NASSAU COUNTY
OFFICE OF THE COMPTROLLER

COMPTROLLER'S COMMENTS ON THE PROPOSED NASSAU COUNTY 2013 BUDGET AND MULTI-YEAR FINANCIAL PLAN

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Nassau County Comptroller

October 17, 2012

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Table of Contents

Comptroller’s Comments on the Proposed Nassau County 2013 Budget and Multi-Year Financial Plan

1.0 Executive Summary

The County Legislature is faced with adopting Nassau County’s 2013 Proposed Budget in an environment of continuing economic uncertainty, high unemployment, unfunded federal and state mandates, and continuing marginal revenue growth.

The proposed $2.8 billion budget for fiscal 2013 represents a 0.2% decrease in spending compared to the 2012 Adopted Budget. Increased costs for higher employee benefits and other inflationary costs will be funded from anticipated increases in Sales Tax, Fines & Forfeitures, and Departmental Revenue. Both revenues and expenses have been conservatively budgeted.

Nevertheless, we project approximately $60.1 million of budgetary risk, the lowest amount of risk in any budget in the prior four years. On a NIFA GAAP basis, the projected risk is $125.1 million, or an 11% improvement over 2012 and a 32% improvement from 2009. The $60.1 million of budgetary risk is comprised of $39.1 million due to lower anticipated revenues and $21 million from under-budgeted expense. This risk may be reduced to as low as $23.8 million (or $110.8 million on a NIFA GAAP basis) after additional possible opportunities, from an improving economy and Legislative outcomes, as shown in the bottom of Exhibit 1. Factoring in the possible opportunities, the level of risk in the 2013 Proposed Budget is manageable.

The County Executive is to be commended for the extraordinary control of costs, focus on efficiently providing core government services and avoidance of new spending promises to be paid with optimistic revenue projections or borrowings.

The Proposed Budget avoids raising property tax revenues for the third consecutive year and continues the improving fiscal benchmark trends in the structural gap by approximately 86% from the prior Administration’s 2009 peak of about $252 million (see Exhibit 16). It holds recurring spending to just 1.3% over recurring revenues, the lowest margin since 2004 (see Exhibit 15), and holds borrowing at historic lows of $140 million, primarily for capital improvement investments.

The Administration must be mindful of the fund balance policy as it manages the Budget (see section 5.0). The County fund balance, at $40.5 million at the end of 2011, remains well below the adopted policy of at least 4% of prior year expenditures (excluding the Police District Fund) or $86 million. The Administration’s pending solution of structuring a payment plan for residential tax certiorari judgments directly with homeowners may result in an additional $20 to $40 million of revenue for 2012 by reversing accrued settlements from 2011. As a result, the County could end 2012 at break-even or with a surplus of up to $20 million (which equates to a NIFA GAAP deficit in the range of $120.1 million to $100.1 million), which will add to the fund balance.

In order for the $20 to $40 million revenue recognition to happen in 2012, however, the County and the taxpayers must enter into settlement agreements, and the court must order payment of the agreements, prior to December 31, 2012. If these steps do not take place, the County may end 2012 with a deficit of up to $25.9 million (which equates to a NIFA GAAP deficit of $140.1 million). This may further reduce the County's fund balance.

The out years in the multi-year plan, beginning with 2014, present additional significant risks. The three major gap-closing opportunities in the multi-year plan, the sewage system financing, savings from the ERP implementation and elimination of the MTA station maintenance, are optimistic. We calculate net baseline budget gaps of $85.1 million in 2014, $114.5 million in 2015 and $163.5 million for 2016 (see Exhibit 14).

These potential multi-year deficits may grow higher because of increased pension costs from New York State as a result of changes in pension accounting rules, which take effect in 2014. The County may not have the fund reserves to absorb these deficits and borrowing will not be an option. The potential deficits do not include the effects of this change in pension accounting rules.

There is "little margin for error" in the 2013 budget because of the low fund balance joined with limited contingencies and the possibility of unexpected events. The Administration, NIFA and the Legislature need to work together and make the necessary decisions to ensure that the County ends 2013 in balance. High priority must be given to replenishing the fund balance and reducing the potential deficits in 2014 and beyond.

We recommend that the 2013 Budget be revised to eliminate the use of $10 million in fund balance from already reduced reserves of $40.5 million as of year-end 2011, and to include a mix of additional revenue enhancements and expense reductions. This will ensure that fiscal year 2013 ends in balance, avoids a potential negative fund balance, and helps reduce the projected budgetary deficits in the out years.

Opportunities exist for increased revenues and reduced expenses from "in-sourcing" of contractual services, where possible; cancellation of all non-essential contractual services and maintenance contracts; better deployment of technology to obtain higher employee productivity; and increases in revenues from non-property tax revenue sources and economic development funding.

