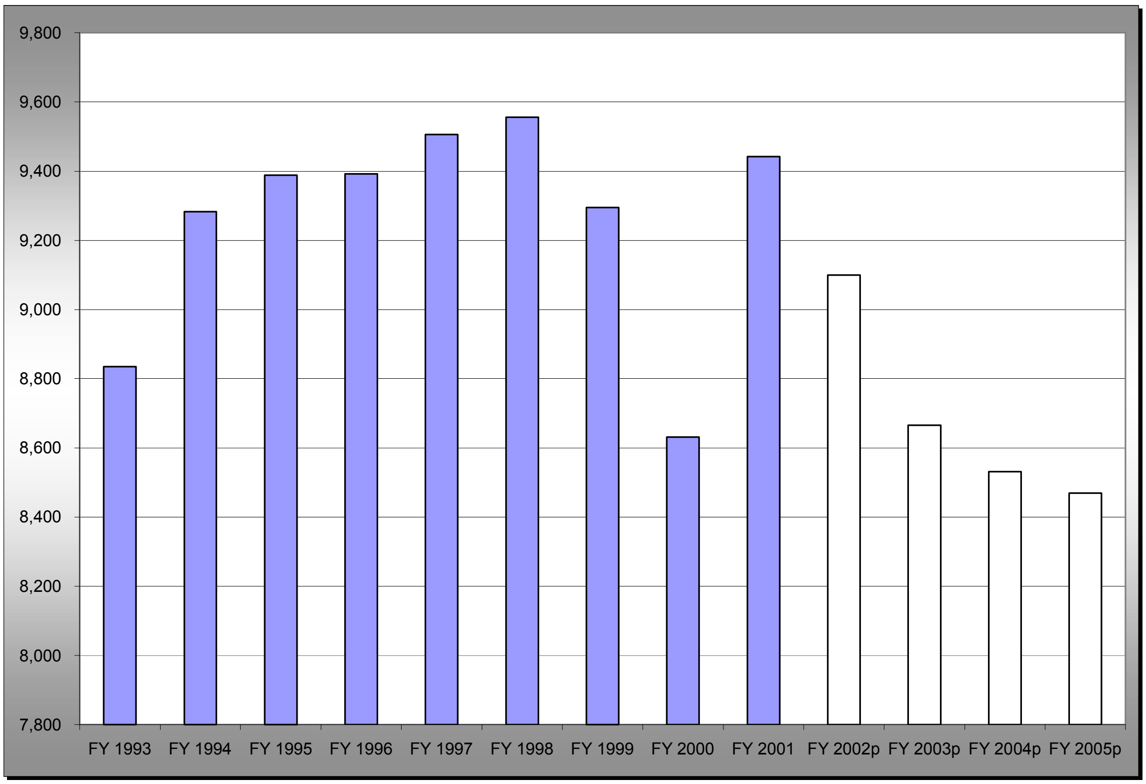
[5] The analysis contained in this report is limited to the five major operating funds within the Nassau County budget. These funds consist of the General Fund, Police Headquarters Fund, Police District Fund, Fire Commission Fund, and County Parks Fund.

annually by FY 2005 after continuing to cut its full-time workforce to 8,470 employees through an aggressive attrition-based workforce reduction program.[6] As shown in Chart 4, the County projects that its full-time workforce will fall to 8,666 employees by the end of FY 2003 and 8,470 employees by the end of FY 2005.

(Chart 4)

FULL-TIME HEADCOUNT IN FIVE MAJOR OPERATING FUNDS



In an effort to meet these ambitious targets, the County has already implemented a hiring freeze for non-essential positions and is developing a redeployment program to maximize the benefit of attrition and mitigate the detrimental impact random separations could otherwise have on departmental operations. The County correctly estimates that natural attrition will not be sufficient to meet these headcount targets and consequently recognizes that the difference between the level of natural attrition and the County's higher workforce reduction targets must be synthesized from attrition incentive programs and/or the execution of layoffs.

To achieve this objective, the County plans to offer an early retirement incentive program in the second quarter of this year to magnify and accelerate the rate of

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6 The County estimates that it can cumulatively reduce its full-time workforce by 1,253 positions by the end of FY 2003 and 1,876 positions by the end of FY 2005 through attrition, layoffs, and transfers. These reductions are offset by the anticipated cumulative hiring of 477 full-time employees through FY 2003 and 904 full-time employees through FY 2005.

separations of its more highly paid full-time employees. However, as a local participating employer in the State's retirement systems, the County must wait for State enabling legislation before the County can proceed with its own early retirement incentive. The sooner the incentive program is introduced, the greater the savings will be in FY 2002 and the more lead-time will be available for the County to develop a responsive FY 2003 budget. It should be noted that the second quarter of the County's fiscal year has already begun.

We believe that thoughtful consideration should be given to targeting the incentive program, rather than making it broad-based. A targeted early retirement incentive program can minimize the resultant disruption in priority programs and avoid having the County incur unnecessary pension expenses.[7] For example, the County should seek savings from headcount reductions in County-funded, non-mandated, and low priority programs. Conversely, wherever possible, the County should exclude employees supporting high priority, mandated, revenue-generating, or reimbursable programs since these savings are partially offset by the cost of backfilling these priority positions, increased pension costs, loss of revenue, and/or loss of State and Federal aid.

The County's ability to realize $101 million in savings from the elimination of these full-time positions is contingent upon three major factors: the salaries and fringe benefits associated with the individual separating employees; the replacement and promotional backfill rate required to sustain operations; and the County's ability to strictly limit its use of overtime to perform routine tasks. First, the County estimates that 66% of the projected savings, before backfill, will result from the retirement of its more highly paid employees, approximately half of which is expected from retiring officers in the Police Department. Any variance from the assumed retiree attrition rates will impact the level of savings ultimately achieved.

Second, while the County reportedly assumed a 25% backfill rate, a rate we consider to be fairly aggressive, supporting documentation suggests that the County anticipates utilizing a backfill rate approaching 50% for civilians and 40% for uniformed employees, rates we consider to be much more manageable. However, our analysis does indicate that the County may have understated its backfill costs in the Police Department and therefore may be unable to accommodate the full complement of replacement hiring and/or promotions it desires.

Third, overtime control is paramount to the County's success in implementing its workforce reduction program. The County's ability to prevent overtime expenditures from eroding attrition-related savings is a critical aspect of its headcount initiative. The County must move forward with orderly service reductions and institute significant productivity improvements to mitigate the use of overtime to support functions previously performed by full-time employees. Particular attention must be given to the

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[7] The early retirement incentive program may cost the County between 50% and 75% of each participant's final average salary. The Plan assumes that the County will amortize these costs over 4 years at a cost of 8% annually instead of the allowable 5 years.

operational reforms that the County contemplates implementing in the Police Department. The County must demonstrate that these changes will compensate for new overtime needs that would otherwise result from a contracted police force.

The ability to effectively manage an attrition-based workforce reduction program, where effectiveness means that fiscal and programmatic objectives are both successfully achieved, is dependent on the manager's flexibility in replacing outgoing workers in priority programs or reassigning existing workers to the most critical tasks necessary for delivering the program. Unfortunately, the degree of flexibility is contingent upon factors outside the County's control since the majority of savings is expected to result from normal attrition and the implementation of an early retirement incentive program. The greater the attrition experienced by the County, the more replacement hiring that can take place to maintain programmatic objectives. The converse experience can cripple the County's chances for successfully maintaining programmatic objectives while adhering to its fiscal parameters. The County stated that an enhanced performance evaluation process for County employees would be introduced later this year, a step it believes will help ameliorate the potential disruption caused by these dramatic staffing reductions since declines in worker productivity will not be tolerated.

While we have concerns over the County's ability to realize the full level of savings from this initiative, the County has discounted by 25% the level of savings it requires to close its projected baseline gap. In addition, in contrast to previous financial plan submissions, the County has clearly stated that its ability to shed unaffordable headcount and meet financial plan targets would be ensured by its willingness to utilize layoffs, as a last resort, to ensure that the County's fiscal recovery remains on track. However, since layoffs tend to affect the less senior and lower paid employees, deeper than anticipated staff reductions may be necessary, resulting in a greater than planned disruption to County services. The ramifications of this potential budget-balancing strategy must be carefully evaluated by the County and then be measured against the County's ability to deliver its desired level of services. Absent this commitment, however, we feel the financial plan savings may be unlikely to materialize in its entirety.

The feasibility of matching attrition to program priorities is virtually impossible for NIFA to assess. While the Plan does identify, by department, where the County contemplates eliminating 901 positions, the Plan lacks the complete specificity of which programs the County wishes to scale back or eliminate.[8] Moreover, the County stated that it will continue to refine these targets during the next several months as it conducts an operational analysis of major County departments to determine how the headcount reductions and budgetary savings can be accomplished without experiencing a devastating erosion of County services. Clearly, the viability of these reductions will be

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[8] The Plan proposes to transfer 136 Public Works positions currently funded in the General Fund to a newly created Sewer and Storm Water Authority, as discussed on page 39. While this funding shift would clearly result in General Fund budget relief, the personal services liability merely resurfaces as a taxpayer obligation captured in the new Authority's tax levy

heavily dependent on the County's ability to effectively redeploy existing personnel from low priority functions into critical vacancies.

Because of the magnitude of these unspecified actions and the actions' critical impact on the attainment of structural balance, we continue to advocate the need for more detailed long-term planning. Detailed planning is essential to the viability of the four-year plan. The County's ability to effect a smooth transition to a smaller workforce will be significantly greater if these details are articulated as soon as possible. A comprehensive description of the programmatic changes that reflect fiscal policy decisions is vital to ensure that programs capable of being reduced or eliminated are of sufficient size to generate the budgeted savings accounted for in the Plan. It should be accompanied by a list of the critical tasks and milestones that must be accomplished to ensure that initiative slippage and/or failure is quickly recognized and contingency plans are developed and implemented in a timely fashion. Policy choices should drive the workforce reductions rather than be driven by them. We encourage the County to begin articulating these detailed plans as part of its next financial plan submission this coming September when the first out year of this financial plan moves up to become the proposed budget year, FY 2003.

