

**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, July 29, 2008.

Members Present:

Legislator Ricardo Montano - Chairman
Legislator Kate Browning - Vice-Chair
Legislator Thomas Barraga
Legislator Edward Romaine
Legislator John Kennedy
Legislator Brian Beedenbender
Legislator Lou D'Amaro

Also In Attendance:

George Nolan - Counsel to the Legislature
Legislator Lindsay - P.O. - Suffolk County Legislature
Bob Martinez - Aide to Legislator Montano
Barbara LoMoriello - Deputy Clerk of the Legislature
Gail Vizzini - Director/Budget Review Office
Linda Bay - Aide to Minority Caucus
Ben Zwirn - Deputy County Executive
Allen Kovesdy - Deputy Director/County Executive's Budget Office
Leg. Vilorio-Fisher - 5th Legislative District
Leg. Jack Eddington - 7th Legislative District
Leg. Steve Stern - 16th Legislative District
Leg. Jay Schneiderman - 2nd Legislative District
Lance Reinheimer - Budget Review Office
Christine Malafi - Suffolk County Attorney
Dennis Brown - County Attorney's Office
Jim Morgo - Chief Deputy County Executive
Carmine Chiusano - Budget Office
Debra Alloncius - AME
All Other Interested Parties

Minutes Taken By:

Donna Catalano - Court Stenographer

(*THE MEETING WAS CALLED TO ORDER AT 10:06 A.M.*)

CHAIRMAN MONTANO:

Good morning. We're going to start the meeting of the Budget and Finance Committee with the Pledge of Allegiance led by Legislator Browning.

SALUTATION

CHAIRMAN MONTANO:

Good morning, everyone. We're going to get right into the agenda. Bypass the correspondence, we don't have any major correspondence. I think all of the members and all of the Legislators have received certain documents from the County Exec's Office, from the Commissioner of Health for the County. I have here a purchase and sale agreement -- I guess that's a draft agreement -- and a forecast of cigarette consumption, tobacco -- tobacco asset securitization corporation prepared by Global Insight. This is a draft. Anyone needs any of these documents, let me know. We can have a copy made.

And we're going to get right into the **Public Hearing on Introductory Resolution 1644-2008. Adopting a Local Law authorizing the sale of the County of Suffolk's Rights to receive payments under the Master Settlement Agreement with various tobacco companies and the related consent decree and final judgement to the Suffolk County Tobacco Asset Securitization Corporation (COUNTY EXEC).**

Just want to make sure for the record, Barbara, this was properly advertised.

MS. LOMORIELLO:

Yes.

CHAIRMAN MONTANO:

Okay.

LEG. BEEDENBENDER:

Mr. Chairman.

CHAIRMAN MONTANO:

Yes, sir, Mr. Beedenbender.

LEG. BEEDENBENDER:

It's at your discretion, but might I make a suggestion; that we have on the agenda right after it the update of the budget model and where we are. Might it make sense to have an idea of where we are before we do the public hearing?

CHAIRMAN MONTANO:

I think it's going to be academic, because we don't really have any cards for the public hearing in any event. No. We have public portion. Do you want to comment during the public portion part, or do you want to comment specifically on IR 1644.

MS. FINNIN:

1644.

CHAIRMAN MONTANO:

Okay. No. What I think I'll do is -- let's hear from the people that want to comment, and then we'll go into the presentation and the discussion, and then we can go -- you know, we can entertain those things first. So, I have cards for public portion. I have Mary Finnin first. Mary, do you want to speak on IR 1644?

MS. FINNIN:

Yes.

CHAIRMAN MONTANO:

Come forward. We'll make this part of the record for the public hearing.

MS. FINNIN:

Good morning. Thank you for the opportunity to address this issue. I'm speaking today in opposition to Resolution 1644, the Suffolk Tax Assessor (sic) Securitization Corporation. This resolution would take public monies, which were originally intended to fund health services for lung cancer, asthma and related illnesses and education programs for smoking cessation and other related programs and place total control of these dollars with a not-for-profit corporation to be known as STASC.

It not only takes away money that is needed for health programs, it takes the control and oversight of how these monies are used away from our elected representatives in the County Legislature. It's another meeting -- at another meeting, I learned that putting the money into this corporation could leave the County with a huge income gap in five years. By then there will different individuals in the leadership that will have to deal with the problem. It appears to put all the control with a corporation that is only responsible to the County Exec.

Please vote against this proposal. It takes the responsibility away from elected representatives and gives a private corporation control over many millions of our public dollars. Why pay private trustees fees to decide how these millions of dollars are spent when this is the responsibility of our elected County Legislators? Thank you. And I'll leave a copy with the Clerk.

CHAIRMAN MONTANO:

Thank you, Mary. Michael Seilback. Mike, you want to speak on the tobacco securitization.

MR. SEILBACK:

That's right.

CHAIRMAN MONTANO:

Go ahead. You have five minutes.

MR. SEILBACK:

Just so I'm clear. We're doing a public hearing now, and then in the committee, possibly we would be able to speak after the presentation; is that right?

CHAIRMAN MONTANO:

Yes. That's correct.

MR. SEILBACK:

Thank you. Good morning. My name is Michael Seilback, Vice-President for Public Policy in Communications for the American Lung Association of New York. I'm here to speak in opposition to 1644, the securitization of tobacco funds by the County.

Fundamentally, from a public health perspective, tobacco settlement payments should be used to addresses the problem caused by tobacco. These payments come from the settlement of lawsuits by the state who sought reimbursement from cigarette companies from the smoking-caused expenditures caused by their own acts. We believe it's important to spend these dollars on prevention and to reduce tobacco use and treat smoking-caused disease.

Suffolk County spends less of its money towards its own Tobacco Control Program then it did when the program was originally created about ten years ago. On your way in, you may have seen the

Free To Be Tobacco Free Bus, which is parked here in the County Complex. This is the type of good investment in public health that's important. We've seen from various state's experiences that securitizing tobacco settlement payments is penny-wise and pound-foolish. The securitization of these funds swaps a long-term funding stream for a quick economic Band-Aid.

By STASC's own estimates, this proposal yields pennies on the dollar. That's not the kind of investment that this County should be using to close gaps. In states that we've -- that have done this, it's lead to large amounts of tobacco settlement payments longer -- no longer available to prevent and reduce tobacco use. And that's the proposal that's sitting on the table in front of you today.

In conclusion, these actions don't make sense from either a public health or a fiscal perspective. Investments in comprehensive effective efforts to prevent and reduce tobacco use not only saves lives and reduces smoking-caused decease, but also reduces the enormous smoking-cause costs that burden our Medicaid Programs and other government programs. We'd ask you to commit to long-term sustainability of the County's Tobacco Control Program, continue the long stream of funding that's coming in and look to close Suffolk County's budget shortfalls, which we do recognize as a major problem, but we don't believe that this is the way to be solving that problem. Use the dollars for what they were intended and don't salvage long-term funding streams for a short-term Band-Aid.

CHAIRMAN MONTANO:

We have a couple of questions. I have one. You mentioned that the tobacco money, securitization money, should be spent for the purpose for which it was intended when the settlement was issued. To the best of our knowledge, is there -- is the use of this proposed money under this securitization program in any manner prohibited by the settlement?

MR. SEILBACK:

No, it's not. The intent.

CHAIRMAN MONTANO:

The intent.

MR. SEILBACK:

The intent when the settlement was agreed -- and I know many of you are attorneys, so we know intent is difficult -- but the intent when the settlement was agreed upon was to be used for tobacco control, but there's nothing prohibiting it to be used for any number of purposes.

CHAIRMAN MONTANO:

All right. Legislator Viloría-Fisher has some questions. Anyone else?

LEG. VILORIA-FISHER:

Thank you, Mr. Chair. Michael, we've received some information regarding the tobacco securitization issue. And one of pieces of paper that we have is -- indicates how many municipalities have securitized their tobacco monies. Now, you mentioned in your presentation that in municipalities where there has been securitization there have been some negative impacts. Do you have any data on that or information? I would just like to contrast what you are saying.

MR. SEILBACK:

You know, I didn't come prepared with that data, but there's no question when you're having hundreds of millions of dollars coming into a locality and you're only getting 50 cents on the dollar, you know, I think it's blatantly obvious where -- you know, what the detriment is. The funding -- you're losing somewhere in the range of 50% of the --

LEG. VILORIA-FISHER:

Well, that's the assumption one might make, but I was hoping that you might have examples.

MR. SEILBACK:

That was STASC's own estimates during their presentation two weeks ago.

LEG. VILORIA-FISHER:

No. I'm saying the -- the comment you made regarding its impact on programs; for example, if there -- let's say Niagara County has securitized their tobacco funds, has there been a decrease in programmatic efforts in Niagara County? I'm asking if you have any kind of specific data like that, because, you know, we're being asked to vote on this, I believe, on Thursday. If you could get me some of that information between now and Thursday, I'd appreciate it, if you don't have it with you right now. Thank you.

MR. SEILBACK:

Sure. I would just say that no matter how the Legislature votes on this issue, you still have the opportunity to commit to the long-term viability of the Tobacco Control Program. It's just that you're going to have less money coming in to do so. We believe it's important that no matter what decision you make, that you're going to make sure that you do commit to this program. And we hope that you, you know, would publically state that.

LEG. VILORIA-FISHER:

Well, in Dr. Chaudhry's letter, he did state that precisely. He did say that this would not impact the programs that we have now on tobacco cessation. But I did want to compare the information I've received in favor of the securitization with information that you might have in opposition. Thank you.

CHAIRMAN MONTANO:

Thank you, Michael. Legislator Fisher, this information on Thursday, is that official?

LEG. VILORIA-FISHER:

I had heard that we were going to be having a meeting on Thursday to vote on this.

CHAIRMAN MONTANO:

A Special Meeting? But nothing official yet, am I correct?

LEG. VILORIA-FISHER:

Counsel?

MR. NOLAN:

There's no meeting scheduled right now.

CHAIRMAN MONTANO:

At the moment. Okay. Michael, thank you. That wasn't for you, that was for us. Third person -- and excuse me if I don't pronounce it correctly -- Julianna Belelieu? How do you pronounce it?

MS. BELELIEU:

It's Julianna Belelieu.

CHAIRMAN MONTANO:

Belelieu.

CHAIRMAN MONTANO:

Belelieu. Okay. And you're with the American Heart Association and you want to speak on IR 1644. Go right ahead, you have five minutes.

MS. BELELIEU:

Good morning. Thank you for the opportunity to speak at this morning's hearing. My name is

Julianna Belelieu, and I'm the Director of Advocacy for both New York City and Long Island with the American Heart Association. At the outset, let me say that the American Heart Association is opposed to securitization as outlined in 1644.

I'd like to begin by testimony by asking the members of the Legislature to consider the underlying intent of the master settlement agreement. The settlement funds under discussion here today were intended to offset government health care expenditures arising from tobacco use. The master settlement agreement specifically states that its purpose is to achieve significant funding for the advancement of public health, the implementation of important tobacco related public health measures as well as funding for a national foundation to significantly reduce the use of tobacco products by youth.

The American Heart Association strongly opposes any action that would reduce or eventually eliminate a revenue stream intended to address the fiscal and public health impacts of tobacco use. And we oppose the securitization of the MSA funds that is under consideration here today. It's a losing proposition for Suffolk County from both a fiscal and public health perspective.

Addressing the fiscal impact first, Suffolk County could lose on two fronts. First the County would suffer from the outright loss of revenue due to the securitization process receiving about only 50 cents on the dollar. Financial institutions charge heavy administrative and commission fees, and many governments have suffered from downgraded bond ratings following securitization of their MSA revenue.

The County could also suffer from a reduced revenue stream from which to its Tobacco Control Program, which in the long term could result in greater health care expenditures relating to tobacco use. Studies have shown that the more you spend on tobacco control programs, the more effective they will be in reducing smoking rights, and associated health care expenditures.

A study from the February 2008 issue of the American Journal of Public Health analyzed data from all 50 states and the district of Columbia and found that among individual states, the decline in adult smoking prevalence were directly related to increases in state per person expenditures in tobacco control programs. By securitizing MSA funds and reducing the revenue available to fund tobacco control programs, Suffolk County risks Injuring the success of its efforts to reduce tobacco use and control tobacco-related health care expenditures.

Finally and most importantly, any reduction in the funding available for tobacco control programs in Suffolk County would negatively impact public health. We've made progress in reducing the smoking rate, but about 20% of all Suffolk County residents are still smoking. Among those aged 18 to 25, 27% are regular smokers. Nationally, tobacco use remains the leading cause preventable death. And each year, smoking causes more deaths than AIDS, alcohol, drug abuse, car crashes, murders, suicide and fires combined. Given the public health toll that tobacco use continues to exact, a well funded Tobacco Control Program must remain a priority. I ask you to please preserve this important stream for tobacco control programs. Thank you.

CHAIRMAN MONTANO:

Thank you. I think we have some questions. Legislator Beedenbender.

LEG. BEEDENBENDER:

Hi, Julianna. During your testimony, you said something that is -- that I just wanted to ask you about. You said that many municipalities have suffered a downgrade in their bond rating after they securitized. Now, all the research that I've done has indicated to the contrary. Now, the question, I guess, I would have is have you -- do you have any evidence that it was downgraded specifically because of that? Because I can certainly see that a municipalities bond rating could go down afterwards, but it could be because of other factors. So if you have that research, I would ask that you either share it with us now or in some fashion, because everything else I've gotten says that's not true.

MS. BELELIEU:

I didn't bring the exact citation with me, but it indicated that in general, when counties or governments securitize their master settlement revenue agreements, it was indicative of a budget shortfall somewhere, and that that consequently, has led to downgraded bond ratings.

LEG. BEEDENBENDER:

Right. But if it's part of a plan -- I guess, we don't have to go back and forth. I just wondered if you had something, because all the stuff we've gotten from our financial experts and things like that, we've been assured over and over that that won't happen as a direct result of this one step, so.

MS. BELELIEU:

I'll follow up people with you with the specific information.

LEG. BEEDENBENDER:

Thank you.

CHAIRMAN MONTANO:

Would you follow up with myself also. As Chairman of the Committee, I'd like to read that. What I think you're saying and what Legislator Beedenbender, I believe, is eluding to is that -- and I don't want to put words on your mouth -- but you're saying there's a correlation between counties and municipalities securitizing tobacco and a drop in their bonding rating.

MS. BELELIEU:

Yes.

CHAIRMAN MONTANO:

You're saying that.

MS. BELELIEU:

That is what I have read. I don't pretend to be a fiscal expert.

