NASSAU COUNTY
OFFICE OF THE COMPTROLLER

COMPTROLLER'S COMMENTS ON THE PROPOSED NASSAU COUNTY 2012 BUDGET AND MULTI-YEAR FINANCIAL PLAN

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Comptroller's Comments on the Proposed
Nassau County 2012 Budget and Multi-Year Financial Plan

1.0 Executive Summary

The County Legislature must adopt Nassau County's 2012 budget in an environment of continuing economic uncertainty, high unemployment, crushing federal and state mandates, unfavorable labor agreements, stagnant revenue growth, and historic fiscal challenges. Additionally, the County finances are now under the supervision and control of the Nassau County Interim Finance Authority (NIFA), which has reduced the Administration's flexibility through ill-timed policy changes, which have limited the county's ability to cope with its current fiscal challenges. Many of these challenges were anticipated as their seeds were planted under the prior Suozzi Administration.

The proposed $2.64 billion budget contains $293.8 million in risk. However, the budget avoids raising property taxes for the second consecutive year and continues to protect our hard-pressed taxpayers. The budget continues to steer the County towards fiscal responsibility by significantly reducing the structural deficit by approximately 69% from the prior Administration's 2009 peak of about $252 million (see Exhibit 19) and cuts spending from 10% over revenues in 2009 to about 3% (see Exhibit 18).

The County's economy is expected to continue improving albeit slowly and result in modestly higher sales tax revenues. 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 40% of revenues followed by Property Tax at 31% and State and Federal Aid at about 13%. Property Tax revenue continues to be flat while State and Federal Aid are declining. The major factor, which has affected the County, has been the economy resulting in significantly lower sales tax revenues. If sales tax revenues had continued to increase at historic averages of 3.5% from 2007, the County would have received approximately $640 million in additional revenues. This would have more than offset the growth in major county expense items.

The $293.8 million in risk in the proposed 2012 budget can be classified into four major categories (in millions):

1. Economic Revenue Risk	$30.2
2. Risk Contingent on NIFA Approval	85.9
3. Risk Contingent On Labor Contract Concessions	100.9
4. Administration Actions and Management Risk	76.8
	$293.8

This amount of budgetary risk will present considerable challenges for the Administration. Approximately 90% of this risk is dependent on: the difficult to achieve labor contract concessions relying on potential breach of contractual obligations; rescinding of NIFA mandates and the continuation of the wage and step freeze; and dramatic administrative actions. Even if all of the budgetary gap closing opportunities could be achieved, the budget would still have a remaining risk of $117.6 million.

The Administration has identified $305 million in gap closing opportunities to be pursued as necessary. These include (in millions):

• Public Private Partnership for Sewer System	$135
• Furlough of Employees	60
• Additional 600 layoffs	60
• State Actions	50
	$305

Most of these contingencies also come with risk and may not produce adequate revenue enhancements or expense reductions to mitigate the budgetary risk. The public-private partnership for the operation of the County sewer system lacks formal analysis or identification of a partnering interest. The labor savings through furlough would require legislative approval and may result in court challenges. Additional layoffs may result in termination pay and will not achieve the full savings. Lastly, the anticipated State actions have previously been rejected on multiple occasions. At best, we can only project approximately $50 million in contingent savings. This amount is not sufficient to offset the other risk items.

In order to alleviate the risks and end in budgetary balance, it is imperative that NIFA, the Administration and the Legislature (both Republicans and Democrats) work together as active partners to implement the gap closing initiatives.

We also urge a fundamental re-thinking of government through the 2012 budget in order to develop additional bi-partisan initiatives to slim down County government to operate within the means of our taxpayers. This can be achieved by focusing on a significant reduction in non-payroll cost, demanding higher efficiency from revenue centers, consolidation of non-essential services and achieving better County- labor cooperation. NIFA's active participation and leadership in the restructuring of County government is essential.

Exhibit 1

PROPOSED NASSAU COUNTY 2012 BUDGET
MAJOR FUNDS
SUMMARY OF RISKS and OPPORTUNITIES
($'s Millions)

Risks

Revenues		
Proposed Budget - net of interfunds	**$ 2,639.5**	
Revenue Designated for the retirement of debt	(33.0)	
Sales Tax	(14.4)	
Fines & Forfeitures	(6.8)	
Departmental Revenue	(8.1)	
Rents & Recoveries	(2.7)	
Other	(0.7)	
Total Revenue Risk		**$ (65.7)**
Expenses		
Proposed Budget - net of interfunds	**2,639.5**	
Payroll And Fringe (On Boards), excluding overtime	(145.6)	
Overtime	(58.4)	
Contractual Expenses	(16.2)	
Debt Service	(6.0)	
Social Services	(2.5)	
Other	0.6	
Total Expense Risk		(228.1)
Estimated Budget Risk excluding Potential Opportunities		**$(293.8)**

	Police District	Other Funds	Total
Estimated Budget Risk by Taxpayer Base	**$ (73.5)**	**$ (220.3)**	**$(293.8)**
Achievable Opportunities			
Require County Legislative action, court challenge expected			
Mandate employee contribution for health insurance	8.0	24.6	
Mandate retiree contribution for health insurance	7.0	29.3	
Layoffs (net of termination pay and unemployment costs)	(2.8)	32.3	
Require NIFA Approval			
Use of borrowed funds for termination pay	11.0	19.7	
Use of borrowed funds to pay judgments and settlements	2.0	16.0	
Refunding of debt		15.0	
Wage & Step Freeze Continuation	5.6	16.6	
Administrative Actions			
Savings from Strategic Sourcing		15.0	
Subtotal opportunities achievable	30.8	168.5	**199.3**
Additional Risks			
Filling Vacant and Part-Time Positions		(23.1)	**(23.1)**
Outstanding Budget Risk after Opportunities	**$ (42.7)**	**$ (74.9)**	**$(117.6)**

