# 2019 Mid-Year Report on Nassau County's Financial Condition

## Office of the Nassau County Comptroller

*July 31, 2019*


## Jack Schnirman
## Comptroller

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**Hon. Jack Schnirman**
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On behalf of the entire staff of the Office of the Nassau County Comptroller, I am proud to present our team's second mid-year report. This report provides my Office's projections for the 2019 fiscal year against the 2019 Adopted Budget based on the first six months of the year. As with all of our publications, we have strived to present an accurate, clear, and easy-to-understand picture of the state of Nassau County's (the County) finances.

Our financial reporting is led by figures derived from using the national standard for government accounting, Generally Accepted Accounting Principles (GAAP). That also means numbers describing the financial status of the "General Fund" are consistent with the reporting in the County's audited financial statements, the Comprehensive Annual Financial Report (CAFR), and discussions of the County's results include the Sewer and Storm Water Fund, which prior to 2017, was not included.

Upon releasing the CAFR, the County also launched the next phase of the Open Nassau Transparency Hub – Open Finance. The Open Finance platform provides the public with an easy, accessible way to view the information contained in the CAFR and other economic and demographic indicators. This year, we have launched platforms that show the public the County's checkbook, its payroll, annual budget, and audited finances. The County Executive's Office has been a vital partner in this process, and we now have a modern way for everyone to see how the County is doing financially. The Open Nassau Transparency Hub can be found online at opennassau.nassaucountyny.gov.

Consistent financial reporting is a key component in the effort to lift the County out of a fiscal crisis. Leaders cannot be expected to fix problems if they cannot be properly diagnosed in the first place.

At 2018 year-end, the improvement in the County's total unassigned fund balance was primarily the result of improved 2018 results over the prior year mainly due to higher sales tax revenues, lower salary costs related to unfilled positions, and less fund balance needed to pay for non-spendable, restricted, committed or assigned purposes. The County has seen significant improvements and is on the right path, but we still have a long way to go. We need to focus on sustainability, increase vigilance and monitoring, and remain cautious.

It is important to realize this report is a snapshot in time. Our analysis is based on the current status of the financials at mid-fiscal year 2019.

We understand the severely outdated financial systems throughout Nassau County make it prohibitively difficult for all departments to report using the national standard on a timely and regular basis, which is why we will continue to push for much needed modernization. The County Executive proposed, and the County Legislature recently adopted a capital plan which includes initial funding to provide the County with financial based enterprise resource planning (ERP) migration and pre-implementation services to replace its legacy mainframe financial system, the Nassau Integrated Financial System (NIFS).

As in the past, my Office has rendered an opinion as to the reasonableness of the estimates contained in the proposed County budget relating to non-real property tax revenues – as required by the Nassau County Charter. In October 2018, my Office identified risks and opportunities included in the FY19 proposed budget.

As mentioned in October 2018 and in previous reports, the County must restructure, reform and modernize to avoid further deterioration in the County's overall viability. This includes devising appropriate fiscal and operational plans to address the increasing structural imbalances created from fundamental changes in our economy.

Nassau County, like many municipalities across the country, are grappling with devising and implementing structural fixes, on both the revenue and expense side of the equation.

Sales Tax is the major revenue source for the County, followed by Property Tax, State and Federal Aid, and Departmental Revenues. These categories have remained relatively constant as a percentage in relation to total revenues in recent years. By the end of December 2019, we estimate a shortfall in Sales Tax revenues of approximately $8.5 million, or less than 1% of the amount in the budget, and revenues from OTB for the Video Lottery Terminals will have a shortfall of $17 million against the budget. In addition, Fines and Forfeitures, including Boot and Tow revenue, are estimated to be $10.4 million less than budget, along with Departmental Revenue, such as Mortgage Recording Fees, and GIS Tax Map Verification Fees, which we estimate will be $13.7 million less than the adopted budget.

The composition of the County's major funds expenditure categories consists of Payroll and Fringe Benefits (greatest expenditure), followed by Debt Service, Contractual Services, Early Intervention and Social Service Programs, and Medicaid. If we were to look at Payroll and Fringe Benefits, there is an estimated opportunity of approximately $66.7 million over the 2019 Adopted Budget.

Effective June 1, 2019, New York State requires that sales tax be collected on internet sales. A portion of the collections will be used to fund Aid and Incentives to Municipalities (AIM), which was eliminated from the State's budget. The County has not budgeted any revenue from internet sales in its 2019 budget, and therefore, all collections will have a positive effect on the current year's results.

Nassau Health Care Corporation (NHCC), a component unit of the County, has experienced recurring operating losses at December 31, 2019, and is dependent on the continuation of federal, state and local subsidies, certain of which are scheduled to end or be reduced. NHCC has undertaken a number of initiatives and its Board of Directors approved an agreement with Northwell Health to provide operational management assistance and development of a five-year strategic plan for NHCC and the A. Holly Patterson facility, as well as make recommendations for improving financial performance.

Overall, the annual operating deficit is improving, but the County will continue to face increasing fiscal challenges until appropriate fundamental policy decisions are implemented to respond to this imbalance. The Administration, the Legislature and the Nassau County Interim Finance Authority (NIFA) will continue to address these challenges.

I look forward to discussing this report further as other stakeholders in Nassau County have the chance to review its findings.

Sincerely,

Jack Schnirman

# 1.0 EXECUTIVE SUMMARY

## 1.1 PURPOSE:

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. This report is required by §402 (9) of the County Charter.

## 1.2 FINANCIAL REPORTING:

*National Standard*

In an effort to accurately report and standardize the County's financial reporting, the Office of the Nassau County Comptroller will continue to report its results using Generally Accepted Accounting Principles (GAAP) for governments. **GAAP** refers to a common set of accepted accounting principles, standards, and procedures that governments must follow when they compile their financial statements. The purpose of utilizing GAAP is to create uniformity and complete transparency for financial reporting which diminishes the ability for municipalities to decide **what financial transactions it chooses to report or withhold**. In addition, it maximizes the County's ability to understand and comparatively track its performance relative to other municipalities across the nation.

*Primary Operating Funds*

Under prior administrations, management's reporting and discussion of the County's primary operating results excluded various funds. The funds that were excluded are key to ensuring our policy makers and management have the relevant information needed to make sound decisions that ultimately have positive long-term impacts on the County's fiscal trajectory.

As presented in the Fiscal Year 2018 CAFR, we continue to report the expanded definition of "primary operating funds", which include the total General Fund (see below for all components), Police District Fund, and Sewer and Storm Water Fund. Prior to the 2017 fiscal year, various funds required to be included in the General Fund under GAAP and the Sewer and Storm Water Fund were excluded in the discussions of the County's primary operating funds.

## 1.3 PROJECTED FISCAL YEAR 2019 GAAP DEFICIT

The 2019 mid-year financial projections estimate that the County will end the current year with a **$4.6 million operating deficit** and an **ending unassigned fund balance deficit of $29.6 million** in the primary operating funds under GAAP. This compares to a $27.5 million operating deficit and an ending unassigned fund balance deficit of $22.0 million at fiscal year-end 2018. The mid-year financial projections underscore the County's current difficult fiscal outlook, as it grapples with expenditures continuously outpacing revenue growth, the burden of the County Guaranty (backlog of tax certiorari payments), lawsuits, increases in pension costs (due to the deferral of prior year payments), and a slowing of sales tax collections. The improvement in the County's total unassigned fund balance was primarily the result of improved 2018 results over the prior year mainly due to higher sales tax revenues and lower salary costs related to unfilled positions, and less fund balance needed to pay for restricted, committed, or assigned purposes.

Several key events that have taken place in 2019 have presented significant impacts to the County's year-to-date fiscal results. The County accepted a $15.0 million settlement with New York State to assume the State's long-term workers' compensation liability related to certain claims by County employees. This non-recurring revenue is now available to the County with which to settle open workers' compensation claims. Sales tax collections have begun to slow, and it is projected that the County will not meet its budgeted revenues. The State's Raise the Age mandate has added to the County's expenditures, although offsetting reimbursement from the State has not materialized to date. The County continues to grapple with numerous vacancies that have resulted in large projected surpluses in salaries and fringe, but somewhat offset by projected increases in overtime and termination pay, although overtime appears to be more closely controlled than in prior years.

**EXHIBIT 1: 2019 Adopted Budget to Projected Actuals Variance Drivers**

**Key Highlights: Adopted Budget to Projected Actuals Variance Drivers**

***Positive "Opportunity" Key Drivers***

| | | |
|---|---|---|
| ***Payroll Savings*** | + $66.7 million | Primarily unfilled positions County-wide slightly offset by higher OT and PD termination pay costs |
| ***Workers' Compensation Recovery*** | + $13.0 million | Non-recurring workers' Compensation settlement of NYS liability ($15.0 million) recognized in 2019 offset by estimated settlements to be paid in 2019 ($2.0 million) |

***Unfavorable "Risk" Key Drivers***

| | | |
|---|---|---|
| ***OTB Lottery Terminals*** | - $17.0 million | 2019 Budgeted revenues have not yet materialized |
| ***Departmental Revenue*** | - $13.7 million | Primarily due to lower Mortgage Recording Fees ($4.7 million), GIS Tax Map revenues ($6.1 million), and lower projected Farebox revenues ($3.9 million) |
| ***Fines and Forfeitures*** | - $10.4 million | Primarily due to lower Boot and Tow Fees ($7.3 million) and PD Public Safety Fees ($3.9 million), offset by higher Red Light Camera Fees |
| ***Sales Tax Revenue*** | - $8.5 million | Slowing of sales tax collections |
| ***Federal and State Aid*** | - $8.4 million | Primarily due to lower reimbursements in Social Services programs, TANF, Foster Care and Daycare, and unreimbursed Raise the Age expenditures ($5.7 million) |
| ***Contractual Expenditures*** | - $5.5 million | Primarily attributed to the Corrections Center contract with NHCC |

The projected material variances to the County's 2019 Adopted Budget are shown below in Exhibit 2, with projected GAAP adjustments in Exhibit 3, and projected GAAP Fund Balance in Exhibit 4.

