FINANCE & FINANCIAL SERVICES COMMITTEE

of the

Suffolk County Legislature

A regular meeting of the Finance & Financial Services Committee was held in the Rose Y. Caracappa Auditorium at the William Rogers Building, Veterans Memorial Highway, Smithtown, New York on **March 7, 2001** at 9:30 a.m.

MEMBERS PRESENT:
Legislator Michael Caracciolo, Chairman
Legislator Maxine Postal, Vice Chair
Legislator Cameron Alden

EXCUSED ABSENCE:
Legislator Martin Haley

ALSO PRESENT:
Paul Sabatino, Legislative Counsel
Dr. Pearl Kamer. Chief Economist Long Island Association
Todd C. Johnson, Intergovernmental Relations, County Executive's Office
Nancy Manteiga, AME
Fred Pollert, Director of Budget Review Office
Jim Spero, Assistant Director of Budget Review Office
Rosalind Gazes, Budget Review Office
Ken Weiss, Budget, County Executive's Office
Robert Lipp, Budget Review Office
Linda Burkhardt, Aide to Presiding Officer Paul Tonna
All Interested Parties

Minutes taken and transcribed by Irene Kulesa, Legislative Secretary

(The meeting came to order at 10:00 a.m.)

CHAIRMAN CARACCIOLO:

We will start with the Pledge led by Legislator Maxine Postal.

SALUTATION

CHAIRMAN CARACCIOLO:

Thank you. Please be seated. We will begin today's Finance Committee Meeting first with an announcement that the next scheduled committee meeting has been changed from it's normal meeting date, two weeks from now to the Monday, prior. So if you would make a notation. Notices are in the process of being prepared. I'd also like to mention that Legislator Martin Haley is out ill with the flu and has been given an excused absence.

We have a guest speaker today; Doctor Pearl Kamer, who is the Chief Economist for the Long Island Association and as I just, learned in some informal conversation, a Consultant to the County of Nassau Treasurer's Office. So Doctor Kamer appears here today, as a result of a series we began last year in this committee to annually receive an update on the local economy by those in the local community who are most familiar with it. And last year, we had Doctor Erwin Keler, Kelner rather and this year we have Doctor Pearl Kamer. So Doctor Kamer, if you can upstage Doctor Kelner's presentation, maybe we'll have you back on a regular basis.

DR. KAMER:

I wouldn't want to upstage Erwin, who is a friend of mine.

CHAIRMAN CARACCIOLO:

I know.

DR. KAMER:

I've given out some handouts, which you should have up there.

CHAIRMAN CARACCIOLO:

Okay. You have another copy? Oh, okay. Oh, Paul has one, okay. I wanted to make sure you got one.

DR. KAMER:

Is this okay? Can everybody hear me?

CHAIRMAN CARACCIOLO:

Yes. Why we're settling down, could someone from the Clerk's Office make copies of today's agenda? Maryann from my staff is out ill.

DR. KAMER:

It's a pleasure to be with you this morning. Can everybody hear me?

CHAIRMAN CARACCIOLO:

Yes, we can.

DR. KAMER:

Okay. I want to start my presentation with a review of what's happening nationally. Because what happens in Suffolk County and on Long Island will depend in large measure on whether the nation is able to avoid a recession this time around. And as I told you in informal conversation, I think, we will avoid a recession, defined as two consecutive calendar quarters of negative change in GDP but we'll probably avoid it by a very narrow margin.

The US economy grew much more slowly then originally reported in the last quarter of last year. GDP was recently revised to only one point one percent. The estimate is we're close to zero growth right now and most indicators suggest that the national economy continued to weaken during the January and February period. And we're beginning to see some signs of inflation for the first time in the inflation indexes. And the combination of slower economic growth and higher inflation has really raised the word stagflation for the first time since the 1970's. The problem here is that any sustained increase in the inflation rate would make it much more difficult for the Federal Reserve to lower interest rates aggressively and this is what we need to avoid a recession.

I just want to give you a couple of figures. I know economists live by numbers and figures and I'll try not to bore you too much but the January consumer price index increased by sixth tenths of a percent. That doesn't seem like very much. But on an annual basis, that's an inflation rate of seven point two percent. We haven't seen that since the early 1980's. What happened was we had a seventeen percent increase in the price of natural gas. Natural gas prices have eased since that time. But they're not likely to ease very much further, because companies and suppliers must start to rebuild their depleted inventories for next winter. The other problem we've seen is really a state of very bad profit reports by high profile corporations and this is what's driving down the stock market, particularly the NASDAQ. And high profile layoffs coupled with declining stock portfolios have really hurt consumer confidence.

The Conference Board, which tracks consumer confidence in this consumer sentiment index has found that consumer confidence has dropped twenty five percent since September. That's a huge drop. We seldom see that. and the problem is that consumers are saying their current economic condition is fine. They don't have a problem but their expectations for the next six months are extremely dismal. In fact, they've reached an eight-year low. So the greatest threat to the economy nationally and on Long Island is that if consumers continue to remain uneasy about their economic future, even rate cuts by the fed or even a tax cut by the administration in Washington, may be unable to prevent a recession. Now, I think, consumer confidence will turn around. I think we've seen the worst of it. But that's the threat to the economy. The other problem is that the manufacturing sector is in recession. Durable goods orders fell at annual rate of about sixteen percent the final quarter of last year and they're continuing to decline in January and February. Home sales are falling but that may stop because we have declining mortgage interest rates and interest rates will continue to decline for the foreseeable future.

Another problem with the national economy is the trade deficit. It has not been a problem. In the Year 2000, US imported one billion more a day then it exported. Now, think about it? We are importing one billion dollars a day more then we export. The reason it hasn't been a problem to date is that foreigners are financing it. They're buying our treasury securities. The minute our interest rates fall low enough and investment opportunities abroad increase, they could withdraw this capital and then the trade deficit becomes a drag on the economy. Now, I don't want to leave you with the impression that the national economy is totally bleak. We've seen a number of bright spots. For example, January's leading economic indicators rose for the first time in many months, suggesting that there is not a recession ahead. Retail sales in January, bounced back a bit and large chains are reporting stronger sales. So household spending seems to be holding up reasonably well.

I think with the economy emitting mixed signals and still showing significant signs of weakness, the fed is going to reduce interest rates again on March 20th, when it meets. The question is how big will the decline be? The markets are expecting another fifty basis point decline but with inflation starting to rear it's ugly head again, they may only get a twenty-five basis point reduction. I think the fed has got to be looking over its shoulders and saying if we reduce interest rates too much, too fast, what are we going to inflation? The fed has also made it clear that it is focusing on managing the economy and not managing the financial market and that it won't reduce interest rates just to bolster the stock market. I think many investors are looking to the feds, pull them out of their investment mistakes and this is not going to happen. So that's a brief sketch of where the national economy stands.

Let's look at Long Island and here I refer to your handout. Long Island actually gained more than twenty six thousand jobs last year. It was a good performance. If you turn to page three of your handout, you can see annual job changes on Long Island in thousands, going all the way back to 1980 and you can see how in the last business cycle employment growth peaked at more than fifty one thousand jobs in 1984. Then we have the disastrous '89 to '92 recession when we lost more than eighty eight thousand jobs and that was largely the defense sector contracting. Then you see a very slow pickup in this business cycle starting in 1993 and again, we peaked in 1999, at almost forty two thousand new jobs and then slow down to twenty six thousand, two hundred. Now that -- don't take that as an indicator that the Long Island economy has slowed. It's probably an indicator that we have such severe labor shortages that workers that employers simply can't find the labor they need to fill available jobs; therefore, we have slower job growth. So in this instance, slower job growth may not be a sign of economic weaknesses. If you turn to page one of your handout, you see the job growth occurring between January 2000 and January 2001, when we gained twenty five thousand, nine hundred jobs, suggesting that we still have a pace of job growth that we had all of last year. All industries gained jobs. The only job loses occurring in manufacturing and this has been going on for a long time. We're no longer competitive for routine manufacturing jobs.

If you turn the page to page two, you just see how well we are doing, in terms of the unemployment rate. Suffolk County has a three point six percent unemployment rate, as compared with four point eight percent for the state and four point seven percent for the nation and that rate is two tenths of a percent below what it was last year. So we still have a declining unemployment rate and we have more people entering the civilian labor force. In fact, labor force growth, for the first time actually exceeded job growth, suggesting that people realize there are good job opportunities out there and they're jumping into the workforce. And I think this is a plus for Long Island and for Suffolk County. If you look at the inflation rate and you can see that on page four of your handout, it's creeping up a little. But it's certainly not disastrous by historical standards. If you go back to 1980, when you had those double digit inflation rates of eleven point four percent, '99 was two percent and 2000 was three point one percent, so it's a little higher. And if you look at the rate from January to January, still three point one percent. Nothing that would deter consumers from consuming, really.

