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HOMEOWNERS TAX REFORM COMMISSION

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of the

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SUFFOLK COUNTY LEGISLATURE

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A regular meeting of the Homeowners Tax Reform

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Commission of the Suffolk County Legislature was held

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in the Rose Y. Caracappa Legislative Auditorium of the

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William H. Rogers Legislature Building, Veterans

19 Memorial Highway, Smithtown, New York, on Tuesday,
20 July 25, 2006.

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24 Stenographer:
Lori Anne Curtis

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3 A P P E A R A N C E S :

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5 MEMBERS PRESENT :

6 LEGISLATOR WILLIAM LINDSAY
Suffolk County Legislature - Presiding Officer
7 Co-Chair

8 LEGISLATOR LYNNE NOWICK
Suffolk County Legislature - Minority Leader
9 Co-Chair

10 PATRICK BYRNE
Suffolk County Executive's Designee

11

ROBERT LIPP

12 Budget Review Office - Principal Economist
13 MICHAEL BERNARD
Suffolk County Assessor's Association
14
ESTER BIVONA
15 Suffolk County Tax Receivers and
Collectors Association
16
JAMES KADEN
17 Nassau-Suffolk School Boards Association
18
GARY D. BIXHORN
New York State Council of
19 School Superintendents
20
DANIEL A. BAHR
New York State United Teachers
21
JOHN F. CLAHANE
22 Labor Relations Specialist
23
CHRISTINA CAPOBIANCO (For JOSEPH SAWICKI, JR.)
Suffolk County Comptroller
24
THOMAS KOHLMANN
25 Suffolk County National Bank - President/CEO

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2 A P P E A R A N C E S :
(Continued)

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4 MEMBERS PRESENT:

(Continued)

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LISA TYSON
Long Island Progressive Coalition - Director

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ROBERT A. KING, CVA, MBA, CPA
Certified Public Accountant/Tax Advisor

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MITCH PALLY (For DR. PEARL KRAMER)
Long Island Association
Vice President - Government Affairs

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11

MELVYN FARKAS
Long Island Board of Realtors

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13

CELINE GAZES
Government Finance Officers Association
Suffolk Chapter

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15

NICHOLAS LAMORTE
Long Island Federation of Labor
CSEA Region 1 President - AFSCME Local 1000

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17 PRESENTATION BY:

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JEFFERY CASALE
Suffolk County Regional Off-Track Betting
President

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MARIETTA SEAMAN
Suffolk County Regional Off-Track Betting
Vice President

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RUSSELL KRATOVILLE
Suffolk County Regional Off-Track Betting
Special Assist. to President of Budget Systems

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25 *** All other interested parties.

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(THE MEETING WAS CALLED TO ORDER AT

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10:10 A.M.)

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LEG. LINDSAY: Good morning. Can I

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have everybody's attention? We're going to

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call to order our meeting of the

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Homeowner's Tax Reform Commission.

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Again, I thank all the Commissioners

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for being with us this morning. We're just

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missing a few. I thank the audience for

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their interest in this very important

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subject. Today's meeting will not have any

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public comment. It's a working meeting,

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and I am glad that you took time out of

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your busy schedule to just come and observe

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what we're doing because I think it's

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really important work. With that, I ask

18 everybody to rise for the pledge.

19 (Salutation.)

20 LEG. LINDSAY: In our meetings up to
21 this point, we have been discussing the
22 system the way it is now, and some of the
23 faults in the funding streams that come to
24 the local school districts, and we've had a
25 great deal of information about an income

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1 Homeowner's Tax Reform Commission
2 tax. And what I would like to do today is
3 really twofold. First, and at the second
4 part of the meeting, I would like us to
5 brainstorm on the information we've
6 acquired so far about the income tax, and
7 start trying to put some flesh on the bones
8 of what if. What if we did switch totally
9 from a property tax to an income tax, how

10 would it work? And start talking about
11 some of the specifics, and hopefully see if
12 we can wrap up that part of our discussions
13 today.

14 I also want to start, today, exploring
15 other income sources besides the income
16 tax, and I've asked the president of our
17 off-track betting in Suffolk County, Jeff
18 Casale, to be with us this morning, and
19 he's in the audience. And I asked Jeff
20 specifically to talk about two things: The
21 possibility of a Long Island Lottery, which
22 we've kicked around a little bit; and also
23 to discuss Video Lottery Terminals, which
24 is a phenomenon that in parts of the state
25 are being installed in racetracks, if I'm

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1 Homeowner's Tax Reform Commission
2 not mistaken, and is it possible that that

3 could be a revenue source to fund our
4 schools.

5 So, Jeff's a busy guy, so I'm going to
6 ask Jeff to come forward. And if you want
7 to sit at the table, Jeff, you are probably
8 more comfortable to sit at the table, and
9 maybe you could enlighten us on this
10 subject. And I'm sure that the
11 Commissioners would have some questions for
12 you.

13 MR. CASALE: Good morning, and thank
14 you for giving us the opportunity to talk
15 with you about --

16 LEG. LINDSAY: That's not on. There's
17 a little switch at the top.

18 (Mr. Casale turns on microphone.)

19 MR. CASALE: Good morning, and again,
20 thank you for giving us the opportunity to
21 be here before you. I want to introduce to
22 you, to my left is Marietta Seaman, Vice

23 President of Suffolk Off-Track Betting; and
24 a gentleman who helped prepare some of
25 today's information, to my right, is

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1 Homeowner's Tax Reform Commission
2 Russell Kratoville, who is Special
3 Assistant to the President of Budget
4 Systems.

5 I want to make just a couple of
6 comments to begin with, and then we'll
7 address some of the information we just
8 handed out to you.

9 For the past 30 years, Suffolk Regional
10 Off-Track Betting Corporation has been
11 proud to generate a profit each year and
12 turn over that entire profit to Suffolk
13 County to provide property tax relief for
14 our taxpayers. Since 1975, we have
15 generated just under \$200 million in

16 revenue for Suffolk County. Looking to the
17 future, our goal is to increase this
18 revenue stream for our homeowners and
19 businesses, and thereby increase revenues
20 for tax relief.

21 At this point in our history, our
22 industry is at a crossroads. It's an
23 exciting and challenging time filled with
24 great possibilities for our county. Our
25 state legislators must make the right

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1 Homeowner's Tax Reform Commission
2 decisions, or we will reach a turning point
3 that could spell a future of financial
4 difficulty for Suffolk County and other
5 local governments.

6 Right now all six of the State's OTB
7 Corporations are struggling under the
8 burden of statutory payments that are

9 directing more and more of our profits away
10 from our county government and to
11 racetracks that are not making a profit on
12 their own. With the New York Racing
13 Association, or NYRA, struggling to remain
14 profitable, there are those who will take
15 the OTBs away from local governments and
16 make them a part of any racetrack franchise
17 bid by the State. Yet, with the advent of
18 Video Lottery Terminals, or VLTs, in New
19 York State, our residents would have a new
20 and popular way to enjoy gaming.

21 Video Lottery Terminals are electronic
22 gaming devices that function in a near
23 infinite assemblage of instant Lottery
24 tickets operated by the New York State
25 Lottery, the only entity which may operate

2 the Lottery according to the state
3 Constitution. VLTs are very similar to
4 slot machines, and hold the potential for
5 significant benefit for our county
6 taxpayers if operated by our state's
7 Regional OTB Corporations.

8 Before I begin to discuss what video
9 gaming would be like in Suffolk County, as
10 operated by Suffolk OTB, let me tell you
11 what they would not be. VLTs would not be
12 located in every OTB branch. They would
13 not be operated in local taverns and
14 restaurants such as Lottery's Quick-Draw
15 games. They would not be located "on every
16 street corner in every neighborhood" as
17 some opponents have mischaracterized this
18 proposal.

19 We envision that video gaming run
20 through Regional Off-Track Betting
21 Corporations would be in a single gaming

22 entertainment destination away from
23 residential or downtown areas, similar to
24 the destination gaming operated in
25 Saratoga. If any of you have travelled the

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1 Homeowner's Tax Reform Commission
2 state, you will see Video Lottery Terminals
3 at Finger Lakes Racetrack up in Saratoga,
4 Harness Racetrack, another location,
5 Buffalo Raceway.

6 Every day hundreds of Long Islanders
7 get into their cars, onto charter buses or
8 board ferries to enjoy a day of gaming at
9 casinos in Connecticut or Atlantic City.
10 Still, others head to MacArthur, Kennedy or
11 LaGuardia Airport for extended stays in
12 Las Vegas. Air travel between Long Island
13 and Las Vegas is very easy; it's probably
14 one of the most popular routes between Long

15 Island and points west. By next summer,
16 Suffolk residents won't even have to spend
17 more than an hour in their car before they
18 could play 4,000 machines at Aqueduct
19 Racetrack in Queens, or another 4,000 in
20 Yonkers. And that is not including the
21 possibility of VLTs at Belmont Racetrack;
22 a very real possibility that is being done
23 by dozens of companies, as we speak, or at
24 casinos on our east end and constructed by
25 Native American nations. So that the

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1 Homeowner's Tax Reform Commission
2 advent of video gaming is here, and it is
3 not necessarily being run by entities that
4 would be benefiting, directly, the
5 taxpayers.

6 Long Islanders are already wagering

7 hundreds of millions of dollars every year.
8 How much of that do we see returning to our
9 own economy, our own schools or local
10 government? Other than horse wagering at
11 local OTBs and Lottery education money, not
12 one dime is seen by the taxpayers of
13 Suffolk County.

14 The other way local taxpayers will
15 benefit from legal wagering is for
16 Off-Track Betting to operate VLT
17 facilities. Suffolk OTB supports
18 Legislation S5340(A), filed by Senator
19 Nozzolio, to grant Video Lottery Terminal
20 franchises to OTB regions. This
21 legislation, as supported by Suffolk County
22 OTB, would return 92% gross revenue
23 generated by Video Lottery Terminals to
24 betters, and distribute the remaining 8% as
25 follows:

1 Homeowner's Tax Reform Commission

2 54% to education with a distribution of
3 27% to New York State and 27% to be
4 distributed on a per capita basis to each
5 school district located within Suffolk
6 County, and I want to comment a little bit
7 about that. On the pages we gave you, you
8 will see a sample of school districts --
9 knowing fully well that there are a lot
10 more in Suffolk County -- our proposal, and
11 the proposal that we've always supported is
12 that the distribution generated by video
13 gaming should be made directly to the
14 school districts and not passed through the
15 state. We think that's the single most
16 effective way to aid the school districts
17 and also to ensure the public that the
18 money is being given directly to the groups
19 that need it the most.

13 avenue or increased flow of funds to the
14 county to help alleviate tax burden
15 elsewhere for government purposes.

16 Suffolk OTB is a public benefit
17 corporation. It's well-suited to operate
18 VLT gaming. It was created by state law in
19 1970, and founded in 1975 for three very
20 specific reasons: To generate revenues to
21 local government; to curb illegal
22 bookmaking; and, to ensure the wellbeing of
23 the race industry.

24 Since its inception, Suffolk OTB turned
25 over in excess of \$321 million to Suffolk

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1 Homeowner's Tax Reform Commission
2 County, New York State and other local
3 governments. So there is a revenue stream
4 to be realized, and we can increase that
5 revenue stream and, again, provide tax

6 relief to Suffolk taxpayers.

7 With VLTs, the payments to the County
8 and local school districts would be
9 substantially higher, providing real
10 property tax relief for Suffolk homeowners
11 and businesses. Using just conservative
12 figures from industry standards for VLT
13 revenue projections, each machine
14 generating a daily retention of \$250, a
15 model VLT facility with 1600 machines --
16 which is a number that's well within the
17 industry's -- that industry sources say
18 could be sustained by Suffolk County --
19 that amount, just that amount of machines,
20 will net the daily profit of \$400,000 or
21 \$146 billion per year.

