NASSAU COUNTY
OFFICE OF THE COMPTROLLER

2016 MID-YEAR REPORT
ON THE COUNTY'S FINANCIAL CONDITION

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Nassau County Comptroller

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NASSAU COUNTY
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REPORT ON THE COUNTY'S FINANCIAL CONDITION FOR THE FIRST SIX MONTHS OF FISCAL YEAR 2016

1.0 EXECUTIVE SUMMARY

The Nassau County Charter requires that the Comptroller report on the status of the budget for the first six months of the current fiscal year and give an opinion concerning whether there will be a surplus or deficit at year-end. This report is required by §402 (9) of the County Charter.[1]

The 2016 mid-year financial projections, under current spending and revenue assumptions, indicate that the County will end with a $14.2 million budgetary deficit in the primary operating funds after appropriating $3.0 million of prior year fund balance and the projected use of $103.8 million in borrowings and bond premium to pay operating expenditures. The material budgetary variances are shown in Exhibit 1. The Administration, however, is likely to find unbudgeted opportunities to end in balance, such as restricting other than personal services ("OTPS") or fast-tracking the sale of County property. The projected ending fund balance for the primary operating funds will be reduced to $145.9 million on a budgetary basis, down from $163.1 million at 2015 year-end, assuming the gap closing opportunities do not materialize.

The noteworthy items affecting the budgetary projection are; the $18 million of tobacco settlement revenues that the Administration expects to recognize, the $13.5 million police overtime over budget spending and the improbable $15 million revenues from the Off-Track Betting Video Lottery Terminals (OTB/VLT) and the $15.8 million budgeted for the Income and Expense Law.

Under the presentation basis prescribed by the Nassau County Interim Finance Authority ("NIFA"), which excludes $60 million in borrowings used to pay for certain operating expenditures and $43.8 million in bond premiums, the County would be ending the year at negative $126.5 million (see Exhibit 2), an increase of approximately 1% from 2015. The $126.5 million projected deficit would exceed the negative $80 million mandated by NIFA for the fiscal year. The Administration will require $46.5 million of new initiatives to raise revenues or further reduce expenditures in order to reduce the County's reliance on borrowings to pay for operating expenditures and meet the target mandated by NIFA. The County's Structural Gap (the difference between recurring operating revenues and expenses) is projected to end at negative $116.3 million, down from negative $141.8 million in 2015. The decrease is primarily the result of lower one-shot expense items (see Exhibit 4).

The total long-term debt for the County and its blended component units; NIFA, Nassau County Sewer and Storm Water Finance Authority ("SFA") and the Nassau County Tobacco Settlement Corporation ("TSC"), are projected to increase by $103.6 million to approximately $3.7 billion after pay-down of $237.8 million in maturing debt (see Section 6.4). The new borrowing includes $260.3 million already borrowed through July 2016 to pay $60.0 million in property tax refunds, $169.5 million for capital projects, and $30.8 million for termination pay, some of which was paid in 2015. The Administration is projecting to borrow an additional $75.0 million in 2016 for capital projects.

In addition to the long term debt, the County is projected to end the fiscal year with further estimated accrued liabilities, including $904 million of liabilities comprised of $327 million of property tax certiorari disputes (see Section 3.8), $232 million of accumulated pension expense to New York State, deferred since 2012 (see Section 3.9), and potentially $345 million from certain non-certiorari (utility) tax cases, dating back to as far as the 1990's.

[1] The Comptroller reports on the status of the budget for the County's primary operating funds: the General, Fire Safety, Debt Service, Police Headquarters and Police District Funds.

Beginning in 2015, SUEZ Water Long Island Inc. (formerly United Water Long Island, Inc.), a private operator, took over the operations of the County's sewer system. Synergy savings that were anticipated to begin in 2015 have not yet materialized. The Administration is projecting that the Sewer and Storm Water District Fund ("SSW") 2016 results will end in balance after use of $19.0 million of fund balance. Our projections, as shown in Exhibit 9, indicate that $20.0 million of fund balance will be needed to end in budgetary balance, thereby depleting the SSW fund balance as of the end of fiscal 2016, by almost half.

The County continues to face heightened risks from old issues, The Nassau Health Care Corporation's ("NHCC") operating loss after recognition of OPEB expense increased to $58.5 million, notwithstanding management assurances to the contrary, raising new concerns about its mission to our residents and the ability of NHCC to reimburse the County for its guarantee of $229.9 million of debt. Additionally, the continuing "going concern" of the financial status of the National Regional Off Track Betting Corporation ("OTB") remains an issue in terms of loss of future revenues to the County and loss of jobs. Coupled with the transfer of the County's authority to OTB of the 1,000 video lottery terminals, it is unlikely that the County will be receiving any profits from that venture. In June, the Nassau Community College ("NCC") was put on probation by its accrediting agency, with unknown consequences to the over 20,000 students and the County. These issues will need higher attention by the Administration and the Legislature.

EXHIBIT 1

Revenue and Obligations Forecast for 2016*

($'s millions)

	2016 Budget	2016 Projected Actual	Variance	
Revenues				
Rents & Recoveries	$57.3	$46.9		($10.4)
Departmental Revenue				
Public Works - Transdev Farebox	53.4	49.4	(4.0)	
County Attorney	16.0	0.2	(15.8)	
Other Departmental Revenue	160.9	161.5	0.6	(19.2)
Red Light Cameras	38.2	40.0		1.8
State Aid	211.8	215.4		3.6
Federal Aid	135.0	137.4		2.4
Capital Resources for Debt	64.5	107.4		42.9
OTB Profits	15.0	0.0		(15.0)
Property Taxes	804.6	816.6		12.0
Payment in Lieu of Taxes	50.8	40.6		(10.2)
Fund Balance	0.0	3.0		3.0
Other	1,313.0	1,313.0		0.0
Total Revenue	**$2,920.5**	**$2,931.4**		**$10.9**
Expenses				
Payroll (excluding Overtime below)	793.5	785.6		7.9
Fringe	515.3	504.7		10.6
Workers Comp	31.5	31.5		0.0
Overtime (Police Department and Correctional Center)	70.6	84.8		(14.2)
Social Services	419.0	417.0		2.0
Debt service	364.2	359.7		4.5
Contractual Expense	243.7	246.7		(3.0)
Transfer To Litigation Fund	0.0	43.8		(43.8)
Budgeted Contingency	10.1	0.0		10.1
Other	472.6	471.8		0.8
Total Expense	**$2,920.5**	**$2,945.6**		**($25.1)**
Estimated Results on a Budgetary Basis excluding Additional Risks/Opportunities				**($14.2)**

