

SUFFOLK COUNTY LEGISLATURE

SPECIAL MEETING

THIRTEENTH DAY

July 31, 2008

**THE SPECIAL MEETING WAS HELD IN THE ROSE Y. CARACAPPA LEGISLATIVE
AUDITORIUM OF THE WILLIAM H. ROGERS LEGISLATURE BUILDING,
725 VETERANS MEMORIAL HIGHWAY, SMITHTOWN, NEW YORK**

**Minutes Taken & Transcribed By:
Alison Mahoney - Court Stenographer**

*(*The meeting was called to order at 12:11 P.M. *)*

P.O. LINDSAY:

Okay, could I have all Legislators to the horseshoe please? Could everyone rise for the Pledge of Allegiance led by Legislator Eddington.

Salutation

Thank you. Could you take the roll, Mr. Clerk?

(*Roll Called by Mr. Laube - Clerk*)

LEG. ROMAINE:

Present.

LEG. SCHNEIDERMAN:

Here.

LEG. BROWNING:

Here.

LEG. BEEDENBENDER:

Here.

LEG. LOSQUADRO:

Present.

LEG. EDDINGTON:

Here.

LEG. MONTANO:

Present.

LEG. ALDEN:

(Not present).

LEG. BARRAGA:

Here.

LEG. KENNEDY:

Yes.

LEG. NOWICK:

Here.

LEG. HORSLEY:

(Not present)

LEG. STERN:

Here.

LEG. D'AMARO:

Here.

LEG. COOPER:

Here.

D.P.O. VILORIA-FISHER:

Here.

P.O. LINDSAY:

Here.

MR. LAUBE:

Fourteen -- 15 (Not Present: Legislators Alden & Horsley).

LEG. MONTANO:

How many people are here?

P.O. LINDSAY:

Fifteen.

Mr. Clerk, the -- we were notified by the County Executive about a Special Meeting that he has called and so I assume that it was properly advertised since it came out of the Executive's Office.

MR. LAUBE:

Yes.

*(*Legislators Horsley & Alden entered the meeting at 12:13 P.M. *)*

P.O. LINDSAY:

First on the agenda is a one hour public portion, and we have a few -- we have a few cards here. First is our Treasurer, Angie Carpenter.

MS. CARPENTER:

Good afternoon. I was asked if I would come down today and sort of lend my support to the choice that you have before you as far as the tobacco securitization.

As I said when I was here last time, I remember being on the Legislature and having this before us, and I guess it was in 2001, and the decision was made then not to do it, it was not the right decision for us at the time. But I think all would agree, especially when you read the letter of support or the recommendation from our Financial Advisor, Rich Tortoro, and they're the Financial experts and it seems that now perhaps the time is right to do that. And I think I'm encouraged by the fact that we're not looking at securitizing the entire amount, that you're just doing a partial of the revenue stream.

And the other option that was out there as far as selling the tax liens, which is something that we never really supported as a department. And when the Joint Evaluation Committee did their due diligence and review, it was unanimously decided that it was not a good way to go with the sale of the tax liens.

And the one thing I do want to share with you today, although I can't really give you specifics because I haven't spoken with the gentleman yesterday, but I received a telephone call from another County that does presently sell their tax liens and they're looking at what we do and they're thinking of changing their model. They're interested in partial payments which is something this Legislature took the initiative on a number of years ago which especially now in these financial times has been very helpful to a lot of people to at least know that they're able to partially pay the taxes due. But this County that does sell tax liens is looking to perhaps adopt our model.

So having said all of that, I don't envy the position you're in -- been there, I know it's difficult -- but sometimes you have to weigh and balance. And what we have before us with a looming deficit certainly needs to be addressed and I applaud you all for being very diligent in your deliberations on

this matter. Thank you very much.

LEG. MONTANO:

Question.

P.O. LINDSAY:

This is public portion.

LEG. MONTANO:

Oh, no questions.

P.O. LINDSAY:

But when we get into the debate of the bill I will ask her. Treasurer Carpenter, there was a question but we're not going to take any questions in the public portion. If you could, I only have a few cards, hang around, maybe when we get into debating the bill, maybe you could resume --

MS. CARPENTER:

I actually am not able to, I need to leave by 12:30.

P.O. LINDSAY:

Okay.

MS. CARPENTER:

And --

P.O. LINDSAY:

Well, I only -- if you could wait till 12:30, because I only have three cards.

MS. CARPENTER:

Oh, sure will. Okay, will do.

LEG. MONTANO:

I'll pass if she has to leave, if she has to leave.

MS. CARPENTER:

No, I'll wait.

P.O. LINDSAY:

Mike Seilback.

MR. SEILBACK:

Good afternoon. My name is Michael Seilback, Vice-President of Public Policy and Communications for the American Lung Association of New York. I'm here to speak in opposition of IR 1644, the securitization of tobacco funds by the County.

Fundamentally from a public health perspective, tobacco settlement payments should be used to address the problems caused by tobacco; that's the intent of the Master Settlement Agreement. These payments come from the settlement of lawsuits by the States who sought reimbursement from cigarette companies from smoking-caused expenditures caused by big tobacco's acts.

I've been before this body before and I've testified and today I want to take a slightly different approach. We've heard a lot of numbers being thrown around; one number that stuck with me is 24 years. For at least 24 years Suffolk County is going to be receiving on average only 51.9 cents on the dollar of the MSA dollars coming in. As I stand before you now, my wife's sitting home in our house in Nesconset. She's due any minute to give birth to my first child.

LEG. LOSQUADRO:

Congratulations.

MR. SEILBACK:

Thank you.

LEG. COOPER:

What are you doing here?

MR. SEILBACK:

That's what she said. Voting in favor of this bill is going to affect him for many years to come, from his first day in Kindergarten through when he walks into middle school, going to his high school prom and through his college graduation. That's what we're talking about when we're talking about 24 years, it's a very long time. And the choice that you are all forced to make is going to affect not just my child but many children of Suffolk County long after all of you are not sitting at this horseshoe, many County Executives from now.

While the Health Commissioner sent around a memo showing his commitment to the County's Tobacco Control Program, and we appreciate that, that memo is non-binding. There's nothing stopping this County Executive, or any other one that's going to follow, to slash this program's funding. There simply is nothing binding, nothing making them stop.

We've seen from many other states' experiences that securitizing tobacco settlement payments is penny-wise and pound-foolish. It swaps a long-term funding stream for a quick economic band-aid. Fifty-one point nine cents on the dollar is not what we should be being; we shouldn't be mortgaging our children's futures for a quick economic fix. These actions don't make sense from a public health or a fiscal perspective. Investments and comprehensive effective efforts to prevent and reduce tobacco use not only saves lives and reducing smoking-caused diseases, but reduces the long-term smoking costs that burden our Medicaid programs.

We'd ask you to commit to the long-term sustainability of the County's Tobacco Control Programs, commit to that funding in a long-term way. If you're going to mortgage this program for 24 years, why don't you commit to the program for 24 years? We'd like to see that.

My unborn child and the rest of the children of Suffolk County shouldn't be forced to bear the burden of this decision. We urge you to vote no. Thank you.

P.O. LINDSAY:

Okay. Don Grauer.

MR. GRAUER:

Good afternoon. My name is Donald Grauer and I'm the President for the Suffolk County Probation Officers Union, one of the ten labor organizations here in Suffolk County. And I'm here today to ask for the Legislature's support for Introductory Resolution 1644, authorizing the sale of the County's rights to receive payments under the Tobacco Settlement Agreement.

As we all know, the County is facing significant financial shortfalls in 2009, there's a projected huge deficit that we're trying to all work together to create ideas to resolve. And I feel that it's in everybody's best interest to be able to use this as a solution, even though it may not be everybody's favorite choice or the best or the first solution that comes to mind. It is, however, something out there that will help to resolve the issue. And I feel that from a labor standpoint, it's in everybody's best interest, from the County, from the residents of Suffolk County and for the workers of Suffolk County to have this issue resolved so that we can continue to solve the problems that are going to exist out there as far as staffing and work loads and providing services to the public, and hopefully this will prevent having to cut services. So I ask for your support and I thank you for your time.

P.O. LINDSAY:

Thank you, Don.

I don't have any other cards. Is there anyone else in the audience who would like to speak? Seeing none, I'll accept a motion to close the public portion?

D.P.O. VILORIA-FISHER:

So moved.

P.O. LINDSAY:

Motion by Legislator Viloria-Fisher, seconded by Legislator Eddington. All in favor? Opposed? Abstentions?

MR. LAUBE:

Seventeen.

P.O. LINDSAY:

Okay. Would Angie Carpenter, would you come back up to the mike? We've still got ten minutes and Legislator Montano had a question for you.

MS. CARPENTER:

I hope this doesn't go under the category of no good deed goes unpunished, but go ahead.

