

**NASSAU COUNTY
OFFICE OF THE COMPTROLLER**



**COMPTROLLER'S COMMENTS ON
THE PROPOSED NASSAU COUNTY 2011 BUDGET
AND MULTI-YEAR FINANCIAL PLAN**

**George Maragos
Nassau County Comptroller**

October 6, 2010

**NASSAU COUNTY
OFFICE OF THE COMPTROLLER**

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Comptroller's Comments on the Proposed Nassau County 2011 Budget and Multi-Year Financial Plan

1.0 Executive Summary

The Legislature must adopt Nassau County's 2011 budget in an environment of economic uncertainty and historic fiscal challenges. The proposed \$2.64 billion budget is balanced with bold initiatives which slash operating costs and increase non-tax revenues. The budget is not without risks, similar to prior year budgets but it avoids raising property taxes for our hard pressed residents.

More fundamentally, the budget steers the County towards fiscal responsibility by significantly reducing the structural deficit by approximately 53% from the prior administration 2009 peak of \$250 million, cutting spending from 10% over revenues in 2009 to about 4% and by not further depleting reserves as commonly done by the prior administration.

The budget items with "risk" are significant, at over \$258 million. The "risk" is rated at above average, given the magnitude of the dependence on support from Labor Unions, the County Legislature and the State Government They are, however, attainable with effective management by the Mangano Administration and support from the County Legislature, our State representatives and the Nassau County Interim Finance Authority ("NIFA").

The one area we urge the Administration to reconsider is the planned borrowing authorization request of \$364 million for property tax refund payments. We believe this level of borrowing is unnecessary at this time. We recommend that the 2011 borrowings be limited to amounts presented in the multi-year plan which would meet the budget objectives and significantly reduce the year over year borrowing by over 40% to \$201 million.

The proposed 2011 budget is a remarkable achievement by the Mangano Administration given the unprecedented structural budgetary deficit inherited from the previous administration, double digit health insurance premium increases, double digit pension contribution demands by the state, unfavorable labor agreements and expense deferrals now coming due. Meanwhile, the revenue base remains stagnant and major problems continue to linger such as the property tax refund payouts that are bleeding County funds and lagging non-tax revenue receipts.

Fortunately the County economy is expected to continue improving and result in modestly higher sales tax revenues and lower unemployment. In fact, the current unemployment rate in the County is 6.8%, one of the lowest in the Country. The anticipated 2011 sales tax revenue will only recover to about the pre-recession 2008 levels. Sales tax is the major revenue source for the County accounting for 39% of revenues followed by property tax at 30% and State and Federal Aid at about 14%. Property tax revenue continues to be flat while Federal Aid is declining.

We are in agreement with the Mangano Administration projection that the baseline deficit for 2011 was at a historic high of about \$343 million. \$214 million, or 62%, was inherited from the prior administration's overspending, deferral of expenses coming due, and use of one shots that are no longer available. These budget gimmicks were mostly condoned by the Nassau Interim Finance Authority (NIFA). The \$214 million is after adjusting for the 3.9% property tax increase planned by the prior Administration, but eliminated by the Mangano Administration.

The Mangano Administration also contributed \$72 million (consisting of \$41 million in 2010 and \$31 million in 2011) or about 21% to the budget gap by repealing the 2.5% energy tax and eliminating the 3.9% property tax increase planned by the Prior Administration. Both these taxes were onerous and regressive. We compliment the County Executive for his leadership in eliminating these taxes and putting the hard pressed taxpayers first. We urge all towns, villages, school districts and special districts to follow this example and hold the line on all taxes in 2011.

The remaining baseline deficit of about \$57 million or 17% is attributable to unanticipated higher costs for mandated social services (including increased case load caused by the recession), reductions in Federal Medicaid Assistance Programs and higher costs for Worker's Compensation and inmate health care.

Faced with the daunting \$343 million baseline deficit, the Mangano Administration is commended for its bold and creative initiatives to present a balanced budget plan. The budget gap closing initiatives are as follows:

- Reducing departmental and other expenses by \$148 million
- Ordering \$61 million in labor concessions from unions
- Increasing non-tax revenues by \$85 million
- Financing previously unsettled property tax refund payments of \$50 million

Although we find that the budget plan is balanced with the above initiatives, we must also label with above average "risk" over \$258 million in expense reductions and revenue enhancements as shown in Exhibit 1 below. Whether these budget items are realized as projected by the Mangano Administration will depend on management effectiveness in gaining approvals from County or State Legislature for certain initiatives, successful negotiations for labor concessions and cost controls. The MTA negotiations regarding the funding of the L.I. Bus may increase the amount at risk and is not recognized in the budget. However, the final solution may represent not only risk but an opportunity which the administration is evaluating.

Exhibit 1

PROPOSED NASSAU COUNTY 2011 BUDGET MAJOR FUNDS SUMMARY OF RISKS and OPPORTUNITIES (\$'s Millions)			
<u>Risks</u>			
<u>Revenues</u>			
Proposed Budget - net of interfunds			\$ 2,638.4
Fines & Forfeitures			(46.9)
Departmental Revenue			
Ambulance Fees	\$ (9.9)		
County Clerk Fees	(7.9)		
Parks Revenue	(4.3)		
Housing Suffolk County inmates	(3.6)		
Other	(0.3)	(26.0)	
FIT Tuition Reimbursement			(6.8)
L.I.E. Ticket Surcharge			(5.0)
Investment Income			(4.7)
Sales Tax			(2.3)
OTB Profits			(1.5)
Total Revenue Risk			\$ (93.2)
<u>Expenses</u>			
Proposed Budget - net of interfunds			2,638.4
Salary Adjustment			(61.2)
Bonding of Property Tax Refunds			(100.0)
Outsourcing Medical Care for Inmates			(5.0)
Other			1.3
Total Expense Risk			(164.9)
Estimated Budget Risk excluding Potential Opportunities			<u>\$ (258.1)</u>
<hr/>			
	Police	Other	
	District	Funds	
Estimated Budget Risk by Taxpayer Base	\$ (25.0)	\$ (233.1)	\$ (258.1)
<u>Opportunities</u>			
Contingency Reserve			10.0
Require County Legislative action			
Use of cumulative fund balance*	13.3	52.0	
Subtotal opportunities available	13.3	62.0	
Estimated Budget Surplus (Risk) - net of opportunities	\$ (11.7)	\$ (171.1)	\$ (182.8)

