2020 MID-YEAR REPORT ON NASSAU COUNTY'S FINANCIAL CONDITION

OFFICE OF THE NASSAU COUNTY COMPTROLLER

July 31, 2020

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Table of Contents

Letter from the Comptroller **2**
1.0 Executive Summary **6**
2.0 Revenue Variances **21**
3.0 Obligation Variances **32**
4.0 Projected Ending GAAP Fund Balance **38**
5.0 Debt and Long-Term Obligations **41**
6.0 Control Period Calculation **44**

Exhibits

1: 2020 Adopted Budget to Projected Actuals Variance Drivers **10**
2: 2020 Revenue and Obligations Forecast **11**
3: 2020 Projected Budgetary Basis to GAAP Reconciliation **12**
4: 2020 Projected Ending GAAP Fund Balance **12/38**
5: Historical Ending GAAP Fund Balance 2017-2020 (projected) **39**
6: Total Projected Long-Term Borrowings **41**
7: Projected Debt Issuances – New Money **42**
8: Deferred Pension Expense Amortization Liability **44**
9: Control Period Calculation **46**
10: Historical Control Period Calculation **47**

Hon. Jack Schnirman
Nassau County

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On behalf of the entire staff of the Office of the Nassau County Comptroller, I am proud to present our team's third mid-year report. This report provides my Office's projections for the 2020 fiscal year against the 2020 Adopted Budget based on the first six months of the year. As with all of our publications, we have strived to present an accurate, clear, and easy-to-understand picture of the state of Nassau County's (the County) finances.

Our financial reporting is led by figures derived from using the national standard for government accounting, Generally Accepted Accounting Principles (GAAP). That also means numbers describing the financial status of the "General Fund" are consistent with the reporting in the County's audited financial statements, the Comprehensive Annual Financial Report (CAFR), and discussions of the County's results include the Sewer and Storm Water Fund, which prior to 2017, was not included.

Opening up and modernizing the County's finances is key to a government that uses data to ask and answer questions to find efficiencies. Over the past two years, we have created a way for residents to transparently see the County's finances just like they can with their own. In 2018, the County launched the *Open Nassau* portal with *Nassau County Open Checkbook*. Since then, the Comptroller's Office has leveraged the web portal to launch *Open Budget*, *Open Payroll*, and *Open Finance* to provide a host of County financial data in a user-friendly platform. In addition, the *Comptroller's Scorecard* displays the key indicators we use to measure the County's fiscal health so that our financial data is easily accessible to all. Altogether, these platforms comprise a holistic transparency and financial data sharing initiative the County Executive and Comptroller's Offices are undertaking. In 2019 and 2020, we continued working with the above platforms and beyond, recently launching the cash receipts platform so not only can you see all expenditures through the checkbook and payroll, but you can also see the revenues coming in and their sources.

Consistent financial reporting is a key component in the effort to lift the County out of a fiscal crisis. Leaders cannot be expected to fix problems if they cannot be properly diagnosed in the first place.

At 2019 year-end, significant improvements occurred before the onset of Coronavirus ("COVID-19") had upended that trajectory in 2020. Beyond its role in providing essential services, local government plays a critical role in the local economy. To that end, the Comptroller's Office launched a financial impact analysis on the impact of COVID-19 on County finances. COVID-19 has created a unique and unprecedented revenue crisis. This is about anticipating and projecting revenue loss with an unclear timeline.

At 2019 year-end, the County's total unassigned fund balance was $112.2 million, a significant improvement since fiscal year 2017's negative unassigned fund balance of $68.8 million. Unassigned fund balance represents fund balance that has not been restricted, committed or assigned to specific purposes within the General Fund. A negative unassigned fund balance represents an overspending of the fund balance that a municipality's assets and deferred outflows of resources are insufficient to fund governmental obligations owed as of the end of the fiscal year. The improvement in the County's total unassigned fund balance was primarily the result of improved 2019 results over the prior year mainly due to higher sales tax revenue and lower expenditures resulting from salary and fringe costs. However, with the onset of the COVID-19 pandemic and related shutdown, the positive gain that the County experienced in 2019 may potentially be erased in 2020, and there may be future effects on the County's 2020-2023 Multi-Year Financial Plan.

As more time passes, and COVID-19 continues to have a deleterious effect on County finances, the need for federal revenue relief is critical. In fact, under a second hypothetical scenario, assuming a resurgence of the virus overtaking New York, as it has been doing in other States around the United States, the County's finances would be even more bleak, and would then potentially take years to recover.

Our frontline essential workers and first responders are true heroes among us. Now more than ever, we need our police, we need our EMTs, and we need our public health infrastructure on the ground in our local communities. These essential services and more are directly funded by state and local governments. And on the frontlines of this crisis, revenue shortfalls directly threaten their ability to operate during this most critical time.

More than thanking and showing appreciation for their efforts, we must ensure that they have the resources they need to continue their critical work, that they can do so safely, and that our communities can endure after their work in this unprecedented time is done. Our nation must continue to stand together during this critical time and the federal government must act to make this right by providing revenue relief. Beyond its role in providing essential services, local government plays a critical role in the local economy. Local government continuing to operate during this time means that projects keep moving forward and County employees are paid, providing certainty in a time when the local private sector has been turned upside-down. That certainty of County spending carries a multiplier effect that supports our local economy. With sales tax as our number one revenue, a strong local economy is critical to strong County finances.

It is important to realize this report is a snapshot in time. Our analysis is based on the current status of the financials at mid-fiscal year 2020.

We understand the severely outdated financial systems throughout Nassau County make it prohibitively difficult for all departments to report using the national standard on a timely and regular basis, which is why we will continue to push for much needed modernization. In 2019, the County Executive proposed, and the County Legislature recently adopted a capital plan which includes initial funding to provide the County with financial based enterprise resource planning

(ERP) migration and pre-implementation services to replace its legacy mainframe financial system, the Nassau Integrated Financial System (NIFS).

As in the past, my Office has rendered an opinion as to the reasonableness of the estimates contained in the proposed County budget relating to non-real property tax revenues – as required by the Nassau County Charter. In October 2019, my Office identified risks and opportunities included in the FY20 proposed budget.

As mentioned in October 2019 and in previous reports, the County must restructure, reform and modernize. This includes devising appropriate fiscal and operational plans to address the increasing structural imbalances created from fundamental changes in our economy.

Nassau County, like many municipalities across the country, are grappling with devising and implementing structural fixes, on both the revenue and expense side of the equation, particularly in the wake of the economic effects of COVID-19.

In addition, the Office is undertaking an assessment of cybersecurity needs and continually publishes tips and guidance to staff on how to safely use technology, including telecommuting.

Sales Tax is the major revenue source for the County, followed by Property Tax, State and Federal Aid, and Departmental Revenues. These categories have remained relatively constant as a percentage in relation to total revenues in recent years. My Office has made modernization a priority and for the first time, we now have a comprehensive sales tax modeling tool. The analysis models the County's sales tax collections and breaks down industry sub-sectors to present a range of scenarios as to how the COVID-19 pandemic may impact the County's primary revenue source. The modeling tool further allows for assumptions to be set on the expected level of business activity of a phased reopening scenario, and an additional scenario, assuming a hypothetical closure from a second wave of COVID-19 in the Fall. In developing these projections, the analysis considered the County's initial 2020 sales tax growth and considered some of the benchmarks provided by other external sources. Refer to further sections of this report for more details.

By the end of December 2020, we estimate a shortfall in almost all categories of revenues as a result of the COVID-19 pandemic, with the greatest shortfall, approximately $238.8 million, in Sales Tax revenue, which generates the most revenue to the County. The composition of the County's major funds expenditure categories consists of Payroll and Fringe Benefits (greatest expenditure), followed by Debt Service, Contractual Services, Early Intervention and Social Service Programs, and Medicaid. If we were to look at Payroll and Fringe Benefits, there is an estimated potential savings against the budget of approximately $71.0 million over the 2020 Adopted Budget. The combined effect of all projected risks and opportunities for the three operating funds results in a projected deficit of $340.4 million in accordance with GAAP reporting. Refer to further sections of this report for more details of the various risks and opportunities to the 2020 Adopted Budget.

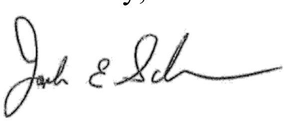
Effective June 1, 2019, New York State expanded the collection of sales tax on internet sales (enhanced internet sales tax). A portion of the collections are used to fund Aid and Incentives to Municipalities (AIM), which was eliminated from the State's budget beginning last year. Fiscal year 2020 is the first year that would reflect a full year of the enhanced internet sales tax collections.

Nassau Health Care Corporation (NHCC), a component unit of the County, has experienced recurring operating losses for the past three fiscal years and expects that trend to continue into 2020. The hospital reported a $64.0 million operating loss for the 2019 fiscal year an increase over the 2018 fiscal year operating loss of $46.6 million. NHCC is dependent on the continuation of federal, state and local subsidies, certain of which are scheduled to end or be reduced. NHCC's financial audit for 2019 noted that there continues to be a going concern question surrounding its future existence. To that end, Nassau County Interim Finance Authority (NIFA) recently hired a healthcare consulting firm to assist with the 'turnaround' of the hospital, as earlier in the year, NIFA's Directors determined that NHCC was a covered organization under section 3651(10) of the NIFA Act.

Overall, we saw positive financial results in 2019 however, the County is facing unprecedented fiscal challenges, as a result of the COVID-19 pandemic. The Administration, the Legislature and NIFA will need to continue to address these challenges, and our Office will continue to play a constructive role in the process.

I look forward to discussing this report further as other stakeholders in Nassau County have the chance to review its findings.

Sincerely,



Jack Schnirman

1.0 EXECUTIVE SUMMARY

1.1 PURPOSE:

The Nassau County Charter §402 (9) requires that the Comptroller prepare a 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.

1.2 FINANCIAL REPORTING:

National Standard

In an effort to accurately report and standardize the County's financial reporting, the Office of the Nassau County Comptroller will continue to report its results using Generally Accepted Accounting Principles (GAAP) for governments. **GAAP** refers to a common set of accepted accounting principles, standards, and procedures that governments must follow when they compile their financial statements. The purpose of utilizing GAAP is to create uniformity and complete transparency for financial reporting which diminishes the ability for municipalities to decide what financial transactions it chooses to report or withhold. In addition, it maximizes the County's ability to understand and comparatively track its performance relative to other municipalities across the nation.

Primary Operating Funds

Under prior administrations, management's reporting and discussion of the County's primary operating results excluded various funds. The funds that were excluded are key to ensuring our policy makers and management have the relevant information needed to make sound decisions that ultimately have positive long-term impacts on the County's fiscal trajectory.

As presented in the fiscal year 2019 CAFR, we continue to report the expanded definition of "primary operating funds", which include the total General Fund (see below for all components), Police District Fund, and Sewer and Storm Water Fund. Prior to the 2017 fiscal year, various funds required to be included in the General Fund under GAAP and the Sewer and Storm Water Fund were excluded in the discussions of the County's primary operating funds.

1.3 PROJECTED FISCAL YEAR 2020 GAAP DEFICIT

The 2020 mid-year financial projections estimate that the County will end the current year with a **$340.4 million operating deficit** and an **ending unassigned fund balance deficit of $227.1 million** in the primary operating funds under GAAP. This compares to a $145.3 million operating surplus and an ending unassigned fund balance of $112.2 million at fiscal year-end 2019. The mid-year financial projections underscore the County's current unprecedented and daunting fiscal outlook, as it grapples with the long-term economic and social effects of the COVID-19 pandemic. This is coupled with the existing challenges, such as the burden of the County Guaranty (backlog of tax certiorari payments), lawsuits, and increases in unfunded long-term obligations, including the pension and OPEB liabilities. The significant improvement in the County's total unassigned fund balance was primarily the result of improved 2019 results over the prior year mainly due to higher sales tax revenue and lower salary costs related to unfilled positions, and less fund balance needed to pay for restricted, committed, or assigned purposes.

Several key events that have taken place in 2020 have presented significant impacts to the County's year-to-date fiscal results.

Impact of COVID-19 and Potential Scenarios for 2020 Sales Tax Revenue

Governor Cuomo declared a State disaster emergency on March 7, 2020 due to COVID-19. The combination of executive orders, health policy and the change in consumer behavior as a result of the pandemic has impacted the sale of goods and services subject to sales tax. This impact has, in turn, directly affected the County's largest source of revenue by the constraint on economic activity.

According to the latest report issued by the New York State Association of Counties (NYSAC) in July 2020, NYSAC is projecting that for the 57 counties within the State (excluding New York City), sales tax losses over the next 12 months could be between $1.0 billion and $1.3 billion and "counties could see revenue losses approaching $5 billion over two years because of the pandemic, growing to nearly $14 billion with New York City revenue losses."[1]

NYSAC developed a range of mild to severe revenue loss projections for all counties. Excluding New York City, the total revenue loss projections for fiscal year 2020 for all counties was $2.1 billion for mild effects to $3.0 billion for more severe effects. NYSAC projects Nassau County's mild to severe range of revenue losses to be $347.6 million to $430.3 million for fiscal year 2020.

NYSAC further recommends that the federal government must provide direct unrestricted assistance to states and counties in order to continue the fight against COVID-19, maintain essential services and maintain employment levels in communities. Because State and local governments are major employers, and provide nearly 12 percent of all U.S. jobs, without this funding, many Americans may be jobless if State and local governments are forced to make severe cuts.[2] Government is the second largest employer on Long Island, employing 182,000 individuals in 2019.[3]

According to NYSAC, "economists have noted that in the last downturn, during the Great Recession, the federal government's austerity approach and prematurely ending financial assistance to states and local governments contributed significantly to the slow recovery, both in employment terms and contributions to gross domestic product."[4]

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[1] Coronavirus Economic Impact: A NYS County Update, July 2020, New York State Association of Counties, https://www.nysac.org/files/County%20Economic%20Update%20-%207_23_20.pdf

[2] Ibid.

[3] "Nassau & Suffolk COVID-19 Economic Impact" report https://www.nassaucountyny.gov/DocumentCenter/View/29740/200708-Long-Island-Covid-Impact-Final-Report---FINAL

[4] Coronavirus Economic Impact: A NYS County Update, July 2020, New York State Association of Counties, https://www.nysac.org/files/County%20Economic%20Update%20-%207_23_20.pdf

The County is experiencing a decline in sales tax revenue due to the COVID-19 pandemic as are all the counties across the State. Prior to COVID-19, the County budgeted $1.277 billion in sales tax revenue for 2020, including $14.6 million estimated as the enhanced internet sales tax collections, which took effect in June 2019. The 2020 total adopted budget for sales tax revenue represents a 2.64 percent increase over the 2019 adopted budget, and a 1.75 percent and 6.39 percent increase over 2019 and 2018 actual revenues, respectively.

