OFFICE OF THE NASSAU COUNTY COMPTROLLER

October 12, 2018

Comments on the Risks and Opportunities: Proposed Nassau County 2019 Budget & Multi-Year Financial Plan

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1.0 EXECUTIVE SUMMARY

1.1 PURPOSE

The Nassau County Charter requires that the Nassau County Comptroller render an opinion as to the reasonableness of the estimates contained in such proposed budget relating to non-real property tax revenues. This report is required by §402 (8) of the County Charter.

PRIMARY OPERATING FUNDS

Under prior administrations, management's reporting and discussion of the County's primary budget and operating results excluded various funds. The funds that were excluded are key to ensuring our policy makers and management have the relevant information needed to make sound decisions that ultimately have positive long-term impacts on the County's fiscal trajectory.

As presented in the Fiscal Year 2017 Comprehensive Annual Financial Report (CAFR) and the Comptroller's 2018 Mid-Year Report, we have expanded the definition of "primary operating funds" to include the total General Fund, Police District Fund, and Sewer and Storm Water District Fund. Prior to the 2017 fiscal year, various funds required to be included in the General Fund under the national standard and the Sewer and Storm Water Fund were excluded in the discussions of the County's primary operating funds.

STATE OF THE ECONOMY

Nassau County's has shown signs of improvement over the past 10 years. According to the New York State Labor Department and the Federal Bureau of Labor and Statistics, Nassau County's unemployment rate decreased from 4.2% to 3.7% from August 2017 to August 2018. Similarly, the County's unemployment rate is also lower than statewide and national rate 4.2 % and 3.9 %, respectively.

National Gross Domestic Product for the second quarter of 2018 rose 4.2%, nearly doubling the first quarter's 2.2% increase, reflecting relatively strong consumer confidence and stronger business investment. Moreover, as of October 11, 2018, Nassau County sales tax collections have grown by 4.1% year-over-year, continuing to reflect strong collections.

Median household income in Nassau County is significantly higher than the national and New York State averages, but inequality and wage stagnation continue to persist. According to the 2017 American Community Survey, Nassau County's median family income totals $108,133, as compared to the State and national median family income of $64,894 and $60,336, respectively. However, 7.9% of households earn less than $25,000 per year.

Although Nassau County is considered developed with limited vacant parcels, the County is not fulfilling its potential to compete in the innovative economy. The County is struggling to maximize assets such as world class research institutions, a highly educated population, innovative companies, and a developed digital infrastructure. Ongoing projects to increase housing options, transit-oriented development, walkable downtowns, and investment in startups are essential to expanded economic growth.

Lastly, it is important to note that the federal tax - reform, in particular the cap on State and Local Tax (SALT) deductions, may continue to pose a risk to the County's economy and housing activity in the coming year.

1.2 PROPOSED FISCAL YEAR 2019 BUDGET RISKS/OPPORTUNITIES

The Comptroller's Office estimates that **the proposed 2019 budget contains approximately $40.7 million of risks**. The risks, as shown in Table 1 below, stem primarily from the projected revenue shortfall of $52.8 million, which is offset by expenditure opportunities of $12.1 million.

Table 1: (Risk) / Opportunities

($, millions)	General Fund	Police District Fund	Sewer and Storm Water Fund	Total Operating Funds
REVENUES				
OTB Profits	(17.0)	-	-	(17.0)
Fines and Forfeitures	(12.7)	-	-	(12.7)
Rents and Recoveries	(8.0)	-	+ 0.6	(7.4)
Departmental Revenues	(6.2)	-	-	(6.2)
Asset Forfeiture (Interfund Revenue)	(6.0)	-	-	(6.0)
Investment Income	(3.1)	-	+ 0.4	(2.7)
Use of Fund Balance	-	-	(0.8)	(0.8)
Total Revenues	**$ (53.0)**	-	**$ 0.2**	**$ (52.8)**
EXPENDITURES				
Payroll, Fringes & Overtime	+8.6	(0.5)	(0.2)	+7.9
Debt Service	+4.3			+4.3
Other	(0.1)			(0.1)
Total Expenditures	**$12.8**	**$ (0.5)**	**$ (0.2)**	**$ 12.1**
Total (Risks) /Opportunities	**$ (40.2)**	**$ (0.5)**	**-**	**$ (40.7)**

Based on the above risks in the proposed 2019 budget, we project a $59.1 million operating deficit on a Generally Accepted Accounting Principles Basis (National Standard) for fiscal year 2019.

Further Analysis of the individual risks/opportunities can be found on page 7.

Items of Note:

Sales Tax Revenue – **ON CLOSE WATCH**
Although, we did not risk Sales Tax Revenue, **we strongly recommend that collection rates are monitored closely throughout the year to ensure swift corrective actions are taken should collections soften.** This is especially critical as sales tax accounts for 39% of budgeted revenue and its performance is correlated to current economic conditions.

Collective Bargaining Agreements
All Collective Bargaining Agreements for the County's major labor unions expired at the end of 2017. Renegotiated agreements and terms could have significant impact on the 2019 budget that will need be analyzed for potential fiscal impacts. These potential impacts have not been included in the current 2019 projections.

Tax Certiorari
The current administration has taken various steps to address the myriad of inherited fiscal challenges. As reflected in the updated 2018 Multi-Year Plan and Fiscal Year 2019 Proposed Budget, the current administrations has prioritized addressing the current tax certiorari condition and mitigate associated risks going forward. This is reflected through the following planned measures:

- Publication of a new tax roll in January of 2019;
- Requested $300 million in financing for Tax Certiorari Backlog: $100 million in 2018 and an additional $200 million in 2019 - fiscal year beginning 2020, the current administration plans to use operating funds to pay for tax certiorari claims;
- Utilizing current Disputed Assessment Fund (DAF) resources to assist in clearing the applicable backlog on class four (commercial) properties and strengthening existing legislation for flexibility and;
- Budgeting additional resources in Assessment and Assessment Review Commission for enforcement and administration of the new tax roll.

1.3 UPDATED 2018 MID-YEAR PROJECTIONS

The Comptroller's 2018 Mid-Year report projected that the County would end the current year with a **$117.1 million operating deficit** and **ending unassigned fund balance deficit of $135.1 million** in the primary operating funds under Generally Accepted Accounting Principles (GAAP).

The year-end projections have been updated to account for:

- **PILOT Payments**: 2017 PILOT payments received from the Town of Hempstead of +$5.2 million and receipt of the first half of 2018 payments in the amount of $2.8 million;
- **Salary and Fringe Projections**: Improved salary and fringe projections of +$7.3 million to adjust longevity assumptions as employees continue to be frozen at current levels;
- **Judgment and Claims**: A reduction in projected judgments and claims expenditures of $3.5 million related to the Sewer and Storm Water District Fund;

- **Changes to the GAAP adjustments as follows**:
  - Collection of open receivables of $2.2 million related to the Sewer and Storm Water District Fund; and
  - Pension expenditure reduction of $2.5 million due to the receipt of updated invoice from New York State.

The above adjustments have resulted in a revised projected **operating deficit of $91.9** million and an **ending unassigned fund balance of a negative $95.2 million** in the primary operating funds under GAAP for fiscal year 2018.

