NASSAU COUNTY
OFFICE OF THE COMPTROLLER

COMPTROLLER'S COMMENTS ON THE PROPOSED NASSAU COUNTY 2009 BUDGET AND MULTI-YEAR FINANCIAL PLAN

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Nassau County Comptroller

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Comptroller's Comments On The Proposed Nassau County 2009 Budget and Multi-Year Financial Plan

Executive Summary

The County must adopt the 2009 budget in a time of unprecedented economic uncertainty. In the month since the administration presented this proposed budget and multi-year plan the economy has changed drastically. Major Wall Street investment banking firms have collapsed, national banks have been closed or forced to merge, the credit markets have frozen, and market indices have nose dived. These extraordinary events, which could not have been anticipated when the budget was developed, will have a major impact on Nassau County in 2009. The proposed fiscal year 2009 (FY 09) budget presents greater risks than in any other year of the Suozzi administration. In order to successfully manage through those risks in these difficult times, budgetary spending must be reduced if new revenues cannot be found. This report highlights the FY 09 budget's material revenue and expense items and areas of potentially significant risk in light of extraordinary economic events of this fall.

Many Nassau County residents who work on Wall Street face the prospect of losing their jobs as firms close their doors or are merged into other entities. Nassau County communities have been named by Business Week on the top twenty list of areas most likely to be harmed by the economic upheaval. Even those financial industry employees who retain their jobs will face reduced income with the contraction of the firms' business and value. The effect of the economic crisis is not limited to families who rely on Wall Street for their livelihood. The extraordinary contraction in credit will hurt all local businesses, especially those that need credit to maintain inventory or fund their buyers' purchases, such as car dealers and furniture retailers. Nassau County's housing market, which had previously suffered less than other areas of the country, will likely continue to decline as fewer buyers and tighter mortgages drive down demand. The jump in unemployment nationally is likely to be felt locally as the economic crisis spreads through the economy.

The Suozzi administration has put the interests of our hard pressed taxpayers first by presenting no tax increase budgets for the five prior years. The administration has held the rate of increase in spending to only 2.5% in the 2009 budget. The administration's smart government initiatives to reduce governmental spending in areas such as uniformed services overtime, and supply management have shown great promise. In 2008, even before the national economic crisis developed, the administration reduced spending by imposing a hiring freeze, a freeze on purchase of supplies for programs and tight control of spending on gasoline and utilities. Such tight management has proven effective in the past, but total freezes on hiring or purchasing are not sustainable over the long term. The extraordinary nature of the current economic collapse will demand more drastic action to prepare for 2009.

Nassau County is certainly not alone. In light of the devastating impact of the financial crisis on New York State, Governor Paterson has called for a special legislative session to implement an additional $2 billion in cuts in the State's current budget, and has warned that the State faces an $8 billion gap for its 2009-10 budget. The Governor's quick action is mirrored by Mayor Bloomberg's call for a 7% property tax increase and an immediate reduction in city spending of $1.5 billion over this and the next fiscal year. Local towns in Nassau are proposing spending reductions and property tax increases, including a 6.6% increase in the Town of Hempstead, in light of the economic downturn.

The County's proposed 2009 budget, developed well before the full impact of the national economic crisis had manifested itself, includes some difficult cutbacks. The budget eliminates popular parks programs and consolidates county departments. These steps are important, but in light of the rapidly deteriorating financial condition even more will need to be done to prepare the County for 2009. Just as the Governor has recognized the need for extraordinary and painful cuts to balance the State's current budget and prepare for next year, Nassau County must follow the same path. The County Executive and County Legislature will need to identify cuts in spending beyond those already proposed in the 2009 budget in order to ensure that we come through 2009 in a fiscally sound condition.

The areas where the economic crisis is most likely to hurt Nassau County's budget can be predicted, but the full extent of the impact will not be clear before the budget is adopted. The County budgets state aid for important social programs but state aid is likely to be reduced. Certain expense categories such as bond interest, utilities and the necessary goods and services are likely to rise. The demand for safety net programs will likely increase beyond the administration's projections, while revenue sources, such as sales tax, fees from real estate transactions and recreational activities in the county's parks may fall well below the amounts in the proposed budget.

During this time of extreme fiscal uncertainty, the only prudent thing to do is to prepare for the likelihood that 2009 will be more difficult than anyone predicted when this budget was developed. This will have to be a two stage process: changes to the budget itself; and, once the impact of the financial crisis has become more apparent, further spending reductions in late 2008 or early 2009.

In reviewing the budget, it is our strong recommendation that additional spending cuts are needed, particularly if additional revenue sources cannot be identified. The proposed budget presents greater risks than in any previous year of this administration. In the past, the Suozzi administration has demonstrated that it had the skills and commitment to manage through a tight budget that contained risks and still end the year with a surplus. This year, because of the external factor of the national economic crisis, which no local government can control, it is not realistic to expect that skillful management will be sufficient. The risks this Office has identified in the budget considered together with the impact of the still unfolding national economic crisis highlight how difficult it will be to ensure that the County will end 2009 in sound fiscal shape.

Spending reductions can take the form of an across the board decrease in all county spending or scaling back targeted programs. Across the board cuts can be inefficient in departments that have already absorbed significant cuts. Targeting individual programs means losing services valued by Nassau County residents. The choice between these alternatives is difficult, but necessary in order to ensure that the County can end 2009 in sound fiscal shape. The County Executive and Legislature's priorities will determine whether service cuts can be made. This Office will continue to identify potential expense reductions and work with the County Executive and the Legislature to analyze the likely cost savings from any proposals that may be advanced.

Key Budgetary Items

The administration has proposed an increase in County property tax, raising tax levies by 3.9% overall; the tax increase is the first since 2003. The administration has protected our hard pressed taxpayers from tax increases before now, unlike the many local governments in Nassau County that raise property taxes annually or bi-annually. Since there is little new construction in Nassau County to increase property tax receipts by adding new taxable property to the rolls, the administration did not have an alternative to increasing taxes this year. The property tax increase will average $56 per household. As Nassau County residents have learned from the painful experience of the near fiscal collapse in 1999 – 2000, no fiscally prudent government can avoid a property tax increase forever.

Spending, driven primarily by the cost of payroll and fringe benefits, is proposed to increase by 2.5% over 2008. This low rate of spending increase continues the administration's past practice of holding increases in spending to at or below increases in the consumer price index. The Suozzi administration has held spending increases to only 2.95 percent on a compounded basis since 2002.

The proposed budget presents significant risks, even without consideration of the deteriorating national economy. Schedule 1 which follows lays out the budgetary items that in our view may not be achieved ("risks") and the budgetary items that in our view might turn out more favorably than the budget projects ("opportunities"). Assuming that the County benefits from the reduced expenditures and revenue items identified as opportunities and the identified risks materialize, the proposed 2009 budget presents a net budgetary risk of $81.7 million. This amount of budgetary risk is greater than we have recognized in previous years under this administration and would require highly skilled financial management even in the absence of the national economic crisis. The combination of a high level of risk and the unfolding economic collapse require, in our view, additional revenues or spending cuts before the budget is approved. This will be a painful process requiring sacrifices by all segments of our community. Elected officials from both sides of the aisle, business, labor and the residents who pay taxes and use County services, must all be parties to the solution.

Schedule 1

PROPOSED NASSAU COUNTY 2009 BUDGET
MAJOR FUNDS
SUMMARY OF RISKS and OPPORTUNITIES
($'s Millions)

Revenues		
Proposed Budget - net of interfunds	**$ 2,623.6**	
Risks		
Use of 2008 Surplus for pension expense	(23.0)	
Revenues requiring State Legislation	(19.9)	
Sales Tax	(10.0)	
Parks revenue at risk	(7.0)	
County Clerk's revenue	(4.2)	
Traffic & Parking Violation revenues at risk	(2.8)	
Other Departmental Revenue	(2.5)	
Police Permits and Licenses	(1.4)	
State Aid cuts	not quantifiable	
Total Revenue Risk		**$ (70.8)**
Expenses		
Proposed Budget - net of interfunds	**2,623.6**	
Risks		
Overtime	(15.7)	
Other Payroll and Fringe related variances (net)	(4.3)	
Worker's Compensation	(5.1)	
Utilities	(3.4)	
Assigned Counsel payments	(1.7)	
Resident Tuition	(1.6)	
Other Risks (net)	(0.8)	
Additional property tax refunds	not quantifiable	
Social Service expenses	not quantifiable	
Interest on variable rate debt	not quantifiable	
Total Expense Risk		**(32.6)**
Opportunities		
Amount budgeted for unspecified contingencies	10.0	
Open positions	7.5	
Property tax on new construction	4.2	
Total Opportunities		**21.7**
Estimated Budget Risk (net)		**$ (81.7)**

Critical Revenue Items

The proposed 2009 Budget reflects a 3.9% overall property tax increase among the major funds. The budget calls for increases in property taxes for the General Fund in the amount of $21.1 million, $8.4 million in the Police District Fund and $6.1 million for the Sewer and Storm Water Resources District Fund. All County residents pay General Fund and Police Headquarters taxes, approximately 80% pay Police District taxes and approximately 85% pay taxes in the Sewer and Storm Water Resource District.