CHAIRMAN MONTANO:

I understand. This is not confrontational. It's an interesting proposition that we have heard, you know, contrary, but I have not seen anything in physical or written evidence to, you know, support that that doesn't happen. You know, I tend to agree that obviously if we're securitizing tobacco, it's because we need the money and we have financial issues. Could you send that report or whatever you have to me, Mr. Beedenbender, and, you know, I'll forward it to the other members of the committee.

MS. BELELIEU:

Absolutely.

CHAIRMAN MONTANO:

Thank you very much. Are there any questions for this witness? All right. Thank you very much, Julianna. Legislator Vilorio-Fisher, you want the floor?

LEG. VILORIA-FISHER:

No. I just wanted to ask for a copy of that as well.

CHAIRMAN MONTANO:

Absolutely. In fact, what I'll do is if and when received, I'll have my office make a copy and forward it to all the Legislators. And if we can get that before Thursday, it would be appreciated. Just in case.

The next person I have, Zabby, like Cher, you have no last -- only one name. You want to talk on 1644. Go ahead.

MS. ZABBY:

I just wanted to concur with the first lady that testified here in the orange shirt that, in fact, delegating this to a non profit is a form corporate welfare. And the fees for this, the salaries at the top, are just like bait, they mimic the corporations. And so we have accountants here took Intermediate Accounting and know all about the present value of money, the future value of money and discounting. They know all of this. And we're paying a huge amount of money for the salaries here at the Suffolk County Legislature. And, I mean, if we're going to just delegate it all out, perhaps some of the jobs here are unnecessary.

And maybe there are 11 -- last count, 11 Legislators out of 18 here present today listening to this Budget and Finance Committee Meeting. And I'd like to know -- I heard Mr. Romaine say that he didn't even know about a meeting Thursday. When is this potential meeting going to be on Thursday? What about the public. You know, you said, Mr. Montano, that that was for you guys. Well, what about the public's access to this vote that's just being pushed now. And I'd like copies of those papers as well before Thursday. And when was that meeting supposed to be held?

And also this lady, this young woman who just spoke, make a point about how, in fact, you might be -- I'd like to know first, before I say this, where did you get the information Mr. Beedenbender and Mr. Montano that, in fact, the bond rating would be going -- it never goes down with this securitization? Where did you get that? Could it have been from the non-profit organization that are here to feather their nests?

And I would say that this lady knows her stuff. Because you see, you could be getting certain towns that, in fact, did have a shortfall, a windfall as they say, and to compensate for that, so that the bond rating would not have increased if they, let's say, made a lot of money on the real estate that they -- that is sold in their county.

So I am against this bill. I think it should be done inhouse, or we should maybe abolish the Suffolk County Legislature.

CHAIRMAN MONTANO:

Zabby, before you go there are three things. One is that you mentioned the -- you questioned this potential meeting for Thursday. I really have -- there's no official information relative to a meeting for Thursday at this time. It's possible that one could be called. I think there's talk that a Special Meeting would be called.

MS. ZABBY:

In a real emergency, I understand you could call special meetings.

CHAIRMAN MONTANO:

Well, we're not going to call it. I can assure you that. If it's called, it would be called by the County Executive. You know, that's just something that we hear about. We have no control over that. So that's point number one.

MS. ZABBY:

Well, we have two people from the County's Office (sic) right here in the second row. Maybe they can speak to --

CHAIRMAN MONTANO:

We will deal with that. The second point that you mentioned is copies of the papers. I'll be happy to send you those. We have your address. And the third point that you raised is the information on -- or how or when the information that was eluded to Legislator Beedenbender and myself with respect

to the correlation between and securitization and bond rating. And I'll let mister -- do you have an answer for that, Mr. Beedenbender? I recall it in meetings, but I don't recall specifically how it was conveyed to me.

LEG. BEEDENBENDER:

Well, I just recall the discussions with financial advisor Mr. Tortora, the people who have been discussing -- the people from Citibank who are in the back of the room here discussing the deal mentioned it. I believe it also -- we had some discussions from our Budget Review Office, although, in specific instance, I can't remember as well. But I don't recall ever hearing that until just then. Because I know that question has been asked and answered on numerous occasion before. But in terms of a memo or a piece of paper that says it, I don't have one in my possession. But we've had several lengthy discussions in the public about this, and that's always been the answer at least to my recollection.

CHAIRMAN MONTANO:

I have not seen a study nor a report nor anything written relative to that issue one way or other, whether it goes up or down or whether it stays the same.

MS. ZABBY:

Yes. It should be independently done. And I notice that even our Budget Review person at the top here, she talking to Mr. Tortora who, in fact, is the person handling this whole thing from the Capital Marketing Association. And so, you see, depending -- you have now people coming here from the public with independent data, and I think it should be taken seriously rather than -- and I still say this should be done inhouse. Thank you.

CHAIRMAN MONTANO:

Thank you, Zabby. And I believe that Gail Vizzini, you can contribute to this -- this issue.

MS. VIZZINI:

Surely, Mr. Chairman. The only thing I would add is that the County has been very straight forward with the rating agencies over the past several years. The potential of securitizing our tobacco revenue has always been mentioned in our rating agency presentations. And most recently in terms of the magnitude of the shortfall, which I will be addressing shortly, we identified that as one of the potential solutions along with an alternative of securitizing the tax liens.

So the rating agencies are well aware. And still, we were able to obtain an upgrading in part -- a lot of contributing factors -- but in part that we have a viable solution to resolving the shortfall. And most recently, we just went out for refunding, and it's my understanding that our rating was maintained. More than that, you would have to get from the Budget Office or Audit and Control.

CHAIRMAN MONTANO:

Right. And these ratings, they're annual ratings; in other words, they fluctuate with the state of the economy of the County at the given -- - you know, given point in time?

MS. VIZZINI:

Yes. And then when we do go out to borrow, it would be at a particular rate.

CHAIRMAN MONTANO:

Okay.

MS. ZABBY:

I would like to, if I could, respond, because I --

CHAIRMAN MONTANO:

All right. Go ahead, but I don't want to get into a debate. Zabby, you'd like to add something

further?

MS. ZABBY:

Yes. The thing is -- the thing is with that is that I hear that the County has no money. So you have no money to televise, you couldn't get in insignificant amount of \$80,000 to televise this so the public would be aware and be able to hear things like, "special meetings," because you would be taping them in this committee meeting. So I hear that this County, according to Mr. Levy, bankrupt. We had to get the 1%, remember, from Albany of their -- a regressive tax on people who are buying groceries -- or buying other things, not counting groceries. But this is, I think, something that should be seriously taken under consideration.

CHAIRMAN MONTANO:

Thank you, Zabby. We appreciate your comments. I've run out of cards. Is there anyone -- I'll note that Comptroller Joe Sawicki is here. And I believe he's here to answer any questions that we may have. And I don't have any other cards either on the public portion or on the public hearing. Is there anyone that would like to address the committee with respect to the public hearing on IR 1644? If not, then I'll entertain a motion.

LEG. VILORIA-FISHER:

I have questions.

CHAIRMAN MONTANO:

Well, let's have a motion so we can have questions.

LEG. BEEDENBENDER:

Motion to close.

CHAIRMAN MONTANO:

Motion to close by Legislator Beedenbender. Do we have a second.

LEG. BARRAGA:

Second.

CHAIRMAN MONTANO:

Seconded by Legislator Barraga. On the motion, Legislator Viloría-Fisher.

LEG. VILORIA-FISHER:

Yes. I have some questions.

CHAIRMAN MONTANO:

Jim, you want to come up. Yeah, we're going to need you so you might as well come up now.

LEG. VILORIA-FISHER:

Thank you, Jim, for forwarding this information. It was exhilarating reading.

MR. MORGO:

I'm sure.

LEG. VILORIA-FISHER:

You know, here in Suffolk County, we have been known as a county who plans for the future generations. You know, we plan for the environmental -- the health of our environment in the future and certainly the health of the people in future generations. And I'm really concerned about this, because I don't believe that we're -- that this tobacco securitization plan really does address the economic health of generations to come.

We currently received a sum of money every year from the master settlement agreement. And if we

were enter into a securitization agreement, we're pledging 36% of that money from 2009 to 2012 and then -- in exchange for \$165 million during those years. And then after that, from 2013 on, we get \$20 million and we are giving up 75% of the master settlement agreement monies, that's correct, right?

I'm not going to be sitting at this horseshoe at that time. I'll probably be getting a -- be on a fixed income at that time. And I'm concerned about the wellbeing of the County when we're going to be reducing the amount of money that we're getting from the master settlement agreement to only 25% of those monies. And, you know, we'll only be getting \$20 million at that time for all of those years that are left.

I have a great deal of respect for people that I've spoken with who are proponents of this, and I don't understand why we would see this as our major means of balancing our budget or of meeting our budgetary demands. Because the way I see this, we must have a balanced budget in Suffolk County. However, if we build up our indebtedness, and this is what we're doing with this, we're being up our indebtedness, we're not getting the full value of an asset that we have right now, and we're not preparing for the future needs of this County. And when I speak about looking at the future needs of the health of this County, which I'm very concerned about because we have sold our Suffolk County Health Plan, we have explored the sale of the John J. Foley Center, we're selling tobacco monies.

So it seems to be a pattern that's very, very disturbing to me, because I believe -- well, when I took this job, when I asked Nora Bredes what this job entailed when she asked me to run, she said the safety and the health and welfare of the people of Suffolk County. And I think we're dropping the ball. So, Jim, we've been friends for a long time, I respect your opinion, but I'm puzzled by the enthusiasm for this plan, because I see other alternatives.

MR. MORGO:

Well, you asked some very good questions, Legislator. They will be answered. But when you began, you said that Suffolk County has always been known for a county that plans. And with the indulgence of the Chair, I would like to go through a presentation that we have -- we have really abbreviated based on all the discussion. But I think it's important that we proceed in a logical fashion, and you will have all your questions answered.

And I think it's important because we heard some things this morning that were obviously well meaning and well intention, but they are misconceptions. And you know, I think everyone sitting up there knows, all Legislators know that one of the most difficult parts of the job and really part of your mission is to get out truth and to try to present the details in a clearly and as unencumbered manner as you can, and that's why you're always looking for that substantiation and that proof.

Speaking of planning. One of the things that --

CHAIRMAN MONTANO:

Jim, if I may? What we were going to do, and we're a little bit out of kilt here because of the fact that we're on the public hearing portion and we haven't closed yet, what we were going to do is a budget presentation from BRO.

MR. MORGO:

Would you rather have that first?

CHAIRMAN MONTANO:

That's the way he had planned it.

MR. MORGO:

The agenda doesn't say it.

CHAIRMAN MONTANO:

Well, actually it does. The agenda says "public hearing." So we're actually -- are we making this part of -- let me ask Counsel. Are we making this part of the --

MR. MORGO:

I thought this was part of the hearing.

CHAIRMAN MONTANO:

I have no objection to that, by the way. Let's make this part of your hearing. So in essence, you're -- we'll take this as your testimony, your position on the public hearing, and then we can engage in that question and answer, and then we can have the other part later. Is that fine, Jim?

MR. MORGO:

Yes. We've asked people, Legislator, to come here in anticipation of your questions, so that would be a good procedure.

CHAIRMAN MONTANO:

All right. So we will do that. I didn't mean to interrupt you. Go ahead, Jim.

MR. MORGO:

No. That's all right. What I was saying about planning is that what has brought us here today right now on July 29th, this process began six months ago. Many of you were part of the County Executive's bipartisan working group to deal with the hole in the budget that we're facing next year. It was an analytical and comprehensive approach that got us to where we are, and a key part of it was IR 1307, which the Legislature approves. And all of the elements that we're talking about today are in that piece of legislation that has become statute.

The other thing I want to thank you for was that back on July 1st, the majority of you voted to move the hearing date to today, and I think that was a very judicious decision on your part. And I think in a little while you'll see why. I want to speak now not as Chief Deputy, but as the Chairman and President of the corporation as it's indicated in the packet that was sent out to you on Friday. It's, again, the Tobacco Asset Securitization Suffolk Tobacco Asset Securitization Corporation that we refer to as STASC.

On July 1st, I provided the organizational and selection process. I'm not going to go through that again. I am just going to tell you who the other officers of the corporation are, they are here; Terry Pearsall is the treasurer and secretary of the corporation; Bob Venero, the President and CEO of Future Tech is serving as the independent vice-president and assistant secretary of the corporation. And just for the record, no one, as part of this not-for-profit local development corporation is remunerated in any way. We are serving as volunteers on a not-for-profit board. The transitional counsel for the Hawkins and Delafield. And Rich Tortora, to my right, is the financial counsel.

I provided you with a packet, as I said, on Friday. Included in that packet, as Legislator Vilorio-Fisher already alluded to, is a letter from the Suffolk County Health Commissioner Dr. Chaudhry who spoke about in no diminution in commitment to anti-smoking measures and tobacco cessation. And I think on July 1st, we gave you the budgeted amounts for those programs for 2008 and proposed for 2009. And I think if you read Dr. Chaudhry letter along with the structure of the proposed deal, the risk aversion of the proposed deal -- I do want to mention one thing about bond ratings, because that came up, Legislator Beedenbender and Legislator Montano.

One of the things that has been emphasized in the way this deal is structured unlike some of the many, many -- most counties who have securitized their tobacco revenue as -- their tobacco assets, settlement assets, revenue, tobacco settlement revenues, their TSRs, our proposed deal is not enhanced, that is there is no backstop with the full faith and credit of the County. Some of those did have the full faith and credit enhancing them. So that could be something relevant. Rich Tortora would know more about that than I.

I want to also acknowledge some help in the entire process; BRO has been -- Budget Review Office has been available for us, and we've communicated and we've conveyed information back and forth. Also, I want to particularly mention the Suffolk County Comptroller, Joe Sawicki, and the Suffolk County Treasurer, Angie Carpenter, both of whom support the passage of IR 1644 I might add. The Comptroller and -- Joe is here today and the Treasurer. With that, unless anyone else, Richard has anything to add? Fred?

MR. TORTORA:

Just one point of clarification regarding what Jim just said. By and large, the county deals done in New York State have not had the backstop of the county in which the deal was done. New York State, however, did do a deal earlier this year in which they did backstop their deal. They what they call an appropriation pledge behind it. And nationwide, I'm sure that some of the jurisdictions have, in deed -- well, we know that some of the jurisdictions have backstopped their deals, but that hasn't been the case with counties in New York State.

LEG. VILORIA-FISHER:

Mr. Chair, since I was questioning --

CHAIRMAN MONTANO:

You have the floor, Legislator Viloría-Fisher.

LEG. VILORIA-FISHER:

Yes. Before you go further, I have a couple of more specific questions, Jim, is that okay?

MR. MORGO:

If I might. What I was going to do know is ask --

LEG. VILORIA-FISHER:

Because I think what I'm asking is separate from what you are going to explain. It was something specific to Rich.

