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Proposed Nassau County 2020 Budget & Multi-Year Financial Plan: Comments on the Risks and Opportunities

OFFICE OF THE NASSAU COUNTY COMPTROLLER JACK SCHNIRMAN

For more information call (516) 571-2386 or visit nassaucountyny.gov/comptroller

Jack Schnirman
Comptroller

Anthony Dalessio
Deputy Comptroller for Accounting

Kim Brandeau
Deputy Comptroller
Administration & Operations

Jeff Schoen
Deputy Comptroller
Chief Counsel

Lisa S. Tsikouras
County Director of Accounting

Julie Hennel
Deputy County Director of Accounting

Financial Analysis Staff

Kenia Bonilla
Inspector Comptroller

Pina Ruperto
Accounting Executive

Richard Burkert
Accountant IV

Terri Troici
Accountant II

Khaleda Malique
Accounting System Specialist

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Proposed Nassau County 2020 Budget & Multi-Year Financial Plan: Comments on the Risks and Opportunities

1.0 EXECUTIVE SUMMARY

1.1 PURPOSE

The Nassau County Charter requires that the Nassau County Comptroller render an opinion as to the reasonableness of the estimates contained in such proposed budget relating to non-real property tax revenues. This report has been prepared pursuant to §402 (8) of the County Charter.

PRIMARY OPERATING FUNDS

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

As presented in the Fiscal Year 2018 Comprehensive Annual Financial Report (CAFR) and the Comptroller's 2019 Mid-Year Report, we have continued to define the "primary operating funds" to include the total General Fund[1], Police District Fund, and Sewer and Storm Water District Fund. Prior to the 2017 fiscal year, various funds required to be included in the General Fund in accordance with generally accepted accounting principles (GAAP), and the Sewer and Storm Water Fund were excluded in the discussions of the County's primary operating funds.

STATE OF THE ECONOMY

Nassau County has shown signs of improvement since the recession of 2009. According to the New York Labor Department and the Federal Bureau of Labor Statistics, Nassau County's unemployment rate decreased from 3.6% to 3.5% from July 2018 to July 2019. Similarly, the County's unemployment rate is also lower than statewide and national rate 4.0% and 3.7%, respectively.

National Gross Domestic Product for the second quarter of 2019 rose 2.0% while the first quarter rose 3.1%, reflecting relatively strong consumer confidence and stronger business investment. Moreover, as of October 4, 2019, Nassau County year-to-date sales tax collections have grown by 3.7% year-over-year, affected by the State's new enhanced internet sales tax law, which took effect on June 1, 2019.

Median household income in Nassau County is significantly higher than the national and New York State averages, but inequality and wage stagnation continue to persist. According to the 2018 American Community Survey, Nassau County's median household income totals $116,304, as compared to the state and national median household income of $67,844 and $61,937, respectively. However, 10.4% of households earn less than $25,000 per year.

[1] In accordance with GAAP, the General Fund is comprised of the following County funds: General; Police Headquarters; Fire Prevention, Safety, Communication and Education; Debt Service; Open Space; Technology; Litigation; Employee Accrued Benefit Liability Reserve; Retirement Contribution Reserve; and Bond Indebtedness Reserve.

Although Nassau County is considered developed with limited vacant parcels, the County is not fulfilling its potential to compete in the innovation economy. The County is struggling to maximize assets, such as, world class research institutions, a highly educated population, innovative companies, and a developed digital infrastructure. Ongoing projects to increase housing options, transit-oriented development, walkable downtowns, and investment in startups are essential to expanded economic growth.

Lastly, it is important to note that the 2018 Federal tax changes, in particular the cap on State and Local Tax (SALT) deductions, continues to pose a risk to the County's economy and housing activity in the coming year.

1.2 PROPOSED FISCAL YEAR 2020 BUDGET RISKS/OPPORTUNITIES

The Comptroller's Office estimates that **the proposed 2020 budget contains approximately $61.7 million of risks**. The risks, as shown in Table 1 below, stem primarily from the projected expenditure risks of $46.6 million, added to revenue risks of $15.1 million.

Table 1: (Risks) / Opportunities

($ millions)	General Fund	Police District Fund	Sewer and Storm Water Fund	Total Operating Funds
REVENUES				
Sales Tax	$ (10.6)	$ -	$ -	$ (10.6)
Fines and Forfeitures	(6.9)		-	(6.9)
Rents and Recoveries	(6.5)			(6.5)
Departmental Revenues	(9.8)		-	(9.8)
State Aid	11.6			11.6
Investment Income	2.0			2.0
Use of Fund Balance	5.0		0.1	5.1
Total Revenues	**$ (15.2)**	**$ -**	**$ 0.1**	**$ (15.1)**
EXPENDITURES				
Payroll, Fringes & Overtime	$ (2.5)	$ (12.5)	$ 0.9	$ (14.1)
Workers' Compensation	(1.7)	-		(1.7)
Debt Service	(0.5)			(0.5)
Early Intervention	(19.4)			(19.4)
Contractual Expense	(3.0)		-	(3.0)
Utilities	(1.8)			(1.8)
Judgments and Settlements	(5.0)			(5.0)
Other	(0.1)		(1.0)	(1.1)
Total Expenditures	**$ (34.0)**	**$ (12.5)**	**$ (0.1)**	**$ (46.6)**
Total (Risks) /Opportunities	**$ (49.2)**	**$ (12.5)**	**$ -**	**$ (61.7)**

Further Analysis of the individual risks/opportunities can be found on page 8.

Items of Note:

Sales Tax Revenue – **ON CLOSE WATCH**
With the new enhanced internet sales tax law effective June 1, 2019, the County has seen an increase in year-over-year collections in 2019. As discussed in detail in our Office's 2019 Mid-Year Report, we did not project an increased opportunity for the enhanced internet sales tax collections due to the lack of historical trend data, as well as the State's expectation of withholding sales tax collections to fund Aid and Incentives to Municipalities (AIM). As of the date of this report, the State is not yet withholding sales tax collections to fund AIM, therefore, we expect that later 2019 checks will decrease significantly.

Moody's Analytics estimates a significant decline in sales tax growth (excluding enhanced internet sales) in 2020 due to relevant economic trends[2]. Our risks for both 2019 and 2020 are the result of conservative estimates in sales tax collections and acknowledging that withholdings for AIM have not yet taken place. We will continue to monitor sales tax collections and communicate regularly with the State and the New York State Association of Counties (NYSAC) for status updates on the sales tax withheld for AIM. Sales tax revenues account for 39% of budgeted revenue and its performance is correlated to current economic conditions.

Video Lottery Terminal Revenues from OTB (VLT's) – **ON CLOSE WATCH**
Our 2019 Mid-Year Report risked budgeted VLT revenues of $17 million due to a lack of supporting documentation for any new agreement with OTB. Subsequent to the issuance of our report, OTB paid the County $5 million, the first of four equal installments agreed to by OTB, and we were provided with a copy of the OTB letter outlining the installment payments. As such, we have revised our 2019 projections to reflect the 2019 VLT revenues and projected that the County would continue to receive these revenues through 2023. However, our assumptions are based solely on the OTB letter provided to the County and the receipt of the first installment payment for 2019. While we are concerned that the revenues may not materialize based upon language in the OTB letter, we expect OTB to comply with its agreement. We will continue to monitor these revenues throughout the year and into the next year.

Collective Bargaining Agreements
Collective Bargaining Agreements for the County's major labor unions expired at the end of 2017. Renegotiated agreements and terms could have significant impact on the 2019 fiscal results and the 2020 budget that will need to be analyzed for potential fiscal impacts. The Administration's 2020 Proposed Budget removed 66 positions from the budgeted headcount but did not remove the approximately $7.0 million of salaries related to that headcount, in effect, allowing for this funding to be used for potential negotiated future salary increases. We have not included any risk related to the labor contracts in the 2020 Proposed Budget. The 2019 projections do not include any potential impact related to negotiated agreements because we cannot anticipate negotiated terms.

[2] The Moody's Analytics report, issued in August 2019, was provided to the Comptroller's Office by the Administration.

Tax Certiorari Payments
As part of the current Administration's plan to address the inherited tax certiorari liability, in 2018, the Administration received authorization to borrow $100 million to help alleviate the backlog. The $100 million borrowed was used in 2018 and early 2019 to pay down a portion of the backlog, and the 2020 Proposed Budget anticipates requesting an additional $200 million of borrowing to pay down the majority of the remaining backlog. The risks and opportunities outlined in this report do not include any financial results of that projected borrowing because it is not known at this time if authorization will be provided by the County Legislature and the Nassau County Interim Finance Authority (NIFA), the County's fiscal oversight board.

Raise the Age
Raise the Age is a NYS mandate that raises the age of criminal responsibility to eighteen and places sixteen and seventeen-year-olds who commit non-violent crimes in alternate settings for services and treatment. The 2020 Proposed Budget has included both State Aid and expenditures related to the State initiative, however, as there is no historical data as of yet, we have not revised our 2019 projections or included any risk or opportunity for Raise the Age in this report. However, 2020 salary projections include an increase in headcount for the departments impacted by this mandate, which include Probation, District Attorney and Social Services. The Correction Center is expected to see future savings related to the reduced inmate population in the facility, however, we are not projecting those savings at this time.

Vacant Positions
When comparing the headcount in the 2020 Proposed Budget to on board headcount as of September 12, 2019 (when we began the preparations for our 2020 Proposed Budget projections) plus a new police class of 100 projected for 2019, we identified a net 206 vacant positions, valued at approximately $28.8 million. If all vacant positions are filled for one-half of the year, we anticipate an additional opportunity of $14.4 million in payroll savings. However, our 2020 projections assume all vacant positions will be filled for a full year.