Schedule 2

Budgeted Property Tax by Fund
($ Millions)

	2008 Adopted Budget	2009 Proposed Budget	% Change
Fire Commission	$ 15.6	$ 15.6	
Police Districts	332.3	340.7	
Police Headquarters	279.6	278.6	
General Fund	145.9	167.0	
Sewer and Storm Water Resource District Fund*	103.9	110.0	
Total Property Tax	$ 877.3	$ 911.9	3.9%

*The activity of the Sewer and Storm Water Resource District Fund is discussed later in this report and presented in Schedule 7.

The proposed budget assumes sales tax growth of 2.1%, on top of the administration's 2008 projected year end results. The most recent sales tax figures indicate that the rate of growth in 2008 has been 2.2%. However, historically 40% of the County's sales tax receipts come in the fourth quarter. With the declining housing market, the extraordinary contraction of credit and loss of employment in the financial sector, it is likely that sales of more expensive items such as cars and household furnishings will decrease and that sales tax receipts for 2009 will decline further. Based on consultation with leading local economists and given the worsening economic conditions, we have assumed that sales tax will grow only 1% in 2009, leading to a $10 million risk on Schedule 1.

The proposed budget uses $23 million from a pension reserve that will be funded from 2008 surplus. In the Comptroller's Report on the 2008 Budget at Mid-Year, we projected a 2008 surplus of $9.4 million. The size of the 2008 surplus is a risk to the 2009 budget.

Approximately $20 million in new revenue included in the budget depends on authorizations that must be enacted into law at the state and local level. Because the necessary legislation has not yet been enacted into law and we cannot be certain the bills will be approved in time to receive a full year's worth of revenue, these items are also subject to risk.

The budget also includes revenue generated from Parks initiatives, $4 million from an advertising contract that is expected to be signed in 2008 and $3 million from increased participation in Parks programs. Since the contract has not yet been entered into and the increase in Parks fees does not match historical norms, these items are also at risk.

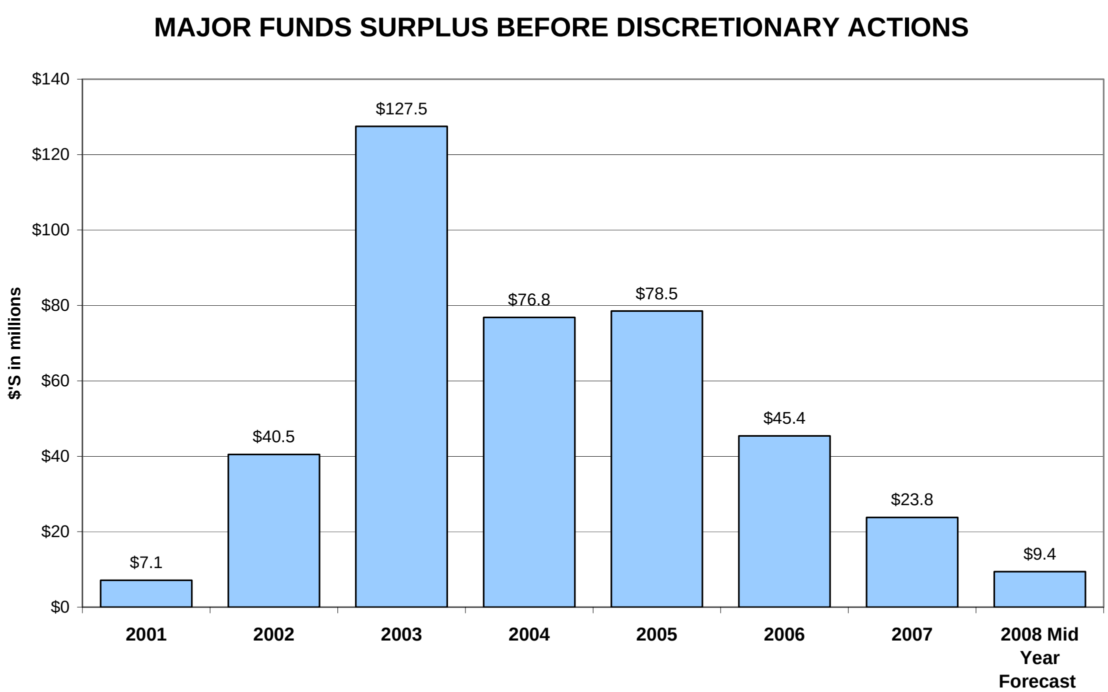
Critical Expenditure Items

New cost cutting initiatives, including labor concessions, are incorporated into the budget although they have not yet been achieved. The administration has included potential savings from the anticipated settlement of labor contracts with the Civil Service Employees Association (CSEA) and the Superior Officers Association (SOA). These savings may be at risk depending on the resolution of the contracts. While we agree the estimated savings amount for 2009 of $14.4 million for the CSEA and $10 million for the SOA appear reasonable and achievable, we project that the administration will spend $15.7 million more on overtime than budgeted.

Surplus, Reserves and Fund Balance

In the Comptroller's "***Report on the County's Financial Condition for the First Six Months of Fiscal Year 2008***," (2008 mid-year report) we projected that the County would end 2008 with a small surplus of up to $9.4 million. We will determine the actual 2008 surplus as part of our year-end review, which historically has been released in February. Chart 1 presents the major fund surplus from 2001 to our 2008 mid-year forecast.

Chart 1



In the Comptroller's 2008 mid-year report we expressed concern over lower operating surpluses and the continued imbalance between recurring operating revenues and expenses (the structural gap). Without sufficient recurring revenues to match recurring expenses, the administration has drawn down the reserves and used fund balance to achieve a balanced budget.

The proposed 2009 budget does not alleviate our concerns regarding the structural gap. Chart 2 shows that for the major operating funds, the proposed budget uses a total of approximately $59.8 million of non-recurring revenue such as reserves, fund balance and operating surplus to pay for recurring expenses. Our forecasted structural gap for 2009, which factors in our risks and opportunities discussed in this report is $118.5 million. To the extent 2009 risks can be avoided, the structural gap will improve.