And I'd like to bring you to the key point of my presentation: what's happening with consumer spending and sales tax revenues. The latest Newsday poll conducted by SUNY Stony Brook showed that there was a significant drop off in consumer sentiment on Long Island paralleling the national drop off. In other words, consumers have become gloomier and I think you saw that in your December sales tax figures and you can see that on the last page of your handout. I've taken you all the way back to January of 1999 and you can see the actual figures. These are only cash receipts and I get these from the New York State Division of Taxation and Finance and you see the percent changes. Now, if you look at 1999, as a whole, Suffolk really had quite an increase in sales tax revenues, about eight point four percent and when you consider that the inflation rate in that year was two percent, this was a very good showing.

And you had a fairly strong Christmas selling season. It started a little early. So you had big increases in October and November and it fell off a little in December. Do you want the rest of this? Okay. Now, look what happened last year and you see the fall off in December and as I told you in informal conversation, some of that reflects the fact that you eliminated the local portion of the sales tax on purchases, clothing and shoe purchases of up to a hundred and ten dollars. I think that's part of it. But I think equally important was the sudden decline in consumer confidence. When the consumer started to see the stock market decline and started to hear talk of a possible recession and many of them are heavily indebted, including mortgage debt, you saw a cutback. Now, if you look at January, there was some bounce backs. Suffolk retail sales tax revenues up four point nine percent. If you look at last January, the increase was sixteen point seven percent. So there was a difference. It was not a stronger rebound, as we would have hoped. And we have to wait for the February figures, which will come out on the 12th of this month, in a few days, to see if this rebound will be sustained or if this was just a bounce back caused by sales, by retailers, who really had some very deep markdowns in January and that's going to hurt their bottom line. So I would expect to see some weakness in retailing for the next six months. I think you'll see some more store closings, some layoffs. Now, the layoffs may not be a bad thing for Long Island. We have a very tight labor market. We have a growing technology sector and they have to find workers somewhere. Some of the workers laid off in retailing can be retrained to enter technology enterprises at higher wages. So in the long run, this may be good. But I think you will see weakness in retail spending, at least, for several months until consumers are reassured that the nation is not sinking into a deep and prolonged recession. And until they have a chance to repay some of their outstanding debt, I think, consumers will work on their installment debt in the next few months. But hopefully, by mid-year, we should see stronger growth. I think national growth after mid-year will be in the two point five to three percent range and that would cost out to about two a percent increase in GDP for this year, as a whole, nationally.

But again, I don't think Long Island will experience the economic malaise that the nation is experiencing. For one thing, manufacturing, which has been hardest hit is a very small part of our economy; it's less then ten percent of our employment base. We have a tight labor market, so if we have laid off workers from retailing or from the dot com section, they should find jobs relatively easily. Supply and demand remains in relatively good balance in the commercial real estate market. Banks and other lenders have imposed discipline on developers, so that we didn't have the spec building that we had in the last business cycle, which left us with a large overhang of commercial space, which really took five years to be absorbed. So today, we have a good supply demand balance. We have enough construction. The pipeline, whether it's office construction or hotel construction, to support the construction industry, we have a much more diversified economy.

The technologies we have been developing over the past ten years, whether it's biotechnology or internet related businesses or computer technology or microelectronics will be in demand both in good times and bad times, domestically and globally, to keep businesses as competitive to meet the health needs of an aging population and this will be our buffer against recession. So the big unknown is how quickly consumer confidence will rebound and what the impact of consumer spending will be on sales tax revenues, particularly here in Nassau and Suffolk County. With that, I'd like to end my formal presentation. I'd be happy to entertain any questions you might have.

CHAIRMAN CARACCIOLO:

Certainly. I have a number of them but I'll defer my questions until I've given the members of the committee to --

LEGISLATOR ALDEN:

Hi, thank you very much for coming down today. I have a question as far as what you think are the components of inflation or what you actually look at as indicators?

DR. KAMER:

Well, we look at the consumer price index for all our consumers in the New York Metropolitan Region, which includes Nassau, Suffolk. There's no specific index for Nassau/Suffolk. What's been driving the inflation rate have been higher energy prices, gasoline, natural gas, oil and you're not going to see those fall down very much, simply because OPEC has cut production and will continue to cut production to keep oil at between twenty five and thirty dollars a barrel, as global demand falls. We're seeing declining global demand for oil, because most global economies including the US are slowing. Now, normally that would result in declining prices but OPEC has made a decision and they have been able to make it stick, to keep prices at between twenty-five and thirty a barrel for their own self interests. They don't think that's going to cause a global recession and they want to make money on it. So we're not going to see inflation abate any time soon and it will be driven by high-energy prices.

LEGISLATOR ALDEN:

That has a flow through effect. If you're in business and it's costing you double or triple for your heating and your energy costs, you're going to have to pass that on to the consumers.

DR KAMER:

Exactly. But businesses have not been doing it, because they don't have much pricing power. We have such a competitive economic environment that they practically swallow the increase and it's hurt their bottom line. It's really also hurting the consumer who has less discretionary income. If you have to pay a higher electricity bill or a higher heating bill, you're not going out to Tanger to shop as much as you used to and this is exactly what's happening.

LEGISLATOR ALDEN:

Also, you mentioned before about the link between Wall Street and the consumer out here on Long Island? What I've noticed in the past is almost like we get hit the hardest, fastest when Wall Street takes a little bit of a dip or so it seems.

DR. KAMER:

There's a reason for it.

LEGISLATOR ALDEN:

Okay.

DR. KAMER:

First of all, a lot of your building on the East End has been Wall Street money. That's Manhattan money coming out there and they're building humongous homes. More to the point, we have a sophisticated group of investors on Long Island. They know about the stock market. They're not putting their money in passbook savings accounts. They're putting their money in the NASDAC and they are expecting twenty percent increases a year, which was unrealistic to begin with. But my long and short answer is a high proportion of the population out here invests in stocks, more than in other parts of the country and so when the stock market takes the hit, they are disproportionately hurt.

LEGISLATOR ALDEN:

And that could explain in part why our sales tax in Suffolk County took a --?

DR. KAMER:

What happened is the markets have spooked the consumer. Well, the talk of a recession spooked the markets and the poor profit reports spooked the market. The falling market spooked the consumer and the consumer stopped spending.

LEGISLATOR ALDEN:

But also what Greenspan did was successful, as far as what he started out to do by raising interest rates, which would slow the economy down or growth in the economy.

DR. KAMER:

He had to. What most people don't realize and as a matter of fact, I was at a dinner party recently and I was shocked to hear that people regard Greenspan as someone who's killing the economy and we've got to get him out of there. The truth is we had such pressure on our resources, from a pace of growth of five to six percent, which we couldn't support. We had a tight labor market, tight land market, tight capital market. Had he not done that, you would have had a 1929 style crash. He had to slow the economy to more sustainable levels. Now, what happened unfortunately, is not that he may have gone too far with his interest rate increases but you had what economists call exogenous factors. In layman's terms, something came from out of left field. What was it? A long election, which really jarred people. They lost confidence. There was a lot of uncertainty. They didn't know what would happen. Higher oil prices and then suddenly talk in Washington about oh, there's a recession coming and that exacerbated the effects of the interest rate cuts, just as they were being felt. Because interest rate cuts take about six to nine -- interest rate increases, it exacerbated the effect of the interest rate increases. Interest rate increases and interest rate cuts take six to nine months to filter into the economy. When you cut interest rates, the banks don't say okay, interest rates will fall fifty basis points, because Greenspan said yesterday, we're cutting them. What Greenspan does is inject liquidity into the economy, inject money into the economy and that filters in over a period of six to nine months and gradually the rates come down. Same way on the upside. So while he was raising rates, he raised them about six times but by last fall, we only felt three of those increases. When the final three started to kick in, we had the oil prices go up. We had the talk of recession. You had the bad profit reports. You had the declining stock market and that really clobbered the economy. So it's not anything that Geenspan did wrong. He just didn't know what was going to hit him from left field.

LEGISLATOR ALDEN:

Do you think that by -- some people have categorized it as overdoing it, the amount of liquidity they put in there for the Year 2000. Do you think that was a contributing factor? Or was that overdone?

DR. KAMER:

I think it was. I think it contributed to the rapid growth of the economy in the first two quarters of last year. He had injected so much liquidity into the economy on the false premise that we had Y2K problems, which we didn't have. That it was hard to drain it out in time and that had really -- it boosted the economy. It made it grow at a much faster rate than it would have and he had to hit the brakes a little hard to slow it down.

LEGISLATOR ALDEN:

Mr. Chairman? I just have one more question, if it's okay?

