

**NASSAU COUNTY
OFFICE OF THE COMPTROLLER**



**2012 MID-YEAR REPORT
ON THE COUNTY'S FINANCIAL CONDITION**

**George Maragos
Nassau County Comptroller**

July 26, 2012

**NASSAU COUNTY
OFFICE OF THE COMPTROLLER**

George Maragos
Comptroller

Francis X. Moroney
Chief Deputy Comptroller

Joy M. Watson
*Deputy Comptroller
For Audit and Special Projects*

Jostyn Hernandez
Communications Director

James Garner
*Deputy Comptroller
For Administration*

Kathy Kugler
Director of Accounting

Financial Analysis Staff

Judy Bejarano
Deputy Director of Accounting

Corey Friedlander
Accounting Executive

Lisa Tsikouras
Inspector Comptroller

Valerie Markert
Accounting Executive

Richard Burkert
Accountant III

Michael Sweeney
Accountant II

Terri Troici
Accountant II

Table of Contents

- 1.0** Executive Summary
- 2.0** Revenue Variances
- 3.0** Expense Variances
- 4.0** Opportunities to Achieve a Balanced Budget
- 5.0** Other Concerns
- 6.0** Major County Financial Trends

Exhibits

- 1** Revenue and Obligations Forecast for 2012
- 2** Revenue and Obligations Forecast for 2012 – NIFA GAAP
- 3** Fund Balance as a Percentage of Recurring Expenditures
- 4** Percentage of Spending over Recurring Revenue
- 5** Nassau County Structural Surplus (Gap) 2001-2012
- 6** Comparison of Structural Gap Detail
- 7** County Financial Results on a NIFA GAAP Basis 2007-2012 (projected)
- 8** Primary Funds' Reserves 2001-2012
- 9** Debt Issuances - Nassau County – New Money

REPORT ON THE COUNTY'S FINANCIAL CONDITION FOR THE FIRST SIX MONTHS OF FISCAL YEAR 2012

1.0 EXECUTIVE SUMMARY

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

For 2012, our mid-year financial projections indicate a year-end budgetary deficit of \$45.0 million (see Exhibit 1) primarily due to an anticipated refusal by NIFA and the Legislature to authorize budgeted bonding to pay for property tax refunds, and overtime that is projected to exceed budget. The actions announced by the Mangano Administration on July 22, 2012, if fully realized, are expected to eliminate the projected deficit and end 2012 in budgetary balance. On a NIFA GAAP basis the County would be ending the year with a negative \$115.7 million (NIFA defined GAAP excludes other financing sources and uses, see Exhibit 2).

Improvements in the County's fundamental long term fiscal trends which had begun in 2010 generally continue in a positive direction;

- The structural gap is projected at \$113.4 million, down from \$127.6 million in 2011.
- The borrowing for current operating expense is being eliminated except for extraordinary termination pay.

As a result of the \$50.4 million budgetary deficit incurred in 2011, the current Unreserved Fund Balance in the County's Primary Funds has been reduced by \$50.4 million.

The current unreserved fund balance in the General Fund and County-wide Special Purpose Funds declined to \$31.6 million or to about 1.5% (see Exhibit 3), well below the County's Policy to maintain, at least a 4% unreserved fund balance. Consequently, the County should challenge itself during 2012 not only to end fiscal 2012 in balance, but also to replenish the unreserved fund balance.

The Comptroller recommends that over \$90 million in combined recurring budgetary expense reductions and revenue enhancements be targeted for the remainder of fiscal 2012. This achievement would be a significant accomplishment and finally put the County on solid fiscal health by bringing: revenues approximately in-line with expenses, further improving the Structural Gap and eliminating all bonding for operating purposes.

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

The following areas of opportunity are recommended to achieve this \$90 million in budgetary enhancements:

1. Re-organize County government to focus on core functions and consolidate similar functions between agencies;
2. In-source, where possible, services performed by contractors;
3. Cancel all non-essential contractual services and maintenance contracts;
4. Halt all non-essential general expense purchases;
5. Aggressively manage Workers Compensation liability and Utilities;
6. Bring fees in line with Westchester and Suffolk Counties, and indexed to CPI;
7. Deal with the chronic issue of actual overtime exceeding the budgeted amounts in the Police and Corrections Department ; and
8. Refinance County debt at lower interest rates.

The projected weakening economy and rising unemployment, however, may represent new risks in lower sales tax revenues than projected. I urge the Mangano Administration, the Legislature and NIFA to deal cooperatively with the projected deficit in the current year and to jointly develop a comprehensive multi-year plan beyond 2012, which brings current expenses in line with current revenues without reliance on bonding, one-shot revenues, or a property tax increase on our hard pressed residents. Such a plan may require structural changes in the County government, debt restructuring, strategic technology deployment and significant increases in non-tax revenues to reach comparable levels with other counties. Additionally, the long term liability for property tax refunds which is projected to grow to \$336 million by year-end 2012 will need to be addressed in a bipartisan manner.