Exhibit 1

PROPOSED NASSAU COUNTY 2013 BUDGET
MAJOR FUNDS
SUMMARY OF RISKS and OPPORTUNITIES
($'s Millions)

Risks

Revenues		
Proposed Budget - net of interfunds	**$2,771.0**	
Use of Fund Balance	(10.0)	
Sales Tax	(7.2)	
Fines & Forefeitures	(3.8)	
Departmental Revenue	(17.3)	
Other	(0.8)	
Total Revenue Risk		**$ (39.1)**
Expenses		
Proposed Budget - net of interfunds	**2,771.0**	
Payroll And Fringe (On Boards), excluding overtime	(24.0)	
Overtime	(7.3)	
Budgeted Contingency	10.0	
Other	0.3	
Total Expense Risk		**(21.0)**
Estimated Budget Risk excluding Additional Risks & Opportunities		**$ (60.1)**

	Police District	Other Funds	Total
Estimated Budget Risk by Taxpayer Base	**$ (16.2)**	**$ (43.9)**	**$ (60.1)**
Additional Risks & Opportunities			
Require Legislative Approval:			
Reinstating Health & Human Services contracts		(7.0)	
Borrowing for termination pay (NIFA approval needed)	11.0	11.0	
Increase in Departmental Fees		9.0	
Layoffs		2.3	
Other Opportunities			
Sales Tax		5.0	
Correctional Center inmate housing revenue		5.0	
Budget Risk after Additional Risks & Opportunities	**$ (5.2)**	**$ (18.6)**	**$ (23.8)**

Exhibit 2

Estimated Budget Risk for 2013
Reconciled to NIFA defined GAAP
($'s millions)

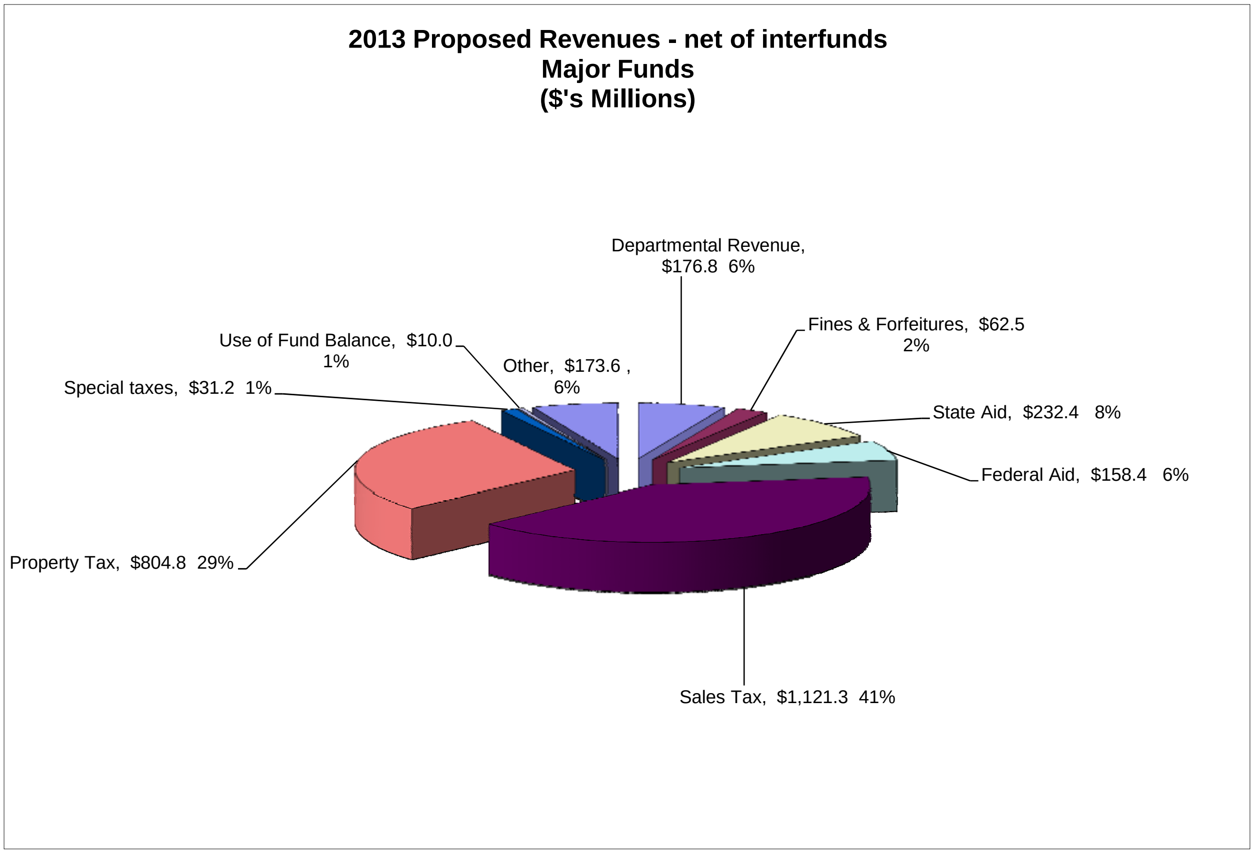
Estimated Budget Risk	**($60.1)**
Adjustments for Carryforward Encumbrances	8.2
Deficit, on a Modified Accrual Basis	**(51.9)**
Adjustments to reconcile to Modified Accrual Basis	
Net adjustment to remove the effect of encumbrances	(10.8)
Net adjustment to record pension expense on a modified accrual basis	(5.0)
Net reclassification of encumbrances to expenditures	(2.5)
Sale of Mitchel Field Leases	1.3
Net Change in Fund Balance on a Modified Accrual Basis	**(68.9)**
Less: adjustments included in other financing sources	
Investment income	(3.0)
Transfer of revenue from other funds to offset debt expense	(25.8)
Premium on bonds	(4.2)
Payment of operating expenses with bond proceeds	(23.2)
GAAP results, as defined by NIFA	**($125.1)**