CHAIRMAN CARACCIOLO:

Okay.

LEGISLATOR ALDEN:

You mentioned before about treasuries and you know like the foreign market for our treasuries? There was some talk though that we can't really pay off all our treasuries because -- and it's a liquidity problem there too, isn't it?

DR. KAMER:

We don't really want to pay off all of our national debt because it's used as a benchmark for the financial market. But the problem of foreign ownership of our treasuries is not a problem unless they decide not to buy any more or to sell what they have. Because our savings rate, as a nation, is minus one percent of GDP, it's negative. People are spending more than they earn. We have no savings. So we will not be able to finance those treasuries. We will not be able to finance government debt. We depend on foreigners to do so and that's a very risky position over the long run. The reason we've done so well in the last decade is that Europe was in recession, Asia was in a deep financial crises. No one was going to invest their money there. So we were the safe haven for the world's investors. They sent all their money here and what's the safest investment? Our treasury. So they've been buying it up like crazy and really saving us from our own folly from the fact that we have no savings. But this can't continue indefinitely.

LEGISLATOR ALDEN:

I don't really see an end to it, as far as from the Japanese point of view? Their rate is like less than a half a percent, isn't it?

DR. KAMER:

They're down close to zero now.

LEGISLATOR ALDEN:

Zero, right.

DR. KAMER:

Japan is back in recession and the risk is that it will pull down Asia with it. Now, this hurts us here on Long Island to some extent, because they're a large market for some of our technology and if they can't buy it, that's going to hurt our local firms. But Europe is recovering and the Euro is beginning to gain strength and a lot of investors will look twice at opportunities in Europe and even in portions of Latin America like Brazil. So there is some risk of a capital exodus from the US especially as US interest rates decline, because if they fall, they're less attractive to investors who are getting less for their money. So there are a lot of risks out there to the US economy. We've dodged the bullet several times in the last few years, particularly the global financial crises. I think we're going to dodge this one too. I don't think we'll have a recession but I think you'll see very slow growth for a period of time.

LEGISLATOR ALDEN:

The IMS, isn't it the IMS that President Bush is looking to -- like de-fund?

DR. KAMER:

Export, Import Bank.

LEGISLATOR ALDEN:

Export, Import Bank, is that going to affect --

DR. KAMER:

That's amazing because that's a Republican --

LEGISLATOR ALDEN:

Right. Initiative really.

DR. KAMER:

Initiative, it's a Republican institution. The Export, Import Bank helps our exporters to finance their exports. That's going to hurt Long Island. Because Long Island exports have been increasing for the past decade and that's what's causing some of our economic growth. If they lose the ability to get government guarantees on financing, they could be hurt.

LEGISLATOR ALDEN:

When you zero it out, though is it corporate welfare? In essence?

DR. KAMER:

There's a lot of corporate welfare out there, yes. It is but if we want our corporations to grow and generate jobs, we have to give them a little welfare.

LEGISLATOR ALDEN:

Okay, thanks.

DR. KAMER:

Any other questions?

CHAIRMAN CARACCIOLO:

Oh we have plenty, I'm sure. Robert Lipp who is our in-house Budget Review Office Economist.

DR. KAMER:

He's a long-term good friend of mine.

CHAIRMAN CARACCIOLO:

Okay. Use the microphone please, Robert?

MR. LIPP:

The first couple of energy questions, rather inflation questions?

DR. KAMER:

Right.

MR. LIPP:

From what I gathered, you saying, I don't want to put words in your mouth but I just want to make sure that I understood correctly. Energy prices probably for 2001 won't affect inflation either way. Actually it hurt inflation this year but -- rather last year but probably won't affect it, it won't be benefit or a negative this year?

DR. KAMER:

No, it could go up. Supply is a problem in California, especially. But even here on Long Island and unless we can rev up our demand side Management Programs, our Conservation Programs, we could see the narrow supply causing more inflation. It's hard to say how much. But I think there will be a slight rise in the CPI into the three point five to three point seven range this year and that's attributable to probably higher natural gas prices but higher energy prices generally.

MR. LIPP:

I think the bigger issue is inflation and I'm not sure how you feel about this and I don't know if there's really an answer is, inflation has been attained through -- at the risk of over exaggerating completely because of productivity growth. So where do you see that going?

DR. KAMER:

Well, I think we'll see continued productivity growth. Last year was the best year for productivity we've had in decades and I think last quarter figures came out today and it was two point two percent. I think past investments and technology particularly computers and telecommunications technology, will cause productivity growth to be sufficient to offset any wage growth coming from a tight labor market. That's what we've seen in the past and that's probably what we're going to see in the future. So I don't see wage inflation as a major contributor to inflation. I think it will probably come from energy prices. I also see that the labor market will loosen a little and unemployment will rise both locally and nationally and this is going to keep wages in check.

MR. LIPP:

Okay, so my interpretation then of what you're saying is that we still have inflation under control and you could even make the argument that even though energy is an issue, it won't be as big an issue as last year and to the extent that productivity continues to wallpaper over problems. We may see inflation rates that are perhaps in the high two's, if to be optimistic of course, though?

DR. KAMER:

No, I think you'll see inflation averaging about three point five percent in this region this year, as compared with three point one percent last year. But it's still low by historical standards and I would consider it under control.

MR. LIPP:

One last question about overall economy in the stock market? Would you say that even though obviously, the stock market had an obvious negative impact on sales tax and consumer spending and all that? Perhaps Long Island may benefit in a limited sense that we have a relatively low number of dot coms, so we weren't hit as bad as perhaps some other regions?

DR. KAMER:

Yes, not only do we have a smaller number of dot coms but we have a few larger dot com companies that are growing and so when the smaller ones fail, they simply absorb their workforce. So that these people can find jobs virtually instantaneously. Their skills are in such demand that we can accommodate quite a bit of contraction in the industry and you'd have Computer Associates out there saying give me your excess labor quickly. So that has not been a problem. We've been fortunate. Silicon Alley in New York City has done much worse. They've had more than three thousand layoffs and there the market is less favorable to rehiring.

CHAIRMAN CARACCIOLO:

Okay. I have a lot of questions.

DR. KAMER:

Okay, let her rip.

CHAIRMAN CARACCIOLO:

Let's start with the financial markets and specifically, the individuals employed there who are attracted to the East End of Suffolk County and purchased property and built very large homes. What's your forecast, let's say over -- I don't know how far out you make projections like this but could you share with us? What do you see as the impact for local governments, because the towns and to some extent the state relies on mortgage taxes that are collected from those transactions. The East End Towns have community preservation funds. The transfer tax, which is reliant on those -- on that boom continuing for Preservation Programs? To a lesser extent, the county is a beneficiary by virtue of the consumable goods that fill those homes in the way of furniture expenditures and appliances and the like. So let me start with that category?

DR. KAMER:

That's an important question and I think the answer is that that boom is probably going to level off a little but not go away and the reason is this; the people who are employed in the financial services sector in New York City and who are investing their million dollar year end bonuses out east, can still get million dollar year end bonuses even when the market goes down and the reason is, it's the number of transactions in the market that generate their profits of brokerage houses and the bonuses for their employees. So if you have day trading or if you have constant turnover of concentrating by investors, which is what we've had, these brokerage firms will continue to be profitable. They were profitable last year in a declining market. It's the investors who are being hurt. But the brokerage employees and their bonuses were intact.

CHAIRMAN CARACCIOLO:

A little closer to home, we talked, you talked quite a bit, both informally and during the presentation about consumer confidence. This to a lot of lay people is an unknown quantity phenomenon people really don't understand what its implications are. How are we, as government officials, in forecasting ahead things such as the sales tax receipts that we're so dependent upon. How do we translate that sentiment into what we can expect to happen, in terms, of sale tax growth rates?

DR. KAMER:

I think you'll have to forecast your sales taxes very conservatively for the foreseeable future. A lot will depend on what we see in the next several months. December may have been an anomaly. If we see a consistent bounce back at four to five percent in the next several months, particularly the Easter sales, then I think you can have some confidence that your sales tax revenues will continue to grow but not at double digit levels. If, on the other hand, the January bounce back was the real anomaly and reflected the markdowns at retailers, then you may have weak sales tax revenues for the next six months or so, until the consumer both feels more confident and has regressed some of his outstanding debit. That means paid off, some of the high interest debt. Now, many consumers have upgraded their houses, either by retrofitting their existing homes or moving into more expensive larger homes and they have a lot of mortgage debt and I think this is going to weigh on consumer expenditures for the foreseeable future.