Exhibit 2

PROPOSED NASSAU COUNTY 2012 BUDGET MAJOR FUNDS MAJOR CATEGORIES OF RISK ($'s Millions)		
Economic Revenue Risk:		
Sales Tax	$ 14.4	
Fines & Forfeitures	6.8	
Departmental Revenue	8.1	
Other Revenue risk	0.9	
		$ 30.2
Risk Contingent on NIFA Approval:		
Use of borrowed funds for termination pay	30.7	
Use of borrowed funds to pay judgments and settlements	18.0	
Refunding of debt	15.0	
Wage & Step Freeze Continuation	22.2	
		85.9
Risk Contingent On Labor Contract Concessions:		
Mandate employee contribution for health insurance	32.6	
Mandate retiree contribution for health insurance	36.3	
Reinstituting quarter days, eliminate minimum manning, paying first 48 hours of overtime at straight time	32.0	
		100.9
Administration Actions and Management Risk:		
Layoffs (net of unemployment costs)	59.1	
Overtime	26.4	
Savings from Strategic Sourcing	15.0	
Debt Service	6.0	
Social Services	2.5	
Sale of Police Precincts	2.5	
Other expense risk	2.4	
Open Full and Part Time positions	(23.1)	
Fringes under Budget	(14.0)	
		76.8
		$ 293.8

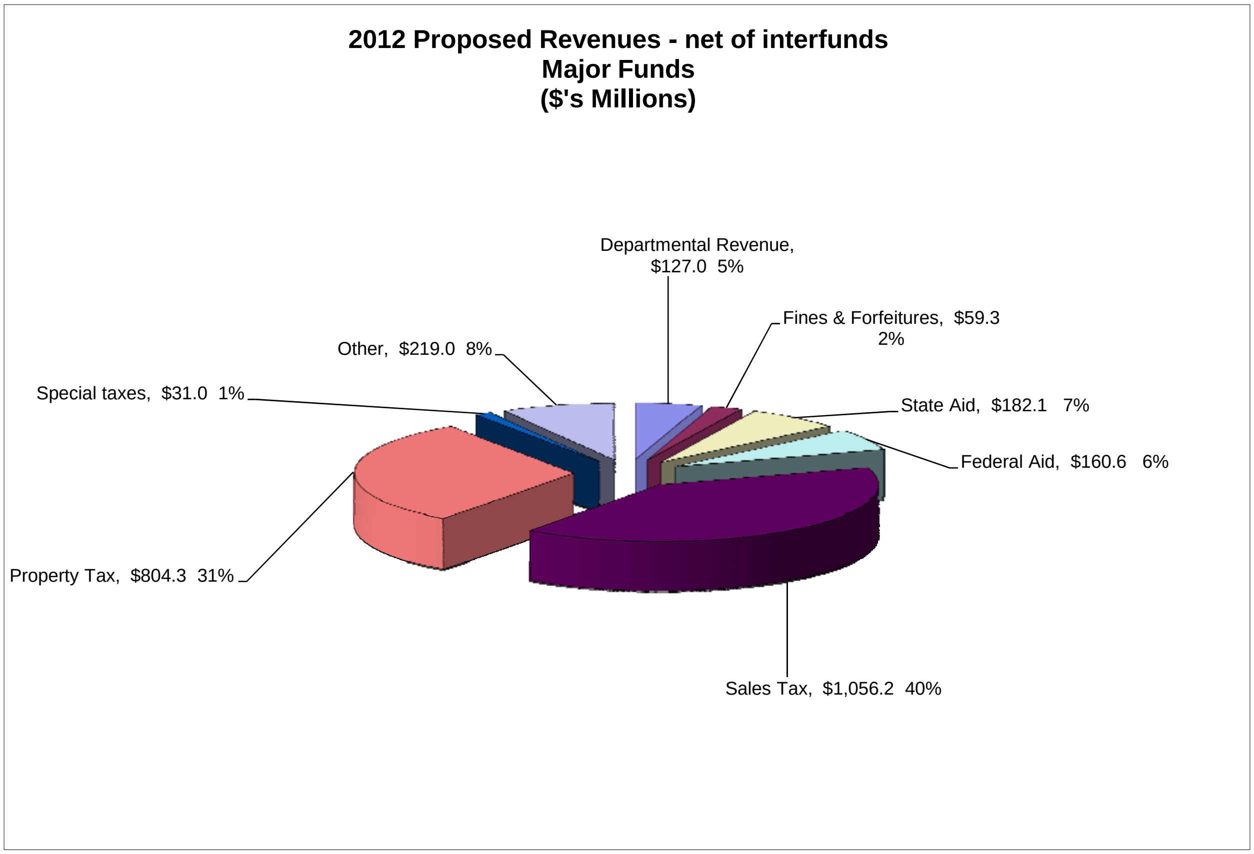
2.0 Discussion of Revenues

2.1 Major Revenue Sources

Sales Tax is the major revenue source for the County accounting for 40% of revenue followed by Property Tax at 31%, and State and Federal Aid at about 13%. Departmental Revenues and Fines & Forfeitures contribute about 7%. 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 3



Total Budgeted Revenue
Major Funds
($ Millions)

	2011	2012
Total Budgeted Revenue	$ 3,250.3	$ 3,133.6
Less:		
Interfunds between major funds	549.7	494.1
Net Revenue	$ 2,700.6	$ 2,639.5

2.2 Revenue Designated for the Retirement of Debt

Revenue Designated for the Retirement of Debt is a $33 million risk item in the 2012 Proposed Budget. This risk is due to the Administration including in the budget proceeds from bonding to pay for $18 million of settlements. NIFA has stated that it will no longer permit the County to bond for settlements. The Administration also included in the proposed budget $15 million that will result from NIFA debt restructuring. This is at risk because NIFA no longer has the ability to issue debt.

Exhibit 4

Revenue Designated for the Retirement of Debt
Major Funds
($ Millions)

2010 Actual	2011 Comptroller's Forecast	2012 Proposed Budget	2012 Budgetary Risk	2013 MYP	2014 MYP	2015 MYP
$ 31.5	$ 10.3	$ 41.0	($ 33.0)	$ 21.0	$ 20.6	$ 20.4

2.3 Sales Tax

Sales Tax, at approximately 40% of budgeted revenues net of inter-fund transfers, is the County's largest revenue source.

