

**NASSAU COUNTY
OFFICE OF THE COMPTROLLER**



**2017 MID-YEAR REPORT
ON THE COUNTY'S FINANCIAL CONDITION**

**George Maragos
Nassau County Comptroller**

July 31, 2017

**NASSAU COUNTY
OFFICE OF THE COMPTROLLER**

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Table of Contents

- 1.0** Executive Summary
- 2.0** Revenue Variances
- 3.0** Expense Variances
- 4.0** Risks and Opportunities to Achieve a Balanced Budget
- 5.0** Other Concerns
- 6.0** Major County Financial Trends
- 7.0** Sewer and Storm Water District Fund
- 8.0** Use of Non-Primary Funds

Exhibits

- 1** Revenue and Obligations Forecast for 2017
- 2** County Financial Results on a NIFA Presentation Basis 2010-2017
(projected)
- 3** Budgetary Fund Balance as a Percentage of Recurring Expenditures
- 4** Total Projected Long-Term Borrowings
- 5** Debt Issuances - Nassau County – New Money
- 6** Sewer and Storm Water District Fund 2017 Adopted Budget and 2017
Projections
- 7** Non-Primary Operating Fund Balances **and** Reserves

REPORT ON THE COUNTY'S FINANCIAL CONDITION
FOR THE FIRST SIX MONTHS OF FISCAL YEAR 2017

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 In an effort to simplify financial reporting and eliminate past confusion resulting from the multiple reporting methodologies used, the Comptroller's Office will only report results on a GAAP basis and in the presentation methodology mandated by Nassau County Interim Finance Authority (NIFA).

The 2017 mid-year financial projections, under current spending and revenue assumptions, indicate that the County will end with a \$57.6 million deficit in the primary operating funds under Generally Accepted Accounting Principles (GAAP). The material budgetary variances are shown in Exhibit 1, with GAAP revenue and expenditure adjustments shown directly below. Based on the GAAP projections in this report, the County is anticipated to have ending fund balances on a GAAP basis of \$67.8 million, down from \$170.5 million at 2016.

The noteworthy items affecting the budgetary projection are, the \$10 million of risk in Income and Expense reporting revenue suspended by litigation, \$60 million in lower borrowing by the Administration for property tax refunds (offset by a reversal of a 2016 accrual of property tax refund payments due in 2016) and a risk of \$12.5 million in payroll expense, mostly due to higher termination pay for an increased number of police officers retiring in 2017.

Under the presentation basis prescribed by NIFA, the County would be ending the year at negative \$57.6 million, (the same as the GAAP results reported above, see Exhibit 2), an improvement of approximately 31% over 2016. The convergence of the GAAP and NIFA results is due to the Administration's intention not to borrow in order to pay for operating expenditures. The projected NIFA presentation basis result is within the maximum \$60 million deficit mandated by NIFA for fiscal year 2017.

The total long-term debt for the County and its blended component units, NIFA, Nassau County Sewer and Storm Water Finance Authority (SFA) and the Nassau County Tobacco Settlement Corporation (TSC), are projected to decrease by \$102.2 million to approximately \$3.532 billion after pay-down of \$243.8 million in maturing debt (see Section 6.4). We understand that the Administration does not expect to issue any further long-term debt in 2017.

The Administration is expected to find revenue and expense opportunities to reduce the projected deficit, but may be hard pressed to achieve balance on a GAAP basis by year-end 2017. The fiscal challenges being faced by the County in 2017 are somewhat masked by the use of non-primary funds set aside in prior years to pay approximately \$43.6 million in litigation expense, which is not included in the projected \$57.1 million GAAP deficit. These same challenges will continue in the 2018 budget, in addition to other structural cost increases in labor, health care and other mandated costs.

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

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

EXHIBIT 1

Revenue and Obligations Forecast for 2017*			
(\$'s millions)			
	2017 Budget	2017 Projected Actual	Variance
Revenues			
Sales Tax	\$1,142.5	\$1,147.1	\$4.6
Departmental Revenue			
Assessment	42.7	39.6	(3.1)
County Attorney	10.2	0.2	(10.0)
Other Departmental Revenue	189.8	190.3	0.5 (12.6)
Fines & Forfeitures	96.2	94.9	(1.3)
Federal Aid	137.1	134.5	(2.6)
Capital Resources for Debt	63.5	3.5	(60.0)
Property Taxes	816.9	818.5	1.6
Payment in Lieu of Taxes	42.3	46.4	4.1
Sale of County Property	5.0	0.0	(5.0)
Other	424.6	425.6	1.0
Total Revenue	<u>\$2,970.8</u>	<u>\$2,900.6</u>	<u>(\$70.2)</u>
Expenses			
Payroll (excluding Termination Pay and Overtime below)	783.7	764.9	18.8
Termination Pay (Police Department)	34.2	58.7	(24.5)
Fringe	546.0	546.7	(0.7)
Overtime (Police Department and Correctional Center)	70.2	77.0	(6.8)
Social Services	412.4	402.7	9.7
Debt service	376.4	370.8	5.6
Contractual Expense	243.6	253.5	(9.9)
Utilities	38.4	35.9	2.5
Judgments & Settlements	0.0	3.0	(3.0)
Property Tax Refunds	75.0	75.0	0.0
Property Tax Refunds 2016 accrual reversal	0.0	(23.6)	23.6
Other	391.1	391.5	(0.4)
Total Expense	<u>\$2,971.0</u>	<u>\$2,956.1</u>	<u>\$14.9</u>
Estimated Results on a Budgetary Basis excluding Additional Risks/Opportunities			<u>(\$55.3)</u>
Revenue adjustments (estimated) to arrive at GAAP			(6.4)
Expense adjustments (estimated) to arrive at GAAP			<u>4.1</u>
Estimated Results on a GAAP Basis excluding Additional Risks/Opportunities			<u>(\$57.6)</u>

