Nassau County Interim Finance Authority

NIFA

REVIEW OF NASSAU COUNTY'S PROPOSED MULTI-YEAR FINANCIAL PLAN FISCAL 2021 - 2024

October 15, 2020

NASSAU COUNTY INTERIM FINANCE AUTHORITY

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I. OVERVIEW

On September 15, 2020, the Administration released its Proposed Multi-Year Financial Plan, Fiscal 2021-2024 (the "Proposed Plan"), the first year of which is the Proposed Budget for FY 2021 (the "Proposed Budget"). The following discussion reflects the analysis of NIFA staff regarding the Administration's submission.

Staff reviewed the Administration's assumptions and projections and compared them with NIFA's. Our analysis indicates that the County's finances continue to have a mismatch between recurring revenues and expenditures during each of the years of the Proposed Plan.

The County's Fiscal Challenges are Formidable

We currently project that the County may be faced with baseline deficits (prior to County gap closing actions) that could reach $346.2 million in FY 2021, $306.3 million in FY 2022, $319.7 million in FY 2023 and $381.7 million in FY 2024. Even after giving credit for specific initiatives comprising the Administration's Gap Closing Plan and the proposed fifteen-year debt restructuring transaction, which is designed to provide near-term budget relief of $285.0 million ($50.0 million in FY 2020 and $235.0 million in FY 2021) and $150.0 million in FY 2022, we project the mismatch could still result in potential deficits of $111.2 million in FY 2021, $137.3 million in FY 2022, $285.7 million in FY 2023 and $359.7 million in FY 2024 on a GAAP Basis.[1] Obviously, the fiscal challenges will be exacerbated to the extent the debt restructuring transaction is eschewed by the Legislature and/or a pandemic-driven second wave shutdown impairs the County's prospects for an economic recovery.

Even if the County can reduce the deficit to $111.2 million in FY 2021 (through the proposed restructuring transaction or other measures), this amount is almost four times the size of a one percent deficit, which is a threshold that requires NIFA to declare or maintain a Control Period. Based on the Proposed Budget, the County would need to reduce its deficit below $29.4 million for NIFA to even consider lifting the Control Period, which is an outcome we consider to be unlikely considering the large projected deficits in the Out-Years.

The COVID-19 Pandemic Derailed the County's Noted Fiscal Progress

The County had been making notable progress toward resolving its fiscal problems before the onset of the COVID-19 pandemic. In fact, the County generated a $76.8 million

1 "GAAP Basis" operating results are calculated in accordance with the NIFA statute, which mandates using Generally Accepted Accounting Principles ("GAAP") and precludes using "other financing sources" (such as bond proceeds) to support operating expenses.

surplus in FY 2019. Regrettably, despite this accomplishment the County now faces extraordinary fiscal challenges exacerbated by the pandemic that are continuing and whose fallout will likely burden it for many years.

The economic impact on County finances has been broad and deep, but has been most visibly reflected in significant shortfalls in sales tax, and departmental and fines revenue. Although sales tax revenue has been markedly less impacted in recent months than it had been in March, April and May, we caution against prematurely basing any policy decisions solely on this recent data, which may prove to be temporary.

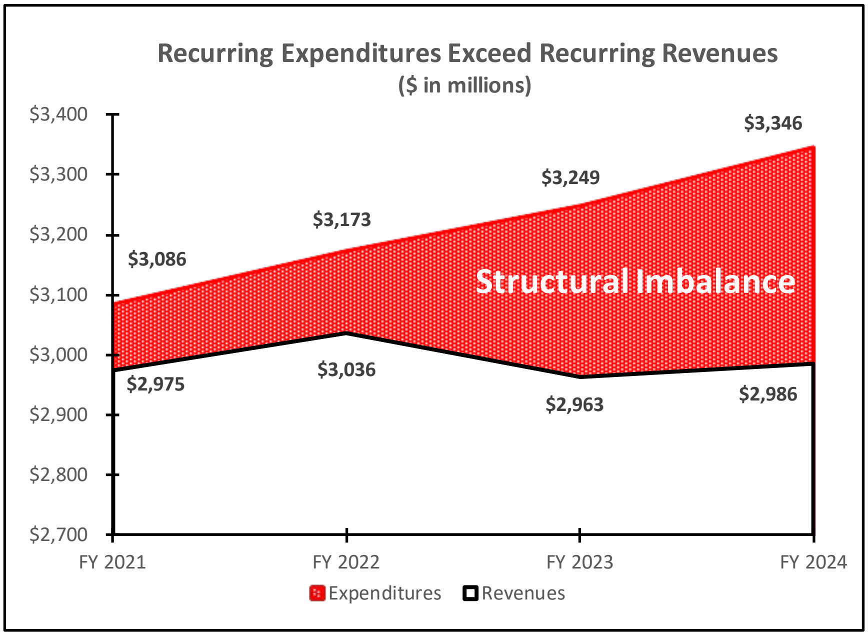
For example, should a widely discussed and feared second wave shutdown unfold in the coming months, the County may be forced to implement mid-year catastrophic cuts. These cuts would be even more severe if the Legislature decides not to proceed with the Administration's proposed debt restructuring initiative, which is designed to lock-in near-term budget relief.

Stated differently, we support the Administration's plan to secure known budget relief immediately rather than risking County finances on a possible recovery and its ability to nimbly navigate through a period of heightened uncertainty. Moreover, the proposed debt restructuring transaction would likely increase the County's ability to preserve unassigned fund balance which, in turn, would likely be viewed as a credit positive development. If sales tax revenue continues to follow a better-than-assumed trend, the additional resources can be used to offset the multitude of other risks we have identified.

Why Does the County Continue to Have Deficits?

Everyone understands why NIFA was created and why the County's fiscal distress requires continuation of a Control Period and supervision by a control board. The reason is the same now, as it was 20 years ago when NIFA was created. Although the COVID-19 pandemic was an economic body blow to even the country's most fiscally responsible municipalities, the County's ongoing utilization of non-recurring gap-closing initiatives to address budget shortfalls has solved only the near-term mismatch between recurring expenditures and revenues at the expense of long-term stability. The mismatch is known as "structural imbalance."

The County's structural imbalance is illustrated by the diverging lines in the chart below and the Administration's approach to addressing the persistent fiscal imbalance seems destined to continue for the foreseeable future. The Out-Year deficits are projected to reach, at best, $137.3 million in FY 2022, $285.7 million in FY 2023, and $359.7 million in FY 2024.



The Workforce Comprises a Large Share of County Spending

The County's biggest cost remains its personnel, which accounts for approximately half of total spending, when salaries and fringe benefits are included. Therefore, any fiscal solution will likely require a realignment of labor costs. Rightsizing the workforce, including the limitation of overtime usage, requires a ground up review of staffing needs in all departments, including the Police Department, to determine the appropriate headcount based on the County's available resources and priorities.

The Administration has taken a good first step in this regard by proposing a permanent reduction in its full-time headcount through its removal from the budget of 329 vacant positions, which it estimates will save $69.5 million. Now it needs to examine other productivity efficiencies while maintaining those cuts that it has proposed or has already made.

Labor Negotiations are Adhering to Pattern Bargaining

The County entered into a contract with the Detectives Association, Inc. ("DAI"), which was negotiated during better economic times before the COVID-19 pandemic. The Administration is requiring, and has promised the DAI, that the terms of all new contracts will be consistent with the pattern established by its contract.

Thus far, the Administration has also negotiated a new labor agreement with its second Police union, the Superior Officers Association ("SOA"). This new agreement follows the pattern of the DAI contract including minimal salary costs through 2022 and a term covering the period from January 1, 2018, through June 30, 2026.

Consistent with the Administration's employment of pattern bargaining, the Proposed Plan provides funding for mandated step increases and cost of living adjustments ("COLAs") for all other union-represented employees at the same levels established in the DAI agreement. Consequently, any effort by the remaining unions to deviate from the established pattern would exacerbate the projected deficits and require a reopening of the DAI contract. Hence, any deviation in contractual terms for the remaining unions would likely be rejected by NIFA.

Proposed Use of Non-Recurring Budget Relief

To narrow the projected deficits in FY 2021 and FY 2022, the Proposed Plan reflects the Administration's intention to rely heavily on the restructuring of current debt service obligations and redirecting of unused capital bond proceeds to pay operating expenditures. The former action will provide budget relief; however, the latter action will not provide gap-closing relief on a GAAP Basis, as is required by the NIFA Act and desired by the rating agencies.

However, regardless of the required accounting treatment, the one-time use of "repurposed" capital resources and $435.0 million of proposed debt restructuring relief ($50.0 million in FY 2020, $235.0 million in FY 2021 and $150 million in FY 2022), will leave budget holes in future years. The reasons for choosing this course of action during the COVID-19 pandemic are understandable, but the long-term fiscal ramifications should be understood.

The County's use of non-recurring gap-closing solutions has been noted by the rating agencies. Although Fitch Ratings reaffirmed the County's 'A' rating on August 7, 2020, it lowered the County's rating outlook from stable to negative. In its analytical conclusion, Fitch stated, "If the county either measurably increases its planned reliance on non-recurring sources to meet operating needs or is unable to eliminate their use as revenues recover from the effects of the coronavirus pandemic, Fitch will likely downgrade the rating." It should be noted that Moody's Investors Service has already downgraded the credit ratings of New York City and New York State because, in part, they face similar financial challenges.