The proposed budget projects that the County will receive $1,044.1 million in 2012 sales tax (excluding deferred), an increase of 3.42% over our projection for 2011. We project a growth of 2% due to the continued weakness in the economy. The County's sales tax receipts for this year have been closer to 2% than 3%. Based on current receipts we forecast a shortfall for 2012 of $14.4 million as shown in the exhibit below. However, the County cannot know with certainty what the 2011 sales tax base will be until February of 2012.

Exhibit 5

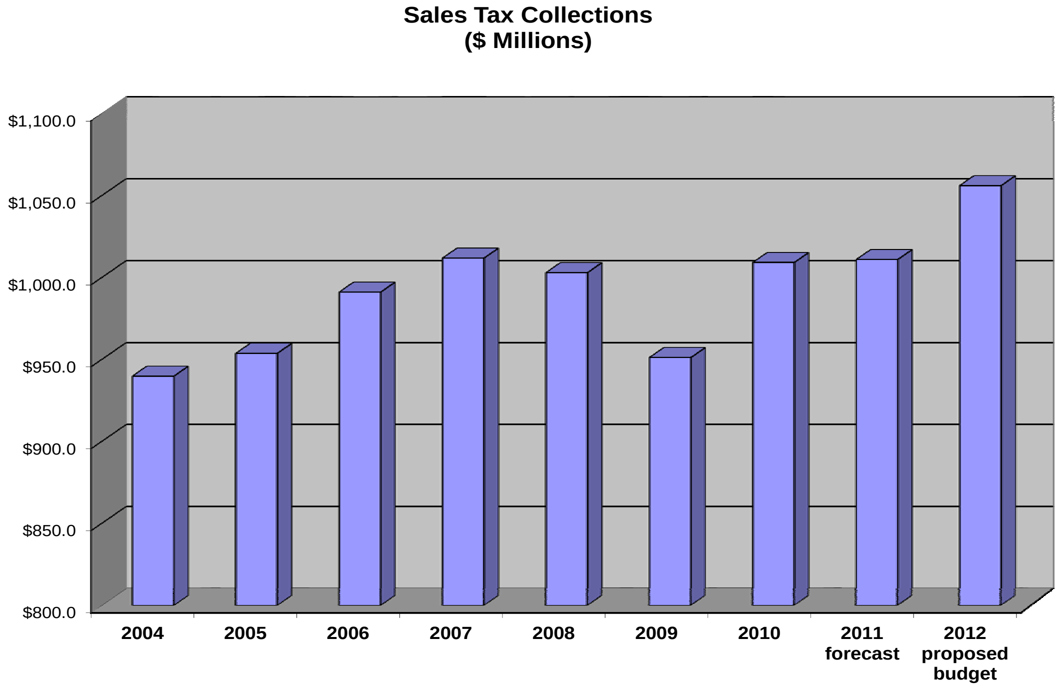


Exhibit 6

Sales Tax (Gross Receipts)
(Including Residential Energy Tax)*
($ Millions)

	2010	2011 Comptroller's Forecast	2012 Proposed Budget	2012 Budgetary Risk	2013 MYP	2014 MYP	2015 MYP
Sales Tax **	$ 1,009.3	$ 1,009.5	$ 1,056.2	($ 14.4)	$ 1,086.8	$ 1,118.3	$ 1,150.8

* Residential Energy Tax effective June 1, 2009 to May 31 2010.

** Excludes prior year deferred portion of sales tax, $1.6 million in 2011

2.4 Fines & Forfeitures

Our analysis of the proposed budget for Fines & Forfeitures shows a risk of $6.8 million. The amount of revenue at risk is primarily due to $5.4 million in fines for Traffic and Parking violations other than red light cameras. Our assessment is based on extrapolating historical experience.

Exhibit 7

Fines and Forfeitures
Major Funds
($ Millions)

2010 Actual	2011 Comptroller's Forecast	2012 Proposed Budget	2012 Budgetary Risk	2013 MYP	2014 MYP	2015 MYP
$ 37.3	$ 48.9	$ 59.3	($ 6.8)	$ 54.3	$ 54.3	$ 54.3

2.5 Departmental Revenue

Departmental Revenue is forecast in the 2012 Proposed Budget at $127 million. We believe that $8.1 million of this amount is at risk.

Based on historical analysis including the current year projections, Ambulance Fees of $6.2 million are at risk in the proposed budget. In addition, $1.7 million is at risk in the Police Department: $1.0 million from an initiative to be reimbursed for patrolling community events and $0.7 million for a tow truck franchise fee.

Exhibit 8

Departmental Revenue
Major Funds
($ Millions)

	2010 Actual	2011 Comptroller's Forecast	2012 Proposed Budget	2012 Budgetary Risk	2013 MYP	2014 MYP	2015 MYP
Ambulance Fees	$ 18.5	$ 20.2	$ 29.2	($ 6.2)	$ 29.2	$ 29.2	$ 29.2
Police District Fees	3.3	3.4	5.9	(1.7)	5.9	5.9	5.9
All other Departmental Revenue	72.7	85.5	91.9	(0.2)	91.9	91.9	91.9
Total	$ 94.5	$ 109.1	$ 127.0	($ 8.1)	$ 127.0	$ 127.0	$ 127.0

2.6 Rents & Recoveries

The 2012 proposed budget includes $2.5 of revenue from the sale of two police precincts. These precincts are still active and as there is no current contract for sale in place, this is at risk.