* assumes no change in fund balance

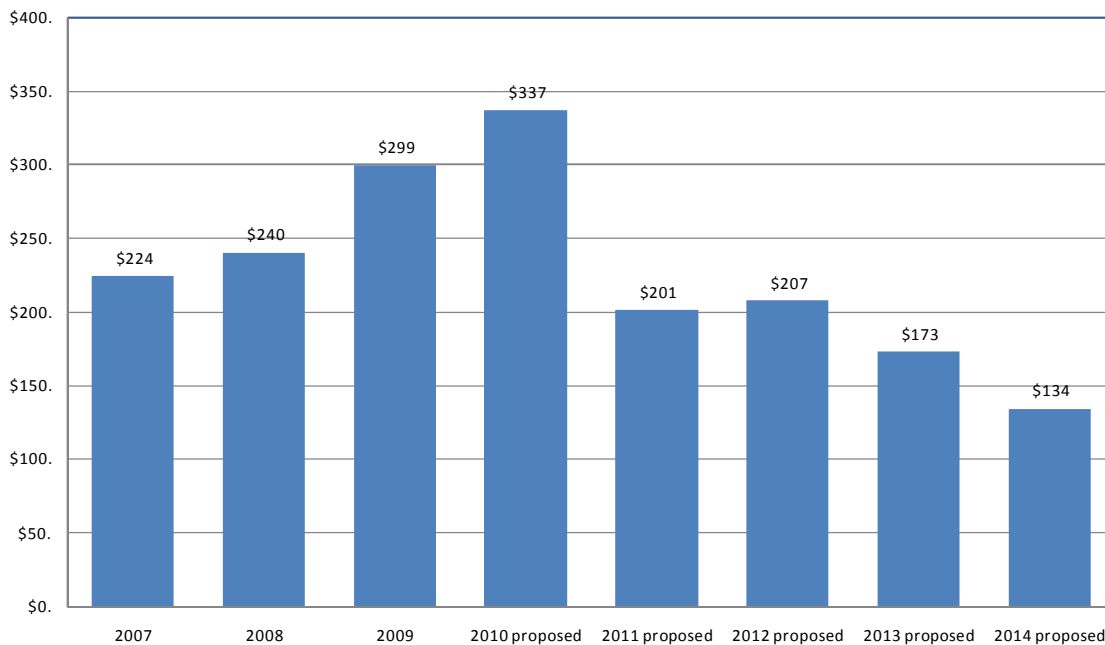
The Mangano Administration has elected to bond all of the property tax refunds breaking with the past policy of paying up to \$50 million from the current operating budget. We do not support this policy change but understand the action as transition to the long term goal to eliminate this liability. The property tax refunds continue to represent a major challenge for the County and are expected to continue to drain the County of over \$100 million annually. We urge the administration to take additional steps to more aggressively reduce this liability.

In the Comptroller’s opinion, the intent to transfer the property tax refund liability proportionately to the towns, school districts and other taxing authorities who received the funds from the levy by year 2013 is optimistic and relies on the absence of legal challenges and legislative action. The County also needs to take further steps to make the administration of tax assessment grievances more efficient and effective in resolving the appeals in order to reduce the County liability during the next two years.

The requested bond authorization of \$364 million to pay for the estimated property tax refund liability for the next two years and the backlog, plus the proposed 2011 bonding for capital investments, will balloon the authorization/borrowing to \$470 million. This level of authorization/borrowing is not prudent and diminishes fiscal discipline. The County should decrease the 2011 level of authorization/borrowing to only \$201 million consistent with the multi year plan. This will send a strong message of fiscal responsibility and for the first time in 6 years reduce the year over year borrowing as shown in Exhibit 2. The proposed post 2011 borrowing will further promulgate this discipline.

Exhibit 2

Debt Issuances - Nassau County
\$'s in millions



The Mangano Administration 2011 proposed budget for the first time in over 6 years breaks with the past and fundamentally steers the County towards fiscal responsibility by:

- Reducing the structural deficit by approximately 53% from the prior administration 2009 peak of about \$250 million,
- Cutting spending from 10% over revenues in 2009 to about 4% and
- Stopping further depletion of reserves

The difference between the County’s recurring expenses and the recurring revenues is the structural gap. The structural gap has been an important parameter in gauging fiscal responsibility. While the County has balanced its budgets each year as required by law, the prior administration increasingly used non-recurring revenues, one shots, reserve funds, deferrals of contractual pay increases and bonding to balance the budget. In the long run, it is important to bring recurring expenses and revenues into closer balance and reduce or eliminate the structural gap. The 2011 Budget Plan proposes to significantly reduce the County structural deficit as shown in Exhibit 3.

Exhibit 3

NASSAU COUNTY STRUCTURAL SURPLUS (GAP) 2001- 2011 (Budget)
(\$ in millions)

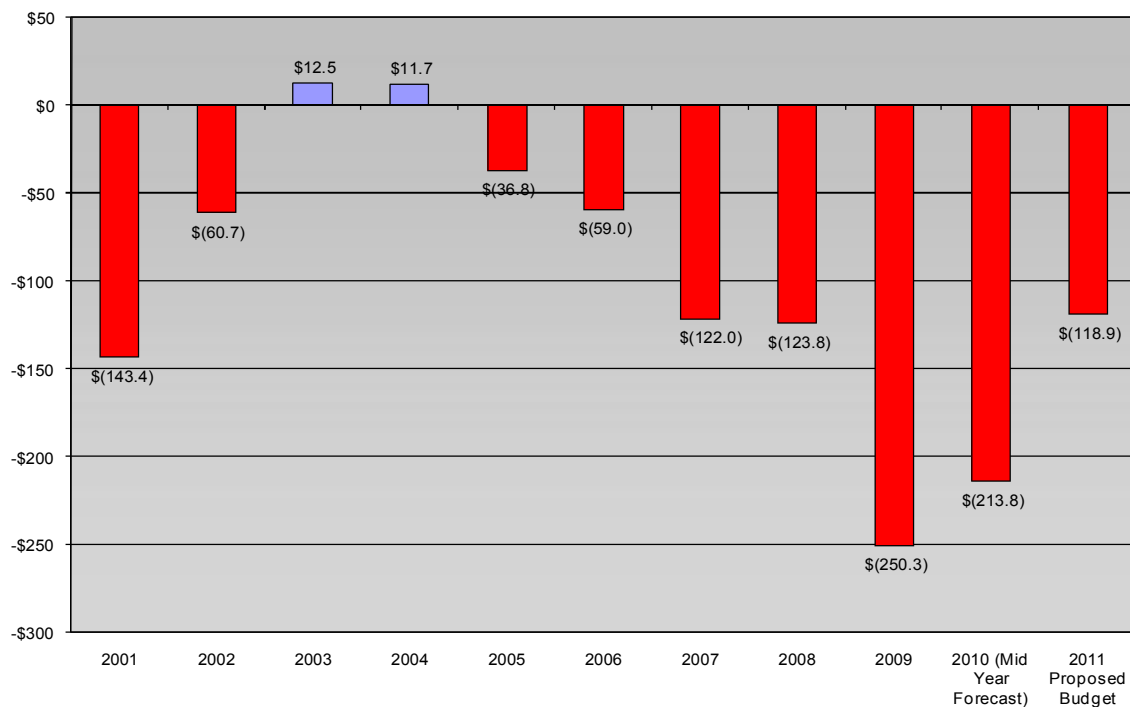


Exhibit 4 shows the persistent and increasing overspending from 2004 to 2009 by the prior administration. It also shows the remarkable reversal of this trend by the Mangano Administration in cutting spending from 10% over revenues in 2009 to about 4% in 2011.

