FINANCE AND FINANCIAL SERVICES COMMITTEE
OF THE
SUFFOLK COUNTY LEGISLATURE

(Continuation of Operating Budget Hearing)

Minutes

The Financial and Financial Services Committee was held at the William H. Rogers Legislature Building, Veterans Memorial Highway, Smithtown, New York, in the Rose Y. Caracappa Auditorium, on Wednesday, **October 31, 2001** at 3:00 p.m.

MEMBERS PRESENT:
Legislator Michael Caracciolo, Chairman
Legislator William Lindsay

ALSO IN ATTENDANCE:
Fred Pollert, Director, Budget Review Office
Jim Spero, Budget Review Office
Lance Reinheimer, Budget Review Office
Robert Lipp, Budget Review Office
Clark Gavin, Legislative Aide to Presiding Officer Tonna
Lance Mallamo, Suffolk County Vanderbilt Museum
Steve Gittelman, Suffolk County Vanderbilt Museum
Todd Johnson, County Executive's Office/IR
Bill Faulk, Budget Office
Ken Knapp, Budget Office
Lenny Grecco, Suffolk Life

Minutes Taken By:
Kimberly Castiglione, Legislative Secretary

(The meeting was called to order at 3:20 p.m.)

CHAIRMAN CARACCIOLO:
Would everyone please rise for the Pledge of Allegiance.

(Salutation)

Thank you. While I await the rearrival of Budget Review, I would like to just take up the one matter dealing with the Vanderbilt Museum and the Endowment Trust Fund. As you are aware, Lance, I wrote to you last week and you have very promptly replied, so I would like to just for the legislative record get your reply recorded as to how you intend to deal with the income issue from current investments.

MR. MALLAMO:
Thank you, Legislator Caracciolo. Lance Mallamo, Executive Director of the Vanderbilt Museum. As I indicated to you in my response of October 30th, Legislator Caracciolo, the impact of reducing our expenditures to the museum by $550,000 would be absolutely devastating. Beyond the impact of the cut itself, because we have identified that the cuts would have to come largely from staff resources, and there is over 55% of our budget revenue is generated on site of the museum. Each staff member I cut, I am also cutting a portion of my revenue – servicing the public, providing the special events. It seems any new activity we undertake requires more and more staff to undertake.

While we have not done a thorough examination because that would take at least a month to really go program by program and see where we would, in fact, implement those cuts and

what programs reduce more income than others. We have identified that just at first glance it looks like the impact of such a proposal would add another $150,000 in reductions that would be possible or would be required just to break even. This being the case, we don't see any way that we would be able to remain open year round as we are now.

I am at the museum four years. It was my understanding many, many years ago the income to the museum from the endowment was in the one million dollar range, and I believe even in the 1980's the museum was only open half the time, but we have really come quite a distance from that time. Our educational programs are going full tilt. In fact, to even entertain that cut right now, we have already booked out our educational programs for the 2001 – 2002 school year. So I am already almost totally booked through June of 2002, so we would have to be implementing that after that time because we have identified that we will be requiring the staff and the services to remain open.

The only other non-staff areas with which we have some leeway are in our supplies and materials category. The supplies that are included here are what we consider the absolute minimum to run a museum this size. I think this doesn't even come close to providing the resources that are actually needed on that site. We could probably use twice this amount. The complex of buildings up at the Vanderbilt, probably to replicate today would be 80 to $90 million. They are extremely high maintenance. During my tenure at the museum we have actually increased our maintenance budget to prevent some of the long-term damage that was previously occurring that ultimately gets passed on to Suffolk County in the way of capital expenses.

One indication of that this year, while we had a project to redo our decorative pools at the museum, we recognized that that was a source of wedding photograph income to us and we went ahead and provided the $20,000 to repair all of those fountains, and I have eliminated that portion of the capital project to get that done. So those were done right on-site. They were in the capital program for a number of years, but we looked at that as key to generating the site use income that we have been, and this is an area that our income has actually been increasing.

So my expenses for building maintenance or conservation of the collections, I think that is what the museum is all about, and at all costs, whether we are in a temporary downturn or not, those things have to be done. I would prefer that we looked at the option of closing down, if we absolutely had to, rather than foregoing or deferring further maintenance which ultimately is going to result in neglect of the collections.

As I said, I was not – I am only at the museum four years. I don't know the whole history of how the endowment changed. I have discussed it at length with the trustees and with the investment counsel. In fact, I spoke with Steve {Maylow} at Fleet yesterday, but I think Steve Gittelmen has a better handle and can give you from the museum's perspective where that came from. So, I would like to turn it over to him right now, but I will be available to answer any questions that you might have.

CHAIRMAN CARACCIOLO:
As a related matter, the correspondence indicated that I did want you to discuss this with the Trustees so that they, too, would (a) acknowledge this as an issue that has to be redressed, and hopefully gain their support and input as to how to bridge this gap of $650,000. Was that done? First of all, was that done, has the Board had an opportunity to take this issue up?

MR. GITTELMAN:
How to bridge the $650,000?

CHAIRMAN CARACCIOLO:
Correct.

MR. GITTELMAN:
No.

CHAIRMAN CARACCIOLO:
Not yet. When would you anticipate that might happen?

MR. GITTELMAN:
Well, there is an upcoming meeting I believe November 14th. However, I think that we do not – there is a number of reasons why we don't anticipate a $550,000 shortfall. Perhaps that we don't anticipate it is using the wrong language. It is the historic perspective of how this came about and what it was supposed to achieve that makes us feel that there is something – that the interpretation is not on target.

Historically the museum took the interest income from the endowment, and the interest income was based upon 90% equities or more – 90% they are just bearing commodities or more, there was very little equities. Now, although investment counsel had the privilege of going higher in terms of equities, they never did or could because the museum needed all the income it could get. And in some periods, even during my tenure, the percentage of the return from the endowment was actually higher than 50% of the museum's income. In fact, I believe there was some years where the museum's budget was approaching 1.7, 1.8 million and the income from the endowment was 1.2 million, so that the endowment was two-thirds. And I know that in olden times the endowment was actually almost the entire budget. So in terms of dependency on the endowment, we have reduced that dependency to what is now, about 45%.

When the original legislation was proposed, and it was proposed by the Trustees to – asked of the Legislature to review it, we felt that by putting a balanced portfolio of approximately – maximum of 50% stocks, a standard investment portfolio with conservative equities, that the museum would no longer be able to obtain say the million dollars or $900,000 or so it was getting at that time. This is six, seven years ago, I believe, or five or six years ago. And the endowment was roughly 1.2 million. And what we said was invest it, but you are going to have to give us a guaranteed income because if you invest, if you take away interest bearing component of the endowment, then we would certainly receive less income. And it is not – we are not trying here to cut the museum to shreds while improving on the health of the endowment. We want to have a healthier endowment and a healthier museum.

So, what happened was, and I remember it happening because I was at this table and there at the time, I have been around a while, was that a clause ended the picture where it was realized capital gains. I don't think we had a complete understanding as to what was meant by that, by the realized capital gains, and certainly it was not our understanding that if there was a bad year that the museum would only receive those gains realized under certain criteria during the year in question. In other words, that if a stock grew during that year and was sold, we would get that realized component. We were of the impression that if there were gains that had been realized in prior years, that we would still have those gains available to us.

Now, currently the endowment has approximately 1.6, 1.7 million, I think it is a floating number, it changes with the day, of actual gains that exist say at the end of this –

CHAIRMAN CARACCIOLO:
Do you mean portfolio value or –

MR. GITTELMAN:
The portfolio is up in – I am using round numbers, okay, but I don't have to.

CHAIRMAN CARACCIOLO:
Does Budget Review have any information? Lance, Jim?

MR. GITTELMAN:
I have them.

CHAIRMAN CARACCIOLO:

Oh, you do have them, okay.