# EXHIBIT 2: 2019 Revenue and Obligations Forecast

**Revenue and Obligations Forecast for 2019**
($'s millions)

| | 2019 Budget | 2019 Projected GEN* | 2019 Projected PDD | 2019 Projected SSW | 2019 Projected Total | | Variance |
|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | |
| Sales Tax | $1,243.9 | $1,235.4 | | | $1,235.4 | | ($8.5) |
| Use of Fund Balance | 11.2 | 0.7 | | 10.5 | 11.2 | | |
| Interest Penalty on Tax | 34.6 | 34.6 | | | 34.6 | | |
| Permits and Licenses | 21.1 | 14.9 | 4.6 | 1.2 | 20.7 | | (0.4) |
| Revenue Offset to Expenditures | 17.5 | 17.5 | | | 17.5 | | |
| Departmental Revenue | 0.0 | 0.0 | | | | | |
| Assessment - GIS Tax Map Fees | 42.6 | 36.5 | | | 36.5 | (6.1) | |
| County Clerk - Mortgage Recording Fees | 32.4 | 27.7 | | | 27.7 | (4.7) | |
| Other Departmental Revenue | 158.7 | 151.9 | 2.6 | 1.3 | 155.8 | (2.9) | (13.7) |
| Fines and Forfeitures | | | | | | | |
| Boot and Tow Fees | 9.1 | 1.8 | | | 1.8 | (7.3) | |
| Red Light Camera Fees | 24.6 | 27.6 | | | 27.6 | 3.0 | |
| Public Safety Fees | 34.7 | 30.8 | | | 30.8 | (3.9) | |
| Other Fines and Forfeitures | 50.2 | 46.7 | 1.3 | | 48.0 | (2.2) | (10.4) |
| Investment Income | 10.4 | 12.0 | 0.2 | 1.2 | 13.4 | | 3.0 |
| Rents and Recoveries | | | | | | | |
| Sale of County Property | 8.0 | | | | | (8.0) | |
| Recoveries of Prior Year Appropriations | 9.4 | 8.4 | | | 8.4 | (1.0) | |
| Workers' Compensation Settlement Recovery | | 15.0 | | | 15.0 | 15.0 | |
| Other Rents and Recoveries | 23.1 | 15.0 | | 6.0 | 21.0 | (2.1) | 3.9 |
| Federal Aid | 140.0 | 137.3 | | | 137.3 | | (2.7) |
| State Aid | 224.4 | 218.7 | | | 218.7 | | (5.7) |
| Capital Resources for Debt | 3.5 | 3.5 | | | 3.5 | | |
| Property Taxes | 816.0 | 417.1 | 398.9 | | 816.0 | | |
| Payment in Lieu of Taxes | 46.0 | 29.2 | 16.8 | | 46.0 | | |
| OTB Profits | 20.0 | 3.0 | | | 3.0 | | (17.0) |
| Interfund Revenue | 81.2 | 74.9 | 0.2 | | 75.1 | | (6.1) |
| Interfund Revenue (eliminating) | 439.5 | 439.5 | | | 439.5 | | |
| Interfund Transfers (Other Financing Sources) | 120.4 | 0.7 | | 119.7 | 120.4 | | |
| OTB 5% Tax | 2.1 | 2.1 | | | 2.1 | | |
| Special Taxes | 30.5 | 30.5 | | | 30.5 | | |
| **Total Revenue** | **$3,655.1** | **$3,033.0** | **$424.6** | **$139.9** | **$3,597.5** | | **($57.6)** |
| **Obligations** | | | | | | | |
| Payroll (excluding Termination Pay and Overtime below) | 800.2 | 561.3 | 180.7 | 9.5 | 751.5 | | 48.7 |
| Termination Pay (Police Department only) | 38.0 | 19.1 | 21.2 | | 40.3 | | (2.3) |
| Fringe | 617.5 | 438.4 | 138.8 | 8.9 | 586.1 | | 31.4 |
| Overtime (Police Department and Correctional Center only) | 73.5 | 60.3 | 24.3 | | 84.6 | | (11.1) |
| Workers' Compensation | 34.9 | 24.2 | 10.7 | | 34.9 | | 0.0 |
| Social Services | 412.6 | 412.9 | | | 412.9 | | (0.3) |
| Early Intervention | 135.5 | 140.2 | | | 140.2 | | (4.7) |
| Debt service | 401.0 | 386.5 | | 12.5 | 399.0 | | 2.0 |
| Contractual Expense | 335.3 | 275.3 | 1.4 | 64.1 | 340.8 | | (5.5) |
| Utilities | 41.1 | 33.1 | 1.2 | 6.9 | 41.2 | | (0.1) |
| Judgments & Settlements | 30.5 | 33.0 | | 0.5 | 33.5 | | (3.0) |
| Property Tax Refunds | 30.0 | 30.0 | | | 30.0 | | 0.0 |
| Equipment | 2.3 | 2.1 | 0.2 | | 2.3 | | |
| General Supplies | 35.2 | 31.4 | 3.8 | 1.2 | 36.4 | | (1.2) |
| Direct Expenses | 5.2 | 5.2 | | | 5.2 | | |
| Local Government Assistance | 73.7 | 73.2 | | | 73.2 | | 0.5 |
| Interfund Charges | 57.4 | 23.7 | | 34.3 | 58.0 | | (0.6) |
| Interfund Charges (eliminating) | 439.4 | 414.9 | 24.5 | | 439.4 | | |
| Transfers Out (Other Financing Uses) | 0.7 | 0.7 | | | 0.7 | | |
| Transportation | 44.8 | 44.8 | | | 44.8 | | |
| Rent Expense | 13.7 | 13.9 | | | 13.9 | | (0.2) |
| Other | 32.6 | 31.1 | | | 31.1 | | 1.5 |
| **Total Obligations** | **$3,655.1** | **$3,055.3** | **$406.8** | **$137.9** | **$3,600.0** | | **$55.1** |
| **Estimated Results on a Budgetary Basis for operating funds** | | **($22.3)** | **$17.8** | **$2.0** | **($2.5)** | | **($2.5)** |

* Includes: General Fund, Police Headquarters Fund, Fire Prevention, Safety, Communication and Education Fund, Debt Service Fund, Litigation Fund, Employee Accrued Benefits Liability Reserve Fund, Retirement Contribution Reserve Fund, Bond Indebtedness Reserve Fund, Open Space Fund and Technology Fund

## EXHIBIT 3: 2019 Projected Budgetary Basis to GAAP Reconciliation

| 2019 Estimated Budgetary Basis to GAAP Adjustments ($'s in millions) | General Fund | Police District Fund | Sewer and Storm Water Fund | Total Operating Funds |
|---|---|---|---|---|
| Projected Results on a Budgetary Basis | ($22.3) | $17.8 | $2.0 | ($2.5) |
| | | | | |
| Period of availability adjustments | ($1.0) | | ($4.2) | ($5.2) |
| Use of Fund Balance | ($0.7) | | ($10.5) | ($11.2) |
| Sale of Mitchel Field Leases | $1.3 | | | $1.3 |
| NCC adjustment for termination pay | ($0.8) | | | ($0.8) |
| Effect of encumbrances adjustment | $11.2 | $0.0 | $1.8 | $13.0 |
| Pension expenditure adjustment | ($0.9) | ($1.2) | | ($2.1) |
| Reversal of prior year GAAP adjustments for timing | $2.9 | | | $2.9 |
| | | | | |
| NET CHANGE IN FUND BALANCE (DEFICIT) | ($10.3) | $16.6 | ($10.9) | ($4.6) |

## EXHIBIT 4: 2019 Projected Ending GAAP Fund Balance

| 2019 Projected Ending GAAP Fund Balance *($'s in millions)* | General Fund | Police District Fund | Sewer and Storm Water Fund | Total Operating Funds |
|---|---|---|---|---|
| *2018 Ending Fund Balance* | | | | |
| Non Spendable | $40.5 | $12.2 | $0.4 | **$53.1** |
| Spendable: | | | | |
| Restricted | 9.5 | - | - | **9.5** |
| Committed | 21.5 | 1.3 | - | **22.7** |
| Assigned | - | - | 8.2 | **8.2** |
| Unassigned | (4.5) | (17.5) | - | **(22.0)** |
| **Total Fund Balance (Deficit) as of 12/31/2018** | **$67.0** | **($4.0)** | **$8.6** | **$71.6** |
| | | | | |
| **Total Projected Change in Fund Balance (Deficit) FY 2019** | **($10.3)** | **$16.6** | **($10.9)** | **($4.6)** |
| | | | | |
| *2019 Projected Ending Fund Balance (Deficit)* | | | | |
| Non Spendable | $40.8 | $12.6 | $0.5 | **$53.8** |
| Spendable: | | | | **-** |
| Restricted | 8.0 | - | - | **8.0** |
| Committed | 33.5 | 1.3 | - | **34.7** |
| Assigned | - | - | - | **-** |
| Unassigned | (25.6) | (1.3) | (2.7) | **(29.6)** |
| **Total Projected Fund Balance (Deficit) at 12/31/2019** | **$56.7** | **$12.6** | **($2.3)** | **$67.0** |

## Other Possible Transactions

At this time, due to limited available details, the projected operating results DO NOT account for the potential fiscal impacts of various other possible transactions detailed below. These transactions may materialize by the close of fiscal year 2019; however, the timing and/or possibility of these transactions remains uncertain as of this publication.