2.0 Discussion of Revenues

2.1 Major Revenue Sources

Sales Tax is the major revenue source for the County, accounting for 41% of revenue, followed by Property Tax at 29%, and State and Federal Aid at about 14%. Departmental Revenues and Fines & Forfeitures contribute about 8%. These ratios have remained essentially constant in recent years.

Exhibit 3



Total Budgeted Revenue
Major Funds
($ Millions)

	2012	2013
Total Budgeted Revenue	$ 3,295.6	$ 3,214.6
Less:		
Interfunds between major funds	519.7	443.6
Net Revenue	$ 2,775.9	$ 2,771.0

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

2.2 Use of Fund Balance

The Administration has budgeted the use of $10 million of unreserved fund balance. The Administration has also budgeted $10 million for contingency. Although budgeting a contingency is prudent, we do not recommend the use of fund balance as a source of funding. The objective of the budget should be to replenish the fund balance.

Exhibit 4

Use of Fund Balance
Major Funds
($ Millions)

		2013				
2011 Actual	2012 Comptroller's Forecast	Proposed Budget	Budgetary Risk	2014 MYP	2015 MYP	2016 MYP
$ 0.0	$ 0.0	$ 10.0	($ 10.0)	$ 0.0	$ 0.0	$ 0.0

2.3 Sales Tax

Sales Tax, at approximately 41% of budgeted revenues net of inter-fund transfers, is the County’s largest revenue source.

The proposed budget projects that the County will receive $1,116.9 million in 2013 sales tax (excluding deferred revenues), an increase of 4% over our projection for 2012. We project a growth of 3% due to the moderate pace of the economic recovery and potential for another national economic downturn. Consequently, we forecast a shortfall for 2013 of $7.2 million, as shown in the exhibit below.

Exhibit 5

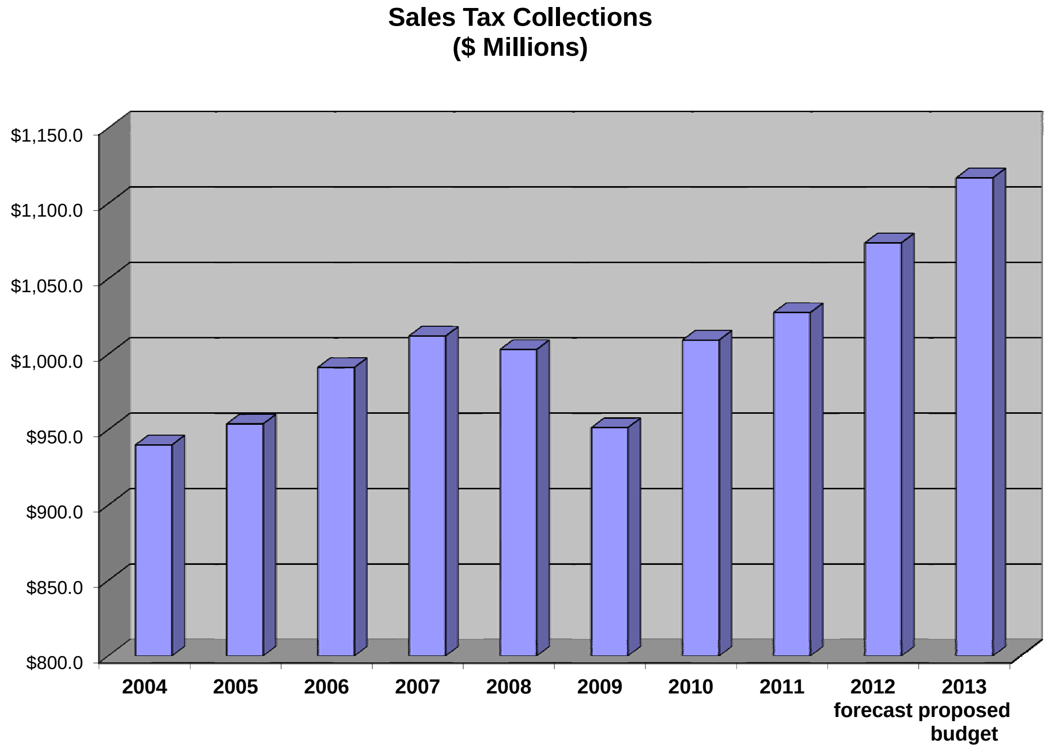


Exhibit 6

Sales Tax (Gross Receipts)
($ Millions)

	2011	2012 Comptroller's Forecast	2013 Proposed Budget	2013 Budgetary Risk	2014 MYP	2015 MYP	2016 MYP
Sales Tax *	$ 1,027.6	$ 1,073.8	$ 1,116.9	($ 7.2)	$ 1,161.5	$ 1,208.0	$ 1,256.3

* Excludes prior year deferred portion of sales tax, $12.1 million in 2012

2.4 Fines & Forfeitures

Our analysis of the proposed budget for Fines & Forfeitures shows a risk of $3.8 million. The risk is primarily comprised $1.4 million for Traffic and Parking violations other than red light cameras, and Alarm Permit fines in the Police District. These variances are based upon analysis of historical results.