It should be noted that all else remaining equal, if the possible transactions noted in the mid-year report materialize, the fiscal year 2018 revised projected operating deficit of $91.9 million improves by approximately 60% to a $34.2 million to $35.8 million operating deficit.

The tables below project the ending 2018 GAAP fund balance, revised from the 2018 Mid-Year Report should the 2018 risks materialize.

Table 2: Revised Projected Ending Fund Balance FY 2018

($'s in millions)	General Fund	Police District Fund	Sewer and Storm Water Fund	Total Operating Funds
2017 Ending Fund Balance				
Non-Spendable	$ 54.0	$ 12.6	$ 0.4	$ 67.0
Spendable:				
Restricted	58.3	-	-	58.3
Committed	13.2	5.8	-	19.0
Assigned	-	-	23.6	23.6
Unassigned	(44.4)	(24.4)	-	(68.8)
Total Fund Balance (Deficit) as of 12/31/2017	$ 81.1	$ (6.0)	$ 24.1	$ 99.2
Projected Changes in Fund Balance (Deficit) FY 2018	**$ (81.7)**	**$ 3.7**	**$ (13.9)**	**$ (91.9)**
2018 Projected Ending Fund Balance (Deficit)				
Non-Spendable	$ 55.3	$ 12.1	$ 0.5	$ 67.9
Spendable:				
Restricted	10.4	-	-	10.4
Committed	13.2	1.3	-	14.5
Assigned	-	-	9.7	9.7
Unassigned	(79.5)	(15.7)		(95.2)
Total Projected Fund Balance (Deficit) at 12/31/2018	**$ (0.6)**	**$ (2.3)**	**$ 10.2**	**$ 7.3**

1.4 FY 2019 PROPOSED BUDGET STRUCTURAL DEFICIT

DIFFERENCE BETWEEN RECURRING REVENUES AND RECURRING EXPENSES

As mentioned in previous reports, the County must restructure, reform and modernize to avoid further deterioration in the County's overall viability. This includes devising appropriate fiscal and operational plans to address the increasing structural imbalances created from fundamental changes in our economy. These fundamental changes are irrespective of cyclical "temporary" dips like year-over-year changes in mortgage recording fees.

Nassau County, like many municipalities across the Country, are grappling with devising and implementing structural fixes, on both the revenue and expense side of the equation. Historical trends continue to show that revenue increases of 2%-3% per year have not kept pace with rising expenditures of 6%-10% per year. A classic example of a structural change in our local economy is the cost of healthcare.

The Structural deficit inherent in the 2019 proposed budget is estimated at $42 million.

The County will continue to face increasing fiscal challenges until appropriate fundamental policy decisions are implemented to respond to this imbalance. The new Administration, the Legislature and the Nassau County Interim Finance Authority (NIFA) will need to continue addressing these challenges.

Table 3: FY 2019 Proposed Budget Structural Deficit

Structural Deficit – Nonrecurring Revenue and Expenses 2019 Proposed Budget Major Funds ($ Millions)	
Use of Fund Balance	$11.2
Amortization of Pension Bill	8.8
Budgeted New Revenues without Legislative approval	8.0
Use of Asset Forfeiture Funds	6.0
Sale of County Property	8.0
Structural Deficit (Total Non-Recurring)	**$42.0**

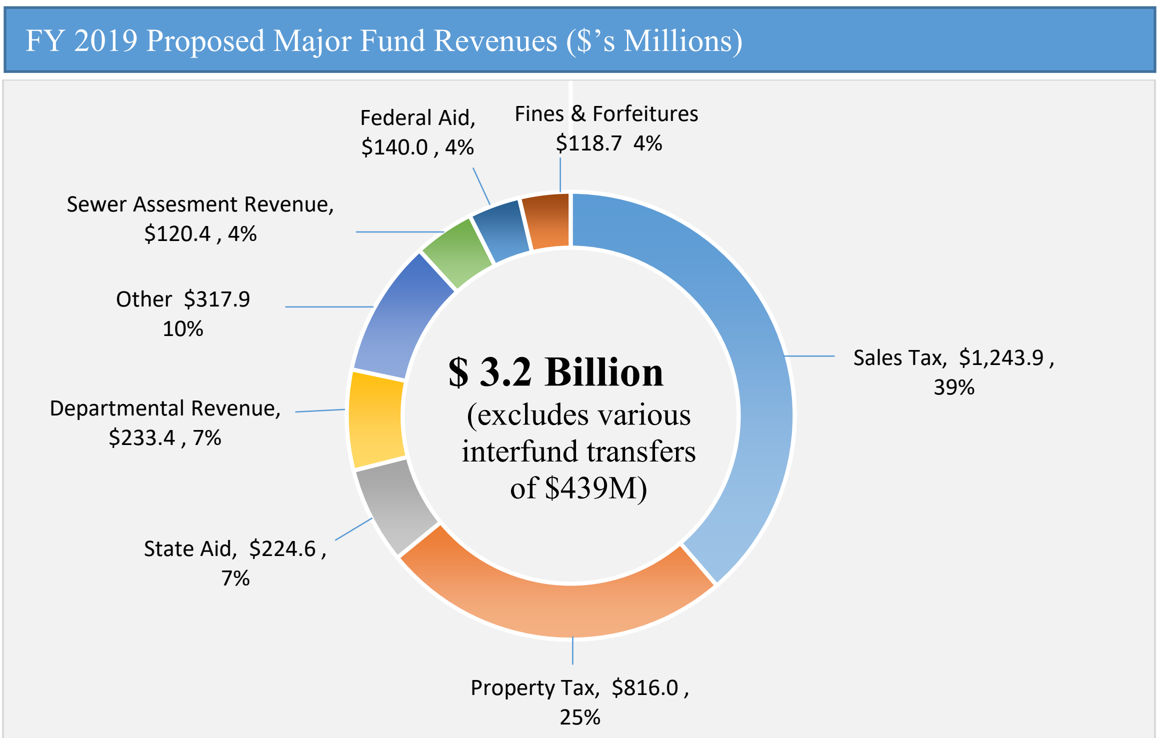
2.0 Discussion of Revenues: (Risks) / Opportunities

This section discusses significant major funds revenue risks and opportunities presented in the fiscal year 2019 proposed budget.

MAJOR FUNDS REVENUE COMPOSITION

Sales Tax is the major revenue source for Nassau County, accounting for $1.2 billion or 39% of revenue, followed by Property Tax at $816 million or 25%, State and Federal Aid at $364.6 million or 11% and Departmental Revenues at $233.4 million or 7%. These categories and percentages have remained relatively constant in recent years.

