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Inter-Departmental Memo

To: Hon. Richard J. Nicolello, Presiding Officer
Hon. Kevan Abrahams, Minority Leader
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
Office of Legislative Budget Review

Date: July 22, 2019

Re: FY 18 Year-End Report

The Comptroller's Office has reported the FY 18 year-end results in conjunction with the release of the Comprehensive Annual Financial Report (CAFR). The focus of the CAFR is on reporting the year-end results on a Generally Accepted Accounting Principles basis (GAAP). To arrive to the GAAP basis, many adjustments are taken into account and following the details is cumbersome since the Financial System (mainframe) was not set-up to report on a GAAP basis.

Using both the CAFR and the year-end file from the Administration, the Office of Legislative Budget Review (OLBR) summarized the year-end FY 18 results on the different basis for the Legislature. The chart below shows the Major Funds FY 18 year-end figures on a Budgetary basis, the Major Funds GAAP basis, the Nassau Interim Finance Authority (NIFA) Control Period calculation and the Comptroller GAAP basis as defined in the CAFR.

	Budgetary Basis	GAAP Basis	NIFA Basis	Comptroller GAAP Basis
2018 Year-End Results (in millions)	$0.4	($17.4)	($61.2)	($27.5)

The County ended FY 18 with a $0.4 million budgetary surplus in the **Major Funds**. The County Major Funds consist of the General Fund, the Police Headquarters Fund (PDH), the Fire Commission Fund (FCF), the Debt Service Fund (DSV) and the Police District Fund (PDD). However, conforming to GAAP and reporting on the **total** General Fund perspective, the FY 18 calculation would then be a $6.2 million budgetary basis surplus. The significant budgetary variances which led to these results will be detailed in the FY 18 year-end Expense and Revenue Highlight sections below.

To arrive at the -$17.4 million Major Fund GAAP basis deficit, the Comptroller's Office has provided the following GAAP adjustments shown in the cross walk below:

YE 2018 Major Fund Budget and GAAP Basis Results Crosswalk, (in millions)

Total 2018 Budgetary Surplus	**0.4**
GAAP Adjustments	
Use of Fund Balance	0.0
effect of Enc. Adjustments	6.4
R0704 Adjustment	(3.0)
Pension Adjustment	(2.4)
Encumb. To Exp. Adjustment	(20.2)
PDD LIT Exp. Adjustment	0.5
Period of Avail. Adjustment	3.2
Mitchel Field Adjustment	1.3
NCC Adjustment due from	(0.7)
other GAAP Adjustment / rounding	(2.9)
2018 Total GAAP Results	**(17.4)**

Source: Nassau County Comptroller's Office

The NIFA basis, Control Period calculation, may be seen in Exhibit F-1 in the year-end 2018 CAFR. This calculation starts at the previously detailed -$17.4 million GAAP deficit and then implements the adjustments detailed in the chart below.

Exhibit F-1, Control Period Calculation Schedule Crosswalk, (in millions)

2018 GAAP Major Funds Fund Bal. Net Change	**(17.4)**
Adjustments	
Less Premium on Bonds (net of expense of loans)	(2.0)
Transfer of Revenue from Other Funds	(0.2)
Borrowed Funds to Pay Property Tax Refunds	(38.5)
Borrowed Funds to Pay Operating Expenditures	(3.1)
2018 Total GAAP Results	**(61.2)**

Source: 2018 CAFR

As seen above, the largest NIFA adjustment was due to the use of borrowed funds to pay for tax refunds. Towards the end of FY 18, the Administration borrowed $100.0 million to pay for this expense. However due to timing delays, $38.5 million was paid out in FY 18 and approximately $61.2 million was expensed in FY 19 which will ultimately impact the Control Period calculation in FY 19.

The -$27.5 million year-end GAAP basis result includes the GAAP defined County Primary Operating Funds. To arrive at the Primary Operating Funds results, the Comptroller's Office calculates a Total General Fund which combines the Litigation Fund, Technology Fund, Open Space Fund, Retirement Contribution Reserve, Employee Accrued Benefit Liability Reserve, Bonded Indebtedness Reserve Fund and the Nassau County Public Utility Authority Fund with the General Fund, Debt Service, Fire Commission, and Police Headquarters Funds. The -$27.5 million year-end 2018 GAAP deficit also incorporates the year-end GAAP results for the Police District Fund and Sewer and Storm Water Fund (SSW). The chart below itemizes the year-end 2018 GAAP results for the Primary Operating Funds. Also included for comparative purposes are the Primary Operating Funds year-end 2017 GAAP results.

