NASSAU COUNTY
OFFICE OF THE COMPTROLLER

COMPTROLLER'S COMMENTS ON THE PROPOSED NASSAU COUNTY 2017 BUDGET AND MULTI-YEAR FINANCIAL PLAN

George Maragos
Nassau County Comptroller

October 5, 2016

This report is posted on the Comptroller's website
http://www.nassaucountyny.gov/comptroller
For more information, call (516) 571-2386

NASSAU COUNTY
OFFICE OF THE COMPTROLLER

George Maragos
Comptroller

James A. Garner
Chief Deputy Comptroller

Raymond J. Averna
Deputy Comptroller Legal & Special Projects

Michael A. Scotto
Deputy Comptroller Field Audit & Investigations

Lisa S. Tsikouras
County Director of Accounting

Carla Hall D'Ambra
Communications & Public Relations Director

Financial Analysis Staff

Kenia Bonilla
Deputy County Director of Accounting

Corey Friedlander
Accounting Executive

Pina Ruperto
Accountant IV

Richard Burkert
Accountant III

Terri Troici
Accountant II

Table of Contents

Comptroller’s Comments on the Proposed Nassau County 2017 Budget and Multi-Year Financial Plan

1.0 Executive Summary

The County’s 2017 Proposed Budget calls for expenditures, excluding interfunds, of $2.98 billion, an increase of $93.0 million, or 3.22% over the 2016 Adopted Budget. The increased spending is primarily due to a 4.4% increase in employee salaries and benefits and a projected increase of $25.6 million in principal repayments and interest for debt service over the 2016 Adopted Budget. In order to offset these higher costs and achieve budgetary balance, the Administration proposes raising approximately $88 million in revenues from new fees and increases in existing fees, drawing $15 million from Fund Balance, earning $10 million from the Income and Expense Law and receiving $3 million from OTB profits.

The Comptroller’s Office estimates $114.6 million of budgetary risks before any opportunities, a $134.1 million deficit on a Generally Accepted Accounting Principles (GAAP) basis and a $194.1 million deficit using the presentation prescribed by the Nassau Interim Finance Authority (NIFA). The 2017 projected Structural Gap is $143.9 million, up from $116.3 million that was forecasted for fiscal year in 2016 in the Comptroller’s Mid-Year Projections report.

The Comptroller’s analysis incorporates an additional revenue opportunity of $32.2 million, assuming the Legislature approves about 75% of the new public safety fees. Should this occur, the revised projected budgetary deficit would decrease to $82.4 million. **Even if 100% of all fees are approved by the Legislature, the resulting budgetary deficit would be $64.3 million and the NIFA presentation deficit would still be projected at $143.8 million, far above the NIFA mandate of no more than $60 million of a NIFA deficit in 2017.**

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[1] (which excludes the Police District Fund). Unreserved fund balance as of December 31, 2017, under this methodology, is projected to drop to $1.6 million, or 0.1%, well below the 4% requirement if the budgetary risks materialize.

The likely budgetary risk of $114.6 million, as shown in Exhibit 1, is primarily from the possible shortfall of $141.4 million in revenues offset by $26.8 million in lower expense. The main revenue risk variances are those items that require Legislative or NIFA approvals, such as the $60 million bonding to pay for property tax refunds and approximately $64 million from the $105 per ticket increase in administrative fees on traffic and parking violations. Additionally, the $10 million revenues from the Income and Expense Law enforcement and the $3 million from OTB profits from VLTs are not expected to materialize.

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

By the end of 2017, long-term debt is expected to grow to $3.7 billion, an increase of approximately $50 million, the deferred pension liability is expected to reach $236 million and the property tax liability is estimated to increase to approximately $341 million, not including an unresolved utility liability, which was last projected in the most recent County Official Statement, at approximately $345 million.

The County’s sewer system continues to be underfunded. The 2017 Proposed Budget for the Sewer and Storm Water District (SSW) includes $23.2 million of appropriated fund balance, thereby essentially using up all remaining fund balance in the fund.

Exhibit 1

PROPOSED NASSAU COUNTY 2017 BUDGET
MAJOR FUNDS
SUMMARY OF RISKS and OPPORTUNITIES
($'s Millions)

Revenues		
Proposed Budget - net of interfunds	**$ 2,981.7**	
Sales Tax	(15.5)	
Fines & Forfeitures - Public Safety Fee	(48.3)	
Departmental Revenue- Income & Expense Law	(10.0)	
OTB Profits from VLT's (Video Lottery Terminals)	(3.0)	
Rents & Recoveries - Board of Elections reimbursement	(2.0)	
Capital Resources for Debt (Property Tax Refund Bonding)	(60.0)	
Other	(2.6)	
Total Revenue Risk		**$ (141.4)**
Expenses		
Proposed Budget - net of interfunds	**2,981.7**	
Payroll (excluding overtime below)	(6.7)	
Fringe	(7.2)	
Overtime	(8.2)	
Contractual	(5.0)	
Suits & Damages	(17.0)	
Property Tax Refunds	60.0	
Budgeted Contingency	10.0	
Other	0.9	
Total Expense Risk		**26.8**
Estimated Budget Projection excluding Additional Risks & Opportunities		**$ (114.6)**

	Police District	**Other Funds**	**Total**
Estimated Budget Projection by Taxpayer Base	**$ (2.4)**	**$ (112.2)**	**$ (114.6)**
Additional Risks & Opportunities			
Fines & Forfeitures - Public Safety Fee		32.2	32.2
Budget Projection after Additional Risks & Opportunities	**$ (2.4)**	**$ (80.0)**	**$ (82.4)**

* 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
2010 - 2017 (projected)*

BUDGETARY RESULTS 2010 - 2017 (projected)*
($'s millions)

	2017 (projected)	2016 Mid Year Report	2015	2014	2013	2012	2011	2010
Surplus (Deficit) on a Budgetary Basis	**($114.6)**	**($14.2)**	**$57.1**	**$10.7**	**$55.0**	**$41.5**	**($50.4)**	**$26.6**
Adjustments for Carryforward Encumbrances	13.6							
Net adjustment to remove the effect of encumbrances	(4.9)							
Use of Fund Balance	(15.0)							
Net adjustment to record pension expense on a modified accrual basis	(14.5)							
Sale of Mitchel Field Leases	1.3							
Net Change in Fund Balance - modified accrual basis	**($134.1)**							

CALCULATION OF NIFA PRESCRIBED PRESENTATION BASIS 2010 - 2017*
($'s millions)

	2017 (projected)	2016 Mid Year Report	2015	2014	2013	2012	2011	2010
Net Change in Fund Balance - modified accrual basis	($134.1)	($22.7)	$28.0	($21.5)	$48.6	$24.0	($98.0)	$31.0
Less: adjustments included in other financing sources								
Premium on bonds (net of expense of loans)		43.8	19.0	4.4	4.0	3.7	6.2	21.3
Borrowed funds to pay Property Tax Refunds	60.0	60.0	96.2	126.4	75.0	14.7	21.0	42.5
Borrowed funds to pay Other Judgments				8.3	26.5	20.0	4.6	30.4
Borrowed funds to pay Termination Pay			26.1	20.1	14.0	33.1	17.7	80.0
Transfer of revenue from other funds to offset debt expense			12.0	8.5	2.7	16.6	12.5	1.7
Total other financing sources/uses to be eliminated	60.0	103.8	153.3	167.7	122.2	88.1	62.0	175.9
NIFA Prescribed Presentation Basis	**($194.1)**	**($126.5)**	**($125.3)**	**($189.2)**	**($73.6)**	**($64.1)**	**($160.0)**	**($144.9)**

