Nassau County Legislature

BudgetMeeting

Mineola New York

July 26, 2012

1. Meeting Minutes
   Meeting Minutes

   Documents: BUDGET 7-26-12.PDF
2. Budget Review Committee Hearing
   Budget Review Committee Hearing

   Documents: BUDGET REVIEW COMMITTEE HEARING.PDF

PUBLIC NOTICE

**PLEASE TAKE NOTICE THAT
THE NASSAU COUNTY LEGISLATURE
WILL HOLD A MEETING OF THE
BUDGET REVIEW COMMITTEE**

ON

**THURSDAY, JULY 26, 2012 AT 11:30 A.M.
AT WHICH TIME THE COMMITTEE WILL HEAR TESTIMONY ON
THE CLOSE OF FISCAL YEAR 2011 AND ACTIONS TAKEN TO CLOSE FISCAL YEAR 2012**

IN

**THE LEGISLATIVE CHAMBERS
THEODORE ROOSEVELT EXECUTIVE AND LEGISLATIVE BUILDING
1550 FRANKLIN AVENUE, MINEOLA, NEW YORK**

William J. Muller III
Clerk of the Legislature
Nassau County, New York

DATED: JULY 23, 2012
Mineola, NY

As per the Nassau County Fire Marshall's Office, the Legislative Chamber has a maximum occupancy of 251 people and the outer chamber which will stream the meeting live, has a maximum occupancy of 72. Passes will be distributed on a first come first served basis beginning at 11:00 AM and attendees will be given an opportunity to sign in to address the Legislature for a maximum of three minutes. The Nassau County Legislature is committed to making its public meetings accessible to individuals with disabilities and every reasonable accommodation will be made so that they can participate. Please contact the Office of the Clerk of the Legislature at 571-4252, or the Nassau County Office for the Physically Challenged at 227-7101 or TDD Telephone No. 227-8989 if any assistance is needed.

NASSAU COUNTY LEGISLATURE

PETER SCHMITT,
Presiding Officer

NASSAU COUNTY
2012 BUDGET REVIEW HEARING

HOWARD KOPEL,
Chairman

1550 Franklin Avenue
Mineola, New York

Thursday, July 26, 2012
11:45 a.m.

REGAL REPORTING SERVICE
(516) 747-7353

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

BUDGET REVIEW COMMITTEE:

HOWARD KOPEL,
Chairman

PETER SCHMITT,
Vice Chairman

RICHARD NICOLELLO,
Chairman-Finance Committee

KEVAN ABRAHAMS,
Ranking

DAVID DENENBERG

WILLIAM MULLER,
Clerk of the Legislature

LIST OF SPEAKERS

Budget Hearing/7-26-12

CHAIRMAN KOPEL: Let's start with the meeting. We'll start with the Pledge of Allegiance.

(Whereupon, the Pledge of Allegiance was recited.)

CHAIRMAN KOPEL: Starting with the roll call of the Budget Review Committee.

CLERK MULLER: Legislator Denenberg?

LEGISLATOR DENENBERG: Here.

CLERK MULLER: Ranking Member Legislator Abrahams?

LEGISLATOR ABRAHAMS: Here.

CLERK MULLER: Legislator Nicolello?

LEGISLATOR NICOLELLO: Here.

CLERK MULLER: Vice Chairman Schmitt?

LEGISLATOR SCHMITT: Here.

CLERK MULLER: Chairman Kopel?

CHAIRMAN KOPEL: Here.

CLERK MULLER: We have a quorum.

CHAIRMAN KOPEL: We're going to

focus on several things. First of all, the close of the fiscal year 2011. We're going to get an update on the county, and the condition of the county at this point, which is just past the midpoint of fiscal year 2012.

CLERK MULLER: Legislator Denenberg is here, by the way.

CHAIRMAN KOPEL: Thank you. We're going to hear about the actions that have been taken and hopefully will be taken by the administration to adjust the various budgetary concerns as we move along through fiscal year 2012.

We understand, we've heard before, that 2011 ended with a deficit of approximately $50 million. We're going to ask the comptroller to explain how that deficit came about and give us a better picture of what is going on this fiscal year and to tell us about areas of concern that he may have concerning this fiscal year.

The administration will tell us about the various aspects of the 2012 budget, any good and bad factors, any strains that they may be facing.

We're going to get hopefully some insight into NIFA, which is the Nassau Interim Finance Authority as to what their feelings are, what their demands are, and what is being done to address any of those demands.

We're going to look at opportunities with regard to the 2012 budget, what we might be able to do to close things, what has been done and how that's all worked out.

I don't see Comptroller Maragos here. Joy, you are going to start?

MS. WATSON: Joy Watson, deputy comptroller of Nassau County. Legislator Kopel, I apologize, Mr. Maragos is on his way, literally, he was walking about a minute behind me, so I'm not sure what caught him by delay and I apologize. He should be here within the next minute or so.

CHAIRMAN KOPEL: Is it possible that he found something even more interesting?

MS. WATSON: I would doubt that very much, sir. That would be impossible. I would just beg your indulgence if you could just wait for one or two more moments I would appreciate that.

CHAIRMAN KOPEL: That's fine, I guess we'll just do that. After the comptroller talks, we will hear from the administration. I understand that legislative budget review director office, Director of the Office of Budget Director Maurice Chalmers and his people are here as well. They are going to be answering questions, they'll be on call to answer any questions that members of the committee may have.

I see Comptroller Maragos. Here he is. Are you ready, George? Comptroller Maragos, good morning, how are you?

MR. MARAGOS: Good morning. I'm very well.

CHAIRMAN KOPEL: Are you all set now?

Budget Hearing/7-26-12

MR. MARAGOS: Yes.

CHAIRMAN KOPEL: Whenever you're ready, please go ahead.

MR. MARAGOS: Did you all receive your copies of the report?

CHAIRMAN KOPEL: Yes. Are we going to be quizzed?

MR. MARAGOS: I have some remarks and you're welcome to ask any questions you have.

CHAIRMAN KOPEL: But we're not going to be tested on it?

LEGISLATOR DENENBERG: Are there any extra copies of the comptroller report I just got?

CHAIRMAN KOPEL: They're making some more. Whenever you're ready, just go right ahead.

MR. MARAGOS: The county began 2012 with an adopted budget of $294 million in budgetary risks. On the basis of the first six months of actual results, we are now projecting a year end budget deficit of approximately $45 million. This projected deficit is primarily due to the legislature refusing to bond for project tax refunds and overtime expense exceeding budget.

The projected deficit now is less than two percent of the total budget and should be manageable to end in balance.

The small projected deficit is a result of good control of expenses by the Mangano administration and better than anticipated sales tax revenues.

The county executive has already announced initiatives to close the gap in order to end 2012 in budgetary balance.

Improvements in the county's fundamental long-term fiscal trends which began in 2010 generally continue in a positive direction. The structural gap is projected at 113.4 million down from 127 million in 2011.

The gap between recurring revenues and expenses is projected to further narrow in 2012 to just 4.2 percent back to 2005 levels.

The borrowing for current

operating expense is being eliminated except for extraordinary termination pay. In light of the 2011 deficit of 50.4 million, we strongly urge the administration, the legislature, and NIFA to work together not only to find ways to close 2012 budget deficit, but also to replenish the unreserved fund balance which has now fallen to 1.5 percent, well below the county's policy to maintain at least a four percent fund balance of the prior year's normal recurring expense.

The comptroller recommends that over 90 million in combined recurring budgetary expense reductions and revenue enhancements be targeted for the remainder of 2012. This achievement, if accomplished, will be a significant element in restoring the county to fiscal health bringing revenues in line with expenses, furthering improving the structural gap and completely eliminating all bonding for operating purposes.

Potential opportunity areas to

achieve these $90 million in budgetary enhancements include reorganizing county government to focus on core functions and consolidate similar functions between agencies in source where possible service performed by contractors, cancel all nonessential contractual services and maintenance contracts. Halt all nonessential general service purchases. Aggressive management of workmen's compensation, liability and utilities. Bring fees in line with those of neighboring county such as Westchester and Suffolk counties and index to CPI.

Deal with the chronic issue of actual overtime exceeding budget amounts in the police and correction departments, and refinance county debt of lower interest rates that are currently prevailing.

The legislature should be mindful that our economy is projected to weaken in the second half, and the rising unemployment may represent new risks in lower tax revenues looking forward, and should not relent in finding savings throughout the county.

I'm happy to take your questions.

CHAIRMAN KOPEL: Thank you. You mentioned sales tax improvements. What's the outlook for the rest of the year and what would be the effect on the budget?

MR. MARAGOS: We're projecting a five percent increase year over year and, if that materializes, that will bring an additional $29 million.

CHAIRMAN KOPEL: So that's not already included in the budget, that 29?

MR. MARAGOS: It's included in our projections now, year end projections. We're assuming a five percent growth in sales tax revenues.

CHAIRMAN KOPEL: In other words, if it would not materialize, the projected deficit would be larger?

MR. MARAGOS: Right.

CHAIRMAN KOPEL: Got it. Thank you. Can you tell us about the LIBOR, that scandal, and how it's affected the county and what you think can be done possibly?

MR. MARAGOS: We've estimated that our LIBOR effective revenue loss or overpayment will probably approximate around $13 million over a five year period of the alleged manipulation. That does not include the hospital bonds which are also backed by swaps to the tune of $247 million. So with the county, including the hospital, we may be looking at an overpayment of over $20 million.

CHAIRMAN KOPEL: Do you know if anything is being done to --

MR. MARAGOS: We have recommended and I know the county attorney is actively looking and trying to put together a case to file and make a determination whether to join the city of Baltimore lawsuit or to file separately. That's being aggressively pursued.

CHAIRMAN KOPEL: Now one of the things you mentioned, one of the recommendations was that the county reorganize to concentrate, I think you said

Budget Hearing/7-26-12

on core functions, that's one of your recommendations?

MR. MARAGOS: That is correct

CHAIRMAN KOPEL: Could you please elaborate, what functions would be eliminated in your view, or candidates for elimination?

MR. MARAGOS: We haven't gone down to that level, but I think it's a time that an organizational management study be done of government to decide what are the core functions that need to be --

CHAIRMAN KOPEL: So you think that there are certain functions that the county is doing that perhaps ought not to be done by the county?

MR. MARAGOS: That's up to the county executive and the legislature to decide.

CHAIRMAN KOPEL: The structural deficit. Let's talk a little more about that, please. You said it's been coming down to about 2005 levels, I think you said. Can we put up that chart?

Budget Hearing/7-26-12

MR. MARAGOS: As you can see, the structural gap has been significantly reduced from 2009 and it's actually now down to 2007 levels. What I was referring when I said 2005, that was the difference between recurring revenues and recurring expenses which is the other chart, if we can show this, which is this chart here.

This is strictly recurring revenues and recurring expenses. And, ideally, this is where the county needs to be in. This is a better measure of the financial health of the county and, ideally, if we get to zero, which means our recurring revenues will be able to meet our recurring expenses without any borrowing, without any one-shots, without sale of real estate.

If we can achieve this, I believe our credit rating will probably shoot up to triple A.

CHAIRMAN KOPEL: Are we making, in your view, satisfactory progress towards that goal?

MR. MARAGOS: As this chart

indicates, we have made significant progress in the last three years.

CHAIRMAN KOPEL: So once the repeal of the county guaranty fully starts to, once it fully takes effect, and I guess it's a gradual thing, the projection, you feel like that's going to bring us the rest of the way or close to it?

MR. MARAGOS: I think it will help.

CHAIRMAN KOPEL: All things being equal obviously.

MR. MARAGOS: I think it will help. Of course the county needs to control its expenses, find additional savings so that it does not rely on one-shots.

CHAIRMAN KOPEL: Right. What happened with -- tell us the composition, please, of the 11 year end deficit, how did that happen?

MR. MARAGOS: The majority portion of that deficit was approximately $41 million that was anticipated to be bonded for property tax refunds. That did

Budget Hearing/7-26-12

not occur. Therefore, those property tax payments had to be brought into the budget with some expense. Otherwise the deficit would have been approximately $7 million.

CHAIRMAN KOPEL: That is something, that's the part that's going to be eliminated with the end of the county guaranty, or largely eliminated, I should say, about 80 percent or so?

MR. MARAGOS: That is correct.

CHAIRMAN KOPEL: So that will go away. The other part was a mistake?

MR. MARAGOS: It was a double booking that was discovered, a mistake in error that once corrected, because it was past beyond the end of the year, had to be taken as an error and as an expense.

CHAIRMAN KOPEL: Right. Legislator Schmitt.

LEGISLATOR SCHMITT: Thank you, Mr. Chairman.

Mr. Maragos, I'm going back to the LIBOR scandal for a second. You have uncovered the fact that due to this rate

Budget Hearing/7-26-12

fixing scandal that's now developing to a worldwide scandal that the county may have loss upwards of $13 million.

Everything that I have read, or everything that I have been able to find out about this scandal, to date, is that banks are scrambling, and some banks are admitting that they did things that they shouldn't have done and they're paying fines to the federal government or other governments around the world, and other banks are trying to cover their tracks.

It will ultimately all come out in the end that the rate was fixed. I think there was general agreement on that.

What I haven't read or heard anything about is, what steps, if any, are under consideration by the world financial community to insure the integrity of the rate going forward? And, absent hearing anything about that, my question to you is, what is the advisability of Nassau County debt remaining in these variable rate swaps during this period of turmoil in the LIBOR

Budget Hearing/7-26-12

rate?

MR. MARAGOS: The LIBOR scandal is a global issue and probably may end up being even bigger than the sub-prime mortgage mess that we are trying to come out of.

To put things in perspective, it's estimated that there is over about $800 trillion in outstanding debt that is still backed by swaps. $800 trillion. That's about, what is it? 300 times the size of the US economy. It could be a huge problem. What is most disturbing and why there may not be a resolution is the regulators, both in the US and overseas, are playing ignorant. There doesn't seem to be any significant willingness to come to grips with this problem and identify the people responsible, and take legal action against them. So this issue may take a long time to play out.

LEGISLATOR SCHMITT: I agree with you, but then, under those circumstances, should the county's debt be in variable rate swaps during this period of time?

MR. MARAGOS: We're in a trap. The opportune time to get out of these swaps would have been back in early to mid 2010 where interest rates were somewhat higher than they are and swaps, as you may or may not know, operate inversely to interest rates. So the lower the interest rates, the higher the value of these swaps.

So whereas we had an opportunity in early to mid 2010 to essentially buy ourselves out of these swaps by approximately 14 to $15 million which represented a reasonable price to eliminate the significantly higher risk that was involved in holding onto the swaps given the experience and the wide fluctuation, and therefore the experience in 2008 and the risk represented to the county, would have been reasonable to attempt to close those swaps.

Unfortunately we recommended that that be done and NIFA ignored our recommendation. The value of those swaps

Budget Hearing/7-26-12

now is probably closer to 80 to $100 million in order to close those swaps out. I don't believe the county can afford to do that. In essence, we're trapped.

We hope that we do not have a financial crisis similar to 2008 where the counterparties that are backing these swaps potentially may go out of business and we are hit with the full force of the variable rate debt that we have without the backing of the counterparties, which may cause our debt servicing costs to skyrocket.

If we are paying lower rates now of about 3 to 3 and a half percent, we can see those rates go up 10 or 15 percent. It's frightening to think about because those swaps can in effect bankrupt the county, and they will not only bankrupt us, but most municipalities.

LEGISLATOR SCHMITT: Thank you.

CHAIRMAN KOPEL: Legislator Nicolello.

LEGISLATOR NICOLELLO: Thank you, Mr. Chairman.

Comptroller Maragos, with respect to the projected deficit for 2012, earlier this week the county executive announced some additional budget deficit closing measures, layoffs, not proceeding with projects, were those actions or measures incorporated into your analysis, or outside the analysis as a result of any projection of a $45 million deficit?

MR. MARAGOS: No. They have been. If you look at our report, we indicate that in light of those actions that we expect that they will overcome the projected deficit and we are projecting to end in budgetary balance at the end of the year with those actions.

LEGISLATOR NICOLELLO: You had these two different charts that you're talking about, structural deficit as opposed to recurring revenue versus recurring expenses. What's the difference between the two?

MR. MARAGOS: Can you comment on that?

Budget Hearing/7-26-12

MS. WATSON: The structural gap is all the one shots. So when you are looking at structural gap, you're looking at the deficit or surplus of the county with everything we consider a one-shot. One-shot is a bad thing in that we use bonded money to pay operating expense, but it can be like F-back (phonetic) when the government was giving us extra incentive money for the economy. That's also a one-shot. That's not a recurring revenue. But it's something that will show up as a structural item.

LEGISLATOR NICOLELLO: Okay.

MS. WATSON: So what George is talking about, we want regular revenues, whether it be tax proceeds or fees to cover our regular expenses, payroll or whatever. Every once in a while you will have a special item that's a one-shot that will lead to structural gap, but that's why you should focus on the recurring revenues and recurring expenses.

LEGISLATOR NICOLELLO: I had always thought that that's what a structural deficit was, recurring revenue versus structural expenses.

MS. WATSON: Structural gap is what isn't recurring. It's the nonrecurring items.

LEGISLATOR NICOLELLO: Right. The difference between the two.

MS. WATSON: Yes, but it's what makes up those nonrecurring items. You have a deficit that's not a structural one.