	Police District	Other Funds	Total
Estimated Results by Taxpayer Base on a Budgetary Basis	**$11.6**	**($25.8)**	**($14.2)**

Additional Risks & Opportunities

	Police District	Other Funds	Total
Sales of Property		$6.5	$6.5
Lower Early Intervention Expense		2.5	2.5
Mortgage Recording Fees		2.0	2.0
Additional OTPS savings from revoked spending	-	2.0	2.0
Budget Projection after Additional Risks & Opportunities	**$11.6**	**($12.8)**	**($1.2)**

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

EXHIBIT 2

County Financial Results on a NIFA Prescribed Presentation Basis
2010 - 2016 (projected)*

BUDGETARY RESULTS 2010 - 2016 (projected)*
($'s millions)

	2016 (projected)	2015	2014	2013	2012	2011	2010
Surplus (Deficit) on a Budgetary Basis	**($14.2)**	**$57.1**	**$10.7**	**$55.0**	**$41.5**	**($50.4)**	**$26.6**

CALCULATION OF NIFA PRESCRIBED PRESENTATION BASIS 2010 - 2016*
($'s millions)

	2016 (projected)	2015	2014	2013	2012	2011	2010
Net Change in Fund Balance - modified accrual basis	($22.7)	$28.0	($21.5)	$48.6	$24.0	($98.0)	$31.0
Less: adjustments included in other financing sources							
Premium on bonds	43.8	19.0	4.4	4.0	3.7	6.2	21.3
Borrowed funds to pay Property Tax Refunds	60.0	96.2	126.4	75.0	14.7	21.0	42.5
Borrowed funds to pay Other Judgments	0.0		8.3	26.5	20.0	4.6	30.4
Borrowed funds to pay Termination Pay	0.0	26.1	20.1	14.0	33.1	17.7	80.0
Transfer of revenue from other funds to offset debt expense	0.0	12.0	8.5	2.7	16.6	12.5	1.7
Total other financing sources/uses to be eliminated	103.8	153.3	167.7	122.2	88.1	62.0	175.9
NIFA Prescribed Presentation Basis	**($126.5)**	**($125.3)**	**($189.2)**	**($73.6)**	**($64.1)**	**($160.0)**	**($144.9)**

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

The NIFA presentation in Exhibit 2 above includes the following assumptions:

- Termination pay will not be paid with borrowed funds;
- Property tax refunds will be paid using bond proceeds up to the available proceeds;
- Debt service surplus generated as a result of applying bond premiums to debt service costs will be used to pay an equal amount of judgments and settlements.

Any changes to the above assumptions will affect the NIFA presentation.

2.0 REVENUE VARIANCES

This section discusses the revenue items with variance from budget, as identified in Exhibit 1.

2.1 Rents & Recoveries

Rents and Recoveries are projected to have a $10.4 million negative variance primarily due to $8.2 million of lower tuition reimbursements from the Towns and Cities for college students attending out of County schools in New York State and lower projected sales of various County properties of $2.2 million.

RENTS AND RECOVERIES ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$35.2	$57.2	$9.1	$46.8	($10.4)

2.2 Departmental Revenue

Departmental Revenue is projected to be under budget by $19.2 million, mostly due to Fare box revenues collected by Transdev (previously known as Veolia) for bus ridership of $4.0 million and a projected $15.8 million negative variance in County Attorney for the Income and Expense Law fees, which have not yet been collected due to a current legal stay of proceedings. The Income and Expense Law passed by the Legislature authorized the County to assess a penalty on income-producing property owners who do not file an annual certified statement of income and expense (ASIE). While the Administration still expects to collect the entire amount budgeted, we are conservatively projecting that no revenues will be recognized in 2016 as the law is being challenged in court.

DEPARTMENTAL REVENUE ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$170.0	$230.3	$78.6	$211.1	($19.2)

2.3 Red Light Camera Revenue

Red Light Camera Revenue is projected to be over budget by $1.8 million due to higher administrative fees.

RED LIGHT CAMERAS ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$33.6	$38.2	$23.3	$40.0	$1.8

2.4 State Aid

State Aid is projected to be $3.6 million over budget primarily due to an increase in funding related to the State Transportation Operating Assistance program (STOA).

STATE AID ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$211.0	$211.8	$42.6	$215.4	$3.6

2.5 Federal Aid

Federal Aid is projected to be $2.4 million over budget mostly due to a higher allocation of funding received for the County's Day Care Program.

FEDERAL AID ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$140.2	$135.0	$32.0	$137.4	$2.4

2.6 Capital Resources for Debt

Capital Resources for Debt is projected to be $42.9 million over budget due to higher than budgeted bond premium. Similar to last year, the debt service surplus is expected to be transferred to the Litigation Fund to be used to pay claims and judgments. Our projection assumes the entire $43.8 million (net of cost of issuance) of premiums will generate an equal amount of debt service surplus to transfer to the Litigation Fund by year-end.

CAPITAL RESOURCES FOR DEBT ($'s in millions)					
	2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
Property Tax Refunds	$0.0	$60.0	$0.0	$60.0	$0.0
Bond Premiums	24.6	4.5	47.4	47.4	42.9
Capital Cash for Debt	11.8	0.0	0.0	0.0	0.0
Total	**$36.4**	**$64.5**	**$47.4**	**$107.4**	**$42.9**

2.7 OTB Profits

We project a risk of all $15.0 million of the video lottery terminal proceeds budgeted. An arrangement brokered by the State Legislature transferred from the County to OTB, the authority to install 1,000 Video Lottery Terminals (“VLT”). OTB has a pending arrangement to permit Resorts World Casino to install those VLTs at Aqueduct Racetrack. While the Administration now projects that the County will receive $3 million of the $15 million budgeted in 2016, we are projecting zero revenues. With a total net position deficit of over $60 million as of December 31, 2015, we do not anticipate that the County will receive any distribution of VLT profit in the current fiscal year.