1. **Tax Certiorari Borrowings | Potential Impact - $200.0 million to Control Period Calculation Results**
   The Administration's updated Multi-Year Plan anticipates requesting bonding authorization of $200 million in fiscal year 2019 to pay out the remainder of the tax certiorari backlog. Both a super-majority of the County Legislature and the NIFA Board of Directors must approve this request. Should this request be approved, and the bonding is pursued, it could provide an additional source of funding for fiscal year 2019. As of this date, our financial projections do not include any financial results related to this bonding, however, we have included the bonding in our debt projections (Section 5.0). The financial impact to the County on a GAAP basis in 2019 would be zero as debt service costs would not begin until the following year, however this would negatively affect the Control Period Calculation for any tax certiorari refunds made using borrowed funds. The Comptroller's Office projection of the Control Period Calculation in this report does not include the $200 million borrowing for the tax certiorari refunds.

2. **OTB Profits - Video Lottery Terminals (VLT) | Potential Impact - $5.0 - $15.0 million**

   The Administration has indicated that the County has received a payment schedule for the $20.0 million that is due for the 2019 VLT revenues. The County expects that OTB will distribute $5.0 million to the County on each of the following dates each year: February 15, May 15, August 15, and November 15. However, to-date, the agreement or any other documentation has not been provided to this Office and no cash receipts have been received in 2019 except for the $3.0 million collected for 2018. Considering that OTB has paid $3.0 million in 2017, 2018 and 2019, we are risking the remainder of the payments that would be reported in 2019. However, there is an opportunity for an additional $5.0 to $15.0 million in revenue in 2019 if OTB does pay in accordance with the installment schedule indicated by the Administration.

3. **NYS Workers' Compensation | Potential Impact - To Be Determined**
   New York State eliminated its workers' compensation long-term liability to the County, which estimates the cost of reimbursing the County for certain categories of injured workers, by offering the County a discounted upfront payment of $15.0 million. The County has received the funds and has recorded a recovery in its Litigation Fund but needs to pay the injured employees over a span of approximately 20 years; the State had estimated this liability at $19 million. Triad Group LLC, the County's workers' compensation administrator, is determining if outstanding workers' compensation claims can be settled for a one-time upfront payment, at which time the County would utilize the funds recovered to pay those settlements. Our projections estimate $2.0 million will be paid out of the recovered funds in 2019 with subsequent settlements in future years, however, at this time, with the limited details that are available regarding possible settlements, the Comptroller's Office cannot determine how much of the $15.0 million will be paid out in 2019.

4. **Sales Tax | Potential Impact - To Be Determined**
   **Internet Sales Tax | Potential Impact - $7.0-$10.0 million**

Mid-year sales tax revenue across the County has increased over last year, although the growth began to slow down. The increase in sales tax collections in 2018 helped the County meet its 2018 budget. The County is keeping a close eye on sales tax to see if its growth is sustainable. Internet sales tax collection, which began in June, may help the County meet its 2019 budget. County-wide sales tax provides approximately 39% of the revenue (excluding eliminating interfunds) in the County's adopted budget.

The collection of sales tax derived from internet sales conducted within the State became effective June 1, 2019. Large internet marketplace providers are required to collect sales tax on behalf of all vendors that use their platform and remit these sales taxes to the State. In the *2019-2020 State Budget Impact Report* recently issued by the New York State Association of Counties (NYSAC), NYSAC estimated that the County could receive internet sales tax revenue, net of Aid and Incentives for Municipalities (AIM) payments to towns and villages, of $7.0 million to $10.0 million for the current fiscal year. The State budget ended AIM payments to all towns and villages where their 2018 payment represented less than two percent of their total expenditures as reported to the State Comptroller. Nearly 1,300 towns and villages will no longer receive AIM payments. However, the State budget replaces those payments with new payments, derived from internet sales tax collections, equal to what each municipality received in 2018.

Our projections do not include internet sales tax revenues.

5. **Labor Contracts | Potential Impact - To Be Determined**

To date, all collective bargaining unit's contracts have expired. The fiscal year 2019 budget and our projections do not include any potential fiscal impacts of any newly negotiated agreements.

6. **Disputed Assessment Fund (DAF) | Potential Impact - To Be Determined**

New York State legislation was passed in 2018, effective 2019, that amended the use of DAF collections from commercial property owners. DAF charges collected in 2019 may be used to pay any tax certiorari refund due to a commercial property owner, including liabilities that pre-dated the DAF charge. In addition, for 2017 and 2018 DAF charges collected, the County reports a portion of the DAF charge as Property Tax Revenue when the property tax grievance is lost by the commercial property owner. At this time, we cannot estimate how much will be earned by the County in 2019.

7. **Investment Income | Potential Impact - $3.0 million**

   Due to the growth in interest rates over last year, Investment Income revenues are trending up strongly. Our projections are conservative at a $3.0 million surplus over the adopted budget, however, there is an opportunity for an additional $3.0 million more prior to the close of the fiscal year. Without analyzing projected cash flows for the County, we cannot be certain that the opportunity will materialize, however, given the current trend, the County may receive additional revenue.

## 1.4 STATE OF THE ECONOMY:

National GDP for the first quarter of 2019 rose 3.1 percent, surpassing the 2.2 percent increase in the fourth quarter of 2018. This increase reflects a boost in overall consumer spending, lower unemployment rates, and stronger business investment. As of May 2019, per the State Labor Department and the Bureau of Labor and Statistics, the County's unemployment rate of 3.1 percent continues to be lower than that of New York State and the nation—3.8 percent and 3.6 percent, respectively.

In addition, as of the date of this report, County sales tax collections have grown by 1.74 percent year-over-year and show a slowing of collections as we approach the remainder of 2019.

Median household incomes in the County are significantly above the national average and the New York State average. According to the 2017 American Community Survey, the County's median family income totals $108,133, as compared to the State and national median family income of $64,894 and $60,336, respectively.

Although the County is considered developed with limited vacant parcels, transit-oriented housing development and re-development, can serve to attract young professionals, and can add great value to the existing traditional housing stock.

Lastly, it is important to note that the federal tax-reform, in particular the cap on State and Local Taxes (SALT) deductions, may continue to pose a risk to the County's economy and housing activity in the coming year.

## 1.5 OPPORTUNITIES:

Actions taken by the Administration:

The Administration has taken various steps to address the myriad of inherited fiscal challenges. The Administration's main priority is to fix the property assessment system, in order to achieve a fair and equitable assessment. The New York State Legislature approved the Administration's Taxpayer Protection Plan. The Taxpayer Protection Plan phases in changes in assessment over 5-years to protect residents from large changes in assessment. The Administration is calling on the County Legislature to approve the Taxpayer Protection Plan. While these changes will not affect the 2019 results, there are long-term benefits that will impact future fiscal year financial results.

The County also began implementing the new and improved Disputed Assessment Fund (DAF) for commercial properties in FY 2019. The success in securing legislative approval in Albany last June allows the County to collect DAF charges from all commercial property taxpayers for commercial refunds.

### Other Opportunities:

In addition to the measures already taken by the Administration, the Comptroller's Office proposes the continuing review of the following opportunities for improvement:

1. Modernize the County's Legacy Financial System

   Modernizing the County's legacy financial system must be a top priority to ensure continued compliance with governmental accounting standards and timely financial statements. The Nassau Integrated Financial System (NIFS), which runs on coding designed for 1980's accounting systems, cannot efficiently produce GAAP-compliant financial statements and thus the process is highly manually-driven. In addition, an up-to-date financial system will increase operational and reporting efficiencies and result in savings of taxpayers' dollars.

   Preparing reliable financial information is a key responsibility of management. The design and effectiveness of the processes and safeguards (internal controls) management puts in place over accounting and financial reporting is a key factor to being able to prepare reliable financial information timely.

   The County's independent audit firm, RSM US LLP, has noted the County's financial system as a continuing **material weakness**, which means an ineffective system exists that presents a **reasonable probability that a material misstatement of the County's financial statements will NOT be prevented or detected on a timely basis**, because the County's financial system is unable to produce financial information that meets the needs of the County. It is anticipated that this material weakness will continue to be highlighted by the County's independent audit firm until the County upgrades its financial system to be in compliance with current governmental accounting standards.

   Reports such as this one requires hundreds of staff hours to create GAAP-compliant reporting as the information is not available from the County's financial system. Instead, the County's staff hours should be utilized analyzing the data so that helpful decision-making information can be derived from the data. As stated earlier in the discussion of an ERP system, the Comptroller's Office has made progress in moving to modernizing its financial system.

2. Centralize Departmental Functions:

   The County's current organization is heavily decentralized for many functions. This results in inefficiencies and inconsistencies in reporting, requiring additional staff time to process adjusting entries needed for compliance with GAAP reporting. In addition, in certain regards, decentralization does not optimize internal controls. The County Comptroller will continue working with the Administration to recommend areas where centralization would be beneficial by increasing efficiencies and saving money. For example, the County does not have a centralized accounts receivable (revenue collection) unit. We recommend a concerted effort be put forth to centralize operations and collect all revenues and open receivables that are due to the County in a timely fashion.

3. Financial and Data Analytics

The Comptroller's Office has taken many steps to open and modernize the County's finances as discussed above. In addition, financial and data analytics has and will provide the County's senior management with more timely information with which to make timely and better decisions, including the ability to be proactive to situations that may arise rather than react to situations that occur. The Open Nassau Transparency Hub may be found online at opennassau.nassaucountyny.gov.

4. Grant Management Unit:

Last year, we recommended the creation of a grant management unit to oversee all grants within the County and assist departments in obtaining all possible funding available to the County. Other major Counties have employed this practice. The County Executive's Office has moved forward with initial staffing to oversee grant management, however, we recommend that further steps be taken.

For example, in fiscal year 2018, $6.0 million of the budgeted grant revenue for the bus systems was delayed due to late execution of the grant. Given the expected decline in Federal and State Aid, a centralized department for grants may help the County find new revenue sources while providing citizens with enhanced services.