MR. GITTELMAN:
Yes, I have those. If I grabbed the right file I have the notes. Okay. For the period ending October 19th, and you will excuse me that it is not through today, the balance of the endowment was $14,756,477. Unrealized gains was $1,790,000. Current annualized income from interest and dividends was $644,000, I am rounding it off. Unrealized gains needed to provide $1.2 million total per year would have been $555,699. The number of years of full pay-out to provide the million-two if you assume the markets stay the same, there is no growth in the market, that is the assumption, no growth in the market for three years, we have 3.2 years worth of gains left. We do not need any County funds. We have 3.2 years of existing gains in the accounts and we – and if we were to expend all that and if there were to be no growth, the endowment would then start to approach the level it was before we did this.

CHAIRMAN CARACCIOLO:
On a year-to-date basis, what has been your rate of return on your investments?

MR. GITTELMAN:
I am going to defer to Budget Review for that particular analysis.

CHAIRMAN CARACCIOLO:
Because while it is fair to assume that there may be no growth given current circumstances and market conditions, I think historically we have to look at what has happened in the last 12 to 18 months since we had the crash in the NASDAQ. I don't know – I would assume the portfolio was conservatively invested, but I don't know that for a fact, so I don't want to make any assumptions.

MR. GITTELMAN:
I have an answer. It may not be exactly the answer to your question. I have the answer provided to me from investment counsel where if we were to continue on 50% bonds and 50% equities based upon, and I always shake when I see this in prospectus and things like that, on historic data over the past – I think they were using 50 years, from January 1950 to March 2000, okay, in historic data a balance portfolio will yield 10.3%. If we were to accept that and if we were to take the current value at $14,756,000 and if we were to yield 1.2 million and if we were to achieve that historic return, the investment Counsel projects that in ten years the endowment will have grown to 18,306,000 while it still generated 1.2 million for the museum.

CHAIRMAN CARACCIOLO:
Okay, but we don't have any year-to-date or 12 month investment return figures?

MR. GITTELMAN:
We absolutely do.

CHAIRMAN CARACCIOLO:
But you don't have them with you. I understand.

MR. GITTELMAN:
I don't have them.

CHAIRMAN CARACCIOLO:
Lance, do you have –

MR. GITTELMAN:
I am sure the endowment has dropped in 12 months.

MR. MALLAMO:

Were they in the Budget Review memo?

MR. REINHEIMER:
I am not sure.

CHAIRMAN CARACCIOLO:
Let me cut right to the chase. Let me ask Budget Review because this is a concern they have obviously legitimately raised, and it seems that based on your presentation thus far you feel comfortable that their concern should not be – should be somewhat allayed because it appears that your investment returns will continue even at a no-growth portfolio for the next three years, provide you with enough of a return to maintain this relationship.

MR. GITTELMAN:
In other words, if we were to freeze it today, essentially take it and say this is we what we got, nothing is going to lose and nothing is going to gain, okay, and a no gain over three years, there is very few people I have met, I interact with or that I read about, that say that two and three years from now there won't be somewhat of a recovery. Of course anything is possible.

CHAIRMAN CARACCIOLO:
But we are not there yet is what you are saying.

MR. GITTELMAN:
We are not there yet. Under that assumption we have 3.2 years worth of gains that could be realized.

CHAIRMAN CARACCIOLO:
Okay, then let me raise a question to Lance from Budget Review. What is, if there is, a concern on your part that we have to address right now on this issue? Because the memo relates to the 2003 museum budget, not the 2002 budget.

MR. REINHEIMER:
That's correct. It is projecting forward trying to look at what the current market is and what it has been in the past year and how that is going to impact 2003. As Mr. Gittelman said, historically the market has returned somewhat around 10%. This – our investment policy for the Vanderbilt is conservative. Even though the stock market and the NASDAQ has taken a tremendous hit, it hasn't been as bad for the Vanderbilt. I have the estimated year-to-date total return in the office and I can get that number. I would say it is somewhere around – between either 2% positive or 2% negative. It is somewhere in that range, which considering the market today is nothing to be totally concerned about.

What we are concerned about is that we don't want to see the investment managed in a way that the investment Counselor is selling equities for the sole purpose of generating realized capital gains.

CHAIRMAN CARACCIOLO:
Okay. I think along those lines what would be helpful – do we have a member or someone from Budget Review who attends Trustees meetings, or would it be appropriate when this issue is considered by the Board of Trustees that we have someone present to share with them your perspective about current market conditions and what might be considered as alternatives or prudent actions going forward.

MR. REINHEIMER:
Sure. I mean, I am sure that somebody from our office would be there and would continue a dialogue with the Board.

CHAIRMAN CARACCIOLO:
Okay. Then at this time what I am going to do, because we are really focusing on the 2002

County budget, and I do appreciate you calling this morning and making yourselves, both of you, available today to begin the dialogue of addressing this issue so that we don't look back a year from now and say how did we get into this fix and why didn't we address it sooner, to extend that invitation to Budget Review and keep us informed in the Legislature and, you know, your plans and your financial investments to insure that there will be adequate returns to meet the obligations under the endowment plan.

MR. GITTELMAN:
The current need is, and the existing legislation – existing law – has in it, is structured such that only those gains that are realized during the year from those equities that grow during the year can be utilized. We are going to need a modification. We would ask the sponsor to submit, we are going to need a modification that says that we can utilize gains that existed from prior years growth and that there is currently a million and a half or a million –

CHAIRMAN CARACCIOLO:
When would you anticipate you are going to seek that approval?

MR. GITTELMAN:
We were waiting for this meeting to get a sense for what things were and we were going to submit it as soon as we can find an appropriate sponsor.

CHAIRMAN CARACCIOLO:
Okay. All right. While I would just advise to do that in concert with Budget Review so that the plan has all of its parts in place before –

MR. GITTELMAN:
The one thing I would like you to hear is that if we were put in the position that the gain – that we were not allowed to use prior gains, we feel that it would be the form of a penalty. It would be a penalty to the museum.

CHAIRMAN CARACCIOLO:
I don't mean to cut you short today, but I do want to focus on the issue that is really before the committee and invite you to submit in writing issues that you would like me and other Legislators to consider and we can deliberate on that. We can consult with Budget Review and try to cooperatively and collectively come up with the solutions we need to find.

MR. GITTELMAN:
By all means.

CHAIRMAN CARACCIOLO:
Thanks very much. I appreciate your understanding today and look forward to hearing back from you in the way of correspondence along those lines. Thanks.

MR. GITTELMAN:
We look forward to it.

CHAIRMAN CARACCIOLO:
Good. Thanks very much. Okay. Robert Lipp, if you are within earshot of this announcement, could you please return to the horseshoe. At this time I would like to invite up the Budget Director, Ken Weiss. Thanks, Ken. I know and I appreciate last week you informed me that you had a prior commitment out of town and wouldn't be available and I want to certainly note that for the record. I knew that and I did Chair that with other Legislators who made an inquiry as to your presence.

As you know, Alan Koveski was here, and I don't want to necessarily rehash all of that exchange, but there were a few key areas that I think we were lacking some information or understanding of what, (a) is the extent of a potential budgetary shortfall, (b) how this came to pass, and then we can get into, you know, how much of it can be attributed to the events that took place on September 11th and to what extent that issues or items like health insurance play a role.

So with that as kind of an overall backdrop, you mentioned to me before we went on the record today that you have received a copy of Budget Review's report of the budget and a copy of their projections. You don't have a copy of this now? Okay. I have an extra copy.

MR. WEISS:
I have seen it, though. I just don't have in front of me.

CHAIRMAN CARACCIOLO:
All right. I am getting that over to you now. If we can just quickly get through this I would appreciate it as I am sure you would, and I really don't want to belabor any point unnecessarily. I think the end goal or objective from my perspective would be to collectively between both branches of County government have an understanding and an agreement as to what it is that we have to redress in the way of budgetary expenditures in excess of what you had the privilege of knowing at the time you prepared the budget as well as revenues that since you prepared the budget were subject to fluctuation due to market conditions and the events after September 11th.