Chart 1: Proposed Major Fund Revenues



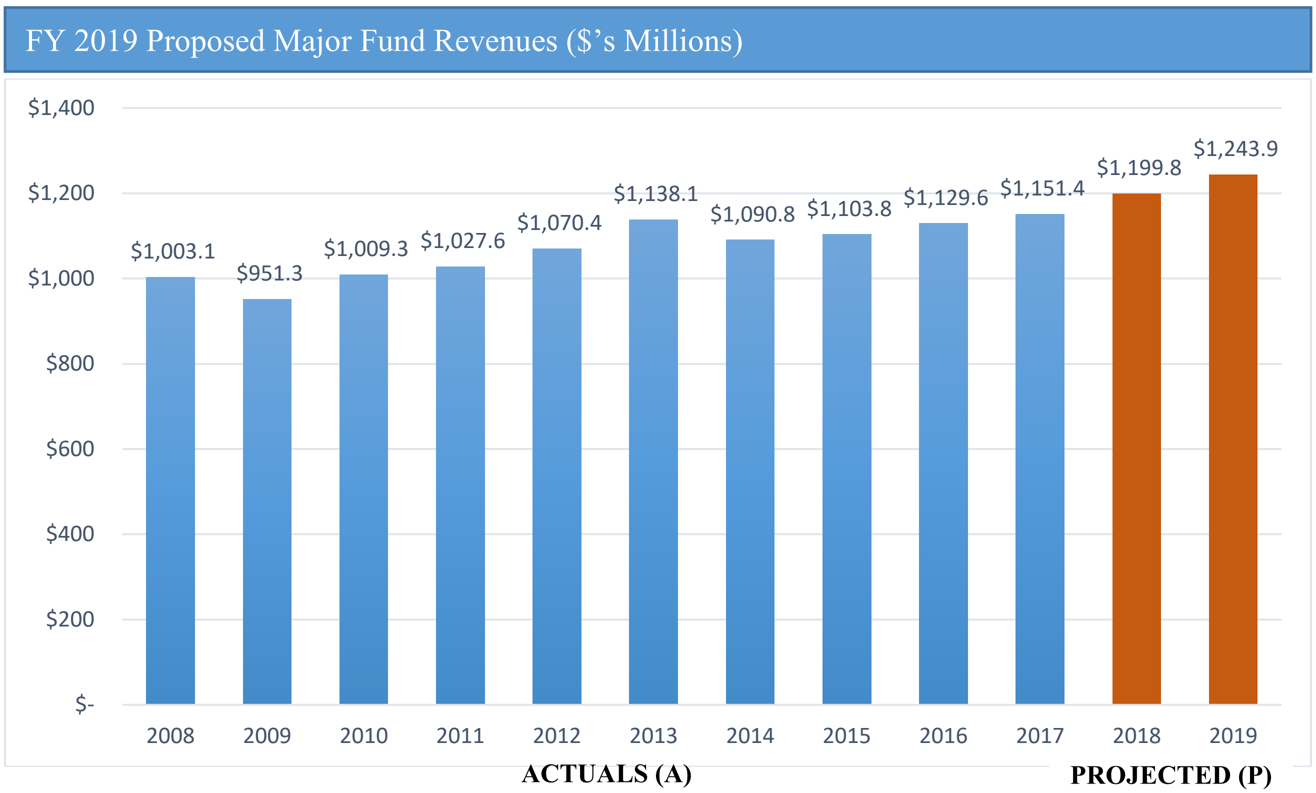
***Note:**
Other includes: Non-eliminating Interfund Revenues ($81 million), PILOTs ($46.0 million), Rents and Recoveries ($40.5 million), Interest Penalties on Taxes ($34.6 million), Special Taxes ($32.6 million), Permits and Licenses ($21.1 million), OTB Video Lottery Terminals ($20.0 million), Revenue Offsets of Expense ($17.5 million), Use of Fund Balance ($11.2 million), Investment Income ($9.9 million), and Capital Resources ($3.5 million).

2.1 Sales Tax – ON CLOSE WATCH

Sales Tax, at 39% of budgeted revenues (net of eliminating interfund revenues) is the County's largest revenue source and is highly correlated to economic conditions.

Although, the Comptroller's Office has not identified a risk with budgeted sales tax revenues for fiscal year 2019, we do caution that collection rates should be monitored closely throughout the year. Doing so will ensure swift corrective actions are taken should collections soften.

Chart 2: Sales Tax Collections ($ Millions) – Actuals & Projected



Year-over Year Change	2008 (A)	2009 (A)	2010 (A)	2011 (A)	2012 (A)	2013 (A)	2014 (A)	2015 (A)	2016 (A)	2017 (A)	2018 (P)	2019 (P)
$, millions	N/A	(51.8)	58.0	18.3	42.8	67.7	(47.3)	13.0	25.8	21.8	48.4	44.1
%	N/A	-5.2%	6.1%	1.8%	4.2%	6.3%	-4.2%	1.2%	2.3%	1.9%	4.2%	3.7%

2.2 OTB Video Lottery Terminals Profits | Budget Risk ($17.0) million

We project a risk of $17.0 of the $20.0 million Video Lottery Terminals ("VLT") proceeds budgeted as OTB profits. The County received $3 million in 2016 and did not receive the $3 million budgeted for 2017 until May 2018, which was outside the County's 60-day period of availability policy for the recognition of revenues. Therefore, this has been recorded as 2018 revenue. Given the historical trends and financial strength of OTB as evidenced by its total net position deficit of $67.4 million as of December 31, 2017, we expect this amount to be a reasonable estimate.

An arrangement brokered by the State Legislature transferred from the County to OTB the authority to install 1,000 video lottery terminals at Resorts World Casino at Aqueduct Racetrack, which is operated by Genting New York LLC (Genting). According to the agreement, the 2018 budgeted revenues were contingent upon Genting installing an additional 500 VLTs at Aqueduct Racetrack by April 1, 2018. To date, the installation has been delayed and the 2018 collection of budgeted revenue is not expected.

Table 4: OTB Video Lottery Terminal Profits – ($ Millions)

FY 2017	FY 2018	FY 2019		
Actual	Comptroller's Mid-Year Forecast	Proposed Budget	Comptroller's Forecast	Budget Risk
$0	$3.0	$20.0	$3.0	$(17.0)

2.3 Fines and Forfeitures | Budget Risk ($12.7) million

Our analysis of the 2019 proposed budget for Fines and Forfeitures shows a risk of $12.7 million. This risk is primarily attributed to $8.0 million of budgeted boot & tow revenue, which requires Legislative approval. In addition, we are risking $4.7 million related to the public safety fees generated from red light camera revenue as we do not expect the increase in violations to be as aggressive as budgeted.

Table 5: Fines and Forfeitures – ($ Millions)

FY 2017	FY 2018	FY 2019		
Actual	Comptroller's Mid-Year Forecast	Proposed Budget	Comptroller's Forecast	Budget Risk
$92.8	$102.8	$118.7	$106.0	$(12.7)

2.4 Rents and Recoveries and Sale of County Property | Budget Risk ($7.4) million

The 2019 proposed budget includes risk of $7.4 million in the category of Rents and Recoveries primarily related to $8.0 million budgeted for sale of County property, which is offset by a $0.6 projected opportunity in Sewer recoveries based on 2018 trends. At the time of this report, the County does not have a solid closing date for any specific properties for sale in fiscal year 2019.