Primary Operating Fund Comparison 2018 vs. 2017

Primary Operating Funds (000'S)	2017 GAAP Results	2018 GAAP Results
General Fund	(56,316)	(16,721)
Debt Service Fund	(835)	(731)
Fire Commission Fund	43	(35)
Police Headquarters Fund	(727)	(1,945)
All other funds consolidated into Total General Fund *	(45,492)	5,352
Total General Fund as reported in CAFR	(103,327)	(14,080)
Police District Fund	(960)	1,983
Sewer and Storm Water Fund	(18,135)	(15,445)
Total	**(122,422)**	**(27,542)**

*Total General Fund under GAAP includes General Fund, Debt Service Fund, Fire Prevention Safety, **Communication and Education Fund,** Police Headquarters Fund, Litigation Fund, Technology Fund, Open Space Fund, Retirement Contribution Reserve Fund, Employee Accrued Benefit Liability Reserve, and Bonded Indebted Reserve Fund

According to the chart above, the -$27.5 million Primary Operating Fund year-end FY 18 GAAP deficit was primarily the result of drawing down $16.7 million of the General Fund, $15.5 million of the Sewer and Storm Water Fund balance and $1.9 million of Police Headquarters Fund balance, offset by adding $5.4 million and $2.0 million to the Other Consolidated General and Police District Fund.

CAFR Exhibit X-3 shows that the County ended FY 18 with a Total Governmental Fund Balance of $467.4 million.

These funds are then itemized into five separate categories, non-spendable, spendable restricted, spendable committed, spendable assigned, and spendable unassigned. The chart on the next page displays this itemization from FY 16 through FY 18. The Comptroller reports that the County ended FY 18 with a negative $22.0 million **unassigned** fund balance. Compared to the FY 17 year-end balance, Total Governmental GAAP Fund balance grew by $111.5 million in FY 18.

Total Gov't GAAP by Type, Exhibit X-14 Note 16	2018	2017**	2016*	2018 vs. 2017
Non-Spendable	54,154	68,029	60,654	(13,875)
Spendable:				0
Restricted	122,167	166,112	167,256	(43,945)
Committed	303,646	165,896	127,076	137,750
Assigned	9,410	24,701	69,907	(15,291)
Unassigned	**(21,950)**	**(68,815)**	**46,812**	**46,865**
Total Gov't GAAP	467,427	355,923	471,705	111,504

*2016 figures were included in Exhibit X-13 Note 15

**2017 figures were included in Exhibit X-13 Note 16

The definition for each category was provided and summarized below:

- The non-spendable balance reflects amounts that can't be spent because they are either not in a spendable form, will not convert to cash within the current period, or are legally or contractually required to be maintained intact.
- The restricted balances are restricted to specific purposes by external parties.
- The committed funds are constrained for specific purposes pursuant to formal action by the government's highest level of authority, the County's Legislature. The funds may not be used for any other purpose unless the constraint is changed by a similar action passed by the Legislature (Ordinance / Resolution).
- The assigned funds are constrained by the government's intent to be used for a specific purpose. The County Legislature may assign fund balance via approval of the annual budget. The assignment generally only exists temporarily, and no additional action is required for the removal of an assignment.
- The unassigned funds show the residual classification for the General Fund.

The following are explanations detailing the major variances of the **$0.4 million Budgetary surplus**. Throughout the year, the Administration has made transfers to modify the budget which helped to produce line item results close to budget in relation to the Modified Budget. In addition, if the Administration had not transferred $13.0 million to the Litigation Fund, the Major Fund budgetary surplus could have been greater. However, they anticipate the funds will be needed in FY 19.

FY 18 Year-End Budgetary Expense Highlights

Some of the major expense highlights include:

- The County ended the year with a $23.4 million surplus in salaries compared to the Adopted Budget, which originates mostly from unfilled vacancies. The surplus would have been higher, however, deficits of $11.9 million in termination expenses and $3.0 million in overtime decreased the surplus.
- For fringe benefits, the County ended the year with a $6.4 million surplus compared to the Adopted Budget. The surplus is mostly derived from active health insurance and social security costs. The surplus is partially offset by a deficit for health insurance costs for retirees. The unfilled vacancies positively impacted the fringe benefit surplus.

