BUDGET & FINANCE

AND

INFORMATION TECHNOLOGY

COMMITTEE

OF THE

SUFFOLK COUNTY LEGISLATURE

MINUTES

A meeting of the Budget & Finance and Information Technology 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, December 13, 2011.

Members Present:
Legislator DuWayne Gregory - Chairman
Legislator Jay Schneiderman - Vice-Chair
Legislator Ed Romaine
Legislator Tom Muratore
Legislator Lou D'Amaro
Presiding Officer William Lindsay - Ex Officio Member

Also In Attendance:
George Nolan - Counsel to the Legislature
Jason Richberg - Aide to Legislator Gregory
Renee Ortiz - Chief Deputy Clerk of the Legislature
Gail Vizzini - Director Budget Review Office
Robert Lipp - Deputy Director - Budget Review Office
Paul Perillie - Aide to Majority Caucus
Dennis Brown - County Attorney's Office
Catherine Stark - Aide to Legislator Schneiderman
Justin Littell - Aide to Legislator D'Amaro
Eric Kopp - County Executive's Office
Dot Kerrigan - AME
Ben Zwirn
All Other Interested Parties

Minutes Taken By:
Donna Catalano - Court Stenographer

(*THE MEETING WAS CALLED TO ORDER AT 10:04 A.M.*)

CHAIRMAN GREGORY:
Good morning, and welcome to today's Budget and Finance Committee meeting. We're going to start off with the Pledge of Allegiance led by Legislator Schneiderman.

SALUTATION

Okay. We're going to -- we don't have any cards. But is there anyone that would like to speak at the public portion, please come forward and state your name? Seeing no one, we are going to our presentation today. Today, we have Rich Tortora, President of Capital Markets Advisors Capital. Good morning, Mr. Tortora.

MR. TORTORA:
Good morning.

CHAIRMAN GREGORY:
You were requested to come here today to speak about the credit agencies and that process and to field any questions that the members have. So I'm going to yield the floor to you at this time.

MR. TORTORA:
Thank you. Thank you for having me. Good morning, everyone. What I thought I'd do today, I've put together what is, I hope, a relatively brief presentation. And someone was kind enough to put it up on the screen. I think you have a copy of it in hand. I thought it would give a good foundation to talk about the County's credit rating, if we just talk generally about credit ratings, and about their impact on capital, because that's really what it's all about from our point of view.

So I will start with the first slide. I'm sure most of you are aware of most of this, so I'll go through it rather quickly. And if anyone has any questions, please don't hesitate to ask. We all know there are three major credit rating agencies. And what a credit rating agency does, it provides an independent assessment of that agencies of a jurisdiction's ability and willingness to pay its debt on time and in full.

The three credit rating agencies, the largest one in New York State and nationally is Moody's Investor's Service. Moody's currently rates 403 local municipalities in New York State, local being from the County level on down; so counties, cities, towns, villages, school districts, fire districts, special districts. They're the biggest player in New York. Next would be Standard and Poor's Corporation or S&P. They also rate quite a few local jurisdictions in New York State. Maybe their larger claim to fame is the recognition in their expertise in revenue bond issues. Accordingly, when STASC goes out for its next bond financing, we'll be securing a rating just from S&P. They're the revenue bond experts. When there was a large municipal bond industry, and there isn't anymore, because it pretty much collapsed after 2008, municipal bond insurance premiums were tied to S&P ratings.

The next of three major credit rating agencies is Fitch Ratings. Fitch is the latest -- well, had been the latest player, now there's a newer player that just started this year -- very often large jurisdictions that are in the market regularly, have more than one credit rating, which is certainly the case with Suffolk County. Jurisdictions that maybe only have two credit ratings, very often will have Moody's and Fitch or S&P and Fitch, in part, based on cost. Fitch it typically the least expensive, because they are the most aggressive, they're trying to build up market share.

Again, most local jurisdictions in New York State don't carry three ratings, because it's not cost effective for them to do so, but large entities like the County, which issues debt four times a year

does indeed have ratings by all three.

The new comer on the scene is a firm called Kroll Bond Ratings, and we'll probably hear more about them going forward. Their claim to fame is that they're owned by -- I think they say 40% of the ownership is investors, you know, industry people. So they say, "What is in our interest is in your interest, because we are you." That's kind of their theme. We've talked about this a little bit before -- yes, sir.

LEG. ROMAINE:
I don't want to ask too many questions until the end, but I did want to ask a question. How do these companies make their money?

MR. TORTORA:
Sure. We, the issuer, the city, town, village, county pays a fee to the rate agency to have their issue rated. The fee is primarily based on two criteria; the type of debt, so a bond issue or a refunding bond or a revenue issue is structured differently or the fee structure then, say a note issue. So the County gets credit ratings on four financings a year; two capital financings and two cash flow financings in a normal year. So we pay the fee four times.

LEG. ROMAINE:
We pay a few for them to provide a rating, but that rating is supposedly independent.

MR. TORTORA:
That's correct. And the reason why we do that is investors look for a credit rating before they bid on your deal. Most investors have their own credit criteria which says that can't invest on entities that are rated below A. What we've seen happening in the last couple of years, since the fiscal collapse in '08, we've seen a lot of the major funds, a lot of the major institutional investors raid the credit rating agencies and hire analysts, so now they work directly for the fund. So they clearly have -- not to say their biased, but that way they have a clearly unbiased point of view. They're only working for the funds, the investors.

LEG. ROMAINE:
And these work for others besides the investor?

MR. TORTORA:
Who is "these?"
LEG. ROMAINE:
The credit rating agencies work for the people that they're supposed to rate.

MR. TORTORA:
Sure. Again, so credit rating agencies, just you know, our industry, the municipal securities industry is just one industry that they rate. They rate the Federal Government, they rate sovereigns.

LEG. ROMAINE:
You don't know that arrangement between the United States Government and the rating agencies, for example. They pay a fee to these rating agencies to rate government securities?

MR. TORTORA:
I'm not certain. For some reason, I believe they do not. The US Government, I believe does not pay a fee, but I'm not certain about that.

LEG. ROMAINE:
Because I certainly know as someone, you know, that's in the market place, the United States Government for government securities, they were rather aggravated at the downgrading they received, Standard and Poor's and threatened all types of actions. And it raised to me, in my mind, the question of the independence of rating agencies in the sense that they're getting their fees from the people that they're asking to rate. And someone, a large client like the United States Government, obviously, would have tremendous influence over how they judged investment grade portfolios.

MR. TORTORA:
That's certainly true. I mean, I've been in many rating meetings over the years where the client said, "We're actually paying these people to do this to us?" The sad truth is that you are.

LEG. ROMAINE:
My point.

MR. TORTORA:
Because the investment community respects the opinion of the credit rating agencies and makes their investment decisions in no small part based on what the rating agencies say about your ability and willingness to pay.

LEG. ROMAINE:
I have just one last question, and I'm sorry, I won't interrupt again. These are the same firms that rated the credit -- the false swap and the bundled mortgages as AAA?

MR. TORTORA:
Certainly, same rating agencies. Different analysts certainly, but same rating agencies.

LEG. ROMAINE:
Oops. I guessed they goofed on that one.

MR. TORTORA:
That's clear.

LEG. ROMAINE:
Okay. Thank you. I just want to put into perspective, because I have my own personal opinion about rating agencies. Once you make an error of the size that they did to bring this government almost -- and this country to the state of economic collapse, you have to wonder about the value of these ratings agencies and for what purpose you would put it to use. I'm just one of those that don't put high stock in what they say, because if they could be so wrong about mortgage securities, I question their judgment about other securities. And the fact that the investment community still continues to rely on the judgment of people who screwed up in a major way, raises all types of questions to me. But that's neither here nor there. I said that for the record. I've expunged my anger, and I'll let you continue with your presentation. Thank you.

CHAIRMAN GREGORY:
I know you have about ten more pages to go through, so if we can just withhold our questions.

MR. TORTORA:
I'll go quickly, because I don't want to tie you up all morning. Very simply, we talked about this briefly at the meeting of the full Legislature last week, the four key criteria; economic and demographic factors being the most important, your real property tax base, income levels, education levels, highest taxpayers. This is area in which Suffolk always scores high. On Long Island, there's

a lot of wealth, there's a lot of real property value, highly educated workforce, etcetera.

Next most important area, finances; your budget-to-actual-performance, your sources of revenue, whether you generate surpluses, whether you have fund balances. Management is a key in that, you know, who is running this government, who is running this business of Suffolk County Government, you know, the credentials of the leadership, their support by the public, the outside consultants that they bring in to help them do their jobs.

And the last part is debt. Again, the County consistently scores well in the debt area, because relatively speaking, even though the raw dollar amount seems high relative to the property values and the wealth levels in the County, your debt is deemed to be very manageable. And the agencies always comment on that.

The credit rating scales. This I think is particularly important. Moody's uses a system that has a large "A," two small "aa's," and then the next category is AA-1, 2 and 3; 1, 2, and 3 being the modifiers within that category, 1 would be the strongest in the AA category; A-1, 2, 3, and then I draw the line, B-AA-1, 2 and 3. Below B-AA-1, 2, 3 is sub-investment grade. There's only a small handful of municipal jurisdictions in the State of New York that are sub-investment grade.