CHAIRMAN KOPEL: So, in other words, if recurring revenue and expenses were to match everything else being equal, you would usually expect a surplus, a budgetary surplus?

MS. WATSON: If revenues don't match, we would have --

CHAIRMAN KOPEL: No, no. Because you're always going to have some one-shots, I would imagine.

MS. WATSON: That's it. You can have one-shots, revenue one-shots that you would have a surplus for, yes.

LEGISLATOR NICOLELLO: Just on

another topic, the projected five percent sales tax increase for 2012, does that number incorporate the potential risks of an economic downturn in the second half of this year or it doesn't matter?

MR. MARAGOS: To some extent it does. We are currently running at 5.9 percent ahead of last year. So five percent seems reasonable at this point with anticipated economic growth in the second half.

If there's a further reduction in the economic growth or some unanticipated events that would throw the economy into a recession, then it may be below that. But it seems to us a five percent safe projection given that we are running at 5.9 percent.

LEGISLATOR NICOLELLO: So if we continue on the path of 5.9 percent throughout the year, that closes the deficit somewhat, correct?

MR. MARAGOS: Correct. That will give us an additional $10 million approximately in revenue.

LEGISLATOR NICOLELLO: Thank you.

CHAIRMAN KOPEL: Legislator Denenberg.

LEGISLATOR DENENBERG: Thank you. Good afternoon. First I would request that we get your reports before the legislative budget hearing begins, not right when it begins. It would have been good to have this a few days ahead of time so we could use it to prepare ourselves. Would you do that in the future?

MR. MARAGOS: So noted. Yes, absolutely.

LEGISLATOR DENENBERG: Let me just ask you about sales tax revenue. Sales tax revenue from '10 to '11 went up or down?

MR. MARAGOS: '10 to '11 went up. I believe we have a chart for that.

MS. WATSON: Page six.

MR. MARAGOS: Section 2.4.

LEGISLATOR DENENBERG: So it's page six if I'm reading, sales tax collected on a cash basis from '10 to '11, sales tax went up, to me, that's $35 million. And from '11 to '12 we are projecting that it goes up $46 million.

MR. MARAGOS: Correct.

LEGISLATOR DENENBERG: So when I look at the Nassau County structural surplus or gap, in this case it's a gap because it's in the red, isn't sales tax considered revenue?

MR. MARAGOS: Yes, it is.

LEGISLATOR DENENBERG: Recurring revenue?

MR. MARAGOS: Yes, and it's included in the structural gap projection. Assuming a five percent growth.

LEGISLATOR DENENBERG: So when our gap went down from 137 down to 127 from '10 to '11, our sales tax revenue from '10 to '11 went up $35 million. So we had an increase in sales tax of $35 million but that only helped close our structural gap by ten million?

MR. MARAGOS: You have to look at Exhibit-1 that shows various budgetary line items and some of them have gone up, others have gone down. That will give you a better picture, if you're looking for a comprehensive analysis.

LEGISLATOR DENENBERG: I'm just looking to understand that we closed or the structural gap went down by $10 million at a time when our key recurring revenues went up $35 million, correct?

MS. WATSON: But we had other shortfalls. 2011 ended with a deficit of $50 million. 2010 ended with a surplus of $26 million. That's a swing of $76 million. You don't have comparable periods of time that are comparable results.

LEGISLATOR DENENBERG: But as this report says, budget deficit or budget surplus isn't the same as the structural gap, correct?

MS. WATSON: It's included in those structural gap numbers. Structural gap is the budgetary surplus or deficit plus or minus one-shots.

LEGISLATOR DENENBERG: So other

structural expenses, or other structural revenue offset the $35 million increase in sales tax revenue to an overall negative effect of about $25 million?

MS. WATSON: Well, there are other items that play into it. You can't just isolate the one item. It's a factor but it's not the whole story.

LEGISLATOR DENENBERG: Then if I go from '11 to '12, we are projecting, as I said, I think it's on page six, is what you just said, on page six we're projecting a growth of $46 million but even though that recurring revenue will grow by $46 million, the structural gap will close only by $14 million because other recurring expenses or other recurring revenue will have an effect that would narrow that increase?

MR. MARAGOS: That's correct.

LEGISLATOR DENENBERG: So how do we figure, for example, overtime? I'm looking at your report and you would acknowledge that overtime being over budget is an issue?

MR. MARAGOS: Yes, and we have highlighted it as a chronic issue.

LEGISLATOR DENENBERG: Right now, halfway through the year, how much over budget are we in overtime right now?

MR. MARAGOS: Well, if you look at Exhibit-1, we break that out.

LEGISLATOR DENENBERG: Being that I just got this, it's a little hard for me to see all the exhibits before speaking to you.

MR. MARAGOS: $26 million.

LEGISLATOR DENENBERG: What page is your Exhibit-1 on?

MR. MARAGOS: That's page three.

LEGISLATOR DENENBERG: Page three?

MR. MARAGOS: Yes.

LEGISLATOR DENENBERG: So overtime so far is how much over budget, I'm sorry?

MR. MARAGOS: Exhibit-1, look about halfway down the page under expenses, second item.

Budget Hearing/7-26-12

LEGISLATOR DENENBERG: Expenses. So it shows that overtime for the 2012 budget just in police, for example, is about $40 million in the budget, but it's projected to be 66 million?

MR. MARAGOS: Police and corrections.

LEGISLATOR DENENBERG: So police and corrections would be 26 million over budget?

MR. MARAGOS: Correct.

LEGISLATOR DENENBERG: And payroll is going to be all in all 50 million over budget?

MS. WATSON: Right. Because there were salary savings that weren't totally achieved in this payroll budget.

LEGISLATOR DENENBERG: So what your office is projecting, payroll and fringe benefits, will be 50 million over budget this year?

MS. WATSON: Right. Absent -- overtime is separate from that.

LEGISLATOR DENENBERG: What is

the projected budget deficit for this year?

MR. MARAGOS: We're projecting budgetary balance in light of the actions, the new actions proposed by the county executive.

LEGISLATOR DENENBERG: I thought when I read on page one and two when you spoke, you said that the budget deficit was projected to be $45 million this year?

MS. WATSON: Before opportunities. If you look at Exhibit-1, you will see opportunities on the bottom.

LEGISLATOR DENENBERG: Which opportunities?

MR. MARAGOS: Again, look at Exhibit-1 at the bottom.

LEGISLATOR DENENBERG: Excess cash in capital projects, is that a one-shot? You have to verbalize. Is excess cash and capital projects a one shot?

MR. MARAGOS: They're one-shots, specific projects, yes.

LEGISLATOR DENENBERG: Reducing departmental obligations, what's that, $20 million, you're expecting that to come in?

MS. WATSON: That's the dis-encumbrances. The department looked at what their encumbrances were and decided that there was a number of them they don't need. We are projecting for the year to be $20 million, so far it's been about $13 million.

CHAIRMAN KOPEL: What do you mean by encumbrance?

MS. WATSON: Encumbrance is an obligation. We haven't really spent the money yet but we intend to spend the money. So the money in the budget is set aside to be spent in the future. So it's as if we spent it. Now the departments are looking at their work and saying, we don't need these obligations, so we're dis-encumbering which means more budget is available.

LEGISLATOR DENENBERG: Is that a one-shot?

MS. WATSON: No.

LEGISLATOR DENENBERG: That would be recurring?

MS. WATSON: We put the obligation in the year and took it out. So it's not a one-shot. It's something that happened within this year.

LEGISLATOR DENENBERG: So it would only be this year?

MS. WATSON: Yes.

LEGISLATOR DENENBERG: So next year it's already done?

MS. WATSON: If it comes over to next year?

LEGISLATOR DENENBERG: No. I'm saying, would that help with the structural gap for next year?

MS. WATSON: No, it's this year's item.

MR. MARAGOS: But that would depend if you budget for it next year as an expense.

LEGISLATOR DENENBERG: Now, the excess cash in capital projects, have you looked at where that money is coming from? It's my understanding that's bonded money for capital projects that we're not going to spend the money on for those projects, instead we are going to use the money to reduce debt service?

MS. WATSON: Right. One of those projects for example is the sand-domes or salt-domes (phonetic). Public works said we don't need to do that project. We're not going to do that project. So the money that was set aside to do that project doesn't have to be used. So it's brought back into the operating funds to pay for debt service. That's the kind of project. It's a project they decided not to go forward with.

LEGISLATOR DENENBERG: But if it's brought into operating funds to pay for debt service, that would be capital project borrowing being used for general debt?

MS. WATSON: It's used to offset the debt that it was borrowed for. If they paid back the debt they borrowed the money for. Under General Municipal Law you are allowed to do that.

LEGISLATOR DENENBERG: Under general municipal law, you can borrowed money from a capital and pay back the debt of --

MS. WATSON: Similar capital projects that are borrowed at the same time.

LEGISLATOR DENENBERG: How do we know what projects are being paid down and what projects we are not going forward with?

MR. MARAGOS: We were given a list and we can make that list available to you.

LEGISLATOR DENENBERG: You were given a list?

MR. MARAGOS: Yes.

LEGISLATOR DENENBERG: Was anyone here given a list? To my knowledge, I can only speak for the minority. We don't have a list of those projects that we've decided not to do and what projects the debt is being retired for.

My concern is, if we're taking money from certain set projects that we borrowed for and we decided not to do now, that under the capital plan law, if that money is being used elsewhere, A, the legislature should have approved this.

B, I don't believe that it can be used for general debt. I believe we can retire the same project. I don't know that you can take money that was borrowed for project A, B, C, D and retire debt from projects X, Y, Z.

So I think we need what projects are retired and what projects are no longer being done. According to you, you have a list, so I would ask if you could make that list available to us?

MR. MARAGOS: Absolutely.

LEGISLATOR DENENBERG: Why am I being interrupted?

CHAIRMAN KOPEL: I want to make one of your questions more clear. When the county pays something back, would you pay back, if not for that specific project, I guess what you would pay back is the most advantageous segment of debt, in other words, maybe the higher interest or whatever is available to be paid back? Is that how it's done?

MR. MARAGOS: Well, the county has obligations in servicing its debt, so we have to meet all our obligations. In this context, how much was the total debt, servicing cost for 2012?

MS. WATSON: We are estimating it to be at $354 million.

MR. MARAGOS: 354 million which is line three under expenses on Exhibit-1.

CHAIRMAN KOPEL: Is this how it's always been done?

MR. MARAGOS: Yes. This is not the first time this is being done. And it's, to our understanding, legal and appropriate.

CHAIRMAN KOPEL: It's been done by previous administrations?

MR. MARAGOS: Yes.

LEGISLATOR DENENBERG: Thanks for interrupting me and trying to take a history lesson, but I'm worried about today and the future. As far as I know in the past, any time we changed the capital plan, there was legislative approval. By the way,

Budget Hearing/7-26-12

Mr. Comptroller, are you aware, as of right now, I'm holding up the 2011 capital budget? We don't have a proposed 2012 capital budget?

MR. MARAGOS: Yes, we are.

LEGISLATOR DENENBERG: So you haven't seen a 2012 capital budget either, correct?

MR. MARAGOS: I haven't, no.

LEGISLATOR DENENBERG: I have a December letter that went to every member of the legislature as well requesting the county executive to show us the 2012 budget.

I will be requesting, and it's not of you, but that very list to see and to tell every one what projects we're not doing. I think that labor in this market which supported the capital budget in '10 and '11 really ought to know, instead of keeping people working, we're going to be using borrowed money to pay down debt on other, what I believe is other obligations. But I would like to see those lists. I think that's extremely important.

MR. MARAGOS: Legislator, we were given these actions. I'm surprised that you haven't been given them. We are certainly willing to share with you what we have received, and on the basis of those proposed initiatives, we estimated the resulting savings in order to balance the budget.

If the legislature feels that they have authority to approve or not approve those, that would be fine, and then we would need to adjust and the county executive will need to adjust the year end projections.

LEGISLATOR DENENBERG: I will tell you, as far as I know, and being one of the cowriters of the capital plan law that you can't amend the capital plan without the legislature approving, and that it was never envisioned, nor do I believe that it's legal to take money from one project that you haven't started and pay down debt from either other projects or general obligations.

But I see that you are using the

number 17 million as a number that in a one-shot manner would help with the budget deficit for this year as opposed to the structural gap.

Let me ask this, in 2011 we're going to close 2011 at the end of this month, is that the current projection?

MR. MARAGOS: Yes.

LEGISLATOR DENENBERG: And we're going to close with what type of --

MR. MARAGOS: 50.4 million.

LEGISLATOR DENENBERG: 50.4 is the deficit?

MR. MARAGOS: That's correct.

LEGISLATOR DENENBERG: How much in 2011 was overtime over budget?

MR. MARAGOS: Do you have that information with you?

LEGISLATOR DENENBERG: And by that I'm talking police, correction, as well as payroll and fringe benefits.

MR. MARAGOS: We don't have that information. We believe overtime was over budget by $9 million, but I don't have that number.

LEGISLATOR DENENBERG: How much was payroll and fringe benefits over?

MR. MARAGOS: I don't have that number.

LEGISLATOR DENENBERG: Now, where I'm looking at payroll and fringe benefits being projected to be over budget by 49.5 million and overtime by 26.6 million, you would add those two items together, right? Those items are separate. In other words, overtime is not part of the payroll and fringe benefits?

MR. MARAGOS: Right.

LEGISLATOR DENENBERG: So, together, for payroll, fringe benefits, and overtime alone for police and corrections, we're $76 million over budget?

MR. MARAGOS: That's correct.

LEGISLATOR DENENBERG: Now, in 2011, those two items were they about 50 million over budget, or you just don't have the 2011 number?

MR. MARAGOS: But you have to put

things in context. If you recall, the 2011, I don't remember what the risk was in the 2011 budget, but I believe the risk was $225 million at the beginning of the year, it included about $64 million in labor savings. A lot of those didn't materialize.

In the 2012 budget, we had it close to $300 million in risk which included about $150 million in labor savings.

So what this is saying, that in effect we've -- we're over budget by 75 million. We have achieved 75 million of the budgeted $150 million savings. So it's a significant improvement.

The original budget has not been met but labor costs have come down by $75 million.

LEGISLATOR DENENBERG: My concern is that a lot or way more than what has been improving on the red has been sales tax revenue.

MR. MARAGOS: No. I just said labor savings overall have improved by 75 million compared to what was budgeted.

LEGISLATOR DENENBERG: We're looking at the budget for this year and payroll and fringe benefits were projected to be $50 million over budget.

MR. MARAGOS: Right, because the budget assumed a total labor savings of $150 million down that we've identified as risk.

LEGISLATOR DENENBERG: But that was part of the budget. If we don't get what we're projecting, and we're doing $75 million behind projection, we're going to have a deficit.

MR. MARAGOS: Right. But the $75 million in improvements is what I'm saying, and you can't take each line item out of context.

A budget is a plan that reasonably anticipates expense and revenue. Some line items will come in better, others will come in worse. You have to look at the bottom line in how you're going to end up at the end of the year.

You hope and plan to end in balance and that's the overall objective.

It's not that critical whether each line item comes in exactly on budget or not, and most likely they do not.

LEGISLATOR DENENBERG: So last year when we ended up with a $50 million deficit, that's what we should really look at, the bottom line was there was a $50 million deficit?

MR. MARAGOS: Yes, and you can look back as to the reason for it, the primary reasons. The primary reason, the overwhelming reason in 2012 was the fact that this legislature did not approve $41 million --

LEGISLATOR DENENBERG: Of borrowing.

MR. MARAGOS: Borrowing to pay for property tax refunds.

LEGISLATOR DENENBERG: How would that have helped the structural balance?

MR. MARAGOS: By $41 million.

LEGISLATOR DENENBERG: The structural balance by $41 million?

MR. MARAGOS: No, it would not

have helped the structural --

LEGISLATOR DENENBERG: You just said, I think you want to correct yourself, that $41 million of borrowing wouldn't have helped a structural imbalance.

MR. MARAGOS: I just did. It would not. It would have helped balance the budget.

LEGISLATOR DENENBERG: Wouldn't overtime not being $10 million over budget actually have a recurring help last year?

MR. MARAGOS: Yes, it would have. If sales tax had been higher by $10 million, it would have had a positive effect.

LEGISLATOR DENENBERG: You can't have projections that are overly rosy and say that those projections make a balanced budget. Because, at the end of the day, you, especially, have to see where those projections come in. If you're $75 million short of projections in terms of the actual cost of labor, actual cost of overtime, that's something very real that has to be made up.

The problem is, if we make it up with one-shots, it doesn't do anything for our structural problems.

MR. MARAGOS: Mr. Denenberg, the projections are not rosy, they're not optimistic. We've always tried to be very conservative. I indicate that in terms of the payroll, it is over budget. There were $150 million in risk that was identified by the comptroller's office. It's still 75 over budget, but certainly 75 million less than the risk that was anticipated.

LEGISLATOR DENENBERG: Now, in 2010, you looked at the 2010 budget, I'm sure, correct?

MR. MARAGOS: Yes.

LEGISLATOR DENENBERG: The 2010 budget had $50 million for pay as you go tax certs, correct?

MR. MARAGOS: Yes.

LEGISLATOR DENENBERG: How much did we have in the 2011 budget for pay as you go tax certs?

MR. MARAGOS: Nothing.

LEGISLATOR DENENBERG: How much is in 2012 for pay as you go?

MR. MARAGOS: Nothing. I'm sorry. There was $75 million that was budgeted.