Our Office developed a model to assess the potential impact to sales tax receipts based on a variety of assumptions. The model provides our Office with a flexible and dynamic tool to analyze sales tax collections as new information becomes available in the wake of COVID-19. The model uses a pre-COVID-19 baseline (for 2020, the adopted budget) to compare three potential ranges based on selected assumptions, resulting in low, moderate, and high impact scenarios.

Our Office released the first analysis on the potential sales tax revenue impact on May 15, 2020. The analysis showed the potential for a $156.4 million to $360.1 million decline in sales tax revenue for 2020, representing a decline of 12.25 percent to 28.20 percent over the adopted budget. Since the initial release, the County has received additional sales tax revenue, which fell within the lower impact scenario of the original range. Based on this, we re-calibrated the assumptions in the model based on actual sales tax revenue in May and June, which represent the first two full months of sales tax receipts impacted by COVID-19, given the 30 to 60-day lag from transaction to receipt.

For 2020, based on the re-calibrated model as of June 30, 2020, our Office now anticipates sales tax revenue may be 11.17 percent to 27.32 percent less than the 2020 adopted budget, which is a shortfall of approximately $142.7 million to $348.8 million – slightly less than originally anticipated. The current scenario is a slight improvement from the initial analysis released in May 2020.

Potential Sales Tax Scenarios for Fiscal Year 2020
(as of June 30, 2020)
(in $ millions)

Scenario	Scenario Estimate	Expected Shortfall	% Change from 2020 Adopted Budget
Low Impact	$1,134.0	($142.7)	-11.17%
Moderate Impact	$1,030.9	($245.7)	-19.25%
High Impact	$927.8	($348.8)	-27.32%

In addition, as of the date of this report, County sales tax collections have declined by 13.92 percent year-over-year primarily due to the COVID-19 shutdowns, but the collection of the enhanced internet sales tax provided the County with a cushion in the first quarter of 2020, which helped alleviate some of the sales tax shortages in the second quarter.

Hypothetical Second Wave Scenario

As part of the sales tax analysis using the new sales tax model described above, our Office modeled the effects of a “what-if” second scenario, hypothetically assuming there was a second wave of COVID-19 in New York beginning in the third quarter of 2020. The re-calibrated model showed the moderate impact to sales tax revenue to be a shortfall to the budget of $292 million, an increase of approximately $53 million from our projected shortfall of $238.8 million. There is a lag in the collection of sales tax on transactions versus the receipt of those collections by the County, thus the first month impacted, from a reporting perspective, as a result of a hypothetical second shutdown would be December 2020. Under the hypothetical second wave scenario, the model estimates low and high impact shortfalls to the 2020 adopted budget for sales tax revenue of $193.4 million to $390.4 million, respectively.

Using similar assumptions to the assumptions for a hypothetical second shutdown inherent in the sales tax model, the 2020 projected shortfall to the adopted budget, assuming a second wave and corresponding shutdowns, would result in a shortfall of $428.1 million on a GAAP reporting basis, an increase of $87.7 million to the 2020 projected deficit of $340.4 million in this report. Besides sales tax revenue, we estimate that major categories, such as State Aid, Department Revenue, and Fines and Forfeitures would be impacted should New York experience a similar shutdown. The financial effects, particularly to sales tax, would likely continue into the new year as well.

EXHIBIT 1: 2020 Adopted Budget to Projected Actuals Variance Drivers

Key Highlights: Adopted Budget to Projected Actuals Variance Drivers

Positive "Opportunity" Key Drivers ⇧

Payroll and Fringe Savings	+ $71.0 million	Primarily unfilled positions County-wide slightly offset by higher OT and PD termination pay costs
Federal Aid	+ $30.0 million	CARES Act funding received from the FTA for bus operations
Social Services	+ $15.5 million	Savings projected in Recipient Grants ($3.0 million), Purchased Services ($3.4 million) and Medicaid ($9.1 million)
Debt Service	+ $13.9 million	Expenditure savings in principal and interest costs projected primarily due to lower borrowings than budgeted
Local Government Assistance	+ $13.2 million	Expenditure savings due to lower sales tax revenues redistributed to local governments

Unfavorable "Risk" Key Drivers ⇩

Sales Tax Revenue	- $238.8 million	Shortfall due to economic conditions, shutdowns and consumer confidence due to COVID-19 pandemic
Departmental Revenue	- $65.3 million	Due to revenue shortfalls across departments but primarily GIS Tax Map revenues ($12.7 million), and lower projected Farebox revenues ($30 million)
State Aid	- $52.0 million	Primarily the result of the State's ability to cut back funding to local governments as a result of COVID-19 shortfalls at the State level
Fines and Forfeitures	- $43.0 million	Primarily due to lower PD Public Safety fines ($13.7 million), Red Light Camera ($13.3 million) and other TPVA fines
OTB Lottery Terminals	- $15.2 million	Due to shutdowns in the gaming industry resulting from the COVID-19 pandemic
Rents and Recoveries	- $13.0 million	Primarily due to risks in Sale of County Property ($6.5 million) and Coliseum revenues ($3.0 million)

The projected material variances to the County's 2020 Adopted Budget are shown below in Exhibit 2, with projected GAAP adjustments in Exhibit 3, and projected GAAP Fund Balance in Exhibit 4.

EXHIBIT 2: 2020 Revenue and Obligations Forecast

Revenue and Obligations Forecast for 2020 Mid-Year Report
($'s millions)

	2020 Budget	2020 Projected GEN*	2020 Projected PDD	2020 Projected SSW	2020 Projected Total		Variance
Revenues							
Sales Tax	$1,276.7	$1,037.9			$1,037.9		($238.8)
Use of Fund Balance							
Interest Penalty on Tax	36.9	27.1			27.1		(9.8)
Permits and Licenses	20.2	10.3	3.3	0.6	14.2		(6.0)
Revenue Offset to Expenditures	20.7	20.7			20.7		
Departmental Revenue	0.0	0.0					
Assessment - GIS Tax Map Fees	45.1	32.4			32.4	(12.7)	
County Clerk - Mortgage Recording Fees	39.3	39.3			39.3		
Other Departmental Revenue	146.7	90.1	2.7	1.3	94.1	(52.6)	(65.3)
Fines and Forfeitures							
Boot and Tow Fees	2.3	1.2			1.2	(1.1)	
Red Light Camera Fees	47.6	31.1			31.1	(16.5)	
Public Safety Fees	34.7	21.0			21.0	(13.7)	
Other Fines and Forfeitures	28.6	16.0	0.9		16.9	(11.7)	(43.0)
Investment Income	10.0	4.2	0.2	0.4	4.8		(5.2)
Rents and Recoveries							
Sale of County Property	6.5					(6.5)	
Recoveries of Prior Year Appropriations	9.5	9.5			9.5		
Workers' Compensation Settlement Recovery							
Other Rents and Recoveries	21.7	10.4		4.8	15.2	(6.5)	(13.0)
Federal Aid	142.3	172.3			172.3		30.0
State Aid	224.3	172.3			172.3		(52.0)
Capital Resources for Debt	2.7	12.5			12.5		9.8
Property Taxes	821.4	431.3	390.1		821.4		
Payment in Lieu of Taxes	47.9	31.1	16.8		47.9		
OTB Profits	20.0	4.8			4.8		(15.2)
Interfund Revenue	79.4	79.3	0.1		79.4		
Interfund Revenue (eliminating)	450.4	425.4			425.4		(25.0)
Interfund Transfers (Other Financing Sources)	138.8	0.1		138.8	138.9		0.1
OTB 5% Tax	1.9	0.6			0.6		(1.3)
Special Taxes	30.5	25.4			25.4		(5.1)
Total Revenue	**$3,706.1**	**$2,706.3**	**$414.1**	**$145.9**	**$3,266.3**		**($439.8)**
Obligations							
Payroll (excluding Termination Pay and Overtime below)	810.8	556.1	183.0	9.2	748.3		62.5
Termination Pay (Police Department only)	36.3	27.0	22.1		49.1		(12.8)
Fringe	619.6	444.0	138.6	8.3	590.9		28.7
Overtime (Police Department and Correctional Center only)	68.2	50.4	25.2		75.6		(7.4)
Workers' Compensation	31.1	24.0	9.6		33.6		(2.5)
Social Services	412.2	396.7			396.7		15.5
Early Intervention	137.0	137.0			137.0		0.0
Debt service	408.7	382.2		12.6	394.8		13.9
Contractual Expense	348.9	287.9	1.0	65.9	354.8		(5.9)
Utilities	41.8	32.0	1.4	6.0	39.4		2.4
Judgments & Settlements	30.3	30.0		0.3	30.3		0.0
Property Tax Refunds	30.0	30.0			30.0		0.0
Equipment	3.2	4.3	0.3		4.6		(1.4)
General Supplies	38.5	37.0	4.1	1.3	42.4		(3.9)
Direct Expenses	5.3	5.3			5.3		
Local Government Assistance	75.1	61.9			61.9		13.2
Interfund Charges	64.4	23.3		41.1	64.4		
Interfund Charges (eliminating)	450.4	401.7	23.7		425.4		25.0
Transfers Out (Other Financing Uses)							
Transportation	45.2	45.2			45.2		
Rent Expense	14.0	14.0			14.0		
Other	35.1	35.1			35.1		0.0
Total Obligations	**$3,706.1**	**$3,025.1**	**$409.0**	**$144.7**	**$3,578.8**		**$127.3**
Estimated Results on a Budgetary Basis for operating funds		**($318.8)**	**$5.1**	**$1.2**	**($312.5)**		**($312.5)**

* Includes: General Fund, Police Headquarters Fund, Fire Prevention, Safety, Communication and Education Fund, Debt Service Fund, Litigation Fund, Employee Accrued Benefits Liability Reserve Fund, Retirement Contribution Reserve Fund, Bond Indebtedness Reserve Fund, Open Space Fund and Technology Fund

EXHIBIT 3: 2020 Projected Budgetary Basis to GAAP Reconciliation

2020 Estimated Budgetary Basis to GAAP Adjustments ($'s in millions)	General Fund	Police District Fund	Sewer and Storm Water Fund	Total Operating Funds
Projected Results on a Budgetary Basis	($318.8)	$5.1	$1.2	($312.5)
Period of availability adjustments	($1.5)		($8.6)	($10.1)
Pension expenditure adjustment	$0.1	($2.2)	($0.2)	($2.3)
Sale of Mitchel Field Leases	$1.3			$1.3
NCC adjustment for termination pay	($0.8)			($0.8)
Effect of encumbrances adjustment	($17.0)	($0.1)	$1.1	($16.0)
NET CHANGE IN FUND BALANCE (DEFICIT)	($336.7)	$2.8	($6.5)	($340.4)

EXHIBIT 4: 2020 Projected Ending GAAP Fund Balance

2020 Projected Ending GAAP Fund Balance *($'s in millions)*	General Fund	Police District Fund	Sewer and Storm Water Fund	Total Operating Funds
2019 Ending Fund Balance				
Non Spendable	$40.2	$11.8	$0.3	**$52.3**
Spendable:				
Restricted	8.1	-	-	**8.1**
Committed	36.9	6.3	-	**43.2**
Assigned	-	1.1	-	**1.1**
Unassigned	112.2	-	-	**112.2**
Total Fund Balance (Deficit) as of 12/31/2019	**$197.4**	**$19.2**	**$0.3**	**$216.9**
Total Projected Change in Fund Balance (Deficit) FY 2020	**($336.7)**	**$2.8**	**($6.5)**	**($340.4)**
2020 Projected Ending Fund Balance (Deficit)				
Non Spendable	$40.1	$12.6	$0.4	**$53.1**
Spendable:				**-**
Restricted	7.3	-	-	**7.3**
Committed	36.9	6.3	-	**43.2**
Assigned	-	-	-	**-**
Unassigned	(223.6)	3.1	(6.6)	**(227.1)**
Total Projected Fund Balance (Deficit) at 12/31/2020	**($139.3)**	**$22.0**	**($6.2)**	**($123.5)**

Other Potential Risks and Opportunities

At this time, due to limited available details, the projected operating results DO NOT account for the potential fiscal impacts of various other possible transactions detailed below. These transactions may materialize by the close of fiscal year 2020; however, the timing and/or possibility of these transactions remains uncertain as of this publication.

The total potential opportunities that have the possibility of being realized total approximately **$124.4 million**.

The largest risk to the 2020 projections would be if there were a hypothetical second wave, requiring shutdowns to the local economy, with the risks ranging from a deficit of **$329.8 million to $526.8 million**.

1. **Sales Tax | Potential Impact– Shortfalls of $142.7 million to $348.8 million**
   Sales Tax Hypothetical Second Wave | Potential Impact– Shortfalls of $193.4 million to $390.4 million

   As stated in section 1.3 above, the sales tax model projects a low, moderate and high impact scenario for sales tax receipts shortfalls against the budget within the range of a shortfall of $142.7 million for a low impact to a high impact shortfall of $348.8 million. Our projections assume the moderate shortfall impact of $245.8 million. However, depending on the local economic factors, including the continued re-opening of businesses, and local unemployment, and consumer confidence, the potential impact to 2020 financial results may vary, either better or worse, than the moderate impact. A second scenario was modeled, assuming a hypothetical second wave and corresponding shutdowns in the third quarter of 2020. Under that model, the shortfall in sales tax revenue was estimated to range from a low impact of $193.4 million to a high impact of $390.4 million, with a moderate impact of $291.9 million. While our projections do not assume a hypothetical second wave, it is a possible risk to the County. The Comptroller's Office will continue to monitor this major revenue source throughout the year.

