Nassau County Interim Finance Authority

NIFA

REVIEW AND ANALYSIS OF THE MULTI-YEAR FINANCIAL PLAN UPDATE FISCAL 2021 – 2024

April 29, 2021

NASSAU COUNTY INTERIM FINANCE AUTHORITY

DIRECTORS

Adam Barsky
Chair

Paul D. Annunziato

Mohsin Meghji

Lester Petracca

Howard S. Weitzman

Christopher P. Wright

STAFF

Evan L. Cohen
Executive Director

Carl A. Dreyer
Treasurer

Kathie Stella
Corporate Secretary

Jeremy A. Wise
General Counsel

Martha B. Worsham
Deputy Director

Table of Contents

I. SUMMARY OF FINDINGS

On March 31, 2021, the County Executive released her Administration's Updated Multi-Year Financial Plan, Fiscal 2021-2024 (the "Update"). Submission of the Update was required by the NIFA Directors when the Plan was approved in December of 2020.

The Update contains the Administration's revised projections for FY 2021 and its updated outlook for FYs 2022-2024 ("the "Out-Years"). The Update also contains the Administration's latest roadmap, or Gap-Closing Plan, for addressing the persistent gap between its recurring revenues and expenditures.

The following discussion is based upon the information provided in the Update and NIFA's independent analysis and projections of year-end results.

Our conclusion is that despite initial projections in 2020 of long term negative economic consequences on the County's finances because of the COVID-19 pandemic, the County's fiscal outlook has improved significantly. Without factoring into our analysis the anticipated receipt of significant additional Federal aid and surplus sales tax revenue in FY 2021 (which cannot be directly used to balance the budget – see discussion below), this improvement has resulted from a combination of:

- stronger than anticipated sales tax activity in FY 2020;
- smaller than anticipated cuts to State aid;
- continued savings in salaries and fringe benefits from lower headcount; and
- receipt of additional budget relief in each year of the Update from NIFA's debt restructuring and refunding transaction in 2021.

FY 2020

Preliminary results appear to show the County with a projected surplus of approximately $43.3 million using Generally Accepted Accounting Principles (on a "GAAP basis").[1] However, the audited operating results will not be released until the end of June. The projected surplus follows a $76.8 million GAAP surplus in FY 2019.

The positive operating results for FY 2020 do not necessarily demonstrate lasting improvement in the County's fiscal strength. There were several factors that contributed to the positive operating result, many of which will not provide recurring budget relief beyond the term of the Update.

---

[1] The projected GAAP surplus is derived by applying the County Comptroller's estimate of applicable GAAP adjustments for FY 2020 (as discussed in his report dated July 31, 2020) to the FY 2020 budgetary results listed in the County's financial system as of the date of this report. The actual GAAP surplus will not be known until the final GAAP adjustments are reported in the 2020 Comprehensive Annual Financial Report, which will be issued in June.

For example:

- NIFA provided the County with net budget relief of $50.2 million through a financing transaction that deferred $75.0 million in maturing debt;
- County finances were stronger than originally feared because the full year economic fallout was less severe than originally assumed by the Administration at the onset of the COVID-19 pandemic;
- the Administration took steps to control salary and fringe benefit costs by leaving vacancies unfilled; and
- the County received a one-time Federal grant of $102.9 million from the CARES Act, most of which covered salaries and fringe benefits.

FYs 2021-2024

Our analysis shows an improved fiscal outlook for each of FYs 2021-2024 (compared to NIFA's previous assessments). We project potential surpluses of $0.8 million in FY 2021, $28.6 million in FY 2022, and deficits of $132.8 million in FY 2023 and $225.5 million in FY 2024.

The improved fiscal outlook for FYs 2021-2024 results from several factors, including:

- NIFA provided the County with budget relief in excess of $435.0 million through a financing transaction that deferred maturing debt and refunded other outstanding debt for savings;
- greater projected savings in salary and fringe benefits (primarily from maintaining ongoing vacancies);
- lower projected caseloads in Early Intervention/Preschool Special Education and Social Services programs;
- greater levels of State aid (primarily from a smaller-than-anticipated cut in State aid); and
- release of approximately $55.4 million of sales tax revenue that would have been used by NIFA to pay debt service, but was instead released as a result of the restructuring transaction in FY 2021.

