BUDGET AND FINANCE COMMITTEE

OF THE

SUFFOLK COUNTY LEGISLATURE

MINUTES

A meeting of the Budget and 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 July 22, 2014.

Members Present:
Legislator D'Amaro - Chairman
Legislator Anker - Vice-Chair
Legislator Kennedy
Legislator Martinez
Legislator Stern
Legislator Trotta

Also In Attendance:
Presiding Officer DuWayne Gregory - Legislative District No. 15
George Nolan - Counsel to the Legislature
Sarah Simpson - Assistant Counsel to the Legislature
Lora Gellerstein - Chief Deputy Clerk, Suffolk County Legislature
Robert Lipp - Director, Budget Review Office
Michael Crowell - Economist, Budget Review Office
Justin Littell - Aide to Legislator D'Amaro
Greg Moran - Aide to Legislator Trotta
Debbie Harris - Aide to Legislator Stern
Dennis Brown - County Attorney
Angie Carpenter - Suffolk County Treasurer
Christina Cooke - Suffolk County Treasurer's Office
Christina Capobianco - Chief Deputy Comptroller, Audit and Control
Joe Pecorella - Audit and Control
Geraldine Olson - Audit and Control
Tom Vaughn - County Executive's Office
Carole Nappi - Bridgehampton Child Care Center
Richard Tortora - Financial Advisor, Capital Markets Advisors
Rick Brand - Newsday
All Other Interested Parties

Minutes Taken By:
Gabrielle Severs - Court Stenographer

Minutes Transcribed By:
Kim Castiglione - Legislative Secretary

(*The meeting was called to order at 12:38 p.m.*)

CHAIRMAN D'AMARO:
Good afternoon, ladies and gentlemen. Welcome to the Budget and Finance Committee. Please rise and join the committee in the Pledge of Allegiance led by Legislator Sarah Anker.

(Salutation)

Once again, welcome to the committee. Part two of our agenda deals with correspondence. The committee did receive some correspondence which I'll read into the record briefly. The first is an e-mail from Andrea Godoy. It's dated Monday, June 9, 2014, and she is the Assistant Director of the Shinnecock National Cultural Center and Museum. The second correspondence for the record was from Joseph Pecorella, sent to Frank Bayer and various other parties regarding Guild Hall of East Hampton, and that e-mail is dated July 22, 2014. And the third correspondence or communication is a letter from Robert J. Strebel, C.P.A. It is dated June 10, 2014. It is addressed to myself and the Budget and Finance Committee. Those three items will be included in our record.

The next section of the agenda are public comments. I did receive one card from Carole Nappi, and I know, Miss Nappi, you're here, but we'd prefer if you came up and addressed the committee when we address the particular bill that you're here to speak on, and I appreciate your cooperation. Is there anyone else who would like to be heard before the Budget and Finance Committee this afternoon? For the record, there's no response. We'll turn next to presentations.

The Budget Review Office is going to provide us with a mid-year sales tax update. There was recently a report that was issued by the BRO. It's dated June 20th, 2014 and we're going to discuss the most recent collections of sales tax as well as the outlook and projections for the balance of the year. So, gentlemen, welcome. Please proceed.

MR. LIPP:
So Michael Crowell, who's a member of BRO, he started in December, will be doing the presentation. Michael is our economist and basically is taking over for that function for me, and the sales tax analysis that we've been doing since he started in December has been a collaborative effort between him and I. So without further ado, welcome Michael Crowell.

CHAIRMAN D'AMARO:
Okay. Mike, good afternoon.

MR. CROWELL:
Thank you.

CHAIRMAN D'AMARO:
Good news or bad news.

MR. CROWELL:
Mixed, actually.

CHAIRMAN D'AMARO:
Okay.

MR. CROWELL:
It's sort of a mixed bag.

CHAIRMAN D'AMARO:
Let me just start off by saying that I did take a copy of the report and we distributed a copy to each of the committee members here, and you do say in this particular letter that the news is mixed. It seems to me that the further I read the little more negative it becomes, especially with the conclusions about the sales tax that we need to achieve in the second half in order to meet what we adopted in the budget.

MR. CROWELL:
Right.

CHAIRMAN D'AMARO:
But that's the general overview. I'll let you go ahead and explain how we got there.

MR. CROWELL:
Okay. Thank you. Well, as you can see on the screen, there are just three points I'm going to cover. Where do we stand, some factors affecting the collections and what it means for the budget. So I'll just jump right in. The second quarter sales tax was up 2.2% or 7.11 million from a year ago. One item that caught a lot of people's attention was the last check of the quarter, which was sort of a big negative surprise, down $10.7 million, 21% and change down from the same check a year ago.

You know, a point that we really can't stress enough about that is that it is a quarterly system and when every quarter -- the final check is sort of a catch-all that involves a lot of reconciliations by the State Tax and Finance Department and it includes adjustments from prior periods, which have nothing at all to do with the economy. So it's often a big surprise. Sometimes good news; in this case it wasn't particularly good news. But overall, as I say, the collections for the quarter were up by 2.2% which is, I think, good news. If you net out the factors unrelated to vendor sales, so sort of the pure economic news, the quarter was actually slightly worse in this case, so without the, you know, the total cash was 2.2%, net of vendor sales it was only 1.6%.

Going back to first quarter, since we're talking about the whole first half of the year, the first quarter of '14, which we told you about in April, was down 4.25 million or 1.74% from the first quarter of 2013. And as I believe we mentioned at the time, when you net out factors unrelated to vendor sales it was basically flat, four one-hundredths of a percent.

CHAIRMAN D'AMARO:
So that's the first quarter of 2014 and then prior to that was the first quarter of -- second quarter of 2014, the year that we're in now --

MR. CROWELL:
Correct.

CHAIRMAN D'AMARO:
And when you look at the economic, or as you say, take out the unrelated factors or unrelated to vendor sales items, which I'm not quite sure what that is, but I guess that's giving you a more true picture of sales tax collection and growth?

MR. CROWELL:
That's right.

CHAIRMAN D'AMARO:
Okay. And so the first quarter was relatively flat, .4%, and the second quarter of this year was only 1.6% growth over the prior quarter.

MR. CROWELL:
Right. Point zero four percent actually.

CHAIRMAN D'AMARO:
Point zero -- zero point four percent, right. Okay.

MR. CROWELL:
So those were the two quarters. Separately when you look at the first half of the year as a whole we were up half a percent, 2.86 million, over the first half of 2013. And again, taking out the factors unrelated to vendors sales, let's see if I can remember this, there's three items that they include in that. One is late filed, assessment penalties and prior period adjustments. In other words, people who have been either paid the wrong amount or are being penalized for things that they did in the past.

CHAIRMAN D'AMARO:
Which doesn't contribute to sales tax or growth, but they are included in that check.

MR. CROWELL:
Well, yeah, I mean, it's counted in the cash, but it's not, you know, it's not -- it doesn't measure current economic activity.

CHAIRMAN D'AMARO:
Okay.

MR. CROWELL:
So for the first half of the year when you take out those factors we're up -- it's an increase so the collections are up by nine-tenths of a percent instead of half a percent.

What are some of the things contributing to the sort of anemic collections, because, you know, if you've been following this, the original adopted budget called for a 3% rate of growth and we're, as you know, as I've said, we're below that. The 2014 adopted called for a 3.4 -- 3.0% growth, and since there was a shortfall in the 2013 collections, the effective rate we would have needed was 3.6, and where we stand now would actually require 6.1% growth in the second half, which seems quite unlikely.

CHAIRMAN D'AMARO:
And that 6.1% reflects making up the shortfall of 2013 as well as finishing the year at 3% as adopted.

MR. CROWELL:
That's correct. The forecast that we gave you on the 22nd of April at the Budget and Finance Meeting, that Robert gave you, included the sales tax forecast that we had done then, and that assumed 2.1% growth for the year, for 2014, and at that time it meant 3% growth for the remaining three-quarters. Where we stand now, that required growth, that target would be 3.4% in the second half of 2014.

CHAIRMAN D'AMARO:
That 3.4%, again, reflects making up the shortfall in 2013 as well as the revised projection of 2.1% for 2014?

MR. CROWELL:
Exactly. Yes.

CHAIRMAN D'AMARO:
So just revising downward by nine-tenths of a percent almost cut in half the growth that we need in the second quarter.

MR. CROWELL:
Right, because --

MR. LIPP:
You might be misunderstanding a little bit. So we're not looking -- the 3.4% --

CHAIRMAN D'AMARO:
Oh, to meet the forecast. Oh, I see.

MR. LIPP:
Is a forecast for the second half to get us in at 2.1% for the entire year. The first half we were up a half of one percent, so it would grow to 2.1% with 3.4 in the second half.

CHAIRMAN D'AMARO:
Okay.

MR. CROWELL:
So let me just -- before I hit the last point here I'm going to go back to the previous slide and just talk about some of the things that are affecting collections. As I'm sure you have heard mentioned before, the harsh winter was a big damper on the economy and inhibited spending a lot. That was a big factor in the -1.74 in the first quarter. The labor market has been growing steadily, but as was mentioned in the review of the Capital Program, in the part about the economy talked about how the jobs that are being added seem to pay a good deal less than the jobs that we lost before the recession or during the recession, which of course leads to people being harder off and spending less money and therefore less sales tax being collected.