2. **Total Revenue (including Sales Tax) | Potential Impact - Shortfalls of $347.6 million to $430.3 million**

   In NYSAC's latest report, it projects total COVID-19 related revenue losses for Nassau County (including sales tax) to fall within the range of $347.6 million to $430.3 million for fiscal year 2020. The projected losses for Nassau County are the second largest in the State, behind Suffolk County (New York City was not included in this analysis), and represents 16.6 percent to 14.4 percent, respectively, of the total mild to severe revenue losses projected for all counties in the State, excluding New York City).[5]

[5] Coronavirus Economic Impact: A NYS County Update, July 2020, New York State Association of Counties, https://www.nysac.org/files/County%20Economic%20Update%20-%207_23_20.pdf

3. **Debt Restructuring | Potential Impact – Up to + $75 million**

NIFA withholds County sales tax collections in an amount equal to its debt service costs. The County reports its sales tax collections on a gross basis with the offset reported as debt service on a budgetary basis. NIFA has the ability to refinance up to $75 million of debt maturing in November 2020. If this debt is restructured, the debt service reported by the County on a budgetary basis would decrease by an equal amount and would also provide an equal amount of additional cash to the County. At the time of this report, it is unknown if NIFA will restructure the debt in 2020.

4. **Federal and State Aid | Potential Impact - To Be Determined**

State Aid cutbacks have already begun throughout the State as a result of the COVID-19 revenue shortfalls realized at the State level. Depending on several factors, including whether a new stimulus package with revenue loss funding for States and local governments will be agreed upon by Congress, will determine how mild or severe those cuts will be. Due to the significant impact on State and local government budgets across the nation, Federal legislation in the form of additional stimulus funding could mitigate the County's revenue losses that will not be replaced in 2020.

5. **Judgments and Settlements | Potential Impact – Up to + $14.8 million**

The County's Litigation Fund, a component of the General Fund for reporting purposes, currently holds approximately $14.8 million of which $8.5 million is for general litigation and $6.3 million is for litigation related to the Police District. Should the Administration utilize these funds to pay budgeted judgments and settlements in 2020, there may be budgetary relief.

6. **Capital Closeouts | Potential Impact – Up to + $22.0 million**

The County's capital projects are primarily funded with the proceeds of bond issuances. When a project is completed and there will be no further activity under that project, in accordance with Local Finance Law Section 165, any remaining unused bond proceeds may be used for debt service payments. The Administration has identified approximately $32.0 million of unused proceeds available to pay debt service expenditures. At the time of this report, $9.8 million has been used to offset debt service expenditures and it cannot be determined how much more of the balance identified as potential closeouts will be available prior to year-end 2020. It should be noted that any unused bond proceeds recognized in the operating funds becomes an adjustment when computing the Control Period Calculation results for the fiscal year.

7. **Program to Eliminate Gap (PEG) | Potential Impact – Up to + $12.6 million**

The Administration included in its 2020-2023 Multi-Year Financial Plan update as gap closing opportunities initiatives of $25.0 million to eliminate the budgetary gaps (PEG) by revoking spending from agency budgets. We noted that $12.6 million of 2020 budget appropriations have been revoked from departments and agencies: approximately $0.4

million for Equipment and General Expense, $8.9 million of Contractual Service costs and $3.3 million of Pre-School/Early Intervention expenditures.

8. **NYS Workers' Compensation | Potential Impact - To Be Determined**

In 2019, New York State eliminated its workers' compensation long-term liability to the County, which estimates the cost of reimbursing the County for certain categories of injured workers, by offering the County a discounted upfront payment of $15.0 million. The County received the funds and recorded a recovery in its Litigation Fund last year, noting that the funds were to be used to pay workers' compensation settlements. Due to the County's current financial situation, these funds may be used to pay workers' compensation claims, not settlements, to mitigate the 2020 projected deficit. Our projections do not include any adjustments to the operating funds as it is unknown at this time, if these payments will be made and if so, how much.

9. **OTB Profits - Video Lottery Terminals (VLT) | Potential Impact – Up to +15.2 million**

In July 2020, the County received a payment of $4.8 million, representing the scheduled payment that was to be received in May. Considering the current shutdowns that took place, we are risking the remaining $15.2 million of 2020 VLT revenues. The scheduled February 15 payment was received, however, that was reported in the 2019 fiscal year. The May 15 payment was received, and we are risking the August 15, November 15 and February 15, 2021 payments. There may be an opportunity for the Administration to recover some or all of these scheduled payments, however the potential impact cannot be determined at this time.

10. **Labor Contracts | Potential Impact - To Be Determined**

To date, all collective bargaining units' contracts, except for the Detective's Association Inc. of the Police Department of the County of Nassau (DAI), have expired. The fiscal year 2020 budget and our projections do not include specific potential fiscal impacts of any newly negotiated agreements.

11. **Disputed Assessment Fund (DAF) | Potential Impact - To Be Determined**

New York State legislation was passed in 2018, effective 2019, that amended the use of DAF collections from commercial property owners. DAF charges collected in 2019 may be used to pay any tax certiorari refund due to a commercial property owner, including liabilities that pre-dated the DAF charge. In addition, for 2017 and 2018 DAF charges collected, the County reports a portion of the DAF charge as Property Tax Revenue when the property tax grievance is lost by the commercial property owner. At this time, we cannot estimate how much, if anything, will be earned by the County in 2020.

12. Nassau Health Care Corporation | Potential Impact – To Be Determined

In its latest audited financial statements (fiscal year 2019), the auditor's letter cited a "going concern" for the hospital, similar to previous years' financial statements, due to growing operating deficits. Its 2020 budget forecast projects an operating deficit of $86.1 million, or $22.1 million (34.5 percent) worse than its 2019 operating deficit of $64.0 million. To that end, NIFA recently hired a healthcare consulting firm to assist with the 'turnaround' of the hospital. While the hospital provides various services to the County, its primary service is providing medical care to inmates at the County's Correctional Center. Should the hospital cease to exist, the County's cost of providing these services to inmates may increase.

1.4 STATE OF THE ECONOMY:

Communities across the Country have been financially impacted by the unprecedented global pandemic with COVID-19 and Nassau County has not been immune. According to the National Bureau of Economic Research, the U.S. entered a recession in February 2020[6]. The average length of a recession is estimated at 17 months, which indicates the County may not feel relief until late 2022 or early 2023 depending on the longevity of the pandemic.

The *Economist* reports that the global economy is expected to shrink by 3% in 2020 and advanced economies are expected to shrink by 6.1%[7], which represents an impact not felt since The Great Depression. Moody's anticipates the U.S. economy will contract by 5.7% in the year 2020 which may shift the outlook of many U.S. local governments from stable to negative investment ratings[8].

Numerous economic indicators are available to monitor the health and well-being of our economy, and gross domestic project (GDP), unemployment rates, consumer price index (CPI) and the real estate market are several which are highlighted within this report to demonstrate the current conditions affecting the Nassau County economy.

Gross Domestic Product (GDP)

Measuring GDP provides insight into the overall health of both global and national economies. A decline in GDP indicates an economy is in recession. There exist vast ranges in estimates of the impact of COVID-19 on the nation's GDP. As of June, the Federal Reserve estimates a decrease in GDP ranging between a low of -4.2% to a high of -10%[9]; while the Federal Reserve Bank of New York estimates a decline in the middle of this range at -6.8% for 2020[10].

In July 2020, the United States Commerce Department reported that gross domestic product fell at a seasonally and inflation adjusted 32.9% annual rate in the second quarter, or a 9.5% drop compared with the prior quarter. This represents the steepest decline in more than 70 years, including the slumps caused by the Great Depression and the Great Recession.

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[6] The National Bureau of Economic Research, June 8, 2020, https://www.nber.org/cycles/june2020.html

[7] The Economist, April 14, 2020, https://www.economist.com/graphic-detail/2020/04/14/the-global-economy-is-expected-to-shrink-by-3-this-year

[8] Moody's, May 4, 2020, https://www.moodys.com/login?ReturnUrl=http%3a%2f%2fwww.moodys.com%2fresearchdocumentcontentpage.aspx%3f%26docid%3dPBM_1226660

[9] Federal Reserve, June 10, 2020, https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20200610.htm

[10] Federal Reserve Bank of New York, June 25, 2020, https://www.newyorkfed.org/research/policy/weekly-economic-index

Unemployment

As of the end of 2019, Nassau County's unemployment rate was 3.6% and has been steadily under 5% since early 2015. In April 2020, the County's unemployment rate skyrocketed to 16.1%[11]. A recent study conducted by HR&A Advisors, Inc. (HR&A) for the Nassau County and Suffolk County Industrial Development Agencies, indicated that early in the COVID-19 crisis, Long Island lost jobs at a faster rate when compared to New York City and surrounding suburbs[12]. According to the U.S Bureau of Labor Statistics, the Nassau/Suffolk region's total change in unemployment rates (non-farm and seasonally adjusted) for February and April hit an all-time high of -21.9%, with New York State and the rest of the County at -19.8% and -14.5%, respectively for the same time period. This equated to an initial loss of 270,000 jobs for the region with the hospitality and retail industries, some of the hardest hit industry sectors.

As of May, the unemployment rate for Nassau County was at 12.2%, the State of New York at 14.5% (down from 15.3% in April) and as of June, the U.S. unemployment rate was at 11.1% (down from 14.7% in April)[13]. Although still sitting at record highs, the unemployment rates are trending more positive providing minor areas of relief to the workforce as the economy begins to reopen.

Consumer Price Index (CPI)

According to the U.S. Bureau of Labor Statistics, CPI is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. CPI is an indicator to help measure inflation/deflation, the effectiveness of governmental policies, and impact cost of living adjustments.

The CPI for all urban consumers decreased 0.1% as compared to the previous year (note before seasonal adjustment). Index variations exist between sectors, declines in the energy index (e.g. gasoline) were offset by increasing indexes for food. Food at home experienced the largest increase at 4.8% higher in May 2020 than the previous 12 months period[14].

For perspective, the CPI for Nassau and Suffolk County increased approximately 3.6% between December 2019 and May 2020.

Real Estate Market

As of May 2020, the closed median home price for Long Island, which includes Nassau, Suffolk, and Queens housing data rose to $495,000 representing a 6.5% increase from the previous year[15]. More specifically, Nassau County reported a closed median home price of $585,000 for the same time period, representing an increase of 10.4% from the previous year as reported by Multiple

[11] U.S. Bureau of Labor Statistics, April 2020 update, https://www.bls.gov/eag/eag.ny_nassau_md.htm#eag_ny_nassau_md.f.1

[12] HR&A, Nassau & Suffolk COVID-19 Economic Impact Final Report, July 8, 2020, http://www.nassaucountyny.gov/EconomicImpact

[13] U.S. Bureau of Labor Statistics, May and June 2020 updates, https://www.bls.gov/regions/new-york-new-jersey/new_york.htm#eag

[14] U.S. Bureau of Labor Statistics, July 10, 2020, https://www.bls.gov/news.release/archives/cpi_06102020.htm

[15] Multiple Listing Service, June 8, 2020, http://links.mlsstratus.com/actrep/Current/highlight.pdf

Listing Service (MLS).[16]

MLS also reports that for May 2020, Long Island listed a total number of available residential listings at 14,759, a decrease of 21.1% from May 2019. For Nassau County, the total number of residential properties sold was 567, a decrease of 45.7% as compared to the previous year, and the total number of pending sales was down 60% as compared to the May 2019.

One potential prospect for the regional housing market is that Long Island could end up getting a boost from New York City residents moving east seeking more space, less congestion and potential affordability[17].

Although the County is considered developed with limited vacant parcels, transit-oriented housing development and re-development, can serve to attract young professionals, and can add great value to the existing traditional housing stock.

Median Household Income

Median household incomes in the County are significantly above the national average and the New York State average. According to the 2018 American Community Survey, the County's median household income totals $111,240, as compared to the State and national median family income of $65,323 and $60,293, respectively.

Lastly, it is important to note that the federal tax-reform, in particular the cap on State and Local Taxes (SALT) deductions, may continue to pose a risk to the County's economy and housing activity in the coming year.

1.5 OPPORTUNITIES:

Federal Funding for the COVID-19 pandemic

The Federal government provided expense relief for State and local municipalities from the economic effects of the COVID-19 pandemic. The Coronavirus Aid Relief and Economic Security (CARES*)* Act was enacted on March 27, 2020 and established the Coronavirus Relief Fund, which provided $150 billion to State, Local and Tribal governments. The County applied for and received approximately $102.9 million of funding under the Coronavirus Relief Fund and $33.1 million of funding from the Federal Transit Authority under the CARES Act. As of July 2020, all CARES funding resides in the General Fund although it is the Administration's expectation that some or all will be moved to a newly established COVID Fund. There is the potential for an additional federal stimulus package to afford flexibility for current funding to be used for some economically related revenue losses or even to provide additional funding. The outlook for both is uncertain, as of the publishing of this report.

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[16] Long Island Board of Realtors, June 18, 2020, https://www.lirealtor.com/news/real-estate-news/view/news/2020/06/18/long-island-housing-data-for-may-2020

[17] McDermott, Maura, Newsday, May 14, 2020, https://www.newsday.com/business/coronavirus/housing-market-coronavirus-sales-1.44636572

Actions taken by the Administration

The Administration has taken various steps to address the myriad of inherited fiscal challenges. The Administration has prioritized fixing the property assessment system, in order to achieve a fair and equitable assessment. The County Legislature approved the Administration's Taxpayer Protection Plan, which phases in changes in assessment over 5-years to protect residents from large changes in assessment. There are expected to be long-term benefits that will impact future fiscal year financial results.

Other Opportunities

In addition to the measures already taken by the Administration, the Comptroller's Office proposes the continuing review of the following opportunities for improvement:

1. Modernize the County's Legacy Financial System

   Modernizing the County's legacy financial system must continue to be a key priority to ensure continued compliance with governmental accounting standards and timely financial statements. The Nassau Integrated Financial System (NIFS), which runs on coding designed for 1980's accounting systems, cannot efficiently produce GAAP-compliant financial statements and thus the process is highly manually-driven. In addition, an up-to-date financial system will increase operational and reporting efficiencies and result in savings of taxpayers' dollars.

   Preparing reliable financial information is a key responsibility of management. The design and effectiveness of the processes and safeguards (internal controls) management puts in place over accounting and financial reporting is a key factor to being able to prepare reliable financial information timely.

   In prior years, the County's financial system has been classified as a **material weakness**, which means an ineffective system exists that presents a **reasonable probability that a material misstatement of the County's financial statements will NOT be prevented or detected on a timely basis**, because the County's financial system is unable to produce financial information that meets the needs of the County.