The County's overall financial outlook is stronger than indicated by our projections because of: (1) a projected surplus of $153.5 million in sales tax revenue over the amount budgeted in FY 2021, and (2) the anticipated receipt of $397.7 million in new Federal aid from the American Rescue Plan Act ("ARPA"), which will be split equally between FY 2021 and FY 2022. The potential budgetary benefit to the operating results that may be realized from these two significant events is not factored into our financial projections; rather, these unbudgeted resources will be diverted into the Special Revenue Fund, which was created by the Legislature, but which only addresses excess resources in FY 2021 (the "Resources"). The Administration has not disclosed what it plans to do with the second tranche of Federal aid the County expects to receive in FY 2022.

The Special Revenue Fund restricts how these Resources can be used. Since the specified uses are not expressly designed to supplant operating revenue, these Resources may not necessarily contribute to budget balance unless they are used to fund expenditures already appropriated in the operating budget; however, they can be used to fund unbudgeted liabilities (e.g., the tax certiorari backlog). Consequently, until we are informed otherwise, we are including in our projections an offsetting transfer of these revenues into the Special Revenue Fund. We encourage the County to develop an action plan that uses these Resources in a way that helps to close projected GAAP deficits in the Out-Years and attain structural balance.

Summary of NIFA and the Administration's Projections

The summary table below illustrates how NIFA's projections for FYs 2021-2024 differ from the Administration's. A more detailed discussion of the projections appears later in the report.

Operating Results on a GAAP Basis
Control Period Calculation
($ in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021p	FY 2022p	FY 2023p**	FY 2024p**
	($189.2)	($125.3)	($83.1)	($63.2)	($61.2)	$76.8	($109.8)	($55.8)	($181.5)	($194.8)	($245.1)
Post CARES Act funding:							($6.9)				
Post Debt Restructuring And Gap-Closing Initiatives:							$43.3*	$0.8	$28.6	($132.8)	($225.5)

Nassau County Projections - (restated)***

	FY 2021p	FY 2022p	FY 2023p	FY 2024p
	$0.6	$31.7	($48.0)	($54.7)
Post Gap-Closing Initiatives:	($19.6)	$52.5	($0.2)	($18.9)

* Preliminary results including estimated GAAP adjustments.

** Projections assume no bond proceeds are used to pay certiorari refunds in FYs 2023-24, which would otherwise increase the deficit dollar-for-dollar.

*** County projections restated to include Sales Tax Recovery Initiative.

* * *

What follows is additional analysis of the Update: Section II discusses FY 2021 and Section III discusses the Out-Years. To fully understand NIFA's opinions regarding the County's financial position, this Report should be read in tandem with NIFA's October 15, 2020 report on the Plan, which can be found on the NIFA website at https://nifa.ny.gov/financial_plan_reports.html.

II. Discussion of FY 2021

The following discussion contains our detailed assessment of the County's financial condition based on data available as of March 31, 2021.

Projected Variances in FY 2021

We conclude, after adding all our positive and negative projected variances, that FY 2021 could end with a surplus of approximately $0.8 million on a GAAP basis, which is an improvement from our prior assessment of the County's finances.