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

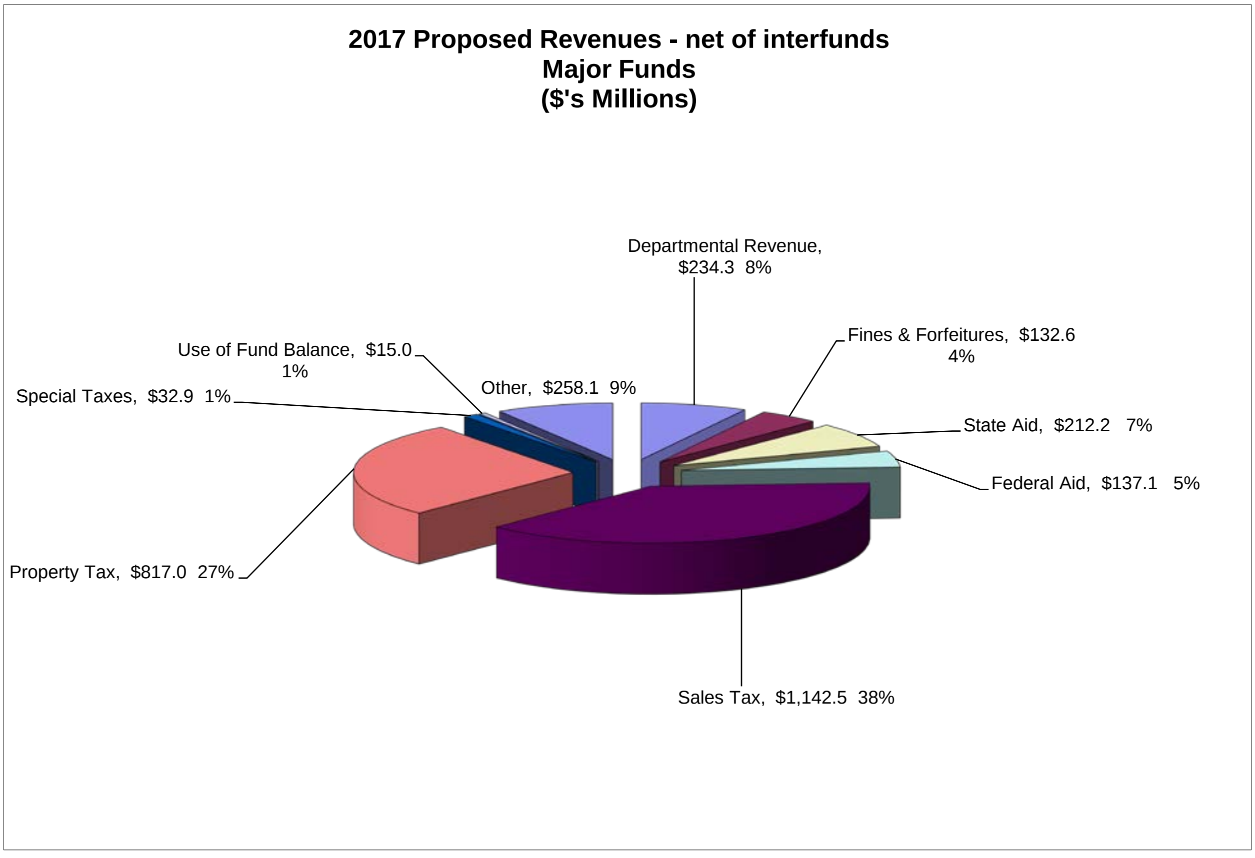
2.0 Discussion of Revenues

This section describes the significant revenue items in the categories, which may fall short of budget projections ("at risk").

2.1 Major Revenue Sources

Sales Tax is the major revenue source for the County, accounting for 38% of revenue (down from 40% in 2009), followed by Property Tax at 27%, and State and Federal Aid at about 12%. Departmental Revenues contribute about 8%. These ratios have remained essentially constant in recent years.

Exhibit 3



Total Budgeted Revenue
Major Funds
($ Millions)

	2016	2017
Total Budgeted Revenue	$ 3,336.6	$ 3,440.0
Less:		
Interfunds between major funds	447.9	458.3
Net Revenue	$ 2,888.7	$ 2,981.7

2.2 Sales Tax

Sales Tax, at approximately 38% of budgeted revenues net of inter-fund transfers, is the County's largest revenue source.

The proposed budget projects that the County will receive $1,141.6 million in 2017 sales tax (excluding deferred revenues). We project a growth in 2017 of 1% over our current 2016 projection of $1,114.9, which is $2.8 less than projected in our 2016 Mid-Year Report. Consequently, we forecast sales tax to be $15.5 million (excluding deferred sales tax) under budget for 2017, as shown in the Exhibit 4 and Exhibit 5 below.

Exhibit 4

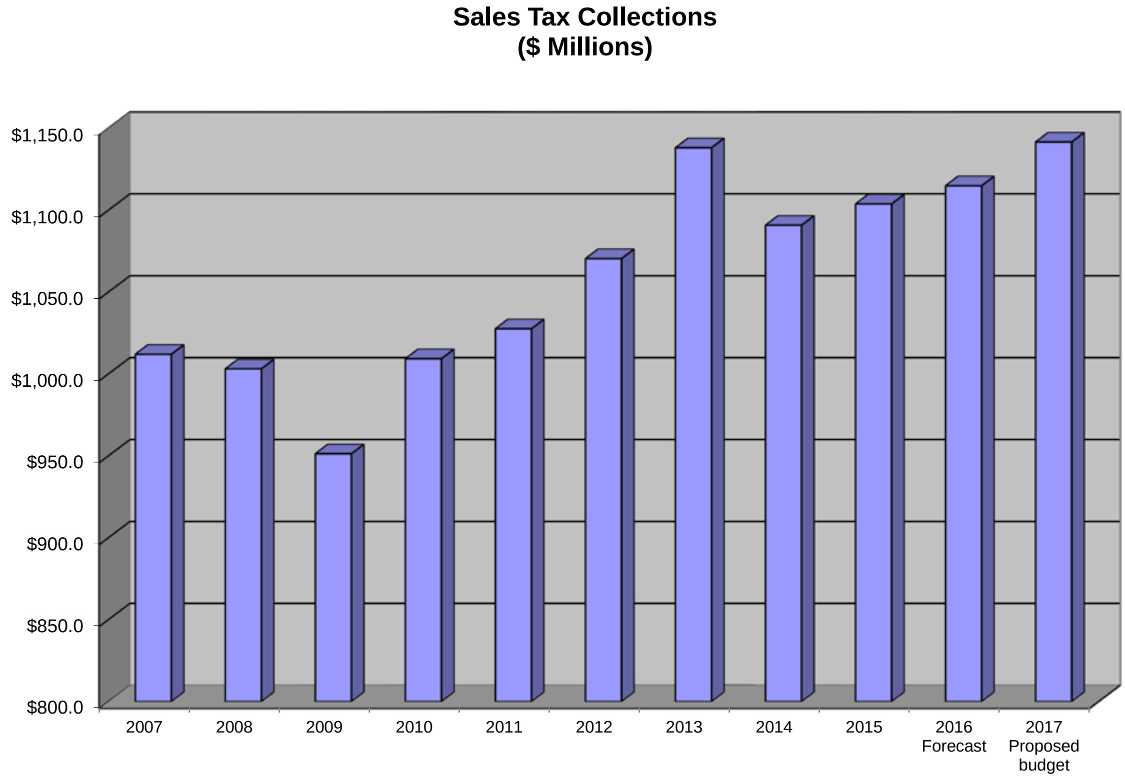


Exhibit 5

Sales Tax (Gross Receipts)
($ Millions)