- Within Contractual services there is a $12.5 million deficit compared to the Adopted Budget which results mostly from shortages within the Correctional Center, the Department of Public Works (DPW) and the Traffic Parking Violation Agency (TPVA).
  - The Correctional Center deficit of $6.9 million results from additional inmate healthcare expenses.
  - The additional DPW expense of $6.1 million was mainly incurred to fully fund the Nassau Inter-County Express (NICE) bus.
  - Finally, the $3.1 million shortage in TPVA is due the additional cost incurred for the vendor that monitors the Red Light Cameras countywide as they receive a percentage of the additional revenue the County collected.
- A transfer to the Litigation Fund of $13.0 million is reducing the overall budgetary surplus. These funds were transferred into the Litigation Fund from the County's surplus and are expected to be needed by the Administration in FY 19.
- The $46.9 million shortfall in Other Expenses compared to the Adopted Budget is mostly due to the Restivo judgement payment.

FY 18 Year-End Budgetary Revenue Highlights

Some of the major revenue highlights include:

- A revenue surplus in fines and forfeits of $11.7 million compared to the Adopted Budget is mostly in TPVA and results mainly from higher Red Light Camera collections as well as additional boot and tow revenue.
- A surplus of $11.0 million in federal aid is mostly within the Department of Social Services (DSS) and the Correctional Center.
  - The surplus within DSS is attributed to an increase in the Child Care Block grant funding.
  - The additional revenue from the Correctional Center facility results from the State Criminal Alien Assistance Program (SCAAP) and Title IV D reimbursements.
- A $9.2 million surplus in state aid compared to the Adopted Budget is mostly within the Health Department and the Department of Human Services, which is being partially offset by a deficit in DSS.
  - Within the Health department there is additional revenue of $13.9 million due to extra revenue that was under accrued in FY 17 compared to the amount posted in FY 18. In FY 17 revenue from Early Intervention was under accrued by $5.0 million and revenue from Pre-School Education was under accrued by $8.0 million.
  - The $2.5 million surplus in the Department of Human Services is due to additional revenue awarded for programs related to NY Connects, Expanded In-home Services for the Elderly (EISEP), and Community Services for the Elderly (CSE).
  - Offsetting the surpluses is a $9.2 million shortfall in DSS due to a reduction in the Foster Care Block grant funding. In addition, the department did not receive the expected Enhanced Federal Medical Assistance Percentage (eFMAP) reconciliation payment in FY 18. According to the department, the County should receive two payments in FY 19 since the FY 18 payment has been delayed.

Offsetting the above revenue surpluses are the following revenue deficits:

- Departmental revenue ended FY 18 in a $11.7 million deficit compared to the Adopted Budget. The major variances are in the Assessment department and County Clerk, which are driven by real estate transactions. The variances include:
  - An $8.1 million shortfall within the Assessment Department. The majority of the shortfall, $5.2 million, was the result of ongoing litigation on the Annual Survey of Income and Expense law. The remaining shortfall was the result of sluggish real estate transactions.
  - A $5.1 million deficit within County Clerk Office was due to revenue shortfalls on the mortgage recording and on-line registration lines. These lines were offset by overages on the deed and mortgage expense recovery line.
- The $12.8 million shortage in OTB profits reflects only the collections of only $3.0 million received from OTB.
- The revenue collected from property taxes came in $2.8 million under compared to the Adopted Budget which the Administration attributes to lower than anticipated revenue from the value of new construction.

In conclusion, although the County ended the year with a small surplus of $0.4 million on a budgetary basis, had the Administration not transferred funds to the Litigation Fund, the Major Fund budgetary surplus could have been greater. However, the County ran a deficit on a GAAP Basis, NIFA Basis and Comptroller GAAP Basis. The budget dealt with unanticipated expenditures such as the Restivo judgement and funding for the NICE bus. On the revenue side, the County realized greater revenue from sales tax, Red Light camera collections, as well as state and federal aid. The Comptroller reports a $27.5 million GAAP deficit.

Since the largest deficit, totaling $61.2 million, was realized on a NIFA Control Period calculation basis mainly due to the use of borrowed funds to pay for tax certiorari refunds, it is anticipated that the FY 19 Control Period calculation will be negatively impacted by the payment of tax cert expenses from borrowed funds in FY 19 in addition to any other required reporting adjustments.

Reporting on a GAAP basis is a more stringent reporting standard and it has been argued by the Comptroller that it represents a more accurate picture of County finances.

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