Nassau County Interim Finance Authority

NIFA

MID-YEAR REVIEW AND ANALYSIS OF THE
MULTI-YEAR FINANCIAL PLAN UPDATE
FISCAL 2017 – 2020

August 1, 2017

NASSAU COUNTY INTERIM FINANCE AUTHORITY

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SUMMARY OF UPDATE FINDINGS

In accordance with the County Charter, the County released the Update of the Nassau County Multi-Year Financial Plan for Fiscal Years 2017-2020 on June 30, 2017 ("the Update").

The first year of the Update, which contains projections for the remainder of 2017, relies heavily on Fund Balance. Consequently, the County is likely to incur a significant deficit on a GAAP Basis in FY 2017 even if the risks we continue to identify are resolved by year end.

After reviewing the Out-Years of the Update (FY 2018 – FY 2020), we believe expenditure growth continues to outpace revenue growth; consequently, there is little chance of the County achieving balance on a GAAP Basis in FY 2018 without a large infusion of recurring revenue, or a significant realignment of expenditures.

MAJOR FINDINGS

Our fiscal outlook for FY 2017 has improved since the beginning of the year. It is likely that the County will incur a GAAP Basis deficit that is smaller than the $60 million maximum deficit permitted by NIFA in FY 2017; however, the Update is disappointing since the County's Gap-Closing Plan for FY 2018 does not build on the progress in FY 2017. In FY 2018 there remain significant placeholders with little detail, particularly with respect to expected revenue increases and anticipated savings from State mandate reforms. We find that the Update, like the adopted Plan for FY 2017 – 2020, contains:

1) a projected deficit in FY 2017 totaling almost $54 million on a GAAP Basis;

2) recurring expenditures, which exceed recurring revenues;

3) non-recurring savings and optimistic assumptions;

4) recycled and unsuccessful gap-closing initiatives of prior years; and

5) Out-Year budget gaps that could reach $145 million in FY 2018, $174 million in FY 2019 and $189 million in FY 2020, prior to the of the County's proposed gap-closing plan implementation (which we conclude is highly questionable), if the projected risks identified by NIFA all break unfavorably against the County.

We acknowledge that, at NIFA's urging, the County has made notable progress in reducing the size of the deficit since peaking in FY 2014, (see table below). NIFA's imposition of increasing fiscal discipline is evidenced in certain areas of County expenditures, including reductions in borrowings for: capital projects; termination payments; judgments and settlements; and tax certiorari refunds. For its part, the County has continued to cooperate through workforce reductions, improved labor agreements, tax certiorari reforms and increases in several revenue streams.

Operating Results on a GAAP Basis ($ in millions)								
FY 2009	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017p**
($180.4)	($144.9)	($160.0)	($64.1)	($73.6)	($189.2)	($105.3)	($83.1)	($53.5)

As a consequence of the foregoing, we believe that FY 2017 is progressing favorably, but the Update insufficiently addresses NIFA's concerns regarding the County's ability to achieve balance in FY 2018 (and sustain balance in the Out-Years) on a GAAP Basis (as defined herein). The County needs to act quickly to address these growing risks through the implementation of additional, recurring revenue generating and expenditure reducing initiatives.

Failure to present a plan for FY 2018 – FY 2021 that addresses the deficiencies that we have identified in the Update, may result in NIFA's imposition of significant cuts that could negatively affect taxpayers and/or employees of Nassau County. However, decisive action by the County could still change this outcome.

What follows is an analysis of the Update and a related commentary on the County's fiscal health. Section II discusses FY 2017 and Section III discusses the Out-Year gaps. To fully understand NIFA's opinions regarding the County's financial position, this Report should be read in tandem with NIFA's October 13, and November 29, 2016, reports on the Plan.

II. DISCUSSION OF FY 2017

The following discussion contains our assessment of the County's financial condition based on data available as of June 30, 2017.

