NASSAU COUNTY
OFFICE OF THE COMPTROLLER

Comptroller's Comments On The May 1, 2003 Update to the Multi-Year Financial Plan For Fiscal Years 2003-2006

Howard S. Weitzman
Nassau County Comptroller

May 12, 2003

This report is posted on the comptroller's website @www.co.nassau.ny.us/comptroller.

For more information, call (516) 571-2386

On May 1, County Executive Thomas R. Suozzi issued his Multi-Year Financial Plan Update, as required by the Nassau Interim Finance Authority (NIFA). The update is intended to address uncertainties resulting from the economic climate and the New York State budget, and to revise information on policy initiatives identified in the plan that are intended to close the budget gap.

In accordance with its charter responsibilities, the Comptroller's office analyzed the update. Because most of the elements of the multi-year plan have not changed dramatically, the update review did not require the same degree of detail as our review of the original plan, released on April 12, 2002. That report continues to be available at the Comptroller's Web site, www.co.nassau.ny.us/comptroller/index.html.

Much progress has been made by the current Administration. We recognize and endorse the initiatives it has undertaken to make permanent and structural improvements to the county's finances and business methods. Even so, the county continues to face daunting financial challenges in both the short and long term. In the short term, many problems can be fixed by smarter, more efficient management, and much progress has been noted in this area. In the longer term, however, counties throughout New York State face enormous and growing costs imposed on them by mandated programs, most of which can only be reduced by fundamental changes in the relationship between the counties and State.

Our review of the Multi-Year Plan concludes:

- As of May 1, 2003, the projected structural budget deficit for FY 2003 was $28.4 million. By year's end, however, this deficit is projected to become a surplus of $2.6 million, as a result of various gap-closing measures, some recurring and some non-recurring, including NIFA aid. Despite the improved fiscal picture, we note that non-recurring revenues ("one-shots") are being used to close the gap.

- By our estimate, the county will end FY 2003 with a slightly larger surplus of between $19 million and $48 million. (see table, attached). While the county continues to move towards structural budgetary balance, it should be noted that our forecasted surplus includes $15 million of NIFA direct transitional aid and $57 million of NIFA's restructuring of outstanding county long-term debt.

- There are, however, other reasons for the slight surplus: The Administration was, in our estimation, properly conservative in estimating FY 2003 revenues, given the county's dire financial condition. A deficit of one percent could trigger a NIFA takeover of the county. Also, certain unpredictable events improved the FY 2003 fiscal picture, including the State Comptroller's plan for a one-year delay in requiring increased county contributions to the state pension system, which is projected to save the county $43.3 million in FY 2003, and the Governor's promised forgiveness of $15.3 million of

Medicaid advances by the State.

- Also in FY 2003, the Administration wisely plans to begin addressing certain major non-recurring expenditures – including the cost of FY 2002 early retirement incentives and paying off prior early retirement debt service – that, if left for next year, would become even more burdensome in the out-years of the plan. We note that the county may also be able to avoid drawing down on $12 million of tobacco settlement funds. All of these actions will result in budgetary relief in FY 2004-2006.

- County sales tax collections for year-to-date 2003 are below target and represent an area of concern. We estimate the shortfall could be as high as $29 million based on current projections.

- Assumptions about FY 2004 are dependent on the outcome of the current public discussion over the Administration's proposals for further budgetary savings. If enabling legislation for the establishment of a new Sewer and Storm Water Authority, as well as hoped for labor concessions – the Administration's so-called "Plan A" – can be achieved, the resulting savings to the county should enable it to weather 2004.

    - <u>Sewer and Storm Water Authority</u> – The plan update assumes savings from the creation of the Authority. If the NY State Legislature enacts the legislation necessary to create the authority—legislation we support-- the county will save an annual $25 million while keeping sewer rates stable. While the plan does discount the potential savings in 2004 to recognize the possibility the Legislature may not act, the plan does not similarly discount the potential savings for FY 2005 and FY 2006 – thus resulting in a potential $49.2 million exposure to the county in those years.