Table 6: Rents and Recoveries and Sale of County Property– ($ Millions)

	FY 2017	FY 2018	FY 2019		
	Actual	Comptroller's Mid-Year Forecast	Proposed Budget	Comptroller's Forecast	Budget Risk
Sale of County Property	$1.2	$2.9	$8.0	$ 0.0	$(8.0)
Other Rents & Recoveries	$38.5	$40.5	$32.6	$33.2	$0.6
Total	**$39.7**	**$43.4**	**$40.6**	**$33.2**	**$(7.4)**

2.5 Departmental Revenue | Budget Risk ($6.2) million

The 2019 proposed budget includes $6.2 million of estimated risk in Departmental Revenues comprised of the following:

- General Fund: $3.2 million
  - Assessment Department GIS Tax Map Fees of $1.2 million
  - County Clerk's collection of mortgage recording fees of $2.0 million
- Police Headquarters Fund: $2.0 million for ambulance revenues
- Fire Commission Fund: $1.0 million in the Fire Commission Fund in permits collections.

In all cases, historical trends and lack of supporting data indicate that budgeted revenues may not be met.

Table 7: Departmental Revenues – ($ Millions)

FY 2017	FY 2018	FY 2019		
Actual	Comptroller's Mid-Year Forecast	Proposed Budget	Comptroller's Forecast	Budget Risk
$237.2	$228.4	$233.4	$227.2	$(6.2)

2.6 Asset Forfeiture | Budget Risk ($6.0) million

The 2019 Proposed Budget includes $6.0 million of revenues related to Asset Forfeiture funds that we projected will not be realized, due to the following:

- Asset Forfeiture funding requires that the expenditures incurred by the Asset Forfeiture monies be segregated, therefore the use of these funds would require transfer to the Asset Forfeiture Grant Fund; and
- All Asset Forfeiture usage is at the discretion and the recommendation of the Commissioner of Police and the NCPD Asset Forfeiture Committee and may require prior approval by the appropriate Federal or State agency.

Table 8: Asset Forfeiture ($ Millions)

FY 2017	FY 2018	FY 2019		
Actual	Comptroller's Mid-Year Forecast	Proposed Budget	Comptroller's Forecast	Budget Risk
$0	$0	$6.0	$0	$(6.0)

2.7 Investment Income | Budget Risk ($2.7) million

Investment Income Revenue is projected to have a risk of $2.7 million. Although, we do expect revenues to increase in fiscal year 2019, our projections reflect modest growth based on expected Federal Reserve Rate increases in 2019.

Table 9: Investment Income – ($ Millions)

FY 2017	FY 2018	FY 2019		
Actual	Comptroller's Mid-Year Forecast	Proposed Budget	Comptroller's Forecast	Budget Risk
$4.6	$5.8	$9.9	$7.2	($2.7)

2.8 Use of Fund Balance| Budget Risk ($0.8) million

The Administration has budgeted the use of $11.2 million of fund balance, $10.5 million in the Sewer Fund and $0.7 million in the Bond Indebtedness Reserve Fund. We have projected that of $0.8 million of the budgeted use of fund balance in the Sewer Fund will not be required because there are opportunities of $0.8 million in rent and recoveries and investment income. Therefore, only $9.7 million of prior year ending fund balance will be needed to fund the operating deficit in the Sewer Fund.

Note: For GAAP reporting, use of fund balance is not recognized as a source of revenue.

Table 10: Use of Fund Balance ($ Millions)

FY 2017	FY 2018	FY 2019		
Actual	Comptroller's Mid-Year Forecast	Proposed Budget	Comptroller's Forecast	Budget Risk
$68.8	$0	$11.2	$10.4	$(0.8)

3.0 Discussion of Expenditures: (Risks) / Opportunities

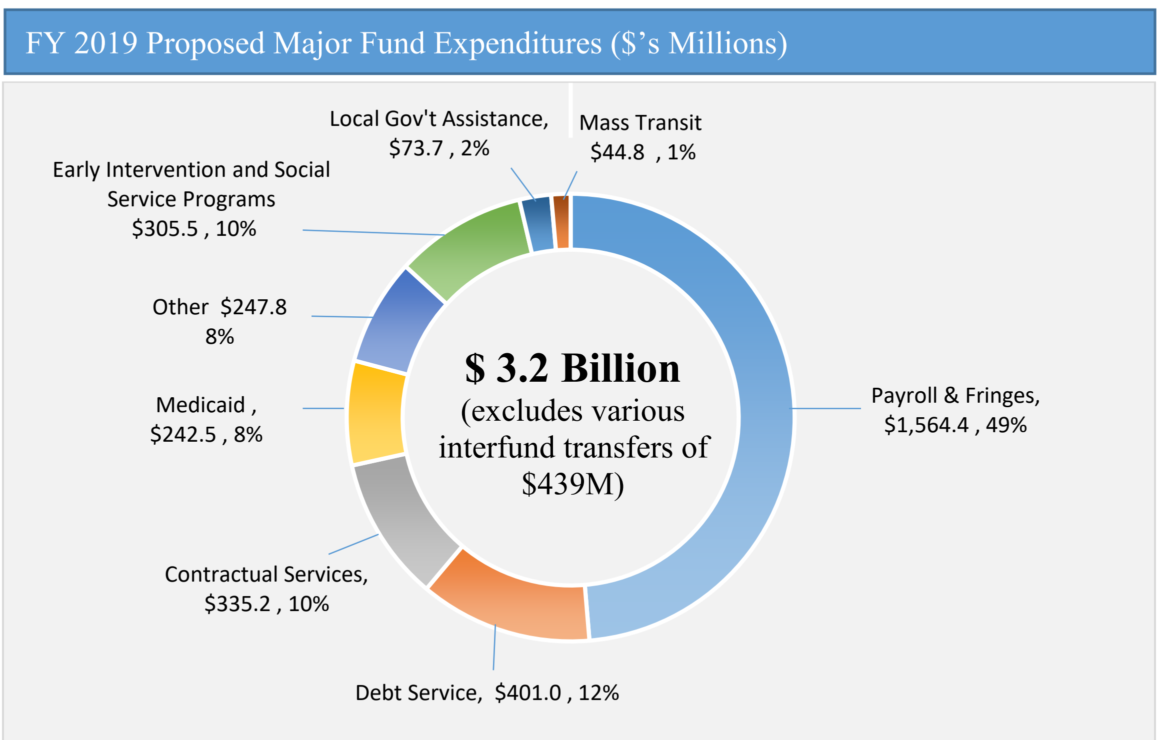
This section discusses significant major funds expenditure risks and opportunities presented in the fiscal year 2019 proposed budget.

MAJOR FUNDS EXPENDITURE COMPOSITION

Major Expenditure Categories

Payroll and fringe benefits, at 49% or $1.6 billion is the County's greatest major fund expenditure, followed by Debt Service at 12% or $401.0 million, Contractual Services at 10% or $335.2 million, Early Intervention and Social Service Programs at $305.5 million or 10% and Medicaid at $242.5 million or 8%.

Chart 3: Proposed Major Fund Expenditures



***Note: Other includes**: Non-eliminating interfund charges ($57.3 million), Claims and Judgments ($30.5 million), Property Tax Refunds ($30.0 million), General Expenditures ($35.2 million), Rental Expenditures ($13.7 million), FIT Resident Tuition ($10.0 million), Legal Aid Society ($7.3 million), Bar Association ($7.6 million), Variable Direct Expenses ($5.0 million), Equipment purchases ($2.4 million), NIFA expenditures ($2.0 million) and various other $(4.9 million).