LEGISLATOR DENENBERG: So in 2010, you would agree, we had $50 million in the budget for pay as you go on the tax certs?

MR. MARAGOS: That's right.

LEGISLATOR DENENBERG: 2011, zero?

MR. MARAGOS: Zero. But, again, I want to remind you that there was a letter signed by the minority to allow to support bonding for property tax refunds.

LEGISLATOR DENENBERG: But that, with regard to the tax certs in 2011 --

MR. MARAGOS: There was nothing in the budget for that.

LEGISLATOR DENENBERG: That was the first time from at least 2005 where $50 million was not in the budget for pay as you go, correct?

Budget Hearing/7-26-12

MR. MARAGOS: That's correct.

LEGISLATOR DENENBERG: Now, in 2012, do we have $75 million in the budget for pay as you go?

MR. MARAGOS: Yes, we do. That's indicated, if you look under revenues -- I'm sorry, revenues, you will see there was 75 million. We are assuming zero to be authorized by the legislature and approved.

LEGISLATOR DENENBERG: If it's zero, it's not pay as you go, then if --

MR. MARAGOS: But it was budgeted. 75 million was budgeted.

LEGISLATOR DENENBERG: I don't understand. Do we have $75 million this year for pay as you go or is that assuming that 75 million is borrowed and transferred to the pay as you go line, in which case I don't why it is pay as you go then?

MR. MARAGOS: You have 75 million that was budgeted. You have zero that was approved by this legislature and we assume that no funds are going to be approved to save for property tax refunds.

Budget Hearing/7-26-12

LEGISLATOR DENENBERG: But if we have $75 million in operating expenses to pay for tax certs, then you don't need borrowing, right?

MS. WATSON: You have approved in the budget authorization of $75 million to spend and we think it's going to be 16. You also approved in the budget that you are going to transfer in 75 million of borrowed funds and we're assuming zero because NIFA and the legislature has not approved borrowing.

LEGISLATOR DENENBERG: I didn't approve those budget items either. I voted against them because I thought it was a shell game.

MS. WATSON: In the adopted budget, there is $78 million authorization.

LEGISLATOR DENENBERG: To borrow?

MS. WATSON: Of authorization to spend. All right? The spending is not contingent on anything except having money in the bank. You have an approval to spend $75 million.

Budget Hearing/7-26-12

LEGISLATOR DENENBERG: Is there $75 million in the budget to meet that approval, or does that rely on borrowing?

MS. WATSON: 75 million in the budget is supposed to come from borrowing. But when we spend money, we don't look to see that the borrowing has done, still spend that money. Maybe not all of it.

LEGISLATOR DENENBERG: So the fact of the matter is, there really -- the $75 million in the budget is not pay as you go then? There's no revenue, no operating revenue to offset that expenditure.

MR. MARAGOS: Excuse me. What do you mean, can you define pay as you go?

LEGISLATOR DENENBERG: What did you think I meant when I said since '05 through '10 there was 50 million in the budget to pay as you go for tax certs and in 2011 there was zero?

MR. MARAGOS: Well, I let that term pass, I didn't think it was significant, but now that you're --

LEGISLATOR DENENBERG: Meaning

operating funds in the budget to pay out of recurring operating funds for that recurring expenditure, and that's what we had from '05 through '10.

MR. MARAGOS: But you also had the $50 million that was budgeted to be paid from bonding in each of those years.

LEGISLATOR DENENBERG: First of all, are you telling me right now we had $50 million in borrowing in each of those years to offset the 50 million pay as you go? That's simply untrue. You're the comptroller of Nassau County. We had $50 million of operating expenses in each of those years without any borrowing. If there was borrowing, it was on top of that $50 million.

MR. MARAGOS: I believe you're right. It was the first 50 million from operating expense and the balance from borrowing.

LEGISLATOR DENENBERG: And in '11 we agreed already there was zero from operating expenses, correct?

Budget Hearing/7-26-12

MR. MARAGOS: Correct.

LEGISLATOR DENENBERG: In '12, is there 75 million from operating expenses or that 75 million would have to come from bonding?

MR. MARAGOS: There was nothing for operating expenses in the budget. The 75 was for bonding.

LEGISLATOR DENENBERG: Let me ask you then, being that we budgeted zero in operating expenses in 2011 and 2012 for tax certs when Legislator Kopel asked you that the Nassau County structural deficit would improve once the county guaranty is repealed, or it's been repealed, once the repeal kicks in, being that we're budgeting nothing of operating expenses to pay for tax certs, once the schools, the fire districts, the towns, and the villages have to pay for the refunds, how is that going to help our structural imbalance when we're not budgeting anything for tax certs?

CHAIRMAN KOPEL: Legislator Denenberg, wouldn't the expense be gone at the same time --

LEGISLATOR DENENBERG: He didn't ask for your assistance.

CHAIRMAN KOPEL: But I'm a very nice person and I'm offering --

LEGISLATOR DENENBERG: I understand that you are desperately trying to help him, but the problem is, the repeal of the county guaranty can't help the structural imbalance because we're not budgeting any operating expenses for the tax refunds and we haven't since 2010 which was the last time of the previous county executive.

CHAIRMAN KOPEL: And at the same time as you don't budget the operating expenses, you don't budget the expense to begin with. It isn't there anymore.

LEGISLATOR DENENBERG: Try to answer the question because I know his answer was incorrect.

MR. MARAGOS: No, actually it is correct, and that's what I was going to say. If you eliminate the expense and allocate the responsibility for that expense to the schools or the districts and off load it from the county, that will reduce the expense.

LEGISLATOR DENENBERG: But you haven't budgeted it as an expense. You are not budgeting it as an expense. That's the whole point. You are borrowing to pay it.

MR. MARAGOS: But that's a budgetary issue. Hold on. Let me finish. Under the expenses, we are assuming this year, because there is no bonding that we will have to pay because of judgements 16.5 million as an expense for property tax refunds. That's an expense.

So whatever the liability or the bills that were presented for in the remainder of 2012 or in 2013, whether we budget or not, have to be paid.

LEGISLATOR DENENBERG: We budgeted 16.5 this year?

MR. MARAGOS: No, we didn't budget anything, but we have judgments to the extent of 16.5 that the county is obligated to pay.

LEGISLATOR DENENBERG: But it won't improve our operating expenses because we haven't budgeted as operating expenses. You're saying 16.5 we may have budgeted as an expense, correct?

MR. MARAGOS: No, we didn't budget it as an expense.

LEGISLATOR DENENBERG: Let me tell you something else. Isn't it true when the county guaranty ends, that 16 to 18 percent of the refunds still -- which went to the county and would still be an expense for the county?

MR. MARAGOS: Yes, it would.

LEGISLATOR DENENBERG: So would the repeal fix this structural imbalance?

MR. MARAGOS: It would fix it by 80 percent or 75 percent that the county portion, which the county is now responsible for.

LEGISLATOR DENENBERG: But we haven't budgeted this as an operating expense.

MR. MARAGOS: Do you understand the difference?

LEGISLATOR DENENBERG: No. I don't see how it's going to help the structural gap. Because in the structural gap you're not including an operating expense.

MR. MARAGOS: But look at the structural gap, leave the one-shot items out for the time being. If you're recurring revenues were exactly the same as your recurring expenses you would not have a structural gap, would you agree with that?

LEGISLATOR DENENBERG: Yes.

MR. MARAGOS: Now, if you were to have a deficit because of higher expenses by $16 million or $20 million, the size of any property tax refunds, wouldn't that be an expense and therefore cause your structural gap to increase by $20 million by that amount? I think it would.

LEGISLATOR DENENBERG: Particularly if we're putting in operating expenses to pay for --

Budget Hearing/7-26-12

MR. MARAGOS: Not particularly. If you have an unbudgeted item, whether it's budgeted or not, at the end of the year, if your expenses are greater than your revenues, you're going to have a structural gap.

LEGISLATOR DENENBERG: Of course. And that's what we have.

MR. MARAGOS: Absolutely. So I hope that answers your question.

LEGISLATOR DENENBERG: Leave it to disagree. Let me ask you about the deficit last year. Did you see that the Office of Legislative Budget Review gave a memo to me at my request as well as to Legislator Abrahams June 27 analyzing the Sewer and Storm Water District and transfers to the general fund?

MR. MARAGOS: I'm sorry. We haven't seen that memo.

LEGISLATOR DENENBERG: Are you aware that there were transfers from the sewer district to the general fund in 2011?

MR. MARAGOS: Yes, we are.

Budget Hearing/7-26-12

LEGISLATOR DENENBERG: Did you raise an issue throughout the year that those transfers to the general fund were in any way inappropriate or more than the sewer district fund expenses were?

MR. MARAGOS: The main reason for the transfer was to pay for the debt service that we pay on behalf of the sewer.

LEGISLATOR DENENBERG: So you're saying that the debt service charge back was covered by the Sewer and Storm Water debt?

MR. MARAGOS: That's correct.

LEGISLATOR DENENBERG: So you're not aware as you stand here right now that that was overstated?

MR. MARAGOS: I would like to see that memo if you can share it with us.

LEGISLATOR DENENBERG: I would like it if the comptroller and the comptroller's office would be able to tell the legislators that transfers from the Sewer and Storm Water District, which is a district, were overstated, in other words, more money was transferred than the district charges in debt service or otherwise were.

MS. WATSON: We charge back to the sewer fund for indirect charges, personnel and for debt.

LEGISLATOR DENENBERG: Well, I'm reading from the --

MS. WATSON: I don't have the memo. If you would share the memo, maybe we can get back to you.

LEGISLATOR DENENBERG: I'll read from it. Since the GI water debt payment was also recorded separately, this was double counted and the sewer expenses were overstated by 7.1 million in 2011.

MS. WATSON: George already addressed that. That was the $7 million when you had an additional $7 million of deficit in 2011.

LEGISLATOR DENENBERG: That's what you call the double booking error?

MS. WATSON: Right.

LEGISLATOR DENENBERG: So why did it take the Office of Legislative Budget Review, at a request from me, to find that?

Doesn't your office actually look at what is being charged to the sewer district?

MS. WATSON: Absolutely. But there was a change in the treasurer's office last year, and the people that provided the information were two different people and we took it as we normally do. It was a mistake.

LEGISLATOR DENENBERG: At the end of 2010, there was a $10 million transfer, near as I can tell, from the sewer district fund to the general fund, I believe some time in fiscal 2011, which may have taken place in calendar year 2012 there was a $20 million transfer.

Now, if those transfers aren't covering actual sewer district debt, the comptroller's office as well as the Office of Independent Budget Review could or should catch it. The office of independent budget review acts upon requests of any of us here. The comptroller's office should be looking at this altogether.

MR. MARAGOS: And we did catch

it.

LEGISLATOR DENENBERG: No. I think the Office of Legislative Budget Review caught it.

MR. MARAGOS: I don't know when they caught it but we certainly caught it and the auditors caught it and it was corrected.

LEGISLATOR DENENBERG: Do you a memo showing when you caught it?

MR. MARAGOS: No, we don't have a memo. We just reflect it in the year end results. We don't report every error and every correction. There's hundreds of those that happen routinely.

LEGISLATOR DENENBERG: What date was it recorded?

MR. MARAGOS: I can't recall right now, but it was captured in the normal course of our preparation of the year end financial results.

LEGISLATOR DENENBERG: I saw it in the last week of June when all of a sudden the deficit which we were talking

Budget Hearing/7-26-12

about being 40 million jumped up to 50 million. The only report I got on it was from Mr. Chalmers.

MR. MARAGOS: Legislator Denenberg, we don't report errors. We find hundreds of errors and we go back and probe the departments to make adjustments. That's part of the process of closing the year and issuing the audited financial results. We go to great pains to make sure that those results are accurate.

LEGISLATOR DENENBERG: I will stick with I think it was Mr. Chalmers that brought it to everyone's attention. But let me ask you, finally, are we looking, we as a county, or the comptroller's office, or the office of management and budget as to how much money is being spent by the county with respect to the bus service, if there's any claims against the county that would otherwise have been taken care of by the MTA or the MTA insurance?

Let me clarify that. Someone hurts themselves on the bus now, it's my understanding that the suit I guess would name Violia as well as Nassau County. We're self-insured, correct?

MR. MARAGOS: Yes.

LEGISLATOR DENENBERG: We are not paying for a policy for the bus, are we?

MR. MARAGOS: But Violia is required to have an insurance policy that indemnifies the county.

LEGISLATOR DENENBERG: So we should have no expenses with respect to any accident on the bus or anyone getting hurt on the bus?

MR. MARAGOS: No foreseen expenses.

LEGISLATOR DENENBERG: Is there anything in the budget for that?

MR. MARAGOS: There is nothing in the budget for that. For what? There is no requirement that there be anything in the budget for that given that the county is indemnified by Violia.

LEGISLATOR DENENBERG: For liability with respect to the bus?

MR. MARAGOS: That's correct.

LEGISLATOR DENENBERG: And we don't pay for the insurance? If Violia gets insurance, that's not a charge to us?

MR. MARAGOS: No. It's part of their total operating budget which we have a contractual agreement not to exceed.

LEGISLATOR DENENBERG: So it's part of the contractual amount?

MR. MARAGOS: That's correct.

LEGISLATOR DENENBERG: Thank you. Let me close by saying, last year the budget deficit, as you said, 2011 is 350 million, correct?

MR. MARAGOS: 50.4.

LEGISLATOR DENENBERG: On a structural basis or on a gap basis, how large was the deficit last year?

MR. MARAGOS: I would like to refer you to Exhibit-7 on page 20 where we've presented historically the year ending GAAP results on a NIFA basis. And in 2011 it was negative 173.4 million; and in 2012 we're projecting 115.7.

LEGISLATOR DENENBERG: Thank you. I guess I will close by once again repeating that I would ask and expect in the future to get the reports before the meeting starts. At least a few days so that we can review this.

MR. MARAGOS: We will comply with that, legislator. I apologize for that but we wanted to, in light of the county executive's press conference announcing new actions, we wanted to verify what the impact of those actions would have. That's why the possible delay not getting you this document earlier.

LEGISLATOR DENENBERG: Since that point, you have verified those projections already?

MR. MARAGOS: We have estimated what they are and I can, again, draw your attention to one in particular that I think that you noted with regard to the 17 million for the capital projects, they had estimated I believe $20 million and we went through the projects and we can only verify we were given credit for $17 million.

LEGISLATOR DENENBERG: So the $20 million you verify the voluntary separation incentive and proposed layoffs?

MR. MARAGOS: Right, and that's substantially less than what they projected.

LEGISLATOR DENENBERG: Thank you.

CHAIRMAN KOPEL: Any other questions for the comptroller from the committee?

(No verbal response)

CHAIRMAN KOPEL: Thank you, Mr. Maragos. Our next witness is going to be Tim Sullivan for the administration.

I understand you have a presentation, so please begin whenever you are ready.

MR. SULLIVAN: Good afternoon. I'm Timothy Sullivan, deputy county executive for finance. To my immediate right is Eric Naughton who is the budget director for the County of Nassau. To his right is Roseanne D'lleva who is our director of performance management, and to my left is Randy Ghisone who is an assistant deputy county executive for finance.

We have a presentation, which will be brief, and then we will be open to questions from this body.

I think we want to start off by saying obviously the comptroller has gone out and announced a $50.4 million deficit and I think we know the origins of that and it directly relates to the county not having the capacity to borrow for tax certioris, and I want to go over some of the actions the administration has taken to address this deficit.

First of all, we should talk about significant work force reductions. I think this is a center piece of this administration and the budget for 2012 was 7,400 and you will see in an upcoming slide, a lot of people were doubting we could get near 7,400. Just to put this in context, we were at 9,177, the budget numbers back in 2009. Suffolk County has approximately 9,500 employees. So we are 2,000 positions less than Suffolk County right now, about 22 percent, for very similar, in terms of population and things like that. So these are -- it's an enormous pressure on our workforce and a lot has been done already.

We talk about OTPS reductions, I think the comptroller referenced disencumbering funds, closing out contracts, things of that nature, and also just cuts on procurement and various things we can't control.

Some other initiatives this administration has undertaken, the privatization of inmate health care which has been a very good initiative for the county. It saves approximately $6 million on an annual basis.

The housing of Suffolk County inmates, which is a win for both counties. It reduces their cost as far as transportation and overtime for their guards. It hasn't increased our overtime costs at all, and it's revenue for the county.

We spoke earlier about the -- the comptroller spoke earlier about the elimination of the county guaranty and, to me, that is probably the signature achievement of this administration. Ultimately, we all know there is a billion two outstanding in property tax cert debt, outstanding, that's the big difference between us and other municipalities.

We all know that Nassau County is the only county totally responsible for underwriting these other jurisdictions and this action gets us out from underneath that, and just to address a point that was touched upon earlier, yes, there are no dollars budgeted in this year, but in the multiyear plan, we did budget expenses in the out years for this.

Also, we spoke briefly about the successful bus private partnership which I think is a win, saving the county $33 million annually. As we all know, the MTA was asking for an additional $26 million, they were not willing to budge off that position unless we cut the routes in half. And then the underlying subsidy, where there was a direct $7 million reduction as a result of the privatization effort.

Finally, the consolidation of the police precincts. That's halfway through now. We've gone from eight precincts. Currently there are six. Two precincts have been moved away from and this consolidation saves the county on an annual basis $20 million.

