NASSAU COUNTY
OFFICE OF THE COMPTROLLER

2015 MID-YEAR REPORT
ON THE COUNTY'S FINANCIAL CONDITION

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Nassau County Comptroller

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NASSAU COUNTY
OFFICE OF THE COMPTROLLER

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Table of Contents

Exhibits

REPORT ON THE COUNTY'S FINANCIAL CONDITION FOR THE FIRST SIX MONTHS OF FISCAL YEAR 2015

1.0 EXECUTIVE SUMMARY

The Nassau County Charter requires that the Comptroller report on the status of the budget for the first six months of the current fiscal year and give an opinion concerning whether there will be a surplus or deficit at year-end. This report is required by §402 (9) of the County Charter.[1]

The 2015 mid-year financial projections, under current spending and revenue assumptions, indicate that the County will end with a $61.9 million budgetary deficit in the primary operating funds (see Exhibit 1) after appropriating $15 million of prior year fund balance. The Administration, however, is likely to find unbudgeted opportunities to end in balance. The County's fiscal condition will weaken as over $140 million in financing and fund balance is sourced to achieve the projected year-end results, which will deplete the fund balance and maintain the structural gap at historic highs.

Under the presentation basis prescribed by the Nassau County Interim Finance Authority ("NIFA"), which excludes certain other financing sources and uses, the County would be ending the year with a negative $219.7 million result (see Exhibit 2), an increase of approximately 14% over 2014. The NIFA presentation results are arrived at by excluding from the budgetary results other financing sources such as the projected use of $108 million in borrowed funds to pay for property tax refunds, and the use of $34.1 million of bond premium to pay for debt service costs. The same factors will cause the County's Structural Gap (the difference between recurring operating revenues and expenses) to end at near a historic high of $241.3 million, down slightly from $244.8 million in 2014. It is worth noting NIFA took control of the County finances in early 2011 on the basis that the projected deficit would exceed 1% for the purpose of imposing fiscal discipline. It now appears that the NIFA presentation deficit will worsen to approximately 7.4%, significantly worse than prior to NIFA declaring its control period in 2011.

The currently projected $61.9 million budgetary deficit (absent of gap closing opportunities) is due primarily to a revenue shortfall of $211.4 million, offset by $149.5 million in lower expenditures. The revenue shortfall is primarily due to the estimated $51.5 million decline in Fines & Forfeitures revenues resulting from the elimination of the speed camera program and a decline in red light camera violation revenues, $37 million in projected lower sales tax revenues, $33 million borrowing for termination pay, $13.4 million in overspending for police overtime, and a $9 million loss from the unlikely start of a Video Lottery gaming facility in 2015.

Offsetting the revenue shortfall is the $149.5 million in projected lower expenditures due to: $99 million property tax refunds shifted from operations to borrowing, $9.6 million in net payroll savings ($38.2 million in less spending from unfilled positions, attrition and lower projected health insurance rates, but $28.6 million in higher anticipated termination pay, primarily for police), $13 million savings from the elimination of the mission payment to the Nassau Health Care Corporation ("NHCC"), lower spending in Social Services and debt service, and a decrease in spending for contractual services due to the elimination of the speed camera program.

Under the presentation basis prescribed by the Nassau County Interim Finance Authority ("NIFA"), which excludes certain other financing sources and uses, the County would be ending the year with a negative $219.7 million result (see Exhibit 2), an increase of approximately 14% over 2014. The NIFA presentation results are arrived at by excluding from the budgetary results other financing sources such as

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[1] The Comptroller reports on the status of the budget for the County's primary operating funds: the General, Fire Safety, Debt Service, Police Headquarters and Police District Funds.

the projected use of $108 million in borrowed funds to pay for property tax refunds, and the use of $34.1 million of bond premium to pay for debt service costs. The same factors will cause the County's Structural Gap (the difference between recurring operating revenues and expenses) to end at near a historic high of $241.3 million, down slightly from $244.8 million in 2014.

A major component of the projected deficit of $61.9 million is attributable to the $29.1 million deficit projected in the Police District Fund ("PDD"), which is one of the primary operating funds. This is particularly problematic as this fund has its own taxing base, and deficits in this fund can only be avoided by increasing revenues, cutting expenses or raising taxes. Surpluses in the other funds, if they exist, cannot be transferred to the PDD fund. In the Administration's most recent 2015 projections, it has indicated its intent to request borrowings of $41.5 million, the majority of which will finance the termination pay for the police funds, thus eliminating the projected deficit in the PDD fund. The County's Legislature has approved $34 million of this borrowing, however, NIFA has not. As this borrowing is contingent on NIFA's approval, and NIFA has already rejected $8.5 million of the requested $34 million borrowing, we have assumed that the $41.5 million borrowing will not be approved. Such borrowing will increase the County's long-term debt and future debt servicing.

Should the County end with the projected $61.9 million deficit (which assumes the use of appropriated prior year fund balance of $15 million), the ending fund balance for the primary operating funds will be reduced to $44.1 million on a budgetary basis, down from $121 million at 2014 year-end. The County's policy is to maintain a level of unreserved fund balance of no less than 4% and no more than 5% of normal prior year expenses from its General Fund and the Countywide Special Revenue Funds (which excludes the Police District Fund). The current unreserved fund balance in these funds is likely to decrease from $100.2 million at year-end 2014, to $57.4 million at year-end 2015 and stand at 2.44% of the prior year budgetary expenditures, below the County's policy of at least 4% (see Exhibit 5).

The total long-term debt for the County and its blended component units, NIFA, Nassau County Sewer and Storm Water Finance Authority ("SFA") and the Nassau County Tobacco Settlement Corporation ("TSC"), are projected to decrease by $26.3 million to approximately $3.7 billion after pay down of $320.5 million in maturing debt (see Section 6.4). The new borrowing includes $198.5 million already borrowed through July 2015 to pay property tax refunds, Superstorm Sandy Tax Relief refunds, $129.6 million for capital projects, and $5.2 million for early retirement incentive termination pay. The Administration is projecting to borrow an additional $131.5 million in 2015 for termination pay and for capital projects. The $131.5 million requires NIFA approval and all but $34.0 million requires Legislative approval.

The County's outstanding long-term tax certiorari liability is expected to decline to approximately $281.5 million from $296 million at year-end 2014, after $104 million in projected payments, (see Section 3.10). This liability is expected to further decline in future years under the new State legislation enacted, which requires commercial owners who file grievance appeals, to pre-pay in escrow the amount in dispute. A further $385 million of potential liability from certain non-certiorari (utility) tax cases, dating back to as far as the 1990's, is still unsettled, with the County continuing to make legal arguments in this matter.

Beginning in 2015, United Water Long Island, Inc. ("United Water"), a private operator, took over the operations of the County's sewer operations. Synergy savings that were anticipated to begin in 2015 have not yet been realized. For the second year, the Comptroller's Office will project the financial performance of the Sewer and Storm Water District Fund ("SSW"). The Administration is projecting SSW's 2015 results to end in balance after use of $12.5 million of fund balance. Our projections, as shown in Exhibit 9, indicate that $18.7 million of fund balance will be needed to end in budgetary balance.