And then the third thing which is a bit hard to measure but, you know, there was a bump in spending due to Hurricane Sandy reconstruction. It stimulated the economy probably well into the second quarter, if not into the third quarter, of 2013. So, you know, since you're measuring percentage of growth year over year, if you start from a higher place then you need a bigger bump to make up for it. So these are all reasons why the taxes may be lower than we would hope.

And just to get back to the last point that we have here, a recap of the presentation that was made at the -- the budget model presentation with the sales tax forecast that we made at that time, the 2.1% for 2014. Implicit in that is $170.3 million shortfall in the budget if there's no amortization of the pension bill. With the amortization that's allowed you get $91.7 million shortfall. And there was sort of a rhetorical question was asked, you know, is this something that needs -- that requires the Legislature's attention, this large shortfall. Any questions?

CHAIRMAN D'AMARO:
Just go over that recap one more time. There's $170 million shortfall with no borrowing or amortizing of the pension bill. Okay. The 91.7 that comes next, million, with amortization of pension bill, are those numbers based on the revised forecast or what's adopted in the budget.

MR. LIPP:
The revised forecast is the April forecast we're talking about.

CHAIRMAN D'AMARO:
Right, the 2.1.

MR. LIPP:
So what we're saying is in April when we did this forecast, and the numbers now plausibly, assuming the 3.4% growth in the second half, will still come in this way. So the good news is what we saw back in April still sort of stands now. The bad news is it's a significant shortfall that will have to be dealt with. Sales tax doesn't help the matter.

CHAIRMAN D'AMARO:
But the 91 million is based on the revised forecast.

MR. LIPP:
Well, the difference between the 170 and the 91, is that what you're asking?

CHAIRMAN D'AMARO:
No, no.

MR. LIPP:
I'm not sure what you're asking.

CHAIRMAN D'AMARO:
Put aside the revised forecast. We adopted 3% growth for this year.

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
In order to achieve 3% growth for this year, because of also the deficit of last year, we'd have to do a second quarter sales tax growth of 6.1%.

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
Okay. So what you're saying is that if we don't -- we're not going to come in at 6.1% in the second quarter of this year. We probably will come in at the 2.1% overall that you projected, or the 3.4% over the second half, right? Same thing.

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
And if we do that at least, which is not adopted but projected after the fact in April, that we would still face with amortization a $91 million shortfall.

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
Okay. That's what I needed. So even -- so you're standing by the projection made in April that this is what you think the growth will be for the second half. The numbers that came before that are already fixed, and even if we meet your revised projection, we're still 90 million in the hole.

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
Okay. That's what I needed to know. Okay. All right. Does anyone have any questions? Legislator Kennedy, please go ahead.

LEG. KENNEDY:
Thank you, Mr. Chair. So I want to talk a little bit about what the Chairman just spoke with you about, but before I do that, let's ratchet back a little bit in time. I see what the percentage, well, I think I see the percentage but I'm not sure. In actual dollars what were we shy in sales tax collection in 2013. What was the dollar amount of the --

MR. LIPP:
Off the top of my head around seven million.

LEG. KENNEDY:
Seven million?

MR. LIPP:
I believe so.

LEG. KENNEDY:
Okay. And --

MR. LIPP:
See, one of the interesting things about the sales tax is it's a very large number for 2014. The adopted number is in the neighborhood of $1.3 billion for all the funds, including the Quarter Cent Water Quality Program, and it's a volatile source of revenue, which is not the easiest thing to forecast, because the economy has its ebbs and flows. So like a 1% forecasting error, which would be a good error, over 1.3 billion is 13 million right there, so it's --

LEG. KENNEDY:
No doubt, Robert. As a matter of fact, when we sit there and we try in, you know, late September or early October to look at what we're going to, you know, embrace going forward, in this case in '15, we always do it conservatively. And to your point, we are attempting to try to come in on what is a relatively large number. I was tempted to ask you to what extent we can drill down into the areas of sales tax generators, but that's probably a conversation better for me to have with you offline or privately. What's going on with big ticket purchases, automobiles, appliances, things like that. Or is it clothing or is it disposable goods or what are you able to see. What's really being reflected besides the gross number as far as us trying to, you know, look at what's gone on from prior years, and can we attribute it all to just this phenomena that the labor recovery was not really a recovery to where we had been previously. We have people on the payroll, but not in types of jobs that they were before. But I'm tempted -- that's going to take a while to have that conversation.

Help me, because I didn't quite understand this last dynamic that you went through with the Chairman about if we embrace the factoring of the pension bill, that we then hold to now only a $90 million shortfall. We have the pension bill now, but for the factoring will be 170 million in the hole into '15, and if we embrace the factoring we're 90 million in the hole going in.

MR. LIPP:
Right. So this is the pension bill for early 2015.

LEG. KENNEDY:
Right.

MR. LIPP:
And that's a policy issue, so it would not be appropriate for us to say what -- how you're going to do that in terms of the policy. So you could see here, you know, what the projected shortfall would be with or without that policy determination.

LEG. KENNEDY:
No doubt about it. As a matter of fact, you're just laying out the range of what may be before us and what we have to consider and contemplate. All right, I'll yield for now. Let me turn it back over. I'll turn it over to you, Mr. Chair. Thank you.

CHAIRMAN D'AMARO:
There are other committee members, and just I had one more question. Thank you, Legislator Kennedy. Rob, the 91 million is over '13, '14 and '15. Can you allocate to each year how much?

MR. LIPP:
I believe most of the problem is in '15.

CHAIRMAN D'AMARO:
Can you give me numbers?

MR. LIPP:
If you can give me a minute I'll look for a file.

CHAIRMAN D'AMARO:
Well, how about if '15 is more than 50% of it?

MR. LIPP:
Yes. It's probably close to all of it.

CHAIRMAN D'AMARO:
All. All of it.

MR. LIPP:
Yeah. Well, I believe, without having looked at the numbers in a while, because it's been a while since April, we had a surplus for 2013, that is the estimate in the 2014 budget was less than what actually came in, so we did well there. I believe there's a small deficit that we were projecting for this year and the bulk of it will be for next year.

CHAIRMAN D'AMARO:
So in 2013 sales tax actuals --

MR. LIPP:
No, no. I'm sorry. I don't mean sales tax. Now I'm talking to the budget model, so the sales tax is one of a gazillion different pieces to the puzzle.

CHAIRMAN D'AMARO:
So the overall shortfall.

MR. LIPP:
Yes.

CHAIRMAN D'AMARO:
The overall -- in 2013 there was no shortfall.

MR. LIPP:
No, there was a surplus. So what we were talking about before which is the -- what we were talking about before was we were specifically talking about the sales tax. There was a sales tax shortfall. However, that was more than made up with other factors in the budget.

CHAIRMAN D'AMARO:
Right, and I don't want to mix the two, I understand. But the 91.7 million is a shortfall, not a sales tax shortfall, but you are talking about budget shortfall.

MR. LIPP:
The entire budget, right.

CHAIRMAN D'AMARO:
But in 2013 there was no budget shortfall.

MR. LIPP:
Correct. There was a surplus.

CHAIRMAN D'AMARO:
There was a surplus. In 2014 it was --

MR. LIPP:
Now we're talking about a projected shortfall for '13 -- for 2014 rather and a projected shortfall for 2015, most of which is in 2015.

CHAIRMAN D'AMARO:
Budget shortfall. So it's fair to say that when you say we need 6.1% growth in the second quarter in order to meet the -- I understand the 3% growth we adopted, right? But the overall picture is, and it's two different things, but the overall picture with respect to the budget itself, a $90 million shortfall is really based fully on what we're projecting for 2015.

MR. LIPP:
Right. All expenditures and all revenues.

CHAIRMAN D'AMARO:
So I'm just trying to get a picture in my mind of the fiscal health of the County. It's fair to say in 2013, and even to a large extent in 2014, not because of sales tax, that's just one factor, but overall we had no budget shortfalls.

MR. LIPP:
Well, 2012 was a large budget shortfall, 2013 was a modest surplus, so we did have in 2012 a significant budget shortfall.

CHAIRMAN D'AMARO:
Well, a shortfall meaning that for that budget year revenues did not meet expenditures.

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
So in 2013 revenue exceeded expenditures.

MR. LIPP:
Yes. And of course there were factors in there. For instance, I believe the 19 million for the sale of land in Yaphank, which was scheduled for 2012 didn't occur until 2013, so that was a $19 million boost. You have the $70 million minus, that's the gross number on the sale leaseback that we recognize as revenue there in 2013. We also had $37 million bond to pay for retroactive pay for Correction Officers, so those are significant one-shots that helped 2013 look really good.

CHAIRMAN D'AMARO:
Now, in 2012 when you had a significant shortfall, what happens to that shortfall? Does it carry forward?

MR. LIPP:
Yes, it does. It was made up for -- with in part some of the one-shot items that I spoke to.