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

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

EXHIBIT 2

County Financial Results on a NIFA Prescribed Presentation Basis								
2010 - 2017 (projected)*								
CALCULATION OF NIFA PRESCRIBED PRESENTATION BASIS 2010 - 2017*								
(\$'s millions)								
	2017 (projected)	2016	2015	2014	2013	2012	2011	2010
Net Change in Fund Balance - modified accrual basis	(\$57.6)	\$27.1	\$28.0	(\$21.5)	\$48.6	\$24.0	(\$98.0)	\$31.0
Less: adjustments included in other financing sources								
Premium on bonds	0.0	43.8	19.0	4.4	4.0	3.7	6.2	21.3
Borrowed funds to pay Property Tax Refunds	0.0	59.0	96.2	126.4	75.0	14.7	21.0	42.5
Borrowed funds to pay Other Judgments	0.0			8.3	26.5	20.0	4.6	30.4
Borrowed funds to pay Termination Pay	0.0	2.3	26.1	20.1	14.0	33.1	17.7	80.0
Transfer of revenue from other funds to offset debt expense	0.0	5.1	12.0	8.5	2.7	16.6	12.5	1.7
Total other financing sources/uses to be eliminated	0.0	110.2	153.3	167.7	122.2	88.1	62.0	175.9
NIFA Prescribed Presentation Basis	(\$57.6)	(\$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 & Education Fund
Debt Service Fund (not including sewer debt)

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

- Termination pay will not be paid with borrowed funds;
- Property tax refunds will be not paid using new bond proceeds.

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

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

2.0 REVENUE VARIANCES

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

2.1 Sales Tax

Sales Tax Receipts are projected to come in \$4.6 million above budget. Year to date receipts are 2.6% above 2016, and we are projecting a conservative 2% increase for the full year. The budget included a 1.06% increase. This is offset by a projected negative variance in Deferred Sales Tax resulting from under budgeting Part County Sales Tax. Improving confidence in the regional economy, job growth and a continuing increase in the housing market has impacted sales tax revenues.

SALES TAX (\$'s in millions)					
	2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
Sales Tax Receipts	\$1,129.6	\$1,141.6	\$438.4	\$1,152.2	\$10.6
Deferred Sales Tax	(5.5)	0.9	0.9	(5.1)	(6.0)
Total	\$1,124.1	\$1,142.5	\$439.3	\$1,147.1	\$4.6

2.2 Departmental Revenue

Departmental Revenue is projected to be under budget by \$12.6 million, mostly due to a projected \$10 million negative variance in County Attorney for the Income and Expense Law fees, which have not yet been collected due to a current legal stay of proceedings. The Income and Expense Law passed by the Legislature authorized the County to assess a penalty on income-producing property owners who do not file an annual certified statement of income and expense (ASIE). While the Administration still expects to collect the entire amount budgeted, we are conservatively projecting that no revenues will be recognized in 2017 as the law is being challenged in court. We also expect a negative \$3.1 million variance in Assessment for collection of Tax Map Verification fees based on current collection trends. These fees were increased from \$225 to \$355 per the Tax Map Verification letter on January 1, 2017.

DEPARTMENTAL REVENUE (\$'s in millions)				
2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
\$216.4	\$242.7	\$94.4	\$230.1	(\$12.6)

2.3 Fines & Forfeitures

Fines & Forfeitures Revenue is projected to be under budget by \$1.3 million due a negative variance of \$6.0 million in Public Safety Fee Revenue. This is due to a delay in the implementation of the collection process, which started in March 2017. The negative variance is partially offset by Traffic and Parking Violations Agency (TPVA) revenue projected at \$3.6 million over budget (\$6.0 million in higher

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

than budgeted Red Light Camera Revenue, offset by a negative \$2.4 million projected in other TPVA), and a \$1 million positive variance projected for Taxi and Limousine fees.

FINES & FORFEITURES (\$'s in millions)				
2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
\$77.5	\$96.2	\$42.5	\$94.9	(\$1.3)

2.4 Federal Aid

Federal Aid is projected to be \$2.6 million under budget, mostly comprised of \$2.3 million less in Social Services as a result of lower caseloads in the Temporary Assistance for Needy Families (TANF) program and reductions in the Foster and Day Care Block Grant programs.

FEDERAL AID (\$'s in millions)				
2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
\$140.5	\$137.1	\$19.2	\$134.5	(\$2.6)

2.5 Capital Resources for Debt

Capital Resources for Debt is projected to be \$60 million under budget due to the discontinuance of the practice of borrowing to pay for Property Tax Refunds. NIFA mandated that borrowing cease to pay for these operational costs by fiscal year 2018 but the Administration has chosen to implement a year early. This had a positive effect on the County's bond rating.

CAPITAL RESOURCES FOR DEBT (\$'s in millions)				
2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
\$55.5	\$63.5	\$1.1	\$3.5	(\$60.0)

2.6 Property Taxes

A surplus of \$1.6 million is projected in Property Taxes due to properties being reinstated on the property tax rolls. The 2017 property tax rolls did not include real property tax abatements for senior citizens with eligible property. The local law and enabling New York State legislation had lapsed and was not fully reenacted until January 25, 2017 after the 2017 tax rolls had been set. The reenacted legislation is retroactive and applies to the 2017 tax year. The Administration has indicated that the 2017 senior abatements reinstated will be applied as credits to the property tax bills in 2018 and later.

**Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition**

PROPERTY TAX (\$'s in millions)				
2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
\$813.8	\$816.9	\$818.5	\$818.5	\$1.6

2.7 Payment in Lieu of Taxes (PILOTs)

A \$4.1 million positive variance is projected because actual PILOTs associated with the Long Island Power Authority are finalized after the budget has been adopted.

PAYMENT IN LIEU OF TAXES (\$'s in millions)				
2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
\$40.5	\$42.3	\$24.5	\$46.4	\$4.1

2.8 Sale of County Property

The 2017 budget includes \$5.1 million in revenues for proceeds from the sale of County property. The negative variance of \$5 million is projected as no specific, major sales or transactions are pending closure or completion.

SALE OF COUNTY PROPERTY (\$'s in millions)				
2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
\$6.7	\$5.1	\$0.1	\$0.1	(\$5.0)

2.9 Fund Balance

The Administration is projecting to appropriate \$33.6 million of prior year ending fund balance generated from the 2016 surplus to make tax certiorari payments. The 2017 Adopted Budget did not include the use of prior year appropriated fund balance. Our projections do not include the use of fund balance since a super-majority of the Legislature and NIFA must approve this decision. GAAP reporting eliminates the use of appropriated prior year fund balance as it is not a source of revenue or funds.

Should the Administration request the use of fund balance to pay for property tax refunds in 2017, we calculate that the Administration will require \$37.9 million to reach the NIFA required minimum payment amount of \$75 million. The usage of fund balance will have a negative effect on both the County's GAAP and NIFA projected year-end balances.

**Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition**

3.0 EXPENSE VARIANCES

This section discusses the expense 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 negative variance of \$12.4 million from the 2017 Adopted Budget. The projected negative variance is primarily being driven by termination pay in Police District and Headquarters and overtime overages for Police Headquarters and the Correctional Center and is offset by savings from Part-time / Seasonal employees, vacancies, workers' compensation and other payroll related savings.

Fringe benefits are projected to show a negative variance of \$0.7 million when compared to the 2017 Budget. This is primarily attributable to ongoing increases in health insurance costs. Workers' compensation is projecting a positive variance of \$0.8 million due to a lower number of claims for scheduled loss payments than originally projected for 2017.

SALARIES, FRINGES & WORKERS COMPENSATION (excluding overtime for Police Department and Correctional Center) (\$'s in millions)					
	2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
Salaries	\$751.3	\$817.9	\$412.1	\$823.6	(\$5.7)
Fringe Benefits	501.9	546.0	347.6	546.7	(0.7)
Workers Compensation	31.2	35.3	13.2	34.5	0.8
Total	<u>\$1,284.4</u>	<u>\$1,399.2</u>	<u>\$772.9</u>	<u>\$1,404.9</u>	<u>(\$5.6)</u>

According to the Administration, the 2017 Adopted Budget funded termination pay for approximately 135 officers totaling \$34.2 million, with reserve funds adequate to cover costs for an additional 20 officers projected. 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 2017, 134 sworn officers have retired and the Comptrollers' projection includes a total of 200 police officers retiring from both District and Headquarters in 2017, totaling \$58.7 million, \$24.5 million over budget.

The Comptroller's Office projects that there is a risk of up to 25 additional officers retiring before year-end 2017 and has estimated the added cost at \$7.8 million. The projected shortfall in termination pay for both Police departments could reach up to \$32.3 million combined should the additional risk occur. Although the County has funded a contingency in the Employee Benefit Accrued Liability reserve fund to address possible shortages in termination pay, the balance in the reserve fund is currently \$13.1 million and can only be used to cover termination pay for officers in the Police District. Any overages due to retirements and termination pay for Police Headquarters will be absorbed by the County's General Fund if it cannot be covered by surpluses achieved in other salary lines, such as overtime.

**Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition**

TERMINATION PAY (\$'s in millions)					
	2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
Police District	\$6.4	\$17.4	\$10.4	\$21.0	(\$3.6)
Police Headquarters	8.4	16.8	16.2	37.7	(20.9)
Other	<u>7.4</u>	<u>8.6</u>	<u>8.1</u>	<u>8.6</u>	<u>0.0</u>
Total	<u>\$22.2</u>	<u>\$42.8</u>	<u>\$34.7</u>	<u>\$67.3</u>	<u>(\$24.5)</u>

3.2 Overtime for Police Department and Correctional Center

Based on current expense trends, overtime costs for the Police Departments and the Correctional Center are projected to be \$6.8 million over the \$70.2 million 2017 budget. The expense in excess of budget is primarily comprised of \$0.1 for Police District, \$3.5 million for the Police Headquarters Fund, and \$3.2 million for the Correctional Center. Deficits are expected to be funded by other salary line items savings.

OVERTIME (\$'s in millions)					
	2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
Police District	\$33.3	\$27.3	\$5.3	\$27.3	(\$0.1)
Police Headquarters	38.5	28.5	11.1	32.0	(3.5)
Correctional Center	<u>16.5</u>	<u>14.4</u>	<u>8.0</u>	<u>17.6</u>	<u>(3.2)</u>
Total	<u>\$88.3</u>	<u>\$70.2</u>	<u>\$24.4</u>	<u>\$76.9</u>	<u>(\$6.8)</u>

3.3 Social Services

We project expenses for Social Services will come in at \$9.7 million under budget. This positive variance is primarily caused by lower Recipient Grant expense due to lower TANF and Safety Net caseloads, and lower Medicaid expense due to lower projected quarterly Indigent Care payments.