3.1 Payroll, Fringes and Overtime | Budget Opportunity + $7.9 million

The 2019 Proposed Budget assumes a full-time headcount of 7,671, an increase of 6.4% or 462 personnel from the current on-board headcount of 7,209 as of September 13, 2018. The Comptroller's Office projections include an increase in headcount of 308 from the current on-board County headcount for positions identified as critical. Therefore, we recognize the potential for savings of up to $8.7 million for 2019 if positions remain vacant.

This increase in headcount year-over-year includes funding for additional staffing primarily in areas of Public Safety in the amount of $10.1 million and Assessment in the amount of $1.5 million. These areas have been identified by the Administration as necessary to assist in mitigating future costs such as overtime and the administration of the new assessment roll, respectively. The Comptroller's Office projects salaries (including termination pay and overtime), fringe benefits and workers' compensation expenditures to have a combined positive variance of $7.9 million. This variance is comprised of the following opportunities and risks delineated below:

+ Opportunities

Vacancy (Payroll) and Other Savings	+ $5.5 million	Inherited funded vacancies County-wide. Additional savings may also be achieved if budgeted positions remain vacant or if hiring is delayed. Vacancy/Payroll savings of +$8.7 million and other payroll savings are offset by risks in holiday pay and shift differential of $(3.9) million.
Fringe Benefits	+ $6.7 million	Amortization (Deferral) of Pension Expense and Health Insurance Premiums (Active Employees net of Retirees)

(*Risks*)

Overtime Expense	($3.3 million)	Police Headquarters and Correctional Center OT trends
Termination Pay	($1.0 million)	Estimated payout of 2017 Voluntary Separation Incentive Program.

Major Assumptions:

Collective Bargaining Agreements (CBAs) - All Collective Bargaining Agreements for the County's major labor unions expired at the end of 2017. Renegotiated agreements and terms could have significant impact on the 2019 budget that will need be analyzed for potential fiscal impacts. These potential impacts have not been included in the current 2019 projections.

Step Increases and Cost of Living Adjustments: Similar to the 2019 Proposed Budget, the Comptroller's projections include scheduled employee step increases however, no Cost of Living Adjustments have been incorporated.

Workers' Compensation – Workers' Compensation is projected to total $35.2 million for all the major funds combined. There are no potential risks identified in this category at this time.

New York State is looking to eliminate its workers' compensation long-term (second injury) liability to the County, which estimates the cost of reimbursing the County for certain categories of injured workers. Instead, New York State is offering the County a discounted upfront payment. Triad Group LLC, the County's workers' compensation administrator, is negotiating the discount with New York State on behalf of the County. The current administration is anticipating that New York State will offer between $14.5 million and $16 million to relieve its obligation. The County would receive the estimated funds but needs to pay the injured employees over a span of approximately 20 years; the State estimated this liability at $19 million. It has not been determined if the impact of this potential reimbursement will be recognized in fiscal year 2018 or 2019. With the details still under negotiation at this time, the impact of this reimbursement has not been included in the Comptrollers' Office projections for 2019.

PAYROLL EXPENSE (EXCLUDING OVERTIME AND TERMINATION)

The Comptroller's Office projects a $5.5 million positive variance in salaries excluding termination pay and overtime. At risk are projected overages in holiday pay of $2.6 million and shift differential of $1.3 million, which is offset by potential savings identified in part-time and seasonal employees, as well as other payroll related savings. Savings can also be achieved if budgeted positions remain vacant or there are delays in hiring into the year (up to a projected $8.7 million).

Table 11: Payroll Expenditures ($ Millions)

	FY 2017	FY 2018	FY 2019		
Fund	Actual	Comptroller's Mid-Year Forecast	Proposed Budget	Comptroller's Forecast	Budget (Risk)/ Opportunity
GEN	553.4	528.2	565.8	558.2	7.6
PDD	178.3	185.0	202.1	204.2	(2.1)
SSW	10.3	8.9	8.6	8.6	0.0
Total	**$742.0**	**$722.1**	**$776.5**	**$771.0**	**$5.5**

FRINGE BENEFITS

Fringe Benefits are projected to have an opportunity of $6.7 million, primarily due to the exclusion from the 2019 Proposed Budget of the pension expense savings related to the deferral of Police pension expense (PFRS) of $5.4 million, and $3.9 million in health insurance rates for active employees, which is offset by a risk of $5.0 in health insurance for retirees.

A continued area of concern is the growing liability related to the County's opting to defer a portion of the annual pension expense. 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, 2017, the liability due to the New York State Retirement System was $235.0 million. Although the total pension bill has decreased in recent years due to a decline in pension rates, the County's annual expense has not declined due to its obligation to pay the amortized amounts.

Fiscal year 2019 calculations for pension expense include a deferral of $15.2 million for both the Employee Retirement System (ERS) [1] and the Police and Fire Retirement System (PFRS). 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 anticipated 2019 deferral is the maximum deferral (amortization) allowed under the State's Contribution Stabilization Program (over 12 years). The projected pension expense for 2019 also assumes the prepayment of the pension obligation amount due in February 2019 but prepaid in December 2018, which would result in a savings of approximately $1.5 million for 2019.

Of the total 2019 pension invoices (net of the 2019 invoice's deferred portion and estimated Nassau Community College share) that will be prepaid in December 2018, 19.1% or $35.0 million (ERS $21.7 million and PFRS $13.3 million) represents amortizations (deferrals) elected in previous years 2012-2018.

The New York Health Insurance Program (NYSHIP) issued an estimated health insurance rate increase for 2019 of 6.9%, which is in line with current trends. Savings may also be potentially achieved in this area as the Administration budgeted conservatively using 8.0%.

Table 12: Fringe Expenditures ($ Millions)

	FY 2017	FY 2018	FY 2019		
Fund	Actual	Comptroller's Mid-Year Forecast	Proposed Budget	Comptroller's Forecast	Budget (Risk) Opportunity
GEN	$ 407.8	$ 424.4	$464.2	$ 459.1	$ 5.1
PDD	131.1	139.5	145.0	143.2	1.8
SSW	9.3	9.1	9.5	9.7	(0.2)
Total	**$ 548.2**	**$573.0**	**$ 618.7**	**$ 612.0**	**$ 6.7**

[1] Of this amount, we estimate that $0.6 million is related to Nassau Community College.

TERMINATION PAY

The 2019 Proposed Budget will fund termination pay for approximately 120 sworn officers totaling $36.0 million for the two police funds, $13.8 million in Police District and $22.2 million in Police Headquarters. The Comptroller's Office is also projecting up to 120 sworn police officers retiring, totaling approximately $35.0 million. The total amount being projected for termination pay related to all funds is $46.8 million with a risk of $1.0 million, primarily due to estimates pertaining to termination pay expense for "Three Pays" related to the 2017 Voluntary Separation Incentive Program (VSIP) offered by the County. "Three Pays" refer to retirees entitled to the payout of termination pay in three annual installments beginning the year following the termination of employment.