MR. MORGO:

Okay.

LEG. VILORIA-FISHER:

Okay. I called you last week, Mr. Tortora, because it seemed to me that if we are looking at this tobacco securitization plan, it might behoove us because of the amount of net loss to the County over the life of this program to look at a more conservative number. And I just perused through the presentation by BRO, and they have same suggestion here, that we look at a smaller plan.

And when I spoke with you last week, I said, if we were to look at a smaller number, a lesser number, and I think BRO indicates a number of 150 instead of 230, is that correct? Is that -- at this point in the process, is that doable? Now, last week, it was. Is it still a doable alternative to look at smaller deal so that there is -- so that County will realize a smaller net less at the end of this program?

MR. TORTORA:

The simple answer to your question is, certainly, at this stage, you could have a smaller transaction. So it is doable. We -- frankly, we don't think it's advisable, because a smaller transaction won't allow you to achieve the goals that were given to us initially when this got started, which is to provide approximately \$185 million of budgetary relief over the next five years. A smaller transaction wouldn't necessarily do that. Certainly --

LEG. VILORIA-FISHER:

But, see, my concern, Rich, and my goal is to look beyond the five years. And I believe that this transaction exacerbates a structural imbalance that we have in Suffolk County, that we have too great a reliance on sales tax and all of the fluidity that that has, you know, economic ups and downs. And this is really a one-shot. Even though it's going to five years, it is basically a one-shot.

I agree with BRO. And I'm surprised that this wasn't discussed at length in the working group that was put together. But we have a very low General Fund property tax. I have an example of somebody who is paying \$10,000 a year in property tax is only paying \$110 a year in General Fund property tax. And if we were to raise that by two and a half percent, it would be less than the price of a tall, not a grande, not venti, a tall. And that would allow us to access our Tax Stabilization Reserve Fund.

Not this -- we wouldn't have to do it this year, because BRO's plan to have a smaller tobacco securitization plan we would still get the 60 million up in the early years. You see the green or the highlighted? That's the General Fund property tax, \$110. And what I'm looking to do is ask my colleagues to stand together to look at a modest well-below inflation rate increase in the General Fund property tax that is less than \$3 a year and will come off their income tax at the end of the year, by the way, a great portion of it, and would allow us to access our Tax Stabilization Reserve Fund.

That wouldn't have to be done this year, we could look at it for next year. But we could look at these ways -- these different methods of stabilizing our budgetary model and incurring less indebtedness. If we're honest with our taxpayers, we need to say with them, "Look, this deal is bringing money right now, but it's going to cost us, not you, us, all of us over the long run a net loss of" -- I think, you know, we're paying dearly for this; 49 cents on the dollar.

If you raise your property tax by less than what it costs you to buy a tall latte per year per household, not per person, we could use some of that rainy day fund and -- you know, we're in a deluge right now. So certainly it's the right time to access a rainy day fund. I mean, if you lost your job or someone in your family got sick and you had money sitting in your savings account, would you live -- would you buy your groceries on your credit card and pay your rent on your credit card? No. You'd use some of the money that you saved, not all of it, but you'd used some of the money that you saved. This is what I'm talking about here. So I'm very concerned that we're going for the whole hog when we could look at what BRO is suggesting, which is a smaller portion so that it's costing the taxpayer less money. And, Rich, it's doable.

MR. TORTORA:

It is.

LEG. VILORIA-FISHER:

It is doable. Okay. I just wanted to state the whole reasoning. You know, and BRO does have it here. And I'm sure that BRO will be talking about it. But I wanted to give you that illustrative example of a \$10,000 -- which is, by the way, above average. The average is about \$8000 a year.

MR. MORGO:

Mr. Chairman?

CHAIRMAN MONTANO:

Yes. You want to respond to that?

MR. MORGO:

Well, I'd like Fred Pollert to respond and then I would like to. But also, we have our lead underwriters here on -- on the proposed deal, and I'd like them to come up after us.

CHAIRMAN MONTANO:

That's a separate issue. The underwriting issue is separate from the issue that --

MR. MORGO:

I know that. I just wanted to let you know where we were.

CHAIRMAN MONTANO:

Okay.

MR. MORGO:

All right.

CHAIRMAN MONTANO:

There's a question in there, and Fred is going to respond. That's what I understand. Go ahead, Fred.

MR. POLLERT:

Just with respect to the use of the Tax Stabilization Reserve Fund, the county really is being buffeted by rather extraordinary economic-types of events. There is a possibility that the County will have to use the Tax Stabilization Reserve Fund. But if the County has a structural imbalance, raising the General Fund taxes by two and a half percent, which is going to generate less than one and a half million dollars, is not going to address that structural imbalance.

The use of the Tax Stabilization Reserve Fund is, in essence, compounding a structure imbalance. It's a one-shot revenue. In addition to that, it has a very deleterious impact with respect to the rating agencies. All of the rating credit reports are looking for a certain size of a closing fund balance. Absent a 10% reserve fund balance, they want to see a larger Tax Stabilization Reserve Fund. So they have put in writing that they do have concerns that our fund balances are not large enough. Going back to the time --

LEG. VILORIA-FISHER:

That our fund balance --

MR. POLLERT:

Are not large enough.

LEG. VILORIA-FISHER:

What are they looking for in the fund balance?

MR. POLLERT:

They're looking for about a 10%. Now, what is unique about Suffolk County is we return our fund balances as a credit to the warrant. We have judiciously, over the years, put money into the Tax Stabilization Reserve Fund. It's now at the highest level that it has been. But nevertheless, we're not turning the size of fund balances and we don't have the size of reserves that the credit rating agencies are comfortable with. It's something that they had mentioned to us every time we meet with them. So really what the long and the short of it is, if we had a structural imbalance, two and a half percent increase on General Fund property taxes won't be adequate. If you wanted to deal with property tax --

LEG. VILORIA-FISHER:

That's obvious. But it's going in the right direction, and you're the one who taught me that word, by the way, when you were here with the Legislature. And you had advocated at that time looking at General Fund, relying more on the General Fund and less on sales tax. That was something you said often and advocated for. And certainly, we're not going to raise General Fund property tax to allow us to be reliant on it, because the taxpayers couldn't bear that kind of burden. But at least if we kept the -- kept it at a low enough rate that if we need to access -- well, you just said yourself that we might have to access the Tax Stabilization Fund.

MR. POLLERT:

We, in fact, may have to access the Tax Stabilization Reserve Fund.

LEG. VILORIA-FISHER:

I'm not saying that two and a half percent is going to rectify the structural imbalance, but it's a step in the right direction.

CHAIRMAN MONTANO:

If I may. Fred, two quick questions. How much is in the Stabilization Fund, and when do you think we have to access it?

MR. POLLERT:

The Tax Stabilization Reserve Fund would be able to be accessed at the time that the 2009 Operating Budget is being adopted. It would require a two and a half percent increase in the General Fund. You can't access it at this point in time because you really haven't met any of the criteria that are set forth under General Municipal Law with respect to being able to access the Tax Stabilization Reserve Fund. So it would be during the budgetary process.

CHAIRMAN MONTANO:

Right. But that's a hypothetical, that's not --

MR. POLLERT:

That's a hypothetical.

CHAIRMAN MONTANO:

Right.

MR. POLLERT:

We haven't prepared the budget, we haven't sent it over yet.

CHAIRMAN MONTANO:

Okay. In other words, it could be -- it could be accessed any year during the budget process.

MR. POLLERT:

That is correct.

CHAIRMAN MONTANO:

Okay. But you're not saying -- I just want to be clear. You're not implying that we're going to tap into the Tax Stabilization in 2009, are you?

MR. POLLERT:

Frankly, at this point in time, we have not prepared the County's Operating Budget. What I think you're going to hear from the Budget Review Office is the size of the projected shortfall hasn't come down. The County has taken some -- you know, a lot of dramatic actions with respect to position control, cutting supplies and materials, you know, trying to reduce expenditures wherever possible, increasing revenues wherever possible. That gap really hasn't compressed. Whenever we close it, it seems to open up again and sales tax drops off another hit there.

So, you know, it's kind of a moving target. But I think what you're going to hear is even with tobacco securitization there's a residual amount in both the General Fund and the Police District, that we haven't closed the gap. And as we put together the budget, that's clearly one of the budget option, which I would not preclude at this point in time. We would really have to look at, you know, how can we close that residual budget gap. We're going to be looking at 2009 departmental requests very closely. But I would definitely not, you know, take off the table the possibility that we may have to do something with the Tax Stabilization Reserve Fund.

CHAIRMAN MONTANO:

So then I just want to be clear that I understand this. What you are saying is that we might be in a situation, if hasn't been decided, that we can do securitization and tap into the stabilization in the same year.

MR. POLLERT:

Yes.

CHAIRMAN MONTANO:

Okay.

MR. POLLERT:

And a large part -- I think a lot of it is going to be what the Governor is going to be talking about this afternoon, because flow-through from the State of New York, whenever there's a budget crunch, they tend to cut sub-jurisdictions.

CHAIRMAN MONTANO:

I hear you. I'm not on the list, I won't monopolize this. John Kennedy -- Legislator Viloría-Fisher, are you completed?

LEG. VILORIA-FISHER:

Yes.

CHAIRMAN MONTANO:

Legislator Kennedy.

LEG. KENNEDY:

Thank you, Mr. Chair. I am going to ask you to indulge me just for a second and put the cart before the horse a little bit in that I think it's important that we try and see where we're at know as far as a snapshot globally and then look at what we're talking about with securitization.

I had chance over the last couple of days to read the bond offering, I guess, associated with retiring some of our existing debt. And it's kind of like reading the back of cereal box, you find all kind of specific and obscure information in it, that it seems like we struggle to find. I see we had 185 employees, I believe, that actually took the early retirement, which I was uncertain about. I also see that we have 355 million in DTANs that we must pay within the next 30 days. So as I sit here and I begin to try to understand what we're talking about with the tobacco securitization, I have this fuzzy notion in the back of my head, check kind of like -- what do we have in the checkbook right now? Are we looking at this because we have the ability to pay our obligations that I see we need to do and things like this, or is this something that really is looking at what we're going to be doing over these multiple years? I hear about dire circumstance, I hear about things are -- you know, what does it mean? What's in the cookie jar? What do we have right now? Can we meet these DTANs or not?

MR. MORGO:

The answer is yes. Mr. Chairman, may I?

CHAIRMAN MONTANO:

Sure.

MR. MORGO:

Legislator Kennedy, you're asking, obviously germane questions and Legislature Viloría-Fisher's questions in talking about real estate taxes for Suffolk County homeowners, those are obviously germane because they're part of the bigger fiscal picture. And also, one of the things I said at the beginning, this is something of an obsession of mine, maybe it comes from being a teacher many years ago --

CHAIRMAN MONTANO:

Or a Legislator.

MR. MORGO:

I think when you convey information, it's important to do it in a systematic orderly way. You're some very big questions, John. I think -- I think this is why Legislator Beedenbender suggested having the Budget Office and BRO present before us so you get a better picture of where we are.

My point, however, is that many of us for a long time beginning six months ago with the planning to meet to fiscal challenge or some might even say crisis have been working very hard on this particular structure of this transaction. And that's -- 1644, as you all know, is conveying the tobacco settlement revenue to the corporation STASC. And you had some very good questions through these last couple of months.

One of things that I think we forget about sometimes -- and Mr. Venero sent me a note to remind you, but I think you all know this -- is that these future tobacco settlement revenues by no means are guaranteed. Because you are getting a certain amount this year, doesn't mean you'll be getting it when we're on fixed incomes in 2020. If you looked at the global insight report, see would that.

My point, Mr. Chairman, is the questions that two Legislators asked, as they pertain to this particular transaction; could it be smaller, why isn't it smaller, could it be done differently, I think are, as I said, germane questions. But they would be better answered when we -- when we finish, and we almost are. And what I'd like to do know with your indulgence is ask the lead underwriters, part of the team, the folks from Citigroup to come up to give you a very brief presentation.

Again, I ask you to look at what was conveyed to you on Friday because that has a lot of useful information. And when we're finished, and it will be, as I said, brief, then we'll all be available to answer any and all of your questions.

LEG. KENNEDY:

Mr. Chair, in response to some of the questions I've asked.

CHAIRMAN MONTANO:

Go ahead, Legislator Kennedy.

LEG. KENNEDY:

They are intentionally global, but there was also a more specific set that I had associated with this resolution before us and germane to the public hearing. And I agree with you that I'm craving some larger understanding of where we are to better be able to ascertain this proposal in front of us. But I also know BRO has some information relevant to us.

Yes -- first of all, I want to thank you for sending me the documents that I asked for. I've got a better understanding of the legal structure of the tobacco corporation now. And I did read the global insight's projections as far as consumption of tobacco products over the next 30 years in the United States. But I have this nagging feeling that the way that we have kind of zeroed in on this large settlement multi-year, I have nothing to contrast it with. And I'd ask Budget Review if there is any contrast with securitization.

The other thing I'll say is with Mr. Tortora, and maybe it's just, you know, I just don't remember things any more, but you spoke about being tasked with the mission of coming up with \$185 million over a five year period. I don't ever remember discussing that. I don't every remember coming to a decision on a particular resolution saying we wanted to charge yourself or a study group with a five year \$185 million sum to realize. So all I'd offer to you is that's why I'd like BRO to give anything as far as an alternative with revenues to yield from this mechanism so that we've got some contrast for decision making. I'll yield, Mr. Chair.

CHAIRMAN MONTANO:

Thank you, Legislator Kennedy. I have four Legislators that have questions; Legislator Romaine, D'Amaro, Beedenbender and Barraga. And I'll leave it up to you whether or not you want to have the presentation. If you are going to ask questions, let's make as germane as possible to the resolution, and then we can come back after the presentations and following up on the discussions. If that's okay with everyone. Legislator Romaine.

LEG. ROMAINE:

Very quickly. Some of the problems that I have with the tobacco settlement that I've expressed before is my concern that it will create a structural deficit for future years. I'm not going to be here, but I don't feel like handing off to the next Legislature and County Executive the problems and just say, "Okay, we were about getting 23, \$24 million for tobacco securitization, but you are not going to be getting that. You're going to be getting less."

And that will in and of itself create a structural deficit. That's a problem that we're taking the money now, and it would seem that future County Executives and Legislatures are going to be stuck with a structural deficit. And there's just no way about it.

The other problem I have is right now the County Executive has said -- that's why I'll await the BRO's report -- has said that the problem isn't in 2008. In fact, we'll probably end up with a surplus this year. The problem is in 2009. And yet, the way the tobacco deal is structured, we're getting money not only for 2009 but for 2010, 2011 and 2013 -- 12 and 13.