1.3 UPDATED 2019 MID-YEAR PROJECTIONS

The Comptroller's 2019 Mid-Year report projected that the County would end the current year with a **$4.6 million operating deficit** and **ending unassigned fund balance deficit of $29.6 million** in the primary operating funds under GAAP.

Our revised projections for 2019 result in an operating **surplus of $3.2** million and an **ending unassigned fund balance of a negative $19.9 million** in the primary operating funds under GAAP for fiscal year 2019.

The year-end projections have been updated to account for the following items:

- **Sales Tax**: *+$5.5 million* - Sales Tax collections have come in higher than forecasted in the 2019 Mid-Year Report, therefore we are revising the projections to increase projected Sales Tax Revenue by $5.5 million from $1,235.4 million to $1,240.9 million, net of an increase due to the enhanced collection of internet sales tax revenue and a decrease due to the pending estimated withholding of $11.4 million of sales tax collections by the State to fund AIM. Year-to-date, the County's sales tax collections are 3.7% higher than last year, and we are projecting that the remaining 2019 checks will continue to be 3.7% higher than last year.

It is important to note that due to the uncertainty surrounding the value of the enhanced internet sales tax collected year-to-date and projected for the remainder of 2019 coupled with the uncertainty of the timing of the sales tax to be withheld by the State for AIM payments, sales tax revenues could fluctuate significantly in 2019.

Below is a table that illustrates the risk to the 2019 Adopted Budget, assuming various growth rate assumptions for the remaining 2019 checks. The range below varies from a $7.6 million shortfall against the 2019 Adopted Budget to a $2.0 million surplus in this revenue category.

Table 2: 2019 Sales Tax Projection Scenarios ($ Millions)

Growth Rate Scenarios for remaining 2019 Sales Tax checks					
$ in millions	**2.5%**	**3.0%**	**3.7%**	**4.0%**	**5.0%**
Projected Sales Tax Collections*	$ 1,241.1	$ 1,243.1	$ 1,245.8	$ 1,246.9	$ 1,250.8
Less: projected AIM withholdings	$ (11.4)	$ (11.4)	$ (11.4)	$ (11.4)	$ (11.4)
Net defered sales tax	$ 6.5	$ 6.5	$ 6.5	$ 6.5	$ 6.5
Projected Total Sales Tax Revenues	$ 1,236.2	$ 1,238.1	$ 1,240.9	$ 1,242.0	$ 1,245.9
Surplus/(shortfall) to Budget	**$ (7.6)**	**$ (5.7)**	**$ (3.0)**	**$ (1.8)**	**$ 2.0**
FY 19 total growth rate over FY 18	2.9%	3.0%	3.3%	3.4%	3.7%

* Sales tax collections are before any deferral of sales tax revenues related to Part County (hotel/motel and restaurant) sales tax

Since the projected 2019 sales tax revenues are the base for which we project 2020, any significant change to the assumptions, particularly the growth rate, may have a significant impact to 2020;

- **Video Lottery Terminal Revenue (VLT's)**: *+$15 million* due to the receipt of a letter with a revised payment schedule received from Nassau Regional Off-Track Betting (OTB); $5 million was received in August 2019, with two additional expected receipts, one in November 2019 and one in February 2020, to be included in 2019 results;
- **State Aid**: *+$3.0 million* higher revenue than the previous 2019 projections due to increased expenditures under the Early Intervention/Pre-School program;
- **Early Intervention/Pre-School Expenditures**: *-$7.0 million* more risk due primarily to the trend in actuals needed to fund this program;
- **Other Revenues Items**: *-$2.1 million* due to more risk than the previous 2019 projections due to $0.8 million in various lower Departmental Revenues and $1.3 million in lower Public Safety Fees;

- **Salary, Fringe and Worker's Compensation Projections**: *+$4.8 million* more opportunity for savings than the previous 2019 projections due primarily to health insurance for retirees trending down;
- **Other Expenditures Items**: *-$1.3 million* more risk than the previous 2019 projections in various other expenditure lines including Local Government Assistance ($0.3 million) and utilities ($0.8 million); and
- **Changes to the GAAP adjustments of *-$0.5 million* as follows:**
  - Increase in anticipated cash receipts of $1.6 million outside of the County's period of availability for Sewer and Storm Water District Fund, which reduces revenues;
  - Pension expenditure reduction of $1.0 million due to net improvement in 2020 estimated invoice from New York State; and
  - An increase in the net adjustments to remove the effect of encumbrances, resulting in an improvement in the results of $0.1 million.

The table below projects the ending 2019 GAAP fund balance, revised from the 2019 Mid-Year Report.

Table 3: Revised Projected Ending Fund Balance FY 2019

2019 Projected Ending GAAP Fund Balance *($'s in millions)*	General Fund	Police District Fund	Sewer and Storm Water Fund	Total Operating Funds
2018 Ending Fund Balance				
Non Spendable	$40.5	$12.2	$0.4	**$53.1**
Spendable:				
Restricted	9.5	-	-	**9.5**
Committed	21.4	1.3	-	**22.7**
Assigned	-	-	8.2	**8.2**
Unassigned	(4.5)	(17.5)	-	**(22.0)**
Total Fund Balance (Deficit) as of 12/31/2018	**$67.0**	**($4.0)**	**$8.6**	**$71.6**
Total Projected Change in Fund Balance (Deficit) FY 2019	**($1.1)**	**$16.0**	**($11.7)**	**$3.2**
2019 Projected Ending Fund Balance (Deficit)				
Non Spendable	$40.5	$11.1	$0.4	**$52.0**
Spendable:				**-**
Restricted	8.0	-	-	**8.0**
Committed	33.4	1.3	-	**34.7**
Assigned	-	-	-	**-**
Unassigned	(16.1)	(0.4)	(3.5)	**(19.9)**
Total Projected Fund Balance (Deficit) at 12/31/2019	**$65.8**	**$12.0**	**($3.0)**	**$74.8**

1.4 FY 2020 PROPOSED BUDGET STRUCTURAL DEFICIT

DIFFERENCE BETWEEN RECURRING REVENUES AND RECURRING EXPENDITURES

As mentioned in previous reports, the County must restructure, reform and modernize to avoid further deterioration in the County's overall viability. This includes devising appropriate fiscal and operational plans to address the increasing structural imbalances created from fundamental changes in our economy. These fundamental changes are irrespective of cyclical "temporary" dips like year-over-year changes in mortgage recording fees.

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

The structural deficit inherent in the 2020 Proposed Budget is estimated at $19.8 million, exclusive of any tax certiorari payments made with bond proceeds, an improvement of $22.2 million over the 2019 Proposed Budget's structural deficit of $42.0 million.

The County will continue to face increasing fiscal challenges until appropriate fundamental policy decisions are implemented to respond to this imbalance. The Administration, the Legislature and NIFA will need to continue addressing these challenges.

Table 4: FY 2020 Proposed Budget Structural Deficit

Structural Deficit – Nonrecurring Revenue and Expenses Major Operating Funds ($ Millions)	2020 Proposed Budget
Amortization of Pension Bill	$ 11.3
Use of Asset Forfeiture Funds	2.0
Sale of County Property	6.5
Use of Bond Proceeds to pay Tax Certiorari expenditures	-
Structural Deficit (Total Non-Recurring)	**$ 19.8**

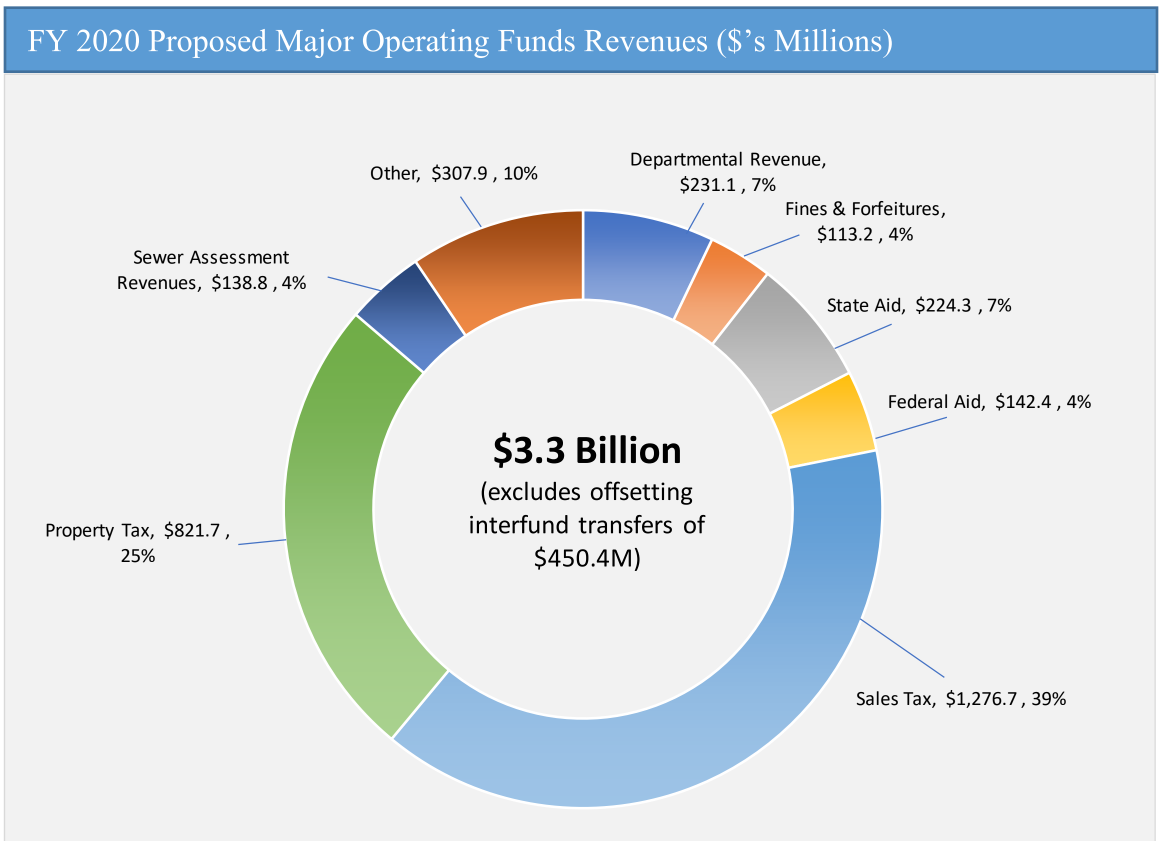
2.0 Discussion of Revenues: (Risks) / Opportunities

This section discusses significant major funds revenue risks and opportunities presented in the fiscal year 2020 proposed budget.