There was certainly a time when Suffolk County was in the B-AA category. They were a B-AA-1 for many years, probably in the '80's and perhaps even in the early '90's -- yeah, certainly in the early '90s. But you have enjoyed a AA credit rating for the last several years.

Right next to the Moody's long-term ratings, just jump over two columns, S&P and Fitch used same the system, so they have all large capital "A's," and then their modifiers are "plus," no modifier and "minus." So a AA plus with S&P and Fitch is comparable to a AA-1 with Moody's. A AA-2 with Moody's is comparable to a AA with no modifier. A AA-3 is comparable to a AA minus.

The last thing I want to talk about ratings, long-term credit ratings, they look at trends; how you performed in the last maybe five years or so. They look to see how those trends are likely to continue in the next five years and beyond, because a long-term credit rating that attaches to all of your outstanding debt, they don't want to be in a position where they're changing that credit rating on a yearly basis or even, you know, every couple of years. They like to think that the rating that they assigned is good presently and into the foreseeable future.

Compare that with the short-term credit ratings. Moody's short-term credit rating is called a MIG, Moody's Investment Grade and is either a MIG 1 or a MIG 2. S&P and Fitch have an SP-1 plus and Fitch should be an F-1 with a plus sign after it. We are of the opinion if you can't get the highest short-term rating, you shouldn't even bother getting a short-term rating. Short-term rating, the credit criteria is a little bit different in that the rating agencies kind of take a snapshot. So right now, the County is looking to issue it's large TAN. So they will look at the cash flows that we provide, the County provides for the current fiscal year and the cash flow for the upcoming fiscal year, in which the TAN matures. And they want to see just in that upcoming fiscal year, during the term of the TAN, do you seem to have the financial wherewithal to pay that TAN off in time and in full. If they're confident, if they're very confident that you do, and they certainly have been very confident for the last maybe ten years or so, Moody's will assign its highest rating MIG-1, S&P and Fitch will assign their highest S&P-1 plus and F-1 plus.

Currently, the County's ratings on the bottom, with Moody's is a AA-2 stable. With S&P, it's a AA with a negative outlook. And with Fitch, it's a AA minus with a negative outlook. The negative outlook means that you seem to be trending such that there's pressure, there's downward pressure that the rating could change.

It's probably important to note, with Moody's, with a AA-2 with Moody's stable, in indeed you were to be downgraded, you'd be, ideally, only downgraded ones tep. You'd still be in the AA category. And we're going to talk in a minute about the value of staying within the AA category.

This is just an overview. These are Moody's credit ratings for all municipalities that they rate as of January 1 of this year. So you will see they rate 461 school districts -- this is, of course, New York State -- 50 counties, 157 towns, etcetera. You will note that for counties, only two counties are rated AAA. I believe that they're Westchester County and Orange County. Six are in the AA-1 category. Another six are in the AA-2 category, including Suffolk. And we just go right down the line.

Moody's recalibrated their ratings about two years ago. What they were doing is they had done a default study, and they determined that municipal jurisdictions don't default in paying their debt. A municipal jurisdiction to default and not pay its debt in full and on time is a very rare occurrence. So as a result, they didn't think it was appropriate that investors might see your credit rating at a AA-2 and think it's comparable to, say, a corporate rating that was a AA-2.

So what they did is they merged the corporate ratings in with the municipal ratings, and because on a comparative basis, municipalities look a lot stronger than corporations, most jurisdictions' credit rating went up two steps. In some instances, if you were already, say -- if you were a AA-1 and you didn't have a negative outlook, you went to a AAA, which is the highest rating. And we will show you what the value of that is.

We subscribe to a service called MMD, Municipal Market Data. And every business day of the year, they publish for us interest rates based on how the market has performed nationally that day. So this is MMD data from actually just about one month ago. What's important to look at here, let's look at the five-year bond. So if you go down the five years, so the bond maturing at 2016, if you were a AAA credit and you were selling that bond as of November 10th, 2011, you might expect to pay about a 1.16 interest rate on a AAA credit.

If you are an insured credit -- I think back a month ago, Assured Guarantee, which is the only municipal bond insurer still writing policies, probably still had a AAA rating. It presently doesn't have a AAA rating with anyone, they were just downgraded about ten days ago. But if you were a AAA by virtue of insurance, your five-year debt, might have cost you a 1.94. So it shows you insurance doesn't have that much value, because it's trading about 80 basis points higher than a natural AAA. Compare that to a AA credit, which is where Suffolk County is, a AA credit borrowing for five years might expect to pay about a 1.38%. So the difference between being a AAA and a AA is not particularly significant, only 22 basis points. Actually, for the County, it's significant, because you borrow such large sums of money, that adds up very quickly. But then you will see, as credit ratings deteriorate -- if you go from a AA to a single A, your cost of capital for five years goes up from 1.38% yield to a 2.01. And if you slip into the B-AA category, it goes up another full percentage point.

What we try to illustrate here is how important credit ratings are as it pertains to your cost of capital. And it's never been more important than it is under current market conditions. The next chart, what this next chart shows, again, it's a snapshot of the relationship of interest rates to credit quality over the last several years. If we go to the bottom of the page, we'll say if you were issuing a ten-year bond in October of 2006 and you were AAA credit, you might expect to pay about a 3.79% on that ten-year bond. If you were a single A issuing that, you'd pay about a 4.05, so about roughly 25 basis points higher, 26 basis points higher. If you were a B-AA, you'd be issuing that ten-year bond about a 4.21, about 42 basis points higher.
What I'm trying to illustrate here is kind of what the difference is in credit quality historically. So in '06, we see that there's about a quarter percent difference between a AAA and a single A. For some

reason the AA category isn't there, but it's about half way. The difference between a AAA credit and a AA credit ten years was probably about ten, 15 basis points. But now, if we go up to October of 2008, when the credit crisis hit, you'll see the difference between a AAA and a AA now is three-quarters of a point. And the difference between a AAA and B-AA is now a point and a half in 2008.

Now, we fast forward to today, in October of this year, the difference between going out as a AAA credit or going out as a single A credit was almost a full percentage point. And the difference between being a AAA and being a B-AA was two percentage points. So what we're trying to illustrate is more than ever, your credit rating impacts on your cost of capital. And it even goes a little bit further, because there are some jurisdictions that are in that B-AA level. They don't have market access in some instances. I mean, they're able to borrow money, but we've had instances over the past few years, where we really had to go and beat the bushes to actually get investors to buy certain debt. So that's why we're always so keen on talking about protecting the County's high credit ratings. That's it.

So again, the thought was just to give you an overview of credit ratings, the process -- and just to talk about the process for a minute. What the County does on an annual basis, we have a big meeting, typically every April where we invite all the credit rating agencies to see us. We spend about an hour and a half to two hours with them. Budget Review is there, the Exec's folks are there, the County Comptroller's people are there and the Treasurer's Office, and we do maybe a 45 minute, hour presentation and then there's Q&A. So the meetings go about two hours. So we do that every April, that's our big presentation. And then as we do financings in the spring for capital borrowing, we're on the phone with then for another hour and a half or so. When we do the summer borrowing, the DTAN, and we do the fall borrowing, when we do this large borrowing at the end of the year, we have a series of phone calls with them that different officials from the County participate in. So we have a very active relationship with the credit rating agencies.

CHAIRMAN GREGORY:
Okay, great. Legislator Schneiderman.

LEG. SCHNEIDERMAN:
Thanks, Rich. It seems like you were saying in terms of fear of dropping a level, you know, Moody's seemed okay; if they dropped a level we'd still be a AA, (inaudible) Fitch and Standard and Poor's. So I imagine we would go to Moody's the next time we get rated, but we would probably have to -- you said we'd need two typically, right?

MR. TORTORA:
It's interesting. What the Count's practice had been for a number of years, for a long time is we went to all three rating agencies for all of the deals. In the last year or two, the rating agencies have increased their fees dramatically, you know, 50% increases in fees. So as a result, in consultation with the Comptroller's Office primarily and the and Executive's Office, there was a decision made to really just go to two of the rating agencies for the cash flow deals. So we don't necessarily see all of them going forward four times a year.

LEG. SCHNEIDERMAN:
Moody's is going to be one of them, I take it.

MR. TORTORA:
Moody's is one of them, certainly.

LEG. SCHNEIDERMAN:
Right. Typically, what type of fees do they charge those rating agencies?

MR. TORTORA:
I apologize for not having the scale. Again, it's based on dollar amount. For Suffolk County, I think for the upcoming TAN issue, I think the Moody's fee is $20,000, and S&P and Fitch would be comparable to that.

LEG. SCHNEIDERMAN:
It is a significant fee. So there's a lot of hours spent in determining the credit rating?

MR. TORTORA:
Certainly.

LEG. SCHNEIDERMAN:
So let me ask you, because we just got a negative outlook fairly recently, you know, what were the factors that the credit agencies attributed that negative outlook to.

MR. TORTORA:
I believe that Gail Vizzini sent to you after last week's meeting a copy of the report. And to the extent that anyone hasn't read it, I'll just give you some of the highlights.

LEG. SCHNEIDERMAN:
I want this on the record. There's a reason why I'm asking it.