We spoke briefly about the workforce management, and, again, I think this a slide that is pretty dramatic, and it shows essentially what is transpiring here in the county. You see the budget level at 9,177 in 2009, and you can see currently where it's 7,476, and this before the employees are scheduled to be reduced through layoff incentives and normal attrition occurs.

Right now we are at 7,476. The budget issue is 7,395. We are projecting that probably in the last quarter of this year, after these actions have all flowed through that we're going to be at 7,300 positions.

So, again, that is something that is, you cannot ask to do more when you talk about payroll, that is how you reduce payroll by reducing positions.

At this point I'm going to turn the presentation over to Eric Naughton to continue.

MR. NAUGHTON: When you look at the county's financial plan, so far, year to date, we have achieved about roughly $122 million of annualized labor savings that reflects the reduced payroll, savings and fringe benefits. We have pending actions as far as the recent VSIP, further attrition in the police department, corrections, and further layoffs, we will save another $36 million on an annual basis.

So by year end we will be over $150 million of labor savings we will have achieved the target. You throw on top of that the debt service savings of over $30

Budget Hearing/7-26-12

million. You can see that just in this fiscal year, the county has saved $151 million of expenses.

On top of that, you look at the favorable results of sales tax, the new fee increases that are being proposed. This fiscal year we will have fiscal savings of roughly $179 million and on the annualized basis, $224 million. I think that's a significant accomplishment.

Looking at the gap, the comptroller's office has stated it to be $45 million for this year prior to corrective actions. Right now, our office is at 24.2 million. The major difference between the two offices is that we have already acknowledged about $12 million of reduced expenses in the areas of early intervention and preschool, which brings us down to $24.2 million.

That $24.2 million includes the 16 and a half million dollars of anticipated tax cert judgements. So if you were to back that out operating deficit, even before we

Budget Hearing/7-26-12

take any actions, is only about $8 million which would definitely be close to break even.

However, we do have actions that have been planned. The county executive announced some of those earlier this week. For instance, we're going to close out capital projects worth about $19 million. We will have the additional labor savings of roughly $4.6 million that comes from the VSIP and layoffs. Just looking at VSIP alone, we have approximately 60 full time employees sign up. They're total salaries is worth $4.6 million. Obviously we're not savings $4.6 million this year, but we will save just from last week over $2 million. That number is definitely achievable.

Obviously, the human service contracts were cancelled, that's $3.8 million. Proposed revenue fees will bring in about $3.3 million for the balance of this fiscal year.

Also part of this plan is that we've been retiring correction officers and police officers who have been out on long term disability. As you are aware, when they are on long term disability, we pay 100 percent of their salary and we get no benefit for them.

So through management efforts and working with the state comptroller, we have had a significant number of those employees actually retire, leave the county workforce, they're receiving a pension, and now we are saving on that salary.

We are going to approach NIFA about being able to bond for those termination payments because it is giving us a recurring benefit. We think that makes sense and, from earlier conversations, they may buy into that.

Additional police officers, we are assuming that roughly another 30 officers will retire between July 1st and December 31st. As we speak, approximately seven officers retired in the month of July which means we are on pace to have the 30, that will give us savings of about a million and a half dollars.

The correctional center. Our projections right now, we have factored in overtime spending to be two and a half million dollars less than last year, and received to date about $3.3 million less. We think for the year end, the correctional and overtime will be $4 million below last year, so that's another pickup of a million and a half dollars.

As we are able to get some of those other long-term disability's people retired, that's worth a million. So with these corrective actions we can probably end the year with a small surplus of roughly $12.8 million. That's even factoring in not being able to bond for 16 and a half million dollars worth of tax cert payments.

We do have some other opportunities for savings. The Rules Committee approved the contract for UMS they are on board now. We have not factored any savings in for this fiscal year, but they have told us just looking at some of the low hanging fruit there are some opportunities for savings this year and obviously going forward.

We are currently taking a look at every single purchase request by the departments. We will be making further cuts there. We're not going to put a dollar figure on it, but we will achieve further OTPS spending.

The proposed land sales. The real estate department through public works is looking at our inventory. There are some projects that they think can come forward this year, and if not this year they will be part of the 2013 budget.

Obviously we will continue to look to reduce labor costs as much as possible and additional sales tax growth. Our office has put into our projections say $25 million over budget, comptroller is at 29. So just right there, that shows you there is some wiggle room to actually have additional sales tax. So we're being very conservative in all our forecasts, so,

Budget Hearing/7-26-12

clearly, on a budgetary basis, we will definitely have a surplus at year end.

Now, in terms of tax cert finance, I think, Tim, you may want to speak on this part.

MR. SULLIVAN: Yes. I mean, obviously, when we adopted the budget and the multi-year plan, the multi-year plan envisioned $305 million of tax cert financing over four years. That was '11, '12, '13 and '14, with no borrowing scheduled for '15.

The borrowing started at 95 million, 85 million, 75, 50 and then zero. I think it's important to note that when NIFA adopted the budget, the statement, the statement of the directors with their conditional approval of the multi-year plan for 2012-2015 states the following, and this was their report:

Transitional borrowing to help close the gap is reasonably necessary to avoid the shutdown of county government services and can concomitantly a potential

Budget Hearing/7-26-12

unreasonable burden on the citizens and workforce. So I think NIFA recognized the transitional financing component that was necessary during this to get to a structural balance in 2015. Again, we admitted the lack of structural balance, and obviously the county hasn't had structural balance going back the last 20, 30 years. Tax certs being the lion's share of that issue.

So I think NIFA in its wisdom recognized this. There was an agreement reached to borrow 305 million over four years, and right now that is quite vital and necessary to the county's ongoing fiscal health.

The next slide just walks through what I just spoke of, the multiyear plan approval. You can see the $305 million there. Again, $95 million that was scheduled to be borrowed last December, and to be counted against 2011. Again, 2012, $85 million, $75 million in 2013, $50 million in 2014. That was the multiyear plan that we approved and that is the vision that the county had here.

Again, when you start sliding down your financing, you're ramping down your borrowing, at the same time we will be increasing expenses, as far as budgeting operating dollars for tax certs and those expenses are projected to be a lot lower with the elimination of the county guaranty at this filters through.

At this point, as I return the presentation to a topic we would like to address with this board, it's what I call the refinancing restructuring opportunities available to the county.

I'm going to ask two people that we been working with, numerous banks have approached just one of the banks that has been very strong for the county has been Ramirez & Company, Mike Solomon, who has over 25 years of banking experience with Bear Stearns and Merrill Lynch. And also our senior managing consultant from PFM, Tracy Keys. Tracy has been with PFM for four years and prior to that has over 30 years of municipal financial experience lion share with JP Morgan. So I'm going to ask them to come up to present the next two slides.

LEGISLATOR DENENBERG: Before you do, to the chair. The slide show that was just presented, I don't have a copy of it. I don't know if any of us do.

CHAIRMAN KOPEL: None of us have it. This is just their slide show.

LEGISLATOR DENENBERG: Will they give it to us since it was shown on the screen?

CHAIRMAN KOPEL: Will you both just identify yourselves for the record.

MR. SOLOMON: Michael Solomon, managing director at Ramirez & Company.

MS. KEYS: And Tracy Keys, senior managing consultant at Public Financial Management.

CHAIRMAN KOPEL: I understand you've got a presentation for us?

MR. SOLOMON: Yes.

CHAIRMAN KOPEL: Love to hear it.

Start whenever you are ready.

MR. SOLOMON: I'm going to start, give a bit of an overview and Tracy is going to come in and give some of the particulars.

First of all, thank you, it's an honor to be here speaking with you today about saving opportunities for the county and our focus, of course, is going to be on the debt side.

One of the major stories so far in 2012 has been the sharp decline in the borrowing costs. Currently rates are literally at an all time historic low so it's a great opportunity and time for any municipality to go and refinance existing high coupon debt and generate real budgetary savings.

In terms of the opportunity that we focused on for the county really rests with some of the outstanding NIFA bonds. NIFA has some fixed rate bonds outstanding that have coupons roughly at the five percent level, some a little higher, some a little lower. You can refinance those today very much like you would your home mortgage. By doing so, and locking in today's low rates, the county would be able to save over $20 million of actual savings that it could target either over time or it could take the savings up front, which would clearly be a big budget benefit going into fiscal year '13.

So the primary re-funding analysis essentially is a straightforward refinancing. We've taken this a little bit -- the next step would be to look at the county's debt in aggregate and notice that it's relatively front loaded. The county's debt obligations which includes the GO bonds and NIFA bonds are very heavy in the next few years and decline over time.

So one of the strategies that we've been talking about to help the county is to use the savings from the refinancing, the $20 million savings from the refinancing, and do a restructuring of some the county's bonds that mature over the next few years, let's say fiscal years '13, '14 and '15.

The county could be in a position to reap cash flow savings of up to $50 million a year, and you could do certainly less than, but 50 is the most aggressive. Get those cash flow savings and, when you combine it with the regular traditional refunding, even though there is a cost to doing the restructuring overall, the financing would produce positive present value savings and significant cash flow savings. It's really taking advantage of a market that's at all time lows and locking those in.

Generally restructurings are something that people do with a lot of thought because there is a small cost to it but, given where rates are, given the overall fiscal environment, this is something that we think should be looked at and considered as you move forward, and then we turn it over to Tracy perhaps to go through some of the details of these scenarios.

MS. KEYS: Thanks, Mike. Let me just clarify. When Mike says the county debt, because Nassau County is paying the NIFA debt, we are -- that's why he's using the word Nassau County, but it's only NIFA debt that we're talking about restructuring and refunding here.

We've put together I guess a range is the best way of describing it of refunding and restructuring opportunities, starting with very, very straightforward, a refunding, basically taking five percent debt and replacing it with what is essentially three percent debt or lower cost debt.

In that scenario, you get benefits every year. It's just like a savings on your mortgage. You would get a savings of about $2 million every year beginning in 2014 and the total PV savings would be $22 million. That's 11.35 percent of the refunded debt.

If you take it a step further, you can move those savings up front into

2013, '14 and '15. We can't get any savings in 2012 at this point, but you can move it to 2013, '14 and '15, and, again, it's $22 million in savings. There are no dis-savings in any year after that. That will produce about $21 million in present value savings. It's about 7.4 million in each of the three years.

We try to push those savings all into 2013 to try to get as much as possible into 2013, and doing that you can get again about 21 million in 2013 with no annual dis-savings after that.

However, with your 21 million of savings in 2013, every year after that you have about a thousand dollars of savings. It's pretty much a break even. So it doesn't cost you anything, but, you know, it's a no savings benefit after that.

Then, if you are a little more creative or aggressive, however you look at it, you can restructure your tax exempt debt. We've had the county's bond counsel, Orrick Herrington, sign off that the

Budget Hearing/7-26-12

analysis that we've done and the bonds that we're assuming can be restructured on a tax exempt basis are indeed, they do qualify for a tax exempt restructuring.

We are not extending the debt beyond the existing debt, the final maturity of the existing debt. So if you did a tax exempt restructuring only on a tax exempt basis, you could push about 90 million of the savings from into 2013, '14 and '15. Doing that you would have dis-savings in every year after that, about 8 million or so. But given where the county is in terms of its fiscal condition, it's something certainly out there to be considered.

Finally, the last thing that we looked at was both a tax exempt and taxable refunding. Orrick told us which series could and could not be refunded on a taxable and tax exempt basis, which could not be refunded on a tax exempt basis, but they can still be done on a taxable basis, and you can still get some benefit there.

With that restructuring, you can

push about $50 million into each of the three plan years, '13, '14 and '15. You would have about 15 million of dis-savings or additional, 15 million of additional debt service costs in every year after that, but, again, another option.

One thing I want to say, especially on the more generic refunding where you push all the savings up front without a restructuring, that's a very, very common thing for municipalities, states, counties. I did one for a highly rated county yesterday where they took all the savings they possibly could up front. It's done on the state level. DASNY (phonetic) did over a billion dollars in terms of refundings about a month ago, and they took most of the savings in the first five years. Again, it's a pretty common thing even for very conservative municipal issuers.

MR. SOLOMON: Do you want to talk about the bond premium as well?

MS. KEYS: Sure. If you turn to page nine, the bond premium. I guess I should just give an explanation of what a bond premium is. Right now in the tax exempt market, investors want five percent coupons. But the market is not at a five percent. I think we all want five percent coupons. But the market is at -- it's incredibly good right now. It's 280 for a 30 year bond, three percent, it's very very low. So because investors want the five percent coupons, and that's an esoteric reason why they want them, believe me, that's the market, they want them, they are willing to pay you a premium up front.

So if they buy $100 worth of bonds, with a five percent coupon, if they yield on it is really three percent, they will pay you $102 for that because it has extra value. So that's what we're talking about here, the bond premium.

The county has historically retained its bond premium. We did a calculation and found out that they retained about 60 million in premiums from its bonds and notes between 2008 and 2011. It's not like you can take a bond premium and have a party or go to Acapulco. You have to use it for qualified projects or to pay interest on outstanding debts.

The 2012 adopted budget assumes a bond premium. And then in March of this year, NIFA passed a resolution for venting the county from retaining that premium which has created a budget problem.

The last thing I want to point out is many many large issuers, common issuers in the municipal market, retain premium. We listed a few of the New York issuers that do. New York City retains premiums on virtually everything they do. You can't do it on a refunding but every new money issue that they do they retain premium. In this example with a $850 million to the TFA, Transitional Finance Authority, the barb deal that they just did, on that they earned a 112 of premium and retained that premium. They did not downsize the bond issue.

MTA has done similar things,

LIPA, the port authority, and nationwide other issuers have done similar things that are considered pretty common.

MR. SULLIVAN: And just to comment there, as we did budget for this year, the county has historically done this for the past 40 years. To date, we have over $14 million in bond premium that could have been used for debt service relief right now that we were not able to use. So that is something that we would request going forward that NIFA sort of honor that policy. It is something that is hurting us and causing fiscal stress.

MS. KEYS: The bond premium, is that what the question is?

CHAIRMAN KOPEL: Yes. I will speak for at least for a few of us over here, not for everyone else. I don't really get this. You say the bond premium, I don't really understand the concept. The bond premium, I understand what it is. If you have a five percent coupon and the market is at two percent, the bond is worth something over par. But when you say that the county has retained that premium, how do you get from here to there if a third party owns that bond? How does the county retain that?

MS. KEYS: The bond investing actually pay you, pay the county. When you do the bond issue, if it's a $100 million bond issue, and there's $5 million of premium --

CHAIRMAN KOPEL: We're talking about actually at the time of issue?

MS. KEYS: Yes.

CHAIRMAN KOPEL: So at the time of a new issue, you issue bonds with a five percent coupon even though the market is at two percent, therefore, you sell the bond for more and it's essentially just extra borrowing, would that be a fair way of putting it?

MR. SULLIVAN: I wouldn't label it as such. It's basically the market, you know. Once the price, as Tracy said, somewhat more like a four percent range or greater, in order to do that, they have to pay for that because essentially they're -- that's overpricing the bonds, so the county and most municipalities retain this bond premium.

CHAIRMAN KOPEL: I understand, but the penalty, or the giveback for that --

MR. SULLIVAN: There is not a penalty.

CHAIRMAN KOPEL: Not a penalty, I'm sorry, I misspoke, but the giveback or the payback for that is essentially that you're paying extra interest in all the years that you are paying the debt service?

MR. SULLIVAN: Yes, correct.

MS. KEYS: What has happened in the past is, if you have $100 million of projects, you would size the bond at $100 million. If you got 5 million in premium, the county would just keep it so you would have $105 million of fund and you would pay the debt service.

CHAIRMAN KOPEL: You pay additional debt service, as you're paying it back, you're paying additional debt service because of that $5 million that you've kept?

MS. KEYS: Well, yes. What's being done now is if you have $100 million and you get $5 million in premium, you drop the bond size to $95 million, so you're paying less debt service, yes. It's the opposite.

CHAIRMAN KOPEL: Are you saying that this is something that is typically done by most municipalities?

MR. SULLIVAN: It varies back and forth. And I think the real overriding issue here is, you have to look at the fiscal condition of the county. The county has done this as other -- as Tracy just listed, New York City, the MTA, Port Authority, LIPA, entities do this throughout New York State and throughout the country.

If you really want to just boil it down and say, this wasn't the time, to sort of to get religion here, and something the county has been doing for the last 30 years, and it increases the fiscal stress and created a budget problem for us this year.

CHAIRMAN KOPEL: What would gap dictate in this case? Is that a gap issue, is that what this is, is that why NIFA --

MR. SOLOMON: For an issuer like the county that's frequently in the market anyway, they're going to end up getting extra proceeds anyway down the road, so this is them giving it sooner, perhaps at a better rate.

The other point I wanted to mention, even though the county or any issuer who would sell at a premium bond, is paying a higher coupon because you're getting the money up front. The overall borrowing cost works out to be clearly the market yield. So there is no additional debt service.

LEGISLATOR SCHMITT: You testified, at least for the layman's ear, you testified on two separate issues. One is this premium bond and premium over the issuing price, I understand to get the additional funds up front.

But the other, you talk in terms of NIFA held bonds that could be refinanced at a lower rate to generate a savings. How much NIFA bonds could be refinanced?

MR. SOLOMON: Right now we are looking at the rates as they are, about $195 million.

LEGISLATOR SCHMITT: $195 million of NIFA issued debt could be refinanced to a lower rate of interest saving the county approximately how much money?

MR. SOLOMON: Approximately just over $20 million

LEGISLATOR SCHMITT: A year?