The County will continue to face old risks, as well as some new risks. The utility liability estimated at about $385 million, while still being litigated, may need to be addressed. NHCC's operating loss of $17.4 million this year was a surprise, notwithstanding management assurances to the contrary, raising new concerns about its mission to our residents and the ability of NHCC to reimburse the County for its guarantee of $243 million of debt. Additionally, the continuing "going concern" of the financial status of the National Regional Off Track Betting Corporation ("OTB") remains an issue in terms of loss of future revenues to the County and loss of jobs.

The Administration, the Legislature and NIFA must address the mounting fiscal issues to avoid further weakening of the County financials and unpleasant consequences. At this stage, major structural changes to County operations and revenue sources will be required. NIFA must participate in this process. It cannot remain relatively passive while watching its own county financial metrics deteriorate precipitously for the second consecutive year.

EXHIBIT 1

Revenue and Obligations Forecast for 2015* ($'s millions)	2015 Budget	2015 Projected Actual	Variance	
Revenues				
Fines & Forfeitures				
Red Light Cameras	$37.1	$27.6	(9.5)	
Speed Cameras	40.3	3.0	(37.3)	
Other Traffic & Parking	21.3	17.5	(3.8)	
Other Fines & Forfeitures	5.0	4.1	(0.9)	($51.5)
Rents & Recoveries	19.3	29.5		$10.2
Departmental Revenue				
Clerk	31.5	30.6	(0.9)	
Assessment Department	3.4	7.7	4.3	
Parks Department	21.1	18.5	(2.6)	
Public Works - Transdev Farebox	51.4	47.7	(3.7)	
Tow Truck Franchise Revenue	1.7	0.7	(1.0)	
Other Departmental Revenue	61.7	62.1	0.4	($3.5)
Sales Tax	1,146.2	1,109.0		($37.2)
Federal Aid	135.9	134.6		($1.3)
Capital Resources for Debt	122.2	34.2		($88.0)
Interfund/Proceeds From Termination Pay Borrowing	33.0	0.0		($33.0)
Video Lottery Terminals	9.0	0.0		($9.0)
Interest On Late Property Tax Payments	29.1	31.0		$1.9
Fund Balance	15.0	15.0		$0.0
Other	1,196.1	1,196.1		$0.0
Total Revenue	**2,980.3**	**2,768.9**		**($211.4)**
Expenses				
Payroll and Fringe Benefits (excluding Overtime below)	1,304.8	1,295.2		9.6
Overtime (Police Department and Correctional Center)	69.4	82.8		(13.4)
Social Services	433.9	415.8		18.1
Debt service	368.0	357.1		10.9
Contractual Expense	254.0	246.6		7.4
Subsidy to NHCC	13.0	0.0		13.0
Contingencies	15.0	0.0		15.0
General Expenses	35.4	37.6		(2.2)
Local Government Assistance	68.5	66.3		2.2
Property Tax Refunds	100.0	1.0		99.0
Other Judgments	21.2	31.3		(10.1)
Other	297.1	297.1		0.0
Total Expense	**$2,980.3**	**$2,830.8**		**$149.5**
Estimated Results on a Budgetary Basis excluding Additional Risks/Opportunities				**($61.9)**

	Police District	Other Funds	Total
Estimated Results by Taxpayer Base on a Budgetary Basis	**($29.1)**	**($32.8)**	**($61.9)**
Additional Risks & Opportunities			
FEMA CDBG-DR Reimbursement	0.9	12.2	13.1
Use of Employee Benefit Reserve Fund	7.4	2.8	10.2
Additional Red Light Camera Revenue	-	2.0	2.0
Additional Speed Camera Revenue	-	2.0	2.0
Use of Fund Balance	15.8	-	15.8
Budget Projection after Additional Risks & Opportunities	**($5.0)**	**($13.8)**	**($18.8)**

* Includes: General Fund, Police Headquarters Fund, Police District Fund, Fire Prevention, Safety, Communication & Education Fund
Debt Service Fund (not including sewer debt)

EXHIBIT 2

County Financial Results on a NIFA Prescribed Presentation Basis
2009 - 2015 (projected)*

BUDGETARY RESULTS 2009 - 2015 (projected)*
($'s millions)

	2015 (projected)	2014	2013	2012	2011	2010	2009
Surplus (Deficit) on a Budgetary Basis	**($61.9)**	**$10.7**	**$55.0**	**$41.5**	**($50.4)**	**$26.6**	**($0.1)**

CALCULATION OF NIFA PRESCRIBED PRESENTATION BASIS 2009 - 2015*
($'s millions)

	2015 (projected)	2014	2013	2012	2011	2010	2009
Net Change in Fund Balance - modified accrual basis	($77.5)	($21.5)	$48.6	$24.0	($98.0)	$31.0	($10.0)
Less: adjustments included in other financing sources							
Premium on bonds	34.1	7.1	9.0	8.4	9.3	28.4	27.0
Borrowed funds to pay Property Tax Refunds	108.0	126.4	75.0	14.7	21.0	42.5	64.5
Borrowed funds to pay Other Judgments	0.0	8.3	26.5	20.0	4.6	30.4	11.5
Borrowed funds to pay Termination Pay	0.0	20.1	14.0	33.1	17.7	80.0	77.7
Transfer of revenue from other funds to offset debt expense	0.1	8.5	2.7	16.6	12.5	1.7	0.0
Total other financing sources/uses to be eliminated	142.2	170.4	127.2	92.8	65.1	183.0	180.7
NIFA Prescribed Presentation Basis	**($219.7)**	**($191.9)**	**($78.6)**	**($68.8)**	**($163.1)**	**($152.0)**	**($190.7)**

* Includes: General Fund, Police Headquarters Fund, Police District Fund, Fire Prevention, Safety, Communication & Education Fund
Debt Service Fund (not including sewer debt)

The NIFA presentation in Exhibit 2 above includes the following assumptions:

- Termination pay will not be paid with borrowed funds;
- Property tax refunds will be paid using bond proceeds up to the available proceeds, including $3.7 million for property tax refunds related to Superstorm Sandy;
- Debt service surplus generated as a result of applying bond premiums to debt service costs will be used to pay an equal amount of judgments and settlements.

Any changes to the above assumptions will affect the NIFA presentation.

2.0 REVENUE VARIANCES

This section discusses the revenue items with variance from budget, as identified in Exhibit 1.

2.1 Fines and Forfeitures

Included in Fines and Forfeitures is a projected negative variance of $37.3 million in speed camera revenue due to the suspension of the program effective December 2014. The County continues to collect fees, as tickets issued prior to the suspension of the program, continue to be paid. We are also projecting $9.5 million lower red light camera revenue due to a decrease in revenues year-to-date through June 2015, and $3.8 million lower in non-red light Traffic and Parking Violations Agency ("TPVA") revenues. Overall, for Fines and Forfeitures we project a negative variance of $51.5 million. The Administration installed new red light cameras in June 2015, the impact of which will not be recognized until the third quarter of 2015.

