BUDGET AND FINANCE COMMITTEE

OF THE

SUFFOLK COUNTY LEGISLATURE

MINUTES

A meeting of the Budget and Finance Committee of the Suffolk County Legislature was held in the Rose Y. Caracappa Legislative Auditorium of the William H. Rogers Legislature Building, 725 Veterans Memorial Highway, Smithtown, New York, on April 21, 2015.

Members Present:
Legislator Lou D'Amaro - Chairman
Legislator Monica Martinez - Vice-Chair
Legislator Tom Cilmi
Legislator Steven Stern
Legislator Robert Trotta

Also In Attendance:
Legislator DuWayne Gregory - Presiding Officer
George Nolan - Counsel to the Legislature
Justin Littell - Aide to Legislator D'Amaro
Greg Moran - Aide to Legislator Trotta
Debbie Harris - Aide to Legislator Stern
Tom Vaughn - County Executive's Office
Robert Lipp - Director, Budget Review Office
Laura Halloran - Budget Review Office
Rick Brand - Newsday
All Other Interested Parties

Minutes Taken and Transcribed By:
Gabrielle Severs - Court Stenographer

(*The meeting was called to order at 9:12 a.m.*)

CHAIRMAN D'AMARO:
Good morning. Welcome to the Budget and Finance Committee. Please rise and join the committee in the Pledge of Allegiance led by Legislator Martinez.

(*Salutation*)

Okay. Once again, good morning and welcome. Let's take a look at the agenda. The committee has not received any correspondence today, and we'll go to the public portion. To the clerk, are there any cards this morning?

MR. LAUBE:
I don't have any, no.

CHAIRMAN D'AMARO:
Is there anyone present who would like to address the committee this morning? For the record, there's no response.

Next, we have a presentation, a joint budget presentation by the budget office and our own budget review office. Dr. Lipp, good morning.

MR. LIPP:
Good morning.

CHAIRMAN D'AMARO:
And I see you have some figures you want to review with us, and please go ahead.

MR. LIPP:
Good morning, everybody. So this is a joint presentation by budget review and the executive's budget office. I've been working with the executive's budget director, Connie Corso, who is sitting here to my right, and we, really, only last night came to a final reconciliation of the difference in our numbers, so we agreed to a laundry list of assumptions, and at the end of the day, what we are going to present is we're very close in terms of what our conclusion is.

So basically what we've done, just so you understand, you could think of it as we put together a mock 2016 budget, and there are some shortfalls for 2014 through 2016, and the reason why there's -- we're looking at 2014 also is because when we put the 2015 budget together, 2014 was an estimate and the final number came in and it was about $10 million less in terms of net revenues and, as Connie is reminding me, those are unaudited numbers, so we just received late last week, I believe on Friday, some unaudited numbers from audit and control, the treasurer's office, and we built that into our analysis. So I'm going to start out with just sort of a very high level analysis because there's a lot of detail in the budget model. Your eyes will glaze over if I talk about it, so I prefer not to.

So what we have here is --

LEG. CILMI:
Mr. Chair? I'm sorry to interrupt. Do we have printed copies of this presentation that could be distributed to the committee?

CHAIRMAN D'AMARO:
Let's find out. Dr. Lipp?

MR. LIPP:
So the answer to that is somebody in my office, Sharon, is in the midst of compiling those numbers and should be in any minute now.

LEG. CILMI:
Just so we can make notes on those.

MR. LIPP:
Oh. She just came here, and I didn't even see her. She's stealth-like, the ninja secretary. Okay. So this is very high level analysis. It doesn't present all the detail and since this projection going through 2016, it's, you know, it's not necessarily what actually happened and clearly the whole idea behind a planning document to see this is to adjust and be able to nimbly resolve any budget issues. That being said, here we go.

CHAIRMAN D'AMARO:
Rob, just to clarify on that. So the final numbers for 2014 unaudited are in; the figures you are going to discuss are based on the actuals for 2014; we're in the middle of -- or close to the middle of 2015, so that's going to be more projection with some information and then '16 is all projection.

MR. LIPP:
Yes, and Connie would like to say something.

MS. CORSO:
I'm just going to chime in that we -- not right now, all the funds in the budget aren't closed. We're still doing the accruals, so audit and control, really, they're not really set to do any final numbers. Robert and I have been putting down the general ledger and trying to look at where we are, but there are still accruals of revenue and expenses that may have to hit, so, you know, this is not the be-all, end-all number. We're building it in just in case.

CHAIRMAN D'AMARO:
Are you referring to 2014?

MS. CORSO:
Yes.

CHAIRMAN D'AMARO:
You are.

MS. CORSO:
Yes.

CHAIRMAN D'AMARO:
Okay. So the 2014 figures are not definite.

MS. CORSO:
They're not solid.

CHAIRMAN D'AMARO:
It would be helpful if you would indicate during the presentation, then, what figures you think may vary and by how much or at least that it's open to change.

MS. CORSO:
Right. We're going to go through to see -- to tell you how we think 2014 is going to end and why we think it's going to end that way.

CHAIRMAN D'AMARO:
Thank you.

MR. LIPP:
Okay. So looking at this chart on the screen here, you could see that the projected shortfall general fund plus police district is 176 million. That's in red; at least I think it's red; I have a little trouble with colors. It's made up of big ticket items: sales tax, pension amortization, health insurance, assessment stabilization reserve fund, nursing home, and traffic violations bureau. So for instance with the sales tax, we did not do as well as expected; in fact, it turned out to be not so good. And the pension amortization, there's approximately 55 million in terms of pension amortization that we'll be able to do in 2016, but we're not including it as the baseline model because that's a policy issue that you people need to deal with. So part of the 176 million, really, is 55 million in pension amortization for next year. What that means for those of you who aren't quite sure is it's a loan that is allowable from the New York State Retirement System that we would have to pay back over 12 years, and we've been doing that, I believe, since 2011.

The health insurance is a big item simply because it grows every year, and it's a large number so that's -- and, in fact, the pension and the health insurance, the second and third items, are probably, in terms of being able to handle a budget, the two biggest bugaboos. They're really difficult to wrap our heads around and to actually pay for them. They're just going up by so much; and then we had the surprise of the sales tax. The ASRF, Assessment Stabilization Reserve Fund, what we did was we -- what we did is we borrowed last year not 23 but rather 22.5 million -- this particular year, I'm sorry. We borrowed 32.8 million in 2014 and 22.5 million this year, so the budget model does not assume that we're going to do it again. In order to maintain our level of revenues in 2016 -- right now, we have a hole of 22.5 million. Because of that, we would have to agree to do that again, and that's a loan from the fund 1240 Assessment Stabilization Reserve Fund.

The nursing home, the 11 million for the nursing home is really 11 and a quarter in the current 2015 budget. Under the 2014 estimate, we assume that we would sell the nursing home for eleven and quarter medical and that did not materialize so there is a short fall specially with that. Traffic Violations Bureau, this is a combination of a few things: number one, very importantly, the revenues -- net revenues, I should say, from Traffic Violations Bureau were always going through the General Fund; now starting this year, 2015, they're going to the police district. One of the problems with this particular revenue item is that we have not been able to properly project or forecast those numbers, so there appears to be some shortfalls. Perhaps we were a little pessimistic with the number here, 14 million, but basically it's a combination of shortfalls this year. If you look at the BRO's operating budget back in the fall, we said we thought that 2015 was too high, the revenue, by $3 million. On top of that, we implicitly included in this year's budget speed cameras at school districts. That was decided we're not going to do that, so $2.5 million right off the bat is a shortfall, and then you add the $3 million, comes to five and a half, and then we built in perhaps a strong assumption about the decay of red light camera revenues because of people getting the system and/or hopefully are better drivers so that we come up with well over $8 million in 2016 as a projection there.

The good thing and the bad thing about the Traffic Violations Bureau revenue going through the police district is, number one, they have another source of revenue because the costs are going up quite a bit there. The negative, though, is that now we're introducing a source of revenue that is uncertain or variable so it makes it difficult. The beauty here, we have an either negative or positive surprise. We're saying we think there may be a negative surprise there, so it's going to be more difficult for the police district to get it right in that sense.