MR. SOLOMON: No, total. Depending on when you take those savings, you could take those savings up front for fiscal year '13 or they could be taken over time over the life of the bond issue.

LEGISLATOR SCHMITT: Is this being done?

MR. SULLIVAN: No, it is not being done right now.

LEGISLATOR SCHMITT: Why is this

not being done?

MR. SULLIVAN: I do not know. We have had some conversations and I know we have written to them we are awaiting a response.

LEGISLATOR SCHMITT: So even though it's a county debt that the county is responsible for, we don't retain the right to decide to refinance, that right sits with NIFA?

MR. SULLIVAN: That's right. Even if it was county debt, we would still have to get clearance from NIFA, but this was debt that NIFA issued.

LEGISLATOR SCHMITT: We have formally requested that NIFA do this?

MR. SULLIVAN: Yes, we have apprised them of the market scenarios that I think we just went through with the legislature here.

LEGISLATOR SCHMITT: Have we formally requested the board to approve the refinancing of these bonds?

MR. SULLIVAN: We have sent a

Budget Hearing/7-26-12

letter to the chairman of the board and to staff, and what would have to happen here, obviously they would have to come up with their banker and their bond counsel and, you know, discuss exactly what series we were refinancing there to be a discussion and negotiation, but there are very clear market opportunities here for savings.

LEGISLATOR SCHMITT: I do not understand why the NIFA board, the whole structure of the Nassau Interim Finance Authority was set up to help Nassau County and they're supposed to be overseeing our finances at this stage because we're in a control period.

If there is a step that can be taken to achieve a significant savings, I don't understand what the discussion is about.

MR. SULLIVAN: We are hopeful that they will agree to meet with us and take this up as soon as possible because as Mike and Tracy have both testified, these are historic lows. This isn't within the last ten years. We all know rates have been low. The market has never been this low. Ever. So this is a great time right now.

LEGISLATOR SCHMITT: Could you send me copies of the correspondence that you have sent to NIFA?

MR. SULLIVAN: Yes.

LEGISLATOR SCHMITT: So what is the process here, you just sit and wait forever if they didn't answer you? What is reasonable?

MR. SULLIVAN: Well, before we can enter the market, we need approval from NIFA and this particular instance, what we are talking about refinancing or possibly restructuring here is NIFA debt. So it's their debt. So we would obviously --

LEGISLATOR SCHMITT: But you sent them a letter last week, I assume, or two weeks ago --

MR. SULLIVAN: We notified them earlier. I would say we've had discussions I would say for about three months.

LEGISLATOR SCHMITT: Three

months? So how do you discuss this for three months?

It seems to me that it's on paper. It's a very simple thing. It either is or is not generating a savings. Then they decide we either are or are not going to do it. Why would this take three months? It could take three minutes.

MR. SULLIVAN: We are hopeful that they move on this issue and we continue to call and to inquire about it.

LEGISLATOR SCHMITT: And do we get answers?

MR. SULLIVAN: We have not received an answer yet.

LEGISLATOR SCHMITT: So what can we do about this?

MR. SULLIVAN: I think we continue to push, sir, and I believe everyone is fully engaged in this effort and we think that there is a substantial effort, especially as we head into the budget season here. We are going to be producing a budget on September 15th and I think this could be a very material part of the budget, and it should be a material part of the budget at this point.

LEGISLATOR SCHMITT: I'm getting a little far afield here. If you're dealing with the NIFA chairman not the NIFA board?

MR. SULLIVAN: Again, we would need to meet with their bankers and their attorneys.

LEGISLATOR SCHMITT: I understand, but as of right now, the letter that was sent to the NIFA chairman --

MR. SULLIVAN: I believe so, sir, and I know staff has it, and if staff has it, circulated to the board and then --

LEGISLATOR SCHMITT: Back and forth, back and forth, back and forth. If NIFA doesn't give you an answer or even more weirdly, refuses to do it, what are your options?

MR. SULLIVAN: We cannot enter the market without NIFA approval. We do not have the ability to sell bonds. I think we would keep discussing it and it's something we want to advance in the budget that will be forthcoming in 2013.

LEGISLATOR SCHMITT: I can recognize a filibuster when I see one. I think that there should be -- it's a simple question, and it should be a yes or no question here. Then the county can review our options, if any.

They either do this and we get on with it, or they tell you they're not going to do it, which, of course, they're going to want to know why, and see what we can do about that, if anything. I'd hate to see these opportunities go by --

MR. SULLIVAN: I'm confident that there will be -- the market actually continues to drop. I think when we had these last rounds of discussions, myself, Tracy, Mike and Eric, and Steve and people on our staff, even over the last week or so, the market has even improved further.

So, again, this is very hot right now. So I think now is the time we want to really get this done. So I'm confident that actually it's better now than it was even a month ago.

LEGISLATOR SCHMITT: So you can send us a copy of the correspondence and keep us informed as to the outcome?

MR. SULLIVAN: Yes, sir.

CHAIRMAN KOPEL: I just want to go beyond what Presiding Officer Schmitt just said. Can you conceive of any reason that NIFA wouldn't jump on this opportunity? I mean, that's what they're there for, isn't it?

MR. SULLIVAN: I think in the latest round of discussions we've had with them, I think they realize the merits and this is something that they will come to see as this is the right way to proceed.

CHAIRMAN KOPEL: Our concern and I think everyone is concerned, that here we are with historically low rates, and I don't know what it is they're doing there, but this seems like this is, to use a colloquialism, it's just a no brainer. There's no reason that I can think of, and certainly we've not heard any reason that they ought not to go ahead and just do it. Just say yes and do it.

MR. SULLIVAN: Again, we think right now, and the rates have moved very favorably over the last month or so, and this is really right now, this is where we are going to continue to engage in a discussion.

CHAIRMAN KOPEL: Discuss it, but my question then is, let's just say they don't give in. Let's say they either say no for some strange reason or they continue to use the presiding officer's phrase, a filibuster, they just decline to answer. What is our backup plan?

MR. SULLIVAN: I think that I will continue to apprise this board. Obviously we keep working with our bankers and financial consultant and financial advisor, and if for some reason things turn, we will obviously come to you right away with that.

CHAIRMAN KOPEL: I guess what we

would like to see, we would like to see that this be made as a matter extreme urgency with NIFA and perhaps express the sense of this committee and probably the entire legislature that we're just wasting money here.

MR. SULLIVAN: I will convey that this afternoon, sir.

CHAIRMAN KOPEL: I would love to see something happen this week. Just say yes. I think this is a good time and I believe we can start to put a deal together and to close even before the budget is proposed.

CHAIRMAN KOPEL: And will you get back to us and keep us up to date on that question?

MR. SULLIVAN: Yes.

CHAIRMAN KOPEL: Explain, please, why you carefully explained that we are talking about NIFA bonds and not the other bonds? Why can we not do the other bonds as well?

MR. SOLOMON: The NIFA bonds were

issued, the bonds that we're looking at were issued as far back as 2001 and issued throughout the last decade. So they are the higher coupon, the bonds that have been updated the longest and most seasoned. When you are looking at refunding bonds, the longer the bonds are out there, and the closer they are, when we sell municipal bonds, typically, they're sold with a ten year call date. Right at the call date is the time when you can actually take the bonds away from the investor and replace them with the new bonds.

So the closer an outstanding bond is to its call date, the better and more efficient the refunding is. So throughout the last decade, pretty much NIFA sold all the debt on behalf of the county. It wasn't until '07, '08 that the county began to sell GO bonds on their own general obligation credit. Those bonds wouldn't make sense to refinance at this time, but that is something down the road as we get a little bit --

CHAIRMAN KOPEL: Let's say the bonds that were issued just prior to NIFA, they're still out there, aren't they?

MR. SULLIVAN: I believe a lot of those bonds might have been refunded earlier on the NIFA administration, 2001, 2002. Tease savings opportunities that is correct.

CHAIRMAN KOPEL: So when we're talking about county debt, we're pretty much talking NIFA debt?

MR. SULLIVAN: For these savings opportunities, that is correct.

CHAIRMAN KOPEL: How long would it take, let's say we have a decision we can go ahead and do it. How long does this process take?

MR. SOLOMON: I would say six to eight weeks from start to finish.

CHAIRMAN KOPEL: Obviously nobody knows which way interest rates go. We all think that it looks like it's going to stay pretty low but you never know.

MR. SOLOMON: Correct.

CHAIRMAN KOPEL: So we're kind of

in a danger period. It probably can't get too much lower. Would that be fair to say?

MR. SOLOMON: I mean, I think there is a lot, certainly a lot more downside by waiting than not.

CHAIRMAN KOPEL: A lot more downside by waiting?

MR. SOLOMON: Yes.

CHAIRMAN KOPEL: So we're kind of in a danger period. This might just slip by if we don't do it?

MR. SOLOMON: Right. So if we were to get started on it this week, by mid September, we could be all fully completed.

CHAIRMAN KOPEL: Legislator Nicolello, what we are going to do is concentrate right now on this bond issue and then we will come back and talk about the other things that you discussed a little earlier if that's okay?

LEGISLATOR NICOLELLO: Thank you. Actually, Chairman Kopel asked the questions that I had as well, but has NIFA refinanced any of its debt to date, the debt that it started issuing back in the last decade?

MS. KEYS: They restructured some variable rate bonds that they had when the market corrupted in 2008, they had to refinance some auction rate bonds into variable rate debt, and then later on when some of the banks were supporting that variable rate debt had problems, they replaced some of the LLC banks refinanced their debt on anything that don't, any VRDs that they don't have swapped, they fix those out. I think they still have a VRD portfolio, but I don't think they refinanced their own debt. Again, it's just getting to the point where it's starting to mature to a call period where you could do this.

LEGISLATOR NICOLELLO: The restructuring that went on was not to really to save money, it was just to avoid greater expenses?

MS. KEYS: Pretty much, yes.

LEGISLATOR NICOLELLO: If we are to do this refinancing, does that extend the term of the bond, another ten year period or something like that?

MS. KEYS: No, the final maturity is the same.

LEGISLATOR NICOLELLO: And the $20 million estimate that you're giving, is that above any costs that will be incurred in the refinancing?

MS. KEYS: Right. That's net of any costs.

LEGISLATOR NICOLELLO: Like the chairman said, seems like a no brainer.

MR. SULLIVAN: I just want to add, the $20 million, the 20 plus million is the baseline number. We think there is, as Mike spoke to earlier, the debt is front loaded and then trails off pretty dramatically for the county, that's the portfolio structure, and we think by leveling it out somewhat and doing some restructuring, you know we could have 90 plus million, possibly $150 million over the next three years. So there are opportunities here.

CHAIRMAN KOPEL: So that's not

actual --

MR. SULLIVAN: That would be our restructuring of the debt. But that would not extend the maturity, just a restructuring.

CHAIRMAN KOPEL: Just a different way -- different years of cash flow?

MR. SULLIVAN: Yes.

CHAIRMAN KOPEL: Are any of the sewer bonds included in these NIFA bonds, just out of curiosity?

MS. KEYS: I think we look at that. I think we looked on a preliminary basis. I think there are very few. I think there are only about $40 million of sewer bonds in NIFA debt at all. The chances that we are refunding it is pretty slim, so we did not take them out of this.

CHAIRMAN KOPEL: Because we have had some discussions at other times about repaying some of the sewer bonds if certain plans go forward.

MR. SOLOMON: And we're still looking for that to happen.

CHAIRMAN KOPEL: Okay. But that would not effect this or be effected by it? That's something entirely different?

MS. KEYS: We don't think it's going to happen.

MR. SOLOMON: Yes. Very marginally.

CHAIRMAN KOPEL: Now, you would recommend, I understand you've outlined a few different scenarios as to how these savings would be reaped. You can either spread it out over the entire life of the bond. You can restructure it so that you'd get additional cash flow savings at the beginning besides the actual savings in interest, right, or you could just level out, you could just take the interest that you would be paying over, the additional interest, and just achieve those savings of a few million dollars a year over a bunch of years.

Now, I guess in order to get the biggest bang out of restructuring it and getting the cash flow right away, you'd pay that back in future years? You would actually end up paying the money in future years?

MR. SOLOMON: Right.

CHAIRMAN KOPEL: The second one, as I understand it, would be taking the present value savings, as you called it, and that would be essentially taking the interest savings up front. And the last one would be spreading it out all these years but that certainly would be useful but it wouldn't give you much of a bang and it wouldn't really help you budget-wise, it wouldn't have any significant impact?

MR. SOLOMON: Correct.

CHAIRMAN KOPEL: So, Mr. Sullivan, what would you recommend if we had our druthers, what would you do?

MR. SULLIVAN: We have been in discussion, like I said, the four people here, and Steve Conklin who manages our debt and Connell Denyen who serves as an in-house bond counsel, and I think that everyone is comfortable that the restructuring at this time would provide enormous opportunities for the county. There would be some minimal dis-savings in some of the out years, but we were talking about a substantial benefit in '13, '14 and '15.

Again, when we spoke about the transitional financing for the tax certs, it's the same theory. As a tax cert liability coming in, with the successful defense of the lawsuit, we are confident that that problem over time is mitigated and that is something that is going to provide savings to the county going forward. It makes all the financial sense in the world right now.

CHAIRMAN KOPEL: So right now, to put it this way, we've got to make sure we've still got a county in a few years, and we need the money now, we're hopeful that the economy turns and --

MR. SULLIVAN: That's correct, and we're seeing with sales tax up at 5.9 percent, we think -- obviously it's excellent, and we're a slight bit more

Budget Hearing/7-26-12

conservative than the comptroller going out. We're forecasting a little less of a surplus in sales tax.

But, overall, obviously there is still risk in the economy, but we have to -- when we spoke about the head count before, these are benefits that -- it's obviously putting a lot of stress on the workforce, but with the lower head counts and things like that, structural changes have been made to this county the way that we do business, and with some of the privatization efforts both from the inmate health care, both from the bus privatization, and we're hoping obviously to advance it with respect to a P3 for our sewer system as well.

So we think enormous structural changes have taken place already and we look forward to keep on advancing that forward.

CHAIRMAN KOPEL: All right. Mr. Denenberg.

LEGISLATOR DENENBERG: A long the lines of what the chairman laid out, I'm going to ask questions regarding this

refinancing issue.
This is Mike and Stacy?
MR. SULLIVAN: Tracy Keys.
LEGISLATOR DENENBERG: Mike, what was your last name?
MR. SOLOMON: Solomon.
LEGISLATOR DENENBERG: You both work with the county?
MR. SOLOMON: I'm employed by Ramirez and Company, an investment banking firm and I do work with the county.
LEGISLATOR DENENBERG: And Tracy is?
MS. KEYS: I'm a financial advisor to the county, I work for Public Financial Management, PFM.
LEGISLATOR DENENBERG: Are we paying your time right now?
MS. KEYS: Yes.
LEGISLATOR DENENBERG: I'm almost afraid to ask you a question.
MR. SOLOMON: Not my time.
LEGISLATOR DENENBERG: Not your time but Tracy's time. Okay. So I'm only

going to ask Mike.

My first question is, the NIFA debt, what we call the NIFA debt, would have been anything that NIFA borrowed on behalf of the county in the time period when NIFA could borrow with a better rating than the county could have borrowed?

MR. SOLOMON: Correct. So we're looking at -- our bonds that we're looking to refinance are anywhere from 2001 through 2005, that's the universe.

LEGISLATOR DENENBERG: If there is any savings, instead of amortizing that savings for the recovering savings it would have on our operating expenses, we want to take it all up front, the savings, in the I first year?

MR. SULLIVAN: No, I wouldn't say that. That's something, obviously, we would talk structuring, and I think that we would like to take it over two or three years.

LEGISLATOR DENENBERG: So the 20 million over two or three years?

MR. SULLIVAN: Well, I think we

can do restructuring, and that we could save significantly more than the 20. The 20 would be just a straight up savings from the refinancing.

LEGISLATOR DENENBERG: How much debt are we talking about restructuring? What is the total amount of debt?

MR. SOLOMON: The refunding itself, the pure refunding is about $200 million of bonds. Depending on how much we were to restructure, we could add another 120 to that total.

LEGISLATOR DENENBERG: Meaning borrow more?

MR. SOLOMON: When we do the restructuring, yes. We would be selling bonds to replace other bonds that are coming up on their maturity date.

MS. KEYS: Not new money though, just refunding.

LEGISLATOR DENENBERG: Now I don't understand. So it's 200 million face value we're talking about?

MR. SOLOMON: Yes.

Budget Hearing/7-26-12

LEGISLATOR DENENBERG: So what's this extra 120?

MR. SOLOMON: The 200 million, roughly, that would be what you would sell to refinance the existing NIFA bonds from '01 to '05, bonds sold back then, so to replace the five percent coupons with today's rates, average yield, under two percent, and that $200 million would provide the 20 million of savings that we've been referencing. So that just gets you 20 million and then you could target that 20 million in a specific year or years depending on what the desire is.

LEGISLATOR DENENBERG: What was that other 120 you were just talking about. I want to try to understand that.

MR. SOLOMON: So then, because we are getting a significant amount of savings, you get 20 million of savings on about 200 million refunding, is really really good. Because those savings are so robust, you could use those savings and combine it with what we're calling our restructuring.