5. Audit Recommendations and Risk Assessment

The Comptroller's Office continues to conduct a number of programmatic and fiscal audits of County departments and operations. The reports issued by the Comptroller's Office contain detailed recommendations for improvements which can be made by the current administration to save taxpayer dollars and more efficiently deploy limited resources. A collaborative approach to the audit process and swift implementation of recommended corrective action plans is an important resource to help the Administration tackle inherited operational and fiscal weaknesses. A new six-month review process of all audits conducted by the Comptroller's Office provides an additional check that corrective action plans have been properly implemented. In addition, compliance and integrity are key cornerstones to the audit process and the risk assessment process in determining the specific audits to be conducted. Areas where efficiencies or saving taxpayer's money are crucial drivers of the risk assessment.

In the following sections, you find more detailed discussion on various revenue variances, expenditure variances, fund balance, projected debt levels, and other key concerns and major County financial trends.

# 2.0 REVENUE VARIANCES

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

## 2.1 Sales Tax

Year-to-date sales tax receipts are 1.74 percent over last year's comparative collections, and we are projecting a conservative 1.82 percent increase through the end of the year, resulting in a total 1.79 percent net increase over last year's actuals. Therefore, we are projecting Sales Tax Receipts to come in at $8.5 million less than the adopted budget, or less than a 1% shortfall. In its latest projections, the Administration has reduced its estimated sales tax revenue projections by $6.0 million from the adopted budget.

Part (Deferred) County Sales Tax represents the collection of sales tax related to hotel occupancy and alcoholic beverages throughout the County, and it is reimbursed to the Towns within the County and the City of Glen Cove, with the exception of the City of Long Beach (because it collects this sales tax directly from the State) as a credit to their property tax levies at the amount budgeted. If the Part County Sales Tax collected is over budget, the amount collected in excess of the budgeted amount must be deferred so that the Towns and the City of Glen Cove may be made whole for the remaining amount in future years.

Moody's Analytics and other sources have analyzed sales tax and made various projections. The following are some driving factors contributing to the projection that the County's sales tax revenue will come in under its 2019 Adopted Budget. As the market momentum faded in the fourth quarter of 2018, households had less disposable income. Also, elimination of popular tax credits under the Tax Cuts and Jobs Act affected County residents. With Wall Street bonuses falling 17% in 2018 and with the County having a large concentration of financial service workers, a fear that a stock market correction would occur impacted spending habits. In addition, the highest paid workers in the County are seeing the lowest increase in wages. Low population growth and increasing median age stalls housing development and home construction has many taxable goods, which the County is missing out on this year and into the future. Higher interest rates have deterred many from also purchasing cars, and 14% of sales tax usually results from motor vehicle sales and parts dealers.

Our projections do not include sales tax revenues derived from internet sales conducted within the State, which became effective June 1, 2019. Although in the *2019-2020 State Budget Impact Report* issued by the New York State Association of Counties (NYSAC), NYSAC estimated that the County could receive internet sales tax revenue, of $7.0 million to $10.0 million for the current fiscal year. Since there is no established trend for this new revenue stream, we have noted this as a possible opportunity to the 2019 fiscal results.

| SALES TAX ($'s in millions) | | | | | |
|---|---|---|---|---|---|
| | **2018 Actual** | **2019 Budget** | **2019 YTD June** | **2019 Forecast** | **Variance** |
| Sales Tax Receipts | 1,194.5 | 1,231.4 | 415.6 | 1,222.9 | (8.5) |
| Part (Deferred) County Sales Tax | 5.5 | 12.5 | 12.5 | 12.5 | 0.0 |
| **Total** | 1,200.0 | 1,243.9 | 428.1 | 1,235.4 | (8.5) |

## 2.2 Video Lottery Terminals Profits from OTB

We project $17.0 million of the $20.0 million Video Lottery Terminals ("VLT") proceeds budgeted as OTB Profits will not be realized.

According to the Administration, the County and OTB have agreed upon changes to the payment schedule for VLT revenue due to the County. Per the Administration, the County is to receive $5.0 million four times a year; February 15th, May 15th, August 15th and November 15th. As of the date of this report, we have not received a copy of the agreement establishing this payment plan, or any other supporting and relevant documentation with which to reasonably project these revenues. Additionally, the County only received $3.0 million for last year's commitment from OTB, resulting in a $12.8 million shortage for this category in 2018. For these reasons, we consider $17.0 million of the $20.0 million to be at risk.

| VLT PROFITS FROM OTB ($'s in millions) | | | | |
|---|---|---|---|---|
| **2018 Actual** | **2019 Budget** | **2019 YTD June** | **2019 Forecast** | **Variance** |
| 3.0 | 20.0 | 3.0 | 3.0 | (17.0) |

## 2.3 Departmental Revenue

Departmental Revenue is projected to be under budget by $13.7 million. The projected negative variance is caused by a shortage of collections of Mortgage Recording Fees of $4.7 million and GIS Tax Map Verification Fees of $6.1 million. We also anticipate a negative variance of $3.9 million in the County's bus system farebox revenue due to overbudgeting in this category. This is slightly offset by an anticipated positive variance in the Department of Social Services. The Administration's most recent June projections have adjusted Mortgage Recording Fees and GIS Tax Map Verification Fees down from the adopted budget by $5.8 million and $5.5 million, respectively.

| | DEPARTMENTAL REVENUE ($'s in millions) | | | | |
|---|---|---|---|---|---|
| **Category** | **2018 Actual** | **2019 Budget** | **2019 YTD June** | **2019 Forecast** | **Variance** |
| GIS Tax Map Fees | 39.6 | 42.6 | 16.2 | 36.5 | (6.1) |
| Mortgage Recording Fees | 29.6 | 32.4 | 13.7 | 27.7 | (4.7) |
| Other Departmental Revenue | 157.4 | 158.7 | 56.0 | 155.8 | (2.9) |
| **Total Fines and Forfeitures** | **226.6** | **233.7** | **85.9** | **220.0** | **(13.7)** |

### 2.4 Fines and Forfeitures

Fines and Forfeitures are projected to be under budget by $10.4 million. A $7.3 million negative variance in Boot and Tow revenue is projected because an initiative for enhanced enforcement on leased vehicles will not be implemented. A $3.9 million negative variance in collection of Public Safety Fees is expected due to overbudgeting in this category. Other positive and negative variances include a $3.0 million positive variance for Red Light Camera collections and a negative $2.2 million variance in all other fines and forfeitures.

| | FINES AND FORFEITURES ($'s in millions) | | | | |
|---|---|---|---|---|---|
| **Category** | **2018 Actual** | **2019 Budget** | **2019 YTD June** | **2019 Forecast** | **Variance** |
| Boot and Tow Fees | 2.4 | 9.1 | 0.7 | 1.8 | (7.3) |
| PD Public Safety Fees | 30.8 | 34.7 | 11.9 | 30.8 | (3.9) |
| Red Light Camera Fees | 28.8 | 24.6 | 15.7 | 27.6 | 3.0 |
| Other Fines and Forfeitures | 52.6 | 50.2 | 18.7 | 48.0 | (2.2) |
| **Total Fines and Forfeitures** | **114.6** | **118.6** | **47.0** | **108.2** | **(10.4)** |

### 2.5 Federal and State Aid

Federal Aid is projected to be under budget by $2.7 million, and State Aid is projected to be under budget by $5.7 million. A negative variance in Federal Aid is expected in DSS due to lower reimbursements in the Department of Social Services in the areas of Temporary Assistance to Needy Families (TANF), Foster Care and Daycare. State Aid is lower due to two primary factors. A $5.2 negative variance is expected for the County's Raise the Age Initiative because State revenue agreements are currently not in place. Raise the Age is a NYS mandate that raises the age of criminal responsibility to eighteen and places sixteen and seventeen-year-olds who commit non-violent crimes in the proper settings for services and treatment. A negative variance of $3.0 is also expected for Medicaid inmate reimbursement at the Correctional Center. This is for revenue that was not billed in 2017 and 2018 and is at risk for not being recovered in 2019. A $2.2 positive variance in Health Department revenues relating to overbudgeted Early Intervention expense is also expected.

| FEDERAL AID ($'s in millions) | | | | |
|---|---|---|---|---|
| **2018 Actual** | **2019 Budget** | **2019 YTD June** | **2019 Forecast** | **Variance** |
| 145.7 | 140.0 | 42.3 | 137.3 | (2.7) |

| STATE AID ($'s in millions) | | | | |
|---|---|---|---|---|
| **2018 Actual** | **2019 Budget** | **2019 YTD June** | **2019 Forecast** | **Variance** |
| 220.8 | 224.4 | 70.4 | 218.7 | (5.7) |

## 2.6 Rents and Recoveries

Rents and Recovery revenue is projected to be over budget by $3.9 million. A positive $15.0 million variance is anticipated in the Litigation Fund due to a recent workers' compensation settlement with New York State. Looking to eliminate its workers' compensation long-term liability to the County for certain categories of injured workers, the State entered into an agreement with the County to instead make the County a discounted, upfront payment of $15.0 million in exchange for the County assuming the long-term workers' compensation liability. This non-recurring revenue is projected to be used to settle workers' compensation claims beginning in the fourth quarter of 2019. The $15.0 million surplus is offset by $2.2 million budgeted for the County's annual budgeted reimbursement from the State for these same claims. Additionally, a negative offset of $8.0 million is projected for the sale of County property. To the best of our knowledge, no sales have as yet been approved. We also project a $1.0 million negative variance in disencumbrances for amounts that may not be realized.