FINES AND FORFEITURES ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$85.8	$103.7	$25.5	$52.2	($51.5)

2.2 Rents & Recoveries

Rents and Recoveries are projected to have a $10.2 million positive variance primarily due to the recovery of prior year appropriations of unused Pre-School Education encumbrances of $7.1 million, and higher anticipated sales of County property of $3.3 million as a result of delayed sales from 2014 into 2015.

RENTS AND RECOVERIES ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$48.1	$19.3	$10.2	$29.5	$10.2

2.3 Departmental Revenue

Fare box revenues collected by Transdev (previously known as Veolia) for bus ridership and recorded in Public Works are projected to be under budget by $3.7 million. We also project a $2.6 million negative variance in Parks, $1.0 million negative variance in Tow Truck Franchise Fees in Police District, and a negative variance of $0.9 million in Clerk's Office revenue related to mortgage recording fees. These projections are based on historical and year-to-date analysis of trends. Offsetting these negative variances is a projected positive variance in the Assessment department of $4.3 million related to GIS Tax Map Fees, which has been implemented. In total, we project Departmental Revenue at $3.5 million under budget.

DEPARTMENTAL REVENUE ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$157.9	$170.8	$61.3	$167.3	($3.5)

2.4 Sales Tax

Sales tax, at approximately 38% of budgeted revenues net of inter-fund transfers, is the County's largest revenue source. Based on sales tax collections for the first six months of 2015, sales tax receipts are projected to total $1,109 million. Year-to-date sales tax collections, through the date of this report, show a 1.4% increase from 2014. We project sales tax will be approximately $37.2 million less than the County's adopted budget of $1,146.2 million. This equates to a 1.4% increase from last year's actual.

Sales Tax Collected on a Cash Basis ($'s in millions)			
	July 1 YTD Sales Tax Collected excluding Residential Energy Tax	% July 1 YTD vs Total Sales Tax Collected/Projected excluding Residential Energy Tax	Gross Annual Sales Tax Collected/Projected excluding Residential Energy Tax
2005	$392.1	41.1%	$953.8
2006	415.6	41.9%	991.2
2007	423.5	41.8%	1,012.0
2008	430.4	42.9%	1,003.1
2009	386.6	41.6%	929.4
2010	410.4	41.4%	992.0
2011	424.2	41.3%	1,027.6
2012	442.2	41.3%	1,070.4
2013	474.6	41.7%	1,138.1
2014	453.5	41.6%	1,090.8
2015	450.4	40.7%	1,106.1

RECONCILIATON OF CASH BASIS SALES TAX TO PORTION RECOGNIZED IN 2015 ($'s in millions)	
Gross sales tax forecast 2015	$1,020.5
Part County portion forecast 2015	85.6
Total sales tax projected on a cash basis	1,106.1
Prior year deferral recognized in 2015	2.9
Sales tax, per Exhibit 1	$ 1,109.0

2.5 Federal Aid

Federal Aid is projected to be $1.3 million under budget primarily due to lower than budgeted Social Services revenue caused by lower reimbursable expenses.

FEDERAL AID ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$131.9	$135.9	$37.9	$134.6	($1.3)

2.6 Capital Resources for Debt

Beginning in 2015, the Administration revised its presentation of the budget to include the proceeds from borrowing to cover certain expenditures, such as termination pay, judgments and settlements, and property tax refunds. Thus, the 2015 Adopted budget for Capital Resources for Debt includes bond proceeds of $100 million for property tax refunds and $22 million for judgments and settlements.

Capital Resources for Debt is projected to be $34.2 million for fiscal year 2015, comprised primarily of debt premiums. In May 2015, the County borrowed $60 million to use to pay property tax refunds; the proceeds of that borrowing and related expenses are not included in the projected 2015 deficit. Our 2015 projections assume that prior year borrowings and the $60 million will be used to pay $104 million of property tax refunds in 2015 from the capital fund (see section 3.10).

From 2011 to 2015, bond premiums in excess of cost of loans expenses, were prohibited by NIFA to be recorded in the operating funds and were used, along with bond proceeds, to fund capital projects. With NIFA's continued position that judgments and settlements, excluding those of an extraordinary nature, should be funded with operating budgets, NIFA is permitting the County to utilize debt service surpluses generated as a result of applying bond premiums to debt service costs, to offset the cost of judgments and settlements. While the mechanism for managing the costs has not yet been established, our 2015 projections assume that all bond premiums reported in the operating funds will have an equal offsetting expense in judgments and settlements, or property tax refunds should there not be an equal amount of the former.

CAPITAL RESOURCES FOR DEBT ($'s in millions)					
	2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
Property Tax Refunds	$0.0	$100.0	$0.0	$0.0	($100.0)
Judgments & Settlements	0.0	18.0	0.0	0.0	(18.0)
Bond Premiums	15.6	4.2	22.7	34.1	29.9
Other	0.0	0.0	0.1	0.1	0.1
Total	**$15.6**	**$122.2**	**$22.8**	**$34.2**	**($88.0)**

2.7 Interfund/Proceeds from Termination Pay Borrowing

The Administration has included in the 2015 adopted budget $33 million of revenue from bond proceeds, to be used to offset the $33 million of termination pay expenses budgeted. We are projecting that the budgeted borrowing of $33 million for termination pay will not be approved by NIFA, and are reflecting an unfavorable variance of $33 million in our projections.

INTERFUND/PROCEEDS FROM TERM PAY BORROWING ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$20.1	$33.0	$0.0	$0.0	($33.0)

2.8 Video Lottery Terminals

We project revenue budgeted for Video Lottery Terminals of $9 million will not be realized as a result of significant delays in procuring a suitable Nassau County location after the rejection of the Westbury site.

VIDEO LOTTERY TERMINALS ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$0.0	$9.0	$0.0	$0.0	($9.0)

2.9 Interest on Late Property Tax Payments

We project revenue for Interest on Late Property Tax Payments will be $1.9 million over budget based on historical and year-to-date revenue.

INTEREST ON LATE PROPERTY TAX PAYMENTS ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$31.0	$29.1	$19.0	$31.0	$1.9

2.10 Reimbursement of 10% FEMA Match

For the period 2012 - 2014, the County recorded $13.1 million of expense in the primary operating funds representing its 10% share of the costs incurred in those years related to Superstorm Sandy. Costs included debris removal and emergency protective services, such as additional police patrols in hard-hit areas to prevent looting. FEMA obligated to reimburse the County for 90% of those eligible costs incurred. In 2014, Governor Cuomo announced that funding would be made available to the County to cover its 10% share, from the State-allocated Community Development Block Grant – Disaster Relief (CDBG-DR) funds. Once the County's request for reimbursement under this program is approved, the County is projected to receive $13.1 million as reimbursement of the County's 10% local FEMA match related to Superstorm Sandy for the expense incurred by the primary operating funds. This reimbursement was not budgeted, and is not included in the 2015 projection, therefore it will represent a revenue pickup at the time it is received. Our projections currently reflect this pick up as a possible opportunity in 2015.

