

**NASSAU COUNTY
OFFICE OF THE COMPTROLLER**



**2014 MID-YEAR REPORT
ON THE COUNTY'S FINANCIAL CONDITION**

**George Maragos
Nassau County Comptroller**

July 29, 2014

**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 2014

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

The 2014 mid-year financial projections, under current spending and revenue assumptions, indicate that the County will end with a \$76.9 million budgetary deficit in the primary operating funds (see Exhibit 1). The shortfall is due primarily to a sharp decline in sales tax revenues, lower State and Federal Aid and continued overspending in Police department overtime. Additionally, payroll expense is likely to end \$4.5 million over budget, due to the increased costs from lifting of the wage freeze, tempered by unfilled positions and attrition savings. Offsetting these negative variances are increased revenues from Rents and Recoveries, lower spending in Social Services, lower debt service costs and a \$12.7 million pickup from Governor Cuomo announcement that the State would reimburse the County for the 10% balance that FEMA did not pay on Superstorm Sandy expenditures.

One component of the projected budgetary deficit is the \$24.5 million budgetary deficit projected for the Police District Fund ("PDD"), which is one of the primary operating funds. This is particularly problematic as this fund has its own taxing base, thus deficits can only be avoided by increasing revenues, cutting expenses or raising taxes. Surpluses in the other funds, if they exist, cannot be transferred to the PDD fund. Of the \$24.5 million PDD projected deficit, approximately \$10 million is attributed to overtime costs and about \$10 million is attributed to termination pay. In the Administration's most recent 2014 projections, it has indicated its intent to request borrowings of \$24.1 million to finance the termination pay for the police funds, which would minimize the projected deficit in the PDD fund. The Comptroller does not recommend borrowing for this operational expense and thus, the \$24.1 million, was not included in our projections. Termination pay costs are projected in the budgetary deficit.

Under the presentation basis prescribed by the Nassau County Interim Finance Authority ("NIFA"), which excludes certain other financing sources and uses, the County would be ending the year with a negative \$206.7 million result (see Exhibit 2), an increase of 163% over 2013. The deficit is primarily due to the projected \$75.0 million (as recently understood from the Administration) in bonding for property tax refunds and the projected \$76.9 million deficit on a budgetary basis. The same factors will cause the County's Structural Gap (the difference between recurring operating revenues and expenses) to widen to \$242 million, from \$99.1 million in 2013. This will be a major reversal in the year-over-year improvements achieved since 2009. Should the Administration move forward with the full borrowing of \$230 million for property tax refunds as indicated in the revised multi-year plan, then the NIFA presentation deficit will increase to \$361.7 million and the structural gap will widen to \$397 million.

The projected \$76.9 million deficit will reduce the unreserved fund balance for the primary operating funds to \$49.6 million on a budgetary basis, down from \$126.5 million at 2013 year-end. The projected 2014 year-end fund balance will represent 2% of the prior year budgetary expenditures; well below the County's policy of at least 4% (see Exhibit 5).

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

Total long-term borrowings for the County and its blended component units, NIFA, Nassau County Sewer Financing Authority (“SFA”) and the Nassau County Tobacco Settlement Corporation (“TSC”), are projected to reach approximately \$3.7 billion as of the end of 2014, a net increase of over \$75 million (see Exhibit 7). The County is projecting to borrow approximately \$294.1 million in 2014, \$155 million less than was budgeted in its revised multi-year plan (as recently understood from the Administration), due primarily to lower borrowings for property tax refunds than initially budgeted. The \$294.1 million includes \$75 million to pay property tax refunds, \$17 million for judgments and settlements, \$50 million to be used for Sewer and Storm Water capital projects, and approximately \$150 million for capital projects. However, the County and its blended component units will also pay down approximately \$225 million in maturing debt resulting in the net increase of \$75 million in long-term debt, to end 2014 with \$3.7 billion outstanding. Should the County borrow the full \$230 million as indicated in the revised mid-year multi-year plan, then the long-term bonds will increase to approximately \$3.9 billion.

The County’s contingent liability related to the wage freeze litigation declined as a result of the recent amendments to the existing labor agreements. The amendments to the labor agreements have capped the prior years’ potential liability to about \$101 million for 2011 and 2012, with the unions agreeing to a zero increase in 2013 and to waive litigation for the future years of the existing contract. The \$75 million projected borrowing to pay down property tax refunds will reduce the long-term certiorari liability to an estimated \$284 million as of the end of 2014 down from \$294 million as of year-end 2013 (see Section 3.9). An adopted ordinance (ratified by State Law) but still requiring the Governor’s approval, to require commercial owners who file grievance appeals to pre-pay in escrow the amount in dispute, is expected to significantly decrease the County’s liability in future years. Any residual liability will be paid from this escrow fund.

For the first year, the Comptroller’s Office will project the financial performance of the Sewer and Storm Water District (“SSW”). In all prior years, only the primary operating funds have been reviewed and projected. However, as part of the operations of the SSW fund is in process of being transferred to a private organization, the current and future financial condition of SSW needs to be monitored. The Administration’s adopted budget of 2014 is projected to end with a small surplus of \$2.6 million after draw down of the entire \$45.9 million of fund balance as shown in Exhibit 9. However, even with the United Water deal the SSW will continue to be underfunded and face deficits of \$39.3 million in 2015, \$25.3 million in 2016 and \$23.5 million in 2017 (See Exhibit 9). The Administration would need to provide for these deficits.

In summary, the projected \$76.9 million year-end deficit in the primary operating funds and the projected \$75 million in borrowing for property tax refunds will reverse all the fiscal improvements achieved over the last four years. The County’s fund balance will be depleted to approximately \$49.6 million, the NIFA presentation deficit will increase from \$78.6 million in 2013 to \$206.7 million, the Structural Gap will widen from \$99.1 million to \$242 million and the outstanding long-term debt of the County and its blended component units will rise to \$3.7 billion. We urge the Administration and NIFA to take immediate steps to close the projected year-end deficit and to forego, or substantially reduce, the borrowing to avoid the anticipated negative fiscal results. Additionally, the Sewer and Storm Water District would need additional funding of approximately \$39 million, beginning with 2015.