So if you add those items up, you get the 157 million. The overall shortfall that we're projecting is 176 million and the difference of 19 million is attributed to lots of other budget model changes. So for instance, on the surface the sales tax shortfall is a real problem for the budget. It was a real negative surprise. On the other hand, there were -- so I believe we are right now at, for 2014, unaudited about approximately a shortfall of 10 million; more than the 10 million, 18 million was attributed in 2014 to sales tax that did not come in on budget. Why is it more? Because there are a lot of other pluses and minuses in the budget such as less money we'll be spending on the education of handicapped children's program, so that's a positive that's indicative, among other things, of a declining age cohort in that area. So the $19 million is a combination of pluses and minuses, which add up to a total of 19, and the 176 million is broken down into 94 million in the General Fund and 82 million in the police district.

I should point out as a caveat that it is a good thing that the way I do the budget model and the way Connie does it are different, so we're coming at it from different perspectives and that's a good thing because we can reconcile and come up with a number that's similar. It's looking at it two different ways. The problem is if we're, like, grossly off; then that's problematic. So it's good that we're getting together, and I embrace that we're looking at it differently. Of course, I believe mine is always best. One other thing here that I think is important -- that was just a friendly kidding around with Connie here.

MS. CORSO:
(Inaudible)

MR. LIPP:
That's the best offer I'd have all day. Okay. For illustrative purposes, I wanted to show you this second chart, which you can see on the screen too. The shortfall that we just spoke about of $176 million, for illustrative purposes, there are a few things that we could potentially do, but there are policy issues that we would, just right off the bat, be able to reduce the shortfall from 176 to 87 million simply by, A, amortizing the pension. I believe it was, like, 15 million in the police district and the remaining 39 or whatever in the General Fund. Borrowing again in the General Fund indirectly through the Assessment Stabilization Reserve Fund for sewers; and then lastly, last couple of years, we raised the police property tax and we could do it approximately by 12 million which would approximate what the New York State two percent cap is on property tax increases. So that, once again, making it very clear here, that's a policy decision for you people. I'm not saying that we're going to do this, but if we do all these items, it'll drop the deficit -- projected deficit from 176 to 87 million.

And the last item before we have this adjusted shortfall of 87 million is health insurance savings agreed to by the county unions, and there's a number there of zero. This is important stuff, though. So in theory at least by June, the employee medical health plan is -- which we're observers on and Connie is a voting member on -- are supposed to do a reconciliation of what the expenses were in 2013 and 2014 and the employee mental health plans consultant locked in is supposed to be doing that. And the agreement in 2012 was starting in 2013, the bargaining units or unions would be required to come up with $17 million of pharmaceutical savings each year, so times two -- they're doing a lookback for '13 and '14 -- that would be 34 million. It remains to be seen what that capitalization will be and, therefore, to overstate the case, let's say they had no savings -- this is just an illustrative example, then 17 per year would be 34 million in theory. Then the unions would have to come up with other savings of $34 million which would lower the deficit more.

This is not meant to say that we have any idea of what they're going to do with their methodology, so I would not want to claim in as to what I think may be the case now. We'll find that out in June. Very important date, though, on your radar screen.

I'm going to let Connie say what she would like to for now, I think, on a high level before any questions. Tried to give you the big picture look. That's it.

CHAIRMAN D'AMARO:
Thank you, Dr. Lipp.

MS. CORSO:
Good morning, everyone. Pretty much, Robert and I met last week. We probably talked on the phone every day. We were here almost all day on Sunday, and we met until 8:00 last night, so we did get to iron out our differences, and we do, when we do get together, it is, you know, like a pleasant surprise. Even though we have this different methodology that our numbers come in fairly similar. As far as how we're doing, there are those pluses and minuses, and I think losing $18 million in sales tax in the very end of the year compared to ending the year with, you know, just losing -- still having -- or losing 10 million is really an achievement because it shows that we were able to turn around very quickly and mitigate some of that $18 million, and that's from working together and making the hard decisions that we've had to make over the last several years.

One thing I wanted to talk about that I felt is important is something that I get questioned about often is the impact of some of the collective bargaining agreements, and there is a question as to whether the county could afford it. When you look at the straight payroll for the county, both the police district and the general fund are even or a little bit less so you are -- you were able to absorb those collective bargaining agreements, rather than kick them down the curb and end up with something similar to what happened to the COs and a $40 million BAN. So it does make more sense and it is reflective in some of our projections, and it also gives us budget certainty, so Robert and I know in 2016 most of our collective bargaining has been settled. There are two that Robert and I have included in our projections, and just you know that when you're looking at that number, that number does include what we expect to settle in 2015 and 2016.

The difference between Robert's and my model, or the budget office model, is only about $10 million. That $10 million is really just -- it could be a percent off of the collective bargaining. He may have a different analysis than I do. Part of it could be we are ultra, ultra, ultra, ultraconservative on TPFA and a good example of that is that TPFA brought in almost $3 million over what was estimated in 2014, so that was part of that mitigation of $18 million in sales tax.

The other thing that's conspicuously missing from that chart -- Robert, if you'd put it up again -- is these tremendous growth we've been seeing in debt service. I don't know if anybody remembers, but the last couple of years, we've had those giant numbers in there for debt service, and surprisingly, we have gotten over that hump of losing the tobacco proceeds and both of our models have debt service going up under -- Robert, I think, is one and I'm two, $2 million. That's a staggering improvement over the last several years, and I think you have to be commend for looking at the capital program, keeping it at that nice level, and we're not seeing those jumps. To add to that, the RAN is going to be under -- going to 55 million, which is $30 million less than we did last year. So although the sales tax is lagging, I think -- I brought my sales tax consultant from Moody's Analytics, Michael. He'll speak to you if you have any questions. I just think that, you know, as Robert points out, we had the coldest February in a decade. We had a horrific winter, and I think a lot of the problems that happen -- not only did the sales tax happen, but those increases that you saw in the county road fund for plowing and overtime and the police were certainly on their tails with the accidents and the people that they had to take care of during those storms, and it was unfortunate that it happened at the end of the year, and it's very hard to autocorrect at that time, and that's why the county executive issued the executive order to allow me to set my office to set aside the 10 percent, which right now is sitting at about -- it's actually sitting at 27, but 7 million of that is the savings from the state and the Medicaid, which was -- we are very thankful for.

I think at this point, because the numbers are so close, I think we would probably open this up to questions.

CHAIRMAN D'AMARO:
Thank you, Connie, for the presentation. So the difference between the two offices, you mentioned, is roughly $10 million, which in the grand scheme of the budget figures and the size of the budget that we're looking at is not a large amount or an amount that gives you great concern. I wanted to go back to the 2014-2016 projected budget shortfall chart that you handed out, Rob, and I'm going to ask you very quickly, if you can, for each column or row that you're indicating sales tax, pension, amortization, health insurance, ASRF, et cetera, if you could break the projected shortfall out over each year because you're doing it in a summary fashion for all three years; so for example, sales tax, you have a shortfall over three years of 37.8 million, what I would be interested in knowing is what are the shortfalls in '14, '15, and '16.

MR. LIPP:
Okay. So '14 was a little over $18 million, and as I said earlier, that would be other things being equal, we would have a shortfall of $18 million for 2014, but the shortfall as of now appears to be $10 million because there are other pluses and minuses, more so with the pluses; for instance, less than anticipated spending on the education of handicapped children's program so it -- I guess one way of looking at it is on the surface we're getting killed by sales tax. The other way of looking at it is we're managing the budget better than what's going on with that. In 2015 --

LEG. CILMI:
Wait, wait, wait. I'm sorry, Lou -- Chairman. But, really, those differences should appear in the other budget model changes column, right? They would come off the other budget model changes section rather than -- if the question is what was the sales tax problem in 2014, it's really $18 million.

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
Okay.

MR. LIPP:
And then in 2015 because of the projection that we have and the lower base making it a requirement to have a much higher increase in order to meet budget, the projection here is over $35 million hole compared to what's been adopted with the sales tax for through the general fund.

CHAIRMAN D'AMARO:
That's just for 2015?

MR. LIPP:
Correct. That being said, in 2016, based upon the projection we have her will be approximately 16 million above -- that is, a surplus -- from 2015 adopted budget in terms of sales tax collection, so that would help to reduce any shortfall in 2016. That being said, if we had a higher base, we'd be in a much better position because we would probably have a larger surplus in 2016, so it's not all bad there. So if you sum the three years, you get to the approximate $38 million shortfall -- $37.8 million for the sales tax portion in the budget model.

CHAIRMAN D'AMARO:
Right.

