NASSAU COUNTY
OFFICE OF THE COMPTROLLER

REPORT ON THE COUNTY'S FINANCIAL CONDITION FOR THE FIRST SIX MONTHS OF FISCAL YEAR 2010

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Nassau County Comptroller

July 31, 2010

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NASSAU COUNTY
OFFICE OF THE COMPTROLLER

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REPORT ON THE COUNTY'S FINANCIAL CONDITION FOR THE FIRST SIX MONTHS OF FISCAL YEAR 2010

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]

Our summary of our review and analysis of revenues and expenses to June 30, 2010 and projection to year end, together with the County's gap closing opportunities are presented in Exhibit 1. We project that the County will finish the year with the budget in balance or with a small surplus.

The County revenues will be $94 million less than budgeted. However, due to strict expense reduction initiatives by the Mangano Administration, expenses will be $47.8 million lower than planned. The resulting budgetary gap to be closed prior to the 2010 year end will be $46.2 million. Separated out by taxpayer base, we project that the Police District will have a deficit of $8.7 million and the County Wide Funds (General, Police Headquarters, Fire, and Debt Service) show a gap of $37.5 million.

The projected budgetary gap can be closed using the potential opportunities outlined in Exhibit 1 to finish the year in balance or with a surplus. We would urge the administration to minimize the use of bonding, maximize opportunities to reduce recurring expenses, and aggressively pursue increasing non-tax revenues.

The negative budgetary gap is clearly the result of deficiencies in income by $94 million attributable to overly optimistic projections by the Suozzi Administration. The prior Comptroller had warned that the 2010 budget had unrealistic revenue projections in excess of $68 million which, when adjusted for the repeal of the energy tax by the current administration, approximates to the $94 million budget shortfall. Had this risk assessment been heeded by the Suozzi Administration, and the 2009 session of the County Legislature, or had the Nassau County Interim Finance Authority (NIFA) interceded, expenses would have had to be curtailed and the County would be in a better financial situation today.

In the following sections we discuss in more detail the major variances in revenues and expenses plus the opportunities available to the administration and the legislature to end the fiscal year with a balanced budget.

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

2010 continues a number of problematic historical trends, which NIFA failed to hold the prior administration accountable for, and which now require serious attention to restore the fiscal health of the County in 2011 and beyond:

- The structural gap projected for 2010 will remain alarmingly high at $213.8 million, although down from $250.3 million in 2009.

- The County continues to spend approximately 9% more on recurring expenses than it receives in recurring revenues.

- The Primary Funds' Reserves are almost depleted and stand at $14.4 million down from $207 million in 2005.

- The total amount of bonds to be issued in 2010 is projected to be $332 million continuing an increasing trend begun in 2007.

We urge the Mangano Administration, the Legislature and NIFA to break with these long established financial trends in order to restore the County to fiscal health with a truly balanced budget. This can be achieved by agreeing on a multi-year plan beyond 2010 which brings current expenses in line with current revenues without reliance on bonding, one-shot revenues, deferral of expenses, or a tax increase on our hard pressed property owners. This plan will require structural changes in County Government, debt restructuring, strategic technology deployment and significant increases in non tax revenues comparable to other counties. Bonding would be acceptable as part of a transition plan to restructure government and bring about fiscal responsibility.

As part of its multi-year planning, the County adopted a fund balance policy in 2005. The policy provided that the County would maintain a level of unreserved fund balance of no less than 4% and no more than 5% of normal prior year expenditures from the General Fund and the County-Wide Special Revenue Funds. Fund balance is in effect a rainy day fund that can be drawn on in emergencies when budgeted revenues drop for unpredictable reasons or budgeted expenses rise in ways that could not have been either predicted or controlled. The Fund Balance as of December 31, 2009 stands at $52.0 million or 2.43% of the 2008 normal, recurring expenditures and is out of compliance (Exhibit 2). The County has been out of compliance since December 31, 2007. The new administration and Legislature will have to decide whether it is appropriate to change the Fund Balance Policy and operate with less of a cushion, or identify spending cuts or increased revenues that can be used to replenish fund balance.