	2015 Actual	2016 Forecast	2017 Proposed Budget	2017 Budgetary Risk	2018	2019	2020
Sales Tax *	$ 1,103.8	$ 1,114.9	$ 1,141.6	($ 15.5)	$ 1,170.1	$ 1,199.4	$ 1,229.4

* Excludes deferred portion of sales tax

2.3 Fines & Forfeitures

Our analysis of the proposed budget for Fines & Forfeitures shows a risk of $48.3 million. We are risking 75% of the $64.4 million budgeted for the $105 proposed ticket surcharge. While it is not known at this time whether the County Legislature will approve the fee in its entirety, we may assume that a reduced amount is likely to gain approval. This assumption, along with a possible reduction in tickets caused by changes in driving and parking habits related to the increased penalty results in a risk of a substantial portion of the revenues.

Exhibit 6

Fines and Forfeitures
Major Funds
($ Millions)

2015 Actual	2016 Forecast	2017 Proposed Budget	2017 Budgetary Risk	2018	2019	2020
$ 62.6	$ 71.2	$ 132.6	($ 48.3)	$ 130.9	$ 130.9	$ 130.9

2.4 Departmental Revenue

The 2017 budget includes $10 million in County Attorney revenue from the Income and Expense law, which is at risk due to current legal challenges. This revenue, also budgeted in the 2016 Adopted Budget, has failed to materialize. The Income and Expense Law passed by the Legislature authorized the County to assess a penalty on income-producing property owners who do not file an annual certified statement of income and expense (ASIE).

Exhibit 7

Departmental Revenue Major Funds ($ Millions)			2017				
	2015 Actual	2016 Comptroller's Mid-Year Report Forecast	Proposed Budget	Budgetary Risk	2018	2019	2020
County Attorney	0.2	0.2	10.2	(10.0)	5.4	5.4	5.4
All other Departmental Revenue	169.8	210.9	224.1	0.0	224.1	224.1	224.1
Total	$ 170.0	$ 211.1	$ 234.3	($ 10.0)	$ 229.5	$ 229.5	$ 229.5

2.5 OTB Profits from Video Lottery Terminals

We project a risk of all $3 million of the Video Lottery Terminals ("VLT") proceeds budgeted as OTB profits. An arrangement brokered by the State Legislature transferred from the County to OTB, the authority to install 1,000 video lottery terminals. OTB has a pending arrangement to permit Resorts World Casino to install those VLTs at Aqueduct Racetrack. While the Administration now projects that the County will receive $3 million of the $15 million budgeted in 2016, we are projecting zero revenues for 2016. Even if the arrangement is finalized, with a total net position deficit of over $60 million as of December 31, 2015, we do not anticipate that there will be any OTB profits to distribute.

Exhibit 8

OTB Profits from Video Lottery Terminals (VLT's)
Major Funds
($ Millions)

		2017				
2015 Actual	2016 Comptroller's Mid-Year Report Forecast	Proposed Budget	Budgetary Risk	2018	2019	2020
$ 0.0	$ 0.0	$ 3.0	($ 3.0)	$ 19.0	$ 25.0	$ 25.0

2.6 Rents & Recoveries

We project a Rents & Recoveries risk of $2 million in Board of Elections related to the reimbursement to the County for certain election costs that the County incurs on behalf of the cities, towns and villages. While the law permits the County's Board of Elections to be reimbursed, this has not been enforced in prior years and may be litigated.

Exhibit 9

Rents and Recoveries
Major Funds
($ Millions)

2015 Actual	2016 Comptroller's Mid-Year Report Forecast	2017 Proposed Budget	2017 Budgetary Risk	2018	2019	2020
$ 35.2	$ 46.9	$ 25.8	($ 2.0)	$ 26.8	$ 26.7	$ 26.7

2.7 Capital Resources for Debt

The 2017 Proposed Budget for Capital Resources for Debt includes bond proceeds of $60 million for property tax refunds. Bonding for property tax refunds requires Legislative and NIFA approval. We have reflected the $60 million as a risk due to the uncertainty of Legislative (supermajority) and NIFA approvals and because if the bonding is approved, the revenues will not be shown in the operating funds, but in the capital project that is used to track property tax refunds paid with borrowed funds. Similarly, property tax refunds is showing an offsetting opportunity because if the bonding is achieved, the expenditures will be paid from the capital fund and not the operating funds.

Exhibit 10

Capital Resources for Debt
Major Funds
($ Millions)

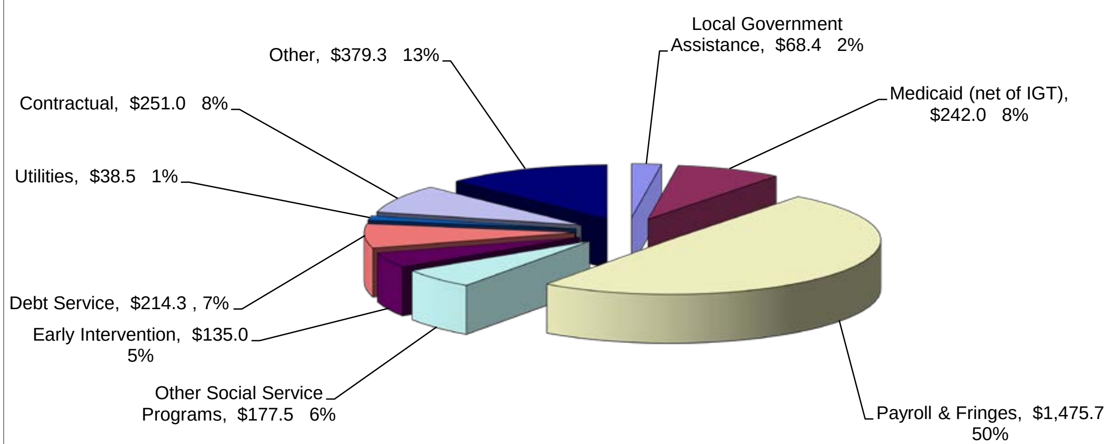
2015 Actual	2016 Comptroller's Mid-Year Report Forecast	2017 Proposed Budget	2017 Budgetary Risk	2018	2019	2020
$ 36.4	$ 107.4	$ 63.5	($ 60.0)	$ 3.2	$ 3.2	$ 3.2

3.0 Discussion of Expenses

3.1 Major Expense Categories

This section describes the significant expense items in the Proposed Budget, which may exceed budget ("at risk"). It is worth noting that 50% of the budget is attributed to payroll and fringe benefits, by far the highest portion of the budget. The next highest budgeted expense categories are Contractual Expenses at 8%, Medicaid at 8% And Debt Service at 7%.