Property Tax Certiorari

Significant property tax certiorari liability, and the attendant County Guarantee, continues to confound County efforts to achieve balance on a GAAP Basis. With respect to the backlog of tax certiorari refunds, the Proposed Plan contains an assumption of borrowing $200.0 million in December 2023. Until then, the Proposed Plan leaves payments for property tax certiorari refunds made from operating revenue potentially underfunded at $30.0 million annually, which doesn't account for an increase in successful challenges by property owners contesting their newly assigned assessed valuations.

We recognize that the County will continue to supplement the budgeted amount allocated for tax certiorari payments with resources held in its Disputed Assessment Fund

("DAF"). Of the $285.4 million in total DAF resources raised in the 3½ years since the initiative was implemented, the County has used approximately $49.7 million to pay tax refunds owed to property owners. It has also distributed approximately $12.3 million to certain municipal entities (e.g., towns and school districts) for their share of claims successfully litigated by the County, including approximately $2.0 million kept by the County and transferred into the General Fund.

This leaves a balance of $240.4 million in combined DAF resources, of which $80.0 million remains available to pay refunds owed to any Class Four property owner (principally commercial, industrial and vacant property) for tax grievances filed in any year. The Proposed Budget assumes the County will raise an additional $40.0 million in unrestricted DAF resources in FY 2021. Stated differently, the County has significant resources on hand to fund its efforts to bring down its tax certiorari backlog, which remains stubbornly high, and possesses great flexibility with how it uses the $80.0 million ($120.0 million including the proposed FY 2021 resources) since it is not restricted to refunds for specific parcels or tax years.

Stagnant Tax Certiorari Backlog

The long-term liability for tax certiorari payments is reported by the Comptroller to be $474.3 million, including almost $242.9 million for LIPA-related claims at December 31, 2019. If the Legislature approves a settlement (with no retroactive liability) reached between the Administration and LIPA for these claims, the long-term liability will be reduced to $231.4 million, all else being equal. The non-LIPA estimates are virtually unchanged from the estimates at year-end 2018 despite paying out $116.8 million in property tax refunds during 2019.

NIFA expects the County to demonstrate that its reformed assessment process will have translated into a significant reduction in new liability before it considers a backlog-related borrowing request, currently assumed in the Proposed Plan to happen in December 2023. The County should also consider that if any additional borrowing is approved and used for tax certiorari refunds or other significant judgments, then the Out-Year deficits will be larger, thereby possibly extending the Control Period.

Status of the Current Control Period

Because of the issues that have been outlined in this Overview and the additional details provided in the remainder of this Report, we believe it will be extremely challenging for the County to achieve balance on a GAAP Basis in FY 2021 through FY 2024. Naturally, our opinion might change in the event of an additional large infusion of recurring revenue, a rapid and sustained V-shaped economic recovery, or a significant realignment of expenditures.

Among the threshold statutory criteria that must be satisfied before the current Control Period can terminate is for NIFA to determine that the County has not, nor is there a substantial likelihood or imminence that it will, incurred a major operating funds deficit of one percent or more during the fiscal year (assuming all revenues and expenditures are reported in accordance with GAAP). Because the one percent threshold is currently approximately $29.4 million, which is a small fraction of the projected deficits through FY 2024, significant improvement in the County's finances will be required before the Control Period will terminate.

A complete enumeration of the criteria for imposing and terminating the Control Period can be found in Section § 3669 of the NIFA Act. The NIFA Act can be found at https://nifa.ny.gov/NIFA%20Act.pdf.

II. MAJOR FINDINGS

The County's fiscal outlook for FY 2021 has improved in recent months because economic trends in 2020 have been less weak than originally assumed. However, it is still likely that the County could incur a deficit of $346.2 million in FY 2021 unless considerable new revenue generating initiatives and/or expenditure reducing actions are taken, such as implementing the proposed debt restructuring transaction, which is expected to bring $285.0 million in budget relief ($50.0 million in FY 2020 and $235.0 million in FY 2021). The proposed transaction would also provide an additional $150.0 million of budget relief in FY 2022

The fiscal picture would have been much worse had the Administration not continued its policy of restricting hiring in FY 2020, and subsequently reducing its full-time headcount going forward, thereby generating significant recurring savings in FY 2021.

Our less pessimistic assessment of FY 2021 (after including the debt restructuring relief) should not be misconstrued to suggest that the County is fiscally sound. On the contrary, the County's fiscal outlook remains precarious, there is little room for unbudgeted expenditures, and the Control Period is likely to remain in effect for the foreseeable future for two main reasons.

1. Without a realignment of NIFA and County debt service facilitated by NIFA, the projected Out-Year baseline deficits could reach $346.2 million in FY 2021, $306.3 million in FY 2022, $319.7 million in FY 2023 and $381.7 million in FY 2024. Even after giving partial credit for certain initiatives comprising the Administration's Out-Year Gap Closing Plan, the projected Out-Year deficits are still $111.2 million in FY 2021, $137.3 million in FY 2022, $285.7 million in FY 2023 and $359.7 million in FY 2024. These projected deficits are several multiples of the one percent Control Period deficit threshold.

2. Our current risk projections exclude the negative impact of using additional bond proceeds (not yet officially requested or authorized) to pay tax certiorari refunds (for claims that arose prior to December 31, 2017) in 2023 or 2024. Stated differently, deficits in FY 2023 or FY 2024 will be larger (up to $200.0 million higher) to the extent tax certiorari refunds made to reduce the backlog are paid with additional borrowed money contemplated being raised by the Administration in December 2023.

We estimate that the County's fiscal progress, which concluded in a $76.8 million operating surplus in FY 2019, will be negatively impacted in FY 2020 due to the severe economic effects of the COVID-19 pandemic. The impact could result in a FY 2020 deficit of $303.4 million, prior to the implementation of any new gap-closing options.

As shown in the top row of the table below, we project that the deficits could grow to $346.2 million in FY 2021, $306.3 million in FY 2022, $319.7 million in FY 2023 and $381.7 million in FY 2024, prior to the implementation of initiatives contained in the Administration's Out-Year Gap Closing Plan, which covers FYs 2022-2024.

Operating Results on a GAAP Basis Control Period Calculation ($ in millions)										
FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020p	FY 2021p	FY 2022p	FY 2023p*	FY 2024p*
($189.2)	($125.3)	($83.1)	($63.2)	($61.2)	$76.8	($303.4)	($346.2)	($306.3)	($319.7)	($381.7)
		After Restructuring Relief And Gap-Closing Savings:				($115.2)	($111.2)	($137.3)	($285.7)	($359.7)
*Projections assume no bond proceeds are used to pay certiorari refunds in FYs 2023-24, which would otherwise increase the deficit dollar-for-dollar.										

As shown in the bottom row of the table, our analysis indicates that due to a large temporary infusion of expenditure relief provided by a proposed debt restructuring transaction – expected to generate budget relief totaling $285.0 million in FY 2020 and FY 2021, combined, and $150.0 million in FY 2022 – the projected deficits could be reduced to $115.2 million in FY 2020, $111.2 million in FY 2021, $137.3 million in FY 2022, $285.7 million in FY 2023 and $359.7 million in FY 2024. The smaller deficit projections also include credit for certain initiatives comprising the Administration's Out-Year Gap Closing Plan.

As previously noted, the Administration's plan to borrow $200.0 million in December 2023 for the purpose of paying tax certiorari refunds would increase the projected deficit in FY 2023 and/or FY 2024 by the amount of bond proceeds used to pay tax certiorari refunds in those specific years.

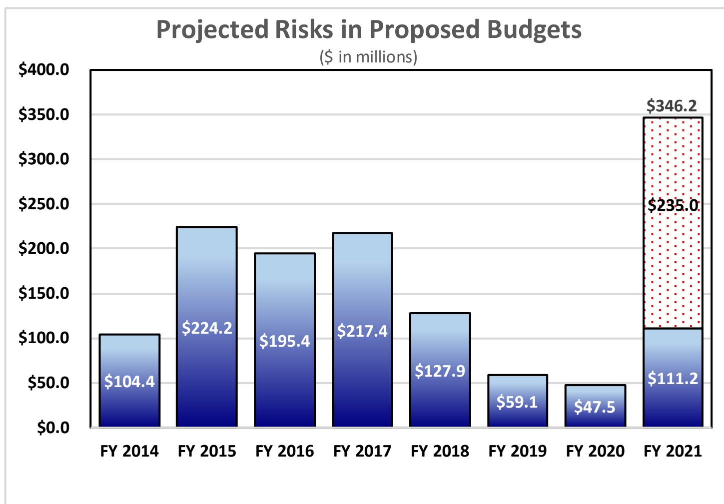
Even if the County can clear the Control Period threshold, it is only an interim step toward sustained fiscal stability. Although accomplishing this fiscal feat would show great promise, until there is a reasonably balanced multi-year financial plan in place, NIFA will retain its statutory powers until its mandatory dissolution in 2051. To be clear, a Control Period can be reimposed at a later date if the County's fiscal condition deteriorates and warrants the determination. Further to this point, the County should endeavor to create healthy reserves to address OPEB and other exigent risks and liabilities.