Exhibit 9

Rents and Recoveries
Major Funds
($ Millions)

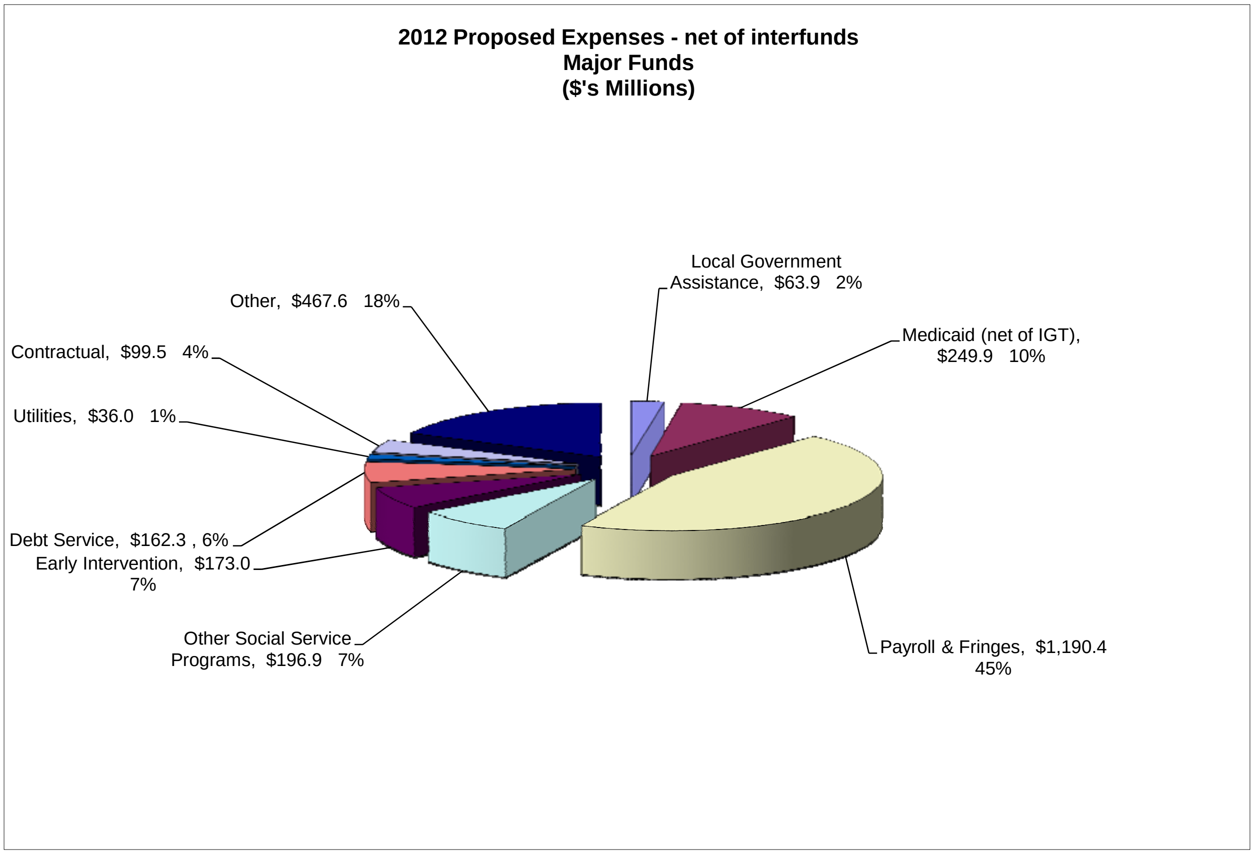
2010 Actual	2011 Comptroller's Forecast	2012 Proposed Budget	2012 Budgetary Risk	2013 MYP	2014 MYP	2015 MYP
$ 35.3	$ 36.5	$ 19.1	($ 2.7)	$ 17.1	$ 17.1	$ 17.1

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 45% of the budget is attributed to payroll and fringe benefits, by far the highest portion of the budget. Payroll and fringe benefits are also the fastest rising due to unfavorable labor agreements, and double-digit increases in health insurance and pension costs. The second highest budgeted expense category is Medicaid at 10%.

Exhibit 10



Total Budgeted Expenses
Major Funds
($ Millions)

	2011	2012
Total Budgeted Expenses	$ 3,250.3	$ 3,133.6
Less Interfunds between major funds	549.7	494.1
Net Expenses	$ 2,700.6	$ 2,639.5

3.2 Salary and Fringes

The 2012 Proposed Budget assumes a full-time headcount of 7,400, which is 579 less than the number of full-time employees on board as of September 22, 2011. This headcount reduction is to be achieved through layoffs of 724 employees by January 1, 2012, partially offset by hiring in strategic areas. The salary savings resulting from the layoffs is reported in the 2012 Proposed Budget as a negative budgeted dollar amount in the salaries budget of each of the departments. This amount totals almost $52 million in the major funds.

Also budgeted is savings in fringes as a result of the planned layoffs, including the County's contribution to Social Security of almost $4 million and health insurance for those that leave the County of almost $9 million. There is a corresponding budgeted increase for unemployment expense of over $5 million. These savings relating to layoffs are at risk, as the layoffs require Legislative approval, which has not been obtained.

NIFA's approval is required for the following two items:

- The one-year wage and step freeze implemented by NIFA is scheduled to expire March 24, 2012. The Administration assumes that the NIFA Board will vote to continue this wage and step freeze and has included these savings, almost $22 million, in the budget. This item is at risk since NIFA has not indicated what action it will take.

- Although there are planned layoffs and anticipated retirements, (over one-third of the members of the three police unions are eligible to retire during 2012), nothing is budgeted for termination pay in the 2012 Proposed Budget of the operating funds. It is the Administration's intention to bond all termination pay. The Comptroller's Office is projecting termination pay expense for normal attrition of over $30 million for 2012. This potential savings is at risk, as NIFA would have to agree to the County borrowing to pay for all of the anticipated termination pay in 2012.

Although overtime for the major funds is projected by the Comptroller's Office to be almost $83 million in 2011, which is over budget by $17 million and represents an increase of over 17% from 2010 actuals, the 2012 Proposed Budget includes a total of only $27.4 million for overtime for all the major funds. The Administration is anticipating overtime savings of $32 million in the police department by reinstituting quarter days, eliminating minimum manning, and paying the first 48 hours of overtime at the straight time rate. All of these actions are subject to negotiation and are dictated by each union's current bargaining agreement none of which expire until December 31, 2015. In addition, $26 million is at risk due to insufficient budget for overtime based upon historical trends. Therefore, the risk is $58 million.