Exhibit 11



Total Budgeted Expenses
Major Funds
($ Millions)

	2016	2017
Total Budgeted Expenses	$ 3,336.6	$ 3,440.0
Less:		
Interfunds between major funds	447.9	458.3
Net Expenses	$ 2,888.7	$ 2,981.7

3.2 Salaries, Fringes & Workers' Compensation

The 2017 Proposed Budget assumes a full-time headcount of 7,625, a 2.6% increase from the current on-board headcount of 7,433. We project a $14.9 million negative variance in Salaries, including overtime, primarily due to the projected termination pay of $16.3 million and overtime of $10.0 million specific to the two police funds. For 2017, the Comptroller projects termination pay for the Police Funds to reach approximately $55.5 million and overtime of approximately $67.1 million.

Fringe Benefits are projected to be under budgeted by $7.2 million, which is principally related to a budgetary credit of $8 million from the Retirement Contribution Reserve Fund. Pension costs are budgeted for 2017 at $161.7 million. The Administration has included in the 2017 Proposed Budget, the use of the $8.0 million reserve transferred to the Retirement Contribution Reserve Fund in 2015 as an offset to pension costs related to non-police employees. The use of the reserve will be treated as interfund revenue and has been reflected in this manner for the Comptroller's Projections.

The total risk to the 2017 Proposed Budget for Salaries (including overtime), Fringes, and Workers Compensation is $22.1 million of which $17.2 million is attributed to termination pay costs and $8.2 million to overtime, offset by an opportunity of $3.3 million attributed to the other components.

Exhibit 12

Salaries, Fringes & Workers' Compensation
Major Funds
($ Millions)

	2015 Actual	2016 Comptroller's Forecast	2017 Proposed Budget	2017 Budgetary (Risk) / Opportunity	2018 MYP	2019 MYP	2020 MYP
Salaries	$ 818.3	$ 863.3	$ 902.5	($ 14.9)	$ 911.8	$ 916.4	$ 921.1
Fringe Benefits	475.1	502.9	537.9	(7.2)	567.2	593.0	618.8
Workers Comp	28.2	31.5	35.3	0.0	35.3	35.3	35.3
Total	$ 1,321.6	$ 1,397.7	$ 1,475.7	($ 22.1)	$ 1,514.3	$ 1,544.7	$ 1,575.2

Termination Pay

The 2017 Proposed Budget includes $39.2 million for termination pay expenses for 135 police officers in the two police funds, which includes a $5.0 million contingency for the retirement of an additional 20 officers in the Police District Fund. Year-to-date 2016 is seeing a decline in the number of police officers retiring. Current estimates are 85 officers, short of the anticipated 135 that was budgeted for in the 2016 Adopted Budget. This decline is primarily due to the scheduled salary increases available under the current labor agreement due to expire at the end of 2017. It is likely that those officers anticipated to retire in 2016, but not retiring in 2016, will retire in 2017.

The Comptroller's projections assume that 2017 will have a total of 200 officers retire from the Police Department due in part to the number of officers estimated to be delaying retirement from 2016 to 2017 when the current labor agreement will end. NIFA has previously stated that it will not approve bonding for termination pay, therefore these costs will have to be paid from other funding sources and as a result represents a risk to the 2017 Proposed Budget, which is included in the Comptroller's analysis. We have included in our projections an additional risk of $16.3 million in unbudgeted costs related to the retirement of these additional officers.

Exhibit 13

Termination Pay *
($ Millions)

	2015 Actual	2016 Comptroller's Forecast	2017 Proposed Budget	2017 Budgetary (Risk) / Opportunity	2018 MYP	2019 MYP	2020 MYP
Police Headquarters	2.7	15.3	16.8	(13.2)	16.8	16.8	16.8
Police Districts	12.0	8.7	22.4	(3.1)	17.4	17.4	17.4
Others	8.0	9.2	8.6	(0.9)	8.6	8.6	8.6
Total Expense	$ 22.7	$ 33.2	$ 47.8	($ 17.2)	$ 42.8	$ 42.8	$ 42.8

*** Termination pay amounts included in salaries schedule**

Overtime Expenditures

Overtime is projected to reach $71.1 million in the two police funds in 2016. To address the continuing overtime cost concerns, the Administration began hiring new police classes in 2014 at the reduced salary rate based on the new union contracts and will continue to add additional classes through 2020 to achieve and maintain the targeted headcount of 2,500 sworn officers. The Administration assumes this increase in headcount combined with a lower average salary, should be sufficient to achieve the budgeted reduction in overtime in the two police funds.

We are not optimistic about the reduction in overtime costs moving into 2017, as structural issues still exist in the Police Department as highlighted in a recent Comptroller's audit. We still anticipate a combined shortfall of at least $8.2 million in overtime expenses, including $5.7 million for the Police Headquarters Fund and $4.4 million for the Police District Fund, offset by positive variances in the other funds.

Exhibit 14

Overtime *
($ Millions)

	2015 Actual	2016 Comptroller's Forecast	2017 Proposed Budget	2017 Budgetary (Risk) / Opportunity	2018 MYP	2019 MYP	2020 MYP
Police Headquarters	$ 33.2	$ 35.7	$ 28.5	($ 5.7)	$ 29.1	$ 29.5	$ 29.8
Police Districts	33.2	35.4	28.6	(4.4)	29.2	29.6	29.9
Correctional Center	11.4	14.3	14.4	(0.2)	14.7	14.9	15.1
Others	12.3	11.0	13.3	2.1	13.8	13.9	14.0
Total Expense	$ 90.1	$ 96.4	$ 84.8	($ 8.2)	$ 86.8	$ 87.9	$ 88.8

*** Overtime amounts included in salaries schedule**

3.3 Contingencies

Our analysis indicates that a budgeted contingency of $10 million will be available to cover shortfalls projected elsewhere in the budget.

Exhibit 15

Contingencies
Major Funds
($ Millions)

2015 Actual	2016 Comptroller's Mid-Year Report Forecast	2017 Proposed Budget	2017 Budgetary Opportunity	2018	2019	2020
$ 0.0	$ 0.0	$ 10.0	$ 10.0	$ 0.0	$ 0.0	$ 0.0

3.4 Contractual Expenditures

We are adding an additional risk of $5 million in Contractual expense related to finding a new healthcare provider for the Correctional Center. The current vendor has already threatened to leave unless it is given more money, as well as meeting its other demands. The

Administration is pursuing finding a new vendor via a Request for Proposal with uncertain financial terms.

Exhibit 16

Contractual Expenses
Major Funds
($ Millions)

2015 Actual	2016 Comptroller's Mid-Year Report Forecast	2017 Proposed Budget	2017 Budgetary Risk	2018 MYP	2019 MYP	2020 MYP
$ 242.2	$ 246.7	$ 251.1	($ 5.0)	$ 252.0	$ 252.5	$ 252.8

3.5 Property Tax Refunds

As of December 31, 2015, the total property tax refund liability was estimated to be $314.3 million, comprised of $302.6 million in long-term liabilities and $11.7 million, representing liabilities accrued for as of year-end 2015 and expected to be paid in 2016. We project that the County will end 2016 and 2017 with an estimated long-term property tax liability of approximately $327.4 million and $341.3 million, respectively.

