




NASSAU COUNTY LEGISLATURE
 1550 FRANKLIN AVENUE, ROOM 126
 MINEOLA, NEW YORK 11501
 (516) 571-6292

Inter-Departmental Memo

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

From: Maurice Chalmers, Director
 Office of Legislative Budget Review 

Date: July 26, 2018

Re: FY 2017 Year-End Report

The Comptroller’s Office has released the FY 2017 year-end results in conjunction with the Comprehensive Annual Financial Report (CAFR). The focus is on reporting the results on a Generally Accepted Accounting Principles basis (GAAP) and as such, the Comptroller’s Office has stated that it has “removed discussions of budgetary basis of reporting except as required for reporting purposes”. Although past CAFRs have reported the results on a GAAP basis, the change in focus has created some confusion and as such, questions arose on what the year-end results were depending on the different methodologies.

The Office of Legislative Budget Review (OLBR) has been asked to summarize the results on the different bases. OLBR reconciled the year-end file provided by the Administration and information from the CAFR, to provide the Legislature with the FY 2017 year-end results for each different basis. The chart below shows the 2017 year-end figures on the Budgetary basis, previous GAAP basis, Nassau Interim Finance Authority (NIFA) conformed basis (or Control Period calculation) and the current GAAP basis. OLBR has met with the Comptroller’s Office in order to confirm the actual results on the different basis. The memo then provides explanations for the major variances.

	Budgetary Basis	Previous GAAP Basis	NIFA Basis	Current GAAP Basis
2017 Year-End Results (in millions)	(\$54.3)	(\$58.8)	(\$63.2)	(\$122.4)

In the chart on the prior page, the Budgetary basis, Previous GAAP basis, and NIFA basis incorporate the General Fund, the Police Headquarters Fund (PDH), the Fire Commission Fund (FCF), the Debt Service Fund (DSV) and the Police District Fund (PDD). The Current basis includes the prior funds and others specified in the chart below that was provided by the Comptroller’s Office.

The year-end GAAP deficit of \$58.8 million includes approximately \$4.5 million in negative GAAP adjustments from the 2017 year-end budgetary figure of roughly \$54.3 million. These adjustments include but are not limited to, the disencumbering of prior year contracts, pension payment adjustments to account for the timing difference in the County and State fiscal years, and an adjustment for the recognition of the Mitchel Field lease securitization. The County continues to be under a control period as defined by the NIFA Act and therefore the CAFR also reports the Control Period Calculation / NIFA presentation basis. After accounting for adjustments totaling negative \$4.4 million, the NIFA deficit becomes roughly \$63.2 million, as reflected above.

To reconcile from the \$58.8 million year-end previous GAAP basis deficit to the Comptroller’s reported Current Basis deficit of **\$122.4** million in the primary operating funds, the Comptroller brings in other consolidated funds that were not previously included in their roll-up. The Comptroller’s Office reports that this is a GAAP requirement to consolidate the Litigation Fund, Technology Fund, Open Space Fund, Retirement Contribution Reserve, Employee Accrued Benefit Liability Reserve into the General Fund, which is not at their discretion. The Sewer and Storm Water Fund (SSW) was deemed to be a primary operating fund, in agreement with the Comptroller’s Office and the Administration. The table below from the Comptroller’s Office illustrates the roll-up comparison:

2017 Primary Operating Fund Comparison

Primary Operating Funds (000'S)	Previous Basis	Current Basis
General Fund	(56,316)	(56,316)
Debt Service Fund	(835)	(835)
Fire Commission Fund	43	43
Police Headquarters Fund	(727)	(727)
All other funds consolidated into Total General Fund *	n/a	(45,492)
Police District Fund	(960)	(960)
Sewer and Storm Water Fund	n/a	(18,135)
Total	(58,795)	(122,422)

*Total General Fund under GAAP includes General Fund, Debt Service Fund, Fire Commission Fund, Police Headquarters Fund, Litigation Fund, Technology Fund, Open Space Fund, Retirement Contribution Reserve Fund, Employee Accrued Benefit Liability Reserve

Furthermore, the Comptroller reports that the County ended FY 2017 with a negative \$68.8 million **unassigned** fund balance. Exhibit X-3 of the FY 2017 CAFR report, details that as of December 31, 2017 the County had a fund balance of \$355.9 million in **all** government funds. These funds were then itemized into five separate categories, non-spendable, spendable restricted, spendable committed, spendable assigned, and spendable unassigned. The next chart displays this itemization.

Total Gov't GAAP by Type, Exhibit X-13 Note 16	2017	2016*	Variance
Non-Spendable	68,029	60,654	7,375
Spendable:			
Restricted	166,112	167,256	(1,144)
Committed	165,896	127,076	38,820
Assigned	24,701	69,907	(45,206)
Unassigned	(68,815)	46,812	(115,627)
Total Gov't GAAP	355,923	471,705	(115,782)

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

The Comptroller's fact sheet cautions the Administration that the "**Unassigned**" category of all fund balance is negative. The CAFR includes definitions for each category which are summarized below:

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

As, evidenced above, the year-end results for FY 2017 is a deficit of \$54.3 million on a Budgetary basis (for the five funds), a deficit of \$58.8 million on a previous GAAP basis and \$63.2 million deficit for the control period calculation. These numbers grow to a deficit of \$122.4 million when conformed with the Comptroller's current reporting basis under GAAP for the newly defined primary operating funds. Looking at the "unassigned" category by itself reveals that, since the County began breaking down the fund balance into different categories, since the FY 2011 CAFR, four out of the seven years actually ended with negative unassigned fund balances.

2017 Year-End Expense Highlights

Some large deficits occurred in salaries and a transfer to the PDH Fund. These deficits were offset by surpluses in fringe benefits, utility costs, direct assistance, and Medicaid. The following bullets highlight some of the major expense variances.