The Administration has also included savings for health insurance for active and retired employees resulting from the planned implementation of a 25% employee/retiree contribution. These savings amount to almost $33 million for active employees and $36 million for retirees. We feel these savings are at risk as the vast majority of the savings are to come from union employees who have bargaining agreements that extend to December 31,

2015. These contracts state that the County will pay the full cost of health insurance for active and retired employees.

The total of the risks cited above come to approximately $241 million. Offsetting those risks are the value of the open positions budgeted for both full-time and part-time positions of approximately $23 million and fringes that were conservatively over budgeted by approximately $14 million for a net risk of approximately $204 million.

Exhibit 11

Payroll & Fringe
Major Funds
($ Millions)

	2010 Actual	2011 Comptroller's Forecast	2012 Proposed Budget	2012 Budgetary Risk	2013 MYP	2014 MYP	2015 MYP
Payroll & Fringe	$ 1,197.5	$ 1,289.0	$ 1,160.0	($ 204.0)	$ 1,279.2	$ 1,292.8	$ 1,377.2
Workers Comp	23.9	27.7	30.4	0.0	31.3	32.2	33.1
Total	$ 1,221.4	$ 1,316.7	$ 1,190.4	($ 204.0)	$ 1,310.5	$ 1,325.0	$ 1,410.3

Summary of Payroll and Fringe Benefit Risks
($ Millions)

		Risks
Requires Action by Legislature		
Savings (Costs) related to Layoffs		
Budgeted Salary Savings	$ (51.6)	
Related Fringe Savings	(13.0)	
Unemployment Expense	5.5	$ (59.1)
Requires Action by NIFA		
Continued Wage Freeze	(22.2)	
Bonding Termination Pay	(30.7)	(52.9)
Requires Reopening Current Bargaining Agreements/Subject to Legal Action and Administration Management		
Implementation of employee/retiree 25% contribution to health insurance	(68.9)	
Reinstituting quarter days, eliminate minimum manning, paying first 48 hours of overtime at straight time	(32.0)	
Overtime management	(26.4)	(127.3)
Opportunities		
Open Full and Part Time positions	23.1	
Fringes under Budget	14.0	
Other	(1.8)	35.3
		$(204.0)

Exhibit 12

Overtime *
($ Millions)

	2010 Actual	2011 Comptroller's Forecast	2012 Proposed Budget	2012 Budgetary Risk	2013 MYP	2014 MYP	2015 MYP
Correctional Center	$ 21.5	$ 23.6	$ 15.2	($ 9.3)	$ 15.5	$ 15.8	$ 16.1
Police Headquarters	19.0	21.8	3.0	(19.6)	3.1	3.3	3.5
Police Districts	24.3	29.7	4.0	(26.7)	4.3	4.5	4.8
Others	7.4	7.7	5.2	(2.8)	5.3	5.4	5.5
Total Expense	$ 72.2	$ 82.8	$ 27.4	($ 58.4)	$ 28.2	$ 29.0	$ 29.9

* Overtime amounts included in salaries schedule

3.3 Contractual Expenses

The Administration has budgeted a $15 million savings in Contractual Expense from strategic sourcing. Since there is no plan as to how this will be achieved, we believe this initiative to be at risk.

Exhibit 13

Contractual Expenses
Major Funds
($ Millions)

2010 Actual	2011 Comptroller's Forecast	2012 Proposed Budget	2012 Budgetary Risk	2013 MYP	2014 MYP	2015 MYP
$ 118.5	$ 115.3	$ 99.6	($ 16.2)	$ 102.7	$ 106.1	$ 109.5

3.4 Social Services (Including Medicaid)

The 2012 Proposed Budget for Social Services Direct Assistance is $446.9 million. We project $2.5 million at risk, mostly due to budgeted savings from reduced day care caseloads.

Exhibit 14

Social Services (Including Medicaid)
Major Funds
($ Millions)

2010 Actual	2011 Comptroller's Forecast	2012 Proposed Budget	2012 Budgetary Risk	2013 MYP	2014 MYP	2015 MYP
$ 425.1	$ 437.4	$ 446.9	($ 2.5)	$ 455.2	$ 463.6	$ 470.9

3.5 Debt Service

We are projecting that Debt Service will be $6 million over the Proposed Budget. This is due to a review of the debt outstanding adjusted for the proposed borrowings. We determined that the cost of principal repayment of debt has been under budgeted by $6 million.

Exhibit 15

Debt Service
Major Funds
($ Millions)

2010 Actual	2011 Comptroller's Forecast	2012 Proposed Budget	2012 Budgetary Risk	2013 MYP	2014 MYP	2015 MYP
$ 296.2	$ 338.6	$ 383.4	($ 6.0)	$ 398.8	$ 401.3	$ 399.2

4.0 Summary of Achievable Opportunities to Balance the 2012 Budget

Below is a summary of the opportunities available to the Administration to partially offset the estimated budget risk of $293.8 million. Most (about 49%) require County Legislature approval, 43% require NIFA approval and the remaining 8% require Administration action.

Exhibit 16

Achievable Opportunities to Balance the 2012 Budget
($'s Millions)

Require County Legislative action, court challenge expected	
Mandate employee contribution for health insurance	$32.6
Mandate retiree contribution for health insurance	36.3
Layoffs (net of termination pay and unemployment)	29.5
Require NIFA Approval	
Use of borrowed funds for termination pay	30.7
Use of borrowed funds to pay judgments and settlements	18.0
Refunding of debt	15.0
Wage & Step Freeze Continuation	22.2
Administrative Actions	
Savings from Strategic Sourcing	15.0
Total Gap Closing Opportunities	$199.3

4.1 Unbudgeted Gap Closing Options

The Administration has identified, in the budget summary, $305 million in additional gap closing options to be pursued if necessary. These include:

- $135 million from a public-private partnership for the operation of the County sewer system which would transfer operations of the sewer system to a private company;

- $60 million from a further workforce reduction of 600 employees through additional layoffs;

- $60 million savings by implementing a four-day work week for those employees not working in vital health and public safety areas; and

- $50 million from State actions, which include: the elimination of a $27 million MTA Station Maintenance subsidy that pays the MTA for LIRR Station Maintenance; $18 million from Red Light Camera Phase II, which adds red light cameras to an additional 50 intersections; and $5 million from a Long Island Expressway (LIE) Surcharge to reimburse the County for the cost of patrolling New York State highways in Nassau County.