Exhibit 4

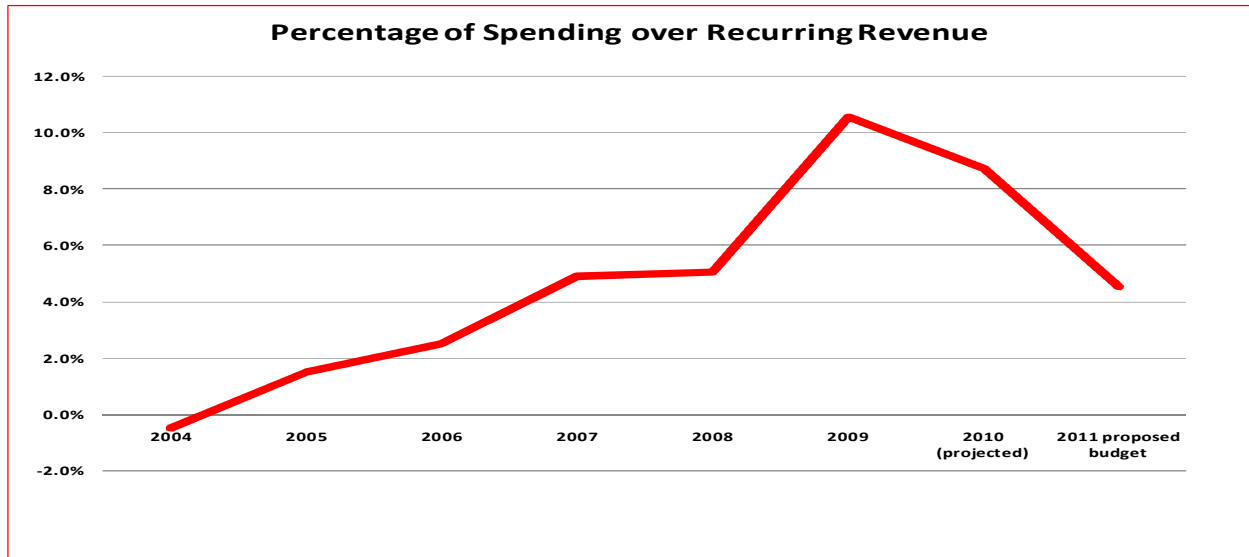
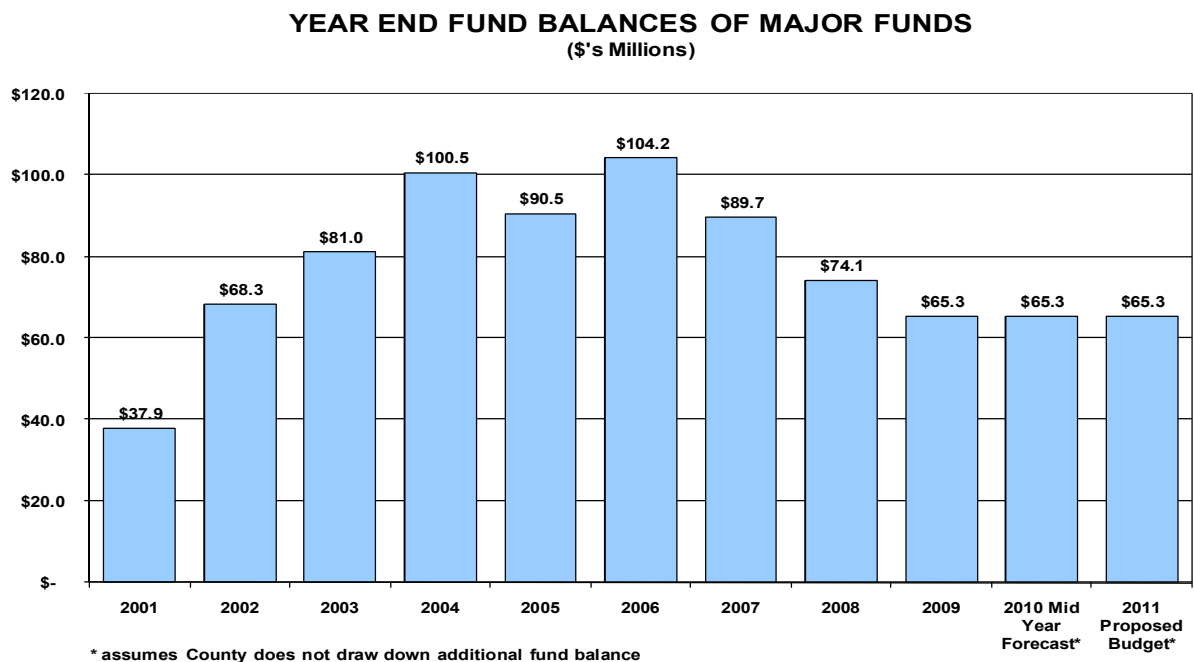


Exhibit 5 presents the accumulated fund balance of the County’s major funds. These surplus funds from prior years present a safety cushion and can be drawn down as necessary to the extent that expenditures exceed revenues. It is worth noting that the Mangano Administration has not drawn on these funds to balance the 2010 or the proposed 2011 budget unlike the previous Administration which regularly depleted these funds with NIFA’s acquiescence.

Exhibit 5



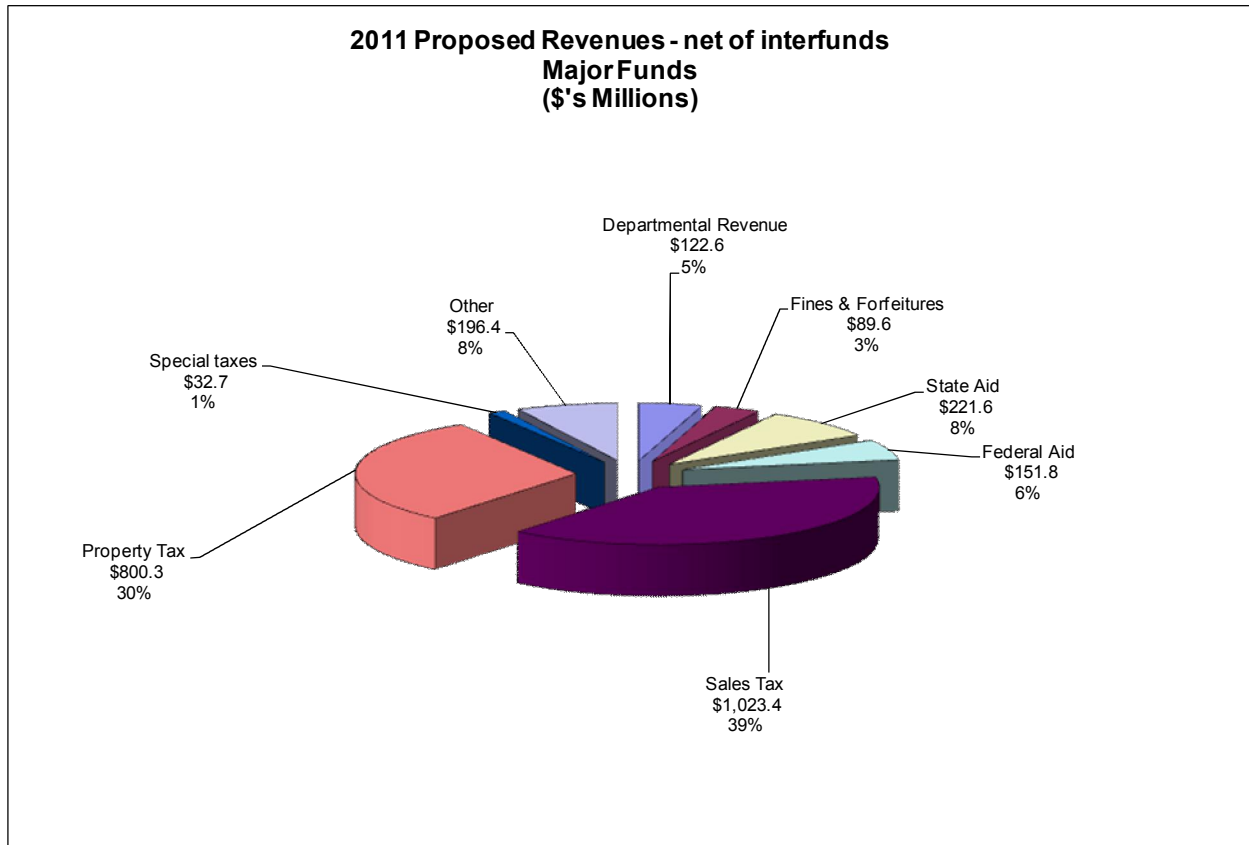
The 2011 budget is balanced with about \$258 million at above average “risk”. These risk items can be translated into successes with the cooperation of the Nassau County Legislature, State representatives and NIFA. Seventy three percent of the budget risk items require only local County Legislative approval. Fifteen percent are within the sole domain of the Administration and require effective management to be achieved. Twelve percent require State approval and they can be achieved with the support of our local state elected officials. NIFA needs to do its part to refinance the County debt as appropriate at the historic low interest rates currently available to reduce the County’s debt expense.