OTB PROFITS ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$0.0	$15.0	$0.0	$0.0	($15.0)

2.8 Property Taxes

A surplus of $12 million is projected in Property Taxes. $10.3 million is due to a budgetary re-allocation between Payment in Lieu of Taxes and Property Taxes having the effect of understating budgeted Property Taxes. We also project a $1.7 million favorable variance due to new construction.

PROPERTY TAX ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$832.2	$804.6	$816.6	$816.6	$12.0

2.9 Payment in Lieu of Taxes

A $10.2 million negative variance is projected due to a budgetary re-allocation between PILOTS and Property Taxes having the effect of overstating budgeted PILOTS resulting in a shortfall when compared with actuals. Property taxes previously assessed on LIPA properties were reclassified as PILOTS beginning in 2016.

PAYMENT IN LIEU OF TAXES ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$12.3	$50.8	$25.9	$40.6	($10.2)

2.10 Fund Balance

The Administration has budgeted to use $3 million of prior year appropriated Fund Balance for assumed contractual increases related to operating the County's Bus Transportation System pursuant to a proposal from the Transit Committee to increase service.

FUND BALANCE ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$15.0	$0.0	$0.0	$3.0	$3.0

2.11 Tobacco Settlement Revenue

The Administration has indicated they intend to use the $18 million of Tobacco Settlement Revenue expected to be received in late July or early August in the operating funds. This funding represents the remaining 2006 bond proceeds and interest payable to the County as the owner of the residual trust certificate. While our projections include this anticipated revenue, this is another example of relying on one-shot revenue to pay recurring expenses.

3.0 EXPENSE VARIANCES

This section discusses the expense items with variance from budget as identified in Exhibit 1.

3.1 Payroll, Fringe Benefits and Workers Compensation

We project salaries (including overtime for the Police Department and the Correctional Center) fringe benefits and workers' compensation expense, to have a combined positive variance of $4.3 million from the 2016 budget. The projected variance is primarily being driven by a negative variance in overtime of $12.8 million, and is offset by $10.6 million of savings in fringe benefits, vacant positions, and savings from Part-time / Seasonal employees and other payroll related savings.

Fringe benefits are projected to show a positive variance of $10.6 million when compared to the 2016 Budget. This is primarily attributable to lower than budgeted health insurance costs of $6.6 million due to vacancies and lower FICA payroll rates.

SALARIES, FRINGES & WORKERS COMPENSATION
(excluding overtime for Police Department and Correctional Center)
($'s in millions)

	2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
Salaries	$740.6	$793.5	$365.1	$785.6	$7.9
Fringe Benefits	474.3	515.3	321.7	504.7	10.6
Workers Compensation	28.2	31.5	12.8	31.5	0.0
Total	$1,243.1	$1,340.3	$699.6	$1,321.8	$18.5

3.2 Overtime for Police Department and Correctional Center

Based on current expense trends, overtime costs for the Police Department and the Correctional Center are projected to be $14.2 million over the $70.6 million 2016 budget. The expense in excess of budget is primarily comprised of $6.0 million for the Police District Fund and $7.5 million for the Police Headquarters Fund, and $0.7 million for the Correctional Center. Deficits are expected to be funded by other salary line items savings. Our projections show overtime expenses increasing by over 4% in PDD and over 8% in PDH when compared to 2015.

OVERTIME
($'s in millions)

	2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
Police District	$33.2	$28.6	$11.1	$34.6	($6.0)
Police Headquarters	33.2	28.5	15.0	36.0	(7.5)
Correctional Center	11.4	13.5	5.7	14.2	(0.7)
Total	$77.8	$70.6	$31.8	$84.8	($14.2)

3.3 Social Services

We project expenses for Social Services will come in at $2 million under budget. This positive variance is primarily caused by lower Recipient Grant expense due to lower TANF and Safety Net caseloads, and lower Emergency Vendor Payment expense due to lower billings from a declining number of youth placed in residential facilities. The positive variance is partly offset by higher caseloads than anticipated in the Daycare program.

SOCIAL SERVICES ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$411.5	$419.0	$222.8	$417.0	$2.0

3.4 Debt Service

We are projecting a positive variance of $4.5 million in Debt Service due to the refinancing of the County's debt.

DEBT SERVICE ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$346.2	$364.2	$86.3	$359.7	$4.5

3.5 Contractual Expense

Contractual expense is expected to have a $3.0 million unfavorable variance against the budget. This variance is due to increased cost in operating the County's Bus Transportation System pursuant to a proposal from the Transit Committee to increase service.

CONTRACTUAL EXPENSE ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$242.3	$243.7	$203.7	$246.7	($3.0)

3.6 Transfer to Litigation Fund

We project a negative variance in Transfer to Litigation Fund, which offsets the positive variance in Capital Resources for Debt, related to higher than anticipated debt service surplus resulting from higher bond premium.

TRANSFER TO LITIGATION FUND ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$20.2	$0.0	$0.0	$43.8	($43.8)

3.7 Budgeted Contingency

Our analysis indicates that a budgeted contingency of $10.1 million will be available to cover shortfalls projected elsewhere in the budget.

BUDGETED CONTINGENCY ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$0.0	$10.1	$0.0	$0.0	$10.1

3.8 Property Tax Refunds

As of December 31, 2015, the total property tax refund liability was estimated to be $314.3 million, comprised of $302.6 million in long-term liabilities and $11.7 million, representing liabilities accrued for as of year-end 2015 and expected to be paid in 2016. We project that the County will add approximately $96.5 million in new liabilities during 2016 and pay about $71.7 million with borrowed funds. This would increase the total unpaid long-term property tax liability to approximately $327.4 million before any further payments. The Administration budgeted $60 million of long-term borrowings in its revised 2016-2019 multi-year plan to help pay down the backlog in 2017, however, the borrowing authorization requires bipartisan cooperation in order to pass the Legislature and NIFA's final approval. There is an additional $10 million budgeted in operations that is expected to be used to pay down current obligations.