EXHIBIT 1

| Revenue and Obligations Forecast for 2014* | | | |
|--|----------------------------|-----------------------------|------------------------|
| (\$'s millions) | | | |
| | 2014 Budget | 2014 Projected Actual | Variance |
| Revenues | | | |
| Fines & Forfeitures | | | |
| Red Light Cameras | \$38.1 | \$38.1 | 0.0 |
| Speed Cameras | 0.0 | 6.5 | 6.5 |
| Other Traffic & Parking | 24.3 | 21.7 | (2.6) |
| Alarm Permit Fines | 2.7 | 1.5 | (1.2) |
| Other Fines & Forfeitures | 2.8 | 2.3 | (0.5) |
| Rents & Recoveries | 22.4 | 36.7 | 14.3 |
| Departmental Revenue | | | |
| Ambulance Fees | 24.9 | 24.9 | 0.0 |
| Clerk | 36.5 | 30.0 | (6.5) |
| Assessment Department | 1.6 | 0.1 | (1.5) |
| Parks Department | 19.5 | 18.5 | (1.0) |
| Tow Truck Franchise Revenue | 1.7 | 0.7 | (1.0) |
| Other Departmental Revenue | 81.6 | 81.2 | (0.4) |
| Sales Tax | 1,165.9 | 1,075.2 | (90.7) |
| State Aid | 220.6 | 210.0 | (10.6) |
| Federal Aid | 147.0 | 136.0 | (11.0) |
| Reimbursement of 10% FEMA Match | | 12.7 | 12.7 |
| Fund Balance | 10.0 | 10.0 | 0.0 |
| Other | 990.2 | 991.0 | 0.8 |
| Total Revenue | 2,789.8 | 2,697.1 | (92.7) |
| Expenses | | | |
| Payroll and Fringe Benefits (excluding Overtime below) | 1,251.8 | 1,256.3 | (4.5) |
| Overtime (Police Department and Correctional Center) | 66.1 | 84.1 | (18.0) |
| Social Services | 435.1 | 423.9 | 11.2 |
| Debt service | 368.3 | 358.6 | 9.7 |
| Contractual Expense | 237.3 | 241.7 | (4.4) |
| Early Intervention / Pre School | 139.5 | 135.0 | 4.5 |
| Contingencies | 12.0 | 0.0 | 12.0 |
| Local Government Assistance | 69.6 | 64.3 | 5.3 |
| Property Tax Refunds | 10.0 | 10.0 | 0.0 |
| Other | 200.1 | 200.1 | 0.0 |
| Total Expense | \$2,789.8 | \$2,774.0 | 15.8 |
| Estimated Results on a Budgetary Basis excluding Additional Risks/Opportunities | | | <u>(\$76.9)</u> |
| | Police District | Other Funds | Total |
| Estimated Results by Taxpayer Base on a Budgetary Basis | (\$24.5) | (\$52.4) | <u>(\$76.9)</u> |

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

EXHIBIT 2

| County Financial Results on a NIFA Prescribed Presentation Basis 2009 - 2014 (projected)* | | | | | | |
|---|---------------------|-----------------|-----------------|------------------|------------------|------------------|
| BUDGETARY RESULTS 2009 - 2014 (projected)* (\$'s millions) | | | | | | |
| | 2014 (projected) | 2013 | 2012 | 2011 | 2010 | 2009 |
| Surplus (Deficit) on a Budgetary Basis | (\$76.9) | \$55.0 | \$41.5 | (\$50.4) | \$26.6 | (\$0.1) |
| CALCULATION OF NIFA PRESCRIBED PRESENTATION BASIS 2009 - 2014* (\$'s millions) | | | | | | |
| | 2014 (projected) | 2013 | 2012 | 2011 | 2010 | 2009 |
| Net Change in Fund Balance - modified accrual basis | (\$106.5) | \$48.6 | \$24.0 | (\$98.0) | \$31.0 | (\$10.0) |
| Less: adjustments included in other financing sources | | | | | | |
| Premium on bonds | 8.1 | 9.0 | 8.4 | 9.3 | 28.4 | 27.0 |
| Borrowed funds to pay Property Tax Refunds | 75.0 | 75.0 | 14.7 | 21.0 | 42.5 | 64.5 |
| Borrowed funds to pay Other Judgments | 17.1 | 26.5 | 20.0 | 4.6 | 30.4 | 11.5 |
| Borrowed funds to pay Termination Pay | 0.0 | 14.0 | 33.1 | 17.7 | 80.0 | 77.7 |
| Transfer of revenue from other funds to offset debt expense | 0.0 | 2.7 | 16.6 | 12.5 | 1.7 | 0.0 |
| Total other financing sources/uses to be eliminated | 100.2 | 127.2 | 92.8 | 65.1 | 183.0 | 180.7 |
| NIFA Prescribed Presentation Basis | (\$206.7) | (\$78.6) | (\$68.8) | (\$163.1) | (\$152.0) | (\$190.7) |
| * Includes: General Fund, Police Headquarters Fund, Police District Fund, Fire Prevention, Safety, Communication & Education Fund Debt Service Fund (not including sewer debt) | | | | | | |

2.0 REVENUE VARIANCES

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

2.1 Fines and Forfeitures

Included in Fines and Forfeitures is a projected positive variance of \$6.5 million in speed camera revenue, offset by \$2.6 million lower non-red light Traffic and Parking Violations Agency (TPVA) revenues, and \$1.2 million lower Police Alarm Permit fines. Overall, for Fines and Forfeitures we project a positive variance of \$2.2 million.

| FINES AND FORFEITURES (\$'s in millions) | | | | |
|---|------------------------|--------------------------|--------------------------|-----------------|
| 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| \$61.4 | \$67.9 | \$27.4 | \$70.1 | \$2.2 |

2.2 Rents & Recoveries

Rents and Recoveries are projected to have a \$14.3 million positive variance primarily due to the recovery of prior year appropriations of unused Foster Care expenses in connection with the People in Need of Supervision (PINS), Juvenile Delinquency and Preschool and Early Intervention programs.

| RENTS AND RECOVERIES (\$'s in millions) | | | | |
|--|------------------------|--------------------------|--------------------------|-----------------|
| 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| \$38.3 | \$22.4 | \$10.1 | \$36.7 | \$14.3 |

2.3 Departmental Revenue

Revenues of the County Clerk's Office are projected to be \$6.5 million under budget as a result of lower Mortgage Recording Fees. We project a shortfall in Assessment Department revenue of \$1.5 million, mostly due to a delay in the implementation of a Tax Map Fee Initiative. Parks Department fees are projected to be under by \$1.0 million and Tow Truck Franchise revenue is projected to be under budget by \$1.0 million, based on year-to-date and historical analysis. In total, we project Departmental Revenue at \$10.4 million under budget.