MAJOR FUNDS REVENUE COMPOSITION

Sales Tax is the major revenue source for Nassau County, accounting for $1.3 billion or 39% of revenue, followed by Property Tax at $821.7 million or 25%, State and Federal Aid at $366.7 million or 11% and Departmental Revenues at $231.1 million or 7%. These categories and percentages have remained relatively constant in recent years.

Chart 1: Proposed Major Operating Funds Revenues



***Note:**

Other includes: Non-offsetting Interfund Revenues ($79.5 million), PILOTs ($47.9 million), Rents and Recoveries ($37.7 million), Interest Penalties on Taxes ($36.8 million), Special Taxes ($32.4 million), Permits and Licenses ($20.2 million), OTB Video Lottery Terminals ($20.0 million), Revenue Offsets of Expense ($20.7 million), Investment Income ($10.0 million), and Capital Resources ($2.7 million).

2.1 Sales Tax | Budget Risk ($10.6) million – ON CLOSE WATCH

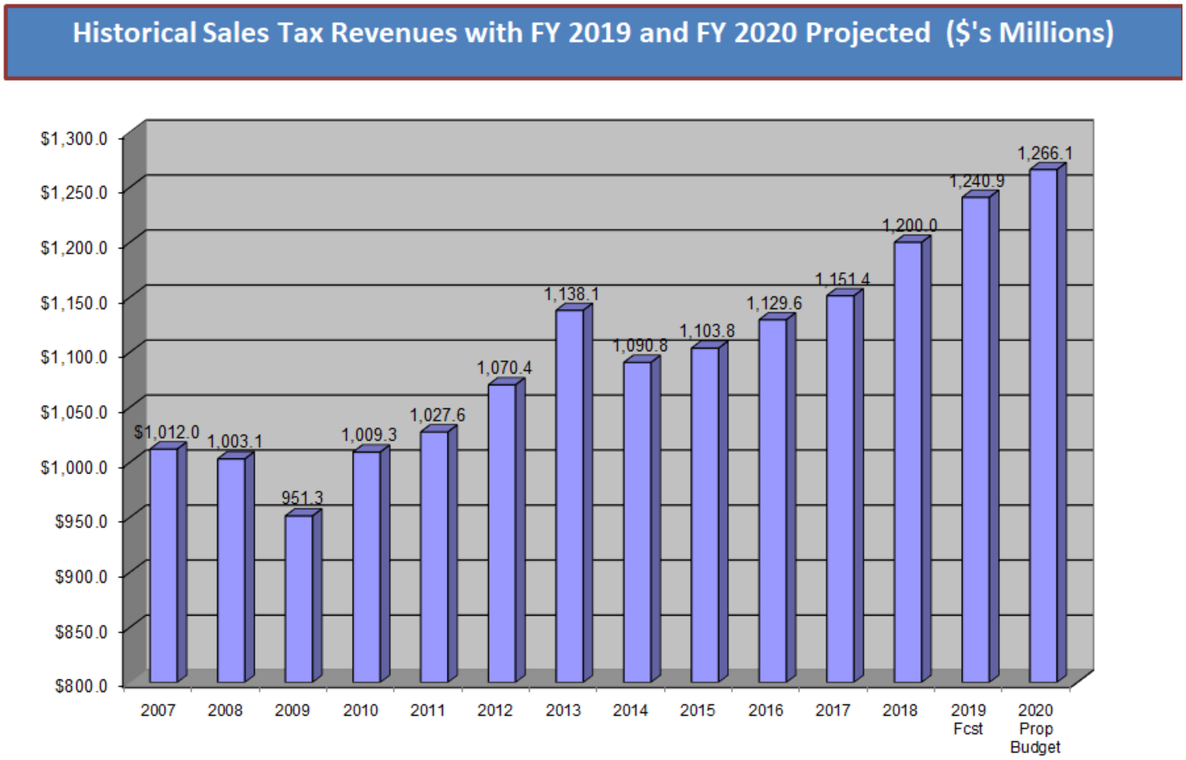
Sales Tax, at 39% of budgeted revenues (net of offsetting interfund revenues), is the County's largest revenue source and is highly correlated to economic conditions.

A significant change was made to State law effective June 1, 2019, that closed a loophole that exempted certain internet vendors from collecting and remitting New York sales tax for internet transactions. These additional revenues referred to as "enhanced internet sales tax", however, are offset by payments know as Aid and Incentives to Municipalities (AIM). The State indicated it would cease funding AIM and instead, would withhold an amount for AIM payments from the County's increased internet sales tax revenues generated under the State law and remit the difference to the County, along with its non-enhanced sales tax remittances. The County began receiving the enhanced internet sales tax receipts in June 2019, but the State has not yet begun withholding AIM. A July 2019 report published by the State Comptroller's Office identified the 2019 AIM payments to Nassau County municipalities as $11.4 million; these payments will have a direct impact on the County's total sales tax revenues for 2019. While we project total collections to be $1,245.8 million, this will be offset by $11.4 million due to be withheld by the State for AIM, and the net of a $6.0 million in a deferral of current year Part County revenues, offset by $12.5 million in prior year Part County revenues to be recorded in 2019, resulting in total projected revenues of $1,240.9 million for fiscal year 2019. Since the projected 2019 sales tax revenues are the base for which we project 2020, any significant change to the assumptions, particularly the growth rate, may have a significant impact to 2020.

Looking ahead to 2020, we project a risk of $10.6 million against the proposed budgeted revenue of $1,276.7 million. The variance is primarily due to the risks associated with our conservative estimate on regular collections plus the Administration's inclusion of 14.6 million in the Proposed Budget as a separate item for enhanced internet sales tax, when it is currently being remitted along with the County's regular collection. We are projecting a conservative estimate of a 2% increase over our projected 2019 total sales tax revenues of $1,266.1 million. A Moody's Analytics report issued in August 2019 and provided to our office by the Administration, projects a significant drop in 2020 sales tax growth year-over-year to 0.59%. While we have adopted Moody's conservative approach with regards to comparable year-over-year collections, we have also factored in an additional increase for a full year of enhanced internet sales tax collections.

The chart below shows the County's historical sales tax revenues for fiscal years 2007-2018 and the projected revenues for 2019 and 2020. The accompanying table presents the sales tax collections and reported revenue for each year, the year-over-year variances, and the percentage growth.

Chart 2: Sales Tax Collections ($ Millions) – Actuals & Projected



Year-over-Year Change $ in millions	2008 (A)	2009 (A)	2010 (A)	2011 (A)	2012 (A)	2013 (A)	2014 (A)	2015 (A)	2016 (A)	2017 (A)	2018 (A)	2019 (P)	2020 (P)
Sales Tax Collections	$ 1,002.9	$ 951.2	$1,009.2	$1,027.6	$1,070.4	$1,138.1	$1,090.8	$1,103.8	$1,129.6	$1,163.0	$1,201.5	$1,234.4	$1,259.0
change in collections $	$ (8.9)	$ (51.7)	$ 58.0	$ 18.4	$ 42.8	$ 67.7	$ (47.3)	$ 13.0	$ 25.8	$ 33.4	$ 38.5	$ 32.9	$ 24.6
change in collections %	-0.9%	-5.2%	6.1%	1.8%	4.2%	6.3%	-4.2%	1.2%	2.3%	3.0%	3.3%	2.7%	2.0%
Total Sales Tax Revenue	$ 1,000.7	$ 951.1	$1,001.4	$1,024.8	$1,078.1	$1,139.7	$1,095.2	$1,105.8	$1,124.1	$1,151.4	$1,200.0	$1,240.9	$1,266.0
change in revenue $	$ (9.8)	$ (49.6)	$ 50.3	$ 23.4	$ 53.3	$ 61.6	$ (44.5)	$ 10.6	$ 18.3	$ 27.3	$ 48.6	$ 40.9	$ 25.1
change in revenue %	-1.0%	-5.0%	5.3%	2.3%	5.2%	5.7%	-3.9%	1.0%	1.7%	2.4%	4.2%	3.4%	2.0%

2.2 Fines and Forfeitures | Budget Risk ($6.9) million

Our analysis of the 2020 Proposed Budget for Fines and Forfeitures shows a risk of $6.9 million. This risk is primarily attributed to $5.2 million related to the public safety fees generated from red light camera revenue as we do not expect the increase in violations to be as aggressive as budgeted. Additionally, we are risking $1.0 million in red light camera revenue based on year over year and monthly trends, and $0.7 million in the Department of Consumer Affairs based on past collections.

Table 5: Fines and Forfeitures – ($ Millions)

FY 2018	FY 2019	FY 2020		
Actual	Comptroller's Updated Forecast	Proposed Budget	Comptroller's Forecast	Budget Risk
$114.6	$108.2	$113.2	$106.3	($6.9)

2.3 Rents and Recoveries - Sale of County Property | Budget Risk ($6.5) million

The 2020 Proposed Budget includes a risk of $6.5 million in Rents and Recoveries related to $6.5 million budgeted for the sale of County property. At the time of this report, the County does not have a solid closing date for any specific properties for sale in fiscal year 2020.