So if we can just quickly go through these, and intentionally I am going to come back to the first item on here, because that is really in a separate category and start with the sales tax number that Budget Review has identified. Your comments.

MR. WEISS:
We had our budget pretty far underway by September 11th. We had an estimate of sales tax which we determined after the events of September 11th that we had to reduce. And we ended up reducing the sales tax estimates for two years. I don't remember the split between 01 and 02, but we ended up reducing it by about $37 million. I remember the percentages. We were looking at three-nine for 01 and four percent for 02. That's on the base excluding the quarter cent that was added on June 1st. By a couple days after September 11th, remembering that we had to go to print by the 17th of September, we decided to reduce the sales tax to 1 ¾ this year and 3 ¾ next year, that is 3 ¾ on a lower base. And that led us to propose the securitization, which ended up making up for the loss in sales tax.

Since then I have read what was written in the Budget Review report and I have talked to our economist and frankly, I don't think anybody knows really how sales tax is going to go. As far as – if I was in your position I would probably take the BRO estimate of reducing the sales tax by $24 million. It seems reasonable. I don't know if that's – I don't know. I don't think anybody knows.

CHAIRMAN CARACCIOLO:
Okay. So you would not disagree, and I very much appreciate what you did say. You would not disagree that at this time given the uncertainty across this nation, and I am looking at an article that was in the Wall Street Journal where a number of states, state governments have reconvened special legislative sessions to deal with budgetary shortfalls as a result of not only 9-11, the attack on America, but just an overall decline in the economy on not just a local basis but in a regional basis. I mean, you have states here from Arizona, Connecticut, Florida, Hawaii, Iowa, Nebraska, as well as Alabama and Tennessee. And speaking with a member of the State Assembly in New York last Friday, he informed me that they are very pessimistic in the State of New York in terms of next years budgetary situation and they are right now not forecasting yet but they are thinking in terms that the State could experience anywhere from a five to ten billion dollar shortfall.

MR. WEISS:
I know they are looking at tobacco securitization.

CHAIRMAN CARACCIOLO:
That's fine. I mean, that's again the purpose of hearings, is to put everything on the table so that as we make decisions a week from now we have all of the available information to make informed decisions and proceed in a fashion that again, jointly we can hopefully identify and

solve the problem so that we don't find ourselves in a situation where a budget is adopted and then there is significant disagreement simply because we didn't even have the dialogue. That is really the purpose of continuing the hearings, is to let's find out what we agree on and I am glad that you agree with the Budget Review estimate. I would note that you stated that unequivocally that given the information – if you had this information that they had at the time they had it versus when you had it, this is something you might have considered. So there is something consistent about that, and that is refreshing. So we have $24.5 million that you feel the Legislature should attempt to redress before it adopts a budget.

MR. WEISS:
I think it would make the budget stronger if that revenue was reduced, yes.

CHAIRMAN CARACCIOLO:
In terms of health insurance, and that is kind of where we left off on Friday.

MR. WEISS:
I don't – I just want to – I have always believed that we should have reserves in the health insurance. Two years ago we budgeted a nine or ten million dollar reserve in the health insurance and the Legislature took it. So basically we've been budgeting health insurance, you might use the term pay-as-you-go because we have no significant reserves. From a budget standpoint I would love to see the health insurance reserves increased, but my person that does the health insurance estimate doesn't agree that there is a $10 million problem right now.

CHAIRMAN CARACCIOLO:
I think Budget Review, in fairness to them, has come back with a revised figure, or at least I have it on my copy. Is that correct, Jim? Has that figure been revised downward?

MR. SPERO:
No. We think it could be something less than ten, but we are just looking at the cash flow within the health insurance fund and noting that it continues to decline and –

CHAIRMAN CARACCIOLO:
So I understand this better and other Legislators understand it next week, Ken mentioned reserves. You are talking cash flow. I mean, let's –

MR. SPERO:
We are talking basically the same –
CHAIRMAN CARACCIOLO:
All right. So when you speak of health insurance, are we talking about premiums?

MR. SPERO:
Well, if we –

CHAIRMAN CARACCIOLO:
Expenses, what are we talking about.

MR. SPERO:
If we increase expenses then the premiums charged back to each of the funds would increase. That is what brings the cash into the fund.

MR. WEISS:
We self fund this. What we do, we have expenses that we pay out and then we charge back the general fund, the police district, the sewer districts, nursing home, all the different funds, and people that are on COBRA, people that are outside the plan. So we have revenues that come into the health insurance fund, but primarily it is contributions from the County into the fund.

CHAIRMAN CARACCIOLO:
Okay. And what Budget Review is arguing, not arguing but stating, is that they believe there

should be an additional ten million dollars for health insurance expenses that is not reflected in the budget. And all, I guess, we need to know is that something you are comfortable with or are you comfortable with something less than that, or you don't think there is an issue with that.

MR. WEISS:
I don't think it is necessary for the 02 budget, but as I said, when the County Executive submitted his budget for 2000 we wanted to embark upon a program of increasing our reserves in our self insurance fund and our health insurance fund. The Legislature – legislative policy at the time was to remove those reserves.

CHAIRMAN CARACCIOLO:
Okay. Jim, could you just clarify why that was done? Was that done on the basis of a recommendation or what is your recollection of why that was done?

MR. SPERO:
Well, the fund is brought down, but if you bring the reserves down, you can save money in any given budget year because you don't have – the transfers you need from the other operating funds can be reduced.

CHAIRMAN CARACCIOLO:
Is that a prudent thing to do?

MR. SPERO:
It is prudent to have reserves.

CHAIRMAN CARACCIOLO:
So then you are agreeing with the Budget Director that we should once again try to restore funds in the health insurance –

MR. SPERO:
To the extent that that is possible, absolutely.

CHAIRMAN CARACCIOLO:
Okay, so in the context of the budget for next year, what is your advice on that point?

MR. SPERO:
Our recommendation was to increase it up to $10 million. Now, you could do something less than that if the Legislature choose to do so.

CHAIRMAN CARACCIOLO:
Okay. In the absence of doing anything, because here is where there is a little bit of a disagreement, what happens and when does it happen and what are the effects of something happening 12 months from now if you don't restore these funds into the health insurance reserves.

MR. SPERO:
If the health insurance fund should go into a deficit, like any deficit, it has to be made up on the following year. So the rates would have to increase in the following year to make that up.

CHAIRMAN CARACCIOLO:
Ken, is it your preference that we do it on that basis as opposed to setting aside $10 million for reserves for next year's budget?

MR. WEISS:
It was my preference to increase the reserves when times were good, when we had money, instead of reducing taxes. That was my preference. Now you are in a situation where I don't

know what the funding -- I mean, I don't have all the details that you have with your budget. I don't know what the revenue to make up these shortfalls is. So it is hard to answer the question unless I know, you know, where does the $10 million come from.

CHAIRMAN CARACCIOLO:
That is a very good question and we have to ask Budget Review for that answer. Where does it come from?

MR. SPERO:
The reserves come from taxes. We would have to raise funding –

CHAIRMAN CARACCIOLO:
Okay. So then the policy decision –

MR. SPERO:
Part of the problem in the fund is the fact of the number of enrollees continues to escalate, and the recent agreement that was signed with the unions exacerbated that problem because now family members are covered that were not covered before. So the expenses of the fund will continue to escalate –

CHAIRMAN CARACCIOLO:
Let me ask you this question. In your opinion, are the health insurance premiums in next year's budget under funded?

MR. SPERO:
Yes, that was our recommendation, to increase –

CHAIRMAN CARACCIOLO:
Okay, this is a result, in your opinion, of them being under funded. Ken, you don't agree with that.

MR. WEISS:
Right.

CHAIRMAN CARACCIOLO:
Okay. So there is a basic issue that, you know, we need to reconcile in some shape, form or fashion. Because obviously if it is or it isn't is material in terms of whether or not we raise revenues now to deal with a material shortfall or we don't. And if obviously we don't do it this year, we have to do it next year. No one disagrees with that, right?