3.0 EXPENSE VARIANCES

This section discusses the expense items with variance from budget as identified in Exhibit 1.

3.1 Payroll and Fringe Benefits

We project salaries (excluding overtime for the Police Department and the Correctional Center) and fringe benefits, including worker's compensation expense, to have a combined positive variance of $9.6 million from the 2015 budget. The projected variance is primarily being driven by a negative variance in termination pay of $28.6 million mainly due to higher than expected police retirements, offset by $38.2 million of savings from open positions and other payroll related savings. The projected termination pay variance to the budget of negative $28.6 million is primarily comprised of approximately $30.9 million in the police funds ($23.0 million in Police District and $7.9 million in Police Headquarters) offset by $2.3 million of savings in the other funds.

Termination pay of $55.9 million for an estimated 220 officers retiring in 2015 is projected to be paid from operations. The 2015 budget includes $25 million for termination pay in the two police funds, leaving $30.9 million projected over budget. The Administration's initial request in May 2015 for $35 million in borrowing for termination pay was not approved by the Legislature, but was subsequently passed in June 2015 for $25.5 million. The Administration intends to request a total of $41.5 million in borrowings in 2015 to cover these costs associated with termination pay. Of this amount, $34 million has been approved by the Legislature but not by NIFA. Because the borrowing is contingent on NIFA approval, our current projections do not reflect termination pay borrowing in our 2015 projections, and assumes termination pay will be paid out of operating funds. As an alternative to borrowing, the County could draw down on $10.2 million of reserves that have been established to pay for future police termination costs; this would have a positive effect on the projected 2015 deficit.

Fringe benefits are projected to show a positive variance of $8.5 million, primarily attributable to lower than budgeted health insurance costs due to lower composite based premium increases on current enrollments.

SALARIES and FRINGES (excluding overtime for Police Department and Correctional Center) ($'s in millions)					
	2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
Salaries	$741.9	$781.7	$369.2	$780.6	$1.1
Fringes	489.2	523.1	308.6	514.6	8.5
Total	$1,231.1	$1,304.8	$677.8	$1,295.2	$9.6

3.2 Overtime for Police and Correctional Center

Based on current expense trends, overtime costs for the Police Department and the Correctional Center are projected to be $13.4 million over the $69.4 million 2015 budget. The expense in excess of budget is primarily comprised of $6.8 million for the Police District Fund and $8.8 million for the Police Headquarters Fund, offset by savings anticipated for the Correctional Center of $2.2 million. We project overtime expense to remain stable from 2014 to 2015 for the two Police Funds.

OVERTIME ($'s in millions)					
	2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
Police District	$35.9	$28.0	$10.1	$34.8	($6.8)
Police Headquarters	31.9	24.0	12.5	32.8	(8.8)
Correctional Center	15.1	17.4	3.8	15.2	2.2
Total	$82.9	$69.4	$26.4	$82.8	($13.4)

3.3 Social Services

We project expenses for Social Services will come in at $18.1 million under budget. This positive variance is primarily caused by $16 million in lower in Medicaid costs due to due to the Medicaid Local Share Cap reduction that was enacted as part of the NYS 2015-2016 Budget effective April 1, 2015.

SOCIAL SERVICES ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$423.7	$433.9	$223.5	$415.8	$18.1

3.4 Debt Service

We are projecting a positive variance of $10.9 million in Debt Service due to lower than budgeted borrowings, as well as the delay in the timing of borrowings, and a continued low interest rate environment.

DEBT SERVICE ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$339.4	$368.0	$86.9	$357.1	$10.9

3.5 Contractual Expense

Contractual expense is expected to have a $7.4 million favorable variance against the budget. This variance is due to savings of $9.6 related to the suspension of the speed camera program offset by $1.6 million in additional expense for the Transdev contract for the operations of the County's bus system.

CONTRACTUAL EXPENSE ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$236.8	$254.0	$190.8	$246.6	$7.4

3.6 Subsidy (Mission Payment) to NHCC

We project a surplus of $13 million due to eliminating the annual subsidy, the mission payment, to the Nassau Health Care Corporation in accordance with the successor agreement. While the Adopted Budget provided funding for this payment, the most recent projections have eliminated the expense.

SUBSIDY TO NHCC ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$13.0	$13.0	$0.0	$0.0	$13.0

3.7 Contingencies

Our analysis indicates that a budgeted contingency of $15 million will be available to cover shortfalls projected elsewhere in the budget.

CONTINGENCIES ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$0.0	$15.0	$0.0	$0.0	$15.0

3.8 General Expenses

Our analysis indicates that General Expenses will be over budget by $2.2 million due to higher than anticipated snow removal and related road maintenance costs.

GENERAL EXPENSES ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$32.4	$35.4	$20.0	$37.6	($2.2)

3.9 Local Government Assistance

Distributions to local governments under the Local Government Assistance Program, which are based on the County's Sales Tax receipts, are projected to be under budget based on our lower projected Sales Tax.

LOCAL GOVERNMENT ASSISTANCE ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$65.3	$68.5	$7.2	$66.3	$2.2

3.10 Property Tax Refunds

As of December 31, 2014, the total property tax refund liability was estimated to be $306.6 million, comprised of $296.0 million in long-term liabilities and $10.6 million, representing liabilities accrued for as of year-end 2014 and expected to be paid in 2015. We project that the County will add approximately $90 million in new liabilities during 2014 and pay about $104.3 million with borrowed funds. This would slightly reduce the total unpaid property tax liability to approximately $281.5 million before any further payments. The Administration had budgeted $120 million of long-term borrowings in its revised 2015-2018 multi-year plan to help pay down the backlog in 2016 and 2017, however, the borrowing authorization requires bipartisan cooperation in order to pass the Legislature and NIFA's final approval.

As discussed in an early section of this report, beginning in 2015, surplus from bond premiums in excess of cost of loans expenses, which had previously been prohibited by NIFA during the control period beginning in 2011 from being reported as operating revenues, is now being used by the Administration to reduce debt service costs. However, NIFA has indicated that an equal amount of debt service surplus generated as a result of applying debt premium to debt service costs, must be used to offset the cost of judgments and settlements (including property tax refunds). For purposes of our mid-year projections, we are projecting the offset to be against judgment and settlements and not property tax refunds. Thus, the projections below could be further reduced by an amount up to the total debt service surplus generated by applying bond premiums to debt service.

The New York State Assembly and the New York State Senate passed assessment legislation, which the Governor signed on November 21, 2014, that creates a Disputed Assessment Fund. It provides for a two-step process for commercial property assessment disputes and requires that all payments towards the disputed assessment fund be administered in the same manner as County real property taxes. Refunds of real property taxes owed to a class four property owner as a result of a settlement or final decision will be paid from the disputed assessment fund. Any funds that remain thereafter will be distributed pro rata to the County and the applicable school district, town and special districts. The structural benefits from the commercial tax certiorari reform legislation are expected to begin to be realized in 2017.