LABOR CONCESSIONS

One of the major cornerstones of the Multi-Year Plan relies on negotiating concessions from the labor unions. The plan includes a total of $65 million in concessions from the Police Benevolent Association ($30 million), Detectives Association Incorporated ($2 million), Superior Officers Association ($5 million), Sheriff Officers Association ($3 million), and the Civil Service Employees Association ($25 million).

The plan chronicles recent settlements for these unions and argues that they have been far in excess of inflation and comparable unions in the region. A key component to achieve this level of savings will be the substantial reduction of future wage increases, with the possibility of a wage freeze. Other forms of compensation (e.g., paid holidays, longevity, shift differential, equipment and clothing allowances, leave accumulations, reduced employer health contributions, meal stipends, etc.) will be areas considered for potential savings. While the plan allows for flexibility and givebacks in these other areas the desired level of savings ($65 million) cannot be achieved without significantly lower settlements and/or wage freezes.

The Multi-Year Plan also seeks to amend the NIFA statute to provide for special arbitration procedures during an interim finance or control period. The County is looking to use the financial plan as a significant weight when an arbitrator considers the ability to pay for future increases. The specific language offered by the Administration would ensure that prospective wage increases are "consistent with the financial plan."

To the extent that the County cannot achieve $65 million in savings through collective bargaining, layoffs will be implemented to achieve a commensurate fiscal impact. The difficulty in achieving this is that the County has already committed to reduce the workforce by 1,200 positions by September 1, 2003. This represents a reduction of 12.7% from a baseline of 9,442 filled full-time positions. The County indicates that the elimination of these 1,200 positions will impact all areas of Nassau County government and will bring the County workforce to historic lows.

If the County is not successful in achieving $65 million in labor concessions and is forced to resort to further layoffs, it is likely that they would need to downsize the workforce by an additional 800 to 1,000 employees. This would bring the total reduction in personnel to over 2,000 employees, approximately 22% of the total workforce. While the County claims it is committed to achieving these savings, the Multi-Year plan does not offer any specifics as to what services would be reduced or eliminated. Considering the number of services that are mandated these reductions are draconian and it will be incumbent upon the Administration to define the impact on services that these reductions will have.

MANAGERIAL INITIATIVES

The administration has included 45 initiatives in its Multi-Year Financial Plan. These amount to $65 million in savings by 2005 with most not showing revenue or savings until 2003. The initiatives are discounted at the rate of 50% for years 2002 through 2004, with a 15% discount in year 2005. Many of these initiatives appeared in prior plans but were not pursued with vigor. Since many of the initiatives appear to be lacking in detail and are implementation driven, the County must develop detailed implementation plans to help ensure that the targeted savings are achieved. It is hoped that there will be significant initiative progress before the submission of the September, 2002 Plan. In the meantime, we will watch for necessary progress through the monitoring and quarterly reporting processes.

Public Safety and Labor

Initiative 01: E-911 Cell Phone Surcharge

New York State collects a surcharge on each wireless cell phone to enhance response to emergency calls. Since many of these calls are answered by local Police, the County has joined with Suffolk County in seeking a distribution of a portion of the existing surcharge. The surcharge is $.70 per month. Nassau County has over 700,000 active cell phones. A bill has been introduced by the Governor in Albany that would add an additional $.30 to the existing surcharge that would be distributed to the various counties.

This is a reasonable request, although it has not met with much success in past attempts. However, since no revenue is expected until 2003, it is quite possible for the County to meet its goals for this initiative in 2003 and the out years.

2002 $0

2003 $1,250,000
2004 $2,000,000
2005 $3,000,000

Initiative 02: Ambulance Billing

The County's outside vendor for ambulance service billing ceased doing business with the County in July. The new vendor has already begun billing for the $6 million in backlogged and unbilled ambulance runs.

This initiative is based on a revised contract for ambulance billing services. The recently executed document is the result of an extensive Request for Proposal process conducted after much research by the Nassau County Police Department. The Police Department has also strengthened internal management practices. Based on expected collection rates of 60% with the new vendor, the revenue projections appear to be reasonable and attainable as projected.

2002 $2,000,000
2003 $2,000,000
2004 $2,000,000
2005 $2,000,000

Initiative 03: Fleet Management

Better organization and control of the County's fleet management activities is long overdue. We agree that there are savings to be generated by consolidation and inventory control. Certainly, NIFA supports funding these costs out of the operational budget as opposed to debt issuance. The County expects to reduce fleet-related costs by a minimum of 10% (the County spends approximately $15 million annually on fleet management related activities) while at the same time improving service delivery through a comprehensive plan. The anticipated initial cost for this initiative is $30,000 for an automated tracking system. However, it is important to bear in mind the difference between law enforcement fleet maintenance and other County fleet maintenance responsibilities. The County's law enforcement operations, particularly those of the Police Department, are a 24/7 business, and sector and other precinct vehicles run around the clock. This results in greater than normal wear and tear. Any consolidation and merging of fleet management operations must account for this additional burden and must be responsive to law enforcement vehicle needs in an expedited fashion. Since the timing and the level of projected savings are gradual, this initiative appears to be reasonable.

2002 $0
2003 $250,000
2004 $750,000
2005 $1,250,000

Initiative 04: Car Forfeiture Auctions

The Police Department seizes cars from alleged drunk drivers upon arrest. The County is planning to hold four car auctions per year instead of the present schedule which is less than one auction a year. The County normally seizes in excess of 350 cars each year. The Plan estimates raising approximately $2,500 per vehicle sold. At the County's most recent auction, the average sale price per vehicle was $1,700. Even with improvements, the judgment process is cumbersome. Since the process for the auction of these DWI forfeited vehicles has met with very little success in the past, the revenue projections for this initiative appear to be overly optimistic.

2002 $0
2003 $500,000
2004 $750,000
2005 $750,000

Initiative 05: Policing in Woodsburgh (Five Towns)

The County has failed to renew its agreement with the Village of Woodsburgh to recoup the cost of Police service to that community. The annual costs for this policing activity is in excess of $400,000. The County is attempting to negotiate with the Village to obtain a special or direct tax assessment so that the Village can reimburse the County. Thereafter, the Village will include the required tax as part of its annual assessment. This reimbursement probably can and certainly should be obtained.

2002 $0
2003 $400,000
2004 $400,000
2005 $400,000

Initiative 06: Parking Enforcement (Boot & Tow)

The County purchased 15 parking enforcement "boots" in an attempt to enforce parking restrictions. The Plan estimates that a well-publicized effort would achieve average incremental payments of at least $2,500 from a minimum of 100 scofflaws per year by the year 2004. Since there are no revenue projections under this initiative until years 2004 and 2005, there appears to be sufficient time to get this initiative up and running. The projected amounts seem reasonable.

2002 $0
2003 $0
2004 $250,000
2005 $250,000

Initiative 07: Overtime Reduction/Alternative Staffing

Under this initiative, the Administration plans to utilize retired correction officers on a part-time basis to reduce overtime at the correctional facility. This facility incurred approximately $16 million in overtime in 2001.

Since this initiative is not scheduled to generate savings until 2003, there is still some time to explore its feasibility. It presents many questions: Will these substitute correction officers receive ongoing training, and if so, what will this cost? Since presumably, these substitutes are older than regular officers, is there an expectation of increased workers' compensation costs? Has ShOA agreed to the use of these substitute officers? While we note that the use of substitute correction officers may have been utilized in other states, no jurisdictions within New York State are mentioned. We have serious doubts with regard to this initiative.

2002 $0
2003 $500,000
2004 $500,000
2005 $500,000

Initiative 08: Ticket Processing Surcharges

New York State has authorized the imposition of a surcharge of $15 per moving violation and $10 per parking ticket to cover a portion of the administrative costs for the Traffic and Parking Violations Agency's adjudication and collection functions. There are over 150,000 parking tickets and 175,000 moving violations handled by the Agency each year. The surcharges have not been revised for inflation since 1998. The planned increase is $5 per ticket. State legislation is required for the imposition of this additional surcharge. This amount is small and reasonable. The revenue projections appear to be attainable.

2002 $0
2003 $0
2004 $1,000,000
2005 $1,000,000

Initiative 09: Partial Payments Trust Fund

When traffic and parking ticket payments are not made in full, the partial payment amount is deposited in a trust fund. Payments currently on deposit in the trust fund account, awaiting supplemental payment, date back as far as 1995 and have never been recorded as revenue by the County. As of 2002, the accumulated balance in the account was approximately $1.5 million, of which 45% represents payments due the State. Upon approval from the New York State Department of Motor Vehicles, the County plans to transfer the County's portion of these funds from the trust fund to the County's general fund. This initiative is projected to result in a one-time revenue of $750,000 in 2003. It is reasonable and should be pursued.

2002 $0
2003 $750,000
2004 $0
2005 $0

Initiative 10: Delinquent Ticket Collections

The Traffic and Parking Violations Agency is not equipped to adequately administer the collection function for payments associated with parking and moving violations. There is a backlog of unprocessed tickets and delinquent collections dating back several years. The Agency's outside vendor has recently sent out approximately 2,400 past-due default notices. Only those tickets over $300 were selected. Future savings will be achieved by outsourcing the entire delinquent collections function.

Review and reorganization of TPVA collection efforts are long overdue. The revenues projected from implementation of this initiative are small in the beginning and reasonable throughout.