How do we find out, how do we reach some kind of consensus as to whether or not – I mean, you obviously don't think it is, Ken, Budget Review thinks it is, so why don't I ask Budget Review to state why you believe it is under funded, what evidence you have that it is under funded.

MR. SPERO:
The fact that the cash available in the fund continues to decline, so, and the enrollees continue to escalate.

CHAIRMAN CARACCIOLO:
So I heard you say before as a result of new benefits you feel that is a contributing factor, correct?

MR. SPERO:
That's right, because obviously the bigger the pool of people, the more claims you are going to have or the higher the expense will be.

CHAIRMAN CARACCIOLO:

Is that true or not true, Ken?

MR. WEISS:
Well, if you hire more employees, sure. But the agreement that was signed that extended benefits basically to surviving spouses, I mean, the PBA already had that, the SOA already had that, Detectives already had that. My understanding is that very few people have applied for that, so, I mean, there is not a groundswell of additional –

CHAIRMAN CARACCIOLO:
Let me cut this off because I think I know there is going to be a disagreement here in terms of the outlook and the impact. So what I would be inclined to do is take the Budget Director's recommendation and see if his projection is accurate, and if it is not then everyone is forewarned that a year from now you have to deal with this issue in some shape or manner. Do you believe, Ken, that's a more prudent course of action?

MR. WEISS:
Well, that's okay, but if you are going to take one of my recommendations, take them all because it is like anything else. You pick ten stocks, eight may go up. The two that go down – so don't just pick the two that are going down, pick all ten.

CHAIRMAN CARACCIOLO:
That's interesting. So we will move on to the next item which is legislative initiatives. Now, I don't think there has been any agreement within the Legislature yet, and Budget Review, correct me if I am wrong, as to whether or not next year's budget will contain legislative initiatives. Has there been any kind of a consensus that you are aware of that I am not?

MR. SPERO:
They are working on it now.

CHAIRMAN CARACCIOLO:
I know they are working on it, but the number keeps fluctuating and –

MR. SPERO:
We are waiting to see what the –

CHAIRMAN CARACCIOLO:
That is what I am saying, there is no consensus right now.

MR. SPERO:
So hopefully that will develop within the next day or two. It will have to because we have to prepare the resolution. By the end of business on Monday it technically has to be issued.

CHAIRMAN CARACCIOLO:
Well, you are identifying five million dollars in this category. I am not hearing anywhere near that amount of money being under discussion.

MR. SPERO:
Not this year. That was what was not continued in the proposed budget for 2001.

CHAIRMAN CARACCIOLO:
Okay. Let's go to {epic}.

MR. WEISS:
Something that passed after the budget was prepared and submitted. It passed 18-0, the County Executive signed it, and we are going to have to fund it. So, I agree.

CHAIRMAN CARACCIOLO:
That's good. And bus restoration?

MR. WEISS:
If you want to continue the bus routes that you currently have you are going to have to add a million and a half dollars.

CHAIRMAN CARACCIOLO:
Is there any reason from your perspective that some of the routes which Budget Review has argued for many years are not cost effective that we should seriously consider eliminating or reducing service on those routes that are not cost effective.

MR. WEISS:
From time to time I know we have reduced certain routes. I think it would be prudent to take a review of all the existing bus routes and try to come up with a way to make them more cost effective. I don't know if you need these big buses going to every single route. I noticed down in Florida they started using smaller buses.

CHAIRMAN CARACCIOLO:
What would be the best way to do that? Who would conduct a review, DPW Transportation Division? Fred, do you want to respond to that question? We are talking about the – it would cost $1.5 million to restore bus services in the budget over that which is proposed, and Ken makes a good point that there is clearly some bus routes that are not cost effective and maybe a study should be conducted to identify which of those routes – maybe you've done some of that work, and then what becomes the catalyst for determining whether or not bus routes are cost effective and should be continued or discontinued.

MR. POLLERT:
Right now there are no real criteria with respect to which bus routes are going to be continued or not. It is part of a broader plan of looking at the transportation system. Clearly on like the eastern end of the Island you have longer routes with lower ridership which increases the cost per mile, but it is part of the transportation system as a whole.

CHAIRMAN CARACCIOLO:
Is that a mandated system?

MR. POLLERT:
No, it is not. However, we have purchased the buses with a large amount of federal {inaudible} money, so there is a commitment to continue with the bus program to some extent because we have purchased the buses and have a large infrastructure within the buses. But clearly we have discretion to reduce the scheduling, to change the scheduling, to change the routes. What my recommendation would be, because when we had looked at the transportation system when we did the interim report, it is very complex, would be to continue the funding and during 2002 when your are not under time pressures, do that type of study. Have them come back before one of the committees –

CHAIRMAN CARACCIOLO:
Who would do it, that was my question. Who would do the study?

MR. POLLERT:
It should be done by the Transportation Department and the Planning Department to try to pull together both the demographics as well as where the bus routes go.

CHAIRMAN CARACCIOLO:
And do you wish that we submit legislation to do that, or is that something that can be done without legislation and should be done without legislation.

MR. WEISS:
A lot of the bus routes – well, some of the bus routes are added not by recommendation of the Transportation Department. Some of the bus routes are added by policy decision of the

Legislature. And, you know, at the time they add these bus routes I don't think they do an analysis to determine whether they are cost effective.

CHAIRMAN CARACCIOLO:
I can only tell you in my case, my district, where I have spoken over the years to DPW and Division of Transportation about adding not even a full route, it would be like a mini, as you were talking about they do down in Florida. And they have conducted studies and come back to me and said it is not cost effective and I go back to those constituent groups and we set up a meeting and we explain the data to them and they don't agree with us, but clearly from a cost effective standpoint that we can't justify it, we shouldn't do that. It appears that some Legislators have prevailed with the argument that, you know, and I am thinking of particularly in Central Brookhaven where a bus route was added, where that individual Legislator got bipartisan support to add a bus route. Now, I don't know if that one, not to single that one out, but if that is cost effective or not, but I think clearly a review and/or study needs to be conducted, and my question was should that be something that requires legislation or is that something that can be undertaken by DPW and Division of Transportation on their own.

MR. WEISS:
Let me discuss it with people in the office, the Executive's Office, and I will get back to you.

CHAIRMAN CARACCIOLO:
Because obviously this is not an issue that is going to go away. You know, given all the uncertainties about revenues next year, and as I said, what the State is – you know, some are forecasting in the State of five to ten billion in State revenue shortfalls and increases in expenditures combined, we could be looking into some very, very significant financial issues to deal with next year. So certainly issues like this, should it be well off the table before we have to –

MR. WEISS:
It is a policy decision. The policy decision is made that we are only going to continue bus routes that are break even or profitable, then we can do a study, we can identify a list of bus routes that you'd eliminate and that would be it. But without a policy statement –

CHAIRMAN CARACCIOLO:
Right, I understand, and that is where you get to the criteria question. Jointly we have to establish what that criteria is. It may not just be on the basis of cost because clearly in the absence of some bus routes, some people will not be able to be gainfully employed.
MR. WEISS:
So there is more criteria than just whether or not each bus route –

CHAIRMAN CARACCIOLO:
Right, I think there has to be a consensus about what criteria we use so we can make the right judgements on that.

MR. WEISS:
I will bring that back to the Executive.

CHAIRMAN CARACCIOLO:
And would you let me know, in a couple of weeks if you could just let us know what we can do about that. Let's go to a couple of the major issues here and the first of which is debt service. The Budget Review report points out that the budget for next year does not include significant debt service in it. Any disagreement with that?

MR. WEISS:
No. The debt service reduction is equal to the revenue contemplated from the tobacco securitization. So if the tobacco securitization moves forward, it will cover all of the debt service that was removed from the budget.

CHAIRMAN CARACCIOLO:

And if it does not?

MR. WEISS:
Then the Legislature has to determine what revenue is going to support those appropriations that have to be restored.