FY 2021 Projected Results Before Gap-Closing Actions Surplus / (Risk) ($ in millions)			
($ in millions)	2021 Adopted	2021 Projections	Surplus / (Risk)
Revenues:			
Interest Penalty on Tax	**$32.7**	**$35.8**	**$3.1**
Fines & Forfeits	**$107.0**	**$85.1**	**($21.9)**
Fines & Administrative Fees	*23.8*	*17.9*	*(5.9)*
Red Light Camera & Related Fees	*71.8*	*65.8*	*(6.0)*
Boot and Tow	*2.3*	*0.0*	*(2.3)*
Ticket Reconciliation	*6.9*	*0.0*	*(6.9)*
All other fines	*2.3*	*1.5*	*(0.8)*
Rents & Recoveries	**$45.9**	**$75.5**	**$29.6**
Sale of County Property	*8.6*	*0.0*	*(8.6)*
Nassau Coliseum Rent & Utilities	*5.3*	*1.4*	*(3.9)*
Prior Year Recoveries	*19.6*	*9.7*	*(9.9)*
All other Rent & Recoveries	*12.4*	*9.0*	*(3.4)*
NIFA unneeded Set Asides	*0.0*	*55.4*	*55.4*
Departmental Revenues	**$215.2**	**$202.8**	**($12.5)**
Mortgage & Deed Recording Fee	*39.3*	*44.7*	*5.4*
Fare Box Revenue	*31.2*	*23.8*	*(7.4)*
Income and Expense Law	*5.0*	*0.0*	*(5.0)*
All other Departmental Revenues	*139.7*	*134.3*	*(5.5)*
Capital Resources from Debt	**$135.3**	**$5.8**	**($129.5)**
Federal and State Aid	**$351.6**	**$543.5**	**$191.9**
Sales Tax	**$1,023.9**	**$1,177.4**	**$153.5**
All other Revenues	**$1,029.9**	**$1,023.1**	**($6.8)**
Total Revenues	**$2,941.5**	**$3,148.9**	**$207.4**
Expenditures:			
Salaries and Wages	**$873.8**	**$868.0**	**$5.8**
Overtime	*69.7*	*88.5*	*(18.8)*
Other	*804.1*	*779.5*	*24.6*
Fringe Benefits	**$602.6**	**$576.4**	**$26.1**
Health Insurance (active)	*156.7*	*152.7*	*4.0*
Health Insurance (retirees)	*165.4*	*149.9*	*15.5*
Other	*280.5*	*273.8*	*6.6*
Contractual Services	**$271.7**	**$283.7**	**($12.0)**
Interest & Principal	**$274.8**	**$115.2**	**$159.5**
NIFA Set Asides	**$11.5**	**$35.8**	**($24.3)**
Early Intervention/Pre-school	**$139.6**	**$147.9**	**($8.4)**
Social Services Programs	**$413.7**	**$388.3**	**$25.4**
Tranfser to the Special Revenue Fund	**$0.0**	**$352.4**	**($352.4)**
Other Expenditures	**$353.9**	**$360.1**	**($6.2)**
Total Expenditures	**$2,941.5**	**$3,127.9**	**($186.4)**
Subtotal Baseline Surplus / (Risk)			**$21.0**
GAAP Adjustments*			($20.2)
Total Baseline Surplus / (Risk) on a GAAP Basis			**$0.8**

* Includes various GAAP adjustments (encumbrance effect, pension on modified accrual basis, sale of Mitchel Field leases, etc)

Special Revenue Fund

On December 14, 2020 the Nassau County Legislature passed Local Law 12-2020 which states:

"*A special revenue fund is hereby established, to commence concurrently with the 2021 budget, to which all sales tax revenues collected by the County that are in excess of the adopted 2021 Nassau County budget shall be deposited and to which any budgeted funds in any budget line that become surplus as a result of the receipt of federal aid to address the COVID-19 pandemic shall be deposited.*"

The Local Law restricts the use of the funds deposited in the Special Revenue Fund as follows:

"*The use of this special revenue fund will be to fully or partially fund tax certiorari settlements and judgments, principal and interest payments on debt issued in 2021 or later to pay tax certiorari settlements and judgments, claims against the County by the Nassau Health Care Corporation, claims relating the Fair Labor Standards Act, to fund expenses due to the loss of budgeted state aid, and to pay for unbudgeted COVID-19 response costs in the event that no federal COVID-19 assistance funds remain available to pay for such costs, and shall be restricted for any other purpose.*"

Consequently, our projection of a $0.8 million surplus assumes that all excess sales tax revenue and additional Federal aid received from the ARPA in FY 2021 is diverted into the Special Revenue Fund, as discussed below. Therefore, the FY 2021 surplus could be larger than we are currently projecting to the extent that Resources in the Special Revenue Fund are used to pay FY 2021 expenditures that were already appropriated in the Budget. We encourage the County to develop an action plan that uses these Resources in a way that helps to close projected GAAP deficits in the Out-Years.

Interest Penalty On Taxes

Our analysis indicates that the County could realize $3.1 million in additional revenue based on current trends.

Fines & Forfeitures

Our analysis indicates that revenues derived from fines and forfeitures could fall below budget by $21.9 million versus the Administration's more optimistic projections of only $9.5 million.