| DEPARTMENTAL REVENUE (\$'s in millions) | | | | |
|--|------------------------|--------------------------|--------------------------|-----------------|
| 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| \$170.1 | \$165.8 | \$53.3 | \$155.4 | (\$10.4) |

2.4 Sales Tax

Sales tax, at approximately 42% of budgeted revenues net of inter-fund transfers, is the County's largest revenue source. Based on sales tax collections for the first six months of 2014, sales tax receipts are projected to total \$1,075.2 million. Year-to-date sales tax collections, through the date of this report, shows a 9% decrease from 2013. We project sales tax will be approximately \$90.7 million less than the County's adopted budget of \$1,165.9 million. This equates to a 5.9% decrease from last year's actual.

| 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 | 41.4% | 992.0 |
| 2011 | 424.2 | 41.3% | 1,027.6 |
| 2012 | 442.2 | 41.3% | 1,070.4 |
| 2013 | 474.6 | 41.7% | 1,138.1 |
| 2014 | 453.5 | 42.4% | 1,070.8 |

| RECONCILIATION OF CASH BASIS SALES TAX TO PORTION RECOGNIZED IN 2014 (\$'s in millions) | |
|--|-------------------|
| Gross sales tax forecast 2014 | \$991.8 |
| Part County portion forecast 2014 | <u>79.0</u> |
| Total sales tax projected on a cash basis | <u>1,070.8</u> |
| Prior year deferral recognized in 2014 | <u>4.4</u> |
| Sales tax, per Exhibit 1 | <u>\$ 1,075.2</u> |

2.5 State Aid

State Aid is projected to be \$10.6 million under budget primarily due to lower reimbursements in Health (\$7.6 million) and Social Services (\$2.7 million) mostly due to lower reimbursable expenditures caused by a greater reduction in caseloads than budgeted.

| STATE AID (\$'s in millions) | | | | |
|---|------------------------|--------------------------|--------------------------|-----------------|
| 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| \$202.4 | \$220.6 | \$51.0 | \$210.0 | (\$10.6) |

2.6 Federal Aid

Federal Aid is projected to be \$11.0 million under budget primarily due to lower than budgeted Correctional Center revenue of \$4.4 million resulting from the elimination of funding in connection with inpatient medical costs and a lower than anticipated Federal inmate population, and \$6.6 million in lower Social Services revenue due to fewer caseloads in the Temporary Assistance for Needy Families (TANF) program.

| FEDERAL AID (\$'s in millions) | | | | |
|---|------------------------|--------------------------|--------------------------|-----------------|
| 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| \$124.9 | \$147.0 | \$16.2 | \$136.0 | (\$11.0) |

2.7 Reimbursement of 10% FEMA Match

In 2012 and 2013, the County recorded \$9.7 million and \$3.0 million, respectively, of expense in the primary operating funds representing its 10% share of the costs incurred in those years related to Superstorm Sandy. Costs included debris removal and emergency protective services, such as additional police patrols in hard-hit areas to prevent looting. FEMA has obligated to reimburse the County for 90% of the eligible costs incurred. This past week, Governor Cuomo announced that funding would be made available to Nassau County to cover its 10% share, from state-allocated Community Development Block Grant – Disaster Relief (CDBG-DR) funds. As a result of this announcement, the County is projected to receive \$12.7 million as reimbursement of the County's 10% FEMA Match related to Superstorm Sandy. This reimbursement was not budgeted and represents a revenue pickup.

| REIMBURSEMENT OF 10% FEMA MATCH (\$'s in millions) | | | | |
|---|------------------------|--------------------------|--------------------------|-----------------|
| 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| \$0.0 | \$0.0 | \$0.0 | \$12.7 | \$12.7 |

3.0 EXPENSE VARIANCES

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

3.1 Payroll and Fringe Benefits

We project salaries (excluding overtime for the Police Department and the Correctional Center) and fringe benefits, including worker's compensation expense, to have a combined shortfall of \$4.5 million from the 2014 budget. The projected negative variance is primarily being driven by costs associated with the NIFA approved labor settlements of approximately \$26.8 million, projected termination pay of \$13.2 million primarily due to higher than expected police retirements, offset by savings from open positions estimated to be \$22.2 million and other payroll related savings. The projected termination pay variance to the budget of a negative \$13.2 million is primarily comprised of approximately \$10 million in Police District and \$3 million in Police Headquarters.

Termination pay for 150 officers for 2014 at \$38.1 million is projected to be paid from operations. The 2014 budget includes \$25.1 million for termination pay in the two police funds, leaving \$13.0 million projected over budget. The Administration intends to request \$24.1 million in borrowings to cover these costs associated with termination pay; nearly half of this amount is associated with PDD. Because the borrowing is contingent on bipartisan approval of the Legislature, and NIFA approval, our current projections do not reflect any borrowing for 2014, and assumes termination pay will be paid out of operating funds.

Fringe benefits are projected to show a positive variance of \$7.4 million, primarily due to lower than budgeted health insurance premiums, and is offset by an increase in payroll-based taxes resulting from the labor agreement settlements.

| SALARIES and FRINGES (excluding overtime for Police Department and Correctional Center) | | | | | |
|--|------------------------|------------------------|--------------------------|--------------------------|-----------------|
| (\$'s in millions) | | | | | |
| | 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| Salaries | \$710.9 | \$743.4 | \$361.4 | \$755.3 | (\$11.9) |
| Fringes | <u>481.0</u> | <u>508.4</u> | <u>299.8</u> | <u>501.0</u> | <u>7.4</u> |
| Total | <u>\$1,191.9</u> | <u>\$1,251.8</u> | <u>\$661.2</u> | <u>\$1,256.3</u> | <u>(\$4.5)</u> |

3.2 Overtime for Police and Correctional Center

Based on current expense trends, overtime costs for the Police Department and the Correctional Center are projected to be \$18.0 million over the \$66.1 million budget. The expense in excess of budget is primarily comprised of \$10.0 million for the Police District Fund and \$7.4 million for the Police Headquarters Fund, and \$0.6 million for the Correctional Center. We project overtime expense to remain stable from 2013 to 2014 for the two Police Funds.

| OVERTIME | | | | | |
|----------------------------|------------------------|------------------------|--------------------------|--------------------------|-----------------|
| (\$'s in millions) | | | | | |
| | 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| Police District | \$36.7 | \$25.0 | \$11.3 | \$35.0 | (\$10.0) |
| Police Headquarters | 30.6 | 25.0 | 12.5 | 32.4 | (7.4) |
| Correctional Center | <u>16.6</u> | <u>16.1</u> | <u>6.6</u> | <u>16.7</u> | <u>(0.6)</u> |
| Total | <u>\$83.9</u> | <u>\$66.1</u> | <u>\$30.4</u> | <u>\$84.1</u> | <u>(\$18.0)</u> |