22 Please excuse me, I'm getting over a
23 summer cold. I apologize for the break.

24 Make no mistake, the argument isn't
25 whether or not Video Lottery Terminals will

1 Homeowner's Tax Reform Commission
2 be allowed on Long Island -- they will be
3 at some point -- but it's rather a matter
4 of who should operate them and how.
5 Whether it's the local Native American
6 tribe or a private company, we are likely
7 to see VLT gaming halls somewhere within
8 Suffolk County sometime within the next
9 decade.

10 I'd like to go back to that \$146
11 million per year figure. Of the \$146
12 million, 61%, or 89 million, would be
13 earmarked for education; 10%, or 14.6
14 million, is earmarked for the New York
15 State Lottery Division; and, after
16 operating and capital expenses, Suffolk
17 County would receive approximately
18 \$32 million, directly benefitting County

19 residences with tax relief and added
20 services. So, you can see that there would
21 be a direct benefit to school districts and
22 to education. It would be an indirect
23 benefit to taxpayers because of the
24 additional \$32 million that would be
25 generated for Suffolk County residents,

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1 Homeowner's Tax Reform Commission
2 again, providing additional tax relief.

3 Even New York City Mayor Michael
4 Bloomberg, who is not an advocate of
5 expanding video gaming, has conceded that,
6 and I quote: "If people are going to
7 gamble, they might as well do it here and
8 have us get the tax revenues."

9 The only entity with a proven track
10 record of nearly three decades of regulated

11 legal wagering and turning profits over to
12 the taxpayers, are all the off-track
13 betting corporations. But in order for us
14 to move forward -- and it's important for
15 the Commission to understand this -- even
16 if there were some approval of video
17 gaming, there's legislative reform
18 required. Most of what we do is regulated
19 by the State of New York, and also limited
20 by the New York State Constitution. In
21 addition to video gaming, New York
22 legislative reform of statutes and
23 regulations effecting OTBs is absolutely
24 necessary if we are to continue to provide
25 a significant stream of revenue to Suffolk

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1 Homeowner's Tax Reform Commission
2 County.

3 In 1975, our first year of operation,

4 Suffolk OTB turned over \$2.76 million to
5 Suffolk County, more than 53% of our total
6 review as intended by the statute creating
7 OTBs. Over the years, however, the
8 industry and New York State have taken on
9 an increasing larger piece of our revenue,
10 and thanks to statutory state mandates, the
11 County sees less and less of the funds. So
12 unless there's legislative reform about how
13 funds are distributed to the various
14 localities and to the entities, you are
15 going to see less and less of that money
16 going back to taxpayers for tax relief.

17 By 1981, Suffolk County's portion of
18 our total revenue was down to 45%; by 2002,
19 it had dwindled to 23%. So you can see the
20 effect of over-regulation and statutory
21 fees that we are required to pay. And I
22 think if we were to move in the direction
23 of video lottery gaming, you certainly

24 would not want to have those, what I
25 consider, oppressive, regulatory fees

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1 Homeowner's Tax Reform Commission
2 reducing the impact. It seems any time we
3 find something that will benefit taxpayers
4 at the local level and where we can provide
5 benefits directly to the school districts,
6 state regulations keep moving along and
7 reduce the net amount that is available to
8 schools and school districts, which I think
9 would be unfortunate if we went in that
10 direction.

11 Basically, that is our position with
12 regard to video gaming. I did hand out to
13 you some document that gives you an example
14 of the kind of revenue that could be
15 generated through wagering, and let's just
16 look at it for a moment. We can walk you

17 through it.

18 There were various studies done around
19 the state with regard to video gaming. We
20 actually now have some real experience at
21 the venues that I mentioned earlier, the
22 various racetracks. By any estimate, we
23 are being conservative. And you will
24 notice at the top of the chart, the
25 three-colored chart, we have a number of

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Homeowner's Tax Reform Commission

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machines that could be located in any

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gaming facility. And you would be looking

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at 1,324 machines, 2,000 machines or 3,000

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machines. And recent experience -- I was

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just up at the Finger Lakes Racetrack.

7

They are experiencing close to \$250 per

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machine per day, which I think is a very

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reasonable estimate of the type of revenue

10 that could be generated by -- gross revenue
11 that could be generated by one Lottery
12 video gaming machine.

13 If you follow the chart down, we'll
14 just look at the first scenario, 1,324
15 machines. And again, that's a number that
16 you could easily sustain with Long Island
17 and Suffolk County's population. We
18 have -- the bottom line, if you look at the
19 amount that would be available for
20 education, based on the formulas that
21 currently exist with New York Lottery you
22 have \$62,785,000. That's a significant
23 amount of money. And that's, again, at the
24 low end of machines, if we were to have
25 less machines than what I think we can

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1 Homeowner's Tax Reform Commission
2 genuinely sustain.

3 If you go all the way over to the right
4 with 3,000 machines, that number jumps up
5 significantly to \$151.6 million as taxpayer
6 relief. Again, a very significant amount
7 of money.

8 The other indirect benefit, if you look
9 down where the 10% is to the New York
10 Lottery, at the first scenario, the 1300
11 machines, you see \$12 million additional
12 funds going to the New York Lottery. Well,
13 again, that's, through their formulas, we
14 would ultimately benefit statewide, money
15 available for education. So I don't know
16 if I'm making it clear, but you have a
17 double benefit; you have the benefit of
18 generating revenues anywhere from 62
19 million to 151 million dollars directly for
20 school districts in Suffolk County, and
21 then indirectly, additional funds being
22 made available to the New York State

23 Lottery, being distributed as it currently
24 is throughout the state. Then there is an
25 additional benefit if OTBs were to be the

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1 Homeowner's Tax Reform Commission
2 operators of the VLTs to increase the
3 revenues generated by OTB, which increases
4 the amount of money we distribute to the
5 County directly, which, again, provides tax
6 relief to the tax base of Suffolk County.
7 We would be able to increase that amount
8 which would effect, obviously, the county
9 property tax in addition to the school
10 district property tax. So I think there is
11 no question that there is a significant
12 benefit that could be gained if we were to
13 move in the direction of video gaming
14 facilities. And we feel very strongly that
15 it is a very positive thing for the

16 taxpayers of the Suffolk County, if it is
17 not over-regulated and if the state
18 approaches this in the right way. We also
19 think it would benefit all taxpayers in
20 Suffolk County on a number of levels. It
21 is an option. It is something available.
22 We also think we're in a position to be
23 able to do it.

24 I'd be happy to take any questions if
25 anybody has any.

22

1 Homeowner's Tax Reform Commission

2 LEG. LINDSAY: Yeah, I'm sure there's a
3 lot of questions for you, Jeff, but I just
4 had a couple.

5 So the charts that you have here are --
6 have been worked up to fit the existing
7 legislation pending?

8 MR. CASALE: Yes. This is worked up
9 to -- based on the current formulas that
10 exist in the state for Lottery. And these
11 plans are not new. These are things we
12 have been pushing for -- is it two years,
13 now, Russell?

14 MR. KRATOVILLE: Yes.

15 MR. CASALE: It's been about two years
16 that we have been promoting and pushing for
17 this kind of legislation.

18 These are all based on existing
19 formulas wherever the gaming facilities
20 have been set up, and Lottery's formulas
21 for education distribution.

22 LEG. LINDSAY: And, you know, I mean,
23 it's pie in the sky if we implement this
24 kind of system that we could apply all the
25 revenue to our local school districts?

1 Homeowner's Tax Reform Commission

2 MR. CASALE: Correct.

3 LEG. LINDSAY: Because, the formula
4 that you are showing here --

5 MR. CASALE: And these are conservative
6 estimates, by the way.

7 LEG. LINDSAY: Yeah, but 26% goes to
8 New York State for education; 26% goes to
9 the Suffolk County school districts.

10 MR. CASALE: Correct.

11 LEG. LINDSAY: So we're in a position
12 that we're sending money back to Albany
13 again, and then begging for it to come back
14 again.

15 MR. CASALE: Yes. And that's the
16 nature of the Lottery rules. I think --
17 but the thing that we're trying to hammer
18 home is that, that 26% that we would retain
19 here in Suffolk County -- not including
20 what gets sent to the state -- we strongly

21 recommend that that money goes directly to
22 the school districts. There would be no
23 middle person involved with this.

24 Let's say Suffolk OTB is operating the
25 VLTs. At the end of the year, or multiple

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1 Homeowner's Tax Reform Commission
2 times a year perhaps, based on the per
3 capita of student enrollment at the school,
4 we would then distribute the funds directly
5 to the school districts. It's not unlike
6 pilot payments that might be collected by
7 industrial development agencies sent
8 directly to a school district.

9 We would strongly recommend that if
10 this is done, that the school district gets
11 the -- the clear benefit of the revenues
12 generated by us distributing those payments
13 directly to the school districts; nobody in

14 the middle, not passing it up through the
15 state or through the county and then to the
16 school districts. We just give the funds
17 directly to the schools.

18 And while the state Lottery might
19 benefit through this, which they are now
20 currently, it does make additional funds
21 available to school districts through the
22 state aid process as is currently done
23 through the Lottery. So we would be
24 increasing revenues through the Lottery
25 commission, and the Lottery revenues would

25

1 Homeowner's Tax Reform Commission
2 go up thereby providing more revenue for
3 school districts. But we would also be
4 providing direct payments to the school
5 districts to alleviate the tax burden for
6 the schools.

7 That's the second chart that you might
8 want to take a look at. Again, following
9 the same example of the same estimated
10 machines. And these are obviously not all
11 the school districts, but it's based on the
12 most recent enrollment figures. These are
13 examples, and they are strictly examples of
14 what payments that would be --

15 LEG. LINDSAY: And the payments are
16 worked out on a per student basis?

17 MR. CASALE: Per student, yeah, most
18 current student enrollment in that school
19 district.

20 LEG. LINDSAY: And New York State
21 Lottery on top of everything else takes 10%
22 off the top?

23 MR. CASALE: Yes. For their operating
24 expenses.

25 LEG. LINDSAY: But we're installing

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Homeowner's Tax Reform Commission

machines and paying for the machines here?

MR. CASALE: No. I thought that two years ago, and I think that was the case two years ago. I'm going to let Russell handle that part of it. He's done some research on it. There's been a change in how the machines are financed.

MR. KRATOVILLE: The operation of the machines and security and other equipment and oversight of the facility would be done by New York State Lottery, and that's what that money would go towards.

LEG. LINDSAY: So they are providing the equipment.

MR. CASALE: They would provide the equipment. In the past, that expense was borne by the operators.

LEG. LINDSAY: Well, if they are taking

20 \$12 million --

21 MR. CASALE: They might as well provide
22 something.

23 LEG. LINDSAY: Legislator Nowick.

24 LEG. NOWICK: Good morning. Thank you
25 for that presentation. Very interesting.

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1 Homeowner's Tax Reform Commission

2 I have just a few questions, and I'm
3 going to go backwards now.

4 A certain percentage would go to our
5 schools, and then another percentage 20 or
6 25% would go directly back to New York
7 State. Would that then be sort of like a
8 double-dipping, we'll still get -- a
9 percent of what we send them comes back
10 again?

11 MR. CASALE: Yes. What you would do,
12 theoretically, is that all the Lottery

13 money and all the revenue gained from the
14 Lottery today, goes through the process of
15 going up to the State and then distributing
16 it. You can go to the website and actually
17 see the distribution to education if you
18 need to. But this would increase that pool
19 of money.