Property tax refunds to be paid from operating funds are projected to be approximately $1 million in 2015.

PROPERTY TAX REFUNDS ($'s in millions)				
2014 Actual	2015 Budget	2015 YTD June	2015 Forecast	Variance
$4.0	$100.0	$0.6	$1.0	$99.0

LONG TERM PROPERTY TAX REFUND LIABILITY ($'s in millions)				
	Bal beg of year	Additions	Reductions	Bal end of year
2010	$ 164.3	$ 67.4	$ (79.4)	$ 152.3
2011	152.3	134.7	(64.1)	222.9
2012	222.9	83.8	(9.5)	297.2
2013	297.2	77.7	(81.3)	293.6
2014	293.6	97.7	(95.4)	296.0
2015 est	296.0	89.7	(104.3)	281.5

4.0 RISKS AND OPPORTUNITIES TO ACHIEVE A BALANCED BUDGET

Exhibit 1 (see page 3) shows the significant projected revenue and expense variances for year-end 2015 based on the first six-month financial results. We project that the County will have a year-end budgetary deficit of $61.9 million, prior to any gap closing measures. If the County is successful in receiving the CDBG-DR reimbursement of the County's 10% FEMA match, that could potentially add $13 million to the County's results. We are reflecting this additional revenue as a potential opportunity.

There is currently $10.2 million in police termination pay reserves set aside ($7.4 million for Police District and $2.8 million for Police Headquarters). If the Administration utilizes these funds to offset some of the police termination costs in Police District, considerably restricting spending for the remainder of the year and appropriates more Police District fund balance, the Police District fund can end in budgetary balance, after use of appropriated fund balance. In our 2015 mid-year projections, we are reflecting the $7.4 million reserve for the Police District fund and the $2.8 million reserve for the Police Headquarters fund as an opportunity to alleviate the projected deficit.

In addition, the County continues to receive payment for speed camera violations that occurred in the prior year. Although our projections do not include any additional revenues beyond those collected through the end of June 2015, there may be an opportunity to collect more revenues, thus we are conservatively projecting an opportunity of $2.0 million. In June 2015, the County put into operation additional red light cameras. Revenues are not projected to be realized until the third quarter of the year. Therefore, we have conservatively projected an additional opportunity of $2.0 million for the implementation of the new cameras.

5.0 OTHER CONCERNS

5.1 Nassau Health Care Corporation

The financial stability of the Nassau Health Care Corporation ("NHCC") is essential so that it can continue to operate as a health care safety net for the County's uninsured. The County guarantees NHCC's outstanding indebtedness of $243.0 million and the hospital's continued ability to repay the County for the debt service it pays on the bonds is of fiscal importance to the County, although the County does have security interests in NHCC's property and revenues.

Per NHCC's financial statements, NHCC incurred an operating loss of $17.4 million in 2014. Its operating cash flow will continue to be a challenge during 2015 with very little room for error. NHCC has undertaken a number of initiatives to return to positive cash flows. Such actions include continued revenue cycle enhancements, renegotiation of all commercial managed care contracts, changes to medical management practices, improved supply chain, inventory management and, further cost reductions from the major modernization program undertaken over the past several years. More initiatives and better execution will be required.

The County's $13 million annual mission payment to the hospital expired at the end of the 2014 fiscal year. Although the Administration had included this payment in its 2015 Adopted Budget, the payment is no longer projected for 2015. While the County continues to pay the debt service costs on the hospital's long-term obligations on behalf of the hospital, the $13 million mission payment, which had been used by the hospital to reimburse the County for the debt payments has ceased, thus the hospital will now be required to fund the reimbursement from other sources.

5.2 Nassau Regional Off-Track Betting Corporation

For the fourth consecutive year, in 2014, the audited financial statements for the Nassau Regional Off-Track Betting Corporation ("OTB") were issued with a "going concern" audit opinion. This indicates that there is substantial doubt about the OTB's ability to continue to operate. The County is responsible for repayment of its outstanding debt until maturity, which is July 1, 2020, with OTB obligated to reimburse the County. The total principal amount of mortgage and bonds payable as of December 31, 2014 amounts to $10.2 million. The County holds the mortgage on the Racing Palace, which can be sold.

Legislation passed by New York State and signed into law by Governor Andrew Cuomo will permit the County to open one video-slot facility, with a maximum of 1,000 video lottery terminals. However, public opposition for the proposed gambling facility planned at the site of the old Fortunoff store in Westbury shut down any discussions in early 2015. As a result, the Administration is now projecting no revenues to be received from OTB in 2015 for the video lottery terminal (VTL) operations; this generated a $9 million gap to the 2015 adopted budget. OTB is, however, actively seeking a new site selection for its VLT operations in the County. In 2014, the County recognized $2.9 million in revenue, however with the decline in the OTB Surcharge, we are projecting that the County will receive approximately $2.6 million in 2015.

5.3 Nassau Community College

Nassau Community College ("NCC") provides a valuable service to the residents of the County. Its financial health is crucial to the thousands of students and families that rely on it for higher education. The 2014 audited financial statements for NCC reflect a $23.2 million increase of its total net deficit, excluding an $81.5 decrease in the net deficit related to a change in application of an accounting principle. As of August 31, 2014, NCC's net deficit stands at $214 million. Although the 2014 financials did not show an improvement, student tuition and fees increased in fiscal year 2014 from fiscal year 2013 by $0.7 million. The increase of the total net deficit for 2014 was primarily due to an increase of $31.2 million in operating expenses relating to postemployment retirement benefits (this amount is actuarially calculated). NCC has taken positive steps to improve its financial controls and reduce its accounts payable balances resulting in lower tuition increases to students. We believe that the financial condition of NCC will continue to be stable.

6.0 MAJOR COUNTY FINANCIAL TRENDS

6.1 Budgetary Structural Gap Trend

Like most governments, the County relies on various sources of revenues to meet its obligations and provide essential services. The shortfall between recurring expenses and revenues is the Structural Gap. Ideally, a government should be funded mainly by recurring revenues to pay its expenses and avoid using one-shot items, such as borrowings, sales of assets, drawdown on reserve funds or deferring current operating expenses. While an important financial indicator, a structural gap is not the same as a budget deficit. Structural gaps can only be narrowed by reducing recurring expenses or by increasing recurring revenues. When the County balances its budget by using non-recurring revenues, such as drawing down reserves, it does not reduce the structural gap.

The County's Structural Gap had a year-over-year improvement from 2009 through 2013 as shown in Exhibit 3 below. This trend was reversed in 2014, as the structural gap was $245 million, up from $99.1 million in 2013. The structural gap is forecast to be $241.3 million under our current 2015 projections, which do not include the termination pay borrowing anticipated by the Administration. The primary factor for the large projected structural gap is the reliance on over $100 million in borrowing to pay operating expenses such as property tax refunds, and the projected budgetary deficit of $61.9 million.