As discussed in an early section of this report, beginning in 2015, debt service surplus resulting from bond premiums in excess of cost of loans expenses, which had previously been prohibited by NIFA during the control period beginning in 2011 from being reported as operating revenues, is now being used by the Administration to reduce debt service costs. However, NIFA has indicated that an equal amount of debt service surplus generated as a result of applying debt premium to debt service costs must be used to offset the cost of judgments and settlements (including property tax refunds). For purposes of our mid-year projections, we are projecting the offset to be against judgment and settlements and not property tax refunds. Thus, the projections below could be further reduced by an amount up to the total debt service surplus generated by applying bond premiums to debt service.

The New York State Assembly and the New York State Senate passed assessment legislation, which the Governor signed on November 21, 2014, that creates a Disputed Assessment Fund. It provides for a two-step process for commercial property assessment disputes and requires that all payments towards the disputed assessment fund be administered in the same manner as County real property taxes. Refunds of real property taxes owed to a class four property owner as a result of a settlement or final decision will be paid from the disputed assessment fund. Any funds that remain thereafter will be distributed pro rata to the County and the applicable school district, town and special districts. The structural benefits from the commercial tax certiorari reform legislation are expected to begin to be realized in 2017.

Property tax refunds of $70 million were budgeted in the general fund in 2016; $60 million to be funded with borrowings and $10 million to be paid from operating funding sources.

PROPERTY TAX REFUNDS ($'s in millions)				
2015 Actual	2016 Budget	2016 YTD June	2016 Forecast	Variance
$3.3	$70.0	$10.2	$70.0	$0.0

LONG TERM PROPERTY TAX REFUND LIABILITY ($'s in millions)				
	Bal beg of year	Additions	Reductions	Bal end of year
2011	$ 152.3	$ 134.7	$ (64.1)	$ 222.9
2012	222.9	83.8	(9.5)	297.2
2013	297.2	77.7	(81.3)	293.6
2014	293.6	97.7	(95.4)	296.0
2015	296.0	88.8	(82.2)	302.6
2016 est	302.6	96.5	(71.7)	327.4

3.9 Deferred Pension Expense Amortization Liability

The Employer Contribution Stabilization Program (Chapter 57, Laws of 2010) and the Alternate Contribution Stabilization Program (Chapter 57, Laws of 2013) allowed employers who participate in the NYS and Local Retirement Systems to amortize a portion of the annual pension cost. The amortized amount is to be paid in equal installments over a ten-year or twelve year period, dependent upon which program was being selected. Beginning with the NYS retirement invoices due on February 1, 2012 (for the State fiscal year 4/1/2011 to 3/31/2012) the County has opted to amortize a portion of its annual pension bill. As of December 31, 2015, the County's liability to the NYS and Local Retirement Systems for the deferral of annual pension expense was $221.1 million. The liability as of December 31, 2016 is estimated at $232.0 million.

	DEFERRED PENSION EXPENSE AMORTIZATION LIABILITY ($'s in millions)			
	Balance at beginning of year	Additions	Reductions	Balance at end of year
2011	14.6	32.2	3.3	43.6
2012	43.6	52.2	5.8	89.9
2013	89.9	68.0	10.4	147.5
2014	147.5	63.3	15.8	195.1
2015	195.1	46.7	20.8	221.1
2016 est.	221.1	32.5	21.6	232.0

4.0 RISKS AND OPPORTUNITIES TO ACHIEVE A BALANCED BUDGET

Exhibit 1 (see page 3) shows the significant projected revenue and expense variances for year-end 2016 based on the first six-month financial results. We project that the County will have a year-end budgetary deficit of $14.2 million, prior to any gap closing measures.

The Administration has identified possible opportunities to close the gap. Included among these opportunities are the potential sale of County owned property of $6.5 million, which may close in December, reduced Early Intervention expenses of $2.5 million, increased mortgage-recording fees of $2.0 million collected by the Clerk's office and possible revocation of OTPS spending of $2.0 million.

5.0 OTHER CONCERNS

5.1 Nassau Health Care Corporation

The financial stability of the Nassau Health Care Corporation ("NHCC") is essential so that it can continue to operate as a health care safety net for the County's uninsured. The County guarantees NHCC's outstanding indebtedness of $229.9 million and the hospital's continued ability to repay the County for the debt service it pays on the bonds is of fiscal importance to the County, although the County does have security interests in NHCC's property and revenues.

Per NHCC's financial statements, NHCC incurred an operating loss of $58.5 million in 2015. Its operating cash flow will continue to be a challenge during 2016. NHCC needs to recognize that it needs urgent new initiatives and possibly a management shake-up to reverse its fortunes.

5.2 Nassau Regional Off-Track Betting Corporation

For the fifth consecutive year, in 2015, the audited financial statements for the Nassau Regional Off-Track Betting Corporation ("OTB") were issued with a "going concern" audit opinion. This indicates that there is substantial doubt about the OTB's ability to continue to operate. The County is responsible for repayment of its outstanding debt until maturity, which is July 1, 2020, with OTB obligated to reimburse the County. The total principal amount of mortgage and bonds payable as of December 31, 2015 amounts to $10.5 million, an increase of $0.3 million over the prior year primarily due to an additional mortgage note with final payment due in January 2026. The County holds the mortgage on the Racing Palace, which can be sold.

In 2016, a pending deal was brokered at the NYS Legislature to allow Genting New York, LLC (which operates the Resorts World Casino at Aqueduct Racetrack) to install up to 1,000 transfer the County's video lottery terminals to its casino and pay OTB a $9 million a year for the first two years and $25 million annually, thereafter, increased for inflation. The authority to install the VLT's had belonged to the County but due to County resident disapproval of a casino in Nassau, the authority was transferred to OTB and Genting.

The VLT arrangement is expected to extend the viability of the OTB for years subsidizing horseracing betting operations. The County is not expected to see significant profits for years to come.

