BUDGET & FINANCE COMMITTEE

OF THE

SUFFOLK COUNTY LEGISLATURE

MINUTES

A meeting of the Budget & Finance Committee of the Suffolk County Legislature was held in the Rose Y. Caracappa Legislative Auditorium of the William H. Rogers Legislature Building, 725 Veterans Memorial Highway, Smithtown, New York, on Tuesday, August 14, 2007.

Members Present:
Legislator Ricardo Montano - Chairman
Legislator Cameron Alden
Legislator Jay Schneiderman
Legislator Steve Stern

Member Not Present:
Legislator Jon Cooper - Vice-Chair

Also In Attendance:
George Nolan - Counsel to the Legislature
Bob Martinez - Aide to Legislator Montano
Linda Burkhardt - Aide to Presiding Officer Lindsay
Renee Ortiz - Chief Deputy Clerk of the Legislature
Gail Vizzini - Director/Budget Review Office
Linda Bay - Aide to Minority Caucus
Ben Zwirn - Assistant County Executive
Brian Beedenbender - County Executive Assistant
Allen Kovesdy - Deputy Director/County Executive's Budget Office
Debra Alloncius - AME
Dr. Pearl Kamer
All Other Interested Parties

Minutes Taken By:
Donna Catalano - Court Stenographer

(*THE MEETING WAS CALLED TO ORDER AT 10:17 A.M.*)

CHAIRMAN MONTANO:
We're going to start the meeting of the Budget and Finance Committee with the Pledge of Allegiance led by Legislator Alden.

SALUTATION

CHAIRMAN MONTANO:
Good morning everyone. I have no correspondence to present to the committee today. We're going to go right into the presentation by Dr. Pearl Kamer who is going to discuss the status of the Long Island economy and how it may impact the County's fiscal condition.

DR. KAMER:
Good morning, Ladies and Gentlemen. It's a pleasure to be with you and to talk about my favorite topic, the Long Island economy.

CHAIRMAN MONTANO:
I know you were here before, I want to thank you for coming back and giving us some further updates on the economy.

DR. KAMER:
It's my pleasure. I want to talk about where we are today and we're likely to be going over the next year or so, particularly in view of what's happening in the stock markets and the credit markets and the fear that we might be entering a generalized credit crunch. So I'll be talking about employment, consumer spending, the Long Island housing market, and then I'd like to go into and spend the remainder of my time on the economic outlook.

We don't have job data or reasonable job data for Suffolk County alone. We are one labor market, namely, Nassau and Suffolk Counties. We are still gaining jobs, but we are gaining jobs very slowly. You have a handout before you, you may want to follow along. Long Island gained about 7000 payroll jobs in the 12 months ending in June. Just to give you some perspective on this, in the later part of the 1990's, we were gaining jobs at the rate of 30,000 annually. We're down to 7000 today.

And if you look at that first table, you can see that we have ongoing declines in manufacturing, which is no surprise. We're losing and continuing to lose routing manufacturing jobs simply because we're no longer cost competitive for routine manufacturing. We're losing warehousing jobs in part because of road congestion so that we're no longer the lower cost distribution point. And we're losing jobs financial activities, which includes finance, namely, banking, insurance and real estate. Now, up until now, most of the jobs losses were in commercial banks and reflect mergers and acquisitions. Where synergies existed, we lost jobs.

Today we're beginning to see losses in the real estate industry because of the flat to declining housing market, and I will get back to that in a moment. But where are the gains? They're occurring in professional business services, educational, health services. The health service gains are fairly obvious, we have an aging population. The need for health care increases exponentially with age. So the health care job increases are not a surprise, nor is the educational job increase, because given today's more complex economy, we need workers who have advanced skills and educational establishments of providing those skills.

And this is not public education, this is private. Public education comes under the category of government. Professional and business services, these are high end services; your lawyers, your accountants, your engineers, your technicians. These are the skills we need. Now, you might ask why only 7000 jobs. There is quite a bit of vibrancy in the Long Island economy. It's not that we're generating the jobs, we don't have the people to fill jobs, because we're losing our young people.

Between 2000 and 2005, we lost about 65,000 persons between the ages of 25 and 44. Those are your key labor force groups. So our employers are generating the jobs. They can't find the workers with appropriate skills to fill those jobs.

Now, we are gaining labor force participants, but many of them are recent immigrants from abroad. Some of them lack the language skills needed to participate effectively in the labor market, some of them lack the occupational skills needed, so that we face a fairly significant need for English as a Second Language instruction for various occupational training. So it's not that economy is necessarily weak. Slow job growth reflects slow labor force growth or the absence of labor force altogether in certain critical skill occupation, such as nursing and engineering.

Nevertheless, we have a full-employment economy. A full-employment economy is defined as an unemployment rate of 4% or less. Our June employment rate was 3.7%, and that really attests to the tightness of the labor market. And that some good and bad ramifications. If the labor market is tight enough, it's going to push up wages as employers compete for scarce workers. And that's going to help maintain a certain level of purchasing power on Long Island. On the other hand, by pushing up wages, it makes us less competitive with other areas because of our high cost of doing business.

Let's look at consumer spending, and I used sales tax revenues accruing to each County as a measure of consumer spending. I call your attention to the Suffolk sales tax figures, first quarter of this year versus first quarter of last year, sales tax revenues up 5.2%. Second quarter of this year versus second quarter of last year, sales tax revenues up 5.5%, faster than the than rate of inflation, which is 2.5%. So that's a real gain. The caveat I have to insert here is that a lot of this, perhaps most of this revenue increase reflects the sales tax on energy.