III. DISCUSSION OF FY 2021

As required by the County Charter and NIFA Act, the Administration submitted its Proposed Plan (see Appendix A), the first year of which is the Proposed Budget.

Our analysis of the Proposed Budget indicates that the County could end FY 2021 with an operating deficit in the Major Funds of approximately $111.2 million on a GAAP Basis if all the risks we have identified are not resolved.[2] See "Analysis of Proposed FY 2021 Budget" in Table 1. Even if all the risks we have identified for FY 2021 are eliminated, the Administration recognizes that the projected GAAP Basis deficits continue to grow in FY 2022 – FY 2024 (the "Out-Years"), which we discuss in Section IV.

The projected $111.2 million deficit, which is $81.8 million greater than the threshold requiring the continuation of the Control Period that commenced in 2011 (deficit of $29.4 million or more), is composed of shortfalls of $190.6 million in revenues and $144.7 million in expenditures, and an additional $10.8 million in certain negative GAAP adjustments estimated by the Comptroller. The sum of these risks is partially offset by $235 million in proposed debt restructuring savings.



As illustrated in the chart on the right, the projected deficit in this year's Proposed Budget is higher than the projected deficits reported at this stage in three of the seven previous years despite including the benefit of a proposed debt restructuring transaction that will provide budget relief in the amount of $285.0 million ($50.0 million in FY 2020 and $235.0 million in FY 2021). In the absence of this relief, the projected deficit would be approximately $346.2 million, which is far larger than the projected deficits reported by NIFA over this seven-year period.

2 "Major Funds" are defined as the General Fund, the Police District Fund, the Police Headquarters Fund, the Fire Commission Fund, and the Debt Service Fund. The Major Funds are the only Funds that are part of the NIFA Control Period calculation, but do not include certain major expenditures, such as the funding of sewer and storm water treatment services and support payments to Nassau Community College.

FY 2021 RISKS

Table 1 lists the major projected risks in FY 2021 prior to Legislative action.

Table 1

Analysis of Proposed FY 2021 Budget (Prior to Legislative Actions)			
($ in millions)	FY 2021 Proposed	FY 2021 Projection	Surplus / (Risk)
Revenues:			
Interest Penalty on Tax	**$32.7**	**$36.0**	**$3.3**
Fines and Forfeitures	**$107.0**	**$93.0**	**($14.0)**
Ticket Reconciliation Program (TRP)	*6.9*	*0.0*	*(6.9)*
Red Light Camera & Administrative Fee	*45.1*	*42.5*	*(2.6)*
Public Safety Fee	*26.7*	*25.2*	*(1.6)*
Other Fines	*28.3*	*25.4*	*(3.0)*
Rents and Recoveries	**45.9**	**23.9**	**(22.0)**
Capital Closeouts	*10.0*	*0.0*	*(10.0)*
Sale of County Land	*8.6*	*0.0*	*(8.6)*
Other Recoveries	*27.4*	*23.9*	*(3.5)*
Departmental Revenues	**215.2**	**198.1**	**(17.1)**
Fare Box Revenue	*31.2*	*24.1*	*(7.2)*
Revenue from Income and Expense Law	*5.0*	*0.0*	*(5.0)*
Park Fees	*20.9*	*19.7*	*(1.1)*
Other Departmental Revenues	*158.2*	*154.3*	*(3.8)*
Capital Resources from Debt	**135.3**	**3.3**	**(132.0)**
Other Revenue	**2,405.3**	**2,396.5**	**(8.8)**
Total Revenues	**$2,941.5**	**$2,750.8**	**($190.6)**
Expenditures:			
Salaries and Wages	**$873.8**	**$882.5**	**($8.7)**
Overtime	*69.7*	*85.0*	*(15.3)*
Terminal Leave	*41.5*	*46.1*	*(4.6)*
Other	*762.5*	*751.4*	*11.1*
Fringe Benefits	**602.6**	**596.4**	**6.2**
Health Insurance (active)	*156.7*	*154.0*	*2.7*
Health Insurance (retirees)	*165.4*	*163.0*	*2.4*
Other	*280.5*	*279.4*	*1.1*
Workers Compensation	**31.2**	**32.8**	**(1.6)**
Contractual Services	**271.7**	**283.7**	**(12.0)**
Early Intervention/Special Education	**139.6**	**150.4**	**(10.8)**
Emergency Vendor Payments	**57.6**	**59.6**	**(2.0)**
Other Expenditures	**965.1**	**1,080.9**	**(115.8)**
Total Expenditures	**$2,941.5**	**$3,086.2**	**($144.7)**
Subtotal Risks			**($335.4)**
GAAP Basis Adjustments*			**($10.8)**
Total GAAP Risks			**($346.2)**
Potential Debt Restructuring Savings			**$235.0**
Total Risks (including GAAP adjustment and debt savings)			**($111.2)**

*Comptroller estimated accounting adjustments

Discussion of Major Risks Listed in Table 1

Interest Penalty on Tax – This represents various penalties, interest and fees charged for the late payment of general and school taxes. Our projection estimates that these penalties will go back to the pre-pandemic levels. In FY 2020, penalties and interest were waived by Executive Order, in which the normal due date of April 1st was extended to July 1st.

Fines and Forfeitures – The Proposed Budget includes $107.0 million in anticipated revenue from fines and forfeitures. We have identified risks in the following areas:

- *Ticket Reconciliation Program*: $6.9 million based on uncertainty that the Legislature will approve the program and there is evidence that scofflaws have begun to pay their delinquent fines.

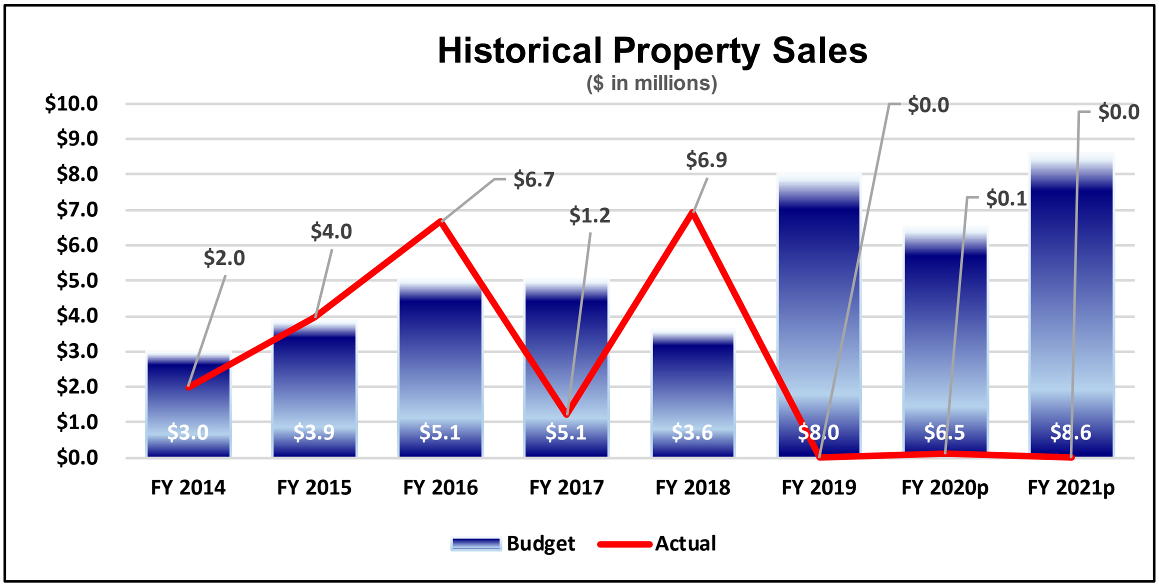
- *Red Light Camera and Administrative Fee*: $2.3 million based on current trends in FY 2020 and pre-pandemic actuals in FY 2019.

- *Public Safety Fee*: $1.6 million based on current trends in FY 2020 and pre-pandemic actuals in FY 2019.

- *Other Fines*: $1.0 million primarily related to violations against various Consumer Affairs laws and tickets issued by the Police Department and collected by the Traffic and Parking Violations Agency ("TPVA"); $0.6 million shortfall in forfeited bail and forfeited property through seizure; $0.6 million in alarm permit fines; $0.6 million in administrative fees related to tickets issued by the Police Department and collected by TPVA and $0.2 million shortfall from the Boot and Tow program.

Rents and Recoveries – The Proposed Budget includes $45.9 million in rents and recoveries, which is a category of revenue that includes the sale of County property, rental income from tenants that occupy County facilities, recoveries generated by the reversal of prior year appropriations, and recoveries associated with the settlement of claims brought by the County.

Included in the $45.9 million is a $8.6 million "one shot" that the Administration expects to realize from the sale of County property in FY 2021. Although the County has had past success in selling property, we have been given little updated information about progress in this area and note that there have been years when anticipated transactions closed later than expected (or not at all) and budgeted revenues fell short, as illustrated in the chart below. Consequently, we consider the revenue anticipated from property sales to be at risk until specific parcels are identified, potential purchasers are located, contractual agreements are reached, and the Legislative approvals are secured.



The Proposed Budget includes $10.0 million in revenue the Administration expects to recognize if it can close certain over-funded capital projects that it determines are complete. However, beside the uncertainty of this exercise, these resources are not counted as revenue under GAAP and, in accordance with the NIFA Act, would therefore be subtracted from the FY 2021 operating results. For simplicity, we are not recognizing the $10.0 million.