   Reports such as this one requires hundreds of staff hours to create GAAP-compliant reporting as the information is not available from the County's financial system. Instead, the County's staff hours should be utilized analyzing the data so that helpful decision-making information can be derived from the data. As stated earlier in the discussion of an ERP system, the Comptroller's Office has made progress in moving to modernizing its financial system.

2. Centralize Departmental Functions

   The County's organization was heavily decentralized for many functions. This has resulted in inefficiencies and inconsistencies in reporting, requiring additional staff time to process adjusting entries needed for compliance with GAAP reporting. In addition, in certain regards, decentralization does not optimize internal controls. The County Comptroller will continue working with the Administration to recommend areas where centralization would be beneficial by increasing efficiencies and saving money. For example, the County does not have a centralized accounts receivable (revenue collection) unit. We recommend a concerted effort be put forth to centralize more County operations and collect all revenues and open receivables that are due to the County in a timely fashion.

3. Financial and Data Analytics

The Comptroller's Office has taken many steps to open and modernize the County's finances as discussed above. In 2020, the Comptroller's Office, with the assistance of a consulting firm, developed a sales tax model which we expect to assist us in the better monitoring of sales tax revenue, the largest revenue generator for the County. In addition, financial and data analytics has and will provide the County's senior management with more timely information with which to make timely and better decisions, including the ability to be proactive to situations that may arise rather than react to situations that occur. The Open Nassau Transparency Hub may be found online at opennassau.nassaucountyny.gov.

4. Grant Management Unit

In prior years, we recommended the creation of a grant management unit to oversee all grants within the County and assist departments in obtaining all possible funding available to the County. Other major Counties have employed this practice. The County Executive's Office has moved forward establishing a grant management oversight group. We recommend that the County Executive continue to increase the group's role, such as by identifying possible grants that may be available to the County.

5. Audit Recommendations and Risk Assessment

The Comptroller's Office continues to conduct a number of programmatic and fiscal audits of County departments and operations. The reports issued by the Comptroller's Office contain detailed recommendations for improvements which can be made by the current administration to save taxpayer dollars and more efficiently deploy limited resources. A collaborative approach to the audit process and swift implementation of recommended corrective action plans is an important resource to help the Administration tackle inherited operational and fiscal weaknesses. A new follow-up review process of all audits conducted by the Comptroller's Office provides an additional check that corrective action plans have been properly implemented. In addition, compliance and integrity are key cornerstones to the audit process and the risk assessment process in determining the specific audits to be conducted. Areas where efficiencies or saving taxpayer's money are crucial drivers of the risk assessment.

In the following sections, you find more detailed discussion on various revenue variances, expenditure variances, fund balance, projected debt levels, and other key concerns and major County financial trends.

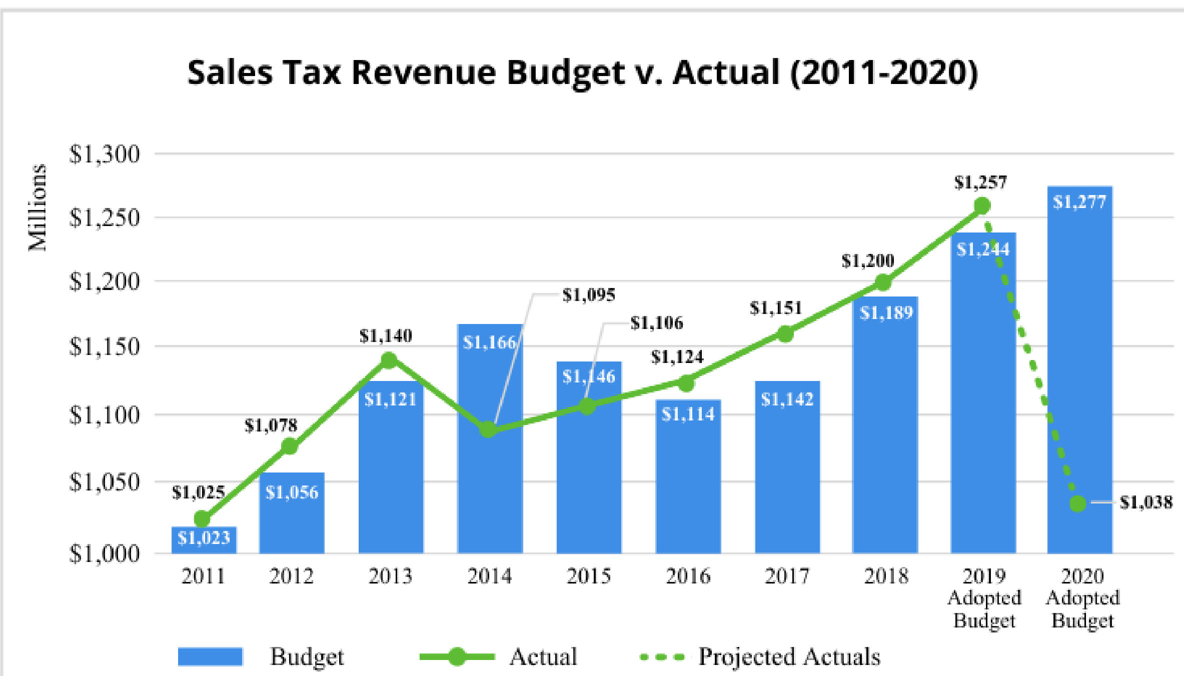
2.0 REVENUE VARIANCES

This section discusses the revenue items with variance from budget, as identified in Exhibit 2.

2.1 Sales Tax

Sales tax revenue represents the largest revenue source of the County's 2020 adopted budget, which has historically accounted for approximately 40 percent of revenue. Of the categories of taxable sales activity as identified by industry sectors and sub-sectors, as defined by the North American Industry Classification System (NAICS), Retail Trade and Accommodations & Food Services are the two industry sectors that generate the most sales tax revenue in the County, making up about 58.35 percent and 11.37 percent, respectively, or just under 70 percent of all taxable sales activity, based on a four-year average.

In 2019, actual sales tax revenue increased year over year for the fifth consecutive year. The 2020 adopted budget anticipated a sixth consecutive year of growth. Prior to the COVID-19 pandemic, the County anticipated $1.277 billion in sales tax revenue for 2020, including $14.6 million from enhanced internet sales tax, which became effective in June 2019. The 2020 sales tax revenue in the 2020 adopted budget represent a 2.64 percent increase over the prior year's adopted budget, and a 1.75 percent and 6.39 percent increase over 2019 and 2018 actual revenues, respectively.



The COVID-19 pandemic is having a devastating effect on County sales tax receipts, particularly since the Retail Trade and Accommodations & Food Service industries comprise almost 70 percent of all taxable sales activity in the County, and these industries were hit hard during the shutdowns. Within the Retail Trade industry, Automobile dealers represent the largest sub-industry source for the County, at 21.19 percent, followed by Clothing Stores at 11.27 percent and Gasoline Stations at 7.76 percent. Within the Accommodations & Food Services industry, there are five sub-sectors, the largest source of sales activity for the County being Restaurants and Other Eating Places, which makes up 82.83 percent of sales for this industry.

Year-to-date sales tax receipts (through July 20) are 13.9 percent lower than last year's comparative collections due to the COVID-19 shutdowns. As a result of the 30 to 60-day lag from transaction to sales tax receipt, through April 2020, sales tax receipts were higher than last year's collections by 5.1 percent, due primarily to the enhanced internet sales tax, which became effective in June 2019. The County's sales tax collections were also reduced in May 2020 for the Aid and Incentives to Municipalities (AIM) payment, which is now withheld from County sales tax receipts prior to remittance to the County.

For fiscal year 2020, we are projecting an 18.3 percent decrease through the end of the year for the remaining receipts as compared to the same period in 2019, resulting in a total 17.1 percent decrease over last year's receipts. Therefore, the sales tax model is projecting Sales Tax receipts to reflect a shortfall of $245.7 million from the 2020 adopted budget, or 19.25 percent. Our Office's projections for sales tax revenue, which includes the Part County Deferred Sales Tax of $7.0 million, estimates a shortfall of $238.8 million from the 2020 adopted budget, or 18.8 percent. In its latest projections, the Administration has reduced its estimated sales tax revenue projections by $261.7 million from the adopted budget.

Part County Sales Tax, which is included in the Sales Tax receipts in the Table below, represents the collection of sales tax related to hotel occupancy and alcoholic beverages throughout the County, and it is reimbursed to the Towns within the County and the City of Glen Cove, as a credit to their property tax levies at the amount budgeted. If the Part County Sales Tax collected is over budget, the amount collected in excess of the budgeted amount must be deferred so that the Towns and the City of Glen Cove may be made whole for the remaining amount in the next available tax levy because the amount credited to their tax levy was estimated less than actual collections. The amount deferred in the current year will be reported as revenue in the fiscal year that it is applied as a credit to the tax levy. This is reported as the Part County (Deferred) Sales Tax.

If the Part County Sales Tax collected is under budget, the shortage must be collected from the Towns and the City of Glen Cove in the next available tax levy because the amount credited to their tax levy was estimated higher than actual collections. The City of Long Beach is not included in this distribution because it collects this sales tax directly from the State.

SALES TAX
($'s in millions)

	2019 Actual	2020 Budget	2020 YTD June*	2020 Forecast	Variance
Sales Tax Revenue	1,254.7	1,276.7	411.1	1,037.9	(238.8)

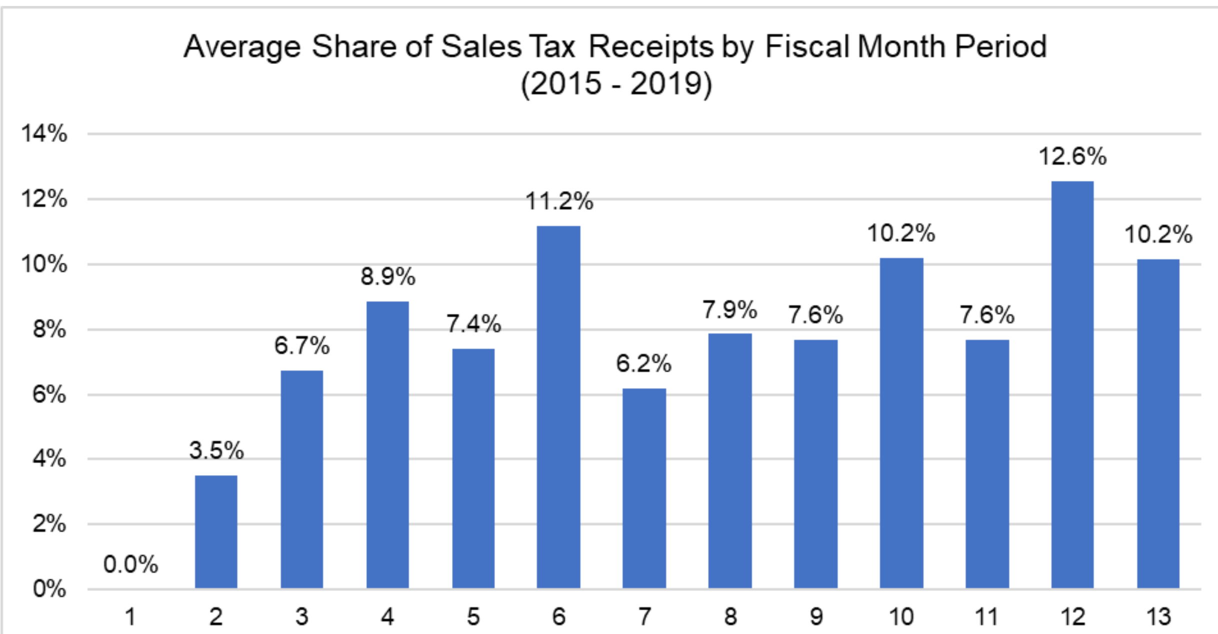
*excluding NIFA adjustments

Using the Sales Tax model described previously in this report, the current low impact, moderate impact and high impact estimates for sales tax receipts for 2020 are shown in the table below. For purposes of our report, we have projected 2020 sales tax receipts using the moderate impact scenario.

Potential Sales Tax Scenarios for Fiscal Year 2020
(as of June 30, 2020)
(in $ millions)

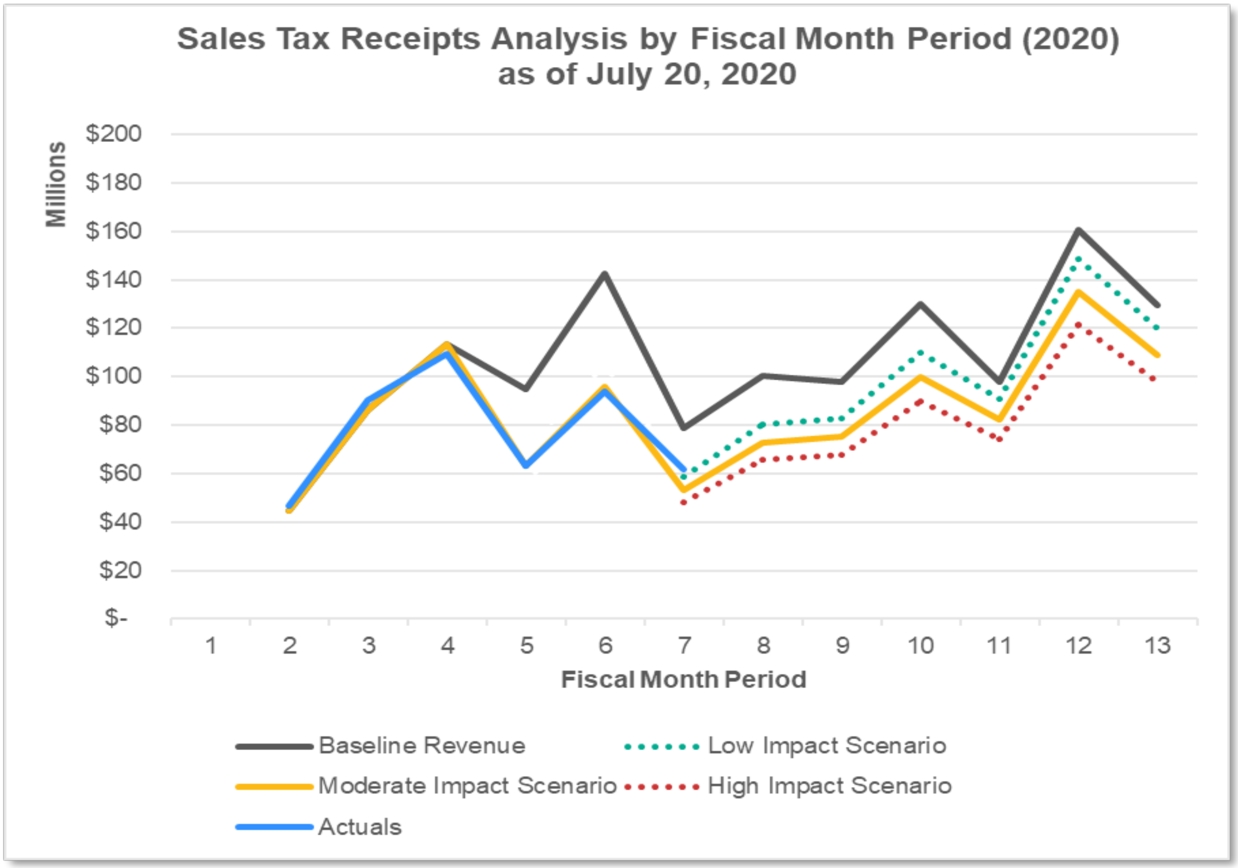
Scenario	Scenario Estimate	Expected Shortfall	% Change from 2020 Adopted Budget
Low Impact	$1,134.0	($142.7)	-11.17%
Moderate Impact	$1,030.9	($245.7)	-19.25%
High Impact	$927.8	($348.8)	-27.32%

The model also considers the seasonality of sales tax receipts. The chart below illustrates the seasonality and the allocation of annual sales tax revenue based on Nassau County's thirteen fiscal month periods.