SOCIAL SERVICES (\$'s in millions)				
2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
\$403.5	\$412.4	\$213.2	\$402.7	\$9.7

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

3.4 Debt Service

We are projecting a positive variance of \$5.6 million in Debt Service due mostly to projected lower actual interest expense over the 2017 Adopted Budget.

DEBT SERVICE (\$'s in millions)				
2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
\$276.6	\$282.2	\$55.6	\$276.6	\$5.6

3.5 Contractual Expense

Contractual expense is expected to have a \$9.9 million unfavorable variance against the budget. This variance is due primarily due to \$2.8 million from an anticipated restoration of previously eliminated bus routes, and \$5.1 million increase in the medical services contract at the jail. In addition, due to increased red light camera violations, \$1.2 million is projected over budget for related contractual expense.

CONTRACTUAL EXPENSE (\$'s in millions)				
2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
\$246.1	\$243.6	\$201.5	\$253.5	(\$9.9)

3.6 Utilities

Utilities expense is expected to have a \$2.4 million favorable variance against the budget. This variance is due to lower cost for electricity and water.

UTILITIES (\$'s in millions)				
2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
\$38.4	\$38.3	\$12.7	\$35.9	\$2.4

3.7 Judgments & Settlements

Although the 2017 Adopted Budget does not include appropriations for Judgments & Settlements in the primary operating funds, we are projecting \$3 million for additional litigation claims, judgments and settlements over the amount that is currently available in the Litigation fund. The estimate is based on amounts paid in the prior year compared to year-to-date payments.

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

JUDGMENTS & SETTLEMENTS				
(\$'s in millions)				
2016 Actual	2017 Budget	2017 YTD June	2017 Forecast	Variance
\$4.9	\$0.0	(\$0.1)	\$3.0	(\$3.0)

3.8 Property Tax Refunds

As of December 31, 2016, the total property tax refund liability was estimated to be \$340.0 million, comprised of \$302.9 million in long-term liabilities and \$37.1 million, representing liabilities accrued for as of year-end 2016 and expected to be paid in 2017. Beginning with fiscal year 2017, the Administration has stated that it would no longer continue the practice of utilizing borrowed funds to pay for property tax refunds. While NIFA mandated that no borrowing may be used for this purpose beginning in 2018, the Administration has opted to adopt the practice one year earlier. NIFA has mandated that \$75 million of property tax refunds be paid in 2017.

In 2017, \$23.6 million of prior year short-term accrual of property tax refunds in the operating funds and \$13.5 million in the capital funds were reversed, granting an equal amount of additional spending on this line. It is the Administration's expectation not to pay out this additional amount, but to limit payment of property tax refunds to a total of \$75 million in 2017.

The Administration's plan is to fund the payment of property tax refunds in 2017 by use of prior year appropriated fund balance, with the remainder to be paid by use of the prior year accruals of \$37.1 million, \$23.6 million in the operating funds and \$13.5 million from residual bond proceeds from prior years. However, we project that since only \$37.9 million of 2017 property tax refunds would be paid because \$37.1 million of the total \$75 million would represent liabilities that were due and payable in 2016, our projections include a year-end accrual of \$13.5 million representing the portion of property tax refunds that will be due and payable in 2017 but still outstanding at year-end. As a result, this would reduce the total liability by \$75 million but only result in a \$51.4 million expenditure in the operating funds and a reduction of the long-term liability by the same amount. The total long-term liability at December 31, 2017 is projected at \$344.5 million with an additional short-term liability in the operating funds at year-end of \$13.5 million.

We project that the County will add approximately \$93.0 million in new liabilities during 2017 and pay down \$51.4 million of the backlog. This would increase the total unpaid long-term property tax liability to approximately \$344.5 million before any further payments.

The Administration budgeted \$60 million of long-term borrowings in its 2017 Adopted Budget to help pay down the backlog, however, the Administration has indicated it will not use borrowing to pay for property tax refunds, instead a combination of operating funds and prior year appropriated fund balance.

Beginning in 2015, debt service surplus resulting from bond premiums in excess of cost of loans expenses, which had previously been prohibited by NIFA during the control period beginning in 2011 from being reported as operating revenues, was being used by the Administration to reduce debt service costs, however, NIFA required that an equal amount of debt service surplus generated as a result of applying debt premium to debt service costs must be used to offset the cost of judgments and settlements (including property tax refunds). Effective with the 2017 fiscal year, bond premiums may no longer be used to pay down current year debt service, and the Administration is reverting back to the process of using bond premium to fund capital projects.

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

The New York State Assembly and the New York State Senate passed assessment legislation, which the Governor signed on November 21, 2014, that created a Disputed Assessment Fund (DAF). It provides for a two-step process for commercial property assessment disputes and requires that all payments towards the disputed assessment fund be administered in the same manner as County real property taxes. Refunds of real property taxes owed to a class four property owner as a result of a settlement or final decision will be paid from the DAF.

Any funds that remain thereafter will be distributed pro rata to the County and the applicable school district, town and special districts. If the payment to the taxpayer exceeds the amount paid into the DAF, the County's operating funds would be responsible for the difference. As of June 2017, the amount of DAF General Collections held were \$34.5 million and DAF Collections for school/towns/special districts of \$62.2 million.