5.3 Nassau Community College

Nassau Community College ("NCC") provides a valuable service to the residents of the County. Its financial health is crucial to the thousands of students and families that rely on it for higher education. The 2014 audited financial statements for NCC reflect a $4.3 million increase of its total net deficit. As of August 31, 2015, NCC's net deficit stands at $219 million. Although the 2015 financials did not show an improvement, student tuition and fees increased in fiscal year 2015 from fiscal year 2014 by $0.8 million. The increase of the total net deficit for 2015 was significantly driven by the requirement to accrue other postemployment benefits (OPEB) of $11.5 million. NCC has taken positive steps to improve its financial controls and reduce its accounts payable balances resulting in lower tuition increases to students. We believe that the financial condition of NCC will continue to be stable.

In June 2016, NCC was placed on probation by its accrediting agency, the Middle States Commission on Higher Education, because it was not in compliance with seven of its 14 standards, including leadership, integrity, planning and financial resources. NCC will continue to be accredited while on probation but it must provide a monitoring report by November 1, 2016 documenting how it is meeting the set benchmarks. Losing accreditation may affect federal student aid programs as well as enrollment and budget.

NCC's new president is scheduled to take over on August 1st. We anticipate that NCC's new president will focus on the issues that were identified by the accreditation agency and ensure that it remains accredited.

6.0 MAJOR COUNTY FINANCIAL TRENDS

6.1 Budgetary Structural Gap Trend

Like most governments, the County relies on various sources of revenues to meet its obligations and provide essential services. The shortfall between recurring expenses and revenues is the Structural Gap. Ideally, a government should be funded mainly by recurring revenues to pay its expenses and avoid using one-shot items, such as borrowings, sales of assets, drawdown on reserve funds or deferring current operating expenses. 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. When the County balances its budget by using non-recurring revenues, such as drawing down reserves, it does not reduce the structural gap.

The County's Structural Gap had a year-over-year improvement from 2009 through 2013 as shown in Exhibit 3 below. This trend was reversed in 2014, as the structural gap was $240.5 million, up from $94 million in 2013. The structural gap is forecast to be $116.3 million under our current 2016 projections, an improvement over the prior year primarily the result of lower projected one-shot expense items (see Exhibit 4).

EXHIBIT 3 (Projected)

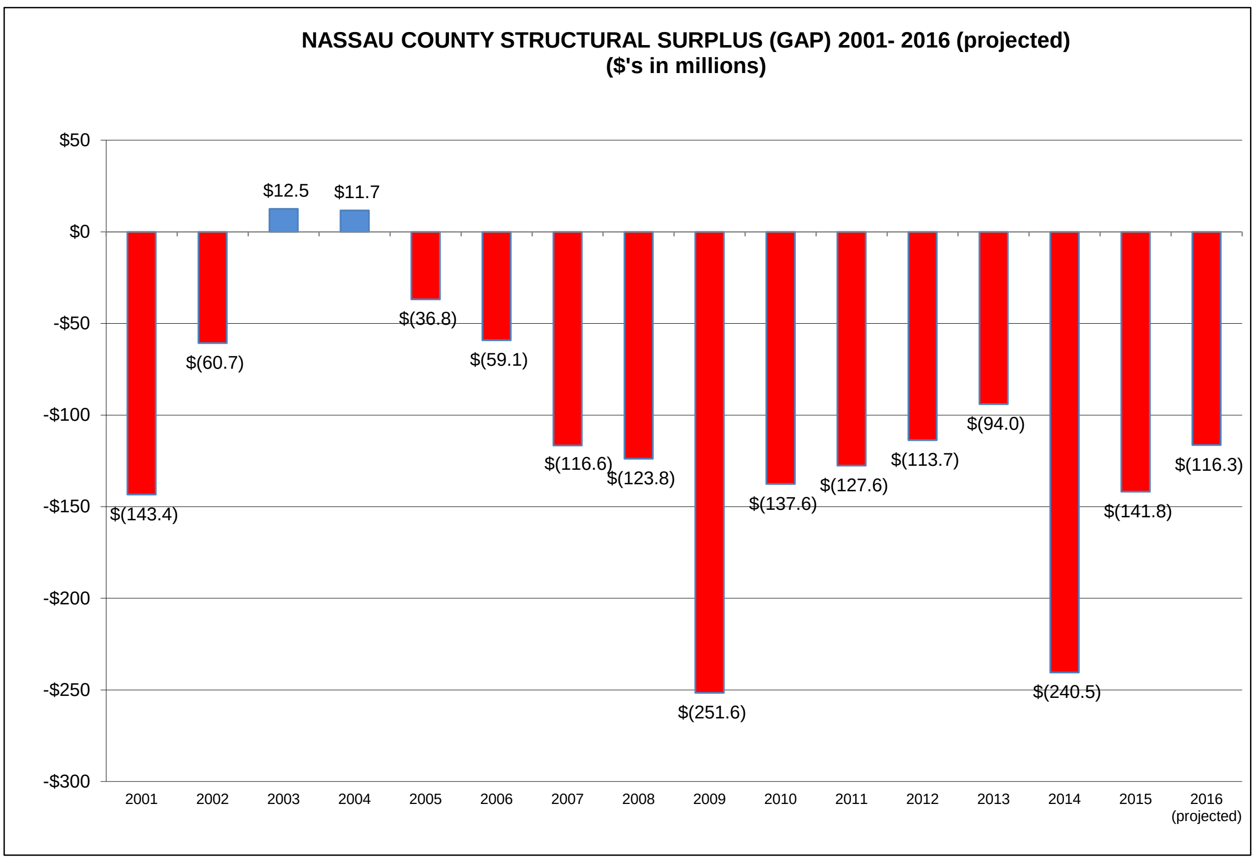


EXHIBIT 4

Comparison of Structural Gap Detail
($'s in millions)

	2015	2016 (projected)
Revenue One Shots:		
Use of Fund Balance	$ 15.0	$ 3.0
NIFA Debt Restructuring	4.3	2.3
Speed Cameras	3.6	
Tobacco Settlement Revenue		18.0
FEMA Reimbursement	10.9	
Premium recorded in Operating Budget	19.0	43.8
Sale of Property	4.0	2.9
Total Revenue One Shots	**56.8**	**70.0**
Expense One Shots:		
Use of borrowed funds to pay tax certs	96.2	60.0
Use of borrowed funds to pay term pay	26.1	
Amortization of Pension Bill	37.8	15.9
Transfer to Litigation Fund	(20.2)	(43.8)
Total Expense One Shots	**139.9**	**32.1**
Total One Shots	**196.7**	**102.1**
Transfer from Employee Benefit Accrued Liability Reserve	**10.2**	
Transfer to Retirement Contribution Fund	**(8.0)**	
Net Surplus (Deficit)	**57.1**	**(14.2)**
Structural Gap (Surplus or Deficit less One Shots)	**$ 141.8**	**$ 116.3**