Additionally, although we are recognizing the budgeting of $9.6 million the Administration anticipates from a future reversal of unspent appropriations from prior years, under GAAP accounting principles (required by the NIFA Act) this amount would not be recognized in the operating results when for the purposes of the Control Period calculation.

Finally, the Proposed Budget includes $1.3 million for recovery of damaged County property of which we are holding $1.1 million at risk. The $250,000 credit is more in line with historical trending.

Departmental Revenues – The Proposed Budget includes $215.2 million in departmental revenue, of which we project $17.1 million to be at risk. We have identified the following risks:

- *Bus Fare Box Revenue*: The Administration anticipates that as the economy recovers bus ridership will increase to pre-pandemic levels and drive up fare box revenue from the lows of FY 2020, which experienced a contraction for two main reasons: (1) ridership fare collection was suspended from March 23 until June 27; and (2) even after the economy began to reopen in the summer, the NICE Bus system has been operating at between 60% to 70% of their normal ridership levels. Although the NICE Bus system received federal grants that helped cover operating losses in FY 2020, we estimate that it will take more time than assumed by the

Administration before fare collections will rise to pre-pandemic levels. Consequently, we are risking $7.2 million of the $31.2 million target included in the Proposed Budget.

- *Income and Expense*: The Administration anticipates that the New York State Court of Appeals sometime in August 2021 will rule in favor of the County's Income and Expense Law, which requires commercial property owners to provide income statements for properties that charge commercial rent. Property owners who do not comply will be subject to a fine, which the Administration estimates could produce up to $20.0 million per year of gap-closing revenue by FY 2024, but it has budgeted a much more conservative $5.0 million for its first year in FY 2021.

  While the outcome of the County's appeal to the lawsuit challenging the law, which had previously been decided in favor of the property owners, is uncertain, the income estimates are based upon the property owners' defiance of the law. The financial impact of the property owners complying with the law, if the Court reverses the previous decision, cannot be accurately estimated but in any event would assist in a more defensible property tax roll.

- *Parks Department Revenue*: Of the $20.9 million in Parks revenue, we are currently risking $1.1 million. Our assumptions are based on historical data, which indicates that the Administration's assumptions may be a little optimistic.

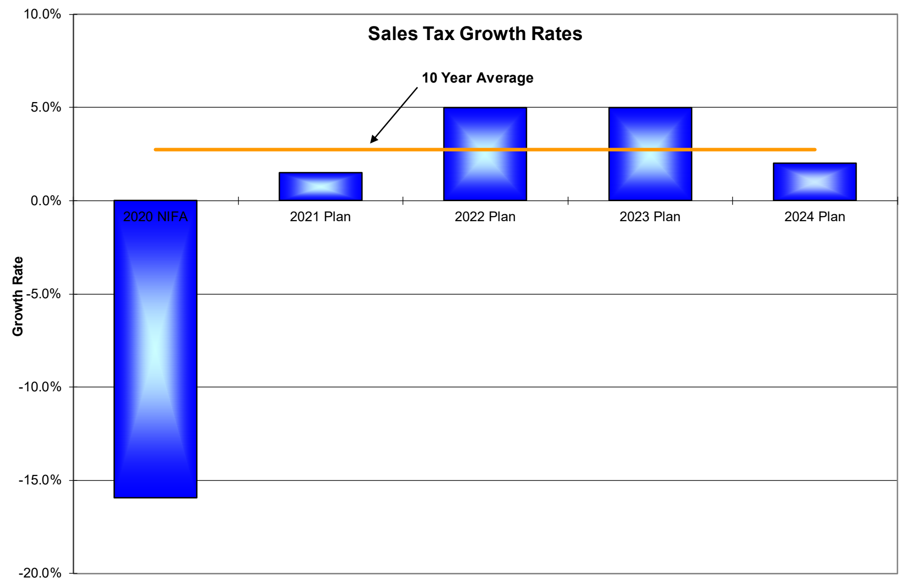
- *Other Departmental Revenue*: We are risking approximately $2.9 million from revenue that the County occasionally receives from payments for subpoena fees, and orders arising from judgements related to child support payments. We are also risking $0.4 million to be generated from the Purchase Card Program, which would convert paper checks payments to electronic transactions. The historical data for this revenue source is less than $1,000.

Capital Resources from Debt – Capital Resources for Debt includes unused cash in closed capital projects, which the County must use to pay debt service. The excess can come about for several reasons, including unanticipated Federal Aid and State Aid or intergovernmental agreements with other municipalities. The proposed debt restructuring transaction will result in lower debt service costs; however, until the transaction is executed the County is required to show the unrefunded appropriation for debt service related to currently outstanding County debt ($120.0 million) and is temporarily presenting the proposed savings as "revenue" in this object code. We have reclassified these savings and include them in the $235.0 million debt restructuring savings at the bottom of Table 1.

The Administration included an extra $12.0 million in available resources arising from a potential expansion of the debt restructuring transaction to include certain sewer and Environmental Fund-related debt. However, currently there is no sanctioned plan to expand the scope of the transaction; consequently, we are holding at risk $12.0 million in FY 2021. An additional $13.8 million per year included in each of the Out-Years is not supported by any analysis and is also held at risk.

OTB Payments – The County is entitled to receive $20.0 million per year as a result of OTB's agreement with Genting, the entity that operates Resorts World Casino at Aqueduct Racetrack. However, the Proposed Budget assumes that only $5.0 million of that amount will be forthcoming as the pace of restoring video lottery terminal operations at Resorts World Casino will prevent OTB from meeting its full legal obligation. The Administration expects to receive the full $20.0 million annually, in quarterly installments (on or before February 15th, May 15th, August 15th and November 15th), beginning in 2022.

Sales Tax Revenue – Sales tax is the largest revenue source for the County, comprising 34.8% of all revenues in the Major Funds in FY 2021, and is budgeted at approximately $1.024 billion in FY 2021. The Administration assumes that sales tax revenues will grow by 1.5% in FY 2021 followed by growth of 5.0% in FY 2022, 5.0% in FY 2023 and 2.0% in FY 2024 ("Forward Growth Rate Assumptions"). We find these growth rate assumptions to be reasonable based on historical average growth rates (denoted by the horizontal orange line), as illustrated in the chart below.



However, when we examine the Administration's projections of sales tax revenue more closely, we see that their FY 2021 financial projections assume that sales tax revenue in FY 2020 will fall 20% below the target included in the FY 2020 Adopted Budget. Based on actual sales tax receipts collected through October 9, we consider the Administration's revenue projections to be conservative. On balance, a cautious outlook is justifiable considering the highly uncertain economic course that sales tax activity will follow in the coming months under the lingering cloud of the COVID-19 pandemic.

For context, year-to-date sales tax revenue is down 9.3% in FY 2020 compared to the same period last year. As such, sales tax receipts could fall by 39.5% in the remaining checks of FY 2020 compared to the same period in FY 2019 before jeopardizing the Administration's sales tax projections. The downside margin of protection has been buoyed by surprising resiliency in sales tax activity in recent months, particularly in August, which experienced year-over-year growth of 9.7%. Since it is unclear if the strength in August was an anomaly, the Administration's outlook conservatively discounts the recent trend.

Clearly there is an opportunity for sales tax revenue to exceed the Administration's projections (contained in the Proposed Budget) if the County successfully escapes the punishing economic consequences of the COVID-19 pandemic; however, it is also possible that the positive trend could rapidly turn sharply negative if there is an increased resurgence of COVID-19. For perspective, a sensitivity analysis reveals that year-end total sales tax revenue could differ from the Administration's projection (down 39.5% in the remaining checks for FY 2020) by approximately $3.8 million for every percentage point variance (from the 39.5%) in growth rates for the remaining checks of FY 2020 compared to the same period last year.

Despite the potential for additional sales tax revenue, we caution against prematurely making any materially different policy decisions based on this recent data. We emphasize the importance of arming the County with as many robust fiscal weapons as possible to mitigate the economic fallout because, unfortunately, we cannot look to modern history for any meaningful guidance on where sales tax revenue will trend in the coming months, let alone years.

So much of the County's economic future is unknown as it continues to grapple with the COVID-19 pandemic. The pandemic is far from over and many fear COVID-19 could inflict significant additional economic damage during a potential second wave of the coronavirus in the coming months. So, as previously noted, fiscal prudence warrants securing known budget relief immediately rather than attempting to navigate the County finances through a period of heightened uncertainty using crisis management. If sales tax revenue continues to follow a better-than-assumed trend, the additional badly need resources can be used to offset the multitude of other risks we have identified.

A report by Moody's Analytics regarding Nassau County that was dated September 18, 2020, contains a sales tax forecast that reflects stronger growth than assumed by the Administration (and NIFA), in 2020, 2021 and 2022, but it notes that several downside risks in its own assumptions (rebounding gas prices, wages, and the avoidance of a second wave of the virus) remain in regard to the strength and timing of the longer-term rebound in 2021 and 2022.