20 LEG. NOWICK: That's what I thought,
21 and then come back to us again. So if we
22 send them 26%, we might still get --

23 MR. CASALE: Right, some percentage
24 will come back to you. But there will
25 still be a greater amount available to

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1 Homeowner's Tax Reform Commission
2 school districts if we do it the way
3 Suffolk OTB proposes.

4 LEG. NOWICK: Well, 26% of something is

5 better than...

6 MR. CASALE: Right. And also,
7 Legislator Nowick, I just want to
8 emphasize, these numbers are conservative.
9 I will say that a number of times. The
10 experience has been much greater. And
11 there's even some arguments that Suffolk
12 County, because of its population, could
13 sustain greater numbers of machines than
14 we're showing. So the potential is there.

15 LEG. NOWICK: Now, I had a question.

16 You mentioned that there's a
17 possibility that the tribes out east might
18 be running this. How does that effect what
19 we can get?

20 MR. CASALE: Yeah. I'm not totally
21 familiar with what's been happening, but I
22 think everyone's read the newspapers.
23 There have been movements to open up casino
24 sites here in Suffolk County by one of the

1 Homeowner's Tax Reform Commission
2 again, Russell or Marietta can correct
3 me -- I don't believe we would really see
4 that kind of revenue from those.

5 LEG. NOWICK: That's what I was
6 wondering, and that does concern me.

7 MR. CASALE: Yes. And I think my
8 position has always been that wagering,
9 being a sensitive issue, and we're not
10 unaware of the concerns that people have,
11 we always like to remember why off-track
12 betting was established back in the early
13 '70s. And one of the reasons was to
14 curtail illegal book-making or any
15 problems. I have a problem with removing
16 wagering, whether it's Video Lottery
17 Terminals or horse racing or anything else

18 like that from the public benefit structure
19 that we currently have. That is something
20 that should remain in the public venue for
21 distribution of any gain from it to return
22 to the taxpayers, and that's where I think
23 it belongs.

24 LEG. NOWICK: And the last question.
25 Under the current legislation, you spoke

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1 Homeowner's Tax Reform Commission
2 about putting these machines into -- at
3 racetracks. Can you put these machines
4 say, in Suffolk County, into the waiting
5 room of Islip Airport or --

6 MR. CASALE: Sort of like landing at
7 Las Vegas airport.

8 LEG. NOWICK: I'm thinking of ways of
9 making more money.

10 Can that be done or is it the

11 legislation says specifically only certain
12 areas?

13 MR. CASALE: I'm not sure the
14 legislation dictates certain areas. We
15 would propose there would be one particular
16 site, a destination for these kinds of
17 machines. I don't think we would propose
18 to put them in any other locations anywhere
19 else in Suffolk County. That certainly
20 would help us with security issues and
21 other things that we would need to be
22 concerned with. So we envision that it be
23 done in one particular site, much like our
24 racing form. Any of you familiar with the
25 racing form on Motor Parkway, that's a

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1 Homeowner's Tax Reform Commission
2 destination for a particular site. It's
3 separate and distinct and away from homes

4 and schools and other facilities. We want
5 it to be an adult destination, one that
6 could be easily monitored and controlled.

7 LEG. NOWICK: That would be another
8 problem, then. Because, the machine stands
9 out there. Anybody can put money in there.

10 Is it credit card or...

11 MR. CASALE: No. New York State
12 prohibits any kind of wagering through
13 credit cards.

14 LEG. NOWICK: So that is a whole other
15 concern. So I guess waiting on line at the
16 bar at the Cheesecake Factory --

17 MR. CASALE: Isn't going to happen
18 (laughing.) Nor should it.

19 LEG. LINDSAY: Okay, Lisa Tyson.

20 If I could ask the Commissioners, when
21 you ask a question, if you would announce
22 your name first, because our stenographer
23 is having trouble reading the name plates,

24 so that she doesn't attribute your comments
25 to someone else.

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2 MS. TYSON: I'm Lisa Tyson.

3 I have two questions.

4 One question is: Why is this
5 specifically for education? Did you decide
6 on your own in making this proposal that it
7 would be rather than going for Suffolk
8 County, or does it have to go towards
9 education?

10 And my other question is: Have there
11 been demographic studies of the impact on
12 poor people in expanding the gambling
13 system that we have?

14 MR. CASALE: First question, the answer
15 is: This is based -- video gaming in New
16 York State is part of New York State

17 Lottery system, and it's the only mechanism
18 available to have that; okay? Because of
19 that, then the distribution of funds would
20 have to follow the distribution of funds
21 that currently exist for scratch-off
22 Lotteries or the other Lottery games that
23 currently exist. So that, I guess the
24 answer to your question is yes, it would go
25 to education. It would have to, based on

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1 Homeowner's Tax Reform Commission
2 the current --

3 MS. TYSON: But right now it's being
4 distributed differently, though.

5 MR. CASALE: Yes.

6 MS. TYSON: It goes to all different
7 parts of the State. So you're saying it's
8 a different distribution.

9 MR. CASALE: Yes. The proposal we are
10 recommending, or we suggest would occur,
11 would be instead of sending it to the
12 State, any funds generated through video
13 gaming, we would follow the formulas, send
14 to the State its 10% portion or whatever
15 other funds need to go to Lottery, but the
16 excess, or the amount that would be
17 generated specifically for Suffolk County
18 school districts, would be distributed
19 directly to the school districts, not go to
20 a third party and then off, you know...

21 MS. TYSON: That would need some sort
22 of legislative change.

23 MR. CASALE: Russell would be able
24 to -- under the current change in
25 structure, just explain.

2 MR. KRATOVILLE: Under the current
3 structure of the bill that is floating the
4 senate, this is the distribution of the
5 current bill.

6 LEG. LINDSAY: Mel, did you have a
7 question?

8 MS. TYSON: Oh, I'm sorry, my second
9 question wasn't answered.

10 MR. CASALE: I imagine there have been
11 many studies done with regard to wagering
12 and gambling all across the country. I
13 don't have those figures in front of me.
14 I'd be happy to forward them to you if you
15 want them. I imagine there are different
16 scenarios that could happen. There could
17 be an impact, obviously, on any segment of
18 the population whether it's lower income or
19 even wealthier members of the population,
20 for those that might do excessive gambling.
21 And we're very sensitive to that. We have

22 self-exclusion programs and we do
23 everything we can to limit its exposure.

24 I mentioned earlier to Legislator
25 Nowick, that we definitely don't locate

35

1 Homeowner's Tax Reform Commission
2 anything near schools or residential areas.
3 We try to keep it strictly as an adult
4 destination.

5 But I will be happy to get those
6 studies for you; they do exist. And I
7 imagine there are all different kinds of
8 findings. It just depends on -- not just
9 the income levels, but it might even have a
10 lot to do with location what part of the
11 country, what part of the state. But I
12 will get that for you.

13 MR. FARKAS: I just have a couple of
14 quick questions.

15 First, I didn't catch what the bill
16 number and the sponsor was? I wanted to be
17 able to look it up.

18 MR. CASALE: Just one second. I know I
19 have it. It's a New York State senate bill
20 that was introduced.

21 (Mr. Casale perusing documents.)

22 MR. CASALE: It's S5340A, sponsored by
23 Senator Nozzolio.

24 MR. FARKAS: Is there any assembly
25 legislation so far?

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2 MR. CASALE: There's usually a
3 duplicate bill when the assembly has been
4 introduced.

5 MR. KRATOVILLE: Not that I'm aware of.

6 MR. FARKAS: With the OTB, how many
7 sites do you see as being possible?

8 MR. CASALE: Right now, we would
9 envision only the one site.

10 MR. FARKAS: Just the one site.

11 MR. CASALE: Yes. And by the way,
12 specifically devoted to video gaming and
13 not to any other operation.

14 MR. FARKAS: Thank you.

15 MR. KADEN: Hi. Jim Kaden.

16 I have two questions. One is: When
17 Governor Pataki was talking about video
18 Lotteries, they projected a revenue stream
19 of \$325 million state-wide. We're
20 projecting an annual gross revenue of \$272
21 million in Suffolk County alone. Is there
22 a disconnect there?

23 MR. CASALE: No, I don't think there
24 is. I believe when the governor was doing
25 his study, I believe it was several years

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2 back, and the real experience of the VLT's
3 has been far greater than what the original
4 projections were.

5 As I said, about a week ago, I was up
6 at the Finger Lakes Racetrack, where they
7 installed the video gaming probably about
8 two years ago. They had originally
9 projected something in terms of net
10 revenues per machine of about \$180 per
11 machine. They have far exceeded that.
12 They are doing about \$238 per machine. So
13 I think based on the real experience, the
14 numbers have been going up rather than
15 down.

16 I mean Suffolk County, just go to any
17 strip mall where there's a stationary store
18 and everybody is getting onto buses going
19 to Atlantic City for a day of
20 entertainment, or to Connecticut where

21 they're hopping the ferry. There's
22 apparently a high demand for that kind of
23 entertainment. And, Long Island is
24 slightly more affluent, probably, than the
25 rest of the state, so I think we would see

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1 Homeowner's Tax Reform Commission

2 more activity with regard to --

3 MR. KADEN: You ran into my second
4 question.

5 MR. CASALE: Okay.

6 MR. KADEN: Why would I believe that
7 the state, with another major cash-cow
8 opportunity, would allow that money to stay
9 here. And even if you pass laws, as we
10 well know with the regular Lottery, the
11 money from the Lottery goes to the
12 education, they just stopped giving the
13 aid. It didn't go on top of the aid; they

14 just replaced the aid. So why wouldn't
15 this be the same thing?

16 MR. CASALE: I think you are expressing
17 the same kind skepticism that every
18 taxpayer feels, and certainly that we feel
19 at OTB. Part -- my statement earlier was
20 about legislative reform and regulatory
21 reform. OTB, I think is a tremendous asset
22 to Suffolk County, for instance. We've, as
23 I said, generated over \$200,000 million to
24 the taxpayers for the Suffolk County
25 budget.

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2 Unfortunately, we are -- even though we
3 see greater and greater gross revenues over
4 the years, the state regulations, you're
5 right, they see it as a cash cow. Less and

6 less was available to the taxpayers of
7 Suffolk because the state, through its
8 regulations and the industry, were taking
9 more and more from us.

10 I think what's unique about the
11 proposal we support, and that we would be
12 very happy to administer, would be the
13 direct distribution; not going through the
14 middle person.

15 MR. KADEN: Yeah, but as I said,
16 really, the Lottery right now, even though
17 it goes to ed, there's a direct
18 distribution to education, all that really
19 happens there is my district would get \$1.7
20 million from you, and the state would say
21 you're getting \$1.76 million from Suffolk;
22 we're going to substitute your state grant
23 for \$1.78 million.

24 MR. CASALE: I can't argue with you on
25 that, largely because I agree with you. I

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2 mean, we just mentioned the STAR program,
3 we've all seen what's happened with that.
4 You know, the property -- my tax bill keeps
5 going up even though I look at my bill and
6 I see a credit for STAR. It is part of the
7 problem, I think, in New York State. It's
8 not unique to Suffolk County, but I think
9 we have to give it our best shot, and I do
10 think direct distribution is one way to
11 address that concern.

12 You would hope that the State would not
13 take less and less out of the Lottery to
14 give to the individual districts, but I
15 think seeing that direct distribution is
16 something that school districts could count
17 on every year. You know, in terms of
18 budget preparation, they would know what

19 their revenue source was. That's the way
20 to go.

