NASSAU COUNTY
OFFICE OF THE COMPTROLLER

COMPTROLLER'S COMMENTS AND RECOMMENDATIONS ON THE PROPOSED NASSAU COUNTY 2014 BUDGET AND MULTI-YEAR FINANCIAL PLAN

George Maragos
Nassau County Comptroller

October 9, 2013

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OFFICE OF THE COMPTROLLER

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1.0 Executive Summary

The County's economy has weathered one of the worst recessions in recent history and the devastation of Superstorm Sandy. The County unemployment rate has dropped to 5.9%, one of the lowest in the State, while the biggest source of County revenues, sales tax, is projected to be up 7.2% in fiscal 2013 or a $72 million increase over 2012. Further economic growth and sales tax revenue growth is anticipated during 2014. This is in contrast to just two years ago when the County was faced with an environment of continuing economic uncertainty, high unemployment, and continuing marginal revenue growth.

The Mangano Administration should be commended for its proposed $2.8 billion budget for fiscal 2014. The budget contains, for the 4th consecutive year, a no-property tax increase and reduces spending marginally by approximately $1 million when compared to the 2013 Adopted Budget.

On the basis of the proposed budget, we project a budgetary surplus of $28 million. We are concerned, however, that only $10 million has been budgeted for property tax refunds paid from operations, when the average payout over the last four years was approximately $63 million annually. The $28 million of projected budgetary surplus is due in most part to increased Sales Tax due to a conservative budget and lower payroll expense assuming the current on board headcount.

We strongly urge the Administration to return to annually paying at least $50 million of property tax refunds with recurring revenues. This amount approximates the annual running average payout for 2010 through 2012 and should be adequate given the ongoing improvements with the four year cycling assessment system and efforts to resolve most residential grievances prior to the roll becoming final.

We also recommend that the Administration forgo the proposed borrowing of $230 million to pay down the estimated long term liability and reduce this borrowing to about $50 million annually (not to exceed $230 million in aggregate borrowing allowed by NIFA) as part of a longer term plan to wind down the outstanding liability and move to 100% PAYGO. Furthermore, since the County fund balance is approaching the threshold established by the legislature, we urge for future budget surpluses be set aside to pay down the long term certiorari liability in lieu of borrowing and to ensure continued funding for non-profits and the Youth Board.

The additional $40 million for property tax refunds, as well as approximately $26 million in estimated employee hiring over attrition costs, represent a risk to the budget of approximately $66 million. This risk may be mitigated by the potential for higher sales tax revenues above the conservatively budgeted amount, thus reducing the additional budgetary risk to $45 million, leaving a gap of approximately $17 million after the additional risks and opportunities. We recommend that additional expense reduction opportunities be identified in areas such as Workers Compensation expenditures in order to eliminate the potential $17 million budgetary gap.

Reducing the annual borrowing to $50 million for property tax refunds would help continue the trend improving fiscal fundamentals. On a NIFA presentation basis, the projected year-end result would improve to negative $84.3 million or a 30% improvement over our 2013 Mid-Year Report projection and would be a 54% improvement from 2009. Additionally, with the reduced borrowing, the County's Structural Gap will improve by approximately 68% from the prior Administration's 2009 peak of about $252 million (see Exhibit 17). **Sustaining these positive trends will not be possible, and will actually be reversed, with the higher level of property tax refund borrowing contained in the 2014 Proposed Budget.**

The 2014 Proposed Budget also includes borrowing of $150 million in capital improvements, $17 million for Judgments and Settlements, and $526 million for Superstorm Sandy related recovery. The borrowing for the Sewer and Storm Water District Fund of $50 million is customarily excluded from the new money borrowing analysis in the County's primary funds.

The Superstorm Sandy related short-term borrowing is excluded from the new money borrowing analysis as the Administration expects the bond anticipation notes will be for Sewer and Storm Water District capital projects that are believed eligible for FEMA reimbursement. This borrowing should not be undertaken, however, without prior reasonable assurance that it will meet the FEMA requirements for reimbursement. Exhibit 19 shows the projected new money borrowing excluding Sewer and Storm Water District related borrowing and illustrates the on-going control of borrowing.

The Administration must be mindful of the fund balance policy as it manages the budget (see section 5.0). The County's fund balance, at $82 million ($53.3 million excluding the Police District Fund) at the end of 2012, is 28% higher than when the Mangano Administration assumed office; however, it is still below the adopted policy of at least 4% of the prior year's normal recurring expenses, less inter-funds (excluding the Police District Fund) or $92.6 million excluding the Police District Fund.

The out years in the multi-year plan, beginning with 2015, include unaccounted for risks relating to the wage freeze. The multi-year plan assumes the wage freeze through 2015, and step increases in the last two years; however, the disposition of the wage freeze litigation and its timing, could significantly impact the multi-year plan. In addition, property tax refunds projected of $30 million per year beginning with 2015 appear low if the County is to substantially tackle the growing property tax refund liability. Offsetting these risks are also opportunities for higher sales tax revenues due to the recovering economy, lower labor cost from productivity improvements through deployment of new technologies and improvements in expense controls.