EXHIBIT 1

Revenue and Obligations Forecast for 2010*

($'s in millions)

	2010 Budget	2010 Projected Actual	Variance
Revenues			
Sales Tax (includes Residential Energy Tax)	$1,003.1	$979.5	($23.6)
Fines & Forfeitures	53.0	36.1	(16.9)
Cigarette Tax	16.0		(16.0)
Use of Reserves	24.0		(24.0)
Departmental Revenue	100.8	95.6	(5.2)
Investment Income	8.1	4.1	(4.0)
State Aid (excluding Cigarette Tax)	215.4	211.8	(3.6)
Rents & Recoveries	34.0	31.5	(2.5)
OTB Revenues	6.3	5.3	(1.0)
Property Tax	801.6	803.6	2.0
Federal Aid	177.5	179.5	2.0
Other	608.1	606.9	(1.2)
Total Revenue	**3,047.9**	**2,953.9**	**(94.0)**
Expenses			
Payroll and Fringe Benefits (excluding Overtime below)	1,199.3	1,148.9	50.4
Overtime (Police Department and Correctional Center)	47.3	58.7	(11.4)
Social Service Expenses	407.8	422.6	(14.8)
Early Intervention / Special Education	173.6	167.9	5.7
Resident Tuition	7.8	10.2	(2.4)
Contractual Expenses	128.3	123.6	4.7
General Expenses	31.3	28.2	3.1
Contingencies	11.5	0.0	11.5
Other	1,041.0	1,040.0	1.0
Total Expense	**3,047.9**	**3,000.1**	**47.8**
			($46.2)
Estimated Budget Risk by Taxpayer Base	**Police District**	**Other Funds**	
Estimated Budget Risk excluding Potential Opportunities	**($8.7)**	**($37.5)**	**($46.2)**
Use of undesignated Police District fund balance	8.7	0.0	8.7
Remaining deficit	**$0.0**	**($37.5)**	**(37.5)**
Potential Opportunities for funds other than Police District			
Additional Retirements			0.7
Pending increase in ambulance fees			3.0
Additional revenue from red light cameras			4.0
Additional ARRA reimbursement			4.2
Increase in Traffic and Parking violation receipts			3.5
Reimbursement of Fashion Institute of Technology expense			6.4
Additional disencumbrances			8.3
Total potential opportunities			30.1
Remaining estimated budget risk			**($7.4)**
Additional opportunity - bonding of property tax refunds			$50.0
Total opportunities available			**$80.1**

*This forecast includes the following five County funds:
General, Police Headquarters, Police District,
Debt Service, and Fire Prevention, Safety, Communication and Education

EXHIBIT 2

FUND BALANCE AS A PERCENTAGE OF NORMAL EXPENDITURES ($'s in millions)						
UNRESERVED FUND BALANCE						
	2004	**2005**	**2006**	**2007**	**2008**	**2009**
Total Cumulative Unreserved Fund Balance		$ 85.6	$ 88.1	$ 77.6	$ 69.1	$ 52.0
Normal recurring expenses less interfunds (General & County-Wide Special Revenue Funds)	$ 2,141.8	$ 2,142.3	$ 2,062.8	$ 2,194.2	$ 2,136.2	
Total Unreserved Fund Balance as % of prior year expenses		**4.00%**	**4.11%**	**3.76%**	**3.15%**	**2.43%**

2.0 REVENUE VARIANCES

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

2.1 Sales Tax

Based on sales tax collections for the first 6 months of 2010, gross sales tax receipts are projected to total $979.5 million. Year to date sales tax collections are showing a 10.3% increase over last year's collections. The increase is 6.4% without including the residential energy tax. The sales tax total for 2010 includes $17.5 million from the sales and use tax on energy through June 1, 2010, the date the tax ended. We project sales tax will be $23.6 million less than the County's adopted budget of $1,003.1 million. This is an overall 4% increase over last year's actual, excluding the amount collected for residential energy tax. $21.9 million of the 2010 shortfall is related to the repeal of this tax.

Sales tax, at approximately 40% of budgeted revenues net of inter-fund transfers, is the County's largest revenue source. While the 2009 decline in sales tax receipts was unprecedented, sales tax receipts for 2010, without considering residential energy tax, have increased for the first six months. This is an encouraging sign that the Nassau County economy and consumer confidence are beginning to recover.