3.3 Social Services

We project expenses for Social Services will come in at \$11.2 million under budget. This positive variance is comprised of:

- a Recipient Grants positive variance of \$5.8 million attributed to a lower number of caseloads under Temporary Assistance for Needy Families (TANF) and subsidized adoptions;
- lower Emergency Vendor Payments of \$6.2 million resulting from less client related expenses under the TANF and Safety Net programs;
- lower Medicaid Expenses of \$4.5 million (due to the Medicaid Local Share Cap reduction that was enacted as part of the NYS 14-15 budget effective April 1, 2014); and
- partially offset by a higher than budgeted projection by \$5.3 million for Purchased Services caused by a less rapid decline in Day Care caseloads than originally anticipated, which is contingent upon caseload recertification as well as an increase in Day Care rates.

| SOCIAL SERVICES | | | | |
|---------------------------|------------------------|--------------------------|--------------------------|-----------------|
| (\$'s in millions) | | | | |
| 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| \$437.0 | \$435.1 | \$226.0 | \$423.9 | \$11.2 |

3.4 Debt Service

We are projecting a positive variance of \$9.7 million in Debt Service due to lower than budgeted borrowings, as well as the delay in the timing of borrowings, and a continued low interest rate environment.

| DEBT SERVICE | | | | |
|---------------------------|------------------------|--------------------------|--------------------------|-----------------|
| (\$'s in millions) | | | | |
| 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| \$336.9 | \$368.3 | \$72.9 | \$358.6 | \$9.7 |

3.5 Contractual Expense

Contractual expense is expected to be \$4.4 million over budget. This variance is due to costs associated with the implementation of the speed camera initiative, which was not budgeted for in 2014.

| CONTRACTUAL EXPENSE (\$'s in millions) | | | | |
|---|------------------------|--------------------------|--------------------------|-----------------|
| 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| \$222.9 | \$237.3 | \$185.0 | \$241.7 | (\$4.4) |

3.6 Early Intervention/Pre School

We project a surplus of \$4.5 million in Early Intervention/Pre School due to a lower than anticipated number of caseloads than originally budgeted.

| EARLY INTERVENTION / PRE-SCHOOL EDUCATION (\$'s in millions) | | | | |
|---|------------------------|--------------------------|--------------------------|-----------------|
| 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| \$137.1 | \$139.5 | \$96.0 | \$135.0 | \$4.5 |

3.7 Contingencies

Our analysis indicates that a budgeted contingency of \$12 million will be available to cover shortfalls projected elsewhere in the budget.

| CONTINGENCIES (\$'s in millions) | | | | |
|---|------------------------|--------------------------|--------------------------|-----------------|
| 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| \$0.0 | \$12.0 | \$0.0 | \$0.0 | \$12.0 |

3.8 Local Government Assistance

Distributions to local governments under the Local Government Assistance Program, which are based on the County's Sales Tax receipts, are projected to be under budget based on our lower projected Sales Tax.

| LOCAL GOVERNMENT ASSISTANCE (\$'s in millions) | | | | |
|---|----------------|------------------|------------------|----------|
| 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| \$68.3 | \$69.6 | (\$4.2) | \$64.3 | \$5.3 |

3.9 Property Tax Refunds

As of December 31, 2013, the total property tax refund liability was estimated to be \$325 million, comprised of \$293.6 million in long-term liabilities and \$31.4 million, which was expensed in prior years but has not been paid as of 2013 year-end. We project that the County will add approximately \$75 million in new liabilities during 2014 and pay about \$10 million from the operating funds, as was budgeted. This would increase the total unpaid property tax liability to approximately \$390 million before any further payments. While the Administration had budgeted \$230 million of long-term borrowings in its revised 2014 multi-year plan to help pay down the backlog, the Administration's current projection is understood to borrow and use only \$75 million. The borrowing authorization requires bipartisan cooperation to pass the Legislature, and NIFA's final approval. Assuming the County is successful in obtaining the projected \$75 million borrowing, the long-term backlog could drop to approximately \$283.6 million, excluding the \$31.4 million previously expensed and not yet paid. Recently, the Administration has made some strides in reducing the outstanding balance of \$31.4 million, therefore we are projecting that this balance will be zero by year-end 2014.

| PROPERTY TAX REFUNDS (\$'s in millions) | | | | |
|--|----------------|------------------|------------------|----------|
| 2013 Actual | 2014 Budget | 2014 YTD June | 2014 Forecast | Variance |
| \$6.3 | \$10.0 | \$6.4 | \$10.0 | \$0.0 |

| LONG TERM PROPERTY TAX REFUND LIABILITY (\$'s in millions) | | | | |
|---|--------------------|-----------|-----------|--------------------|
| | Bal beg of year | Additions | Payments | Bal end of year |
| 2010 | \$ 164.3 | \$ 67.4 | \$ (79.4) | \$ 152.3 |
| 2011 | 152.3 | 134.7 | (64.1) | 222.9 |
| 2012 | 222.9 | 83.8 | (9.5) | 297.2 |
| 2013 | 297.2 | 77.7 | (81.3) | 293.6 |
| 2014 est | 293.6 | 75.0 | (85.0) | 283.6 |

4.0 RISKS AND OPPORTUNITIES TO ACHIEVE A BALANCED BUDGET

Exhibit 1 (see page 3) shows the significant projected revenue and expense variances for year-end 2014 based on the first six-month financial results. We project that the County will have a year-end budgetary deficit of \$76.9 million. The Administration and NIFA must act immediately to address the looming deficit so that it does not occur.

Although the Administration had budgeted in its revised multi-year plan to borrow \$230 million to pay down a significant portion of property tax liability, this action will have the effect of widening the County Structural Gap and increase the long-term debt of the County and its component units to \$3.9 billion as of 2014 year-end. It is this Office's understanding that the Administration plans to reduce this borrowing to \$75 million to reduce the above negative consequences. We continue to recommend a more prudent plan in order to reduce the liability by adopting a PAYGO plan, with \$50 million in borrowing and the balance from operations. Additionally, the recent ordinance passed by the Legislature to address the growing liability of commercial properties, is expected to significantly decrease new liabilities in 2015 and beyond.