The other thing you have to consider is the fact that consumers may be saturated. We've had three to five back to back years of strong consumer spending and consumers, therefore, have all they need at the moment and therefore, they're buying based not on need but on want. They don't need anything. Rather they're buying on need rather than want. You know the wish list has been satisfied. So they're only buying necessities and this is going to affect your sales tax revenues. So I would be very conservative, in terms, of forecast. Let's look at what you got last year, in terms, of the percentage of growth and --

CHAIRMAN CARACCIOLO:

I believe it was eight point --

DR. KAMER:

Five, two.

CHAIRMAN CARACCIOLO:

Five, two.

DR. KAMER:

I wish it were eight four but --

CHAIRMAN CARACCIOLO:

Right but that was '98, '99 correct.

DR. KAMER:

And if you look at the last quarter, there was considerable weakness. I think your spending peaked off out in July, again, with markdowns for the spring season. Certainly, the first half of this year three percent would seem a reasonable estimate.

CHAIRMAN CARACCIOLO:

Year over year, it would be your position that we should not project an excess of three percent sales tax growth rate?

DR. KAMER:

For the first six months of this year.

CHAIRMAN CARACCIOLO:

Later on in September, the County Executive prepares his budget and submits it to the Legislature. At this juncture and I realize this would be subject to change, what do you believe would be a reasonable sales tax growth rate that should be estimated?

DR. KAMER:

If we avoid recession and the national economy bounces back by starting at mid-year, certainly four point five to five point three percent would be the range I'd give you. I don't think you're going to do better than last year.

CHAIRMAN CARACCIOLO:

In comparison to Nassau County, you obviously have a lot more familiarity, have they, in the past, it's my understanding that part of the problem that led to the conditions that prevailed there and required, you know, state action was overly optimistic of sales tax growth rates?

DR. KAMER:

What happened is they overestimated sales tax for a series of consecutive years and when the actual figure for a given year came in below estimates, they did not readjust the next year's estimate. So they had cumulative underestimating of sales tax. Now they're being extremely conservative, two point five to three percent range and they'll probably get that.

CHAIRMAN CARACCIOLO:

By comparison, are you familiar what we've used and do you have comment about it?

DR. KAMER:

No, I'm not that familiar. Because as I indicated, I really delved into the Nassau economy in greater detail as a Consultant to the Treasurer and I have been doing so for quite some time. So I not only know what their estimates look like but I know more about the job base, the details of where it's growing, what technology looks like and so it's hard for me to really answer your question.

CHAIRMAN CARACCIOLO:

Mr. Pollert? Fred, could you just for the record, indicate what we have been forecasting and what we have realized in the way of sales tax growth increases?

MR. POLLERT:

Well, with respect to 2002, which is looking at the current forecast from the Budget Review Office is about five percent. That's also a number, which we have used as a long term average when we forecast at what the quarter percent would be for the water quality and the tax stabilization reserve funds. For this year, we have three different ranges and estimates based upon sales tax receipts from last year's estimated. The high would be four point nine percent. We are currently using four point one percent in our computer model and the conservative is three point four. The difference, of course, is rather substantial with respect to how we're going to wind up this year. At a three point four percent increase, we would be receiving a total of seven hundred and ninety six million dollars worth of sales tax that is down from what was adopted by nearly nineteen million dollars. So the conservative forecast would have a dramatic impact on our budget forecasts for 2001.

DR. KAMER:

That sounds about right. A five percent long term is probably pretty accurate. Short term, you'd have to go to the lower end of his range.

CHAIRMAN CARACCIOLO:

All right, okay.

MR. LIPP:

If I could add to that?

CHAIRMAN CARACCIOLO:

Robert.

MR. LIPP:

Our current forecasts, which are probably or are somewhat higher than your three or three point five percent range, actually are really, if you adjust are about the same. The reason being that we're taking into consideration the fact that for this year 2001, there's only one quarter of no sales tax on clothing to mirror last year. So we actually should see if your projection of three or three and a half percent comes in, we'll see more than that because of lower amounts received last year from the clothing. It will be more apples to apples comparison second, third, fourth quarters.

CHAIRMAN CARACCIOLO:

As a taxpayer, I'm not sure which county you reside in. But as a taxpayer, what is your perception of the impact when county government, which is reliant very much on either the property taxes or sales tax to maintain services and we are a service oriented business unlike the private sector, which is a profit making business. We have mandates from federal and state government, as well as we provide a ray of public health and safety services that other entities do not. So we have our own mandate to provide these services, which the public is very dependent upon. With that said, what's your perspective on taxing structures, i.e., property versus sales tax, versus income tax for providing the revenue needed by county government?

DR. KAMER:

That's a complicated question and I'll try to give you a simple answer. The sales tax is great when the economy is booming. It's terrible when the economy goes into a recession. There is no stability over the course of the business cycle and yet both counties have come to depend on sales taxes. Now the reason they've come to depend on sales taxes is we had a property tax revolt in the '70's and '80's, no one wanted their property taxes raised anymore. I think we have to change the structure of local taxation but I think the initiative has to come from Albany. I think you have to put school financing on a state administered income tax to be returned to individual school districts based on a formula which takes into account not only where the tax was raised with the need of the school district. For one thing, that will give us equity in education and in today's job market, it's education, which determines whether you can live a middle class lifestyle.

We have a labor market in which you have the {have's} and the have {not's}. The {have's} have appropriate skills and can name their jobs and the have {not's} are in dead end jobs. So we have to change the manner in which our educational system is financed. Once having done that, you have a lot more leeway for the financing of county government through property taxes. Now that doesn't mean property taxes are great. But if you change the manner in which they're administered, to make them more equitably administered, to use mechanisms that provide tax relief for senior citizens, for example. To go to full value assessment, for example, then you have a system, which the public will regard as fair and will be a lot less regressive than it is today and at the same time, you will not be as dependent on the sales tax.

Now, the problem with any income tax is that it poses the threat the taxpayers will vote with their feet. That is, you tax them. They're going to move to an area, which doesn't have a local income tax. But if you have administration of an income tax at the state level for school finance, I think, you avoid this particular negative consequence. Again, it's a complicated situation. I've written two books on the subject and I'm giving you a one-minute answer but I think that our dependence on the sales tax can be dangerous in times of recession and it's also very difficult to forecast the sales tax, because consumers tend to be rather unpredictable.

CHAIRMAN CARACCIOLO:

In the context of your statement, I very much appreciate what you said. Why is there a failure on the part of local residents in both counties and not only on Long Island but in the metropolitan area, because you have the same situation in Westchester? You have a similar situation in Bergen County and in Fairfield County where you have affluent -- a median income to affluent communities that struggle with high property taxes primarily to fund education. What can we do to bring not only awareness but to bring action in Albany on the part of our state?

DR. KAMER:

Because when you talk about educational financing, you have the {upstater's} versus the {downstater's} and the {upstater's} they -- downstate will get disproportionate aid. It's a very difficult division that you have in the State Legislature and then you ask why hasn't it happened? Well, people like the status quo. They don't know what they're going to get. They know what they have and there tends to be a lot of inertia. You have to be able to sell a program like this and it's very difficult to sell it.

CHAIRMAN CARACCIOLO:

Let me just switch gears a moment? Talk about the county, as you may be aware, has a number of Open Space and Preservation Programs and it has been said by environmentalists who have appeared before legislative committees and before the Legislature, as a whole, that we must now be in a position to be flush with money to go out and make these land purchases. Because if we miss the opportunity to do so now, the opportunity may be gone forever, therefore, whatever we have to do in the way of -- within our constitutional limits, borrow money to make those purchases as prudent and wise and should not be deferred. Do you have a view on that?

DR. KAMER:

I do have a view on it. I think it is very important to make those purchases. We have sole source acquifer here. If we pollute that acquifer, none of us will be here. So these purchases generally lie in sensitive areas over the acquifer and to the extent that it's naturally feasible, they should be made. That doesn't mean that you should go over a cliff financially to do so. Financial prudence, you have to balance out the two considerations. It depends on what your debt situation looks like and again, I'm not familiar with it, what the cost of borrowing is. The cost of capital is declining right now with interest rates declining and you may have a good opportunity to do your borrowing now.

CHAIRMAN CARACCIOLO:

Last year, at Suffolk County, as did a number of other localities in the state, exempted sales tax on clothing and footwear purchases up to a hundred and ten dollars. Again, during our informal conversation, you had a viewpoint that, I think, would be beneficial to share with us.