2002 $100,000
2003 $250,000
2004 $400,000
2005 $400,000

Initiative 11: Website Advertising

The Office of Consumer Affairs is planning to create an interactive website to which members of the public will turn to obtain information on all business types, file complaints on-line, and make inquiries via email. Presently, there are nearly 50,000 licensed businesses registered in the County. Consumer Affairs plans to provide the option for registered businesses to list their services on the website for a $150 fee. It is planned that in order to protect itself from possible consumer lawsuits, the site will have a disclaimer indicating that the County in no way endorses any of the listed businesses. While this is an interesting idea and might become popular thereby justifying the revenue projections for the out years, we question whether a mere disclaimer will protect the County from consumer lawsuits**.**

2002 $0
2003 $100,000
2004 $200,000
2005 $200,000

Initiative 12: Item-pricing Exemption

A program is being proposed that will allow all retail grocery stores selling food products and other specified classes of merchandise to apply for an exemption to the existing item-pricing requirements. Compliance with these requirements is expensive and labor intensive. There are presently 123 supermarkets operating in Nassau County affected by this requirement. This initiative would allow stores to maintain a dedicated price check scanner in each shopping aisle for customer use, upon paying a non-refundable annual fee of $5,000. Based on an informal survey, the county expects up to 75% of affected retail outlets to seek the exemption each year. This makes sense and should be implemented.

2002 $0
2003 $500,000
2004 $500,000
2005 $500,000

<u>Budget and Finance</u>

Initiative 13: Cash/Receivable Management

The County plans to create a centralized management oversight function to monitor cash collections and to manage receivables and/or lease collections. In the past, this was handled by multiple departments without any written procedures, standardized forms, or internal controls. It is anticipated that a centralized approach would reduce uncollected amounts by 50% or more. The county is also planning to offer check and credit card payment methods, and it is anticipated that this should increase collections on certain payment types by up to 20%.

This initiative is a business practice that should be in place. Since there are no revenue projections under this initiative until years 2003 through 2005, there appears to be sufficient time to get this initiative up and running.

2002 $0
2003 $1,000,000
2004 $1,500,000
2005 $2,000,000

Initiative 14: Unified Court System/Interest Subsidy

Nassau County is responsible for capital construction, repair, and maintenance costs for the New York State courts located within the County. The State also requires the County to prepare and submit a capital plan that outlines its intended investment in capital assets during the upcoming three-year period. The Unified Court System of the State provides a ¼% interest subsidy on all debt issued to fund Court related capital facilities. Nassau County has lost its eligibility for this funding. The County is currently preparing a revised capital plan for submission to the Court system. Upon approval, the County will be eligible for receipt of past due interest reimbursement of approximately $400,000 for both 2001 and 2002 periods. Thereafter, the annual interest subsidy is expected to continue at the $400,000 level pending further capital investment in the courts. Since the legislation that provides for the payment of this interest subsidy is already in place, Nassau County should be able to realize this projected revenue.

2002 $0
2003 $1,200,000
2004 $400,000
2005 $400,000

Initiative 15: Fraud Hotline

The County plans to re-institute the Commissioner of Accounts Office to recoup losses due to fraud, theft, abuse and other actions. A toll-free (800) number will be instituted to assist in the reporting of such activity.

While the Office of Commissioner of Accounts performs a valuable function, we seriously doubt the ability of that office to recoup the amounts projected. However, since the reimbursements are not scheduled to begin until 2003, with significant increases not projected until 2004 and 2005, it is possible that a well-publicized campaign might result in the projected recoupments.

2002 $0
2003 $500,000
2004 $1,000,000
2005 $1,500,000

Initiative 16: Audit Recoveries

The County plans to expand the focus and scope of the internal audit function, targeting large and high-risk contracts and vendors to achieve an average ½% disallowance rate, in addition to requiring a 5% retainage for all contracts in excess of $100,000.

The County has indicated past efforts at audit recoveries were thwarted. Since there are no revenue projections under this initiative until year 2003, there appears to be sufficient time to get this initiative up and running. The projected performance expectations appear low.

2002 $0
2003 $500,000
2004 $1,000,000
2005 $1,500,000

Initiative 17: Cost Allocation

The County plans to dedicate part-time personnel, supported by an outside contractor with expertise in Federal and State regulations and allowable allocation methodologies, to track and allocate direct and indirect costs. This is handled, at the present time, by two manual systems. It is expected that these efforts will generate $5 million annually. Because of respective reimbursement rates, caps on certain programs and claiming, etc., the County is expecting actual eventual savings to be 20% of the $5 million.

This initiative is a business practice that should be in place. In light of the work necessary to accomplish this initiative the projected performance is over stated. We have serious doubts with regard to this initiative

2002 $250,000
2003 $1,000,000
2004 $1,000,000
2005 $1,000,000

Initiative 18: FICA Refunds

When an employee is injured at the workplace and seeks workers' compensation, the employee draws upon leave accruals to receive regular pay while awaiting a benefit determination. When the benefits are approved, the employee and the County are entitled to refunds for the FICA taxes previously paid. The County has been using an outside contractor to submit these refund applications.

This initiative represents the county taking the reigns from an outside contractor. It is a good business practice that should be maintained. There are no revenue projections under this initiative until years 2003 through 2005. There appears to be sufficient time to get this initiative up and running.

2002 $0
2003 $200,000
2004 $200,000
2005 $200,000

General Services

Initiative 19: Capital Project Chargebacks

The Department of Public Works manages the capital planning and project implementation process involving County-owned roads, buildings, etc. Most capital projects create an asset of value with a useful life beyond one year. As such, departmental costs related to this process are re-allocated and charged back to the various funding sources in order to match the useful lives of the assets with the costs (debt) on an ongoing, long-term basis. The department typically incurs between $4 million and $5 million for this purpose on an annual basis. This initiative anticipates enhanced tracking of departmental costs and services. It is much needed. Through improved management, the Department of Public Works should easily reach the initiative chargeback goals.

2002 $500,000
2003 $1,000,000
2004 $1,000,000
2005 $1,000,000

Initiative 20: Utility Fees/Road Construction

The County plans to increase permit fees for utility companies that need to perform work on County owned roads, sidewalks, etc. Approximately, 1,500 permits are issued annually. At the present time, the County charges a one time, flat fee of $150. With a fee scale from $250 to $1,000, and fines for non-compliance ranging from $500 to $2,500, utility companies are more likely to perform work in a timely and quality manner. Both the fee and fine structure of this initiative are reasonable. The increased fees and the imposition of fines serve a good government purpose.

2002 $0
2003 $200,000
2004 $200,000
2005 $200,000

Initiative 21: Energy Conservation

This initiative is three-pronged: conservation to save on the County's $25 million annual bill for public utilities; recycling of the County's trash; and environmentally sensitive programs such as eliminating the use of sand by road crews.

Conservation and recycling efforts are admirable, and consideration of the use of alternative energies is to be encouraged. However, recycling is usually very expensive.

In fact, New York City is in the process of reviewing its recycling policy in an attempt to save money. Energy conservation may generate some savings, but we do not believe that the use of sand by road crews can be totally eliminated. In addition, energy conservation efforts typically require additional capital investment. While this initiative may produce some savings, we doubt whether the savings levels will be as high as projected.

2002 $0
2003 $2,000,000
2004 $4,000,000
2005 $5,000,000

Initiative 22: Mail/Print Shop

The County plans to conduct a comprehensive analysis of its mail, printing, and graphics operations. The annual expenditure for these functions is nearly $4 million.

With some technological investment and departmental discipline, the savings as outlined in this initiative appear to be reasonable for years 2003 through 2005.

2002 $0
2003 $250,000
2004 $400,000
2005 $500,000

Initiative 23: Copy Machine/Inventory Control

There is very little in the way of management and control of the County's copy machine functions. Some machines are leased; some are owned; some have maintenance contracts; some do not. A comprehensive review is long overdue. Certainly, there are savings and efficiencies to be had with regard to the County's copying requirements. The projected savings appear to be reasonable.

2002 $0
2003 $100,000
2004 $150,000
2005 $200,000

Initiative 24: Document and Record Retention

The County's information systems are generally stand-alone proprietary systems containing outdated, incomplete data. The County plans to identify all key documents and assign each to an owner who will be responsible for the creation, maintenance, distribution, and storage of the document.

It is vital that a comprehensive information/communication policy be developed and managed. However, we believe that the Plan underestimates the costs involved with this initiative and overestimates the savings. We also believe that the timetable outlined in the initiative is unrealistic.

2002 $0
2003 $100,000
2004 $200,000
2005 $400,000

Initiative 25: Central Stores/Distribution

This initiative involves a total restructuring of the County's purchasing system with reliance on a JIT inventory system. Nassau County's purchasing system is long overdue for a complete overhaul. However, we believe that such an overhaul does involve some initial cost or investment, and we believe that 2003 is too soon to count on savings. While it is important to strive for JIT inventory, the nature of the business of government which, at times, may mean life or death situations, does not permit a totally JIT inventory system. Within the County's present system, there is vast room for improvement. This initiative must be pursued and will eventually result in savings and greater efficiencies.

2002 $0
2003 $200,000
2004 $100,000
2005 $0

<u>Health and Human Services</u>

Initiative 26: Medicaid Utilization

The County, after consulting with a number of firms that specialize in Medicaid reform, expects to reduce its local share of Medicaid expenditures by almost 1% in FY 2003, 2% in FY 2004, and 3.6% in FY 2005 through a series of actions intended to cut Medicaid utilization and associated costs. Compared to baseline projections, this initiative is expected to generate financial plan savings of $2 million in FY 2003, $5 million in FY 2004, and $10 million in FY 2005.[9] The County stated that these efforts, which include the development of a state-of-the-art data warehouse of claim records, will allow for a closer analysis and evaluation of claims to identify and eliminate fraud and abuse, influence Medicare Part A and B maximization, and increase 3rd party billing and recovery. In addition, the County expects to realize savings from the mandatory use of generic drugs by Medicaid recipients effective October 1, 2002, a new provision contained in the Health Care Reform Act of 2002 to address the rapidly rising cost of pharmaceuticals. This initiative will require the ongoing support of the State's Medicaid Fraud Control Unit and assistance from medical providers to yield the full level of savings anticipated by the County. While it is currently unclear to what degree the

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[9] The County's baseline projections for Medicaid are discussed in "Medicaid" beginning on page 12.