CHAIRMAN D'AMARO:
Right. Okay. So just so I understand, when we have a shortfall in any given year, it carries over to the following year.

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
So when we say in 2013 there was a surplus, that's a surplus for the County cumulatively ending in 2013. There is no longer any shortfall in the budget, either a carryover or for that year.

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
Okay. 2014 almost the same situation, so there was a slight shortfall I believe is what you said.

MR. LIPP:
Correct, and part of the problem, though, structurally is even let's assume for argument's sakes that it always come in balance, you know, that there's no shortfall or surplus.

CHAIRMAN D'AMARO:
For argument's sake, correct.

MR. LIPP:
Yeah, right. Just for illustrative purposes. We're still borrowing large amounts for the pension bill, so other things being equal, that zero balance would be a negative.

CHAIRMAN D'AMARO:
Right. I understand that just looking at shortfalls or surpluses could be deceptive in the sense that it matters where the revenue is coming from, if it's one-shot or if it's through borrowing and things like that, I understand that. But as a function of managing the budget to avoid a shortfall, 2013, 2014, for all of those reasons, seem to have come in at least where we're not carrying over large shortfalls into the following year. So are why are you projecting 2015 a substantial shortfall?

MR. LIPP:
Well, among other things we're not going to have some of those one-shots in terms of the $70 million sale leaseback, in terms of the $37 million retro pay.

CHAIRMAN D'AMARO:
Right. So that's based on current spending levels or projected spending levels.

MR. LIPP:
Yes, and --

CHAIRMAN D'AMARO:
And current levels projected into 2015.

MR. LIPP:
Right. I can give you more detail on that, not at this moment because there's so many facets to the model.

CHAIRMAN D'AMARO:
And only one facet would be the sales tax and the problem with the sales tax is that based on the 3% adopted for 2014, we're behind.

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
And that's adding to the fact that in 2015 you'll have a significant shortfall.

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
Okay. Legislator Trotta, go ahead, please.

LEG. TROTTA:
Just so we're clear, the 170 million is the real shortfall. You're borrowing from the pension fund to pay that $80 million; is that correct?

MR. LIPP:
Yeah, you could look at it that way, or as Legislator D'Amaro would say I believe, I hate to use your words, but I think this is basically what you were saying before, is we were managing the budget.

LEG. TROTTA:
Are you concerned that because we borrowed $82 million last year for the pension fund, we borrowed 70 million for the sale of the Dennison Building, we're behind now. At some point, you know, we're paying off all this old debt, and obviously our sales, which is our primary source of income, is either stagnant or it's been stagnant. It looks to me like we're getting into a problem where our expenses are going through the roof and the revenue is not increasing.

MR. LIPP:
Yeah, so we did some projections that were not part of the budget model presentation to go out a few more years, which it's difficult to figure out what's going on, but the beauty of doing that is you get to make assumptions about every aspect of the County, all different types of expenditures from salaries to contracts, and ditto with different types of revenue, State aid, sales tax, all those things. And I guess the biggest concern is not so much the General Fund -- the General Fund is a concern, but because we still have a structural problem from a few years back, prior to 2012, that even though it looks like we're starting to make some inroads there it's too big of a nut to eliminate. A bigger problem moving forward I think is going to be with the Police District. So the budget model

here when we're talking about the 170 million or the 91 million is combined General Fund and Police District, because those are the big taxing districts or funds.

LEG. TROTTA:
It's really not 91, it's really 170, because no matter what, you know, you're just borrowing. So the shortfall is 170 million, it's really not 91 million. Is that correct?

MR. LIPP:
Well, you could look at it either way. If your policy decision is to do the amortization or the pension bill, it's not a best case scenario because then what you're doing is you're setting up a repayment schedule for 12 years to make those payments back, so you're structurally increasing future budgets, but that's a decision one must make or you guys need to make in terms of how to manage the budget moving forward. It makes it a little more challenging in the out years when you do stuff like that, though.

LEG. TROTTA:
So we started paying back last year's $82 million -- this year we have to start baying back last year what we borrowed from it.

MR. LIPP:
This year we borrowed 81.7 million I believe.

LEG. TROTTA:
So next year we have to start paying it back.

MR. LIPP:
Starting next year for 12 years.

LEG. TROTTA:
But we're borrowing another 80 million.

MR. LIPP:
That would be by February 1, 2015 if we do it. We would be doing that borrowing and then the year after that would be implicit in our retirement bills.

LEG. TROTTA:
Is there some sort of a -- like does the State say you can only borrow so much?

MR. LIPP:
Yes.

LEG. TROTTA:
When does that end?

MR. LIPP:
Well, by borrowing only so much is a formula for how much you can borrow or amortize. That formula, we did some projections, looks like the amounts will start to decrease, not by any major amount in the next few years, but they will be decreasing. So we'll have to pay a bigger piece of our overall bill where we won't be able to borrow as much even if we wanted to. So it's not our determination what the maximum amount is, it's the State's. It peaked, I believe, this year with the 87.1 million. It will go into the $70 million range next year.

LEG. TROTTA:
So which puts us in more trouble coming down the road because we're not going to be able to borrow as much on that.

MR. LIPP:
Well, that's part of the structural problem that you're building the repayments into future budgets.

LEG. TROTTA:
Which not to mention the Dennison Building and all this other stuff.

MR. LIPP:
Right. The Dennison Building will require in our lease payments on an annual basis for I believe it's 15 years. And all of that's taken into consideration in the budget model.

LEG. TROTTA:
If we're flat for the rest of the year, how many million are we short? Let's say it just goes flat for the rest of the year and it doesn't go up the 3% that you're hoping it does. How many millions of dollars would that be, approximately?

MR. LIPP:
As much as $20 million.

LEG. TROTTA:
So we could be at 190.

MR. LIPP:
I don't think that we'll be flat, though.

LEG. TROTTA:
Why?

MR. LIPP:
Because the economy overall is picking up, and the poor first quarter is sort of understandable with the harsh winter. The second quarter, even though we didn't do that great, you know, we had a two percentage -- in the neighborhood of 2% growth so it wasn't that bad, and the summer seems to be coming along pretty well. So it's volatile, the sales tax. The projections are far from perfect, but, you know, so it's hard to say. And then there's a lot of noise in the data because they adjust it and, you know, the actually consumer spending and the cash that we receive is not, you know, always be equal for random factors.

LEG. TROTTA:
Just so we're clear. The surplus we had last year, it really wasn't a surplus, it was just that we borrowed too much money? It wasn't like profit. It's not like we took in more money. We borrowed too much money essentially. Is that correct?

MR. LIPP:
Well, if we didn't do the borrowing then it wouldn't have been a surplus.

LEG. TROTTA:
Thank you.

MR. LIPP:
Then we would have, I guess, had to have raised taxes to account for that or significantly curtail

spending.

CHAIRMAN D'AMARO:
I just want to say that, you know, when we're talking about budget deficit or shortfalls and surpluses, it's about managing the budget and the policy decisions that are made within managing that budget to achieve either a shortfall or surplus. For example, sale leaseback of the H. Lee Dennison Building. You know, we've made some very tough choices and they are not optimum choices. There's debt service associated with some of the things that we've done, but it's going to be very interesting if your projections hold true for 2015 what the will of this body is going to be in order to meet a $170 million shortfall that's projected, because short of -- if we don't do the amortization and we don't want to borrow anymore, we don't have any more buildings or assets to sell and lease back, I'd be very curious to see what ultimately, what suggestions the Budget Office is going to come up with in order to meet that shortfall as well as what this Legislature is going to come up. It's very difficult. I mean, short of kneeling in front of your bed before you go to sleep at night and saying prayers for increased sales tax, I think we have some real tough decisions that we're going to have to be making going into this fall when we start talking about 2015.

I appreciate that the Budget Office giving us a heads up that based on current projections we are looking at a significant shortfall even with borrowing to pay part of that pension bill that's handed to us every year now. So all I can say to my colleagues is get ready because, you know, now is the time to start thinking about what solutions you may have, and I'll do the same of course and the Budget Office will do the same as well, as to how we're going to meet that projected shortfall. Legislator Kennedy, go ahead, please.

LEG. KENNEDY:
No doubt about it, Mr. Chair. Having looked at what is a phenomena that we had hoped we were going to recover from 2008, you know, here we are in 2014 trying to look over the horizon to '15, and none of us back then thought that seven years after what the downfall -- that was the year that we sustained the actual sales tax decrease, I believe.

MR. LIPP:
So there were two years of decreases, 2008 -- it all started for us in the fourth quarter of 2008, and then 2009 was a killer year for lack of a better term. And I believe, if I can recall correctly off the top of my head, 2012 was when we got back to the same dollar amount of sales tax that we hit the previous peak in 2007.

LEG. KENNEDY:
Okay. Yeah, yeah, no doubt about it that this is much different having been -- having worked for a County Executive back in '88 through '92, the recovery occurred in a much tighter time period than what we're seeing now. It has been just much longer.