Projected GAAP Basis Deficit

Our analysis indicates that the FY 2017 Budget contains risks that, if not mitigated in the coming months, could lead to a deficit of approximately $53.5 million using Generally Accepted Accounting Principles and without using bond proceeds to support operating expenses (referred to herein as balanced on a "GAAP Basis"). The projected operating deficit is more favorable than the $60 million maximum deficit permitted by the Board in FY 2017, but still greater than the one percent deficit threshold dictating a Control Period.

The apparent good news is tempered by the fact that the projected deficit is being supported, in part, by the County's considerable use of reserves to pay certain operating expenses, such as judgments and settlements and retirement system contributions. Further, should the County experience a surge in police retirements in the second half of the year, it will look to use its Employee Accrued Liability Reserve to fund as much of the overspending as is legally permissible.

The projected $53.5 million GAAP Basis deficit is composed of $15.4 million in budgetary risks and approximately $38.1 million in known GAAP adjustments that are not permitted under the NIFA statute (e.g., using $33.6 million of Fund Balance for tax certiorari refunds and $4.5 million in other estimated net accounting adjustments). The deficit could be greater (lower) to the extent that the Comptroller's actual year-end accounting adjustments are greater (lower) than currently estimated or police termination costs vary significantly from current estimates.

Major Components of NIFA Projections

Our current projection of $53.5 million in risks (deficit) is composed of favorable and unfavorable variances, as shown in the table.

Major Projected Budgetary Risks Surplus/(Risk) ($ in millions)	
Bond Proceeds Shortfall	(60.0)
Income and Expense Law	(10.0)
Contractual Services	(9.5)
Salaries and Wages	(7.5)
Sale of County Land	(5.1)
State and Federal Aid	(3.7)
Fines and Forfeitures	(2.0)
Utility Costs	3.7
Sales Tax	4.1
PILOTs	4.1
Social Services Costs	8.5
Tax Certiorari Payments	26.4
Use of Fund Balance	33.6
Other (net)	2.0
Total Projected Risk on a Budgetary Basis	**($15.4)**
GAAP Basis Adjustments*	**(38.1)**
Total Projected Risk on a GAAP Basis	**($53.5)**

*Includes Fund Balance used to pay tax cert refunds and other GAAP accounting adjustments estimated by the Comptroller in October 2016.

Bond Proceeds Shortfall

The County ended its long-standing practice of borrowing to pay tax certiorari refunds one year earlier than had been anticipated, which is good news. This decision will lower the County's debt burden and avoid interest costs that otherwise would have been paid to bond investors over the next 20 years. However, the decision to not borrow creates a shortfall of $60 million in FY 2017 since the anticipated bond proceeds had been included as a resource in the adopted Budget (along with $15 million in operating revenue) to fund $75 million in tax certiorari refund payments in 2017, as discussed below.

Income and Expense Law

The Income and Expense law, which requires commercial property owners to timely file their income and expense statements or face a fine, is still being legally challenged. Although a stay remains in effect on enforcement of penalties for the litigants in this case, the County has been permitted to begin enforcement efforts against commercial property owners not party to the case. The County has collected $1.2 million from these owners to-date; however, the County does not want to recognize any revenue until all of the legal hurdles are cleared. Consequently, the entire $10 million in budgeted revenue is being held at risk until there is greater confidence that the initiative can withstand any further challenges and appeals.

Contractual Services

The County is projected to spend $253.3 million on contractual services, or $9.5 million more than assumed in the adopted Budget. The overspending includes an additional $5.1 million for inmate healthcare services and $2.8 million for the NICE bus contract restorations made earlier this year.

As reported extensively, the County will incur approximately $1.8 million in unanticipated costs related to the three month extension of its inmate healthcare services contract with Armor Correctional Health Services. It will also incur approximately $3.2 million in unbudgeted, incremental costs in the last four months of FY 2017 related to its successor contract with the Nassau Health Care Corporation.