21 I understand your skepticism. We have
22 the same problem at OTB. We could be
23 generating much more to Suffolk County
24 taxpayers if the State would address some
25 of the regulatory issues that are out

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1 Homeowner's Tax Reform Commission
2 there.

3 LEG. LINDSAY: Well, that was the
4 observation I made before on the cuff here,
5 is, really, if you look at it, only 26% is
6 going to our schools. The other 26% goes
7 to New York State, which comes back to us
8 and somebody is going to beat their
9 chest and --

10 MR. KADEN: Yeah, but my fear is even
11 worse than that. My fear is that you'll

12 get the 26% from this, and they'll cut your
13 state aid by that same 26 and you will have
14 no benefit to Long Island. That's what
15 happened with the regular Lottery.

16 LEG. LINDSAY: Dan, you had a question.

17 MR. BAHR: Yes. Dan Bahr.

18 The projections, it seems to be, were
19 based on VLT sites such as Harness Tracks
20 where there's a stream of people that are
21 there for reasons other than VLTs. Do you
22 have any experience with sites that are
23 solely dedicated to these terminals?

24 MR. CASALE: There are none in New York
25 State, I believe, that are not related to

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1 Homeowner's Tax Reform Commission
2 tracks. It's one of the current
3 regulations that are governing this
4 process. However, again, I think some of

5 the studies that have been done, show, (A)
6 our population in Suffolk County is far
7 greater than any section, or concentration
8 of population is far greater than any of
9 the track areas. So just by numbers alone,
10 we would be doing much better.

11 Second, we do have a much more affluent
12 population; and,

13 Third, as I said earlier, the number of
14 people leaving Suffolk County every single
15 day to go to New Jersey, to go to
16 Connecticut, and pretty soon to go to
17 Pennsylvania to wager. It's just
18 astronomical. And I think most Long
19 Islanders would rather stay closer to home
20 for that kind of entertainment if they
21 could.

22 The demand is there. And we need to
23 face reality; there are going to be VLTs
24 somewhere close to us, within forty miles,

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whether it's Bellemont Track or Aqueduct

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2

Racetrack. They are going to be here, and

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more and more revenue is going to leave

4

Suffolk County and go to Nassau County or

5

to any other part of the state. So I think

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Suffolk County could sustain those numbers

7

very easily.

8

MR. KRATOVILLE: If I could add one

9

more thing to the question you asked. At

10

Saratoga Harness, they looked at the

11

demographics of the people who are wagering

12

on VLTs versus those wagering in the

13

racetrack, and they found that over 90% of

14

their customers are mutually exclusive;

15

that it's not a spillover from one to the

16

other.

17

LEG. LINDSAY: Gary was next.

18 MR. BIXHORN: I think I share --

19 LEG. LINDSAY: Gary, if you could just
20 give your name.

21 MR. BIXHORN: Gary Bixhorn.

22 I think I share Jim and Bill's
23 skepticism in terms of the return on the
24 dollar to Long Island. And also, if we
25 start sending more money up to Albany, two

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1 Homeowner's Tax Reform Commission
2 things are going to happen: We're going to
3 get a small share back and the money will
4 probably serpent other funds that are
5 already coming in. But, it sounds to me
6 like the proposal that you are supporting
7 is as an element of desirability for us in
8 terms of the ability to keep some funds
9 right in the County.

10 Have you developed a proposal for
11 legislative reform along the lines of the
12 points that you mentioned earlier so that
13 if we were to support something like this,
14 we could support a reform that would keep
15 more of the funding Long Island?

16 MR. CASALE: You are raising a very
17 good concern, and very real problem for
18 OTB's across the state as well as, I'm
19 sure, and for the Lottery, as well. I can
20 tell you that we at Suffolk OTB --
21 particularly under my predecessor Tony
22 Afferlaro (phonetic) -- have been very
23 vocal and very active with regards to
24 legislative reform. Tony Afferlaro used to
25 refer to it as "the dysfunctional

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2 distribution of revenues in New York

3 State." And that pretty much sums it up.
4 If you look in today's newspaper, I believe
5 it was in New York Post, the story about
6 New York City OTB, there was an article --
7 I just saw it as I was leaving the office,
8 about that very issue; that problem of
9 reform that's needed and how much less and
10 less is available to taxpayers. So if you
11 get a chance, look at today's paper with
12 regard to that. And that's just specific
13 to horse racing and OTBs, particularly New
14 York City OTB.

15 But I guess I'm saying to you that we
16 have been very active, the OTB presidents
17 across the state, and there are six of us
18 who will be meeting, in fact, this coming
19 weekend to discuss some issues relative to
20 what you just raised. I will again bring
21 up to them to push even in their local
22 communities, the VLTs. I think your

23 commission is taking a very bold step and a
24 very good step for Suffolk County in
25 considering this. I mean -- I'm not

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1 Homeowner's Tax Reform Commission
2 suggesting that you are supporting this
3 kind of program, but I think the mere fact
4 that you are willing to discuss it openly
5 and honestly and understand that the
6 potential for that revenue bodes well for
7 the people of Suffolk, I would hope that we
8 would do that across the state. The OTB
9 presidents have been advocating this for
10 quite some time.

11 The other -- I just want to go back to
12 something else that's relative to what you
13 said.

14 Suffolk County is the only region of
15 the six OTB regions in New York State that

16 does not have a racetrack within its
17 borders. And that's a problem because as
18 VLTs are starting to surface, they're
19 surfacing in every other region with those
20 regions getting the economic benefit of
21 tourism and the other things that might go
22 along with this. Suffolk County doesn't
23 get that.

24 So we're suggesting that we start here
25 in Suffolk County with a VLT separate from

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2 all the others.

3 MR. BIXHORN: I just want to make one
4 other comment. It has to do with the
5 distribution of the funds to the schools.

6 If you do get into a position where you
7 are authorized to do that, in terms of a
8 funding formula, one of the things we're

9 always sensitive to is the equity -- and we
10 do have rich districts and poor
11 districts -- and a straight per capita
12 distribution on a per pupil basis doesn't
13 address those issues. So I know it's way
14 down the line, but when it comes to that
15 point, you might want to consider some
16 other factors in the formula.

17 MR. CASALE: Yeah. I would tell you,
18 personally, I agree with you. We did this
19 for demonstration purposes only of what it
20 could mean as a direct distribution based
21 on student enrollment. But I do think you
22 are right in that there are other factors
23 that need to be addressed according to
24 school districts.

25 And again, unfortunately, the state is

2 the one that has to take that up, but
3 dually noted. I agree with you.

4 MR. LINDSEY: So, Gary, you are
5 suggesting we create our own school
6 formulas?

7 LEG. NOWICK: That's a good idea.

8 MR. BIXHORN: I think we could do a
9 good job of it.

10 LEG. LINDSAY: Legislator Nowick, you
11 had a question.

12 LEG. NOWICK: Yes. Just quickly --
13 with respect to the time -- and I think
14 that maybe Russell might have answered it,
15 my concern was that if the Video Lottery
16 Terminal was at the same place where there
17 was horse racing, would that take away from
18 the money that was being spent on horse
19 racing? And what Russell said was that you
20 find it is two different groups of people.

21 MR. KRATOVILLE: Yes. At Saratoga

22 Harness, they have done that study and they
23 found that they are mutually exclusive, one
24 from the other; that there are horse
25 racing --

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2 LEG. NOWICK: Just that they are not
3 going to borrow from Peter to pay Paul.

4 MR. CASALE: Yeah, that's always a
5 concern. I don't think that would bear
6 out. I actually think the opposite would
7 happen. I think that it would benefit
8 Suffolk OTB on a number of levels, in terms
9 of horse racing as well as the VLTs. I
10 think that you would see increased revenues
11 on both ends as a result.

12 LEG. LINDSAY: Michael?

13 MR. BERNARD: Hi, Jeff. Mike Bernard.

14 Did you do projections on costs? You

15 don't have a facility now, I imagine, so
16 you would have to either lease or buy a
17 facility. How big a facility do you
18 imagine would hold 3,000 machines plus, I
19 guess, operations? Security, is going to
20 be a big issue.

21 MR. CASALE: When we first started
22 looking at this several years ago, two to
23 three years ago, I won't say the location,
24 but we had looked at a site that I believe
25 was over a hundred thousand square feet.

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2 So depending on the number of machines you
3 have, you might be looking at a facility
4 that could be a 150,000 square feet,
5 110,000 square feet, depending on how many
6 machines you have available to you. There

7 are security issues that we would have to
8 address.

9 What Russell was speaking of earlier
10 was that the laws have changed a little.
11 We would not have to lease the equipment --
12 am I correct, Russell?

13 MR. KRATOVILLE: That is correct.

14 MR. CASALE: The state Lottery would
15 provide those things.

16 MR. BERNARD: That's maintenance as
17 well?

18 MR. CASALE: They would maintain the
19 machines on a technical level, I guess,
20 they would maintain the machines. We would
21 have to provide our own cleaning services,
22 attendants.

23 You know, these facilities do provide
24 jobs, as well, so there is an added
25 economic benefit. Suffolk OTB employs over

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2 400 employees across the county right now.
3 I imagine if we add a facility like this,
4 we would add many additional jobs. So
5 there's an added benefit. But I think
6 you're looking at a facility probably close
7 to a hundred, 110, 115,000 square feet,
8 somewhere around there, to get started.

9 LEGISLATOR LINDSEY: Robert Lipp.

10 MR. LIPP: Just a statement.

11 My own personal observation is it
12 doesn't look like a good deal. And the
13 reason, to me, is directly we get about 26%
14 of the action. Of the other school, New
15 York State education, their 26%, we would
16 get back about probably 20% of that, or a
17 little over 5% so that we're up to 31%.
18 And then I don't know how much from OTB.

19 So let's say for arguments sake, we get

20 a third of it. From an economics
21 perspective, we lose two-thirds of a
22 dollar. So I go out and I spend my money
23 on this sort of stuff, and two-thirds of
24 every dollar I spend winds up getting
25 leaked out of local economy. It's a very

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2 bad, negative economic impact. We leak to
3 such low percentage. We'd be much better
4 off using a revenue such that we got almost
5 a hundred percent of the dollar.

6 Not to mention, there are plenty of
7 studies out there, which I don't claim to
8 be an expert on, over the last several
9 years, that look at the negative impact
10 associated with gaming.

11 That's my statement.

12 LEG. LINDSAY: Anybody else have any

13 comments?

14 (No response.)

15 LEG. LINDSAY: Jeff, just a couple of
16 things. "1324," why such an odd number?

17 MR. CASALE: Go ahead, Russell, you
18 explain that one.

19 MR. KRATOVILLE: I wanted to have some
20 actual numbers, so I used the current
21 scenario at Saratoga Raceway. They have
22 the most experience, and we thought was the
23 closest in demographics to Suffolk County.
24 So that's the number of machines that's
25 currently at Saratoga Raceway.

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2 LEG. LINDSAY: You know, we just heard
3 Mr. Lipp about I'm not happy with the
4 retention of the revenue. On the positive
5 side of it, though, is it's a new revenue

6 source that people buy into voluntarily.
7 It isn't a tax. And that is certainly
8 beneficial; that if you are of a mind to
9 gamble, you know, gamble locally. If you
10 don't have a mind to gamble, nobody is
11 twisting your arm and saying you have to
12 gamble.

13 Jeff, you are about the closest thing
14 we can come to a bookmaker, so let me ask
15 you --

16 (Laughter.)

17 MR. CASALE: I've been called worse
18 than that.

19 (Laughter.)

20 MR. LINDSEY: -- we have kicked around
21 the idea of an exclusive Long Island
22 Lottery. What are your thoughts on that?