CHAIRMAN CARACCIOLO:
And if the Legislature determines, based on conversation we had last week with financial advisors, that a better course of action would be any number of other policy solutions to go in that direction – in fact, you heard, you were here. You heard Mr. Tortora state unequivocally as well as others –

MR. WEISS:
I have had further conversations with him and clarified some of those things, but go ahead.

CHAIRMAN CARACCIOLO:
All right, well if he would like to come back and share that with us, that would be helpful. But clearly he stated, as well as I understand Mr. Tyson himself has stated, that tobacco securitization should be our last consideration.

MR. WEISS:
I don't remember Mr. Tyson speaking at all, but –
CHAIRMAN CARACCIOLO:
He did not speak at that meeting.

MR. WEISS:
I don't think tobacco securitization should be our last consideration by any means. Again, 30 counties have done it. I am looking at what is going on in the rest of the counties. Most of the counties, you talked about the states from the Times article today, or the Wall Street Journal article today. The counties, I get – I am on this e-mail list of all the county budget directors, and I must get ten e-mails a day of what is going on in the various different counties throughout the state, and they are all having financial problems related to events post September 11th –

CHAIRMAN CARACCIOLO:
Well, prior to – I mean, the slowdown in the economy was well under way before September 11th.

MR. WEISS:
But it seems to have – some of them are raising sales taxes, some of them are having layoffs, some of them are slashing budgets. Ones that haven't done securitization are considering – so, there is a lot of different options available. Tobacco securitization is generally accepted. I spoke to one of the rating agencies. They look at it as a positive aspect. It is not a negative aspect.

CHAIRMAN CARACCIOLO:
Is it the most cost effective?

MR. WEISS:
It is not the most cost effective. There are other ways that are more cost effective, but they might not be credit neutral.

CHAIRMAN CARACCIOLO:
I understand that. Do you want to elaborate on that point?

MR. WEISS:
I mean, there is some things the County could do. A budget note would be cost effective, but a budget note would not be a good solution, a message to send to the financial community.

CHAIRMAN CARACCIOLO:
Even though the note would be repaid in a much shorter period of time with much less interest costs.

MR. WEISS:
That is why it is cost effective, because the interest rate – the short-term interest rate, the short yield curve is much lower than the long yield curve.
CHAIRMAN CARACCIOLO:
Short-term interest rates right now if that were to be considered as a –

MR. WEISS:
Two point two, two point three.

CHAIRMAN CARACCIOLO:
Right, and how much of a budget note would have to be substituted in lieu of tobacco securitization?

MR. WEISS:
Well, it depends. If you are looking at the recommendations or the list that Budget Review Office came up with, Fred and I had a meeting before. I have some things that weren't on his list, some things on his list I didn't have on my list.

CHAIRMAN CARACCIOLO:
What are the latest numbers?

MR. WEISS:
I don't know. I don't think we ever sat down and what do we agree with –

CHAIRMAN CARACCIOLO:
Well, that's what we are trying to do. Within the next few days the Legislature has to come up with some way of addressing these issues, and we are just trying to get that information.

MR. WEISS:
First of all, the $108.1 million includes the illumination of the tobacco revenue. So if you are going to take securitization out, it is not a $53.4 million problem, it is a $37.7 million problem.

CHAIRMAN CARACCIOLO:
So 15 million is the difference. I understand that.

MR. WEISS:
That brings it down to about $80 million. And it is probably $80 million is the difference that we have now. The 37.7 that we identified, additional $20 million from sales tax that we agreed would be helpful if we could lower the sales tax estimate. I have some things that aren't on this list that – problems that have arisen since September 11th that I have advised – one of them I have advised the Legislature of. The other one I can speak about today.

CHAIRMAN CARACCIOLO:
Fred is aware of that item?

MR. WEISS:
Yes. It was only today.

CHAIRMAN CARACCIOLO:
What is the extent in terms of dollars?

MR. WEISS:
Well, FIT, he was aware, that is four million dollars. I believe retirement – we got a letter October 24th from the Comptroller saying that we should be budgeting our ERS retirement at four percent, we budget it at 2.1, which was the letter that they gave us in August. That is a

$2.8 million difference.

CHAIRMAN CARACCIOLO:
In the aggregate what are we up to now? What is a number that you feel is – a number today.

MR. WEISS:
My number would be a lot less than your number because I wouldn't be restoring the legislative initiatives, pay-as-you-go. I don't know. Somewhere between 60 and $70 million.

CHAIRMAN CARACCIOLO:
Okay. Fred, before we go on, because I want to get to how we are going to solve that 60 or $70 million gap, do you substantially agree with that number or you do not and if not, why not.

MR. POLLERT:
Yes, I agree with Ken that there is in total about $80 million including the reverse of the tobacco securitization. So if you use Ken's lower number, $50 million, the $37 million for the tobacco securitization, you are in the neighborhood of roughly $80 million.

CHAIRMAN CARACCIOLO:
Ken, how would you have us solve that? I know you would use tobacco securitization which would substantially reduce that and then how would you propose or recommend to the Legislature in terms of courses of action. Obviously you would eliminate the five million for legislative initiatives, correct?

MR. WEISS:
Right.

CHAIRMAN CARACCIOLO:
What other means would you recommend that we consider to balance the budget?

MR. WEISS:
Well, from the time that the budget gets put together and submitted to the time it gets adopted, there is new information available. I know that the – our estimate for interest on tax anticipation notes, you know, it was based on rates that we had at the end of August, which was 3 ½ percent for short-term rates. Since then, short-term rates are in the high two's, so you could save two and a half million, 2.1, 2.2 million dollars there. Medicaid over the last six weeks has, I won't say stabilized, but the rate of increase has decreased. You could save maybe five million dollars there. There was some other –

CHAIRMAN CARACCIOLO:
That is so far a total of 12.1 million if we – aside from tobacco securitization.

MR. WEISS:
You could restructure tobacco securitization and cover the whole thing. That is one way of doing it. You could raise taxes. That is another way of doing it.

CHAIRMAN CARACCIOLO:
Is that something that should be seriously considered, and if so, what would be the financial impact?

MR. WEISS:
I think Fred had a – for every million dollars in general fund it is $1.80, and for every million dollars in the police district I think it is 2.24 or something like that.

CHAIRMAN CARACCIOLO:
Let me ask you –

MR. WEISS:
Depending on what balance you wanted to use between securitization and raising taxes –

CHAIRMAN CARACCIOLO:
Obviously there was a reluctance to use the property tax as a means to balance the budget. We talked about that last week.

MR. WEISS:
Right, and I said that we felt that tobacco securitization, which was a viable option then and is a viable option now, was sufficient for the problem that we identified, $37.7 million.

CHAIRMAN CARACCIOLO:
But if you are a taxpayer and you say to me whatever the number is we can agree on that should be raised in taxes and property taxes, and it seems to me, well, let me not say what it appears to be, let me ask both of you. Fred, what would the amount of revenue to substitute for tobacco securitization have to be raised in the property tax. Is it 37.5 million?

MR. POLLERT:
Well, what we had discussed with the Legislature is a variety of different actions that in fact would be less than the $37.7 million. We felt that it would be possible to bring that dollar amount through taking a variety of actions such as increasing turnover savings, such as bringing down the projected cost increase –

CHAIRMAN CARACCIOLO:
I am familiar with that so I am going to interject and just ask you what is the amount that you believe after you take those other actions –

MR. POLLERT:
Roughly $20 million.

CHAIRMAN CARACCIOLO:
Okay. If you were to or we were to take that method as opposed to tobacco securitization, as a taxpayer, would that be not only the more prudent thing to do, but from a cost efficiency standpoint how do we quantify to the resident what that means.

MR. POLLERT:
It is definitely the most efficient way of doing things, number one. Number two is it would perhaps be perceived the most positively from the rating agencies. There can be discussions with how the rating agencies would perceive tobacco securitization. There would be no question but the rating agencies would see an increase in property taxes as the most prudent way to solve a long-term budget problem. Again, the Budget Review Office has identified that the bulk of the budget problem is related to Social Services cost increases. There was a $60 million increase in 2002. That's something which we anticipate will be a reoccurring problem, and it is best dealt with with a reoccurring type of revenue as opposed to tobacco securitization, which will be declining over time.