County can effect change in any of these areas, the assumed savings are modest and back loaded. The County must continue to closely monitor Medicaid expenditures while pursuing these savings to ensure that variances are quickly recognized and addressed.

2002 $0
2003 $2,000,000
2004 $5,000,000
2005 $10,000,000

Initiative 27: Grant Funding

The County has indicated that their decentralized and disorderly departmental and program management has resulted in numerous missed opportunities for operational efficiencies and external funding of operating costs through grants. The County maintains that centralization and coordination of all grant writing will enable the County to tap into the vast resources of Federal, State, and private foundation grants. Based on preliminary research the County anticipates that more than $15 million could be obtained through enhanced application and compliance efforts. The County assumes that as much as half of these untapped resources could be used towards existing services through creative cross-departmental cost sharing schemes and synergies. The Plan phases in the anticipated gap-closing relief of $2.5 million in FY 2003, $5 million in FY 2004, and $7.5 million in FY 2005. We are encouraged by the County's decision to enhance its ability to pursue grant funding, considered by many to be an underutilized resource for delivering subsidized services to County residents. However, the County must delineate in its next financial plan submission specific programs it currently funds with tax levy resources that will now be supported by newly acquired grant resources.

2002 $0
2003 $2,500,000
2004 $5,000,000
2005 $7,500,000

Initiative 28: Day Care Center/ Reduced Salary Enhancement

The County currently provides discretionary funding to enhance the salaries of certain employees working for childcare providers. The childcare providers use these resources to aid in the recruitment and retention of qualified day care staff through a salary enhancement of $5,000 per fulltime head teacher and $2,500 per fulltime assistant teacher. The County stated that there are approximately 55 providers that receive nearly $4 million to enhance the salaries of over 1,000 teachers. The County now proposes to reduce the level of salary enhancement by 10% in FY 2003 and 25% beginning in FY 2004 to generate savings of $400,000 in FY 2003 and recurring savings of $1 million beginning in FY 2004. It is unclear if there is sufficient support in the Legislature to enact this initiative.

2002 $0
2003 $400,000

2004 $1,000,000
2005 $1,000,000

Initiative 29: Homemaker Program/Reduction

The County provides non-mandated homemaker services to certain County residents, primarily to senior citizens with incomes below 150% of the Federal poverty level. Eligible persons receive assisted living assistance in the form of housekeeping, cooking, etc. at an annual cost of $2.8 million. The County proposes to reduce its funding of this program by 25% beginning in FY 2003 to save $700,000 annually. The County hopes to compensate for these cuts by attempting to transition eligible clients into Medicaid or an enhanced version of the Expanded In-Home Services for the Elderly (EISIP) program, thereby leveraging non-County resources.

2002 $0
2003 $700,000
2004 $700,000
2005 $700,000

Initiative 30: Master Contracts

The County stated that it currently executes over 2,200 contracts per year with agencies and individuals to provide a range of services from special education to meals on wheels. The County maintains that the implementation of a master contacts program will generate both internal and external savings through reduced administration fees and generate recurring budget relief of $500,000 beginning in FY 2003. While it is unclear if the County can realize this level of savings, we encourage the implementation of initiatives that foster improved productivity and smarter government.

2002 $0
2003 $500,000
2004 $500,000
2005 $500,000

Initiative 31: Expand Drug Courts

The Administration contends that studies have shown that specialized courts, in this instance a drug court, where first time, non-violent offenders are offered treatment in lieu of incarceration, produce nearly $5 in medical, criminal, and social services savings for every dollar spent. The initial investment contemplated is only $100,000 for organization and staffing. It does not appear that other costs such as increased treatment costs are factored in. Savings are not due to occur until 2003 and seem overly optimistic for the out years.

2002 $0
2003 $1,000,000
2004 $1,500,000

2005 $2,000,000

Initiative 32: Grant Fund Surplus

The County's budget and accounting systems record transactions associated with fully reimbursable programs and activities in a Grant Fund. After a preliminary review, the County contends that while revenues were properly recorded in the Grant Fund, expenditures were not. This resulted in an excess fund balance of approximately $4 million in the Grant Fund. After the completion of an independent review, the County plans to transfer the surplus to its General Fund.

2002 $4,000,000
2003 $0
2004 $0
2005 $0

Initiative 33: Program Reductions

The County proposes to reduce its level of funding provided to the Youth Board and Department of Senior Citizens Affairs. Combined, these cuts will generate recurring budget relief of $1 million beginning in FY 2003. The Plan calls for $600,000 in savings from a 10% across-the-board reduction in Youth Board contracts for programs receiving more than $75,000 in County resources. The remaining $400,000 will be derived from cuts to six programs serving senior citizens, including the Senior-mobile, a home equity loan advisory program, and other reductions to center funding totaling less than $50,000. The County stated that cuts to the centers would be limited to programs that are County-funded in excess of normal matching dollars.

2002 $0
2003 $1,000,000
2004 $1,000,000
2005 $1,000,000

Initiative 34: Handicapped Parking/Increased Fines

This initiative would raise the County's share of the handicapped parking fine to $300 (from $115) for first-time violators and to $500 for repeat offenders. There were 4,655 illegal parking violations with regard to handicapped areas in 2001. In addition, there will be a $20 charge for replacement of a handicapped-parking permit.

This initiative is real and necessary. Fines for parking illegally in handicapped areas in Nassau County should be commensurate with those of other jurisdictions. Also, the imposition of a charge for replacement permit requests may discourage requests that may not be based on valid circumstances. We concur with the timetable and with the projected revenue

2002 $0

2003 $1,000,000
2004 $1,250,000
2005 $1,250,000

<u>Economic Development</u>

Initiative 35: Reimbursement

This initiative involves the County's administration of Housing and Urban Development Community Development Block Grants. The County has recently shifted $320,000 of salaries out of the general fund and into fully funded grant fund accounts. The Office of Housing and Intergovernmental Affairs will also be moving out of rental space into County space for an additional $180,000 savings. A complete reorganization of this function is contemplated.

Since this initiative is completely within the County's authority, and, in fact, has been partially completed, we agree on the amounts and timing for the expenditure savings.

2002 $300,000
2003 $500,000
2004 $500,000
2005 $500,000

<u>Support Services</u>

Initiative 36: Outside Contracts/Reduced Reliance

This initiative seeks to reduce the County's costs for outside legal services. The Office of the County Attorney is one of the most important in the County. Unfortunately, in the past, this office was treated almost as an afterthought. The importance of maintaining a well-staffed and technologically up-to-date County Attorney's Office cannot be sufficiently emphasized. This cannot be accomplished overnight. Outside contract costs can be cut immediately, but that does not mean that the County Attorney's Office has been sufficiently reformed to meet the County's needs. The savings projected for 2002 are very desirable, but may be overly optimistic especially if labor negotiations are protracted or contentious, or in-house expertise cannot be recruited in the area of debt issuance. It must also be remembered that there will always be some utilization of outside counsel for specialized areas of the law or for particularly high profile cases. However, the management of these contracts is within the County's control and may be possible.

2002 $1,250,000
2003 $4,000,000
2004 $5,000,000
2005 $6,000,000

Initiative 37: Risk Management

This initiative involves the implementation of a comprehensive proactive system for risk management that will include policies and procedures, controls, reports, rapid response, education, training, compliance and third party oversight.

While it is important to implement an automated tracking system for historic and common problems, to train appropriate personnel, and to obtain adequate equipment to mitigate the County's risk, we believe the savings projected for 2003 are too much, too soon. The out year savings also seem a bit high. Unfortunately, juries will always view governments as having deep pockets.

2002 $0
2003 $1,000,000
2004 $1,500,000
2005 $2,000,000

Initiative 38: Workers' Compensation

The Plan assessment of the County's Workers' Compensation situation is absolutely accurate. This area has been of particular concern for sometime. It is especially troubling to learn that medical payments are up to one year late. There are two ways to handle Workers' Compensation responsibilities: to utilize a Third Party Administrator which would be responsible for the administrative side of the practice and not the legal side; or to manage the practice in house. Prior County studies have concluded that the in-house system is more cost effective. However, the choice of an in-house system requires longer startup time and dedication to obtaining and retaining the appropriate personnel. This is difficult for government to do. The County has chosen to contract with a Third Party Administrator. Either choice requires extensive technological investment not only in the County Attorney's Office but also in the other departments which interact with the County Attorney with regard to Workers' Compensation and personnel matters, such departments as the Comptroller's Office and the Civil Service Commission. Therefore, it does not appear likely that any proposed solution can generate savings in 2002 and possibly not even in 2003 since substantial initial investment will be required. The Third Party Administrator will have to be paid, the new systems will have to be installed, and the year-long backlog of medical bills must be paid. While we applaud the analysis and concur in the proposed solutions, it remains to be seen whether the County will devote the required resources to this reform effort, and whether the effort will produce the promised savings as quickly as projected.

2002 $300,000
2003 $1,000,000
2004 $1,500,000
2005 $1,500,000

Initiative 39: Employee Rewards Program

This initiative would encourage employee participation in the "change" process by providing rewards for bringing problems and/or solutions to the attention of management. Rewards would be based on 10% of the first year net savings realized from proposed initiatives, up to a maximum of $10,000, after full implementation.

An Employee Rewards Program is a good thing. The out year projected savings seem a bit high but may be achieved if the program is properly presented to County employees.

2002 $250,000
2003 $750,000
2004 $1,250,000
2005 $1,750,000

Initiative 40: Sick Leave at Half Pay

The County's labor contracts provide for "sick leave at half pay" for employees who have exhausted their leave accruals. In the past, there was very little control over the utilization of this benefit. This initiative would require the establishment of formal procedures and policies with regard to Sick Leave Half Pay. The County would manage the claim and approval process centrally, monitor employee status, verify private insurance or disability status and seek recoveries from ineligible beneficiaries. The out year savings projected for this initiative seem reasonable and appropriate.