Exhibit 7

Fines and Forfeitures
Major Funds
($ Millions)

2011 Actual	2012 Comptroller's Forecast	2013 Proposed Budget	2013 Budgetary Risk	2014 MYP	2015 MYP	2016 MYP
$ 52.5	$ 45.7	$ 62.5	($ 3.8)	$ 69.2	$ 69.2	$ 69.2

2.5 Departmental Revenue

Departmental Revenue is $178.6 million in the 2013 Proposed Budget. We believe that $17.3 million of this amount is at risk.

Based on historical analysis, including the current year projections, Parks Department revenues of $1.9 million are at risk in the proposed budget. In addition, $1.4 million is at risk in the Police District, primarily related to tow truck franchise fees. The Correctional Center is budgeted to receive $5.0 million for housing ICE (Immigrant and Custom Immigration) inmates. We consider this at risk because a contract is not yet in place. The budget also includes increases in Clerk fees of $6.0 million and Assessment fees of $3.0 million. We consider these at risk because legislative approval is needed to implement them.

Exhibit 8

Departmental Revenue
Major Funds
($ Millions)

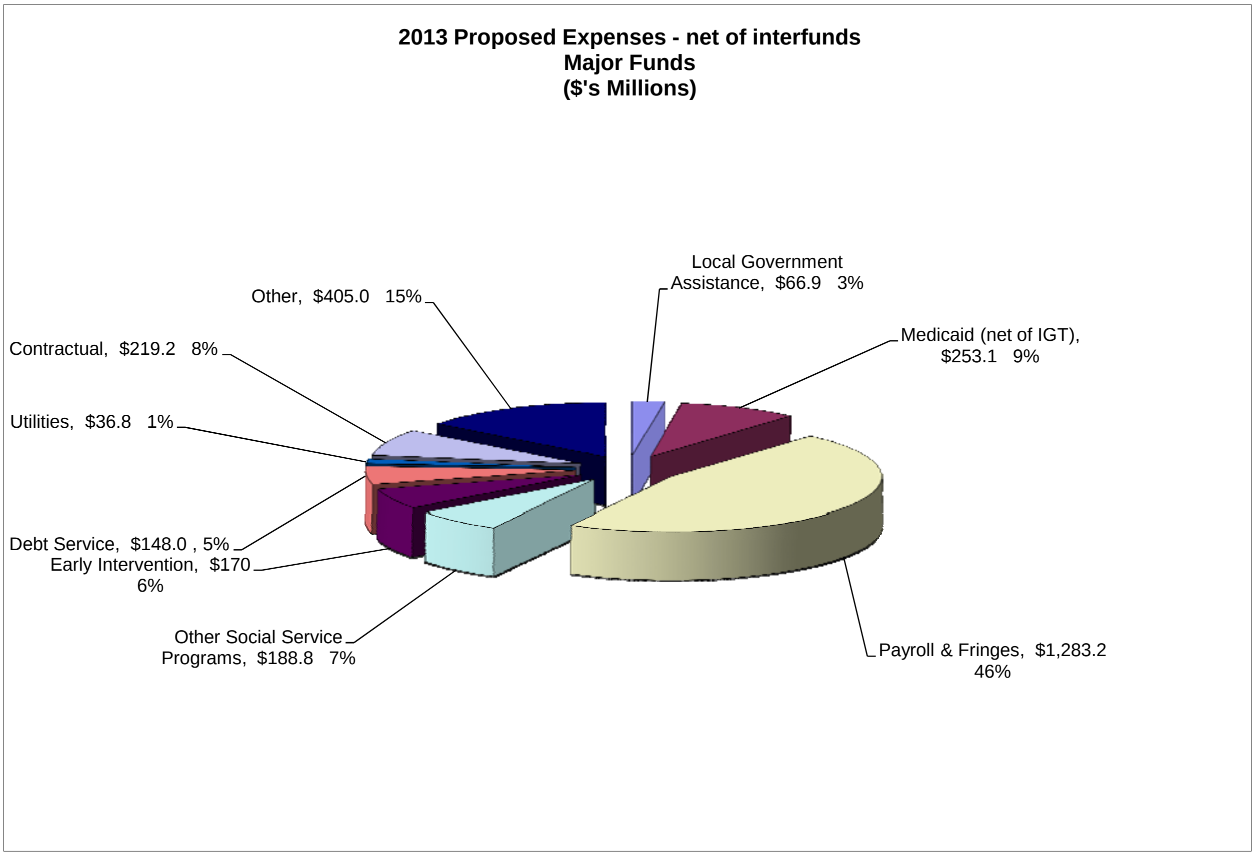
	2011 Actual	2012 Comptroller's Forecast	2013 Proposed Budget	2013 Budgetary Risk	2014 MYP	2015 MYP	2016 MYP
Parks	$ 18.3	$ 18.4	$ 20.3	($ 1.9)	$ 20.3	$ 20.3	$ 20.3
Correctional Center	6.8	6.7	8.3	(5.0)	8.3	8.3	8.3
Clerk	24.5	24.0	30.0	(6.0)	30.0	30.0	30.0
Assessment	0.1	0.1	3.1	(3.0)	5.1	5.1	5.1
Police District	3.7	3.7	3.9	(1.4)	3.9	3.9	3.9
All other Departmental Revenue	62.7	108.2	113.0	0.0	113.0	113.0	111.3
Total	$ 116.1	$ 161.1	$ 178.6	($ 17.3)	$ 180.6	$ 180.6	$ 178.9