Table 13: Termination Pay ($ Millions)

	FY 2017	FY 2018	FY 2019		
Fund	**Actual**	**Comptroller's Mid-Year Forecast**	**Proposed Budget**	**Comptroller's Forecast**	**Budget (Risk) Opportunity**
PDD	$ 26.7	$ 18.0	$ 13.8	$ 14.0	$ (0.2)
PDH	37.4	22.6	22.2	21.0	1.2
Other	18.1	12.4	9.8	11.8	(2.0)
Total	**$ 82.2**	**$ 53.0**	**$ 45.8**	**$ 46.8**	**$ (1.0)**

OVERTIME EXPENDITURES

The Administration assumes the hiring of new police officers to maintain a targeted headcount of approximately 2,500 sworn officers which is expected to include two Police classes (120 officers) scheduled to begin the Police Academy in 2019. The lower average salary of the new police officers and the new initiatives by the Police Commissioner, have resulted in better control of overtime in the two police funds.

Notwithstanding the controls discussed above, we still anticipate a combined shortfall of approximately $3.3 million in overtime expenditures, of which $3.8 million is related to the Correctional Center and $2.8 million for the Police Headquarters Fund, which is offset by positive variances in other funds. Classes have also been included in the 2019 projection for the Correctional Center, which is expected to reduce overtime costs in future years. Beginning in 2019, we also expected to realize a reduction in overtime in the Correctional Center due to the following:

- Electronic Monitoring: Implementation of a new program that will refer inmates awaiting trial to the Probation Department for electronic bracelet monitoring until they appear in court, thereby reducing inmate population by approximately 175-200 inmates; and
- Raise the Age Program: Ending the practice of incarcerating juveniles aged 16 and 17 in adult facilities.

Table 14: Overtime ($ Millions)

	FY 2017	FY 2018	FY 2019		
Fund	Actual	Comptroller's Mid-Year Forecast	Proposed Budget	Comptroller's Forecast	Budget (Risk) Opportunity
PDD	$ 27.4	$ 23.2	$ 24.9	$ 24.9	$ 0.0
PDH	30.8	28.5	28.5	31.3	(2.8)
Correction	22.2	24.6	20.1	23.9	(3.8)
Other	11.3	11.3	14.7	11.4	3.3
Total	**$ 91.7**	**$ 87.6**	**$ 88.2**	**$ 91.5**	**$ (3.3)**

3.2 Debt Service | Budget Opportunity + $4.3 million

In the 2019 Proposed Budget, the Administration has projected to pay debt service of $401.0 million, an increase of $24.1 million over the $376.9 million forecasted in the Comptroller's 2018 Mid-Year Report. According to the Administration, approximately $3.0 million of the projected debt service costs are related to the $100 million of bonding projected to be requested in 2018 to pay down the tax certiorari liability backlog. Should future borrowings be approved by the Legislature and NIFA, we project an opportunity of $4.3 million due to debt service on future borrowings as well as anticipated changes in frequency of RANS cash flow borrowing.

Note: Of the $401.0 million debt service costs budgeted for 2019, approximately 40%, or $162 million, represents debt service costs for bonds that were issued in prior years to pay operating expenditures, such as tax certiorari payments, judgments and settlements and termination pay to employees. The remainder is primarily attributed to capital projects, such as infrastructure and sewer related projects.

Table 15: Debt Service ($ Millions)

FY 2017	FY 2018	FY 2019		
Actual	Comptroller's Mid-Year Forecast	Proposed Budget	Comptroller's Forecast	Budget Opportunity
$ 378.1	$ 376.9	$401.0	$396.7	$ 4.3

4.0 The Multi-Year Financial Plan

As shown in the Table 16 below, the Administration's multi-year financial plan projects budget baseline gaps for the three major operating funds of $90.1 million in 2020, $87.5 million in 2021, and $119.4 million in 2022. **Based on our projected risks, we estimate base-line gaps of $110.3 million in 2020, $124.0 million in 2021 and $149.0 million in 2022.**

Projected risks and opportunities identified in the Multi-Year Financial Plan (MYP) include:

- Payroll and Fringe: Our projections in the out-years continue to reflect higher than budgeted overtime costs for the Police Funds, between $2.0 million and $5.0 million per year and for the Correctional Center between $3.5 million and $4.5 million per year, which is included in the Payroll and Fringe risk for 2020 - 2022. The MYP includes increasing attrition savings in the out-years, which differ from our projections.

- Workers' Compensation: At this time, we project no additional risk for Workers' Compensation in the out-years, however, increasing mandated rates and the treatment of any potential liability settlement with New York State may have an impact on these projections.

- Collective Bargaining Agreements: The MYP does not fund any additional costs related to possible amendments to the labor agreements with the County's five labor unions, such as cost of living adjustments (COLAs). As a result, any Collective Bargaining Agreements or amendments made could have an impact on the MYP.

- Departmental Revenues: Given historical trends, we project a risk in 2020-2022 in Departmental Revenues related to overbudgeted amounts in Assessment GIS/Tax Map fees, County Clerk mortgage recording fees, Police Ambulance fees and Fire Commission fees. The risk projected for each year is $6.2 million.

- Sales Tax: We project a 2% increase in Sales Tax collections in the out years, which is the same as the MYP assumption. However, we project an opportunity of $7.2 million in 2020 based on our 2018 projections for the trend in collections of Part-County Sales Tax (the excess over 2018 budget), and a risk of $8.0 million in 2021 related to the 2021 budgeted Part-County Sales Tax that is not projected or budgeted in 2019.

- Fines & Forfeitures: We project a risk in Fines and Forfeitures related to a new boot and tow program and an expected increase of public safety fees of approximately $10.4 million in each year of the MYP plan.

- OTB Profits: We project a risk of $17.0 million for OTB profits in each fiscal year 2020-2022 based on historical trends.

- Sale of County Property: We project a risk for $8.0 million in each fiscal year 2020-2022 for Sales of County Property as closing dates (in the near years) and specific properties (in the out years) have not been identified.

- Pension Expense: The County's portion of the installment payments for the portion of the pension expense that has been amortized (deferred) in prior years is projected to be $33.5

million, $35.1 million, and $36.4 million and $37.7 million for 2019, 2020, 2021, and 2022, respectively.

- Investment Income: Also, at risk is an estimated $2.7 million in budgeted Investment Income in each of the out years in the MYP as the amounts budgeted in the MYP appear aggressive.

Table 16: Multi-Year Plan Baseline Gap and Projected Risks and Opportunities

PROPOSED NASSAU COUNTY 2019-2022
MULTI-YEAR FINANCIAL PLAN
MAJOR FUNDS
SUMMARY OF FUTURE YEAR RISKS and OPPORTUNITIES
($'s Millions)

	2020	2021	2022
Baseline Gap per Financial Plan (before Gap Closing Measures)	**$ (90.1)**	**$ (87.5)**	**$ (119.4)**
Items included in Baseline Gap that are risks/opportunites			
Payroll & Fringe	16.2	18.3	16.9
Departmental Revenue	(6.2)	(6.2)	(6.2)
Sales Tax	7.2	(8.0)	
Fines & Forfeitures	(10.4)	(10.4)	(10.4)
Asset Forfeiture Funds	(6.0)	(6.0)	(6.0)
Investment Income	(2.7)	(2.7)	(2.7)
OTB Profits	(17.0)	(17.0)	(17.0)
Sale of County Property	(8.0)	(8.0)	(8.0)
Property Tax Refunds			
Debt Service	6.7	3.8	3.7
Other	(0.0)	(0.3)	0.1
Baseline Gap Per Comptroller's Office	**$ (110.3)**	**$ (124.0)**	**$ (149.0)**

Table 17 below details the Administration's gap closing measures as outlined in the Multi Year Plan. At the time of this report, the Comptroller's Office considers these measures at risk primarily due to their need for State legislations to be enacted (NYS Actions) or the lack of data/assumptions provided to project the savings.