MR. LIPP:
Pension amortization is -- we have to pay the pension bill by February 1. We already did that in 2015. That came to approximately 59 or $60 million that we paid. It wasn't the maximum. We could've done another 21 million, so it would've been about $81 million. For next year, it's up to the executive and the legislature whether or not they want to amortize again. If they do, according to the projections from the state at this time, it's approximately $55 million that we'd be able to amortize, and that's split between the general fund and the police district, so it's all a 2016 number.

CHAIRMAN D'AMARO:
What was that in '14?

MR. LIPP:
87 million, I believe, in '14, 59, but it would have been, I believe, 81 if we took the full amount in '15, and then we have some projections -- this is sort of interesting. I don't know if I can remember this off the top of my head. The interesting thing -- well, maybe not that interesting. We are increasing -- the state is likely to be reducing the amount that we can amortize based upon their formula, without going into technical stuff -- it's a mind-numbing formula -- and we see it -- and they're saying it's 55 million this year. We see it declining and actually a few years out, I believe by 2021, there'll be no amortization anymore. That's a projection by us on a lot of assumptions. The state does it based upon actuarial records. We don't have that kind of stuff. I've spoken to the head guy in the state retirement system that does calculations, but they don't go out more than the following year. They do maybe a projection for the next year about 18 months ahead.

CHAIRMAN D'AMARO:
Rob, let me add, on pension amortization, 2015, you mentioned 60 million, okay.

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
So 60 million is representative of the amount of anticipated increase in the pension costs for that year, which could be borrowed?

MR. LIPP:
No. The formula's -- it's --

MS. CORSO:
Can I get in here?

CHAIRMAN D'AMARO:
Well, you're saying a total shortfall for three years at 55 million. What I'm trying to figure at the end of that --

MR. LIPP:
Okay. I'm sorry. For this particular item, it's '14, 0; '15, 0; '16, 55, and the reason for that is we've already paid the pension bill and amortized. It's a done deal, so and actually it's in the budget.

CHAIRMAN D'AMARO:
Right, so it wouldn't contribute to the projected shortfall --

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
-- because we already borrowed to avoid that.

MR. LIPP:
Exactly. Right. So the 55 million is all 2016.

CHAIRMAN D'AMARO:
So to eliminate the 55 million in '16 is, again, the amortization option that we have.

MR. LIPP:
Correct.

MS. CORSO:
Can I just chime in with something really important?

CHAIRMAN D'AMARO:
Yeah, go ahead.

MS. CORSO:
I just wanted to let you know that the pension bill is actually down for 2016 -- projected to go down, so the projected increase without the amortization is 45.7 million, so you could actually amortize more than your total increase in your bill because we had a credit from last year.

CHAIRMAN D'AMARO:
In the past, right. Very good. All right. So health insurance, then, broken out over three years, where does that shortfall come from?

MR. LIPP:
If I could recall -- otherwise I'd have to fumble through stuff, which would be too painful for you. I believe this is by and large the 2016 number. I don't think there's too much of a shortfall that we have for 2015. I think we were pretty close on that.

MS. CORSO:
No, I think what happened in 2015, we did have a large jump and we did increase -- I think we doubled the IBNR, which is the incurred but not reported, so those would be like anything that was prior, so we really bulked up the number in 2015, and what happened was in 2014 and 2015, so in 2014, we were supposed to end in a $4 million negative, but the ways things look now, we're ending up like a couple hundred thousand positive so that would be a $4 million savings that's going to roll into the fund and be available for 2016. So the number in 2016 is mitigated by the $4 million, but what we do is because the agreement is based on the Kaiser index, which is either eight or eight and a percent or, you know, we actually go on to the two -- there's another one other than Kaiser, and we kind of stay at that Kaiser index because that is what the union has to really stay at.

The agreement with the management used, and it's kind of -- they keep those costs at that Kaiser index, so we do budget that way, but there were a few things that did happen in 2014, and, you know, it's egg whip, which is something we did with the retirees, and there were things that did happen that did mitigate some of those large increases, but what we're seeing is the main increases in the pharmaceuticals. And at this point, it used to be pretty much the hospitalization, the medical, and the medical was kind of those high numbers, and the lower numbers was the pharmaceuticals, but we're almost on pace for our pharmaceuticals to outpace our hospitalization and our major med, and that is the problem.

CHAIRMAN D'AMARO:
You mean the shortfall --

MS. CORSO:
The shortfall, right. But I'm saying the total --

CHAIRMAN D'AMARO:
So in 2014, based on what you just said, I believe there's a zero shortfall, the way it might land.

MS. CORSO:
Yes, zero shortfall.

CHAIRMAN D'AMARO:
So what was the shortfall projected for this year?

MS. CORSO:
No shortfall. We do a balanced budget.

CHAIRMAN D'AMARO:
Well, you have in this column -- or the Budget Review Office has $16 million.

MR. LIPP:
Yeah, that's a 2016 number only.

CHAIRMAN D'AMARO:
Okay. That's what I wanted to know.

MR. LIPP:
So in other words, you asked for the three years; zero, zero, '16.

CHAIRMAN D'AMARO:
That's right. So can you do the same for the next three categories?

MR. LIPP:
And one reason for putting the health insurance on this chart is because that's been one of the killers, for lack of a better term, in the budget. It's the pension costs and the health insurance costs, which are making it extremely difficult for us to manage the budget.

CHAIRMAN D'AMARO:
I understand.

MR. LIPP:
Okay. So the ASRF is the sewer assessment stabilization reserve fund.

CHAIRMAN D'AMARO:
Right. Now this contributes to shortfall in the sense that if we do not tap that fund and borrow.

MR. LIPP:
Yes, this year -- this is all 2016 also. This year, we borrowed 22.5 million. The 23 is really rounded off. It's really 22.5, so there's a shortfall of revenue -- there will be a shortfall of revenue in 2016 of 22.5 million if we don't do that again, and we would, therefore, have to make up that money elsewhere in another way, so that's what we're looking at in terms of regenerating a number. You could look at it as a multiyear one-shot, and if you recall from the referendum which allowed us to do this is that borrowing from the assessment stabilization reserve is allowed through 2017, and then starting in 2018, we'd have to pay back whatever we borrowed over the 2014 through 2017 years.

CHAIRMAN D'AMARO:
Okay.

MR. LIPP:
The nursing home, the 11 is really 11 and a quarter. In the 2015 adopted budget, there was 11 and a quarter million 2014 estimated revenue from sale of the nursing home. That hasn't happened because of zoning, I suppose, because the legislature didn't want to sell it. They wanted to do other things with it, perhaps. So the budget model assumes it's not going to be sold, and, therefore, there won't be 11 million even though, clearly, we didn't get the 11 and a quarter million in 2014, and let's say we were going to sell it, but we wouldn't get it until 2016, it doesn't matter because we're looking at a 2016 budget. It goes over three years. As far as we know at this point, we need to assume that that revenue is not going to be realistic.

CHAIRMAN D'AMARO:
All right. So you can put that in any column you want to put it in.

MR. LIPP:
It's just a 2014, '15 hole, a hole in the 2015 adopted budget.

CHAIRMAN D'AMARO:
Got it. Okay. And then the Traffic Violations Bureau, you're projecting a shortfall over three years of 14 million.

MS. CORSO:
No, two years.

MR. LIPP:
Two years: 2015 and 2016, so it's two and a half million this year for no school district speed cameras, another three million, to try to be conservative, for this year also in terms of less monies coming in from the tickets and the red light cameras, and then the number goes up overall, like 8.7 million in 2016; hopefully it'll do better, though. And then the additional 19 million to get to the projected shortfall is a combination of God knows how many line items of pluses and minuses in the budget model.

CHAIRMAN D'AMARO:
Right. So looking at that breakdown, it's fair to say that in 2014 but for the shortfall in sales tax, there would be no shortfall.

MR. LIPP:
Yeah, actually, there would be a surplus because -- right. There would be, instead of an $18 million -- well, as of now, there's a 10 million dollar shortfall; 18 million of the 10 is the sales tax, so therefore, it would have been an $8 million surplus if not for that difference.

CHAIRMAN D'AMARO:
So 18 million of the 10, did you say?

MR. LIPP:
Yes. You're having trouble wrapping your head around that one, huh?

CHAIRMAN D'AMARO:
So it's a plus.

MR. LIPP:
Right. So in other words, there are other -- as it turns out, when you look on the surface, I was saying, Okay, we have at least $18 million hole in 2014; the answer is no. Things like education, the Handicapped Children's Program, wallpapered over some of those problems.

CHAIRMAN D'AMARO:
So it lands at plus eight, did you say?