5.0 OTHER CONCERNS

5.1 Nassau Health Care Corporation

The financial stability of the Nassau Health Care Corporation (NHCC) is essential so that it can continue to operate as a health care safety net for the County's uninsured. The County guarantees the NHCC's outstanding indebtedness of \$247.4 million and the institution's continued ability to repay its bonds is of fiscal importance to the County.

The NHCC incurred an operating loss of \$21.6 million in 2013. Its operating cash flow will continue to be a challenge during 2014 with very little room for error. NHCC has undertaken a number of initiatives to return to positive cash flows. Such actions include continued revenue cycle enhancements, renegotiation of all commercial managed care contracts, changes to medical management practices, improved supply chain, inventory management and, further cost reductions from the major modernization program undertaken over the past several years.

Under its new management, NHCC should develop a long-term sustainability plan anticipating significant uncertainty in the health care industry and regularly attempt to strengthen its strategic relationships with a bigger hospital group to improve its reimbursement rates, and lower structural cost while improving health care for Nassau County residents. This is imperative as the County's \$13 million annual mission payment to the hospital is set to expire after 2014.

5.2 Nassau Regional Off-Track Betting Corporation

The 2013 audited financial statements for the Nassau Regional Off-Track Betting Corporation (“OTB”) were issued with a “going concern” opinion for the third year. This indicates that there is substantial doubt about the OTB’s ability to continue to operate. If it were to fail, Nassau County is responsible for repayment of its outstanding debt until maturity, which is July 1, 2020. The total principal amount of Mortgage and Bonds payable as of December 31, 2013 amounts to \$11.65 million, of which \$1.49 million is payable annually. The County holds the mortgage on the Racing Palace, which can be sold.

Legislation passed by New York State and signed into law by Governor Andrew Cuomo will permit Nassau County to open one video-slot facility, with a maximum of 1,000 video lottery terminals. We believe that the video-slot machines will generate significant revenues, restore OTB to financial health, and provide increased revenues to the County. In 2013, the County recognized \$3.3 million in revenue, however with the decline in the OTB Surcharge, we are projecting that the County will receive approximately \$3.0 million in 2014.

5.3 Nassau Community College

Nassau Community College (“NCC”) provides a valuable service to the residents of the County. Its financial health is crucial to the thousands of students and families that rely on it for higher education. The 2013 audited financial statements for NCC reflect an \$11.3 million improvement of its total net deficit from a negative \$283.2 million in 2012. Although the 2013 financials showed an improvement, student tuition and fees decreased in fiscal year 2013 from fiscal year 2012 by \$3.3 million due to the decrease in enrollment. The improvement of the total net deficit for 2013 was primarily due to a decrease of \$22.2 million in operating expenses relating to postemployment retirement benefits (this amount is actuarially calculated). In June 2014, the Comptroller’s Office issued a report concerning Nassau Community College’s decrease in graduation and transfer rates by 28% from 2009 to 2012. The College has taken positive steps to improve its financial controls and reduce its accounts payable balances resulting in lower tuition increases to students. We believe that the financial condition of the College will continue to be stable.

6.0 MAJOR COUNTY FINANCIAL TRENDS

6.1 Budgetary Structural Gap Trend

Like most governments, the County relies on various sources of revenues to meet its obligations and provide essential services. The shortfall between recurring expenses and revenues is the Structural Gap. Ideally, a government should be funded mainly by recurring revenues to pay its expenses and avoid using one-shot items, such as borrowings, sales of assets, drawdown on reserve funds or deferring current operating expenses. While an important financial indicator, a structural gap is not the same as a budget deficit. 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.

The County's Structural Gap had a year-over-year improvement from 2009 through 2013 as shown in Exhibit 3 below. This trend will be reversed in 2014 as the structural gap is projected at \$242 million, up from \$99.1 million in 2013, should the projected deficit be allowed and borrowing plans implemented. The primary factor for the decline is the proposed use of \$75 million in borrowed funds for the payment of property tax refunds, and the projected budgetary deficit of \$76.9 million. The Structural Gap for 2014 assumes that the Administration will be provided with Legislative and NIFA authorizations to borrow the projected \$75 million to pay down the property tax refund backlog. The Administration's revised multi-year plan budgeted for \$230 million of borrowing for property tax refunds, however the Administration has indicated to this office that the borrowing will be reduced to \$75 million. If the \$230 million were to have been requested, the structural gap would have been projected at \$397 million.

EXHIBIT 3 (PROJECTED)