2002 $0
2003 $250,000
2004 $250,000
2005 $250,000

Initiative 41: Direct Deposit

This initiative would grant direct deposit permission to all employees without the present restrictions. Partly because of the various restrictions, Nassau County's direct deposit participation rate is only 27% as compared to New York State's 85%. All employees should be encouraged to participate in the direct deposit program. With the current two-week lagged payroll, direct deposit should be available from the employee's start date. However, there is some transaction-based cost per employee for this benefit. There is also savings with regard to reduced time and effort for check printing, proofing, distribution and reconciliation in the payroll process. The projected savings starting in 2003 are acceptable.

2002 $0
2003 $100,000
2004 $150,000
2005 $200,000

Initiative 42: Flex Plan Spending

Nassau County has in place a Flex Spending Program to permit employees to set aside monies in accounts that are exempt from all employment, as well as income taxes, for both the employer and the employee. Savings at the employer level typically exceed 5% on average. The participation in Nassau County is just 1.5%. This initiative would increase Nassau County's participation rate through education and training.

We believe that it will be difficult to increase Nassau County employees' participation in the Flex Spending Plan to 10% as projected. We also believe that the projected savings will be difficult to achieve, particularly with lower headcount levels. However, with an aggressive education effort, the out year savings amounts may be reachable.

2002 $0
2003 $100,000
2004 $150,000
2005 $200,000

Initiative 43: Voluntary Leave

The Administration plans to resurrect the County's voluntary, non-paid extended leave policy. The Voluntary Leave policy is an important management tool. It should be considered for contract negotiations. The savings may be possible, and the adoption of the policy may be helpful in obtaining and retaining qualified personnel.

2002 $100,000
2003 $200,000
2004 $100,000
2005 $0

Initiative 44: Telecommunications

This is an important initiative. The County currently expends in excess of $6 million annually on various telecommunication systems. This is a plan to better control those costs.

While the anticipated savings appear quite high for the out years, with the availability of email for most County employees, and with internet access where warranted, we believe that the savings are realistic and more importantly that it is the County's management responsibility to review and reduce wherever possible the number of phone lines. The County should seek to aggressively renegotiate rates and should promulgate procedures and controls regarding long distance and cell phone usage. The County's telecommunications system must be brought under control.

2002 $200,000
2003 $750,000

2004 $1,000,000
2005 $1,250,000

Initiative 45: Outside Contracts/Cancellation

Over the years, there has been a proliferation of contracts throughout the various County departments. This initiative to conduct a thorough review in order to determine which existing contracts fit the vision and plans of the new administration is timely and necessary. The County spends in excess of $150 million per year on outside contracts. Those contracts that are not needed or those that are not cost effective should be eliminated, renegotiated, scaled back, etc. These savings appear reasonable.

2002 $750,000
2003 $2,500,000
2004 $2,750,000
2005 $3,250,000

DEBT REFORM

Debt reform proposals include a major proposal to create an independent Sewer and Storm Water Authority to rationalize delivery of these functions, and a multi-faceted program to reduce and restructure the County's debt profile.

Nassau County Sewer and Storm Water Authority

Summary of County Proposal

The County proposes to create a new authority to consolidate and manage all of the County's wastewater and storm water functions. Sewage collection and treatment functions are currently handled by numerous sewage collection and disposal districts covering about 85% of County residents, and are paid for by County taxes levied upon the districts. Storm water management and flood control functions are now handled by the County and funded out of the general tax levy.

The Multi-Year Plan presents operational, public policy and financial advantages to this consolidation. The County has for several years considered various sewer district consolidations and other options for streamlining operations, and this proposal is consistent with, if more comprehensive than, the prior efforts. This type of authority is an accepted municipal management structure.

The County would benefit financially from the creation of an authority. The primary benefit is that storm water debt and expenses currently borne by the General Fund would be shifted to the authority, relieving the General Fund of about $20 million per year of expense. In addition, the authority would pay $5.7 million annual rent to the County for the use of County-owned property used for treatment facilities and groundwater recharging.

Under the Plan, the new authority will refund existing sewer and storm water debt to transfer the liability from the County to the authority and to extend the term of the debt to 30 years from initial issuance. This stretch out of debt would have the effect of substantially reducing debt service expense in the early years, and increasing expense later. The lower initial expense creates "headroom" for the authority to absorb the costs transferred from the County without, the Plan asserts, requiring an overall increase in the total budget for sewer and storm water functions.

Creation of the authority requires State legislation, which has been prepared by the County. The authority would be governed by a Board of Directors appointed by the County. While the Plan language indicates that Directors would be paid, the legislation has been changed to require that the Directors be unsalaried. Implementation at the County level (execution of leases and other contracts with the authority) would require a simple County legislative majority.

Discussion

Creation of an authority could have numerous benefits:

- The authority would consolidate sewer functions in one entity, rather than the many that now exist, and consolidate sewer and storm water functions. Both changes could streamline management of these needs, eliminate overlap, create operating efficiencies, and facilitate compliance with regulatory and accounting mandates.

- It is appropriate to have debt repayments match the life of the assets financed, so that costs are borne by the users at each point in time. (Of course, the existing, shorter debt repayment schedule leaves more capacity to fund future needs within existing charges, or to reduce future charges.)

- The County believes that if a new authority is created and acquires the sewer and storm water assets of the sewer districts and the County, the New York State Environmental Facilities Corporation (EFC) may be able to provide lower-cost refinancing of outstanding debt. The Plan estimates that EFC refunding, compared to a non-EFC refunding, would save $1.2 to $1.5 million per year from 2003 through 2007, and would overall make the refunding PV positive.

It is a legitimate public policy choice to manage sewer and storm water functions through an authority, and this has been done in other jurisdictions around the country. It is worth noting that the prior administration also explored options for consolidating sewer and storm water functions.

However, the authority plan, as presented, raises many questions. Key NIFA concerns include:

- The County captures for itself the financial benefit of stretching out authority debt service. NIFA has previously reviewed and commented favorably on a County plan to extend its sewer debt financed through the State EFC to a 30-year term. However, in that case the benefits inured to the sewer district taxpayers. Here, it is the County General Fund that benefits. Rather than having the cost to users drop each year as existing debt is paid down, rates remain at existing levels, essentially shifting a cost from the General Fund to the authority ratepayers and taxpayers.

- An authority cannot legally levy taxes, only service charges, so residential ratepayers will lose a substantial portion of their tax deduction for sewer and storm water costs. The Plan envisions a contractual agreement between the authority and the County under which the County would reimburse the authority for all capital, operation and maintenance costs. Capital costs would be paid from ad valorum taxes and operations and maintenance covered by a service charge, which is not a tax-deductible expense to the residential ratepayer.

  The County Plan includes a financial pro forma illustrating the current 2002 non-authority sewer system income and expenses, and the 2003-2005 sewer and storm water income and expenses assuming the authority is created. Currently, the vast bulk of expenses are paid by taxes. While the pro forma does not reallocate the revenues between taxes and services charges, based on the expense breakdown it appears that only about 30% of the total cost in 2003 is capital-related and thus would be tax-funded. Users would lose about 70% of their deduction. We understand from discussions with the County that some transition period is anticipated to phase in changes in the rates and charges methodology, but this is not reflected in the Plan.

- The authority as presented does not appear to be an "A" level credit. The financial pro forma shows slim coverage; it is a new credit emerging from a troubled County; and the authority does not fully control its revenue stream but must rely on the County. A legal analysis is needed to establish whether the County can directly pledge its authority-related tax levy to paying its contract obligation to the authority, or must appropriate funds each year. If the County tax levy for authority purposes is subject to annual legislative appropriation, the authority becomes an appropriation-backed credit. Such credits are typically rated a notch or two below the appropriating body's credit. The authority credit quality can be raised with legal and security features, such as high coverage levels and large reserves, but these features carry additional costs to ratepayers that are not included in the plan presented.

- There are complex implementation issues, which need to be addressed. These include:
  -- The transfer of County employees to the authority.
  -- The allocation of costs among authority customers. At present, taxpayers in the various sewer districts pay different rates depending on cost structure of their district.
  -- Start-up costs of creating an authority.
  -- Availability of EFC debt issuance capacity to execute the refunding of County

GO debt is limited and subject to evaluation in the context of other needs statewide. From discussions with the County, it appears that a phased debt restructuring may be contemplated.

- The refunding debt plan raises several concerns. First, debt repayment is not just extended but back loaded, with an increase from about $30 million to about $40 million in 2008. Elsewhere, the County expresses concern about new storm water regulations that may take effect in 2005 that could require additional capital or operating expenses. Taken together with the back loaded debt service, there could be a significant spike in user charges in the period immediately following the current Multi-Year Plan. Second, the debt structure illustrated in the plan creates a total of about $42 million more "headroom" from 2003 to 2007 than is required to fund the costs transferred from the General Fund and the new rent expense. The use of this extra money is not identified. Finally, debt service shown includes the use of capital appreciation bonds or CABs. CABs are bonds that do not pay interest prior to maturity, but instead accrete in value. Because they do not pay interest, CABs increase the upfront "headroom"; however, EFC cannot issue CABs, and CABs can be more costly and less flexible than other types of bonds. We understand the debt analysis in the Plan is preliminary and subject to change, but believe that what was presented needs modification.

- The sewer districts have built up about $25 million of unreserved, unappropriated fund balance at year end 2001. It is not clear if the reserves transfer to the new authority or remain with the County. In the latter case, the authority will have to borrow money for working capital, and the County will have to chose a fair and responsible way to apply the reserves.

- The authority creates a new arm of government. NIFA has asked what portion of the projected operational and financial benefits could be achieved through consolidation without creating an authority. The County is examining this question.