| | RENTS AND RECOVERIES ($'s in millions) | | | | |
|---|---|---|---|---|---|
| **Category** | **2018 Actual** | **2019 Budget** | **2019 YTD June** | **2019 Projected** | **Variance** |
| Sale of County Property | 6.9 | 8.0 | 0.0 | 0.0 | (8.0) |
| Disencumbrances | 5.9 | 9.4 | 6.4 | 8.4 | (1.0) |
| Workers' Compensation Settlement | 0.0 | 0.0 | 0.0 | 15.0 | 15.0 |
| Other Rents and Recoveries | 22.4 | 23.1 | 9.5 | 21.0 | (2.1) |
| **Total Rents and Recoveries** | **35.2** | **40.5** | **15.9** | **44.4** | **3.9** |

## 2.7 Interfund Revenue

Interfund revenue is projected to be $6.0 million under budget primarily due to $6.0 million budgeted for the Police Asset Forfeiture programs. Asset Forfeiture charges are recorded as direct expenditures in the appropriate forfeiture grant account and are not recorded as interfund charges. At this time, approximately $1.5 million in overtime has been identified by the Police Department as additionally allowed under Asset Forfeiture for 2019 and will be a direct charge from the County's operating funds to the separate forfeiture accounts that reside in the County's grant fund. This amount has been applied as a reduction to overtime expense in the Police Department.

| INTERFUND REVENUES ($'s in millions) | | | | |
|---|---|---|---|---|
| **2018 Actual** | **2019 Budget** | **2019 YTD June** | **2019 Forecast** | **Variance** |
| 71.1 | 81.2 | 0.0 | 75.2 | (6.0) |

## 2.8 Investment Income

Investment Income is projected to be over budget by $3.0 million. Year-to-date revenues have shown a strong upward trend towards this revenue category surpassing budgeted amounts and prior year actual collections. We are conservatively projecting a $3.0 million surplus for this revenue category, but this category presents an opportunity for an increased positive variance through the end of the year.

| INTEREST INCOME ($'s in millions) | | | | |
|---|---|---|---|---|
| **2018 Actual** | **2019 Budget** | **2019 YTD June** | **2019 Forecast** | **Variance** |
| 10.4 | 10.4 | 6.3 | 13.4 | 3.0 |

## 2.9 Permits and Licenses

Permit and License revenue is projected to be under budget by $0.4 million. This variance is based on trending year-to-date collections for industrial permits, sewer connection permits, and verification revenues in the Sewer and Storm Water Fund that fall below budgeted amounts.

| PERMITS AND LICENSES ($'s in millions) | | | | |
|---|---|---|---|---|
| **2018 Actual** | **2019 Budget** | **2019 YTD June** | **2019 Forecast** | **Variance** |
| 19.8 | 21.1 | 10.7 | 20.7 | (0.4) |

# 3.0 OBLIGATION VARIANCES

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

## 3.1 Salaries, Fringe Benefits and Workers Compensation

We project salaries (including overtime for the Police Departments and the Correctional Center), fringe benefits, and workers' compensation expense, to have a combined positive variance of $66.7 million from the 2019 Adopted Budget; $35.3 million and $31.4 million in salaries and fringe benefits, respectively. This positive variance is primarily attributable to savings from vacant positions and positions for part-time/seasonal employees, savings in pension and health insurance costs, as well as other payroll-related savings. These savings are offset by a $11.7 million negative variance in overtime for both Police Headquarters and the Correctional Center, as well as overages anticipated in termination pay projected, which could reach up to $50.6 million for 2019, or $2.8 million over the adopted budget.

The Comptroller's Office projections assume a headcount of 7,458 with vacancies of over 200 positions when compared to the 2019 Adopted Budget total of 7,671. Our projected headcount includes a class of 100 police officers, expected to begin in December of 2019, and a class for the Correctional Center of 40, anticipated for the last quarter of 2019. We project that should the vacant positions be filled before year-end, an additional cost of up to $17.8 million is possible for both salaries and fringes combined, however, these costs can be funded under the adopted budget and have not been included in the forecast below. Our projections are developed by using on-board headcount as of the end of June, adding projected police and Correctional Center classes, and subtracting anticipated police separations.

The Comptroller's Office projections include annual step increases for each of the labor unions but do not include any other increase, such as cost of living adjustments, for 2019, since the collective bargaining agreements for all unions have expired. Our projections do not include the potential impact to the 2019 financial results should the Administration and the union negotiate new labor agreements in 2019.

| SALARIES (including overtime and termination pay) ($'s in millions) | | | | | |
|---|---|---|---|---|---|
| | 2018 Actual | 2019 Budget | 2019 YTD June | 2019 Forecast | Variance |
| GEN | 628.8 | 663.6 | 318.4 | 640.7 | 22.9 |
| PDD | 219.2 | 237.8 | 104.2 | 226.2 | 11.6 |
| SSW | 9.7 | 10.3 | 4.3 | 9.5 | 0.8 |
| **Total** | **857.7** | **911.7** | **426.9** | **876.4** | **35.3** |

Note: GEN - General Fund; PDD - Police District Fund; SSW - Sewer and Storm Water District Fund

Fringe benefits are projected to end the year with a positive variance of $31.4 million when compared to the 2019 Adopted Budget. This surplus is primarily attributable to savings in pension and health insurance costs, mainly due to higher budgeted rates than 2019 actual, vacancies, and overbudgeting for these costs.

| FRINGES ($'s in millions) | | | | | |
|---|---|---|---|---|---|
| | 2018 Actual | 2019 Budget | 2019 YTD June | 2019 Forecast | Variance |
| GEN | 430.3 | 463.0 | 279.8 | 438.4 | 24.6 |
| PDD | 140.4 | 145.0 | 94.6 | 138.8 | 6.2 |
| SSW | 9.0 | 9.5 | 5.0 | 8.9 | 0.6 |
| **Total** | **579.7** | **617.5** | **379.4** | **586.1** | **31.4** |

Note: GEN - General Fund; PDD - Police District Fund; SSW - Sewer and Storm Water District Fund

Workers' Compensation is expected to remain within budget for 2019. No variance has been projected for this category.

| WORKERS COMPENSATION ($'s in millions) | | | | | |
|---|---|---|---|---|---|
| | 2018 Actual | 2019 Budget | 2019 YTD June | 2019 Forecast | Variance |
| GEN | 23.3 | 24.2 | 9.6 | 24.2 | 0.0 |
| PDD | 8.6 | 10.7 | 3.9 | 10.7 | 0.0 |
| SSW | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **31.9** | **34.9** | **13.5** | **34.9** | **0.0** |

Note: GEN - General Fund; PDD - Police District Fund; SSW - Sewer and Storm Water District Fund

### 3.2 Termination Pay and Overtime

According to the Administration, the 2019 Adopted Budget funded termination pay for approximately 120 officers, totaling $38.0 million (Police District and Police Headquarters). It has been NIFA's policy as of 2016 to no longer allow the County to borrow to cover costs related to termination pay. To date for fiscal year 2019, a total of 95 sworn officers have retired. The Comptroller's Office projects that up to 45 additional officers may be retiring before year-end 2019 and has estimated the additional cost at $21.5 million. The Comptrollers' projection includes a total of 140 police officers retiring from both the Police District and Police Headquarters in 2019, with an estimated cost of $40.3 million, lower than the adopted budget by $2.3 million for these two funds.

The 2019 projected total termination pay for the County could reach up to $50.6 million for the primary operating funds, and in total is estimated to be underfunded by $2.8 million when compared to the 2019 Adopted Budget. To help address future anticipated budget shortages related to termination pay for the Police District, the County has funded a reserve in the Employee Benefit Accrued Liability Reserve Fund to address possible shortages in termination pay; the amount available for future budgets is currently $13.1 million (the reserve cannot be used unless it was included in the adopted budget). Any additional risks within Police Headquarters will have to be funded by the General Fund if it cannot be funded from savings from other salary lines.

| TERMINATION PAY ($'s in millions) | | | | | |
|---|---|---|---|---|---|
| | 2018 Actual | 2019 Budget | 2019 YTD June | 2019 Forecast | Variance |
| Police District | 17.4 | 13.8 | 7.7 | 21.2 | (7.4) |
| Police Headquarters | 24.3 | 24.2 | 11.1 | 19.1 | 5.1 |
| Other | 11.7 | 9.8 | 9.0 | 10.3 | (0.5) |
| **Total** | **53.4** | **47.8** | **27.8** | **50.6** | **(2.8)** |

Overall, Police Department overtime has continued to decline since 2016, due primarily to the addition of several new police classes in recent years and enhanced management and control of overtime hours. Overtime for the Correctional Center continues to rise due to delays in hiring new classes that would help increase headcount and reduce overall overtime expense. Our projections include a class of 40 correctional officers anticipated to begin in the last quarter of 2019. However, because this is expected late in 2019, the savings in overtime from the increased headcount is not expected to be realized until 2020. Based on current expenditure trends, overtime costs for the operating funds are projected to be $8.6 million over the 2019 budget. The projected increase is primarily comprised of $1.5 million for Police Headquarters and $10.2 million for the Correctional Center. We are projecting an additional $1.5 million reduction in Police Department overtime due to new police training programs that qualify for funding under Asset Forfeiture. This offset is included in the numbers reflected above.