But I want to go to the pension bill piece. We talked a little bit about this before. I don't want to make it complicated, but the interest rate we pay on the pension bill borrowing compared to the interest rate that we have for the various forms of debt that we put out there just for normal operation, how does that compare?

MR. LIPP:
So I want to say that the current rate on the pension bill is three and a half percent. My expert on pension bills seems to think that's ballparkish without us checking the file. I have eyes behind my head, by the way. And our rate in terms of serial bonds, long-term bonds, is probably a little less than that, maybe 3%. I'd have to look at the last bond issue. So we're in a general ballpark. We probably pay a little less, but the point to be made is we don't have that option.

LEG. KENNEDY:
Because we can't accelerate and retire the pension debt if we elected -- if we have better rates for people on the street --

MR. LIPP:
No.

LEG. KENNEDY:
That is not an option for us.

MR. LIPP:
No. It is not a remote possibly. The State will not allow us to do that. As a matter of fact, when -- if contribution rates go down, our rate will go down -- let's say for argument's sake the contribution rates go down by 2%, okay. I'm just picking a number. Our contribution rate will go down by a half of one percent, because that's part of the deal we struck with the State. You want to borrow from us, here's the deal. So they will use that money to help us pay off what we owe them, but they will not reduce our contribution rates more than a half a percent.

LEG. KENNEDY:
We've also seen from Comptroller DiNapoli, though, that the State Retirement System, I mean, ERS is now at 160 billion plus. It's restored to and above the hit that it took back in '08 and '09, and yet we're still seeing these types of bills from the retirement system?

MR. LIPP:
You're not going to see much of any pension relief for Suffolk County. I don't care how well the stock market does, and the main reason is because the deal that struck with amortization, which you're already in for, is that the most your bill can go down -- your contribution rate can go down in a given year is a half of one percent.

LEG. TROTTA:
Not going down.

LEG. KENNEDY:
But that will then accelerate retirement of the debt. In other years, if we're looking at 12 years to go ahead and retire that, and in fact our bill lowers but we don't get the full benefit of it, they continue to hold a portion. That's going to accelerate the retirement of the debt, doesn't it?

MR. LIPP:
Yes, but then if we retire all that debt then they still are going to require us to pay in, so we can't have our pension rates, contribution rates go down by more than half a percent even if we did pay that all off, although we're on the hook for principal payments of, through this year, of over $200 million, so it's not going to go down that fast.

LEG. KENNEDY:
Okay. All right. Thank you, Mr. Chair.

CHAIRMAN D'AMARO:
Thank you, Legislator Kennedy. Any other questions, comments, from the committee? To the Budget Office, gentlemen, would you like to conclude, please.

MR. LIPP:
The end.

CHAIRMAN D'AMARO:
Well done. All right. Thank you for briefing us with respect to your report in sales tax and projections. And as always, we appreciate your expertise and guidance. All right. We'll turn next to Section V of our agenda which are Tabled Resolutions.

Tabled Resolutions

All right. The first is ***1146-2014 - Amending the 2014 Operating Budget to provide additional funding for the Citizens Advisory Board for the Arts (Schneiderman).***

I'll offer a motion to table.

LEG. ANKER:
Second.

CHAIRMAN D'AMARO:
Second by Legislator Anker. All in favor? Opposed? Abstentions? Motion carries. The resolution is tabled. ***(Vote: 6-0-0-0)***

1248-2014 - Removing HSBC as a bank doing business with the County of Suffolk and amending Resolution No. 7 - 2104 (Kennedy). Legislator Kennedy.

LEG. KENNEDY:
Motion to table.

CHAIRMAN D'AMARO:
Legislator Kennedy offers a motion to table. I'll second. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 6-0-0-0)***

Resolution ***1252-2014 - Adopting Local Law No. -2014, A Charter Law to update, clarify and improve process for Budget Deficit Mitigation (D'Amaro).***

I'll offer a motion to table.

LEG. ANKER:
Second.

CHAIRMAN D'AMARO:
Second by Legislator Anker. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 6-0-0-0)***

Resolution ***1431-2014 - Adopting Local Law No. -2014, A Charter Law to authorize Reserve Fund transfers (Pres. Off).***

Requires a public hearing. I'll offer a motion to table. Second by Legislator Anker. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 6-0-0-0)***

1432-2014 has just been ***withdrawn***.

Resolution ***1433-2014 - Approving County funding for a contract agency (Shinnecock Nation Cultural Center and Museum)(Schneiderman).***

Legislator Anker offers a motion to table. I will second that motion. And just let me look at my notes here. For the record, I believe this agency is now anticipating sending their Form 990 to the Comptroller's Office and asked for us to delay a decision. I'll call the vote. All in favor? Opposed? Abstentions? Motion to table carries. ***(Vote: 6-0-0-0)***

1434-2014 - Approving County funding for a contract agency (South Fork Natural History Museum)(Schneiderman).

This agency, I believe, has not appeared before the committee or communicated otherwise with the committee. I'll offer a motion to table.

LEG. KENNEDY:
Second.

CHAIRMAN D'AMARO:
Second by Legislator Kennedy. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 6-0-0-0)***

1435-2014 - Approving County funding for a contract agency (Bridgehampton Historical Society)(Schneiderman).

There was a discussion in the past with ongoing talks with the Comptroller's Office about this. Is there anyone here from this organization today? Would you like to come up? I'm sorry? No?

LEG. KENNEDY:
Mr. Chair, I would be interested. I have spoken directly with the accountant for Bridgehampton, probably about four or five weeks ago. Have they had any contact with you folks at all?

CHAIRMAN D'AMARO:
All right. Joe, why don't you come on up. While you're doing that, Legislator Kennedy, I did pass out correspondence from Sabel and Oblinger.

LEG. KENNEDY:
No, no, no. This is not the historical society.

CHAIRMAN D'AMARO:
That's next.

LEG. KENNEDY:
I'm sorry, I was looking for the daycare center. I'm sorry, Mr. Chair.

CHAIRMAN D'AMARO:
It's quite all right. This particular, the Bridgehampton Historical Society, is in their letter asserting that the general and administrative expenses are 16%, but, Joe, would you like to chime in on that?

MR. PECORELLA:
Nothing has really changed since the last meeting. Bridgehampton Historical Society, they were at 62% at the last meeting. I haven't gotten anything from them yet proving otherwise.

CHAIRMAN D'AMARO:
Okay. So although you have had communications, nothing's changed.

MR. PECORELLA:

Correct. Similar to some -- unlike some other organizations where you've been able to reclassify expenses. This letter is from apparently the Society's accountants, and it says that as the auditors, they are conducting an annual audit of the organization. "Please be advised that we anticipate the 2013 990 financial functional expense to be allocated as follows", and that's where they come up with the breakdown showing 16% for administrative. But I guess we could wait until we get the 990 at this point.

MR. PECORELLA:
Yes.

CHAIRMAN D'AMARO:
All right. I'll offer a motion to table. Second by Legislator Anker. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 6-0-0-0)***

1436-2014 - Approving County funding for a contract agency (Bridgehampton Child Care & Recreation Center)(Schneiderman).

I did receive a card, Carole Nappi. Carole, are you still here? Why don't you please come up and again, thank you for working with the committee. I think it's just more favorable to take your testimony now or hear what you have to say now.

MS. NAPPI:
Should I sit?

CHAIRMAN D'AMARO:
You can sit there or go there, whatever you are more comfortable doing.

MS. NAPPI:
I am the accountant for the Bridgehampton Child Care Center. I believe you've got a copy of an e-mail that I received from our certified auditors.

CHAIRMAN D'AMARO:
Can I just interrupt you? Is that microphone on, Lora? Just speak right into the mic, please.

MS. NAPPI:
Sorry.

CHAIRMAN D'AMARO:
That's okay.

MS. NAPPI:
I believe everyone received a copy of an e-mail that I received from our auditors. From our perspective we are finished with our audit. They're pulling together the draft financial and 990. We hope to have a board meeting on July 31st and let the board approve it. Once I get the draft from him, I will prepare the disclosure form, and as soon as the board approves the 990 I will overnight the disclosure form and the 990 to all concerned parties, including Joe Pecorella.

CHAIRMAN D'AMARO:
Very good. Is the draft of the 990 showing that the organization would be in compliance?

MS. NAPPI:
Around 16%.

CHAIRMAN D'AMARO:
Sixteen, as per the letter I guess. Or is that a different -- scratch that.

MS. NAPPI:
I never stated a percentage. I just did the functional expense --

CHAIRMAN D'AMARO:
Right. My error, I apologize. Good, but that's good news that the 990 seems to be coming in where it's supposed to.

MS. NAPPI:
We are coming along.

CHAIRMAN D'AMARO:
Or at least to pass the threshold, below the threshold, that the County requires. Would you -- and that should be done by the end of August did you say?

MS. NAPPI:
I hope to have it to you by the August 15 deadline.

CHAIRMAN D'AMARO:
Okay, very good.

MS. NAPPI:
I have been pestering the auditor.

CHAIRMAN D'AMARO:
Okay. All right. I would be inclined, then, to just hold off and table this and give you an opportunity to submit that in its approved and completed form.