MR. TORTORA:
The key issue that all the rating agencies are concerned about is what Fitch calls "weakened financial flexibility," ans they refer to a significantly lower General Fund balance and a reduction in the Tax Anticipation Reserve Fund. That's always been a big issue. You went into this recession with a $200 million Stabilization Fund. I think you probably have less than a quarter of that available now. So that's a big concern. You know, your reserves give you financial flexibility. They also know that, you know, we securitized tobacco in '08, we're going back and securitizing a bit more now. So some of your flexibility is gone. That's a concern to them.

LEG. SCHNEIDERMAN:
You know, one of the biggest concerns I've had in compiling these budgets for the last years is the extent of non-recurring revenues, whether they're reserves, tobacco stabilization. You know, we've been putting in excess $100 million every year in funds that we can't replace the next year. We seem to be running out of options. Our reserves are down to, I think, 50 million, out Tax Stabilization reserves. Tobacco securitization is going to be done now, there will be no money left to go to there.

Do you have any recommendation as to how to move to a more sustainable model in terms of budgeting the County? Because, you know, we can cut and cut, but there's a certain point have to deliver services. In a recession we end up with more people coming to the clinics, more people in the jails, more people on the buses, more people on Medicaid. Our costs go up in the recession substantially, and we have less money through sales tax revenues to meet the needs for the County. So do you have any ideas in terms of getting the County on a more stable course?

MR. TORTORA:
What the rating agencies look for is recurring revenues, whereas they realize that many jurisdictions rely on one shots. They don't want you overly dependent on them. A typical one shot is you sell a piece of land and that gives you a million dollars. So ongoing revenue streams. One of our other County clients, which is in a much tougher spot than you are these days instituted a whole basketful of continuing revenues or recurring revenues in their proposed budget. And among them, they put

in a hotel-motel tax, which they didn't have, but their neighboring jurisdictions have.

LEG. SCHNEIDERMAN:
We have that already. We have a 3% hotel tax.

MR. TORTORA:
They increased the mortgage transfer tax. They didn't put in additional red light cameras, but I think that's probably coming. And they had a real property tax increase, which is probably from a rating agency's standpoint, the securest form of recurring revenue. You know, the County, kind of by definition, you're very reliant on sales taxes, and those are very sensitive to economic pressures. I don't think we've yet gotten back to 2007 levels in the sales tax receipts of the County, but you're not alone. So those recurring revenues that were instituted by other counties --

LEG. SCHNEIDERMAN:
Do you know, are there any counties within New York State that have gone to Albany looking for additional sales tax revenue?

MR. TORTORA:
I suspect that there are. We represent eight counties, I don't think any of our counties have done that yet.

LEG. SCHNEIDERMAN:
Let me ask one other question. It's a completely different line of questioning, but I just would like to understand this. Rich, we've worked together for many years, and I appreciate your wise counsel on these financial matters. You are a consultant to the County, right? So we pay you to give us this advise.

MR. TORTORA:
That's correct.

LEG. SCHNEIDERMAN:
Now, are you also paid when we issue bonds as well.

MR. TORTORA:
No. Initially, when we first started working with the County, we were only paid when you issued debt. One of the Legislators raised an issue; wouldn't it make more sense if we were on a retainer so we wouldn't be -- so anyway, the simple answer to your question is --

LEG. SCHNEIDERMAN:
So your finances aren't affected whether we go out and we securitize tobacco, whether we borrow long term?

MR. TORTORA:
The existing contract that we have with the County envisions the four primary transactions; two cash financings, two capital financings. To the extend the County does anything in excess of that, we get an additional fee, as does all the other professionals.

LEG. SCHNEIDERMAN:
So with the tobacco securitization, you would be paid for your time connected to that, but you wouldn't make more money if we do securitize tobacco versus if we don't?

MR. TORTORA:
We do. So if you did not do a tobacco securitization, we get an additional fee. When you do an

additional transaction and you close on it, we get a fee at closing.

LEG. SCHNEIDERMAN:
I understand that. But you are not getting a percentage of the amount of amount of money we borrow kind of thing?

MR. TORTORA:
No, it's a flat fee.

LEG. SCHNEIDERMAN:
Okay.

CHAIRMAN GREGORY:
Legislator D'Amaro has a question.

LEG. D'AMARO:
Good morning. I want to explore a little more the negative rating, negative outlook rather. There was distributed to us these reports from Moody's, Fitch and Standard and Poor's I guess in connection with our upcoming borrowing. They're pretty short reports. They summarize the rationale behind the different ratings that the agencies are giving us. And two of them are a negative outlook, and one of them, Moody's, is stable. So is that still true today?

MR. TORTORA:
We are -- the ratings that were recently released were done in conjunction with the bond refinancing. Now, we're before the rating agencies again for the large cash flow financing, which we sell later this month. So we're currently being reviewed by the agencies again. Conversations, I think, with Fitch -- with Fitch, I think the conversation is done, but the Moody's conversation is ongoing.

LEG. D'AMARO:
Right. But these reports reflect the adopted budget, I believe. So in your conversations now, I don't suspect that that much has changed between these reports and your discussions now, I would assume.

MS. VIZZINI:
They do reflect the adopted budget. We tried to brief them in terms of what is included in the adopted budget. The discussions now are in large part in regards to cash, which is, as you know, somewhat related, but separate from the budget.

LEG. D'AMARO:
Okay. Now, the negative outlook, you said, indicates the pressure that could result in the future on a downgrade in the actual bond rating itself.

MR. TORTORA:
The negative outlook is a result really of -- all of them are saying the same things in different ways. They're just concerned that this tough economic time that you've been going through is lasting longer anyone anticipated. As a result, you've drawn on your reserves perhaps more than anyone anticipated. Now they're concerned that you just don't have much more left, as Mr. Schneiderman said a few minutes ago. So it's really, as your reserves dwindle, they say, reduced flexibility; you know, you just don't have those extra resources to fall back on, if say, sales tax, your primary revenue stream took another dip.

LEG. D'AMARO:
They all do indicate that; they reference the non-recurring revenue, the use of reserve fund, you know, the Reserve Fund balance going down. The Moody's report is somewhat more optimistic. It gives us a stable outlook reflecting the County's financial operations will stabilize with the recovery of the regional economy over the medium term. And then in the interm, we expect management to continue its proactive monitoring of revenue and expenditure performance and continue to demonstrate its willingness to make budget adjustments as needed. So at least they're giving us a little credit for what we've done so far it seems.

I wanted to ask you -- and the other two reports are, I think, much more negative. All three of them, though, keep referring to this budgetary imbalance or structural imbalance. And I want to know -- I have some idea of how I define that in my mind, but I want to know what they are referring to specifically. And all three reports cited significantly in impacting the outlook that's been assigned.

MR. TORTORA:
Sure. Budgetary imbalance we hear with a lot of jurisdictions. It's just the analyst's comfort level with the numbers that are in the budget; you know, will sales tax revenues be as -- you know, will they come in as projected, will you collect the property tax, you know, still in that high 90% range that you have in the past, will the fee income be the same, will the monies received from the State and Federal government be the same. What the rating agencies don't like is --

LEG. D'AMARO:
I'm sorry for interrupting. Is that a commentary on the projections? See, I thought a structural imbalance from a rating agency was more about you're relying partially on non-recurring revenue to fund recurring operations. That's what I though they meant by that. But are these rating agencies looking deeper and looking at our revenue projections on recurring items such as sales tax?

MR. TORTORA:
They certainly are.

LEG. D'AMARO:
They are?

MR. TORTORA:
Sure. Some of you might have seen that yesterday Nassau County was downgraded, so now they're in the single A category. One of the things that the rating agencies talk about is, you know, how realistic are your sales tax projections. And they know that the State of New York is slowing down passing money from the State level to the County level and that money trickles down slower to the local jurisdictions. So when they are concerned about the State, that obviously impacts any entity that receives money from the State. All of those things add to their concerns about whether you have a balanced budget, whether it's structurally balanced.

LEG. D'AMARO:
Standard and Poor's in this short summary says in the outlook section that if the County is able to restore fiscal balance and reserves, we could revise the outlook to stable. So they're really putting a lot of emphasis on this fiscal balance, structural balance, all of that.

MR. TORTORA:
And the reserves have been a key focus for the last three of four years. We hadn't heard as much focus about reserve as we have in the last few years.

LEG. D'AMARO:
Putting that aside though, is this a commentary on the budget we just adopted revenue projections in that budget?

MR. TORTORA:
It's certainly a part of it. I mean, there's been an ongoing concern with not only Suffolk, but all jurisdictions that are reliant on sales taxes. So it certainly is in part a commentary on the budget they just reviewed in conjunction with this rating.

LEG. D'AMARO:
I don't -- you know, that's something really -- I mean, I know we make projections and we need to make projections and we try to be as accurate as possible, but, you know, we are dependant on sales tax. That hasn't changed when we've gone from a stable outlook to a negative outlook. That's always been the case, at least as long as I've been here. So it seems to me that this imbalance that they're talking about is less a factor than those reserves seem to be having a major impact on these rating agencies, because it's kind of a Catch-22, though, I mean, you get a higher rating when you have the reserves, but if you need the reserves and use them, you get a lower rating and your costs go up. I mean, it's an absurdity.