Chart 2

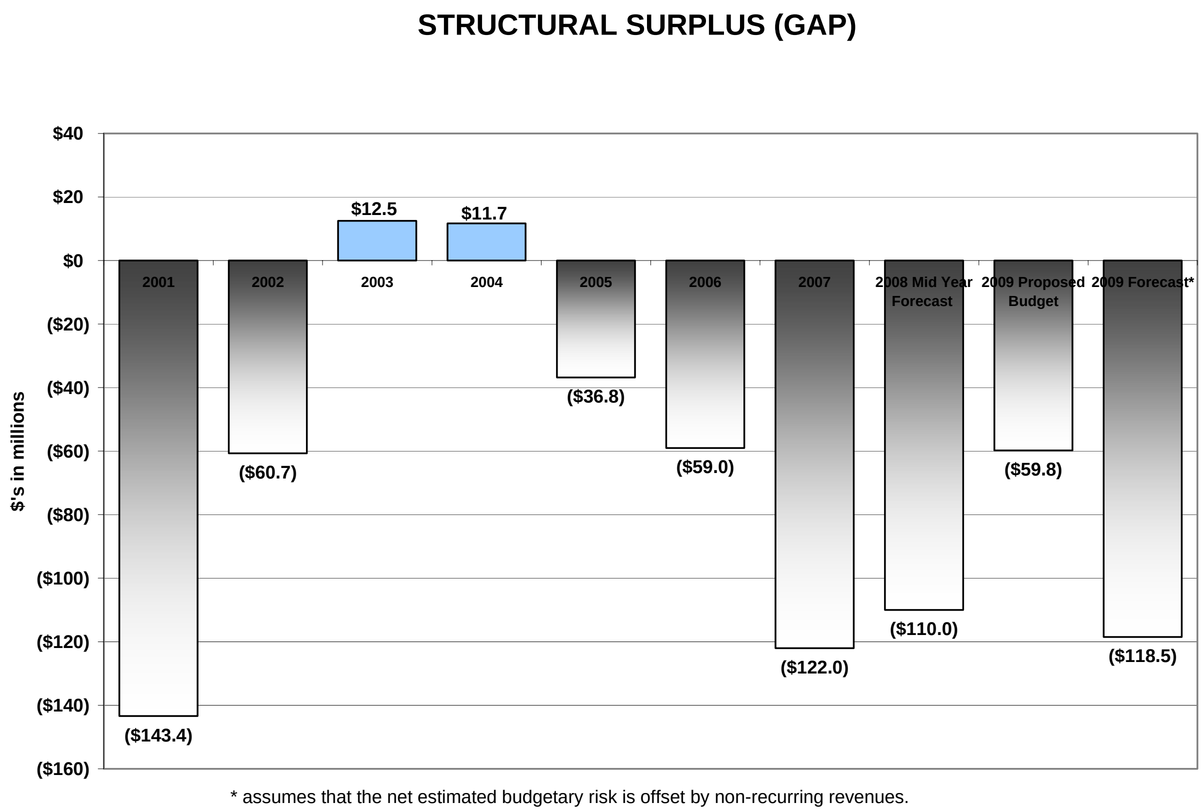
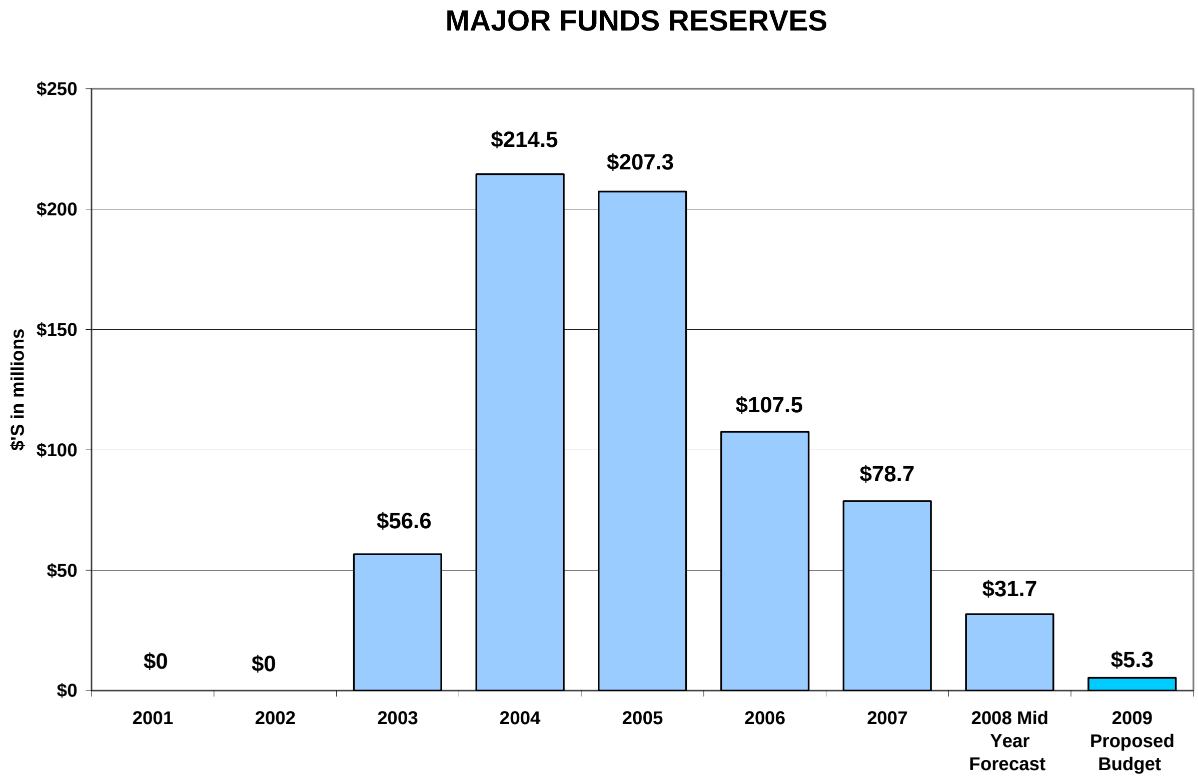


Chart 3 demonstrates that the administration will have substantially exhausted existing reserves by the end of 2008. The administration has spent the reserves appropriately for the purposes the reserves were established, primarily to transition to higher pension payments and fund termination payments. Because the County has not yet identified a full funding source for the higher pension payments that began in 2004 and for its transition to funding real estate tax refunds from the general fund operating budget, the exhaustion of the reserves will put increasing pressure on the County's budgets during the remaining years of the Plan.

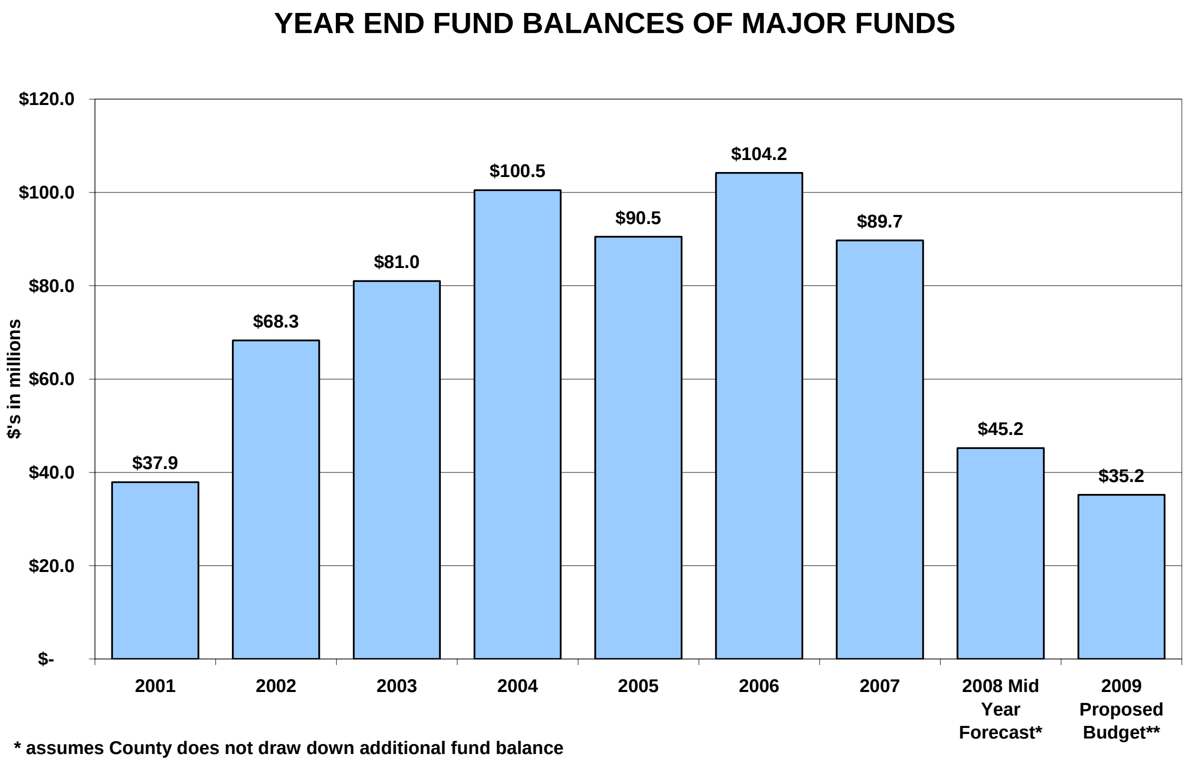
Chart 3



The administration anticipates that at the end of 2009, the County will have $5.3 million of reserves and we project, based on the 2009 budget, the County will have $35.2 million of accumulated fund balance at the close of 2009 (after fund balance expenditure assumed in our 2008 Mid Year Report), down from 2004 balances of $214.5 million and $100.5 million respectively. These figures do not include $43.1 million currently available from the tobacco settlement refinancing, which the administration had previously proposed spending primarily on capital needs of the Nassau Health Care Corporation (NHCC).

Chart 4 presents the accumulated fund balance of the County's major funds.