The Table below reflects the historic long-term property tax liability and the projection for year-end 2017. If the Administration pays out only \$75 million, the long-term liability is anticipated to increase by \$41.6 million. The long-term liability assumes additions including grievances that are part of the DAF. The long-term liability reductions in the chart below assume no beneficial impact from the DAF in 2017 as these cases are not likely to be settled in 2017. The full impact of the DAF to the County's financial results have not yet been evaluated.

LONG TERM PROPERTY TAX REFUND LIABILITY				
(\$'s in millions)				
	Bal beg of year	Additions	Reductions	Bal end of year
2012	222.9	83.8	(9.5)	297.2
2013	297.2	77.7	(81.3)	293.6
2014	293.6	97.8	(95.4)	296.0
2015	296.0	103.6	(96.9)	302.6
2016	302.6	91.6	(91.4)	302.9
2017 est	302.9	93.0	(51.4)	344.5

Source: 2012-2016 Nassau County Comprehensive Annual Financial Report

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

3.9 Deferred Pension Expense Amortization Liability

The Employer Contribution Stabilization Program (Chapter 57, Laws of 2010) and the Alternate Contribution Stabilization Program (Chapter 57, Laws of 2013) allowed employers who participate in the NYS and Local Retirement Systems to amortize a portion of the annual pension cost. The amortized amount is to be paid in equal installments over a ten-year or twelve year period, dependent upon which program was being selected. Beginning with the NYS retirement invoices due on February 1, 2012 (for the State fiscal year 4/1/2011 to 3/31/2012) the County has opted to amortize a portion of its annual pension bill. As of December 31, 2016, the County's liability to the NYS and Local Retirement Systems for the deferral of annual pension expense was \$232.6 million. The liability as of December 31, 2017 is estimated at \$236.2 million.

DEFERRED PENSION EXPENSE AMORTIZATION LIABILITY				
(\$ in millions)				
	Balance at beginning of year	Additions	Reductions	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 est.	232.6	27.3	23.8	236.2

The trend in the growth of the liability is slowing as a result of the increase in the installment payments due to the outstanding liability as shown in the table below. It is worth noting that the benefit derived from deferring current year pension expense has declined as the installment payments of the liability now exceed the current year's deferral. Continuing the amortization will result in increasing costs year over year.

Deferred Pension Expense Additons (per invoice) and Installment Payment Trends (per invoice)		
\$ in millions		
	Pension Expense Deferred (per invoice)	Installment payments (per invoice)
2012	37.3	-
2013	55.1	4.5
2014	69.0	11.0
2015	58.1	18.2
2016	39.2	24.3
2017 est.	28.6	30.7

Pension expense deferred in this table differ from previous table as this table is based on actual invoice (budgetary) version previous table based on actual dates of service (GAAP)

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

4.0 RISKS AND OPPORTUNITIES TO ACHIEVE A BALANCED BUDGET

Exhibit 1 (see page 3) shows the significant projected revenue and expense variances for year-end 2017 based on the first six-month financial results, assuming spending and revenue pattern continue. We project that the County will have a year-end GAAP deficit of \$57.6 million, prior to any gap closing measures. The Administration will be hard pressed to achieve budgetary balance on a GAAP basis by year-end 2017. The projected NIFA presentation basis result of negative \$57.6 million is within the maximum deficit of negative \$60 million mandated by NIFA for fiscal year 2017, however, should projections worsen, and the Administration will be challenged to meet this mandate.

The County will also face heightened risks from the transition of health care services at the Correctional Center from Armor Correctional Health Services to the Nassau Health Care Corporation (NHCC). Unfavorable terms in the agreement expose the County to unlimited potential costs and liability without performance metrics or standards of care. Cost overruns will need to be monitored and managed to ensure that the County can adequately fund any unforeseen increases.

5.0 OTHER CONCERNS

5.1 Nassau Health Care Corporation

The financial stability of the Nassau Health Care Corporation (NHCC) is essential so that it can continue to operate as a health care safety net for the County's uninsured. The County guarantees NHCC's outstanding indebtedness of \$216.4 million and the hospital's continued ability to repay the County for the debt service it pays on the bonds is of fiscal importance to the County, although the County does have security interests in NHCC's property and revenues.

Per NHCC's financial statements, they continue to incur yearly operating losses (after inclusion of OPEB expense) with a \$31.2 million loss in 2016, although it showed an improvement over 2016 in its operating results before inclusion of OPEB expense. NHCC needs to recognize that it needs urgent new initiatives and possibly a management shake-up to reverse its fortunes.

5.2 Nassau Regional Off-Track Betting Corporation

For the first time in the last five consecutive years, Nassau Regional Off-Track Betting Corporation (OTB) was not issued a "going concern" audit opinion indicating a change in their ability continue operations. Positive indicators show that 2016 closed with approval of a deal brokered at the NYS Legislature to allow Genting New York, LLC (which operates the Resorts World Casino at Aqueduct Racetrack) to install up to 1,000 video lottery terminals transferred from the County to its casino and pay OTB a \$9 million a year for the first two years and \$25 million annually, thereafter, increased for inflation. The authority to install the VLT's had belonged to the County but due to County resident disapproval of a casino in Nassau, the authority was transferred to OTB and Genting.

The VLT arrangement is expected to extend the viability of the OTB for years subsidizing horseracing betting operations. While the County received a payment of \$3 million in 2016, and the Administration expects it will receive the same this year, no payment has been received to date.