All of these contingencies come with risk. The public-private partnership for the operation of the County sewer system is without a feasibility study. The elimination of the MTA Station Maintenance subsidy is currently a state mandated expense and any elimination will require State approval. The Red Light Cameras and LIE surcharges state approvals have been sought in the past without success.

5.0 The Multi-Year Financial Plan

The Administration's financial plan includes estimated budget baseline gaps of $136.4 million in 2013, $129.1 million in 2014, and $174.8 million in 2015. The plan presents more initiatives than necessary to close the projected gaps; however, we believe, as shown in the exhibit below, 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.

- Since there is uncertainty in 2012 regarding whether the Legislature will approve the layoffs and the implementation of the 25% health insurance contributions from employees and retirees, the related items in the out-years are also at risk. In addition to County Legislature approval being required, the various bargaining units have current contracts that would need to be changed. There are also labor concessions, such as eliminating minimum manning and quarter days, in 2012 to the uniformed officers' contracts that need to occur before the benefit can be achieved in the out-years. All these reductions of salary and fringe expense have been incorporated into the multi-year financial plan.

- The continuation of the wage and step freeze imposed by NIFA is at risk in the out-years since NIFA has not stated its intention to continue the wage and step freeze.

- Any increase in authorization for borrowings for settlements would require NIFA approval.

- Increases in various revenues, such as investment income, are overstated. Deferred sales tax has also been over budgeted.

- There is the further uncertainty of the State approving the increase in the number of intersections for red light cameras and the LIE Surcharge. These have both been included in prior year budgets with no success in passing at the State level.

- Expenses, such as overtime, are understated. In 2015, there is no provision for the historic mission payment to NHCC. Even though the contract will be ending, reasonableness says that NHCC will still require the County's support.

- A major gap closing item is the Administration's plan to privatize the County's wastewater system, under negotiations for a Public-Private Partnership. The budgeted revenue of $125 million, $50 million and $25 million for 2013, 2014 and 2015, respectively, has many obstacles to be achieved. These include the lack of an agreement, the necessary approvals that are needed, and the recognition of revenue under GAAP.

- Also at risk is the elimination of MTA Station maintenance, which is mandated by State law, and the sale of surplus land, which may be uncertain due to the current economy.

The items above may be achieved, but the Administration cannot ensure that they will happen and for this reason, they must be considered at risk.

Exhibit 17

PROPOSED NASSAU COUNTY 2012-2015
MULTI-YEAR FINANCIAL PLAN
MAJOR FUNDS
SUMMARY OF FUTURE YEAR RISKS and OPPORTUNITIES
($'s Millions)

	2013	2014	2015
Baseline Gap per Financial Plan (before Gap Closing Measures)	**$ (136.4)**	**$ (129.1)**	**$ (174.8)**
Items included in Baseline Gap that are at risk			
Overtime	(58.4)	(58.4)	(58.4)
Payroll Savings Initiative	(54.7)	(57.9)	(61.4)
Retiree Health Care Contribution	(39.3)	(42.5)	(46.0)
Employee Health Care Contribution	(34.9)	(36.9)	(39.1)
Bonding of Settlements	(18.0)	(18.0)	(18.0)
Deferred Sales Tax	(12.4)	(12.8)	(13.2)
Investment Income	(7.0)	(14.0)	(21.0)
NHCC Mission Payment			(13.0)
Gap Closing Measures			
Value of New Construction	3.0	6.0	9.0
Net Baseline Gap	**$ (358.1)**	**$ (363.6)**	**$ (435.9)**

	2013	2014	2015
Gap Closing Measures Considered at Risk			
Financing Options/Asset Sales			
Surplus Land Sales	$ 5.0	$ 10.0	$ 10.0
Public-Private Partnership (Sewer System)	125.0	50.0	25.0
Sub-Total Financing Options/Asset Sales	130.0	60.0	35.0
Expense/Revenue Actions			
NYS Actions			
Elimination of MTA Station Maintenance	29.0	30.0	31.0
Red Light Camera Phase II	12.0	9.0	7.0
LIE Ticket Surcharge	5.0	5.0	5.0
Sub-Total NYS Actions	46.0	44.0	43.0
Tax Certiorari Savings			
Guarantee Removal Savings	14.0	28.0	42.0
Assessment Grievance Band (Addition to Guarantee Removal)		6.0	12.0
Sub-Total Tax Certiorari Savings	14.0	34.0	54.0
Other			
Continuation of NIFA Wage Freeze	27.3	61.9	100.2
Total Gap Closing Measures at Risk	**$ 217.3**	**$ 199.9**	**$ 232.2**

6.0 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 2012 – 2015 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 the County's fund balance has dropped below both measures established in its policy. 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 to 3.97%, below the 4% threshold. The 2012 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 the NHCC's ability to repay its outstanding indebtedness of $259 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.