The County funded the $5.1 million in unbudgeted inmate healthcare costs with $5.1 million in projected surpluses in fringe benefits and utilities. The County funded the $2.8 million NICE bus contract restoration with $1.3 million in increased State transportation aid and $1.5 million in savings from workforce management expense reductions. The County also revoked approximately $7.5 million in funding for OTPS appropriations throughout all departments to make available for other potential needs should they arise.

Sale of County Land

The County hopes to realize $5.1 million from the sale of County property in FY 2017. Although the County has had past success in selling property, there have been years when anticipated transactions did not timely close and budgeted revenues fell short. Consequently, until the County identifies buyers for specific parcels and the necessary contractual agreements and legislative approvals are completed, we consider the revenue anticipated from property sales to be at risk.

State and Federal Aid

A projected reduction in Social Services costs will provide approximately $7.0 million in budget relief, as discussed below, but will also result in the loss of $3.7 million in associated State and Federal aid. The projected shortfall results primarily from lower social service caseloads in the Temporary Assistance for Needy Families (“TANF”) and Safety Net Assistance (“SNA”) programs. There was also a decrease in the Foster Care and Day Care Block Grant and lower reimbursement for housing Federal inmates. The loss of State aid was partially offset by an increase in State Transportation Operating Assistance Program (“STOA”) revenues in the amount of $1.3 million which, as described above, was used to partially restore a cut that the County previously made to the NICE bus contract.

Fines & Forfeitures

Our analysis indicates that projected shortfalls of approximately $8.9 million in the Public Safety and Boot & Tow fees will exceed the $6.9 million in favorable revenues generated by fines and the County's red light camera ("RLC") program. Although revenues from fines and the RLC program continue to show enduring strength in 2017 (after ending 2016 at a higher level than had been assumed in the adopted Budget) we continue to be concerned that the County will be unable to meet its Public Safety fee and Boot & Tow revenue targets due to late and nonexistent implementation; consequently, we have discounted these revenues in our projections. Our understanding is that delays in implementing the Boot & Tow initiative (related to finding impound storage space) have not been resolved and the initiative is unlikely to generate any revenue this year.

Salaries and Wages

The County currently has 390 full-time vacancies, of which 93 are in the Correctional Center and 235 are in the Police Department. If left unfilled, the vacancies will result in significant savings, which could partially offset projected overspending on overtime and terminal leave payments. The County should closely examine these vacancies for opportunities to permanently eliminate positions in order to provide recurring savings.

Our analysis indicates that overtime continues to be underfunded, particularly in the Correctional Center. There are indications that the County has made significant progress in controlling Police overtime during the first half of the year; however, it is unclear if this success can be sustained with the large number of vacancies that continue to exist. In contrast, overtime at the Correctional Center has been problematic all year and will likely exceed budgeted levels by more than 30%. The County attributes unbudgeted overtime needs at the Correctional Center to contractual increases, a higher inmate population and vacant correctional officer positions.

Our analysis indicates that terminal leave costs (payments to employees for unused sick and vacation leave balances) may exceed budgeted levels by approximately $25 million. The projected variance is primarily in the Police Headquarters Fund, where year-to-date expenditures have already exceeded the adopted Budget. Combined with retirements from the Police District Fund, our analysis assumes that approximately 200 officers will separate before the end of the year. This contrasts with the County's recent projections of $19 million in terminal leave overspending and 175 officer retirements. It should be noted that the County's $13.1 million reserve for unbudgeted termination costs resides in the Police District Fund and could be utilized to cover overspending in that Fund; however, this reserve is unavailable to cover shortfalls in the Police Headquarters Fund since the two police Funds do not share a common tax base.

Although our current analysis indicates that vacancy savings could offset a substantial portion of projected overspending on overtime and terminal leave, the County could have exposure to additional terminal leave costs to the extent there is a surge in police retirements or overtime usage in the second half of the year not accounted for in our projections.

Utility Costs

Utility costs are projected to be lower than budget due to lower projected costs for fuel, electricity, water, and brokered gas.