In terms of home prices, we've actually fared quite well. There was a great fear given the fact that level of home prices on Long Island was so out of line with the ability to pay as reflected in household budgets that we'd see steep declines in home prices. We have not as yet. If you look at the table on page two of your handout, you can see the Suffolk figures, and they're gyrating back and forth on a year to year basis. In January, they were up 1.9%; in February, minus 1%; March, minus .7% and so on. The latest June figure, they're up 2.3%. But there have not been any sustained declines in home prices. This is very important, because rising home prices tend to create a wealth affect. People feel that their major asset, their home is worth more, and therefore, they spend more on everything, not only on furniture and appliances and home renovations and draperies and all that stuff, they spend more on restaurants and trips and vacations.

On the other hand, when you have declining home prices, you have a reverse wealth affect. Homeowners feel less wealthy, whether they are or not, whether their home is for sale or not, and they're less inclined to spend. And this affects consumer spending across the board. Not only in terms of furniture and appliances or renovation, but they don't take as many -- as many expensive vacations. They don't go to restaurants, they cut back altogether. And this was the fear, because consumer spending both on Long Island and nationally counts for two-thirds of economic activity. If the consumer pulls back, more times than not, the nation slips into recession. So this was a great fear. So so far, this hasn't occurred. The economy is sort of bumping along at a slow pace, but it's still growing. That's the good news.

Now, I'd like to spend some time on the economic outlook. And here the situation is a lot more murky. We know economy is growing despite the stresses caused by high energy prices, by higher food prices, by the flat housing market. And I think the fact that anybody who wants a job can reasonably get a job today has helped to sustain consumer spending even though the double digit increases in home prices that many homeowners had come to depend on are over.

How well the Long Island economy performs in the next year to 18 months will depend in large measure on what the consumer does. A healthy pace of consumer spending obviously is critical to both counties. You need the sales tax, because it accounts for a substantial portion of your tax revenues. I think there is a real possibility that home prices will begin to decline more steeply, because what we're seeing are more homes for sale, and this includes homes that have been foreclosed and that are returning to market.

And this is bumping up against tighter lending standards so that fewer borrowers will qualify for mortgages. And this not only subprime lending standards that have been tightened. Alt A lending standards, which reflect credit ratings between subprime and prime, their standards have been tightened. Jumbo mortgages, people who go for jumbo mortgages of 450,000 or more, find that suddenly they have to pay higher interest rates. Credit in the mortgage market in drying up. And I don't think this is going to go away any time soon. I think it will take -- it took five years of double digit home prices -- home price increase to get us where we are today. It's going to take several years for the housing bubble to unwind and for the housing market to stabilize.

I think we won't see price stability of any sort to '09 or maybe 2010. The big question facing the Federal Reserve, facing economists is whether the credit turmoil, the credit tightening we're seeing in the mortgage market will spill over into general credit markets and whether business and household generally outside of the mortgage market will become significantly less available. In other words, a generalized credit crunch. To date, I see no indication of that, but the possibility has increased in recent weeks, and I don't think we can ignore it. But I think you will see home price declines on average in the area of between 6 and 10% before the adjustment is over. At the high end, you may see 15 to 25%, because at the high end of the housing market, you have much more leeway to lower your prices.

Falling home prices will probably cause some falloff or pull back in consumer spending, unless -- and this is a big if -- unless the tight labor market on Long Island forces up wages significantly or unless we see faster job growth on Long Island. As I indicated at the outset, Long Island's employment growth is being impeded by ongoing labor force shortages. Unless and until we can get some affordable housing in place to keep our young people here, I don't see these labor force shortages being mitigated. So I really don't see much faster labor force growth. I think we'll be gyrating between 7 and 10,000 jobs a year.

So we have two opposing forces; you have falling -- flat to falling home prices against a tight labor market, which will force up wages to some extent and slow labor force growth. And what the consumer does is really up in the air. No one can tell you that in advance, but it will affect your sales tax if they pull back. Now Long Island is not master of own its fate. What happens to the economy here will also depend on national business conditions. The US economy almost stalled in the first quarter of this year. GDP growth was about six or seven-tenths of a percent. We registered 3.4% GDP growth in the second quarter, but I don't think we're going to see that pace of growth any time soon. Employment growth nationally has already slowed. But more important, the easy financial conditions that fueled corporate borrowing, that fueled corporate buyouts, that generated jobs no longer exist.

We're not going to see easy credit conditions for quite some time. I think the reaction to the subprime lending fiasco is going to swing the pendulum to the other side. There's going to be overreaction initially, and that's going to tighten credit conditions beyond what they should be. The only thing we know is that the down side risks to the national economy have multiplied in recent months. Now, the Federal Reserve said at its August meeting that it remains concerned about inflation, it does not plan to lower short term interest rates any time soon. So how is the Fed combating the turmoil in credit markets? Pumping large amounts of cash into the system to give liquidity. And by the way, this credit crisis has spread to Europe, to Japan, because European banks invested heavily in US subprime mortgages. So this is a global crisis.

I think the Fed will do its darndest not to lower interest rates, one, because it is concerned that inflation is becoming embedded in the economy, but two, because by lowering interest rates to bail out lenders who used imprudent lending standards will create what we call a moral hazard. What you do if you bail them out is saying, okay, we'll bail you out, you can go ahead and do it again, because next time we'll also bail you out. The reason we have this subprime mortgage crisis today in part is because the previous Fed Chair, Alan Greenspan, did bail out the SNLs, the hedge funds in the past, and so lenders could reasonably expect that they're going to get a bail out today.

So I think the Fed, unless we have a generalized credit crunch, which threatens to stop the economy in its tracks, I think the Fed will try hard not to reduce interest rates, which means it will let the crisis play out, which means the road ahead will be bumpy, which means that the Long Island economy to some extent will be affected. You have to keep in mind, the driving force on Long Island for the past five years has been the housing market. It generated consumer sales. It generated construction activity. It was the housing market, not the job market, which was very strong. And when you have a weaker housing market, and if it gets somewhat weaker, although I don't think it will get substantially weaker, it's going to affect economic activity here.