MR. LIPP:
It would have landed at plus eight, a surplus, if not for the negative 18 from the sales tax.

CHAIRMAN D'AMARO:
So there's still --

MS. CORSO:
It would have been plus 30, Lou.

CHAIRMAN D'AMARO:
I got ya.

MS. CORSO:
It would have been plus 30, 32.

CHAIRMAN D'AMARO:
So there was an 18 million shortfall in sales tax that year.

MR. LIPP:
Correct.

CHAIRMAN D'AMARO:
That's the amount that was not offset in any other way.

MR. LIPP:
Well, no, it was offset by other things by eight million because the actual shortfall as of now is 10 million in total.

CHAIRMAN D'AMARO:
Got ya. Okay.

MR. LIPP:
That's why it's -- of the 10 million, 18 is sales tax. That's why you're confused.

CHAIRMAN D'AMARO:
And again, you know, we talk about it as a, quote, surplus or shortfall, but we have to also recognize that we borrowed the pension money to get there and we borrow from the ASRF and all of that.

MR. LIPP:
No doubt.

CHAIRMAN D'AMARO:
And looking at 2015, similarly it's 35 million shortfall in sales tax with all the other borrowing, but that's where you put the nursing home in as well. That's where it's taking the hit.

MR. LIPP:
Correct.

MS. CORSO:
Right, but there are offsets there too. There are some positive things that happened there with the Medicaid, so standalone, it's not -- you can't just look at your negatives. You have to look at some of the positives.

CHAIRMAN D'AMARO:
Agreed, so but standing alone, then, in 2015, would you say we ended the year even, in surplus, or shortfall?

MR. LIPP:
No. What I can remember --

MS. CORSO:
My shortfall -- well, I can only say for my shortfall is projected for 2015 is projected at 30, 21. I think you're at -- in the 40s.

MR. LIPP:
Her shortfall is -- I'm probably a little bit higher, but it's not far off, so it's a $10 million hole in 2014,

30-something in 2015.

CHAIRMAN D'AMARO:
Got it. And then the balance is based on all the projections in 2016, assuming no borrowing.

MR. LIPP:
Correct, because, once again, that's a policy decision, and it wouldn't be appropriate for us to assume. You know what they say about the word "assume."

CHAIRMAN D'AMARO:
Right. We still have to decide what we're doing for 2016. All right. That answers -- just clarifies for me the direction that we're headed. Generally speaking, the shortfalls are within limits, tolerance in my mind, but of course it's disconcerting that the pension bill just keeps going up and we have to borrow to cover it; although, Connie, you mentioned for the first time in '16, it's finally starting to go down.

MS. CORSO:
Right. I mean, you have to give yourself some credit for not amortizing the whole amount. So figure this out, if you amortize the whole amount in 2015 that you could wash away 20 million of that deficit, but instead, you chose not to do that, and instead, you know, we'll change some course and we'll make some changes to deal with, you know, $30 million in a $2.7 billion budget.

CHAIRMAN D'AMARO:
Right, and these are items that -- pension costs that the bill is handed to us by the state. We have to pay it. We don't have a choice. Health insurance is similar to that. So overall, I think the trend is, you know, we're not out of the woods, obviously, but I think we are trending in the right direction even though sales tax is not quite where we would like it to be, but I see based on the figures and the breakdown over three years, using the tools we had available, some of which including borrowing, making some other decisions, we were able to keep the budgets pretty much in balance over those three years, so I think everyone should get a little credit for doing that.

Okay. There are several questions from my colleagues. The first is going to be from Legislator Stern. Please go ahead.

LEG. STERN:
Thank you, Mr. Chairman. Just a couple quick questions. The amount that is going to be coming in in the future from the TVB, that number is reflected as a $14 million shortfall in the columns, right? That number -- I guess my question here is that number is due to shortfall in revenue as an overall number, not the fact that it's being taken from the general fund and being redirected to the police district, correct?

MR. LIPP:
Correct.

LEG. STERN:
And the next question there is when you move further down the columns in the police district, it's reflected as an $82 million shortfall. I'm wondering if any -- does that reflect the idea that the TVB money has already been allocated in the future to the police district?

MR. LIPP:
Correct.

LEG. STERN:
Okay. So those are the accurate numbers that we are looking at. That's all been worked up. On the next page -- I just want to make sure that I have it correct here -- the health insurance issue that you were discussing, the number there right now is zero. Depending on what happens in June, depending on how those conversations then take place after June, do I have it right that ultimately that number of zero, notwithstanding anything else -- I guess the $34 million that can possibly reflect two years of savings, that number should go where? The 34 million, theoretically, can be placed in that zero column bringing down the 87 number?

MR. LIPP:
Theoretically.

LEG. STERN:
Thank you.

CHAIRMAN D'AMARO:
Thank you, Legislator Stern. Presiding Officer Gregory.

P.O. GREGORY:
Thank you, Mr. Chairman.

CHAIRMAN D'AMARO:
Thank you, Legislator Stern. Presiding Officer Gregory.

LEG. GREGORY:
Thank you, Mr. Chairman. I would like to stay with the health insurance. I was at an event yesterday with Citizens Campaign For the Environment. There's some moneys through the state, and we're working with them to do pharmaceutical disposals programs throughout the county. There was a gentleman from King Kullen, from their pharmacy, and he grabbed my ear for, like, 10 minutes about how mail order is not the best program at all, and they've collected over 500 pounds of unused medications in the past six months, and he says that people that are on mail orders come in with, literally, garbage bags full of unused medications because they just send them 90 days in advance, and he wants to come in and sit with me a little further about how the county can look at this program because of his customers used to be county employees, and I would like to know what is your opinion as far as our health costs with medications. Do you have that number, or is that part of this analysis?

MR. LIPP:
She's looking for some numbers. So it won't be until the lookback to really see if there were really savings or not. My view would be that the employee medical health plan and the consultant locked-in determine that the mail order, in their opinion but my swords, is low-hanging fruit. I did do an analysis, I want to say last year, for Legislator Stern to try to approximate what the loss of economic activity was. I don't have the number off the top of my head, but I do have it. I'm not sure how accurate it would be, which would be a partial offset to whatever savings there are, and I know whenever I go to a pharmacy, they sing the blues that, Oh, you're only going for some vitamins or something, you know.

LEG. GREGORY:
But there has to be, to me, there has to be some type of inherent cost, right? If I'm on, you know, a maintenance drug for asthma or something or high blood pressure, let's say, and they give me

medication and oftentimes, they may adjust the medication, but if you have 90 days' worth supply of medication, and it changes and you get an addition to that and they won't take the unused medication, which is the other issue, you're paying for that. You're paying for this excess that our employees are not paying for, and we're paying for it because we're contributing to the program.

MS. CORSO:
I'll just chime in from what I know from being on the committee for several years, and I do -- I mean, it comes up at every single meeting. And I think if you're looking at the pharmaceutical cost, believe it or not, we did go up in the one year, but right now we're pretty much, you know, we're starting to even out, and I think we did suffer some growing pains during the implementation, but I think the PBA had done this originally, and they had really no problems.

The other thing that they're doing, they are starting to see if it's worth negotiating with some of the retail pharmacies to try and -- maybe someone doesn't need to be on, you know, needs the 90 days or maybe they need a delay and they don't need that auto-delivery, but I certainly will bring that back to the committee and talk about some of the things that we're doing to try and mitigate it. And, you know, I think you remember we had one vendor, we moved quickly to another vendor and every meeting that we go to, it seems that more and more of these issues are being ironed, but I definitely hear you, and I personally feel your frustration.

LEG. GREGORY:
Good. Good.

MR. LIPP:
Another point on that is there had been, as when the growing pains were when it first started, as Connie's saying, a blip or a jump in people buying more than necessary or the way the program was; as you said, they gave so much. That being said, I would think it's just a partial offset to the fact that the mail order charges lower rates to us.

LEG. GREGORY:
Right. Okay. All right. Thank you. So you have baked in your numbers, you have agreements for '15 and '16, so that's the deputy sheriffs and the correction officers, so those are the only two left, right?

MR. LIPP:
Right. So what we did is we projected what we thought the settlements would be. We would not want to say, you know, what the assumed --

P.O. GREGORY:
Nor would I.

MR. LIPP:
-- increases are because then we would be introducing ourselves into collective bargaining, and that would be wrong.