Note – fiscal year period numbers correspond to the calendar month, i.e. fiscal period 6 is June. Fiscal period 13 represents an adjustment period before the County closes out the financial year.

The line chart below depicts the three scenarios on a fiscal month basis, using seasonality and other assumptions. The solid black "Baseline Revenue" line represents the County's 2020 adopted budget for sales tax; the monthly budgeted data was computed by applying a monthly historical receipts trend to the annual budget. The solid blue line depicts actual receipts in 2020 by month. The two dotted lines show the low and high impact scenarios while the solid yellow lines depict the forecasted receipts for the remainder of the fiscal year.



In the first four fiscal months in 2020, sales tax revenue was trending higher than expected, at a rate 5.1 percent higher than 2019 and 1.04 percent ahead of the 2020 planned revenue. However, May, June and July 2020 sales tax receipts saw year-over-year declines of 30.37 percent, 32.28 percent and 19.37 percent, respectively due to COVID-19 related reductions in sales and purchases (*note – the County produces an annual budget, therefore a monthly budget baseline target is determined utilizing historical monthly sales tax receipt to determine the average monthly share of sales tax revenue*).

Fiscal Month Periods 1 to 7 – 2019 vs 2020 Actual Sales Tax Receipts ($000)

Fiscal Month	2019 Actual	2020 Actual	Year over Year Change	Year over Year % Change
1	-	-	-	-
2	$ 44,264.5	$ 46,775.7	$ 2,511.1	5.67%
3	84,682.1	90,420.4	5,738.2	6.78%
4	105,732.0	109,471.7	3,739.7	3.54%
5	91,056.4	63,405.1	(27,651.3)	-30.37%
6	138,838.5	94,018.4	(44,820.1)	-32.28%
7	76,656.9	61,807.4	(14,849.5)	-19.37%

Fiscal Month Periods 1 to 7 – 2020 Budget vs Actual Sales Tax Revenue				
Fiscal Month	2020 Budget	2020 Actual	Year over Year Change	% Change from Budget
1	-	-	-	-
2	$ 44,817.0	$ 46,775.7	$ 1,958.7	4.37%
3	86,072.2	90,420.4	4,348.2	5.05%
4	113,244.9	109,471.7	(3,773.2)	-3.33%
5	94,650.6	63,405.1	(31,245.5)	-33.01%
6	142,786.7	94,018.4	(48,768.3)	-34.15%
7	78,691.4	61,807.4	(16,883.9)	-21.46%

**Note – Sales Tax receipts collected in Fiscal Month 1 are attributed to Fiscal Month 13 for the prior Fiscal Year.*

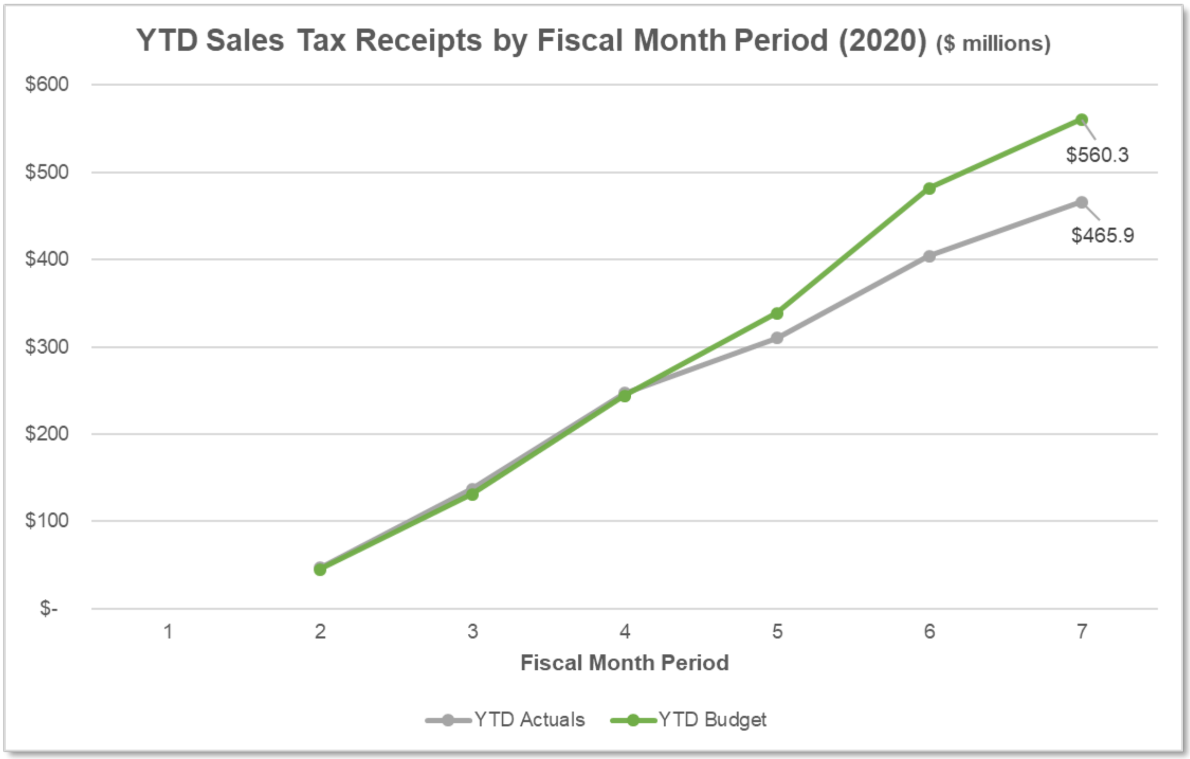
2019 vs 2020 Actual YTD Sales Tax Receipts ($000)				
Fiscal Month	YTD 2019 Actual	YTD 2020 Actual	Year over Year YTD Difference	Year over Year % Change
2	$ 44,264.5	$ 46,775.7	$ 2,511.1	5.7%
3	128,946.7	137,196.0	8,249.4	6.40%
4	234,678.7	246,667.7	11,989.1	5.11%
5	325,735.1	310,072.8	(15,662.3)	-4.81%
6	464,573.5	404,091.2	(60,482.3)	-13.02%
7	541,230.5	465,898.7	(75,331.8)	-13.92%

**Note – Sales Tax receipts collected in Fiscal Month 1 are attributed to Fiscal Month 13 for the prior Fiscal Year.*

As of June 30, 2020, the cumulative year to date sales tax receipts are **16.1 percent below** expected 2020 adopted budget, which is a shortfall of **$77.5 million.**

2020 Budget vs Actual YTD Sales Tax Receipts ($000)				
Fiscal Month	YTD Budget	YTD Actual	YTD Difference	YTD % Change from Budget
2	$ 44,817.0	$ 46,775.7	$ 1,958.7	4.4%
3	130,889.1	137,196.0	6,306.9	4.82%
4	244,134.0	246,667.7	2,533.7	1.04%
5	338,784.6	310,072.8	(28,711.8)	-8.47%
6	481,571.3	404,091.2	(77,480.1)	-16.09%
7	560,262.7	465,898.7	(94,364.0)	-16.84%

The Chart below depicts the actual receipts versus the computed monthly budget (baseline).



Potential Longer-Term Impact of COVID-19 on Sales Tax Revenue

The economic consequences of COVID-19 will most likely extend further into 2020 and beyond. At present, our Office anticipates a budget shortfall in sales tax revenue of $142.7 million to 348.8 million in 2020, which is a decline of 11.17 percent to 27.32 percent from planned sales tax revenue. In addition, sales tax revenue is anticipated to gradually recover in fiscal years 2021 and 2022 but will most likely not return to pre-COVID-19 levels in the next three years.

2.2 Video Lottery Terminals Profits from OTB (OTB Profits)

As we reported last year, VLT revenue is on a payment schedule whereby the County receives $5.0 million four times a year; February 15th, May 15th, August 15th and November 15th. In July 2020, the County received $4.8 million of OTB Video Lottery Terminals ("VLT") proceeds representing the scheduled $5.0 million May 2020 payment; these revenues were earned by OTB in the first quarter of 2020, prior to the COVID-19 shutdowns.

According to the latest report issued by NYSAC in July 2020, gaming revenues have stopped completely since the initial COVID-19 shutdowns. At this time, we conservatively project $15.2 million of OTB VLT proceeds (budgeted as OTB Profits) will not be realized in 2020 and will continue to keep a close watch on these receipts. However, there may be an opportunity to recover all or some of the scheduled payments at a later date and we have noted this in the Executive Summary.

VLT PROFITS FROM OTB ($'s in millions)				
2019 Actual	2020 Budget	2020 YTD June	2020 Forecast	Variance
18.0	20.0	0.0	4.8	(15.2)

2.3 Departmental Revenue

Departmental Revenue is projected to be under budget by $65.3 million. The shortfall to the budget is primarily the result of lower farebox revenues from the bus system ($30.0 million) and lower GIS tax map verification fees of $12.7 million. Mortgage and deed recording fees in the County Clerk's office are projected to be on budget driven primarily to a strong mortgage refinancing environment due to the record-low mortgage rates. Ambulance fees are projected to be slightly lower than budget ($1.5 million). The remaining shortfall is mainly comprised of County Clerk related fees, and Park fees, the latter having been impacted by museum and recreational facility closures, which continue to be affected by limitations in capacity.

DEPARTMENTAL REVENUE ($'s in millions)					
Category	**2019 Actual**	**2020 Budget**	**2020 YTD June**	**2020 Forecast**	**Variance**
GIS Tax Map Fees	40.6	45.1	13.1	32.4	(12.7)
Mortgage & Deed Recording Fees	41.1	39.3	15.3	39.3	0.0
Ambulance Fees	25.8	25.7	9.5	24.2	(1.5)
Other Departmental Revenue	122.0	121.0	21.5	69.9	(51.1)
Total Departmental Revenue	**229.5**	**231.1**	**59.4**	**165.8**	**(65.3)**

2.4 Fines and Forfeitures

Fines and Forfeitures are projected to be under budget by $43.0 million primarily due to the impacts of the COVID-19 shutdowns. Red light camera fines and administrative fees are projected to be $16.5 million worse than the 2020 adopted budget. Police Department public safety fees are projected to have a shortfall to the 2020 adopted budget of $13.7 million. Business closures, quarantines and residents telecommuting resulted in fewer drivers on the road and thus fewer violations. We project all other fines and forfeitures to have a shortfall to the budget of $11.7 million, primarily in other Traffic and Parking Violations Bureau revenues.

FINES AND FORFEITURES ($'s in millions)					
Category	**2019 Actual**	**2020 Budget**	**2020 YTD June**	**2020 Projected**	**Variance**
Boot and Tow Fees	2.2	2.3	0.4	1.2	(1.1)
PD Public Safety Fees	27.9	34.7	9.3	21.0	(13.7)
Red Light Camera & Admin Fees	46.7	47.6	17.7	31.1	(16.5)
Other Fines and Forfeitures	26.9	28.6	7.3	16.9	(11.7)
Total Fines and Forfeitures	**103.7**	**113.2**	**34.7**	**70.2**	**(43.0)**

2.5 Federal and State Aid

Federal Aid is projected to be over budget by $30.0 million, and State Aid is projected to be under budget by $52.0 million. The positive variance in Federal Aid is primarily due to $33.0 million of CARES funding received from the Federal Transit Authority for the County's bus operations, which is offset by $3.1 million of Federal Aid that may need be returned.

The County applied for and received $102.9 million of CARES Act funding through the Coronavirus Relief Fund to be used to offset eligible expenditures in accordance with the U.S. Treasury's requirements. The Administration has established a new fund, the COVID Response Fund, with the expectation of reporting COVID-19 relief funding and eligible expenditures in this fund. As of the date of this report, the Administration has supplementally appropriated $55.0 million of the $102.9 million of CARES Act funding in the new COVID Response Fund, but no eligible expenditures have yet been transferred.

On March 20, 2020, the New York COVID-19 Pandemic was declared a major disaster (DR-4480) and thus Public Assistance Grants under FEMA were obligated to the State for emergency work. At the time of this report, the County has not yet received this funding, however, $5.0 million has been budgeted in the COVID Response Fund for this assistance.

The FTA funding award of $33.0 million mentioned above, requires that if the County receives Federal funding from FEMA or through a pass-through entity through the Stafford Act, a different Federal agency, or insurance proceeds for any portion of a project activity approved for FTA funding under the grant award agreement, the County is required to notify the FTA and reimburse the FTA for any Federal share that duplicates funding provided by FEMA, another Federal agency, or an insurance company. We will monitor this as the year progresses.

According to the latest NYSAC report, State Aid cuts of 20 percent to local governments and school districts have begun. Some programs are being cut by more than 30 percent and aid to some programs may be cut in their entirety. State reimbursement cuts will cost New York State counties (excluding New York City) more than $670 million a year.[18] As a result, we have conservatively adjusted our State Aid revenue projection to take into account possible cuts through the end of 2020. These potential reductions in State Aid could result in a negative variance of $52.0 million in this category.