- Creation of an authority requires State legislature approval, which is not assured. Therefore, in evaluating the Multi-Year Plan, the General Fund benefits of the authority must be considered at risk. The County is submitting legislation to the State, and the outcome should be known by mid-June (according to the current legislative schedule). If the authority proposal does not move forward, the County Plan and Budget submitted in September 2002 will have to reflect this and compensate for the loss of savings.

NIFA is comfortable with the authority idea on a conceptual level, and believes it is a County management prerogative to select and advocate for the sewer and storm water system it believes best for the County. However, until the Plan is further developed and important issues resolved in a way NIFA believes is fiscally appropriate, NIFA will maintain a neutral position on the County's proposed State legislation.

Debt Reduction and Restructuring Program

Summary of County Proposal

A centerpiece of the Multi-Year Plan is a thoughtful, in-depth analysis of the County's current debt profile, including comparison to other New York counties, and a detailed strategy for managing and reducing the County's debt burden to a more appropriate level. The Plan includes debt-related performance measures that the County will use to shape debt decisions and present its case for a ratings upgrade.

This type of analysis and planning is a huge step forward for Nassau County. Prior debt practices, particularly bonding for working capital costs such as tax certiorari and other judgments rather than paying these costs on an annual basis, are universally acknowledged as a key cause of the County's fiscal distress. The Multi-Year Plan initiatives lead to a slow but steady improvement in key debt indicators such as net direct debt per capita and debt service as a percent of expenditures.

The County strategy includes:

- Tax Certiorari Debt Reduction and Reform Program, which entails a $740 million NIFA refunding of County GO debt initially sold for certs. The NIFA debt would be, as now, backed by sales tax revenues, but the actual source of repayment would be County GO bonds sold privately to NIFA and paid by a $119 million general fund property tax increase dedicated to this purpose. This "mirror bond" structure is currently being used by NIFA and the County to fund the County's short term cash flow borrowings. The final maturity of the refunding bonds would be 2016, which is earlier than the current final maturity of such debt, though the average life of the debt would be somewhat longer due to a partial deferral of principal in 2003 – 2006. The County has also reduced the projected new cert borrowing from $560 million to $415 million (through the cert liability review detailed in its cert reform section), committed to pay-as-you-go financing of cert claims after 2004, and decided to have all new NIFA cert issuances match the 2016 final maturity of the restructured debt.

- Reduction in Annual Debt Issuance. The County plans to continue the recent reduction in the size of annual cash flow borrowings, as well as cut back long term capital borrowings. It outlines a capital spending management plan that it believes will enable it to meet critical County capital needs with lower funding.

- Extension of Some NIFA Debt Amortization from 20 to 30 Years. NIFA's policy to date has been to issue bonds with a final maturity of 20 years. The County asks NIFA to extend the maturity on financings for capital projects, judgments, and the cost of reassessment to 30 years. It would hold amortization of cert-related NIFA issuance to an earlier, 2016 final maturity, and of regular NIFA restructuring debt to 20 years.

- Variable Rate Debt Program. The County asks NIFA to issue up to $500 million of variable rate debt to take advantage of the historically lower cost of this financing method.

- NIFA Restructuring of County Debt to provide cash relief to the County General Fund is authorized under the NIFA statute, and about $132 million of County GO debt was restructured in 2000 and 2001. The Plan deploys this tool selectively in 2002, 2003 and 2004 to keep total County debt service at or below $320 million per year. The use of restructuring in 2004, which is permitted under the NIFA statue, is a change from prior multi-year plans.

- Various smaller initiatives are also proposed, to use unspent County bond proceeds to defease targeted County debt service and to reallocate water resource-related debt service costs to the proposed Sewer and Storm Water Authority.

Discussion

The following section will review each of the above proposals.

Tax Certiorari Debt Reduction and Reform Program

The County Multi-Year Plan rightly emphasizes solving the problem of the tax certiorari system, and attacks the problem root and branch. A major County focus is on the $856 million of outstanding County GO bonds it identifies as having been sold to pay these refunds, together with the existing and projected NIFA debt for this purpose. The "Tax Certiorari Debt Reduction and Reform Program" (the "Program") lays out a plan to reduce the amount of debt sold for cert refunds, stop selling such debt after 2004, shorten the period over which cert debt is repaid, and – most significantly – dedicate a $119 million property tax increase to the payment of debt service on past and projected cert borrowings.

The Program seeks to put the $119 million tax increase ($115 million if the senior citizen exemption is put in place) out of the reach of future County governments, to ensure that is applied solely to cert-related debt service and so "solves" the cert debt problem. The County believes a secure linkage between the revenue and the cert repayment is the best way to convince the public and the investment community, including the rating agencies, that the tax increase will be applied as intended. The linkage will be created with the following steps:

- NIFA issues sales tax revenue bonds in the amount necessary to refund the outstanding County GO debt related to certs, except a portion that cannot be advance refunded. Preliminary County analysis shows a $740 million NIFA refunding issue.

- NIFA uses the proceeds of its bond sale to purchase Nassau County GO bonds, which will be repaid in such par amounts, interest rates, and maturity dates as to fully fund the debt service on the NIFA bonds.

- NIFA and the County enter into an agreement whereby the County agrees to make monthly deposits to NIFA's bond trustee for required for debt service on the NIFA bonds. When the monthly deposit is made by the County, sales tax that would otherwise be required is freed up and goes to the County.

- If the County fails to make a deposit, NIFA will apply sales tax revenues. Thus, the issuance of NIFA debt links the $119 million tax increase to cert debt service.

Summary financial schedules provided by the County indicate that, with a final maturity of 2016, the $119 million tax increase can fund cert debt service on unrefunded County GO cert debt, on the new NIFA cert refunding debt, and on NIFA cert new money debt issued to be issued in 2003 and 2004. NIFA cert debt issued in 2000, 2001 and 2002 (projected) is not included in the $119 million; however, the new NIFA cert debt to be issued in 2002 would fully amortize by the end of 2016, to fit the goal of repaying substantially all cert-related debt by that time. A relatively small amount of NIFA cert debt sold in 2000 and 2001 would remain outstanding until 2021.

The County is tackling what is generally acknowledged to be one of its most serious problems, and applying significant resources in an effort to minimize the impact of past bad practices on future County budgets. The Program presented has important positive aspects:

- The Program changes the starting point for County budget, by moving the goalposts $119 million closer.

- The Program enables the County to put "paid" on the inherited cert debt and a substantial portion of the unpaid backlog. In contrast to a simpler and more flexible application of the $119 million to pay existing and planned cert debt service, the NIFA refunding may help discipline future County governments and prevent them from reallocating the $119 million to other County needs. The rating agencies view this as a positive.

- The cert restructuring is part of a comprehensive County program to fix the cert process and prevent future build-up of cert liability (see page 54 of this report for a discussion of other reform elements.)

- The County Program removes cert debt from the County's liabilities sooner than previously planned by specifying a shorter final maturity for cert-related debt than previously used by the County or NIFA. With the NIFA refunding, existing County cert debt is fully retired in 2016 rather than 2020; about $52 million of County debt that would have amortized in 2017-2021 is pulled in to fit within the final 2016 maturity. New NIFA debt issued for certs would also mature by 2016, rather than 20 years from the date of issuance as currently done.

- In current market, the refunding is or is close to being economically neutral on a present value basis, except for the costs related to the sale of the refunding bonds (several million dollars for an issue of this size). If market conditions changed to create negative arbitrage in the defeasance escrow, there would be a cost; however, the defeasance escrow is of medium duration and so not likely to suffer substantial negative arbitrage.

However, we have reservations about the plan as well:

- The issuance of $740 million of NIFA refunding bonds is driven by policy goals more than financial considerations. An equivalent financial result could be achieved without NIFA debt issuance by simply applying the $119 million each year to pay cert debt service. As noted above, the County believes this simpler payment plan would not have the same ratings impact as its bonding structure.

- While the County is shortening the cert debt maturities in the later years, for the period 2003-2006 it is actually deferring some existing cert debt service through the restructuring. The refunding reduces debt service for existing cert bonds by about $33 million in 2003-2006. Some of the reduction is filled by projected new debt service, but a total of about $12.5 million net reduction remains in 2004 and 2005. Although the final maturity of the existing cert debt is shorter, the average life is slightly longer.

- By shortening the final maturity of most cert debt to 2016, the County greatly increases the annual debt service cost in the years leading up to 2016. While this increase is to some extent compensated for by the dedication of the new $119 million tax revenue, it actually slows the County's pace of return to desired debt ratios. This could, pursuant to County debt policy parameters, reduce capacity for new capital issuance to meet deferred capital needs.

- The sale of $740 million bonds uses up a substantial portion of NIFA debt capacity within our additional bonds test covenants, and drives down NIFA debt service coverage. While the total NIFA issuance contemplated in the Multi-Year Plan, together with our outstanding bonds, brings total Authority debt to a still-acceptable $2 billion, it would be in a range that could limit NIFA's flexibility to meet other County needs.

The cert refunding program will require an amendment to NIFA's legislation to permit the Authority to refund more County debt than currently authorized. The issuance of County GO "mirror" bonds will also require a supermajority approval of the County legislature. As with the creation of a sewer and storm water authority, this proposal must be considered "at risk" because it requires action by parties outside the County. However, if the $119 million general fund tax levy increase moves forward with or without the accompanying refinancing, the financial benefit to the General Fund will be preserved.

<u>Reduce Annual Debt Issuance</u>

The County borrows through NIFA for its annual cash flow needs and its long term capital and working capital needs. It projects substantial budget savings from a reduction in both types of debt issuance, with savings of $2.9 million in 2002, $19.3 million in 2003, $29.5 million in 2004 and $33.2 million in 2005.

Cash Flow Borrowings. The County anticipates that continuing improvements in its financial position will enable it to reduce the size of the two annual cash flow borrowings. These borrowing have already decreased 27% from 2000 levels, to a total of $341 million in 2001. The Plan projects a total of about $200 million by 2005. This may be aggressive; we have not yet seen the cash flows that justify it (the County has given us cash flows but they do not yet reflect the initiatives in the Multi-Year Plan). By way of comparison, Suffolk County has made average annual cash flow borrowings of $281 million for the past three years.

