

**NASSAU COUNTY
OFFICE OF THE COMPTROLLER**



**UNAUDITED 2011 YEAR-END FINANCIAL SUMMARY
AND MID-YEAR FISCAL 2012 PROJECTIONS**

July 13, 2012

**George Maragos
Nassau County Comptroller**

**NASSAU COUNTY
OFFICE OF THE COMPTROLLER**

George Maragos
Nassau County Comptroller

Francis X. Moroney
Chief Deputy Comptroller

Kathy Kugler
County Director of Accounting

Jostyn Hernandez
Communications Director

Financial Analysis Staff

Judy Bejarano
Deputy Director of Accounting

Lisa Tsikouras
Inspector (Comptroller's Office)

Corey Friedlander
Accounting Executive

Valerie Markert
Accounting Executive

Richard Burkert
Accountant III

Terri Troici
Accountant II

NASSAU COUNTY ENDS FISCAL YEAR 2011 WITH AN UNAUDITED DEFICIT OF \$50.4 MILLION PRIMARILY DUE TO FAILURE BY NIFA AND LEGISLATIVE MINORITY TO APPROVE \$43.1 MILLION IN BONDING

IMMEDIATE ACTIONS ARE REQUIRED TO AVOID A 2012 DEFICIT

In prior years, the County has released its year-end audited financial results by June 30 of the following year. However, as a result of a potential understatement of the other post-employment benefits liability, as calculated by a new actuarial firm retained by the County, the fiscal year 2011 audited results will be delayed by 30 days in order to confirm this liability and reconcile the variances from the prior year.

Notwithstanding the delay to confirm the other post-employment benefits liability and the completion of our financial statement audit, the County is now expected to end fiscal 2011 with an unaudited budgetary deficit of \$50.4 million. This is in line with an earlier projection of a \$42.8 deficit, which assumed that \$43.1 million in accrued short-term tax certiorari expenses would be paid from operating results (the General Fund) rather than from the Capital Fund as was budgeted. The Nassau County Interim Finance Authority (NIFA) and the County Legislature did not provide the authority to pay for tax certiorari refunds from the Capital Fund as was customary in past years. The increase in the deficit from the earlier projection is primarily attributable to \$7.1 million of debt service reimbursement from the Sewer and Storm Water District Fund that had been recorded twice.

Overall, the deficit resulted from the combination of the unbudgeted \$43.1 million additional expense incurred for tax certiorari refunds and approximately \$80.1 million in lower revenues than budgeted, predominantly from the State's inaction on red light camera expansion and lower than budgeted red light camera fees (\$33.8 million), reduced State aid (\$38.5 million), and lower departmental revenues (\$8.1 million). The higher expenses and lower revenues were partially offset by \$70.3 million of budgeted contingencies, resulting in the \$50.4 million budgetary deficit (see Table 1).

This budgetary deficit will reduce the unreserved fund balance from \$90.9 million to \$40.5 million, or to about 1.5%, well below the County's Policy to maintain at least a 4% unreserved fund balance in its General Fund and County-wide Special Purpose Funds.

For the first year since NIFA was created, it has required that the County report its financial results on a NIFA-modified Generally Accepted Accounting Principles (GAAP) basis in addition to the usual budgetary and structural gap bases. The GAAP results (with NIFA-defined adjustments) equate to a negative \$173.4 million. NIFA's GAAP presentation excludes other financing sources and uses of revenues and expenditures. Under a similar GAAP presentation, the 2010 and 2009 County financial results were negative \$173.0 million and \$184.3 million, respectively (see Table 2).

The Structural Gap has continued to improve for the second consecutive year by approximately 7.3% to \$127.6 million, down from \$137.6 million in 2010. The Structural Gap is the difference between recurring revenues and expenses and excludes non-recurring items that are customarily used to arrive at the budgetary balance, such as borrowings and asset sales. Additionally, the amount of general borrowings during 2011 has been reduced by approximately 75% to \$82 million from \$324 million in 2009.

Table 2 shows the comparative five-year financial presentation of the County's finances using the different presentation methodologies; budgetary, GAAP (with NIFA-defined adjustments) and Structural Gap. Improvements over the last three years in GAAP (with NIFA-defined adjustments) and Structural Gap results can be noted.

For 2012, our preliminary mid-year financial projections indicate a year-end budgetary deficit of \$45.0 million (see Table 3) assuming that NIFA and the legislative minority will NOT be approving bonding for property tax refunds as was budgeted for 2012. However, with bonding for property tax refunds the County would be projecting a deficit of less than \$30 million. The GAAP projections (with NIFA-defined adjustments) will be negative \$143.7 million assuming no bonding.

The Administration should assume that neither NIFA nor the legislative minority will support the necessary bonding to pay for tax certiorari refunds. Consequently, immediate actions must be taken to ensure that fiscal 2012 ends in balance. This will require over \$45 million in budgetary enhancements from a combination of revenue increases and expense reductions during the balance of 2012.