Of this amount, we project red light camera revenue to be down $2.0 million, including administrative fees; fines and general administrative fees to be down $5.9 million; public safety fines to be down $4.0 million; and boot & tow fees to be down $2.3 million. The boot and tow program has been suspended by County Executive order due to the pandemic, and for the program to be reinstated an amendment must be issued.

We also project that the "Ticket Reconciliation" initiative will not generate any revenue since the Administration has expressed its desire not to implement the initiative at this time, thereby creating a $6.9 million hole in the Budget. The Administration remains more optimistic than NIFA and has reduced its overall projection for fines and forfeitures by only $9.5 million.

Rents and Recoveries

Our analysis has identified a favorable variance totaling $29.6 million, which is attributable to NIFA releasing $55.4 million of sales tax revenue that that would have been used by NIFA to pay debt service, but was instead released as a result of the restructuring transaction in FY 2021.

The $55.4 million favorable variance is offset by certain projected negative variances within Rents and Recoveries, including an $8.6 million shortfall from the anticipated sale of County property. Although the County has had past success in selling some of its properties, it is unclear if the County can reach agreements to sell these new additional properties, get requisite Legislative approvals, and close the transactions before the end of the year. Consequently, we are holding the initiative at risk until we see evidence of a concrete path toward completion of this non-recurring initiative.

We are also projecting shortfalls in Nassau Coliseum rent and utilities payments ($3.9 million). The current lease has been amended, and a one-year abatement has been granted. In addition, we are projecting shortfalls in cash recoveries ($10.0 million), which is offset by $0.1 million of cash recoveries already realized. Even if the cash recoveries are realized, these resources represent proceeds from capital project closeouts; consequently, most of the value would be subtracted from the County's FY 2021 operating result as part of the Comptroller's year-end GAAP adjustments.

Departmental Revenues

Our analysis indicates a potential shortfall of $12.5 million in departmental revenues, primarily due to lower than anticipated bus fare box revenue and no revenue from the County's Income and Expense initiative (which was proposed several years ago, but suspended due to ongoing litigation). Fare box revenue continues to be depressed due to a decline in bus ridership during the COVID-19 pandemic. The Administration assumes a much quicker return of bus ridership, which has not yet materialized.

Conversely, our analysis indicates that the Administration's projections do not fully reflect the continuing strength in mortgage and deed recording fees. These are being driven by the ongoing volume and cost of home buying and resultant mortgage refinancings. This strength is being fueled by record low interest rates and, anecdotally, from increased demand from former New York City residents.

Capital Resources from Debt

Our analysis has identified a negative variance totaling $129.5 million. This variance is more of a technical adjustment to properly reflect the budgetary relief realized from the NIFA restructuring and refunding transaction. The relief is the result of lower principal and interest costs rather than the receipt of revenue.

Federal and State Aid

Our analysis has identified a potential surplus of $191.9 million in Federal and State aid, including the anticipated receipt of approximately $198.8 million of Federal aid in FY 2021 from the ARPA. The Administration anticipates that the ARPA aid will total $397.7 million, but will be split equally between FY 2021 and FY 2022.

However, we are also projecting certain offsets to the ARPA aid from projected shortfalls of:

- $3.3 million in Federal aid due to the County's completion in FY 2021 of the scheduled return of an overpayment of Federal aid that the Correctional Center had received from the State Alien Assistance Program ("SCAAP"); and
- $3.6 million in State aid due primarily to lower reimbursable administrative expenditures in the Department of Social Services ($2.7 million) resulting from approximately 41 vacancies and the balance from a potential reduction of State Aid announced in the 2021–2022 NYS Budget.

As discussed earlier, the Special Revenue Fund is designed to trap additional Federal aid received in FY 2021 and restricts how these resources can be used. Since the specified uses are not expressly designed to supplant operating revenue, these resources may not necessarily contribute to budget balance. Consequently, until we are informed otherwise, we are including in our projections an offsetting transfer of these revenues into the Special Revenue Fund, as discussed below.

Sales Tax

Our analysis indicates that the County could realize approximately $153.5 million in additional sales tax revenue in FY 2021, depending on how the local economy performs the rest of the year. Year-to-date sales tax revenues are up 4.9% from the same period last year.

Although accurately forecasting this economically sensitive revenue during an ongoing pandemic is fraught with uncertainty, our analysis indicates that even if sales tax receipts in the remaining months of 2021 exhibit no growth (compared to the same period in 2020), year-end receipts will exceed budget by $153.5 million.