According to the 2017 Proposed Budget, the Administration has projected to pay $75 million of property tax refunds. The Administration expects to request bonding of $60 million in 2016 to help pay down the outstanding backlog. The bond proceeds are reflected in the 2017 Proposed Budget in the other revenues category. However, we believe these revenues to be at risk, as borrowing authorization requires bipartisan approval by the Legislature (supermajority) and NIFA, and borrowed funds are not recorded in the operating funds, thus the $60 million of property tax refund expenditures budgeted in the operating funds is shown as a risk in Exhibit 17 below. Fiscal year 2017 is the final year that the County may avail itself of “transitional borrowing” for property tax refunds in accordance with NIFA’s directive. The $30 million projected in the multi-year plan for fiscal years 2018-2020 represent property tax refunds expected to be paid from the operating funds without use of borrowings.

Exhibit 17

Property Tax Refunds
Major Funds
($ Millions)

2015 Actual	2016 Comptroller's Mid-Year Report Forecast*	2017 Proposed Budget	2017 Budgetary Risk	2018 MYP	2019 MYP	2020 MYP
$ 3.3	$ 70.0	$ 75.0	($ 60.0)	$ 30.0	$ 30.0	$ 30.0

Exhibit 18 below illustrates the projected long-term property tax refund liability balance as of year-ends 2016 and 2017, assuming $60 million of refunds are paid from borrowed funds and $15 million of operating funds for this purpose in 2017. The Administration assumes minimal new residential liabilities will be added as assessment challenges are being addressed prior to the establishment of the County's tax rolls, thus mitigating the need for residential refunds.

The property tax refund backlog is one of the County's biggest challenges. Working towards its reduction is critical for the continued improvement of the County's financial trends.

On June 20, 2014, 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 Administration expects that the benefits from the commercial tax certiorari reform legislation will begin to be realized in 2017, however, the Comptroller's Office anticipates legal challenges to the law that will prevent the benefits from being realized in 2017. Thus, the long-term property tax refund liability is expected to continue to grow as additions outweigh the payments.

Exhibit 18

LONG TERM PROPERTY TAX REFUND LIABILITY ($'s in millions)				
	Bal beg of year	Additions	Reductions	Bal end of year
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	97.8	(95.4)	296.0
2015	296.0	88.8	(82.2)	302.6
2016 est	302.6	96.5	(71.7)	327.4
2017 est	327.4	88.9	(75.0)	341.3

3.6 Judgments and Settlements

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, was used by the Administration to reduce debt service costs in 2015 and 2016. 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 fiscal years 2015 and 2016, the Administration transferred or is expected to transfer, the debt service surplus arising from the use of premiums to pay down debt service, as a means to fund judgments and settlements, for which a Litigation Fund was established in 2015. The Comptroller's Office estimates that the Litigation Fund will have a 2017 opening fund balance of approximately $20 million remaining with which to pay 2017 judgments and settlements, including $13.8 million that is due and payable to the Town of Oyster Bay as a result a settlement with the town of a portion of the utilities litigations.

NIFA has indicated that there is no agreement to permit this continued use of premium for debt service expenditures in 2017. However, without an agreement with NIFA to continue the use of debt service surplus resulting from the use of premiums to pay down debt service, the Litigation Fund will be underfunded in 2017 and the difference would have to be funded through the operating funds.

Exhibit 19

Judgments and Settlements
Major Funds
($ Millions)

2015 Actual	2016 Comptroller's Mid-Year Report Forecast*	2017 Proposed Budget	2017 Budgetary Risk	2018 MYP	2019 MYP	2020 MYP
n/a *	n/a *	$ 0.0	($ 17.0)	$ 30.0	$ 30.0	$ 30.0

* In 2015 and 2016, judgments and settlements were paid from the newly established Litigation Fund.

3.7 Deferred Pension Expense Amortization Liability

The Employer Contribution Stabilization Program (Chapter 57, Laws of 2010) and the Alternate Contribution Stabilization Program (Chapter 57, Laws of 2013) allowed employers who participate in the NYS and Local Retirement Systems to amortize a portion of the annual pension cost. The amortized amount is to be paid in equal installments over a ten-year or twelve year period, dependent upon which program was being selected.

Beginning with the NYS retirement invoices due on February 1, 2012 (for the State fiscal year 4/1/2011 to 3/31/2012) the County has opted to amortize a portion of its annual pension bill and expects to opt in for the 2017 pension invoice, which is expected to be paid in December 2016 for the 2017 fiscal year. The estimated amortization to be taken in the 2017 invoice is $29.7 million.

As of December 31, 2016, we estimate that the County’s liability to the NYS and Local Retirement Systems for the deferral of annual pension expense will be approximately $232.6 million. Assuming the projected amortization on the 2018 invoice is elected, the County’s estimated liability at the end of fiscal 2017 is estimated at $236.1 million.

Exhibit 20

DEFERRED PENSION EXPENSE AMORTIZATION LIABILITY GAAP Basis ($'s in millions)				
	Balance at beginning of year	Additions	Reductions	Balance at end of year
2011	14.6	32.2	3.3	43.6
2012	43.6	52.2	5.8	89.9
2013	89.9	68.0	10.4	147.5
2014	147.5	63.3	15.8	195.1
2015	195.1	46.7	20.8	221.1
2016 est.	221.1	33.1	21.6	232.6
2017 est. *	232.6	26.7	23.2	236.1

* assumes amortization elected in 2018 invoice

4.0 The Multi-Year Financial Plan

As shown in Exhibit 21 below, the Administration's financial plan projects budget baseline gaps of $57 million in 2018, $62.6 million in 2019, and $68.7 million in 2020. **We estimate out-year gaps (including gap closing measures) of $165 million in 2018, $187.6 million in 2019 and $197.5 million for 2020.**

Some potential variances compared to the Multi-Year Financial Plan (including gap-closing items) include:

- Our projections in the out-years continue to reflect higher than budgeted overtime costs for the Police Funds of approximately $10 million per year, which is included in the Payroll & Fringe risk for 2017 - 2020. The Multi-Year Financial Plan includes increasing attrition savings in the out-years, which differ from our projections.

- We project a 1% out year increase in Sales Tax vs. the Multi-Year Plan assumption of 2.5%, resulting in an approximate shortfall of $31 million 2018, $48 million in 2019, and $52 million in 2020.

- We project a risk in Fines & Forfeitures related to 75% of the ticket surcharge of approximately $47 million in 2018-2020.

- We project a risk in OTB Revenues of $19 million in 2018 and $25 million in 2019 and 2020 related to the VLT's.

- Workforce Management savings related to backfilling at lower salaries has already been accounted for in our projections.

One area of concern is the growing liability related to the County's opting to defer a portion of the annual pension expense. The New York State Retirement System allows local municipalities to elect to "amortize" a portion of their annual invoice and pay via annual installments over 10 or 12 years (depending on the year the deferral was elected). The County has made this election each year beginning with the pension invoices for the period 4/1/2011 to 3/31/2012. As of December 31, 2015, the liability due to the New York State Retirement System was $221.1 million. The County elected this amortization policy in 2016 and is expected to elect again in 2017, which will further increase the pension liability to an estimated $236.1 million by year-end 2017. Assuming the amortization is elected in each of the out years, and projecting that the amount amortized is the same in each year and the interest rate on the loan is just under 3%, the estimated liability as of the end of 2018, 2019 and 2020 would be $238.5 million, $239.6 million and $239.4 million, respectively. In our projections, beginning in 2020, payments on the deferred balance would begin to exceed the new additions to the liability.