Exhibit 1

PROPOSED NASSAU COUNTY 2014 BUDGET
MAJOR FUNDS
SUMMARY OF RISKS and OPPORTUNITIES
($'s Millions)

Revenues		
Proposed Budget - net of interfunds	**$2,769.8**	
Use of Fund Balance	(10.0)	
Sales Tax	6.6	
Fines & Forfeitures	(1.2)	
Departmental Revenue	(3.2)	
Federal Aid	(1.5)	
Other	(0.1)	
Total Revenue Risk		**$ (9.4)**
Expenses		
Proposed Budget - net of interfunds	**2,769.8**	
Payroll And Fringe (On Boards), excluding overtime	23.3	
Overtime	2.7	
Budgeted Contingency	12.0	
Other	(0.6)	
Total Expense Opportunity		**37.4**
Estimated Budget Opportunity excluding Additional Risks & Opportunities		**$ 28.0**

	Police District	Other Funds	Total
Estimated Budget Opportunity by Taxpayer Base	**$ 2.5**	**$ 25.5**	**$ 28.0**
Additional Risks & Opportunities*			
Additional Property Tax Refund Expense		(40.0)	(40.0)
Net Effect of Employee Hiring and Attrition	(3.0)	(23.0)	(26.0)
Additional 2% increase in Sales Tax	-	21.0	21.0
Budget Risk after Additional Risks & Opportunities	**$ (0.5)**	**$ (16.5)**	**$ (17.0)**

*additional risks of lifting of wage freeze/disposition of wage freeze lawsuit is undetermined at this time

Exhibit 2

County Financial Results on a NIFA Prescribed Presentation Basis
2009 - 2014 (projected)*

BUDGETARY RESULTS 2009 - 2014 (projected)*
($'s millions)

	2014 (projected)	2013 (Mid-Year Report)	2012	2011	2010	2009
Surplus (Deficit) on a Budgetary Basis	**$28.0**	**$5.6**	**$41.5**	**($50.4)**	**$26.6**	**($0.1)**

CALCULATION OF NIFA PRESCRIBED PRESENTATION BASIS 2009 - 2013*
($'s millions)

	2014 (projected)	2013 (Mid-Year Report)	2012	2011	2010	2009
Net Change in Fund Balance - modified accrual basis	$21.8	$5.6	$28.8	($85.6)	$26.6	$11.2
Less: adjustments included in other financing sources						
Premium on bonds	7.2	5.6	8.4	9.3	28.4	27.0
Investment income	0.9	2.1	1.1	1.6	1.0	1.2
Borrowed funds to pay Property Tax Refunds**	50.0	40.0	14.7	21.0	42.5	64.5
Borrowed funds to pay Other Judgments	17.1	49.3	20.0	4.6	30.4	11.5
Borrowed funds to pay Termination Pay		4.7	33.1	17.7	80.0	77.7
Transfer of revenue from other funds to offset debt expense	30.9	23.5	37.0	33.6	17.3	13.6
Total other financing sources/uses to be eliminated	106.1	125.2	114.3	87.8	199.6	195.5
NIFA Prescribed Presentation Basis	**($84.3)**	**($119.6)**	**($85.5)**	**($173.4)**	**($173.0)**	**($184.3)**

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

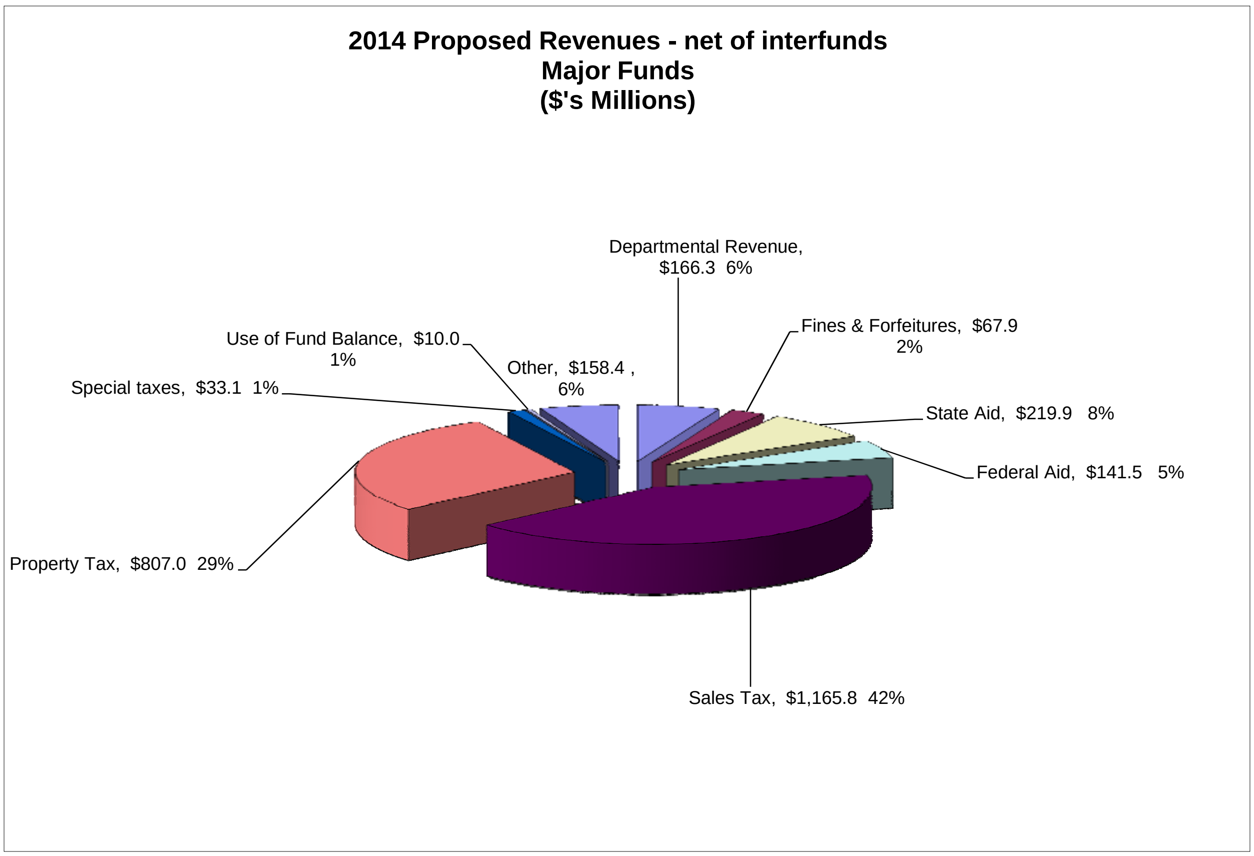
** Revised borrowing projection from $230 million to $50 million