2.0 Discussion of Revenues

2.1 Major Revenue Sources

Sales Tax is the major revenue source for the County accounting for 39% of revenue followed by Property Tax at 30% and State and Federal Aid at about 14%. Departmental revenues and Fines and Forfeitures contribute about 8%. These ratios have remained essentially constant in recent years. This section describes the significant revenue items in the categories which may fall short of budget projections (at “risk”).

Exhibit 6



Total Budgeted Revenue Major Funds (\$ Millions)		
	2010	2011
Total Budgeted Revenue	\$ 3,047.9	\$ 3,064.2
Less:		
Interfunds between major funds	430.5	425.8
Net Revenue	<u>\$ 2,617.4</u>	<u>\$ 2,638.4</u>

2.2 Sales Tax

Sales tax, at approximately 39% of budgeted revenues net of inter-fund transfers, is the County's largest revenue source. The 2010 increase in sales tax receipts excluding energy tax is a pleasant surprise at approximately 6%. The previous Comptroller had projected a growth of only 1%. This is an encouraging sign that the Nassau County economy and consumer confidence are beginning to recover. This growth, however, only restores the level of sales tax revenues to 2007-2008 levels (See Exhibit 7).

The proposed budget projects that the County will receive \$1,021.8 million in 2011 sales tax, an increase of 3.75% over projected 2010. We anticipate that this forecast of sales tax receipts is reasonable. However, the County cannot know with certainty what the 2010 sales tax base will be until February of 2011. The Comptroller's projection for 2011 assumes an increase of only 3.5% given the slow pace of economic recovery. The resultant variance with the proposed budget is a minor risk amount of \$2.3 million as shown in Exhibit 8.

Exhibit 7

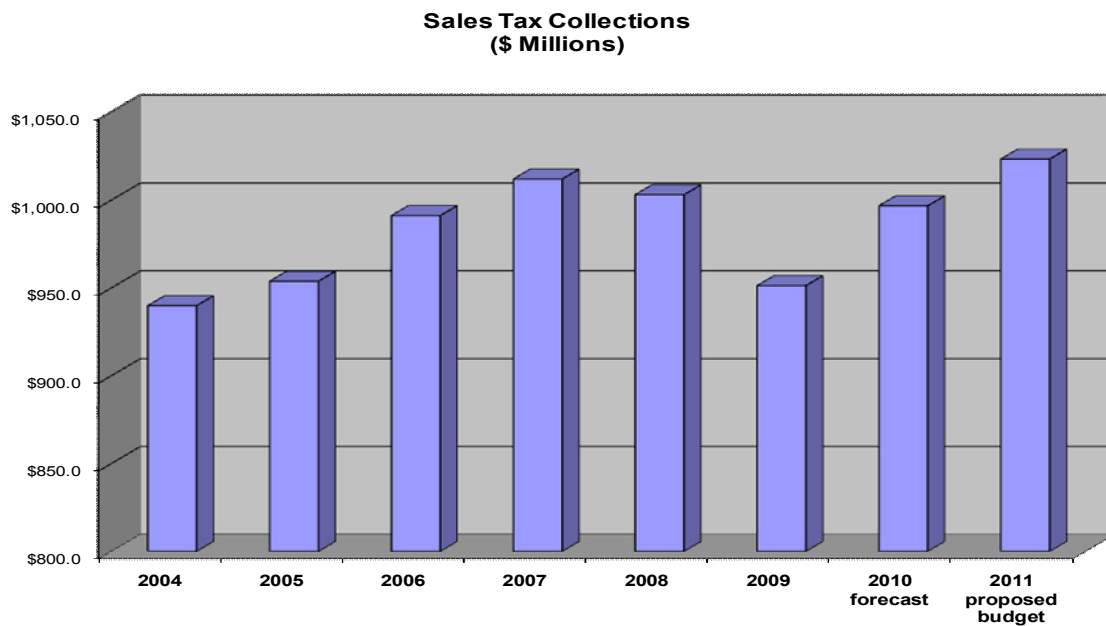


Exhibit 8

Sales Tax (Gross Receipts) (Including Residential Energy Tax)* (\$ Millions)							
	2009	2010 Comptroller's Forecast	2011		2012 MYP	2013 MYP	2014 MYP
			Proposed Budget	Budgetary Risk			
Sales Tax **	\$ 951.3	\$ 992.5	\$ 1,021.8	(\$ 2.3)	\$ 1,060.1	\$ 1,099.8	\$ 1,141.1

* Residential Energy Tax effective June 1, 2009 to May 31 2010.
** Excludes prior year deferred portion of sales tax, \$4.3 million in 2010

2.3 Investment Income

The County typically invests available funds in interest bearing checking accounts and bank certificates of deposit. The proposed 2011 budget anticipates \$7.4 million in investment income. Given the low prevailing and projected investment yields, we anticipate 2011 investment income to be \$2.7 million. Thus, we believe \$4.7 million in interest income is at risk. We have no comment at this time on the out year MYP projections given the expected volatility in the financial markets.

Exhibit 9

Investment Income Major Funds (\$ Millions)						
2009 Actual	2010 Comptroller's Forecast	2011		2012 MYP	2013 MYP	2014 MYP
		Proposed Budget	Budgetary Risk			
\$ 3.6	\$ 4.1	\$ 7.4	(\$ 4.7)	\$ 14.4	\$ 21.4	\$ 28.4

2.4 Departmental Revenue

Departmental Revenue is forecast in the 2011 proposed budget at \$122.6 million. We believe that \$26 million of this amount is at risk.

We project that Parks Department revenues will be \$4.3 million less than anticipated. The 2011 proposed budget includes anticipated revenue of \$1 million from an advertising initiative and additional revenues resulting from fee increases. Both of these items are at risk because no contract is in place and the increase in fees needs to be approved by the legislature.

Revenue from the housing of Suffolk County prisoners is included in the 2011 proposed budget. This \$3.6 million is considered at risk because there is no agreement in place. Once an agreement is in place, there is still risk since the volume, and length of stay, of prisoners cannot be determined.

An increase in fees is planned for mortgage and deed recording by the County Clerk to generate \$8.3 million. Also ambulance fees are proposed to earn an additional \$8 million from fee increases. These fee increases must be passed by the legislature and hence are considered at risk.

Exhibit 10

Departmental Revenue Major Funds (\$ Millions)							
	2009 Actual	2010 Comptroller's Forecast	2011		2012 MYP	2013 MYP	2014 MYP
			Proposed Budget	Budgetary Risk			
Ambulance Fees	\$ 19.3	\$ 19.3	\$ 29.2	(\$ 9.9)	\$ 29.2	\$ 29.2	\$ 29.2
County Clerk fees	15.2	15.7	23.9	(7.9)	23.9	23.9	23.9
County Parks & Recreation	18.1	18.2	22.8	(4.3)	22.8	22.8	22.8
Housing Suffolk County Inmates	0.0	0.0	3.6	(3.6)	3.6	3.6	3.6
All other Departmental Revenue	<u>43.6</u>	<u>42.4</u>	<u>43.1</u>	<u>(0.3)</u>	<u>43.1</u>	<u>43.1</u>	<u>43.1</u>
Total	<u>\$ 96.2</u>	<u>\$ 95.6</u>	<u>\$ 122.6</u>	<u>(\$ 26.0)</u>	<u>\$ 122.6</u>	<u>\$ 122.6</u>	<u>\$ 122.6</u>

2.5 Fines & Forfeitures

A total of \$46.9 million in revenue from the 2011 proposed budget of \$89.6 million is considered at risk.