EXHIBIT 1

Revenue and Obligations Forecast for 2012*			
(\$'s millions)			
	2012 Budget	2012 Projected Actual	Variance
Revenues			
Fines & Forfeitures			
Red Light Cameras	\$25.2	\$24.0	(\$1.2)
Other Traffic & Parking	19.8	15.8	(4.0)
Forfeited Bail & Fines	2.9	2.1	(0.8)
Other Fines & Forfeitures	3.3	4.1	0.8
			(\$5.2)
Rents & Recoveries			
Sale of Ring Road	0.0	7.2	7.2
Other Rents & Recoveries	16.9	17.0	0.1
			7.3
Departmental Revenue			
Ambulance Fees	24.0	24.0	0.0
Correctional Center	15.8	8.4	(7.4)
Other Departmental Revenue	133.8	131.7	(2.1)
			(9.5)
Sales Tax	1,056.2	1,085.9	29.7
State Aid	234.8	233.3	(1.5)
Investment Income	3.6	2.4	(1.2)
Capital Backcharges	9.9	0.0	(9.9)
Federal Aid	165.1	157.8	(7.3)
Police Retirement Reserve	0.0	10.4	10.4
Sewer/Environmental Chargeback Revenue	28.5	20.6	(7.9)
Proceeds from borrowings to pay Property Tax Refunds	75.0	0.0	(75.0)
Proceeds from borrowings to pay Settlements	21.7	21.7	0.0
Revenue designated for the retirement of debt	6.4	0.0	(6.4)
Other	<u>1,452.7</u>	<u>1,446.1</u>	<u>(6.6)</u>
Total Revenue	<u>3,295.6</u>	<u>3,212.5</u>	<u>(83.1)</u>
Expenses			
Payroll and Fringe Benefits (excluding Overtime below)	1,158.6	1,208.1	(49.5)
Overtime (Police Department and Correctional Center)	39.9	66.5	(26.6)
Social Services	445.9	441.6	4.3
Debt service	385.1	354.0	31.1
Contractual Expense	213.7	216.3	(2.6)
Contingencies	25.0	0.0	25.0
Property Tax Refunds **	75.0	16.5	58.5
Judgments & Settlements	21.7	21.7	0.0
Other	<u>930.7</u>	<u>932.8</u>	<u>(2.1)</u>
Total Expense	<u>\$3,295.6</u>	<u>\$3,257.5</u>	<u>38.1</u>
Estimated Budget Risk on a Budgetary Basis			<u>(\$45.0)</u>
	Police District	Other Funds	
Estimated Budget Risk by Taxpayer Base on a Budgetary Basis	<u>\$6.5</u>	<u>(\$51.5)</u>	<u>(\$45.0)</u>
Opportunities to end in balance			
Cancellation of Human Services Contracts		3.0	
Excess Cash in Capital Projects		17.0	
Voluntary Separation Incentive Program and Proposed Layoffs		5.0	
Reducing Departmental Obligations		<u>20.0</u>	
		<u>\$45.0</u>	<u>45.0</u>
Projected Results after Opportunities			<u>\$0.0</u>

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

** On review of the status of the Tax Certiorari matter with the County Attorney, the failure of the Legislature to approve the settlements does not result in any immediate entry of a judgment against the County. Pursuant to Court rules and other rules of procedure, there would be no liability attaching until after December 31, 2012 for the proposed settlements. Hence the judgment expense projected to be recorded in 2012 is \$16.5 million, representing ARC determinations and judgments that do not require legislative approval.

EXHIBIT 2

Revenue and Obligations Forecast for 2012*	
Reconciled to NIFA defined GAAP	
(\$'s millions)	
	<u>Variance</u>
Estimated Budget Risk on a Budgetary Basis after Opportunities	\$0.0
Adjustments for Carryforward Encumbrances	<u>8.2</u>
Results, on a Modified Accrual Basis	8.2
Adjustments to reconcile to Modified Accrual Basis	
Net adjustment to remove the effect of encumbrances	(12.8)
Net reclassification of encumbrances to expenditures	(1.1)
Sale of Mitchel Field Leases	<u>1.3</u>
Net Change in Fund Balance on a Modified Accrual Basis	(4.4)
Less: adjustments included in other financing sources	
Investment income	(1.6)
Transfer of revenue from other funds to offset debt expense	(37.6)
Transfer in of Police Retirement Reserve	(10.4)
Payment of operating expenses with bond proceeds	<u>(61.7)</u>
GAAP results, as defined by NIFA	<u>(\$115.7)</u>

* Includes: General Fund, Police Headquarters Fund, Police District Fund, Fire Prevention, Safety, Communication & Education Fund, Debt Service Fund, not including Sewer District Fund.