2.0 Discussion of Revenues

2.1 Major Revenue Sources

Sales Tax is the major revenue source for the County, accounting for 42% of revenue, followed by Property Tax at 29%, and State and Federal Aid at about 13%. 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)

	2013	2014
Total Budgeted Revenue	$ 3,213.2	$ 3,207.6
Less:		
Interfunds between major funds	442.4	437.8
Net Revenue	$ 2,770.8	$ 2,769.8

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 $12 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)

2012 Actual	2013 Comptroller's Mid-Year Report Forecast	2014 Proposed Budget	2014 Budgetary Risk	2015 MYP	2016 MYP	2017 MYP
$ 0.0	$ 10.0	$ 10.0	($ 10.0)	$ 0.0	$ 0.0	$ 0.0

2.3 Sales Tax

Sales Tax, at approximately 42% of budgeted revenues net of inter-fund transfers, is the County’s largest revenue source.

The proposed budget projects that the County will receive $1,161.5 million in 2014 sales tax (excluding deferred revenues), an increase of 1.2% over our projection for 2013. We project conservatively a growth of 2% and with an opportunity for 4% growth with continued improvement in the economy. Consequently, we forecast sales tax to be $9.4 million (excluding the deferred sales tax variance of $2.8 million) over budget for 2014, as shown in the exhibit below with an additional opportunity of $21 million.

Exhibit 5

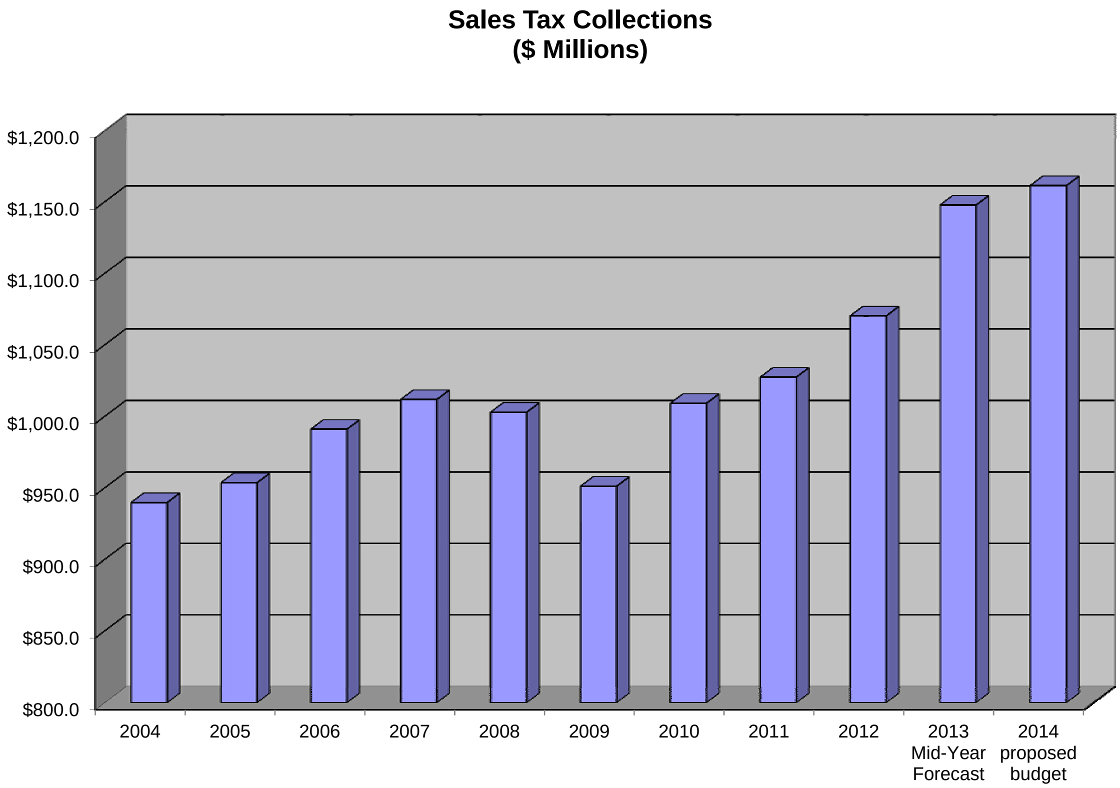


Exhibit 6

Sales Tax (Gross Receipts)
($ Millions)

	2012	2013 Comptroller's Mid-Year Report Forecast	2014 Proposed Budget	2014 Budgetary Opportunity	2015 MYP	2016 MYP	2017 MYP
Sales Tax *	$ 1,070.4	$ 1,147.9	$ 1,161.5	$ 9.4	$ 1,196.3	$ 1,232.2	$ 1,269.2

* Excludes deferred portion of sales tax

2.4 Fines & Forfeitures

Our analysis of the proposed budget for Fines & Forfeitures shows a risk of $1.2 million. The risk is primarily Alarm Permit fines in the Police District. This variance is based upon analysis of historical results.

Exhibit 7

Fines and Forfeitures
Major Funds
($ Millions)

2012 Actual	2013 Comptroller's Mid-Year Report Forecast	2014 Proposed Budget	2014 Budgetary Risk	2015 MYP	2016 MYP	2017 MYP
$ 44.1	$ 58.0	$ 67.9	($ 1.2)	$ 67.4	$ 67.4	$ 67.4

2.5 Departmental Revenue

Departmental Revenue is $166.3 million in the 2014 Proposed Budget. We believe that $3.2 million of this amount is at risk.

Based on historical analysis, including the current year projections, Correctional Center revenues of $0.4 million for housing Suffolk County inmates is at risk in the proposed budget. In addition, $1.2 million is at risk in the Police District, primarily related to tow truck franchise fees. The budget also includes risk for Assessment Department GIS Tax Map fees of $1.5 million.