The Administration has budgeted \$17.3 in anticipated revenue from placing red light cameras at an additional 50 intersections. This proposal requires NYS legislative approval and the implementation will be over an undefined period of months.

The Administration forecasted additional revenue of \$20 million from the currently authorized red light camera intersections. The full complement is anticipated to be in place by November 2010. We believe this is optimistic. The Administration also projects an additional \$9 million in revenue from a \$15 per incident increase in fines for violations. The increase in fines still requires State Legislative approval and is considered at risk.

The red light camera revenue historically has not been received at a rate that warrants the amounts expected in the 2011 proposed budget.

Exhibit 11

Fines and Forfeitures Major Funds (\$ Millions)						
2009 Actual	2010 Comptroller's Forecast	2011		2012 MYP	2013 MYP	2014 MYP
		Proposed Budget	Budgetary Risk			
\$ 24.1	\$ 36.1	\$ 89.6	(\$ 46.9)	\$ 70.6	\$ 64.2	\$ 64.2

2.6 FIT Tuition Reimbursement

The 2011 proposed budget includes anticipated revenue from the towns and villages to reimburse the County for its expense in connection with residents who attend the Fashion Institute of Technology. The legality of the County to collect these amounts from the towns and villages has not been determined, and therefore we believe the \$6.8 million to be at risk.

Exhibit 12

FIT Tuition Reimbursement Major Funds (\$ Millions)						
2009 Actual	2010 Comptroller's Forecast	2011		2012 MYP	2013 MYP	2014 MYP
		Proposed Budget	Budgetary Risk			
\$ 0.0	\$ 0.0	\$ 6.8	(\$ 6.8)	\$ 6.8	\$ 6.8	\$ 6.8

2.7 OTB Surcharge and Profits

The County has not received profits from OTB since 2008 and at that time the amount was \$.2 million. We believe that the amount budgeted for 2011 of \$1.5 million is at risk.

Exhibit 13

OTB Surcharge and Profits Major Funds (\$ Millions)						
2009 Actual	2010 Comptroller's Forecast	2011		2012 MYP	2013 MYP	2014 MYP
		Proposed Budget	Budgetary Risk			
\$ 5.3	\$ 4.8	\$ 6.5	(\$ 1.5)	\$ 6.5	\$ 6.5	\$ 6.5

2.8 L.I.E. Ticket Surcharge

The Administration has included in the budget revenue of \$5 million in state aid that relates to Long Island Expressway and Sunrise Highway patrols. This initiative requires State Legislative approval and is therefore considered at risk.

Exhibit 14

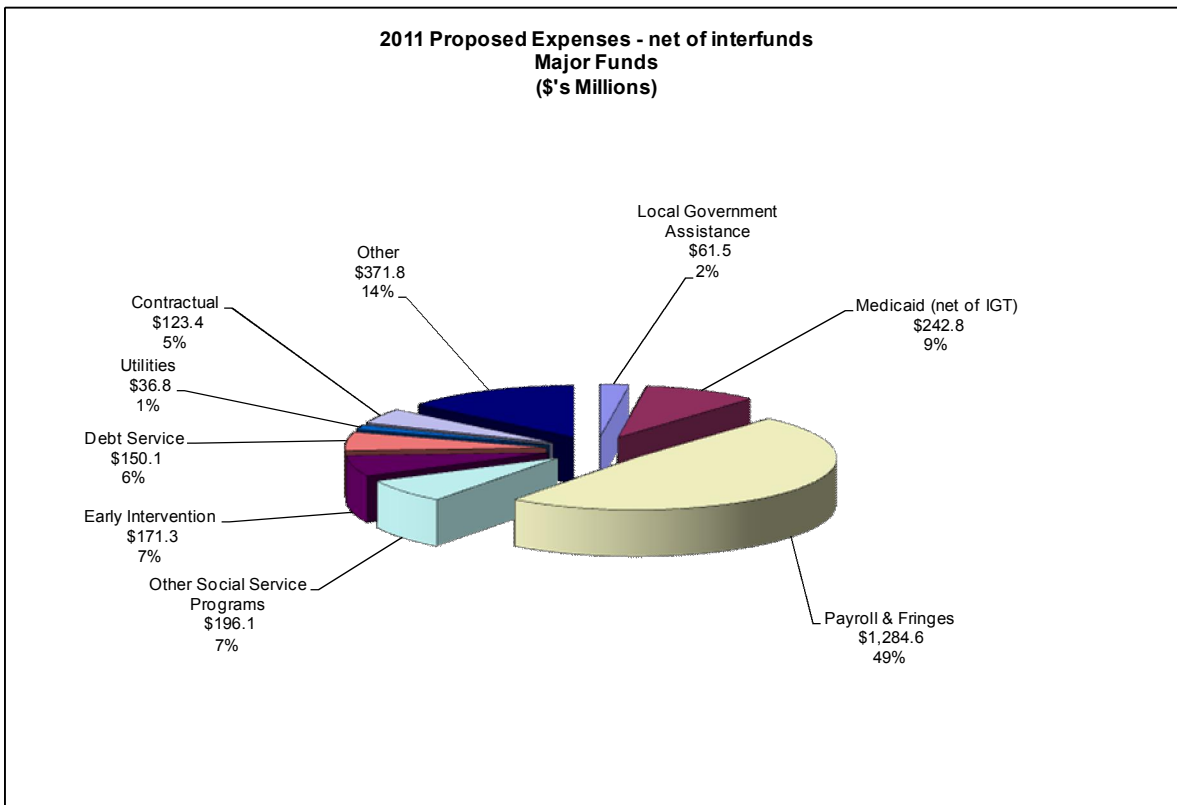
L.I.E. Ticket Surcharge Major Funds (\$ Millions)						
2009 Actual	2010 Comptroller's Forecast	2011		2012 MYP	2013 MYP	2014 MYP
		Proposed Budget	Budgetary Risk			
\$ 0.0	\$ 0.0	\$ 5.0	(\$ 5.0)	\$ 5.0	\$ 5.0	\$ 5.0

3.0 Discussion of Expenses

This section describes the significant expense items in the proposed budget which may exceed budget (at “risk”). It is worth noting that 49% of the budget goes to payroll and fringe benefits, by far the highest portion of the budget. The second highest budgeted expense category is Medicaid at 9%. Payroll and fringe benefits are also the fastest rising due to unfavorable labor agreements, and double digit increases in health insurance and pension costs.

3.1 Major Expense Categories

Exhibit 15



**Total Budgeted Expenses
Major Funds
(\$ Millions)**

	2010	2011
Total Budgeted Expenses	\$ 3,047.9	\$ 3,064.2
Less Interfunds between major funds	<u>430.5</u>	<u>425.8</u>
Net Expenses	<u>\$ 2,617.4</u>	<u>\$ 2,638.4</u>

3.2 Bonding of Property Tax Refunds

The Administration is proposing to bond \$100 million for property tax refunds. The amount budgeted is labeled at risk as County Legislative approval is required.

3.3 Salary Adjustments

Although collective bargaining agreements or arbitration awards currently exist with all the County unions running through the end of 2015, except the 40 member Investigators Police Benevolent Association (“IPBA”), the administration is including in the 2011 Proposed Budget savings of \$61.2 million from anticipated labor concessions. These concessions are under discussion with the unions, according to administration, but have not been presented to or agreed upon by the members. Although, the administration is attempting to negotiate the concessions with the unions, they have requested the legislature to pass “the Taxpayer Relief Act of 2010” which will impose the \$61.2 million reduction in labor costs. Until the legality of this move is determined or the labor concessions are approved, the \$61.2 million is considered at risk.