Projected overtime deficits are expected to be funded by other salary line item savings.

| OVERTIME ($'s in millions) | | | | | |
|---|---|---|---|---|---|
| | 2018 Actual | 2019 Budget | 2019 YTD June | 2019 Forecast | Variance |
| Police District | 20.6 | 24.9 | 6.6 | 24.3 | 0.6 |
| Police Headquarters | 29.7 | 28.5 | 11.8 | 30.0 | (1.5) |
| Correctional Center | 26.9 | 20.1 | 12.2 | 30.3 | (10.2) |
| Other | 10.6 | 14.8 | 5.5 | 12.3 | 2.5 |
| **Total** | **87.8** | **88.3** | **36.1** | **96.9** | **(8.6)** |

### 3.3 Contractual Expense

Contractual expense is expected to have a $5.5 million unfavorable variance against the adopted budget. This variance is primarily due to $3.0 million for additional funding needed for inmate care provided at the Nassau County Correctional Center, $1.7 million for additional consulting contracts in the Department of Assessment and $0.3 million for a contract with the Leadership Training Institute for educational services for the Probation Department.

| CONTRACTUAL EXPENSE ($'s in millions) | | | | |
|---|---|---|---|---|
| 2018 Actual | 2019 Budget | 2019 YTD June | 2019 Forecast | Variance |
| 325.8 | 335.3 | 270.0 | 340.8 | (5.5) |

### 3.4 Early Intervention

We project expenditures for Health Department Early Intervention will come in at $4.7 million over budget. This negative variance is primarily caused by 2018 expenditures recorded in the financial system in 2019. These expenditures were accrued in 2018 on a GAAP basis and are adjusted for in the 2019 GAAP adjustments.

| EARLY INTERVENTION ($'s in millions) | | | | |
|---|---|---|---|---|
| 2018 Actual | 2019 Budget | 2019 YTD June | 2019 Forecast | Variance |
| 135.6 | 135.5 | 84.3 | 140.2 | (4.7) |

### 3.5 Judgments and Settlements

We are projecting tax certiorari refunds to be on budget and other judgments and settlements to be under budget by $3.0 million, comprised of an estimated $2.0 million of workers' compensation claims to be settled in the fourth quarter of 2019 and paid with funds received by the County from the State settlement, and $1.0 million projected to be paid from the Litigation Fund.

| JUDGMENTS AND SETTLEMENTS ($'s in millions) | | | | | |
|---|---|---|---|---|---|
| | 2018 Actual | 2019 Budget | 2019 YTD June | 2018 Forecast | Variance |
| Property Tax Refunds | 29.9 | 30.0 | (22.3) | 30.0 | 0.0 |
| Other Judgments and Settlements | 53.2 | 30.5 | 22.6 | 33.5 | (3.0) |

### 3.6 Debt Service

We are projecting a positive variance of $2.0 million in Debt Service due to lower borrowing amounts than projected. The County has issued $64.4 million in bonds in May 2019. The County anticipates bonding an additional $298.4 million in December 2019: $200.0 million for tax certiorari payments and $98.4 million to pay for maturing 2018 Series C BANs. Bonds and BANs issued in the current year will not result in additional debt service costs until the following year.

| DEBT SERVICE ($'s in millions) | | | | |
|---|---|---|---|---|
| 2018 Actual | 2019 Budget | 2019 YTD June | 2019 Forecast | Variance |
| 392.2 | 401.0 | 135.3 | 399.0 | 2.0 |

### 3.7 General Expense

General expense is projected to have a negative variance of $1.2 million against the budget. This additional amount is needed for postage related to increased costs of taxpayer mailings in the Department of Assessment.

| GENERAL EXPENSE ($'s in millions) | | | | |
|---|---|---|---|---|
| 2018 Actual | 2019 Budget | 2019 YTD June | 2019 Forecast | Variance |
| 31.5 | 35.2 | 19.7 | 36.4 | (1.2) |

### 3.8 Interfund Charges – Nassau Community College

We project a negative variance of $0.6 million in this category due to the end of the County 'Staffing for Adequate Fire and Emergency Response Grant' (SAFER). This grant funded tuition at Nassau Community College is an incentive for County fire and EMS to encourage interest and retention of volunteer staff. Even though the SAFER grant has ended, the County intends to continue funding this incentive and is requesting appropriations be made available in this category.

| INTERFUND CHARGES ($'s in millions) | | | | |
|---|---|---|---|---|
| 2018 Actual | 2019 Budget | 2019 YTD June | 2019 Forecast | Variance |
| 29.6 | 23.1 | 4.0 | 23.7 | 0.6 |

### 3.9 Local Government Assistance

Local government assistance is projected to have a favorable variance of $0.5 million due to a lower sales tax projection for 2019.

| LOCAL GOVERNMENT ASSISTANCE ($'s in millions) | | | | |
|---|---|---|---|---|
| 2018 Actual | 2019 Budget | 2019 YTD June | 2019 Forecast | Variance |
| 72.1 | 73.7 | 1.2 | 73.2 | 0.5 |

# 4.0 PROJECTED ENDING GAAP FUND BALANCE

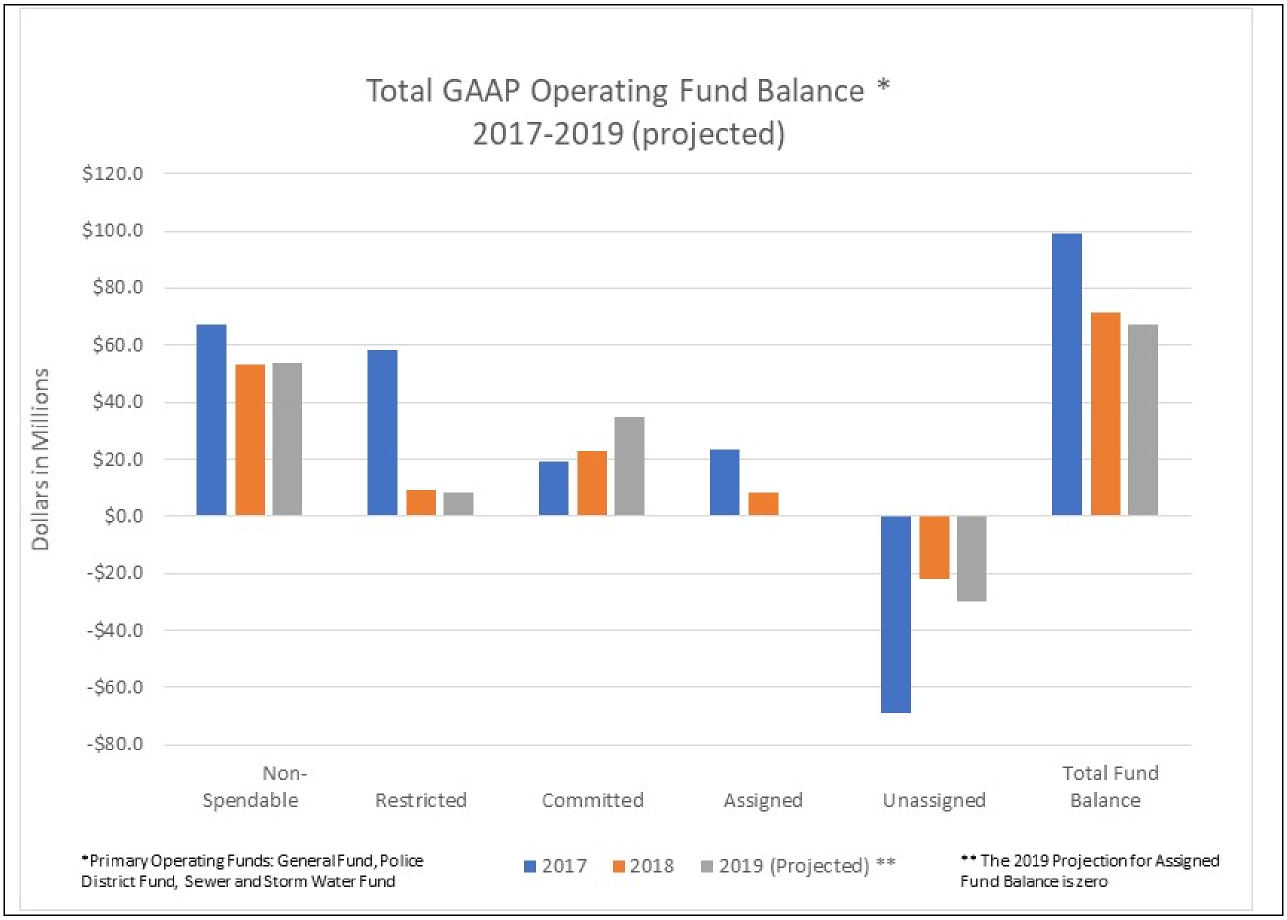
The projected GAAP operating deficit of $4.6 million is estimated to decrease the total fund balance for the three primary operating funds and increase the unassigned fund balance deficit to $29.6 million from a deficit of $22.0 million at December 31, 2018.

The Exhibit below (also shown in the Executive Summary) illustrates the projected changes in fund balance for the ending of fiscal year 2019.

### EXHIBIT 4: 2019 Projected Ending GAAP Fund Balance

| 2019 Projected Ending GAAP Fund Balance *($'s in millions)* | General Fund | Police District Fund | Sewer and Storm Water Fund | Total Operating Funds |
|---|---|---|---|---|
| ***2018 Ending Fund Balance*** | | | | |
| **Non Spendable** | $40.5 | $12.2 | $0.4 | **$53.1** |
| **Spendable:** | | | | |
| **Restricted** | 9.5 | - | - | **9.5** |
| **Committed** | 21.5 | 1.3 | - | **22.7** |
| **Assigned** | - | - | 8.2 | **8.2** |
| **Unassigned** | (4.5) | (17.5) | - | **(22.0)** |
| **Total Fund Balance (Deficit) as of 12/31/2018** | **$67.0** | **($4.0)** | **$8.6** | **$71.6** |
| | | | | |
| **Total Projected Change in Fund Balance (Deficit) FY 2019** | **($10.3)** | **$16.6** | **($10.9)** | **($4.6)** |
| | | | | |
| ***2019 Projected Ending Fund Balance (Deficit)*** | | | | |
| **Non Spendable** | $40.8 | $12.6 | $0.5 | **$53.8** |
| **Spendable:** | | | | **-** |
| **Restricted** | 8.0 | - | - | **8.0** |
| **Committed** | 33.5 | 1.3 | - | **34.7** |
| **Assigned** | - | - | - | **-** |
| **Unassigned** | (25.6) | (1.3) | (2.7) | **(29.6)** |
| **Total Projected Fund Balance (Deficit) at 12/31/2019** | **$56.7** | **$12.6** | **($2.3)** | **$67.0** |

**EXHIBIT 5**: **Historical Ending GAAP Fund Balance 2017-2019 (projected)**




The Exhibit above illustrates the County's ending GAAP fund balance for the three primary operating funds as of fiscal year-end 2017 and 2018, and the projection for 2019. As shown above, the total GAAP fund balance for the three primary operating funds has declined since 2017 due to GAAP deficits ($27.5 million for 2018 and $4.6 million projected for 2019). The composition of GAAP fund balance has also changed since 2017, with less fund balance required for nonspendable, restricted, committed or assigned purposes. The chart above also illustrates the elimination of assigned fund balance in the proposed 2019 fiscal year related to the Sewer and Storm Water Fund, pushing this fund into a negative unassigned position for the first time, indicating that there is not enough recurring revenues and ending fund balance in this fund to sustain it going forward.