EXHIBIT 3

FUND BALANCE AS A PERCENTAGE OF RECURRING EXPENDITURES								
(\$'s in millions)								
UNRESERVED FUND BALANCE								
	2004	2005	2006	2007	2008	2009	2010	2011
Total Cumulative Unreserved Fund Balance	\$ 85.6	\$ 87.8	\$ 77.7	\$ 69.3	\$ 50.9	\$ 85.3	\$ 31.6	
Normal recurring expenses, less interfunds (General & County-Wide Special Revenue Funds)	\$ 2,141.5	\$ 2,144.2	\$ 2,064.4	\$ 2,196.0	\$ 2,137.8	\$ 2,144.8	\$ 2,149.5	
Total Unreserved Fund Balance, as % of prior year		4.00%	4.09%	3.76%	3.16%	2.38%	3.98%	1.47%

2.0 REVENUE VARIANCES

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

2.1 Fines and Forfeitures

The major variances in Fines and Forfeitures are from the Traffic and Parking Violations Agency (TPVA) revenues for both non-red light camera violations and tickets for red light camera violations. Based on year to date collections compared to 2011, we project that in 2012 TPVA revenue related to non-red light violations will fall short of budget by approximately \$4.0 million and approximately \$1.2 million for red light camera revenue. As a result, we forecast that the revenues from Fines and Forfeitures will be \$5.2 million less than budgeted.

FINES AND FORFEITURES				
(\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$52.5	\$51.2	\$20.7	\$46.0	(\$5.2)

2.2 Rents & Recoveries

Rents and Recoveries are projected to have a \$7.3 million favorable variance due to a \$7.2 million sale of the Ring Road property which was not anticipated in the budgeted revenue.

RENTS AND RECOVERIES				
(\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$82.8	\$16.9	\$12.9	\$24.2	\$7.3

2.3 Departmental Revenue

Correctional Center revenues are projected to be \$7.4 million under budget as a result of lower than anticipated inmates from outside Nassau County being housed. Police Department revenues are expected to be lower by approximately \$1.1 million because of lower ambulance fees and the fact that Nassau County is no longer patrolling Laurel Hollow. We project that total Departmental Revenues will fall short of budget by \$9.5 million.

DEPARTMENTAL REVENUE				
(\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$116.1	\$173.6	\$65.6	\$164.1	(\$9.5)

2.4 Sales Tax

Sales tax, at approximately 38% of budgeted revenues net of inter-fund transfers, is the County's largest revenue source. Based on sales tax collections for the first 6 months of 2012, sales tax receipts are projected to total \$1,085.9 million. Year to date sales tax collections through July 12 show a 5.9% increase over 2011. We project sales tax will be approximately \$29.7 million more than the County's adopted budget of \$1,056.2 million. This equates to a 5% increase over last year's actual.

Sales Tax Collected on a Cash Basis			
(\$'s in millions)			
	July 1 YTD Sales Tax Collected excluding Residential Energy Tax	% July 1 YTD vs Total Sales Tax Collected/Projected excluding Residential Energy Tax	Gross Annual Sales Tax Collected/Projected excluding Residential Energy Tax
2005	\$392.1	41.1%	\$953.8
2006	415.6	41.9%	991.2
2007	423.5	41.8%	1,012.0
2008	430.4	42.9%	1,003.1
2009	386.6	41.6%	929.4
2010	410.4	41.4%	992.0
2011	424.2	41.3%	1,027.6
2012	442.2	41.2%	1,073.8

**RECONCILIATION OF CASH BASIS SALES TAX
TO PORTION RECOGNIZED IN 2012**

(\$'s in millions)

Gross sales tax forecast 2012	\$1,000.5
Part County portion forecast 2012	<u>73.3</u>
Total sales tax projected on a cash basis	1,073.8
Part County in excess of budget - deferred to future year	<u> </u>
Net sales tax forecast 2012	1,073.8
Residential Energy Tax received	
Prior year deferral recognized in 2012	<u>12.1</u>
Sales tax, per Exhibit 1	<u>\$ 1,085.9</u>

2.5 State Aid

State Aid is projected to be \$1.5 million under budget primarily due to projected decreased state aid reimbursements in Social Services.