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 46% of the budget is attributed to payroll and fringe benefits, by far the highest portion of the budget. The second highest budgeted expense category is Medicaid at 9%.

Exhibit 9



Total Budgeted Expenses
Major Funds
($ Millions)

	2012	**2013**
Total Budgeted Revenue	$ 3,295.6	$ 3,214.6
Less:		
Interfunds between major funds	519.7	443.6
Net Revenue	$ 2,775.9	$ 2,771.0

3.2 Salary and Fringes

The 2013 Proposed Budget assumes a full-time headcount of 7,395, compared to the 7,412 on board at the end of August 2012. The headcount will continue to decrease as a result of the recent voluntary separation programs, layoffs, and attrition. The County headcount is projected by the Administration to be below the Adopted Budget of 7,395 positions by December 31, 2012.

We project a $21.9 million negative variance in Payroll, excluding overtime, primarily due to the Administration assuming that it will be bonding termination pay. This is at risk because legislative and NIFA approvals are required. We also project that budgeted payroll overstates chargebacks to the specific capital projects in the amount of $3.1 million based upon an analysis of historical trends. The negative payroll variances are partially offset by a positive variance related to payments for contractual deferrals of $5.4 million.

We also project that fringes are under budgeted by $2.1 million. This is principally related to health insurance of $1.8 million, $1.4 million in chargebacks to specific capital projects, and $2 million in pension expense. These negative variances are partially offset by a positive projected variance in unemployment expense of $3.4 million.

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

- The wage and step freeze implemented by NIFA is scheduled to expire in March of 2013. The Administration assumes that the NIFA Board will vote to continue this wage and step freeze and has included these savings, approximately $3 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, only $9.6 million is budgeted for termination pay in the 2013 Proposed Budget of the operating funds. It is the Administration's intention to bond termination pay for the Police funds. The Comptroller's Office is projecting termination pay expense for normal attrition of over $32 million for 2013. The potential savings of $22 million is at risk, as the County Legislature and NIFA would have to agree to the County borrowing to pay for anticipated termination pay in the Police funds in 2013.

Based on current expense trends, overtime costs are projected to be $7.3 million over budget in 2013. The expense in excess of budget is primarily comprised of $2.2 million for the Police District Fund and $5.4 million for the Police Headquarters Fund.

Exhibit 10

Payroll & Fringe
Major Funds
($ Millions)

		2012	2013				
	2011 Actual	**Comptroller's Forecast**	**Proposed Budget**	**Budgetary Risk**	**2014 MYP**	**2015 MYP**	**2016 MYP**
Payroll & Fringe	$ 1,269.4	$ 1,253.1	$ 1,257.7	($ 31.3)	$ 1,333.0	$ 1,355.9	$ 1,401.0
Workers Comp	24.4	25.1	25.6	0.0	25.6	25.6	25.6
Total	$ 1,293.8	$ 1,278.2	$ 1,283.3	($ 31.3)	$ 1,358.6	$ 1,381.5	$ 1,426.6

Exhibit 11

Overtime *
($ Millions)

		2012	2013				
	2011 Actual	**Comptroller's Forecast**	**Proposed Budget**	**Budgetary Risk**	**2013 MYP**	**2014 MYP**	**2015 MYP**
Correctional Center	$ 20.7	$ 15.0	$ 16.2	$ 1.1	$ 16.5	$ 16.8	$ 17.1
Police Headquarters	23.0	25.4	20.0	(5.4)	20.4	20.8	21.2
Police Districts	25.3	26.2	24.0	(2.2)	24.5	25.0	25.5
Others	8.6	8.3	7.4	(0.8)	7.9	8.1	8.3
Total Expense	$ 77.6	$ 74.9	$ 67.6	($ 7.3)	$ 69.3	$ 70.7	$ 72.1

*** Overtime amounts included in salaries schedule**

3.3 Property Tax Refunds

The Administration anticipates that the amount budgeted will be more than sufficient to cover either the expenses related to the property tax refund settlement payment plan or the expenses related to borrowing to pay the outstanding property tax refunds. If neither the payment plan for settlements of the claims nor borrowing is an option, then the County will continue to litigate all claims to the fullest extent. Under these assumptions, the amount budgeted will be sufficient to cover any claims that are settled under the payment plan or that have exhausted all their appeals and are converted to money judgments.