The County also offered both its own early retirement incentive and a New York State incentive to qualified employees which led to a reduction in the headcount of approximately 400 full time employees. In addition, the administration plans to limit the backfill of these and other vacant positions as part of the plan to “right-size” the workforce.

The first of the labor agreement deferrals that had been negotiated during the prior Administrations tenure are to be repaid in 2011, for approximately \$7 million to the members of the Police Benevolent Association (PBA) and the Detectives Association Inc. (DAI). These earnings were deferred during 2007 and 2008. The administration anticipates filling all funded positions in the 2011 budget which will bring the full time headcount to 8,395. Assuming that only budgeted positions are filled, the payroll that has been budgeted should be sufficient, excluding the budgeted labor concessions.

The budget for overtime and all of the other salary related entitlements are also all reasonable.

Exhibit 16

	Payroll & Fringe Major Funds (\$ Millions)						
	2009 Actual	2010 Comptroller's Forecast	2011		2012 MYP	2013 MYP	2014 MYP
			Proposed Budget	Budgetary Risk			
Payroll & Fringe	\$ 1,178.0	\$ 1,207.6	\$ 1,317.1	\$ 0.0	\$ 1,429.9	\$ 1,505.8	\$ 1,575.5
Workers Comp	21.9	23.7	28.7		28.7	28.7	28.7
Salary Adjustment			(61.2)	(61.2)	(45.9)	(58.6)	(44.2)
Total	\$ 1,199.9	\$ 1,231.3	\$ 1,284.6	(\$ 61.2)	\$ 1,412.7	\$ 1,475.9	\$ 1,560.0

3.4 Outsourcing Correctional Center Medical Care

The Administration intends to outsource the medical treatment of the correctional center inmates. There is an anticipated \$5 million of savings by seeking providers other than the Nassau Health Care Corporation (NHCC) for this service. We believe this initiative to be at risk since the contract has not yet been awarded and may adversely affect the NHCC.

Exhibit 17

Outsourcing Correctional Center Medical Care						
Major Funds (\$ Millions)						
2009 Actual	2010 Comptroller's Forecast	2011		2012 MYP	2013 MYP	2014 MYP
		Proposed Budget	Budgetary Risk			
\$ 0.0	\$ 0.0	\$ 5.0	(\$ 5.0)	\$ 5.0	\$ 5.0	\$ 5.0

3.5 Property Tax Refunds

The proposed 2011 budget does not include any amount to pay real property tax refunds. Refunds have totaled approximately \$100 million annually in the past and the County began transitioning to budgeting this expense from operations in 2007 and has budgeted \$50 million each for the last two years. The County does not presently have authorization from County Legislature to bond for this expense. Therefore we consider it to be at risk.

Exhibit 18

Property Tax Refunds						
Major Funds (\$ Millions)						
2009 Actual	2010 Comptroller's Forecast	2011		2012 MYP	2013 MYP	2014 MYP
		Proposed Budget	Budgetary Risk			
\$ 50.0	\$ 50.0	\$ 0.0	(\$ 100.0)	\$ 0.0	\$ 0.0	\$ 0.0

4.0 Summary of Gap Closing Opportunities

Below, in Exhibit 19 is a summary of the opportunities available to the Administration to cover the estimated budget risk of \$258.1 million organized by risk source. Most (about 73%) require County Legislature approval, 15% require effective Administration management and the remaining 12% require State approval.

Exhibit 19

Gap Closing Opportunities	
(\$'s Millions)	
Require State Legislative action	
Red Light Camera	\$17.3
L.I.E. Ticket Surcharge	5.0
Ticket Surcharge Increase	9.0
Require County Legislative action	
Bonding Property Tax Refunds	100.0
Ambulance Fee	8.0
Clerk Fee	8.3
Parks Revenue	1.0
Alarm Fine Increase	0.6
Housing of Suffolk County inmates	3.6
Outsource Medical Care for inmates	5.0
Salary Adjustments	<u>61.2</u>
Opportunities requiring local or state approval	\$219.0
Administration Challenges	
Fines and Forfeitures	20.0
FIT reimbursement	6.8
Departmental revenue	5.1
Investment income	4.7
Sales Tax	2.3
OTB Profits	1.5
Other	<u>(1.3)</u>
Gap Closing Opportunities	258.1
Additional Opportunities	
Contingency Reserve	10.0
Use of cumulative fund balance*	<u>65.3</u>
Total Gap Closing and Additional Opportunities	<u>\$333.4</u>

* assumes no change in fund balance

5.0 The Multi-Year Financial Plan

The Administration's financial plan includes estimated budget baseline gaps of \$159.0 million in 2012, \$217.0 million in 2013, and \$267.8 million in 2014. The plan presents more initiatives than necessary to close the projected gaps; however, we believe as shown in Exhibit 20, the majority of these initiatives are subject to risk.

We believe the out-year gaps are larger than stated in the multi-year financial plan because of the uncertainty of State approval of the increase in the number of intersections for red light cameras, the additional ticket surcharge, the Long Island Expressway Surcharge, the risk in achieving the \$61 million in labor concessions, and the increases in various departmental revenues and increased authorization for property tax refund borrowings that require County Legislative approval.

Of the gap closing measures, we consider at risk the negotiations for a Public-Private Partnership, the Privatization of the LI Bus, the sale of surplus land, and the securitization of the Mitchel Field Leases, which may be uncertain due to the current economy. In addition, revenues from the HUB may be at risk as the project is yet to receive approval from the Town of Hempstead, and anticipated savings from debt service costs due to Assessment Reform that is still to be achieved. These items may be achieved, but the Administration cannot ensure that they will happen and for this reason, they must be considered at risk.

Exhibit 20

**PROPOSED NASSAU COUNTY 2012-2014
MULTI-YEAR FINANCIAL PLAN
MAJOR FUNDS
SUMMARY OF FUTURE YEAR RISKS and OPPORTUNITIES
(\$'s Millions)**

	2012	2013	2014
Baseline Gap per Financial Plan (before Gap Closing Measures)	\$ (159.0)	\$ (217.0)	\$ (267.8)
Items included in Baseline Gap that are at risk			
Property Tax Refunds	(100.0)	(100.0)	(100.0)
Salary Adjustment	(45.9)	(58.6)	(44.2)
Fines & Forfeitures	(27.2)	(20.1)	(19.5)
Departmental Revenue	(25.0)	(23.9)	(22.8)
Investment Income	(11.1)	(17.1)	(23.1)
Sales Tax receipts	(9.1)	(16.8)	(32.6)
Gap closing measures			
Value of New Construction	3.0	6.0	9.0
Debt Restructuring	<u>5.0</u>	<u>5.0</u>	<u>5.0</u>
Net Baseline Gap	<u>\$ (369.3)</u>	<u>\$ (442.5)</u>	<u>\$ (496.0)</u>
<u>Gap Closing Measures Considered at Risk</u>			
<u>Financing Options/Asset Sales</u>			
Public-Private Partnerships	\$ 125.0	\$ 125.0	\$ 125.0
Privatization of LI Bus	9.6	9.6	9.6
Surplus Land Sales		20.0	30.0
Securitization of Mitchel Field Leases			<u>40.0</u>
Sub-Total Financing Options/Asset Sales	<u>134.6</u>	<u>154.6</u>	<u>204.6</u>
<u>Expense Reductions</u>			
Department Efficiencies	20.0	20.0	20.0
Headcount Reductions	<u>5.0</u>	<u>10.0</u>	<u>15.0</u>
Sub-Total Expense	<u>25.0</u>	<u>30.0</u>	<u>35.0</u>
<u>Revenue Initiatives</u>			
Increased Departmental Revenues	3.0	3.0	3.0
Shared Services - Improved Accounts Receivable Processing	3.0	3.0	3.0
Hub Revenues		20.0	<u>20.0</u>
Sub-Total Revenue	<u>6.0</u>	<u>26.0</u>	<u>26.0</u>
<u>Assessment Reform</u>			
Debt Service on Assessment Reform	<u>2.0</u>	<u>8.0</u>	<u>14.0</u>
Total Gap Closing Measures at Risk	<u>\$ 167.6</u>	<u>\$ 218.6</u>	<u>\$ 279.6</u>

6.0 Fund Balance Policy

The County's fund balance policy was adopted by the Legislature in 2005 and is re-submitted to the Legislature as part of the 2011 – 2014 multi-year plan. The fund balance policy provides that the County will maintain unreserved fund balance of 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) and all financial resources at a level of between 5% and 7.5% of prior year expenditures.