Table 6: Rents and Recoveries and Sale of County Property– ($ Millions)

FY 2018	FY 2019	FY 2020		
Actual	Comptroller's Updated Forecast	Proposed Budget	Comptroller's Forecast	Budget Risk
$35.2	$44.4	$37.7	$31.2	($6.5)

2.4 Departmental Revenue | Budget Risk ($9.8) million

The 2020 Proposed Budget includes $9.8 million of estimated risk in Departmental Revenues primarily comprised of the following:

- General Fund: $8.8 million
  - Assessment Department GIS Tax Map Fees of $6.2 million;
  - County Clerk's collection of mortgage recording fees of $2.0 million;
  - County Clerk's collection of deed recording fees of $0.5 million; and
  - Other miscellaneous variances of a net $0.1 million.
- Fire Commission Fund: $1.0 million in the Fire Commission Fund in permits collections.

In all cases, historical trends and lack of supporting data indicate that budgeted revenues may not be met.

Table 7: Departmental Revenues – ($ Millions)

FY 2018	FY 2019	FY 2020		
Actual	Comptroller's Updated Forecast	Proposed Budget	Comptroller's Forecast	Budget Risk
$226.6	$220.0	$231.1	$221.3	($9.8)

2.5 State Aid | Budget Opportunity $11.6 million

We project an opportunity in State Aid of $11.6 million for Early Intervention/Pre-School services due to the projected increase costs of $19.4 million in this program. We have also revised our 2019 projections by $3.0 million for an increased reimbursement against higher than expected Pre-School expenditures. Increased costs in Early Intervention/Pre-School expenditures are noted below (see 3.4 Early Intervention Expenditures).

Table 8: State Aid ($ Millions)

FY 2018	FY 2019	FY 2020		
Actual	Comptroller's Updated Forecast	Proposed Budget	Comptroller's Forecast	Budget Opportunity
$220.8	$218.7	$224.3	$235.9	$11.6

2.6 Investment Income | Budget Opportunity $2.0 million

We project an opportunity in Investment Income of $2.0 million based on our 2019 projections, which are higher than what is budgeted for 2020. While we anticipate higher interest income than reported in the Proposed Budget, we do expect that with the reduction in interest rates, the amount collected will not be as high as in 2019.

Table 9: Investment Income ($ Millions)

FY 2018	FY 2019	FY 2020		
Actual	Comptroller's Updated Forecast	Proposed Budget	Comptroller's Forecast	Budget Opportunity
$10.4	$13.4	$10.0	$12.0	$2.0

2.7 Use of Fund Balance | Budget Opportunity $5.1 million – GAAP impact $0.0

We project use of fund balance in 2020 to be $5.0 million in the Litigation Fund (a component of the General Fund), representing the funding needed to settle workers' compensation claims and $0.1 million needed in the Sewer Fund to pay for 2020 expenditures.

Note: On a GAAP basis, use of fund balance is removed when calculating the annual results, thus it has no effect on GAAP results.

Table 10: Use of Fund Balance ($ Millions)

FY 2018	FY 2019	FY 2020		
Actual	Comptroller's Updated Forecast	Proposed Budget	Comptroller's Forecast	Budget Opportunity
$16.3	$11.2	$0.0	$5.1	$5.1

3.0 Discussion of Expenditures: (Risks) / Opportunities

This section discusses significant major funds expenditure risks and opportunities presented in the fiscal year 2020 proposed budget.

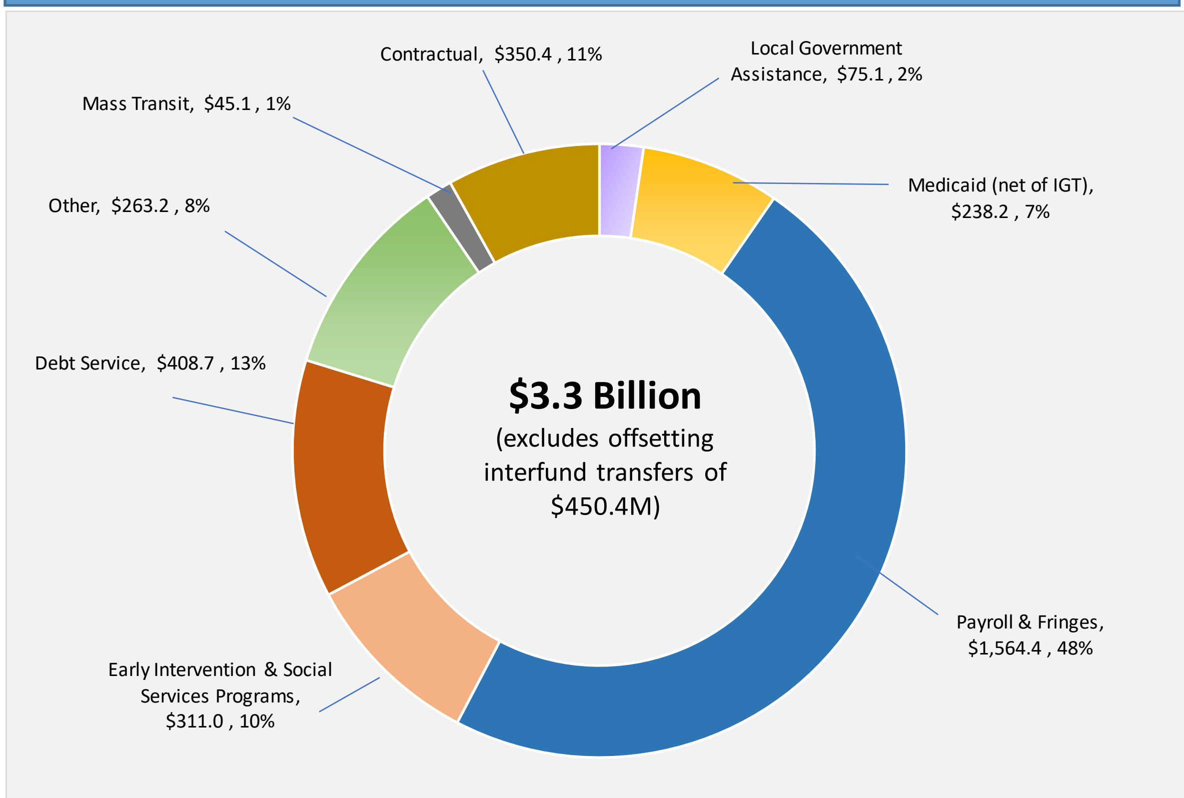
MAJOR FUNDS EXPENDITURE COMPOSITION

Major Expenditure Categories

Payroll and fringe benefits, at 48% or $1.6 billion is the County's greatest major fund expenditure, followed by total Debt Service at 13% or $408.7 million, Contractual Services at 11% or $350.4 million, Early Intervention and Social Service Programs at $311.0 million or 10% and Medicaid at $238.2 million or 7%.

Chart 3: Proposed Major Operating Funds Expenditures

FY 2020 Proposed Major Operating Fund Expenditures ($'s Millions)



***Note: Other includes**: Non-offsetting interfund charges ($64.4 million), Utilities ($41.6 million), Claims and Judgments ($30.4 million), Property Tax Refunds ($30.0 million), General Expenditures ($39.1 million), Rental Expenditures ($14.0 million), FIT and Non-Resident Tuition ($16.8 million), Legal Aid Society ($7.7 million), Bar Association ($7.6 million), Variable Direct Expenses ($5.3 million), Equipment purchases ($3.3 million), NIFA expenditures ($2.0 million) and various other ($1.0 million).

3.1 Payroll, Fringes and Workers' Compensation | Budget Risk ($15.8) million

The 2020 Proposed Budget assumes a full-time headcount of 7,598, an increase of 2.8% or 206 personnel from the current on-board headcount of 7,392 as of September 12, 2019. Similar to the 2020 Proposed Budget, the Comptroller's updated forecast includes an increase in headcount of 200 from the current on-board County headcount for positions identified as critical.

This increase in headcount year-over-year includes funding for additional staffing primarily in areas of Public Safety, Probation, Correctional Center and Assessment. These areas have been identified by the Administration as necessary to assist in mitigating future costs such as overtime, recent Criminal Justice Reform passed by New York State and the administration of the new assessment roll. The Comptroller's Office projects salaries (including termination pay and overtime), fringe benefits and workers' compensation expenditures to have a combined negative variance of $15.8 million. This variance is comprised of the following opportunities and risks delineated below:

Key Highlights: 2020 Proposed Budget Risks and Opportunities Drivers for

Positive "Opportunity" Key Drivers

Payroll Savings	+ $3.4 million	Savings of $2.8 million in Part-time/Seasonal employees, $1.4 million in shift differential and $0.4 in holiday pay offset by risks totaling $1.2 million in uniform & equipment and other smaller payroll categories.
Fringe Benefits	+ $1.1 million	Primarily due to the discount for prepaying the February 2020 pension invoices in December 2019

Unfavorable "Risk" Key Drivers

Overtime Expenditures	- $11.4 million	Police Headquarters and Correctional Center OT trends
Termination Pay	- $7.2 million	Police District Fund and Sewer and Storm Water District Fund underfunded.
Workers' Compensation	- $1.7 million	2020 Proposed Budget is projected to be underfunded for workers' compensation claims due to timing of possible settlement of outstanding claims

Major Assumptions:

Collective Bargaining Agreements (CBAs) - The County's collective bargaining agreements for the County's major labor unions (CSEA, PBA, DAI, SOA, IPBA and COBA) expired at the end of 2017. Renegotiated agreements and terms could vary greatly and will have to be evaluated to determine the fiscal impact on the County's 2020 Proposed Budget. The Administration's 2020 Proposed Budget removed 66 positions from the budgeted headcount but did not remove the approximately $7.0 million of salaries related to that headcount, in effect, allowing for this funding to be used for potential negotiated future salary increases. We have not included any risk related to the labor contracts in the 2020 Proposed Budget. The 2019 projections do not include any potential impact related to negotiated agreements. Therefore, these potential impacts have not been included in the Comptroller's current 2020 projections but could be significant for both 2020 and throughout the MYP.