MR. TORTORA:
I think you're certainly right you are right on that. From our perspective, the rating agencies have been somewhat patient with jurisdictions in terms of moving the ratings, because they realize how tough economic times are. And they realize that this recession is much deeper and much longer lasting perhaps than anyone anticipated. But, I mean, we keep getting back to the same thing; it's the reserves. You faired a lot better than a number of our other large clients because you went into this with that nice $200 million Stabilization Fund and you had a couple of other things that you to do; tobacco securitization, a couple of other things.

Other jurisdictions weren't as fortunate, which is why -- think about it, Nassau County, for a very long time, Nassau's rating was higher than Suffolk's rating. That's changed over the half dozen or so years. Nassau is deteriorating that much more quickly than Suffolk because they didn't have the reserves. When they borrowed tobacco, they used all of it for operating expenses, which is a big no-no in the eyes of the credit rating agencies. If, indeed, your reserves stabilize and start moving upward, that's going to probably have the most positive impact in those outlooks. That could make those negative outlooks go away.

LEG. D'AMARO:
That leads me to my next point, that, you know, the rating agencies, in my mind, don't live in a real world. They live a world that's fantasy land. To meet the standards that the rating agencies are looking for, you know, you'd have to cut our assistance to contract agencies. There is a lot of cost cutting you can do. You can tax people out of their homes. You know, there's all kinds of options, that at the end of the day, the rating agencies would give us stable outlook, but we'd have people living in the streets in Suffolk County. So I don't see it as being very realistic.

The problem is that it does impact the cost for the County to borrow, right? That's the primary impact of the rating agencies. So assuming that we continue with this difficult economy, the difficult revenues, doing the best we can to try to struggle through this, what's the increased cost? And the reason why -- you know, the borrowing; what we expect? And the reason why I ask that is one of these reports -- let me just find it here -- had something very interesting. It said that -- you know, with all the bad news coming, in references low debt levels. This is Fitch. And it says, "the County's overall debt burden is low at 1.9% of market value," I'm not sure what that means, "and should remain low given the County's growing tax base -- growing tax base. Debt service represents a manageable 5.8% of General Fund spending and short-term borrowing is in line with

historic norms." So it would seem to me the area where the rating agencies have an impact, they're giving us a very positive outlook, yet they're increasing our cost of borrowing. I don't understand that.

MR. TORTORA:
If you --

LEG. D'AMARO:
In other words, we have a low debt ratio or whatever that is. So how are we more at risk? Why are we getting these negative outlooks if, in fact, we're in good shape as far as bonding and debt?

MR. TORTORA:
What they are looking, of course -- it's interesting. What you're saying, of course, we hear all the time, like, "What they are asking us to do isn't the real world. Don't they know what's going on?" But they take a very focused view. All they're concerned about is, what's their job. Their job is to tell an investor, does this entity have the ability to pay their debt on time, do they have the financial wherewithal to pay its debt in full and on time. And then, do they have willingness to pay their debt in full and on time. The willingness component is evidenced by your raising taxes, your raising fees, your cutting expenses to show that you're willing to do what you need to to have the money to pay the debt off in full and on time.

We talked about the four key criteria. The most important one, the fundamental, the starting point for a credit rating is economics and demographics; your tax base, your employers, your wealth levels, etcetera. And that's very high on Long Island. So as a starting point, most jurisdictions on Long Island probably should be in the AA credit category. And you'll notice from the other chart that I showed you a moment ago, right now, most -- the majority of jurisdictions in New York State rated by Moody's are in the AA category. So we know that economics and demographics, you're very strong. No question about it. We know that your debt -- the amount of debt you have relative to your wealth levels is just fine, they've never had an issue with that. You pay your debt off quickly. Your rapidity of repayment is good.

What they're consistently hung up on is finances, financial performance. And to a lesser extent, certainly management. You know, management impacts on your financial importance. It impacts on everything, but mostly financial performance. They are increasingly concerned with all jurisdictions' ability to pay their debt in full and on time. We've seen municipal bankruptcies in other States; Harrisburg, Pennsylvania; Jefferson County filed bankruptcy. We haven't seen that in New York yet. But, you know, their job is to alert their investors; does this continue to be a good credit risk, is it as strong today as it was yesterday. So it's a comparative standard. So as time passes and those sales tax revenues don't rebound and the reserves go down, you're not as strong today as you were in 2006, 2007.

LEG. D'AMARO:
These are the same agencies, as Legislator Romaine said, that were giving AAA ratings to mortgage-back securities.

MR. TORTORA:
Totally missed the boat, totally.

LEG. D'AMARO:
Same thing, I think, with the European debt crisis as well, but that's whole other story.

LEG. ROMAINE:
Ask Jon Corzine.

LEG. D'AMARO:
I mean, if you really start to dig into these mortgage-back securities and the different ways they layered them out and the risks involved, it was all there if you just took a good hard look. But when you're being paid by the industry, I guess you look the other way. One more question. This recent negative outlook that we received as opposed to, I guess, a stable outlook, what is that costing us in real terms?

MR. TORTORA:
I would guess it's somewhat negligible at this point. You know, does it cost you five basis points? Perhaps. A basis point -- one basis point is worth $100 on a million. You do about $700 million a year. So a basis point times has a real cost to you, that's a $70,000 cost. If you were to move -- as long as you stay within the AA category, we think you're just fine; you know, the impact to your cost of capital isn't particularly severe. But if indeed we slip into single A category, while it's still a relatively high credit rating, if indeed we slip into the single A, as has Nassau, the County could expect to pay millions of dollars more every year in interest expense.

LEG. D'AMARO:
Right now we seem to be -- we took a little hit, but not too bad in my mind given the fact that we had some tough funding decisions to make, but I guess we should keep a careful eye on this as we move forward. Rich, thank you very much. I appreciate you answering my questions. Thank you.

MR. TORTORA:
You are very welcome.

CHAIRMAN GREGORY:
Okay. Rich, thank you. Thank you for being here. It is so informative. You have the three credit agencies -- rating agencies, then you have -- you mentioned Kroll. Is that the Japanese firm that I read about?

MR. TORTORA:
You know, I don't really know too much about them. We have a meeting schedule so we can sit down with them and find out what they're all about. They just arrived on the scene within the last couple of months. I don't even know what they have rated thus far. I suspect that they'll start with the big state agencies, etcetera. We won't see them -- I don't think it's cost effective for them to rate those jurisdictions lower than the County level. So maybe at some point, they'll make an overture to rate the County and some of the large cities in New York State, but that hasn't happened yet.

CHAIRMAN GREGORY:
I remember reading a couple of months ago about a Japanese firm that was trying to get into the market.

MR. TORTORA:
Some of the municipal bond insurers who aren't writing policies anymore, there's talk of some of them changing over and becoming rating agencies. There's been two or three entities that have been kind of skirting around the idea of setting up rating agencies. It takes years to build up credibility as a rating agency. And it takes years obviously to loss credibility. I don't think there will be a big force for several years to come.

CHAIRMAN GREGORY:
Okay. Now, getting to the four key criteria. It almost seems like the model is wrong, the way they -- the criteria that they use and the analysis that they go through. It's almost like a corporate model where the focus is on reserves and recurring revenues or profits, if I can use that term,

whereas, you know, that's something that you expect a business to be focused on. And, yes, important for municipalities, but an aspect that municipalities have to focus on is having enough revenues to operate. I don't see anywhere where that is a factor in analysis other than maybe when it comes to cash flow. Maybe I just don't know enough about the process. Maybe they do consider that.

I read these ratings in the past, I remember, I think it was last year, Moody's who had concern over the County Executive's recommended budget and the sale of the nursing home and put in, you know, criticism or concern, I should say, about one-shot revenues and speculative revenues particularly relating to the sale of the nursing home, which didn't have approval of the Legislature, but yet, they maintained the rating. So I have questions about that. So I don't know what the their thought process is as from this year -- from last year to this year and why they would give a negative outlook. There was one rating agency that did give a negative outlook last year. I think it was --

MR. TORTORA:
S&P?

CHAIRMAN GREGORY:
S&P, right. Is it because -- you interact with them more. Is it because the cash flow issue has become more of an issue? I s that a big factor in this?

MR. TORTORA:
I think that the issue with the nursing home, that was certainly a concern to them. If that was deemed to be a money-losing operation and you were going to end that money-losing operation, that could be a credit positive, I suspect. But, of course, as you would say, there's a lot of jobs and there's a lot of lives involved in that decision. So they'll never say, "Shut this down." They don't want to give you instruction in terms of what you should and shouldn't do.

But, you know, very simply, while different events raise red flags with the rating agencies, as I said earlier, they seem to be backing off from taking aggressive rating actions, because they're looking at what's going on in light of the economic condition, and they realize these are tough times for everyone and everyone is suffering through them with relative -- you know, different levels of success, if you will.

But as time goes on and things don't improve and they sales tax revenues don't rebound and, you know, the property sales don't come back and the home values don't come back, then you're becoming -- you know, the County and many jurisdictions around the country are just, in the rating agencys' eyes, becoming, you know, weaker and less likely to pay in full and on time. So they have to reflect that in the credit ratings.