    - <u>Labor Concessions</u> – Failure to achieve any part of the concessions anticipated in the Administration's plan will trigger the need for additional layoffs and cuts (see below). While such concessions are fully recognized as a risk in FY 2004 and are discounted accordingly, these same risks are only partially accounted for and discounted in FY 2005 and 2006. These potential risks raise concerns about additional gap-closing measures that may need to be taken in the out-years.

- Our review of the Administration's far more draconian "Plan B" suggests that, although it may bridge the budget gap, it may create a different kind of gap – the gap between the kind of services Nassau's citizens expect and what the county can deliver. The additional layoffs of county personnel and the elimination of discretionary social services that are contemplated under this plan may ultimately prove to be so unpopular as to be politically untenable. Unlike the county's plan for FY 2003, the plan for 2004 is heavily dependent on recurring gap-closing measures such as personnel reductions that may affect the county's ability to perform vital services. We are concerned with the impact such actions may have on county operations and delivery of services to its residents.

- The FY 2004 concerns become more pronounced in FY 2005 and 2006. Simply put, federal and state-mandated costs, notably Medicaid, are rising in double-digits every year, but county revenues are relatively flat. Unlike most states, New York requires its counties to contribute approximately one half of the state Medicaid share. Even the best-run counties in the State are likely to face serious financial consequences during the next five years unless serious structural reform is undertaken at the State level to correct this imbalance. In addition, large increases in employee benefit costs add to the burden on the counties. During 2002, we issued a report detailing the costs to the county of providing health insurance to its employees and retirees, and suggested options to reduce those costs. This report is available on our website.

- The Nassau Health Care Corporation's ("NHCC") continued losses are of particular concern, given Nassau County's guarantee of $256 million of debt issued for the creation of the Corporation. Despite its plans to bridge its budget gap, the Corporation continues to incur operating deficits. The County, appropriately, has recently issued a Request for Qualifications for a health care consultant to evaluate the proper role of NHCC in meeting the health care needs of county residents, and, in particular, medically indigent county residents, and in providing other services to the county. In the meantime, NHCC must take immediate steps to reduce its deficits and lessen the financial risk to the County. Also, NHCC recently announced plans to build a new nursing home to replace the existing A. Holly Patterson facility. This proposal should be considered in the context of the financial condition of the NHCC and the overall health care needs of the county, as will be evaluated by a health care consultant to be hired by the county.

- Residential and Commercial Tax Refunds – The county's multi-year plan assumes that the costs of tax refunds payable by the county will be reduced from a range of $125-150 million per year to $57 million per year. Previously, these amounts were all borrowed. The county must begin paying these sums out of its operating budget beginning in FY 2006. Underlying this plan, however, is an assumption that the new real estate assessments, as determined during the recent reassessment process, are largely accurate, and that the county will be able to successfully withstand challenges to them. A Comptroller's Office audit of the reassessment of both residential and commercial properties conducted by county contractor Cole Layer Trumble, however, raised concerns about the valuation procedures, particularly in the area of commercial properties, which account for fully 87 percent of the county's property tax refunds.

In sum, the success of the county's Multi-Year Plan will depend, in the short term, on its ability to achieve promised cost savings and management efficiencies, and, in the long term, on additional factors, some of which are beyond its immediate control.

Longer term concerns that will affect the county's fiscal stability include the financial stability of the Nassau Health Care Corporation's (NHCC) and continuing concerns regarding property reassessment. Other long-term issues affecting the Multi-Year Plan are out of the county's control and point to the need for fundamental change in the relationship between the State and its counties.

2003 Projected Surplus:
Differences between Administration's Multi-Year Plan Update
and Comptroller's Projection

Administration Plan	
Structural Baseline Gap as of May 1, 2003	$ (28.4)
Recurring Gap Closing Measures	13.1
NIFA Aid	72.0
Threats	(46.3)
Contingencies and Opportunities	(7.8)
Total Surplus	2.6
Comptroller's Variances to Multi-Year Plan	
Effects of State Comptroller Pension Plan	18.3
Sales Tax - additional Projected Shortfall	(18.7)
Other Gap Closing Measures	17.5
Comptroller's Projected Surplus	19.7
(If No Sales Tax Shortfall)	29.0
Potential Surplus if Sales Tax Budget Achieved	$ 48.7