CHAIRMAN CARACCIOLO:
Ken, do you agree with that last statement or you disagree, and if so, why?

MR. WEISS:
Well, one thing I think Fred and I will agree on is that the general fund $1.5 billion is balanced on a $48 million general fund tax levy. Then in the good years, in the last nine years, eight years, now we've reduced that levy from 160 million to $48 million. You know, it's –

CHAIRMAN CARACCIOLO:
It begs the question if for eight years during good economic times, the benefit of the good economic times were shared with the County taxpayer, then now where you have had a reversal where expenditures beyond our control, like Social Services, Medicare and other

programs, that we don't control, we have no control over those expenditures. We are just the agent by which those programs are administered and we are charged a bill to pick up part of the tab. Isn't it time, then, after eight years, to consider the first property tax increase, and a modest one? It comes out to $37.60.

MR. WEISS:
I think that is a fair assumption, but I mean, again, the proper way –

CHAIRMAN CARACCIOLO:
For example, Ken, you stated very eloquently in previous testimony here before the Finance Committee your own tax bill equates to one percent of your total property tax bill.

MR. WEISS:
Correct. Sixty-five dollars is my general fund property tax levy. I am willing to pay 130. Put it on the record. Double my taxes.

CHAIRMAN CARACCIOLO:
Towns that I represent, Shelter Island as an example. Seven years ago, eight years ago, the average County property tax bill was $588. Today it is 165. Is it unreasonable, irresponsible, to say after eight years where all of your other taxes, school district, special districts, town taxes, have all been going up and in some cases dramatically, that we are going to increase your County property taxes – I know in my case it doesn't even come out to $37 does it, Fred, because of the blended nature of the tax increase. I think the last chart I had, I think the increase was something between two dollars and 13 dollars in my district. Is that being responsible or irresponsible to take that course of action versus tobacco securitization which carries with it tremendous cost in terms of losing the value of something that was hard –

MR. WEISS:
Well, obviously we don't agree. I mean, the best thing would have been that instead of hearing Legislators over the years say if you can't reduce taxes in good times when can you, the prudent financial tact to take would have been to stabilize taxes during good times, put away money for bad times, and when you come to bad times, you wouldn't have to look at raising taxes or looking at tobacco securitization. You just go into the rainy day fund, you take out the money that you put away all those years because you left taxes level. Unfortunately, our history is working against us. Now we are in a situation where --

CHAIRMAN CARACCIOLO:
But should we continue down that path as you just alluded to, or should we reverse course and take the more prudent steps and actions to actually build-up those reserves and have a reasonable general fund tax base, or should we continue to ignore what is commonsense good financial management.

MR. WEISS:
I think in the future we should, when we get back to good times we should remember the bad times and put money into reserves and stabilize taxes and never reduce taxes again.

CHAIRMAN CARACCIOLO:
Okay. Just to conclude this point because obviously you are not going to agree that it would be more cost efficient to the average taxpayer to have a very, very minimal property tax adjustment for the first time in eight years, about $37 on average, as compared with the tobacco securitization plan. You are holding fast to tobacco securitization.

MR. WEISS:
I think that it is an acceptable alternative.

CHAIRMAN CARACCIOLO:

I respect you for that. I mean, if you really feel that way, we respectfully disagree, you and I do. I don't know how other people feel about it. My sense is it doesn't have a majority of support today. If it is recrafted, redrawn, rejiggered somehow, maybe that will change. I don't know. I don't have a crystal ball.

I want to now get to the sales tax projections because that is a really rather significant part of what it is we have to deal with. I know Robert was here.

MR. POLLERT:
We are going to get him back.

CHAIRMAN CARACCIOLO:
Okay. Could you bring us up-to-date on the latest sales tax receipts and year end projections?

MR. WEISS:
I actually don't have the latest.

CHAIRMAN CARACCIOLO:
When did that become available?

MR. WEISS:
You know, we get two checks a month. So we got two checks in October. I mean, I am sure the number Robert has is accurate. We have the same source, the Treasurer's Office. My projection that I have in the budget for this year was $804 million, which was a 1.75% increase over last year. I think Robert's latest projection for this year was to reduce it by what, Fred, do you remember?

MR. POLLERT:
I believe by about $26 million.

CHAIRMAN CARACCIOLO:
What was BRO's projection for 2001?

MR. POLLERT:
I would like to defer to Robert when he comes in. What I will just say with respect to the current projections, there was a major problem. We had sent a letter to the Legislators that the local mail post office was seriously disrupted with the World Trade Center. Apparently the mail receipts of checks has dropped off because of the continuing anthrax problems. So there has been a dramatic reduction in payments to the State of New York through mail remittances, electronic funds transfer continues to be flat, but the mail remittances have dropped off dramatically.

CHAIRMAN CARACCIOLO:
Do you recall, Fred, what your projections in terms of 2001, what you had forecasted would be –

MR. POLLERT:
Again, I would defer to Robert because we did increase the sales tax, so he would have to back it out. We were – we had recommended that the sales tax be reduced. The Legislature did that, and then with the slowing of the economy it appeared that we were going to continue to be approximately $12 million below that estimate. At that point in time the Legislature increased the sales tax by a quarter of a percent, so there is a new quarter percent in there and now looks that the estimate is relatively close to what was adopted.

CHAIRMAN CARACCIOLO:
I am looking at a chart that comes out of State Finance and Tax. This chart indicates that as

of – let me go before the new tax was increased – implemented, which was June 1st of this year, Ken? As the end of or the last reporting period in May, which they identify as May 14th, there was a year-to-date percentage change of minus 5.35 percent. Does that sound about right to you, Ken?

MR. WEISS:
We were running through May.

CHAIRMAN CARACCIOLO:
Through May, before the new increase took effect.

MR. WEISS:
Right, because you have to realize that this year January, February we didn't have sales tax on clothing, last year we did. So you can't really look at it and compare it to last year because last year's base isn't the same as this year.

CHAIRMAN CARACCIOLO:
So part of that five percent below what was collected the year before would have to factor in that in 2001 you weren't collecting a sales tax on clothing.

MR. WEISS:
Right. It would have been a positive –

CHAIRMAN CARACCIOLO:
Otherwise.

MR. WEISS:
Yeah, right.

CHAIRMAN CARACCIOLO:
Okay. Robert, the question we have now before us is what did we budget, the Legislative Budget Review Office, budget for 2001? What was your total forecast for sales tax revenues?

MR. LIPP:
The budget, all funds, is 804.5 I believe. We said it is too high by 15.

CHAIRMAN CARACCIOLO:
So you recommend it include revenues for 2001 that were somewhere in the area of 70 million?

MR. LIPP:
Yes.

CHAIRMAN CARACCIOLO:
Okay. So let's work with the premise of somewhere between 790 and 804 were both your best estimates given the information you had at the time of the budget preparation and budget adoption. Where are we in terms of meeting either of those projections right now, just a couple of months before the end of the year?

MR. WEISS:
Well, he doesn't have any information since he did the estimate, because he did the estimate based on the two October checks, right?

MR. LIPP:
Right.

CHAIRMAN CARACCIOLO:
So what does that mean in terms of dollars? What have we collected through the most recent reporting period?

MR. LIPP:
What we collected is we were up slightly, like I believe 1.4% for the third quarter overall.

CHAIRMAN CARACCIOLO:
What about year over year?

MR. LIPP:
Well, what I am talking about is the third quarter versus the third quarter of the previous year.

CHAIRMAN CARACCIOLO:
Okay. What about year-to-date then?

MR. WEISS:
1.6, but again, you have to – you know, 1.6 is the total number.

CHAIRMAN CARACCIOLO:
I know, but that includes the sales tax increase.