Chart 4



* assumes County does not draw down additional fund balance
** based upon 2008 Mid Year Forecast and assumes County does not draw down additional fund balance

Property Tax Refunds

Property tax refunds are an unquantifiable risk to the FY 09 budget. The Suozzi administration's multi-year plans proposed transitioning to budgeting $50 million out of operating expenses for property tax refunds. 2009 marks the first time the administration budgeted the entire $50 million from operating funds; it funded $25 million out of operating funds in the FY 07 budget and $40 million in FY 08 budget. Refund expense, however, remains over the $50 million level. The administration projects the refund expense will be $75 million in FY 08. It may be that the $50 million level for refunds is not an achievable goal, especially now that the real estate market is softening and courts and hearing officers will be more likely to grant assessment reductions to match current conditions.

The administration will use previously borrowed funds to cover the property tax refund expense over the budgeted amount in 2008 and may do the same in 2009. This Office continues to be concerned about payment of tax refunds from borrowed funds, since the taxpayers must repay the borrowed funds over time but receive no future benefit from the spending.

New Development Easing Property Tax Burden

The administration has supported major new building development, such as the proposed County HUB, in part on the grounds that new construction will bring new property tax revenue, relieving existing residents' tax burden. Historically, Nassau County's existing property owners benefited when new construction became part of the County's tax base. In order to give today's property taxpayers the same tax relief, the property tax levy needs to include the taxes paid on newly constructed properties. Although the administration has included a property tax increase in the proposed budget, the County still has not captured the property tax that should have been paid by new construction added to the tax rolls since 2003. All taxpayers would benefit if the value of newly constructed property were included in the tax levy and we believe the budget should be amended to recognize this revenue. We believe this opportunity will add $4.2 million for 2009.

The Financial Plan

The financial plan presents projected future year budget gaps of $106.2 million in FY 10, $158.7 million in FY 11, and $194.0 million in FY 12. As the County has gained experience with multi-year plans since 2002, it has found that some of the additional revenues or expense reductions called for in the out-years did not turn out to be necessary and that budgets could be balanced without all the planned actions. The currently projected gaps are significant and indicative of the County's ongoing fiscal challenges. It is common for municipalities that forecast multi-year plans to show gaps in the out-years. The issue is how the administration proposes to close the gaps and whether they can build a consensus to support the necessary measures. Although the administration has held expense growth to 2.95% over the period 2002-2008 and only 2.5% in the proposed 2009 budget, recurring revenues have not increased sufficiently to cover even this low rate of growth in expenses, leaving the County with a large structural gap in all out-years.

For 2010, the proposed financial plan identifies a 3.9% property tax increase as one gap closing measure, and still requires $74.6 million in other new expenditure reductions and revenue initiatives, such as a home heating oil tax, an increased tobacco tax, video lottery terminals and additional labor concessions. Based on past history, these measures are unlikely to be adopted in 2009 as part of the 2010 budget since 2009 will be an election year. In 2011 and 2012, additional revenues or expense reductions will be critical since the police labor agreements defer salary expense to those years and, in light of the declining returns of the State pension funds, pension contributions are likely to increase significantly.

Schedule 3 presents net baseline gaps, resulting from modifying the financial plan's baseline by risks and opportunities identified by our analysis.

Schedule 3

PROPOSED NASSAU COUNTY 2010-2012
MULTI-YEAR FINANCIAL PLAN
MAJOR FUNDS
SUMMARY OF FUTURE YEAR RISKS and OPPORTUNITIES
($'s Millions)

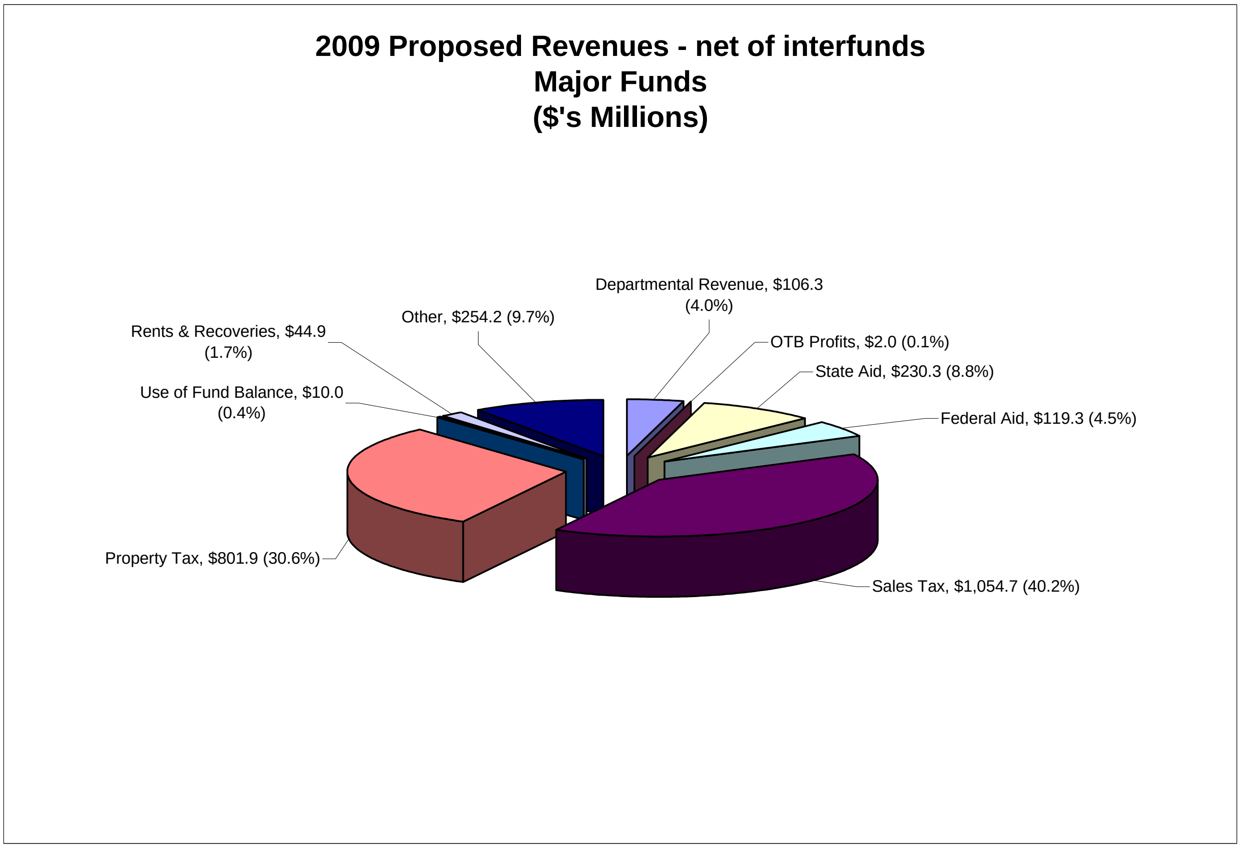
	2010	2011	2012
Baseline Gap per Financial Plan (before Gap Closing Measures)	**$ (106.2)**	**$ (158.7)**	**$ (194.0)**
Items included in Baseline Gap that are at risk			
Sales Tax receipts	(22.0)	(38.7)	(56.3)
Gap closing measures			
Program cuts	7.5	7.5	7.5
Debt restructuring		5.0	5.0
Net Baseline Gap	**$ (120.7)**	**$ (184.9)**	**$ (237.8)**

	2010	2011	2012
Additional Gap Closing Measures Considered at Risk			
Revenue			
Property tax increase (3.9%)	$ 31.6	$ 64.5	$ 98.7
Proposed cigarette tax	28.4	28.4	28.4
Energy tax	45.0	46.4	48.0
Video lottery terminals	20.0	20.0	20.0
Red light cameras	7.0	7.0	7.0
Fast food tax	11.8	11.8	11.8
FIT	4.1	4.1	4.1
Sub-Total Revenue	147.9	182.2	218.0
Expense			
Health insurance	15.0	20.0	20.0
Workforce management	15.0	20.0	20.0
Smart Government Initiatives	13.7	20.3	21.8
Sub-Total Expense	43.7	60.3	61.8
Total Gap Closing Measures at Risk	**$ 191.6**	**$ 242.5**	**$ 279.8**

2009 Proposed Budget Analysis

Discussion of Revenues

Chart 5



Total Budgeted Revenue
Major Funds
($ Millions)

	2008	2009
Total Budgeted Revenue	$ 2,950.4	$ 3,013.4
Less:		
Interfunds between major funds	391.9	389.8
Net Revenue	$ 2,558.5	$ 2,623.6

Tax Revenues

Sales Tax

The proposed 2009 budget assumes sales tax growth of 2.1 percent over the 2008 projected year end results. Although we would have agreed with the administration's estimate of a 2.1 percent rate of increase for 2009 if we had been asked on September 15, the extraordinary economic events since then will, we believe, negatively affect the administration's forecast for the year. Sales tax revenues account for over $1 billion of the $2.6 billion operating budget. Each one percent of growth represents approximately $10 million of additional revenue. Due to the number of variables that affect spending, it is not possible to forecast actual receipts with one hundred percent certainty. As shown in Schedule 4 there has been no clear trend in sales tax growth over the most recent seven years. In addition, the present uncertainty of the economy makes accurate sales tax forecasting all the more difficult. With the extraordinary tightening in the credit markets and the loss of financial industry jobs, the current slump in housing and automobile sales is likely to worsen and there is a great risk that sales tax collections will not meet the administration's expectations. Based on discussions with leading local economists, we anticipate that sales tax will grow by no more than 1% in 2009, placing $10 million in budgetary revenue at risk. Schedule 5 presents sales tax collections through October 13th of years 2002 through 2008, compared to total sales tax collections each year.