The following table shows a range of projected sales tax revenue outcomes under four varying economic scenarios.

Impact of Sales Tax Growth in the Remaining Checks of 2021	
Year-over-Year Growth	**Sales Tax Surplus**
(1.0%)	$144.1 million
0.0%	$153.5 million
1.0%	$162.9 million
2.0%	$172.2 million

As discussed earlier, the Special Revenue Fund is designed to trap all surplus sales tax revenue and restricts how these resources can be used. Since the specified uses are not expressly designed to supplant operating revenue, these resources may not necessarily contribute to budget balance. Consequently, until we are informed otherwise, we are including in our projections an offsetting transfer of these revenues into the Special Revenue Fund, as discussed below.

All Other Revenues

Under the category of all other revenue, we include in our analysis a shortfall in Interfund Revenues. The NIFA debt restructuring transaction included outstanding debt for the Environmental and Sewer and Storm Water Resources District allocated in the Operating Fund. The debt relief provided by the restructuring transaction also lowered the amount required to be charged back to the respective funds by $4.1 million.

In addition, the County did not provide support for the amount budgeted for Payment in Lieu of Taxes ("PILOTs") in FY 2021, which was increased by $1.4 million from FY 2020. Therefore, our projections reflect a risk of $1.4 million.

Salaries and Wages

Our analysis indicates that expenditures on salaries and wages could be $5.8 million lower than assumed in the Budget. The savings is driven primarily by a net 91 full-time vacancies.[2] The departments with the largest number of vacancies are listed in the table below.

Department	FY 2021 Budget	On Board	Vacancy
Police District	1,738	1,661	77
Police Headquarters	1,547	1,477	70
Total Police Department	**3,285**	**3,138**	**147**
Social Services	555	514	41
NC Sheriff/Correctional Center	922	884	38
District Attorney	448	422	26
Public Works	391	377	14
Other Agencies	1,891	1,798	93
Attrition factor budgeted centrally	(268)	0	(268)
Total Headcount	**7,224**	**7,133**	**91**

If these vacancies are left unfilled, the County would realize savings that would more than offset the $18.8 million in projected Countywide overspending on overtime. The County should closely examine these vacancies for opportunities to permanently eliminate unneeded positions in order to ensure recurring savings.

As mentioned, our analysis indicates that overtime continues to be underfunded, particularly in the Correctional Center. NIFA is currently projecting overtime in the Correctional Center to be $11.2 million higher than the Budget. The Police Department may be $8.8 million higher than the Budget. These projected shortfalls are offset by $1.2

[2] The number of vacancies (and value of savings) in individual departments is partially offset by an attrition factor that was budgeted centrally.

million in overtime savings in other County departments. Our analysis indicates that there are also other opportunities for savings, including in part-time and seasonal positions.

Fringe Benefits

The County could realize at least $26.1 million in savings in fringe benefits primarily due to the significant number of vacancies the Administration expects to maintain throughout the current year and from health insurance premiums that rose less than originally assumed in the Budget.

Contractual Services

Our analysis indicates that the County has Contractual Services obligations that could amount to $283.7 million, or $12.0 million higher than the Budget. The largest contract is for Transdev Services, Inc., which runs the County's bus system. The projected risk results from the fact that the Department of Public Works originally requested funding for this contract that was $12.0 higher than the final amount approved in the Budget.

Interest and Principal

At the County's request, NIFA executed a debt restructuring and refunding transaction (on February 17^{th}) that that involved $856.8 million of County bonds and $331.2 million of NIFA bonds. The final maturity of the transaction is 2035.

As a result of this transaction, the County realized substantial budget relief during the term of the Update from lower payments for interest and principal compared to the Budget. In FY 2021, the budget relief totals $159.5 million, which is approximately $27.5 million more than the County had reflected in the Budget as "proceeds from restructuring," as discussed above in "Capital Resources from Debt."

NIFA Set-Asides

The projected shortfall of $24.3 million is due to more County debt than assumed becoming an obligation of NIFA as a result of the debt restructuring transaction. There is a corresponding reduction in County debt service from this transfer.

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 ages three to five providing educational and supportive services.

Based on historical trends, our analysis indicates that these services can be as high as $147.9 million, which is $8.4 million higher than the Budget. We will watch these programs closely and will adjust our projections, as necessary once the new school year starts and caseloads can be assessed.