Exhibit 12

Property Tax Refunds
Major Funds
($ Millions)

2011 Actual	2012 Comptroller's Forecast	2013		2014 MYP	2015 MYP	2016 MYP
		Proposed Budget	Budgetary Risk			
$ 43.1	$ 16.5	$ 18.0	$ 0.0	$ 36.3	$ 52.8	$ 64.5

The proposed settlement payment plan however, will result in a rapidly growing long-term liability as shown in the table below. Administration needs to ensure that there are provisions in the multi-year plan to deal with this burden.

Exhibit 13

Long Term Property Tax Refund Liability
($'s Millions)

	Bal beg of year	Additions	Payments	Bal end of year
2009	$ 139.0	$ 139.8	$ (114.5)	$ 164.3
2010	164.3	67.4	(79.4)	152.3
2011	152.3	134.7	(64.1)	222.9
2012 est *	222.9	100.0	(16.5)	306.4
2013 est *	306.4	100.0	(18.0)	388.4

* additions represent commercial property tax refunds only

4.0 The Multi-Year Financial Plan

The Administration's financial plan projects budget baseline gaps of $66.8 million in 2014, $74.1 million in 2015, and $91.9 million in 2016. We estimate that the out-year gaps may be larger and could rise to $85.1 million in 2014, $114.5 million in 2015 and $163.5 million for 2016.

The plan to close the projected gaps in the out years contains significant risk:

- Increases in various revenues, such as Fines & Forfeitures, appear overstated. Sales Tax appears to have been aggressively budgeted.

- There is uncertainty on the approval by the State of speed cameras.

- In 2015 and 2016, there is no provision for the historic mission payment to NHCC. Even though the contract will be ending, prudence assumes that NHCC may 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 $40 million in 2014 and 2015 and debt savings of $20 million for 2016 have many obstacles. 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 would require State approval.

- Payroll and fringe expense savings in 2016 are optimistic.

Exhibit 14

PROPOSED NASSAU COUNTY 2013-2016
MULTI-YEAR FINANCIAL PLAN
MAJOR FUNDS
SUMMARY OF FUTURE YEAR RISKS and OPPORTUNITIES
($'s Millions)

	2014	2015	2016
Baseline Gap per Financial Plan (before Gap Closing Measures)	**$ (66.8)**	**$ (74.1)**	**$ (91.9)**
Items included in Baseline Gap that are at risk			
Payroll & Fringe			(22.1)
Fines & Forfeitures	(8.7)	(8.6)	(14.7)
Sales Tax	(19.6)	(30.8)	(43.8)
NHCC Mission Payment		(13.0)	(13.0)
Gap Closing Measures			
Sale of Surplus County Property	5.0	5.0	5.0
Increase in Ticket fines			8.0
Elimination of MTA Payroll Tax	3.0	3.0	3.0
Value of New Construction	2.0	4.0	6.0
Net Baseline Gap	**$ (85.1)**	**$ (114.5)**	**$ (163.5)**

	2014	2015	2016
Gap Closing Measures Considered at Risk			
Financing Options/Asset Sales			
Public Private Partnership (Sewer System)	$ 40.0	$ 40.0	
Public Private Partnership (Estimated savings from debt defeasance)			$ 20.0
Sub-Total Financing Options/Asset Sales	40.0	40.0	20.0
Expense/Revenue Actions			
NYS Actions			
Elimination of MTA Station Maintenance	30.0	31.0	32.0
Speed Cameras at Schools and Red Light Camera Locations	8.0	12.0	12.0
Efficiencies in Early Intervention/Special Education	10.0	10.0	10.0
Sub-Total NYS Actions	48.0	53.0	54.0
Other			
Labor Concessions			40.0
Strategic Sourcing & ERP Implementation	12.0	12.0	12.0
Total Gap Closing Measures at Risk	**$ 100.0**	**$ 105.0**	**$ 126.0**

5.0 Fund Balance Policy

The County’s fund balance policy was adopted by the Legislature in 2005 and it is re-submitted to the Legislature as part of the 2013 Budget. 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). Fund balance provides taxpayers with a cushion against unexpected negative events.

If unreserved fund balance falls below that level for two years, the policy provides that the County will replenish the fund balance over the next four years. 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.

The County fund balance has remained below the threshold of 4% for at least the past five years. The 2013 Proposed Budget risks further depletion of the fund balance.

6.0 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 $257 million, which is guaranteed by the County. Of this debt, approximately $247 million is tied to variable rates.