P.O. LINDSAY:

You should have said you had to leave by 20 after.

MS. CARPENTER:

No, couldn't do that.

LEG. MONTANO:

Actually, Angie, I'm going to -- what year did you say you were faced with this issue? I wrote a note here.

MS. CARPENTER:

Well, I really didn't remember, but I read Newsday and it said 2001, so I'm assuming that they're correct.

P.O. LINDSAY:

And Newsday is never wrong.

LEG. MONTANO:

All right. Angie, I'm not going to pursue it. Thank you very much.

MS. CARPENTER:

You're very welcome. Thank you.

One thing I would just like to remind everyone. When I was sitting in the Legislature, I was very proud of the fact that this County spent more money on Tobacco Cessation Programs and education and more of that money than any other County did. So as you're making this choice today, I think you can take solace in the fact that we have really stepped up to the plate in the initiatives that we felt responsible and charged to do. Thank you.

P.O. LINDSAY:

Okay. We have -- the purpose of this meeting is to address 1644 that was closed, the hearing was closed on Tuesday. I need a motion to proceed. Do I have a motion on 1644?

LEG. COOPER:

Motion.

LEG. HORSLEY:

Motion.

P.O. LINDSAY:

Motion by Legislator Horsley.

LEG. BARRAGA:

Second.

P.O. LINDSAY:

Second by Legislator Barraga. On the question; anybody want to start off?

LEG. ALDEN:

I'll start.

P.O. LINDSAY:

Okay, Legislator Schneiderman and then we'll --

LEG. SCHNEIDERMAN:

Just a couple of quick questions. I wanted to see how the number, and maybe Ms. Vizzini can answer this, how the number was arrived at. I know we're getting about 51, 52 cents on a dollar for the tobacco securitization. Can I get a little information about how that number was derived? Because I believe some of the concerns about future tobacco revenue was already built into that number; how competitive was that process, how does it compare to other securitizations that were done by other counties in other states?

P.O. LINDSAY:

I would just -- I mean, Ms. Vizzini could certainly answer, but all the financial people are in the back, too, if you want.

LEG. SCHNEIDERMAN:

Okay. Well, if they can, I just want to make sure we're getting the best possible deal we can get.

LEG. NOWICK:

Bill, just put me on the list.

D.P.O. VILORIA-FISHER:

I've got it.

MR. LIPP:

Well, CitiGroup had used that number, 51 and a half cents on a dollar. And we actually did our own internal calculation which is sort of an approximation and we used the actual Global Markets Growth Rate which is basically a declining consumption of 1.83% and an increase in expenditures by inflation of 3% a year plus whatever the population growth is. To make a long story short, if you look at what the proceeds are that we're going to receive, \$232 million, and you do the growth rates on the revenue, you wind up getting up front the \$232 million and paying the 36% we would give them of the revenues between now and 2012 and 75% starting in 2013. And then over the 24 year period, that would equate to 51.9 cents on the dollar on our simple calculations and a preliminary number by CitiGroup, while the analysis was being done, probably not a final number, was 51 and a half cents on the dollar.

LEG. SCHNEIDERMAN:

Actually, the number really hasn't been determined yet because is there a bidding process for that

money?

MR. LIPP:

It actually has to go to market and depending upon --

LEG. STERN:

It goes to market.

MR. LIPP:

-- how market conditions are, it could be better, worst; that's a ballparkish number.

LEG. SCHNEIDERMAN:

Okay, it's all timing. Now, the decision to securitize has been based on financial advice. I just want to make sure for our financial advisors, and I know most of them, when we're making a decision, I know you guys, I know we're getting unbiased information. Mr. Tortoro, who I've known a long time and I trust his judgment, in his situation, he is both working as an advisor to the County and also is he involved with the sale of the bonds themselves through the company?

MR. LIPP:

I would feel more comfortable if he spoke to that himself.

CHIEF DEPUTY COUNTY EXECUTIVE MORGO:

He's here.

LEG. SCHNEIDERMAN:

Yeah, he is here. I just want to get --

P.O. LINDSAY:

Yeah, if you could come forward, Mr. Tortoro, and answer that question.

LEG. SCHNEIDERMAN:

Yeah, I hate to put you on the spot, Rich, but I just think it needs to be clarified. Because a lot of our decision I think rests on your advice here and --

MR. TORTORA:

Certainly. Thank you. Richard Tortora with Capital Markets Advisors. In response to your question, our firm was indeed named to be the financial advisor to STASC as well, and part of what we did in conjunction with that position is ran the RFP process for the underwriters, the RFP process for some of the other service providers. On the day of pricing we, of course, are not the bankers on this transaction, we're the independent advisors. When CitiGroup and their three co-managers go into the market, we will help the County and STASC determine that the bonds are being sold at the most attractive rates available in the market that day.

LEG. SCHNEIDERMAN:

But more simply, as you are advocating very strongly for tobacco securitization, do you have more personally financially to gain if we do securitize tobacco than if we don't?

MR. TORTORA:

Of course, we get a fee if indeed this transaction closes. And I think it's probably inaccurate to say we're advocating, we're not here to advocate. What our responsibility is is to make sure that the County officials have all of the questions asked, answered and to make sure that we convey to you in terms that you can understand how this transaction works, how it affects you. Other transactions were analyzed. We weren't involved on a day-to-day basis to the end with the tax lien securitization, but we were involved early on with that as well.

LEG. SCHNEIDERMAN:

Right.

MR. TORTORA:

But again, we don't come as advocates, we come to provide information to you to help you make informed decisions.

LEG. SCHNEIDERMAN:

Right. And there are a lot of advisors here who in this process, including BRO, who are unaffected one way or another by this, and they all seem to be saying we should be moving forward in some capacity with securitization. But I felt like that needed to be out on the record, so.

MR. TORTORA:

That's fine, sure.

LEG. SCHNEIDERMAN:

I appreciate that.

MR. TORTORO:

You're welcome.

LEG. SCHNEIDERMAN:

And Rich, it's not -- I don't -- I'm not trying to question your integrity, I've worked with you for many, many years.

MR. TORTORA:

No offense taken.

LEG. SCHNEIDERMAN:

Okay, thank you.

MR. TORTORO:

Thank you.

P.O. LINDSAY:

Legislator Alden.

LEG. ALDEN:

I wasn't going to question this, but now I have to. You are not an opponent or proponent of tobacco securitization, is that not right? You're the mechanic that if we choose that path, you're the mechanic that would make that happen.

MR. TORTORA:

That's correct.

LEG. ALDEN:

Okay, thanks. Budget Review, you're a proponent of tobacco securitization? And I'm just going by a characterization that was just put on the record.

MS. VIZZINI:

No, we're not a proponent of tobacco securitization. We have offered a mitigated alternative and we have offered alternatives such as increasing sales tax or increasing property taxes --

LEG. ALDEN:

That's good.

MS. VIZZINI:

-- which have not been embraced. We are a reluctant participant.

LEG. ALDEN:

Right. Rich, as far as the actual terms of the deal, how much is the -- how much is the amount that we're selling?

MR. TORTORA:

Sure. Right now it's envisioned that the County will securitize, as was said earlier, approximately 36% of the tobacco revenues due to be received in '09 through '12 and 75% of the revenues thereafter for approximately the next 20 some-odd years. You would have proceeds, the size of the tobacco bond issued would be approximately \$230 million.

LEG. ALDEN:

Okay. And I don't know if it's proper for you to speak to what our intention is to do with the proceeds, that I guess would come from the County Executive's side. So thanks, Rich.

MR. TORTORA:

One point, if I could make one point, because that 50.5 or 51.5 number in terms of what you're getting for what you're selling. One distinction that we consistently try to remind people about is that assumption is certainly correct if indeed the revenue stream continues as projected. If indeed it starts to decline in the future, as many people seem to think, including the consumption report experts, then rather than getting 51 cents on the dollar, you might end up getting significantly more than that if indeed the revenue stream declines in the future.

LEG. ALDEN:

Okay. Thanks, that's fair.

P.O. LINDSAY:

If you --

LEG. ALDEN:

Maybe somebody can correct me -- I have a couple of more things.

P.O. LINDSAY:

Go ahead.

LEG. ALDEN:

Maybe somebody from the County Executive's side can correct me if I'm wrong, but the intent with these proceeds is to pay the principal and interest on our mortgage -- not mortgage, on our debt?

MR. TORTORA:

I could respond to that if you'd like.

LEG. ALDEN:

Okay.

MR. TORTORA:

What the intention is, once the issue closes you would use the proceeds from the bond sale to buy a portfolio of Treasury Securities. Those Treasury Securities would mature in the amounts and on the dates necessary to defease or to pay debt service on existing County General Obligation Bonds as they mature over the next five years. So bonds that are maturing in '09, '10, '11, '12 and '13, debt service that you would otherwise pay from budgeted funds. Now, a portion of that debt service would be paid from tobacco bond proceeds.