So in summary, I think there's currently enough momentum in the Long Island economy to enable the two counties to continue to see a slow pace of economic growth with the caveat, unless US business conditions deteriorate significantly. That remains a possibility. I don't think it remains a probability. I think Long Island is going to experience slow economic growth in coming months, it's going to take time for the housing bubble to unwind, and it's going to take some time for Long Island household and businesses to adjust to permanently higher energy costs.

We're not going to see low priced energy. But it's going to take time to buy that fuel-efficient vehicle or that hybrid. It's going to take time to make your house more energy efficient, to purchase energy efficient appliances. But I think ultimately, we should see stronger economic growth by the end of this decade. That ends my formal presentation. And I'd be most happy to answer any questions you might have if I haven't put you to sleep yet.

CHAIRMAN MONTANO:
Quite the contrary. There are some questions. I have a couple, but, you know, just a couple. I'd like to give the committee members the opportunity to ask questions before. Last time you were here, and I'm sorry I didn't bring the transcript, but last time you were here, you talked about the growth rate in the '90's being about 30,000 per year. And if I remember the figure, the average salary at that time was about 49,000, if I'm correct. Today we're at 7000 (sic). Last time you indicated that while the growth rate was also -- was dropping, the entry level job salary was also dropping. Is that the same today, and what figure are we at more or less?

DR. KAMER:
We're at about 54,000 as an average salary. And you have to keep in mind that most households have two wage earners. So you have to double that.

CHAIRMAN MONTANO:
Well, then that would indicate the contrary, in other words, that the entry level salaries are rising even though the number of jobs is decreasing. Is that what's going on?

DR. KAMER:
What's happening is that jobs for blue collar workers are disappearing rapidly. You can't characterize them as entry level or not. And jobs for skilled workers with college degrees or some skill -- you don't need to have a college degree to get a good job in this economy, but you have to a specific skill. You may have taken a union apprenticeship program, and you are now an electrician or a plumber and you do very well. But you have to have a specific skill. And the advanced business services and professional service jobs generally require college degrees, masters, advanced education. Because of that, the starting salaries are higher for these workers.

CHAIRMAN MONTANO:
You indicated, if I wrote this correctly, between the Years 2000 and 2005, we've lost about 65,000 of our -- that prime age group.

DR. KAMER:
Twenty-five to 44.

CHAIRMAN MONTANO:
Twenty-five to 44. Do you know what percentage of that age group basically was the group that fled Long Island for greener pastures somewhere else economically?

DR. KAMER:
We assume that most people in that age group out migrated where the cost -- to areas where the cost of housing was somewhat less than ours. For example, you have out migration to the Upper Hudson Valley, the Albany area. Housing prices there are a third to half of our housing prices, and yet, they're getting a lot of high tech jobs. So your local engineers and technicians, anybody with an advanced skill is going there because their money simply goes further.

CHAIRMAN MONTANO:
Are we going to be -- how are we going to, if possible, be able to attract that kind of -- that kind of person back to Long Island to stimulate the economy, or is that --

DR. KAMER:
We have to attract and keep the ones we have here, and that means affordable housing. Nassau is nearing build out. Suffolk is not far behind. There's not only a need to preserve open space, but there is a need to put affordable housing in place, and I know we've spoken about this. The one remaining way to do so is to go to higher density housing in areas that can reasonably accommodate or support such housing, some of your older downtowns. Patchogue is doing a very good job doing the surround railroad stations. Yaphank is a case in point. Pilgrim State is a case in point.

By doing that, by allowing more homes per acre, you allow builders to build lower-prices homes that young people can afford. Also, young people need a mix of housing, which we don't currently have. They may need studio apartments over stores, they may need more one bedrooms, they may need rental housing, they may want a two bedroom condominium. If they haven't started a family yet, they probably don't want a single family house, a traditional single family house. Once they start a family, they do want a single family house. This is still the preferred type of housing here.

But by going to higher density in areas that can best support such densities, you allow Long Island to maintain its traditional land use pattern, namely, a single family house on a single family plot with a backyard, which most people continue to want. But we have to augment the mix, because our demography has changed dramatically. We have more singles on Long Island, more young couples that haven't started families, more seniors that no longer want the burden of a home. They don't want to shovel the snow and they don't want to mow the lawn. I know I don't.

CHAIRMAN MONTANO:
Neither do I. Last question on my end. With what you are projecting if the so-called perceived wealth of homeowners drops and the result in consumer spending drops, where are we at in a county whose budget relies so heavily on the sales tax? I think we get approximately 1.2 billion from the sales tax to sustain our budget. You've indicated that their growth -- the growth in the sales tax now is at a high pace.

DR. KAMER:
Because of the tax on energy primarily.

CHAIRMAN MONTANO:
Which is also not good. But, I mean, do you think that sustains itself, or do think that there's a possibility of, you know, a drop in sales tax growth or possibly even a negative growth based on --

DR. KAMER:
There is a possibility of a drop in the pace of the sales tax, and I think it's a good possibility. I'm

sorry to have to tell you this, but if you're looking at a period of economic weakness, which I think we are both nationally and probably on Long Island as well, you can't count on the sales tax. The sales tax is a tremendous revenue source when the economy is booming, when everything is going up, because people are spending money. The sales tax is a much less stable source of revenue than the property tax in a down turn. And I can't project that we're going into a down turn. We really don't know. But certainly, it's reasonable to expect with the turmoil going on in today's credit markets that we will enter a period of economic weakness and that consumers will be particularly concerned if their home values decline or are flat and if their investment are not doing well. And we know that the stock market has seen substantial losses in recent weeks.

CHAIRMAN MONTANO:
Any questions? Legislator Alden, Schneiderman to follow.

LEG. ALDEN:
Thanks for coming down. Just even picking up on the last comment you made, the market has been, like, on a little bit of a seesaw. So I think overall, if you were invested for more than a year, you're probably ahead of the game. If you tried to trade the market, you're probably way behind the game, because it's just ripping people apart on a short term basis. But, you know, the buy and hold has actually shown some rewards even over year to year. That's just my take on it. Do you keep track of farming jobs and farming exports?