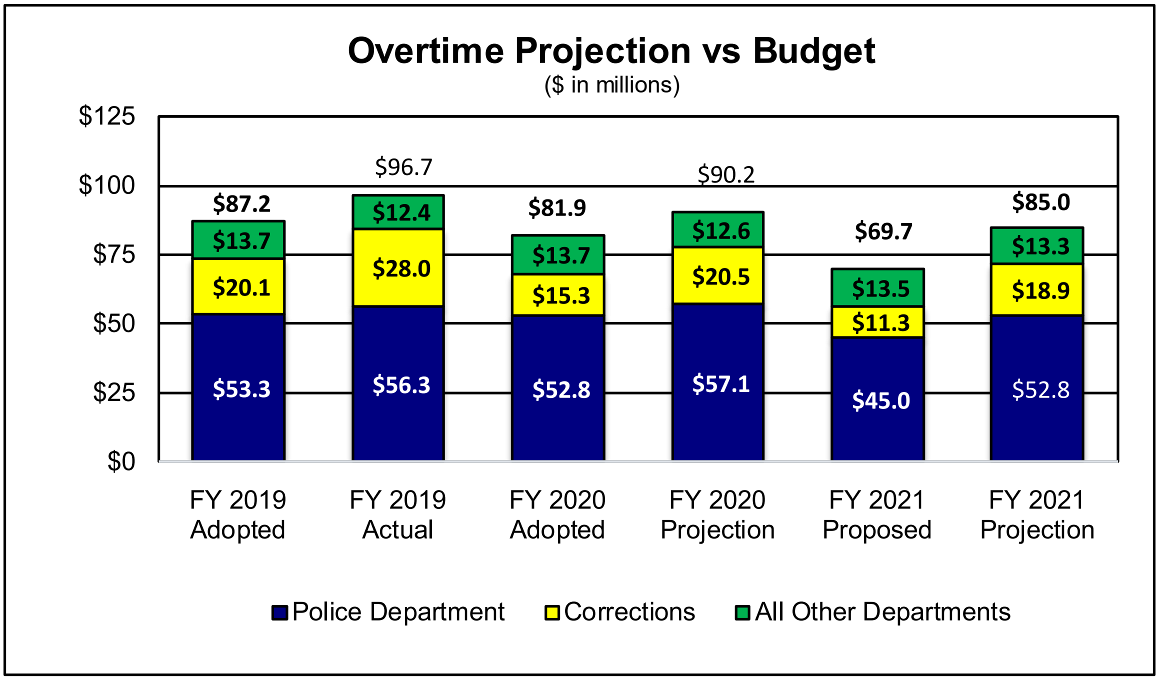
Salaries and Wages – We note that most labor agreements expired at the end of FY 2017. Since that time, the County entered into a new contract with the Detectives Association, Inc. ("DAI") covering the period January 1, 2018, through June 30, 2026. The Administration is requiring that the terms of all new labor contracts be consistent with the pattern established by its contract with the DAI, which was negotiated during better economic times before the COVID-19 pandemic. The Proposed Plan includes funding for mandated step increases and pattern-matching COLAs for all union-represented employees.

Following this policy, the Administration recently signed a Memorandum of Understanding ("MOU") with the Superior Officers Association ("SOA") delineating the terms for a new contract covering the same period as the DAI contract. The SOA agreement, which was ratified by the union's membership on September 22, 2020, is consistent with the DAI pattern. The MOU will be submitted to the Legislature (and then NIFA) for approval in the near future.

The Administration projects that salaries and wages will total $873.9 million in FY 2021. Our analysis indicates that the Administration's assumptions for salaries and wages are not unreasonable if its policy of pattern bargaining is adhered to. However, our analysis indicates projected variances from the Administration's estimates for overtime costs, which may be under budgeted by approximately $15.3 million (mostly in the Police Department and Correctional Center) and $4.6 million in terminal leave costs in the Police Department. These projected shortfalls are offset by projected savings in funded full-time, part-time and seasonal employee vacancies, which may remain unfilled.

The Proposed Plan provides the funding for mandated step increases and cost of living adjustments ("COLAs") consistent with the DAI pattern for union-represented County employees. Consequently, any effort by the remaining unions to deviate from the established pattern would exacerbate the projected deficits and likely be rejected by NIFA.

The Police Department has the largest proposed overtime budget in FY 2021, at $45.0 million, which is $7.8 million lower than the adopted FY 2020 Budget and $12.1 million lower than our projection for FY 2020. However, until the County completes the current round of collective bargaining with the PBA, we cannot give credit for any productivity savings other than those negotiated with the DAI and SOA. Consequently, we project that the Department will continue to spend in FY 2021 at a similar pace as it has in FY 2020, but revised downward for the negotiated DAI and SOA savings. This results in projected overtime exceeding the Proposed Budget by $7.8 million, as illustrated in the chart below.



The Administration expects to schedule two classes of police officers (200 new officers) during FY 2021to address the upward pressure on overtime spending attributed to existing and future vacancies; however, we are hesitant about recognizing the anticipated positive impact on overtime costs until the new officers have been hired and trained and we see evidence of success.

The Correctional Center has the second largest proposed overtime budget at $11.3 million in FY 2021, which is $7.6 million below our projections. Overtime spending at the Correctional Center has increased each year since FY 2016, even though the average census of prisoners has declined. The overtime trend worsened in FY 2019; however, the Correctional Center hired one new class in FY 2019 and expects to hire two additional classes in FY 2021, which we assume will help restrain runaway overtime spending moving forward.

We believe that workforce management and savings from vacancies and attrition could mitigate some of the Police and Correctional Center overtime risk. Although, we do not have financial data on the impact of the Criminal Justice Reform and the Raise the Age State mandates, it is estimated that both will have a positive impact on the Correctional/Sheriff Department overtime costs with a slight increase in the Probation Department. We will continue to closely monitor spending to determine if more critical measures need to be taken.

Headcount – The Proposed Budget contains 7,229 full-time positions, which is 329 positions lower than the FY 2020 Adopted Budget (see Appendix B), but 153 positions higher than the County's September 10 on-board headcount of 7,076. The Proposed Budget also includes an unallocated attrition factor of 268 heads.

The funded headcount in the Proposed Budget has decreased when compared to the FY 2020 Adopted Budget. The permanent elimination of most of these funded vacancies have helped significantly in closing the gap in the Proposed Budget. The Administration stated that currently the only funded vacancies are positions needed to deliver current services.

Fringe Benefits – Our analysis indicates that fringe benefits may be overfunded by $6.2 million. The projected surplus is composed of several variances. Based on current trending, we estimate that health insurance costs for active and retirees is overbudgeted by $2.7 million and $2.4 million respectively. Additionally, there is a surplus in various other codes within the Fringe Benefits line in the amount of $1.0 million. These favorable variances are offset by a projected shortfall of $0.5 million in the Medicare reimbursement surcharge.

Workers' Compensation – Of the $31.2 million included in the Proposed Budget for Workers' Compensation expenses, we are currently risking $1.2 million. Our assumptions are based on historical data, which indicates that the proposed amount is not adequate.

Contractual Services – The County uses outside contractors for many different services, some of which are referenced below. NIFA reviews and approves all contracts in excess of $50,000, and as appropriate requests changes or clarifications. Consequently, we feel comfortable that these costs will not exceed the Proposed Budget except for costs for providing County bus service and healthcare to inmates at the Correctional Center.

The Transdev Services, Inc. (formerly Veolia) contract is the largest County contract and is budgeted for FY 2021 at $121.3 million for the provision of bus transportation services, which is $12.0 million less than requested for this contract by the Department of Public Works. The Administration stated that no bus routes are being eliminated, although the frequency of rides may be reduced. Past objections raised by the Legislature provide uncertainty surrounding this cut; consequently, we are risking $12.0 million until final Legislative action is taken.

Another major County contract is with the Nassau Health Care Corporation ("NHCC") for providing medical and psychiatric services to inmates at the Correctional Center. The cost to the County for the provision of these services is budgeted at $21.0 million per year, which is consistent with the yearly amount historically spent for these services. The current contract with NHCC expired in August 2019, but it has been extended twice, each time for six-month terms. A third six-month extension has been presented to NIFA for consideration, which the Administration has stated would provide needed additional time for it to continue its process of negotiating a new, long-term agreement.

We also note here that NHCC continues to state in its audited financial statements that substantial doubt exists about NHCC's ability to continue as a going concern. This is troubling for the obvious reason that the County may need to secure an alternative to NHCC for the provision of health care services to its inmates should NHCC reach a point that it is unable to deliver these services. Also troubling is the County's obligation to pay debt service on NHCC's outstanding debt, which totaled $173.0 million at December 31, 2019, continues regardless of NHCC's ability to repay the County.

The Proposed Budget for the Department of Information Technology ("IT") includes an additional $1.7 million in expenses when compared to the FY 2020 Adopted Budget. The IT services have been consolidated from other departments into IT, thus the increase in the expense seems warranted.

Early Intervention/Preschool Special Education – Early Intervention is a program that provides services to children under the age of three with developmental delays and disabilities. Preschool Special Education serves children age three to five providing educational and supportive services. Both programs are administered by the County's Department of Health. The County decreased the Department's FY 2021 budget request by $12.0 million because they are currently pursuing "State Legislation to cap or mitigate the local cost of preschool and early intervention services." Since there is uncertainty surrounding State approval of this initiative, we are currently risking the $12.0 million adjustment, but have identified potential offsetting savings in transportation services, for a net risk of $10.8 million.