Sales Tax Collected on a Cash Basis ($'s in millions)			
	July 1 YTD Sales Tax Collected excluding Residential Energy Tax	% July 1 YTD vs Total Sales Tax Collected/Projected excluding Residential Energy Tax	Gross Annual Sales Tax Collected/Projected excluding Residential Energy Tax
2005	$392.1	41.1%	$953.8
2006	415.6	41.9%	991.2
2007	423.5	41.8%	1,012.0
2008	430.4	42.9%	1,003.1
2009	386.6	41.6%	929.4
2010	410.4	42.5%	966.4

RECONCILIATON OF CASH BASIS SALES TAX TO PORTION RECOGNIZED IN 2010 ($'s in millions)	
Gross sales tax forecast 2010	$900.2
Part County portion forecast 2010	66.2
Total sales tax projected on a cash basis	966.4
Part County in excess of budget - deferred to future year	(8.7)
Net sales tax forecast 2010	957.7
Residential Energy Tax received	17.5
Prior year deferral recognized in 2010	4.3
Sales tax per Exhibit 1	$979.5

2.2 Fines and Forfeitures

The major variances in fines and forfeitures relate to Traffic and Parking Violations Agency (TPVA) revenues for both non red light camera violations and tickets for red light camera violations. We project that in 2010 TPVA revenue related to non red light violations will fall short of budget by $3.5 million.

The red light camera installation in the approved 50 intersections is behind schedule and will not be completed until September of 2010. As a result of the delays and overly optimistic budget projections, we forecast that the revenues from red light camera tickets will be $12 million less than the budgeted $26 million.

FINES AND FORFEITURES ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
$24.1	$53.0	$14.9	$36.1	($16.9)

2.3 Cigarette Tax

The anticipated revenue to the County from a tax on cigarettes has not materialized. Therefore $16 million budgeted as State Aid will not be realized.

CIGARETTE TAX ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
	$16.0			($16.0)

2.4 Use of Reserves

The 2010 budget includes a transfer from the Retirement Contribution Reserve Fund to partially offset retirement expenses in 2010. These reserve funds, which were to be generated by a 2009 surplus, were not established and are therefore not available to be used in 2010. This results in a negative variance of $13 million.

The 2010 budget also includes a transfer from the Employee Benefit Reserve Fund (EBF) that was to be used to offset termination pay expenses in the Police District Fund. Since the administration and Legislature have decided to bond this expense instead of drawing down the reserve, this budgeted revenue will have a negative variance of $11 million. See Labor Costs following this section for discussion of termination pay.

USE OF RESERVES ($'s in millions)					
Item	2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
2009 Surplus		$13.0			(13.0)
Use of EBF		11.0			(11.0)
Total		$24.0			($24.0)

2.5 Departmental Revenue

Parks Department revenues are currently on par with the same period last year, however, we project the revenues will be $2.7 million under the 2010 budget due to lower than projected park attendance.

Year to date ambulance fees are lower than this time last year by more than $1 million. We project that these revenues will be approximately $2 million under budget in 2010.

A Consumer Affairs internet advertising initiative budgeted in 2010 represents a $500,000 risk since there has been a delay in implementation.

DEPARTMENTAL REVENUE ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
$96.2	$100.8	$42.7	$95.6	($5.2)

2.6 Investment Income

The County typically invests available funds in interest bearing checking accounts and bank certificates of deposit. Because interest rates have not recovered to the extent expected when the budget was adopted, we forecast that investment income will be $4 million under the $8.1 million budget.

INVESTMENT INCOME ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
$3.6	$8.1	$1.1	$4.1	($4.0)

2.7 State Aid (excluding Cigarette Tax)

State Aid is projected to be $3.6 million under budget due to lower than budgeted reimbursable Early Intervention/Special Education expenses in the Health Department, partially offset by higher State Aid reimbursements in Social Services due to increased caseload expenses.

STATE AID (excluding Cigarette Tax) ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
$204.4	$215.4	$93.0	$211.8	($3.6)

2.8 Rents & Recoveries

Rents and Recoveries are projected to be $2.5 million under budget due to lower than budgeted disencumbrances of $7.5 million offset by unbudgeted tobacco proceeds of $5 million dollars.

RENTS AND RECOVERIES ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
$41.4	$34.0	$13.6	$31.5	($2.5)

2.9 OTB Revenues

OTB revenues are projected to be $1 million under budget. OTB shares its net profit with the County. OTB projects an overall loss in 2010 caused by increases in expenses such as regulatory fees and employee benefits combined with decreased handle.