DR. KAMER:
I do not. I know that Suffolk is one of the principle farming counties in New York State, but I do not track farming statistics.

LEG. ALDEN:
So we don't know if we're producing more or if we got more jobs in the farming industry today than we did --

DR. KAMER:
From what I last remember, a lot of the jobs that are categorized under agriculture are really nursery jobs. Those types of jobs are proliferating.

LEG. ALDEN:
Low pay, blue collar jobs.

DR. KAMER:
Primarily, yes.

LEG. ALDEN:
Okay. What type of jobs are not being filled and what sectors are they in?

DR. KAMER:
Health cares sector across the board, engineering, technicians, bioscience, which is a growing industry, all of the sciences, the hard sciences, generally.

LEG. ALDEN:
So that would be more like RND, like, a like a company would locate their RND outfits out here?

DR. KAMER:
Exactly. Social Service jobs, low paying, but going begging.

LEG. ALDEN:
Low paying jobs are not good. High paying jobs, if they're not being filled, that's a major problem for an area. Have you seen the latest proposition we have as far as borrowing money against our quarter cent stream to --

DR. KAMER:
I have not.

LEG. ALDEN:
Okay. What we're going to try to do is buy up almost all the available vacant property in Suffolk County in an expedited fashion. Is that a good way to manipulate your economy?

DR. KAMER:
Well, obviously, in a county like Suffolk, which is nearing build out, the preservation of open space important. How you go about it financially is a policy decision that you have to make. I have not studied the situation, so I really couldn't comment. But when you borrow money, you also have to keep in mind that you have to repay your borrowing. So it's always a good idea to borrow prudently.

LEG. ALDEN:
The cause and affect -- if you're going to spend half a billion dollars on open space in two or three years, that would seem to me that there's going to be a major impact in the economy of Suffolk County, whether it be the non provision or the nonavailability to build housing or whether it's going to dry up all the credit markets, because Suffolk County is going to go into the markets at a time when you say it's a crisis situation where everything is drying up. And we're going to borrow tons of money, up to maybe, like I said, half a billion dollars to go and buy property.

DR. KAMER:
If you're going to borrow money, you're probably going to pay higher interest rates for that money than you would have six months or a year ago, and you have to keep that in mind. In terms of buying up open space, to the extent that you take property off the tax rolls and preserve it, you're reducing the acreage available for construction of housing, for residential construction, for construction anything. And therefore due to supply and demand, you raise the price or remaining land, and you have to take that into account in your deliberations.

LEG. ALDEN:
So it probably would be a prudent course of action to put into place some kind of plan for affordable housing now before we go into this land grab or whatever you want to call it, land buy up or the ending of the open space in Suffolk County. It would probably be a prudent thing to do.

DR. KAMER:
Whether you do it before or after or simultaneously, you need a plan for affordable residential housing and you need a plan for preserving open space. And only you can determine the balance between the two needs.

LEG. ALDEN:
If this trend that you were outlining in your document that you gave us, if that continues, it looks really like we're going to be a land of grammar school through high school and then a whole bunch of senior citizens that are going to require some kind of medical care or some kind of nursing homes and things like that, because that seems to be the way we're going right now.

DR. KAMER:
We're losing young people in the prime working age groups. They're not being replaced by other young people coming in. And we're getting more seniors who have elected to stay on Long Island rather than go to the sunbelt, something they once did ten or 20 years ago. And this is sort of creating a hole in your demography.

LEG. ALDEN:
Now, when you talked about manufacturing before, cost competitiveness for this area, that's

primarily taxes. But you also mentioned wages, right?

DR. KAMER:
Wages, taxes, transportation, you name it, energy, we have a high cost of doing business. This is why we're competitive for those industries that require skilled workers, highly -- and they are willing to pay those skilled workers salaries. Skilled workers and who are using what we call merging technologies, technologies that are not really in a finished state where they could be put into a manufacturing process and then they out migrate. So if you're a bioscience firm, for example, You want to locate in the incubator at Stony Brook or in the Bioscience Science Park at SUNY Farmingdale, because you want to be close to the institution that spawned that technology, whether it's Cold Spring Lab or Stony Brook or Brookhaven Lab.

Once those technologies mature and are established, then they go into the manufacturing process. And routine manufacturing jobs leave for lower cost areas, not only in this country, but abroad. We outsource a lot of our manufacturing jobs. We will continue to remain highly competitive for jobs requiring advanced research and development.

LEG. ALDEN:
How much of the manufacturing that we lost could be attributed to the defense industry? Most of it, right?

DR. KAMER:
Yes. We lost our defense industry in the late '80's and the early '90's when the Cold War ended. And the Defense Department said to our defense firms, "Consolidate, we have too much capacity," and they did so. So we're not going to see the same defense industry base we once had. But some interesting developments have occurred in the defense sector. One, when we lost our defense base, by the early '90's, you had a lot of entrepreneurial types who came out of the defense industry and had an idea for a product based on their defense technology. And many of these established businesses were often in their homes and their garages. And these businesses grew. So we have a technology base which draws upon our defense heritage.

But something else has occurred. The Defense Department has some unique needs, which they never had before. They don't use major weapon systems, they don't want battleships or major airplanes. They can't afford that. What they want are the types of electronic surveillance and intelligence gathering data to fight what they call asymmetric warfare, when your opponent is not the army of a nation state, but a rouge army, a terrorist army. And our defense firms have those particular skills. And we see over the past several years that defense prime contracts to Long Island firms, including those in Suffolk, are suddenly rising again.