Table 17: Multi-Year Gap Closing Measures at Risk

PROPOSED NASSAU COUNTY 2019-2022
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	2020	2021	2022
NYS Actions			
Internet Sales	$ 11.0	$ 11.2	$ 11.4
E-911 Reimbursement	1.0	1.0	1.0
Sports Betting	5.0	5.0	5.0
Sub-Total NYS Actions	17.0	17.2	17.4
Other			
Sewer Assessment Increase	28.3	32.2	37.1
Workforce Management	8.8	8.9	9.0
Asset Forfeiture Funding	6.0	6.0	6.0
Building Consolidation	5.0	5.0	5.0
Probation/Correction Savings	2.0	3.0	4.0
SUEZ Water Long Island Inc. Synergy Savings	3.0	4.0	4.0
Technology	2.0	2.0	2.0
Health Insurance Contribution	2.0	4.0	6.0
ERP Implementation	1.0	2.0	2.0
County's District Energy Facility	1.0	2.0	1.5
Income and Expense	15.0	15.0	15.0
Other Actions	7.0	10.0	10.0
Belmont Arena and Hub Sales Tax Benefit	7.5	7.7	7.8
Total Gap Closing Measures at Risk	**$ 105.6**	**$ 119.0**	**$ 126.8**

5.0 Long Term Obligations and Borrowing Trends

5.1 Property Tax Refunds (Tax Certiorari)

The Comptroller's Office is not risking the budgeted tax certiorari expenditures, given the $30 million appropriations in the General Fund and an $40 million expected to be raised in the Disputed Assessment Fund.

As of December 31, 2017, the total property tax certiorari liability was estimated to be $569.3 million, comprising:

- $496.3 million in long-term liabilities:
- $30.1 million representing liabilities accrued for as of year-end 2017 and expected to be paid in 2018; and
- an estimated $42.9 million related to the (DAF).

At year-end 2017, the total liability increased to $569.3 million from $340.0 million in the prior year, primarily due to the reassessment of Long Island Power Authority (LIPA) properties, which is currently under negotiations.

The Administration projects that it will request borrowing authorization of $300 million from the County Legislature and NIFA to pay off much of the backlog. This would be comprised of $100 million in 2018 and an additional $200 million in 2019. At the time of this report, it is unknown whether this approval will be obtained.

The County's DAF became operational in 2017, and as of December 31, 2017 the fund recorded $96.7 million of assets and $96.6 million of liabilities resulting from the collection of the DAF charges on class four (commercial) properties.

As of September 2018, the DAF has $195.5 million of assets and offsetting liabilities, with refunds to taxpayers totaling approximately $4.6 million. Additional refunds are expected to be recorded in 2018 and 2019. At this time, we cannot estimate the DAF charge revenue that will be transferred to the County's General Fund for grievances lost by taxpayers.

5.2 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.

The County expects to opt in for the 2019 pension invoice, due in February 2019 but is scheduled to be prepaid in December 2018. The estimated amortization to be taken in the 2019 invoice, for all funds and the Nassau Community College, is $15.2 million.

As of December 31, 2018, we estimate that the County's GAAP liability to the NYS and Local Retirement Systems for the deferral of annual pension expense will be $226.4 million. This is slightly down from the estimated liability reporting in the 2018 Mid-Year report due to an updated estimated invoice from New York State. Assuming the projected amortizations on the 2019-2023 invoices are elected, the County's estimated GAAP liability at the end of fiscal years 2018-2022 are estimated at $226.4 million, $211.1 million, $192.2 million, $170.2 million and $145.4 million respectively.

The projected decline is due to the slowing growth in the County's regular pension contribution (excluding installment payments for prior year amortization elections) and the amortization amounts, offset by the increase in the installment payments for prior year amortizations. Table 18 below illustrates the decline, on a GAAP basis, in additions to the liability and the increase in the reductions to the liability due to the compounded effect of the annual installment payments.

Table 18: Deferred Pension Expense Liability

DEFERRED PENSION EXPENSE AMORTIZATION LIABILITY GAAP Basis ($'s in millions)					
	Balance at beginning of year	Additions	Payments	Balance at end of year	Change in Bal at the end of the year from 2018 Mid-Year Report
2012	$ 43.6	$ 52.2	$ 5.8	**$ 89.9**	$ 0.0
2013	89.9	68.0	10.4	**147.5**	0.0
2014	147.5	63.3	15.8	**195.1**	(0.0)
2015	195.1	46.7	20.8	**221.1**	(0.0)
2016	221.1	33.1	21.6	**232.6**	0.0
2017	232.6	26.1	23.8	**235.0**	(0.0)
2018 est. *	235.0	17.8	26.4	**226.4**	**(0.4)**
2019 est. *	226.4	13.3	28.5	**211.1**	**(2.3)**
2020 est. *	211.1	11.9	30.8	**192.2**	**(4.7)**
2021 est. *	192.2	11.0	33.0	**170.2**	**(7.3)**
2022 est. *	170.2	10.3	35.2	**145.4**	**n/a**
* assumes amortization elected in 2019-2022 invoices					