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. The fund balance policy includes in its definition of all financial resources the amounts in the Employee Accrual Liability Reserve Fund, Retirement Contribution Reserve Fund and Tobacco Settlement Fund.

We calculate that under the proposed budget, the County's fund balance will drop below both measures established in its policy by the close of 2010, even if it is assumed that the County will not need to draw on additional fund balance during the year and it has dropped below both measures for 2009. Fund balance provides taxpayers with a cushion against unexpected negative events. This Office supports the fund balance policy and is concerned that we have fallen below the 4% threshold. The 2011 Proposed Budget does not include any provision for replenishing the fund balance as prescribed in the fund balance policy.

7.0 Other Entities - Nassau Health Care Corporation

The financial stability of the Nassau Health Care Corporation (NHCC) is important so that it can continue to operate as a health care safety net for the County's uninsured. In addition, the County is dependent upon NHCC's ability to repay its outstanding indebtedness of \$262 million, which is guaranteed by the County. Of this debt approximately \$247 million is tied to variable rates. The financial condition of the hospital is considered stable but tenuous.

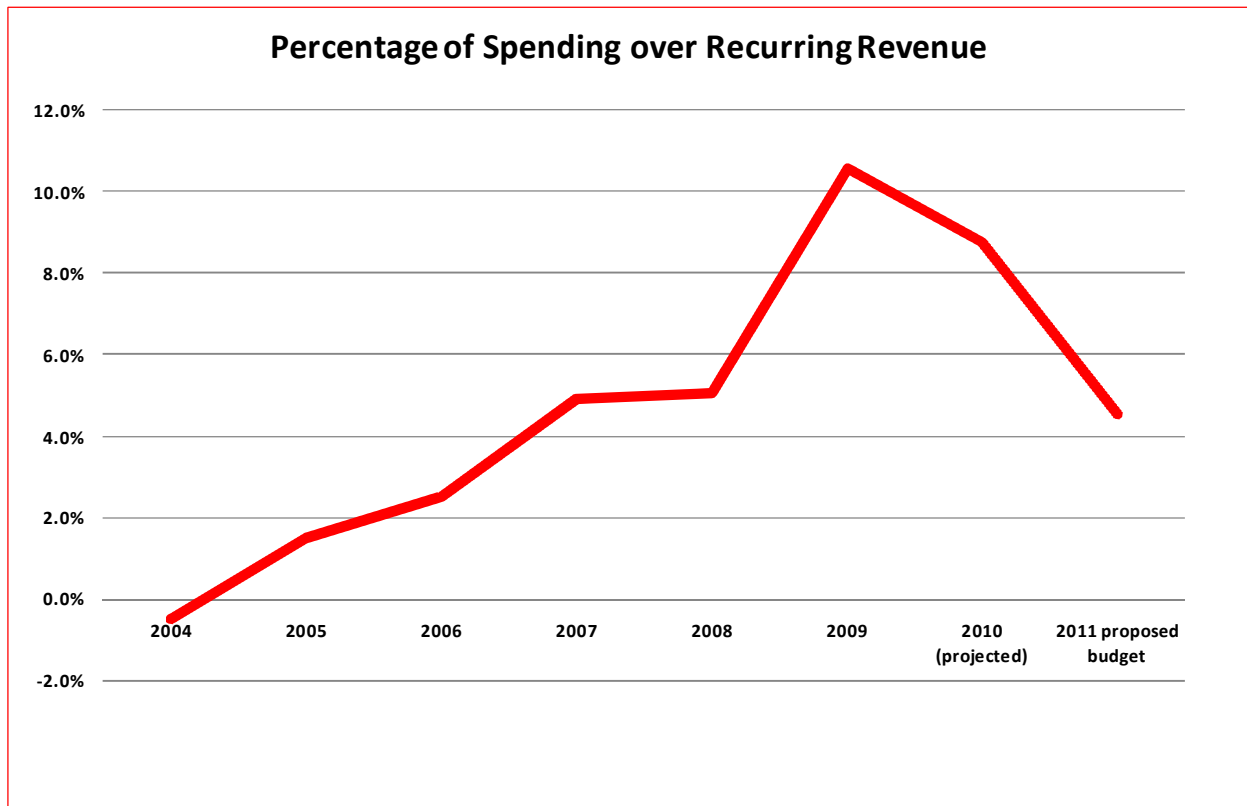
The national recession will increase pressure on NHCC in a time of great uncertainty in the area of health care and its funding. New York State has not yet fully confronted the impact of the drop in State revenue that it will face in the current and future State fiscal years. There may be significant cutbacks to funding streams that NHCC relies on. An even greater uncertainty will be the impact of health care reform; the demands for service placed on NHCC, its funding streams and the historic models it uses to develop its programs may have to be radically altered. These changes will require monitoring by the County and NHCC to ensure that services can be offered where needed without additional demands on County taxpayers.

8.0 Major County Financial Trends

8.1 Revenues and Expense Divergence

The deteriorating control of expenses and the overspending by the County since 2004 by the prior administration is best illustrated in Exhibit 21. This shows the percentage of recurring expense over recurring revenue in each year. This overspending increased every year and reached a critical point in 2009 exceeding 10% of current recurring revenues. We anticipate that in 2010 this trend will be reversed as shown in Exhibit 21 below and is budgeted to significantly improve in 2011 to about 4% down from 10% in the last year of the prior administration.

Exhibit 21



8.2 Budgetary Structural Gap Trend

Like most governments, the County has an imbalance between its recurring operating revenues and expenses, known as a structural gap. While an important financial indicator, a structural gap is not the same as a budget deficit. Since 2002 the County's budget has been balanced each year, as required by law, and the County has ended every year with a budget surplus. Structural gaps can only be narrowed by reducing recurring expenses or by increasing recurring revenues. When the County balances its budget by using non-recurring revenues, such as drawing down reserves, it does not reduce the structural gap.

In 2010 the structural gap for the first time since 2003 will show a decline (see Exhibit 22). The 2011 budgeted structural gap will continue to decline because of the bold initiatives of the Mangano Administration in the successful implementation of the 2011 proposed budget. Exhibit 22A shows the specific non-recurring items accounting for the structural gap.