The proposed multi-year financial plan includes annual sales tax growth of 3.0% to 3.5% through 2012. We believe these higher forecasts for 2010 - 2012 are subject to risk.

Schedule 4

Sales Tax Trends
($ Millions)

	GROSS ANNUAL Sales Tax Collected/Projected	$ Increase over prior year	% Increase over prior year
2002	$ 865.5	$ 33.6	4.0%
2003	895.5	30.0	3.5%
2004	939.9	44.4	5.0%
2005	953.8	13.9	1.5%
2006	991.2	37.4	3.9%
2007	1,012.0	20.8	2.1%
2008	1,033.2	21.2	2.1%

Schedule 5

YTD October 13 Sales Tax
($ Millions)

	OCT 13 YTD Sales Tax Collected	% OCT 13 YTD vs Total Collected/Projected	GROSS ANNUAL Sales Tax Collected/Projected
2002	$ 609.9	70.5%	$ 865.5
2003	616.7	68.9%	895.5
2004	653.3	69.5%	939.9
2005	666.8	69.9%	953.8
2006	695.9	70.2%	991.2
2007	706.0	69.8%	1,012.0
2008	720.8	69.8%	1,033.2

Schedule 6

Sales Tax (Gross Receipts)
($ Millions)

	2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
Sales Tax *	$ 1,012.0	$ 1,033.2	$ 1,054.7	$ 1,086.4	$ 1,124.4	$ 1,163.7

* Excludes prior year deferred portion of sales tax

Property Taxes

The proposed 2009 Budget calls for a 3.9 % increase in property taxes within the major funds reflecting increases of $21.1 million in the General Fund, $8.4 million in the Police District Fund, and $6.1 million in the Sewer and Storm Water Resource District Fund. There is also a $1 million property tax decrease in the Police Headquarters Fund. All County residents pay General Funds and Police Headquarters taxes, approximately 80% of County residents pay Police District taxes, and approximately 85% pay taxes in the Sewer and Storm Water Resource District.

All taxpayers will see a decrease in the Environmental Bond Act property taxes by $2.5 million to a total of $4.9 million. The Environmental Bond Act's property tax revenue is included in a fund separate from the County's major funds.

The proposed financial plan includes property tax increases of approximately 3.9% annually for 2010 through 2012 as a gap closing measure. These increases amount to $31.6 million in 2010, an additional $32.9 million in 2011, and an additional $34.2 million in 2012 in the major funds;

for the sewer funds increases amount to an additional \$4.3 million, an additional \$4.5 million, and an additional \$4.6 million, respectively, for the same three years.

Schedule 7

Property Tax - Includes Levy for the Sewer and Storm Water Resource District Fund
(\$ Millions)

	2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
Property Tax per budget - major funds	\$ 758.4	\$ 773.4	\$ 773.4	\$ 801.9	\$ 833.5	\$ 866.4
Property Tax per budget - SSW	118.9	103.9	103.9	110.0	114.3	118.8
add Restored taxes collected *	4.1	2.9				
Property tax increase(3.9%)			34.6			
Total tax	881.4	880.2	911.9	911.9	947.8	985.2
Gap Closing Measures:						
Property tax increase(3.9%)				35.9	37.4	38.8
Property Tax including Gap Closing Measures	\$ 881.4	\$ 880.2	\$ 911.9	\$ 947.8	\$ 985.2	\$ 1,024.0

Non-Tax Revenues

Use of Fund Balance

The administration has been drawing on fund balance without replacing it. The 2009 budget includes \$10 million from fund balance for contingencies, and budgets \$23 million from anticipated 2008 surplus which will fund pension reserve. The \$23 million is at risk should the County end the year without a surplus of this size. In our mid-year report, we projected a \$9.4 million surplus for 2008.

Using current year surplus to budget for future years' contingencies is consistent with the County's fund balance policy, which was adopted by the Legislature in 2005 and re-submitted to the Legislature as part of the 2009 – 2012 multi-year plan. The fund balance policy provides that the County will maintain unreserved fund balance of between 4% and 5% of normal prior year expenditures of the general fund and County-Wide Special Revenue Funds (fire prevention fund and police headquarters fund). If unreserved fund balance falls below that level for two years, the policy provides that the County will replenish the fund balance over the next four years. The fund balance policy includes in its definition of unreserved fund balance the amounts in the Employee Accrual Liability Reserve Fund, Retirement Contribution Reserve Fund and Tobacco Settlement Fund. We calculate that under the proposed budget, the County's fund balance, as defined by its fund balance policy will drop to approximately 2.4% of expenditures by the close of 2009, even if it is assumed that the County will not need to draw on additional fund balance during the year. Fund balance provides taxpayers with a cushion against unexpected negative events. This Office supports the fund balance policy, and is concerned that we have fallen below the 4% threshold.

Schedule 8

Fund Balance
Major Funds
Source (Use)
($'s Millions)

Source (Use)	2003	2004	2005	2006	2007	2008 Mid Year Forecast	2009 Proposed Budget*	Cumulative Fund Balance
General Fund Balance	$ 76.1	$ 9.5		$ 15.9	$ 27.6	$ 9.4		
(Payment of expenses)				(13.4)	(38.1)	(45.0)	(10.0)	$ 32.0
Police District Fund Balance	4.9			11.2	1.3			
(Payment of expenses)					(5.3)	(8.9)		3.2
Debt Service Fund Balance		10.0						
(Payment of expenses)			(10.0)					
Total cumulative fund balance	$ 81.0	$ 100.5	$ 90.5	$ 104.2	$ 89.7	$ 45.2	$ 35.2	$ 35.2

* Based on 2008 Mid Year Forecast and assumes County does not draw down additonal fund balance

Use of Reserves

We have consistently supported using reserves in the budget because spending the reserves has the effect of returning surplus funds to the County's taxpayers. The proposed budget incorporates the use of $26.8 million of reserves, $23 million of which are to be taken from 2008 surplus and placed in the pension reserve. The $23 million is at risk should the County end the year with less than that amount of surplus.

State Revenues

The County has budgeted $19.9 million in revenue from State initiatives - $12.0 million from a red light camera program and $7.9 million from a $50 surcharge on certain traffic offense and infraction convictions adjudicated in Nassau County. The administration has the support of the Governor's office for these initiatives, but they will still have to pass through the State Legislature and the County Legislature before they can be put into place. Assuming the necessary approvals are obtained, they are more likely to be completed during 2009 than at the start of the year and the red light cameras would probably take months to be installed. Therefore, even with all approvals, it is unlikely that the entire revenue amount budgeted will be collected in 2009. In this report, we have identified the revenues that need State legislative authorization as at risk.

Schedule 9

State Aid Major Funds ($ Millions)					
2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
$ 193.7	$ 203.6	$ 230.3	$ 235.5	$ 240.8	$ 246.2

Federal Aid

The proposed 2009 budget includes a decrease of $1.1 million in federal aid from the 2008 budget. The budget also includes a $400,000 decrease due to a reduction in the number of federal inmates housed in the County. Federal aid in Social Services is budgeted to decrease by $1.4 million because the Home Energy Assistance Program has been taken over by the Federal government. Aid to the County Attorney is budgeted to increase by $672,000 in the Title IV-D and IV-E programs. We believe an additional $475,000 is at risk due to the reduction in federal inmates and, based on budgeted reimbursable expenses for 2009, another $166,000 is at risk from lower reimbursement in Social Services.