In our restructuring, you can look at it as we're selling additional bonds. We're going to pay off bonds that would come due in the next three fiscal years, and so where the county would have paid up to 50 million in debt service on those bonds in the next three years, they would not have that. Instead, the additional 120 we're selling, the county would pay those, or NIFA would pay those out in years, let's say, in 2016 through 2025.

So we're essentially just shifting the debt service out of the next three years when you have a fiscal budget challenge into years that, A, when debt service is much much lower for the county as a whole, and making the debt essentially a little bit more manageable.

LEGISLATOR DENENBERG: So in addition to the $200 million and whatever savings you can because of lower interest rates, you are also restructuring debt to pay less in the first three years and pay more later on?

MR. SOLOMON: That's an option that we discussed, yes.

MR. SULLIVAN: But still, under that structure, the transaction would be -- would produce net present value savings. It is essentially what NIFA did when they came on the scene in 2000 for the first three or four years, I think they produced savings probably in excess of $400 million for the county back then.

LEGISLATOR DENENBERG: Maybe because of reduced interest and the ability to --

MR. SULLIVAN: No. They restructured too. I was there at the time. That's what they did.

LEGISLATOR DENENBERG: Restructured to pay less in recent years and pay more in later years?

MR. SOLOMON: Yes. Sometimes that happens.

LEGISLATOR DENENBERG: I don't remember NIFA --

MR. SOLOMON: It's in the staff

reports. That's pretty standard for them.

LEGISLATOR DENENBERG: Let me ask this then. There are several questions, again, along the lines of what Legislator Kopel said.

I know because I was here when the Sewer and Storm Water Authority was formed, part of the reason was because we were able to get better rates borrowing for sewer treatment capital plans and projects to upgrade our plants by having that authority then going through NIFA because there was better bond rating in the Sewer and Storm Water Authority than NIFA was getting us at the time.

But being that we have debt in '05, '06, '07, whether it was mostly I guess Sewer and Storm Water Authority, and prior county debt, why isn't it, on that debt, why wouldn't it make financial sense -- I would ask Mr. Maragos because my next question has something that you said.

CHAIRMAN KOPEL: George, you almost made it.

Budget Hearing/7-26-12

LEGISLATOR DENENBERG: But at least when I'm looking at that '05 to '09 period, and interest rates were close to the five percent range, why wouldn't we just also be refinancing county debt that was not borrowed through NIFA?

MR. SOLOMON: What's going on too is, bonds that were generally sold, the reason we're only focusing on bonds that were sold in '01 to '05 period, because those make sense for a number of reasons, and one of the main reasons is they have a short period of time between today and their call date, and one of the outcomes of rates being so low, the good part is the borrowing costs are so low, the bad part is, your reinvestment costs are also really really low.

So bonds that were sold in, let's say, '06, '07 and '08, those bonds are probably not callable to 16, 17 and 18, and we would have a very long -- we would have to set bond proceeds aside, put them in an escrow. The escrow would not earn a lot of interest and that would drag down the savings in the whole deal. So that wouldn't work now, but could perhaps down the road a little bit.

LEGISLATOR DENENBERG: And you say that it's okay when it comes to the NIFA debt because we're talking about older debt?

MR. SOLOMON: Right. Exactly. The longest escrow we have is about two and a half years. So that makes it work. A lot of the bonds have call dates in 2013. So about a year and a half is the call date. Those get really really efficient, and that's why we're really only targeting those bonds.

LEGISLATOR DENENBERG: First, as a comment, I wold ask Mr. Sullivan, any letter or any formal request to NIFA to consider this plan and any fiscal plan that was presented to NIFA for approval with respect to the restructuring slash refinancing that we're talking about, I will like to see. I would like to see when we gave a formal request or letter and I would

Budget Hearing/7-26-12

like to see what plan or finances were presented to NIFA. I'm repeating what Legislator Schmitt said. I just want to make sure that's not just the letter. I want to see whatever documentary support was given to NIFA, okay, Mr. Sullivan?

MR. SULLIVAN: And as I stated before, just to be clear, before you can make a formal request to NIFA, we obviously alerted them to the series that we're discussing here, we've gone through bond council in addition to our financial advisor and several banks including Ramirez.

At that point, we would need to speak with NIFA's counsel, which I think is sitting on these deals and we would also have to talk to Goldman Sacks who was the bank that issued the lion share of their debt.

LEGISLATOR DENENBERG: You have to talk to them about all of this before you an show us what was sent to NIFA?

MR. SULLIVAN: No, sir. But you can't before you do NIFA, it would be incumbent upon NIFA, it's their debt to show us their analysis, we've showed them our analysis, sir.

LEGISLATOR DENENBERG: Well, along those lines, let me just give you two questions. Number one, how often under the law that created NIFA can NIFA refinance its debt, how many times? Are they limited to only one time? Was it used up already, or is there a total of only one?

Mr. Stack, as recently as last year was quoted in various places as saying this $20 million figure, which was given to them as early as December 2010, as a figure -- or some time last year. I think it was as part of the '11 budget cycle maybe, stated that the $20 million figure, this is Ronald Stack, the chairman, was grossly inaccurate and that NIFA was not subject to the same refinancing rules that would apply to a homeowner.

Stack went on to say that such a refinancing would yield only $43,000 in savings in 2011 which would be offset by negative arbitrage given current reinvestment rates.

I'm not speaking for him, I'm quoting him. There was obviously some dialogue that I would assume that Mr. Solomon and Ms. Keys might have been part of. So what was Mr. Stack referring to?

MR. SOLOMON: Clearly that came from one of my competitors. A lot has happened since the time you stated. A, rates have really come down quite a bit. I think since that time rates have probably come down roughly, almost a full percent. So to the extent that --

LEGISLATOR DENENBERG: So Mr. Stack would probably say that it was good that he waited.

MR. SULLIVAN: You might say that.

LEGISLATOR DENENBERG: I can guarantee you he did.

MR. SOLOMON: Right. So you have what has gone on since the fourth quarter versus where we are today as rates really have come down, and I think the other important point, and Tracy alluded to it, we've had the county's bond counsel really go through and do a formal tax analysis on what bonds could be refunded, because anyone looking at NIFA's debt, what happens is, they issue it for many many different purposes. So you couldn't assume that all those bonds could be refunded.

So we have now drilled down on what is refundable and 20 million is a good number. I hope that that answered your question.

LEGISLATOR DENENBERG: I think it did. Obviously it shows that as recently as last year, a few months ago, to as much as 14 months ago, Mr. Stack was saying that he didn't believe in this $20 million figure, but maybe his opinions changed. Clearly we were trying to do this even when the rates were higher than they are today, and by "we" I don't mean the legislature, I mean the administration.

So clearly the administration was offering this suggestion even over a year ago and rates, I guess the argument could not have gotten worse with rates going down.

But that takes me to something I might not have understood that Comptroller Maragos said, in terms of that preferable time for rate swaps, might have been early to mid 2010 and now might not be a good time.

I don't want to quote you out of context, Mr. Maragos, but I did hear you say that in response to questions I believe from Mr. Schmitt, and maybe to a lesser extent myself, but I'm sure to Mr. Schmitt.

So are we talking about the same thing, or are we talking about something else?

MR. SULLIVAN: I can address that. Just the bonds that are in question here, none of them are in any swaps. This is debt that is -- there is no swaps attached to any of this.

LEGISLATOR DENENBERG: So Mr.

Budget Hearing/7-26-12

Maragos was talking about the county debt, maybe some of the county direct at --

MR. SULLIVAN: Well, we don't have any debt that's swapped -- the county, per se, the hospital and NIFA does. As I think the comptroller stated, right now, to turn out the swaps, there would be some substantial penalties, and actually the variable rate is actually performing well. There is a term out provision and there is risk, but right now it is something that would be not wise to --

LEGISLATOR DENENBERG: What debt would have been subject to those swaps then?

MR. SOLOMON: I don't have the specifics in front of me --

LEGISLATOR DENENBERG: He's here. He can answer.

MR. MARAGOS: It's approximately $600 million of NIFA debt that is backed by swaps out of a total of $1.7 billion.

LEGISLATOR DENENBERG: So $600 million of the $1.7 billion which is subject to those swaps you don't believe would be a

Budget Hearing/7-26-12

good time now to act upon, but the other
that is --

MR. MARAGOS: That's correct, it
would be very expensive, and as Tim Sullivan
indicated, they are performing well. So
they're talking about approximately $200
million above the $600 million.

LEGISLATOR DENENBERG: Which is
the 200 million that Tracy Keys spoke of?

MR. MARAGOS: Correct.

MS. KEYS: Let me tell you one
thing. If NIFA were to terminate the swaps
right now in today's rates, it would cost
$94 million. So it's not a good time.

MR. MARAGOS: My estimation was
80 to $100 million. So it fluctuates. Back
in 2010, was about 14 to 18 million.

LEGISLATOR DENENBERG: How much,
Mr. Sullivan or Mr. Solomon, how much would
we be paying on that 200 million to
refinance in fees, associated costs?

MR. SOLOMON: We assumed in our
analysis roughly all costs of issuance would
be approximately one percent of the

financing, so about 1.7 million. So that the 20 million of savings is over and above that.

LEGISLATOR DENENBERG: Mr. Sullivan said that he thought it was net.

MR. SOLOMON: It is net, that is correct.

LEGISLATOR DENENBERG: The rest of my questions are non NIFA debt related.

CHAIRMAN KOPEL: So you, Mr. Solomon, Ms. Keys, thanks so much. You are officially relieved.

MR. SOLOMON: Thank you.

MS. KEYS: Thank you.

CHAIRMAN KOPEL: We can let you go as well, but the legislator has one more question for you.

LEGISLATOR DENENBERG: Last year, and I was going to ask this of Mr. Sullivan with you here to see if there was agreement, but I will ask you now so you could leave.

Last year at the end of ten and into the budget review in early '11, I had asked about what the total was on the tax cert, now I'm forgetting the word, the cumulative tax cert, what was the word we used for it? Not the long term.

MR. MARAGOS: The cumulative long term liability.

LEGISLATOR DENENBERG: Right. It was in the 140 millions, I believe in December of 2010 is something that you said.

What are we at now in cumulative tax cert debt?

MR. MARAGOS: We actually were thinking of you when we prepared this report. If you turn to the page that has the table.

LEGISLATOR DENENBERG: I can't believe you were thinking of me otherwise you would have given it to me. What page, Mr. Maragos?

MR. MARAGOS: Page 14, bottom of 13. Property tax refund Section 3.7, long term property tax refund liability.

LEGISLATOR DENENBERG: So the balance at the end of 2009, I remember us discussing 164 million; 2010, 152. So at the end of 2011, the property tax refund liability is 223?

MR. MARAGOS: Right.

LEGISLATOR DENENBERG: The end of 2012, it's estimated to be 336?

MR. MARAGOS: Right. Because, as you see, we paid a small amount, or estimating to pay a small amount in 2012.

LEGISLATOR DENENBERG: Thank you.

MR. MARAGOS: We are thinking of you.

CHAIRMAN KOPEL: Mr. Sullivan, the overtime that we're showing, going back over all the overtime you mentioned, where is that coming from primarily?

MR. SULLIVAN: Mostly it would be the police department and the correctional department, and I just want to give a little bit of a historical perspective because I think overtime this year, I think the budget review office is even projecting, I believe it's down to $2 million from last year. So we are spending less than we did last year.

Just from a historical

Budget Hearing/7-26-12

perspective, I think this is really important to note. Back in 2004, overtime for the police department was $52 million, with 2,433 sworn officers. So about 150 more sworn officers out there, and currently we are projected to spend $4 million less this year with 150 less officers after eight raises.

So if you give, and I guess the contracts were settling somewhere around four percent, you compound that, you can take a guesstimate that that's about 40 percent. So you're talking about a payroll base of 40 percent. So salaries being higher by 40 percent. 150 less officers, and we're spending $4 million less.

CHAIRMAN KOPEL: If you look at the other unions, they're not contributing heavily to overtime?

MR. SULLIVAN: No. The lion's share of the overtime would be police and corrections.

CHAIRMAN KOPEL: Is that just an artifact of their contract, in other words because of -- the minimum manning rule?

MR. SULLIVAN: The minimum manning rule is obviously a central component to that.

CHAIRMAN KOPEL: It's a large culprit?

MR. SULLIVAN: Yes.

CHAIRMAN KOPEL: So a lot of that overtime I guess should be going away, certainly as the precinct consolidation comes to total fruition, would that be correct?

MR. SULLIVAN: We think some, but obviously we're still maintaining 177 sectors, and I think the big thing would be if we could get the change in the manning requirement, that was something that would really be the driver here.

CHAIRMAN KOPEL: How is that going?

MR. SULLIVAN: I know we are constantly in discussions. I know I've been in some discussions. Eric Naughton has been in discussions.

CHAIRMAN KOPEL: So we have a bunch of unions in the county, and it seem to me -- let me ask you this. Which are the ones that are being helpful and cooperative and which are the ones that are not?

MR. SULLIVAN: That's a loaded question. I would say we are in discussions with all the various unions.

CHAIRMAN KOPEL: It seems like the police union is being particularly difficult.

MR. SULLIVAN: I wouldn't comment, sir. I think we're all in discussions right now and until we have --

CHAIRMAN KOPEL: I said it seems to me. That's what I said. But since they are producing the bulk of the overtime -- now, when is their contract up?

MR. SULLIVAN: All contracts expire January 1st, 2016.

CHAIRMAN KOPEL: So we're going kind of stuck for a while?

MR. SULLIVAN: Unless there are some agreements that are reached.

Budget Hearing/7-26-12

CHAIRMAN KOPEL: And even then, we got the Triboro which means you are only negotiating up, never down?

MR. SULLIVAN: Well, hopefully, we can change the paradigm, but obviously it puts pressure on the management side.

CHAIRMAN KOPEL: Can you talk about the rainy day fund and the reserve fund? We've had to withdraw tremendous amounts of money because of the '11 deficit. Going forward, what has to be done and how does that figure into the budget projections?

MR. SULLIVAN: Well, the fund balance, what you're referring to, that was the $50.4 million deficit will be drawn down on a fund balance, taking our fund balance down to approximately $40 million.

As I stated before, and as stated in the presentation here, the plan was, I think it's very important for this county to get back on plan. The plan was and agreed upon and with NIFA, and you saw the saving from the directors to transitionally borrow

Budget Hearing/7-26-12

$305 million for tax certioris and that is a key, extremely key component here.

CHAIRMAN KOPEL: In other words, that will enable the county to replenish that fund?

MR. SULLIVAN: Yes, prevent further drainage.

CHAIRMAN KOPEL: Mr. Denenberg, any more questions?

LEGISLATOR DENENBERG: Thank you. First, let's talk about overtime. 2011. Budgeted overtime was how much?

MR. SULLIVAN: I know the actual has come, we are projecting two million less. I think that we spent $78 million from all quarters in overtime in 2011.

LEGISLATOR DENENBERG: What did we budget for?

MR. SULLIVAN: Somewhat less than that, sir.

LEGISLATOR DENENBERG: When you say somewhat less than that, did we project 30 million, $40 million?

MR. SULLIVAN: Off the top of my

head, I don't have the numbers with me. The police department was probably 7 or 8 over budget and correction a couple.

LEGISLATOR DENENBERG: Would it surprise you if we were more than $10 million over budget in overtime?

MR. SULLIVAN: No. It seems somewhere around there, sir. Again, as I pointed out here, back to 2004, the county is spending less now with a substantially higher payroll base and also with less personnel.

LEGISLATOR DENENBERG: We were ten million over budget in 2011?

MR. SULLIVAN: That's correct.

LEGISLATOR DENENBERG: On labor, payroll and fringe benefits, how much were we over budget in 2011?

MR. SULLIVAN: I don't think we were over budget at all. We just talked about a deficit that was primarily driven by the lack of tax cert funding for 2011.

LEGISLATOR DENENBERG: You mean lack of borrowing?

Budget Hearing/7-26-12

MR. SULLIVAN: Lack of tax cert transitional financing that was agreed to in the multi-year plan.

LEGISLATOR DENENBERG: Borrowing?

MR. SULLIVAN: Well, as you know, we have a billion two on the books, and this administration has borrowed far less than anybody else.

LEGISLATOR DENENBERG: I'm looking at the budget. You were ten million over on overtime and you're four million over on payroll for 2011.

MR. SULLIVAN: Sir, when we look at the bucket in aggregate, we're talking about a $50 million deficit as the comptroller testified to and we know about the $7 million error and the other $43 million was agreed upon.

I think there was an agreement reached with the minority of the legislature as well that we did not get that financing.

LEGISLATOR DENENBERG: Wait a second. I'm looking at a budget, either yes or no on whether the payroll was four million over budget. I know you want to keep talking about borrowing that you want to do and you think that's great for our budget.

I want to ask about something that I think is bad for a budget that everyone could agree upon. Expenses being higher than what was budgeted. Payroll and fringe benefits was $4 million over budget, yes or no?

MR. SULLIVAN: I don't have that data in front of me, sir, but I will trust that you guys can do that right.

LEGISLATOR DENENBERG: Really? It's a budget review committee hearing. We're about to announce --

MR. SULLIVAN: You're asking about 2011. The agenda spoke about that I would be speaking to the 2012 budget and prospective actions to be taken. That was the agenda I received, sir.

LEGISLATOR DENENBERG: So why do you keep talking about your $50 million deficit from last year --

Budget Hearing/7-26-12

MR. SULLIVAN: You're asking me 2011 questions, sir.