Exhibit 22

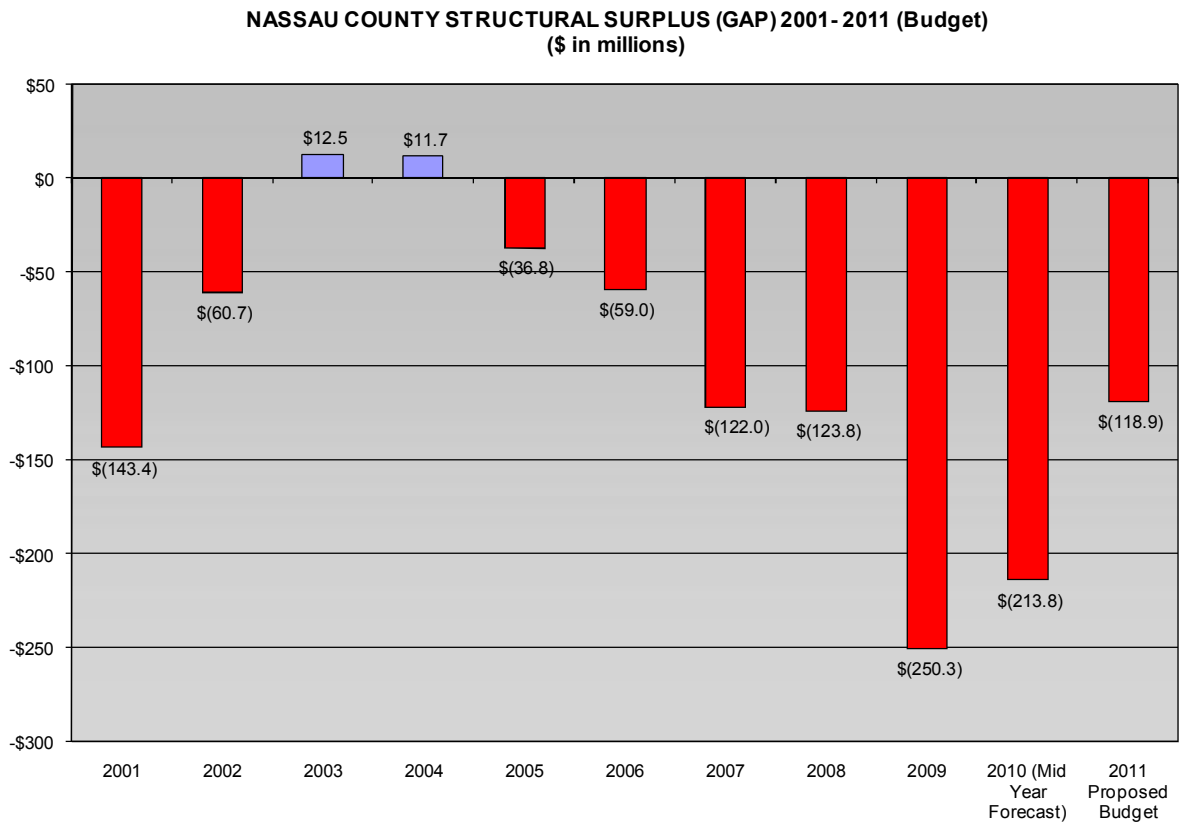


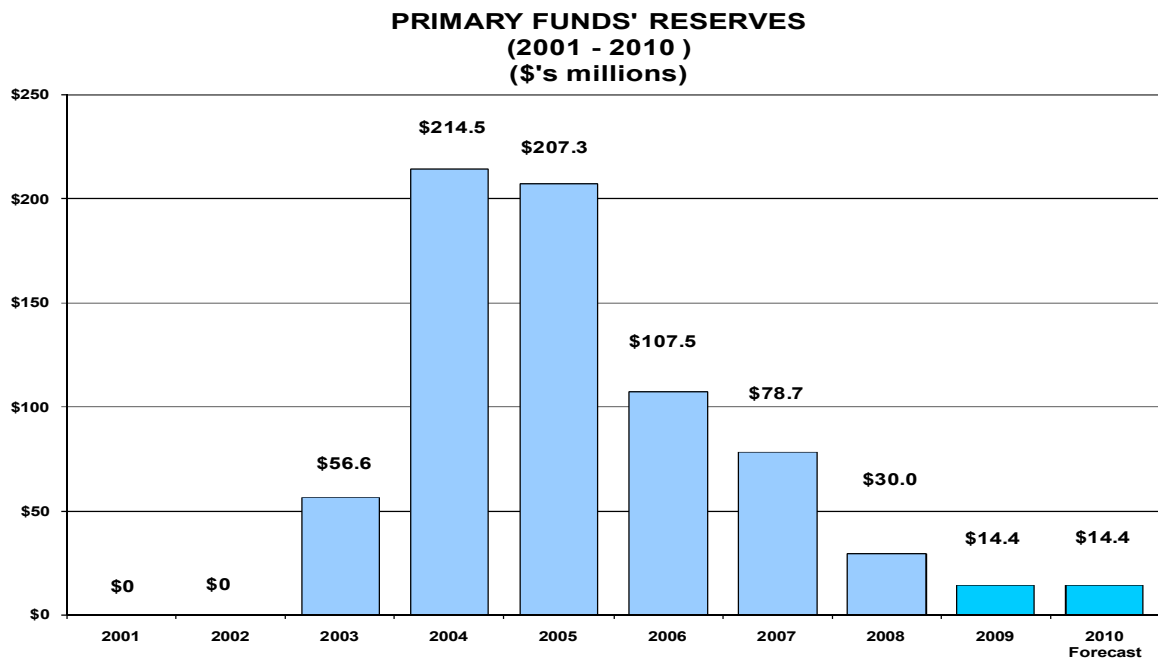
Exhibit 22A

Nonrecurring Revenues and Expenses					
Major Funds					
2007 - 2011					
(\$ Millions)					
	2007 Actual	2008 Actual	2009 Actual	2010 Forecast	2011 Proposed Budget
Use of Reserves	\$ 49.4	\$ 26.4	\$ 0.5	\$ -	\$ -
Use of Fund Balance	43.4	17.9	10.0		
Tobacco Related	23.6	23.0	15.2	5.0	
Nonrecurring					
Federal Medical Assistance Percentages (FMAP)			44.8	44.4	16.3
American Recovery and Reinvestment Act Funding (ARRA)				3.7	2.6
Residential Energy Tax			21.9	17.5	
Payroll Deferrals & Lag			60.1	17.2	
Bonding for Budgeted Termination Pay			34.5	26.8	
Use of borrowed funds to pay property tax refunds in excess of budget	12.0	58.8	64.5	53.0	100.0
Excess cash in MTA projects	17.4				
Total	<u>\$ 145.8</u>	<u>\$ 126.1</u>	<u>\$ 251.5</u>	<u>\$ 167.6</u>	<u>\$ 118.9</u>

8.3 Primary Fund Reserve Trend

From 2003-2004 the County accumulated reserves totaling \$214.5 million through annual surpluses. From 2005 onwards, the County began to deplete the reserve funds at an alarmingly accelerated rate as shown in Exhibit 23 to cover current expenses. If the Administration and Legislature agree to bond all components of the termination pay as this report assumes, then the Reserve Fund will be left with \$14.4 million at the end of 2010 and will remain unchanged for 2011.

Exhibit 23



8.4 Borrowing Trends

The County typically bonds each year for capital projects and property tax refund payments. From 2002 to 2006, NIFA did primarily all the borrowing for the County. Since then, the County has borrowed in excess of \$220 million each year. As shown in the Exhibit 24 below, in 2009 and 2010 the bonding is increasing. The reason is that in 2009 and 2010 borrowing includes \$80 million and \$92 million for termination pay respectively.

At 2009 year end, the total of County general obligation and NIFA bonds outstanding was \$2.6 billion. The debt service for principal, interest and financing costs relating to this debt was \$293.7 million. The County portion of this debt stood at \$887.7 million and the debt service for 2009 was \$122 million.

We strongly urge fiscal responsibility by reducing the overall borrowing for 2011 and beyond to the multi-year plan as shown in Exhibit 24 below. The \$364 million planned authorization for payment of property tax refunds by the Administration for 2011 will be negatively perceived by the financial markets. We do not differentiate between authorization and borrowing. We recommend authorization/borrowing as requested in the updated Multi-Year Plan.

Exhibit 24