Social Services

Our analysis indicates the potential for $25.4 million in combined savings in social services programs. The projected savings in Recipient Grants and Purchased Services are driven, in part, by lower caseloads than assumed in the Budget. In contrast, expenditures on Emergency Vendor Payments are projected to exceed funding provided in the Budget.

Medicaid savings are driven by a temporary increase in the Federal reimbursement rate for these services, thereby lowering the corresponding State and local match.

The large levels of unemployment caused by the economic fallout of the COVID-19 pandemic may lead to a future increase in the number of eligible families and individuals receiving Temporary Assistance for Needy Families ("TANF") and Safety Net Assistance ("SNA"). However, at this time, caseloads are below assumed levels and could lead to $5.8 million savings in FY 2021.

The primary driver of Purchased Services is day care services, which is below budget. Our analysis indicates that these expenditures are on track to come in approximately $4.1 million below budget. In contrast, Emergency Vendor payments are on track to exceed budget by $1.2 million.

Medicaid expenses are likely to be $16.7 million below budget because of the temporary extension of the Public Health Emergency, which increased the enhanced Federal Medical Assistance Percentage ("eFMAP"). Consequently, the County's local share weekly payment has been reduced from $3.9 million to $3.5 million. The projections assume that as of June 1, 2021 the temporary increase in the eFMAP will go back down and the County's corresponding weekly share will go back up to the original amount pre-pandemic levels.

Transfer to the Special Revenue Fund

As discussed above, the Nassau County Legislature passed Local Law 12-2020 which states that "all sales tax revenues collected by the County that are in excess of the adopted 2021 Nassau County budget shall be deposited and to which any budgeted funds in any budget line that become surplus as a result of the receipt of federal aid to address the COVID-19 pandemic shall be deposited" into a Special Revenue Fund.

Consequently, in accordance with the Law, the projected surpluses generated by the improvement in sales tax revenues and additional ARPA aid expected to be received in FY 2021 are reported as a transfer out to the Special Revenue Fund.

All other Expenditures

Pursuant to Section 1262-e of New York State Tax Law, the County must establish a Local Government Assistance Program to distribute sales tax collections to the towns and cities within the County in an amount equal to a 0.25% component of the 4.25% local sales tax.[3] Consequently, since we are projecting sales tax revenues to perform better, we are also projecting the Local Government Assistance Program to exceed Budget by $7.9 million. This negative variance is offset by projected savings for utilities.

[3] There is also a program to distribute a portion of sales tax collections to the incorporated villages within the County, which has typically amounted to $1.25 million, annually.

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

The Administration will undoubtedly revise its projections of Out-Year revenues and expenditures in the months prior to its submission of the proposed Multi-Year Financial Plan for FYs 2022-2025, which is due on September 15, 2021. The next required quarterly update is due on June 30, 2021.

THE COUNTY'S CURRENT OUT-YEAR PROJECTIONS

The Administration projects an Out-Year surplus of approximately $52.5 million in FY 2022, and deficits of approximately $0.2 million in FY 2023, and $18.9 million in FY 2024 after implementation of its proposed Gap-Closing Plan.[4] In contrast, our analysis indicates that the County's projections may be too optimistic.

As shown in the table below, NIFA is projecting a slightly smaller surplus in FY 2022 than the Administration. However, as shown in the table below, we project much larger deficits in FY 2023 and FY 2024 than the Administration. In those years, the projected deficits exceed the one percent deficit threshold that would require imposition of a control period.

PROJECTED GAPS: COUNTY vs. NIFA

($ in millions)	FY 2022	FY 2023	FY 2024
MYP Update	$52.5	($0.2)	($18.9)
NIFA Estimate	$28.6	($132.8)	($225.5)
Better/(Worse)	**($23.9)**	**($132.6)**	**(206.6)**

Major Differences in Out-Year Projections

The major components contributing to the understated gaps consist of:

- Overestimated sales tax revenue. The administration has several sales tax initiatives (e.g., Sales Tax from Belmont, Marijuana Sales and Sports Betting) complementing its Sales Tax Recovery initiative, all of which we question. We also note that the Administration's sales tax projections, if realized, would result in a proportional increase in the amount allocated to the Local Government Assistance Program, but is not reflected in the Update;
- Underestimated expenditures for salaries and wages. The administration assumes in the Out-Years the implementation of an efficiency program that would reduce the salary line dramatically;
- Overestimated revenue from the bus fare box collections and the County's Income and Expense law;

[4] The Administration's budgetary basis projections have been restated to a GAAP basis, which is the accounting basis required by the NIFA Act.