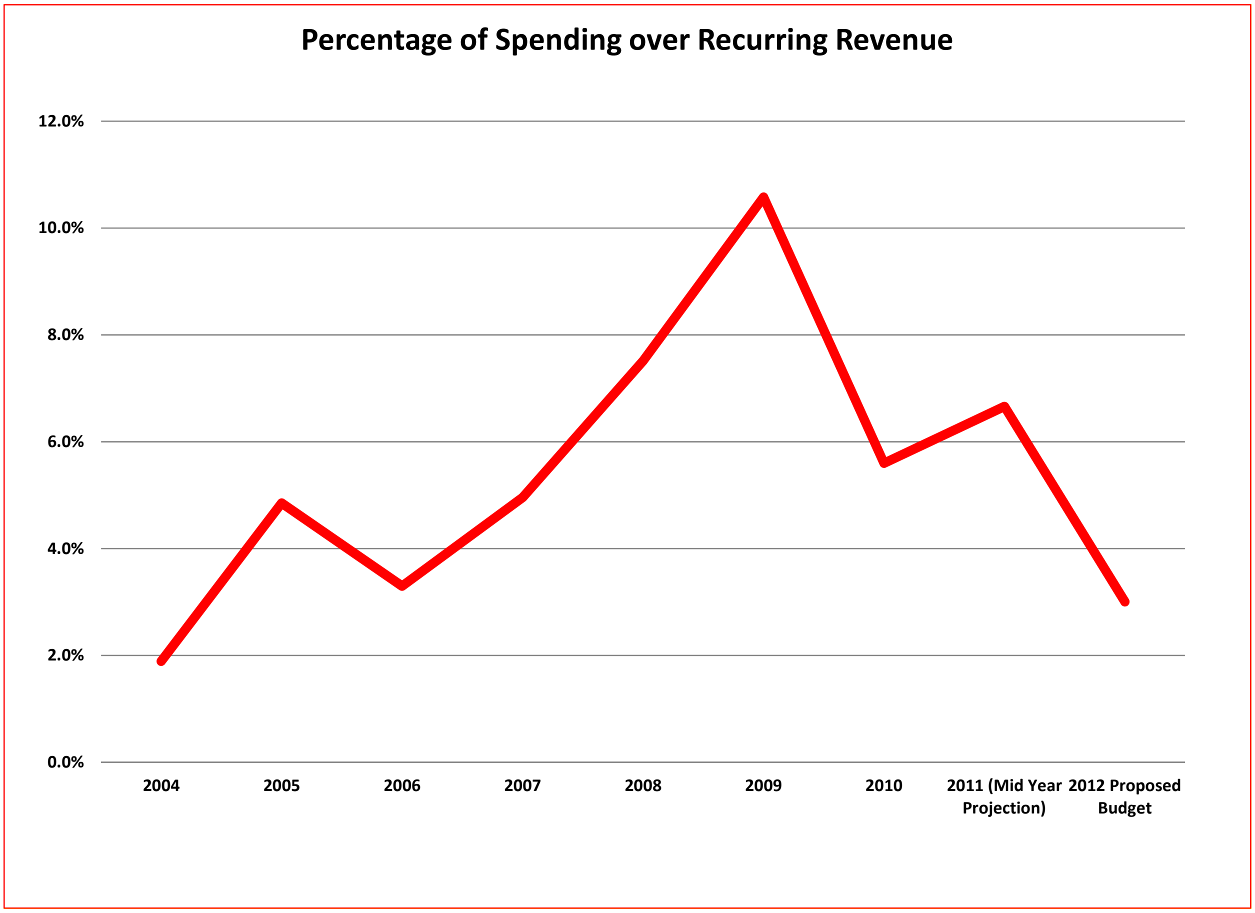
The national recession has increased pressure on the NHCC in a time of great uncertainty in the area of health care and its funding. New York State has cutback some of its funding streams to NHCC. A greater uncertainty is the impact of health care reform; the demands for service placed on NHCC, its funding streams and the historic models it uses to develop its programs may have to be radically altered. NHCC is addressing these issues by reducing expenses through rightsizing its organization. The results will require monitoring by the County and the 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 Suozzi Administration is best illustrated in the exhibit below. This shows the percentage of spending over recurring revenue in each year. This overspending increased every year, except 2006, and reached a critical point in 2009 exceeding 10% of current recurring revenues. This trend was reversed beginning in 2010, and although the Administration expects a small increase for 2011, the percentage of spending over recurring revenue for 2012 is budgeted to improve to 3%.

Exhibit 18



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. Structural gaps can only be narrowed by reducing recurring expenses or by increasing recurring revenues. For each fiscal year 2002 - 2011, the County's budget had been balanced, as required by law, and for years 2002 -2010, the County ended each of those years with a budget surplus. When the County balances its budget by using non-recurring revenues, such as drawing down reserves, it does not reduce the structural gap.

The structural gap included in the 2012 Proposed Budget significantly declines due to the expense controls being instituted and the NIFA ordered use of current revenues to pay for court settlements and property tax refunds. However, the Comptroller's Office finds $293.8 million in risk in the Proposed Budget, which may adversely affect the 2012 ending structural gap.