LEGISLATOR DENENBERG: -- and try to blame it on a lack of borrowing.

MR. SULLIVAN: It's obvious that's where it came from.

LEGISLATOR DENENBERG: It's crazy.

MR. SULLIVAN: No, that was in response to your question, sir.

LEGISLATOR DENENBERG: The tax or fee that you wanted to impose on tax exempts to use our sewers, that was never imposed, correct?

MR. SULLIVAN: I believe it's in litigation, sir.

LEGISLATOR DENENBERG: That was budgeted to bring in $20 million worth of revenue in 2011 and 40 in 2012, correct?

MR. SULLIVAN: Initially, that's correct.

LEGISLATOR DENENBERG: We got zero in 2011?

MR. SULLIVAN: We are prevented

from litigation, as you are well aware of, from imposing that fee.

LEGISLATOR DENENBERG: And we got zero in 2011, correct?

MR. SULLIVAN: That is correct because it's under litigation.

LEGISLATOR DENENBERG: But you lose it, right? You're up here and I said that I didn't expect -- tax exempts to sue and say it was a tax.

MR. SULLIVAN: I don't think that the case has been decided.

LEGISLATOR DENENBERG: But the court has issued an injunction saying that the county is likely to lose. That it's illegal.

MR. SULLIVAN: I don't think that we're likely to lose.

LEGISLATOR DENENBERG: So we're doing good in court?

MR. SULLIVAN: You would have to ask the county attorney that. I couldn't answer that.

LEGISLATOR DENENBERG: So why

don't we just stick with the question. $20 million budgeted in in 2011, we got zero, correct?

MR. SULLIVAN: As a result of an injunction, that is correct.

LEGISLATOR DENENBERG: We got zero, correct.

MR. SULLIVAN: As a result of an injunction, yes.

LEGISLATOR DENENBERG: Why can't you just say yes?

MR. SULLIVAN: I said yes, as a result of an injunction. I can't say it anymore times. You can ask it eight times, but I will give you the same answer eight times.

LEGISLATOR DENENBERG: So you lost in court, we got zero? You want to get into it?

MR. SULLIVAN: We didn't lose in court. I think that's a misrepresentation.

LEGISLATOR DENENBERG: 2012 you're still budgeting $40 million to this sewer district for the tax exempt fees?

Budget Hearing/7-26-12

MR. SULLIVAN: I believe that's correct.

LEGISLATOR DENENBERG: What's are the chances of us getting that $40 million in 2012?

MR. SULLIVAN: I would have to speak to the county attorney, it's still in court, and we can levy that fee, sir, when the injunction is lifted.

And I would just -- to speak to that point, since we keep asking the same question, we are the only, only, municipality in the country that does not charge not for profits for sewer services. The only municipality in the nation.

LEGISLATOR DENENBERG: Each of those municipalities also charge the general residents, all residents, across the board, a rate instead of a tax.

MR. SULLIVAN: There is different models on that.

LEGISLATOR DENENBERG: Are you proposing charging everybody a rate?

MR. SULLIVAN: We are proposing,

sir, we will discuss that when we propose our budget. But right now that is based on assessed valuations, and that is how we intended to go forward.

LEGISLATOR DENENBERG: I'm reading an RFI that you sent out that says that the county is considering charging everyone a rate, not just tax exempts.

MR. SULLIVAN: What is that, sir, that you're referring to?

LEGISLATOR DENENBERG: Page nine of the request for interest on a financier, a document that was put out on June 16th under the seal of County of Nassau.

MR. SULLIVAN: Sir, it's my understanding that that is something we're looking at, that is something the bank was looking at just from a prospective. But it's not the intent of the county to go in that direction, that the homeowners will continue to be assessed for services as they have been assessed.

LEGISLATOR DENENBERG: So on the 2012 budget, we are still anticipating $40 million of revenue for the charge to tax exempts, correct?

MR. SULLIVAN: That was budgeted, sir, as you asked four times.

LEGISLATOR DENENBERG: And that budget, that 40 million was going to be transferred to the general fund from the sewer district fund?

MR. SULLIVAN: No.

LEGISLATOR DENENBERG: Then what's the $38 million of budgeted transfer from the sewer district fund to the general fund?

MR. SULLIVAN: That's service expenses that I think the comptroller spoke to. Debt service expense that we pay out of the general fund and then it gets reimbursed for the sewer debt.

LEGISLATOR DENENBERG: Is that where the double charge was last year?

MR. SULLIVAN: I believe so. It was an error.

LEGISLATOR DENENBERG: Do you believe that double charge or error of $7 million, that that's an accurate figure?

MR. SULLIVAN: To the best of my understanding, yes, this has been looked at by the auditors as well, yes.

LEGISLATOR DENENBERG: I see over 20 million that was transferred. You're saying that most of that transfer was general fund charges for the sewer district?

MR. SULLIVAN: It's debt service expenses, the lion's share, when you borrow a project and you pay the debt service on it.

LEGISLATOR DENENBERG: Why doesn't the sewer authority pay it directly?

MR. SULLIVAN: The county has always historically funded its debt service expense out of the general fund.

LEGISLATOR DENENBERG: What are we going to do to make up for the $40 million if we don't get that $40 million?

MR. SULLIVAN: Well, sir, as you know, we are looking to do a P3. We know that the county has been eroding that fund balance for the past seven or eight years and this is something that we need to address and I think the county executive has been out there to say that we have identified an operator that can bring substantial savings to the county and we believe a step forward to get a concessionaire will result in significant savings for rate payers.

LEGISLATOR DENENBERG: The fund balance in the sewer district was $100 million in 2010?

MR. SULLIVAN: Yes, and it was substantially larger before that.

LEGISLATOR DENENBERG: I'm going to ask a question. I understand you want to answer what you want to answer, but was it $100 million in 2010 or not?

MR. SULLIVAN: As I stated I believe it was substantially larger before that.

LEGISLATOR DENENBERG: Very good, Tim. What is it now?

MR. SULLIVAN: 71 million, I think.

Budget Hearing/7-26-12

LEGISLATOR DENENBERG: How much do we plan to use this year of the reserve?

MR. SULLIVAN: I think it's about 12 to 14 million, sir.

LEGISLATOR DENENBERG: So somewhere around 50 to 55?

MR. SULLIVAN: That is correct. And I can get you all the historical actuals on it to show the run down for the last seven years.

LEGISLATOR DENENBERG: So that, to me, sounds like it's substantially less than $100 million.

MR. SULLIVAN: If the sewers right now were not collecting it's a money loser. We're well aware of it which is why we proposed a P3.

LEGISLATOR DENENBERG: I disagree with you. I don't believe we are losing money on it. I believe we have contractual services of 24 million. I believe there's obviously debt in there but also there's these interfund transfers of almost $40 million which I just don't understand why

Budget Hearing/7-26-12

we're transferring that much money.

LEGISLATOR DENENBERG: We can meet with you and go over it point by point.

LEGISLATOR DENENBERG: No. I'm looking down you have salaries as a budgeted item in the sewer district. You have debt, principal and interest in the sewer district. So this concept that we are transferring 40 or 38 million to the general fund to pay for sewer debt is the exact double billing that Mr. Chalmers I believe caught.

MR. SULLIVAN: Sir, it was an error. There was a debt in the county if you want to know the true reason.

LEGISLATOR DENENBERG: If I look in the multi-year plan, Exhibit-F, and if I look in the current budget, that same exhibit, but I don't know what it's called, the overall sewer district expense of 162 includes interest, principal, contractual expenses, salaries, fringe benefits, overtime, and then a $40 million transfer to the general fund, which you say is because you use the general fund to pay principal and interest.

But we are already showing principal and interest as an expense. So why is there a $40 million transfer on top of the principal and interest?

MR. SULLIVAN: I'm going to ask Steve Conklin to come up. Steve is our debt manager, and I think Steve can walk this through for you.

MR. CONKLIN: Hi. Steve Conklin, debt manager. I can get you the exact number, but with the sewer related debt, there is five issuers. There's the authority, which on its own financial statement, the debt service is recorded there, different from what you're talking about, but, just to list them.

Then some time we issued to EFC for sewer debt there's, under the county GO, there is sewer debt, and then in the past we've issued, as part of a county issue, a sewer district series, I think I got five pieces.

So what you would see in the sewer district fund, there is debt service for debt that was issued under sewer series and the EFC. The charge back is for county debt and NIFA debt that were issued for sewer district purposes which is paid for by the county, so that's why you see debt service in the sewer district and a charge back for debt service for debt was issued by the county or NIFA.

LEGISLATOR DENENBERG: First of all, after 2005 roughly, or after 2004, the Sewer and Storm Water Authority created -- and I can see principal and interest coming straight out of the authority to pay that debt. That's about 15 or 16 million.

Then I see 26 million in debt in the sewer district, principal and interest. Now you're saying that there's $40 million worth of principal and interest that's paid out of the general fund?

MR. CONKLIN: In total, for sewer related debt, there is about $50 million of debt service each year in total.

LEGISLATOR DENENBERG: But if I'm adding just the 26 and 16 together, 16 from Sewer and Storm Water Authority, 26 in the district, that's 42, that would leave you $8 million extra. Yet we're transferring $40 million to the general fund.

MR. CONKLIN: I can get you a breakdown of those numbers.

LEGISLATOR DENENBERG: Because I'm showing the budget, and I see, even taking your numbers as true, over $30 million being transferred from a sewer district to a general fund.

MR. CONKLIN: I mean, there are other charges in that that I don't do, but I can get you those numbers. But I can't tell you those numbers are accurate for the debt service.

LEGISLATOR DENENBERG: I'll stick with your $50 million. I see actually 43 being accounted for between Sewer and Storm Water Authority and Sewer District. So trying to find a $40 million transfer.

MR. CONKLIN: Okay. We can do

that.

LEGISLATOR DENENBERG: This year's overtime, Mr. Sullivan, since you are prepared for 2012, what do we have for overtime this year?

MR. NAUGHTON: Approximately $70 million.

LEGISLATOR DENENBERG: Budgeted?

MR. NAUGHTON: $70 million is our projection. I think, Legislator Denenberg, to keep looking at the budget, I think you may want to continue to do that, but clearly the message here is, last year's spending was about $77.7 million, this year is projected to be 70. For the county on an overtime basis is $7 million better.

The Office of Legislative Budget Review in their report is saying that we were at least $2 million better. If you read the report further it says that the police department will probably charge an additional $2 million of their overtime to grants which means that, in their eyes, overtime for the police department is roughly about $48 million which is what we're projecting.

SO all parties are stating that overtime this year is better than last year. I think we will all admit that we have exceeded the budget so hopefully that will prevent any more of your questions on the overtime budget.

LEGISLATOR DENENBERG: Thanks for telling me what will prevent my questions. I do appreciate that. I'm going to ask again then, what did we budget for overtime this year?

MR. NAUGHTON: The overtime budget is 44 and a half million dollars.

LEGISLATOR DENENBERG: $44.5 million. How much have we spent on overtime in the first six months this year?

MR. NAUGHTON: 28.8.

LEGISLATOR DENENBERG: How much did we budget for --

MR. SULLIVAN: Just one note there, there was 19 million that was budgeted in a reserve fund for police

Budget Hearing/7-26-12

overtime.

LEGISLATOR DENENBERG: 19 million in a reserve fund for police overtime?

MR. NAUGHTON: Yes. The contingency line.

LEGISLATOR DENENBERG: So the comptroller anticipates that by year end the overtime will be 66.5 million. You may not have his report any earlier than I did.

MR. NAUGHTON: I don't have it at all.

LEGISLATOR DENENBERG: I'm looking at it. I got it. You saw when I got. You were here.

MR. SULLIVAN: If it was in the mid 70s, and Eric said 70 and the comptroller said 66, I think I like his number.

LEGISLATOR DENENBERG: First of all, the comptroller said that the budgeted overtime was 39.9, not 44.5.

MR. NAUGHTON: I believe he's only referring to police. I'm not looking at his report so you have to --

Budget Hearing/7-26-12

LEGISLATOR DENENBERG: So you gave me for everything. What do you project the overtime to be by year end?

MR. NAUGHTON: The 70.9.

LEGISLATOR DENENBERG: So his 66.5 was just police and corrections?

MR. NAUGHTON: Yes.

LEGISLATOR DENENBERG: I'm looking at it, it's just police and corrections. So we would be, based on that, we would be more than $26 million over budget?

MR. NAUGHTON: Yes, based on our numbers.

LEGISLATOR DENENBERG: What would we be over budget for payroll and fringe benefits? I believe the budget is 1.16.

MR. SULLIVAN: I just think that it's important to note at this juncture that we are projecting to be on budget balance this year. So if you go line by line all budgets are made up. There are tens of thousands of lines. You're going to see some surpluses, you're going to see some deficits.

Through this extraordinary time, again, when we budgeted, 85 million was the transitional contemplated number there. We didn't get anything for tax cert financing, when you see the heads down to 7,300. To come in on budget balance is significant.

LEGISLATOR DENENBERG: Mr. Sullivan, my question to you during the budget hearings was, do you believe 39.9 million was adequate for police and correctional center, and you said more than adequate.

MR. SULLIVAN: No, I did -- not for police and correctional center.

LEGISLATOR DENENBERG: I asked about that specifically,

MR. SULLIVAN: Wait, wait. Just one second. This is key. The proposed budget was different than the adopted budget. The proposed budget had 65 to 68 million in health insurance concessions. It was a radically different budget.

When the budget went through an

Budget Hearing/7-26-12

adoption iteration with NIFA, it was basically -- we turned the budget on its head. The union givebacks that they would not accept, those were things that were taken out of the budget and we went for 150 million of labor savings.

So, again, that was just a structurally different budget. I think when we spoke, it was on a proposed budget. So it's a different document.

LEGISLATOR DENENBERG: Either way, you stated on the record that we can manage within the overtime number that was projected.

MR. SULLIVAN: But, sir, again, that was in a budget that contemplated action to eliminate minimum manning and things like that, the original proposed budget.

LEGISLATOR DENENBERG: But the final budget adopted had already taken that out, is that correct?

MR. SULLIVAN: That's correct, and was replaced with $150 million in labor savings negotiated with NIFA.

LEGISLATOR DENENBERG: So you had 39.9 million for police and correctional center?

MR. SULLIVAN: Again, as I stated, it was 19 million in reserve fund, the contingency fund, as I stated that, it is there for overtime.

LEGISLATOR DENENBERG: So in your eyes, overtime is not over budget?

MR. SULLIVAN: In my eyes, overtime is one of the more successful achievements of this administration. I gave you the numbers earlier and it was 2433 at 52 million. 40 percent higher payroll and 4 million less in overtime and it wasn't like I think they managed it well. So I think the achievement part, the police department, the correctional center now, anyone who has been here for a while, and I know you have been, sir, correctional center overtime coming in under 16 million, what are we talking about, 14 million, those are great numbers. I'm actually pleased with the overtime.

LEGISLATOR DENENBERG: I guess I'm beginning to see where the county problems in my eyes come in because I look at something that's projected to be $27 million over budget, and $50 million over budget --

MR. SULLIVAN: Again, sir, when there's a contingency set up --

LEGISLATOR DENENBERG: When there is a problem, and you look at that as a success --

MR. SULLIVAN: Sir, if you want to compare it to a former --

LEGISLATOR DENENBERG: And if 77 million --

MR. SULLIVAN: That's not accurate.

LEGISLATOR DENENBERG: To me, 77 million over budget is a fiscal disaster, and to you it's a success. So that's really where our difference is.

MR. SULLIVAN: I can find statements from you on the record probably

Budget Hearing/7-26-12

commending the former administration on overtime control, sir, and if we're --

MR. SULLIVAN: You're so focused on the prior administration.

MR. SULLIVAN: I'm not.

LEGISLATOR DENENBERG: Tell me how the prior county executive, Mr. Suozzi, is responsible for your labor costs being $77 million over budget, did he come in and fix the books here?

MR. SULLIVAN: First of all, again, we've reduced labor costs --

LEGISLATOR DENENBERG: You keep talking about the prior administration --

MR. SULLIVAN: Sir, we didn't do the contracts either if you want to talk about that. Who does six year contracts? Come on.

CHAIRMAN KOPEL: One minute. One minute.

LEGISLATOR DENENBERG: The contract that Mr. Mangano voted for?

CHAIRMAN KOPEL: Let's hold on here a second. Mr. Sullivan, please don't answer the questions. Let's hold on for a minute.

Mr. Denenberg, if you want to ask a question, you've got to let him answer. If you don't want to let him answer, we'll let you make a speech. Let us know when you want to start and finish.

CHAIRMAN KOPEL: Quite to the contrary, Mr. Kopel. You've allowed Mr. Sullivan to make a speech about what took place in 2000 as an answer to every one of my questions about 2012.

CHAIRMAN KOPEL: You know, if you asked the same question 12 times changing the wording, and --

LEGISLATOR DENENBERG: To get an answer that I can't get.

CHAIRMAN KOPEL: Then one would figure that it's time to move on.

LEGISLATOR DENENBERG: No, sir. If I'm asking what the deficit is this year, then I'm entitled to an answer. And you, as chairman of the committee, might say, it's okay, Mr. Sullivan, keep avoiding the question, and keep talking about the --

MR. SULLIVAN: Sir, in response to that, we are projecting a budget surplus this year.

CHAIRMAN KOPEL: And once you're done with the question, let's stop. I'm not interested in having this go on until next Wednesday without it actually accomplishing anything. Answer the question and then move on. When you answer it, don't answer it again.