23 MR. CASALE: As I mentioned to you
24 privately, that's not an issue I've looked
25 into very deeply. I do think you would run

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2 into the same concerns that have been
3 raised here today; that if we were to have
4 a Long Island Lottery, it has to be done
5 through New York State one way or the other
6 because of the state Constitution limiting
7 any kind of wagering. There's only two
8 forms of legalized wagering in the state;
9 one would be through the Lottery, and one
10 would be through Suffolk OTB for apparently
11 this kind wagering prohibited by the
12 Constitution and everything else, and I
13 think you would -- you know, then, if you
14 were to have a Long Island Lottery, you
15 would still have to have it regulated and
16 run through the State of New York, and I
17 think you would run into the same issues
18 that were just raised by one of your

19 Commissioners about seeing only two-thirds
20 of it coming back. Again, it's a guess on
21 my part, but you would probably only see
22 about two-thirds of that coming back to
23 Suffolk County as well.

24 I think no matter what you do, if the
25 State is involved, they are going to take

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2 their cut. And I think to believe
3 otherwise we would be making a mistake. It
4 doesn't mean I think it's a bad idea. I
5 think it would be a great idea if you had a
6 regional Lottery that would benefit
7 specifically Suffolk County. I have no
8 idea now what the numbers are. I can tell
9 you that there are OTB branches we're doing
10 a significant amount of Lottery sales.

11 Russell actually tracked that for a while
12 or --

13 MR. KRATOVILLE: Well, we recognize
14 revenues of about a hundred thousand
15 dollars to Suffolk OTB, and we only have it
16 in six of our locations.

17 MR. CASALE: Six locations.

18 So, yes, there answer to your question
19 goes that there is the potential for a new
20 source of revenue through a regional
21 Lottery benefiting just Suffolk County, but
22 I do think you would run into the same
23 difficulties that you run into now with the
24 return on that dollar. I think it's going
25 to be similar to what you experience with

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2 the State.

3 MR. LINDSEY: Keith [sic], are you

4 aware of any other regions in the State
5 that has a local Lottery in addition to the
6 State Lottery?

7 MR. CASALE: I don't think there is.
8 I'm not aware of it. I don't think any
9 other region does it. I think it would be
10 prohibited and would require special
11 legislation through the senate and
12 assembly, and then you would have to get
13 the governor to sign off on it. And I
14 would imagine if it was started here, it
15 would probably be desirable across the
16 state. I could just see that battle in the
17 Legislature.

18 MR. RUSSELL: One of the things that
19 should be considered here is that New York
20 State Lottery joined into the Mega
21 Millions, which is actually over a broader
22 number of states, because they find that
23 the most wagering that people do is where

24 they can get the largest pot. So one of
25 the negatives of having a local Lottery, is

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2 that you probably would not have the
3 same -- be able to offer the same type of
4 jackpots that the state-wide Lottery would.
5 So there's a possibility that people would
6 still choose to do state-wide Lottery.

7 LEG. LINDSAY: That's a good point.

8 Before I -- we go on, and let these
9 folks go on their way, and it's question I
10 have for the superintendent and the school
11 board representatives, do we have any idea
12 in dollars how much school expenses went up
13 across Suffolk County in a total amount?

14 (No response.)

15 MR. LINDSEY: The point that I'm making
16 here, is if we -- looking at Jeff's sheet

17 here, and if you took the middle column of
18 2,000 machines, and it would be a net
19 revenue of \$49 million directly to Suffolk
20 County schools, would that number be
21 anywhere's near the amount of money we
22 would need to freeze local school taxes?

23 MR. KOHLMAN: I believe last year's
24 school expenditures went up on average
25 probably about 5 to 6%. The tax rates, the

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1 Homeowner's Tax Reform Commission
2 tax levies, went up at a higher rate
3 because the income other than property
4 taxes didn't keep pace with the expenditure
5 increase.

6 We could easily develop the numbers in
7 terms of, you know, working up the
8 percentages. I just don't have them with
9 me.

10 LEG. LINDSAY: I'm going to ask, Mitch,
11 if you would know what the increase in
12 number was?

13 MR. PALLY: I don't know.

14 MR. LIPP: I could give you the
15 property tax numbers if I pull up my files.

16 MR. LINDSEY: Yeah, but from one year
17 to another?

18 MR. LIPP: I can give you the growth
19 and property taxes by school district back
20 to 1970 in dollars or in growth rates, but
21 I have to call up off my computer.

22 LEG. LINDSAY: It would just -- you
23 know, in terms of when we've been talking
24 about a great deal of discussion about
25 changing from real estate tax to income

1 Homeowner's Tax Reform Commission
2 tax, and we've been talking in terms of one

3 replacing the other, now we're going to
4 start to look at other alternatives, and it
5 doesn't seem to -- you know, you just can't
6 raise enough money to replace the real
7 estate tax altogether. And just a thought,
8 what kind of number would we need to freeze
9 property taxes?

10 And that's where I was going, and I
11 wanted to see if that was...

12 Lisa?

13 MS. TYSON: If anything, it would
14 freeze it for one year. I mean, it looks
15 like the numbers might be enough for one
16 year. But then the next year, it's the
17 same situation. This is not going to
18 increase every year. This is pretty much a
19 stagnant number. It's not going to
20 multiply every year unless you add more
21 facilities. So it might just deal with one
22 year's increases, but that's it. So every

23 year, with inflation, school budgets have
24 to go up. So this wouldn't be -- this does
25 not grow.

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1 Homeowner's Tax Reform Commission

2 (Leg. Nowick and Leg. Lindsay
3 confer.)

4 LEG. LINDSAY: Right.

5 What Legislator Nowick just pointed out
6 is we don't know whether it's way on or way
7 over.

8 Jeff, I thank you, and Ms. Seaman, I
9 thank you for coming. I thank you for
10 bringing people. It was a very interesting
11 discussion.

12 MR. CASALE: Thank you for putting up
13 with my failing voice. But I'd be happy --
14 if anyone wants to follow up with any
15 questions separately, I'd be happy to

16 provide that information, and I'll get
17 Ms. Tyson the information she needs.

18 MR. LINDSEY: Thank you.

19 MR. CASALE: Thank you.

20 (At this time, Mr. Casale,
21 Ms. Seaman, and Mr. Russell left
22 the meeting.)

23 MR. LINDSEY: What I'd like to do now
24 is I'd like to backtrack a little bit, and
25 I'd like to go back to our discussions.

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1 Homeowner's Tax Reform Commission

2 You know, we've had a number of

3 presentations about the income tax and the

4 income tax replacing the real estate tax,

5 and I had a number of things that I wanted

6 to bring up and to get people's opinion on

7 that system. There's a lot of flesh that

8 has to be put on the bone, so to speak.

9 For example, my vision is -- we have to
10 start thinking about coming up with a final
11 report, which, by legislation, unless we
12 get an extension is mandated by the end of
13 September. And, you know, what I was
14 hoping to do is to come up with some kind
15 of report that everybody -- first of all,
16 the majority of us could buy into, and that
17 would have a road map with different
18 shoots. You know, here are some positive
19 things that could be done to change the
20 situation on Long Island in terms of the
21 burden of real estate taxes. And we've had
22 some discussion initially about the state
23 aid formulas, about Long Island's school
24 districts not getting an equitable share of
25 the money that we send Albany back here,

1 Homeowner's Tax Reform Commission
2 and certainly that should be part of -- or
3 one of the options, which, you know, what
4 I'm envisioning is, you know, seeking and
5 asking the State to, by statute, to mandate
6 a percentage of dollars back to Long
7 Island -- you know, whatever that is --
8 instead of this game that we go through
9 every spring of how much money is going to
10 be allotted to the state aid to our school
11 districts instead of, you know, we send up
12 a dollar, we want 60 cents back, or 70
13 cents back or whatever the number is.

14 The second thing is, you know, I think
15 with the amount of testimony we've had that
16 we should put a section in about an income
17 tax. And there's a whole bunch of things
18 that I have some questions about. You
19 know, the first thing is: If we were to
20 switch to an income tax to fund our

21 schools -- and this is my personal
22 feelings, and I'm looking for input -- the
23 only system that I could support in that
24 way is one that totally replaces the
25 school's real estate tax. I feel very

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1 Homeowner's Tax Reform Commission

2 strongly that if we implemented an income
3 tax and you left the property tax in place,
4 there would certainly be a huge
5 creditability gap with our citizens because
6 they would view it not as tax relief,
7 but another tax. You just put another tax
8 on me in this whole discussion.

9 Does everybody feel that same way?

10 MR. PALLY: Bill, I think the question
11 is: Are you replacing the entire real
12 property tax or just the residential
13 portion of the real property tax? Because

14 that has --

15 LEG. LINDSAY: Well, that was something
16 else that I was getting to, Mitch.

17 MR. PALLY: Because that has
18 significant differences because various --
19 we all know various school districts, pay
20 significantly different percentages by
21 their residents than they do by their
22 commercial taxpayers depending upon the
23 percentage of their property, and the taxes
24 as we clearly know is based in their
25 district. And just take for example, Port

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1 Homeowner's Tax Reform Commission
2 Jefferson and Northport, which pay a
3 significantly lower tax rate because all of
4 us pay a portion of their tax rate because
5 of the power plants.

6 If -- so, the issue there relates to an

7 equality of distribution of the residential
8 and commercial tax rate across school
9 district lines, which, in my opinion, is a
10 corollary to this discussion, not
11 necessarily separate and apart because that
12 is going to have a different impact
13 depending on where you do it.

14 You know, there are a variety of
15 consequences as you move down the list to
16 the answer of your question.

17 LEG. LINDSAY: Okay, so why don't we go
18 to those corollaries, and discuss them a
19 little. But Megan, if you could put down,
20 "income tax" on the top, and "income tax
21 replace real estate tax," with a question
22 mark.

23 You know, it sounds like a simple
24 concept, but you get into a whole bunch of
25 other questions. And something that --

1 Homeowner's Tax Reform Commission
2 well, at the top of my list, is -- and it's
3 something that I know is near and dear
4 especially to the east end school
5 districts, is the second home. A great
6 deal of their real estate tax base comes
7 from homeowners that do not live here year
8 'round. And if you switch to an income
9 tax, there would be a total loss of revenue
10 there. And I tend to agree with the Harvey
11 Levenson (phonetic) presentation; that if
12 we were to use an income tax, it should
13 only be on owner-occupied homes.

14 MR. KOHLMAN: The issue of East End
15 real estate is also complicated by the fact
16 that those people, most often, don't pay
17 income tax locally, either.

18 LEG. LINDSAY: And well --

19 MR. KOHLMAN: Essentially, what I'm

20 saying is you lose both.

21 LEG. LINDSAY: But my point is that if
22 it was a second home, I think what Harvey
23 prescribes to is that it would still be on
24 the real estate tax rolls.

25 MR. PALLY: I think you would have a

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1 Homeowner's Tax Reform Commission
2 very substantial constitutional question
3 there of treating two different homes
4 differently depending -- I mean, I'm not
5 saying you couldn't do it, but I think
6 there's a variety of legal issues involved
7 in that as to whether or not it is
8 somebody's primary residence. Because, it
9 still is an owner-occupied house. The fact
10 that they may not be there 365 days doesn't
11 mean it's not owner-occupied. It's a
12 rental, I understand that issue. I think

5 residence.