EXHIBIT 3 (Projected)

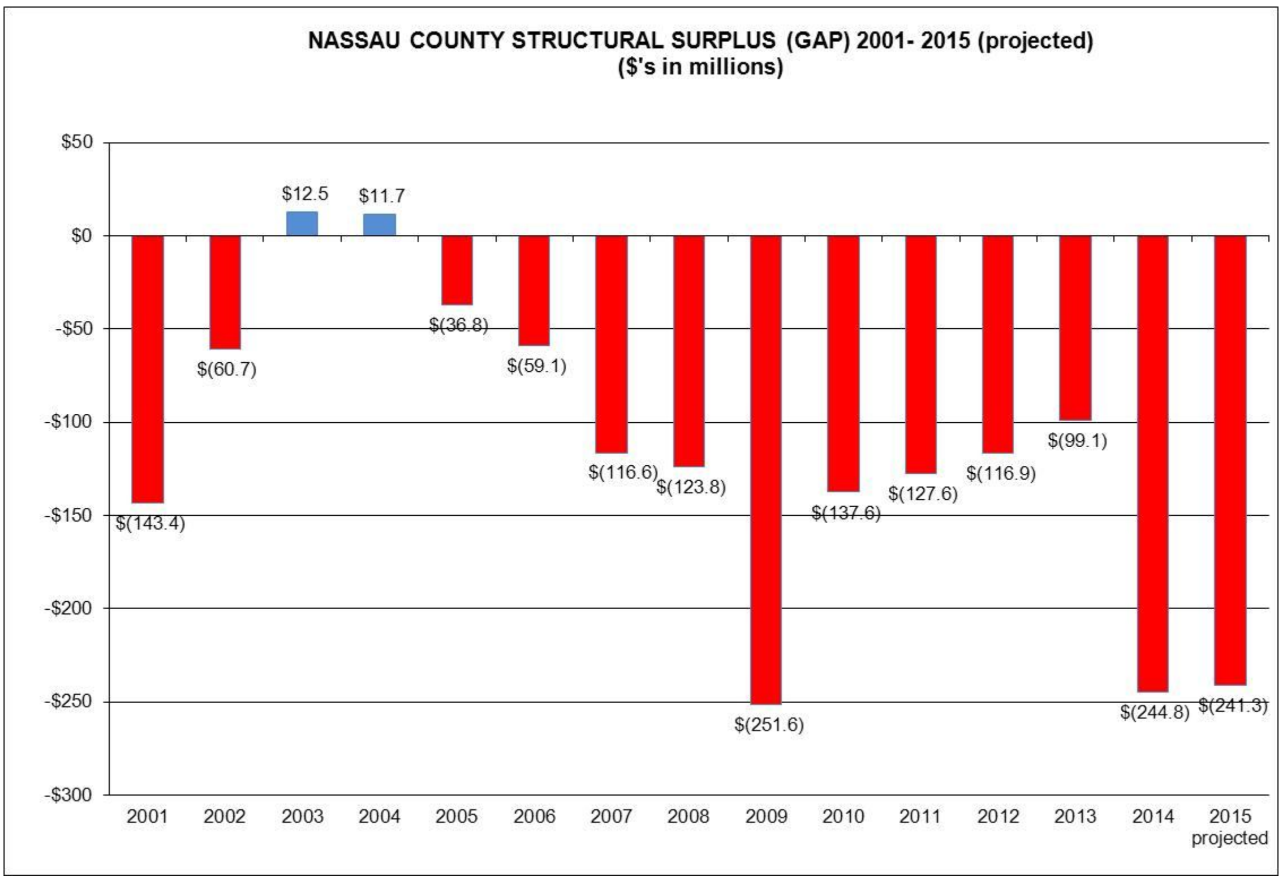

EXHIBIT 4

Comparison of Structural Gap Detail
($'s in millions)

	2014	2015 (projected)
Revenue One Shots:		
Use of Fund Balance	$ 16.2	$ 15.0
NIFA Debt Restructuring	23.0	4.3
Speed Cameras	19.9	3.0
Sale of Property	2.1	7.2
Total Revenue One Shots	**61.2**	**29.5**
Expense One Shots:		
Use of borrowed funds to pay operating expenses	146.5	108.0
Amortization of Pension Bill	60.0	41.9
Deferral of Wages and Benefits	(6.0)	
Total Expense One Shots	**200.5**	**149.9**
Total One Shots	**261.7**	**179.4**
Transfer to Employee Benefit Accrued Liability Reserve	**(6.2)**	
Net Surplus (Deficit)	**10.7**	**(61.9)**
Structural Gap (Surplus or Deficit less One Shots)	**$ 244.8**	**$ 241.3**

6.2 Fund Balance Policy

The County's policy is to maintain a level of unreserved fund balance of no less than 4% and no more than 5% of normal prior year expenses from its General Fund and the Countywide Special Revenue Funds[2] (which excludes the Police District Fund). The current unreserved fund balance in these funds is likely to decrease from $100.2 million at year-end 2014, to $57.4 million at year-end 2015 (see Exhibit 5 below), as a result of the 2015 projected budgetary deficit in these funds. At this level, unreserved fund balance as a percentage of prior year's recurring expenditures is projected to be 2.44%, short of the County's 4% Policy. The total countywide unreserved fund balance including the Police District is projected to decline from $121.0 million to $44.1 million, also shown in the bottom half of Exhibit 5 below.

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[2] Defined as Police Headquarters and Fire Safety. Police District is excluded, as it is a separate taxing base.

EXHIBIT 5

FUND BALANCE AS A PERCENTAGE OF RECURRING EXPENDITURES
($'s in millions)

UNRESERVED FUND BALANCE

As of December 31,	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 Projected
Total Cumulative Unreserved Fund Balance		$ 85.6	$ 87.8	$ 77.7	$ 69.3	$ 50.9	$ 85.3	$ 31.6	$ 53.3	$ 99.1	$ 100.2	**$ 57.4**
Normal recurring expenses, less interfunds (General & County-Wide Special Revenue Funds)	$ 2,141.5	$ 2,144.2	$ 2,064.4	$ 2,196.0	$ 2,137.8	$ 2,144.8	$ 2,149.5	$ 2,314.9	$ 2,296.8	$ 2,334.7	$ 2,353.9	
Total Unreserved Fund Balance, as % of prior		**4.00%**	**4.09%**	**3.76%**	**3.16%**	**2.38%**	**3.98%**	**1.47%**	**2.30%**	**4.31%**	**4.29%**	**2.44%**

Fund Balance Reconciliation (General & County-Wide Special Revenue Funds)	
2014 ending Fund Balance	**$ 100.2**
Projected results	**(32.8)**
Use of Fund Balance	**(10.0)**
Ending Fund Balance	**$ 57.4**

MAJOR FUNDS UNRESERVED FUND BALANCE
($'s in millions)