Step Increases and Cost of Living Adjustments: Similar to the 2020 Proposed Budget, the Comptroller's projections include scheduled employee step increases however, no Cost of Living Adjustments (COLAs) have been incorporated.

Workers' Compensation – In 2019, the State eliminated its workers' compensation (second injury) long-term liability to the County, which estimated the cost of reimbursing the County for certain categories of injured workers. Instead, the State offered the County a discounted upfront payment of its estimated liability if the County agreed to assume that long-term liability, which was established to pay the injured employees over a span of approximately 20 years. The County received a lump sum of $15 million as the discounted value of the long-term liability, which the State estimated at $19 million. The Administration expects the $15 million to be used beginning in 2019 to settle current workers' compensation claims. The $15 million is reported in the Litigation Fund, a component fund of the General Fund. Our 2019 projections estimated $2.0 million of the $15 million would be used, and we expect $5 million to be used in 2020 and 2021, with the remainder projected to be used up in 2022. Changes in the timing of the use of these funds could impact the financial results for 2019 and 2020.

PAYROLL EXPENSE (EXCLUDING OVERTIME AND TERMINATION)

The Comptroller's Office projects a $3.4 million positive variance in salaries excluding termination pay and overtime costs. At risk are projected overages of $1.2 million in uniform & equipment and other smaller payroll categories and is offset by potential savings identified in part-time and seasonal employees of $2.8 million, $1.4 million in shift differential costs and $0.4 million in holiday pay. Savings can also be achieved if budgeted positions remain vacant or there are delays in hiring into the year.

Table 11: Payroll Expenditures ($ Millions)

	FY 2018	FY 2019	FY 2020		
Fund	Actual	Comptroller's Updated Forecast	Proposed Budget	Comptroller's Forecast	Budget (Risk) Opportunity
GEN	$525.8	$539.4	$578.0	$574.2	$3.8
PDD	181.2	182.3	196.7	197.6	(0.9)
SSW	8.5	7.5	8.2	7.7	0.5
Total	**$715.5**	**$729.2**	**$782.9**	**$779.5**	**$3.4**

FRINGE BENEFITS

Fringe benefit savings have been identified in the following categories: $3.9 million in health insurance for retirees, $1.1 million in pension costs (ERS and PFRS combined) and $0.5 million in Medicare reimbursement. These potential savings are offset by risks in the following categories: $2.3 in health insurance for active employees and $2.1 million related to FICA expense.

A continued area of concern is the growing liability related to the County's opting to defer a portion of the annual pension expense. The County has made this election each year beginning with the pension invoices for the period 4/1/2011 to 3/31/2012. As of December 31, 2018, the liability due to the New York State Retirement System was $226.4 million. Although the total pension bill has decreased in recent years due to a decline in pension rates, the County's annual expense has not declined due to its obligation to pay the amortized amounts.

Fiscal year 2020 calculations for pension expense include a deferral of $12.2 million for both the Employee Retirement System (ERS) and the Police and Fire Retirement System (PFRS). The New York State Retirement System allows local municipalities to elect to "amortize" a portion of their annual invoice and pay via annual installments over 10 or 12 years (depending on the year the deferral was elected). The anticipated 2020 deferral is the maximum deferral (amortization) allowed under the State's Contribution Stabilization Program (over 12 years). The projected pension expense for 2020 also assumes the prepayment of the pension obligation amount due in February 2020 but prepaid in December 2019, which would result in a savings of approximately $1.5 million for 2020.

Of the total 2020 pension invoices (net of the 2020 invoice's deferred portion and estimated Nassau Community College share) that will be prepaid in December 2019, 19.8% or $36.6 million (ERS $22.7 million and PFRS $13.9 million) represents amortizations (deferrals) elected in previous years 2012-2019.

Table 12: Fringe Expenditures ($ Millions)

	FY 2018	FY 2019	FY 2020		
Fund	Actual	Comptroller's Updated Forecast	Proposed Budget	Comptroller's Forecast	Budget (Risk) Opportunity
GEN	$430.3	$444.1	$467.2	$465.9	$1.3
PDD	140.4	138.8	143.0	143.6	(0.6)
SSW	9.0	8.8	9.4	9.0	0.4
Total	**$579.7**	**$591.7**	**$619.6**	**$618.5**	**$1.1**

WORKERS' COMPENSATION

The workers' compensation budget for 2020 is projected to total $31.2 million for all the major funds combined. Although the Comptroller's Office agrees that the County may start to realize savings in this category due to the settlements discussed above, the Comptroller's forecast remains conservative with its effect on the 2020 budget and MYP. The Comptroller's forecast projects a total expense of $32.9 million with a risk in this category of $1.7 million due to the time lapse in settling claims and realizing the residual effect on workers' compensation expenditures.

Table 13: Workers' Compensation Expenditures ($ Millions)

	FY 2018	FY 2019	FY 2020		
Fund	Actual	Comptroller's Updated Forecast	Proposed Budget	Comptroller's Forecast	Budget (Risk) Opportunity
GEN	$23.3	$24.2	$22.3	$24.0	($1.7)
PDD	8.6	10.7	8.9	8.9	0.0
SSW	0.0	0.0	0.0	0.0	0.0
Total	**$31.9**	**$34.9**	**$31.2**	**$32.9**	**($1.7)**

TERMINATION PAY

The 2020 Proposed Budget will fund termination pay for approximately 120 sworn officers totaling $36.3 million for the two police funds, $11.8 million in Police District and $24.5 million in Police Headquarters. The Comptroller's Office is projecting up to 150 sworn police officers retiring, totaling approximately $43.3 million. The total amount being projected for termination pay related to all funds is $55.0 million with a risk of $7.2 million, primarily due to uncertainty surrounding current labor negotiations and the large number of officers currently eligible for retirement.

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.

Table 14: Termination Pay ($ Millions)

	FY 2018	FY 2019	FY 2020		
Fund	Actual	Comptroller's Updated Forecast	Proposed Budget	Comptroller's Forecast	Budget (Risk) Opportunity
PDD	$17.4	$21.2	$11.8	$22.8	($11.0)
PDH	24.3	19.1	24.5	20.5	4.0
Other	11.7	11.2	11.5	11.7	(0.2)
Total	**$53.4**	**$51.5**	**$47.8**	**$55.0**	**($7.2)**

OVERTIME EXPENDITURES

The Administration assumes the hiring of new police officers to maintain a targeted headcount of approximately 2,500 sworn officers, which is expected to include up to 200 new officers scheduled to begin the Police Academy in 2020. The lower average salary of the new police officers and the new initiatives by the Police Commissioner, appear to have resulted in better control of overtime in the two police funds.

Notwithstanding the controls discussed above, we still anticipate a combined shortfall of approximately $11.4 million in overtime expenditures, of which $9.8 million is related to the Correctional Center and $4.4 million for the Police Headquarters Fund, which is offset by positive variances in other funds. Classes have also been included in the 2020 projection for the Correctional Center (two classes with an additional anticipated headcount of up to 60 new Correctional officers), which is expected to reduce overtime costs in future years. Beginning in 2020, the Comptroller's Office also expects to realize a reduction in overtime in the Correctional Center due to recent Criminal Justice Reform which include:

- Bail Reform: Implementation of a new program that will refer inmates awaiting trial for many types of misdemeanors and non-violent felonies to the Probation Department for electronic bracelet monitoring until they appear in court, thereby reducing inmate population by approximately 200-300 inmates; and
- Raise the Age Program: Ending the practice of incarcerating juveniles aged 16 and 17 in adult facilities.

Table 15: Overtime ($ Millions)

	FY 2018	FY 2019	FY 2020		
Fund	**Actual**	**Comptroller's Updated Forecast**	**Proposed Budget**	**Comptroller's Forecast**	**Budget (Risk) Opportunity**
PDD	$20.6	$24.3	$24.9	$24.9	$0.0
PDH	29.7	30.8	28.0	32.4	(4.4)
Other	38.5	40.8	30.0	37.0	(7.0)
Total	**$88.8**	**$95.9**	**$82.9**	**$94.3**	**($11.4)**

3.2 Contractual Expenditures | Budget Risk ($3.0) million

We project a risk of $3.0 million in contractual expenditures primarily due to reductions of requested amounts by departments for 2020. The largest department cut was Information Technology for a total of $2.5 million.

Table 16: Contractual Expenditures ($ Millions)

FY 2018	FY 2019	FY 2020		
Actual	**Comptroller's Updated Forecast**	**Proposed Budget**	**Comptroller's Forecast**	**Budget Risk**
$325.8	$340.8	$350.4	$353.4	($3.0)

3.3 Utilities | Budget Risk ($1.8) million

We project a risk of $1.8 million in the 2020 Proposed Budget in the category of utility expenditures. Reduced budget requests from the departments along with the variable costs of utilities put this amount at risk.

Table 17: Utilities ($ Millions)

FY 2018	FY 2019	FY 2020		
Actual	**Comptroller's Updated Forecast**	**Proposed Budget**	**Comptroller's Forecast**	**Budget Risk**
$40.6	$41.2	$41.6	$43.4	($1.8)

3.4 Early Intervention - Preschool Programs | Budget Risk ($19.4) million

The 2020 Proposed Budget includes risk of $19.4 million in Early Intervention/Pre-school program expense, partially offset by a positive variance in increased state aid of $11.6 million. Based on the Health Department's request for funding in 2020 for this category, the proposed budget will not be enough to cover anticipated expenditures in the area of pre-school programs specifically. Historically, costs have increased steadily at 5% a year supporting the need for the higher level of funding. We have also revised our 2019 forecast to include an additional $7.0 million in preschool expense for a total risk of $11.7 million due to an increase in caseloads and reimbursement rates to providers. This is partially offset by $3.0 million in additional State Aid reimbursements.