It's not going to be what we once had 30 years, But you can make a good living in the defense industry if you have the right skills. And speak to any defense firm on Long Island, they'll tell you, "We can't get the engineers we need, we can't get the technicians we need." The only place we can lure them from is California where housing prices are higher than ours. But they come here, they're offered competitive salaries. And they look at the housing prices, they look at other costs, and they say, "Thank you, but no thank you." So that's the problem. We've seen the contracts increase. We haven't seen employment in the defense industry increase, because the people just aren't there.

LEG. ALDEN:
Thank you.

CHAIRMAN MONTANO:
Legislator Schneiderman.

LEG. SCHNEIDERMAN:
Thank you. First, let me comment on that discussion between open space and housing. You know, I understand certainly that the housing crisis is one of the largest impediments to our economic

growth, and I understand the importance of open space. I think from the County level, though, what is, I think, important to note is the open space we have clear jurisdiction. We have the ability to bond and go out and buy open space.

When it comes to creating affordable housing, we have limited abilities. The density, which you spoke about, Dr. Kamer, we can't give density. Though we can provide grants for sewage treatment and things, ultimately, it's at the town level. The towns really have to allow that density to make the numbers work. I'll come back to housing. I want to start though with home construction. You mentioned home construction being a major element of our economy. It certainly produces a lot of sales tax revenue, a lot of jobs and a lot of salaries. Do you have any of the numbers? I know the towns keep track of requests for new building permits. Do you have any of that data?

DR. KAMER:
We got, on a bi-County basis, about 4500 residential dwelling units were authorized by permit on Long Island last year. If you look at the construction figures in the first table of your handout, we gained 800 construction jobs year to year. Years ago, we were gaining 20,000, 25,000. What kept the construction industry going on Long Island has not necessarily been new construction in recent years. It's been renovation of the existing housing stock. The existing housing stock is old. In Nassau, it was built in the '50's and '60's, and in Suffolk in the '60's and '70's. And it needs substantial renovation, rehab, you have the knock downs where the Mc Mansions are going up and all of that. But if credit becomes tighter, that's going to stop. And we know that credit has become tighter, and I don't think it's going to loosen up any time soon.

LEG. SCHNEIDERMAN:
I had heard or something in the newspapers maybe that I read, Town of Southampton was reporting a pretty precipitous drop in the request for building permits.

DR. KAMER:
I read the same thing.

LEG. SCHNEIDERMAN:
I'm not sure, maybe East Hampton is perhaps the same.

DR. KAMER:
It's going to be hitting virtually all of your towns because why build if people can't buy and if you have a large inventory of housing on the market. Those who have already put the shovel in the ground are going to finish up and pray.

LEG. SCHNEIDERMAN:
But the spec market as we know it is kind of coming to a halt.

DR. KAMER:
Spec market ended six months ago. The last one in who hopes to flip properties, doesn't get to flip.

LEG. SCHNEIDERMAN:
Let me move on to another line of questioning. You had mentioned in talking about that fairly respectable sales tax numbers for that first and second quarter in that 5% range that you attributed that largely to gasoline sales. And what, I guess, I want to know is -- because you didn't provide any information on wage growth. And if that's somewhat stagnant and people are spending more money on gasoline, it means they simply have less money to spend on other things. And as the year progresses, you might see a bump, but you're going to see a drop as well. Is that what you're anticipating?

DR. KAMER:
I would foresee a drop, yes. People out here have to pay the gasoline -- pay for gasoline. You can't get to work any other way. I mean, we have a public bus system. When I was with the

Regional Planning Board, I did a study based on census on how long it would take you to get to work if you traveled by bus. And for most people, it would take between three and four hours. Your boss might see you by noon, and then you'd have to do the same thing going home. So there is no alternative but to pay the gasoline tax. So you're caught back somewhere else. You might, if you want to eat out in a restaurant, go to McDonalds instead of your first-run restaurant that you're accustomed to.

People have a way of adjusting. It takes time. You know, instead of going to Europe where the Euro won't buy you very much, you might build a pool in your backyard. People are adjusting, but the net result is a consumer pull back. The consumer will not be as ready to spend as they have been in the good times when credit was very loose.

LEG. SCHNEIDERMAN:
I was going to say it also appears that people are driving further and further to work.

DR. KAMER:
Yes.

LEG. SCHNEIDERMAN:
Particularly out on the East End where we see so many commuting, you know, as the workforce gets displaced and we have more and more people commuting in, which obviously means more gasoline sales. But you have other infrastructure costs and other quality of life issues that arise.

DR. KAMER:
Well, most of your affordable housing is in some of the eastern towns. And if you work in the 110 area or somewhere in Western Suffolk, you're going to be driving longer and longer, and that's the trade off you choose to make.

LEG. SCHNEIDERMAN:
Well, let me use that to segue into my next question. There's been quite a bit in the media about looking at various housing markets and comparing -- looking at what percentage of home sales are affordable to median income, where some towns may have 10 or 20%, other communities have three or 4%. Do we have any numbers for Long Island in terms of what percentage of home sales are affordable to median income?

DR. KAMER:
I do not, no.

LEG. SCHNEIDERMAN:
My guess is it's fairly bleak, particularly in my area on the East End where you see median home proces half a million, six, $700,000 and median income, 60,000.

DR. KAMER:
I think it's bleak throughout most of Suffolk county and certainly in Nassau County as well. There are few affordable homes. If you assume the old standard that you shouldn't pay more than 2.5 times your annual income for a home. That would put you in the range of 250 to 300,000 if we assume that you have two wage earners at an average wage of 50,000. So you've got 100,000 coming which means you can afford 250,000 for a home. I don't think you see too many homes for 250,000 anywhere on Long Island. And if you have a little more than that, so maybe you can afford 300,000. But I think it's uniformly bleak. And I think even if the home prices come down in the 6%, 10%, 15% range, you're not going to move into affordable territory. You're going to have to put specific -- you're have going to have to resort to specific policies to put affordable in place in order to get affordable housing. The market is not going to do it for you.