- Overestimated revenues from fines and forfeitures, mainly due to revenues related to public safety fees, red light camera tickets and the associated administrative fees, and the inclusion of the bus camera initiative;
- Potentially overstated State aid. The Update includes an increase in State Aid for the Raise the Age Program ("RTA"). However, we estimate that this assumption is optimistic since the County Departments that are part of the RTA program are not fully staffed. The Update also includes the initiative for eFMAP reconciliation, which we believe should be allocated throughout the Out-Years. Finally, we also question the State Aid Mandated Cap initiative, which would require a change in the State's reimbursement rate; and
- Uncertain revenue from the annual sale of County property. The Administration also includes the building consolidation initiative, which contributes to the overstatement of Rent and Recoveries by $5.0 in each of the Out-Years.

OTHER CONCERNS

Labor Costs

Contracts with all the County's labor unions expired on December 31, 2017; however, the Detectives Association, Inc. ("DAI") was the first union to reach an agreement on a successor contract, which was followed by a new agreement with the Superior Officers Association ("SOA").

The Administration expects the other unions to agree to new contracts which are consistent with the pattern set by the DAI and matched by the SOA. Consequently, the Update reflects labor costs consistent with this bargaining pattern.

Tax Certiorari

The Update continues to reflect the Administration's plan (dating back to 2018) for NIFA and the Legislature to authorize an additional $200.0 million of County borrowing in December 2023 to pay tax certiorari refunds. This borrowing was originally envisioned as part of a multi-tranche plan of finance, with conditions imposed by NIFA, to pay down the tax certiorari backlog which existed at December 31, 2017. This approval seems unlikely because these costs could be funded with resources that we project will be added to the Special Revenue Fund. Additionally, the use of bond proceeds to pay tax certiorari refunds would contribute to a GAAP deficit in the fiscal year the payments were made on a dollar for dollar basis.

Litigation

The County has budgeted only $30.0 million in FY 2022 through FY 2024 for non-certiorari judgments and settlements. It has made no other provisions for the payment of certain future liabilities that may result from the multitude of lawsuits the County is currently litigating, including proceedings referred to as the "Utilities Litigations." In the 2019 Comprehensive Annual Financial Report, the Comptroller estimated the County's potential exposure to non-certiorari litigation to be approximately $475.2 million, as of December 31, 2019. The payment of this liability is not factored into our Out-Year risk assessment but could one day require significant expenditures that would need to be funded if not separately paid with resources held in the Special Revenue Fund.

GAP-CLOSING PLAN

The Administration's gap-closing plan, which is meant to provide a roadmap for closing the Out-Year gaps projected for FY 2022, FY 2023 and FY 2024, is heavily reliant on two initiatives: (1) Sales Tax Recovery; and (2) Efficiency Program, as shown in the following table.

COUNTY GAP-CLOSING PLAN

($ in millions)	FY 2022	FY 2023	FY 2024
Expense/Revenue Actions			
eFMAP Reconciliation		15.0	
State Aid Mandated Cap		10.0	10.0
Building Consolidation	5.0	5.0	5.0
Sales Tax from Belmont	5.0	7.0	10.0
Sports Betting	5.0	5.0	5.0
Marijuana Sales	3.0	3.0	3.0
Bus Camera	3.0	3.0	3.0
Efficiency Program	20.0	20.0	20.0
Sales Tax Recovery	79.3	122.5	185.7
Total Gap-Closing Options	**$120.3**	**$190.5**	**$241.7**

Sales Tax Recovery

The Administration expects Nassau County residents to erase the setbacks in sales tax revenue caused by the COVID-19 pandemic by accelerating their retail purchases to levels that were projected prior to the pandemic. Although we have been told the reason for breaking out these revenues from the Administration's baseline projections was to be conservative, we find that it resulted in the baseline projections being significantly understated and the recovery initiative to be overstated. When the two components are combined, our analysis indicates that the Administration's projections make more sense but remain more favorable than NIFA's by approximately $17.7 million in FY 2023 and $79.1 million in FY 2024.