LEG. GREGORY:
Right. But there is a number -- I would hope that we'd be more inclined in '15 than '16 because some of them are waiting five years or longer, but that's just some of the frustration I've heard from those on the other side of the table that are waiting for those agreements. They would like to see some settlement. Okay. So for 2014, I have that you have 18, and then 2015, you have 35 as the deficit, and the remainder is in 2016. Looks like the majority of that is from pension amortization,

health insurance, and ASRF.

MR. LIPP:
That's probably right, yeah.

LEG. GREGORY:
Okay.

LEG. ANKER:
(Inaudible)

P.O. GREGORY:
Yeah, he gave us the breakdown.

LEG. ANKER:
But only for '14 through '16.

LEG. GREGORY:
Oh. I have 18 million, parentheses, 10 million. Right, there's an 8 million surplus or something?

MR. LIPP:
No, no, no. So there would have been an $8 million surplus if sales tax came in on budget. It didn't. It was off by $18 million, so the difference being that it was approximately, as of now, a $10 million shortfall for 2014.

LEG. GREGORY:
Okay. My number's wrong. I had the wrong number in parenthesis. Obviously, I do like that there are some options to help reduce and lower our projected shortfall. There are some others that we're able to do that are not on the list that require state action, so I appreciate that. We'll be able to address that in the state budget. I know the county executive is looking to do some things as well with the governor and the legislature, so this is a starting point which may be lowered by some of the actions. I met with the governor's regional person yesterday, and I made a pitch for some things as well, and she got the same request from the county executive's office, so we're at least speaking on the same terms and hopefully we can get same action before June. Okay. That's all I have for now. Thank you, Mr. Chair.

CHAIRMAN D'AMARO:
All right. Thank you, Mr. Presiding Officer. Next, Legislator Cilmi; please go ahead.

LEG. CILMI:
Thank you, Mr. Chairman. First of all, thank you to both of you and your offices for the work that you've done here and that you do day in and day out. So the first question I had was asked by. Legislator D'Amaro with respect to a breakout, a yearly breakout of each of those line items. In looking at those line items, I guess three of them have to do with revenue issues, and the others have to do with cost issues, so sales tax shortfall, obviously, is revenue. Pension amortization, we've already amortized in '14, we amortized in '15, and what you're saying here on this first page is that if we don't amortize in '16, that will add to the budget deficit, right?

MR. LIPP:
Correct.

LEG. CILMI:
Similarly with ASRF, we borrowed in '14, we borrowed in '15, and if we don't borrow 23 million in '16, because we used that borrowing and because we did the amortization, et cetera, as sort of one shots, if you will, in '14 and '15, if we don't carry that tradition out to '16, it will likewise add to the budget deficit.

MR. LIPP:
Correct.

LEG. CILMI:
The expenses basically aren't changing, although what you did say is that our expenses are improving and that's evidenced by the fact that we would have actually ended '14 with a surplus were it not for sales tax shortfall, correct?

MR. LIPP:
Yes, it's a combination of a whole laundry list of revenues and expenditures, but I did mention one of the big ticket items was we got a savings from the Education of Handicapped Children's Program.

LEG. CILMI:
I want to ask -- drill down a little bit further with respect to the health insurance issue, and let me just mention that Presiding Officer Gregory brings up what I think is a great point with respect to the number of pills that the mail-order company has encouraged our employees to purchase, if you will, as part of their recurring prescription use. So, you know, if somebody was on a maintenance drug that they would normally only purchase a 30-day supply of, for example, the mail order company was encouraging that client to purchase a 90-day supply of that drug, and I recall hearing when we initially started this program that while we thought there would be a savings, that it was actually costing us a lot more. I suspect, and I don't know this for sure but I suspect, that one of the reasons for that maybe that fact, and I just wanted to point out it wasn't really spoken about here. It has nothing to do with the budget, at least not directly, but it also probably adds to the substance abuse issues that we have here in Suffolk County because people have all these pills sitting in their medication cabinets and, you know, they're winding up in bowls. I forget what the term is that the kids are calling them these days. I think they're calling them Skittle parties or something like that where they dump all these pills -- they go in their parent's medicine cabinets and they dump all these pills in a bowl and they grab a handful of them at the beginning of a party. In any event, I digress.

Anyway, with respect to the health insurance numbers, you had talked about sort of the promise that we would save $17 million annually beginning in 2013 as a result of the changes that we made in our health insurance coverage, specifically with respect to prescriptions. If that 17 million annual savings has not come to fruition, and we want to be careful to say that we don't know if it has or it hasn't at this point, but if it hasn't, does that increase the budget shortfall that's depicted here?

MR. LIPP:
I think, if I could understand your question correctly, we believe that either it will have no impact because they will say, you know, that the savings were materialized, or they would find that not all savings materialized and they would have to --

LEG. CILMI:
Make up for them somewhere else.

MR. LIPP:
Right, so in other words, it would reduce the deficit if that was the case. It's a big wildcard right now. Stay tuned to June, and we'll see.

LEG. CILMI:
Okay. One of the reasons for putting the health insurance in here is because it's a very large item. It's over $300 million, a little less than that, for the general fund and the police district alone, which is what you're looking at. But, you know, so we have, like, a six percent increase is the assumption which has been the case, sort of like an average over several years, but from year to year, it could be higher or lower for a variety of reasons. For instance, it was lower last year because -- well, it'll be lower, the overall deficit, because of the surplus that we have in '14 coming into 2015.

LEG. CILMI:
Do you recall or do you have any notes there that indicate what our three-year rolling projection was when you made this presentation, the both of you, last year?

MR. LIPP:
You mean of the overall deficit?

LEG. CILMI:
Yeah. So today, our projected deficit for '14, '15, '16 is 176. Do you have what you predicted last year, our '13, '14, and '15, shortfall was?

MR. LIPP:
Last year, was 170. I'm not sure about the rolling three-year average. I like rolling three year averages, though. I'd have to get back to you on that.

MS. CORSO:
Remember, mine's 166.

LEG. CILMI:
I like yours better, Connie. If you could also provide to us, and I know this is not something you could do right here and now, Robert or Connie, but if you could provide to us a sort of annualized projection for '14, '15, and '16 broken down by revenue and expenses.

MR. LIPP:
So I want to make sure I'm understanding. You're saying from this projection of 176, you'd like to see what the major categories are of plus and minuses; is that what you're asking?

LEG. CILMI:
I suppose so.

MR. LIPP:
Because if we know that in 2014, we would have had a surplus were it not for the poor sales tax numbers or the less-than-budgeted sales tax number, I mean that's important information to know. If in 2015, we expect that our expenses will continue to decrease, but that because of expected revenue shortfalls, our budget deficit will continue to increase, that would be important information to know; and likewise in 2016. I realize it gets more difficult as you go out in years, but that would be helpful to me at least.

MS. CORSO:
The problem when you look at it that way is, you know, when you're in expenditures, you're pretty solid. You're pretty solid what your expenditures are going to be, what agreements you have, what your health insurance is going to be. You have your preliminary. But the things that you don't have, the things -- for as many things as you have solid in your expenditures, you don't have in your revenue.

LEG. CILMI:
Okay. So the expenditure numbers are -- when you say "solid," you mean the predictions -- we always come pretty close to what the predictions are.

MS. CORSO:
Pretty much. Pretty much, because a lot of that -- a lot of the shortfall -- part of the shortfall in 2014 was mitigated, like Robert said, by the lower expenditures. The expenditures are the things that we can control, and whenever we see these shifts in revenues, we try to hold the ship and make the cuts or do whatever we need to do to try and control the things that we can control, but we can't -- it's very difficult to control some of the revenues. We can't make people run red lights. We can't make people buy cars and washing machines.

LEG. CILMI:
Right. And I want to also point out that these numbers are representative of what I would call, I guess, extraordinary, although lately, they've become ordinary measures in terms of post-budget declarations, if you will, which have mandated additional savings beyond what the budget prescribes. So each year for the past few years, handful of years that I can remember, we've adopted a budget, and then at the beginning of that following year, the county executive has issued a fiscal state of emergency, right, and basically required departments to further reduce their budgets by -- I think the number is 10 percent usually of unencumbered expenses or something like that, right, Connie?

MS. CORSO:
Right, but that was a direct result of that final sales tax check.
We had to --

LEG. CILMI:
We did that as a result of knowing that sales tax was coming in short.

LEG. CILMI:
Nobody really wants to do that, but the county executive has to use every power he can to keep the budget balanced.

LEG. CILMI:
Naturally. Okay. I think those are all the questions I have for the moment. Thank you both for the work.