So, I mean, is the problem more than 2009? Are you projecting that we're going to have deficits or shortfalls, whatever you wish to call it, that will reign beyond 2009? And if not, then why are we funding the money into the future if there's no problem? Because the only reason we're looking at this, my understanding, is that there's a shortfall in 2009. Are there shortfalls in 2010, '11, '12, I mean, for the remainder of Mr. Levy's -- and should he be reelected, for the remainder of his term, are we going to have shortfalls every year?

MR. MORGO:

I don't have a crystal ball handy. However --

LEG. ROMAINE:

But you structured a settlement in such a way as to indicate that we're having shortfalls for the next five years.

MR. MORGO:

Excuse me for speaking while you were interrupting. I was going to say that --

CHAIRMAN MONTANO:

Let's not get into that.

MR. MORGO:

I don't have -- I was in the mild of a sentence, though.

CHAIRMAN MONTANO:

I understand, but let's move on.

MR. MORGO:

-- a crystal ball. However, the way the deal is structured, and Rich and Fred could speak to this better than I, but the way the deal is structured, there is flexibility. And if the economy were to improve, and we all hope it does, then there are adjustments that could be made. Rich or Fred.

MR. POLLERT:

Just with respect to the first question with respect to the structural deficits for future years. The primary use of tobacco is as a bridge. Sales tax has dropped dramatically. When I started in the County Executive's Office, it was over 8%. The year before that it was 12%. It's not my fault that it has dropped, but clearly there has been a dramatic drop in sales tax.

When we started this year, we used a very conservative forecast of two and a quarter percent. We lowered it to 1.5 last time we spoke before the Legislature and identified that there was a budgetary shortfall. You're going to be hearing that we've now low it again to 1%. So in large part, do we have a problem now? Yes. In large large part, the problem is being caused by the economy. You need a bridge until the economy starts to improve.

The consensus forecast is because of noise in the credit markets and because the real estate cycle is slower than the general economic cycle, it's going to take a number of years. So with the structuring of the tobacco, it was anticipated that our revenues are not going to come back in 2010. It's going to be a period of time. So part of the structuring took into account the long-term perspective that the structural imbalance is going to be self-correcting as our revenues come up. We're being hammered with delinquent property taxes, Suffolk County Tax Act where we have to make towns whole, we have a decrease in real driven-types of revenues and a decrease in sales tax. Those are going to self-correct as the economy begins to turn around.

So there is a plan. It's not that there's ongoing, you know, budgetary shortfalls which are being forecast. Part of the reason that we had also structured a number of years is something that, you know, is a concern of both the Budget Office and the Budget Review Office. You need, you know, time to structure your budget to come off tobacco securitization. So you are going to have additional revenues coming in in 2008/2009, and that's to deal with the 2009 problem. We're advancing some revenues, which will increase the size of our fund balance this year and carry it over into 2009.

So it's part of a broader plan. And part of the reason that we are using the 2008 revenue is with the size of the budgetary shortfall, which we are projecting for 2009, just doing tobacco securitization in 2009 wouldn't generate enough revenues. We would have a very large gap, which would remain which we would have to close either through appropriation-types of reductions of large revenue increases.

LEG. ROMAINE:

Thank you for that explanation. If I can continue, as I understand the money that will be used that we secure through the tobacco settlement will be used to pay debt that becomes due; is that correct?

MR. POLLERT:

Yes.

LEG. ROMAINE:

Why would we not consider pay-as-you-go as another option and then -- is there a financial reason for that?

MR. POLLERT:

Partly because of the budgetary problems that we have, we are reducing pay-as-you-go and capital expenditures in general. So the Capital Program, which we sent across was a very tight Capital Program. The Capital Program that was finally adopted by the Legislature, in fact, cut it even further. So pay-as-you-go under the best of circumstances, we're not generally spending, you know, more than five to \$8 million on pay-as-you-go. So it really would not provide the size of the budgetary types of relief, which we're looking for in the context of our projected shortfall.

LEG. ROMAINE:

Thank you. Now we're getting 51 cents on the dollar if we -- if we do this over 20 years and about 26 cents on the dollar if we do this over 40 years, correct me if I'm wrong. I heard about an appropriation pledge or backstop to the deal. Is there a way that we could generate additional revenue if we backstop this deal if we did an appropriation pledge or something of that nature?

MR. POLLERT:

One of the things that was talked about, which we had addressed in a report, which we had distributed to the Legislature is that, you know, tobacco consumption is trending down. There are a group of both event risks, you know, as well as lots of things that have changed from 2001 when the Legislature last talked about tobacco securitization. Specifically, when I compared the global report from 2001 to a current global report, there are eight additional factors that are impacting smoking consumption. So it's a speculative revenue.

If the County backstops, the County will remain at risk. In addition to that, we did pursue with bond counsel what option do we have for backstopping. Because it was a recommendation of the financial advisor, it would bring down the cost of capital. It requires enabling state legislation. You know, currently, the counties are not allowed to act as banker pledging their credit to someone else. We would not be able to pledge the County's credit to the STASC, a separate independent corporation, to do a back-stopping. So it would require enabling state legislation, and I'm not sure that from a business-type of decision it's something that the Legislature would really want to actively consider.

LEG. ROMAINE:

I just thought I'd raise that, but I thank you for your answer. Just listening to you, is that the major reason why you now -- I assume you now support this deal, and when you were the Budget Review Director for the County and the Legislature you opposed this deal in 2001? In fact, you opposed it rather vigorously in 2001.

MR. POLLERT:

Absolutely. Yes, I did. There were two primary reasons I am now supporting the deal. Number one, a (C) change in what is happening with both biomedical research with respect to trying to reduce smoking with pills, with nasal sprays, with virus-types, you know, vaccines that are actively being tested and developed. So it is a more speculative revenue then it was 2001.

Number two, in 2001, tobacco securitization was being proposed because Medicaid was out of control. It was projected to continue to increase at double digit rates; 10, 11%. In 2008, we are using tobacco securitization not to cover expenses that are skyrocketing, we're not using it to cover employee medical health costs or salary costs or things that are going to be going up from year to year to year, we are looking at it as a bridge to -- to a time sales tax is going to come back, when property tax delinquencies go down, when we start to sell some of the tax-acquired properties that we have, when real estate-generated types of revenues, including out of the County Clerk's Office, come back to normal type of levels. So it's a short-term dip which we're looking for of four or five years. It's not this progression of 10% compounded increases in expenditures that was the case in 2001.

LEG. ROMAINE:

One final question based on what you just said. Do you feel the ever increasing dependence on sales tax in the last few years has made this County more vulnerable fiscally in terms of the way we generate revenues for the County?

MR. POLLERT:

No. And surprisingly, the reason not -- and I've had a few discussions with the rating agencies -- even though we're in a real economic downturn, we continue to have a growth in sales tax. Yes, it has decreased dramatically, I still have a 1% growth. If I raise property taxes -- my property tax delinquencies are sky-high. So you know, like, if you look at shortfalls between what we had included in the budget for sales tax versus the shortfalls on what we're getting from the warrant that

was adopted by the County, the biggest shortfalls are in property taxes. So if I start to push up property taxes, there's no guarantee that I'm going to get it. I could warrant \$50 million, I'd be coming in with 40 -- I mean, coming in with less than 40. There's more than a 20% variance between what I have budgeted for real property taxes and what I'm actually getting in. With sales tax, there's very little variance.

CHAIRMAN MONTANO:

Okay.

LEG. ROMAINE:

Thank you, Fred. As always, you've been extremely informative.

CHAIRMAN MONTANO:

All right. Jim, before you start, at this point, we're going to have some policy issues to discuss and I'm sure a policy debate, but I think you were suggesting that we bring up Citibank, and I'm going to concur with that.

MR. MORGO:

Yeah. I want to thank Fred also, because that exactly what -- in regard to Legislator Romaine's question, looking towards the future, we can't tell what's happening with the economy. The other thing I want you all to remember is to look at what's happening with tobacco and the reason we did not enhance the bonds. That was something discussed. This has all been very systematic and analytical as we're gone through this. Thank you.

CHAIRMAN MONTANO:

And we'll probably have some further questions. You're going to stay around?

MR. MORGO:

We'll all be here.

CHAIRMAN MONTANO:

Okay. Yeah. I'd like to bring up Citibank and their representatives to talk about the deal that's, you know, being contemplated, and then we can get back to the question and answer with the people that are on the list. Good morning there. Good to see you again. I'm just going to ask you to put -- identify yourself for the purposes of the record.

MR. CREEDEN:

Paul Creeden, Citigroup.

MR. MARKOWITZ:

Shy Markowitz, Citigroup.

CHAIRMAN MONTANO:

And Rich Tortora is still there. Okay. I'm going to turn over the floor to you and ask you to make your presentation, and then we'll -- if we have any questions, we'll take it from there.

MR. CREEDEN:

Sure. We will keep it brief. I would refer the Legislators to the one-page sheet that Mr. Morgo distributed. It really gives an overview of the transaction structure and -- and the potential for cash flow relief. We have additional copies of that if people need it.

CHAIRMAN MONTANO:

Hold on one second. I'm not sure everybody has that sheet.

MR. CREEDEN:

We should get in front of everybody.

CHAIRMAN MONTANO:

Yeah. I think so. Does everybody have the document, [Tobacco Securitization Bond Summary of Bond Issue and Cash Flow Relief Structure?](#) Okay. Thank you. Sorry about that.

MR. CREEDEN:

No problem. I'm glad we got it in front of everybody. The last time we were here, we were asked to come back with a more definitive structure. I believe we spoke about several different structures when we were here last. And the structure that, you know, we were instructed to look at was a structure in which there were some of the tobacco settlement revenues that accrue to the County pledged immediately and look at a structure that was kind of step-structure that some portion was pledged through 2012 and then thereafter. I portion-pledged for the remainder of the transaction.

And if you look on the left of that handout, what we are suggesting in the structure is that County pledge 36% of its tobacco settlement revenues from '09 through 2012. There's no pledge. The '08 dollars come in -- they come in every April, the tobacco settlement dollars, the '08 dollars have already come in, and then 75% thereafter, after 13. What that means for the County is that the County retains 64% of those revenues, '09 to '12 and then 25% thereafter. I think an important additional point is that as the transaction is currently contemplated, the County retains 100% of any monies that are currently sitting in the disputed payments account at the MSA.

That's an important point because one of the issues and one of the risks that both -- that Mr. Morgo referred to is the fact that nonparticipating manufacturers can hold back their payments -- the participating manufacturers can hold back their payments as a result of loss of market share to those who don't participate. That has been happening. There is approximately 1.4 billion in that. Not all the counties, but that is a substantial thing. We preserved that for the County in this -- in this structure.

What that generates currently is a transaction that is a 40 year final maturity; that's 2048. That is a stated final. The way that tobacco securitizations are structured is they get paid down before that from the revenues as they come in. The expected final maturity is 24 years from now, which is 2032. That generates a bond transaction of about \$232 million and change. That bond transaction then generates -- in addition to paying for its own costs, it also funds liquidity reserve account, which is required by the markets to sell the bonds. And additionally, as Mr. Tortora indicated, the remainder of that money is invested in secure US Treasuries to then pay County General Obligation Bonds.

The net result of that, as you'll see below on the right, is the cash flow relief that were described; there is the 185, that's how it's broken out, per year. I would add that that breakout is net of, we already structure around the 36% through 2012. So we structure this so that it -- so that you don't effectively lose the 36% through 2012.

Right now, we are, you know, contemplating a structure, which is going to get a cost of the capital range, anywhere between six to 645. So that is an overview of the current structure. I don't know if there is any specific questions from that.

LEG. VILORIA-FISHER:

I have questions.

CHAIRMAN MONTANO:

Well, we have a list, so I'm going to put you on the list. And I had said that I would start with where we left off on our list, and that would be Legislator D'Amato.

LEG. D'AMARO:

Yes. Thank you, Mr. Chairman. Gentlemen, welcome and thanks for coming in again. I appreciate your time. I understand the breakdown, I understand the structure. I think it's pretty clear in the

summary you gave out. I want to go back more to the timing. We have had a hurried process. In my mind, that's justified, but I'd like to get on the record a little bit more into depth as to why we feel we need to go do this sooner rather than later. If this committee is inclined to close the public hearing today and vote this bill to the full Legislature, there is talk of a special meeting as early as Thursday in order to consider this particular bill. And I'd like to ask you why do we need to do that now as opposed to even a week from now?

MR. CREEDEN:

Sure. As mentioned earlier, there is quite a bit of event risk related to tobacco settlement securitizations. And the particular moment in time where we are -- and that event risk, by the way, can be litigation, company announcements, you know, general news regarding the the tobacco industry, general attempts, as mentioned previously, announcements as to pharmaceutical drugs, a whole litany, but the very specific sets of information that are driving our schedule now are two-fold.

This week, the three largest tobacco companies released their earnings reports. {Lauralard}, which is Newport Lights and that set of brands released theirs yesterday. Reynolds American, which is the old RJR Tobacco and Philip Morris, which are the two largest have their earnings conference calls and releases tomorrow and Friday. Often in those releases, they discuss their views of tobacco consumption and where it is going. If they have expressed -- if they expressed negative views on those consumptions, in their earnings reports, it can affect the market's perception of tobacco settlement bonds, which means interest rates for selling those bonds increase.

What we are trying to do is there is a second set of information which is that they then also file their first half -- their second-quarter really {10-Qs}, which usually occur some time in mid August. What we are trying to do is be -- and the {10-Qs} have a lot more data about consumption. We are trying to fit this transaction within those two parameters knowing that there is nothing we can really do about the earnings releases this week, but we only have that two week period before the {10-Qs} come out. And the {10-Qs} have a lot more information. So what we are we are trying to do is fit ourselves within kind of those critical stages of information that could have an affect on our transaction.

LEG. D'AMARO:

Okay. So when you say the -- this negative type of news or news might be contained --

MR. CREEDEN:

Not to interrupt. It may be negative, we don't know.

LEG. D'AMARO:

If they were negative.

MR. CREEDEN:

It may verify the status quo, which is all good.

LEG. D'AMARO:

Okay. But it's released with earnings reports and then the {10-Q} filings, which are much more specific, and public filings --

MR. CREEDEN:

Right.

LEG. D'AMARO:

-- could increase the costs. That's the six to 6.45% you were referring to, which is really the cost to the County for selling the revenue stream.

MR. CREEDEN:

Right. Exactly. That is the cost of the bond.