LEG. ALDEN:

Okay. And that debt service rose approximately \$30 million over the past -- through the three years?

MR. TORTORA:

The debt service that you would pay with these tobacco bond proceeds over the next five years would be approximately \$185 million.

LEG. ALDEN:

No, I'm talking about how our debt service went from say three, four years ago to what it is right now. And maybe Budget Review, our debt service is 70, 80, \$90 million a year?

MR. LIPP:

Our debt service is about \$90 million a year in the General Fund alone.

LEG. ALDEN:

Okay, \$90 million, and that went up how much over the past, say, four years?

MR. LIPP:

At least 20 million, I guess, total, at least.

LEG. ALDEN:

So it went from 70 million up to 90 million over the past, say, three, four years.

Now, I don't have the figures, but I did give you a head's up a couple of weeks ago, a month ago maybe, as far as how much new debt we've actually taken on and approved this year; do we have any idea of that? Because yesterday in Parks we looked at almost \$3 million worth of new debt; and no, it wasn't the cart barn, this was something different than the cart barn. And that's just Parks; Public Works I know had millions of dollars worth of new spending or new debt.

MS. VIZZINI:

We are tracking it by meeting and we're checking for the file, but it is in excess of \$10 million since the beginning of the year.

LEG. ALDEN:

In excess of the ten million.

LEG. ROMAINE:

On top of the 90.

LEG. ALDEN:

Okay. So --

MS. VIZZINI:

Well, no, no, what we've authorized this year.

LEG. D'AMARO:

Yeah, not the debt service.

MS. VIZZINI:

It's not going to be added to the 90.

LEG. ALDEN:

The point here is that we continue to pile on debt. This is not even a full fix for the anticipated problem, unless I'm wrong. This fixes the whole budget hole; would you know that?

MR. TORTORA:

I believe it does not, it just provides some relief towards the anticipated shortfall next year.

LEG. ALDEN:

Okay. And then did anybody talk to you about a plan for replacement of that income?

MR. TORTORA:

We have not discussed that.

LEG. ALDEN:

No, okay. So we don't have a plan for replacement of the income, so this is really taking a very, very short view. And if you do that with your house, you end up with what millions of Americans are feeling right now; they took on too much debt, they can't pay it off and they're losing their homes.

Here in Suffolk County the problem is when you take on too much debt and you can't pay it and you have a big hole in the budget, then you go and you tax the taxpayers. So one way or the other it looks like the taxpayer is going to get stuck with whatever the difference is here, because this really doesn't -- it doesn't fix the problem. Yet we continue to pile on new debt every meeting, every time we meet we approve more and more and more debt. And this, you just stated that the purpose of this refinancing is to pay our principal and interest on debt that we already have, not even taking into consideration the stuff that we're going to create in the future.

Now, going back to Budget Review. Do we actually have the numbers like even fairly solid or is this still just a guess at what our problem is for this year and for next year? So we'd have to take it as two different things.

MS. VIZZINI:

Yeah, we made a joint presentation to Budget & Finance on Tuesday.

LEG. ALDEN:

I'm not on that committee.

MS. VIZZINI:

The magnitude of the problem, both Budget Offices are in agreement that there is a \$126 million shortfall; 105 in the General Fund and 21 in the Police District. We've mitigated maybe 14 plus million of that through Resolution 283 in terms of fees and departmental charges that will be coming to you in the form of resolutions. The early retirement incentive was part of the -- included in the shortfall number. The tobacco, if we proceed forward, would mitigate 60 million. Once you approve all these things, we still in the General Fund have a shortfall of about \$35 million plus the 21 in the Police District.

LEG. ALDEN:

All right. And you know what? And I've seen it done time after time, but I was here in 2001, we looked at this, we listened to the presentation from Fred Pollert and we didn't do it because it didn't make sense then. It didn't make sense to short your future and the revenue that you had coming in from your future, so we chose not to do that.

In 2004, we were told that there was a 200 million plus deficit and we were told that one of the solutions could be with debt; we could refinance, refund our debt and take care of a big portion of that hole. Well, we did that and we acted very quickly and we did it in haste, maybe too hastily because today we pay \$3 million more a year for that debt service because we didn't do it properly. So we acted in haste and now it costs the taxpayers \$3 million more per year, because we didn't fix the problem, we made it worse in the future. Maybe we thought we fixed the problem at the time. And that's my fear right now, that we think we might be fixing this, but when you take a long-term view -- and I won't be here as a Legislator, I'll be here till the end of next year, but future generations and future Legislators and some -- a lot of the Legislators that are sitting around the horseshoe right now are going to be faced with an enormous problem because of what we're creating today. Because this is -- we're going to create another problem on top of the problem that we created in 2004 because we rushed to judgment on that.

So a long, hard look would have been a lot more appropriate. We don't need to rush right now, unless you're telling me that right now in 2008 we have a major problem for our budget; and is that the case, Gail?

MS. VIZZINI:

Just before I respond to that question, I just want to correct what I said in terms of what you authorized to date this year. We've authorized \$94.7 million.

LEG. ALDEN:

Ooh, that's different than ten million.

MS. VIZZINI:

Yeah. However, 32 million of that is from Quarter Cent, the remaining 62.7 is General Fund.

LEG. ALDEN:

Yeah, it's nice that it's from Quarter Cent, but you know what? If you had the Quarter Cent on a cash basis you'd be a lot more flexible and I'm positive that the people would really understand if we put something on maybe for them to vote on that in a temporary position where we're in financial crisis, so rather than raise their taxes we suspend that type of program and use all that money to plug any budget shortfall, but we didn't even look at that. So I really have a problem with hocking the future further of Suffolk County and the Suffolk County taxpayers and not even -- not even creating a situation where we're taking care of the problem as it exists today. Thank you.

P.O. LINDSAY:

Okay. Legislator Nowick.

LEG. NOWICK:

I did want to speak to Rich Tortora, if he has a moment to come up again. But before I do that, I just wanted to mention, because this tobacco money, it was intended to be used for a cessation program; is that right, cessation, is that the way you say it? And from what I'm understanding, Dr. Chaudhry does tell us that this program will not be diminished in any way, the program will continue, the cessation program will continue. So in terms -- putting aside money, let's talk about the health aspect. I'm told that this will continue, so I think that's pretty important to make a note of. Rich, I just wanted to ask you something.

LEG. ALDEN:

What's the guarantee?

LEG. NOWICK:

You mentioned that the money received will go into Treasury notes?

MR. TORTORA:

That's correct.

LEG. NOWICK:

What's the percentage; can you give an average?

MR. TORTORA:

Sure. We wanted to put the bond proceeds in investments where we know there's no risk.

LEG. NOWICK:

Of course.

MR. TORTORA:

We know that the money is going to be there when we need it.

Depending on the term of the investment, we're probably looking at yields somewhere in excess of 3%.

LEG. NOWICK:

But more of it's a guarantee, you don't want to take a risk, so.

MR. TORTORA:

Correct, we go for security first, liquidity second and then yield third.

LEG. NOWICK:

You know, Legislator Schneiderman talked about 52 cents on the dollar. But my question, I guess for either you or Budget Review, when the tobacco money -- when the deal is closed and the tobacco money starts to come in, I understand that that is going to defease debt service. Now, wouldn't that -- Gail or Robert, wouldn't that in the long run help us for the 2009 budget and the 2010 if the debt service does go down? And I understand we're supposed to be paying principle and debt service, but if we knock out some of that, doesn't that in the long run make the 52 cents more?

MR. LIPP:

Not -- in my estimation, no in the sense that we're not retiring debt, we're just paying debt as it comes through; it's just an operating bill generically.

LEG. NOWICK:

But if you pay more principal and debt, doesn't the debt then go down?

MR. LIPP:

We're just paying both the principal and the interest that happens to come due based upon previous years, bond issues and what the debt schedules are.

LEG. NOWICK:

So it will never go down because you're paying it upfront.

MR. LIPP:

It goes down, each year you pay your debt then the principal amount is going down by the principal portion that you repay, but that's an obligation though..

LEG. NOWICK:

Will this enable you to pay more of the debt service or principal or not?

MR. LIPP:

No, it's just making payments on expenses that come due, just as if it were equipment supply, salaries.

LEG. NOWICK:

So that doesn't help in any way.

MR. LIPP:

It doesn't relieve the structural problem. It helps in terms of off-loading or off-budgeting a portion of the debt service, in this case for the 2009 budget a combination of 15 million from 2008 and 45 from 2009 that will enable us to have some time to deal with the problem so that we won't either have to drastically cut expenditures or raise property taxes or do some of the other measures that have been discussed that haven't been palatable so far.

LEG. NOWICK:

Okay. And Gail, you agree with that?