Table 18: Early Intervention/Pre-school Programs ($ Millions)

FY 2018	FY 2019	FY 2020		
Actual	Comptroller's Updated Forecast	Proposed Budget	Comptroller's Forecast	Budget Risk
$135.6	$140.2	$137.0	$156.4	($19.4)

3.5 Debt Service | Budget Risk ($0.5) million

In the 2020 Proposed Budget, the Administration has projected debt service of $408.7 million, an increase of $9.7 million over the $399.0 million forecasted in the Comptroller's 2019 Mid-Year Report. According to the Administration, the projected debt service costs include additional projected capital borrowings of $200.0 million for tax certiorari payments, $108.8 million for sewer related capital projects, and $66.7 million for general improvement capital projects. Should future borrowings be approved by the Legislature and NIFA, we project a risk of $0.5 million due to debt service on future borrowings.

Note: Of the $408.7 million debt service costs budgeted for 2020, approximately 41%, or $166 million, represents debt service costs for bonds that were issued in prior years to pay operating expenditures, such as tax certiorari payments, judgments and settlements and termination pay to employees. The remainder is primarily attributed to capital projects, such as infrastructure and sewer related projects.

Table 19: Debt Service ($ Millions)

FY 2018	FY 2019	FY 2020		
Actual	Comptroller's Updated Forecast	Proposed Budget	Comptroller's Forecast	Budget Risk
$392.2	$399.0	$408.7	$409.2	($0.5)

3.6 Judgments and Settlements | Budget Risk ($5.0) million

The 2020 Proposed Budget does not include a projection for use of the $15 million received from the State for the County's assumption of the second injury workers' compensation long-term liability. Our projections conservatively estimate that the County will use $5.0 million of these funds to settle current workers' compensation cases.

Table 20: Judgments and Settlements ($ Millions)

FY 2018	FY 2019	FY 2020		
Actual	Comptroller's Updated Forecast	Proposed Budget	Comptroller's Forecast	Budget Risk
$119.4	$33.5	$30.4	$35.4	($5.0)

4.0 The Multi-Year Financial Plan

As shown in the Table 21 below, the Administration's Multi-Year Financial Plan (MYP) projects budget baseline gaps for the three major operating funds of $55.9 million in 2021, $102.5 million in 2022, and $134.4 million in 2023. **Based on our projected risks and opportunities, we estimate base-line gaps of $80.8 million in 2021, $131.1 million in 2022 and $156.9 million in 2023.**

Projected risks and opportunities identified in the MYP include:

- Payroll and Fringe: Payroll is projecting a risk of $4.1 million, $3.1 million and $3.1 million for years 2021, 2022 and 2023 respectively. Fringe expense is projecting an opportunity for savings of $9.1 million, $9.2 million and $13.5 million for years 2021, 2022 and 2023, respectively.
    - Collective Bargaining Agreements: The MYP includes the following assumption: the MYP is consistent with the bargaining positions the County has taken at the bargaining table which support a sustainable budget. Due to a lack of specifics with relation to the County's negotiations, we cannot determine a risk or opportunity.
    - Pension Expense: The Comptroller's forecast is projected to show a potential opportunity in 2021 of approximately $0.5 million based on the 2020 estimated and projected 2021 pension invoices from the State. The remaining out years are currently projected to be flat to the MYP.
- Utilities: We project a risk in years 2021-2023 in Utilities of $2.6 million, $2.4 million and $2.1 million, respectively due to reduced budget requests from the departments as well as variable costs.
- Early Intervention: We are projecting a risk of $20.0 million each year for years 2021-2023. We project the amounts proposed in the out years will not be sufficient based on the Health department's funding request for year 2020. This risk is partially offset by State Aid opportunity of $11.6 million each year for 2021-2023.
- Departmental Revenues: Given historical trends, we project a risk in 2021-2023 in Departmental Revenues related to overbudgeted amounts in Assessment GIS/Tax Map fees, County Clerk mortgage and deed recording fees, and Fire Commission fees. The risks projected are $9.3 million in year 2021, $8,8 million in 2022 and $8.3 million in 2023.
- Sales Tax: The volatility of sales tax collections and lack of historical data on enhanced internet Sales Tax collections make long-term forecasting somewhat challenging. The MYP projects a 2% increase in Sales Tax collections in the out years, which is reasonable based on current available information. The only variance projected is a probable $6 million positive variance in prior year Part County revenue in 2021.
- Fines & Forfeitures: We project a risk in Fines and Forfeitures mainly related to aggressive budgeted amounts for red light camera revenues and public safety fees of approximately $6.9 million in each year of the MYP plan.
- Sale of County Property: We project a risk of $7.0 million in each fiscal year 2021-2023

for Sales of County Property as closing dates (in the near years) and specific properties (in the out years) have not been identified.

- State Aid: We project an opportunity of $11.6 million each year for 2021-2023 for State Aid. This will be offset by a $20.0 million per year risk in Early Intervention.
- Use of Fund Balance: We project a use of fund balance opportunity in 2021-2023 to be $5.0 million, $3.0 million and $0 respectively in the Litigation Fund. This amount represents funding to settle workers' compensation claims.
- Judgments and Settlements: Our projections include a risk of $5.0 million in 2021 and $3.0 million in 2022 to pay for workers' compensation settlements. These risks are offset by projected used of fund balance in the Litigation Fund.
- Other: The risk in Other consists primarily of workers' compensation and local government assistance. Workers' compensation risk is about $0.6 million in 2021. Our projections for workers' compensation remain conservative with the timing of savings being realized by the County's workers' compensation expense in relation to negotiated settlements. Also included in Other is a risk of $1.0 million in years 2021 and 2022 for local government assistance.

Table 21: Multi-Year Plan Baseline Gap and Projected Risks and Opportunities

PROPOSED NASSAU COUNTY 2020-2023
MULTI-YEAR FINANCIAL PLAN
MAJOR FUNDS
SUMMARY OF FUTURE YEAR RISKS and OPPORTUNITIES
($'s Millions)

	2021	2022	2023
Baseline Gap per Financial Plan (before Gap Closing Measures)	**$ (55.9)**	**$ (102.5)**	**$ (134.4)**
Items included in Baseline Gap that are risks/opportunites			
Payroll & Fringe	5.0	6.1	10.4
Utilities	(2.6)	(2.4)	(2.1)
Early Intervention	(20.0)	(20.0)	(20.0)
Departmental Revenue	(9.3)	(8.8)	(8.3)
Sales Tax	6.0		
Fines & Forfeitures	(6.9)	(6.9)	(6.9)
Sale of County Property	(7.0)	(7.0)	(7.0)
State Aid	11.6	11.6	11.6
Use of Fund Balance	5.0	3.0	
Judgements and Settlements	(5.0)	(3.0)	
Other	(1.7)	(1.2)	(0.2)
Baseline Gap Per Comptroller's Office	**$ (80.8)**	**$ (131.1)**	**$ (156.9)**

The table below details the Administration's gap closing measures as outlined in the Multi Year Plan. At the time of this report, the Comptroller's Office considers these measures at risk primarily due to their need for State legislations to be enacted (NYS Actions) or the lack of data/assumptions provided to project the savings.

Table 22: Multi-Year Gap Closing Measures at Risk

PROPOSED NASSAU COUNTY 2020-2023
MULTI-YEAR FINANCIAL PLAN
MAJOR FUNDS
SUMMARY OF FUTURE YEAR RISKS and OPPORTUNITIES
(Gap Closing Measures Considered at Risk)
($'s Millions)

Gap Closing Measures Considered at Risk	2021	2022	2023
NYS Actions			
E-911 Reimbursement	$ 1.0	$ 1.0	$ 1.0
Sub-Total NYS Actions	1.0	1.0	1.0
Other			
Workforce Management	5.0	10.0	15.0
Building Consolidation	5.0	5.0	7.0
ERP Implementation	0.5	1.0	1.0
County's District Energy Facility	1.0	1.0	1.5
Income and Expense	15.0	15.0	15.0
Other Actions	15.4	46.8	62.0
Belmont Arena and Hub Sales Tax Benefit	7.7	12.8	14.8
Total Gap Closing Measures at Risk	**$ 50.6**	**$ 92.6**	**$ 117.3**

5.0 Long-Term Obligations and Borrowing Trends

5.1 Property Tax Refunds (Tax Certiorari)

The Comptroller's Office is not risking the budgeted tax certiorari expenditures, given the $30 million appropriations in the General Fund; no budget was provided for the Disputed Assessment Fund.

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

- $476.4 million in long-term liabilities:
- $24.5 million representing property tax refunds payable in 2018 but paid the first week in January and $27.8 million of liabilities accrued for as of year-end 2018; and
- an estimated $74.8 million related to the (DAF).

At year-end 2018, the total liability increased to $603.5 million from $569.3 million in the prior year, primarily due to the $24.5 million of property tax refunds processed in the last week of the fiscal year but not mailed until the first week in January, and an increase in the valuation of the Long Island Power Authority (LIPA) properties.

The 2020 Proposed Budget projects that the Administration will request borrowing authorization of $200 million from the County Legislature and NIFA to pay off much of the remaining backlog. At the time of this report, it is unknown whether this approval will be obtained.

The County's DAF became operational in 2017, and as of December 31, 2018 the fund recorded $186.6 million of assets and $184.5 million of liabilities resulting from the 2017 and 2018 collections of the DAF charges on class four (commercial) properties. The 2017 and 2018 DAF charges are parcel specific and thus may only be used to fund refunds for those specific parcels, should the commercial property owner's grievance prevail. Where the taxpayer is not successful, the DAF charge would be shared by the County, the towns and the school districts. In 2018, the County reported $0.4 million in DAF Revenue resulting from grievances lost by taxpayers related to collections. The 2020 Proposed Budget does not include any revenue related to DAF Revenue; there is the potential opportunity for additional revenues although this cannot be estimated at this time.