MR. LIPP:
Right. And the point that he is trying to make and that I would like to make I believe is that if you adjust for the fact that the tax rate increase on June 1st by a quarter-cent, that 1.4 or 1.6 percent growth rate is a negative.

CHAIRMAN CARACCIOLO:
Right. In absolute dollar terms, where are we this year up to the most recent reporting period compared to a year ago?

MR. LIPP:
I am not sure what the year-to-date total is off the top of my head.

CHAIRMAN CARACCIOLO:
Do you have anything that you could share with us in the office?

MR. LIPP:
I have got it all in my office.

CHAIRMAN CARACCIOLO:
Okay. Could you bring that in please?

MR. LIPP:
Sure.

CHAIRMAN CARACCIOLO:
Thank you. Ken, do you have anything with you along those lines?

MR. WEISS:
No, but I remember looking at numbers recently. On a gross basis, including all the adjustments, we need a 1.055 % increase, and we had a 1.16 % increase.

CHAIRMAN CARACCIOLO:
And that accounts for this 12 to $15 million shortfall projection.

MR. WEISS:
Right, but what none of us know, and I don't know who said it, but how many checks didn't get into the State yet –

CHAIRMAN CARACCIOLO:
Right, so there could be retroactive adjustments up or down.

MR. WEISS:
Yeah. It is probably the worst situation we have ever been in as far as trying to accurately forecast. This late in the year we generally are a lot better off knowing how we are going to end up.

CHAIRMAN CARACCIOLO:
You generally have a lot more reliable information than you have?

MR. WEISS:
This is going to be one of the years where in February we will know how we ended up this year.

CHAIRMAN CARACCIOLO:
So that is why earlier you stated you agree with the Budget Review recommendation that we adjust sales tax revenues by $24.5 million.

MR. WEISS:
Because I don't have any information to refute it.

CHAIRMAN CARACCIOLO:
Okay. While we are waiting for Robert to return, let's just go to pay-as-you-go and your thoughts on that. As you know, Budget Review has identified $12 million in budgetary shortfalls or problems that should be, you know, reviewed and adjusted.

MR. WEISS:
All right. I think – I don't want to misstate what BRO is doing, but my understanding is they have identified $12 million that we didn't put in the budget as pay-as-you-go, but they want to treat it as buy now, pay later. So, it has a zero effect on the 2002 budget.

CHAIRMAN CARACCIOLO:
Okay. To quickly recap, you feel that rather than the $108 million amount, which now Budget Review has also revised downward, they say it is no longer $108 million, it is probably closer to somewhere between 50 and $80 million, you would fix that shortfall by doing $37 ½ million in tobacco securitization, five you would eliminate the $5 million in legislative initiatives, and you would – you have here $2.1 million in interest expense reduction because of lower interest rates, correct?

MR. WEISS:
Right.

CHAIRMAN CARACCIOLO:
And you would adjust Medicaid forecast by $5 million because the most recent experience leads you to believe that you could do that and do it without adversely affecting the budget.

MR. WEISS:
Right. Correct.

CHAIRMAN CARACCIOLO:
And that's $12 ½ million aside from the $37.5 million in tobacco securitization. So we are talking about a base amount of $80 million. And whether you include 37 ½ million for tobacco securitization or a property tax increase, that still leaves about $21 million to bring the budget into balance. What other additional measures would you recommend the Legislature consider?

MR. WEISS:
That is really a policy decision that is up to the Legislature.

CHAIRMAN CARACCIOLO:
But if you have this information today, you wouldn't present the budget with a $21.1 million

cap, you would propose to do some things. I am trying to – what I don't want to see happen, Ken, is the Legislature –

MR. WEISS:
It wouldn't be –
CHAIRMAN CARACCIOLO:
Let me finish. I don't want to see the Legislature take actions which because we are not in considerable agreement wind up as a back door property tax increase after line item vetoes are exercised and there is a failure to maybe override those line item vetoes. Let's be honest with the public and tell them what we are doing up front and how we intend to do it.

MR. WEISS:
I agree. I think – I don't have the details of what is being proposed, the ultimate details. I have some idea of what is being proposed. Some of those budget reductions I am going to agree with, some of those budget reductions I am not going to agree with. If I don't agree with them, I have no recourse but to recommend to the County Executive that he veto.

CHAIRMAN CARACCIOLO:
And as his advisor, I would imagine he would take that into account and seriously consider doing that, which –

MR. WEISS:
Well, he is going to look at the whole, you know – we are going to look at the whole budget, the whole omnibus when it is adopted. I mean –

CHAIRMAN CARACCIOLO:
But let's say theoretically if you identify out of the $80 million problem that 20 million should be line item vetoes and those line item vetoes are sustained, then in effect that goes when the Legislature gets the budget back with those line item vetoes, if they are not overridden, it reverts as a back door property tax increase. And all I am saying to avert that –

MR. WEISS:
Well, the solution is then only put things in the budget that we agree with.

CHAIRMAN CARACCIOLO:
That's what I am trying to find out. That is the whole purpose of these hearings.

MR. WEISS:
You tell me what you want to do in the omnibus and I will tell you if I agree with it.

CHAIRMAN CARACCIOLO:
Okay. I mean, so far the one item that I think is still identified and under active consideration are legislative initiatives, although I don't think they are anywhere near the amount originally – that is the same as this year. I don't think there is $5 million.

MR. WEISS:
That is a policy decision. We would never veto – the Legislature adds legislative initiatives, we never veto them, and they fund them. I mean, the Legislature is not going to put something in the budget they don't fund, so if they put the legislative initiatives in there and they fund them, we wouldn't have a problem with that.

CHAIRMAN CARACCIOLO:
Okay. Jim, do you want to comment or chime in here on this discussion we are having about how do we bridge this $20 million and avoid a back door property tax increase? Maybe it is $30 million. I don't know what the number is. Because if we don't do tobacco securitization, $50 million.

MR. SPERO:

You can always raise taxes, that is the bottom line. You can try raising fees, reducing certain expenses, payroll expense perhaps, things along those lines.

CHAIRMAN CARACCIOLO:
Turnover savings.

MR. SPERO:
Right.

CHAIRMAN CARACCIOLO:
Let's talk about turnover savings. To what extent would you agree or disagree with a reasonable amount of turnover savings being included in a budget amendment?

MR. WEISS:
Let's talk about reasonable amount.

CHAIRMAN CARACCIOLO:
Yes.

MR. WEISS:
When we submitted the budget it was a tight budget. We budgeted turnover savings higher than we have in previous years. So our budgeted turnover savings will result in basically the same kind of flexible freeze that we had this year where if you look at the number of positions we had filled when we started the program and the number of positions we have filled now is virtually the same. We have basically kept on an even keel. We have not increased the number of filled positions in the County.

To the extent that turnover savings is increased beyond what we put in the budget, then the Legislature is making a policy decision maybe not realizing it, but they are making a policy decision that certain things are not going to be done, certain functions are going to be halted or slowed down, and as long as they are willing to accept that. I mean – I will give you an example. Let's take, you know, in the Sheriff's Department we eliminated 26 vacant positions. If the Legislature restored the positions and didn't restore the funding for them, then, you know, the next time somebody calls me to a legislative meeting and says why don't you release the positions, I would say why restore the positions if you are not going to restore the funding.

CHAIRMAN CARACCIOLO:
And that would be a very appropriate response on your part. I agree with you. I guess what I am trying to get at here is to find out where we can increase turnover savings and agree on department by department where we could do that and save harmless those departments that we feel that we shouldn't do that, it wouldn't be prudent to do that.

MR. WEISS:
If you are going to have a substantial increase in turnover savings, there has to be a parallel decision to reduce a function – I mean you can't do everything you are doing today with 10,000 people if you are going to have 9,500 people next year. I mean, something has got to give.