MS. VIZZINI:

Well, the tobacco securitization provides a revenue stream instead of sales tax or sales tax or property taxes, it's just money coming into the budget to pay --

LEG. NOWICK:

It's an additional --

MS. VIZZINI:

-- our operating expenses.

LEG. NOWICK:

Okay. Did I have another question? Debt service becomes debt service when we actually -- we've approved a lot of debt, but that doesn't actually become a true debt, I guess, until we actually take the money out. In other words, we're approving these parks, we're approving things in committees, but I see the number 50, number 40, number 30, that actually doesn't become our debt until we borrow the money, correct?

MS. VIZZINI:

Correct.

LEG. NOWICK:

Okay. All right, I think that I understand enough of it. Thank you, Rich. And those were just the questions I had, I just wanted to know about that.

P.O. LINDSAY:

Okay, Legislator Romaine.

LEG. ROMAINE:

Yes. Rich?

P.O. LINDSAY:

Rich, everybody wants to talk to you, nobody wants to talk to Ben Zwirn, his feelings are hurt out there.

LEG. ROMAINE:

That's because Ben Zwirn is not the expert or a member of this Legislature and should not deal in debate with Legislators. But Rich, just a technical question. One of the issues that -- if this is approved today, how quickly will you be able to go into the market to sell what you need to sell?

MR. TORTORO:

I believe that the bankers are ready to be in the market next week. So the documents could be sent out as soon as tomorrow, perhaps, or over the weekend and then we can be in the market as early as next week.

LEG. ROMAINE:

Right. I ask that question because the Executive thought meeting today was more important than waiting till our General Meeting on the -- on next Tuesday and I assume that there's some haste there and that you're prepared to act immediately.

MR. TORTORA:

That's correct.

LEG. ROMAINE:

Okay.

MR. TORTORO:

And what brings us to the table today to hopefully move this a little bit more quickly, items that we discussed at the committee meetings the other day which is the primary thing that's moving us is the fact that three of the major tobacco companies are releasing earnings reports this week, one of them already has. And our concern is based on what comes out in those earnings reports, that could potentially adversely affect the interest rates that we'll pay on these bonds. Also, we're concerned that once Standard & Poors hears what the tobacco companies have to say, that might speed them along and perhaps take action on the 20 bond issues that they've already identified, 20 tobacco bond issues as potential candidates for downgrade.

LEG. ROMAINE:

Thank you very much. With the Presiding Officer's permission -- thank you, Rich.

MR. TORTORA:

You're welcome.

LEG. ROMAINE:

You were very informative. I have grave concerns about this resolution. I have grave concerns because the Tobacco Cessation Program that this County runs, despite the letter from Dr. Chaudhry, he is not in power to make any commitments for the future.

There has been no commitment in this resolution, and it would have been much better if one of the selling points of this resolution might have been a commitment to the future where we would have actually authorized. Now, you would say, "Well, we can't commit for the future, but we're willing to commit well into the future for tobacco securitization," that makes me concerned.

I was also concerned because Budget Review, in analyzing this, had concerns about the amount of money that we were borrowing. My thought was that the problem was in 2009. Gail, is some of this money being spent in 2008, is some of this money being committed for 2008 when actually we have a projected surplus for 2008?

MS. VIZZINI:

Budget Review is projecting that we will have about a \$62 million fund balance in 2008. But yes, it's hopeful that we will be receiving about 15 million of infusion in revenue --

LEG. ROMAINE:

In 2008.

MS. VIZZINI:

-- for 2008.

LEG. ROMAINE:

Despite the fact that we're not projected to have a financial problem for 2008.

MS. VIZZINI:

Well, similar to the fund balance, whatever we can mitigate in '08 will help us in '09.

LEG. ROMAINE:

In '09, I understand that. Thank you.

I know you presented an alternative in which you said we don't need all of this money. If the problem is in 2009, why are we giving money, 35 million in 2010, 2011, 2012 and 20 million in 2013? Why are we borrowing more than we need? That is a puzzling issue for me. Because tobacco securitization may not in and of itself be a bad concept, but when you over-use anything it is not a good concept. You made an alternative. Our problem is as a Legislature we turned over all of our powers -- not to the Executive, although so many people would be surprised to hear that we

haven't because by our practice it appears that we have -- but instead to the Suffolk Tobacco Asset Securitization Corp and, therefore, we can't even consider an alternative that was put forward by our Budget Review Office. Fifty cents on a dollar, something of that amount, 51, maybe 52 cents if we're lucky, a very expensive cost of borrowing money.

I heard an explanation yesterday that, you know, I always listen to of our current economic situation, it was made brilliantly, it was intelligent, but it was made in advancing this particular resolution. That analysis was correct, I don't know if this resolution is the correct solution to our problems. And then there's two people that lobby me that I listen to in one ear, the "now lobby" and the "later lobby," okay. We're going to take the money now, but we're going to pay for it later, and somehow no one is listening to the "later lobby". Because what we're going to do, the more money we take the larger the structural deficits that we're going to create in the future. Well, this County Executive won't have to do deal with it, but all future County Executives and Legislatures will have to deal with the structural deficit that we create.

I understand the need; that was made brilliantly. I don't understand the need for this particular resolution and I liked the idea of Budget Review's alternative resolution which made greater sense to me. I know that it's cheaper now to borrow it all now instead of trying to borrow it in halves and wholes, but I also know that the economy is cyclical. We faced this. Wall Street crashed in '87. I mean, the County Executive was on the Legislature at the time, so was I, we faced this in '88 and '89 and then I left and became County Clerk, but I watched from the sidelines in the early 90's with troubling times. But I watched us come back because our economy has a cyclical nature to it. I'm hopeful that we'll come back, that we don't need all the money that is put forward. It certainly is a cushion for this administration and whoever is elected. I assume, considering the political situation, the Executive will probably be elected, it will be a great cushion for him. But are we prepared to mortgage this much money of our future? Are we prepared to create structural deficits? I mean, this -- the taxpayers are going to pay for this in the future. Maybe we don't care because we're here now. It's the difference between the "now lobby" and the "later lobby", and somehow the voices of the "later lobby" isn't being heard and the "now lobby" is.

I like the alternatives put forward by Budget Review, I think they're more fiscally prudent. I have grave concerns about the current resolution. I have grave concerns that it doesn't in some way codify what we're going to do for tobacco cessation in the future and we're leaving that silent. It's -- I know this is probably a foregone conclusion, but I certainly wanted to raise those concerns. Thank you, Mr. Presiding Officer.

P.O. LINDSAY:
Legislator Barraga.

LEG. BARRAGA:
Thank you. Most certainly, if I were to ask the Director of the Budget to give us a fiscal review of the current status of Suffolk County, she could do that; she could do it as of 1:50 on July 31st. My concern happens to be where do we stand 24-hours from now?

Economic conditions in this state and this nation are changing very, very rapidly. Just two days ago we had the Budget Review Committee hearing on this particular subject and it was pointed out that as far as the State of New York is concerned, for the next three years their deficit will be 21.5 billion. The way the numbers laid out, it was going to be 5.1 billion for next year, 7.7 billion the following year, 8.7 billion in the third year. Now, I pointed out at the time, predicated on the Governor speaking at 5:10 Tuesday afternoon, that my feeling would be that the deficit would go north of \$25 billion, 25 billion. It now stands at \$26.2 billion, a growth of almost 25% in a period of less than three months.

He's instituted a hiring freeze. He said to State agencies, "Look, you know, there's a 3.3% reduction, I want another 7% 10.3%." He's going to take steps up at that end and there's going to be lots of screaming, you're hearing it already from Bloomberg from New York City, "Don't close

your budget gap on the backs of New York City." You're going to hear from New York State Association of Counties, all those County Executive are going to be screaming. You're going to hear it from the school districts, "Don't do a mid-year cut for school aid." In 1990 I was there and we did all that and they're all going to get whacked. So the condition of this County as of 1:50 or 12:50 is not going to be the same in a couple of weeks. And just remember, 20% of all revenues to the State of New York come from where? They come from Wall Street. And revenues, according to the Governor, are off something like 97%.

Now, the thing to remember, on the positive side, Suffolk County, believe it or not, is in much better fiscal shape to deal with this deficit than the State of New York, and I'll tell you why. Because the State of New York on April 1st did what they normally do, they passed a budget increasing spending by 5%, and then they spent the next couple of months dealing with a couple of issues. You know, Superintendents, they were retired and working someplace else, lawyers who were on school boards, an issue here, an issue there, yet they all knew, every single one of them, that the 800 pound gorilla was right next door known as the economy of the State of New York. They heard that gorilla banging around and chose to do nothing, and now you know what's happened? That gorilla has just broken down the door, and I will not use the term but he's not happy and they have to deal with it.