DR. KAMER:

Nassau and Suffolk have different demographics. Nassau is a fairly mature area where you have a lot of empty nesters. Suffolk has young families, young children for the most part. Their consumption patterns are quite different. In Nassau, the empty nesters are buying vacation homes, expensive cruises, vacation spending. They generally don't patronize retail outlets to the extent that Suffolk residents do and therefore, they don't generate proportionately as much sales tax revenues in the traditional manner. In Suffolk, you have families with young children. Young children are expensive. You go to toy stores. You go to clothing stores, etc., etc., so you tend to spend more. This would generate more sales tax revenues in Suffolk, other things being equal. Of course, they are not equal since you've eliminated the local portion of the sales tax on clothing purchases of up to a hundred and ten dollars and of course, most clothing purchases are in that range. So you've cut off a substantial portion of your sales tax revenues. Now, I'm aware there was considerable debate about this and in a sense, you weren't forced to do this, because Nassau didn't and you had some sort of buffer. Your residents weren't going over the border to Nassau to buy their clothing because the sales tax was still on. So in a sense, the elimination of that portion of the sales tax has hurt you, particularly when consumer spending softens.

CHAIRMAN CARACCIOLO:

The county is beginning to experience some financial stress or stresses, the likes of which we have not seen since about a decade ago. That said and they come from a variety of areas. One is we have increase in expenditures both, in terms, of payroll costs, social services and other federal and state mandates, changes in state aid formulas that require more of a contribution by county government. That said, where in the equation would you, as an economist, advise a client, a county government client? I realize we don't have that relationship, so you may reserve to be very specific in your response. But to the extent that you would like to respond, how should we consider dealing with that? Should we consider, for example, going back and reviewing the clothing sales tax exemption?

DR. KAMER:

I would look at it. I would look at that and of course, labor costs are a large portion of your total operating expenditures. I would look at that and see if there are areas where you can tighten up.

CHAIRMAN CARACCIOLO:

That would be county payroll costs. In terms of the option, because again, we have limited revenue sources and we have really no discretion over the federal and state aid, we get what we're getting and that's the extent of it. We do lobby every year for more and some years we're more successful than others, depending on the state's financial condition. But if we're talking about a national, obviously, local decline or a slow down in the economy, then it's going to affect the state. Then I'm sure some of the very optimistic surplus projections that we heard just a month or two ago would be revised downward and that said, state elected officials, being state elected officials will tend to state priorities first and that means those of us at the other end of the food chain will not, perhaps, receive as generous support as we would like to anticipate. So given all of that, what other measures would you recommend that we consider?

DR. KAMER:

Well, there's always user fees. That's a source of revenue. But at the same time, if you put user fees on golf courses and parks and all, it does disturb the public. User fees are good in a sense that those who use the service pay for. So there's a lot of equity. Then of course, there's your property tax. The property tax, if well administered, is a good tax. It provides a stable source of revenues over the course of the business cycle. But if you're going to consider property tax increases, then the question becomes, will you be able to use enough circuit breakers to mitigate any hardship, for example, on senior citizens who are on fixed income? So you're going to have to look at that as well. There's always government consolidation. I know this is a dirty word in many government circles. I've spent thirty years in local government. But certainly, we have a lot of levels of local government. Some of them are duplicative. So there are many solutions. If you're asking me what's politically feasible? I suspect that user fees are looking again at the sales tax exemption that you gave. Looking at property taxes but keeping in mind that they can be extremely regressive, particularly for those on fixed income.

CHAIRMAN CARACCIOLO:

Would you support the concept of, if one were to consider a repeal of the clothing and footwear exemption? That it be considered in a fashion where there would be a trigger to re-implement it, if at such time, the economy improves and you want to provide that incentive for local retailers, as well as local consumers?

DR. KAMER:

Yes. You may have a trigger to restore it. In other words, if the county's revenues dip below a certain level relative to needs, you may also look at a partial restoration of the tax.

CHAIRMAN CARACCIOLO:

How competitive do you think we would be if we did that? In other words, do we have competition, in terms of retail sales? Or is it your view that given our proximity to New York City, which is the only other jurisdiction, the closest jurisdiction to us that has also taken a step to repeal it, it really wouldn't have any effect. And I should add and I know you would acknowledge this that New York City has a number of other tax revenues that Suffolk and Nassau do not share all kinds of gross receipts, taxes and taxes on different industries including the financial industries that we don't benefit from. So they are in a much better financial position to maybe sustain that tax off the books.

DR. KAMER:

I've always thought that you would not have lost very much, in terms, of retail sales. In fact, you probably wouldn't have lost any retail sales, if you kept the full local portion. If you were to restore, certainly a part of it, let's say two percent, I doubt that you would hurt retail sales in Suffolk. You just don't have that kind of competition and I think, it defies common sense to think that your residents, busy as they are, given the number of two wage earner households here, I'm going to travel into New York City just to avoid a two percent sales tax. So I certainly think that if you provide triggers for the re-implementation of the tax and triggers for erasing it again, depending on the county's financial conditions, I don't think this would be a terrible thing. Nor do I think it will hurt your retailers.

CHAIRMAN CARACCIOLO:

And other taxes that you would consider ratching it up, even on a temporary basis, would your preference be to do so with the sales tax or the property tax? Or another tax, if you can think of one that wouldn't be as onerous as either of those two?

DR. KAMER:

I would look at user fees, as I indicated. But I would also use both the property tax and the sales tax but judiciously. I wouldn't put the burden on any one tax.

CHAIRMAN CARACCIOLO:

We talked also briefly about the stimulus that may come out of Washington visavis, an income tax cut, as well as the monetary policy of the fed. To what extent do you think that will have a beneficial effect on the bi-county region?

DR. KAMER:

I think the effect initially will be physiological. Because as I indicated in my formal presentation, it takes six to months for any change in interest rates to really filter into the real economy. Also, any tax reduction, even if retroactive to January 1st of this year, will hit consumers probably not earlier then mid-year. So just the fact that it's coming, I think, will be a psychological boost to consumers who may spend more freely and I think this will occur by mid-year. So I think this will be a plus but you may not see any initial impact for three to six months.

CHAIRMAN CARACCIOLO:

If the sales tax is to be considered, in terms, of increase in the sales tax, would you wait until you had some more economic data that you would feel as public officials would warrant deferring that decision? Or would you try to pre-empt that much as the fed tends to do with interest rates and take action now?

DR. KAMER:

Unless your financial situation in this county warrants pre-empting, I would wait to see what the next few months look like, in terms, of consumer spending.

CHAIRMAN CARACCIOLO:

On that note, let me see if we can engender some type of response from the Budget Review Office, in terms, of some forecasting his offices has been working on, in terms, of the county's financial health.

MR. POLLERT:

With respect to the Budget Review Office model, we have been expressing concerns over the use of fund balances, of re-occurring revenue to the extent that we don't have large re-occurring fund balances; you're going to have a large property tax increase. We have analyzed where the fund balances have come from in the previous years. So three years ago and two years ago, the fund balances were generated by large decreases in social services. Last year, there was actually a twenty million dollar pop-up in the social services area. So clearly, we're not anticipating large surpluses due to expenditure reductions. Last year, the fund balance was based upon a large increase in projected revenues, specifically from sales tax. That's not going to materialize again. So looking at the 2001 Operating Budget in isolation, it's doubtful that we will be able to generate a significant fund balance to be able to carry over to 2002. So it appears that we have a need for a re-occurring type of a revenue.

I would concur, if you look at page 6, one of the areas of concern that I had been perplexed about is the fourth quarter sales tax from 1999, represented a fifteen percent increase from the previous year. It was a dramatic and a large impact. The fourth quarter of 2000 decreased almost as rapidly. So I'm not sure how much noise there is in the numbers that we're getting from New York State sales tax. It clearly, when you look at the quarterly data, perhaps 1999, we received too much revenues, perhaps in 2000, we received too little. So I do agree with Doctor Kamer that we really need to nail down sales tax a little bit better only because it's going to create large swings. We do know, however, that sales tax has been over-budgeted in Fiscal Year 2001, in part, because it was projected off too high of a base from Fiscal Year 2000. So between the projected fund balance not re-occurring during Fiscal Year 2001, to carry into 2002, as well as a projected shortfall between ten to thirteen million dollars in sales tax for 2001, because those known quantities, I don't believe it is too early to begin considering increasing sales tax as an option.

What I would note, however, is that there were really two sales tax reductions, which the Legislature passed. The first was a quarter cent sales tax reduction and the second was the exemption on the clothing. The clothing exemption generates less revenues in the full quarter cent. The clothing exemption was generating approximately twenty nine million dollars a year, which we took into account with our sales tax forecast. A quarter cent sales tax generates in excess of fifty million dollars. So depending upon the magnitude of the problem, the county, perhaps, needs to be considering the quarter cent restoration and not necessarily the restoration on the clothing. One additional impediment with the clothing exemption is if the Legislature decides to re-impose it, you can do it at local discretion without enabling state legislation but it can only be done in March of every year. So that even if you decided to re-impose it next week, it would only take effect March 2002. So that you're really not generating the magnitude of revenues, which our budget model indicates you're going to be needing for 2002.