LEG. D'AMARO:

Okay. And you're trying to avoid having to then -- I guess you would have to -- however you do it internally, you would have priced the bonds at a higher rate in order to meet --

MR. CREEDEN:

Right. Well, the market actually gives us that information. What ends up happening is as the information comes out, we are obligated to disclose it to investors, and they make their own determinations. But investors have been very sensitive for the past six to nine months on these consumption forecasts largely due to, you know, the first quarter coming in not as well as expected -- US consumption declines were down. And that was followed very rapidly by Standard and Poor's putting some tobacco securitization bonds on negative watch or negative downgrade as a result of some of the consumption information. So it's become a highlighted issue with regard to that.

LEG. D'AMARO:

All right. Mr. {Credin}, thank you. Mr. Chairman, I do have other questions that go more to the legislation itself, and I'll reserve it for that time. Thank you.

CHAIRMAN MONTANO:

Mr. Beedenbender, you have some questions or a comment.

LEG. BEEDENBENDER:

I have no direct questions for Citibank. I will, like Legislator D'Amaro, reserve the rest of my comments when we debate the bill itself.

CHAIRMAN MONTANO:

Thank you. Legislator Barraga.

LEG. BARRAGA:

Same thing.

CHAIRMAN MONTANO:

Legislator Viloría-Fisher, do you have any questions, or you want to wait till after.

LEG. VILORIA-FISHER:

No, I had a couple of questions.

CHAIRMAN MONTANO:

Go ahead.

LEG. VILORIA-FISHER:

Rich, I had asked you question earlier regarding what the cost per year to the LDC would be in paying the bond. Do you have any idea what that would be?

MR. CREEDEN:

When you cost per year, the actual interest cost?

LEG. VILORIA-FISHER:

Yes.

MR. CREEDEN:

Over the life or kind of an average per year?

LEG. VILORIA-FISHER:

No, each year, because each year, for example, for the first -- for the upfront part of program the LDC will be getting 64% of the master settlement agreement monies, and after that we'll be getting

only 25% of it. So I'm wondering -- I have a couple of questions, because at the beginning of the program, I'm assuming, that there will be some residual money in the LDC, because they wouldn't be using all of that 64% of the tobacco revenue to pay interest on the bond, those first few years. Do they then --

MR. CREEDEN:

They only use the 36% that's pledged to the bond holders for the bonds. And that in those early years is about eight and a half million dollars a year.

LEG. VILORIA-FISHER:

A year.

MR. CREEDEN:

That changes every year, but that's about --

LEG. VILORIA-FISHER:

And then what happens to the rest of that?

MR. CREEDEN:

The rest of it is given back to the County. The mechanics of the purchase and sale agreement and the mechanics of the bond indenture require that the monies that are quote, unquote, in the parlance of the legal terms is unencumbered, are given back to the County. So in those early years, that's about 15 million 15.3.

LEG. VILORIA-FISHER:

Okay. So the money that is in LDC can flow back and forth to the County.

MR. CREEDEN:

It's required to be. The way the purchase and sales agreement is --

LEG. VILORIA-FISHER:

It's not held in escrow.

MR. CREEDEN:

No, it's not. The way the purchase and sale agreement -- and if any or the lawyers wish to correct me -- but the way that the bankers read the purchase and sale agreement it that it is required when those dollars come in they get split into the 36%, 64%, and the 64% comes directly back to the -- to the County.

LEG. VILORIA-FISHER:

Okay. I had just another question. Actually it was to Budget Review, because I just wanted to clarify something. Mr. {Credin}, in a conversation that we had, I guess, Friday -- was it Friday? Monday morning rather, where I contrasted what our -- the 51 cents on a dollar, that it was high rate -- you know, expensive money. And we're really using this expensive money to run our Operating Budget, which we don't usually bond or borrow money to run our Operating Budget. And I think you said that that's not that far afield, that it's not that different from what we spend on general obligation funds. And you said that you would be getting back to me on what general obligation funds usually come to.

MR. CREEDEN:

Again, what we did to make apples to apples here is if you look at general obligation -- general obligation bond transaction, and we just pick numbers that kind of matched here, if you -- it is -- I will say you are correct, it is more expensive money than general obligation money. By its definition, securitization is more expensive money.

If we took a 30 year general obligation transaction -- just to have it in the same ballpark -- we know

that -- and Mr. Tortora will know better than I do -- but we know that the County doesn't necessarily borrow on 30 years. But a 30 year general obligation bond transaction would be a \$220 million transaction. The interest you would repay over the life of that would be about 214 million. So you get to that whole -- a general obligation bond is like 52 cents or \$1.53 on a dollar, depending on interest rates. Now, we're assuming for that -- for that analysis, we looked at interest rates yesterday for a 30 year general obligation New York transaction, and that comes to around 5% on average.

LEG. VILORIA-FISHER:

And I understand what you are saying, that you're using that model in order to compare apples and apples.

MR. CREEDEN:

Because I think you all borrow kind of shorter and differently.

LEG. VILORIA-FISHER:

We don't borrow 30 year -- Robert, can you just weigh in on that a little, on general obligation bonds and if we were save in terms of cents on a dollar, what would that kind of rate be?

MR. LIPP:

Okay. First of all, we had a June 30th memo and we said you'd get 51 and a half cents on dollar. That was an estimate. In fact, I reran some numbers just this morning, and I came out a little higher -- it remains to be seen though -- 51.9 cents on a dollar. And that resulted in an estimated -- and I don't have any detail on the debt structure, so it's a sort of back-of-the-napkin calculation -- a net present loss of 2.62%.

And in terms of the interest rates, I looked at the Double A municipal bond rates, which is what we get, and compared it to the limited information that I had from the documents that Citigroup is working up. And, you know, it's an ongoing fluid thing, going to market. So to make a long story short, interest rates on tobacco bonds are 1% to one and a quarter percent higher than municipal rates, and that's makes sense. It's a more risky proposition, number one.

Number two, we have not gone out in my memory beyond 20 years with serial bonds. So we wouldn't, if we're doing a capital project, typically go beyond 20 years. This is going to be conceptually the expected, I guess, 24 years. So it's a little bit longer. And actually, we did have some conversations about going out 25 years for the jail, but that has not happened. So far we've only gone out 20 years even with that.

That being said, this is a little bit longer, the expected life, as opposed to the stated life of 40 years, expected life of 24 years. And it's maybe 125 basis points, maybe a little less, higher with the rates, because it's more risky. And the analysis is based upon the global insight report, which basically says that consumption is going to go down by an average of like 1.83% per year. But what you do is you add to that 3% inflation, which is automatically in the master settlement agreement, and you get a growth rate that would tend to average an increase of 1.17% based upon the global insight report in revenues.

CHAIRMAN MONTANO:

Thank you. Vivian, you are done?

LEG. VILORIA-FISHER:

I'm done.

CHAIRMAN MONTANO:

All right. Legislator Kennedy had a couple of quick -- some questions.

LEG. KENNEDY:

I do, Mr. Chair. And I will keep it specific in this area. I'm just curious, similar to what I had asked before, how did you come to the 36% figure for securitization as opposed to direct flow of proceeds over the -- this is '09 through '12?

MR. CREEDEN:

Nine through 12. It's actually driven by the universe of outstanding general obligation bonds that are eligible to be paid through this mechanism of investing the bonds. In the Tax Code you obviously want to keep it so that the whole transaction is tax exempt. There's a specific universe of bonds that meet that criteria that allow us to refinance these on the tax exempts.

LEG. KENNEDY:

Again, I apologize, but I'm really struggling to try to follow this stuff. So in other words, are you saying then previous bonds that we have let that will be coming due in subsequent years, a portion of them are going to be able to be required or eliminated by structuring this transaction and you arrived at the 36% factor predicated on what we have coming due in '09 and '10 and '11, is that it?

MR. CREEDEN:

Yeah. It's the universe of bonds, it's available '09 to '13.

MR. TORTORA:

Now, if I could add something to that.

LEG. KENNEDY:

Then I'm going to ask just one more and I'm going to yield, because it's a rhetorical question. How does that come upon our fiscal crisis now? That's the part I'm struggling with.

MR. TORTORA:

If I could respond to your initial question. The original structure transaction, you might recall, had a securitizing starting in 2013, and that was the structure that was laid before the committee a month or so ago.

LEG. KENNEDY:

That was part of the RFQ, I believe.

MR. TORTORA:

Correct. When my firm --

LEG. KENNEDY:

But not anymore apparently.

MR. TORTORA:

Well, if I could continue. When my firm analyzed the numbers that Citigroup and the other bankers that responded to the RFP, when we looked at their -- their number run, we were concerned, as was the Budget Review Office, with the cost of capital. At that point, that particular structure included a lot of capital appreciation bonds, a financing technique or a debt -- a debt product that was required, because there was no revenue available in nine, '10, '11 and '12 to pay investors, because we weren't not going to start securitizing to '13. So as a result, the original structure included capital appreciation bonds.

Now, we know, and the market tells us, that capital appreciation bonds are very expensive to sell. Typically you might pay an additional 1% on the interest rate if you have capital appreciation bonds in the structure. So we went back to the bankers and said, okay, the first structure, that's a good starting point, but how can we eliminate these CABs, these capital appreciation bonds. And, of course, we knew the answer was we had to make some revenues available starting in '09. So what we did is we said, what's the minimum amount of tobacco revenues we can securitize starting in '09

that will allow us to generate enough of a revenue stream so we could start paying the bond holders back in '09 and eliminate the need for the CABs, and in doing so, reduce the overall cost of capital by about 1%. So that's how we backed into that 36% number. It's the minimum amount of the tobacco settlement receipts that can be securitized that would allow us to eliminate the need for the costly capital appreciation bonds.

LEG. KENNEDY:

So then how do we get to the break to step up in 2013? If we're focused on this need to get at a more costly debt mechanism than we've in, what now takes year 13 and differentiates it?

MR. CREEDEN:

The way that it is structured going back to the original RFQ was pledging 75%. How do you generate the proceeds to provide the cash flow relief, that \$185 million over five years in which you want that to occur? So that 75 stays kind of static in that you can actually slice and dice that any way you like, but you still have to generate a certain amount of proceeds to be able to provide the cash flow relief in the years that were identified for us, which is the 185 million.

So as Rich pointed out, what we were instructed that no more than 75 in any given year, and that was the original analysis. The secondary analysis was let's reduce and let's get rid of the most costly instruments in the transaction. And we're able to reduce those substantially by pledging that 36% upfront. So it's really -- it really kind of works from the back forward is, I guess, the best way to describe it. But the 75 is how much it takes to generate the appropriate amount of proceeds.

LEG. KENNEDY:

But one thing that you mentioned before, and again, I'm sure it was in there, I just didn't see it, the original RFQ pointed to a gross figure of 185 to realize over a multiple set of years?

MR. CREEDEN:

Yeah. It was possibly 175.

MR. TORTORA:

The original RFP asked that the bankers come up with a structure that would get us -- get the County 185 million of budgetary relief over a five year period. And to come up with that number, they use -- and we said, don't use -- don't securitize more than 75 of the revenue stream, thus preserving the remaining 25% for the County going forward.

LEG. KENNEDY:

I'm going to yield. Thank you.

CHAIRMAN MONTANO:

Okay. I don't think there are any further questions. I want to thank you very much for spending your morning with us and, you know, addressing us. We are going to continue with our part. I don't know if you want to stay for that, that's up to you.

MR. CREEDEN:

We'll be here for questions.

CHAIRMAN MONTANO:

Okay. I appreciate that. Rich, thank you. From what I understand by Counsel, the only members that can vote at this public hearing to close it are members of the committee; is that correct, Counsel?

MR. NOLAN:

Correct. The public hearing was referred to this committee to hold the public hearing, and therefore, only the committee members can vote on whether or not we're going to close the public hearing.

CHAIRMAN MONTANO:

We have a motion by Legislator Beedenbender, I believe, and seconded by Legislator Barraga to close. All in favor? Opposed? Abstentions? Motion carries. The public hearing is **CLOSED (VOTE: 7-0-0-0)**.

Moving on to the agenda, we're going to have the presentation from the Budget Review Office.

LEG. D'AMARO:

Mr. Chairman.

CHAIRMAN MONTANO:

Yes, Legislator D'Amaro.

LEG. D'AMARO:

If I could just make a suggestion.

CHAIRMAN MONTANO:

Sure. Go ahead.

LEG. D'AMARO:

Perhaps the Chair would want to consider taking the related IR out of order and get it before the committee while we have the presentation.

CHAIRMAN MONTANO:

I think that BRO is going to -- Gail, correct me if I'm wrong -- I think that your presentation will impact or could impact some of the issues that are addressed by 1644. Yes? No? Maybe?

MS. VIZZINI:

It clarifies what the shortfall --

CHAIRMAN MONTANO:

If it's going to impact it -- if it wasn't going to impact it, I would do that, but since there may be some issues that come up during the debate that could affect, may not necessarily affect someone's decision, then let's hear that.

LEG. D'AMARO:

Then, Mr. Chairman, thank you. I'll offer a motion to take 1644 out of order.

CHAIRMAN MONTANO:

So you want to do it irrespective of -- in other words, after the presentation, we'll vote first on 1644, is that your motion? I have no issues with that. Absolutely.

LEG. D'AMARO:

Right. So I'll offer that motion, Mr. Chair.

LEG. BEEDENBENDER:

Second.

CHAIRMAN MONTANO:

Second. All right. So as I understand the motion what we're going to do is we're to take 1644 out of order, but we're going to hear the presentations before we vote on it.

LEG. D'AMARO:

Right.

CHAIRMAN MONTANO:

All in favor? Opposed? Abstentions? Motion carries. **1644, Adopting a Local Law authorizing the sale of the County of Suffolk's Rights to receive payments under the Master Settlement Agreement with various tobacco companies and the related consent decree and final judgement to the Suffolk Tobacco Asset Securitization Corporation (COUNTY EXEC)**, is before us. Why don't we hear the presentations, then we'll make the motions. Gail, the floor is yours.

MS. VIZZINI:

Thank you, Mr. Chairman. At the request of the committee, what I'm about to present to you is a presentation that demonstrates the extent of the revised budget shortfall, what the magnitude of that is, before we take any of the mitigating efforts. We'll walk you through what you have already authorized in terms of mitigating, and then we'll identify to what extent the tobacco securitization is the major component to address that shortfall mitigation and give you an idea of what's left to do.

You all have hard copies in front of you of what's on the screen, whichever is more convenient with you. With your indulgence, I'd like to get through this. I'm sure the Budget Office will also comment, happy and then we'll be happy to answer any questions you might have.

When we last came to you on March 11th of 2008, we reported that the shortfall was in the magnitude of \$130 million, which was the Budget Review Office number. And at that time, the Budget Office number was in the vicinity of 150 to 156 million. We met July 23rd. We agreed -- remarkably, we are really right in the same ballpark, not necessarily in terms of assumptions, but in terms of dollar figures. The shortfall right now before any mitigation is 126 million, and that's comprised of 105 in the General Fund and 21 million in the Police District.