New York State legislation was passed in 2018, effective 2019, that amended the use of DAF collections from commercial property owners. DAF charges, collected in 2019 from all commercial property owners, may be used to pay any tax certiorari refund due to a commercial property owner, including liabilities that pre-dated the DAF charge. The County collected $40.0 million in 2019 under the new DAF law. As of the date of this report, no payments to commercial property owners have been made using these funds.

As of September 2019, the DAF has $207.2 million of assets and approximately $192.1 million of liabilities, with refunds to taxpayers using the 2017 and 2018 collections, totaling approximately $21.5 million. Additional refunds are expected to be recorded 2019 and 2020. At this time, we cannot estimate the DAF charge revenue that will be transferred to the County's General Fund for grievances lost by taxpayers under the 2017 and 2018 DAF law.

5.2 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.

The County expects to opt in for the 2020 pension invoice, due in February 2020 but is scheduled to be prepaid in December 2019, as well as the out-years of the multi-year plan. The estimated amortization to be taken in the February 2020 invoice, for all funds and the Nassau Community College, is $12.2 million. The amortization in the February 2021 projected invoice is $14.9 million. Projections for the February 2022 and February 2023 invoices have not yet been received. The total amortization taken since the February 2012 invoice, including the estimated amortization for the February 2020 invoice, is $351.7 million, inclusive of the Nassau Community College, and $337.4 million excluding the Nassau Community College.

As of December 31, 2019, we estimate that the County's GAAP liability to the NYS and Local Retirement Systems for the deferral of annual pension expense will be $210.9 million. This is slightly down ($0.2 million) from the estimated liability reporting in the 2019 Mid-Year report due to an updated estimated invoice from New York State. Assuming the projected amortizations on the 2020-2021 invoices are elected, the County's estimated GAAP liability at the end of fiscal years 2019-2020 are estimated at $210.9 million, and $194.7 million respectively.

Table 23: Deferred Pension Expense Liability

DEFERRED PENSION EXPENSE AMORTIZATION LIABILITY GAAP Basis - All Funds including Nassau Community College ($'s in millions)					
	Balance at beginning of year	Additions	Payments	Balance at end of year	Change in Bal at the end of the year from 2019 Mid-Year Report
2012	$ 43.6	$ 52.2	$ 5.8	**$ 89.9**	$ -
2013	89.9	68.0	10.4	**147.5**	-
2014	147.5	63.3	15.8	**195.1**	-
2015	195.1	46.7	20.8	**221.1**	-
2016	221.1	33.1	21.6	**232.6**	-
2017	232.6	26.1	23.8	**235.0**	-
2018	235.0	17.8	26.4	**226.4**	**-**
2019 est. *	226.4	13.0	28.5	**210.9**	**(0.2)**
2020 est. *	210.9	14.2	30.4	**194.7**	**3.4**
* assumes amortization elected in 2019-2021 invoices					

5.3 Borrowing Trends

The 2020 Proposed Budget projects long-term borrowings of $177.1 million, which will require NIFA approval, subject to Legislative (supermajority) approval. The Administration expects to issue long-term bonds of $177.1 million to pay for capital projects, which include borrowing of $35.4 million for sewer related projects and $141.7 million for general improvement projects. The projected borrowing for tax certiorari payments in 2020 of $200 million is in addition to the $100 million borrowed in 2018, the proceeds of which were used to pay property tax refunds in 2018 and early 2019. The Administration's plan is to pay down at least $300 million of the outstanding "backlog" of tax certiorari liabilities.

The Administration's proposed capital borrowings in years 2021, 2022, and 2023 include $150.0 million in general improvement capital projects and $50.0 million in sewer related projects each year. The proposed plan also includes bond anticipation notes (BANs) of $200.0 million in years 2021, 2022, and 2023. It is unclear at this moment if the County will opt to issue $200.0 million in BANs or as long-term borrowings (bonds). The Administration will make this decision based on market interest conditions at the time of borrowing.

If the County decides to issue long-term bonds instead of BANs, the total long-term borrowing for years 2021, 2022, and 2023 will be $400.0 million each year. The $400.0 million includes $300.0 million for general improvement capital projects and $100.0 million in sewer related projects each year. We have prepared two different charts to illustrate the effect of issuing BANs versus bonds. The first chart assumes the County will issue the BANs for years 2019 to 2023, as projected in the MYP. BANs that are rolled over from one year to another (up to five years as permitted by law) do not represent "new money". The first chart excludes the projected BANs borrowings. The second chart assumes the County will issue the projected BANs with the intention of converting them to long-term bonds upon maturity in the following year, and therefore, these are included in the new money chart: year 2019 ($100.0 million) and years 2020 to 2023 ($200.0 million each year).

Chart 4: Nassau County Historical and New Debt Issuances – with BAN roll-overs

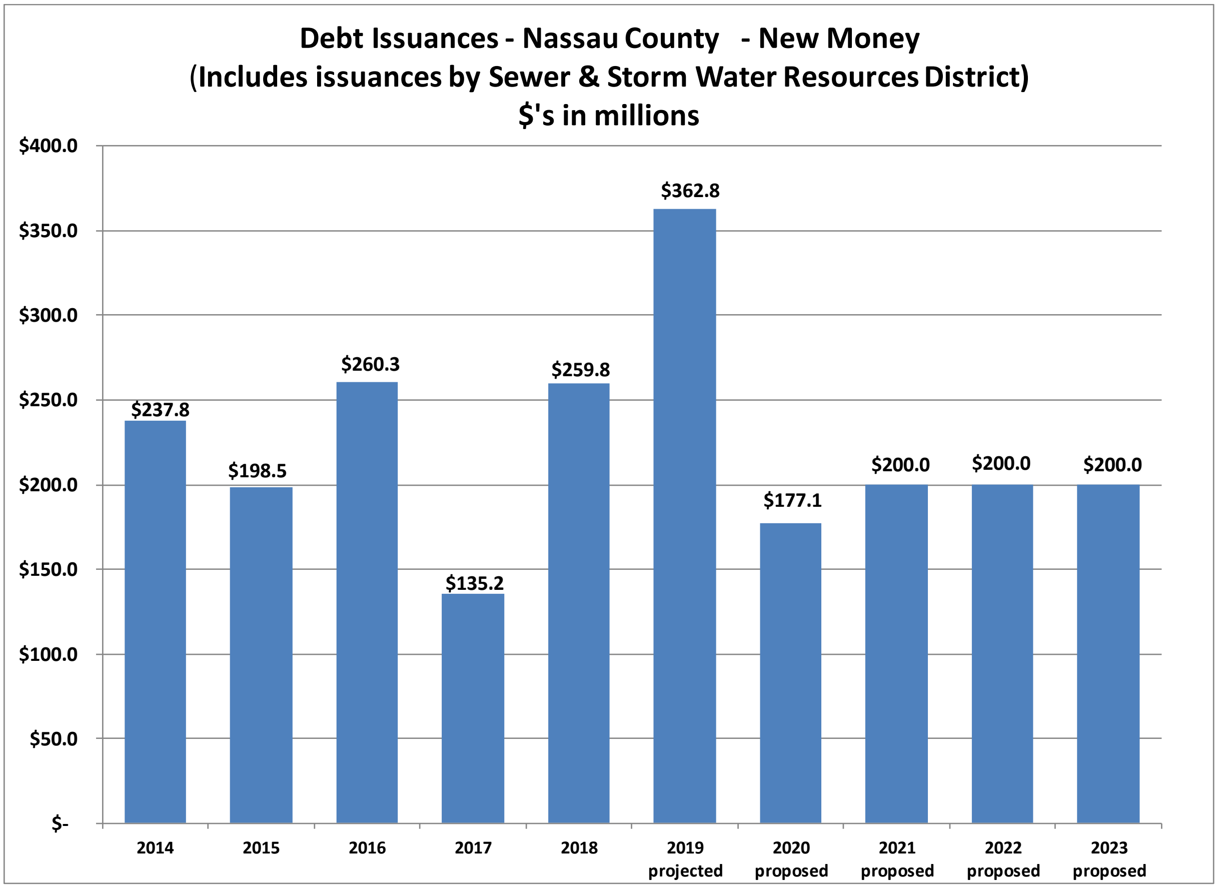
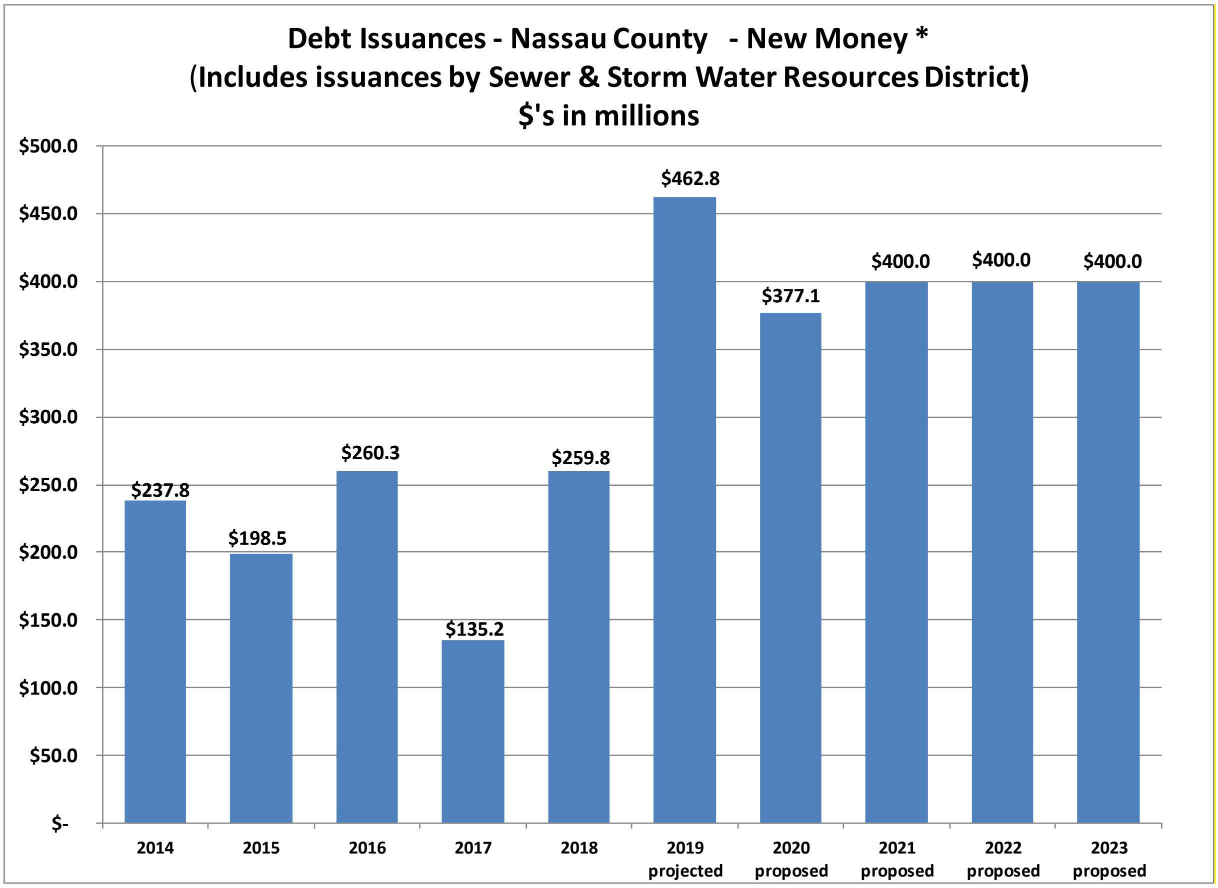