Sales Tax

Our analysis indicates that strong growth in year-to-date sales tax receipts may result in sales tax revenues exceeding budgeted levels by approximately $4.1 million (an additional surplus of $5.5 million cannot be recognized until FY 2019) . We are cautiously optimistic that this revenue can be realized since our projection is based on sales tax receipts growing by 1.5% in the remaining checks of 2017, which is the 10-year average growth rate for this period. Alternatively, if sales tax receipts were to grow by 1.8% in the remaining checks of 2017, which is the 5-year average growth rate for this period, the County could realize approximately $6.2 million more than budgeted (rather than $4.1 million).

PILOTs

The County projects Payments in Lieu of Taxes (“PILOTs”) to have a surplus of $4.1 million. The projected surplus is attributable to a delay in finalizing the annual calculation of PILOTs associated with the Long Island Power Authority.

Social Services Costs

Our analysis indicates that County expenditures for social service programs could be $8.5 million lower than assumed in the adopted Budget. The projected surplus results primarily from lower social service caseloads in the TANF and SNA programs. Medicaid costs are lower primarily due to lower projected payments for Indigent Care stemming from a changes that were made after the State completed a reconciliation of actual County costs.

Tax Certiorari Payments

The County plans to make $75 million in tax certiorari refund payments in 2017 (in accordance with NIFA’s resolution approving the Multi-Year Plan); however, $26.4 million of the payments will be offset against a 2016 accrual established for this purpose. This will create budgetary relief in FY 2017 by the same amount. These savings will diminish (and the deficit will grow) to the extent that the County is required by its auditors to record a similar accrual in 2017 for payments that it will not make until 2018. The Administration is confident that this will not be a problem.

Use of Fund Balance

The County began FY 2017 with approximately $200 million in unreserved fund balance in the Major Funds. It currently anticipates appropriating $33.6 million of this amount to cover a portion of the tax certiorari refund payments in 2017. Although appropriating fund balance may offset unfavorable variances reported on a budgetary basis, the County acknowledges that this is not revenue and does not contribute to balance on a GAAP Basis. The credit rating agencies have opined that the County's fund balance is not high enough; however, this action is unlikely to result in any negative changes in the County's ratings since its decision to not borrow reduces the County's debt burden and avoids additional interest costs that otherwise would have to be paid to bondholders over the next 20 years. Overall, the County's use of Fund Balance in lieu of additional bonding is viewed as a credit positive.

Potential Budget Opportunities

There are several opportunities where additional savings and revenues could be realized and available to reduce the deficit; however, we intentionally did not factor them into our current projections due to their uncertainty at the year's halfway point.

For example:

- Fines and Forfeitures revenues may be higher than projected if current trends are sustained, particularly for the red-light ticket program.
- Department Revenues may he higher than projected if the pace of real estate related transactions continues unabated. In particular, mortgage and deed recording fees are coming in above plan.
- OTPS revocations announced by the County could generate approximately $7.5 million in savings if the cuts are sustained. The County maintains that savings can be realized from lower spending on utilities and gasoline as well as from across-the-board cuts.

RECOMMENDATION

Although our analysis indicates that the County may incur a deficit smaller than the $60 million maximum cap imposed by NIFA, it is still a significant deficit and much greater than the one percent deficit threshold that triggers the imposition of a Control Period. Consequently, we recommend that the County seize the opportunity to get a head start on closing projected risks in FY 2018 (and the Out-Years) by implementing initiatives which provide recurring savings and revenues sooner rather than later.

III. THE OUT-YEAR GAPS: FY 2018 – FY 2020

The County is required to submit its FY 2018-2021 Multi-Year Financial Plan to NIFA on September 15, 2017, which is a little more than one month from now. Although the proposed Plan will not be effective until January 1, 2018, the County should immediately begin to implement a credible plan that moves the FY 2018 Budget closer to being balanced on a GAAP Basis, which NIFA is requiring for FY 2018 and beyond. The Update fails to accomplish this task due to the lack of specificity in its gap-closing plan, which leads us to question its viability.