Emergency Vendor Payments – The Department of Social Services ("DSS") makes emergency vendor payments directly to vendors servicing clients eligible for the Temporary Assistance for Needy Families ('TANF"), Safety Net Assistance ("SNA"), and Person in Need of Supervision ("PINS") programs. The Proposed Budget includes $4.3 million more funding than the FY 2020 Adopted Budget. DSS expects caseloads to remain flat, however per day rates have increase hence the increase. However, we have taken into consideration a potential delayed impact from the COVID-19 pandemic, which could result in higher caseloads after unemployment benefits run out. Consequently, we estimate a possible risk in the amount of $2.0 million.

Tax Certiorari Payments –This discussion is limited primarily to an examination of residential tax certiorari claims. A discussion of Class Four property tax grievances and refunds (principally commercial, industrial and vacant property), including the County's use of DAF funds to supplement the operating budget, was noted in the prior section of this report.

We acknowledge several major accomplishments and obstacles that the County has had to face in resolving its certiorari problem. Among its accomplishments was the first Countywide reassessment in nearly a decade, which was completed in time for the 2020-21 tax year. Among its obstacles were several State-mandated extensions of filing dates for appealing assessed values.

More than 80,000 Nassau County taxpayers challenged their property values this year through the court system, as compared to prior years when there were between 8,000 to 10,000 property owners who typically challenged their values through the small claims assessment review process ("SCAR"). Part of the reason for the increased volume was financial stress caused by the COVID-19 pandemic, but mostly it was because the prior Administration granted automatic reductions to the huge numbers of filers. This was commonly referred to as a mass settlement program.

As matters stand now, we believe that in FY 2020, 58,429 cases were resolved through mediation; 8,249 through SCAR hearings; and 13,405 cases are working their way through the Court system. County officials have no estimate of the potential liability from refunds for the remaining homeowner appeals.

To address the tax certiorari backlog, which is composed mostly of non-residential certiorari claims, the Administration has proposed an additional borrowing of $200.0 million to ostensibly eliminate the backlog of claims that arose prior to December 31, 2017. The authorization to borrow this money requires approval by a supermajority of the Legislature and NIFA. A minimum prerequisite to NIFA approving the borrowing would be proof that it would eliminate the backlog and that once it is disbursed the County will handle all future tax certiorari claims from current operating income.

It is noteworthy that although the debt service on these bonds is included in the Proposed Plan, the County's use of the bond proceeds to pay tax certiorari refunds would add to the GAAP Basis deficit on a dollar-for-dollar basis in each of the years in which the proceeds are used. Stated differently, the projected deficit in FY 2023 and/or FY 2024 would increase by the amount proceeds used for this purpose in each year.

Judgments and Settlements – The Administration has budgeted $30.0 million annually to cover the costs of non-certiorari judgments and settlements. Based on historical spending, our analysis indicates that the $30.0 million is a reasonable projection of "ordinary" expenditures. The County also has set aside in its Litigation Reserve Fund $14.5 million for ordinary judgments and $15.0 million for Workers' Compensation claims, both sums which the Administration believes may be needed to close projected budget shortfalls in FY 2020, thereby eliminating the modest contingency.

It is impossible to predict with certainty the likelihood or magnitude of future litigation; however, there are several existing liabilities that could require a significant amount of additional County resources and which are totally unfunded. For example, at the end of FY 2019 the Comptroller noted the possibility of a liability of $475.2 million for non-certiorari litigation and $244.9 million for Workers' Compensation claims.

Other Expenditures – The proposed debt restructuring transaction will result in significantly lower debt service costs in FY 2021, including savings from currently outstanding NIFA debt that are in addition to the $120.0 million reflected in Capital Resources for Debt (discussed above). We have reclassified these additional savings and include them in the $235.0 million debt restructuring savings at the bottom of Table 1.

Other Major Concerns

In addition to the risks described above, we continue to have other concerns which could hinder the County's ability to achieve and maintain balance on a GAAP Basis.

Contingency Reserve –The Proposed Budget does not allocate funding for contingencies, such as from potentially lower sales tax revenues and higher expenditures for overtime, tax certiorari refunds, and judgments and settlements. The Administration's decision to not maintain any reserve for contingencies in the Out-Years is equally disconcerting and not consistent with recommended budgeting practices or its own guidelines.

Fringe Benefits – For the tenth consecutive year, the Administration is taking advantage of a State authorized program that allows the County to amortize certain pension costs over several years. The original program, which was called the "Contribution Stabilization Program," allowed the deferred portion to span ten years. Beginning in 2014, the County began to use the "Alternate Contribution Stabilization Program," which allowed the amortization period to be extended by two years to 12 years.

As we have repeatedly warned in past years, while the use of this program will yield short-term budget relief (approximately $14.2 million in FY 2021), the effect of the amortization is to merely extend current liabilities into the future. Stated differently, the County has avoided paying approximately $351.7 million in current liabilities through 2020 and passed that expense onto future taxpayers. The total amount deferred including FY 2021 is $365.9 million. Of this amount, approximately $210.9 million remains as the County's outstanding liability (it has partially paid down the deferred balance). In practical terms, the County's current installment payments now exceeds the relief garnered in the current year.

In addition, the County has a significant unfunded liability for certain non-pension related benefits owed to retirees, commonly referred to as Other Post-Employment Benefits ("OPEB"). The County's OPEB liability is estimated to be $5.2 billion as of December 31, 2019. The County is not required by law to provide funding for OPEB other than the pay-as-you-go amount necessary to provide benefits in the current fiscal year to retirees and eligible beneficiaries (which have been budgeted). However, OPEB liability is growing, and it will eventually have to be paid. Many entities are addressing it by establishing reserves or adjusting future benefits.

This liability has been noted repeatedly as a negative to Nassau County by the various rating agencies. The rating agencies and the Government Finance Officers Association ("GFOA") both recommend the establishment and funding of an OPEB Trust.

Sewer and Storm Water Resources District Fund – Although the Sewer and Storm Water Resources District is not one of the five Major Funds, as defined in the NIFA Act, it is a significant fiscal responsibility for the County, and we continue to have ongoing concerns regarding the sustainability of its business model. Simply stated, projected revenues are insufficient to support projected expenditures.

To address the inherent imbalance, the Administration proposes a tax levy increase of \$5.2 million in FY 2021. Even with the proposed increase in the tax levy, the Administration projects ongoing baseline deficits of \$7.2 million in FY 2022, \$20.9 million in FY 2023, and \$22.3 million in FY 2024. To close these projected Out-Year deficits, the Proposed Plan reflects the combined use of fund balance and proposed tax levy increases in FY 2023 and FY 2024.

A lower Court ruled unfavorably against the County's efforts to charge non-profit institutions for sewer and storm water services, thereby eliminating the use of an estimated \$12.6 million annually, which could have been used to mitigate the proposed tax levy increases. This initiative should not be abandoned even if the County ultimately loses its current court proceeding. The County should find a way, along with almost every other municipality in the nation, to charge for this service.

IV. THE OUT-YEAR GAPS: FY 2022 – FY 2024

This section of the Report discusses the projected Out-Year (FY 2022 – FY 2024 gaps and the Administration's plan for ensuring balance in these years.

Sizing the Out-Year Gaps – The Administration assumes that even if it can mitigate all risks in FY 2021 and continue to realign its debt through NIFA in 2022, projected baseline gaps between recurring revenues and expenditures will emerge in the Out-Years totaling $212.7 million in FY 2022, $181.7 million in FY 2023, and $228.8 million in FY 2024 (prior to implementing newly proposed gap-closing initiatives).

However, our analysis indicates that if the risks we identified in FY 2020 are not satisfactorily addressed with recurring solutions, the Administration's projections of Out-Year gaps may be understated by approximately $93.6 million in FY 2022, $138.0 million in FY 2023, and $152.9 million in FY 2024. Stated differently, we project that the baseline gap could reach $306.3 million in FY 2022, $319.7 million in FY 2023 and $381.7 million in FY 2024, as shown in Table 2.

Table 2

Projected Out-Year Gaps are Understated before GAAP closing actions			
($ in millions)	FY 2022	FY 2023	FY 2024
County Estimated Baseline Gap*	($212.7)	($181.7)	($228.8)
NIFA Risks	(93.6)	(138.0)	(152.9)
NIFA Estimated Baseline Gap	($306.3)	($319.7)	($381.7)

* The baseline gaps were calculated by the Administration using growth rate assumptions listed in Appendix C.

Most of these risks are extrapolated from our analysis of projected revenues and expenditures in FY 2021, which are described in detail earlier in this Report. However, there are a few Out-Year risks that are either new or require closer examination, as discussed below.

Tax Certiorari Refunds – The County has taken steps to fund its new tax certiorari obligations with operating revenue and resources accumulated in its Disputed Assessment Fund(s). It is unclear if the County's assessment reforms can take care of this operating burden prospectively and it does not resolve the backlog which has amassed in prior years. The Administration proposes to borrow an additional $200.0 million in December 2023 to pay down the backlog, which the Comptroller estimates to be approximately $231.4 million as of December 31, 2019 (excluding approximately $242.9 million related to the reassessment of LIPA properties). This is also discussed earlier in this Report.