LEGISLATOR DENENBERG: I'm sorry, are you done? You quoted NIFA earlier as stating that it would accept borrowing on a transitional basis. The statement that you read from NIFA stated that as of condition to achieving $150 million worth of savings by February 1st, 2012, NIFA would approve, what you said, a certain level of borrowing during a transitional period.

How much savings was achieved by February 1st, 2012?

MR. SULLIVAN: I don't believe we had the full 150 by then, but, again, when you are reducing the head count as we're aggressively doing, sir, it would be pretty disastrous to do that fast to the county and I think as Mr. Naughton presented, that we think we've met the NIFA number and exceeded the target right now.

LEGISLATOR DENENBERG: You think that right now we've saved, right now, July 26, 2012, we've saved over $150 million?

MR. SULLIVAN: Yes, we do.

LEGISLATOR DENENBERG: Right now, today?

MR. SULLIVAN: Yes. And, again, just a little background on the budget, when we did the budget, the gap was $150 million and, as we stated before, the initial budget had proposed savings and health insurance, to contracts, such as minimum manning, that, currently, if we were to do the budget again, other things have been performing well, such as sales tax, such as reduced borrowing, such as reduced borrowing costs, so there is over a $50 million pickup from those two items, so I think we do have to recognize those items.

LEGISLATOR DENENBERG: Just to ask the question again, right now, July 26, 2012 --

MR. SULLIVAN: I said yes, sir.

LEGISLATOR DENENBERG: -- we've achieved the 150?

MR. SULLIVAN: Yes.

LEGISLATOR DENENBERG: As of today, not as of a future date based on a projection?

MR. SULLIVAN: I have answered it four times.

LEGISLATOR DENENBERG: So the answer is yes?

MR. SULLIVAN: For the fifth time, yes.

LEGISLATOR DENENBERG: Well, to date, NIFA has said you only achieved 90 million, I guess you feel that NIFA is wrong, and --

MR. NAUGHTON: Excuse me, Mr. Denenberg, you said to date. You're stating I believe from probably two months ago.

LEGISLATOR DENENBERG: So in the last two months, we saved $60 million?

MR. NAUGHTON: On an annual basis, yes.

LEGISLATOR DENENBERG: I just asked Mr. Sullivan if it was based on a projection or right now. You're saying on an annual basis, so that means you're projecting savings later on in this year.

MR. NAUGHTON: For what the savings are worth, it worth $150 million.

LEGISLATOR DENENBERG: Projected over the rest of this year.

MR. SULLIVAN: If you terminate an employee, sir, at $100,000, we would say that you saved $100,000. That's what we would say.

LEGISLATOR DENENBERG: Who did we terminate?

MR. SULLIVAN: Obviously layoffs, we're going to be terminating people, and we've done layoffs earlier this year, as you're well aware, the legislature voted on layoffs.

LEGISLATOR DENENBERG: I thought that we were talking about additional layoffs.

MR. SULLIVAN: We are.

LEGISLATOR DENENBERG: When are those going to take place?

MR. SULLIVAN: We would anticipate somewhere around the time of the budget, around September.

LEGISLATOR DENENBERG: September?

MR. SULLIVAN: I did say that, yes.

LEGISLATOR DENENBERG: Based on a document from Mr. Chalmers to Mr. Kopel and all members of this committee, as of today, which is July 26, 2012, a 26.2 million deficit in salaries primarily results from 61.3 million budgeted in labor savings that were not fully achieved. That's the independent office of budget review stating that we did not achieve the 150. We're still 61.13 million in budgeted labor savings not fully achieved.

MR. CHALMERS: That was for 2011,

not 2012.

MR. SULLIVAN: Thank you.

LEGISLATOR DENENBERG: So, right, Mr. Chalmers, if that's for 2011, as long as you came up, have we achieved $150 million worth of savings that NIFA required on February 1st, 2012?

MR. CHALMERS: On the meeting on Monday we requested the backup for the 120. We should be getting it, and when we do we will compare and put our numbers together to see what the number is. NIFA believes it's 90, the administration believes it's 120. They said they would provide it.

LEGISLATOR DENENBERG: What do you think it is right now, based on the information you have to date?

MR. CHALMERS: I would rather wait until I get their number and put a number to it.

LEGISLATOR DENENBERG: And the labor savings that weren't achieved for 2011 that you were talking about then, it was a $61.3 million shortfall?

MR. CHALMERS: No. The labor saving was 61.3 million, and I believe their salary shortfall was 26.2 million.

LEGISLATOR DENENBERG: So there was a $26.2 million deficit in salaries in 2011?

MR. CHALMERS: That's correct.

LEGISLATOR DENENBERG: And there was how much over budget in 2011 were we in overtime?

MR. CHALMERS: In overtime, 2011 budgeted, the overtime number was 65.6, and the actual was 77.6.

LEGISLATOR DENENBERG: So the two numbers together are about $38 million in labor being over either in terms of overtime or salary?

MR. CHALMERS: No. The overtime number is included in the 26.

LEGISLATOR DENENBERG: So that's total over budget at 26.2 in labor whether it's overtime or just salaries?

MR. CHALMERS: Correct.

LEGISLATOR DENENBERG: Thank you.

Budget Hearing/7-26-12

CHAIRMAN KOPEL: Looks like we're almost done. I want to come back to one point that was heavily emphasized by Mr. Denenberg and fascinated me as well and that's the overtime.

We show the current amount just police and correctional at 66, at least that's what the comptroller shows, 66 and a half million dollars. Of that, I think you said the great majority is due to the minimum manning rule, would that be a fair statement?

MR. SULLIVAN: A significant contributor, definitely.

CHAIRMAN KOPEL: If I forced you to put a number to that what would you guess?

MR. SULLIVAN: It's hard to quantify. The police overtime is $48 million. I can hazard a guess, it would be to the tune of $20 million or something.

CHAIRMAN KOPEL: The vast majority of that. And I think we've heard in past testimony, other committees and other legislative sessions that this minimum overtime rule does not really contribute to public safety. I'm not asking you that question, I guess it's not your area. But it doesn't really contribute to public safety.

So it just seems a real shame that we're going to be doing more layoffs coming up, and we've done layoffs in the past and we're going to be doing more layoffs needlessly, unnecessarily, perhaps because of this strict -- on various other unions strictly because of the minimum manning rule here in the police department or looked at another way.

It seems like we would have had a lot less controversy over hitting our labor savings goal if this minimum manning rule was gone and were the same as it were everywhere else.

MR. SULLIVAN: And I think the distinction there too, it's Nassau County, it's minimum manning precinct by precinct as opposed to minimum in general. So it's something that we would look to change, that's correct.

CHAIRMAN KOPEL: That's just a real shame. We are just about done. I think everyone here wanted to see some really vigorous nagging, if you will, at NIFA. We would love to see a forceful letter go out and say, NIFA, please, let's do this. Let's look at this and do this right away. We would all love to see that and what's happened in the past in that regard.

With that, I think there are no more questions.

LEGISLATOR DENENBERG: I did just have a couple of questions for Mr. Chalmers.

CHAIRMAN KOPEL: He's here strictly to answer questions.

LEGISLATOR DENENBERG: Can I ask him a couple of questions?

CHAIRMAN KOPEL: Yes.

LEGISLATOR DENENBERG: Thank you, Mr. Kopel. Mr. Chalmers, thank you for being here. You were here throughout the hearing?

MR. CHALMERS: Yes, I was.

LEGISLATOR DENENBERG: The July 26, 2012 second quarter budget hearing interdepartmental memo that you sent to members of this committee I have before me. You did send this memo, correct?

MR. CHALMERS: Yes, I did.

LEGISLATOR DENENBERG: In this memo, if I look at the fourth page, you are doing a comparison of overtime trends, correct?

MR. CHALMERS: Yes, I am.

LEGISLATOR DENENBERG: Now, I had difficulty with Mr. Sullivan getting this exact number, but your document states that the 2012 overtime projection for the police department is over budget by roughly $29.6 million, correct?

MR. CHALMERS: That's what we are projecting right now, yes.

LEGISLATOR DENENBERG: That's just overtime, correct?

MR. CHALMERS: That is correct.

LEGISLATOR DENENBERG: In terms of salaries, what are you anticipating in terms of how much over budget we are going to come in at?

MR. CHALMERS: Right now for salaries we are projecting a deficit of approximately 128.2 million.

LEGISLATOR DENENBERG: That means we're under budget by 128.2 million.

MR. CHALMERS: We are over budget by 128.2 million.

LEGISLATOR DENENBERG: Meaning we are 128 million less than budget?

MR. CHALMERS: No. We have more expenses than budget, we have a deficit.

LEGISLATOR DENENBERG: So by 128 million?

MR. CHALMERS: Correct.

LEGISLATOR DENENBERG: So with overtime with just the police, you would add 30 to 128, that would be 158 million?

MR. CHALMERS: No. That's included.

LEGISLATOR DENENBERG: Okay. So

say that number again.

MR. CHALMERS: The 128 includes salary shortfalls in general which includes termination pay, the overtime, also the salaries.

LEGISLATOR DENENBERG: So our job or I believe part of the job in a legislative budget review hearing is to see how we're doing in terms of actual operations to date against what was budgeted.

So in salaries, unless things change, we are progressing at a point where we will be $128 million over budget, meaning spending more than what the budget said?

MR. CHALMERS: Yes.

LEGISLATOR DENENBERG: And that wold have to be made up from elsewhere in the budget.

MR. CHALMERS: There are many other lines where they have surpluses that they intend to use to offset this deficit.

LEGISLATOR DENENBERG: Which?

MR. CHALMERS: For example, the

Budget Hearing/7-26-12

fringe benefits, on the fringe benefits they have a surplus of approximately 40 million. They also have 34 million in debt service surplus. They also have -- we estimate approximately 21, 22 million in sales tax. So all those different lines will be used to offset the 128 shortfall.

LEGISLATOR DENENBERG: A large part of the debt, the debt payments, according to the comptroller is 17 million, and according to the administration is $20 million, will be saved in debt financing by using excess cash from capital projects?

MR. CHALMERS: Yes, that we have that as an opportunity. That is not factored in our number.

LEGISLATOR DENENBERG: Do you know what capital projects they intend to take the money out of?

MR. CHALMERS: We requested that information. I believe --

LEGISLATOR DENENBERG: According to Mr. Schmitt, to all the ones in Massapequa, but that's okay.

Budget Hearing/7-26-12

So I think all, I, personally, as soon as you see that list, I would like to see that list as well. And do you know what debt or what expenditures it's going to be applied to? Will it be capital bonds or capital debt and which projects?

MR. CHALMERS: I don't have that information yet. I believe the administration testified that they will be providing it. I will get a copy and provide it to the legislature also.

LEGISLATOR DENENBERG: Apparently they provided it the comptroller. They said they would provide it to us as well and so did the comptroller.

MR. CHALMERS: That's why we put it as an opportunity and we didn't factor it into the projections.

LEGISLATOR DENENBERG: But essentially it's $20 million or millions of dollars worth of projects that won't happen and then that that bonded money would be used to pay for debt payments either for the general fund or for other kinds of debt payments?

MR. CHALMERS: That is the plan.

LEGISLATOR DENENBERG: You wouldn't be able to know how we could use capital money from certain projects for general debt, right?

MR. CHALMERS: We've inquired and we were told that they have the ability to do it, they were comfortable with it. Bond counsel said they could do it and I'm sure if the comptroller is going to allow them to do it, we would assume that it can be done.

LEGISLATOR DENENBERG: You know what happened when we assume, right?

MR. CHALMERS: It has been done it the past also.

LEGISLATOR DENENBERG: When was it done in the past?

MR. CHALMERS: We can go back and take a look at the past years.

LEGISLATOR DENENBERG: I would like to see that.

LEGISLATOR SCHMITT: It's been done every year for the past several years.

Budget Hearing/7-26-12

MR. CHALMERS: Yes, it has.

LEGISLATOR DENENBERG: I know in capital projects any time we changed the capital plan in terms of not running with projects, we need an amendment of the legislature and bonding for capital projects are very specific as to the projects they could be used for.

LEGISLATOR SCHMITT: Mr. Denenberg, I would agree with you and have so stated to the administration that a list of projects that are going to be postponed would require a vote of the legislature to amend the capital plan.

It's my understanding that the funds that may have been borrowed for a capital program that now is not going to be done, that those monies would be used to pay the bonds that were floated to realize the funds in the borrowing, and that that reduction of debt will lead to a reduction of debt service, which comes out of the general fund and that's where the savings will lie.

Budget Hearing/7-26-12

LEGISLATOR DENENBERG: Like I said, we would have to see a list and certainly if it's bonding for a project that we didn't do, I don't know how the money could be used to retire debt except for that project, but I don't know how that project would have debt if we didn't do it.

CHAIRMAN KOPEL: Debt is debt. What's the difference where it comes from.

LEGISLATOR DENENBERG: Let me ask you this, Mr. Chalmers. We'll all have to see that list.

I'm moving on to a different item. In the police consolidation plan which you came up and you gave your review, your analysis, and answered many questions about, $20 million in savings was forecasted by the administration, certainly not by you but by the administration.

Have you done any analysis as to what's actually been saved from the police consolidation?

MR. CHALMERS: Based on the 98 separation, we believe that number is going

Budget Hearing/7-26-12

to end up being approximately 18.4 to 19 million.

LEGISLATOR DENENBERG: In savings from the precinct consolidation?

MR. CHALMERS: That's from the separation, the police separation, not the consolidation.

LEGISLATOR DENENBERG: But that's all based on the incentive and retirements, correct?

MR. CHALMERS: Correct.

LEGISLATOR DENENBERG: That was not based on the consolidation?

MR. CHALMERS: Well, the consolidation was meant to allow them to be able to function with less staff, which is what they're doing now.

LEGISLATOR DENENBERG: I think we're going to get that 18.4 just with the severance pay. Do you believe that police consolidation has lead to the overtime numbers that we're seeing, where for police alone you think it's going to be $30 million over budget?

MR. CHALMERS: Well, the first consolidation has ended and they're in the process of doing the second one. As part of our 2013 budget, we will be able to provide more information as far as to what the overtime is by precinct.

As a matter of fact, Legislator Wayne Wink asked us to put some data together which we should have some time next week as to what the actual overtime is this time versus last year by precinct. So we will have that information soon.

LEGISLATOR DENENBERG: Okay. But right now, with only one of the precinct consolidations being complete, the police department still, after six months, how much over budget were we? What did we spend in six months for police overtime?

MR. CHALMERS: I don't have that number but I believe we were over by approximately about 2 million to 3 million, hence, that's why we're projecting the two million extra from last year.

LEGISLATOR DENENBERG: That was

Budget Hearing/7-26-12

for the first six months?

MR. CHALMERS: Correct.

LEGISLATOR DENENBERG: And that you project to be 30 million over budget by the time the year ends? Again, 2012 overtime projection for the police department is over budget by roughly 29.6 million, I rounded to 30.

MR. CHALMERS: Correct. The budget had only $22 million.

LEGISLATOR DENENBERG: For police overtime?

MR. CHALMERS: Correct.

LEGISLATOR DENENBERG: And we are going to be over 50?

MR. CHALMERS: You're going to be over by approximately 29.6 million.

LEGISLATOR DENENBERG: Which would mean a total of $50 million?

MR. CHALMERS: We would spend about $51.6 million. Yes. That's our projection.

LEGISLATOR DENENBERG: Thank you. Nothing else.

Budget Hearing/7-26-12

CHAIRMAN KOPEL: Okay. I guess we are done. Thank you everyone. Thank you for attending.

(Whereupon, the Nassau County Legislative Budget Review Committee adjourned at 2:55 p.m.)

C E R T I F I C A T E

I, FRANK GRAY, a Shorthand Reporter and Notary Public in and for the State of New York, do hereby stated:

THAT I attended at the time and place above mentioned and took stenographic record of the proceedings in the above-entitled matter;

THAT the foregoing transcript is a true and accurate transcript of the same and the whole thereof, according to the best of my ability and belief.

IN WITNESS WHEREOF, I have hereunto set my hand this 7th day of July, 2012.

____

FRANK GRAY

Howard Kopel
LEGISLATOR, DISTRICT 7

COMMITTEES:
Chairman
BUDGET REVIEW
GOVERNMENT SERVICES

Vice Chairman
RULES
PUBLIC WORKS and PARKS

MEMBER:
TOWNS VILLAGES and CITIES

NASSAU COUNTY LEGISLATURE
THEODORE ROOSEVELT EXECUTIVE AND LEGISLATIVE OFFICE BUILDING
1550 FRANKLIN AVENUE, MINEOLA, NEW YORK 11501
(516) 571-6207
e-mail:hkopel@nassaucountyny.gov

Budget Review Committee Hearing

July 26, 2012
11:30 AM

AGENDA

1. **Office of Nassau County Comptroller**
   The Honorable George Maragos
   Nassau County Comptroller

   - Presenting on the 2011 fiscal year budget close and 2012 fiscal year budget
   - Questions from members of the Committee

2. **Office of Management and Budget**
   Timothy Sullivan, Deputy County Executive for Finance
   Eric C. Naughton, Director of the Office of Management and Budget

   - Presenting on actions to close the 2012 fiscal year budget
   - Questions from members of the Committee

3. **Office of Legislative Budget Review**
   Maurice Chalmers, Director

   - Available for inquiries from members of the Committee