6.2 Fund Balance Policy and Ending Budgetary Fund Balance

The County's policy is to maintain a level of unreserved fund balance of no less than 4% and no more than 5% of normal prior year expenses from its General Fund and the Countywide Special Revenue Funds[2] (which excludes the Police District Fund). The current unreserved fund balance in these funds is projected to decrease from $141.4 million at year-end 2015, to $112.6 million at year-end 2016 (see Exhibit 5 below), as a result of the 2016 projected budgetary deficit in these funds. At this level, unreserved fund balance as a percentage of prior year's recurring expenditures is projected to be 4.8%, within the County's 4% - 5% Policy.

The total Countywide unreserved ending budgetary fund balance (including the Police District) for fiscal year 2016 is projected to decline from $163.1 million to $145.9 million, also shown in the bottom half of Exhibit 5 below. The decline is the result of the 2016 projected budgetary deficit of $14.2 million and the use of prior year appropriated fund balance of $3.0 million.

[2] Defined as Police Headquarters and Fire Safety. Police District is excluded, as it is a separate taxing base.

EXHIBIT 5

FUND BALANCE AS A PERCENTAGE OF RECURRING EXPENDITURES
($'s in millions)

UNRESERVED FUND BALANCE

As of December 31,	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 MYR
Total Cumulative Unreserved Fund Balance		$ 85.6	$ 87.8	$ 77.7	$ 69.3	$ 50.9	$ 85.3	$ 31.6	$ 53.3	$ 99.1	$ 100.2	$ 141.4	$ 112.6
Normal recurring expenses, less interfunds (General & County-Wide Special Revenue Funds)	$ 2,141.5	$ 2,144.2	$ 2,064.4	$ 2,196.0	$ 2,137.8	$ 2,144.8	$ 2,149.5	$ 2,297.5	$ 2,279.7	$ 2,317.4	$ 2,339.6	$ 2,337.9	
Total Unreserved Fund Balance, as % of prior		**4.00%**	**4.09%**	**3.76%**	**3.16%**	**2.38%**	**3.98%**	**1.47%**	**2.32%**	**4.35%**	**4.32%**	**6.04%**	**4.82%**

Fund Balance Reconciliation
(General & County-Wide Special Revenue Funds)

2015 ending Fund Balance	**$ 141.4**
Projected results	**(25.8)**
Use of Fund Balance	**(3.0)**
Ending Fund Balance	**$ 112.6**

MAJOR FUNDS UNRESERVED FUND BALANCE
($'s in millions)

As of December 31,	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 MYR
		$ 90.5	$ 103.9	$ 89.8	$ 74.3	$ 64.2	$ 90.8	$ 40.5	$ 82.0	$ 126.5	$ 121.0	$ 163.1	$ 145.9

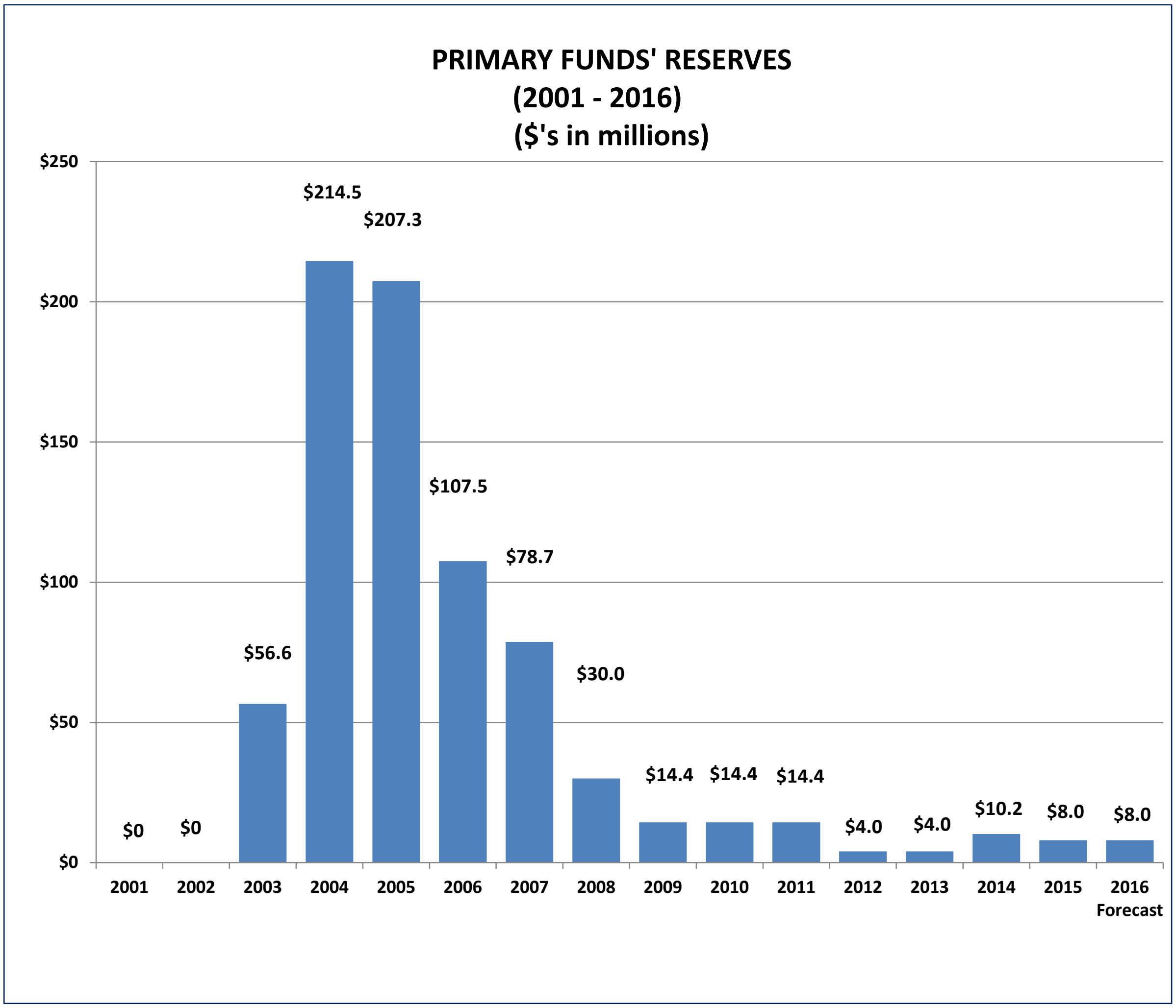
Fund Balance Reconciliation
(Major Funds)