OTB REVENUES ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
$5.3	$6.3	$1.0	$5.3	($1.0)

2.10 Property Tax

Property tax revenue is projected to be $2 million more than the $801.6 million in the 2010 Adopted Budget. The increase is generated primarily by the expiration of property tax exemptions upon the sale of properties. The value of the assessment roll has increased due to an increase in new construction. The total budgeted property tax levies for all funds, including the County-wide Sewer and Storm Water District in the 2010 Budget, remained the same as the budgeted property tax levies included in the 2009 Adopted Budget, except for an increase in the value of new constructions of $1.5 million.

The decline in housing values and increase in foreclosures should not affect 2010 property tax collections. Even in an economic downturn, property taxes continue to be paid since they are a first lien on the real estate. A slowdown in property tax payments may affect the County's cash flow in 2010, however, because the County must make up the difference between the tax levy and collections for school districts, towns and special districts.

PROPERTY TAX (EXCLUDING SEWER DISTRICT FUND) ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
$803.3	$801.6	$803.6	$803.6	$2.0

2.11 Federal Aid

Federal Aid is projected to be over budget by $2.0 million due to increased reimbursable Social Services expenses.

FEDERAL AID ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
$161.9	$177.5	$43.4	$179.5	$2.0

3.0 EXPENSE VARIANCES

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

3.1 Payroll & Fringe Benefits

We project salaries (excluding overtime for the Police Department and the Correctional Center) and fringe benefits savings of $50.4 million under the 2010 budget. This positive variance is the combination of the County and State's offerings of early retirement incentives, bonding of budgeted termination pay, and unfilled positions.

The three different early retirement incentives provided either a cash payout or additional retirement benefits depending on the eligible employee's bargaining unit. It is has been reported that 328 employees with a combined yearly salary of $27 million have opted into the incentives as of July 20, 2010. Members of the Civil Service Employees Association (CSEA) had until July 30 to opt into the State's Retirement Incentive Plan A; members of the Sheriffs Officers Association (ShOA) and Ordinance employees have until September 11th to submit their papers for Plan A; and eligible members of all bargaining units have until December 8th to opt into the States' Plan B. The annual savings will be prorated for only a portion of 2010 resulting in estimated savings of $8 million for this year, assuming there is limited back fill. The County will maximize the savings further by bonding any termination pay amounts due to these employees that would have been paid out of operating funds. This amounts to a $26.8 million offset to expense this year.

In addition to the savings generated by the early retirement incentives, there is a positive variance resulting from unfilled budgeted positions valued at approximately $15 million. For purposes of this report, we assume that borrowings will cover all 2010 termination and incentive related expense.

The $7.3 million variance in fringe benefits is primarily due to an insufficient budget for payroll tax related expenses of $3.3 million, a negative variance for health insurance of $1.7 million, and unemployment expenses that are projected to be over budget by $1.2 million.

SALARIES and FRINGES (excluding overtime for Police Department and Correctional Center) ($'s in millions)					
	2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
Salaries	$733.8	$810.0	$388.5	$752.3	$57.7
Fringes	388.3	389.3	243.3	396.6	(7.3)
Total Salaries and Fringes	$1,122.1	$1,199.3	$631.8	$1,148.9	$50.4

3.2 Overtime

Overtime costs for the Police Department and the Correctional Center are projected to be $11.4 million over the $47.3 million budget. The shortfall is primarily comprised of $4.5 million in the Correctional Center, and $6.6 million for the Police District Fund. These shortfalls are projected prior to any impact of the early retirement incentive.

OVERTIME ($'s in millions)					
	2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
Police District	$17.8	$15.2	$6.7	$21.8	($6.6)
Police Headquarters	18.4	16.7	5.7	17.0	(0.3)
Correctional Center	19.7	15.4	7.9	19.9	(4.5)
Total	$55.9	$47.3	$20.3	$58.7	($11.4)

3.3 Social Service Expenses

We project that direct assistance programs administered by the Department of Social Services will be $14.8 million over the $170.3 million budget. Our estimate is based on a higher than expected increase in Safety Net and TANF cases. As a result of the national recession, more people need aid and this reality has been reflected in the increasing caseload and expense levels for Social Service assistance programs.

DIRECT ASSISTANCE ($'s in millions)					
	2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
Recipient Grants	$59.1	$61.8	$33.1	$68.0	($6.2)
Purchased Services	51.0	50.5	39.0	54.6	(4.1)
Vendor Payments	57.5	58.0	47.8	62.5	(4.5)
Total Direct Assistance	$167.6	$170.3	$119.9	$185.1	($14.8)

3.4 Early Intervention/Pre-School Education

We project that expenses for Early Intervention and Preschool Education will be $5.7 million under the budget of $173.6 million due to a lower growth rate than budgeted.