FEDERAL AID ($'s in millions)				
2019 Actual	**2020 Budget**	**2020 YTD June**	**2020 Forecast**	**Variance**
160.4	142.3	161.3	172.3	30.0

[18] Coronavirus Economic Impact: A NYS County Update, July 2020, New York State Association of Counties, https://www.nysac.org/files/County%20Economic%20Update%20-%207_23_20.pdf

STATE AID ($'s in millions)				
2019 Actual	**2020 Budget**	**2020 YTD June**	**2020 Forecast**	**Variance**
232.9	224.3	42.3	172.3	(52.0)

2.6 Rents and Recoveries

Rents and Recoveries revenue is projected to be under budget by $13.0 million. A negative $6.5 million is projected for the sale of County property. To the best of our knowledge, no sales have as yet been approved. Additionally, we project that recoveries from disencumbrances will be on budget. We also project Other Rent and Recoveries to be under budget by $6.5 million. This variance is based on trending year-to-date collections for primarily Recovery Damage to County Properties, Coliseum Rental and Utilities, and Rental Properties.

In June, the operator of NYCB Live's Nassau Coliseum announced that the Coliseum would be shutting its doors and the operator would be looking for investors to take over its lease with the County. It is our understanding that in July, the County sent a notice of default to the Coliseum operator for over $2.0 million in unpaid rent and utilities, and the County is currently in negotiations with the operator. To date, the County has $0.3 million in Coliseum Rental and Utilities, however, we are risking all open receivables and future revenues through the rest of the fiscal year, which total approximately $2.5 million. While the County may report these as current receivables on a budgetary basis, for GAAP purposes these revenues would be deferred.

The Sewer and Storm Water Fund records within the Rents and Recoveries category the reimbursement received from the County's sewer operator, SUEZ Water Long Island Incorporated (SUEZ), for the use of County employees who work in sewer operations. At the inception of the operating contract in 2015, the County was to receive $10 million for the use of those employees. Over time, due to attrition, the amount reimbursed by SUEZ is now budgeted at $4.2 million. However, the amount due to the County by the sewer operator has grown as prior year receivables continue to remain open. As of July 25, open receivables from the sewer operator total $13.1 million, with some receivables dating back to the year of inception. Because open receivables have not been collected prior to the end of the County's annual period of availability (60 days), the revenue reported is deferred on a GAAP basis, thus reducing the County's reported GAAP results, and affecting County cash balances. For 2020, we project that the SSW revenues that will need to be deferred in accordance with the period of availability, will be $8.6 million, up from $4.4 million deferred in 2019. *Note that this deferral is not recognized on a budgetary basis but appears as a GAAP adjustment to the budgetary results.*

RENTS AND RECOVERIES ($'s in millions)					
Category	**2019 Actual**	**2020 Budget**	**2020 YTD June**	**2020 Projected**	**Variance**
Sale of County Property	0.1	6.5	0.0	0.0	(6.5)
Disencumbrances	25.8	9.5	3.6	9.5	0.0
Other Rents and Recoveries	24.4	21.7	6.7	15.2	(6.5)
Total Rents and Recoveries	**50.3**	**37.7**	**10.3**	**24.7**	**(13.0)**

2.7 Investment Income

Investment Income is projected to be under budget by $5.2 million. Year-to-date revenues have been showing a decreasing trend due to lowering interest rates as a result of the slowing economy. We are conservative projecting a similar trend through the end of 2020 that would result in the negative variance stated.

INVESTMENT INCOME ($'s in millions)				
2019 Actual	2020 Budget	2020 YTD June	2020 Forecast	Variance
15.1	10.0	2.9	4.8	(5.2)

2.8 Permits and Licenses

Permit and License revenue is projected to be under budget by $6.0 million. This variance is based on trending year-to-date collections for industrial permits, sewer connection permits, and verification revenues in the Sewer and Storm Water Fund, alarm permits in the Police District Fund and various permit and license fees in the Department of Public Work, Health Department and Office of Consumer Affairs in the General Fund that fall below budgeted amounts. Revenue collections have been affected by the slowing of the economy caused by the COVID-19 pandemic.

PERMITS AND LICENSES ($'s in millions)				
2019 Actual	2020 Budget	2020 YTD June	2020 Forecast	Variance
21.0	20.2	7.1	14.2	(6.0)

2.9 Capital Resources for Debt

Capital resources for debt are projected to be $9.8 higher than budget. This difference is due to the County identifying completed capital projects that have remaining unused bond proceeds. Once it is determined that the project will no longer have any activity, the remaining unused bond proceeds may be used to pay debt service. The Administration has identified approximately $32.0 million in unused proceeds however, to date $9.8 million has been used to offset debt service. At this time, it is unknown how much, if any, additional unused bond proceeds will be used to offset debt service. It is important to note that any increase in revenues from unused bond proceeds will decrease the debt service chargeback expenditures that are allocated to the operating funds and the offsetting debt service chargeback revenues. Debt service chargeback revenues and expenditures are reported as part of Interfund Revenues (eliminating) and Interfund Charges (eliminating).

CAPITAL RESOURCES FOR DEBT ($'s in millions)				
2019 Actual	2020 Budget	2020 YTD June	2020 Forecast	Variance
5.0	2.7	0.6	12.5	9.8

2.10 Interest and Penalties on Taxes

Interest and penalties on late or delinquent property taxes are projected to be $9.8 million under budget. The primary cause of this variance is an extension granted by Executive Order of the County Executive allowing taxpayers additional time to remit school taxes, which were due on April 1st. The extension to July 1st waived any associated penalties or interest associated with such payments. The extension was granted in acknowledgment of financial hardships residents were experiencing due to the COVID-19 pandemic.

INTEREST AND PENALTY ON TAXES ($'s in millions)				
2019 Actual	2020 Budget	2020 YTD June	2020 Forecast	Variance
36.0	36.9	18.5	27.1	(9.8)

2.11 Other Revenue Categories

Special taxes, which include entertainment tax, hotel/motel tax and motor vehicle tax, are projected to have a shortfall of $5.1 million. The County collects entertainment tax on various ticket sales, such as events at the NYCB Live Nassau Coliseum (Coliseum), Northwell Health at Jones Beach Theater (Jones Beach Theater), and the NYCB Theatre at Westbury. The concerts at Jones Beach Theater have to-date been rescheduled to next year, and as discussed earlier, the operator of the Coliseum has indicated that the venue will not re-open. Due to the COVID-19 shut-down of these venues, and the information known to-date, we are conservatively projecting that no further entertainment tax will be collected in 2020. Of the $5.1 million projected shortfall, $3.7 million is related to entertainment and hotel/motel taxes. Motor vehicle taxes are projected to be $23.3 million, or $1.4 million under budget.

OTB 5% Tax, which are collections the County receives on OTB bets (excluding VLTs) is projected to have a shortfall of $1.3 million due primarily to COVID-19 closures.

Interfund Revenues (eliminating) are expected to have a shortfall of $25.0 million, however, Interfund Charges (eliminating) are expected to have an offsetting savings. Included in this category are debt service chargebacks reported as revenue in the General Fund with the charges reported in various funds.

OTHER REVENUE CATEGORIES ($'s in millions)					
Category	2019 Actual	2020 Budget	2020 YTD June	2020 Projected	Variance
Special Taxes	30.9	30.5	9.7	25.4	(5.1)
OTB 5% Tax	1.8	1.9	0.3	0.6	(1.3)
Interfund Revenues (eliminating)*	420.6	450.4	0.4	425.4	(25.0)
this variance is offset equally by the variance in Interfund Charges (eliminating)					

3.0 OBLIGATION VARIANCES

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

3.1 Salaries, Fringe Benefits and Workers' Compensation

The Comptroller's Office projects salaries, fringe benefits, and workers' compensation expense to have a combined positive variance of $68.5 million from the 2020 adopted budget; of this total $42.3 million is related to salaries and $28.7 million for expenditures pertaining to fringe benefits. This positive variance is primarily attributable to savings from open funded vacant positions and savings in health insurance costs. These savings are offset by a $6.7 million negative variance in total overtime including both the Police Departments and the Correctional Center, as well as overages anticipated in termination pay which could reach up to $60.7 million for 2020, or $12.9 million over the 2020 adopted budget. Also offsetting these potential positive variances is a deficit of $2.5 million in worker's compensation expenditures from the 2020 adopted budget of $31.1 million.

Our forecast assumes a headcount of 7,351 with vacancies of over 300 positions when compared to the 2020 adopted budget total of 7,657. Our projected headcount includes a class of 100 police officers expected to begin in November 2020. Our projections are developed by using on-board headcount as of the end of June, adding the projected police class, and subtracting anticipated police separations. An opportunity of up to $25.3 million in savings is possible in this area for the Administration if vacant positions for all operating funds are not filled for the remainder of the fiscal year.

The Comptroller's Office projections include annual step increases for each of the labor unions but does not include cost of living adjustments for 2020, since the collective bargaining agreements for all unions have expired with the exception of the DAI (Detective's Association Inc. of the Police Department of the County of Nassau). No financial impact related to newly negotiated labor agreements has been included in our projections as the specific terms and timing of any agreement could vary widely and negotiations still pending.

SALARIES (including overtime and termination pay) ($'s in millions)					
	2019 Actual	2020 Budget	2020 YTD June	2020 Forecast	Variance
GEN	636.9	672.4	318.3	633.5	38.9
PDD	222.5	233.4	104.2	230.3	3.1
SSW	10.2	9.5	4.3	9.2	0.3
Total	**869.6**	**915.3**	**426.8**	**873.0**	**42.3**

Fringe benefits are projected to end the year with a positive variance of $28.7 million when compared to the 2020 adopted budget. This surplus is primarily attributable to savings in health insurance costs for both retirees and active employees (mainly due to budgeted vacancies), and a reduction in health insurance rates from original 2020 forecasts.

FRINGES ($'s in millions)					
	2019 Actual	2020 Budget	2020 YTD June	2020 Forecast	Variance
GEN	437.0	467.2	260.9	444.0	23.2
PDD	138.9	143.0	91.6	138.6	4.4
SSW	8.3	9.4	4.5	8.3	1.1
Total	**584.2**	**619.6**	**357.0**	**590.9**	**28.7**

Workers' compensation is expected to have a shortfall of $2.5 million when compared to the 2020 adopted budget due to the impact of COVID-19. In 2019, the County received $15 million from the State as a discounted upfront payment of its estimated liability if the County agreed to assume that long-term liability, which was established to pay the injured employees over a span of approximately 20 years. Although these funds are specific to certain categories of injured workers claiming a second injury, the availability of these funds can be used by the Administration to mitigate the projected deficit in this expense category.

WORKERS' COMPENSATION ($'s in millions)					
	2019 Actual	2020 Budget	2020 YTD June	2020 Forecast	Variance
GEN	21.8	22.2	10.1	24.0	(1.8)
PDD	8.4	8.9	4.2	9.6	(0.7)
SSW	0.0	0.0	0.0	0.0	0.0
Total	**30.2**	**31.1**	**14.3**	**33.6**	**(2.5)**

Note: GEN - General Fund; PDD - Police District Fund; SSW - Sewer and Storm Water District Fund

3.2 Termination Pay and Overtime

The 2020 adopted budget funded termination pay of approximately $36.3 million for both Police District and Police Headquarters. A total of 103 sworn officers have retired to date for fiscal year 2020 with an actual expense of $22.8 million. The Comptrollers' projection includes up to a total of 175 police officers retiring from both the Police District and Police Headquarters in 2020, with an estimated cost of $49.1 million, lower than the adopted budget by $12.8 million for these two funds.

The 2020 projected total termination pay for the County could reach up to $60.7 million for the primary operating funds, and in total is estimated to be underfunded by $12.9 million when compared to the 2020 adopted budget. To help address future anticipated budget shortages related to termination pay for the Police District, the County has funded a reserve in the Employee Benefit Accrued Liability Reserve Fund to address possible shortages in termination pay; the amount available for future budgets is currently $13.4 million. Any additional risks within Police Headquarters will have to be funded by the General Fund if it cannot be funded from savings from other salary lines.

TERMINATION PAY ($'s in millions)					
	2019 Actual	**2020 Budget**	**2020 YTD June**	**2020 Forecast**	**Variance**
Police District	17.4	11.8	9.7	22.1	(10.3)
Police Headquarters	20.0	24.5	13.1	27.0	(2.5)
Other	11.0	11.5	8.1	11.6	(0.1)
Total	**48.4**	**47.8**	**30.9**	**60.7**	(12.9)

The Police Department continues to reflect a reduction in overtime due to the enhanced management and control of overtime hours. Correctional Center overtime trends are benefiting from the reduced inmate population, down to an average of 670 (a 51% drop from this time in 2019). Although the overall trend for the Correctional Center overtime is down. The Comptroller's Office projections still show a shortfall in this category of $3.3 million for this department.

Based on current expenditure trends, overtime costs for the operating funds are projected to be $6.7 million over the 2020 budget. The projected deficit is primarily comprised of $0.3 million in the Police District, $3.8 million for Police Headquarters and $3.3 million for the Correctional Center. We are projecting an additional $1.5 million reduction in Police Department overtime due to new police training programs that qualify for funding under Asset Forfeiture. This offset is included in the numbers reflected above. Projected overtime deficits are expected to be funded by other salary line item savings.

OVERTIME ($'s in millions)					
	2019 Actual	**2020 Budget**	**2020 YTD June**	**2020 Forecast**	**Variance**
Police District	25.0	24.9	6.0	25.2	(0.3)
Police Headquarters	31.3	28.0	11.5	31.8	(3.8)
Correctional Center	28.3	15.3	8.8	18.6	(3.3)
Other	13.0	14.8	5.5	14.1	0.7
Total	**97.6**	**83.0**	**31.8**	**89.7**	**(6.7)**

3.3 Equipment, General Expense and Contractual Expense

We project expenditures in the categories of Equipment, General Expense and Contractual Expense will exceed the original adopted budget by $11.2 million as broken out below. In each category the administration has already transferred additional appropriations into these categories to cover expected shortfalls. $3.5 million of the total variance is related to funding needed by Information Technology for contractual expenditures. The remaining amounts are for purchases related to the unexpected and unbudgeted incremental associated with the COVID-19 pandemic.