THE COUNTY'S BASELINE PROJECTIONS

In the Update, which covers fiscal years through 2020, the County made a number of changes to its baseline projections of Out-Year revenues and expenditures.

Overall, the County's estimates of the baseline gaps, which we believe are significantly understated, decreased by $8.3 million in FY 2018, $15.3 million in FY 2019 and $17.4 million in FY 2020 compared to the Adopted Multi-Year Plan, as shown below. These gaps represent the County's estimate of annual deficits that would emerge if no intervening actions were taken.

COMPARISON OF COUNTY-PROJECTED BASELINE GAPS

($ in millions)	FY 2018	FY 2019	FY 2020
Adopted MYP	($80.7)	($94.7)	($100.7)
MYP Update	(72.4)	(79.4)	(83.3)
Better/(Worse)	**$8.3**	**$15.3**	**$17.4**

Major Factors Reducing the County-Projected Baseline Gap:

- The County increased its projection of revenue from PILOTs in each year by $4.1 million to be consistent with its projections for PILOT revenue in FY 2017
- The County increased its projection of sales tax revenue by $8.4 million in FY 2018, $8.7 million in FY 2019, and $3.0 million in FY 2020. The new projections more accurately reflect the total amount of sales tax revenue that could be realized in those years using the same growth rate assumptions it used in the adopted Plan.
- The County reduced its projection of payroll expenditures for terminal leave payments by $7.9 million to reflect lower anticipated attrition in the Police Department prospectively, compared to FY 2017, from 135 to 100 officers per year. The County assumes that historical attrition rates will resume after the jump in police retirements experienced in recent years.

- The County reduced its estimate of debt service expenditures to more accurately reflect recent borrowing costs and the elimination of bonding for tax certiorari refunds.
- The County reduced its projections for Medicaid and other Social Services costs to be consistent with projected lower levels of spending on these items in FY 2017.

Major Factors Increasing the County-Projected Baseline Gap:

- The County increased its budget line for contractual services to reflect the greater costs of using the Nassau Health Care Corporation to provide inmate healthcare compared to its previous contract with Armor Correctional Services. The County anticipates these costs to be approximately $21 million annually, or $10 million higher than previously assumed under the expired agreement; however, certain contingencies in the new agreement could greatly increase this cost.
- The County increased its projection for judgments and settlements to reflect a $5 million annual payment to the Town of Hempstead, which was agreed to in the garbage district case settlement.
- Federal Aid reimbursements are expected to be lower, which is consistent with annual savings the County anticipates from lower social service caseloads.

The Projected Baseline Gaps are Understated

Our analysis indicates that the County's baseline gap projections are understated each year by between $73 million and $106 million, as shown below. For example, the County projects that its FY 2018 expenditures will exceed available revenues by $72.4 million; however, we estimate that the baseline gap could reach $145.0 million prior to the implementation of any new gap-closing initiatives. Not included in this assessment are additional labor costs, beginning in FY 2018, that would likely result if the County enters into new collective bargaining agreements with its unions. The County's projections optimistically assume that union concessions will fully offset negotiated raises.

PROJECTED BASELINE GAPS: COUNTY vs. NIFA

($ in millions)	FY 2018	FY 2019	FY 2020
MYP Update	(72.4)	(79.4)	(83.3)
NIFA Estimate	($145.0)	($174.0)	($189.0)
Better/(Worse)	**($72.6)**	**($94.6)**	**($105.7)**

Major Components of Understatement

The major components contributing to the understated baseline gaps consist of:

- Underestimated tax certiorari refund liabilities from projecting dramatically reduced yearly payments despite the County's need to pay down the accumulated backlog and any commercial settlements above the amounts held in the Disputed Assessment Fund.
- Overestimated revenues from fines that may decline with increased driver awareness of red light camera placement and the potential deterrent effect on other traffic offenses resulting from drivers wary of the large public safety fee.
- Overestimated revenue from the annual sale of County property.
- Uncollected revenues from enforcement of the Income and Expense law, which is still being challenged in court.
- Overestimated revenue from real estate related transactions (e.g., mortgage and deed recording fees, GIS tax map fee) which the County assumes will be sustained at current levels.
- Underestimated expenditures on overtime.
- Underestimated health insurance costs from using optimistic growth rate assumptions in all years.