In the upcoming months, you will be affected, Suffolk County will be affected. There will be loss of revenues, you will not see the dollars that you thought you were going to get, and that will be across the board. But yet we have taken steps, early retirement, cutting back on equipment, this tobacco securitization, nobody is crazy about this, but you have no choice, you have to be pragmatic, you have a \$150 million deficit, that has not changed. And I assure you as we speak today, New York State has done nothing. They're going to go from 26 billion, they're on their way to 30 billion. The higher they go the more of a negative impact you will have because 70% of the revenues generated by the State of New York are distributed to local governments and school districts. The last time we did this we hit everyone, no one was spared. So you have to do this, even though you're going to wind up roughly \$35 million short.

At the Federal level, we pointed this out the other day, one of the biggest deficits, annual deficits is coming up, roughly \$492 billion. With tobacco securitization, when you go into the market next week, you're going to be competing against the Treasury because the Treasury is out there doing what? They're selling 10 year and 30 year notes; they're pretty safe notes. People who buy the bonds, Mutual Funds, Hedge Funds, individuals, in the past they are considered risk-takers; they buy the bonds because they're getting a better return, a higher return than Treasuries. Are the risk-takers still out there predicated on the performance of this economy for the last 15 months where across the board people have been losing their shirts? Or are they going to turn around and say, "You know, my Mutual Fund that I'm running, I'm better off with the Treasuries. Maybe I'll only get a few percent but, you know, with all the litigation, with tobacco, the possibility of domestic sales, do my clients really need these bonds?"

So next week when this issue goes out there, at the same time the Treasurer will be out there a ten million -- with a \$17 billion bond issue over ten years on August 6th, on August 7th they're going to come back with a 30 year bond issue to raise another \$10 billion. And all through August and September, the Treasurer will be out there selling bonds totaling \$171 billion because they have to to close their gap of 492 billion.

Now, where does that all leave us? We're ahead of the curve. We're doing what we have to. Nobody is happy about this; I'm not happy, Mr. Romaine isn't, right down the line. I'm listening to Mr. Alden, Mr. Alden is right. I'm telling you, because there are so many variables that we do not control. What we do control here, especially on the spending side, we should shut down the spending in Suffolk County for the next six months. Shut it down until we get some sort of clarity as to what's going to happen on a Statewide basis and a nationwide basis. All these bond issues, people coming in, the fire department needs this, the cops need that, off the table. And I'll will tell you why. I saw in Gail Vizzini's report something about a class of Suffolk County cops, 90

policemen, 90 candidates; off the table. And the reason is if this goes south financially it will go quickly, and if you have a class of 90, using them as an example, you'll fire them and you'll wind up firing 300 cops that already have -- that -- it can get that bad that quickly.

And no one knows what's happening. One day I got Bears Sterns, the next day I got Fannie Mae, Freddie Mac. That legislation that was passed four, five days ago, signed by Bush, and it really had to do with giving relief to 400,000 people, stretching out their mortgage payments, but what was really not pointed out, {Pulson} pushed in that legislation the right of the Federal government to appropriate, if they have to, over \$100 billion to bail out Fannie Mae and Freddy Mac. No one knows, no one knows. You speak to these economies, these CEO's; the next guy walking through that door knows as much about what's going to happen two weeks, two months from now as any of the top guys you're listening to on radio and television. They don't have a clue. Because this system, frankly, is in the process of chronic failure; when it goes it goes quick. Ask all those poor people on {Indy Mac}, fourth largest savings and loan, all lined up hoping that the FDIC covers them. There are 150 banks, and we don't know who they are, that they expect to fail in the next 12 months.

So is tobacco securitization a great thing? No, it isn't. This is pragmatic, it's necessary, and we still have 35 to \$40 million to make up. And I am not closing off any avenues for potentially closing that gap no matter what it is, and it could well, could well, high probability it will get worse before it gets better.

P.O. LINDSAY:

Thanks for those happy thoughts.

LEG. BARRAGA:

My pleasure.

P.O. LINDSAY:

Legislator Kennedy.

LEG. KENNEDY:

Thank you, Mr. Chair. I'm going to ask Mr. Tortora a couple of questions as well, if I can, since he seems to be in the cat bird's seat here.

Rich, you talked about a couple of important things early on when you spoke about the role that Capital Advisors played in the process, and you spoke about the tax lien securitization and the tobacco lien securitization. At what point did Capital Advisors step away from it or what role did you play in that original comparison and contrast?

MR. TORTORA:

We stepped away from it prior to the RFP process, prior to the County sending out RFP's for tax lien securitization and then we moved in the direction of tobacco transaction.

LEG. KENNEDY:

So did you come to any kind of conclusions as to whether or not there was a preference between the two methods, there was viability?

MR. TORTORA:

Sure.

LEG. KENNEDY:

Where did you come to?

MR. TORTORA:

We had been privy to numerous presentations by a number of firms involved in tax lien securitization, including Mr. Tyson's firm, Municipal Asset Providers. Probably sat in on no less than four or five different presentations from Mr. Tyson here and with some of our other clients, specifically Monroe County. It's certainly a viable program. We were of the opinion then, and we are still, that it wasn't the right program at this time for Suffolk County. It's the nature of the product, you're selling variable rate debt at a time when variable rate debt is somewhat frowned upon. It necessitates credit enhancement at a time when the municipal bond insurers are all having trouble. Again, not a bad product but just not the right product, in our opinion, for Suffolk County at this time.

LEG. KENNEDY:

Let me go one step further with that. And I'm mindful of all my colleagues, but especially Legislator Barraga when he speaks because he always brings us back to a very stark reality.

What we do with tobacco securitization today may very well not fill this large donut hole. We talked about tax lien. Did you, as you came to this process, vet anything else that might help us to move towards stopping the bleeding? Did you look at a sale lease-back of the Dennison Building or of other County holdings? Did you look at other methods that municipalities utilize to raise revenue when we're in this kind of constraint? How narrow or wide was your original view?

MR. TORTORA:

Actually, perhaps a year, a year and a half ago the Comptroller asked us to put together a bunch of ideas, what could the County do to generate revenue, etcetera, and of course the easy ones for us to come up with are the most difficult for you folk to go forward with. Of course, the easiest one is to raise the sales tax, which we know will generate a lot of income and it won't always -- it won't only be on the backs of Suffolk County residents; raise the property tax which we know will generate a significantly lower revenue stream to you, but that will clearly be on the backs of the taxpayers. We looked at other things, but none of them could generate the type of revenue that you clearly seem to need in the coming fiscal year.

From our standpoint there were two options, tax lien securitization or tobacco securitization. We said this to the rating agencies every year for the last ten years that we go before Moody's, S&P and Fitch, we say Suffolk has two aces up their sleeve; they have yet to securitize their tobacco revenues and 40 other counties in the State have done that already, and they have this potential to securitize or sell their tax liens. So we looked at other options, but those were the only two that generated the revenue relief that you needed.

LEG. KENNEDY:

Have any other counties or municipalities throughout the State engaged in a sale lease-back or an alternative type of an arrangement with their fixed assets?

MR. TORTORA:

Oh, I suspect they have, sure.

LEG. KENNEDY:

Okay, but do you have direct knowledge on that or no?

MR. TORTORA:

I can't cite for you which jurisdictions may have done that, but I suspect -- and there's counsel here that represents Erie County, perhaps Erie might have done something like that in the past. There's very often hospital assets, nursing home assets, things like that sometimes come into play.

LEG. KENNEDY:

Okay. All right, thank you. I appreciate it.

MR. TORTORA:

You're welcome.

D.P.O. VILORIA-FISHER:

You're next, Bill.

P.O. LINDSAY:

Okay. I usually wait till the end, but maybe while you're there, Rich, I'm going to jump in.

LEG. MONTANO:

Vivian? Vivian, put me on the list.

P.O. LINDSAY:

The deal before us today, besides going to the market place and knowing exactly what the bonds are going to sell for, is pretty fixed now, right?

MR. TORTORA:

It really is, yes.

P.O. LINDSAY:

The next five years, 36% of our bond revenue and then 75% after that?

MR. TORTORA:

I believe it's the next four years, '09, '10, '11 and '12, 36% approximately and 75% thereafter.

P.O. LINDSAY:

When we first started talking about this back in March when we passed a broad plan of how we were going to solve this, we were originally talking about not starting to sell our tobacco receipts until '12 or '13.

LEG. MONTANO:

Take me off, Vivian. I'm not going to bother.

P.O. LINDSAY:

When we -- this change has added value to the deal; am I correct?

MR. TORTORA:

That's correct.

P.O. LINDSAY:

Okay. Because the more -- I mean, a dollar that we're selling in '08 is worth a dollar in '08, the dollar we're selling in 2020 of course isn't worth a dollar in today's market.