LEG. SCHNEIDERMAN:
In terms of developing that number, I just want to make sure in terms of methodology. So you will

take the data on all the existing home sales from a certain period, maybe for a year, and you would look at what percentage of those sales fell in the range we're talking about that would be affordable to somebody who made median --

DR. KAMER:
You don't even have to go that far. Just look at the tabled on the second page and pick your median housing price. Let's pick May, for example, which is about the lowest, 392,000, that's your median, okay. Assuming the average many household of 100,000, which is a nice -- many households don't fall in that. But let's assume that median. And you shouldn't -- according to the old saw, you shouldn't spend more than 2.5 times your annual income for a home, that puts you at 250,000. You have a median price of 390.

LEG. SCHNEIDERMAN:
I understand that. But that number can be deceiving, because you may have some very high home sales and some very low home sales.

DR. KAMER:
That's why I'm using median, which is not influenced by high or low.

LEG. SCHNEIDERMAN:
But it doesn't give you the actual number or percentage that is affordable to somebody making median income. You know, I think that number is going to be close to zero frankly. And I look at a lot of these other communities that are making the news, you know, as being the least affordable areas in the country, and I don't see Long Island on the list. But I think if we looked at that number -- I know if you are making median income, as you say, you can afford maybe a 200, $250,000 house, most communities, there's zero sales in that range. There are a couple areas that you can still by a house, but it's a -- you know, you have to look at the condition.

DR. KAMER:
It's a shack.

LEG. SCHNEIDERMAN:
Right. Exactly. A one bedroom on a slab, a trailer somewhere. So I think that that number would be, I think, a useful tool, but it is -- it would be quite alarming. Lastly, I wanted to ask you, in light of the fact of how difficult it is, we as the County Legislature, to really make a lot of housing happen, what other tools do you think would help in terms of stimulating the economy? We need the housing for job growth, but there are other ways to drive sales tax revenues; people coming to Suffolk County, spending money, whether it's in tourism or, you know, some other attraction that might cause money that's earned in another area to be dropped off in our communities or spent in our communities. Do you have any thoughts on that?

DR. KAMER:
Well, tourism has traditionally been a very good way of drawing in money. And anything you can do to promote tourism, and you have natural amenities which are unmatched, and you also have a good opportunity to do so now, because foreign travel will drop off due to the falling US dollar so that if you want to go abroad, your dollar is not going to go too far. So if you can come up with tourism packages, that would be attractive. You have a huge increase in tourism to New York City, particularly Manhattan from foreign countries. If you can tap on to that and do add-on packages on Long Island, that would be good.

But I wouldn't give up on housing even though you don't have the zoning authority. I am a firm believer in the carrot and the stick. And if you can offer some carrots in the form of funding for sewers, for example, so that not only can you build more houses, but you can generate more businesses, I think this is an important tool. I think fundamentally, if you want a viable economy over a long period of time, you're going to have to do something about housing. It may mean working with local zoning boards and seeing if you can make it financially attractive to resort to higher density housing. This is the way I think you have to go.

LEG. SCHNEIDERMAN:
How do you feel about creating -- and this will be my last question -- it's related to the last question -- creating an attraction? There's been some talk -- the County Executive talked about creating maybe a sports arena or that kind of thing where people would come out possibly from Nassau County and other areas.

DR. KAMER:
I am not knowledgeable enough to comment, but in my reading of the literature, I seem to recall that many arenas tend to be losing propositions. So you have to be careful to make sure that this will be a money maker and not a money loser. You have to really study the situation carefully.

LEG. CARACAPPA:
Okay. Thank you.

CHAIRMAN MONTANO:
Legislator Stern.

LEG. STERN:
Yes. Thank you, Mr. Chairman. Good morning, Dr. Kamer, it's good to see you.

DR. KAMER:
Good morning.

LEG. STERN:
You know, as a younger person who, you know, liked to follow the news and watch what was going on, you know, within our community, you know, one of the more exciting parts about living here was that, you know, Long Island was where, you know, lots of great things happened; you know, great innovation, great discoveries, you know, companies that are world leaders. And so, you know, a younger who went away to school, went away to law school, knowing that, you know, I wanted to come back and be a part of this vibrant community, it was always a big attraction For me, because, you know, my mindset was that this was a place of innovation.

So I guess my question is, you know, how would you define the current state of innovation here on long Island? What do you see the trends are in the next couple of years?

DR. KAMER:
I still think we're as innovative as we ever were. I serve on the Board of Directors of the Bioscience Park at SUNY Farmingdale, I've been associated with its venture from the very start. The reason we established the bioscience park as a joint venture between SUNY Farmingdale and Cold Spring Harbor Lab was that many of the companies that were spun off around Cold Spring Harbor Labs Technology left for Denver, San Diego and Boston, and now we're keeping them here. We have a New Energy Institute at Stony Brook, SUNY Stony Brook. We have a ground breaking research going on at Brookhaven National Laboratory. The type of innovation has changed. The technologies behind that innovation have changed.

The earlier innovation was really focused on the defense industry, and then that spilled out in the general economy. But now we're looking at nano technology and bio technology and wireless technology. And eventually, we will be spinning off jobs. Now, the problem with technology is there are relatively few jobs in the initial stages. And many of our enterprises are in the initial stages. Once you make a technical break-through, you really start to see job generation. And that's what we'll be seeing over the next decade. So you have all this innovation bubbling up, but you don't see it. It's not really clear to the average person in the street, but it's there. So when you say, "Are we innovative?" We're as innovative as we ever were.

LEG. STERN:
What concerns do you have, if any, about some of the other things that we've discussed today? And some of the concerns that I think we all have regarding the economy and specifically research and development and venture capital dollars that really could make the difference in pushing one of these bubbling innovations and these growth companies over the top.