<u>Tax Certiorari Refunds</u>

Resolution of the certiorari problem has been seen as essential to Nassau County's return to fiscal stability. The State's passage of property tax certiorari legislation reform provides the County the opportunity to greatly reduce its commercial certiorari liability beginning in FY 2017 through use of the Disputed Assessment Fund ("DAF"). The new procedures have not been challenged in Court; however, we remain concerned about that possibility. Should the DAF go unchallenged, this would be a major turning point in controlling the County's liability.

However, in addition to the County remaining responsible for any commercial settlements in excess of the amounts held in the DAF, the County has to resolve a tremendous backlog (the Comptroller estimates the long-term liability to be $302 million at the beginning of 2017). Other than using Fund Balance to pay these expenses in FY 2017 (which exacerbates the GAAP Basis deficit), the County has shown very little indication of its willingness to pay for this liability in a meaningful way (with operating revenues) in order to eliminate the backlog. The County alludes to the possibility of using in the Out-Years a new, contingency line it added in 2017 to the County's tax bills, which is dedicated for tax certiorari payments, to address the backlog.

As shown below, the County has budgeted only $30 million per year which, if the backlog does not grow in 2017, would take more than 10 years to pay down the long term liability. Further, the County will also use a portion of the $30 million to cover any commercial liability not funded in the DAF. Consequently, we assume that tax certiorari refunds could remain at $70 million in FY 2018, FY 2019, and FY 2020 which, if correct, is $40 million more than assumed by the County in the Update.

PROJECTED ANNUAL LIABILITY FOR CERTIORARI CLAIMS

($ in millions)	FY 2018	FY 2019	FY 2020
MYP Update	$30.0	$30.0	$30.0
NIFA Estimate	$70.0	$70.0	$70.0
Better/(Worse)	**($40.0)**	**($40.0)**	**($30.0)**

Sales Tax Revenue

The County is assuming that sales tax revenues will grow by 2.25% in FY 2018, 2.5% in FY 2019 and 2.5% in FY 2020. Although these growth rates may not sound high, they exceed the 1.4% average growth rate experienced by the County over the past 10 years. The first half strength of sales tax collections in 2017 positions the County well to reach the FY 2018 target; however, we feel the assumptions for 2019 and 2020 should be more conservative and reduced to a maximum of 2.25%, which is the rate used in 2018. If sales tax revenues were to grow at the 10 year historical rate, the revenue shortfall would be approximately $9 million in FY 2018, $21 million in FY 2019 and $33 million in FY 2020.

Health Insurance Costs

Our analysis indicates that health insurance costs may be understated by approximately $7 million in FY 2018, $15 million in FY 2019 and $24 million in FY 2020 if growth rates do not materially decline from growth rates currently anticipated by the State Department of Civil Service in FY 2018. The County is assuming that health insurance costs will grow by between 5.38% and 6.0% in FY 2018, FY 2019, and FY 2020 compared to the State's estimate of 7.6% annually. Although health insurance growth rates have moderated in recent years, we think the County ought to be more conservative and assume that growth will pick up pace.

Labor Costs

Contracts with all of the County's labor unions expire on December 31, 2017. The County's current negotiating position is that the next round of collective bargaining must result in contracts that are cost neutral. Although we are skeptical that this strategy will be accomplished, we have not quantified any labor risks in FY 2018, FY 2019, and FY 2020. Consequently, any raises granted to County employees that are not offset by concessions will exacerbate the deficit.

The only additional labor costs included in the County's baseline projections relate to step increases that will be granted to employees eligible to advance to the next step in their respective salary schedules. In the absence of successor agreements, these step increases are protected under the Triborough Amendment to the Taylor Law.