EQUIPMENT, GENERAL EXPENSE AND CONTRACTUAL EXPENSE ($'s in millions)					
Category	**2019 Actual**	**2020 Budget**	**2020 YTD June**	**2020 Projected**	**Variance**
Equipment	1.7	3.2	1.8	4.6	(1.4)
General Expense	32.1	38.5	18.2	42.4	(3.9)
Contractual Expense	330.5	348.9	281.0	354.8	(5.9)
Total	**364.3**	**390.6**	**301**	**401.8**	(11.2)

3.4 Utilities

We are projecting a $2.4 million positive variance in the category of Utilities. Savings can be achieved in both the General and Sewer and Stormwater Fund due to lower fuel charges and usage that is lower than what was budgeted.

UTILITIES ($'s in millions)				
2019 Actual	**2020 Budget**	**2020 YTD June**	**2020 Forecast**	**Variance**
38.2	41.8	14.6	39.4	2.4

3.5 Judgments and Settlements

We are projecting tax certiorari refunds and other judgments and settlements to be on budget. There is approximately $14.8 million of fund balance in the Litigation Fund (which is reported as part of the General Fund), that the Administration is considering using to pay judgments and settlements in 2020. This would result in budgetary relief that is not currently reflected in our projections.

JUDGMENTS AND SETTLEMENTS ($'s in millions)					
	2019 Actual	**2020 Budget**	**2020 YTD June**	**2020 Forecast**	**Variance**
Property Tax Refunds	29.9	30.0	0.2	30.0	0.0
Other Judgments and Settlements	53.2	30.3	13.0	30.3	0.0

3.6 Debt Service

We are projecting a positive variance of $13.9 million in debt service costs due to lower borrowing amounts than projected in the 2020 adopted budget. The County has issued $75.4 million in Bond Anticipation Notes (BANs) in May 2020. The County anticipates bonding $100.0 million in December 2020: $75.0 million for general capital improvements and $25.0 million for sewer system improvements.

At this time, our projections do not include a potential savings, which assumes that $75 million of NIFA debt due to mature in November 2020, will be refinanced in 2020. This would provide the County with $75 million of budgetary relief in 2020 and additional cash of an equal amount as NIFA would not need to withhold sales tax receipts for its November 2020 debt service payment. The refinancing would, however, extend the final maturity of NIFA debt possibly by 30 years. We do not know if this refinancing will take place therefore it is not reflected in our projections.

DEBT SERVICE ($'s in millions)				
2019 Actual	**2020 Budget**	**2020 YTD June**	**2020 Forecast**	**Variance**
392.1	408.7	147.4	394.8	13.9

3.7 Department of Social Services – Recipient Grants and Purchased Services

We project a positive variance of $6.4 million in the Department of Social Services in the categories of Recipient Grants and Purchased Services. These projected savings are a result of less demand for services than what was budgeted. The primary component of Recipient Grants are direct payments to beneficiaries and the primary component of Purchased Services is day care services.

RECIPIENT GRANTS AND PURCHASED SERVICES ($'s in millions)					
Category	**2019 Actual**	**2020 Budget**	**2020 YTD June**	**2020 Projected**	**Variance**
Recipient Grants	47.9	51.1	21.2	48.1	3.0
Purchased Services	65.8	69.7	39.0	66.3	3.4
Total	**113.7**	**120.8**	**60.2**	**114.4**	6.4

3.8 Department of Social Services – Medicaid

We project a positive variance of $9.1 million in Medicaid expense. In 2020, New York State awarded revenue from a prior year which they will settle by reducing our Medicaid expenses in 2020 resulting in a budgetary savings.

MEDICAID ($'s in millions)				
2019 Actual	2020 Budget	2020 YTD June	2020 Forecast	Variance
243.1	238.2	119.4	229.1	9.1

3.9 Local Government Assistance

Local government assistance is projected to have a favorable variance of $13.2 million due to a lower sales tax projection for 2020.

LOCAL GOVERNMENT ASSISTANCE ($'s in millions)				
2019 Actual	2020 Budget	2020 YTD June	2020 Forecast	Variance
74.6	75.1	1.1	61.9	13.2

3.10 Other Expenditure Categories

Interfund Charges (eliminating) are primarily comprised of the debt service chargebacks received from the Debt Service Fund (part of the General Fund for reporting purposes) to allocate the expenditures reported in the Debt Service Fund among all operating funds of the County. Due to the savings projected in debt service costs, coupled with the excess bond proceeds transferred from capital projects, we project a savings in the Interfund charges (eliminating). We project a surplus on this line of approximately $25 million. This surplus offsets the $25 million deficit projected in Interfund Revenues (eliminating).

OTHER EXPENDITURE CATEGORIES ($'s in millions)					
Category	2019 Actual	2020 Budget	2020 YTD June	2020 Projected	Variance
Interfund Charges (eliminating)	427.3	450.4	0.3	425.4	25.0

4.0 PROJECTED ENDING GAAP FUND BALANCE

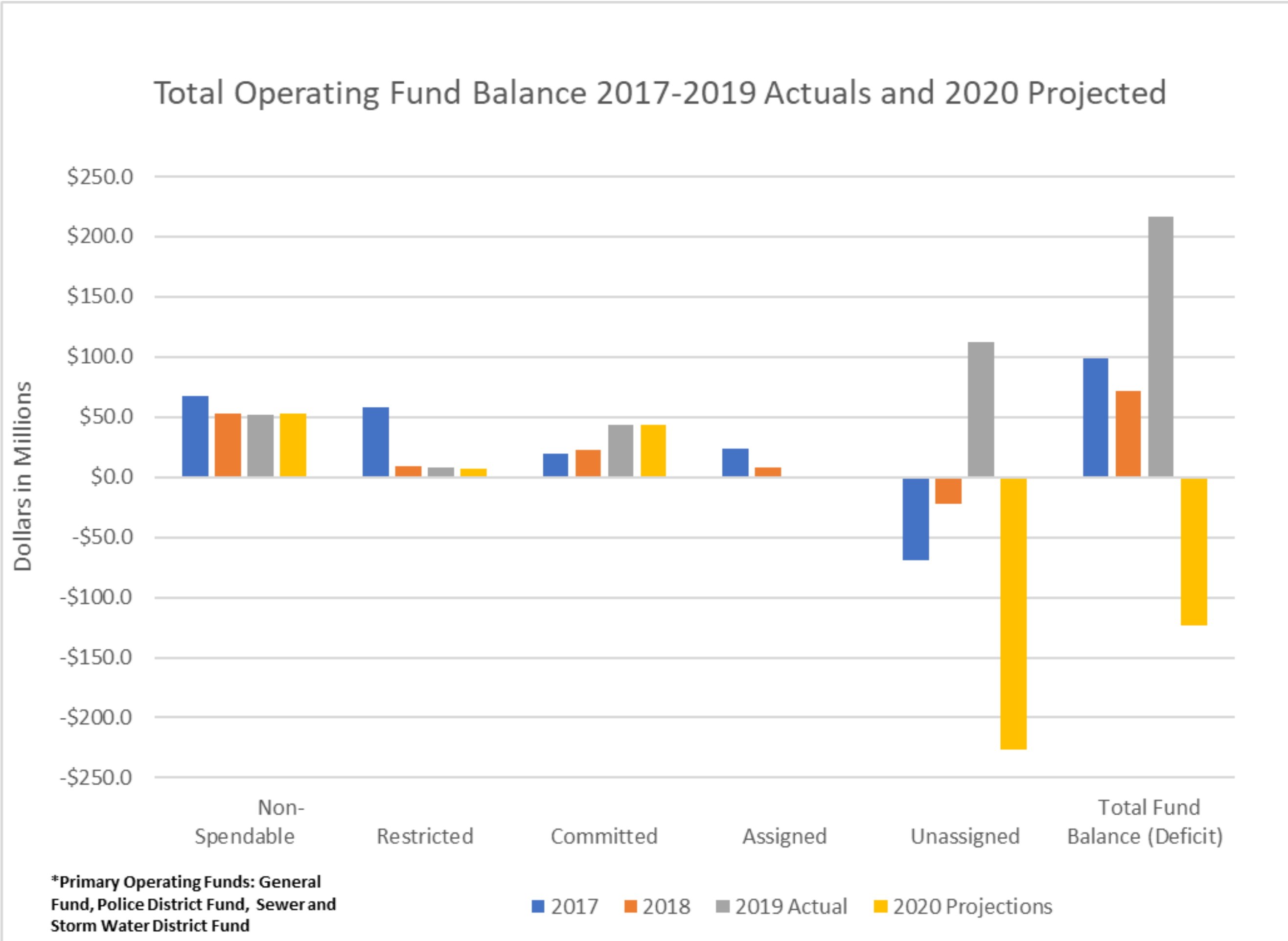
The projected GAAP operating deficit of $340.4 million is estimated to decrease the total fund balance for the three primary operating funds and increase the unassigned fund balance deficit to $227.1 million from a surplus of $112.2 million at December 31, 2019.

The Exhibit below (also shown in the Executive Summary) illustrates the projected changes in fund balance for the ending of fiscal year 2020.

EXHIBIT 4: 2020 Projected Ending GAAP Fund Balance

2020 Projected Ending GAAP Fund Balance *($'s in millions)*	General Fund	Police District Fund	Sewer and Storm Water Fund	Total Operating Funds
2019 Ending Fund Balance				
Non Spendable	$40.2	$11.8	$0.3	**$52.3**
Spendable:				
Restricted	8.1	-	-	**8.1**
Committed	36.9	6.3	-	**43.2**
Assigned	-	1.1	-	**1.1**
Unassigned	112.2	-	-	**112.2**
Total Fund Balance (Deficit) as of 12/31/2019	**$197.4**	**$19.2**	**$0.3**	**$216.9**
Total Projected Change in Fund Balance (Deficit) FY 2020	**($336.7)**	**$2.8**	**($6.5)**	**($340.4)**
2020 Projected Ending Fund Balance (Deficit)				
Non Spendable	$40.1	$12.6	$0.4	**$53.1**
Spendable:				**-**
Restricted	7.3	-	-	**7.3**
Committed	36.9	6.3	-	**43.2**
Assigned	-	-	-	**-**
Unassigned	(223.6)	3.1	(6.6)	**(227.1)**
Total Projected Fund Balance (Deficit) at 12/31/2020	**($139.3)**	**$22.0**	**($6.2)**	**($123.5)**

EXHIBIT 5: Historical Ending GAAP Fund Balance 2017-2020 (projected)



The Exhibit above illustrates the County's ending GAAP fund balance for the three primary operating funds as of fiscal year-end 2017, 2018 and 2019, and the projection for 2020. The composition of GAAP fund balance has changed since 2017, with less fund balance required for nonspendable, restricted, committed or assigned purposes. The chart above also illustrates the elimination of the positive unassigned fund balance that resulted with the 2019 fiscal year.

The County's General Fund on a reporting basis includes several other funds and reserves that held significant fund balances. Those funds are known as the Litigation Fund, the Employee Benefit Accrued Liability Reserve Fund, the Bond Indebtedness Reserve Fund, the Retirement Contribution Reserve Fund, the Open Space Fund, and the Technology Fund.

- **Litigation Fund**: The amounts in the Litigation Fund are restricted for litigation claims, judgments, and settlements. Most of the original fund balance, derived from bond premiums, has been depleted due to significant payments in 2017 and 2018. However, the fund was partially replenished at the end of the 2018 fiscal year to help fund anticipated future litigation costs; $8.0 million was transferred from the General Fund and $5 million was transferred from the Police District Fund. In 2019, the County received a $15 million settlement from New York State related to workers' compensation claims under Workers'

Compensation Law (WCL) Section 15(8)(h)(2)(A). The long-term liability held at the State was effectively transferred to the County in exchange for an up-front discounted payment of $15.0 million. The State last estimated this long-term liability to be approximately $19.0 million. The County expects to use these funds to settle workers' compensation claims. Of the fund balance reported in the Litigation fund as of July 2020, $8.5 million is assigned to general litigation, $6.3 million for Police District litigation and $15.0 million for workers' compensation.

- **Retirement Contribution Reserve Fund**: The Retirement Contribution Reserve Fund held $8.0 million set aside for use to pay for 2017 pension costs of non-police employees in the General Fund; the $8.0 million of fund balance was used in 2017. The remainder represents interest income earned on fund balance. As of July 2020, approximately $52 thousand of fund balance remains.

- **Employee Benefit Accrued Liability Reserve Fund**: The Employee Benefit Accrued Liability Reserve Fund holds $13.4 million, $13.1 million of which is set aside for future Police District termination pay, and the remainder representing 2018 and 2019 payroll surpluses, for the Majority and Minority Legislature earmarked for future payroll-related costs and expected to be used in 2020 and forward.

- **Bond Indebtedness Reserve Fund**: The Bond Indebtedness Reserve Fund had held funds attributed to the savings realized in refinancing the County's debt in 2016 and was restricted to debt service. As of fiscal year-end 2019, the fund balance in this reserve was depleted.

- **Open Space Fund:** The Open Space Fund currently holds $1.8 million of accumulated resources from County real estate sales, private gifts, and grants to preserve open space in the County. Local Law No. 7 of 2003 requires that the County use five percent of the proceeds from the sale of County-owned real estate to acquire, rehabilitate, and maintain property for use of open space purposes.

- **Technology Fund:** The Technology Fund currently holds less than $100,000 of fund balance. The resources within this fund are to cover technology expenditures.

5.0 DEBT AND LONG-TERM OBLIGATIONS

5.1 Debt

Exhibit 6 below details projected new long-term debt issued by the County (including borrowings for Nassau Community College, and Sewer and Storm Water Capital Projects). Through July 2020, the County issued $75.4 million in Bond Anticipation Notes (BANs) issued to refinance the County's 2019 Series A BANs and to pay costs of issuance, and $289.5 million in Revenue Anticipation Notes (RANs) issued to finance short-term cash flows of the County. The Administration anticipates bonding for the remainder of the year of $100.0 million to pay for capital projects as well as various sewer system improvements. The County may substitute BANs for long-term bonds to finance the capital plan and projects issued for sewer related improvements may be funded through borrowing by either the County, NYS Environmental Facilities Corporation (EFC) or the Nassau County Sewer and Storm Water Finance Authority (SFA).

In the latest update to the 2020-2023 Multi-Year report, the Administration mentions possible restructuring of existing NIFA and County debt that could provide savings to the County. If NIFA restructures their existing debt, there could be a possible savings of $75 million in year 2020. In addition, restructuring additional NIFA and County debt could result in approximately $210 million in savings in 2021. At this time, our projections are not assuming NIFA will restructure their existing debt and therefore the $75 million has not been reflected in the projections.