6 LEG. LINDSAY: Well, what if what we're
7 trying to exclude is the in-betweeners;
8 that they -- you know, say they reside in
9 the city, and they pay income taxes --

10 MR. PALLY: In the city.

11 LEG. LINDSAY: -- in the city --

12 MR. PALLY: Right.

13 LEG. LINDSAY: -- and if we exclude
14 them from paying real estate tax here --

15 MR. PALLY: They get a significant
16 benefit.

17 LEG. LINDSAY: Well, they get a free
18 ride.

19 MR. PALLY: That's true.

20 LEG. LINDSAY: So maybe it should be
21 based on if to qualify as your primary
22 residence, is that you have to pay income
23 tax in this jurisdiction.

24 MR. PALLY: It's an issue --

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2 would that be policed. How would we check
3 that? I mean, what body would be
4 responsible? We have --

5 LEG. NOWICK: Look at the STAR program.

6 MR. BERNARD: Well, as an example, as
7 Lynn just pointed out, the STAR program.
8 We've got many people, we find, over the
9 years that claim multiple primary
10 residences, which is clearly in violation
11 of the Real Property Tax Law. The law says
12 you can have one. And they claim a husband
13 in one, a wife in another. I could see
14 that happening with a city resident, you
15 know, that are going by more than one
16 individual, and, you know, anything they
17 can to try and get around paying the tax,

18 they are going to do. I mean, that's my
19 opinion and that's my experience as an
20 assessor.

21 LEG. LINDSAY: Well, see, first of all,
22 the system that I envision is not to file a
23 separate form. It would all be on your
24 State income tax form.

25 MR. PALLY: Right. As the city does

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1 Homeowner's Tax Reform Commission
2 now, or Yonkers does now.

3 LEG. LINDSAY: Right. And I believe
4 you have to indicate what school district
5 you are in now.

6 MR. PALLY: That's true.

7 LEG. LINDSAY: All right? So, if you
8 pay -- if you indicate that you pay income
9 tax on your primary residence, you would be
10 exempt from your real estate tax.

11 MR. BERNARD: But then again, how would
12 we know to levy a tax on that property? I
13 mean, there's going to have to be another
14 mechanism in place, I guess, between the
15 State Department of Taxation and Finance
16 and the local towns. Because, unlike
17 Nassau, which is a single assessing unit,
18 Suffolk County has ten assessing units. So
19 we would have to have that brought back
20 down to the town level.

21 LEG. LINDSAY: I guess there would have
22 to be some kind of master list developed
23 and distributed to the ten towns.

24 LEG. NOWICK: But what you are saying
25 is how do you know it's Suffolk and not New

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1 Homeowner's Tax Reform Commission
2 York City.

3 MR. BERNARD: Yeah, but that would, as

4 Mitch, I think, pointed out, that would
5 probably be listed on their tax return. So
6 they would list a New York City -- a
7 Manhattan address, and that's the school
8 district as where they are paying their
9 income tax. So their second home in
10 Westhampton would then have a property tax.
11 But how would the Southampton [sic]
12 assessor know that, or tax receiver, how
13 that would work there?

14 LEG. NOWICK: Then everybody would have
15 to show their income tax return. You get
16 them for STAR, for seniors.

17 MR. BERNARD: And there are many
18 retirees that do not pay New York State
19 income tax.

20 MR. PALLY: Right, because of the
21 pension exclusion.

22 MR. BERNARD: Well, because of the
23 pension exclusion and because they are

24 below the income levels. And we have a lot
25 of them that get senior exemption which is

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1 Homeowner's Tax Reform Commission
2 in addition to the STAR. It's a lower
3 income level. "467" of real property tax.
4 But thirty-two, four is the total gross
5 income. And usually they are living on
6 Social Security, and if that's the case,
7 they are not paying State or Federal income
8 tax.

9 LEG. LINDSAY: Gary, you wanted to add
10 to this discussion?

11 MR. BIXHORN: I think there's a
12 structural inconsistency between the way
13 the schools are organized and the income
14 tax. When 69 school districts in Suffolk
15 County and 56 in Nassau County, and the
16 complexity of trying to transfer the entire

17 tax from property to income, I just think
18 trying to put a system in place that's
19 sensitive to 69 different budgets in the
20 County and 56 in Nassau County -- because I
21 think according to the study that Pearl
22 presented a little earlier this year --
23 you'd almost have to do it on a Long Island
24 basis, and it would very difficult to do it
25 on a county-by-county basis.

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2 And I always go back to the
3 presentation we heard last time where we
4 started to deal with some more specifics in
5 terms of funding the particular school
6 district budgets, and there was a comment
7 "Well, there's going to be a pot or a
8 bucket of money and we'll have to figure

9 out how we're going to distribute that," I
10 have -- I really think we need to see a far
11 more well-developed proposal to kind of
12 measure the -- even just examine the
13 feasibility of considering an income tax.

14 According to the numbers Pearl
15 presented early in our deliberations, it
16 sounded like it was a big lift, and I don't
17 think the second proposal made me any more
18 confident that there was really -- that
19 there really is a feasible alternative.
20 But if it is, it seems like there needs to
21 be some more meat on the bones.

22 LEG. LINDSAY: The only observation I
23 would make, Gary, is opposedly one to
24 examine, is our charter to develop. So,
25 you know, I don't think anybody is going to

2 come in through the door and drop something
3 on the table. I think that's what this
4 discussion is starting to develop into, is,
5 you know, if you ask people, should we get
6 away from the real estate tax -- and we've
7 heard testimony over and over again -- and
8 switched to something else? And everybody
9 says, "yeah." But when we start to get
10 into specifics, we run into some very dicy
11 issues that I don't think are unsolvable,
12 but I think, you know, it's going to take
13 some thought. And that's what I was
14 hoping, to start that dialogue today.

15 MR. PALLY: Well -- and as Gary pointed
16 out, in any movement from one tax to
17 another tax, we have to make a set of
18 assumptions. You have to make a variety of
19 public policy decisions to allow you to get
20 the numbers. Because, whatever you
21 decide -- if we decide to exempt second

22 homeowners, that's a public policy decision
23 we decide to make that's going to force
24 other people to pay for the difference that
25 the other people didn't pay. Anybody you

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1 Homeowner's Tax Reform Commission
2 exempt, makes somebody else pay for the
3 people you just exempted. So there are a
4 wide variety of decisions.

5 Another question is going to be: Okay,
6 are we going to move revenues from the
7 income tax across school district lines or
8 is whatever you collect in your district
9 stays in your district?

10 The problem with that, of course, is
11 that some school districts have more income
12 than other school districts, a collective
13 income, not necessarily an individual
14 nature. But if you add up the income of

15 people in every school district, they come
16 out very differently. So to raise the same
17 amount of money would provide different tax
18 rates, to some degree what we have now, in
19 different school districts if you are not
20 going to move money across school district
21 lines. And that's a decision that you have
22 to decide what you want to make, because
23 then you go back to the public and say,
24 Okay, the people leaving in East Islip,
25 we're going to tax you on an income tax,

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1 Homeowner's Tax Reform Commission
2 but we're not going to keep your money in
3 East Islip because West Islip is poorer
4 than East Islip or vice versa. But that's
5 a decision you have to make, and then and
6 only then, once you make those assumptions,
7 can you come out and said Okay, here's what

8 your tax rate is going to be: 2%, 1%, 3%.
9 Now, you, taxpayer, can take what your
10 income tax would be, compare it to what
11 your school real property tax is, and
12 decide for yourself whether you come out a
13 winner or not. Because there are going to
14 be winners, individually, and losers,
15 individually, in this to get to collect the
16 same amount of money. And those are the
17 times -- when we've done those analysis,
18 you get stuck on those public policy issues
19 because as soon as you add to them, you
20 can't figure out, okay, where do we go
21 next? In that regard.

22 LEG. LINDSAY: Well, the other thing
23 that you just raised was about five steps
24 down my list, is if the assumption is if
25 you did come up with an equitable system of

1 Homeowner's Tax Reform Commission
2 replacing real estate tax with income tax,
3 how do you distribute? Better write that
4 down, Megan.

5 MR. BIXHORN: And we really are --
6 going to Mitch's example -- we really are
7 already moving income taxes between
8 district lines as we do every day with the
9 distribution of state aid. State aid is
10 basically income tax and sales tax.

11 LEG. LINDSAY: But never mind district
12 lines, regional lines.

13 MR. BIXHORN: If we could keep our
14 income tax in our region, we'd be in great
15 shape.

16 MR. KADEN: STAR has the same purpose
17 of redistributing property tax into income
18 tax as well, and a major shift to income
19 tax.

20 MR. KOHLMAN: I think one of the things

21 that you might have to do is really take a
22 much broader look county-wide, and see what
23 the comparison is. You know, you got to
24 make some assumptions about exemption on
25 real estate taxes -- and I think you can

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1 Homeowner's Tax Reform Commission

2 get the income numbers -- and you can do a
3 comparison to see if the numbers even look
4 promising to explore it further.

5 Then, I think there's a whole set and
6 series of additional complications. But I
7 think you have to take it one step at
8 a time. I'm not so confident that the
9 income tax could replace the real estate
10 tax.

11 LEGISLATOR LINDSEY: Well, see, the
12 other thing is -- again, you are down my
13 list here -- but whether it's viable or

14 not, is what's the price tag? You know,
15 are we talking about a 3%, you know, flat
16 tax, you know, which, is another whole
17 issue, or are we talking about a 10%? At
18 3%, most people would say, Yeah, that would
19 work; I'd be in favor of that. If you want
20 to start taking 10% of their income, they
21 are going to say What are you crazy? I'm
22 going to pay real estate tax.

23 MR. KADEN: Well, the bottom line is
24 the price tag is the same either way.

25 LEG. LINDSAY: See, I don't think that

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1 Homeowner's Tax Reform Commission
2 that's insurmountable, and I turn to
3 Mr. Lipp, and we have a number of what kind
4 of revenue we need to raise to replace the
5 owner-occupied -- owner -- what number did

6 you work up?

7 MR. LIPP: Well, I have a little
8 something on the computer, if you would
9 allow me.

10 LEG. LINDSAY: Okay.

11 MR. LIPP: Unless you don't want to go
12 into it.

13 LEG. LINDSAY: No, I want to go into
14 it. I think that's probably the meat of
15 the issue, as Tom pointed out, is What are
16 we talking about?

17 (At this time, Mr. Lipp left the
18 meeting and subsequently returned.)

19 LEG. LINDSAY: You are not ready,
20 Robert?

21 MR. LIPP: No.

22 LEG. LINDSAY: No, he's not ready.
23 Let's keep talking while Robert is playing.

24 MS. TYSON: I wanted to address the
25 first question about whether or not totally

1 Homeowner's Tax Reform Commission
2 eliminating the property tax was something
3 that we would support. And I wouldn't
4 support totally eliminating the property
5 tax. The property tax is a stable amount
6 of money that you know is coming in. And,
7 in times of recession, the income tax is,
8 you know, more volatile, they go up and
9 down. And I can't imagine a school
10 district -- if there's a huge recession and
11 all the school districts are tied to this
12 income tax, then the government is going to
13 need to make up a lot of that money.