I can share with you what the assumptions are in the Budget Review Office's model. They are -- first of all, the 21 million comprising the Police District does not include a police class for 2009. That will be a policy issue addressed in the 2009 Budget. We have already accounted for in our General Fund shortfall the updated payroll projections related to the Early Retirement Incentive Program and the suspension of pay-as-you-go financing in the amount of \$2 million.

We also assume that we will consummate the sale of the Suffolk County Health Plan netting the anticipated revenue in excess of 17 million. Our budget model continues a restrictive hiring policy for 2009. Fred mentioned early in terms of where we were with the sales tax. Our budget model still holds to the sales tax productions of 1.5% in '08 and 2% for 2009. The Budget Office is a little more pessimistic. They'll update you on that.

We also assume that we will continue to give the Police District the same threshold of sales tax revenue that we did this year, which was \$87 million. Legislator Romaine asked in his -- in earlier discussions, will we end 2008 with a fund balance. Yes, we will. That fund balance, we estimate, to be at least 62.4 million, but part of the problem is that that is 63.1 million less than we were able to budget for last year. It could be more depending on the restrictions that the Budget Office places on expenditures during the course of the year.

The problem areas are State and Federal aid is trending downward. Property taxes in '07, we only receive 33 million compared to what we adopted, 51 million. And we were estimating when we did the '08 Budget that '07 property tax would come in at 42.5. We project a continued decline in property taxes, similarly, probably \$15 million less than what we have adopted for '08.

In '07, sales tax growth was 3.2%. When we put together the '08 Budget, we assumed 2.25%. Since we adopted the budget, the economy has continued to slow. Second quarter sales tax shows negative growth. We would need growth of about 1.1% for the rest of the year to even come in in terms of what we budgeted for '08 -- I'm sorry, 3.1%, which exceeds the 2.25% that we -- that we have in the '08 Budget.

There's a substantial decrease in revenue in '09. It has to do with, you know, the one shot related

to the sale of the Suffolk Health Plan. It's not something we will repeat. State and Federal aid, as I mentioned earlier, continues to decline, probably by another \$5 million. And as Fred mentioned earlier, today, the Governor will make a presentation to the people in regards a potential mid-year course correction as far as the State budget is concerned. We don't know what additional adverse impact that could have.

Debt service we project will increase \$9 million in '09 over '08. And, of course, expenditures in the key areas of salaries, health insurance, utilities and equipment continue to go up. What have we done to date? IR 1307, which was actually Resolution 283, authorized progress in terms of certain budget shortfall mitigating efforts. The tobacco, if we were to proceed, would be estimated to provide some relief of \$15 million in '08 and 45 million in '09. The resolution also struck some appropriations; vehicles, equipment, supplies, approximately \$2.7 million General Fund and 300,000 in the Police District.

That resolution authorized the departments to take a look at what fees and revenue enhancements they could make. We anticipate about \$2 million or in excess of \$2 million coming before you in the form of resolutions to be approved authorizing certain fee increases. You already did approve the item pricing waiver for Consumer Affairs and increases in certain Consumer Affairs fees under separate resolutions.

And as I indicated earlier, the savings of \$10.3 million in '09 offset by the cost in '08 of the Early Retirement is already in our budget model numbers. We expect some revenue relief in terms of the real property tax service verification fees, which are anticipated to yield at least \$5.7 million in 2009 of additional revenue predicated on reduced activity levels.

So where are we? The General Fund is the \$105 million shortfall number. I'm on page 12. Tobacco could reduce that by 60 million, less \$4.7 million in actions taken in Resolution 283, less revenue from real property tax verification fees of 5.7 million, it still leaves us with a General Fund shortfall of \$34.6 million that will have to be addressed when the '09 Budget is before us.

Since we had the public hearing in regards to tobacco, the Budget Review Office would just like a couple of comments in regards to tobacco. It constitutes the largest component of relief proposed for this shortfall. It's expensive; 51 -- now 51.9 cents on the dollar with a net present value loss of 2.85%. It gives us, however, considerable cash upfront to offset the creation of the structural imbalance. However, in and of itself, after several years go by, the five years of the proceeds are not coming in longer, it itself creates a certain structural imbalance.

It does little really to address the current structural imbalance based on our continued reliance -- in this, Budget Review, has certainly been consistent cautioning you in regards to our continued reliance on revenue from sales tax and substantial fund balances. We have been asked if there are alternatives. One of the alternatives, as we have referenced earlier or Legislator Vitoria-Fisher referenced, since it's expensive, we would like to see the deal structured to not have us securitize and more than we really, really have to. What follows on the last page of your presentation is an alternative to bring the par value down to 150 million from the 230 million. Okay.

We're also very concerned that the County need to implement a plan to address the structural imbalance and prepare for the loss of the proceeds from the tobacco which will hit in 2014. In this plan, we would be hopeful that we will consider small increases to the General Fund Property Tax Levy along with the Police District Property Tax Levy and responsible accessing of the Tax Stabilization Reserve Fund, which Mr. Pollert referenced earlier.

One alternative besides initiating other taxes or recurring revenue is to consider going back to the rate of sales tax that we had in 2005, which is an eighth of a cent more than what we have now. If the State would agree to something of this magnitude, it would net us -- that one-eighth of a cent would net \$34 million of recurring revenue.

So page 15 kind of lays out a smaller securitization plan from the par value of 185 million net proceeds of 230 to a par value of 120 net proceeds of 150. And you see in the last column, we understand that the relief is needed in '08-'09, but it reduces by small increments the amount that we would be securitizing for future years since it is such an expensive, 52 cents on the dollar, alternative.

CHAIRMAN MONTANO:

Thank you, Gail. I'm going to pick up where we had left off again, and I believe that Legislator D'Amaro followed by Legislator Beedenbender and barraga and anyone else who wants to get on the list.

LEG. D'AMARO:

All right. Thank you, again, Mr. Chairman. Gail, thank you for the presentation. And, Rob, appreciate it as always. I wanted to go back to some of the suggestions on page 14 in the presentation. It seems to me that we're talking here about -- excuse me -- we're talking about tobacco securitization and how much we should securitize. We heard some testimony earlier that the extent there was an improvement in the economy perhaps we could then be flexible and adjust the amount that we securitize in the future. And I'm just wondering what are your thoughts on -- isn't it prudent to kind of like go with as much as we can with relieving debt at this point, and then if we can adjust later on, that's all good news as opposed to having to do this all over again maybe two or three years from now?

MR. LIPP:

First, it really should be noted that it is a policy issue. So we're just trying to provide the options, okay? That being said, there are two schools of thought; try to get as much as you can out of securitization upfront simply because -- and it is correct, it would be very expensive to go back again, that is a fact; however, that being said, since it's such a very expensive proposition to begin with, our view is we should start dealing with the structural problem sooner rather than later. And the alternative proposal that we provided just as a policy option for you is not to do to anything different about 2009, \$5 million less in 2010 and then start ratcheting it down in 2011, '12 and nothing in 2013. The idea there being is we would force ourselves, if you will, to deal with the issue sooner rather than later.

LEG. D'AMARO:

Let me just --

MR. LIPP:

And one other thing in terms of the economy, though --

LEG. D'AMARO:

Let's define what "force ourselves" means, though. What you're really saying is that to the extent we don't securitize, if there's no improvement in the economy, we need to find that revenue somewhere else, and that's where you're suggesting now to adjust the structural problem that we have in the budget by -- with our reliance on sales tax by increasing property taxes. Is that what you're talking about here?

MR. LIPP:

There are a couple suggestions being made, that included modest increases in property tax, once again, a policy issue, along with use of Tax Stabilization Reserve as well as increasing the sales tax rate. We have provided, so has the Budget Office, over the last several months a whole laundry list of potential recommendations. None of them being perhaps extremely palatable, if you will. So in a certain sense, have we here and have we in the past provided a list that was actually much, much longer than that? Yes. Is it something that policymakers are willing to go with right now? No, clearly. At least not to this point.

That being said, we're recognizing that the tobacco issue is something that needs to be addressed as

part of the solution. We're just saying that given the expensiveness, you may wish to consider a lesser amount and deal with problem sooner rather than later only because of the -- well, for other reasons. It's very expensive.

LEG. D'AMARO:

Okay. Your own report, though, indicates even if we do the full 60 million, what is it, 15 now and 45 in '09, we still wind up with a \$34 million deficit or shortfall, if you will, for next year.

MR. LIPP:

Correct.

LEG. D'AMARO:

All right. So you know, I'm not going to rule out looking at your recommendations at a later date, and I appreciate that you made them, and I think we need to consider everything especially in difficult economic times. We're talking about tapping the Tax Stabilization Reserve Fund, which in my mind is really a one shot as opposed to the recurring revenue that we'll be getting from tobacco, we're talking about increasing the sales tax rate. And these are things that I think in November when we do our Operating Budget, we're going to have to look at. But why handicap ourselves going into that November time period when we craft our budget for next year?

Right now, we have a viable alternative to put -- to plug in \$60 million into next year's budget. If it turns out that we don't need that much, we can always adjust that later on. But I have the feeling that come November, we're still going to be facing some very tough decisions. So I appreciate that there are alternatives out there. I think we're going to have to look at all of them. I think it would be irresponsible to say we're going to discard any of them at this point. But I think we need to wait until November to look at whether or not we're going to look at tax increases and sales tax increases, because right now have a viable alternative. So that's the direction that I would like to go. But I do appreciate that you put the different recommendations forward. Thank you.

LEG. BROWNING:

I guess, Legislator Beedenbender.

LEG. BEEDENBENDER:

Are we at the point where we're going to debate the bill, or are we still -- are you still trying to withhold this just for questions, because I'm imagining -- if Legislator Vilorio-Fisher has question, I don't. So I'd rather yield to the questions for BRO before we get to debating the policy.

LEG. D'AMARO:

The Chairman indicated there was another presentation to be made.

LEG. BEEDENBENDER:

Then I will yield again.

LEG. BROWNING:

Okay. Legislator Barraga.

LEG. BARRAGA:

I really don't have questions of Budget Review. But, you know, I've been sitting here and there have been different presentation made all morning. I just don't feel like yielding anymore, so I want to speak. Just relax, okay?

CHAIRMAN MONTANO:

Go ahead, tom.

LEG. BARRAGA:

I know this issue with reference to tobacco securitization is very difficult and troubling to the

members of the Legislature. And, you know, they had very deep concerns and should be. I mean, this is something that normally we would not do, but it's something that's absolutely necessary. I mean, for those of us that have been sitting here for a while, I mean, you see what has happened to the national economy over the last year and a half. There is continued disintegration of the housing sector, there is volatile financial markets all around us, we're taking a look at skyrocketing energy and fuel prices, there is a widening in terms of job losses and a dramatic falloff with reference to the value of the dollar.

And at the Federal level, the Federal Reserve is trying to take some actions. I don't know how effective they've been. In the first six months of the year, interest rates have been adjusted six times. Often it takes time to see the results of those rate increases, but so far, it doesn't look that promising. The Federal Reserve also acted through JP Morgan to literally bailout Bear Sterns. And they had to do that, because as it was pointed out I think in a number of articles, there was a real threat to the very financial base of the United States that wasn't done.

And even since our last meeting, since our last meeting, I mean, the Treasury Secretary Paulson has come forward and indicate that he wants legislation which has now passed the House and the Senate, if need be the Federal Government will step in to bail out Fannie Mae and Freddie Mac, which between the two of them, handle over a trillion dollars worth of mortgages.

So what we're seeing is not a chronic deterioration, a very quick deterioration of the economic stability of the United States. And right now, at the Federal level, it's anticipated that this year's deficit will be \$494 billion at the Federal level and not including 80 billion for the Iraqi War and what's going on in Afghanistan.

So the Federal Government is not really in too much of a position, even though they can print money, to help anybody. And today at five o'clock, the Governor of the State of New York Paterson, will make a presentation. And right now, and people should understand this, you know, state budgets are not balanced, they're only certified. But the budget that the Governor presents to the Legislature has to be balanced, his budget, not the one that's passed by the Legislature, it's just certified by the Comptroller of the State of New York.

And everybody knows, once it's certified, the very day after that it's not balanced. But it's highly unusual for a Governor during an Election Year for Senate and Assembly members to go public with reference to the dire fiscal consequences that face the State of New York. Right now, over the next three years, that deficit for the State of New York is 21.5 billion. Tomorrow morning, the Division of Budget, I wouldn't be surprised, come out and indicates for next three years, it will be north of \$25 billion. And what do you do with those things?

When you have a deficit like that, either you cut services and layoff people, you cut spending, or you raise taxes or a combination of a number of different things. The reality is -- you know, there's no knight on a white horse coming to bailout Suffolk County. The figures that we're looking at, you know, have ranged between 120 and 150 million in terms of the deficit. You know, we've been playing with this for quite some time. And every member of this Legislature has a right and they should ask very in depth questions concerning tobacco securitization.

In the end, this committee should support this endeavor whether we like it or not. It's gotta pass, because we don't have choice. The figures don't seem to be changing. Either it's 126, 130, 150, and it could get worse. The whole purpose of this special committee that I on was to avoid layoffs and tax increases. And as we see, even with the actions we've taken so far and will take with tobacco securitization, there's still roughly a \$35 million shortfall. And, you know, out there is the question of do we raise taxes to get at the reserve fund.

Now, I'll be frank with you. My constituent could care less about tobacco securitization. To them, if they have any interest at all, it's like watching paint dry. They leave it up to me. One thing I do know from the people I speak with, they say, "Don't raise my taxes. Do not raise my taxes. We are

hurting out here. We don't need a two and a half percent increase, any increase." So going down that reserve fund kind of concept, I don't think it's going to work. We're going to have close this gap some other way.

Time's awasting here. I mean, I'm concerned about the timeframe. You know, so we meet on Thursday, so we make a final discussion. So what's the big deal? I mean, let's get this thing done. We've procrastinated enough, we've asked enough questions. You'll never have the whole story, but we have enough of this story to know we have to do this thing. I'm concerned about, you know, Standard and Poor's, Moody's and Fitch. They're taking a look at this bond issues for tobacco. They've downgraded some of these bond issues. They've taken a look at some of the pending litigation, they're concerned about what might happen at the courts with reference to this settlement and how those court decisions will affect the flow of those dollars to the various groups getting the money.

And in August -- I don't know if this was mentioned -- domestic shipments, there will be a figure put on that, domestic tobacco shipments. And if the shipments are down, that could affect the cost of capital and selling the bonds. So the quicker we move, the better off we'll be. Again, the primary goal here has always been in the end to avoid tax increases and to avoid layoffs. If we don't do this, you know, that's exactly what will happen.