MR. TORTORA:

That's true. And if the question is, I suspect, what changed the structure from commencing the securitization in '13 to '09, the answer was once we saw what kind of -- what the deal looked like as a result of reviewing responses to the RFP, once we saw what the original deal looked like and what the cost of capital was, we were concerned, Capital Markets Advisors was concerned as was the Budget Review Office, and we said, "What can we do to reduce your borrowing costs here." The simplest thing to do was if we started to securitize in '09, we would then have revenues available to pay bond holders of those tobacco bonds in '09 and by virtue of doing that we could greatly reduce or eliminate the necessity to use Capital Appreciation Bonds in the structure. What a Capital Appreciation Bond is it's a bond that's sold at a discount and it doesn't start to pay until several years out. By virtue of securitizing a portion of the revenue stream in 2009, we were able to greatly reduce the number of Capital Appreciation Bonds. And the best effective cost is the cost of capital came down perhaps by as much as one full percentage point. So rather than borrow this money at

an interest rate somewhere above 7% in the current market, we're going to borrow this money at an interest rate somewhere over 6%.

P.O. LINDSAY:

I'm sure that was very informative if I could have understood it. But it boils down to, I mean, the 51 or 52 cents we're talking about is the average over the sale of 24 years.

MR. TORTORA:

That's correct.

P.O. LINDSAY:

The dollar that we're securitizing in '09 is -- we're not getting 52 cents on that, we're probably getting a lot more, and the dollar that we're securitizing in 2020 we're probably getting less than the 52, right?

MR. TORTORA:

That's correct, certainly.

P.O. LINDSAY:

Okay, that's what I wanted to get in my mind clearly.

MR. TORTORA:

Understood.

P.O. LINDSAY:

And that's really all I had for you. I thank you for that. But I'll just add a couple of other comments.

Legislator Barraga talked about a Police class of 90; we don't have any Police class in the works and, God, we probably desperately need one. And we do have some very, very tough decisions in front of us in terms of -- I was at the Public Safety meeting this morning and we listened to a very lengthy presentation about -- from the PBA about a lot of areas of our Police staffing that there's tremendous deficiencies, and there was a large debate about it. And what I said afterwards is we have some very, very difficult solutions in front of us and a balancing act of how we're going to solve these financial problems and at the same time maintain services to our citizens that we're bound to do, and it's going to be a real tightrope walking -- going forward.

I was here in 2001 and they were very, very difficult times after the collapse of the World Trade Center, when I believe we addressed this then and we rejected it. But the benefit in 2001 is the economy turned around very rapidly. In 2002 we had a huge bounce-back, and I'm not sure that's on the horizon now. So we have some very, very serious problems and the bottom line -- I'm not crazy about tax liens, I'm not crazy about securitizing tobacco, but I don't think we have a choice, Ladies and Gentlemen. I think we have to plug this hole with what's available and this is the first step in putting ourselves on some kind of sound financial footing. And with that I'll go to next speaker, Legislator Stern.

LEG. STERN:

Thank you. You know, when we talk about the burden that potentially we place on future generations and whether or not to make this very significant and very difficult decision, you know, for me it's not necessarily a consideration about the numbers as they exist today going forward because -- Rich, this is not just about making this very difficult move but necessary move now to reduce capital costs, it's also about reducing future risk as to whether or not these monies will, in fact, be there in the future. I'm wondering if you could just very briefly take us through once again what in your opinion are the inherent future risks to this stream.

MR. TORTORA:

Certainly. It might be appropriate to start that discussion by mentioning what has come up time

and time again which is the County took a good look at securitization back in '01 and opted not to do it, but now is going forward and why is the County more inclined to go forward now than it was in the past? Among other things, what we know now that we didn't know in '01 is that it has been documented that tobacco consumption in the United States has gone down by 10% over the last ten years. And the payments that are received under the Master Settlement Agreement by all of the states and by Suffolk County are tied to consumption figures, the consumption figures in the US, which we clearly know have declined significantly in the last ten years.

We also know, of course, that there have been significant changes in technology, medical developments, etcetera, in the last ten years and there's some thought that perhaps they will, through gene therapy or something else, they'll invent something that will turn off the desire for tobacco. For those reasons, this transaction makes more sense today than it has in the past.

We're concerned, as we mentioned earlier, about other events that could occur in the market place with the rating agencies, with litigation risk, all of which could potentially make the cost of this transaction go up. I think in a roundabout way that answers your question. Does that answer your question? You were distracted for a moment, sorry about that.

LEG. STERN:

Yes. But, I mean, the market, of course, is changing, legal challenges are changing; these are all inherent risks --

MR. TORTORA:

They certainly are.

LEG. STERN:

-- that we could not possibly know how that's going to effect the future stream in years to come.

MR. TORTORA:

That's correct. And as we said, 62 counties in New York State, I believe 39 of them have securitized and the reasons are always two. One is they need funding for something and they need funding today and this they consider to be an easy source of revenue. But the other reason, of course, is they have a legitimate concern that the revenue stream may not be there as anticipated in the future and they'd rather issue debt, sell the debt to investors who get a significantly greater return on their investment for taking on the risk, that perhaps this revenue stream might dry up in the future.

LEG. STERN:

Thank you.

MR. TORTORA:

You're welcome.

P.O. LINDSAY:

Legislator Beedenbender.

LEG. BEEDENBENDER:

Thank you. Rich, just stay there. For purposes of perspective, we've been talking about what a lot of other counties have been doing as opposed to the plan and the structure that we've developed for this one. So if you -- I don't know if you're the appropriate person or the gentlemen from CitiGroup who have done a lot of these would be more appropriate, but is there another County or another municipality that you know of that has structured the deal like this? Because the way it's been presented to me throughout all these multiple meetings we've had is that this is kind of a different thing to do. And I think our Treasurer even mentioned that another County in New York was looking to model this. So can you talk -- you know, I don't know if in a level of responsibility or -- is this different, and I guess different in a better way or -- you know, could you just talk about that a bit?

MR. TORTORA:

Sure. Certainly other counties, including one of our clients, Rockland County has done a transaction very similar to what you're looking at now. Rockland issued debt against its tobacco revenue stream, went back a second time issued more debt, went back a third time and issued more debt, so they've really exhausted their tobacco revenue stream out maybe 50 years into the future. They took the proceeds from their tobacco bonds and did what the County is thinking of doing which is bought a portfolio of securities and will be defeasing debt as it comes due in future years. That is certainly a preferred use of monies as opposed to say what Nassau County did which was securitize a large portion of their revenue stream and use it to plug a one-time operating deficit at the time.

Now, you are certainly going to get sufficient revenues, if indeed this deal goes forward, to plug the hole that you anticipate next year. However, we certainly do not advise the County to do that because that would -- that would then indeed put you at the brink of that cliff, because if you took your \$175 million in proceeds, plugged the hole that will exist next year, maybe to the tune of 125 million, you'd have \$50 million left over; that would be problematic. Your use of the money to kind of scale in 15 million, 45, 35, 35, 35, 20, that's what we've been told the money will be used, that's an appropriate use of the money, it layers it over a number of years so you have a multi-year benefit for this revenue stream off of the sale of this asset.

LEG. BEEDENBENDER:

Okay, thank you. One of the questions that I try to ask myself as I sit here is what do we as a body, and not anybody individually, but what do we as a body sound like to other audience members or to people that aren't living this every single day. You know, yesterday I was walking through one of the communities in my district and I took the opportunity to talk to people and I asked them one question -- well, two questions. The first one was out of all the things I could possibly do, what's the last thing I should do? And the universal answer to that question is, "Raise my taxes." The second question is -- and I explained to them, you know, as briefly as I could what we're doing today and the risks associated with, because as I've said repeatedly, you know, this is not something you do unless you have a serious problem. And they said, "Well, you know, it doesn't sound like the greatest thing in the world, but it's better than raising my taxes." So in light of the fact that we've had all this conversation and all this discussion about how this seems to be -- if we're going to do this, it seems to be the responsible way to do it. I think this is an appropriate way to go.

And, you know, a couple of things were said earlier in this debate that I just wanted to make mention of. It was suggested that, you know, if the problem is in '08, why take it over several years, and I think Rich kind of said it better than I could expect to say it so I won't repeat it. But, you know, we can't take this in one year, not only would it create a huge structural deficit, it would have an effect on our bond rating as well if you take a huge one-shot like that.

It was also discussed, you know, "Well, we didn't do this in 2001." Well, I wasn't here in 2001, but I know what this Legislature did instead; they increased the fuel tax. So a quick show of hands, anybody want to do that? And you know what, there's been lots of discussion of why there are no alternatives. And for the record, nobody raised their hand, just so we have that on the record. There's been a lot of discussion of where the alternatives are and where they are not and -- well, nobody on the Legislature raised their hand. And you know, for all the faults that I -- and disagreement that I might have, you know, I respect Legislator Vilorio-Fisher because she's put a plan forward; I disagree with a lot of it, but she has a -- she put something forward. Instead of what we hear a lot of is, "Well, we shouldn't do this," and we mess with the numbers and we talk about this and we mix apples and oranges and we end up with saying, "Well, either the problem is not as big or we shouldn't do this right now," and we left with, "Okay, instead of that, what should we do?", and we're met with silence.