CHAIRMAN D'AMARO:
Okay. Thank you, Legislator Cilmi. Legislator Trotta.

LEG. TROTTA:
Did you take into consideration the deferrals that all the unions have had?

MS. CORSO:
The deferrals to the extent that they were budgeted are included. In 2016, there are no projected deferrals in the model. There are no projected deferrals in '15's model other than what were budgeted.

LEG. TROTTA:
Do you have any idea what that number is?

MS. CORSO:
No, I'd have to get back to you.

LEG. TROTTA:
I have a little bit of an idea of what it is based upon if people were going to retire in the police department. You know, there's, I want to say, 576 people that will have 32 years at that point, and when they go out, it's somewhere between 90 and $120 dollars if they were to go out.

MR. LIPP:
If I could respond, the way I look at it is we have very good projections, or we think, at least, for permanent salaries, and we can see what the trend is in hirings and retirements and we build that in, so I think it's somewhat implicit in the numbers because we're treating it as a fraction of permanent salaries, the other salary line items. That being said, what we're observing is quite a few police retirements this year, more than you would expect so there's a certain base case of police officers and superior officers and detectives retiring regard less of what the terms so we're observing more than you would necessarily think. I don't have the number off the top of my head, but it's a significant number, even this year, and it's implicit in our numbers.

LEG. TROTTA:
So what you're saying is you've budgeted for that in there?

MR. LIPP:
Yes, indirectly because what I'm saying is we're observing the numbers of retirements this year, and we're looking at what percentage --

LEG. TROTTA:
This year shouldn't be the concern.

MR. LIPP:
No, no, and therefore we project that into next year. I have a budget model that goes out to 2019, if anybody wants to talk to me about that. That's not part of this presentation, but what I try to do, even though nobody requested me to do this, is I want to see if we're getting worse or better.

MS. CORSO:
I think I have to clarify myself. I'm talking -- if paying out the deferrals, yes, they are included in my model. I thought you were talking about there are other concessions that are in all those agreements that allow us for additional deferrals. Those additional deferrals are not included in the budget.

LEG. TROTTA:
That's the ones I was talking about because the raises --

MS. CORSO:
I'm sorry. I had to clarify myself. Any deferral that we actually pull that was allowable in the collective bargaining, we did in 2014 and 2015. I did not assume any deferral, but I did assume that there was going to be a certain amount of payouts.

LEG. TROTTA:
Because in relation to their raises, they're really not getting them, they're deferring them. So my concern is three years from now when they go to retire, there's going to be, you know, a hundred million dollar bill that we're going to have to pay. And just I want to go over some other numbers here: this 176 million, that you also in the past, '14, '15, '16, if you were to add in the 87 million we borrowed from the pension amortization in '14 and the 55 or 58 million we borrowed in '15, with the 32 from the ASRF and the 22, it actually comes to $375 million during '14, '15, and '16 that we borrowed.

MR. LIPP:
All right. So part of the problem, for instance, with the pension and the retirement costs is we're observing increasing debt service cost as implicit in the retirement expense from previous years --

LEG. TROTTA:
That was my next --

MR. LIPP:
Yeah, so there's going to be a time a few years out that we're paying more than even who are amortizing because, A, the amortization is shrinking each year, it's going to go down; and, B, as we borrow each year, the debt service costs tend to escalate.

LEG. TROTTA:
That was my next -- it was leading down that path.

MR. LIPP:
Yeah.

LEG. TROTTA:
You're adding, you know, the 375 million plus 25 million in interest, let's say $100 million coming up on when people retire down the road, you're looking at a half billion dollars of debt in a four-year period.

MR. LIPP:
Well, but the payback is over 12 years, and it rolls.

LEG. TROTTA:
But it's still kicking the can down the road of a half billion dollars in four years -- three years, actually. Thank you.

CHAIRMAN D'AMARO:
Okay. Thank you, Legislator Trotta.

Legislator Anker; but before you go, I just want to welcome Legislator Kennedy, recently sworn in. Welcome to today's committee meeting.

Legislator Anker, go ahead, please.

LEG. ANKER:
So my question is, as Legislator D'Amaro had mentioned, with the health issues and the pension issues that we're dealing with, what can the state do? The state had said that they've got a couple -- $2 billion in surplus, and they're talking about the capital projects, they talk about child education, they talk about specific initiatives that they're going to take to use that surplus. Can they help the counties out with that considering it's the state that's creating a lot of these financial issues?

MS. CORSO:
I think the state has made it clear that part of the surplus has to go to capital items, and I know that we are, you know, vigorously pursuing getting some of our projects covered with some of that aid, which again will further lower the debt service, and make the monies available, but I think the pension issue is a statewide frustration and where the comptroller comes out and it made -- you know, it was up 30 percent, yet we're not really seeing the 30 percent, but we are seeing a lower pension bill this year, and we will see these lower pension bills, and we are trying to mitigate the use of that pension amortization. So to the extent that we take advantage of the lower bills and we try to mitigate the use of that pension amortization at some point, we will even off. But, you know, it's anybody's guess as to what we can do as far as the pension with the state. We really are tied to the rules of the comptroller. It's certainly worth a look at, and, like I said, I think we have tried any kind of creative way we can to try and leverage some of that surplus. If you have any ideas, I'm sure if you send them over to John, you know, we're more than welcome to bring it forward.

LEG. ANKER:
I do want to thank you because, like my legislature colleagues have said, that we have done so much to try to reduce this deficit and you don't -- what I'd like to see is those steps that we've taken. I mean, we've done a lot to not only cut the budget but to help with revenue. We see some -- you're showing some of the revenue resources there, but that didn't quite meet our expectations. But, again, can you give us just a very brief description of what are some of the major things that we've done to cut the cost of government care in the county, and what are some of the major things that we've done to increase those costs?

MS. CORSO:
Working together with the county executive, this legislature has done staggering things to mitigate, you know, and just one of the things that we can talk about is if we talk about going back to the budget in 2011, the one-shots were 66 percent of the budget and the structural changes were 34 percent, wherein 2015, the structural changes are 75 percent, and the one-shots are 25 percent, and they're really mitigated to these few, you know, the pension amortization and the use of the ASRF. Some of the things that we have done, you know, the creation of the TPFA, which we knew wasn't easy but over the two years is worth $60 million into the general fund; consolidating of the park police into the police department and using the part-time park rangers is a savings. The collective bargaining, as much as they are, the lower salaries for the PBA and for AME are going to have some impact. We've also raised taxes over the last two years, which again is recurring. That's recurring revenues to the base and, you know, there are things that we've done that you should be proud of.

And the other things is, you know, we have 1150 people off the payroll. One of the things I talk about when I talk to the rating agencies, the 2014 actual payroll is lower than every year going back to 2007. So if you looked at your payroll, your payroll is at the same number it was in 2007. That's a staggering achievement, and it wasn't easy. It's not easy for you. It's not easy for the county executive. It's not easy for the employees who really have had to do more with less and have really stepped up and accepted that challenge.

One of the other things that's going to happen in 2016 is a lot of these people have waited a very long time for the raises, and these raises are built into our models, so again instead of seeing a staggering increase due to those raises, we've really kind of planned for that, and that is a result of negotiating and getting these contracts done and not kicking them down the road. When you kick the can down the road, you end up with a $40 million BAN, which nobody wants to do.

LEG. ANKER:
Thank you.

CHAIRMAN D'AMARO:
Thank you, Legislator Anker. Connie, just to pick up on that, so with everything you just highlighted, and I agree with you that had we not taken much of the action that we've taken over the last several years, we'd be in much worse shape than we are now, we have implemented many cost-savings measures, we've enhanced some recurring revenue, but nonetheless, as Legislator Trotta pointed out, we're still going down this path of borrowing for these expenses, most of which we really don't have much choice. So in 2016, we're looking at should we choose as a policy decision not to borrow to cover pension -- what's the total pension bill, by the way, these days?

MR. LIPP:
233 million.

CHAIRMAN D'AMARO:
We pay 233 million a year just for the pension expense.

MR. LIPP:
It was 253 this year, but we only paid 193 because of the amortization.