DR. KAMER:

That March re-imposition? That's only for the clothing portion?

MR. POLLERT:

Clothing, because the normal quarter cent can be re-imposed within ninety day notification to the State of New York.

DR. KAMER:

And you don't need legislative approval in Albany?

MR. POLLERT:

Yes, you do. On the quarter cent you do but not on the sales tax on clothing.

DR. KAMER:

It would seem that you have only one option and that's the quarter cent.

CHAIRMAN CARACCIOLO:

So at this juncture, you don't feel we would be necessarily acting with haste but we ought to consider that option.

DR. KAMER:

No, I think you probably should start considering that option, I've just heard.

CHAIRMAN CARACCIOLO:

For others who might say it's premature, take a wait and see attitude. Wait until these numbers shake out a little bit more. Your response would be?

DR. KAMER:

No, I'd get the mechanism started to re-impose the quarter cent. But I would also -- don't forget, we're going to see February sales tax revenues the 12th of this month and then April 12th, we'll have a pretty good idea of what the Easter sales have been. You're not going to have to wait more than a month to make a final decision, so and I don't think a months delay will hurt you, if you have your mechanism in place to re-impose it.

CHAIRMAN CARACCIOLO:

The alternative, of course, is if we don't consider that revenue enhancement, then we resort to the property tax. And to give you some perspective of the numbers, how the numbers would equate, maybe just quickly Fred, you could share with us? What type of a property tax increase would be necessitated, if you did not increase the revenues by approximately fifty million dollars a year visavis sales tax?

MR. POLLERT:

Again, it would really be dependent upon where you decide to raise the property taxes. Part of what the computer model that the Budget Review Office does is there's a distribution of fifty two million dollars, which was never anticipated when we sunset the sales tax on clothing, going to the police district to, in fact, mask what that large arbitration awards impact was on the property taxes in the police district. So our computer model says if there's a shortfall of revenues in the general fund, we again bring that back from the police district and let the police district free float. If that happens looking at an increase of approximately one hundred dollars, you would have to clean up the numbers but that would be in the ballpark of what we're looking at. That would also assume that the county would take actions that's currently at its disposal to reduce expenditures in the labor type of area. One of the largest discretionary that we have is in personnel costs. We have been monitoring and we just recently issued a memo to the Legislators showing that staffing levels have increased fairly dramatically over the last five to six years. We can now begin to ramp down some of those increases and start to reduce some of the pressures for new types of revenues as well. So it would really depend upon what type of actions the county took cooperatively between the Legislature and the County Executive to try to decrease costs will ultimately determine what the property tax is going to be.

CHAIRMAN CARACCIOLO:

Final question from the Chair and that deals with -- on page 60 of your report, Doctor Kamer, you mention construction activity as being an integral part of the local economy? Do you see any trends that would indicate that the amount of construction activity, commercial, industrial, as well as residential home building is leveling off -- would you be forecasting an increase or a decline in that type of activity?

DR. KAMER:

Residential permits, if you look at page 5 of your handout and this is for Nassau and Suffolk. Most of this is occurring in Suffolk. Last year, a little over sixty one hundred new dwelling units authorized by permit, sixty one -- you know six thousand, one hundred. Sixty three hundred in 1999 and that's pretty much close to the maximum. It's leveling off but residential construction was not a major driver of the economy simply because of the scarcity in cost of land. Retrofitting of existing homes is what really contributed to the construction industry.

Now, as far office buildings you have and industrial buildings, you have a lot in the Yaphank area. You have a lot around MacArthur Airport. You have a lot of hotels planned. I hope that many of these hotels are not built. That lenders will cut off the funding for them, because hotel occupancy rates are beginning to fall and I think, we're going to have excess hotel space. So we have three thousand rooms planned on Long Island. I don't think we can support more than fifteen hundred, especially without a major convention center. So I'm hoping some of these hotels will not be built. Office building, you have, aside from the 110 Corridor, where you're beginning to see a rise in class A office vacancy rates, because of the additional supply that has come on board? Suffolk does not have an overhang of office space and I think the offices planned and in the pipeline are really fairly consistent with current demand for class A office space. So I don't see that as a problem. But in the hotel area, I think we're being overly optimistic, in terms, of the demand for hotel rooms.

CHAIRMAN CARACCIOLO:

Thank you. Legislator Postal.

LEGISLATOR POSTAL:

Just a brief comment based on Fred Pollert's reference to the memo that we just got concerning positions and the number of new positions, which have been filled? I think it's really important for us to note that the memorandum points out that there were positions that were filled in a Department of Social Services, primarily in Child Support Enforcement Bureau and I forgot the other division. But child protective services that were legislative initiatives, their positions in the Health Department that were part of the tobacco cessation and anti-smoking initiative in the Health Department, they were positions in the Sheriff's Department. They were correction officer positions. I think it's really important for us to note that a lot of the positions, which have been filled, which are listed as additional positions in the memorandum are positions this Legislature has advocated for. So while we're looking at different ways to either reduce costs or raise revenues, I just want to caution that we've got to be really careful unless we look at a memo that says we have additional positions and assume that those are positions that we can do without and we, as a Legislature, are determined to do it without because most of those positions were from this Legislature.

CHAIRMAN CARACCIOLO:

Doctor Kamer, your presentation lived up to my expectations and I'm sure that of all those who have heard it. I want to thank you very much on behalf of the Suffolk County Legislature for making this presentation and I look forward to having you back in the future.

DR. KAMER:

It's been my pleasure to be here. I hope you found it useful.

CHAIRMAN CARACCIOLO:

Very much so, thank you. Nancy Manteiga. She left, okay. All right. Well, we will then go to today's agenda. Is there anyone else in the audience that would like to address the committee before we take up the agenda? No, okay. First resolution before the committee is tabled resolution prime 2041 of Year 2000. Is there a motion? Mr. Weiss? On 2041, it's a County Executive resolution? It's my understanding that at some juncture this resolution was going to be withdrawn. Has anything changed?

MR. WEISS:

I can check on that and get back to you for the next meeting.

CHAIRMAN CARACCIOLO:

Okay, because it's been on the agenda quite a long while and I'd like to take some action on it. Okay, so we'll make a motion at this meeting to table it one more cycle by the Chair, second by Legislator Postal. All in favor? Opposed? Abstentions. Unanimous.

TABLED RESOLUTIONS - PRIME:

Year 2000

I.R. No. 2041 (P) Adopting Local Law No. Year 2000, A Charter Law authorizing local municipal funding of Suffolk County Capital Projects. ASSIGNED TO FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 TABLED

CHAIRMAN CARACCIOLO:

Tabled resolution non-prime 1024. Is there a motion? Yes, there is by the Chair and there's a motion to approve. Is there a second? You have a question about the impact of this? I believe at the last committee meeting, there was a question regarding the financial impact.

LEGISLATOR POSTAL:

I would just like an overall brief explanation.

CHAIRMAN CARACCIOLO:

Yes. Fred, don't go away. I believe your office is now prepared a financial a financial impact on 1024. You revised it? Is that what you said? You revised it?

MR. POLLERT:

Yes, we both are sure it's been done and Jim is going to get a copy.

CHAIRMAN CARACCIOLO:

Okay. While they're doing that, I'll answer the question. What the resolution would, in effect, change is that when the county makes land purchases and that property is taken off the tax rolls, the county would provide pilots, much as other entities do when they take real property off the tax rolls and that's essentially what it does. It enables school districts like one in my district, the Riverhead School District, which has an inordinately high amount of land off the tax rolls because of preservation within its boundaries and it just coincidentally happens to be, I think, the largest geographically school district on Long Island. And as a result, the former Grumman site, as well as National Cemetery, as well as land purchases made by the county and in some cases local governments including the state, has taken a very high percentage of their property off the tax rolls, which has had a very significant adverse impact on that school district.

MR. SABATINO:

The impact statement should have it.

LEGISLATOR POSTAL:

This only would be for Greenways property?

CHAIRMAN CARACCIOLO:

This would pertain to all property that's owned under county ownership, I'm sorry Greenways, I apologize.

LEGISLATOR POSTAL:

And that's all Greenways acquisitions for active parkland, for preservation, for all Greenways acquisitions?

CHAIRMAN CARACCIOLO:

Right and that would be spread across the board, across the county. So they would be mutual beneficiaries, if you will, in other school districts as well. Am I correct about that counsel?

MR. SABATINO:

Yes, it applies only to the Greenway's Program. So it would be the open space, the active parkland, the parklands. It would limited to that program itself but that's throughout the entire county, obviously.

CHAIRMAN CARACCIOLO:

Okay. Mr. Weiss, I would be remiss if I didn't give you an opportunity to comment on the resolution?