CHAIRMAN CARACCIOLO:
How about early retirement incentives? I know you would appreciate that, but aside from yourself –

MR. WEISS:
Putting my personal feelings aside, I mean, early retirement if it is managed properly, and I think the County has managed early retirement properly, you know, we could have always done better but the last one I know from the Budget Office perspective we tried to fill positions at the lowest level we could. If we had a position – an example. We had a principal clerk in the department leave. We tried to fill that position with a clerk typist, an entry level position. So not only are you saving the difference between step one and step

12, you are saving the different between a grade 14 say and a grade 6. I am a little off on the grades. So you can end up back filling a large percentage of positions and still have tremendous savings, and those savings can go out two, three, four years.

CHAIRMAN CARACCIOLO:
Okay. So what I hear you saying, then, is that if in a omnibus resolution or a budget amendment resolution there is a call to increase turnover savings, those who support that resolution should –

MR. WEISS:
Should support early retirement.

CHAIRMAN CARACCIOLO:
Okay, and they should also give you the benefit of identifying where they want to increase turnover savings so you can identify positions and departments that would be affected beforehand. Again, that is fair.

MR. WEISS:
Let me give you an example of one of the problems of last year's budget. Last year the turnover savings in the Probation Department was increased to the point where we needed to hire additional Probation people because it was cheaper to hire Probation people than to pay overtime or to incur the cost of institution care etceteras. My budget person, whose instructions are make sure we stay within the budget, every time the department would ask to have positions released, she said you can't release positions because there is not enough money. But eventually I had to override her and release positions where we don't have sufficient funding because the Legislature took the funding out last year. But the Legislature didn't say we are not going to perform the services anymore, they just – to me that is a budget reduction that is not real. And it is the not real budget reductions – like slashing turnover savings across the board. That's just putting numbers on paper. There is no –

CHAIRMAN CARACCIOLO:
Obviously Budget Review has a different perspective, so I will give them the opportunity to reply.

MR. SPERO:
Well, you know, if you are going to push turnover savings, concomitant with that is that you can't increase – you can't fill positions and in some places you might even have some type of service reductions. So, if you are going to do a strict turnover savings policy, then you have to realize that it comes with some pain.

CHAIRMAN CARACCIOLO:
But who has the responsibility to insure that once turnover savings are adopted in the budget that they are maintained.

MR. SPERO:
The departments have that along with the County Executive. They have to manage the budget they are given.

MR. WEISS:
That's right. What happens is if the Legislature gives us the budget that in my opinion and based on my recommendation to the County Executive he feels it is inadequate, and I am talking beyond the adoption process, then we have to take actions like we had to take actions last year. I am not saying the budget last year was adopted improperly. What I am saying is that the financial situations were such that by January of last year we knew we had budget problems and we took action.

CHAIRMAN CARACCIOLO:
You mean of this year, of 2001.

MR. WEISS:

Yes. I am already in the 2002.

CHAIRMAN CARACCIOLO:
I know you are.

MR. WEISS:
January of this year we took action. We had the hiring freeze, we took ten percent or five percent off all the appropriations. We in conjunction with the Legislature authorized another quarter cent of the sales tax which if we didn't we'd be looking at a hole so big we wouldn't be able to –

CHAIRMAN CARACCIOLO:
Which is a perfect segue now into this wonderful chart that Robert has distributed on sales tax collections. Up to what period is this, Robert?

MR. LIPP:
As the infinitely wise Budget Director had noted before, year-to-date we are up 1.6 %. And this is sort of the break down by fund, but really there is so many machinations going on here. Like for instance, the clothing exemptions and the quarter cent increases and the fact that the police district went up in terms of the portion of the tax that they get, so really you should only look at it for all funds, otherwise it gets too confusing.

CHAIRMAN CARACCIOLO:
Right. And if you look at it as all funds, which is the first column, the revenues are up slightly as you pointed out or approximately $8,657,814.

MR. LIPP:
Yes.

CHAIRMAN CARACCIOLO:
Right. If that trend were to continue to year end, would we still be looking at that $12 million shortfall?

MR. LIPP:
Fifteen, yes.

CHAIRMAN CARACCIOLO:
Fifteen. Okay. And why is that? If we are showing a net increase --

MR. LIPP:
Okay. What we – what I had – the estimates that we put, that the Budget Review Office put in the review this year, which were across all funds $15 million shortfall for this year, 2001, that implicitly assumes a real growth rate of two percent, which is in the neighborhood here. And then it adjusts for the fact that we should get more above that because this year we have the extra quarter-cent that we didn't last year. So the nominal growth rate would be above that two percent, but it assumes two percent for the fourth quarter.

CHAIRMAN CARACCIOLO:
Let's just assume for a moment that somehow the economy were miraculously to turn the corner and improve sooner, Ken, rather than later. Everyone is now forecasting the earliest we will see a recovery started is the third quarter next year. Some are saying fourth quarter. Let's say all the pundits are wrong and there is actually, you know, a situation where we see improvement beginning the second quarter. What should we do with the revenues that come in above and beyond what are expected?

MR. WEISS:
Well, actually I think there is a law that says we have to take sales tax revenue in excess of budgeted and put it in the tax stabilization fund, which is what I recommend, assuming,

again, assuming that just because sales tax comes in above, let's assume Social Service expenditures come in higher than –

CHAIRMAN CARACCIOLO:
They could offset.

MR. WEISS:
They could offset. But assuming –

CHAIRMAN CARACCIOLO:
You have got to obviously monitor and keep an eye on expenses –

MR. WEISS:
Everything else deemed the same, sales tax revenues came in, it will be an excellent opportunity to replenish the tax stabilization fund.

CHAIRMAN CARACCIOLO:
And as we speak today, where is the tax stabilization fund? What is the fund balance?

MR. WEISS:
Based on our recommended budget, I don't know if you are planning on changing it, but the balance at the end of 01 would be 24 million I believe.

MR. SPERO:
24.2 million at the end of 2002.

CHAIRMAN CARACCIOLO:
Is there anyone who is discussing changing that amount, Jim?

MR. SPERO:
No, there isn't.

CHAIRMAN CARACCIOLO:
Did you hear that answer, Ken?

MR. WEISS:
I'm sorry.

CHAIRMAN CARACCIOLO:
The answer was no to your question about if anyone is –

MR. WEISS:
That's pretty good to go into 02 and still have that much left.

CHAIRMAN CARACCIOLO:
All right, at this point it seems we have to make some decisions over the course of the next week. I am going to reach out to you, Ken, over the next several days and see if some ideas I have are something you feel comfortable with and could support.

Where are we, Jim, in terms of the deadline for filing budget amendments? I noticed the workgroup just met again this morning.

MR. SPERO:
The deadline was last Friday. The omnibus is still being constructed, but the deadline was still last Friday.

CHAIRMAN CARACCIOLO:
Right. So I mean changes to the omnibus are ongoing, the window has not closed to make changes to the omnibus.

MR. SPERO:
The window is closing quickly, though. We have to get it completed and we can't keep changing it. We need to have closure within the next day or so on what is going in omnibus.

CHAIRMAN CARACCIOLO:
And – all right. On that note the questions I had have been adequately responded to and I appreciate that very much, Ken. I think there are some honest disagreements here. I look forward to working with all of those who want to reasonably and responsibly come up with a budget next year that is fiscally responsible and meets the needs of both the County, the residents, its employees, and all the other obligations we have to the public.

I hope there is something in this budget for homeland security. You have a budget amendment from me. I know there are other amendments being considered. I would hope, Ken, maybe you could tell me now if that is something you would be inclined to support – additional funding for FRES, Police Department, Health Department, to make sure that they are adequately equipped and supplied with materials that might be needed in the event of further terrorist activities.

MR. WEISS:
I agree. I mean, it is something we are doing RFP's now for security for the airport. There is going to be a lot of things that we haven't thought about that we are going to have to end up finding money for next year, so it would be good to have a budget that has a little flexibility in it rather than one that is barely funded.

CHAIRMAN CARACCIOLO:
Okay. Thank you very much. That concludes the budget hearing for the Finance and Financial Services Committee. I thank everybody for attending.

(The meeting was adjourned at 4:50 p.m.)

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