Capital Improvement Borrowings. The Plan calls for a much smaller capital program expense level than previously budgeted. The 2001 County Capital Plan called for borrowing $150-160 million per year for capital projects. The Multi-Year projects borrowing of just $184 million over the four years 2002-2005. With unallocated NIFA capital bond proceeds on hand of about $16 million, this allows a capital program of $200 million. The County Plan also references unspent capital funds on hand of $89 million, but this will all have been legally allocated to work on specific existing projects.

The County acknowledges that its deteriorated physical plant needs investment, but asserts that a combination of strict project prioritization, aggressive financial controls, and strong project management will enable it to meet the critical needs within the tightly constrained budget amounts. NIFA agrees that there is tremendous scope for improvement in the County capital process, as the County itself recognized last year when it created a new capital budgeting system. (The first budget under the new Charter provisions passed by voters last fall is due on May 1.) Whether or not managerial improvements can be attained or, if attained, are sufficient, will be known over time.

NIFA remains concerned – as is the County – about deferred maintenance of County facilities and properties. The County's 10 year borrowing projection does include a total of $923 million of NIFA and County capital debt issuance, and these issuances are reflected in the debt ratio analysis that concludes the debt chapter of the Plan.

Limited Use of NIFA's Ability to Amortize Principal Over 30 Years

To date, NIFA has chosen to amortize each of its two bond issues over 20 years. This choice was made in consultation with the County, which had an initial bias towards shorter maturities because of the credit rating benefit. It also reflected NIFA concern that much of the debt was being sold for working capital costs (tax cert, judgments, etc) that should not generally be financed through long term debt. Also, since NIFA must legally remain in existence as long as it has debt outstanding, it was felt that a shorter final maturity was desirable.

The County asks NIFA to extend the maturity on financings for capital projects, judgments, and the cost of reassessment to 30 years. It would hold amortization of cert-related NIFA issuance to an earlier, 2016 final maturity, and amortization of regular NIFA restructuring debt to 20 years. Thus, of the total additional NIFA issuance of $1.65 billion contemplated in the Plan, new cert bonds of $515 million (31% of the total issuance) and cert restructuring bonds of $740 million (45%) would end in 2016, restructuring of $86 million (5.2%) would go for 20 years, and capital of $184 million, judgments of $109 million, and reassessment of $18 million (together, $311 million or 19%) would go for 30 years.

Thirty-year debt is not appropriate for non-capital costs, and NIFA will not agree at this time to do such issuance. However, taken as part of this overall plan and in conjunction with the shortening of the cert debt, NIFA will consider the option on an issue-by-issue basis. The exact structure of each future NIFA issue will, of course, be subject to change based on market conditions, tax considerations, and other factors specific to each situation, including County progress.

Implement a Variable Rate Debt Program

The County proposes that NIFA issue up to $500 million of debt that bears interest at a variable rate. Historically, variable rate has proven to be the least expensive type of financing, even in periods where long term rates are relatively low. However, it does expose the County to the risk of rising interest rates. In evaluating whether or not to proceed with variable rate debt, NIFA and the County must determine what factors may offset some, or all, of this risk. For example, the risks of variable rate exposure due to interest rate spikes may be offset by the savings when floating rates are lower than the fixed rates. Variable rate debt also acts as a hedge against changes in investment income; when earnings are low, the cost of debt is also low, and when the debt cost goes up it can be offset by higher earnings.

The variable rate plan outlined in the Multi-Year Plan is thoughtful and uses reasonable assumptions about variable borrowing costs. It does compare variable rate costs to an assumed fixed rate of 5.9%, which is well above the current market, so the dollar benefit may be overstated. (At the same time, the floating rate assumption is conservative, so the actual interest rate spread may well be of the magnitude assumed.)

NIFA sees possible merit in floating rate liability and will work with the County to evaluate and, if appropriate, implement a variable rate debt issuance program that helps to limit the County's negative exposure. As the Plan acknowledges, implementation will require close coordination between the Authority and the County, and may ultimately result in issuance of a different dimension and with different features than outlined in the Plan. In addition, a prerequisite to selection of variable rate debt for NIFA issuance is an examination by NIFA of the costs and administrative burdens of such a program. NIFA has a small financial staff and, based on discussions with other state issuers of variable rate debt, foresees a significantly increased administrative burden and expense for such a program. NIFA cannot commit to managing such a program until the full costs can be estimated.

NIFA is also concerned that the Plan assumes variable issuance for the Spring 2002 borrowing, but there may not be enough time for establishment of such a program. Implementing a variable rate program will require additional work in developing the bond offering and establishing internal NIFA administrative mechanisms. State procurement requirements will entail lead time and competitive selection processes for credit enhancement and/or auction agents. In addition, under the terms of the NIFA/County Financing Agreement, the Authority must receive a Declaration of Need passed by the Legislature, at least 60 days before the funds are needed, in order to proceed with borrowing. We anticipate meeting with the County very shortly to launch the financing effort, but nothing has been received to date.

<u>NIFA Debt Restructuring</u>

NIFA's enabling legislation authorizes the Authority to issue up to $415 million of bonds to refund County debt to provide General Fund cash relief. The amount of restructuring each year is limited. The legislation requires the County to close a percent of its budget gap with recurring measure, and NIFA assistance (restructuring and State aid) can then close the remaining percent. The percent split varies by year, as follows:

Fiscal Year	County Gap Closing Percent	Maximum NIFA Assistance
2001	35 – 40%	60 – 65%
2002	45 – 50%	50 - 55%
2003	60 – 65%	35 – 40%
2004	80 – 85%	15 – 20%

Previous four-year plans have assumed no NIFA restructuring in 2004, despite it being permitted by the NIFA statute. In the current Plan, restructuring is scaled back from prior projections for 2003 but added for 2004, to smooth the overall County debt service pattern. County debt peaks in 2004, though this is due mostly to the reductions in prior year debt service rather than an increase in the 2004 debt. While the 2004 restructuring is new, it is permitted under NIFA's statute and, assuming compliance with the gap-closing requirements of the statute, could be acceptable.

However, the County is projecting operating surpluses of $40 million in FY 2003 and $27 million in FY 2004. In each of these years, the County assumes NIFA debt restructuring: $27 million in 2003 and $30 million in 2004. It is questionable whether NIFA should provide restructuring assistance in years where the County has a substantial surplus.

<u>Miscellaneous Initiatives</u>

The County proposes several smaller debt initiatives.

- <u>Fund defeasance escrow with surplus bond proceeds</u>. The County has $12 million of GO bond proceeds that are not needed for the projects for which the money was raised. By law, the excess must go to retire debt. The county proposes to target the debt retirement to 2005, where it sees the greatest need for debt reduction. Subject to tax approval from the County Bond Counsel, this is acceptable to NIFA.

- Allocate debt service costs to Sewer and Storm Water Authority. As discussed in the sewer and storm water authority section, the County will transfer liability for GO debt related to these functions to the new authority. In addition, the County has not properly charged the County sewer districts for NIFA debt issued for sewer purposes. The County Plan will, appropriately, begin to make this charge. (In the discussion of reduced capital borrowing, the Plan states that, "general fund capital projects are 'owed' approximately $14.4 million in NIFA proceeds requisitioned for sewer district projects." This implies that rather than allocating debt service, the principal will somehow be transferred back. However, that is not permitted under the NIFA borrowing framework. We understand that the debt service allocation presented here is the intended plan.)

Debt Ratios

NIFA applauds the Multi-Year Plan's thoughtful, in-depth analysis of the County's current debt profile and use of debt-related performance measures to shape debt decisions and target ratings upgrades. The Multi-Year Plan initiatives lead to a slow but steady improvement in key debt indicators such as net direct debt per capita and debt service as a percent of expenditures.

The pace of change in the County's debt profile is driven by two main factors. The first is the amount of resources available and their application. The new tax levy of $119 million is used to fund existing and planned debt service, thus benefiting the general fund but not reducing the debt burden. If all or part of the $119 million was applied to reducing debt, rather than paying debt service, the County's debt burden would shrink much more quickly, but the General Fund would be $119 million farther from balance.

The pace of improvement in key debt indicators is also driven by the County's continuing need for money raised through debt issuance. The Multi-Year Plan includes substantial reductions in borrowing for capital and certs, but it still envisions NIFA bonding – exclusive of refundings and restructurings – of about $700 million in 2002 – 2004. An additional $800 million County issuance is projected for 2005 – 2012. As the NIFA legislation recognized, the County's transition to fiscal health cannot be accomplished quickly.

REVENUE ENHANCEMENTS

A major component of the Multi-Year Plan to restore structural balance relates to revenue enhancements to meet the growth of expenditures. Forty percent of the estimated gap ($427.6 million) is being closed through increased property taxes ($114.4 million) and the County's re-estimation of sales tax growth (increase of $57.1 million) from their original baseline projections.

Property Taxes

Property taxes are the second largest revenue source for the County, comprise 27% of total revenue, and are budgeted at $615.7 million for FY 2002. The $615.7 million represents an increase of 9.2% from FY 2001. The financial plan assumes an increase of 19.4%, or $119.4 million in FY 2003, which helps close approximately two-thirds of the Administration's gap projection of $185.5 million.

Chart 5 shows property tax growth since 1992 for all major funds.

(Chart 5)

As evidenced from the graph, revenues from property taxes actually decreased by 3.6% from FY 92 through FY 98. While this revenue was declining, property tax certiorari refunds were escalating at an alarming rate. This dynamic of increasing expenses coupled with declining revenues significantly contributed to the structural operating gap.

While property taxes actually declined from FY 92 through FY 98 they have risen 57.3% over the four-year period FY 2000 – FY 2003. The County indicates that the 19.4% increase in FY 2003 will add approximately $224 to the total tax bill paid by the average homeowner.