Schedule 10

Federal Aid Major Funds ($ Millions)					
2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
$ 112.1	$ 115.1	$ 119.3	$ 122.0	$ 124.7	$ 127.5

Departmental Revenue

Parks revenue is budgeted at $25.7 million, which includes a $4 million advertising initiative. The advertising initiative was also budgeted in 2008 and, to date, a contract has not yet been entered into; therefore we consider this at risk. The Parks Revenue Enhancement Program, begun in 2008, has not achieved its goals thus far. As the expected increased level in use of Parks services did not occur in 2008, it is not likely to occur in 2009 due to economic conditions possibly affecting County residents' disposable income. This amounts to a $3 million risk. We find a total of $7 million of Parks revenue to be at risk.

Due to declining home sales, an additional $4.2 million in County Clerk revenues could also be at risk. Although State authorized fee increases went into effect in October 2008, we project they will not offset the loss of revenues from declining home sales and refinancings. We find that, of the remaining departmental revenue projections, \$2.5 million is at risk. This includes \$500,000 from a Consumer Affairs internet advertising initiative and \$700,000 of the County Attorney's budgeted \$900,000 in penalties from commercial property owners who do not submit income and expense statements to the Department of Assessment. The County Attorney initiative was also included in the 2008 budget and no revenues have been collected year-to-date.

Schedule 11

Departmental Revenue
Major Funds
(\$ Millions)

	2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
County Parks & Recreation	\$ 16.4	\$ 18.5	\$ 25.7	\$ 25.2	\$ 25.2	\$ 25.2
All other Departmental Revenue	75.6	67.7	80.6	80.6	80.6	80.6
Total	\$ 92.0	\$ 86.2	\$ 106.3	\$ 105.8	\$ 105.8	\$ 105.8

Fines and Forfeitures

The administration established an aggressive revenue target for the Traffic and Parking Violations Agency (TPVA) Fines and Forfeitures in the 2008 budget, which we projected in our mid-year report will fall short by \$3.9 million. The 2009 budgeted amount, which is only slightly less than the 2008 amount, is at risk in the amount of \$2.8 million based on the trend of actual receipts in 2008.

Schedule 12

Fines and Forfeitures
Major Funds
(\$ Millions)

2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
\$ 22.3	\$ 22.9	\$ 26.1	\$ 26.1	\$ 26.1	\$ 26.1

Permits and Licenses

We believe that $1.4 million of alarm permit revenue in the Police District is at risk based on the historical revenue trend.

Schedule 13

Permits and Licenses
Major Funds
($ Millions)

2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
$ 10.6	$ 10.5	$ 12.3	$ 12.3	$ 12.3	$ 12.3

Interdepartmental Revenue

The $111.2 million proposed interdepartmental revenue budget represents reimbursements for services performed by one County department for the benefit of another.

We believe the proposed budget understates some of these revenues within the General Fund. Conversely, the related interdepartmental costs are understated by an equal amount within the General Fund thereby having no effect or risk on the overall fund balance in the General Fund. However, certain expenses will have to be charged back to the Police District Fund. These expenses are not included in the budget, and there may not be sufficient funds in the Police District to cover this cost.

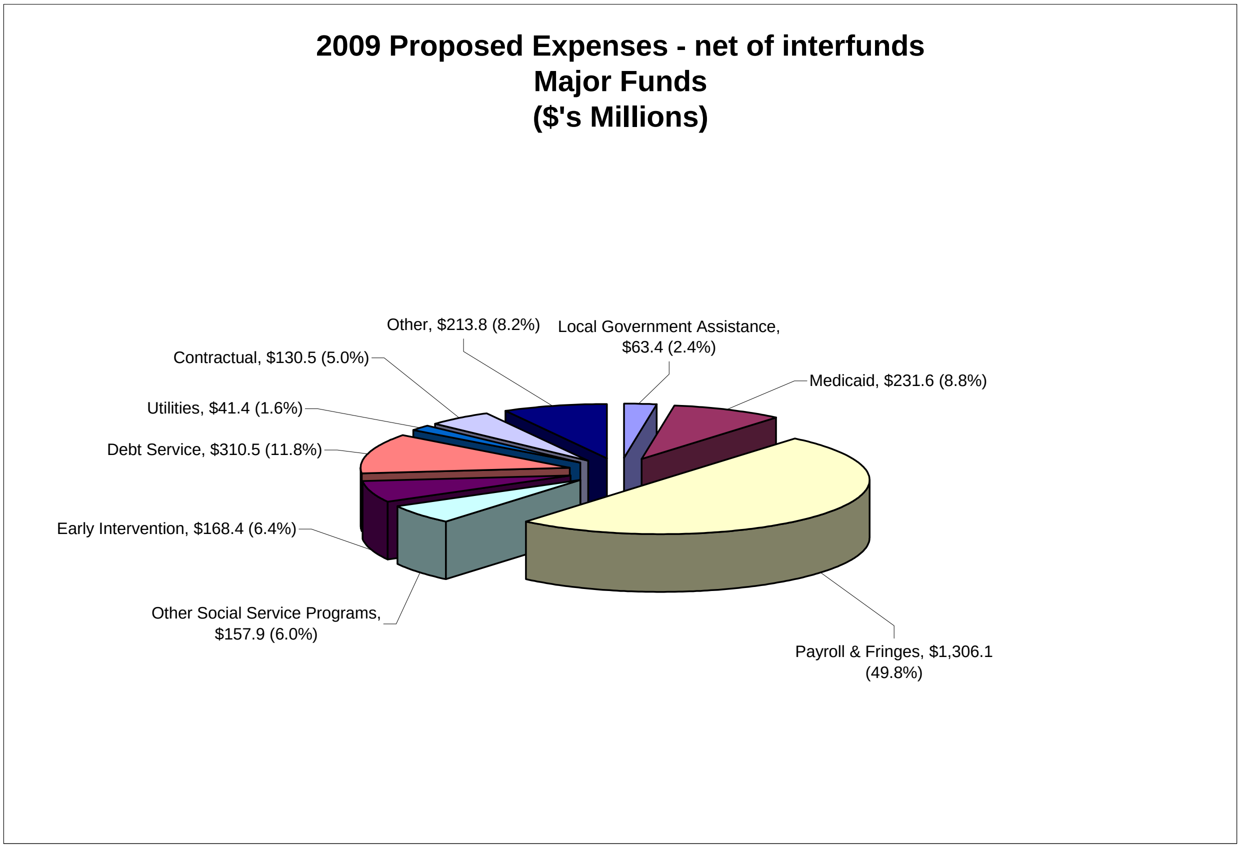
Schedule 14

Interdepartmental Revenue
Major Funds
($ Millions)

2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
$ 99.0	$ 102.9	$ 111.2	$ 111.2	$ 111.2	$ 111.2

Discussion of Expenses

Chart 6



Total Budgeted Expenses
Major Funds
($ Millions)

	2008	2009
Total Budgeted Expenses	$ 2,950.4	$ 3,013.4
Less Interfunds between major funds	391.9	389.8
Net Expenses	$ 2,558.5	$ 2,623.6

Salaries

Collective bargaining agreements with the Superior Officers Association (SOA) and the Civil Service Employees Association (CSEA), whose contracts expired on December 31, 2007, have not been settled. The proposed salary budget includes $24.4 million in labor concessions from negotiations with the CSEA ($14.4 million), and SOA ($10 million). The estimated savings are dependent upon labor agreements that are not in place and may be at risk depending on the resolution of each contract. We believe that these budgeted amounts can be achieved if the CSEA contract conforms to the ShOA contract and historical precedent, and the SOA contract conforms to the recent PBA and DAI agreements.

In addition a three year contract extension for the PBA, covering 2013 to 2015, includes 2009 give-backs that have been factored into the 2009 proposed budget. While we believe that the projected savings will be achieved in the 2009 contract, much of the savings are based on salary deferrals that are due in 2011 ($7.7 million) and 2012 ($4.1 million), which presents a challenge to future years' budgets.

The budget also includes approximately $7.5 million in vacant positions for non uniformed employees which we consider an opportunity, as well as roughly $4.3 million in other net payroll and fringe benefit risks.

Schedule 15

Salaries
Major Funds
($ Millions)

2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
$ 850.6	$ 843.4	$ 881.5	$ 912.5	$ 953.9	$ 982.7

Overtime

Schedule 16 presents our estimate of police and corrections overtime for FY 08 and the amounts in the 2009 proposed budget and financial plan. As in 2008, we project there will be more overtime expense than budgeted for the Police District, Police Headquarters and the Correctional Center.

Savings from contractual changes with the PBA, DAI and ShOA, and police department redeployment and consolidation, were reflected in 2008 results in late fall. Because of the slow start to achieving overtime savings, we anticipate a negative variance of $17 million in 2008 overtime costs. We project that overtime will reach $69.7 million in 2008. Despite contractual and managerial savings for police and corrections overtime expected in 2009, we project that uniformed forces' overtime will be over-budget in 2009 by approximately $13.7 million. In addition, we project non-uniformed employees' overtime will be over budget by $2 million, bringing the total overtime risk to $15.7 million.