The County's General Fund on a reporting basis includes several other funds and reserves that held significant fund balances. Those funds are known as the Litigation Fund, the Employee Benefit Accrued Liability Reserve Fund, the Bond Indebtedness Reserve Fund, the Retirement Contribution Reserve Fund, the Open Space Fund, and the Technology Fund.

- **Litigation Fund**: The amounts in the Litigation Fund are restricted for litigation claims, judgments, and settlements. Most of the original fund balance, derived from bond premiums, has been depleted due to significant payments in 2017 and 2018. However, the fund was partially replenished at the end of the 2018 fiscal year to help fund anticipated future litigation costs; $8 million was transferred from the General Fund and $5 million was transferred from the Police District Fund. In 2019, the County received a $15 million settlement from New York State related to workers' compensation claims under Workers' Compensation Law (WCL) Section 15(8)(h)(2)(A). The long-term liability held at the State was effectively transferred to the County in exchange for an up-front discounted payment of $15 million. The State last estimated this long-term liability to be approximately $19 million. The County expects to use these funds to settle workers' compensation claims.

- **Retirement Contribution Reserve Fund**: The Retirement Contribution Reserve Fund held $8 million set aside for use to pay for 2017 pension costs of non-police employees in the General Fund. $8.0 million of fund balance was used in 2017. The remainder represents interest income earned on fund balance.

- **Employee Benefit Accrued Liability Reserve Fund**: The Employee Benefit Accrued Liability Reserve Fund holds $13.1 million which is set aside for future Police District termination pay, and $0.1 million set aside from 2018 surplus, for the Majority Legislature's termination pay earmarked to be used in 2019 and forward.

- **Bond Indebtedness Reserve Fund**: The Bond Indebtedness Reserve Fund currently holds $0.7 million of funds attributed to the savings realized in refinancing the County's debt in 2016. This amount is restricted to debt service. $2.9 million was used in 2018 to offset current year debt service costs. The remaining fund balance of $0.7 million is scheduled to be used in fiscal year 2019.

- **Open Space Fund:** The Open Space Fund currently holds $1.8 million of accumulated resources from County real estate sales, private gifts, and grants to preserve open space in the County. Local Law No. 7 of 2003 requires that the County use five percent of the proceeds from the sale of County-owned real estate to acquire, rehabilitate, and maintain property for use of open space purposes.

- **Technology Fund:** The Technology Fund currently holds less than $100,000 of fund balance. The resources within this fund are to cover technology expenditures.

# 5.0 DEBT AND LONG-TERM OBLIGATIONS

## 5.1 Debt

Exhibit 6 below details projected new long-term debt issued by the County (including borrowings for Nassau Community College and Sewer and Storm Water Capital Projects). Through July 2019, the County issued $64.4 million of long-term borrowing to pay a portion of the County's maturing 2018 Series B Bond Anticipation Notes (BANs), and $77.1 million in BANs to fund various sewer system improvements and other capital projects. The Administration anticipates additional bonding for the remainder of the year of $98.4 million to pay for the County's maturing 2018 Series C BANs originally issued to finance various sewer system improvements, and $200 million for tax certiorari payments. The Administration also anticipates additional short-term borrowings of $100.0 million for various capital and sewer and storm water system projects. These BANs are expected to be converted to bonds upon maturity; therefore, we have included these BANs in our projected additions in Exhibit 6.

In 2018, the County implemented a BAN borrowing program whereby the County may have up to $200.0 million in BANs outstanding at one time. According to the Administration, this program enables the County to borrow short-term and at more favorable interest rates, as well as incorporate diversification on its capital funding. The BAN borrowings are for capital projects including sewer and storm water projects. Our projections include the Administration's borrowing projections; however, these projections do not impact the fiscal year 2019 projected operating results as borrowings in 2019 will not have an effect on expenditures until the following fiscal year. However, should the County use the $200 million of projected borrowing for tax certiorari payments, the amount used to pay refunds will affect the Control Period Calculation results. Note these borrowings are subject to approval by NIFA.

At 2018 fiscal year-end, the total of the County's general obligation bonds and its component units' long-term serial bonds outstanding were approximately $3.5 billion (including serial bonds and accreted interest of the Nassau County Tobacco Settlement Corporation (NCTS) to which the County has no recourse). The 2019 actual borrowings, along with projected borrowings for the remainder of the year and projected reductions from maturing debt, will increase the total long-term bonds outstanding by approximately $219.4 million.

**EXHIBIT 6: Total Projected Long-Term Borrowings**

| Total Projected Long-Term Borrowings ($'s in millions) | | | | |
|---|---|---|---|---|
| | As of Dec 31, 2018 Actual | Projected Additions | Projected Reductions | As of December 31, 2019 Estimated |
| County w/SSW (a)(b)(d) | $2,404.4 | $462.8 | $115.7 | $ 2,751.5 |
| NIFA | 535.5 | - | 123.5 | 412.0 |
| Sewer and Storm Water Finance Authority (SFA) | 122.9 | - | 11.4 | 111.5 |
| Tobacco Settlement Corp (c) | 477.3 | 7.2 | - | 484.5 |
| Total | **$ 3,540.1** | **$470.0** | **$250.6** | **$3,759.5** |

(a) Beginning in 2014, the County implemented a change in accounting principle to include the NCC debt as part of the County debt.
(b) Includes $98.4 million of bonds projected to be issued in 2019 to be used for Sewer and Storm Water projects.
(c) December 31, 2018 includes accumulated accreted interest of $76.8 million.
(d) Projected additions include $100.0 million in bond anticipation notes (BANS) expected to be converted into bonds in the following year.

Exhibit 7 below illustrates the growth in new money debt issuances. For comparison purposes only with prior year borrowing, the New Money in Exhibit 6 includes borrowings for general improvement bonds, which include sewer district storm-related capital projects. The 2019 projected amount includes $98.4 million in new money that is converting existing BANs issuances to long-term bonds. These BANs issuances were used to fund sewer district related capital projects. Because GAAP reporting requires that these BANs are treated as long-term obligations, the 2019 projected additions also includes the $100.0 million in projected BANs to be issued in 2019 that are expected to be converted into a bond in 2020.

**EXHIBIT 7: Projected Debt Issuances – New Money**

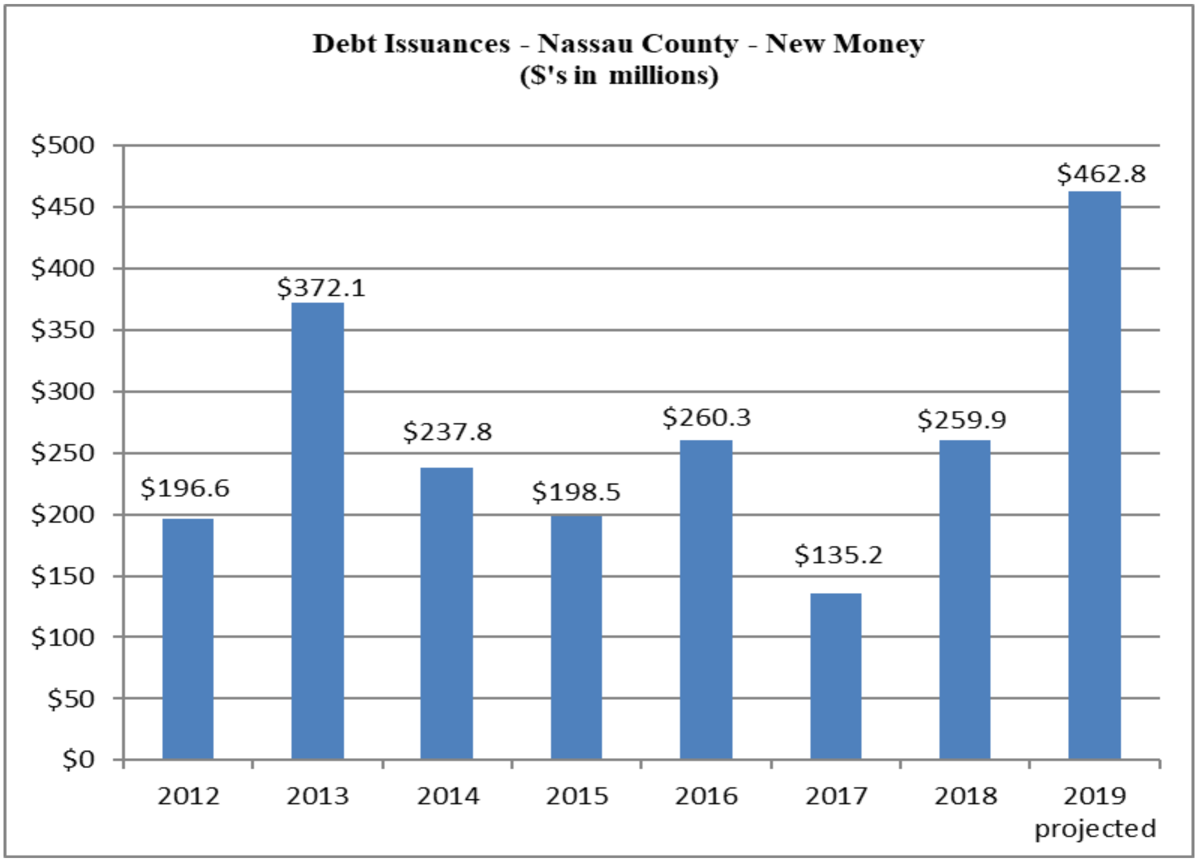



Exhibit 7 includes any Bond Anticipation Notes (BANs) issuances that may be converted into bonds in the following year.