Judgments and Settlements - The Administration is funding its annual, non-certiorari judgments and settlements with $30.0 million in operating revenue in FY 2021 and in each of the Out-Years. Our analysis indicates that this is a reasonable amount based on average historical spending, assuming no large judgments are rendered, or settlements reached in FY 2021 or the Out-Years. However, we find it concerning that the County currently has only $14.5 million in its Litigation Reserve Fund to mitigate potentially large judgments and has made no provision to increase this amount in the future. Regrettably, the Administration has also stated that it may choose to deplete the $14.5 million in resources to close projected budget shortfalls in FY 2020, thereby eliminating the modest contingency entirely.

We note that the County is a defendant in several major lawsuits for which no significant funds have been reserved beyond the $14.5 million, which may be depleted as one of the Administration's gap-closing initiatives in FY 2020. The County Comptroller reported that the County has potential liabilities of $475.2 million for non-certiorari litigation and $244.9 million for Workers' Compensation claims as of December 31, 2019. Resolution of these potential liabilities will likely result in actual costs far exceeding budgeted amounts, necessitating a significant restructuring of other County spending unless a new revenue stream is identified or the amount in the Litigation Reserve Fund is increased.

Contingency Reserve – The Proposed Plan does not contain a contingency reserve in any of the Out-Years. With so much uncertainty in the County's fiscal outlook, we advise the County to take the necessary steps to fund a contingency reserve with at least $10.0 million in operating revenues annually. Reasonable contingency reserves are expected by bond rating agencies and are part of any well-constructed budget because of the probability that certain assumptions will break unfavorably in any year. Even a modest contingency reserve could buffer the otherwise disruptive impact on operations caused by unforeseen increases in expenditures or unanticipated shortfalls in revenues.

***

The following discussion describes the Administration's plan to close the baseline gaps it has projected, as shown in the center section of Table 3. However, as discussed above (and illustrated in Table 2), our analysis indicates that the Administration's projections of baseline gaps are understated (delineated on the top line of Table 3).

Table 3

County Gap-Closing Plan						
	FY 2022		FY 2023		FY 2024	
($ in millions)	COUNTY	NIFA	COUNTY	NIFA	COUNTY	NIFA
Estimated Baseline Gap	**($212.7)**	**($306.3)**	**($181.7)**	**($319.7)**	**($228.8)**	**($381.7)**
County Gap-Closing Options						
Expense/Revenue Actions						
NIFA Debt Restructuring	150.0	150.0	-	(13.0)	-	(13.0)
Efficiency Program	20.0	-	20.0	-	20.0	-
Economic Recovery Revenue	18.7	-	92.7		143.8	-
Contract Management	6.0	6.0	6.0	6.0	6.0	6.0
Bus Camera	5.0	5.0	10.0	5.0	15.0	5.0
Sales Tax from Belmont	5.0	5.0	7.0	5.0	10.0	5.0
Building Consolidation	5.0	-	5.0	-	5.0	-
Value of New Construction	3.0	3.0	6.0	6.0	9.0	9.0
State Aid Mandated Cap	-	-	20.0	10.0	20.0	10.0
eFMAP Reconciliation	-	-	15.0	15.0	-	-
Total Gap-Closing Options	**$212.7**	**$169.0**	**$181.7**	**$34.0**	**$228.8**	**$22.0**
Remaining Surplus / (Deficit)	**$0.0**	**($137.3)**	**$0.0**	**($285.7)**	**$0.0**	**($359.7)**

Closing the Out-Year Gaps – Our analysis raises concerns with many of the initiatives, particularly with projected savings resulting from the Administration's Efficiency Program and Economic Recovery Revenue initiatives. Even if we give partial credit for some of the other initiatives, our analysis indicates that the projected value of the Administration's gap-closing plan will be insufficient to close NIFA's estimates of baseline gaps. As shown in Table 3, the projected gaps would still be $95.2 million in FY 2022, $241.9 million in FY 2023 and $315.0 million in FY 2024.

Discussion of County Gap-Closing Initiatives Listed in Table 3

Expense/Revenue Actions – The Administration has referenced several initiatives (see discussion that follows) that it is pursuing and that the Administration projects could generate additional revenue or reduce expenditures in the Out-Years. While theoretically this may be true, in most instances our discussions and review of the plans for implementation of these initiatives have generated little confidence that the projections are achievable.

eFMAP Reconciliation – The Administration claims that $15.0 million can be realized in 2023 when the enhanced Federal Medical Assistance Percentage ("eFMAP") is reconciled, with which NIFA concurs.

NIFA Debt Restructuring – The Administration's proposed debt restructuring transaction is expected to be structured to provide $150.0 million in near-term debt service relief in FY 2022. Although this transaction requires Legislative and NIFA approval, our risk assessment is based solely on the fact that the Gap Closing Plan does not account for the resulting incremental debt service that will be paid in subsequent years, which the currently Administration estimates to be $13.0 million in each of 2023 and 2024.

State Aid Mandated Cap – Because of increased State mandated services provided by the County related to certain pre-school children, the Administration expects that reimbursements from New York State will increase by $20.0 million in both 2023 and 2024. NIFA projects half of those amounts in those two years because the condition of the State's finances may limit its ability to absorb these costs.

Building Consolidation – The Administration claims that reductions in its workforce during the past few years have provided opportunities for reduction of office space and centralization of its staff. They state that the County will also realize utility and maintenance savings from better consolidated space. Theoretically they may be correct, but we have no additional information and question whether there would be significant savings without the transfer of employees out of leased space to County-owned facilities.

Sales Tax from Belmont – The Administration expects to realize additional sales tax revenue during and after construction of the new Belmont Arena and the Hub development project surrounding the Nassau Coliseum. These incremental amounts are $5.0 million in 2022, $7.0 million in 2023 and $10.0 million in 2024 and would come from additional local sales tax from entertainment, lodging and various other sources. Although the construction of the Belmont Arena is expected to be completed in 2021, it's unclear what COVID-19 related restrictions will remain in place for indoor entertainment at these venues. Further, plans for the Hub have yet to be finalized. Consequently, we question the assumptions behind these sales tax revenue increments in the Out-Years.

Bus Camera – The Administration states that its proposed School Bus Camera program will increase enforcement of New York State law regarding stopped school buses by issuing tickets to those drivers who pass stopped school buses that have extended stop signs. NIFA concurs with the County's estimate that this program will generate $5.0 million of fines in 2022 but believe that increased awareness and compliance will not generate multiples of the initial $5.0 million in subsequent years.

Value of New Construction – The Administration projects incremental revenue during and after the construction period for the Belmont Arena and the HUB district of $3.0 million in 2022, $6.0 million in 2023 and $9.0 million in 2024, with which NIFA concurs.

Efficiency Program – The Administration claims that consolidation and realignment of workforce levels will provide an additional $20.0 million of savings in each of the Out-Years. NIFA believes that any such savings would have been reflected in the salaries and fringes categories and therefore risks the entire amounts.

Contract Management – The Administration claims that reviewing current and existing contracts to eliminate redundancies and optimizing services will generate $6.0 million of savings in each of the out years, with which NIFA concurs.

Economic Recovery Revenue – The Administration claims that industries hard hit by the COVID-created recession that include automotive, hospitality, garment and retail will "make up for lost time" by generating a total of $255.2 million in incremental sales tax revenue during the three Out-Years. NIFA believes that an economic recovery could generate unbudgeted revenue; however, it is unclear how protracted the recovery might be while the COVID-19 pandemic remains a constant threat to public health and safety. Consequently, we currently do not give any credit for this gap-closing initiative.

V. CONCLUSION

The County will remain fiscally challenged throughout the term of the Multi-Year Financial Plan even if the proposed debt realignments are completed and identified risks are resolved. Significant obstacles include the County's tax certiorari backlog. Furthermore, Out-Year deficits could worsen if sales tax growth wanes because of future weakness in the local economy.

Our analysis indicates that the County will likely remain in a control period for an extended period, especially if the County moves forward with its plan to use an additional \$200.0 million of bond proceeds to pay tax certiorari refunds. If bonding is not approved, the payments needed to bring down the County's long-term tax certiorari liability would add to the already overextended operating budget.

We cannot overstate that the recipe for exiting the Control Period and beginning the process of achieving a balanced budget has been well known since it was first imposed. The County must adopt measures that significantly raise the level of recurring revenue enough to fund its current obligations and desired level of services. In the alternative, the County must radically cut the level of its recurring expenditures so that they match its available recurring revenues. A reasonable course of action would combine both approaches.