Exhibit 21

PROPOSED NASSAU COUNTY 2017-2020
MULTI-YEAR FINANCIAL PLAN
MAJOR FUNDS
SUMMARY OF FUTURE YEAR RISKS and OPPORTUNITIES
($'s Millions)

	2018	2019	2020
Baseline Gap per Financial Plan (before Gap Closing Measures)	**$ (57.0)**	**$ (62.6)**	**$ (68.7)**
Items included in Baseline Gap that are risks/opportunites			
Payroll & Fringe	(13.9)	(18.3)	(24.7)
Contractual	(5.0)	(5.0)	(5.0)
Departmental Revenue	(5.2)	(5.2)	(5.2)
Sales Tax	(31.1)	(48.0)	(51.9)
Fines & Forfeitures	(47.3)	(47.3)	(47.3)
OTB	(19.0)	(25.0)	(25.0)
Other	0.1	1.0	1.3
Gap Closing Measures			
Program/ OTPS Reduction	6.0	6.0	7.0
Suez Water Long Island Inc.Synergy Savings	4.0	9.0	9.2
eGovernment Revenues	1.0	2.0	4.0
Building Consolidation Efficiencies		1.0	4.0
Hotel Motel Tax Rate Increase	2.4	4.8	4.8
Net Baseline Gap	**$(165.0)**	**$(187.6)**	**$(197.5)**

Exhibit 22 below details the Administration's gap closing measures that the Comptroller's Office identifies as risks to the Multi-Year Plan. These gap-closing measures are not included in the Administration's Baseline Gaps or the Comptroller's Office projections for the Multi-Year Plan. These gap-closing measures are considered risks primarily due to their need for State legislations in order to be enacted (NYS Actions) or the inability to substantiate the assumptions for the savings.

Exhibit 22

PROPOSED NASSAU COUNTY 2017-2020
MULTI-YEAR FINANCIAL PLAN
MAJOR FUNDS
SUMMARY OF FUTURE YEAR RISKS and OPPORTUNITIES
(Gap Closing Measures Considered at Risk)
($'s Millions)

Gap Closing Measures Considered at Risk	2018	2019	2020
NYS Actions			
Mandate Reform	$ 28.7	$ 28.7	$ 28.7
Other NYS Legislative Actions	5.0	5.0	5.0
E-911 Surcharge	3.5	6.9	6.9
NYS Highway Traffic Offense Reimbursement	2.9	5.7	5.7
Sub-Total NYS Actions	40.1	46.3	46.3
Other			
Public Private Partnerships	20.0	20.0	30.0
Revenue Initiatives	30.0	32.0	37.0
County's District Energy Facility		10.0	10.0
Health Insurance Cost Reduction	5.0	5.5	7.0
Workforce Management	10.0	12.0	15.0
Strategic Sourcing		3.0	4.0
ERP Implementation	1.0	2.0	3.0
Total Gap Closing Measures at Risk	**$ 106.1**	**$ 130.8**	**$ 152.3**

5.0 Fund Balance Policy

The County's fund balance policy was adopted by the Legislature in 2005 and it is re-submitted to the Legislature as part of the 2017 Budget. The fund balance policy provides that the County will maintain unreserved fund balance between 4% and 5% of normal prior year expenditures of the General Fund and County-Wide Special Revenue Funds (Fire Prevention Fund and Police Headquarters Fund but excluding the Police District Fund). Fund balance provides taxpayers with a cushion against unexpected negative events.

If unreserved fund balance falls below that level for two years, the policy provides that the County will replenish the fund balance over the next four years. . **Our current projection for 2017 is that unreserved budgetary Fund Balance (as defined above) is at risk to fall below 4% to 0.1% or $1.6 million, assuming the projected budgetary deficit of $112.2 million that is projected in the General Fund and County-wide Special Revenue Funds.**

6.0 Major County Financial Trends

6.1 Budgetary Structural Gap Trend

The County has historically used the Structural Gap as a metric to illustrate fiscal health. It measures the imbalance between recurring operating revenues and expenses. The Structural Gap is not the same as a budgetary 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 or borrowing for operating expenses, it does not reduce the Structural Gap.

Exhibit 23 below shows the historic performance of the County Structural Gap. The 2017 projected Structural Gap is reduced compared to the recent high of 2014, mostly due to lower borrowing for property tax refunds and a lower benefit from amortizing pension expense, however, it is projected to increase over the two prior years to $143.9 million. Exhibit 24 shows the details of the components of the Structural Gap.

Exhibits 23 and 24 include actual budgetary results for 2009 through 2015, projected results for 2016 as reported in our Mid-Year Report and projected results for 2017 as discussed in this report.

Exhibit 23

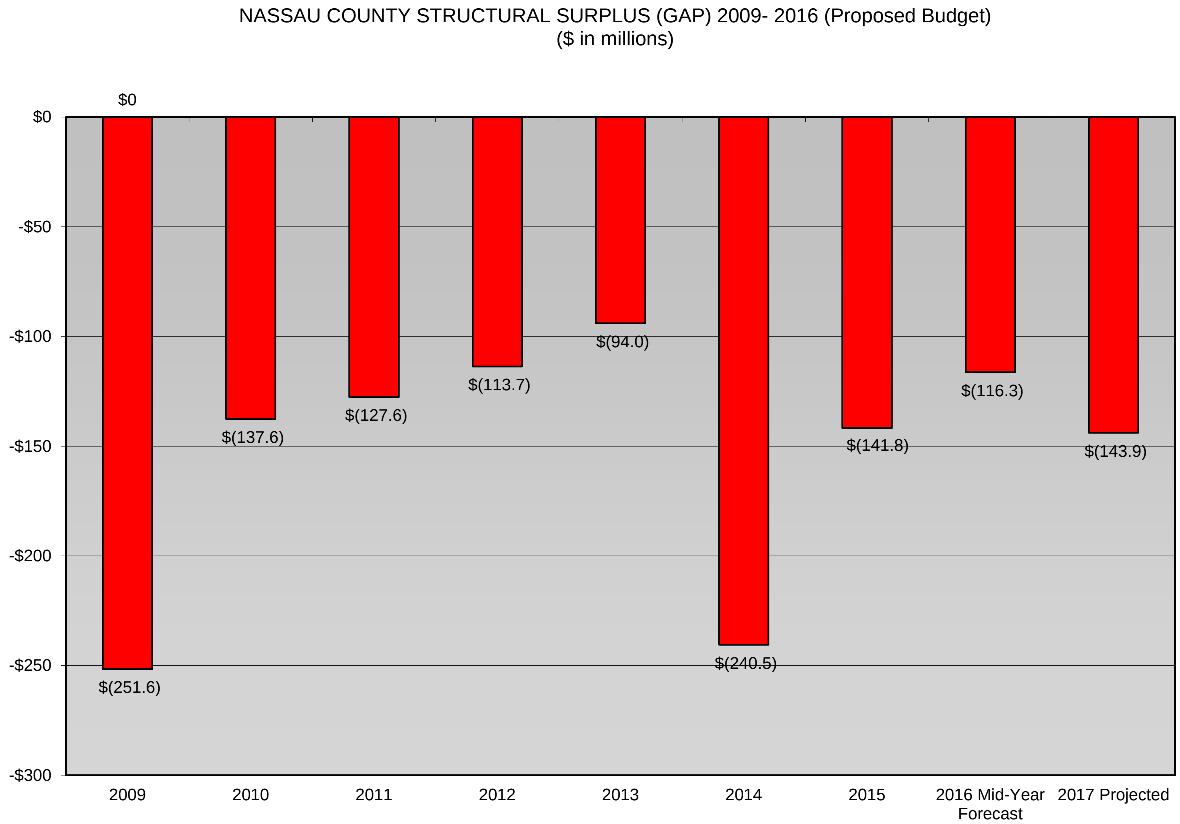

NASSAU COUNTY STRUCTURAL SURPLUS (GAP) 2009- 2016 (Proposed Budget)
($ in millions)
$0
-$50
-$100
-$150
-$200
-$250
-$300
$0
$(251.6)
$(137.6)
$(127.6)
$(113.7)
$(94.0)
$(240.5)
$(141.8)
$(116.3)
$(143.9)
2009
2010
2011
2012
2013
2014
2015
2016 Mid-Year Forecast
2017 Projected