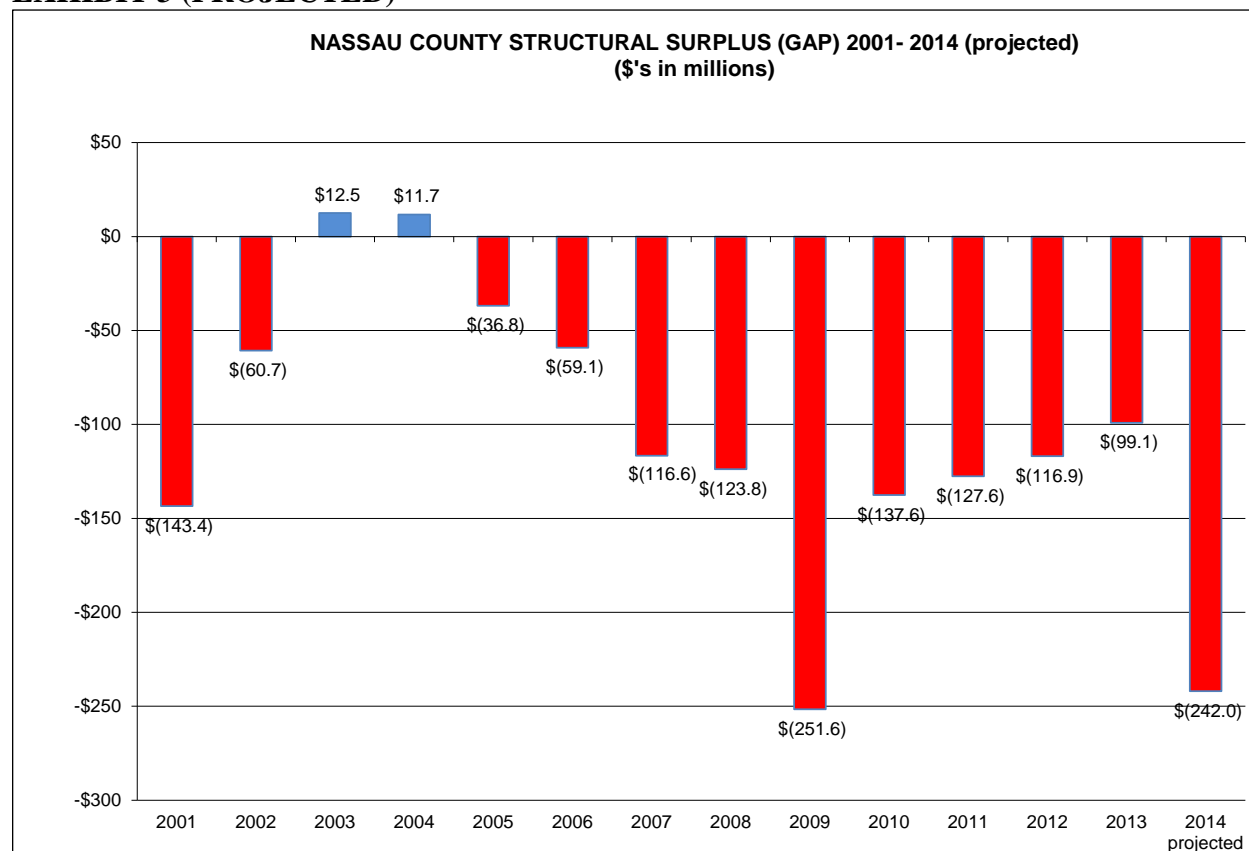


EXHIBIT 4

| Comparison of Structural Gap Detail (\$'s in millions) | | |
|---|-----------------------|-----------------------------|
| | 2013 | 2014 (projected) |
| Revenue One Shots: | | |
| Use of Fund Balance | \$ 10.5 | \$ 10.0 |
| NIFA Debt Restructuring | 5.9 | 23.0 |
| Sale of Property | <u>3.1</u> | <u>3.2</u> |
| Total Revenue One Shots | <u>19.5</u> | <u>36.2</u> |
| Expense One Shots: | | |
| Use of borrowed funds to pay operating expenses | 83.6 | 75.0 |
| Amortization of Pension Bill | 52.9 | 60.0 |
| Deferral of Wages and Benefits | <u>(1.9)</u> | <u>(6.1)</u> |
| Total Expense One Shots | <u>134.6</u> | <u>128.9</u> |
| Total One Shots | 154.1 | 165.1 |
| Net Surplus (Deficit) | <u>55.0</u> | <u>(76.9)</u> |
| Structural Gap (Surplus or Deficit less One Shots) | <u>\$ 99.1</u> | <u>\$ 242.0</u> |

6.2 Fund Balance Policy

The County policy is to maintain a level of unreserved fund balance of no less than 4% and no more than 5% of normal prior year expenses from its General Fund and the County-wide Special Revenue Funds² (which excludes the Police District Fund). The current unreserved fund balance in these Funds is likely to decrease from \$99.1 million at year-end 2013, to \$46.7 million at year-end 2014 (see Exhibit 5 below), as a result of the 2014-projected budgetary deficit in these funds. At this level, unreserved fund balance as a percentage of prior year's recurring expenditures is projected to be 2%, well short of the County's 4% Policy. The total County wide unreserved fund balance including the police district will decline from \$126.5 million to \$49.6 million, also shown in the bottom half of Exhibit 5 below.

² Defined as Police Headquarters and Fire Safety. Police District is excluded, as it is a separate taxing base.