Schedule 16

Overtime *
($ Millions)

	2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
Correctional Center	$ 24.9	$ 26.2	$ 16.6	$ 17.1	$ 17.6	$ 18.3
Police Headquarters	20.4	21.0	16.7	17.3	17.8	18.4
Police Districts	23.8	22.5	15.2	15.7	16.2	16.8
Total Expense	$ 69.1	$ 69.7	$ 48.5	$ 50.1	$ 51.6	$ 53.5

* Overtime amounts included in salaries schedule

Fringe Benefits

Employee Health Benefits

Health benefit expense is budgeted to increase annually 7.75 percent for active employees and retirees, with increases of 8 percent for 2010 and 6.5 percent for each remaining year of the financial plan. These increases are based on the administration's assessment of projected rate increases from the ***Empire Plan Second Quarterly Experience Report*** provided by the New York State Health Insurance Program (NYSHIP). We believe that these budgeted rate increases are reasonable, given the rate information provided by NYSHIP. This Office is working with the administration and the State to explore whether NYSHIP's rates are overstated and can be reduced, which might provide budget relief in 2009, recurring through the plan years.

Long term, the administration must identify realistic ways to reduce spending while continuing to provide quality health insurance to employees. While the extension of the PBA contract to 2015 will make obtaining significant health benefit cost savings more difficult, opportunities still remain. At the Comptroller's recommendation, legislation was enacted in 2008 that redefined the employment requirements needed to receive post employment health benefits for ordinance employees. If these changes had been in place just 10 years ago, savings to retiree health insurance costs for 2008 could have been as high as $4.4 million The Comptroller's Audit Advisory Committee issued a July 2007 report titled ***Providing Affordable Health Benefits for County Employees and Retirees: Some Suggested Solutions***, which proposes additional initiatives to reduce health care spending. One of the proposals, increasing the buy back amount, is currently being explored with the administration.

Schedule 17

Health Insurance Major Funds ($ Millions)	2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
Employees	$ 108.1	$ 113.4	$ 126.7	$ 136.9	$ 145.8	$ 155.2
Retirees	96.7	102.7	109.9	118.5	126.1	134.4
Total Expense	$ 204.8	$ 216.1	$ 236.6	$ 255.4	$ 271.9	$ 289.6

Employee Pension Costs

Based upon investment returns realized by the New York State and Local Retirement System and lower than forecasted salary increases state-wide, next year's pension contribution rates will drop. As a result, the 2009 pension expense, net of the retirement reserve, will be slightly less than 2008.

The State actuary has advised that rates will drop further in 2010 and then increase in 2011 and 2012 by as much as 40%. Pension contributions are based on the salary levels of eligible employees and the investment performance of the state pension fund. Due to recent economic conditions, the County should consider this a potential area of risk since, given the market turbulence over the past two years, the pension fund may not achieve its targeted return.

The pension reserve established in 2004 to transition to higher pension expense will essentially be exhausted at the end of 2008. The administration plans to fund it with $23 million in 2008 surplus and immediately spend that amount in 2009. The funding plan is at risk to the extent that a $23 million surplus is not generated in 2008.

Schedule 18

Pension Expense Major Funds ($ Millions)	2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
Expense without pension reserve	$ 108.2	$ 101.4	$ 96.0	$ 95.1	$ 107.0	$ 112.4
Pension reserve	(26.4)	(24.5)	(23.0)			
Expense with pension reserve	$ 81.8	$ 76.9	$ 73.0	$ 95.1	$ 107.0	$ 112.4

Workers' Compensation

The proposed budget includes approximately $3.9 million in savings from an initiative to pay an outside entity to take over all the County's permanent disability cases. Because of the contraction in the credit market, we do not believe that this initiative can be implemented as originally planned, although small savings will be possible if settlements are negotiated with individual recipients. We have also identified a shortfall of $1.2 million based on our projection for medical and indemnity costs for 2009. The total risk in workers compensation expense is $5.1 million.

Schedule 19

Workers Compensation
Major Funds
($ Millions)

2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
$ 19.7	$ 21.0	$ 16.9	$ 17.7	$ 18.4	$ 19.3

Medicaid

As a result of the State legislation limiting the growth in the County's Medicaid expenditure, future years' expenses are capped at annual increases of approximately 3 percent. The Medicaid cap provides recurring budgetary relief that grows each year of the financial plan. Based on the cap formula, we believe the forecasted Medicaid expenses, which range from $231.6 million in FY 09 to $251.7 million in FY 12, are reasonable.

Schedule 20

Medicaid
($ Millions)

2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
$ 219.0	$ 225.7	$ 231.6	$ 238.1	$ 244.8	$ 251.7

Other Social Service Expenses

The administration projects expenses for recipient grants, purchased services, and emergency vendor payments to grow approximately 3.3 percent annually, from an estimated $157.9 million in 2009 to $175.6 million in 2012. These social service-administered programs include Family Assistance, Day Care, Food Stamps, and other services designed to aid children and adults in need. These expenses are projected to grow at 4 percent during 2008, as a result of an increase in Temporary Assistance for Needy Families (TANF) and Safety Net caseloads. The 2009 proposed budget for these expenses appears reasonable based upon the current caseloads. However these caseloads may increase as a result of the current economic crisis. This risk cannot be quantified at this time.

Schedule 21

Other Social Services
Major Funds
($ Millions)

2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
$ 146.1	$ 151.9	$ 157.9	$ 164.0	$ 169.7	$ 175.6

Early Intervention / Pre-School Special Education

The early intervention/pre-school special education programs administered by the Department of Health increase at an average annual rate of approximately 3.1 percent, from $168.4 million in 2009 to $184.4 million in 2012 per the budget and multiyear plan. The projected growth in this mandated expense results from estimated increases in the number of children served. We believe the forecasts are reasonable**.**

Schedule 22

Early Intervention / Pre-School Special Education
Major Funds
($ Millions)

2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
$ 158.3	$ 168.5	$ 168.4	$ 173.6	$ 178.9	$ 184.4

Contractual Obligations

The proposed FY 09 budget reflects a decrease in spending of $5.8 million as compared to the FY 08 budget. The largest decrease, $3.6 million in the Correctional Center, is comprised of a $2.5 million reduction for inmate medical services provided by the NHCC, the elimination of a 2008 subsidy component to NHCC, and a lower volume of services resulting from a projected decrease in the inmate population. We believe that these budget assumptions are reasonable.

Schedule 23

Contractual Expenses
Major Funds
($ Millions)

2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
$ 129.2	$ 135.5	$ 130.5	$ 131.0	$ 133.1	$ 136.0

Local Government Assistance

The County provides one quarter of one percent of sales tax receipts to local towns and cities to assist with the treatment and disposal of municipal solid waste, in addition to providing aid to villages. The proposed financial plan includes annual local government assistance increases consistent with the financial plan's estimated 2.1 percent growth in sales tax. Local government assistance is budgeted as a percentage of sales tax revenue and, as such, if sales tax receipts drop this expense will drop.

Schedule 24

Local Government Assistance
Major Funds
($ Millions)

2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
$ 60.6	$ 62.4	$ 63.4	$ 65.3	$ 67.5	$ 69.8

Utilities

Even though we believe that some savings will be achieved by the administration's cost savings initiatives, due to rate increases resulting from the volatile energy market, $3.4 million in utility expense is at risk.

Schedule 25

Utilities
Major Funds
($ Millions)

2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
$ 37.9	$ 43.0	$ 41.4	$ 42.6	$ 43.6	$ 44.5

Equipment

The budget for equipment is $4.1 million, a 24 percent decrease from the Fiscal 2008 budget of $5.4 million. The budget and the proposed financial plan include no provision for purchasing police vehicles from operating funds, although the administration plans to capitalize the purchase of an estimated $2.4M of police vehicles for 2009. This Office remains concerned about the use of borrowed funds to pay for operating expenses. Since spending reductions have been imposed throughout the County, we believe that the budget is reasonable.

Schedule 26

Equipment
Major Funds
($ Millions)

2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
$ 2.4	$ 4.7	$ 4.1	$ 4.1	$ 4.2	$ 4.3

Other Expenses

The category of “Other Expenses” includes $10 million for unspecified contingencies, which we consider an opportunity. The amounts budgeted for payments to assigned counsel through the Nassau County Bar Association and for tuition for residents attending state community colleges outside of Nassau County, are at risk by $1.7 million and $1.6 million, respectively based on historical trends in these categories.