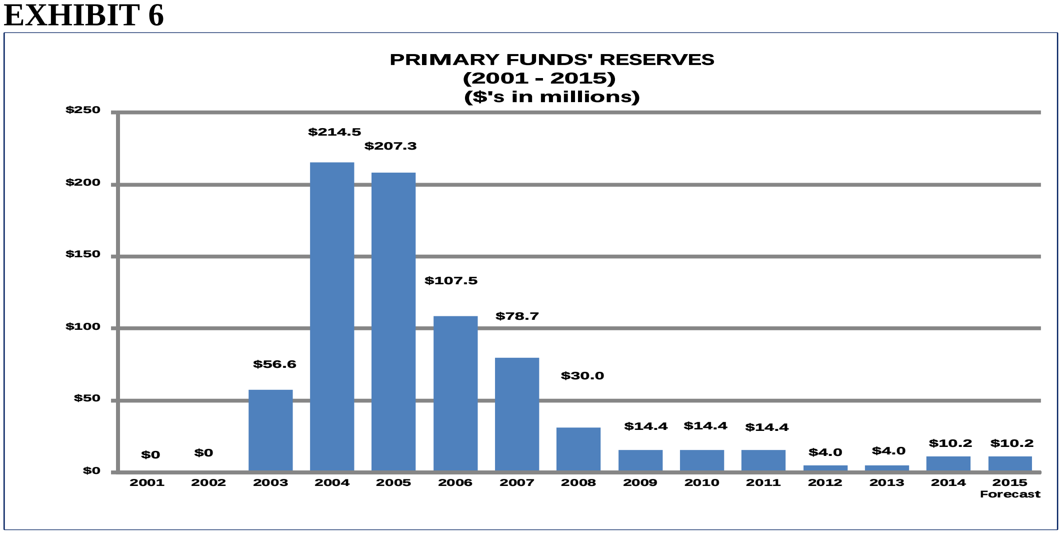
As of December 31,	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 Projected
		$ 90.5	$ 103.9	$ 89.8	$ 74.3	$ 64.2	$ 90.8	$ 40.5	$ 82.0	$ 126.5	$ 121.0	**$ 44.1**

Fund Balance Reconciliation (Major Funds)	
2014 ending Fund Balance	**$ 121.0**
Projected results	**(61.9)**
Use of Fund Balance	**(15.0)**
Ending Fund Balance	**$ 44.1**

6.3 Primary Fund Reserve Trend

From 2003-2004, the County accumulated reserves totaling $214.5 million through annual surpluses. From 2005 to 2009, the County depleted the reserve funds at an alarmingly accelerated rate, as shown in Exhibit 6, to cover current expenses. The current reserve fund, which represents the Employee Benefit Accrued Liability Reserve Fund, which reserves funding to pay for future termination pay costs, is projected to remain untouched in 2015 at $10.2 million, the entire amount of which is reserved for future police termination pay costs. However, if necessary, these reserves are available to offset the unfavorable variance projected in police termination pay, and are included as an opportunity to alleviate the projected deficit.

EXHIBIT 6



6.4 Bonding Trends

Exhibit 7 below details projected new long-term debt issued by the County (including borrowings for NCC and sewer and storm water capital projects). Through July 2015, the County issued $198.5 million of long-term borrowing ($129.6 million to fund capital projects, $60 million to fund property tax refunds, $5.2 million for early retirement incentive termination pay, and $3.7 million for Superstorm Sandy Tax Relief refunds). The Administration is projecting to issue $131.5 million in the latter half of 2015, of which $41.5 million is expected to fund termination pay, and approximately $90.0 million for non-sewer capital projects (including NCC capital projects). The Administration's updated multi-year plan has budgeted $41.5 million to be borrowed in 2015 for termination pay.

In order for the County to borrow to pay for termination pay, both the Legislature and NIFA must approve the requested borrowing. To date, the Legislature has authorized $34.0 million in bonding for termination pay, however NIFA rejected an $8.5 million bonding request earlier this year and has not yet voted on the $25.5 million request. For purposes of the 2015 mid-year projections, we are assuming that the borrowing for termination pay will not be approved by NIFA, thus we have not included the $41.5 million projected borrowings in our debt projections below, and termination pay expenses are included in the mid-year payroll expense projections as operating costs.

At 2014 year-end, the total of the County's general obligation bonds and its component units' long-term bonds outstanding was approximately $3.7 billion. The 2015 actual and anticipated $90 million borrowing for non-sewer capital projects along with the projected reductions from maturing debt will decrease the total long-term bonds outstanding by approximately $26.3 million.

In 2014, the County issued $114 million of short-term borrowing, Bond Anticipation Notes (BANS), which were used to renew, in part, the County's 2013 Series B BANS and to fund Superstorm Sandy related repairs. These BANS were rolled over again with a $25.5 million Series A BANS and $26.6 million Series B BANS offerings in 2015. It is expected that the majority of these expenditures will be eligible for reimbursement from FEMA. In 2014, the County received approximately $89.9 million in funding reimbursement from FEMA. The Administration expects to continue funding Superstorm Sandy repairs with short-term funds until reimbursement of eligible expenditures is received from FEMA.

In 2015, the County issued $40.8 million of BANS to finance various sewer system improvements, which are not anticipated to be replaced with long-term bonding in 2015. The Administration projects to issue an additional $40 million in BANS in 2015 for sewer system related capital projects. These BANS are being issued instead of long-term bonding while the County is exploring the possibility of a public-private partnership ("P3") for the sewer system.

EXHIBIT 7

Total Projected Long-Term Borrowings
($'s in millions)

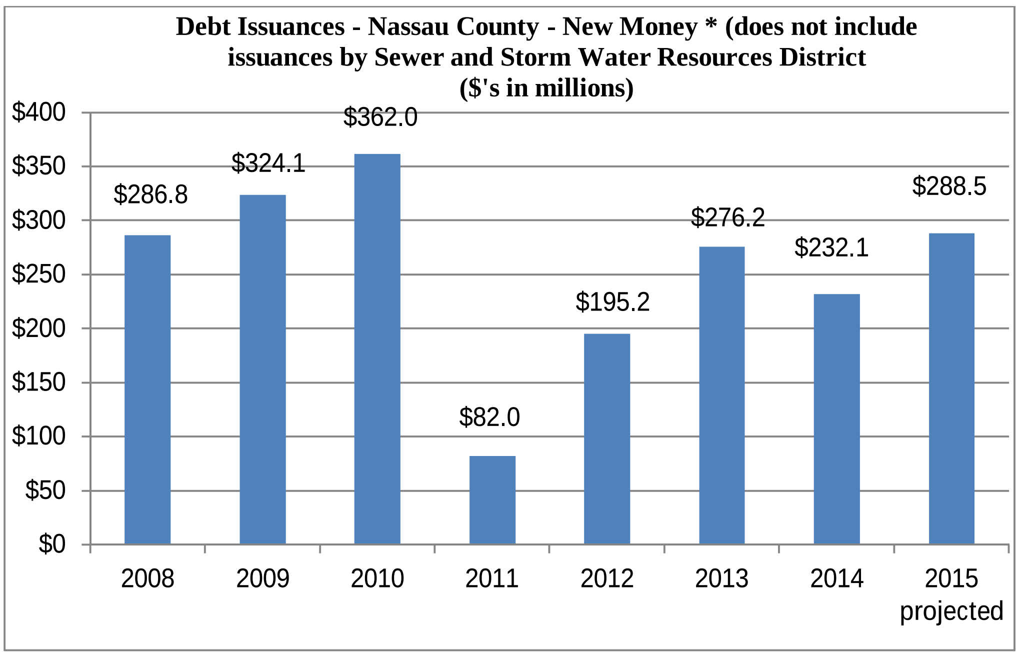
	As of December 31, 2014 Actual	Projected Additions	Projected Reductions	As of December 31, 2015 Estimated
County w/SSW (a)(b)	$ 1,971.0	$ 288.5	$ 82.1	$ 2,177.4
NIFA	1,087.6	-	235.5	852.1
Sewer and Storm Water Finance Authority (SFA)	157.2	-	2.9	154.3
Tobacco Settlement Corp (c)	467.3	5.7	-	473.0
Total	**$ 3,683.1**	**$ 294.2**	**$ 320.5**	**$ 3,656.8**