MS. NAPPI:
And when I submit it I will also send copies to everyone that I sent my original letter to in May.

CHAIRMAN D'AMARO:
Perfect.

MS. NAPPI:
A copy to you, a copy to Legislator Martinez, to Legislator Schneiderman, Legislator Kennedy, who called me and I spoke to him on the phone. So we're working hard to get this finished on time and be in compliance.

CHAIRMAN D'AMARO:
We appreciate that. Legislator, go ahead.

LEG. KENNEDY:
Yes, Mr. Chair, and thank you. Yes, as a matter of fact, you had indicated. And I'm inclined to go with the Chairman's suggestion here provided I do want to hear from you. My recollection is this a fairly sizable amount of money for us in the realm of these. This is 30,000, 35,000, somewhere in that neighborhood. To what extent -- how are you operating? Are you able to go ahead and make payroll? Are you able to go ahead and buy the food stuff that you need for the kids? Will this kind of come in in the back end of the year? What I don't want is you're not operating off of some --

MS. NAPPI:
No, our donations exceeded our expectations in 2014.

LEG. KENNEDY:
So you're in a stable financial position for now.

MS. NAPPI:
Yes, we are. And our summer camp sold out. We realized more from that than we usually do. So we are okay until we get in compliance and hopefully get the money from the County.

LEG. KENNEDY:
Okay, ma'am. Thank you. Thank you for being here and thank you for volunteering.

CHAIRMAN D'AMARO:
Thank you, Legislator Kennedy. Did you say you're the accountant for the organization? You're comfortable with the reallocation? Can you just briefly explain why it was high and now it's low?

MS. NAPPI:
I've been doing these forms since 1999, and we are a group of maybe four people, three people, that work in the office, including the Executive Director. The time we spend is really not hard and fast. Our mission is to keep our programs going, to provide our services to the children of the East End of Long Island. To say whether it's managerial or whether it's program is really pretty subjective. It's hard to -- so we do feel comfortable with making a reallocation of clerical time and the Executive Director's time to be in compliance with the County. I have been submitting this report for many, many years just on what we thought was okay and we got our money and nobody ever said anything and suddenly 2012 year was a problem. And I'm certainly willing to do whatever we need to do to be in compliance.

CHAIRMAN D'AMARO:
I appreciate the answer. Our objective here is to provide funding. That's why we make the initial grants in the first place, but we also wanted to ensure that there was a level playing field and then specifically for each grant that the intended funding -- the funding was reaching the intended recipients as opposed to, you know, excessively covering administrative costs, and that's why the law.

MS. NAPPI:
I'm sorry for interrupting, but your funding goes to pay our staff that run the after school program and the weekend programs and the summer programs.

CHAIRMAN D'AMARO:
Right. So how you classify, that gives us the assurance that even though it may be paying staff, it's actually providing programming.

MS. NAPPI:
Yes, correct. The problem came in in the allocation of the Executive Director and the clerical staff.

CHAIRMAN D'AMARO:
Very good. Okay. Like Legislator Kennedy, I appreciate you taking the time to come down today. Thank you. Okay. Was there a motion pending on this bill? No? 1436 of 2014, I will offer a motion to table.

LEG. ANKER:
Second.

CHAIRMAN D'AMARO:
Second by Legislator Anker. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 6-0-0-0)***

1507-2014 - Adopting Local Law No. -2014, A Charter Law to improve budget and fiscal communication in County Government (Krupski).

This is a bill that would require the Joint Audit Committee to meet quarterly instead of annually and also to provide a summary of those meetings to the Legislature.

LEG. TROTTA:
Motion to approve.

CHAIRMAN D'AMARO:
There is a motion by Legislator Trotta to approve. Second by Legislator Anker. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 6-0-0-0).*** Okay. Let's savor the moment for a minute and now we'll move on.

(Laughter)

1567-2014 - Updating County's Investment Policy (Pres. Off.).

Recommended by the Treasurer. I believe the Treasurer has joined us here this afternoon. Madame Treasurer, would you like to address the committee on this particular bill? And Rich is here as well, Rich Tortora. This changes somewhat designation of depositories, collateralization and permitted investments. Welcome to the Budget and Finance Committee. Nice to see you. And this bill has been submitted to, I guess, make some changes on investment strategy. If you'd like to take a moment and explain it we'd appreciate it.

MS. CARPENTER:
Thank you. Sure, I'll give a little bit of background. In doing a little research, discovered that it had been a while since we had had an update on our investment policy from our Financial Advisor. So I contacted Rich Tortora of Capital Markets Advisors and asked them to review our investment policy and see if there were other things out there that we perhaps should be looking at, and also the issue of the -- thank you -- the municipal letters of credit that some of the banks have been pushing over the past few years. We've been a little reticent to go that route, did not feel that it was as safe as the collateralization agreements that we have in place now with all of our depositories. So I asked Rich to look at that issue also. And basically he issued a report and the Chairman requested that we come down and speak to it. So Rich, if you would go over your recommendations.

MR. TORTORA:
Sure. Thank you. We were asked to talk about three items specifically. The first one of which the use of Federal Home Loan Bank letter of credits to collateralize deposits. Since 2008 and the fiscal crisis, it became a lot more difficult for local banks to secure Treasury securities. They just weren't available because there was such a demand for them. As a result, banks weren't as interested in municipal deposits as they had been in the past because it wasn't a cost effective business decision or as cost effective a business decision for them to hold municipal deposits. Some banks looked for alternative collateral and what they came up with was collateral issued under the Federal Home Loan Bank's AAA rated Letter of Credit Program. We looked into the program, spoke to some of the players in the industry and we're certainly comfortable, as is Moody's Investor Service, that with a AAA rating this is an eligible collateral product that could be used by banks working with the County. A number of banks have now been doing this for probably the last three or four years and the General Municipal Law was indeed amended to allow for the use of that product, by banks to

collateralize municipal deposits.

CHAIRMAN D'AMARO:
So just to talk about that for a moment. Currently when the County makes a deposit with a bank it is required to be collateralized or secured I assume is what you mean?

MR. TORTORA:
That's right.

CHAIRMAN D'AMARO:
And the way that's been happening in the past is through Treasury securities?

MR. TORTORA:
That's correct.

CHAIRMAN D'AMARO:
Which are backed by the full faith and credit of the United States Government as opposed to the Federal Home Loan Bank, which is simply issuing a letter of credit, which is only as good as the bank that's issuing.

MR. TORTORA:
Right.

CHAIRMAN D'AMARO:
So why the change in confidence?

MR. TORTORA:
Well, you know, the Federal Government -- well, New York State saw a need because they saw what was happening, that banks just were offering very, very minuscule returns on investments, in part because this problem with securitization. So as a result, the State Legislature looked into this matter and determined that this Federal Home Loan Bank product was indeed credit worthy to securitize municipal investments. The way the Federal Home Loan Bank works, there are a dozen Federal Home Loan Banks around the country and they are jointly liable for a deposit. So if one Federal Home Loan Bank doesn't come through backing up a deposit, the other 11 step up and make them whole. So based on that security structure Moody's deems them to be a AAA credit, and Moody's is very, very careful with their credit rating since 2008 because they had certainly a lot of egg on their face because they missed a lot of, you know, credits that should have been downgraded, primarily related mortgage backed and asset backed securities. So Moody's is comfortable with it, the State Legislature is comfortable with it. We think it's not an inappropriate collateral for Suffolk County.

MS. CARPENTER:
If I could. I don't want to suggest that we're going to change everything that's in place now and go with this, but I wanted it to be there as a tool if it was necessary for us to go that route. We had one bank in particular who was pushing very, very hard for us to go with the letter of credit and we wound up changing banks. And again, that's the flexibility that we have when we've got, you know, upwards of 12 or 13 depositories at our disposal to work with. But the cost of collateral is less for them so it's a tool that the Treasurer has if we're being pushed by a bank to maybe start charging fees or something, then we can come back with well, listen, you know, maybe we'll consider, you know, going with the letter of credit because the cost of collateralizing is much less to you than it is the route that we're going now.

CHAIRMAN D'AMARO:
Would you turn to the letter of credit in the first instance?

MS. CARPENTER:
No.

CHAIRMAN D'AMARO:
No.

MS. CARPENTER:
Me personally, because I'm very conservative, no.

CHAIRMAN D'AMARO:
Right. You would request the usual collateral that you're receiving.

MS. CARPENTER:
Exactly.

CHAIRMAN D'AMARO:
But you want the option of rather than switching from that bank, you want to be able to consider use of a letter of credit.

MS. CARPENTER:
Exactly.

CHAIRMAN D'AMARO:
Okay. What's the second issue? Did anyone have any questions on that?

LEG. KENNEDY:
I do.

CHAIRMAN D'AMARO:
Legislator Kennedy.

LEG. KENNEDY:
Based on this now being authorized for the State Legislature and having this come into play, how -- what are you seeing in the rest of the State? How many other municipalities are electing to go this route, and do you see it having any kind of impact or effect on the interest rates?