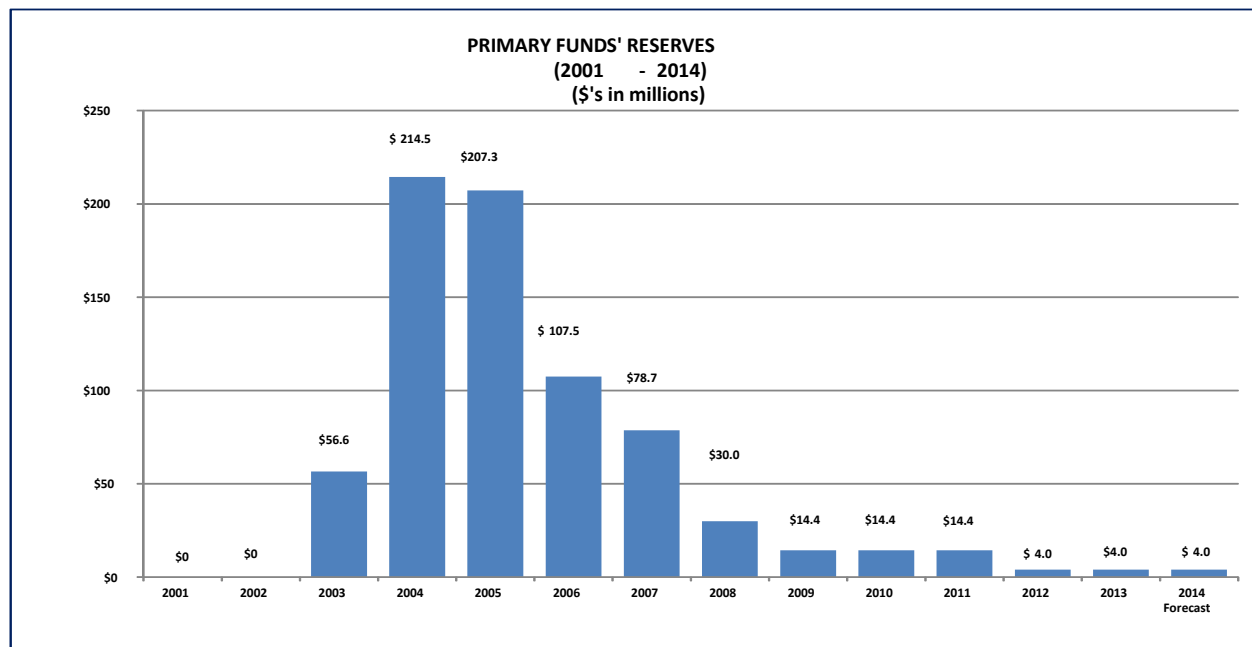
EXHIBIT 5

| FUND BALANCE AS A PERCENTAGE OF RECURRING EXPENDITURES (\$'s in millions) | | | | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------------|
| UNRESERVED FUND BALANCE | | | | | | | | | | | |
| As of December 31, | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 Projected |
| Total Cumulative Unreserved Fund Balance | | \$ 85.6 | \$ 87.8 | \$ 77.7 | \$ 69.3 | \$ 50.9 | \$ 85.3 | \$ 31.6 | \$ 53.3 | \$ 99.1 | \$ 46.7 |
| Normal recurring expenses, less interfunds (General & County-Wide Special Revenue Funds) | \$ 2,141.5 | \$ 2,144.2 | \$ 2,064.4 | \$ 2,196.0 | \$ 2,137.8 | \$ 2,144.8 | \$ 2,149.5 | \$ 2,314.9 | \$ 2,296.8 | \$ 2,334.7 | |
| Total Unreserved Fund Balance, as % of prior | | 4.00% | 4.09% | 3.76% | 3.16% | 2.38% | 3.98% | 1.47% | 2.30% | 4.31% | 2.00% |
| MAJOR FUNDS UNRESERVED FUND BALANCE (\$'s in millions) | | | | | | | | | | | |
| As of December 31, | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 Projected |
| | \$ 90.5 | \$ 103.9 | \$ 89.8 | \$ 74.3 | \$ 64.2 | \$ 90.8 | \$ 40.5 | \$ 82.0 | \$ 126.5 | \$ 49.6 | |

6.3 Primary Fund Reserve Trend

From 2003-2004, the County accumulated reserves totaling \$214.5 million through annual surpluses. From 2005 to 2009, the County depleted the reserve funds at an alarmingly accelerated rate as shown in Exhibit 6 to cover current expenses. The reserve fund is projected to remain untouched in 2014 at \$4 million.

EXHIBIT 6



6.4 Bonding Trends

As shown in Exhibit 7 below, which details projected new long-term debt issued by the County (including borrowings for NCC and Sewer and Storm Water capital projects), the proposed long-term

borrowing for 2014 is anticipated to be \$294.1 million, of which \$50 million is expected to fund Sewer and Storm Water projects, \$75 million for property tax refunds, \$17 million for judgments and settlements, and approximately \$152 million for non-sewer capital projects (including NCC capital projects). While the Administration's revised multi-year plan had budgeted \$449.1 million to be borrowed in 2014, it is now understood to be projecting its borrowing needs to be reduced by \$155 million due to lower anticipated borrowings for property tax refunds.

At 2013 year-end, the total of the County's general obligation bonds and its component units' long-term bonds outstanding was approximately \$3.6 billion. The 2014 anticipated borrowing will increase the total long-term bonds outstanding from \$3.6 billion to approximately \$3.7 billion after reductions from maturing debt. If the Administration were to borrow as it budgeted in its revised multi-year plan, the total long-term bonds outstanding would be closer to \$3.9 billion.

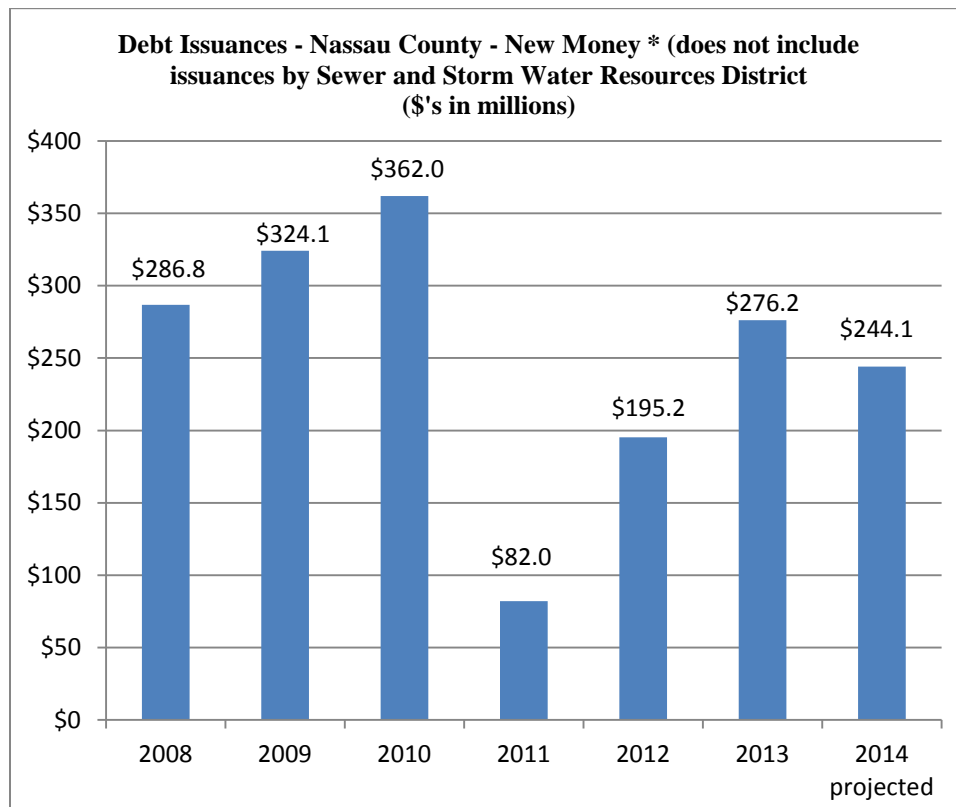
In 2013, the County issued \$308 million of Bond Anticipation Notes (BANs), of which the first tranche was used to fund Superstorm Sandy related repairs, and the second tranche was used to roll over the short-term borrowing. These BANs were rolled over again with a \$114 million BAN offering in 2014. It is expected that the majority of these expenditures will be eligible for reimbursement from FEMA. Until such time as reimbursement is received from FEMA, the County expects to continue funding Super Storm Sandy repairs with short-term funds.

EXHIBIT 7

| Total Projected Long-Term Borrowings (\$'s in millions) | | | | |
|---|-----------------------------------|------------------------|-------------------------|--------------------------------------|
| | As of December 31, 2013 Actual | Projected Additions | Projected Reductions | As of December 31, 2014 Estimated |
| County w/SSW | \$ 1,758.9 | \$ 294.1 | \$ 75.6 | \$ 1,977.4 |
| NCC * | 51.0 | - | - | 51.0 |
| NIFA | 1,228.2 | - | 140.6 | 1,087.6 |
| Sewer and Storm Water Finance Authority (SFA) | 138.8 | - | 8.4 | 130.4 |
| Tobacco Settlement Corp ** | 462.8 | 5.5 | - | 468.3 |
| Total | \$ 3,639.7 | \$ 299.6 | \$ 224.6 | \$ 3,714.7 |
| * projected additions and reductions are included in the County's projected numbers | | | | |
| ** includes accreted interest | | | | |

Exhibit 8 below illustrates the growth in new money debt issuances. New money debt excludes the 2013 and 2014 BANs issued to fund the Superstorm Sandy repairs because the intent is not to refinance the BANs with long-term borrowing in the following year. For comparison purposes only with prior year borrowing, the New Money chart in Exhibit 8 excludes the County issuances for Sewer and Storm Water (SSW) capital projects since 2008. The proposed bonding for SSW will add \$50 million.