2015 ending Fund Balance	**$ 163.1**
Projected results	**(14.2)**
Use of Fund Balance	**(3.0)**
Ending Fund Balance	**$ 145.9**

6.3 Primary Fund Reserve Trend

From 2003-2004, the County accumulated reserves totaling $214.5 million through annual surpluses. From 2005 to 2009, the County depleted the reserve funds at an alarmingly accelerated rate, as shown in Exhibit 6, to cover current expenses. The current reserve fund, which stands at $8 million in the Employee Benefit Accrued Liability Reserve Fund, is intended to pay for future non-police termination pay costs. It is projected to remain untouched in 2016.

EXHIBIT 6



6.4 Bonding Trends

Exhibit 7 below details projected new long-term debt issued by the County (including borrowings for NCC and sewer and storm water capital projects). Through July 2016, the County issued $260.3 million of long-term borrowing ($169.5 million to fund capital projects, of which $163.7 million was for County capital projects and $5.8 million for College capital projects, $60 million to fund property tax refunds, and $30.8 million for termination pay, of which $23.3 million was for 2015 County termination pay and $7.5 million for College termination pay). The Administration is projecting to issue $205.8 million in the latter half of 2016, of which $75.0 million is expected to fund non-sewer capital projects (including NCC capital projects) and $130.8 million to fund sewer-related projects. Our mid-year projections do not include the $130.8 million of borrowing as we anticipate the outstanding sewer BANS will be rolled over when they mature in December 2016 since the public-private partnership ("P3") for the sewer system is still being considered.

At 2015 year-end, the total of the County's general obligation bonds and its component units' long-term serial bonds outstanding was approximately $3.6 billion (including serial bonds and accreted interest of the Nassau County Tobacco Settlement Corporation ("NCTS") to which the County has no recourse). The 2016 actual and anticipated $75.0 million borrowing for non-sewer capital projects along with the projected reductions from maturing debt will increase the total long-term bonds outstanding by approximately $103.5 million.

In 2015, the County issued $52.1 million of short-term borrowing, Bond Anticipation Notes (BANS), which were used to renew, in part, the County's 2014 Series A BANS and to fund Superstorm Sandy related repairs. These BANS were rolled over again with a $5.2 million Series A offering in 2016. It is expected that the majority of these expenditures will be eligible for reimbursement from FEMA. In addition, the County converted $8.2 million of BANS to bonds in the 2016 Series C Bond issuance. In 2015, the County received approximately $143.5 million in funding reimbursement from FEMA. The Administration expects to continue funding Superstorm Sandy repairs with short-term funds until reimbursement of eligible expenditures is received from FEMA. According to the Five Year Rule, any remaining BANS balance must be bonded by December 2017. This would apply to the remaining $5.2 million in Superstorm Sandy BANS.

In 2016, the County issued $60.4 million of BANS to finance various sewer system improvements, which at this time is unknown whether these BANS will be replaced with long-term bonding in 2016. These BANS are being issued instead of long-term bonding while the County is exploring the possibility of a P3 for the sewer system. In December 2016, there is approximately $101.3 million in BANS maturing. If there is a possibility of a P3 partnership, the County will continue to issue BANS for sewer related projects until the final decision is made.

EXHIBIT 7

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

	As of December 31, 2015 Actual	Projected Additions	Projected Reductions	As of December 31, 2016 Estimated
County w/SSW (a)(b)	$ 2,086.1	$ 335.3	$ 89.6	$ 2,331.8
NIFA	921.6	-	138.0	783.6
Sewer and Storm Water Finance Authority (SFA)	154.3	-	10.2	144.1
Tobacco Settlement Corp (c)	472.8	6.1	-	478.9
Total	**$ 3,634.8**	**$ 341.4**	**$ 237.8**	**$ 3,738.4**

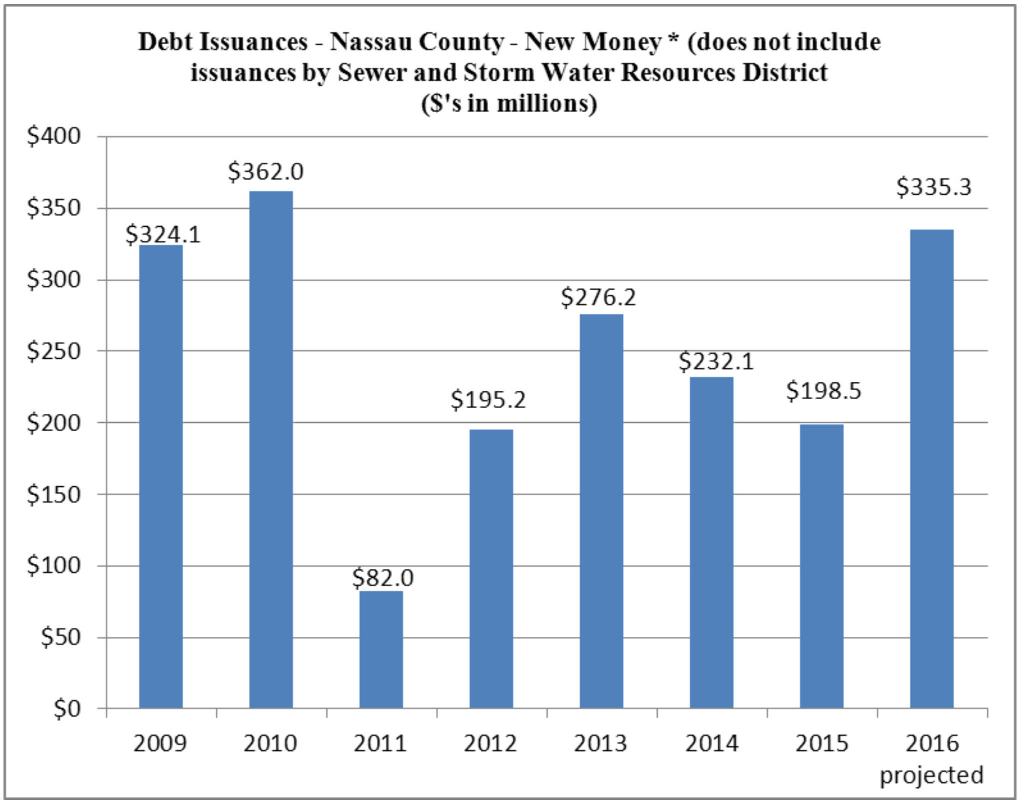
(a) Beginning in 2014, the County implemented a change in accounting principle to include the NCC debt as part of the County debt