Exhibit 8

Departmental Revenue
Major Funds
($ Millions)

	2012 Actual	2013 Comptroller's Mid-Year Report Forecast	2014 Proposed Budget	2014 Budgetary Risk	2015 MYP	2016 MYP	2017 MYP
Correctional Center	$ 6.7	$ 2.8	$ 3.2	($ 0.4)	$ 2.7	$ 2.7	$ 2.7
Assessment	0.1	0.1	1.6	(1.5)	1.6	1.6	1.6
Police District	3.0	2.7	3.9	(1.2)	3.9	3.9	3.9
All other Departmental Revenue	155.7	161.1	157.6	(0.1)	157.7	157.7	157.7
Total	$ 165.5	$ 166.7	$ 166.3	($ 3.2)	$ 165.9	$ 165.9	$ 165.9

2.6 Federal Aid

Federal Aid Revenue is $141.5 million in the 2014 Proposed Budget. We believe that $1.5 million of this amount related to housing federal inmates in the Correctional Center is at risk.

Exhibit 9

Federal Aid
Major Funds
($ Millions)

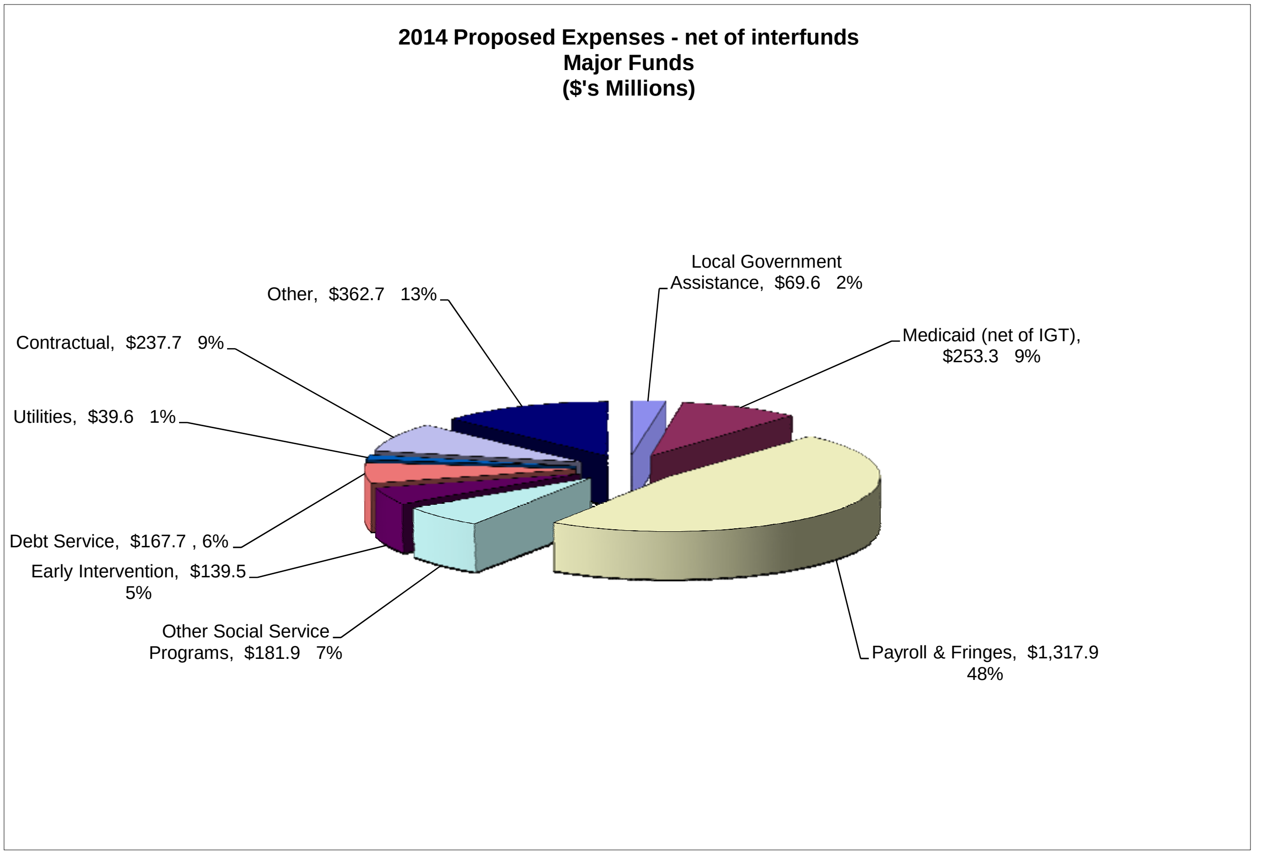
2012 Actual	2013 Comptroller's Mid-Year Report Forecast	2014 Proposed Budget	2014 Budgetary Risk	2015 MYP	2016 MYP	2017 MYP
$ 166.3	$ 145.8	$ 141.5	($ 1.5)	$ 141.5	$ 141.5	$ 141.5

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 48% 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 10



Total Budgeted Expenses Major Funds ($ Millions)				
		2013		2014
Total Budgeted Revenue	$	3,213.2	$	3,207.6
Less:				
Interfunds between major funds		442.4		437.8
Net Revenue	$	2,770.8	$	2,769.8

3.2 Salary and Fringes

The 2014 Proposed Budget assumes a full-time headcount of 7,395.

We project a $15.9 million positive variance in Payroll, excluding overtime. Based on the 7,326 on-board full-time employees as of the Comptroller's July Projections, the 2014 Proposed Budget is sufficiently funded. The Administration intends to hire full-time employees to reach the projected headcount level of 7,395. We also project that Fringes are over budgeted by $7.4 million. This is principally related to savings in health insurance of $3.8 million, $2.7 million in FICA expense, and $1.1 million in unemployment expense.