The County is also responsible for repayment of OTBs outstanding debt until maturity, which is July 1, 2020, with OTB obligated to reimburse the County. The total principal amount of mortgage and

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

bonds payable as of December 31, 2016 amounts to \$7.8 million, a decrease of \$0.3 million from the prior year. The County holds the mortgage on the Racing Palace, which can be sold.

5.3 Nassau Community College

Nassau Community College (NCC) provides a valuable service to the residents of the County. Its financial health is crucial to the thousands of students and families that rely on it for higher education. The 2016 audited financial statements for NCC reflect a \$4.0 million increase of its total net deficit (excluding its component units). As of August 31, 2016, NCC's net deficit stands at \$223 million. The increase of the total net deficit for 2016 was primarily driven by the requirement to accrue other postemployment benefits (OPEB) of \$16.4 million. NCC has taken positive steps to improve its financial controls and reduce its accounts payable balances resulting in lower tuition increases to students. We believe that the financial condition of NCC will continue to be stable.

In June 2016, NCC was placed on probation by its accrediting agency, the Middle States Commission on Higher Education, because it was not in compliance with seven of its 14 standards, including leadership, integrity, planning and financial resources. NCC will continue to be accredited while on probation but it must provide a monitored reporting. In a public disclosure statement issued on March 2, 2017 the Commission reiterated that "Nassau Community College remains accredited by the Middle States Commission on Higher Education while on probation". NCC must submit their next monitoring report on September 15, 2017. Losing accreditation may affect federal student aid programs as well as enrollment and its budget.

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

6.0 MAJOR COUNTY FINANCIAL TRENDS

6.1 Ending GAAP and Budgetary Fund Balance

Based on the GAAP projections in this report, the County is anticipated to have ending fund balances on a GAAP basis of \$67.8 million, down from \$170.5 million at 2016.

The total Countywide unreserved ending budgetary fund balance (including the Police District) for fiscal year 2017 is projected to decline from \$200.9 million to \$145.6 million, also shown in the bottom half of Exhibit 3 below. The decline is the result of the 2017 projected budgetary deficit of \$55.3 million.

EXHIBIT 3

BUDGETARY FUND BALANCE AS A PERCENTAGE OF RECURRING EXPENDITURES (\$'s in millions)														
UNRESERVED FUND BALANCE														
As of December 31,	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 MYR
Total Cumulative Unreserved Fund Balance	\$ 85.6	\$ 87.8	\$ 77.7	\$ 69.3	\$ 50.9	\$ 85.3	\$ 31.6	\$ 53.3	\$ 99.1	\$ 100.2	\$ 141.4	\$ 177.7	\$ 117.4	
Normal recurring expenses, less interfunds (General & County-Wide Special Revenue Funds)	\$ 2,141.5	\$ 2,144.2	\$ 2,064.4	\$ 2,196.0	\$ 2,137.8	\$ 2,144.8	\$ 2,149.5	\$ 2,297.5	\$ 2,279.7	\$ 2,317.4	\$ 2,339.6	\$ 2,337.9	\$ 2,408.6	
Total Unreserved Fund Balance, as % of prior	4.00%	4.09%	3.76%	3.16%	2.38%	3.98%	1.47%	2.32%	4.35%	4.32%	6.04%	7.60%	4.87%	
													Fund Balance Reconciliation (General & County-Wide Special Revenue Funds)	
													2016 ending Fund Balance	\$ 177.7
													Projected results	(60.3)
													Use of Fund Balance	-
													Ending Fund Balance	\$ 117.4
MAJOR FUNDS UNRESERVED FUND BALANCE (\$'s in millions)														
As of December 31,	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 MYR
	\$ 90.5	\$ 103.9	\$ 89.8	\$ 74.3	\$ 64.2	\$ 90.8	\$ 40.5	\$ 82.0	\$ 126.5	\$ 121.0	\$ 163.1	\$ 200.9	\$ 145.6	
													Fund Balance Reconciliation (Major Funds)	
													2016 ending Fund Balance	\$ 200.9
													Projected results	(55.3)
													Use of Fund Balance	-
													Ending Fund Balance	\$ 145.6

6.2 Bonding Trends

Exhibit 4 below details projected new long-term debt issued by the County (including borrowings for NCC and sewer and storm water capital projects). Through July 2017, the County issued \$135.2 million of long-term borrowing to fund capital projects, of which \$132.6 million was for County capital projects and \$2.6 million for College capital projects. The Administration does not anticipate any further bonding in the latter half of 2017. The Administration has issued \$44.1 million in BANS for sewer-related projects and is expected to issue an additional \$98.9 million in BANS for sewer-related projects. Our mid-year projections do not include the \$143.0 million of borrowing as we anticipate the outstanding sewer BANS will be rolled over when they mature in December 2018 since the public-private partnership (P3) for the sewer system is still being considered.

At 2016 year-end, the total of the County's general obligation bonds and its component units' long-term serial bonds outstanding was approximately \$3.6 billion (including serial bonds and accreted interest of the Nassau County Tobacco Settlement Corporation (NCTS) to which the County has no recourse). The 2017 actual borrowings for non-sewer capital projects along with the projected reductions from maturing debt will decrease the total long-term bonds outstanding by approximately \$102.2 million.

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

In 2016, the County issued \$5.2 million of short-term borrowing, Bond Anticipation Notes (BANS), which were used to refinance, in part, the County's 2015 Series B BANS and to fund Superstorm Sandy related repairs. In 2017, \$4.7 million was rolled into the 2017 Series B Bonds while the remaining \$.5 million was paid with reimbursement money from FEMA. According to the Five Year Rule, any remaining BANS balance had to be bonded by December 2017.