CHAIRMAN GREGORY:
Okay. And I invariably always see a reference to reserves, the level of reserves. And I won't say they advocate, that's too strong of a word, but they certainly look favorably upon property tax increases or tax increases over fees, which to me is, you know, from a governmental standpoint, you want us to have high reserves and increase property taxes. That's just unrealistic.

I just -- that's what goes to my questions about the model itself and what they really -- the analysis goes to; how much weight -- I mean, that's, you know, 25% one of the key criterias. They always mention reserves and recurring revenue in the form of property tax increases. There's such a concern for that. It seems like a disconnect to how government operates.

MR. TORTORA:
One of the reasons, of course, they like real property tax increases the most is because people do pay their taxes, people pay their real property taxes to protect their homes and their commercial interests. Whereas, when you're heavily dependent on sales taxes, people can just opt not to spend as much money. A good report came out in the last couple of days that spending this holiday season is up maybe 15% from last holiday season. They just revised early today the GDP projections. It looks like there's going to be robust growth in the last quarter of this year.

Suddenly, it seems things might be turning around. The unemployment number is supposed to get better. You know, the rating agencies, I think, are hoping that things turn around, and then everybody's fortunes will kind of ramp up in 2012. That's the hope. But what they have to look at is what you've done -- because again, we're talking about trends. So now we've seen three or four years of trends during this recession. They're adjusting ratings accordingly.

CHAIRMAN GREGORY:
I think to me, the underlying message is there's too much emphasis put on ratings. Politicians use ratings as a verifier of good government policies, when actually, all it really is is a statement of as far as your worthiness as an investment for an investor. As an investor, you want to see that you have a AA or a AAA rating. Because of the criteria that they focus on, it seems to be more in line to what an investor would deem important as opposed to how -- the functioning of government.
I mean, obviously, if you have a subgrade rating, you are doing something wrong governmentally. But I think when you're at a certain level -- I think there are governments that could not be AAA or even AA rated that could be functioning or doing the right things that they have to do for the taxpayers and constituents, but necessarily wouldn't be top quality-rated investment. You know, I think that's reflective in, you know, the emphasis on high reserves and property tax increases. We're at a point where we have a quarter of a percent -- a quarter of the amount of reserves that we've had a few years ago. We have raised property taxes, but I still believe that Suffolk County is functioning and better than most.

But if you look at it from an investor's standpoint, well, you have to look at it, well, it's not as good as investment as it was last year. I don't think those two criteria or outlooks are on the same -- should be given the same weight. You had mentioned cash flow earlier -- someone had mentioned cash flow. I think that's important. How much is that given weight in this process?

MR. TORTORA:
The County does two cash flow financings a year. So the one that we're working on right now is a $400 million cash flow financing, which we do every year at this time in anticipation of the county's receipt of 2012 real property taxes. This is a snapshot rating. So it's a short-term rating that's only attached to this particular deal. We already got an F-1 plus from Fitch and we're hoping to get a MIG-1 from Moody's. They look at how you performed in fiscal year 2011. So we've shown them a cash flow which is actual probably through September, and then we project through the end of this year, and then we project for all of 2012. So they look at that and see how we think we're going to do from a cash position to determine will we be able to pay those notes off in full and on time when they come due during the 2012 fiscal year. So, you know, a different focus. The fundamentals are all the same; you know, the economics, the demographics and the tax base. But the cash flow is critical to -- you know their confidence on our cash flow is critical too ur getting the highest rating from the rating agency for this particular note issue.

CHAIRMAN GREGORY:
We borrowed more money in our recent borrowings than previously, and from all accounts, cash flow is slower than recent history, but yet they give us one of the highest ratings or the highest rating. I don't understand that.

MR. TORTORA:
We hope that they will. Because again, the ratings -- those AA ratings that we have, those are our long therm underlying ratings that is attached to all of the long-term outstanding debt of the County. That was just confirmed in conjunction with the refunding. Now we're looking for a separate rating. Again, the short-term ratings are attached just to this specific issue that we're getting rated. So on this $400 million Tax Anticipation Note issue that's going to close later this year, we're looking to get that rated. We've got a rating so far from Fitch. They've given us the highest short-term rating, and now we're waiting to get a rating from Moody's. There are conversations going on today. We expect to hear maybe today or tomorrow cash how that comes out.

CHAIRMAN GREGORY:
And by cash flow, you mean cash flow, State aid, that has dribbled in. I'll leave it at that. Jay, you had a question.

LEG. SCHNEIDERMAN:
Thank you. We're going into next year with a budget in place where we're not sure -- there were holes that we were not able to close, somewhere amounting to maybe as much as 80 to $85 million. If the County Executive's projections are right, the holes don't exist, but if our offices are right, than they do. I am encouraged by what you said about sales tax. I hope that's true. I'm constantly pestering Robert for sales tax data. Each percentage that we come in above what we've projected in the budget is worth I think ten, $11 million. So it could make a major difference. It can go a long way to closing that hole if we start to see those numbers come up.

We worked together when I was Town Supervisor in East Hampton, and we had a pretty stable tax base, because our entire -- most of our budget was built on property tax revenues with a little bit on mortgage tax and other things. I come up here to the County, and most of our budget is sales tax; 1.1 billion, 1.2 when I started. It fell considerably when the recession hit. We have 48, 49 million that comes in in property taxes, which is only a few percentage points of our overall budget. That's our stable portion.

You spoke earlier about willingness, that the credit agencies -- the investors want to know how willing are you to pay back the debts if things go wrong. And at the town level, things were predictable, so it really wasn't a big issue. I know that Standard and Poor's down rated the Federal Government from AAA to, what, AA-1, right? My understanding was that was based on the debate in Congress as people were talking about defaulting on their debt. So there was a.

MR. TORTORA:
AA plus.

LEG. SCHNEIDERMAN:
Right, AA plus. So there was a political component there that lawmakers might be willing to default. So we come back to the County level -- and I'm not accusing anybody of anything, but we have;lively debates here. We are going to have to face some decisions. Now, property taxes, nobody seems to want to ever touch property taxes, but now the State had actually imposed a cap of 2%, which makes it politically even more difficult, plus you have more Legislators -- I think you need 60% rather than 50% to do that. So if you're a credit rating agency and you know, that one of the only places the County can go on its own is to property taxes, it can't go to sales taxes, because that requires State approval, it can go to fees, but there's only so much much you can charge for parking at various places, it can cut, but at the same time, a lot of what we do is mandated by the State; we have to deliver those services. And there's more to do with the recession.

If we go to property taxes to make up even a portion of that hole is an enormous jump in property taxes. We're already capped at 2%. Nobody seems to even want to go anywhere with property taxes. So I wonder how the rating agencies would look at the political environment and say, "Well, since that's the main tool they have is raising property taxes and there's not a willingness to do that, plus there's a higher threshold with the State cap," is that something that might start to affect our credit rating as well?

MR. TORTORA:
We've seen a number of jurisdictions in the State override the 2% cap. You know, Town Board met and said, "We're going over," and they went over. Willingness to pay in the County is a little tougher to measure than say a school district where the budget up for approval every year and every capital project is subject to voter approval. So when we go before the rating agencies with a school district, they say, "What was the percentage of passage of your last budget? When was the last time a budget went down? What was the percentage -- you know, the passage percentage on this capital project that you're funding now?" So that's very clear to them. So we have some -- we just did an issue with a library where they have never lost a budget. You know, they've got 48 years in a row the budget passed and 78% of the people approved the proposition.

What they would like to see -- you know, evidence of your willingness to pay is your willingness to make tough decisions and raise property taxes, which you can do. Do things that even though they require State action like raise the sales tax, you can raise fees on your own, they look for you to cut expenditures, have employees contribute to health care, all those kinds of things are evidence of your willingness to pay, making tough decisions.

LEG. SCHNEIDERMAN:
Our recent decision to raise property tax within the Police District, is that something they would look favorably on and say, "Okay, you did go to -- we went to our cap ultimately.

MR. TORTORA:
They did actually. They did look favorably on that. There will be the dialog on the phone, and then afterwards, we'll have ongoing conversations with them after the formal presentation and they'll comment, "Oh, it's good to see they finally did this. Oh, it's good to see they addressed that." Sure, the increase in the Police Fund, that was received favorably by the rating agencies.

LEG. SCHNEIDERMAN:
But that negative outlook, that was prior to our passing the budget. I remember that being part of the debate. You know, I remember AME representatives discussing that saying that we just got a negative outlook, it was largely because of our use of non-recurring revenue. So that had to be prior to our adopting this budget. Should we have them take a look at it now that we've passed the budget that includes a substantial amount of potential layoffs, it includes a property tax increase? Maybe we can get that negative outlook erased.

MR. TORTORA:
They're very careful not to assign an outlook or to change a rating and then be in a position where they have to change it again in six months or a year later. So that's why we're always so careful about protecting the rating that we have, because once it goes down, it could literally take years for it to go back up. They'll look for a change in the trend; they'll look to get a couple of years of audited financials that show that, you know, you're moving back in the right direction again.