EXHIBIT 8



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

7.0 SEWER and STORM WATER DISTRICT

For the first year, the Comptroller's Office will project the financial performance of the Sewer and Storm Water District ("SSW"). In prior years, only the primary operating funds have been reviewed and projected. However, as a part of the operations of the SSW Fund is in process of being transferred to a private organization, the current and future financial condition of SSW needs to be monitored. The Administration's adopted budget of 2014 is projected to end with a small surplus of \$2.6 million after draw down of the entire \$45.9 million of fund balance as shown in Exhibit 9. Without the United Water deal, the County would have faced SSW deficits in 2015 and beyond. However, even with the United Water deal, the SSW Fund will continue to be underfunded and face deficits of \$39.3 million in 2015, \$25.3 million in 2016 and \$23.5 million in 2017 (See Exhibit 9). The Administration would need to provide for these growing deficits.

EXHIBIT 9: ORIGINAL COUNTY SSW MULTI-YEAR PLAN AND PRO-FORMA FINANCIALS UNDER UNITED WATER
(Departmental Revenues Removed Due to Litigation)

| | CATEGORY | 2014-2017 Adopted MYP | | | | Under UW Operation (Projected) | | | | |
|--|-----------|--------------------------|----------------|-----------------|-----------------|--------------------------------|-----------------|-----------------|-----------------|-----|
| | Code | 2014 Budget | 2015 | 2016 | 2017 | 2015 | 2016 | 2017 | | |
| | AA | Salaries, Wages & Fees | \$ 19,874,761 | \$ 16,502,049 | \$ 17,525,758 | \$ 16,834,994 | \$ 10,834,102 | \$ - | \$ - | NCC |
| | AB | Fringe Benefits | \$ 12,465,958 | \$ 12,701,971 | \$ 13,428,840 | \$ 14,250,490 | \$ 7,224,468 | \$ - | \$ - | NCC |
| | BB | Equipment | \$ 360,855 | \$ 360,855 | \$ 360,855 | \$ 360,855 | \$ - | \$ - | \$ - | NCC |
| | DD | General Expenses | \$ 16,983,507 | \$ 12,987,282 | \$ 13,227,538 | \$ 13,472,631 | \$ 402,000 | \$ 414,060 | \$ 426,482 | PFM |
| | DE | Contractual Services | \$ 28,539,600 | \$ 27,575,100 | \$ 27,575,100 | \$ 27,575,100 | \$ 57,366,000 | \$ 59,086,980 | \$ 60,859,589 | PFM |
| | DF | Utility Costs | \$ 11,000,000 | \$ 10,917,308 | \$ 11,312,690 | \$ 11,528,836 | \$ 7,806,247 | \$ 8,040,435 | \$ 8,281,648 | PFM |
| | FF | Interest | \$ 7,479,116 | \$ 6,810,979 | \$ 6,236,606 | \$ 5,783,983 | \$ 6,810,979 | \$ 6,236,606 | \$ 5,783,983 | MYP |
| | GG | Principal | \$ 13,803,000 | \$ 12,939,000 | \$ 10,301,000 | \$ 9,470,000 | \$ 12,939,000 | \$ 10,301,000 | \$ 9,470,000 | MYP |
| | HH | Interfund Charges | \$ 39,697,768 | \$ 50,539,224 | \$ 53,246,312 | \$ 50,960,201 | \$ 50,539,224 | \$ 53,246,312 | \$ 50,960,201 | MYP |
| | OO | Other | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | NCC |
| | EXP Total | | \$ 150,204,565 | \$ 151,333,768 | \$ 153,214,699 | \$ 150,237,090 | \$ 153,922,020 | \$ 137,325,393 | \$ 135,781,903 | |
| | | | | | | | | | | |
| | AA | Fund Balance* | \$ 45,926,158 | \$ 2,553,396 | \$ - | \$ - | \$ 2,553,396 | \$ - | \$ - | MYP |
| | BC | Permits & Licenses | \$ 810,000 | \$ 834,300 | \$ 859,329 | \$ 885,109 | \$ 834,300 | \$ 859,329 | \$ 885,109 | MYP |
| | BE | Invest Income | \$ 220,000 | \$ 221,100 | \$ 222,648 | \$ 224,652 | \$ 221,100 | \$ 222,648 | \$ 224,652 | MYP |
| | BF | Rents & Recoveries | \$ 2,071,000 | \$ 7,071,000 | \$ 7,071,000 | \$ 7,071,000 | \$ 7,071,000 | \$ 7,071,000 | \$ 7,071,000 | MYP |
| | BG | Revenue Offset to Experi | \$ 180,000 | \$ 180,000 | \$ 180,000 | \$ 180,000 | \$ 180,000 | \$ 180,000 | \$ 180,000 | MYP |
| | BH | Dept Revenues** | | In Litigation | | | In Litigation | | | NCC |
| | BQ | Debt Service From Capit | \$ 300,000 | \$ 300,000 | \$ 300,000 | \$ 300,000 | \$ 300,000 | \$ 300,000 | \$ 300,000 | MYP |
| | BR | Due From Other Govts | \$ 2,251,394 | \$ 2,251,394 | \$ 2,251,394 | \$ 2,251,394 | \$ 2,251,394 | \$ 2,251,394 | \$ 2,251,394 | MYP |
| | IF | Interfund | \$ 100,999,409 | \$ 101,249,059 | \$ 101,169,159 | \$ 101,350,234 | \$ 101,249,059 | \$ 101,169,159 | \$ 101,350,234 | MYP |
| | REV Total | REV Total | \$ 152,757,961 | \$ 114,660,249 | \$ 112,053,530 | \$ 112,262,389 | \$ 114,660,249 | \$ 112,053,530 | \$ 112,262,389 | |
| | SUR/(DEF) | SUR/(DEF) | \$ 2,553,396 | \$ (36,673,519) | \$ (41,161,169) | \$ (37,974,701) | \$ (39,261,771) | \$ (25,271,863) | \$ (23,519,514) | |
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