In 2017, the County issued \$44.1 million of BANS to finance various sewer system improvements and is expecting to issue an additional \$98.9 million. At this time is unknown whether these BANS will be replaced with long-term bonding when they mature in December 2018. These BANS are being issued instead of long-term bonding while the County is exploring the possibility of a P3 for the sewer system. If there is a possibility of a P3 partnership, the County will continue to issue BANS for sewer related projects until the final decision is made.

EXHIBIT 4

Total Projected Long-Term Borrowings (\$'s in millions)				
	As of December 31, 2015 Actual	Projected Additions	Projected Reductions	As of December 31, 2017 Estimated
County w/SSW (a)(b)	\$ 2,244.2	\$ 135.2	\$ 103.8	\$ 2,275.6
NIFA	783.7	-	129.7	654.0
Sewer and Storm Water Finance Authority (SFA)	144.1	-	10.3	133.8
Tobacco Settlement Corp (c)	462.4	6.4	-	468.8
Total	\$ 3,634.4	\$ 141.6	\$ 243.8	\$ 3,532.2

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

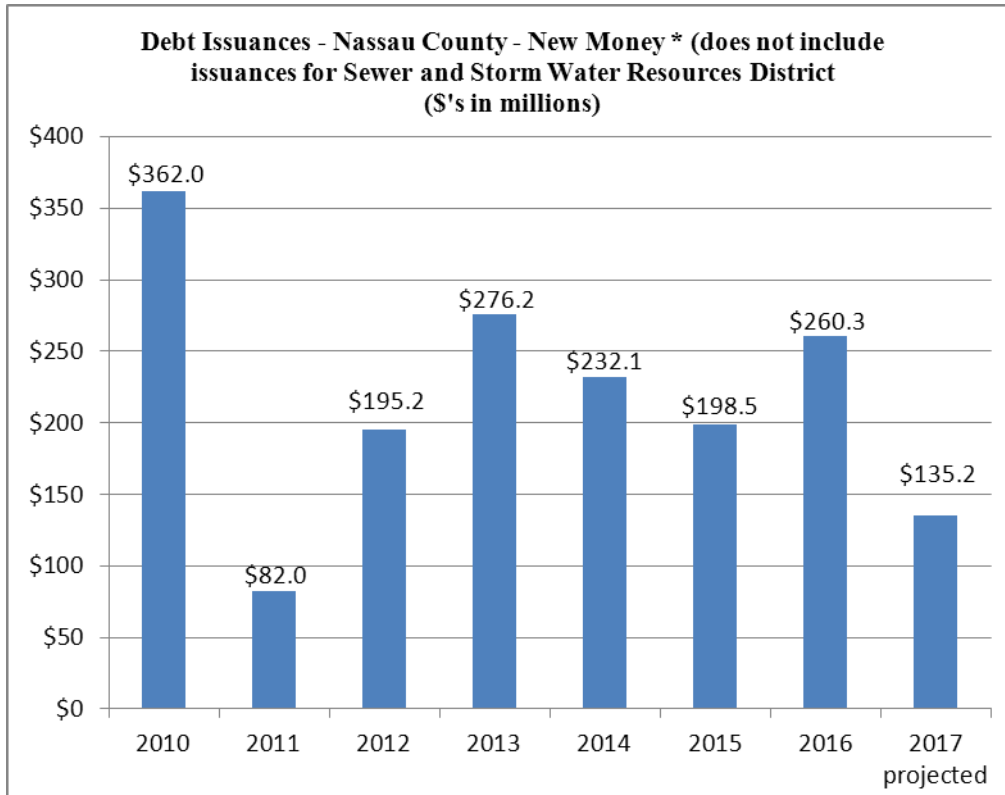
(b) Does not include \$143.0 million of Bonds projected to be issued in 2017 to be used for Sewer and Storm Water projects.

(c) December 31, 2016 includes accumulated accreted interest of \$61.8 million; projected additions for 2017 represent accreted interest.

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

Exhibit 5 below illustrates the growth in new money debt issuances. For comparison purposes only with prior year borrowing, the New Money chart in Exhibit 5 excludes the County issuances for Sewer and Storm Water (SSW) capital projects.

EXHIBIT 5



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

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

7.0 SEWER and STORM WATER DISTRICT

Effective January 1, 2015, SUEZ Water Long Island Inc. (formerly United Water Long Island Inc.), took over daily operations of the County's sewer system. As shown in Exhibit 6 below, the Administration is projecting that SSW will end in budgetary balance, after use of \$21.8 million of prior year fund balance. Our projections indicate that \$22.9 million of fund balance will be required for SSW to end in budgetary balance, leaving only \$17.7 million of fund balance remaining as of December 31, 2017.