CHAIRMAN D'AMARO:
Right. I understand. So my question is now that we pained the broad brush picture of where we were recently, where we are today and where we're headed, and what some of our options may be, what I look forward to is working with your office and with our own budget review office in coming up with ways that we can perhaps cut into this projected shortfall but not necessarily doing it by borrowing, and I think that's the challenge that we face. I think that's a real challenge for all of us here, and I would be open to suggestions. I mean I would like to not borrow $55 million in 2016. I would like to not have to borrow from the ASRF, but to meet that requirement, if we don't want to borrow, we have to come up with the money somewhere or somehow or we have to make corresponding cuts in order to avoid that borrowing. So that's the discussion, I think, that flows from what you're presenting here today, and I'm looking forward to working with both offices and trying to meet that challenge.

With that said, Legislator Cilmi, you had another comment.

LEG. CILMI:
I just had one follow-up question with respect to sales tax, and maybe now is an appropriate time to hear from your expert, Robert. So we were 18 million short in '14; you're expecting 35 million short in '15; and you've sort of plugged into your analysis a $16 million growth in '16 over '15, correct?

MR. LIPP:
The last year is growth over the adopted.

LEG. CILMI:
Right, over the adopted 2015. What does that represent in terms of a percentage of growth at $16 million?

MR. LIPP:
It's 4.06 in '16 over the --

LEG. CILMI:
Over 2015 estimate --

MR. LIPP:
Right.

LEG. CILMI:
Which is cognizant of the $35 million shortfall.

MR. LIPP:
Correct.

LEG. CILMI:
So if you or your -- this gentleman -- I forgot your name. I'm sorry.

MR. BRISSON:
Michael.

LEG. CILMI:
Could sort of talk to us briefly -- I know we're coming up on another committee meeting -- but talk to us about how you come to that assumption or prediction.

MR. BRISSON:
My name is Michael Brisson. I'm with Moody's Analytics. Chairman D'Amaro, thank you for having me, Committee Members.

CHAIRMAN D'AMARO:
Thank you.

MR. BRISSON:
The model that we have has a number of different driving forces. The main two are durable goods as well as home starts. The home starts in Suffolk County have been much farther below expectations and forecasts. Really, that's one of the driving forces in why the sales tax has been much lower. Suffolk County had the highest level of foreclosures of all 43 counties above 1.5 million people. The number of foreclosures is due to the New York State laws, which make the legislative process rather than just a serving process, so the foreclosure process in New York State is much longer than other states, so it's been tough to clear those off the books. That's been holding back sales tax a lot in the area.

Our model itself is driven by those. We expect in the next two years, we set 4 percent, 3.5 percent going forward in 2015, that the 3.5 percent is going to make up about half of what we lost because of the weather-related decrease in the first quarter. So the weather-related decrease in the first quarter saw a 24 percent decrease in housing starts for Suffolk County, whereas across the country, it was about a 7 percent increase, so you see that there's a weather difference that took place here in the northeast at the time. Also, we saw 37 percent decrease in new vehicle registrations across New York State -- 24 percent. So all these are weather related.

So about $11 million below our estimate for the first quarter of 2015 took place, and that's going into the $35 million shortfall that I think the budget offices have come through with. Our office thinks it will make back more than half of that going forward in the second and third quarters when the tourism and home building starts to pick up. We also had the bad winter last year, and, like I said, 24 percent less of the housing starts this year represents 24 percent drop of the bad winter we had last year too, so that's in addition to the original drop and we had a decrease of 1.7 percent in sales tax in the first quarter of 2014, which we did make up in the second and third quarter, but the fourth quarter was the real cause for concern.

LEG. CILMI:
So we only recently engaged your company, right?

MR. BRISSON:
It's been two years.

LEG. CILMI:
So when we budgeted for our 2014 budget, were you advising us at that point or no? So during 2013, were you advising us?

MR. BRISSON:
I'm being told for the 2014 budget, yes.

LEG. CILMI:
So in '14 and '15 combined, we're talking about a $53 million shortfall in projected -- and I realize that you're not actually adopting the budget; we are here at the legislature. Was that something that you had predicted and then we just adopted different numbers than what you suggested, or were you surprised by those shortfalls, I guess, is really the right question?

MR. BRISSON:
We project what the sales tax revenue is going to be. We don't project what the spending is going to be, so the expenditure side we can't say what the deficit is going to be.

LEG. CILMI:
Our sales tax shortfalls, they have nothing to do with expenditures or other revenues. We talked about an $18 million shortfall in '14 and a $35 million shortfall that's expected in '15. My question to you is does that surprise you? Did we adopt numbers that were not representative of what your firm believed we should adopt?

MS. CORSO:
The numbers were adopted -- were different than what the county exec's office put in.

LEG. CILMI:
Higher, lower?

MS. CORSO:
His number was not what was adopted.

LEG. CILMI:
Did we adopt a higher number? A higher percentage increase or a lower percentage increase?

MS. CORSO:
I'm going to defer to Dr. Lipp, but I just wanted to tell you that they did do our projection in 2013, and the 2013 number was spot-on.

LEG. CILMI:
Robert, did we adopt a number that was higher than what the proposed budget suggested or lower in each of those years?

MR. LIPP:
One eighth of one percent higher.

LEG. CILMI:
One eighth of one percent higher. What does that equate to in terms of dollars?

MR. LIPP:
Five million.

LEG. CILMI:
$5 million. So in that context, let me ask you, Michael, if I may call you Michael, again, was the proposed budget in '14 and '15 representative of what you had advised us in terms of your sales tax growth projections or different than, do you know? I realize you really probably weren't prepared to answer these questions.

MR. BRISSON:
Not a problem. It was slightly higher, like Robert said, about $5 million. The issue that we see going forward, there is the structural issue and the cyclical issue. The cyclical issue is the weather patterns that we weren't able to be prepared for, so that was the main surprise. Structurally, Suffolk County has been having sales tax returns much lower than the long term average. It's been about a 20-year long-term average, about 4.5 percent but you have increasing populations share above 65, so that's people on fixed incomes. You also have the decreasing number -- increasing number of foreclosures as well.

LEG. CILMI:
How do foreclosures in and of themselves, absent the underlying conditions that precipitated those foreclosures, but the foreclosures themselves, how does that impact our sales tax numbers?

MR. BRISSON:
You have a number of people that are going through the foreclosure process who have the wealth effect. They don't feel as wealthy as they did before. They're not going out and buying new cars. They're not buying durable goods such as washing machines, and they're not able to take out credit to buy these larger ticket items.

LEG. CILMI:
Okay. So there's nothing related to the actual foreclosures themselves; it's more the underlying conditions that precipitated the foreclosures that impact sales tax.

MR. BRISSON:
The underlying part of the -- that goes into the foreclosure, it affects afterward as well.

LEG. CILMI:
Right. So in coming up with your or with our -- I'm not sure that it's "your" -- do you agree with the $16 million projection over 2015 for 2016 at this point in time?

MR. BRISSON:
Yes, we do.

LEG. CILMI:
And I mean do you take into consideration in that prediction, then, the potential that there will be -- there will be continue to be some adverse weather conditions or potentially abnormal weather conditions going forward that may further impact sales tax growth?

MR. BRISSON:
No, the weather conditions are taken to be as they were in the previous 20 years.

LEG. CILMI:
Okay.

MR. BRISSON:
Not in the past two. We expect them to normalize for the first quarter of 2016.

LEG. CILMI:
Okay. Well, I mean, I don't know that -- I mean, I don't know that I agree with that but -- and frankly, given how much of an impact sales tax has on our deficit numbers, potentially has on our deficit numbers, I would almost suggest a flat proposal when it comes to sales tax growth for 2016 at this point, just to be cautious and if there's any additional money that comes in, let that sort of fill in for the structural deficit that we have. If it turns out there is none, then put it in reserves or something. What are our reserves, by the way, at this point? Do we have anything?

MR. LIPP:
So we have --

LEG. CILMI:
Aside from assessment stabilization. You know, I'm talking about general fund --

MR. LIPP:
Right. SO the general fund has a tax stabilization reserve fund that is just a little under $50 million, I believe, that we've been uninclined to use that any further at this point because of the cash flow borrowing. Cash flow borrowings are twofold; one is market cash flow borrowings, which are tax anticipation notes and revenue anticipation notes, and also we do, which is cheaper to borrow in-house interfund borrowing, so we can utilize whatever reserves there are in tax stabilization reserve fund and the sewer assessment stabilization reserve fund and also in the southwest assessment stabilization reserve fund and a couple of other funds.

LEG. CILMI:
The last question: The property tax increase that you have -- I don't want to use the word "proposed" but that you've listed here on your second page of your presentation, that would reduce the projected shortfall. What does that equate to in terms of percentage?