However, these positive variances are contingent on the following:

- The wage and step freeze implemented by NIFA is scheduled to expire in March of 2014. The Administration assumes that the NIFA Board will vote to continue this wage and step freeze and has included these savings in the 2014 Proposed Budget. NIFA has not indicated what action it will take.

- The 2014 Proposed Budget does not include any costs related to the settlement of litigation between the County and its bargaining units regarding the wage freeze. Although the County and two of the bargaining units have reached a tentative settlement agreement, as of the date of this report, this item is a risk since it is contingent upon approval from the County Legislature, NIFA and the bargaining unit members.

Although overtime is projected to reach $60 million in the two police funds in 2013, the Administration intends to begin hiring and to increase the full time headcount. This increase in headcount combined with a lowering of the average salary due to the lower starting salary, should be sufficient for the Administration to achieve the budgeted reduction in overtime in the two police funds.

Based on current expense trends, overtime costs are projected to be $2.7 million under budget in 2014 for the major funds. The positive variance from budget is primarily due to $1.9 million in the Correctional Center.

Exhibit 11

Payroll & Fringe
Major Funds
($ Millions)

	2012 Actual	2013 Comptroller's Mid-Year Report Forecast	2014 Proposed Budget	2014 Budgetary Opportunity	2015 MYP	2016 MYP	2017 MYP
Payroll & Fringe	$ 1,241.5	$ 1,254.3	$ 1,289.9	$ 26.0	$ 1,309.7	$ 1,350.8	$ 1,384.1
Workers Comp	24.8	25.5	28.0	0.0	28.1	28.0	28.0
Total	$ 1,266.3	$ 1,279.8	$ 1,317.9	$ 26.0	$ 1,337.8	$ 1,378.8	$ 1,412.1

Exhibit 12

Overtime *
($ Millions)

	2012 Actual	2013 Comptroller's Mid-Year Report Forecast	2014 Proposed Budget	2014 Budgetary Opportunity	2015 MYP	2016 MYP	2017 MYP
Correctional Center	$ 15.7	$ 13.8	$ 16.2	$ 1.9	$ 16.5	$ 16.8	$ 17.1
Police Headquarters	24.2	27.1	25.0	0.0	25.5	26.0	26.5
Police Districts	25.7	33.3	25.0	0.0	25.5	26.0	26.5
Others	7.2	7.4	8.2	0.8	8.4	8.6	8.8
Total Expense	$ 72.8	$ 81.6	$ 74.4	$ 2.7	$ 75.9	$ 77.4	$ 78.9

*** Overtime amounts included in salaries schedule**

3.3 Property Tax Refunds

According to the 2014 Proposed Budget, the Administration expects to pay $10 million of property tax refunds from operations and originally projected to request bonding of $230 million to help pay down the outstanding backlog. While it is prudent to budget property tax refunds paid from operations, we recommend that, with the additional revenue that we project for Sales Tax revenues, the Administration increase the payment of these refunds from operations to $50 million. However, since we did not risk the incremental $40 million except as an additional risk, it is not reflected in the exhibit below.

We strongly urge the Administration to return to annually paying at least $50 million of property tax refunds with recurring revenues.

Exhibit 13

Property Tax Refunds
Major Funds
($ Millions)

2012 Actual	2013 Comptroller's Mid-Year Report Forecast	2014 Proposed Budget	2014 Budgetary Risk	2015 MYP	2016 MYP	2017 MYP
($ 7.0)	$ 48.0	$ 10.0	$ 0.0	$ 30.0	$ 30.0	$ 30.0

The Exhibit below illustrates the projected long-term property tax refund liability balance as of year-end 2014, assuming $50 million of refunds are paid from operations, $50 million of refunds are paid from borrowed funds and an additional $50 million of commercial property tax refunds are added.

Although the Administration projected borrowing $230 million to pay off a portion of the long-term liability, we strongly urge the Administration to return to annually paying at least $50 million of property tax refunds with recurring revenues. Through PAYGO and smaller annual borrowings, a schedule should be set up to pay off the growing liability. Therefore, Exhibit 14 includes a projected payment in 2014 of $100 million of property tax refunds, $50 million of property tax refunds paid from operations and $50 million paid with borrowed funds.

Exhibit 14

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	222.9	83.8	(9.5)	297.2
2013 est *	297.2	70.0	(88.0)	279.2
2014 est *	279.2	50.0	(100.0)	229.2

* additions represent commercial property tax refunds only

4.0 The Multi-Year Financial Plan

As shown in Exhibit 15, the Administration's financial plan projects budget baseline gaps of $32.3 million in 2015, $48.5 million in 2016, and $51.3 million in 2017. We estimate out-year gaps of $9.3 million in 2015, $33.5 million in 2016 and $52.9 million for 2017. These estimates do not include a possible impact from the wage freeze litigation. Our estimates are based on current on board headcount without hiring or attrition,

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

- We see potential for lower payroll and fringes if the Administration's hiring and attrition plans are different than projected.
- We see a potential risk related to the Multi-Year Financial Plan having forecasted the wage freeze through 2015. While step increases have been projected in 2016 and 2017, we are risking an additional 2% cost of living adjustment for those years. If the wage freeze is lifted prior to 2016, the effect will be cumulative through the out years.
- Sales Tax appears to be somewhat conservative. The Multi-Year Financial Plan projects 3% growth in sales tax revenue, however it is based on a lower starting base. Our estimates, which start with a higher base, are also computed at 3% growth.
- We foresee a risk in Property Tax Refund expense; the Multi-Year Financial Plan projects $30 million of PAYGO per year beginning in 2015. Our recommendation is to increase this amount to $50 million in order to contain any growth in the property tax refund liability.
- The Multi-Year Financial Plan does not include a 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.
- Mandate reform would require legislation that we consider a risk
- There is uncertainty on the approval by the State of speed cameras.
- We consider a risk in implementing Video Lottery Terminals.
- The assumption that New York State will absorb any increasing in Medicaid since the County's cap ends in 2014. We consider the out years to be at risk for additional Medicaid expense.