(a) Beginning in 2014, the County implemented a change in accounting principle to include the NCC debt as part of the County debt
(b) Does not include $80.8 million of BANs projected to be issued in 2015 to be used for Sewer and Storm Water projects and are not expected to be converted to long-term debt in the following year.
(c) Includes accreted interest

NIFA's projected reductions of $235.5 million, in the table above, have been adjusted to include liquidity facility agreements/stand-by purchase agreements in the event, however unlikely, that the outstanding bonds associated with these agreements will be unable to be remarketed and the agreements are not renewed or replaced. Without the liquidity facility agreements/stand-by purchase agreements, the long-term debt maturities for 2015 would be $143.6 million and the ending estimated total of all long-term borrowings for the County and its component units would be $3,748.8 million.

Exhibit 8 below illustrates the growth in new money debt issuances. New money debt excludes the 2014 and 2015 BANS issued to fund the Superstorm Sandy repairs because the intent is not to refinance the BANS with long-term borrowing in the following year, as well as the Administration's projected $41.5 million borrowing for termination pay costs. For comparison purposes only with prior year borrowing, the New Money chart in Exhibit 8 excludes the County issuances for Sewer and Storm Water (SSW) capital projects since 2008.

EXHIBIT 8



* does not include Bond Anticipation Notes (BANS) issuances used for sewer district related capital projects.

7.0 SEWER and STORM WATER DISTRICT

Effective January 1, 2015, United Water took over daily operations of the County's sewer system. As shown in Exhibit 9 below, the Administration is projecting that SSW will end in budgetary balance, after use of $12.5 million of prior year fund balance. Our projections indicate that $18.7 million of fund balance will be required for SSW to end in budgetary balance, leaving only $11.1 million of fund balance remaining for 2016**.**

EXHIBIT 9

SSW FUND	2015 Adopted Budget	2015 Projected - Administration	2015 Projected - CO	Admin Var to Adopted Budget	CO Var to Adopted Budget
EXP					
AA - SALARIES, WAGES & FEES	15,748,742	13,000,086	13,310,917	2,748,656	2,437,825
AB - FRINGE BENEFITS	12,458,997	11,887,376	11,694,387	571,621	764,610
BB - EQUIPMENT	202,000	202,000	202,000	-	-
DD - GENERAL EXPENSES	849,000	849,000	849,000	-	-
DE - CONTRACTUAL SERVICES	58,472,000	58,472,000	58,472,000	-	-
DF - UTILITY COSTS	7,622,799	7,622,799	9,792,730	-	(2,169,931)
FF - INTEREST	6,873,137	6,873,137	6,907,086	-	(33,949)
GG - PRINCIPAL	11,672,663	11,672,663	12,992,663	-	(1,320,000)
HH - INTERFD CHGS - INTERFUND CHARGES	34,444,189	34,444,189	34,444,189	-	-
OO - OTHER EXPENSES	538,500	538,500	538,500	-	-
EXP Total	**148,882,027**	**145,561,750**	**149,203,472**	**3,320,277**	**(321,445)**
REV					
AA - OPENING FUND BALANCE	5,240,289	12,520,012	12,520,012	7,279,723	7,279,723
BC - PERMITS & LICENSES	1,100,000	1,100,000	1,100,000	-	-
BE - INVEST INCOME	110,000	110,000	110,000	-	-
BF - RENTS & RECOVERIES	13,166,000	15,166,000	12,606,380	2,000,000	(559,620)
BG - REVENUE OFFSET TO EXPENSE	180,000	180,000	180,000	-	-
BH - DEPT REVENUES	14,317,000	1,717,000	1,717,000	(12,600,000)	(12,600,000)
BQ - CAPITAL RESOURCES FOR DEBT	300,000	300,000	300,000	-	-
BR - DUE FR GOVTS - DUE FROM OTHER GOVTS	2,251,394	2,251,394	2,251,394	-	-
BW - INTERFD CHGS - INTERFUND CHARGES REVENUE	2,148,499	2,148,499	2,148,499	-	-
FA - FEDERAL AID - REIMBURSEMENT OF EXPENSES	-	-	-	-	-
IF - INTERFD TSFS - INTERFUND TRANSFERS	110,068,845	110,068,845	110,068,845	-	-
REV Total	**148,882,027**	**145,561,750**	**143,002,130**	**(3,320,277)**	**(5,879,897)**
Surplus (Deficit)	**-**	**-**	**(6,201,342)**	**-**	**(6,201,342)**
Ending Fund Balance - Budgetary Basis - projected	**31,824,966**	**17,265,520**	**11,064,178**		

As shown in the table above, the Administration has removed $12.6 million of sewer assessment fees to be charged to non-profits from its June projections as the fees are still in litigation. According to the Administration, of the approximately 270 employees recorded in SSW as of year-end 2014, only four employees left the County to join United Water. United Water is leasing County employees to perform duties at the sewer facilities; roughly, 124 employees are being leased. United Water, as part of the consideration received by the County, guaranteed salary savings of a minimum of $10 million. The County bills United Water for actual salary and fringe costs for the leased employees. The revenue received from United Water for the leased employees is reported in Rents and Recoveries. Our projections reflect a projected $0.6 million shortfall against budget based on the run rate of current actuals.

Approximately 85 employees previously charged to SSW were transferred to other operating funds in May and June 2015, thus projected salary expenses are expected to be lower than the adopted budget. We are projecting a $3.2 million favorable variance against budget for salaries and fringe.

Our projection of utility costs, based on year-to-date run rates, are expected to be higher than budgeted by approximately $2.1 million. Based on current level of debt service amortizations, debt service costs are expected to be approximately $1.4 million over budget.