- The County ended FY 2017 with a \$16.2 million deficit in salaries, which originates mostly from shortfalls in termination pay and overtime. Termination pay had a shortfall of roughly \$38.6 million, of which a deficit of \$29.9 million occurred in the Police Department. Overtime expenses experienced a total shortfall of roughly \$4.0 million, mostly in the Correctional Center which experienced a deficit of \$7.6 million to budget. The deficit in the Correctional Center has been attributed to staffing shortages due to a low headcount of Correction Officers. The overall salary

shortfall would have been higher but is being offset by full-time vacancy savings and delayed hiring in other areas.

- For fringe benefits, the County ended the year with a \$7.0 million surplus mostly due to health insurance costs for retirees. The surplus would have been higher but was partially offset by a deficit in health insurance costs for active employees and in dental costs. The FY 2017 budget for health insurance was based on a growth rate assumption of 7.0%. While the rates for active employees were finalized higher than budgeted, the final rate for Medicare eligible retirees, declined by an average negative drop of 0.5%, which is contributing to the surplus in the retiree budget.
- Direct Assistance (entitlement programs), which include recipient grants, purchased services and emergency vendor payments, ended the year with a \$7.6 million surplus. The excess is related to an overall decline in caseloads in Temporary Assistance to Needy Families (TANF) and Safety Net Assistance (SNA).
- The Interfund Transfer revenue influx of \$27.0 million from the General Fund was to cover salary shortfalls within the Police Department, most of which is termination pay. The County had modified its budget in anticipation of the transfer.

2017 Year-End Revenue Highlights

Some major revenue deficits occurred in fines and forfeits, department revenue, debt service from capital, federal aid and property taxes.

- There are many departments with variances driving the overall \$3.5 million deficit in fines and forfeits. However, the shortfall is mostly due to lower public safety fees of \$8.0 million, which is partially offset by a surplus in the Traffic and Parking Violations Agency (TPVA) and the Taxi and Limousine Commission (TLC). The \$3.6 million surplus in TPVA is attributed to additional revenue received for Red Light Camera, parking & traffic fines and outstanding speed camera revenue. A \$1.0 million surplus in Taxi Commission is due to an increase in the collection of fines from the Intelligence Based Enforcement System.
- Departmental revenue ended in a \$6.6 million deficit. Some of the major variances include:
 - A \$10.0 million shortfall in the County Attorney's Office from the Annual Survey of Income and Expense (ASIE) law. There is ongoing litigation which has prevented this revenue source from materializing.
 - The \$2.2 million deficit in the Police Department is due to a shortfall in ambulance fees of \$1.1 million in PDH and the inability of obtaining the tow truck impound & DWI fees budgeted at \$1.1 million in PDD. Due to a delay in the implementation of the tow impound program, no revenue was collected from impound fees.
 - The above deficits are being offset by a surplus in the County Clerk's Office. The County Clerk year-end 2017 departmental revenues exceeded budget by \$6.2 million. Overages were recorded on the mortgage recording, deed recording, miscellaneous fee and online registration lines.
- Year-end 2017 actuals included a \$56.5 million shortfall on the Debt Service from Capital line based upon the County's decision not to borrow to cover tax certiorari expenses. In accordance

with an agreement with NIFA, it was decided that tax certiorari payments would be funded with fund balance instead of borrowing, a decision that rating agencies saw as favorable.

- The \$4.0 million year-end deficit in federal aid is mostly in DPW and due to not yet receiving \$5.6 million from the Federal Transportation Authority Aid Reimbursement of Expenses for the Nassau Inter County Express (NICE) bus system.
- The \$3.3 million shortfall on the property tax line is primarily a function of no new construction value collections.

The above deficits are offset by the following surplus:

- The \$8.0 million surplus in rents and recoveries is mostly from the recovery of prior year appropriations in various departments, which include Department of Social Services (DSS), Department of Public Works (DPW), and the Correctional Center. This was partially offset by a deficit in the sale of County property in DPW. The County hopes some of the properties that did not close in 2017 will close in 2018.

In conclusion, it is important to differentiate the year-end results from the level of fund balance. In all reporting methodologies, Nassau County ran a deficit in FY 2017. From a Major Fund budgetary basis, the deficit was \$54.3 million. After making several adjustments, the deficit grew to \$58.8 million on a previous GAAP basis and up to \$122.4 million conforming with the current reporting basis, as depicted on page 1 of the memo.

The County had anticipated using fund balance to pay for tax certiorari expenses and that decision was viewed positively by rating agencies. However, the results were exacerbated by the revenue shortfalls experienced in several categories such as federal aid, OTB profits and property taxes. The decision to use fund balance was supported by the County's position as it exceeded the recommended policy level of fund balance. According to the CAFR Exhibit X-7 chart, the County ended FY 2017 with \$146.2 million in fund balance on a budgetary basis in the Total General Fund which is adjusted to \$81.1 million in fund balance on a GAAP basis in the Total General Fund.

Reporting on a GAAP basis will necessitate reconciliations to show other reporting basis. This more stringent reporting standard, it has been argued, offers a more accurate picture of County finances. According to the Comptroller, reporting on a GAAP basis will be the standard, and that also has been agreed to by both the Administration and the Comptroller's Office.

cc: Mark Page, Deputy County Executive for Finance
Andrew Persich, Budget Director, OMB
Dan McCloy, Director of Law, Finance & Operations
Chris Ostuni, Majority Counsel
Peter Clines, Minority Counsel
Michele Darcy, Minority Finance Director
Evan Cohen, Executive Director, NIFA
Jack Schnirman, County Comptroller
Shari James, Deputy Comptroller
Michael Pulitzer, Clerk of the Legislature