The disposition of the litigation regarding the property tax guarantee will affect the County's property tax refund liability depending on whether the County's abolishment of the guarantee stands.

Exhibit **15**

PROPOSED NASSAU COUNTY 2014-2017
MULTI-YEAR FINANCIAL PLAN
MAJOR FUNDS
SUMMARY OF FUTURE YEAR RISKS and OPPORTUNITIES
($'s Millions)

	2015	2016	2017
Baseline Gap per Financial Plan (before Gap Closing Measures)*	**$ (32.3)**	**$ (48.5)**	**$ (51.3)**
Items included in Baseline Gap that are risks/opportunites			
Payroll & Fringe	33.4	19.1	2.1
Sales Tax	9.6	9.9	10.3
NHCC Mission Payment	(13.0)	(13.0)	(13.0)
Property Tax Refunds	(20.0)	(20.0)	(20.0)
Gap Closing Measures			
Sale of Surplus County Property	5.0	5.0	5.0
Office Consolidation	3.0	7.0	7.0
Improve Detainee to Staff Ratio at Correctional Center	3.0	5.0	5.0
207 C Reform	2.0	2.0	2.0
Net Baseline Gap	**$ (9.3)**	**$ (33.5)**	**$ (52.9)**

	2015	2016	2017
Gap Closing Measures Considered at Risk			
NYS Actions			
Mandate Reform	10.0	10.0	10.0
Other NYS Initiatives (e.g. speed cameras, etc)	8.0	12.0	12.0
Sub-Total NYS Actions	18.0	22.0	22.0
Other			
Video Lottery Terminals	19.0	19.0	20.0
Total Gap Closing Measures at Risk	**$ 37.0**	**$ 41.0**	**$ 42.0**

*includes debt service for the proposed $230 million in tax cert borrowing related to property tax refunds

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 2014 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's fund balance, at $82 million ($53.3 million excluding the Police District Fund) at the end of 2012, is 28% higher that when the Mangano Administration assumed office; however, it is still below the adopted policy of at least 4% of the prior year's normal recurring expenses, less interfunds (excluding the Police District Fund) or $92.6 million excluding the Police District Fund.

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 $252 million, which is guaranteed by the County. Of this debt, approximately $247 million is tied to variable rates.

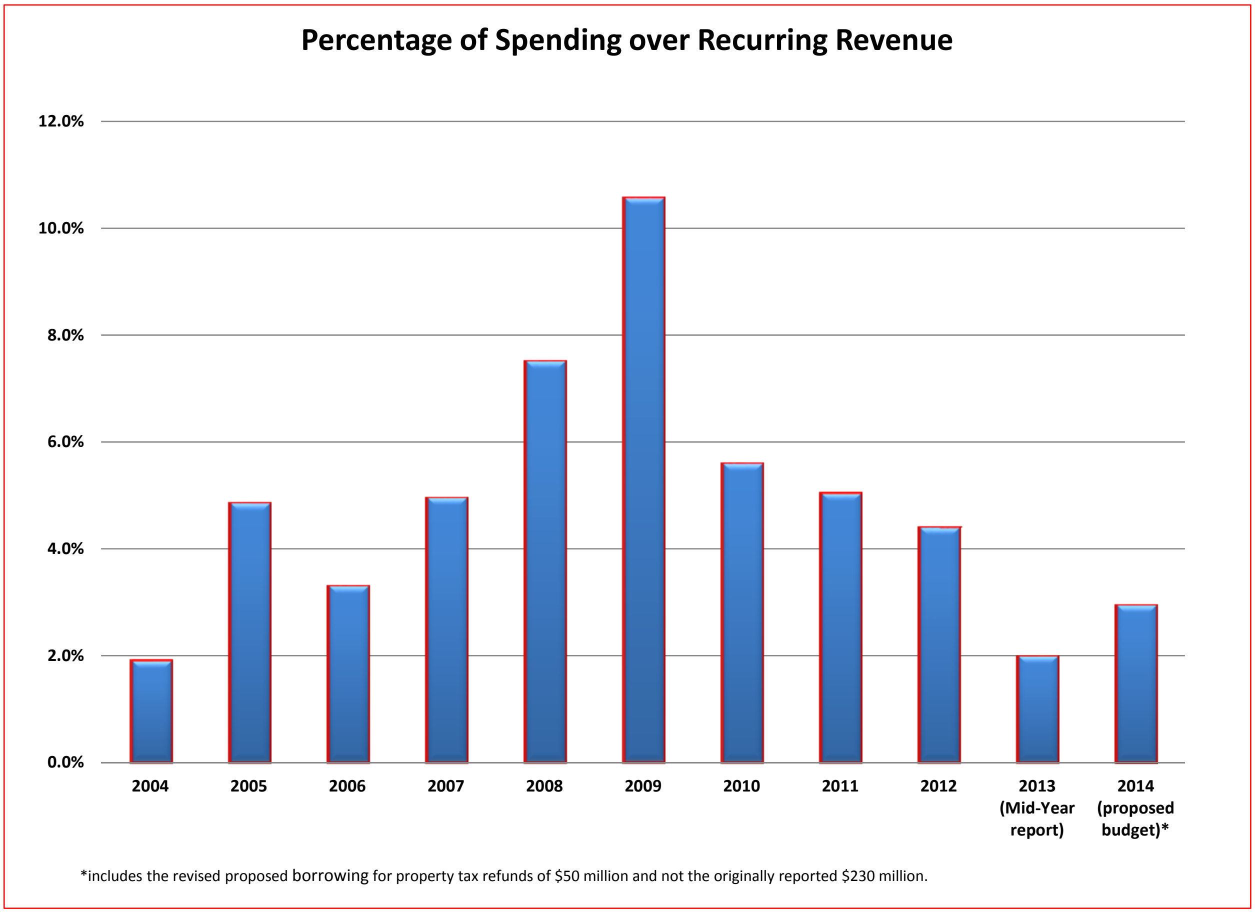
The financial condition of the hospital is considered stable but tenuous. It will continue to face increasing challenges due to uncertainty in the health care environment, its funding sources, New York State cutbacks of its funding streams and greater demands for its services. NHCC is addressing these 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 illustrates the progress achieved by the Mangano Administration in bringing expenses in line with revenues. The chart shows the percentage of recurring 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 2% over the 2013 projected budgeted recurring revenues. The percentage is proposed to increase to 2.9% in 2014.