I mean, I'm concerned too about whether or not we're going to have a balanced budget three or four years from now. I can see, you know, that gap being there. We will deal with it then. All right. Now it's time to make a decision. In a couple of years, we can make the decision right. But we've got to move now. We don't have a lot of time to waste here. No more procrastination. If we have to meet in a day or two to get this thing done, just get it done. Put it behind us, and we'll live with the results.

CHAIRMAN MONTANO:

Thank you. Connie, I want to thank you for being patient. We're going to suspend questions until after your presentation so then we could wrap this up. Of Fred, I don't know who is making the presentation. Connie? You can both make it, it doesn't matter.

MR. POLLERT:

Hopefully it's going to be very short. Basically, you know, as Gail had mentioned, we're extremely close on the budget model. Basically, the problem is in both General Fund and Fund 15. We have very similar forecasts with respect to the Early Retirement Incentive Program. We have very close forecasts with respect to, you know, what is the impact with respect to real property taxes. We do have a more conservative approach with respect to sales tax. We brought down our projected sales tax growth to 1% this year. Basically, we are in agreement.

The problem is the \$105 million on the General Fund side, approximately the 21, \$22 million on the Police District side. Even after tobacco, we're going to continue to have a substantial problem that we're going to have to deal with as we present the budget to the Legislature.

CHAIRMAN MONTANO:

Connie.

MS. CORSO:

Okay. A lot of what I have to say is redundant, because Gail covered a lot of it and so did Fred. But I do want to make a few key points. Yes, we are pretty much in agreement that it's 105 -- you know, 105 in the General Fund and 22. But I just want to bring out a few points. Everybody knows that we adopted 283-2008 and that was our plan. That plan has been referenced in all three of the rating agency reports as well as the last official statement. So that is a recognized plan, an acceptable plan to all the rating agencies at this point. So I just want to make that clear. Yes, tobacco is in there, and it is an accepted plan of action for counties.

I just want to say on top of that, I don't want to -- I went through all the things -- I just want to talk a little bit about the property tax collections. We now have three or four years in a row of Riverhead Town for 2005 through 2008 and the Town of Southold not meeting their warrant and having to pay their monies. So this is -- this is a real problem. We are not -- if you raise property taxes, we're not getting the property taxes in.

So for 2006, it was down 12 million; 2007, 18.5; 2008, 10 to 15 million, and then in 2009, it's estimated to be \$9 million. So just make that -- keep that in your minds when you think about increasing property taxes. The other thing that I want to say is about the State. On Friday, I got an e-mail from NYSAC, and I just want to quote it to you. "Steve {Acquarious} says the Governor says that no one is listening. County officials want him to know that we are not only listening, we are also feeling the affect of current economic realities. Counties are experiencing uncertain revenue, skyrocketing fuel and health care costs and increased demand." So that's it in a nutshell.

When the Governor's budget came out, it already was speculation that it was a \$5 billion problem. All the experts say now it could be a \$10 billion problem. Where do you think that is going to fall? It's going to fall down to the counties. Now, Steve led the charge as the head of the County Executive's Association to beat back some of those changes that we discussed in April. The changes in the aid, the juvenile detention cost shift. Those things, I suspect, are going to come back to us in November when we are going to be facing a lot of difficult choices. So these are just kind of some of the things that I just want to bring up to you in addition to all the things that we have done and we have talked about.

CHAIRMAN MONTANO:

Any questions?

CHAIRMAN MONTANO:

Rick.

CHAIRMAN MONTANO:

Legislator D'Amaro.

LEG. D'AMARO:

Yes, thank you, Mr. Chairman. Very quickly, Connie, thank you.

CHAIRMAN MONTANO:

Yes. But I had asked -- excuse me. I had asked, Legislator D'Amaro, to hold back some of his questions to allow --

MS. CORSO:

Honestly. Wait. Wait. I have one more thing, if you just excuse me a second. I just want to talk about the tobacco revenue. When we talk about that revenue, I just want to let you know, for 2006, 2007 and 2008, what was budgeted, which was given to us by the Attorney General's Office, was not realized. They held back payments for all those years, and we have not gotten them back yet. We were notified that we were going to start to get those back payments in April of this year. Again, because of litigation, they have been held back. So items that were budgeted in budget, '06, '07, '08, have not been realized. That's how speculative these revenues are.

CHAIRMAN MONTANO:

I got you. Legislator D'Amaro, go ahead.

LEG. D'AMARO:

Yes. Thank you. And I'll be very quick. Connie, again, thank you. Rising property -- increasing property taxes in a time of increasing defaults is problematic, if I hear you correctly.

MS. CORSO:

Yes, it is, because the cash. The County is not only facing a budget problem, it's a cash flow problem as well.

LEG. D'AMARO:

Right. We need to address the cash flow problem, we need to address a structural problem with our budget, we need to correct our overreliance on sales tax. There are a lot of issues here, very important issues. And I think we need to address them. I already stated earlier, I think the time to address some of the other issues would be in November when we do our Operating Budget.

But I just want to ask you, how problematic is it? It's important for me to know whether we're considering now property taxes or we're considering in November property taxes. If we're in a period of increasing defaults, is it counterproductive to consider that type of increase, or is it just going to result in a little less to the County? I mean, how much -- how problematic is it in a time of increasing defaults?

MS. CORSO:

It's a very good, and the question is just like I laid it out. Am I going to actually get the cash? Am I going to increase property taxes? Am I going to bring in that cash into this County?

LEG. D'AMARO:

So there's uncertainty about that at best. We don't really have an answer sitting here today whether it will result in a lot less of revenue to the County or what. But the point I want to make is what we have here with securitization is a known amount of revenue to the County. But the point I want to make is what we have here with securitization is a known amount of revenue to the County. And again, that just kind of supports what I've been saying to my fellow committee members and colleagues, that, you know, we can take this revenue now, and supporting taking this revenue now does not mean that you're foreclosing considering all the other option that will be on the table later on.

MR. POLLERT:

I do know that the Comptroller is here. I don't know if he wants to speak to it. But the Budget Director raised the point that it's not just a budgetary shortfall. The County is starting to experience cash flow problems as well. So we are forecasting that we are going to have to size upward to a very high level DTANs.

What the tobacco securitization does is it not only brings in revenue, it brings in cash. So if the State of New York says, you know, we're going to process a payment, quite often we can recognize it as a revenue, but there's no cash to back it up. This is a -- you know, a very important transaction in that it's generating both revenues and cash. So, you know, that's a very good point. We have both a budgetary problem as well as a cash flow problem. This addresses both sides of the issue.

CHAIRMAN MONTANO:

We're going to move on. But I just want to bring you back to one point, just so I'm clear. Initially when we were -- when tobacco securitization came on the table, one of the issues that came up was how to tap into the tax stabilization, and my impression was that the securitization would be a way of avoiding the tax increase and going into the securitization. But I think you said earlier, and I just, you know, reiterate this, that we may be confronted with the issue of doing securitization and tax stabilization, getting into the Tax Stabilization Fund; is that correct?

MR. POLLERT:

Because we're at the beginning of the budget process, I don't want to preclude that option. One of the things which we're looking at are the 2009 Budget requests. Obviously, we're going out into the field. Frankly, I had not anticipated a \$14 million utility cost increase requested by the Department of Public Works. It's huge.

CHAIRMAN MONTANO:

Okay.

MR. POLLERT:

So, you know --

CHAIRMAN MONTANO:

You're not saying yes --

MR. POLLERT:

I'm not saying --

CHAIRMAN MONTANO:

-- but you are not saying -- we're going to get to that when we get to it is what you're saying.

MR. POLLERT:

Right. We are very mindful of what Legislator Barraga was talking about. It's not a good time to raise property taxes. Clearly, we're going to look at all the options, but I can't preclude that when we finally put the budget together between the State, between what's happening with energy, that we would not want to preclude that option to balance out the budget.

CHAIRMAN MONTANO:

Understood. Legislator Vilorio-Fisher.

LEG. VILORIA-FISHER:

Thank you, Mr. Chair. I'll be brief. I just have three points, the first being is Legislator D'Amaro, you said that you -- referring to page 15 of the BRO report that you were sceptical about this plan because of our need for the influx of money in the 2009 Budget. Well, BRO's proposal provides that. It provides that 15 million in 2008 and the 45 million in 2009, and just ratchets it down after that and it's a much -- much less cost to the Suffolk County taxpayer.

And that's also something I wanted to point out to you, Tom, although I agree with you that we are in a very disconcerting and dire economic time, I really want you to recall part of why we got there. It's because people were mortgaging themselves far beyond their capability to pay back. And what I'm concerned about here is that we not mortgage ourselves beyond the capability of paying back. And I am concerned about what's going to happen after 2012. We can't just, you know, be Scarlet O'Hara and say, "I'll think about it tomorrow."

It's incumbent upon us to look at what's coming ahead. And so I think before we just say let's vote on it and get it done, we look at a very viable alternative that has been presented to us by the Budget Review Office, which is to make it a smaller package, not to throw it away; we all know we have a great need in 2009. However, we have to try to mitigate the impact that this will have in future years. And taking a little more conservative approach and voting on that would be a way of taking care of that.

The third point I wanted to make is both to Connie and to Fred. You both speak about raising General Fund property taxes and not realizing much revenue from that. That's a given. We all know that if we raised it by three percent it would only bring in 1.7 million which isn't going to make a big difference. The reason anyone has talked about raising General Fund property taxes primarily is that it gives us the ability to access the Tax Stabilization Reserve Fund. So I want to make that perfectly clear, that the reason I have mentioned the raising of the property tax General Fund is because it's the way we can access our Tax Stabilization Reserve Fund.

I just have one more question and that's to George. George, if 1664 were to pass out of committee today, would there still be an ability to look at the proposal by the Budget Review Office on page 18 -- page 15, and change the size of the program?

MR. NOLAN:

The resolution itself doesn't really set the parameters for the program. That's -- the amount of money that's being generated, the years that are being securitized, the percentages are really not set forth in the resolution or any of the documents that back up the resolution. I think -- I think the County Executive and our financial advisors --

LEG. VILORIA-FISHER:

So we no longer have control over that?

LEG. ROMAINE:

The corporation does.

MR. NOLAN:

Right. We set up a corporation, STASC, which is going to -- they're the ones that are going to float the bonds and then convey the proceeds, the net proceeds after expenses, to the County in exchange for the tobacco rights. So none of the details are really set forth in the resolution. Theoretically, the details as to what -- how the program is going to proceed in what years and what percentages and how much money we're going to generate I think could be done, but it's really not driven by the language of the resolution.

LEG. VILORIA-FISHER:

Thank you, George.

CHAIRMAN MONTANO:

All right. Legislator Kennedy and then Legislator Schneiderman.

LEG. KENNEDY:

You know what, Mr. Chair, I've got a request from Legislator Schneiderman for me to yield my time to him. He's got a time constraint.

CHAIRMAN MONTANO:

All right. Go ahead.

LEG. SCHNEIDERMAN:

Thank you. I will try to be fairly brief.

CHAIRMAN MONTANO:

Just before you start, Jay, I just want to announce that in case anyone doesn't know, we just received a notice for a special meeting Thursday, July 31st at 12:00 p.m. here in the Rose Caracappa Auditorium.

LEG. SCHNEIDERMAN:

Okay. Thank you.

CHAIRMAN MONTANO:

Surprise. Go ahead, Jay.

LEG. SCHNEIDERMAN:

I'll be brief knowing that we'll be back in a couple of days. My question really I think -- two questions. They both, I think, are best directed towards Mr. Pollert. In this securitization, which I'm assuming is going to move forward, you have talked about paying off the callable debt and paying down debt as it becomes due. I'm assuming we're going to buy T bills or something, earn some interest, and then pay these things. I'm curious whether we might come out ahead if we were to actually buy some of our notes on the secondary market and try to defease them. Can you respond to that?

MR. POLLERT:

That was one of the topics which we had talked about, the capability of self-correcting. So the proposal currently before us provides property tax cash flow relief for a number of years. If the economy turns around dramatically, the County always has the capability of banking the surplus; and one of the options could be the purchase on the secondary market. One of options could be to further accelerate the turbo, but that may not be a good idea, especially if we're trying to shift the risk.

So part of what we were talking about, again, goes to what Robert Lipp had just discussed. There are two different philosophies. It's very expensive to do this again. So if we're going to size it for the 180 to \$185 million net proceeds to the County and the County decided that we didn't need all those proceeds, we do have the capability of trying to defease some of the debt or reducing expenses somewhere else.

LEG. SCHNEIDERMAN:

I think that would make more sense to do that if we can do it. The second thing, one of your arguments for doing this is the fear that tobacco consumption will trend downward. What I would like to ask, is that not built into the model? Is that not why we're only getting 51 cents on the dollar, that they already have factored that in? And that if that trend proves to reserve itself, and sometimes, you know, stress, anxiety, financial stress, may lead to actually increased consumption. But the price that we're getting for our tobacco, the rights to that tobacco money, the number that we're getting is already based on a projection that there will be a downward trend in consumption.

MR. POLLERT:

The Global Insight reports does forecast a decline in consumption. What they don't forecast is a series of events coming about that could dramatically change that forecast. So they're always updating the forecast. They have most recently reduced the consumption in 2008 and 2009. Due to higher energy costs, people are smoking less. But if a drug came to the market that, you know, stopped the cravings for both nicotine and for other opiates, they would have to change their forecast down dramatically.

Likewise, if some of litigation goes against, you know, the continuation of a master settlement agreement, that would terminate the tobacco revenues to both the counties and the investors just about immediately. So there are long term trends but there are factors that could dramatically impact the forecast.

LEG. SCHNEIDERMAN:

Right. I see that, because something could happen one way or another that could affect it. But if we're arguing that we should do this now because things may trend down, we're already being shorted because of that possible downward trend.

MR. POLLERT:

Yes.

LEG. SCHNEIDERMAN:

I just wanted to make that point.

CHAIRMAN MONTANO:

John, do you want to pick up?

LEG. KENNEDY:

Yeah. I'm just going to try to make mine a series of a couple of quick questions. The first thing is -- let's start with the original RFP or the RFQ for the tobacco securitization and the tax lien securitization. At that -- when this was first let, was there ever any kind of contemplation of a need to come to a specific amount of money or a particular to look at capital appreciation bonds?