MS. CARPENTER:
You know, I'd like to think it would have an impact on the interest rates, but I don't really think it will. Where it will give us flexibility is if they're, you know, starting to talk about charging fees, which we don't want to have to pay. A few of the municipalities that I have come in contact with, meaning it's a GFOA, very few are going with a letter of credit, but some are, and I think Rich probably in the municipalities that he represents across the State could probably speak to it better.

MR. TORTORA:
I tend to think there is a positive impact in terms of the return, because the banks realize that if indeed you take this product that costs them less, they're willing to pass some of that benefit back on to you. I believe Flushing Federal?

MS. CARPENTER:
Uh-huh.

MR. TORTORA:
I think Flushing Bank, Flushing Commercial Bank was one of the early firms to use this product. Their yields for the last several years have been sometimes 10, 15 basis points higher than the yield being offered by the other banks. So while a Citi and a TD might have been offering 15 basis points on an investment, I think that we've seen Flushing going as high as 25 or more.

LEG. KENNEDY:
Have you seen that in your experience?

MS. CARPENTER:
We have seen some of the rates going up and, in fact, we've just been able to secure 50 basis points from one of our depositories, but that is still with the traditional collateralization agreement, not with a letter of credit. So again, I'd like to have that in our arsenal if need be, but not in the first instance.

LEG. KENNEDY:
Can I follow-up with just one other quick question, Mr. Chair. Angie, so -- I can understand the desire to have the flexibility for the tool to have the conversation with the particular bank, but then obviously as you said, you're prudent and conservative in the first instance. If you were going to invoke this, do you look at it as far as any kind of a percentage or a range of the total amount that we have on deposit fully securitized to compare with letter of credit? Is there any percentage or mix or spread that you look at?

MS. CARPENTER:
No, I have not, you know, determined a formula. But again, it would be just a fraction of what we have on deposit, from my perspective, just because I go very, very slowly initially.

LEG. KENNEDY:
Okay. All right.

CHAIRMAN D'AMARO:
Rich, go ahead.

MR. TORTORA:
If I can move to the second topic. The second topic is rather interesting. You're all aware that the FDIC, Federal Deposit Insurance Corporation, insures, the Federal Government insures deposits up to $250,000. There's a new program that was put into place called the Deposit Placement Program that allows a jurisdiction to deposit funds in excess of that $250,000 limit and then the depository bank then redeposits the money with other financial institutions that do indeed have FDIC limit, which just makes for a more efficient way of depositing your monies.

CHAIRMAN D'AMARO:
I wanted to ask you on that. So the redeposit, is that going into an institution that's been approved by the Treasurer's Office and by the Legislature?

MR. TORTORA:
Certainly, sure. Sure, all of your deposits --

CHAIRMAN D'AMARO:
So then the obvious question, why wouldn't we just directly deposit. The bank can get a higher rate by redeposit or what would be the reason just not going direct?

MR. TORTORA:
It's an efficiency issue. So rather than having bank deposits in 20 -- the County has a very significant amount of money that it deposits.

CHAIRMAN D'AMARO:
Doesn't the FDIC insurance then run to the depositing bank, not to the County?

MR. TORTORA:
It runs -- I think you are the primary beneficiary of the FDIC policy. So if the bank were to default, the FDIC policy would cover you up to $250,000 per account with that institution.

CHAIRMAN D'AMARO:
No, but that's if we do a direct deposit. But let's say we put 500,000 to a bank and we say okay, you can redeposit. I mean, they wouldn't redeposit without the County's permission I would assume.

MR. TORTORA:
No, you'd have to participate in the program.

CHAIRMAN D'AMARO:
You can redeposit to another bank. So now we're down to 250. We have FDIC insurance on that bank. The 250 that got redeposited is insured, but to the bank that made the deposit, not to the County. So my question becomes let's say, it's unlikely, but let's say there's a payout on that FDIC insurance. That payout would go to the depositing bank, and then what obligates them to give us a hundred cents on the dollar? Or do they then get to allocate that among all depositors?

MR. TORTORA:
I think that the mechanism is you deposit $500,000 into your depository bank. They can only cover you to the 250 limit. They then redeposit to another bank that has the FDIC coverage, and then they redeposit back to original bank so that they are made whole, so that they have the money for you. It's a reciprocal arrangement. It's almost like an investment cooperative I almost look at it as. And this is a relatively new product.

CHAIRMAN D'AMARO:
I missed the last part of that. So the 250 stays, 250 gets redeposited. Then what happens?

MR. TORTORA:
And then the bank that received the 250 that now has the FDIC insurance, they now redeposit back to the original bank $250,000. It's just a mechanism to provide you with coverage. I can show you the legislation on it. It's something that might necessitate a read.

CHAIRMAN D'AMARO:
No, I understand that. So in effect when the smoke clears, the County is left with still 500,000 on deposit, but with full coverage.

MR. TORTORA:
Correct.

CHAIRMAN D'AMARO:
But is that as good as having direct relationship on that insurance?

MR. TORTORA:
I believe it is. I think the program was very carefully crafted in response to this problem, this FDIC

problem, that allows --

CHAIRMAN D'AMARO:
Well, has the Federal Government approved that? Has the FDIC approved that?

MR. TORTORA:
They did. And local governments, the State Legislature, again, approved the program as well.

CHAIRMAN D'AMARO:
Okay. So the Federal Government is fully aware that in effect the 250 minimum -- maximum is being circumvented.

MR. TORTORA:
I would think so.

CHAIRMAN D'AMARO:
Well, no, I need to know.

MR. TORTORA:
I can certainly find that out. It's not really being circumvented.

CHAIRMAN D'AMARO:
Because what happens if there's a default and then the Federal Government says that's a sham transaction and we're not going to recognize it.

MR. TORTORA:
I in no way, shape or form think that would happen because, again, the State Legislature thoroughly vetted this and the program was developed in keeping with the needs of local governments to deposit money and to make sure that the money is there when they need it and has the FDIC protection. The program was created for this, you know, specific purpose.

CHAIRMAN D'AMARO:
I understand.

MS. CARPENTER:
And to your point, the language that's being added specifically references the section of New York Banking Law and New York General Municipal Law regarding this. And again, this is not something I can see myself running to do, and if there's any concerns about it I don't have any problem having this removed at this point, but again --

CHAIRMAN D'AMARO:
I appreciate that. My concern, even before we get to the third point, is you've done a fine job in maximizing our investments and safeguarding the County taxpayer money. I mean, do we really need to do this? Do we really need to take letters of credit? Aren't there enough institutions out there that are still willing to, you know, collateralize to your satisfaction and a lot of other people with the treasuries?

MS. CARPENTER:
On the letters of credit, and again, I have been very, very reticent to go that route, but in some of the banking relationships that we have, in some of them that we don't have as much flexibility in going from bank A to B because it is the payroll account or, you know, a particular need for us to have multiple branches, you know, spread out around the County, I can see at some point in time to be able to say well, listen. We'll, you know, we're willing to be a little flexible with you, supposing

we go with the letter of credit. Again, our accounts, and Christina Cooke is here from the Cash Management Unit, who heads that up, every single day the accounts are reviewed. So there is such a due diligence that goes on with this that there really isn't the need for concern and then we don't have our hands tied because, you know, we can at any point in time, you know, close an account and move it elsewhere. But again, this is the call of the Legislature when it comes to policy.

CHAIRMAN D'AMARO:
Are you comfortable with the indirect or the --

MS. CARPENTER:
With the linked deposit?

CHAIRMAN D'AMARO:
With the 250-250 scenario.

MS. CARPENTER:
At this point not particularly, to be honest with you.

CHAIRMAN D'AMARO:
Yeah. I don't know that I'm that comfortable with that either, because it seems to me that if a 250 limit is set but you can simply redeposit funds to double that coverage or triple, or who even knows what the limitations are on that. You know, I mean, now we have to put our faith in making sure that that gets recognized if should a crisis occur. It's like the one time you want to be secure, you know?

And, Rich, I mean, it's one thing if the Treasury issued regulations approving it, I mean, you know, because it's Federal insurance. I mean, the State Legislature, we know their objectives are always altruistic and done for the right reasons up there but, you know, we'd hate to be, you know, the State Legislature goes home at the end of the day and then the municipality is left holding the bag with this redeposit scenario. So I would assume that the State Legislature and the State Government has the Treasury Department signed off on this, but I'm not sure about that.

MR. TORTORA:
It probably merits my commenting this particular concept was presented to us by the Treasurer as something she'd like us to look into. Frankly, I wasn't aware of the program, but as we did our research we saw that the General Municipal Law was indeed amended in 2012 by the State Legislature to allow for this program. And again, the State Legislature did that in response to their constituent's desires to see more flexibility. New York State is almost notorious for the strictness of its local finance laws, investment policies, etcetera. And frankly, it's probably served residents well, but over the years there's been a lot of talk that there should be some more flexibility or creativity and so this was a response to that. So it clearly is a legal way to use the existing FDIC Program. There are banks that would love to have depository relationships with Suffolk County. So what this does, this allows the money to pass from maybe a bank that is a recognized or an accepted depository of Suffolk County funds to a bank that's not. But at the same time, on the day they get the money they pass it back to the original bank. In that way the County is made whole.