Exhibit 19

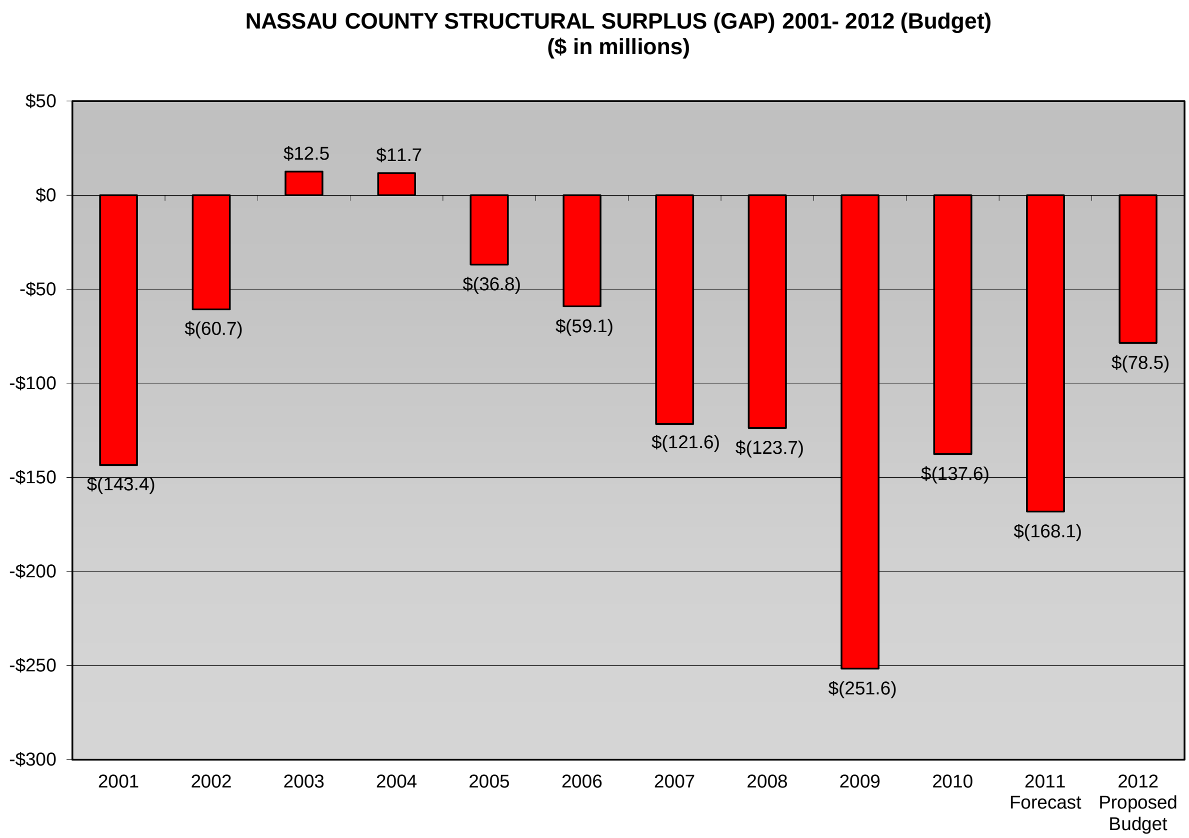


Exhibit 20

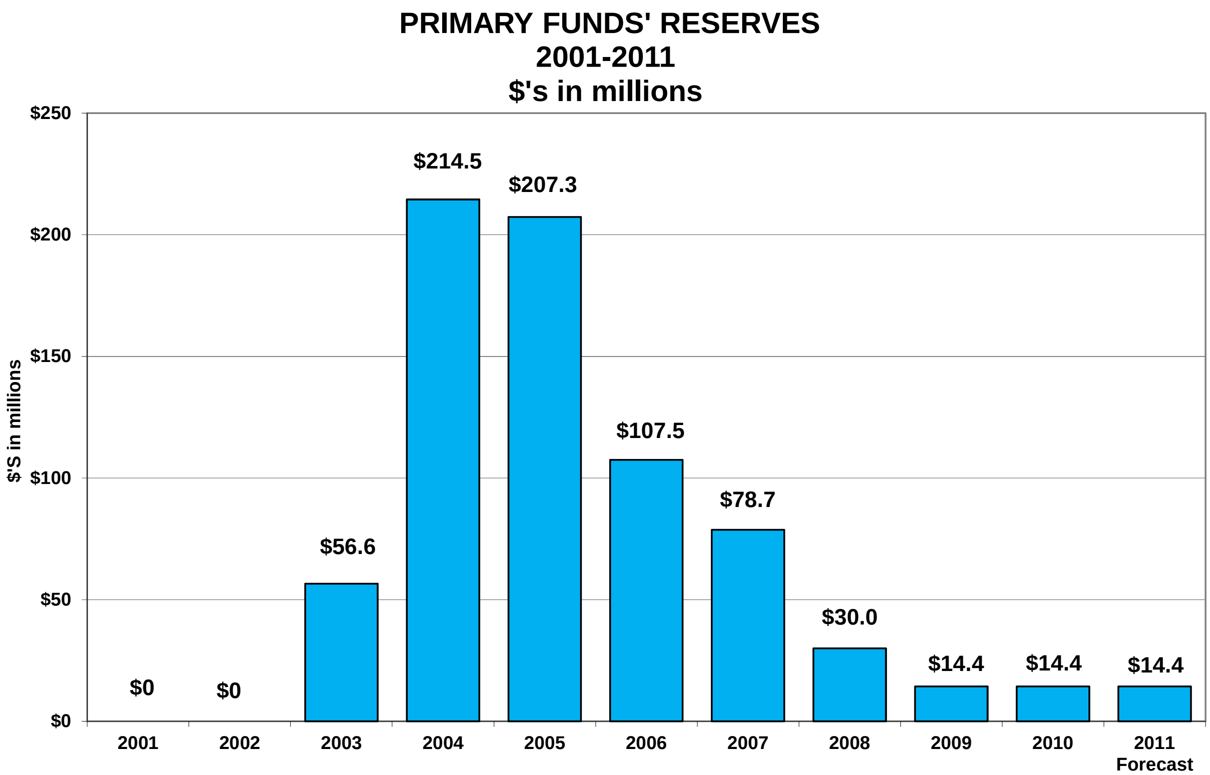
Nonrecurring Revenues and Expenses
Major Funds
2007 - 2012
($ Millions)

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Forecast	2012 Proposed Budget
Use of Reserves	$ 49.4	$ 26.4	$ 0.5	$	$	$
Use of Fund Balance	43.6	17.9	10.0			
Tobacco Related	23.6	23.0	15.2			
Nonrecurring						
Federal Medical Assistance Percentages (FMAP)			44.8	45.1	16.3	
American Recovery and Reinvestment Act Funding (ARRA)					0.6	
Residential Energy Tax			21.9	17.3		
Payroll Deferrals & Lag			60.1	17.2	1.5	7.3
Bonding for Budgeted Termination Pay			34.5	26.8		30.7
Use of borrowed funds to pay property tax refunds in excess of budget	12.0	58.8	64.5	42.5		
Use of borrowed funds to pay settlements						18.0
Sale of Property					47.5	7.5
Refunding of Debt						15.0
NIFA Restatement				15.3		
Excess cash in MTA projects	17.4					
Total	$ 146.0	$ 126.1	$ 251.5	$ 164.2	$ 65.9	$ 78.5

8.3 Primary Fund Reserve Trend

From 2003 through 2004, the County accumulated reserves totaling $214.5 million as a result of annual surpluses. As shown in the exhibit below, from 2005 through 2009, the County began to deplete the reserve funds at an alarmingly accelerated rate to cover current expenses.

Exhibit 21



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. As shown in the exhibit below, the bonding increased in 2009 and 2010 due to the inclusion of termination pay of $80 million and $92 million, respectively. NIFA is no longer permitting the County to borrow for property tax refunds, or judgments and settlements. The exhibit below does not include any property tax borrowing after 2011. Consequently, the trend of borrowing has decreased.

Exhibit 22