MR. POLLERT:

The decision of what to include in the RFP was in part and, you know, very much an iterative type of process. We had originally begun with the securitization of a hundred percent of the tobacco revenues. With meeting with the legislative working group, it was determined that the Legislature did not want to do the 100% for a shorter period of time. They had wanted to continue to receive at least 25%. Likewise, even after the RFP was out -- you know, and again the RFP was, you know, re-reviewed by both the Budget Office and by the Budget Review Office, there was an iterative process during the presentation from the bankers where the decision was made that there was an alternative to what was, like, originally presented, which were the capital appreciation bonds. So the bonds sizing was increased a little bit and we tried to get away from the capital appreciation bonds.

Citibank is continuing to fine tune based upon what the current market conditions are. But there was, you know, a very deliberative process to try to make this the least expensive deal to the County possible, and that dealt with doing away with the capital appreciation bonds.

LEG. KENNEDY:

But -- okay. I was looking for a yes or no.

MR. POLLERT:

I'm sorry.

LEG. KENNEDY:

But I think I understand where you went. I don't necessarily agree with all the assumptions, but I understand where you went, Fred. What are the total amount of capital appreciation bonds that the County has outstanding at this point?

MR. POLLERT:

The County doesn't have any capital appreciation bonds outstanding.

LEG. KENNEDY:

Okay. Then as I said before, I truly am confused, because we have tobacco settlement proceeds that are supposed to go ahead and retire capital appreciation bonds that are coming due?

MR. POLLERT:

No. What they're going to be defeasing is general obligation debt. The County does not have any capital appreciation bonds. So the use of these proceeds are going to be -- because it's a borrowing dealing with the debt service costs, they're going to be defeasing current general obligation bonds. The County currently doesn't have any capital-like appreciation bonds. They are a relatively expensive bond, and that again was the iterative process. Both the Budget Review Office and the Budget Office wanted to minimize the cost to the County, so what was originally proposed was restructured by Citibank to try to take out those capital appreciation bonds to the greatest extent possible.

LEG. KENNEDY:

You mean we were going to purchase them?

MR. POLLERT:

No, we were going to be issuing capital appreciation bonds. The first five years the County was going to continue to receive 100% of the tobacco proceeds, and we were going to be issuing capital appreciation bonds. Because there was no revenue stream to pay for the bonds, they were going to be, you know, like a series E savings bond; they were going to grow in value over time. But they were -- the future revenues beyond 2012 were going to be used to pay for the capital appreciation bonds.

LEG. KENNEDY:

Okay. I'm getting more of an understanding. My point is, my colleague, Legislator Romaine and I, at one point in the early spring attempted to bring forward a contrast with securitizing delinquent tax liens.

MR. POLLERT:

Yes.

LEG. KENNEDY:

Very cognizant of the fact that collection has been decreasing. Also very cognizant of the fact that they are a highly regularized stream of revenue in the out years. That was dismissed for a variety of reasons, one of them being that purportedly no bidder put forward a satisfactory proposal. I wonder about that process, too, but at that time I don't think we were talking about capital appreciation bonds.

That notwithstanding, what is the amount that's budgeted in the '08 Budget for tobacco cessation efforts? What do we spend right now? What will we spend this year? I mean, not to the penny. Would it be a million?

MS. CORSO:

It's more than that.

MR. POLLERT:

No one has a copy of the budget. Hold on.

LEG. KENNEDY:

That's okay. All right. Then let's move on. Two more questions, that's all, Fred. What is -- in '08, we are paying how much for debt service, approximately? And then in '09, that's supposed to increase by nine million. That's the only two other things I want to try to get at.

MR. POLLERT:

Let me defer to Robert who has the number right away.

MR. REINHEIMER:

It's approximately \$90 million in the General Fund.

LEG. KENNEDY:

I'm sorry. Say again?

MR. REINHEIMER:

Ninety million dollars in the General Fund.

LEG. KENNEDY:

Is?

MR. REINHEIMER:

Is debt service.

LEG. KENNEDY:

For?

MR. REINHEIMER:

For 2008.

LEG. KENNEDY:

'08? So this year 90 -- we're projected next year to go ninety-nine?

MR. REINHEIMER:

Approximately 100 million I think is for next year.

MR. LIPP:

Yes.

LEG. KENNEDY:

A hundred million?

MR. REINHEIMER:

Correct.

LEG. KENNEDY:

And this tobacco securitization model is going to take out how much of that hundred mill for next year? It's going to reduce it by how much?

MR. POLLERT:

It's going to take out \$45 million for next year.

LEG. KENNEDY:

So we -- okay. So we get to reduce that amount in '09 that had been committed by this --

MR. POLLERT:

That's correct.

LEG. KENNEDY:

Okay. All right. That's it. The only other thing, if somebody gets at some point what we have in for tobacco cessation efforts this year, I would appreciate that.

CHAIRMAN MONTANO:

Are you done, Legislator? All right. I want to thank everybody, and with that we had left it where we took 1644 out of order. There is no motion yet. Does anybody want to make a motion with respect to 1644?

LEG. D'AMARO:

Mr. Chairman, I would like to offer a motion to approve 1644.

CHAIRMAN MONTANO:

And we need a second. Legislator Barraga. Any other motions? All right. All in favor -- oh, well, ahead. Legislator Beedenbender wants to speak on the motion. And I know you have been waiting all meeting.

LEG. BEEDENBENDER:

Thank you, Mr. Chairman. There has been a lot been said but I figure, though, the most appropriate thing for me to do at this point is just to overview some of the things that were discussed at this meeting, because I think there are some assertions made that need to be rebutted.

First, we talked about the Tax Stabilization Fund a lot today, and I think we all need to remind -- and the reference was that this was a structurally sound way to do things. In fact, it's not a structurally sound way to do things. All the economic experts have said that this is not a problem that's going to end soon. And the Tax Stabilization Fund is not something you use when you are going into the woods. You use it when you are coming out. Because if you use \$50 million this year, well, guess what? Next year you are already in the hole.

So forget the fact for a moment that you have to raise taxes to get to it, and we're deciding to put

away this \$60 million in tobacco revenue in favor of a speculative plan that we might not even get the revenue on that would injure our constituents in a huge fashion. My residents are hurting. You know, the example that was used before is, you know, the raising taxes would be about the cost of I think a coffee at Starbucks. But that number also represents something else. Three or four dollars is a gallon of milk; it's a loaf of bread.

And then we talked about the sales tax. Well, the sales tax, well, that's all right. Well, that gallon of milk, that's going to cost more. We talked about a motor vehicle registration fee. Well, that's okay, the car that you need to get to work, that will cost more now.

I think that in light of this, you know, this is an example, this Tobacco Securitization Program, is something that we would never use if it wasn't pouring. If this was not an emergency, we would never use this, but it is an emergency. With it, we still have a \$35 million problem. Without it, we have a \$95 million problem.

There's been some discussion that we should be concerned about the future, how does this affect the future. I would like to remind everybody that, you know, we did the quarter percent extension and the reason for that was we need money now to deal with this problem and we gave up hundreds of million dollars to do it. Well, we money now to deal with this problem. Of course, we're going to be giving up money to deal with it, but what's the alternative? The alternative is -- well, the alternatives that have been presented so far I think are just absolutely absurd. They are not things that our residents can deal with. They are not things that are residents can handle.

I concur wholeheartedly with Legislator Barraga. You know, when I speak to my residents, they don't care about this. They don't know about this. They trust us to listen and make the decisions that they entrusted us when they voted for us. They know that I don't want my tax bill to go up and if it does, you know what? You know, that's a problem for me because they don't have the money. Our towns very well might have to raise taxes because mortgages revenues are down terribly. New York State is going to hit us with another set of cuts. And in all that light, we're going to sit here and think about rejecting cash in our hand that can help to address a serious -- a significant portion of our shortfall.

So I'd just like to remind you again that, you know, if you are concerned about the future and you want to reduce the tobacco securitization in light of concerns about a structural imbalance. Well, if you have big chunks of revenue for two years and then they decrease significantly, well, there's the structural imbalance that you are concerned with.

As I sit here, I can deal only with the information that I have in front of me. I know sales tax is plummeting. I know that at one point in this County's history, we had 8% sales tax growth rate, but we don't have that right now. I can't say that we won't have it in a couple of years. I know we are not going to have it next year. There hasn't been one economist that says we would. In fact, they said it is going to be zero or maybe negative. I think that we really need to kind of step back and say -- and realize what we're talking about here.

We discussed that we're too reliant on sales tax and then the suggestion is to raise it. And if we're too reliant on sales tax, if you believe that, then you can't vote against every other revenue enhancement that is out there.

This does not affect our bond rating. Our Health Commissioner has said this will not affect our ability to get people to stop smoking. This is a tool that should be used only when it is absolutely necessary and this County has held off for a long time, longer than many other counties, but today is the day. Some people may believe that raising property taxes and sales taxes are the way to go. I absolutely do not. We have not reached that bridge. We are not even close to it. I just think it's kind of unlikely that a New York State Legislature that is up for election in several months is going to improve an increase in the sales tax, so let's deal with the reality. This plan is in front of us. Let's vote for it and move forward.

CHAIRMAN MONTANO:

Okay. I would have preferred that this debate took place in front of the full Legislature. We've been here almost more than two-and-a-half hours, but let's vote on it. We have a motion to approve. All in favor? And we'll take this up on Thursday at the special meeting. All in favor? Opposed? Abstentions?

LEG. ROMAINE:

Abstain.

LEG. KENNEDY:

Abstain.

CHAIRMAN MONTANO:

Two abstentions. I'm going to vote to approve it just to send it to the full Legislature. Motion carries. Legislator Romaine and Legislator Kennedy abstained. **(Vote: 5-0-2-0 Abstentions: Legislators Romaine and Kennedy)**

All right. We've going to get on with the agenda. I'm going to see if we can go through this very quickly. Michael, you put in a card for the Budget Committee but that to do with 1644, am I correct?

MR. SEILBACK:

You are correct. I actually will just say that public portion should have been done before the vote as if there was a public hearing on a normal day would have occurred, and then there would be a public portion before the committee. I believe that this was handled poorly and the public should have been given the opportunity to speak before the committee voted.

CHAIRMAN MONTANO:

You kid speak earlier, and that's why I --

MR. SEILBACK:

During the public hearing, which is a completely different function.

CHAIRMAN MONTANO:

No, I understand. Procedurally, I wouldn't disagree with you. If you want to add anything -- we're coming back on Thursday, that's the problem.

MR. SEILBACK:

I know. In less than two days.

CHAIRMAN MONTANO:

My point is -- Mike, just to put it on the record -- is that I think this needs to go to the full Legislature. You will have an opportunity to come before the Legislature on Thursday and present that, okay?

MR. SEILBACK:

Sure.

CHAIRMAN MONTANO:

My apologies for overlooking you on this. All right. Let's get to the -- anyone else want to address the Legislature -- I mean, the Budget and Finance Committee? Let's move on to the agenda.

TABLED RESOLUTIONS

1363, Authorizing a competitive long term business plan to stabilize County finances and

prevent disruption of essential County services and programs. (Romaine). Legislator Romaine?

LEG. ROMAINE:

I'll move for approval.

CHAIRMAN MONTANO:

All right. Do we have a second on that?

LEG. ROMAINE:

I move to table.

CHAIRMAN MONTANO:

Move to table. I second that. All in favor? Opposed? Abstentions? Motion carries. **TABLED (Vote: 7-0-0-0).**

1458, Amending the 2008 Operating Budget and transferring funds to the Huntington Youth Bureau Youth Development Research Institute, Inc. (Cooper). I'll make a motion to table. Do I have a second?

LEG. BARRAGA:

Second.

CHAIRMAN MONTANO:

Seconded by Legislator Barraga. All in favor? Opposed? Abstentions? Motion carries. **TABLED (Vote: 7-0-0-0).**

INTRODUCTORY RESOLUTIONS

1588, To readjust, compromise, and grant refunds and chargebacks on correction or errors/County Treasurer by: County Legislature No. 300. (Co. Exec.). I'll make a motion to approve and place on the Consent Calendar. I need a second.

LEG. BEEDENBENDER:

Second.

CHAIRMAN MONTANO:

Legislator Beedenbender. All in favor? Opposed? Abstentions? Motion carries. **APPROVED** and placed on the **CONSENT CALENDAR (Vote: 7-0-0-0).**

1603, Repealing home energy nuisance taxes on Suffolk County residents. (Alden). I will make a motion to table. I need a second.

LEG. BEEDENBENDER:

Second.

CHAIRMAN MONTANO:

Seconded by Legislator Beedenbender. All in favor? Opposed? Abstentions?

LEG. ROMAINE:

Opposed.

CHAIRMAN MONTANO:

One opposition, Legislator Romaine. Motion carries. **TABLED (Vote: 6-1-0-0 Opposed: Legislator Romaine).**

1604, Establishing a program to reduce unfair home energy nuisance taxes on Suffolk County residents. (Alden). I make a motion to table. I need a second.

LEG. BROWNING:

Second.

CHAIRMAN MONTANO:

Seconded by Legislator Browning. All those in favor? Opposed? Abstentions?

LEG. ROMAINE:

Opposed.

CHAIRMAN MONTANO:

Legislator Romaine is opposed. Motion carries. **TABLED (Vote: 6-1-0-0 Opposed: Legislator Romaine).**

1610, To readjust, compromise, and grant refunds and charge-backs on real property correction of errors by: County Legislature (Control #791-2008). (Co. Exec.). I will make a motion to approve and place on on the Consent Calendar, seconded by Legislator Beedenbender. All in favor? Opposed? Abstentions? Motion carries. **APPROVED** and placed on the **CONSENT CALENDAR (vote: 7-0-0-0).**

1634, To amend Adopted Resolution No. 732-2007, to extend the deadline for the Suffolk County Budget Reform Commission. (Montano). I make a motion to approve. I need a second.

LEG. BROWNING:

Second.

CHAIRMAN MONTANO:

Seconded by Legislator Browning. All in favor? This is a six month extension, Gail?

LEG. BARRAGA:

One year extension.

CHAIRMAN MONTANO:

Okay. All in favor? Opposed? Abstentions?

LEG. BARRAGA:

Opposed.

CHAIRMAN MONTANO:

Motion carries. Legislator Barraga is opposed. **APPROVED (Vote: 6-1-0-0 Opposed: Legislator Barraga).**

1644 we did.

1645, Adopting Local Law No. 2008, A Charter Law to implement two-year rolling debt policy under 5-25-5 Law to mitigate budgetary shortfall. (Co. Exec.). I'll make a motion to table for public hearing. I need a second.

LEG. BEEDENBENDER:

Second.

CHAIRMAN MONTANO:

Seconded by Legislator Beedenbender. All in favor? Opposed? Abstentions? Motion carries.

TABLED (Vote: 7-0-0-0).

There being no further resolutions on the agenda, I move to adjourn.

(*THE MEETING WAS ADJOURNED AT 12:45 PM*)

{ } DENOTES BEING SPELLED PHONETICALLY