CHAIRMAN D'AMARO:
Did you just say that you could redeposit into a bank that's not on the County approved list?

MR. TORTORA:
I think the -- I suspect there would be banks in the program --

CHAIRMAN D'AMARO:
All right, because we won't have any control over that redeposit, in effect.

MR. TORTORA:
No. So again, so let's say a bank that you have a relationship with, we'll say Flushing Federal. You deposit $500,000 with them. They then redeposit with another bank in the program that has FDIC capacity. That bank then --

CHAIRMAN D'AMARO:
May not be approved, though.

MR. TORTORA:
Correct.

CHAIRMAN D'AMARO:
Now they come back and they redeposit --

MR. TORTORA:
Where they make you whole.

CHAIRMAN D'AMARO:
Right.

MR. TORTORA:
Is they redeposit the same 250 back with the bank the way -- it's, I don't know. Is it an artifice or device? It's a program that the State Legislature set up. We just went through the program, spoke to bankers, spoke to lawyers, read the bill jacket. It's creative but it works. It accomplishes the goal.

CHAIRMAN D'AMARO:
But then when everyone is looking, and I'm just having a dialogue with you, I'm not, you know. But when everyone is looking, then, for the payout of the FDIC insurance, I would think that that is when you're going to get a close look at, you know, who has direct insurance and who should maybe get to the back of the line based on what's available. I don't know -- I would think that in order to participate in a program like that, even though the State Legislature may have authorized it for whatever their reasons were, I would need to know that somewhere someone in the Federal Government has issued an authoritative statement saying that that's as good at getting direct FDIC insurance.

MR. TORTORA:
What I will do, let me follow-up and see if I can find that, if there's a letter from the Treasury or some other branch of the Federal Government or the FDIC directly commenting on this program. And if indeed I find it, I'll certainly present it to you.

CHAIRMAN D'AMARO:
All right, because we might be left then looking to a bank for a return of our funds that we never even approved. I'm saying in worst case scenario.

MR. TORTORA:
I wouldn't think so. The way I understand the program -- I can certainly understand your concerns, but the way I understand the program, the money is always with your depository bank, but by virtue of this mechanism, even though it's with your depository bank in excess of what they're legally allowed to insure under the program, it is indeed insured because it's a reciprocal program.

CHAIRMAN D'AMARO:
I understand. Okay. What was the third point?

MR. TORTORA:
The third one is something different. This was an idea that our firm came up with several years ago in response to the significant decline in investment yield to all of our clients. Very simple. Under the New York State General Municipal Law, jurisdictions, including Suffolk County, are allowed to purchase or invest in Tax Anticipation Notes and Revenue Anticipation Notes issued by other jurisdictions in New York State.

So, for example, there's a very active TAN market this time of year for school districts in New York State. We represent about 100 school districts, probably 40 of them issue TANs. Some of them when they go out for a Tax Anticipation Note, just as the County does, they might pay a yield to an investor that could be in excess of 1%. The Treasurer currently is getting 15, 25 basis points I think on most municipal investments.

So the concept is very simple. We connect an issuer that has funds to invest with an issuer that has a need. They negotiate a rate that's acceptable to both of them. The instances that we talk about in the memo that I provided to the Treasurer, we connected the City of Buffalo, New York, with West Seneca Schools, which is also in Erie County. Buffalo had been getting about 15 basis points on investments. They invested in notes issued by West Seneca and got a return of 50 basis points on the West Seneca notes. We subsequently did a separate financing or investment arrangement with the City of Buffalo again with Kiryas Joel School District in Orange County, New York. They were able to get an investment return from the KJ investment of 125 basis points. So about eight times what they had been getting.

One of the reasons why we particularly like the program, school districts in New York State that issue Tax Anticipation Notes, Revenue Anticipation notes or any debt, are subject to something called the 99B Intercept. What the 99B Intercept is, is it's a provision of the Education Law that says if I own debt of let's say Hauppauge School District and Hauppauge Schools doesn't pay me in full and on time, I contact Mr. DiNapoli and say I want to intercept every penny of State aid to which they're entitled to be made whole before they get any more State aid. It's not unusual let's say for -- we'll use Hauppauge. Let's say they do a $10 million RAN. They might get a $110 million in State aid. So you could have as much as 10, 11 times coverage.

So again, just a -- we think a creative way of significantly increasing the yield to the investor, but also providing significant relief to the entity that's borrowing the money. We particularly think it would be interesting for a County to get involved in this because it would be a way of you helping your constituents in say Wyandanch or some other community. And again, if Wyandanch doesn't pay in full and on time, you really have the State of New York backing up the credit in addition to the district and its own, you know, resources and revenues.

CHAIRMAN D'AMARO:
Well, you're in line with every other similarly situated creditor of the school district at that point.

MR. TORTORA:
No, actually you're not. You're not.

CHAIRMAN D'AMARO:
Well, no. If other jurisdictions have invested in Anticipation Notes and they're not paid in full, then you would be in the same position as other investors.

MR. TORTORA:
If, like let's say Wyandanch -- I don't represent Wyandanch. Let's say a school district that I represent, they typically issue cash flow notes once a year, and so this is intercept is only in play for the debt service on any debt that they have outstanding. But I would venture to guess that most of our clients, their State aid is a multiple of their annual debt service. So while their annual debt service might be five million dollars or ten million dollars, their State aid might be 50 or $100 million, so the coverage is very significant. When we do financings we can get a good investment grade rating on a financing that has 1.2 times coverage.

CHAIRMAN D'AMARO:
Doesn't the fact that like a school district is issuing these types of notes means that they're fiscally or financially distressed in the first place?

MR. TORTORA:
Interestingly, no. There are eight AAA school districts in New York State. We represent seven of them. Six of them issue TANs every year. It's just a cash flow --

CHAIRMAN D'AMARO:
Cash flow management type thing. Now, is there -- so would there be a limitation on which districts or jurisdictions we could invest in based on the fiscal health of that jurisdiction?

MR. TORTORA:
I think that would be your policy decision. The law doesn't make a distinction.

CHAIRMAN D'AMARO:
That, I think, would be the Treasurer's decision at that point, right.

MS. CARPENTER:
Again, it has to be economically feasible, because right now the vast, vast majority of school districts on the Island are getting pretty decent rates, so there really isn't much of an opportunity, but it could present itself. One of the districts right now, although they didn't borrow a lot, was paying 90 basis points. So for us to go in there and say to them well, listen. We'll issue you that same, you know, amount of money and instead of paying 90 basis points, you know, pay us 75. You know, they are saving substantially, we're getting more than I'm -- I'm getting 25 basis points more than I'm getting from my most highest investment, and we're giving relief because ultimately it's the taxpayer, you know, that's paying back that debt. So those County taxpayers in that particular school district would get a little bit of relief because of the, you know, intervention or the support of the County, so to speak. I don't see that there'd be much of an opportunity unless things change with any of the given districts that, you know, for some reason their ratings change and now they're forced to pay, you know, higher when they do go out for borrowing. Because right now there's only two or three of them that I can see that it would be even worth exploring.

CHAIRMAN D'AMARO:
Okay. All right. So the three of these changes would give you more flexibility in the type of investment or how we invest or the insurance coverage. I have to tell you, I'm not comfortable with this. I'm not saying I wouldn't eventually vote for it, but it seems to me that we don't really have an issue right now with how you invest our funds and safeguarding the funds as you are an independently elected financial, you're doing that and you're doing a great job. To start changing the type of investment, especially things like Reserve Anticipation Notes, I mean, you know, just managing our own County I feel, you know, we are not out of the woods yet and yet -- you know, so who's investing in us. I guess there are institutions that are buying up our bonds when we float them, but I don't know that I'm comfortable with the County doing that as an investment strategy. You know, you have to walk that line between risk and return I guess. I just -- I don't feel

comfortable with it. I just don't.

MS. CARPENTER:
Well, if I could. This was introduced by the Presiding Officer at my request. I think based on the dialogue and discussion we've had here today and, you know, getting that information from the Treasury that Mr. Tortora spoke about, I'm almost inclined to want to remove that one section about the, you know, linked deposit.

CHAIRMAN D'AMARO:
The redeposit.

MS. CARPENTER:
Yeah, the redeposit. So why don't we table this, see what information comes down. I'll share it with the members of the committee and of course the sponsor of the legislation and we'll go from there.

CHAIRMAN D'AMARO:
That would be great. Let me ask you a question on the other two, or if you decide for some reason to put the other one in. What about -- it would be the type of investment or mechanism you could use but you'd have to come back and get approval to do it.

MS. CARPENTER:
On the letter of credit I would say no, that would really be almost micromanaging.

CHAIRMAN D'AMARO:
Right.

MS. CARPENTER:
But I would think on the school district, yes. I would feel more comfortable actually having that come back to the Legislature, because it's involving the credit worthiness of the County and, you know, with another municipal entity. So I would say for that portion of it, and I kind of thought about it just recently, that that probably should be in place.