VI. APPENDICES

Appendix A
Proposed Multi-Year Financial Plan, Fiscal 2021-2024

MAJOR FUNDS				
EXPENDITURES				
Object	**2021 Proposed**	**2022 Proposed**	**2023 Proposed**	**2024 Proposed**
AA - SALARIES, WAGES & FEES	873,786,930	901,343,733	933,605,203	965,821,449
AB - FRINGE BENEFITS	602,562,194	623,819,692	657,149,467	692,475,793
AC - WORKERS COMPENSATION	31,157,100	31,157,100	31,157,100	31,157,100
BB - EQUIPMENT	3,025,813	3,025,813	3,025,813	3,025,813
DD - GENERAL EXPENSES	37,193,308	37,193,936	37,183,008	37,147,042
DE - CONTRACTUAL SERVICES	271,705,168	274,131,056	276,605,456	279,129,336
DF - UTILITY COSTS	33,210,338	33,332,800	33,486,693	33,813,245
DG - VAR DIRECT EXPENSES	5,250,000	5,250,000	5,250,000	5,250,000
FF - INTEREST	145,675,618	149,820,482	150,465,226	163,103,010
GA - LOCAL GOVT ASST PROGRAM	62,468,160	65,529,068	68,743,022	70,092,882
GG - PRINCIPAL	129,075,000	147,655,000	150,060,000	166,610,001
HH - INTERFUND CHARGES	22,652,054	22,401,060	22,101,910	21,936,832
MM - MASS TRANSPORTATION	46,280,511	47,050,724	47,839,423	48,647,050
NA - NCIFA EXPENDITURES	2,160,000	2,025,000	2,075,000	2,140,000
OO - OTHER EXPENSES	122,005,662	220,137,913	199,867,091	181,051,115
PP - EARLY INTERVENTION/SPECIAL EDUCATION	139,550,000	140,945,500	142,354,955	143,778,505
SS - RECIPIENT GRANTS	50,800,000	50,800,000	50,800,000	50,800,000
TT - PURCHASED SERVICES	70,421,798	71,126,016	71,837,276	72,555,649
WW - EMERGENCY VENDOR PAYMENTS	57,570,142	58,145,843	58,727,302	59,314,575
XX - MEDICAID	234,916,221	240,868,290	245,974,430	242,495,541
Total Expenditures	**2,941,466,017**	**3,125,759,027**	**3,188,308,373**	**3,270,344,938**
REVENUES				
Object	**2021 Proposed**	**2022 Proposed**	**2023 Proposed**	**2024 Proposed**
BA - INT PENALTY ON TAX	32,669,723	36,912,500	36,912,500	36,912,500
BC - PERMITS & LICENSES	18,556,082	18,746,082	18,746,082	18,746,082
BD - FINES & FORFEITS	106,993,634	120,050,165	120,050,165	120,050,165
BE - INVEST INCOME	3,712,534	4,712,534	5,212,534	5,712,534
BF - RENTS & RECOVERIES	45,929,357	30,203,503	30,226,399	30,264,040
BG - REVENUE OFFSET TO EXPENSE	20,692,599	20,694,974	20,690,224	20,693,349
BH - DEPT REVENUES	215,239,791	238,732,835	245,737,950	251,369,561
BO - PAYMENT IN LIEU OF TAXES	52,405,124	52,713,330	53,014,050	53,230,250
BQ - CAPITAL RESOURCES FROM DEBT	135,308,568	16,661,013	17,345,890	16,140,512
BS - OTB PROFITS	5,000,000	20,000,000	20,000,000	20,000,000
BW - INTERFUND CHARGES REVENUE	74,358,278	81,833,582	86,379,535	91,032,258
FA - FEDERAL AID REIMBURSEMENT OF EXPENSES	143,904,244	143,853,617	143,798,517	143,618,123
SA - STATE AID REIMBURSEMENT OF EXPENSES	207,687,830	219,030,493	221,414,293	223,835,971
TA - SALES TAX COUNTYWIDE	933,897,683	981,530,131	1,031,544,202	1,052,550,111
TB - PART COUNTY SALES TAX	89,982,151	70,782,555	97,085,892	99,027,610
TL - PROPERTY TAX	825,263,137	825,189,230	827,096,096	826,979,381
TO - OTB 5% TAX	955,000	1,938,000	1,938,000	1,938,000
TX - SPECIAL TAXES	28,910,282	29,460,282	29,460,282	29,460,282
Total Expenditures	**2,941,466,017**	**2,913,044,825**	**3,006,652,610**	**3,041,560,728**
Surplus / (Deficit)	**0**	**(212,714,201)**	**(181,655,763)**	**(228,784,210)**

Appendix B
FY 2021 Proposed Budget Full-Time Headcount (HC) Comparison Table

Department	2020 Adopted HC	2021 Proposed HC	Inc / (Dec) 2021 vs. 2020	On Board 1-Sep-20	Inc / (Dec) Proposed vs. On Board
AN - ASIAN AMERICAN AFFAIRS	6	4	2	3	1
AR - ASSESSMENT REVIEW COMMISSION	72	63	9	61	2
AS - ASSESSMENT DEPARTMENT	203	154	49	152	2
AT - COUNTY ATTORNEY	99	88	11	86	2
BU - OFFICE OF MANAGEMENT AND BUDGET	31	28	3	25	3
CA - OFFICE OF CONSUMER AFFAIRS	30	25	5	25	0
CC - NC SHERIFF/CORRECTIONAL CENTER	1,024	922	102	887	35
CE - COUNTY EXECUTIVE	13	13	0	13	0
CF - OFFICE OF CONSTITUENT AFFAIRS	15	15	0	15	0
CL - COUNTY CLERK	87	89	(2)	85	4
CO - COUNTY COMPTROLLER	86	84	2	78	6
CS - CIVIL SERVICE	48	45	3	48	(3)
CV - CRIME VICTIMS	16	6	10	2	4
DA - DISTRICT ATTORNEY	444	448	(4)	417	31
EL - BOARD OF ELECTIONS	156	161	(5)	142	19
EM - EMERGENCY MANAGEMENT	8	8	0	8	0
FC - FIRE COMMISSION	96	91	5	90	1
HE - HEALTH DEPARTMENT	167	180	(13)	162	18
HI -HOUSING & INTERGOVERNMENTAL AFFAIRS	17	14	3	14	0
HR - COMMISSION ON HUMAN RIGHTS	5	5	0	4	1
HS - DEPARTMENT OF HUMAN SERVICES	62	61	1	58	3
IT - INFORMATION TECHNOLOGY	132	115	17	112	3
LE - COUNTY LEGISLATURE	99	98	1	95	3
LR - OFFICE OF LABOR RELATIONS	6	5	1	7	(2)
MA - OFFICE OF MINORITY AFFAIRS	10	8	2	7	1
ME - MEDICAL EXAMINER	78	85	(7)	82	3
PA - PUBLIC ADMINISTRATOR	6	6	0	6	0
PB - PROBATION	233	184	49	178	6
PD - POLICE DEPARTMENT	3,298	3,285	13	3,049	236
PE - DEPARTMENT OF HUMAN RESOURCES	8	8	0	6	2
PK - PARKS, RECREATION AND MUSEUMS	147	144	3	139	5
PR - SHARED SERVICES	14	12	2	12	0
PW - PUBLIC WORKS DEPARTMENT	416	391	25	382	9
RM - RECORDS MANAGEMENT	13	11	2	10	1
SA - COORD AGENCY FOR SPANISH AMERICANS	7	6	1	3	3
SS - SOCIAL SERVICES	576	555	21	532	23
TR - COUNTY TREASURER	34	29	5	28	1
TV - TRAFFIC & PARKING VIOLATIONS AGENCY	47	43	4	43	0
VS - VETERANS SERVICES AGENCY	9	8	1	7	1
SubTotal	**7,818**	**7,497**	**321**	**7,073**	**424**
Unallocated HC Reduction	(260)	(268)	8	0	(268)
Grand Total	**7,558**	**7,229**	**329**	**7,073**	**156**

Appendix C
Multi-Year Plan Baseline Inflators

Category	2022, 2023, 2024	Inflator Explanation
Expenditures		
Employee Benefits:		
Non-Police Pension	6.0%, 6.0%, 6.0%	Assumptions based on recent historical increases
Police Pension	6.0%, 6.0%, 6.0%	Assumptions based on recent historical increases
Health Insurance - Active	6.0%, 6.0%, 6.0%	Highest average increase over last 3, 5 or 9 years
Health Insurance - Retirees	6.0%, 6.0%, 6.0%	Highest average increase over last 3, 5 or 9 years
Other Than Personal Services	Flat, Flat, Flat	
Utilities:		
Light and Power	-0.18%, -0.08%, 0.55%	EIA (US DOE) 2020 Annual Energy Outlook Price Projection for Commercial Customers, (Reference Case)
Brokered Gas	0.27%, 0.72%, 1.68%	
Trigen	0.72%, 1.02%, 1.66%	Blended (2/3 weighting for Natural Gas and 1/3 weighting for the ten-year average CPI
Fuel	-2.0%, -2.68%, -1.63%	EIA (US DOE) 2020 Annual Energy Outlook Price Projection for Commercial Customers, (Reference Case)
Water	2.67%, 2.67%, 2.67%	Derived from the NY Public Service Commission's 2017 Five Year Book, Percent Increase in Average Annual Bill per Customer, and weighted equally with the CPI
Telephone	1,62%, 1.62%, 1.62%	Assumes increases consistent with the 10 year average growth in the CPI - All Urban Consumers (New York - Northern New Jersey-Long Island, NY-NJ-CT-PA)
Medicaid	Flat, Flat, Flat	Based on Weekly Medicaid Cap prior to Relief
Social Services Entitlements	Variable	Reflects most current caseload information
Special Education Program	Variable	Reflects most current caseload information
Revenues:		
State Aid	Variable	Variable based upon reimbursement formula
Federal Aid	Variable	Variable based upon reimbursement formula
Sales Tax	5.0%, 5.0%, 2.0%	