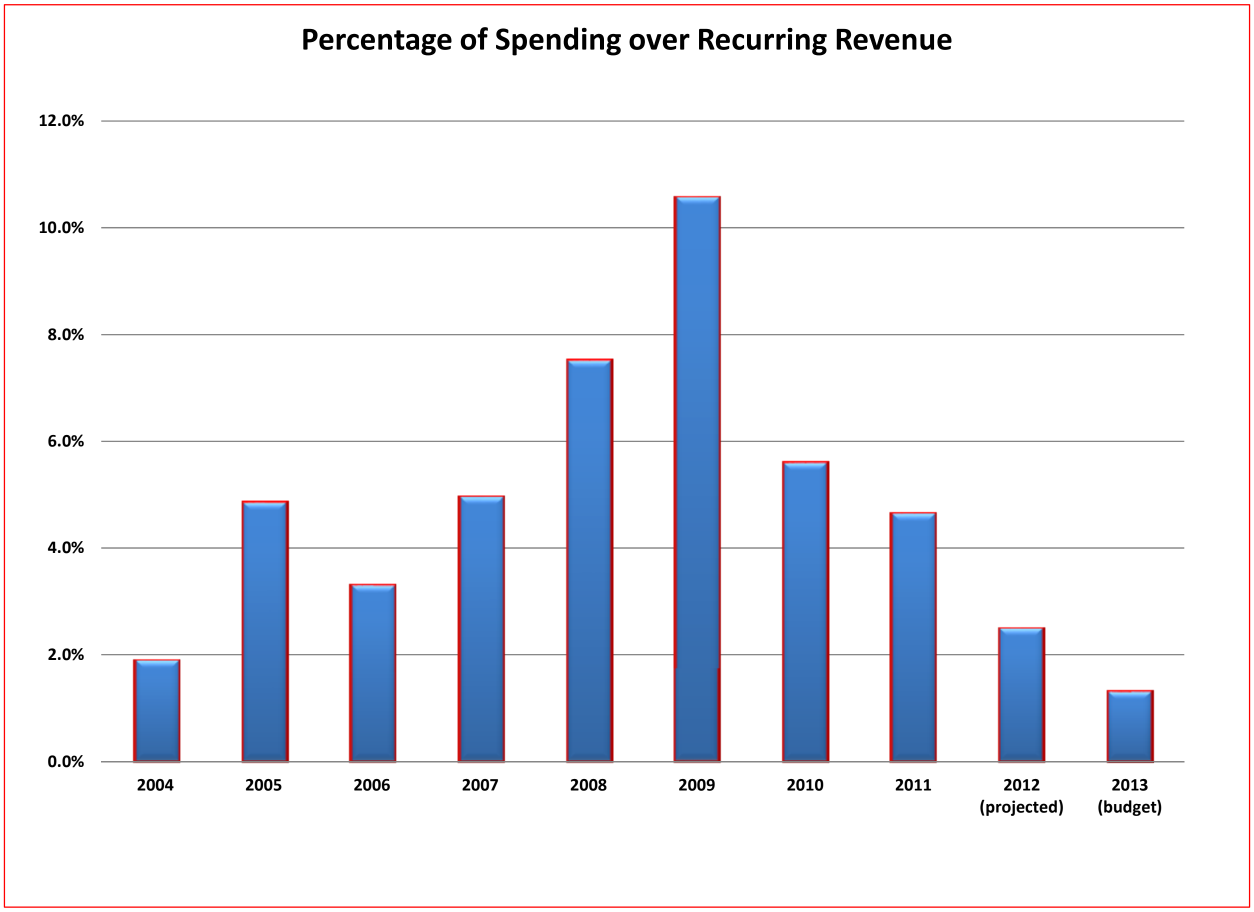
The financial condition of the hospital is considered stable but tenuous. It will continue to face increasing challenges due to uncertainty in the health care environment, its funding sources, New York State cutbacks of its funding streams and greater demands for its services. NHCC is addressing these issues by reducing expenses through rightsizing its organization and exploring clinical and billing integration with larger hospital chains. The hospital’s financial performance will require monitoring by the County and the NHCC management to ensure that services can be offered where needed without additional demands on the County taxpayers.

7.0 Major County Financial Trends

7.1 Revenues and Expense Divergence

The chart below vividly illustrates the progress achieved by the Mangano Administration in bringing expenses in line with revenues. The chart shows the percentage of spending over recurring revenue in each year. The County's overspending increased every year, except 2006, and reached a critical point in 2009, under the Suozzi Administration, exceeding 10% of recurring revenues. This trend was reversed beginning in 2010 by the Mangano Administration and reduced every year to a ten-year low of just 1.3% over the 2013 projected budgeted recurring revenues.

Exhibit 15



7.2 Budgetary Structural Gap Trend

The County has historically used the Structural Gap as a metric to illustrate fiscal health. It measures the imbalance between recurring operating revenues and expenses. The Structural Gap is not the same as a budgetary deficit. Structural gaps can only be narrowed by reducing recurring expenses or by increasing recurring revenues. When the County balances its budget by using non-recurring revenues, such as drawing down reserves or borrowing for operating expenses, it does not reduce the structural gap.