The County should aim not only to end fiscal 2012 in balance, but also to replenish the unreserved fund balance. The Comptroller recommends that over \$90 million in combined recurring budgetary expense reductions and revenue enhancements be targeted for the remainder of fiscal 2012, restoring the unreserved fund balance back to 2010 levels. This achievement would be a significant accomplishment and finally put the County on a path to fiscal health in 2012 with revenues approximately in line with expenses, further improvement of the Structural Gap and the elimination of bonding for operating purposes.

Suggested opportunities to achieve this \$90 million in budgetary enhancements include:

1. Re-organize County government to focus on core functions and consolidate similar functions between agencies;
2. In-source, where possible, services performed by contractors;
3. Cancel all non-essential contractual services and maintenance contracts;
4. Halt all non-essential general expense purchases;
5. Aggressively manage Workers Compensation liability and Utilities;
6. Bring fees in line with Westchester and Suffolk Counties, and indexed to CPI; and
7. Consider new revenue opportunities, such as naming rights and muni-meters.

Table 1
2011
Significant Revenue & Expense Budget Variances*
(\$'s millions)

	Adopted Budget	Actual	Variance
Revenues:			
Fines & Forfeitures			
Red Light Cameras	\$ 61.6	\$ 27.8	\$ (33.8)
Other Fines & Forfeitures	34.0	24.7	<u>(9.3)</u> \$ (43.1)
Departmental Revenue			
Ambulance Fees	29.2	22.2	(7.0)
Other Departmental Revenue	95.0	93.9	<u>(1.1)</u> (8.1)
Sales Tax	1,023.4	1,024.8	1.4
Federal Aid	151.7	176.9	25.2
State Aid	221.6	183.1	(38.5)
Investment Income	7.4	3.0	(4.4)
Chargeback of expenses to capital projects	12.6	5.6	(7.0)
Revenue designated for the retirement of debt	6.0	22.5	16.5
Interfund Revenue outside the major funds	52.9	48.1	(4.8)
Indirect Chargebacks not realized	2.2	0.4	(1.8)
Property Taxes	800.4	795.2	(5.2)
Other			(10.3)
Revenue Variance			<u>(\$80.1)</u>
Expenses:			
Payroll and Fringe Benefits (excluding overtime)	1,188.7	1,192.6	(3.9)
Overtime, net of reimbursement	67.7	76.8	(9.1)
Workers Comp	27.7	24.4	3.3
Utilities	36.2	38.7	(2.5)
Debt service	355.5	334.5	21.0
Contractual Expenses	127.8	121.7	6.1
Contingencies	70.3	-	70.3
Tax Cert Accrual		43.1	(43.1)
Other			(12.4)
Expense Variance			<u>29.7</u>
Deficit on a Budgetary Basis			\$ (50.4)
Deficit on a Budgetary Basis \$ (50.4)			
Adjustments for Carryforward Encumbrances			<u>8.2</u>
Deficit on a Modified Accrual Basis (42.2)			
Adjustments to reconcile to Modified Accrual Basis			
Net adjustment to remove the effect of encumbrances			(12.8)
net reclass enc to expense			(1.1)
Net adjustment to record pension expense on a modified accrual basis			7.6
Sale of Mitchel Field Leases			<u>(37.1)</u>
Net Change in Fund Balance on a Modified Accrual Basis			(85.6)
Less: adjustments included in other financing sources			
Premium on bonds			(9.3)
Investment income			(1.6)
Transfer of revenue from other funds to offset debt expense			(33.6)
Payment of operating expenses with bond proceeds			<u>(43.3)</u>
GAAP results as defined by NIFA			\$ (173.4)

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

Table 2
Comparison of Budgetary, GAAP (as defined by NIFA), Structural Gap
Results & Debt Issuances 2007 - 2011*

BUDGETARY RESULTS 2007 - 2011*					
(\$'s millions)					
	2011	2010	2009	2008	2007
Surplus (Deficit) on a Budgetary Basis	(\$50.4)	\$26.6	(\$0.1)	\$2.3	\$29.4

CALCULATION OF GAAP DEFICIT AS DEFINED BY NIFA 2007 - 2011*					
(\$'s millions)					
	2011	2010	2009	2008	2007
Net Change in Fund Balance - modified accrual basis	(\$85.6)	\$26.6	\$11.2	(\$18.2)	(\$7.9)
Less: adjustments included in other financing sources					
Premium on bonds	9.3	28.4	27.0	7.7	1.1
Investment income	1.6	1.0	1.2	7.1	11.7
Borrowed funds to pay Property Tax Refunds	21.0	42.5	64.5	58.8	12.0
Borrowed funds to pay Other Judgments	4.6	30.4	11.5	17.0	1.7
Borrowed funds to pay Termination Pay	17.7	80.0	77.7		
Transfer of revenue from other funds to offset debt expense	33.6	17.3	13.6	24.2	47.1
Total other financing sources/uses to be eliminated	87.8	199.6	195.5	114.8	73.6
GAAP results, as defined by NIFA	(\$173.4)	(\$173.0)	(\$184.3)	(\$133.0)	(\$81.5)