STATE AID				
(\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$183.1	\$234.8	\$63.7	\$233.3	(\$1.5)

2.6 Investment Income

The County typically invests available funds in interest-bearing checking accounts and bank certificates of deposit. Because interest rates have continued to decline, we forecast that investment income will be \$1.2 million under the \$3.6 million budget.

INVESTMENT INCOME				
(\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$3.0	\$3.6	\$0.6	\$2.4	(\$1.2)

2.7 Capital Backcharges

A negative variance of \$9.9 million is projected primarily due to a change in accounting treatment for salaries charged to capital projects. This procedure was changed to make it more consistent with other chargebacks and to correctly allocate the costs. Each department will reallocate its payroll time involved to the effected capital project.

CAPITAL BACKCHARGES (\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$5.6	\$9.9	\$0.0	\$0.0	(\$9.9)

2.8 Federal Aid

Federal Aid is projected to be \$7.3 million under budget primarily due to a decrease in federal aid reimbursement for families in the Temporary Assistance for Needy Families (TANF) and a shortfall of Federal Inmates being housed at the Nassau County Correctional Center. The decrease in Federal Aid is partially offset by a corresponding decrease in Recipient Grant expenses.

FEDERAL AID (\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$176.9	\$165.1	(\$0.6)	\$157.8	(\$7.3)

2.9 Police Retirement Reserve

The Administration has indicated that they plan to use \$10.4 million from a retirement reserve fund to pay police termination pay. This use was not included in the adopted budget.

POLICE RETIREMENT RESERVE (\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$0.0	\$0.0	\$0.0	\$10.4	\$10.4

2.10 Sewer/Environmental Chargeback Revenue

We project \$7.9 million lower than anticipated revenues to reimburse the Debt Service Fund for interest and principal expenses associated with Sewer & Water projects and the Environmental Bond Act. The forecasted 2012 expense to the Debt Service Fund in connection with these projects will be less than had originally been anticipated.

SEWER/ENVIRONMENTAL CHARGEBACK REVENUE				
(\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$21.1	\$28.5	\$0.0	\$20.6	(\$7.9)

2.11 Proceeds from Borrowings to pay Property Tax Refunds

We project a \$75 million shortfall in borrowings to pay Property Tax refunds because the Legislature and NIFA have failed to approve this borrowing. However, the impact of this shortfall on expense is expected to be only \$16.5 million, our projected Property Tax Refund expense.

BORROWINGS TO PAY PROPERTY TAX REFUNDS				
(\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$21.0	\$75.0	\$0.0	\$0.0	(\$75.0)

2.12 Proceeds from Borrowings to pay Judgments and Settlements

We project that the County will borrow the \$21.7 million budgeted for Judgments and Settlements.

BORROWINGS TO PAY JUDGMENTS AND SETTLEMENTS				
(\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$4.6	\$21.7	\$0.0	\$21.7	\$0.0

2.13 Revenue Designated for the Retirement of Debt

We project a shortfall of \$6.4 in Revenue Designated for the Retirement of Debt. This amount represents the anticipated revenue from premium on bonds. NIFA has adjusted our borrowing procedure to remove this revenue source.

REVENUE DESIGNATED FOR THE RETIREMENT OF DEBT				
(\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$22.5	\$6.4	\$0.0	\$0.0	(\$6.4)

3.0 EXPENSE VARIANCES

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

3.1 Payroll & Fringe Benefits

We project salaries (excluding overtime for the Police Department and the Correctional Center) and fringe benefits including workers compensation expense to have a combined shortfall of \$49.5 million from the 2012 budget. This negative variance is primarily due to budgeted salary savings of \$131.6 million, offset by the savings that have been achieved through a combination of the Voluntary Retirement Incentive Program II that was offered at year end 2011 and from additional layoffs in December 2011. As a result, the County has realized some positive salary variances including the following:

- unfilled budgeted full-time positions are projected to save \$47.3 million in 2012
- anticipated savings from unfilled part-time positions of approximately \$9 million

Fringe benefits are projected to show a positive variance of \$47.3 million primarily due to lower than budgeted health insurance premiums for employees of \$36.6 million and lower pension expense of \$5.3 million. In addition workers compensation expense for 2012 is anticipated to be under budget by approximately \$5 million as a result of New York State's implementation of limits on medical services received.