The chart below shows the significant progress achieved in reducing the County Structural Gap. The proposed 2013 budget will reduce further the Structural Gap to a nine-year low of approximately $34.8 million. This progressive improvement is attributed to the strict expense controls instituted by the Mangano Administration, reduced borrowing and the wage freeze imposed by NIFA.

Exhibit 16

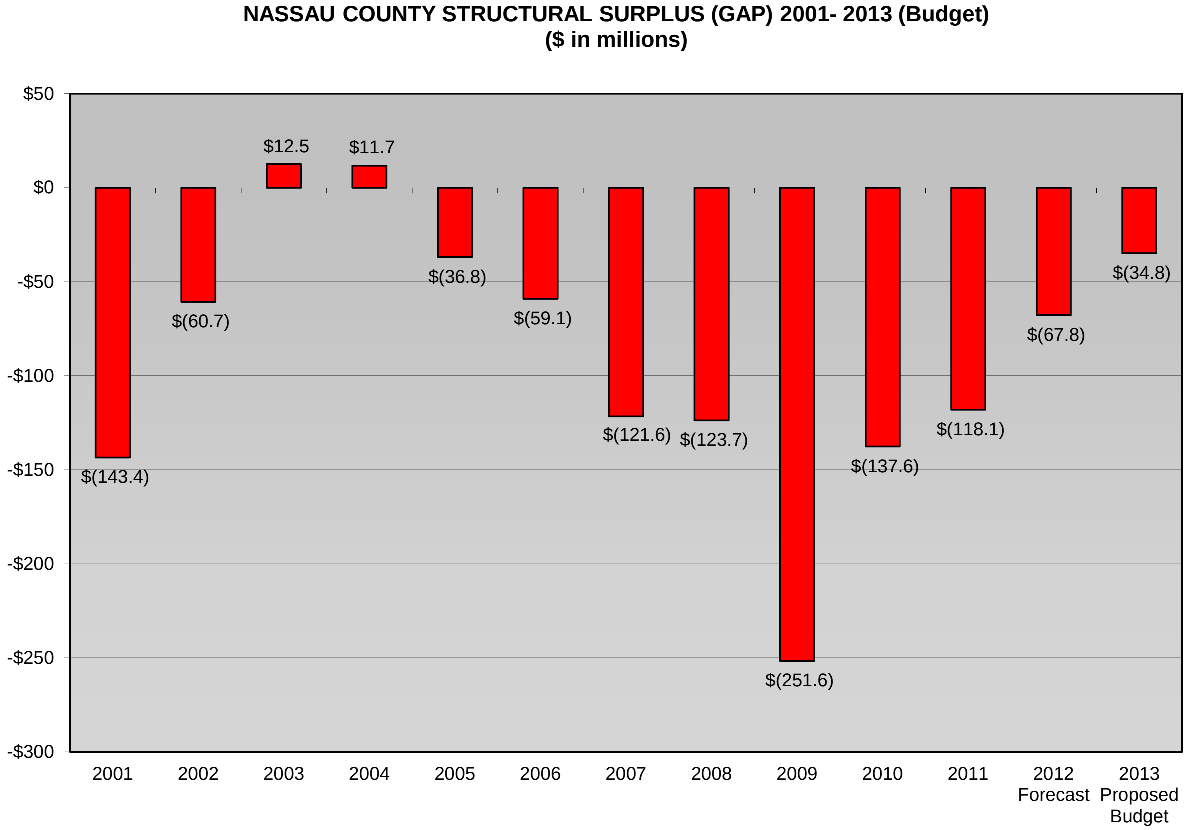


Exhibit 17

Nonrecurring Revenues and Expenses
Major Funds
2007 - 2013
($ Millions)

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Forecast	2013 Proposed Budget
Use of Reserves	$ 49.4	$ 26.4	$ 0.5	$	$	$ 10.4	$
Use of Fund Balance	43.6	17.9	10.0				10.0
Tobacco Related	23.6	23.0	15.2				
Nonrecurring							
Federal Medical Assistance Percentages (FMAP)			44.8	45.1	22.4		
Amortization of the Pension Bill						38.8	
Residential Energy Tax			21.9	17.3			
Payroll Deferrals & Lag			60.1	17.2	(5.7)	(7.3)	(1.9)
Bonding for Budgeted Termination Pay			34.5	26.8			22.0
Use of borrowed funds to pay property tax refunds in excess of budget	12.0	58.8	64.5	42.5	21.0		
Mitchell Field Securitization					37.4		
Net Bulk Lein Sale					(7.4)		
NIFA Debt Restructuring							4.7
NIFA Restatement				15.3			
Excess cash in MTA projects	17.4						
Total	$ 146.0	$ 126.1	$ 251.5	$ 164.2	$ 67.7	$ 41.9	$ 34.8

7.3 Borrowing Trends

The County typically bonded each year for capital projects, property tax refund payments, termination pay, and judgments and settlements. NIFA no longer permits the County to borrow for property tax refunds or termination pay, except in special circumstances. The exhibit below shows the significant progress in reducing the County's reliance on borrowing.

Exhibit 18