STRUCTURAL GAP 2007 - 2011*					
(\$'s millions)					
	2011	2010	2009	2008	2007
Surplus (Deficit) on a Budgetary Basis	(\$50.4)	\$26.6	(\$0.1)	\$2.3	\$29.4
Borrowed funds to pay operating expenses	(21.0)	(69.3)	(99.0)	(58.8)	(12.0)
Sale of Property (Includes Mitchel Field Securitization)	(46.9)				
Federal Medical Assistance Percentages (FMAP)	(22.4)	(45.1)	(44.8)		
Payroll Deferrals & Lag	5.7	(17.2)	(60.1)		
Bulk lien sale	7.4				
Use of Fund Balance & Reserves			(10.5)	(44.3)	(93.0)
Tobacco Related			(15.2)	(23.0)	(23.6)
Residential Energy Tax		(17.3)	(21.9)		
NIFA Restatement		(15.3)			
Excess cash in MTA projects					(17.4)
Structural Gap	(\$127.6)	(\$137.6)	(\$251.6)	(\$123.8)	(\$116.6)

Debt Issuances by Category (New Money, not including Sewer)					
(\$'s millions)					
	2011	2010	2009	2008	2007
General Borrowings	\$82.0	\$200.0	\$199.1	\$238.6	\$103.1
Property Tax Refunds		70.0	45.0	48.2	50.0
Termination Pay		92.0	80.0		
Total Debt Issuances	\$82.0	\$362.0	\$324.1	\$286.8	\$153.1

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

Table 3

Revenue and Obligations Forecast for 2012*			
(\$'s millions)			
	2012	2012	
	<u>Budget</u>	<u>Projected</u>	<u>Variance</u>
Revenues			
Fines & Forfeitures			
Red Light Cameras	\$25.2	\$24.0	(\$1.2)
Other Traffic & Parking	19.8	15.8	(4.0)
Forfeited Bail & Fines	2.9	2.1	(0.8)
Other Fines & Forfeitures	3.3	4.1	<u>0.8</u>
			(\$5.2)
Rents & Recoveries			
Sale of Ring Road	0.0	7.2	7.2
Other Rents & Recoveries	16.9	17.0	<u>0.1</u>
			7.3
Departmental Revenue			
Ambulance Fees	24.0	24.0	0.0
Correctional Center	15.8	8.4	(7.4)
Other Departmental Revenue	133.8	131.7	<u>(2.1)</u>
			(9.5)
Sales Tax	1,056.2	1,085.9	29.7
State Aid	234.8	233.3	(1.5)
Investment Income	3.6	2.4	(1.2)
Capital Backcharges	9.9	0.0	(9.9)
Federal Aid	165.1	157.8	(7.3)
Police Retirement Reserve	0.0	10.4	10.4
Sewer/Environmental Chargeback Revenue	28.5	20.6	(7.9)
Proceeds from borrowings to pay Property Tax Refunds	75.0	0.0	(75.0)
Proceeds from borrowings to pay Settlements	21.7	21.7	0.0
Revenue designated for the retirement of debt	6.4	0.0	(6.4)
Other	<u>1,452.7</u>	<u>1,446.1</u>	<u>(6.6)</u>
Total Revenue	<u>3,295.6</u>	<u>3,212.5</u>	<u>(83.1)</u>
Expenses			
Payroll and Fringe Benefits (excluding Overtime below)	1,158.6	1,208.1	(49.5)
Overtime (Police Department and Correctional Center)	39.9	66.5	(26.6)
Social Services	445.9	441.6	4.3
Debt service	385.1	354.0	31.1
Contractual Expense	213.7	216.3	(2.6)
Contingencies	25.0	0.0	25.0
Property Tax Refunds **	75.0	16.5	58.5
Judgments & Settlements	21.7	21.7	0.0
Other	<u>930.7</u>	<u>932.8</u>	<u>(2.1)</u>
Total Expense	<u>3,295.6</u>	<u>3,257.5</u>	<u>38.1</u>
Estimated Budget Risk			<u>(\$45.0)</u>
	<u>Police</u>	<u>Other</u>	
Estimated Budget Risk by Taxpayer Base	<u>District</u>	<u>Funds</u>	
	\$6.5	(\$51.5)	<u>(\$45.0)</u>

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

** On review of the status of the Tax Certiorari matter with the County Attorney, the failure of the Legislature to approve the settlements does not result in any immediate entry of a judgment against the County. Pursuant to Court rules and other rules of procedure, there would be no liability attaching until after December 31, 2012 for the proposed settlements. Hence the judgment expense projected to be recorded in 2012 is \$16.5 million, representing ARC determinations and judgments that do not require legislative approval.