Exhibit 16



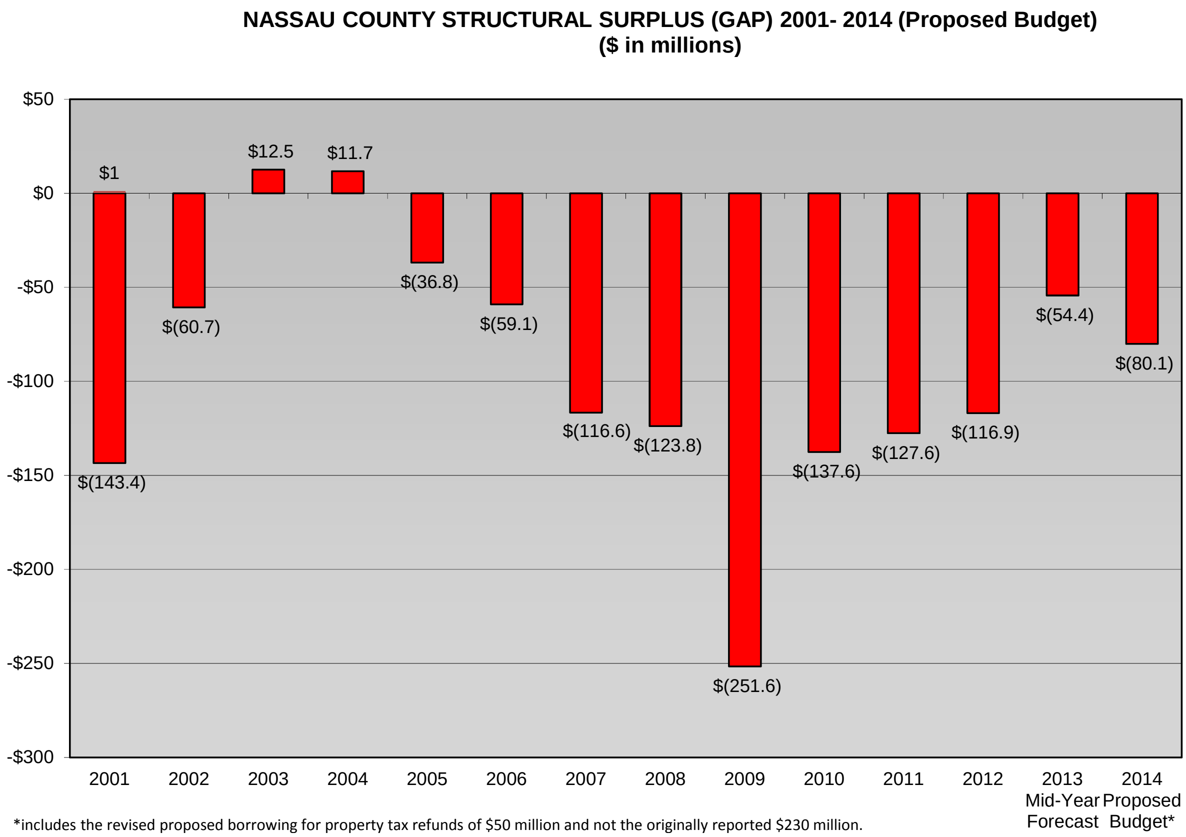
7.2 Budgetary Structural Gap Trend

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's Structural Gap through 2013. The improvement in the Structural Gap was attributed to the strict expense controls instituted by the Mangano Administration, reduced borrowing and the wage freeze imposed by NIFA. The 2013 forecasted Structural Gap assumes that the 2012 forbearance of the $88 million of property tax refunds will be paid in 2013; if these refunds are not paid, the Structural Gap will increase by this amount.

The proposed 2014 budgeted Structural Gap includes our recommendation that the Administration revise the property tax refund expense to $50 million to be paid with proposed borrowing. This is in addition to the $10 million in the budget for 2014 and an additional $40 million recommended to be paid from operating expenses.

Exhibit 17



*includes the revised proposed borrowing for property tax refunds of $50 million and not the originally reported $230 million.

Exhibit 18

Nonrecurring Revenues and Expenses
Major Funds
2007 - 2014 (Proposed Budget)
($ Millions)

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Comptroller's Mid-Year Report	2014 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	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)	(6.1)
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	42.5	21.0	14.7	40.0	50.0
Property Tax Refund Forbearance						88.7		
Mitchell Field Securitization					37.4			
Net Bulk Lein Sale					(7.4)			
NIFA Debt Restructuring						1.3	5.9	23.0
NIFA Restatement				15.3				
Sale of County Property					9.5	11.8	6.0	3.2
Excess cash in MTA projects	17.4							
Total	$ 146.0	$ 126.1	$ 251.5	$ 164.2	$ 77.2	$ 158.4	$ 60.0	$ 80.1

*includes the revised proposed borrowing for property tax refunds of $50 million and not the originally reported $230 million.