MR. WEISS:

Well, we're opposed to it, because of our current financial situation. This would just make things worse. Because the county would be responsible, I assume, for picking up the school district's share and all the other shares. I haven't seen the fiscal impact statements, so I don't know the impact on it but a --

CHAIRMAN CARACCIOLO:

I'm just asking counsel that question.

MR. WEISS:

I've got the statement attached. The statement indicated that based on past experience on the use of a hundred and thirty seven million dollars, that the cost would be about four hundred thousand, about four hundred thousand dollars per year. That was based on a hundred thirty seven million. So I guess, this is a sixty million-dollar program. So if you extrapolate it, I mean, this is not new statement. I'm extrapolating myself. You're probably talking a couple hundred thousand dollars.

CHAIRMAN CARACCIOLO:

Mr. Pollert, since your office prepared the FIS?

MR. POLLERT:

What we had done is pilots were required under the last Water Quality Program. What we did, as counsel had indicated, we just took a proportionate share of what those expenditures were and applied it to this program.

CHAIRMAN CARACCIOLO:

All right. So you have before us a motion. Is there a second? You want to table it Mr. Cameron, Mr. Alden?

LEGISLATOR ALDEN:

Mr. Chairman, we're not prime on this right?

CHAIRMAN CARACCIOLO:

No, we're not prime.

LEGISLATOR ALDEN:

What committee?

CHAIRMAN CARACCIOLO:

I believe land acquisition is prime, which meets Friday. We can take it up to ask. I'll entertain a motion to defer to prime.

LEGISLATOR ALDEN:

Okay, good.

CHAIRMAN CARACCIOLO:

Since I sit on that committee and the Chairman has just arrived for his next committee meeting, he's been the beneficiary of some preliminary discussion and debate.

TABLED RESOLUTIONS - NON-PRIME

I.R. NO. 1024 Adopting Local Law No. 2001, A Charter Law to authorize payments in lieu of taxes (PILOTS) for Suffolk County Community Greenways Fund. ASSIGNED TO ENVIRONMENTAL, LAND ACQUISITION & PLANNING AND FINANCE & FINANCIAL SERVICES ***(Legislator Michael Caracciolo)***

VOTE: 3-0-0-1 DEFER TO PRIME

CHAIRMAN CARACCIOLO:

Page 2, IR 1150. Motion to approve by the Chair.

LEGISLATOR POSTAL:

Mr. Chairman, could I ask -- I don't know if this is in order, if that motion could be modified to be a motion to approve and put on the consent calendar 1150, 1151, 1152 and 1158, since they are all the adjusting compromising and granting refunds and charge-backs?

CHAIRMAN CARACCIOLO:

Counsel?

MR. SABATINO:

Yes, they may.

CHAIRMAN CARACCIOLO:

We have a motion by Legislator Postal to put on the approve and put on the consent calendar, second by Legislator Alden. All in favor? Opposed? The following resolutions IR 1150, 1151, 1152 and 1158. All in favor? Opposed? Abstentions? So done.

INTRODUCTORY - PRIME:

I.R. NO. 1150 (P) To readjust, compromise grant refunds and charge backs on correction of errors/County Treasurer by: County Legislature #118. ASSIGNED TO FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 APPROVED PLACED ON CONSENT CALENDAR

I.R. No. 1151 (P) To readjust, compromise and grant refunds and charge-backs on real property correction of errors by: County Legislature Control No. 665-2001. ASSIGNED TO FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 APPROVED PLACED ON CONSENT CALENDAR

I.R. NO. 1152 (P) To readjust, compromise and grant refunds and charge-backs on real property correction of errors by: County Legislature Control No. 667-2001. ASSIGNED TO FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 APPROVED PLACED ON CONSENT CALENDAR

I.R. NO. 1158 (P) To readjust, compromise and grant refunds and charge- backs on correction of errors/County Treasurer by: County Legislature #119. ASSIGNED TO PUBLIC SAFETY & PUBLIC INFORMATION

VOTE: 3-0-0-1 APPROVED PLACED ON CONSENT CALENDAR

CHAIRMAN CARACCIOLO:

Okay, IR 1164 non-prime. Motion by Legislator Postal, second by the Chair. All in favor? Opposed? Abstentions? Unanimous.

INTRODUCTORY - NON-PRIME:

CHAIRMAN CARACCIOLO:

Same motion on 1166, same second, same vote.

I.R. NO. 1164 Accepting and appropriating additional 100% State funds from the New York State Department of Environmental Conservation to the Department of Health Services, Division of Environmental Quality for pesticide monitoring of groundwater. ASSIGNED TO ENVIRONMENT, LAND ACQUISITION & PLANNING AND FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

Same motion on 1166, same second, same vote.

I.R. NO. 1166 Accepting and appropriating additional 100% grant funds from the New York State Office of Mental Health to the Department of Health Services, Division of community Mental Hygiene Services to enhance the Transition Management Medication Management Program. ASSIGNED TO HEALTH AND FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

1167, same motion, same second, same vote.

I.R. NO. 1167 Accepting and appropriating additional 100% grant funds from the New York State Office of Alcohol and Substance Abuse Services to the Department of Health Services, Division of Community Mental Hygiene Service for Case Management Services for the Assessment and Monitoring Program in the Bureau of Alcohol and Substance Abuse Services. ASSIGNED TO HEALTH AND FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

1168, same motion, same second, same vote.

I.R. NO. 1168 Accepting and appropriating additional 100% grant funds from the New York State Office of Alcohol and Substance Abuse Services to the Department of Health Services, Division of Community Mental Hygiene Services for two contract agencies to expand and implement new services in the Bureau of Alcohol and Substance Abuse Services. ASSIGNED TO HEALTH AND FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

1169, same motion, same second, same vote.

I.R. NO. 1169 Accepting and appropriating additional 100% State grant funds to the Department of Health Services, Division of Mental Hygiene Services from the New York State Office of Mental Health to provide support services for training & education and the local Multicultural Advisory Committee. ASSIGNED TO HEALTH AND FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

1170, same motion, same second, same vote.

I.R. NO. 1170 Accepting and appropriating additional 100% grant funds from the New York State Office of Mental Health to the Department of Health Services, Division of Community Mental Hygiene Services for a contract agency to develop a DSS Project. ASSIGNED TO HEALTH AND FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

1174, same motion, same second, same vote.

I.R. NO. 1174 Accepting 100% Federal grant awarded by the U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Assistance for reimbursement of expenses incurred by the Sheriff's Department related to the incarceration of criminal aliens under the State Criminal Alien Assistance Program. ASSIGNED TO PUBLIC SAFETY & PUBLIC INFORMATION AND FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

1175, same motion, same second, same vote.

I.R. NO. 1175 Accepting and appropriating additional 100% State grant funds to the Department of Health Services, Division of Mental Hygiene Services from the New York State Office of Mental Health for an Assisted Outpatient Treatment (AOT) Clinical Review Panel Program. ASSIGNED TO HEALTH AND FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

1177, same motion, same second, same vote.

I.R. 1177 Appropriating funds in connection with the purchase of a portable shooting range-Suffolk County Police Department (CP 3131) ASSIGNED TO PUBLIC WORKS & TRANSPORTATION AND FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-0 APPROVED

CHAIRMAN CARACCIOLO:

1178, same motion, same second, same vote.

I.R. NO. 1178 Appropriating funds in connection with the improvements to Fire Training Center, Yaphank (Capital Program Number 3405) ASSIGNED TO PUBLIC SAFETY & PUBLIC INFORMATION AND FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

1179, same motion, same second, same vote.

I.R. NO. 1179 Transferring escrow account revenues to the Capital Fund, Amending the 2001 Capital Budget and Program and appropriating funds for improvements of existing facilities in Suffolk County Sewer District No. 7 - Medford (CP 8119) ASSIGNED TO PUBLIC WORKS & TRANSPORTATION AND FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

1180, same motion, same second, same vote.

I.R. NO. 1180 Transferring escrow account revenues to the Capital Fund, Amending

the 2001 Capital Budget and Program and appropriating design funds for upgrading of facilities in Suffolk County Sewer District No. 1 - Port Jefferson (CP 8169) **ASSIGNED TO PUBLIC WORKS & TRANSPORTATION AND FINANCE & FINANCIAL SERVICES** ***(County Executive)***

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

1181 this is appropriating funds in connection with Brownfields Pilot Program. I know the prime sponsor of the Brownsfields legislation, Legislator Bishop has a resolution that has nothing to do with this but what is the amount of funding that this appropriation calls for?

MR. SABATINO:

The resolution is three hundred eight thousand, seven hundred dollars in serial bonds. This is for the actual --

CHAIRMAN CARACCIOLO:

This is for the --

MR. SABATINO:

I'm not certain. My own notes say that I'm not certain why this is happening now, because I thought we had to identify the sites first with the other legislation, which is still going through an RFP process. So my own notes raised the question about the timing of it.