Exhibit 24

Nonrecurring Revenues and Expenses
Major Funds
2009 - 2017 (Projected)
($ Millions)

	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	Comptroller's Mid-Year Report Forecast	2017 Projected
Results	$ (0.1)	$ 26.6	$ (50.4)	$ 41.5	$ 55.0	$ 10.7	$ 57.1	$ (14.2)	$ (114.6)
Use of Reserves	0.5			10.4			10.2		8.0
Transfer to Reserves						(6.2)	(9.2)		
Use of Fund Balance	10.0				10.5	16.2	15.0	3.0	15.0
Tobacco Related	15.2							18.0	
Nonrecurring Income and Expense									
Federal Medical Assistance Percentages (FMAP)	44.8	45.1	22.4						
FEMA Reimbursement							10.9		
Amortization of the Pension Bill				35.6	47.8	55.7	37.8	15.9	0.3
Residential Energy Tax	21.9	17.3							
Payroll Deferrals & Lag	60.1	17.2	(5.7)	(7.3)	(1.9)	(6.0)			
Bonding for Budgeted Termination Pay	34.5	26.8			8.6	20.1	26.1		
Use of borrowed funds to pay property tax refunds	64.5	42.5	21.0	14.7	75.0	126.4	96.2	60.0	
Property Tax Refund Forbearance				88.7					
Mitchell Field Securitization			37.4						
Net Bulk Lein Sale			(7.4)						
NIFA Debt Restructuring				1.3	5.9	23.0	4.3	2.3	0.9
NIFA Restatement		15.3							
Sale of County Property			9.5	11.8	3.1	2.1	4.0	2.9	5.1
Speed Cameras						19.9	3.6		
Total Nonrecurring	251.5	164.2	77.2	155.2	149.0	251.2	198.9	102.1	29.3
Structural Gap	$ 251.6	$ 137.6	$ 127.6	$ 113.7	$ 94.0	$ 240.5	$ 141.8	$ 116.3	$ 143.9

6.2 Borrowing Trends

The 2017 Proposed Budget projects long-term borrowings of $285.0 million, which will require NIFA approval, subject to Legislative (supermajority) approval. The Administration expects to issue long-term bonds to pay for property tax refunds of $60 million and capital projects of $225.0 million, which includes borrowing of $75.0 million for sewer related projects. In addition to the long-term borrowing, the Administration also intends to roll $101.3 million in Bond Anticipation Notes (BANs) for sewer related projects. The intention is to continue to roll these BANs while the County explores the possibility of a public-private partnership (P3) for the County's sewer system.

The 2017 new money borrowing in Exhibit 25 below includes projected borrowings of $60 million for property tax refunds. The Administration expects the $60 million borrowing in 2017 to be the final borrowing for property tax refunds as the Disputed Assessment Fund (DAF) goes into effect with the school tax bills for 2016/2017. According to the Administration, it is expected that the DAF will end the need to borrow for future commercial property tax refunds.

The Administration's proposed capital borrowings for the Sewer and Storm Water District of $75.0 million in 2017 and $50.0 million in years 2018, 2019 and 2020 have been included in the Exhibit below. However, the Exhibit does not include $101.3 million in BANs for sewer related projects as the Administration intends to continue to roll these BANs until a decision has been made regarding the P3 relationship for the sewer operations and assets.

The County utilized BANs to fund Sandy-related repairs and construction for its capital projects, to advance the funds to the projects until the FEMA reimbursement could be received. As FEMA reimbursements are recorded, the need to borrow BANS for this purpose will decrease. The County currently has $5.2 million in BANs to fund Sandy-related repairs, which are due to mature in June 2017. The County anticipates FEMA reimbursement to pay for the BANs. Any remaining amount that has not be reimbursed by FEMA will likely roll into bonds.

Exhibit 25

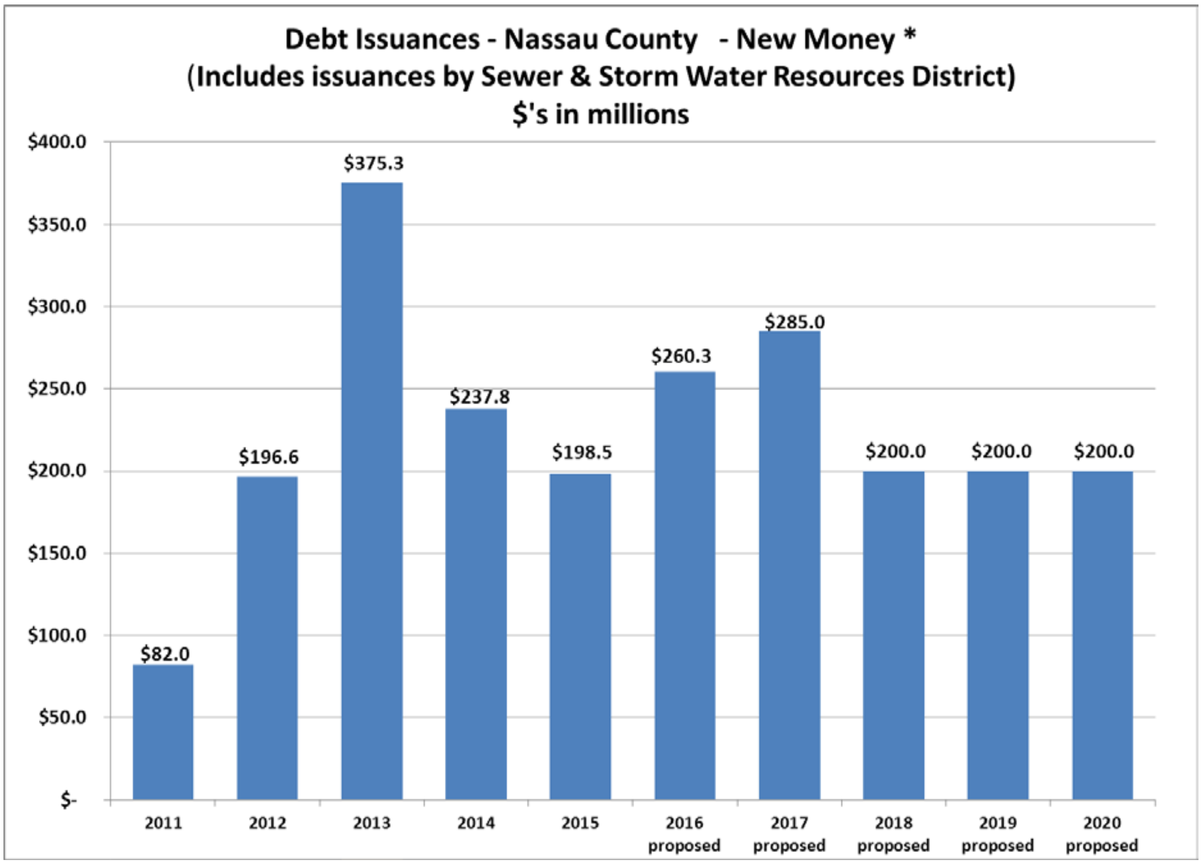


Exhibit 26 below illustrates projected long-term debt issued through December 31, 2017 by the County including SSW District, Nassau Community College, NIFA, Sewer and Storm Water Finance Authority (SFA), and Nassau County Tobacco Settlement Corp (NCTSC).