And really, no one event triggers a downgrade. It's, you know, a whole host of different things that go on that generate a downgrade. So I don't think -- we know that the S&P negative outlook was assigned months ago. The Fitch negative outlook just came out within the last few weeks. But again, clearly, it wasn't based on any one event. It was just a whole host of things that they looked

at that generally got them concerned about the direction of the credit rating.

LEG. SCHNEIDERMAN:
Thanks, Rich.

CHAIRMAN GREGORY:
Ed, you are next on my list.

LEG. ROMAINE:
Just a few questions. I want to go back when you said a few years ago that the ratings went up due to revisions in the credit rating agency's view of how they judged things that were being rated; is that correct? I want to emphasize that because I wanted to understand that a little bit better.

MR. TORTORA:
Sure. Moody's called it a recalibration.

LEG. ROMAINE:
Right.

MR. TORTORA:
They wouldn't let you categorize it as an upgrade.

LEG. ROMAINE:
Right.

MR. TORTORA:
But interestingly enough, after they recalibrated you, if they took a good look at you six months later and said, "You know, you're really too high," then it was a downgrade, which really wasn't very fair. But the recalibration was all about them now including in your peer group corporations, other entities other than municipalities. On a comparative basis, you looked stronger because municipalities just don't default on their debt. So most ratings went up two steps.

LEG. ROMAINE:
You're giving me an education, because at the time, I believed it wasn't the rating agencies, it was the omnipresent efforts of our County Executive who issued countless press releases about the credit upgrade. So I didn't realize it was an internal thing with the credit rating agencies and not our County Executive at the time, which is an education to me. But let me move on beyond that. You talked about structural imbalances, and overestimations of revenue would be one of the reasons; is that correct?

MR. TORTORA:
That's right.

LEG. ROMAINE:
Okay. We have received a comparison of last year to this year's sales tax for every one but the last reporting week or two weeks in the year. And the last time I looked, and Budget Review could correct me, that was 4%[.|. |.] In his budget, our County Executive had said 5%, if I'm not mistaken for 2011. No? Could you correct me on that?

MR. LIPP:
The 2012 Adopted budget has an estimate --

LEG. ROMAINE:
No, 2011 we're talking about.

MR. LIPP:
The 2012 Adopted budget has a 2011 estimate of 3.27% growth in sales tax.

LEG. ROMAINE:
What was the original estimate last year when we looked at the --

MR. LIPP:
I believe five, yes, but the current budget is what budget counts only.

LEG. ROMAINE:
Right. So we had to recalibrate that.

MR. LIPP:
Right, but that's what counts now.

LEG. ROMAINE:
Right. So the rating agencies look at our recalibration of --

MR. LIPP:
Exactly.

LEG. ROMAINE:
So we're getting about 4%. So essentially what we have to do is either cut revenue -- I mean, increase revenue, cut expenses or increase our Tax Stabilization Fund if we wanted to see a stabilization or increase in our credit rating.

MR. TORTORA:
If you did one of the two; if you increased revenues or you decreased expenditures, one of the likely results of that is that your reserve is going to go up.

LEG. ROMAINE:
So for example, this County, this year, oddly enough -- it's odd to me because I followed the County budget for several years, and we've never adopted a half-year budget, but we adopted a half-year budget. So to the incoming County Executive, unless he has a magical way of producing revenues, the only shot of stabilizing credit ratings is to significantly cut expenses.

MR. TORTORA:
Or if sales tax revenues rebound.

LEG. ROMAINE:
Right. If it rebounds. Unfortunately, I'm told by economists that Long Island tends to enter recessions later and come out of them later than the rest of the country for some reason that I'm not exactly sure of, but this is what I've been told.

I know the question was cost-to-borrow, and that's a significant question, because we take that into account, that's why we want to the higher rating agencies. But when the cost-to-borrow is so slow because we are in a less than inflationary -- some would say almost deflationary -- cycle in terms of interest rates, I mean, we're not in the boom years where inflation is running four or 5%. We're talking an inflation rate of probably less than three, more like 2%, the cost-to-borrow becomes somewhat -- even if you were a AAA in an inflationary structure, you would be paying more than we

would be paying now in a -- I don't want to say deflationary, but certainly close to deflationary structure that we have now. Is that more or less correct?

MR. TORTORA:
If you look at the chart that I put back on, practically speaking, so the borrowing we're going to be in the market with now, $400 million one-year-note borrowing, in the past, the Count has -- in the recent past, has sold debt maybe in less than half a percentage point. If the rating were to go down, we could easily pay an extra 20 or 30 basis point for that. That would add millions of dollars to your debt service for that one borrowing.

LEG. ROMAINE:
But the cost-to-borrow in the current environment that we are in, would be considerably less than the cost-to-borrow in an inflationary cycle.

MR. TORTORA:
Sure. The cost of capital the last several has been extraordinarily low. You've been consistently borrowing one-year-notes for under a half percent.

LEG. ROMAINE:
Right. I want to emphasize that, because the cost-to-borrow is relative to the type of economic cycle that you find yourself in. So while everything else is depressed, the cost-to-borrow is depressed as well.

MR. TORTORA:
That's certainly true.

LEG. ROMAINE:
Thank you very much.

CHAIRMAN GREGORY:
Legislator Lindsay.

P.O. LINDSAY:
Thanks for being with us, Rich. I will try to wrap this up, because it's painful. Just to remind my colleagues, and maybe you could comment on this, our rating is somewhat relative in the sense that you just talked about Nassau being downgraded, the US Government being downgraded, governments being downgraded. When you go into the marketplace to sell this instrument, isn't that all looked at when the offering is bid on?

MR. TORTORA:
Certainly.

P.O. LINDSAY:
I mean if we were the only government downgraded, yeah, probably some other offerings would be more attractive than us, but we're not.

MR. TORTORA:
Very true. If you think about it, when you go in the market, you're competing for investment dollars with people who could be investing in US Government securities, in other municipalities or in corporate securities. There was a big flight to the muni market and the US -- you know, government market in 2008 when Bear Stearns had its trouble and Lehman Brothers, because the government market, being the US Government and the municipal markets were deemed to be safe havens. So there was a huge inflow of money into our markets.

As you said, a lot of jurisdiction are having trouble. I think that the statistic was for the first half of the year downgrades outpaced upgrades seven to one. So clearly, people -- you know, jurisdictions, their reserves were running low and their revenue streams were soft, and the rating agencies said, "Okay, now we have to start taking action because it's being going on for a long time." The first couple of years, I don't think there were as many downgrades, because the rating agencies needed to see trends, but now the trends are clearly there. Hopefully, we're going to start trending back in the other direction.

P.O. LINDSAY:
And the other observation, mainly to my colleagues, is if you look at the long-range debt, I mean we're paying 2% less for our ten-year bonds than we were in 2008. So money is cheap, like Legislator Romaine was talking about. I guess where I'm going with the whole conversation is I think it's important to keep an eye on the bond rating, but if you run the government for a good bond rating, you are not going to be in office long. You know? I mean, because the only way to do it in these times is to raise taxes, lay off people and not provide services. And that isn't a recipe to keep our constituents happy. That's all I want to say. Thank you.

CHAIRMAN GREGORY:
Great. Thank you, Rich, for coming in today and enlightening us with your presentation.

MR. TORTORA:
You're very welcome. Thank you.

CHAIRMAN GREGORY:
All right. We're going to get to the agenda. We have Tabled Resolutions.

1788, Amending the 2011 Operating Budget to support Parents for Megan's Law. (Eddington)

I make a motion to table, seconded by Legislator D'Amaro. All in favor? Opposed? Abstentions? **TABLED (VOTE: 6-0-0-0)**.

1912, Directing the Department of Public Works to develop and issue RFP's for the sale and lease back of the H. Lee Dennison Building and the County Correctional Facility in Riverhead. (Schneiderman)

LEG. SCHNEIDERMAN:
Motion to table.

CHAIRMAN GREGORY:
Motion to table by Legislator Schneiderman, I will second that. All in favor? Opposed? Abstentions? **TABLED (VOTE: 6-0-0-0)**.

1983, Adopting Local Law No. -2011, A Charter Law to increase public accountability in budget process. (Cilmi)

Motion to table.

LEG. SCHNEIDERMAN:
Second.

CHAIRMAN GREGORY:
Seconded by Legislator Schneiderman. All in favor? Opposed? Abstentions? **TABLED (VOTE: 6-0-0-0)**.

1997, Adopting Local Law No. -2011, A Charter Law to ban community college chargebacks to the Towns. (Romaine)

Is this a public hearing?

MR. NOLAN:
It's closed.

LEG. ROMAINE:
Motion to adopt.

CHAIRMAN GREGORY:
Motion to approve by Legislator Romaine.

LEG. MURATORE:
Second.

CHAIRMAN GREGORY:
Seconded by Legislator Muratore.

LEG. SCHNEIDERMAN:
Motion to table.

CHAIRMAN GREGORY:
Motion to table by Legislator Schneiderman. Presiding Officer?

P.O. LINDSAY:
Do you have a second?

CHAIRMAN GREGORY:
I will second the tabling motion.

P.O. LINDSAY:
I'll talk after Legislator Romaine.

CHAIRMAN GREGORY:
Legislator Romaine.