So this isn't something that I would wish to do if we didn't have any other choice, and I don't see what the choice -- the other choices are. After we make this tough decision, we're going to have to make a bunch more and they're going to be probably tougher than this. Our Presiding Officer pointed it out very well, we're going to have to think about how do we make sure we have enough

Police in our County or how do we make sure we have enough employees to provide the services for things like, I don't know, HEAP which I would imagine there would probably be a dramatic increase in the phone calls and the need for that service this winter. So we're going to have to make tough decisions. If we don't make this one, those tough decisions will become literally impossible decisions. So I think the responsible thing for us to do today is to move forward with this.

P.O. LINDSAY:

Legislator Viloría-Fisher

D.P.O. VILORIA-FISHER:

Thank you, Mr. Chair. I just would like to clarify something, a response that you just gave to the Presiding Officer when he asked how committed we are to the numbers that are before us. And you didn't say that we were 100% with certainty committed to this, that in all likelihood this is the way that we would have to go?

MR. TORTORA:

You would, to achieve the goals that we've discussed, this is the way you would go. Market conditions on the day of sale might require us to address the numbers somewhat, but not substantially.

D.P.O. VILORIA-FISHER:

Okay, thank you. Through the Chair, may I ask Jim Morgo to come forward? And Jim, on your way up, the reason I'm asking for you to come forward is that we as a Legislature, once we vote for this, are -- have really rendered ourselves impotent regarding the level of the monies with which we're dealing. And so being that you're Chair of the Local Development Corporation -- is it Chair or President; what is your title?

CHIEF DEPUTY COUNTY EXECUTIVE MORGO:

Chair and President.

D.P.O. VILORIA-FISHER:

Oh, well, then it is --

CHIEF DEPUTY COUNTY EXECUTIVE MORGO:

Kind of a Richie Kessel thing.

D.P.O. VILORIA-FISHER:

It is eminently important that we have you up here.

P.O. LINDSAY:

You kind of look like him, too.

D.P.O. VILORIA-FISHER:

Do we need to genuflect? Okay. And because you're someone in whom I have a great deal of trust and certainly have a great deal of respect for you. I am going to put forth a plea more than a question which is this. Budget Review has presented us with an alternative to these numbers. We all know, and certainly we are all aware of the kind of economic cataclysm in which we are involved right now, and this is certainly a rainy day.

We know that we must do something. I think that most of the people sitting around this horseshoe will be voting in the affirmative for this piece of legislation because of the circumstances in which we find ourselves. However, I don't support the magnitude of the program, I think that I've made that very clear throughout these weeks and these months, and I fully support what has been set forth by the Budget Reviews Office. And I thank Legislator Beedenbender for giving me credit for putting forth an idea. I have been thinking a great deal about this and I have put together what I see is a plan that, by the way, coincides very much with what Budget Review has said. But I don't think that

I ever said that we should use all the money in 2008. What Budget Review is saying is that we maintain the level of relief in 2008 -- in 2009, 2008-09, diminish the level of relief by five million in 2010, diminish the level of relief in 2011 because we don't have an economic crystal ball, we don't know what's going to be occurring in 2011. And if we are looking at trends, we can better prepare for what might be coming based on what we're facing now.

You know, Jim, Mr. Tortora said that he, as our advisor, recommended first a small raise to sales tax, which is what Budget Review is also recommending, which is what I'm recommending; a small increase in our General Fund property tax. And by the way, I've been speaking about this to neighbors, to my doctor when I went for an appointment yesterday and said, "What if I told you that we're talking about 51 cents on the dollar on money that we're borrowing to run our County or raising your tax for less than what it cost you to buy a Latte Tall, not a grande, not a venti, but a tall. And by the way, about a dollar less than a loaf of bread, Brian.

LEG. BEEDENBENDER:

No, I know.

D.P.O. VILORIA-FISHER:

Per year, per household. And you know, Jim, I was reviewing my own history here in the Legislature, and in 1999 when I introduced prohibition on MTBE, we were told by local gasoline retailers, "Well, what you're doing is political suicide because Suffolk County will have the highest gas prices in the State because you're asking us to produce boutique gasoline." In 2000 when I called for a cap on CO2 I was told by Newsday, Jim {Clarfield} specifically said to me, "Well, we're reluctant to endorse you because you're looking at capping carbon which is a Federal issue and you're only a County Legislator and that's political suicide," but I went ahead and did it anyway.

In 2003, when I first introduced LEAD, green-building legislation, the labor -- all of the building trades and labor unions came here and said, "That's political suicide, you're going do slow down construction," there was a big headline, Mr. Wilmont said, "We're going to be wasting green for green," and I was told that was political suicide. In 2004 when I had a bond out to the people of Suffolk County for \$75 million for Saving Open Space with a TGR, the only person who would cosponsor that with me was somebody who had already had a cross endorsement for a judgeship, and I was told that was political suicide and Dick Amper actually put a big ad in my local paper offering money to anybody who would primary me and I was told that was political suicide.

CHIEF DEPUTY COUNTY EXECUTIVE MORGO:

I remember.

D.P.O. VILORIA-FISHER:

Well, guess what? With my background, I must be like a cat because I've committed suicide so many times and here I am still before you. We can't be afraid to do what's right. And what I'm asking you, as a person of integrity and Chair of this group, is to at least consider, not to say -- this isn't about being right or being wrong, it's about looking at what's before us, looking at what our Budget Review office has advised us to do which is to plug the big hole when we need it, when we see the immediate danger, the immediate problem, and using that \$60 million now, but not mortgaging our future to the level which the current plan is asking us to mortgage our future. Because after 2013 we will be getting no money, and whether or not it's risky, the Master Settlement Agreement, even though it's risky, there might still be something there and we're selling 75% of what's there without getting anything anymore at that point.

You know, we're going to have the debt for the jail, we're going to have all the mounting debt that we're seeing. You know, you look at the graphs and sometimes they're colored and you see that red graph with the amount of debt just going up and up and up in future years and it's my kids, it's your kids. I'm not going to be here, hopefully you won't be standing here either by then, we're about the same age. You know, it's not popular to look at some of the alternatives but, you know, the nuns used to tell us, "You don't have to do what's popular, you have to do what's right," and you know, I

think that's the way I've conducted myself through the ten years that I've been sitting at this horseshoe. And I ask you and your board, as people of integrity -- and by the way, a lot of the advice has been coming from the people who are going to make money; I'm not saying that they're dishonorable, but that's their living. And the bigger the deal the more money they make, okay? That's their job, that's their job. But our job is to look at the benefit for the people of Suffolk County, the people who are here today voting for us, the people who are here in 2015 when we're no longer asking for their vote or, you know, have a job someplace, we're working for someone who needs to get the vote. We want to look at this objectively, dispassionately.

You know, I've been even criticized for telling Newsday that I was a Dominican Immigrant when people first heard that and said to me, "Why did you have to tell them you were Dominican, you're going to lose those votes for people who don't like immigrants." Okay? It's about doing the right thing. And I'm just pleading with you, as the Chair of the LDC, not to reject the Budget Review Office plan, not to reject it out of hand, because the people who have been advising you are all making money on this. And everybody has to earn a living, but they shouldn't be the only people we're listening to. Thank you, Mr. Chair.

P.O. LINDSAY:

Would you like to reply, Mr. Kessel?

CHIEF DEPUTY COUNTY EXECUTIVE MORGO:

I have to gain some weight.

LEG. ALDEN:

Oh, that's nasty.

CHIEF DEPUTY COUNTY EXECUTIVE MORGO:

You know, I understand, Vivian, some of those tough policy decisions you made, I was very familiar with one in particular, on the transfer of development rights. I know it's frequently difficult.

On the tobacco securitization transaction, let me say that the two board members and I are considering many different alternatives. We've been meeting since May, and as a matter of fact, the genesis of all this began in February with the County Executive's Working Group.

I have to correct you on one thing. Yes, we are talking to Mr. Tortora and we are talking to the underwriters, it's not just CitiGroup, and they do stand to gain, but I talk a great deal with Fred Pollert and Connie Corso and, yes, Robert Lipp and Gail Vizzini. We have been through the entire process. We have been consulting and that will continue to happen.

When I hear some of the questions that I hear this morning, it's a little bit frustrating because beginning in February, there has been documentation that actually answered some of the questions asked. For example, when we had the question of tax liens, either selling tax liens or securitizing tax liens or securitizing tobacco, the Budget Review Office came down, as did the County Executive's Budget Office, very strongly with very good reasons that securitizing the tobacco settlement revenue is a better way to go; both were in complete unanimity on that question.