14 And Frank Marrow from Fiscal (phonetic)
15 Properties, always says "Taxes really
16 should be looked upon like a three-legged
17 stool; income, property tax and sales tax,
18 and there's a balance in that stool to be

19 made." One thing that's great about New
20 York City, is they have such a low property
21 tax, maybe a thousand to \$2,000 per home,
22 and then there's income tax. And that's
23 the kind of thing we want to move more
24 towards because then we do get those second
25 homeowners and those people who are

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1 Homeowner's Tax Reform Commission
2 cheating their taxes, we are still getting
3 revenue that we can depend on.
4 But, you know, going back to what Frank
5 Marrow was saying, I think he made me
6 understand that maybe locally an income tax
7 cannot work for education. He was saying
8 an income tax would work for County
9 government. But when you talk about the
10 distribution aspect of a county-wide or
11 Long-Island-wide income tax, it's a

12 Pandora's Box on really how to approach
13 that.

14 And if this were a way to do that, and
15 if the commission really agreed to is to
16 support more state aid for education coming
17 from New York State whether we do what was
18 done several years ago with the income tax
19 where it was a surcharge of higher income
20 levels -- I think 150,000, to 200,000 -- or
21 whether we go back to some of the tax rates
22 which Frank Marrow was talking about -- if
23 we went back to I think it was the 1991 tax
24 rate, we wouldn't need to raise any more
25 money for education right now. All of the

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1 Homeowner's Tax Reform Commission
2 money would be in the system. But we have
3 traditionally cut the tax rates as well,
4 and then really starved the system of

5 money. At the same time, the state has
6 gone from a 50% amount of money for
7 education, to what's less than 36% now.

8 LEG. LINDSAY: It isn't that I disagree
9 with you, Lisa, it's just that I don't
10 envision us coming up with one thing and
11 saying "This is the solution." I see that
12 multiple road maps -- I mean, the easiest
13 thing in the world would be for the State
14 to keep the existing system and for us to
15 get just a share of the revenue that Long
16 Island should be getting, and it would
17 solve the problem. But if that doesn't
18 happen, and you know, I think there's a lot
19 of sentiment about throwing out the system
20 that we have now and looking at new ways of
21 doing it.

22 Are you ready yet, or you still need
23 more time?

24 MR. LIPP: Almost.

25

LEG. LINDSAY: Yes, Legislator Nowick?

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LEG. NOWICK: Just to comment, two

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concerns -- and you are right, Lisa -- if

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we could change the formula, that would be

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great, but I think if we could have changed

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the formula and gotten our state

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representatives to do that, then it might

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have been done. And I wish it was.

9

The other thing is I don't think I

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could support, as a representative of my

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district, telling my constituents that

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we're going to change the system; we're

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going to add to your income tax but we're

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not really going to get rid of your

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property tax. And they might be better

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off, but I don't know that they'll see that

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that way.

18 Or if you are paying a certain amount,
19 it might be just splitting it up and making
20 more paperwork, so I would be a little
21 concerned about having both.

22 LEG. LINDSAY: Are you ready?

23 MR. LIPP: Yes, I'm ready.

24 Just so everyone's aware, I didn't have
25 much time to prepare this, a couple hours

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1 Homeowner's Tax Reform Commission
2 only. So that these are highly preliminary
3 numbers. In some cases I just threw
4 numbers in there just as an educated guess,
5 which may prove not to be mathematically
6 correct after I look at some detail, but
7 this will get everybody's brains thinking.

8 Okay, what we're doing is we're looking
9 at alternative sources of local revenue and

10 possible revenue sources that you see here
11 are the individual income tax, sales tax,
12 mortgage tax, a deed tax -- which is also
13 referred to as a real estate transfer
14 tax -- and there's local Lottery, perhaps
15 the video terminals that we discussed
16 earlier. I don't have any numbers for the
17 local Lottery portion, just the other four.

18 Preliminary estimates of how much could
19 be raised are as follows: First income
20 tax. 1% -- what I did is very simply I
21 used the LIA numbers that were presented by
22 Pearl Kamer a few weeks ago. She had some
23 school district numbers, and I just
24 calculated my own 1% off of that. And I
25 looked at it three different ways.

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2 LEG. LINDSAY: Could I stop you there?

3 MR. LIPP: Sure.

4 LEG. LINDSAY: Is that number including
5 the commercial and industrial base or just
6 the --

7 MR. LIPP: Okay. This is not the
8 property tax side. It's just the different
9 alternative sources. Then I'll speak to --

10 LEG. LINDSAY: I know that. But the
11 income tax that you are talking about, is
12 that a tax across the board on all income
13 or just individual income?

14 MR. LIPP: Individual income. Good
15 question. It's an individual income tax.

16 Okay, so there were three options I
17 considered, all with 1%. One is no
18 exemption; another, there would be a
19 \$10,000 exemption; and the third, a \$20,000
20 exemption. An "exemption" is how much you
21 could reduce your income by -- your taxable
22 income -- off the top. And for instance,

23 as an example, a flat tax rate, one tax
24 rate of 1% or whatever it might be, is
25 considered a flat tax or portionable tax,

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2 not a progressionable tax. However, if you
3 add an exemption, and the higher the
4 exemption going from say, 10 to 20,000, the
5 higher the exemption the more progressive
6 it is, simply because the more relatively
7 low-income people would be excluded from
8 having to pay it. So actually, a one-rate
9 tax system could be highly progressive in
10 theory if your exemption was high enough.
11 Just a point to note.

12 And you could see here the dollars that
13 would, estimated, be generated.
14 382 million, with no exemption; 335 with a
15 \$10,000 exemption, and 228 with a \$20,000

16 exemption. That's per 1%.

17 And the game here is going to be to
18 look to see how much we need to raise in
19 terms of property taxes and then go back
20 and compare that to these numbers.

21 MR. PALLY: Can I ask a question on
22 that?

23 LEG. LINDSAY: Sure.

24 MR. PALLY: In the two places in the
25 State of New York where there is now a

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1 Homeowner's Tax Reform Commission
2 local income tax -- actually there are
3 three: City of New York, City of Yonkers,
4 and City of Buffalo -- they do not have
5 their own tax rates or exemptions. They
6 take it off of a percentage of your state
7 tax. So you figure out how much you owe
8 the State of New York after you do all the

9 exemptions and everything, and then the
10 City of New York, then imposes a tax on
11 that amount, a percentage of your tax. I
12 know, because my daughter pays it in the
13 city. This is a different type of system?

14 MR. LIPP: Yes. The answers are the
15 following: I have a call into the state to
16 try to get some more detail in to look at
17 that particular type of option, but given
18 the very limited data --

19 MR. PALLY: I understand.

20 MR. LIPP: -- this is all I could go
21 with.

22 LEG. LINDSAY: But the point you are
23 making, Mitch, is with exemptions, that
24 would reduce that revenue stream
25 tremendously.

2 MR. PALLY: Well, right. Because,
3 there are obviously state law, a variety of
4 exemptions for a variety of people who
5 reduce their income by some percentage,
6 people, differently, figure out that they
7 now owe a hundred dollars in State tax, and
8 if your city tax ranges -- but let's assume
9 for the moment, it's 2% -- you would send
10 the State of New York \$2 more, and send
11 \$102, and the State then sends the City
12 this \$2. And one would assume that if the
13 State of New York was going to allow
14 Suffolk County or Long Island to do it,
15 they would want it done the same way.
16 Because, it is the state tax department,
17 one would assume, would be the one to do
18 all of this.

19 So I would be interested in your
20 further analysis of those numbers based
21 upon adding our local income tax to the

22 State system. Because I think in the end,
23 that's where it would come out.

24 MR. LIPP: Most definitely that will be
25 done. But just as an aside, I've had

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2 conversations with various state
3 bureaucrats at different times, and just
4 because they want something -- and even if
5 they are correct or right -- it doesn't
6 always go that way. Legislation could be
7 passed to make their lives miserable.

8 LEG. LINDSAY: Okay, go ahead.

9 MR. LIPP: Okay. So that puts some
10 bones on possible money that could be
11 generated.

12 And then from a sales tax, we're
13 looking at about a 260 million per 1 cent
14 of the sales tax. And by the way, the

15 impact, if I have it right, I believe the
16 maximum rate is 8% for the highest income,
17 and for the sales tax we have a --

18 LEG. LINDSAY: Wait a minute. 8%, what
19 is 8%?

20 MR. LIPP: The highest marginal tax
21 rate.

22 MR. PALLY: The highest marginal rate
23 in the state of New York. The highest
24 State tax rate, is I think a little less
25 than that. It's seven point something, you

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2 pay the State of New York.

3 LEG. LINDSAY: What does that have to
4 do with --

5 MR. LIPP: Well, a very important point
6 is in terms of sticker shock, if you have

7 an 80% rate, you know if you are adding 1%
8 to it, that's no big deal. If you have a
9 1% rate, only, to begin with, then that's
10 100% increase, so that's very significant
11 in that sense.

12 LEG. LINDSAY: Okay.

13 MR. LIPP: And then the sales tax in
14 Suffolk County is currently 8.625%. So
15 1 cent on the sales tax rate changes .635.

16 A 1% mortgage tax, would bring in,
17 based upon most recent numbers, \$137
18 million, is what it does bring in, and we
19 do have a 1%. And you could see here how
20 it's broken up.

21 A real estate transfer or deed tax
22 brings in -- brought in almost a hundred
23 million in 2005. What you want to look at
24 with the mortgage tax and real estate
25 transferring tax is to see if that was the

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2 height of the real estate market, so
3 perhaps a more realistic number might be a
4 more conservative number than this, but you
5 know, just to throw something out there for
6 now.

7 And then lastly, who knows about the
8 local effort.

9 And once again, feel free to stop me at
10 any time.

11 The issue of whether alternative local
12 revenue sources will replace the property
13 tax or supplement the property tax is also,
14 as Legislator Lindsay had discussed it, a
15 very critical issue. Because, as part of
16 any proposal, to add one or more
17 supplemental local revenue sources for
18 schools, we need to consider the
19 possibility of crafting some sort of a

20 formula that would be stripped or capped
21 and taken into consideration, and we really
22 haven't addressed or mentioned that.

23 So, for instance, school districts
24 could be allocated a certain percent of
25 their base budget from a pool of funds

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2 financed from some sort of alternative
3 local sources of revenue -- such as the
4 one's we just spoke to or a combination of
5 them -- and if the school districts wanted
6 more than the allocated amount, one
7 possible policy would be to raise local
8 property taxes, and for every, say, 1%
9 increase in funding from these other
10 sources, they would be required to raise
11 the larger local piece. So that way you
12 are forcing them to, you know, not just

13 spend more money, but to bring something to
14 the table themselves. And if they wanted
15 more increasingly larger amounts, then they
16 would have to get increasingly larger
17 amounts in terms of local property tax, and
18 that would be some sort of restriction on
19 usage of getting it. It would be bring
20 something to the table.

21 And an alternative would be perhaps a
22 hard cap on the amount of funding received
23 by school districts from this core
24 alternative sources. And in this case,
25 school districts may or may not have

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1 Homeowner's Tax Reform Commission
2 restrictions on the amount of property
3 taxes they could raise locally.

4 So these are a couple of ways of just
5 quickly thinking of how to restrict usage

6 of money to address the issue of well, it's
7 not just a pure supplemental, but you're
8 restricting or replacing.

9 LEG. LINDSAY: But you didn't answer
10 the question that I asked you.

11 MR. LIPP: Which was?

12 LEG. LINDSAY: How much do we need to
13 replace -- how much revenue do we need to
14 replace the homeowner's portion of the
15 school real estate tax.

16 MR. LIPP: My answer is to that is:
17 You're a perfect, straight man.

18 (Mr. Lipp changes slide.)

19 MR. LIPP: "How much school district
20 property tax revenue would need to be
21 replaced?"

22 You know, he actually called me this
23 morning and said "What slide number are you
24 going to put this in?"

25 LEG. LINDSAY: No. That was the first

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2 question I asked you.

3 (Laughter.)

4 MR. LIPP: But I did this Power Point

5 thing this morning and I came in early.

6 Don't I get any credit for that?

7 Okay, there's a lot of speculation here

8 on this one. I have a call into the

9 Treasure's Office, and they are trying to

10 crunch some numbers for me, but -- so these

11 numbers are also somewhat speculative,

12 okay? Part of it not being, okay?