At 2015 year-end, the total of the County's general obligation bonds and its component units' long-term bonds outstanding was approximately $3.6 billion. The 2016 and 2017 anticipated borrowings will increase the total long-term bonds outstanding from $3.6 billion at year-end 2015 to approximately $3.7 billion at year-end 2017 after reductions from maturing debt for an increase of 2.1%. In 2016, the County issued $272.8 million of bonds to refund the 2008

Series A and Series C bonds and the 2009 Series A and Series C bonds as an Advanced Refunding. . This is reflected in Exhibit 26 below as an addition and reduction in the 2016 Projected columns.

Exhibit 26

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

	As of December 31, 2015 Actual	2016 Projected Additions	2016 Projected Reductions	As of December 31, 2016 Estimated	2017 Projected Additions	2017 Projected Reductions	As of December 31, 2017 Estimated
County w/SSW (a)	$ 2,086.1	$ 533.1	$ 362.4	$ 2,256.8	$ 285.0	$ 103.8	$ 2,438.0
NIFA	921.6	-	138.0	783.6	-	129.7	653.9
Sewer and Storm Water Finance Authority (SFA) (b)	154.3	-	10.2	144.1	-	10.3	133.8
Tobacco Settlement Corp (NCTSC) (c)	472.8	6.8	-	479.6	7.2	-	486.8
Total	**$ 3,634.8**	**$ 539.9**	**$ 510.6**	**$ 3,664.1**	**$ 292.2**	**$ 243.8**	**$ 3,712.5**

(a) Beginning in 2014, the County implemented a change in accounting principle to include the NCC debt as part of the County debt
(b) Assume no additional borrowings for SFA
(c) December 31,2015 includes accumulated accreted interest of $55.0 million; projected additions for 2016 and 2017 represent accreted interest

7.0 Sewer and Storm Water District

Effective January 1, 2015, SUEZ Water Long Island Inc. (formerly United Water Long Island Inc.), took over daily operations of the County's sewer system. As shown in Exhibit 27 below, the Administration is projecting that the SSW District will end in budgetary balance, after use of $23.2 million of prior year fund balance. Our projections indicate that $20.8 million of prior year fund balance will be required to fund the operations of the SSW District in 2017, leaving only $3.7 million of ending fund balance remaining for 2018.

The County's sewer system continues to be under-funded notwithstanding the partnership with SUEZ Water Long Island Inc. (formerly United Water Long Island Inc.). The 2017 proposed budget's tax levy for the sewer system and payments in lieu of taxes is flat to the 2016 Adopted Budget.

Exhibit 27

SSW FUND	2017 Proposed Budget - Administration	2017 Proposed Budget - CO	(Risk)/Opportunity to 2017 Proposed Budget	2018 Plan	2019 Plan	2020 Plan
EXP						
AA - SALARIES, WAGES & FEES	10,544,507	9,962,458	582,049	10,809,974	10,945,251	11,069,750
AB - FRINGE BENEFITS	9,039,199	8,879,243	159,957	9,554,473	10,035,027	10,524,496
BB - EQUIPMENT	36,761	36,761	-	37,066	37,066	37,066
DD - GENERAL EXPENSES	122,671	122,671	-	123,689	123,689	123,689
DE - CONTRACTUAL SERVICES	64,213,265	64,213,265	-	64,746,235	65,994,388	67,267,505
DF - UTILITY COSTS	8,775,000	7,775,000	1,000,000	9,062,565	9,614,077	10,023,107
FF - INTEREST	5,833,172	5,835,237	(2,065)	5,338,753	4,819,333	4,269,492
GG - PRINCIPAL	9,529,367	9,532,367	(3,000)	9,713,490	10,116,051	10,545,174
HH - INTERFD CHGS - INTERFUND CHARGES	32,481,615	32,481,615	-	38,015,392	41,464,529	42,842,743
OO - OTHER EXPENSES	538,500	538,500	-	538,500	538,500	538,500
EXP Total	**141,114,057**	**139,377,116**	**1,736,941**	**147,940,137**	**153,687,911**	**157,241,522**
REV						
AA - OPENING FUND BALANCE	23,240,362	20,763,495	(2,476,867)	-	-	-
BC - PERMITS & LICENSES	1,500,000	1,500,000	-	1,500,000	1,500,000	1,500,000
BE - INVEST INCOME	100,000	100,000	-	100,000	100,000	100,000
BF - RENTS & RECOVERIES	10,060,000	10,060,000	-	10,000,000	10,000,000	10,000,000
BG - REVENUE OFFSET TO EXPENSE	-	-	-	-	-	-
BH - DEPT REVENUES	1,482,000	1,482,000	-	1,482,000	1,482,000	1,482,000
BQ - CAPITAL RESOURCES FOR DEBT	300,000	300,000	-	-	-	-
BR - DUE FR GOVTS - DUE FROM OTHER GOVTS	-	-	-	-	-	-
BW - INTERFD CHGS - INTERFUND CHARGES REVENUE	-	-	-	-	-	-
FA - FEDERAL AID - REIMBURSEMENT OF EXPENSES	-	-	-	-	-	-
IF - INTERFD TSFS - INTERFUND TRANSFERS	104,431,695	105,171,621	739,926	104,478,945	104,464,695	104,608,195
REV Total	**141,114,057**	**139,377,116**	**(1,736,941)**	**117,560,945**	**117,546,695**	**117,690,195**
Surplus (Deficit)	**-**	**-**	**0**	**(30,379,192)**	**(36,141,216)**	**(39,551,327)**
Ending Fund Balance - Budgetary Basis - projected	**1,181,538**	**3,658,404**				

Unlike prior years, the Administration has excluded $12.6 million of sewer assessment fees to be charged to non-profits in the 2017 Proposed Budget. The Comptroller's projections also exclude the sewer assessment fees as this issue is still in litigation.

SUEZ Water, as part of the consideration received by the County, guaranteed salary savings of a minimum of $10 million. The County bills SUEZ Water for actual salary and fringe costs for the leased employees, which are expected to remain at the same level as year-end 2016. The revenue received from SUEZ Water for the leased employees is reported in Rents and Recoveries.

Our projections for utility costs are $1.0 million under the 2017 Proposed Budget. Utility costs have decreased across other funds and therefore we have reflected those saving in the SSW District fund as well.