Litigation

The County has made no provision for the payment of certain future liabilities that may result from the multitude of lawsuits the County is currently litigating. The payment of these potential liabilities is not factored into our Out-Year risk assessment; however, we note that this fiscal cloud hanging over the County may one day add significant expenditures that will need to be funded.

In addition to the long-term tax certiorari liability estimated to be $302 million, as discussed above, the County is a defendant in a number of lawsuits and in its most recent public offering statement, it estimated that it has potential liabilities for non-certiorari claims totaling $367 million. In the same offering statement, the County also indicated that it has recorded as a liability approximately $235 million related to Workers' Compensation claims, as estimated by the County's third-party administrator. Both of these estimates are unaudited, as of December 31, 2016.

GAP-CLOSING PLAN

The County's gap-closing plan, which is meant to provide a roadmap for closing the Out-Year gaps projected for FY 2018, FY 2019 and FY 2020, remains substantially unchanged from the adopted Plan except in a few notable places. Many of the initiatives have been listed in the gap-closing plan for a number of years with only moderate success and some have experienced repeated delays in various stages of implementation. In that context, we question the County's ability to implement these initiatives or realize full savings.

Compared to the adopted Plan, the County reduced the projected value of its Gap-Closing Plan by a net $23.8 million in FY 2018 and increased it by $20.5 million in FY 2019 and $13.4 million in FY 2020. For example, the County removed or reduced projected savings in FY 2018 from eight initiatives (totaling $50.8 million) and increased projected savings in three initiatives (totaling $27 million).

Specifically, the County removed $20 million in savings from its sewer system Public Private Partnership initiative (maintaining the projected savings beginning in FY 2019), reduced savings it had anticipated from State mandate reform by $14.7 million (now assuming half year savings) and other NYS Legislative actions by $5 million. The County also removed all projected savings from its health insurance cost reduction initiative ($5 million), and reduced and pushed back anticipated savings from its Suez Water synergy savings initiative ($4 million), eGovernment revenues ($1 million), and ERP implementation ($1 million).

We support the County's apparent acknowledgement that these initiatives have gained little traction; however, the County offset the missing savings with $20 million in unsubstantiated increases in new revenues (to $50 million), $5 million in additional savings from workforce management (to $15 million) and $2 million from OTPS reductions (to $8 million). This situation is unsettling because the major options provided by the County to close the projected gaps, which have not changed from prior years, are unlikely to be timely implemented or remain speculative, particularly in an election year.

COUNTY GAP-CLOSING PLAN

($ in millions)	FY 2018	FY 2019	FY 2020
Expense/Revenue Actions			
Revenue Initiatives	$50.0	$56.0	$56.0
VSIP/Workforce Management	15.0	17.0	20.0
Program/OTPS Reduction	8.0	8.0	8.0
Public Private Partnership (P3)		20.0	20.0
County's District Energy Facility		10.0	10.0
Suez Water Long Island Inc. Synergy Savings		4.5	4.6
Strategic Sourcing		3.0	4.0
eGovernment Revenues		2.0	4.0
ERP Implementation		1.5	3.0
Building Consolidation Efficiencies		1.0	4.0
NYS Actions			
Mandate Reform	14.0	28.7	28.7
Other NYS Legislative Actions		5.0	5.0
E-911 Surcharge	3.5	6.9	6.9
NYS Highway Traffic Offense Surcharge	2.8	5.7	5.7
Hotel Motel Tax Rate Increase	2.4	4.8	4.8
Total Gap-Closing Options	**$95.7**	**$174.1**	**$184.7**

The following is a synopsis of the actions that the County projects have the highest potential monetary impact. While some initiatives may come to fruition, there are no detailed plans of implementation for us to evaluate.