MR. LIPP:
That would be equivalent to the two percent state cap.

LEG. CILMI:
Okay. Thank you.

CHAIRMAN D'AMARO:
Thank you, Legislator Cilmi. Legislator Trotta.

LEG. TROTTA:
I think, I hate to say this, but I think you were wrong. I think an eight percent is $35 million, not 5 million because a quarter percent sales tax.

MR. LIPP:
No, no, no. We're talking about growth rates, what it translated to. So the problem with sales tax, it's budgeted at $1.38 billion, so every one percent plus or minus is 13.8.

LEG. TROTTA:
Oh, an eight percent increase.

MR. LIPP:
I'm not quite sure what you're asking.

LEG. TROTTA:
A quarter percent sales tax brings in $75 million. I believe it's 77 in this year's budget but yes.

LEG. TROTTA:
I misunderstood. It's an eight percent increase in the sales tax.

MR. LIPP:
No, no, no. The question that was being proposed, that was asked, was did the legislature settle on the recommended executive sales tax numbers, and the answer was no, we increased it by one eighth of one percent; so for instance, this year the budgeted sales tax was recommended at 4.75 and we increased it 4.875.

LEG. TROTTA:
Oh, okay. To Michael over there, when you're doing this -- "they" being foreclosed, I'm very interested in. When you're doing that, did you take into consideration the number of high paying jobs and how the rate of this is going to be able to take these foreclosures over? Because, as you know, two thousand abandoned houses in Suffolk County. Those are the ones that are abandoned. There's another, you know, six percent that are in foreclosure. So you're saying that in two years, this is going to be eaten up. I mean, it's been simmering for four years, so I'm just wondering why you're saying in two years this should be increasing.

MR. BRISSON:
Underlying, we're expecting the wages to increase across the country and as well as in New York. The linkages with New York City are a high benefit to Suffolk County. It's one of the major advantages the county has going for it, and over the next two years, we expect employment to increase as the economy improves, and with increased wages and increased employment, we expect the foreclosures to not completely evaporate but to level off.

LEG. TROTTA:
Have you taken into consideration the people leaving Long Island?

MR. BRISSON:
Into our model, yes. The people leaving Long Island, we see almost zero percent population growth. The January labor force numbers that came in were very disappointing, and it's taken into account these next two years we have 3.5 percent and 4 percent growth in sales tax, which is well below the high level years for the county long term, so the lower levels of growth going forward have been taken into account with our forecast.

LEG. TROTTA:
So you said what are the 3.5 percent this year and what next year you took?

MR. BRISSON:
4.07.

LEG. TROTTA:
So you're predicting that even though this first quarter was flat, the end of last year was flat, and the weather wasn't bad the end of last year, and all these foreclosures, all these zombie houses, you're still predicting a 3.5 percent increase for this year.

MR. BRISSON:
Yes, we are.

LEG. TROTTA:
That just doesn't seem possible to me. Okay.

CHAIRMAN D'AMARO:
Okay. Are there any other questions from committee members? Okay. I'd like to thank all of you for coming in today and making your presentation, Dr. Lipp, Connie.

MR. BRISSON:
(Inaudible)

CHAIRMAN D'AMARO:
I'm sorry?

MR. BRISSON:
Connie's asking me to clarify to Legislator Trotta.

CHAIRMAN D'AMARO:
Sure. Go right ahead.

MR. BRISSON:
The 3.5 percent is for 2015, and the 4 percent is for 2016. Is that clear?

LEG. TROTTA:
Of '15 and '16?

MR. BRISSON:
Yes.

LEG. TROTTA:
What did you say for '14?

MR. BRISSON:
'14 is already in, and it was 1.4 percent.

LEG. TROTTA:
That's what you predicted? That's what it was?

MR. BRISSON:
That's what the actual was.

LEG. TROTTA:
But weren't we down, actually?

MR. LIPP:
No. Overall, as he said, it would increase the actual by 1.4 percent.

LEG. TROTTA:
Just one more question: The interfund borrowing, that's increased over the past couple years that we borrowed interfund?

MR. LIPP:
Okay. So I think what you're talking about is the cash flow borrowing, which is not part of the budget. It's off budget other than the very small amount of interest that is charged, so that has increased. That being said, it remains to be seen what will happen this year.

LEG. TROTTA:
All right. Thank you.

CHAIRMAN D'AMARO:
Thank you, Legislator Trotta. And again to all of you, thank you very much. I know it takes a lot of hard work to put this together and to bring it here and present it in a way that we can all understand it and get a good picture, at least a larger picture of where we're headed, where we've been, and where we were in the recent past. So thank you again, and on behalf of all the committee members as well, we look forward to working with both offices going forward in the coming year to hopefully continue to pull the county in the right direction, at least budgetarily. Thank you.

LEG. CILMI:
Chairman, I'm sorry. Could I just ask one more question of Michael from Moody's? There numbers that we're talking about in terms of sales tax projections and the difference in what we budgeted for, et cetera, compared to what we actually receive in sales tax, they're relatively small percentages. I'm just wondering, is there a standard industry-wide benchmark that you all look at in terms of your predictability accuracy, if you're plus or minus X percent or X quarter whatever?

MR. BRISSON:
I know in our office, we like to be within one percent. That's what we consider the bullseye.

LEG. CILMI:
Okay. Thank you.

CHAIRMAN D'AMARO:
All right. We're going to move on to the next portion of the agenda. So the next section is tabled

resolutions, and I'll call the first bill. It's **resolution 1042 of 2015, Approving 2015 funding for a contract agency (The Sunshine Center, Inc.) (Browning).** I'll offer a motion to table. Second by Legislator Martinez. All in favor? Opposed? Abstentions? Motion carries. **Tabled (VOTE: 6-0-0-0)**

Next resolution is **1105 of 2015, Amending the 2015 Operating Budget to provide funds for a study of opioid addiction and abuse related costs in Suffolk County (Calarco).** At the sponsor's request, I'll offer a motion to table. Second by Legislator Cilmi. All in favor? Opposed? Abstentions? Motion carries. **Tabled (VOTE: 6-0-0-0)**.

Resolution 1207 of 2015, To readjust, compromise, and grant refunds and charge-backs on real property correction of errors by: County Legislature (Control No. 1000-2015)(County Executive). I'll offer a motion to approve and place on the consent calendar. Second by Legislator Martinez. All in favor? Opposed? Abstentions? Motion carries. **Approved/Consent (VOTE: 6-0-0-0)**

IR 1213 of 2015, To readjust, compromise, and grant refunds and charge-backs on real property correction of errors by: County Legislature (Control No. 1001-2015)(County Executive). Same motion, same second, same vote. **Approved/Consent (VOTE: 6-0-0-0)**.

Resolution 1214, To readjust, compromise, and grant refunds and chargebacks on correction or errors/County Treasurer By: County Legislature No. 426 (County Executive). Same motion, same second, same vote. **Approved/Consent (VOTE: 6-0-0-0)**.

Resolution 1228 of 2015, To readjust, compromise, and grant refunds and charge-backs on real property correction of errors by: County Legislature (Control No. 1002-2015) (County Executive). Same motion, same second, same vote. **Approved/Consent (VOTE: 6-0-0-0)**.

Resolution 1232 of 2015, To readjust, compromise, and grant refunds and charge-backs on real property correction of errors by: County Legislature (Control No. 1003-2015)(County Executive). Same motion, same second, same vote. **Approved/Consent (VOTE: 6-0-0-0)**.

Resolution 1247 of 2015, To readjust, compromise, and grant refunds and charge-backs on real property correction of errors by: County Legislature (Control No. 1004-2015). Same motion, same second, same vote. **Approved/Consent (VOTE: 6-0-0-0)**.

Next is resolution **1248 of 2015, Adopting Local Law No. -2015, A Charter Law to implement one-year rolling debt policy under 5-25-5 Law to mitigate budgetary shortfall (County Executive).** This requires a public hearing. I'll offer a motion to table. Second by Legislator Stern. All in favor? Opposed? Abstentions? Motion carries. **Tabled (VOTE: 6-0-0-0)**

Resolution 1265 of 2015, Approving County funding for a contract agency (Gerald Ryan Outreach) (P.O. Gregory). Motion to table by the Presiding Officer. I'll second. All in favor? Opposed? Abstentions? Motion carries. **Tabled (VOTE: 6-0-0-0)**.

There is no further business before the committee today. Thank you, everyone, and we are adjourned.

(*The meeting was adjourned at 10:45 a.m.*)