At 2019 fiscal year-end, the total of the County's general obligation bonds and its component units' long-term serial bonds outstanding were approximately $3.5 billion (including serial bonds and accreted interest of the Nassau County Tobacco Settlement Corporation (NCTS) to which the County has no recourse). The 2020 actual borrowings, along with projected borrowings for the remainder of the year and projected reductions from maturing debt, will decrease the total long-term bonds outstanding by approximately $74.6 million.

EXHIBIT 6: Total Projected Long-Term Borrowings

Total Projected Long-Term Borrowings ($'s in millions)				
	As of Dec 31, 2019 Actual	Projected Additions	Projected Reductions	As of December 31, 2020 Estimated
County w/SSW (a)(b)(d)	$2490.0	$175.4	$128.3	$ 2,537.1
NIFA	412.0	-	117.6	294.4
Sewer and Storm Water Finance Authority (SFA)	111.5	-	11.8	99.7
Tobacco Settlement Corp (c)	485.5	7.7	-	493.2
Total	**$ 3,499.0**	**$183.1**	**$257.7**	**$3,424.4**

(a) Beginning in 2014, the County implemented a change in accounting principle to include the NCC debt as part of the County debt.
(b) Includes $25.0 million of bonds projected to be issued in 2020 to be used for Sewer and Storm Water projects.
(c) December 31, 2018 includes accumulated accreted interest of $85.0 million.
(d) Projected additions include $75.3 million in bond anticipation notes (BANS).

Exhibit 7 below illustrates the growth in new money debt issuances. For comparison purposes only with prior year borrowing, the New Money in Exhibit 6 includes borrowings for general improvement bonds, which include sewer district storm-related capital projects. The 2020 projected amount includes $75.4 million in BANs issued in May 2020 because GAAP reporting requires that these BANs are treated as long-term obligations. It is unknown at this time if the 2020 Series A BANs will be converted into long term bonds upon maturity in 2021.

EXHIBIT 7: Projected Debt Issuances – New Money

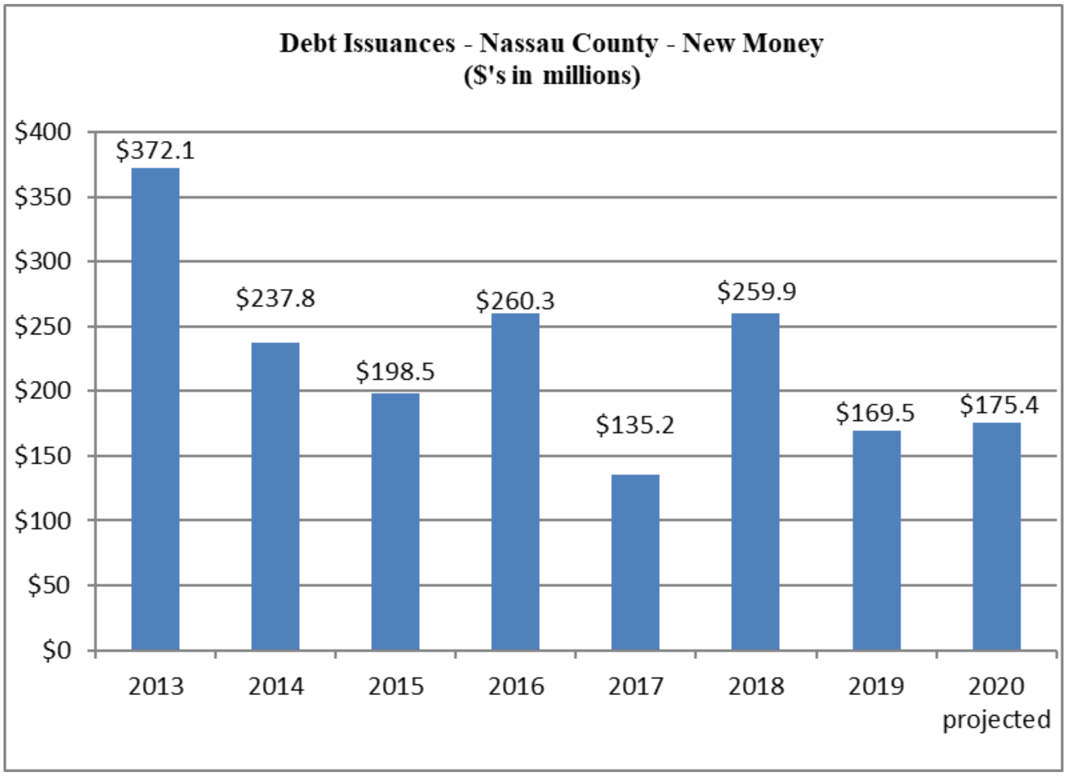


Exhibit 7 includes any Bond Anticipation Notes (BANs) issuances that may be converted into bonds in the following year.

5.2 Long-Term Obligations

Property Tax Refunds (Tax Certiorari)

As of December 31, 2019, the total property tax certiorari liability was estimated to be $587.4 million, comprising:

- $474.3 million in long-term liabilities:
- $27.6 million representing liabilities accrued for as of year-end 2019 and expected to be paid in 2020; and
- an estimated $86.6 million related to the Disputed Assessment Fund (DAF).

The decrease over the prior year was primarily due to a lower short-term liability within the governmental funds (mainly due to the timing of payments in 2018) offset by an increase in property tax refunds estimated for commercial property owners, which are primarily funded through the DAF charges collected from those property owners.

In 2018, the County borrowed $100 million to use as funding to pay a portion of the County's tax certiorari backlog, which continues to grow due to accrued interest. In 2019, the Administration projected that it would request borrowing authorization of $200 million from the County Legislature and NIFA to issue bonds for property tax refunds in an effort to pay off the majority of the remaining backlog. However, the County did not request the $200 million borrowing authorization in 2019 from the County Legislature and NIFA, as it had expected. The Administration's June 2020 projections do not anticipate this borrowing request in fiscal year 2020, however the updated 2020-2023 multi-year plan projects this request will take place in 2023. As such, all property tax refunds, excluding some DAF refunds and commercial property refunds (see discussion of DAF below), will need to be paid from the General Fund. The 2020 adopted budget included $30.0 million for tax certiorari expenditures to be paid for in the General Fund and our projections include this amount.

The DAF, a major governmental fund of the County, became operational in 2017, and as of December 31, 2019 per the County's CAFR, the fund recorded $204.9 million of assets and $199.0 million of liabilities resulting from the collection of the DAF charges on class four (commercial) properties. In 2018, the New York State Legislature amended the DAF legislation allowing the County to utilize DAF collections collected in 2019 and forward to fund property tax refunds on commercial properties (class four) without restriction.

As of July 26, 2020, the DAF has $244.1 million of assets, with approximately $1 thousand of refunds paid year-to-date. Additional refunds are expected to be recorded in 2020. At this time, we cannot estimate the DAF charge revenue that will be transferred to the County's General Fund for grievances lost by taxpayers related to 2017 and 2018 collections.

Deferred Pension Expense Amortization Liability

The Employer Contribution Stabilization Program (Chapter 57, Laws of 2010) and the Alternate Contribution Stabilization Program (Chapter 57, Laws of 2013) allowed employers who participate in the NYS and Local Retirement Systems (the Systems) to amortize a portion of the annual pension cost. The amortized amount is to be paid in equal installments over a 10-year or 12-year period, depending upon which program was selected. Beginning with the NYS retirement invoices due on February 1, 2012 (for the State fiscal year 4/1/2011 to 3/31/2012), the County has opted to defer and amortize a portion of its annual pension bill each year. As of December 31, 2019, the County's liability to the Systems for the deferral of annual pension expense totaled $210.9 million. Based on the projected 2021 pension invoice, of which 75 percent represents costs incurred in the 2020 fiscal year, and assuming the County will opt into the Alternate Contribution Stabilization Program again, we estimate that the liability as of December 31, 2020 will be $194.7 million. The decline is attributed to the increase in payments for the prior years' deferrals and while the amount permitted to be amortized since the inception of the State program has been steadily declining, the projected amount to be amortized in the 2021 has increased. Due to the deferral of the County's pension expenditures opted since 2012, the County is paying more today in pension costs due to the required installment payments for the amounts amortized in the previous years as seen in the Exhibit below. In the 2019 fiscal year, the County incurred $28.5 million more expense (excluding interest) due to installment payments related to the pension costs deferred in the prior years.

EXHIBIT 8: Deferred Pension Expense Amortization Liability

GAAP Basis ($'s in millions)				
	Balance at beginning of year	Additions	Payments	Balance at end of year
2012	$ 43.6	$ 52.2	$ 5.8	$ 89.9
2013	89.9	68.0	10.4	147.5
2014	147.5	63.3	15.8	195.1
2015	195.1	46.7	20.8	221.1
2016	221.1	33.1	21.6	232.6
2017	232.6	26.1	23.8	235.0
2018	235.0	17.8	26.4	226.4
2019	226.4	13.0	28.5	210.9
2020 est. *	210.9	14.2	30.4	194.7

* assumes amortization elected in 2020 and 2021 .

6.0 CONTROL PERIOD CALCULATION

6.1 Nassau County Interim Finance Authority ("NIFA") Act

Since its enactment in 2000, the Nassau County Interim Finance Authority ("NIFA") provides State oversight of the County's finances. NIFA was created pursuant to the NIFA Act (the Act) codified as Title I of Article 10-D of the State Public Authorities Law. Under the NIFA Act, the County is prohibited from filing any petition with any United States district court or bankruptcy court for the composition or adjustment of municipal indebtedness without the approval of NIFA and the State Comptroller and no such petition may be filed while NIFA bonds or notes remain outstanding. NIFA currently has bonds outstanding through 2025. The NIFA Act was amended on April 3, 2020 as part of New York State's 2021 budget, which was passed on April 3, 2021. Included in the legislation for the State's budget for the 2021 fiscal year were modifications to the NIFA Statute that allowed it to issue up to an additional $400 million of bonds for tax certiorari refunds and an unlimited amount of bonds for other financeable costs through December 31, 2021 allowing any bonds issued by NIFA to mature no later than January 31, 2051.

6.2 Control Period Calculation

NIFA has certain powers under the Act to monitor and oversee the County's finances and upon the declaration of a "control period," additional oversight authority. On January 26, 2011, NIFA adopted a resolution which imposed a control period on the County pursuant to the Act. It determined that the County's proposed fiscal 2011 budget reflected a substantial likelihood that the budget would produce a deficit in excess of one percent of the aggregate result of operations in the major operating funds. The major funds are defined in the Act as the General Fund, the Police Headquarters Fund, the Police District Fund, the Fire Commission Fund, and the Debt Service Fund. This is based on the assumption that all revenues and expenditures are reported in accordance with generally accepted accounting principles.

During a control period, NIFA has the authority to withhold transitional state aid and is empowered, among other things, to:

- Approve or disapprove proposed contracts and borrowings by the County.
- Approve, disapprove, or modify the County's financial plan.
- Issue binding orders to the appropriate local officials.
- Impose a wage freeze.
- Terminate the control period upon finding that no condition exists which would permit imposition of a control period.

Under the Control Period Calculation requirement, the budgetary results of the County's General, Fire Commission, Police Headquarters, Police District, and Debt Service Funds are converted to GAAP results. Then, adjustments are made to remove the effect of other financing sources that are derived from the issuance of bonds. These include bond proceeds and premiums used to pay for operational expenditures. The projected Control Period Calculation Results for the fiscal year are negative $343.6 million. The County is projected to continue to be in a Control Period for fiscal year 2020 based on the Comptroller's Office projections contained in this report. Exhibit 9 below presents the Control Period Calculation results that is used by NIFA to determine whether a deficit of more than one percent of the aggregate result of operations in the operating funds (as defined above) exists, thereby triggering a NIFA Control Period.

EXHIBIT 9: Control Period Calculation

Revenue and Obligations Forecast for 2020 Mid-Year Report Reconciled to the Control Period Calculation*

($'s millions)

Estimated Results on a Budgetary Basis *	**($313.6)**
Adjustments to reconcile to Modified Accrual Basis	
Net adjustments for to remove the effect of encumbrances	(17.1)
Use of Fund Balance	-
Net adjustment to record pension expense on a modified accrual basis	(2.1)
Adjustment for cash receipts outside period of availability	(1.5)
Sale of Mitchel Field Leases	1.3
Reversal of prior year on-top GAAP adjustments	-
Other Estimated GAAP Adjustments	(0.8)
Net Change in Fund Balance on a Modified Accrual Basis	**(333.8)**
Less: adjustments included in other financing sources	
Premium on bonds	-
Transfer of revenue from other funds to offset debt expense **R1507**	(9.8)
Operating expense paid with bond proceeds	-
Control Period Calculation Results	**($343.6)**

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

The historical Control Period Calculation results for the fiscal years 2010-2019 and projected 2020 are presented below.

EXHIBIT 10: Historical Control Period Calculation

Control Period Calculation 2010 - 2020 (projected)*

($'s millions)

	2020 (projected)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Net Change in Fund Balance - modified accrual basis	($333.8)	$138.9	($17.4)	($58.8)	$27.1	$28.0	($21.5)	$48.6	$24.0	($98.0)	$31.0
Less: adjustments included in other financing sources											
Premium on bonds			2.0		43.8	19.0	4.4	4.0	3.7	6.2	21.3
Borrowed funds to pay Property Tax Refunds		61.1	38.5	0.7	59.0	96.2	126.4	75.0	14.7	21.0	42.5
Borrowed funds to pay Other Judgments							8.3	26.5	20.0	4.6	30.4
Borrowed funds to pay Termination Pay					2.3	26.1	20.1	14.0	33.1	17.7	80.0
Borrowed funds to pay Other Operating Costs		0.2	3.1	3.5							
Transfer of revenue from other funds to offset debt expense	9.8	0.8	0.2	0.2	5.1	12.0	8.5	2.7	16.6	12.5	1.7
Total other financing sources/uses to be eliminated	9.8	62.1	43.8	4.4	110.2	153.3	167.7	122.2	88.1	62.0	175.9
Control Period Calculation Results	**($343.6)**	**$76.8**	**($61.2)**	**($63.2)**	**($83.1)**	**($125.3)**	**($189.2)**	**($73.6)**	**($64.1)**	**($160.0)**	**($144.9)**

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