Chart 5: Nassau County Historical and New Debt Issuances – without BAN roll-overs



* Includes projected Bond Anticipation Notes (BANs) issuances for years 2019 to 2023.

Table 24 below illustrates projected long-term debt issued through December 31, 2020 by the County including SSW District, Nassau Community College, NIFA, Sewer and Storm Water Finance Authority (SFA), and Nassau County Tobacco Settlement Corporation (NCTSC).

At 2018 year-end, the total of the County's general obligation bonds and its component units' long-term bonds outstanding was approximately $3.5 billion (including serial bonds and accreted interest of the NCTSC, both of which the County has no recourse). The 2019 and 2020 anticipated borrowings will increase the total long-term bonds outstanding from $3.5 billion at year-end 2018 to approximately $3.6 billion at year-end 2020 after reductions of maturing debt, for a net increase of 1.4%. Note that the projected additions for year 2019 and year 2020 do not include projected BAN issuances as explained earlier (see table below).

Table 24: Total Projected Long-Term Borrowings – with BAN roll-overs

Total Projected Long-Term Borrowings
($'s in millions)

	As of December 31, 2018 Actual	2019 Projected Additions	2019 Projected Reductions	As of December 31, 2019 Estimated	2020 Projected Additions	2020 Projected Reductions	As of December 31, 2020 Estimated
County w/SSW (a)	$ 2,404.4	$ 362.8	$ 115.7	$ 2,651.5	$ 177.1	$ 128.8	$ 2,699.8
NIFA	535.5	-	123.5	412.0	-	117.6	294.4
Sewer and Storm Water Finance Authority (SFA) (b)	122.9	-	11.4	111.5	-	11.8	99.7
Tobacco Settlement Corp (NCTSC) (c)	477.3	8.2	-	485.5	8.7	-	494.2
Total	**$ 3,540.1**	**$ 371.0**	**$ 250.6**	**$ 3,660.5**	**$ 185.8**	**$ 258.2**	**$ 3,588.1**

(a) Beginning in 2014, the County implemented a change in accounting principle to include the NCC debt as part of the County debt
(b) Assume no additional borrowings for SFA
(c) December 31,2018 includes accumulated accreted interest of $76.8 million; projected additions for 2019 and 2020 represent accreted interest

At this time, it is uncertain if the County will issue the projected short-term BANs with the intent of rolling them over each year or if these borrowings will be converted to long-term bonds. If the projected BAN issuances for 2019 ($100.0 million) and 2020 ($200.0 million) are expected to be converted to long-term bonds, the total long-term bonds outstanding will increase from $3.5 billion at year-end 2018 to approximately $3.9 billion at year-end 2020, after reductions of maturing debt, for a net increase of 9.8% (see table below).

Table 25: Total Projected Long-Term Borrowings – without BAN roll-overs

Total Projected Long-Term Borrowings *
($'s in millions)

	As of December 31, 2018 Actual	2019 Projected Additions	2019 Projected Reductions	As of December 31, 2019 Estimated	2020 Projected Additions	2020 Projected Reductions	As of December 31, 2020 Estimated
County w/SSW (a)	$ 2,404.4	$ 462.8	$ 115.7	$ 2,751.5	$ 377.1	$ 128.8	$ 2,999.8
NIFA	535.5	-	123.5	412.0	-	117.6	294.4
Sewer and Storm Water Finance Authority (SFA) (b)	122.9	-	11.4	111.5	-	11.8	99.7
Tobacco Settlement Corp (NCTSC) (c)	477.3	8.2	-	485.5	8.7	-	494.2
Total	**$ 3,540.1**	**$ 471.0**	**$ 250.6**	**$ 3,760.5**	**$ 385.8**	**$ 258.2**	**$ 3,888.1**

(a) Beginning in 2014, the County implemented a change in accounting principle to include the NCC debt as part of the County debt
(b) Assume no additional borrowings for SFA
(c) December 31,2018 includes accumulated accreted interest of $76.8 million; projected additions for 2019 and 2020 represent accreted interest

* 2019 and 2020 Projected Additions include projected bond anticipation notes.

6.0 Control Period Calculation

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

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

6.2 Control Period Calculation

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

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

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

Under the Control Period Calculation requirement, the budgetary results of the County's General, Fire Commission, Police Headquarters, Police District, and Debt Service Funds are converted to GAAP results. Then, adjustments are made to remove the effect of other financing sources that are derived from the issuance of bonds. These include bond proceeds and premiums used to pay for operational expenditures.

The projected Control Period Calculation results for the fiscal year are negative $54.3 million, **assuming no tax certiorari expenditures are paid with borrowed funds in 2020**. Thus, the County is projected to continue to be in a Control Period for fiscal year 2020 based on the Comptroller's Office projections contained in this report. Any tax certiorari expenditures paid in 2020 with borrowed funds will increase the Control Period Calculation deficit by an equal amount.

Table 26 below presents the Control Period Calculation results as projected by the Comptroller's Office. NIFA projects the Control Period Calculation results to determine whether a deficit of more than one percent of the aggregate result of operations in the operating funds (as defined above) exists, there by triggering a NIFA Control Period.

Table 26: Proposed 2020 Budget Control Period Calculation

Revenue and Obligations 2020 Propsed Budget Risks Reconciled to the Control Period Calculation*
($'s millions)

Estimated Results on a Budgetary Basis *	**($61.6)**
Adjustments to reconcile to Modified Accrual Basis	
Net adjustments for to remove the effect of encumbrances	10.3
Use of Fund Balance	-
Net adjustment to record pension expense on a modified accrual basis	(2.5)
Adjustment for cash receipts outside period of availability	(1.0)
Sale of Mitchel Field Leases	1.3
Reversal of prior year on-top GAAP adjustments	-
Other Estimated GAAP Adjustments	(0.8)
Net Change in Fund Balance on a Modified Accrual Basis	**(54.3)**
Less: adjustments included in other financing sources	
Premium on bonds	-
Transfer of revenue from other funds to offset debt expense **R1507**	-
Operating expense paid with bond proceeds	-
Control Period Calculation Results	**($54.3)**

* Includes: General Fund, Police Headquarters Fund, Police District Fund, Fire Commission Fund, Debt Service Fund (not including sewer debt).

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

Table 27: Historical Control Period Calculation 2010-2018 with 2019 and 2020 Projections

Control Period Calculation 2010 - 2020 (projected)*

($'s millions)	2020 Proposed Budget CO	2019 (projected)	2018	2017	2016	2015	2014	2013	2012	2011	2010
Net Change in Fund Balance - modified accrual basis	($54.3)	($16.6)	($17.4)	($58.8)	$27.1	$28.0	($21.5)	$48.6	$24.0	($98.0)	$31.0
Less: adjustments included in other financing sources											
Premium on bonds			2.0		43.8	19.0	4.4	4.0	3.7	6.2	21.3
Borrowed funds to pay Property Tax Refunds		61.4	38.5	0.7	59.0	96.2	126.4	75.0	14.7	21.0	42.5
Borrowed funds to pay Other Judgments							8.3	26.5	20.0	4.6	30.4
Borrowed funds to pay Termination Pay					2.3	26.1	20.1	14.0	33.1	17.7	80.0
Borrowed funds to pay Other Operating Costs		0.2	3.1	3.5							
Transfer of revenue from other funds to offset debt expense		3.0	0.2	0.2	5.1	12.0	8.5	2.7	16.6	12.5	1.7
Total other financing sources/uses to be eliminated	0.0	64.6	43.8	4.4	110.2	153.3	167.7	122.2	88.1	62.0	175.9
Control Period Calculation Results	**($54.3)**	**($81.2)**	**($61.2)**	**($63.2)**	**($83.1)**	**($125.3)**	**($189.2)**	**($73.6)**	**($64.1)**	**($160.0)**	**($144.9)**

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