It is also important to note that under its current assessment system the County did not reassess real property. Hence, as real estate experienced growth the County did not collect any additional property tax revenue. The County is now in the midst of a reassessment project, to be completed by December 31, 2002, and it is contemplated that they will periodically perform revaluations to account for changes in total taxable assessed valuations.

The County is also seeking an exemption for senior citizens modeled on the State's STAR Enhanced Exemption. They estimate that over 53,000 seniors will be eligible for this property tax relief which will reduce overall collections by $5 million annually. This amendment of the Enhanced STAR program to permit exemptions for seniors on the County portion of their property tax bills will require State legislation.

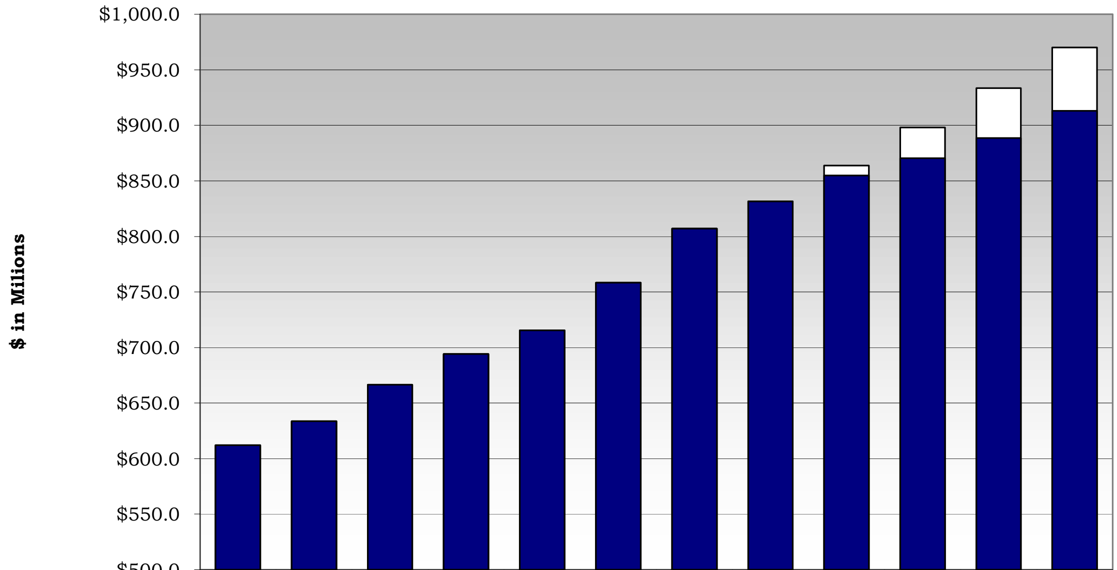
Sales Tax

Sales tax is the largest revenue source for the County, comprising 38% of total revenue, and is projected at $863.8 million for FY 2002. This represents growth of 3.9% from the actual gross sales tax revenue received in FY 2001. This revised estimate of $863.8 million is also an increase of $8.8 million from the FY 2002 Adopted budget.

Sales tax estimates for FY 2003 through FY 2005 have been increased from the County's previous projections used to calculate the gap. The baseline included in the Multi-Year Financial Plan assumed growth of 2.7% that was further reduced by the phase out of the sales tax receipts from the transmission and distribution of natural gas and electric service. This resulted in overall sales tax growth ranging from 1.8% to 2.7%.

The Multi-Year Plan now assumes an average growth rate growth of 3.9%. This adjustment increases the sales tax estimate for FY 2005 by $57.1 million. Chart 6 illustrates historical sales tax growth for the County.

(Chart 6)
SALES TAXES



	1994	1995	1996	1997	1998	1999	2000	2001	2002 Plan	2003 Plan	2004 Plan	2005 Plan
Revised Plan	$612.0	$633.7	$666.5	$694.0	$715.5	$758.2	$807.0	$831.7	$863.8	$897.9	$933.3	$970.1
Growth Rate %		3.6%	5.2%	4.1%	3.1%	6.0%	6.4%	3.1%	3.9%	3.9%	3.9%	3.9%
Baseline	$612.0	$633.7	$666.5	$694.0	$715.5	$758.2	$807.0	$831.7	$854.9	$870.4	$888.6	$913.0

Fiscal Years

Sales tax growth has averaged 4.5% for the seven-year period 1995 through 2001. The County's sales tax projections fall within recent historical trends.

To hedge against unfavorable variances the County has a contingency to increase the sales tax rate by ¼% (from 8.5% to 8.75%), which they estimate would generate $55.5 million in FY 2004 and $57.1 million in FY 2005. This increase in the sales tax rate, which would only be requested if sales tax revenues do not meet their targeted growth, would require authorization from the State legislature.

CONTINGENCY APPROPRIATION AND OTHER ADJUSTMENTS

For the out years of the proposed financial plan the County has identified two major contingency appropriations and adjustments. The first relates to the tax certiorari and assessment review process, and the second relates to a general contingency. Each of these items are more fully described below.

Tax Certiorari and Assessment Review

As required by the NIFA statute, the County has reported on its progress in streamlining the tax certiorari process and eliminating the backlog. In our December 2001 report, we stated that:

> "As of this date, the County is still unable to quantify the extent of the problem. It has not significantly upgraded its computer capability, co-located all certiorari departments in a central location, hired an administrative attorney to coordinate the certiorari process in the County Attorney's Office, filled vacancies on the Assessment Review Commission, or made progress in passing its legislative agenda in Albany. In NIFA's opinion the failure of the County to make sufficient progress in these areas results from the County's unwillingness to commit its own financial resources and make this problem the priority that it deserves."

The new administration apparently agreed with the assessment of NIFA. In each of the aforesaid areas, there has been progress or they are addressed in the Plan. NIFA is particularly encouraged by the new personnel that have been hired and the resources that are being dedicated to the certiorari problem in the Plan. NIFA further recognizes the successful efforts of the County to reduce $19 million in assessments before the closing of the FY2003 tax role.

NIFA is concerned that the additional staff required to implement the Plan might not be available, trained and mobilized as quickly as anticipated. Failure of this initiative could dramatically affect both the elimination of the certiorari backlog and the ability of the County to limit future exposure.

NIFA staff notes that the Chairman of the Board of Assessors has not endorsed the Plan. In fact, he has indicated to NIFA that he has several serious concerns. These include the availability of experienced personnel, lack of a true annual reassessment as opposed to a statistical update, and insufficient funding in key areas. A full airing of his views before the County Legislature would help to raise confidence in this aspect of the certiorari reform plan.

NIFA is not sanguine about the possibility that the County will be able to cease indemnifying the municipalities in which certioraris are commenced. We support the legislation that gives ARC a full year to review and correct the tentative assessment role and the requirement that commercial property owners give ARC the property specific income and expense information it needs to make assessment decisions. The Plan makes accommodations for the possibility that none of its proposed legislation concerning ARC may be successful. However, should the legislation fail, the margin for error in implementing the Plan becomes much smaller and the need for flawless implementation, more critical.

The $4 million of transitional State aid remains available to the County. NIFA's preference remains that disbursement of the aid be tied to a reduction in the backlog, but is willing to consider funding any non-recurring expenses that are necessary to bring down the backlog.

Contingencies

The NIFA Act requires that the Authority monitor the "fiscal management" of the County. As part of this responsibility, when reviewing the County's financial Plan, the Authority must ensure that "adequate reserves are provided to maintain essential programs in the event that revenues have been overestimated or expenditures underestimated for any period."

The County has included a discounted reserve of $12.5 million for FY 2003, and FY 2004, and $2.63 million in FY 2005. This contingency includes funds for information technology, pay-as-you-go financing, judgments and settlements. However, no provision has been made for certain potential liabilities for which there are not adequate reserves. One example is the Nassau Health Care Corporation (NHCC), which continues to project a $17 million deficit for FY 2002. Even though active efforts are underway to solve its financial problems, NHCC must implement additional actions to achieve long-term budgetary balance. While it does not appear likely that it will be necessary to dedicate resources during FY 2003 for debt service needs, the County should also be evaluating its options, and continuing obligations, if the hospital is forced to close.

V. Covered Organizations

NASSAU HEALTH CARE 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. On September 29, 1999 the acquisition "Agreement" between the NHCC and Nassau County was signed. In the 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.

The 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 NHCC 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 $259 million. These bonds were used to provide working capital, make payment to the County for the purchase of the health care assets, fund reserve accounts, and cover the costs of issuance. As part of the Agreement the County is also responsible for providing credit support for NHCC'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 $19.8 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 technically at risk for providing any credit support in FY 2002. Financial operations at NHCC have worsened since the transfer. In FY 2000 NHCC had losses totaling $20 million while losses for FY 2001 totaled $41.9 million.

NHCC has taken steps to attempt to stop this downward spiral. Primary among them has been a reduction in the workforce in January 2002 that is slated to yield savings of approximately $23 million. Other remedial actions include the implementation of a new billing system, which was completed in FY 2001 that is anticipated to generate approximately $6 million in additional collections annually, overtime control, the reopening of the Hempstead Health Clinic, and a recent affiliation with Lenox Hill Hospital that is expected to increase cardiac catheterizations.

In FY 2002 the budget for NHCC anticipates a loss of $17.2 million. Year-to-Date actuals through February 2002 are on track to meet this budget estimate. Going forward NHCC anticipates to break even by 2003 through continuing cost containment, renegotiation of contracts, and increased patient volumes though service line developments in the areas of orthopedics, general surgery, and medicine.

NASSAU COMMUNITY COLLEGE

The County Executive has not submitted a financial plan for the College because agreement has not been reached with the College regarding the appropriate level of increase in the property tax levy used to support the operations of the College. The County Executive has committed to submit a four-year plan for the College no later than April 15, 2002. The County Executive should ensure that a plan is submitted to the County Legislature in sufficient time to allow it be considered as part of its deliberations of the County Executive's proposed Plan.