SALARIES and FRINGES (excluding overtime for Police Department and Correctional Center) including workers compensation expense (\$'s in millions)					
	2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
Salaries	\$769.1	\$648.5	\$409.3	\$745.3	(\$96.8)
Fringes	455.7	511.8	281.5	464.5	47.3
Total Salaries and Fringes	<u>\$1,224.8</u>	<u>\$1,160.3</u>	<u>\$690.8</u>	<u>\$1,209.8</u>	<u>(\$49.5)</u>

3.2 Overtime

Based on current expense trends, overtime costs for the Police Department and the Correctional Center are projected to be \$26.6 million over the \$38.2 million budget. The expense in excess of budget is primarily comprised of \$7.4 million for the Police District Fund, and \$21 million for the Police Headquarters Fund, offset by a savings in the Correctional Center of \$1.8 million. The Correctional Center overtime is projected to come in at approximately \$6 million less than the 2011 actual, a reduction of 30%. Despite the wage freeze implemented by NIFA, we project overtime expense to be approximately 4% higher than 2011 for the two Police Funds.

The consolidation of the Police Precincts may have a positive effect on overtime in the Police District Fund, but results have yet to be realized.

OVERTIME					
(\$'s in millions)					
	2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
Police District	\$25.3	\$19.0	\$8.5	\$26.4	(\$7.4)
Police Headquarters	23.0	3.0	10.2	24.0	(21.0)
Correctional Center	20.7	16.2	6.6	14.4	1.8
Total	<u>\$69.0</u>	<u>\$38.2</u>	<u>\$25.3</u>	<u>\$64.8</u>	<u>(\$26.6)</u>

3.3 Social Services

As a result of a lower than budgeted number of caseloads under the Temporary Assistance for Needy Families (TANF) and Safety Net programs, we project expenses for Social Services will come in at \$4.3 million under budget.

SOCIAL SERVICES				
(\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$441.5	\$445.9	\$248.8	\$441.6	\$4.3

3.4 Debt Service

We are projecting a positive variance of \$31.1 in Debt Service due to lower than budgeted borrowings as well as the delay in the timing of borrowings, and continued low interest rates.

DEBT SERVICE				
(\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$334.6	\$385.1	\$57.3	\$354.0	\$31.1

3.5 Contractual Expense

Contractual expense is expected to be \$2.6 million over the budget of \$213.7 million. This variance is due primarily to the projected contractual expense related to the County Attorney hiring outside counsel and projected to exceed budget by \$2.2 million.

CONTRACTUAL EXPENSE (\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$121.7	\$213.7	\$163.8	\$216.3	(\$2.6)

3.6 Contingencies

Our analysis indicates that a budgeted contingency of \$25 million will be needed to cover shortfalls projected elsewhere in the budget.

CONTINGENCIES (\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
	\$25.0			\$25.0

3.7 Property Tax Refunds

Due to our review of the Property Tax Refund liability with the County Attorney, the failure of the Legislature to approve the settlements does not result in any immediate entry of a judgment against the County. Pursuant to Court rules and other rules of procedure, there would be no liability attaching until after December 31, 2012 for the proposed settlements. Hence the judgment expense projected to be recorded in 2012 is \$16.5 million, representing ARC determinations and judgments that do not require legislative approval. This policy, however, will cause a significant increase in the potential long term County liability as shown in the second table below.

PROPERTY TAX REFUNDS (\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$43.1	\$75.0	(\$43.1)	\$16.5	\$58.5

LONG TERM PROPERTY TAX REFUND LIABILITY				
(\$'s in millions)				
	Bal beg of year	Additions	Payments	Bal end of year
2009	\$ 139.0	\$ 139.8	\$ (114.5)	\$ 164.3
2010	164.3	67.4	(79.4)	152.3
2011	152.3	134.7	(64.1)	222.9
2012 est	222.9	130.0	(16.5)	336.4

3.8 Judgments & Settlements

We project that Judgments & Settlements will total the budgeted amount of \$21.7 million.

JUDGMENTS & SETTLEMENTS				
(\$'s in millions)				
2011 Actual	2012 Budget	2012 YTD June	2012 Forecast	Variance
\$4.6	\$21.7	\$0.0	\$21.7	\$0.0

4.0 OPPORTUNITIES TO ACHIEVE A BALANCED BUDGET

Exhibit 1 (see page 3) shows the significant projected revenue and expense variances for year-end 2012 based on the first six month financial results. We project that the County will have a year-end deficit of \$45 million before gap closing opportunities. The Administration has already identified sufficient opportunities to close the projected budget gap in order to end 2012 in budgetary balance.

The projected weakening economy and rising unemployment, however, may represent new risks in lower sales tax revenues than projected. We urge the Administration, NIFA and the Legislature to cooperate in implementing the gap closing opportunities and to find additional opportunities in a bipartisan manner to replenish the depleted fund balance.

5.0 OTHER CONCERNS

5.1 Nassau Health Care Corporation

The financial stability of the Nassau Health Care Corporation (NHCC) is essential so that it can continue to operate as a health care safety net for the County's uninsured. The County guarantees the NHCC's outstanding indebtedness of \$257 million and the institution's continued ability to repay its bonds is of fiscal importance to the County.