DR. KAMER:
Well, venture capital depends on the venture capitalists assessment of a particular technology in a particular firm. And there's not much we can do from the public sector on fostering that. But you ask what are our impediments, what are our problems, what's impeding economic growth. Lack of affordable housing, lack of labor force, which is connected, and transportation, which is a big problem on Long Island. We are totally dependant on cars for work trips, and that leads to pollution. It's costly, congestion is time and money.

We have to do something in changing our residential densities so that we can accommodate, make public transit economically viable. You can't have a viable bus system unless you have the population densities to support that. That's why you need these high density nodes in otherwise low density suburbs. And that's what the suburbs in the southwest are doing. They're building small cities in otherwise low density suburbs. And they're able to put monorails in place, and they're able to put public transit in place. We have to have more rail freight, we have to get trucks off the road, because they are contributing to both congestion and pollution and cost of doing business.

So there are a number of impediments, and they stem from our traditional land use patterns. The land use pattern we saw immediately after World war II and which we still have was fine when you have a lot of open space and you're no where near build out. That pattern is no longer viable when you are in the current status that we have. So we have impediments that are based on our historical land use patterns. We're not going to change those patterns wholesale, but we can mitigate them in a way that will make our economy function better.

CHAIRMAN MONTANO:
Dr. Kamer, thank you. I have one last question and then we'll let you go.

DR. KAMER:
Good.

CHAIRMAN MONTANO:
There was a recent poll that I was made aware of that said that on Long Island, approximately 18% of the people think that immigration is a major issue, and I think there was a similar poll last year in Nassau that had a similar result. And recently there was a study by one of the foundations -- it's name escapes me -- I think it's the Hagedorn Foundation -- that indicating that based on their studies, when looking at the issue of illegal immigration that overall illegal immigrants contribute more than they take. And recently I was reading in Newsday that the census figures, revised census figures, came out, showed a decrease in the white population here on Long Island and an increase in the minority population, particularly the Hispanic population.

DR. KAMER:
Hispanics and Asians.

CHAIRMAN MONTANO:
Hispanics and Asians. Absolutely. Yesterday, I was watching channel 12 and Martin Canter, who is an economist -- I'm sure you know him.

DR. KAMER:
I do.

CHAIRMAN MONTANO:

And he's at Dowling College. He was interviewed, and he made a statement that overall when you balance out the pluses and the negatives when it deals with the economy that the illegal immigrants provide a plus to the economy. I just want to get your opinion on whether you share that, whether you have any opinion about that, you know.

DR. KAMER:
I haven't studied the situation, I think Marty has. But I do know immigrants take jobs that Americans don't want to do. They're generally the nastiest, dirtiest and low paying -- lowest paying jobs. So certainly, they make a major contribution to our economy. But you have to view immigration, whether legal or illegal, as a national problem has to be solved nationally. Local governments really can't deal with it given its scope. I thought that President Bush's program to create guest-worker status for some of them makes a lot of sense, because they're here, they're contributing to the economy. Why not get them on the tax rolls? And you have to understand why we have the immigration problem. We're the "Land of Opportunity."

Fifty years ago, 100 years ago, the immigrants thought that America's streets were paved with gold. They're obviously not. But this is still the best chance of improving their living standards and those of their family, and that's why they continue to come here. The long term solution is to create better opportunities, economic opportunities, job opportunities in their home countries. This is a very long term solution, which economists are in favor of, but won't solve the problem tomorrow. I think we have to rely or agitate for a national solution. But certainly, the immigrants we've seen and the jobs they are doing, they're not taking jobs from Americans. For the most part, Americans simply don't want to do those jobs, and they wouldn't be done. Our tourism industry, for example, relies heavily on immigrant labor. And they often can't find the workers they need.

CHAIRMAN MONTANO:
All right. I want to thank you very much for spending the hour with us, for coming back.

DR. KAMER:
It's been my pleasure. I didn't expect so many questions, but I always enjoy a good give and take. So thank you very much.

CHAIRMAN MONTANO:
Thank you for coming. I'm going to take a five minute break.

(*A RECESS WAS HELD FROM 11:14 TO 11:20 A.M.*)

CHAIRMAN MONTANO:
All right. We are going to reconvene the committee. We are going to go to the public portion, we have one card, Peter Quinn. You have three minutes, Peter, no more.

MR. QUINN:
Thank you, Members of the Committee. I'm most concerned by one comment Pearl Kamer made regarding Americans not wanting to take certain jobs when I understand that in the minority community, as much as 80% of young people 18 to 23 or 4 are not employed and could easily if there was a pipeline or stream to connect them to jobs, we might see that kind of thing change, they would take those jobs.

But then I was concerned -- yesterday, I spoke to the Affordable Housing and Workforce, Labor Committee, and I expressed my concern about the sudden loss of 1400 plus jobs at American Home Mortgage, and I commented at length to the committee. But I wanted to know why no one here asked Dr. Kamer what the impact was on sales revenue lost for those 1400 jobs who no longer have a pack check coming. And what is the impact of the County revenue as a result of the that kind of loss? And to the school district and to the town in which they -- that building resides? And the fact that the IDA gave $560,000, are there any claw-back provision that enable the IDA to get repayment now that the company is no longer in business?

And I also was concerned about the Empire Zone report where there are 3000 companies according to the State report that are not being honest about the jobs they are allegedly creating. And I don't know how that impacts on Suffolk County, but there are many of them, and some of them are even outside the Empire Zone that are getting these tax breaks. And the question is, "Why don't we make every business in Suffolk County an Empire Zone?" Maybe then we could wipe away the problems of attracting business and making some companies exclusively a part of that zone.

In terms of borrowing, there was no comment about the kind of borrowing that is going to be made of the merger of the National Grid-KeySpan merger, $11.8 billion. But they're going to have to borrow two and a half to three times that amount, and it's and fully leveraged. That means there's going to be over 30 to $35 billion in interest. And now with the loan mortgage crisis, those interest payments are going to go up when that merger is finalized. It means that we're going to be paying over $45 billion perhaps or more for a merger that is going to be heaped upon KeySpan and LIPA ratepayers.