(b) Does not include $130.8 million of Bonds projected to be issued in 2016 to be used for Sewer and Storm Water projects.

(c) December 31, 2015 includes accumulated accreted interest of $55.0 million; projected additions for 2016 represent accreted interest.

Exhibit 8 below illustrates the growth in new money debt issuances. New money debt excludes the 2015 and 2016 BANS issued to fund the Superstorm Sandy repairs because the intent is not to refinance the BANS with long-term borrowing in the following year. For comparison purposes only with prior year borrowing, the New Money chart in Exhibit 8 excludes the County issuances for Sewer and Storm Water (SSW) capital projects since 2008.

EXHIBIT 8



* does not include Bond Anticipation Notes (BANS) issuances used for sewer district related capital projects.

7.0 SEWER and STORM WATER DISTRICT

Effective January 1, 2015, SUEZ Water Long Island Inc. (formerly United Water Long Island Inc.), took over daily operations of the County's sewer system. As shown in Exhibit 9 below, the Administration is projecting that SSW will end in budgetary balance, after use of $19.0 million of prior year fund balance. Our projections indicate that $20.0 million of fund balance will be required for SSW to end in budgetary balance, leaving only $24.4 million of fund balance remaining as of December 31, 2016**.**

EXHIBIT 9

SSW FUND	2016 Adopted Budget	2016 Projected - Administration	2016 Projected - CO	Admin Var to Adopted Budget	CO Var to Adopted Budget
EXP					
AA - SALARIES, WAGES & FEES	10,145,863	9,584,019	10,078,598	561,844	67,265
AB - FRINGE BENEFITS	9,032,561	8,592,368	9,132,069	440,193	(99,508)
BB - EQUIPMENT	36,761	36,761	36,761	-	-
DD - GENERAL EXPENSES	767,741	767,741	767,741	-	-
DE - CONTRACTUAL SERVICES	60,638,000	60,638,000	60,638,000	-	-
DF - UTILITY COSTS	7,700,000	7,700,000	7,135,240	-	564,760
FF - INTEREST	6,332,938	6,332,938	6,332,938	-	-
GG - PRINCIPAL	10,363,806	10,363,806	10,363,806	-	-
HH - INTERFD CHGS - INTERFUND CHARGES	29,900,624	29,900,624	29,900,624	-	-
OO - OTHER EXPENSES	538,500	538,500	538,500	-	-
EXP Total	**135,456,794**	**134,454,757**	**134,924,277**	**1,002,037**	**532,517**
REV					
AA - OPENING FUND BALANCE	1,708,168	19,010,578	19,010,578	17,302,410	17,302,410
BC - PERMITS & LICENSES	1,150,000	1,150,000	1,150,000	-	-
BE - INVEST INCOME	32,000	32,000	147,850	-	115,850
BF - RENTS & RECOVERIES	10,725,000	10,725,000	10,092,000	-	(633,000)
BG - REVENUE OFFSET TO EXPENSE	-	-	-	-	-
BH - DEPT REVENUES	14,277,000	1,677,000	1,677,000	(12,600,000)	(12,600,000)
BQ - CAPITAL RESOURCES FOR DEBT	300,000	300,000	300,000	-	-
BO - PAYMENT IN LIEU OF TAXES		7,852,738	7,852,738	7,852,738	7,852,738
BR - DUE FR GOVTS - DUE FROM OTHER GOVTS	1,500,000	(4,442,647)	(4,442,647)	(5,942,647)	(5,942,647)
BW - INTERFD CHGS - INTERFUND CHARGES REVENUE	1,654,476	1,654,476	1,654,476	-	-
FA - FEDERAL AID - REIMBURSEMENT OF EXPENSES	-	238,200	238,200	238,200	238,200
IF - INTERFD TSFS - INTERFUND TRANSFERS	104,110,150	96,257,412	96,257,412	(7,852,738)	(7,852,738)
REV Total	**135,456,794**	**134,454,757**	**133,937,607**	**(1,002,037)**	**(1,519,187)**
Projected Budgetary Surplus (Deficit)	**-**	**-**	**(986,670)**	**-**	**(986,670)**
2016 Projected Generated Surplus (Deficit)			**(19,997,248)**		
2015 Ending Fund Balance			**44,419,148**		
2016 Projected Ending Fund Balance			**24,421,900**		

As shown in the table above, the Administration has removed $12.6 million of sewer assessment fees to be charged to non-profits from its projections as the fees are still in litigation. SUEZ Water Long Island Inc. ("SUEZ Water") is leasing County employees to perform duties at the sewer facilities; roughly, 124 employees are being leased. SUEZ Water, as part of the consideration received by the County, guaranteed salary savings of a minimum of $10 million. The County bills SUEZ Water for actual salary and fringe costs for the leased employees. The revenue received from SUEZ Water for the leased employees is reported in Rents and Recoveries. Our projections reflect a $0.6 million shortfall against budget based on the run rate of current actuals. Our projection of due from other governments is lower than budget by $5.9 million due primarily to receivables that may be uncollectible.