The NHCC incurred an operating loss of \$45 million in 2011. Its operating cash flow will continue to be a challenge during 2012 with very little room for error. NHCC has undertaken a number of initiatives to return to positive cash flows. Such actions include continued revenue cycle enhancements, renegotiation of all commercial managed care contracts, changes to medical management practices, improved supply chain, inventory management and, further cost reductions from the major modernization program undertaken over the past several years. The modernization program included significant investments in real estate consolidation, facility improvements, clinical equipment and information technology, and enhancements to the community health centers

The NHCC must develop a long term sustainability plan anticipating significant uncertainty in the health care industry and include a strategic relationship with a bigger hospital group to improve its reimbursement rates, and lower structural cost while improving health care for Nassau County residents.

5.2 Nassau Regional Off-Track Betting Corporation

The 2011 audited financial statements for the OTB were issued with a "going concern" opinion for the second year. This indicates that there is substantial doubt about the OTB's ability to continue to operate. If it were to fail, Nassau County is responsible for repayment of its

outstanding debt until maturity which is July 1, 2020. The principal payment totals \$1.45 million annually. The County holds the mortgage on the Racing Palace which can be sold.

6.0 MAJOR COUNTY FINANCIAL TRENDS

6.1 Revenues and Expense Divergence

The improving control in spending by the County is illustrated in Exhibit 4. This chart shows the percentage of recurring expense over recurring revenue in each year. The chart demonstrated that the overspending reached a critical point in 2009 exceeding 10% of current recurring revenues and has been brought under control with successive improvements in each of the last three years. In 2012, we project a further modest improvement to about 4.2%.

EXHIBIT 4



6.2 Budgetary Structural Gap Trend

Like most governments, the County has an imbalance between its recurring operating revenues and expenses, known as a structural gap. While an important financial indicator, a structural gap is not the same as a budget deficit. Structural gaps can only be narrowed by reducing recurring expenses or by increasing recurring revenues. When the County balances its budget by using non-recurring revenues, such as drawing down reserves, it does not reduce the structural gap.

The 2012 structural gap is projected to drop to \$113.4 million, a \$14.2 million decrease from 2011. This would be the third consecutive year that the structural gap has been lowered.