LEG. ROMAINE:
Just on the motion to either table or adopt. This is a pretty straight forward thing. I think most people around this horseshoe express some surprise this year that amongst many of the other packages, we pushed $11 million approximately in expenses down on the town that would have been on the County bill, which, by the way, would have reflected a 20% increase as a minimum in our General Property Tax had it been on our bill and not the town's bill. And most people thought it was an unfair thing to push this down on the town, even though it was legal, because it came at the last moment without notice or discussion with the town governments.

All ten Town Supervisors, regardless of party, have said this should not occur again. This is a Charter amendment that says that the County will not put out-of-County tuition charges on the

townships, and it's as simple as that. Now, I agree with many of my colleagues around this horseshoe that we should be relieved of that State mandate as a County. But until we are, this is a Charter amendment that every single Town Supervisor and Town Board has endorsed that have asked that in the future, that this charge not be put on the townships.

I think that's a fair thing. This has never been on the townships. I've been in this County Government for 26 years, I have never seen this charge ever put on the townships. This has always been a County responsibility as long as it's been a mandate. I agree with you, maybe this State mandate should be lifted from us, but we should not be putting this on the towns. And we did a backdoor tax of almost 20% by doing this. This is an unfunded mandate that this County Executive put on the townships. I'm asking that we not do this again. That's all this Charter Law does. You were all for this before -- you were all against this, you wanted to use the revenues from lifting the cap on the sales tax on gas until it was shown there just wasn't enough revenue to do this, and the budget would have been out of balance. So I know that you've expressed desires on this before. Here's an opportunity to cast your vote for a Charter amendment that would prevent this from being done again. Thank you.

CHAIRMAN GREGORY:
Legislator Schneiderman.

LEG. SCHNEIDERMAN:
I'm certainly not surprised that the Town Supervisors are against this. Of course, you know, if we had a vote on lifting some of the State mandates, I think there's $100 million of unfunded State mandates, I'm sure we would vote unanimously to get rid of them. That's not a surprise there. There's no hurry on here, this is not going to affect anybody until 2013's budget, which we're going to work on a lot next year. So we have time.

We have a County Executive coming in who currently is a supervisor of a town. I certainly would like to hear Mr. Bellone's take on this. I think that's kind of important. But, Ed, I have only one question for you, because I don't mind getting rid of it, I just ask you, particularly in 2013, a year that promises to be more difficult of a budget than 2012, how are you going to pay that 11 or $12 million? Where is it going to come from? What are we going to either cut or tax to do it, to replace it?

LEG. ROMAINE:
Let's see, we are a County that has repeatedly said -- and just through the Chair to Jay -- has repeatedly said how unfair State mandates are. So what do we do? We put a County mandate on towns. Do as I say, not as I do. You have a key question to answer. This has never been on the towns, ever in history. All ten Town Supervisors -- and you heard Supervisor Lesko speak for them. Supervisor Lesko from Brookhaven, he mentioned all ten, that included supervisor Bellone from the Town of Babylon.

So I would ask you, are we going to put this mandate on the towns? I think by passing this, what this does is it emphasizes to this County that we should all get behind our lobbying efforts to be relieved of this mandate so we don't have it either. But right now, it's either us or the towns. It's never been on the towns. They've created a separate line. I have to tell you, that was a 20% in real time increase had it been on the County's budget. We would have been in major violation of the tax cap. But this is what the current Executive chose to do when he presented his budget. I'm saying this should never happen again. We should have a Charter Law that says, "Not on the towns."

LEG. SCHNEIDERMAN:
If I might respond back. First of all, it's my understanding that in 1993, this was on the towns, that

this is not the first time. This is, I guess, the second time. And, of course, if the State would free us from the mandate, we would have no need to place it on the towns or on the County. But my question was simple, assuming there is no relief from the State and we still have this $11 million hit, how are we going to pay for it if it's not passed to the towns? What is your suggestion? Where is the money -- you didn't answer that. That was the basis of my question.

LEG. ROMAINE:
We've come up with that money every year but '93 and this year. And this has always been a County responsibility. Just because we can legally impose it on the towns don't mean it's the right thing to do. I have to tell you, the towns created a separate line, they couldn't increase their budget either. Maybe we create a separate line, and it's under the County line.

LEG. SCHNEIDERMAN:
I voted to not do this when DuWayne came up with an offset, which was to relieve the cap on gasoline and use it to do this, but then it turned out it was insufficient money. Come up with an offset and I'll support this. But until we can figure out where that $11 million is coming from, I think it's premature. So if we can go into next year and have the County Executive who is, at that point, a former Town Supervisor weigh in on this, I'd like to hear that. So we have plenty of time. There's no need to rush this through.

CHAIRMAN GREGORY:
Legislator D'Amaro.

LEG. D'AMARO:
I tend to agree. I wanted to ask, why is it that we can legally pass this mandate down to the towns as opposed to, I guess, other mandates? Are there other mandates that we can do the same?

LEG. ROMAINE:
Yes, there are.

LEG. D'AMARO:
If so, what are they?

MR. NOLAN:
Because the State specifically authorizes a chargeback in the Education Law.

LEG. D'AMARO:
Oh, it does?

MR. NOLAN:
Yep.

LEG. D'AMARO:
So is it fair to say that the State Education Law anticipated this being passed down to the towns maybe on the basis that then towns would be paying their proportionate shares based on what residents were going out-of-County?

MR. NOLAN:
They certainly allow for that possibility.

LEG. D'AMARO:
Right. Does anyone know offhand if there are other counties that do this? Does anyone know?

MR. NOLAN:
Well, I think Nassau.

LEG. D'AMARO:
Nassau is doing it now. I mean, it's very difficult. You know, what pocket do you take it out of when it comes to the taxpayer; you know, is it the County taxpayer, is it the town taxpayer? It's the same person really.

And I did support for the narrow purposes of trying to avoid doing this when it looked like the relief from the gas tax cap might be sufficient to pay for it, but it wasn't, and it's unfortunate. But I agree with Legislator Schneiderman, I think we have to be consistent now with our budget and hold off on this and let County Executive Bellone come in and weight in, especially with his experience as a Town Supervisor. I think that would be helpful. So I'm going to support the tabling today.

CHAIRMAN GREGORY:
Okay. Thank you. Presiding Officer Lindsay.

P.O. LINDSAY:
I agree with Legislator Romaine about -- that this is a horrible thing to do, to pass it down to the towns. The State passes it down to us. But I'm not ready to support this yet, because if we did this at this time, the towns would know they would be off the hook. And truthfully, I need the towns to speak with one voice with us to the State to say, "Come on, guys, give us a break." I'd be happy to look at this as we move into the New Year. But I would hope that we would have a unified lobbying force at the beginning of year to get somebody in Albany to realize that this is just wrong, it's just wrong.

CHAIRMAN GREGORY:
Okay. I agree. All right. The tabling motion goes first. All in favor? Opposed? Abstentions?

LEG. MURATORE:
Opposed.

LEG. ROMAINE:
Opposed.

CHAIRMAN GREGORY:
Two oppositions, okay. **TABLED (VOTE: 4-2-0-0; Opposed - Legis. Romaine and Muratore).**

2030, Adopting Local Law No. -2011, A Charter Law to improve the process for adopting the County's Operating Budget. (Romaine)

LEG. ROMAINE:
Motion to approve.

LEG. MURATORE:
Second.

CHAIRMAN GREGORY:
Motion to approve by Legislator Romaine, seconded by Legislator Muratore. I make a motion to table. Can I get a second? Seconded by Presiding Officer Lindsay. Explanation.

MR. NOLAN:
This bill would -- I think really the way to say it is speed up the budget adoption process. It will

require the County Executive to submit his budget earlier. Right now, he submits it on the third Friday in September. Under this law, he would have to submit it by the third Monday. The public hearings held by the County Legislature would have to be held by October 20th as opposed to the present October 31st.

It also would require that the County Legislature adopt and vote on the budget amendments prior to Election Day each year. And furthermore, it increases the number of days for which the budget amendments have to be circulated to the County Legislators from two days to three days prior to actually voting on the amendments. And it would also remove the clause that authorizes the Presiding Officer to waive that filing requirement. Right now, the Charter permits the Presiding Officer to waive that, the current two-day filing requirement. And if this law was passed, that would be eliminated as well.

CHAIRMAN GREGORY:
Yes, Legislator Romaine.

LEG. ROMAINE:
The reason I introduced this resolution was -- there were several reasons; one of which is I believe -- and we have done this in the past, I was a member on this Legislature when we used to vote on the budget prior to Election Day, because there were claims saying, "Oh, people campaigned on one thing and voted another way after the election." I don't think people would have changed their vote whether the vote was before or after the election.

But that being said, I think it would be -- by moving it back four times from the time -- the County Executive has to submit it the third Friday, this would be the third Monday significantly enough at noon, not at 4:59 or something like that. So we get four days. The Legislature then would have their budget hearing a few days ahead of time, and we would have the opportunity to vote on this before Election Day.

Now even more significantly, and I raise this not as a criticism, because I know people were under a lot of stress this year to come up with an alternative budget, and I have nothing but great respect for the people in the working committee, for the Budget Review Office. But in terms of amendments, I would like amendments three business days as a Legislator to review them. I received -- although we got briefings, I received the amendments at 11:21 p.m. on the 7th of November -- excuse me -- the 8th of November, on Election Day at 11:21 at night, I got the amendments e-mailed to me. I had to vote on them the next day.