7.3 Borrowing Trends

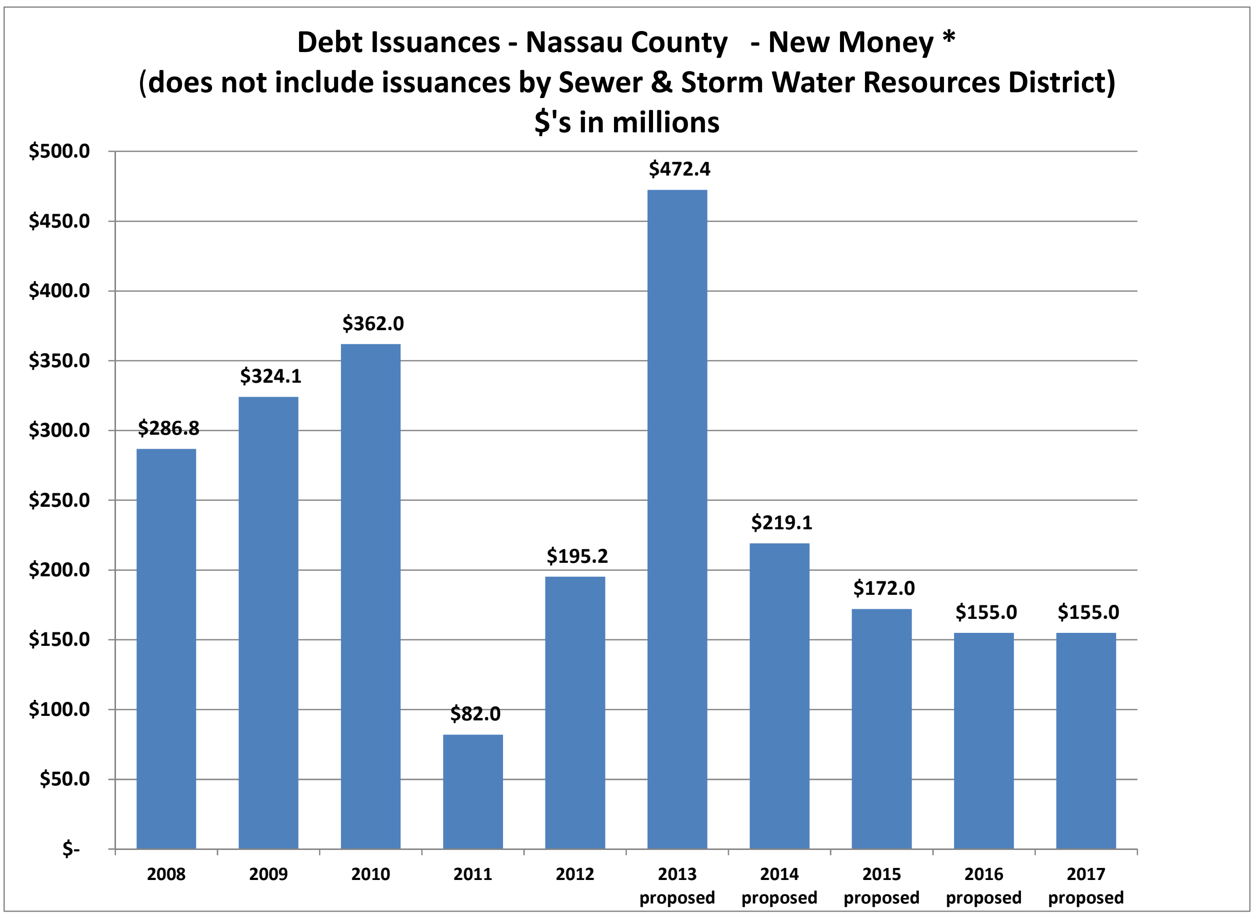
In prior years, the County had typically bonded each year for capital projects, property tax refund payments, and judgments and settlements. From 2002 to 2006, all the borrowing for the County was done primarily by NIFA. From 2008 to 2010, the County had borrowed in excess of $280 million each year, which included $80 million and $92 million for 2009 and 2010 termination pay, respectively. However, the 2011 borrowings were lower than 2010 and 2009 due to NIFA's restrictions on County borrowing; additionally, there were no borrowings for termination pay or payment of property tax refunds. The Administration expects that it will be able to avail itself of NIFA approval, subject to Legislative approval, to issue borrowing for property tax. NIFA no longer permits the County to borrow for termination pay, except in special circumstances. NIFA must approve all County borrowing.

As shown in the Exhibit 19 below, which details projected new money debt issued by the County (including borrowings for Nassau Community College ("NCC") capital projects but excluding sewer related projects), the proposed long-term and short-term borrowing, as proposed by the Administration, is anticipated to increase in 2014 by about $219 million, which includes our recommendation to revise bonding for property tax refunds to $50 million and $150 million for capital projects.

The 2014 borrowings in Exhibit 19 do not include $526.4 million of short-term Bond Anticipation Notes ("BANS") borrowed to pay for Sandy-related repairs; $185.5 million of this amount represents the rollover of the 2013 BANS issued for sewer ($82 million) and non-sewer capital projects ($104.2 million) and the remainder, approximately $340.9 million, is expected to be issued for sewer-related capital projects. The $104.2 million is included in the 2013 proposed new money amount in the exhibit below.

The Administration expects that the BANS borrowed in 2013 through 2016 of $185.5 million, $340.9 million, $449.9 million and $143.7 million, respectively, to pay for Sandy-related repairs, will be reimbursed beginning in 2015, by FEMA at 90%, with the remainder to be reimbursed by New York State. To date, New York State has not made a formal declaration of its intent to pick up the 10%. In Exhibit 19 below, the proposed debt issuances for 2015, 2016 and 2017 do not include the issuance of County bonds to replace the maturing BANS. Should FEMA or New York State not reimburse the County for its full expense, the County will need to issue additional long-term bonds to repay the BANS.

Exhibit 19



*2013 through 2016 proposed does not include Bond Anticipation Notes (BANS) issued for sewer district related capital projects; 2014 includes the revised proposed borrowing for property tax refunds of $50 million and not the originally reported $230 million.