EARLY INTERVENTION / PRE-SCHOOL EDUCATION ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
$166.2	$173.6	$150.5	$167.9	$5.7

3.5 Resident Tuition

Expense for Resident Tuition paid on behalf of Nassau County residents attending The Fashion Institute of Technology and other New York State community colleges outside of Nassau is anticipated to exceed $10 million. This is in line with the prior year's expense. This will result in a negative variance of $2.4 million.

RESIDENT TUITION ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
$9.8	$7.8	$4.7	$10.2	($2.4)

3.6 Contractual Expense

Contractual expense is expected to be $4.7 million under the budget of $128.3 million. A large portion of this variance is related to the contractual expense related to the Red Light Cameras which is anticipated to be under budget. The remainder is due to the administration's effort to control contractual expenses by monitoring and reviewing all contracts more closely.

CONTRACTUAL EXPENSE ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
$118.8	$128.3	$69.6	$123.6	$4.7

3.7 General Expense

General expenses are forecast to be better than budget because of the administration's effort to limit other than personal service expenses by scrutinizing these expenses more closely.

GENERAL EXPENSES ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
$27.3	$31.3	$15.6	$28.2	$3.1

3.8 Contingencies

Our analysis indicates that contingencies will be $11.5 million under the adopted budget, because contingency reserves are transferred to cover shortfalls elsewhere in the budget.

CONTINGENCIES ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
	$11.5			$11.5

3.9 Property Tax Refunds

The 2010 budget provides for $50 million to pay real property tax refunds. The administration has indicated that the 2010 expense is estimated to be $103 million. The additional expense could have a budget impact since the administration's ability to bond this expense is limited to the $8.8 million available in unused 2009 borrowings and an additional $20 million in borrowing capacity for this purpose.

PROPERTY TAX REFUNDS ($'s in millions)				
2009 Actual	2010 Budget	2010 YTD June	2010 Forecast	Variance
$114.5	$50.0	$35.2	$50.0	$0.0

4.0 OPPORTUNITIES TO ACHIEVE A BALANCED BUDGET

Exhibit 1 (see page 3) shows the significant projected revenue and expense variances for year end 2010 based on the first 6 month financial results. We project that the County will receive $94.0 million less in revenues than budgeted but expend $47.8 million less than planned due to strict expense controls instituted by the Mangano Administration leaving a negative operating gap of $46.2 million.

The $46.2 million negative operating gap can be closed to achieve a balanced budget or a surplus by the following opportunities:

- With the installation of additional red light cameras, the administration anticipates additional revenue of $4.0 million.

- The administration feels there is an opportunity to receive additional federal funds to offset Medicaid expenses of $4.2 million.

- For the first time in 2010, the County is billing the expense of tuition paid to the Fashion Institute of Technology to the towns and villages who have students attending FIT. The administration feels there is a potential to recover the $6.4 million of expense.

- The opportunity for participation in the early retirement incentive is available until the end of 2010. There is a potential for additional salary and fringe benefit savings.

- The administration also may ask the legislature for approval to bond the property tax refunds that are being funded from the operating budget.

5.0 OTHER CONCERNS – NASSAU HEALTH CARE CORPORATION

The financial stability of the Nassau Health Care Corporation (NHCC) is essential so that it can continue to operate as a health care safety net for the County's uninsured.

The County guarantees the NHCC's outstanding indebtedness of $262 million and the institution's continued ability to repay its bonds is of fiscal importance to the County. The NHCC is now forecasting that its loss for 2010 will be $6.9 million.