Efficiency Program

The Administration expects annual savings of $20.0 million from consolidating and realigning its method of providing essential services to Nassau County residents. Although there is a lack of specificity, savings is reflected entirely as reductions in salaries and wages, which is equivalent to more than 200 full-time positions (including fringe benefits). Because of the lack of details, we question if the County can realize these savings. That said, our projections differ from the Administration's by $15.8 million in FY 2022, $21.2 million in FY 2023, and $26.5 million in FY 2024.

eFMAP Reconciliation

Pursuant to the Affordable Care Act, the State reconciles the enhanced Federal Medical Assistance Percentage (eFMAP) for the County share for certain single/childless couples on an annual basis. The Administration expects reconciliations from State Fiscal Years 2017 forward to provide a minimum of $15.0 million in 2023. It would have been more reasonable to have anticipated $5.0 million in each of the three out years since this reconciliation is conducted on an annual basis.

State Aid Mandated Cap

The County pays third-party vendors to provide preschool education for certain children aged five or younger, and receives a 59.5% reimbursement from the State for costs incurred. The Administration wants the State to increase the reimbursement rate to offset these increasing expenses being incurred by the County, which are not within the County's control. We have been told that the effort is being led by the New York Association of Counties ("NYSAC") on behalf of all counties in New York, but it is unclear if there is any support in the State Legislature.

Building Consolidation

The Administration, without any specifics or supporting documentation, expects to reduce expenses through centralization and reduction of office space, generating additional savings in utilities and maintenance costs. We are holding this initiative at risk until a detailed plan is developed that lays out specific properties the County is vacating, if they are rented space, or selling.

Sales Tax from Belmont

The Administration, without specifics, expects incremental sales tax revenue from entertainment, lodging and other sources at the Belmont Arena and the HUB Development Project for which there are no development plans. We question if the anticipated economic activity in and surrounding the Belmont Arena will be a reallocation of spending behavior rather than an incremental addition of new revenues.

Sports Betting

The Administration expects annual increases in sales tax revenue from the recent legalization of online sports betting without providing any supporting documentation. The County also expects additional revenue to be generated by new State authorization increasing the number of video lottery terminals licensed to Nassau County by an additional 1,000. However, this authorization was not addressed in the State's recently enacted budget.

Marijuana Sales

The Administration expects, without any details, to receive additional sales tax revenue from the recent legalization of recreational marijuana use. We question how much revenue may be available for County budget-balancing purposes after considering the reported allocation between education (40%), the Community Grants Reinvestment Fund (40%) and the Drug Treatment and Public Education Fund (20%).

Bus Camera

The Administration expects annual increases in revenue from traffic violations with the installation of cameras in school buses that capture images of motor vehicles passing stopped school buses. Outreach to the school districts within the County has yet to be conducted.

IV. CONCLUSION

Although the County's fiscal outlook during the term of the Update has improved in recent months, we note that the favorable change does not necessarily demonstrate lasting improvement in the County's fiscal strength. There were several factors that contributed to the positive operating result in FY 2020 and the more favorable fiscal outlook for FYs 2021-2024, many of which will not provide recurring budget relief beyond the term of the Update.

A prime example was the multi-year debt relief the County requested NIFA to generate as a fiscal tool it could use to manage the economic impact of the COVID-19 pandemic. Facilitated by NIFA's superior credit rating and unique statutory authority allowing it to restructure outstanding debt, NIFA provided budget relief in excess of $435.0 million by deferring maturing debt and refunding other outstanding debt for savings.

Since the immediate fiscal headroom will not last forever, and we still project Out-Year deficits, we advise the County's elected officials to find fiscally prudent ways to use the significant Resources likely to be transferred into the Special Revenue Fund to reduce large burdensome liabilities, such as tax certiorari refunds and non-certiorari judgments, that historically the County would seek to bond. Financing these operating costs through additional bonding would likely contribute to GAAP deficits in the years the payments were made.

Additionally, a concerted effort should be made to identify and evaluate new structural solutions, possibly involving opportunities to save money through shared services arrangements with municipal neighbors and/or other levels of government. These types of initiatives require careful planning and extended lead times before implementation.