And finally, the manufactured gas plants, according to Pat Acampora's letter in the paper the other day, it appears that the ratepayers are going to have to foot the bill for that potentially one to $1.4 billion across Long Island, which flies in the face of what happened when KeySpan bought the 32 generating plants at the time of the takeover of LILCO by LIPA when they agreed to accept full liability. If they did, then it seems to me there's a strong argument which Wayne Horsley is making that it ought to be placed on KeySpan's investors and the insurance companies, not on ratepayers. Thank you.

CHAIRMAN MONTANO:
Thank you. Is there anyone else that would like to address the committee? All right. We're going to move right into the Tabled Resolutions.

1250, Adopting Local Law No. 2007, A Charter Law to increase transparency and accountability in the budget process. (D'Amaro)

CHAIRMAN MONTANO:
I'm going to make a motion to table.

LEG. STERN:
Second.

CHAIRMAN MONTANO:
Second. All in favor? Opposed? Abstentions? Motion carried.
TABLED (VOTE: 4-0-0-1 - Not present - Legis. Cooper).

1434, Amending the 2007 Operating Budget and transferring funds to the Suffolk County Girl Scouts. (Pres. Off.)

Again, I'll make a motion to table.

LEG. STERN:
Second.

CHAIRMAN MONTANO:
Any discussion? All in favor? Opposed? Abstentions? Motion carries. **TABLED (VOTE: 4-0-0-1 - Not present - Legis. Cooper)**.

1436, Amending the 2007 Operating Budget and the 2007 Capital Budget and Program and appropriating funds for a police officers and firefighters memorial in the Village of Amityville, Town of Babylon (CP 1661). (Mystal)

I'm going to make a motion to table.

LEG. STERN:
Second.

CHAIRMAN MONTANO:
Any discussion? All in favor? Opposed? Abstentions? Motion carries. **TABLED (VOTE: 4-0-0-1 - Not present - Legis. Cooper)**

1438, Amending the 2007 Operating Budget and transferring funds for a contract agency in the Department of Social Services. (Stern)

LEG. STERN:
Motion to table.

CHAIRMAN MONTANO:
I'll second that. All in favor? Opposed? Abstentions? Motion carries. **TABLED (VOTE: 4-0-0-1 - Not present - Legis. Cooper)**.

1701, Repealing home energy nuisance taxes on Suffolk County residents. (Alden).

LEG. ALDEN:
Motion to table.

CHAIRMAN MONTANO:
I'll second that. Any discussion? All in favor? Opposed? Motion carries? **TABLED (VOTE: 4-0-0-1 - Not present - Legis. Cooper)**.

1702, Establishing a program to reduce unfair home energy nuisance taxes on Suffolk County residents. (Alden)

LEG. ALDEN:
Motion to table.

CHAIRMAN MONTANO:
I'll second that one also. Any discussion? All in favor? Opposed? Motion carries. **TABLED (VOTE: 4-0-0-1 - Not present - Legis. Cooper)**.

1726, To readjust, compromise, and grant refunds and charge-backs on correction or errors/County Treasurer by: County Legislator #280. (Co. Exec.)

I'm make a motion to approve and place on the Consent Calendar.

LEG. STERN:
Second.

CHAIRMAN MONTANO:
Any discussion? All in favor? Opposed? Abstentions? Motion carries. **APPROVED** and placed on the **CONSENT CALENDAR (VOTE: 4-0-0-1 - Not present - Legis. Cooper)**.

1733, To readjust, compromise, and grant refunds and charge-backs on real property correction of errors by: County Legislature (Control No. 776-2007). (Co. Exec.)

Same motion, same second, same vote. **APPROVED** and placed on the **CONSENT CALENDAR (VOTE: 4-0-0-1 - Not present - Legis. Cooper)**.

1734, To readjust, compromise, and grant refunds and charge-backs on correction or errors/County Treasurer by: County Legislature No. 277. (Co. Exec.)

Same motion, same second, same vote. **APPROVED** and placed on the **CONSENT CALENDAR (VOTE: 4-0-0-1 - Not present - Legis. Cooper)**.

1735, To readjust, compromise, and grant refunds and charge-backs on correction or errors/County Treasurer by: County Legislature No. 279. (Co. Exec.)

Same motion, same second, same vote. **APPROVED** and placed on the **CONSENT CALENDAR (VOTE: 4-0-0-1 - Not present - Legis. Cooper)**.

1772, To readjust, compromise, and grant refunds and charge-backs on correction or errors/County Treasurer by: County Legislature No. 278. (Co. Exec.)

Same motion, same second, same vote. **APPROVED** and placed on the **CONSENT CALENDAR (VOTE: 4-0-0-1 - Not present - Legis. Cooper)**.

1782, Requiring petty cash deposits to be made in interest bearing accounts at authorized banks or trust companies. (Co. Exec.)

CHAIRMAN MONTANO:
On the request of the County Exec's Office, I'm going to make a motion to table. I need a second.

LEG. STERN:
Second.

CHAIRMAN MONTANO:
Any discussion? All in favor? Opposed? Abstentions? Motion carries. **TABLED (VOTE: 4-0-0-1 - Not present - Legis. Cooper)**.

1793, To readjust, compromise, and grant refunds and charge-backs on correction or errors/County Treasurer by: County Legislature No. 281. (Co. Exec.)

I'll make a motion to approve and place on the Consent Calendar.

LEG. STERN:
Second.

CHAIRMAN MONTANO:
Any discussion. All in favor? Opposed? Abstentions? Motion carries. **APPROVED** and placed on the **CONSENT CALENDAR (VOTE: 4-0-0-1 - Not present - Legis. Cooper)**.

There being no further business of the committee, I'm going to adjourn.

(*THE MEETING WAS ADJOURNED AT 11:29 A.M.*)

{ } DENOTES BEING SPELLED PHONETICALLY