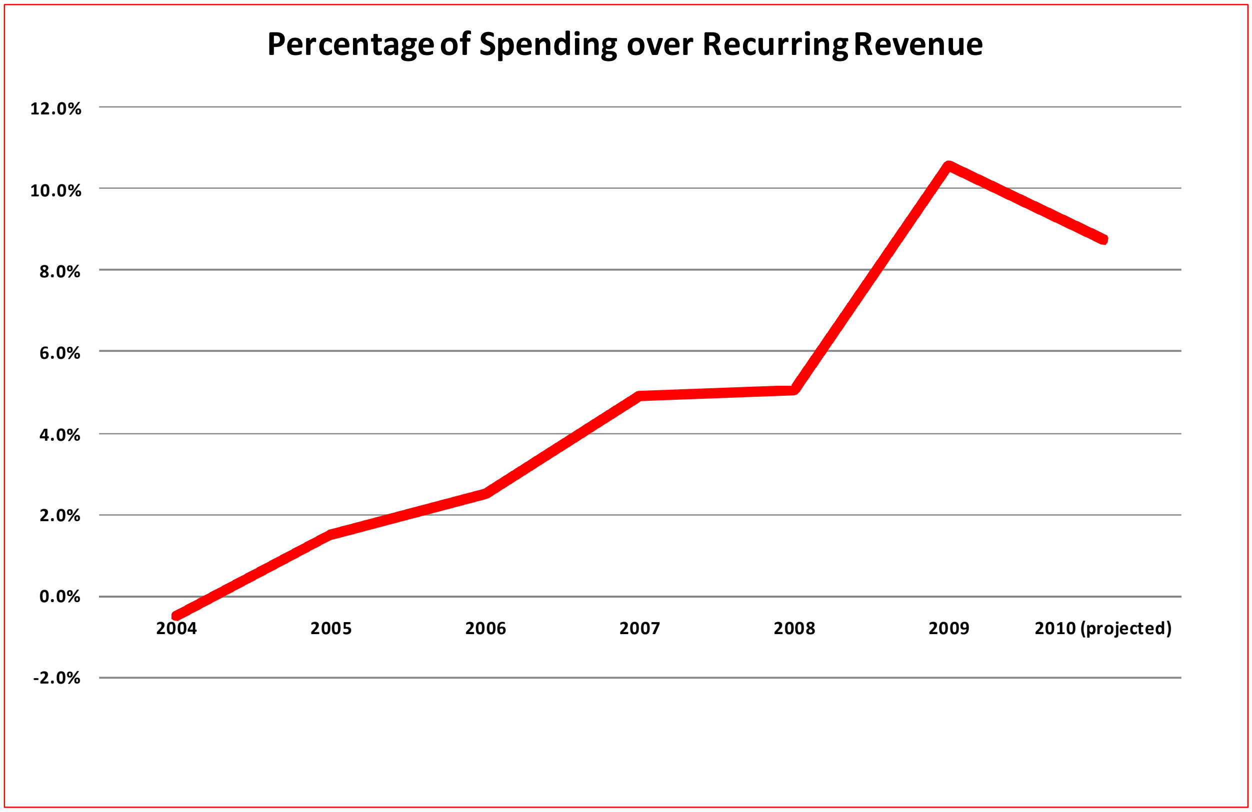
The national recession will increase pressure on the NHCC in a time of great uncertainty in the area of health care and its funding. New York State has not yet fully confronted the impact of the drop in State revenue that it will face in the current State fiscal year. There may be significant cutbacks to funding streams that the NHCC relies on. An even greater uncertainty will be the impact of health care reform; the demands for service placed on NHCC, its funding streams and the historic models it uses to develop its programs may have to be radically altered. These changes will require monitoring by the County and the NHCC to ensure that services can be offered where needed without additional demands on County taxpayers. Lastly NHCC should be seeking to improve collections of unpaid bills, unpaid insurance claims and grant funds as a means of fulfilling its mission statement.

6.0 MAJOR COUNTY FINANCIAL TRENDS

6.1 Revenues and Expense Divergence

The deteriorating control of expenses and the overspending by the County since 2004 by the Suozzi Administration is best illustrated in Exhibit 3. This shows the percentage of recurring expense over recurring revenue in each year. This overspending increased every year and reached a critical point in 2009 exceeding 10% of current recurring revenues. We anticipate that in 2010 this trend will start to be reversed.

EXHIBIT 3



6.2 Budgetary Structural Gap Trend

Like most governments, the County has an imbalance between its recurring operating revenues and expenses, known as a structural gap. While an important financial indicator, a structural gap is not the same as a budget deficit. Since 2002 the County's budget has been balanced each year, as required by law, and the County has ended every year with a budget surplus. Structural gaps can only be narrowed by reducing recurring expenses or by increasing recurring revenues. When the County balances its budget by using non-recurring revenues, such as drawing down reserves, it does not reduce the structural gap.

In 2010 the structural gap remains at an alarmingly high level (see Exhibit 4) albeit lower than in 2009. At this point in mid-year, we project a 2010 structural gap of $213.8 million assuming tax cert refunds of $103 million. The structural gap will increase to the extent the County uses borrowed funds to pay higher real estate tax refunds.