Schedule 27

Other Expenses
Major Funds
($ Millions)

2007 Actual	2008 Comptroller's Forecast	2009 Proposed Budget	2010 MYP	2011 MYP	2012 MYP
$ 19.3	$ 21.7	$ 29.1	$ 29.5	$ 29.9	$ 30.3

Property Tax Refunds

The proposed 2009 budget includes $50 million to pay real property tax refunds. This is the first year the County has budgeted the entire $50 million for property tax refunds out of operating funds, which had been a goal of prior Multi-Year Plans.

The administration projects the County will pay $75 million for refunds in 2008, $25 million over budget. In 2007, the administration paid $87.1 million. The 2009 budget of $50 million may be insufficient given the continuing level of payment, although the administration expects the refund expense to decrease as old liability is paid off. In a declining real estate market, however, it is more likely that hearing officers and courts will reduce assessments. Because higher refunds can be anticipated due to the market conditions and because the pattern of the past two years shows that $50 million is likely to be insufficient, we believe that the amount budgeted for property tax refunds is at risk, but the amount of the risk has not yet been quantified.

The $50 million budget for refunds is consistent with the past two years. This Office has monitored the expense and feels that the administration may need to re-visit the methodology for calculation of the refund liability if property tax refund payments continue to exceed projections.

Non-Property Tax Judgments and Settlements

The proposed 2009 budget continues the current policy of borrowing for the routine payment of judgments and settlements. The administration’s multi-year plans have stated that the County will transition to paying for these expenses out of operating funds. This Office remains concerned about the use of borrowed funds to pay for operating expenses.

Credit Market Risk

The extraordinary contraction in the credit markets in the fall of 2008 is likely to negatively affect variable rate bonds into 2009. NIFA has issued approximately $913 million in variable rate debt, the County has approximately $75 million and the NHCC has approximately $245 million. The budget assumes a 3% interest rate for the County and NIFA debt. Through July 2008, the effective interest rate was 2%. The credit squeeze is currently driving up interest expense and making credit more difficult to obtain, even for safe borrowers such as NIFA and the County. The administration has projected that if interest rates should rise by a worst case scenario of another 2.5% over the 3% rate in the budget, the County would have to pay an additional $25.4 million in interest. Each increase in interest expense of 1% will cost the County $10 million annually. Economists we have consulted predict that interest rates are likely to stabilize in 2009 for credit worthy borrowers. Since it is difficult to anticipate exactly what will happen with interest rates during 2009, this risk is considered unquantifiable in this report. The Sewer Finance Authority also has variable rate debt of approximately $75M outstanding. The Authority intends to replace this debt with fixed rate debt during 2008.

The credit market's current contraction may also negatively affect the County's borrowing for cash flow purposes. The County had planned to do a short term tax anticipation note cash flow borrowing in December. Should credit continue to be difficult to obtain in the municipal market, the County may have to borrow from commercial lenders such as banks. New York City and Erie County have recently completed such transactions.

The Financial Plan's Remaining Years

The proposed financial plan includes estimated budget baseline gaps of between $106.2 million in 2010 and $194.0 million in 2012. The administration's projected baseline gaps for 2010 and 2011 are lower than administration's projected baseline gaps in 2008 for those same years – a reflection of the fact that if the administration can carry out 2009 with the budgeted revenues and expenses and without adding other non-recurring revenues or cutting other non-recurring expenses, it will have reduced the County's structural gap. The plan presents more initiatives than necessary to close the projected gaps; however, we believe as shown on Schedule 3, the majority of these initiatives are subject to risk.

All governments that present multi-year plans show structural gaps in the out-years. This administration has shown that it can close gaps and present balanced budgets. The current economic crisis will present greater difficulties for 2009 and may make it harder to develop a balanced budget in 2010. The plan for 2010 assumes large increases in recurring revenues on top of a 3.9% property tax increase as a gap closing measure, and large decreases in recurring expenditures. Historically, it is difficult to raise taxes in an election year, making the 2010 revenue increases unlikely. The administration has estimated the value of workforce management to be between $15 million in 2010 and $20 million in both 2011 and 2012. These assumptions present significant risks.

Health Insurance Cost Reductions

The financial plan includes savings achieved from reducing the cost of health insurance for active employees and retirees by seeking less expensive options with comparable coverage. The plan shows a savings of $15 million in 2010 and $20 million in both 2011 and 2012. The Comptroller's Audit Advisory Committee's July 2007 report, ***Providing Affordable Health Benefits for County Employees and Retirees: Some Suggested Solutions*** offers cost savings proposals that could reduce spending by the financial plan's targets. Most health benefit cost reductions are subject to collective bargaining and therefore we cannot reasonably determine if there is a potential for this savings.

Other Revenue Options to Close Remaining Gap

The financial plan incorporates additional gap closing measures including a residential energy tax which ranges from $45 million to $48 million per year, $28.4 million per year from a cigarette tax, $20 million each year from video lottery terminals, $11.8 million from a fast food tax, and an additional $7 million a year from red light cameras. These initiatives require State and/or County legislative approval, and consequently are subject to risk.

Smart Government Initiatives

The proposed budget and financial plan includes "smart government initiatives." For the future years of the plan, these initiatives are valued at $13.7 million in 2010, $20.3 million in 2011, and $21.8 million in 2012, increased from $9.8 million, $11.8 million, and $13.9 million respectively. A number of these initiatives are subject to uncertainty and risk. Presented with their corresponding three-year estimated value, they include:

- $25 million in savings generated from an enterprise resource computer system
- $10.2 million from a commercial property tax grievance filing fee;
-
- $7.5 million from housing non-county inmates;
- $4.8 million from risk management initiatives;
- $3.8 million in revenue options;
- $3.0 million of savings from program reductions;
- $1.5 million of savings from electronic court appearances.

Sewer and Storm Water District Fund

In September 2003, the State created the Nassau County Sewer and Storm Water Finance Authority (Authority) and a consolidated County-wide Sewer and Storm Water Resources District.

The Authority is solely a finance authority empowered to finance or refinance sewer and storm water projects within a $350 million cap.

The Sewer and Storm Water Resources District replaced the County's patchwork of 27 collection and three disposal districts. The County Department of Public Works maintains and operates the County's sewage collection and waste water treatment facilities.

The legislation creating the District provided for rate stabilization in the prior sewer districts through 2007 (at or below 2003 levels), with no separate assessment for storm water resources services during the rate stabilization period. The law further requires a transition to uniform rates for sewage collection, sewage disposal and storm water resources services, by the end of 2013.

The prior districts' fund balance was moved to the Authority, to pay for capital needs, debt service, and reserves. The fund balance remaining is required to be devoted to the ratepayer stabilization program and therefore is budgeted within the District.

The proposed 2009 budget for the Sewer and Storm Water Resources District of $180.2 million includes a proposed water surcharge for high volume users. We believe that $4.3M of this revenue is at risk since the new water surcharge will require legislative approval. However, the amount budgeted for salary and fringe expense contains savings of approximately $3.8 million generated by budgeted unfilled positions and improved management of staffing.. Thus we believe that the 2009 budget is reasonable.

Schedule 28

Sewer and Storm Water Resource District Fund Balance ($ Millions)	2004	2005	2006	2007	2008 Projected
Surplus (Deficit)	$21.4	$31.7	$68.6	$40.3	($15.5)
Year end fund balance		$53.1	$121.7	$162.0	$146.5

Other Entities

NHCC

The financial stability of the Nassau Health Care Corporation (NHCC) is important so that it can continue to operate as a health care safety net for the County's uninsured. In addition, the County is dependent upon the NHCC's ability to repay its outstanding indebtedness of $296 million, which is guaranteed by the County. Of this debt approximately $245M is tied to variable rates. If the rates remain at the current level the NHCC could face a shortfall of $1 million each month beyond its budgeted debt expense.

NHCC continues to face significant financial challenges and the County will need to monitor its fiscal health closely. NHCC is expected to end 2008 with a $4 to $6 million deficit. The Corporation's 2009 budget anticipates an $8 million shortfall, after $22 million of gap closing measures. The Corporation also faces the possibility that the State will cut aid or reimbursement formulas in light of the general economic situation.

The Corporation has opened discussions with the County for a line of credit to solve cash flow difficulties. It is this Office's position that the line of credit should be approved as long as it is secured by an identifiable source of funding that is predictable in its timing and the County can intercept the funds to ensure repayment of the line of credit when it comes due.