EXHIBIT 6

SSW FUND	2017 Adopted Budget	2017 Projected - Administration	2017 Projected - CO	Admin Var to Adopted Budget	CO Var to Adopted Budget
EXP					
AA - SALARIES, WAGES & FEES	10,544,507	10,017,029	10,861,276	527,478	(316,769)
AB - FRINGE BENEFITS	9,039,199	8,674,468	8,941,512	364,731	97,687
BB - EQUIPMENT	36,761	36,761	36,761	-	-
DD - GENERAL EXPENSES	122,671	122,671	122,671	-	-
DE - CONTRACTUAL SERVICES	64,213,265	64,213,265	64,213,265	-	-
DF - UTILITY COSTS	8,775,000	8,775,000	8,775,000	-	-
FF - INTEREST	5,833,172	5,833,172	5,833,172	-	-
GG - PRINCIPAL	9,529,367	9,529,367	9,529,367	-	-
HH - INTERFD CHGS - INTERFUND CHARGES	32,481,615	32,481,615	32,481,615	-	-
OO - OTHER EXPENSES	538,500	538,500	538,500	-	-
EXP Total	141,114,057	140,221,847	141,333,139	892,210	(219,082)
REV					
AA - OPENING FUND BALANCE	23,240,362	21,785,159	21,785,159	(1,455,203)	(1,455,203)
BC - PERMITS & LICENSES	1,500,000	1,500,000	1,500,000	-	-
BE - INVEST INCOME	100,000	144,496	230,834	44,496	130,834
BF - RENTS & RECOVERIES	10,060,000	10,060,000	10,020,000	-	(40,000)
BG - REVENUE OFFSET TO EXPENSE	-	-	-	-	-
BH - DEPT REVENUES	1,482,000	1,928,931	1,928,931	446,931	446,931
BQ - CAPITAL RESOURCES FOR DEBT	300,000	300,000	300,000	-	-
BO - PAYMENT IN LIEU OF TAXES	-	-	-	-	-
BR - DUE FR GOVTS - DUE FROM OTHER GOVTS	-	-	-	-	-
BW - INTERFD CHGS - INTERFUND CHARGES REVENUE	-	-	-	-	-
FA - FEDERAL AID - REIMBURSEMENT OF EXPENSES	-	71,566	71,566	71,566	71,566
IF - INTERFD TSFS - INTERFUND TRANSFERS	104,431,695	104,431,695	104,431,695	-	-
REV Total	141,114,057	140,221,847	140,268,185	(892,210)	(845,872)
Projected Budgetary Surplus (Deficit)	-	(0)	(1,064,953)	(0)	(1,064,954)
2017 Projected Generated Surplus (Deficit)			(22,850,112)		
2016 Ending Fund Balance			40,587,678		
2017 Projected Ending Fund Balance			17,737,566		

SUEZ Water Long Island Inc. (SUEZ Water) is leasing County employees to perform duties at the sewer facilities; roughly, 75 employees are being leased in 2017 compared to 124 employees in 2016. SUEZ Water, as part of the consideration received by the County, guaranteed salary savings of a minimum of \$10 million. The County bills SUEZ Water for actual salary and fringe costs for the leased employees. The revenue received from SUEZ Water for the leased employees is reported in Rents and Recoveries. Our projections are in line with the Administration based on the run rate of current actuals.

**Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition**

8.0 USE of NON-PRIMARY FUNDS

At the end of 2016, the Administration transferred \$66 million (GAAP basis and \$72 million budgetary basis) from the County's primary operating funds into non-primary operating funds and reserves. As of June 30, 2017, the Administration has used resources from non-primary operating budgetary funds to pay judgments and settlements, and we project that additional funds will be used in 2017. These funds and their balances are shown below.

EXHIBIT 7

NON-PRIMARY OPERATING FUND BALANCES AND RESERVES			
\$ millions			
Budgetary Basis	Balance as of December 31, 2016	Balance as of June 30, 2017	Projected Balance as of December 31, 2017
Litigation Fund	\$ 43.6	\$ 6.9	\$ -
Employee Benefit accrued Liability Reserve Fund	13.1	13.1	13.1
Bond Indebtedness Reserve Fund	3.6	3.6	3.6
Retirement Contribution Reserve Fund	8.0	8.0	-
Environmental Bond Fund	11.1	11.1	1.9
Open Space Fund	1.7	1.8	1.8
Technology Fund	0.1	0.1	0.1
Total Non-Primary Operating Fund Balances and Reserves	\$ 81.2	\$ 44.6	\$ 20.5

The amounts in the Litigation Fund are restricted for litigation claims, judgments and settlements. In 2016, the County set aside \$49.3 million for General County claims and \$6.0 million (budgetary basis) for claims related to the Police District. As of June 30, 2017, the fund is almost depleted; \$6.0 million of the remainder may only be used for Police District litigation claims, judgments and settlements.

The Retirement Contribution Reserve Fund currently holds \$8.0 million set aside for use to pay for 2017 pension costs of non-police employees in the General Fund. The 2017 Adopted Budget includes the use of this funding to offset pension expense in the General Fund.

The Employee Benefit Accrued Liability Reserve Fund increased in 2016 by \$13.1 million to set aside money that could be used to pay future termination pay for Police District officers.

The Bond Indebtedness Reserve Fund currently holds \$3.6 million of funds attributed to the savings realized in refinancing the County's debt in 2016 and its use is restricted to debt service. These funds may be used in 2018 and 2019 to offset debt service costs if they are included in the adopted budgets of those years.

The Environmental Bond Fund currently holds \$11.1 million of accumulated resources to cover the cost of purchasing and preserving open space and for other purposes in accordance with the County's environmental programs established by local laws, and thus, is restricted. In 2016 and 2017, no property taxes were earmarked for this use. Based on the lack of recurring resources, this fund may be depleted in 2018.

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

Nassau County Office of the Comptroller
2017 Mid-Year Report on the County's Financial Condition

requires that the County use 5% of the proceeds from the sale of County-owned real estate to acquire, rehabilitate and maintain property for use of open space purposes.

The Technology Fund currently holds less than \$100 thousand of fund balance. The resources within this fund are to cover technology expenditures.