13 School districts in Suffolk County have

14 for 66.5%, or 2.7 billion and change, or

15 the \$4.1 billion current property tax roll

16 in Suffolk. About two-thirds of that --

17 and I'm not sure if two-thirds is a good

18 number -- or 1.8 billion is collected from

19 residential property owners, and just to
20 put in a number, I'm going to assume that
21 90% of this is attributed to owner-occupied
22 properties -- and please don't yell at me
23 for not saying in a "primary residence."
24 Okay? So we'll change that to say "primary
25 residence" --so if that's the case, then we

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2 would need to raise \$1.63 billion to
3 replace, if we wanted to replace it in
4 full.

5 Now, here's another alternative,
6 because, you know, that's a lot of money to
7 replace, so we wanted to look at some
8 alternatives. The average homeowner's
9 school tax in Suffolk County is estimated
10 at \$4,796 for this year. That's estimated

11 by me. By next year, that figure is likely
12 to surpass 5,000. So let's look at the
13 figure of about \$5,000 for the school
14 portion of your property tax. And in
15 Suffolk County, that equates to an overall
16 property tax, school plus all other
17 jurisdictions, of about \$7500. That's what
18 the average is.

19 Okay, so we're looking at a \$5,000
20 school portion, you, the primary resident
21 of your home; if you are the average
22 person, okay? And some people would be
23 higher, obviously, and the little old
24 ladies that you are talking about that are
25 living on a fixed income will, perhaps, be

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2 lower.

3 Various policy actions could include

4 using other local sources of revenue to
5 reduce the school tax in increments of,
6 say, 20%. So this looks like a nice neat
7 number. If you're talking about 5,000 in
8 the school portion of your tax bill, if you
9 do it in increments of 20%, then what you
10 are doing is you're looking to lower by a
11 thousand dollars in each 20% increment.

12 The resulting amount of money needed to
13 reduce the average tax bill in increments
14 of a thousand dollars would be as follows:
15 You need 326 million if you wanted to
16 reduce it from an average of 5,000 to an
17 average of 4,000, and in increments, you
18 keep going up to \$1.63 billion if you
19 wanted to eliminate the whole thing.

20 So this gives you sort of a game plan,
21 and once again, these numbers need to be
22 cleaned up, but this gives us a good base
23 to start thinking about things. And now

24 we're going to, hopefully, be generating
25 some ideas: Why don't we look at this;

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2 look at that; did we consider this, or
3 maybe we should.

4 Okay, next: How would the various
5 alternative local sources of revenue be
6 able to address the proposed reductions of
7 property taxes as noted?

8 We're going to look at -- we're going
9 to look here at an increment of 1,000 or
10 20% and what we would require to get out of
11 each of those sources of local revenue if
12 we were going to reduce it by 20%. And
13 then you could just multiply it by that;
14 double it to 40% or \$2,000 and multiply by
15 five and you get rid of the whole thing on
16 average.

17 So we have dollars. Number 1, the
18 income tax, based upon the very simple
19 numbers I had looked at, and once again, as
20 Mitch had related, that wouldn't be the
21 typical formula -- or perhaps, you know,
22 maybe it is a better formula, we might
23 decide at the end. Who knows -- but not
24 1%, but 0.85% increase in the state income
25 tax, which, once again, maximum rate is

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2 currently almost 8%, would be needed to
3 raise 236 million if there were no
4 exemptions; almost 1% or .97% increase if
5 we were noting that \$10,000 exemption; and
6 1.13 percent increase if we were going to
7 increase that exemption to \$20,000. So we
8 are cutting the school taxes by -- for the
9 average person by the thousand dollars, or

10 20% of their school tax bill, and it's
11 being replaced, in theory at least -- and
12 once again that whole issue of replace
13 versus supplement comes into play -- but in
14 theory, it would be replaced here by this
15 in-the-neighborhood-of-1% income tax burden
16 for a fifth of it. So you're talking
17 about, depending on which category, 4 1/2,
18 5 1/2%. If you are getting rid of the
19 whole thing, which obviously is going to be
20 more than a 50% increase -- well, not
21 obviously -- but it will be at least a 50%
22 increase, perhaps, in the current tax rate.

23 LEG. LINDSAY: Gary?

24 MR. BIXHORN: You just said what I was
25 going to ask. If your numbers hold true,

3 about a 4 1/4% increase in the income tax.

4 MR. LIPP: Right. Or over 5% with a
5 \$20,000 --

6 MR. BIXHORN: Basically a 50% increase.
7 You would look at what you paid in state
8 taxes last year and increase it by 50%, and
9 that would increase your property tax.

10 MR. LIPP: Correct.

11 LEG. NOWICK: Robert, one caveat I see,
12 and I think Lisa mentioned it before, let's
13 assume we do income tax or we do a
14 combination, or whatever we do, and we find
15 ourselves the year after next satisfying
16 all of our school property needs through
17 whatever we decide, and 2008 we're gold, we
18 know in 2009, everything -- every school
19 district, or I know my school district goes
20 up 9, 10% every year. So do we have to
21 increase it again? I mean, if we put a
22 1.25% on sales tax, we have to assume our

23 sales go up 10% with our school taxes every
24 year, because my taxes go up double digits.

25 MR. LIPP: That's a valid point. In

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2 theory, at least, that could be the problem
3 if we come up with some sort of alternative
4 that everybody says okay, let's replace it
5 dollar for dollar, and so it's zero, the
6 school property tax, but then it does do
7 the 10% growth rate --

8 LEG. NOWICK: And then next year it
9 goes up again.

10 MR. LIPP: Right. So what you are
11 looking at there is, conceptually, if you
12 did replace it in full, you might have to
13 revisit and start slowly adding a small
14 piece to the local property tax, or be
15 creative in terms of perhaps your formulas

16 for capping or restricting. So it's not an
17 easy sell, correct.

18 LEG. NOWICK: No. I think the other
19 side has to go up with the school taxes.

20 MR. LIPP: Correct. And as a matter of
21 fact, that's something that has to be
22 mentioned or discussed in whatever we write
23 as our conclusion report.

24 Number 2, the sales tax, to cut the
25 residential primary residents' property tax

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2 by 20%, we would have to increase the sales
3 tax by 1 1/4% above the 8.625%, so we're
4 getting close to a 10% sales tax there to
5 raise the extra needed funds.

6 MR. PALLY: Bob, what percentage of the
7 Suffolk County sales tax is paid for by

8 nonresidents?

9 MR. LIPP: I don't have a number on
10 that.

11 MR. PALLY: Because, there are people
12 that don't live here that paid sales tax.

13 MR. LIPP: Yeah, that's right.

14 One of the things that makes the sales
15 tax attractive is that it's not paid for
16 completely by local residents. One of the
17 things that makes it less attractive is
18 that it's not deductible, because the
19 property tax is. So it's a mixed bag
20 there.

21 MR. PALLY: Well, as a percentage of
22 the property tax, depending on whether you
23 pay the AMT. And more and more Long
24 Islanders pay the AMT every year, so their
25 ability to deduct their real property

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2 income tax goes down every year.

3 MR. LIPP: Yes. Of course, if you are
4 interested in the poor guy, you know, who
5 really gives a damn about the alternative
6 minimum tax?

7 MR. PALLY: All you have to do on the
8 Island at the moment is make more than
9 \$54,000 and you are in the AMT. And I
10 wouldn't consider people making \$54,000
11 rich.

12 LEG. NOWICK: That's \$54,000 after --

13 MR. PALLY: No. It goes back. You have
14 to do your income twice.

15 MS. TYSON: Is that an individual?

16 MR. PALLY: Yes. Or joint return.

17 MS. TYSON: Really.

18 LEG. NOWICK: What do you mean it goes
19 back?

20 MR. PALLY: You have to figure out --

21 if we had a tax accountant here, he would
22 tell you -- you have to figure out your
23 federal taxes twice. The first, the
24 regular way; the second way, the AMT. The
25 AMT takes all of your deductions out, okay?

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2 Then you have to figure out which one you
3 pay more. And whatever one you pay more,
4 that's the one you have to pay. So because
5 of our higher incomes on Long Island, we
6 have a higher percentage of the AMT than
7 almost any other region of the country
8 because it costs more to live on Long
9 Island than it does anyplace else. So it's
10 the same argument we have with our
11 congressional representatives. All they do
12 is increase the exemption. It doesn't
13 really help Long Island because in the end,

14 you end up paying it anyway.

15 So that's one of the issues on the
16 sales tax, is the sales tax is not
17 deductible. But then again, for many
18 people on Long Island, neither is their
19 full income or property tax, as we assume
20 it is. It is not true.

21 MR. LIPP: Okay.

22 Next, the mortgage tax, you need a
23 substantial increase in the mortgage tax to
24 cut into 20% of the primary residents'
25 school property tax. The current mortgage

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2 tax is 1%. You need to increase it by an
3 additional 2.37% to raise you to that
4 326 million, and ditto with the real estate
5 transfer tax; you actually need to increase
6 by 3.26%. The current rate is effectively

7 0.4%. So that's quite substantial.

8 And that's it for the slide show.

9 MR. BERNARD: Hey, Bob, can you e-mail
10 that to everybody?

11 MR. LIPP: It would be my pleasure.
12 And I assume, from your office I will have
13 the list of the e-mail addresses and
14 perhaps you could e-mail me back your
15 comments.

16 LEG. LINDSAY: Barbara, could you turn
17 on the lights? Are you done?

18 MR. LIPP: Yes.

19 LEG. LINDSAY: You know, it's supposed
20 to be over at 12:00, and I'm not going to
21 keep you longer, but what we'll do is we'll
22 e-mail you his presentation as well as a
23 long list of things that I was starting to
24 discuss about the income tax, specifically
25 about the mechanism. And maybe everybody

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2 could think about it, and the next meeting
3 we have is August 23rd in Riverhead. Our
4 commission meets at 10:00. There's a
5 public hearing at 12:30. Again, we'll try
6 to keep it to two hours; we'll have lunch
7 in that half hour. I'll make sure we have
8 some sandwiches and stuff and listen to the
9 public again.

10 And at that time, we're going to need
11 some additional meetings, if we're going to
12 keep to our schedule. So if you could have
13 your calendar available, and we'll try and
14 pick some dates after Labor Day because I
15 know the last two weeks I have vacation
16 scheduled.

17 We'll see how it goes on the 20th
18 and -- 23rd, and I'll have to make a
19 judgment myself and Legislator Nowick on

20 whether we'll have to put in legislation
21 asking for an extension on our report.
22 But, we're starting to get into the meat of
23 what we're talking about, and it's pretty
24 apparent that there's no easy solutions,
25 but if there was easy solutions somebody

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2 would have come up with them a long time
3 ago.

4 MR. FARKAS: Harvey Levinson
5 (phonetic), when he was here, didn't he say
6 that the state was putting together a
7 commission to study the feasibility of
8 taxes? Do you know how far along that is?

9 LEG. LINDSAY: I really don't know. I
10 really don't know. But rather than rely on
11 that document, I was hoping we would come
12 up with a local document to influence their

13 work.

14 MR. FARKAS: That's what I meant. We
15 have to beat them.

16 LEG. LINDSAY: Yeah. Because, my own
17 opinion is if we wait for the State to
18 solve the problems of Long Island, we've
19 got a problem. Because what they perceive
20 to be a solution, we normally perceive to
21 be a problem, so...

22 I thank you all for coming and giving
23 up your morning, and we'll see you on the
24 20th -- 23rd, excuse me.

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2 (Time noted: 12:01 p.m.)

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