CHAIRMAN CARACCIOLO:

Okay. Motion by Legislator Postal to defer to prime. I'll second that. All in favor? Opposed? Abstentions? Unanimous.

I.R. NO. 1181 Appropriating funds in connection with the Brownfields Pilot Project. (CP 8223) **ASSIGNED TO ENVIRONMENT, LAND ACQUISITION & PLANNING AND FINANCE & FINANCIAL SERVICES** ***(County Executive)***

VOTE: 3-0-0-1 DEFER TO PRIME

CHAIRMAN CARACCIOLO:

I believe that land acquisition -- maybe by Friday, Mr. Weiss we can have an answer to those questions for the members of the Land Acquisition Committee? Okay. 1183 motion by Legislator Postal, second by Legislator Alden. All in favor? Opposed? Abstentions? Unanimous.

I.R. NO. 1183 Accepting and appropriating 100% grant funds from the New York State, Department of Labor Welfare-To-Work Division to fund an "InVEST Job Start" and "InVEST Job Ladder" Program. **ASSIGNED TO SOCIAL SERVICES AND FINANCE & FINANCIAL SERVICES** ***(County Executive)***

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

1184, same motion, same second. One moment, let me put -- just a brief explanation? What is this Program Built on Pride?

MR. WEISS:

Which one are you up to?

CHAIRMAN CARACCIOLO:

1184.

MR. WEISS:

It's a one hundred percent grant.

CHAIRMAN CARACCIOLO:

The question deals with the program.

MR. SABATINO:

All I know is what I read, which it is an Apprenticeship Program that's done through the Building Trade Council to help economically disadvantage people apparently get apprenticeships. That's what the backup indicates, in general. How the details work with the Labor Department, I wouldn't be able to comment.

CHAIRMAN CARACCIOLO:

We have a motion. We have a second. All in favor? Opposed? Abstentions? Unanimous.

I.R. NO. 1184 Accepting and appropriating 100% Pass-Through grant funds from the New York State Department of Labor Welfare-To-Work Division to fund a "Built on Pride" (BOP) Program. ASSIGNED TO SOCIAL SERVICES AND FINANCE & FINANCIAL SERVICES *(County Executive)*

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

1192, same motion.

LEGISLATOR POSTAL:

I have some questions on this.

CHAIRMAN CARACCIOLO:

Yes.

LEGISLATOR POSTAL:

If there is, I don't know if there's a motion and a second?

CHAIRMAN CARACCIOLO:

Yes.

LEGISLATOR POSTAL:

Yes, I'll second that.

CHAIRMAN CARACCIOLO:

On that resolution, could we have a presentation? I know we had one last year and there seems to be some disagreement as to what the cost benefit of doing this program would be? This upgrade. I think it's important for Legislators to understand the ramifications of not moving forward on this. I know that Budget Review and I have had conversation and they support this upgrade. I know the Budget Director and the County Executive does as well. I'm not quite sure that's been conveyed adequately to Legislators. So we're going to table today, Jim but at the next committee meeting, Mr. Weiss --

MR. SPERO:

I have another point to make.

CHAIRMAN CARACCIOLO:

Go ahead.

MR. SPERO:

And that is 1192 conflicts with 1201 and 1202. The offsets for those projects are the payroll integrated human services payroll system. So you can't approve the court projects and the funding for the human resources payroll.

CHAIRMAN CARACCIOLO:

Now I know why there some legislative opposition. Okay, we have a motion to table by Legislator Alden, second by the Chair. All in favor? Opposed? Tabled. Unanimous.

I.R. NO. 1192 Appropriating funds in connection with the purchase of an integrated Human Resources/Payroll System. (CP 1740) ASSIGNED TO HUMAN RESOURCES

AND FINANCE & FINANCIAL SERVICES ***(County Executive)***

VOTE: 3-0-0-1 TABLED

CHAIRMAN CARACCIOLO:

1194 motion to approve and counsel, can you just give us a brief explanation?

MR. SABATINO:

This is the legislation that was discussed at the Environment Committee two weeks ago, which is it would take the five million dollars in the 2001 Capital Budget and Program that's currently budgeted for hundred percent County Farmland Development Right Acquisition and it would move it over to open space. So you would increase open space acquisitions by an equivalent amount of five million dollars. So in effect, it would trade in five million dollars of farmland for five million dollars of open space.

CHAIRMAN CARACCIOLA:

For the record, Budget Review could you state how much funding is presently available for farmland acquisitions in Suffolk County? We have twenty million or approximately nineteen million on the Greenways that I'm aware of. But we have some other line categories with additional funds in it, so I think it's important to note for the record that we're not stripping fund balances in farmland, for farmland preservation. There are substantial fund balances in addition to which Legislator Bishop and I are sponsoring a new Charter Law Referendum in the fall. I would add an additional twenty five million. So to those who may have a concern about this five million dollar transfer, it is really short lived and there are plenty of fund balances to deal with farmland acquisitions. Jim?

MR. SPERO:

The new quarter percent program.

CHAIRMAN CARACCIOLO:

What's the new quarter percent program?

MR. SPERO:

We're bringing -- we're estimating about three point nine million dollars.

CHAIRMAN CARACCIOLO:

Right. That's the seven point three five percent that will be generated this year. That's rather incredible.

MR. SPERO:

That's an additional source of funding for farmland acquisitions.

CHAIRMAN CARACCIOLO:

I make a motion to approve. Is there a second? All in favor? Opposed? Abstentions? Unanimous.

I.R. NO. 1194 Amending the Adopted 2001 Capital Budget and Program to expedite acquisition of Environmentally Sensitive Lands. ASSIGNED TO ENVIRONMENT, LAND ACQUISITION & PLANNING AND FINANCE & FINANCIAL SERVICES *(Legislator Michael Caracciolo)*

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

That's additional. That's on the fall referendum for farmland. That brings us to 1201 and 1202. The Chair will make a motion to table until we clear up the issue with respect to 1192, second by Legislator Postal. All in favor? Opposed? Abstentions? 1201 is tabled.

I.R. NO. 1201 Amending the Adopted 2001 Capital Budget and Program and appropriating funds in connection with courtroom construction at Cohalan Complex. (Four Courtrooms) ASSIGNED TO WAYS & MEANS AND FINANCE & FINANCIAL SERVICES *(Legislator David Bishop)*

VOTE: 3-0-0-1 TABLED

CHAIRMAN CARACCIOLO:

Same motion, same second, same vote on 1202.

I.R. NO. 1202 Amending the Adopted 2001 Capital Budget and Program and appropriating funds in connection with courtroom construction at Cohalan Court Complex. (Two Courtrooms) ASSIGNED TO WAYS & MEANS AND FINANCE & FINANCIAL SERVICES *(Legislator David Bishop)*

VOTE: 3-0-0-1 TABLED

CHAIRMAN CARACCIOLO:

1210 this amends the 2001 Operating Budget and transfers funds to the Department of Public Works in connection with the demolition of Quonset Huts at Indian Island. Let me just note for the record that funding for this demolition work was included in the new maintenance buildings in Riverhead, however, we do not have sufficient funds to complete the work and this would add thirty thousand dollars to do so. Jim the offset for this is?

MR. SPERO:

This is -- funding is being taken out of the Pay As You Go Account.

CHAIRMAN CARACCIOLO:

Right. Which we presently have how much money in?

MR. SPERO:

Well, we budgeted about nine point nine million.

CHAIRMAN CARACCIOLO:

Okay.

MR. SPERO:

So this cycle now, with the first resolutions are on the table to start using that money.

CHAIRMAN CARACCIOLO:

So this would be thirty thousand out of nine point million dollars of available funds. Mr. Weiss, do you have a comment?

MR. WEISS:

No comment. We sponsor that.

CHAIRMAN CARACCIOLO:

Okay, great. Motion by the Chair, second by Legislator Alden. All in favor? Opposed? Abstentions? The Clerk's Office, would you please note 1210, the Chair is a co-sponsor. Thank you.

I.R. NO. 1210 Amending the 2001 Operating Budget and transferring funds to the Department of Public Works in connection with the demolition of Quonset Huts at Indian Island County Park. ASSIGNED TO PARKS AND FINANCE & FINANCIAL SERVICES *(County Executive) Co-Sponsor Legislator Michael Caracciolo.*

VOTE: 3-0-0-1 APPROVED

CHAIRMAN CARACCIOLO:

That concludes the business before the committee. We stand in recess until the 25th. Please note the date change. It's a Monday the 25th of March 26th. Thank you.

(The meeting was adjourned at 11:30 a.m.)

{ } Denotes spelled phonetically