CHAIRMAN D'AMARO:
Right. Okay. Well, I think that's a good opening discussion, then. I appreciate that. Are there questions? Legislator Kennedy.

LEG. KENNEDY:
If I can just add a piece with that school district. As I've sat here, and you know this very well, Ang, it's ironic. As a result of the Tax Act, we really are one of the reasons that many of the districts that you have have such grade A paper, because they are 100% whole in the first instance on all of their tax levy. So then what may prompt them to have to offer a higher basis on the debt that they put out with whatever it is, they ran out of BAN, would make me somewhat -- I would be a little concerned because I would be looking at the budget overall then, knowing that they are 100% on that one revenue stream on the real property tax levy. On the State aid component, once the State budget is set, they know what that's going to be, so then you would almost be looking at what budget decisions did their board make that would compel that higher rate to have to attach to their paper. It just -- it would be a lot to have to look at, for what it's worth. But I'm glad to hear that you're willing to take a look at some changes on the bill. Thank you.

MS. CARPENTER:
You're welcome.

CHAIRMAN D'AMARO:
Thank you, Legislator Kennedy. Any other questions from the committee? No? Rich and Madam Treasurer, thank you so much. Appreciate it. I'm going to offer a motion to table this resolution based on our discussion. Second by Legislator Anker. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 6-0-0-0)***

1589-2014 - Tax Anticipation Note Resolution No. -2014, Resolution delegating to the County Comptroller the powers to authorize the issuance of not to exceed $105,000,000 Tax Anticipation Notes of the County of Suffolk, New York, in anticipation of the collection of taxes levied for County purposes or returned to the County for collection for the fiscal years commencing January 1, 2011, 2012, 2013 and 2014, and to prescribe the terms, form and contents, and provide for the sale and credit enhancement of such notes (Co. Exec.).

Is there anyone here from the Comptroller's Office? Hi, Christina. Come on up. Good afternoon.

MS. CAPOBIANCO:
Good afternoon.

CHAIRMAN D'AMARO:
Thanks for coming to the committee today. One-hundred and five thousand, the numbers seem to just keep going up.

MS. CAPOBIANCO:
Million.

CHAIRMAN D'AMARO:
Million, sorry.

MS. CAPOBIANCO:
Yes. We are asking for the authorization to have the Comptroller borrow up to 105 million. The cash flows projections that we prepared, though, show that we need to borrow $100 million. This would be the same amount that we've borrowed the last three years.

CHAIRMAN D'AMARO:
Can I ask you this. It says in the -- what I just read, that the Tax Anticipation Note covers years starting in 2011.

MS. CAPOBIANCO:
That's true.

CHAIRMAN D'AMARO:
How can that be.

MS. CAPOBIANCO:
We base the borrowing on delinquent taxes over the last four years. So currently we have an estimated delinquent taxes of $275 million as of June 30, 2014.

CHAIRMAN D'AMARO:
Going back to 2011.

MS. CAPOBIANCO:
Correct.

CHAIRMAN D'AMARO:
That's my question. So what percentage of the note would be, of the 105 million, would be for past years and what would be for what you anticipate collecting this year.

MS. CAPOBIANCO:
Well, it's based on a receivable, so I will tell you that for instance --

CHAIRMAN D'AMARO:
Because I recall the real estate -- we're talking about real estate taxes.

MS. CAPOBIANCO:
Correct.

CHAIRMAN D'AMARO:
The tax levy is only 49 or 50 million.

MS. CAPOBIANCO:
But the total tax warrant is five billion dollars.

CHAIRMAN D'AMARO:
All right.

MS. CAPOBIANCO:
I'm sorry, 500 million. Now I'm doing it. Five-hundred million dollars.

CHAIRMAN D'AMARO:
Okay. Right, because the General Fund property tax was 50 million, right. So in 2014 what percentage of the 105 is for 2014? Roughly. Because as you go back in the years isn't it less likely you'll collect?

MS. CAPOBIANCO:
It is. Like, for instance, last year when we borrowed 100 million, 2013, which would have been the most current year, was 116 million. 2012 was 56 million, 2011 was 25 million, and then 2010 was 15 million. So as you age the receivable it decreases.

CHAIRMAN D'AMARO:
Right. So the 2014 amount is probably 60 to 70%, I would guess.

MS. CAPOBIANCO:
Yeah, that would be a good estimate.

CHAIRMAN D'AMARO:
And you have no concerns about being able to pay this off in one year.

MS. CAPOBIANCO:
No, it's a note so we have to repay it within a year.

CHAIRMAN D'AMARO:
Well, I mean repay it from tax collection.

MS. CAPOBIANCO:
Correct.

CHAIRMAN D'AMARO:
Right.

MS. CAPOBIANCO:
No, we're only borrowing --

CHAIRMAN D'AMARO:
A small percentage?

MS. CAPOBIANCO:
Well, it's not a small percentage, but like, for instance, last year we borrow 47% of the receivable. We were able to, you know, collect it all and repay it on a due date.

CHAIRMAN D'AMARO:
What percentage are we borrowing here?

MS. CAPOBIANCO:
The last two years in 2012 and 2013 we borrowed at a rate of .72%. So we'll borrow the money late September, early October, and we'll repay it September 15. The net interest cost was -- last year was about $700,000.

CHAIRMAN D'AMARO:
It sure helps cash flow, huh?

MS. CAPOBIANCO:
Excuse me?

CHAIRMAN D'AMARO:
It helps cash flow, though.

MS. CAPOBIANCO:
It's critical to cash flow. We've always had delinquent tax anticipation notes. This bridges the gap until the end of the year when we take out the Tax Anticipation Notes, which are $410 million. And Gerry Olson just reminded me that on the delinquent taxes, 98% eventually is paid.

CHAIRMAN D'AMARO:
With interest.

MS. CAPIBIANCO:
With interest.

CHAIRMAN D'AMARO:
Any questions? Okay. Thank you for helping us this afternoon. I'll offer a motion to approve. Second by Legislator Anker. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 7-0-0-0 - Presiding Officer Gregory is included in the vote).*** Thank you again.

MS. CAPIBIANCO:
Thank you.

CHAIRMAN D'AMARO:
All right. ***1590-2014 - To readjust, compromise, and grant refunds and chargebacks on correction or errors/County Treasurer by: County Legislature No. 410 (Co. Exec.).***

I'll offer a motion to approve and place on the Consent Calendar. Second by Legislator Anker. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 7-0-0-0 - Presiding Officer Gregory is included in the vote)***

Resolution number ***1602-2014 - To readjust, compromise, and grant refunds and charge-backs on real property correction of errors by: County Legislature (Control No. 966-2014)(Co. Exec.).*** Same motion, same second, and without objection, same vote. ***(Vote: 7-0-0-0 - Presiding Officer Gregory is included in the vote)***

Resolution number ***1604-2014 - Amending the 2014 Operating Budget and appropriating funds in connection with bonding for a settlement for a liability case against the County (Co. Exec.).***

This is a settlement for a negligence action against County for the amount of $2,250,000 and it was approved in Executive Session I assume by the Way and Means Committee. Does anyone have any questions on this resolution? I think we're joined by the County Attorney is here today.

MR. BROWN:
Good afternoon. Thank you. Previously it was presented to Ways and Means. Prior to the settlement Legislator Stern was kept appraised of the litigation and what was going on during jury selection and during the time of trial. Legislator Kennedy I think was present, Legislator Trotta I think was present also, and I'm not sure if the Presiding Officer was there also during the time of Ways and Means. But there's been an extensive presentation that we did at that time. If anybody has any questions now we'd have to go into Executive Session.

CHAIRMAN D'AMARO:
Right. All right. Thank you. I don't have any questions. Does anyone on the committee have questions?

LEG. KENNEDY:
Mr. Chair, the only thing I'm going to ask Dennis is, obviously we can't talk about the particulars with this. Dennis I understand, but the category, is that something that you can tell me? I can't recall whether this might have been a med mal action.

MR. BROWN:
It was pending in Federal Court.

LEG. KENNEDY:
It was a matter pending in Federal Court.

MR. BROWN:
Right.

LEG. KENNEDY:
Okay. All right. Thank you.

LEG. STERN:
Motion to approve.

CHAIRMAN D'AMARO:
Motion by Legislator Stern to approve. I'll second. All in favor? Opposed? Abstentions? Motion carries. ***(Vote: 7-0-0-0 - Presiding Officer Gregory is included in the vote)***

MR. BROWN:
Thank you.

CHAIRMAN D'AMARO:
Thanks, Dennis. Resolution ***1605-2014 - Amending the 2014 Operating Budget and appropriating funds in connection with bonding for a settlement for medical malpractice case against the County (Co. Exec.).***

This is a settlement in the amount of $125,000, again, approved by the Way and Means Committee in Executive Session. I'll offer a motion to approve. Second by Legislator Anker. All in favor? Opposed? Abstentions? Motion carries. The resolution is approved. ***(Vote: 7-0-0-0 - Presiding Officer Gregory is included in the vote)***

I believe that concludes for today. No further business. Thank you for your patience. We are adjourned.

(*The meeting was adjourned at 2:11 p.m.*)