EXHIBIT 4

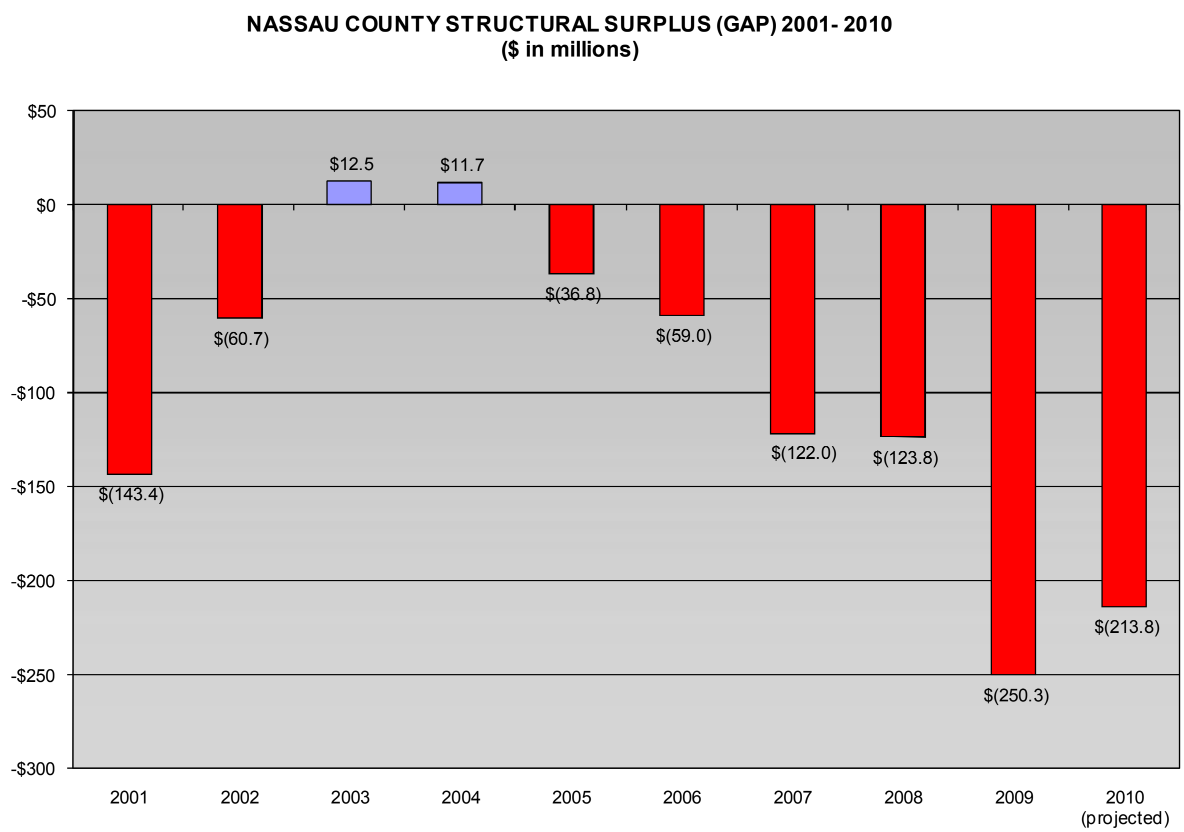


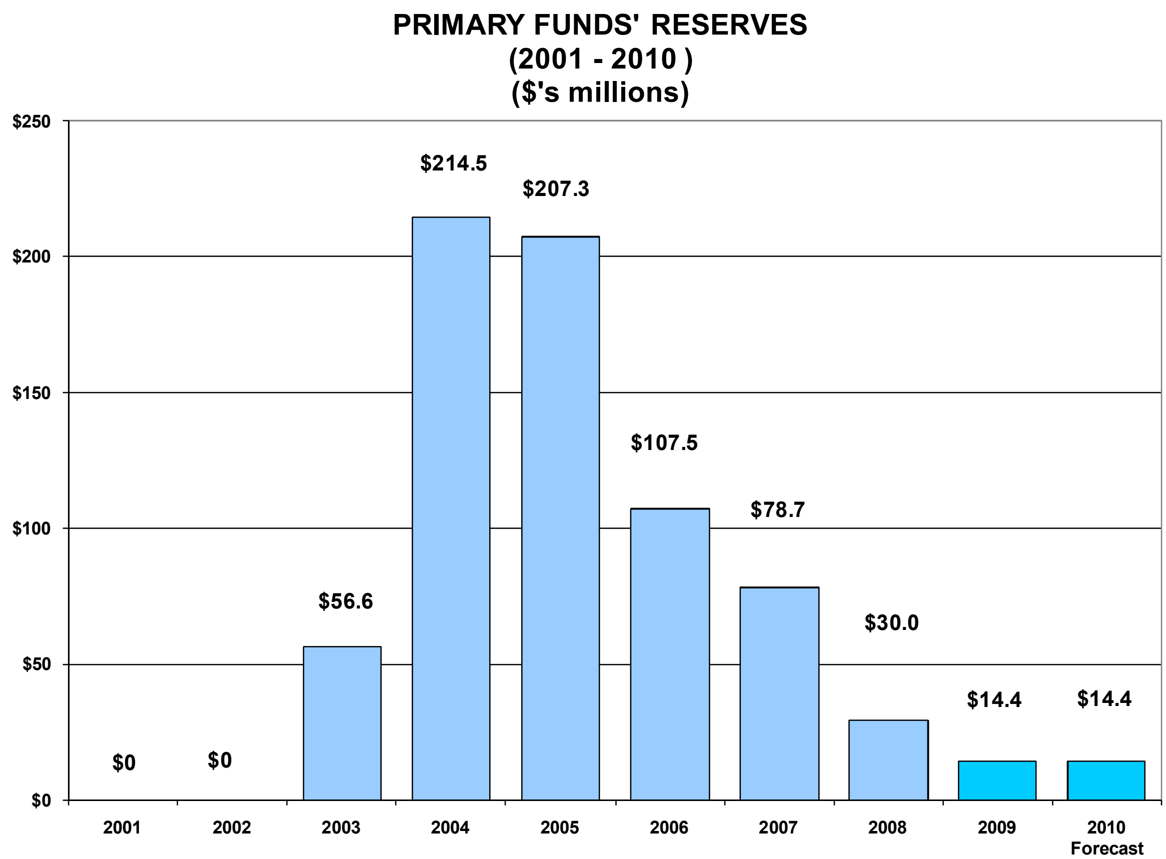
EXHIBIT 4A

Comparison of Structural Gap Detail ($'s in millions)	2009	2010 (projected)
Revenue One Shots:		
FMAP and Other ARRA	$44.8	$48.1
Residential Energy Tax	21.9	17.5
Use of Tobacco Securitization Proceeds	15.2	5.0
Use of Prior Period Fund Balance	10.0	
Reserve for Future Retirement Expense	0.5	
Total Revenue One Shots	**92.4**	**70.6**
Expense One Shots:		
Use of borrowed funds to pay property tax refunds paid in excess of budget	64.5	53.0
Bonding for Termination Pay	53.9	26.8
Lag Payroll	24.5	
Deferral of Wages and Benefits	16.2	17.2
Total Expense One Shots	**159.1**	**97.0**
Total One Shots	**251.5**	**167.6**
Net Surplus (Deficit)	**1.2**	**(46.2)**
Structural Gap (Surplus or Deficit less One Shots)	**$250.3**	**$213.8**

6.3 Primary Fund Reserve Trend

From 2003-2004 the County accumulated reserves totaling $214.5 million through annual surpluses. From 2005 onwards, the County began to deplete the reserve funds at an alarmingly accelerated rate as shown in Exhibit 5 to cover current expenses. If the administration and legislature agree to bond all components of the termination pay as this report assumes, then the Reserve Fund will be left with $14.4 million at the end of 2010.

EXHIBIT 5



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6.4 New Bonding Trends

The County typically bonds each year for capital projects and property tax refund payments. From 2002 to 2006, NIFA did primarily all the borrowing for the County. Since then, the County has borrowed in excess of $220 million each year. As shown in the Exhibit 6 below, in 2009 and 2010 the bonding is increasing. The reason is that in 2009 and 2010 borrowing includes $80 million and $92 million for termination pay respectively.

At 2009 year end, the total of County general obligation and NIFA bonds outstanding was $2.6 billion. The debt service for principal, interest and financing costs relating to this debt was $293.7 million. The County portion of this debt stood at $887.7 million and the debt service for 2009 was $122 million.

EXHIBIT 6