EXHIBIT 5

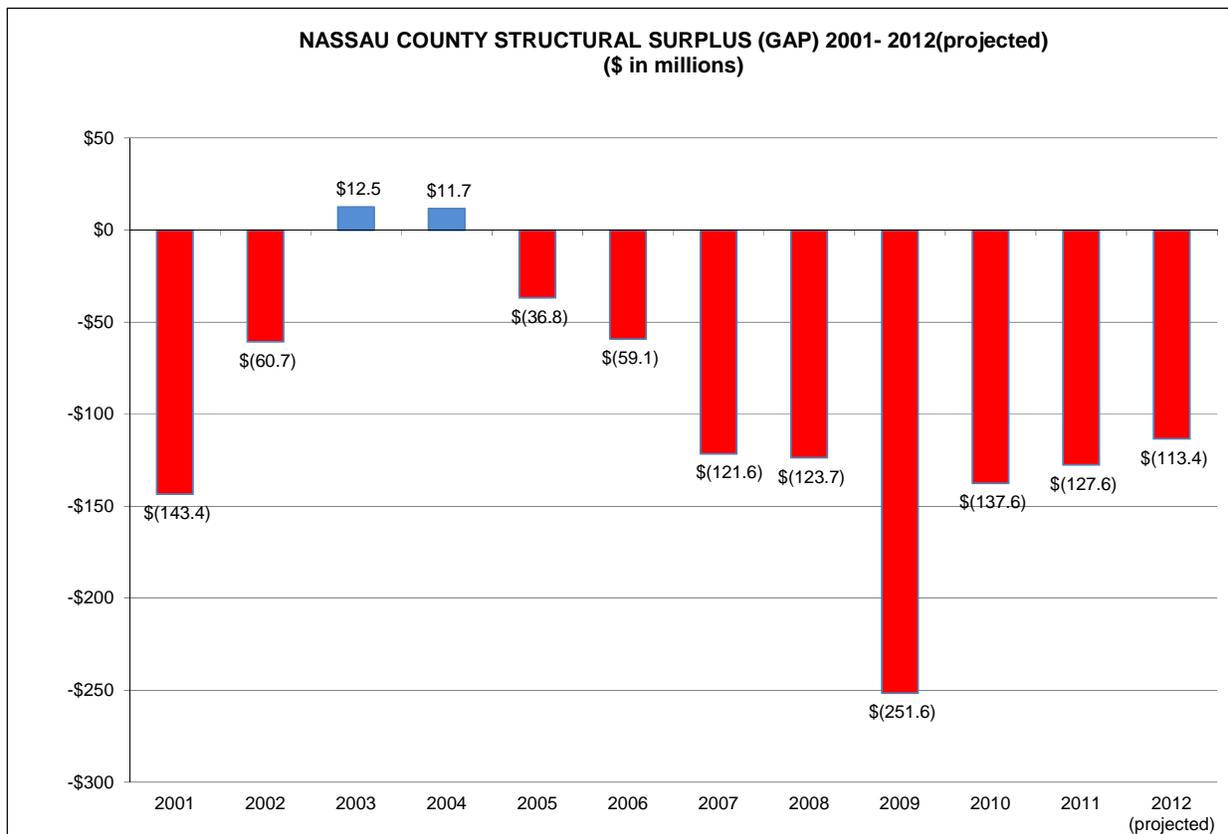


EXHIBIT 6

Comparison of Structural Gap Detail		
(\$'s in millions)		
	2011	2012 (projected)
Revenue One Shots:		
FMAP	\$22.4	\$0.0
Bulk Lien Sale	(7.4)	
Mitchel Field Securitization	37.4	
Sale of Property	9.5	4.8
Total Revenue One Shots	<u>61.9</u>	<u>4.8</u>
Expense One Shots:		
Use of borrowed funds to pay property tax refunds	21.0	
Amortization of Pension Bill		38.8
Use of Reserves to Pay Retirement Expense		10.4
Use of Borrowed funds to pay Settlements		21.7
Deferral of Wages and Benefits	(5.7)	(7.3)
Total Expense One Shots	<u>15.3</u>	<u>63.6</u>
Total One Shots	77.2	68.4
Net Surplus (Deficit)	<u>(50.4)</u>	<u>(45.0)</u>
Structural Gap (Surplus or Deficit less One Shots)	<u>\$ 127.6</u>	<u>\$ 113.4</u>