Now, because we had been briefed and a whole host of other things, we were more or less ready for these votes. And it was a pretty simple vote; either you voted for the Omnibus with all of its faults, and there were a couple of them that I saw in there, or you voted for the County Exec's budget, which was probably the worst budget that has ever been submitted in County history. So pretty simple, it was the lesser of two evils. In my view, I knew I was going to be voting for the Omnibus. However, I think as a Legislator, there is a certain degree of respect that is due, whether you're in the majority or minority party. And to get the amendments three days ahead of time would give me an opportunity to fully understand, not only know how I was going to vote, but understand the implications to County Government of each and every one of those amendments.

I was sorry we couldn't cast votes on separate amendments and we considered everything as a whole. In the past, we used to vote on separate amendments. I wanted to be ready. I wanted to study those things. I really didn't have a shot to do that. So I think for those two reasons -- the whole thrust of this, besides moving the dates back -- is to, one, allow us to vote on amendments before Election Day; and; two; to have those amendments at least three business days ahead of time without any waiver so that we could actually study them and understand them and understand

the implications, not only know how we were going to vote, but what it would mean overall to the County Government. It's a very simple thing. I think it would improve transparency. I don't make any of these things as criticism to anyone, everyone has done a great job, but I think this would improve the way we do business. That's why I've put this forward. Thank you.

CHAIRMAN GREGORY:
Presiding Officer.

P.O. LINDSAY:
Again, I don't necessarily disagree with the concept here. I would be reluctant to pass it at this time. We have a new County Executive about to take office. He spent about five hours with Budget Review last Friday trying to understand the difficulty of this coming budget that we've adopted. I don't even think he has a Budget Director yet. And I would really like him to get up to speed and tell us whether he can -- because it all starts with him; he has to submit his budget earlier for us to make this process work. If he can do it, we can do it on our end, I'm sure.

Although I do have some reservations about taking away the Presiding Officer's ability to issue a waiver. And why? Because, I mean, this year, Ms. Vizzini will tell, she just couldn't get the work done. Her folks worked 18-hour days, and they couldn't get the documents ready. And we have needed a waiver anyway. And if I didn't have the ability to do that, I would have had to call a Special Meeting the day before Election Day. I mean, if you guys -- you know, if we came here for a Special Meeting, what do we do, deny her the ability? She didn't have the documents. She just couldn't get them together, because the budget was that complicated and that difficult.

So, again, I'll be tabling it this time. I'd be happy to work with the sponsor maybe to smooth out some of that language, but more importantly, once the new County Executive gets settled in, I'd like to hear his opinion, whether he can operate under this framework.

CHAIRMAN GREGORY:
I too am not totally opposed to moving up the budget process. I'm concerned by using the benchmark, Election Day, that the process will be politicized. And if it's going to be politicized, I think it would be more fair to those involved, which is the 18 of us, that we move the process even further back. You know, it's difficult enough now to -- you know, the headlines are going to read, "Your Legislator either -- you know -- raised taxes or laid off X amount of people or did this, that and the other, voted for a budget that increased spending." You know, there's many ways that the spin can be spun.

So I think -- there could be certainly a greater emphasis on the politics in the equation putting it before Election Day. But if that's the decision, I think it should be done -- the budget should be passed certainly more than a week before, so whatever it is that we do pass and vote on can be disseminated in a fashion that is constructive to everyone, including the public so that they understand what it is that has happened before they make their decision on who to support. Legislator Schneiderman.

LEG. SCHNEIDERMAN:
There's no doubt that the challenges that face this County are daunting economically, socially in many regards. Whether we get the budget a few days early or not is not going to fix those challenges. What is going to fix the -- you know, address the challenges the County faces is a better relationship between the Legislative and the Executive Branches moving forward. We all know in the past, it has been less than rosy. And we have a new County Executive coming in, and I'm hoping there is a cooperative relationship where we can start to come up with some real good answers, real good solutions.

So to me, the thing to do is to set the right tone with the new County Executive coming in, to not pass a bill right before he comes in that would tie his hands without having any conversation with him about whether this is something that he can do based on his own restraints. So I think it would be a terrible message to send right now. It's much more important -- to me, I'm going to support tabling it. Even though the concept is good, the tone is more important in the New Year. I would say table it, and let's have that conversation.

CHAIRMAN GREGORY:
Okay. We have a motion to table, Madam Clerk? Okay. The tabling motion goes first. All in favor? Opposed? Abstentions?

LEG. ROMAINE:
Opposed.

LEG. MURATORE:
Opposed.

CHAIRMAN GREGORY:
Two oppositions. Okay. **TABLED (VOTE: 4-2-0-0; Opposed - Legis. Romaine and Muratore).**

INTRODUCTORY RESOLUTIONS

2065, To readjust, compromise, and grant refunds and charge-backs on real property correction of errors by: County Legislature (Control No. 873-2011).(Co. Exec.)

I make a motion to approve and place on the Consent Calendar, seconded by Legislator Schneiderman. All in favor? Opposed? Abstentions? **APPROVED** and placed on the **CONSENT CALENDAR (VOTE: 6-0-0-0)**.

2091, Adopting Local Law No. -2001, A Charter Law requiring the vote on the County Budget prior to Election Day. (Co. Exec.)

P.O. LINDSAY:
I make a motion to table. If I'm going to vote for this, I'm going to vote for Legislator Romaine's legislation.

LEG. ROMAINE:
I think it has to be tabled for public hearing.

CHAIRMAN GREGORY:
Yes.

LEG. MONTANO:
So we're tabling it for a public hearing?

CHAIRMAN GREGORY:
Right.

LEG. ROMAINE:
I'm sure the hearing will be recessed.

CHAIRMAN GREGORY:
I'll second the Presiding Officer's motion. All in favor? Opposed? Abstentions? **TABLED (VOTE: 6-0-0-0)**

2095, To readjust, compromise, and grant refunds and charge-backs on real property correction of errors by: County Legislature (Control No. 874-2011). (Co. Exec.)

Motion by Legislator Schneiderman to place on the Consent Calendar, I will second it. All in favor? Opposed? Abstentions? **APPROVED** and placed on the **CONSENT CALENDAR (VOTE: 6-0-0-0)**

2104, To readjust, compromise, and grant refunds and chargebacks on correction or errors/County Treasurer by: County Legislature No. 363. (Co. Exec.)

Same motion, same second, same vote. **APPROVED** and placed on the **CONSENT CALENDAR (VOTE: 6-0-0-0)**

2118, Authorizing the County Comptroller and the County Treasurer to transfer funds to cover unanticipated expenses in the 2011 Adopted Discretionary Budget. (Co. Exec.)

I make a motion to approve, seconded by Legislator Schneiderman. Any discussion? I heard there's some changes to the schedule, I believe, on this, right? Any questions? Nope. Okay. All in favor? Opposed? Abstentions? **APPROVED (VOTE: 6-0-0-0).**

2119, Authorizing the County Comptroller and the County Treasurer to transfer funds to cover unanticipated expenses in the 2011 Adopted Mandated Budget. (Co. Exec.)

CHAIRMAN GREGORY:
Motion by Legislator Schneiderman, I will second it. All in favor? Opposed? Abstentions? **APPROVED (VOTE: 6-0-0-0)**.

2120, Authorizing the County Comptroller and the County Treasurer to transfer funds to cover unanticipated expenses in the 2011 Adopted Mandated Budget from the 2011 Adopted Discretionary Budget. (Co. Exec.)

I make a motion to approve.

P.O. LINDSAY:
Why do we need to do that again? Didn't we do that in 18 and 19?

MS. VIZZINI:
No. 2118 was discretionary to discretionary. The next one is discretionary to mandated, and then mandated to mandated. So they're three separate ones.

P.O. LINDSAY:
2020 is mandated to discretionary?

MS. VIZZINI:
Correct.

P.O. LINDSAY:
Whatever. Why couldn't it be done under 18 and 19? Whatever.

CHAIRMAN GREGORY:
Do I have a second?

LEG. D'AMARO:
Second.

CHAIRMAN GREGORY:
Seconded by Legislator D'Amaro. All in favor? Opposed? Abstentions? **APPROVED (VOTE: 6-0-0-0)**.

2136, Appropriating funds in connection with the acquisition and implementation of a District Attorney Case Management System (CP 1136). (Pres. Off.)

I make a motion to approve.

LEG. D'AMARO:
Second.

CHAIRMAN GREGORY:
Seconded by Legislator D'Amaro. On the question, there was a change to the schedule where there was some confusion as to the price. I think it was listed at 150,000 and somewhere else it was listed as 1.5 or 1.15 million.

MS. VIZZINI:
Yeah, it was one zero too many.

CHAIRMAN GREGORY:
Okay. Never mind. Okay. All right. We have a motion and a second. All in favor? Opposed? Abstentions? **APPROVED (VOTE: 6-0-0-0)**.

That is our agenda. We stand adjourned. Thank you.

(*THE MEETING WAS ADJOURNED AT 11:41 A.M.*)