Expense/Revenue Actions

Revenue Initiatives – The County did not provide an informative description for this initiative, which it estimates would generate revenues of $50 million in FY 2018 and $56 million, beginning in FY 2019. For example, the $50 million in additional revenue is equivalent to tripling the Public Safety fee or increasing the property tax levy by approximately 5%. In absence of anything of substance, such as specific planned measures supported by an analysis of how these revenues were calculated and projected, NIFA has no choice other than to risk these amounts as highly unachievable.

Workforce Management – The County claims that it can continue to provide operations and services with fewer positions than budgeted, and in certain targeted areas we agree. However, as the County has repeatedly noted, it has already substantially reduced budgeted headcount and we question whether it can, or has the will to, target non-essential positions without inadvertently reducing more essential services.

Program/OTPS Reduction – Each year, the County maintains it will explore options to reduce costs by means of consolidation, contract renegotiation and private partnerships. Further information will be necessary to support the County's projections of savings.

Public-Private Partnership ("P3") – The County has proposed a Public-Private Partnership for the sewer system that would allow the County to retain public ownership of the system with the vendor acting as "concessionaire." The County projects that the agreement could produce savings in the General Fund (above amounts projected to be saved in the Sewer Fund) of $20 million in FY 2019 and FY 2020. The proposed savings are expected to come from reduced debt service while ensuring other benefits such as performance level guarantees, risk transfer for environmental compliance and improvements in service levels and customer service.

The County already has a contract with Suez Energy North America (formerly "United Water") to run its operations, with the expectation that the work could be performed less expensively than it was when managed directly by the County. Consequently, this initiative is looking to identify additional savings opportunities that may be realized through a concessionaire P3 model. A lot of work remains to be done and legislative support for a P3 transaction is questionable. For this reason, until a proposed P3 concessionaire agreement can be vetted and possibly implemented, NIFA must put the County's gap-closing measure at risk.

County's District Energy Facility – The County's agreement with Suez Energy NA to operate the County's 57 megawatt cogeneration plant in Uniondale expires May 31, 2018. The plant provides electric power and thermal energy to various County buildings and institutions in and around the Nassau Hub. The County is exploring options to generate revenue by leveraging and reimagining the use of the facility, possibly through a P3 agreement. The County issued an RFP in January of 2016 and stated that they are still reviewing the responses. The County is short on specifics that explain the projected revenue of $10 million for FY 2019 and FY 2020. Until the County can provide a detailed plan of use with supporting analysis, we cannot affirm the viability of generating this amount of revenue.

Suez Water Long Island Inc. Synergy Savings – Suez Energy North America took over management of the County's sewer system and is acting as a private operator. The current contract promised a minimum of $10 million in savings. The County continues to maintain that additional savings may be achieved ("synergy savings"), although it has reduced its projections to a more reasonable level of $4.5 million in FY 2019 and $4.6 million in FY 2020. NIFA remains skeptical that these savings will be realized.

New York State Actions

Among the initiatives are five proposals that would require State approval before they could be advanced. Some have been proposed in the past, disappeared and then reappeared as options.

Mandate Reform – The County noted in the Update that recent audits conducted by the State Comptroller highlighted high costs and fraud within pre-school special education programs throughout the State. The County considers expenditures for these programs, as well as for other State-mandated programs, opportunities for savings through cost containment initiatives to be implemented at the State level. Although the projected savings in FY 2018 was halved to $14 million (still without specifics), projected savings that approach $30 million per year in FY 2019 and FY 2020 are beyond a level of optimism. Without specific changes, and identifiable support for the corresponding State legislation, NIFA remains skeptical that these savings will be realized.

E-911 Surcharge – The County is seeking approval to increase the surcharge related to the provision of its enhanced 911 emergency telephone system. The County has stated that the increase would enable it to raise revenue needed to cover the actual costs associated with providing this technology. Until the approval is granted, these revenues remain at risk.

Other initiatives that require State action include requesting approval for a surcharge for traffic offenses that occur on various Long Island highways and expressways and approval of an increase to the Hotel/Motel Tax rate from 3% to 5.875%. Until funding materializes for these initiatives, NIFA must hold the projected savings and revenues at risk.