## 5.2 Long-Term Obligations

### Property Tax Refunds (Tax Certiorari)

As of December 31, 2018, the total property tax certiorari liability was estimated to be $603.5 million, comprising:

- $476.4 million in long-term liabilities:
- $52.3 million representing liabilities accrued for as of year-end 2018 and expected to be paid in 2019; and
- an estimated $74.8 million related to the Disputed Assessment Fund (DAF).

The increase over the prior year was primarily due to additional property tax refunds estimated in the DAF.

In 2018, the County borrowed $100 million to use as funding to pay a portion of the County's tax certiorari backlog, which continues to grow due to accrued interest. The Administration projects that it will request borrowing authorization of $200 million from the County Legislature and NIFA to issue bonds in 2019 for property tax refunds in an effort to pay off the majority of the remaining backlog. At the time of this report, it is unknown whether this approval will be obtained. If borrowing is not obtained, all property tax refunds, excluding some DAF refunds and commercial property refunds (see discussion of DAF below), will need to be paid from the General Fund.

The 2019 Adopted Budget has no provision for bond proceeds to pay for property tax refunds, although the Administration is projecting $200 million of bonds will be used to pay the backlog by year-end. As previously mentioned, this borrowing is not yet reflected in the Administration's projections for property tax refunds for 2019.

The DAF, a major governmental fund of the County, became operational in 2017, and as of December 31, 2018, the fund recorded $186.6 million of assets and $184.5 million of liabilities resulting from the collection of the DAF charges on class four (commercial) properties. In 2018, the New York State Legislature amended the DAF legislation allowing the County to utilize 2019 and forward DAF collections to fund property tax refunds on commercial properties (class four) without restriction. This funding source should help alleviate the burden of funding property tax refunds and eliminate the need for future borrowings for class four refunds.

As of June 2019, the DAF has $171.9 million of assets, with refunds to taxpayers, including interest, totaling approximately $16.3 million year-to-date. Additional refunds are expected to be recorded in 2019. At this time, we cannot estimate the DAF charge revenue that will be transferred to the County's General Fund for grievances lost by taxpayers related to 2017 and 2018 collections.

## 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 (the Systems) to amortize a portion of the annual pension cost. The amortized amount is to be paid in equal installments over a 10-year or 12-year period, depending upon which program was 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 defer and amortize a portion of its annual pension bill each year. As of December 31, 2018, the County's liability to the Systems for the deferral of annual pension expense totaled $226.4 million. Based on the projected 2020 pension invoice, of which 75% represents costs incurred in the 2019 fiscal year, and assuming the County will opt into the Alternate Contribution Stabilization Program again, we estimate that the liability as of December 31, 2019 will be $211.1 million. The decline is attributed to the increase in payments for the prior years' deferrals and a decline in the amount permitted to be amortized in current invoices. Due to the deferral of the County's pension expenditures opted since 2012, the County is paying more today in pension costs due to the required installment payments for the amounts amortized in the previous years as seen in the Exhibit below. In the 2018 fiscal year, the County incurred $26.4 million more expense (excluding interest) due to installment payments related to the pension costs deferred in the prior years.

**EXHIBIT 8: Deferred Pension Expense Amortization Liability**

| DEFERRED PENSION EXPENSE AMORTIZATION LIABILITY<br>GAAP Basis<br>($'s in millions) | | | | |
|---|---|---|---|---|
| | Balance at beginning of year | Additions | Payments | Balance at end of year |
| 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 | 221.1 | 33.1 | 21.6 | 232.6 |
| 2017 | 232.6 | 26.1 | 23.8 | 235.0 |
| 2018 | 235.0 | 17.8 | 26.4 | 226.4 |
| 2019 est. * | 226.4 | 13.3 | 28.5 | 211.1 |
| 2020 est. * | 211.1 | 10.6 | 30.4 | 191.3 |

* assumes amortization elected in 2019 and 2020.

# 6.0 CONTROL PERIOD CALCULATION

## 6.1 Nassau County Interim Finance Authority ("NIFA") Act

Since its enactment in 2000, the Nassau County Interim Finance Authority ("NIFA") provides State oversight of the County's finances. NIFA was created pursuant to the NIFA Act (the Act) codified as Title I of Article 10-D of the State Public Authorities Law. Under the NIFA Act, the County is prohibited from filing any petition with any United States district court or bankruptcy court for the composition or adjustment of municipal indebtedness without the approval of NIFA and the State Comptroller and no such petition may be filed while NIFA bonds or notes remain outstanding. NIFA currently has bonds outstanding through 2025.

## 6.2 Control Period Calculation

NIFA has certain powers under the Act to monitor and oversee the County's finances and upon the declaration of a "control period," additional oversight authority. On January 26, 2011, NIFA adopted a resolution which imposed a control period on the County pursuant to the Act. It determined that the County's proposed fiscal 2011 budget reflected a substantial likelihood that the budget would produce a deficit in excess of one percent of the aggregate result of operations in the major operating funds. The major funds are defined in the Act as the General Fund, the Police Headquarters Fund, the Police District Fund, the Fire Commission Fund, and the Debt Service Fund. This is based on the assumption that all revenues and expenditures are reported in accordance with generally accepted accounting principles.

During a control period, NIFA has the authority to withhold transitional state aid and is empowered, among other things, to:

- Approve or disapprove proposed contracts and borrowings by the County;
- Approve, disapprove, or modify the County's financial plan;
- Issue binding orders to the appropriate local officials;
- Impose a wage freeze;
- Terminate the control period upon finding that no condition exists which would permit imposition of a control period.

Under the Control Period Calculation requirement, the budgetary results of the County's General, Fire Commission, Police Headquarters, Police District, and Debt Service Funds are converted to GAAP results. Then, adjustments are made to remove the effect of other financing sources that are derived from the issuance of bonds. These include bond proceeds and premiums used to pay for operational expenditures. The projected Control Period Calculation Results for the fiscal year are negative $86.7 million. The County is projected to continue to be in a Control Period for fiscal year 2019 based on the Comptroller's Office projections contained in this report. Exhibit 9 below presents the Control Period Calculation results that is used by NIFA to determine whether a deficit of more than one percent of the aggregate result of operations in the operating funds (as defined above) exists, thereby triggering a NIFA Control Period.

## EXHIBIT 9: Control Period Calculation

### Revenue and Obligations Forecast for 2019
### Reconciled to the Control Period Calculation*
($'s millions)

| | |
|---|---|
| **Estimated Results on a Budgetary Basis *** | **($16.5)** |
| ***Adjustments to reconcile to Modified Accrual Basis*** | |
| Net adjustments for to remove the effect of encumbrances | (9.0) |
| Use of Fund Balance | - |
| Net adjustment to record pension expense on a modified accrual basis | (2.0) |
| Adjustment for cash receipts outside period of availability | (1.0) |
| Sale of Mitchel Field Leases | 1.3 |
| Reversal of prior year on-top GAAP adjustments | 2.9 |
| Other Estimated GAAP Adjustments | (0.8) |
| **Net Change in Fund Balance on a Modified Accrual Basis** | **(25.1)** |
| Less: adjustments included in other financing sources | |
| Premium on bonds | - |
| Transfer of revenue from other funds to offset debt expense **R1507** | - |
| Operating expense paid with bond proceeds | (61.6) |
| **Control Period Calculation Results** | **($86.7)** |

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

The historical Control Period Calculation results for the fiscal years 2010-2018 and projected 2019 are presented below.

## EXHIBIT 10: Historical Control Period Calculation

### Control Period Calculation 2010 - 2019 (projected)*

($'s millions)

| | 2019 (projected) | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Change in Fund Balance - modified accrual basis | ($25.1) | ($17.4) | ($58.8) | $27.1 | $28.0 | ($21.5) | $48.6 | $24.0 | ($98.0) | $31.0 |
| Less: adjustments included in other financing sources | | | | | | | | | | |
| Premium on bonds | | 2.0 | | 43.8 | 19.0 | 4.4 | 4.0 | 3.7 | 6.2 | 21.3 |
| Borrowed funds to pay Property Tax Refunds | 61.4 | 38.5 | 0.7 | 59.0 | 96.2 | 126.4 | 75.0 | 14.7 | 21.0 | 42.5 |
| Borrowed funds to pay Other Judgments | | | | | | 8.3 | 26.5 | 20.0 | 4.6 | 30.4 |
| Borrowed funds to pay Termination Pay | | | | 2.3 | 26.1 | 20.1 | 14.0 | 33.1 | 17.7 | 80.0 |
| Borrowed funds to pay Other Operating Costs | 0.2 | 3.1 | 3.5 | | | | | | | |
| Transfer of revenue from other funds to offset debt expense | 0.0 | 0.2 | 0.2 | 5.1 | 12.0 | 8.5 | 2.7 | 16.6 | 12.5 | 1.7 |
| Total other financing sources/uses to be eliminated | 61.6 | 43.8 | 4.4 | 110.2 | 153.3 | 167.7 | 122.2 | 88.1 | 62.0 | 175.9 |
| **Control Period Calculation Results** | **($86.7)** | **($61.2)** | **($63.2)** | **($83.1)** | **($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 and Education Fund, & Debt Service Fund (not including sewer debt)