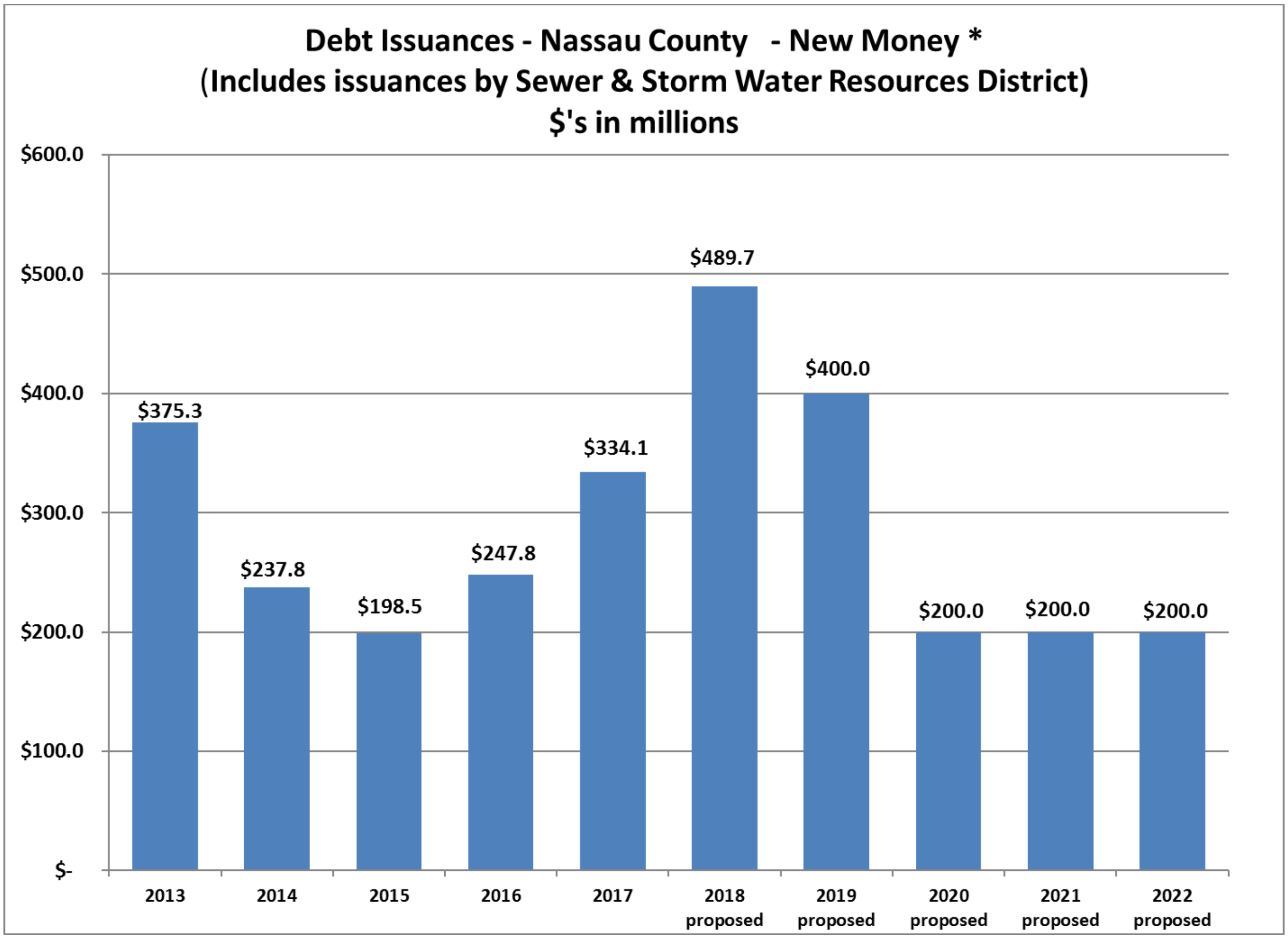
5.3 Borrowing Trends

The 2019 Proposed Budget projects long-term borrowings of $400.0 million, which will require NIFA approval, subject to Legislative (supermajority) approval. The Administration expects to issue long-term bonds of $200.0 million to pay for capital projects, which includes borrowing of $50.0 million for sewer related projects, $150.0 million for general improvement projects, and $200.0 million for tax certiorari payments. The borrowing for tax certiorari payments in 2019 is on top of a $100 million borrowing projected by the Administration for the last quarter of 2018. The plan is to pay down at least $300 million of the outstanding "backlog" of tax certiorari liabilities (pre-Disputed Assessment Fund) that were estimated to be over $500 million as of year-end 2017.

The Administration's proposed capital borrowings in years 2020, 2021, and 2022 include $150.0 million in general improvement capital projects and $50.0 million in sewer related projects each year. While the County may still be exploring the possibility of a public-private partnership (P3) for the sewer system, the Administration conservatively budgeted long-term borrowings for sewer-related projects.

When the proposed 2019 budget was prepared, the Administration intended to roll into bonds the 2017 Series A Bond Anticipation Notes (BANS) of $44.1 million, the 2017 B Series BANS of $95.2 million and the 2018 Series A BANS of $59.6 million all set to mature in December 2018. It is a possibility that these BANS, or a portion of said BANS, may be rolled into new BANS.

Chart 4: Nassau County Historical and New Debt Issuances



Note: * Includes Bond Anticipation Notes (BANs) issuances used for sewer district related capital projects

Table 19 below illustrates projected long-term debt issued through December 31, 2019 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 2017 year-end, the total of the County's general obligation bonds and its component units' long-term bonds outstanding was approximately $3.5 billion (including serial bonds and accreted interest of the Nassau County Tobacco Settlement Corporation (NCTS) both of which the County has no recourse). The 2018 and 2019 anticipated borrowings will increase the total long-term bonds outstanding from $3.5 billion at year-end 2017 to approximately $3.9 billion at year-end 2019 after reductions of maturing debt, for a net increase of 12.0%. Note that the projected additions for year 2018 include rolling existing sewer related BANS of $198.9 million into long-term bonds.

Table 19: Total Projected Long-Term Borrowings

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

	As of December 31, 2017 Actual	2018 Projected Additions	2018 Projected Reductions	As of December 31, 2018 Estimated	2019 Projected Additions	2019 Projected Reductions	As of December 31, 2019 Estimated
County w/SSW (a)	$ 2,251.4	$ 489.7	$ 106.9	$ 2,634.2	$ 400.0	$ 115.7	$ 2,918.5
NIFA	654.0	-	118.5	535.5	-	123.5	412.0
Sewer and Storm Water Finance Authority (SFA) (b)	133.7	-	10.8	122.9	-	11.4	111.5
Tobacco Settlement Corp (NCTSC) (c)	469.6	7.7	-	477.3	8.2	-	485.5
Total	**$ 3,508.7**	**$ 497.4**	**$ 236.2**	**$ 3,769.9**	**$ 408.2**	**$ 250.6**	**$ 3,927.5**

(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 31,2017 includes accumulated accreted interest of $69.1 million; projected additions for 2018 and 2019 represent accreted interest

6.0 Control Period Calculation

The County is required by NIFA to present the County's fiscal year results computed under the Control Period Calculation methodology. Under this methodology, the financial results of the County's General, Fire Commission, Police Headquarters, Police District and Debt Service Funds are converted to GAAP results. The GAAP results are then adjusted to remove the effect of other financing sources that are derived from the issuance of bonds, including bond proceeds and premiums used to pay for operational expenditures.

The projected Control Period Calculation results for the 2019 Proposed Budget are a negative $94.5 million and thus, the County is projected to continue to be in a Control Period for fiscal year 2019 based on the Comptroller's Office projections contained in this report. Table 20 below presents the Control Period Calculation results as projected by the Comptroller's Office. NIFA projects the Control Period Calculation results to determine whether a deficit of more than one percent of the aggregate result of operations in the operating funds (as defined above) exists, there by triggering a NIFA Control Period.

Table 20: Proposed 2019 Budget Control Period Calculation

PROPOSED NASSAU COUNTY 2019 BUDGET	
Reconciled to the Control Period Calculation*	
($'s millions)	
Estimated Results on a Budgetary Basis *	**($40.7)**
Adjustments to reconcile to Modified Accrual Basis	
Net adjustments to remove the effect of encumbrances	(6.0)
Use of Fund Balance	-
Net adjustment to record pension expense on a modified accrual basis	(3.2)
Adjustment for cash receipts outside period of availability	(5.1)
Sale of Mitchel Field Leases	1.3
Other Estimated GAAP Adjustments	(0.8)
Net Change in Fund Balance on a Modified Accrual Basis	**(54.5)**
Less: adjustments included in other financing sources	
Premium on bonds	-
Transfer of bond proceeds to offset debt service	-
Operating expense paid with bond proceeds	-
Control Period Calculation Results	**($54.5)**

* Includes: General Fund, Police Headquarters Fund, Police District Fund, Fire Commission Fund, Debt Service Fund (not including sewer debt)