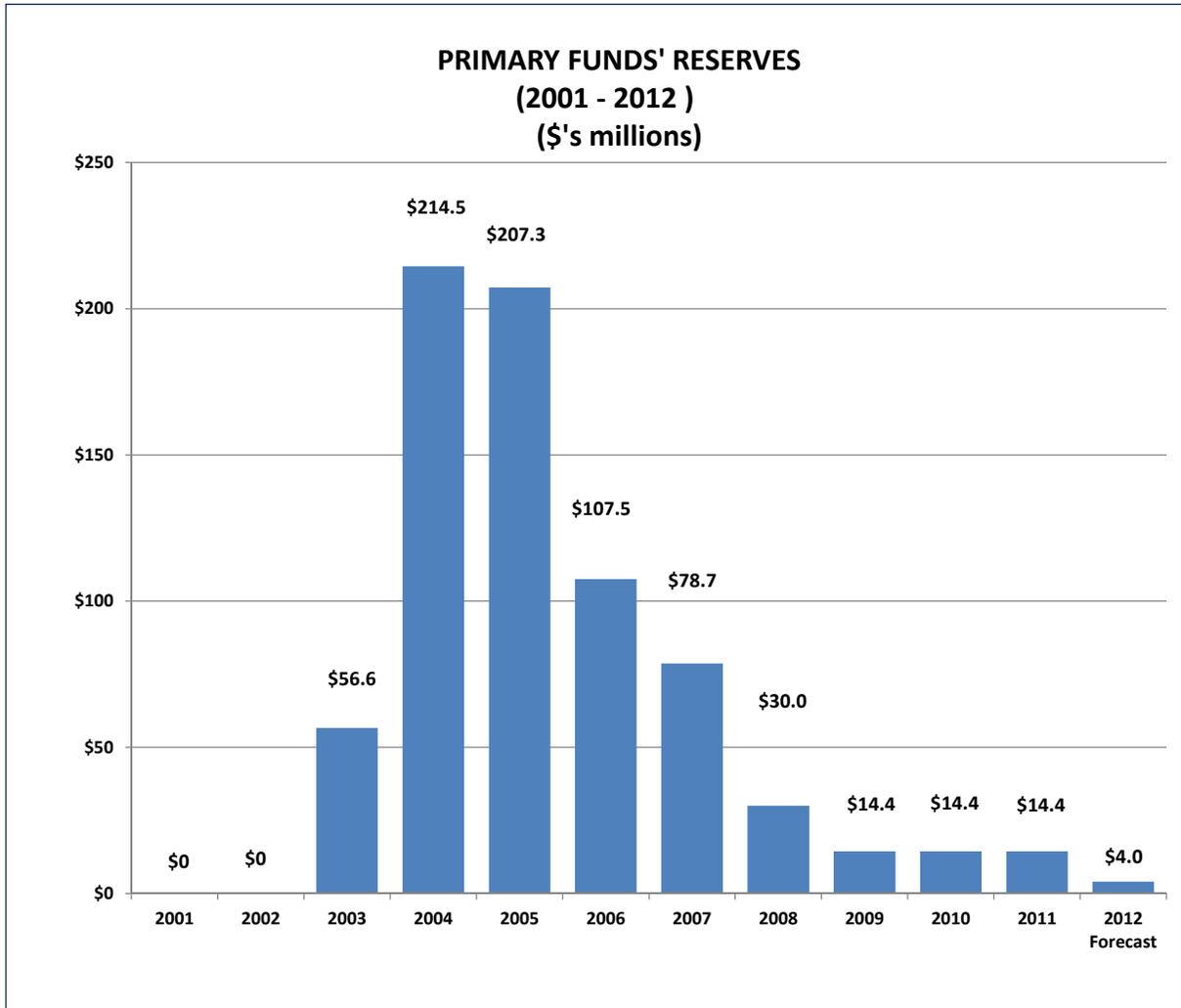
EXHIBIT 7

County Financial Results on a NIFA GAAP Basis 2007 - 2012 (projected)*						
BUDGETARY RESULTS 2007 - 2012(projected)* (\$'s millions)						
	2012 (projected, after opportunities)	2011	2010	2009	2008	2007
Surplus (Deficit) on a Budgetary Basis	\$0.0	(\$50.4)	\$26.6	(\$0.1)	\$2.3	\$29.4
CALCULATION OF GAAP DEFICIT AS DEFINED BY NIFA 2007 - 2012* (\$'s millions)						
	2012 (projected)	2011	2010	2009	2008	2007
Net Change in Fund Balance - modified accrual basis	(\$4.4)	(\$85.6)	\$26.6	\$11.2	(\$18.2)	(\$7.9)
Less: adjustments included in other financing sources						
Premium on bonds		9.3	28.4	27.0	7.7	1.1
Investment income	1.6	1.6	1.0	1.2	7.1	11.7
Borrowed funds to pay Property Tax Refunds		21.0	42.5	64.5	58.8	12.0
Borrowed funds to pay Other Judgments	21.7	4.6	30.4	11.5	17.0	1.7
Borrowed funds to pay Termination Pay	40.0	17.7	80.0	77.7		
Transfer in of Police Retirement Reserve	10.4					
Transfer of revenue from other funds to offset debt expense	37.6	33.6	17.3	13.6	24.2	47.1
Total other financing sources/uses to be eliminated	111.3	87.8	199.6	195.5	114.8	73.6
GAAP results, as defined by NIFA	(\$115.7)	(\$173.4)	(\$173.0)	(\$184.3)	(\$133.0)	(\$81.5)
* Includes: General Fund, Police Headquarters Fund, Police District Fund, Fire Prevention, Safety, Communication & Education Fund Debt Service Fund (not including sewer debt), Red Light Camera Fund						

6.3 Primary Fund Reserve Trend

From 2003-2004 the County accumulated reserves totaling \$214.5 million through annual surpluses. From 2005 onwards, the County began to deplete the reserve funds at an alarmingly accelerated rate as shown in Exhibit 8 to cover current expenses. The reserve fund is projected to be \$4 million at the end of 2012. Administration intends to use \$10.4 million in 2012.

EXHIBIT 8



6.4 New Bonding Trends

In prior years, the County had typically bonded annually for capital projects and property tax refund payments. From 2002 to 2006, all the borrowing for the County was done primarily by NIFA. From 2008 to 2010, the County had borrowed in excess of \$280 million each year, which included \$80 million and \$92 million for 2009 and 2010 termination pay, respectively. However, the 2011 borrowings were lower than 2010 and 2009 due to NIFA's restrictions on County borrowing; additionally, there were no borrowings for termination pay or payment of property tax refunds.

As shown in the Exhibit 9 below, the proposed bonding increased in 2012 to \$196.6 million. The 2012 borrowings are primarily due to \$43.5 million of borrowing for termination pay, borrowing of \$19.1 million judgments and the balance for capital projects. The 2012 projected debt issuances do not include bonding for the payment of property tax refunds.

At 2011 year end, the total of County general obligation and NIFA bonds outstanding was \$2.7 billion. The debt service for principal, interest and financing costs relating to this debt was \$332.6 million. The County portion of this debt stood at \$1,165.7 million and the debt service for 2011 was \$135.3 million. NIFA holds \$1.528 million on behalf of the County.

EXHIBIT 9