So as you're really asking a very specific on the deal, not how tobacco securitization works. And you mentioned it and Legislator Stern mentioned it and Legislator Lindsay mentioned it, we're talking about mortgaging our future, but that's as if to say that we know that we're going to be getting the same amount from year to year. Here when you sell this asset to the STASC, you're selling all risk, too, you're eliminating the fact -- so it's not as if you know you're going to be getting this revenue, it could be considerably less; many, many people have made that point.

And on the question of Tobacco Cessation Programs, we know what was in the budget the last couple of years, over \$2 million, we know what's being proposed, we'll see when the Operating

Budget comes over to you. I think you, as well-meaning policy makers, can be sure, because you vote on the budget, that tobacco cessation is included.

All that being said, of course, the STASC will consider all options. Even Budget Review, when they talked about their proposal, did say, as someone already said today about -- Richard said about Nassau, doing this three times for one chart, this is really not a one-chart, we'll look at the other proposals. We will not just talk to the four underwriting banks and our financial advisor, we'll talk to the Comptroller who's been -- his staff is here, they've been involved in this, in the structure, we'll talk to the Treasurer and I'll continue to talk to Fred and Connie whose advice is really priceless and they don't get anything more whichever way we go.

D.P.O. VILORIA-FISHER:

Thank you. Does that mean that you are looking at Budget Review Office -- Budget Review's Office -- Budget Review Office's recommendations or is it too late?

CHIEF DEPUTY COUNTY EXECUTIVE MORGO:

We looked at the entirety of Budget Review's report. It's not too late. I can tell you that the arguments against it are strong arguments for me. Richard already talked about the phased-in. We don't know what's going to happen to the economy; if the economy does miraculously improve, I agree with Legislators Barraga and Lindsay that it's going to get worse before it gets better. There are, we've already talked about with Transaction Counsel, by the way, if there are some adjustments we could make. So yeah, if we knew that 2011, Wall Street was going to come back, if we knew that the stock market would rise again, then we could make those plans. But as Fred said at the Budget Committee, and maybe Fred wants to come up here and get into this, there are things we can do under the current structure if we do have a positive future; you know, from my lips to God's ears, I'd love it to happen. But I think this is the most judicious plan.

With all due respect to Budget Review, we've been back and forth talking about this. We know what they suggested; what they suggested, as you indicated, isn't that much different.

D.P.O. VILORIA-FISHER:

No, it's a difference of \$65 million, right?

MS. VIZZINI:

Eighty.

D.P.O. VILORIA-FISHER:

Eighty five million dollars, which ain't chump change.

CHIEF DEPUTY COUNTY EXECUTIVE MORGO:

Yeah, but it also presumes that what you get from the Master Settlement Agreement in 2009 is what you're going to get in 2015.

D.P.O. VILORIA-FISHER:

Okay, but the different -- I mean, you know, we're only going to be -- under the settlement, we would only be getting 75 -- I mean 25% of that anyway, so.

CHIEF DEPUTY COUNTY EXECUTIVE MORGO:

Whatever that is, yeah.

D.P.O. VILORIA-FISHER:

So, you know, it's very -- I think I see the phasing-in in their plan, so I don't see that as an argument against their plan because they're also phasing-in. You know, starting at 60 million now where we are at the most critical juncture and then --

CHIEF DEPUTY COUNTY EXECUTIVE MORGO:

But if the economy got worse and we'd have to do it again, then we'd incur all the fees again. So, you know, again, economists seldom agree.

D.P.O. VILORIA-FISHER:

Okay.

P.O. LINDSAY:

And the other point, just to jump in because I know Legislator Alden wants to go, is assuming that the tobacco market will be as firm as it is today moving in the future.

CHIEF DEPUTY COUNTY EXECUTIVE MORGO:

That's exactly my point.

P.O. LINDSAY:

And that's a big assumption.

CHIEF DEPUTY COUNTY EXECUTIVE MORGO:

A huge assumption.

P.O. LINDSAY:

So what we're doing is taking the money now and putting it in the bank and letting it accrue interest to grow a little bit.

CHIEF DEPUTY COUNTY EXECUTIVE MORGO:

And the point's been made over and over again that there is significant anti-trust legislation out there; if the plaintiffs were successful, the whole MSA could be in trouble.

P.O. LINDSAY:

Legislator Alden.

LEG. ALDEN:

Just to pick up one point that you made. When we put this in the bank it doesn't grow, does it? It actually -- it might be neutral but it's going to be a slight cost.

CHIEF DEPUTY COUNTY EXECUTIVE MORGO:

I think, Cameron, Rich already talked about that, investing in --

P.O. LINDSAY:

There's \$10 million interest built in the plan. There's \$10 million of interest built into the plan.

LEG. ALDEN:

So then we don't run afoul of arbitrage laws then.

MR. TORTORA:

And that's correct. I mean, so the interest earnings on the initial deposit of 175 million, since they'll be spent over a five year period, you'll earn about \$10 million in interest.

LEG. ALDEN:

And what's the cost of the --

MR. TORTORA:

Sure. You're correct in that you're borrowing at a higher rate than the rate at which you're getting.

LEG. ALDEN:

So it costs us, it costs us for the money. We're not coming out with a net plus.

LEG. BARRAGA:

No.

MR. TORTORA:

That's correct.

LEG. ALDEN:

We're coming out with a net negative.

MR. TORTORA:

Correct. And the reason why it still makes sense to do that, because by virtue of --

LEG. ALDEN:

No, no, I'm not going into that, but --

MR. TORTORA:

But you're correct, we're borrowing at say six and change, 6% plus, we're only investing at 3% plus.

LEG. ALDEN:

And Rich, just because you're up here, are these going to be quotable?

MR. TORTORA:

They will be, yes.

LEG. ALDEN:

Okay. What restriction?

MR. TORTORA:

I -- that's determined --

LEG. ALDEN:

Five years?

MR. TORTORA:

It's typically a ten year par call; I'd have to check with the bankers to make sure that's going to be the case.

LEG. ALDEN:

Okay. Then --

MR. TORTORA:

That's somewhat market driven.

LEG. ALDEN:

And because of the discussion with Vivian Vilorio-Fisher just now, this question is for George; if this gets passed, how much discretion is there on future use of the proceeds and who would have that discussion?

MR. NOLAN:

Well, the resolution really doesn't talk to how the proceeds from the sale are going to be used by the County. These -- the resolution doesn't address that at all.

LEG. ALDEN:

So there's other appropriating resolutions that would have to go forward in the future.

MR. NOLAN:

I think future legislation is going to be necessary to determine how that money is used.

LEG. ALDEN:

Okay, good. Not good, but thanks for the answer.

P.O. LINDSAY:

Anybody else? Okay. Mr. Clerk, we have a motion and a second.

Roll call.

*(*Roll Called by Mr. Laube - Clerk*)*

LEG. COOPER:

Yes.

LEG. BARRAGA:

Yes.

LEG. ROMAINE:

Abstain.

LEG. SCHNEIDERMAN:

Yes.

LEG. BROWNING:

Yes.

LEG. BEEDENBENDER:

Yes.

LEG. LOSQUADRO:

Yes.

LEG. EDDINGTON:

Yes.

LEG. MONTANO:

Yes.

LEG. ALDEN:

No.

LEG. KENNEDY:

No.

LEG. NOWICK:

Yes.

LEG. HORSLEY:

Yes.

LEG. STERN:

Yes.

LEG. D'AMARO:

Yes.

D.P.O. VILORIA-FISHER:

Yes.

P.O. LINDSAY:

Yes.

MR. LAUBE:

Fourteen (Opposed: Legislators Alden & Kennedy - Abstention: Legislator Romaine).

P.O. LINDSAY:

We don't have any other business before us in this Special Meeting. And I just would like to observe how many Special Meetings we've had in July. This is at the request of Legislator Romaine because he thought that we don't meet enough, so this kind of fills that vacuum.

LEG. ALDEN:

You know what I'm disappointed about, though?

P.O. LINDSAY:

But I will take a motion to adjourn.

LEG. ALDEN:

No, no, we haven't had any Special Meetings out in Riverhead, I'm disheartened.

LEG. NOWICK:

Oh, be quiet.

LEG. ROMAINE:

They should all be in Riverhead.

LEG. SCHNEIDERMAN:

Bill, all of our meetings are special.

P.O. LINDSAY:

Do I have a second to adjourning?

LEG. COOPER:

Second.

D.P.O. VILORIA-FISHER:

Second.

P.O. LINDSAY:

All in favor? Opposed? Abstentions?

MR. LAUBE:

Seventeen.

*(*The meeting was adjourned at 1:39 PM*)*

{ } - Denotes Spelled Phonetically